

**IN THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF PUERTO RICO**

In re:

THE FINANCIAL OVERSIGHT AND
MANAGEMENT BOARD FOR PUERTO RICO,

as representative of

THE COMMONWEALTH OF PUERTO RICO,

Debtor.¹

ASSURED GUARANTY CORP.; ASSURED
GUARANTY MUNICIPAL CORP.; and FINANCIAL
GUARANTY INSURANCE COMPANY,

Plaintiffs,

v.

COMMONWEALTH OF PUERTO RICO; THE
FINANCIAL OVERSIGHT AND MANAGEMENT
BOARD FOR PUERTO RICO; PUERTO RICO FISCAL
AGENCY AND FINANCIAL ADVISORY
AUTHORITY; HON. RICARDO ANTONIO
ROSSELLÓ NEVARES; GERARDO PORTELA
FRANCO; and HON. RAÚL MALDONADO
GAUTIER,

Defendants.

PROMESA

Title III

No. 17 BK 3283-LTS
(Jointly Administered)

Adversary Proceeding

No. 18-_____-LTS

ADVERSARY COMPLAINT

Plaintiffs Assured Guaranty Corp. ("AGC") and Assured Guaranty Municipal Corp., f/k/a Financial Security Assurance Inc. ("AGM" and, together with AGC, "Assured"), by

¹ The Debtors in these Title III cases, along with each Debtor's respective Title III case number listed as a bankruptcy case number due to software limitations and the last four (4) digits of each Debtor's federal tax identification number, as applicable, are the (i) Commonwealth of Puerto Rico ("Commonwealth") (Bankruptcy Case No. 17 BK 3283-LTS) (Last Four Digits of Federal Tax ID: 3481); (ii) Puerto Rico Sales Tax Financing Corporation ("COFINA") (Bankruptcy Case No. 17 BK 3284-LTS) (Last Four Digits of Federal Tax ID: 8474); (iii) Puerto Rico Highways and Transportation Authority ("HTA") (Bankruptcy Case No. 17 BK 3567-LTS) (Last Four Digits of Federal Tax ID: 3808); (iv) Employees Retirement System of the Government of the Commonwealth of Puerto Rico ("ERS") (Bankruptcy Case No. 17 BK 3566-LTS) (Last Four Digits of Federal Tax ID: 9686); and (v) Puerto Rico Electric Power Authority ("PREPA") (Bankruptcy Case No. 17 BK 4780-LTS) (Last Four Digits of Federal Tax ID: 3747).

their attorneys Casellas Alcover & Burgos P.S.C. and Cadwalader, Wickersham & Taft LLP; and Plaintiff Financial Guaranty Insurance Company (“FGIC”, and together with Assured, “Plaintiffs”), by its attorneys Rexach & Picó, CSP and Butler Snow LLP, for their Adversary Complaint against defendants the Commonwealth of Puerto Rico; the Financial Oversight and Management Board for Puerto Rico; the Puerto Rico Fiscal Agency and Financial Advisory Authority; Hon. Ricardo Rosselló Nevares; Gerardo Portela Franco; and Hon. Raúl Maldonado Gautier, allege as follows:

NATURE OF THIS ADVERSARY PROCEEDING

1. The Financial Oversight and Management Board (“FOMB”) developed and approved a revised fiscal plan (attached hereto as “Exhibit 1”, and including any revisions thereto, or any similar superseding fiscal plan, the “Revised Fiscal Plan”) that, on its face, violates the Puerto Rico Oversight, Management, and Economic Stability Act (“PROMESA”) and the United States Constitution (the “U.S. Constitution”). The violations include (i) failure to respect the relative lawful priorities and lawful liens, in effect prior to the enactment of PROMESA, established by the constitution, laws, and agreements of the Commonwealth, as required by PROMESA § 201(b)(1)(N); (ii) failure to ensure that assets, funds, or resources of an agency are not transferred to or otherwise used for the benefit of other agencies, instrumentalities, or the Commonwealth, as required by PROMESA § 201(b)(1)(M); (iii) failure to identify expenses for essential public services, as required by PROMESA § 201(b)(1)(B); (iv) violations of Sections 303 and 407 of PROMESA and section 928 of the Bankruptcy Code; and (v) violations of the Contracts, Takings, and Due Process Clauses of the U.S. Constitution. Because of these clear violations, the Revised Fiscal Plan is unlawful and unconstitutional and cannot provide the basis for a plan of adjustment under Title III of PROMESA. Any plan of

adjustment that follows the Revised Fiscal Plan, as required by PROMESA § 314, would not be confirmable, on its face.

2. Accordingly, Plaintiffs seek a judgment declaring that the Revised Fiscal Plan is unlawful and unconstitutional, and declaring that FOMB cannot use the Revised Fiscal Plan as the basis for proposing a plan of adjustment in the pending Title III case for the Commonwealth of Puerto Rico (the “Commonwealth”). To the extent necessary, the Court should grant complementary injunctive relief. Plaintiffs are entitled to immediate review of their claims at this juncture, and such review is necessary to prevent the ongoing violations of PROMESA and the U.S. Constitution.

3. Plaintiffs issued insurance policies that guarantee payments on general obligation bonds (“GO Bonds”) issued by the Commonwealth. As “public debt,” the GO Bonds are entitled to a first-priority payment status under the constitution of the Commonwealth (the “Commonwealth Constitution”) and related statutes and are entitled to payment before all other obligations payable from the Commonwealth’s general revenues.

4. Plaintiffs also insure bonds issued by the Puerto Rico Highways and Transportation Authority (“PRHTA”), the Puerto Rico Convention Center District Authority (“PRCCDA”), and the Puerto Rico Infrastructure Financing Authority (“PRIFA”, and together with PRHTA and PRCCDA, the “Authorities”). The bonds issued by the Authorities (the “Authority Bonds”) are secured by enforceable, perfected liens on pledged special revenues.

5. Beginning under the administration of former Governor García Padilla, and continuing under the current administration of Governor Rosselló, the Commonwealth and the Authorities have engaged in a pattern of unlawfully evading the payment of their debts, in the process impairing Plaintiffs’ contractual rights and invading Plaintiffs’ property interests in the pledged special revenues.

6. This long-standing pattern of unlawful and unconstitutional conduct began no later than in November 2015, when then-Governor García Padilla issued Administrative Bulletin No. EO-2015-46 (the “Clawback Order” (attached hereto as “Exhibit 2A” and English translation attached hereto as “Exhibit 2B”)), which unconstitutionally modified the priorities of the GO and Authority Bonds and confiscated the pledged special revenues.

7. The Commonwealth’s pattern of unlawful and unconstitutional conduct continued in 2016, 2017, and 2018, when the Commonwealth enacted a series of moratorium laws (collectively, and including any similar or superseding moratorium law, the “Moratorium Laws”) and issued related moratorium orders (collectively, and including any similar or superseding executive orders, the “Moratorium Orders”) that purported to authorize the Governor to override the GO Bond priority and the Authorities’ special revenue pledges, and to confiscate the pledged special revenues for the Commonwealth’s general purposes.

8. Following the appointment of FOMB in August 2016, Governor Rosselló’s administration worked with FOMB to perpetuate the Commonwealth’s illegal and unconstitutional modifications of debt priorities and diversions of pledged special revenues (i) through the development and approval of an initial fiscal plan for the Commonwealth that was approved by FOMB on March 13, 2017 (as amended, the “Original Fiscal Plan” (attached hereto as “Exhibit 3”), and together with the Revised Fiscal Plan, the “Fiscal Plans”), and (ii) through the enactment of a “Fiscal Plan Compliance Law” (Act No. 26-2017, including as amended or superseded, the “Compliance Law” (attached hereto as “Exhibit 4A” and English translation attached hereto as “Exhibit 4B”)) that further implements and perpetuates the violations of constitutional and statutory priorities, contract impairments, and illegal confiscations of property mandated by the Original Fiscal Plan. The Original Fiscal Plan and the Compliance Law, on their face, violated numerous provisions of PROMESA, including, particularly, (i) PROMESA

§ 201(b)(1)(N), which requires a fiscal plan to “respect the relative lawful priorities or lawful liens . . . in the constitution, other laws, or agreements of a covered territory or covered territorial instrumentality in effect prior to the date of enactment of [PROMESA];” (ii) PROMESA § 201(b)(1)(M), which requires a fiscal plan to “ensure that assets, funds, or resources of a territorial instrumentality [such as the Authorities] are not . . . transferred to, or otherwise used for the benefit of a covered territory [such as the Commonwealth];” and (iii) PROMESA § 201(b)(1)(B), which requires a fiscal plan to “ensure the funding of essential public services.” FOMB lacked authority under PROMESA to approve a fiscal plan that, on its face, failed to make any attempt to comply with these and other applicable provisions of PROMESA.

9. In response to Hurricanes Irma and Maria in September 2017, FOMB and the Commonwealth decided to revise the Original Fiscal Plan. This revision process gave FOMB and the Commonwealth an opportunity to cease their unlawful conduct and to start complying with their obligations under PROMESA, the U.S. Constitution, and Commonwealth law. Unfortunately, however, the Revised Fiscal Plan approved by FOMB on April 19, 2018 instead exacerbated the unlawful nature of the Original Fiscal Plan, including through violations of PROMESA § 201(b)(1)(N), PROMESA § 201(b)(1)(M), PROMESA § 201(b)(1)(B), and other key provisions of PROMESA. Because the Revised Fiscal Plan is not “in accordance” with these and other applicable provisions of PROMESA, the Revised Fiscal Plan does not qualify as a “Fiscal Plan” as defined in PROMESA. Furthermore, because the Revised Fiscal Plan, on its face, violates these and other applicable provisions of PROMESA, FOMB acted outside of its authority when it purported to approve the Revised Fiscal Plan.

10. Whether undertaken pursuant to the Clawback Order, the Moratorium Laws, the Moratorium Orders, the Fiscal Plans, or the Compliance Law, the Commonwealth’s and FOMB’s unlawful modifications of debt priorities and diversions of secured bondholder

collateral have one thing in common: Each violates the Contracts, Takings, and Due Process clauses of the U.S. and Commonwealth Constitutions, along with PROMESA and numerous other provisions of federal and Commonwealth law.

11. Plaintiffs therefore seek a declaration that the Moratorium Laws, the Moratorium Orders, the Revised Fiscal Plan, and the Compliance Law violate the U.S. Constitution, are preempted by or otherwise invalid under PROMESA, and cannot be used as the basis for a Title III plan of adjustment.

THE PARTIES

12. Plaintiff Assured Guaranty Corp. or AGC is a Maryland insurance company with its principal place of business at 1633 Broadway, New York, New York 10019.

13. Plaintiff Assured Guaranty Municipal Corp. or AGM is a New York insurance company with its principal place of business at 1633 Broadway, New York, New York 10019.

14. Plaintiff FGIC is a New York stock insurance corporation with its principal place of business at 463 Seventh Avenue, 16th Floor, New York, New York 10018.

15. Defendant the Commonwealth of Puerto Rico or the Commonwealth is a territory of the United States.

16. Defendant the Puerto Rico Fiscal Agency and Financial Advisory Authority (“AAFAF”) is a public corporation organized under the laws of the Commonwealth.

17. Defendant FOMB was created under Section 101(c)(1) of PROMESA as an “entity within the [Commonwealth] government.” PROMESA § 101(c)(1).

18. Defendant Hon. Ricardo Rosselló Nevares (“Governor Rosselló” or the “Governor”) is the Governor of the Commonwealth. Plaintiffs sue the Governor, and any successors thereto, in his official capacity.

19. Defendant Gerardo Portela Franco (the “AAFAF Executive Director”) is the Executive Director of AAFAF and in that capacity is empowered to implement the Moratorium Laws, the Moratorium Orders, the Revised Fiscal Plan, and the Compliance Law. Plaintiffs sue the AAFAF Executive Director, and any successors thereto, in his official capacity.

20. Defendant Hon. Raúl Maldonado Gautier (the “Secretary of Treasury”) is the Secretary of Treasury of the Commonwealth and in that capacity is empowered to implement the Moratorium Laws, the Moratorium Orders, the Revised Fiscal Plan, and the Compliance Law. Plaintiffs sue the Secretary of Treasury, and any successors thereto, in his official capacity.

JURISDICTION AND VENUE

21. This Court has federal question subject matter jurisdiction pursuant to 28 U.S.C. § 1331, because this action arises under PROMESA and the U.S. Constitution. This Court also has subject matter jurisdiction under 28 U.S.C. § 1332, as the parties are of diverse citizenship and the amount in controversy exceeds \$75,000. In addition, this Court has jurisdiction under Section 106(a) of PROMESA, which grants jurisdiction to this Court over “any action against [FOMB], and any action otherwise arising out of [PROMESA], in whole or in part.” PROMESA § 106(a). Further, this Court has jurisdiction under Section 306(a) of PROMESA, which grants this Court original and exclusive jurisdiction of all cases under Title III of PROMESA and original jurisdiction of all civil proceedings arising under Title III of PROMESA or arising in or related to cases under Title III of PROMESA.

22. This Court has personal jurisdiction over all of the Defendants pursuant to Section 306(c) of PROMESA.

23. Plaintiffs seek a declaration and related relief in this case of actual controversy pursuant to 28 U.S.C. §§ 2201 and 2202. An actual and justiciable controversy has arisen and exists between the parties with respect to the issues and claims alleged herein.

24. This is an adversary proceeding pursuant to Rule 7001 of the Federal Rules of Bankruptcy Procedure and Section 310 of PROMESA, which provides “[t]he Federal Rules of Bankruptcy Procedure shall apply to a case under [Title III of PROMESA] and to all civil proceedings arising in or related to cases under [Title III of PROMESA].” PROMESA § 310; Fed. R. Bankr. P. 7001.

25. Venue is proper in this District under Section 307 of PROMESA.

LEGAL AND FACTUAL BACKGROUND

I. Plaintiffs Insure Bonds Issued By Puerto Rico And Its Instrumentalities

26. Plaintiffs are leading providers of financial guaranty insurance, which is a type of insurance whereby an insurer guarantees scheduled payments of interest and principal as and when due on a bond or other obligation. Plaintiffs insure scheduled principal and interest payments when due on municipal, public infrastructure, and structured financings both in the United States and around the world.

27. Governments, including the Commonwealth and its public corporations, historically have taken advantage of financial guaranty insurance because it significantly enhances their ability to raise funds at a lower interest rate. The economic value of financial guaranty insurance to the issuers is a savings in interest costs, reflecting the difference in yield payable on the higher rated insured obligation from that on the same lower rated obligation if uninsured. Such insurance is especially important to issuers such as the Commonwealth and its

public corporations, who have—and will continue to have—significant borrowing needs, notwithstanding their lower credit rating.

28. Plaintiffs have standing to bring this adversary proceeding as parties in interest in these Title III cases, and because under their insurance agreements and/or insurance policies, Plaintiffs are deemed to be the sole owners of the bonds that they insure for purposes of, or otherwise have control rights over, consents and other bondholder actions, including exercising rights and remedies. Plaintiffs are also generally express third party beneficiaries of the resolutions, indentures, or trust agreements under which the bonds are issued. As such, and as Section 301(c)(3)(B) of PROMESA expressly recognizes, financial guaranty insurers such as Plaintiffs are authorized to act on behalf of the holders of the bonds they insure, including in litigation generally, in these Title III cases, and in this adversary proceeding, and Plaintiffs' right to act on behalf of bondholders is not dependent upon a default or subrogation. In addition, however, Plaintiffs have been subrogated to the rights of bondholders upon paying the claims of such bondholders following a default, as set forth below. Payment by Plaintiffs neither satisfies nor discharges an issuer's obligation to pay and, to the extent Plaintiffs make payments to bondholders, Plaintiffs step into the shoes of such bondholders and effectively become the owners of their bonds.

29. Plaintiffs insure the following types of Puerto Rico government debt at issue in this adversary proceeding:

A. GO Bonds

30. Assured insures approximately \$1.4 billion of general obligation bonds ("GO Bonds") issued by the Commonwealth. FGIC insures approximately \$280 million in principal amount of GO Bonds issued by the Commonwealth. Because of defaults resulting from the Moratorium Laws, the Moratorium Orders, the Fiscal Plans, and the Compliance Law

with respect to principal and interest payments due on the GO Bonds on July 1, 2016; January 1, 2017; July 1, 2017; and January 1, 2018, Assured has paid approximately \$405 million in aggregate claims by GO Bondholders, and FGIC has received claims totaling approximately \$82 million and will process and make payments to GO Bondholders in respect of such claims in accordance with FGIC's plan of rehabilitation. Plaintiffs are now fully subrogated to the rights of the GO Bondholders for the claims they paid. In addition, Assured holds GO Bonds independently of its insurance policies.

B. Authority Bonds

31. In addition to GO Bonds, Plaintiffs insure the Authority Bonds issued by the Authorities. The Authority Bonds are secured by statutory and perfected contractual liens on specific pledged special revenue streams (collectively, the "Pledged Special Revenues"). Each of the Authorities is a public corporation separate and distinct from the Commonwealth, and under the Authorities' respective enabling acts, the Commonwealth (prior to its diversion of their revenues) is not responsible for the Authorities' bond debts, just as the Authorities are not responsible for the general fund obligations of the Commonwealth. Specifically, Plaintiffs insure the following categories of Authority Bonds:

1. PRHTA Bonds

32. PRHTA is a public corporation created by Act No. 74-1965 (the "PRHTA Enabling Act") to assume responsibility for the construction of highways and other transportation systems in Puerto Rico. Pursuant to the PRHTA Enabling Act, PRHTA has issued certain bonds (the "PRHTA Bonds") under general bond resolutions (the "PRHTA Resolutions") adopted in 1968 and 1998.

33. Under the PRHTA Resolutions, the PRHTA Bonds are secured by a gross lien on special revenues, including (i) revenues derived from PRHTA's toll facilities (the

“Pledged Toll Revenues”); (ii) special excise taxes consisting of taxes on gasoline, diesel, crude oil, and other special excise taxes collected by the Commonwealth (the “PRHTA Pledged Tax Revenues”); and (iii) special excise taxes consisting of motor vehicle license fees collected by the Commonwealth (the “Vehicle Fees”; together with the PRHTA Pledged Tax Revenues, the “PRHTA Pledged Special Excise Taxes”; and together with the Pledged Toll Revenues and the PRHTA Pledged Tax Revenues, the “PRHTA Pledged Special Revenues”). Each PRHTA Resolution constitutes a contract between PRHTA and the holders (including Plaintiffs, the “PRHTA Bondholders”) of the PRHTA Bonds. Each PRHTA Resolution also constitutes a “security agreement,” including as defined in section 101(50) of title 11 (the “Bankruptcy Code”) of the United States Code. 11 U.S.C. § 101(50). The liens on the PRHTA Pledged Special Revenues granted to the PRHTA Bondholders under the PRHTA Resolutions constitute “security interests,” including as defined in section 101(51) of the Bankruptcy Code. 11 U.S.C. § 101(51).

34. The Secretary of Treasury acts as a collection agent on behalf of the PRHTA Bondholders with respect to the PRHTA Pledged Special Excise Taxes. Upon collection, the Secretary of Treasury is required by statute to hold the PRHTA Pledged Special Excise Taxes in a segregated account for the benefit of PRHTA and its bondholders and to transfer the PRHTA Pledged Special Excise Taxes to the fiscal agent for the PRHTA Bonds (the “PRHTA Fiscal Agent”) each month for the benefit of PRHTA Bondholders. From the time of their collection, the PRHTA Pledged Special Excise Taxes constitute trust funds that are property of the PRHTA Bondholders and not of the Commonwealth. See, e.g., 13 L.P.R.A. § 31751(a)(1); 9 L.P.R.A. §§ 2013(a)(2), 2021, 5681 (collectively, and including any related statutes, the “PRHTA Excise Tax Statutes”). Pursuant to the PRHTA Excise Tax Statutes, the PRHTA Pledged Special Excise Taxes may not be used for any purpose other than payment of

the PRHTA Bonds, and the PRHTA Excise Tax Statutes give rise to statutory liens in favor of Plaintiffs and other PRHTA Bondholders on the PRHTA Pledged Special Excise Taxes. See 11 U.S.C. § 101(53). The Commonwealth has explicitly acknowledged in legislation that the PRHTA Pledged Special Excise Taxes are imposed to finance highway, traffic, and transportation facilities and systems.

35. The Pledged Toll Revenues likewise constitute trust funds collected and held by PRHTA on behalf of PRHTA Bondholders and are property of the PRHTA Bondholders and not of the Commonwealth. See 9 L.P.R.A. § 2013(a)(2).

36. At any time that the Commonwealth or PRHTA is in possession of PRHTA Pledged Special Revenues, the Commonwealth or PRHTA holds possession of such PRHTA Pledged Special Revenues for the PRHTA Bondholders' benefit, subject only to a valid "clawback," as defined below.²

37. The PRHTA Bondholders' liens on the PRHTA Pledged Special Revenues are perfected, including by the filing of financing statements.

38. The Commonwealth covenanted with the holders of the PRHTA Bonds in the PRHTA Enabling Act that it would "not limit or restrict the rights or powers . . . vested in [PRHTA by the PRHTA Enabling Act] until all such bonds at any time issued, together with the interest thereon, are fully met and discharged." 9 L.P.R.A. § 2019.

² As set forth in greater detail below, the Excise Tax Statutes grant Authority Bondholders first-priority liens on the Pledged Special Excise Taxes, subject only to the conditions that, in a fiscal year in which the Constitutional Debt Priority Provision is in effect, the Pledged Special Excise Taxes may be "clawed back" (i) to be used *solely* to pay the public debt, but (ii) *only if the public debt remains unpaid after a first application of all other available resources to the payment of public debt*. These preconditions to a "clawback" of the Pledged Special Excise Taxes have never been satisfied, because the Commonwealth has at all relevant times had sufficient available resources to pay the public debt in accordance with the Constitutional Debt Priority Provision.

39. PRHTA Bonds are non-recourse bonds, payable solely from the PRHTA Pledged Special Revenues. Moreover, because PRHTA Bonds are secured by a “gross lien” on all of the PRHTA Pledged Special Revenues, operating expenses of PRHTA may only be paid *after* PRHTA satisfies its debt service and reserve fund requirements with respect to PRHTA Bonds.

40. Assured insures approximately \$1.4 billion of PRHTA Bonds currently outstanding, and FGIC insures approximately \$447 million of PRHTA Bonds currently outstanding. Under their insurance agreements and/or insurance policies, Plaintiffs are deemed to be the sole owners of the PRHTA Bonds that they insure for purposes of, or otherwise have control rights over, consents and other bondholder actions, including exercising rights and remedies of PRHTA Bondholders. Plaintiffs are also recognized as third-party beneficiaries under the PRHTA Resolutions. In addition, Assured holds PRHTA Bonds independently of its insurance policies.

41. But for the diversion of collateral securing the PRHTA Bonds pursuant to the Moratorium Laws, the Moratorium Orders, the Fiscal Plans, and the Compliance Law, PRHTA would be solvent and could pay its debts in full. Instead, the Moratorium Laws, the Moratorium Orders, the Fiscal Plans, and the Compliance Law have caused defaults with respect to debt service payments due on PRHTA Bonds on or around July 1, 2016; January 1, 2017; July 3, 2017; and January 1, 2018. Assured has paid approximately \$109 million in aggregate claims by PRHTA Bondholders, and FGIC has received claims totaling approximately \$38 million and will process and make payments to PRHTA Bondholders in respect of such claims in accordance with FGIC’s plan of rehabilitation. Plaintiffs are now fully subrogated to the rights of PRHTA Bondholders for the claims they paid. Unless and until Defendants begin complying with

PROMESA and the U.S. Constitution, these payment defaults will continue, and Plaintiffs will pay additional claims.

42. In addition to its indebtedness on account of PRHTA Bonds, PRHTA is indebted to the Government Development Bank for Puerto Rico (the “GDB”) with respect to certain lines of credit (the “Subordinated GDB Lines of Credit”) whose repayment is subordinated to the repayment of PRHTA Bonds. For example, the 2010 official statement for the PRHTA Bonds states that “[PRHTA] has financed some of its recent capital expenditures and working capital requirements with Government Development Bank lines of credit, **the repayment of which is subordinate to the [PRHTA Bonds].**” Highway Revenue Refunding Bonds Offering Official Statement at 32 (June 17, 2010), http://www.gdb-pur.com/investors_resources/documents/PRHighwayaFIN_000.pdf (emphasis added).

2. PRCCDA Bonds

43. PRCCDA is a public corporation created by Act No. 351-2000 (September 2, 2000) (the “PRCCDA Enabling Act”) for the purpose of developing and operating a convention center located in San Juan, Puerto Rico, and related improvements and facilities. See 23 L.P.R.A. §§ 6402, 6404. Pursuant to the PRCCDA Enabling Act, PRCCDA has issued approximately \$468 million of revenue bonds (the “PRCCDA Bonds”) under a Trust Agreement dated as of March 24, 2006 (the “PRCCDA Trust Agreement”).

44. Pursuant to the PRCCDA Enabling Act, Act No. 272-2003 (the “Hotel Tax Act”), and the PRCCDA Trust Agreement, the PRCCDA Bonds are secured by a lien on certain special excise taxes consisting of hotel occupancy taxes (the “PRCCDA Pledged Tax Revenues”) imposed by the Commonwealth and collected by the Puerto Rico Tourism Company pursuant to the Hotel Tax Act. The PRCCDA Trust Agreement constitutes a contract between PRCCDA and the holders (including Plaintiffs, the “PRCCDA Bondholders”) of the PRCCDA

Bonds. The PRCCDA Trust Agreement constitutes a “security agreement,” including as defined in section 101(50) of the Bankruptcy Code. The lien on the PRCCDA Pledged Tax Revenues granted to the PRCCDA Bondholders under the PRCCDA Trust Agreement constitutes a “security interest,” including as defined in section 101(51) of the Bankruptcy Code.

45. Whereas, in the case of the other Authority Bonds, the Secretary of Treasury acts as the collection agent on behalf of the bondholders, in the case of the PRCCDA Bonds, it is the Puerto Rico Tourism Company that acts as the collection agent on behalf of the PRCCDA Bondholders with respect to the PRCCDA Pledged Tax Revenues. Upon collection, the Puerto Rico Tourism Company is required by statute to transfer the PRCCDA Pledged Tax Revenues to a special account maintained by the GDB in the name of PRCCDA, but for the benefit of the PRCCDA Bondholders, and the PRCCDA Pledged Tax Revenues constitute trust funds that are property of the PRCCDA Bondholders and not of the Commonwealth. See 13 L.P.R.A. § 2271v. Pursuant to 13 L.P.R.A. § 2271v and related statutes (the “PRCCDA Excise Tax Statutes”), the PRCCDA Pledged Tax Revenues may not be used for any purpose other than payment of the PRCCDA Bonds, and the PRCCDA Excise Tax Statutes give rise to a statutory lien in favor of the PRCCDA Bondholders on the PRCCDA Pledged Tax Revenues.

46. At any time that the Commonwealth, the Puerto Rico Tourism Company, the GDB, or PRCCDA is in possession of PRCCDA Pledged Tax Revenues, such entity holds possession of such PRCCDA Pledged Tax Revenues for the PRCCDA Bondholders’ benefit, subject only to a valid “clawback,” as defined below.

47. The PRCCDA Bondholders’ lien on the PRCCDA Pledged Tax Revenues is perfected, including by statute. See 23 L.P.R.A. § 6441(d).

48. The Commonwealth covenanted with the PRCCDA Bondholders in the PRCCDA Enabling Act that it would “not limit nor alter the rights [conferred on PRCCDA by

the PRCCDA Enabling Act] until [the PRCCDA Bonds] and the interest thereon are paid in full.” 23 L.P.R.A. § 6450. Moreover, under the PRCCDA Trust Agreement, PRCCDA, as an agent of the Commonwealth, covenanted with the PRCCDA Bondholders that the Commonwealth (i) will make sure that the amounts of the PRCCDA Pledged Tax Revenues must be deposited in the accounts as provided in the PRCCDA Trust Agreement and (ii) will not limit or impair the rights of PRCCDA to comply with its obligations to repay the PRCCDA Bonds in full.

49. Assured insures approximately \$152 million of the outstanding PRCCDA Bonds and FGIC insures approximately \$97 million of the outstanding PRCCDA Bonds. Under a First Supplemental Trust Agreement to the PRCCDA Trust Agreement, dated as of March 24, 2006, Plaintiffs are deemed to be third-party beneficiaries and have standing to enforce any right, remedy, or claim arising thereunder.

50. But for the diversion of collateral securing the PRCCDA Bonds pursuant to the Moratorium Laws, the Moratorium Orders, the Fiscal Plans, and the Compliance Law, PRCCDA would be solvent and could pay its debts in full. Instead, the Moratorium Laws, the Moratorium Orders, the Fiscal Plans, and the Compliance Law have caused defaults with respect to debt service payments due on PRCCDA Bonds on July 1, 2017, and January 1, 2018. Assured has paid approximately \$4 million in aggregate claims by PRCCDA Bondholders, and FGIC has received claims totaling approximately \$2 million and will process and make payments to PRCCDA Bondholders in respect of such claims in accordance with FGIC’s plan of rehabilitation. Plaintiffs are now fully subrogated to the rights of PRCCDA Bondholders for the claims they paid. Unless and until Defendants begin complying with PROMESA and the U.S. Constitution, these payment defaults will continue, and Plaintiffs will pay additional claims.

3. PRIFA Bonds

51. PRIFA is a public corporation created by Act No. 44-1988 (the “PRIFA Enabling Act”, and together with the PRHTA Enabling Act and the PRCCDA Enabling Act, the “Authority Enabling Acts”) for the purpose of providing financial and other types of assistance to political subdivisions, public agencies, and instrumentalities of the Commonwealth. Pursuant to the PRIFA Enabling Act, PRIFA has issued certain special excise tax revenue bonds (the “PRIFA Bonds”) under a Trust Agreement (the “PRIFA Trust Agreement”) dated as of October 1, 1988.

52. Under the PRIFA Trust Agreement, the PRIFA Bonds are secured by a lien on a portion of a federal special excise tax imposed on rum and other items produced in the Commonwealth and sold in the United States (the “PRIFA Pledged Tax Revenues”, and together with the PRHTA Pledged Special Excise Taxes and the PRCCDA Pledged Tax Revenues, the “Pledged Special Excise Taxes”). The PRIFA Trust Agreement constitutes a contract between PRIFA and the holders (including Plaintiffs, the “PRIFA Bondholders”) of the PRIFA Bonds. The PRIFA Trust Agreement also constitutes a “security agreement,” including as defined in section 101(50) of the Bankruptcy Code. The lien on the PRIFA Pledged Tax Revenues granted to the PRIFA Bondholders under the PRIFA Trust Agreement constitutes a “security interest,” including as defined in section 101(51) of the Bankruptcy Code.

53. The Secretary of Treasury collects the PRIFA Pledged Tax Revenues from the Federal government and is required by statute to hold the PRIFA Pledged Tax Revenues in a special fund for the benefit of the PRIFA Bondholders. The PRIFA Pledged Tax Revenues constitute trust funds that are property of the PRIFA Bondholders and not of the Commonwealth. 3 L.P.R.A. § 1914. Pursuant to 3 L.P.R.A. § 1914 and related statutes (collectively, the “PRIFA Excise Tax Statutes,” and together with the PRHTA Excise Tax Statutes and the PRCCDA

Excise Tax Statutes, the “Excise Tax Statutes”), the PRIFA Pledged Tax Revenues may not be used for any purpose other than payment of the PRIFA Bonds, and the PRIFA Excise Tax Statutes give rise to a statutory lien in favor of Assured and other PRIFA Bondholders on the PRIFA Pledged Tax Revenues.

54. At any time that the Commonwealth or PRIFA holds PRIFA Pledged Tax Revenues, the Commonwealth or PRIFA holds possession of such PRIFA Pledged Tax Revenues for the PRIFA Bondholders’ benefit, subject only to a valid “clawback,” as defined below.

55. The PRIFA Bondholders’ lien on the PRIFA Pledged Tax Revenues is perfected, including by statute. See 3 L.P.R.A. § 1907(a).

56. In the PRIFA Enabling Act, the Commonwealth covenanted with the holders of the PRIFA Bonds that it would “not limit or alter the rights [conferred on PRIFA by the PRIFA Enabling Act] until such bonds and the interest thereon are paid in full.” 3 L.P.R.A. § 1913.

57. Assured insures approximately \$18 million of the outstanding PRIFA Bonds through secondary market insurance policies, and FGIC insures approximately \$688 million³ of the outstanding PRIFA Bonds. But for the diversion of collateral securing the PRIFA Bonds pursuant to the Moratorium Laws, the Moratorium Orders, the Fiscal Plans, and the Compliance Law, PRIFA would be solvent and could pay its debts in full. Instead, the Moratorium Laws, the Moratorium Orders, the Fiscal Plans, and the Compliance Law have caused defaults with respect to debt service payments due on PRIFA Bonds on January 1, 2016;

³ The approximately \$688 million of PRIFA Bonds insured by FGIC consists of approximately \$238 million in principal amount of serial bonds and approximately \$450 million in full maturity value of capital appreciation bonds.

July 1, 2016; January 1, 2017; July 1, 2017; and January 1, 2018. Assured has paid approximately \$2 million in aggregate claims by PRIFA Bondholders, and FGIC has received claims totaling approximately \$40 million and will process and make payments to PRIFA Bondholders in respect of such claims in accordance with FGIC's plan of rehabilitation. Plaintiffs are now fully subrogated to the rights of PRIFA Bondholders for the claims they paid. Unless and until Defendants begin complying with PROMESA and the U.S. Constitution, these payment defaults will continue, and Plaintiffs will pay additional claims.

II. Lawful Priorities And Liens Under Commonwealth Law

58. A number of provisions of the Commonwealth Constitution and of Commonwealth statutory law define the relative priority of (i) the public debt, including the GO Bonds; (ii) the Authority Bonds; and (iii) the other obligations of the Commonwealth and Authorities. These constitutional and statutory provisions are incorporated into Plaintiffs' contracts with the Commonwealth and the Authorities. In an earlier decision denying the Commonwealth's motion to dismiss Assured's complaint challenging the Clawback Order, the Court carefully described and set out these priorities. Assured v. García-Padilla, 214 F. Supp. 3d 117, 120 (D.P.R. 2016). The relevant provisions include the following:

A. The Constitutional Debt Priority Provision

59. Section 8 of Article VI of the Commonwealth Constitution (the "Constitutional Debt Priority Provision") creates a priority for GO Bonds and other "public debt" over the Commonwealth's other expenditures by requiring the "public debt" to be paid "first":

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

P.R. Const. art. VI, § 8 (emphasis added).

60. Public debt, including GO Bonds, thus enjoys a priority (the “Public Debt Priority”) over all other government expenditures whenever available resources are not sufficient to meet appropriations.⁴ Because of its constitutional status, the Public Debt Priority cannot be overridden by the Commonwealth’s police power, even in a financial emergency. See, e.g., Flushing Nat’l Bank v. Mun. Assistance Corp. for N.Y., 358 N.E.2d 848, 852 (N.Y. 1976) (holding that a “fugitive recourse to the police power” may not be used to “displace inconvenient but intentionally protective constitutional limitations”).

61. Moreover, after giving effect to the Public Debt Priority, the Constitutional Debt Priority Provision incorporates other legal priorities, created by statute, by stating that, following payment of the public debt, “other disbursements shall . . . be made in accordance with the order of priorities established by law.” P.R. Const. art. VI, § 8. Among the statutory priorities incorporated into the Constitutional Debt Priority Provision and thereby granted constitutional protection are (i) the statutory priorities and liens established by the Excise Tax Statutes and (ii) the statutory priorities established by the Commonwealth’s Management and Budget Office Organic Act (Act No. 147-1980 (June 1980) (the “OMB Act”).

62. The Defendants have violated the Constitutional Debt Priority Provision and the OMB Act, by using available resources to pay expenses with lower priorities, while simultaneously not paying the public debt and the Authority Bonds.

⁴ In addition to GO Bonds, Assured also insures approximately \$146 million of bonds, and FGIC insures approximately \$2 million of bonds, issued by the Puerto Rico Public Buildings Authority (“PBA”) and guaranteed by the Commonwealth (the “PBA Bonds”). To date, as a result of defaults on the PBA Bonds caused by the Moratorium Laws, the Moratorium Orders, the Fiscal Plans, and the Compliance Law, Assured has paid approximately \$42 million in aggregate claims to PBA Bondholders, and FGIC has received claims totaling approximately \$2 million from PBA Bondholders and will process and make payments to PBA Bondholders in accordance with FGIC’s plan of rehabilitation. The Commonwealth’s guaranty obligations with respect to the PBA Bonds enjoy the same priority as the GO Bonds under the Constitutional Debt Priority Provision.

B. The Excise Tax Statutes

63. In order to make the Authority Bonds attractive to investors, the Excise Tax Statutes grant Authority Bondholders the most senior possible lien on the Pledged Special Excise Taxes consistent with the Constitutional Debt Priority Provision. To this end, these statutes grant Authority Bondholders first-priority liens on the Pledged Special Excise Taxes, subject only to the conditions that, in a fiscal year in which the Constitutional Debt Priority Provision is in effect, the Pledged Special Excise Taxes may (i) be used *solely* to pay the public debt, but (ii) *only if the public debt remains unpaid after a first application of all other available resources to the payment of public debt*. Together, these two preconditions to any “clawback” of Pledged Special Excise Taxes⁵ establish the priority (the “Authority Bond Priority”) of the Authority Bonds over *all* disbursements other than public debt. As a prior decision from this Court described it, “The funds from these taxes and tax liens may be used to pay the public debt if no other Commonwealth resources are available.” Assured Guar., 214 F. Supp. 3d at 121. These preconditions to a “clawback” of the Pledged Special Excise Taxes have never been satisfied, because the Commonwealth has at all relevant times had sufficient available resources to pay the public debt in accordance with the Constitutional Debt Priority Provision.

64. The Authority Bond Priority, including these two preconditions to any clawback, is expressly set forth in the following Excise Tax Statutes:

- (a) **PRHTA Pledged Tax Revenues Pledged to Payment of PRHTA Bonds:** “The proceeds from such taxes shall be used solely for the payment of the interest on and amortization of the public debt, as provided in Section 8 of Article VI of the Constitution of the Government of Puerto Rico, insofar as the other available resources referred to in said Section do not suffice to attain such purposes. **Otherwise, the proceeds from said tax, in the necessary amount, shall be used solely for the payment of principal of and interest on the bonds and other obligations of the**

⁵ Because the Pledged Toll Revenues do not constitute “available resources,” they can never be subject to “clawback” to pay the public debt.

Authority and to meet any stipulation agreed on by the Authority to the holders of its bonds and other obligations.” 13 L.P.R.A. § 31751(a)(3)(C) (emphasis added).

- (b) **Vehicle Fees Pledged to Payment of PRHTA Bonds:** “[S]aid pledge or pignoration shall be subject to the provisions of § 8 of Article VI of the Constitution of Puerto Rico; Provided, however, That the proceeds of said collection shall only be used for the payment of interest and the amortization of the public debt, as provided in said § 8, until the other resources available, referred to in said section, are insufficient for such purposes, otherwise, **the proceeds of said collection in the amount that is necessary shall be used solely for the payment of the principal and interest on bonds and other obligations of the Authority, and to meet whatever other stipulations are agreed upon between the Authority and the holders of said bonds or other obligations.**” 9 L.P.R.A. § 2021 (emphasis added); see also 9 L.P.R.A. § 5681.
- (c) **PRCCDA Pledged Tax Revenues Pledged to Payment of PRCCDA Bonds:** “The product of the collection of the tax shall be used solely for the payment of the interest and the amortization of the public debt, as provided in Section 8 of Article VI of the Constitution of the Commonwealth of Puerto Rico, but only to the degree to which the other available resources to which reference is made in said Section are insufficient for such purposes. **Otherwise, the product of said collection, in the amount necessary, shall be used solely for the payment of the principal and interest on the bonds, notes or other obligations and the obligations under any bond related financing agreement contemplated herein, and to comply with any stipulations agreed to with the bondholders, noteholders or holders of other obligations or the providers under bond related financing agreements.**” 13 L.P.R.A. § 2271v (emphasis added).
- (d) **PRIFA Pledged Tax Revenues Pledged to Payment of PRIFA Bonds:** “[PRIFA] is hereby empowered to segregate a portion of said Funds into one (1) or more sub-accounts, subject to the provisions of Section 8 of Article VI of the Constitution of the Commonwealth of Puerto Rico for the payment of the principal and interest on bonds and other obligations of the Authority, or for the payment of bonds and other obligations issued by a benefited entity, or for any other legal purpose of the Authority. The moneys of the Special Fund may be used for the payment of interest and for the amortization of the public debt of the Commonwealth, as provided in said Section 8, only when the other resources available referred to in said Section are insufficient for such purposes.” 3 L.P.R.A. § 1914.

C. The OMB Act

65. In furtherance of the Constitutional Debt Priority Provision, and consistent with the Excise Tax Statutes, Section 4(c) of the OMB Act sets certain “priority guidelines” for the disbursement of available resources in a fiscal year in which the Constitutional Debt Priority Provision is in effect. The priorities set by the Legislative Assembly in the OMB Act first require “payment of interest and amortizations corresponding to the public debt.” 23 L.P.R.A. § 104(c)(1). The “priority guidelines” next assign a second-priority status to “commitments entered into by virtue of legal contracts in force, judgments of the courts in cases of condemnation under eminent domain, and binding obligations to safeguard the credit, reputation and good name of the Government of the Commonwealth of Puerto Rico,” including, to the extent applicable, the Authority Bonds.⁶ Id. § 104(c)(2).

66. “Regular expenses” related to government operations receive a *third*-priority status (after public debt and Authority Bonds) under Section 4(c) of the OMB Act, with priority within this group given to expenses related to “[c]onservation of public health,” “[p]rotection of persons and property,” “[p]ublic education programs,” “[p]ublic welfare programs,” and “[p]ayment of employer contributions to retirement systems and payment of pensions to individuals granted under special statutes,” followed by “remaining public services in the order of priority determined by the Governor.” 23 L.P.R.A. § 104(c)(3)(A)-(E). Necessary “adjustments due to reductions may be made” to the appropriations for any of these enumerated “service areas.” Id. § 104(c)(3)(E).

⁶ The Pledged Toll Revenues are not subject to the OMB Act waterfall, because they are not general revenues and do not constitute “available resources.” Similarly, the Pledged Special Excise Taxes are not subject to the OMB Act waterfall, because the Pledged Special Excise Taxes are not general revenues and can never be used for any purpose other than to pay the Authority Bonds or, following a *valid* clawback, the public debt. Even in the event the OMB Act waterfall were found to apply to the Pledged Special Excise Taxes, however, the Pledged Special Excise Taxes could only be applied to the first two items in the waterfall, namely payment of the public debt or of “legal contracts in force” (*i.e.*, the Authority Bonds).

67. Finally, the OMB Act's "priority guidelines" assign the lowest priorities to "construction of capital works or improvements" (fourth priority) (23 L.P.R.A. § 104(c)(4)) and "contracts and commitments contracted under special appropriations" (fifth priority) (id. § 104(c)(5)).

III. The Clawback Order

68. On November 30, 2015, former Governor García Padilla issued the Clawback Order, which directed the Secretary of Treasury and the Puerto Rico Tourism Company to withhold the Pledged Special Excise Taxes, purportedly for application to the public debt, instead of applying the Pledged Special Excise Taxes to the payment of the Authority Bonds as required by the Excise Tax Statutes.

69. The Clawback Order unlawfully modified the Public Debt Priority by expressly providing for other expenses to be paid "at the same time" ("a su vez") as the public debt. See Ex. 2A at 2; Ex. 2B at 2. By contrast, the Constitutional Debt Priority Provision requires the public debt to be paid "first," and not at the same time as, other expenses. See P.R. Const. art. VI, § 8. Even worse, the Defendants actually have paid the lower priority expenses ahead of the public debt, which is not being paid at all.

70. The Clawback Order also unlawfully modified the Authority Bond Priority, because its "Whereas" clauses indicated that the Commonwealth was continuing to fund general "expenses" ("los gastos") *other* than payments on the Authority Bonds. See Ex. 2A at 2; Ex. 2B at 2. Pursuant to the Authority Bond Priority, the Authority Bonds enjoy priority over these other expenses.

71. In January 2016, Assured and FGIC filed lawsuits⁷ challenging the Clawback Order on the grounds that the Clawback Order violated the Contracts, Takings, and Due Process Clauses of the U.S. Constitution. In response to Assured's claims and certain of FGIC's claims, the Commonwealth defendants filed a motion to dismiss based *solely* on sovereign immunity,⁸ and in which the defendants did not even attempt to contest the merits of Assured's and FGIC's claims under the Contracts, Takings, and Due Process Clauses. On October 4, 2016, the Court denied the defendants' motion to dismiss.⁹ On October 14, 2016, rather than attempting to defend the merits of the Clawback Order in further litigation, the Commonwealth announced that it had allowed the Clawback Order to expire at the end of Fiscal Year 2016.¹⁰

72. To date, the Commonwealth government has not used approximately \$147 million of the funds that it confiscated under the Clawback Order, and instead continues to hold those funds. The fact that the Commonwealth government has not used these funds demonstrates that the Clawback Order—like the Moratorium Laws, Moratorium Orders, Fiscal Plans, and Compliance Law that followed—was not a response to a real or immediate liquidity crisis, and instead constituted a cynical tactic to gain leverage in restructuring negotiations by unlawfully violating creditors' constitutional and statutory debt payment priorities, impairing creditors' contracts, and taking creditors' property.

⁷ See Assured Guar. Corp. v. García-Padilla, No. 16-cv-1037 (D.P.R. Jan. 7, 2016), ECF No. 1; Fin. Guar. Ins. Co. v. García Padilla, No. 16-cv-1095 (D.P.R. Jan. 19, 2016), ECF No. 1.

⁸ See Assured Guar., No. 16-cv-1037, ECF No. 25; Fin. Guar., No. 16-cv-1095, ECF No. 37.

⁹ See Assured Guar., 214 F. Supp. 3d at 120, 130 (denying defendants' motion to dismiss as to plaintiff Assured; granting in part and denying in part defendants' motion to dismiss as to plaintiff Financial Guaranty).

¹⁰ See Assured Guar., No. 16-cv-1037, ECF No. 59; see also Fin. Guar., No. 16-cv-1095, ECF No. 66.

IV. The Moratorium Laws And The Moratorium Orders

73. On April 6, 2016, the Commonwealth enacted a Moratorium Law (Act No. 21-2016, the “First Moratorium Law” (attached hereto as “Exhibit 5A” and English translation attached hereto as “Exhibit 5B”)) that authorized the Governor of the Commonwealth to declare states of emergency with respect to a number of Puerto Rico public entities. The First Moratorium Law delegates the Commonwealth’s police power to the Governor, expressly stating that “pursuant to the Commonwealth’s police powers, we the Legislative Assembly of the Commonwealth of Puerto Rico have resolved to provide the Governor with powers to declare a state of emergency for the Commonwealth and its instrumentalities[.]”¹¹

74. In particular, Section 201(d) of the First Moratorium Law provides that:

If ordered by the Governor during the emergency period created by this section, the following obligations may be suspended or modified, if applicable, until the end of the covered period, without the need for further legislation—

* * *

ii. any statutory or other obligation to transfer money (or its equivalent) to pay or secure any covered obligation (or take any action in furtherance thereof)[.]

Ex. 5B at 68 § 201(d)(ii).

75. Section 201(b) of the First Moratorium Law generally provides for a stay of any actions to recover on the “Covered Obligations” of a Puerto Rico public entity with respect to which a state of emergency has been declared. Ex. 5B at 66-68 § 201(b). The First Moratorium Law defines “Covered Obligation” to include “any interest obligation [or] principal obligation.” Id. at 61 § 103(I).

¹¹ Ex. 5B at 53 (¶ F); see also id. at 67 § 201(b)(iv) (“[T]he Governor may take any and all actions that are reasonable and necessary . . . to protect the health, safety and welfare of the residents of the Commonwealth[.]”).

76. On May 5, 2016, the Commonwealth enacted Act No. 40-2016 (attached hereto as “Exhibit 6”, containing English translation within text), which amended the First Moratorium Law to (i) define GDB as a “depository institution” and (ii) define “prioritizing the safety, soundness and stability” of depository institutions as an “essential service[.]” Ex. 6 at 4-5 §§ 8(kk), 9. Therefore, under the First Moratorium Law as amended by Act No. 40-2016, payments to GDB purportedly qualify as payments for “essential services” that have priority over debt service, including on PRHTA Bonds. This allows the GDB, whose claims against PRHTA are unequivocally subordinated to the secured PRHTA Bondholders, to receive payments from PRHTA Pledged Special Revenues ahead of senior secured PRHTA Bondholders.

77. Beginning on April 30, 2016, pursuant to the First Moratorium Law, Governor García Padilla issued a series of Moratorium Orders that prohibited payments of principal and interest on the GO and Authority Bonds, violated the constitutional and statutory priorities of the GO and Authority Bonds, impaired Plaintiffs’ rights under the GO and Authority Bonds and related contracts, and took the Pledged Special Revenues in which Plaintiffs have property interests without providing just compensation. These Moratorium Orders included:

- Administrative Bulletin OE-2016-14 (“EO-14” (attached hereto as “Exhibit 7A” and English translation attached hereto as “Exhibit 7B”)), which, among other things, declared a state of emergency with respect to PRIFA.
- Administrative Bulletin No. EO-2016-18 (“EO-18” (attached hereto as “Exhibit 8A” and English translation attached hereto as “Exhibit 8B”)), which, among other things, (i) declared a state of emergency with respect to PRHTA; (ii) ordered the suspension of all obligations of PRHTA to transfer PRHTA Pledged Special Revenues to the PRHTA Fiscal Agent for the payment of the PRHTA Bonds; and (iii) authorized PRHTA to utilize the PRHTA Pledged Special Revenues for the provision of “essential services for the protection of the health, security, and well-being of the residents of the Commonwealth.” Ex. 8B at 5-6.

- Administrative Bulletin No. OE-2016-27 (“EO-27” (attached hereto as “Exhibit 9A” and English translation attached hereto as “Exhibit 9B”)), which, among other things, (i) extended the state of emergency for PRIFA declared in EO-14 and (ii) suspended PRIFA’s obligation to transfer PRIFA Pledged Tax Revenues to the PRIFA bond trustee for the payment of the PRIFA Bonds.
- Administrative Bulletin No. EO-2016-30 (“EO-30” (attached hereto as “Exhibit 10A” and English translation attached hereto as “Exhibit 10B”)), which, among other things, (i) declared a state of emergency with respect to the Commonwealth; (ii) declared a moratorium on the Commonwealth’s obligation to make payments on any bonds or notes issued or guaranteed by the Commonwealth (including the GO Bonds);¹² (iii) extended the emergency period for PRHTA through the entirety of the “covered period,” which the First Moratorium Law defined to mean through and including January 31, 2017, subject to a possible two-month extension by the Governor; (iv) suspended payment of all debt obligations of PRHTA under the PRHTA Resolutions that come due during the covered period, except for payments that can be made from funds on deposit with the PRHTA Fiscal Agent; (v) extended EO-14 and EO-27 as they relate to PRIFA in force through the entirety of the “covered period;” and (vi) suspended the payment of all PRIFA Bonds payable from PRIFA Pledged Tax Revenues.
- Administrative Bulletin No. EO-2016-31 (“EO-31” (attached hereto as “Exhibit 11A” and English translation attached hereto as “Exhibit 11B”)), which, among other things, (i) continued the suspension of PRHTA’s obligations under the PRHTA Resolutions to transfer PRHTA Pledged Special Revenues to the PRHTA Fiscal Agent;¹³ (ii) declared a state of emergency with respect to PRCCDA; (iii) declared a moratorium on PRCCDA’s obligation to pay the PRCCDA Bonds; and (iv) suspended PRCCDA’s obligation to transfer the PRCCDA Pledged Tax Revenues to the trustee for the PRCCDA bonds.

¹² EO-30 thus modifies and violates the Constitutional Debt Priority Provision by permitting other expenses to be paid ahead of the “public debt,” including the GO Bonds.

¹³ Remarkably, EO-31 does *not* suspend or modify PRHTA’s obligation to transfer revenues pledged for the payment of the Subordinated GDB Lines of Credit, and, instead, only modifies PRHTA’s obligation to GDB to the extent necessary to provide PRHTA with the revenues it requires to fund operating expenses or “essential services.” Ex. 11B at 3. The net result is that EO-18, EO-30, and EO-31 authorize PRHTA to divert PRHTA Pledged Special Revenues to the payment of subordinated PRHTA operating expenses or to the insider affiliate GDB. The Moratorium Laws and the Moratorium Orders thus unlawfully prioritize payment to GDB of junior debt and other expenses masquerading as “essential services” ahead of payments to the senior secured PRHTA Bonds, and permit the unlawful diversion of the PRHTA Pledged Special Revenues for those purposes.

78. By their terms, the Moratorium Orders were set to expire on January 31, 2017. However, on January 29, 2017, the Commonwealth enacted a second Moratorium Law (Act No. 5-2017, the Puerto Rico Financial Emergency and Fiscal Responsibility Act, or the “Second Moratorium Law” (attached hereto as “Exhibit 12A” and English translation attached hereto as “Exhibit 12B”). The Second Moratorium Law purported to continue the existing Moratorium Orders in effect notwithstanding the fact that the Moratorium Orders would otherwise have expired by their terms on January 31, 2017.

79. Despite leaving the Moratorium Orders in effect, the Second Moratorium Law also purported to repeal Chapters 1 and 2 of the First Moratorium Law. In repealing Chapter 2 of the First Moratorium Law, the Second Moratorium Law repealed two provisions (the “Compensation Provisions”) of the First Moratorium Law that purported to provide a method for parties whose property was taken by the Commonwealth pursuant to the First Moratorium Law to seek compensation.¹⁴

80. The fact that the Commonwealth included these Compensation Provisions in the First Moratorium Law demonstrates the Commonwealth’s recognition that the First Moratorium Law authorized takings of property for which just compensation was required under the U.S. and Commonwealth Constitutions. By leaving in place the Moratorium Orders effecting such takings while simultaneously *repealing* the Compensation Provisions, the Second Moratorium Law abandoned any pretense of complying with the constitutional requirement to

¹⁴ First, in the event the Governor expropriated property pursuant to the power of eminent domain as authorized under Section 201(b)(iv) of the First Moratorium Law, Section 201(b)(iv) of the First Moratorium Law permitted affected parties to seek “just compensation or other relief . . . in the Court of First Instance, San Juan Part.” Ex. 5B at 67-68 § 201(b)(iv). Second, in the event the Governor effected a taking that did not constitute an “expropriation” under Section 201(b)(iv), Section 204 of the First Moratorium Law permitted affected parties to seek “adequate protection” from the Court of First Instance of the Commonwealth, San Juan Part “to the extent required by applicable constitutional law,” *i.e.*, the Takings Clauses of the U.S. and Commonwealth Constitutions. *See id.* at 72 § 204(b).

provide just compensation, and demonstrated that the ongoing takings of property that continue to occur pursuant to the Moratorium Laws and Moratorium Orders are unconstitutional.

81. On April 30, 2017, the Governor issued another Moratorium Order, Administrative Bulletin No. EO-2017-031 (“EO-2017-031” (attached hereto as “Exhibit 13A” and English translation attached hereto as “Exhibit 13B”)), which extended the effectiveness of the previous Moratorium Orders until August 1, 2017.

82. On or around July 19, 2017, the Commonwealth enacted a third Moratorium Law (the “Third Moratorium Law” (attached hereto as “Exhibit 14A” and English translation attached hereto as “Exhibit 14B”)), which extended the effectiveness of the Moratorium Orders through the end of December 2017 and allowed the Governor to further extend the effectiveness of the Moratorium Orders by executive order in six-month increments as long as FOMB remains in place.

83. On January 2, 2018, the Governor issued another Moratorium Order, Administrative Bulletin No. EO-2017-76 (“EO-2017-76” (attached hereto as “Exhibit 15A” and English translation attached hereto as “Exhibit 15B”)), which further extended the effectiveness of the other Moratorium Orders for an additional six months until June 30, 2018.

84. The pattern and practice of continued extensions of the Moratorium Orders, dating back to April 2016, supports the conclusion that Defendants will continue to extend the Moratorium Orders indefinitely.

V. PROMESA And The Fiscal Plans

85. On June 30, 2016, President Barack Obama signed PROMESA into law. The stated purpose of PROMESA is to “establish [FOMB] to assist the Government of Puerto Rico, including instrumentalities, in managing its public finances, and for other purposes.” H.R. 5278, 114th Cong. (2016) (preamble). The stated purpose of FOMB is to “provide a method for

a covered territory to achieve fiscal responsibility and access to the capital markets.” PROMESA § 101(a).

86. Among other things, PROMESA (i) requires FOMB to approve fiscal plans governing the future finances and budgets of the Commonwealth and its instrumentalities, including the Authorities (Title II); (ii) provides for a mechanism for adjusting the Commonwealth’s bond debt or the bond debt of its instrumentalities on a largely consensual basis (Title VI); and (iii) following “good-faith efforts to reach a consensual restructuring with creditors,” authorizes, but does not require, FOMB to file a petition on behalf of the Commonwealth or its instrumentalities, including the Authorities, to commence a court-supervised debt adjustment proceeding (Title III).

87. In order to qualify as a “Fiscal Plan” under PROMESA, a fiscal plan must satisfy a series of requirements set forth in Section 201(b) of PROMESA. Only a fiscal plan that satisfies the requirements of Section 201(b) is eligible for approval by FOMB.

88. Sections 201(c)-(f) of PROMESA establish procedures for the development, review, revision, approval, and certification of fiscal plans. Specifically, Section 201 establishes two methods by which a fiscal plan may be approved and certified by FOMB. First, FOMB may approve and certify a fiscal plan in the form proposed by the Governor if the proposed fiscal plan complies with the requirements of PROMESA. PROMESA § 201(c)(3), (e)(1). Alternatively, FOMB may develop and certify its own fiscal plan in the event the Governor fails to submit a fiscal plan that complies with PROMESA by the deadline set by FOMB. PROMESA § 201(d)(2), (e)(2).

89. Section 201(a) of PROMESA requires FOMB, as soon as practicable following appointment of all of its members and its chair, to provide the Governor with a

schedule for the development, submission, approval, and certification of a Commonwealth fiscal plan. PROMESA § 201(a).

90. Section 201(c)(2) of PROMESA then requires the Governor to develop a “proposed Fiscal Plan” for submission to FOMB. PROMESA § 201(c)(2). Section 201(c)(3) next requires FOMB to review the Governor’s proposed fiscal plan “to determine whether it satisfies the requirements set forth in [Section 201(b)].” *Id.* § 201(c)(3). Finally, Section 201(c)(3) requires FOMB *either* (i) to “approve the [Governor’s] proposed Fiscal Plan” if it “satisfies” the requirements of Section 201(b), *or* (ii) to provide the Governor with (a) a “notice of violation” that includes recommendations for revisions and (b) an opportunity to correct the applicable violations of Section 201(b). *Id.* § 201(c)(3)(A), (B).

91. In the event FOMB issues a “notice of violation,” Section 201(d)(1) of PROMESA requires the Governor to submit a revised proposed fiscal plan in accordance with the schedule established by FOMB. PROMESA § 201(d)(1).

92. Alternatively, in the event that the Governor fails to submit a proposed fiscal plan that satisfies the requirements of Section 201(b) of PROMESA before the deadline established by FOMB, Section 201(d)(2) requires FOMB to “develop and submit to the Governor and the Legislature a Fiscal Plan **that satisfies** the requirements set forth in [Section 201(b)].” PROMESA § 201(d)(2) (emphasis added).

93. Notably, while PROMESA purports to authorize FOMB to approve or reject a fiscal plan proposed by the Governor under Section 201(c)(2) or 201(d)(1) in FOMB’s “sole discretion,”¹⁵ PROMESA does *not* confer any discretion on FOMB in developing,

¹⁵ In any event, a government entity’s “discretion” never includes the authority to violate the law. *See, e.g., United States v. Phillipos*, 849 F.3d 464, 468 (1st Cir. 2017), *cert. denied*, 138 S. Ct. 683 (2018). Therefore, the Revised Fiscal Plan, or any other fiscal plan, would be subject to review for its compliance

submitting, and certifying its own fiscal plan under Sections 201(d)(2) and 201(e)(2). Section 201(d)(2) states categorically that a fiscal plan developed under Section 201(d)(2) must “satisf[y] the requirements” set forth in Section 201(b). See PROMESA § 201(d)(2).

A. The Original Fiscal Plan

94. On October 14, 2016, Governor Padilla submitted a proposed fiscal plan for the Commonwealth (the “First Proposed Fiscal Plan”). On November 23, 2016, FOMB issued a notice of violation (the “First Violation Notice”), identifying areas in which the First Proposed Fiscal Plan failed to comply with PROMESA. The First Violation Notice also established a deadline of January 31, 2017 for Governor Padilla to submit a revised proposed fiscal plan.

95. Following the inauguration of Governor Rosselló on January 2, 2017, FOMB sent Governor Rosselló a supplemental notice of violation on January 18, 2017 (the “Second Violation Notice”), which provided additional recommendations for revisions to the First Proposed Fiscal Plan.

96. At a public meeting on January 28, 2017, FOMB extended Governor Rosselló’s deadline to submit a revised proposed fiscal plan from January 31, 2017, to February 28, 2017. On February 28, 2017, Governor Rosselló did submit a revised proposed fiscal plan (the “Second Proposed Fiscal Plan”) to FOMB.

97. On March 9, 2017, FOMB sent Governor Rosselló a notice of violation (the “Third Violation Notice” (attached hereto as “Exhibit 16”)) stating that the Second Proposed Fiscal Plan did not “comply with the requirements set forth in PROMESA.” Ex. 16 at 1. Notably, among other deficiencies, the Third Violation Notice noted that the Second Proposed

with PROMESA, the U.S. Constitution, and other laws, even if purportedly approved under Section 201(c)(3) of PROMESA.

Fiscal Plan failed to “provide sufficient data to determine whether [the Second Proposed Fiscal Plan] satisfies PROMESA § 201(b)(1)(M) [prohibiting misappropriation of pledged revenues] and (N) [requiring respect for lawful priorities and liens][.].” *Id.* at 1 n.1. The Third Violation Notice also set a deadline of March 11, 2017 for Governor Rosselló to submit a further revised proposed fiscal plan.

98. On or around March 11, 2017, Governor Rosselló submitted another revised proposed fiscal plan (the “Third Proposed Fiscal Plan”), which ultimately formed the basis for the Original Fiscal Plan. Like the Second Proposed Fiscal Plan, the Third Proposed Fiscal Plan failed to provide data demonstrating compliance with Sections 201(b)(1)(N) and 201(b)(1)(M) of PROMESA, which was one of the areas of non-compliance with PROMESA identified in the Third Violation Notice.

99. On March 13, 2017, FOMB purported to approve and certify the Original Fiscal Plan, which was based on the Third Proposed Fiscal Plan, but which included two amendments by FOMB. Neither of the amendments made by FOMB addressed or remedied the Original Fiscal Plan’s non-compliance with 201(b)(1)(N) and (M) as identified in the Third Violation Notice.

100. On April 7, 2017, two members of the United States Senate, Hon. Sen. Thom Tillis and Hon. Tom Cotton (the “Senators”), sent a letter (attached hereto as “Exhibit 17”) to José B. Carrión III, the chair of FOMB, expressing their concern that the Original Fiscal Plan was not compliant with PROMESA because of (i) its failure to comply with lawful priorities and liens established by Puerto Rico’s constitution, (ii) its failure to differentiate between non-essential and essential spending, (iii) its elevation of all non-debt spending above debt service, and (iv) its unexplained economic assumptions. The Senators specifically requested that FOMB “promptly supply our staffs with a compliance certification for the Fiscal

Plan and set forth in detail how each requirement of Section 201(b)(1) of PROMESA has been satisfied.” Ex. 17 at 1.

101. On April 25, 2017, FOMB issued a written response (attached hereto as “Exhibit 18”) to the Senators. Instead of straightforwardly addressing the Senators’ concerns, FOMB’s April 25 letter essentially conceded that the Original Fiscal Plan does not comply with lawful priorities and liens. Specifically, FOMB claimed that the word “respect” in Section 201(b)(1)(N) of PROMESA means something other than “comply with,” which in FOMB’s view gave the Original Fiscal Plan the “flexibility” to *disrespect* and violate lawful priorities and liens, a result that would be contrary to generations of federal constitutional and bankruptcy law. See Ex. 18 at 12. FOMB failed to provide the Senators with the requested compliance certification setting forth in detail how each requirement of Section 201(b)(1) was purportedly satisfied. In fact, FOMB was unable to provide any such certification, because the Original Fiscal Plan obviously did not satisfy each subsection of 201(b)(1), and in particular did not satisfy Sections 201(b)(1)(N) and 201(b)(1)(M). In addition, FOMB was unable to make, and in fact had not made, the determinations required by Sections 201(b)(1)(N), 201(b)(1)(M), and 201(b)(1)(B), and for this reason was not able to provide the requested certification reflecting these determinations.

102. On June 13, 2017, Senator Cotton replied in a letter (attached hereto as “Exhibit 19”) to FOMB. The Senator stated, “I must be frank: I found your answers vague and unresponsive.” Ex. 19 at 1. The Senator continued, “[FOMB] claims that Congress, in using the word ‘respect,’ actually gave the board ‘flexibility’ to decide which legal obligations to meet—which, in my book, is the exact opposite of what the word ‘respect’ means. According to the Wall Street Journal, retail investors in mutual funds nationwide stand to lose \$5.4 billion as a result of [FOMB’s] bizarre interpretation. If this is what ‘respecting’ legal obligations means,

what would ‘disrespecting’ them look like?” Id. The Senator also “point[ed] out that [FOMB’s] letter didn’t address why the Fiscal Plan fails to distinguish between essential expenses and non-essential ones.” Id.

103. On May 3, 2017, FOMB commenced a proceeding under Title III of PROMESA on the Commonwealth’s behalf, the first such proceeding filed under Title III of PROMESA. The Original Fiscal Plan was therefore in effect prior to, and independently of, any Title III proceeding.

104. On the same day that the Title III case for the Commonwealth was filed, Assured commenced an adversary proceeding (the “Original Adversary Proceeding”)¹⁶ seeking declaratory and injunctive relief with respect to the Original Fiscal Plan on the grounds that the Original Fiscal Plan violated PROMESA and the U.S. Constitution.

B. The Revised Fiscal Plan

105. In September 2017, Hurricanes Irma and Maria made landfall in Puerto Rico. Following the hurricanes, FOMB announced that it planned to undertake revisions to the Original Fiscal Plan. Initially, FOMB set December 22, 2017 as the deadline for the Commonwealth government to propose a revised fiscal plan.

106. In light of the changed circumstances, and in the hope that FOMB would, given the chance, conduct a more open plan development process, Plaintiffs voluntarily dismissed the Original Adversary Proceeding without prejudice. See Adv. Proc. No. 17-125-LTS, ECF No. 108.

¹⁶ The Original Adversary Proceeding was originally filed under Case No. 3:13-cv-01584 in the United States District Court for the District of Puerto Rico. The Original Adversary Proceeding was subsequently transferred to the docketing system of the United States Bankruptcy Court for the District of Puerto Rico as Adversary Proceeding No. 17-125-LTS. See Assured Guar. Corp. v. Commw. of P.R., Adv. Proc. No. 17-125-LTS (D.P.R.).

107. On December 20, 2017, FOMB extended the deadline for the Commonwealth to submit a revised proposed fiscal plan to January 10, 2018. On or around January 10, 2018, FOMB further extended this deadline to January 24, 2018.

108. On January 24, 2018, the Commonwealth government submitted an initial draft revised fiscal plan (the “Fourth Proposed Fiscal Plan”). On February 5, 2018, FOMB issued a notice of violation (the “Fourth Violation Notice”), stating that the Fourth Proposed Fiscal Plan failed to comply with PROMESA and establishing a deadline of February 12, 2018 for the Commonwealth government to submit a further revised draft of the fiscal plan.

109. On February 12, 2018, the Commonwealth government submitted a further revised draft fiscal plan (the “Fifth Proposed Fiscal Plan”).

110. On February 16, 2018, FOMB issued a press release stating that it intended to approve and certify a revised fiscal plan by March 30, 2018.

111. On March 23, 2018, FOMB issued a press release postponing the certification of the revised fiscal plan, and stating that it intended to “announce a new certification date as soon as practicable.”

112. On March 23, 2018, the Commonwealth submitted a further revised draft fiscal plan (the “Sixth Proposed Fiscal Plan”).

113. On March 28, 2018, FOMB issued a notice of violation (the “Fifth Violation Notice”), stating that the Sixth Proposed Fiscal Plan failed to comply with PROMESA and establishing a deadline of April 5, 2018 for the Commonwealth government to submit a further revised draft of the fiscal plan.

114. On March 29, 2018, Congressman Rob Bishop, Chairman of the House Committee on Natural Resources (the “Natural Resources Committee”) and one of the principal architects of PROMESA, sent a letter to José B. Carrión III, the chair of FOMB (attached hereto

as “Exhibit 20”), expressing concern that the Sixth Proposed Fiscal Plan did not comply with PROMESA. Specifically, Chairman Bishop stated that “the draft plans released by Governor Rosselló circumvent the stated purpose of [PROMESA].” Ex. 20 at 1. Chairman Bishop went on to state, “[I]t is imperative you adhere to the tenets and Congressional mandate of PROMESA, while providing an avenue for Puerto Ricans to recover from the storms. This careful balance requires you to transparently assess the economic impact of the hurricanes and ‘respect the relative lawful priorities or lawful liens’ of debt issued, while working cooperatively with creditors on holistic solutions to revitalize the local economy and stabilize Puerto Rico’s finances.” Id. at 2. Chairman Bishop noted that “[a] good start would be to determine what constitutes ‘essential public services,’ clearly defining where governmental cuts should occur. Furthermore, the recognition of existing debt is paramount to Puerto Rico’s recovery, and will require much greater degrees of transparency, accountability, goodwill and cooperation on the part of the Puerto Rican government and [FOMB].” Id. Chairman Bishop concluded by stating, “[t]o date, the [Natural Resources Committee] has been unsatisfied with the implementation of PROMESA, and the lack of respect for the Congressional requirements of the Fiscal Plan. And now, due to intentional misinterpretations of the statute, the promise we made to Puerto Rico may take decades to fulfill. I ask that you adhere to the mandates of PROMESA and work closely with creditors and the Puerto Rican government as you finalize and certify the Fiscal Plans[.]” Id. at 3.

115. On April 5, 2018, the Commonwealth submitted a further revised draft fiscal plan (the “Seventh Proposed Fiscal Plan”).

116. Rather than approve the Seventh Proposed Fiscal Plan as proposed by the Governor, FOMB developed the Revised Fiscal Plan under Section 201(d)(2) of PROMESA. FOMB released the Revised Fiscal Plan publicly on April 18, 2018. At a public meeting on

April 19, 2018, FOMB purported to reject the Seventh Proposed Fiscal Plan and approve and certify the Revised Fiscal Plan.

117. To qualify as a “Fiscal Plan” as defined in PROMESA, a fiscal plan must satisfy a series of substantive requirements set forth in Section 201(b)(1) of PROMESA. Specifically, Section 5(10) of PROMESA defines a “Fiscal Plan” as “**a Territory Fiscal Plan or an Instrumentality Fiscal Plan.**” PROMESA § 5(10) (emphasis added). Section 5(22) of PROMESA in turn defines “Territory Fiscal Plan” as “a fiscal plan for a territorial government submitted, approved, and certified **in accordance with section 201.**” *Id.* § 5(22) (emphasis added).

118. Like its predecessor, the Revised Fiscal Plan is not “in accordance with Section 201(b),” and therefore fails to qualify as a “Fiscal Plan” as defined in PROMESA.

119. Furthermore, under PROMESA, FOMB had no authority to approve or certify the Revised Fiscal Plan, because on its face, the Revised Fiscal Plan violates Section 201(b) of PROMESA. FOMB developed and approved the Revised Fiscal Plan under Section 201(d)(2) of PROMESA and certified it under Section 201(e)(2) of PROMESA, and Sections 201(d)(2) and (e)(2), by their terms, do not grant FOMB any discretion in developing, approving, or certifying the Revised Fiscal Plan. Rather, under Sections 201(d)(2) and (e)(2), FOMB had authority only to approve a fiscal plan that strictly “satisfies the requirements set forth in [Section 201(b)],” and the Revised Fiscal Plan does *not* satisfy these requirements.¹⁷

¹⁷ In the event Defendants argue that FOMB developed the Revised Fiscal Plan under Section 201(f) of PROMESA, this makes no difference, because Section 201(f) similarly grants FOMB no discretion. Rather, Section 201(f) merely authorizes FOMB and the Governor to jointly develop a fiscal plan that “**meets** the requirements [of Section 201(b)],” meaning that a fiscal plan developed under Section 201(f) must strictly “meet” the Section 201(b) requirements. PROMESA § 201(f).

120. Similarly, FOMB had no authority to approve the Revised Fiscal Plan, because FOMB refused to make numerous determinations necessary to determine whether the Revised Fiscal Plan complied with Section 201(b) of PROMESA, including determinations as to (i) what lawful priorities and liens exist under Puerto Rico law (Section 201(b)(1)(N)); (ii) which government entities are entitled to the assets, funds, and resources governed by the Revised Fiscal Plan and whether any transfers of funds from one entity to another mandated under the Revised Fiscal Plan are illegal (Section 201(b)(1)(M)); and (iii) which government services qualify as “essential public services” and whether the Revised Fiscal Plan adequately funds such essential public services (Section 201(b)(1)(B)). In purporting to approve the Revised Fiscal Plan, FOMB failed even to consider any of these requirements, much less reach determinations with respect to them. Therefore, FOMB’s purported approval of the Revised Fiscal Plan exceeded FOMB’s statutory authority and was *ultra vires* and invalid.

121. The full implications and illegality of the Revised Fiscal Plan can be seen in the Compliance Law, which further “implements” the Fiscal Plans by impairing the contractual rights of Plaintiffs and other stakeholders and depriving them of their property without just compensation or due process of law.

VI. The Compliance Law

122. On or about April 29, 2017, the Commonwealth enacted the Compliance Law. The Compliance Law further implements the contract impairments and unlawful takings of property mandated by the Fiscal Plans. Chapters 4 and 6 of the Compliance Law (Ex. 4A at 66-68, 72-25; Ex. 4B at 82-85, 91-94) are particularly egregious and obviously illegal and unconstitutional. Chapter 4, entitled “Transfer Of Public Corporations, Agencies, and Instrumentalities to the General Fund,” purportedly authorizes the Commonwealth to simply misappropriate secured bondholder collateral and other property to which the Commonwealth

has no legal entitlement. Chapter 6, meanwhile, similarly purports to authorize the Commonwealth to simply appropriate for its own use trust funds held in special accounts in the Commonwealth treasury for the benefit of the Authorities and their bondholders.

A. Chapter 4 Of The Compliance Law

123. Article 4.01 of Chapter 4 of the Compliance Law provides for the Commonwealth to expropriate property in the form of “surplus” revenues from its public corporations and their bondholders:

[Article] 4.01.- Transfer of Surplus

The public corporations, agencies, and instrumentalities of the Government of Puerto Rico are hereby directed to transfer to the Department of the Treasury any surplus of the revenues generated. Said funds shall be deemed to be available resources of the State and shall be deposited by the Department of the Treasury in the General Fund of the Government of Puerto Rico in order to meet the liquidity requirements provided for in the Fiscal Plan adopted by virtue of the provisions of the Puerto Rico Oversight, Management, and Economic Stability Act of 2016, Public Law 114-187, better known as PROMESA.

Ex. 4B at 82.

124. Article 4.02 of Chapter 4 of the Compliance Law in turn purports to establish a committee empowered to determine what amounts of bondholder collateral are to be expropriated from the Commonwealth’s public corporations and transferred to the Commonwealth pursuant to Article 4.01:

[Article] 4.02.-Committee

The amount of funds to be contributed by each of corporation and instrumentality shall be determined by a committee composed of the Executive Director of the Puerto Rico Fiscal Agency and Financial Advisory Authority, the Secretary of the Department of the Treasury, and the Executive Director of the Office of Management and Budget, which committee may establish the rates needed to comply with the provisions of the Fiscal Plan approved for the Government of Puerto Rico, and that which governs the

corporations. This committee shall ensure that the fund transfer provided in Section 4.01 of this Act does not affect the services offered by public corporations and instrumentalities, and that the surplus consists of the balance available after the operating costs and obligations of said entities are covered, in accordance with the expenditures budget recommended by the Office of Management and Budget for each fiscal year.

Ex. 4B at 83.

125. Chapter 4 makes absolutely no provision for payment by the Authorities of their secured debt. Instead, under Chapter 4, the Commonwealth purports to authorize itself to unlawfully take the Pledged Special Revenues pledged to payment of the Authority Bonds without just compensation.

126. Equally unlawfully and unconstitutionally, Chapter 4 defines the revenues that the Commonwealth may expropriate to include all revenues that do not constitute “operating costs and obligations” of the relevant Authority. In the case of Authorities, such as PRHTA, that have given a “gross pledge” of their revenues to bondholders, Chapter 4 *reverses* the priorities established by the gross pledge, essentially providing that operating expenses of the Authority have a first priority status over all of its other obligations, including its debt obligations.

127. Moreover, Article 4.02 defines as “available resources” those Pledged Special Revenues (the “Operating Revenues”) that are generated by an Authority itself, such as Pledged Toll Revenues generated by PRHTA’s operations. Such Operating Revenues do not constitute “available resources” under the Commonwealth Constitution and are not subject to “clawback” by the Commonwealth even under the very limited circumstances under which a “clawback” of the Pledged Special Excise Taxes is permitted. The Commonwealth’s misappropriation of these Operating Revenues under Chapter 4 constitutes an unlawful taking.

B. Chapter 6 Of The Compliance Law

128. Chapter 6 of the Compliance Law amends Act No. 230-1974 (July 23, 1974), known as the “Government Accounting Act of Puerto Rico” (as amended, the “Accounting Act”), among other things by providing under Article 7(a) and (e) of the Accounting Act, as amended:

[Article 6.02]

[A]s of July 1st, 2017, any special State fund and any other income of the agencies and public corporations shall be deposited entirely in the State Treasury, under the custody of the Secretary of the Treasury or the banking entity it deems appropriate[.]

* * *

As of July 1st, 2017, any special State funds created by law for specific purposes shall continue to be used for the purposes for which they were allocated by law, in accordance with the Recommended Budget of the Office of Management and Budget and the Fiscal Plan. . . . **Should there be any inconsistency between the law and the use of the funds with the Fiscal Plan, the purpose provided for in the Fiscal Plan approved in accordance with PROMESA shall prevail.**

Ex. 4B at 92, 93 (emphasis added).

129. Funds held in “special funds” in the Commonwealth treasury include Pledged Special Revenues “allocated” to the Authorities “by law” and constituting trust funds held by the Department of Treasury on behalf of the relevant Authority for the benefit of its bondholders. In particular, the PRHTA Pledged Special Excise Taxes are held in a special fund in the Commonwealth Treasury on PRHTA’s behalf for the benefit of its bondholders prior to transfer to the PRHTA Fiscal Agent. See, e.g., 13 L.P.R.A. § 31751; 9 L.P.R.A. § 2021. Similarly, PRIFA Pledged Tax Revenues are held in a special fund in the Commonwealth Treasury prior to being transferred to the trustee for the PRIFA Bonds. See 3 L.P.R.A. § 1914. By conditioning the uses of these special funds on their being “in accordance with the Budget

recommended by the Office of Management and Budget and with the Fiscal Plan,” Chapter 6 subverts the purposes for which the Pledged Special Revenues were assigned by law.

130. Chapter 6 further flaunts the fact that the Fiscal Plans deprive bondholders of their statutory entitlements and substantially impair their contractual rights, stating “[s]hould there be any inconsistency between **the law** and the use of funds with the Fiscal Plan, **the purpose provided for in the Fiscal Plan . . . shall prevail.**” Ex. 4B at 93 (emphasis added). The admitted effect of the Compliance Law, then, is to deprive Plaintiffs and other parties of constitutional, statutory, contractual, and property rights to which they are entitled by law.

VII. The Revised Fiscal Plan And The Compliance Law Violate PROMESA

A. The Revised Fiscal Plan And The Compliance Law Fail To Respect Lawful Priorities And Liens (PROMESA § 201(b)(1)(N))

131. Section 201(b)(1)(N) of PROMESA requires a fiscal plan to “respect the relative lawful priorities or lawful liens, as may be applicable, in the constitution, other laws, or agreements of a covered territory or covered territorial instrumentality in effect prior to the date of enactment of [PROMESA].”¹⁸ The Revised Fiscal Plan and the Compliance Law give no consideration at all to priorities and liens under Commonwealth law and do not even reference or identify any such priorities or liens. Indeed, the word “lien” appears nowhere in the Revised Fiscal Plan, and the word “priority” never appears in the context of debt or creditors.

132. A fiscal plan cannot “respect” priorities and liens if it does not even acknowledge them. At a bare minimum, in order to determine whether the Revised Fiscal Plan respected priorities and liens, FOMB would have needed to determine what priorities and liens exist under Puerto Rico law. FOMB, however, has refused to make this determination required

¹⁸ The stated purpose of Sections 201(b)(1)(N) and 201(b)(1)(M) of PROMESA is to “ensure fiscal plans keep intact the structural hierarchy of prioritized debt.” Committee on Natural Resources, Markup Memorandum at 3 (May 23, 2016) (attached hereto as “Exhibit 21”).

by PROMESA. FOMB had no authority to approve a fiscal plan without first making the determinations required by Section 201(b)(1)(N) of PROMESA.

133. Indeed, far from respecting priorities and liens, the Revised Fiscal Plan assumes that the expenses of the Commonwealth and its various agencies and instrumentalities will be paid first, leaving the remaining revenues to the remaining unpaid creditors. Thus, the Revised Fiscal Plan favors one set of creditors—those with run-of-the-mill unsecured claims for the operating expenses of government—over all other creditors, including those holding public debt and secured bonds.

134. As set forth above, the Constitutional Debt Priority Provision, the Excise Tax Statutes, and the OMB Act together establish the lawful priorities and liens in effect prior to the enactment of PROMESA. The Revised Fiscal Plan violates the Public Debt Priority and the Authority Bond Priority, however, because it assumes that non-debt expenses of the Commonwealth government can be paid before debt service on the public debt and the Authority Bonds. By contrast, a PROMESA-compliant fiscal plan would require that (i) the public debt must be paid first from all available resources, (ii) the Authority Bonds must be paid from the Pledged Special Revenues (except in the unlikely scenario that the public debt remains unpaid after a first application of all other available resources to the payment of such public debt), and (iii) the remaining available resources must be budgeted to other government expenditures in accordance with the priorities set out in the OMB Act.

135. The Revised Fiscal Plan also violates the priorities established by Section 4(c)(3) of the OMB Act by failing even to attempt to prioritize as between different categories of third priority “regular expenses” of government. This is contrary to the OMB Act’s express requirement that expenditures related to health, public safety, education, and welfare be given

priority over other government services and over capital improvements, albeit in both cases only after the payment first of public debt and the Authority Bonds.

136. The Revised Fiscal Plan also violates the priorities set forth in the OMB Act by requiring the Commonwealth to fund “Capital expenditures.” See, e.g., Ex. 1 at 22-23, 124. Under the OMB Act, capital expenditures enjoy a fourth priority and cannot be funded until the public debt (first priority) and the Authority Bonds (second priority) have been paid.

137. The Revised Fiscal Plan and the Compliance Law also violate the lawful liens in effect prior to the enactment of PROMESA, because they require the Commonwealth to unlawfully commingle the Pledged Special Revenues, which are the Authority Bondholders’ property and on which the Authority Bondholders have contractual and statutory liens, with the Commonwealth’s unencumbered revenues. The Revised Fiscal Plan and the Compliance Law pool all resources, including Pledged Special Revenues, into a single pot and use them to fund any and all Commonwealth expenses.

138. Similarly, the Revised Fiscal Plan and the Compliance Law fail to first use the Commonwealth’s unencumbered available resources to pay public debt, as required by the Constitutional Debt Priority Provision and the Authority Bond Priority, and fail to segregate Pledged Special Revenues for the payment of the Authority Bonds or of the public debt, which are the only two purposes for which such Pledged Special Revenues may be used.

B. The Revised Fiscal Plan And The Compliance Law Mandate The Misappropriation Of Pledged Special Revenues (PROMESA § 201(b)(1)(M))

139. The Revised Fiscal Plan and the Compliance Law, on their face, also violate Section 201(b)(1)(M) of PROMESA, which requires a compliant fiscal plan to “ensure that assets, funds, or resources of a territorial instrumentality are not loaned to, transferred to, or otherwise used for the benefit of a covered territory or another covered territorial instrumentality

of a covered territory, unless permitted by the constitution of the territory, an approved plan of adjustment under [T]itle III, or a Qualifying Modification approved under [T]itle VI[.]” PROMESA § 201(b)(1)(M). By its plain terms, this section of PROMESA prohibits illegal transfers of Pledged Special Revenues to the Commonwealth or for the Commonwealth’s benefit. The Revised Fiscal Plan and the Compliance Law actually *require* such illegal transfers by mandating that the Commonwealth misappropriate, for its own general use, Pledged Special Revenues that constitute assets, funds, or resources of the Authorities and their bondholders.¹⁹

140. Specifically, the Revised Fiscal Plan fails to preserve the segregation of the Pledged Special Revenues and instead simply commingles the Pledged Special Revenues with the Commonwealth’s general revenues. For example, the Revised Fiscal Plan expressly mandates, under the heading “HTA,” that “Clawbackable [*sic*] revenues [*i.e.*, the PRHTA Pledged Special Excise Taxes] *flow directly* to [the] Commonwealth.” Ex. 1 at 135 (emphasis added). As noted above, the conditions to a “clawback” have never been satisfied, and there is therefore no basis in Puerto Rico law for the Revised Fiscal Plan to mandate that the PRHTA Pledged Special Excise Taxes must “flow” to the Commonwealth.

141. Similarly, the Revised Fiscal Plan “consolidate[s]” the funds of all “Independently Forecasted Non-Enterprise Component Units,” including PRCCDA,²⁰ and of all “Special Revenue Funds / Enterprise Funds” “into Central Government revenue and expenses,” meaning that the Revised Fiscal Plan also mandates the transfer of all other Pledged Special

¹⁹ For these same reasons, the Revised Fiscal Plan and Compliance Law also violate section 928(a) of the Bankruptcy Code, made applicable to these proceedings by Section 301(a) of PROMESA, as set forth below.

²⁰ The Revised Fiscal Plan identifies PRCCDA as one of the “Independently Forecasted Component Units” included in the Revised Fiscal Plan. *See* Ex. 1 at 23. The Revised Fiscal Plan also identifies PRIFA as one of the “Entities Covered By The New Fiscal Plan,” meaning that the Revised Fiscal Plan “consolidates” (*i.e.*, commingles) the PRIFA Pledged Tax Revenues with the Commonwealth’s general funds. *See* Ex. 1 at 118.

Excise Taxes (such as the PRCCDA Pledged Tax Revenues and the PRIFA Pledged Tax Revenues) to the Commonwealth government. Ex. 1 at 135.

142. The Revised Fiscal Plan similarly classifies Vehicle Fees and other Pledged Special Excise Taxes as “General Fund Revenues.” See Ex. 1 at 123.

143. Furthermore, the Revised Fiscal Plan mandates the creation of an “Office of the Chief Financial Officer for Puerto Rico” (“OCFO”), one of the functions of which will be to “**Enforce** and manage a **consolidated** treasury single account for the Government; this involves **consolidating** visibility and control of **all Government bank accounts** . . . and creating a true Treasury Single Account.” Ex. 1 at 62 (emphasis added). Therefore, the Revised Fiscal Plan mandates that the Commonwealth, through the OCFO, illegally transfer Pledged Special Revenues to a consolidated “Treasury Single Account,” where the Pledged Special Revenues will be commingled with general Commonwealth revenues.

144. However, the Pledged Special Revenues are either generated directly by the relevant Authority (in the case of the Pledged Toll Revenues) or are allocated to the relevant entity by statute for the benefit of bondholders²¹ (in the case of the other Pledged Special Revenues). As such, the Pledged Special Revenues constitute “assets, funds, [and] resources” of the relevant “territorial instrumentality” (i.e., an Authority) that cannot legally be loaned to, transferred to, or otherwise used for the benefit of the Commonwealth.

145. The use of Pledged Special Revenues to fund Commonwealth general expenditures under the Revised Fiscal Plan thus violate Section 201(b)(1)(M), again rendering the Revised Fiscal Plan non-compliant and in violation of PROMESA.

²¹ See 13 L.P.R.A. § 31751(a)(1) (governing Special Excise Taxes assigned to PRHTA); 9 L.P.R.A. §§ 2021, 5681 (governing Vehicle Fees assigned to PRHTA); 13 L.P.R.A. § 2271v (governing PRCCDA Pledged Tax Revenues); 3 L.P.R.A. § 1914 (governing PRIFA Pledged Tax Revenues).

146. Clearly, FOMB did not even consider Section 201(b)(1)(M) in purporting to approve the Revised Fiscal Plan. Specifically, in order to determine whether the Revised Fiscal Plan complies with Section 201(b)(1)(M), FOMB would first have needed to determine which “assets, funds, or resources” governed by the Revised Fiscal Plan belong to which government entities and whether any transfers mandated by the Revised Fiscal Plan from one entity to another are lawful or unlawful. FOMB has refused, however, to make these determinations required by PROMESA. FOMB had no authority to purport to approve a fiscal plan without first making the determinations required by Section 201(b)(1)(M).

147. Furthermore, FOMB conceded in the Third Violation Notice that the Second Proposed Fiscal Plan did “not provide sufficient data to determine whether it satisfies PROMESA § 201(b)(1)(M) and (N).” Ex. 16 at 1 n.1. Yet the Revised Fiscal Plan provides no more relevant data than did the Second Proposed Fiscal Plan. If, as FOMB has conceded, it was impossible for FOMB to determine whether the Second Proposed Fiscal Plan complied with Sections 201(b)(1)(M) and (N), then it was equally impossible for FOMB to make such a determination with respect to the Revised Fiscal Plan, and FOMB in fact made no such determination.

C. The Revised Fiscal Plan And The Compliance Law Fail To Ensure The Funding Of Essential Public Services (PROMESA § 201(b)(1)(B))

148. Because the Revised Fiscal Plan fails to differentiate between essential and non-essential services, the Revised Fiscal Plan, on its face, also violates Section 201(b)(1)(B) of PROMESA, which requires a fiscal plan to ensure the funding of “*essential public services.*” PROMESA § 201(b)(1)(B) (emphasis added). Clearly, Congress intended the use of the word “essential” to be a limitation on the services to be funded; otherwise it would

have simply required a fiscal plan to fund all government services.²² Because the Revised Fiscal Plan does not even identify which services are essential, it is impossible to determine whether all of the services funded under the Revised Fiscal Plan qualify as “essential,” and by funding all government services, essential or not, the Revised Fiscal Plan breaches the funding limitation Congress erected.

149. For example, on June 16, 2017—some three months *after* the purported approval of the Original Fiscal Plan—FOMB sent Governor Rosselló a letter (attached hereto as “Exhibit 22”) in which FOMB “reiterate[d] [its] earlier requests urging [Governor Rosselló’s] administration to make and communicate as soon as possible the necessary public policy determinations with respect to what it understands constitute ‘essential services’ in the context of PROMESA.” Ex. 22 at 3. FOMB went on to state, “[a]s you know, in light of Puerto Rico’s fiscal situation, a PROMESA-compliant budget needs to reflect appropriate allocations for the adequate funding of essential services, pension benefits, investments to spur growth and other PROMESA priorities. We can no longer afford business as usual.” Id.

150. Therefore, at the time it purported to approve the Original Fiscal Plan, FOMB had no definition of “essential services,” and no such definition has emerged in the intervening months. Accordingly, at the time FOMB purported to approve the Revised Fiscal Plan, FOMB still did not have a definition of “essential services” that would have permitted it to make the determination required by Section 201(b)(1)(B), and FOMB in fact made no such determination. Indeed, the terms “essential services” and “essential public services” never appear in the Revised Fiscal Plan.

²² The Commonwealth Constitution likewise distinguishes between “essential public services” and other public services.

151. Notably, on November 28, 2017, Plaintiffs and certain other parties in interest filed a motion (the “2004 Motion”) seeking authorization to conduct an examination of the Commonwealth and of FOMB under Rule 2004 of the Federal Rules of Bankruptcy Procedure (Case No. 17-03283-LTS, ECF No. 1870). The 2004 Motion requested, among other things, “Materials reflecting the definition of ‘essential services,’ and any supporting workbook or schedule analyzing the cost of the same.” Id. at 13.

152. On December 14, 2017, Judge Judith Gail Dein conducted a hearing on the 2004 Motion. At the hearing, counsel to AAFAF admitted that absolutely no documents defining “essential services” had been provided to FOMB or used in the development of the Fiscal Plans. See Dec. 14, 2017 H’rg. Tr. at 47 (excerpt attached hereto as “Exhibit 23”).

153. The fact that no documents defining “essential services” exist demonstrates that FOMB made no determination as to whether the Revised Fiscal Plan satisfied Section 201(b)(1)(B) of PROMESA and gave no consideration to that issue.

D. The Revised Fiscal Plan Violates Section 407 Of PROMESA And Section 928 Of The Bankruptcy Code

154. In addition to Section 201(b) of PROMESA, the Revised Fiscal Plan violates numerous other mandatory provisions of PROMESA.

155. For example, Section 407 of PROMESA prohibits transfers of any property of any territorial instrumentality of Puerto Rico (including the Authorities) “in violation of applicable law under which any creditor has a valid pledge of, security interest in, or lien on such property, or which depriv[e] any such territorial instrumentality of property in violation of applicable law assuring the transfer of such property to such territorial instrumentality for the benefit of its creditors[.]” PROMESA § 407(a). The Pledged Special Revenues are property of the Authorities held in trust or in a custodial capacity for the benefit of the Authority

Bondholders, and the Authority Enabling Acts and Excise Tax Statutes constitute (i) “applicable law[s] under which [the Authority Bondholders] ha[ve] a valid pledge of, security interest in, or lien on [the Pledged Special Revenues]” and (ii) “applicable law[s] assuring the transfer of [the Pledged Special Excise Taxes] to [the Authorities] for the benefit of [the Authority Bondholders].” Id. By requiring the Pledged Special Excise Taxes to “flow” to the Commonwealth instead of to the Authorities for the benefit of the Authority Bondholders, the Revised Fiscal Plan violates Section 407 and is clearly unlawful. See Ex. 1 at 135.

156. Similarly, section 928(a) of the Bankruptcy Code—made applicable by Section 301(a) of PROMESA—provides that “special revenues acquired by the debtor after commencement of the case *shall* remain subject to any lien resulting from any security arrangement entered into by the debtor before the commencement of the case.” 11 U.S.C. § 928(a) (emphasis added). The Revised Fiscal Plan completely disregards Plaintiffs’ liens on the Pledged Special Revenues, however, by mandating that the Pledged Special Revenues be transferred to the Commonwealth (in the case of the Pledged Special Excise Taxes) or otherwise used for purposes other than payment of the Authority Bonds. The Revised Fiscal Plan is clearly unlawful in that it violates section 928(a).²³

²³ While section 928(b) of the Bankruptcy Code creates a narrow exception permitting special revenues “derived from a project or system” to be applied to the “necessary operating expenses of such project or system,” the section 928(b) exception does not apply to the Pledged Special Excise Taxes, because (i) the Pledged Special Excise Taxes are not being applied to the Authorities’ operating expenses, but rather are being confiscated by the Commonwealth, and (ii) the Pledged Special Excise Taxes are not “derived from” the Authorities’ “projects or systems,” but rather are derived from taxes. Furthermore, the Pledged Toll Revenues are not being used in accordance with section 928(b) in that the Pledged Toll Revenues are being used (i) to pay expenses that are not “necessary,” (ii) to pay expenses (such as capital improvements) that are not “operating expenses,” and (iii) to pay expenses that are not expenses of the “project or system” from which the Pledged Toll Revenues are derived, namely the specific toll roads that generate the Pledged Toll Revenues.

VIII. Section 303 Of PROMESA Prohibits And Preempts The Moratorium Laws, The Moratorium Orders, The Revised Fiscal Plan, And The Compliance Law

157. In addition to (i) protecting creditors' priorities and liens in Section 201(b) of PROMESA, (ii) protecting creditors against inter-debtor transfers in Section 407 of PROMESA, and (iii) protecting creditors' liens on pledged special revenues through incorporation of section 928 of the Bankruptcy Code, PROMESA further protects creditors against the abuses perpetrated by the Commonwealth under the Clawback Order, Moratorium Laws, and Moratorium Orders in the pre-PROMESA period by (i) preempting Commonwealth legislation and executive orders that unlawfully alter or impair the rights of bondholders and (ii) prohibiting the illegal transfer of funds between government entities. Specifically, Congress designed Section 303 of PROMESA to preempt the Moratorium Laws and Moratorium Orders, and Section 303 also preempts and prohibits the Revised Fiscal Plan and the Compliance Law.

A. Section 303(1) Of PROMESA Preempts The Moratorium Laws, The Moratorium Orders, The Revised Fiscal Plan, And The Compliance Law

158. One of Congress's objectives in PROMESA was to overturn the Clawback Order and the First Moratorium Law and to return to the regime established by the Commonwealth Constitution and the OMB Act. Specifically, the legislative history of PROMESA indicates that Congress recognized that "Puerto Rico's local politicians [had] . . . accelerated the [alleged] fiscal crisis on the island through the passage of harmful legislation, including the recent debt moratorium [*i.e.*, the First Moratorium Law]."²⁴ In order to undo the First Moratorium Law and any similar "harmful legislation," Congress enacted Section 303(1) of PROMESA, which expressly preempts "moratorium laws"—such as the Moratorium Laws, the Moratorium Orders, the Fiscal Plans, and the Compliance Law—that impose a non-consensual moratorium on creditors:

²⁴ Ex. 21 at 2.

[A] moratorium law, but solely to the extent that it prohibits the payment of principal or interest by an entity not described in section 109(b)(2) of [T]itle 11 [of the] United States Code, may not bind any creditor of a covered territory or any covered territorial instrumentality thereof that does not consent to the . . . moratorium[.]

PROMESA § 303(1).

159. While Section 303(1) was generally modeled on section 903 of the Bankruptcy Code, its scope is different, and broader, than the scope of section 903. Specifically, section 903 does not contain Section 303(1)'s references to a "moratorium law" and "moratorium." These terms were added to Section 303 specifically in reference to the First Moratorium Law, EO-14, EO-18, and EO-27, all of which already were in effect at the time PROMESA was enacted, and specifically for the purpose of invalidating the First Moratorium Law, EO-14, EO-18, and EO-27, and any similar moratorium legislation that the Commonwealth subsequently might enact.

160. Generally, a "moratorium" is defined as "a *temporary* prohibition of an activity."²⁵ The Moratorium Laws and Moratorium Orders constitute moratorium laws, because they impose a temporary prohibition on various activities, including payment of principal and interest on the GO Bonds and Authority Bonds. The Revised Fiscal Plan and the Compliance Law similarly prohibit payments of principal and interest on the GO Bonds and the Authority Bonds by requiring the Commonwealth and the Authorities to divert the available resources and Pledged Special Revenues from which the GO Bonds and the Authority Bonds must otherwise be paid to other purposes and by requiring the Commonwealth and Authorities to enact budgets and other laws that will not provide for the full payment of principal and interest on the Bonds.

²⁵ See Oxford Living Dictionary: English, <https://en.oxforddictionaries.com/definition/moratorium>).

161. Similarly, Black's Law Dictionary defines a "moratorium" as "[a]n authorized **postponement**, usu[ally] a lengthy one, in the deadline for paying a debt or performing an obligation." Black's Law Dict. 1101 (9th ed. 2009) (emphasis added). Even a "lengthy" postponement is not permanent, however. Therefore, the Black's definition likewise reflects the fact that the term "moratorium" generally refers to a prohibition or postponement that is *temporary*, and there is absolutely no requirement that the Moratorium Laws, the Moratorium Orders, the Revised Fiscal Plan, or the Compliance Law impose a permanent prohibition on the payment of principal and interest in order for them to fall within the scope of Section 303(1) of PROMESA.

162. Section 303(1) of PROMESA contains an exception from preemption solely to the extent that a moratorium law places a moratorium on debt payments by an "entity . . . described in section 109(b)(2)" of the Bankruptcy Code. PROMESA § 303(1). The types of entities described in section 109(b)(2) of the Bankruptcy Code include "bank[s]," and this exception was specifically created so that the First Moratorium Law would not be preempted to the extent it imposed a moratorium on debt payments by the GDB. Plaintiffs do not challenge the Moratorium Laws, Moratorium Orders, Revised Fiscal Plan, or Compliance Law as applied to debt payments by GDB, however, and instead challenge the Moratorium Laws, Moratorium Orders, Revised Fiscal Plan, and Compliance Law as applied to entities (the Commonwealth and the Authorities) that are not "entit[ies] . . . described in section 109(b)(2)" of the Bankruptcy Code. Furthermore, Plaintiffs have not consented to the moratoria imposed under the Moratorium Laws, Moratorium Orders, Revised Fiscal Plan, and Compliance Law.

163. Therefore, the Moratorium Laws, the Moratorium Orders, the Revised Fiscal Plan, and the Compliance Law are expressly preempted by Section 303(1) of PROMESA and are invalid, null, and void.

B. Section 303(3) Of PROMESA Preempts The Moratorium Orders

164. As noted above, one of Congress’s main concerns in drafting and enacting PROMESA was to stop the illegal diversions and misappropriations of funds that the Commonwealth had implemented under the Clawback Order, the First Moratorium Law, and the Moratorium Orders (including EO-14, EO-18, and EO-27) that were in effect as of the enactment of PROMESA. Specifically, in response to criticisms that the automatic stays under PROMESA could “give Puerto Rico’s government an opportunity to shuffle money around” in a manner detrimental to creditors, Congress included “multiple sections of [PROMESA] [that] prohibit the transfer of funds between debtors and provide creditors with a right to sue if any such unlawful transfers do occur.”²⁶ These sections were expressly intended to preempt the Moratorium Laws and Moratorium Orders even while an automatic stay was in effect, and the automatic stays under PROMESA were in no way intended to shield the Moratorium Laws or Moratorium Orders from preemption. Among these sections of PROMESA specifically designed to prevent illegal transfers under the Clawback Order, the First Moratorium Law, and the Moratorium Orders was Section 303(3) of PROMESA, which expressly preempts “unlawful executive orders,” such as the Clawback Order and Moratorium Orders, as follows:

[U]nlawful executive orders that alter, amend, or modify rights of holders of any debt of the territory or territorial instrumentality, or that divert funds from one territorial instrumentality to another or to the territory, shall be preempted by this Act.

PROMESA § 303(3).

165. The Moratorium Orders are “executive orders” that (i) “divert funds” from a “territorial instrumentality” (PRHTA, PRCDDA, or PRIFA, as applicable) to “the territory” (i.e., the Commonwealth), and that (ii) unlawfully “alter, amend, [and] modify” the rights of (a)

²⁶ Ex. 21 at 4.

GO Bondholders and other holders of public debt to receive payment “first” from available resources and (b) Authority Bondholders to receive payment from the Pledged Special Revenues, except where no other resources are available to pay the GO Bonds or other “public debt.” More specifically, the Moratorium Orders are “unlawful” because they (i) violate the Constitutional Debt Priority Provision by authorizing payment of other expenses at the same time as, or ahead of, the public debt, and (ii) violate the Excise Tax Statutes by authorizing the use of Pledged Special Excise Taxes (a) for purposes other than payment of the Authority Bonds to which those funds are pledged, notwithstanding the fact that the preconditions for a clawback have not been satisfied, and (b) for purposes other than payment of the public debt.

166. Similarly, the Moratorium Orders are “unlawful” because they violate the Commonwealth’s statutory covenants with the Authority Bondholders not to limit the Authorities’ rights and powers under the Authority Enabling Acts until the Authority Bonds have been paid in full. See 9 L.P.R.A. § 2019 (covenant with PRHTA Bondholders); 23 L.P.R.A. § 6450 (covenant with PRCCDA Bondholders); 3 L.P.R.A. § 1913 (covenant with PRIFA Bondholders). Further, the Moratorium Orders are unlawful because they violate the OMB Act (as described above).

167. The Moratorium Orders also violate numerous other provisions of Commonwealth law, including (i) the provision of the PRHTA Enabling Act authorizing PRHTA to determine the use of Pledged Toll Revenues (9 L.P.R.A. § 2012(e)(2)); (ii) the provision of the PRHTA Enabling Act authorizing PRHTA to pledge Pledged Toll Revenues to payment of PRHTA Bonds (9 L.P.R.A. § 2004(l)); and (iii) the provisions of the PRHTA Resolutions that in fact pledge Pledged Toll Revenues to payment of PRHTA Bonds.

168. Finally, the Moratorium Orders are “unlawful” because they (i) violate the Contracts Clauses of the U.S. and Commonwealth Constitutions, by substantially impairing the

contractual rights of Plaintiffs and other Authority Bondholders, as described below, and (ii) violate the Takings and Due Process Clauses of the U.S. and Commonwealth Constitutions, by taking the Pledged Special Revenues in which Authority Bondholders have a property interest without providing just compensation.²⁷

IX. The Moratorium Laws, Moratorium Orders, Revised Fiscal Plan, And Compliance Law Violate The U.S. Constitution

A. The Moratorium Laws, Moratorium Orders, Revised Fiscal Plan, And Compliance Law Violate The Contracts Clause

169. The Contracts Clause of Article I of the U.S. Constitution (the “Contracts Clause”) provides that “[n]o State shall . . . pass any . . . Law impairing the Obligation of **Contracts[.]**” U.S. Const. art. I, § 10, cl. 1 (emphasis added). The Contracts Clause prohibits States or the Commonwealth from enacting laws that would permit borrowers (including the States or the Commonwealth) to abrogate their debts at the expense of creditors.

170. In enacting each of the Moratorium Laws, the Commonwealth “passed” a “law.” In addition, in issuing and continuing the Moratorium Orders, Governor García Padilla and Governor Rosselló (collectively, the “Governors”) purported to exercise the Commonwealth’s police power. The police power is a legislative power. See, e.g., P.R. Const. art. II, § 19 (“The power of the **Legislative Assembly** to enact laws for the protection of the life, health and general welfare of the people shall likewise not be construed restrictively.”) (emphasis added). Therefore, the Governors’ issuance and continuance of the Moratorium Orders, as

²⁷ The stay provisions of the First Moratorium Law and of the Moratorium Orders also render the First Moratorium Law and the Moratorium Orders unlawful and unconstitutional. Pursuant to Section 201(b) of the First Moratorium Law, the Moratorium Orders purport to prohibit the commencement or continuation of all actions, claims, and proceedings “in any court of whatever jurisdiction” that are “related to” the Bonds. Ex. 5B at 66-68 § 201(b). Under the U.S. Constitution, state courts cannot stay actions in federal courts and state or Commonwealth laws and executive orders cannot stay federal court proceedings, nor can such local laws stay federal constitutional claims filed in federal court. Therefore, the First Moratorium Law and the Moratorium Orders are unlawful and violate the U.S. Constitution.

purported exercises of the Commonwealth's police power, constituted legislative acts that likewise effected a change in Commonwealth law.

171. The Compliance Law constitutes a "law" that was "passed" by the Commonwealth. In addition, and independently of its implementation through the Compliance Law, the Revised Fiscal Plan also has the force of law and constitutes a "law" for purposes of the Contracts Clause. Among other things, the Revised Fiscal Plan dictates to the Legislative Assembly what types of budgets (PROMESA § 202) and other legislation (PROMESA § 204) the Legislative Assembly may pass. Moreover, as noted below, FOMB has already exercised its powers under Section 204 of PROMESA to block legislation enacted by the Legislative Assembly on the grounds that such legislation was inconsistent with a fiscal plan.²⁸ Accordingly, in authorizing FOMB to approve fiscal plans, the U.S. Congress clearly delegated a portion of the Commonwealth's legislative power to FOMB.

172. The Moratorium Laws, Moratorium Orders, Revised Fiscal Plan, and Compliance Law substantially impair the contractual rights of bondholders and of Plaintiffs. Plaintiffs insured, and bondholders purchased, the GO Bonds and the Authority Bonds (collectively, the "Bonds") in reliance on the Public Debt Priority and the Authority Bond Priority, both of which priorities were incorporated into Bondholders' and Plaintiffs' contracts with the Commonwealth and the Authorities.²⁹ Moreover, Plaintiffs insured the Authority Bonds in reliance on the Authorities' promises to pledge the Pledged Special Revenues exclusively to the payment of the relevant Bonds, subject only to the conditions specified in the Constitutional Debt Priority Provision and the Excise Tax Statutes. However, by altering these priorities and

²⁸ See Letter dated August 30, 2017 from José B. Carrión III, the chair of FOMB to Governor Rosselló and other Commonwealth officials (attached hereto as "Exhibit 24").

²⁹ In the same way, the Moratorium Laws, Moratorium Orders, Revised Fiscal Plan, and Compliance Law impair the priority of the Commonwealth's guarantee of the PBA Bonds that Plaintiffs also insure.

diverting Pledged Special Revenues from their contractually agreed upon purposes, the Moratorium Laws, Moratorium Orders, Revised Fiscal Plan, and Compliance Law substantially impair (i) the contractual rights of GO Bondholders to be paid on a first-priority basis from available resources and (ii) the contractual rights of Authority Bondholders and Plaintiffs to be secured by, and ultimately paid from, the Pledged Special Revenues.

173. The Commonwealth also covenanted with Authority Bondholders in the Authority Enabling Acts that it would not limit or restrict the rights or powers vested in the Authorities until all Authority Bonds had been paid in full. See 9 L.P.R.A. § 2019 (covenant with PRHTA Bondholders); 23 L.P.R.A. § 6450 (covenant with PRCCDA Bondholders); 3 L.P.R.A. § 1913 (covenant with PRIFA Bondholders). By limiting the Authorities' rights and powers to fulfill the terms of their pledge of Pledged Special Revenues to the payment of Authority Bonds, the Moratorium Laws, Moratorium Orders, Revised Fiscal Plan, and Compliance Law impair the Commonwealth's covenants with Authority Bondholders.

174. The Commonwealth, including FOMB, cannot justify this substantial impairment of Plaintiffs' and Bondholders' rights by claiming that it was exercising the Commonwealth's police power in enacting the Moratorium Laws, Moratorium Orders, Revised Fiscal Plan, and Compliance Law, because the police power cannot override constitutional limitations. See, e.g., Flushing, 358 N.E.2d at 852 (holding that a "fugitive recourse to the police power" may not be used to "displace inconvenient but intentionally protective constitutional limitations"). The Commonwealth, including FOMB as "an entity within the [Commonwealth] government," therefore has no power to override the Constitutional Debt Priority Provision or the statutory priorities incorporated therein, including the Authority Bond Priority.

175. Alternatively, even if the Commonwealth somehow were permitted to exercise its police power to override the Commonwealth Constitution, it could do so only to the

extent the resulting impairments of Plaintiffs' and of Bondholders' contractual rights constituted a reasonable and necessary means of serving an important public purpose.

176. Here, the substantial contract impairments effected by the Moratorium Laws, Moratorium Orders, Revised Fiscal Plan, and Compliance Law do not protect a basic societal interest, because they are designed to benefit particular individuals. For example, while the Moratorium Laws, Moratorium Orders, Revised Fiscal Plan, and Compliance Law cut off funds for the repayment of Bondholders and other financial creditors, they permit and/or require substantially full funding of pension benefits and fail to mandate any significant reduction in the size of the government workforce. The Moratorium Laws, Moratorium Orders, Revised Fiscal Plan, and Compliance Law therefore benefit particular special interest groups, such as government pensioners and employees, rather than the societal interest more generally.

177. Notably, although the Revised Fiscal Plan provides for some modest reductions in pension benefits, José B. Carrión, the chair of FOMB, has acknowledged that these insubstantial cuts are mere window-dressing designed to protect pensioners from the more significant cuts inflicted by the Revised Fiscal Plan on Plaintiffs and other financial creditors. As Mr. Carrión recently stated in an interview:

If we don't [implement the pension benefit cuts provided for in the Revised Fiscal Plan], there exists the probability that the judge takes the issue of the percentage into her hands and decides for more severe cuts. . . . **Legally, the bondholders in effect have rights over pensioners, which are unsecured creditors. In effect, there is a reality that first come the bondholders and afterwards come the pensioners.** We want to ensure that the cut [to pension benefits] will be modest and we can justify the debt restructuring in front of the judge.

Reorg Research, "PROMESA Board, Commonwealth in Talks to 'Improve' Certified Fiscal Plan," Apr. 24, 2018, at 1 (emphasis added) (attached hereto as "Exhibit 25").

178. Therefore, by Mr. Carrión’s own admission, even the nominal pension cuts provided for in the Revised Fiscal Plan serve to benefit a particular special interest group, namely pensioners, at the expense of the larger public purposes and societal interests—such as respect for priorities and liens, fiscal responsibility, and capital market access—reflected in PROMESA.

179. Moreover, the substantial contract impairments effected by the Moratorium Laws, Moratorium Orders, Revised Fiscal Plan, and Compliance Law are neither necessary nor reasonable.

180. As an initial matter, the Moratorium Laws, Moratorium Orders, Revised Fiscal Plan, and Compliance Law cannot possibly constitute a “reasonable and necessary” response to Puerto Rico’s alleged financial difficulties, because Congress specifically legislated a different response. Congress clearly did not view overriding Bondholders’ contract rights as a “reasonable” or “necessary” means of addressing Puerto Rico’s alleged problems, because Congress specifically provided that creditors’ priorities, liens, and other rights must be “respected” (PROMESA § 201(b)(1)(N)). Congress also expressly preempted the Moratorium Laws and Moratorium Orders, which had already begun to impair Bondholders’ rights at the time of PROMESA’s enactment (PROMESA § 303).

181. In any event, the Commonwealth and FOMB were not facing a bona fide fiscal emergency at the time the Moratorium Laws, Moratorium Orders, Revised Fiscal Plan, and Compliance Law were enacted, and the Commonwealth and FOMB in any event had many more reasonable alternatives for dealing with any supposed financial difficulties that the Commonwealth was allegedly experiencing.

182. In particular, the purported debt sustainability analysis contained in the Revised Fiscal Plan fails to demonstrate that the impairments of the Public Debt Priority and the

Authority Bond Priority effectuated by the Revised Fiscal Plan and the Compliance Law are reasonable or necessary, because this purported debt sustainability analysis is flawed and inaccurate. In particular, the Revised Fiscal Plan purports to compare Puerto Rico's capacity to pay debt to that of "U.S. States," but misleadingly purports to show, based on a variety of metrics, that Puerto Rico's existing debt burden is greater than that of the supposedly comparable U.S. States. See Ex. 1 at 27-28. Crucially, the Revised Fiscal Plan expressly ignores the fact that "Puerto Rico residents do not pay Federal income taxes," and that the debt burdens of the supposedly comparable U.S. States would in fact be much *greater than that of Puerto Rico* if the federal tax burden on the residents of those states were included in the analysis. See id. The GDB itself has stated, on behalf of the Commonwealth, that the "**GDB believes that any comparison of the public debt levels of Puerto Rico with the states should include state, local and federal debt.**" The Commonwealth of Puerto Rico, "Update on Fiscal and Economic Progress, FY 2014 Q1 Investor Webcast – October 15, 2013" at 57 (attached hereto as "Exhibit 26"). Furthermore, the GDB itself has acknowledged, on behalf of the Commonwealth, that "[i]f **one factors in the federal debt load, PR would rank last in outstanding debt per capita amongst all US jurisdictions.**" Id. (emphasis added). The self-serving and self-interested debt sustainability analysis contained in the Revised Fiscal Plan is therefore designed to understate Puerto Rico's true debt capacity, and the reality is that Puerto Rico has significant additional debt capacity as compared to U.S. states.

183. Furthermore, the Revised Fiscal Plan concedes that Puerto Rico has a significant informal economy that is not currently subject to effective taxation. As the Revised Fiscal Plan states, "[a]bout one quarter of Puerto Rican workers participate in the informal economy according to Estudios Técnicos, substantially higher than any mainlained state." Ex. 1 at 35. Integrating this informal economy into the formal economy and subjecting income

generated in the currently informal sectors of the economy to taxation would further boost Puerto Rico's debt capacity, a fact that again demonstrates that the purported debt sustainability analysis contained in the Revised Fiscal Plan is inaccurate and misleading.

184. The revenue and economic growth projections and debt sustainability analysis in the Revised Fiscal Plan are also unreliable, because the Revised Fiscal Plan is based on a model that assumes only a single, worst-case "downside" scenario for all relevant variables. The revenue and economic growth projections in the Revised Fiscal Plan are therefore unrealistically conservative, because economic growth and revenues are likely to outperform this worst-case scenario.

185. The revenue and economic growth projections and debt sustainability analysis in the Revised Fiscal Plan are also unreliable in that the model underlying the Revised Fiscal Plan does not accurately reflect economic stimulus from federal aid received by Puerto Rico as a result of Hurricanes Irma and Maria. The economic stimulus from federal aid should result in both a larger and a more sustained increase in economic growth and government revenues than is reflected in the Revised Fiscal Plan.

186. The Moratorium Laws and Compliance Law also contain various recitals regarding the Commonwealth's purported fiscal emergency and supposed inability to fund public services. Because these recitals are self-serving and intended to justify contract impairments that are in the Commonwealth's own self-interest, these recitals are entitled, at best, to only limited deference from this Court. Moreover, the broad references to a fiscal emergency in these recitals are too general to justify the specific impairments effected by the Moratorium Laws, the Moratorium Orders, the Revised Fiscal Plan, and the Compliance Law. In any event, the assertions in these recitals are inaccurate, and the Commonwealth does not in fact face any

significant liquidity crisis or other fiscal emergency that would justify the Moratorium Laws, the Moratorium Orders, the Revised Fiscal Plan, or the Compliance Law.³⁰

187. In particular, in December 2017, FOMB and AAFAF disclosed the existence of \$6.875 billion held in government accounts, including \$1.542 billion in the Commonwealth's "Treasury Single Account" (the "TSA"), that had not previously been publicly disclosed, much of which was held by the Commonwealth government at the time it enacted the First Moratorium Law and at all times thereafter.³¹ This exceeds the total amount of Pledged Special Revenues expropriated under the Moratorium Laws, Moratorium Orders, Fiscal Plans, and Compliance Law. Therefore, Defendants could have significantly reduced or entirely avoided any expropriation of Pledged Special Revenues and any impairment of the Authority Bond Priority if they had simply used some portion of their \$6.875 billion in undisclosed liquidity.

³⁰ PROMESA also contains certain findings regarding an alleged fiscal emergency in Puerto Rico. Notwithstanding these findings, however, PROMESA (i) requires a Fiscal Plan to respect lawful priorities and liens (PROMESA § 201(b)(1)(N)); (ii) requires a Fiscal Plan to ensure that assets, funds, and resources are not illegally transferred from one government entity to another (PROMESA § 201(b)(1)(M)); and (iii) expressly preempts moratorium laws, including the Moratorium Laws and the Moratorium Orders. Clearly, Congressional findings related to PROMESA cannot be used to justify measures expressly prohibited by PROMESA, such as the Revised Fiscal Plan (which disrespects lawful priorities and liens and mandates illegal transfers in contravention of Section 201(b) of PROMESA) and the Moratorium Laws and Moratorium Orders.

³¹ Defendants were plainly aware of the \$6.875 billion in liquidity. In any event, Defendants should have thoroughly audited their own finances to look for additional funds rather than impair Plaintiffs' contracts, and it was entirely unreasonable for Defendants to impair Plaintiffs' contracts before accurately determining the Commonwealth's true liquidity position. To the extent Defendants assert that some of the \$6.875 billion is "restricted," the same is true of the Pledged Special Revenues and the "available resources" from which the public debt is required to be paid. Indeed, the Constitutional Debt Priority Provision establishes the most fundamental and inviolable possible restriction on funds, and it was therefore unreasonable for Defendants to impair the Public Debt Priority rather than whatever restrictions may or may not have existed on their \$6.875 billion in reserves. Similarly, the Pledged Special Revenues are not merely restricted, but are encumbered by liens, and it was therefore unreasonable for Defendants to impair the Authority Bond Priority rather than whatever restrictions may or may not exist on the \$6.875 billion.

188. Similarly, the total amount of debt service the Commonwealth has failed to pay on the GO Bonds as a result of Defendants' impairment of the Public Debt Priority under the Moratorium Laws, Moratorium Orders, Fiscal Plans, and Compliance Law is only around \$2.9 billion. Therefore, Defendants could have significantly reduced or entirely avoided any impairment of the Public Debt Priority if they had simply used some portion of the \$6.875 billion in undisclosed liquidity.

189. Furthermore, to the extent the \$6.875 billion includes amounts that have accumulated as a result of the Moratorium Laws, the Moratorium Orders, the Fiscal Plans, and the Compliance Law, the fact that the Commonwealth has permitted these amounts to accumulate unused demonstrates that the Commonwealth had no need for the funds it saved or confiscated by way of the Moratorium Laws, the Moratorium Orders, the Fiscal Plans, and the Compliance Law, and that the Commonwealth certainly had no "emergency" need for such funds. The fact that the Commonwealth has permitted these amounts to accumulate unused also demonstrates that the Moratorium Laws, the Moratorium Orders, the Fiscal Plans, and the Compliance Law were not narrowly tailored to address any purported liquidity crisis or fiscal emergency, because these measures have swept in large quantities of cash that the Commonwealth did not need in order to fund services or for any other particular purpose and that therefore could have been used to pay debt service, in the process helping to preserve or restore Puerto Rico's access to the capital markets.

190. Indeed, the Moratorium Laws, Moratorium Orders, Revised Fiscal Plan, and Compliance Law were not necessary to overcome a shortfall in liquidity, and instead have resulted in the Commonwealth having *too much liquidity*.³² Far from serving a public purpose,

³² Given this excess liquidity, the Commonwealth presently has access to funds sufficient to cover debt service payments *and* payments for essential government services.

the excess liquidity the Commonwealth has accumulated as a result of the Moratorium Laws, the Moratorium Orders, the Fiscal Plans, and the Compliance Law has prevented the Commonwealth from obtaining federal Community Disaster Loan (“CDL”) Program³³ financing that the Commonwealth otherwise could have used to help Puerto Rico recover from Hurricanes Irma and Maria.

191. Specifically, on October 26, 2017, the President signed into law the *Additional Supplemental Appropriations for Disaster Relief Requirements Act of 2017*, Pub. L. No. 114-72, which included \$4.9 billion for CDL loans to assist the Commonwealth, the U.S. Virgin Islands, and local governments in Florida and Texas in maintaining essential services as a result of hurricanes Harvey, Irma, and Maria.

192. On January 9, 2018, two officials of the federal government—Alex Amparo, Assistant Administrator Recovery Directorate of the Federal Emergency Management Agency, and Gary Grippo, Deputy Assistant Secretary for Public Finance of the U.S. Department of Treasury (together, the “Federal Officials”)—sent a letter (the “FEMA Letter” (attached hereto as “Exhibit 27”)) to the AAFAF Executive Director summarizing the federal government’s policy for providing this CDL assistance to the Commonwealth, its instrumentalities, and its municipalities. The FEMA Letter notes that the Commonwealth, the Puerto Rico Electric Power Authority (“PREPA”), and the Puerto Rico Aqueduct and Sewer Authority (“PRASA”) “projected in late September 2017 that they would exhaust their operating funds on or about October 31, 2017. However, as of December 29, 2017, the Commonwealth central cash balance was approximately \$1.7 billion. . . . In addition to its central cash balance,

³³ The purpose of the CDL Program is to provide loans to eligible recipients that have suffered a substantial loss of tax and other revenues as a result of a major disaster and that demonstrate a need for federal financial assistance to perform essential governmental functions.

on December 18, 2017, the Commonwealth released a report indicating that \$6.875 billion in unrestricted and restricted cash was on deposit in over 800 accounts across all Commonwealth governmental entities. . . . Because the Commonwealth's central cash balance, as publicly reported, has consistently exceeded \$1.5 billion in the months following the hurricanes, and considering the implications of the reported \$6.875 billion of total cash across the Commonwealth, the Federal Government will institute, as a matter of policy, a Cash Balance Policy that will determine the timing of CDLs to the Commonwealth and its instrumentalities, including PREPA and PRASA. Under this Cash Balance Policy, funds will be provided through the CDL Program when the Commonwealth's central cash balance decreases to a certain level." Ex. 27 at 1-2.

193. The federal government has therefore determined that, in light of the Commonwealth's large central cash balance and the \$6.875 billion in government accounts, the Commonwealth has no unmet liquidity needs that would justify CDL loans, and the Commonwealth's *excess* liquidity has therefore resulted in what amounts to a denial of CDL financing from the federal government, to the detriment of Puerto Rico.

194. On March 2, 2018, Puerto Rico's Resident Commissioner, Jennifer González, acknowledged the harm being caused to the public interest by the Commonwealth's excess liquidity and stated that the Commonwealth government should consider using this surplus liquidity to resume payments on the public debt as a means of restoring investor confidence and access to the capital markets. The Resident Commissioner said, "[m]aking a serious evaluation [of the possibility of resuming payments on the public debt] will contribute to creating the environment that will enable Puerto Rico access to these [capital] markets again. We are going to be in hurricane season again in a few months, and we don't have access to these markets. This is very dangerous." Reorg Research, "Resident Commissioner Says

Commonwealth Should Analyze Using Budget Surplus to Make Debt Interest Payments, Calls Lack of Market Access ‘Dangerous,’” Mar. 2, 2018, at 1 (attached hereto as “Exhibit 28”).

195. The U.S. Congress clearly agreed with the Resident Commissioner that regaining access to the capital markets was in Puerto Rico’s public interest, because Congress made this one of the two primary goals of PROMESA and of FOMB, along with achieving fiscal responsibility. See PROMESA §§ 101(a), 201(b)(1), 209(1). Yet clearly, the Moratorium Laws, the Moratorium Orders, the Revised Fiscal Plan, and the Compliance Law hinder, rather than serve, this preeminent public purpose.

196. Notably, the Commonwealth’s liquidity and revenues have continued to improve since the time of the Commonwealth’s December 2017 disclosures. For example, on May 16, 2017, The Bond Buyer reported that “Puerto Rico’s cash position as of May 4 was 7% ahead of its July 2017 forecasts, as April revenues came in 18% stronger than projected.” Robert Slavin, “Puerto Rico is 7% ahead of cash forecasts as April revenues come in strong,” The Bond Buyer, May 16, 2018, <https://www.bondbuyer.com/news/puerto-rico-is-7-ahead-of-cash-forecasts-on-strong-april-revenues>.

197. On the same date, El Nuevo Día reported that the Commonwealth’s liquidity was at “record levels” and specifically noted that “the [TSA] is at its highest level of the whole fiscal year and even exceeds the projections of [AAFAF].” Joanisabel González, “Liquidity at record levels,” El Nuevo Día, May 16, 2018, <https://www.elnuevodia.com/english/english/nota/liquidityatrecordlevels-2422552/>. El Nuevo Día also noted that the Commonwealth was experiencing an “upward trend” in its revenues, reporting that “According to [AAFAF], last April [2018] the collections of the Treasury were about \$223 million over those of April 2017.” Id.

198. On May 18, 2018, AAFAF reported that cash balances across Commonwealth bank accounts had increased to approximately **\$8.684 billion** as of April 30, 2018. AAFAF further reported that the TSA balance had increased to **\$2.690 billion** as of April 30.

199. In addition to tapping the Commonwealth's billions of dollars in liquidity and taking advantage of its improving revenues, the Commonwealth and FOMB also had many other means of addressing the Commonwealth's alleged economic difficulties that would have been more reasonable than the enactment of the Moratorium Laws, Moratorium Orders, Fiscal Plans, and Compliance Law.

200. For example, consistent with the intent of PROMESA, the Commonwealth and FOMB could have pursued a consensual restructuring to reduce principal outstanding, defer maturities, and pay interest in kind. Such a consensual restructuring would have allowed for a significant reduction of Puerto Rico's debt obligations, afforded the Commonwealth time to reestablish economic growth, and helped the Commonwealth to regain capital market access while avoiding protracted and costly litigation. In fact, the Commonwealth had a workable blueprint for such a consensual restructuring in the form of the restructuring support agreement ("PREPA RSA") between PREPA and its creditors, which had been negotiated in earnest for nearly two years on a consensual basis. The PREPA RSA provided for, among other liquidity-enhancing features, (i) haircuts on uninsured legacy debt; (ii) an amortization holiday on new debt securities; (iii) credit support provided by creditors to allow PREPA to issue securities at lower coupons; (iv) new debt securities in the form of capital appreciation bonds, which paid interest in kind for a fixed period of time; and (v) new money investments to fund PREPA's operations and transformation. Just as with the broader Commonwealth, PREPA's operational and financial mismanagement spanned decades, but creditors were willing to make sacrifices and

negotiate constructively toward a solution that would have allowed PREPA to become a world-class utility.

201. Rather than support the consummation of the PREPA RSA, FOMB decided to reverse course in favor of a scorched-earth strategy that prioritized non-consensual Title III debt adjustment over consensual arrangements with creditors. Such an approach was then, and is today, by no means necessary to maintain sufficient liquidity and “breathing room” to implement financial and structural reforms. Many levers remain available to the parties to ensure the Commonwealth maintains adequate liquidity, while still meeting mutually-agreed-upon, restructured obligations to creditors. Not surprisingly, many of these levers are the same as those agreed to in the PREPA RSA, including haircuts, deferral of principal and interest—whether on all or certain credits—and securitizations to obtain lower-cost financing, including new money investments for growth. In exchange, the Commonwealth could provide current interest, validation of liens and pledges, or other forms of consideration that would not unduly pressure liquidity and that would protect creditors.

202. As a purely illustrative example, the Commonwealth and creditors could agree to a consensual debt restructuring that resets debt service to levels that the Commonwealth can support even based on conservative economic assumptions. For instance, through constructive negotiation, the parties could agree to material accommodations including a principal debt service holiday, an exchange of existing debt for new securities with a long-dated tenor, the use of capital appreciation bonds, and the structuring of an overall limit on debt service set as a percentage of the Commonwealth’s “own source” revenues. With respect to exchange rates and pro forma interest rates, the Commonwealth could differentiate between (i) “senior” credits, such as (a) GO, PBA, and other Commonwealth-guaranteed debt and (b) secured credits such as PRHTA, PRCCDA, PRIFA, and other special-tax-backed debt, and (ii) “junior” credits

that lack security, guarantees, or pledged revenues or that are contractually subordinated. For example, senior credits could exchange into longer-dated bonds after an initial principal holiday and begin to amortize with excess cash available after payment of interest. Junior credits could exchange at discounts to face value and begin to amortize after repayment of the senior credits. New interest rates on the senior and junior exchange debt could be set to reflect the new security, priority, and tenor of the respective tranche.

203. The following analysis shows that, based on Defendants’ projections in the Revised Fiscal Plan and assuming that the federal government provides at least 40% of Medicaid funding (which is a conservative assumption), there would be sufficient cash available over the next five years to pay an agreed level of contractual debt service. Thereafter, based on Fiscal Year 2023 estimated cash for debt service, the same, reasonable federal Medicaid assumption, and a reasonable assumption of a long-term 2.5% growth rate, the Commonwealth could support over \$50 billion of debt at a 5% interest rate and 2053 final maturity. This implied debt capacity exceeds the estimated total Commonwealth claims currently outstanding.

Illustrative Cash for Debt Service & Implied Debt Capacity	
Cash Flow Available for Debt Service	
5 Year Average: FY’18 – FY’22	\$1.477 billion
Terminal Year: FY’23	\$2.576 billion
Illustrative Pro Forma Terms	
Long-Term Growth Rate in Cash Flows	2.5%
Interest Rate	5.0%
Tenor (Years)	30
Long-Term Debt Capacity	\$53.04 billion

204. Had such offers been on the table at the time Defendants enacted the Moratorium Laws, Moratorium Orders, Fiscal Plans, and Compliance Law, the parties would likely have been able to reach a near-term, multi-year forbearance and debt service holiday, during which time the Commonwealth could have focused its efforts on fostering long-term

economic growth without necessarily impairing creditors' ultimate recoveries. Beyond the illustrative example above, there are certainly many iterations of restructuring arrangements that could help the Commonwealth achieve its economic and social goals while at the same time being palatable to creditors. But none of these can be discussed or negotiated while FOMB and the Commonwealth continue their stubborn and myopic focus on non-consensual debt restructurings, the terms of which are to be dictated by the flawed, unilaterally-developed, and inexplicably conservative Revised Fiscal Plan.

205. In addition to pursuing a consensual restructuring as outlined above, other reasonable alternatives available to FOMB and the Commonwealth included:

- Adjusting the Commonwealth's budget in accordance with the "priority guidelines" set forth in the OMB Act. Notably, the Revised Fiscal Plan itself assumes approximately \$21.44 billion in revenues for Fiscal Year 2019, meaning that the Commonwealth and its instrumentalities could pay their approximately \$2.75 billion in contractual debt service (including for the Authorities and all other issuers covered by the Revised Fiscal Plan) and still have approximately \$18.86 billion to fund other expenses. Thus, the Commonwealth could pay all debt service if it merely undertook a modest 5.8% trimming of nondebt expenses.
- Distinguishing between essential and non-essential services, as required by the Commonwealth Constitution and Section 201(b)(1)(B) of PROMESA, and prioritizing essential over non-essential services as required by the OMB Act.
- Eliminating structural deficits as required by Section 201(b)(1)(D) of PROMESA.
- Complying with the Commonwealth's future budgets by making appropriate reductions in *non-debt* expenditures when necessary, as required by Section 203(d)(1) of PROMESA.
- Raising additional revenues, as required by the Commonwealth Constitution in a fiscal year in which appropriations exceed estimated resources. See P.R. Const. art. VI, § 7.
- Collecting taxes on income generated within Puerto Rico's large, and currently untaxed, "informal" economy.

206. Notably, the Moratorium Laws, Moratorium Orders, Fiscal Plans, and Compliance Law have aggravated rather than improved PRHTA's fiscal situation, and therefore serve no public purpose with respect to PRHTA. As stated in the fiscal plan for PRHTA that FOMB purported to certify on or around March 28, 2017 (attached hereto as "Exhibit 29"), PRHTA's fiscal situation "was recently aggravated" by the diversion of the Pledged Special Excise Taxes. See Ex. 29 at 16. To the extent Defendants contend that some aspect of the Moratorium Laws or Moratorium Orders benefitted PRHTA, such as the diversion of the Pledged Toll Revenues, then the obvious alternative would have been to cease making illegal payments to GDB on account of the Subordinated GDB Lines of Credit. Any such illegal payments made to GDB since the Moratorium Orders first went into effect could, and should, have been used first to make payments on the senior secured PRHTA Bonds and then to fund PRHTA operating expenses. Moreover, despite the Commonwealth's self-serving findings to the contrary, payments to GDB do not constitute "essential services," because GDB, unlike PRHTA, does not provide any direct services to the people of Puerto Rico.

207. In addition to ceasing PRHTA's illegal payments to an insider creditor, the Commonwealth, FOMB, and PRHTA could have addressed PRHTA's alleged economic difficulties by, among other things:

- giving PRHTA the full economic benefit of the Pledged Special Revenues rather than requiring the Commonwealth to siphon off the Pledged Special Revenues for its own benefit;
- more significantly reducing PRHTA expenditures;
- increasing toll revenues by raising tolls (including in line with inflation)³⁴ and adding previously untolled roads to the PRHTA toll system;

³⁴ The revised PRHTA fiscal plan (the "Revised PRHTA Fiscal Plan" (attached hereto as "Exhibit 30")) approved by FOMB on April 20, 2018, acknowledges that "[PRHTA] has not increased tolls in line with inflation." Ex. 30 at 49-52.

- optimizing toll collections;³⁵
- seeking increased federal funding, including by targeting discretionary federal grants;³⁶
- disposing of real estate assets;³⁷
- entering into public-private partnerships to lower PRHTA's expenses and increase its revenues; and
- negotiating a consensual restructuring of PRHTA's debt.

208. In view of these more reasonable alternatives, the Revised Fiscal Plan, Compliance Law, Moratorium Laws, and Moratorium Orders do not constitute a reasonable or necessary means of serving an important public purpose and therefore violate the Contracts Clause.

209. In addition, the Moratorium Laws, Moratorium Orders, Revised Fiscal Plan, and Compliance Law are not appropriately tailored to the purpose of addressing the Commonwealth's alleged fiscal crisis, because they impair all Bonds and confiscate all Pledged Special Revenues regardless of the Commonwealth's actual liquidity needs.

210. Furthermore, the Moratorium Laws, Moratorium Orders, Revised Fiscal Plan, and Compliance Law fail to impose any reasonable conditions on the Defendants' impairment of the Bonds and confiscation of the Pledged Special Revenues. For example, the Moratorium Laws, Moratorium Orders, Revised Fiscal Plan, and Compliance Law fail to condition any impairment on court approval or on payment of compensation to Plaintiffs or other Bondholders.

³⁵ See Revised PRHTA Fiscal Plan at 53-54.

³⁶ The Revised PRHTA Fiscal Plan acknowledges that federal grants are a viable way to increase PRHTA's revenues. See Ex. 30 at 52. The Revised PRHTA Fiscal Plan also acknowledges that "[Puerto Rico] has not secured any discretionary grants over the last 5 years," *id.*, meaning that Puerto Rico had, but failed to pursue, the opportunity to obtain federal grants at the time that it instead imposed the Moratorium Laws, Moratorium Orders, Fiscal Plans, and Compliance Law.

³⁷ See Revised PRHTA Fiscal Plan at 55.

211. The impairments effected by the Moratorium Laws and Moratorium Orders are also not limited to the duration of the alleged emergency, because the Governor has the power to extend the effectiveness of the Moratorium Laws and Moratorium Orders indefinitely, and he has continued to do so even as the Commonwealth's finances have improved.

212. Similarly, the impairments effected by the Revised Fiscal Plan and Compliance Law are also not limited to the duration of the alleged emergency, because the Revised Fiscal Plan by its terms will last for six years, notwithstanding the fact that the Revised Fiscal Plan itself shows economic growth returning by Fiscal Year 2019 (see Revised Fiscal Plan at 9), and the Compliance Law in any event renders the impairments effected by the Revised Fiscal Plan permanent even following expiration of the Revised Fiscal Plan.

B. The Moratorium Laws, Moratorium Orders, Revised Fiscal Plan, And Compliance Law Violate The Takings And Due Process Clauses

213. The Takings Clause of the Fifth Amendment to the U.S. Constitution (the "Takings Clause") provides that "**private property [shall not] be taken for public use, without just compensation.**" U.S. Const. amend. V. The Takings Clause applies to the States, and the Commonwealth, by virtue of the Due Process Clause.

214. The Pledged Special Revenues constitute property of (i) the Authority Bondholders and (ii) the Authorities in their capacity as custodians and trustees for the Authority Bondholders. The Pledged Special Revenues do not constitute property of the Commonwealth. To the extent Defendants are permitted to hold the Pledged Special Revenues, they hold them in trust or in a custodial capacity for the benefit of the Authority Bondholders.

215. Moreover, Authority Bondholders have a gross lien on the Pledged Special Revenues. A lien is a property interest protected by the Takings and Due Process

Clauses. As express third party beneficiaries of the lien on the Pledged Special Revenues, Plaintiffs have a lawful property right and interest in the Pledged Special Revenues, protected by the Fifth Amendment (and section 928(a) of the Bankruptcy Code).

216. GO Bondholders are also entitled by the Constitutional Debt Priority Provision to receive payment of the GO Bonds on a first-priority basis, and Authority Bondholders are entitled by the Constitutional Debt Priority Provision and by statute to receive the Pledged Special Revenues. A constitutional or statutory entitlement to receive a benefit constitutes a property interest protected by the Takings and Due Process Clauses.

217. In addition, GO Bondholders have a contractual right to receive payment on a first-priority basis from available resources, and Authority Bondholders have a contractual right to receive payment from the Pledged Special Revenues. A contractual right constitutes a form of property for purposes of the Takings and Due Process Clauses.

218. The Moratorium Laws and Moratorium Orders provide no procedure for Plaintiffs to seek just compensation. The Second Moratorium Law repealed the Compensation Provisions, which were intended to provide a procedure for parties whose property interests had been taken pursuant to the Moratorium Orders to seek just compensation. As such, no procedure now exists for Plaintiffs to seek just compensation for the takings effectuated by the Second Moratorium Law and the Moratorium Orders, and the Commonwealth has not provided Plaintiffs with any such compensation.

219. The Revised Fiscal Plan assumes the continued operation of the Moratorium Laws and Moratorium Orders.

220. Moreover, independently of the Moratorium Laws and Moratorium Orders, the Revised Fiscal Plan and Compliance Law take Plaintiffs' property by diverting to

other uses the available resources and Pledged Special Revenues from which the GO Bonds and Authority Bonds are required to be paid.

221. The Moratorium Laws, Moratorium Orders, Revised Fiscal Plan, and Compliance Law thus violate the Takings and Due Process Clauses by taking Plaintiffs' and Bondholders' property without providing Plaintiffs and Bondholders with just compensation or with due process of law.³⁸

222. Plaintiffs' challenge to the Moratorium Laws, Moratorium Orders, Revised Fiscal Plan, and Compliance Law is a facial challenge that became ripe immediately upon the enactment and effectiveness of the Moratorium Laws, Moratorium Orders, Revised Fiscal Plan, and Compliance Law, as applicable. See, e.g., Yee v. City of Escondido, Cal., 503 U.S. 519, 534 (1992). Furthermore, pursuant to the Moratorium Laws, Moratorium Orders, Revised Fiscal Plan, and Compliance Law, Defendants have directly appropriated and continue to directly appropriate funds (the Pledged Special Revenues) that belong to Plaintiffs and in which Plaintiffs have property interests.

X. Plaintiffs Are Directly Injured By The Revised Fiscal Plan, Moratorium Laws, Moratorium Orders, And Compliance Law

223. Plaintiffs are directly injured by the Revised Fiscal Plan, because it (i) dictates that the Commonwealth will continue to subordinate debt service to the payment of all expenses, thereby overriding Plaintiffs' lawful priorities and (ii) requires that the Commonwealth

³⁸ In addition, the Moratorium Laws, Moratorium Orders, Revised Fiscal Plan, and Compliance Law violate the contracts, takings, and due process clauses of the Commonwealth Constitution for the same reasons they violate the Contracts, Takings, and Due Process Clauses in the U.S. Constitution. The contracts clause of the Commonwealth Constitution provides that "[n]o laws impairing the obligation of contracts shall be enacted." P.R. Const. art. II, § 7. The takings clause of the Commonwealth Constitution provides that "[p]rivate property shall not be taken or damaged for public use except upon payment of just compensation and in the manner provided by law." Id. § 9. The due process clause of the Commonwealth Constitution provides "[n]o person shall be deprived of his liberty or property without due process of law." Id. § 7.

confiscate the Pledged Special Revenues from the Authorities and their bondholders, thereby depriving Plaintiffs' of their guaranteed revenue streams.

224. Under PROMESA, once FOMB certifies a fiscal plan, the fiscal plan has the force of law. This is true regardless of whether a Title III proceeding is pending, and a fiscal plan has legal efficacy independently of confirmation of a Title III plan of adjustment. As FOMB has itself asserted in a complaint it filed in this Court, “[o]nce certified by the FOMB . . . the Governor **must comply** with the fiscal plan.” Fin. Oversight & Mgmt. Bd. for P.R. v. Rosselló Nevares, Adv. Proc. No. 17-250-LTS (D.P.R.), ECF No. 1 ¶ 8 (emphasis added). Therefore, the Revised Fiscal Plan itself deprives Plaintiffs of their priorities and Pledged Special Revenues.

225. For example, Section 202 of PROMESA requires the budgets of the Commonwealth and its instrumentalities, including the Authorities, to comply with the applicable certified fiscal plans. On May 10, 2018, FOMB enforced the Revised Fiscal Plan under Section 202 by issuing a “Notice of Violation” (attached hereto as “Exhibit 31”) rejecting a budget proposed by the Governor on the grounds that the proposed budget “is not compliant with the [Revised Fiscal Plan] as certified by [FOMB] on April 19, 2018.” Ex. 31 at 1.

226. Similarly, Section 204 of PROMESA requires future Commonwealth legislation to comply with the certified fiscal plans of the Commonwealth and its instrumentalities. FOMB’s powers under Section 204 include the power to “prevent[] the enforcement or application” of any law that does not comply with a certified fiscal plan. See PROMESA § 204(a)(5). FOMB has already exercised its powers under Section 204 of PROMESA to block legislation that FOMB deemed inconsistent with the Original Fiscal Plan. For example, on or around August 30, 2017, FOMB sent the Governor and other Commonwealth officials a letter notifying them that Act No. 47 of 2017, which expanded the powers of the

Commonwealth's Patient Advocate's Office to commence summary proceedings on behalf of private citizens to stay a health insurance company's coverage determination, did not comply with the Original Fiscal Plan. See Ex. 24. FOMB's letter expressly stated that "[FOMB] reserve[s] the right to take such actions as we consider necessary, consistent with Section 204(a)(5), including preventing the enforcement or application of Act 47." Ex. 24 at 3.

227. Furthermore, Section 104(k) of PROMESA expressly empowers FOMB to bring "CIVIL ACTIONS" to enforce the terms of a certified fiscal plan. Section 104(k) states, "[FOMB] may seek judicial enforcement of its authority to carry out its responsibilities under [PROMESA]." PROMESA § 104(k). Pursuant to its powers under Section 104(k), FOMB has already brought a civil action against Governor Rosselló to enforce the Original Fiscal Plan, notwithstanding the fact that no Title III plan of adjustment has to date been confirmed. See Adv. Proc. No. 17-250-LTS, ECF No. 1. Obviously, FOMB could not have brought such a civil action to enforce a fiscal plan unless the fiscal plan already had the force of law even prior to confirmation of a plan of adjustment.

228. In addition, the Revised Fiscal Plan injures Plaintiffs because any Title III plan of adjustment must be "consistent with the applicable Fiscal Plan certified by FOMB under [T]itle II." PROMESA § 314(b)(7). Because the Revised Fiscal Plan violates PROMESA and the U.S. Constitution, any plan of adjustment that is "consistent" with the Revised Fiscal Plan will similarly violate PROMESA and the U.S. Constitution. Therefore, so long as the Revised Fiscal Plan is in place, it will be impossible for Plaintiffs to be subject to a plan of adjustment that complies with statutory and constitutional mandates.

229. The Moratorium Laws, Moratorium Orders, and Compliance Law also directly injure Plaintiffs by requiring the Commonwealth and its Authorities to override Plaintiffs' priorities and divert their Pledged Special Revenues.

230. As a direct result of the Revised Fiscal Plan, the Moratorium Laws, Moratorium Orders, and the Compliance Law, Plaintiffs face the imminent prospect of additional defaults on the bonds they insure, which will cause significant financial harm to Plaintiffs. This prospect is not hypothetical—Assured already has had to pay over \$616 million in claims, and FGIC has already received claims totaling approximately \$162 million, as a result of the reordering of priorities and diversions of collateral effectuated by the Moratorium Laws, Moratorium Orders, Fiscal Plans, and Compliance Law, and Plaintiffs will inevitably have to pay hundreds of millions of dollars in additional claims if Defendants continue to disrespect lawful priorities and divert collateral pursuant to, and as required by, the Revised Fiscal Plan.

XI. Plaintiffs Are Entitled To Immediate Review Of Their Claims

231. Because Plaintiffs are directly injured by the unlawful and unconstitutional Revised Fiscal Plan, Moratorium Laws, Moratorium Orders, and Compliance Law, Plaintiffs are entitled to review of their statutory and constitutional claims. Indeed, both the First Circuit and the Supreme Court have emphasized that there is ““a strong presumption in favor of judicial review[.]”” Bernardo ex rel. M & K Eng’g, Inc. v. Johnson, 814 F.3d 481, 495 (1st Cir. 2016) (quoting INS v. St. Cyr, 533 U.S. 289, 298 (2001)).

232. The Revised Fiscal Plan, Moratorium Laws, Moratorium Orders, and Compliance Law flout the mandates of PROMESA and the U.S. Constitution, and nothing in PROMESA furnishes the “clear and convincing” evidence necessary to conclude that Congress stripped federal courts of authority to ensure compliance with these “legislative mandate[s].” Mach Mining, LLC v. EEOC, 135 S. Ct. 1645, 1651 (2015).

233. Indeed, PROMESA contemplates a role for this Court in reviewing whether the Revised Fiscal Plan complies with the requirements of Section 201(b) of PROMESA, as well as the other mandates of PROMESA and the U.S. Constitution.

234. For example, PROMESA charges this Court with confirming a plan of adjustment under Title III. Section 314(b)(7) of PROMESA, in turn, requires that the Court ensure that a plan of adjustment is “consistent with” the Fiscal Plan. This Court cannot confirm a plan of adjustment that violates PROMESA and the U.S. Constitution. It is therefore necessary for this Court to review the lawfulness and constitutionality of the Revised Fiscal Plan in order to ensure that this Court will be able to confirm a plan of adjustment that is “consistent with” the Revised Fiscal Plan without violating other provisions of PROMESA or the U.S. Constitution itself.

235. Here, the Revised Fiscal Plan’s violations of Sections 201(b), 303 and 407 of PROMESA and section 928 of the Bankruptcy Code, as well as its violations of the Contracts, Takings, and Due Process Clauses of the U.S. Constitution, make it very plain that this Court could not confirm a plan of adjustment on the basis of the Revised Fiscal Plan.

236. In addition, a plan of adjustment based on the Revised Fiscal Plan could not satisfy many other confirmation requirements specified in Section 314 of PROMESA and section 1129 of the Bankruptcy Code, including (i) the requirement that the plan of adjustment “compl[y] with the provisions of [Title III]” (PROMESA § 314(b)(2)); (ii) the requirement that the debtor “not [be] prohibited by law from taking any action necessary to carry out the plan [of adjustment]” (PROMESA § 314(b)(3)); (iii) the requirement that the plan of adjustment be “feasible and in the best interests of creditors” (PROMESA § 314(b)(6)); and (iv) the “absolute priority rule” of section 1129(b)(2)(B) of the Bankruptcy Code (11 U.S.C. § 1129(b)(2)(B)).

237. Moreover, because the Revised Fiscal Plan consolidates³⁹ the assets of multiple Debtor entities, including the Commonwealth and PRHTA, it effectuates a substantive

³⁹ See Ex. 1 at 63, 127, 138.

consolidation in violation of Section 304(f) of PROMESA, which provides that “nothing in [Title III] shall be construed as authorizing substantive consolidation of the cases of affiliated debtors.” PROMESA § 304(f). A plan of adjustment based on the Revised Fiscal Plan would therefore be unconfirmable in that it would violate Section 304(f).

238. Given that it is already clear that no plan of adjustment based on the Revised Fiscal Plan could be confirmed, the Court should exercise its statutory and equitable powers to declare that the Revised Fiscal Plan is unlawful and unconstitutional, and to further declare that the Court will not hold a confirmation hearing on any plan of adjustment issued under the Revised Fiscal Plan. To the extent necessary, complementary injunctive relief should be granted.

239. Notably, Section 312 of PROMESA provides that only FOMB may file a plan of adjustment. However, where, as here, FOMB fails to file a plan of adjustment with the petition, Section 312 of PROMESA also gives this Court authority to “set” the time at which FOMB “shall file a plan of adjustment.” PROMESA § 312(b). The Court therefore may, and should, exercise its authority under Section 312 to order that FOMB may not file a plan of adjustment until it has approved and certified a fiscal plan that complies with PROMESA and the U.S. Constitution.

240. Similarly, section 105(d) of the Bankruptcy Code, which is incorporated into PROMESA § 301, provides, “[t]he court, on its own motion or on the request of a party in interest . . . may issue an order . . . prescribing such limitations and conditions as the court deems appropriate to ensure that the case is handled expeditiously and economically, including an order that . . . sets a date by which the debtor, or trustee if one has been appointed, shall solicit acceptances of a plan[.]” 11 U.S.C. § 105; PROMESA § 301(a). Permitting FOMB to file and solicit acceptances with respect to a plan of adjustment that is clearly unconfirmable would

constitute an enormous waste of the Court's own resources and of the time and resources of all parties in interest. Therefore, an order staying FOMB's ability to file a plan of adjustment based on the Revised Fiscal Plan would help to ensure that this case is handled expeditiously and economically, and the Court should enter such an order.

241. Furthermore, section 105(a) of the Bankruptcy Code provides, “[t]he court may issue any order, process, or judgment that is necessary or appropriate to carry out the provisions of this title.” 11 U.S.C. § 105(a). It is “necessary” and “appropriate” for the Court to prohibit FOMB from filing a plan of adjustment based on the unlawful and unconstitutional Revised Fiscal Plan.

242. Defendants may attempt to point to Section 106(e) of PROMESA as a purported barrier to judicial review. But Plaintiffs do not challenge the Board's certification decisions; they challenge the violation of multiple independent statutory provisions that require any fiscal plan to adhere to the requirements of Section 201(b), and that impose additional statutory limits on a fiscal plan.

243. In any event, courts have long held that “even when the statutory language *bars* judicial review,” an exception exists for claims—like those raised in this Adversary Complaint—that an “agency exceeded the scope of its delegated authority or violated a clear statutory mandate.” Hanauer v. Reich, 82 F.3d 1304, 1307 (4th Cir. 1996) (emphasis added); see also Leedom v. Kyne, 358 U.S. 184, 188 (1958) (applying this principle to vacate a determination made by the National Labor Relations Board “in excess of [the Board's] delegated powers and contrary to a specific prohibition in the [National Labor Relations Act]”).

244. Furthermore, Section 106(e) of PROMESA poses no impediment to the Court's review of Plaintiffs' claims that the Revised Fiscal Plan violates Sections 303 and 407 of PROMESA and Section 928(a) of the Bankruptcy Code, because FOMB has never made a

“certification determination” with respect to Section 303 or Section 407 of PROMESA or section 928 of the Bankruptcy Code and has no authority under PROMESA to do so.

245. At a minimum, Plaintiffs’ request that the Court decline to hold a confirmation hearing with respect to a proposed plan of adjustment based on the Revised Fiscal Plan cannot possibly be viewed as a challenge to FOMB’s purported certification of the Revised Fiscal Plan, because the Revised Fiscal Plan would remain certified and in effect even if the Court were to grant such relief. Therefore, Plaintiffs’ request that the Court not hold a confirmation hearing based on the Revised Fiscal Plan does not implicate Section 106(e) of PROMESA.

XII. If Plaintiffs’ Claims Are Unreviewable, PROMESA Is Unconstitutional

246. By its plain terms, PROMESA permits review of Plaintiffs’ claims. If, however, this Court were to hold that PROMESA makes the Revised Fiscal Plan unreviewable, PROMESA would then violate the U.S. Constitution’s procedural due process protections, as well as its bar on unlimited delegations of legislative authority.

A. Denying Review Of Plaintiffs’ Claims Would Violate Procedural Due Process

247. The Due Process Clause guarantees that an individual may not be deprived of a protected interest without some “meaningful opportunity” to challenge whether the deprivation satisfies the requirements of the statutory scheme under which it is carried out. Mathews v. Eldridge, 424 U.S. 319, 333 (1976).

248. Here, the Pledged Special Revenues constitute property of (i) the Authority Bondholders and (ii) the Authorities in their capacity as custodians and trustees for the Authority Bondholders. The Pledged Special Revenues do not constitute property of the Commonwealth. Authority Bondholders also have liens on the Pledged Special Revenues. A lien is a property interest protected by the Due Process Clause.

249. GO Bondholders are also entitled by the Constitutional Debt Priority Provision to receive payment of the GO Bonds on a first-priority basis, and Authority Bondholders are entitled by the Constitutional Debt Priority Provision and by statute to receive the Pledged Special Revenues. A constitutional or statutory entitlement to receive a benefit constitutes a property interest protected by the Due Process Clause.

250. In addition, GO Bondholders have a vested contractual right to receive payment on a first-priority basis from available resources, and Authority Bondholders have a vested contractual right to receive payment from the Pledged Special Revenues. A contractual right constitutes a protected property interest for purposes of the Due Process Clause.

251. The Revised Fiscal Plan deprives Plaintiffs of those protected interests. Accordingly, the Due Process Clause entitles Plaintiffs to a “meaningful opportunity” to challenge the Revised Fiscal Plan for compliance with the statutory limits set forth in PROMESA. Mathews, 424 U.S. at 349. If PROMESA prevents Plaintiffs from obtaining judicial review, then it violates the Due Process Clause.

B. Denying Review Of Plaintiffs’ Claims Would Violate The Nondelegation Principle

252. If PROMESA forecloses meaningful review of the Revised Fiscal Plan, it also violates the nondelegation doctrine. That doctrine protects the U.S. Constitution’s choice to vest certain powers in the Legislative Branch by prohibiting Congress from making a wholesale delegation of its Article I powers to another entity. Panama Ref. Co. v. Ryan, 293 U.S. 388, 421 (1935).

253. A statute complies with the nondelegation doctrine only when it both provides an “intelligible principle” to guide the implementing agency *and* includes some mechanism by which a “court [could] ascertain whether” the agency has correctly adhered to that

principle. See Touby v. United States, 500 U.S. 160, 168-69 (1991); accord United States v. Bozarov, 974 F.2d 1037, 1041-42 (9th Cir. 1992).

254. The doctrine therefore prevents Congress from granting FOMB the *unreviewable* authority to create a fiscal plan that dictates the economic future of Puerto Rico and irrevocably affects the rights of Puerto Rico’s citizens and creditors.

FIRST CLAIM FOR RELIEF
(For Declaratory Relief Pursuant To 28 U.S.C. §§ 2201 And 2202 That FOMB Exceeded Its Authority In Purporting To Develop And Approve The Revised Fiscal Plan, Against All Defendants)

255. Plaintiffs repeat and reallege the foregoing allegations as if fully set forth herein.

256. FOMB exceeded its statutory authority under PROMESA when it purported to develop and approve the Revised Fiscal Plan, because FOMB refused to make a number of determinations that PROMESA requires FOMB to make as a prerequisite to approval of a fiscal plan, including determinations as to (i) what relative lawful priorities and liens exist under Puerto Rico law and whether the Revised Fiscal Plan respects such lawful priorities and liens (PROMESA § 201(b)(1)(N)); (ii) whether the Revised Fiscal Plan “ensure[s] that assets, funds, or resources of a territorial instrumentality are not . . . transferred to . . . [the Commonwealth]” (PROMESA § 201(b)(1)(M)); (iii) what government services constitute “essential public services” for purposes of Section 201(b)(1)(B) of PROMESA; and (iv) whether the Revised Fiscal Plan ensures the funding of such services (PROMESA § 201(b)(1)(B)).

257. Moreover, the Revised Fiscal Plan, on its face, violates Sections 201(b)(1)(B), 201(b)(1)(M), 201(b)(1)(N), 303, and 407 of PROMESA, as well as section 928(a) of the Bankruptcy Code (as incorporated into PROMESA), and FOMB lacked any statutory authority to develop or approve a fiscal plan that, on its face, violates PROMESA.

258. Plaintiffs are therefore entitled to an order declaring that FOMB lacked authority to develop or approve the Revised Fiscal Plan.

259. An actual and justiciable controversy has arisen and exists between the parties with respect to these issues and claims and a declaratory judgment is necessary to resolve such controversy.

SECOND CLAIM FOR RELIEF
(For Declaratory Relief Pursuant To 28 U.S.C. §§ 2201 And 2202 For Violations Of Section 201(b)(1)(N) Of PROMESA, Against All Defendants)

260. Plaintiffs repeat and reallege the foregoing allegations as if fully set forth herein.

261. Plaintiffs are entitled to an order declaring that the Revised Fiscal Plan and the Compliance Law violate Section 201(b)(1)(N) of PROMESA, because they do not respect the relative lawful priorities and lawful liens in the constitution, other laws, and agreements of the Commonwealth and the Authorities in effect prior to the date of enactment of PROMESA.

262. An actual and justiciable controversy has arisen and exists between the parties with respect to these issues and claims and a declaratory judgment is necessary to resolve such controversy.

THIRD CLAIM FOR RELIEF
(For Declaratory Relief Pursuant To 28 U.S.C. §§ 2201 And 2202 For Violations Of Section 201(b)(1)(M) Of PROMESA, Against All Defendants)

263. Plaintiffs repeat and reallege the foregoing allegations as if fully set forth herein.

264. Plaintiffs are entitled to an order declaring that the Revised Fiscal Plan and the Compliance Law violate Section 201(b)(1)(M) of PROMESA, because they fail to ensure that assets, funds, or resources of a territorial instrumentality are not illegally loaned to, transferred to, or otherwise used for the benefit of a covered territory or another covered

territorial instrumentality of a covered territory, and indeed require and implement such illegal transfers.

265. An actual and justiciable controversy has arisen and exists between the parties with respect to these issues and claims and a declaratory judgment is necessary to resolve such controversy.

FOURTH CLAIM FOR RELIEF
(For Declaratory Relief Pursuant To 28 U.S.C. §§ 2201 And 2202 For Violations Of Section 201(b)(1)(B) Of PROMESA, Against All Defendants)

266. Plaintiffs repeat and reallege the foregoing allegations as if fully set forth herein.

267. Plaintiffs are entitled to an order declaring that the Revised Fiscal Plan and the Compliance Law violate Section 201(b)(1)(B) of PROMESA, because they fail to distinguish between essential and non-essential public services or ensure the funding of essential public services.

268. An actual and justiciable controversy has arisen and exists between the parties with respect to these issues and claims and a declaratory judgment is necessary to resolve such controversy.

FIFTH CLAIM FOR RELIEF
(For Declaratory Relief Pursuant To 28 U.S.C. §§ 2201 And 2202 For Failure To Comply With Sections 5(10) And 5(22) Of PROMESA, Against All Defendants)

269. Plaintiffs repeat and reallege the foregoing allegations as if fully set forth herein.

270. Plaintiffs are entitled to an order declaring that the Revised Fiscal Plan does not constitute a “Fiscal Plan” as defined in Sections 5(10) and 5(22) of PROMESA, because it is not “in accordance with section 201” of PROMESA.

271. An actual and justiciable controversy has arisen and exists between the parties with respect to these issues and claims and a declaratory judgment is necessary to resolve such controversy.

SIXTH CLAIM FOR RELIEF
(For Declaratory Relief Pursuant To 28 U.S.C. §§ 2201 And 2202 For Violations Of Section 407 Of PROMESA, Against All Defendants)

272. Plaintiffs repeat and reallege the foregoing allegations as if fully set forth herein.

273. Section 407 of PROMESA prohibits transfers of any property of any territorial instrumentality of Puerto Rico (including the Authorities) “in violation of applicable law under which any creditor has a valid pledge of, security interest in, or lien on such property, or which depriv[e] any such territorial instrumentality of property in violation of applicable law assuring the transfer of such property to such territorial instrumentality for the benefit of its creditors.” PROMESA § 407(a).

274. The Pledged Special Revenues are property of the Authorities held in trust or in a custodial capacity for the benefit of the Authority Bondholders, and the Authority Enabling Acts and Excise Tax Statutes constitute (i) “applicable law[s] under which [the Authority Bondholders] ha[ve] a valid pledge of, security interest in, or lien on [the Pledged Special Revenues]” and (ii) “applicable law[s] assuring the transfer of [the Pledged Special Excise Taxes] to [the Authorities] for the benefit of [the Authority Bondholders].” PROMESA § 407(a).

275. By requiring the Pledged Special Excise Taxes to “flow” to the Commonwealth instead of to the Authorities for the benefit of the Authority Bondholders, the Revised Fiscal Plan violates Section 407 of PROMESA.

276. Plaintiffs are entitled to an order declaring that the Revised Fiscal Plan violates Section 407 of PROMESA and is therefore unlawful.

277. An actual and justiciable controversy has arisen and exists between the parties with respect to these issues and claims and a declaratory judgment is necessary to resolve such controversy.

SEVENTH CLAIM FOR RELIEF
(For Declaratory Relief Pursuant To 28 U.S.C. §§ 2201 And 2202, For Violations Of 11 U.S.C. § 928(a), Against All Defendants)

278. Plaintiffs repeat and reallege the foregoing allegations as if fully set forth herein.

279. Section 928(a) of the Bankruptcy Code, as made applicable by Section 301(a) of PROMESA, provides that “special revenues acquired by the debtor after commencement of the case shall remain subject to any lien resulting from any security agreement entered into by the debtor before the commencement of the case.” 11 U.S.C. § 928(a).

280. The Revised Fiscal Plan disregards, and destroys the value of, Plaintiffs’ liens on the Pledged Special Revenues by mandating that the Pledged Special Revenues be transferred to the Commonwealth (in the case of the Pledged Special Excise Taxes) or otherwise used for purposes other than payment of the Authority Bonds.

281. Plaintiffs are entitled to an order declaring that the Revised Fiscal Plan violates section 928 of the Bankruptcy Code (as incorporated into PROMESA) and is therefore unlawful.

282. An actual and justiciable controversy has arisen and exists between the parties with respect to these issues and claims and a declaratory judgment is necessary to resolve such controversy.

EIGHTH CLAIM FOR RELIEF

(For Declaratory Relief Pursuant To 28 U.S.C. §§ 2201 And 2202, For A Declaration Pursuant To PROMESA §§ 314 and 304(f) And 11 U.S.C. § 1129 That No Title III Plan Of Adjustment Based On The Revised Fiscal Plan Can Be Confirmed, Against All Defendants)

283. Plaintiffs repeat and reallege the foregoing allegations as if fully set forth herein.

284. PROMESA requires any Title III plan of adjustment to be “consistent with the applicable Fiscal Plan[.]” PROMESA § 314(b)(7).

285. However, any plan of adjustment based on the Revised Fiscal Plan could not satisfy many of the other confirmation requirements specified in Section 314 of PROMESA and section 1129 of the Bankruptcy Code, including (i) the requirement that the plan of adjustment “compl[y] with the provisions of [Title III]” (PROMESA § 314(b)(2)); (ii) the requirement that the debtor “not [be] prohibited by law from taking any action necessary to carry out the plan [of adjustment]” (PROMESA § 314(b)(3)); (iii) the requirement that the plan of adjustment be “feasible and in the best interests of creditors” (PROMESA § 314(b)(6)); and (iv) the “absolute priority rule” of section 1129(b)(2)(B) of the Bankruptcy Code (11 U.S.C. § 1129(b)(2)(B)).

286. Moreover, because the Revised Fiscal Plan consolidates the assets of multiple Debtor entities, including the Commonwealth and PRHTA, it effectuates a substantive consolidation in violation of Section 304(f) of PROMESA, which provides that “nothing in [Title III] shall be construed as authorizing substantive consolidation of the cases of affiliated debtors.” PROMESA § 304(f). A plan of adjustment based on the Revised Fiscal Plan would therefore be unconfirmable in that it would violate Section 304(f) of PROMESA.

287. Plaintiffs are therefore entitled to an order declaring that no Title III plan of adjustment based on the Revised Fiscal Plan can be confirmed under Sections 314 and 304(f) of PROMESA and section 1129 of the Bankruptcy Code.

288. An actual and justiciable controversy has arisen and exists between the parties with respect to these issues and claims and a declaratory judgment is necessary to resolve such controversy.

NINTH CLAIM FOR RELIEF

(Pursuant To 11 U.S.C. § 105(a) And (d) And PROMESA § 312(b), To Declare That The Court Will Not Hold A Confirmation Hearing On The Revised Fiscal Plan)

289. Plaintiffs repeat and reallege the foregoing allegations as if fully set forth herein.

290. FOMB exceeded its statutory authority in purporting to develop and approve the Revised Fiscal Plan.

291. The Revised Fiscal Plan violates Sections 201(b)(1)(B), 201(b)(1)(M), 201(b)(1)(N), 303, and 407 of PROMESA; violates section 928(a) of the Bankruptcy Code (made applicable to these proceedings by Section 301(a) of PROMESA); does not constitute a “Fiscal Plan” as defined in PROMESA; is unconstitutional under the Contracts Clause; and is unconstitutional under the Takings and Due Process Clauses.

292. Moreover, no Title III plan of adjustment based on the Revised Fiscal Plan can be confirmed under Sections 314 and 304(f) of PROMESA and section 1129 of the Bankruptcy Code.

293. Plaintiffs respectfully request that this Court exercise its powers under Section 312(b) of PROMESA and sections 105(a) and 105(d) of the Bankruptcy Code to issue an order declaring that the Court will not hold a confirmation hearing on the Revised Fiscal Plan.

To the extent the Court deems it necessary and appropriate, the Court should enter complementary injunctive relief.

TENTH CLAIM FOR RELIEF

(For Declaratory Relief Pursuant To 28 U.S.C. §§ 2201 And 2202 For Violations Of The Contracts Clause, Against All Defendants Other Than The Commonwealth)

294. Plaintiffs repeat and reallege the foregoing allegations as if fully set forth herein.

295. The Moratorium Laws, Moratorium Orders, Revised Fiscal Plan, and Compliance Law constitute laws that substantially impair Plaintiffs' contractual rights and the contractual rights of Bondholders and that are neither reasonable nor necessary to serve an important public purpose.

296. Plaintiffs are entitled to an order declaring that the Moratorium Laws, Moratorium Orders, Revised Fiscal Plan, and Compliance Law are unconstitutional in that they violate the Contracts Clause.

297. An actual and justiciable controversy has arisen and exists between the parties with respect to these issues and claims and a declaratory judgment is necessary to resolve such controversy.

ELEVENTH CLAIM FOR RELIEF

(For Declaratory Relief Pursuant To 28 U.S.C. §§ 2201 And 2202 For Violations Of The Takings Clause And Due Process Clause, Against All Defendants Other Than The Commonwealth)

298. Plaintiffs repeat and reallege the foregoing allegations as if fully set forth herein.

299. Pursuant to the Moratorium Laws, Moratorium Orders, Revised Fiscal Plan, and Compliance Law, the Defendants have taken and continue to take the Plaintiffs' property without just compensation or due process of law.

300. Plaintiffs are entitled to an order declaring that the Moratorium Laws, Moratorium Orders, Revised Fiscal Plan, and Compliance Law are unconstitutional in that they violate the Takings and Due Process Clauses.

301. An actual and justiciable controversy has arisen and exists between the parties with respect to these issues and claims and a declaratory judgment is necessary to resolve such controversy.

TWELFTH CLAIM FOR RELIEF

(For Declaratory Relief Pursuant To 28 U.S.C. §§ 2201 And 2202 For Violations Of And Preemption Under PROMESA § 303(1), Against All Defendants)

302. Plaintiffs repeat and reallege the foregoing allegations as if fully set forth herein.

303. The Moratorium Laws, the Moratorium Orders, the Revised Fiscal Plan, and the Compliance Law are preempted by Section 303(1) of PROMESA, because they constitute moratorium laws that impose a non-consensual moratorium on creditors.

304. Plaintiffs are entitled to an order declaring that the Moratorium Laws, the Moratorium Orders, the Revised Fiscal Plan, and the Compliance Law are preempted by Section 303(1) of PROMESA and are invalid, null, and void.

305. An actual and justiciable controversy has arisen and exists between the parties with respect to these issues and claims and a declaratory judgment is necessary to resolve such controversy.

THIRTEENTH CLAIM FOR RELIEF

(For Declaratory Relief Pursuant To 28 U.S.C. §§ 2201 And 2202 For Violations Of And Preemption Under PROMESA § 303(3), Against All Defendants)

306. Plaintiffs repeat and reallege the foregoing allegations as if fully set forth herein.

307. The Moratorium Orders are preempted by Section 303(3) of PROMESA, because they constitute unlawful executive orders that alter, amend, or modify rights of holders of the Bonds and that authorize the diversion of funds from one territorial instrumentality (PRHTA, PRCCDA, and PRIFA) to another (GDB) or to the territory, i.e., the Commonwealth.

308. Plaintiffs are entitled to an order declaring that the Moratorium Orders are preempted by Section 303(3) of PROMESA.

309. An actual and justiciable controversy has arisen and exists between the parties with respect to these issues and claims and a declaratory judgment is necessary to resolve such controversy.

FOURTEENTH CLAIM FOR RELIEF
(For Declaratory Relief Pursuant To 28 U.S.C. §§ 2201 And 2202 Declaring That PROMESA Violates Article I, Section 1 Of The U.S. Constitution And The Due Process Clause)

310. Plaintiffs repeat and reallege the foregoing allegations as if fully set forth herein.

311. Nothing in PROMESA precludes judicial review of the Revised Fiscal Plan's compliance with Section 201(b) of PROMESA or with PROMESA more generally.

312. Nonetheless, and in the alternative, to the extent Defendants may assert that Section 106(e) of PROMESA purports to limit or preclude judicial review of the Revised Fiscal Plan's compliance with Section 201(b) of PROMESA or with PROMESA more generally, any such preclusion of judicial review would violate the Due Process Clause of the U.S. Constitution.

313. Moreover, Article I, Section 1 of the U.S. Constitution requires that, “[a]ll legislative Powers herein granted shall be vested in a Congress of the United States[.]” U.S.

Const. art. I, § 1. Accordingly, Congress cannot delegate its legislative power to an agency without providing an intelligible principle for the agency to follow.

314. To the extent Defendants may assert that Section 106(e) of PROMESA purports to limit or preclude judicial review of the Revised Fiscal Plan's compliance with Section 201(b) of PROMESA or with PROMESA more generally, any such preclusion of judicial review would deprive FOMB of any intelligible principle that could limit or constrain FOMB's powers under Section 201 of PROMESA and would deprive Plaintiffs and other creditors of any mechanism by which a court could ascertain whether FOMB has correctly adhered to any such intelligible principle. Any such preclusion of judicial review would thereby render PROMESA an unconstitutional delegation of legislative power to FOMB.⁴⁰

315. Therefore, if this Court determines that PROMESA bars review of the Revised Fiscal Plan, Plaintiffs are entitled to an order declaring that PROMESA (i) is unconstitutional in that it violates the Due Process Clause and (ii) constitutes an unconstitutional delegation of legislative power outside of Congress in violation of Article I, section 1 of the U.S. Constitution and constitutional principles of separation of powers.

RELIEF DEMANDED

316. WHEREFORE Plaintiffs Assured Guaranty Corp., Assured Guaranty Municipal Corp., and Financial Guaranty Insurance Company respectfully request that the Court enter judgment against Defendants as follows:

⁴⁰ To the extent Defendants argue that Section 201 of PROMESA granted FOMB "discretion" in approving and certifying the Revised Fiscal Plan, any such discretion would likewise function as an unconstitutional barrier to judicial review of the Revised Fiscal Plan's compliance with Section 201(b) and as such would deprive FOMB of an "intelligible principle" to guide its decision-making under Section 201.

(a) Declaring that FOMB lacked authority to develop or approve the Revised Fiscal Plan, and that such purported development and approval were *ultra vires* and invalid and should be declared to be without force or effect;

(b) Declaring that the Revised Fiscal Plan and the Compliance Law violate Section 201(b)(1)(N) of PROMESA;

(c) Declaring that the Revised Fiscal Plan and the Compliance Law violate Section 201(b)(1)(M) of PROMESA;

(d) Declaring that the Revised Fiscal Plan and the Compliance Law violate Section 201(b)(1)(B) of PROMESA;

(e) Declaring that the Revised Fiscal Plan does not constitute a “Fiscal Plan” as defined in Sections 5(10) and 5(22) of PROMESA;

(f) Declaring that the Revised Fiscal Plan violates Section 407 of PROMESA and is therefore unlawful;

(g) Declaring that the Revised Fiscal Plan violates section 928 of the Bankruptcy Code (as incorporated into PROMESA) and is therefore unlawful;

(h) Declaring that no Title III plan of adjustment based on the Revised Fiscal Plan can be confirmed under Sections 314 and 304(f) of PROMESA and section 1129 of the Bankruptcy Code;

(i) Declaring that the Court will not hold a confirmation hearing on the Revised Fiscal Plan and, to the extent the Court deems it necessary and appropriate, entering complementary injunctive relief;

(j) Declaring that the Moratorium Laws, Moratorium Orders, Revised Fiscal Plan, and Compliance Law are unconstitutional and void in that they violate the Contracts Clause;

(k) Declaring that the Moratorium Laws, Moratorium Orders, Revised Fiscal Plan, and Compliance Law are unconstitutional and void in that they violate the Takings and Due Process Clauses;

(l) Declaring that the Moratorium Laws, Moratorium Orders, Revised Fiscal Plan, and Compliance Law are preempted by Section 303(1) of PROMESA;

(m) Declaring that the Moratorium Orders are preempted by Section 303(3) of PROMESA;

(n) To the extent the Court determines that PROMESA bars review of the Revised Fiscal Plan, declaring that PROMESA (i) is unconstitutional in that it violates the Due Process Clause and (ii) constitutes an unconstitutional delegation of legislative power outside of Congress in violation of Article 1, section 1 of the Constitution and constitutional principles of separation of powers; and

(o) Granting Plaintiffs such other and further relief as this Court may deem just and proper.

Dated: San Juan, Puerto Rico
May 23, 2018

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EXHIBIT 1

New Fiscal Plan for Puerto Rico

Restoring Growth and Prosperity

**As Certified by The Financial Oversight and
Management Board for Puerto Rico**

April 19, 2018

DISCLAIMER

The Financial Oversight and Management Board for Puerto Rico (the "FOMB," or "Oversight Board") has formulated this New Fiscal Plan based on, among other things, information obtained from the Commonwealth of Puerto Rico (the "Commonwealth," or the "Government").

This document does not constitute an audit conducted in accordance with generally accepted auditing standards, an examination of internal controls or other attestation or review services in accordance with standards established by the American Institute of Certified Public Accountants or any other organization. Accordingly, the Oversight Board cannot express an opinion or any other form of assurance on the financial statements or any financial or other information or the internal controls of the Government and the information contained herein.

This New Fiscal Plan is directed to the Governor and Legislature of Puerto Rico based on underlying data obtained from the Government. No representations or warranties, express or implied, are made by the Oversight Board with respect to such information.

Any statements and assumptions contained in this document, whether forward-looking or historical, are not guarantees of future performance and involve certain risks, uncertainties, estimates and other assumptions made in this document. The economic and financial condition of the Government and its instrumentalities is affected by various legal, financial, social, economic, environmental, governmental and political factors. These factors can be very complex, may vary from one fiscal year to the next and are frequently the result of actions taken or not taken, not only by the Government, the Oversight Board, and other third-party entities such as the government of the United States. Examples of these factors include, but are not limited to:

- *Any future actions taken or not taken by the United States government related to Medicaid or the Affordable Care Act;*
- *The amount and timing of receipt of any distributions from the Federal Emergency Management Agency and private insurance companies to repair damage caused by Hurricanes Maria and Irma;*
- *The amount and timing of receipt of any amounts allocated to Puerto Rico and provided under the Community Disaster Loans Program;*
- *The amount and timing of receipt of any additional amounts appropriated by the United States government to address the funding gap described herein;*
- *The timeline for completion of the work being done by the Puerto Rico Electric Power Authority ("PREPA") to repair PREPA's electric system and infrastructure and the impact of any future developments or issues related to PREPA's electric system and infrastructure on Puerto Rico's economic growth;*
- *The impact of the measures described herein on outmigration; and*
- *The impact of the resolution of any pending litigation in the Title III cases*

Because of the uncertainty and unpredictability of these factors, their impact cannot be included in the assumptions contained in this document. Future events and actual results may differ materially from any estimates, projections, or statements contained herein. Nothing in this document should be considered as an express or implied commitment to do or take, or to refrain from taking, any action by the Oversight Board, the Government, or any government instrumentality in the Government or an admission of any fact or future event. Nothing in this document shall be considered a solicitation, recommendation or advice to any person to participate, pursue or support a particular course of action or transaction, to purchase or sell any security, or to make any investment decision.

By receiving this document, the recipient is deemed to have acknowledged the terms of these limitations. This document may contain capitalized terms that are not defined herein, or may contain terms that are discussed in other documents or that are commonly understood. You should make no assumptions about the meaning of capitalized terms that are not defined, and you should refer questions to the Oversight Board at comments@oversightboard.pr.gov should clarification be required.

This New Fiscal Plan is based on what the Oversight Board believes is the best information currently available to it. To the extent the Oversight Board becomes aware of additional information after it certifies this New Fiscal Plan that the Oversight Board determines warrants a revision of this New Fiscal Plan, the Oversight Board will so revise it.

List of Acronyms and Key Terms

AACA	Automobile Accident Compensation Administration
AAFAF	Puerto Rico Fiscal Agency and Financial Advisory Authority (Spanish acronym)
ADEA	Agricultural Enterprise Development Administration (Spanish acronym)
Administration	Administration of Governor Ricardo Rosselló
ASEM	Puerto Rico Medical Services Administration (Spanish acronym)
ASES	Puerto Rico Health Insurance Administration (Spanish acronym)
BBB	Request for supplemental Federal assistance submitted on November 13, 2017 by the Government entitled Build Back Better Puerto Rico
CAFR	Comprehensive Annual Financial Report
CAGR	Compound Annual Growth Rate
Cardiovascular	Cardiovascular Center Corporation of Puerto Rico and the Caribbean
CDBG	Community Development Bank Grant
CDL	Community Disaster Loan from the CDL program
CFC	Controlled Foreign Corporations
CHIP	Children's Health Insurance Program (CHIP)
COFINA	Puerto Rico Sales Tax Financing Corporation (Spanish acronym)
COSSEC	Public Corporation for the Supervision and Deposit Insurance of Puerto Rico Cooperatives (Spanish acronym)
CRRO	Central Recovery and Reconstruction Office
DCR	Department of Corrections and Rehabilitation
DB	Defined Benefit pension plan
DC	Defined Contribution pension plan
DDEC	Puerto Rico Department of Economic Development Commerce (Spanish acronym)
DMO	Destination Marketing Office
DOH	Department of Health
DOJ	Department of Justice
DOL	Department of Labor
DOT	Department of Transportation
DPS	Department of Public Safety
DSA	Debt Sustainability Analysis
EEI	Electronic Export Information
EITC	Earned Income Tax Credit
ERS	Employee Retirement System
FDI	Foreign Direct Investment
Federal Government	The U.S. Federal Government
FEMA	Federal Emergency Management Agency
FMAP	Federal Medical Assistance Percentage (FMAP)
FOMB	Financial Oversight and Management Board for Puerto Rico
FQHC	Federally Qualified Health Center
FYTD	Fiscal-Year-To-Date
GAO	U.S. Government Accountability Office
GDB	Government Development Bank for Puerto Rico
GDP	Gross Domestic Product
GF	General Fund
GFEWG	Governor's Fiscal and Economic Working Group
GILTI	Global Intangible Low Income Tax
GNP	Gross National Product
GOSR	State of New York's Office of Storm Recovery
Government	Government of Puerto Rico
Governor	Governor Ricardo Rosselló
Hacienda	Puerto Rico Department of Treasury
HHS	U.S. Department of Health and Human Services
HUD	U.S. Department of Housing and Urban Development
Hurricanes	Hurricane Irma and Hurricane Maria
IFCU	Independently Forecasted Component Units
IMF	International Monetary Fund
IPR	Invest Puerto Rico
Island	Puerto Rico
KPIs	Key Performance Indicators
LEA	Local Education Agency
March 2017 Fiscal Plan	Fiscal Plan certified by the Financial Oversight and Management Board in March 2017, before Hurricanes Maria and Irma hit the Island
MCOs	Managed Care Organizations
MFCU	Medicaid Fraud Control Units
Mi Salud	Medicaid program in Puerto Rico
MMIS	Medicaid Management Information System
NAP	Nutrition Assistance Program (Spanish: Programa de Asistencia Nutricional, PAN)
NRW	Non-Resident Withholdings

OMB	Office of Management and Budget
P3	Public Private Partnerships
P3 Authority	Public Private Partnership Authority
PA	Public Assistance
Parties	AAFAF and the Government
PayGo	New pensions program by which agencies and instrumentalities are responsible for paying their pensions obligations on an annual basis via a "PayGo Charge"
PBA	Public Building Administration
Platino	Medicare Advantage program that also provides Medicaid wraparound services equivalent to Mi Salud program
PMO	Program Management Office
PMPM	Per Member Per Month
PRASA	Puerto Rico Aqueduct and Sewer Authority
PRCCDA	Puerto Rico Convention Center District Authority
PREC	Puerto Rico Energy Commission
PREMA	Puerto Rico Emergency Management Agency
PREPA	Puerto Rico Electric and Power Authority
PRHFA (or HFA)	Puerto Rico Housing Finance Authority
PRHTA (or HTA)	Puerto Rico Highway and Transportation AUTHORITY
PRIDCO	Puerto Rico Industrial Development Company
PRITS	Puerto Rico Information Technology Service
PROMESA	Puerto Rico Oversight, Management and Economic Stability Act
PRTC	Puerto Rico Tourism Corporation
PSC	Puerto Rico Public Service Commission
RFQP	Request for Proposal
SCO	State Coordinating Officer
SRF	Special Revenue Fund
SR	Structural Reform
SUT	Sales and Use Tax
SIFC	State Insurance Fund Corporation
TANF	Temporary Assistance for Needy Families
UPR	University of Puerto Rico
WIOA	Workforce Innovation and Opportunity Act

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EXECUTIVE SUMMARY

The people of Puerto Rico need and deserve plentiful good jobs, a dynamic and prosperous economy, affordable and reliable electricity, and an efficient and responsive public sector—but have not had any of these things for more than a decade. Instead, since 2005, the number of people living under the poverty level has increased, the economy has shrunk, electricity has remained expensive and unreliable, labor market regulations have remained burdensome—hindering job creation for the people—and the public sector has provided declining levels of service at a high cost to citizens. These problems predate Hurricanes Maria and Irma and will continue to plague Puerto Rico long after it recovers from the storms unless the necessary actions are taken, and taken now. **This New Fiscal Plan for the Commonwealth of Puerto Rico (the “New Fiscal Plan”)** details those actions.

Based on many of the Governor’s proposals and much of the Governor’s proposed fiscal plan, this New Fiscal Plan provides a blueprint of the structural reforms and fiscal measures that, if implemented, will give Puerto Ricans what they need and deserve – a growing economy with more and better jobs, a twenty-first century electricity grid, resilient infrastructure, and an effective and efficient public sector.

Full implementation of this New Fiscal Plan will also put Puerto Rico on the path to meeting the objectives laid out in the Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA): achieving fiscal responsibility and balance, regaining access to the capital markets, and restoring economic opportunity for the Island.

* * *

Puerto Rico has been mired in an economic and demographic downward spiral for over a decade. The economy is \$16 billion smaller in real terms and due to outmigration the population is nearly half a million smaller (largely due to outmigration) than it was in 2005 – trends that, before Hurricane Maria, were projected to continue.¹ Today, over 40% of the population lives below the poverty line, over 40% are dependent on Medicaid for healthcare, and over 10% of the population is projected to leave the Island in the next five years to seek a better life elsewhere.² Meanwhile, the consolidated Commonwealth’s outstanding debt and pension liabilities have grown to over \$120 billion, with more than \$70 billion in financial debt and more than \$50 billion in pension liability – almost twice the size of Puerto Rico’s economy.

These pre-Maria problems are not new and temporary – they are long-standing and structural. For decades, the private sector was overly reliant on now expired Federal tax advantages while having to operate in a difficult business climate with poor infrastructure, especially expensive and unreliable electricity and transit systems, a public sector that is twice the size of the typical U.S. state yet often has provided poor service, and a labor force participation rate that is among the very lowest in the world.

Puerto Rico has also had a budgeting problem for years, with actual revenues lower and actual expenses higher than projected, creating a growing general fund deficit (**Exhibit 1**). This general fund deficit is difficult to forecast with certainty, however, because of the protracted delays in issuing annual audited financial statements as well as lack of proper fiscal controls and poor financial management. Puerto Rico has also been in an economic recession for over a decade, which has meant an eroding tax base. Therefore, even before Maria, the primary

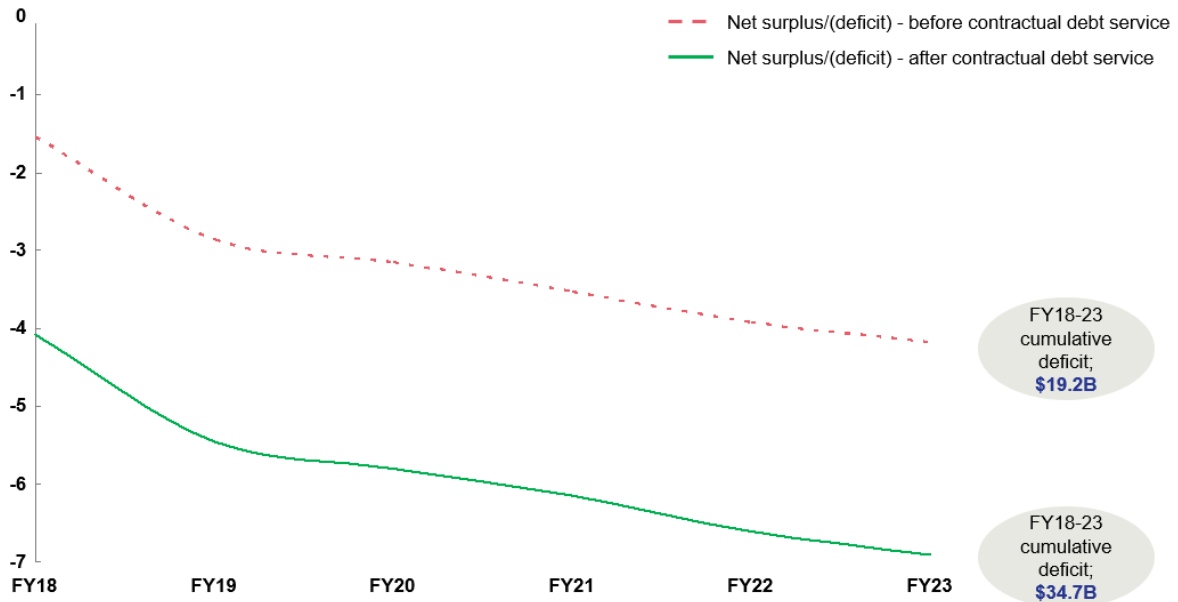
¹ The World Bank Group

² American Community Survey and Center for Economic and Policy Research

deficit was growing consistently and considerably. To finance these primary deficits, Puerto Rico resorted to issuing debt which steadily became unsustainable. As the Oversight Board began its work, the Commonwealth was projected to run structural annual deficits exceeding \$7 billion, or \$3 billion before debt service.

EXHIBIT 1: PROJECTED PRE-MARIA DEFICIT BEFORE MEASURES AND STRUCTURAL REFORMS (PRE- AND POST- CONTRACTUAL DEBT SERVICE)

Puerto Rico pre-Fiscal Plan deficit before Hurricane Maria, \$B



It was amidst these protracted demographic, fiscal, and debt crises that Hurricanes Maria and Irma hit the Island. Hurricane Maria has caused unprecedented and catastrophic damage to Puerto Rico, its people, and its businesses. According to current estimates, Hurricane Maria has created approximately \$80 billion in damage, and is projected to cause a real decline to GNP of 13.2% this fiscal year. On the other hand, over \$50 billion in Federal dollars is projected to be invested in helping Puerto Rico recover and rebuild from Hurricane Maria. The New Fiscal Plan is thus written assuming substantial and timely support from the Federal Government. This aid is projected to create temporary fiscal surpluses over the next several years, but will not change the underlying structural problems in Puerto Rico’s economy, which must be dealt with expeditiously. While Puerto Rico will likely experience a brief stimulus from Federal disaster relief funding and is benefiting from a temporary reprieve from debt service due to PROMESA and Title III, Puerto Rico must change its underlying economic foundations to prevent fiscal imbalances from inevitably returning. Only by attacking the structural problems plaguing Puerto Rico will it have laid the groundwork for a new, growing, resilient economy.

Puerto Rico must urgently adopt a series of bold actions to improve its fiscal and economic trajectory. These reforms and measures are essential to restoring growth, opportunity, and prosperity to the people and businesses of Puerto Rico, and to making the Government of Puerto Rico more efficient, effective, and responsive to its citizens. Moreover, by adopting the most critical of these reforms and measures – labor reform – Puerto Rico can invest an additional \$500 million over the next three years into the well-being of the people of Puerto Rico through targeted investments in healthcare and education so that they may have the opportunity for a better tomorrow.

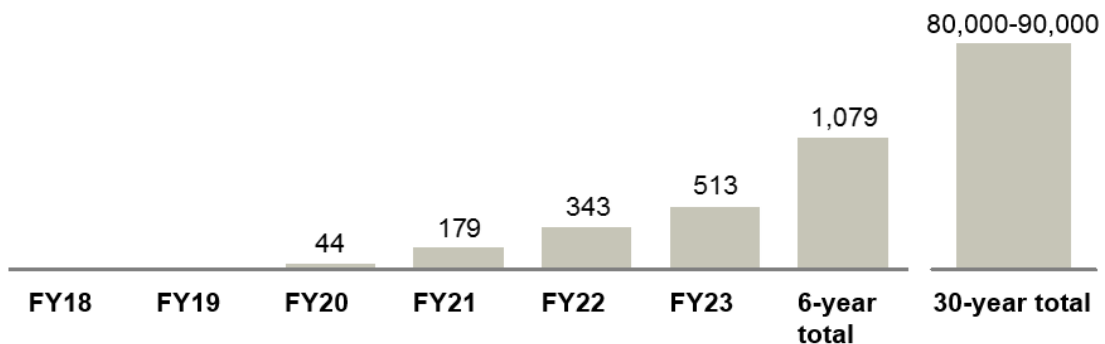
Structural reforms

The New Fiscal Plan proposes a series of major reforms (“structural reforms”) to fundamentally improve the trajectory of the economy and drive growth (**Exhibit 2**):

- *Human capital and labor reform*: promoting participation in the formal labor force through flexible labor regulations, creating incentives to work through Earned Income Tax Credit (EITC) benefits and welfare reform, and providing comprehensive workforce development opportunities. These measures are projected to increase economic growth by 1.00% by FY2022 due to EITC and labor reforms, and by an additional 0.16% from FY2033-2048 from long-term benefits of education and workforce development.
- *Ease of doing business reform*: promoting economic activity and reducing the obstacles to starting and sustaining a business in Puerto Rico through comprehensive reform to improve ease of paying taxes, registering property, and obtaining permits. These reforms are projected to drive a 0.50% uptick in overall growth by FY2021.
- *Power sector reform*: providing low-cost and reliable energy through the transformation of PREPA and establishment of an independent, expert, and well-funded energy regulator. This is projected to increase growth by 0.30% starting in FY2020.
- *Infrastructure reform*: prioritizing economically transformative capital investments with Federal funds, and launching new operational initiatives to reduce the impact of transportation delays.

EXHIBIT 2: IMPACT OF STRUCTURAL REFORMS

Impact of structural reforms, \$M



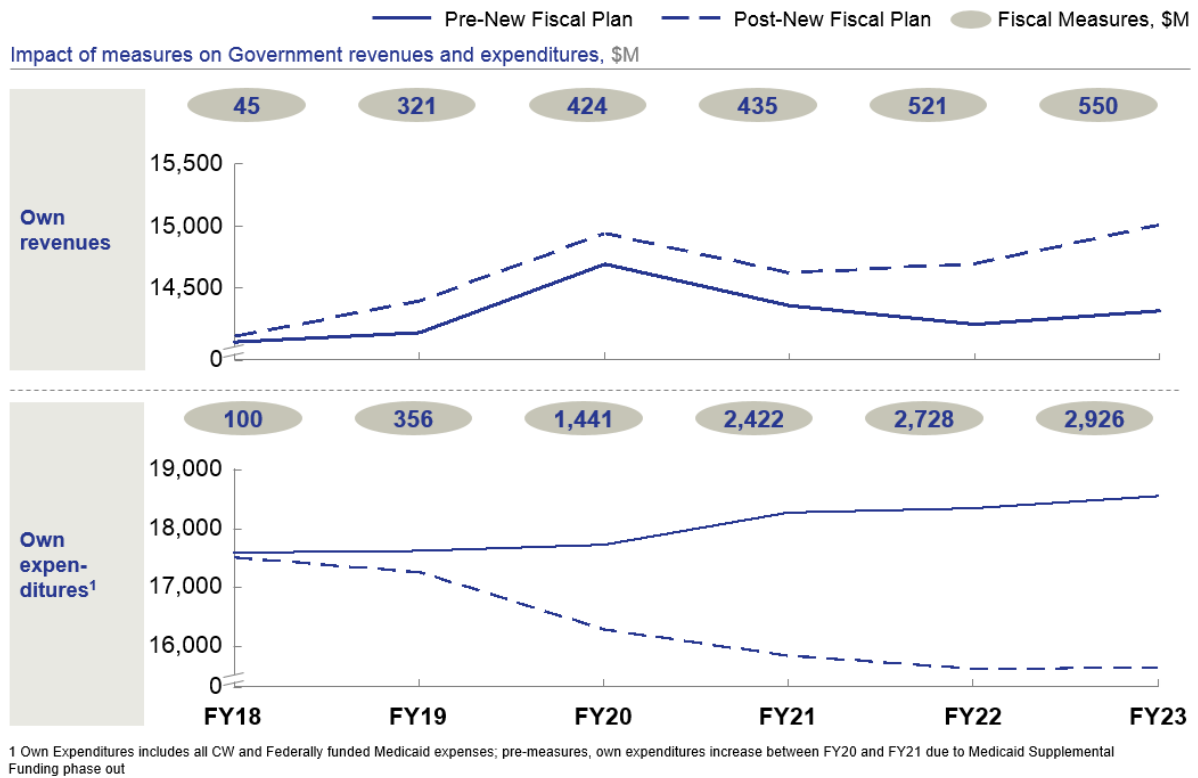
Fiscal measures

The New Fiscal Plan proposes a set of fiscal actions the Government must take (“measures”) to increase Government revenues and reduce expenditures (**Exhibit 3**):

- *Enhancing tax compliance*: Employing new technology and other innovative practices to broaden the tax base, reduce fraud, and improve fairness to boost overall tax revenues.
- *Right-rating taxes and fees*: Adjusting existing taxes and fees to capture revenues from under-leveraged sources, such as the excise tax on crude oil (“CRUDITA”).

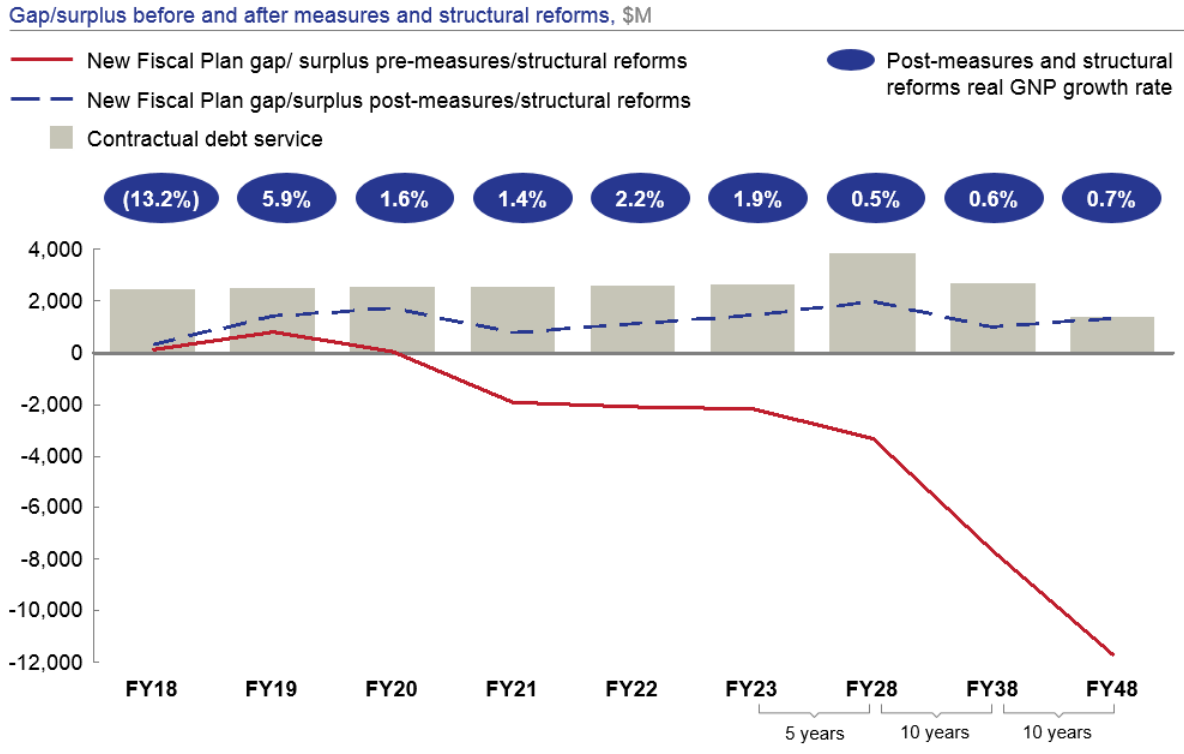
- *Tax law initiatives:* reducing corporate, individual and sales and use tax rates, and eliminating non-revenue generating incentives and subsidies, while maintaining revenue neutrality.
- *Agency efficiencies:* Consolidating agencies and deploying new management tools and practices to deliver better government services for substantially lower cost.
- *Comprehensive pension reform:* Improving the financial stability of public employees' retirement funds and ensuring payment of pensions.
- *Reduction of appropriations:* Lowering the fiscal burden on the Commonwealth and encouraging sound fiscal self-management by reducing appropriations to municipalities and the University of Puerto Rico.
- *Healthcare reform:* Reducing healthcare cost inflation through a comprehensive new healthcare model that prioritizes quality, cost-effective care.
- *Office of the CFO:* Instituting fiscal controls and accountability, reducing special revenue fund deficits, and improving governance, accountability, and transparency.

EXHIBIT 3: IMPACT OF REVENUE AND EXPENSE MEASURES ON OWN REVENUES AND EXPENDITURES



Implementing these structural reforms and fiscal measures, which will provide low-cost and reliable energy, robust infrastructure, flexible labor regulations, an improved regulatory and permitting environment, and a more effective and efficient public sector, will enable companies to grow and prosper, leading to more, better jobs for residents and a stronger tax base for the Government.

EXHIBIT 4: NEW FISCAL PLAN PROJECTED SURPLUS BEFORE AND AFTER MEASURES AND STRUCTURAL REFORMS



Puerto Rico cannot afford to meet all its contractual debt obligations, even with aggressive implementation of these reforms and measures. Puerto Rico is committed to repaying an affordable and sustainable amount of its outstanding debt and to treating its creditors equitably; however, it needs a comprehensive restructuring of its debt – in addition to the adoption of pro-growth structural reforms – to have renewed access to the capital markets and to create the basis for a growing, sustainable economy. The best time to implement these reforms and to restructure the debt is while Puerto Rico has the temporary benefits of Federal disaster relief funding and a stay on debt service. Therefore, time is of the essence. The New Fiscal Plan calls for ambitious and immediate action to return opportunity and prosperity to Puerto Rico as soon as possible.

PART I: Context for Puerto Rico's current economic and fiscal challenges

Chapter 1. LONG-TERM ECONOMIC TRENDS IN PUERTO RICO

Before being hammered by the most powerful hurricane to strike the Island in almost a century, Puerto Rico's economy had been in an acute recession for over a decade, the Government had defaulted on debt exceeding the size of Puerto Rico's annual GNP, and nearly half of Puerto Ricans lived below the national poverty line. The reasons for these problems are vast, but the root causes stretch back 40 years.

In the 1940s and 1950s, led by Operation Bootstrap, Puerto Rico's economy grew rapidly and productivity increased by 5% per annum as it transitioned from an agricultural-led to a manufacturing-led economy. However, as economic performance began to decline in the 1970s, the Federal Government adopted two significant policies to help Puerto Rico shore up its economy.

First, transfer programs increased dramatically, particularly as Puerto Rico started receiving Nutritional Assistance Program (PAN) funding, eventually providing, in aggregate, a portion of residents' personal income that was twice the U.S. mainland average. In addition to raising costs for the Puerto Rico budget, these programs at times created disincentives to work due to benefits that were high relative to wages available in the formal labor market.

Second, in 1976, Section 936 of the Federal tax code was introduced to promote investments by companies that could transfer their "intangible assets" to Puerto Rico, and thereby shift profits to the Island. These Section 936 companies, which were mostly in pharmaceuticals and life sciences, became a pillar of Puerto Rico's economy, creating valuable local supply chains, local banking deposits, and contributing substantial tax revenue. By 1996, however, Congress decided to end Section 936, gradually phasing it out by 2006.

In the face of an anemic local private sector, the Government also expanded its employment to the point that by 2000, 30% of Puerto Rico's jobs were in Government and a full 40% of workers with college degrees worked in the public sector. Large sectors like water, electricity and ports are still run by public corporations, and have consistently created a drain on the economy by delivering lower quality services at high costs while crowding out private investment. There is also pervasive cross-subsidization between the Government and public corporations and other parts of the public sector—such as free electricity to municipalities—that obfuscates financial management and accountability. There is also a high degree of political interference in decisions that affect every aspect of Puerto Ricans' lives. As a result, today Puerto Rico underperforms on all important measures of a modern economy, including educational attainment, cost of electricity, quality of water, tax compliance, and labor market participation.

In order to promote the private sector, the Government undertook a broad tax incentives policy that led to a highly complex web of subsidies and special tax arrangements. These actions did not promote growth or treat companies equitably. Furthermore, generous Government transfer programs, in addition to Federal transfer programs, resulted in many workers choosing not to work, or to receive benefits and work in the informal economy without

paying taxes. Tax compliance has never been adequate in Puerto Rico, and it became increasingly difficult in this environment.

Government revenues suffered and became increasingly hard to forecast. To make up for this recurring and growing budgetary shortfall, the Commonwealth turned to the debt markets. Puerto Rico bonds found themselves into every corner of the U.S. bond market and, as investor appetite began to wane, the Government turned to securing new debt by various revenue streams. The result was a highly complex financial structure that limited transparency and financial accountability and management.

When the Great Recession hit in 2008, Puerto Rico's economy was already in a fragile fiscal and financial position. Since then, the economy has continued to worsen – Puerto Rico has seen its GNP shrink by 20%, labor participation has fallen to a record low of 38%, and the Island's population has fallen by 10%. Today, Puerto Rico is much poorer relative to the U.S. than it was in 1970.

Chapter 2. ENACTMENT OF PROMESA

By 2016, Puerto Rico had accumulated over \$50 billion in unfunded pension liabilities and over \$70 billion of debt, and was facing an imminent default. Because Puerto Rico and its public corporations cannot take advantage of Chapter 9 of the U.S. Bankruptcy Code, and an attempt to create a territorial bankruptcy law was struck down by the U.S. Supreme Court, Congress stepped in to head off Puerto Rico's financial and debt crisis by passing PROMESA, the Puerto Rico Oversight, Management, and Economic Stability Act. PROMESA imposed an automatic stay on Puerto Rico's debt obligations and created the Financial Oversight and Management Board for Puerto Rico (the "FOMB" or "Oversight Board"). The Oversight Board is tasked with restructuring Puerto Rico's staggering debt burden and restoring sustained economic growth to Puerto Rico so that the Government can achieve fiscal balance and access to the capital markets.

Immediately after its formation, the Oversight Board began working with the Government of Puerto Rico to create a fiscal plan that would help the Government achieve fiscal responsibility and regain access to the capital markets. The outcome of this work was the Commonwealth Fiscal Plan that the Oversight Board certified on March 13, 2017 (the "March 2017 Certified Fiscal Plan"). A few months later, the Oversight Board filed for Title III for the Commonwealth Government, COFINA, HTA, ERS, and PREPA.

In September 2017, just months after the certification of the March 2017 Fiscal Plan, Hurricanes Irma and Maria struck the Island, causing great devastation and fundamentally altering the Island's macroeconomic reality.

Chapter 3. IMPACT OF HURRICANES MARIA AND IRMA

On September 6, 2017 and September 20, 2017, Hurricanes Irma and Maria struck Puerto Rico, causing unprecedented humanitarian, economic, and infrastructure-related damages and upending the daily lives of Puerto Rico's over 3 million residents. Thousands of residents were left homeless, basic utilities were completely shut down (and have taken months to become operational), and schools, hospitals, and businesses were destroyed. Tens of

thousands of Puerto Ricans fled the Island. The Federal Government's response has become one of the largest and most complex disaster recovery efforts in U.S. history.

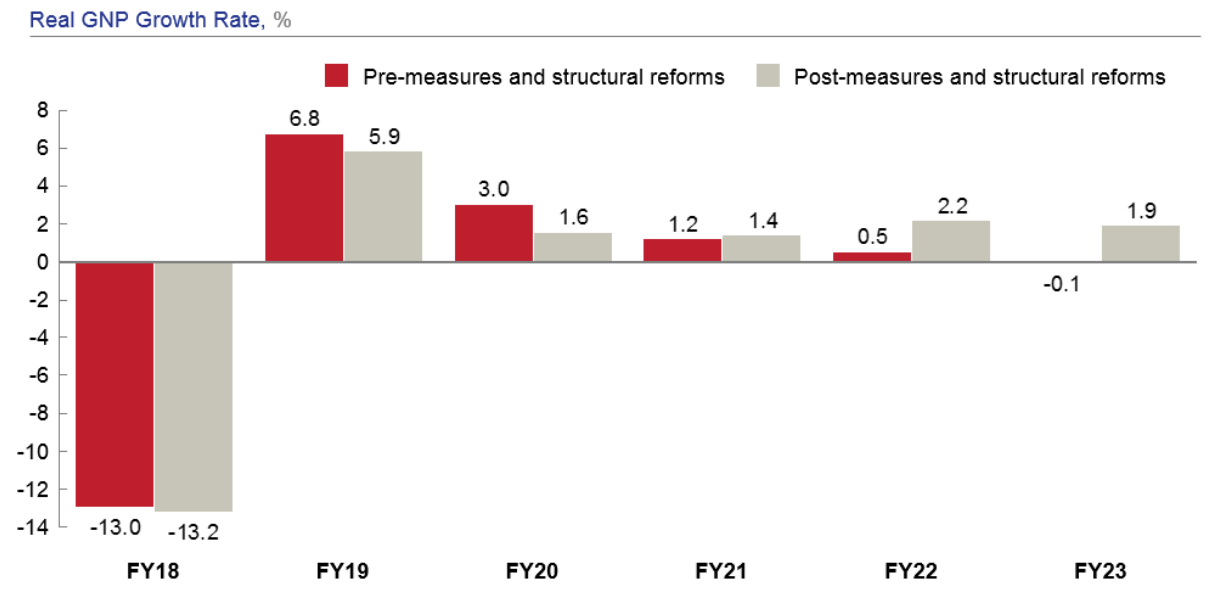
The damage inflicted on Puerto Rico by Hurricane Maria required that the March 2017 Certified Fiscal Plan be revised. Therefore, on October 31, 2017, the Oversight Board formally requested that the Governor submit a revised fiscal plan for the Commonwealth, as well as for its various instrumentalities. After months of hard work, engagement with stakeholders, and intense negotiations with the Government, the Oversight Board determined that this fiscal plan complies with the requirements of PROMESA, and accordingly, is proceeding to certify it as the New Fiscal Plan.

PART II. Puerto Rico’s Path to Fiscal and Economic Sustainability

Chapter 4. MACROECONOMIC AND DEMOGRAPHIC TRAJECTORY POST-MARIA

The New Fiscal Plan must grapple with how the shock of Hurricanes Irma and Maria will create a new economic reality for Puerto Rico in the years to come. Given this context, the New Fiscal Plan projects there will be macroeconomic volatility in the wake of the storms. In FY2018, there is projected to be a major decline in GNP, followed by a partial bounce-back in FY2019 due to disaster relief funding, then a return to slightly above trendline by FY2023 due to the impact of structural reforms.

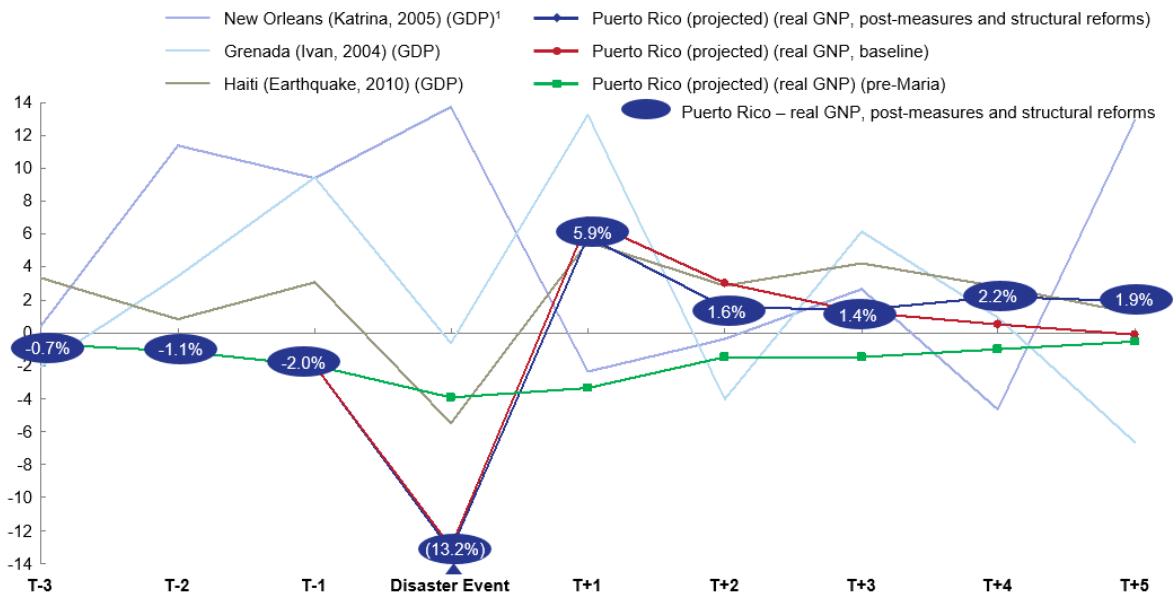
EXHIBIT 5: REAL GNP GROWTH RATE, BEFORE AND AFTER MEASURES AND STRUCTURAL REFORMS



This trendline has similarities to the growth trendline faced by other jurisdictions that have suffered from major natural disasters (**Exhibit 6**).

EXHIBIT 6: PUERTO RICO'S PROJECTED GROWTH TRAJECTORY COMPARED TO OTHER JURISDICTIONS AFTER NATURAL DISASTERS

Puerto Rico's projections track with other areas suffering from natural disasters, T = year of shock; constant local currency units (LCU) unless otherwise stated; year on year change



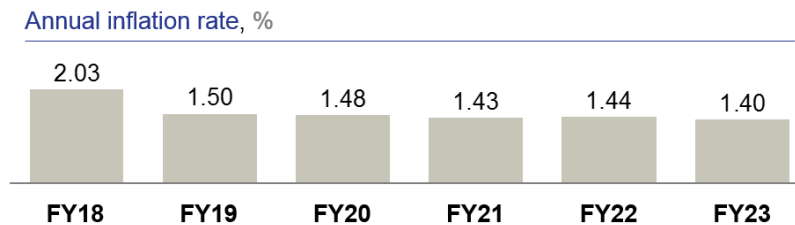
¹ Katrina figures not adjusted for inflation

SOURCE: World Bank, Bureau of Economic Analysis, and ECCB

The economic outlook model, which forecasts GNP growth, primarily relies on a comprehensive data set on the Puerto Rican economy from 1965 to 2017. It includes dozens of variables that collectively describe the Puerto Rican economy (e.g., growth, population, capital stock, etc.),³ and is largely impacted by four major factors: a) the pre-hurricane trendline of Puerto Rico, b) short- and long-term impacts from the storm on economic activity and capital stock, c) the stimulative impact of disaster relief assistance (*discussed in Section 4.1*), and d) proposed measures and structural reforms (*discussed in Section 4.2*).

These factors result in a -13.2% decline in real GNP for FY2018, which is directionally in line with the Fiscal-Year-To-Date (FYTD) activity of the Puerto Rican Economic Activity Index (EAI) – a metric that historically tracks closely with GNP. From July to December of 2017, EAI was down 9.4% from the previous year. **Inflation rates (Exhibit 7)** increase the real GNP rate from 1.4-2.0% each year to reach the nominal GNP growth rate.

EXHIBIT 7: ANNUAL INFLATION RATE



³ The forecast relies on a 60-year comprehensive dataset applying statistical regressions to show the effects of multiple distinct but inter-related components of the hurricane and economic response, testing the relationships between dozens of variables, and isolating those that appear to have the strongest correlations

4.1 Disaster relief spending

Disaster spending tends to have a major stimulative effect on an economy post-crisis.⁴ In Puerto Rico, the level of public and private disaster relief spending is anticipated to be significant when compared to the overall size of the economy. Public and private disaster relief spending will impact the economy in two ways:





- **Stimulative impact over the life of the plan caused by spending that is expected to be nearly 100% of the Island's projected 2018 GNP.** This stimulus can come in multiple forms such as construction companies hiring local, unemployed workers or workers from the mainland U.S. paying local withholding taxes and spending money for food and lodging.
- **Expected improvement of the capital stock on the Island.** The New Fiscal Plan factors in significant damage to capital stock that is repaired, in part, by this large infusion of capital, contributing to the bounce-back anticipated in FY2019 and for the bump in growth above pre-Maria trend thereafter.

The New Fiscal Plan projects that ~\$62 billion of disaster relief funding will enter the economy from Federal and private sources. It will be used for a mix of **individual assistance** (e.g., reconstruction of houses, personal expenses related to the hurricane such as clothing and supplies), **public assistance** (e.g., reconstruction of major infrastructure, roads, and schools), and to cover part of **Puerto Rico's share of the cost of disaster relief funding** (states often must match some portion of Federal public assistance spend).

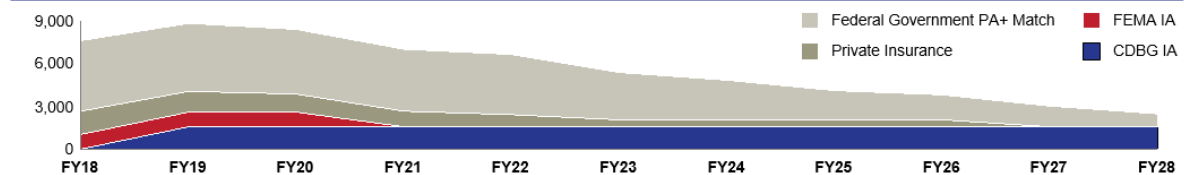
Of that, **~\$35 billion** is estimated to be used for **public assistance** (between FEMA, CDBG, other Federal agencies, and Commonwealth match spend) **~\$19 billion for individual assistance** (between FEMA and CDBG funds), and **~\$8 billion** will be used for **private and business insurance** pay outs. Finally, **\$375 million** in CDBG funding is estimated to be allocated to offset the Commonwealth's **expected cost-share requirements** under Federal programs (which is ~\$1.0 billion over six years).

⁴ Relief aid after the Haitian Earthquake represented nearly 200% of overall GDP, providing a major economic "cushion" after the humanitarian disaster. In Grenada, disaster aid equaled about 2/3 of GDP at the time, and despite declines immediately after the hurricane, revenues returned to pre-storm levels after about two fiscal quarters and growth rebounded quickly. The year after Hurricane Ivan (2005) Grenada's economy grew at a faster rate than any year since 1985, at a clip of 12.5%

EXHIBIT 8: PROJECTED PRIVATE AND PUBLIC DISASTER RELIEF FUNDING AND ROLL OUT

	FY18, \$M, %	FY19, \$M, %	FY20, \$M, %	FY21, \$M, %	FY22, \$M, %	FY23, \$M, %	FY24, \$M, %	FY25, \$M, %	FY26, \$M, %	FY27, \$M, %	FY28, \$M, %	Total, \$M	Total, %
Federal Public Assistance + PR Match ¹ 	\$4,938	\$4,762	\$4,585	\$4,409	\$4,232	\$3,351	\$2,822	\$2,116	\$1,764	\$1,411	\$882	\$35,271	56.5%
	14.0%	13.5%	13.0%	12.5%	12.0%	9.5%	8.0%	6.0%	5.0%	4.0%	2.5%		
CDBG-DR 	-	\$1,603	\$1,603	\$1,603	\$1,603	\$1,603	\$1,603	\$1,603	\$1,603	\$1,603	\$1,603	\$16,025 ⁴	25.7%
		10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10%	10%		
FEMA Individual Assistance² 	\$1,027	\$1,027	\$1,027	-	-	-	-	-	-	-	-	\$3,081	4.9%
	33.3%	33.3%	33.3%	0%	0%	0%	0%	0%	0%	0%	0%		
Private Insurance³ 	\$1,668	\$1,460	\$1,251	\$1,043	\$834	\$436	\$436	\$436	\$436	-	-	\$8,000	12.8%
	20.9%	18.3%	15.6%	13.0%	10.4%	5.4%	5.4%	5.4%	5.4%	0%	0%		
Total	\$7,633	\$8,851	\$8,466	\$7,054	\$6,669	\$5,389	\$4,860	\$4,155	\$3,802	\$3,013	\$2,484	\$62,377	100%
Spending as a % of GDP	12.2%	13.2%	12.2%	9.9%	9.0%	7.1%	6.2%	5.1%	4.6%	3.6%	2.9%		
CDBG cost share	0	\$38	\$38	\$38	\$38	\$38	\$38	\$38	\$38	\$38	\$38		

Disaster aid by source of funding, \$M



¹ Includes \$2B of CDBG funding allocated specifically for electrical infrastructure; based on CSA estimates

² \$3B is current FEMA projected funding for Maria-related disasters

³ Based on early analysis of data from the Office of the Insurance Commissioner of Puerto Rico on already processed payments

⁴ Excludes CDBG excepted cost match which is included as an offset for cost share

The major sources of disaster relief funding are detailed below:

- **FEMA Disaster Relief Fund (DRF):** FEMA provides Individual Assistance to individuals and families who have sustained uncovered losses due to disasters. FEMA also provides public assistance for infrastructure projects and other permanent improvements.
- **HUD Community Development Block Grant- Disaster Recovery (CDBG-DR):** Based on a housing recovery plan, HUD provides CDBG-DR funding that can be used for assistance to individuals (e.g., housing repair) and public assistance (e.g., infrastructure development), or can also be used by the Government for certain operational costs (e.g., to cover their disaster relief funding match.) The supplemental appropriation included in the Bipartisan Budget Act of 2018 stipulated that at least ~\$2 billion be used to repair the Island’s electric infrastructure (Public Assistance).
- **Private insurance funding:** Large personal property and casualty losses have been incurred in the aftermath of Hurricane Maria. Early analysis of data from the Office of the Insurance Commissioner of Puerto Rico, adjusted for self-insured and other types of coverage, was used to determine the amount that will be paid out to individuals and businesses for major damages.

Disaster roll out for FEMA funds, CDBG funds, and private spending have been projected separately:

- **Roll out of Public Assistance and private insurance funds.** It is estimated to take time for the Puerto Rican Government to meet the requirements necessary to access

FEMA funding.⁵ As a result, projected roll out declines over time and is spread out as shown in **Exhibit 8**.

- **Roll out of CDBG.** It is estimated to be even slower given the length of time typically needed for the application and disbursement process. As a result, projected roll out is spread out over time, as shown in **Exhibit 8**.

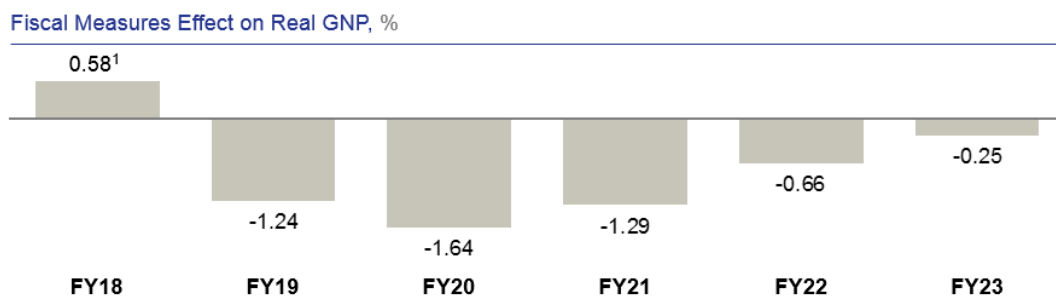
In assessing impact of disaster relief funding on the economy of Puerto Rico, it is important to isolate what portion of the disaster relief funding directly affects the local economy and what portion flows to entities off-Island. The Plan estimates that, on a weighted average basis, **12.5% of funds will directly impact the local economy.**⁶ This figure is estimated using a weighted individual and public assistance (FEMA and non-FEMA) and is supported by history of previous FEMA spending.

GNP is projected to rebound quickly in FY2019 in large part due to disaster relief funding, and this has a direct positive influence across most revenue categories.

4.2 Impact of fiscal measures and structural reforms

By optimizing revenue collection and reducing government-wide expenses, **fiscal measures** seek to revitalize and transform the Government of Puerto Rico. However, given the impact on public spending, there is a contractionary impact on the economy in the short term. These measures are necessary to drive fiscal sustainability in the long term. In fact, they drive significantly more in savings than revenues lost due to economic contraction. In addition, the economic contraction from cost-saving measures is limited in the long-term, while such measures are critical for providing long-term financial stability. The macroeconomic impact of the measures is summarized in **Exhibit 9** below.

EXHIBIT 9: MACROECONOMIC IMPACT OF FISCAL MEASURES



¹ Reflects one-time effects of PAN funding and tax refunds

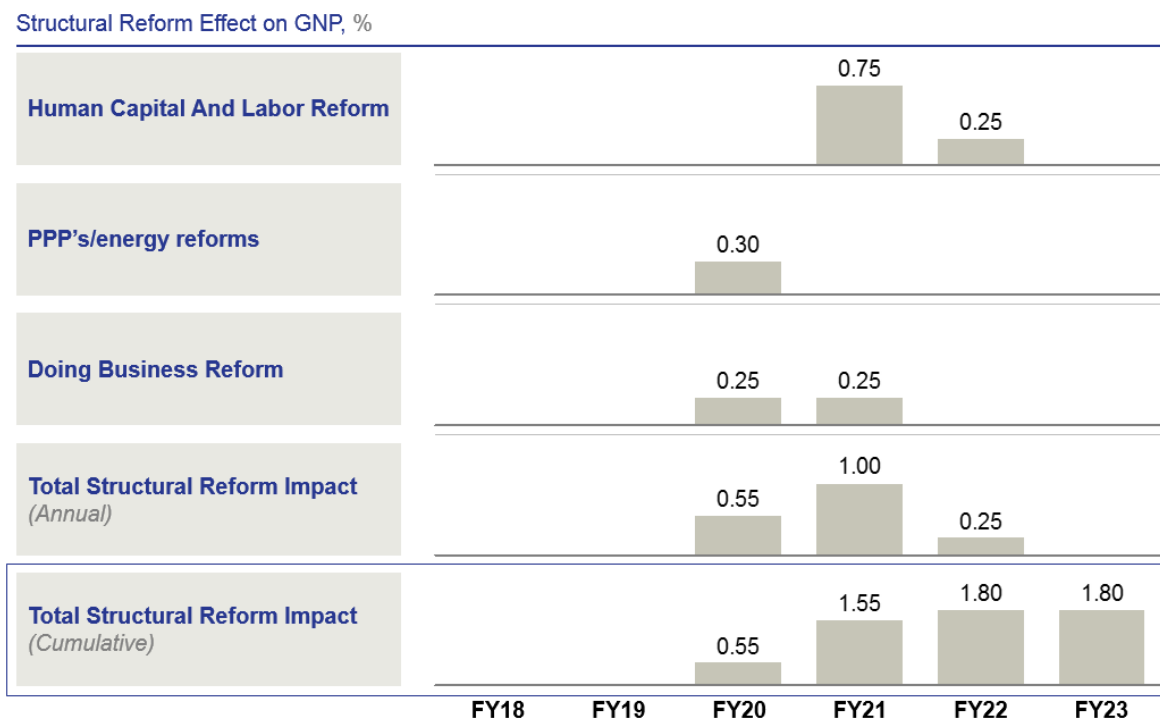
The timing and impact of **structural reforms** are based on work done by the IMF on similar reforms implemented in Europe, utilities reform in Latin America, and broadly accepted metrics for measuring improvement in the World Bank's Ease of Doing Business Rankings. Structural reform benchmarks broadly come from nations or jurisdictions without monetary policy options, like Puerto Rico. Examples used include Eurozone nations, U.S. states, or

⁵ According to FEMA and Government reports, FEMA spend in Puerto Rico has been slower than anticipated in 2018. It has also been slower in Puerto Rico than in other natural disasters to which FEMA has responded in 2018 (*Economist*, 2018)

⁶ Estimated using local contracts (e.g., PREPA contract representing public project assistance and a multi-unit residential construction project representing Individual Assistance, which were estimated to have a 10% and 17% pass-through on the economy, respectively). Maintenance and repair of projects related to individual assistance have less specialized requirements and can expect a larger pass through from direct labor. Historical FEMA spending and the percentage of DHS contracts awarded to local Puerto Rican firms supported this figure

countries that had currencies pegged to the United States Dollar – and therefore lack monetary flexibility as does Puerto Rico. **Labor, energy, and doing business, reforms** are projected to increase GNP by **1.80% by FY2022 (Exhibit 10)**. **K-12 education reforms** add an additional 0.01% annual impact beginning in FY2033, resulting in total GNP increase of **1.96% by FY2048.**⁷

EXHIBIT 10: MACROECONOMIC IMPACT OF STRUCTURAL REFORMS



By FY2048, K-12 Education reforms add an additional 0.16% cumulative impact, resulting in 1.96% annual impact on GNP

4.3 Population projections

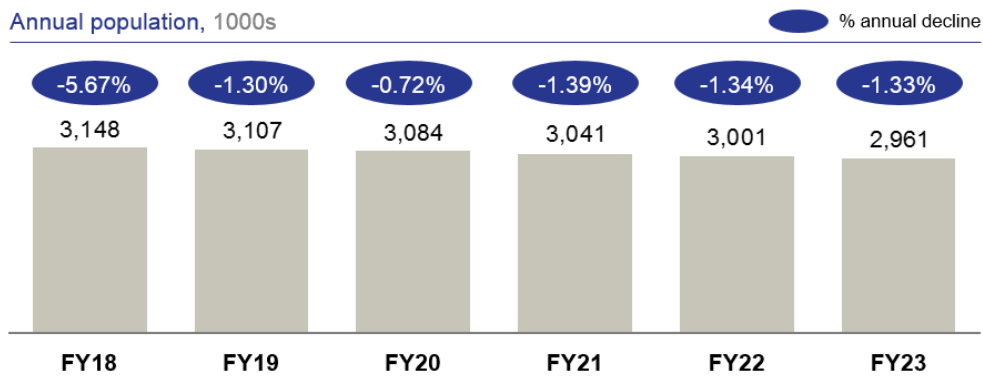
In the past five years, Puerto Rico’s population has trended downward by 1-2% every year as residents have left to seek opportunities elsewhere and birth rates have declined.⁸ This trend accelerated after the storm, as many lost houses, jobs and loved ones. While some of these people are projected to return as the Island rebuilds, population is still projected to decline over the period of the New Fiscal Plan – by ~12% over five years (**Exhibit 11**).⁹ Much of this is based on estimated net departures in FY2018, while in the long term, population is projected to continue to decline, but at a rate closer to pre-hurricane trends. One key element of the population projection is the assumption that the low historical rate of immigration into Puerto Rico will continue.

⁷ The impact of educational / human capital structural reforms is 0.28% by FY2060

⁸ Federal Reserve Bank of St. Louis Economic Research (FRED)

⁹ The New Fiscal Plan adopts demographic projections calculated by the Oversight Board’s demographer. The projections were initially presented in an Oversight Board listening session held on November 16, 2017 and have since been updated to incorporate the latest available migration data and economic growth projections, as well as real-time estimates of population loss since the hurricane (e.g. net airplane departures)

EXHIBIT 11: PROJECTED POPULATION CHANGE

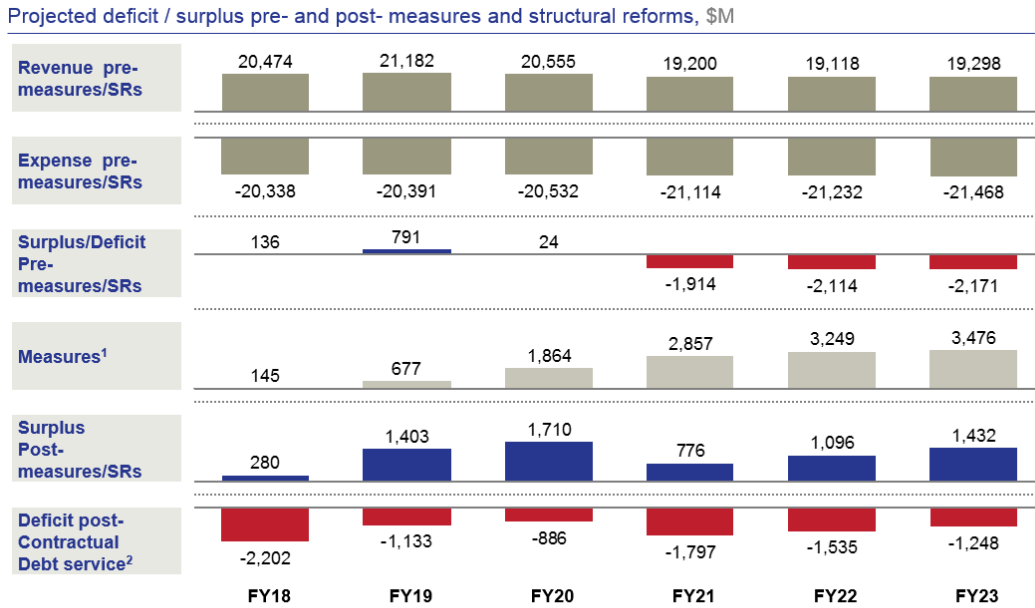


Chapter 5. FISCAL PLAN FINANCIAL PROJECTIONS

Before measures and structural reforms (“baseline forecast”), there is a pre-contractual debt service surplus in FY2018-20, due to revenues buoyed by a positive macroeconomic trajectory resulting from the massive disaster relief funding stimulus, as well as significant Federal Medicaid funding. Over the long term, in the baseline forecast this surplus is not sustainable, as Federal disaster relief funding slows down, Supplemental Medicaid funding phases out, Act 154 and Non-Resident Withholding revenues decline, and pensions and healthcare expenditures rise. Without major Government action, the Island would suffer an annual primary deficit of over \$1.9 billion starting in FY2021.

Fiscal measures and structural reforms contained in the New Fiscal Plan will transform the deficit into a surplus for the life of the Fiscal Plan, as structural reforms will drive a 1.80% increase in growth, and fiscal measures will drive ~\$12 billion in savings and extra revenue by FY2023. After fiscal measures and structural reforms and before contractual debt service, there is an annual surplus starting in FY2018. After contractual debt service, however, this drops to an annual deficit for all years of the plan (**Exhibit 12**).

EXHIBIT 12: PROJECTED DEFICIT / SURPLUS PRE- AND POST-MEASURES AND STRUCTURAL REFORMS

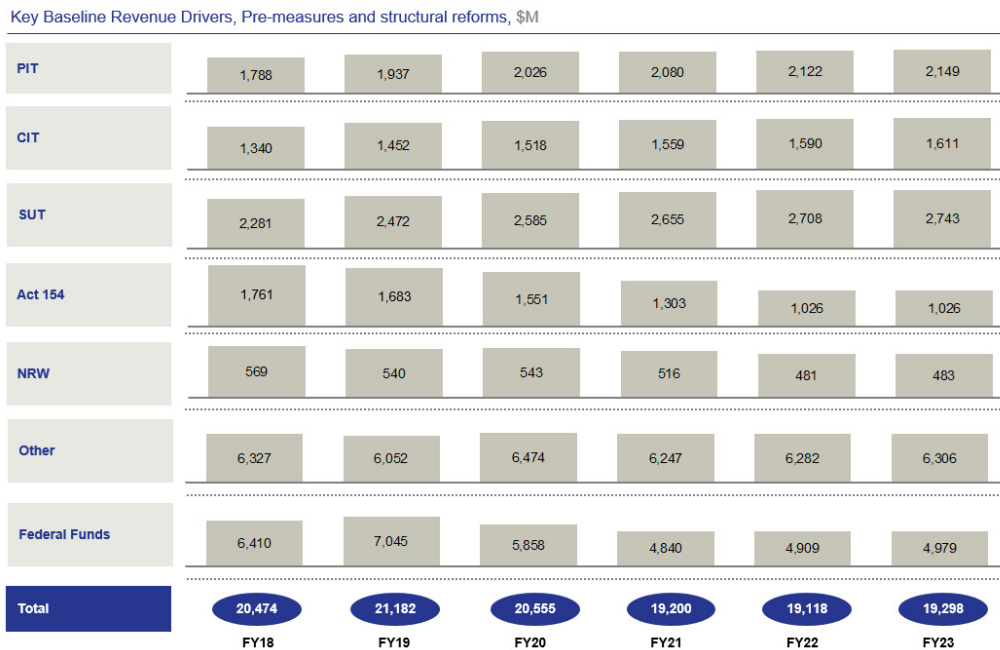


1 Impact of measures has a contractionary effect on economy, thus pre-measures revenues less pre-measures expenses plus measures does not equal post-measures and structural reforms surplus
 2 Debt service based on prepetition contractual debt obligations. Presented for illustrative purposes only and does not represent anticipated future payments on restructured debt. Excludes HTA, UPRA, PREPA, PRASA, Children's Trust

5.1 Baseline revenue forecast

Major tax revenue streams (**Exhibit 13**) include non-export sector General Fund revenues (including individual, corporate, and sales and use taxes) and export sector revenues (including Act 154 excise taxes paid by multinationals operating on the Island, and Non-Resident Withholdings), as well as Federal funding.

EXHIBIT 13: MAJOR REVENUE CATEGORIES



5.1.1 Non-export sector General Fund revenue projections

In the aftermath of the hurricanes, actual tax receipts have been closely monitored to measure the near-term fiscal impact. Using these actuals and other inputs, the New Fiscal Plan projects a drop of ~14% in General Fund revenues in FY2018, adjusted for one-off events.¹⁰

Individual income taxes: Individual income taxes are concentrated, with 78.2% of revenues coming from the 8.7% of returns reporting income above \$60,000 per year. Revenues from individual income tax are down ~3% FYTD as of February, relative to FY2017 actuals¹¹. This likely reflects most of the impact of the hurricane on wage earnings, but it is possible that estimated tax payments (e.g., by self-employed or high net worth individuals) are running ahead of where they will be at year end, at which point there could be large refund claims. To account for this risk, Hacienda estimates that a marginal additional increase in deductions in FY2018 will drive a \$112 million negative variance.¹² With this \$112 million in extra deductions, income tax revenues for FY2018 are projected to be ~8% lower than in FY2017 when adjusted for extraordinary items.

Corporate income taxes: There is also concentration in tax receipts among the largest corporations operating in Puerto Rico (e.g., ~29% of corporate income tax is paid by 20 corporate taxpayers).¹³ Corporate tax revenues are down ~11% FYTD relative to FY2017, and are projected to continue this trend. Finally, Hacienda is projecting personal property, casualty, and business interruption losses will result in a \$102 million marginal fall in corporate tax revenues. The current trendline, in addition to these deductions, results in an adjusted year over year decline of 18.6% from FY2017.

Sales and use taxes (SUT):¹⁴ SUT revenues are down ~9% FYTD relative to FY2017, but have fallen 14.3% since the hurricane – a trend that is projected to apply to the rest of the fiscal year. Unlike income taxes, where monthly cash flows can only help approximate annual tax liabilities, sales and use taxes are collected throughout the year and remitted on a regular basis (varies depending on size of taxpayer). Emergency measures taken by the Government immediately after the hurricanes account for ~\$100 million in losses, while outmigration, business closures, and general disruption (e.g., due to power outages) will likely account for the rest of the drop. The application of this base trend through June 2018 results in a year-over-year decline of ~10.4% from FY2017 (inclusive of non-General Fund SUT funds such as CINE, FAM, and COFINA).

Other General Fund Revenue (Motor Vehicles, Alcoholic Beverages, Cigarettes): The trendline for other General Fund revenues is projected to continue in line with post-Maria actuals to date, resulting in a 2.2% increase for alcoholic beverages, a 25.4% increase for cigarettes, a 14.3% decline for motor vehicles, and a 28% decline for “other general fund revenues” which includes fees/penalties and dividend taxes (all figures are adjusted for

¹⁰ The New Fiscal Plan estimates for income taxes and SUT for FY2018 are based on actuals through February 2018, with the five-month post-storm average trend line continuing through the end of the fiscal year. Additional adjustments are included for income taxes and corporate taxes due to the expected deductions for unreimbursed property damage

¹¹ All actuals are adjusted to normalize for extraordinary non-recurring item

¹² This calculation is based on casualty and personal property loss estimates from Hurricane Georges, and the impact is intensified (by about 4x) to account for the increased severity of Maria. Hacienda’s analysis here would result in ~20% increase in tax refunds/ deductions, which is in-line with the impact seen on U.S. Federal tax refunds in 2001 and 2008, in the aftermath of two large economic recessions

¹³ Hacienda historical reports

¹⁴ All analyses for the purposes of the New Fiscal Plan are all-inclusive of sales and use tax revenues. Monthly and quarterly general fund SUT trends are variable due to differences in year over year timing of when COFINA and other caps are hit

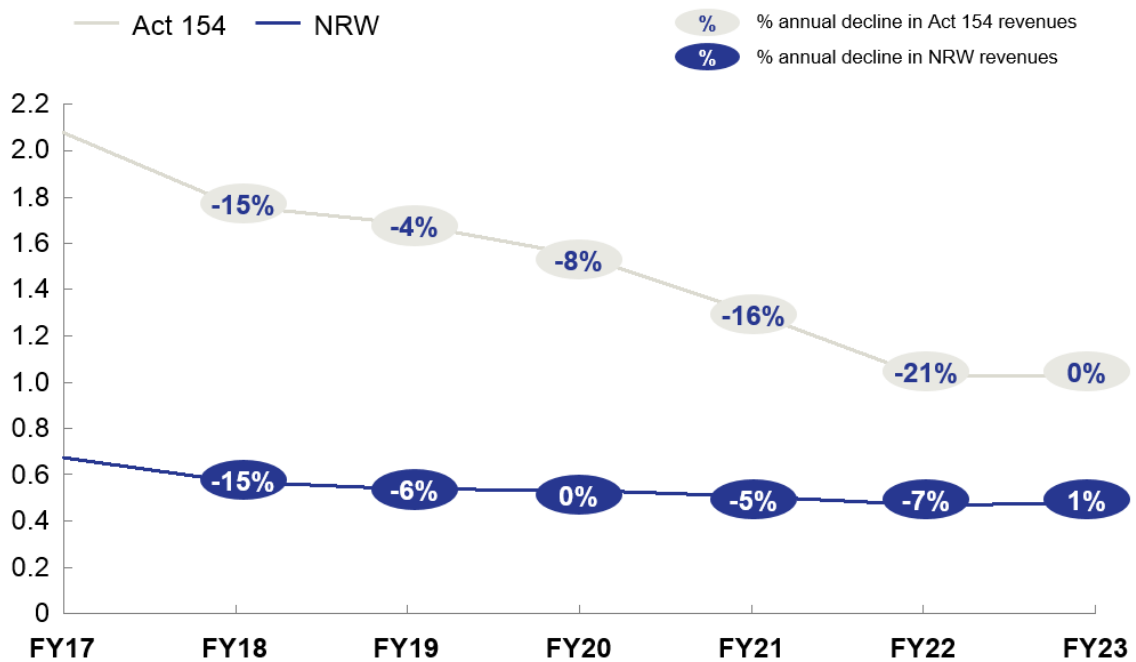
extraordinary events and Commonwealth policies on tax exemptions and holidays in response to the storm).¹⁵

5.1.2 Export sector revenue projections

Act 154 and Non-Resident Withholding (NRW) tax revenues have proven to be far less resilient than other types of revenues after the hurricane.¹⁶ For FY2018, Act 154 is expected to decline ~15%, and NRW revenues are projected to decline ~15%. Both revenue types are concentrated in a small number of multinational corporations, and the absence of payments from large payers in previous years has had an impact on the overall trendline of these revenues. From FY2017 to FY2023, Hacienda estimates that ~51% of Act 154 and 28% of NRW revenues will erode (**Exhibit 14**) due to the combination of Federal tax reform (reducing Puerto Rico’s attractiveness as a low tax jurisdiction for multinationals) and hurricane impacts (creating challenges restoring manufacturing operations and exporting). In some cases, these disruptions revealed concentration risk in Puerto Rico that manufacturers may consider in making future business continuity plans.

EXHIBIT 14: PROJECTED ACT 154 AND NON-RESIDENT WITHHOLDING (NRW) REVENUES

Projected annual Act 154 and NRW revenues, \$M



5.1.3 Medicaid Federal funding

In the steady state, Medicaid costs are typically funded primarily by the Commonwealth, as there is a cap on available Federal funding. Yearly Federal funding streams for the Commonwealth are the following, projected based on current law and statutory growth rates:

- **Standard annual Federal Medicaid funding.** Although Puerto Rico has a 55% Federal matching assistance percentage (FMAP), this amount is capped each year at an

¹⁵ While these numbers are not adjusted for deductions, they are adjusted for what Hacienda views to be “one-off events.” For example, Hacienda removed \$13M from cigarette taxes in Nov. 17 due to non-recurring promotions offered by gas stations and convenience stores, and removed \$18.3M from motor vehicle taxes due to a spike in car sales promotions

¹⁶ As of February 2018

amount that is below 10% of costs. As of FY2018, this funding stream was capped at under \$400 million, and though the cap grows each year, it does not keep pace with healthcare expenditure growth.¹⁷

- **Children’s Health Insurance Program (CHIP) funding.** CHIP funding is not subject to a Federal cap. It also has a higher FMAP at 91.5%, though this Federal cost share is projected to decrease in FY2020 with the expiration of the Affordable Care Act’s temporary increase. In FY2018, this amount totaled \$172M.
- Each year, funds are **passed directly through to the Department of Health**, totaling \$200 million out of the annual Federal funds available for Medicaid. This funds Federally Qualified Health Centers (Centros 330, “FQHC”) and Medicaid Operations.

In FY2018, however, the available share of Federal funds is much higher due to several Federal fund sources. Additional Federal funding is provided in FY2018 by **remaining Affordable Care Act (ACA) block grant** funds (approximately \$598 million as of the beginning of the fiscal year) and supplemental FY2017 Omnibus Federal funding of \$296M.

In addition, in February 2018 the Bipartisan Budget Act of 2018 (BBA) allocated a supplemental \$4.8 billion of Federal funding to Puerto Rico Medicaid, for use between January 2018 and September 2019. Per CMS guidance, this funding is estimated to apply only as a reimbursement for eligible populations (i.e., Federally funded Medicaid expenses). The Puerto Rico Health Insurance Administration (ASES) will spend as much of the allocation as possible before drawing down any remaining ACA funds, which can resume use from September 30, 2019 until expiration in December 31, 2019.

Depending on the exact parameters of eligible spending (e.g., if Commonwealth-funded populations and/or some dual-eligible CHIP members are eligible), ASES will be able to absorb between \$4.2 billion and \$4.8 billion of the allocated funding for core Medicaid expenditures.¹⁸ It will continue to receive its annual CHIP,¹⁹ FQHC, and DOH Medicaid operations funding.

Exhibit 15 outlines expected Medicaid Federal fund receipts. Starting in FY2020, Supplemental funding is projected to phase out. This funding cliff indicates the imperative and urgent need to implement cost-saving measures to reduce long-term Medicaid costs (Medicaid expenditures are discussed in detail in *Section 5.2.2*).

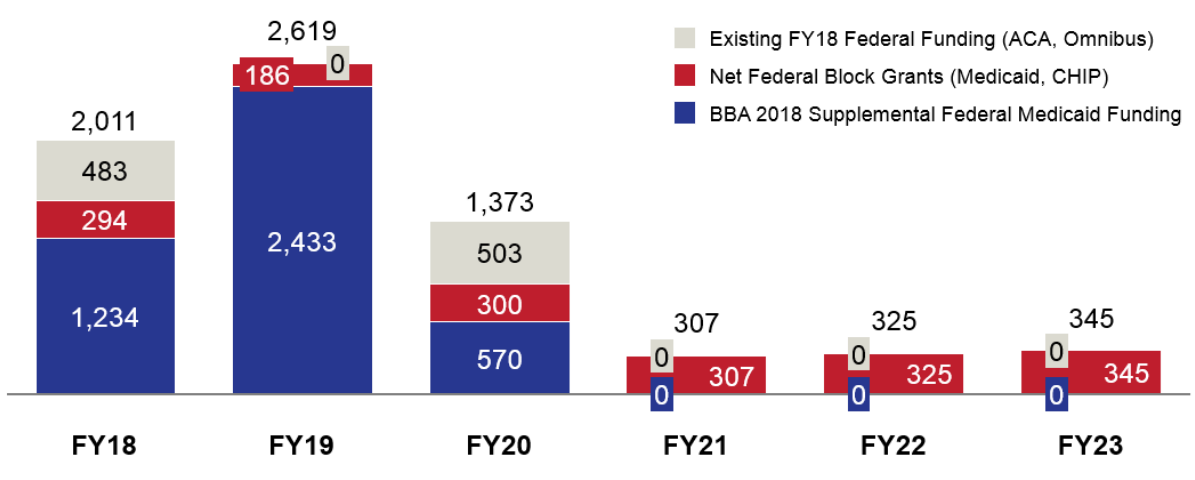
¹⁷ According to the Social Security Act, the cap grows by the medical component of CPI-U as reported by BLS each year. From FY2011-FY2016, this growth averaged 2.9%. This inflation rate differs from the healthcare inflation index for Medicaid and Medicare used elsewhere in this New Fiscal Plan (7.1% from FY2018-FY2023, and 5.6-4.7% in the long-term, *as discussed in the Appendix*). Instead, the medical component of CPI-U includes other factors that lower the inflation rate by approximately 3-5 percentage-points, meaning the increase in the Federal funding cap will not keep up with actual increases in expenditures

¹⁸ Current assumption is that only Federally funded Medicaid beneficiaries (excluding all CHIP and Commonwealth members) are eligible for reimbursement using BBA funds. These beneficiaries represent approximately 80% of total MCO disbursements, 100% of Platino premiums, all administrative costs, and less any cost-saving measures (*described in Chapter 14*) that reduce reimbursable spend during the timeframe

¹⁹ CHIP funding will continue at 91.5% FMAP until expiration of the ACA enhanced FMAP in September 2019. At that point, FMAP will return to 68.5% pre-ACA level, according to §2101(a) of the Affordable Care Act which amended §2105(b) of the Social Security Act

EXHIBIT 15: MEDICAID EXPECTED FEDERAL FUND RECEIPTS

Medicaid Federal funding sources, \$M

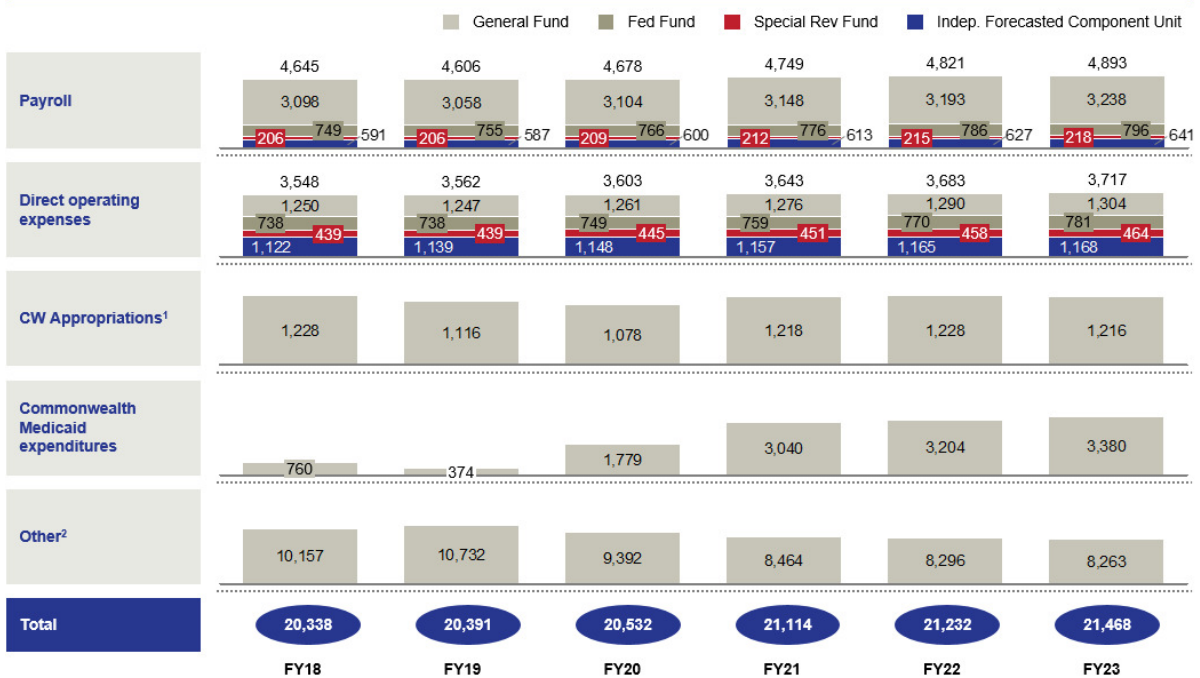


5.2 Baseline expenditure forecast

Over the next five years, baseline expenditures are set to increase over FY2017 due to inflation and increases in Medicaid and pensions costs (Exhibit 16).

EXHIBIT 16: MAJOR EXPENDITURE CATEGORIES

Key Baseline Expense Drivers (pre-measures and structural reforms), \$M



¹ Includes appropriations to HTA, UPR, and municipal expenses
² Includes appropriations to utilities, pension expenses, disaster recovery cost match, Title III, loan to PREPA, federal Medicaid and social program contributions, maintenance capex, enterprise funds, disbursements to entities outside the fiscal plan, and other non-recurring and recurring costs

5.2.1 Payroll expenses and non-payroll operating expenditures

Payroll expenses: The expenditure model holds payroll constant at the FY2018 approved budget levels based on the Fiscal Plan Compliance Act. Payroll projections do not assume

reductions from either attrition or absenteeism, as reductions would need to be met with limits on rehiring to truly capture any cost savings – therefore, any workforce reductions will be captured only through fiscal measures. Further, whereas the March 2017 Fiscal Plan included a payroll freeze through FY2019 (which is reflected in the baseline), the extension of this payroll freeze is proposed by the New Fiscal Plan and will therefore be counted as a measure. After FY2019, all figures are projected to grow by Puerto Rican inflation.

Non-Personnel Operating Expenses: Like payroll expenses, non-personnel operating expenses are projected to be frozen FY2018-FY2019 by the March 2017 Fiscal Plan measures, with costs growing by inflation thereafter. Utility costs are based on the historical cost of government payments for utilities-related costs.

5.2.2 Medicaid costs

Medicaid costs are projected to reach over \$3.6 billion annually by FY2023 (**Exhibit 17**). These costs are primarily driven by the cost per member per month (PMPM) and the number of people enrolled in Medicaid (Federal and Commonwealth), CHIP, and Platino dual eligible programs. Other categories also contribute, including health-related expenses (e.g., HIV and Pulmonary programs) and program administration, bringing total expenditures to \$3.7 billion by FY2023.

In the short term, Hurricane Maria is expected to affect both PMPM and enrollment, as evidenced by historical post-disaster environments. From August (pre-Maria) to March 2018, actual enrollment data has indicated nearly a 5% increase in enrollment, as residents face higher rates of utilization and struggle to fulfill basic needs. Other post-disaster areas have exhibited a similar spike in proportion of population enrolled in Medicaid but have shown that enrollment soon declines back to trend.²⁰ Similarly, the proportion of Puerto Ricans enrolled in Medicaid is expected to slightly drop after a time. As the overall population of Puerto Rico decreases, the Mi Salud population will decline concurrently, but will likely lag overall outmigration trends by a year due to the time needed for individuals to switch to a new plan once they have left the Island.

PMPM costs are projected to grow at 7.1% annually. This rate combines normal healthcare cost inflation rate of 6.0% experienced in Puerto Rico before the storm,²¹ along with an additional 1.1% observed in other post-disaster environments.²²

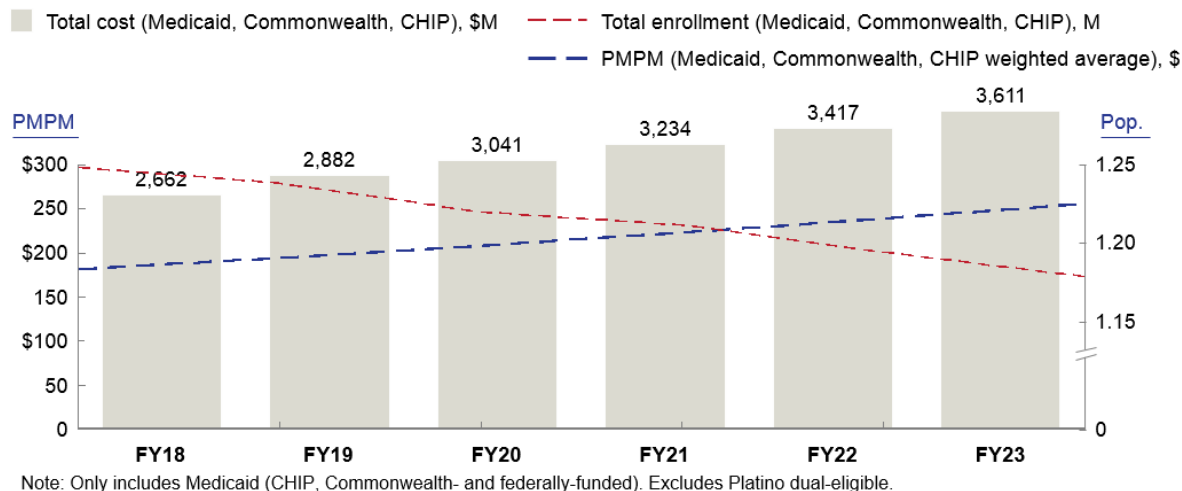
²⁰ Analysis included effect of Hurricane Katrina on Medicaid population in New Orleans. Directly following the storm, the proportion of overall population on Medicaid spiked, but declined beginning a year after the hurricane. Source Louisiana Department of Health and Hospitals, Bureau of Health Services Financing. "Louisiana Medicaid Annual Report," 2005-2009, <http://dhh.louisiana.gov/index.cfm/newsroom/detail/1699/>

²¹ From 2011-2016, the CAGR for PMPM inflation in Puerto Rico averaged about 6.6% (ASES analysis of historical PMPM rates). Milliman actuarial analysis projects a 5-7% PMPM inflation rate from FY2018-FY2020 and 4-6% PMPM inflation rate from 4-6%

²² NBER working paper 22272 analyzing fiscal effects of hurricanes on healthcare costs. Table 7, Panel B coefficient for implied effect after 7.5 years spread year over year; Took the value of the implied effect after 7.5 years (0.085); Divided this by the number of years (7.5); Provided the change year over year = $0.085/7.5 = 0.0113$; Then, interpreted the coefficient; Given the y variable is logged, the interpretation is: (change year over year) * (100%) = % change year over year, generating a 1.13% change projected year over year. Deryugina, Tatyana. "The Fiscal Cost of Hurricanes: Disaster Aid Versus Social Insurance." National Bureau of Economic Research, May 2016

EXHIBIT 17: PROJECTIONS FOR MI SALUD BASELINE PMPM AND ENROLLMENT (NOT INCLUDING PLATINO)

Medicaid projected PMPM, enrollment, and expenditures, \$M total cost, M enrollees, \$ PMPM



Other costs, which include HIV/PDP, Health Insurance Provider Fee, Air Ambulance, MC21 Administrative Fee, Super Utilizers, and Pulmonary, among others, are projected to grow at the rate of Puerto Rico inflation.

Expenditures for the Platino dual eligible program were estimated using a consistent \$10 PMPM over FY2018-FY2023, representing payment for wrap-around services supplementing main Medicare coverage. Enrollment is projected to be affected similarly to Medicaid enrollment, though with less fluctuation in actual proportion of population enrolled.²³ Platino costs are expected to total \$29 million in FY2018 and decline slightly to \$28 million by FY2023.

5.2.3 Other costs

Appropriations: Baseline municipal appropriations are projected to remain constant at ~\$220 million from FY2018-FY2023, with the exception of a *one-time* allotment to municipalities as a result of Hurricanes Irma and Maria, which is to be provided in FY2018 for the amount of \$78 million, and which will be allocated on the same basis as the existing municipality subsidies. The University of Puerto Rico appropriation baseline is \$708 million in FY2018 and remains ~\$717 million from FY2019-FY2023.

Pension costs: Projections rely on demographic estimations for Employees’ Retirement System (ERS), Teachers’ Retirement System (TRS), and Judicial Retirement System (JRS) populations and benefit obligations, and include updated data and actuarial projections for regular TRS and JRS benefits (extrapolated to update estimates for ERS). From FY2018-FY2023, costs are projected to grow slowly but remain approximately \$2.3 billion for the New Fiscal Plan period.²⁴ Starting in FY2018 ERS pension benefits have been paid on a pay-as-you-go basis, given that the majority of the liquid assets in the retirement system have been depleted.

Capital expenditures: Centrally funded maintenance and capital expenditures of the Commonwealth (excluding PREPA, PRASA, HTA self-funded capex/one-time transfers) is

²³ Projected based on a smaller observed spike in actual enrollment from pre- to post-Maria relative to Medicaid spike
²⁴ Projections for pension expenses are provided by Pension Trustee Advisors (PTA) calculations

expected to be \$400 million annually. Of this, \$124 million will be appropriated to HTA and UPR, with the remaining \$276 million for use by the Commonwealth. The capital expenditure costs are lower in the short-term because of the large disaster relief funding allocations from the Federal Government and from Puerto Rican cost match. HTA's capital expenditure funds will be used to support reconstruction, maintenance, traffic reduction, completion of the strategic network, and P3-related expenditures. UPR's capital expenditure funds will support, among other projects, Phase III of the large Molecular Sciences building, Building restoration at Rio Piedras, and the development of a major campus building at Mayaguez.

Independently Forecasted Component Units (IFCUs): IFCUs in the New Fiscal Plan include Puerto Rico Industrial Development Company, Public Buildings Authority, Ports Authority, State Insurance Fund Corporation, Medical Services Administration, Tourism Company, Health Insurance Administration, Cardiovascular Center, Housing Finance Authority, Department of Agriculture, Integrated Transport Authority, AAFAF, and Convention Center Authority. From FY2018-FY2023, IFCU payroll expenditures are projected to be ~\$600 million annually. Non-payroll operating expenditures are projected to remain at ~\$1.1 billion annually.

Cost share of disaster relief funding: Federal funds for public assistance typically require a local match from the entity receiving them (anywhere from 10-25% of funds). In the case of Puerto Rico, the New Fiscal Plan projects that the Commonwealth will need to cover an estimated 10% of Federal public assistance funds, amounting to \$1.1 billion from FY2018-FY2023. However, a certain portion of this is expected to be covered by CDBG funds (e.g., 25% of the initial \$1.5 billion allocated from HUD in February, which would amount to ~\$188 million from FY2018-FY2023). Thus, total cost share incurred by the Commonwealth is expected to be \$870 million from FY2018-FY2023.

Title III costs: Commonwealth Title III expenses are projected to be \$1.5 billion for FY2018 to FY2023, comprised of professional fees (approximately \$1.1 billion over six years) and funding for the Oversight Board (\$430 million over six years). The estimate for professional fees was developed, in conjunction with the Government, by analyzing FY2018 run-rate billings based on available information and soliciting input from certain professionals. Fees were benchmarked versus comparable restructuring situations that yield an average professional-fee-to-funded-debt ratio of 1.89% relative to 1.65% projected for the Commonwealth (**Exhibit 18**).

EXHIBIT 18: PROJECTED TITLE III COSTS RELATIVE TO OTHER MAJOR RESTRUCTURINGS

Title III costs for restructuring

	Date filed	Outstanding debt, USD	Total fees and expenses, USD	Fees to funded debt, %
City of Detroit, Michigan	Jul. 2013	\$20,000,000,000	\$177,910,000	0.89%
Residential Capital, LLC	May-12	\$15,000,000,000	\$409,321,308	2.73%
Sabine Oil & Gas Corp.	Jul. 2015	\$2,800,000,000	\$78,553,223	2.81%
Caesars Entertainment Operating Company	Jan. 2015	\$18,000,000,000	\$258,278,005	1.43%
Lehman Brothers Holdings Inc.	Sep. 2008	\$613,000,000,000	\$956,957,469	0.16%
Lyondell Chemical Company	Jan. 2009	\$22,000,000,000	\$205,932,292	0.94%
American Airlines	Nov. 2011	\$11,000,000,000	\$391,637,858	3.56%
Washington Mutual, Inc.	Sep. 2008	\$8,000,000,000	\$271,085,213	3.39%
Edison Mission Energy	Dec. 2012	\$5,000,000,000	\$96,244,628	1.92%
Energy Future Holdings Corp.	Apr. 2014	\$40,000,000,000	\$450,110,233	1.13%
Puerto Rico	2017	\$64,000,000,000	\$1,057,990,545	1.65%

Summary Statistics

Avg.	1.89%
Max	3.56%
Min	0.16%
Med	1.68%

 Puerto Rico involves added complexity as the largest public sector restructuring in the history of the United States

Emergency reserve: The Commonwealth must establish an emergency reserve of \$1.3 billion, or ~2.0% of FY2018 GNP, by reserving \$130 million per year for 10 years. The methodology supporting this reserve is informed by guidance provided to The Bahamas, another Caribbean island, by the International Monetary Fund in defining an adequate emergency reserve (2-4% of GNP, accumulated at 1/2% per year).²⁵ Restrictions on the use of this fund must ensure that it is a true emergency reserve.

Chapter 6. LONG TERM PROJECTIONS AND DEBT SUSTAINABILITY ANALYSIS

While the New Fiscal Plan emphasizes the period from FY2018-FY2023, the Plan’s core goal is to put Puerto Rico on a path towards long-term fiscal balance. The Government’s existing bonded debt also is long-term, with final maturities on some credits extending out 40 years from today to FY2058. Accordingly, long-term projections are an important component in evaluating the Fiscal Plan’s implementation and in the resulting Debt Sustainability Analysis (DSA).

6.1 Macroeconomic, revenue and expenditure projections

Most macroeconomic trends are forecast to continue their current trajectories through the next 40 years, and slowly revert toward the pre-hurricane trend line as the impact of the hurricane (and the disaster relief funding) begin to wane. Population for example, is

²⁵ IMF Bahamas Article IV report published March 22, 2018

influenced by GNP, death and birth rates, and net migration, with the latter having the most significant impact. Population reaches a run-rate of negative 0.5% by FY2048. Meanwhile, real growth reaches a trend of 0.7% by FY2048 after fiscal measures, aid, and structural reforms. Inflation on the other hand, settles at a run-rate of 1.94% as it is expected to converge to mainland forecasts.

Most revenues are projected to grow with nominal GNP in the long term²⁶. This includes SUT, Corporate Income Tax, Personal Income Tax, Non-Resident Withholding not paid by Act 154 entities and most General Fund revenues. Exceptions include:

- **Alcoholic beverages and cigarette-related tax** revenues, which are expected to grow by inflation and population. This assumption is supported both by relatively constant alcohol consumption in growing economies along with long-term decline in cigarette consumption both in Puerto Rico and in the U.S. mainland.
- **Rum excise on off-shore shipments**, is expected to grow by mainland population and is partially driven by the statutory waterfall by which rum excise taxes are paid into the general fund.
- **Non-Resident Withholding (NRW) and Act 154 revenues**, which will face further decline due to additional patent expiry risk and US tax ruling related risks. This risk is reflected in a \$100 million per year annual step-down beginning in FY2028 through FY2031 in Act 154 revenues as patent expiry is anticipated to accelerate in this period. NRW payments made by Act 154 payers are projected to follow this same trajectory. Both remain flat at ~35% and ~60% of their FY2018 levels, respectively, after this “step-down” period ends in FY2031.

Federal funds behave differently and grow based on historical and statutory appropriations. **Medicaid** is the most significant form of Federal funding and standard Medicaid matching funds grow by the medical services component of CPI-U, CHIP funding grows proportional to CHIP cost growth, Municipal intra-governmental transfers remain constant, and prescription drug rebates grows proportional to healthcare costs and population.

Just as most revenues grow by GNP, **payroll, non-payroll operating expenditures and utilities all grow by standard inflation**,²⁷ as do baseline appropriations after FY2023. Meanwhile, **capital expenditures** are anticipated to rise to 1.9% of GNP by FY2034, as Puerto Rico must sustain a higher level of maintenance and rely on its own funding for capital investments (rather than disaster relief funding). **Medicaid premiums** also grow at a faster pace than standard inflation, and instead grow by healthcare inflation (linear decline to 4.6% in long term) and population growth. Non-premium costs, such as administrative and “other” Medicaid costs grow by standard inflation in the long-term.

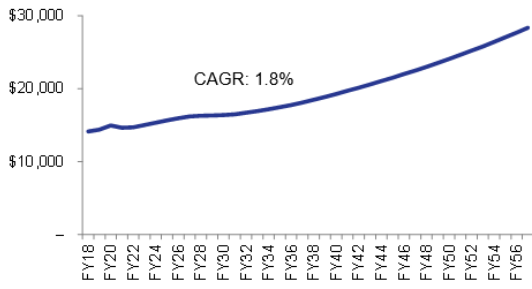
The long-term macroeconomic projections show trends for the key metrics shown below (**Exhibit 19**).

²⁶ This methodology is consistent with general IMF forecasting approaches and is intended to capture the overall change in consumption, investment and production within the economy

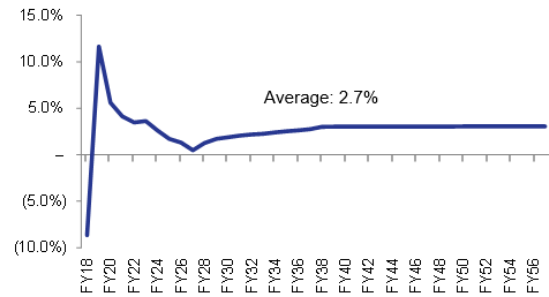
²⁷ Due to constraints on adding additional costs beyond inflation-related adjustments

EXHIBIT 19: 40 YEAR FINANCIAL PROJECTIONS

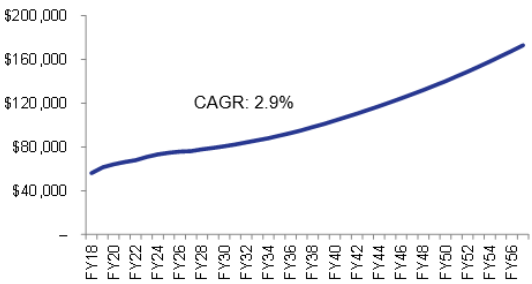
Own-Source Revenue, \$M



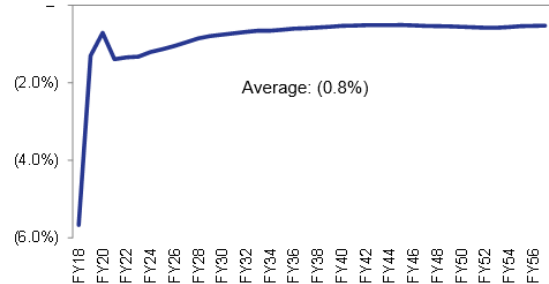
Nominal GDP Growth, %



Nominal Disposable Personal Income, \$M



Population Growth, %



Without sustained fiscal measures and aggressive structural reforms, there would be a significant deficit over 30 years. However, expenditure measures are set to increase with inflation (and healthcare with long-term health inflation), while revenues are expected to grow with GNP – thus, both help reduce the deficit (**Exhibit 20**).

EXHIBIT 20: PROJECTED LONG-TERM SURPLUS / DEFICIT

Financial Projection Detail, units as labeled

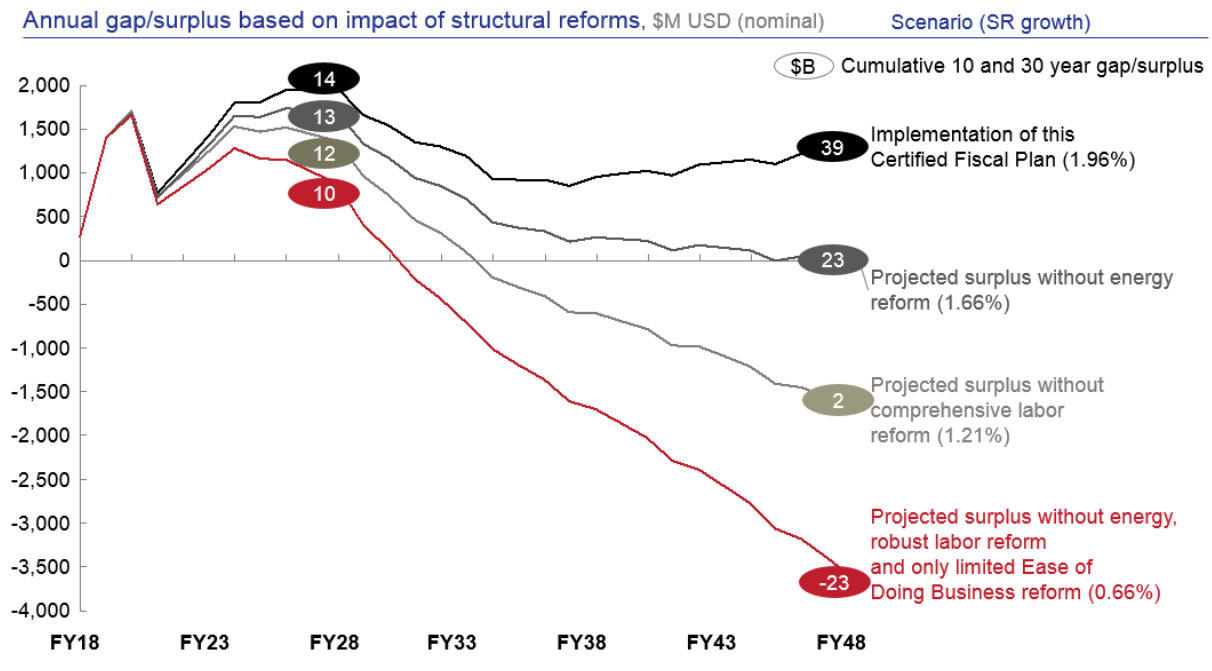
Projection	FY23	FY30	FY35	FY40	FY45	FY50	FY55	FY58
Population, #	2,959,228	2,764,818	2,673,067	2,597,222	2,530,913	2,463,353	2,394,401	2,356,782
Population growth rate, %	(1.3%)	(0.8%)	(0.6%)	(0.5%)	(0.5%)	(0.6%)	(0.5%)	(0.5%)
Inflation, %	1.40%	1.45%	1.53%	1.94%	1.94%	1.94%	1.94%	1.94%
Baseline real GNP growth, %	1.9%	(0.0%)	0.4%	0.6%	0.7%	0.7%	0.8%	0.8%
Disaster funding, \$M	4,953	0	0	0	0	0	0	0
Revenues, \$M	19,298	19,499	19,871	20,927	22,255	23,720	25,339	26,404
Own revenues	14,319	14,003	13,920	14,393	15,033	15,732	16,501	17,005
Federal transfers, Medicaid, CDBG	4,979	5,496	5,950	6,534	7,222	7,988	8,839	9,399
Expenditures, \$M	(21,468)	(23,917)	(26,493)	(29,341)	(32,722)	(36,405)	(40,789)	(43,816)
Own expenditures	(14,814)	(15,640)	(16,731)	(17,798)	(19,040)	(20,174)	(21,547)	(22,482)
Social programs	(6,655)	(8,277)	(9,761)	(11,543)	(13,682)	(16,231)	(19,242)	(21,334)
Baseline gap / Surplus, \$M	(2,171)	(4,418)	(6,622)	(8,414)	(10,467)	(12,684)	(15,450)	(17,412)
Revenue Measures, \$M	550	658	719	818	938	1,077	1,239	1,349
Expenditure measures, ¹ \$M	2,926	3,622	4,238	4,889	5,558	6,920	7,063	7,588
Gap/surplus (post-measures/SRs), \$M	1,432	1,538	926	1,027	1,107	1,341	1,374	1,326
Contractual debt service payments ²	(2,680)	(3,087)	(3,091)	(2,799)	(1,525)	(1,412)	(1,400)	(236)
Net gap / surplus, \$M	(1,248)	(1,549)	(2,166)	(1,772)	(418)	(71)	(26)	(1,091)
Post measures real GNP growth, %	1.9%	(0.0%)	0.4%	0.6%	0.7%	0.7%	0.8%	0.8%
GNP (post-measures/SRs nominal)	76,269	88,338	96,322	108,446	123,341	140,702	161,014	174,853
GNP per capita (constant 2017 dollars, \$)	23,539	26,554	27,701	29,320	31,089	33,102	35,404	35,404
GNP per capita growth (constant 2017 \$, %)	3.4%	0.8%	1.0%	1.2%	1.2%	1.3%	1.4%	1.4%

¹ Includes implementation costs, e.g., EITC

² Debt service based on prepetition contractual debt obligations. Presented for illustrative purposes only and does not represent anticipated future payments on restructured debt. Includes GO, PBA, COFINA Sr and Sub, CCDA, PRIFA, PFC, ERS, PRIDCO. The New Fiscal Plan does not assume any predetermined outcome of ongoing litigation with respect to GO and COFINA bonds.

Meanwhile, the cumulative impact of structural reforms in the long-term drives over \$80-90 billion, thereby generating much of the future surplus. Without such structural reforms, there would be deficits by FY2029 (**Exhibit 21**).

EXHIBIT 21: ANNUAL GAP/SURPLUS BASED ON IMPACT OF STRUCTURAL REFORMS



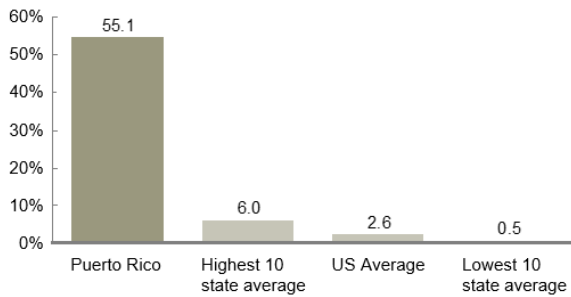
6.2 Debt Sustainability Analysis (DSA)

The DSA is intended to provide a framework for assessing the long-term capacity of the Government to pay debt service on its bonded debt. Debt levels post-restructuring need to be sustainable over the long-term and consistent with both a minimal risk of default on the restructured debt and a recovery of market access for future new money capital borrowings for ongoing infrastructure investment. The analysis begins with the selection of the most appropriate peer group against which to benchmark Puerto Rico. The DSA then applies rating agency metrics for that benchmark group to Puerto Rico to arrive at an assessment of what debt levels are sustainable in light of the long-term projections and the peer metrics. Net Tax-Supported debt is defined as debt payable from statewide taxes and other general resources, net of obligations that are self-supporting from pledged sources other than state taxes or operating resources (such as utility or local government revenues).

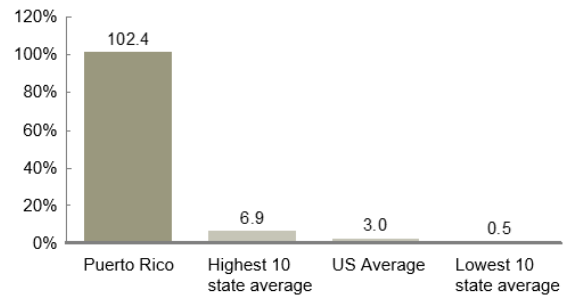
U.S. States as peer comparables. For many reasons, U.S. states are the most appropriate comparison group to use in benchmarking sustainable debt levels for Puerto Rico. Like U.S. states, Puerto Rico does not control its own currency, has no access to IMF restructuring support programs or similar international sovereign relief funding packages, and traditionally has been reliant on access to the same long-term municipal bond market used by the U.S. states to finance their capital needs. Puerto Rico’s bonds also are rated by the same rating agency analyst groups that assign ratings to U.S. states, not by foreign sovereign bond rating analysts. For these and other reasons, Puerto Rico has more similarities to U.S. states than to sovereign nations. By virtually any measure tracked by the rating agencies, Puerto Rico’s existing debt levels are a clear outlier relative to these U.S. state peers (**Exhibit 22**).

EXHIBIT 22: US STATES AS COMPARABLES

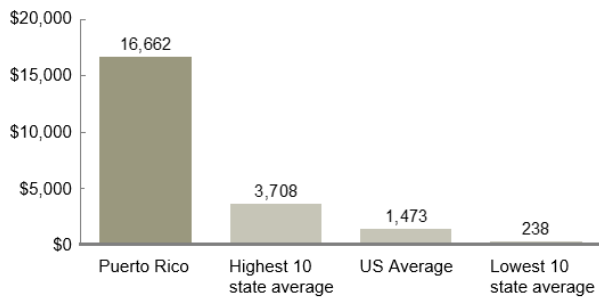
Net Tax-Supported Debt, % of GDP



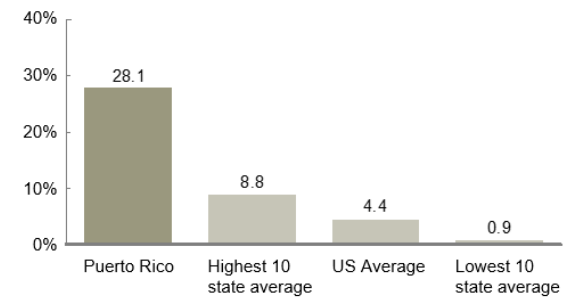
Net Tax-Supported Debt to State Personal Income, %



Net Tax-Supported Debt per Capita, \$/person



Debt Service as % of Revenues, %



SOURCE: Moody's Investors Services, Medians – Total State Debt Remains Essentially Flat in 2017 from May 3, 2017
 NOTE: Puerto Rico benchmark metrics per Moody's. Debt service as % of revenue based on 2015 Own-Source Government Revenues. Personal Income reflects FY18 preliminary estimates from the Commonwealth. In Puerto Rico's case, net tax supported debt totals approximately \$45 Billion, and includes GO, PBA, COFINA, PRIFA, HTA, CCDA, ERS, PFC & UPR

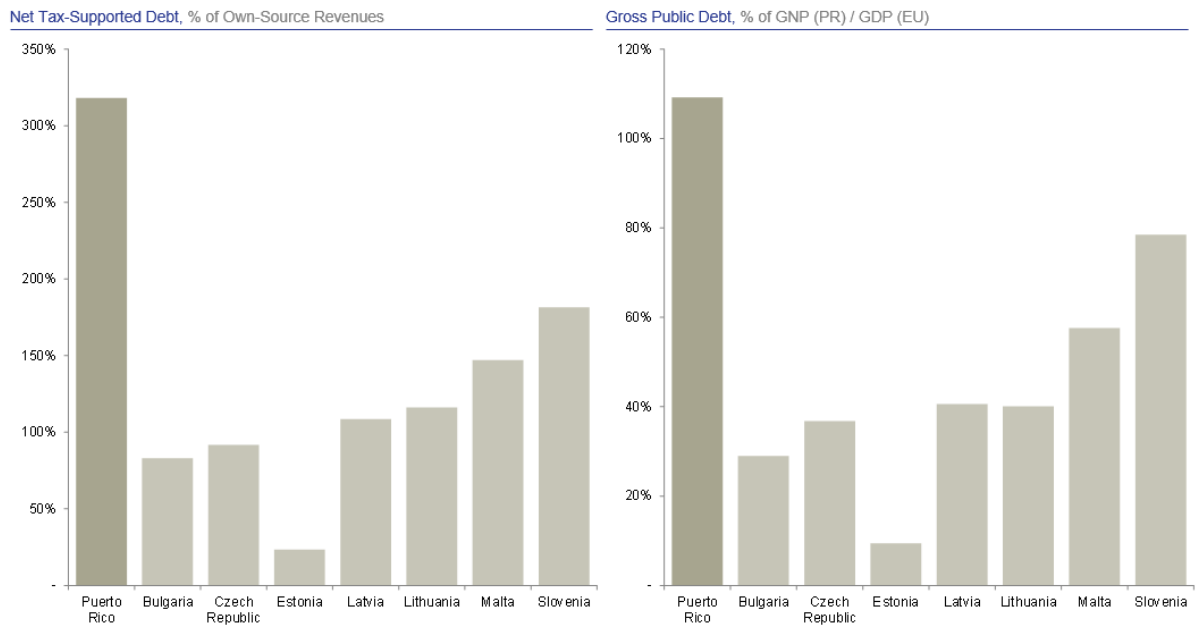
While some observers note that Puerto Rico residents do not pay Federal income taxes, they do pay full Social Security and Medicare taxes, and the low per capita income levels would place most Puerto Ricans in a tax bracket where they would otherwise pay little or no Federal income tax anyhow. Meanwhile, Federal reimbursement levels provided to Puerto Rico for the largest Commonwealth spending programs (including Medicaid and transportation), are capped at levels well below the FMAP and Federal Highway reimbursement levels provided to comparably sized and wealthier states. Puerto Rico residents also pay graduated income taxes to Puerto Rico at brackets comparable to the Federal income tax rates, thereby providing funds needed to provide services to the Puerto Rico resident population that is far poorer than the population of any U.S. state. Yet Puerto Rico receives less Federal support. The most recent U.S. Census Bureau estimate of per capita income in Puerto Rico was \$11,688,²⁸ 67.9% below the lowest U.S. state and 76.8% below average U.S. state 2017 per capita income.²⁹

In general, foreign sovereigns are not the closest comparable to use in determining Puerto Rico's debt sustainability levels given the reasons described above; but of foreign sovereigns, smaller European Union countries offer the closest comparator. Like Puerto Rico, these E.U. nations also lack their own currency and monetary policy levers, although they can and do access IMF financial support. Puerto Rico's current debt levels are also an outlier when compared to these E.U. sovereigns (**Exhibit 23**).

²⁸ U.S. Census Bureau 2016 Estimate

²⁹ U.S. Bureau of Economic Analysis in the March 22, 2018 release

EXHIBIT 23: EU SOVEREIGNS AS COMPARABLES



SOURCE: Puerto Rico data from Commonwealth sources and Board Economist; European Commission Debt Sustainability Monitor 2017 Institutional Paper 071, published January 2018 and data from the World Bank at <https://data.worldbank.org/>

Metrics for debt sustainability. Viewing U.S. states as the most comparable group for benchmarking Puerto Rico, the DSA uses the metrics in the May 2017 Moody’s Investors Service report “U.S. State Government Debt Analysis” to develop a range of levels for sustainable debt capacity, including maximum annual debt service levels for Puerto Rico on its restructured existing debt. The key debt ratios for the ten lowest indebted states, the ten highest indebted states, and the mean for all U.S. states are shown below (**Exhibit 24**).

EXHIBIT 24: KEY DEBT RATIOS FOR TEN LOWEST INDEBTED STATES

Net tax-supported debt, % of GDP		Net tax-supported debt to state personal income, %		Debt service, % of revenues		Net tax-supported debt per capita, \$	
Low 10	0.5%	Low 10	0.5%	Low 10	0.9%	Low 10	\$238
Mean	2.6%	Mean	3.0%	Mean	4.4%	Mean	\$1,473
Top 10	6.0%	Top 10	6.9%	Top 10	8.8%	Top 10	\$3,708
1	Connecticut 9.2%	1	Hawaii 10.5%	1	Connecticut 13.30%	1	Connecticut \$6,505
2	Hawaii 8.9%	2	Massachusetts 9.8%	2	Massachusetts 10.40%	2	Massachusetts \$5,983
3	Massachusetts 8.4%	3	Connecticut 9.7%	3	Hawaii 10.40%	3	Hawaii \$5,018
4	New Jersey 6.9%	4	New Jersey 7.3%	4	New Jersey 10.10%	4	New Jersey \$4,388
5	Mississippi 5.2%	5	Delaware 5.4%	5	Illinois 8.80%	5	New York \$3,070
6	Kentucky 4.7%	6	Washington 5.4%	6	New York 7.40%	6	Washington \$2,717
7	Washington 4.5%	7	Kentucky 5.3%	7	Kentucky 7.40%	7	Delaware \$2,544
8	New York 4.2%	8	New York 5.3%	8	Washington 7.00%	8	Illinois \$2,511
9	Illinois 4.1%	9	Mississippi 5.2%	9	Maryland 6.50%	9	California \$2,217
10	Rhode Island 4.0%	10	Illinois 5.1%	10	Mississippi 6.30%	10	Rhode Island \$2,131

SOURCE: Moody’s investors services, medians – Total state debt remains essentially flat in 2017 from May 3, 2017

Exhibit 25 uses the long-term 30-year macroeconomic forecast to determine a range of implied debt capacity based on the debt metrics of the average U.S. state. The debt capacity ranges shown are based off the following four methodologies: (i) Debt to Own Source Revenues, (ii) Debt per Capita, (iii) Debt to State Personal Income and (iv) Debt to GDP. Implied debt capacity and expected growth in debt capacity must be sufficient to cover both restructured debt and future debt issuance. The 5-year average capacity statistics represent the average par amount between the four methodologies of an implied 5%, 30-year level debt service structure.

EXHIBIT 25: IMPLIED NET TAX-SUPPORTED DEBT CAPACITY RANGE BASED ON AVERAGE U.S. STATE (\$M)

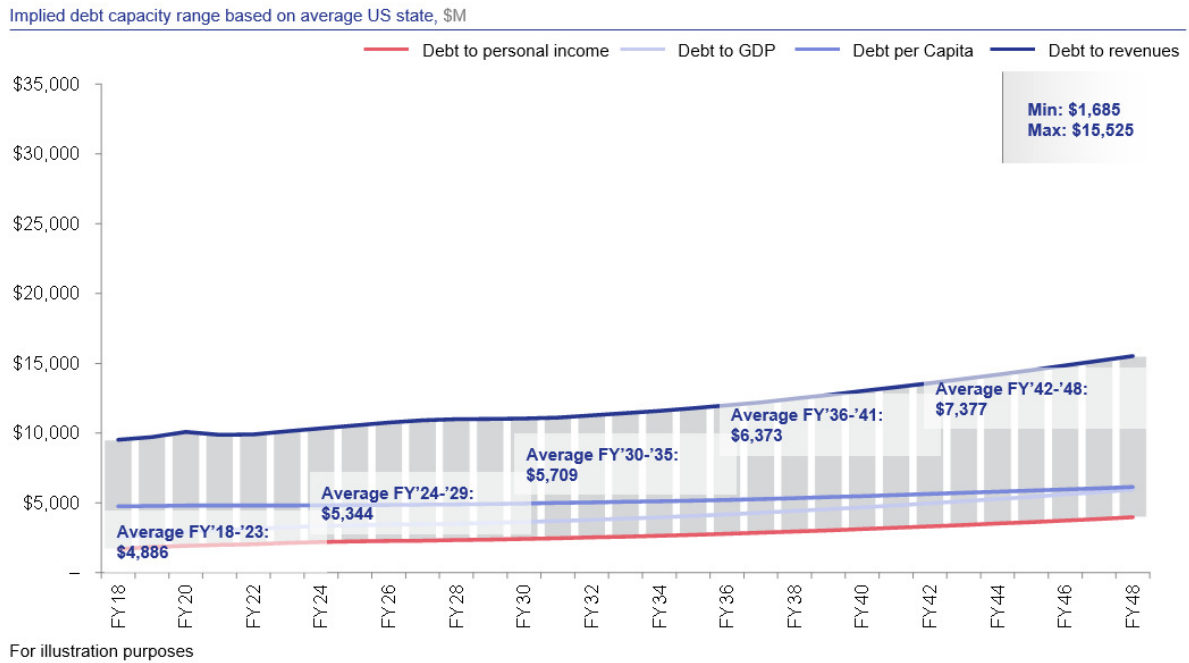
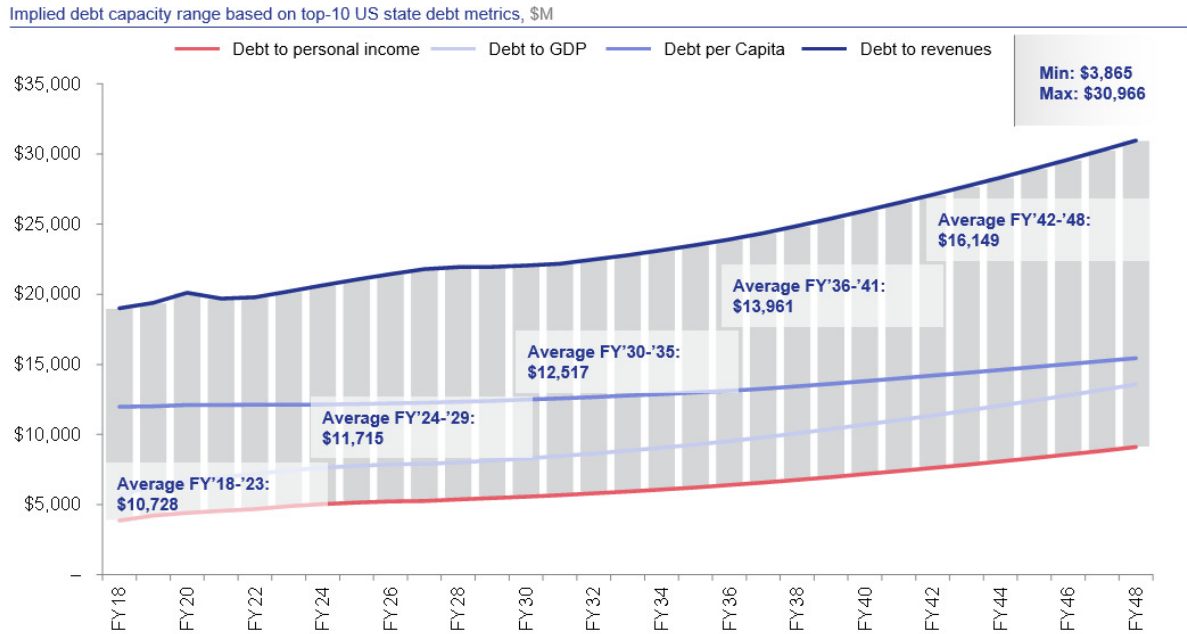


Exhibit 26 uses the long-term 30-year macroeconomic forecast to determine a range of implied debt capacity based on the debt metrics of the 10 highest U.S. states. The debt capacity ranges shown are based off the following four methodologies: (i) Debt Service to Own Source Revenues, (ii) Debt per Capita, (iii) Debt to State Personal Income and (iv) Debt to GDP. Implied debt capacity and expected growth in debt capacity must be sufficient to cover both restructured debt and future debt issuance. The 5-year average capacity statistics represent the average par amount between the four methodologies of an implied 5%, 30-year level debt service structure.

EXHIBIT 26: IMPLIED NET TAX-SUPPORTED DEBT CAPACITY RANGE BASED ON TOP-10 U.S. STATE DEBT METRICS (\$M)



For illustration purposes

The illustrative implied levels of the Government’s restructured debt in the previous chart are calculated by applying the Net Tax Supported Debt ratios of the “top ten” U.S. states (in terms of debt load) to Puerto Rico’s future projected GDP, population and Own-Source Revenues. Debt Service to Own Source Revenue figures are derived assuming debt service of a long-term level debt service structure, with a 5% average coupon. It is important to note that Moody’s has issued proposed new U.S. state rating criteria that update traditional “Debt Service Ratio” (Debt service/Own Source Revenues) to a “Fixed Costs/State Own Source Revenues” ratio that encompasses both debt and pension expense, a shift that makes the New Fiscal Plan’s pension-related measures all the more important to see fully implemented.

Maximum annual debt service cap on restructured fixed payment debt. The implied debt capacity and expected growth in debt capacity must be sufficient to cover both the payments due on the restructured debt and all payments due on future new money borrowings. Accordingly, the aggregate debt service due on all fixed payment debt issued in the restructuring of the Government’s existing tax-supported debt should be capped at a maximum annual debt service (“MADs”) level. The cap would be derived from the U.S. state rating metrics, and specifically from what Moody’s calls the “Debt Service Ratio.” The Debt Service Ratio is the ratio of total payments due in a year on all existing net tax-supported debt over that state government’s own-source revenues (i.e., excluding Federal transfer payments) in that year.

The Moody’s report indicates that the average Debt Ratio for the all U.S. states is 4.4%. The Moody’s report indicates that the average Debt Ratio for the top 10 most indebted states is 8.8%. To the extent either of these Debt Ratios is used to set a MADs cap on the restructured debt and the Primary Surplus is below the MADs level, then the debt service due on fixed payment debt would need to be set at the lower of the amount available for debt service or the MADs limit.

Any additional cash flow above the MADs cap applied to the restructured fixed payment debt that is generated over the long-term from successful implementation of the New Fiscal Plan

could be dedicated to a combination of contingent “growth bond” payments to legacy bond creditors, debt service due on future new money borrowings needed to fund Puerto Rico’s infrastructure investments and additional “PayGo” capital investment to reduce the Government’s historically out-sized reliance on borrowing to fund its needs, among other purposes.

Debt sustainability analysis. Exhibit 27 below calculates implied debt capacity based on a range of interest rates and Fiscal Plan implementation risk factors under an assumed illustrative 30-year term and level debt service. The implementation risk factor is calculated by reducing the amount of projected cash flow available per year for debt service by a certain percentage. For example, a 20% implementation risk factor case would use only 80% of the projected cash flow available to pay debt service on fixed payment debt.

EXHIBIT 27: IMPLIED DEBT CAPACITY BASED ON RANGE OF INTEREST RATES AND IMPLEMENTATION RISK FACTORS (\$M)

Implied debt capacity based on range of interest rates and contingency, \$M

Illustrative Cash Flow Available		Sensitivity Analysis: Implied Debt Capacity at 20% Implementation Risk					
		\$400	\$600	\$800	\$1,000	\$1,200	\$1,400
Sensitivity Analysis: Varying PV Rates	4.0%	\$5,533	\$8,300	\$11,067	\$13,834	\$16,600	\$19,367
	5.0%	4,919	7,379	9,838	12,298	14,758	17,217
	6.0%	4,405	6,607	8,809	11,012	13,214	15,417

Illustrative Cash Flow Available		Sensitivity Analysis: Implied Debt Capacity at 5% PV Rate					
		\$400	\$600	\$800	\$1,000	\$1,200	\$1,400
Sensitivity Analysis: Varying Implementation Risk	10.0%	\$5,534	\$8,301	\$11,068	\$13,835	\$16,602	\$19,369
	20.0%	4,919	7,379	9,838	12,298	14,758	17,217
	30.0%	4,304	6,456	8,609	10,761	12,913	15,065

Restoration of cost effective market access. Ultimately, the Government must develop and adhere to structurally balanced budgets reflecting ongoing fiscal discipline, timely publication of audited financial statements and related disclosure information and restructure its current excessive debt load to a sustainable level. As Puerto Rico seeks to regain cost-effective capital markets access, rating analysts and investors will demand that the Commonwealth demonstrate improvement in all four core areas of creditworthiness identified by Moody’s: the economy, government finances, governance and “fixed cost” debt and pension expenses. Together, these and other measures outlined in the New Fiscal Plan can chart a path to restoring Puerto Rico’s market access.

PART III: Restoring growth to the Island

A sustainable fiscal and economic turnaround depends entirely on comprehensive structural reforms to the economy of Puerto Rico. Only such reforms can drive growth in the economy, reversing the negative trend growth over the last 10 years and enabling the Island to become a vibrant and productive economy going forward. To reverse the negative economic trends, the Government must pursue reforms in the following areas:

Human capital and workforce reforms will improve workforce participation, well-being and self-sufficiency of welfare recipients, and preparedness of adults and youth for a long and fulfilling career, resulting in a cumulative GNP impact of 1.00% by FY2023. The impact is enhanced in the long-term as K-12 education reforms begin adding an additional 0.01% GNP impact per year, resulting in an additional 0.16% uptick by FY2048 that continues growing in outer years (to 0.28% by FY2060).

Ease of doing business reforms will improve conditions for economic activity and job creation, employment opportunities, and business vitality, resulting in cumulative GNP impact of 0.5% by FY2023.

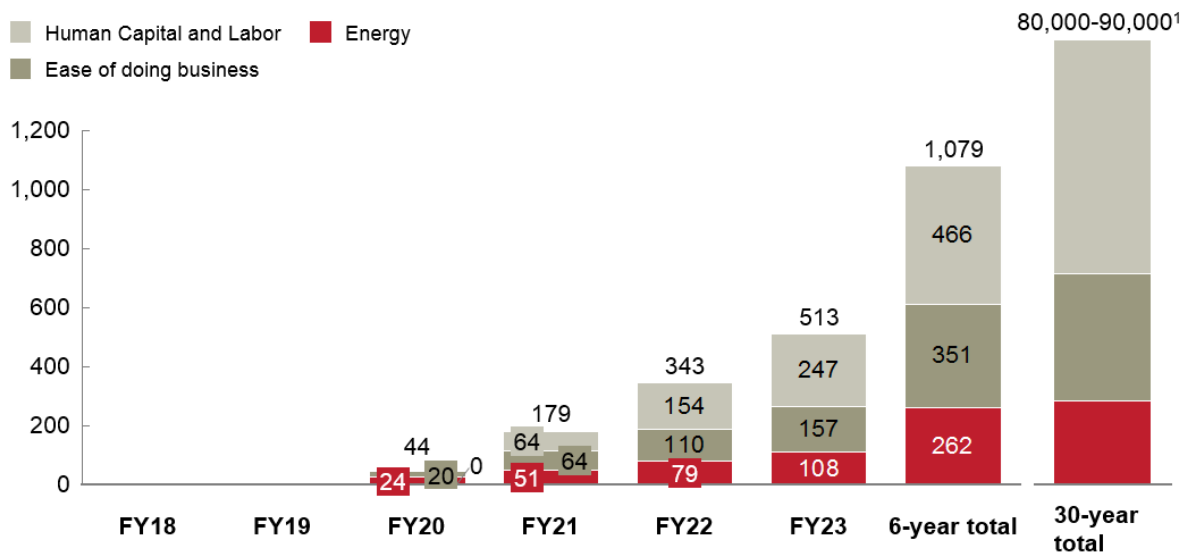
Power sector reforms will improve availability and affordability of energy for families and businesses, resulting in 0.30% cumulative GNP impact by FY2023.

Infrastructure reform and capital investment will improve the flow of goods, services, and people across the Island. It has not been scored to provide a specific GNP uptick, yet is undoubtedly a consequential uptick in the Island’s long-term development.

If implemented immediately, the structural reforms are projected to result in a sustained 1.80% annual real GNP growth by FY2023. As shown below (Exhibit 28), these reforms equal approximately \$80-90 billion in increased Commonwealth revenues over 30 years. In the long term, **education reforms are projected to add an additional cumulative 0.16% to GNP growth, making total impact 1.96% by FY2048.** The reforms are crucial to placing Puerto Rico on a path to long-term structural sustainability.

EXHIBIT 28: IMPACT OF STRUCTURAL REFORMS OVER 30 YEARS

Impact of structural reforms, \$M



¹ Structural reforms in the 30-year are estimated due to macroeconomic compounding and long-term projection uncertainty

Chapter 7. HUMAN CAPITAL & LABOR REFORM

7.1 Current state of labor / welfare laws and human capital

Puerto Rico faces immense challenges with formal labor force participation and preparedness. The Island's formal labor force participation rate is only ~40%, far from the U.S. mainland average (63%) or even the lowest-ranked U.S. state (West Virginia, 53%), and well below other Caribbean islands. In fact, according to World Bank data, Puerto Rico's formal labor force participation rate is currently 7th lowest in the world and has never ranked higher than the bottom 20.³⁰ Puerto Rico's youth unemployment rate is 23.8%, almost double the world average (13.8%) and more than double the U.S. average (10%).³¹ Low labor force participation in Puerto Rico is a function of neither Hurricane Maria nor the economic downturn that began in 2006; rather, low rates of employment are a long-term structural problem that can be addressed only through significant changes to public policy.

Unless Puerto Rico substantially increases its labor force participation and employment, incomes will always fall far below mainland states and outmigration will continue to draw Puerto Ricans away from the island of their birth. However, if Puerto Rico increased its labor force participation rate even to that of the lowest U.S. state, incomes would rise, poverty would decline, and the budgetary deficit would improve. **While many other reforms are important to making these improvements, increasing labor force participation may be the single most important reform for long-term economic well-being in Puerto Rico.**

7.1.1 Labor laws

Puerto Rico's historically low levels of formal labor force participation cannot be attributed to any single factor, but a range of public policies have served to reduce employment on the Island. Puerto Rico has by far the most generous mandated employer benefits in the U.S., which increase the cost of hiring employees. Unlike Puerto Rico, no mainland states mandate any paid vacation and few mandate even a modest amount of sick leave. No state requires employers to pay a Christmas bonus. Thus, it can be more expensive to employ a low-wage worker in Puerto Rico than on the mainland, making Puerto Rico less competitive in labor-intensive sectors such as tourism.

Economists have documented that when employers are required to provide an employee benefit, those employers will tend to recoup the costs of those benefits by reducing the wages paid to employees.³² When employers are prevented from reducing wages to offset costs of

³⁰ Puerto Rico ranking has never surpassed 215th out of the 232 countries, states, and territories tracked by The World Bank Group since The World Bank Group began collecting data in 1990

³¹ The World Bank Group, 2017, via International Labour Organization, ILOSTAT database. Data retrieved in March 2017. <https://data.worldbank.org/indicator/SL.UEM.1524.ZS>

³² This has been shown to be true with employer-paid Social Security taxes, health coverage, maternity leave, and other benefits. For instance, the Congressional Budget Office and the Social Security Administration both assume that an increase in Social Security payroll taxes levied on employers would result in a roughly dollar-for-dollar reduction in employee wages. Likewise, when the Affordable Care Act ("Obamacare") was projected to reduce the rate of growth of employer health care costs, the Social Security and Medicare Trustees assumed that this would be reflected in increased wages paid to employees. Gruber and Krueger (1991) found that employer costs for workers compensation insurance are largely shifted to employees via lower wages. Gruber (1994) found that when employers were required to provide maternity health benefits to employees, wages for employees declined by a similar amount. Prada et al (2017) found that when Chile required employers to provide free child care, wages for women declined by 9 to 20 percent. Kolstad and Kowalski (2016) found that when Massachusetts required employers to provide health insurance, wages for employees declined by an amount similar to the health premiums paid by employers. (Gruber, Jonathan, and Alan B. Krueger. "The incidence of mandated employer-provided insurance: Lessons from workers' compensation insurance." *Tax policy and the economy* 5 (1991): 111-143. Gruber, Jonathan. "The incidence of mandated maternity benefits." *The American economic*

mandated benefits, as may be the case with a minimum wage worker, they may choose to reduce the number of workers they hire. Thus, it is reasonable to assume that Puerto Rico's high levels of mandated employer-paid benefits reduce both wages and employment relative to a scenario in which such benefits were not required.

Likewise, there is evidence that employer benefit costs can increase the size of the informal labor market, where income is not reported and such benefits need not be provided.³³ About one quarter of Puerto Rican workers participate in the informal economy according to Estudios Técnicos, substantially higher than any mainland state.³⁴

In addition to costly mandatory employer-provided benefits, Puerto Rico lacks "at-will employment," which would make it easier for employers to dismiss unsatisfactory employees. While there are variations in labor laws among the 50 mainland states, 49 of them adopt some form of at-will employment. In Puerto Rico, employers generally must first prove "just cause" before dismissing employees. This can produce litigation, and many employers simply pay severance pay to an unsatisfactory employee to avoid a court dispute.

While some employees benefit from Puerto Rico's lack of at-will employment, this policy makes it more costly and risky not only to dismiss, but also to hire, an employee. There is evidence that such job protections lower employment opportunities. For example, studies have found that laws preventing unfair dismissal caused reductions in employment, particularly in labor-intensive industries;³⁵ and in U.S. states, a recent study found that expanding unfair dismissal protections caused employers to shift away from using less-skilled workers and toward greater use of capital investments and more-skilled labor. When Colombia reduced the cost of dismissing workers, unemployment fell and the size of the informal labor force declined.³⁶ In a 2003 book on labor laws in Latin America and the Caribbean, Nobel Prize-winning economist James Heckman concluded that

"mandated benefits reduce employment and... job security regulations have a substantial impact on the distribution of employment and on turnover rates. The most adverse impact of regulation is on youth, marginal workers, and unskilled workers. Insiders and entrenched workers gain from regulation but outsiders suffer. As a consequence, job security regulations promote inequality among demographic groups."

The Government has recently made strides to improve labor market conditions with the Labor and Flexibility Act (Act 4-2017) in January 2017, which added flexibility to overtime regulations and increased work requirements to become eligible for Christmas Bonus and severance pay, among other reforms. Notwithstanding such reforms, Puerto Rico's labor laws remain by far the most burdensome in the U.S. The Island still requires a Christmas bonus and severance payouts, mandates 27 days of paid leave per year, and is not an employment at-

review (1994): 622-641. Prada, María F., Graciana Rucci, and Sergio S. Urzúa. The effect of mandated child care on female wages in Chile. No. w21080. National Bureau of Economic Research, 2015. Kolstad, Jonathan T., and Amanda E. Kowalski. "Mandate-based health reform and the labor market: Evidence from the Massachusetts reform." *Journal of health economics* 47 (2016): 81-106.)

33 Kugler et al (2017) found that a reduction in employer payroll taxes in Colombia reduced the size of the country's informal labor market. Kugler, Adriana, Maurice Kugler, and Luis Omar Herrera Prada. "Do payroll tax breaks stimulate formality? Evidence from Colombia's reform." No. w23308. National Bureau of Economic Research, 2017

34 Estudios Técnicos, Inc, "The Informal Economy in Puerto Rico," August 9, 2012

35 RAND Corporation, 1992

36 Kugler (2004). See Dertouzos, James N., and Lynn A. Karoly. "Labor market responses to employer liability." Rand Corporation, 1992; Autor, David H., William R. Kerr, and Adriana D. Kugler. "Does Employment Protection Reduce Productivity? Evidence from U.S. States." *The Economic Journal* (2007): F189-F217; Heckman, James. Law and employment: Lessons from Latin America and the Caribbean. No. w10129. National Bureau of Economic Research, 2003; Kugler, Adriana D. "The effect of job security regulations on labor market flexibility. Evidence from the Colombian Labor Market Reform." In *Law and Employment: Lessons from Latin America and the Caribbean*, pp. 183-228. University of Chicago Press, 2004

will jurisdiction, imposing costs and regulatory burdens that reduce employment, wages and economic opportunity.

7.1.2 *Welfare policies*

In addition to the Island's labor laws, Puerto Rico residents may also face disincentives to participate in the formal labor market due to rules attached to various welfare benefits, including the Nutritional Assistance Program (PAN), Mi Salud (Medicaid), Section 8 public housing, TANF, WIC, and other programs.

These benefits are sometimes stereotyped with a claim that “welfare pays more than work.” While this may be true in isolated cases, the broader problem occurs when welfare beneficiaries work in the formal sector and receive earnings, which triggers a reduction in their benefits. The phase-out of government transfer benefits as earned income increases acts as a tax to disincentivize formal employment, as effective hourly wage (income received by working minus the loss of benefits) can be substantially lower than the formal hourly wage received. For many citizens, working in the informal sector and collecting transfer benefits can often result in higher effective income than working in the formal sector.

While transfer benefits in Puerto Rico are not more generous than on the mainland in dollar terms, they *are* more generous relative to generally lower earnings on the Island. When benefits are phased out as a beneficiary works, loss of benefits may be larger relative to earnings than for a mainland worker. This can serve as a greater disincentive to work than on the mainland.

It is difficult to quantify how large such disincentive effects may be due to limitations on the data available. Different individuals entitled to different sets of benefits are thus faced with different incentives should they work. It is reasonable to conclude that for many welfare beneficiaries, formal sector work may sometimes do little to increase household incomes.

For individuals receiving food stamps, Mi Salud, TANF and public housing, it often makes little financial sense to work at the minimum wage in the formal sector. For a full-time minimum wage worker the loss of benefits will offset most or all income received from work, leaving the household no better off.³⁷

Though few Puerto Rico residents receive all these benefits,³⁸ even receipt of a single type of benefits can alter incentives to engage in the formal workforce. For instance, a single mother with two children and annual income below \$4,900 is eligible to receive approximately \$4,229 in annual PAN (“food stamp”) benefits. But should that individual work 35 hours per week at the minimum wage, her annual earnings of \$12,180 would cause her to lose eligibility for food stamps. Net of taxes on her earnings, working full-time would increase her household's annual income by only \$7,002, equivalent to an hourly wage of only \$3.86. Under those conditions, some individuals may choose not to work in the formal labor market.

Even when TANF and Section 8 housing benefits are excluded, monthly income paid to a minimum wage worker with two children is only \$329 greater than what he or she could

³⁷ Burtless, Gary, and Orlando Sotomayor. “Labor supply and public transfers.” In *The Economy of Puerto Rico: Restoring Growth* (2006): 82-151

³⁸ See Héctor R. Cordero-Guzmán, “The production and reproduction of poverty in Puerto Rico,” in Nazario, Carmen R., ed. *Poverty in Puerto Rico: A Socioeconomic and Demographic Analysis with Data from the Puerto Rico Community Survey* (2014). Inter American University of Puerto Rico, Metro Campus, 2016. Cordero. Notes that the number of TANF beneficiaries in Puerto Rico is relatively modest and many, due to age or disability, are unlikely to work under any conditions

receive from government benefits.³⁹ In this example, effective hourly pay (the amount received from working more than what the individual could receive from government benefits without working) is only about \$2.35.

Mainland states face many of these same incentive issues, which they address in two ways. First, residents of mainland states are eligible for the Federal Earned Income Tax Credit (EITC), which provides a partial refund against Federal income taxes for eligible low-income workers. Many states supplement the Federal EITC to increase benefits to recipients. By increasing the reward to work, the EITC has been shown to increase labor force participation.⁴⁰ However, because Puerto Rico residents do not pay Federal income taxes they are not currently eligible for the Federal EITC.

Likewise, the Federal Government requires that food stamp programs on the mainland (Supplemental Nutrition Assistance Program, “SNAP”) contain a work requirement. 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. In addition, Federal law requires that non-disabled adults without dependents must work, attend education, or volunteer at least 20 hours per week to maintain eligibility for benefits.

Puerto Rico’s labor and welfare laws may help explain why, despite the Island’s natural beauty, attractions and ease of access from the U.S. market, employment in tourism-related industries is low. According to the Federal Bureau of Labor Statistics (BLS), Puerto Rico employs only 80,000 individuals in the leisure and hospitality industries – 10,000 fewer tourism-related jobs than the state of Nebraska, which both lacks Puerto Rico’s natural assets and has an overall population over one-third smaller than Puerto Rico.

7.1.3 Workforce preparedness

Finally, Puerto Rico’s potential workforce is also not well prepared to fill jobs currently needed by the economy, according to a report by the Federal Reserve Bank of New York.⁴¹ For example, reconstruction efforts in the wake of Maria rely heavily on external contractors from the mainland U.S., as the skills needed are not readily available on the Island. Puerto Rico currently does not ensure proper skill development for youth and adults to fill high-demand roles based on current economic needs.

Puerto Rico has therefore not solved the supply or demand side issues with its labor market – a huge barrier to economic growth and sustainability for the Island.

7.2 Future vision for the Puerto Rican labor market

Changes to labor and welfare laws are controversial. It is difficult to ask Puerto Rican residents to give up benefits and job protections when, through the economic downturn and then Hurricane Maria, they already have lost so much. Nevertheless, dramatic changes to Puerto Rico’s labor market policies are necessary to provide opportunity for a greater standard of living at home, reversing the Island’s history of high poverty, constrained budgets, and pressure for young Puerto Ricans to leave their home for the mainland.

³⁹ Advantage Business Consulting. “Beneficios de las Personas Elegibles al TANF vs. Escenario de Salario Mínimo Federal.” Prepared for the Universidad Interamericana, May 2015

⁴⁰ See Eissa, Nada, and Jeffrey B. Liebman. “Labor supply response to the earned income tax credit.” *The Quarterly Journal of Economics* 111, no. 2 (1996): 605-637

⁴¹ Federal Reserve Bank of New York, “An Update on the Competitiveness of Puerto Rico’s Economy.” July 31, 2014. <https://www.newyorkfed.org/medialibrary/media/outreach-and-education/puerto-rico/2014/Puerto-Rico-Report-2014.pdf>

The New Fiscal Plan builds upon policies proposed by Governor Rosselló in the Government's Draft Fiscal Plan Submission in March 2018, but with several substantial adjustments.

To ensure Puerto Rico can provide opportunities for its people for years to come, structural reforms must make it easier to hire, encourage workforce participation, and enhance student outcomes and workforce development opportunities to ensure a pipeline of prepared and appropriately-skilled individuals. The Government should aim to **increase the labor force participation rate to 47% and reduce the youth unemployment rate to 20.2% by FY2023**. In both cases, these results would roughly halve the current gap between Puerto Rico and the lowest U.S. state (West Virginia).

By achieving these goals, the Government should increase household incomes, cut the poverty rate and reduce incentives to emigrate to the mainland. Moreover, successful labor market reforms are projected to approximately \$50 billion in additional revenues by FY2048 and over ~\$460 million from FY2018-23, which is an approximately \$330 million increase in surplus over the limited labor reform package proposed by the Rosselló Administration.⁴² Therefore, by implementing the labor market reforms contained in the New Fiscal Plan, the Government of Puerto Rico will be able to reinvest over the next three years into the well-being of the people of Puerto Rico through improved healthcare outcomes and investment in education and youth workforce development programs (*discussed in Chapter 11*) to drive growth.

7.3 Structural reform initiatives to change labor conditions

Labor market reforms will increase the availability of jobs while increasing incentives and preparedness to work. To accomplish this broad-based reform, the Government must implement flexible labor regulations, reform welfare including an earned income tax credit (EITC) for low-income workers and a work requirement for able-bodied PAN beneficiaries, and implement programs to develop critical skills in the workforce.

7.3.1 Flexible labor regulations

To reduce the cost to hire and encourage job creation, including movement of informal jobs to the formal economy, Puerto Rico must become an employment at-will jurisdiction, reduce mandated paid leave (including sick leave and vacation pay) by 50%, and make the Christmas Bonus voluntary for employers.

- **At-will employment (in place by January 1, 2019):** 49 out of 50 U.S. states are employment-at will jurisdictions, giving employers the flexibility to dismiss an employee without having to first prove just cause. Matching this policy will lower the cost and risk of hiring in Puerto Rico.
- **Reduction of mandated paid leave, including sick leave and vacation pay (effective immediately):** Most U.S. states do not mandate any vacation or sick leave. The Government shall halve mandated vacation and sick leave, resulting in 14 days per year of vacation and sick leave in a move to align worker protections with typical mainland labor policies. Paid maternity leave under current law will be retained.
- **No mandated Christmas bonuses (eliminated by January 1, 2019):** The current requirement to pay an annual Christmas bonus to employees must be eliminated. Employers may continue to pay bonuses on a voluntary basis, as is the case on the mainland.

⁴² Government proposed labor reform package creates 0.25% GNP growth total beginning in FY2021. Comprehensive labor reform as described in this Fiscal Plan is projected to result in total 1.0% GNP growth by FY2022

Unlike Act 4, in order to achieve the growth projected by this New Fiscal Plan, the above proposals must apply to all workers, current and future hires, equally. These programs should reduce friction in the labor market and reduce the cost of hiring workers in Puerto Rico.

7.3.2 Minimum wage increase

To offset some of the reduced protections and compensation for employees in Puerto Rico, these reforms can be accompanied by a modest increase in the minimum wage for workers 25 and over. Under the proposal, the minimum wage would increase by \$0.25 per hour, effective as soon as the Christmas bonus is made voluntary. Workers under age 25 would remain at the Federal minimum wage of \$7.25 to increase opportunities for youth to gain valuable experience and skills in the workforce and avoid worsening the high youth unemployment rate. Small employers as defined by Act 120-2014 are also exempt from the increase.

Additional increases in minimum wage should be implemented under the following conditions:

- For all workers 25 years old and over, an additional \$0.25 per hour if Puerto Rico's labor participation rate exceeds 45% as measured by BLS;
- For all workers 25 years old and over, an additional \$0.25 per hour if Puerto Rico's labor participation rate exceeds 50% as measured by BLS; and
- For all workers 25 years old and over, an additional \$0.25 per hour if Puerto Rico's labor participation rate exceeds 55% as measured by BLS.

This timeline and conditions ensures that minimum wage increases occur at a pace and under conditions in which a higher minimum wage will not adversely affect job opportunities for lower-income workers.

7.3.3 Welfare structure reforms

To implement the labor reform package, address labor market challenges and encourage residents to participate in the formal labor market, the Government must launch an Earned Income Tax Credit (EITC) program by January of 2019, raising pay for formal laborers. The Government also must institute a work requirement for the Nutrition Assistance Program (PAN) by July 1, 2018, with no transition period (e.g., full requirements regarding work will begin in July).

Earned Income Tax Credit (EITC)

The EITC is a benefit for working people with low to moderate income. To qualify, people must meet certain requirements and file a tax return, even if they do not owe any tax. The EITC reduces the amount of taxes owed and may result in a cash refund if the benefit is higher than owed taxes.

Since welfare reform in 1996, the EITC has become the cornerstone of anti-poverty policy in the United States. It has refocused the U.S. safety net on working families, dramatically increasing employment among single women with children and removing more children from poverty than any other program. In the U.S., this translates to approximately 6.5 million people (half of whom are children) lifted out of poverty. Further, the EITC improves employment rates (a \$1,000 increase in EITC benefit has been tied to a 7.3 percent increase in employment)⁴³ and provides increased opportunities for individuals to invest in their own

⁴³ Hoynes and Patel 2015, <http://www.taxpolicycenter.org/briefing-book/how-does-eitc-affect-poor-families>

futures with education, training, childcare, or other costs that improve longer-term outlook. It has proven a powerful incentive to transition into the formal labor force and file taxes.

From 2006 to 2014, Puerto Rico had a Worker’s Tax Credit, which was later discontinued due to its ineffective application and as a cost saving measure. This prior Work Credit applied to 45% of all tax filers at a cost of \$152 million in its last year of implementation. It was smaller than Federal EITC programs (\$150-450 versus ~\$2,000 average credit), and did not eliminate high implicit tax rates on low-income employees or do enough to incentivize formal employment.⁴⁴

In Puerto Rico, implementation of the new EITC should be similar to the Federal EITC but adjusted to the relative wages of the Island. Eligible recipients should receive credits according to their marital, family, and earned income. As earnings increase, the benefit should increase up to a specified cap; at the cap, it would plateau and eventually decrease at the phase-out income level until it reaches \$0 (**Exhibit 29**), resulting in an average benefit of \$525.30 per individual per year. This structure diminishes the “benefits cliff” many face as their earned income increases, rewarding citizens who participate in the formal economy.

EXHIBIT 29 EITC BENEFIT FORMULA

EITC Benefit Formula, \$

- Benefits begin with the first dollar of reported income. As income increases, **benefits also increase at the phase-in rate** (different depending on household size), **up to the maximum credit**
- When income **reaches the phase-in cap, the benefit increase ceases**. Benefits remain constant at income levels that fall between the phase-in cap and phase-out start
- When income **reaches the phase-out start, benefits begin decreasing at the phase-in rate** for each additional dollar earned, **until income reaches the income cap** (at which point benefits are \$0)

Number of Children	Phase-in rate, %	Phase-in cap, \$	Phase-out start, \$	Individual/ Single income cap, \$	Married income cap, \$	Maximum Credit, \$
0	5.00%	6,000	18,000	20,500	21,750	300
1	7.50%	12,000	13,000	20,500	24,250	900
2	10.00%	15,000	16,000	28,500	34,750	1,500
3 or more	12.50%	16,000	17,000	33,500	42,000	2,000

For example, a single mother with two children working at minimum wage for 35 hours per week earns approximately \$12,180 annually. With EITC, she can qualify for up to \$1,500 in additional take-home pay per year, effectively raising the minimum wage by more than 12%.

The EITC program would cost approximately \$200 million per year, but the program will raise formal labor force participation significantly, providing a positive return on the investment. The EITC must be implemented no later than FY2019.

PAN Work requirement

While PAN, Puerto Rico’s largest welfare program, is similar to the mainland SNAP, it is funded and administered separately and does not include a work requirement. As part of the labor reform package that the Oversight Board projects will create substantial growth over the

⁴⁴ New York Federal Reserve Bank, 2014

next 30 years, the New Fiscal Plan requires that the Government institute work requirements to qualify for PAN benefits.

In FY2019, able-bodied participants aged 18-59 will be subject to a work requirement (children, even if their parents do not work, will continue to receive the benefit). Like mainland SNAP, in full implementation this work requirement must become effective after the individual has collected PAN benefits for three months. General exceptions would include those under age 18 or over the age of 60, parents with dependents under age 18, as well as those who are medically certified as physically or mentally unfit for employment. Paid work, voluntary work, training and education, and job searching (under the time limit) must qualify as work.

Any program savings derived from the PAN work requirement must be redistributed to working beneficiaries, effectively increasing take-home pay for workers. The increased worker benefit shall take place through an expansion of the Earned Income Disregard, which will increase the amount of earned income eligible recipients can exclude in calculating the amount of benefits they can claim. For example, a family of four currently receiving PAN will lose the benefit after exceeding a maximum annual income of \$5,904. By creating a sliding scale after this amount, or allowing families to exclude a certain amount of earned income from this calculation, Puerto Rico can ensure no one is disadvantaged by seeking work in the formal economy and that no families lose benefits prematurely.

The increase in PAN benefits for workers combined with the EITC and modest minimum wage increases would improve conditions for low-income workers in the formal economy and reduce poverty.

The proposed PAN work requirements must be included in the new PAN annual plan submitted July 1, 2018 to Food and Nutritional Services. It will be phased in over two years. Beginning in FY2019, beneficiaries will be subject to the work requirement after 6 months of benefits. By FY2020, the full requirements will take effect, subjecting beneficiaries to the work requirement after 3 months of benefit collection.

7.3.4 Workforce development programs

Labor and welfare reforms should increase supply and demand for jobs; to fully close the gap and implement the labor reform package, however, the Government must launch specific efforts to ensure that its future workforce is prepared with critical skills.

Workforce Innovation and Opportunity Act (WIOA)

First, the Government must update the WIOA State Plan to focus its programs and incentives on high-priority sectors and capabilities (e.g., aerospace, software development, and creative services). WIOA is the primary way in which the Federal Government invests in adult education and workforce development, and it is designed to help jobseekers access employment, education, and support services to succeed in the labor market, and to match employers with the skilled workers they need. The Government must broaden the list of core industries that qualify under WIOA, and focus on high impact economic sectors to provide a skilled workforce that meets the needs of employers in each specific region. It shall integrate this WIOA program with the broader promotional efforts of the Department of Economic Development and Commerce (DDEC). For example, an MOE Agreement with the Puerto Rico Department of Labor and Human Resources shall establish an apprenticeship program aiming to impact innovative industries and post-Maria labor market needs.

Youth development initiatives

In addition to WIOA, the Government should help develop critical skills in the workforce through multiple proposed initiatives, including:

- **Youth development:** Investment in STEM through targeted teacher professional development and related programs; apprenticeship programs through partnership with universities and local businesses; opportunities for work-based learning and business programs; occupational opportunities and certification programs (funded through reinvestment in additional surplus achieved through comprehensive labor reform)
- **Higher education:** Curriculum development grants and scholarships for UPR students focused on high-impact sectors, e.g., the IT industry and Computer Science.
- **Current labor market:** Apprenticeship Programs through collaboration with the private sector; training & certification programs focused on the areas of reconstruction efforts; creation of a job council to coordinate development and employment opportunities for youth and the unemployed

By pursuing aggressive reforms to incentivize job creation and formal labor market participation, and to improve the overall quality of human capital in Puerto Rico, the Government will fundamentally transform the Island's labor market for the better.

7.4 Implementation and enforcement of human capital and labor reform

The New Fiscal Plan is built on the assumption that, by no later than May 31, 2018, the Legislative Assembly of Puerto Rico will pass the Labor Reform Package and present it to the Governor of Puerto Rico for his signature (the "Condition").

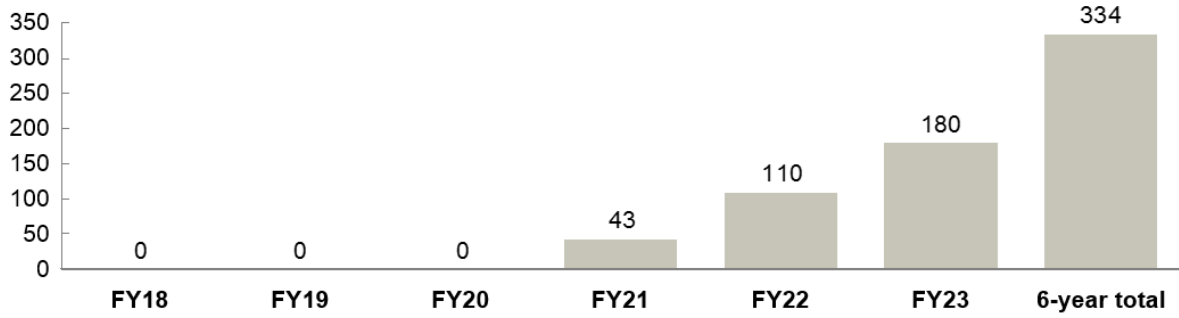
The Labor Reform Package is defined as all bills, whether new Commonwealth legislation or amendments to existing Commonwealth legislation, that are necessary and proper to effectuate the Labor Reform Agenda. The Labor Reform Agenda is defined as the following policies and reforms:

- Institution of at-will employment (effective by January 1st, 2019)
- Reduction of mandated paid leave, including 50% reduction in sick leave and vacation pay (effective immediately)
- Shift of Christmas bonus from mandatory to voluntary status (by January 1st, 2019)
- Earned Income Tax Credit (starting July 1st, 2018)
- Increase minimum wage for workers 25 and over by \$0.25 per hour (effective with Christmas Bonus elimination)
- PAN work requirement and work bonus (effective by January 1st, 2019)

The Labor Reform Agenda is projected to generate short-term revenue of ~\$460 million through FY2023. This represents an approximately \$330 million increase in revenues over the labor reform package initially proposed by the Government over the period covered by the New Fiscal Plan (the "Labor Reform Surplus;" **Exhibit 30**). In the long term, the Labor Reform Agenda will drive substantial economic growth and ~\$50 billion in surplus.

EXHIBIT 30: LABOR REFORM SURPLUS FOR REINVESTMENT

Labor Reform Surplus, \$M



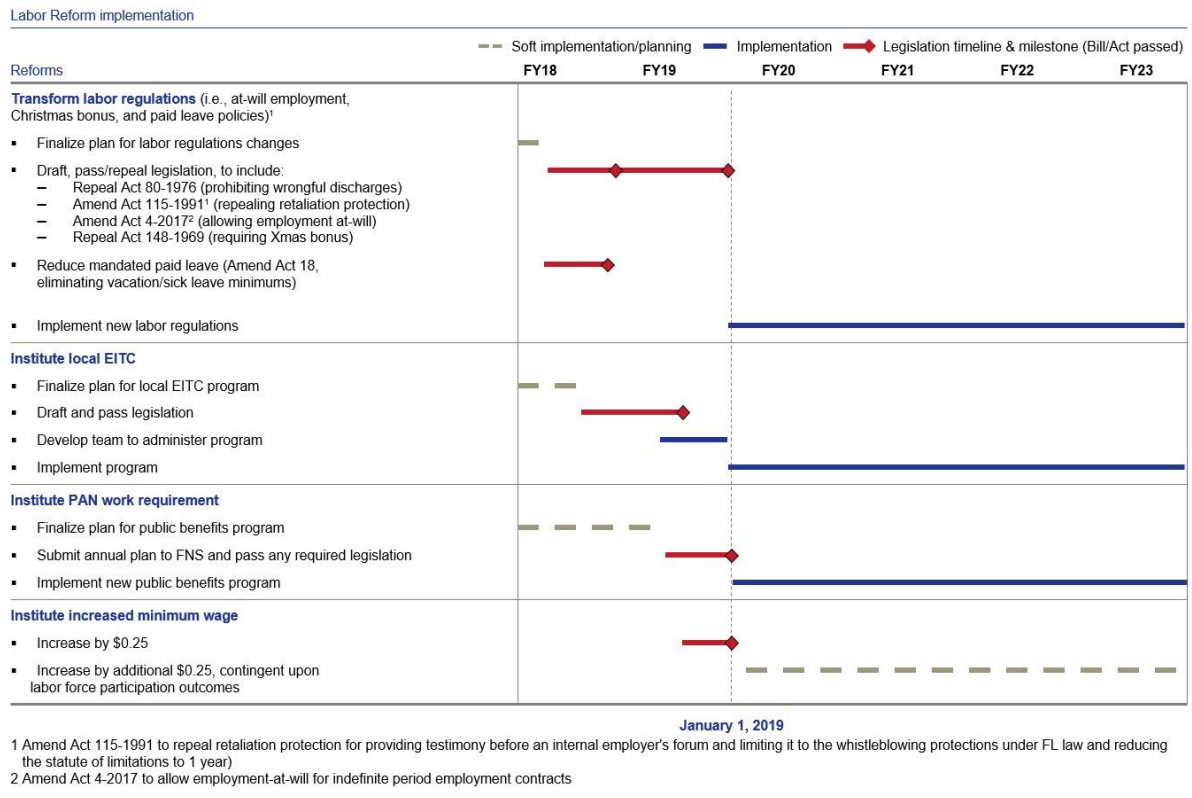
If the Condition is met, the Labor Reform Surplus shall be used to fund initiatives led by the Government to reinvest in the people of Puerto Rico that improve the Island’s health outcomes and provide the education and workforce development some Puerto Ricans will need to be prepared for newly created jobs (*see Chapter 11 for more details*):

- Reinvestment in ensuring success of healthcare reforms totaling \$353M
- Reinvestment in K-12 education and human capital development programs such as STEM grants and K-12 STEM training, totaling \$160M

While reinvestment will total over \$500 million over three years, due to macroeconomic trends and Federal funds flows affecting reinvestment and measures, these funds spent will decrease the total 6-year surplus by only ~\$330 million (equivalent to the Labor Reform Surplus). The reinvestments are crucial to the overall success of structural reforms and create long-term economic growth in the economy.

If, for any reason, the Oversight Board determines in its sole discretion that the Condition has not been met, and the Oversight Board has not determined in its sole discretion to modify the Condition (the “Consequence”), then the Labor Reform Surplus will not be available and these reinvestment opportunities will not be made.

EXHIBIT 31: LABOR REFORM IMPLEMENTATION TIMELINE



Chapter 8. EASE OF DOING BUSINESS REFORM

8.1 Current state of business regulation and investment attraction

One of the strongest means of increasing economic growth is through improving the ease of starting and expanding a business. A commerce environment with easier-to-navigate regulations, permits, and other legal requirements is friendlier to new businesses that can provide jobs, tax revenue, and economic stimulus. To quantify a jurisdiction's overall effectiveness at maintaining the optimal level of business regulation, the World Bank created the Doing Business Index, which ranks 190 countries and entities worldwide on several core indicators. Countries and territories that have been able to meaningfully improve their ranking have shown real growth. For example, when the Republic of Georgia improved its ranking from #98 in 2006 to #8 by 2014, output per capita increased by 66% and business density tripled. Meanwhile, ease of doing business remains an area in which Puerto Rico has much room for improvement.

In the 2018 Ease of Doing Business Report, Puerto Rico was ranked 64th. This represents a 9-point decline from 2017 and is 58 spots lower than the U.S., which ranks 6th overall. There are some areas of strength: Puerto Rico placed 6th for Getting Credit and 9th for Resolving Insolvencies. It has also made recent efforts to digitize government services to improve speed and accessibility, having digitized 27% of licenses transferred to the Unified Information System (SUI, a central and digital location for applications for licenses, incentives, autonomous municipalities, etc.) as of August 2017. However, when compared to the mainland, Puerto Rico has several areas for improvement, in particular:

Getting Electricity (rank 69, U.S. 49): Energy costs remain a major inhibitor to operating large-scale business efficiently on the Island. Electric bills for similar amounts of electricity can cost twice as much in Puerto Rico as it would in the U.S. mainland.⁴⁵ Puerto Rico's low ranking is also driven largely by low reliability of supply and transparency of tariff index -- rated a 4 (on a 0 to 8 scale) by the World Bank, compared to 8 in the U.S.⁴⁶

Dealing with Construction Permits (rank 138, U.S. 36): It takes 22 procedures and 165 days to get a construction permit in Puerto Rico, compared to 5 procedures and 89 days in the U.S. Obtaining a permit in Puerto Rico costs 6.2% of total future value of the permit (0.3% in U.S.). Despite these challenges, Puerto Rico is already strong in its building quality control index (12 on a 0-15 scale, compared to 8 for the U.S.).

Registering Property (rank 153, U.S. 37): It takes 191 days to register property in Puerto Rico, compared to 12 days in the U.S.

Paying Taxes (rank 161, U.S. 36): Puerto Rico requires 16 payments per year (11 in U.S.), and it takes 218 hours per year to prepare, file, and pay the corporate income tax (175 in U.S.). Puerto Rico also has a comparatively high total tax and contribution rate at 63.4%,⁴⁷ compared to 45.8% in the U.S.

In addition to needing to improve its overall business regulatory climate, Puerto Rico is lagging in its ability to attract investment and tourism. For example, Puerto Rico regularly had declining numbers of jobs and establishments created in 2015-2016 (before the effects of Maria),⁴⁸ and ranks 55th overall in the World Economic Forum's worldwide Travel & Tourism Competitiveness Index (while the U.S. rank is 6).⁴⁹

Countries who have focused on improving investment and tourism have seen great success. When Ireland created its Industrial Development Authority (IDA), it transformed Ireland into a popular location for new investments.⁵⁰ Ireland is now home to 9/10 of the world's top pharmaceutical and software companies. Meanwhile, when Barbados created its Tourism Product Authority in 2014, it began generating returns as soon as 1-2 years later: travel and tourism direct contribution to GDP increased by 5.4% in 2015 and 10.3% in 2016; and direct contribution of tourism to employment increased by 4.3% in 2015 and 9.8% in 2016.

The Government has made important efforts recently to generate investment in the Island by creating the Destination Marketing Office (DMO) and Invest Puerto Rico (InvestPR) in 2017, with the goal of incentivizing foreign direct investment (FDI), private sector investment and tourism. However, while there are plans to operationalize both by the end of FY2018, these entities will need clear goals and metrics to be most effective.

⁴⁵ The Guardian, "Puerto Rico's Soaring Cost of Living," 2015. <https://www.theguardian.com/world/2015/jul/12/puerto-rico-cost-of-living>

⁴⁶ All specific U.S. comparison based on New York City, as averages vary across the country

⁴⁷ The total tax rate measures the amount of taxes and mandatory contributions payable by the business in the second year of operation, expressed as a share of commercial profits.

⁴⁸ Puerto Rico Department of Labor and Human Resources, Bureau of Labor Statistics. "Puerto Rico Economic Analysis Report 2015-2016." https://www.doleta.gov/performance/results/AnnualReports/docs/2017_State_Plans/Economic_Reports/Puerto%20Rico/PR%20Economic%20Analysis.pdf

⁴⁹ As of 2015, latest available information for Puerto Rico. Puerto Rico was not included in World Economic Forum's 2017 report due to insufficient data

⁵⁰ In 2016, the IDA supported 60,000 jobs in 2016 at a cost of ~€9,000 per job sustained, and U.S. companies had invested ~€240 billion in FDI in the country

8.2 Future vision for ease of doing business

Puerto Rico should achieve a best-in-class business environment by taking targeted steps to improve rankings in key identified Doing Business Index indicators by FY2023, with the goal of closing the gap with the mainland U.S. by at least 50% from its 2018 rankings:

- Overall: Move from 64 to at least 57⁵¹
- Getting Electricity: Move from 69 to at least 59
- Construction Permits: Move from 138 to at least 87
- Registering Property: Move from 153 to at least 95
- Paying Taxes: Move from 161 to at least 99

In addition, in line with best-in-class investment offices,⁵² by FY2023 **InvestPR shall:**

- Create 54,000 new jobs (or average 9,000 new jobs per year)⁵³
- Lead 750 new capital investments (or average 150 per year)⁵⁴
- Achieve a \$20 return in 10 years per dollar invested⁵⁵

In line with best-in-class Caribbean tourism offices,⁵⁶ by FY2023 **DMO should close Puerto Rico's distance with the highest ranked Latin American country and therefore:**

- Improve World Bank Travel & Tourism Competitiveness Index ranking to at least 43, closing the distance to the highest ranked Latin American country in 2018
- Drive 5% annual growth in direct contribution of tourism to GDP and 5% annual growth in direct contribution to employment⁵⁷
- Improve tourist service infrastructure score of 5.4 (2015) by 10% by improving number and quality of lodging services⁵⁸
- Establish exit surveys to measure visitor satisfaction, length of stay and spend for tourists to highlight key areas of improvement and focus for DMO⁵⁹

⁵¹ In line with the top ranked Latin American country in 2018

⁵² Offices reviewed include: Ireland's Investment Development Agency (IDA), Enterprise Florida, JobsOhio, and Virginia's Economic Development Partnership (VEDP)

⁵³ Average of number of jobs created by IDA annually from 2005-2009 equaled 9,700/year. In five years, the U.S. was able to recreate all the jobs lost in the Great Recession, but this was in an environment of economic recovery and population growth. 15% is a more reasonable target for Puerto Rico

⁵⁴ Best practice examples: VEDP had 375 new investments in 2015; IDA had 244 total approved investments in 2016; VEDP tracked 320 companies counseled or participating in trade events

⁵⁵ VEDP estimates \$23 return on each dollar invested in 10 years (\$48 in 20 years). VEDP benchmark adjusted for PPP

⁵⁶ Such as the Barbados Tourism Product Authority and the Bahamas Ministry of Tourism

⁵⁷ Current state: 2.7% direct contribution to GDP and 2.1% of total employment as of 2016. Puerto Rico has historically seen an annual 4% growth rate in travel & tourism's direct contribution to GDP and 4.6% growth rate in travel & tourism's direct contribution to employment (2017). World Travel & Tourism Council, "Travel & Tourism Economic Impact 2017 – Puerto Rico." Barbados set up its Tourism Product Authority in 2014; in 2015, the country saw a 5.4% increase in travel & tourism direct contribution to GDP and 4.3% increase in direct contribution to employment; in 2016, 10.3% increase in tourism GDP and 9.8% increase in tourism employment

⁵⁸ 10% improvement bring tourist service infrastructure in line with Barbados at 5.9 quality score, top ranked Caribbean nation

⁵⁹ For example, The Bahamas Ministry of Tourism uses high quality exit surveys to track and respond to visitor satisfaction and tourist habits

8.3 Core initiatives to improve the ease of doing business

To improve its Ease of Doing Business Rankings and overall tourism and investment outcomes, the Government should 1) digitize government services and drive deregulation and 2) establish clear metrics and regular tracking / reporting for InvestPR and DMO.

8.3.1 Digitize government services and drive de-regulation

While the Government has made major strides on digitization to date with the creation of the SUI, it must do more work to catch up to the mainland on key metrics that measure the time and energy expended to register, run, or expand a business.

Digitize Unified Information System (SUI). In addition to migrating government processes toward a streamlined and/or “one-stop shop” processes on SUI, the Government should move forms online to whatever extent is possible. This involves decoupling all non-related procedures from permitting, centralizing and digitizing permits. The Government should target 100% integration into SUI by end of 2018 for the following metrics: Licenses integrated into SUI; cases filed in SUI; cases issued in SUI; concerned entities integrated into SUI; and autonomous Municipalities integrated into SUI.

Reduce occupational licensing. Reducing occupational licensing requirements can encourage activity in the formal labor market. Therefore, the Government should take inventory of all occupational licensing requirements and undertake reforms to reduce unnecessary regulations, creating a more open labor market. It will also consider joining stateside agreements to recognize licenses obtained in other states, such as the Compact for the Temporary Licensure of Professionals. Such an agreement enables professionals with licenses from other states to enter the Puerto Rican labor market without undue barriers.

Deregulate on-Island freights. Reducing the cost of transporting consumer goods and holding inventory will improve the service of carriers and shippers (thereby enhancing competition) and lower the overall cost of doing business on the Island.

Deregulate condominium law. Currently, condominium laws discourage investment in real property by requiring unanimous approval by all title owners in the condominium to execute a project. Deregulation can promote the development of investments by rental residents, increase population density and accelerate decision-making.

Improve construction permitting. Streamline the process for business permitting and registrations by creating a streamlined, digitized one-stop-shop system for business processes, expanding on work initiated under Act 19. Construction permits specifically required a drastic reduction in the time required (particularly the 120 days, or 73% of total time, due to Municipal evaluation), and processes/procedures (reducing 22 procedures to at most 10). Finally, to reduce cost of receiving a construction permit, the Government should evaluate its municipal construction tax (80% of total cost).

Improve ease of registering property. Streamline and digitize the property registry system to reduce delays from the Property Registry Agency. Also, improve geographic coverage and transparency of information on the registry system.

Improve ease of paying taxes. Develop e-payment system for taxation wherever possible to reduce time taken to file corporate and sales tax to Hacienda. To reduce total tax rate, evaluate the municipal construction tax (in accordance with Construction Permits initiative above).

Improve access to reliable and affordable electricity. *In addition to the above streamlining and digitization initiatives for receiving permits, see Chapter 9 (Energy and Power Regulatory Reform) for further structural reforms to improve reliability.*

8.3.2 Invest Puerto Rico (InvestPR) and the Destination Marketing Office (DMO)

The Government should plan to make InvestPR and DMO fully operationalized by the end of FY2018, and to ensure effectiveness, each organization shall set specific targets and a plan to evaluate progress.

InvestPR should begin tracking data (both inputs and outcomes) to inform decision-making – for example, to predict and assess project ROI before providing funds or discontinue projects that are not driving results based on formalized project tracking. Further, InvestPR should publish quarterly or annual reports, addressing key metrics and any underperformance; hold regular (e.g., quarterly) Board meetings; and track/course-correct projects on an ongoing basis, including incorporating feedback from investors and data trends.

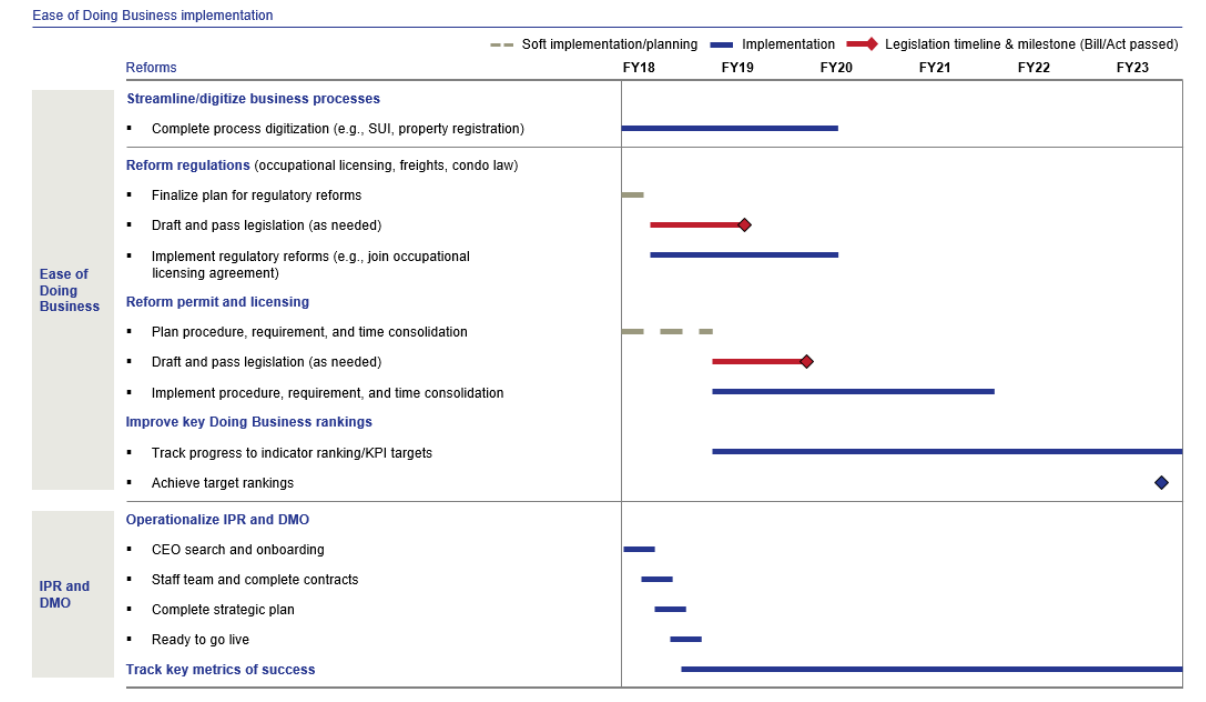
DMO should track tourism statistics in Puerto Rico and compare to other tourism industries worldwide.⁶⁰ To determine its own standing, it should conduct regular visitors' surveys to assess satisfaction and quality of tourism services and strive for continuous improvement. Further, DMO should publish quarterly or annual reports addressing key metrics and any underperformance and should also update on targets, course-correct, and incorporate visitor feedback on an ongoing basis.

8.4 Implementation and enforcement of ease of doing business reform

To achieve the New Fiscal Plan's growth projections, ease of doing business reforms must be implemented immediately, with targeted operationalization of most initiatives by FY2019 (**Exhibit 32**).

⁶⁰ For example, utilizing the Tourism Satellite Account tool leveraging economic tourism data

EXHIBIT 32: EASE OF DOING BUSINESS IMPLEMENTATION TIMELINE



Chapter 9. ENERGY AND POWER REGULATORY REFORM

Over the next five years, the power sector in Puerto Rico must be transformed and modernized to support the delivery of reliable and affordable power. The Commonwealth must implement regulatory reform to enable a successful transformation and the resulting growth that the New Fiscal Plan projects. As detailed in the New Fiscal Plan for PREPA, the goal of the transformation of the power sector is to provide the citizens of Puerto Rico with low-cost, reliable, and resilient power delivered by an efficient and financially sustainable utility. The pillars of this transformation include restructuring the power generation mix to leverage low-cost sources of power, rebuilding and modernizing the power grid, implementing an operational cost transformation, executing a large-scale capital investment program with Federal funds and private sector investments, restructuring the power industry by bringing in private operators, and establishing a new rate structure to allocate costs fairly and equitably across customers.

A strong and independent regulator of the power sector is needed for the success of the transformation. Clear oversight authority should provide certainty throughout the process and should provide potential investors with confidence in the appropriateness of rate structures and the overall stability of the power sector in Puerto Rico.

9.1 Current state of energy regulation

Currently, the regulatory structure in Puerto Rico does not support the pillars of the transformation. The current regulator of the power sector in Puerto Rico is the Puerto Rico Energy Commission (PREC). The PREC has the responsibility to “regulate, monitor and enforce the energy public policy of the Commonwealth of Puerto Rico” as provided by a single

public monopoly provider, which is not consistent with the goals of the PREPA transformation.

9.2 Future vision for energy regulator

The ideal regulator for Puerto Rico can be modelled off the traditional Public Utilities Commission model used to oversee mainland U.S. utilities. The regulator would be independent of the Government and operate under public service ethics and conduct rules. The regulator should have autonomy in decision-making and the authority to approve the Integrated Resource Plan (IRP) and regular rate cases at two- or three-year intervals, consistent with the Fiscal Plan.

9.2.1 Structure of and funding for the new regulator

In line with best practices for regulatory commissions (e.g. California Public Utilities Commission, Hawaii Public Utilities Commission, New York Public Services Commission), the regulator should be headed by 5 commissioners who serve staggered 6-year terms. The commissioners should be appointed based on their technical credentials, with the appointment potentially subjected to oversight by an expert panel, for example through a candidate list. All commissioners should deliberate and vote on all cases, though some commissioners may decide to take on “lead” roles in some cases. The commissioners should be supported in their oversight role by a staff that has utility expertise. The roles of advisory and advocacy staff should be strictly separated to better support both fairness and due process. All commission decisions in adjudicatory proceedings should comply with the traditional requirements of administrative procedure. Separate from the regulator, there should also be an independent ratepayer advocate. This role could potentially be filled by the Oficina Independiente de Protección al Consumidor (OIPC).

The new regulator should be funded by the same mechanism as mainland regulators, with financing provided through rates, as independent funding for a strong regulator should be the best ROI for customers to protect their interests, increase transparency, and reduce system costs. Dedicated funding for power sector regulation should be prescribed in the charter legislation. The rate should be increased after the transformation to better reflect the additional duties the regulator will have and to bring Puerto Rico in line with other similar jurisdictions. The regulator will need an annual budget of \$20-\$30 million dollars⁶¹, which is roughly equivalent to a surcharge of \$0.0015 per kWh. In addition to funding from rates, the regulator could also be funded through charges and fees for certain types of filings that increase regulatory costs, for example IRP and general rate cases. Finally, funding for additional expert analysis or outside review should be held in segregated accounts to keep reserves for these purposes.

9.2.2 Mandate and authorities for the new regulator

To be effective, the new regulator must have a clear mandate to deliver reliable, safe power at an affordable cost. The tools and authorities that the future state energy regulator should have to enforce this mandate are as follows:

- Approval of the rate case developed by the utility operator, including ability to mandate target rates and the use of rate structure and design tools that create predictability,

⁶¹ Estimate in line with other jurisdictions; the Hawaii Public Utilities Commission had revenues of \$19M in FY2017 to serve a population of 1.4 million. \$5 million annual funding is assumed for the future state energy regulator in the Commonwealth budget; the New Fiscal Plan for PREPA assumes \$15 million annual funding through rates beginning in 2020

minimize risk and “rate shock”, and create incentives to support equitability, economic development, and economically efficient rate designs

- Evaluation of utility operator performance incentive and total compensation structure, including a reasonable, market-based return on equity
- Approval of an updated IRP, which will guide generation and capacity needs, including approval of purchased power agreement and other contract terms and Certificate of Public Convenience and Necessity (CPCN) regulation for individual generators
- Post-transformation, approval of any issuance of new debt or equity, and any reorganization or material disposition of assets
- Support for and integration of renewables, distributed generation and new energy technologies as appropriate and consistent with the PREPA Fiscal Plan (e.g., through IRP process and enforcement of applicable renewable portfolio standards)
- Mechanisms providing for efficient enforcement of final orders and determinations
- Solicitation of input from public related to rates, IRP, and transformation process, with such input to be shared with the Oversight Board while it is in existence

9.3 Regulatory reform implementation and transition

To enable the power sector transformation, the transition to a new regulatory structure must occur immediately, with an amendment to the PREC Organic Act providing that the Public Services Commission shall not have the authority to hear appeals of the Energy Bureau and cannot engage in any substantive review of its work. This is needed to ensure that the structure and funding of the Energy Bureau are established before bids are solicited for the transaction.

The Energy Bureau’s authority and funding should have a transition period to account for the Oversight Board’s authority pre-transformation, which will continue until PREPA exits Title III. During this transition period, the Governor will appoint new regulatory commissioners, and the regulator’s funding can be lower than the future state (e.g. in line with PREC’s current budget but with IRP funded separately), as the Oversight Board will perform some oversight responsibilities.

During the transition period, the role of the Oversight Board with respect to energy sector regulation should be as follows based on its rights, powers, and duties in PROMESA:

- *IRP*: The Oversight Board approves revenue requirements and expenditures, including a capital plan, in the New Fiscal Plan for PREPA. Given the IRP process will be significantly more detailed and have access to additional data, the capital plan and revenue requirements in the transformation section of the new Fiscal Plan for PREPA should be one of the scenarios tested and considered in the IRP process.
- *Budget and rate-making*: The Oversight Board also approves a yearly budget that aligns with the fiscal plan and thus should align with revenue requirements and expenditures.
- *Utility debt*: The Oversight Board approves issuance of new debt and restructuring of existing debt through the Plan of Adjustment for PREPA.
- *Transformation*: As part of the Title III proceedings for PREPA, the Oversight Board approves contract amendments and terminations, entering into new contracts (including any concession agreements) and asset sales.

The role of the regulator during the transition period should be as follows:

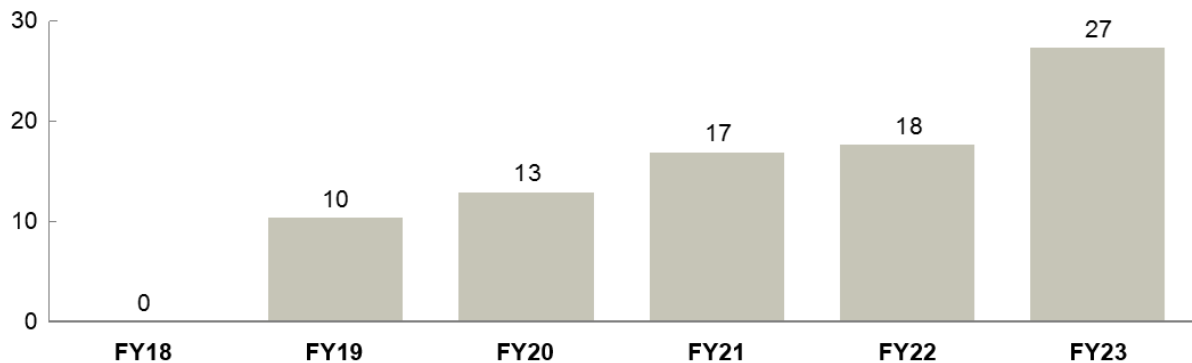
- *IRP*: The regulator will approve the IRP. The IRP should test the scenario and alternatives in the Fiscal Plan to achieve the principles of affordable, reliable and secure power.
- The regulator should ensure that the IRP process is open and transparent so that third parties can understand inputs and methodologies behind each scenario and be able to participate and attend hearings to understand tradeoffs and decisions driving approval of the final capital plan and revenue requirement.
- *Budget and rate-making*: the regulator authorizes bridge rate (likely formula based) in line with certified budget to support PREPA during the transition to a new rate structure.
- *Utility debt*: No additional authorities because debt service implied by the current rate case will be superseded by the Oversight Board-approved budget and Plan of Adjustment.
- *Other*: The regulator will hear cases pertaining to microgrids and distributed generation development during the transition period.

Following the transition period, the regulator should be fully funded with the powers and authorities outlined in Section 9.2.2. The Oversight Board shall retain its powers as long as PREPA remains a covered entity under PROMESA.

Regulatory reform is necessary for the successful transformation of the power sector and PREPA which should generate significant savings to the Commonwealth through the lowering of PREPA costs per kilowatt hour to an aspiration rate of under 20 cents per kWh by FY2023.

EXHIBIT 33: COMMONWEALTH SAVINGS FROM LOWER PREPA COSTS

Savings from lowering PREPA costs per kilowatt hour, \$M



Chapter 10. INFRASTRUCTURE REFORM

Relative to the mainland U.S., Puerto Rico’s infrastructure outcomes rank near the bottom in quality and operating performance. The capital investments enabled by post-Maria Federal recovery funding offers a unique opportunity to make transformational investments that support economic development. The moment is even more unique as FEMA has expanded overall flexibility and willingness to support more transformational investments under Section 428 (under Title IV of the Stafford Act).

10.1 Current state of infrastructure and capital investment

Infrastructure investment as a percentage of GDP has decreased from 3.3% in 2000 to 1.4% in 2014⁶², indicating a lack of recent experience in large-scale building. The Government also has a history of failed large-scale projects. For example, Tren Urbano was scheduled to open on July 1, 2001 after beginning construction in 1996; it finally opened in 2005 and the budget for the project increased more than 60%, from \$1.38 billion to \$2.25B.

In addition to the challenges with infrastructure delivery and maintenance, the poor state of transport related infrastructure is a key constraint on mobility. Puerto Rico is ranked 51st out of 52 (states + DC + PR) for quality of roads and is ranked 45th out of 52 (states + DC + PR) for congestion of roads⁶³. Urban congestion is a particular problem in San Juan, costing the average commuter \$1,150 annually, on par with cities such as Atlanta and Miami. The situation is likely even worse, however, as these costs only measure the cost of time delays, not the costs of unreliability or safety. Reducing these negative impacts and improving mobility through targeted investments and better operational responses is vital to improving the free flow of goods and commuters to promote economic development.

Puerto Rico is also not well positioned to capitalize on the rapid growth of IT businesses across the U.S. Only 60.6% of Puerto Ricans have access to wired broadband at 25mpbs or faster and only 0.7% of Puerto Ricans have access to 1 gigabit broadband.

There are several critical elements that Puerto Rico should include in order to capitalize on the transformational opportunity afforded by historic Federal capital funding.

- a) **Build organizational structures and capabilities** in government to prioritize and deliver projects faster and at lower cost;
- b) **Prioritize projects with the highest long-term benefit-cost ratios** taking account a variety of monetizable and non-monetizable benefits; and
- c) **Systematically leverage private sector capabilities** to improve overall public outcomes

10.2 Organizational structures and capabilities

When creating a reconstruction plan, it is imperative to build a central capability with the skills and mandate to design an overall recovery portfolio and oversee efficient project delivery. The Government created the Central Recovery and Reconstruction Office (CRRO) as a Division of the P3 Authority to lead the coordination, development, and execution of long term recovery and reconstruction efforts. The CRRO has been created following leading practices used in many jurisdictions, including New Jersey, Louisiana, New York and New Zealand, to ensure higher net benefits, accountability, transparency and coordination of the disaster recovery efforts expected by residents of Puerto Rico and U.S. taxpayers.

The CRRO should commit itself to a decision-making framework that incorporates not only the degree of damage, but also the future level of service required from the asset and future risks to that asset, when deciding how that asset should be rebuilt.

NYC and NJ received ~\$10 billion in 428 funding post Hurricane Sandy, that decreased their vulnerability, and helped ensure that capital dollars spent today, did not simply have to be re-

⁶² Puerto Rico Planning Board

⁶³ U.S. Bureau of Transportation Statistics

spent cleaning up after the next storm. The CRRO should aggressively pursue next level resiliency activities with Federal dollars, to ensure that Puerto Rico's critical assets are sufficiently protected from future hazards.

Specific CRRO activities should include:

- Developing, presenting and administering recovery action plans
- Financing, executing and effecting infrastructure projects related to recovery efforts.
- Monitoring contracting for compliance and effectiveness purposes.
- Implementing and enforce checks and balances for procurement and approval of contracts and payments.
- Deploying a proven grant-management software and provide external visibility via frequent status updates to its public website.
- Coordinate and channel all efforts and activities of the Government related to recovery efforts.

10.3 Prioritization and delivery

The Government should employ infrastructure delivery best practices (e.g. prioritization of projects for economic impact, fast-track permitting, procurement reform). These best practices improve efficiency and transparency and should be applied to all areas of infrastructure expenditure of the Commonwealth including: reconstruction, construction and maintenance of government owned assets, and procurement of infrastructure through public corporations and Public-Private Partnerships (P3s).

The Government should pursue five sub-strategies:

Set Commonwealth infrastructure priorities to guide investment.

- Set target outcomes to guide prioritization of projects.
- Develop clear, systematic cost-benefit analysis and quantitative scoring to prioritize projects based on return on public investment and the ability to implement.

Accelerate the pre-construction process.

- Identify opportunities for local review and permitting, for as many projects as possible, to avoid Federal delays.
- For projects requiring local review, revisit existing process to reduce hurdles, and ease of meeting them, wherever possible.
- Where Federal approval is needed, focus on:
 - Clarifying decision rights and confirm process with all major stakeholders
 - Harmonizing local processes to match Federal processes and seeking waivers where applicable
 - Ensuring transparency and clarity from Federal Government on where projects are in the pipeline
 - Utilizing Title 5 of PROMESA

Build sustainable funding models and financing strategies.

- Leverage external capital, by expanding PPPs and access to Federal credit (e.g., TIFIA) and grant (e.g., INFRA) programs
 - Increase bankability, and eligibility for participation in a PPP by deploying:
 - Monetary and non-monetary incentives (e.g., recyclability of proceeds from asset monetization, including monetization of Government-owned real estate to support the revenue models for PPPs)
- Support to de-risk greenfield investment (e.g., reduction of early stage demand risk)

Promote procurement and delivery best practices. For projects that receive Commonwealth funding, ensure such projects:

- Develop an aligned owner organization with streamlined processes (e.g., early procurement involvement, accountable owner team oversight)
- Build an effective contracting strategy (e.g., tailored bidding process and pricing models, change order management tools)
- Utilize advanced procurement tools and approaches (e.g., rigorous clean sheet models, quantified view of Total Cost of Ownership drivers)
- Implement lean construction and digital techniques

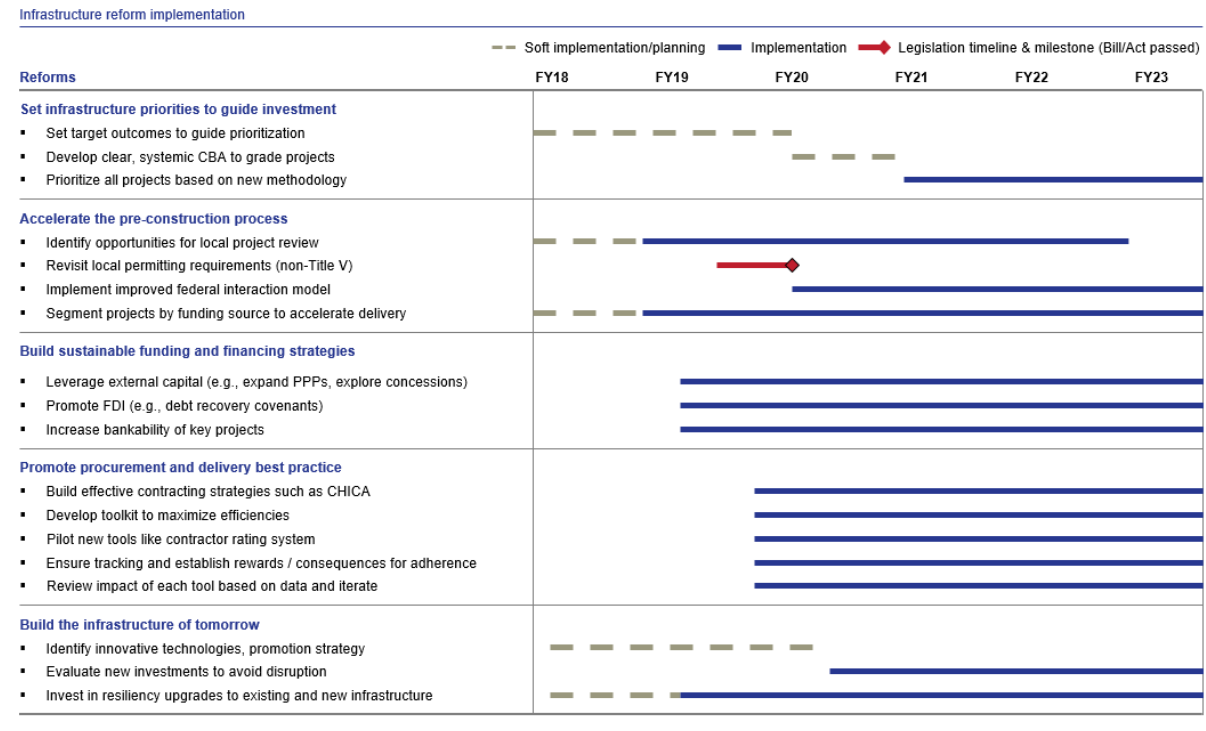
Build the infrastructure of tomorrow.

- Identify innovative technologies (e.g., automotive transformations, drones, new tunnel creation methods, the Internet of Things) and develop a strategy to actively promote them (e.g., AV pilot test zones), or at least find a way to not stifle their development (e.g., job trainings for displaced workers)
- Critically evaluate major new investments against future trends, to avoid disruption by innovation (e.g., avoid the buildout of excessive parking given increase in shared mobility and growth of autonomous vehicles in airports)

10.4 Implementation of infrastructure reform

The implementation timeline for infrastructure reform can be found below (**Exhibit 34**).

EXHIBIT 34: INFRASTRUCTURE IMPLEMENTATION PLAN



Chapter 11. REINVESTMENT IN PUERTO RICO’S GROWTH AND PROSPERITY

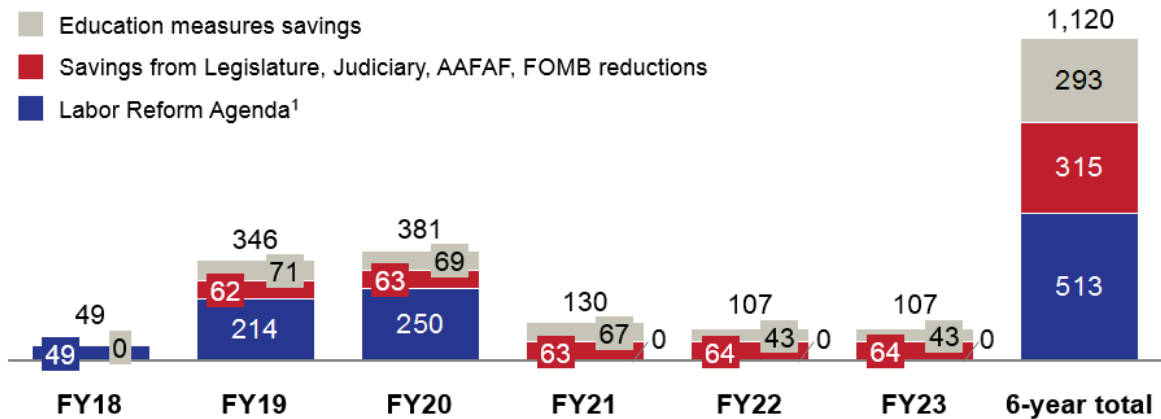
Not only are the structural and fiscal reforms essential to Puerto Rico’s long-term economic prosperity and sustainability, but **they also create the space for strategic reinvestments of over \$1 billion in Puerto Rico right now.** Implementing the labor reforms will generate additional surpluses the next few years that enable the Government of Puerto Rico to invest in healthcare and education initiatives that will directly and immediately benefit the people of Puerto Rico and contribute to their future growth and well-being. Right-sizing the Legislature and Judiciary to be more in line with U.S. state benchmarks and reducing the budgets of AAFAF and the FOMB will enable the creation of an independent endowment for needs-based scholarships at UPR, further reinvesting in a crown jewel of Puerto Rico. Finally, the Government’s ambitious reforms to the Department of Education enable it to reinvest money in areas such as higher teacher salaries to attract and retain talent and new textbooks, which will improve the social welfare and growth prospects of Puerto Rico’s children who are the Island’s future.

11.1 Source of reinvestment funds

Reinvestment funds come from three primary sources: reinvestment of Education measures savings (see *Section 13.4*); cuts to AAFAF and agencies outside of the executive branch (e.g., Legislature, Courts, the Oversight Board, see *Section 13.10*); and the additional revenues created by comprehensive Labor Reform Agenda (see *Section 7.4*). **Exhibit 35** shows the size of reinvestment funds from each source.

EXHIBIT 35: SOURCES OF REINVESTMENT FUNDS

Sources of reinvestment funds, \$M



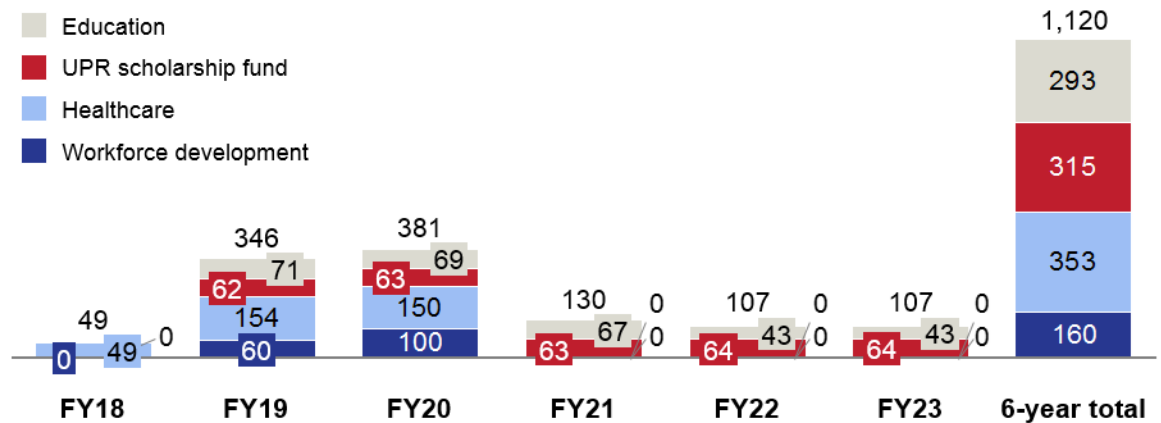
¹ See Section 7.4 for a detailed explanation of the source of funds from Labor Reform Agenda

11.2 Areas of reinvestment

Funds will be reinvested in key areas to drive long-term growth and sustainability: education, higher education, and youth workforce development, and healthcare.

EXHIBIT 36: AREAS OF REINVESTMENT

Areas of reinvestment, \$M



11.2.1 Reinvestment in health outcomes

Reinvestment in ensuring success of **healthcare reforms** total \$353 million from FY2018-FY2020, funded through increased revenues generate through labor reforms. Healthcare reinvestment is aimed at improving health outcomes for citizens who are most in need. Such expenditures will drive improved quality of life for Medicaid recipients and serve to control long term costs. Reinvestment areas include:

1. Reducing risk of having to implement measures that negatively impact the health of citizens, e.g., cost sharing or evaluation of benefits package, that might have otherwise been necessary to reach savings targets from the new healthcare model
2. Maximizing effectiveness of the MMIS and MFCU systems under development, for example, investing in high-capability analytics to get the most out of the systems for controlling costs
3. Creating a sustainable healthcare infrastructure, e.g., investing in healthcare IT systems and telemedicine that will improve healthcare coverage in rural and less accessible areas
4. Developing value-based care models in conjunction with MCOs that will reduce long-term costs; for example, ensuring necessary infrastructure in place to implement Diagnosis Related Groups (DRG)⁶⁴ and High Cost, High Need (HCHN) coordination models
5. One-time preventative care and population-wide screening programs

11.2.2 Reinvestment in K-12 education

Education initiatives are aimed at improving K-12 outcomes, and therefore improve the outlook for a future generation of Puerto Rican citizens. The initiatives are funded through reinvesting reductions to PRDE expenditures through fiscal measures.

Teacher salaries that approach mainland comparators

Teachers in Puerto Rico have not received a pay raise in nearly a decade, while salaries on the mainland consistently increase in keep up with cost of living. Salaries are significantly lower than mainland comparators, causing Puerto Rico to lose out on opportunities to attract and retain talent in its teacher and administrator positions. The Government will implement a \$1,500 annual salary increase for teachers⁶⁵ and \$23,000 annual salary increase for directors⁶⁶ to begin closing this gap, although the gap remains large, and incentivize retention of highest quality teachers.

These teacher-focused reforms will be funded through reinvestment of right-sizing measures and are factored in to the measures overall savings as described above. Such reforms will have dramatic impact on student outcomes not only in school but beyond, as they enter the workforce and lead a new generation in Puerto Rico.⁶⁷

New textbooks

Teachers are currently limited in their ability to provide the best educational opportunities because of the limited resources available, including up-to-date textbooks. Therefore, \$75 per student (FY2019-FY2021) will be invested in procuring new textbooks, or \$21-24 million each year as one-time costs. This will be funded through reinvestment of non-payroll savings created by measures, and is factored into the measure savings as described above.

⁶⁴ Practice model that drives hospital billing practices (i.e., avoiding unnecessary rehospitalizations), and incentivizes hospitals to improve systems and quality outcomes, which results in provide accountability

⁶⁵ In 2016, mainland U.S. teachers earned an average salary of over \$58,000 (U.S. Department of Commerce, Bureau of Economic Analysis, National Income and Product Accounts, table 6.6D, August 2016). The average salary for a teacher in Puerto Rico (less benefits) is approximately \$32,000 per year. An increase of \$1,500 per year would bring average teacher salary to \$33,500, still approximately 42% lower than the mainland U.S.

⁶⁶ Directors in Puerto Rico currently receive a salary of \$42,000. The mainland benchmark for Elementary, Middle, and High School Principals is approximately \$92,500 per year (Bureau of Labor Statistics 2018). An increase of \$23,000 per year would bring average director salary to \$65,000 in Puerto Rico, still approximately 30% lower than the mainland U.S.

⁶⁷ For example, reducing teacher absenteeism, which was found to reduce 4th-graders' math test scores by 3.2% of a standard deviation for every additional 10 days of teacher absence, could create a step change in student proficiency

11.2.3 Reinvestment in workforce readiness and skill development

According to a report by the Federal Reserve Bank of New York, many of Puerto Rico's employment challenges result from a skill mismatch.⁶⁸ Education-to-employment programs can help ensure there are youth trained to fill such vacancies. Therefore, in partnership with the private sector, PRDE must implement relevant curriculum and workforce initiatives based on local market opportunities (dependent on the job needs and industry focus of a particular region) — with a focus on commitments from employers to hire students from the program upon completion.⁶⁹ These programs for youth development, some of which will fall under the HIRED Program as proposed by the Government, will be funded through the funds made possible by the implementation of the Labor Reform Surplus (*See Chapter 7*). They will total \$160 million across FY2019 and FY2020, and will include initiatives such as:

- Grants for STEM related programs (Cybersecurity education, Robotics)
- Training K-12 teachers to teach computer science and IT courses
- Baby Bonds and Apprenticeship programs
- Other workforce development oriented investments

With these reforms, the Puerto Rican public education system will become more streamlined and drive better outcomes. Operating efficiencies will enable PRDE to funnel money directly to where it is needed, such as for quality teachers and teacher development, resources such as textbooks, and workforce development. This will result in improved student achievement at a lower cost overall. Any additional funds that are not used for workforce development and the HIRED Program will be used for investing in K-12 educational materials, such as classroom technology and school Internet connectivity.

11.2.4 Reinvestment in a UPR scholarship fund

Finally, the General Court of Justice, Legislative Assembly, AAFAF, and the Oversight Board will also undergo expenditure reductions relative to projected budgets. The reductions are based on comparative benchmarking in the cases of the Legislative Assembly and General Court of Justice (e.g., benchmarking against other full-time legislatures in the U.S.), and a ~50% reduction compared to the average reductions to other agencies in the cases of AAFAF and the Oversight Board.

The proceeds of the savings from these cuts, in addition to those made to AAFAF — which are projected to total \$60-65 million a year beginning in FY2019 — will be used to reinvest in students at UPR. Specifically, the savings will fund an independently managed endowment for needs-based scholarships for students at UPR.

⁶⁸ New York Fed, 2014

⁶⁹ *Ibid*

PART IV: Transforming Government to better serve the Island

In addition to structural reforms, the Government must also implement fiscal measures to create a sustainable fiscal future for Puerto Rico. Fiscal reforms should reduce costs while maintaining or improving the quality of important services. The wide range of government efficiency initiatives shall target an increase in revenues through new and more efficient collections activities, while decreasing government expenditures by ensuring reasonable usage of resources. The measures include the following:

Office of the CFO (*Chapter 12*). The Office of the CFO, a function of Hacienda, (“OCFO”), will also be responsible for – and crucial to achieving – a variety of reforms to ensure the responsible financial stewardship of the Island’s resources. For example, through fiscal controls and accountability, the OCFO shall provide oversight to reduce historical Special Revenue Fund (SRF) deficits and drive \$72 million in run-rate savings by FY2023.

Agency Efficiencies (*Chapter 13*). A new model for government operations will “right-size” the Government through agency consolidation and reduction and/or elimination of government services. It includes comprehensive reform initiatives in the Departments of Education, Health, Public Safety, Corrections, Hacienda / OCFO, and Economic Development, as well as consolidations and reductions within the long tail of other agencies. Agency efficiency measures must result in \$1,618 million in run-rate savings by FY2023 (or \$1,554 million after the UPR scholarship fund investment).

Healthcare Reform (*Chapter 14*). Healthcare measures seek to reduce the rate of healthcare cost inflation through a comprehensive new healthcare model that prioritizes quality relative to cost, and must result in \$840 million in run-rate savings by FY2023, projected to grow with healthcare inflation.

Tax Law Initiatives (*Chapter 15*). Tax law initiatives reduce corporate, individual and sales and use tax rates, and eliminate non-revenue generating incentives and subsidies, while maintaining revenue neutrality, to improve Puerto Rico’s tax fairness.

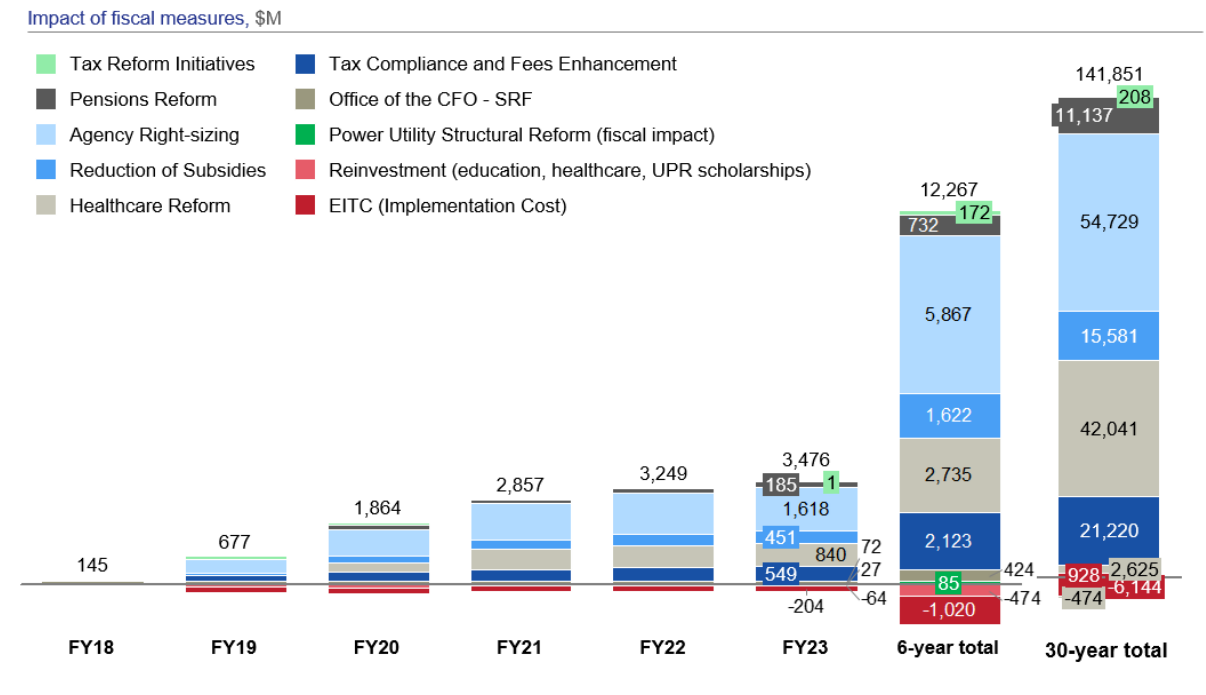
Tax Compliance and Fees Enhancement (*Chapter 16*). Tax compliance initiatives involve employing technology and other innovative practices, as well as implementing new taxes, to capture revenue from under-leveraged sources. These initiatives must increase run-rate revenues by \$549 million by FY2023.

Reduction of Appropriations (*Chapter 17*). The central Government will decrease appropriations granted to municipalities and UPR, which must result in \$451 million in run-rate savings by FY2023.

Pensions Reform (*Chapter 18*). Improvements to the financial stability of public employees’ retirement funds must result in \$185 million of run-rate savings by FY2023.

Together, these measures are crucial to the structural balance of Puerto Rico’s economy, and are projected to result in over \$142 billion in increased revenues and reduced expenditures over the next 30 years (**Exhibit 37**).

EXHIBIT 37: SAVINGS AND INCREASES IN REVENUES DUE TO IMPACTS FROM FISCAL MEASURES



Chapter 12. OFFICE OF THE CFO

One of the highest priorities of the Government transformation will be the implementation of the transformed Office of the CFO. Despite attempts to better coordinate Puerto Rico’s fiscal functions through Executive Orders OE-2013-007 and OE-2017-033, among other actions, the Government’s current financial management functions remain decentralized, fragmented, obsolete, and in need of improvement. This must be solved by the establishment of a strong, centralized Office of the Chief Financial Officer for Puerto Rico (“OCFO”), as proposed by the Governor, into the executive branch of Government.

By centralizing all financial management functions, the OCFO will improve fiscal governance and forecasting, increase transparency, substantiate accountability, heighten internal controls, and improve stakeholder confidence in Puerto Rico’s financial management. Most importantly, it will enable the Government to achieve fiscal responsibility and restore access to the capital markets, two cornerstones of PROMESA.

Core objectives of the OCFO must be as follows:

- A) Centralize treasury and liquidity management
- B) Enhance budget development process and improve monitoring / performance tracking
- C) Drive standardization and integration of financial IT systems
- D) Ensure compliance with procurement, contracts, pensions, and human resources management policies
- E) Reduce special revenue funds deficits through enhanced control mechanisms and oversight

- F) Improve timeliness of CAFR (Comprehensive Annual Financial Report) and financial reporting
- G) Centralize and validate management of funds, debt, and other financial transactions

12.1 Responsibilities and actions of the OCFO

12.1.1 Responsibilities

To carry out the above objectives, the OCFO must be endowed with the following responsibilities:

- The OCFO shall act as the central authority over finance, budget, HR, audit, procurement, cash management, and debt issuance for all entities that receive support from the General Fund or otherwise depend on the Government's taxing authority
- The OCFO shall have the ability to remove any fiscal officer for violations of, or non-compliance with, the law, including failure to provide timely and accurate fiscal and financial information
- The OCFO shall oversee the transition to modified accrual accounting standards

To enable this level of centralized control, these functions must be consolidated under a single individual. The Governor has proposed that this person be the Chief Financial Officer, who will oversee the OCFO/Hacienda. Other offices can be merged into Hacienda and subsequently eliminated to create Hacienda / OCFO. These agencies include, but are not limited to: Treasury (consolidated, not eliminated), OMB, GDB⁷⁰, AAFAF, OATRH, and GSA. All other fiscal functions of any departments, agencies, and instrumentalities that receive support from the General Fund or otherwise rely on the Central Government's taxing authority would all fall under the OCFO's authority.

12.1.2 Actions

A) Centralize treasury and liquidity management

- Enforce and manage a consolidated treasury single account for the Government; this involves consolidating visibility and control of all Government bank accounts, including CU accounts at private banks and creating a true Treasury Single Account. All other public entities should maintain zero balance sweep accounts
- Serve as the sole authority for new bank account creation and closure, as well as ongoing and ad-hoc liquidity reporting, monitoring and analysis. It must rationalize this bank account portfolio, optimize cash pooling/daily cash sweeps and treasury operations, and implement uniform accounts payable and disbursement prioritization policies, processes and reports

B) Enhance budget development process and improve monitoring and performance tracking

- Comply with the recently established Oversight Board budget guidelines and timeline to develop a budget that is consistent with the New Fiscal Plan and easily traceable to the New Fiscal Plan and the audited financials
- Forecast and managing receipts seasonality

⁷⁰ Scheduled to be liquidated

- Oversee all tax decrees and tax agreements issues
- Operationalize the budget in the financial system to ensure consistency between accounts and facilitate monitoring of those accounts
- Estimate, protect, and enhance collections and revenue streams, and establish budgetary priorities and oversight, including effective expense controls and procurement reform

C) Drive standardization and integration of financial IT systems

- Drive the comprehensive upgrade and standardization of accounting and IT systems across all agencies

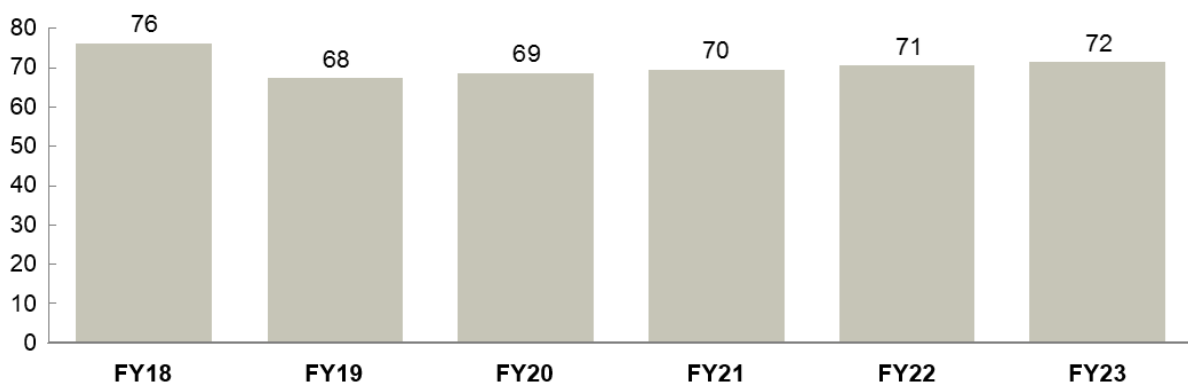
D) Ensure compliance with procurement, contracts, pensions, and human resources management policies

- Certify all contracts, bills, invoices, payrolls, and other evidences of claims, demands or charges related to the central Government and all entities reliant on the Government’s taxing authority, including prescribing forms of receipts, vouchers, bills and claims to be used by all agencies
- Manage centralized insurance procurement and policy management
- Oversee human resources as well as all governmental payroll operations and all government-related financial transactions. The office must have the sole responsibility within the Government for reforming personnel policies, including the renegotiation of existing collective bargaining agreements (“CBAs”) consistent with the New Fiscal Plan objective to achieve budget savings and efficiencies and enhanced delivery of governmental services and be the one to negotiate all future CBAs to achieve the same ongoing results
- Implement uniform time and attendance processes, and payroll controls and reporting

E) Reduce special revenue fund deficits through enhanced control mechanisms and oversight. Implement an additional measure to ensure responsible stewardship of Puerto Rico’s SRF. Additionally, all dedicated revenue streams attributable to SRF must have their funds first deposited in the newly established Treasury Single Account. In this process, it will ensure a balance between current SRF revenues and expenses to align with the legislative mandate that SRFs cannot outspend their resources (**Exhibit 38**).

EXHIBIT 38: SAVINGS GENERATED FROM ELIMINATION OF SPECIAL REVENUE FUND DEFICIT

Summary of special revenue funds deficit reduction measure impact, \$M



F) Improve timeliness of CAFR and financial reporting

- Establish a clear timeline to publish the FY2015, FY2016, and FY2017 CAFRs and manage it to completion as soon as possible
 - Implement a new process for the publishing of the FY2018 and subsequent CAFRs within the established regulatory timeframes, and drive improvements in the process and quality of the data provided. All releases should implement the modified-accrual basis of accounting as required in PROMESA and leverage the new forecasting, e-settlement, and analytics capabilities to support all OCFO functions
 - Enact measures implementation impact forecasting and reporting
 - Supervise property tax assessment reforms, preparing tax maps, and providing notice of taxes and special assessments
- G) Centralize and validate management of funds, transactions, and other financial transactions**
- Maintain custody of all public funds, investments, and cash. It must administer cash management programs to invest surplus cash
 - Facilitate long-term and short-term borrowing programs
 - Maintain control and accountability over all funds, property, and other assets controlled or managed by the Government, and oversee all tax decrees and tax agreements issued
 - Publish an annual Tax Expenditure Report that identifies and quantifies all tax expenditures (including all tax exclusions, exemptions, adjustments, deductions, subtractions, credits, abatements, deferrals, rebates and special rules.)

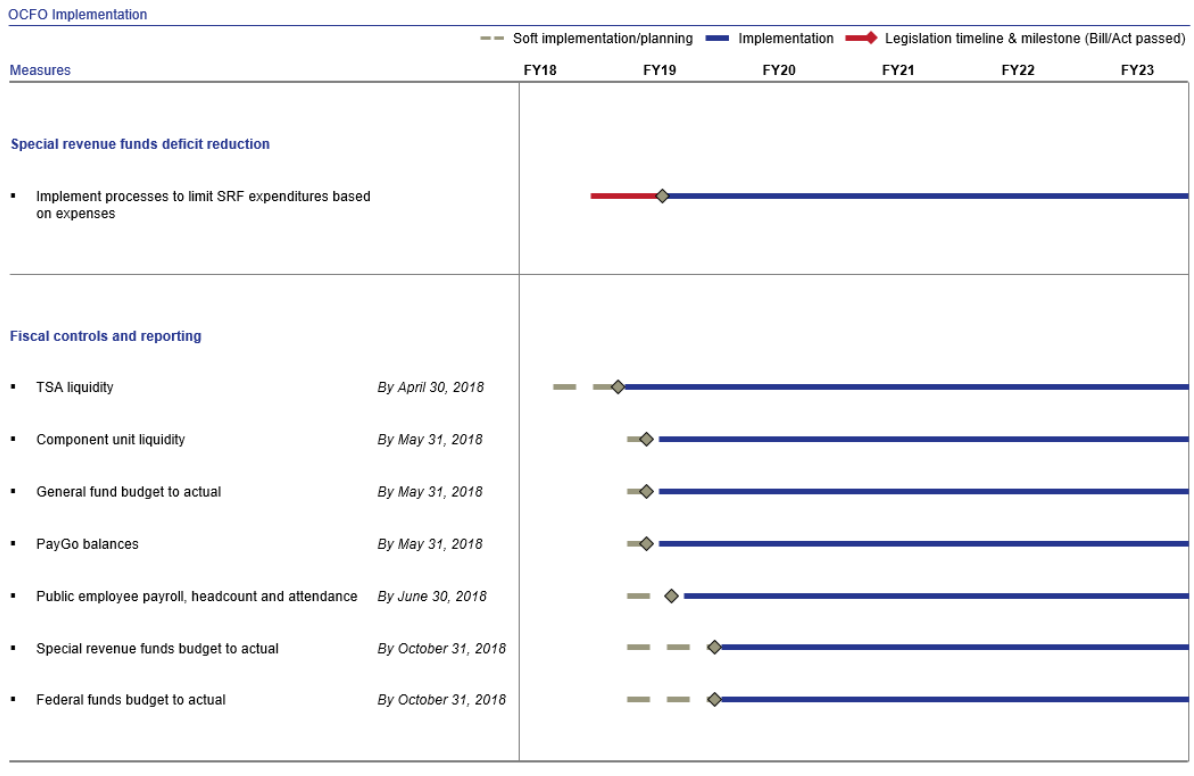
12.2 Implementation plan

While Executive Orders can facilitate some of the initial reforms required, the OCFO's authorities should ultimately be established through a comprehensive statutory overhaul. Such legislation must conform to the New Fiscal Plan and PROMESA.

As part of the implementation of the OCFO, public reporting of the Government's data regarding finances and budget will be critical to improve fiscal governance, accountability, and internal controls. On a monthly basis, the Government must report publicly on data through the close of the prior month (e.g., April 30th report includes data through March 31st). In addition, Government contracts and change orders in their entirety shall be publicly available online on the Comptroller's website beginning on September 30th, 2018.

Implementation of measures – and the required timeline for fiscal reporting – under the stewardship of the OCFO will be as shown below (**Exhibit 39**).

EXHIBIT 39: OCFO IMPLEMENTATION TIMELINE



Chapter 13. AGENCY EFFICIENCIES

13.1 Changes to agency operational expenditures

The Government has approximately ~116,500 employees⁷¹ across 114 Executive Branch government agencies, as well as agencies within the Legislative and Judicial branches (excluding large instrumentalities, e.g., PREPA, PRASA, HTA UPR, COSSEC, GDB)⁷². With a total FY2018 budget of over \$8.6 billion, these agencies now utilize **personnel and non-personnel resources that are outsized compared to the actual service needs of the people of Puerto Rico**. Compared with states serving similar populations, Puerto Rico remains an outlier in terms of sheer number of agencies: for example, Iowa has only 36 stage agencies and Connecticut has 78. In addition, there are countless examples of **subpar service delivery** across the Government. For instance, despite having 5+ agencies primarily dedicated towards the financial stewardship of the Island, the Government has been unable to report consistently accurate financial statements on a timely basis. In addition, Puerto Rico’s education system has consistently delivered unsatisfactory student outcomes, including below-U.S. mainland graduation rates and standardized test scores are far below basic proficiency.

The level of governmental spending in Puerto Rico has not seen any significant decline in recent years even though Puerto Rico’s population fell by 12% from 2007 to 2017 (prior to Hurricanes Irma and Maria)⁷³. In fact, **Puerto Rico remains an outlier in terms of the**

⁷¹ Excludes transitory employees

⁷² Excludes agencies which currently have \$0 operating budget and no employees

⁷³ United States Census Bureau

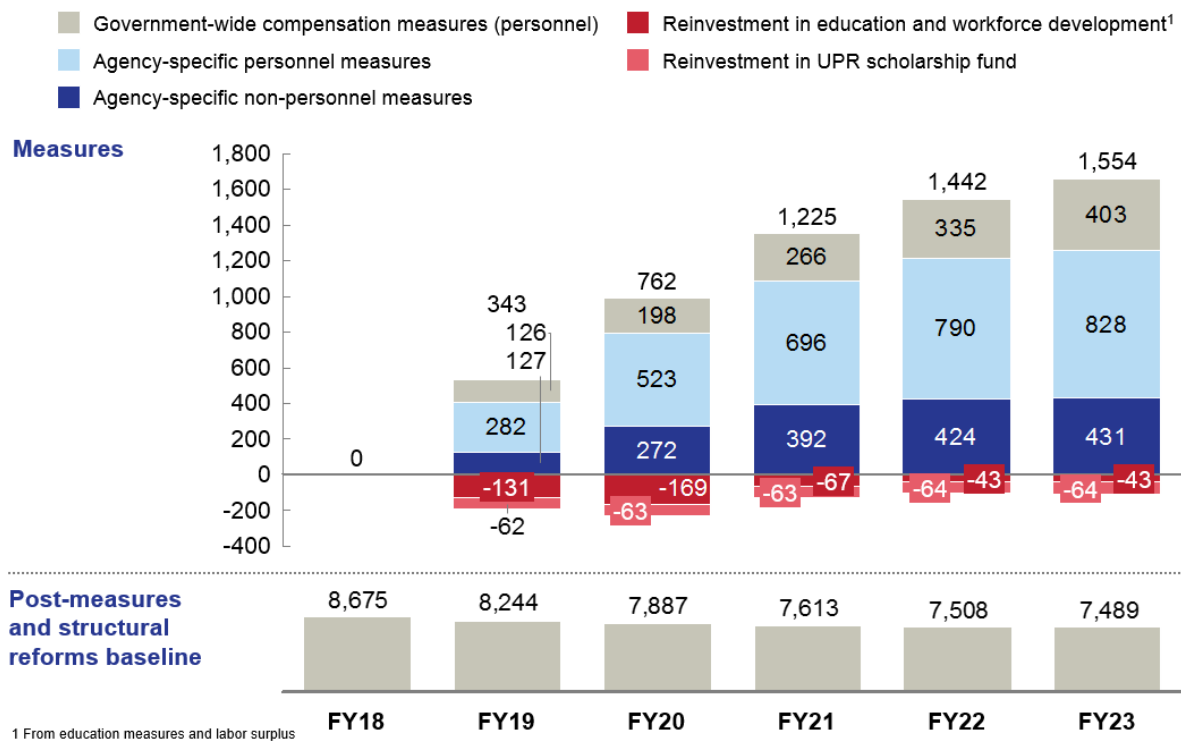
number of citizens employed by the state government, with between 25-30% of those currently employed working for the government (e.g., in a “governmental position”)⁷⁴, which places Puerto Rico in the top 10th percentile of U.S. states for public sector employment⁷⁵.

Therefore, the right-sized Government of the future should reflect mainland U.S. benchmarks in terms of both number of agencies and size of agencies themselves to **deliver services in as efficient a manner as possible**. As part of the Governor’s new Government model, the Government should **consolidate the 114 agencies into 22 groupings and a number of independent agencies**.⁷⁶ In some cases, the consolidations are designed to better focus the competing efforts of multiple agencies, such as the Economic Development grouping which will consolidate ten agencies into one. In other cases, the consolidations should serve to move services closer to citizens, such as the Healthcare and Social Services groupings which will consolidate access points to important services like Medicaid. Furthermore, in cases where agencies will be left independent, fiscal measures will be applied to improve the quality of the underlying services, especially in the case of PRDE.

In **Exhibit 40**, total savings from agency-specific personnel and non-personnel measures are shown, as well as Government-wide, compensation-related measures which will ensure properly-resourced compensation through continuing a payroll freeze, standardizing healthcare benefits, and eliminating the Christmas bonus.

EXHIBIT 40: SUMMARY OF AGENCY EFFICIENCIES IMPACT

Savings from agency efficiencies measures, \$M



¹ From education measures and labor surplus

⁷⁴ Puerto Rico Economic Analysis Report 2015-2016 (PR Department of Labor and Human Resources)

⁷⁵ Gallup, “Gov’t. Employment Ranges from 38% in D.C. to 12% in Ohio”

⁷⁶ To date, 18 agencies have not yet been allocated within individual groupings. The Government proposes that these agencies will either remain independent or fit in within one of the existing 23 groupings so as to limit the total number of agencies to no more than 35

13.2 Approach to agency efficiency measures

There are several actions that have been applied to each agency to achieve these targets:

- **First, some agencies will be closed completely** if their function and programs are not required, resulting in a 100 percent personnel and non-personnel savings for all non-Federal funded expenditures after a 2-3-year wind-down period (a minimum of 50% savings must be achieved no later than year 2).
- **Other agencies must be merged** when benchmarking and best practices determine that activities across agencies could be better served through a single mission and management to eliminate redundancies, and/or where economies of scale make shared services more economical without reducing quality of service.
- **A small subset of agencies will be left independent but made more efficient** through a series of streamlining efforts related to both personnel and operations, allowing the agency to provide existing services at a lower cost to taxpayers.

Exhibit 41 shows the future agency groupings and potential independent agencies proposed by the Government. The **Appendix** includes further details on individual agencies within each grouping.

EXHIBIT 41: OVERVIEW OF NEW AGENCY GROUPINGS

Future state agency groupings	Agency grouping either still to be determined, or agency expected to remain independent
1 Agriculture (3 agencies)	23 Citizen's Advocate Office (Ombudsman)
2 Automobile Accident Compensation Administration (1 agency)	24 Civil Rights Commission
3 Corrections (2 agencies)	25 Commonwealth Election Commission
4 Culture (3 agencies)	26 Convention Center District Authority
5 Economic Dev. (11 agencies)	27 Cooperative Development Commission
6 Education (1 agency)	28 Department of Consumer Affairs
7 Environmental (4 agencies)	29 Department of Sports and Recreation
8 Executive Office (8 agencies)	30 Gov't Employee and Judiciary Retirement System Administration
9 Finance Commission (2 agencies)	31 Horse Racing Industry and Sport Administration
10 Hacienda – OCFO (6 agencies)	32 Industrial Commission
11 Healthcare (7 agencies)	33 Martín Peña Canal ENLACE Project Corporation
12 Justice (2 agencies)	34 Office of Government Ethics
13 Labor (5 agencies)	35 Office of the Comptroller
14 Land (2 agencies)	36 Office of the Electoral Comptroller
15 Ombudsman (5 agencies)	37 Port of Ponce Authority
16 Public Safety (6 agencies)	38 Port of the Americas
17 Public Works (4 agencies)	39 Public Broadcasting Corporation
18 Social Welfare (8 agencies)	40 Puerto Rico National Guard
19 State (2 agencies)	41 Special Independent Prosecutor Panel
20 State Insurance Fund Corporation (1 agency)	42 Teacher's Retirement System
21 Universities (2 agencies)	
22 Utilities Commission (4 agencies)	

In addition, the Government proposed 5 agencies for closure: Model Forest; Culebra Conservation and Development Authority; Company for the Integral Development of Cantera's Peninsula; Economic Development Bank; and the Industrial, Tourist, Education, Medical, and Environmental Control Facilities Financing Authority (AFICA).

13.3 Ensuring enforcement of the agency efficiency expenditure reductions

If, after any fiscal quarter the projected agency efficiency savings for any grouping is not realized, the shortfall from that fiscal quarter will be added to the agency efficiency savings target for the corresponding grouping for the following quarter.

The Government shall produce a quarterly performance report, which shall be submitted to the FOMB within 45 days of each fiscal quarter end, demonstrating the agency efficiency savings that have been realized, broken down by grouping and broken down between payroll and non-payroll savings, and measuring the performance of the realized agency efficiency savings for each grouping against the projections as set forth herein.

If, based on the quarterly performance reports and any other information the Oversight Board deems appropriate, the Oversight Board concludes there is underperformance in agency efficiency savings for any grouping, **the Oversight Board will take measures to enforce reductions in the amount of unrealized savings** in the following fiscal quarter for the corresponding grouping.

If, after the third fiscal quarter of any fiscal year there remains unrealized agency efficiency savings for any grouping relative to the projected agency efficiency savings in the New Fiscal Plan for the applicable fiscal year, the FOMB will automatically reduce the budget for the corresponding grouping for the following fiscal year in the amount equal to the unrealized agency efficiency savings.

If the FOMB determines that there is material underperformance in agency efficiency savings relative to the projections set forth in the New Fiscal Plan, intentional workforce reductions will be necessary to meet the agency efficiency savings targets set forth herein.

As part of the rightsizing effort, **all consolidated agency groupings shall perform a thorough review of the agencies within the grouping and submit a proposal for integration no later than the end of the fourth quarter of FY2018**. The proposal must include a detailed description of changes that demonstrate an ability to hit the fiscal targets articulated for each grouping, which will likely be drawn primarily from the following initiatives: sharing of support services and systems integrations, elimination of duplication (e.g., asset base, contracts, procurement), standardizing organizational structures across agencies, aligning services delivery with citizen needs, and personnel reductions.

The target savings methodologies are organized below (**Exhibit 42**).

EXHIBIT 42: SAVINGS TARGETS FOR AGENCY EFFICIENCIES

Savings targets, % off of baseline

	Closing	Merging	Efficiency
Back-office	100%	40-50%	15-20%
Front-line	100%	Variable	Variable
Non-personnel operations	100%	30%	20%

The New Fiscal Plan recognizes that detailed agency-specific initiatives may require flexibility in which initiatives are applied to which agencies. As a result, the levers outlined above are highlighted as examples to achieve savings through efficiencies rather than directing all initiatives be taken by all agencies.

13.4 Department of Education (PRDE)

13.4.1 Current state and future vision for the Department of Education

Puerto Rico's workforce participation challenges (*described in Section 7.1*) exacerbated by a lack of youth preparedness for the workforce. **PRDE K-12 schools have shown declining performance over the past two decades. Today a quarter of students do not graduate high school at all,⁷⁷ while the remainder graduate below basic proficiency levels:** in standardized tests, only about half perform at a basic level in Spanish,⁷⁸ 35% perform at a basic level in Mathematics, 35% perform at a basic level in English and 43% at a basic level in Science.⁷⁹ Of the 71 countries measured through OECD PISA scores, Puerto Rico scored 57th in reading (U.S. 24th), 63rd in science (U.S. 25th), and 65th in math (U.S. 40th).⁸⁰ These challenges contribute to Puerto Rico's rate of youth unemployment, which is more than double the rate in the U.S. mainland.⁸¹

Throughout the last decade, PRDE has encountered longstanding challenges which have contributed to this low academic performance, including bureaucratic hurdles associated with operating as a single local education agency, inability to execute professional evaluations tied to quality outcomes in the classroom, and lack of a cohesive lasting strategy for academic improvement.

In addition, PRDE, the largest agency in the central Government by spend, is outsized relative to need. While student enrollment has declined considerably over the past few decades (over 50% decline since its peak in 1980, and by about 33% in the past decade alone),⁸² the number of schools and teachers has not decreased proportionally (with only about a 30% reduction in public schools since 1990).⁸³ With an expected additional student decline of 14-16% over the next 6 years, PRDE has significant room to right-size its education system relative to number of students. Tightening its system will give PRDE the flexibility and funding to focus on improving the quality of education provided.

To improve the capabilities and capacity of the Puerto Rican population, the Government will need to set high aspirations. PRDE aims to improve student academic achievement by **reducing the achievement gap by 12% annually on Puerto Rico proficiency tests**, achieving 80% proficiency in Spanish, 73% in Mathematics, and 77% in English; and further, improving the graduation rate to 90% by FY2023. This mandate is not easy, but is attainable

⁷⁷ Puerto Rico Department of Education Consolidated State Plan (ESSA), 2017; <https://www2.ed.gov/admins/lead/account/stateplan17/prconsolidatedstateplanfinal.pdf>

⁷⁸ As of ESSA Consolidated State Plan 2017

⁷⁹ <http://www.de.gobierno.pr/>. "Basic level" is defined by National Assessment of Education Progress test administrator as "partial mastery of prerequisite knowledge and skills that are fundamental for proficient work at each grade" and is the bottom of three levels of achievement with the other levels being "proficient" and "advanced"

⁸⁰ Programme for International Student Assessment (PISA) 2015 Assessment and Analytical Framework, The Organization for Economic Co-operation and Development, August 31, 2017

⁸¹ The World Bank Group, via International Labour Organization, ILOSTAT database. Data retrieved in March 2017. <https://data.worldbank.org/indicator/SL.UEM.1524.ZS>

⁸² Helen F. Ladd and Francisco L. Rivera-Batiz, "Education and Economic Development in Puerto Rico" *The Puerto Rican Economy: Restoring Growth*, Brookings Institution Press, Washington, D.C., 2006, 189-238

⁸³ There were 1,619 public schools in 1990 and 1,131 at the time of reporting. Oversight Board Listening Session, Secretary Julia Keleher, "On the Road to Transformation," November 30, 2017

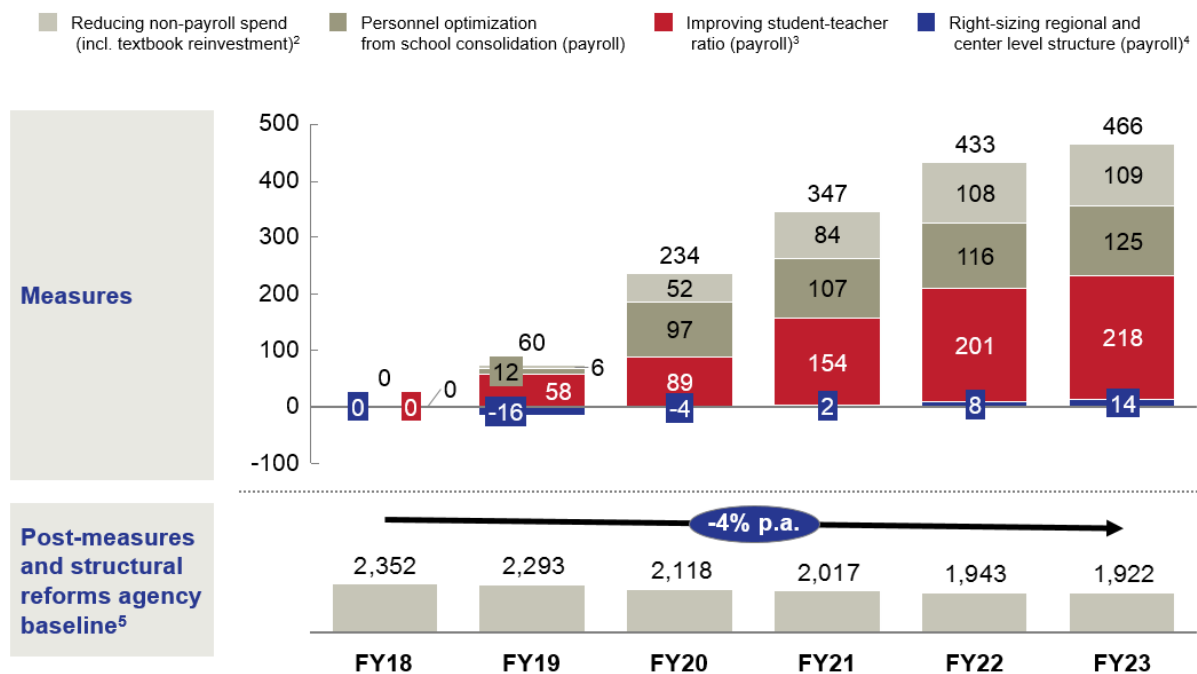
through a **series of education efficacy and efficiency measures as well as targeted reinvestment in student and teacher outcomes.**

13.4.2 PRDE Efficiency measures

PRDE must achieve \$53 million in net personnel savings and \$6 million in non-personnel savings in FY19. Refer to **Exhibit 43** for annual personnel and non-personnel savings that must be achieved through FY23. To accomplish this, PRDE could consolidate its footprint (including schools, classes, teachers, and administration), modernize facilities, revise the curriculum, and equip teachers with what they need to succeed. Measures must generate \$465.8 million in run-rate savings inclusive of funds needed for requisite reinvestments to increase quality. However, these savings are offset by \$160 million in reinvested funds from increased revenue from labor reform for youth development programs and education materials (see Chapter 11).

EXHIBIT 43: EDUCATION RIGHT-SIZING SUMMARY OF IMPACT

Summary of Department of Education measures impact¹, \$M



1 Savings excludes additional personnel savings achievable through compensation measures (e.g., payroll freeze, uniform healthcare, Christmas bonus)
 2 Includes school closure implementation costs
 3 Includes teacher salary increase reinvestment
 4 Includes director salary increase
 5 Includes all general and federal fund payroll and non-payroll expenses. Excludes own income, non-addressable opex (e.g., student food services), and permanent improvements

Reducing non-payroll spend through consolidating the K-12 school footprint and procurement

PRDE has closed over 480 schools (30% of K-12 schools) since 1990. After SY2016-17, PRDE closed 167 schools,⁸⁴ and announced plans to close another 283 schools after SY2017-18.⁸⁵ After an analysis of several factors including capacity, geographic and cultural characteristics, distance to neighboring schools, transportation costs, and facility quality, among others, the Government has determined that it will be able to close a total of 307 schools before FY2020, or an additional 24 schools beyond this summer’s planned closings, and it must do so. It

84 Puerto Rico Department of Education Report “Schools Closed FY 2017.” Accessed January 2018
 85 Puerto Rico Department of Education Press Release, March 2018

should target an average capacity of 330 students per school for each primary school and 700 students per secondary school.

Each school closure should save an estimated \$47,000 annually by reduction of facility costs. Consolidation of schools will also enable higher quality outcomes at lower cost by enabling systems to invest in a smaller number of higher-performing schools.

Independent of, but accelerated through, consolidations, PRDE procured spend should be reduced by approximately 10-15% through centralized procurement policies including strategic purchasing and demand controls (*see full set of procurement levers in Section 13.2*).

Personnel optimization from school consolidation

To date, school consolidations have not always led to proportional cost savings because they are often not accompanied with concurrent reductions in staff. Going forward, the number of school staff is expected to decline proportionally to the projected decrease in number of schools. For example, the number of school administration (principals, office staff, etc.), food service staff, facility maintenance staff, and other school-specific staff shall be scaled down accounting for a smaller number of schools. This should result in \$124.8 million in savings by FY2023.

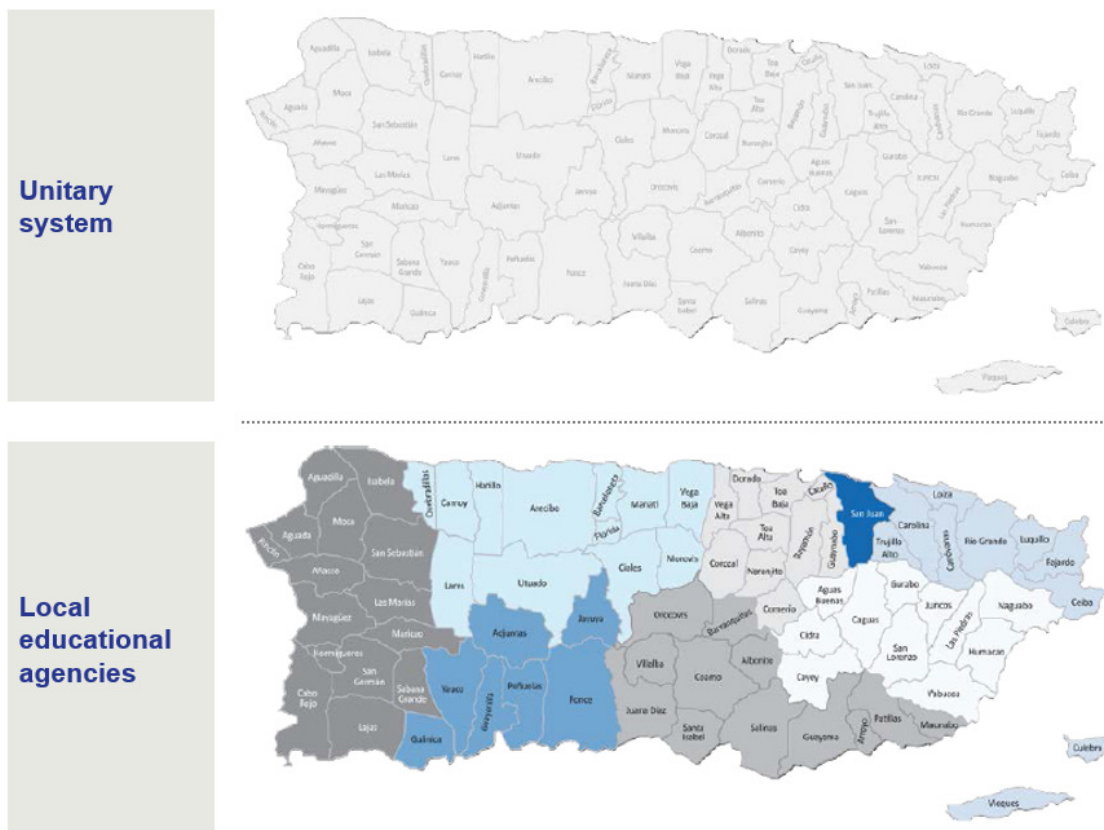
Improving student-teacher ratio

Puerto Rico's student-teacher ratio is currently 11:1, compared to approximately 16:1 in many comparable districts on the mainland such as Miami-Dade County Public Schools in Florida. Puerto Rico's student-teacher ratio will only continue to decrease with the projected student enrollment declines in the coming years. To address this, teacher staffing levels will be reduced to reach a target student-teacher ratio of 14:1. This ratio is slightly smaller than the mainland benchmark due to several constraints specific to Puerto Rico, such as its currently poor student outcomes and its extremely high proportion of special education students. These teacher-focused measures should achieve \$194.5 million in run-rate savings by FY2023, inclusive of transition costs under workforce reduction policies (e.g., liquidation of vacation pay). The savings figure is also reduced to reflect additional investment in increased salary for remaining teachers (*see Chapter 11*).

Right-sizing regional and center level structure

Rather than function as a single Local Education Agency (LEA), PRDE shall create regional LEAs (**Exhibit 44**).

EXHIBIT 44: LOCAL EDUCATIONAL AGENCIES FUTURE STATE REGIONS



This new regional LEA model will be leaner while also decentralizing the administration of individual schools, putting decisions closer to students and families and improving outcomes. Developing and relying on local leadership must also allow PRDE’s central administrative structure to right-size to staffing levels comparable to state educational agencies (SEAs) in comparable mainland U.S. states. Currently, the central administration has one staff per 133 students projected in FY2022; the 50th percentile of U.S. states is a ratio of 1:166. A decentralized model also decreases dependency on the secretary’s office for day-to-day decision making, building capabilities of second-line management at the regional level.⁸⁶

Implementing the regional LEA model must allocate administrators more effectively for decision-making. The model shall decrease headcount requirements at the regional level and central level; further, allocation of administrators in less costly regional centers (as opposed to centrally) should enable cost savings on retained positions. Each regional office is expected to have capable leadership and staff to execute core functions, including operations, student services, accountability, and academic standards. This model results in a total of \$37.6 million in run-rate savings each year from less costly regional positions and reduced central staff, while seeking to improve PRDE operations and student outcomes.

13.4.3 Reinvestment in education and workforce outcomes

The education of the children of Puerto Rico, and their successful entrance into the workforce, is a core goal of PRDE. Investment in education has also been shown to drive long-term economic growth – and in the case of Puerto Rico is projected to add 0.16% increase in GNP

⁸⁶ Oversight Board Listening Session, Secretary Julia Keleher, “On the Road to Transformation” November 30, 2017

growth by FY48 and keep growing thereafter (*see Section 4.1 for further discussion of GNP impact*). As a result, it is important that some of the savings from education measures are reinvested to drive student, teacher, and workforce outcomes. PRDE will drive three such initiatives, each funded through a mixture of reinvesting right-sizing savings and creating a reinvestment fund using increased revenues from the Labor Reform Agenda:

1. Teacher development and retention
2. New educational materials such as textbooks
3. Workforce readiness and skill development programs

Teacher development and retention

Teachers are considered one of the most determinative factors in student success in the classroom and standard of living beyond the classroom. For example, one U.S. study found that classes with an average-quality teacher had a lifetime income of \$266,000 higher than classes with a poor-quality teacher in each year.⁸⁷ Improved education through enhanced teacher quality is critical to the long-term success of the children of Puerto Rico and will help to lift a new generation of Puerto Rican citizens out of poverty. Recognizing this, PRDE has committed to transforming system practices related to attracting, retaining, and developing teachers and administrators:

1. **Providing increased opportunities for and higher quality of training** (e.g., in-class; through leadership academies; STEM development through collaboration with universities)
2. **Creating opportunities for targeted skill development** (e.g., instituting mentorship programs to enable coaching by experienced and high-performing teachers as a cost-neutral, and often high impact, initiative)
3. **Investing in teacher salaries that approach mainland comparators.** As described in *Section 11.2.2*, the Government will implement a \$1,500 annual salary increase for teachers and \$23,000 annual salary increase for directors to close the gap with mainland comparators

As discussed in *Section 11.2.2*, these teacher-focused reforms will be funded through reinvestment of right-sizing measures and will have a dramatic impact on near and long-term outcomes.

New educational materials including new textbooks

As discussed in *Section 11.2.2*, the Government will reinvest \$75 per student (FY2019-FY2021) in procuring new textbooks, or \$21-24 million each year as one-time costs.

In addition, any remaining reinvestment funds remaining from the Labor Reform Agenda as described in *Chapter 7* shall be used for necessary educational materials, such as necessary in-class technology and school Internet capabilities.

Workforce readiness and skill development

As discussed in *Section 11.2.3*, PRDE must implement curriculum and workforce initiatives based on local market opportunities to address the skill mismatch responsible for many of Puerto Rico's employment challenges. With these reforms, the Puerto Rican public education system should become more streamlined and drive better outcomes, including improved student achievement at a lower cost overall. Any additional reinvestment funds directed at

⁸⁷ Raj Chetty, John N. Friedman, and Jonah E. Rockoff, "The Long-Term Impact of Teachers: Teacher Value-Added and Student Outcomes in Adulthood," National Bureau of Economic Research, 2011

PRDE via Labor Reform revenues will be used on other youth workforce development and readiness programs or necessary educational materials to improve student outcomes.

13.5 Department of Health (DOH)

13.5.1 Current state and future vision for the Department of Health

Currently, the Government has several health-related agencies that are highly fragmented: three public corporations, three public hospitals, seven sub-secretaries, six regional offices, and eight program offices administering 64 Federally funded programs — all with their own support functions. Such fragmentation drives up cost and inefficiency, as each agency provides their own human capital management, procurement, and financial support. Citizen experience and care delivery also suffer as Puerto Ricans face multiple handovers of individual cases across frontline staff with fragmented focus.

In the future state, the Governor has proposed that the Department of Health consolidate 7 agencies with centralized support functions: The Department of Health (DOH); Medical Services Administration (ASEM); Health Insurance Administration (ASES); Mental Health and Addiction Services Administration; Puerto Rico and the Caribbean Cardiovascular Center Corporation; Comprehensive Cancer Center; and Center for Research, Education, and Medical Services for Diabetes (**Exhibit 45**). This new DOH should enable efficiencies while maintaining high quality public health. Consolidating these seven agencies should provide opportunity for right-sizing support functions, as well as centralizing procurement to provide savings on costly medical materials and equipment.

EXHIBIT 45: AGENCIES INCLUDED IN FUTURE STATE DOH

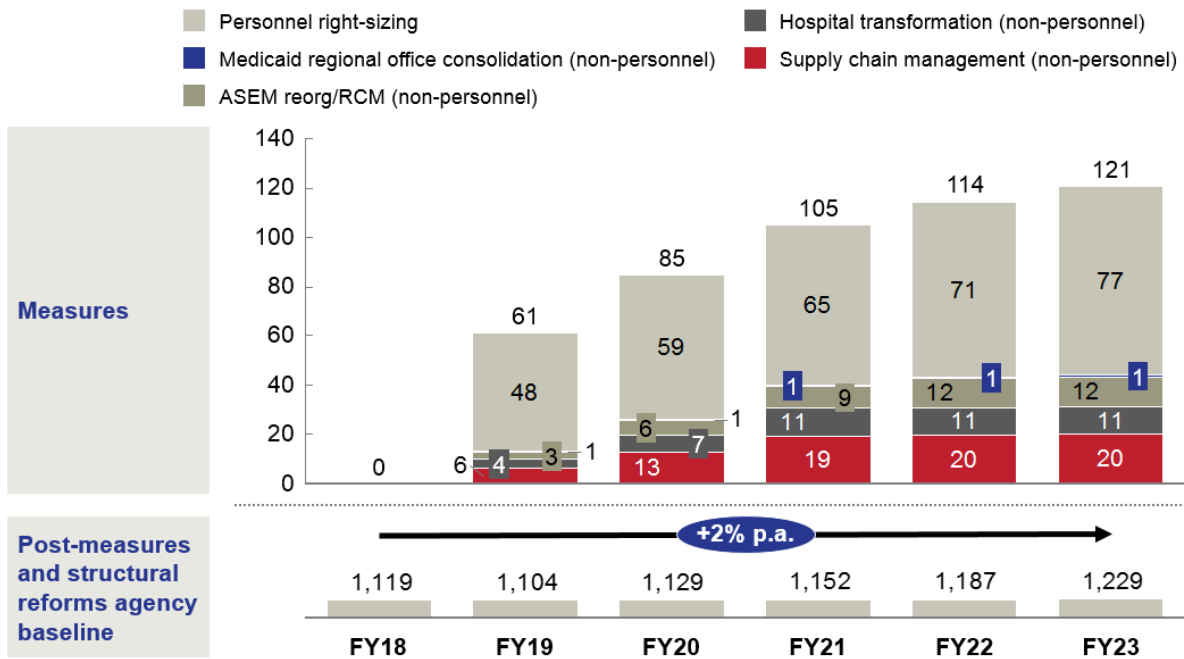
1 Department of Health	5 Comprehensive Cancer Center
2 Health Insurance Administration (ASES)	6 Mental Health and Addiction Services Administration
3 Medical Services Administration (ASEM)	7 Puerto Rico and the Caribbean Cardiovascular Center Corporation
4 Center for Research, Education and Medical Services for Diabetes	

13.5.2 Efficiency measures for the Department of Health

By bringing together seven major agencies to create the Department of Health (DOH), the Government must take advantage of personnel and non-personnel savings that can be achieved through consolidation. DOH must achieve \$48.4 million in personnel savings and \$12.8 million in non-personnel savings in FY19. Refer to **Exhibit 46** for annual personnel and non-personnel savings that must be achieved through FY23.

EXHIBIT 46: DEPARTMENT OF HEALTH RIGHT-SIZING SUMMARY OF IMPACT

Summary of Department of Health measures impact¹, \$M



¹ Savings excludes additional personnel savings achievable through compensation measures (e.g., payroll freeze, uniform healthcare, Christmas bonus)

Personnel optimization and centralization

The Government should centralize and consolidate support functions, including finance, HR, legal, revenue cycle management, procurement, grants management, and epidemiology. Improved management and oversight of these functions, and workforce reductions associated with consolidation, must result in \$76.9 million in run-rate personnel savings by FY2023.

ASES and Medicaid consolidation and optimization

Medicaid currently has 85 offices across 78 municipalities that can be consolidated into fewer, more strategic locations. Reducing the Medicaid office and regional hospital office structure will eliminate duplication of effort and redundancies –and allow the Department to provide more robust services at convenient locations. In addition, ASES will redesign the Medicaid eligibility and enrollment process (web based, MCO dependent, hospital responsibility, etc.) and encourage online services to improve data management. Best practices from the mainland include engagement of third-parties within hospitals to identify and enroll eligible patients into the Medicaid program.

Consolidation of regional centers and Medicaid optimization should result in \$500,000 in run-rate savings by FY2023.

Supply chain management

Due to the large volume of spending on procuring medical supplies and equipment, and the high cost of such materials, there is a significant opportunity to improve procurement efficiency through best practice supply and demand management, and better employing economies of scale. In FY2018, there was over \$188 million in addressable non-payroll spending (excluding any hospital expenses) across all agencies. This measure to reduce non-payroll spend through procurement efficiency could amount to \$19.9 million run-rate savings by FY2023.

Hospital management transformation

In addition to other agencies’ non-payroll savings, hospital transformation will likewise seek to improve procurement savings specifically for hospitals and health systems, which will focus on commodity standardization and sourcing, indirect spending (analyzing insourcing vs. outsourcing opportunities), and physician preference item optimization.

Holistic hospital transformation efforts should also reduce payroll spend through clinical labor optimization, which is captured in the “personnel optimization” measure. For example, wages should be optimized to fair market value to reduce turnover and therefore temporary/overtime spend; and role/responsibilities should be optimized to skill level and wage rate. This measure would result in \$11.4 million in run-rate savings by FY2023.

Restructuring ASEM and Revenue Cycle Management

ASEM is a public corporation originally created to serve as a central procurement office for government hospitals to create economies of scale for medical supplies, devices, and services. Throughout the years, rates, salaries, and services have increased at a higher rate than within the broader industry, and procurement processes have decentralized across the hospitals ASEM was created to serve.

The focus areas of this measure include: 1) Establishing a centralized Medical Center including ASEM, University, Pediatric and Cardiovascular hospitals; 2) Identifying and establishing key hospitals across the Island; 3) Designing and implementing a referral system among key hospitals and clinics; and 4) Establishing a physician network. Improvements will be made to personnel, process, and technology. This measure would result in \$12 million of run-rate savings by FY2023.

13.6 Department of Public Safety (DPS)

13.6.1 Current state and future vision for DPS

The Department of Public Safety (DPS) is an agency grouping which was approved by Puerto Rico’s Legislature in 2017 (Act 20), and includes six agencies responsible for **ensuring the safety and security for all residents of the Island**. The grouping includes the following agencies:

EXHIBIT 47: LIST OF AGENCIES IN DPS GROUPING

1 Puerto Rico Police Department (PRPD)	4 Emergency Management and Disaster Administration Agency
2 Firefighters Corps	5 9-1-1 Services Governing Board
3 Emergency Medical Services Corps	6 Institute of Forensic Sciences

The largest agency by spend and personnel is the Police Department (~85% of total DPS spend). As a result, the majority of measures identified within the grouping apply to the Puerto Rico Police Department (PRPD).

One of the PRPD’s main responsibilities is to manage violent crime, defined by the FBI as “murder and nonnegligent manslaughter, forcible rape, robbery, and aggravated assault.”⁸⁸ Puerto Rico’s current level of violent crime is 7,643 crimes per year, based on FBI reporting from 2016. However, **Puerto Rico currently spends more on police per violent crime**

⁸⁸ <https://ucr.fbi.gov/crime-in-the-u.s/2010/crime-in-the-u.s.-2010/violent-crime>

than most U.S. states, even after adjusting for differences in PPP; while the PRPD spends \$97,939 per violent crime, the U.S. 50-state median level of spend is only \$88,905.

This elevated spend is partially because **the rate of violent crime in Puerto Rico has been decreasing for the past 10 years without a simultaneous decrease in police officers**. While there was an average of 258 incidences of violent crime per 100,000 citizens between 2007 and 2011, the rate of crime decreased to 242 per 100,000 between 2012 and 2016. This decline likely continues into 2018, despite reports of a substantial uptick in crime following Irma and Maria. These contentions have been extrapolated from limited data collected following the Hurricanes. For instance, widespread headlines referring to an 100% increase in murder rates in Puerto Rico after the storm were drawn from only an 11-day window at the start of 2018⁸⁹. Furthermore, academic studies on crime following natural disasters find no empirical evidence of large, sustained elevations in violent crime, outside of some upticks in domestic and spousal abuse⁹⁰.

It is thus the time to take a closer look at the PRPD, not only due to the elevated spend and diminished violent crime rate, but also in conjunction with a 2013 consent decree agreement with the U.S. Department of Justice on reform measures, which compelled the PRPD to conduct a staffing allocation and resources study to assess the proper size of the police force. **The Department is currently undergoing a transformative process to address the requirements under the agreement**, and the measures within the New Fiscal Plan will complement these efforts.

13.6.2 Efficiency measures for DPS

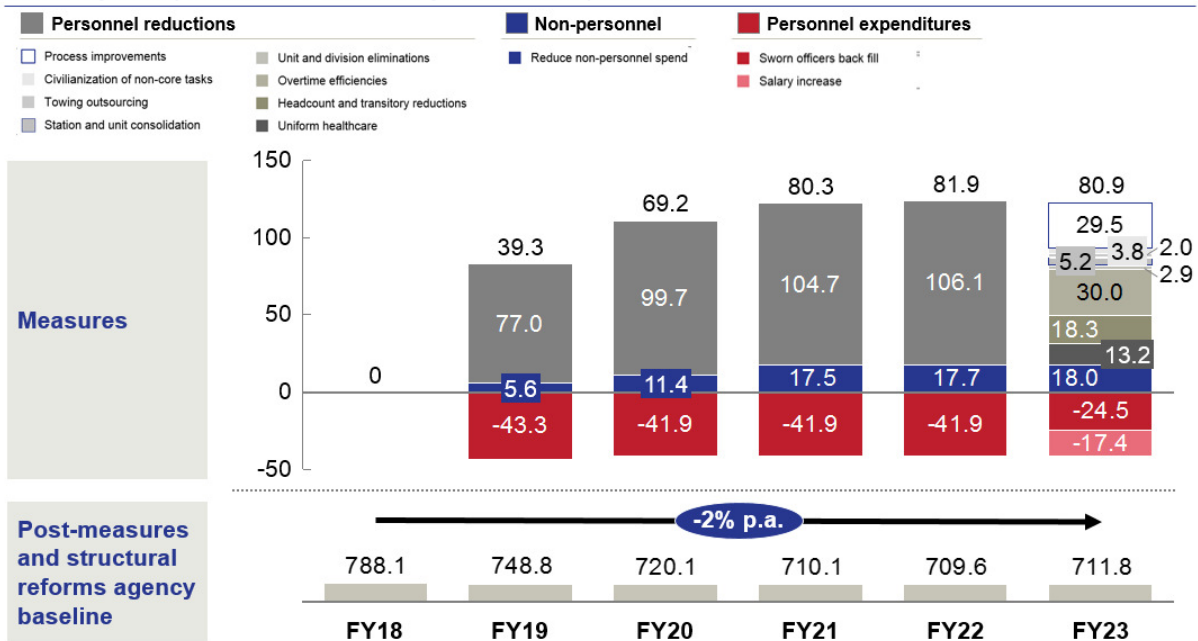
DPS must achieve \$33.7 million in net personnel savings and \$5.6 million in non-personnel savings in FY19. Refer to **Exhibit 48** for annual personnel and non-personnel savings that must be achieved through FY23.

⁸⁹ Time, 2017

⁹⁰ "Natural Disasters and Social Order", International Journal of Mass Emergencies and Disasters

EXHIBIT 48: DPS SUMMARY OF MEASURES IMPACT

Summary of Department of Public Safety measures impact¹, \$M



Process improvements

DPS should **reduce administrative tasks and activities** by leveraging modernization, including digitization of incidence reporting, automation of time and attendance, and consolidation of statistical reporting. Furthermore, DPS will streamline vehicle maintenance processes through superior scheduling and procurement protocols, which can reduce the need for vehicle maintenance staff. Process improvements would lead to \$29.5 million in run-rate savings by FY2023.

Civilianization of non-core tasks, including outsourcing towing

DPS should replace sworn officers currently performing civilian duties—such as mechanics, radio operators, records and report keepers, area command statistics compilers, and maintenance workers—with **less expensive civilian personnel**. Additionally, DPS can outsource towing services to a third-party vendor to cover approximately ~93% of towing needs. These initiatives would lead to \$5.8 million in run-rate savings by FY2023.

Station, unit, and division consolidation and eliminations

DPS should **consolidate police stations, transit units, and specialized units** to reduce the amount of administrative personnel required (e.g., station desk officers, station commanders and directors, stations auxiliary commanders and directors, and vehicle managers). Simultaneously, DPS should **eliminate units and divisions** which perform duplicative services already provided by other agencies within the Government (e.g., the Divers Unit, the Rescue Squad Division, and Mounted Divisions). These initiatives should jointly lead to \$8.0 million run-rate savings by FY2023.

Overtime efficiencies

The Government spent approximately ~\$50 million on overtime last year (excluding the outsized overtime needs resulting from Hurricane Maria). This level of overtime is considerably higher than the PPP-adjusted overtime for comparable police forces in U.S.

mainland states. For instance, Connecticut, which has a similar population to Puerto Rico and a slightly-higher number of violent crimes (273 per 100,000 inhabitants vs. 224 per 100,000 inhabitants in Puerto Rico), had PPP-adjusted overtime spend of only ~\$28 million in 2017. This gap comes even though Connecticut's total police spend per capita is ~\$140 less than in Puerto Rico⁹¹.

Through the levers identified in the above measures, in addition to general efficiencies in scheduling and overtime management, DPS can **reduce paid overtime by 60%**. Overtime efficiency efforts should lead to \$30.0 million run-rate savings by FY2023.

Sworn officers back fill and headcount/transitory reductions

According to a Government analysis conducted in response to the PRPD's ongoing consent decree adjudication under the U.S. Department of Justice, there is a need to **redeploy sworn officers to fill capacity deficiencies in operational functions**⁹². This redeployment will lead to a need for 644 additional officers to be deployed to the field. This measure will lead to \$24.5 million run-rate additional costs by FY2023. Simultaneously, attrition and headcount reductions among non-sworn, regular DPS employees (~162 employees), as well as facilitating the departure of 50% of DPS transitory employees, can create \$18.3 million in annual savings by FY2023.

Salary increase

To ensure that DPS continues to **retain police officers**, despite the presence of significantly higher-paying positions within police departments on the U.S. mainland⁹³, DPS should institute a \$1,500 annual raise for all sworn personnel by FY2019. This measure is expected to lead to \$17.4 million run-rate additional costs by FY2023.

Uniform healthcare and non-personnel spend

As detailed in *Section 13.2* and *Section 13.12*, these measures to **standardize employee healthcare and decrease non-personnel spend** through procurement optimization (e.g., police fleet vehicles) should lead to \$13.2 million and \$18.0 million in annual savings by FY2023 for uniform healthcare and non-personnel spend, respectively.

13.7 Department of Corrections and Rehabilitation (DCR)

13.7.1 Current state and future vision for DCR

DCR manages the functions and policies of the Puerto Rican correctional system, including penal institutions and rehabilitation facilities, for men, women, and juveniles. The Correctional Health Department provides healthcare to the inmates under the jurisdiction of DCR. Their combined FY2018 budgets are \$404M, and they include a total of 7,809 employees and 10,339 prisoners based on latest available data from OMB, leading to total spend of ~\$39,000 per prisoner.

EXHIBIT 49: LIST OF AGENCIES IN DCR GROUPING

1 Department of Corrections and Rehabilitation

2 Correctional Health Department

⁹¹ Connecticut Office of the State Comptroller; census data 2014; FBI Crime Justice Information Services

⁹² The report is expected to be completed mid-2018

⁹³ Current average salary for a sworn officer in Puerto Rico is \$34,600, which is ~45% of U.S. median according to the Bureau of Labor Statistics (Police and Detectives)

DCR’s combined number of employees is much higher than the relative number of employees in peer prison systems within mainland U.S. states. While the reality of an aging prison system dependent on outdated technology necessitates a relatively higher number of employees, the actual number of employees is substantially higher than comparable benchmarks; whereas DCR’s current FTE-to-inmate ratio is 0.76, the 50th percentile of U.S. states has only 0.41 FTEs per inmate.⁹⁴ Additionally, Puerto Rico’s prisons are underutilized: while most U.S. state prison systems are near 100% utilization⁹⁵, Puerto Rican prison facilities are only 78% utilized due to declines in the prison population over the past decade that have not translated into reductions in government resources dedicated to prisons.

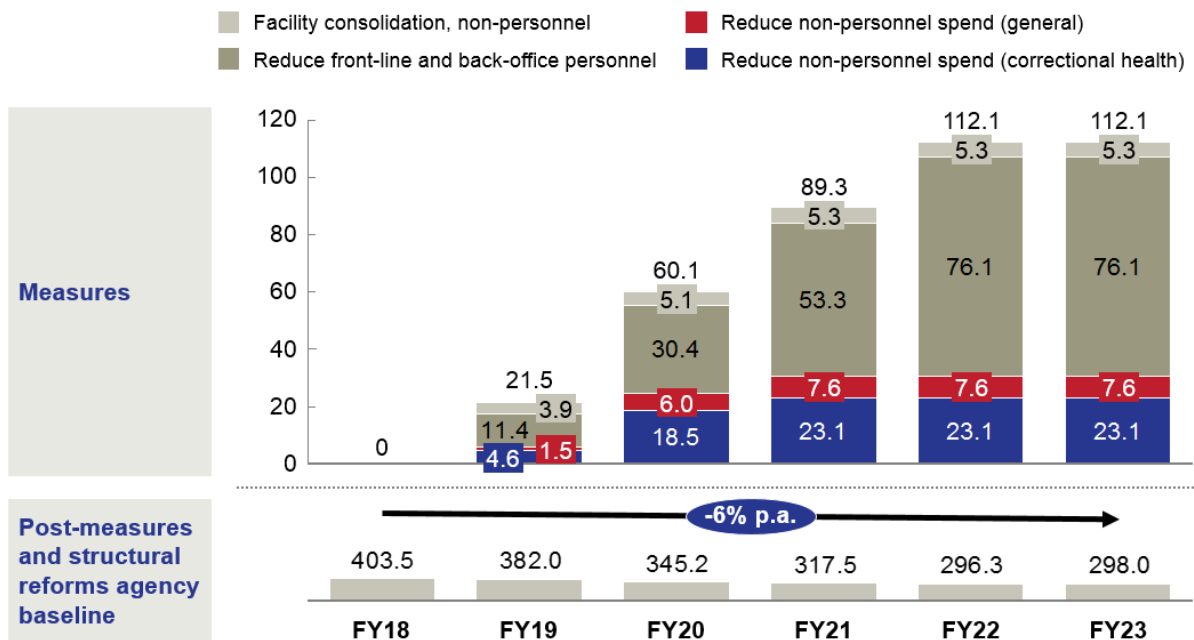
By **rightsizing Puerto Rico’s correctional facilities and FTE footprint** to reflect changes in the prison population and improving procurement effectiveness on all corrections categories, the Government must achieve five-year cost savings of \$395M.

13.7.2 Efficiency measures for DCR

DCR must achieve \$11.4 million in personnel savings and \$10.1 million in non-personnel savings in FY19. Refer to **Exhibit 42** for annual personnel and non-personnel savings that must be achieved through FY23.

EXHIBIT 50: DCR SUMMARY OF MEASURES IMPACT

Summary of Department of Corrections measures impact¹, \$M



¹ Savings excludes additional personnel savings achievable through compensation measures (e.g., payroll freeze, uniform healthcare, Christmas bonus)

Facility consolidations

To bring the system in line with the requirements of the population, **DCR should close 9 prisons, each with utilization at 65% or below to reach an overall system utilization of 93%**, while still maintaining appropriate separation of different inmate risk profiles and populations, including men, women, and juveniles. These consolidations will

⁹⁴ NASBO, FBI, BJS databases

⁹⁵ Census data, 2014; Bureau of Justice Statistics, 2014

provide the opportunity to capture **both personnel and non-personnel savings through reduced operations.**

First, 40% of non-personnel operating expenses could be captured for each closed facility by consolidating physical footprint, winding down contracts, and other levers, with the remaining operating expenditures transferred to support population increases in other facilities and account for inability to reduce fixed costs. **Personnel savings could be captured by reducing DCR FTEs per inmate** to reach the U.S. median benchmark of 0.41 FTEs per inmate through attrition and active workforce reductions⁹⁶.

Five prisons are slated for closure in FY2018,⁹⁷ and their prisoners have already been relocated to other prisons. Two additional prisons are expected to be closed in FY2019, and two more in FY20. Implementation costs that are accounted for in savings calculations include transporting prisoners to other facilities, frictional costs of redundant personnel across prisons and inmates, among other initiatives.

To further enable savings from consolidations and reduced FTEs, DCR may contemplate initiatives to actively reduce prison population as appropriate, such as early release with electronic monitoring, initiating programs to reduce recidivism like in-prison drug rehabilitation, and increased training and occupational programs.

Non-personnel optimization

DCR currently spends \$64 million on **procurement**, costs that can be reduced through a variety of means, including leveraging the Federal General Services Administration, utilizing e-auctions, launching competitive Requests for Proposal (RFPs), centralizing purchasing to the greatest extent possible, and outsourcing/contracting responsibilities. Using benchmark savings percentages for major spend areas would result in ~\$8 million potential savings opportunity, excluding correctional healthcare.

For **correctional healthcare**, the Government currently spends ~\$6,000 per inmate based on the terms of the Correctional Health Services Corporation contract. By comparison, the 50th percentile of U.S. states spend \$3,800 per inmate.⁹⁸ Bringing this per-inmate spend in line with the 50th percentile of U.S. states would generate annual savings of ~\$23 million by FY2022.⁹⁹ The Government can unlock these savings by renegotiating existing contracts, launching competitive RFPs for other correctional healthcare providers that will provide terms more in-line with mainland spending practices, reconsidering level of service due to the currently declining prison population, and strategically evaluating insourcing options.

13.8 Hacienda / Office of the CFO (OCFO)

13.8.1 Current state and future vision for Hacienda / Office of the CFO

Currently, the financial management functions—as well as basic administrative functions—of the Government are spread across several entities; for instance, the Office of Management and Budget is responsible for administering the Annual Budget of Puerto Rico, the General Services Administration is responsible for procurement processes, and ownership of other

⁹⁶ Census data, 2014; Bureau of Justice Statistics, 2014

⁹⁷ These are identified as prisons with prison populations of 0, based on latest data from DCR and Rehabilitation; they include: Esc. Ind. Mujeres Vega Alta, Hogar Adaptacion Soc. Vega Alta, Inst. Correccional Zarzal, Modular Detention Unit, and Vivienda Alternativa Anexo 246 Ponce

⁹⁸ Source: Pew data 2011, normalized for GDP PPP and inflated to 2017 dollars based on CPI data (2011-2017 compounded inflation rate of 10%)

⁹⁹ Pew data, 2011

fiscal and payroll responsibilities are distributed across another four agencies. This distribution has led to historical problems for the Government, as the number of bank accounts, special revenue funds, and other untracked funding and expenditure streams have proliferated. Indeed, the lack of one office that has authority over all revenues and expenditures—and is also accountable for balancing the budget—has been a **major barrier for the Commonwealth’s ability to regain its fiscal sustainability and publish accurate and timely financial reporting.**

As discussed above, consistent with the Governor’s proposal, the Commonwealth shall **consolidate all financial management, HR and procurement activities under the OCFO.** The OCFO will have authority and accountability over the following agencies, which could be consolidated or eliminated:

EXHIBIT 51: LIST OF AGENCIES IN HACIENDA / OCFO GROUPING

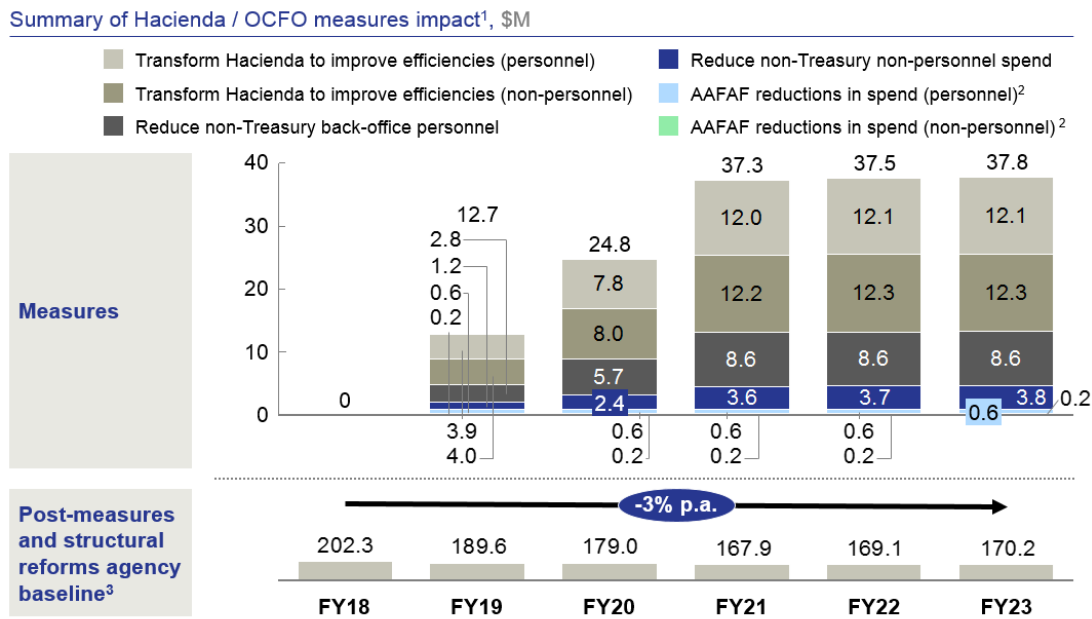
1 Department of Treasury (Hacienda)	4 Treasury (internal entity)
2 Office of Management and Budget	5 General Services Administration
3 Office of Administration and Transformation of HR	6 Financial Advisory Authority and Tax Agency of Puerto Rico (AAFAF)

The OCFO must be responsible for all matters related to revenues and expenditures, and will be the key financial management agent. Hacienda, as the OCFO, will drive implementation of EITC, tax law initiatives, and new revenue-collecting initiatives (e.g., Internet sales tax collections). Already, Hacienda has advised the Oversight Board it has been working to launch several new initiatives to improve its enforcement effectiveness and increase the volume of revenues collected, such as through the SURI transition.

13.8.2 Efficiency measures for Hacienda / Office of the CFO

Hacienda / OCFO must achieve \$6.9 million in personnel savings and \$5.3 million in non-personnel savings in FY19. Refer to **Exhibit 52** for annual personnel and non-personnel savings that must be achieved through FY23.

EXHIBIT 52: HACIENDA/ OFFICE OF THE CFO SUMMARY OF MEASURES IMPACT



1 Savings excludes additional personnel savings achievable through compensation measures (e.g., payroll freeze, uniform healthcare, Christmas bonus)
 2 Annual personnel and non-personnel savings targets for AAFAF are ~\$0.65M and \$0.20-0.25M, respectively
 3 Net of AAFAF Title III Expenses

Transform Hacienda to improve efficiencies

Hacienda itself must attain an overall **15% net reduction in costs (approximately \$24.5 million), which is 25% gross (approximately \$40 million)** which is in line with the level of cuts seen in other Treasury Department transformations. For instance, a transformation within Her Majesty's Revenue and Customs agency in the UK successfully cut costs by 25% over a five-year period through a series of management initiatives, including reducing IT costs, increasing operational efficiency, reducing the real estate footprint, and overall process improvement.¹⁰⁰ Many of initiatives can be leveraged by Hacienda, in addition to reforms unique to Puerto Rico, including but not limited to:

- Partnerships with private banks to reduce real estate and personnel footprint (estimated to save approximately ~\$20 million per year)
- Non-personnel spend (e.g., support service consolidation) and procurement optimization (estimated to save approximately ~\$12 million per year)
- Initiatives related to digitization and general process and efficiency improvements

While Hacienda must target gross reductions of 25%, 40% of these reductions (~\$16 million) should be **reinvested in compliance activities**, providing the budget for hiring additional Hacienda employees needed to implement new compliance activities, as well as for technology investment. After subtracting the ~\$16 million to be reinvested in compliance activities, this measure amounts to \$24.5 million in annual net savings by FY2023.

Reduce non-Treasury back-office and non-personnel

Overall **back office and non-personnel savings** targets are detailed in *Section 13.2*, and include levers such as procurement optimization, consolidation of support functions, and similar initiatives. Back office savings must lead to \$9 million run-rate savings by FY2023, and non-personnel savings must lead to \$4 million in annual savings by FY2023.

AAFAP reductions in spend to promote reinvestment

Unlike other entities within the Hacienda/OCFO, AAFAP will be subjected to a 7.5% cut (roughly ~50% of the level of cuts prescribed to other government agencies). These cuts must lead to savings of \$1 million per year by FY2023, and will be reinvested (*as described in Chapter 11*).

13.9 Department of Economic Development (DDEC)

13.9.1 Current state and future vision for the Department of Economic Development

DDEC includes a consortium of agencies critical to **incentivizing and managing the economic recovery of Puerto Rico's private sector** following recent seismic changes to the marketplace, including the removal of Federal corporate tax incentives and the debilitating impact of Hurricanes Irma and Maria. To promote growth, DDEC is driven by a strategic economic plan to promote high-impact projects, reenergize existing industries, and promote new strategic initiatives. In addition, DDEC manages a variety of programs on the Island intended to promote Puerto Rican entrepreneurship, youth employment, and other critical economic development functions. In the aftermath of Hurricane Irma and Maria, these

¹⁰⁰ National Audit Office, "Reducing Costs in HM Revenue & Customs," 2011

programs will be crucial for the vitality of the Puerto Rican economy through increasing participation in the job market and attracting new business to the Island.

The agencies to be consolidated are as shown below (**Exhibit 53**).

EXHIBIT 53: LIST OF AGENCIES IN DDEC GROUPING

1 Department of Economic Development and Commerce (DDEC)	7 Local Redevelopment Authority for Roosevelt Roads
2 Puerto Rico Industrial Development Company	8 Permits Management Office
3 Puerto Rico Trade and Export Company	9 Puerto Rico Tourism Company
4 Office of Industrial Tax Exemption	10 Planning Board
5 State Office of Energy Policy	11 Institute of Statistics
6 Commonwealth of Puerto Rico Regional Center Corporation	

The agencies within the grouping are responsible for a variety of efforts to maintain a robust economic marketplace within Puerto Rico, including supervising public policy, creating and retaining jobs, attracting capital investment, and promoting tourism. However, the diffusion of these weighty responsibilities across so many agencies has led to an **inconsistent approach to overall economic development**. For instance, the Government currently lacks a coherent development strategy between the existing incentives code and the initiatives pursued by agencies within DDEC, and until now there has been no single entity solely responsible for incentivizing foreign direct investment in Puerto Rico.

Under the new grouping construct, DDEC should be better able to coordinate its efforts to spur economic development by providing clear goals and metrics for success. In addition, it will drive savings by reducing the back-office operations of the newly-consolidated agencies, pursuing digitization, procurement centralization and other efforts to reduce non-personnel spend, and reducing the number of front-line personnel to better reflect mainland standards for a right-sized economic development operation.

13.9.2 Efficiency measures for DDEC

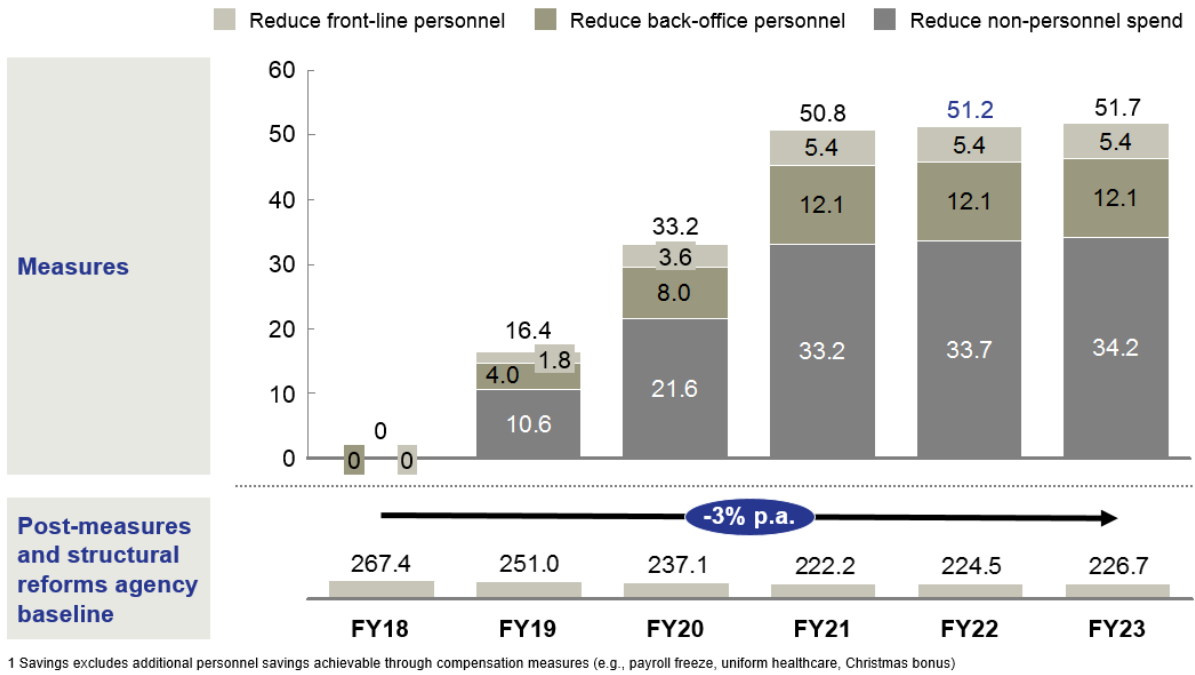
The following stipulations will govern the future state of DDEC:

- The DDEC budget should include **carve outs for the Destination Marketing Office and Invest Puerto Rico**, as these institutions will perform complementary functions to DDEC
- Each entity within DDEC grouping should have **clearly defined responsibilities and governance structures** that limit costs moving forward and prevent overlapping duties among agencies in the grouping (e.g., specific marketing / promotion agency mission should be separate from the corporate development / retention agency)

DDEC must achieve \$5.8 million in personnel savings and \$10.6 million in non-personnel savings in FY19. Refer to **Exhibit 54** for annual personnel and non-personnel savings that must be achieved through FY23.

EXHIBIT 54: DDEC SUMMARY OF MEASURES IMPACT

Summary of Department of Economic Development measures impact¹, \$M



Right-size the number of front-line employees

Therefore, DDEC should **reduce front-line personnel** by 20% to ensure a streamlined, efficient organization, leading to \$5.4 million in annual savings by FY2023.

Right-size the number of back-office employees

A government analysis identified a redundancy in service of back-office personnel across DDEC.¹⁰¹ DDEC could **consolidate back-office operations** of the newly-merged agencies as detailed in *Section 13.2*, leading to \$12.1 million run-rate savings by FY2023.

Optimize non-personnel spend

DDEC must pursue a variety of initiatives to **reduce non-personnel spend**, primarily centered on procurement optimization and digitization of operations (e.g., digitizing the permit application process), as detailed in *Section 13.2*. These initiatives must lead to \$33.9 million run-rate savings by FY2023.

13.10 Legislature, Courts, FOMB, AAFAF efficiencies and reinvestment

As discussed in *Section 11.2.4*, the General Court of Justice, Legislative Assembly, AAFAF, and the Oversight Board must also undergo expenditure reductions to enable the creation of an independently managed endowment for needs-based scholarships for students at the University of Puerto Rico. The reductions for the Legislative Assembly and General Court of Justice are informed by benchmarking against other full-time legislatures and courts in U.S. states, while AAFAF and the Oversight Board will face a ~50% reduction compared to the average reductions to other agencies, as both entities will be necessary to oversee the

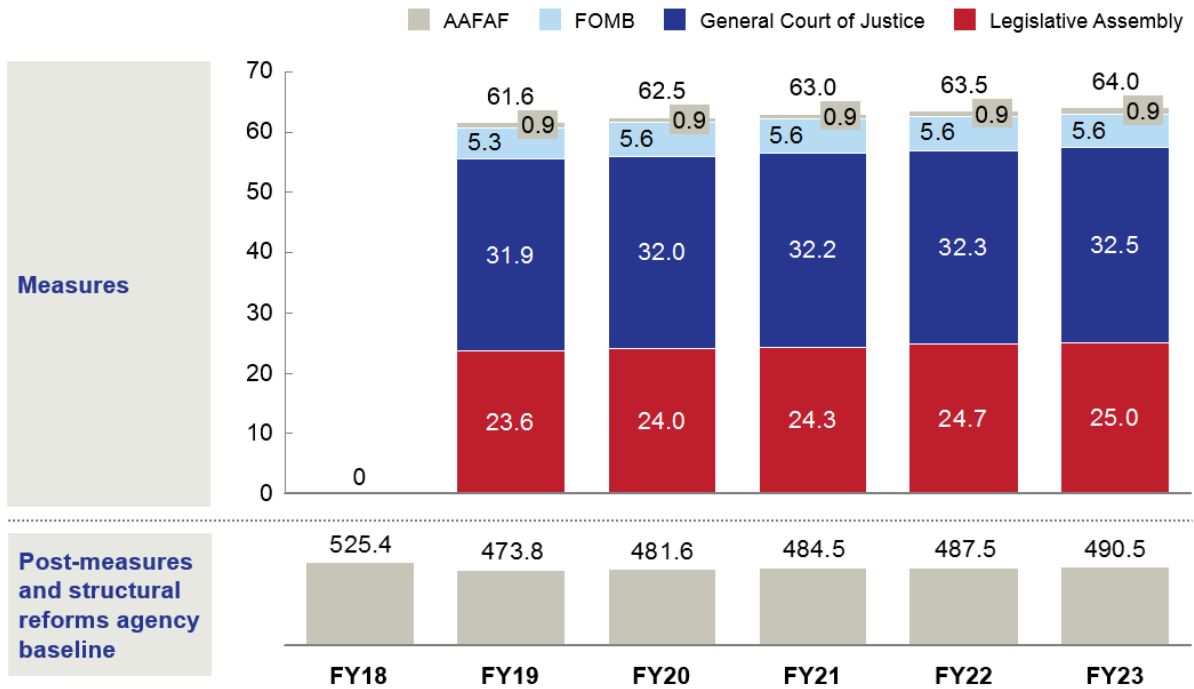
¹⁰¹ DDEC analysis, 2018

implementation of the New Fiscal Plan. In this way, these entities will share in the need to drive Government efficiency and drive reinvestment in the People of Puerto Rico.

Savings must begin in FY2019 and total \$62M, which must increase to \$64 million by FY2023. They are detailed below (**Exhibit 55**).

EXHIBIT 55: LEGISLATURE, COURTS, AAFAF, FOMB REINVESTMENT SAVINGS

Summary of agency efficiencies measures impact¹, \$M



¹ Savings excludes additional personnel savings achievable through compensation measures (e.g., payroll freeze, uniform healthcare, Christmas bonus)

Savings from the Legislature must be applied to operational spend, not funding toward other entities.

13.11 All other agencies

The following agency groupings were evaluated using a top-down approach which primarily relied on the levers and initiatives highlighted in *Section 13.1*.

Full details for each agency are provided in the appendix. Exhibit 56 shows the summary of the savings that each agency must achieve.

EXHIBIT 56: PROPOSED SAVINGS TARGETS FOR OTHER AGENCY GROUPINGS

Savings targets ¹ , \$M						
Grouping	FY18	FY19	FY20	FY21	FY22	FY23
Agriculture	-	2.5	5.0	7.6	7.7	7.7
Automobile Accident Compensation Authority	-	6.0	11.1	16.5	16.9	17.2
Courts and Legislature	-	55.5	56.0	56.5	57.0	57.5
Culture	-	2.1	4.3	6.5	6.6	6.6
Environmental	-	4.0	8.0	12.2	12.3	12.3
Executive Office	-	7.6	15.3	23.3	23.5	23.7
Finance Commission	-	1.0	2.1	3.2	3.2	3.3
Financial Oversight and Management Board	-	5.3	5.6	5.6	5.6	5.6
Justice	-	4.1	8.2	12.4	12.5	12.5
Labor	-	4.5	9.1	14.0	14.3	14.5
Land	-	1.0	2.0	3.0	3.0	3.0
Ombudsman	-	0.7	1.4	2.2	2.2	2.2
Public Works	-	15.5	31.2	47.6	48.0	48.3
Social Welfare	-	6.4	19.2	30.3	33.8	35.7
State	-	0.8	1.6	2.4	2.4	2.4
State Insurance Fund Corporation	-	18.7	37.6	57.3	57.6	57.9
Universities	-	0.7	1.0	1.4	1.5	1.5
Utilities Commission	-	1.0	2.1	3.2	3.2	3.2
Independent Agencies	-	12.9	20.0	26.9	28.3	29.6
Closures	-	0.2	0.8	1.6	1.6	1.7
Total	-	150.3	241.7	333.9	341.0	346.6

¹ Savings excludes additional personnel savings achievable through compensation measures (e.g., payroll freeze, uniform healthcare, Christmas bonus)

13.12 Compensation-related initiatives

Instituting a payroll freeze

The Commonwealth Fiscal Plan certified in March 2017 included a measure to freeze all payroll expenses which became law in FY2018. However, the freeze was due to expire at the end of FY2019. To extend the savings from freezing payroll increases, **the freeze must be continued** through the duration of the New Fiscal Plan. This measure should amount to \$276.6 million in annual savings by FY2023.

Standardizing healthcare provided to government employees

Medical insurance is a core benefit provided to all government employees. However, the degree of coverage varies widely across government agencies, with some employees receiving superior coverage compared to their peers. For instance, Port Authority employees receive an average of \$487 per month in medical benefits, whereas employees of the State Elections Commission receive only \$90 per month¹⁰².

To ensure fairness and reduce expenses, the Government must **standardize the health insurance received by each employee** so that everyone receives \$100 worth of benefits per month, or \$1,200 per year. This initiative must be fully implemented by the start of FY2019, and should lead to \$56.4 million in run-rate savings by FY2023.¹⁰³

Reducing additional outsized non-salary compensation paid to employees

¹⁰² Analysis of active, non-transitory government employees not supported by Federal Funds; data provided within January 2018 Government attrition model

¹⁰³ This total excludes uniform healthcare savings from the PRDE and the DPS, both of which have been calculated independently and included in their respective sections of the New Fiscal Plan

There are several policies that the Government must continue to enforce through the duration of the New Fiscal Plan that will impact personnel spend. These include:

- Asserting a hiring freeze with stringent requirements for backfilling positions left open by attrition or workforce reduction
- Limiting paid holidays to 15 days annually across all public employees
- Prohibiting carryover of sick and vacation days between fiscal years
- Prohibiting any future liquidation of sick and vacation days
- Eliminating the Christmas bonus for all public employees

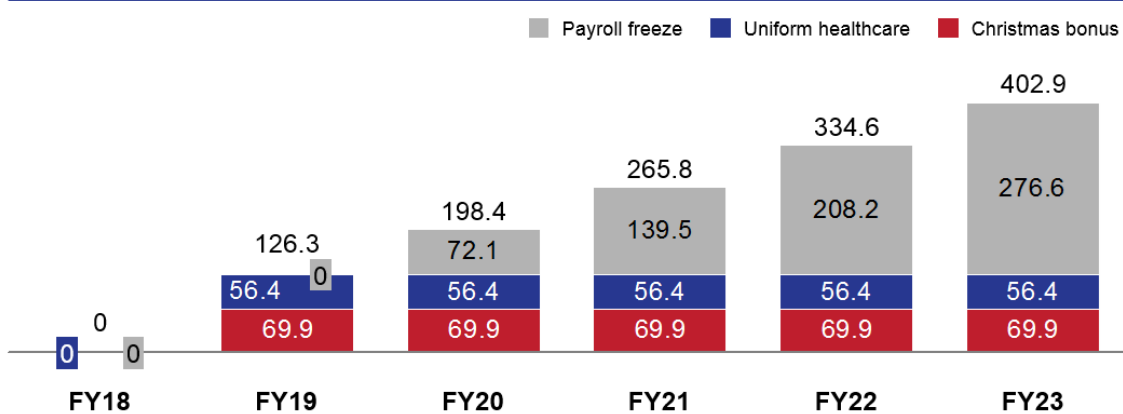
The hiring freeze policy is codified as law by the March 2017 Fiscal Plan, and the New Fiscal Plan continues to enforce that policy while requiring the Government to propose stringent requirements for the backfilling of any opened positions for approval to the Oversight Board. The other policy measures outlined above are codified as law in Act 26-2017, except for the elimination of the Christmas bonus.

The fiscal impacts of these policies are captured in the baseline expenditures of the New Fiscal Plan, except for the elimination of the Christmas bonus. These policies must remain in place so as to not increase personnel expenditures for the Commonwealth. The elimination of the Christmas bonus is projected to lead to \$69.9 million in run-rate savings by FY2019.

Total savings from compensation-related measures must reach a run-rate of \$402.9 million per year beginning in FY2023. Annual savings targets are summarized below (**Exhibit 57**).

EXHIBIT 57: COMPENSATION-RELATED MEASURES SUMMARY OF IMPACT

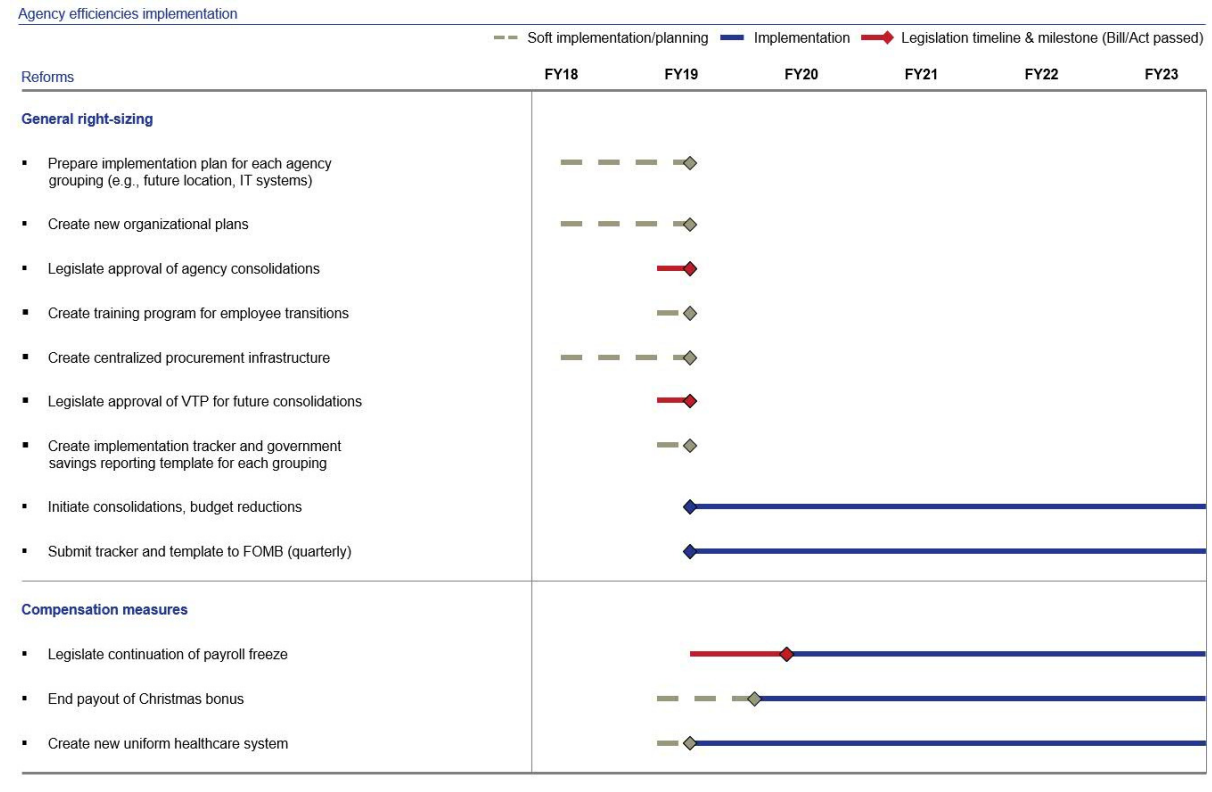
Summary of compensation measures impact, \$M



13.13 Implementation plan

Exhibit 58 depicts the implementation timeline for agency efficiencies measures, with the understanding that more detailed implementation plans will be submitted for each agency grouping by the end of FY2018.

EXHIBIT 58: AGENCY EFFICIENCIES IMPLEMENTATION TIMELINE



Chapter 14. HEALTHCARE REFORM

14.1 Current State of Puerto Rico’s Medicaid program

Prior to Maria, 46% of Puerto Ricans received their health coverage through the Commonwealth’s state-run insurance program, Mi Salud; this was the highest share of publicly-funded health insurance coverage in America, with the next highest state, West Virginia, covering only 29% of its population under public plans.¹⁰⁴ In addition to its large coverage population, Puerto Rico lags mainland states in both health outcomes and access. Puerto Ricans face higher rates of chronic conditions like hypertension (11.3%-points higher than the U.S. mainland), diabetes (4.4%-points higher), and asthma (1.6%-points higher).¹⁰⁵ Only 28% of the 62,000 Mi Salud members with diabetes and 17% of the 132,000 Mi Salud members with hypertension are in the respective disease management programs. Puerto Rico also has higher premature birth and infant mortality rates,¹⁰⁶ and higher rates of adults reporting fair or poor health.¹⁰⁷ At the same time, 72 of Puerto Rico’s 78 municipalities are

¹⁰⁴ Kaiser Family Foundation, “Medicaid State Fact Sheets: Percent of People Covered by Medicaid/CHIP, 2015”

¹⁰⁵ CDC (Centers for Disease Control and Prevention), “BRFSS Prevalence and Trends Data,” 2015-2016. Behavioral Risk Factor Surveillance System

¹⁰⁶ Puerto Rico infant mortality rate is 6.4 per 1000 (2016) vs. U.S. 5.8 per 1000; premature birth rate is 11.8% vs. 9.6% in U.S. “Puerto Rico,” World Factbook (Washington, DC: CIA)

¹⁰⁷ 35.4% of Puerto Ricans report fair or poor health, versus 17.9% U.S. average, and 19.3% in Florida and 22.0% in Mississippi (two most comparable states). Table 3, Krista Perreira et al. Urban Institute. Jan 2017. “Environmental Scan of Puerto Rico’s Health Care Infrastructure”

deemed “medically underserved areas,”¹⁰⁸ with 500 doctors leaving per year (pre-Maria). Puerto Rico has half the rate of specialists as compared to the mainland in critical fields (e.g., emergency physicians, neurosurgeons).¹⁰⁹

Mi Salud covers individuals through three primary funding sources: Federally-matched Medicaid, the Children’s Health Insurance Program (CHIP), and the Commonwealth’s self-funded insurance program for low-income adults who do not qualify for Federally-matched Medicaid. An additional 8% of the Puerto Rican population receives some benefits from Mi Salud as part of the Platino program, which supports Medicare recipients who also qualify for Medicaid (also known as “dual-eligible”). Annually, these programs collectively cost \$2.77 billion (as of FY2018), with the Commonwealth responsible for the vast majority of costs due to caps on Federal matching (*see Section 5.1.3 for more information on Medicaid Federal funds*). Puerto Rico faces real and growing challenges with rising healthcare costs, with premiums growing significantly faster than inflation. Even with some cost containment measures in place, per-member per-month (PMPM) disbursements rose 6.3% from FY2017 to FY2018. And based on national healthcare cost inflation trends plus increased post-hurricane need, Mi Salud PMPMs are projected to rise by nearly 40% over the next 6 years in the absence of additional measures.

The Bipartisan Budget Act of 2018 (BBA 2018) provides the Commonwealth temporary relief from raising healthcare costs by expanding the amount of Federal reimbursement over the next 18 months. Starting in September 2019, however, the Commonwealth will hit a “Medicaid cliff” whereby it will be responsible for multi-billion-dollar annual healthcare expenditures unseen since before the passage of the Affordable Care Act provided additional Federal funding in 2011. It is crucial, therefore, that ASES take advantage of the additional runway provided by the BBA funding to put in place reforms that reduce long-term health expenditure growth rates.

14.2 Future vision for healthcare reform

The future vision for the Puerto Rican healthcare system is to promote an overall healthier population through provision of high-quality services to all citizens in need. To do so, the Government has proposed targeting the following:

1. **Decrease the annual per-member cost growth rate to the median level of Medicaid growth rate** by implementing value-based healthcare reforms, such as new payment models to incentivize care integration among providers
2. **Shift care from higher-cost to lower-cost channels**; for example, reducing the number of emergency room visits and encouraging and enabling the role of primary care physicians in providing preventative care
3. **Drive better health outcomes for the population**, indicated especially by reduced rates of chronic conditions among adults
4. **Coordinate healthcare initiatives in the community** to promote efficiency of services and a community-wide focus on health

¹⁰⁸ Areas with a shortage of personal health services, e.g., areas or populations that have too few primary care providers, high infant mortality, high poverty, and/or high older adult population

¹⁰⁹ U.S. Department of Health and Human Services, Office of the Assistant Secretary for Planning and Evaluation, “ASPE Issue Brief: Evidence Indicates a Range of Challenges for Puerto Rico Health Care System” (Jan 12, 2017)

14.3 Key initiatives for healthcare reform

Addressing Puerto Rico’s healthcare challenges while also reducing costs will require a portfolio of targeted actions in the short term (e.g., reducing waste and abuse) and long term (e.g., structural reforms to healthcare model to improve quality relative to cost).

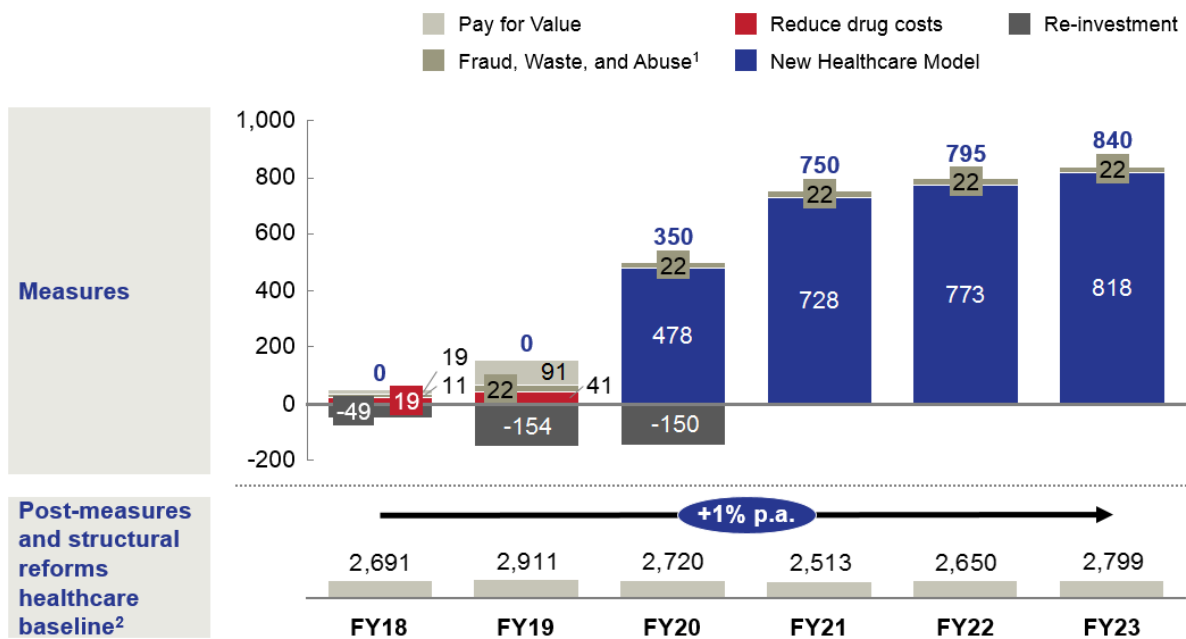
In early FY2018, ASES began efforts to reduce healthcare costs, including implementation of preliminary enrollment verification efforts with DCR and private insurers; standardization of fee schedules for providers; and prescription drug cost controls such as increased pharmacy discounts on branded drugs, mandatory dispensing of generic drugs, and changes to prescription coverage guidelines.

Beginning in FY20, the Government must implement a new healthcare model, currently in development, through changes to how the Island’s managed care organizations (MCOs), are contracted and incentivized as the third-party administrators of Mi Salud. The new model’s savings must reach a run-rate annual savings of \$840.2 million by FY2023 (off of the FY2022 baseline of approximately \$3.4 billion), a measure run-rate which is then projected to increase as the baseline expenditures increase at long-term healthcare inflation rate of 4-6%. However, this measure is offset by \$353 million, made possible by the implementation of the Labor Reform Agenda, which will be invested in ensuring improved health outcomes that will reduce costs in the long-run (*discussed in Chapter 11*).

Exhibit 59 provides an overview of the core savings measures.

EXHIBIT 59: MI SALUD BASELINE SPEND AND MEASURES

Summary of Healthcare (Medicaid) reform measures impact, \$M



¹ Includes MFCU and MMIS

² Includes only premium-related expenditures for Mi Salud and Platino costs

14.3.1 Pursue value based reforms to improve quality relative to cost of care

Pursuing value-based improvement initiatives with demonstrated success can help reduce Mi Salud’s per-member per-month (PMPM) rates. Similar value-based programs have been piloted in other states, and typically save between 2-10% of costs. In Puerto Rico, value-based

reforms may result in somewhat lower than average savings due to the breadth of other savings measures being implemented simultaneously in Mi Salud, and unique post-Hurricane challenges such as a potential increase in behavioral health needs. Value-based reforms will be combined with a portfolio of other initiatives in the “new healthcare model” to achieve savings targets. This measure includes:

Improved coordination of care. New approaches that emphasize care coordination and align incentives between patients, providers, and payors can produce improvements in health outcomes while lowering costs. Given the preponderance of chronic conditions and potential rising behavioral and mental health needs in the wake of Hurricane Maria,¹¹⁰ better access and coordination of mental health services will become increasingly important. Care coordination models like patient centered medical homes – which empower patients to work closely with a primary care provider to manage treatment plans across multiple care providers – have been quite effective at improving outcomes for members with chronic conditions.¹¹¹ ASES can serve as a coordination point for care organizations throughout the community, ranging from managed care organizations to education and faith-based community organizations. The new RFP issued by ASES is focused on developing such managed care programs for high cost, high need populations.

Reduced Emergency Room (ER) visits. Puerto Rican’s utilize the ER 3 times as often as peers on the U.S. mainland,¹¹² with estimates as high as 90% of ER visits occurring for non-emergency care that could be treated in lower cost settings. Successfully shifting unnecessary ER visits to lower-cost settings, such as primary care offices or urgent care, could save roughly \$70-75 million annually, or 3% of total Mi Salud costs. Mi Salud could reduce ER utilization through several means, including patient education, increased ER co-pays, or changes to reimbursement policies.¹¹³

Reduce inpatient length of stay. Puerto Rico’s inpatient length of stay is 1.5 times the U.S. average.¹¹⁴ MCOs can incentivize reduced hospital readmissions and length of stay through improved discharge planning and increased staffing to manage weekend discharges. Some MCOs have already implemented such reforms in Puerto Rico.

Adjusting MCO payment models. ASES is already considering many changes to MCO – provider payment models to promote greater accountability and better align care delivery to outcomes amongst providers. Best practice value-based payment models from other managed care settings include direct pay-for-performance quality bonuses, providing fixed payments for a ‘bundle’ of services required to treat a specific condition, and providing special incentives to care for members with high-cost needs, such as behavioral health.

14.3.2 Reduce pharmacy spend

Prescription drug coverage is the largest category of spend in Mi Salud, contributing 26% of the total cost in treating the average patient. Nearly half of this spend comes from specialty

¹¹⁰ Thomas Huelskoetter, Center for American Progress, “Hurricane Katrina’s Health Care Legacy” (August 15, 2015)

¹¹¹ Patient-Centered Primary Care Collaborative, “Benefits of Implementing the Primary Care Medical Home: A Review of Cost & Quality Results, 2012” (Sept 2012)

¹¹² JEL Consulting analysis (Dec 30, 2106) of ASES data and Puerto Rico Community Survey, Public Use Microdata, 2014. Estimates exclude Platino beneficiaries

¹¹³ See, e.g., Schwartz et al. Copayment levels and their influence on patient behavior in the emergency room utilization in an HMO population. *Journal of Managed Care Medicine*. 2012; Wallace et al. How effective are copayments in reducing expenditures for low-income adult Medicaid beneficiaries? experience from the Oregon health plan. *Health Services Research* 2008; Lesley et al. Reducing frequent visits to the emergency department: a systematic review of interventions. *PLOS*. 2015

¹¹⁴ As of 2014. JEL Consulting analysis (Dec 30, 2106) of ASES data and Puerto Rico Community Survey, Public Use Microdata, 2014. Estimates exclude Platino beneficiaries

drugs. Even after ASES-negotiated some prescription drug cost reduction measures,¹¹⁵ pharmacy costs grew 14% annually from FY2016 to FY2018 in Puerto Rico,¹¹⁶ compared to 6% per year in U.S. Medicaid programs.¹¹⁷

Puerto Rico faces structurally higher prices than the mainland because, unlike U.S. states, it cannot participate in the Federal Medicaid Drug Rebate Program (MDRP), and may only seek voluntary or supplemental rebates. That said, ASES can lower the cost of prescription drug coverage by replacing higher cost drugs with cheaper, equally effective alternatives, driving increased use of generics and imposing utilization controls. These initiatives resulted in negotiated savings of \$4.31 PMPM in Mi Salud's FY2018 contracts. However, to sustain these savings, MCOs must engage in ongoing monitoring and enforcement of policy changes to further refine drug coverage lists and utilization management policies due to changing prescription patterns.

14.3.3 Reduce fraud, waste, and abuse (FWA)

The U.S. Government Accountability Office found evidence that MCOs have not consistently reported improper payments to providers billing to the system. Further, it found that many MCOs face conflicts of interest in finding and eliminating fraud.¹¹⁸ Typical waste, fraud, and abuse reduction programs in other state Medicaid programs and health insurers have been able to achieve 1-3% cost savings. These savings have been reached through: pre-payment review (e.g., reviewing claims before payment to identify outliers / issues); auditing and enforcement units to investigate suspicious behavior; advanced analytics capabilities to review many actions to identify inefficient or fraudulent activities in post-payment review, such as identification of "impossibility" coding (e.g., billing for over 24 hours of service in one day), or frequently repeated or high value procedures; and long term policy or organizational transformation.

To combat FWA, ASES shall:

- Fully operationalize a Medicaid Fraud Control Unit (MFCU)—which it has already launched—outside of the MCOs to identify and prosecute fraudulent charges
- Establish a functional Medicaid Management Information System (MMIS) to track utilization, claims, and provide the data inputs for advanced analytics assessments to identify inappropriate spending; and
- Use data to obtain reimbursement for improper payments and to identify and eliminate the systematic causes that enabled the problematic activities in the first place.

Puerto Rico does not currently have an operational MMIS or MFCU, but is in the process of developing and shall develop both programs. Successful operationalization of the MMIS will enable ASES to receive \$1.2 billion of the BBA 2018 allocated funding, contingent upon establishment of methods to lower FWA and collect/report reliable information to the Transformed Medicaid Statistical Information System (T-MSIS).¹¹⁹

¹¹⁵ FY2018 Milliman Actuarial Certification

¹¹⁶ *Ibid*

¹¹⁷ Express Scripts 2016 Drug Trend Report

¹¹⁸ GAO "Medicaid and CHIP Increased Funding in U.S. Territories Merits Improved Program Integrity Efforts," April 2016

¹¹⁹ MACPAC, "Medicaid and CHIP in Puerto Rico," report, February 2018

14.3.4 Enrollment verification

In addition to overpayment for eligible beneficiaries, ASES faces a particular challenge in ensuring it is serving the proper beneficiaries—and preventing those who are ineligible from receiving benefits. Over-enrollment typically occurs when residents have private insurance, are in the corrections system, have moved to other states, or are deceased. Data system limitations (e.g., limited data sharing with other systems; manual dis-enrollment after eligibility expiration) mean that it often takes years to dis-enroll ineligible members, and many are never removed. Over enrollment could be identified through coordination of benefits, interagency data sharing, state-specific MOUs, and the national Public Assistance Reporting Information System (PARIS) and T-MSIS Medicaid interstate match.

Pre-Maria, Mi Salud had an estimated 5% over-enrollment rate, translating to Mi Salud improperly paying for roughly 62,000 beneficiaries.¹²⁰ Maria is likely to augment these challenges. Due to the hurricane, 12% of Puerto Rico's population is expected to emigrate by FY2023, and it is estimated that a roughly proportionate number of Mi Salud members will also leave the Island. Given the limited data capabilities at present, without active efforts to dis-enroll those who leave and do not return, it is expected that ASES will continue to pay for these departing beneficiaries for a full year after they leave, resulting in Mi Salud reaching 10% over-enrollment in FY2018.

14.3.5 Implement a uniform fee schedule for providers

One way ASES has been able to put controls on spend growth is working with MCOs to implement a new fee schedule for providers. The updated schedule, which went into effect on July 1, 2017, provides 70% of Medicare reimbursement rates for each category of services, a sharp reduction for some specialty services on the Island (laboratory and radiology in particular), reducing PMPM by an estimated \$3.52 in FY2018.¹²¹

14.3.6 Reduce administrative MCO costs through a single region model

ASES can reduce MCO administrative costs by switching from the current system of nine regions, each with a single MCO provider, to a geographically unconstrained competitive system with multiple MCOs serving the entire Island. This new single region MCO model should produce increased economies of scale for administrative operations and will lower costs through greater competition and incentives to enforce efforts to lower the cost of care.

ASES has already been moving the MCOs towards improved Medical Loss Ratios (MLRs), constraining the share of their PMPM costs not used for medical services. In the FY2016 contract, 10% of the PMPM went to administrative costs and profits; in the FY2018 negotiated rates, administrative costs and profits fell to 8.6%.¹²² In FY2019, ASES plans to improve this MLR to 92% (8% leftover for administration and profits).¹²³

14.3.7 Stop-gap levers to ensure achievement of savings targets

As an extreme measure in cases where target run-rate savings are unachievable with the above measures, the following additional measures could be implemented to hit expenditure reduction targets.

¹²⁰ Ballori Group estimate

¹²¹ FY2018 Milliman Actuarial Certification

¹²² FY2016 rate analysis; FY2018 Milliman Actuarial Certification

¹²³ Communication with ASES, Nov 21, 2017

Require cost-sharing for the Medicaid and Commonwealth populations

ASES could reduce healthcare spending by imposing cost sharing on specific services to disincentivize high-cost, low-impact behavior, such as visiting an ER for non-emergency services or using certain non-preferred drugs. Co-pays have been shown to reduce used of affected services, and therefore should not apply to preventive care or other areas that reduce net health system costs, such as family planning services. Any required co-pay shall be determined on a service-by-service basis to selectively disincentivize high-cost, low-impact activities; further, co-pays will be implemented progressively, scaled to member income while exempting those without income and CHIP members.

Reduce coverage for select optional benefits

Medicaid requires all states to cover certain services, such as hospital stays, physician visits, preventive health services, family planning, and pregnancy-related care. Other benefits are considered optional, including: prescription drugs; physical, occupational, and speech therapy; dental; podiatry; optometry and glasses; prosthetics; chiropractor services; private duty nursing; hospice; and respiratory care services. Some of these optional benefits are provided by every state (such as prescription drug coverage), while others are covered by fewer than half of states. 4.3% of total Mi Salud payments¹²⁴ are related to the following categories of benefits coverage that at least one other state or territory does not cover:¹²⁵

EXHIBIT 60: OPTIONAL BENEFITS PROVIDED BY PUERTO RICO BUT NOT OTHER STATES/TERRITORIES

Optional benefit type	FY18 PMPM, \$	FY18 projected cost, \$M	States/territories not covering, %
Dental	\$4.38	65.5	7%
DME and supplies, prosthetics	\$1.53	22.9	4%
Private duty nursing/home health	\$0.99	14.8	59%
Professional – PT	\$0.67	10.0	30%
Professional – Vision, hearing, and speech exams	\$0.45	6.7	29%
Benefits glasses/contacts	\$0.14	2.0	18%
Outpatient facility – PT/OT/ST	\$0.04	0.6	36%
<i>Less CHIP portion of benefits¹</i>	<i>\$(0.59)</i>	<i>(10.9)</i>	
Total	\$7.61	112	

1 CHIP beneficiaries excluded from any potential benefit reduction

¹²⁴ When adding back in the \$0.59 PMPM attributable to CHIP coverage that would not be subject to reductions or cost sharing

¹²⁵ Kaiser Family Foundation Medicaid Benefits Data Collection, Oct 1, 2012 data (latest available as of Nov 2017). 2 states do not cover prosthetics, while every state covers durable medical equipment and supplies. 33 states do not cover private duty nursing, while every state covers home health services. 20 states do not cover occupational therapy; data was not available on outpatient PT/OT/ST specifically. Puerto Rico data from FY2018 Milliman Actuarial Certification

As a result, another second stop-gap measure could be to reduce Mi Salud coverage for select optional benefits, either by eliminating some optional benefits, imposing various levels of cost-sharing for remaining benefits, or restricting access. Optional benefit coverage reductions would affect Medicaid and Commonwealth Mi Salud members, but not CHIP members.

Reinvestment in health outcomes and infrastructure

Over FY2018-FY2020, \$353M can be reinvested in improving health outcomes, funding for which will be made possible by the implementation of the Labor Reform Agenda (*See Chapter 7*). These reinvestment funds will be used in part to improve health outcomes in the community through preventative care, increased analytical capabilities, and a more reliable health infrastructure. These short-term investments to improve the long-term outlook of healthcare in Puerto Rico will significantly control skyrocketing long-term healthcare costs and contribute to the overall well-being of Puerto Rico’s residents. *Reinvestment initiatives are detailed in Section 11.2.1.*

14.4 Implementation plan

Healthcare reform shall consist of specific measures (pay for value, reduction of drug costs, modification of benefits package, and FWA efforts) in FY2019 during the development of the new healthcare model. The new healthcare model shall take effect in FY2020 (**Exhibit 61**).

EXHIBIT 61: HEALTHCARE REFORM IMPLEMENTATION TIMELINE



Chapter 15. TAX LAW INITIATIVES

15.1 Current state of tax environment

Puerto Rico's current tax system suffers from its structural complexity, instability, internal inconsistency, inefficient administration and inadequate enforcement. This has fueled a culture of tax evasion, promoted by a lack of adequate enforcement personnel, technology and process. Top marginal tax rates are high relative to U.S. Federal and state taxes (e.g., 39% for corporations, and 11.5% for sales and use). Much of the Government's revenue is also overly concentrated in collections from a handful of multi-national corporations. To compensate for this unevenness, the Government has issued an assortment of credits, deductions, and incentives that add to the system's complexity and further erode the tax base. Limited audit and enforcement in recent years has also resulted in a "lack of fear" amongst tax filers, who assess that the likelihood of punishment is low and the ability to negotiate consensual settlement agreements if caught are high.

In addition, Puerto Rico's current patchwork process for awarding tax concessions, which averaged ~\$251 million in annual exemptions between FY2009 and FY2013¹²⁶, has not historically been aligned to a strategy for growth. Some evidence exists that exemptions within the tourist industry have led to positive returns on investment.¹²⁷ However, not all incentives – one recent analysis of Puerto Rico's corporate tax incentives revealed 50+ such exemptions within the economy¹²⁸ – prove as profitable as the tourism incentives.

15.2 Future vision for tax environment

Prior to the hurricane, the Government was evaluating options for a reformed tax regime, and had taken steps to improve tax compliance and increase certain taxes and fees. In the wake of the hurricane, Puerto Rico will need to drive more formality and increased compliance within the tax base without losing revenues. Therefore, Puerto Rico should broaden the tax base while maintaining revenue neutrality to ensure that revenues are not unintentionally foregone.

15.3 Proposed tax law initiatives

The New Fiscal Plan includes a series of targeted tax law initiatives that focus on reducing income tax rates while broadening the tax base via the expansion of alternative minimum taxes (AMTs) and reduction of incentives to raise taxes on others. The tax law initiatives must be revenue-neutral, with multiple stabilizing mechanisms to offset any shortfalls in revenue. The plan:

- Reduces the corporate base tax from 20% to 19%, and the top rate from 39% to 31%
- Lowers individual income tax rates, including the top marginal rate to 31%, while reducing a series of exemptions and deductions such as the mortgage interest deduction
- Eliminates the B2B SUT by FY2020
- Reduces the tax rate on prepared foods transactions (e.g., at restaurants) paid for via electronic means from 11.5% to 7%

¹²⁶ Hacienda, Oficina de Asuntos Economicos Y Financieros (2013)

¹²⁷ An Estudios Técnicos cost-benefit analysis of tax credits within the hotel industry concluded there was a direct net benefit of \$179M annually due to the tax credits, or \$328M when including aggregate net benefit to the economy ("Cost-Benefit Analysis for the Tax Credits Provided to the Hotel Industry by the Government of Puerto Rico," Estudios Técnicos (2017))

¹²⁸ "Tax incentives in Puerto Rico", DLA Piper (2017)

These initiatives must be financed by a variety of offsets, including:

- The creation of a minimum flat tax withholding at source regime for self-employed individuals and service based companies
- Expanded usage of corporate and individual alternative minimum taxes to broaden the tax base and combat excessive usage of deductions to lower tax liability
- Reduction in a series of deductions, credits, and cash grants

These tax law initiatives do not address incentive corporations or the need to shift away from the Act 154-2010 tax to a broader, more progressive tax regime. The incentives also do not address the Government’s need to reform its broader tax structure in response to the Federal Tax Reform legislation that was recently enacted. Both of these topics will need to be addressed in the future.

The projected value of tax reductions and offsets are shown below (**Exhibit 62**).

EXHIBIT 62: DETAILED TAX LAW INITIATIVES AND OFFSETS

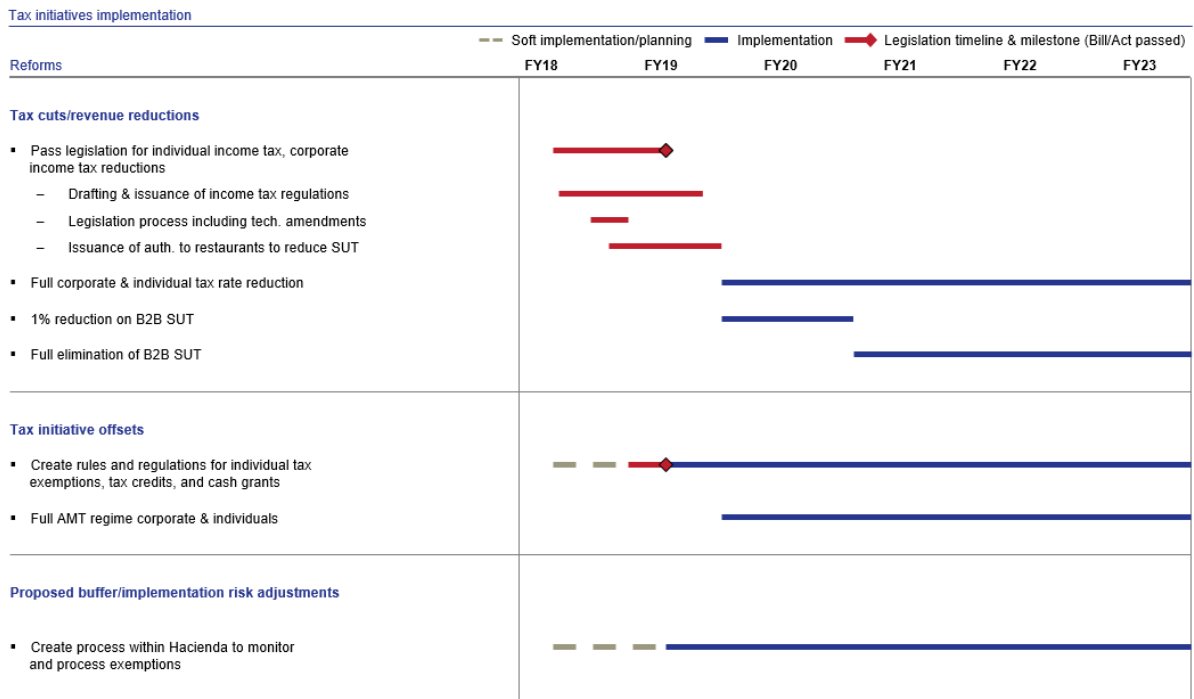
Revenue Impact, \$M						
Tax cuts/revenue reductions	FY19	FY20	FY21	FY22	FY23	Total
Individual income tax reductions and pension exclusions	(\$257)	(\$575)	(\$582)	(\$585)	(\$585)	(\$2,584)
Corporate income tax reductions	(65)	(152)	(157)	(159)	(159)	(692)
Phase out of B2B tax	(19)	(101)	(169)	(172)	(172)	(633)
Reduction of SUT on prepared foods	(79)	(87)	(87)	(87)	(87)	(427)
Subtotal	(\$420)	(\$915)	(\$995)	(\$1,003)	(\$1,003)	(\$4,336)
Tax initiative offsets						
Individual income tax deduction and exemption adjustments	\$160	\$347	\$348	\$351	\$353	\$1,560
Tax credits	109	128	128	128	128	621
Cash grants	75	123	123	123	123	568
Corporate AMT & Withholding at Source Revenue	126	286	289	289	289	1,279
Individual AMT & Withholding at Source Revenue	69	156	158	158	158	698
Other Measures	16	22	26	27	28	119
Subtotal	\$555	\$1,062	\$1,072	\$1,076	\$1,079	\$4,845
Subtotal Total Net Impact Before Implementation Risks	\$135	\$148	\$78	\$74	\$77	\$510
Implementation Risk Adjustments						
Electronic Transactions and Prepared Foods SUT Limitations	\$4	\$4	\$4	\$4	\$4	\$21
Corporate AMT behavioral adjustment discount	(22)	(48)	(50)	(50)	(50)	(220)
Corporate AMT economic adjustment discount	(5)	(16)	(12)	(12)	(12)	(56)
Individual AMT behavioral adjustment discount	(2)	(4)	(4)	(4)	(4)	(18)
Individual AMT economic adjustment discount	(4)	(8)	(8)	(8)	(8)	(37)
Other measures behavioral adjustment discount	(8)	(5)	(5)	(5)	(6)	(29)
Total Net Impact After Implementation Risk Adjustments	\$98	\$70	\$3	(\$1)	\$1	\$172

15.4 Implementation and enforcement of tax law initiatives

15.4.1 Proposed implementation plan

Implementation of the tax law initiatives must occur sequentially, with the Government ensuring that initiatives are paid for (e.g., through revenue generated from AMTs or incentive reductions) before rates are reduced. **Exhibit 63** shows for the proposed implementation plan, including major legislative milestones.

EXHIBIT 63: TAX LAW INITIATIVES IMPLEMENTATION TIMELINE



15.4.2 Creation of a tax expenditure report

As part of implementation, the Government must regularly produce a tax expenditure report, which will include a comprehensive lists of revenue losses attributable to provisions of the Puerto Rican tax code that deviate from the tax structures benchmark law. The revenue loss could be due a special exclusion, deduction, exemption, credit, a preferential rate of tax, or a deferral of tax liability. Having a clear and accurate understanding of what the Government spends through tax expenditures is critical to ensuring that the expenditures are contributing to economic growth and opportunity. The first draft of tax expenditures budget must be provided to the Oversight Board by the end of calendar year 2018.

15.4.3 Enforcement of revenue neutrality

Enforcement mechanisms must be part of any tax initiative package to prevent a scenario where tax reductions for individual income tax, corporate income tax, B2B tax, and SUT on prepared foods (the “Proposed Tax Initiatives”) are not accompanied by sufficient offsetting revenue measures identified in the enabling legislation. Enforcement shall take the form of a fiscal responsibility test. There are historical precedents for this type of enforcement mechanism, including Act 1-2011 in Puerto Rico and California’s 2009 budget legislation.

To meet this requirement, the Government must produce a quarterly performance report, which shall be submitted to the Oversight Board within 45 days after each quarter ends, measuring the performance of the Proposed Tax Initiatives and the offsetting revenue generation or cost reduction measures identified in any enabling legislation against projections set forth in the New Fiscal Plan. The implementing legislation shall include specific measures that will be triggered to restore revenue neutrality over the period covered by the New Fiscal Plan in the event that the Oversight Board determines there is a lack of revenue neutrality, based on the quarterly performance report or any other information or report. The

implementing legislation must be constructed such that further legislative action is not required for these enforcement measures to take effect. Neutrality can only be reached on categories and legislation related to the Proposed Tax Initiatives themselves and cannot be reached via outperformance against the baseline, improvements in compliance, or a reduction in general expense categories. Additionally, automatic stabilizers must be enacted through legislative channels (**see Appendix** for legislative language and mechanisms) and reduction of taxes will be reversed in cases of non-compliance and failure to meet revenue neutrality.

Chapter 16. TAX COMPLIANCE AND FEES ENHANCEMENT

16.1 Current state and future vision for tax revenue collection

As described in the “Tax Law Initiatives” (*see Chapter 15*), Puerto Rico has suffered from low tax compliance due to an unevenness in who pays taxes and lack of fear among violators, leading to limited downside for non-compliance and high upside for tax avoidance. **Due to its compliance and collections issues, the Commonwealth has not been able to drive as many revenues from taxes as it should each year.**

In response to these challenges, the Government reports it has already started implementing compliance-related changes within Hacienda. It is driving improvements in its culture and organization to boost enforcement capabilities, streamlining the process of filing taxes and reducing complexity in the system to lighten the burden of compliance on taxpayers. These efforts have already resulted in some success: in 2012, SUT compliance stood at 56%, and by 2016 had improved by 12 percentage points, to 68% compliance.¹²⁹ Moving forward, Commonwealth-commissioned tax reform report models estimate that Puerto Rico could reach 75% sales tax compliance.¹³⁰

16.2 Administrative tax initiatives to increase revenue collections

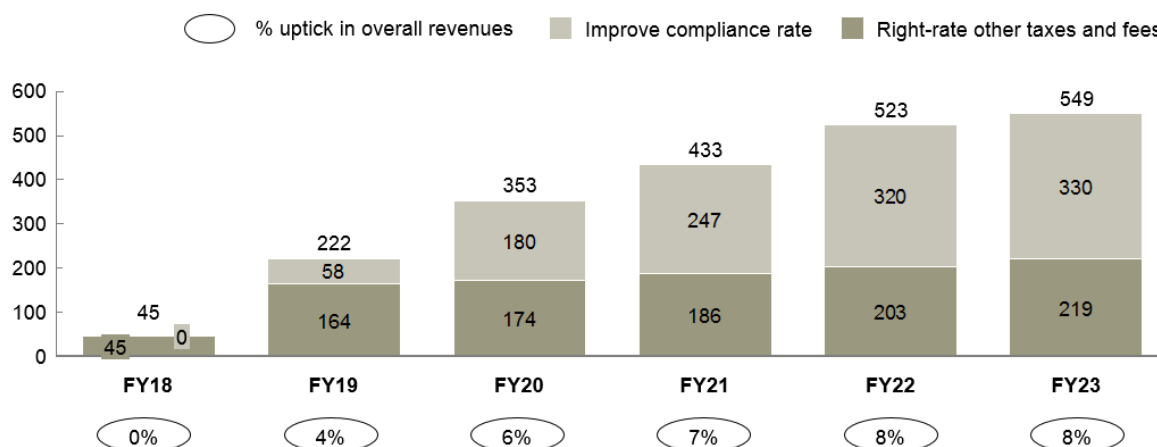
By driving administrative reform, the Commonwealth must increase revenues by \$2,126 million over six years, as shown below (**Exhibit 64**).

¹²⁹ Departamento de Hacienda, November 2016

¹³⁰ The report did not address how long it would take to reach this end state. “Commonwealth of Puerto Rico Tax Reform Assessment Project, Unified Tax Code of Puerto Rico: Tax Policy Implementation Options General Explanation of Principal Options” *KPMG* (October 31, 2014)

EXHIBIT 64: REVENUE MEASURES SUMMARY OF IMPACT

Summary of tax compliance and fees enhancement measures impact, \$M



16.2.1 Improve compliance rate

Given the progress to date in improving compliance rates and the ongoing gap to reach mainland performance, **the Government must target a 5% net uplift in compliance by FY2022** – inclusive of implementation costs from reinvestment described in the “Hacienda / Office of the CFO” (see Chapter 12) – across the major tax lines (personal income tax, corporate income tax, and SUT). Such an improvement would also be in line with improvements seen in other tax transformations.¹³¹

Recent compliance efforts in the Commonwealth have largely focused on collections outreach activities, obtaining one-time back taxes owed through a collections call center, flexible payment plans, and a large corporate taxpayer-focused team (with a longer-term goal of establishing a permanent separate unit). In the future, emphasis should shift towards **initiatives that promote a culture of compliance** to boost voluntary payment. The goal should be to reduce the cost of compliance while simultaneously raising the cost of non-compliance, through a combination of an increased likelihood of being caught while not paying taxes owed and more effective and enforceable penalties.¹³²

- **Use new systems and processes to identify and remediate non-payment.** Hacienda will create a “premium return system” for individual and corporate taxpayers that enables taxpayers to claim certain deductions and exemptions only if their return is prepared by a certified public accountant following agreed upon procedures; the CPA’s review and certification of the return and supporting documentation as compliant with Puerto Rico’s tax laws would functionally serve as a “pre-audit,” reducing the likelihood of tax evasion and the need for a fuller review by Hacienda.
- **Create a new culture internally and externally** that shifts from the agency existing to serve the public (“*Hacienda para servirle*”) towards emphasis on Hacienda making sure everyone pays their taxes, but with as little friction as possible for the taxpayer and the agency.

¹³¹ Analogous case studies include Panama, Jamaica, and Spain, which saw 1.0 to 2.5 percentage point increases in tax ratio relative to GDP through their comprehensive tax overhauls. Puerto Rico achieving a 5% uplift from compliance, along with the other measures on corporate tax reform and increased fees, would produce a 2.25 percentage point increase in tax ratio relative to GDP, in line with these case studies

¹³² Xenia Velez presentation to the Oversight Board (Nov. 30, 2017), 3

- **Reduce the complexity of the tax system and process of filing taxes** to make it easier for individuals and businesses to pay their taxes correctly. Hacienda reports it plans to introduce pre-filled tax returns and fully digitize the tax filing system onto the Internal Revenue Unified System (SURI) platform that will enable easier filing, communication, and levying of penalties for late payment or non-payment. It must also ease the process of paying for licenses, stamps, and fees by shifting from a system of 64 agency payment centers to instead partner with retail banks, enabling taxpayers to pay their fees at any of 200 private sector locations in various communities (and within four years, 1,000 locations).
- **Institute advanced analytics and broad-reach, low-touch correspondence audits.** Small and medium taxpayers account for a significant share of the unpaid and underpaid taxes, but only a tiny fraction of these taxpayers receive full-scale audits due to the significant time and cost investment needed. While a traditional IRS audit costs an average of \$2,278 per case, automated notices or letters can be executed for \$52 to \$274 per case.¹³³ Hacienda had begun a correspondence audit program prior to Hurricanes Irma and Maria, receiving such a strong response to the first batch of 1,000 letters that it overwhelmed the call center. This program helped contribute to \$7.1 million of collections outreach revenues in the first 2 months of FY2018 (against a \$1.4 million target),¹³⁴ with half of those responding to the letters agreeing to pay the proposed penalty amount.¹³⁵ Fully implementing data-driven tiered audits will enable Puerto Rico to reach a significantly larger share of nonpayers.
- **Collecting SUT on Internet sales.** Nationally, the percent of taxpayers voluntarily reporting and paying use tax on their income tax forms ranges from 0.2% to 10.2%,¹³⁶ while nearly 80% of Americans shop online.¹³⁷ Through legislation combining click-through nexus, affiliate nexus, and economic nexus, as well as voluntary agreements with major online retailers, the Government should be able to capture SUT on a much larger share of Internet sales.¹³⁸ In fact, Hacienda has already announced an agreement with a large online retailer to charge Puerto Rico sales tax on sales of goods¹³⁹. With Internet sales growing at ~15% annually, Internet sales tax presents an even more important opportunity going forward.

Other best practices could be implemented as well. For example, Puerto Rico's SUT currently requires separate Commonwealth and municipal filings, but the filings could be consolidated and the revenue forwarded from the Commonwealth to the municipalities to ease compliance burden.¹⁴⁰ Similarly, multiple monthly SUT filings (up to 4 per month for importers) could be collapsed into one-time filings.¹⁴¹

¹³³ IRS Enforcement Results, TIGTA Filing Season Audit, IRS Taxpayer Advocate, Team Analysis, GAO

¹³⁴ Hacienda, Fiscal Reforms August 2017 reporting

¹³⁵ Conversation with Hacienda, Dec 13, 2017

¹³⁶ <http://www.house.leg.state.mn.us/hrd/pubs/usetax.pdf> at 7

¹³⁷ Tech Crunch, 2016

¹³⁸ Click Through refers to a nexus between an out of state seller and the state, which enables them jurisdiction to collect taxes, created via an affiliate in the state that links to another "out-of-state" business via an affiliate program (i.e., they send sales your way, you give them a small cut of the profits). Economic nexus refers to the dollar amount spent by a consumer at a business, which provides sufficient local economic activity for the state to be able to collect taxes from that out-of-state seller. Affiliate nexus refers to out-of-state sellers with ties to local sellers, such as through parent or subsidiary arrangements, or local order fulfillment, which creates sufficient local ties to subject the out of state seller to local taxes. Voluntary agreements occur when corporations agree through individual negotiations with states to collect and remit sales tax directly to the state

¹³⁹ Caribbean Business, "Amazon to charge Puerto Rico sales tax"

¹⁴⁰ Isabel Hernandez presentation to the Oversight Board (Nov 30, 2017), 13

¹⁴¹ Ibid

Considering the post-hurricane limitations, additional compliance activities should be implemented beginning in FY2019, and would expect to see revenue impacts growing throughout FY2020 and beyond. The impact would phase in over the course of 4 years given the need for training and movement of workers into Hacienda through the Single Employer Act (Law 8, 2017), establishment of new offices and processes, and gradual shift in public perception and voluntary compliance as a result of enforcement activities. However, certain levers, such as negotiation of voluntary sales tax agreements with major online retailers, aside from Amazon, could begin as early as the end of FY2018.

16.2.2 Right-rate other taxes and fees

Prior to Hurricane Maria, the Government reports it had already developed a plan to right-rate the following taxes and fees. These original plans, as well as any adjustments mutually agreed upon between the Government and the Oversight Board during implementation of the March 2017 Fiscal Plan, have been largely included in this New Fiscal Plan, except where explicitly noted below.

Gaming tax. Legislation passed in 2017 that increased licenses and fees on mechanical and electronic gaming machines to \$3,000 from \$100. This was originally estimated to generate \$~71 million in incremental revenues.¹⁴² Part of this calculation involved assumptions of improved enforcement improvements, as the Government has previously estimated it is losing approximately \$170 million per year due to illegal machines that are not paying licensing fees. However, when factoring in the potential that a 2,900% increase in taxes on the machines could decrease total revenues from gaming – a change from 2017 forecasting – run-rate, incremental revenue from the gaming tax has now been reduced to approximately ~\$50 million per year by FY2023.

Licenses and other fees. 2017 legislation enabled fee increases in miscellaneous categories. Hacienda will determine which exact fees are to be increased to meet these minimum thresholds, achieving an overall revenue increase of \$62.7 million by FY2023.¹⁴³ Categories are as follows: Charges for services; Fines; Insurance; Licenses; Permits; Rent; Royalties; Stamps; Other.

Tobacco taxes. Legislation was passed in 2017 to increase specific tobacco taxes, including taxes on cigarettes, cigars, rolling tobacco, cigarette paper and tubes, chewing tobacco, snuff, electronic cigarettes, nicotine cartridges, and vaporizers. Accounting for one-time declines in use due to price-related elasticities after the new fees went into place,¹⁴⁴ a \$56 million per year increase in revenues due to the new taxes is projected.

Medical marijuana tax. The Government has passed legislation to tax medical marijuana. Based on an estimated 29,000 patients, the Government can be expected to collect approximately \$14 million per year in additional revenue through this initiative.¹⁴⁵

Airbnb Tax. The Government has passed a law to apply a 7% hotel room tax to Airbnb rentals, resulting in a projected \$4 million of annual revenue increases, based on annualization of the actual Airbnb tax receipts from before the hurricane.¹⁴⁶

¹⁴² Based on an assumption of 23,000 gaming machines on which Hacienda is able to collect fees (<http://www.oslpr.org/2017-2020/leyes/pdf/ley-108-23-Ago-2017.pdf>)

¹⁴³ Assumes an 80% capture rate on the \$73M potential to account for potential elasticities in demand based on fee increases

¹⁴⁴ Based on an 18% decline, per Hacienda (April 5, 2017 calculations)

¹⁴⁵ \$15M projected receipts, minus \$1.5M of dedicated revenues for the medical marijuana council established in 2017-Act 42 and controlled substances monitoring in 2017-Act 70

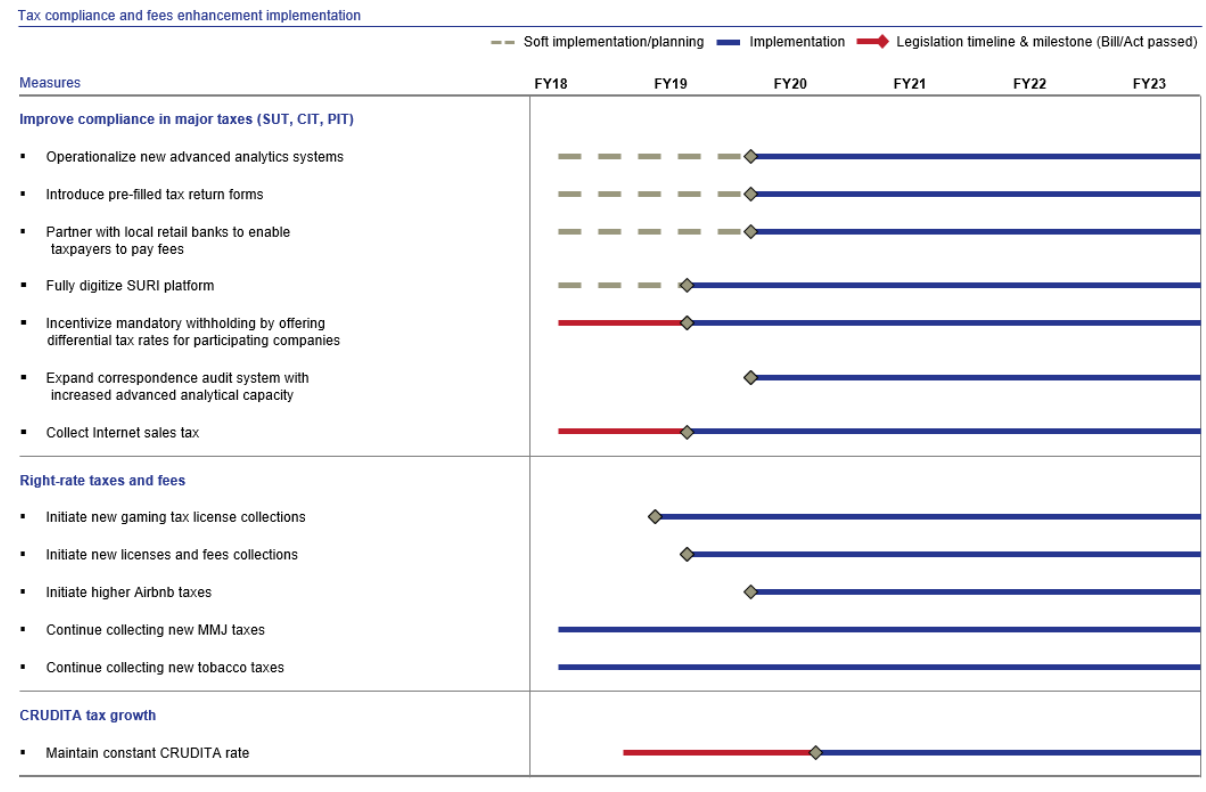
¹⁴⁶ Hacienda August 2017 Revenue Scorecard, submitted Sept 15, 2017

CRUDITA excise tax. Currently, the petroleum product excise tax (CRUDITA) generates \$470 million in gross¹⁴⁷ revenue each year for the Commonwealth, and rates are adjusted annually to reach the revenue target. As the Island faces a potential loss of revenues and shrinking export sector – coupled with the environmental considerations the Island is currently facing – the New Fiscal Plan proposes adding a measure to maintain a constant excise tax rate rather than adjusting it to target a fixed amount of tax revenue. This policy reform would align different categories of petroleum product revenue across the board, and allow each to grow based on real GNP rather than create a fragmented constellation of policies across taxes on gasoline, petroleum excise, gas oil, and diesel. The measure is projected to generate \$31.1 million per year by FY2023.

16.2.3 Implementation plan

The following implementation plan details the continuation of the Commonwealth’s efforts to increase compliance, and imposes further details on key milestones in the process to right-rate taxes and fees.

EXHIBIT 65: TAX COMPLIANCE AND FEES ENHANCEMENT IMPLEMENTATION TIMELINE



¹⁴⁷ Does not deduct funding provided by the Commonwealth to the Highways and Transportation Authority

Chapter 17. REDUCTION IN APPROPRIATIONS TO UPR AND MUNICIPALITIES

17.1 Current state and vision for Commonwealth appropriations

The central Government provides a range of appropriations to three main groups of recipients: The University of Puerto Rico, Puerto Rico's 78 municipalities, and "other" recipients (typically private industry or non-profit institutions). "Other" appropriations are addressed within "Tax Law Initiatives" (see *Chapter 15*).

Currently, UPR is 70% subsidized (~\$708 million in annual appropriations) by state and local funds, compared to 25% average level of state/local subsidization of U.S. public universities¹⁴⁸. UPR's tuition is less than one-third of the U.S. public average even after adjusting for per-capita income, and UPR spends ~10% more per student on operational spend than the average public university.

A reduction of the appropriation for UPR was determined in 2017 through a shared process with the Government to identify reasonable, sustainable reductions to the UPR appropriation that brought to closer to U.S. public university tuition and cost benchmarks. This reduction was included in the original March 2017 Fiscal Plan.

Municipalities receive \$220 million in annual appropriations from the Commonwealth, but despite this aid are operating at annual operating deficits of \$260M.¹⁴⁹ With more reductions on the horizon, municipalities must undergo substantial operating model changes, or else risk increasing their annual operating deficits to ~\$500 million annually. In addition to reducing the appropriations to municipalities to drive fiscal discipline, the Commonwealth can support consolidations of municipal services to encourage efficiencies, such as through service provision collectives or streamlining the legal framework to remove barriers to collaboration.

17.2 Key initiatives to reduce appropriations

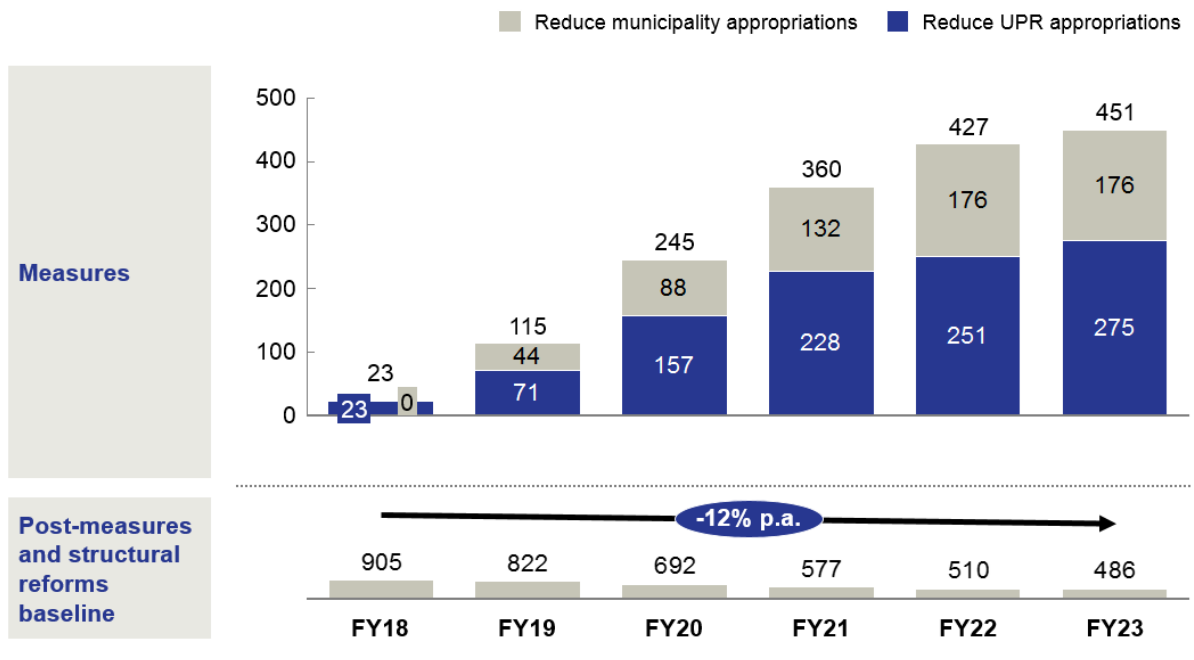
Reducing Commonwealth subsidies to municipalities and UPR must lead to annual savings of \$451 million by FY2023.

¹⁴⁸ UPR, IPEDs, College Board

¹⁴⁹ V2A November 2016

EXHIBIT 66: REDUCTION IN APPROPRIATIONS SUMMARY OF MEASURES IMPACT

Summary of appropriations measures impact, \$M



17.2.1 Reduce UPR appropriations to levels in line with funding of other U.S. public universities

The New Fiscal Plan has maintained the March 2017 Fiscal Plan measures, less reductions to the appropriation that have already been factored into the FY2018 baseline, as well as reductions in addressable spend.

Targeted measures to increase revenues and reduce expenditures will allow UPR to operate sustainably under a reduced Commonwealth subsidy. On the revenue side, these include modestly raising tuition using a means-based approach, e.g., creating a means-based scholarship fund in parallel, applying more aggressively for Federal grants (seeking to achieve funding equal to the level of 25th percentile of U.S. public universities), charging more dues and fees to students, applying for patents and other intellectual property, and continuing to provide trainings to the PRDE and the Government more broadly.

As detailed in the New Fiscal Plan (*see Chapter 11*), the means-based scholarship fund described above will be supported by reductions to the budgets of the Oversight Board, General Court of Justice, Legislative Assembly, and AAFAF. These reductions shall generate \$60-65 million annually in reinvestment funds starting in FY2019, and they will be used to help build up an endowment to pay for need-based scholarships for UPR students. This endowment is to be managed independently of the University.

On the expense reduction side, measures from the latest plan include consolidating campuses, optimizing HR through reducing temporary and trust positions, improving procurement, reducing the cost of medical insurance, and reducing tuition exemptions and special scholarships. These include identifying campuses and programs for consolidations based on performance metrics, tying personnel savings to roles specifically consolidated with campus consolidations and service reductions, reducing UPR employee pensions in a manner similar to the Commonwealth (e.g., highest marginal cut is 25%), and multiplying this amount by the

unfunded portion,¹⁵⁰ and increasing tuition in future years to be roughly equivalent to Federal Pell grant less cost of living.

These efforts to improve the operations of UPR will in turn allow the University to renew its operating model to provide the best outcomes for its students. These outcomes will include reduced time to degree, improved job placement, and higher standardized test scores, among others. A re-envisioned University, which focuses on areas of strengths and on improving outcomes for students, will ultimately prove to be a critical source of renewal for the Island, as it is a cornerstone of human capital development to propel growth in the economy.

17.2.2 Reduce municipal appropriations & support through service consolidation and property registry / tax reform

As stated above, to incentivize municipal operational changes, the Commonwealth must reduce the current level of municipal appropriations. Already in FY2018, the total municipal appropriation was reduced by \$150 million, bringing the new baseline appropriations to ~\$220 million per year. Going forward from this current baseline, there must be a reduction of 20% in each successive year, holding appropriations constant at 80% of current levels starting in FY2022 before ultimately phasing out all subsidies in FY24. The slow ramp in reductions will allow the remaining funds to be used to fund shared service consolidations. Two levers in particular should enable municipalities to become solvent: municipal service consolidations and institution of property tax reform.

Municipal service consolidations

Consolidating services across multiple municipalities can help reduce cost by leveraging scale, especially in areas of services provided directly to citizens, including public works and infrastructure, public safety, family services, education, and housing. Prior to Hurricanes Irma and Maria, Estudios Técnicos estimated that operating expense reduction measures, in part from municipal service sharing, could result in a potential combined fiscal impact of ~\$150-\$450M.¹⁵¹

The Commonwealth should pursue several initiatives to incentivize and streamline consolidation:

- Offer financial incentives (e.g., remaining municipal subsidy) for municipalities who hit targets
- Provide transparency into service performance by creating performance metrics and publishing the results, benchmarked against peer municipalities
- Develop and operate service provision collectives across counties
- Streamline legal frameworks to remove any barriers to collaboration between municipalities (e.g., liability issues); for example, the Government can pass legislation like New Jersey's 2007 Uniform Shared Services and Consolidation Act to formalize accountability for pursuing shared services by placing the onus on local leadership¹⁵²

Property tax reform

In partnership with the Municipal Revenues Collection Center (CRIM), the municipalities should identify and register tens of thousands of non-registered properties to begin collecting

¹⁵⁰ Additionally, the UPR Fiscal Plan includes a 50% employer match (by UPR) on up to 2% of employee contribution

¹⁵¹ "Estudio para evaluar la estructura municipal de Puerto Rico", Estudios Técnicos (2016)

¹⁵² New Jersey Department of Community Affairs, *Shared Services – Working Together*. April 2011. http://www.nj.gov/dca/divisions/dlgs/programs/shared_docs/sharesvcsrefguide.pdf

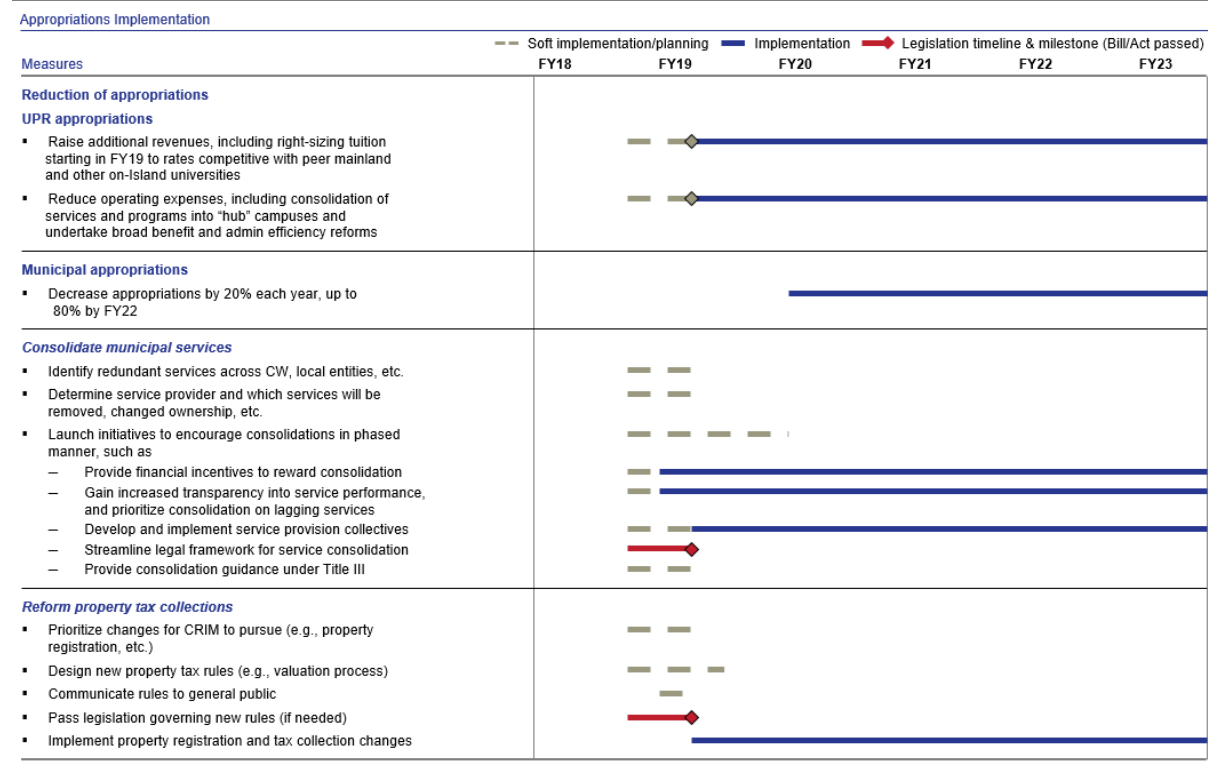
tax on them,¹⁵³ and re-categorize misclassified properties (e.g., residential properties marked as commercial). Additionally, CRIM can streamline collection activities and use proven compliance practices, such as advanced analytics to identify non- or under-payment, to raise payment rates. Based on implementation planning discussions in August 2017, CRIM estimated these initiatives could produce:¹⁵⁴

- \$150 million of increased revenue from raising property tax compliance from 68% to 85%
- \$150-200 million from registering properties not on the rolls
- \$500 million of capturable back property taxes owed (from \$1.3 billion total owed)
- Lastly there is an additional, not yet sized, opportunity from reclassifying commercial properties incorrectly listed as residential and updating property valuations

17.3 Implementation plan

Given that reductions to UPR and municipal appropriations were already underway following certification of the original Fiscal Plan, implementation will include continuing the current reductions process. Simultaneously, both UPR and municipalities must begin undertaking initiatives to improve their operational stability and sustainability.

EXHIBIT 67: REDUCTION IN APPROPRIATIONS IMPLEMENTATION TIMELINE



¹⁵³ Many homes in Puerto Rico have not been registered with the Government, which has led to difficulties for thousands in receiving assistance from FEMA's Individual Housing Program. For example, as of mid-January 2018, 62% of the 1.1 million applications for disaster assistance has been either rejected or were still "in-process", often due to lacking registration and title deeds ("Majority of Claimants in Puerto Rico Still Await Assistance from FEMA, Many Found 'Ineligible'", Caribbean Business)

¹⁵⁴ Meetings with CRIM leadership on July 19, 2017

Chapter 18. PENSION REFORM

18.1 Current state of and required changes to pension reform

The Government operates three public employee retirement systems in Puerto Rico: the Employees' Retirement System (ERS), the Teachers' Retirement System (TRS), and the Judicial Retirement System (JRS). The plans have different tiers of benefit formulas, some of which are traditional defined benefit pensions based upon years of service and final salary, while others are hybrid cash balance plans. Under the hybrid cash balance plans, employees have notional accounts credited with contributions and interest, and upon retirement, benefits are payable as an annuity. Different benefit tiers apply to employees based upon the year in which they were hired.

Per the latest data available, each of the systems included the following liabilities¹⁵⁵:

- ERS: 245,000 total covered (120,000 active employees, 125,000 retirees and other beneficiaries); with \$1.7 billion in annual benefits and \$38 billion in total actuarial liability
- TRS: 80,000 total covered (38,000 active employees, 42,000 retirees and other beneficiaries); with \$0.8 billion in annual benefits and \$18 billion in total actuarial liability
- JRS: 860 total covered (370 active employees, 490 retirees and other beneficiaries); with \$28 million in annual benefits and \$700 million in total actuarial liability

All employees make contributions toward their benefits, albeit at different rates. Most regular government employees also participate in Social Security, which includes both employer and employee contributions; most teachers, judges, and police officers do not.¹⁵⁶

EXHIBIT 68: PUBLIC EMPLOYEE RETIREMENT SYSTEMS OVERVIEW

Group	Defined Benefit Component	Hybrid Cash Balance Component	Social Security Coverage
ERS - Hired Jan 1, 2000 or later	None	Based on employee contribution and a share of investment earnings	Police – No Others – Yes
ERS - Hired before 2000	Based on years of service and salary, frozen as of 2013	Based on employee contribution since 2013 and a share of investment earnings	Police – No Others – Yes
TRS - Hired Aug 1, 2014 or later	None	Based on employee contribution and a share of investment earnings	No
TRS – Hired before Aug, 2014	Based on salary and years of service	None	No
JRS - Hired July 1, 2014 or later	None	Based on employee contribution and a share of investment earnings	No
JRS — Hired before July 1, 2014	Based on salary and years of service	None	No

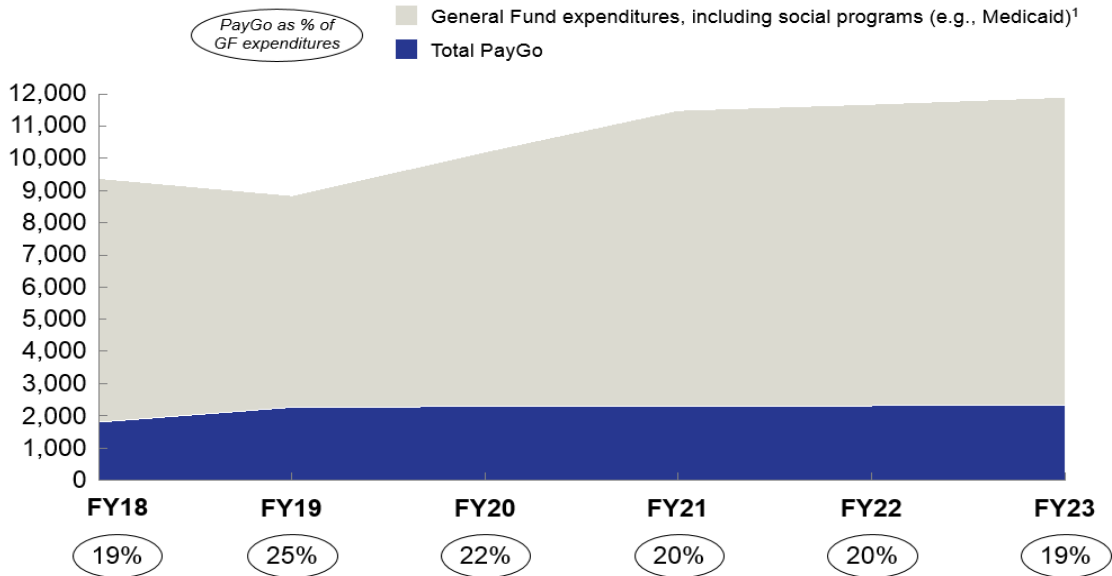
¹⁵⁵ All liability estimates are as of July 1, 2016, and benefit estimates are for FY2018, but based on census data as of July 1, 2015

¹⁵⁶ Exclusion dates back to decision to exclude state workers from Social Security Act in 1935; when states were allowed to extend coverage to state workers in the 1950s, some areas, including Puerto Rico, made the calculation that they could provide superior coverage through their own state pension plans.

Over many decades, successive governments have failed to adequately fund these retirement plans, and today the ERS, TRS and JRS are nearly insolvent. In fact, PayGo expenditures to provide pension benefits have been increasing in recent years, and are expected to constitute between 1/4 and 1/5 of General Fund expenditures without further action, as detailed below (**Exhibit 69**).

EXHIBIT 69: PAYGO EXPENDITURES COMPARED TO OVERALL GENERAL FUND EXPENDITURES, PRE-MEASURES

PayGo expenditures compared to overall General Fund expenditures, \$M



¹ Excludes intergovernmental transfers

These retirement plans will soon deplete the assets they use to pay benefits. Without action, this could lead to large benefit cuts for all retirees. Such benefit cuts would not only be devastating to current retirees and their families, but would adversely impact Puerto Rico’s economy as retirees spend virtually all their income on the Island. **There must be adequate funding for pension systems, such that the retirement systems promise benefits Puerto Rico can afford and the Government funds the revised benefits.**

The Commonwealth has already taken critical steps toward a more stable pension system through legislation passed in August 2017 that transitioned to a new “PayGo” pension system, liquidating assets to help fund benefits owed under previous plans, froze the accrual of ERS benefits, and committed to moving all active ERS members into segregated true defined contribution (DC) retirement plans. However, there is room for further action to ensure the long-term sustainability of the pensions system; in addition, some of the current commitments have not yet been fulfilled (e.g., the transition to the new defined contribution system has not yet been completed).

Therefore, Puerto Rico’s retirement system must be further reformed to reduce costs, restore the plans to financial sustainability, and maintain responsible benefit levels for current and future retirees. While overhauls will have a smaller impact in earlier years, the impact of pension reforms will amplify over time, leading to more than \$11 billion in savings over a 30-year period. Reductions to benefits must also be structured to **protect lower-income retirees**, who otherwise could become impoverished and therefore be forced to rely upon government “safety net” benefits.

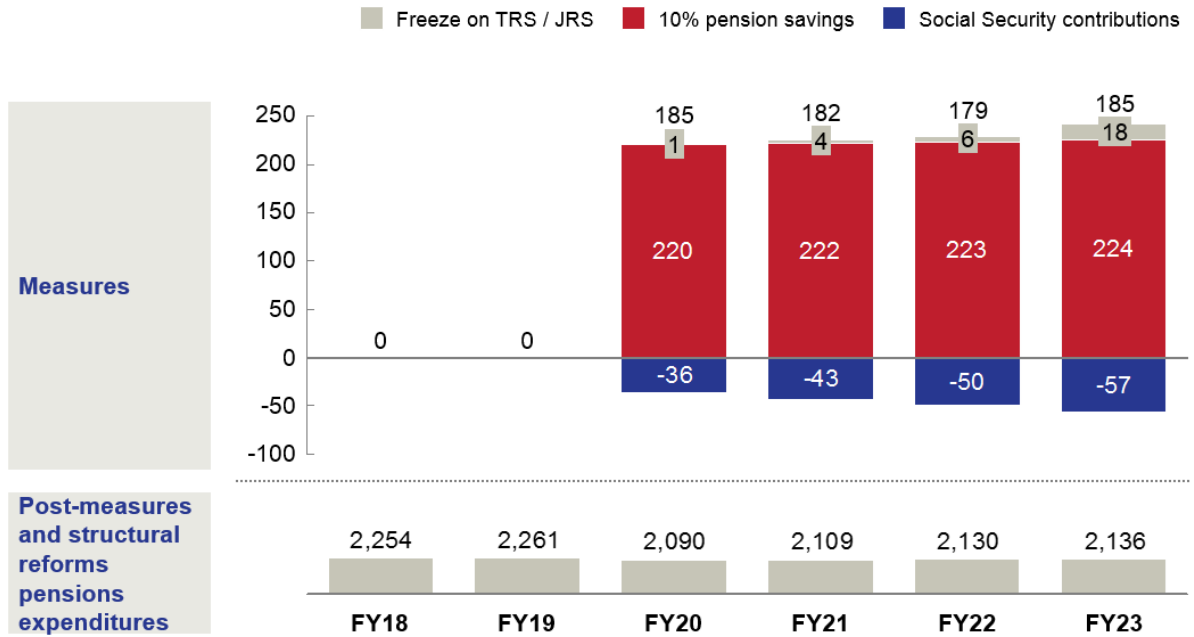
Pension reform will help restore both fiscal balance and promise for current and future retirees from government.

18.2 Proposed pension reform initiatives

Restructuring and stabilizing the pension system must lead to \$732 million in savings over six years, as shown below (**Exhibit 70**).

EXHIBIT 70: PENSIONS REFORM SUMMARY OF IMPACT

Summary of pensions measures impact, \$M



18.2.1 Freeze DB benefits for JRS/TRS and enroll employees in a DC plan with segregated accounts

TRS members hired prior to August 1, 2014 and JRS members hired prior to July 1, 2014 are currently accruing benefits under their defined benefit retirement plans. ERS members have already transitioned to hybrid cash balance plans (in 2000 and 2013), with a transition to DC accounts targeted for June/July 2018.¹⁵⁷ To avoid creating future pension liabilities and to stabilize the system for the benefit of both taxpayers and future retirees, the JRS and TRS plans must be frozen as quickly as possible. Members will retain the benefits they have accrued to date, subject to the benefit reduction formula discussed below. Future benefits must be based on contributions and earnings in new defined contribution retirement accounts. This will result in consistent treatment across ERS, TRS, and JRS, where employees will contribute to segregated DC accounts rather than notional accounts. Going forward, employees should have the certainty that their contributions and investment returns will be safeguarded for the future, ensuring retirement security.

Although in the early years the DB freeze savings are small (\$0.8 million in FY2020), over time the freeze should produce significant savings (\$50 million or more in FY2026 and growing further in later years to \$700 million or more) and play a significant role in restoring the budget to long-term sustainability. The freeze will be implemented through the Plan of

¹⁵⁷ Estimate provided by AAFAF in February 2018

Adjustment, and shall be slated to take effect starting in FY2020 so that needed changes can be implemented.

18.2.2 10% pension benefit reduction

Expenditures are being reduced throughout the Commonwealth’s budget and contractual debt service remains unaffordable. Retirement plan participants, like other unsecured claimholders, face a reduction in the amounts paid to them by the Commonwealth. A 10% average reduction in pensions is appropriate and necessary. The goal is a balanced approach to restore fiscal health to Puerto Rico while ensuring that cuts to retirement benefits occur in a progressive matter that protects any retirees from falling into poverty. The level of cuts to pension benefits is also in line with reductions in other government systems facing pension funding crises.¹⁵⁸

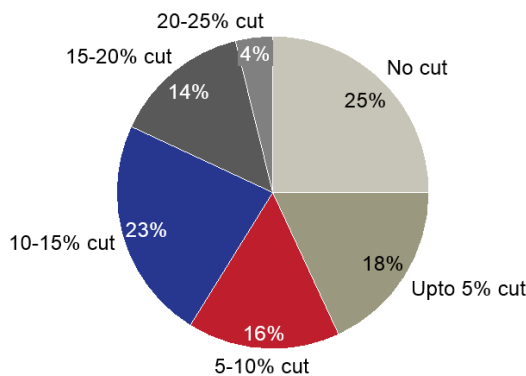
Although the average benefit reduction will be 10%, there will be no reduction for those with combined retirement plan and Social Security benefits below the poverty level of \$1,000 per month.¹⁵⁹ This formula is equivalent to giving each beneficiary a reduction of 25% in the monthly benefits they receive more than \$600 (for retirees who also receive Social Security), and \$1,000 for those without Social Security¹⁶⁰. These dollar figures will be adjusted in future years consistent with increases in the Federal poverty threshold.

Under this approach, **about 25% would receive no reduction in their benefits while and an additional 18% of retirees will experience a benefit reduction of 5% or less.** About 60% of retirees will experience a benefit reduction of 10% or less, and over 80% of retirees will experience a benefit reduction of 15% or less. Very few retirees will have more than a 20% reduction, and none will have a reduction of 25% or more.

This formula will also apply to benefits earned by current employees who have yet to retire.

EXHIBIT 71: DISTRIBUTION OF BENEFIT REDUCTION

Distribution of benefit reduction, % of retirees



¹⁵⁸ For example, in Detroit and Rhode Island, pension cuts ranged from 0-30% across beneficiary categories

¹⁵⁹ Actuarial calculation show that the following approach will result in reductions averaging 10%:

- Determine the average monthly pension by adding the regular monthly pension amount, the special law pension, the healthcare bonus, and one-twelfth of the Christmas Bonus and Medicine Bonus;
- Reduce these monthly benefits by 25%; and
- Add back up to \$150 per month (\$250 per month for those who are not covered by Social Security) to reduce the effect of benefit reductions for those with the lowest benefits

¹⁶⁰ Reduction (not less than zero) = 25% x Benefit minus 25% x (1,000 if not in Social Security or \$600 if in Social Security). For example, if ERS benefit (in Social Security) is \$2,000, then reduction = 25% x 2,000 – 25% x \$600 = \$500 - \$150 = \$350

The 10% reduction shall take effect starting in FY2020 to have sufficient time to implement it following the Plan's enactment.

Because the poverty threshold is anticipated to increase faster than frozen pension benefits and the size of the frozen benefits will decline as the number of years accrued before the freeze decreases (when the youngest workers who still had DB plans begin to retire), the 10% target overall savings rate will fall over time (in the years beyond FY26), eventually reaching zero by about 2050.

18.2.3 Enroll government workers in Social Security

Currently, teachers, police officers, and judges do not participate in Social Security. They do not pay into the program, nor does the Government make a Social Security contribution on their behalf. Teachers, police officers and judges are also not eligible for benefits at retirement. Unlike other ERS members, teachers, police officers, and judges are entirely reliant on their government pensions for income in retirement. This places them at risk when government retirement plans are poorly funded.

These groups are exempt from Social Security because of the "Section 218" agreement between the Commonwealth and the Social Security Administration, which stipulates that government employees may be exempt from Social Security if they participate in a "comparable" retirement plan such as one which includes total employee and employer contributions equal to at least 7.5% of employee wages.

Enrolling these workers in Social Security will provide them with diversified sources of income in retirement, and Social Security's progressive benefit formula will provide a stronger safety net for lower-paid employees. Workers will typically earn greater retirement benefits under Social Security based on a 6.2% employee contribution and a 6.2% employer (government) match, than they would funded only with a 6.2% DC. For example, a typical full-career government employee retiring with a salary of \$35,000 will be entitled to a Social Security benefit of approximately \$16,000, in addition to the benefit the employee builds in their defined contribution retirement account.

Therefore, police, teachers, and judges *under the age of 40* shall be enrolled in Social Security. This can be accomplished without either an employee referendum or new Federal legislation by reducing pension contributions for government employees under the age of 40 to an amount lower than the 7.5% required by Section 218. This step will trigger mandatory enrollment in Social Security. Concurrently, lowering the pension contribution for younger workers will address the loss of take-home pay they would suffer by having to pay the 6.2% Social Security payroll tax.

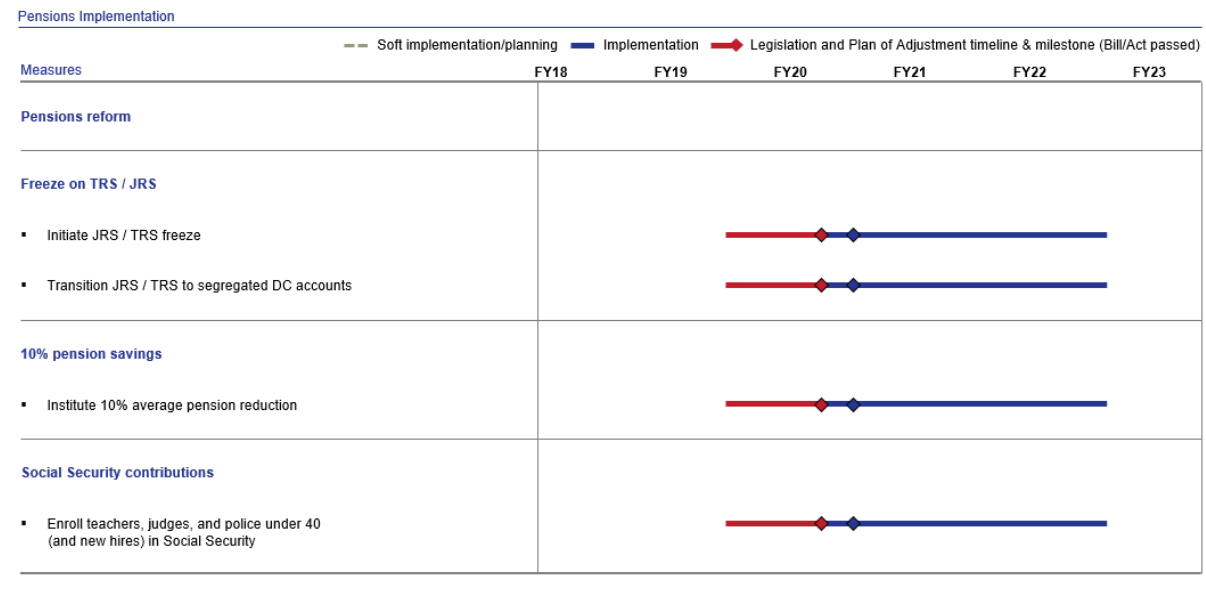
For example, teachers over the age of 40 will contribute 13.12% of their pay to their defined contribution plan. The changes to Social Security enrollment will create a second DC plan for teachers under 40, with a mandatory employee contribution rate of only 6.92% of their pay. Since this contribution rate is less than the requirement of a 7.5% contribution, these younger workers legally must be enrolled in Social Security. However, the 6.2% reduction in the pension contribution rate from 13.12% to 6.92% would protect these employees against any reduction in their take-home pay.

Police, teachers, and judges *over the age of 40* should be provided the option to enroll in Social Security at a later date.

18.3 Implementation plan

While the new pensions measures will only go into effect starting on July 1, 2019, advance work will be necessary to prepare the systems for the JRS / TRS freeze and pensions reductions, as well as ensuring communications with all Puerto Rican pension recipients.

EXHIBIT 72: IMPLEMENTATION PLAN



Chapter 19. IMPLEMENTATION

Historically, the Government has suffered from inconsistent execution due in part to not having a defined, centralized project management structure. It has historically operated in silos, suffered staffing and coordination challenges, and has been limited by weak technology to report and keep track of expenses. To mitigate implementation risk, the Governor has established a centralized PMO structure.

19.1 Governor’s Fiscal and Economic Working Group (GFEWG)

Developing a centrally-run PMO is an important step toward ensuring the implementation and tracking of the core operational transformation and rightsizing measures that will achieve savings targets under the New Fiscal Plan. The GFEWG is the central PMO with defined reporting to the Governor of all economic and transformation measures. It is comprised of senior leadership, oversees Agency PMOs, and reports directly to the Governor. At the time of writing, the GFEWG has already been established and is preparing for implementation.

19.2 Agency Program Management Offices (PMOs)

Individual Agency PMOs should be established with direct reporting to the GFEWG. Each agency head shall be responsible for developing and implementing a PMO structure that best fits their respective agency while still meeting their agency grouping savings targets. Through this PMO structure, the Government is positioned to effectively manage and implement the Fiscal Plan.

- The Agency PMOs are generally led by designated Agency Heads and report directly to the GFEWG
- Agency PMOs undertake the required work to implement initiatives
- The daily activities of PMOs are managed and undertaken by staff knowledgeable in the relevant subject matter areas, and assigned members meet regularly with PMO leadership to report on progress and facilitate necessary decision-making
- Agency PMOs shall be responsible for assembling a taskforce to: complete validation and definition of full scope of projects and priorities; finalize reporting tools and tracking responsibilities; and, perform ongoing weekly tracking and reporting.

The PMOs should ensure continued implementation progress through robust tracking and reporting tools that foster growth in transparency and ownership, including:

- **Project charters** that establish the goals / structures of measures, identifies risks and obstacles, and establishes metrics and KPIs
- **Implementation plans** with detailed layouts of each activity required for accomplishing sub-measures, risks / mitigants for each activity, clear leaders and owners for each activity, and metric and KPIs. These should include a “live” calendar of updates and status of each measure. If an activity goes behind schedule, the workplan will reflect that the activity is still in progress.
- **Implementation dashboard / tracker** that provides a single snapshot of the entire transformation plan; allows management to know the status of each initiative in a distinct status: Complete; In Progress; Delays; Major Issues. Tracker will allow the Oversight Board to monitor progress and ensure enforcement of measures/ reforms in the New Fiscal Plan.
- **Sub-measure dashboards** that provide “zoomed in” views of a specific sub-measure, display progress with details / commentary on project status, include agreed upon milestones / dates to track progress, and provides mitigation plans

PART V. Conclusion

The New Fiscal Plan is the result of many months of work-sessions, dialogue, stakeholder engagement, research, and in-depth analysis. Across these activities, the Oversight Board and the Commonwealth Government collaborated to create a deep and rich fact base to underpin their work, and remained focused on creating an integrated approach to restoring fiscal sustainability and economic opportunity for future generations of Puerto Ricans. The starting point for this plan involved numerous structural inhibitors to growth, over \$120 billion in outstanding debt and unfunded pension obligations, and the devastating impact from a historically destructive natural disaster.

Yet in the aftermath of Hurricane Maria, Puerto Rico now has a unique economic growth opportunity. Reconstruction activity will provide economic buoyancy in the short term. PROMESA and Title III provide a temporary stay on Puerto Rico's unsustainable debt service. During this period, the New Fiscal Plan lays out a series of practical, proven growth-inducing structural reforms and investments, with a responsible set of fiscal measures to right-size Government to the appropriate level. If these strategic choices are not made now, the structural challenges that have plagued the economy of Puerto Rico will not be addressed, and the Government will have lost its window to restore long-term opportunity to the people of Puerto Rico.

That is why the next step – implementation of these reforms and measures – is the most critical one. If implemented quickly and meaningfully, the New Fiscal Plan can turn around Puerto Rico's economy and drive growth as Federal disaster relief funding slows and Puerto Rico returns to paying debt service. In the end, growth and expansion of opportunity are the keys to restoring fiscal sustainability, access to capital markets, and a brighter future for Puerto Rico.

Appendix

Chapter 20. MODEL PRESENTATION

20.1 Overview of entities covered by and excluded from the New Fiscal Plan

The New Fiscal Plan addresses the finances of central government agencies, component units, and other agencies. Agencies for which an independent fiscal plan is being developed have not been consolidated into the New Fiscal Plan and are only represented to the extent they impact the Commonwealth (**Exhibits 73-75**).

EXHIBIT 73: MAJOR ENTITIES COVERED BY AND EXCLUDED FROM THE NEW FISCAL PLAN

	Major Entities Included in the New Fiscal Plan	1. TSA	2. Major CUs	3. Other
Included	1. Central Government Entities 2. Major Component Units 3. Other Component Units and agencies	Central Government	ASEM GDB ¹ CCPRC PRTC ASES PRITA Ports PBA ADEA HTA ¹ DDEC AAFAF UPR ¹ HFA SIFC PRCCDA	Roughly 45 additional agencies and component units, such as: Solid Waste Authority and Public Broadcasting Authority
		Agencies: Department of Education, Department of Health, Police, etc.		
		Individually Reported – Comprises approx. 90% of Fiscal Plan Cash Flow		Not Individually Reported – approx. 10% of Fiscal Plan Cash Flow
Excluded	Major Entities Excluded from the New Fiscal Plan	Puerto Rico Electric Power Authority (PREPA)		PR Aqueduct and Sewer Authority (PRASA)
		The Children's Trust Fund		COSSEC
				Municipalities

¹ GDB, HTA, and UPR have separate and apart fiscal plans from the Central Government.
² Major CUs include the following IFUs: ASEM, ASES, PRITA, Ports, PBA, ADEA, AAFAF, HFA, SIFC, PRCCDA.
 Note: Housing Finance Authority, resources from the Cap Funds (money transferred by HUD for financing projects and repayment of bonds) are not contemplated in the New Fiscal Plan.

EXHIBIT 74: LIST OF ENTITIES COVERED BY THE NEW FISCAL PLAN

ENTITIES INCLUDED IN FISCAL PLAN	
Agency Code	Agency
8	Office of the Comptroller
10	General Court of Justice
11	Traffic Safety Commission
14	Environmental Quality Board
15	Office of the Governor
16	Office of Management and Budget
18	Planning Board
21	Emergency Management and Disaster Admin Agency
22	Office of the Commissioner of Insurance
23	Department of State
24	Department of the Treasury
25	Hacienda
28	Commonwealth Election Commission
29	Federal Affairs Administration
30	Office of Admin and Transformation of HR
31	General Services Administration
34	Investigation, Prosecution and Appeals Commission
35	Industrial Tax Exemption Office
36	Office of the Commissioner of Municipal Affairs
37	Civil Rights Commission
38	Department of Justice
40	Puerto Rico Police
100	Legislative Assembly
105	Industrial Commission
106	Public Housing Administration
109	School of Plastic Arts
119	Dept of Economic Development and Commerce
120	Veterans Advocate Office
121	9-1-1 Services Governing Board
122	Department of the Family
123	Families and Children Administration
124	Child Support Administration
126	Vocational Rehabilitation Administration
127	Admin for Socioeconomic Develop of the Family
133	Natural Resources Administration
137	Department of Correction and Rehabilitation
138	Institutional Trust of the National Guard of Puerto Rico
139	Parole Board
141	Telecommunication's Regulatory Board
152	Elderly and Retired People Advocate Office
153	Advocacy for Persons with Disabilities of the CW of PR
155	State Historic Preservation Office
161	Infrastructure Financing Authority
162	Public Buildings Authority (PBA)
43	Puerto Rico National Guard
49	Department of Transportation and Public Works
50	Department of Natural and Environmental Resources
55	Department of Agriculture
60	Citizen's Advocate Office (Ombudsman)
62	Cooperative Development Commission
65	Public Services Commission
67	Department of Labor and Human Resources
68	Labor Relations Board
69	Department of Consumer Affairs
70	State Insurance Fund Corporation (SIFC)
71	Department of Health
75	Office of the Financial Institutions Commissioner
78	Department of Housing
79	Automobile Accident Compensation Admin (ACAA)
81	Department of Education
82	Institute of Puerto Rican Culture
87	Department of Sports and Recreation
89	Horse Racing Industry and Sport Administration
90	Medical Services Administration (ASEM)
95	Mental Health and Addiction Services Administration
96	Women's Advocate Office
165	Land Authority of Puerto Rico
166	Industrial Development Company (PRIDCO)
167	Company for the Integral Development of Cantera's Peninsula
168	Ports Authority
177	Land Administration
180	Tourism Company
184	Solid Waste Authority
186	Culebra Conservation and Development Authority
187	Health Insurance Administration (ASES)
188	PR and the Caribbean Cardiovascular Center Corp
189	Institute of Forensic Sciences
191	Musical Arts and Stagecraft Corporation
192	Fine Arts Center Corporation
193	Office of Government Ethics
195	Economic Development Bank
196	Public Broadcasting Corporation
198	Farm Insurance Corporation
200	Special Independent Prosecutor Panel
208	Contributions to Municipalities (CRIM)
211	AFICA
215	Conservatory of Music
220	Correctional Health

ENTITIES INCLUDED IN FISCAL PLAN		Agency Code	
Agency Code	Agency	Agency Code	Agency
221	Emergency Medical Services Corps	288	UPR Comprehensive Cancer Center
231	Health Advocate Office	289	Energy Commission
235	Housing Financing Authority (HFA)	290	Energy Affairs Office
238	Port of the Americas Authority	293	Center for Research, Education and Medical Services for Diabetes
241	Administration for Integral Development of Childhood	294	Bosque Modelo de Puerto Rico
258	Puerto Rico Trade and Export Company	295	Fiscal Agency and Financial Advisory Authority (AAFAF)
264	Martín Peña Canal ENLACE Project Corporation	303	Convention Center District Authority (PRCCDA)
265	Roosevelt Roads Naval Station Redevelopment	329	Socio-Economic Development Office
268	Institute of Statistics	928	Government Employee Retirement System (ERS)
273	Permit Management Office	928	Judicial Retirement System (JRS)
276	Public-Private Partnership Authority	929	Teacher Retirement System (TRS)
277	Agricultural Enterprises Development Admin (ADEA)		Additional (Electronic) Lottery
278	Puerto Rico Education Council		Maritime Shipping Authority
279	Public Service Appeals Commission		Special Communities Perpetual Trust
281	Office of the Electoral Comptroller		Traditional Lottery
285	Puerto Rico Integrated Transport Authority (PRITA)		Unemployment Insurance Fund
286	Ponce Port Authority		Corp for the Industries of Blind, Mentally Retarded, and Other Disabled People of Puerto Rico
287	Corporation ELA Regional Center of PR		

EXHIBIT 75: LIST OF ENTITIES EXCLUDED FROM THE NEW FISCAL PLAN

Entities issuing standalone fiscal plan

- Development Bank for PR
- Aqueduct and Sewer Authority
- PR Electric Power Authority
- PR Highways and Transportation Authority¹
- Public Corporation for the Supervision and Deposit Insurance of Puerto Rico Cooperatives
- University of Puerto Rico²

Entities excluded from fiscal plan

- Agency Fund (Special Deposit Fund)
- Commonwealth of Puerto Rico Regional Center Corporation
- Public Finance Corporation (PFC)
- Puerto Rico Government Investment Trust Fund
- Puerto Rico Municipal Finance Agency
- Puerto Rico Municipal Finance Corporation
- Puerto Rico Water Pollution Control Revolv. Fund
- Safe Drinking Water Treatment Revolving Loan Fund
- The Children's Trust Fund
- Tourism Development Fund

¹ Commonwealth Fiscal Plan includes HTA general fund appropriations
² Commonwealth Fiscal Plan includes UPR general fund appropriations

Chapter 21. MACROECONOMIC PROJECTIONS

21.1 Incorporation of historical macroeconomic indicators for Puerto Rico

While the New Fiscal Plan projects relatively steady growth after FY2018, the macroeconomic projections do not ignore the past macroeconomic trajectory of the Island. Historic economic performance remains a core driving factor for future projections, and without the implementation of structural reforms, the economy returns to the previous trendline once disaster spend begins to wane. As shown below (**Exhibits 76-78**), the nominal GNP of the Island continues to grow in the status quo, even while real output has shrunk considerably in the last decade. With current projections, the Island’s real output (which excludes elevated inflation) does not return to pre-hurricane levels until at least FY2023-FY2024.

EXHIBIT 76: MACROECONOMIC TRENDLINE BEFORE AND AFTER HURRICANE MARIA

Macroeconomic trajectory: Total GNP, \$B Fiscal Years ending June 30th

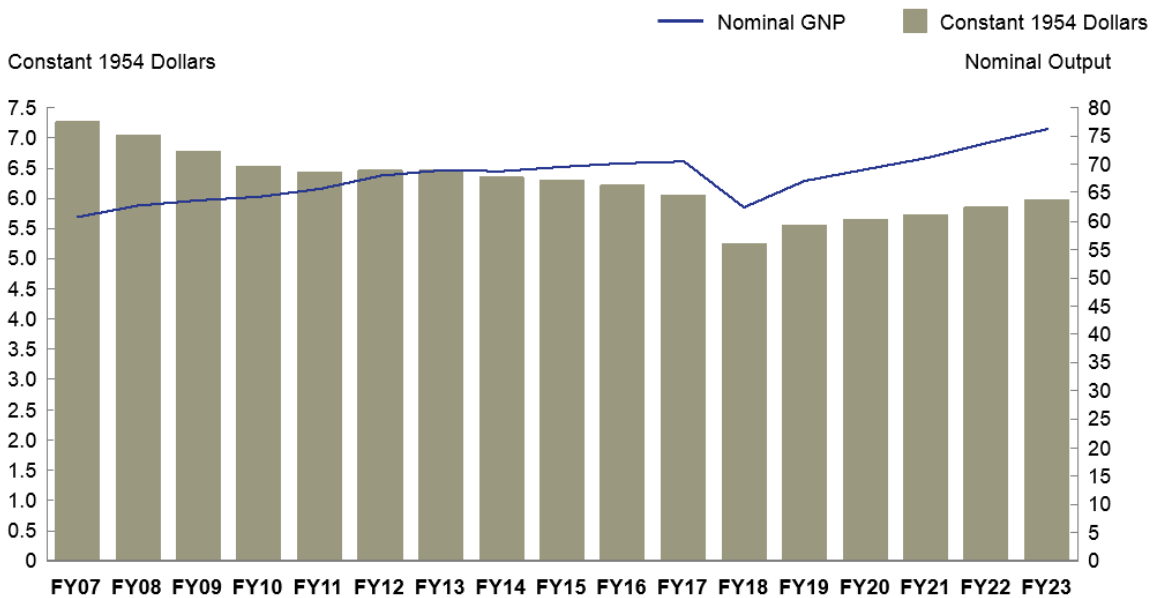


EXHIBIT 77: POPULATION DECLINE

Historical and projected population, millions of people

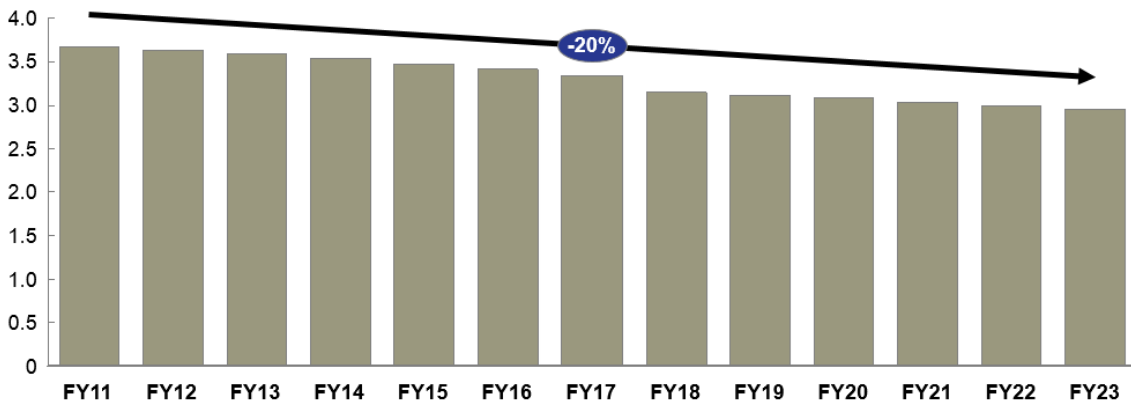
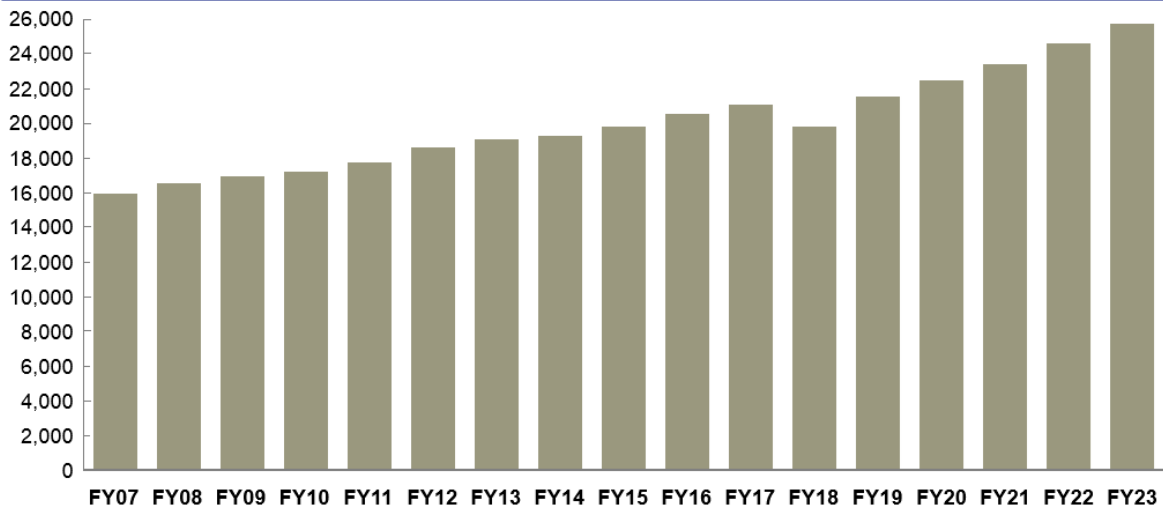


EXHIBIT 78: PER CAPITA GNP GROWTH

Historical and projected GNP per capita, \$ USD



Chapter 22. FINANCIAL PROJECTIONS

22.1 Financial projection methodology

Revenue and expense forecasts are largely driven by macroeconomic projections like Puerto Rico inflation and GNP forecasts. For certain critical line items (such as Component Unit revenues and expense, pension expenditures and capital expenditures), separate detailed forecasts were developed incorporating historical data and other bottom-up assumptions (**Exhibit 79**).

EXHIBIT 79: FINANCIAL PROJECTIONS METHODOLOGY

Category	Methodology
1 Macroeconomic Assumptions	<ul style="list-style-type: none"> Quantify acceleration of population decline due to reduced GNP from Hurricane Maria Layer in positive impact of disaster relief spend on GNP Reflect impact of fiscal policy on GNP
2 Baseline Revenue	<ul style="list-style-type: none"> Build from FY17 and YTD FY18 actual results, normalized for non-recurring items Discount revenues for remainder of FY18 forecast at post-hurricanes trend, with the exception of SUT, Act 154, non-resident withholdings, rum and cigarette taxes, which are projected separately FY19 – FY23 projected using appropriate macroeconomic derived growth factors
3 Baseline Expense (excl. capex, Medicaid, pensions, title III)	<ul style="list-style-type: none"> Built from FY18 budget normalized for non-recurring items Reconciliation adjustment is removed from FY18 budget and projected period FY19 – FY23 projected using appropriate macroeconomic derived growth factors, with appropriate spending freezes incorporated
4 Revenue Measures	<ul style="list-style-type: none"> Detailed assumptions listed in “Government Transformation” Section (Part V) Determine and incorporate fiscal impact of new policy decisions Impact of measures is layered over baseline
5 Expense Measures	<ul style="list-style-type: none"> Detailed assumptions listed in “Government Transformation” Section Determine and incorporate fiscal impact of new policy decisions Impact of measures is layered over baseline
6 Component Units	<ul style="list-style-type: none"> Individual projections for 13 independently forecasted major component units Update information and utilized Certified Fiscal Plan approach for remaining component units
7 Capex	<ul style="list-style-type: none"> Assumes total maintenance capital expenditures of \$400 mm in FY18, (including capital expenditures related appropriations to HTA and UPR) grown annually by inflation. Investment capex included in disaster relief spend build up
8 Pension	<ul style="list-style-type: none"> AAFAF actuaries provided updated analysis of pension funding requirements based on latest actuarial reports and consideration of new laws
9 Disaster Relief	<ul style="list-style-type: none"> Determine spending priorities and timing Size potential capital need based on level of Federal funding and working capital needs Identify external funding sources, internal funding requirements, statutory allocations to Puerto Rico, Updated with most recent and current damage estimates at the agency-level
10 Title III professional fees	<ul style="list-style-type: none"> FY18 title III professional fees based on FY18 November YTD title III fee applications and professional specific forecasts; FY19-23 forecasted assuming plan of adjustment in FY19 and reasonable tail fees thereafter; projections do not incorporate risk of extended litigation related to fiscal plan defense

22.2 Detailed financial projections

The following section discusses the financial projections across each revenue and expense line item from FY2018-FY2023. They also discuss the trajectory of key macroeconomic indicators such as population and GNP per capita over the next five years. Most revenues track with the overall macroeconomic trajectory of the Island. Baseline expenditures remain relatively constant over the next five years before measures are applied, especially when social programs are excluded. This consistency is in large part due to freezes on various expenditures that have been put in place by the Government of Puerto Rico. Finally, the cumulative value of measures grows through FY2023 as there is full implementation of various revenue and expense fiscal measures.

EXHIBIT 80: MACROECONOMIC OVERVIEW OF PUERTO RICO, FY2018-FY2023

Six-year financial projections, Unit as labeled, SR = Structural Reforms

Line item	FY18	FY19	FY20	FY21	FY22	FY23	6Y total
Population	3,147,720	3,106,662	3,084,430	3,041,497	3,000,602	2,960,805	
Growth rate		(1.3%)	(0.7%)	(1.4%)	(1.3%)	(1.3%)	
Inflation	2.03%	1.50%	1.48%	1.43%	1.44%	1.40%	
Baseline real GNP growth, %	(13.0%)	6.8%	3.0%	1.2%	0.5%	(0.1%)	
Disaster funding	4,938	6,364	6,188	6,011	5,835	4,953	34,289
Revenues (\$M)	20,474	21,182	20,555	19,200	19,118	19,298	119,827
Own revenues	14,064	14,136	14,698	14,360	14,209	14,319	85,786
Federal transfers, Medicaid, CDBG	6,410	7,045	5,858	4,840	4,909	4,979	34,041
Expenditures	(20,338)	(20,391)	(20,532)	(21,114)	(21,232)	(21,468)	(125,075)
Own expenditures	(14,818)	(14,613)	(14,556)	(14,909)	(14,808)	(14,814)	(88,517)
Social programs	(5,520)	(5,778)	(5,976)	(6,205)	(6,424)	(6,655)	(36,558)
Baseline gap / Surplus	136	791	24	(1,914)	(2,114)	(2,171)	(5,248)
Revenue Measures							
Run rate / annual	45	321	424	435	521	550	2,296
Incremental		276	103	12	86	29	505
Expenditure measures¹							
Run rate / annual	100	356	1,441	2,422	2,728	2,926	9,972
Incremental		256	1,085	981	306	198	2,827
Gap/surplus (post-measures/SR) (\$M)	280	1,403	1,710	776	1,096	1,432	6,698
Contractual debt service payments ²	(2,482)	(2,537)	(2,597)	(2,573)	(2,631)	(2,680)	(15,500)
Net gap / surplus (\$M), illustrative	(2,202)	(1,133)	(886)	(1,797)	(1,535)	(1,248)	(8,802)
Post measures real GNP growth, %	(13.2%)	5.9%	1.6%	1.4%	2.2%	1.9%	
GNP (post-measures/SR nominal)	62,472	67,130	69,197	71,188	73,798	76,269	
GNP per capita (constant 2017 dollars)	19,451	20,864	21,345	21,956	22,743	23,492	
GNP per capita growth (constant 2017 dollars)		7.3%	2.3%	2.9%	3.6%	3.3%	

¹ Includes implementation costs, e.g., EITC

² Debt service based on prepetition contractual debt obligations. Presented for illustrative purposes only and does not represent anticipated future payments on restructured debt. Includes GO, PBA, COFINA Sr and Sub, CCDA, PRIFA, PFC, ERS, PRIDCO. The New Fiscal Plan does not assume any predetermined outcome of ongoing litigation with respect to GO and COFINA bonds.

Without fiscal and structural measures, the six-year deficit is expected to total \$5.2 billion. After the application of fiscal measures, and the fiscal impact of structural reforms, the six-year surplus becomes \$6.7 billion.

EXHIBIT 81: REVENUE BREAKDOWN SHOWS GRADUAL POST-HURRICANE RECOVERY

Revenue Detail Post-Measures and Structural Reforms

Fiscal Year Ending June 30, \$M	FY18	FY19	FY20	FY21	FY22	FY23	6Y total
Revenues							
General Fund Revenues:							
Individual Income Taxes	\$1,788	\$1,921	\$1,980	\$2,037	\$2,112	\$2,182	\$12,020
Corporate Income Taxes	1,340	1,440	1,484	1,527	1,583	1,636	9,008
Non-Resident Withholdings	569	539	539	513	480	486	3,125
Alcoholic Beverages	270	271	273	273	273	273	1,631
Cigarettes	148	134	136	136	136	136	825
Motor Vehicles	335	336	343	348	356	363	2,082
Excises on Off-Shore Shipment Rum	208	205	206	207	200	192	1,218
Other General Fund Revenue	299	321	331	341	353	365	2,011
Total	4,956	5,166	5,293	5,381	5,493	5,634	31,922
SUT Collections (excl. PSTBA, FAM & CINE)	1,419	1,551	1,592	1,629	1,686	1,736	9,613
Act 154 Collections	1,761	1,683	1,551	1,303	1,026	1,026	8,351
PREPA Loan Repayment	5	15	315	--	--	--	335
General Fund Revenue	\$8,141	\$8,415	\$8,751	\$8,313	\$8,205	\$8,396	\$50,220
Component Unit Revenue	1,446	1,527	1,564	1,595	1,632	1,669	9,432
Additional SUT (PSTBA, FAM & CINE)	862	900	935	971	1,010	1,049	5,727
Third party ASES receipts (rebates and municipal contributions)	339	352	361	372	383	394	2,202
Other Tax Revenues	2,291	2,336	2,365	2,391	2,387	2,382	14,152
Other Non-Tax Revenues	986	539	537	544	552	560	3,718
Adj. Revenue Before Measures	\$14,064	\$14,070	\$14,513	\$14,186	\$14,168	\$14,450	\$85,450
Revenue Measures	45	321	424	435	521	550	2,296
Adj. Revenue Post Measures (Excl. Federal Transfers)	\$14,109	\$14,391	\$14,936	\$14,621	\$14,689	\$15,000	\$87,747
Federal Transfers to Central Government	4,221	4,258	4,316	4,364	4,415	4,464	26,038
Federal Transfers - Medicaid	2,011	2,619	1,373	307	326	346	6,981
Federal Transfers to Independent Component Units	177	169	169	169	169	169	1,021
Revenues Post Measures	\$20,519	\$21,436	\$20,794	\$19,461	\$19,599	\$19,979	\$121,787

General fund revenues are expected to increase from \$8.1 billion to \$8.4 billion between FY2018 and FY2023, mainly due to GNP growth. Federal transfers (excluding disaster assistance) is expected to total ~\$34 billion over the six-year period.

EXHIBIT 82: POST-HURRICANE EXPENDITURES

Expense Detail Post-Measures and Structural Reforms

Fiscal Year Ending June 30, \$M	FY18	FY19	FY20	FY21	FY22	FY23	6Y total
Expenses							
General Fund Expenditures:							
Direct Payroll	(\$3,098)	(\$3,058)	(\$3,104)	(\$3,148)	(\$3,193)	(\$3,238)	(\$18,840)
Non-Personnel Operating Expenses	(1,250)	(1,247)	(1,262)	(1,276)	(1,290)	(1,303)	(7,627)
Utilities	(242)	(248)	(256)	(265)	(272)	(287)	(1,570)
Municipal Expenses	(298)	(220)	(220)	(220)	(220)	(220)	(1,396)
Pension Expenses	(2,254)	(2,261)	(2,276)	(2,296)	(2,315)	(2,338)	(13,740)
Disaster Recovery Cost Match	(35)	(190)	(181)	(173)	(165)	(123)	(867)
Restructuring / Title III Costs	(291)	(391)	(264)	(214)	(172)	(156)	(1,488)
UPR Appropriation and Other GF Expenses	(838)	(847)	(847)	(847)	(847)	(847)	(5,074)
Loan to PREPA	(300)	--	--	--	--	--	(300)
Total General Fund Expenses (excl. inter gov transfers)	(\$8,607)	(\$8,462)	(\$8,409)	(\$8,439)	(\$8,474)	(\$8,512)	(\$50,903)
Medicaid - commonwealth funded	(760)	(374)	(1,779)	(3,040)	(3,204)	(3,380)	(12,537)
Social Programs - commonwealth funded	(15)	(15)	(15)	(15)	(15)	(15)	(91)
Total General Fund Expenses (excl. inter gov transfers)	(\$9,382)	(\$8,851)	(\$10,203)	(\$11,494)	(\$11,693)	(\$11,907)	(\$63,530)
Federal Funds, SRF, and CU operating expenses:							
Direct Payroll	(1,547)	(1,548)	(1,575)	(1,601)	(1,628)	(1,655)	(9,552)
Non-Personnel Operating Expenses	(2,298)	(2,314)	(2,338)	(2,364)	(2,392)	(2,416)	(14,124)
Medicaid - federally funded	(2,011)	(2,619)	(1,373)	(307)	(326)	(346)	(6,981)
Social Programs - federally funded	(2,734)	(2,770)	(2,808)	(2,843)	(2,879)	(2,914)	(16,948)
Other expenses	(20)	(20)	(20)	(21)	(21)	(21)	(122)
Total CW Funded Op. Exp.	(\$17,992)	(\$18,122)	(\$18,318)	(\$18,630)	(\$18,939)	(\$19,259)	(\$111,259)
Expense Measures	100	356	1,441	2,422	2,728	2,926	9,972
Total CW Funded Op. Exp. Post Measures excl. Loss of Medicaid Funding	(\$17,892)	(\$17,766)	(\$16,878)	(\$16,207)	(\$16,211)	(\$16,333)	(\$101,287)
Net Operating Cash Flows	\$2,626	\$3,670	\$3,916	\$3,254	\$3,388	\$3,646	\$20,501
Capex and Other Expenses							
Maintenance Capex	(276)	(282)	(302)	(317)	(329)	(334)	(1,840)
Enterprise funds	(1,191)	(1,209)	(1,227)	(1,245)	(1,263)	(1,280)	(7,415)
Disbursements of Tax Revenues to Entities Outside Plan	(586)	(654)	(555)	(714)	(701)	(600)	(3,810)
Other Non-Recurring	(292)	(122)	(122)	(202)	--	--	(737)
Total Capex and Other Expenses	(\$2,346)	(\$2,267)	(\$2,206)	(\$2,478)	(\$2,292)	(\$2,214)	(\$13,803)
Surplus Post Measures (excl. Debt Payments)	\$280	\$1,403	\$1,710	\$776	\$1,096	\$1,432	\$6,698
Contractual Debt Service Payments ¹	(2,482)	(2,537)	(2,597)	(2,573)	(2,631)	(2,680)	(15,500)
Surplus after Measures and Debt Payments	(\$2,202)	(\$1,133)	(\$886)	(\$1,797)	(\$1,535)	(\$1,248)	(\$8,802)

¹ Debt service based on prepetition contractual debt obligations. Presented for illustrative purposes only and does not represent anticipated future payments on restructured debt.

Chapter 23. STRUCTURAL REFORMS

23.1 Human capital and labor reform

States across the mainland U.S. have different approaches to labor market and welfare policy, including different employee protections, incentives for employers, or benefits to workers. California and Florida represent opposite ends of this spectrum of approaches, with California intervening more in the labor market while Florida requires little above what is required by the Federal Fair Labor Standards Act. At the same time, these two states allow for much freer and less regulated labor markets than Puerto Rico's approach and both have significantly higher levels of employment, incomes and economic opportunity.

California offers workers more protections and benefits than most states (e.g., mandated paid sick leave and multiple exemptions to employment at-will) while Florida offers very few (e.g., no guaranteed leave, no exceptions to employment at-will). California has one of the highest minimum wages in the country (\$10.50/hour) while Florida offers a lower minimum wage (\$8.25/hour) yet does not require workers to pay state income tax.

Despite these differences, Florida and California are closer in both labor market environment and outcomes than Puerto Rico: for example, both are employment at-will jurisdictions and have long-term work requirements in place for SNAP, while Puerto Rico has neither. Puerto

Rico has more generous policies for “secondary benefits”: Florida requires none and California offers 24 hours (3 days) of paid sick leave, while Puerto Rico’s guarantees of a yearly Christmas bonus, severance pay, 27 days of paid time off, and maternity leave are far beyond those required by any mainland state. And while the minimum wage is higher in both California and Florida than Puerto Rico, Puerto Rico’s minimum wage is significantly more generous when compared to median wage on the Island (**Exhibit 83**).

EXHIBIT 83: MINIMUM WAGES AND MEDIAN HOURLY WAGES

State	Minimum wage	Median hourly wage	Minimum wage as percent of median wage
California	\$10.50	\$19.70	53%
Florida	\$8.25	\$16.07	51%
Puerto Rico	\$7.25	\$9.76	74%

SOURCE: Median hourly wages as measures by the Bureau of Labor Statistics (BLS)

California’s labor force participation rate is 62.3%, and Florida’s is 59.4%, versus approximately 40 percent in Puerto Rico.¹⁶¹ This difference implies that, relative to the size of the population, California and Florida have roughly 50% more individuals in the labor force than Puerto Rico. Put another way, if Puerto Rico increased its labor force participation rates to those of California or Florida, household incomes would rise by roughly 50% and poverty would plummet.

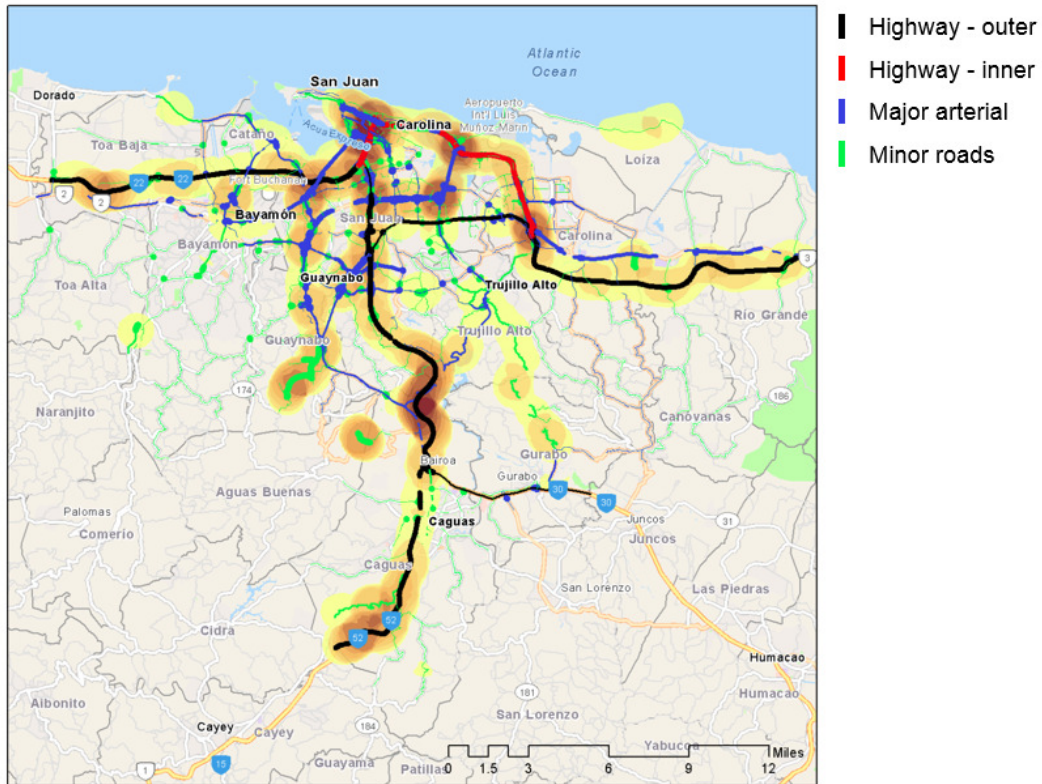
23.2 Infrastructure reform

San Juan incurs daily delays of ~54,000 hours on average, with an hour of delay valued at \$9.1. Assuming 260 working days, and 75% congestion levels on non-working days, congestion cost is ~\$165M annually. 52% of the delay is concentrated on 26% of roads in downtown San Juan (including feeders), with a delay intensity of 264 hours/ mile compared to 193 hours/mile on average for minor road and arterials (**Exhibit 84**).

¹⁶¹ U.S. Department of Labor, Bureau of Labor Statistics, “Local Area Unemployment Statistics,” March 23, 2018

EXHIBIT 84: CONGESTION IN PUERTO RICO

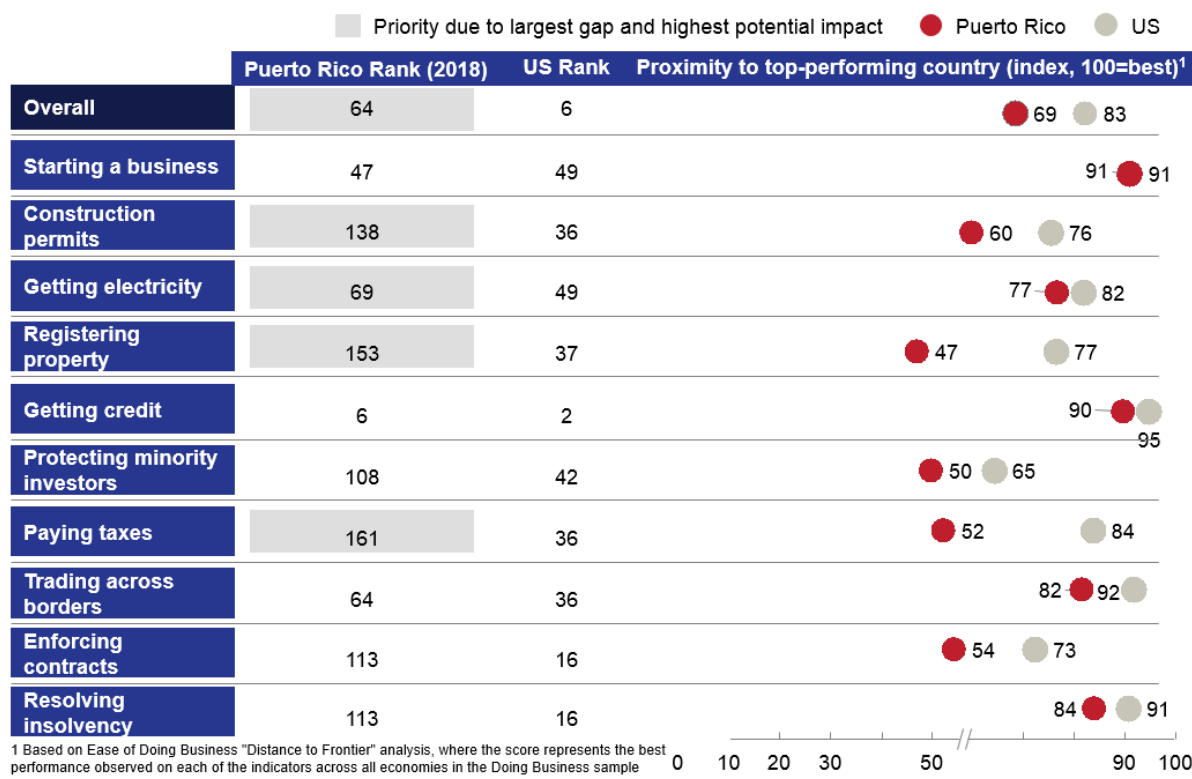
Congestion map of San Juan by delay and road type, line width denotes amount of total delay hours



23.3 Ease of doing business reform

An analysis of Puerto Rico’s Ease of Doing Business rankings across all World Bank indicators shows which are most in need of targeted reforms for improvement (**Exhibit 85**).

EXHIBIT 85: PUERTO RICO'S EASE OF DOING BUSINESS RANKINGS COMPARED TO THE US



Chapter 24. FISCAL MEASURES

24.1 Tax law initiatives

24.1.1 Legislative enforcement of tax initiatives

Legislative enforcement text should be as follows:

To protect the financial and fiscal health of the Government of Puerto Rico, before any reduction to the regular tax rates for taxable years beginning after December 31, 2018, enter into effect, a fiscal responsibility test shall be carried out and must be included as a component in any enabling legislation related to revisions to the tax code.

Fiscal responsibility test: *shall be conducted, and the results shall be certified and submitted to the Oversight Board in a report before the Oversight Board certifies the budget of the Government of Puerto Rico for subsequent fiscal years beginning on July 1, 2019 through July 1, 2025, respectively. Once compliance with the fiscal responsibility test for the applicable fiscal year is established, the additional tax reliefs legislated to take effect provided for the corresponding fiscal year may enter into effect. If the fiscal responsibility test is not met, the Government of Puerto Rico must enact new revenue sources sufficient to meet the applicable fiscal responsibility test thresholds or the tax relief proposed for the applicable year shall not enter into effect.*

New offsetting revenue measure test: if by the time the new budget year begins, and no alternative remedies have been identified that meet the criteria specified by the Oversight Board, then the reduction of taxes will be reversed.

Outperformance against baseline revenue collections in categories unrelated to the tax initiatives, a reduction in general expenses categories, and general improvement in tax compliance, **may not be used to compensate for underperformance in costs or underperformance in revenue measures that leads to a lack of revenue neutrality.**

Net tax cut to revenue measure test: the net amount of lost revenue from any reductions in tax rates must generally be less than or equal to the amount of offsetting revenue measures minus the amount of buffers and implementation risks specifically identified in any enabling legislation as indicated below:

- Ninety-eight million (\$98,000,000) dollars for the fiscal year beginning July 1, 2019
- Seventy million (\$70,000,000) dollars for the fiscal year beginning July 1, 2020
- Three million (\$3,000,000) dollars for the fiscal year beginning July 1, 2021
- Negative one million (-\$1,000,000) dollars for the fiscal year beginning July 1, 2022

One million (\$1,000,000) dollars for the fiscal year beginning July 1, 2023

EXHIBIT 86: TAX POLICY CHANGE OFFSETS – TAX CREDIT AND CASH GRANT NET SAVINGS

Tax Policy Change Offsets, Tax Credit and Cash Grant Net Savings, \$1000s

Credits pay-fors				
		FY18 amount	FY19 amount	FY20 amount
Act 135-1997 & Act 73-2008	Manufacturing Tax Incentive & Manufacturing Economic Dev't Incentive	57,214	12,750	12,750
Act 73-2008	Manufacturing Economic Development Incentive - Transferable	57,330	35,773	35,773
Act 1-2011	Puerto Rico Internal Revenue Code Of 2011 Act	610	571	571
Act 74-2010	Puerto Rico Tourism Development Act Of 2010	18,683	22,171	13,653
Act 78-1993	Puerto Rico Tourism Development Act Of 1993	3,473	-	-
Act 70-1978	Puerto Rico Solid Waste Authority Act	62	-	-
Act 27-2011	The Puerto Rico Film Industry Economic Incentives Act	21,939	26,641	16,059
Act 362-1999	Film Industry Development Act	73	-	-
Act 98-2001	Tax Credits For Investment In Housing Infrastructure	-	489	489
Act 212-2002	Urban Centers Revitalization Act	32,125	21,712	21,712
Act 140-2011	Investment In New Construction And Rehabilitation Of Affordable Housing Act	1,288	-	-
Act 77-2015	Construction Or Rehab Of Low Income Elderly Housing	35,481	28,423	28,423
Act 183-2001	The Puerto Rico Conservation Easement Act	2,130	-	-
Act 225-1995	Puerto Rico Agricultural Tax Incentives Act	1,046	-	-
Act 168-1968	Hospital Facilities Tax Exemption Act	1,025	-	-
	Others	24,689	-	-
		257,168	148,532	129,432
	2018 Estimated Credits ¹		257,168	257,168
	Less: Estimated Annual Amounts		-148,532	-129,432
	Net Savings		108,636	127,736
Cash grants pay-for				
		FY18 amount	FY19 amount	FY20 amount
(PROG)	Other Special Act Related To ADEA ²	15,371	15,371	0
Act 83-2010	Renewable Energy	7,017	7,017	-
Act 178-2010	Rum Incentive	135,719	88,489	62,989
	ODEC Rums Of Puerto Rico Pro Ram	10,000	2,000	2,000
	Rum Tax Cover Over Incentive Increase To \$13.25	20,000	-	-
		188,107	112,877	64,989
	2018 Estimated Credits ¹		188,107	257,168
	Less: Estimated Annual Amounts		-112,877	-64,989
	Net Savings		75,230	123,118

¹ FY18 credits and cash grants based on 2016 data input into Form 480.71

² DDEC anticipates it will fully eliminate these cash grants in FY19. The value does not drop in the table above until FY20 though because that is when Hacienda expects to use the reduction as an offset for the tax proposal

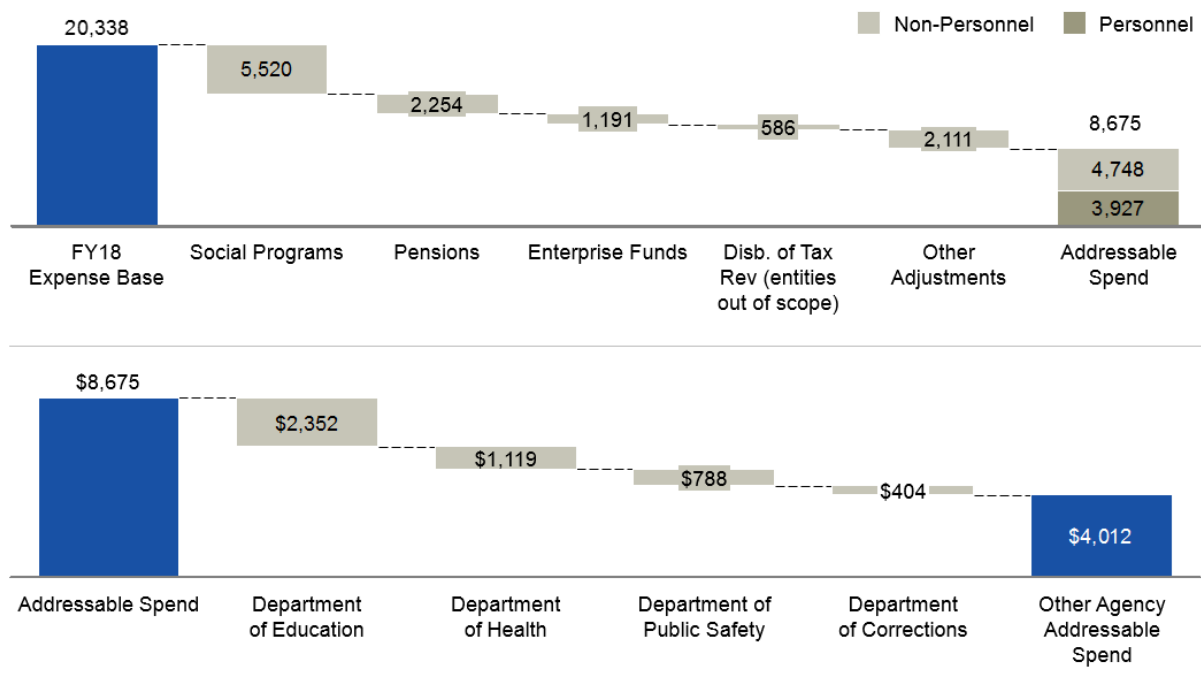
24.2 Agency efficiency measures

24.2.1 Addressable spend for agency efficiency measures

Not all governmental agency was expected to be addressable through rightsizing initiatives. For instance, Federal funding to agencies which would disappear if it were not allocated to its current use were not targeted for reductions. Below is an overview of the approach used to determine which funds and cost concepts were addressable.

EXHIBIT 87: ADDRESSABLE SPEND BASE FOR AGENCY EFFICIENCIES

FY18 addressable spend baseline for agency right-sizing, \$M



The following cost concepts are assumed to be addressable for spend reductions within Agency Efficiencies (see Chapter 13).

- **Personnel expenses.**
 - Payroll and related costs (Nómina y costos relacionados)
- **Non-personnel expenses.**
 - Materials and supplies (Materiales y suministros)
 - Purchase of equipment (Compra de equipo)
 - Transportation expenses (Gastos de transportación)
 - Other operating expenses (Otros gastos operacionales)
 - Purchased services (Servicios comprados)
 - Announcements and guidelines in media (Anuncios y pautas en medios)
 - Facilities and payments for public services (Facilidades y pagos por servicios públicos)
 - Professional services (Servicios profesionales)
- **Non-personnel expenses partially included.** The following cost concept was determined to be a miscellaneous category that included a collection of both addressable and non-addressable spend. Therefore, while all category spend was

included in the addressable spend baseline, only 50% of category spend was included in actual savings initiatives as a haircut to separate addressable and non-addressable spend

- Enrolled assignments (asignaciones englobadas)
- **Non-personnel expenses included on a case-by-case basis.** The following cost concepts were included as addressable spend, and individual decisions were made to determine whether each agency's costs within those concepts were addressable within Agency Efficiencies, or whether they did not represent addressable spend (e.g., governmental transfer payments, tax incentives which were addressed via corporate tax reform, etc.)
 - Government entities (Entidades gubernamentales)
 - Contributions to non-governmental entities (Aportaciones a entidades no gubernamentales)
 - Donations, subsidies and distribution (Donativos, subsidios y distribuciones)
- **Out of scope.** The following cost concepts were excluded from agency efficiencies for a variety of reasons (e.g., payments related to debt service or pensions, liquidity reserves, etc.)
 - Assignment pareo Federal funds (Asignación pareo fondos federales)
 - Budget reserve (Reserva presupuestaria)
 - Investment in permanent improvements (Inversión en mejoras permanentes)
 - Payment of pensions - pay as you go (Pago de pensiones - pay as you go)
 - Liquidity reserve (Reserva de liquidez)
 - Adjustment
 - Payment of the debt (Pago de la deuda)

All expenses funded by the general fund and special revenue funds are assumed to be addressable provided they were expensed in the above addressable cost concepts (e.g., General Fund expenditures within "Purchased services").

Federal funds and own income were evaluated on a case-by-case basis for inclusion as addressable spend. In cases where Federal dollars were explicitly allocated to specific line-items within the budget, those dollars were assumed to be non-addressable. However, in cases where those funds were fungible and could be applied to various expenses, those dollars were considered addressable within Agency Efficiencies.

24.2.2 Agency efficiency measures

Back-office or support function payroll savings come from finding efficiencies by reducing personnel in non-client facing functions in each agency. These positions include administrative roles such as finance, human resources, and information systems, as well as some facilities support.

- a. For standalone agencies, support service payroll savings are calculated at **15-20%**, based on successful public-sector cases primarily involving digitization and process improvement, including the implementation of lean management practices.
- b. For newly merged agencies, back-office or support function payroll savings are calculated at **40-50%**. The single consolidated agency will be able to use scale efficiencies through the combination of support services and elimination of duplicate functions and roles. The savings value is based on private sector examples of mergers and acquisitions and public sector examples of consolidations.

- c. In some cases, more savings can be captured when there is an agency-specific back office initiative that can be identified beyond standard optimization.

Frontline payroll savings were identified using a tailored deep-dive for each major agency for both merged and standalone agencies. The approach involved a review of each program and service (both citizen-facing and intergovernmental) to determine if the service levels provided should continue and/or if specific services could be delivered more effectively (e.g., through process improvement, innovative tools and technology, organizational and delivery changes). For applicable programs, spending levels are benchmarked against appropriate peer governments (either state or Federal, or in some cases international examples). Additionally, macroeconomic analysis can be used to determine if lower payroll levels could serve the same number of citizens based on expected changes in demographics, workforce levels, and the economy.

Non-personnel savings opportunities were expected to be largely driven through procurement and other streamlining efforts. Initiatives such as institutionalizing centralized demand controls, strategic category-level purchasing (e.g., leveraging Puerto Rico's access to Federal GSA rates, purchasing through e-auctions, opening competitive RFPs), accounting for total cost of ownership, and enforcing contractual compliance could present large savings opportunities throughout the government.

Standalone agencies can implement initiatives including strategic sourcing and IT rationalization to better leverage the procurement function at a lower cost. The digitization and process improvement savings initiatives mentioned in support services can apply to procurement as well. Public sector agencies using these methods have saved **20%** on procurement spending.

Newly merged agencies have an additional opportunity to save on operational costs, with achievable savings of **30%**. In addition to the savings that a standalone agency can receive, consolidation of agencies should increase the leverage of Puerto Rican agencies in negotiating with the private sector, and bigger savings can be expected from duplication and combination of efforts. Merged agencies can also expect to find savings based on leveraging their smaller footprint, as well as lowering maintenance and facility costs.

Agency-specific initiatives and targets

The following exhibit details the baseline expenditure and total reduction, annually, for each of the agency groupings within Agency Efficiencies (*see Chapter 13*).

EXHIBIT 88: ADDRESSABLE BASELINE EXPENDITURES AND TOTAL REDUCTION PER AGENCY GROUPING¹⁶²

Baseline addressable spend and measures by agency grouping¹, \$1000s

Grouping	FY18				FY19				FY20			
	Baseline	Personnel reduction	Non-personnel reduction	Total reduction	Baseline	Personnel reduction	Non-personnel reduction	Total reduction	Baseline	Personnel reduction	Non-personnel reduction	Total reduction
Agriculture	183,175	-	-	-	183,175	2,082	426	2,507	185,653	4,163	865	5,028
Automobile Accident Compensation Authority	91,941	-	-	-	91,941	1,957	4,012	5,969	92,876	2,995	8,148	11,143
Closures	31,225	-	-	-	31,225	64	96	160	31,554	321	486	808
Corrections	403,529	-	-	-	403,529	11,419	10,085	21,504	405,239	30,500	29,623	60,073
Courts and Legislature	453,669	-	-	-	453,669	21,693	33,809	55,502	457,308	21,693	34,328	56,022
Culture	23,753	-	-	-	23,753	1,280	831	2,112	23,932	2,572	1,688	4,261
Economic Development	267,403	-	-	-	267,403	5,788	10,648	16,435	270,277	11,575	21,622	33,198
Education	2,352,211	-	-	-	2,352,211	53,481	6,045	59,526	2,364,574	182,224	51,854	234,078
Environmental	72,846	-	-	-	72,846	2,921	1,078	3,999	73,175	5,841	2,189	8,030
Executive Office	160,219	-	-	-	160,219	3,402	4,178	7,580	160,909	6,804	8,484	15,288
Finance Commission	18,836	-	-	-	18,836	443	600	1,044	18,935	887	1,219	2,106
FOMB	60,000	-	-	-	70,000	-	5,250	5,250	75,000	-	5,625	5,625
Hacienda - OCFO	273,987	-	-	-	273,987	7,388	5,355	12,743	276,563	14,189	10,579	24,768
Healthcare	1,118,892	-	-	-	1,164,860	48,447	12,772	61,219	1,213,586	59,096	25,844	84,940
Independent Agencies	226,724	-	-	-	226,724	9,021	3,840	12,862	227,948	12,188	7,799	19,987
Justice	141,217	-	-	-	141,217	3,372	703	4,074	141,954	6,746	1,427	8,174
Labor	190,521	-	-	-	190,521	2,030	2,459	4,489	192,007	4,152	4,994	9,147
Land	14,821	-	-	-	14,821	589	402	991	14,883	1,178	804	1,983
Ombudsman	33,286	-	-	-	33,286	399	317	716	33,637	797	645	1,442
Public Safety	788,098	-	-	-	788,098	33,669	5,603	39,272	789,276	57,835	11,378	69,213
Public Works	230,547	-	-	-	230,547	7,156	8,300	15,457	232,053	14,313	16,856	31,169
Social Welfare	1,125,418	-	-	-	1,125,418	3,525	2,886	6,411	1,137,399	8,954	10,227	19,181
State	18,818	-	-	-	18,818	514	275	789	18,999	1,029	559	1,587
State Insurance Fund Corporation	360,857	-	-	-	360,857	12,562	6,165	18,727	362,298	25,125	12,520	37,644
Universities	10,780	-	-	-	10,780	588	88	677	10,837	863	179	1,042
Utilities Commission	22,531	-	-	-	22,531	118	898	1,015	22,680	236	1,823	2,059
Total	8,675,304	-	-	-	8,731,272	233,909	127,122	361,030	8,833,554	476,228	271,765	747,993

1 Savings excludes additional personnel savings achievable through compensation measures (e.g., payroll freeze, uniform healthcare, Christmas bonus)

Baseline addressable spend and measures by agency grouping¹, \$1000s

Grouping	FY21				FY22				FY23			
	Baseline	Personnel reduction	Non-personnel reduction	Total reduction	Baseline	Personnel reduction	Non-personnel reduction	Total reduction	Baseline	Personnel reduction	Non-personnel reduction	Total reduction
Agriculture	187,970	6,308	1,329	7,636	190,332	6,308	1,348	7,655	192,680	6,308	1,366	7,674
Automobile Accident Compensation Authority	93,749	3,974	12,520	16,494	94,640	4,172	12,698	16,869	95,525	4,357	12,875	17,231
Closures	31,862	643	987	1,629	32,175	643	1,001	1,644	32,487	643	1,015	1,657
Corrections	406,837	53,287	36,002	89,290	408,466	76,125	36,002	112,127	410,086	76,125	36,002	112,127
Courts and Legislature	460,710	21,693	34,814	56,508	464,179	21,693	35,310	57,003	467,627	21,693	35,802	57,495
Culture	24,100	3,914	2,594	6,508	24,270	3,930	2,631	6,562	24,440	3,947	2,668	6,615
Economic Development	272,964	17,538	33,225	50,763	275,703	17,538	33,698	51,236	278,427	17,538	34,168	51,706
Education	2,376,129	262,794	84,375	347,169	2,387,912	325,225	107,570	432,796	2,399,628	356,887	108,870	465,757
Environmental	73,483	8,851	3,363	12,214	73,797	8,851	3,411	12,262	74,110	8,851	3,459	12,309
Executive Office	161,553	10,309	13,036	23,345	162,211	10,309	13,222	23,531	162,865	10,309	13,406	23,715
Finance Commission	19,027	1,343	1,873	3,216	19,121	1,343	1,900	3,243	19,215	1,343	1,926	3,270
FOMB	75,000	-	5,625	5,625	75,000	-	5,625	5,625	75,000	-	5,625	5,625
Hacienda - OCFO	278,970	21,251	16,048	37,299	281,425	21,338	16,192	37,529	283,866	21,424	16,335	37,759
Healthcare	1,256,628	65,397	39,492	104,890	1,301,821	71,441	42,926	114,367	1,349,274	77,359	43,358	120,716
Independent Agencies	229,092	14,878	11,983	26,862	230,258	16,139	12,154	28,293	231,418	17,321	12,323	29,644
Justice	142,643	10,226	2,193	12,420	143,346	10,231	2,225	12,455	144,044	10,235	2,256	12,491
Labor	193,396	6,370	7,674	14,044	194,813	6,515	7,784	14,299	196,221	6,652	7,892	14,544
Land	14,942	1,785	1,219	3,004	15,001	1,785	1,219	3,004	15,061	1,785	1,219	3,004
Ombudsman	33,964	1,208	990	2,198	34,298	1,208	1,004	2,212	34,630	1,208	1,019	2,226
Public Safety	790,376	62,839	17,483	80,322	791,499	64,210	17,732	81,943	792,615	62,883	17,980	80,862
Public Works	233,461	21,686	25,901	47,587	234,896	21,686	26,269	47,955	236,323	21,686	26,636	48,322
Social Welfare	1,148,597	13,819	16,493	30,311	1,160,015	14,735	19,031	33,767	1,171,368	15,169	20,516	35,686
State	19,169	1,559	858	2,417	19,342	1,559	870	2,429	19,514	1,559	883	2,441
State Insurance Fund Corporation	363,644	38,068	19,237	57,305	365,018	38,068	19,511	57,579	366,383	38,068	19,783	57,851
Universities	10,891	1,115	276	1,391	10,946	1,182	280	1,462	11,000	1,246	284	1,529
Utilities Commission	22,819	357	2,801	3,158	22,961	357	2,841	3,198	23,103	357	2,881	3,238
Total	8,921,975	651,212	392,393	1,043,605	9,013,446	746,592	424,453	1,171,045	9,106,910	784,951	430,544	1,215,495

1 Savings excludes additional personnel savings achievable through compensation measures (e.g., payroll freeze, uniform healthcare, Christmas bonus)

Agency groupings are as shown below in **Exhibit 89**.

¹⁶² Education reinvestment in teacher salaries, text books are baked into number

EXHIBIT 89: AGENCY GROUPINGS

Agriculture	1 Agricultural Enterprises Development Administration	3 Farm Insurance Corporation
	2 Department of Agriculture	
Courts and Legislature	1 General Court of Justice (GCJ)	2 Legislative Assembly (LA)
Culture	1 Fine Arts Center Corporation	3 Musical Arts and Stagecraft Corporation
	2 Institute of Puerto Rican Culture	
Environmental	1 Department of Natural and Environmental Resources	3 Natural Resources Administration
	2 Environmental Quality Board	4 Solid Waste Authority
Executive Office	1 Federal Affairs Administration	5 Office of Socioeconomic Development
	2 Infrastructure Financing Authority	6 Public Buildings Authority
	3 Office of the Commissioner of Municipal Affairs	7 Public-Private Partnership Authority
	4 Office of the Governor	8 State Historical Preservation Office
Finance Commission	1 Office of the Commissioner of Insurance	2 Office of the Financial Institutions Commissioner
Justice	1 Department of Justice	2 Parole Board
Labor	1 Department of Labor and Human Resources	5 Public Service Appeals Commission
	2 Investigation, Prosecution and Appeals Commission	6 Vocational Rehabilitation Administration
	3 Labor Relations Board	
Land	1 Land Administration	2 Land Authority
Ombudsman	1 Advocacy for Persons with Disabilities of the Commonwealth of Puerto Rico	4 Veterans Advocate Office
	2 Elderly and Retired People Advocate Office	5 Women's Advocate Office
	3 Health Advocate Office	
State	1 Department of State	2 Puerto Rico Education Council
Public Works	1 Department of Transportation and Public Works	3 Ports Authority
	2 Integrated Transport Authority	4 Traffic Safety Commission
Social Welfare	1 Administration for Integral Development of Childhood	5 Department of Housing
	2 Administration for Socioeconomic Development of the Family	6 Families and Children Administration
	3 Child Support Administration	7 Housing Financing Authority
	4 Department of the Family	8 Public Housing Administration
Universities	1 Conservatory of Music	2 School of Plastic Arts
Utilities Commission	1 Puerto Rico Energy Commission	3 Independent Bureau of Consumer Protection
	2 Public Services Commission	4 Telecommunications Regulatory Board
Independent Agencies	1 Civilian's Advocate Office (Ombudsman)	10 Office of the Comptroller
	2 Civil Rights Commission	11 Office of the Electoral Comptroller
	3 Commonwealth Election Commission	12 Office of Government Ethics
	4 Convention Center District Authority	13 Port of Ponce Authority
	5 Cooperative Development Commission	14 Port of the Americas
	6 Department of Consumer Affairs	15 Public Broadcasting Corporation
	7 Department of Sports and Recreation	16 Puerto Rico National Guard
	8 Industrial Commission	17 Special Independent Prosecutor Panel
	9 Martín Peña Canal ENLACE Project Corporation	18 Teacher's Retirement System
Closures	1 Model Forest of Puerto Rico	3 Culebra Conservation and Development Authority
	2 Company for the Integral Development of Cantera's Peninsula	4 Economic Development Bank
Standalone Agencies	Automobile Accident Compensation Authority	State Insurance Fund Corporation
	Financial Oversight and Management Board	

For each grouping, initiatives include:

- Front-line personnel reductions (by specific benchmark: unique benchmarks based on individual agency, as detailed in appendix, or by population)
- Back-office personnel reductions (by general benchmark: overarching benchmarks which apply to all agencies, *as described in section 13.2*)
- Non-personnel optimization (by general benchmark)

Specific agency groupings include individualized initiatives, including:

- **Courts and Legislature:** Reduce overall spend in line with mainland benchmarks (LA compared to full-time legislatures, GCJ compared to state judiciaries)
- **Culture:** Reduce Musical Arts and Stagecraft Corporation expenses (by specific benchmark)
- **Environmental:** Reduce solid waste G&A spend (by specific benchmark)
- **Financial Oversight and Management Board:** Reduce overall spend in line with ~50% of the cuts prescribed to other agencies (same as reduction to AAFAF, which will also prove vital to implementing the New Fiscal Plan)
- **Independent Agencies:** Consolidate Port of the Americas into the Port of Ponce

Closures

Sole initiative will be to close all agencies. However, there will be no savings from the Economic Development Bank, and only ~68% of savings from the Culebra Conservation and Development of Cantera's Peninsula will be achieved.

Chapter 25. COMPARING FISCAL PLANS: MARCH 2017 TO APRIL 2018

25.1 Core presentational differences between fiscal plans

EXHIBIT 90: KEY DIFFERENCES BETWEEN THE FISCAL PLANS

Category	Certified Fiscal Plan	New Fiscal Plan
HTA	<ul style="list-style-type: none"> Revenues and expenses consolidated into Commonwealth plan Capex funded through Commonwealth Implicit deficit impacted cash available for debt service 	<ul style="list-style-type: none"> Clawback-able revenues flow directly to Commonwealth. Revenues and expenses not presented HTA developing independent fiscal plan Estimated deficit, including allocation for capital expenditures, funded through appropriations
UPR	<ul style="list-style-type: none"> Revenues and expenses presented on a gross basis. Capex funded through Commonwealth Budgetary appropriation included in GF budget 	<ul style="list-style-type: none"> Only budgetary appropriation included UPR developing independent fiscal plan
Federally funded expenses	<ul style="list-style-type: none"> Single line item within expenses assumed 100% offset by federal fund inflows 	<ul style="list-style-type: none"> Included in operating expenses by cost concept or social program
Independently Forecasted Component Units	<ul style="list-style-type: none"> Presented on a net surplus / (deficit) basis 	<ul style="list-style-type: none"> Consolidated into Central Government revenue and expenses (gross basis)
Special Revenue Funds / Enterprise Funds	<ul style="list-style-type: none"> Presented on a net deficit basis 	<ul style="list-style-type: none"> Consolidated into Central Government revenue and expenses (gross basis)
Title III Expenses	<ul style="list-style-type: none"> Excluded in Certified Fiscal Plan 	<ul style="list-style-type: none"> Included in the New Fiscal Plan
Pension and PayGo	<ul style="list-style-type: none"> Pension costs presented in PayGo line item, as a portion of direct payroll and through special appropriations 	<ul style="list-style-type: none"> Pension expense presented in single line item (GF Portion of PayGo Expense)
Reconciliation Adjustment	<ul style="list-style-type: none"> Included in Certified Fiscal Plan to account for potential under budgeting 	<ul style="list-style-type: none"> Excluded based on analysis of preliminary FY15 CAFR versus FY14 CAFR
Disaster Relief	<ul style="list-style-type: none"> N/A 	<ul style="list-style-type: none"> FEMA funding and FEMA related spending shown on a gross basis; cost-share reflected separately
Emergency reserve	<ul style="list-style-type: none"> Excluded from Certified fiscal plan 	<ul style="list-style-type: none"> 2% of FY18 GNP accumulated over 10 years (\$130M/YR) per IMF guidance¹

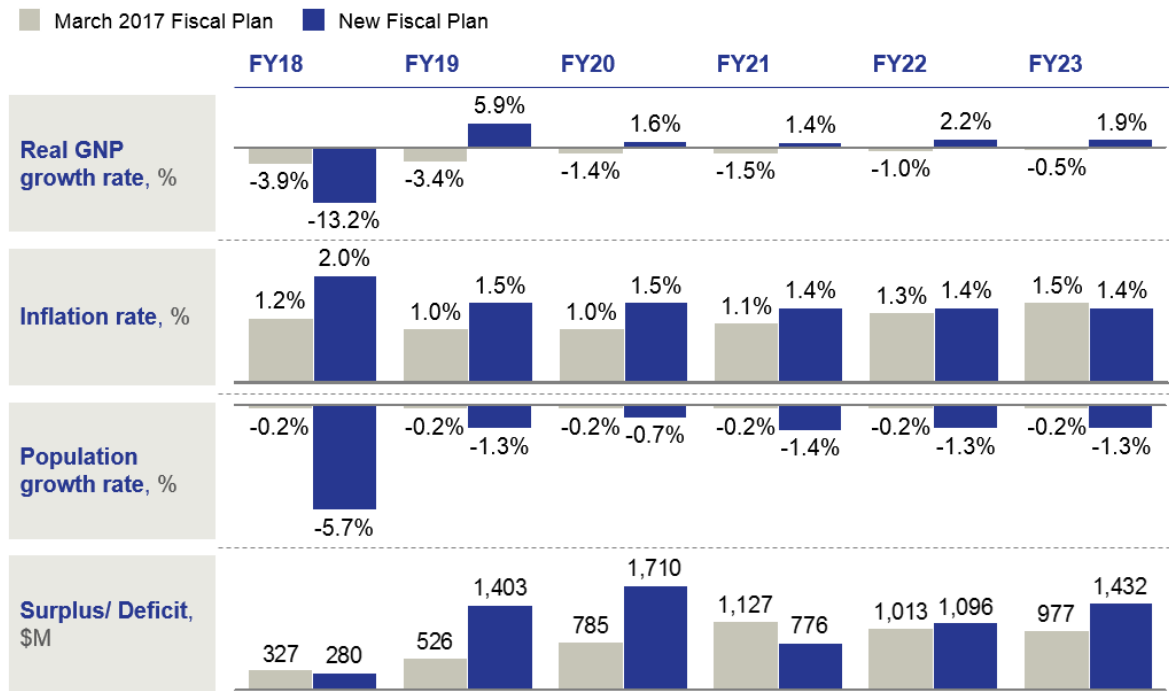
¹ IMF paper "The Bahamas: Staff Concluding Statement of the 2018 Article IV Mission", March 22, 2018

25.2 Baseline comparison

There are some key macroeconomic differences between Certified Fiscal Plan from 2017 and the New Fiscal Plan. The clear majority of these differences are driven by the impacts of Hurricanes Maria and Irma on the Island's population and economy. The most significant change is in the trajectory of the GNP growth rate. In the New Fiscal Plan, the growth is far more volatile, with major economic contractions expected in FY2018, followed by a bounce back in FY2019, with a gradual slowdown in the growth rate as disaster spend wanes. This unprecedented level of disaster relief funding entering the Puerto Rican economy due to Maria also leads to inflation levels above what was seen in the Certified Fiscal Plan from 2017, for the majority of the time from FY2018- FY2023. Maria and Irma have also led to a large projected population exodus, especially in FY2018.

EXHIBIT 91: COMPARISON OF MAJOR MACRO ECONOMIC INDICATORS BETWEEN FISCAL PLANS

Comparison of March 2017 Fiscal Plan and New Fiscal Plan (Post-Measures and Structural Reforms)



25.3 Measures comparison

While many measures were largely maintained from the Certified Fiscal Plan in 2017, in other cases there were changes to approach. Below is an explanation of key differences.

Agency Efficiencies

- The Certified Fiscal Plan took an overall approach to all agency efficiency savings, breaking out reductions in personnel and non-personnel expenditures without aligning on agency-specific targets
- The New Fiscal Plan has a detailed bottom-up approach which applies to every agency within the Executive, Legislative, and Judiciary Branches, as well as the Oversight Board
- In addition, while the New Fiscal Plan adds an additional government-wide compensation measures which were not present in the Certified Fiscal Plan (elimination of the Christmas bonus, implementing uniform healthcare across all government agencies), it maintains the payroll freeze from the March 2017 Fiscal Plan. Additionally, uniform healthcare insurance is now a separate measure, rather than a potential initiative to reach the targeted personnel savings

Healthcare

- Healthcare savings from the March 2017 Fiscal Plan are largely maintained in the New Fiscal Plan, with the exception of FY2018 and FY2019, which have been adjusted to reflect the post-Maria reality

Tax Compliance and Fees Enhancement

- The March 2017 Fiscal Plan included revenue-positive corporate tax reform, whereas in the New Fiscal Plan there is a new tax initiatives structural reform which is revenue neutral

- The New Fiscal Plan largely maintains the tax compliance measures and adjustments to other taxes and fees from the March 2017 Fiscal Plan, based on adjustments to the targets mutually agreed upon between the Oversight Board and the Government during the implementation of the March 2017 Fiscal Plan

Reduction in Appropriations to UPR and Municipalities

- The March 2017 Fiscal Plan and New Fiscal Plan maintain the same reduction to UPR appropriations; however, the New Fiscal Plan accounts for reductions which have already taken place in FY2018 (e.g., they are accounted for within the baseline expenditures of the New Fiscal Plan)
- The New Fiscal Plan largely maintains the reductions to the municipal appropriations from the March 2017 Fiscal Plan; however, the implementation ramp has been altered to reflect the post-Maria realities facing the municipalities
- Reductions to “other appropriations” (e.g., to the private sector) were included within the agency efficiency measures in the March 2017 Fiscal Plan. Now, they are included within the Tax Law Initiatives (*see Chapter 15*).

Pension Reform

- The March 2017 Fiscal Plan included all the measures from the New Fiscal Plan except for the Social Security enrollment
- The conformed Fiscal Plan documents released in August 2017 included the additional Social Security enrollment, as well as adjustments to the above measures, which rendered the savings largely similar to the measures included in the New Fiscal Plan

Special Revenue Funds deficit reduction (within OCFO)

- This is a new measure which was not included within the March 2017 Fiscal Plan

EXHIBIT 2A

**ESTADO LIBRE ASOCIADO DE PUERTO RICO
LA FORTALEZA
SAN JUAN, PUERTO RICO**

Boletín Administrativo Núm. OE-2015-046

ORDEN EJECUTIVA DEL GOBERNADOR DEL ESTADO LIBRE ASOCIADO DE PUERTO RICO, HON. ALEJANDRO J. GARCÍA PADILLA, PARA ORDENAR LA RETENCIÓN DE RECAUDOS QUE CORRESPONDERÍAN A LA AUTORIDAD DE CARRETERAS Y TRANSPORTACIÓN DE PUERTO RICO, LA AUTORIDAD PARA EL FINANCIAMIENTO DE LA INFRAESTRUCTURA, LA AUTORIDAD METROPOLITANA DE AUTOBUSES, LA AUTORIDAD DE TRANSPORTE INTEGRADO Y LA AUTORIDAD DEL DISTRITO DE CONVENCIONES DE PUERTO RICO CON EL PROPÓSITO DE CUMPLIR CON EL PAGO DE LA DEUDA PÚBLICA.

POR CUANTO: La Sección 8 del Artículo VI de la Constitución del Estado Libre Asociado de Puerto Rico dispone que “cuando los recursos disponibles para un año económico no basten para cubrir las asignaciones aprobadas para ese año, se procederá en primer término, al pago de intereses y amortización de la deuda, y luego se harán los desembolsos de acuerdo con la norma de prioridades que se establezca por ley”.

POR CUANTO: El Estado Libre Asociado de Puerto Rico tiene la responsabilidad y el deber de garantizar la salud, la seguridad, la educación y el bienestar público de sus habitantes mediante el ejercicio de su poder de razón de estado.

POR CUANTO: Esta Administración ha tomado medidas trascendentales para atajar la crisis fiscal por la que atraviesa el País mediante la reducción de los gastos del gobierno, un aumento en los ingresos y cambios estructurales. Además, desde junio de este año, se creó el Grupo de Trabajo para la Recuperación Fiscal y Económica de Puerto Rico el cual desarrolló un Plan Fiscal y de Crecimiento Económico a cinco años.

POR CUANTO: El 21 de octubre de 2015, la administración del Presidente de los Estados Unidos, Hon. Barack Obama, solicitó al Congreso que proveyera un marco legal al Estado Libre Asociado de Puerto Rico para atender sus obligaciones financieras de manera integral y

ordenada. No obstante, el Congreso no ha aprobado legislación al respecto.

POR CUANTO: A pesar de todas las gestiones realizadas, el Secretario de Hacienda y el Director de la Oficina de Gerencia y Presupuesto certificaron que la proyección de flujo de efectivo para el año fiscal en curso no es suficiente para pagar la deuda pública conforme a su vencimiento y continuar cubriendo los gastos necesarios para la protección de la salud, la seguridad, la educación y el bienestar público.

POR CUANTO: La proyección actualizada del flujo de efectivo consideró los recaudos reales hasta el presente, una proyección de recaudos revisada hasta el final del año fiscal en curso y un estimado de los gastos necesarios para mantener los servicios esenciales para la protección de la salud, la seguridad, la educación y el bienestar de los habitantes del País.

POR CUANTO: Ante esa situación, el Estado Libre Asociado de Puerto Rico no cuenta con recursos suficientes para cumplir con el pago de la deuda pública y, a su vez, garantizar los servicios esenciales de la salud, la seguridad, la educación y el bienestar público.

POR TANTO: Yo, ALEJANDRO J. GARCÍA PADILLA, Gobernador del Estado Libre Asociado de Puerto Rico, en virtud de los poderes inherentes a mi cargo y de la autoridad que me ha sido conferida por la Constitución del Estado Libre Asociado de Puerto Rico, por la presente dispongo lo siguiente:

PRIMERO: Se ordena al Secretario de Hacienda a retener los ingresos asignados a:

- a. la Autoridad de Carreteras y Transportación de Puerto Rico (ACT) para el pago de ciertas obligaciones de la ACT por virtud de la Sección 3060.11 de la Ley Núm. 1-2011, según enmendada, y la Sección 2301 de la Ley Núm. 22-2000, según enmendada,
- b. la Autoridad para el Financiamiento de la Infraestructura (AFI) para el pago de ciertas obligaciones de la AFI por virtud del Artículo 25 de la Ley Núm. 44 de 21 de junio de 1988, según enmendada, y la Sección 3060.11A de la Ley Núm. 1-2011, según enmendada,

- c. la Autoridad Metropolitana de Autobuses (AMA) para el pago de ciertas obligaciones de la AMA por virtud de la Sección 3060.11 de la Ley Núm. 1-2011, según enmendada, y
- d. la Autoridad de Transporte Integrado (ATI) para el pago de ciertas obligaciones de la ATI por virtud de la Sección 3060.11 de la Ley Núm. 1-2011, según enmendada.

SEGUNDO: Se ordena a la Compañía de Turismo de Puerto Rico a transferir al Departamento de Hacienda aquellas cantidades recaudadas y utilizadas por virtud del Artículo 24 de la Ley Núm. 272-2003, según enmendada, para el pago de ciertas obligaciones de la Autoridad del Distrito de Convenciones de Puerto Rico descritas en el Artículo 31, Sección A de dicha ley.

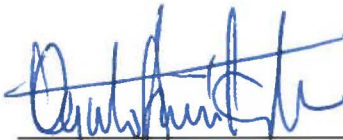
TERCERO: El Departamento de Hacienda retendrá solamente aquellos recursos que sean necesarios para el pago correspondiente de la deuda pública, mientras se continúa brindando los servicios esenciales para proteger la salud, la seguridad, la educación y el bienestar público de los habitantes de Puerto Rico. Los ingresos antes mencionados constituyen recursos disponibles sujetos al Artículo VI, Sección 8, de la Constitución del Estado Libre Asociado de Puerto Rico. La retención no afectará aquellos fondos que sean necesarios para la operación de las entidades. Estos fondos se mantendrán en una cuenta separada y serán utilizados únicamente para el pago de la deuda pública según es pagadera. Si no fuera necesario utilizar todos los fondos retenidos, se remitirán a la corporación pública aplicable para el pago de sus respectivas obligaciones.

CUARTO: DEROGACIÓN. Se deja sin efecto cualquier otra Orden Ejecutiva que en todo o en parte sea incompatible con esta, hasta donde existiera tal incompatibilidad.

QUINTO: VIGENCIA Y PUBLICACIÓN. Esta Orden Ejecutiva entrará en vigor inmediatamente. Se ordena su más amplia publicación y divulgación.

EN TESTIMONIO DE LO CUAL, expido la presente Orden Ejecutiva bajo mi firma y hago estampar en ella el Gran Sello del Estado Libre

Asociado de Puerto Rico, en San Juan, Puerto Rico, hoy 30 de
noviembre de 2015.



ALEJANDRO J. GARCÍA PADILLA
GOBERNADOR

Promulgada de acuerdo a la ley, hoy 30 de noviembre de 2015.



VÍCTOR A. SUÁREZ MELÉNDEZ
SECRETARIO DE ESTADO DESIGNADO

EXHIBIT 2B

COMMONWEALTH OF PUERTO RICO
THE FORTALEZA
SAN JUAN, PUERTO RICO

Administrative Bulletin No. OE-2015-046

EXECUTIVE ORDER BY THE GOVERNOR OF THE COMMONWEALTH OF PUERTO RICO, HON. ALEJANDRO J. GARCIA PADILLA, ORDERING THE RETENTION OF REVENUES THAT WOULD BE DUE TO THE HIGHWAY AND TRANSPORTATION AUTHORITY OF PUERTO RICO, THE AUTHORITY FOR INFRASTRUCTURE FINANCING, THE METROPOLITAN BUS AUTHORITY, THE INTEGRATED TRANSPORTATION AUTHORITY AND THE CONVENTION DISTRICT OF PUERTO RICO IN ORDER TO COMPLY WITH PUBLIC DEBT PAYMENT.

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

WHEREAS: The Commonwealth of Puerto Rico has the responsibility and the duty to ensure the health, safety, education and public welfare of its people through the exercise of its police power.

WHEREAS: This Administration has taken transcendental measures to tackle the fiscal crisis experienced by the Commonwealth through the reduction of government spending, increase in income and structural changes. In addition, in June of this year, the Working Group for the Fiscal and

pep

I, Juan E. Segarra, USCCI #06-067/translator, certify that the foregoing is a true and accurate translation, to the best of my abilities, of the document in Spanish which I have seen.

Economic Recovery of Puerto Rico was created and it developed a five year Fiscal and Economic Growth Plan.

WHEREAS: On October 21, 2015, the administration of the President of the United States, Hon. Barack Obama, requested that Congress provide the Commonwealth of Puerto Rico an enhanced legal framework to meet its financial obligations in a comprehensive and orderly manner. However, Congress has not approved legislation.

WHEREAS: Despite all efforts, the Secretary of the Treasury and the Director of the Office of Management and Budget certified that the projected cash flow for the current fiscal year is not sufficient to pay the public debt subject to maturity and to continue to cover the necessary expenses for the protection of health, safety, education and public welfare.

WHEREAS: The updated cash flow projection considered the real revenues up to the present, a revised projection of revenues to the end of the current fiscal year and an estimate of the necessary expenditures to maintain essential services for the protection of the health, safety, education and welfare of the Commonwealth's citizens.

WHEREAS: Given that situation, the Commonwealth of Puerto Rico does not have sufficient resources to meet the payment of public debt and, at the same time, maintain essential services of health, safety, education and public welfare.

THEREFORE: I, ALEJANDRO J. GARCIA PADILLA, Governor of the Commonwealth of Puerto Rico, under the inherent powers of my office and the authority vested in me by the Constitution of the Commonwealth of Puerto Rico, hereby order the following:

FIRST: The Secretary of the Treasury is hereby directed to retain assigned revenue from:

- a. the Highway and Transit Authority of Puerto Rico (PRHTA) for the payment of certain obligations of the PRHTA under Section 3060.11 of Act. 1-2011, as amended, and Section 2301 of Act No. 22-2000, as amended,
- b. the Authority for Infrastructure Financing (AIF) for the payment of certain obligations of the AIF under Article 25 of Act. 44 of June 21, 1988, as amended, and Section 3060.11A of Act No. 1-2011, as amended,
- c. the Metropolitan Bus Authority (MBA) for the payment of certain obligations under the MBA per Section 3060.11. of Act No. 1-2011, as amended,
and
- d. the Integrated Transport Authority (ITA) to pay certain obligations of the ITA under Section 3060.11. of Act No. 1-2011, as amended.

SECOND: The Tourism Corporation is ordered to transfer to the Puerto Rico Treasury Department those amounts collected and used by virtue of Article 24 of Act. 272-2003, as amended, for the payment of certain obligations of the Authority for the Convention District of Puerto Rico described in Article 31, Section A of said Act.

THIRD: The Treasury will retain only those resources necessary for the payment of public debt, while continuing to provide essential services to protect the

health, safety, education and welfare of the people of Puerto Rico. The above mentioned revenue resources are subject to Article VI, Section 8 of the Constitution of the Commonwealth of Puerto Rico. The retention will not affect those funds that are necessary for the operation of the entities. These funds will be kept in a separate account and will be used only for the payment of public debt as it becomes due. If it is not necessary to use all the funds held, they will be remitted to the appropriate public corporations for the payment of their respective obligations.

FOURTH: REPEAL: Any other Executive Order that is in part or wholly incompatible with this one will be deemed without effect, to the extent any incompatibility exists.

FIFTH: EFFECTIVE DATE AND PUBLICATION: This Executive Order will be effective immediately. It is ordered that it be published and communicated widely.

IN WITNESS WHEREOF, I issue this Executive Order under my signature and I affix to it the Great Seal of the Commonwealth of Puerto Rico, in San Juan, Puerto Rico, on this day, November 30, 2015.

s/ Alejandro J. García Padilla
ALEJANDRO J. GARCÍA PADILLA
GOVERNOR

[seal]

Promulgated pursuant to law, on this November 30, 2015.

s/ Victor A. Suárez Meléndez
VICTOR A. SUÁREZ MELÉNDEZ
DESIGNATED SECRETARY OF STATE

EXHIBIT 3



GOVERNMENT OF PUERTO RICO

Puerto Rico Fiscal Agency and Financial
Advisory Authority

FISCAL PLAN FOR PUERTO RICO

San Juan, Puerto Rico

March 13, 2017



Disclaimer

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- III. Fiscal Reform Measures
- IV. Structural Reforms
- V. Debt Sustainability Analysis
- VI. TSA Liquidity
- VII. Financial Control Reform

I. INTRODUCTION



What the Government's Proposed Fiscal Plan Seeks to Achieve

Closing the Projected Baseline Fiscal Plan Deficit

- At the direction of the Oversight Board, the Government's new administration has prepared this Fiscal Plan which supersedes the prior administration's December 2016 fiscal plan that was rejected by the Board. From the date the new administration took office, AAFAF and its advisors have earnestly worked in cooperation with the Board's input to put forth a credible and reliable Fiscal Plan that will guide Puerto Rico's fiscal and economic recovery
- **The Fiscal Plan commits to fiscal responsibility and implements specific revenue enhancements and targeted expenditure reductions to return Puerto Rico to fiscal stability and economic growth.** In particular, the Fiscal Plan averts the \$67bn fiscal deficit from the prior administration's plan and achieves +\$7.9bn in cumulative cash flow available for debt service through the 10 year period

Further Improvement

- The Government fully appreciates that despite fiscal and economic uncertainties, now is the time to set the benchmark for the needed fiscal and economic measures as outlined in the Fiscal Plan. The Government is demonstrating its commitment to correcting the mistakes of the past. The Government is also mindful that in stopping the cycle of deficit spending, it must do so without undermining economic recovery or endangering the health, welfare or safety of the 3.5 million US citizens living in Puerto Rico

Bondholder Negotiations and Consensus

- Per PROMESA Section 2.01(b)(1)(I), the fiscal plan must provide a debt sustainability analysis. The Government's Fiscal Plan consolidates available cash resources that can be made available for debt service payments. The Fiscal Plan as proposed does not presume cash flow for debt service for any particular bondholder constituency, including clawed back cash and special revenues, nor does it take a position with respect to asserted constitutional or contractual rights and remedies, validity of any bond structure, or the dedication or application of tax streams / available resources
- The Government believes that any fiscal plan should reflect commitment to develop and implement operational and structural improvements that demonstrate the Government's willingness to achieve maximum payment of its debt obligations as restructured. However, in achieving debt sustainability, Puerto Rico's bondholders will be called upon to share in the sacrifice needed for a feasible debt restructuring. **The Government believes communication, grounded in fiscal responsibility, can create the opportunity for maximum consensus among stakeholders and pave the way for Puerto Rico's long-term fiscal stability and economic growth**



What the Fiscal Plan does not determine

Major Entities Impacted by the Fiscal Plan

- The Fiscal Plan is for the Government as a covered entity under PROMESA. The Government's various taxes, fees and other revenues are used to fund, subsidize or guarantee payments of the debt of many covered entities by various means. Accordingly, this Fiscal Plan does provide for payment of expenses and capital investments in, among other covered entities: (1) Public Building Authority, (2) PR Sales Tax Financing Corporation ("COFINA"), (3) PR Highways and Transportation Authority ("HTA"), (4) PR Convention Center District Authority ("PRCCDA"), (5) PR Infrastructure Finance Authority ("PRIFA"), (6) Employees' Retirement System ("ERS"), (7) University of Puerto Rico ("UPR"), (8) Puerto Rico Industrial Development Company ("PRIDCO"), and (9) Government Development Bank ("GDB")

Major Entities Not Covered by the Fiscal Plan

- There are four entities whose revenues and expenses are not included in this Fiscal Plan: (1) Puerto Rico Electric Power Authority ("PREPA"), (2) Puerto Rico Aqueduct and Sewer Authority ("PRASA"), (3) The Children's Trust Fund and (4) Puerto Rico Housing Finance Authority ("PRHFA"). As a result, this Fiscal Plan does not take a position with respect to these entities' financial prospects or the debt sustainability of such entities

Legal & contractual issues not determined by the Fiscal Plan

The Fiscal Plan does not attempt to resolve, among others, the following issues:

- The mechanisms by which projected cash flow available for debt service should be allocated to different debt instruments
- What is an essential service for purposes of the exercise of the Government's police power
- The scope, timing or specific use of revenues to be frozen or redirected as 'claw back' revenue
- The value, validity and /or perfection of pledges
- Whether any particular bond or debt issuance may have been improvidently issued
- What the Government is permitted to accomplish through the increase or decrease of dedicated taxes, fees, tolls or other revenue sources



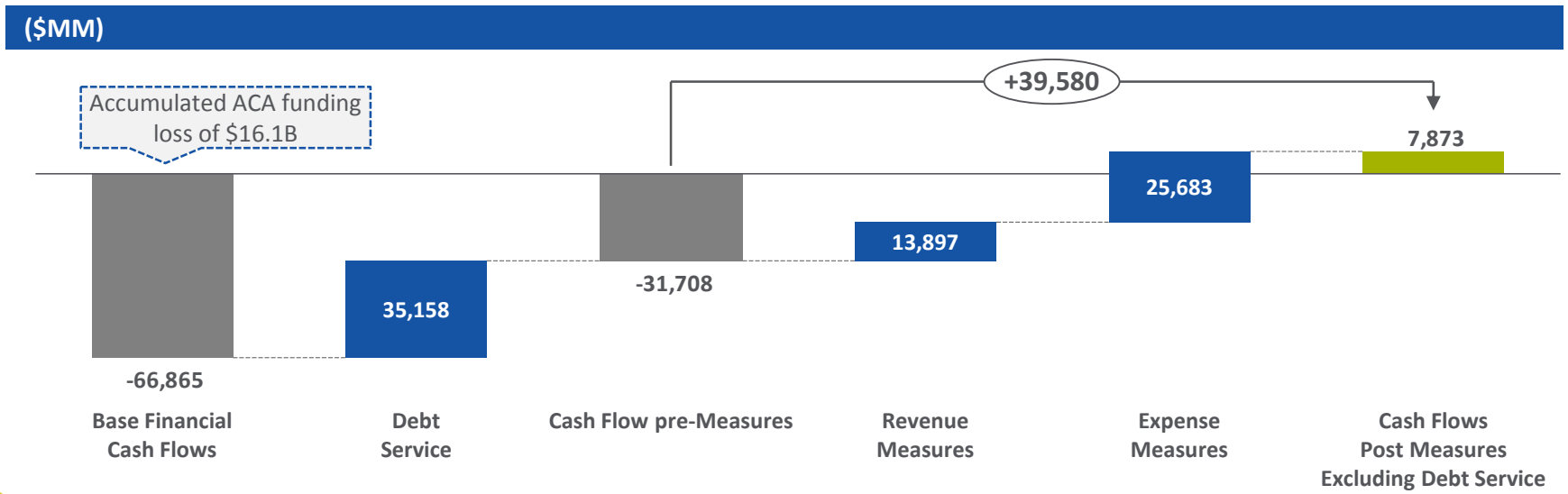
II. FINANCIAL PROJECTIONS



The Government will undertake fiscal measures that will reduce the fiscal gap by \$39.6B, and create a 10 year cash flow surplus of \$7.9B

- Based on the currently stated debt obligations, the 10-year budget gap is expected to reach \$66.9B
 - ~\$35.1B of expected principal and interest payments during the forecast period

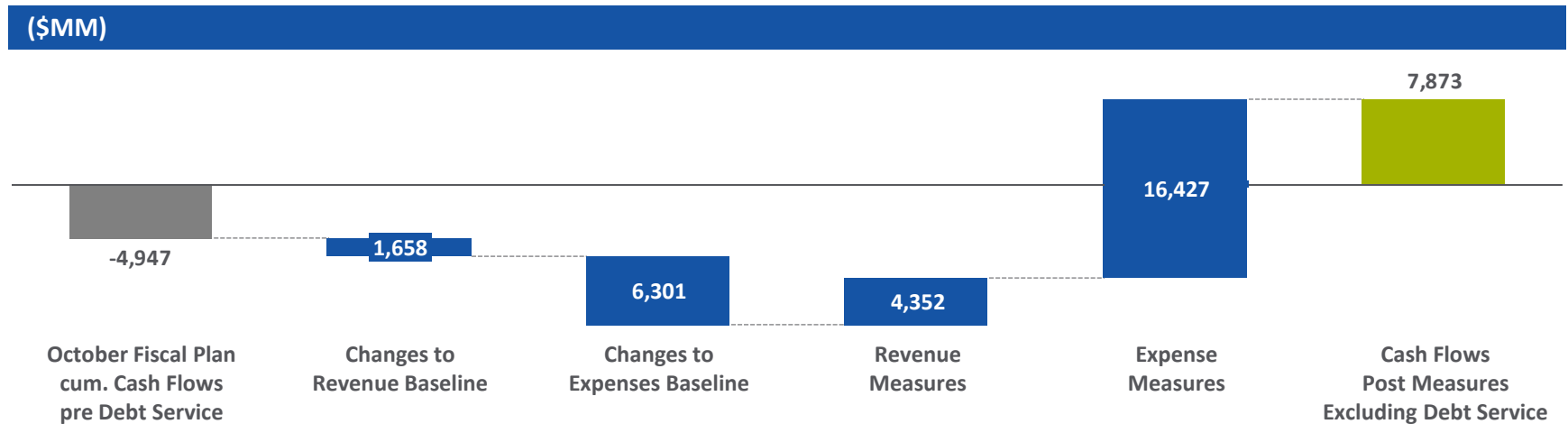
- The Fiscal Plan estimates cash flows available for debt service. The chart below shows the key components of the forecast, including:
 - Base fiscal gap of \$66.9B which includes full cost of debt service and does not include the impact of revenue and expense measures
 - Revenue and expense measures of \$13.90B and \$25.7B¹
 - Revenue Measures: stabilizing corporate tax revenue through tax reform positively affects cash flows by \$7.9B
 - Expense Measures: \$19.2B of \$25.1 (76%) due to Government right-sizing initiatives²



¹ See Section III, Fiscal Reform Measures for full detail
² See Section II (B)

The current fiscal plan is a significant departure from the version presented in October, as it commits to higher revenue and expense measures of \$4.4B and \$16.4B, respectively

- The October proposed Fiscal Plan estimated negative cumulative cash flows pre-debt service over the projection period ('17-'26) of (\$4.9B) vs. the Current Fiscal Plan projections estimating positive cumulative cash flows pre-debt service of \$7.92B. The change is comprised primarily of:
 - Negative net impact on cash flows available for debt service, pre-Measures of -\$8.0B
 - Decrease in total revenues of \$1.7B
 - Decreased expenses of \$6.3B
 - Enhanced revenue measures of \$4.4B
 - Additional savings from Expense Measures of \$16.4B



A summary of financials for the 10-year projection period shows positive cash flows post-measures, before debt service of \$7.9B

(\$MM)

Fiscal year ending June 30 (\$ in millions)	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	'17 - '26 total
<i>PR Nominal GNP Growth</i>	(2.2%)	(2.8%)	(2.4%)	(0.5%)	(0.4%)	0.3%	1.0%	1.6%	2.1%	2.6%	
Revenues before Measures¹	\$18,952	\$17,511	\$16,407	\$16,434	\$16,494	\$16,590	\$16,746	\$16,953	\$17,204	\$17,509	\$170,799
Noninterest Exp. before Measures¹	(\$17,872)	(\$18,981)	(\$19,233)	(\$19,512)	(\$19,950)	(\$20,477)	(\$20,884)	(\$21,310)	(\$21,973)	(\$22,316)	(\$202,507)
Cash flows pre-Measures	\$1,080	(\$1,470)	(\$2,826)	(\$3,077)	(\$3,456)	(\$3,886)	(\$4,139)	(\$4,357)	(\$4,769)	(\$4,807)	(\$31,708)
Measures											
Revenue measures	--	924	1,381	1,384	1,531	1,633	1,740	1,752	1,766	1,785	13,897
Expense measures	--	951	2,012	2,415	2,983	3,156	3,255	3,357	3,724	3,830	25,683
Net impact of measures	--	1,875	3,393	3,799	4,515	4,789	4,995	5,108	5,491	5,615	39,580
Cash flows post-Measures, before Debt Service	\$1,080	\$404	\$567	\$722	\$1,059	\$903	\$857	\$751	\$722	\$808	\$7,873

Cash flows post-measures, before debt service trends:

- FY 2017 estimate of \$0.8B, declining to a low of \$0.4B in FY 2018, driven by GNP contraction and ERS Paygo contributions of \$1.0B in FY 2018
- Forecast peaks at \$1.1B in FY 2021 before declining to \$0.8B by FY 2026. Decline is primarily driven by Affordable Care Act (“ACA”) funding expiration that increase steadily from ~\$0.9B in FY 2018 to ~\$2.4B in FY 2026
- Expense measures include \$1.3B in supplier payment pay downs through the projection period

¹ Full details in Appendix

² This addback is illustrative, and is not reflected in the amounts available for debt service elsewhere in this Plan



Revenues before measures

(\$MM)

Fiscal year ending June 30 (\$ in millions)	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	'17 - '26 total
<i>PR Nominal GNP Growth</i>	(2.2%)	(2.8%)	(2.4%)	(0.5%)	(0.4%)	0.3%	1.0%	1.6%	2.1%	2.6%	
Revenues											
General Fund Revenues:											
Individual Income Taxes	\$1,811.0	\$1,760	\$1,718	\$1,709	\$1,703	\$1,708	\$1,725	\$1,752	\$1,789	\$1,836	\$17,511
Corporate Income Taxes	\$1,515.0	1,473	1,437	1,430	1,424	1,429	1,443	1,466	1,497	1,536	14,649
Non-Resident Withholdings	\$685.0	666	650	647	644	646	652	663	677	694	6,624
Alcoholic Beverages	\$268.0	260	254	253	252	253	255	259	265	272	2,591
Cigarettes	\$112.0	109	106	106	105	106	107	108	111	114	1,083
Motor Vehicles	\$330.0	321	313	311	310	311	314	319	326	335	3,191
Excises on Off-Shore Shipment Rum	\$172.0	173	175	176	178	179	180	182	183	184	1,782
Other General Fund Revenue	506.0	386	377	375	373	374	378	384	392	402	3,948
Total	5,399	5,148	5,030	5,007	4,989	5,005	5,055	5,134	5,239	5,372	51,379
General Fund Portion of SUT (10.5%)	1,718	1,655	1,596	1,553	1,511	1,484	1,472	1,474	1,487	1,512	15,463
Net Act 154	2,075	1,556	1,038	1,038	1,038	1,038	1,038	1,038	1,038	1,038	11,931
General Fund Revenue	\$9,192	\$8,360	\$7,664	\$7,598	\$7,538	\$7,527	\$7,565	\$7,646	\$7,764	\$7,921	\$78,773
Additional SUT (COFINA, FAM & Cine)	850	877	906	936	968	1,003	1,039	1,078	1,118	1,161	9,936
Other Tax Revenues	1,337	1,396	1,401	1,411	1,423	1,429	1,436	1,445	1,455	1,466.6	14,199
Other Non-Tax Revenues	579	576	582	594	622	630	635	642	649	665.8	6,174
Adj. Revenue before Measures	\$11,958	\$11,208	\$10,552	\$10,539	\$10,550	\$10,588	\$10,675	\$10,810	\$10,986	\$11,215	\$109,082
Federal Transfers	6,994	7,168	7,372	7,477	7,623	7,835	8,023	8,212	8,469	8,675	77,847
Loss of Affordable Care Act ("ACA") Funding	--	(865)	(1,516)	(1,582)	(1,680)	(1,833)	(1,953)	(2,069)	(2,251)	(2,382)	(16,130)
Revenues before Measures	\$18,952	\$17,511	\$16,407	\$16,434	\$16,494	\$16,590	\$16,746	\$16,953	\$17,204	\$17,509	\$170,799



Non-interest expenses before measures

(\$MM)

Fiscal year ending June 30 (\$ in millions)	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	'17 - '26 total
Expenses											
<u>General Fund Expenditures:</u>											
Direct Payroll	(\$3,271)	(\$3,309)	(\$3,342)	(\$3,375)	(\$3,413)	(\$3,458)	(\$3,509)	(\$3,563)	(\$3,619)	(\$3,675)	(\$34,532)
Direct Operational Expenses	(907)	(918)	(926)	(936)	(946)	(959)	(973)	(988)	(1,003)	(1,019)	(9,574)
Utilities	(260)	(332)	(352)	(360)	(373)	(372)	(369)	(374)	(387)	(395.5)	(3,575)
Special Appropriations	(3,890)	(4,037)	(4,068)	(4,068)	(4,209)	(4,140)	(4,143)	(4,136)	(4,250)	(4,147)	(41,087)
General Fund Expenses	(8,329)	(8,596)	(8,688)	(8,738)	(8,941)	(8,929)	(8,993)	(9,060)	(9,259)	(9,236)	(88,768)
<u>Other:</u>											
Paygo Contributions in Excess of Asset Balance	--	(989)	(1,014)	(985)	(964)	(1,151)	(1,177)	(1,217)	(1,251)	(1,278)	(10,026)
Run-Rate Capital Expenditures	(283)	(400)	(407)	(415)	(422)	(429)	(437)	(445)	(453)	(462)	(4,154)
Total other	(283)	(1,389)	(1,421)	(1,400)	(1,386)	(1,581)	(1,614)	(1,662)	(1,704)	(1,739)	(14,180)
<u>Component Units, Non-GF Funds and Ent. Funds:</u>											
Net Deficit of Special Revenue Funds	(110)	(130)	(146)	(154)	(162)	(169)	(173)	(176)	(176)	(174)	(1,571)
Independently Forecasted Non-Enterprise CUs	(452)	(380)	(433)	(558)	(639)	(752)	(859)	(963)	(1,109)	(1,210)	(7,356)
HTA Operational Expenses	(246)	(234)	(236)	(238)	(239)	(243)	(246)	(250)	(254)	(258)	(2,444)
Other	(44)	(41)	(30)	(30)	(30)	(31)	(31)	(32)	(32)	(33)	(335)
Total	(853)	(785)	(845)	(980)	(1,071)	(1,194)	(1,310)	(1,420)	(1,572)	(1,675)	(11,705)
Disbur. of Tax Revenues to Entities Outside Plan	(335)	(302)	(304)	(307)	(313)	(314)	(316)	(319)	(322)	(334)	(3,168)
Adj. Expenses before Measures	(\$9,800)	(\$11,071)	(\$11,259)	(\$11,425)	(\$11,712)	(\$12,018)	(\$12,234)	(\$12,461)	(\$12,857)	(\$12,984)	(\$117,822)
Federal Programs	(6,994)	(7,168)	(7,372)	(7,477)	(7,623)	(7,835)	(8,023)	(8,212)	(8,469)	(8,675)	(77,847)
Reconciliation Adjustment	(585)	(592)	(598)	(604)	(610)	(618)	(627)	(637)	(647)	(657)	(6,175)
Other non-recurring	(493)	(150)	(5)	(5)	(5)	(5)	--	--	--	--	(663)
AP paydown	--	--	--	--	--	--	--	--	--	--	--
Total	(8,072)	(7,910)	(7,975)	(8,086)	(8,238)	(8,458)	(8,650)	(8,849)	(9,116)	(9,332)	(84,685)
Noninterest Exp. before Measures	(\$17,872)	(\$18,981)	(\$19,233)	(\$19,512)	(\$19,950)	(\$20,477)	(\$20,884)	(\$21,310)	(\$21,973)	(\$22,316)	(\$202,507)



Assumptions and Methodology: Expenses (1/2)

Category	Description	2017 \$MM	2026 \$MM	2017 – 2016 Growth Methodology
1	Direct Payroll <ul style="list-style-type: none"> Payroll and Operational Expenses Education Payroll Police Payroll 	-3,271	-3,675	<ul style="list-style-type: none"> Growth based on previous year multiplied by PR Inflation and Inflation pass-through to payroll
2	Direct Operational Expenses <ul style="list-style-type: none"> Legislature Department of Education Other Agencies 	-907	-1,019	<ul style="list-style-type: none"> Growth based on previous year multiplied by PR Inflation and Inflation pass-through to payroll
3	Utilities <ul style="list-style-type: none"> Power and Water PBA Operating Subsidy (Rent) Insurance Premiums 	-260	-396	<ul style="list-style-type: none"> PBA Operating Subsidy maintains Power and water have initial increase due to subsidy reduction with steady year-over-year growth until 2026
4	Special Appropriations <ul style="list-style-type: none"> UPR Judicial and Municipalities Retirement Systems Health Insurance 	-3,890	-4,147	<ul style="list-style-type: none"> UPR, Judicial and Municipalities increase in 2018, maintain steady-state following initial growth
5	Paygo Contributions in Excess of Asset Balance <ul style="list-style-type: none"> Required Pay-go contribution: ERS, TRS and JRS 	0	-1,278	<ul style="list-style-type: none"> Paygo program for ERS, TRS and JRS is initiated in 2018 with initial expenses of \$989MM Steady growth in expenses starting in 2020
6	Run-Rate Capital Expenditures <ul style="list-style-type: none"> Non-Growth Capital Expenditures in the Base (Run-Rate) Growth Capex 	284	-462	<ul style="list-style-type: none"> Initial increase in 2018 to \$400MM and steady growth in following years based on previous year multiplied by PR Inflation following



Assumptions and Methodology: Expenses (2/2)

Category	Description	2017 \$MM	2026 \$MM	2017 – 2026 Growth Methodology
7	Reconciliation Adjustment <ul style="list-style-type: none"> Reconciliation Adjustment 	-585	-657	<ul style="list-style-type: none"> Initial increase in 2018 to \$592MM with steady increase until 2026 Reconciliation adjustment based on midrange estimate provided by E&Y analysis and audit
8	Other Non-Recurring <ul style="list-style-type: none"> Payment of Past-Due Tax Refunds Transition and restructuring costs 	-493	0	<ul style="list-style-type: none"> Initial decline in tax refunds in 2018 from \$493MM to \$150MM, decline in 2019 from \$150MM to \$5MM, and elimination of non-recurring expenses in 2023 Costs to implement restructuring (\$370MM over 10 years)
9	Component Units <ul style="list-style-type: none"> Net Deficit of Special Revenue Funds Independently forecasted non-enterprise HTA Operational Expenses 	-853	-1,675	<ul style="list-style-type: none"> Net Deficit of Special Revenue Funds growth is based on previous year multiplied by PR Inflation Non-enterprise expenses include ASEM, ASES, ADEA, PRCCDA, PRIDCO, PRITA, Tourism, and UPR deficits PBA and the Port Authority run a surplus in 2017 that transitions towards deficit beginning in 2018 Initial HTA decline in expenses due to a reduction in Past Due AP costs



Assumptions and Methodology: Macroeconomic factors

Category	Description, %	2017 – 2026 Growth Methodology																						
1 PR Nominal GNP Growth Factor	<table border="1"> <tr><th>Year</th><td>2017</td><td>2018</td><td>2019</td><td>2020</td><td>2021</td><td>2022</td><td>2023</td><td>2024</td><td>2025</td><td>2026</td></tr> <tr><th>Value (%)</th><td>-2.2</td><td>-2.8</td><td>-2.4</td><td>-0.5</td><td>-0.4</td><td>0.3</td><td>1.0</td><td>1.6</td><td>2.1</td><td>2.6</td></tr> </table>	Year	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	Value (%)	-2.2	-2.8	-2.4	-0.5	-0.4	0.3	1.0	1.6	2.1	2.6	<ul style="list-style-type: none"> Initial decrease to 97.2% in 2019 Increase in 2020 to 99.5% Steady, minimal growth until 2026
Year	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026														
Value (%)	-2.2	-2.8	-2.4	-0.5	-0.4	0.3	1.0	1.6	2.1	2.6														
2 PR Inflation	<table border="1"> <tr><th>Year</th><td>2017</td><td>2018</td><td>2019</td><td>2020</td><td>2021</td><td>2022</td><td>2023</td><td>2024</td><td>2025</td><td>2026</td></tr> <tr><th>Value (%)</th><td>-0.2</td><td>1.2</td><td>1.0</td><td>1.0</td><td>1.1</td><td>1.3</td><td>1.5</td><td>1.5</td><td>1.6</td><td>1.6</td></tr> </table>	Year	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	Value (%)	-0.2	1.2	1.0	1.0	1.1	1.3	1.5	1.5	1.6	1.6	<ul style="list-style-type: none"> Initial negative inflation of -0.2% in 2017 increasing to 1.2% in 2018, 1.0% in 2019 with steady, minimal growth in Inflation until 2026
Year	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026														
Value (%)	-0.2	1.2	1.0	1.0	1.1	1.3	1.5	1.5	1.6	1.6														
3 PR Population Growth Factor	<table border="1"> <tr><th>Year</th><td>2017</td><td>2018</td><td>2019</td><td>2020</td><td>2021</td><td>2022</td><td>2023</td><td>2024</td><td>2025</td><td>2026</td></tr> <tr><th>Value (%)</th><td>-0.2</td><td>-0.2</td><td>-0.2</td><td>-0.2</td><td>-0.2</td><td>-0.2</td><td>-0.2</td><td>-0.2</td><td>-0.2</td><td>-0.2</td></tr> </table>	Year	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	Value (%)	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	<ul style="list-style-type: none"> Maintenance of 2017 PR Population Growth Factor of 99.8%
Year	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026														
Value (%)	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2														
4 US Population Growth	<table border="1"> <tr><th>Year</th><td>2017</td><td>2018</td><td>2019</td><td>2020</td><td>2021</td><td>2022</td><td>2023</td><td>2024</td><td>2025</td><td>2026</td></tr> <tr><th>Value (%)</th><td>0.8</td><td>0.8</td><td>0.8</td><td>0.8</td><td>0.8</td><td>0.8</td><td>0.8</td><td>0.7</td><td>0.7</td><td>0.7</td></tr> </table>	Year	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	Value (%)	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.7	0.7	0.7	<ul style="list-style-type: none"> Maintenance of 2017 US Population Growth of 100.8% until 2024, where it drops to 100.7%
Year	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026														
Value (%)	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.7	0.7	0.7														

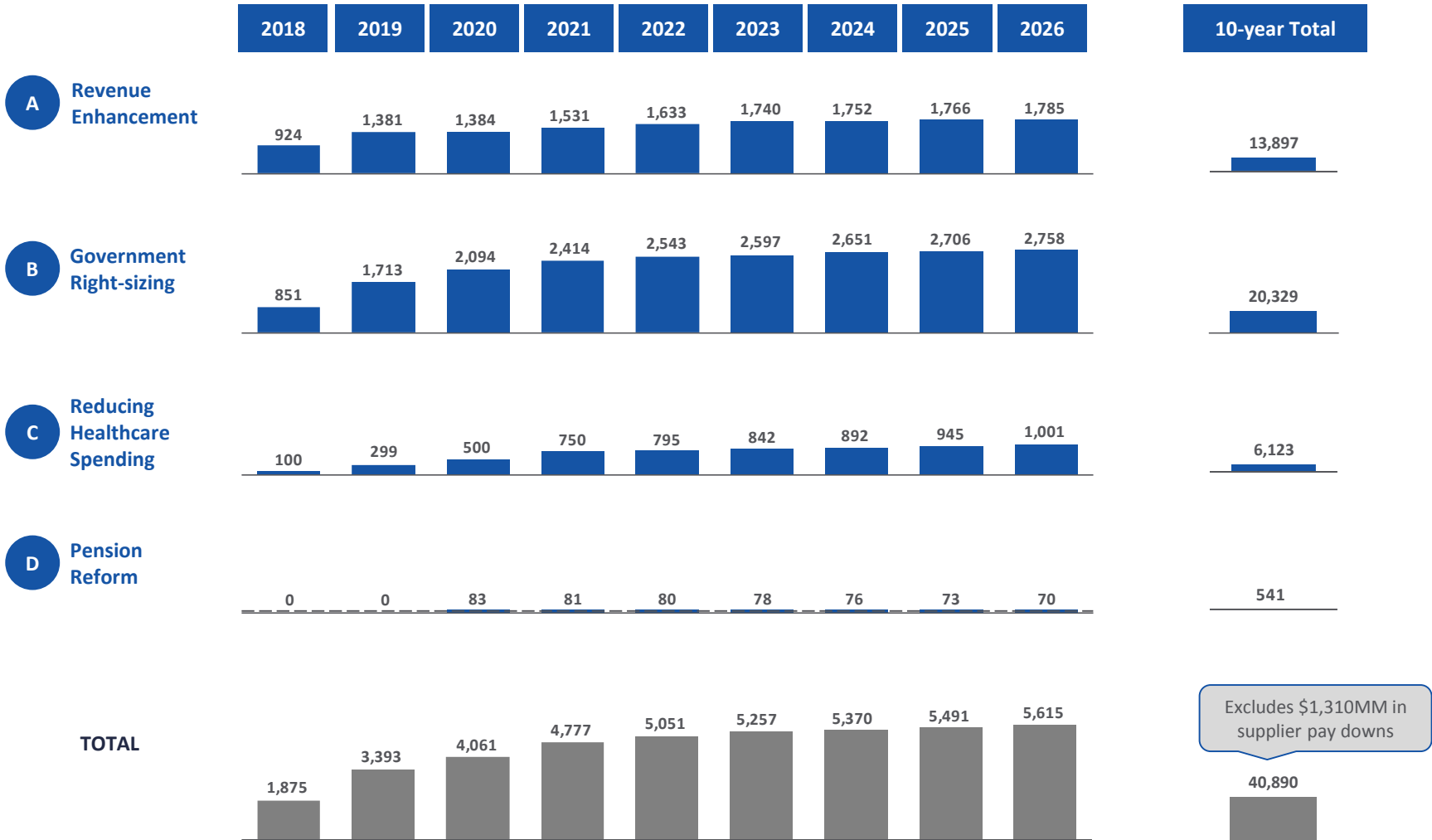


III. FISCAL REFORM MEASURES



Fiscal Reform measures reduce the 10-year financing gap by \$39.6B

Estimated Impact, \$MM

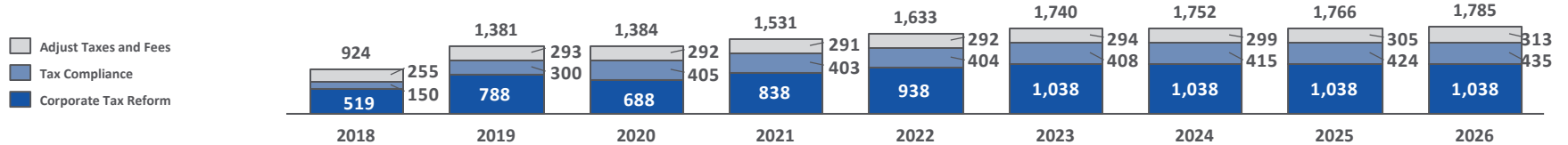


Note: Values may not add up due to rounding; Excludes expenditures related to rehabilitation of trade terms with local suppliers



Hacienda will embark in a multi-year transformation process to reduce leakage, improve revenue collections and adjust fees

Revenue Enhancement Measures, \$MM



Reform Measures

Description

2018 Impact

Corporate Tax Reform

- The Government will use the breathing room provided by the extension of Act 154 to seek a more stable, consistent corporate tax policy that implements a broad-based regime with fewer exemptions by no later than January 2019

\$519MM

Tax Compliance

- Reduce leakage by increasing electronic SUT tax collections at the point of sale, including internet sales
- Improve revenue collections by using advanced analytics, expanding capacity and conducting targeted interventions

\$150MM

Adjust Taxes and Fees

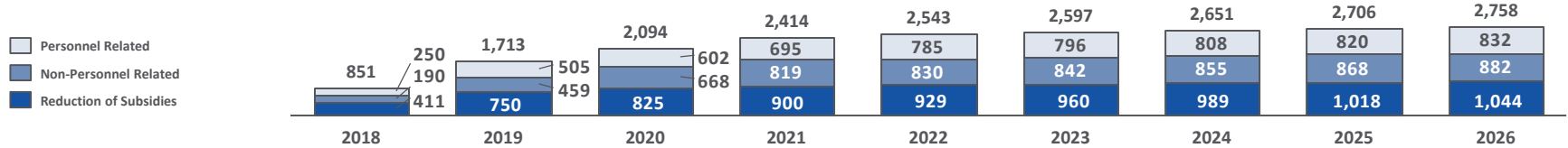
- Increase tobacco-related products excise tax and implement new property tax regime
- Revise fees including licenses, traffic fines, insurance fees and other charges for services to keep up with market trends

\$255MM



The Government must embark on a transformative journey in order to provide core services to citizens in an efficient and fiscally responsible manner

Government Right-Sizing Measures¹, \$MM



Reform Measures

Description

2018 Impact

Personnel Related

- Freeze on payroll increases for fiscal years 2018 to 2020
- Improve employee mobilization across government, uniform fringe benefits and eliminate vacation and sick day liquidations to produce higher attrition rates or other payroll-related savings

\$250MM

Non-Personnel Related

- Freeze on operational cost increases for fiscal years 2018 to 2020
- Re-design the way the Government works by reducing non-core expenses, externalizing services to private entities, centralizing services to eliminate duplication, achieve procurement savings or other cost-cutting measures

\$190MM

Reduction of Subsidies

- Gradually reduce general fund subsidies to the University of Puerto Rico, municipalities and other direct subsidies to the private sector
- Proactively engage with the University of Puerto Rico, municipalities, as well as industry partners, to mitigate the economic development impact of subsidy removal

\$411MM

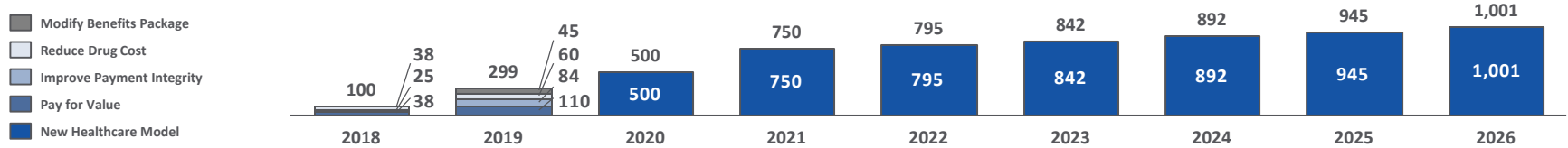
Note: To meet fiscal plan objectives, the Government may consider additional measures.

1) Post 2018, the relative distribution of savings between personnel and non-personnel related expenses will be decided as part of updates to the Fiscal Plan and the annual budget



The Government will focus on improving efficiencies, adjusting benefits and developing a new healthcare model in order to achieve savings in healthcare spend

Reducing Healthcare Spending Measures, \$MM



Reform Measures

Description

2018 Impact

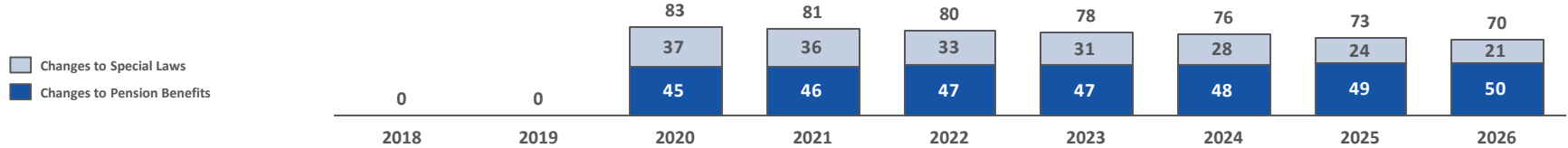
Pay for Value	<ul style="list-style-type: none"> Establish uniformed fee schedules and limit reimbursement rates for providers Replace current profit sharing arrangement with MCOs and replace with a Medical Loss Ratio 	\$38MM
Improve Payment Integrity	<ul style="list-style-type: none"> Establish partnerships to increase the scrutiny of premium payments for beneficiaries that have left the system or have another health insurance plan Establish Medicaid Fraud Control Unit and implement the Medicaid Management Information System to reduce waste, fraud and abuse 	\$25MM
Reduce Drug Cost	<ul style="list-style-type: none"> Reduce outpatient drug spending by increase pharmacy discounts on branded drugs, enforce mandatory dispensing of generic drugs, updating the preferred formulary and establishing shared-savings initiatives 	\$38MM
Modify Benefits Package	<ul style="list-style-type: none"> Evaluate services that could be capped and/or eliminated from the current benefit package without adversely affecting access for Mi Salud beneficiaries 	\$0
New Healthcare Model	<ul style="list-style-type: none"> Develop a new healthcare model in which the Government pays for basic, less costly benefits and the patient pays for premium services selected resulting in cost reductions attributed to greater competition along with the capped PMPM amount 	\$0

Note: To meet fiscal plan objectives, the Government may consider additional measures.



Segmentation of the defined contribution structure will protect the retirement savings of government employees

Pension Reform Measures, \$MM



Reform Measures

Initiative

2018 Impact

Contribution Segregation and New Benefit Plans

- Switch to pay-as-you-go model, segregate prospective employee contributions, facilitate Social Security enrollment and improve investment alternatives

\$0

Adjust Retirement Benefits

- Protect benefits for lowest pension income earners. Progressive strategy to reduce retirement benefit costs including other post-employment benefits.

\$0



IV. STRUCTURAL REFORMS



Implementing the package of structural reforms will provide a cumulative 2.0% increase in GNP growth

- | | | |
|---|--|---|
| <p>1 Improve Ease of Business Activity</p> <p>1a Increase Labor Participation</p> <ul style="list-style-type: none"> ▪ Institute public policy measures aimed to attract new businesses, create new employment opportunities, and foster private sector employment growth to increase labor demand ▪ Change welfare and labor incentives to encourage greater sector participation thus increasing labor supply <p>1b Permitting Process Reform</p> <ul style="list-style-type: none"> ▪ Centralize, streamline, and modernize and expedite permitting processes; increase business friendly environmental and economic growth <p>1c Tax Reform</p> <ul style="list-style-type: none"> ▪ Lower marginal tax rates and broaden the tax base; simplify and optimize the existing tax code to achieve gains in efficiency, ease of doing business and reducing tax evasion <p>1d Regulatory Reform</p> <ul style="list-style-type: none"> ▪ Reduce unnecessary regulatory burdens to reduce the drag of government on the private sector | <p>2 Improve Capital Efficiency</p> <p>2a Infrastructure Reform</p> <ul style="list-style-type: none"> ▪ Augmenting competitiveness by investing in critical infrastructure and quality of public services in roads, ports, telecommunications, water and waste, knowledge services, and other strategically important sectors <p>2b Public-Private Partnerships</p> <ul style="list-style-type: none"> ▪ Leverage key public assets through long term concessions to optimize quality of public infrastructure, services to public and sustainable operations and maintenance <p>2c Critical Projects</p> <ul style="list-style-type: none"> ▪ Implement management system to boost development of critical projects through expedited processes | <p>3 Energy Reform</p> <p>3a Energy Reform</p> <ul style="list-style-type: none"> ▪ Leverage and facilitate expedited private sector investments in modern, cost-efficient, and environmentally compliant energy infrastructure; reform PREPA operations and services to clients; and allow for greater competition in energy generation <p>4 Promoting Economic Development</p> <p>4a Enterprise Puerto Rico</p> <ul style="list-style-type: none"> ▪ Promote productivity growth, attract FDI & incentivize investments in technology through collaboration with the private sector <p>4b Destination Marketing Organization</p> <ul style="list-style-type: none"> ▪ Externalize the overseeing of marketing efforts & continuity under a single brand and as a unified front representing all of Puerto Rico's tourism components |
|---|--|---|



The initial stage of the P3 program includes launching of ~\$5B of projects during the 2017-2019 calendar years that have been identified and are in project preparation

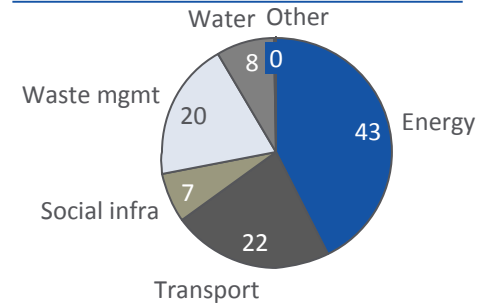
P3 Project Identification

- Identified initial list of priority projects with P3 potential
- Assessing project business cases and impact on the economy
- Split into 3 groups based on projected sequencing¹, **designed to launch in 2017, 2018 and 2019**

Key Considerations in the Overall P3 Implementation

- Project sequencing is designed to **effectively progress the advancement of projects and avoid major obstacles in the shortest timeline possible**. Thus, progression goes from easily executable/advanced permitting to more difficult/less advanced projects
- Need to **promote and improve funding models to use private funds**, where relevant, as leverage to maximize the unused federal funds current available
- Need to **further expand P3 pipeline** by requesting identification of new projects with P3 potential from government heads, monetizing non-essential services with market interest and precedent², additional infrastructure concessions³, and pursuit of strategic P3 categories⁴

P3 Key Target Areas %



→ Capital Improvement Investment: ~\$5B | Jobs Created: ~100,000

	2017				2018				2019			
	Q-17	Q2-17	Q3-17	Q4-17	Q1-18	Q2-18	Q3-18	Q4-18	Q1-19	Q2-19	Q3-19	Q4-19
Group 1 Projects	<ul style="list-style-type: none"> Launch Group 1 Projects Estimated value ~\$1B 											
Group 2 Projects	<ul style="list-style-type: none"> Invest in preparing Group 2 Data gathering, due diligence, etc. 				<ul style="list-style-type: none"> Launch Group 2 Projects Estimated value ~\$2B 							
Group 3 Projects	<ul style="list-style-type: none"> Invest heavily in preparing Group 3 Data gathering, due diligence, etc. 								<ul style="list-style-type: none"> Launch Group 3 Projects Estimated value \$2B 			

(Project timeline includes P3 concessions included in Externalization measures)

1 Based on existing level of detail, known roadblocks, project complexity 2 May include parking, National Parks, government-owned hotel properties, Puerto Rico lottery, state insurance fund, parking 3 May include regional airports, passenger ports 4 E.g. express lanes with dynamic tolling on existing congested roadways, broadband, infrastructure P3s including real estate funded infrastructure development



V. DEBT SUSTAINABILITY ANALYSIS



Debt summary

- Below is a summary of the debt (excluding pension liabilities) considered in the fiscal plan
- Note: Amounts are estimated as of February 2017 and based upon preliminary unaudited numbers provided to AAFAF by issuer agencies and from publicly available information. On behalf of the Board, Ernst & Young is conducting an assessment of the debt outstanding to confirm these figures. Estimated amounts are subject to further review and may change

Summary of debt outstanding as of February 2017 (\$MM)

Issuers included in Fiscal Plan	Bond principal	CAB	Unpaid P&I ¹	Private Loans	Total Bonds & Private loans	Loans from GDB/MFA Entities	Total Debt Service FY 17-19	DSRF Balance
GO	\$12,013	\$84	\$1,146	\$24	\$13,267	\$169	\$3,284	--
COFINA	11,725	6,155	--	--	17,880	--	2,138	--
HTA ²	4,106	135	6	--	4,247	1,734	978	101
PBA	4,012	--	117	--	4,129	182	776	6
GDB ^{3,4}	3,182	--	742	203	4,126	--	1,887	--
ERS	2,658	498	--	--	3,156	--	500	44
PRIFA ⁵	1,566	409	232	--	2,207	127	465	2
PFC	1,025	--	172	--	1,197	--	258	--
UPR ⁶	496	--	--	0	496	76	145	61
PRCCDA	386	--	--	--	386	145	91	9
PRIDCO	145	11	--	--	156	78	54	19
AMA	--	--	--	28	28	--	--	--
Other Central Gov't Entities	197	--	29	413	639	3,897	--	--
Total	\$41,511	\$7,293	\$2,444	\$668	\$51,916	\$6,409	\$10,575	\$242
Debt Issuers not incl. in Fiscal Plan								
PREPA	8,259	--	--	697	8,956	36	2,775	6
PRASA ⁷	3,943	28	13	584	4,568	229	995	93
Children's Trust	847	613	--	--	1,460	--	140	85
HFA	542	--	--	--	542	85	134	33
PRIIICO	--	--	--	98	98	--	--	--
Municipality Related Debt ⁸	556	--	--	1,140	1,696	2,036	n.a.	59
Total	\$14,147	\$641	\$13	\$2,520	\$17,320	\$2,386	\$4,044	\$276
Total	\$55,658	\$7,933	\$2,457	\$3,188	\$69,236	\$8,795	\$14,619	\$518

Less: GDB Bonds (excl. TDF)

(3,766)

Plus: Loans from GDB/MFA Entities

8,795

Public Sector Debt

\$74,265

Notes:

1) Unpaid principal and interest includes debt service that has been paid by insurers and is owed by the government

2) HTA includes Teodoro Moscoso bonds

3) GDB private loans includes Tourism Development Fund ("TDF") guarantees

4) Includes GDB Senior Guaranteed Notes Series 2013-B1 ("CFSE")

5) PRIFA includes PRIFA Rum bonds, PRIFA Petroleum Products Excise Tax BANs, PRIFA Port Authority bonds and \$34.9m of PRIFA ASSMCA bonds

6) UPR includes \$64.2m of AFICA Desarrollos Universitarios University Plaza Project bonds

7) PRASA bonds includes Revenue Bonds, Rural Development Bonds, Guaranteed 2008 Ref Bonds

8) Municipality Related Debt includes AFICA Guyanabo Municipal Government Center and Guaynabo Warehouse for Emergencies bonds



Debt service schedule

The table below summarizes the annual debt service through FY 2027 for all issuers included in the fiscal plan

FY 2018 – FY 2027 debt service (\$MM)

Fiscal year ending June 30,	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Cash Interest										
GO	\$714	\$699	\$680	\$658	\$641	\$621	\$597	\$571	\$545	\$518
PBA	183	179	175	171	165	158	153	147	140	135
COFINA	690	690	690	689	696	702	708	714	711	708
HTA ¹	207	201	197	191	182	174	170	166	160	151
PRIFA ²	80	77	75	72	69	65	61	57	53	45
PRCCDA	18	17	17	16	15	15	14	13	12	11
PFC	56	54	53	52	50	48	47	44	42	40
UPR ³	24	22	21	20	18	17	15	14	12	11
ERS	167	167	167	167	164	159	155	154	152	151
GDB	150	135	92	69	54	49	34	21	14	3
PRIDCO	8	7	7	6	5	5	4	3	2	2
Total	\$2,296	\$2,249	\$2,172	\$2,109	\$2,059	\$2,014	\$1,957	\$1,904	\$1,844	\$1,774
Principal										
GO	\$351	\$392	\$439	\$334	\$358	\$378	\$402	\$428	\$454	\$481
PBA	66	70	74	101	109	100	101	107	96	106
COFINA	19	48	78	98	120	159	203	248	294	344
HTA ¹	148	90	120	170	158	101	85	114	187	149
PRIFA ²	48	50	51	54	62	86	64	72	74	221
PRCCDA	12	13	14	14	15	16	17	17	18	19
PFC	30	32	33	34	36	37	39	41	43	46
UPR ³	25	26	27	29	30	31	33	35	24	26
ERS	(0)	--	(0)	50	70	80	19	22	29	36
GDB	277	848	432	434	143	47	541	--	248	127
PRIDCO	10	11	11	11	13	13	14	15	16	17
Total	\$987	\$1,579	\$1,280	\$1,328	\$1,112	\$1,049	\$1,518	\$1,099	\$1,484	\$1,573
Total debt service										
GO	\$1,066	\$1,090	\$1,118	\$991	\$999	\$999	\$999	\$999	\$999	\$999
PBA	249	249	249	272	273	258	254	253	236	241
COFINA	709	738	768	786	816	861	911	962	1,006	1,052
HTA ¹	355	291	317	362	340	275	254	280	347	300
PRIFA ²	127	127	126	126	130	151	125	130	127	267
PRCCDA	30	30	30	30	30	30	30	30	30	30
PFC	86	86	86	86	86	86	86	86	85	85
UPR ³	48	48	48	48	48	48	48	48	36	36
ERS	167	167	167	217	234	239	174	176	181	187
GDB	428	983	525	503	196	97	575	21	261	130
PRIDCO	18	18	18	16	18	18	18	18	18	18
Total	\$3,283	\$3,828	\$3,453	\$3,437	\$3,171	\$3,063	\$3,475	\$3,003	\$3,329	\$3,347

1 HTA includes Teodoro Moscoso Bridge

2 PRIFA includes PRIFA BANs

3 UPR includes AFICA UPP



Debt sustainability

The table below summarizes the annual cash flow available for debt service, and calculates implied debt capacity based on a range of interest rates and coverage ratios assuming an illustrative 35 year term

- Cash flow available for debt service incorporates (i) the payment of essential services, (ii) benefit of clawback revenues and (iii) a prudent contingency reserve
- In the Fiscal Plan summarized below, the cash flow after Measures but before Debt Service averages \$787m per year during the period 2017 - 2026

Debt sustainability sensitivity analysis (\$MM)

Fiscal year ending June 30 (\$ in millions)	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	'17 - '26 Total
Baseline Projections											
Revenues	\$18,952	\$17,511	\$16,407	\$16,434	\$16,494	\$16,590	\$16,746	\$16,953	\$17,204	\$17,509	\$170,799
Expenses	(17,872)	(18,981)	(19,233)	(19,512)	(19,950)	(20,477)	(20,884)	(21,310)	(21,973)	(22,316)	(202,507)
Cash Flow Excl. Debt Service & Measures	1,080	(1,470)	(2,826)	(3,077)	(3,456)	(3,886)	(4,139)	(4,357)	(4,769)	(4,807)	(31,708)
Impact of Measures											
Revenue Measures	--	924	1,381	1,384	1,531	1,633	1,740	1,752	1,766	1,785	13,897
Expense Measures	--	951	2,012	2,415	2,983	3,156	3,255	3,357	3,724	3,830	25,683
Total Measures	--	1,875	3,393	3,799	4,515	4,789	4,995	5,108	5,491	5,615	39,580
Cash Flow Available for Debt Service	\$1,080	\$404	\$567	\$722	\$1,059	\$903	\$857	\$751	\$722	\$808	\$7,873

Illustrative Sustainable Debt Capacity Sizing Analysis

		Sensitivity Analysis: Implied Debt Capacity at 10% Contingency								
		\$700	\$750	\$800	\$850	\$900	\$950	\$1,000	\$1,050	\$1,100
Sensitivity Analysis: PV Rate %	Illustrative Cash Flow Available									
	3.5%	12,600	13,500	14,400	15,301	16,201	17,101	18,001	18,901	19,801
	4.0%	11,759	12,599	13,439	14,278	15,118	15,958	16,798	17,638	18,478
	4.5%	11,000	11,786	12,572	13,358	14,143	14,929	15,715	16,501	17,286
		Sensitivity Analysis: Implied Debt Capacity at 4% PV Rate								
		\$700	\$750	\$800	\$850	\$900	\$950	\$1,000	\$1,050	\$1,100
Sensitivity Analysis: % Contingency	Illustrative Cash Flow Available									
	5.0%	12,412	13,299	14,185	15,072	15,958	16,845	17,731	18,618	19,505
	10.0%	11,759	12,599	13,439	14,278	15,118	15,958	16,798	17,638	18,478
	15.0%	11,105	11,899	12,692	13,485	14,278	15,072	15,865	16,658	17,451



VI. TSA LIQUIDITY



Weekly cash flow forecast through 2017FY

Cash Flows Before Cliffs, Measures and Debt <i>(figures in \$mm)</i>		Fcst - 1	Fcst - 2	Fcst - 3	Fcst - 4	Fcst - 5	Fcst - 6	Fcst - 7	Fcst - 8	Fcst - 9	Fcst - 10	Fcst - 11	Fcst - 12	Fcst - 13	Fcst - 14	Fcst - 15	Fcst - 16
		3/17	3/24	3/31	4/7	4/14	4/21	4/28	5/5	5/12	5/19	5/26	6/2	6/9	6/16	6/23	6/30
1	General Collections	\$349	\$254	\$58	\$71	\$66	\$760	\$186	\$63	\$66	\$334	\$60	\$44	\$59	\$134	\$520	\$57
2	Sales and Use Tax	18	13	146	5	17	14	163	5	18	5	167	4	5	18	14	171
3	Excise Tax through Banco Popular	64	-	-	-	77	-	-	-	-	68	-	-	-	57	-	-
4	Rum Tax	-	10	-	-	-	11	-	-	-	18	-	-	-	-	22	-
5	Electronic Lottery	-	-	-	-	-	-	-	-	-	-	-	-	-	-	14	37
6	Subtotal	\$432	\$277	\$204	\$76	\$161	\$784	\$349	\$68	\$84	\$424	\$227	\$48	\$64	\$210	\$570	\$265
7	Employee/Judiciary Retirement Admin.	-	-	-	-	56	-	-	-	56	-	-	-	-	56	-	-
8	Teachers Retirement System	-	-	-	-	70	-	-	-	-	-	-	-	-	-	-	-
9	Retirement System Transfers	-	-	-	-	\$127	-	-	-	\$56	-	-	-	-	\$56	-	-
10	Federal Funds	93	110	83	123	95	119	123	95	126	93	123	49	99	107	107	121
11	Other Inflows	9	-	11	-	-	9	11	-	-	-	-	11	-	-	-	11
12	Tax Revenue Anticipation Notes	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
13	Total Inflows	\$534	\$388	\$298	\$199	\$382	\$912	\$483	\$163	\$267	\$517	\$350	\$108	\$163	\$373	\$677	\$397
14	Payroll and Related Costs	(18)	(51)	(120)	(23)	(95)	(62)	(101)	(35)	(90)	(65)	(96)	(18)	(22)	(95)	(56)	(106)
15	Pension Benefits	-	-	(87)	-	(82)	-	(87)	-	(82)	-	(87)	-	-	(82)	-	(87)
16	Health Insurance Administration - ASES	(53)	(53)	(55)	(53)	(53)	(53)	(60)	(53)	(53)	(53)	(53)	(7)	(53)	(53)	(53)	(55)
17	University of Puerto Rico - UPR	(18)	(18)	(24)	(18)	(18)	(18)	(24)	(18)	(18)	(18)	(18)	(6)	-	(36)	(18)	(24)
18	Muni. Revenue Collection Center - CRIM	(21)	(8)	(8)	(8)	(8)	(8)	(8)	(8)	(8)	(8)	(8)	-	-	(15)	(8)	(26)
19	Highway Transportation Authority - HTA	-	-	(16)	-	-	-	(16)	-	(19)	-	-	(19)	-	-	(19)	(19)
20	Public Building Authority - PBA / AEP	(9)	(4)	(4)	(4)	(4)	(4)	(4)	(4)	(4)	(4)	-	(4)	(4)	(4)	(4)	(4)
21	Other Governmental Entities	(20)	(9)	(54)	25	(20)	(9)	(54)	25	(20)	(9)	(12)	(18)	(3)	(20)	(9)	(63)
22	Subtotal - Government Entity Transfers	(\$120)	(\$92)	(\$160)	(\$57)	(\$103)	(\$92)	(\$165)	(\$57)	(\$122)	(\$92)	(\$90)	(\$54)	(\$59)	(\$128)	(\$111)	(\$191)
23	Supplier Payments	(57)	(57)	(58)	(86)	(86)	(86)	(87)	(68)	(68)	(68)	(68)	(53)	(65)	(65)	(65)	(66)
24	Other Legislative Appropriations	(24)	(14)	(5)	(2)	-	(38)	(5)	(6)	(22)	(10)	(5)	(4)	-	(16)	(22)	(5)
25	Tax Refunds	(12)	(13)	(4)	(1)	(6)	(39)	(4)	(7)	(4)	(4)	(31)	(3)	(1)	(4)	(6)	(41)
26	Nutrition Assistance Program	(30)	(70)	(22)	(35)	(40)	(54)	(36)	(22)	(43)	(56)	(36)	(16)	(37)	(30)	(70)	(20)
27	Other Disbursements	-	-	-	-	-	-	-	-	-	-	-	(4)	-	-	-	(4)
28	Contingency	(16)	(16)	(16)	(29)	(29)	(29)	(29)	(29)	(29)	(29)	(29)	(23)	(23)	(23)	(23)	(23)
29	Tax Revenue Anticipation Notes	-	-	-	-	-	-	(152)	-	-	-	-	(137)	-	-	-	(135)
30	Total Outflows	(\$277)	(\$313)	(\$472)	(\$233)	(\$440)	(\$399)	(\$665)	(\$223)	(\$459)	(\$324)	(\$442)	(\$312)	(\$208)	(\$443)	(\$353)	(\$676)
31	Net Cash Flows Excluding Debt Service, Fiscal Cliffs and Measures	\$257	\$75	(\$174)	(\$34)	(\$58)	\$513	(\$182)	(\$60)	(\$193)	\$194	(\$92)	(\$204)	(\$44)	(\$70)	\$324	(\$279)
32	Bank Cash Position, Beginning (a)	\$319	\$576	\$650	\$477	\$442	\$384	\$897	\$716	\$655	\$462	\$656	\$564	\$360	\$316	\$246	\$570
33	Bank Cash Position, Ending (a)	\$576	\$650	\$477	\$442	\$384	\$897	\$716	\$655	\$462	\$656	\$564	\$360	\$316	\$246	\$570	\$291

(a) Excludes clawback account.



Liquidity Principles for FY 2018

- No external short-term financing

- Rollout of Disbursement Authorization Group in order to enforce priority of payments through defined critical services (see Section VII)

- Consolidate dispersed treasury functions and put in place oversight over accounts not centrally managed

- Refine and regularly update 13 week cash analysis with detailed forecasting of cash receipts and disbursements

- Provide detailed daily performance projections, results, and variances



VII. FINANCIAL CONTROL REFORM



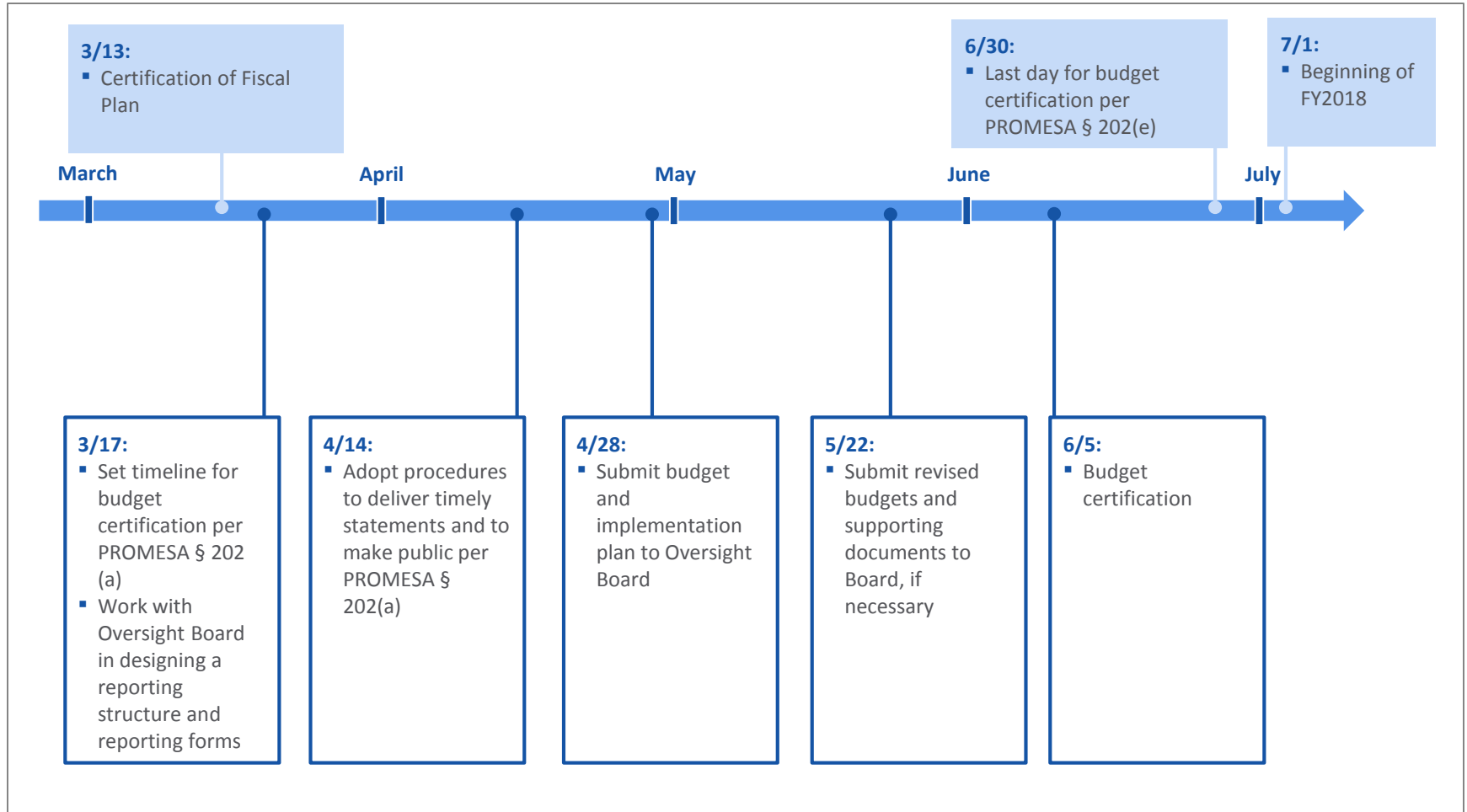
Current state of financial controls

- Cash is not centrally managed
 - No central office has visibility across all spending
 - Procurement agencies do not actively enforce terms and specifications
 - Limited coordinated effort to eliminate major cash outlays
 - Limited sweep of cash into general fund accounts
 - Cash disbursements is a manual and subjective process handled at Hacienda
 - No formal structure for reporting and release of audited financials

- Target is to improve level of detail on forecasting and specificity around assumptions
 - “Top-down” approach, based on prior year’s Budget
 - Bank-to-book reconciliations are not often prepared in a timely manner
 - No tracking mechanisms exist to measure intra-year actual expenditures vs. budget on an accrual basis



Budget certification per PROMESA § 202



Quarterly budget compliance process per PROMESA § 203

Quarterly Action	PROMESA section	Description	Proposed dates (mm/dd/yy)
Reporting¹	§ 203 (a)	Governor to submit a report describing: (1) the actual cash revenues, expenditures, and flows and (2) any other information requested by the Board	<ul style="list-style-type: none"> ▪ Q1: 10/15/17¹ ▪ Q2: 1/16/18 ▪ Q3: 4/16/18 ▪ Q4: 7/16/18
External auditing	§ 203 (b)	Oversight Board to communicate the result of external auditing report to the government and identify any inconsistencies with the projected revenues, expenditures, or cash flows set forth in the certified Budget for such quarter	<ul style="list-style-type: none"> ▪ Q1: 11/10/17 ▪ Q2: 2/12/18 ▪ Q3: 5/10/18 ▪ Q4: 8/10/18
Correction of variance	§ 203 (b)	Government to provide additional information regarding any inconsistencies with the certified budget and implement remedial action to correct variances	<ul style="list-style-type: none"> ▪ Q1: 11/20/17 ▪ Q2: 2/20/18 ▪ Q3: 5/21/18 ▪ Q4: 8/20/18
Certification of variance / or Budget reductions by Board	§ 203 (c) and (d)	<ul style="list-style-type: none"> ▪ Board to certify that the government is at variance with the applicable certified Budget, and that the Government has initiated such measures as the Board considers sufficient to correct it ▪ If the variances are not corrected, the Board shall make appropriate reductions in nondebt expenditures and may institute automatic hiring freezes in instrumentalities and prohibit them from entering in any contract in excess of \$100,000 	<ul style="list-style-type: none"> ▪ Q1: 12/11/17 ▪ Q2: 3/12/18 ▪ Q3: 6/11/18 ▪ Q4: 9/10/18
Termination of budget reductions	§ 203 (e)	The Board should decide whether the government or instrumentality has made the appropriate measures to reduce expenditures or increase revenues and cancel the reductions	<ul style="list-style-type: none"> ▪ Ongoing

¹ Per PROMESA, these dates must be 15 days after end of each quarter



Budget and Forecasting process

Define a timeline for each quarter's budget

- Certification process must adhere to PROMESA requirements
 - Should include, but not be limited to:
 - Certification process according to PROMESA requirements
 - Reporting, external auditing, and variance certifications
-

Set guiding principles for budget and forecasting

- Budget should be prepared...
 - Within the **confines of the overall fiscal plan**
 - As a **positive cash balance** with sufficient safety margin, due to lack of access to capital markets
-

Set, update, and track targets every quarter

- Use performance metrics, e.g.,:
 - Status? On track / Delayed / Completed
 - Reached target?
 - Above / below past instances?
- Implement measures to correct variances from budget



Disbursement process

Define disbursement process

- Set guidelines and principles
- Work to match budget to disbursement authorizations
- Identify an effective, centralized, and time-sensitive disbursement process that involves the adequate authorities
 - Incorporate a mechanism that confirms alignment between revenues and expenses

Implement a centralized disbursement digital database

- Centralize into a single Treasury account with a corresponding database
- Update and review periodically
- Set a minimum available liquidity threshold and an alert-system

Set, update, and track metrics every quarter

- Establish preventive measures
- Implement detective procedures to correct problems before they arise
- Design a process to correct variances from budget mid-year



EXHIBIT 4A

(P. de la C. 938)

LEY

Para crear la "Ley de Cumplimiento con el Plan Fiscal", a los fines de tomar las medidas necesarias para atemperar el marco legal y jurídico existente para dar el más fiel cumplimiento al Plan Fiscal aprobado por la Junta de Supervisión Fiscal creada al amparo de la Ley Federal PROMESA; establecer un sistema uniforme de beneficios marginales, incluyendo el bono de navidad y aportación al plan médico, para todos los funcionarios y empleados públicos de las agencias, instrumentalidades y corporaciones públicas del Gobierno de Puerto Rico, con excepción de la Universidad de Puerto Rico; enmendar la Sección 4.3 inciso 2 (a) (e) (m) del Artículo 4, la Sección 5.2 del Artículo 5, la Sección 6.4 inciso 1 (d) y 4 (1), 6.8 inciso 2 (b) y 6.9 del Artículo 6, la Sección 7.2 inciso 3 y 5 del Artículo 7, se añade un nuevo Artículo 2.11(a) a los fines de enmendar el Artículo 3 de la Ley 125 de 10 de junio de 1967, según enmendada, suspender la vigencia del Artículo 9 y Sección 10.2 de la Ley 8-2017, conocida como "Ley para la Administración y Transformación de los Recursos Humanos en el Gobierno de Puerto Rico"; reenumerar los actuales Artículos 10 al 20 como Artículos 9 al 19; derogar la Ley 89-2016, conocida como "Ley de Empleo Temporal en el Servicio Público"; enmendar los Artículos 3, 6 y 7 de la Ley 253-1995, según enmendada, conocida como la "Ley de Seguro de Responsabilidad Obligatorio para Vehículos de Motor"; a los fines de ampliar la cubierta del seguro de responsabilidad obligatorio de cuatro mil dólares (\$4,000) a cuatro mil quinientos dólares (\$4,500); facultar para la revisión de las primas antes del 30 de junio de 2017; permitir la declaración de un dividendo extraordinario a los miembros de la Asociación de Suscripción Conjunta del Seguro de Responsabilidad Obligatorio, así como la aplicación de una contribución incentivada a dicho dividendo; disponer la distribución de los ingresos obtenidos a través de la contribución incentivada y el ajuste en la prima para que entre al Fondo General; autorizar al Gobierno a utilizar sobrantes de las corporaciones públicas como "fondos disponibles" para contribuir al Fondo General; autorizar a un Comité compuesto por los directivos de la Autoridad de Asesoría Financiera y Agencia Fiscal, la Oficina de Gerencia y Presupuesto y el Departamento de Hacienda a modificar las tarifas de las corporaciones públicas para cumplir con las métricas del Plan Fiscal; establecer las normas y principios que deben regir el proceso de venta de propiedades inmuebles del Gobierno de Puerto Rico; crear el Comité de Evaluación y Disposición de Propiedades Inmuebles; para declarar la política pública relacionada a la venta de propiedades inmuebles; enmendar los Artículos 3, 7 y 8 de la Ley Núm. 230 de 23 de julio de 1974, según enmendada y conocida como "Ley de Contabilidad del Gobierno de Puerto Rico"; a los fines de establecer que las asignaciones y los fondos sin año económico determinado, que hayan permanecido en los libros sin movimiento de desembolso u obligación por un (1) año se considerarán como que han cumplido

sus propósitos, por lo que se cerrarán e ingresarán al Fondo General; disponer que aquellos fondos especiales creados por Ley para fines específicos se acreditarán al Fondo General del Tesoro Estatal y se depositarán en la cuenta bancaria corriente del Secretario de Hacienda para que éste tenga pleno dominio de los mismos; enmendar los Artículos 2 y 6 de la Ley 129-2005, según enmendada, conocida como "Ley de Reservas en las Compras del Gobierno del Estado Libre Asociado de Puerto Rico"; a fin de disponer que el aumento escalonado en la partida asignada a compras del presupuesto general para ser otorgado a microempresas, pequeñas y medianas empresas se dará si la situación fiscal del Gobierno así lo permite; añadir una nueva Sección 3020.05A y Sección 3020.15, y enmendar la Sección 3020.05, Sección 3020.13, Sección 3020.14, Sección 3030.14, Sección 3030.18, Sección 3050.01, Sección 6042.08 y Sección 6042.15 de la Ley 1-2011, según enmendada, mejor conocida como "Código de Rentas Internas para un Nuevo Puerto Rico", a los fines de modificar el arbitrio aplicable a cigarrillos y productos derivados del tabaco para obtener mayor liquidez, atajar la crisis económica y fiscal que enfrenta Puerto Rico, y evitar que los sectores más vulnerables se afecten, así como para desalentar el uso de cigarrillos; enmendar el Artículo 2 de la Ley Núm. 91 de 21 de junio de 1966, según enmendada, para disponer que hasta el Año Fiscal 2020-2021 la aportación anual al Fondo de Emergencia será por la cantidad de diez millones de dólares (\$10,000,000) y que a partir del Año Fiscal 2020-2021, dicha aportación será no menor de cero punto cinco por ciento (0.5%) del estimado de rentas netas sometido por el Departamento de Hacienda para la preparación del Presupuesto Recomendado con cargo al Fondo General; y para otros fines relacionados.

EXPOSICIÓN DE MOTIVOS

Introducción

Al presente, Puerto Rico atraviesa una crisis fiscal y social monumental sin precedentes históricos. Dicha crisis fue causada, en parte, porque faltaron controles sobre el gasto, medidas de desarrollo sustentable y sistemas de información gerencial que promuevan claridad y transparencia en la gestión gubernamental.

Según datos provistos por el Departamento del Tesoro Federal, Puerto Rico sufre una contracción económica acumulativa de 14.6% en el Producto Estatal Bruto (PEB real) con una predicción de una contracción adicional de 3% para los próximos dos años. Por años, el Gobierno de Puerto Rico ha operado con un déficit estructural el cual ha sido financiado con emisiones de bonos y préstamos al Banco Gubernamental de Fomento. Hace más de un año que el Gobierno de Puerto Rico carece de liquidez y se utilizaron los reintegros, pagos de los contratistas, el dinero de los pensionados y préstamos intra-gubernamentales para sustituir las fuentes de liquidez y gastar más dinero que los fondos disponibles. El Banco Gubernamental de Fomento incumplió sus obligaciones con los bonistas desde el 1 de mayo de 2016 y ya no cumple su rol de proveer liquidez ni tampoco

contamos con acceso al mercado debido a las políticas de la administración pasada que le restó credibilidad al Gobierno de Puerto Rico. Los sistemas de retiro están insolventes.

Como un ejemplo de las políticas que nos trajeron aquí, puede observarse que desde el 2001 al 2008 ocurrió un aumento de 64% en los gastos de nómina y, luego de una reducción de 33% entre 2009 y 2012, hubo otro aumento sustancial en el cuatrienio 2013-2016. Para financiar ese gasto desmedido, entre 2000 y 2008 la deuda pública aumentó en 134%. Por otro lado, el cuatrienio pasado se implementaron medidas bajo la filosofía de “primero impago, luego impuestos y después recortes”. Esta filosofía propició la continuación del gasto desmedido y el rechazo a políticas públicas que hubiesen permitido manejar eficientemente los asuntos fiscales del Gobierno de Puerto Rico. Esto, sin haberse concretado las acciones necesarias para lograr una mayor eficiencia operacional en el Gobierno, ni recortes al excesivo gasto gubernamental. Además, mientras se precipitaban los valores y la debacle económica, el Gobierno Central fue incapaz de generar la información financiera necesaria para comprender la profundidad del problema y presentar información certera ante el Congreso, y ante otras entidades con interés en el asunto. A raíz de todo lo antes expuesto, se materializaron varias degradaciones de las clasificaciones de la deuda del Gobierno de Puerto Rico y se ha desencadenado un impacto adverso a través de todos los sectores de la economía.

Esta crisis ha golpeado muy fuerte a las familias puertorriqueñas. Los sacrificios más severos han recaído sobre los más vulnerables en nuestra sociedad y ha provocado que miles de puertorriqueños abandonen la Isla buscando mejores oportunidades. La consecuente reducción poblacional se convierte en uno de los retos para encaminarnos hacia la recuperación.

La Situación Colonial en Puerto Rico

La situación colonial ha afectado nuestra capacidad para afrontar y resolver esta crisis pues carecemos de los poderes soberanos que tiene un estado para regular sus asuntos locales bajo la Enmienda X de la Constitución de los Estados Unidos. “[P]ara el Tribunal Supremo federal, la adopción de la Constitución no representó un cambio en la base fundamental de las relaciones constitucionales entre Puerto Rico y Estados Unidos. El Tribunal Supremo siguió tratando a Puerto Rico como un ente político sujeto a la cláusula territorial de la Constitución federal.” Véase Pueblo v. Sánchez Valle y otros, 192 D.P.R. 594, 631 (2015). “[N]unca hubo una cesión de soberanía, lo que hubo fue una delegación de poderes.” *Id.* a la pág. 635. “Esa delegación de poder no constituye una renuncia irrevocable ni una terminación del poder del Congreso. El Pueblo de Estados Unidos le otorgó al Congreso, por medio de la Constitución, un poder amplio para administrar los territorios. Por esa razón, el Congreso no puede renunciar de manera irrevocable a un poder que le fue conferido por el Pueblo de Estados Unidos”. *Id.* a la pág. 638.

Así pues, “el Congreso puede permitir que el Estado Libre Asociado permanezca como sistema político de forma indefinida, o por el contrario, tiene la autoridad constitucional para enmendar o revocar los poderes de administración interna que ejerce el Gobierno de Puerto Rico. Dicho de otro modo, el sistema de gobierno que rige internamente en Puerto Rico está sujeto por completo a la voluntad política y la autoridad legal del Congreso.” *Id.* a la pág. 641.

La triste realidad es que la situación colonial nos coloca en un estado de indefensión tal que ni la ciudadanía americana que hemos atesorado desde 1917 está garantizada. El Congreso tiene la discreción legislativa para conceder privilegios a los ciudadanos nacidos en los territorios, incluyendo la ciudadanía americana, pero ese derecho puede ser revocado en cualquier momento. De hecho, el Gobierno Federal ha sostenido ante los tribunales que en los territorios no existe un derecho a la ciudadanía sino que se trata, más bien, de una gracia legislativa del Congreso. Véase, *por ejemplo*, Tuaua v. United States, 788 F.3d 300, (D.C. Cir. 2015).

En cuanto al asunto particular que nos ocupa, como ejemplo de las limitaciones que la situación colonial nos impone, tenemos que señalar que los estados pueden obtener las protecciones de la Ley federal de quiebras pero Puerto Rico fue excluido de dichas protecciones y, por no tener representación plena en el Congreso, es poco o nada lo que podemos hacer al respecto. Tampoco podemos legislar una quiebra local pues la misma ley federal que no nos protege ocupa el campo y previene la legislación local. Véase Puerto Rico v. Franklin Cal. Tax-Free Tr., 136 S. Ct. 1938 (2016) (declarando inconstitucional la “Ley para el Cumplimiento con las Deudas y para la Recuperación de las Corporaciones Públicas de Puerto Rico”, Ley 71-2014, mejor conocida como la “Ley de Quiebra Criolla”).

El resultado directo de nuestra situación colonial: PROMESA

Las políticas del pasado, junto a nuestra indefensión colonial, llevaron al Congreso de los Estados Unidos a promulgar la ley denominada *Puerto Rico Oversight, Management, and Economic Stability Act*, conocida como PROMESA (por sus siglas en inglés), Pub. L. 114-187, y delegó amplísimos poderes en una Junta de Supervisión Fiscal (en adelante “Junta de Supervisión”). Nuevamente, por no tener representación plena en el Congreso, dicha Ley se aprobó sin una verdadera participación de nuestro Pueblo. Conforme a PROMESA, las continuas acciones de planificación fiscal, las acciones presupuestarias, legislativas y ejecutivas de Puerto Rico, así como las reestructuraciones de deuda, consensuales o no, y la emisión, garantía, intercambio, modificación, recompra o redención de deuda están sujetas a supervisión.

En su Sección 4 PROMESA dispone claramente que sus disposiciones “prevalecerán sobre cualquier disposición específica o general de las leyes territoriales, estatales o reglamentos territoriales o estatales que sea incompatible con esta Ley.” De

esta manera, el Congreso de forma expresa hizo manifiesta su intención de que dicha Ley desplazaría cualquier legislación estatal que choque con PROMESA. Esto queda igualmente reconocido en la Sección 8 (2) que establece que el Gobierno de Puerto Rico no puede adoptar, implementar o hacer cumplir cualquier estatuto, resolución, política o regla que pueda menoscabar o anular los propósitos de PROMESA, según lo determine la Junta de Supervisión. Así pues, estamos imposibilitados de promulgar legislación que deje sin efecto a PROMESA o que menoscabe sus disposiciones y su alcance.

En esta coyuntura, precisa resaltar que bajo la décima enmienda, el Gobierno Federal, no puede imponerle a un estado lo que la ley federal PROMESA permite para los territorios. El Congreso le impuso una Junta a Washington DC que no es estado y que está bajo la jurisdicción directa del Congreso. La Junta de la ciudad de New York fue una creación de su propia legislatura estatal y no del Congreso. Detroit, que es una ciudad y no un estado, participó de un proceso voluntario de quiebra. En fin, no puede perderse de vista que la situación que atravesamos y la imposición de la Junta de Supervisión es otra de las consecuencias del colonialismo que ha limitado nuestro desarrollo por los pasados 119 años.

Lamentablemente, nuestra situación colonial y consustancial carencia de poderes políticos, exacerba la realidad de que nos han impuesto una Ley Federal en el Congreso que es suprema a toda legislación local, incluso nuestra Constitución, sin que tuviéramos la oportunidad de votar sobre la misma ni votar por el Presidente que la aprobó. Esto pone de manifiesto que para poder salir del atolladero económico en el que nos encontramos es imprescindible solucionar el problema del estatus político. Sin embargo, también es un hecho irrefutable que tenemos que trabajar dentro de los parámetros de PROMESA para iniciar la recuperación económica y fiscal de Puerto Rico.

El 30 de octubre de 2016, la Junta de Supervisión designó al Gobierno de Puerto Rico, al Sistema de Retiro de los Empleados del Gobierno, al Sistema de Retiro de la Judicatura, al Sistema de Retiro para Maestros, a la Universidad de Puerto Rico y 21 corporaciones públicas de Puerto Rico como "entidades cubiertas" sujetas a supervisión fiscal a tenor con PROMESA. La Sección 405(b) de PROMESA impone además una paralización temporera de los litigios y las reclamaciones contra Puerto Rico y sus instrumentalidades sobre distintos asuntos, con la esperanza de que el Gobierno de Puerto Rico, a nombre propio y a nombre de sus instrumentalidades, entable negociaciones voluntarias con sus acreedores para reorganizar y transigir el repago de sus obligaciones de deuda y simultáneamente emprenda una reestructuración responsable del Gobierno de Puerto Rico y sus instrumentalidades que reajuste los servicios esenciales requeridos para la salud, seguridad y bienestar de los residentes de Puerto Rico con el repago puntual de sus obligaciones de deuda.

Luego de invertir millones de dólares en consultores especializados, la pasada administración presentó un plan fiscal deficiente que fue rechazado por la Junta de

Supervisión de forma inmediata pues no resolvía los problemas fiscales provocados por la pasada administración.

Esta Ley, dividida en Capítulos, dispone diferentes medidas que esta Administración está tomando para cumplir con el Plan Fiscal impuesto conforme a las disposiciones de PROMESA. Los asuntos atendidos en esta Ley son germanos entre sí, toda vez que todos van dirigidos a dar cumplimiento al Plan Fiscal.

La Sección 17 del Artículo III de la Constitución de Puerto Rico, dispone en lo pertinente que “[n]o se aprobará ningún proyecto de ley ...que contenga más de un asunto, el cual deberá ser claramente expresado en su título, y toda aquella parte de una ley cuyo asunto no haya sido expresado en el título será nula. Dicha citada sección establece la regla de un solo asunto que exige que toda ley aprobada por la Legislatura regule un solo asunto o materia. Sobre este particular el Tribunal Supremo de Puerto Rico ha señalado que dicha disposición “no requiere que el título constituya un índice detallado del contenido de la ley, sino meramente que sea un hito indicador del asunto cubierto por la misma.” Herrero v. Emmanuelli, 179 D.P.R. 277, 295 (2010); Rodríguez v. Corte, 60 D.P.R. 919, 922 (1942).

Además, la jurisprudencia ha sido consistente al establecer que sólo ante un caso claro y terminante se justifica anular una ley por violar dicha disposición constitucional. Dorante v. Wrangler of P.R., 145 D.P.R. 408, 429-431 (1998) y casos allí citados. Nuestro máximo foro judicial ha “adoptado una postura comprensiblemente laxa para no maniatar al legislador”. Herrero v. Emmanuelli, *supra*. Véase también J.J. Álvarez González, Derecho Constitucional de Puerto Rico y Relaciones Constitucionales con los Estados Unidos, Bogotá, Editorial Temis S.A., 2009, pág. 244. En ese sentido, el Tribunal Supremo ha acotado que “una interpretación estricta de la disposición constitucional podría impedir y obstaculizar el proceso legislativo, pues obligaría al legislador a aprobar múltiples leyes para regular un sólo asunto o materia general.” Herrero v. Emmanuelli, *supra*. (Énfasis nuestro.) Véase además M.H. Ruud, No Law Shall Embrace More Than One Subject, 42 Minn. L. Rev. 389, 393-394 (1958). Es decir, “el requerimiento no está diseñado como subterfugio para destruir legislación válida, sino como garantía de que el proceso legislativo se realice de forma transparente, de manera que cada proyecto de ley se discuta y se analice a cabalidad antes de ser aprobado.” Herrero v. Emmanuelli, *supra*, págs. 295-296.

Por lo tanto, al examinarse la validez de una ley a la luz de la regla de un sólo asunto, es necesario auscultar todas sus disposiciones para determinar si éstas se relacionan entre sí y son afines con el asunto que se expresa en su título. Id. Lo que comprende “un solo asunto” se interpreta liberalmente, sin dejar de lado el propósito y objetivo de la exigencia constitucional. En ese tenor, “un estatuto puede comprender todas las materias afines al asunto principal y todos los medios que puedan ser justamente considerados como accesorios y necesarios o apropiados para llevar a cabo

los fines que están propiamente comprendidos dentro del asunto general". Id. Véase además R.E. Bernier & J.A. Cuevas Segarra, Aprobación e Interpretación de las Leyes en Puerto Rico, Segunda Edición, San Juan, Publicaciones JTS, 1987, pág. 81.

Esta Ley persigue un solo asunto: dar fiel cumplimiento al Plan Fiscal certificado por la Junta. Por tal razón, promulgamos esta Ley, que atiende varios temas dirigidos a cumplir con el Plan Fiscal.

Un Nuevo Gobierno: Responsabilidad ante la Junta de Supervisión

Como resultado de todo lo anterior, cuando asumimos las riendas del Gobierno, nos encontramos con un déficit en caja de más de \$7,600 millones según certificado por el Tesoro Federal y la Junta de Supervisión. Se trataba de un gobierno sin acceso a los mercados de capital, con un crédito de categoría chatarra, sin liquidez, sin transparencia en las finanzas públicas, con un gasto gubernamental inflado y con deudas de miles de millones de dólares. Además, el Gobernador enfrentaba la titánica tarea de recuperar la credibilidad ante el mercado y ante la Junta de Supervisión. Debemos garantizar un Gobierno donde los gastos respondan a la realidad de los ingresos.

Desde el 2 de enero hemos estado implementando un plan concertado para controlar el gasto gubernamental, reactivar nuestra economía y facilitar las condiciones para la creación de más y mejores empleos en el sector privado. Estamos demostrándole al mundo que Puerto Rico está abierto para hacer negocios en un ambiente de seguridad y estabilidad gubernamental.

Las medidas presentadas por el Gobernador y aprobadas por esta Asamblea Legislativa durante estos primeros tres (3) meses de mandato han cambiado el rumbo de Puerto Rico a uno de responsabilidad fiscal.

El pasado 28 de febrero de 2017, el Gobernador presentó un Plan Fiscal completo, abarcador, real y, a la misma vez, sensible a las necesidades de nuestro Pueblo y de los más vulnerables. Luego de semanas de incertidumbre, la razón y la sensatez prevalecieron. El 13 de marzo de 2017, la Junta de Supervisión aceptó y certificó nuestro Plan Fiscal acompañado de una serie de contingencias que garantizan que no habrá despidos de empleados públicos, sin afectar la jornada laboral, manteniendo el acceso a servicios de salud a nuestro Pueblo y protegiendo las pensiones de los más vulnerables. Este Plan Fiscal es la única alternativa para evitar el despido de empleados públicos, la eliminación del derecho a la salud y mantener la solvencia de nuestros sistemas de retiro manteniendo un gobierno operacional y que cumpla con los parámetros para evitar medidas más severas que son parte de las contingencias del Plan aprobadas por la Junta de Supervisión Fiscal como la eliminación total del bono de navidad a todos los empleados públicos y decretar una reducción de jornada laboral que haría inoperante al Gobierno.

Las medidas del Plan Fiscal aprobadas están enmarcadas en cumplir con los objetivos fiscales; pero también en promover el desarrollo económico, en nuestra capacidad de restablecer la credibilidad; en que el cambio se traduzca no tan solo en un mero recorte, si no en un beneficio a largo plazo, y, sobre todo, en velar que los sectores más vulnerables y los que trabajan duro, día a día, tengan una mejor calidad de vida.

La validación del Plan Fiscal representa un reconocimiento a la credibilidad del nuevo Gobierno. Demostramos que pasamos de los tiempos de la incoherencia e improvisación, a los tiempos de trabajar en equipo, y tener resultados por el bien de Puerto Rico. Pasamos del "me vale" y la falta de credibilidad; a tener un Plan Fiscal y de desarrollo socioeconómico que cumple con el objetivo de reducción de gasto, pero más importante que ello, que nos permita edificar una mejor sociedad.

Los cambios que estamos encaminando no serán fáciles y tomarán tiempo, pero también tendrán sus resultados en los primeros dos años. Bajo el Plan Fiscal certificado, lograremos balancear los ingresos con los egresos para el Año Fiscal 2019. Ahora nos compete ejecutar. Las contingencias que acompañan al Plan Fiscal le requieren al Gobierno cumplir. Debemos asegurar que tengamos el dinero líquido para no afectar el salario de los empleados públicos, la salud del Pueblo y los ingresos de los pensionados.

Esta Ley, se promulga para atemperar el marco legal y jurídico para poder cumplir con las exigencias que nos hiciera la Junta de Supervisión en el Plan Fiscal aprobado en virtud de la Ley Federal PROMESA. En atención a lo anterior, en virtud del poder de razón de Estado y de conformidad con el Artículo II, Secciones 18-19, y el Artículo VI, Secciones 7-8, de la Constitución de Puerto Rico, ante la existencia de una situación de urgencia económica y fiscal grave en Puerto Rico se hace necesaria la aprobación de la presente Ley para que el Estado pueda contar con la liquidez suficiente para poder pagar la nómina de los empleados públicos y sufragar los servicios esenciales que ofrece a sus ciudadanos. Ejercemos este poder de razón de Estado para tomar las medidas necesarias para dar cumplimiento al Plan Fiscal y colocar a Puerto Rico en el camino de la recuperación económica. Cumplir con este Plan constituye un interés apremiante del Estado para mantener sus operaciones y proteger a los más vulnerables.

Según definido por el Tribunal Supremo de Puerto Rico, el poder de razón de Estado es "aquel poder inherente al Estado que es utilizado por la Legislatura para prohibir o reglamentar ciertas actividades con el propósito de fomentar o proteger la paz pública, moral, salud y bienestar general de la comunidad, el cual puede delegarse a los municipios". Domínguez Castro v. E.L.A., 178, D.P.R. 1, 36 (2010).

Nuestro más Alto Foro recientemente dispuso que eran válidas las medidas tomadas para atender una emergencia que sean necesarias y razonables para adelantar el interés gubernamental importante. Véase, Trinidad v. E.L.A., 188 D.P.R. 828 (2013) y Domínguez Castro v. E.L.A., *supra*, págs. 88-89. De igual forma, el Tribunal Supremo

reconoció "la precariedad de la economía como una realidad que necesariamente pesa en la definición del ámbito de la acción gubernamental bajo el poder de razón de Estado" y que en el ejercicio de dicho poder, "la Legislatura goza de amplia facultad para aprobar reglamentación económica dirigida a promover el bienestar de la comunidad". Domínguez Castro v. E.L.A., *supra*, pág. 37. Por voz del Juez Asociado, señor Kolthoff Caraballo, el Tribunal llamó la atención a que tanto nuestra jurisdicción como el resto del mundo "vive momentos muy convulsos en el aspecto económico y financiero. Parecería que las economías de los países del mundo se encuentran entrelazadas y atadas al rabo de una chiringa que no consigue finalmente elevarse." Domínguez Castro et al. v. E.L.A. L, 178 D.P.R. 1, 415 (2010) certiorari denegado, Domínguez Castro v. Puerto Rico, 131 S.Ct. 152 (2010). De ese modo, este Tribunal reconoció que debía ser consciente que existía una realidad que describió como "dura y antipática". Confrontado con tal escenario histórico, este Tribunal estimó que resultaba necesario aspirar a un interés altruista en el que se persiguió el "bienestar económico colectivo, a expensas del bienestar individual." Además, este Tribunal reiteró el reconocimiento en torno a una crisis económica en nuestra jurisdicción en el caso Herrero y otros v. E.L.A., 179 D.P.R. 277 (2010) y destacó, en el contexto de la provisión de un remedio que implicaba desembolso de fondos públicos a fin de restituir dinero a contribuyentes, que no estaba "ajeno al difícil estado de las finanzas públicas en nuestro país". *Id.* a la pág. 309.

El Tribunal Supremo validó la Ley 3-2013 sobre el Sistema de Retiro de los Empleados Públicos en el caso Trinidad Hernández v. E.L.A., *supra*, entendiendo que la Legislatura había ejercido el poder de razón de Estado para detener la insolvencia del Sistema de Retiro de Empleados Públicos. El Tribunal Supremo razonó que "de la exposición de motivos... se desprende que las medidas adoptadas son necesarias y razonables para atender de forma adecuada la crisis financiera que atenta contra la solvencia actuarial de este sistema". Añadió que, "ello ciertamente constituye un interés público importante pues, al garantizar la solvencia económica del sistema, se beneficia a todos sus participantes y se atiende, en parte, la crisis fiscal que enfrenta el País en protección del bienestar de todos los puertorriqueños". Trinidad Hernández v. E.L.A., *supra*, pág. 837. Concluyó que la norma es constitucional "porque, a pesar de que existe un menoscabo sustancial de las obligaciones contractuales en controversia, las medidas implantadas son razonables y necesarias para salvaguardar la solvencia actuarial del Sistema de Retiro, y no existen medidas menos onerosas para lograr ese fin". *Íd.*, pág. 839.

Del mismo modo, recientemente, en el caso Asociación de Maestros de Puerto Rico v. Sistema de Retiro de Maestros de Puerto Rico, 190 D.P.R. 854 (2014), el Tribunal Supremo pasó juicio sobre las medidas aprobadas mediante la Ley 160-2013 para solventar la crisis del Sistema de Retiro de Maestros y determinó que la ley no adelantaba el interés estatal importante requerido por nuestro ordenamiento constitucional en casos de reformas de sistemas de retiro: garantizar la solvencia del mismo sistema. Por ello, resolvió que la Ley 160-2013, en lo que respecta al menoscabo de obligaciones

contractuales, es irrazonable y, por lo tanto, inconstitucional. Íd., pág. 12. En esa ocasión, el Tribunal fue enfático al destacar que las medidas aprobadas serán constitucionales si son razonables y necesarias “para adelantar su solvencia actuarial y no existen medidas menos onerosas para lograr ese fin”. Íd., pág. 8.

Usando como base el marco legal antes discutido, esta Asamblea Legislativa entiende que las medidas que se toman en esta Ley, son necesarias y razonables para atender de forma adecuada la crisis fiscal, económica y presupuestaria por la que atraviesa Puerto Rico. Así mismo, se trata de unas medidas exigidas para lograr implementar el Plan Fiscal certificado por la Junta de Supervisión de conformidad con la Ley federal PROMESA. Dicho Plan establece ajustes de índole fiscal para estabilizar las finanzas del Gobierno en tiempos que no existe acceso al mercado financiero. De no implementar estas medidas, el bienestar social y económico de Puerto Rico sufrirá daños irreparables por lo que implementar el Plan Fiscal constituye un interés apremiante del Estado para velar por el bienestar del interés público.

Reestructuración Gubernamental

Por otro lado, el Plan para Puerto Rico que impulsa esta Administración y que fue refrendado por el pueblo de Puerto Rico en las pasadas elecciones generales por medio del ejercicio democrático del voto, propone implementar una nueva estructura de gobierno que baje significativamente el gasto público y mejore sustancialmente sus funciones. Para lograr esto, se requiere la evaluación concienzuda de los servicios que provee el gobierno, a fin de determinar cuáles pueden ser consolidados, delegados al sector privado o eliminados porque ya no son necesarios. Todo ello, sin que conlleve despidos de empleados públicos, sino la movilización de los mismos acorde con la necesidad de servicios de nuestros ciudadanos.

Cónsono con lo anterior y, como parte de las primeras medidas tomadas por esta Administración para atajar la crisis fiscal mediante la reingeniería de la estructura gubernamental, se aprobó la Ley 8-2017, conocida como “Ley para la Administración y Transformación de los Recursos Humanos en el Gobierno de Puerto Rico”. Esta Ley, convierte al Gobierno en un Empleador Único para que los funcionarios públicos pasen a ser empleados del Gobierno y no de sus diferentes entidades, permitiendo así la mejor utilización de los recursos humanos donde exista una necesidad apremiante mediante el mecanismo de movilidad, sin que el empleado tenga que renunciar al puesto que ocupa y comenzar de nuevo en otra instrumentalidad gubernamental. Mediante la movilidad, se pretende reforzar el entendimiento de lo que significa el equilibrio entre la fuerza laboral y la prestación de servicios públicos. De esta manera, obtenemos una distribución eficiente del recurso humano del Gobierno y creamos una estructura gubernamental ágil, basada en la evaluación continua de necesidades y ayudando a los servidores públicos a realizar los ajustes y adaptaciones requeridas por la actual crisis fiscal y los retos futuros.

Durante el pasado cuatrienio, se aprobó la Ley 89-2016, conocida como la "Ley de Empleo Temporal en el Servicio Público", bajo el supuesto de corregir la disparidad en el trato de los empleados con carácter temporal en el servicio público y forzar a las agencias a ser diligentes en la creación o solicitud de creación de puestos. También, se promulgó la misma bajo el razonamiento de que clasificar correctamente a los empleados ayudaría en la administración de los recursos humanos del servicio público y evitará la erogación de fondos innecesarios. Asimismo, mediante dicha Ley, se le concedió estatus de empleado regular a aquellos empleados transitorios que llevaban dos (2) años o más realizando funciones de necesidad permanente, sujeto a ciertos requisitos de elegibilidad.

No obstante, dicha Ley ha tenido el efecto de acrecentar la nómina gubernamental en momentos donde las finanzas públicas atraviesan una crisis fiscal sin precedentes. El reclutamiento de empleados temporales, fueran estos catalogados como: irregulares, transitorios o por contrato, no debe utilizarse como subterfugio para la posterior creación de puestos regulares de necesidad permanente sobrecargando así los fondos del Estado y sin medir la efectividad de esos recursos en la prestación de los servicios que merece el Pueblo.

Por lo cual, encaminar a Puerto Rico hacia la ruta correcta requiere un cambio de paradigma, como el que propone esta Administración a través del Modelo para la Transformación Socioeconómica de Puerto Rico, expuesto en el Plan para Puerto Rico. La misión es establecer un nuevo gobierno que facilite el desarrollo económico y cuya visión sea la de un gobierno basado en un modelo científico, donde la evidencia y los resultados importen y la colaboración ciudadana sea el eje principal de su validación. Para lograr esta meta el gobierno debe convertirse en un facilitador del desarrollo económico, implementando reformas reales y contundentes; la estructura gubernamental debe ser costo-efectiva, eficiente y transparente y; el servicio público debe estar fundamentado en la integridad, excelencia, responsabilidad y rendición de cuentas.

Equidad en Beneficios Marginales para Todos los Empleados Públicos

De otra parte, como hemos indicado y es de todos conocidos, nuestra Isla atraviesa por una severa crisis fiscal y los recursos son limitados para atender todos los compromisos del gobierno. En medio de una situación novel como lo es la imposición de una Junta de Supervisión Fiscal y ante el impago de las deudas contraídas, el Gobierno de Puerto Rico se encuentra forzado a reestructurar todo el componente gubernamental y dirigir los recursos a aquellas áreas que más lo ameriten.

Puerto Rico enfrenta un momento histórico en el que necesita la colaboración de todos los sectores en la adopción de soluciones inmediatas que contribuyan en su restauración económica. La presente Ley atiende de manera responsable y justa la ausencia de uniformidad entre nuestros empleados públicos en cuanto a los beneficios marginales de los que podrán disfrutar durante este periodo crítico de la economía local.

No existe justificación alguna para mantener, durante estos próximos años previos a la recuperación fiscal, una brecha tan profunda entre los beneficios marginales que disfrutaban los empleados públicos de algunas agencias del gobierno y los que disfrutaban los empleados públicos de las corporaciones públicas. En algunas corporaciones públicas sus empleados se benefician del doble y del triple de los beneficios que ostentan los empleados del gobierno central sin que ello responda a la realidad económica que vive Puerto Rico. Peor aún, al así actuar se crea una desigualdad entre los empleados públicos beneficiando a unos pocos al costo de otros muchos. Además, los costos de estas medidas dispares hacen insostenible su cumplimiento en este periodo y el mantenimiento de los empleos públicos. Por ello, esta Legislatura entiende prudente tomar acciones que conlleven ahorros y nos permitan mantener a todos los empleados públicos sin despidos.

Para que tengamos una idea de los gastos que se generan en las Corporaciones Públicas por el pago de todos los beneficios marginales, incluyendo el bono de navidad y aportaciones de salud, el presupuesto recomendado para el Año Fiscal 2017 presentado ante la Junta de Supervisión establece que estas partidas tendrían un gasto presupuestado ascendente a \$171.877 millones de dólares, esto sin contar a la Universidad de Puerto Rico, la Autoridad de Energía Eléctrica de Puerto Rico y la Autoridad de Acueductos y Alcantarillados. En cuanto al pago de horas extras, se presupuestó la cantidad de \$23.618 millones de dólares y en la liquidación de días por enfermedad y vacaciones la cantidad de \$9.906 millones de dólares. El efecto de esto, es una disparidad entre los beneficios marginales que reciben los empleados del Gobierno Central vis a vis los empleados o funcionarios de las instrumentalidades o corporaciones públicas. En las Corporaciones Públicas se gasta en beneficios marginales un promedio de \$10,840 por empleado, mientras que en el Gobierno Central se gasta en promedio \$2,523 por empleado. Mientras no se recupere la economía local, no se puede justificar dicha disparidad.

De igual forma, según estadísticas provistas por el Banco Gubernamental de Fomento y la Junta de Planificación de Puerto Rico, en el Año Fiscal 2016, las corporaciones públicas fueron responsables de una deuda de \$46,861.6 millones lo que representó 72.9% de la deuda pública total del Gobierno de Puerto Rico, la cual se estimó en \$64,254 millones. Las corporaciones públicas han aumentado su participación en la deuda de un 68.9% en el Año Fiscal 2004 a un 72.9% en el Año Fiscal 2016. En términos absolutos, el aumento de la deuda pública total de las corporaciones públicas fue de \$23,484 millones lo que, a su vez, representó un aumento de 100.5%. De esta forma, en el Año Fiscal 2016, la deuda de las corporaciones públicas se estimó en más del doble de lo que era en el año fiscal 2004.

La realidad que ha imperado por años en las corporaciones públicas es que las cláusulas económicas negociadas en algunos convenios colectivos sobrepasaron por mucho lo que por ley estaba establecido, comprometiendo de esta forma la estabilidad fiscal del gobierno y a su vez poniendo en riesgo los empleos de los servidores públicos al crear una inestabilidad fiscal insostenible en este momento crítico fiscal. Por ejemplo,

muchas corporaciones se comprometieron, aun sin contar los recursos para ello, al pago de horas extras a razón del doble y del triple del sueldo de sus empleados. De igual forma, muchas bajaron la cantidad de horas que debían ser acumuladas para poder recibir compensación económica y no de tiempo compensatorio.

En Puerto Rico, el derecho a compensación por horas extras de trabajo está contemplado en la Sección 16 del Artículo II, Carta de Derechos de la Constitución. Allí se expresa que:

“Se reconoce el derecho de todo trabajador a escoger libremente su ocupación y a renunciar a ella, a recibir igual paga por igual trabajo, a un salario mínimo razonable, a protección contra riesgos para su salud o integridad personal en su trabajo o empleo, y a una jornada ordinaria que no exceda de ocho horas de trabajo. Sólo podrá trabajarse en exceso de este límite diario, mediante compensación extraordinaria que nunca será menor de una vez y media el tipo de salario ordinario, según disponga por ley.”

Mediante la presente Ley derogamos la sección 10.2 de la Ley 8-2017, que establece el método de remuneración del trabajo en exceso que será aplicable a los empleados públicos, para integrarla en esta Ley y extender su aplicación a las corporaciones públicas. El método establecido para la remuneración del trabajo en exceso establecido en la presente ley establece que los empleados tendrán derecho a recibir el pago de horas extras a razón de tiempo y medio. De esta forma, se cumple cabalmente con lo establecido en nuestra Constitución y con la Ley Federal que rige el pago de horas extras.

Por otra parte, la Ley Federal de Normas Razonables del Trabajo (FLSA), 29 U.S.C.S. secs. 201-219, regula entre otros asuntos el pago de horas extras y aplica a los empleados públicos del Gobierno de Puerto Rico. Nuestro Tribunal Supremo ha resuelto que, en tanto y en cuanto una ley estatal sea más beneficiosa para el empleado que las disposiciones del FLSA, la ley federal no impide la aplicación de aquélla por no estar en conflicto. Los propósitos de ambas leyes son, en dichas circunstancias, perfectamente armonizables. Vega v. Yiyi Motos, Inc., 146 D.P.R. 373 (1998).

La FLSA, estableció que a los empleados se les paga a razón de tiempo y medio (1.5) de la tasa regular por el periodo trabajado en exceso de las cuarenta (40) horas semanales. La FLSA, asimismo, provee para que los empleados de una agencia pública reciban tiempo compensatorio a tiempo y medio (1.5) de la tasa regular en lugar del pago de horas extras.

La presente Ley tiene como parte de sus propósitos lograr que el gasto operacional de las corporaciones públicas se realice de manera eficiente, responsable y prudente, con la finalidad de reducir gastos de manera permanente. El Gobierno de Puerto Rico tiene un interés apremiante en controlar los gastos de nóminas para salvaguardar los empleos,

la viabilidad de las corporaciones públicas así como sus finanzas. La situación fiscal precaria del Gobierno, su Fondo General y sus Corporaciones Públicas obliga a establecer controles en el gasto en nómina en exceso a lo presupuestado para salvaguardar la viabilidad de las corporaciones públicas y a su vez la jornada laboral de los empleados públicos y el salario de los mismos.

De igual forma, a través de la presente Ley se establecen cuáles serán los beneficios marginales que disfrutarán todos los empleados públicos durante el periodo de crisis fiscal irrespectivamente de la agencia o corporación pública donde trabajen. De esta forma, se igualan los beneficios marginales que reciben los empleados públicos de las diferentes agencias del Gobierno y los que reciben los empleados públicos que trabajan en las diferentes corporaciones públicas, quienes dependiendo de la corporación en que estén, actualmente disfrutaban diferentes beneficios marginales. Asimismo, los empleados públicos unionados en las diferentes agencias y corporaciones públicas, dependiendo del convenio colectivo, ostentan diferentes beneficios marginales aun estando en la misma agencia o corporación pública. No existe razón alguna que justifique mientras se mantenga de la crisis fiscal que vive Puerto Rico y ante la amenaza por parte de la Junta de Supervisión de eliminar el bono de navidad de todos los empleados públicos y reducirles la jornada laboral; perpetuar una desigualdad desproporcionada e irrazonable de beneficios marginales pactados en momentos en que la situación fiscal de Puerto Rico era otra y no se encontraba en una crisis de las proporciones que hoy tenemos.

Tal como indicamos anteriormente, en el pasado, nuestro ilustre Tribunal Supremo ha sostenido la validez de estatutos de naturaleza económica aprobados para lidiar con momentos de crisis o urgencia en Puerto Rico y ha reconocido “la posibilidad de que, en circunstancias de emergencia relacionadas con aspectos económicos, la Asamblea Legislativa puede hacer uso de sus amplios poderes”. Domínguez Castro, supra, a la pág. 49 (2010) (citas omitidas). Recientemente, ese Honorable Tribunal también fue consciente de la crisis estructural del Sistema de Retiro de los Empleados Públicos y sostuvo la validez constitucional del estatuto que, para atender dicha crisis, enmendó la Ley de Retiro de los Empleados Públicos, Ley Núm. 3-2013. Véase Trinidad Hernández v. ELA, supra.

Por su parte, el Artículo II, Sección 7, de nuestra Constitución dispone que: “No se aprobarán leyes que menoscaben las obligaciones contractuales”. Art. II, Sec. 7, Const. E.L.A., L.P.R.A. Tomo 1. Dicha cláusula no establece una prohibición absoluta que impida el poder de reglamentación del Estado en beneficio del interés público. Bayrón Toro, 119 D.P.R. a la pág. 619.

La garantía constitucional contra el menoscabo de obligaciones contractuales sólo se activa cuando la modificación afecta adversamente los términos o condiciones esenciales del contrato que principalmente dieron motivo a la celebración del mismo, de modo que se frustren las expectativas razonables de las partes. Domínguez Castro, supra.

Véase además Allied Structural Steel Co. v. Spannaus, 438 U.S. 234 (1978); El Paso v. Simmons, 379 U.S. 497 (1965). La razonabilidad de la ley se determina considerando principalmente la sustancialidad del interés público promovido por el estatuto y la magnitud del menoscabo causado por su aplicación retroactiva. Warner Lambert Co. v. Tribunal Superior, 101 D.P.R. 378, 396 (1973). Si el menoscabo ocurre como consecuencia de una modificación razonable y necesaria para adelantar un interés público, el tribunal sostendrá su validez. Bayrón Toro, *supra*.

Aún si el menoscabo es sustancial, la prohibición constitucional no es absoluta. La misma tiene que acomodarse al poder de razón de estado. Bayrón Toro, *supra*. Al considerar la validez de estatutos bajo la cláusula de menoscabo, el criterio aplicable es de razonabilidad. Warner Lambert v. Tribunal Superior, *supra*. Por consiguiente, la función del tribunal consiste en establecer un balance razonable entre el interés social de promover el bien común y el interés, también social, de proteger las transacciones contractuales contra la aplicación arbitraria e irrazonable de las leyes. *Id.*

Una vez se determina que el menoscabo es sustancial, entonces procede auscultar si la modificación persigue adelantar un interés importante en beneficio del bienestar general. Si el menoscabo surge como consecuencia de una modificación razonable y necesaria dirigida a adelantar un interés público significativo y legítimo, se sostendrá la validez de la ley. Bayrón Toro, *supra*.

En Buffalo Teachers Union v Tobe, 464 F.3d 362, 365 (2do Cir. 2006), el Segundo Circuito expresó lo siguiente en torno al examen que debe realizar un foro adjudicativo al adentrarse a justipreciar una demanda en que se invoque la cláusula constitucional sobre el menoscabo de relaciones contractuales:

When a state is sued for allegedly impairing the contractual obligations . . . the state will not be held liable for violating the Contracts Clause of the United States Constitution unless plaintiffs produce evidence that the state's self-interest rather than the general welfare of the public motivated the state's conduct. On this issue, plaintiffs have the burden of proof because the record of what and why the state has acted is laid out in committee hearings, public reports, and legislation, making what motivated the state not difficult to discern. (Subrayado nuestro).

Por otra parte, como corolario a la doctrina de separación de poderes, al evaluar la necesidad o razonabilidad de la medida para efectos de la cláusula sobre el menoscabo de obligaciones contractuales, el Tribunal Supremo de Puerto Rico ha establecido que, a pesar de que no procede dar completa deferencia al Legislador, "esto no significa que el foro judicial no deba dar alguna deferencia a la determinación de necesidad y razonabilidad que hizo el legislador en el ejercicio de su poder constitucional, especialmente cuando se trata de regulaciones socioeconómicas." Domínguez, *supra*.

Tampoco corresponde realizar una determinación “*de novo* sobre la existencia de otras alternativas para la solución del problema” *Id*, a la pág. 89. Recientemente, este Tribunal reiteró que se debe “dar deferencia a la determinación de la Asamblea Legislativa respecto a la necesidad y razonabilidad de la medida.” Trinidad Hernández v. ELA, *supra*. Además, respecto a la razonabilidad de la medida “es norma establecida que no corresponde a los tribunales hacer una determinación *de novo* sobre la existencia de otras alternativas para solucionar el problema. La determinación de la Asamblea Legislativa en torno a las medidas aprobadas constituye un ejercicio de política pública que merece [...] deferencia en este sistema de separación de poderes.” Trinidad Hernández v. ELA, *supra*.

Recordemos que, de entenderse que existe un menoscabo a una relación contractual, un tribunal debe analizar si la legislación en cuestión sirve un interés público legítimo. Home Bldg. & Loan Ass’n, *supra*, U.S. Trust, 431 U.S. at 25. Se ha definido el concepto de *legitimate public purpose* como uno cuyo fin sea remediar “an important general, social or economic problem rather than providing a benefit to special interests.” Buffalo Teacher’s Federation, *supra*. Nótese que se ha sostenido que la salud económica y financiera de un estado es un interés legítimo de importancia pública. Véase, Baltimore Teacher’s Union v. City Council of Baltimore et al., 6 F.3d 1012, 1017 (4to Cir. 1993) (resolviendo que no violaba la cláusula de menoscabo contractual una legislación que redujo salarios para cuadrar las finanzas estatales); In re Subway-Surface Supervisors Ass’n v. New York City Transit Auth., 375 N.E.2d 384 (1978) (sosteniendo la validez constitucional de un estatuto que congeló los salarios municipales en vista de la emergencia fiscal que aquejaba el estado de Nueva York); Buffalo Teachers, *supra* (se sostuvo la congelación de salarios de maestros ante una crisis fiscal).

Ante esta situación, el Gobierno de Puerto Rico tuvo que comprometerse mediante el Plan Fiscal aprobado por la Junta de Supervisión con implementar ciertas medidas en aras de poder salvaguardar el trabajo de miles de puertorriqueños, que no se les reduzca la jornada laboral a nuestros empleados con la consecuencia de tener una reducción en su sueldo mensual de hasta un veinte (20%) por ciento y la eliminación total del bono de navidad. Entre las medidas que el Gobierno se comprometió a implementar se encuentra, como hemos indicado, el uniformar los beneficios marginales de todos los empleados públicos; uniformar el pago de horas extras de las Corporaciones Públicas al Gobierno Central, igualar los beneficios marginales de los empleados del Gobierno Central y los de las Corporaciones Públicas; eliminar la liquidación de los excesos de días acumulados por vacaciones y enfermedad; y equiparar específicamente la licencia de vacaciones de los empleados públicos a lo que actualmente tienen los empleados en el sector privado.

En aras de lograr la consecución de los objetivos de la presente Ley y hacerlo de la forma menos onerosa para nuestros empleados públicos, se establece que las disposiciones aplicables a licencias y beneficios marginales serán de duración temporera.

Se restituirán los mismos conforme sea certificado por los miembros del Comité de Cumplimiento con el Plan Fiscal.

Para poder cumplir con el Plan Fiscal certificado, mediante la presente Ley se derogan las disposiciones de beneficios marginales establecidas en la Ley 8-2017, conocida como "Ley para la Administración y Transformación de los Recursos Humanos en el Gobierno de Puerto Rico", y se incorporan en esta Ley, extendiendo su aplicación a los empleados de las Corporaciones Públicas. De esta forma, según anteriormente dispuesto se igualan los beneficios marginales y la remuneración del trabajo en exceso de la jornada regular que podrán disfrutar todos los empleados públicos, independiente de donde laboren. De igual forma, se reducen los días que se podrán acumular al mes por concepto de vacaciones y se equiparan a los que actualmente tienen los trabajadores en el sector privado, bajando la licencia de vacaciones a quince (15) días. Por último, se elimina el pago por concepto del exceso de días vacaciones y enfermedad. No obstante, se establece de forma obligatoria la implementación de medidas por parte de los supervisores para asegurar que nuestros empleados no pierdan los días acumulados y puedan disfrutar los mismos.

No podemos pasar por alto que, de haber entrado de inmediato en vigor el recorte a la jornada laboral como propuso la Junta de Supervisión, la economía de Puerto Rico hubiese sufrido un golpe devastador al eliminarse el bono de navidad y reducirse en un 20% el sueldo de todos los empleados públicos. Ante esta situación fue que se establecieron las vías alternas antes indicadas para poder obtener los fondos requeridos sin trastocar la jornada laboral de los empleados y el salario de los mismos.

PROMESA y la Cláusula de Supremacía

Por otra parte, es importante recalcar la aplicación y el mandato que el Congreso de los Estados Unidos de América, en virtud de sus poderes plenarios sobre el Territorio de Puerto Rico, nos impuso cuando aprobó la Ley PROMESA que crea una Junta de Supervisión a quien, dentro de una serie de encomiendas, le confirió la de aprobar y supervisar de la ejecución un Plan Fiscal para la estabilización económica de Puerto Rico.

Dicha norma aprobada el 4 de mayo de 2016 establece una cláusula de supremacía que citamos:

Sec. 1 "Puerto Rico Oversight, Management, and Economic Stability Act" or "PROMESA". (SEC. 4. SUPREMACY. The provisions of this Act shall prevail over any general or specific provisions of territory law, State law, or regulation that is inconsistent with this Act. (Énfasis nuestro).

Conforme el Art. 101 de la Ley PROMESA, la Junta de Supervisión, a su plena discreción, en el momento que considere apropiado, podrá designar a cualquier

instrumentalidad territorial como una instrumentalidad territorial cubierta y sujeta a las obligaciones de la referida Ley. A este momento, la Junta de Supervisión ha designado todas las corporaciones públicas como entidades cubiertas. Por otro lado, conforme al Artículo 205 de PROMESA, la Junta de Supervisión podrá someter en cualquier momento recomendaciones al Gobernador o a la Legislatura sobre acciones que el gobierno territorial deba tomar para garantizar el cumplimiento del plan fiscal o para promover de alguna otra manera la estabilidad financiera, el crecimiento económico, la responsabilidad administrativa y la eficiencia en la prestación de servicios. Hechas las recomendaciones, el Gobernador tendrá que someter una declaración indicando si el gobierno adoptará la recomendación. Si no la adopta, el Gobernador deberá explicar al Presidente de los Estados Unidos y al Congreso sus razones para no adoptarlas.

Siendo así, debemos repasar las encomiendas que se le asignan a la Junta de Supervisión Fiscal para fiscalizar y asegurar que las disposiciones del Plan Fiscal aprobado se cumplan.

Recordemos que PROMESA goza de supremacía sobre cualquier legislación del territorio de Puerto Rico incompatible con los motivos, responsabilidades, encomiendas y objetivos que tiene la norma federal y la Junta de Supervisión como ente encargado de su ejecución. En lo que respecta a la presente Ley, la Junta estableció que si el gobierno no logra mediante la implantación de otras medidas reducciones en los gastos que generen los fondos suficientes y una reserva de efectivo adicional de \$200 millones, para el 30 de junio de 2017 entrará en vigor, efectivo el 1 de julio de 2017, un programa de reducción de jornada laboral para todos los empleados públicos, lo que representaría una disminución en el sueldo de nuestros empleados de hasta un veinte (20%) por ciento del sueldo mensual. De igual forma, establecen que se implementaría la eliminación total del bono de navidad para todos los empleados públicos. La alternativa de la Junta de Supervisión para reducir la jornada laboral en el gobierno es equivalente a cuatro (4) días al mes para la mayoría de los empleados de la Rama Ejecutiva y dos (2) días al mes para maestros y personal de primera línea en instituciones que operan 24 horas al día. De igual forma, la Junta de Supervisión ha establecido que podrían darse reducciones comparables a estos ahorros por reducción parcial de jornada de la Rama Ejecutiva para otras entidades a través de todo el gobierno, incluyendo las corporaciones e instrumentalidades públicas y las ramas Legislativa y Judicial. Tal y como nuestro Gobernador ha mencionado en múltiples foros, la reducción de jornada laboral NO es una opción. Por tal razón, estamos tomando estas medidas cautelares para no tener que llegar a esa contingencia impuesta por la Junta de Supervisión.

Usando como base este marco legal, esta Asamblea Legislativa está convencida que las medidas que se toman en esta Ley son necesarias y razonables para atender de forma adecuada la crisis fiscal, económica y presupuestaria que atraviesa Puerto Rico y representan un ejercicio legislativo válido.

Las acciones que se toman en la presente Ley y su aplicación a todos los empleados públicos unionados o no unionados que laboran en el Gobierno Central y en las Corporaciones Públicas no se toman de forma liviana. Al realizar un balance de intereses, en estos momentos de crisis entendemos que los beneficios marginales tienen que ser atemperados a las necesidades de los tiempos y a la crisis fiscal y estructural que enfrenta el Gobierno de Puerto Rico. Ante el nuevo estado de Derecho creado por la aprobación de la Ley PROMESA y la llegada de la Junta de Supervisión, la presente Ley constituye un medio razonable, equitativo, uniforme y necesario para afrontar la crisis actual y es la única opción que tiene el Gobierno de Puerto Rico para poder cumplir con el Plan Fiscal certificado por la Junta de Supervisión y evitar que se imponga una reducción de jornada laboral a nuestros empleados públicos que equivaldría a reducirles el veinte (20%) por ciento de su sueldo mensual y a su vez la eliminación total del bono de navidad. Esta Ley se promulga al amparo de la facultad de esta Asamblea Legislativa para aprobar y promulgar legislación económica dirigida a promover el bienestar de la comunidad puertorriqueña.

Dividendo Extraordinario a la Asociación de Suscripción Conjunta del Seguro de Responsabilidad Obligatorio

La Asociación de Suscripción Conjunta del Seguro de Responsabilidad Obligatorio (ASC) fue creada mediante la Ley 253-1995, según enmendada, como parte del sistema de seguro de responsabilidad obligatorio para vehículos de motor que se estableció desde entonces en Puerto Rico. El propósito de dicho seguro fue viabilizar una solución al problema de daños causados a vehículos de motor de terceros como resultado de un accidente de tránsito, conforme a los requisitos de reclamación aplicables.

En su origen, la cubierta del seguro obligatorio que estableció dicha ley tenía un tope de tres mil dólares (\$3,000). Dicho tope fue aumentado en el año 2009 por virtud de la Ley 201-2009, a cuatro mil dólares (\$4,000). Cabe destacar que a pesar de este aumento en cubierta de un treinta y tres por ciento (33%), las primas del seguro, que tiene un valor de noventa y nueve dólares (\$99) para vehículos privados de pasajeros y ciento cuarenta y ocho dólares (\$148) para vehículos comerciales, continuaron inalteradas.

Desde el aumento en cubierta en el año 2009, el costo de los bienes y servicios en general ha continuado aumentando y la industria automotriz no ha estado exenta de estos aumentos. Por eso, el costo de las piezas y reparaciones de vehículos hoy es mayor que hace ocho (8) años. Es por ello que esta administración entiende pertinente que la cubierta del seguro obligatorio se aumente a cuatro mil quinientos dólares (\$4,500). Consistentemente con este aumento, se autoriza a la ASC a revisar el costo de las primas en o antes del 30 de junio de 2017.

Por otro lado, las condiciones bajo las cuales operaba la ASC desde su creación, conllevó un incremento sustancial en su capital. Dado que la ASC era el único proveedor

de seguro de responsabilidad obligatorio para vehículos de motor, era necesario que mantuviese una reserva de capital significativa para cubrir sus operaciones y cumplir con la reserva requerida por el Código de Seguros. Por ello, mediante la Ley 60-2013 se autorizó la declaración de un dividendo extraordinario, acompañada de una contribución incentivada, lo que permitió generar ingresos adicionales de cien millones de dólares (\$100,000,000). Del mismo modo, por virtud de la Ley 157-2015 se autorizó la declaración de otro dividendo extraordinario de cuarenta y dos millones de dólares (\$42,000,000), igualmente acompañada de una contribución especial. Sin embargo, como resultado de la apertura del mercado a competencia para que otras compañías de seguro pudieran ofrecer el servicio, a elección del conductor, resulta innecesario que la ASC mantenga una cantidad tan alta de capital en reserva y a la cual no pueden acceder los miembros de la ASC, quienes son las mismas compañías que compiten con esta entidad para ofrecer el servicio de seguro obligatorio.

Mediante esta Ley se autoriza la declaración de un dividendo extraordinario, acompañado de la correspondiente contribución incentivada. Una vez declarado el dividendo por los miembros de la ASC, el gobierno recibiría la cantidad de setenta millones de dólares (\$70,000,000).

A diferencia de la pasada administración, que utilizó los fondos obtenidos mediante leyes similares a la presente para distribuir entre algunas entidades que, aunque muchas perseguían fines loables otras conllevaban un malgasto innecesario de fondos, mediante esta Ley pretendemos atender la falta de liquidez del Gobierno de Puerto Rico para proteger los servicios que se ofrecen a la ciudadanía, los empleos en el sector público, los ingresos de los miembros de los sistemas de retiro, entre otros fines similares.

Por todo lo anterior, esta Asamblea legislativa autoriza a la ASC a declarar un dividendo extraordinario de setenta millones de dólares (\$70,000,000) de su reserva de capital acompañado de una contribución especial de un cincuenta por ciento (50%). De este modo, la ASC remitirá la suma de treinta y cinco millones de dólares (\$35,000,000) que nutrirán el Fondo General del Gobierno de Puerto Rico.

Transferencia de ganancias de las corporaciones públicas al fondo general

Una de las medidas de mayor trascendencia que esta administración ha logrado aprobar es la "Ley de Emergencia Financiera y Responsabilidad Fiscal de Puerto Rico", Ley 5-2017. La misma declara como política pública del Gobierno de Puerto Rico "tomar todas las medidas requeridas para Puerto Rico establecer la responsabilidad fiscal necesaria dentro del Gobierno y sus instrumentalidades para satisfacer sus obligaciones y garantizar que se provean aquellos servicios gubernamentales esenciales para la salud, seguridad y bienestar de los residentes de Puerto Rico." Del mismo modo, la citada Ley declara que el gobierno podrá "ejercer su poder de razón de Estado de una manera que

reconozca la responsabilidad de satisfacer las obligaciones financieras del Gobierno de Puerto Rico y sus instrumentalidades, mientras continúa proveyendo servicios gubernamentales esenciales para la salud, seguridad y bienestar de los residentes de Puerto Rico a la luz de los limitados recursos disponibles del Gobierno de Puerto Rico y sus instrumentalidades". Dicho de otro modo, el gobierno tomará todas las medidas necesarias para asegurarse que las necesidades de la gente sean debidamente atendidas.

La Ley 5-2017 puntualiza que como resultado de la continua emergencia financiera y de la aprobación de PROMESA, la Asamblea Legislativa tiene a su haber la responsabilidad de ejercer su poder de razón de estado. En ese sentido, señala que se tiene que reconocer la responsabilidad de satisfacer las obligaciones financieras del Gobierno de Puerto Rico y sus instrumentalidades, mientras se continúan proveyendo servicios gubernamentales esenciales para salvaguardar la salud, seguridad y el bienestar de los residentes de Puerto Rico dados los limitados recursos disponibles del Gobierno de Puerto Rico y sus instrumentalidades, todo esto de manera congruente con PROMESA.

En atención a lo anterior, la Ley 5-2017 faculta al Gobernador a emitir órdenes ejecutivas para requerir el uso de los recursos disponibles para pagar por servicios esenciales según el Gobernador estime necesario para proteger la salud, seguridad y bienestar de los residentes de Puerto Rico y establecer normas de prioridad para el desembolso de fondos públicos cuando los recursos disponibles para el año fiscal sean insuficientes para cubrir las asignaciones hechas para ese año fiscal, entre otras medidas. Esto, en atención a la limitación de recursos que posee el Estado.

Ante la situación fiscal y económica antes indicada, resulta evidente que el Gobierno de Puerto Rico tiene que tomar medidas para cumplir con el Plan Fiscal sin afectar los servicios esenciales que recibe la ciudadanía. Esto requiere maximizar el uso de los recursos disponibles del Estado, incluyendo los recursos que tienen las corporaciones públicas. Es por ello que la presente legislación ordena a las corporaciones públicas e instrumentalidades del Gobierno de Puerto Rico a transferir al Departamento de Hacienda los fondos necesarios para garantizar la liquidez del gobierno.

La determinación de la cantidad que será aportada por cada una de las corporaciones públicas será determinada por un comité compuesto por el Director Ejecutivo de la Autoridad de Asesoría Financiera y Agencia Fiscal de Puerto Rico (AAFAF), el Secretario del Departamento de Hacienda (Hacienda) y el Director Ejecutivo de la Oficina de Gerencia y Presupuesto (OGP). Para ello, el comité tomará en consideración los sobrantes con los que cuente cada corporación luego de haber sido cubiertos sus gastos operacionales y que los servicios que ofrecen estas entidades no se afecten. Dichos fondos serán depositados en el Fondo General del Gobierno de Puerto Rico para así contar con la liquidez requerida en el Plan Fiscal.

Por todo lo anterior, en atención a la situación de emergencia fiscal y económica que atraviesa Puerto Rico, en el ejercicio de su poder de razón de estado, esta Asamblea Legislativa reconoce la necesidad de remediar la emergencia financiera por lo que promueve los mecanismos que se establecen en la presente Ley para asegurar la liquidez del Gobierno de Puerto Rico, utilizando los recursos disponibles en las corporaciones públicas, sin que esto represente una carga desproporcional para los ciudadanos, ni afecte los servicios esenciales que el gobierno provee.

Disposición de Propiedades Inmuebles de la Rama Ejecutiva

Por otra parte, la crisis económica y fiscal que afronta el Gobierno ha repercutido en todo el espectro de nuestra infraestructura, incluyendo nuestra propiedad inmueble. La Rama Ejecutiva compuesta por sus agencias, entidades y corporaciones públicas tiene un sin número de propiedades inmuebles en desuso que pueden venderse al sector privado para diversos propósitos. Muchas de las propiedades llevan años sin ninguna utilidad pública. Sin embargo, cuentan con espacios amplios en lugares estratégicos que muy bien pueden ser maximizadas por la industria o comercio privado para desarrollar sus actividades. Incluso, algunas propiedades podrían servir para construir o habilitar una residencia o para entidades sin fines de lucro.

Lamentablemente en Puerto Rico no existe una política pública coherente y uniforme que fomente la venta eficiente, eficaz y coordinada de los bienes inmuebles del Estado. En ese tenor, es necesario establecer un marco jurídico que facilite mover el mercado de bienes raíces estatales y le dé certeza a las transacciones de estos activos. El beneficio sería uno múltiple: por un lado el Gobierno podrá allegar mayor dinero producto de la disposición del inventario de bienes inmuebles y disponer de mayor liquidez para paliar la crisis fiscal que enfrenta; inyectar al mercado un ingrediente de actividad económica al permitir que el sector privado se envuelva en la adquisición de propiedades del Estado para usos comerciales o residenciales y pueda fungir como generador de empleos; fomentar el bienestar social ante la posibilidad de que las propiedades puedan ser adquiridas por entidades sin fines de lucro para ofrecer servicios sociales, etc. En fin, las posibilidades son infinitas.

Por eso, es importante tener un paradigma adecuado que propicie la disposición de la propiedad inmueble dentro de un marco de competencia justa donde se coloque el bienestar y el interés público como portaestandarte de cada transacción. Por eso, esta Ley crea el Comité de Evaluación y Disposición de Propiedades Inmuebles y le faculta a llevar a cabo todas las acciones necesarias para lograr la disposición de los bienes inmuebles. Esto en balance con los mejores intereses del Estado como vendedor, el comprador y la ciudadanía en general. Por medio de esta Ley se establecen los preceptos generales que guiarán la aprobación de reglamentos y normas que uniformen los procesos de venta de inmueble y le den mayor certeza a las transacciones.

Esta medida representa un paso más en la dirección del rescate de nuestro Pueblo y de superar las malas decisiones del pasado. Tenemos un compromiso inquebrantable por fortalecer el componente de la actividad económica. Estamos seguros que con el esquema aquí establecido se proveen los mecanismos necesarios para fortalecer el mercado de bienes raíces y proveerle más recursos al Estado en aras de afrontar la crisis y cumplir con el Plan Fiscal. Ese es nuestro norte y nada nos detendrá.

Ley de Contabilidad del Gobierno y Fondos Especiales

La política financiera del Gobierno de Puerto Rico establecida en la Ley Núm. 230 de 23 de julio de 1974, según enmendada y conocida como "Ley de Contabilidad del Gobierno de Puerto Rico", en relación con el control y la contabilidad de los fondos y propiedad pública requiere que la contabilidad del Gobierno de Puerto Rico refleje claramente los resultados de sus operaciones financieras, provea la información financiera necesaria para la administración de las operaciones gubernamentales y para la preparación y ejecución del presupuesto, y constituya un control efectivo sobre los ingresos, desembolsos, fondos, propiedad y otros activos del gobierno. De igual forma, se establece como política pública que no se establezcan fondos especiales o fuentes de repagos exclusivas para unos fines particulares sin considerar el bienestar público. Esto nos permitirá llevar a cabo programas de gobierno examinando los servicios esenciales, que las asignaciones de fondos para los diferentes programas del gobierno se limiten a las atenciones de un sólo año económico; y que todas las recaudaciones del Gobierno ingresen al fondo general del tesoro estatal para con ellas costear los programas del Gobierno en la medida y alcance en que la Asamblea Legislativa lo estime necesario y conforme a las partidas establecidas en el Plan Fiscal aprobado. Desafortunadamente, a través de los años, se han adoptado una serie de medidas que han pasado por alto lo anterior y han creado múltiples fondos especiales para distintos programas desvirtuándose el mandato de la Ley de Contabilidad.

Es el compromiso de esta Administración tomar todas las acciones necesarias para que el Gobierno pueda atender sus obligaciones y cumplir con esta política pública. La situación fiscal por la que nos encontramos atravesando requiere que ejerzamos una mayor transparencia y responsabilidad fiscal en nuestros gastos, de forma tal que logremos la estabilidad fiscal y un presupuesto balanceado, todo lo cual nos llevará hacia nuestra recuperación económica.

Dentro del análisis de las finanzas del Gobierno se han encontrado asignaciones especiales para determinado propósito o actividad y para las cuales se ha excedido el periodo de tiempo de más de un (1) año sin hacerse uso de las mismas. También se han identificado asignaciones sin designación de año determinado, pero con recurrencia anual sin una base legal. Esto conduce a que los gastos que se carguen contra esas asignaciones en futuros años fiscales, se desestabilice el flujo de la caja del Departamento de Hacienda, sin que se tenga un control sobre el momento y uso que se le confiere a tales

asignaciones y, además, está en contravención con la política pública establecida en la Ley Núm. 230, antes citada.

Ante la grave situación fiscal que confronta el gobierno, es fundamental implementar una nueva metodología para el desarrollo, preparación y ejecución del presupuesto gubernamental, que permita reducir notablemente el gasto del Estado sin disminuir la cantidad y calidad de los servicios prestados, eliminando servicios ineficaces y programas inadecuados u obsoletos. En este sentido, el Presupuesto Base Cero es una estrategia presupuestaria y de política fiscal, cuyo objetivo fundamental es lograr que un gobierno no pueda gastar más de lo que recauda, limitando así el incremento de la deuda pública y garantizando la sostenibilidad de las finanzas públicas a corto y largo plazo. Con el Presupuesto Base Cero implantado por esta Administración, cada departamento, agencia o instrumentalidad del Gobierno de Puerto Rico tiene que documentar y justificar cada programa que se vaya a incorporar y nutrir del presupuesto del Gobierno, a base del beneficio social y económico y en consideración de los recursos disponibles. Este mecanismo conlleva revisar anualmente todos los programas y gastos de los departamentos, agencias o instrumentalidades del Gobierno partiendo de cero sin tomar en consideración las asignaciones de años anteriores. Esto facilita la búsqueda de nuevas formas de ofrecer servicios más eficientes y efectivos que permitan una mejora en la calidad de los servicios, la eliminación de duplicidad en los ofrecimientos de servicios y una reducción en los gastos.

De igual forma, existen un sinnúmero de fondos especiales creados por Ley para fines particulares. Dichos fondos, se encuentran desorganizados y bajo el control de las dependencias gubernamentales a las que se les asignaron. Ante este marco, el Secretario de Hacienda en la actualidad tiene acceso directo a solo 65% de los fondos del Gobierno de Puerto Rico, toda vez que los demás fondos especiales están en cuentas en cada dependencia ejecutiva sin pasar por la supervisión fiscal del Secretario de Hacienda. Esta falta de claridad, redundante en una pobre supervisión por parte de las agencias fiscales del Gobierno para tener pleno dominio del Tesoro. Con esta Ley, disponemos que los fondos especiales pasan al Tesoro General y no a cuentas individuales para unos fines particulares, para así tener un mejor dominio y fiscalización por parte de Secretario de Hacienda y poder aplicar la prioridad de pago que comienza con los servicios esenciales a nuestro Pueblo.

Conforme todo lo anterior, esta Asamblea Legislativa considera necesario enmendar la Ley Núm. 230 de 23 de julio de 1974, según enmendada y conocida como "Ley de Contabilidad del Gobierno de Puerto Rico" con el propósito de atemperar la misma a las mejores prácticas fiscales que se han desarrollado en los pasados años en los Estados Unidos continentales y en el resto del mundo. A esos efectos, entendemos importante aclarar el significado de una asignación especial y limitar el uso de las mismas al periodo de un (1) año. Una vez que esta cumpla su propósito, o si no fuese reclamada durante su periodo de vigencia, esta asignación revertirá al Fondo General. De esta

manera, logramos continuar mejorando los servicios a nuestra ciudadanía y revitalizar la economía de Puerto Rico mientras cumplimos con los mecanismos de control fiscal requeridos por el Plan Fiscal Certificado.

Ley de Reservas en las Compras del Gobierno

En reconocimiento de que el fortalecimiento de nuestra economía y la creación de empleos son objetivos fundamentales de la política pública del Gobierno de Puerto Rico, se han aprobado diferentes piezas legislativas dirigidas a estimular el desarrollo de la economía local. Como parte de dicha legislación, se encuentra la Ley 129-2005, que creó la Ley de Reservas en las Compras del Gobierno, la cual se adoptó como un mecanismo para que los componentes de la economía local puedan participar efectivamente en el mercado de compras del gobierno y para estimular la creación de empleos y la inversión local. Esta Ley, procura patrocinar de manera preferencial en las compras del Gobierno, al importantísimo sector de las pequeñas y medianas empresas ("Pymes") ayudando a estas a aumentar sus ventas como una estrategia eficaz de desarrollo económico y creación de empleos.

No obstante, ante la grave situación fiscal que confronta el gobierno, entendemos fundamental hacer ajustes en el desarrollo, preparación y ejecución del presupuesto gubernamental, que permita reducir notablemente el gasto del Estado sin disminuir la cantidad y calidad de los servicios prestados. Con esto en mente, hemos evaluado toda la legislación económica que tiene impacto en el presupuesto general de las agencias de la Rama Ejecutiva, a fin de establecer las medidas necesarias para atemperar la misma a nuestra actual realidad económica.

A tales efectos, esta Asamblea Legislativa considera necesario enmendar la Ley 129-2015 con el propósito de atemperar la misma a la situación fiscal que atraviesan las finanzas públicas. A esos efectos, debemos fijar en un veinte por ciento (20%) la partida del presupuesto general de las instrumentalidades del Gobierno de Puerto Rico asignada a compras para compras a microempresas, pequeñas y medianas empresas, hasta que la situación fiscal de Puerto Rico permita que se aplique el aumento. Nuestro propósito es seguir contribuyendo con este importante sector al mismo tiempo que afrontamos de forma responsable nuestra realidad fiscal y cumplimos con las metas establecidas en el Plan Fiscal aprobado por la Junta de manera que podamos encaminarnos hacia la recuperación económica.

Arbitrios a cigarrillos y productos del tabaco

Ante la necesidad de allegar más ingresos con miras a cumplir con el Plan Fiscal, proteger los empleos públicos y a nuestros sectores más vulnerables, proponemos una reconfiguración de los arbitrios aplicables a los cigarrillos, tabaco sin humo, productos derivados del tabaco, así como cigarrillos electrónicos. Con esta reconfiguración de los

arbitrios aplicables a estos productos se aumenta la base sujeta a arbitrios y se aumentan las tasas actuales para cumplir con un propósito dual: además de allegar fondos para lograr balancear el presupuesto y cumplir con los parámetros consignados en el Plan Fiscal, también logramos desalentar el consumo de cigarrillos y la compra de tabaco, lo cual, como es conocido, resulta en detrimento a la salud pública y está asociado al incremento en la incidencia de enfermedades en las vías respiratorias y de distintos tipos de cáncer.

Una de las causas más preocupantes de muerte entre la población se debe al uso de tabaco. Sin embargo, esta causal es altamente prevenible. El informe del Cirujano General de los Estados Unidos sobre "Las Consecuencias de Fumar en la Salud" confirma que el fumar está relacionado a veintinueve (29) enfermedades crónicas tales como: cáncer en la vesícula, cervical, esófago, riñones, laringe, pulmones, oral, páncreas, estómago, leucemia, enfermedades cardiovasculares, entre muchas otras. Asimismo se indica que el humo del tabaco puede producir coágulos sanguíneos, ataques cardiacos y accidentes cerebrovasculares repentinos. Recientemente se han encontrado más enfermedades causadas por el uso de cigarrillos tales como cáncer de hígado y color rectal, diabetes, artritis, inflamación y deterioro de la función inmunitaria. Véase Resumen Ejecutivo del Informe de la Dirección General de Servicios de Salud de los Estados Unidos, Las Consecuencias del Tabaquismo en la Salud - 50 años de Progreso, pág. 2 (2014).

De hecho, en el período 2005-2009, el tabaquismo fue el causante de más de 480,000 muertes prematuras anuales en personas de 35 años de edad o más en los Estados Unidos. A su vez, más del 87% de las muertes por cáncer de pulmón, 61% de las muertes por enfermedad pulmonar y 32% de las muertes por enfermedad coronaria, fueron atribuibles al tabaquismo y a la exposición al humo de segunda mano. *Id.*, pág. 3.

Por su parte el Center for Disease Control and Prevention (CDC) señala que para el 2016, la mayor causa de muerte, discapacidades y de enfermedades prevenibles en Estados Unidos es a consecuencia del uso del tabaco. Cada año casi medio millón de americanos muere prematuramente por fumar o por estar expuesto al humo del cigarrillo, y otros 16 millones viven con enfermedades serias causadas por fumar cigarrillos. Además, los fumadores de cigarrillos se tienen que ausentar más a sus trabajos, visitar más a sus doctores, ser hospitalizados con mayor frecuencia, y mueren 10 o 12 años antes que las personas que no son fumadores. Lo anterior sin contar que para tratar enfermedades relacionadas al uso del cigarrillo, los Estados Unidos gastan casi 170 millones de dólares anualmente. Véase <https://www.cdc.gov/chronicdisease/resources/publications/aag/tobacco-use.htm>.

El impacto indirecto del cigarrillo también es altamente detrimental para la salud. En específico, la exposición al humo de segunda mano tiene un efecto nocivo en los niños. Se ha relacionado con el síndrome de la muerte repentina de infantes (sudden infant

death syndrome), enfermedades respiratorias agudas, infecciones de oído y ataques de asma. Lo más inquietante es que alrededor del 25% de las personas que no fuman en Estados Unidos, (58 millones aproximadamente) están expuestos al humo de segunda mano, incluyendo 15 millones de niños entre las edades de 3 a 11 años. *Id.*

Según los datos del CDC, para el 2015 en Estados Unidos cerca de 15.1% de la población mayor de 18 años de edad fumaba cigarrillos, lo que se estima en 36.5 millones de personas. De estos, 16.7% son hombres y 13.6% mujeres. En Puerto Rico, aunque el porcentaje es menor, todavía sobre pasa el doble dígito. Las estadísticas del Departamento de Salud de Puerto Rico demuestran que para el 2015 el 10.7% de la población general de 18 años o más fuman cigarrillos con regularidad. De estos, 15.7% son hombres y 7.4% mujeres. Se trata de un porcentaje significativo si tomamos en consideración el efecto que tiene el humo de segunda mano. A lo anterior hay que añadir que el gobierno tiene que incurrir en costos significativos producidos por las consecuencias a la salud que conlleva fumar.

Al presente, cada cajetilla de cigarrillos paga \$3.40 en arbitrios, lo que, para el Año Fiscal 2014-2015, se tradujo en un recaudo de \$156 millones por concepto de dicho arbitrio. Sin embargo, nuestro gobierno gasta \$19.16 en costos de salud y pérdida de productividad por cada cajetilla de cigarrillos consumida, lo que se traduce en \$924 millones. Es decir, el Gobierno gasta \$15.76 más de lo que recauda, por cada cajetilla de cigarrillo vendida para atender las consecuencias que ocasiona el uso de cigarrillos, lo que significa una diferencia global de \$768 millones. Como resultado, el aumento a los impuestos sobre el tabaco se considera como una medida sumamente costo-efectiva para mejorar la salud pública y para obtener recaudos fiscales a corto y largo plazo.

Por otro lado, el Comité Científico de Asesoramiento sobre la Reglamentación de los Productos del Tabaco de la Organización Mundial de la Salud ha dicho que el consumo de tabaco no fumable es una parte importante del problema general del tabaco en el mundo. En su informe sobre el tabaco sin humo expresa que existen los siguientes daños potenciales: a) el uso puede alentar a los individuos a consumir dichos productos, además de seguir fumando; b) el consumo de productos no fumables del tabaco incrementa la posibilidad de iniciarse posteriormente en el consumo de tabaco fumado; c) los niños que aún no han comenzado a fumar podrían empezar a consumir tabaco mediante el fácil acceso al tabaco no fumable; d) no se descarta la posibilidad de que el "smokeless tobacco" produzca daños considerables a largo plazo en la salud de sus consumidores como el aumento del riesgo a desarrollar cáncer oral; y e) los riesgos de crear adicción son considerables ya que en su mayoría tienen componentes peligrosos como la nicotina y las nitrosaminas. Asimismo, el Cirujano General de Estados Unidos de América ha determinado que el uso del "tabaco sin humo" puede ocasionar, además del cáncer oral, enfermedades y condiciones relacionadas a la encía. Según el reporte titulado *The Health Consequences of Using Smokeless Tobacco: A Report of the Advisory Committee to the Surgeon General*, el uso prolongado del "tabaco sin humo" resulta en

un riesgo mayor de padecer lesiones orales como la leukoplakias tanto en adolescentes como en adultos.

Es y ha sido la política pública del Gobierno de Puerto Rico tomar medidas para promover la prevención y la cesación del uso del tabaco. Una de las modalidades que propician la prevención y la cesación del uso del tabaco son las medidas relacionadas con la implantación de impuestos a productos derivados del tabaco, sea fumable o no.

A tono con lo anteriormente expuesto, esta Asamblea Legislativa entiende meritorio que por la lucha contra la adicción a la nicotina, por los gastos de servicios médicos a pacientes por enfermedades relacionadas y creadas por la adicción a productos derivados del tabaco, por el evidente costo y pérdidas en la productividad laboral y en la economía en general y por la necesidad de hacer llegar más ingresos al erario para cumplir con el Plan Fiscal y evitar recortes que puedan afectar a nuestros sectores más vulnerables, se aumente el arbitrio actual al tabaco sin humo y a los cigarrillos.

Fondo de Emergencia

La Ley Núm. 91 de 21 de junio de 1966, según enmendada, crea el Fondo de Emergencia, con el propósito de reunir los recursos necesarios para afrontar las necesidades públicas inesperadas e imprevistas, causadas por calamidades, tales como guerras, huracanes, terremotos, sequías, inundaciones, plagas, y con el fin de proteger las vidas y propiedades de las gentes, y el crédito público.

Entre otras disposiciones, la Ley Núm. 91, ante citada, establece que con los recursos asignados al Fondo de Emergencia podrían financiarse los gastos de funcionamiento de la Agencia Estatal para el Manejo de Emergencias y Administración de Desastres; que el mencionado Fondo será capitalizado anualmente por una cantidad no menor de un quinto del uno por ciento (0.2%) del total de la Resolución Conjunta del Presupuesto; que la referida aportación será de una cantidad no menor del uno por ciento (1%) del total de las rentas netas del año fiscal anterior; y que el balance del mismo nunca exceda de ciento cincuenta millones (150,000,000) de dólares, lo que sea mayor. Sin embargo, en esta última década reiteradamente se ha legislado para que el Fondo de Emergencia no se nutra durante determinados años fiscales. Lo que comenzó como una medida de carácter transitorio iniciada en el Año Fiscal 2006-2007, se convirtió en una medida que desde entonces se ha repetido de forma continua en la mayoría de los años fiscales.

Esta Administración reconoce que, ante la grave situación fiscal que confronta el gobierno, es fundamental implementar una nueva metodología para el desarrollo, preparación y ejecución del presupuesto gubernamental, que permita reducir notablemente el gasto del Estado sin disminuir la cantidad y calidad de los servicios prestados, eliminando servicios ineficaces y programas inadecuados u obsoletos. En este

sentido, es importante establecer y mantener una reserva líquida para atender necesidades públicas inesperadas e imprevistas, como las inicialmente descritas, pero considerando que la aportación a dicho Fondo debe realizarse acorde la situación fiscal. Ante ello, se establece que la aportación al Fondo de Emergencia por la cantidad de diez millones de dólares (\$10,000,000) se mantendrá fija hasta el Año Fiscal 2020-2021. Además, a partir del Año Fiscal 2020-2021, dicha aportación será no menor de cero punto cinco por ciento (0.5%) del estimado de rentas netas sometido por el Departamento de Hacienda para la preparación del Presupuesto Recomendado con cargo al Fondo General.

Conforme a lo anterior, esta Asamblea Legislativa considera necesario enmendar la Ley Núm. 91 de 21 de julio de 1966, según enmendada y conocida como "Fondo de Emergencia" para alcanzar un uso más eficiente de los recursos disponibles y garantizar la disponibilidad de los mismos para atender situaciones de emergencia o desastre que afecten a la Isla durante este período de años.

El camino a la recuperación comenzó

Aunque son muchos los obstáculos que debemos superar en el camino hacia la recuperación definitiva, hay esperanza y optimismo en nuestra gente. Hay un nuevo amanecer en nuestra patria y no podemos defraudar a Puerto Rico. Tenemos que aprovechar este momento para enfrentar los retos, y procurar los grandes cambios que Puerto Rico necesita. Debemos enfrentar la crisis como un gran reto, que podemos traducir en grandes oportunidades. Ese es el desafío que nos puede llevar a edificar una sociedad más justa, digna y progresista. Por ello, la Ley 7-2017 realiza el más importante paso para la recuperación económica, social y política de Puerto Rico al encaminar un proceso de descolonización inmediata de la Isla.

Ahora damos inicio a un proceso para transformar el Gobierno en uno más eficiente, rehabilitando sus finanzas y recobrando la confianza y la credibilidad perdida. Nos encaminamos a tener un Gobierno que elimine los gastos perdidosos. Un gobierno más ágil, que te pueda rendir cuentas. Un gobierno donde cada dólar de contribución se vea en acción y servicios al Pueblo. Ahora nos levantamos con más fuerza que nunca, para vivir en una sociedad donde las oportunidades estén accesibles para cada hijo de esta tierra y donde todos estemos orgullosos de haber cumplido con nuestra patria.

DECRÉTASE POR LA ASAMBLEA LEGISLATIVA DE PUERTO RICO:

CAPÍTULO 1.-DISPOSICIONES INICIALES

Artículo 1.01.-Título.

Esta Ley se conocerá y podrá ser citada como "Ley de Cumplimiento con el Plan Fiscal".

Artículo 1.02.-Primacía de esta Ley

Esta Ley en su totalidad se aprueba en el ejercicio del poder de razón del Estado, así como en la facultad constitucional que tiene la Asamblea Legislativa, reconocida en el Artículo II, Secciones 18 y 19 de la Constitución de Puerto Rico, de aprobar leyes en protección de la vida, la salud y el bienestar del pueblo, así como en casos de grave emergencia cuando estén claramente en peligro la salud, la seguridad pública o los servicios gubernamentales esenciales, así como al amparo de la Secciones 7 y 8 del Artículo VI de la Constitución de Puerto Rico. De igual forma, esta Ley se aprueba en virtud de las acciones que se le requieren a Puerto Rico como territorio de los Estados Unidos bajo el palio de la Ley Federal *Puerto Rico Oversight Management and Economic Stability Act* (PROMESA) y del Plan Fiscal aprobado por la Junta de Supervisión Fiscal. Por esta razón, esta Ley tendrá primacía sobre cualquier otra ley.

A partir de la fecha de aprobación de esta Ley, se deja sin efecto toda ley orgánica, ley general o especial, artículo o sección de ley, normativa, cláusulas y/o disposiciones de convenios colectivos, acuerdos, acuerdos suplementarios, órdenes administrativas, políticas, manuales de empleo, cartas circulares, certificaciones, reglamentos, reglas y condiciones de empleo, cartas normativas, planes de clasificación o retribución, cartas contractuales, y/o disposiciones aplicables exclusivamente a los beneficios marginales que podrán disfrutar los funcionarios o empleados públicos unionados o no unionados del Gobierno de Puerto Rico, incluyendo a todo empleado unionado o no unionado de las Corporaciones Públicas del Gobierno de Puerto Rico, que vaya en contra de las disposiciones de esta Ley. Esto no elimina el derecho de los sindicatos de negociar condiciones de trabajo, salarios y otras condiciones no económicas no contenidas en la presente legislación conforme al ordenamiento jurídico vigente.

Artículo 1.03.-Terminación de las medidas fiscales

Se autoriza al Comité de Cumplimiento con el Plan Fiscal, tras hacer una determinación de que la situación fiscal se ha estabilizado y que la condición del fisco lo permite, a aumentar los beneficios en esta Ley concedidos y dejar sin efecto medidas de responsabilidad fiscal contenidas en el Capítulo 2.

CAPÍTULO 2.-BENEFICIOS MARGINALES DE LOS FUNCIONARIOS O EMPLEADOS PÚBLICOS DEL GOBIERNO DE PUERTO RICO

Artículo 2.01.-Aplicabilidad

Todas las disposiciones contenidas en esta Ley, serán aplicables a las Entidades de la Rama Ejecutiva del Gobierno de Puerto Rico, excepto cuando alguna disposición particular excluya expresamente a una entidad. Para propósitos de esta Ley, se entenderá que el término "Entidad de la Rama Ejecutiva" incluye a todas sus agencias, así como a las instrumentalidades y corporaciones públicas del Gobierno de Puerto Rico, irrespectivo del grado de autonomía fiscal o presupuestaria que de otra forma le confiriere su ley orgánica u otra legislación aplicable. La Universidad de Puerto Rico estará exenta de la aplicación de la presente Ley.

Artículo 2.02.-Municipios

Los municipios estarán exentos de la aplicación de este Capítulo. No obstante, quedan facultados para acogerse a sus disposiciones mediante previa aprobación de una Ordenanza Municipal a esos efectos.

Artículo 2.03.-Declaración de Política Pública

Por la presente se reafirma la Declaración de Política Pública de la Ley 3-2017, conocida como "Ley para Atender la Crisis Económica, Fiscal y Presupuestaria para Garantizar el Funcionamiento del Gobierno de Puerto Rico", en donde se establece que la responsabilidad fiscal es la clave para que Puerto Rico recupere su credibilidad ante los inversionistas y mercados financieros, restablezca su crédito y regrese al camino del manejo responsable de la deuda y de sus finanzas, logrando una eficiente reestructuración de la misma.

Se establece como política pública del Gobierno de Puerto Rico la disciplina, control y reducción de gastos en las agencias, instrumentalidades, departamentos y corporaciones públicas del Gobierno de Puerto Rico.

El Gobierno de Puerto Rico reconoce la disparidad que existe entre los beneficios marginales que reciben los empleados del Gobierno Central con aquellos que laboran en corporaciones públicas. Para mantener los empleos públicos sin despidos es necesario hacer ajustes en gastos de beneficios marginales, mientras Puerto Rico se encuentre inmerso en la crisis fiscal que lo aqueja. A tales efectos, mediante esta Ley se promueve la igualdad y uniformidad de los beneficios marginales que podrán disfrutar todos los funcionarios y empleados públicos. Todas las agencias e instrumentalidades comprendidas en el Gobierno de Puerto Rico tienen la responsabilidad de procurar que el disfrute de los beneficios marginales responda al interés legislativo que justificó su concesión y que se lleva a cabo conforme a un adecuado balance entre las necesidades del empleado y la óptima utilización de los recursos disponibles, atendiendo el momento histórico en que nos encontramos.

La política pública adoptada por la presente Ley garantiza la continuidad de la gestión pública en áreas esenciales de salud, seguridad, educación, trabajo social y desarrollo, entre otros, así como la prestación de los servicios necesarios e indispensables para la ciudadanía y protege el trabajo de miles de funcionarios y empleados públicos del Gobierno de Puerto Rico, mientras se protege a los ciudadanos más vulnerables. Por tal razón, y en cumplimiento con el Plan Fiscal aprobado conforme a la Ley Federal PROMESA, se uniformarán los beneficios marginales de los empleados públicos con fines a lograr economías adicionales.

En aras de lograr la consecución de los objetivos de la presente Ley y hacerlo de la forma menos onerosa para nuestros empleados públicos, se establece que las disposiciones de los Artículos 2.04, 2.05, 2.08 al 2.11 y 2.18 serán de duración temporera y su vigencia cesará durante el próximo año fiscal luego de que el Gobierno de Puerto Rico haya logrado un presupuesto balanceado y superado la crisis económica. Esta consideración entendemos crea el justo balance entre los objetivos de cumplir con el Plan Fiscal certificado y el interés de preservar la justicia social que enmarcan la protección de los beneficios que reciben nuestros trabajadores del sector público. Se restituirán los mismos conforme sea certificado por los miembros del Comité de Cumplimiento con el Plan Fiscal.

Para propósito de esta Ley el Comité de Cumplimiento con el Plan Fiscal estará compuesto por un representante nombrado por el Gobernador, un representante nombrado por el Presidente de la Cámara de Representantes y un representante nombrado por el Presidente del Senado de Puerto Rico. Dicho Comité establecerá mediante reglamento sus normas y funcionamiento interno.

Artículo 2.04.-Beneficios Marginales

El Gobierno de Puerto Rico es responsable de velar por el disfrute de los beneficios marginales que se les otorgan a los empleados y que los mismos se disfruten conforme a un plan que mantenga un adecuado balance entre las necesidades de servicio, las necesidades del empleado y la utilización responsable de los recursos disponibles. A fin de mantener una administración de recursos humanos uniforme, responsable, razonable, equitativa y justa, se establecen a continuación los beneficios marginales que podrán disfrutar los funcionarios o empleados públicos, unionados o no unionados, del Gobierno de Puerto Rico, incluyendo las corporaciones públicas, sujeto a lo dispuesto en el Artículo 2.03 de esta Ley.

Los beneficios marginales de los empleados de la Rama Ejecutiva serán los siguientes:

1. Licencia de vacaciones

- a. A partir de la vigencia de esta Ley, todo empleado público tendrá derecho a acumular licencia de vacaciones, a razón de uno y un cuarto (1 1/4) días por cada mes de servicio. Por estar excluidos del sistema de Empleador Único creado conforme a la Ley 8-2017, esta disposición no será de aplicación a los empleados docentes y directores escolares, a excepción del personal gerencial y administrativo del Departamento de Educación, a los empleados docentes de cualquier entidad educativa del Gobierno de Puerto Rico y a los agentes del orden público de la Policía de Puerto Rico que seguirán acumulando la licencia por vacaciones que disfrutaban antes de aprobarse la presente ley.
- b. La licencia por vacaciones se comenzará a acumular una vez el empleado cumpla los tres (3) meses en el empleo y será retroactiva a la fecha de comienzo del empleo. Los empleados a jornada regular reducida o a jornada parcial acumularán licencia de vacaciones de forma proporcional al número de horas en que presten servicios regularmente.
- c. La licencia por vacaciones se podrá acumular hasta un máximo de sesenta (60) días laborables al finalizar cualquier año natural.
- d. La licencia de vacaciones se concede al empleado para proporcionarle un período razonable de descanso anual. Como norma general, deberá ser disfrutada durante el año natural en que fue acumulada. Cada agencia o instrumentalidad pública viene obligada a formular un plan de vacaciones, por cada año natural, en coordinación con los supervisores y los empleados, que establezca el período dentro del cual cada empleado disfrutará de sus vacaciones, en la forma más compatible con las necesidades del servicio. Dicho plan deberá establecerse no más tarde del 31 de diciembre de cada año para que entre en vigor el primero de enero de cada año siguiente. Será responsabilidad de las agencias, instrumentalidades públicas y de todos los empleados dar cumplimiento estricto al referido plan. Sólo podrá hacerse excepción por necesidad clara e inaplazable del servicio, debidamente certificada.
- e. La agencia o instrumentalidad pública viene obligada a, de forma diligente y con estricto cumplimiento de lo establecido en la presente Ley, formular y administrar el plan de vacaciones de modo que los empleados no pierdan licencia de vacaciones al

finalizar el año natural y disfruten de su licencia regular de vacaciones.

- f. Todo empleado tendrá derecho a disfrutar de su licencia de vacaciones por un período de quince (15) días laborables durante cada año natural de los cuales no menos de diez (10) días deberán ser disfrutados de manera consecutiva.
- g. Los empleados que no puedan disfrutar de licencia de vacaciones durante determinado año natural por necesidades del servicio, evidenciada de forma escrita y a requerimiento de la agencia o instrumentalidad pública, están exceptuados de las disposiciones del inciso (e) de este Artículo. En este caso, la agencia o instrumentalidad pública viene obligada a realizar los ajustes necesarios para que el empleado disfrute de por lo menos, el exceso de licencia acumulada sobre el límite de sesenta (60) días, en la fecha más próxima posible, dentro del término de los primeros tres (3) meses del siguiente año natural.
- h. La agencia o instrumentalidad pública vendrá obligada a proveer para el disfrute de la licencia de vacaciones acumulada, previo al trámite de cualquier separación que constituya una desvinculación total y absoluta del servicio y al trámite de un cambio para pasar a prestar servicios en otra agencia o instrumentalidad pública.
- i. Normalmente, no se concederá licencia de vacaciones por un período mayor de quince (15) días laborables por cada año natural. No obstante, la agencia o instrumentalidad pública podrá conceder licencia de vacaciones en exceso de quince (15) días laborables, hasta un máximo de cincuenta (50) días, en cualquier año natural, a aquellos empleados que tengan licencia acumulada. Al conceder dicha licencia, se tomarán en consideración las necesidades del servicio y otros factores tales como los siguientes:
 - 1. la utilización de dicha licencia para actividades de mejoramiento personal del empleado, tales como viajes, estudios, etc.;
 - 2. enfermedad prolongada del empleado después de haber agotado el balance de licencia de enfermedad;
 - 3. problemas personales del empleado que requieran su atención personal;

4. si ha existido cancelación del disfrute de licencia por necesidades del servicio y a requerimiento de la agencia;
 5. total de licencia acumulado que tiene el empleado.
- j. Por circunstancias especiales, se podrá anticipar licencia de vacaciones a los empleados regulares que hayan prestado servicios al Gobierno de Puerto Rico por más de un (1) año, cuando se tenga la certeza de que el empleado se reintegrará al servicio. La licencia de vacaciones así anticipada no excederá de quince (15) días laborables. La concesión de licencia de vacaciones anticipada requerirá en todo caso aprobación previa por escrito de la Autoridad Nominadora. Todo empleado a quien se le hubiere anticipado licencia de vacaciones y se separe del servicio, voluntaria o involuntariamente, antes de prestar servicios por el período necesario requerido para acumular la totalidad de la licencia que le fue anticipada, vendrá obligado a reembolsar al Gobierno de Puerto Rico cualquier suma de dinero que le haya sido pagada por concepto del tal licencia anticipada.
- k. En el caso en que a un empleado se le conceda una licencia sin sueldo, no será menester que éste agote la licencia de vacaciones que tenga acumulada antes de comenzar a utilizar la licencia sin sueldo.
- l. Cuando se autorice el disfrute de licencia de vacaciones acumulada o anticipada a un empleado, se podrá autorizar el pago por adelantado de los sueldos correspondientes al período de licencia, siempre que el empleado lo solicite con suficiente anticipación. Tal autorización deberá hacerse inmediatamente después de la aprobación de la licencia.
- m. Uno o más empleados públicos podrán ceder, excepcionalmente, a otro empleado público que trabaje en la misma entidad gubernamental días acumulados de vacaciones, hasta un máximo de cinco (5) días, según lo dispuesto en la Ley 44-1996, según enmendada, conocida como "Ley de Cesión de Licencia por Vacaciones", cuando:
1. El empleado cesionario haya trabajado continuamente, el mínimo de un (1) año, con cualquier entidad gubernamental;

2. El empleado cesionario no haya incurrido en un patrón de ausencias injustificadas, faltando a las normas de la entidad gubernamental;
3. El empleado cesionario hubiere agotado la totalidad de las licencias a que tiene derecho, como consecuencia de una emergencia;
4. El empleado cesionario o su representante evidencie, fehacientemente, la emergencia y la necesidad de ausentarse por días en exceso a las licencias ya agotadas;
5. El empleado cedente haya acumulado un mínimo de quince (15) días de licencias por vacaciones en exceso de la cantidad de días de licencia a cederse;
6. El empleado cedente haya sometido por escrito a la entidad gubernamental, en la cual trabaja, una autorización accediendo a la cesión, especificando el nombre del cesionario;
7. El empleado cesionario o su representante acepte, por escrito, la cesión propuesta.

2. Licencia por enfermedad

- a. Todo empleado que haya sido contratado en el Gobierno de Puerto Rico antes de entrar en vigor la Ley 8-2017, conocida como "Ley para la Administración y Transformación de los Recursos Humanos en el Gobierno de Puerto Rico" tendrá derecho a acumular licencia por enfermedad a razón de un día y medio (1 1/2) por cada mes de servicio.
- b. Todo empleado que haya sido contratado en el Gobierno de Puerto Rico después de entrar en vigor la Ley 8-2017, conocida como "Ley para la Administración y Transformación de los Recursos Humanos en el Gobierno de Puerto Rico" tendrá derecho a acumular licencia por enfermedad a razón de un (1) día por cada mes de servicio.
- c. Los empleados a jornada regular reducida o a jornada parcial acumularán licencia por enfermedad en forma proporcional al número de horas que presten servicios regularmente.

- d. La licencia por enfermedad se utilizará cuando el empleado se encuentre enfermo, incapacitado o expuesto a una enfermedad contagiosa que requiera su ausencia del trabajo para la protección de su salud o la de otras personas.

- e. Todo empleado podrá disponer de hasta un máximo de cinco (5) días al año de los días acumulados por enfermedad, siempre y cuando mantenga un balance mínimo de doce (12) días, para solicitar una licencia especial con el fin de utilizar la misma en:
 - 1. El cuidado y atención por razón de enfermedad de sus hijos o hijas.

 - 2. Enfermedad o gestiones de personas de edad avanzada o con impedimentos dentro del núcleo familiar, entiéndase cuarto grado de consanguinidad, segundo de afinidad, o personas que vivan bajo el mismo techo o personas sobre las que se tenga custodia o tutela legal.

Disponiéndose que las gestiones a realizarse deberán ser cónsonas con el propósito de la licencia de enfermedad; es decir, al cuidado y la atención relacionada a la salud de las personas aquí comprendidas.

- a) "Persona de edad avanzada" significará toda aquella persona que tenga sesenta (60) años o más;

 - b) "Personas con impedimentos" significará toda persona que tiene un impedimento físico, mental o sensorial que limita sustancialmente una o más actividades esenciales de su vida.
- 3. Primera comparecencia de toda parte peticionaria, víctima o querellante en procedimientos administrativos y/o judiciales ante todo Departamento, Agencia, Corporación o Instrumentalidad Pública del Gobierno de Puerto Rico, en casos de peticiones de pensiones alimentarias, violencia doméstica, hostigamiento sexual en el empleo o discrimen por razón de género. El empleado presentará evidencia expedida por la autoridad competente acreditativa de tal comparecencia.

- f. La licencia por enfermedad se podrá acumular hasta un máximo de noventa (90) días laborables al finalizar cualquier año natural. La licencia por enfermedad se comenzará a acumular una vez el empleado cumpla los tres (3) meses en el empleo y será retroactiva a la fecha de comienzo del empleo.
- g. La agencia o instrumentalidad pública viene obligada a, de forma diligente y con estricto cumplimiento de lo establecido en la presente Ley, realizar todos los ajustes necesarios para que el empleado pueda hacer uso de la totalidad de la licencia por enfermedad que tenga acumulada durante cualquier año natural en el momento en que la necesite. El empleado podrá hacer uso de toda la licencia por enfermedad que tenga acumulada durante cualquier año natural.
- h. Cuando un empleado se ausente del trabajo por enfermedad por más de tres (3) días, se le podrá exigir un certificado médico, acreditativo:
 - 1. que estaba realmente enfermo, expuesto a una enfermedad contagiosa o impedido para trabajar durante el periodo de ausencia;
 - 2. sobre la enfermedad de sus hijos o hijas;
 - 3. sobre la enfermedad de personas de edad avanzada o con impedimentos dentro del núcleo familiar, entiéndase cuarto grado de consanguinidad, segundo de afinidad, o personas que vivan bajo el mismo techo o personas sobre las que se tenga custodia o tutela legal.

Además del certificado médico, se podrá corroborar la inhabilidad del empleado para asistir al trabajo por razones de enfermedad por cualquier otro medio apropiado. Lo anterior no se aplicará o interpretará de forma que se vulnere la Ley ADA ni la "Ley de Licencia Familiar y Médica de 1993" (LLFM).

- i. En casos de enfermedad en que el empleado no tenga licencia por enfermedad acumulada, se le podrá anticipar hasta un máximo de dieciocho (18) días laborables, a cualquier empleado regular que hubiere prestado servicios al Gobierno de Puerto Rico por un periodo no menor de un (1) año, cuando exista certeza razonable de que éste se reintegrará al servicio. Cualquier empleado a quien se

le hubiera anticipando licencia por enfermedad y se separe del servicio, voluntaria o involuntariamente, antes de haber prestado servicios por el periodo necesario requerido para acumular la totalidad de la licencia que le fue anticipada, vendrá obligado a reembolsar al Gobierno de Puerto Rico cualquier suma de dinero que quedare al descubierto que le haya sido pagada por concepto de dicha licencia.

- j. En casos de enfermedad prolongada, una vez agotada la licencia por enfermedad, los empleados podrán hacer uso de toda licencia de vacaciones que tuvieren acumulada, previa autorización del supervisor inmediato. Si el empleado agotase ambas licencias y continuare enfermo, se le podrá conceder licencia sin sueldo.

3. Licencia de maternidad

- a. La licencia de maternidad comprenderá el periodo de descanso prenatal y *post-partum* a que tiene derecho toda empleada embarazada. Igualmente comprenderá el periodo a que tiene derecho una empleada que adopte un menor, de conformidad con la legislación aplicable.
- b. Toda empleada en estado grávido tendrá derecho a un periodo de descanso de cuatro (4) semanas antes del alumbramiento y cuatro (4) semanas después. Disponiéndose que la empleada podrá disfrutar consecutivamente de cuatro (4) semanas adicionales para la atención y el cuidado del menor.

Alumbramiento significará el acto mediante el cual la criatura concebida es expelida del cuerpo materno por vía natural, o extraída legalmente de éste mediante procedimientos quirúrgicos-obstétricos. Comprenderá asimismo, cualquier alumbramiento prematuro, el malparto o aborto involuntario, inclusive en este último caso, aquellos inducidos legalmente por facultativos médicos, que sufre la madre en cualquier momento durante el embarazo.

- c. La empleada podrá optar por tomar hasta sólo una (1) semana de descanso prenatal y extender hasta siete (7) las semanas de descanso *post-partum* a que tiene derecho o hasta once (11) semanas, de incluirse las cuatro (4) semanas adicionales para el cuidado y atención del menor. En estos casos, la empleada deberá someter a la agencia una certificación médica acreditativa de que está en

condiciones de prestar servicios hasta una semana antes del alumbramiento.

- d. Durante el periodo de la licencia de maternidad la empleada devengará la totalidad de su sueldo.
- e. En el caso de una empleada con status transitorio, la licencia de maternidad no excederá del periodo de nombramiento.
- f. De producirse el alumbramiento antes de transcurrir las cuatro (4) semanas de haber comenzado la empleada embarazada a disfrutar de su descanso prenatal, o sin que hubiere comenzado a disfrutar éste, la empleada podrá optar por extender el descanso posterior al parto por un periodo de tiempo equivalente al que dejó de disfrutar de descanso prenatal.
- g. Cuando se estime erróneamente la fecha probable del alumbramiento y la mujer haya disfrutado de las cuatro (4) semanas de descanso prenatal, sin sobrevenirle el alumbramiento, tendrá derecho a que se extienda el periodo de descanso prenatal, a sueldo completo, hasta que sobrevenga el parto. En este caso, la empleada conservará su derecho a disfrutar de las cuatro (4) semanas de descanso posterior al parto a partir de la fecha del alumbramiento y las cuatro (4) semanas adicionales para el cuidado y atención del menor.
- h. En casos de parto prematuro, la empleada tendrá derecho a disfrutar de las ocho (8) semanas de licencia de maternidad a partir de la fecha del parto prematuro y las cuatro (4) semanas adicionales para el cuidado y atención del menor.
- i. La empleada que sufra un aborto podrá reclamar hasta un máximo de cuatro (4) semanas de licencia de maternidad. Sin embargo, para ser acreedora a tales beneficios, el aborto debe ser de tal naturaleza que le produzca los mismos efectos fisiológicos que regularmente surgen como consecuencia del parto, de acuerdo al dictamen y certificación del médico que la atiende durante el aborto.
- j. En el caso que a la empleada le sobrevenga alguna complicación posterior al parto (post-partum) que le impida regresar al trabajo al terminar el disfrute del periodo de descanso *post-partum* y las cuatro (4) semanas adicionales para el cuidado y la atención del menor, la agencia deberá concederle licencia por enfermedad.

En estos casos, se requerirá certificación médica indicativa de la condición de la empleada y del tiempo que se estime durará dicha condición. De ésta no tener licencia por enfermedad acumulada, se le concederá licencia de vacaciones. En el caso de que no tenga acumulada la licencia por enfermedad o de vacaciones, se le podrá conceder licencia sin sueldo por el término que recomiende su médico.

- k La empleada que adopte a un menor de edad preescolar, entiéndase un menor de cinco (5) años o menos, que no esté matriculado en una institución escolar, a tenor con la legislación y procedimientos legales vigentes en Puerto Rico o cualquier jurisdicción de los Estados Unidos, tendrá derecho a los mismos beneficios de licencia de maternidad a sueldo completo de que goza la empleada que tiene un alumbramiento. En el caso que adopte a un menor de seis (6) años en adelante, tendrá derecho a la licencia de maternidad a sueldo completo por el término de quince (15) días. Esta licencia comenzará a contar a partir de la fecha en que se reciba al menor en el núcleo familiar, lo cual deberá acreditarse por escrito.
- l La licencia de maternidad no se concederá a empleadas que estén en disfrute de cualquier otro tipo de licencia, con o sin sueldo. Se exceptúa de esta disposición a las empleadas a quienes se les haya autorizado licencia de vacaciones o licencias por enfermedad y a las empleadas que estén en licencia sin sueldo por efecto de complicaciones previas al alumbramiento.
- m La empleada embarazada o que adopte un menor tiene la obligación de notificar con anticipación a la agencia sobre sus planes para el disfrute de su licencia de maternidad y sus planes de reintegrarse al trabajo.
- n La agencia podrá autorizar el pago por adelantado de los sueldos correspondientes al periodo de licencia de maternidad, siempre que la empleada lo solicite con anticipación correspondiente. De la empleada reintegrarse al trabajo antes de expirar el período de descanso posterior al parto, vendrá obligada a efectuar el reembolso del balance correspondiente a la licencia de maternidad no disfrutada.
- o En caso de muerte del recién nacido previo a finalizar el periodo de licencia de maternidad, la empleada tendrá derecho a reclamar

exclusivamente aquella parte del periodo *post-partum* que complete las primeras ocho (8) semanas de licencia de maternidad no utilizada. Disponiéndose que el beneficio de las cuatro (4) semanas adicionales para el cuidado del menor, cesará a la fecha de ocurrencia del fallecimiento del (de la) niño(a). En estos casos, la empleada podrá acogerse a cualquier otra licencia a la cual tenga derecho.

- p. La empleada podrá solicitar que se le reintegre a su trabajo antes de expirar el periodo de descanso *post-partum*, siempre y cuando presente a la agencia certificación médica acreditativa de que está en condiciones de ejercer sus funciones. En este caso se entenderá que la empleada renuncia al balance correspondiente de licencia de maternidad sin disfrutar al que tendría derecho.

4. Licencia de paternidad

- a. La licencia por paternidad comprenderá el periodo de quince (15) días laborables a partir de la fecha del nacimiento del hijo o hija.
- b. Al reclamar este derecho, el empleado certificará que está legalmente casado o que cohabita con la madre del menor y que no ha incurrido en violencia doméstica. Dicha certificación se realizará mediante la presentación del formulario requerido por la agencia a tales fines, el cual contendrá además, la firma de la madre del menor.
- c. El empleado solicitará la licencia por paternidad y a la mayor brevedad posible someterá el certificado de nacimiento.
- d. Durante el periodo de la licencia por paternidad, el empleado devengará la totalidad de su sueldo.
- e. En el caso de un empleado con status transitorio, la licencia por paternidad no excederá del periodo de nombramiento.
- f. La licencia por paternidad no se concederá a empleados que estén en disfrute de cualquier otro tipo de licencia, con o sin sueldo. Se exceptúa de esta disposición a los empleados a quienes se les haya autorizado licencia de vacaciones o licencia por enfermedad.
- g. El empleado que, junto a su cónyuge o persona con quien cohabita, adopte a un menor de edad, a tenor con la legislación y procedimientos legales vigentes en Puerto Rico o cualquier

jurisdicción de los Estados Unidos, tendrá derecho a una licencia de paternidad que comprenderá el periodo de quince (15) días, a contar a partir de la fecha en que reciba al menor en el núcleo familiar, lo cual debe acreditarse por escrito. Al reclamar este derecho, el empleado certificará que está legalmente casado, en los casos en que aplique, y que no ha incurrido en violencia doméstica, delito de naturaleza sexual o maltrato de menores. Dicha certificación se realizará mediante la presentación del formulario requerido por la agencia a tales fines, el cual contendrá, además, la firma de su cónyuge.

Aquel empleado que individualmente adopte a un menor de edad preescolar, entiéndase un menor de cinco (5) años o menos que no esté matriculado en una institución escolar, a tenor con la legislación y procedimientos legales vigentes en Puerto Rico o cualquier jurisdicción de los Estados Unidos, tendrá derecho a una licencia de paternidad que comprenderá el periodo de ocho (8) semanas, a contar a partir de la fecha en que se reciba al menor en el núcleo familiar, lo cual debe acreditarse por escrito. En el caso que adopte a un menor de seis (6) años en adelante; tendrá derecho a la licencia de paternidad a sueldo completo por el término de quince (15) días.

Al reclamar este derecho el empleado certificará que no ha incurrido en violencia doméstica, ni delito de naturaleza sexual, ni maltrato de menores.

Los subincisos (d), (e) y (f) del presente inciso serán de igual aplicación en los casos en que el empleado solicite los beneficios de la licencia establecida en los párrafos anteriores.

- h. El empleado podrá solicitar que se le reintegre a su trabajo antes de expirar el periodo de licencia de paternidad a la que tiene derecho. En este caso, se entenderá que el empleado renuncia al balance correspondiente de licencia de paternidad sin disfrutar al que tendría derecho.

5. Licencia especial con paga para la lactancia

- a. Se concederá tiempo a las madres lactantes para que después de disfrutar su licencia de maternidad tengan oportunidad para lactar a sus criaturas, durante una (1) hora dentro de cada jornada de tiempo completo, que podrá ser distribuida en dos (2) periodos de

treinta (30) minutos cada uno o en tres (3) periodos de veinte (20) minutos, para acudir al lugar en donde se encuentra la criatura a lactarla, en aquellos casos en que la empresa o el patrono tenga un centro de cuidado en sus facilidades o para extraerse la leche materna en el lugar habilitado a estos efectos en su taller de trabajo. Dichos lugares deberán garantizar a la madre lactante privacidad, seguridad e higiene. El lugar debe contar con tomas de energía eléctrica y ventilación. Si la empleada está trabajando una jornada de tiempo parcial y la jornada diaria sobrepasa las cuatro (4) horas, el periodo concedido será de treinta (30) minutos por cada periodo de cuatro (4) horas consecutivas de trabajo.

- b. Dentro del taller de trabajo, el periodo de lactancia tendrá una duración máxima de doce (12) meses, contados a partir de la reincorporación de la empleada a sus funciones.
- c. Las empleadas que deseen hacer uso de este beneficio deberán presentar al patrono una certificación médica, durante el periodo correspondiente al cuarto (4to.) y octavo (8vo.) mes de edad del infante, donde se acredite y certifique que está lactando a su bebé. Dicha certificación deberá presentarse no más tarde de cinco (5) días antes de cada periodo. Disponiéndose que el patrono designará un área o espacio físico que garantice a la madre lactante privacidad, seguridad e higiene, sin que ello conlleve la creación o construcción de estructuras físicas u organizacionales, supeditado a la disponibilidad de recursos de las entidades gubernamentales. Las agencias, instrumentalidades, departamentos y corporaciones públicas del Gobierno de Puerto Rico deberán establecer un reglamento sobre la operación de estos espacios para la lactancia.

6. Licencias sin paga

- a. En el caso que cese la causa por la cual se concedió la licencia, el empleado deberá reintegrarse inmediatamente a su empleo o notificar a la agencia o instrumentalidad pública sobre las razones por las que no está disponible, o su decisión de no reintegrarse al empleo que ocupaba.
- b. Además de las licencias sin paga que puedan otorgarse por cada agencia o instrumentalidad pública mediante reglamento, se podrán conceder las siguientes:

1. A empleados de carrera con status regular, para prestar servicios en otras agencias del Gobierno de Puerto Rico o entidad privada.
 2. A empleados de carrera con status regular, para proteger el status o los derechos a que pueden ser acreedores en casos de:
 - a) Una reclamación de incapacidad ante el Sistema de Retiro del Gobierno de Puerto Rico u otra entidad, y el empleado hubiere agotado su licencia por enfermedad y de vacaciones.
 - b) Haber sufrido el empleado un accidente de trabajo y estar bajo tratamiento médico con la Corporación del Fondo del Seguro del Estado o pendiente de cualquier determinación final respecto a su accidente, y éste hubiere agotado su licencia por enfermedad y licencia de vacaciones.
 3. A empleados que así lo soliciten luego del nacimiento de un(a) hijo(a). Disponiéndose que ese tipo de licencia sin paga podrá concederse por un periodo de tiempo que no excederá de seis (6) meses, a partir de que ésta sea autorizada.
 4. A empleados con status regular que pasen a prestar servicios como empleado de confianza en la Oficina del Gobernador o en la Asamblea Legislativa, mientras estuviese prestando dichos servicios.
 5. A empleados con status regular que han sido electos en las elecciones generales o sean seleccionados para cubrir las vacantes de un cargo público electivo en la Rama Ejecutiva o Legislativa, incluyendo los cargos de Comisionado Residente en los Estados Unidos y Alcalde, mientras estuviere prestando dichos servicios.
7. Licencias especiales

Se concederán a los funcionarios o empleados públicos, sean unionados o no unionados, las siguientes licencias especiales por causa justificada, con o sin paga, según fuera el caso. Disponiéndose que las referidas licencias se regirán por las leyes especiales que las otorgan.

- a. licencia para servir como testigo- Se prohíbe a todo patrono que pueda descontar del salario o de la licencia de vacaciones o por enfermedad de sus empleados, los días y horas que un empleado debidamente citado por el Ministerio Fiscal o por un tribunal, emplee en comparecer como testigo en un caso criminal.
- b. licencia para servicio de jurado - Toda empleado que sea citado a comparecer como jurado tendrá derecho a disfrutar de una licencia con paga y a recibir compensación de su patrono por alimentación y millaje, conforme a la reglamentación establecida en cada agencia, instrumentalidad o corporación pública, como si se tratara de una gestión oficial de tal empleado o funcionario.
- c. fines judiciales - Todo empleado citado oficialmente para comparecer ante cualquier Tribunal de Justicia, Fiscalía, organismo administrativo, gubernamental o agencias de gobierno, tendrá derecho a disfrutar de licencia con paga, por el tiempo que estuviere ausente de su trabajo con motivo de tales citaciones.
- d. licencia para donar sangre - Se concede una licencia con paga, por un periodo de cuatro (4) horas al año para acudir a donar sangre, a todo empleado del Gobierno de Puerto Rico, sus instrumentalidad y corporaciones públicas.
- e. licencia para asistir a la escuela de sus hijos(as) - Todo empleado del Gobierno de Puerto Rico, sus instrumentalidades y corporaciones públicas, tendrá derecho a cuatro (4) horas laborables, sin reducción de paga ni de sus balances de licencias, durante el comienzo de cada semestre escolar y cuatro (4) horas laborables al final de cada semestre escolar para comparecer a las instituciones educativas donde cursan estudios sus hijos y conocer sobre el aprovechamiento escolar de éstos. No obstante a lo anterior, todo empleado cuyos hijos se encuentren registrados en el Programa de Educación Especial del Departamento de Educación tendrá hasta diez (10) horas por semestre para que puedan acudir a realizar gestiones relacionadas con sus hijos.
- f. licencia deportiva sin sueldo - Se concede una licencia deportiva sin sueldo para todo empleado público que esté debidamente seleccionado y certificado por la Junta para el Desarrollo del Atleta Puertorriqueño de Alto Rendimiento a Tiempo Completo como atleta en entrenamiento y entrenador para juegos Olímpicos, Paralímpicos, Panamericanos, Centroamericanos y Campeonatos

Regionales o Mundiales. Esta licencia tendrá una duración de hasta un (1) año con derecho a renovación siempre y cuando tenga la aprobación de la Junta y le sea notificado al patrono en o antes de treinta (30) días de su vencimiento. Mediante esta licencia los atletas y entrenadores elegibles podrán ausentarse de sus empleos sin pérdida de tiempo y garantizándole el empleo sin que se le afecten los beneficios y derechos adquiridos durante el periodo en que estuviera participando en dichos entrenamientos y/o competencias.

Durante el periodo de la licencia la Junta será responsable de los salarios de los participantes. Por lo tanto, vendrá obligada a hacer llegar al patrono aquella cantidad correspondiente a las deducciones legales que hasta ese momento se le hacía al empleado de manera que el patrono pueda continuar cubriendo los pagos correspondientes a dichas aportaciones.

- g. licencia deportiva especial - Se establece una licencia especial para todo empleado público que esté debidamente certificado por el Comité Olímpico de Puerto Rico como deportista para representar a Puerto Rico en Juegos Olímpicos, Juegos Paralímpicos, Juegos Panamericanos, Centroamericanos o en campeonatos regionales o mundiales. La licencia deportiva especial tendrá una duración acumulativa que no será mayor de treinta (30) días laborables por año natural.
- h. licencia para renovar la licencia de conducir - todo empleado podrá utilizar hasta dos (2) horas de su jornada de trabajo, sin cargo a licencia alguna y con paga, para renovar su licencia de conducir, siempre que la posesión de ésta sea indispensable para su trabajo por la naturaleza del mismo.
- i. licencia voluntaria de servicios de emergencia - Todo empleado que sea un voluntario certificado en servicios de desastres de la Cruz Roja Americana, podrá ausentarse de su trabajo con una licencia con paga por un período que no exceda treinta (30) días calendario en un período de doce (12) meses para participar en funciones especializadas de servicios de desastre de la Cruz Roja Americana.

La Licencia se otorgará siempre y cuando los servicios del funcionario sean solicitados por la Cruz Roja Americana y luego de la aprobación de la agencia, instrumentalidad o corporación

pública donde se desempeñe el funcionario. La Cruz Roja Americana expedirá al empleado una certificación de los servicios prestados y el tiempo de duración de esa prestación. Esa certificación la presentará el empleado a la agencia, instrumentalidad o corporación pública donde trabaja.

- j. licencia militar - Todo empleado que pertenezca a la Guardia Nacional de Puerto Rico o a las Reservas Organizadas de las Fuerzas Armadas de los Estados Unidos tendrá derecho a que se le conceda hasta un máximo de treinta (30) días de licencia con sueldo cada año cuando estuvieren prestando servicio militar, como parte de entrenamiento o para que asista a los campamentos y ejercicios que le sean requeridos.
- k. licencia para vacunar a sus hijos - Se concede hasta un máximo de dos (2) horas a todo(a) empleado(a) que así lo solicite, para vacunar a sus hijos(as) en una institución gubernamental o privada, cada vez que sea necesaria la vacunación, según se indica en la tarjeta de inmunización del (de la) hijo(a). El (la) empleado(a) debe presentar una certificación del lugar, fecha y hora en que sus hijos(as) fueron vacunados, con el fin de justificar el tiempo utilizado, según se establece para este tipo de licencia. De lo contrario, el tiempo utilizado se cargará a tiempo compensatorio, licencia de vacaciones o se descontará del sueldo.
- l. Nada de lo dispuesto en esta Ley afectará los derechos del *Federal and Medical Leave Act* (FMLA) de los empleados públicos que por ley federal estén cobijados por sus disposiciones en la actualidad.

Artículo 2.05.-Días Feriados.

Todo funcionario o empleado público del Gobierno de Puerto Rico tendrá derecho sólo a los días feriados declarados como tales por el (la) Gobernador(a) de Puerto Rico o por Ley. Los días que se enumeran a continuación serán los días feriados que disfrutarán todos los empleados públicos:

1. Día de Año Nuevo, que se celebrará el 1 de enero.
2. Día de Reyes, que se celebrará el 6 de enero.
3. Natalicio de Martin Luther King, Jr., que se celebrará el tercer lunes de enero.

4. Día de Jorge Washington, Día de los Presidentes y el Día de los Próceres Puertorriqueños: Eugenio María de Hostos, José de Diego, Luis Muñoz Rivera, José Celso Barbosa, Ramón Emeterio Betances, Román Baldorioty de Castro, Luis Muñoz Marín, Ernesto Ramos Antonini y Luis A. Ferré, que se celebrará el tercer lunes de febrero.
5. Día de la Ciudadanía Americana, que se celebrará el 2 de marzo.
6. Día de Abolición de la Esclavitud, que se celebrará el 22 de marzo.
7. Viernes Santo, cuya celebración es en fechas movibles.
8. Día de la Conmemoración de los Muertos en la Guerra (Memorial Day) que se celebrará el último lunes de mayo.
9. Día de la Independencia de los Estados Unidos, que se celebrará el 4 de julio.
10. Día del Trabajo, que se celebrará el primer lunes de septiembre.
11. Día de la Raza (Descubrimiento de América), que se celebrará el segundo lunes de octubre.
12. Día del Veterano, que se celebrará el día 11 de noviembre.
13. Día de la Cultura Puertorriqueña y el Descubrimiento de Puerto Rico, que se celebrará el 19 de noviembre.
14. Día de Acción de Gracias, que se celebrará el cuarto jueves de noviembre.
15. Día de Navidad, que se celebrará el 25 de diciembre.

Artículo 2.06.-Centros de Cuidado Diurno:

Todo funcionario o empleado del Gobierno de Puerto Rico, sus instrumentalidades y corporaciones públicas donde existan áreas que estén debidamente habilitadas para operar como Centro de Cuidado Diurno y/o ser utilizado para cuidado de niños en edades preescolares, tendrá derecho a la utilización de las mismas. Los usuarios del servicio aportarán económicamente para el mejor funcionamiento del Centro; disponiéndose, que cada agencia, instrumentalidad o corporación pública determinará cual será el pago razonable por el uso de tales facilidades y servicios.

Artículo 2.07.-Aportación patronal uniforme para plan médico para los empleados de las corporaciones públicas:

Las Ramas Ejecutiva y Legislativa identificarán ahorros y recursos adicionales para evitar afectar las aportaciones de los empleados para el pago de los planes médicos. De no poder llegar a los ahorros proyectados en el Plan Fiscal, la diferencia se logrará mediante un programa para igualar las aportaciones del Gobierno al plan médico. Solo entonces, a partir del 1 de julio de 2018, todo funcionario o empleado público, unionado o no unionado, que trabaje para alguna Corporación Pública, excluyendo a la Universidad de Puerto Rico, tendrá derecho a una aportación patronal que será determinada por el Comité de Cumplimiento con el Plan Fiscal utilizando como base las métricas establecidas en el Plan Fiscal, pero que nunca será menor de la aportación patronal mínima de cien dólares (\$100) establecida por Ley para los empleados del Gobierno Central. AAFAF podrá negociar y acordar cubiertas de seguros más económicas con aseguradoras privadas o bajo cubierta pública para la elección del empleado en el Gobierno como Empleador Único o por agencia o grupos de agencias. Cualquier reducción a la aportación patronal del plan médico requerirá que AAFAF ofrezca una cubierta de plan médico más económica a esos empleados públicos. No obstante, todo empleado de corporación pública o dependiente que actualmente se encuentre inscrito en el plan médico y que padezca de una enfermedad catastrófica, crónica o terminal preexistente mantendrá la aportación patronal vigente para su seguro médico de manera inalterada, durante todo el tiempo que permanezca vinculado en el servicio público.

Artículo 2.08.-Bonificaciones.

A partir de la vigencia de esta Ley, la única bonificación económica que se le otorgará a los empleados públicos del Gobierno Central y sus corporaciones públicas será por concepto del bono de navidad. La cantidad que los empleados tendrán derecho a recibir será de seiscientos dólares (\$600.00) en cada año en que haya prestado servicios al Gobierno de Puerto Rico durante por lo menos seis (6) meses.

Artículo 2.09.-Remuneración del Trabajo en Exceso a la Jornada Regular:

1. El programa de trabajo de cada agencia o instrumentalidad pública se formulará de tal manera que se reduzca al mínimo la necesidad de trabajo en exceso de jornada regular establecida en la agencia o instrumentalidad pública para los empleados. No obstante, por razón de la naturaleza especial de los servicios a prestarse, la necesidad de los servicios para proteger y preservar la vida y propiedad de los ciudadanos, por cualquier situación de emergencia, por eventos de fuerza mayor, disturbios atmosféricos, situaciones imprevistas o de mantenimiento necesarias para dar continuidad a un servicio esencial, se podrá requerir a los empleados

que presten servicios en exceso de su jornada de trabajo, diaria o semanal, o en cualquier día en que se suspendan los servicios sin cargo a licencia por el Gobernador. En estos casos, deberá mediar una autorización previa del supervisor del empleado, la cual deberá ser aprobada por la autoridad nominadora o por aquel funcionario en quien éste delegue. Los supervisores deberán tomar medidas para que cuando un empleado permanezca trabajando sea siempre a virtud de una autorización expresa.

- 2 Los empleados tendrán derecho a recibir tiempo compensatorio, a razón de tiempo y medio, por los servicios prestados en exceso de su jornada regular, diaria o semanal, hora de tomar alimentos y por los servicios prestados en los días feriados, en los días de descanso, o en los días en que se suspendan los servicios sin cargo a licencia por el Gobernador. El tiempo compensatorio deberá ser disfrutado por el empleado dentro del período de seis (6) meses a partir de la fecha en que haya realizado el trabajo extra. Si por necesidad del servicio esto no fuera posible, se le podrá acumular el tiempo compensatorio hasta un máximo de doscientas cuarenta (240) horas. En los casos de empleados que ejerzan funciones de seguridad pública, respuestas a emergencia o actividades de temporadas, según estos términos se definen en la "Ley Federal de Normas Razonables del Trabajo", salvo por lo dispuesto en el Artículo 10 de la Ley 53-1996 y el Artículo 2.09 de la Ley 20-2017, se podrán acumular hasta cuatrocientas ochenta (480) horas. La compensación de tiempo extra en tiempo compensatorio no procede para las horas que el empleado acumule en exceso de los límites mencionados. No obstante, en el caso de los policías, según dispone el Artículo 2.09 de la Ley 20-2017, a estos se les pagará a tiempo y medio y tendrán la opción de escoger la paga de estas horas sin tener que acumularla como tiempo compensatorio y dicho pago por horas extras no estará incluido en el ingreso bruto y no tributará. Esto no aplicará a los empleados de las corporaciones públicas quienes tendrán derecho al pago de horas extras a razón de tiempo y medio desde la primera hora acumulada al tiempo establecido en esta Ley, salvo el convenio colectivo aplicable disponga para la acumulación de tiempo compensatorio.
- 3 Está excluido de las disposiciones del apartado (2) precedente cualquier empleado que realice funciones de naturaleza administrativa, ejecutiva o profesional, conforme estos términos se definen en la "Ley Federal de Normas Razonables del Trabajo".

Artículo 2.10.-Liquidación de días en exceso de vacaciones y licencia por enfermedad:

Cada agencia, instrumentalidad o corporación pública tiene que reconocerle a todo empleado público, unionado y no unionado, los balances de licencias por vacaciones y enfermedad acumuladas a la fecha de vigencia de esta Ley pero no podrá liquidar en efectivo los excesos acumulados antes de la vigencia de esta Ley.

Las agencias o instrumentalidades públicas están obligadas a establecer de forma inmediata un plan para agotar el exceso de los balances acumulados para los empleados, tanto unionados como no unionados, de manera tal, que al 31 de diciembre del 2017, no hayan acumulaciones en exceso de lo permitido en licencias de enfermedad o vacaciones; disponiéndose además, que después de esa fecha se perderá el balance en exceso que no haya sido utilizado.

A partir de la vigencia de esta Ley, ningún empleado público, sea unionado o no unionado, que trabaje para el Gobierno de Puerto Rico en alguna de sus agencias, instrumentalidades o corporaciones públicas tendrá derecho al pago de la liquidación de días en exceso por concepto de vacaciones o enfermedad.

Artículo 2.11.-Liquidación final de licencia de vacaciones acumulada en caso de desvinculación del empleado del servicio público:

A partir de la vigencia de esta Ley, cualquier empleado público, sea unionado o no unionado, solamente tendrá derecho al pago de una liquidación final de los días que tenga disponibles en concepto de licencia de vacaciones al momento del cese de servicios, lo cual nunca podrá ser mayor de sesenta (60) días. El empleado podrá autorizar para que se destine dicho balance y/o exceso preexistente a la aprobación de esta Ley a su Sistema de Retiro para que cotice como tiempo trabajado.

Artículo 2.11(a).-Se enmienda el Artículo 3 de la Ley Núm. 125 de 10 de junio de 1967, según enmendada, para que lea como sigue:

“El Gobernador reglamentará todo lo relativo a la concesión y disfrute de licencias y la cuantía del pago de compensación final, incluyendo el pago a los beneficiarios en caso de muerte, a los funcionarios nombrados por él, con excepción de los miembros de la Judicatura, los fiscales, procuradores y registradores de la propiedad. A los efectos del pago de compensación final, que en ningún caso excederá el equivalente a dos (2) meses de sueldo, el Gobernador tomará en consideración, entre otros, factores tales como las necesidades del servicio, tiempo durante el cual ejerció el cargo y situación fiscal de la agencia o entidad gubernamental, la naturaleza de las funciones desempeñadas y los créditos de licencia de vacaciones acumuladas en empleos anteriores en el Gobierno y no disfrutada al pasar a ocupar puestos de nombramiento por el Gobernador. Aquellas personas que hayan recibido el pago por una compensación final, según las disposiciones de esta Ley, vendrán obligadas a devolver la

cantidad recibida si, por actos que acontecieron durante el ejercicio de su función pública, son convictas por los delitos de apropiación ilegal, malversación o robo, de fondos públicos; delitos contra el erario o la función pública, según tipificados en el Código Penal de Puerto Rico.

...”

Artículo 2.12.-Se enmienda la Sección 4.3 del Artículo 4 de la Ley 8-2017, conocida como “Ley para la Administración y Transformación de los Recursos Humanos en el Gobierno de Puerto Rico”, para que lea como sigue:

“Sección 4.3.-Funciones y Facultades de la Oficina y del (de la) Director(a)

Además de las funciones y facultades que se confieren en otras disposiciones de esta Ley, la Oficina y el (la) Director(a) tendrán las siguientes:

1. ...
2. Funciones y facultades de la Oficina:
 - a. Centralizar aquellas funciones del Sistema de Administración y Transformación de Recursos Humanos del Gobierno de Puerto Rico que sean compatibles con lo que se ordena en la presente Ley.
 - b. ...
 - c. ...
 - d. ...
 - e. Asesorar en el área laboral a las agencias de la Rama Ejecutiva, en todo lo relacionado con los procedimientos de elección y certificación de organizaciones sindicales, en cuanto a la negociación y administración de convenios colectivos y en todas aquellas áreas relacionadas con los asuntos laborales que dispone la Ley 45-1998 de las agencias. En el descargo de las funciones de asesoramiento en torno a la negociación colectiva conforme a la Ley 45-1998, la Oficina coordinará y supervisará la creación y funcionamiento de un Comité de Negociación compuesto por su personal y aquel que designe la Oficina de Gerencia y Presupuesto. La Oficina realizará estudios comparativos de convenios colectivos y

ofrecerá adiestramientos en el área laboral a aquellas agencias que lo soliciten.

f. ...

g. ...

h. ...

i. ...

j. ...

k. ...

l. ...

m. Administrar y mantener actualizado el Registro Central de Convocatorias para Reclutamiento, Ascenso y Adiestramiento en el Servicio Público. De igual manera, se mantendrá un registro en línea; disponiéndose que las agencias, instrumentalidades públicas, así como las corporaciones públicas, con excepción de la Oficina propia del Gobernador, de los Municipios, del Tribunal Supremo, de las Oficinas del Juez Presidente y del Administrador de los Tribunales, de las Cámaras Legislativas, y de las Legislaturas Municipales, deberán cumplir con la obligación de remitir mensualmente a la Oficina de Administración y Transformación de los Recursos los Humanos del Gobierno de Puerto Rico las oportunidades de reclutamiento y ascenso. La Oficina remitirá para entrevista candidatos del listado que mantendrá dicha Oficina. Todas las solicitudes para adiestramiento serán referidas a la Oficina de Administración y Transformación de los Recursos Humanos del Gobierno de Puerto Rico, con por lo menos treinta (30) días de anticipación a la fecha del adiestramiento. La Oficina evaluará la necesidad y conveniencia del adiestramiento y procederá a aprobar o rechazar el mismo.

n. ...

o. ...

p. ...

q. ...

r. ...

s. ...

t. ...

...”

Artículo 2.13.-Se enmienda la Sección 5.2 del Artículo 5, de la Ley 8-2017, conocida como “Ley para la Administración y Transformación de los Recursos Humanos en el Gobierno de Puerto Rico”, para que lea como sigue:

“Artículo 5.-Sistema de Administración y Transformación de los Recursos Humanos en el Gobierno de Puerto Rico

Sección 5.1.- ...

Sección 5.2.-Exclusiones

Las disposiciones de esta Ley no le serán aplicables a las siguientes agencias del Gobierno e instrumentalidades gubernamentales:

1. ...

...

5. Oficina Propia del Gobernador.

...

8. ...

No obstante, en el caso de las corporaciones públicas o público privadas, éstas deberán adoptar reglamentos de personal que incorporen el principio de mérito a la administración de sus recursos humanos, conforme lo dispone esta Ley y someterán copia de los mismos a la Oficina. La Oficina queda facultada para realizar auditorías de cumplimiento en cuanto a las áreas esenciales al principio de mérito.

De igual forma, el concepto de la movilidad y el mecanismo establecido por la Oficina para implementar el movimiento de los empleados públicos aplicará en las corporaciones públicas o público privadas, agencias que funcionan como empresas o negocios privados como las Alianzas Público Privadas Participativas (APP+P) y los municipios.”

Artículo 2.14.-Se enmienda la Sección 6.4, inciso 1 (d) e inciso 4 (1), y se añade un inciso 5 al Artículo 6 de la Ley 8-2017, conocida como “Ley para la Administración y Transformación de los Recursos Humanos en el Gobierno de Puerto Rico”, para que lea como sigue:

“Sección 6.4.-Disposiciones sobre Ascensos, Traslados, Descensos y Movilidad

...

1. ...
 - a. ...
 - b. ...
 - c. ...
 - d. ...

Por otro lado, por las cualificaciones especiales de los empleados se entenderá la experiencia adicional; los estudios académicos adicionales a los requisitos mínimos y los resultados obtenidos del Sistema de Evaluación adoptado por las Agencias y desarrollado por la Oficina.

- e. ...
2. ...
3. ...
4. Movilidad

...

1. La Oficina de Administración y Transformación de los Recursos Humanos del Gobierno de Puerto Rico, en conjunto

con la Oficina de Gerencia y Presupuesto tendrán un (1) año a partir de la aprobación de la presente Ley para crear los planes de movilidad, los cuales deben corresponder a las necesidades inmediatas en la prestación de servicios en el Gobierno de Puerto Rico.

2. ...

3. ...

4. ...

5. ...

6. ...

7. ...

8. ...

9. ...

10. ...

11. ...

12. ...

13. ...

5. Otras Acciones

- (a) Destaque -- se autoriza la asignación temporal de un funcionario o empleado de una agencia de la Rama Ejecutiva o municipio y viceversa, para brindar servicios mutuos en alguna de dichas jurisdicciones. El funcionario o empleado destacado continuará ocupando el mismo puesto y conservará todos sus derechos como funcionario o empleado de dicha agencia. El destaque es una acción administrativa que permite la maximización en la utilización de los recursos humanos de una manera costo efectiva y en atención al Principio de Mérito. Bajo circunstancias excepcionales, es permisible el uso de este mecanismo entre funcionarios y

empleados de la Rama Ejecutiva y demás Ramas de Gobierno, siempre que se restituya la retribución pagada al funcionario en destaque por la Rama que lo utiliza conforme a las directrices que a esos efectos emita la Oficina de Gerencia y Presupuesto. El destaque podrá ser utilizado por el término de un (1) año el cual podrá ser prorrogable de existir la necesidad.

- (b) Designación o Asignación Administrativa - es la designación formal y temporal que hace una autoridad nominadora a un empleado para que brinde servicios de igual naturaleza o similar, en otra dependencia de la misma agencia."

Artículo 2.15.-Se enmienda la Sección 6.8 inciso 2 (b) del Artículo 6 de la Ley 8-2017, conocida como "Ley para la Administración y Transformación de los Recursos Humanos en el Gobierno de Puerto Rico", para que lea como sigue:

"Sección 6.8.-Habilitación en el Servicio Público

...

1. ...

2. ...

a ...

b. Todo empleado público convicto a quien se le conceda una sentencia suspendida o el beneficio de libertad bajo palabra que cumpla su sentencia en la libre comunidad bajo aquellas limitaciones impuestas por los organismos del Sistema Correccional Gubernamental, podrá someter su solicitud de habilitación en cualquier momento al Departamento del Trabajo y Recursos Humanos o en su defecto, la Agencia para la cual presta servicios vendrá obligada a someterla. El empleado continuará desempeñándose en su puesto hasta tanto el Secretario del Trabajo y Recursos Humanos determine lo contrario.

c ...

d. ..."

Artículo 2.16.-Se enmienda la Sección 6.9 del Artículo 6 de la Ley 8-2017, conocida como "Ley para la Administración y Transformación de los Recursos Humanos en el Gobierno de Puerto Rico", para que lea como sigue:

"Sección 6.9.-Prohibición

A los fines de asegurar la fiel aplicación del Principio de Mérito en el Servicio Público durante períodos pre y post eleccionarios, las Autoridades Nominadoras de las agencias, instrumentalidades y corporaciones públicas del Gobierno de Puerto Rico se abstendrán de efectuar cualquier transacción de personal que incluya las áreas esenciales al Principio de Mérito, tales como nombramientos, ascensos, descensos, traslados; tampoco podrán efectuar cambios o acciones de retribución, ni cambios de categoría de puestos, ni se utilizará la movilidad de empleado durante la veda electoral. Disponiéndose que durante dicho período tampoco pueda tramitarse ni registrarse en los expedientes de personal cambios o acciones de personal de ninguna índole con efecto retroactivo. Se exceptúan de la veda los cambios como resultado de la terminación del periodo probatorio y la imposición de medidas disciplinarias. El incumplimiento de esta disposición conllevará la nulidad de la transacción efectuada. Esta prohibición comprenderá el período de dos (2) meses antes y dos (2) meses después de la celebración de las Elecciones Generales de Puerto Rico.

Previa aprobación de la Oficina, se podrá hacer excepción de esta prohibición por necesidades urgentes e inaplazables del servicio debidamente evidenciado y certificado conforme a las normas que sobre este particular emita la Oficina. Para efectos de este Artículo, necesidad urgente e inaplazable se entiende como aquellas acciones esenciales o indispensables que son menester efectuar en forma apremiante para cumplir con las funciones de la agencia, instrumentalidad o corporación pública. No incluye aquellas acciones que resulten meramente convenientes o ventajosas, cuya solución puede aplazarse hasta que se realice el trámite ordinario."

Artículo 2.17.-Se enmienda la Sección 7.2 incisos 3 y 5 del Artículo 7 de la Ley 8-2017, conocida como "Ley para la Administración y Transformación de los Recursos Humanos en el Gobierno de Puerto Rico", para que lea como sigue:

"Sección 7.2.-Normas Generales de Retribución

Las siguientes guías son aplicables a todas las agencias gubernamentales bajo esta Ley:

1. ...

2. ...
 3. La Oficina administrará el plan de retribución en relación con las áreas esenciales al principio de mérito. Estas no podrán efectuar ninguna acción que atente o sea contraria al principio de mérito en las transacciones de personal en el servicio público de carrera.
 4. ...
 5. Ninguna enmienda o modificación al sistema de evaluación o valoración de puestos podrá afectar negativamente el salario base del empleado.
- ...”

Artículo 2.18.-Se suspende la vigencia del Artículo 9 y la Sección 10.2 del Artículo 10 de la Ley 8-2017, conocida como “Ley para la Administración y Transformación de los Recursos Humanos en el Gobierno de Puerto Rico”, sujeto a las disposiciones establecidas en el Artículo 2.03 de esta Ley.

Artículo 2.19.-Nulidad

A partir de la vigencia de la presente Ley será nulo e ineficaz toda cláusula o disposición de un convenio colectivo, acuerdo, acuerdo suplementario, reglamento, orden administrativa, carta circular y/o carta contractual, en las disposiciones en que otorgue a los funcionarios o empleados públicos unionados o no unionados del Gobierno, incluyendo a todo empleado unionado o no unionado de las Corporaciones Públicas del Gobierno de Puerto Rico, mayores beneficios marginales a los autorizados en la presente Ley. La adopción de cualquier medida autorizada para cumplir con lo anterior por cualquier agencia o corporación pública del Gobierno de Puerto Rico no constituirá una violación a los convenios colectivos existentes. Tampoco constituirá una práctica ilícita.

Artículo 2.20.-Relación con otras leyes

Se mantienen en pleno vigor las siguientes leyes en relación a las disposiciones que no entren en conflicto con la presente Ley:

- a. Ley 62 de 23 de junio de 1969, según enmendada, conocida como “Código Militar de Puerto Rico”.
- b. Ley 122-1996, según enmendada, conocida como “Ley de comparecencia de empleados como testigos en casos criminales”.

- c. Ley 44-1996, según enmendada, conocida como "Ley de Cesión de Licencias por Vacaciones".
- d. Ley 203-2007, según enmendada, conocida como "Carta de Derechos del Veterano Puertorriqueño del Siglo XXI".
- e. Ley 58-1994, según enmendada, conocida como "Ley de Licencia Voluntaria de Servicios de Emergencias".
- f. Ley 122 del 12 de julio de 1986, según enmendada, conocida como "Ley de comparecencia de empleados como testigos en casos criminales".
- g. Ley 281-2003, según enmendada, conocida como "Ley para la Administración del Servicio de Jurado de Puerto Rico".
- h. Ley 24-2002, según enmendada.
- i. Ley 49 de 27 de junio de 1987, según enmendada.
- j. Ley 134-1998, según enmendada.
- k. Ley 154-2000, según enmendada.
- l. En lo relativo a los Municipios, continúa en pleno vigor y sin menoscabo alguno las disposiciones de la Ley 81-1991, según enmendada, conocida como "Ley de Municipios Autónomos de Puerto Rico". Las disposiciones de la presente Ley le aplicarán a cualquier Municipio que así lo determine al aprobar una Ordenanza Municipal a esos efectos.

Artículo 2.21.-Derogación

Se deroga la Ley 89-2016, mejor conocida como "Ley de Empleo Temporal en el Servicio Público".

CAPÍTULO 3.-ASOCIACIÓN DE SUSCRIPCIÓN CONJUNTA DEL SEGURO DE RESPONSABILIDAD OBLIGATORIO

Artículo 3.01.-Se enmienda el inciso (m) del Artículo 3 de la Ley 253-1995, según enmendada, para que lea como sigue:

"Artículo 3.-Definiciones.

Para fines de esta Ley, los siguientes términos y frases tendrán el significado que se expresa a continuación:

(a) ...

...

(m) Seguro de responsabilidad obligatorio. — Significa el seguro que exige esta Ley y que responde por los daños causados a vehículos de motor de terceros como resultado de un accidente de tránsito, por los cuales es legalmente responsable el dueño del vehículo asegurado por este seguro, y a causa de cuyo uso se ocasionan dichos daños, conforme al sistema para la determinación inicial de responsabilidad creado al amparo de esta Ley. El seguro tendrá un límite de cubierta de cuatro mil quinientos dólares (\$4,500) por accidente. El Comisionado, a solicitud de los aseguradores que proveen el seguro de responsabilidad obligatorio o *motu proprio*, podrá revisar y modificar el límite y la tarifa del seguro de responsabilidad obligatorio cada dos (2) años, conforme a las disposiciones aplicables del Capítulo 12 del Código, que tomen en consideración a todo asegurador en el mercado del Seguro de Responsabilidad Obligatoria. No obstante, el límite de la cubierta nunca será menor de tres mil quinientos dólares (\$3,500).

..."

Artículo 3.02.-Se enmiendan los incisos (f) y (h) del Artículo 6 de la Ley 253-1995, según enmendada, mejor conocida como "Ley de Seguro de Responsabilidad Obligatoria para Vehículos de Motor", para que lean como sigue:

"Artículo 6.-Asociación de Suscripción Conjunta – Creación.

(a) ...

...

(f) Las aseguradoras que suscriban el seguro de responsabilidad obligatorio, incluyendo a la Asociación de Suscripción Conjunta, una vez reciban las primas que les correspondan luego de deducido el cargo establecido en el Artículo 7(b)(1), descontarán el cinco por ciento (5%) de las mismas, según establecido en el Artículo 7(b)(2). Cada aseguradora y la Asociación de Suscripción Conjunta será responsable de remitir al Departamento de Hacienda la cantidad que corresponda al cargo sobre el total de primas suscritas durante un mes, no más tarde del día cinco (5) del mes siguiente.

El Departamento de Hacienda establecerá mediante reglamento la manera en que se realizará este pago y podrá diseñar y acordar otros métodos para el cobro por este concepto, siempre que el cambio redunde en un recaudo efectivo y constante. En la misma fecha, cada aseguradora y la Asociación de Suscripción Conjunta será responsable de remitir al Departamento de Hacienda la cantidad que corresponda al cargo establecido en el Artículo 7(b)(3). El Departamento de Hacienda establecerá mediante reglamento la manera en que se realizará este pago y podrá diseñar y acordar otros métodos para el cobro por este concepto, siempre que el cambio redunde en un recaudo efectivo y constante.

...

- (h) Todos los miembros de la Asociación de Suscripción Conjunta participarán anualmente en las ganancias y pérdidas de ésta, determinadas conforme al Estado Anual requerido a tenor con el Artículo 3.310 del Código, en el porcentaje que las primas netas directas suscritas en Puerto Rico durante el año anterior por cada uno de dichos aseguradores, para el seguro contra cualquier pérdida, gastos o responsabilidad por la pérdida o los daños causados a personas o la propiedad, resultantes de la posesión, conservación o uso de cualquier vehículo terrestre, aeronave o animales de tiro o de montura, o incidentales a los mismos, todo ello de conformidad con el Artículo 4.070 del Código, represente del total de las primas netas directas suscritas en Puerto Rico durante dicho año para esa clase de seguro.

(1) ...

(2) ...

(3) Dividendo Extraordinario y Pago Especial 2017:

- (i) Se autoriza a la Asociación de Suscripción Conjunta a declarar un dividendo extraordinario antes del 30 de junio de 2017 a sus miembros, sujeto a las disposiciones de este inciso, de una cantidad de setenta millones (70,000,000) de dólares sujeto a la imposición de una contribución especial y única de cincuenta por ciento (50%). Los dividendos que reciban los aseguradores privados miembros de la Asociación de Suscripción Conjunta no estarán sujetos a ninguna otra contribución. Los recaudos obtenidos a través de la contribución especial y única aquí dispuesta, no serán considerados como parte del cómputo de ninguna de las fórmulas existentes para el cálculo de asignaciones

presupuestarias a ser consignadas como parte del proceso presupuestario constitucional.

- (ii) En un término que no excederá de quince (15) días de aprobada esta Ley, la Junta convocará una asamblea y someterá para aprobación de todos los miembros de la Asociación de Suscripción Conjunta la declaración del dividendo extraordinario autorizado. Se dispone que el dividendo podrá ser aprobado con el voto de los miembros con una participación proporcional combinada de más de cincuenta por ciento (50%) conforme a la más reciente determinación hecha por la Oficina del Comisionado de Seguros. La determinación de la Asamblea será vinculante.
- (iii) En consideración al beneficio público de esta medida y su autorización legislativa, aplicará aquí lo dispuesto en el inciso (j) de este Artículo a las acciones tomadas por la Junta, miembros y personal de la Asociación.
- (iv) De avalarse la declaración del dividendo en la asamblea, la Asociación de Suscripción Conjunta, en un término que no excederá de noventa (90) días, realizará un pago especial de treinta y cinco millones de dólares (\$35,000,000) al Departamento de Hacienda, quien depositará los fondos en el Fondo General del Gobierno de Puerto Rico. Durante ese mismo término la Asociación de Suscripción Conjunta desembolsará a sus miembros los dividendos autorizados a tenor con la participación proporcional de cada miembro.

...".

Artículo 3.03.-Se enmiendan los incisos (a), (b) y (d) del Artículo 7 de la Ley Núm. 253 de 27 de diciembre de 1995, según enmendada, para que lean como sigue:

" Artículo 7.-Primas.-

- (a) La prima uniforme inicial del seguro de responsabilidad obligatorio será noventa y nueve dólares (\$99) por cada vehículo privado de pasajeros y ciento cuarenta y ocho dólares (\$148) por cada vehículo comercial. Se autoriza la revisión y ajuste de la prima en o antes del 30 de junio de 2017, conforme lo dispuesto en el inciso (e) de este Artículo.

El Comisionado podrá fijar una prima diferente a las establecidas en este inciso para el seguro de responsabilidad obligatorio de aquellos vehículos a los cuales el Departamento de Transportación y Obras Públicas les emita licencias transitorias o provisionales.

(b) Cargos por Servicios

1) ...

2) ...

3) Se establece un cargo administrativo adicional que será proporcional al incremento en ganancias por concepto de ajustes en la prima uniforme, conforme lo dispuesto en los incisos (a) y (e) de este Artículo. El por ciento aplicable para determinar la cuantía correspondiente en los casos de incremento de la prima será calculado dividiendo el incremento neto de la prima conforme la cantidad establecida en el inciso (a) de este Artículo, entre el costo total ajustado de la prima. El por ciento resultante será aplicado a los ingresos generados por las aseguradoras, incluyendo la Asociación de Suscripción Conjunta, luego de descontados los gastos administrativos y costos relacionados a la producción de la prima. El balance que resulte al aplicar el por ciento según establecido en esta fórmula será transferido al Fondo General del Gobierno de Puerto Rico. Este cargo no constituye una contribución sobre prima.

4) Estos cargos no aplicarán a aquellas pólizas emitidas mediante el seguro tradicional y se considerarán parte de la prima del seguro de responsabilidad obligatorio y deberán garantizarse dentro de la distribución del dólar prima.

(c) ...

(d) Todo asegurador del seguro de responsabilidad obligatorio podrá presentar para la aprobación del Comisionado reglas y planes de tarifas que contengan normas para la aplicación de recargos a la prima uniforme de los vehículos privados de pasajeros o de los vehículos comerciales que se aseguren con estos, según corresponda, sujeto a las disposiciones del Capítulo 12 del Código tomando como base la frecuencia y severidad de pérdidas de sus asegurados.

(e) ...

...".

CAPÍTULO 4.- TRANSFERENCIA DE CORPORACIONES PÚBLICAS, AGENCIAS E INSTRUMENTALIDADES AL FONDO GENERAL; CREACIÓN DEL COMITÉ Y AJUSTES DE CARGOS, DERECHOS Y TARIFAS.

Artículo 4.01.-Transferencia de Sobrantes

Se ordena a las corporaciones públicas, agencias e instrumentalidades del Gobierno de Puerto Rico a transferir al Departamento de Hacienda los sobrantes de los ingresos generados. Dichos fondos serán considerados como recursos disponibles del Estado y depositados por el Departamento de Hacienda en el Fondo General del Gobierno de Puerto Rico para cumplir con los requerimientos de liquidez contemplados en el Plan Fiscal adoptado al amparo de las disposiciones de *Puerto Rico Oversight, Management and Economic Stability Act of 2016*, Public Law 114-187, también conocida como PROMESA.

Artículo 4.02.-Comité

La cantidad de fondos que aportará cada una de las corporaciones e instrumentalidades será determinado por un comité compuesto por el Director Ejecutivo de la Autoridad de Asesoría Financiera y Agencia Fiscal de Puerto Rico, el Secretario del Departamento de Hacienda y el Director Ejecutivo de la Oficina de Gerencia y Presupuesto que podrán establecer las tarifas necesarias para cumplir con lo dispuesto en el Plan Fiscal aprobado para el Gobierno de Puerto Rico y el que rija a sus corporaciones. Este comité velará porque la transferencia de los fondos según se dispone en el Artículo 4.01 de la presente Ley no afecten los servicios que ofrecen las corporaciones públicas e instrumentalidades y que sean los sobrantes disponibles luego de haber sido cubiertos los gastos operacionales y obligaciones de dichas entidades, conforme con el presupuesto de gastos recomendado por la Oficina de Gerencia y Presupuesto para cada año fiscal.

Además, se faculta a este Comité a revisar las fuentes de ingresos de las corporaciones públicas, agencias e instrumentalidades y ajustar, aumentar o disminuir, cualquier cargo, derecho, tarifa, arancel, honorario, prima o cualquier ingreso de similar naturaleza, con el fin de cumplir con las métricas dispuestas en el Plan Fiscal del Gobierno de Puerto Rico. Además, el Comité podrá imponer un cargo administrativo adicional a aquellas contribuciones que entienda necesaria que podrá ser de cinco por ciento (5%) hasta un diez por ciento (10%), para cumplir con las métricas del Plan Fiscal certificado por la Junta de Supervisión Fiscal.

Esta Ley tendrá supremacía sobre cualquier ley que establezca cualquier cargo, derecho, tarifa, arancel, honorario, prima o cualquier ingreso de similar naturaleza y se

le autoriza al comité a revisar, aumentar o disminuir la cuantía aun cuando la misma esté dispuesta en Ley. El comité tendrá facultad de revisar, aumentar o disminuir estos ingresos sin sujeción a las disposiciones de cualquier Ley, reglamento u orden administrativa que establezca una cuantía particular a estos ingresos.

Cualquier disposición de ley, reglamento, orden administrativa, resolución corporativa, o cualquier otro documento de similar naturaleza, que restrinja o reduzca los fondos que puedan ser transferidos por una corporación pública, agencia o instrumentalidad del Gobierno de Puerto Rico al Fondo General según dispuesto en este Capítulo queda suspendida.

Se faculta al comité a promover cualquier orden administrativa, carta circular o reglamento necesario para su operación y para el cumplimiento con las disposiciones de la presente Ley.

Artículo 4.03.-Exclusiones

Se excluyen de las disposiciones de este Capítulo a la Universidad de Puerto Rico, creada por virtud de la Ley Núm. 1 de 20 de enero de 1966, según enmendada, conocida como "Ley de la Universidad de Puerto Rico", y a la Corporación Pública para la Supervisión y Seguro de Cooperativas de Puerto Rico, creada por virtud de la Ley 114-2001, según enmendada, mejor conocida como "Ley de la Corporación Pública para la Supervisión y Seguro de Cooperativas de Puerto Rico", "Ley de la Corporación de Financiamiento Municipal", mejor conocida como COFIM, Ley 19-2014, según enmendada, "Ley de la Comisión Especial Sobre Fondos Legislativos para Impacto Comunitario", Ley 20-2015 y "Ley de la Comisión Conjunta Sobre Informe especiales del Contralor", Ley Núm. 83 de 23 de junio de 1954, según enmendada. Se excluye de la aplicación de este Capítulo los fondos de las entidades y corporaciones públicas con fines comunitarios, que sean fondos recibidos por entidades privadas.

En cuanto a la "Ley del Fondo de Interés Apremiante", mejor conocida como COFINA, Ley 9-2006, según enmendada, el Ejecutivo quedará autorizado para utilizar los Fondos de COFINA, de manera ocasional, únicamente como última alternativa y sujeto a la presentación de una certificación juramentada sometida a la Asamblea Legislativa. No se entenderá por la presentación de dicha certificación que el Ejecutivo tendrá uso indefinido de los fondos de COFINA. Dicha certificación tendrá que establecer la necesidad, término y la cantidad de fondos a utilizarse, para cubrir una deficiencia significativa ocasional en el flujo de caja para cumplir con el Plan Fiscal del Gobierno de Puerto Rico. Dicha certificación será firmada y juramentada por el Director Ejecutivo de la Autoridad de Asesoría Financiera y Agencia Fiscal (AAFAF) y por el Director de la Oficina de Gerencia y Presupuesto. La firma y el juramento de estos funcionarios en la certificación será indelegable. En dicha certificación los funcionarios

acreditarán que la información es correcta, exacta y verídica conforme a la realidad fiscal del Gobierno de Puerto Rico.

Artículo 4.04.-Cláusula de Cumplimiento

Todas las transferencias realizadas en virtud de la disposiciones de este Capítulo estarán sujeta a los requisitos de la Sección 201(b)(1) (M) de la Ley Pública 114-187 conocida como *Puerto Rico Oversight, Management and Economic Stability Act or PROMESA*.

CAPÍTULO 5.-DISPOSICIÓN DE BIENES INMUEBLES DEL GOBIERNO.

Artículo 5.01.-Política Pública.

Se declara como política pública del Gobierno de Puerto Rico la mejor utilización de las propiedades inmuebles que no se estén utilizando por el Estado, con el propósito de hacerle llegar mayores recursos al erario. Además, se propicia que aquellas propiedades inmuebles que en la actualidad están en total desuso, puedan dedicarse a actividades para el bienestar común, ya sean para usos sin fines de lucro, comerciales o residenciales que promuevan la activación del mercado de bienes inmuebles y la economía en general.

Para cumplir con esta política pública, se autoriza el diseño de un procedimiento eficiente y eficaz de venta de propiedades inmuebles, donde imperen los principios de competencia, transparencia, desarrollo económico, creación de empleo, bienestar e interés público.

Artículo 5.02.-Definiciones.

Para fines de este Capítulo las siguientes palabras tendrán los siguientes significados:

- A. Bienes Inmuebles - Aquellos que no pueden moverse por sí mismos ni ser trasladados de un lugar a otro como la tierra, los edificios, etcétera; así como todos los que estén unidos a un inmueble de una manera fija, de suerte que no pueda separarse de éste sin quebrantamiento de la materia o deterioro del objeto; y que pertenezcan a las agencias, dependencias, instrumentalidades y corporaciones públicas de la Rama Ejecutiva del Gobierno de Puerto Rico.
- B. Comité - Se refiere al Comité de Evaluación y Disposición de Propiedades Inmuebles.

- C. Disposición - Proceso mediante el cual, el Gobierno de Puerto Rico cede el título de propiedad, posesión, uso o disfrute de bienes inmuebles para su mejor utilización.
- D. Subasta Pública a Viva Voz - Proceso donde se reúnen físicamente varios licitadores en un lugar y hora previamente acordada a hacer oferta directa por determinada bien inmueble anunciada previa a la subasta. La oferta se hace a viva voz, donde los restantes licitadores escuchan y conocen las ofertas.
- E. Subasta Pública en Sobre Sellado - Proceso de subasta donde los licitadores hacen su oferta secreta en un sobre sellado, cuyo procedimiento se establecerá por reglamento.
- F. Venta Directa - Proceso para disponer de una propiedad con una parte que ha cumplido con los criterios que se establezcan por reglamento.

Artículo 5.03.-Comité de Evaluación y Disposición de Bienes Inmuebles.

Se crea el Comité de Evaluación y Disposición de Bienes Inmuebles a los fines de que ejerza todas las facultades necesarias, que no sean contrarias a esta o cualquier otra ley, para la disposición de bienes inmuebles de la Rama Ejecutiva del Gobierno de Puerto Rico.

El Comité estará compuesto por los siguientes funcionarios públicos:

- a. El Director Ejecutivo de la Autoridad de Asesoría Financiera y Agencia Fiscal de Puerto Rico (AAFAF).
- b. El Director de la Oficina de Gerencia y Presupuesto.
- c. El Secretario del Departamento de Desarrollo Económico y Comercio.

El Director de Ejecutivo de la AAFAF presidirá el Comité.

El Comité se reunirá, por lo menos, una vez al mes, y cuanto sea necesario de tiempo en tiempo para agilizar los trabajos, en el lugar y la hora que estimen conveniente. Disponiéndose que los miembros del Comité no devengarán salario alguno ni compensación por concepto de dietas por el ejercicio de los deberes y facultades que le impone esta Ley. Disponiéndose además, que nada de lo aquí establecido aplicará a bienes inmuebles de la Compañía de Fomento Industrial, el Banco Gubernamental de Fomento, la Administración de Terrenos, la Autoridad del Distrito del Centro Convenciones y sus respectivas subsidiarias, en tanto y en cuanto tengan ya establecido

a la fecha de vigencia de esta Ley un proceso de venta de bienes inmuebles cónsono con este Capítulo.

Artículo 5.04.-Director Ejecutivo.

Constituido el Comité, éste designará un Director Ejecutivo, quien tendrá todos aquellos poderes que le delegue el Comité relacionados con la implantación de la política pública establecida en esta Ley. El Director Ejecutivo recomendará al Comité gestionar traslados interagenciales para integrar recursos humanos a la consecución de los objetivos de esta Ley, de conformidad con la Ley 8-2017. La Oficina del Director Ejecutivo estará ubicada en el lugar que el Comité designe para ello.

Artículo 5.05.-Facultades del Comité.

El Comité tendrá las siguientes facultades:

- a. Aprobar las reglas, reglamentos, cartas circulares y normas que sean necesarias para el ejercicio de sus funciones y deberes.
- b. Adoptar un sello oficial y alterar el mismo a su conveniencia.
- c. Demandar y ser demandado bajo su propio nombre.
- d. Negociar, otorgar contratos, tramitar la disposición de propiedad inmueble de la Rama Ejecutiva del Gobierno de Puerto Rico y todos aquellos otros instrumentos y acuerdos con cualquier persona natural o jurídica necesarios o convenientes para ejercer los poderes y funciones conferidas en esta Ley.
- e. Entablar cualquier acción judicial para proteger o poner en vigor la política pública establecida en esta Ley.
- f. Nombrar aquellos oficiales, agentes y empleados que sean necesarios para el adecuado cumplimiento de los fines y propósitos para los cuales se ha creado y para fijar sus poderes, facultades y deberes y los términos y condiciones de trabajo que establece esta Ley. Disponiéndose que los nombramientos deberán realizarse de conformidad con lo dispuesto en la Ley 8-2017.
- g. Contratar para llevar a cabo las subastas públicas a viva voz, conforme a las disposiciones de este Capítulo y los reglamentos a esos fines.

- h. Crear fideicomisos de inversión en bienes raíces de naturaleza similar a los fideicomisos definidos en la Sección 1082.01(a) de la Ley 1-2011, según enmendada, conocida como "Código de Rentas Internas para un Nuevo Puerto Rico".
- i. Aportar bienes inmuebles a cualquier fideicomiso de inversión en bienes raíces creado a tenor con el Artículo 5.05 (h) de esta Ley. La empresa que aporte conforme a este inciso el Gobierno tendrá participación en el desarrollo que realice.

Artículo 5.06.-Deberes y Obligaciones del Comité.

Con el fin de ejecutar la política pública aquí establecida, el Comité tendrá los siguientes deberes:

- a. Deberá establecer mediante reglamento un procedimiento uniforme, eficiente y efectivo para la disposición y transferencias de los bienes inmuebles de la Rama Ejecutiva del Gobierno de Puerto Rico, ya sea mediante subasta pública a viva voz, subasta pública en sobre sellado o mediante venta directa. Dicho procedimiento deberá proveer un sistema justo de competencia que garantice el interés público. El Comité deberá disponer claramente cuándo se podrá hacer una venta directa.
- b. Deberá coordinar, junto con la Junta Revisora de Propiedad Inmueble creada en virtud de la Ley 235-2014, la preparación y/o actualización de un inventario oficial de todas las propiedades inmuebles de todas las agencias, dependencias, instrumentalidades, y corporaciones públicas de la Rama Ejecutiva del Gobierno de Puerto Rico, excluyendo las propiedades de la Universidad de Puerto Rico.
- c. Deberá obtener por parte de la Junta Revisora de Propiedad Inmueble, una certificación en la que se incluyan todas las propiedades inmuebles que están disponibles para su disposición por razón de no ser necesitadas para ser habilitadas por alguna agencia, dependencia, instrumentalidad o corporación pública de la Rama Ejecutiva del Gobierno de Puerto Rico.
- d. Deberá evaluar toda solicitud de compraventa, arrendamiento, u otra forma de traspaso de posesión, de propiedad inmueble que le sea sometida por cualquier persona natural o jurídica, con o sin fines de lucro, incluyendo municipios, y asegurarse que cumpla con esta Ley y todas las normas y reglamentos que sean aprobados por el Comité.

- e. Realizar cualquier tipo de estudio, inspección, análisis, u otra gestión sobre las propiedades inmuebles, incluyendo el asegurarse que estén debidamente inscritas en el Registro de la Propiedad y que tengan el título y cualquier otro requerimiento exigido por ley al corriente.
- f. Tasar los bienes inmuebles objeto de disposición. Para ello podrá requerir y utilizar el personal necesario, utilizando el mecanismo establecido en la Ley 8-2017.

Artículo 5.07.-Disposición de Bienes Inmuebles.

La disposición de bienes inmuebles de la Rama Ejecutiva del Gobierno de Puerto Rico se regirá por un proceso que sea justo y transparente en el que se les brinden las mismas oportunidades a todos los participantes, salvaguardando siempre el interés y bienestar público. En ese tenor, toda disposición debe estar enmarcada en la consecución de los propósitos establecidos en esta Ley, manteniendo un balance entre la necesidad de allegar mayores recursos al estado, fomentar el desarrollo económico, procurar el bienestar de la sociedad y/o crear empleo.

El Comité dispondrá de los bienes inmuebles utilizando como base el justo valor en el mercado a ser determinado mediante el correspondiente procedimiento de evaluación y tasación o velando por la utilización de la propiedad para el beneficio del interés público.

El Director Ejecutivo del Comité o su representante podrán fungir como agente autorizado para llevar a cabo cualquier transacción relacionada al título del bien inmueble.

Artículo 5.08.-Conflicto de Interés.

Cualquier conflicto de interés que pueda surgir en los miembros de la Junta durante el desempeño de sus funciones al amparo de esta Ley, será atendido de conformidad a lo dispuesto en la Ley 1-2012, según enmendada, conocida como la "Ley de Ética Gubernamental de Puerto Rico de 2011".

Artículo 5.09.-Cláusula de Salvedad.

No se podrá disponer de ningún inmueble de la Rama Ejecutiva del Gobierno de Puerto Rico que esté siendo utilizado en usufructo de vivienda por cualquier persona.

CAPÍTULO 6.-LEY DE CONTABILIDAD DEL GOBIERNO DE PUERTO RICO.

Artículo 6.01.-Se enmienda el Artículo 3 de la Ley Núm. 230 de 23 de julio de 1974, según enmendada y conocida como "Ley de Contabilidad del Gobierno de Puerto Rico", a fin de añadir un nuevo inciso (o) que lea como sigue:

"Artículo 3.-Definiciones.

Cuando se usen en esta Ley, los siguientes términos significarán:

(a) ...

...

(o) Asignaciones Especiales - Asignaciones aprobadas mediante Resoluciones Conjuntas que limitan el uso de los fondos asignados."

Artículo 6.02.-Se enmienda el inciso (b) y se añade un nuevo inciso (e) al Artículo 7 de la Ley Núm. 230 de 23 de julio de 1974, según enmendada, conocida como "Ley de Contabilidad del Gobierno de Puerto Rico", para que lean como sigue:

"Artículo 7.-Ingresos de fondos públicos.

a) ...

Todos los fondos públicos de las dependencias que no estén destinados por ley a un fin específico se acreditarán al Fondo General del Tesoro Estatal y se depositarán en su totalidad en la cuenta bancaria corriente del Secretario o en cualquier otra cuenta bancaria que él crea conveniente establecer. Asimismo, se dispone que a partir del 1ro de julio de 2017, todos los fondos especiales estatales y otros ingresos de las dependencias y corporaciones públicas se depositarán en su totalidad en el Tesoro Estatal, bajo la custodia del Secretario de Hacienda o de la entidad bancaria que este determine adecuada. El Secretario de Hacienda así también, queda facultado a determinar el orden de prioridad de los desembolsos de pagos con cargo a los fondos especiales estatales y otros ingresos, conforme con el presupuesto aprobado y el Plan Fiscal, sin que esto se entienda como una limitación a los poderes conferidos al Gobernador y a la Autoridad de Asesoría Financiera y Agencia Fiscal de Puerto Rico en virtud de las disposiciones de la Ley 5-2017. Esta disposición tendrá supremacía sobre cualquier otra que contravenga o sea inconsistente con lo aquí establecido. Para cada año fiscal, cualquier cantidad en exceso de la presupuestada y autorizada por la Oficina de Gerencia y Presupuesto a las dependencias y corporaciones públicas provenientes de fondos especiales estatales ingresarán al Fondo Presupuestario creado en virtud de

la Ley Núm. 147 del 18 de junio de 1980, según enmendada. Esta disposición no será de aplicación a aquellos fondos que son asignados a los municipios en virtud del Impuesto sobre Ventas y Uso. Esta disposición no será aplicable a los fondos provenientes de donativos privados que reciben entidades de gobierno con fines sociales.

...

- e) A partir del 1ro. de julio de 2017, todos aquellos fondos especiales estatales creados por Ley para fines específicos seguirán siendo utilizados para aquellos propósitos para el cual fueron asignados por Ley, conforme con el Presupuesto Recomendado por la Oficina de Gerencia y Presupuesto y con el Plan Fiscal. Asimismo, se faculta a la Oficina de Gerencia y Presupuesto a crear una reserva bajo su custodia, según establezca mediante normativa, la cual permita el control presupuestario de toda partida de gastos con cargo a los fondos especiales estatales y otros ingresos. De existir alguna inconsistencia entre la ley y el uso de los fondos con el Plan Fiscal, prevalecerá el propósito dispuesto en el Plan Fiscal aprobado conforme a las disposiciones de la Ley Federal PROMESA."

Artículo 6.03.-Se enmiendan los incisos (h), (l) y (m) del Artículo 8 de la Ley Núm. 230 de 23 de julio de 1974, según enmendada, conocida como "Ley de Contabilidad del Gobierno de Puerto Rico", para que lean como sigue:

"Artículo 8.-Asignaciones de fondos públicos.

- (a) ...

...

- (h) Las asignaciones y los fondos sin año económico determinado, que hayan permanecido en los libros sin movimiento de desembolso u obligación por un (1) año, se considerarán para los efectos de esta Ley, como que han cumplido sus propósitos por lo que se cerrarán e ingresarán inmediatamente al Fondo General, excepto las asignaciones y los fondos sin año económico determinado asignados para llevar a cabo mejoras permanentes que hayan sido contabilizadas y llevadas a los libros. Estos tendrán un término de tres (3) años a partir de la fecha de vigencia legal de la asignación para ser desembolsados y cumplir con los propósitos para los cuales fueron asignados. Transcurrido el término de tres (3) años, los saldos obligados y no obligados de los fondos de mejoras permanentes se cerrarán e ingresarán al Fondo 301. Esta disposición solo será de aplicación a las asignaciones hechas previo al Año Fiscal 2017-2018 y no será de aplicación

a aquellas asignaciones hechas por la Asamblea Legislativa mediante Donativos Legislativos o asignaciones en virtud del Impuesto Sobre Ventas y Uso.

En aquellos casos en los cuales la agencia u organismo receptor de los fondos de mejoras permanentes entienda que debe extenderse el término de la asignación por un término mayor a tres (3) años, podrá solicitarlo justificando la necesidad de mantener estos recursos a la Oficina de Gerencia y Presupuesto por lo menos tres (3) meses antes de que se venza el referido término. Durante este período, la Oficina de Gerencia y Presupuesto analizará la petición y determinará la necesidad de mantener vigente la asignación, el término por el cual se extenderá la misma y la cantidad. Dichos recursos serán reprogramados por la Asamblea Legislativa.

(i) ...

...

(l) Cualquier asignación que permanezca un (1) año sin llevarse a los libros se considerará, como regla general, cancelada automáticamente y se requerirá nueva acción legislativa para usar los dineros así cancelados. En casos excepcionales en los que se demuestre que han mediado causas justificadas para no llevar a los libros una asignación durante el período de un (1) año estipulado, tales como la tardanza en la resolución de litigios en los tribunales y la imposibilidad de llevar a cabo una obra pública debido a dificultades fiscales, técnicas o legales, podrá contabilizarse una asignación aún después de transcurrido el mencionado período de un (1) año.

El Secretario notificará a la Asamblea Legislativa de la acción cancelando asignaciones en las circunstancias que contempla este inciso, durante los treinta (30) días subsiguientes a la fecha en que se dispuso dicha cancelación.

(m) Periódicamente, el Secretario transferirá al sobrante del Fondo General del Tesoro Estatal, de acuerdo con la ley, los balances de cuentas de depósitos que hayan permanecido sin uso o movimiento alguno en los libros de contabilidad por un (1) año y que, de acuerdo con su opinión, no fueren necesarios o no cumplan los fines para los cuales fueron creados. Disponiéndose, que cualquier reclamación que viniese el Secretario obligado a pagar con respecto a dichos balances, después de haber sido las mismas transferidas del modo antes dispuesto, será pagada de cualesquiera fondos disponibles no destinados a otras atenciones."

CAPÍTULO 7.-LEY DE RESERVAS EN LAS COMPRAS DEL GOBIERNO.

Artículo 7.01.-Se enmienda el Artículo 2 de la Ley 129-2005, según enmendada, conocida como "Ley de Reservas en las Compras del Gobierno del Estado Libre Asociado de Puerto Rico", para que lea como sigue:

"Artículo 2.-Declaración de Política Pública.

Será política pública del Gobierno de Puerto Rico, establecer un Programa de Reservas que requiera al Gobierno de Puerto Rico y sus instrumentalidades, asignar un veinte por ciento (20%) del total de la partida asignada a compras de su presupuesto general para ser otorgado a microempresas, pequeñas y medianas empresas, siempre que la situación fiscal así lo permita o produzca ahorros al fisco.

Disponiéndose que en aras de continuar fortaleciendo al sector de las microempresas, pequeñas y medianas empresas, se establece que el por ciento de reserva a esos fines continuará en aumento de forma escalonada de la siguiente forma:

1. Un treinta por ciento (30%) para el año fiscal 2016-2017;
2. Un treinta y dos por ciento (32%) para el año fiscal 2017-2018;
3. Un treinta y cinco por ciento (35%) para el año fiscal 2018-2019;
4. Un treinta y ocho por ciento (38%) para el año fiscal 2019-2020;
5. Un cuarenta por ciento (40%) para el año fiscal 2020-2021;

Este aumento escalonado se aplicará si la Oficina de Gerencia y Presupuesto establece que la situación fiscal permite el aumento o si produce un ahorro al fisco. Además, el Secretario de Hacienda estará obligado a reservar al menos un tres por ciento (3%) del flujo de efectivo que recibe para el pago de la partida de compra de materiales a las micro, pequeñas y medianas empresas cuyas facturas se hayan procesado correctamente por parte de los departamentos, agencias, instrumentalidades, dependencias, municipios y corporaciones públicas del Gobierno a las cuales le aplica esta Ley."

Artículo 7.02.-Se enmienda el inciso (1) del Artículo 6 de la Ley 129-2005, según enmendada, conocida como "Ley de Reservas en las Compras del Gobierno del Estado Libre Asociado de Puerto Rico", para que lea como sigue:

"Artículo 6.-Programa de Reservas

- (1) Se creará un nuevo objeto de gastos para colocar el veinte por ciento (20%) del presupuesto de las partidas de compra de cada agencia. Disponiéndose que el objeto de gastos del presupuesto de las partidas de compra de cada agencia aumentará a treinta por ciento (30%) para el Año Fiscal 2016-2017, a un treinta y dos por ciento (32%) para el Año Fiscal 2017-2018, a un treinta y cinco por ciento (35%) para el Año Fiscal 2018-2019, a un treinta y ocho por ciento (38%) para el Año Fiscal 2019-2020 y a un cuarenta por ciento (40%) para el Año Fiscal 2020-2021, siempre que la situación fiscal lo permita. La OGP establecerá por reglamento los requisitos para el cumplimiento con el referido por ciento de reserva.

...".

CAPÍTULO 8.-ARBITRIOS A LOS CIGARRILLOS Y PRODUCTOS DERIVADOS DEL
TABACO.

Artículo 8.01.-Se enmienda la Sección 3020.05 de la Ley 1-2011, según enmendada, para que lea como sigue:

"Sección 3020.05.-Cigarrillos

- (a) Se impondrá, pagará y cobrará, un arbitrio de diecisiete dólares (17.00) sobre cada ciento o fracción de cien (100) cigarrillos. A los fines de este Código, el término "cigarrillo" significará cualquier producto que contenga nicotina, y que esté diseñado para ser quemado o calentado bajo condiciones normales de uso, y consista de, o contenga:
 - (1) cualquier rollo de picadura de tabaco natural o sintético, o picadura de cualquier materia vegetal natural o sintética, o cualquier mezcla de los mismos, o picadura de cualquier otra materia o sustancia sólida, envuelto en papel o en cualquier sustancia o material que no contenga tabaco, el cual por su apariencia, el tipo de tabaco usado en el relleno, su envoltura o rotulación, sea susceptible de ser usado, ofrecido o comprado como un cigarrillo; y
 - (2) cuya longitud, circunferencia y peso no exceda de la longitud, circunferencia y peso máximo que establezca el Secretario mediante reglamento, carta circular, u otra determinación administrativa de carácter general.

- (b) Los cigarrillos que se fabriquen, introduzcan, vendan, traspasen, usen o consuman en Puerto Rico llevarán adherido en las cajas, paquetes o cajetillas en que fueren empaquetados una etiqueta con la información y características que por reglamento se disponga. Cada caja, paquete o cajetilla de cigarrillos deberá tener estampada en sitio visible y en forma clara y legible la palabra "tributable" o "taxable". Estas disposiciones no aplicarán a los cigarrillos exentos conforme a la Sección 3030.18 de este Código."

Artículo 8.02.-Se añade una nueva Sección 3020.05A a la Ley 1-2011, según enmendada, para que lea como sigue:

"Sección 3020.05A.-Cigarrillos, Cigarros, Tabaco Suelto, Papel de Cigarrillo y Tubos de Cigarrillo

- (a) Además de cualquier otro arbitrio fijado en este Subtítulo, se impondrá, cobrará y pagará, un arbitrio que podrá ser hasta de ocho dólares y cincuenta centavos (\$8.50) sobre cada ciento o fracción de cien (100) cigarrillos.
- (b) Se impondrá, cobrará, y pagará sobre todo cigarro, tabaco suelto, papel y tubos de cigarrillo, el arbitrio que se dispone a continuación:
- (1) Cigarros: Veinticinco dólares con cincuenta centavos (\$25.50) por cada libra o fracción de libra.
 - (2) Tabaco Suelto: Veinticinco dólares con cincuenta centavos (\$25.50) por cada libra o fracción de libra.
 - (3) Papel de cigarrillo: tres dólares (\$3.00) por cada cincuenta papeles o fracción que no exceda las seis pulgadas y media (6 ½"). De exceder las seis pulgadas y media (6 ½"), cada dos y tres cuartos (2 ¾) de pulgadas, o fracción, se considerará un (1) papel de cigarrillo.
 - (4) Tubos de cigarrillos: tres dólares (\$3.00) por cada cincuenta tubos de cigarrillos o fracción que no exceda las seis pulgadas y media (6 ½"). De exceder las seis pulgadas y media (6 ½"), cada dos y tres cuartos (2 ¾) de pulgadas, o fracción, se considerará como un tubo de cigarrillo.
- (c) Definiciones.- A los efectos de esta Sección y de cualesquiera otras disposiciones aplicables de este Subtítulo, los siguientes términos tendrán el significado que a continuación se indica:

- (1) Cigarros.- Significará cualquier producto que contenga nicotina, y que esté diseñado para ser quemado o calentado bajo condiciones normales de uso, y consista de, o contenga:
 - (i) cualquier rollo de picadura de tabaco natural o sintético, o picadura de cualquier materia vegetal natural o sintética, o cualquier mezcla de las mismas, o picadura de cualquier otra materia o sustancia sólida, envuelto en papel, hoja de tabaco o en cualquier sustancia o material, el cual por su apariencia, el tipo de tabaco usado en el relleno, su envoltura o rotulación, sea susceptible de ser usado, ofrecido o comprado como un cigarro, cigarrito, "little cigar", tabaquitos, o cualquier otro producto; y
 - (ii) que no sea un cigarrillo, según este término se define en la Sección 3020.05 de este Código.
 - (2) Tabaco suelto.- Significará cualquier tipo de tabaco, mezclado o no con cualquier otra sustancia, que no esté envuelto en material alguno y que por su apariencia, características intrínsecas, empaque o rotulación, se preste a ser utilizado y pueda ser ofrecido o comprado por los consumidores, como tabaco para hacer cigarrillos "roll your own" o para ser fumado en una pipa. Este término también incluye las hojas tersas de tabaco.
 - (3) Papel de cigarrillo.- Significará cualquier papel, o cualquier otro material excepto tabaco, que sea utilizado para enrollar cigarrillos o cigarros.
 - (4) Tubo de cigarrillo.- Significará papel de cigarrillo preparado como un cilindro hueco para utilizarse en la confección de cigarrillos o cigarros.
- (d) Los cigarros, tabaco suelto, papel de cigarrillo, y tubos de cigarrillo que se fabriquen, introduzcan, vendan, traspasen, usen o consuman en Puerto Rico llevarán adherido en las cajas, paquetes o cajetillas en que fueren empaquetados una etiqueta con la información y características que por reglamento se disponga. Cada caja, paquete, envoltura o cajetilla de cigarros, tabaco suelto, papel de cigarrillo o tubos de cigarrillo deberá tener estampada en sitio visible y en forma clara y legible la palabra "tributable" o "taxable". En aquellos casos donde el artículo sea vendido de forma

individual, el mismo deberá tener estampado en sitio visible y en forma clara y legible la palabra "tributable" o "taxable" en la forma y manera que establezca el Secretario. Estas disposiciones no aplicarán a los artículos exentos conforme a la Sección 3030.18 de este Código."

Artículo 8.03.-Se enmienda la Sección 3020.13 de la Ley 1-2011, según enmendada, para que lea como sigue:

"Sección 3020.13.-Tabaco Sin Humo

- (a) Se impondrá, pagará y cobrará, un arbitrio al "tabaco sin humo", o "smokeless tobacco", manufacturado en o importado a Puerto Rico. A los fines de este subtítulo el término "tabaco sin humo" o "smokeless tobacco" significará cualquier producto derivado del tabaco que:
 - (1) Se pretenda consumir sin crear combustión o sin ser quemado, y
 - (2) Se encuentra o se vende en empaques de aluminio, en bolsas sueltas y/o en pequeñas unidades o en "discrete single-use units" en formas de pastillas, tabletas, bolsas, cinta disoluble, entre otros.
- (b) El arbitrio impuesto por esta Sección se establecerá de la siguiente manera:
 - (1) Tabaco de mascar: un dólar (\$1.00) por cada libra o fracción de libra. A partir del 1ro. de mayo de 2017, el arbitrio será de cinco dólares (\$5.00) por cada libra o fracción de libra.
 - (2) Tabaco en polvo (snuff) o cualquier otro derivado del tabaco: tres dólares con dos centavos (\$3.02) por cada libra o fracción de libra. A partir del 1ro. de mayo de 2017, el arbitrio será de cuatro dólares con cincuenta y tres centavos (\$4.53) por cada libra o fracción de libra.
- (c) Los productos derivados del tabaco que se fabriquen, introduzcan, vendan, traspasen, usen o consuman en Puerto Rico llevarán adherido en las cajas, paquetes o cajetillas en que fueren envasados y/o empaquetados una etiqueta con la información y características que por reglamento se disponga. Cada caja, paquete, envoltura o cajetilla deberá tener estampada en sitio visible y en forma clara y legible la palabra "tributable" o "taxable". Estas disposiciones no aplicarán a los artículos exentos conforme a la Sección 3030.18 de este Código."

Artículo 8.04.-Se enmienda la Sección 3020.14 de la Ley 1-2011, según enmendada, para que lea como sigue:

"Sección 3020.14.-Asignación de Fondos

El Secretario de Hacienda ingresará lo recaudado producto de la Sección 3020.05, la Sección 3020.05A, la Sección 3020.13 y la Sección 3020.15, directamente al Fondo General."

Artículo 8.05.-Se añade una nueva Sección 3020.15 a la Ley 1-2011, según enmendada, para que lea como sigue:

"Sección 3020.15.-Cigarrillos Electrónicos, Cartuchos de Nicotina y Vaporizadores

- (a) Definiciones.- A los efectos de esta Sección y de cualesquiera otras disposiciones aplicables de este Subtítulo, los siguientes términos tendrán el significado que a continuación se indica:
- (1) Cigarrillo electrónico.- Significará cualquier tipo de producto incombustible que utilice un elemento de calefacción, fuente de energía, circuito electrónico o algún medio electrónico, químico o mecánico, que puede ser utilizado para producir vapor de nicotina o cualquier otra sustancia como solución o cualquier otra forma, el cual por su apariencia, tamaño, su envoltura o rotulación, sea susceptible de ser usado, ofrecido o comprado como un cigarrillo electrónico, cigarro electrónico o pipa electrónica.
 - (2) Cartucho de nicotina.- Significará un cartucho de vapor o cualquier otro contenedor de nicotina en una solución líquida que esté diseñado para ser utilizado con o en un cigarrillo electrónico o vaporizador.
 - (3) Vaporizador.- Significará cualquier tipo de producto incombustible que utilice un elemento de calefacción, fuente de energía, circuito electrónico o algún medio electrónico, químico o mecánico, que puede ser utilizado para producir vapor de nicotina o cualquier otra sustancia como solución o cualquier otra forma, y que no pueda ser considerado cigarrillo electrónico conforme a la definición del inciso (1) anterior. Este término incluirá, sin que se entienda como una limitación, el producto comúnmente conocido como "hookah" y los vaporizadores utilizados para el suministro de medicamentos que no estén aprobados por el *Food and Drug Administration* (FDA).
- (b) Se impondrá, pagará y cobrará, el arbitrio que a continuación se indica sobre los cigarrillos electrónicos, cartuchos de nicotina y vaporizadores:

- (1) Cigarrillo electrónico: tres dólares (\$3.00) por cada cigarrillo electrónico.
 - (2) Cartuchos de Nicotina: cinco centavos (5¢) por cada mililitro de solución de nicotina, o de cualquier sustancia, contenga o no nicotina, en cada cartucho de nicotina. Este arbitrio no será prorrateado.
 - (3) Vaporizador: seis dólares (\$6.00) por cada unidad.
- (c) Los cigarrillos electrónicos, cartuchos de nicotina y vaporizadores que se fabriquen, introduzcan, vendan, traspasen, usen o consuman en Puerto Rico llevarán adherido en las cajas, paquetes, envolturas en que fueren envasados, envueltos, o empaquetados, una etiqueta con la información y características que por reglamento se establezca, disponiéndose que en el caso de los cartuchos de nicotina estos deberán contener los mililitros actuales de solución de nicotina en la forma y manera que establezca el Secretario. Cada caja, paquete, envoltura o cajetilla deberá tener estampada en sitio visible y en forma clara y legible la palabra "tributable" o "taxable". En aquellos casos donde el artículo sea vendido de forma individual, el mismo deberá tener estampado en sitio visible y en forma clara y legible la palabra "tributable" o "taxable" en la forma y manera que establezca el Secretario. Estas disposiciones no aplicarán a los artículos exentos conforme a la Sección 3030.18 de este Código."

Artículo 8.06.-Se enmienda la Sección 3030.18 de la Ley 1-2011, según enmendada, para que lea como sigue:

"Sección 3030.18.-Exención sobre Cigarrillos, Cigarros, Tabaco Suelto, Papel de Cigarrillo, Tubos de Cigarrillo, Tabaco de Mascar, Tabaco en Polvo, Cigarrillos Electrónicos, Cartuchos de Nicotina y Vaporizadores

- (a) Estarán exentos del impuesto fijado en este Subtítulo, los cigarrillos, cigarros, tabaco suelto, papel de cigarrillo, tubos de cigarrillo, tabaco de mascar, tabaco en polvo, cigarrillos electrónicos, cartuchos de nicotina y vaporizadores, vendidos o traspasados a los barcos de matrícula extranjera y de los Estados Unidos de América y los vendidos a los barcos de guerra de países extranjeros y a los buques de países extranjeros en visita de cortesía en Puerto Rico. Esta exención solamente se concederá cuando la entrega de cigarrillos, cigarros, tabaco suelto, papel de cigarrillo, tubos de cigarrillo, tabaco de mascar, tabaco en polvo, cigarrillos electrónicos, cartuchos de nicotina y vaporizadores, se haga de acuerdo a las reglas y

procedimientos que establezca el Secretario y su violación conllevará la obligación del pago de los arbitrios que correspondan de parte del introductor o del distribuidor, según sea el caso. Todo introductor o distribuidor que desee acogerse a esta exención deberá prestar una fianza para responder por el pago de dichos arbitrios.

- (b) Asimismo, estarán exentos del pago de arbitrios los cigarrillos, cigarros, tabaco suelto, papel de cigarrillo, tubos de cigarrillo, tabaco de mascar, tabaco en polvo, cigarrillos electrónicos, cartuchos de nicotina y vaporizadores que, después de haber sido retirados de las fábricas o de los puertos, sean sacados del mercado por razón de encontrarse impropios para el consumo normal, siempre y cuando sean destruidos bajo la supervisión del Secretario. En tal caso, el Secretario reintegrará o acreditará el impuesto a la persona que lo haya pagado.
- (c) Además, estarán exentos del impuesto fijado en este Subtítulo los cigarrillos, cigarros, tabaco suelto, papel de cigarrillo, tubos de cigarrillo, tabaco de mascar, tabaco en polvo, cigarrillos electrónicos, cartuchos de nicotina y vaporizadores, cuando los mismos sean vendidos o traspasados a los usuarios, según definido en la Ley 23-1991, según enmendada, de las tiendas militares, cantinas u otras facilidades operadas por el Fideicomiso Institucional de la Guardia Nacional de Puerto Rico o su Concesionario.
- (d) Se eximen del arbitrio fijado en este Subtítulo los cigarrillos, cigarros, tabaco suelto, papel de cigarrillo, tubos de cigarrillo, tabaco de mascar, tabaco en polvo, cigarrillos electrónicos, cartuchos de nicotina y vaporizadores introducidos o fabricados en Puerto Rico para exportación, sujeto a aquellos requisitos o condiciones que imponga el Secretario por reglamento, disponiéndose que esta exención no será de aplicación a los cigarrillos, cigarros, tabaco suelto, tabaco de mascar, tabaco en polvo, papel de cigarrillo, tubos de cigarrillo, cigarrillos electrónicos, cartuchos de nicotina y vaporizadores que se vendan en Tiendas y Terminales Aéreas o Marítimos a personas que no salgan del territorio aduanero de los Estados Unidos.”

Artículo 8.07.-Se enmienda el apartado (a) de la Sección 3050.01 de la Ley 1-2011, según enmendada, para que lea como sigue:

“Sección 3050.01.-Derechos de Licencia de Traficante al Por Mayor o al Detalle de Ciertos Artículos

- (a) Todo traficante al por mayor o al detalle, en sitio fijo o ambulante, de cualesquiera de los artículos que se detallan a continuación, deberá pagar

un impuesto anual por concepto de derechos de licencia según se establece en la siguiente tabla:

TRAFICANTES	DERECHOS
Cigarrillos- Mayoristas	\$750
Cigarrillos- Detallistas Sitio Fijo, Ambulante y por cada máquina expendedora de cigarrillos	\$300
Ventas al Por Mayor desde Vehículos de Motor de Cigarrillos - por vehículo	\$300
Gasolina- Mayorista	Clase A \$6,000 Clase B \$2,500
Gasolina- Detallista	Clase A \$900 Clase B \$100
Detallista- Venta de Bebidas Alcohólicas, Cigarrillos y Partes y Accesorios de Vehículos - por local	\$200
Vehículos de Motor- Traficantes	Clase A \$1,000 Clase B \$200
Vehículos Partes y Accesorios al Por Mayor y al Detalle	Clase A \$2,000 Clase B \$800 Clase C \$100
Traficantes al Detalle en Cigarrillos y Bebidas Alcohólicas por Tiempo Limitado (15 días)	\$25
Traficantes al Detalle- "Shows Vehículos de Motor" por Tiempo Limitado (Vehículos, Partes y Accesorios) (15 días)	\$100
Cemento-Fabricante o Traficante al Por Mayor	Clase A \$250,000 Clase B \$200,000 Clase C \$80,000
Armeros-Traficantes en Armas y Municiones	\$200

(1) ...

...".

Artículo 8.08.-Se añade un nuevo apartado (d) a la Sección 6042.08 de la Ley 1-2011, según enmendada, para que lea como sigue:

"Sección 6042.08.-Delitos Relacionados con Cigarrillos

(a) ...

(b) ...

- (c) ...
- (d) Incurrirá en delito menos grave que será sancionado con multa de cinco mil (5,000) dólares toda persona que:
 - (1) adquiriera cigarrillos, cigarros, tabaco suelto, papel de cigarrillo, tubos de cigarrillo, tabaco de mascar, tabaco en polvo, cigarrillos electrónicos, cartuchos de nicotina o vaporizadores en calidad de usuario, según definido en la Ley 23-1991, según enmendada, de las tiendas militares, cantinas u otras facilidades operadas por el Fideicomiso Institucional de la Guardia Nacional de Puerto Rico o su Concesionario, y que posteriormente venda o traspase los cigarrillos, cigarros, tabaco suelto, papel de cigarrillo, tubos de cigarrillo, tabaco de mascar, tabaco en polvo, cigarrillos electrónicos, cartuchos de nicotina o vaporizadores así adquiridos a personas que no tengan derecho a la exención del apartado (c) de la Sección 3030.18 de este Código; o
 - (2) adquiriera cigarrillos, cigarros, tabaco suelto, papel de cigarrillo, tubos de cigarrillo, tabaco de mascar, tabaco en polvo, cigarrillos electrónicos, cartuchos de nicotina o vaporizadores en las tiendas denominadas "Post Exchanges" instaladas en establecimientos militares de los Estados Unidos de América en Puerto Rico, y que posteriormente venda o traspase los cigarrillos, cigarros, tabaco suelto, papel de cigarrillo, tubos de cigarrillo, tabaco de mascar, tabaco en polvo, cigarrillos electrónicos, cartuchos de nicotina o vaporizadores así adquiridos a personas que no tenga derecho a adquirir estos artículos en dichos establecimientos."

Artículo 8.09.-Se enmienda el apartado (a) de la Sección 6042.15 de la Ley 1-2011, según enmendada, para que lea como sigue:

"Sección 6042.15.-Penalidad por Dejar de Rendir la Declaración de Arbitrios y Planilla Mensual de Arbitrios

- (a) A toda persona obligada a rendir la Declaración de Arbitrios, la Planilla Mensual de Arbitrios o la Declaración de Venta que dejare de rendir dicha planilla requerida por las Secciones 3020.08(c)(8), 3020.09(c), y 3020.10, en la forma, fecha y manera allí establecidas, se le impondrá una penalidad de cien (100) dólares o del diez (10) por ciento de la obligación contributiva establecida en dicha planilla o declaración, lo que sea mayor.

(b) ...”.

Artículo 8.10.-Disposiciones transitorias

- (a) Toda persona sujeta al impuesto anual por concepto de derechos de licencia de la Sección 3050.01 de la Ley 1-2011 que al 1ro. de mayo de 2017 ostente una Licencia de Traficante al Por mayor o al Detalle vigente, estará sujeto a las nuevas tarifas dispuestas en el Artículo 8.07 de esta Ley a partir de la fecha de vencimiento del pago de los derechos de licencias correspondiente conforme al apartado (b) de la Sección 3060.08 de la Ley 1-2011.
- (b) El Secretario de Hacienda establecerá mediante reglamento, carta circular, u otra determinación administrativa de carácter general, las normas necesarias para la aplicación de estas disposiciones transitorias.

CAPÍTULO 9.-FONDO DE EMERGENCIA

Artículo 9.01.-Se enmienda el Artículo 2 de la Ley Núm. 91 de 21 de julio de 1966, según enmendada, para que lea como sigue:

“Artículo 2.-

Comenzando en el Año Fiscal 1995-96, el Fondo de Emergencia será capitalizado anualmente por una cantidad no menor de un quinto del uno por ciento (0.2%) del total de la Resolución Conjunta del Presupuesto. A partir del Año Fiscal 1998-99, dicha aportación será de una cantidad no menor del uno por ciento (1%) del total de las rentas netas del año fiscal anterior. Disponiéndose que hasta el Año Fiscal 2020-2021, dicha aportación será por la cantidad de al menos diez millones de dólares (\$10,000,000). A partir del Año Fiscal 2020-2021, dicha aportación será no menor de cero punto cinco por ciento (0.5%) del estimado de rentas netas sometido por el Departamento de Hacienda para la preparación del Presupuesto Recomendado con cargo al Fondo General. El Gobernador de Puerto Rico y el Director de la Oficina de Gerencia y Presupuesto, por delegación de este último, podrá ordenar el ingreso de cualesquiera fuentes de ingreso en el Fondo de una cantidad mayor a la aquí fijada cuando así lo creyere conveniente. El balance de dicho Fondo de Emergencia nunca excederá de ciento cincuenta millones de dólares (\$150,000,000).”

CAPÍTULO 10.- DISPOSICIONES FINALES

Artículo 10.01.-Inmunidad en cuanto a pleitos y foros.

Esta Ley no afecta la inmunidad que en cuanto a pleitos y foros tiene el Estado y sus funcionarios u oficiales. Nada de lo dispuesto en esta Ley autoriza las acciones por daños y perjuicio contra el Estado, sus funcionarios o empleados por actos u omisiones de éstos últimos, resultante del cumplimiento de esta Ley. Nada de lo aquí provisto se interpretará que constituye una renuncia de la inmunidad soberana del Gobierno de Puerto Rico.

Artículo 10.02.-Normas de Interpretación.

Las palabras y frases usadas en esta Ley se interpretarán según el contexto y el significado sancionado por el uso común y corriente y las reglas de hermenéutica reconocidas por nuestro ordenamiento jurídico.

Artículo 10.03.-Incompatibilidad.

Por la presente se deroga cualquier ley orgánica, general o especial, artículo o sección de ley, normativa, convenios colectivos, acuerdos, acuerdos suplementarios, órdenes administrativas, políticas, manuales de empleo, cartas circulares, certificaciones, reglamentos, reglas y condiciones de empleo, cartas normativas, planes de clasificación o retribución, cartas contractuales, y/o disposiciones aplicables que vayan en contra de las disposiciones de esta Ley.

Artículo 10.04.-Supremacía.

Las disposiciones de esta Ley y los reglamentos o normas que se adopten de conformidad con la misma, prevalecerán sobre cualquier otra disposición de ley, reglamento o norma que no estuviere en armonía con los primeros.

Artículo 10.05.-Separabilidad

Si cualquier cláusula, párrafo, subpárrafo, oración, palabra, letra, artículo, disposición, sección, subsección, título, capítulo, subcapítulo, acápite o parte de esta Ley fuera anulada o declarada inconstitucional, la resolución, dictamen o sentencia a tal efecto dictada no afectará, perjudicará, ni invalidará el remanente de esta Ley. El efecto de dicha sentencia quedará limitado a la cláusula, párrafo, subpárrafo, oración, palabra, letra, artículo, disposición, sección, subsección, título, capítulo, subcapítulo, acápite o parte de la misma que así hubiere sido anulada o declarada inconstitucional. Si la aplicación a una persona o a una circunstancia de cualquier cláusula, párrafo, subpárrafo, oración, palabra, letra, artículo, disposición, sección, subsección, título, capítulo, subcapítulo,

acápites o parte de esta Ley fuera invalidada o declarada inconstitucional, la resolución, dictamen o sentencia a tal efecto dictada no afectará ni invalidará la aplicación del remanente de esta Ley a aquellas personas o circunstancias en que se pueda aplicar válidamente. Es la voluntad expresa e inequívoca de esta Asamblea Legislativa que los tribunales hagan cumplir las disposiciones y la aplicación de esta Ley en la mayor medida posible, aunque se deje sin efecto, anule, invalide, perjudique o declare inconstitucional alguna de sus partes, o aunque se deje sin efecto, invalide o declare inconstitucional su aplicación a alguna persona o circunstancia. Esta Asamblea Legislativa hubiera aprobado esta Ley sin importar la determinación de separabilidad que el Tribunal pueda hacer.

Artículo 10.06.-Vigencia

Esta Ley comenzará a regir inmediatamente después de su aprobación.

DEPARTAMENTO DE ESTADO
Certificaciones, Reglamentos, Registro
de Notarios y Venta de Leyes
Certifico que es copia fiel y exacta del original
Fecha: 4 de mayo de 2017

Firma



Eduardo Arosemena Muñoz
Secretario Auxiliar
Departamento de Estado
Gobierno de Puerto Rico



GOBERNADOR DE PUERTO RICO

Ricardo Rosselló Nevares

DECLARACION EXPLICATIVA DEL GOBERNADOR DE PUERTO RICO AL
FIRMAR EL PROYECTO DE LA CAMARA 938

29 de abril de 2017

Hoy convertí en ley el Proyecto de la Cámara 938, mediante el cual se adopta la "Ley de Cumplimiento con el Plan Fiscal", a los fines de tomar las medidas necesarias para atemperar el marco legal y jurídico existente para dar el más fiel cumplimiento al Plan Fiscal aprobado por la Junta de Supervisión Fiscal creada al amparo de la Ley Federal PROMESA y para otros fines relacionados.

Esta Ley permitirá al Gobierno operar y brindar los servicios esenciales al Pueblo conforme al Plan Fiscal sin despedir empleados públicos. Por ello, esta legislación en su capítulo VI permite al Gobierno utilizar todos los fondos estatales especiales a partir del 1 de julio de 2017 para que se depositen en el Tesoro Estatal bajo la custodia del Secretario de Hacienda o de la entidad bancaria que éste determine. Ello, para poder aplicar a todos estos ingresos las normas de prioridad de pago con los ingresos de fondos estatales especiales no excluidos. Ese es el alcance del Capítulo VI de esta Ley.

Por su parte, el Capítulo IV de esta legislación se limita a sobrantes de algunas dependencias y corporaciones según determinado por el Plan Fiscal para allegar fondos adicionales al fondo general que provienen de los ajustes tarifarios a ciertos servicios según se establezcan en los planes fiscales certificados por la Junta de Supervisión Fiscal. Ello, no se refiere a otros ingresos de las corporaciones públicas salvo los determinados por ajustes tarifarios de corporaciones específicamente contenidas en los planes fiscales. Aunque se realiza en este capítulo una excepción para COFINA, la realidad es que esta corporación pública no genera sobrantes por lo que este capítulo no es de aplicabilidad para dicha entidad.

Cordialmente,

A handwritten signature in black ink, appearing to read "Ricardo Rosselló Nevares".

Ricardo Rosselló Nevares

EXHIBIT 4B

(H. B. 938)

(No. 26-2017)

(Approved April 29, 2017)

AN ACT

To create the “Fiscal Plan Compliance Act,” in order to take measures as necessary to adjust the existing legal and juridical framework so as to allow the fullest compliance with the Fiscal Plan approved by the Financial Oversight Board, created by virtue of the Federal Law PROMESA; establish a uniform fringe benefit system, which includes the Christmas bonus and the healthcare plan contribution, for all the government employees and officials of the agencies, instrumentalities, and public corporations of the Government of Puerto Rico, except for the University of Puerto Rico; amend paragraphs (a), (e), and (m) of subsection 2 of Section 4.3 of Article 4, Section 5.2 of Article 5, subsections 1(d) and 4(1) of Section 6.4, subsection 2(b) of Section 6.8, Section 6.9 of Article 6, and subsections 3 and 5 of Section 7.2 of Article 7, add a new Section 2.11(a) to amend Section 3 of Act No. 125 of June 10, 1967, as amended, suspend the effectiveness of Article 9 and Section 10.2 of Act No. 8-2017, known as the “Government of Puerto Rico Human Resources Administration and Transformation Act”; renumber current Sections 10 through 20, as Sections 9 through 19; repeal Act No. 89-2016, known as the “Public Service Temporary Employment”; amend Sections 3, 6, and 7 of Act No. 253-1995, as amended, known as the “Compulsory Motor Vehicle Liability Insurance Act,” in order to broaden the compulsory motor vehicle liability insurance coverage from four thousand dollars (\$4,000) to four thousand five hundred dollars (\$4,500); to authorize the review of premiums before June 30, 2017; to allow the members of the Joint Underwriting Association of the Compulsory Motor Vehicle Liability Insurance to report a special dividend as well as apply an incentivized tax to such dividend; provide for the distribution of the revenues collected on account of the incentivized tax and the premium adjustment to be covered into the General Fund; authorize the Government to use the surplus of public corporations as “available funds” to contribute to the General Fund; authorize a Committee composed of the heads of the Fiscal Agency and Financial Advisory Authority, the Office of Management and Budget, and the Department of the Treasury to modify the rates of public corporations in order to comply with

the metrics of the Fiscal Plan; establish the rules and principles that shall govern the sale process of real property of the Government of Puerto Rico; create a Real Property Evaluation and Disposal Committee; establish the public policy on the sale of real property; amend Sections 3, 7, and 8 of Act No. 230 of July 23, 1974, as amended, known as the “Puerto Rico Government Accounting Act,” in order to establish that appropriations and funds without specific fiscal year that have remained in the books without being disbursed or set aside for one (1) year shall be deemed to have fulfilled their purposes, and therefore, shall be closed and covered into the General Fund; provide that any special funds created by law for specific purposes shall be credited to the General Fund of the Commonwealth Fund and shall be deposited in the regular bank account of the Secretary of the Treasury for him to have full control thereof; amend Sections 2 and 6 of Act No. 129-2005, as amended, known as the “Government of the Commonwealth of Puerto Rico Procurement Reserves Act,” in order to provide that the gradual increase in the general budget’s item allocated to procurement for micro-, small-, and medium-sized businesses shall be granted if the fiscal situation of the Government so allows; to add a new Section 3020.05A and 3020.15, and amend Section 3020.05, Section 3020.13, Section 3020.14, Section 3030.14, Section 3030.18, Section 3050.01, Section 6042.08, and Section 6042.15 of Act No. 1-2011, as amended, better known as the “Internal Revenue Code for a New Puerto Rico,” in order to modify the excise tax applicable to cigarettes and tobacco byproducts to increase the liquidity, address the economic and fiscal crisis that Puerto Rico is undergoing, and to prevent any impact on the most vulnerable sectors, as well as to discourage cigarette consumption; amend Section 2 of Act No. 91 of June 21, 1966, as amended, to provide that until Fiscal Year 2020-2021 the annual contribution to the Emergency Fund shall be in the amount of ten million dollars (\$10,000,000), and that beginning in Fiscal Year 2020-2021 said contribution shall not be less than zero point five percent (0.5%) of the estimated net revenues submitted by the Department of the Treasury to prepare the Recommended Budget chargeable to the General Fund; and for other related purposes.

STATEMENT OF MOTIVES

Introduction

Puerto Rico is currently undergoing a serious, historically unprecedented fiscal and social crisis. Said crisis was caused, in part, by a lack of expenditure controls, sustainable development measures, as well as management information systems that promote clarity and transparency in government affairs.

According to data provided by the U.S. Department of the Treasury, Puerto Rico is suffering a 14.6% cumulative economic contraction in the Gross State Product (actual GSP) with a forecast of an additional 3% contraction in the next two years. For years, the Government of Puerto Rico has operated with a structural deficit that has been financed with bond issues and loans from the Government Development Bank. The Government of Puerto Rico has been lacking liquidity for over a year, and the tax refunds, the payments to contractors, pensioners' funds, and intra-governmental loans have been used to substitute sources of liquidity and to spend over the available funds. The Government Development Bank has failed to meet its obligations to bondholders since May 1, 2016, and is no longer fulfilling its duty to provide liquidity. Moreover, we have no access to the market since the policies of past administrations have lessened the credibility of the Government of Puerto Rico. The retirement systems are insolvent.

As an example of the policies that brought us to this point, there was a 64% increase in payroll expenditures from 2001 to 2008; and after a 33%-decrease between 2009 and 2012, another substantial increase followed between 2013 and 2016. To finance this excessive spending, the public debt increased 134% between 2000 and 2008. Moreover, under the philosophy of "primero impago, luego impuestos y después recortes" [first default, then taxes, and finally cuts] various measures were implemented during the previous four (4)-year term. This philosophy contributed to prolonging the excessive spending and the rejection of public policies

that would have allowed for the efficient administration of the fiscal affairs of the Government of Puerto Rico. Meanwhile, the necessary actions to achieve more efficient Government operations and cutback on government spending were not taken. Furthermore, even while the securities were plummeting and the economic debacle was underway, the Central Government was unable to produce the necessary financial information to understand the severity of the issue, and to submit accurate information to the Congress and other entities concerned with the issue. Consequently, the debt of the Government of Puerto Rico experienced several downgrades resulting in an adverse impact on all the sectors of the economy.

This crisis has greatly affected Puerto Rican families. The most vulnerable people within our society have been forced to make the greatest sacrifices, thus prompting thousands of Puerto Ricans to abandon the Island in search of better opportunities. The consequent decrease in the population has become one of the challenges to overcome in our path toward recovery.

Puerto Rico's Colonial Status

The colonial status has impaired our capacity to face and solve this crisis, since we lack the sovereign powers of a state to regulate local affairs, which powers are conferred under the Tenth Amendment to the Constitution of the United States.

For the U.S. Supreme Court, the adoption of the Constitution did not represent a change to the fundamental basis of the constitutional relationship between Puerto Rico and the United States. The Supreme Court continued to treat Puerto Rico as a political entity subject to the territory clause of the U.S. Constitution. [Our translation].

See Pueblo v. Sánchez-Valle, et seq. 192 D.P.R. 594, 631 (2015).

“There never was a transfer of sovereignty, but rather a delegation of powers.” [Our translation] *Id.*, p. 635.

This delegation of power does not constitute an irrevocable relinquishment nor a termination of the power of the Congress. The people of the United States granted the Congress vast powers to administrate the territories through the Constitution of United States of America. For such reason, the Congress cannot irrevocably yield a power that was not conferred upon it by the People of United States. [Our translation].

Id., p. 638.

Hence,

The Congress may allow the Commonwealth to remain as a political system indefinitely or, on the contrary, has the constitutional power to amend or revoke the internal administration powers exercised by the Government of Puerto Rico. In other words, Puerto Rico's internal government system is subject in its entirety to the political will and legal authority of the Congress. [Our translation]

Id., p. 641.

The sad truth is that the colonial status leaves us so defenseless that not even the U.S. citizenship that we have treasured since 1917 is guaranteed. The Congress has legislative discretion to grant privileges to citizens born in the territories, including the U.S. citizenship, but said right may be revoked at any time. In fact, the Federal Government has argued before the courts that territories do not have a right to citizenship, but that it is rather an act of legislative grace from the Congress. *See*, for example, *Tuaua v. United States*, 788 F.3d 300, (D.C. Cir. 2015).

Regarding the issue at hand, to illustrate the limitations resulting from the colonial status, it is worth noting that the states can claim the protections of the Federal bankruptcy law from which Puerto Rico was excluded and, since we do not have full representation in the Congress, there is little to nothing we can do about it.

We are also unable to enact our own legislation due to the express preemption provision of said Federal bankruptcy law, even when it leaves us unprotected. *See Puerto Rico v. Franklin Cal. Tax-Free Tr.*, 136 S. Ct 1938 (2016) (declaring unconstitutional the “Puerto Rico Public Corporation Debt Enforcement and Recovery Act,” Act No. 71-2014, better known as the “Commonwealth Bankruptcy Act.”)

The Direct Result of our Colonial Status: PROMESA

The policies of the past together with our defenselessness as a colony led the United States Congress to promulgate the Puerto Rico Oversight, Management, and Economic Stability Act, known as PROMESA, Public Law 114-187, which delegated vast powers to the Financial Oversight Board (hereinafter the “Oversight Board”). Once again, our lack of representation in the Congress resulted in the approval of said Act without the actual involvement of our People. Pursuant to PROMESA, any ongoing fiscal, budget, Legislative, or Executive actions taken in Puerto Rico, as well as any debt restructuring, whether consensual or not, issuance, guarantee, exchange, modification, repurchase, or redemption is subject to oversight.

Section 4 of PROMESA clearly provides that, “The provisions of this Act shall prevail over any general or specific provisions of territory law, State law, or regulation that is inconsistent with this Act.” In this manner, the Congress expressly stated that said Act shall supersede any state legislation that is in conflict with PROMESA. Section 8(2) reasserts this provision by providing that the Government of Puerto Rico may not enact, implement, or enforce any statute, resolution, policy, or rule that would impair or defeat the purposes of PROMESA, as determined by the Oversight Board. Hence, we cannot promulgate legislation to defeat or impair PROMESA, its provisions, and its scope.

At this juncture, it is worth mentioning that under the Tenth Amendment, the Federal Government cannot impose on a state what PROMESA allows for territories. The Congress imposed a Board on Washington, D.C., which is not a state and is under the direct jurisdiction of the Congress. The Board in New York was created by the State Legislature, not the Congress. Detroit, which is a city and not a state, participated in a volunteer bankruptcy process. In sum, we must bear in mind that our current situation as well as the imposition of the Oversight Board are further consequences of a colonialism that has limited our development for the past 119 years.

Unfortunately, our colonial status and the lack of political power that is inherent thereto exacerbate the reality that has been imposed on us by the Congress through a Federal Law. This Law has supremacy over any local legislation, even our Constitution, and we were not afforded an opportunity to vote either on said law or for the President that approved it. Therefore, it is evident that in order to get out of this financial predicament it is crucial for us to solve the status issue. However, it is also an undeniable fact that we must work within PROMESA's parameters to set in motion the financial and fiscal recovery of Puerto Rico.

On October 30, 2016, the Oversight Board designated the Government of Puerto Rico, the Employees Retirement System and Judiciary Retirement System, the Teachers' Retirement System, the University of Puerto Rico, and 21 public corporations of Puerto Rico as "covered entities" subject to financial oversight pursuant to PROMESA. Section 405(b) of PROMESA further imposes a temporary stay on lawsuits and complaints against Puerto Rico and its instrumentalities on various matters hoping that the Government of Puerto Rico, on its own behalf and on behalf of its instrumentalities, may initiate voluntary negotiations with its creditors in order to reorganize and settle the repayment of the Government's debt obligations and, simultaneously, begin a responsible restructuring of the

Government of Puerto Rico and its instrumentalities geared to readjusting the essential services that the health, safety, and wellbeing of the residents of Puerto Rico warrant with the timely repayment of its debt obligations.

After investing millions of dollars in specialized consultants, the previous administration submitted a fiscal plan that was faulty and, thus, rejected by the Oversight Board forthwith for it did not solve the fiscal issues that said administration caused.

This Act, divided into Chapters, provides for different measures that this Administration is taking in order to comply with the Fiscal Plan imposed under the provisions of PROMESA. The matters addressed in this Act are related among themselves since they are all geared toward complying with the Fiscal Plan.

In this regard, Section 17 of Article III of the Constitution of Puerto Rico provides that: “Every bill, [...] shall be confined to one subject, which shall be clearly expressed in its title, and any part of an act whose subject has not been expressed in the title shall be void.” Said Section establishes the rule of only one subject, which requires that every law approved by the Legislative Assembly embraces no more than one subject. On this matter, the Supreme Court of Puerto Rico has held that said provision “does not require the title to be a detailed account of the contents of the law, but rather a mere indicator of the subject matter covered thereunder.” [Translation supplied]. *Herrero v. Emmanuelli*, 179 D.P.R. 277, 295 (2010); *Rodríguez v. Corte*, 60 D.P.R. 919, 922 (1942).

Moreover, the case law has been consistent in establishing that only when a case is clear and conclusive it is thus warranted to void a law that violates said constitutional provision. *Dorante v. Wrangler of P.R.*, 145 D.P.R. 408, 429-431 (1998) and cases cited therein. Our highest court has “adopted a *stance* understandably lax not to curtail lawmakers.” [Translation Supplied]. *Herrero v. Emmanuelli*, *supra*. See also, J.J. Álvarez-González, *Derecho Constitucional de*

Puerto Rico y Relaciones Constitucionales con los Estados Unidos [Constitutional Law of Puerto Rico and Constitutional Relationships with the United States], Bogotá, Editorial Temis, S.A., 2009, p. 244. In this sense, the Supreme Court has held that **“a strict interpretation of the constitutional provision may impair and hinder the legislative process, since it will compel the lawmaker to enact multiple laws to regulate one general subject or matter.”** *Herrero v. Emmanuelli*, *supra*, [Emphasis added]. *See also*, M. H. Ruud, No Law Shall Embrace More Than One Subject, 42 Minn. L. Rev. 389,393-394 (1958). That is,

The requirement is not intended as a subterfuge to destroy valid legislation, but rather as a guarantee that the legislative process is to be carried out with transparency and that each bill is to be discussed and analyzed in depth before it is approved.

Herrero v. Emmanuelli, *supra*, pp. 295-296.

Therefore, upon examining the validity of an act in light of the one subject rule, it is necessary to consider all of the provisions of a law in order to determine whether these have a correlation or not and if they pertain to the subject expressed in the title. *Id.* What constitutes “only one subject” is construed liberally without neglecting the purpose and objective of the constitutional requirement. In this regard, “a statute may address all the topics related to the subject matter and all of the means that may be fairly considered to be supplementary and necessary or appropriate to fulfill the purposes inherent to the general subject.” [Translation supplied]. *Id. See also*, R. E. Bernier & J.A. Cuevas Segarra, *Aprobación e Interpretación de las Leyes en Puerto Rico* [Approval and Interpretation of the Laws of Puerto Rico], Segunda Edición, San Juan, Publicaciones JTS, 1987, p. 81.

This Act addresses one subject: to achieve full compliance with the Fiscal Plan certified by the Board. For such reason, we promulgate this Act, which addresses several topics geared to complying with the Fiscal Plan.

A New Government: Our Responsibility Before the Oversight Board

Due to the foregoing, at the beginning of our administration, we found a cash deficit of over \$7.6 billion as certified by the Federal Treasury and the Oversight Board. The Government had no access to capital markets, had a “junk” credit rating, had no liquidity and no transparency in public finances, public spending was excessive, and the public debt amounted to billions of dollars. Furthermore, the Governor had the enormous task of recovering the credibility of the Island in the market and before the Oversight Board. We must guarantee a Government that spends in accordance with the actual revenues generated.

Since January 2nd, we have been implementing a systematic plan to control government spending, reactivate our economy, and allow for the conditions to create more and better jobs in the private sector. We are showing the world that Puerto Rico is open to do business in a safe and stable governmental environment.

The measures submitted by the Governor and approved by this Legislative Assembly during these first three (3) months of this administration have changed the course of Puerto Rico and have set it on a path of fiscal responsibility.

On February 28, 2017, the Governor submitted a Fiscal Plan that is complete, thorough, real, and also sensible to the needs of our People and those who are most vulnerable. After weeks of uncertainty, reason and sound judgment prevailed. On March 13, 2017, the Oversight Board accepted and certified our Fiscal Plan together with a series of contingencies to guarantee that government employees shall not be dismissed, the workweek shall not be affected, the People’s access to healthcare services shall be maintained, and the pensions of those who are most vulnerable shall be protected. This Fiscal Plan is the only option available to avoid dismissing government employees, eliminating the right to healthcare, and to maintain the solvency of our retirement systems while the government continues to operate as usual and complies with the parameters in order to avoid the imposition of more

stringent measures which are part of the contingencies of the Plan as approved by the Financial Oversight Board. Some of these contingencies are: the full elimination of the Christmas bonus for all government employees, and the imposition of furloughs which shall render the Government inoperative.

The Fiscal Plan's approved measures are geared toward achieving the fiscal goals, promoting the economic development and our capacity to reestablish our credibility, allowing the change to translate into a long-term benefit rather than a mere cutback and, most of all, ensuring that those who are most vulnerable and those who work hard every day have a better quality of life.

The validation of the Fiscal Plan represents the recognition of the credibility of the new Government administration. We have shown that the times of incoherence and improvisation are over to give way to working as a team and obtaining results that inure to the benefit of Puerto Rico. We went from the "me vale" and the lack of credibility to having a Fiscal Plan that also addresses our socioeconomic development and meets the objective of cutting back on spending, but most importantly allows us to build a better society.

The changes we are implementing are not easy and will take time, but they will also yield results within the first two years. Under the certified Fiscal Plan, we shall be able to strike a balance between revenues and expenditures by Fiscal Year 2019. Now is the time to execute these changes. The contingencies of the Fiscal Plan require the Government's compliance. Liquidity must be ensured in order to avoid any impact on the salary of government employees, the health of the People, and the income of pensioners.

This Act is promulgated in order to adjust the legal framework and the case law to meet the requirements that the Oversight Board made in connection with the Fiscal Plan approved by virtue of PROMESA. To achieve this and in view of the serious economic and fiscal emergency situation of Puerto Rico, it is necessary to

approve this Act by virtue of the power of Police Power and in accordance with Sections 18 and 19 of Article II and Sections 7 and 8 of Article VI of the Constitution of Puerto Rico, in order to provide the Government with the sufficient liquidity to defray the payroll of government employees and the essential services offered to the People. We exercise this Police Power to take the necessary measures in order to comply with the Fiscal Plan and to set Puerto Rico into a path of financial recovery. Complying with this Plan constitutes a compelling interest of the Commonwealth in order to maintain its operations and protect those who are most vulnerable.

As defined by the Supreme Court of Puerto Rico, the Police Power is, That power inherent to the State which is used by the Legislature to prohibit or regulate certain activities for the purpose of furthering or protecting the public peace, morals, health, and general welfare of the community, which may be delegated to municipalities.” [Our translation]

Domínguez Castro v. E.L.A., 178, D.P.R. 1, 36 (2010).

Our Highest Court recently held that the measures taken to address an emergency are valid insofar as these are necessary and reasonable to further a profound government interest. *See Trinidad v. E.L.A.*, 188 D.P.R. 828 (2013) and *Domínguez Castro v. E.L.A.*, *supra*, pp. 88-89. Likewise, the Supreme Court recognized “the precariousness of the economy as a reality that actually matters in the definition of the scope of government action under the Police Power” and that, in the exercise of said power, “the Legislature has a broad authority to approve economic regulation geared to promoting the welfare of the community.” [Translation supplied]. *Domínguez Castro v. E.L.A.*, *supra*, p. 37. Associate Justice Kolthoff-Caraballo, on behalf of the Supreme Court, stressed that both our jurisdiction and the rest of the world “are living times that are very convoluted financially and economically. It would seem as if the economy of countries around

the world are intertwined and tangled with the tail of a kite that is unable to finally take off.” [Translation supplied]. *Domínguez Castro et al. v. E.L.A. I*, 178, D.P.R. 1, 415 (2010), certiorari denied, *Domínguez Castro v. Puerto Rico*, 131 S. Ct. 152 (2010). In this manner, the Court recognized that it must be aware that there was a reality which it described as “hard and unpleasant.” [Translation supplied]. In view of this historic reality, the Court deemed it necessary to try and aim for an altruistic interest in the pursuit of the “collective economic wellbeing at the expense of the individual wellbeing.” [Translation supplied]. Furthermore, in *Herrero y otros v. E.L.A.*, 179 D.P.R. 277 (2010), the Court reasserted its recognition of the economic crisis in our jurisdiction and stated that, in the context of providing a remedy that entailed the disbursement of public funds in order to redress taxpayers, it was not “unaware of the difficult condition of the public finances of the Island.” [Translation supplied]. *Id.* in p. 309.

In *Trinidad Hernandez v. E.L.A.*, *supra*, the Supreme Court validated Act No. 3-2013, on the Retirement System of Public Employees, for understanding that the Legislative Assembly had exercised its Police Power to stop the insolvency of the Retirement System of Public Employees. The Supreme Court held that “from the statement of motives [...] it can be ascertained that the measures adopted are necessary and reasonable to properly address the financial crisis that threatens the actuarial solvency of this system.” [Translation supplied]. The Court added that “this certainly constitutes a serious public interest since, guaranteeing the economic solvency of the system benefits all of the participants therein and partially addresses the fiscal crisis of the Island, thus protecting the welfare of all Puerto Ricans.” [Translation supplied]. *Trinidad Hernandez v. E.L.A.*, *supra*, p. 837. It concluded that the provisions of said Act are constitutional “since, notwithstanding the substantial impairment to the contractual obligations in question, the measures implemented are reasonable and necessary to safeguard the actuarial solvency of the

Retirement System, and there are no less burdensome measures to achieve this purpose.” [Translation supplied]. *Id.*, p. 839.

Likewise, in *Asociación de Maestros de Puerto Rico v. Sistema de Retiro de Maestros de Puerto Rico*, 190 D.P.R. 854 (2014), the Court recently passed judgment on the measures approved under Act No. 160-2013 to solve the crisis of the Teachers’ Retirement System and determined that the law did not further a serious public interest as required in our Constitution in the case of retirement system reforms, that is, to guarantee the solvency of the system itself. For such reason, the Court held that Act No. 160-2013, in what pertains to the impairment of contractual obligations, was unreasonable and therefore unconstitutional. *Id.*, p. 12. At that time, the Court was emphatic in stressing that, should those measures be reasonable and necessary to “further the actuarial solvency, and should there be no less burdensome measures to achieve these purposes” then the measures approved would be held to be constitutional. [Translation supplied]. *Id.*, p. 8.

Based on the aforementioned legal framework, this Legislative Assembly believes that the measures taken in this Act are necessary and reasonable to properly address the fiscal, economic, and budget crisis of Puerto Rico. Moreover, these measures are required in order to effectively implement the Fiscal Plan certified by the Oversight Board in accordance with PROMESA. Said Plan establishes fiscal adjustments to stabilize Government finances at a time where there is no access to the financial market. If these measures are not implemented, the social and economic welfare of Puerto Rico shall suffer irreparable damages. Hence, the implementation of the Fiscal Plan constitutes a compelling interest of the State in order to guarantee the public interest.

Government Restructuring

The Plan for Puerto Rico promoted by this Administration, and which was supported by the People of Puerto Rico in the last general election through the democratic exercise of their right to vote, proposes the implementation of a new government structure that reduces public spending significantly and substantially improves the duties thereof. To achieve this, it is necessary to carefully evaluate the services rendered by the government in order to determine which of these services may be consolidated, delegated to the private sector, or eliminated because they are no longer necessary. To achieve this, the dismissal of government employees shall not be necessary, but rather a mobilization of said employees in accordance with the needs for service of our people.

Consistent with the foregoing, and as part of the first measures taken by this Administration in order to address the fiscal crisis through a government restructuring, Act No. 8-2017, known as the “Government of Puerto Rico Human Resources Administration and Transformation Act,” was approved. Said Act transforms the Government into a Sole Employer in order for public officials to become Government employees rather than employees of the different entities, thus allowing for a better use of the human resources, wherever there is a pressing need, through the mobility mechanism without requiring the employee to resign from the office he currently holds in order to start all over again at a new government instrumentality. The mobility mechanism seeks to reinforce the notion of what it means to strike a balance between the workforce and the rendering of public services. In doing so, the Government’s human resources are distributed efficiently and a swift government structure is thus created, based on an ongoing evaluation of the needs. Moreover, we shall assist government employees in making the required adjustments and modifications to face the current fiscal crisis as well as any future challenges.

Act No. 89-2016, known as the “Temporary Jobs in the Public Service Act,” was approved during the previous four (4)-year term presumably to correct the disparity in the treatment of temporary employees in the public service, and to require agencies to be diligent in the creation of jobs or the request for job creation. Said law was also enacted on the basis that the adequate classification of employees shall assist in the administration of human resources in the public service and prevent unnecessary expenditures. Moreover, under said Act, transitory employees who had been working for two (2) or more years discharging duties of a permanent need were granted a regular employee status, subject to certain eligibility criteria.

Notwithstanding, said Act has had the effect of increasing the government’s payroll at a time when the public finances are undergoing an unprecedented crisis. The recruitment of temporary employees, whether they are classified as irregular, transitory, or contract employees, must not be used as a subterfuge for the subsequent creation of regular positions of permanent need, thus encumbering the State’s funds without gauging the effectiveness of these resources in the rendering of services that the People warrant.

For such reason, setting Puerto Rico on the right path requires a paradigm shift such as the one proposed by this Administration under the Puerto Rico Socioeconomic Transformation Model included in the Plan for Puerto Rico. The mission is to establish a new government that enables economic development and whose vision is that of a government based on the scientific model, where evidence and results matter and citizen involvement constitute the main source of validation. To achieve this, the government must become a facilitator of economic development by implementing actual and conclusive reforms. Moreover, the government structure must be cost-effective, efficient, and transparent, and the public service must be based on integrity, excellence, responsibility, and accountability.

Fringe Benefits Equality for all Government Employees

Furthermore, as we have mentioned, it is common knowledge that our Island is undergoing a serious fiscal crisis and that the resources to meet the all of the government's obligations are limited. In the midst of such a new situation as the imposition of the Financial Oversight Board as well as the default on the debt incurred, the Government of Puerto Rico is compelled to restructure the government apparatus and direct resources to the areas that need them the most.

Puerto Rico is at a historical juncture where it needs the collaboration of all the sectors to adopt immediate solutions that contribute to the economic restoration of the Island. This Act addresses in a responsible and fair manner the lack of uniformity among government employee in terms of the fringe benefits they shall enjoy during this critical period in the local economy. During these next few years prior to the fiscal recovery of the Island, there is no justification to keep such a wide gap between the fringe benefits of the government employees of a few government agencies and those of the government employees of public corporations. In some public corporations, the employees have double or triple the amount of benefits that the employees of the central government have, which is not consistent with the current economic reality of Puerto Rico. Even worse, this creates a disparity among government employees by benefiting a few at the expense of many others. Moreover, the costs entailed by these unequal measures renders it unsustainable to comply with them at this time while keeping all government employees. For such reason, this Legislative Assembly deems it prudent to take actions to achieve savings and to enable us to keep all government employees thus avoiding their dismissal.

To provide a ballpark figure of the expenditures of the Public Corporations on account of fringe benefits, including the Christmas bonus and healthcare insurance contributions, the recommended budget for Fiscal Year 2017 submitted to the Oversight Board showed projected expenditures on these items in the amount of

\$171.877 million. This amount does not include the University of Puerto Rico, the Puerto Rico Electric Power Authority, and the Aqueduct and Sewer Authority. Regarding the payment of overtime, the budgeted amount was \$23.618 million dollars, and for sick and vacation leave liquidations the budgeted amount was \$9.906 million dollars. This causes a disparity between the fringe benefits of the employees of the Central Government and the employees or officials of public instrumentalities or corporations. Public Corporations spend an average of \$10,840 per employee on fringe benefits, while the Central Government spends an average of \$2,523 per employee. Said disparity cannot be justified until the local economy recovers.

Moreover, according to statistics furnished by the Government Development Bank and the Puerto Rico Planning Board, in Fiscal Year 2016, public corporations were responsible for a debt amounting to \$46,861.6 billion which represents 72.9% of the total public debt of the Government of Puerto Rico, which was estimated in \$64.254 billion. The public corporations have increased their share in the debt from 68.9% in Fiscal Year 2004 to 72.9% in Fiscal Year 2016. In specific terms, the increase in the total public debt with respect to public corporations amounted to \$23.484 billion which constitutes a 100.5%-increase. As a result, the debt of the public corporations for Fiscal Year 2016 was estimated at more than double the amount of Fiscal Year 2004.

For years, the situation at the public corporations has been that the financial clauses negotiated under certain collective bargaining agreements exceed to a great extent the provisions of law. This situation compromises the government's fiscal stability and jeopardizes the jobs of government employees given that this fiscal instability is unsustainable at these critical times. For instance, many corporation committed to the payment of overtime, even when they lack the funds therefor, at a rate of double or triple the amount of the salary of the employees. Likewise, they

reduced the number of accrued hours required in order to receive monetary compensation, in lieu of compensatory time-off.

In Puerto Rico, the right to overtime pay is provided for in Section 16 of Article II of the Bill of Rights of the Constitution, which sets forth that:

The right of every employee to choose his occupation freely and to resign therefrom is recognized, as is his right to equal pay for equal work, to a reasonable minimum salary, to protection against risks to his health or person in his work or employment, and to an ordinary workday which shall not exceed eight hours. An employee may work in excess of this daily limit only if he is paid extra compensation as provided by law, at a rate never less than one and one-half times the regular rate at which he is employed.

This Act repeals Section 10.2 of Act No. 8-2017, which establishes the mechanism for overtime pay to be applicable to government employees. Said mechanism is to be integrated into this Act in order to extend its applicability to public corporations. The overtime pay method established in this Act provides that the employees shall be compensated at a rate of one and a half times. In doing so, the provisions set forth in the Constitution and the Federal Law that governs the payment of overtime are fully complied with.

Moreover, the Fair Labor Standards Act (FLSA), 29 U.S.C. §201-209, regulates the payment of overtime, among other matters, and is applicable to the government employees of the Government of Puerto Rico. The Supreme Court of Puerto Rico has held that, insofar as the state law is more beneficial for the employee than the FLSA, the federal law does not preclude the application of the state law for it is not in conflict therewith. The purposes of laws are, in said circumstances, perfectly reconcilable. *Vega v. Yiyi Motors, Inc.*, 146 D.P.R. 373 (1998).

The FLSA established that employees must receive overtime pay for hours worked over forty (40) in a workweek at a rate not less than time and one-half (1.5) their regular rates of pay. The FLSA also provides that public agency employees may receive compensatory time off, at a rate of not less than one and one-half (1.5) hours for each overtime hour worked, instead of cash overtime pay.

One of the purposes of this Act is to achieve that the operating expenses of the public corporations are incurred efficiently, responsibly, and cautiously to permanently reduce expenditures. The Government of Puerto Rico has a compelling interest in controlling the payroll expenses to safeguard the jobs, the feasibility of public corporations, as well as their finances. The precarious fiscal situation of the Government, its General Fund, and its Public Corporations compels us to establish controls on payroll expenses in excess of the amount budgeted in order to safeguard the feasibility of the public corporations and, in turn, the workweek and salaries of government employees.

Likewise, this Act establishes the fringe benefits to which all government employees shall be entitled during this fiscal crisis period, regardless of the agency or public corporation where they work. In doing so, the government employees of the different Government agencies shall receive the same benefits as the government employees of the different public corporations, whose current fringe benefits vary depending on the public corporation where they work. The union employees of the different agencies and public corporations are also entitled to different fringe benefits even when they work at the same agency or public corporation depending on the collective bargaining agreement under which they are covered. At a time when Puerto Rico is still undergoing a fiscal crisis and when the Oversight Board has threaten to eliminate the Christmas bonus of and implement furloughs for government employees, there is no justifiable reason for maintaining such a disproportionate and unreasonable disparity in fringe benefits which were agreed

upon at a time when the fiscal situation of Puerto Rico was different and there was no crisis as the one we have today.

As previously stated, in the past, our illustrious Supreme Court has upheld the validity of the economic statutes approved to take action at a time of crisis and urgency in Puerto Rico, and has recognized the “possibility that, in circumstances related to economic aspects, the Legislative Assembly may exercise its broad powers.” *Domínguez Castro, supra*, p. 49 (2010) (omitted citation). Aware of the structural crisis of the Retirement System of Public Employees, said Honorable Court recently upheld the constitutional validity of the statute that amended the Public Employees Retirement Act, Act No. 3-2013, in order to address said crisis. *Trinidad Hernández v. ELA, supra*.

Article II, Section 7 of our Constitution states that: “No laws impairing the obligation of contracts shall be enacted.” Art. II, Sec. 7, Commonwealth Const., L.P.R.A., Title 1. Said Contracts Clause does not establish an absolute prohibition on the rulemaking authority of the State in benefit of the public interest. *Bayrón Toro*, 119 D.P.R., p. 619.

The constitutional guarantee against the impairment of contractual obligations is only applicable when the modification adversely affects the fundamental terms and conditions of the contract which caused the execution thereof thus frustrating the expectations of the parties thereto. *Domínguez Castro, supra*. See also, *Allied Structural Steel Co. v. Spannaus*, 438 U.S. 234 (1978); *El Paso v. Simmons*, 379 U.S. 497 (1965). The reasonableness of the Act is determined by mainly considering the substantiality of the public interest furthered by the statute and the extent of the impairment caused by the retrospective application thereof. *Warner Lambert Co. v. Tribunal Superior*, 101 D.P.R. 378, 396 (1973). If the impairment is caused as a result of a reasonable and necessary modification to further the public interest, the court shall uphold its validity. *Bayrón Toro, supra*.

Even if the impairment is substantial, the constitutional prohibition is not absolute. The constitutional prohibition has to conform to the Police Power. *Bayrón Toro, supra*. When considering the validity of the statutes under the Contracts Clause, the applicable criterion is reasonableness. *Warner Lambert Co. v. Tribunal Superior, supra*. Hence, the function of the court is to strike a reasonable balance between the social interest of promoting the common good and the, also social, interest of protecting contractual transactions against the arbitrary and unreasonable application of the laws. *Id.*

Upon determining that the impairment is substantial, the evaluation of whether the modification seeks to further an important interest in benefit of the general welfare is thus warranted. If the impairment arises as a consequence of a reasonable and necessary modification geared to furthering a significant and lawful public interest, the validity of the law shall be upheld. *Bayrón Toro, supra*.

In *Buffalo Teachers Union[sic] v. Tobe*, 464 F.3d 362, 365 (2nd Cir. 2006), the Second Circuit held the following in regards to the evaluation that an adjudicatory forum shall conduct when assessing a complaint where the Contracts Clause is invoked:

When a state is sued for allegedly impairing the contractual obligations [...] the state will not be held liable for violating the Contracts Clause of the United States Constitution unless plaintiffs produce evidence that the state's self-interest rather than the general welfare of the public motivated the state's conduct. On this issue, plaintiffs have the burden of proof because the record of what and why the state has acted is laid out in committee hearings, public reports, and legislation, making what motivated the state not difficult to discern. (Emphasis added).

As an affirmation of the separation of powers doctrine, when assessing the reasonableness or necessity of the measure for purposes of the Contracts Clause, the Supreme Court of Puerto Rico has held that even though complete deference to a legislative assessment of reasonableness and necessity is not appropriate “this does not mean that the judicial forum is not compelled to show some deference to the determination of reasonableness and necessity made by the legislator in the exercise of his constitutional power, especially when socioeconomic regulations are at issue.” *Domínguez, supra*. It is not appropriate either “to make a *de novo* determination whether another alternative would have constituted a better statutory solution to a given problem.” *Id.*, p. 89. Said Court recently reasserted that “deference to the assessment of the Legislative Assembly of the reasonableness and necessity of the measure is called for.” *Trinidad Hernández v. ELA, supra*. Furthermore, regarding the reasonableness of the measure “it is an established rule that it is not appropriate for courts to make a *de novo* determination whether another alternative exists to solve the problem. The determination made by the Legislative Assembly regarding the approved measures constitute a public policy exercise that calls for [...] deference in this separation of powers system.” [Translation supplied]. *Trinidad Hernández v. ELA, supra*.

We must keep in mind that, if it is deemed that there is an impairment of a contractual relationship, a court must analyze whether the legislation in question serves a legitimate public purpose. *Home Building & Loan Ass’n., supra, U.S. Trust*, 431 U.S. at 25. The legitimate public purpose is defined as one “aimed at remedying an important general, social, or economic problem rather than providing a benefit to special interests.” *Buffalo Teacher’s Federation, supra*. Be it noted that it has been held that the economic and financial health of a state constitutes a legitimate public purpose. See, *Baltimore Teachers Union v. City Council of Baltimore et. al.*, 6 F.3d 1012, 1017 (4th Cir. 1993) (holding that a legislation enacted to reduce salaries and

address the state's grave fiscal crisis did not violate the contracts clause); *In re Subway-Surface Supervisors Ass'n v. New York City Transit Auth.* 375 N.E.2d 384 (1978) (statute freezing municipal wages held to be constitutional given the fiscal emergency afflicting New York City); *Buffalo Teachers, supra* (the freezing of teachers' wages amidst a fiscal crisis was upheld).

In view of this situation, the Government of Puerto Rico was compelled by the Fiscal Plan approved by the Oversight Board to implement certain measures so as to be able to guarantee the jobs of thousands of Puerto Ricans, prevent the use of furloughs that would result in a reduction of up to twenty percent (20%) in their monthly salaries, and the full elimination of the Christmas bonus. As mentioned before, some of the measures that the Government committed to implement are: standardizing the fringe benefits of all the government employees, offering equal overtime pay in both the Public Corporations and the Central Government, standardizing the fringe benefits offered to the employees of both the Central Government and Public Corporations; eliminating the liquidation of vacation and sick leave accrued in excess; and offering government employees a vacation leave accrual rate equal to that of the employees of the private sector.

To achieve the objectives of this Act in the least burdensome manner for our government employees, it is hereby established that the provisions applicable to the leaves and the fringe benefits shall be temporary. Said leaves and benefits shall be restored as certified by the members of the Fiscal Plan Compliance Committee.

In order to comply with the certified Fiscal Plan, the provisions pertaining to fringe benefits established in Act No. 8-2017, known as the "Government of Puerto Rico Human Resources Administration and Transformation Act," are hereby repealed and included in this Act and the application thereof is extended to the employees of Public Corporations. In doing so, the fringe benefits and overtime pay to which government employees are entitled shall be uniform regardless of their

workplace. Likewise, the monthly vacation leave accrual rate allowed is reduced, thus offering government employees the same vacation leave accrual rate of employees in the private sector, which is fifteen (15) days. Lastly, the payment of vacation and sick leave accrued in excess is also eliminated. It is provided, however, that supervisors are required to implement measures to ensure that government employees are able to use said leaves so that these are not forfeited.

We cannot overlook the fact that if the furlough program had taken effect immediately as proposed by the Oversight Board, Puerto Rico's economy would have suffered a devastating blow with the elimination of the Christmas bonus and a twenty percent (20%)-salary reduction for government employees. This situation prompted the establishment of the alternative measures stated above in order to procure the required funds without altering the workweek and salary of government employees.

PROMESA and the Supremacy Clause

Furthermore, it is important to stress the application and the mandate that the Congress of the United States of America, by virtue of its plenary powers over the Territory of Puerto Rico, imposed on the Island upon the enactment of PROMESA. Said Federal Act created the Oversight Board which was entrusted with the task of approving and supervising the execution of a Fiscal Plan for the economic stabilization of Puerto Rico, among a series of other tasks.

Said statute was approved on May 4, 2016, and includes a supremacy clause that states:

SECTION 1. [...]

This Act may be cited as the "Puerto Rico Oversight, Management, and Economic Stability Act" or "PROMESA." [...]

SEC. 4. SUPREMACY.

The provisions of this Act shall prevail over any general or specific provisions of territory law, State law, or regulation that is inconsistent with this Act.[Emphasis added].

Pursuant to Section 101 of PROMESA, the Oversight Board, in its sole discretion at such time as the Oversight Board determines to be appropriate, may designate any territorial instrumentality as a covered territorial instrumentality that is subject to the requirements of this Act. At this time, the Oversight Board has designated all of the public corporations as covered entities. Moreover, pursuant to Section 205 of PROMESA, the Oversight Board may at any time submit recommendations to the Governor or the Legislature on actions the territorial government may take to ensure compliance with the Fiscal Plan, or to otherwise promote the financial stability, economic growth, management responsibility, and service delivery efficiency. In the case of any recommendations submitted, the Governor shall submit a statement to the Oversight Board that provides notice as to whether the territorial government will adopt the recommendations. If the Governor notifies that the territorial government will not adopt any recommendations submitted, the Governor shall include in the statement explanations for the rejection of the recommendations, and the Governor shall submit such statement of explanations to the President and Congress of the United States.

In view of this, we must review the tasks with which the Oversight Board has been entrusted in order to oversee and guarantee compliance with the provisions of the approved Fiscal Plan.

We must bear in mind that PROMESA has supremacy over any legislation of the territory of Puerto Rico that is inconsistent with the motives, responsibilities, tasks, and objectives provided for in the federal statute, and the Oversight Board is the entity in charge of the execution thereof. Regarding this Act, the Board established that if the government, through the implementation of other measures,

fails to cut back on spending to achieve sufficient funds and establish an additional \$200 million cash reserve by June 30, 2017, a furlough program for all government employees shall take effect on July 1st, 2017. This furlough program shall represent a reduction of up to twenty percent (20%) in the monthly salaries of our government employees. Likewise, the Board established that the full elimination of the Christmas bonus would be implemented for all government employees. The furlough alternative proposed by the Oversight Board shall be equivalent to four (4) days per month for most Executive Branch government personnel and two (2) days per month for teachers and frontline personnel at 24-hour institutions. The Oversight Board has also stated that there may be implemented reductions comparable to the Executive Branch furlough savings described above for other entities across the government, including public corporations and instrumentalities and the Legislative and Judicial Branches. Just as our Governor has mentioned in many forums, a furlough program is NOT an option. For such reason, we are taking precautionary measures in order to avoid having to resort to this contingency imposed by the Oversight Board.

Using this legal framework as a basis, this Legislative Assembly believes that the measures taken in this Act are necessary and reasonable to properly address the fiscal, economic, and budgetary crisis that Puerto Rico is undergoing, and constitute a valid legislative exercise.

The measures taken in this Act and the application thereof to all public union and nonunion employees who work at the Central Government and the Public Corporations are not taken lightly. To strike a balance of interests, we deem that the fringe benefits must be tempered with the current needs and the structural and fiscal crisis faced by the Government of Puerto Rico. In view of the new code of Law created as a result of the enactment of PROMESA and the arrival of the Oversight Board, this Act constitutes a reasonable, equitable, uniform, and necessary means to face the current crisis and is the only option available to the Government of Puerto

Rico to comply with the Fiscal Plan certified by the Oversight Board. This will enable us to avoid the imposition of a furlough on our government employees, which shall entail a twenty percent (20%)-reduction in their monthly salary, and the full elimination of the Christmas bonus. This Act is promulgated under the authority of this Legislative Assembly to approve and enact economic legislation geared to promoting the wellbeing of the People of Puerto Rico.

Special Dividend of the Joint Underwriting Association
of the Compulsory Liability Insurance

Act No. 253-1995, as amended, created the Joint Underwriting Association of the Compulsory Liability Insurance (ASC, Spanish acronym) as part of the compulsory liability insurance system for motor vehicles that was established in Puerto Rico at the time. Said insurance sought to find a solution to the damages caused to third-party motor vehicles as a result of a traffic accident, in accordance with the applicable claim requirements.

Originally, the liability insurance established under said Act provided for a three thousand dollar (\$3,000)-cap. Act No. 201-2009 increased said cap to four thousand dollars (\$4,000). It is worth mentioning that, regardless of said thirty-three percent (33%)-increase in the coverage, the cost of insurance premiums remained unchanged: ninety-nine dollars (\$99) for private passenger vehicles, and one hundred forty-eight dollars (\$148) for commercial vehicles.

Since said increase in coverage in 2009, the cost of goods and services in general has continued on the rise and the automotive industry was not the exception. Hence, the cost of vehicle parts and repairs is higher today than eight (8) years ago. For such reason, this Administration deems it pertinent to increase the compulsory liability insurance coverage to four thousand five hundred dollars (\$4,500). Consistent with this increase, the ASC is hereby empowered to revise the cost of premiums on or before June 30, 2017.

Furthermore, the conditions under which the ASC was operating since its creation entailed a substantial increase in its capital. Since the ASC was the only provider of compulsory liability insurance for motor vehicles, it was necessary for the ASC to have a significant capital reserve to cover its operations and to satisfy the reserve requirement under the Insurance Code. Thus, Act No. 60-2013 authorized the report of a special dividend included with an incentivized tax which enabled the generation of additional revenues in the amount of one hundred million dollars (\$100,000,000). Likewise, the report of another special dividend in the amount of forty-two million dollars (\$42,000,000) was authorized under Act No. 157-2015, which included a special tax. However, after the market was open to competition to allow other insurance companies to offer their services at the option of the driver, it was deemed unnecessary for the ASC to maintain such a high capital reserve to which the members of the ASC have no access, since these members are the same companies that are competing against this entity as providers of liability insurance coverage services.

This Act authorizes the report of a special dividend enclosed with the corresponding incentivized tax. Once said dividend is reported to the ASC members, the Government would receive the amount of seventy million dollars (\$70,000,000).

Contrary to the previous administration, which used the funds collected by virtue of laws similar to this one to distribute said funds among various entities, some of which had good intentions whereas others entailed an unnecessary waste of funds, this administration seeks address the lack of liquidity in order to protect the services offered to the people, the jobs in the public sector, and the income of the retirement system beneficiaries, among other similar purposes set forth in this Act.

For all of the foregoing, this Legislative Assembly authorizes the ASC to report a special dividend in the amount of seventy million dollars (\$70,000,000) from its capital reserve with the corresponding fifty percent (50%)-special

contribution. In doing so, the ASC shall remit thirty five million dollars (\$35,000,000) to the General Fund of the Government of Puerto Rico.

Transfer of the Profits of Public Corporations to the General Fund

One of the most transcendental measures approved by this administration is the enactment of Act No. 5-2017, known as the “Puerto Rico Financial Emergency and Fiscal Responsibility Act of 2017.” Said Act sets forth as the public policy of the Government of Puerto Rico: “[...] to take all the required measures for Puerto Rico to establish fiscal responsibility within the Government and its instrumentalities necessary to satisfy its obligations and to assure the provision of those governmental services essential to the public health, safety, and welfare of the residents of Puerto Rico.” It also states that the government may “exercise its Police Powers in a manner that recognizes the responsibility to meet the financial obligations of the Government of Puerto Rico and its instrumentalities, while continuing to provide governmental services essential to the health, safety, and welfare of the residents of Puerto Rico given the limited available resources of the Government of Puerto Rico and its instrumentalities.” In other words, the government shall take all the necessary measures to ensure that the needs of its people are satisfied.

Act No. 5-2017 provides that as a result of the ongoing financial emergency and the enactment of PROMESA, the Legislative Assembly is responsible for exercising its Police Power. In this sense, said Act provides that the responsibility to meet the financial obligations of the Government of Puerto Rico and its instrumentalities must be recognized and that the essential Government services shall continue to be provided in order to guarantee the health, safety, and welfare of the residents of Puerto Rico given the limited resources available of the Government of Puerto Rico and its instrumentalities, all of which shall be consistent with the provisions of PROMESA.

In accordance with the foregoing, Act No. 5-2017 empowers the Governor to issue executive orders requiring the use of available resources to pay for essential services as the Governor deems necessary to protect the health, safety, and welfare of the residents of Puerto Rico, and establishing priority rules for the disbursement of public funds when resources available for a fiscal year are insufficient to cover the appropriations made for that fiscal year, among other measures, due to the limited resources of the Government.

In view of the aforementioned fiscal and economic situation, it seems evident that the Government of Puerto Rico is compelled to take measures in order to comply with the Fiscal Plan without hindering the essential services rendered to the people. To achieve this, the use of the State's available resources must be maximized, including the resources available to public corporations. For such reason, this legislation directs the public corporations and instrumentalities of the Government of Puerto Rico to transfer to the Department of the Treasury any funds necessary to guarantee the liquidity of the government.

The amount to be contributed by each of the public corporations shall be determined by a committee composed of the Executive Director of the Puerto Rico Fiscal Agency and Financial Advisory Authority (FAFAA), the Secretary of the Department of the Treasury, and the Executive Director of the Office of Management and Budget (OMB). For such determination, the committee shall take into account the surpluses of each corporation after covering their operating expenditures, and ensure that the services offered by these entities are not affected. Such funds shall be deposited in the General Fund of the Government of Puerto Rico to have available the liquidity required in the Fiscal Plan.

For all of the foregoing, and in view of the fiscal and economic emergency situation faced by Puerto Rico which must be addressed, this Legislative Assembly in the exercise of its Police Power, acknowledges the need to remedy the fiscal

emergency and thus promotes the mechanisms provided for in this Act to guarantee the liquidity of the Government of Puerto Rico, by using the resources available to the public corporations without it constituting a disproportionate burden to the people nor an adverse impact on the essential services rendered by the Government.

Disposal of Real Property of the Executive Branch

Furthermore, the economic and fiscal crisis of the Government has affected the full spectrum of our infrastructure, including our real property. The agencies, entities, and public corporations comprising the Executive Branch have countless unused real property that could be sold to the private sector for various purposes. For years, many of these properties have had no public use. However, their ample spaces and strategic location may be maximized by any trade or business to conduct their commercial activities. Some of these properties may even be repurposed and devoted to housing or nonprofit entities.

Puerto Rico unfortunately lacks a coherent and uniform public policy that furthers the efficient, effective, and coordinated sale of real property owned by the Government. For such reason, it is necessary to establish a legal framework that promotes a government real estate market and renders the transactions conducted in connection with these assets reliable. This shall yield multiple benefits: the Government shall increase the revenues generated from the disposal of the real property inventory as well as the liquidity, thus being able to mitigate the fiscal crisis; contribute a mechanism of economic activity to the market by allowing the private sector to become involved in the acquisition of the State's properties for commercial or residential purposes, while contributing to the creation of jobs; and fostering the social wellbeing given the possibility that said properties may be acquired by nonprofit entities to provide social services, etc. In sum, the possibilities are endless.

For such reason, it is important to have an appropriate model that promotes the disposal of real property within a framework of fair competition where the wellbeing and the public interest are the standard in each transaction. Hence, this Act creates the Real Property Evaluation and Disposal Committee and empowers it to take action as necessary to dispose of the real property, while maintaining a balance between the interests of the State as the seller, the buyer, and the citizens in general. This Act establishes the general guidelines for the approval of rules and regulations that shall standardize the sale of real property and provide more certainty to the transactions conducted in connection therewith.

This measure constitutes an additional step toward rescuing our People and overcoming the bad decisions made in the past. We have the unwavering commitment to strengthening the economic activity component. We are certain that the structure established herein provides for the mechanisms needed to strengthen the real estate market and procures more resources for the State in order to face the crisis and comply with the Fiscal Plan. That is our goal and nothing will stop us.

Government Accounting Act and Special Funds

The financial policy of the Government of Puerto Rico set forth in Act No. 230 of July 23, 1974, as amended, known as the “Puerto Rico Government Accounting Act,” relating to the control and accounting of public funds and property requires the books of the Government of Puerto Rico to clearly show the results of its financial operations, provide the financial information as necessary to manage the government’s operations and to prepare and implement the budget, and constitute an effective control over the income, disbursements, funds, property, and other assets of the government. Likewise, it was established as public policy that no special funds or exclusive sources of repayment shall be established for specific purposes without taking into account the public wellbeing. This shall enable us to conduct government programs while overseeing the essential services, that fund appropriations for the

different government programs are limited to one specific year, and that all government revenues are covered into the general fund of the state treasury in order to defray government programs insofar as the Legislative Assembly deems it necessary, and in accordance with the items established in the Fiscal Plan approved. Unfortunately, throughout the years, a series of measures have been approved which have circumvented the foregoing and thus created multiple special funds for different programs. This situation has somehow distorted the mandate of the Accounting Act.

This Administration is committed to take any actions necessary to enable the Government to meet its obligations and comply with this public policy. The fiscal situation we are currently facing compels us to be more transparent and to assume more fiscal responsibility in our spending in order to achieve fiscal stability and a balanced budget, which shall make our economic recovery possible.

Upon analysis of the Government finances, various special appropriations for specific purposes or activities have been identified whose funds have remained unused for over one (1) year. In addition, appropriations without specific year limitation but with an annual recurrence have been identified for which there is no legal basis. Consequently, any expenditures chargeable to said funds for future fiscal years destabilize the cash flow of the Department of the Treasury since there is no control over the timing and the use given to said appropriations, all of which is in contravention of the public policy established in Act No. 230, *supra*.

In view of the grave fiscal situation faced by the Government, it becomes essential to implement a new methodology for the development, preparation, and execution of a government budget that allows for a substantial reduction of the State's spending without decreasing the amount and quality of the services it renders, yet eliminating inefficient services as well as inappropriate and obsolete programs. In this sense, the Zero-based Budgeting is a fiscal policy and budget strategy whose

main objective is to prevent the government from spending in excess of its revenues and, in turn, avoid an increase in the debt, and guarantee the sustainability of the public finances in the short- and long-term. The Zero-based Budgeting implemented by this Administration requires each department, agency, or instrumentality of the Government of Puerto Rico to document and justify each program to be included in and nourished from the Government's budget, based on the social and economic benefit of the programs, and according to the available resources. This mechanism entails an annual review of all of the programs and expenditures of the departments, agencies, or instrumentalities of the Government starting from zero and without taking into account the appropriations made in previous years. This facilitates the search for new ways to offer more efficient and effective services that contribute to improving the quality thereof, eliminating duplicity in the rendering of services, and cutting back on spending.

Likewise, there are countless special funds created by law for specific purposes. Said funds are disorganized and under the control of the government entities to which they were allocated. For such reason, the Secretary of the Treasury currently has direct access to only 65% of the funds of the Government of Puerto Rico, since all other special funds are on the accounts of their respective agency without any fiscal oversight from the Secretary of the Treasury. This lack of clarity results in a deficient oversight by the fiscal agencies of the Government which are prevented from having full control over the Treasury. This Act provides that special funds shall be transferred to the General Fund rather than to individual accounts for specific purposes. In doing so, the Secretary of the Treasury shall be able to keep better control and oversight, and establish payment priorities, which shall begin with the payment of the essential services rendered to our People.

In accordance with the foregoing, this Legislative Assembly deems it necessary to amend Act No. 230 of July 23, 1974, as amended, and known as the “Puerto Rico Government Accounting Act,” for the purpose of adjusting said Act to the best fiscal practices that have been developed in the last few years in the continental U.S. and worldwide. For such purposes, we deem it important to clarify the meaning of special appropriations and limit the use thereof to one (1) year. Once the purpose of these special appropriations is fulfilled or if they were not claimed during the effectiveness thereof, these appropriations shall be reverted to the General Fund. In this manner, we will be able to continue improving the services rendered to our people and revitalize Puerto Rico’s economy while complying with the fiscal control mechanisms required by the Certified Fiscal Plan.

Government of the Commonwealth of Puerto Rico Procurement Reserves Act

To recognize that strengthening our economy and creating jobs are the fundamental objectives of the public policy of the Government of Puerto Rico, different legislative pieces have been approved geared to boosting the local economy. One of them is Act No. 129-2005, which created the Government of the Commonwealth of Puerto Rico Procurement Reserves Act. Said Act was adopted to enable the components of the local economy to participate in the government procurement market to stimulate job creation and local investment. This Act seeks to sponsor small- and medium-sized businesses (Pymes) preferentially to contribute to increasing their sales as an efficient strategy for economic development and job creation.

However, in view of the grave fiscal situation faced by the Government, it becomes essential to implement a new methodology for the development, preparation, and execution of a government budget that allows for a substantial reduction of the State’s spending without decreasing the amount and quality of the services it renders. Hence, we have evaluated all of the economic legislation that has

an impact on the general budget of the agencies of the Executive Branch in order to establish the necessary measures to adjust said legislation to the current economic reality of the Island.

For such purposes, this Legislative Assembly deems it necessary to amend Act No. 129-2015 for the purpose of tempering said Act to the fiscal situation of our public finances. To achieve this, we must fix at twenty percent (20%) the general budget's item allocated to the instrumentalities of the Government of Puerto Rico for purchases from micro-, small-, and medium-sized business until the fiscal situation of Puerto Rico allows for an increase thereto. Our goal is to continue contributing to such an important sector while responsibly addressing our fiscal reality and achieving the milestones set in the Fiscal Plan approved by the Board, in order to begin our journey towards economic recovery.

Excise Taxes on Cigarettes and Tobacco Products

In view of the need to procure more revenues to be able to comply with the Fiscal Plan, protect the jobs of government employees as well as protect the most vulnerable sectors, we introduced a reconfiguration of the applicable taxes on cigarettes, smokeless tobacco, tobacco-derived products, and electronic cigarettes. This reconfiguration of the applicable excise taxes on said products shall increase the basis subject to excise taxes as well as the current rates, thus fulfilling a dual purpose: to procure more funds to achieve a balanced budget and meet the parameters established in the Fiscal Plan, as well as to discourage cigarette consumption and tobacco purchase, which, as we all know, is detrimental to the public health, and is associated with the increase in respiratory diseases and different types of cancer.

The use of tobacco is one of the most concerning death causes among the population. However, it is highly preventable. The report of the Surgeon General of the United States entitled "The Health Consequences of Smoking" confirms that

twenty nine (29) chronic diseases are linked to smoking, namely, gallbladder, cervical, esophagus, kidney, laryngeal, lung, oral, pancreatic, and stomach cancer, leukemia, and cardiovascular diseases, among many others. Likewise, the report indicates that tobacco smoke can cause blood clots, sudden heart attacks, and cerebrovascular events. It was recently found that there are more diseases linked to the use of cigarettes, such as liver and colon cancer, diabetes, arthritis, inflammation, and immune function damage. *See*, Executive Summary of the Report, U.S. Public Health Service, *The Consequences of Smoking – 50 Years of Progress* (2014), p. 2.

In fact, between 2005 and 2009, smoking was responsible for more than 480,000 premature deaths annually among Americans 35 years of age and older. In addition, more than 87% of lung cancer deaths, 61% of all pulmonary disease deaths, and 32% of all deaths from coronary heart disease were attributable to smoking and exposure to secondhand smoke. *Id.*, p. 3.

Furthermore, the Centers for Disease Control and Prevention (CDC) indicate that in 2016 tobacco use was the leading cause of preventable disease, disability, and death in the United States. Each year, nearly half a million Americans die prematurely of smoking or exposure to secondhand smoke; another 16 million live with a serious illness caused by smoking. Smokers miss more work, visit a doctor more often, are hospitalized more often, and die 10 to 12 years earlier than nonsmokers. Each year, the United States spends nearly \$170 billion on medical care to treat smoking-related disease in adults. *See*, <https://www.cdc.gov/chronicdisease/resources/publications/aag/tobacco-use.htm>.

The indirect impact of smoking is also highly detrimental to the health. In children, secondhand smoke has been linked to sudden infant death syndrome, acute respiratory infections, ear infections, and asthma attacks. It is disturbing that about 25% of nonsmoking Americans (58 million people) are exposed to secondhand smoke, including 15 million children aged 3 to 11 years. *Id.*

According to CDC's data, in the United States, nearly 15.1% of the population over the age of 18 smoked cigarettes in 2015, which is an estimated 36.5 million people—16.7% were men, and 13.6% were women. In Puerto Rico, even though the percentage is lower, the number is still a double digit. The statistics of the Department of Health of Puerto Rico show that by 2015 10.7% of the general population age 18 or over smoked cigarettes regularly—15.7% were men and 7.4% were women. These are significant percentages if we take into account the effects of secondhand smoke. In addition, the government has to incur considerable expenditures in connection with the health consequences entailed by smoking.

Currently, the excise tax per each cigarette pack is \$3.40. This excise tax translated into \$156 million in revenues for Fiscal Year 2014-2015. However, our government spends \$19.16 per pack of cigarette consumed in healthcare costs and the loss of productivity, which constitutes \$924 million. That is to say, the Government spends \$15.76 more than it collects per pack of cigarette sold to take care of the health issues caused by smoking, which represents a global difference of \$768 million. As a result, the increase in tobacco taxes is deemed to be a very cost-effective measure to improve public health and to generate fiscal revenues in the short- and long-term.

On the other hand, the Scientific Advisory Committee on Tobacco Product Regulation of the World Health Organization has stated that smokeless tobacco use is a significant part of the overall world tobacco problem. The Committee's report on smokeless tobacco includes the following potential harms: (a) promoting smokeless tobacco products may encourage individuals to adopt smokeless tobacco use in addition to continuing smoking; (b) use of smokeless tobacco products has been reported to increase the chances of subsequent initiation of smoking; (c) children who might not have started smoking may start smokeless tobacco use due to its ease of access; (d) the potential for long term harm caused by smokeless

tobacco products cannot be ruled out, such as the increased risk of developing oral cancer; and (e) all smokeless tobacco products are potentially addictive, since most of them have constituents that are known to be hazardous, such as tobacco-specific nitrosamines, and nicotine. Likewise, the Surgeon General of the United States of America has determined that the use of smokeless tobacco can cause other gum-related conditions and diseases in addition to oral cancer. According to the report entitled *Health Consequences of Using Smokeless Tobacco: A Report of the Advisory Committee to the Surgeon General*, the prolonged use of “smokeless tobacco” can also lead to the development of oral conditions, particularly leukoplakia, both in teenagers and adults.

The public policy of the Government of Puerto Rico is and has been to take measures in order to promote the prevention and cessation of tobacco use. One way to promote the prevention and cessation of tobacco use is to implement measures related to the imposition of taxes on tobacco byproducts, whether smoked or not.

In accordance with the foregoing, this Legislative Assembly deems it meritorious to increase the current tax on smokeless tobacco and cigarettes. This increase shall contribute to the fight against nicotine addiction, the cost of healthcare services in connection with patients who suffer from diseases related to or caused by their addiction to tobacco-byproducts, the evident cost and the loss of productivity in the workplace and the economy in general, and the need to generate more revenues for the treasury to comply with the Fiscal Plan and avoid reductions that could affect our most vulnerable sectors.

Emergency Fund

Act No. 91 of June 21, 1966, as amended, created the Emergency Fund for the purpose of having available the necessary funds to address unforeseen and unexpected public needs caused by calamities such as wars, hurricanes, earthquakes,

droughts, floods, and plagues, and for the purpose of protecting the life and property of the people, and the public credit.

The provisions of Act No. 91, *supra*, established that the operating expenses of the Commonwealth Emergency Management and Disaster Administration Agency may be financed with the resources appropriated to said Fund; that said Fund shall be capitalized annually by an amount not less than one-fifth (0.2%) of one percent of the total of the Joint Resolution for the Budget; said contribution shall be not less than one percent (1%) of the total net revenues for the previous fiscal year; and that the balance thereof shall never exceed one hundred fifty million dollars (\$150,000,000), whichever is greater. However, legislation has been approved in the last decade to prevent any revenues from being covered into the Emergency Fund during specific fiscal years. What began as a transitory measure in Fiscal Year 2006-2007, since then, has become an ongoing practice in most fiscal years.

This Administration recognizes that in view of the grave fiscal situation faced by the Government, it becomes essential to implement a new methodology for the development, preparation, and execution of a government budget that allows for a substantial reduction of the State's spending without decreasing the amount and quality of the services it renders by eliminating inefficient services as well as inappropriate and obsolete programs. In this sense, it is important to establish and maintain a cash reserve to address unforeseen and unexpected public needs, such as the ones previously described, while taking into account that the contribution to said Fund must be made in accordance with the fiscal situation. For such reason, it is hereby established that a fixed contribution in the amount of ten million dollars (\$10,000,000) shall be made until Fiscal Year 2020-2021. Furthermore, beginning with Fiscal Year 2020-2021, said contribution shall not be less than zero point five percent (0.5%) of the estimated net revenues submitted by the Department of the Treasury to draft the Recommended Budget chargeable to the General Fund.

In accordance with the foregoing, this Legislative Assembly deems it necessary to amend Act No. 91 of June 21, 1966, as amended, known as the “Emergency Fund,” in order to provide for a more efficient use of the resources available to address any emergency situations or disasters that affect the Island during the following years.

The Journey Toward Recovery Has Begun

Even though there are many obstacles that we must overcome in our journey toward a definite recovery, there is hope and optimism among our people. There is a new dawn for our Island and we cannot let Puerto Rico down. We must seize this moment and rise to the challenge to achieve the significant changes that Puerto Rico needs. We must face the crisis as a great challenge that we can transform into great opportunities. This challenge can lead us to build a fairer, worthier, and more progressive society. Hence, Act No. 7-2017 takes the most important step towards Puerto Rico’s economic, social, and political recovery by setting in motion a process of immediate decolonization for the Island.

Now, we begin a process to transform the Government and render it more efficient by rehabilitating its finances and restoring the trust and credibility that we had lost. We strive for a Government that eliminates any wasteful expenditures, is more agile, and more accountable. This government shall be able to translate every tax dollar into action and services for the People. Now, we shall rise stronger than ever to live in a society where opportunities are accessible to every Puerto Rican and where everyone feels proud of having honored their commitment to our homeland.

BE IT ENACTED BY THE LEGISLATIVE ASSEMBLY OF PUERTO RICO:

CHAPTER 1.- INITIAL PROVISIONS

Section 1.01- Title

This Act shall be known and cited as the “Fiscal Plan Compliance Act.”

Section 1.02.- Supremacy of this Act

This Act and all the provisions thereof are approved in the exercise of the Police Power, as well as the constitutional power conferred unto the Legislative Assembly in Sections 18 and 19 of Article II of the Constitution of Puerto Rico, to enact laws for the protection of the life, health, and general welfare of the people, as well as to enact laws in order to deal with grave emergencies that clearly jeopardizes the public health or safety or essential public services; and by virtue of Sections 7 and 8 of Article VI of the Constitution of Puerto Rico. Likewise, this Act was approved by virtue of the actions that Puerto Rico is required to take as a territory of the United States under the Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA) and the Fiscal Plan approved by the Financial Oversight Board. For such reason, this Act shall have supremacy over any other Act.

As of the date of approval of this Act, any organic, general, or special Act, article or section, guideline, clause and/or provision of any collective bargaining agreement, agreement, supplementary agreement, administrative order, policy, employment manual, circular letter, certification, regulation, rule, and employment condition, policy letter, classification or pay plan, contract letter, and/or provision which provides for fringe benefits that apply exclusively to union or nonunion employees or officials of the Government of Puerto Rico, including union or nonunion employees of the Public Corporations of the Government of Puerto Rico, shall be rendered ineffective, insofar as these are in contravention with the provisions of this Act. The foregoing does not preclude the right of labor unions to

negotiate employment conditions, salaries, and other nonfinancial clauses not included in this legislation, in accordance with the body of laws in effect.

Section 1.03.- Termination of Fiscal Measures

The Fiscal Plan Compliance Committee is hereby empowered to increase the benefits granted under this Act and to render ineffective any fiscal responsibility measures provided for in Chapter 2, upon determining that the fiscal situation has been stabilized and that it so allows.

CHAPTER 2.- FRINGE BENEFITS OF PUBLIC OFFICIALS OR EMPLOYEES OF THE GOVERNMENT OF PUERTO RICO

Section 2.01.- Applicability

All of the provisions of this Act shall apply to the Entities of the Executive Branch of the Government of Puerto Rico, except as expressly excluded under this Act. For purposes of this Act, the term “Entity of the Executive Branch” includes all of the agencies, as well as the instrumentalities and public corporations of the Government of Puerto Rico regardless of the degree of fiscal and budgetary autonomy otherwise granted under their respective organic acts or any applicable legislation. The University of Puerto Rico shall be exempt from the application of this Act.

Section 2.02.- Municipalities

The municipalities shall be exempt from the application of this Chapter. However, the municipalities are hereby empowered to avail themselves of these provisions upon previous approval of a Municipal Ordinance to such effects.

Section 2.03.- Declaration of Public Policy

It is hereby reaffirmed the Declaration of Public Policy of Act No. 3-2017, known as the “Act to Address the Economic, Fiscal, and Budget Crisis to Guarantee the Operations of the Government of Puerto Rico,” which sets forth that fiscal responsibility is critical for Puerto Rico to restore its credibility among investors and

financial markets, as well as its credit, and to return to a path of responsible management of its debt and finances, thus achieving the efficient restructuring thereof.

It is hereby declared as the public policy of the Government of Puerto Rico to establish discipline, control, and expenditure cutbacks in the agencies, instrumentalities, departments, and public corporations of the Government of Puerto Rico.

The Government of Puerto Rico recognizes the existing disparity between the fringe benefits granted to the employees of the Central Government and their counterparts in public corporations. To avoid laying off government employees, it is necessary to make adjustments in fringe benefit expenditures, while Puerto Rico remains stuck in the fiscal crisis. For such purpose, this Act promotes equality and uniformity in the fringe benefits available to all government employees and officials. All agencies and instrumentalities of the Government of Puerto Rico have the responsibility of assuring that the fringe benefits offered are consistent with the legislative intent that warranted the granting thereof, while striking a proper balance between the needs of employees and the optimum use of the resources available at this historical juncture.

The public policy herein adopted guarantees the continuity of the public endeavor in critical areas such as health, security, education, social work, and development, among others, as well as the rendering of essential and indispensable services to the People. Moreover, this public policy seeks to protect not only the jobs of thousands of public officials and employees of the Government of Puerto Rico, but also our most vulnerable citizens. For such reason, and in compliance with the Fiscal Plan approved in accordance with PROMESA, the fringe benefits of government employees are herein uniformed in order to achieve additional savings.

In order to attain the objectives of this Act in the least burdensome manner for our government employees, it is hereby established that the provisions of Sections 2.04, 2.05, 2.08 through 2.11, and 2.18 shall be implemented temporarily and the effectiveness thereof shall expire the following fiscal year after the Government of Puerto Rico has achieved a balanced budget and the fiscal crisis has been overcome. We believe that this consideration strikes a fair balance between the objective of complying with the certified Fiscal Plan and the interest of preserving social justice, which are the bases for the protection of the benefits granted to our government employees. Said benefits shall be restored upon certification by the members of the Fiscal Plan Compliance Committee.

For purposes of this Act, the Fiscal Plan Compliance Committee shall be composed of one representative appointed by the Governor, one representative appointed by the Speaker of the House of Representatives, and one representative appointed by the President of the Senate of Puerto Rico. Said Committee shall adopt bylaws to govern its internal operations.

Section 2.04.- Fringe Benefits

The Government of Puerto Rico shall be responsible for ensuring that employees are able to enjoy the fringe benefits granted to them, and overseeing that they do so in accordance with a plan that maintains a proper balance between the needs for service, the employees' needs, and the responsible use of the available resources. In order to manage human resources uniformly, responsibly, reasonably, equitably, and fairly, the following fringe benefits shall be available to union or nonunion employees or officials of the Government of Puerto Rico, including public corporations, subject to the provisions of Section 2.03 of this Act.

The fringe benefits of the employees of the Executive Branch shall be:

1. Vacation Leave

a. As of the effectiveness of this Act, every government employee shall be entitled to accrue one and one-fourth (1 ¼) day of vacation leave for every month of service. This provision shall not apply to teaching personnel and school principals, except for the administrative and managerial personnel of the Department of Education, nor to teaching personnel of any educational institution of the Government of Puerto Rico, and law enforcement officers of the Puerto Rico Police, who shall continue to accrue vacation leave as they did prior to the approval of this Act for being excluded from the Sole Employer system created under Act No. 8-2017.

b. The employees shall begin to accrue the vacation leave upon completion of a three (3)-month period and said leave shall be retroactive to the employment commencement date. Furloughed or part-time employees shall accrue vacation leave proportionately to the number of hours regularly worked.

c. The vacation leave may be accrued up to a maximum of sixty (60) workdays at the end of any calendar year.

d. Vacation leave is granted to employees in order to allow them a reasonable annual rest period. As a general rule, said leave shall be used during the calendar year in which it was accrued. Every agency or public instrumentality is required to devise a vacation plan for every calendar year, in collaboration with supervisors and employees, establishing the period during which employees shall enjoy their vacation time in the manner that is more compatible with the needs for service. Said plan shall be completed no later than on December 31st of every year, so that it takes effect on January 1st of the following year. The agencies, public instrumentalities, and all employees shall be responsible for the strict enforcement

of said plan. Exceptions shall only be made when there is a clear, unavoidable, and duly certified need for service.

e. The agency or public instrumentality is required to devise and implement a vacation plan diligently and in strict compliance with the provisions of this Act in order to prevent employees from having their vacation leave forfeited at the end of the calendar year and allow them to use it.

f. All employees shall be entitled to enjoy their vacation leave for a period of fifteen (15) workdays during each calendar year, of which not less than ten (10) days shall be enjoyed consecutively.

g. Employees who are unable to enjoy their vacation leave during a specific calendar year due to need for service evidenced in writing and as required by the agency or public instrumentality shall be exempt from the provisions of subsection (e) of this Section. In this case, the agency or public instrumentality is required to make the necessary adjustments so that the employee is able to enjoy at least any leave accrued in excess of the sixty (60)-day limit at the earliest date possible within the first three (3) months of the following calendar year.

h. The agency or public instrumentality shall be required to provide for the granting of the accrued vacation leave prior to a definite and permanent separation from service, and prior to a transfer to render services at a different public agency or instrumentality.

i. Typically, no vacation leave shall be granted for a period longer than fifteen (15) workdays per calendar year. However, the agency or public instrumentality may grant vacation leave in excess of fifteen (15) days up to a maximum of fifty (50) days, during any calendar year, to those employees who have accrued leave. When granting said leave, the following factors shall be considered together with the need for service:

1. The use of said leave for the employee's self-betterment, such as travel, and education, etc.;
2. Long-term illness of an employee after having exhausted the sick leave balance;
3. Personal issues of the employee requiring his attention;
4. If a leave of absence has been cancelled due to a need for service and as required by the agency;
5. The total leave accrued by the employee.

j. Due to extraordinary circumstances, advanced vacation leave may be granted to regular employees who have rendered services in the Government of Puerto Rico for over one (1) year, if there is certainty that the employee shall return to duty. The advanced vacation leave shall not exceed fifteen (15) workdays. The granting of advanced vacation leave shall require in all cases the previous written approval from the Appointing Authority. Any employee who has been granted advanced vacation leave and separates from service, voluntarily or involuntarily, before rendering services for the period needed to accrue the full amount of unearned advanced leave thus granted shall be required to refund the Government of Puerto Rico any amount paid to him for said advanced leave.

k. In the event that an employee is granted a leave without pay, said employee shall not be required to exhaust the accrued vacation leave in order to use said leave without pay.

l. If vacation leave or advanced vacation leave is authorized, the advanced payment of the wages pertaining to said leave period may be also authorized, insofar as it is requested sufficiently in advance. Such authorization shall be made upon the leave's approval.

m. One or more employees may donate, as an exception, up to a maximum of five (5) days of accrued vacation leave to another government employee who works in the same government entity, as provided in Act No. 44-1996, as amended, known as the “Act for the Ceding of Vacation Leave,” when:

1. The leave recipient has worked uninterruptedly for at least one (1) year in any government agency;

2. The leave recipient has not shown a pattern of unscheduled absences, which constitutes noncompliance with the rules of the government entity;

3. The leave recipient has exhausted all the leave to which he is entitled due to an emergency;

4. The leave recipient or his representative has shown attesting evidence of the emergency and the need to be absent in excess of the leave accrued and already exhausted;

5. The leave donor has accrued at least fifteen (15) days of vacation leave in excess of the amount of leave to be donated;

6. The leave donor has submitted to the government entity where he is employed a written authorization consenting to the leave donation, including the name of the leave recipient;

7. The leave recipient or his representative has accepted the proposed donation in writing.

2. Sick Leave

a. Every employee hired by the Government of Puerto Rico before the effective date of Act No. 8-2017, known as the “Government of Puerto Rico Human Resources Administration and Transformation Act,” shall be entitled to accrue one and a half (1½) days of sick leave for every month of service.

b. Every employee hired by the Government of Puerto Rico after the effective date of Act No. 8-2017, known as the “Government of Puerto Rico Human Resources Administration and Transformation Act,” shall be entitled to accrue one (1) day of sick leave for every month of service.

c. Furloughed or part-time employees shall accrue sick leave proportionately to the number of hours regularly worked.

d. The sick leave shall be used when the employee is sick, has a disability, or is suffering from a contagious disease which requires him to be absent from work in order to protect his health or the health of others.

e. All employees shall use up to a maximum of five (5) days per year of the accrued sick leave, insofar as they maintain a balance of at least twelve (12) days, for the purpose of requesting a special leave to be used:

1. To care and tend to their sick children.

2. To conduct any transactions relating to, or to care for, sick elderly persons or persons with disabilities within their family circle, that is, up to the fourth degree of consanguinity, second degree of affinity, persons living under the same roof, or persons of whom an employee is a legal guardian or has legal custody.

Provided, that the transactions to be conducted are consistent with the purposes for which the sick leave was granted, that is to say, that are related to the health care and attention of the persons mentioned herein.

a) “Elderly persons” shall mean any person who is sixty (60) years of age or older.

b) “Persons with disabilities” shall mean any person who has a physical, mental, or sensory disability that substantially limits one or more essential activities in his life.

3. For the first appearance of any petitioner, victim, or claimant in any administrative and/or judicial proceedings before any Department, Agency, Public Corporation, or Instrumentality of the Government of Puerto Rico in any actions related to child support, domestic abuse, sexual harassment in the workplace, or gender discrimination. The employee shall furnish attesting evidence of said appearance as issued by the concerned authority.

f. The sick leave shall be accrued up to a maximum of ninety (90) workdays at the end of any calendar year. The sick leave shall begin to accrue upon completion of a three (3)-month period of continuous employment and said leave shall be retroactive to the employment commencement date.

g. The agency or public instrumentality is required to make all the necessary adjustments, diligently and in strict compliance with the provisions of this Act, in order to allow employees to use all the sick leave accrued during any calendar year whenever they so need. The employee may exhaust the sick leave accrued during any calendar year.

h. If an employee were absent for over three (3) days due to an illness, a medical certificate may be required attesting to:

1. The employee actually being ill, suffering from a contagious disease, or being unable to work during the period he was absent;
2. The illness of the employee's children;
3. The illness of elderly persons or persons with disability within his family circle, that is, up to the fourth degree of consanguinity, second degree of affinity, persons living under the same roof, or persons of whom the employee is the legal guardian or has legal custody.

In addition to the medical certificate, the inability of the employee to attend work due to an illness may be ascertained by any other appropriate means. The foregoing shall not be applied or construed in violation of the provisions of ADA nor of the “Family and Medical Leave Act of 1993” (FMLA).

i. In the event that an employee is sick and has no sick leave accrued, up to a maximum of eighteen (18) workdays of advanced sick leave may be granted to any employee who has served in the Government of Puerto Rico for not less than one (1) year, if there is reasonable certainty that the employee shall return to duty. Any employee who has been granted advanced sick leave and separates from service, voluntarily or involuntarily, before rendering services for the period needed to accrue the full amount of unearned sick leave thus granted shall be required to refund the Government of Puerto Rico any amount paid to him for said advanced leave.

j. In the event of a long-term illness, once the sick leave is exhausted, an employee may exhaust his accrued vacation leave upon authorization from his immediate supervisor. Should the employee exhaust both leaves and he were still sick, a leave without pay may be authorized.

3. Maternity Leave

a. The maternity leave shall comprise the prenatal and postpartum rest period to which expectant employees are entitled. Likewise, it shall comprise the period to which an employee who has adopted a child is entitled, in accordance with the applicable legislation.

b. Every expectant employee shall be entitled to a four (4)-week rest period before childbirth, and a four (4)-week rest period after childbirth. Provided that the employee may enjoy four (4) additional weeks to care and tend to the child.

Childbirth shall mean the act of giving birth to a child whether naturally or through lawful surgical obstetrics procedures. It shall likewise include any premature childbirth or involuntary abortion, even if the latter was legally induced by a medical specialist and takes place at any time during the pregnancy.

c. The employee may choose to enjoy only one (1) week of prenatal rest, and extend up to seven (7) weeks the postpartum rest period to which she is entitled, or up to eleven (11) weeks if the four (4) additional weeks to care and tend to the child are included. In these cases, the employee shall submit to the agency a medical certificate attesting to the fact that she is able to work up to one week before childbirth.

d. During the maternity leave, the employee shall earn her full wages.

e. In the case of an employee with a provisional appointment, the maternity leave of said employee shall not exceed the appointment period.

f. If childbirth occurs before the four (4)-week prenatal rest period elapses or before the employee began to enjoy her prenatal rest period, said employee may choose to extend the postpartum rest period for a period of time equivalent to that which she did not enjoy before childbirth.

g. When the estimated date of delivery was wrongly calculated and the employee has enjoyed her four (4) weeks of prenatal rest period without going into labor, said employee shall be entitled to an extension of the prenatal rest period with full pay until childbirth. In this case, the employee shall be entitled still to enjoy the four (4)-week postpartum rest period from the date of delivery as well as the four (4) additional weeks to care and tend to the child.

h. In the event of premature birth, the employee shall be entitled to enjoy the eight (8) weeks of maternity leave from the date of premature birth as well as the four (4) additional weeks to care and tend to the child.

i. Any employee who suffers a miscarriage may claim up to a maximum of four (4) weeks of maternity leave. However, in order to avail herself of said benefit, the miscarriage shall produce the same physiological effects that usually arise as a result of childbirth, according to the determination and certification of the attending physician during the miscarriage.

j. In the event that an employee suffers any postpartum complications that prevents her from returning to work once the postpartum rest period and the four (4) additional weeks to care and tend to the child have elapsed, the agency shall grant a sick leave to said employee.

In these cases, there shall be required a medical certificate stating the condition of the employee and the estimated duration thereof. If the employee has exhausted her sick leave, vacation leave shall be granted. In the event that the employee has exhausted both the sick and the vacation leaves, a leave without pay may be authorized for the period recommended by the physician.

k. Any employee who adopts a preschooler, that is, a minor who is five (5) years of age or younger, who is not enrolled in any school, in accordance with the legislation and legal procedures in effect in Puerto Rico or any U.S. jurisdiction shall be entitled to the same full pay maternity leave benefits as an employee who gives birth. In the event that an employee adopts a minor who is six (6) years of age or older, said employee shall be granted maternity leave with full pay for a term of fifteen (15) days. This leave shall begin from the date on which the child is officially placed with the employee, which shall be certified in writing.

l. The maternity leave shall not be granted to employees who are enjoying any other leave with or without pay. Any employees who are enjoying sick or vacation leave, or leave without pay due to pregnancy complications shall be exempt from this provision.

m. Any expectant employee or employee who has adopted a minor is required to notify the agency in advance of her plan to enjoy maternity leave and to return to duty.

n. The agency may authorize the advanced payment of any wages corresponding to the maternity leave period, insofar as the employee so requests in advance, as appropriate. If the employee returns to duty before the postpartum rest period ends, such employee shall be required to refund the balance pertaining to the unused maternity leave.

o. In the event that the newborn dies before the maternity leave period ends, the employee shall be entitled to claim only the portion of the postpartum rest period up to the first eight (8) weeks of unused maternity leave. Provided, that the four (4)-week additional period benefit to care for and tend to the child shall cease as of the date on which the child died. In this case, the employee may avail herself of any other leave to which she is entitled.

p. The employee may request to return to duty before the postpartum rest period ends, insofar as the employee submits to the agency a medical certificate attesting to her ability to return to duty. In this case, it shall be understood that the employee is relinquishing the balance of unused maternity leave to which she is entitled.

4. Paternity Leave

a. The paternity leave shall comprise a period of fifteen (15) workdays from the date of birth of a child.

b. When claiming this right, the employee shall certify that he is legally married or cohabitates with the mother of the child and that he has not committed domestic abuse. Said certification shall be made by submitting the form required by the agency for such purposes, which shall also include the signature of the mother of the child.

c. The employee shall request the paternity leave and submit the birth certificate as soon as possible.

d. The employee shall earn full wages during the paternity leave period.

e. In the case of an employee with a provisional appointment, the paternity leave shall not exceed the appointment period.

f. The paternity leave shall not be granted to employees who are enjoying any other type of leave with or without pay. The employees who have been granted vacation or sick leave shall be exempt from this provision.

g. Any employee who adopts a child, together with his spouse or domestic partner, in accordance with the legislation and legal procedures in effect in Puerto Rico or any U.S. jurisdiction shall be entitled to a paternity leave that shall comprise a fifteen (15)-day period to be counted from the date on which the child is officially placed with the employee, which shall be certified in writing. When claiming this right, the employee shall certify that he is legally married, if applicable, and that he has not committed domestic abuse, or a sexual- or child abuse-related offense. Said certification shall be made by submitting the form required by the agency for such purposes, which shall also include the signature of his spouse.

Any employee who individually adopts a preschooler, that is, a minor who is five (5) years of age or younger, who is not enrolled in any school, in accordance with the legislation and legal procedures in effect in Puerto Rico or any U.S. jurisdiction shall be entitled to eight (8) weeks of paternity leave which shall begin to count from the date on which the child is officially placed with the employee, which shall be certified in writing. In the event that an employee adopts a minor who is six (6) years of age or older, said employee shall be entitled to paternity leave with full pay for a term of fifteen (15) days.

When claiming this right, the employee shall certify that he has not committed domestic abuse, nor a sexual- or child abuse-related offense.

Paragraphs (d), (e), and (f) of this subsection shall apply equally in the event that an employee requests the leave benefits set forth in the previous paragraphs.

h. The employee may request to return to duty before the paternity leave period to which he is entitled ends. In this case, it shall be understood that the employee is relinquishing the balance of unused paternity leave to which he is entitled.

5. Special Breastfeeding Leave with Pay

a. Breastfeeding mothers who return to work after enjoying maternity leave shall be granted the opportunity to nurse their children for a period of one (1) hour during each full-time work day, which may be divided into two (2) thirty (30)-minute sessions or three (3) twenty (20)-minute sessions, to go where the child to be breastfed is being cared for, should the company or employer have a child care center in its facilities, or to express breast milk at the place provided for such purposes in the workplace. Said places shall guarantee nursing mothers privacy, safety, and hygiene. Said place must have electrical outlets and ventilation. If the employee is working on a part-time basis and the workday exceeds four (4) hours, the period granted shall be thirty (30) minutes for every consecutive four (4)-hour working period.

b. Within the workplace, the breastfeeding period shall have a maximum duration of twelve (12) months, to be counted as of the date the employee returns to duty.

c. Employees who wish to avail themselves of this benefit shall submit to the employer a medical certificate, during the period corresponding to the fourth (4th) and the eighth (8th) months of age of the infant, attesting to the fact and

certifying that she is breastfeeding her baby. Said certificate shall be submitted not later than five (5) days before each period. Provided, that the employer shall designate an area or physical space that guarantees the privacy of the breastfeeding mother, as well as her safety and hygiene, without this entailing the creation or construction of physical or organizational structures, contingent upon the availability of resources of the government entities. The agencies, instrumentalities, departments, and public corporations of the Government of Puerto Rico shall adopt regulations on the operation of said breastfeeding areas.

6. Leave Without Pay

a. If the cause for which the leave was granted ceases, the employee shall report for duty immediately or notify the public agency or instrumentality of the reasons why he is unavailable, or of his decision not to return to work.

b. In addition to the leaves without pay that each agency or public instrumentality may grant by regulations, the following may be granted:

1. To career employees with regular status, to render services in other agencies of the Government of Puerto Rico or in a private entity.

2. To career employees with regular status, to protect their status or the rights to which they may be entitled in cases of:

a) A disability claim before the Retirement System of the Government of Puerto Rico or other entity, and the employee has exhausted his sick and vacation leaves.

b) Having suffered a work-related accident and undergoing medical treatment with the State Insurance Fund Corporation or pending a final determination concerning the employee's accident, and the employee has exhausted his sick and vacation leaves.

3. To employees who so request after the birth of their child. Provided, that this type of leave without pay may be granted for a period of time which shall not exceed six (6) months as of the date on which it is authorized.

4. To employees with regular status who are transferred to positions of trust in the Office of the Governor or in the Legislative Assembly, while rendering said services.

5. To employees with regular status who have been elected in the general elections or have been selected to fill a vacancy of an elective public office within the Executive or Legislative Branch, including the offices of Resident Commissioner in the United States and Mayor, while rendering said services.

7. Special Leaves

A special leave for a justified cause shall be granted, with or without pay, as the case may be, to union or nonunion government employees or officials. Provided, that said leaves shall be governed by the special laws that provide therefor.

a. Court leave to serve as witness – Any employer is hereby prohibited from making deductions from the employee's salary or vacation or sick leave for the days and time spent by an employee duly summoned by the Department of Justice or a court, serving as a witness in a criminal action.

b. Court leave for jury duty – Any employee summoned for jury duty shall be entitled to a leave with pay and to receive compensation from his employer on account of meals and mileage, in accordance with the regulations adopted by each agency, instrumentality, or public corporation, as if it were an official duty of said employee or official.

c. Official duty – Every employee summoned in an official capacity to appear before any Court of Justice, the State Attorney's office, or administrative or government body, or government agency shall be entitled to a leave with pay for the period he was absent from work as a result of said summons.

d. Blood donation leave – Every employee of the Government of Puerto Rico, its instrumentalities, and public corporations shall be granted a blood donation leave with pay for a period of four (4) hours per year.

e. Parental involvement leave – Every employee of the Government of Puerto Rico, its instrumentalities, and public corporations shall be entitled to four (4) work hours without making any deductions from the employee's pay or any leave, at the beginning of each school semester and four (4) work hours at the end of each school semester to visit their children's school in order to learn about their academic achievements. The foregoing notwithstanding, any employee whose children are enrolled in the Special Education Program of the Department of Education shall have up to ten (10) hours per semester to conduct any transaction relating to their children.

f. Leave without pay to participate in sports – A leave without pay shall be granted to every government employee who was duly selected and certified by the Board for the Development of Full-Time High Performance Puerto Rican Athletes as an elite athlete or high-performance trainer for the Olympic, Paralympic, Pan-American, and Central America and the Caribbean Games, and Regional or World Championships. This leave shall have a term of up to one (1) year with the right to renewal, insofar as the Board approves it and it is so notified to the employer on or before thirty (30) days from its expiration. This leave allows eligible athletes and trainers to be absent from work without losing leave, with a job guaranteed, and without affecting any of the benefits and vested rights during the time these are participating in said trainings and/or competitions.

During the leave period, the Board shall be responsible for the participants' wages. Therefore, the Board shall be required to remit to the employer the amount pertaining to the legal deductions made to the employees so as to allow the employer to continue making the payments pertaining to said contributions.

g. Special leave to participate in sports - A special leave is hereby established to be granted to every government employee duly certified by the Puerto Rico Olympic Committee as an athlete to represent Puerto Rico in the Olympic Games, Paralympic Games, Pan-American Games, and Central America and the Caribbean Games, and Regional or World Championships. This leave shall be cumulative and shall not exceed thirty (30) workdays per calendar year.

h. Leave of absence to renew driver's license – Every employee may use up to two (2) hours from his workday, without charge to any leave and with pay, to renew his driver's license, insofar as the holding of said license is an essential requirement to perform his job given the nature thereof.

i. Leave of absence for volunteer emergency service – Every employee who is a disaster service certified volunteer of the American Red Cross may be granted a leave of absence with pay for a period not to exceed thirty (30) calendar days within a twelve (12)-month period in order to render special disaster services for the American Red Cross.

This leave shall be granted insofar as the American Red Cross requests the services of the official and upon approval of the agency, instrumentality, or public corporation where the official works. The American Red Cross shall issue a certificate to the employee for the services rendered and the duration thereof. The employee shall submit said certificate to the agency, instrumentality, or public corporation where he works.

j. Military leave – Every employee who is a member of the Puerto Rico National Guard or of the Reserve components of the United States Armed Forces shall be entitled to a leave with pay for a maximum of thirty (30) days every year when on military service, as part of a training, or to attend drills or camp, as required.

k. Leave of absence for child immunization – Every employee who so requests may be granted up to two (2) hours to take his children to a government or private institution for immunization, every time a vaccine is required, as established in the immunization card of his children. The employee must submit a certification of the place, time, and date where the vaccines were administered to his children for the purpose of justifying the time used, as established for this type of leave. Otherwise, the time used shall be charged to compensatory time off, vacation leave, or it shall be deducted from the employee's wages.

l. None of the provisions of this Act shall impair the rights granted to government employees under the provisions in effect of the Federal Medical Leave Act (FMLA).

Section 2.05.- Holidays

Every government employee or official of the Government of Puerto Rico shall only be entitled to the holidays declared as such by the Governor of Puerto Rico or by law. The holidays to be observed by government employees are the following:

1. New Year's Day, January 1st.
2. Three Wise Men Day, January 6.
3. Birthday of Martin Luther King Jr., the third Monday in January.
4. George Washington's Birthday, Presidents' Day, and the Puerto Rican Illustrious Persons Day: Eugenio María de Hostos, José de Diego, Luis Muñoz-Rivera, José Celso Barbosa, Ramón Emeterio Betances, Román Baldorioty-de Castro, Luis Muñoz-Marín, Ernesto Ramos-Antonini, and Luis A. Ferré, the third Monday in February.
5. U. S. Citizenship Day, March 2.
6. Abolition Day, March 22.
7. Good Friday, according to the date on which it occurs every year.

8. Memorial Day, the last Monday in May.
9. Independence Day, July 4.
10. Labor Day, the first Monday in September.
11. Columbus Day, the second Monday in October.
12. Veterans Day, November 11.
13. Discovery of Puerto Rico and Puerto Rican Culture Day, November 19.
14. Thanksgiving Day, the fourth Thursday in November.
15. Christmas Day, December 25.

Section 2.06.- Day Care Centers

Every official or employee of the Government of Puerto Rico, its instrumentalities, and public corporations, where there are areas duly set up to operate as Day Care Centers and/or to be used as care centers for preschoolers, shall be entitled to the use thereof. The users of this service shall make a financial contribution geared to improving the operations of the Center; provided, that each agency, instrumentality, or public corporation shall determine a reasonable amount to be paid for using said facilities and services.

Section 2.07.- Uniform Employer Contribution to the Healthcare Plan of the Employees of Public Corporations.

The Executive and Legislative Branches shall identify additional savings and resources to prevent adversely affecting the employees' contributions to the payment of the healthcare plan. If the projected savings of the Fiscal Plan are not achieved, the difference shall be offset through a program to match the Government's contributions to the healthcare plan. Only then, as of July 1st, 2018, every official or government employee, whether union or nonunion, who works for any Public Corporation, except for the University of Puerto Rico, shall be entitled to an employer contribution to be determined by the Fiscal Plan Compliance Committee using as a basis the metrics established in the Fiscal Plan, but in no case said

contribution shall be less than the one hundred dollar (\$100)-employer contribution established by law for Central Government employees. FAFAA may negotiate and reach agreements on an insurance coverage that is less expensive with private insurers or public coverage to be selected by the employees of the Government as Sole Employer or by agency or groups of agencies. Any reduction in the employer contribution to the healthcare plan shall require FAFAA to offer a less expensive insurance coverage to said government employees. However, every employee, or dependent thereof, of a public corporation who is currently enrolled in the healthcare plan and who suffers from a preexisting catastrophic, chronic, or terminal illness shall continue to receive the employer contribution in effect for his healthcare plan, without any change, for the term he remains in the public service.

Section 2.08.- Bonus

As of the effective date of this Act, the only financial bonus to be granted to government employees of the Central Government and the public corporations thereof shall be the Christmas Bonus. The employees shall be entitled to a bonus in the amount of six hundred dollars (\$600) for every year said employee has rendered services in the Government of Puerto Rico for at least six (6) months.

Section 2.09.- Compensation for Work in Excess of the Regular Work Schedule

1. The work schedule of each agency or public instrumentality shall be designed so that the need to work beyond the regular work schedule established for employees by the agency or public instrumentality is reduced to a minimum. However, employees may be required to render services beyond their daily or weekly work schedule, or on any other day when services are suspended by the Governor without charge to any leave, due to the special nature of the services to be rendered; the need for service to protect and preserve the life and property of citizens; any emergency situation; an event of force majeure; any weather

disturbances; and unforeseen or maintenance situations as necessary to continue offering essential services. In these cases, the supervisor of the employee shall issue a previous authorization therefor, to be approved by the appointing authority or by the official to whom it delegates. Supervisors shall take measures to ensure that when an employee remains working, the employee is doing so by virtue of an express authorization.

2. Employees shall be entitled to receive a compensatory time off, at the rate of one and one-half time, for services rendered beyond their regular daily or weekly work schedule, or during their meal break, and for services rendered during holidays, days off, or days on which the Governor suspends services without charge to any leave. The compensatory time off shall be enjoyed by the employee within six (6) months as of the date on which the employee has worked overtime. If due to the need for the service, this were not possible, compensatory time off may be accrued for up to a maximum of two hundred and forty (240) hours. In the case of employees who discharge duties related to public safety, emergency response, or seasonal activities, as these terms are defined in the Fair Labor Standards Act, except for the provisions of Section 10 of Act No. 53-1996, and Section 2.09 of Act No. 20-2017, said employees may accrue up to four hundred and eighty (480) hours. Overtime compensation through compensatory time off shall not be allowed for hours accrued by the employee in excess of the aforementioned limits. However, police officers, as provided in Section 2.09 of Act No. 20-2017, shall be paid at the rate of one and one-half time and shall have the option to choose the payment of these hours without the need to accrue them as compensatory time off, and said overtime pay shall not be included in their gross income and shall be exempt from taxation. This shall not apply to employees of public corporations who shall be entitled to overtime pay at a rate of one and one-half time from the first hour accrued

as provided in this Act, except when the applicable collective bargaining agreement provides for the accrual of compensatory time off.

3. Any employee who discharges administrative, executive, or professional duties, as these terms are defined in the Fair Labor Standards Act shall be exempt from the provisions of subsection (2) above.

Section 2.10.- Liquidation of Vacation and Sick Leave Accrued in Excess

Every agency, instrumentality, or public corporation must recognize to every government employee, whether union or nonunion, any vacation and sick leave accrued as of the effective date of this Act; however, no leave accrued before the effective date of this Act shall be liquidated in cash.

Every agency or public instrumentality shall be required to immediately outline a plan whereby union or nonunion employees shall exhaust any leaves accrued in excess so that, by December 31st, 2017, there are no sick or vacation leave accrued in excess of the ceilings. Provided, further, that any accrued leave in excess of the ceilings shall be forfeited if unused after said date.

As of the effective date of this Act, no government employee, whether union or nonunion, who works for the Government of Puerto Rico, in any of its agencies, instrumentalities, or public corporations shall be entitled to receive a payment on account of the liquidation of vacation or sick leave accrued in excess.

Section 2.11.- Lump-Sum Payments for Vacation Leave Upon Separation from Public Service

As of the effective date of this Act, any government employee, whether union or nonunion, shall only be entitled to a lump-sum payment for accrued vacation leave as of the date of separation from service, which shall in no case exceed sixty (60) days. The employee may authorize the transfer of said balance and/or excess existing prior to the approval of this Act to the Retirement System to be credited as time worked.

Section 2.11(a).- Section 3 of Act No. 125 of June 10, 1967, as amended, is hereby amended to read as follows:

“The Governor shall regulate all that pertains to the granting and enjoyment of leaves and the amount of the final compensation payments, including the payment of the death benefit, in connection with the officials designated by the Governor, except for the members of the Judiciary, ombudsmen, prosecutors, and property registrars. For purposes of the final compensation payment, which shall in no case exceed an amount equal to two (2) month’s salary, the Governor shall take into consideration factors such as the need for service, the term during which the employee held office, and the fiscal status of the government agency or entity, the nature of the duties discharged, and the credits for any accrued and unused vacation leave from previous Government employment upon transfer to hold an office appointed by the Governor, among others. Those persons who receive a final compensation payment, pursuant to the provisions of this Act, shall be required to refund the amount thus received if, as a result of acts that occurred while discharging their public duty, such persons are convicted of misappropriation, embezzlement, or theft of public funds; crimes against the public treasury or public duty, as classified in the Penal Code of Puerto Rico.

...”

Section 2.12.- Section 4.3 of Article 4 of Act No. 8-2017, known as the “Government of Puerto Rico Human Resources Administration and Transformation Act,” is hereby amended to read as follows:

“Section 4.3.- Powers and Duties of the Office and the Director

In addition to any other powers and duties conferred under this Act, the Office and the Director shall have the following:

1. ...

2. Powers and Duties of the Office.-

a. To centralize the duties of the Government of Puerto Rico Human Resources Administration and Transformation Office that are compatible with the provisions of this Act.

b. ...

c. ...

d. ...

e. To provide advice on labor-related matters to the agencies of the Executive Branch in all that pertains to the procedures for election and certification of labor unions; the negotiation and administration of collective bargaining agreements; and any other labor-related areas of the agencies, as provided in Act No. 45-1998. While discharging its advisory duties relating to collective bargaining pursuant to Act No. 45-1998, the Office shall coordinate and supervise the creation and operation of a Bargaining Committee, composed of its staff as well as the staff designated by the Office of Management and Budget. The Office shall conduct comparative studies on collective bargaining agreements and shall provide training in the field of labor to those agencies that so request.

f. ...

g. ...

h. ...

i. ...

j. ...

k. ...

l. ...

m. To manage the Central Job Posting Register for Recruitment, Promotion, and Training in the Government and keep it up to date. Likewise, it shall keep an online register; provided, that public agencies and instrumentalities as well

as public corporations, except for the Office of the Governor proper, the Municipalities, the Supreme Court, the Office of the Chief Justice, the Office of the Court Administrator, the Legislative Assembly, and the Municipal Legislatures, carry out their duty of forwarding, on a monthly basis, any recruitment and promotion opportunities to the Government of Puerto Rico Human Resources Administration and Transformation Office. The Office shall call for interview candidates from the list maintained by said Office. All applications for training shall be forwarded to the Government of Puerto Rico Human Resources Administration and Transformation Office within at least thirty (30) days before the training date. The Office shall evaluate the need and convenience of the training and shall approve or deny the same.

- n. ...
- o. ...
- p. ...
- q. ...
- r. ...
- s. ...
- t. ...
- ...”

Section 2.13.- Section 5.2 of Article 5 of Act No. 8-2017, known as the “Government of Puerto Rico Human Resources Administration and Transformation Act,” is hereby amended to read as follows:

“Article 5.- The Government of Puerto Rico Human Resources Administration and Transformation System.-

Section 5.1.- ...

Section 5.2.- Exclusions.-

The provisions of this Act shall not apply to the following Government agencies and instrumentalities:

1. ...
- ...
5. The Office of the Governor proper.
- ...
8. ...

However, public corporations or public-private partnerships shall adopt personnel regulations incorporating the merit system in the administration of their human resources, as provided in this Act, and submit a copy thereof to the Office. The Office is hereby empowered to conduct compliance audits of the essential areas of the merit system.

Likewise, the concept of mobility and the mechanism established by the Office to implement the movement of government employees shall apply to public corporations or public-private partnerships, agencies that operate as private companies or businesses such as the Participatory Public-Private Partnerships (APP+P), and to the municipalities.”

Section 2.14.- Subsections 1(d) and 4(1) of Section 6.4 are hereby amended, and a new subsection 5 is hereby added to Article 6 of Act No. 8-2017, known as the “Government of Puerto Rico Human Resources Administration and Transformation Act,” is hereby amended to read as follows:

“Section 6.4.- Provisions on Promotions, Transfers, Demotions, and Mobility.-

- ...
1. ...
 - a. ...

b. ...

c. ...

d. ...

Furthermore, special qualifications of the employees shall be understood to be additional experience; academic education beyond minimum requirements; and the results obtained in the Evaluation System adopted by the Agencies and developed by the Office.

e. ...

2. ...

3. ...

4. Mobility

...

1. The Government of Puerto Rico Human Resources Administration and Transformation Office in conjunction with the Office of Management and Budget shall have one (1) year as of the approval of this Act to devise mobility plans, which shall address the immediate needs for rendering services in the Government of Puerto Rico.

2. ...

3. ...

4. ...

5. ...

6. ...

7. ...

8. ...

9. ...

10. ...

11. ...

12. ...

13. ...

5. Other Actions

(a) Detail – The temporary assignment of a public official or employee from an agency of the Executive Branch or municipality, and vice versa, is hereby authorized in order to render mutual services at any other of said jurisdictions. Detailed employee or officials shall continue to hold the same office and shall keep all of their rights as officials or employees of said agency. Detail is an administrative action that allows for the maximization of the use of human resources in a cost-effective manner according to the Merit System. Under extraordinary circumstances, the use of this mechanism between officials and employees of the Executive Branch and other Government Branches, shall be allowed insofar as the detailed official receives his wages from the Branch for which he works, in accordance with the rules established therefor by the Office of Management and Budget. Detail may be used for a one (1)-year term, which may be extended as necessary.

(b) Administrative Designation or Assignment – Is the formal and temporary designation made by an appointing authority to an employee in order for said employee to render services of the same or similar nature in another office of the same agency.”

Section 2.15.- Subsection 2(b) of Section 6.8 of Article 6 of Act No. 8-2017, known as the “Government of Puerto Rico Human Resources Administration and Transformation Act,” is hereby amended to read as follows:

“Section 6.8.- Habilitation in the Public Service

...

1. ...

2. ...

a. ...

b. Any convicted government employee who has been granted a suspended sentence or parole and is serving his sentence in the community under those limitations imposed by the entities of the Government's Corrections System, may file a request for habilitation at any time with the Department of Labor and Human Resources or, in default thereof, the Agency where he is employed, shall be required to file it. The employee shall continue to hold office until the Secretary of the Department of Labor and Human Resources determines otherwise.

c. ...

d. ...”

Section 2.16.- Section 6.9 of Article 6 of Act No. 8-2017, known as the “Government of Puerto Rico Human Resources Administration and Transformation Act,” is hereby amended to read as follows:

“Section 6.9.- Prohibition

In order to ensure the faithful application of the Merit System in the Public Service during pre- and post-electoral periods, the Appointing Authorities of the agencies, instrumentalities, and public corporations of the Government of Puerto Rico shall refrain from making any personnel transaction relating to the essential areas of the Merit System, such as appointments, promotions, demotions, or transfers; nor shall they be able to make changes to position categories, nor shall they use the employee's mobility during the election prohibition period. Provided, that during said period, no personnel actions or changes whatsoever with a retroactive effect may be processed or recorded in the employee's personnel folder. Any changes resulting from the completion of a probationary period and the imposition of disciplinary measures shall be exempt from this prohibition. Noncompliance with this provision shall render any transaction thus carried out null.

This prohibition shall comprise the period of two (2) months before and two (2) months after the holding of the General Elections of Puerto Rico.

Upon the Office's approval, exceptions from this prohibition may be made in the event of urgent and unavoidable needs for service duly evinced and certified pursuant to the rules issued by the Office to such effect. For purposes of this Section, urgent or unavoidable needs shall be understood as any essential or crucial actions for which there is a pressing need to carry them out in order to discharge the functions of the agency, instrumentality, or public corporation. It shall not include actions that are deemed merely convenient or beneficial, whose solution may be extendable until the regular process therefor is concluded."

Section 2.17.- Subsections 3 and 5 of Section 7.2 of Article 7 of Act No. 8-2017, known as the "Government of Puerto Rico Human Resources Administration and Transformation Act," is hereby amended to read as follows:

"Section 7.2.- General Pay Rules

The following guidelines shall apply to all government agencies under this Act:

1. ...
2. ...
3. The Office shall administer their pay plan in connection with the essential areas of the merit system. When conducting transactions relating to public service career employees, none of these[sic] shall take an action that attempts against or that is contrary to the merit system.
4. ...
5. No amendment or modification to the position classification and evaluation plan may negatively affect the base salary of the employee.

..."

Section 2.18.- The effectiveness of Article 9 and Section 10.2 of Article 10 of Act No. 8-2017, known as the “Government of Puerto Rico Human Resources Administration and Transformation Act,” is hereby suspended, subject to the provisions of Section 2.03 of this Act.

Section 2.19.- Nullity

As of the effective date of this Act, any clauses or provisions of a collective bargaining agreement, covenant, supplementary agreement, regulations, administrative order, circular letter and/or contract letter, whereby union or nonunion government employees or officials of the Government, including union or nonunion employees of the Public Corporations of the Government of Puerto Rico, are granted more fringe benefits than those authorized herein shall be null and ineffective. The adoption of any authorized measure to comply with the foregoing provisions by any agency or public corporation of the Government of Puerto Rico shall not constitute a violation of the existing collective bargaining agreements. It shall neither constitute an unlawful practice.

Section 2.20.- Relation to other Laws

The following laws shall remain in full force to the extent the provisions thereof are not in conflict with this Act:

- a. Act No. 62 of June 23, 1969, as amended known as the “Military Code of Puerto Rico.”
- b. Act No. 122-1996, as amended, known as the “Employees Summoned as Witnesses in Criminal Cases Act.”[sic]
- c. Act No. 44-1996, as amended, known as the “Act for the Ceding of Vacation Leave.”
- d. Act No. 203-2007, as amended, known as the “Bill of Rights of the Puerto Rican Veteran for the 21st Century.”

e. Act No. 58-1994, as amended, known as the “Emergency Service Voluntary Leave Act.”

f. Act No. 122 of July 12, 1986, as amended, known as the “Employees Summoned as Witnesses in Criminal Cases Act.”

g. Act No. 281-2003, as amended, known as the “Puerto Rico Jury Service Administration Act.”

h. Act No. 24-2002, as amended.

i. Act No. 49 of June 27, 1987, as amended.

j. Act No. 134-1998, as amended.

k. Act No. 154-2000, as amended.

l. Regarding the Municipalities, the provisions of Act No. 81-1991, as amended, known as the “Autonomous Municipalities Act of the Commonwealth of Puerto Rico of 1991,” shall remain in full force without any impairment. The provisions of this Act shall apply to any Municipality that so determines upon approving a Municipal Ordinance to such effect.

Section 2.21.- Repeal

Act No. 89-2016, better known as the “Public Service Temporary Employment Act,” is hereby repealed.

CHAPTER 3.- JOINT UNDERWRITING ASSOCIATION OF THE COMPULSORY LIABILITY INSURANCE

Section 3.01.- Subsection (m) of Section 3 of Act No. 253-1995, as amended, is hereby amended to read as follows:

“Section 3.- Definitions

For purposes of this Act, the following terms and phrases shall have the meaning stated below:

(a) ...

...

(m) Compulsory Liability Insurance.- Means the insurance required by this Act and that responds for damages caused to third party motor vehicles as a result of a traffic accident, for which the owner of the vehicle covered by this insurance is legally liable, and through the use of which said damages were caused, according to the system for the initial determination of liability created pursuant to this Act. Said insurance shall have coverage limit of four thousand five hundred dollars (\$4,500) per accident. The Commissioner, upon request of insurance companies that offer the compulsory liability insurance, or *motu proprio*, may review and modify the limits and rate of the compulsory liability insurance every two (2) years, in accordance with the applicable provisions of Chapter 12 of the Code, which take into account every insurer in the Compulsory Liability Insurance market. However, the coverage limits shall never be less than three thousand five hundred dollars (\$3,500).

...”

Section 3.02.- Subsections (f) and (h) of Section 6 of Act No. 253-1995, as amended, better known as the “Compulsory Motor Vehicle Liability Insurance Act,” are hereby amended to read as follows:

“Section 6.- Joint Underwriting Association—Creation

(a) ...

...

(f) Insurers that underwrite the compulsory liability insurance, including the Joint Underwriting Association, upon receipt of their respective premiums after deducting the fee established in Section 7(b)(1), shall deduct five percent (5%) of said premiums, as provided in Section 7(b)(2). Every insurer and the Joint Underwriting Association shall be responsible for remitting to the Department of the Treasury the amount pertaining to the fee collected on the total premiums underwritten during a month, not later than the fifth (5th) day of the following month. The Department of the Treasury shall prescribe by regulations the manner in which

this payment shall be made and may design and agree on other methods for the collection of this fee, insofar as said change results in the effective and continuous collection thereof. On the same date, every insurer and the Joint Underwriting Association shall be responsible for remitting to the Department of the Treasury the amount pertaining to the fee established in Section 7(b)(3). The Department of the Treasury shall prescribe by regulations the manner in which this payment shall be made and may design and agree on other methods for the collection of this fee, insofar as said change results in the effective and continuous collection thereof.

...

(h) All members of the Joint Underwriting Association shall share in the annual profits and losses thereof, as determined in accordance with the Annual Statement required under Section 3.310 of the Code, in the percentage that the direct net premiums underwritten in Puerto Rico during the previous year for each one of the insurers, for insurance against any loss, expense, or liability for the loss or the damage caused to persons or property, resulting from the possession, conservation, or use of a land vehicle, aircraft, or draft animal or mount, or incidental thereto, all of which in accordance with Section 4.070 of the Code, represented by the total of the direct net premiums underwritten in Puerto Rico during said year for that type of insurance.

(1) ...

(2) ...

(3) Special Dividend and Special Payment 2017:

(i) The Joint Underwriting Association is hereby empowered to report to its members a special dividend before June 30th, 2017, subject to the provisions of this subsection, in the amount of seventy million dollars (\$70,000,000) subject to the imposition of a one-time special tax of fifty percent (50%). Dividends received by private insurers that are members of the Joint Underwriting Association

shall not be subject to any other tax. Any revenues on account of the one-time special tax herein established shall not be considered for purposes of the computation of any of the existing formulas used to determine budget appropriations to be earmarked during the constitutional budget process.

(ii) Within a term that shall not exceed fifteen (15) days as of the approval of this Act, the Board shall call a meeting and shall submit for the approval of all of the members of the Joint Underwriting Association the declaration of the authorized special dividend. It is hereby provided that the dividend may be approved by the vote of members who have a combined proportional share of over fifty percent (50%), in accordance with the most recent determination made by the Office of the Insurance Commissioner. The determination made at the Meeting shall be binding.

(iii) Considering the public benefit of this measure, and its authorization by the Legislative Assembly, the provisions of subsection (j) of this Section shall apply to the actions taken by the Board, the members, and the personnel of the Association.

(iv) If the dividend statement is approved at the meeting, the Joint Underwriting Association shall make a special payment in the amount of thirty-five million dollars (\$35,000,000) within a term that shall not exceed ninety (90) days, to the Department of the Treasury, which shall deposit said funds in the General Fund of the Government of Puerto Rico. During said term, the Joint Underwriting Association shall pay to the members thereof the authorized dividends, pursuant to the proportional share of each member.

...”

Section 3.03.- Subsections (a), (b), and (d) of Section 7 of Act No. 253 of December 27, 1995, as amended, are hereby amended to read as follows:

“Section 7.- Premiums

(a) The initial uniform premium of the compulsory liability insurance shall be ninety-nine dollars (\$99) for each private passenger vehicle and one hundred forty-eight dollars (\$148) for each commercial vehicle. The review and adjustment of the premium on or before June 30, 2017, in accordance with the provisions of subsection (e) of this Section, is hereby authorized.

The Commissioner may fix a premium other than that established herein for the compulsory liability insurance of those vehicles to which the Department of Transportation and Public Works has issued transitory or provisional licenses.

(b) Service Fees

1) ...

2) ...

3) An additional administrative fee is hereby established which shall be proportional to the increase in revenues on account of adjustments to the uniform premium, in accordance with the provisions of subsections (a) and (e) of this Section. The applicable percentage to determine the appropriate amount in the event of increase of the premium shall be computed by dividing the net increase of the premium pursuant to the amount established in subsection (a) of this Section, by the adjusted total cost of the premium. The resulting percentage shall be applied to the income generated by the insurers, including the Joint Underwriting Association after the administrative costs and any production costs related to the premium are deducted. The remaining balance after applying the percentage as established in this formula shall be transferred to the General Fund of the Government of Puerto Rico. This fee does not constitute a tax on a premium.

4) These fees shall not apply to policies issued through a traditional insurance, but rather shall be deemed to be part of the compulsory liability insurance premium and shall be guaranteed within the premium dollar distribution.

(c) ...

(d) Every insurer of the compulsory liability insurance may submit to the Commissioner for his approval any rate rules and schedules that include guidelines for the application of late fees to the uniform premium for private passenger and commercial vehicles that are insured under this premium, as the case may be, subject to the provisions of Chapter 12 of the Code, taking as a basis the frequency and seriousness of the losses of the insured.

(e) ...

...”

**CHAPTER 4.- TRANSFER OF PUBLIC CORPORATIONS, AGENCIES, AND
INSTRUMENTALITIES TO THE GENERAL FUND; CREATION OF THE
COMMITTEE AND ADJUSTMENTS TO FEES, DUTIES, AND RATES**

Section 4.01.- Transfer of Surplus

The public corporations, agencies, and instrumentalities of the Government of Puerto Rico are hereby directed to transfer to the Department of the Treasury any surplus of the revenues generated. Said funds shall be deemed to be available resources of the State and shall be deposited by the Department of the Treasury in the General Fund of the Government of Puerto Rico in order to meet the liquidity requirements provided for in the Fiscal Plan adopted by virtue of the provisions of the Puerto Rico Oversight, Management, and Economic Stability Act of 2016, Public Law 114-187, better known as PROMESA.

Section 4.02.- Committee

The amount of funds to be contributed by each of corporation and instrumentality shall be determined by a committee composed of the Executive Director of the Puerto Rico Fiscal Agency and Financial Advisory Authority, the Secretary of the Department of the Treasury, and the Executive Director of the Office of Management and Budget, which committee may establish the rates needed to comply with the provisions of the Fiscal Plan approved for the Government of Puerto Rico, and that which governs the corporations. This committee shall ensure that the fund transfer provided in Section 4.01 of this Act does not affect the services offered by public corporations and instrumentalities, and that the surplus consists of the balance available after the operating costs and obligations of said entities are covered, in accordance with the expenditures budget recommended by the Office of Management and Budget for each fiscal year.

Moreover, this committee is hereby empowered to review the sources of income of the public corporations, agencies, and instrumentalities, and to adjust, increase, or decrease any fee, duty, rate, tariff, cost, premium, or any revenue of similar nature, for the purpose of complying with the metrics provided in the Fiscal Plan of the Government of Puerto Rico. The committee may also impose an additional administrative fee on those contributions it deems necessary, which fee may range from five (5) to ten (10) percent, in order to comply with the metrics of the Fiscal Plan certified by the Financial Oversight Board.

This Act shall have supremacy over any law whereby any fee, duty, rate, tariff, cost, premium, or any revenue of similar nature is thus established, and the committee is hereby empowered to review, increase, or decrease the amount thereof even when said amount is provided by law. The committee shall be empowered to review, increase, or decrease these revenues notwithstanding the provisions of any

other law, regulations, or administrative order that establishes a specific amount for these revenues.

Any provisions of laws, regulations, administrative orders, corporate resolution, or any other documents of similar nature that limit or reduce the funds that may be transferred by a public corporation, agency, or instrumentality of the Government of Puerto Rico to the General Fund as provided in this Chapter are hereby suspended.

The committee is hereby empowered to promulgate any other administrative order, circular letter, or regulations as are necessary for its operation and compliance with the provisions of this Act.

Section 4.03.- Exclusions

The University of Puerto Rico, created by virtue of Act No. 1 of January 20, 1966, as amended, known as the “University of Puerto Rico Act,” and the Public Corporation for the Supervision and Insurance of Cooperatives in Puerto Rico created by virtue of Act No. 114-2001, as amended, better known as the “Public Corporation for the Supervision and Insurance of Cooperatives in Puerto Rico Act,” the “Municipal Finance Corporation Act,” Act No. 19-2014, as amended, better known as COFIM (Spanish acronym), the “Special Joint Committee on Legislative Donations Act”[sic], Act No. 20-2015, and the “Standing Committee on the Comptroller’s Special Reports,” Act No. 83 of June 23, 1954, as amended, are hereby excluded from the provisions of this Chapter. Any funds held by community-based organizations and public corporations that constitute funds received from private entities are hereby excluded from the application of this Chapter.

Regarding the “Dedicated Sales Tax Act,” Act No. 9[sic]-2006, as amended, better known as COFINA (Spanish acronym), the Executive Branch is hereby empowered to use COFINA funds occasionally, only as the last resort, and subject to the filing of a sworn certification with the Legislative Assembly. The filing of said

certification shall not be construed as implying that the Executive Branch shall have unlimited access to COFINA funds. Said certification shall state the need, term, and amount of funds to be used to cover a significant occasional deficiency in the cash flow to comply with the Fiscal Plan of the Government of Puerto Rico. Said certification shall be signed and sworn by the Executive Director of the Puerto Rico Fiscal Agency and Financial Advisory Authority (FAFAA), and the Executive Director of the Office of Management and Budget. These officials shall sign the certification under oath, which task shall be nontransferable. In said certification, the officials shall attest to the correctness, accuracy, and veracity of the information, pursuant to the fiscal reality of the Government of Puerto Rico.

Section 4.04.- Compliance Clause

All transfers made by virtue of the provisions of this Chapter shall be subject to the requirements of Section 201(b)(1) (M) of Public Law 114-187, known as the Puerto Rico Oversight, Management, and Economic Stability Act or PROMESA.

CHAPTER 5.- DISPOSAL OF REAL PROPERTY OF THE GOVERNMENT

Section 5.01.- Public Policy

In order to provide more resources to the Treasury, it is hereby declared as the public policy of the Government of Puerto Rico to make better use of the State's currently unutilized real property. It is hereby further promoted that any currently unutilized real property be devoted to activities, whether for nonprofit, commercial, or residential, geared toward advancing the general welfare and, in turn, fostering the activation of the real estate market and the economy in general.

To comply with this public policy, the design of a new efficient and effective procedure for the sale of real property based on the principles of competition, transparency, economic development, job creation, wellbeing, and the public interest is hereby authorized.

Section 5.02.- Definitions

For purposes of this Chapter, the following terms shall have the meaning stated below:

A. Real Property - Those that cannot be moved or transferred from one place to another, such as land, buildings, etc., as well as everything attached to an immovable in a fixed manner, in such a way that it cannot be separated therefrom without breaking the matter or damaging the object; and that belong to the agencies, entities, instrumentalities, and public corporations of the Executive Branch of the Government of Puerto Rico.

B. Committee – The Real Property Evaluation and Disposal Committee.

C. Disposal – The process whereby the Government of Puerto Rico assigns the title of ownership, possession, use, or enjoyment of real property for the better use thereof.

D. Live Outcry Auction – The auction process whereby bidders physically meet at a previously agreed time and venue to place their bids for a specific real property that was disclosed prior to the public bid. Bidders bid openly against each other.

E. Sealed Bid – The auction process whereby bidders submit their secret bids in a sealed envelope. The process for this type of auction shall be prescribed by regulations.

F. Direct Sale – The process to dispose of a property to a party that has met the criteria to be prescribed by regulations.

Section 5.03.- Real Estate Evaluation and Disposal Committee

The Real Estate Evaluation and Disposal Committee is hereby created in order to exercise all the necessary powers, which are not contrary to this or any other Act, for the disposal of the real property of the Executive Branch of the Government of Puerto Rico.

The Committee shall be composed of the following public officials:

- a. The Executive Director of the Puerto Rico Fiscal Agency and Financial Advisory Authority (FAFAA).
- b. The Director of the Office of Management and Budget.
- c. The Secretary of the Department of Economic Development and Commerce.

The Executive Director of FAFAA shall chair the Committee.

The Committee shall meet at least once every month and as necessary from time to time in order to expedite the works, and at the time and place deemed convenient. Provided, that the members of the Committee shall not earn any wages whatsoever nor receive per diems for discharging the duties and authorities entrusted to them under this Act. Provided, further, that none of the provisions herein shall apply to real property of the Industrial Development Company, the Government Development Bank, the Land Administration, the Convention Center District Authority and the subsidiaries thereof, respectively, insofar as these have established as of the effective date of this Act, a process for the sale of real property that is consistent with this Chapter.

Section 5.04.- Executive Director

Once the Committee is constituted, it shall designate an Executive Director who shall have all the powers delegated by the Committee relating to the implementation of the public policy set forth herein. The Executive Director shall recommend the Committee any interagency personnel transfers in order to designate human resources to achieve the objectives of this Act in accordance with Act No. 8-2017. The Committee shall designate the location of the Office of the Executive Director.

Section 5.05.- Powers of the Committee

The Committee shall have the following powers:

- a. To approve rules, regulations, circular letters, and guidelines as are necessary to discharge their duties and functions.
- b. To adopt an official seal and alter it as convenient.
- c. To sue and be sued in its own name.
- d. To negotiate and execute contracts, process the disposal of real property of the Executive Branch of the Government of Puerto Rico as well as any instruments and agreements, with natural or juridical persons, as are necessary or convenient to exercise the powers and discharge the functions herein conferred.
- e. To bring any judicial action to protect or enforce the public policy established in this Act.
- f. To appoint officials, agents, and employees as are necessary to properly achieve the objectives and purposes for which the Committee was created, and establish the powers, faculties, and duties, as well as the terms and conditions of employment as provided in this Act. Provided, that appointments shall be made in accordance with the provisions of Act No. 8-2017.
- g. To contract personnel to conduct live outcry auctions, in accordance with the provisions of this Chapter and the regulations adopted for such purposes.
- h. To establish real estate investment trusts similar in nature to the trusts defined in Section 1082.01(a) of Act No. 1-2011, as amended, known as the “Internal Revenue Code for a New Puerto Rico.”
- i. To contribute real property to any real estate investment trust created pursuant to Section 5.05(h) of this Act. The Government shall participate in any development carried out by the companies making contributions in accordance with this subsection.

Section 5.06.- Duties and Obligations of the Committee

For the purpose of implementing the public policy herein set forth, the Committee shall have the following duties:

a. To prescribe by regulations a uniform, efficient, and effective procedure for the disposal and transfer of the real property of the Executive Branch of the Government of Puerto Rico, whether through live outcry auction, sealed bid, or direct sales. Such procedure shall provide for a fair competition system that guarantees the public interest. The Committee shall clearly provide the circumstances under which a direct sales shall be conducted.

b. To coordinate, in conjunction with the Real Property Reviewing Board created by virtue of Act No. 235-2014, the preparation and/or update of an official inventory of all the real property of every agency, entity, instrumentality, and public corporation of the Executive Branch of the Government of Puerto Rico, excluding the property of the University of Puerto Rico.

c. To obtain from the Real Property Reviewing Board a certification including every surplus real property available for disposal to be outfitted by any agency, entity, instrumentality, or public corporation of the Executive Branch of the Government of Puerto Rico.

d. To evaluate every request for purchase, lease, or other conveyance of ownership of real property submitted by any natural or juridical person, whether for profit or not, including municipalities, and to ensure compliance with this Act and any rules and regulations approved by the Committee.

e. To conduct any type of study, inspection, analysis, or other transaction relating to real property, including to ensure that such property is properly recorded in the Property Registry and have the title and meet any other requirement established by the laws in effect.

f. To appraise any real property subject to disposal. To conduct such appraisal, the Committee may require and use personnel as needed, by virtue of the mechanism provided therefor under Act No. 8-2017.

Section 5.07.- Real Property Disposal

The disposal of real property of the Executive Branch of the Government of Puerto Rico shall be governed by a fair and transparent process whereby participants are afforded equal opportunities, always safeguarding the public interest and welfare. For such purposes, any disposal shall be conducted in accordance with the purposes established in this Act while maintaining a balance between the need to increase the State's revenues, promote economic development, ensure the wellbeing of the society, and/or create jobs.

The Committee shall dispose of real property using as a basis the fair market value to be determined by the appropriate evaluation and appraisal procedure, or by assuring that the property is used for the benefit of the public interest.

The Executive Director of the Committee or his representative may serve as an authorized agent to carry out any transaction related to the title of the real property.

Section 5.08.- Conflict of Interests

Any conflict of interest that may arise among the members of the Board while discharging their functions under this Act shall be addressed in accordance with the provisions of Act No. 1-2012, as amended, known as the "Puerto Rico Government Ethics Act of 2011."

Section 5.09.- Savings Clause

No real property of the Executive Branch of the Government of Puerto Rico used as housing by any person having the usufruct thereof shall be disposed of.

CHAPTER 6.- PUERTO RICO GOVERNMENT ACCOUNTING ACT

Section 6.01.- A new subsection (o) is hereby added to Section 3 of Act No. 230 of July 23, 1974, as amended, known as the “Puerto Rico Government Accounting Act,” to read as follows:

“Section 3.- Definitions

When used in this Act, the following terms shall mean:

(a) ...

...

(o) Special Appropriations – Appropriations approved through Joint Resolutions that limit the use of the allocated funds.”

Section 6.02.- Subsection (b) is hereby amended and a new subsection (e) is hereby added to Section 7 of Act No. 230 of July 23, 1974, as amended, known as the “Puerto Rico Government Accounting Act,” to read as follows:

“Section 7.- Deposit of Public Funds

a) ...

All public funds of the agencies which are not allocated by law for a specific purpose, shall be credited to the General Fund of the Commonwealth Treasury and shall be deposited entirely in the Secretary’s checking account or in any other bank account he may deem convenient to establish. Likewise, it is hereby provided, that as of July 1st, 2017, any special State fund and any other income of the agencies and public corporations shall be deposited entirely in the State Treasury, under the custody of the Secretary of the Treasury or the banking entity it deems appropriate. The Secretary of the Treasury is further empowered to determine the order of priority of the payments to be disbursed chargeable to special State funds and other income, in accordance with the budget approved and the Fiscal Plan without it being construed as a limitation on the powers conferred to the Governor and the Puerto Rico Fiscal Agency and Financial Advisory Authority by virtue of

the provisions of Act No. 5-2017. This provision shall have supremacy over any other provision that is in contravention of or inconsistent with the provisions of this Act. For each fiscal year, any amount in excess of the budgeted amount authorized by the Office of Management and Budget to the agencies and public corporations originating from special State funds shall be covered into the Budget Fund created by virtue of Act No. 147 of June 18, 1980, as amended. This provision shall not apply to funds allocated to municipalities on account of the Sales and Use Tax. This provision shall not apply to funds originating from private donations received by government entities with a social welfare function.

...

(e) As of July 1st, 2017, any special State funds created by law for specific purposes shall continue to be used for the purposes for which they were allocated by law, in accordance with the Recommended Budget of the Office of Management and Budget and the Fiscal Plan. Likewise, the Office of Management and Budget is hereby empowered to create a reserve under its custody, as prescribed by regulations, which allows budget control for any item of expenditures chargeable to special State funds and other income. Should there be any inconsistency between the law and the use of the funds with the Fiscal Plan, the purpose provided for in the Fiscal Plan approved in accordance with PROMESA shall prevail.”

Section 6.03.- Subsections (h), (l), and (m) of Section 8 of Act No. 230 of July 23, 1974, as amended, known as the “Puerto Rico Government Accounting Act,” are hereby amended to read as follows:

“Section 8.- Public Fund Appropriations.

(a) ...

...

(h) Appropriations and funds without fiscal year limitation that have remained in the books without movement of disbursement or obligation for one (1) year shall be deemed, for purposes of this Act, as if they had achieved their purposes; therefore, the same shall be closed and deposited immediately in the General Fund, except for appropriations and funds without fiscal year limitation appropriated for carrying out the capital improvements that have been accounted for and entered in the books. These funds shall have a term of three (3) years as of the legal effectiveness of the appropriation, to be disbursed and to achieve the purposes for which they were appropriated. Once said three (3)-year term elapses, any encumbered and unencumbered balances of capital improvement funds shall be closed and covered into Fund 301. This provision shall only apply to appropriations made prior to Fiscal Year 2017-2018, and shall not apply to appropriations made by the Legislative Assembly through Legislative Donations or appropriations on account of the Sales and Use Tax.

If the agency or body receiving the capital improvements funds deems that the term of the appropriation should be extended for a period greater than three (3) years, said agency or body may request such an extension to the Office of Management and Budget stating the need to keep such resources within at least three (3) months prior to the expiration of said term. During said period, the Office of Management and Budget shall analyze the request and determine the need to keep the appropriation in effect, the extension term for said appropriation, and the amount thereof. Said resources shall be rescheduled by the Legislative Assembly.

(i) ...

...

(l) As a general rule, any appropriation that remains one (1) year without being entered in the books shall be deemed to be automatically cancelled, and new legislative action shall be required to use the moneys thus cancelled. In exceptional

cases where grounds for failure to enter an appropriation in the books during said one (1)-year term are shown, such as the delay in court determination of lawsuits, and the impossibility of carrying out a public work due to physical, technical, or legal difficulties, an appropriation may be accounted for even after the lapse of the aforementioned one (1)-year term.

The Secretary shall notify the Legislative Assembly of the action cancelling appropriations under the circumstances described in this subsection, within thirty (30) days following the date on which said cancellation was made.

(m) The Secretary shall transfer periodically to the surplus of the General Fund of the State Treasury, in accordance with the law, the balances of deposit accounts that have remained unused or without movement in the accounting books for one (1) year, and which, in his opinion, are not necessary or do not meet the purposes for which they were created. Provided, that any claim that the Secretary may be required to pay with respect to said balances, after they have been transferred as provided above, shall be paid from any available funds not otherwise appropriated.”

CHAPTER 7.- GOVERNMENT PROCUREMENT RESERVES ACT

Section 7.01.- Section 2 of Act No. 129-2005, as amended, known as the “Government of the Commonwealth of Puerto Rico Procurement Reserves Act,” is hereby amended to read as follows:

“Section 2.- Declaration of Public Policy

It shall be the public policy of the Government of Puerto Rico to establish a Reserves Program which requires the Government of Puerto Rico and its instrumentalities to set aside at least twenty percent (20%) of the total of the item allocated for procurement in their general budget to be allocated to micro-, small- and medium-size businesses; provided, that the fiscal situation so allows or that it generates savings to the Treasury.

Provided, that in an effort to continue strengthening the micro-, small-, and medium-sized business sector, it is hereby established that the reserve percentage for such purposes shall continue to increase gradually as follows:

1. Thirty percent (30%) for fiscal year 2016-2017;
2. Thirty-two percent (32%) for fiscal year 2017-2018;
3. Thirty-five percent (35%) for fiscal year 2018-2019;
4. Thirty-eight percent (38%) for fiscal year 2019-2020;
5. Forty percent (40%) for fiscal year 2020-2021;

This gradual increase shall be applied if the Office of Management and Budget establishes that the fiscal situation allows for said increase or if savings for the treasury are generated. Moreover, the Secretary of the Treasury shall be required to set aside at least three percent (3%) of the cash flow received to pay the item allocated for the procurement of supplies from micro-, small-, and medium-sized businesses whose invoices have been processed correctly by the departments, agencies, instrumentalities, entities, municipalities, and public corporations of the Government to which this Act applies.”

Section 7.02.- Subsection (1) of Section 6 of Act No. 129-2005, as amended, known as the “Government of the Commonwealth of Puerto Rico Procurement Reserves Act,” is hereby amended to read as follows:

“Section 6.- Reserves Program

(1) A new expense item shall be created to which twenty percent (20%) of the procurement budget item of each agency shall be allocated. Provided, that the procurement budget item of each agency shall increase thirty percent (30%) for Fiscal Year 2016-2017; thirty-two percent (32%) for Fiscal Year 2017-2018; thirty-five percent (35%) for Fiscal Year 2018-2019; thirty-eight percent (38%) for Fiscal Year 2019-2020; and forty percent (40%) for Fiscal Year 2020-2021; provided, that

the fiscal situation so allows. The OMB shall prescribe by regulations the requirements to comply with said reserve percentage.

...”

CHAPTER 8.- EXCISE TAX ON CIGARETTES AND TOBACCO-DERIVED PRODUCTS

Section 8.01.- Section 3020.05 of Act No. 1-2011, as amended, is hereby amended to read as follows:

“Section 3020.05.- Cigarettes

(a) An excise tax of seventeen dollars (\$17.00) shall be imposed, paid, and collected on each hundred or fraction of one hundred (100) cigarettes. For purposes of this Code, the term ‘cigarette’ shall mean any product that contains nicotine and is intended to be burnt or heated under ordinary conditions of use, and which consist of or contains:

(1) Any roll of finely cut natural or synthetic tobacco or any other finely cut natural vegetable or synthetic matter, or any mixture thereof, or any other finely cut solid matter or substance wrapped in paper or in any substance or material not containing tobacco which, because of its appearance, the type of tobacco used in the filler, or its packaging and labeling, is likely to be used, offered to, or purchased by, consumers as a cigarette; and

(2) whose length, circumference, and weight does not exceed the maximum length, circumference, and weight prescribed by the Secretary through regulations, circular letter, or other administrative determination of general nature.

(b) Cigarettes manufactured, introduced, sold, conveyed, used, or consumed in Puerto Rico shall have affixed on the boxes, packages, or packs in which they are packed, a label with the information and characteristics as prescribed by regulations. Each cigarette box, package, or pack must bear the word ‘*tributable*’

or ‘taxable’ stamped on a visible place and in clear and legible form. These provisions shall not apply to exempt cigarettes under Section 3030.18 of this Code.”

Section 8.02.- A new Section 3020.05A is hereby added to Act No. 1-2011, as amended, to read as follows:

“Section 3020.05A.- Cigarettes, Cigars, Snuff, Cigarette Paper, and Cigarette Tubes

(a) In addition to any other excise tax imposed under this Subtitle, an excise tax of up to eight dollars and fifty cents (\$8.50) shall be imposed, paid, and collected on each hundred or fraction of one hundred (100) cigarettes.

(b) An excise tax shall be imposed, paid, and collected on any cigarette, snuff, cigarette paper, and tube, as provided below:

(1) Cigars: Twenty-five dollars and fifty cents (\$25.50) for every pound or fraction thereof.

(2) Loose Tobacco: Twenty-five dollars and fifty cents (\$25.50) for every pound or fraction thereof.

(3) Cigarette Paper: Three dollars (\$3.00) for every fifty papers or fraction thereof that does not exceed six and a half inches (6½”). If cigarette papers measure more than six and a half inches (6½”) in length, every two and three quarters of an inch (2¾”), or fraction thereof, shall be considered one (1) cigarette paper.

(4) Cigarette Tubes: Three dollars (\$3.00) for every fifty cigarette tubes or fraction thereof that does not measure more than six and a half inches (6½”). If cigarette tubes measure more than six and a half inches (6½”) in length, every two and three quarters of an inch (2¾”), or fraction thereof, shall be considered one (1) cigarette tube.

(c) Definitions – For purposes of this Section and of any applicable provision of this Subtitle, the following terms shall have the meaning stated below:

(1) Cigar – Shall mean any product that contains nicotine and is intended to be burnt or heated under ordinary conditions of use, and which consist of or contains:

(i) Any roll of finely cut natural or synthetic tobacco or any other finely cut natural vegetable or synthetic matter, or any mixture thereof, or any other finely cut solid matter or substance wrapped in paper, leaf tobacco, or in any substance or material which, because of its appearance, the type of tobacco used in the filler, or its packaging and labeling, is likely to be used, offered to, or purchased by, consumers as a cigar, cigarillos, little cigar or any other product; and

(ii) other than a cigarette, as such term is defined in Section 3020.05 of this Code.

(2) Loose Tobacco – Shall mean any type of tobacco whether or not mixed with any other substance, which is not wrapped in any material, and that because of its appearance, the type of tobacco used in the filler, or its packaging or labeling, is likely to be used, offered to, or purchased by, consumers as roll-your-own tobacco or pipe tobacco. This term also includes whole tobacco leaves.

(3) Cigarette Paper – Shall mean any paper, or any other material other than tobacco used to roll cigarettes or cigars.

(4) Cigarette Tube – Shall mean a cigarette made into a hollow cylinder for use in making cigarettes or cigars.

(d) The cigars, loose tobacco, cigarette wrappers, and cigarette tubes that are manufactured, introduced, sold, conveyed, used, or consumed in Puerto Rico shall have affixed on the boxes, packages, or packs in which they are packed, a label with the information and characteristics as prescribed by regulations. Each box, package, or pack of cigars, loose tobacco, cigarette wrappers, and cigarette tubes

must bear the word ‘*tributable*’ or ‘taxable’ stamped on a visible place and in clear and legible form. In those cases in which the good is sold individually, it shall bear the word ‘*tributable*’ or ‘taxable’ stamped on a visible place and in clear and legible form as prescribed by the Secretary. These provisions shall not apply to exempt goods under Section 3030.18 of this Code.”

Section 8.03.- Section 3020.13 of Act No. 1-2011, as amended, is hereby amended to read as follows:

“Section 3020.13.- Smokeless Tobacco

(a) An excise tax shall be imposed, paid, and collected on smokeless tobacco manufactured in or imported into Puerto Rico. For purposes of this subtitle, the term ‘smokeless tobacco’ shall mean any tobacco-derived product that:

(1) Is intended to be consumed without creating combustion or burning, and

(2) Is found or sold in foil packages, pouches, and/or in discrete single-use unit, in the form of lozenges, tablets, pouches, and dissolvable strips, among others.

(b) The excise tax provided in this Section shall be imposed as follows:

(1) Chewing Tobacco: One dollar (\$1.00) for every pound or fraction thereof. From May 1st, 2017, the excise tax shall be five dollars (\$5.00) for every pound or fraction thereof.

(2) Snuff or any other tobacco-derived product: Three dollars and two cents (\$3.02) for every pound or fraction thereof. From May 1st, 2017, the excise tax shall be four dollars and fifty-three cents (\$4.53) for every pound or fractions thereof.

(c) Tobacco-derived products manufactured, introduced, sold, conveyed, used, or consumed in Puerto Rico shall have affixed upon the boxes, packages, or packs in which they are packed, a label with the information and characteristics as

are prescribed by regulation. Every cigarette box, package, or pack must bear the word ‘*tributable*’ or ‘taxable’ stamped on a visible place and in clear and legible form. These provisions shall not apply to goods exempt under Section 3030.18 of this Code.”

Section 8.04.- Section 3020.14 of Act No. 1-2011, as amended, is hereby amended to read as follows:

“Section 3020.14.- Appropriation of Funds

The Secretary of the Treasury shall deposit any revenues collected by virtue of Sections 3020.05, 3020.05A, 3020.13, and 3020.15 directly in the General Fund.”

Section 8.05.- A new Section 3020.15 is hereby added to Act No. 1-2011, as amended, to read as follows:

“Section 3020.15.- Electronic Cigarettes, Nicotine Cartridges, and Vaporizers

(a) Definitions.- For purposes of this Section and of any applicable provisions of this Subtitle, the following terms shall have the meaning stated below:

(1) Electronic Cigarette.- Shall mean any noncombustible product that employs a heating element, power source, electronic circuit, or other electronic, chemical, or mechanical means that can be used to produce vapor from nicotine in a solution or other form, which because of its appearance, size, or its packaging and labeling, is likely to be used, offered to, or purchased by, consumers as an electronic cigarette, vaporizer, or electronic pipe.

(2) Nicotine Cartridge.- Shall mean a vapor cartridge or any other container holding liquid nicotine that is intended to be used with or in an electronic cigarette or vaporizer.

(3) Vaporizer.- Shall mean any noncombustible product that employs a heating element, power source, electronic circuit, or other electronic, chemical, or mechanical means that can be used to produce vapor from nicotine in a solution or other form, which cannot be considered an electronic cigarette according

to the definition of preceding paragraph (1). This term shall include, without it being understood as a limitation, hookas and vaporizers used to administer drugs not approved by the Food and Drug Administration (FDA).

(b) An excise tax shall be imposed, paid, and collected on electronic cigarettes, nicotine cartridges, and vaporizers as follows:

(1) Electronic Cigarette: Three dollars (\$3.00) for every electronic cigarette.

(2) Nicotine Cartridges: Five cents (\$0.05) for every millimeter of nicotine solution or any other substance, whether it contains nicotine or not, in each nicotine cartridge. This excise tax shall not be prorated.

(3) Vaporizers: Six dollars (\$6.00) for every unit.

(c) Electronic cigarettes, nicotine cartridges, and vaporizers manufactured, introduced, sold, conveyed, used, or consumed in Puerto Rico shall have affixed upon the boxes, packages, or packs in which they are packed, a label with the information and characteristics as prescribed by regulation; provided, that nicotine cartridges shall indicate in their boxes, packages, or packs the actual milliliters of nicotine solution, as prescribed by the Secretary. Every box, package, or pack must bear the word '*tributable*' or 'taxable' stamped on a visible place and in clear and legible form. In those cases in which the good is sold individually, it shall bear the word '*tributable*' or 'taxable' stamped on a visible place and in clear and legible form as prescribed by the Secretary. These provisions shall not apply to exempt goods under Section 3030.18 of this Code.”

Section 8.06.- Section 3030.18 of Act No. 1-2011, as amended, is hereby amended to read as follows:

“Section 3030.18.- Exemption on Cigarettes, Cigars, Loose Tobacco, Cigarette Paper, Cigarette Tubes, Chewing Tobacco, Snuff, Electronic Cigarettes, Nicotine Cartridges, and Vaporizers

(a) Cigarettes, cigars, loose tobacco, cigarette paper, cigarette tubes, chewing tobacco, snuff, electronic cigarettes, nicotine cartridges, and vaporizers sold or transferred to foreign-flag and United States ships and those sold to foreign warships and to ships of a foreign country on courtesy visits to Puerto Rico, shall be exempt from the tax imposed in this Subtitle. This exemption shall only be allowed when the cigarettes, cigars, loose tobacco, cigarette paper, cigarette tubes, chewing tobacco, snuff, electronic cigarettes, nicotine cartridges, and vaporizers are delivered in accordance with the rules and procedures established by the Secretary, and the violation thereof shall entail the obligation of the importer or the distributor, as the case may be, to pay the corresponding excise taxes. Any importer or distributor who wishes to avail himself of this exemption shall post a bond to respond for the payment of said excise taxes.

(b) Likewise, cigarettes, cigars, loose tobacco, cigarette paper, cigarette tubes, chewing tobacco, snuff, electronic cigarettes, nicotine cartridges, and vaporizers which, having been withdrawn from the factories or ports, are removed from the market because they are unsuitable for regular consumption, shall be exempt from the payment of excise taxes; provided, they are destroyed under the supervision of the Secretary. In such case, the Secretary shall refund or credit the tax to the person who paid it.

(c) Furthermore, cigarettes, cigars, loose tobacco, cigarette paper, cigarette tubes, chewing tobacco, snuff, electronic cigarettes, nicotine cartridges, and vaporizers shall be exempt from the excise tax imposed in this Subtitle when these are sold or transferred to users, as defined in Act No. 23-1991, as amended, of post exchanges, canteens, or other facilities operated by the Puerto Rico National Guard Institutional Trust or the Concessionaire thereof.

(d) Cigarettes, cigars, loose tobacco, cigarette paper, cigarette tubes, chewing tobacco, snuff, electronic cigarettes, nicotine cartridges, and vaporizers manufactured in or introduced into Puerto Rico for export shall be exempt from the excise tax imposed in this Subtitle subject to the requirements or conditions prescribed by the Secretary through regulations; provided, that said exemption shall not apply to cigarettes, cigars, loose tobacco, cigarette paper, cigarette tubes, chewing tobacco, snuff, electronic cigarettes, nicotine cartridges, and vaporizers sold in Shops and Air or Maritime Terminals to persons who remain within the United States customs territory.”

Section 8.07.- Subsection (a) of Section 3050.01 of Act No. 1-2011, as amended, is hereby amended to read as follows:

“Section 3050.01.- License Fees for Wholesale or Retail Dealers of Certain Goods

(a) Any wholesale or retail dealer of any of the goods listed hereinafter, who sells the goods at a fixed place or as an itinerant merchant, shall pay an annual tax as a license fee at the rate established in the following table:

DEALERS	FEES	
Cigarettes – Wholesaler		\$750
Cigarettes – Retailer Fixed Place, Itinerant Merchant and for each Cigarette Vending Machine		\$300
Cigarette Wholesales from Motor Vehicles – per vehicle		\$300
Fuel – Wholesaler	Class A	\$6,000
	Class B	\$2,500
Fuel – Retailer	Class A	\$900
	Class B	\$100
Retailer – Sale of Alcoholic Beverages, Cigarettes, and Vehicle Parts and Accessories – per venue		\$200
Motor Vehicles – Dealers	Class A	\$1,000
	Class B	\$200

Vehicle Parts and Accessories Retail and Wholesale	Class A	\$2,000
	Class B	\$800
	Class C	\$100
Retail Dealers in Cigarettes and Alcoholic Beverages for a Limited Time (15 days)		\$25
Retail Dealers – Auto Shows for a Limited Time (Vehicles, Parts, and Accessories) (15 days)		\$100
Concrete – Manufacturer or Wholesale Dealer	Class A	\$250,000
	Class B	\$200,000
	Class C	\$80,000
Gunsmith – Dealer in Weapons and Ammunition		\$200

(1) ...
...”

Section 8.08.- A new subsection (d) is hereby added to Section 6042.08 of Act No. 1-2011, as amended, to read as follows:

“Section 6042.08.- Cigarette-related Crimes

(a) ...
(b) ...
(c) ...

(d) Any person shall be guilty of a misdemeanor and shall be punished by a five thousand dollar (\$5,000)-fine if:

(1) He acquires cigarettes, cigars, loose tobacco, cigarette paper, cigarette tubes, chewing tobacco, snuff, electronic cigarettes, nicotine cartridges, or vaporizers as a user, as defined in Act No. 23-1991, as amended, in post exchanges, canteen, or other facilities operated by the Puerto Rico National Guard Institutional Trust or the Concessionaire thereof, and subsequently sells or transfers the cigarettes, cigars, loose tobacco, cigarette paper, cigarette tubes, chewing tobacco, snuff, electronic cigarettes, nicotine cartridges, or vaporizers thus acquired to any person who is not entitled to the exemption provided in subsection (c) of Section 3030.18 of this Code; or

(2) He acquires cigarettes, cigars, loose tobacco, cigarette paper, cigarette tubes, chewing tobacco, snuff, electronic cigarettes, nicotine cartridges, or vaporizers at Post Exchanges located in military facilities of the United States of America in Puerto Rico, and subsequently sells or transfers the cigarettes, cigars, loose tobacco, cigarette paper, cigarette tubes, chewing tobacco, snuff, electronic cigarettes, nicotine cartridges, or vaporizers thus acquired to any person who is not entitled to acquire said goods from said establishments.”

Section 8.09.- Subsection (a) of Section 6042.15 of Act No. 1-2011, as amended, is hereby amended to read as follows:

“Section 6042.15.- Penalty for Failure to File Excise Tax Declaration and Monthly Excise Tax Return

(a) Any person required to file the Excise Tax Declaration, the Monthly Excise Tax Return, or the Bill of Sale that fails to file such return as required in Sections 3020.08(c)(8), 3020.09(c), and 3020.10, in the form, date, and manner prescribed therein, shall be imposed a penalty of one hundred dollars (\$100) or ten percent (10%) of the tax obligation established in said declaration or return, whichever is higher.

(b) ...”

Section 8.10.- Transitory Provisions

(a) Any person subject to the annual tax on account of license fee under Section 3050.01 of Act No. 1-2011 that, as of May 1st, 2017, holds a Retail or Wholesale Dealer License in effect shall be subject to the new rates provided in Section 8.07 of this Act after the due date to pay the appropriate license fee in accordance with subsection (b) of Section 3060.08 of Act No. 1-2011.

(b) The Secretary of the Treasury shall prescribe by regulations, circular letter, or other administrative determination of general nature, the necessary rules for the application of these transitory provisions.

CHAPTER 9.- EMERGENCY FUND

Section 9.01.- Section 2 of Act No. 91 of July[sic] 21, 1966, as amended, is hereby amended to read as follows:

“Section 2.-

Beginning Fiscal Year 1995-96, the Emergency Fund shall be capitalized annually by an amount not less than one-fifth of one percent (0.2%) of the total of the Joint Resolution for the Budget. Beginning Fiscal Year 1998-99, said contribution shall be not less than one percent (1%) of the total net revenues for the previous fiscal year. Provided, that, through Fiscal Year 2020-2021, said contribution shall be at least ten million dollars (\$10,000,000). From Fiscal Year 2020-2021 and thereafter, said contribution shall not be less than zero point five percent (0.5%) of the estimated net revenues submitted by the Department of the Treasury to prepare the Recommended Budget chargeable to the General Fund. The Governor of Puerto Rico and the Director of the Office of Management and Budget, by delegation of the latter, may direct that any amount in excess of the amount herein fixed from any source of income be deposited in the Fund, when deemed convenient. The balance of said Emergency Fund shall never exceed one hundred fifty million dollars (\$150,000,000).”

CHAPTER 10.- FINAL PROVISIONS

Section 10.01.- Immunity Relating to Lawsuits and Forums

This Act shall not affect the immunity of the State and the officials and officers thereof in connection with lawsuits and forums. None of the provisions of this Act authorizes tort claims against the State, its officials or employees for actions or omissions of the latter resulting from the enforcement of this Act. None of the provisions herein constitute a waiver of the sovereign immunity of the Government of Puerto Rico.

Section 10.02.- Rules of Interpretation

The words and phrases used in this Act shall be construed within the context and meaning approved for common and ordinary use, and the rules of interpretation recognized under our code of laws.

Section 10.03.- Incompatibility

Any organic, general, or special law, article, or section of any Act, guidelines, collective bargaining agreements, agreements, supplementary agreements, administrative orders, policies, employment manuals, circular letters, certifications, regulations, rules and employment conditions, policy letters, job classification or pay plans, contract letters, and/or applicable provisions that are in contravention of the provisions of this Act are hereby repealed.

Section 10.04.- Supremacy

The provisions of this Act and the regulations or rules adopted thereunder shall prevail over any other provision of law, regulations, or rules that are inconsistent with the former.

Section 10.05.- Severability

If any clause, paragraph, subparagraph, sentence, word, letter, article, provision, section, subsection, title, chapter, subchapter, heading, or part of this Act were held to be null or unconstitutional, the ruling, holding, or judgment to such effect shall not affect, impair, or invalidate the remainder of this Act. The effect of said holding shall be limited to the clause, paragraph, subparagraph, sentence, word, letter, article, provision, section, subsection, title, chapter, subchapter, heading, or part of this Act thus held to be null or unconstitutional. If the application to one person or circumstance of any clause, paragraph, subparagraph, sentence, word, letter, article, provision, section, subsection, title, chapter, subchapter, heading, or part of this Act were held to be null or unconstitutional, the ruling, holding, or judgment to such effect shall not affect or invalidate the application of the remainder

of this Act to such persons or circumstances where it may be validly applied. It is the express and unequivocal will of this Legislative Assembly that the courts enforce the provisions and application thereof to the greatest extent possible, even if it renders ineffective, nullifies, invalidates, impairs, or holds to be unconstitutional any part thereof, or even if it renders ineffective, invalidates, or holds to be unconstitutional the application thereof to any person or circumstance. This Legislative Assembly would have approved this Act regardless of any determination of severability that the Court may make.

Section 10.06.- Effectiveness

This Act shall take effect immediately after its approval.

CERTIFICATION

I hereby certify to the Secretary of State that the following **Act No. 26-2017 (H. B. 938)** of the **1st Regular Session** of the **18th Legislative Assembly of Puerto Rico**:

AN ACT to create the “Fiscal Plan Compliance Act,” in order to take measures as necessary to adjust the existing legal and juridical framework so as to allow the fullest compliance with the Fiscal Plan approved by the Financial Oversight Board, created by virtue of the Federal Law PROMESA; establish a uniform fringe benefit system, which includes the Christmas bonus and the healthcare plan contribution, for all the government employees and officials of the agencies, instrumentalities, and public corporations of the Government of Puerto Rico, except for the University of Puerto Rico; [...]

has been translated from Spanish to English and that the English version is correct.

In San Juan, Puerto Rico, on this 13th day of December, 2017.

Orlando Pagán-Ramírez
Acting Director

EXHIBIT 5A

7^{ma} ASAMBLEA 7^{ma} SESION
LEGISLATIVA ORDINARIA
Ley Núm. 21-2016
(Aprobada en Codebook 2016)

(P. del S. 1591)

LEY

Para crear la “Ley de Moratoria de Emergencia y Rehabilitación Financiera de Puerto Rico”; para disponer la declaración de un estado de emergencia fiscal por la Asamblea Legislativa; para instaurar los procesos de declaración, establecimiento y condiciones del periodo de emergencia, según definido por esta Ley, para el Banco o cualquier otra entidad gubernamental, según definidos ambos términos por esta Ley, y disponer las facultades del Gobernador del Estado Libre Asociado de Puerto Rico; para realizar enmiendas a la Ley Orgánica del Banco Gubernamental de Fomento para Puerto Rico, Ley Núm. 17 de 23 de septiembre de 1948, según enmendada, a los fines de reenumerar los Artículos 12 al 21 como Artículos 15 al 24, y añadir nuevos Artículos 12 y 13, para modificar el proceso de nombramiento de un síndico; para añadir un nuevo Artículo 14 a la Ley Núm. 17 de 23 de septiembre de 1948, *supra*, a los fines de permitir la organización y operación de un banco puente; para enmendar la Cuarta Parte del Artículo 2 de la Ley Núm. 17 de 23 de septiembre de 1948, *supra*, para modificar las disposiciones en torno a las subsidiarias del Banco Gubernamental de Fomento para Puerto Rico; para enmendar el Artículo 11 de la Ley Núm. 22 de 24 de julio de 1985, según enmendada, correspondiente a la Ley Orgánica del Banco de Desarrollo Económico para Puerto Rico, a los fines de modificar las disposiciones sobre el nombramiento de un síndico; y para otros fines relacionados.

EXPOSICIÓN DE MOTIVOS

A. Introducción

La crisis fiscal del Gobierno de Puerto Rico ha llegado al momento más crítico en la historia. No obstante las medidas abarcadoras y sin precedente que ha puesto en vigor esta Administración en los pasados tres (3) años para reencaminar al Estado Libre Asociado de Puerto Rico (el “ELA” o “Puerto Rico”) hacia la recuperación económica y la sostenibilidad fiscal, la falta de acceso a los mercados de capital, el elevado nivel de deuda, y el deteriorado clima económico que persiste, han llevado a las finanzas del Gobierno de Puerto Rico a un punto de inflexión. Esta Administración ha realizado múltiples esfuerzos para continuar con el pago de las obligaciones generales del ELA, así como del pago de las deudas de otras instrumentalidades, mientras se continuaban brindando servicios esenciales. Sin embargo, la escasez en los recursos y la limitada liquidez, amenazan con obligar al Gobierno de Puerto Rico a tener que escoger entre honrar compromisos con nuestros acreedores o continuar proveyendo servicios básicos y esenciales al pueblo de Puerto Rico.

La obligación primordial de todo gobierno es, en primer lugar, su deber para con el pueblo a quien sirve y a quien responde. Por ende, la obligación legal y moral del ELA de proveer para el bienestar del pueblo de Puerto Rico, es, necesariamente, de primer rango y superior a cualquier otra. Según se ha divulgado en numerosos informes, en los próximos meses vencen obligaciones de pago sustanciales y onerosas, tanto para el ELA como para el Banco Gubernamental de Fomento para Puerto Rico (“BGF”). Ante esta coyuntura histórica, en la cual el Gobierno del Estado Libre

Asociado no cuenta con recursos suficientes para cumplir con el servicio de la deuda tal y como está pactado y, además, continuar proveyendo servicios esenciales a la ciudadanía, el ELA necesita herramientas para ejercer su poder de razón de estado para proteger la vida, salud, y el bienestar del Pueblo de Puerto Rico.

B. Medidas de Reforma Fiscal

La prioridad de esta Administración ha sido atender la crisis fiscal y económica de Puerto Rico. Una vez da inicio el cuatrienio, tomamos medidas contundentes para, corregir problemas estructurales que drenaban las finanzas del ELA, detener las prácticas fiscales erradas del pasado; y allegar el financiamiento necesario para lograr la sostenibilidad fiscal del ELA. Hemos emprendido estos esfuerzos trabajando de cerca con la gerencia del BGF; agente fiscal, ente depositario y financiero del ELA, que también ha implantado varias medidas importantes para paliar sus propios problemas de liquidez.

Ante la necesidad inminente de una fuente de financiamiento, en marzo del 2014 el ELA emitió \$3.5 mil millones en bonos de obligación general. No obstante, plenamente conscientes de que para lograr una solución sostenible y permanente a los problemas financieros del Gobierno de Puerto Rico se tenía que dejar atrás el financiamiento de déficits recurrentes, el producto de esta emisión se utilizó para el pago de ciertas obligaciones ya comprometidas, y para proveerle al ELA una fuente de financiamiento interino mientras nos dábamos a la tarea de implementar una serie de reformas fiscales, mientras, a su vez, otras medidas estructurales ya instauradas generaban resultados.

Igualmente, y con el fin de aumentar los recaudos del fisco, aumentamos la tasa del Impuesto Sobre Ventas y Uso de un siete por ciento (7%) a un once punto cinco por ciento (11.5%) a través de la aprobación de la Ley 72-2015. Por otra parte, y con el fin de encontrar una solución a uno de los problemas más apremiantes del BGF, y que más entorpecen su gestión como proveedor de financiamiento al ELA, aprobamos un aumento al arbitrio sobre el crudo a través de la implementación de la Ley 1-2015. La medida cedió estos nuevos recaudos a la Autoridad para el Financiamiento de la Infraestructura del Estado Libre Asociado de Puerto Rico ("AFI"), y autorizó a ésta a emitir bonos con el fin de utilizar el producto de la venta de dichos bonos para asumir y repagar la deuda de \$2.2 mil millones de la Autoridad de Carreteras y Transportación ("ACT") con el BGF, y para la cual no existía una fuente de pago.

Vale la pena recalcar que la deuda de la ACT con el BGF es el resultado de prácticas irresponsables del pasado - particularmente durante el periodo comprendido entre el 2009 y el 2012 - cuando el BGF otorgaba financiamientos al ELA y sus instrumentalidades, sin fuentes de repago fijas y comprometidas.

Además, la derogación de la Sección 936 dio paso a la pérdida de una de las fuentes de financiamiento más importantes para el BGF dado a que las empresas elegibles bajo la Sección 936 tenían que mantener cierto porcentaje de sus depósitos con el Banco. La conclusión de su eliminación gradual durante un periodo de diez (10) años resultó en una profunda transformación en la estructura de financiamiento del BGF. Asimismo, contribuyó a la pérdida de miles de empleos en la manufactura, provocando efectos catastróficos a la economía del ELA. Consecuentemente, el BGF se vio obligado a buscar a otras fuentes de fondos para continuar proveyendo financiamiento al ELA y sus instrumentalidades. Más aun, durante la segunda fase de la eliminación gradual durante diez (10) años de la Sección 936 (2001-2006), el BGF comenzó a depender cada vez más de un robusto programa de pagarés (*promissory notes*) como una fuente clave de financiación,

habilitado por la excelente calificación crediticia del BGF y del ELA. A medida que el ELA y, posteriormente, el BGF, comenzaron a experimentar las primeras degradaciones de la calificación de su crédito entre los años 2004 y 2006, la viabilidad del programa de pagarés del BGF peligró, por lo tanto, dejando a este una vez más sin una fuente clave de financiación para continuar ejerciendo su rol de agente financiero del ELA. Así las cosas, en el 2006, el BGF emitió su primera serie de notas cuya cantidad entonces aumentó drásticamente durante los años 2009 al 2012. La administración de turno durante ese cuatrienio aumentó la deuda pendiente del BGF a un total de \$5.6 mil millones para el 30 de junio de 2012. Para agravar el cuadro del agente fiscal, la hoja de balance del BGF durante ese período quedó seriamente comprometida, pues el Banco dio un sinnúmero de préstamos a largo plazo – con términos de vencimiento de más de veinte (20) años – mientras que las notas emitidas durante ese mismo período todas cuentan con vencimientos de entre cinco (5) a quince (15) años. **En otras palabras, el BGF asumió, del 2009 al 2012 una serie de obligaciones a mediano plazo, pero postergó el recibo de sus ingresos para el futuro lejano, creando un desbalance dramático entre sus activos y pasivos.**

No obstante ya la incertidumbre en los mercados, y la degradación de varios créditos del ELA por parte de *Moody's Investor Services*, aumentaron drásticamente la prima de riesgo de la transacción y provocó que los inversores que potencialmente hubieran comprado notas exigieran condiciones sumamente onerosas e irrazonables como condición para participar de la transacción. En fin, no obstante el repago de la deuda de la ACT con BGF hubiera fortalecido la situación financiera y la liquidez del BGF, las condiciones del mercado no eran favorables y el ELA tomó la decisión responsable de no acceder a una transacción de financiamiento irrazonable que hubiera resultado excesivamente onerosa para Puerto Rico.

Además de ésta y las otras medidas de recaudos implantadas, y del intento de acceder a los mercados de financiamiento, con la aprobación de las Leyes 3-2013 y 160-2013, esta Administración ya había encaminado reformas estructurales comprensivas para atender los déficits actuariales históricos de los sistemas de retiro de nuestros empleados públicos y de los maestros del sistema de educación pública. Esta Asamblea Legislativa aprobó, además, la Ley Especial de Sostenibilidad Fiscal y Operacional del Gobierno del Estado Libre Asociado de Puerto Rico - Ley 66-2014 – a través de la cual se introdujeron recortes profundos y abarcadores en el gasto público del ELA y todas sus instrumentalidades, y logró ahorros para el erario, sin recurrir al despido de empleados públicos. Poco después, y conscientes del impacto que podría tener sobre el gobierno central y la capacidad del Gobierno de Puerto Rico de brindar servicios esenciales la onerosa y sustancial deuda de nuestras corporaciones públicas, aprobamos la Ley 71-2014, conocida como la Ley para el Cumplimiento con las Deudas y para la Recuperación de las Corporaciones Públicas de Puerto Rico. La Ley para el Cumplimiento con las Deudas y para la Recuperación de las Corporaciones Públicas de Puerto Rico provee un andamiaje jurídico para la reestructuración de las deudas de nuestras corporaciones públicas, donde se respetan los derechos de nuestros acreedores, y se garantiza que los servicios esenciales que proveen nuestras corporaciones públicas - algunos tan vitales como el agua y la luz eléctrica - no queden interrumpidos.

C. El Informe Krueger, el Plan de Ajuste Fiscal y Crecimiento Económico, y la Reestructuración de la Deuda

Tomada la decisión de terminar con la práctica errada e insostenible de financiar déficits recurrentemente, el ELA le encomendó a la ex Economista Jefa del Banco Mundial y Sub-Directora del Fondo Monetario Internacional, la Dra. Anne Krueger, que llevara a cabo un estudio abarcador

sobre la situación fiscal y económica de Puerto Rico. La Dra. Krueger y su equipo de economistas de renombre mundial produjeron su informe, *Puerto Rico: A Way Forward* ("Informe Krueger"), que retrata el alcance de los problemas fiscales y económicos de Puerto Rico y traza un camino hacia adelante.

El Informe Krueger sostiene tres conclusiones fundamentales. En primer lugar, concluyó que los problemas fiscales y económicos de Puerto Rico son de naturaleza estructural - y no cíclica - y por ende, solo lograremos corregirlos con medidas estructurales abarcadoras. En segundo lugar, concluyó que el Gobierno de Puerto Rico históricamente subestimaba el verdadero déficit del Fondo General, pues no tomaba en cuenta las inversiones de mejoras capitales, y los déficits de otras entidades del Gobierno que, aunque debieran ser independientes en términos fiscales, el ELA las sostiene con sus recaudos. Por ende, el verdadero déficit del ELA es mucho mayor al que históricamente se estimaba. En tercer lugar, y más importante aún, el Informe Krueger concluye que la deuda de Puerto Rico es insostenible sin un crecimiento económico robusto. El Informe Krueger además contiene los lineamientos generales de las reformas que el ELA debería implementar para encaminar a Puerto Rico hacia la recuperación económica.

Ante los hallazgos y recomendaciones plasmadas en el Informe Krueger, el 29 de junio de 2015, el Gobernador, Hon. Alejandro García Padilla, declaró que la deuda de Puerto Rico es impagable y que esta Administración emprendería la reestructuración de nuestra deuda a través de un proceso de intercambio consensuado con nuestros acreedores. Poco después, el Gobernador creó el Grupo de Trabajo Para la Recuperación Fiscal y Económica de Puerto Rico (el "Grupo de Trabajo") a través de la Orden Ejecutiva OE 2015-022, y les ordenó componer el Plan de Ajuste Fiscal y Crecimiento Económico de Puerto Rico, con las medidas económicas y fiscales indicadas para devolver a Puerto Rico a la sustentabilidad fiscal y al crecimiento económico ("Plan").

Así las cosas, el 9 de septiembre de 2015, el Grupo de Trabajo publicó el Plan. El Plan proveyó un programa comprehensivo, con reformas fiscales y económicas abarcadoras diseñadas para despertar y avivar el crecimiento económico, institucionalizar la disciplina fiscal a través del ELA y sus instrumentalidades, y recuperar la credibilidad financiera del ELA.

El Grupo de Trabajo comenzó poco después con la implantación de las medidas del Plan, y contamos con que la iniciativa rinda frutos en el futuro. Por otro lado, las conversaciones con nuestros acreedores han comenzado, propuestas en camino a reestructurar la deuda del Estado Libre Asociado han sido presentadas, y las negociaciones continúan.

D. Medidas Extraordinarias y de Emergencia

A través de los últimos tres (3) años, y además de reformas estructurales, el ELA también ha recurrido a un sinnúmero de medidas extraordinarias de preservación de liquidez y manejo de efectivo con el fin de asegurar la provisión de servicios a la ciudadanía y de proveer tiempo para que las reformas estructurales ya encaminadas rindan fruto. Entre estas medidas extraordinarias, están: 1) financiamientos a corto plazo (*Tax and Revenue Anticipation Notes* o *TRANS*, por sus siglas en inglés) de entidades del sector público (de parte de la Corporación del Fondo del Seguro del Estado ("Fondo"), la Administración de Compensaciones por Accidentes de Automóviles y el Seguro de Incapacidad No Ocupacional Temporero); 2) el recibo de dividendos especiales de entidades del sector público de parte del Fondo; 3) que el Departamento de Hacienda exigiera al Sistema de Retiro de los Empleados del ELA y al Sistema de Retiro para Maestros el adelanto de los fondos necesarios para el pago de pensiones, en lugar de los reembolsos habituales realizados

por los Sistemas de Retiro a Hacienda; 4) la suspensión durante el año fiscal 2016 del envío de fondos al Fondo de Redención de la Deuda Estatal, según exige la Ley Núm. 39 de 13 de mayo de 1976, según enmendada, para el pago de los bonos de obligaciones generales; 5) el retraso en el pago de las deudas de suplidores y de las cantidades adeudadas a las corporaciones públicas; 6) el aplazamiento en el desembolso de ciertas asignaciones presupuestarias; 7) el retraso en el pago de reintegros a contribuyentes; por mencionar algunas.

Además, y entre las medidas extraordinarias más contundentes que ha tomado esta Administración, el 30 de noviembre de 2015, el Gobernador emitió la Orden Ejecutiva OE-2015-046 conforme a la Sección 8 del Artículo VI de la Constitución del ELA. Dicha orden redirigió ciertas fuentes de recaudos asignadas para el pago de las obligaciones de AFI, ACT, la Autoridad Metropolitana de Autobuses y la Autoridad del Distrito del Centro de Convenciones, ya que dichos recursos son "recursos disponibles" conforme a la Sección 8 del Artículo VI de la Constitución del ELA, hacia el pago de obligaciones generales.

Por su parte, el BGF también ha tomado medidas extraordinarias con el fin de preservar sus activos, optimizar el manejo de efectivo, continuar con sus funciones y cumplir con sus propias obligaciones. No obstante, estas medidas de emergencia que han implantado el ELA y el BGF son de carácter extraordinario, no recurrentes, insostenibles a largo plazo, y sus efectos han llegado al límite.

E. La Necesidad de Una Moratoria

Las conversaciones con nuestros acreedores continúan. Por su parte, el BGF también negocia con sus propios acreedores la posibilidad de llegar a un acuerdo sobre el pago de sus notas. Guardamos la esperanza de que llegaremos a un acuerdo que salvaguarde los derechos de nuestros acreedores, y reduzca el pago del servicio de la deuda del ELA a una cantidad sostenible.

Por otro lado, hemos litigado con esmero y hasta el Tribunal Supremo de los Estados Unidos, la constitucionalidad de la Quiebra Criolla. El caso está sometido, y confiamos en que el Tribunal fallará a favor nuestro y encontrará que la Quiebra Criolla no es contraria a la Constitución de Estados Unidos, y que el Congreso no pudo haberle arrebatado a Puerto Rico los beneficios del Capítulo 9 del Código de Quiebras y, a la vez, prohibirnos disponer sobre nuestro propio régimen de reestructuración de las deudas de nuestras corporaciones públicas para así garantizar que el Gobierno pueda continuar brindando servicios esenciales a la ciudadanía.

Además, estamos inmersos en el proceso político federal, trabajando de cerca con nuestros aliados en el Congreso y en la Casa Blanca con la meta de que el gobierno federal provea a Puerto Rico un mecanismo de reestructuración de deuda por vía de legislación federal. Han surgido varias propuestas, y no obstante que nuestros acreedores cabildean activamente por sus propios intereses, esperamos que el Congreso atienda la crisis fiscal de Puerto Rico con templanza y equidad.

No obstante el progreso realizado en nuestros esfuerzos, se trata de procesos inherentemente lentos, y Puerto Rico necesita remedios contundentes e inmediatos. Tanto el ELA como el BGF, enfrentarán pagos de servicio de deuda sustanciales en el futuro cercano. Para el 1 de mayo de 2016, el BGF debe responder por un pago de principal de \$400 millones de notas del BGF. No obstante, para el 1 de abril de 2016 el BGF solo contaba con \$562 millones. Pero más importante aún, poco después, el 1 de julio de 2016 el ELA enfrenta un pago de \$780 millones de obligaciones generales. El Gobierno de Puerto Rico y el BGF probablemente no contarán con los recursos suficientes como para responder con sus respectivos pagos sin poner en riesgo la habilidad del Gobierno de Puerto

Rico de proveer servicios esenciales a la ciudadanía. Los salarios de nuestros policías, bomberos y otros trabajadores de auxilio; los fondos necesarios para operar nuestras facilidades de salud pública y para proveer instrucción y alimento a nuestros niños; y la habilidad de nuestras corporaciones públicas de proveer servicios esenciales tan vitales como agua y luz eléctrica, quedarían comprometidas.

El momento histórico exige de esta Asamblea Legislativa que actuemos para proteger la vida, la salud y el bienestar del pueblo de Puerto Rico, y otorguemos al Ejecutivo el poder de declarar una moratoria sobre las deudas del ELA y sus instrumentalidades, como ejercicio del poder de razón de estado del ELA.

F. El Poder de Razón de Estado del ELA, y Base Legal para la Moratoria

El poder de razón de estado del ELA emana directamente de la Sección 19, del Artículo II de la Constitución del ELA, que provee sobre la “facultad de la Asamblea Legislativa para aprobar leyes en protección de la vida, la salud y el bienestar del pueblo.” Ciertamente, el poder inherente del ELA de legislar para la protección y el bienestar de la ciudadanía es abarcador. Domínguez Castro v. E.L.A., 178 D.P.R. 1 (2010). Y entre los poderes inherentes del estado de legislar para el bienestar general de sus ciudadanos, está el poder de suspender pagos y extender el vencimiento de las obligaciones del gobierno y sus instrumentalidades, con el fin de aliviar una crisis fiscal o financiera, y evitar una crisis humanitaria. Ropico, Inc. v. City of New York, 425 F. Supp. 970 (S.D.N.Y 1976).

Por tanto, y conforme al poder de razón de estado del ELA, esta Asamblea Legislativa ha resuelto otorgar al Gobernador el poder de declarar una situación de emergencia para el ELA y sus instrumentalidades, y declarar una moratoria sobre el pago de sus respectivas obligaciones. La Ley de Moratoria de Emergencia y Rehabilitación Financiera de Puerto Rico (“Ley”), le brinda al gobernador las herramientas necesarias dentro de los límites de nuestro marco legal y nuestra Constitución, para permitirle al ELA y sus instrumentalidades continuar brindando servicios esenciales a los residentes de Puerto Rico mientras se atiende la necesidad crítica de implementar reformas estructurales, reformas fiscales y reestructurar la deuda.

Las medidas establecidas en esta Ley son estrictamente limitadas para cumplir con el propósito público primordial de asegurar la salud, la seguridad y el bienestar del pueblo de Puerto Rico; evitar un mayor deterioro de la crisis humanitaria en Puerto Rico; y son las alternativas menos onerosas para lograr este propósito. La Ley provee medidas de moratoria que son de naturaleza temporera y sólo aplican si hay una determinación por el Gobernador que justifican la invocación de las disposiciones de la Ley a los fines de proteger la salud, la seguridad y el bienestar de los residentes del ELA. Además, tales medidas (incluyendo la suspensión de pleitos de los acreedores) se invocan de manera individual, es decir, entidad-por-entidad y, salvo una especificación por el Gobernador mediante Orden Ejecutiva de obligaciones categorizadas como obligaciones enumeradas, según definidas por esta Ley, se afectaría solamente a ciertas obligaciones de deuda financiera que advengan pagaderas durante un período temporero.

Además, las medidas establecidas en la Ley se hacen con el debido respeto a los derechos de los acreedores de Puerto Rico. La Ley no provee una composición o liquidación de las deudas; al contrario, todos los derechos y prioridades se conservan, y cualquier cantidad no pagada de las obligaciones del ELA y sus instrumentalidades no se perdonan y continúan siendo pagaderas al final de cualquier periodo de moratoria, como se establece en la Ley y en la manera permitida por

otra ley aplicable. Además, la Ley respeta las prioridades constitucionales mediante el establecimiento de criterios mínimos para el pago de la deuda pública del ELA que pueda convertirse pagadera durante la moratoria temporera. La Ley también provee el reconocimiento *bona fide* de los derechos de propiedad y permite el acceso a los acreedores a protecciones adecuadas o, en el caso de una expropiación, un mecanismo de justa compensación y reparación. Esta Asamblea Legislativa reconoce, además, que las medidas establecidas en esta Ley, al concederle al ELA la capacidad de estabilizar y hacer crecer la economía de Puerto Rico, evitando al mismo tiempo el cúmulo desmesurado de litigios, representan la mejor oportunidad para que los acreedores del ELA puedan recuperar sus inversiones. Por ende, la Ley sólo pretende capacitar al ELA para retrasar el pago de ciertas obligaciones al mismo tiempo que protege los derechos de los acreedores, y ejerce su deber ineludible de proteger a los ciudadanos de Puerto Rico.

Por otro lado, además de autorizar la declaración de una moratoria, y según detalla el resumen a continuación, la Ley provee remedios para atender la situación crítica del BGF. En términos generales, la Ley moderniza las disposiciones de sindicatura de su ley orgánica, y autoriza la creación de un banco puente, cuyo fin sería preservar la liquidez y activos para el beneficio del ELA, mientras facilita la transformación del BGF en una entidad más moderna y especializada en agencia fiscal. Finalmente, la Ley provee para la creación de una subsidiaria del BGF específicamente diseñada para tomar mando de los esfuerzos de reestructuración.

Esta Ley es la culminación de años de intentos por parte de esta Administración para evitar una catástrofe económica y humanitaria. Pese a que tales intentos han contribuido de manera significativa a los esfuerzos de recuperación fiscal del ELA y a retrasar sus nocivos efectos en nuestra ciudadanía, es evidente para esta Asamblea Legislativa que tales medidas ya no son suficientes. Al mismo tiempo, el ELA y sus instrumentalidades, incluyendo el BGF, encaran pagos del servicio de la deuda en el futuro inmediato y Puerto Rico no será capaz de hacer dichos pagos sin dejar de ofrecer servicios esenciales. Como consecuencia, Puerto Rico se sitúa en el precipicio de una fase desastrosa de impagos desordenados, múltiples litigios, y mayor declive económico, ya que nuestros recursos cada vez se dedican en mayor proporción a la defensa de litigios en lugar de pagar por los servicios públicos esenciales. A tales efectos, es de suma importancia proveer al Gobierno el marco legal para superar este periodo de emergencia fiscal, por lo cual somos del entendimiento que esta Ley establece dicho marco legal comprensivo de medidas razonables, necesarias y estrictamente adaptadas para atajar la emergencia fiscal y humanitaria que Puerto Rico enfrenta.

G. Resumen de la Ley

La Ley tiene tres objetivos principales. El primer objetivo se atiende en el Capítulo 2 de la Ley, el cual autoriza al Gobernador a: (i) declarar—en algún momento en el futuro—una moratoria temporera para los pagos del servicio de deuda del Estado Libre Asociado, el BGF, el Banco de Desarrollo Económico para Puerto Rico (“BDE”), o cualquiera de las demás instrumentalidades gubernamentales de Puerto Rico; y (ii) suspender los remedios de los acreedores que pudiesen surgir como resultado de la moratoria. El segundo objetivo se atiende en los Capítulos 3 y 4 de la Ley, los cuales enmiendan a la Ley Orgánica del BGF para proporcionarle al BGF opciones y herramientas que pudiese necesitar—en algún momento en el futuro—para enfrentar una sindicatura. Estas enmiendas: (a) modernizan las disposiciones de la Ley Orgánica del BGF sobre el nombramiento de un síndico para el BGF, (b) autorizan la creación de un banco “puente” temporero para llevar a cabo ciertas funciones del BGF y para honrar depósitos, y (c) permiten que

el BGF cree una nueva subsidiaria que pueda asumir las funciones de agente fiscal, asesor financiero y agente informativo del BGF, así como facilitar el esfuerzo de reestructuración. El tercer objetivo se atiende en el Capítulo 6 de la Ley, lo cual enmienda a la Ley Orgánica del BDE para proporcionarle una modernización a las disposiciones sobre el nombramiento de un síndico.

Resumen del Capítulo 1 de la Ley

El Capítulo 1 de la Ley establece las disposiciones generales de la Ley. Entre estas disposiciones están aquellas relacionadas con la declaración de un periodo de emergencia, definiciones, así como la autorización para la contratación de empleados por varias entidades gubernamentales. El Capítulo 1 también establece inmunidades para aquellas personas que actúen de conformidad con la Ley, al estipular que ninguna persona (incluyendo cualquier, director, funcionario, empleado, contratista, agente o representante) estará sujeto a responsabilidad alguna por aquellas acciones u omisiones de buena fe de acuerdo con esta Ley.

Resumen del Capítulo 2 de la Ley

El Capítulo 2 autoriza al Gobernador a declarar una moratoria y suspender los remedios de los acreedores con respecto a las obligaciones de las entidades gubernamentales sujetas a dicha moratoria. También establece condiciones para la declaración de una moratoria por parte del Gobierno y establece protecciones para los acreedores, tales como la preservación de garantías y colateral utilizados para garantizar diversas obligaciones.

Las disposiciones de la Ley que autorizan al Gobernador a declarar una moratoria entran en vigor inmediatamente después de la aprobación de la Ley y vencen el 31 de enero de 2017. El periodo durante el cual se puede declarar una moratoria se define como el “periodo cubierto” y está sujeto a una prórroga de dos meses a discreción del Gobernador. Las disposiciones sobre moratoria clasifican a las diversas entidades de Puerto Rico (incluyendo al mismo Estado Libre Asociado) en dos categorías, debido a que la Ley trata a éstas de manera distinta: (i) el “Banco”, el cual se define como BGF y/o el BDE; y (ii) “entidades gubernamentales”, lo que incluye al mismo Estado Libre Asociado, así como a las demás entidades gubernamentales de Puerto Rico con endeudamiento significativo (estén o no cubiertas por el Plan de Crecimiento Económico y Fiscal preparado por el Grupo de Trabajo para la Recuperación Fiscal y Económica de Puerto Rico).

El Gobernador tiene el poder de declarar, mediante una orden ejecutiva, cuya orden puede ser cancelada por el Gobernador, emergencias con respecto a cualquier entidad gubernamental durante el “periodo cubierto”, según definido por esta Ley. El periodo después de que se haya hecho tal declaración con respecto a una entidad gubernamental, se le conoce como el “periodo de emergencia”, según definido por esta Ley, el cual, con respecto a todas las entidades, termina el último día del periodo cubierto. La declaración del Gobernador de un periodo de emergencia convierte las obligaciones de servicio de deuda de dicha entidad gubernamental en “obligaciones cubiertas”, según definidas por esta Ley. La orden ejecutiva del Gobernador también puede identificar obligaciones adicionales, ya sea específicamente o por categoría, tal como aquellas obligaciones de instrumentos derivados (*derivatives*) como obligaciones cubiertas. Si lo dispone una orden ejecutiva, no podrán hacerse pagos de obligaciones cubiertas durante el periodo de emergencia y las obligaciones cubiertas serán pagaderas el último día del periodo cubierto en la medida en que, de otro modo, hubiesen sido pagaderas antes o durante el periodo cubierto.

Durante el periodo de emergencia para el Banco, según este término se define en la Ley, se suspenderán los pleitos contra el Banco relacionados con las obligaciones cubiertas, y, en cualquier momento durante el periodo cubierto, el Gobernador tendrá potestad para adoptar cualquier y toda medida razonable y necesaria para permitirle al Banco continuar realizando sus operaciones. La definición de la frase “razonable y necesaria” incluye, entre otras cosas, la exención de requisitos sobre reservas de depósito, la suspensión de pagos de cartas de crédito y extensión de crédito, la prohibición de desembolsos de préstamos, así como la facultad para restringir solicitudes de retiro de depósitos a menos que dichos fondos vayan a ser utilizados para brindar servicios esenciales. Durante el periodo de emergencia para una entidad gubernamental, incluyendo el mismo Estado Libre Asociado, se suspenden los pleitos contra dicha entidad gubernamental y el Gobernador podrá tomar cualquier y toda acción que sea: (a) razonable y necesaria para preservar la capacidad del Estado Libre Asociado de continuar brindando servicios esenciales, o (b) razonable y necesaria para proteger la salud, la seguridad y el bienestar de los residentes del Estado Libre Asociado. Estas acciones incluyen la posibilidad de expropiar propiedad de manera permitida constitucionalmente.

La Ley también contempla que las obligaciones cubiertas recibirán pagos de intereses o devengarán intereses durante el periodo cubierto de la siguiente manera:

<p><i>“Deuda pública”</i> (buena fe y crédito, protegida por la Constitución)</p>	<p>Si una <i>obligación de intereses</i> del Banco o de una entidad gubernamental está garantizada por el Estado Libre Asociado, o si es una <i>obligación de intereses</i> del Estado Libre Asociado para la cual la buena fe y el crédito del Estado Libre Asociado está pignorada, se pagará dicha obligación en su totalidad hasta el 1 de julio de 2016 si adviene pagadera. Comenzando el 1 de julio de 2016, obligaciones de intereses que constituyan deuda pública se pagarán en la cantidad determinada por el Gobernador, luego de consultar con el Secretario de Hacienda, cuya cantidad debe ser consistente con la Constitución. No se pagarán obligaciones de deuda pública que consistan en <i>obligaciones de principal</i> (asumiendo que no hayan recursos disponibles para cubrir dichos pagos) u <i>obligaciones enumeradas</i> pagaderas en o antes del 1 de julio de 2016, según definidas en esta Ley.</p>
<p><i>Depósitos del Banco</i></p>	<p>Los <i>depósitos del Banco</i> devengarán intereses de la siguiente manera: los depósitos a plazo fijo devengarán intereses a la tasa contractual hasta su vencimiento y los depósitos que podrían retirarse en cualquier momento, y los de plazo fijo después de su vencimiento, devengarán intereses a una tasa equivalente a la tasa de interés promedio que reciban los tenedores de las obligaciones de principal del Banco que no se hayan pagado.</p>

<p>Obligaciones de Principal e Intereses (excepto deuda pública)</p>	<p>No se harán pagos de <i>principal</i> durante el periodo de emergencia a menos que el emisor ya tenga fondos depositados con un fiduciario (o agente de pago) para hacer dicho pago; el principal que esté vencido y exigible devengará intereses a la tasa contractual. El principal y los intereses devengados sobre principal serán pagaderos, en la medida que sea permitido bajo la ley aplicable, al final del periodo de emergencia para el Banco o la entidad gubernamental, si dichos pagos vencen durante el periodo de emergencia, a menos que ocurra una reestructuración voluntaria o se adopte otra ley. Si no se pagan <i>intereses</i> durante el periodo cubierto, dichos intereses se acumularán a la tasa contractual. Los intereses acumulados serán pagados al final del periodo de emergencia para el Banco o la entidad gubernamental si dicho pago vence durante el periodo de emergencia, a menos que una reestructuración voluntaria se haya concretado o se adopte otra ley.</p>
<p>Obligaciones enumeradas (excluyendo deuda pública)</p>	<p>Las <i>obligaciones enumeradas</i> devengarán intereses sólo si tienen derecho al mismo bajo sus respectivos acuerdos.</p>

Bajo ciertas circunstancias, la Ley dispone para que se provea lo que se conoce como “protección adecuada”, a aquellos acreedores que tengan algún derecho real o garantía con respecto a algún pago atrasado del servicio de deuda.

Resumen de los Capítulos 3 y 4 de la Ley

Los Capítulos 3 y 4 de la Ley contienen enmiendas a la Ley Orgánica del BGF que consisten en actualizar las disposiciones relacionadas al nombramiento de un síndico (Capítulo 3), así como disposiciones sobre la creación de un banco puente y procedimientos relacionados a esto (Capítulo 4), cuyo propósito es proporcionar una alternativa a la liquidación del BGF y a una sindicatura según las leyes existentes. Con respecto a las disposiciones sobre *sindicatura*, el Capítulo 3 de la Ley reemplazaría las disposiciones obsoletas sobre sindicatura que se encuentran actualmente en la Ley Orgánica del BGF mediante el establecimiento de una serie de reglas más adecuadas para afrontar los retos que actualmente enfrenta el BGF por medio de la modificación del proceso del nombramiento de un síndico, la clarificación de las facultades de la sindicatura y el establecimiento de prioridades de gastos y reclamaciones no garantizadas en una sindicatura. La prioridad de los bonistas y los depositantes permanecerá igual que bajo las leyes existentes. Con respecto a las disposiciones sobre el *banco puente*, el Capítulo 4 de la Ley permite la creación de un banco puente, el cual podría asumir ciertas responsabilidades del Banco, incluyendo depósitos, y continuar determinadas funciones existentes del BGF. Aquellas obligaciones que el banco puente no asuma permanecerán en el antiguo BGF, pero todos los acreedores tendrán derecho a recibir la cantidad que dichos acreedores hubiesen recibido si se hubiese liquidado el BGF en la fecha del nombramiento del síndico.

Resumen del Capítulo 5

El Capítulo 5 reemplazaría disposiciones obsoletas sobre sindicatura que se encuentran actualmente en la Ley Orgánica del BDE mediante la modificación del proceso de nombramiento de un síndico, la clarificación de las facultades de la sindicatura y el establecimiento de prioridades de gastos y reclamaciones no garantizadas en una sindicatura. Las enmiendas propuestas son consistentes con las enmiendas propuestas para el BGF.

Resumen del Capítulo 6

El Capítulo 6 de la Ley crea una nueva instrumentalidad llamada la “Autoridad de Asesoría Financiera y Agencia Fiscal de Puerto Rico”, la cual estará estructurada como una corporación pública e instrumentalidad pública independiente del Estado Libre Asociado con una junta de directores compuesta de un miembro nombrado por el Gobernador. La Autoridad se crea con el propósito de actuar como agente fiscal, asesor financiero y agente informativo del Estado Libre Asociado y sus corporaciones públicas, instrumentalidades, comisiones, autoridades, municipios y subdivisiones políticas y para asistir a dichas entidades a enfrentar la grave emergencia fiscal por la que atraviesa el Estado Libre Asociado. La Autoridad también supervisará los asuntos relacionados a la reestructuración o el ajuste de una obligación cubierta y coordinará e implantará medidas de contingencia para dichas obligaciones cubiertas.

DECRÉTASE POR LA ASAMBLEA LEGISLATIVA DE PUERTO RICO:

CAPÍTULO 1. Disposiciones Generales

Artículo 101. Título Corto

Esta Ley se conocerá y podrá ser citada como la “Ley de Moratoria de Emergencia y Rehabilitación Financiera de Puerto Rico”.

Artículo 102. Declaración de Estado de Emergencia

Por la presente se determina y declara que la grave emergencia que ha identificado y declarado la Asamblea Legislativa en numerosas ocasiones ha empeorado dramáticamente, lo que requiere que esta tome medidas adicionales, en el ejercicio del poder de razón de estado, para salvaguardar la salud, seguridad y el bienestar público de los residentes del Estado Libre Asociado. La Asamblea Legislativa consistentemente ha tratado de evitar, a través de la aprobación de diversas legislaciones, la emergencia fiscal en la que Puerto Rico se encuentra. Estos esfuerzos incluyen la Ley Núm. 3-2013 (reformando el Sistema de Retiro); Ley Núm. 160-2013 (reformando el Sistema de Retiro de Maestros); Ley Núm. 66-2014 (implantando medidas operacionales y fiscales especiales para reducir el déficit y atender la emergencia fiscal); Ley Núm. 71-2014 (proveyéndole a ciertas instrumentalidades del Estado Libre Asociado de Puerto Rico un mecanismo ordenado de reestructuración); Ley Núm. 1-2015 (incrementando el impuesto sobre ventas y uso e implantando medidas de recaudos adicionales); por mencionar algunas.

Pero, a pesar de estos esfuerzos, la emergencia fiscal que enfrenta Puerto Rico continúa y, de hecho, se ha tornado más crítica. Hoy día, no solamente el Banco Gubernamental de Fomento para Puerto Rico está amenazado por un incumplimiento desordenado del pago de sus obligaciones en circulación, sino que otras entidades gubernamentales del Estado Libre Asociado

también están amenazados ante la posibilidad de un incumplimiento desordenado del pago de sus respectivas obligaciones. Además, a esto se añade el hecho de que el Congreso de los Estados Unidos no ha actuado para proveerle a Puerto Rico un régimen ordenado para reestructurar la deuda del Estado Libre Asociado y sus instrumentalidades, lo que nos deja a la merced de la incertidumbre y el caos. El pueblo de Puerto Rico se enfrenta a una crisis humanitaria nunca antes experimentada en Puerto Rico o en cualquier lugar de los Estados Unidos. Simple y llanamente, la grave emergencia fiscal que enfrenta nuestro País atenta contra la capacidad de Puerto Rico de honrar sus obligaciones pendientes de pago, y proteger la salud, seguridad y el bienestar público de sus residentes. No obstante lo anterior, nosotros, como Gobierno, tenemos el deber de actuar responsablemente, en el ejercicio de nuestro poder de razón de estado, para proveer servicios gubernamentales esenciales y salvaguardar los intereses de todas las partes involucradas, incluyendo los acreedores.

La Asamblea Legislativa, por la presente, determina que es insostenible pedirle al Gobierno del Estado Libre Asociado, a sus instrumentalidades y a los residentes de Puerto Rico, que continúen asumiendo por sí solos la carga de la grave emergencia fiscal por la cual atraviesa Puerto Rico. El impacto negativo agregado que esto acarrearía en nuestra economía perjudicaría a todas las partes involucradas, incluyendo a los acreedores. Consecuentemente, se debe autorizar e instruir al Gobernador de Puerto Rico a cumplir con su deber de salvaguardar la salud, seguridad y el bienestar público de los residentes del Estado Libre Asociado, otorgándole poderes de emergencia para declarar una moratoria temporera en los pagos del servicio de la deuda. Esta medida contribuirá de forma positiva a la capacidad fiscal del Estado Libre Asociado y de las otras entidades gubernamentales de honrar sus obligaciones pendientes de pago. De lo contrario, los posibles efectos adversos que tendría el permitirle a los acreedores ejercer sus remedios legales, perturbarían indudablemente la salud, seguridad y el bienestar público de los residentes del Estado Libre Asociado. Asimismo, esto podría menoscabar más aun la habilidad de los acreedores a recuperar sus reclamaciones.

Artículo 103. Definiciones

Las siguientes palabras y términos, cuando se usen o se haga referencia a ellos en los capítulos 1, 2, 6 y 7 de esta Ley, tendrán los significados que se establecen a continuación:

- a) "AAA" - significa la Autoridad de Acueductos y Alcantarillados de Puerto Rico.
- b) "AEE" - significa la Autoridad de Energía Eléctrica de Puerto Rico.
- c) "ACT" - significa la Autoridad de Carreteras y Transportación de Puerto Rico.
- d) "ADCC" - significa la Autoridad del Distrito del Centro de Convenciones.
- e) "AEP" - significa la Autoridad de Edificios Públicos de Puerto Rico.
- f) "AFP" - significa la Autoridad para el Financiamiento de la Infraestructura de Puerto Rico.
- g) "AFICA" - significa la Autoridad para el Financiamiento de Facilidades Industriales, Turísticas, Educativas, Médicas y de Control Ambiental.
- h) "AFM" - significa la Agencia de Financiamiento Municipal de Puerto Rico.
- i) "AFV" - significa la Autoridad para el Financiamiento de la Vivienda de Puerto Rico.
- j) "AMA" - significa la Autoridad Metropolitana de Autobuses.

- k) “Autoridad” – significa la Autoridad de Asesoría Financiera y Agencia Fiscal de Puerto Rico.
- l) “Banco” - significa uno de los siguientes, o ambos, si aplica –
 - i. Banco Gubernamental de Fomento para Puerto Rico, y para propósitos del Artículo 201(b)(i) y (ii) de esta Ley, también incluirá sus empleados, funcionarios, directores, agentes y asesores profesionales; y
 - ii. Banco de Desarrollo Económico para Puerto Rico, y para propósitos del Artículo 201(b)(i) y (ii) de esta Ley, también incluirá sus empleados, funcionarios, directores, agentes y asesores profesionales.
- m) “COFINA” - significa la Corporación del Fondo del Interés Apremiante de Puerto Rico.
- n) “Depositante” - significa cualquier persona, o representante autorizado de la misma, que sea principal o beneficiario de cualquier cuenta que contenga depósitos en poder del Banco.
- o) “Depósito” - significa fondos en custodia del Banco clasificados como depósitos por el Banco.
- p) “Deuda pública” - cualquier obligación o evidencia de deuda del Estado Libre Asociado, o una entidad gubernamental, emitida o garantizada por el Estado Libre Asociado de conformidad con la autoridad provista en la Sección 2 del Artículo VI de la Constitución del Estado Libre Asociado, para el pago de las cuales se ha empeñado la buena fe, el crédito y poder de imponer contribuciones del Estado Libre Asociado.
- q) “Entidad gubernamental” - significa cualquiera de las siguientes entidades -
 - i. AFICA; AMA; cada Banco, ADCC; Fideicomiso de Niños; COFINA; Estado Libre Asociado; Sistema de Retiro; AFV; ACT; AFM; AEP; PFC; PRASA; PREPA; PRIDCO; AFI; y UPR; y
 - ii. los empleados, funcionarios, directores, agentes, o profesionales de cualquier entidad gubernamental incluida en la cláusula (i) arriba, solamente en aquellos casos en que el término se utiliza en los Artículos 201(b)(i) y (ii) de esta Ley.
- r) “Estado Libre Asociado” - significa el Estado Libre Asociado de Puerto Rico.
- s) “Fideicomiso de Niños” - significa la entidad sin fines de lucro creada por el Estado Libre Asociado mediante la Ley Núm. 173-1999, según enmendada, conocida como “Ley del Fideicomiso de los Niños”.
- t) “Gobernador” - significa el Gobernador del Estado Libre Asociado.
- u) “Instrumento de deuda” - incluye cualquier documento u otro instrumento para, utilizado con relación a, o relacionado a:
 - i. cualquier obligación de pagar el principal de, la prima de, si alguna, cualquier interés, penalidad, reembolso, indemnización, cargo, gasto o cualquier otra cantidad relacionada a cualquier endeudamiento, y cualquier otra obligación, sea contingente o no,
 - a. por dinero tomado a préstamo,

- b. evidenciado por bonos, pagarés, fideicomisos (*"indentures"*), notas, resoluciones, cualquier contrato de préstamo o financiamiento, valores o cualquier instrumento similar o
- c. por una carta de crédito o fianza de cumplimiento;
- ii. cualquier obligación contingente respecto de, o relacionadas con, cualquier pasivo de la clase descrito en la cláusula anterior (i), incluyendo, pero sin limitarse a, cualquier garantía de tal responsabilidad y de cualquier acuerdo de reembolso con respecto a una póliza de seguro que cubra dicha obligación;
- iii. cualquier obligación con relación a alguna aceptación bancaria (*"banker's acceptance"*);
- iv. cualquier obligación con relación a un acuerdo de intercambio de tasas de interés, contrato derivado o acuerdo relacionado, contrato de cobertura (*"hedge agreement"*), contrato de valores, contrato de entrega futura (*"forward"*), acuerdo de recompra, opción, promesa (*"warrant"*), contrato de materia prima (*"commodity"*) u otro instrumento similar;
- v. cualquier aplazamiento, renovación, extensión y reembolso de, o enmiendas, modificaciones o suplementos a, cualquier obligación de los tipos descritos en las cláusulas (i) a (iv);
- vi. cualquier obligación que surja de cualquier sentencia relacionada a cualquier obligación del tipo que se describe anteriormente en las cláusulas (i) a (iv); o
- vii. cualquier obligación que surja de una obligación de asegurar relacionada a cualquier obligación del tipo descrito en este Artículo.
- v) "Junta" o "Junta de Directores" - significa la Junta de Directores del Banco y la Autoridad.
- w) "Ley" - significa esta Ley de Moratoria de Emergencia y Rehabilitación Financiera de Puerto Rico.
- x) "Obligación cubierta" - significa (1) cualquier obligación de principal, obligación de intereses u obligación enumerada de una entidad gubernamental, pagadera durante el periodo de emergencia con respecto al Banco o una entidad gubernamental; (2) cualquier obligación que resulte de, o esté relacionada con, la garantía, extendida por una entidad gubernamental, de cualquier obligación de otra entidad que sea pagadera o advenga pagadera durante el periodo de emergencia y; (3) si lo provee la orden emitida según la Sección 201(c) de esta Ley, la transferencia de, o la obligación de transferir, fondos antes de, o en la fecha que vence, cualquier obligación identificada en las cláusulas (1) y (2), si se declara en un estado de emergencia para una entidad gubernamental, según sea el caso, por orden ejecutiva del Gobernador, según enmendada de tiempo en tiempo y según lo contempla el Artículo 201(a) de esta Ley pero no incluirá -
 - i. cualquier obligación de un asegurador de pagar bajo cualquier póliza relacionada a cualquier obligación de principal cubierta u obligación de intereses cubierta que hubiese vencido según los términos de cualquier ley o documento si esta Ley no se hubiese aprobado;

- ii. cualquier obligación (o parte de), a menos que se disponga lo contrario en una orden ejecutiva, cuyo pago pueda hacerse sólo de dinero que en la fecha en que la Ley entre en vigor esté depositado con un fiduciario u otro custodio para el pago de dicha obligación antes del comienzo del periodo de emergencia para el deudor de dicha obligación y cuyo dinero esté pignorado para el propósito principal de pagar dicha obligación (o parte de) cuando sea pagadera;
 - iii. cualquier obligación de AFICA, con la excepción de *Educational Facilities Revenue Bonds, 2000 Series A (Educational Plaza Project)*, emitidos bajo el acuerdo de fideicomiso fechado 1 de diciembre de 2000, según enmendado, entre *The Bank of New York Mellon*, como fiduciario, y AFICA;
 - iv. cualquier obligación del banco puente creado bajo el capítulo 4 de esta Ley, y
 - v. cualquier emisión de deuda por una entidad gubernamental después de la promulgación de esta Ley, disponiéndose que el Gobernador certifique que dicha deuda será excluida de la definición de “obligación cubierta” según esta Sección para los propósitos de esta Ley.
- y) “Obligación de intereses” - significa cualquier obligación que surja bajo, o que esté relacionada con, el pago de intereses sobre cualquier instrumento de deuda, pero no incluirá ninguna obligación de intereses determinada e identificada por el Gobernador, en su única discreción, mediante una orden ejecutiva, según enmendada de tiempo en tiempo, emitida bajo el Artículo 201(a) de esta Ley, según enmendada, como excluida de una obligación de intereses para los fines de esta Ley.
- z) “Obligación de principal”- significa cualquier obligación que surja bajo, o que esté relacionada con, el pago de principal de cualquier instrumento de deuda, pero no incluirá ninguna obligación de principal determinada e identificada por el Gobernador, en su única discreción, mediante una orden ejecutiva, según enmendada de tiempo en tiempo, emitida bajo el Artículo 201(a) de esta Ley, como excluida de considerarse una obligación de principal para los fines de esta Ley.
- aa) “Obligación enumerada” - significa cualquier obligación que aparezca específicamente o se identifique por categoría en una orden ejecutiva, según enmendada de tiempo en tiempo, emitida conforme al Artículo 201(a) de esta Ley, que, ya sea contingente o no contingente, sea exigible o no, surja de cualquier contrato o acuerdo, incluyendo cualquier instrumento financiero, instrumento de deuda o arrendamiento no expirado, cualquier obligación de pago del principal de, prima de, en tal caso, interés sobre, sanciones, reembolsos o indemnización equivalente, honorarios, gastos u otros importes correspondientes a cualquier deuda, cualquier obligación, contingente o no, y cualquier otro acuerdo o instrumento que contemple cantidades o beneficios debidos por el Banco o una entidad gubernamental a cualquier persona; disponiéndose que una “obligación enumerada” no incluirá ninguna obligación de principal ni obligación de intereses del Banco o dicha entidad gubernamental.
- bb) “Pago mínimo de deuda pública”- significa, con respecto a una obligación cubierta que sea una obligación de intereses de deuda pública -
- i. una cantidad determinada por el Gobernador, luego de consultar con el Secretario de Hacienda, consistente con la Constitución del Estado Libre Asociado, cuya

cantidad puede ser calculada como la diferencia entre la cantidad de recursos disponibles proyectados para el periodo de emergencia aplicable y los gastos proyectados para los servicios públicos esenciales durante dicho periodo, aplicados proporcionalmente a todos los tenedores de obligaciones cubiertas que sean obligaciones de intereses de deuda pública que sean pagaderas o que se proyecta serán pagaderas y exigibles durante el periodo de emergencia aplicable (excluyendo las cantidades diferidas o acumuladas que serán pagaderas el último día de dicho periodo de emergencia como resultado de esta Ley); disponiéndose que el pago mínimo de deuda pública en esta cláusula (i) no deberá exceder los recursos disponibles del Estado Libre Asociado que estén disponibles para hacer dicho pago, incluyendo aquellos recursos sujetos a cualquier orden ejecutiva o ley aplicable que desvíe dichos recursos disponibles para el pago de la deuda pública; y

- ii. el monto completo de dicha obligación si dicha obligación vence antes del 1 de julio de 2016.
- cc) “Periodo de emergencia” - significa, con respecto a cualquier entidad gubernamental, el periodo que comienza en la fecha que designe el Gobernador en una orden ejecutiva, según enmendada de tiempo en tiempo, emitida bajo el Artículo 201(a) de esta Ley con respecto a una entidad gubernamental, y que termina el último día del periodo cubierto.
- dd) “Periodo cubierto” - significa el periodo que comienza inmediatamente luego de que esta Ley entre en vigor y termina el 31 de enero de 2017, cuyo periodo puede extenderse mediante orden ejecutiva del Gobernador por no más de dos (2) meses.
- ee) “Persona” - significa cualquier persona natural o jurídica, incluyendo, pero sin limitarse a, cualquier agencia gubernamental, departamento, instrumentalidad, corporación pública, municipio, junta, oficina, comisión o dependencia o cualquier persona pública o privada, empresa, asociación, sociedad, compañía, sociedad de responsabilidad limitada, asociación, o corporación, organizada y existente bajo las leyes del Estado Libre Asociado, los Estados Unidos de América o cualquiera de sus estados, o de cualquier país extranjero, o cualquier combinación de los anteriores.
- ff) “PFC” - significa la Corporación para el Financiamiento Público de Puerto Rico.
- gg) “PRIDCO” - significa la Compañía de Fomento Industrial de Puerto Rico.
- hh) “Recursos disponibles” - tiene el significado dado a dicho término para propósitos de la Sección 8 del Artículo VI de la Constitución del Estado Libre Asociado.
- ii) “Sistema de Retiro” - significa el Sistema de Retiro de los Empleados del Gobierno del Estado Libre Asociado de Puerto Rico y sus Instrumentalidades.
- jj) “UPR” - significa la Universidad de Puerto Rico.

Artículo 104. Relación con las Disposiciones Constitucionales; Supremacía Sobre Otras Leyes

Esta Ley ha sido promulgada de acuerdo a y de conformidad con el poder de razón de estado del Estado Libre Asociado. En caso de que las disposiciones de esta Ley estén en conflicto con las disposiciones de cualquier otra ley, las disposiciones de esta Ley prevalecerán.

Artículo 105. Inmunidades

(a) A menos que se pruebe mediante sentencia final e inapelable que ha incurrido en negligencia crasa que conlleve una indiferencia temeraria hacia sus deberes, ninguna persona tendrá responsabilidad civil, criminal o de otro tipo hacia entidad o persona alguna y, sin necesidad de notificación u orden adicional, serán exonerados de acciones u omisiones en su capacidad y dentro de su autoridad en conexión con, en relación con, que surjan bajo, o según permitido por esta Ley, ni por cualquier transferencia, venta o cesión de activos o retiro de fondos aprobado o ejecutado por una entidad gubernamental antes o después de la aprobación de esta Ley si dicha transferencia, venta, cesión o retiro de depósitos u otros fondos, como sea aplicable, se declara por un tribunal en violación de esta Ley, la Ley Núm. 17 de 23 de septiembre de 1948, según enmendada, o las secciones 1243, 1244 o 1249 del Código Civil de Puerto Rico o alguna otra disposición análoga o similar.

(b) Cualquier acción presentada por negligencia crasa será desestimada con perjuicio si: (i) un demandado, como oficial, director, miembro de comité o profesional produce documentos que demuestren, con relación a cualquier acto u omisión objeto de la demanda, que dicho demandado recibió información sobre los hechos relevantes, participó en persona o por teléfono y deliberó de buena fe (ii) o si las acciones u omisiones que son la base de la demanda, acusación o información no violan claramente un deber establecido del cual una persona razonable tendría notificación clara bajo las circunstancias particulares.

Artículo 106. Contratación de Empleados del Gobierno y Profesionales; Exención de Otras Leyes

(a) En cualquier momento durante el periodo de emergencia, las siguientes leyes o disposiciones de las mismas no aplicarán a la contratación temporera o permanente, por parte del Gobernador, el Departamento de Hacienda, AFI, cualquier subsidiaria del Banco y/o la Autoridad, de cualquier empleado del Banco o cualquier otra entidad gubernamental, para trabajar en la Oficina del Gobernador, el Departamento de Hacienda, AFI, cualquier subsidiaria del Banco y/o la Autoridad en temas relacionados a la reestructuración de cualquier obligación cubierta o el ajuste de cualquier obligación cubierta, o en transacciones de manejo de responsabilidad para las obligaciones cubiertas, manejo de los asuntos fiscales del Estado Libre Asociado o cualquier entidad gubernamental, o cualquier tema que de otra manera se relacione a las funciones u operaciones hechas o llevadas a cabo por el Banco de acuerdo a la Ley Núm. 17 de 23 de septiembre de 1948, según enmendada, o la Ley Núm. 272 de 15 de mayo de 1945, según enmendada:

- i. Ley Núm. 184-2004, según enmendada, conocida como “Ley para la Administración de los Recursos Humanos en el Servicio Público del Estado Libre Asociado de Puerto Rico”;
- ii. Ley Núm. 197-2002, según enmendada, conocida como “Ley del Proceso de la Transición del Gobierno”;
- iii. Artículos 6 al 11 de la Ley Núm. 66-2014, según enmendada, conocida como “Ley Especial de Sostenibilidad Fiscal y Operacional del Gobierno del Estado Libre Asociado de Puerto Rico”;
- iv. incisos (b) y (c) del Artículo 4.6 de la Ley Núm. 1-2012, según enmendada, conocida como “Ley de Ética Gubernamental de Puerto Rico de 2011”;

- v. Ley Núm. 103-2006, según enmendada, conocida como “Ley para implantar la Reforma Fiscal del Gobierno del Estado Libre Asociado de Puerto Rico”;
- vi. Ley Núm. 164 de 23 de julio de 1974, según enmendada, conocida como “Ley de la Administración de Servicios Generales”; y
- vii. Artículo 2.001 de la Ley Núm. 78-2001, según enmendada, conocida como la “Ley Electoral del Estado Libre Asociado de Puerto Rico”.

(b) El Gobernador, el Departamento de Hacienda, AFI, cualquier subsidiaria de cualquier Banco y/o la Autoridad podrá contratar con, retener a, u honrar obligaciones bajo y/o asumir contratos del Banco con consultores y empleados esenciales, incluyendo asesores legales y financieros, aunque los salarios y los honorarios hayan sido incurridos antes de la fecha de dicha asunción, para asesorar al Gobernador, al Banco o a cualquier entidad gubernamental en asuntos relacionados con la reestructuración o el ajuste de cualquier obligación cubierta, implantar planes de contingencia para las obligaciones cubiertas o para la administración de los asuntos fiscales del Estado Libre Asociado y de cualquier entidad gubernamental, o cualquier otro tema relacionado con las funciones y operaciones realizadas o llevadas a cabo por el Banco bajo la Ley Núm. 17 de 23 de septiembre de 1948, *supra*, o la Ley Núm. 272 de 15 de mayo de 1945, según enmendada. El Gobernador, el Departamento de Hacienda, AFI, cualquier subsidiaria del Banco y/o la Autoridad, según sea aplicable, deberá someter a la Oficina de Gerencia y Presupuesto un estimado del total de costos y gastos relacionados con los contratos y obligaciones que incurrirá o asumirá de acuerdo con esta sección para el remanente del año fiscal 2016. El Secretario de Hacienda y el Director de la Oficina de Gerencia y Presupuesto están ordenados a identificar, del Año Fiscal 2016, los fondos necesarios para cubrir dichos gastos y/o para transferir a AFI, cualquier subsidiaria del Banco y/o la Autoridad suficientes fondos para cubrir dichos gastos. Comenzando con el Año Fiscal 2017, dichos gastos serán pagados mediante asignaciones hechas por la Asamblea Legislativa.

Artículo 107. Idioma Que Prevalece

Esta Ley se adoptará en español y en inglés. Si en la interpretación o aplicación de esta Ley surgiere algún conflicto entre el texto en inglés y el texto en español, prevalecerá el texto en inglés.

Artículo 108. Prioridad de Servicios Esenciales

La Asamblea Legislativa encuentra que, dada la crisis fiscal por la que atraviesa el Estado Libre Asociado, durante este periodo de emergencia el Gobernador debe darle prioridad a los servicios esenciales sobre el pago de la deuda no sólo para proveer para la salud, seguridad y bienestar de los residentes del Estado Libre Asociado pero también para evitar una contracción económica adicional y la crisis fiscal y humanitaria que en última instancia materialmente empeoraría el recobro de los acreedores de los bonos de Puerto Rico.

CAPÍTULO 2. Moratoria para Entidades Gubernamentales

Artículo 201. Declaración para Comenzar un Periodo de Emergencia y Moratoria para Cualquier Entidad Gubernamental; Facultades del Gobernador

(a) Consistente con el Artículo 108, la Legislatura por la presente instruye al Gobernador a dar prioridad al pago de servicios esenciales sobre las obligaciones cubiertas para proteger la salud, seguridad y el bienestar de los residentes del Estado Libre Asociado durante el periodo cubierto, según definido en esta Ley, y al Gobernador por la presente se le da el poder de, mediante orden ejecutiva, declarar un estado de emergencia para el Banco o una entidad gubernamental e identificar obligaciones enumeradas del Banco o cualquier entidad gubernamental y, si la orden ejecutiva así lo dispone, no se harán pagos de una obligación cubierta del Banco o dicha entidad gubernamental fuera de lo que disponen los Artículos 202 y 204 de esta Ley durante el periodo de emergencia para el Banco o dicha entidad gubernamental. Cualquier orden ejecutiva emitida bajo este inciso podrá ser cancelada o modificada en cualquier momento por el Gobernador.

(b) Durante el periodo de emergencia para cualquier entidad gubernamental —

- i. no se tomará acción alguna, y no se comenzará o continuará reclamación o procedimiento alguno, incluyendo la expedición de emplazamientos en ninguna corte de ninguna jurisdicción, que pueda resultar en—
 - A. el recobro de, o en una sentencia o ejecución contra dicha entidad gubernamental con relación a cualquier obligación cubierta, o cualquier fondo, propiedad, cuenta por cobrar o ingresos de éstos;
 - B. una orden, sentencia, gravamen, derecho de compensación, derecho de embargo o contrarreclamación con relación a cualquier obligación cubierta en contra de dicha entidad gubernamental o la deuda u obligación evidenciada por ésta;
 - C. la aplicación de cualquier fondo, propiedad, cuenta por cobrar o ingreso de dicha entidad gubernamental con relación a cualquier obligación cubierta de dicha entidad gubernamental, o la deuda y obligación evidenciada por ésta;
- ii. ninguna entidad o persona que tenga cualquier reclamación o derecho (incluyendo derechos de beneficiarios o derechos cedibles), y ningún fiduciario, agente de colateral, agente fiscal, compañía de seguro o institución financiera que reciba y mantenga fondos de dicha entidad gubernamental, podrá ejercer remedio alguno, incluyendo cualquier derecho de aceleración o terminación, derecho de compensación, derecho de embargo o contrarreclamación con relación a cualquier obligación cubierta de dicha entidad gubernamental, bajo cualquier contrato o ley aplicable como resultado de -
 - A. el impago de cualquier obligación que surja bajo o relacionada con cualquier obligación cubierta de dicha entidad gubernamental;
 - B. el incumplimiento con cualquier condición o pacto bajo o relacionado con cualquier obligación cubierta de dicha entidad gubernamental;
 - C. la vigencia de cualquier derecho que estuviere condicionado a la situación financiera de, o al comienzo de un procedimiento de reestructuración,

insolvencia, quiebra u otro procedimiento, o al establecimiento de una moratoria por o para dicha entidad gubernamental, incluyendo un incumplimiento o evento de incumplimiento bajo cualquier contrato; o

D. la presentación o aprobación de esta Ley o cualquier ley similar, incluyendo legislación para establecer una moratoria;

iii. ningún contrato del cual dicha entidad gubernamental sea parte podrá ser terminado o modificado, y ningún derecho u obligación bajo dicho contrato podrá ser terminado o modificado en cualquier momento durante el periodo de emergencia únicamente por razón de que alguna disposición de dicho contrato está condicionada a—

A. la insolvencia o situación financiera de dicha entidad gubernamental;

B. el comienzo de una restructuración, insolvencia, quiebra u otro procedimiento, o una moratoria por dicha entidad gubernamental; o

C. un incumplimiento bajo un contrato separado que se deba a, o surja por razón de, o como resultado de alguno de los eventos o asuntos incluidos en los incisos (ii)(A), (ii)(B), (ii)(C), o (ii)(D) de este Artículo; y

iv. no obstante las disposiciones de los incisos (i), (ii) y (iii) anteriores, el Gobernador podrá tomar toda acción razonable y necesaria para preservar la capacidad del Estado Libre Asociado para continuar brindando servicios públicos esenciales y podrá tomar cualquier y toda acción razonable y necesaria para proteger la salud, la seguridad y el bienestar de los residentes del Estado Libre Asociado, incluyendo, sin limitación, expropiar derechos de propiedad relacionados a una entidad cubierta de una manera permitida constitucionalmente de acuerdo a los poderes del Estado Libre Asociado, disponiéndose que, si alguna propiedad es expropiada según esta Ley, se podrán solicitar justa compensación o cualquier otro remedio en el Tribunal de Primera Instancia, Sala de San Juan, no obstante cualquier otra disposición o esta Sección de esta Ley. Con excepción de los Artículos 3 y 3(a) y el requisito del Artículo 5(a) de que se depositen fondos en el tribunal antes de adquirir título y posesión de la propiedad que se está expropiando, las disposiciones de la Ley General de Expropiaciones de 12 de marzo de 1903, según enmendada, aplicarán a las expropiaciones bajo este Artículo.

(c) Cualquier acto que se determine que viole el subinciso (b) de este Artículo será nulo y castigable por desacato. Cualquier persona o entidad que viole este Artículo podrá ser responsable ante el Banco o dicha entidad gubernamental por los daños, costos, y honorarios de abogados incurridos por el Gobernador, el Banco o dicha entidad gubernamental en defensa contra acciones tomadas en violación de este Artículo, y por daños punitivos en el caso de infracciones intencionales o a sabiendas y, si se determina que ha habido una violación de este Artículo, el Tribunal podrá ordenar los remedios adicionales que entienda adecuados.

(d) Si así los ordena el Gobernador durante el periodo de emergencia creado por este Artículo, las siguientes obligaciones podrán ser suspendidas o modificadas, como sea aplicable, hasta el final del periodo cubierto, sin necesidad de otra legislación,

- i. cualquier obligación estatutaria u otra obligación para asignar dinero para pagar o garantizar cualquier obligación cubierta o solicitar la inclusión en el presupuesto del Estado Libre Asociado de una asignación para pagar o garantizar cualquier obligación (o de tomar cualquier acción para cumplir con la misma);
- ii. cualquier obligación estatutaria u otra obligación para transferir dinero (o su equivalente), para pagar o garantizar cualquier obligación cubierta (o de tomar cualquier acción para cumplir con la misma);
- iii. cualquier obligación estatutaria u otra obligación para compensar los ingresos utilizados para pagar o cubrir, directa o indirectamente, una obligación cubierta, que normalmente hubiesen sido utilizados o efectuados para pagar o garantizar cualquier obligación cubierta (o de tomar cualquier acción para cumplir con la misma); o
- iv. cualquier obligación estatutaria u otra obligación para garantizar el pago de una obligación cubierta como si ésta Ley no estuviese promulgada (o de tomar cualquier acción para cumplir con la misma).

(e) Durante el periodo cubierto, a pesar de lo que dispone el Artículo 4(c) de la Ley Núm. 147 de 18 de junio de 1980, según enmendada, denominada como “Ley Orgánica de la Oficina de Gerencia y Presupuesto”, el Gobernador puede darle mayor prioridad a los servicios y gastos descritos en el Artículo 4(c)(3) de dicha ley que la prioridad que tendrían de conformidad con el Artículo 4(c).

(f) Nada en este Artículo se interpretará o constituirá como limitando la autoridad de cualquier agencia o unidad gubernamental de instar o continuar cualquier procedimiento regulatorio para hacer cumplir los poderes de razón de estado o regulatorios de dicha agencia o unidad gubernamental relacionados a una obligación cubierta.

Artículo 202. Condiciones del Periodo de Emergencia; Pago o Acumulación de Intereses

(a) Si lo dispone una orden ejecutiva, según enmendada de tiempo en tiempo, emitida de acuerdo al Artículo 201(a) de esta Ley, durante el periodo de emergencia creado para cualquier entidad gubernamental por este Capítulo,—

- i. tenedores de una obligación cubierta de dicha entidad gubernamental—
 - A. que sea una obligación de intereses de deuda pública, recibirán el pago mínimo de deuda pública;
 - B. que no sea deuda pública, pero sea una obligación de intereses, tienen derecho a acumular intereses sobre la porción que no se haya pagado a una tasa igual a su tasa contractual de intereses, cuyos intereses devengados y no pagados serán pagaderos al final del periodo cubierto; y
 - C. que sea una obligación de principal, tienen derecho a acumular intereses sobre la porción que no se haya pagado de dicha obligación de principal a una tasa igual a su tasa contractual de intereses, cuyo principal no pagado e intereses devengados y no pagados serán

pagaderos al final del periodo cubierto, en la medida en que lo permitan las leyes aplicables;

- ii. una obligación enumerada devengará intereses según establecido en cualquier acuerdo o contrato aplicable.

(b) No obstante cualquier otra disposición de este Artículo, ningún tenedor de una obligación cubierta que no sea de deuda pública recibirá un pago proveniente de recursos disponibles, excepto cuando se requiera por este Artículo, si cualquier parte de la obligación que es de deuda pública permanece pendiente, y sin pagar.

(c) A menos que una orden ejecutiva, según enmendada de tiempo en tiempo, emitida de acuerdo al Artículo 201(a) de esta Ley disponga lo contrario, o a menos que de otra manera se pague antes del final del periodo cubierto, cualquier pago respecto a cualquier obligación cubierta del Banco o cualquier entidad gubernamental que venza antes o durante el periodo de emergencia para el Banco o cualquier entidad gubernamental para la cual se haya declarado un periodo de emergencia, incluyendo un pago de intereses devengados, derivados o que surjan de, o estén relacionados con, el incumplimiento del pago de dicha obligación, (independientemente de si surge o resulta de una garantía, obligación de reembolso, indemnización u otra obligación o compromiso del Banco o cualquier entidad gubernamental), a menos que se disponga lo contrario en esta Ley, será pagadero en la medida provista en esta Ley en el último día del periodo de emergencia del Banco o cualquier entidad gubernamental.

(d) Los requisitos para pagar intereses de acuerdo a los subincisos (a) y (b) de este Artículo no se aplicará al pago de ninguna porción de una obligación cubierta que no sea deuda pública y cuyo pago –

- i. esté sujeto a la asignación de fondos por la Asamblea Legislativa para realizar dicho pago; y
- ii. se realice únicamente de recursos disponibles que hayan sido desviados de acuerdo a una orden ejecutiva y ley aplicable para el pago de la deuda pública, si cualquier porción de cualquier obligación que constituya deuda pública está vencida y no ha sido satisfecha.

(e) No obstante cualquier otra disposición de esta Ley, un tenedor de cualquier obligación cubierta tiene derecho a solicitar una orden judicial del Tribunal de Primera Instancia, Sala Superior de San Juan, proveyendo notificación escrita a cualquier entidad gubernamental con treinta (30) días de anticipación para exigir el cumplimiento de las disposiciones de este Artículo, a menos que dicha orden ponga en peligro irrazonable la salud, seguridad y el bienestar público de los residentes del Estado Libre Asociado.

Artículo 203. Medidas de Emergencia en el Banco; Depósitos; Retiros Permitidos y Prohibidos

(a) En cualquier momento durante el periodo cubierto, e independientemente de si el Banco tiene obligaciones cubiertas, el Gobernador está autorizado a tomar cualquier y toda acción que sea razonable y necesaria para permitir que el Banco continúe realizando sus operaciones.

(b) Para propósitos de este Artículo, acciones “razonables y necesarias” podrán incluir, pero sin limitarse a, lo siguiente -

- i. estableciendo condiciones o restricciones sobre las operaciones de los negocios del Banco, incluyendo eximir del cumplimiento con requisitos establecidos por otras leyes aplicables, en todo o en parte, incluyendo los que requieren que el Banco mantenga una reserva de depósitos por encima de cierto límite;
 - ii. ordenando la limitación de cualquier pago de cualquier obligación según los términos que el Gobernador establezca para manejar las necesidades de liquidez del Banco o facilitarle al Banco el poder realizar sus operaciones;
 - iii. suspendiendo –
 - A. pagos de cualquier obligación garantizada por el Banco;
 - B. pagos bajo cualquier carta de crédito (*letter of credit*); y
 - C. cualquier obligación o compromiso de prestar o proveer dinero o crédito.
 - iv. tomando cualquier acción con respecto al Banco de conformidad con la Ley Núm. 17 de 23 de septiembre de 1948, *supra*; y
 - v. delegando autoridad al Banco, su Junta o sus empleados para tomar acción de acuerdo a este Artículo.
- (c) Si se impone cualquier restricción a los desembolsos por el Banco de acuerdo al subinciso (a) de este Artículo -
- i. el Banco no podrá desembolsar préstamo alguno, a menos que sea autorizado por el Gobernador;
 - ii. el Banco honrará las solicitudes de retiro o transferencia de cualquier depósito, incluyendo mediante cheque o de cualquier otra manera, hechas por una agencia, corporación pública o instrumentalidad del Estado Libre Asociado (con excepción de aquellas enumeradas en el subinciso (c)(iii) de este inciso) según lo autorice el Gobernador de tiempo en tiempo y al otorgar dicha autorización, el Gobernador deberá tomar en consideración los fondos disponibles y la necesidad de sufragar la prestación de servicios esenciales por dicho depositante según demostrado por una certificación conjunta de la Oficina de Gerencia y Presupuesto y el Secretario de Hacienda que establezca que es necesario honrar dicha solicitud con respecto a dicho depósito, para garantizar la prestación de servicios esenciales específicamente identificados por una entidad gubernamental, disponiéndose que al certificar dicha petición de retiro, la Oficina de Gerencia y Presupuesto y el Secretario de Hacienda podrá disminuir la cantidad de cualquier solicitud a una cantidad considerada necesaria para sufragar los servicios esenciales; y
 - iii. Sujeto a la disponibilidad de fondos y la cantidad agregada de desembolsos establecida por el Gobernador, el Banco honrará cualquier solicitud de retiro o transferencia de depósitos o cualquier solicitud de honrar un cheque de un municipio, la Rama Judicial, la UPR, la Asamblea Legislativa o sus dependencias, la Oficina del Contralor, la Oficina del Contralor Electoral, la Comisión Estatal de Elecciones, la Oficina de Ética Gubernamental, la Oficina del Fiscal Especial Independiente; disponiéndose, sin embargo, que un oficial

autorizado de dicho municipio o entidad enumerada deberá certificar y someter documentación que pruebe que dichos fondos se utilizarán para el pago de servicios esenciales.

- (d) Durante el periodo cubierto, los depósitos devengarán intereses a una tasa—
- i. igual a la tasa contractual, pero sólo si la capacidad para retirar los depósitos de dicho depositante está limitada por otras leyes o por contrato y no solamente por esta Ley; o
 - ii. igual a la tasa promedio de interés sobre las obligaciones de principal pendientes del Banco si—
 - A. dichos depósitos podrían retirarse en cualquier momento a no ser por esta Ley; o
 - B. dichos depósitos podrían retirarse durante el periodo de emergencia a no ser por esta Ley.

(e) Salvo lo dispuesto en el inciso (f) de este Artículo, de imponérsele cualquier restricción a los desembolsos del Banco conforme a este Artículo, cualquier cantidad desembolsada a un acreedor luego de que dicha restricción se imponga, deberá ser restada de la cantidad de cualquier distribución que dicho acreedor pudiera recibir a partir del primer día de dicha restricción, si el Banco se liquida posteriormente o si se coloca en sindicatura.

(f) Desembolsos por el Banco antes o durante el periodo cubierto que se hagan durante el curso normal de los negocios, incluyendo para costear gastos de la naturaleza descrita en el Artículo 12 subinciso (A)(2) o (3) de la Ley Núm. 17 de 23 de septiembre de 1948, según enmendada por esta Ley, o para pagar por los bienes y servicios provistos al Banco, en cada caso estarán, para evitar cualquier duda, exentos del Artículo 14 de la Ley Núm. 17 de 23 de septiembre de 1948, según enmendada (renumerada como el Artículo 17 de acuerdo al Artículo 302 de esta Ley).

(g) Cualquier y toda medida tomada bajo los Artículos 201, 202 y 203 de esta Ley expirará al final del periodo cubierto.

(h) Cualquier persona que deliberadamente haga un cheque para retirar todo o una parte sustancial del balance de sus depósitos en violación a esta sección será culpable de un delito grave que podrá ser sancionado con prisión de hasta un (1) año o con una multa no menor de veinticinco mil dólares (\$25,000).

(i) Se autoriza al Secretario de Hacienda del Estado Libre Asociado y el Director de la Oficina de Gerencia y Presupuesto a identificar, a partir del presupuesto del Fondo General para año fiscal 2016, los fondos necesarios para cubrir las necesidades gubernamentales esenciales que de otro modo hubieran sido financiadas durante el Año Fiscal 2016 de los desembolsos de préstamos del BGF sujetos a las restricciones incluidas en el Artículo 203(c) (i). de esta Ley.

(j) Se ordena al Secretario de Hacienda del Estado Libre Asociado y al Director de la Oficina de Gerencia y Presupuesto a identificar, del presupuesto del Fondo General para el Año Fiscal 2016, \$2,000,000 para sufragar los costos de la Comisión para la Auditoría Integral del Crédito Público creada por la Ley Núm. 97-2015.

Artículo 204. Colateral, Gravámenes, y Prioridades Preservadas; No Menoscabo; Remedios

(a) Si una obligación cubierta que venció o hubiese vencido antes o durante el periodo de emergencia vence al final del periodo cubierto como resultado de esta Ley, y salvo que ocurra una expropiación de acuerdo con esta Ley, nada en esta Ley se interpretará como que limita los derechos de un tenedor a la colateral, garantía o gravamen que respalde dicha obligación, y nada en este Capítulo autoriza a cualquier entidad gubernamental a menoscabar obligación alguna tras la objeción de un acreedor.

(b) A menos que se haya expropiado propiedad de acuerdo a esta Ley, después de una petición de parte con interés y después de haberse enviado notificación y celebrado una vista, el Tribunal de Primera Instancia, Sala Superior de San Juan, podrá otorgar a una parte con interés o derecho de propiedad, en la medida en que se requiera por derecho constitucional aplicable, protección adecuada para cualquier gravamen u otro interés propietario de dicha parte interesada de acciones tomadas o no tomadas según lo dispone esta Ley; disponiéndose que, nada de lo contenido en esta Ley impedirá que una entidad gubernamental argumente a favor de la abstención del tribunal, según aplique, o requiera a un tribunal proveer protección adecuada si dicha protección no se requiere constitucionalmente.

(c) Cuando el derecho o interés de una persona sobre una propiedad goza de un derecho a protección adecuada, la misma se proveerá de cualquier manera razonable, incluyendo—

- i. pago en efectivo o pagos periódicos en efectivo;
- ii. gravamen o gravámenes sustitutos (sobre ingresos futuros u otros); o
- iii. en cada caso, únicamente si esta Ley resulta en una disminución en el valor del derecho de dicha entidad en la propiedad sujeta al gravamen que tenía al comienzo del periodo de emergencia de acuerdo a esta Ley.

(d) Sin limitar el inciso (b) de este Artículo, la protección adecuada para el interés de una entidad en colateral en efectivo, incluyendo ingresos del deudor elegible o el peticionario, según sea el caso, puede incluir una prenda de los ingresos futuros (neto de gastos ordinarios, operacionales u otros gastos incurridos por la entidad gubernamental bajo esta Ley) de dicha entidad gubernamental si—

- i. ordenar el cumplimiento del derecho de dicha persona en ese momento podría menoscabar sustancialmente la habilidad de dicha entidad gubernamental de descargar su función pública;
- ii. no hay alternativa práctica disponible para cumplir con dicha función pública a la luz de la situación; y
- iii. la generación de ingresos netos futuros para repagar las reclamaciones garantizadas de dicha entidad depende del desempeño corriente y continuo de sus funciones públicas y los ingresos netos futuros mejorarán como resultado del uso corriente de colateral en efectivo o ingresos para evitar un menoscabo corriente de funciones públicas.

(e) Sin limitación de los incisos (c) y (d) de este Artículo, una entidad gubernamental puede resarcirse de, o utilizar, propiedad que respalde un derecho de una entidad para cubrir los

costos y gastos razonables y necesarios para preservar, o disponer de, dicha propiedad hasta la cantidad del beneficio a dicha entidad, incluyendo el pago de gastos incurridos por el deudor elegible o el peticionario conforme a, o para adelantar los propósitos de esta Ley.

Artículo 205. Periodos Prescriptivos No Transcurrirán Durante el Periodo de Emergencia Para una Entidad Gubernamental

Cualquier acción que, a no ser por la promulgación de esta Ley, hubiese sido sostenible contra una entidad gubernamental en cualquier momento durante el periodo de emergencia para el Banco o para dicha entidad gubernamental, no prescribirá por ninguna disposición de ley de Puerto Rico, ni por defensa de incuria, hasta transcurrido un año luego de que expire el periodo de emergencia. Este Artículo no deberá entenderse como que reduce el periodo dentro del cual podrá comenzarse cualquier acción.

Artículo 206. Emisión De Deuda Por una Entidad Gubernamental

Nada de lo contenido en esta Ley se interpretará como que prohíbe o impide que una entidad gubernamental emita instrumentos de deuda u otra evidencia de endeudamiento a los acreedores de obligaciones cubiertas que consientan a ello, en pago, renovación o refinanciamiento de o a cambio de la obligación cubierta de dicho acreedor bajo términos que de otra manera estuviesen en cumplimiento con esta Ley o cualquier ley aplicable.

CAPÍTULO 3. ENMIENDAS A LA LEY ORGÁNICA DEL BGF RELACIONADAS A LA SINDICATURA

Artículo 301. Enmiendas al Artículo 11 de la Ley Núm. 17

Se enmienda el Artículo 11 de la Ley Núm. 17 de 23 de septiembre de 1948, *supra*, para que lea como sigue:

“Artículo 11. Nombramiento y poderes de un síndico.

(A) La Junta de Directores del Banco o el Secretario de Hacienda de Puerto Rico tendrán autoridad para recomendarle al Gobernador la designación de un síndico para el Banco si la Junta de Directores del Banco o el Secretario de Hacienda de Puerto Rico determina que (1) los activos del Banco son menores que sus obligaciones a sus acreedores; (2) el Banco es incapaz de pagar sus deudas a su vencimiento en el curso ordinario de los negocios (3) el Banco está operando de manera insegura o inapropiada para desempeñar sus funciones estatutarias; o (4) el Banco ha incurrido o es probable que incurra en pérdidas que agotarán todo o sustancialmente todo su capital, y no hay una expectativa razonable de que el Banco llegue a estar adecuadamente capitalizado.

(B) Tras recibir una recomendación conforme al inciso (A), el Gobernador podrá (1) designar, o solicitarle al Secretario de Hacienda de Puerto Rico que designe, un síndico para el Banco; (2) designar a otra entidad, ya sea una entidad privada o instrumentalidad gubernamental existente o nueva, después de consultar con el Secretario de Justicia, para que asuma las responsabilidades de pago y funciones depositarias del Banco; y (3) designar Juntas de Directores nuevas, y si es necesario, de cualquiera de las subsidiarias directas o indirectas o afiliadas que podrán haber tenido la misma Junta de Directores del Banco. En el ejercicio de la discreción del Gobernador o del Secretario de Hacienda de Puerto Rico, cualquier persona podrá ser nombrada síndico.

(C) Excepto en la medida que se pruebe mediante sentencia final y firme que la persona haya incurrido en conducta dolosa para beneficio propio o en negligencia crasa que conlleve una indiferencia temeraria de sus deberes y la omisión de llevarlos a cabo, los miembros de la Junta de Directores y los funcionarios del Banco, el banco puente y cualquier subsidiaria del Banco, cualquier empleado, agente del Banco, el banco puente o cualquier subsidiaria del Banco, cualquier síndico o aquellas personas privadas o entidades contratadas, designadas o empleadas por dicho síndico no tendrán responsabilidad personal hacia ninguna entidad y, sin necesidad de notificación u orden adicional, serán exonerados de responsabilidad por acciones u omisiones de buena fe en su capacidad, y dentro de su autoridad bajo esta Ley. Cualquier reclamación contra una persona o entidad enumerada en este inciso con relación a sus actos u omisiones relacionados a, o que surjan de, esta Ley deberá presentarse en el Tribunal de Primera Instancia de Puerto Rico, Sala Superior de San Juan.

(D) Inmediatamente después de la designación de un síndico, dicho síndico adquirirá (1) todos los derechos, títulos, poderes y privilegios del Banco y de cualquier titular de cuenta, depositante, oficial o director del Banco con relación al Banco y a los activos del Banco, con poder absoluto para realizar todos los actos y ejecutar en nombre y en representación del Banco todas las funciones, incluyendo, sin limitación, otorgar escrituras, recibos y otros documentos; y (2) título sobre los libros, récords y activos de cualquier síndico anterior o cualquier otro custodio legal del Banco.

(E) Inmediatamente después de la designación de un síndico, dicho síndico podrá (1) hacerse cargo de y operar los activos del Banco con todos los poderes de los directores y oficiales del Banco, incluyendo el poder de emplear y utilizar el sello del Banco y llevar a cabo todo negocio del Banco; (2) recaudar todas las obligaciones y dinero adeudado al Banco, incluyendo, sin limitación, llevar a cabo todos los actos necesarios para obtener pago de cualquier dinero adeudado por cualquier deudor del Banco o su patrimonio, para evidenciar, establecer prioridad y reclamar en la quiebra, insolvencia o embargo de cualquier deudor del Banco cualquier balance contra cualquier patrimonio y para recibir pagos en cualquier procedimiento por dinero adeudado al Banco; (3) vender, transferir y comprometer cualquier activo, pasivo, derecho, poder u obligación del Banco, a través de subasta pública o contrato privado, sin necesidad de aprobación alguna, cesión o consentimiento con relación a dicha transferencia y sin pago de ninguna tarifa, cargo, sello, comprobante de inscripción u otro comprobante; (4) elaborar, aceptar, realizar, comprometer, terminar y endosar cualquier letra de cambio, pagaré u otro documento u obligación del Banco en nombre y en representación del Banco; (5) proveer o facilitar a través de garantías o de otra manera el financiamiento necesario para cumplir los propósitos y ejercer los poderes autorizados por esta Ley; (6) retener, nombrar y contratar los servicios de personas y entidades privadas, bajo aquellos términos y condiciones que el síndico apruebe, para ayudar al síndico en el desempeño de las responsabilidades bajo esta Ley, y dichas personas o entidades privadas tendrán el pleno recurso de los poderes y derechos del síndico, según sea el caso, en la manera en que lo ordene, limite o dirija el síndico; (7) demandar y ser demandado, salvo en la medida en la que esto se limite en esta Ley, y realizar en nombre del Banco todas las funciones de éste que sean consistentes con la designación del síndico; (8) según sea apropiado, preservar y conservar los activos y la propiedad del Banco; (9) pagar todas las reclamaciones y obligaciones válidas del Banco de acuerdo con las disposiciones y limitaciones de esta Ley; (10) investigar e instar toda reclamación o acción judicial y cobrar las sentencias de las reclamaciones en contra de personas que puedan ser responsables por los daños y las pérdidas del Banco por negligencia o alguna otra falta; (11) ejercer todos los derechos y

autorizaciones expresamente concedidos bajo esta Ley al síndico, respectivamente, y aquellos poderes incidentales que sean necesarios para llevar a cabo los poderes concedidos; y (12) tomar cualquier acción autorizada por esta Sección que el síndico entienda está en los mejores intereses del Banco o sus depositantes y acreedores.

(F) El síndico:

- (1) podrá colocar al Banco en liquidación y proceder a vender los activos del Banco, teniendo en cuenta las funciones y responsabilidades del Banco.
- (2) podrá permitir, rechazar o de alguna otra manera hacer determinaciones sobre reclamaciones conforme a los requisitos de este Artículo.
- (3) deberá (i) publicar sin demora en un periódico de circulación nacional, en un periódico de circulación local y en el portal electrónico del Banco un aviso general a los acreedores del Banco y enviará por correo una notificación a los acreedores que aparezcan en los récords del Banco para que presenten sus reclamaciones al síndico, junto con evidencia de éstas, en o antes de la fecha especificada en la notificación, la cual deberá ser al menos noventa (90) días después de la publicación de dicha notificación; (ii) publicar otra notificación aproximadamente treinta (30) días después de la publicación bajo la cláusula (i); y (iii) si se descubriese el nombre y la dirección de un acreedor que no esté identificado en los récords del Banco, se deberá enviar notificación a dicho acreedor dentro de los treinta (30) días de dicho descubrimiento.
- (4) determinará si permitirá o no la reclamación y notificará al reclamante, por correo a la dirección identificada en la reclamación, de cualquier decisión del síndico sobre dicha reclamación, estableciendo las razones para cualquier denegatoria de la reclamación y los procedimientos disponibles para revisión adicional, no más de ciento ochenta (180) días después de la fecha en la que se presentó la reclamación al síndico. Dicho periodo podrá extenderse a través de un acuerdo escrito entre el reclamante y el síndico.
- (5) podrá solicitarle al Secretario de Hacienda de Puerto Rico que organice un banco puente conforme al Artículo 14 de esta Ley.
- (6) podrá crear una o más subsidiarias de conformidad con el Artículo 2 de esta Ley, a asumir cualquiera de las funciones del Banco, fuera de las responsabilidades de pago y funciones depositarias del Banco.
- (7) no tendrá que prestar fianza y podrá designar a un agente o agentes para asistirle en sus deberes como síndico. El síndico fijará los honorarios, la compensación y los gastos de liquidación, los cuales podrán ser pagados por éste de los fondos que estén en su posesión como síndico.

(G) Si el síndico deniega una reclamación o parte de ella, o si el síndico no toma una decisión dentro de los ciento ochenta (180) días desde que se presenta cualquier reclamación y no ha habido una extensión de dicho término, el reclamante podrá presentar una acción judicial con relación a dicha reclamación (o continuar una acción iniciada antes de la designación del síndico) en la Sala de Cumplimiento con las Deudas y para la Recuperación de las Corporaciones Públicas creada por la Ley 71-2014, y si dicha Sala no está operando, el Tribunal de Primera Instancia, Sala Superior de San Juan, dentro de los sesenta (60) días de la desestimación de toda

o cualquier parte de la reclamación o la expiración del término de ciento ochenta (180) días para la determinación de las reclamaciones. Si el reclamante no presenta una acción judicial sobre su reclamación (o no continúa una acción iniciada antes de la designación del síndico) dentro de dicho término, se entenderá abandonada la reclamación (salvo cualquier parte de la reclamación que haya sido permitida por el síndico), y tal abandono será final y el reclamante no tendrá derechos o remedios adicionales con relación a dicha reclamación. Ningún tribunal tendrá jurisdicción para tomar alguna acción, y ningún reclamante podrá continuar alguna acción judicial pendiente contra el Banco en sindicatura, hasta que el reclamante haya agotado todos los remedios especificados en esta Sección. Una vez se hayan agotado todos los remedios antes mencionados, cualquier acción judicial con relación a dicho reclamo debe radicarse o continuarse dentro de sesenta (60) días y, de no radicarse dentro de dicho periodo, el reclamante no tendrá más derechos o remedios con relación a dicha reclamación y ningún tribunal tendrá jurisdicción.

(H) Cada persona que tenga una reclamación contra el Banco o la sindicatura no deberá recibir, en ningún caso, pago o propiedad con un valor menor a la cantidad que el acreedor hubiese tenido derecho a recibir si el Banco se hubiese liquidado en la fecha de la designación del síndico, y la máxima responsabilidad a cualquier persona que tenga una reclamación contra el Banco o el síndico o la sindicatura deberá ser igual que la cantidad que dicho acreedor hubiese recibido si el Banco se hubiese liquidado en la fecha de la designación del síndico.

(I) El síndico deberá pagar todas las obligaciones válidas del Banco de acuerdo con las disposiciones y limitaciones de esta Ley.

(J) El derecho a ceder o transferir conferido en los Artículos 11 al 14 de esta Ley reemplazará todos los demás derechos e intereses, incluyendo, sin limitación, los derechos a consentir u objetar a dicha transferencia o cesión que pudieran tener otras partes bajo contratos de empleo, arrendamientos, cobros, hipotecas, "indentures" u otros acuerdos en los que el Banco pueda haber participado previo a la designación del síndico. Todo funcionario público que tenga el poder de aceptar y registrar o modificar cualquier entrada en cualquier registro relacionado a la transferencia o cesión de un activo o pasivo debe, previa solicitud del síndico, cesionario u otra persona, hacer todo lo necesario bajo las leyes para completar el registro de la cesión o transferencia.

(K) Una vez designado un síndico para el Banco, dicho síndico podrá solicitar una paralización de cualquier acción o procedimiento judicial o administrativo en el que el Banco sea o se convierta en parte por un periodo que no excederá noventa (90) días. El tribunal o ente administrativo que reciba una solicitud de cualquier síndico para la paralización de cualquier acción o procedimiento judicial o administrativo de conformidad con este párrafo deberá conceder dicha paralización con relación a todas las partes.

(L) Salvo lo que se dispone en esta Ley, ningún tribunal, funcionario, empleado o departamento del Estado Libre Asociado de Puerto Rico podrá tomar acción alguna, excepto a solicitud del síndico, para restringir o afectar el ejercicio de los poderes y funciones del síndico. Salvo lo que se dispone en esta Ley, el remedio exclusivo en cualquier acción judicial en contra de la sindicatura o el Banco bajo sindicatura, será daños compensatorios, los cuales no incluirán daños punitivos o ejemplares, daños por pérdida de oportunidad o ganancia...o daños por sufrimiento o angustias.

(M) Una vez designado un síndico para el Banco, éste tendrá discreción para utilizar los servicios de aquellos empleados del Banco que sean necesarios para llevar a cabo sus funciones y facultades autorizadas por esta Ley y, en ese sentido, podrá suspender temporariamente toda cláusula, precepto y/o disposición aplicable a dichos empleados y/o puestos del Banco contenidas en leyes, convenios colectivos, acuerdos, acuerdos suplementarios, políticas, manuales de empleo, cartas circulares, cartas contractuales, addenda, certificaciones, reglamentos, reglas y condiciones de empleo, cartas normativas, planes de clasificación y/o planes de retribución, referentes a toda y cualquier condición de empleo, siempre y cuando a dichos empleados no se le reduzca el sueldo o sus beneficios marginales. El síndico también podrá ordenar, efectuar o solicitar destakes y/o traslados de los empleados del Banco a otras agencias o entidades existentes o creadas por ésta y/o cualquier legislación, incluyendo a cualquier subsidiaria del Banco o a un banco puente creado al amparo del Artículo 14 de esta Ley. En el caso de liquidación del Banco, el síndico también podrá efectuar cesantías. De los empleados del Banco ser permanentemente transferidos a una agencia existente, sus términos y condiciones de empleo quedarán modificados para ajustarse a cualquier ley, reglamento y/o convenio que atienda la retribución y clasificación de los empleados de la agencia a la cual ha sido trasferido. En todo caso, se respetarán los términos y condiciones de empleo vigentes al momento de la designación del síndico, incluyendo, los derechos, privilegios, obligaciones y antigüedad, adquiridos bajo las leyes, convenios de negociación colectiva y reglamentos de personal en vigor, sujeto a las modificaciones contenidas en la Ley 66-2014 mientras ésta continúe en vigor. También en todo caso se garantizará que se satisfaga a todos los empleados cualesquiera salarios, sueldos o comisiones, incluyendo pago por concepto de vacaciones, mesada y licencia por enfermedad u otros beneficios de empleo similares adquiridos previo a la designación del síndico, conforme a las políticas de empleo del Banco o las leyes aplicables. La transferencia de empleados a un banco puente se registrará, además, por las disposiciones incluidas en el Artículo 14 de esta Ley.

(N) Para propósitos de interpretar los Artículos 11 al 14 de esta Ley, un tribunal debe considerar, en la medida en que sea aplicable, jurisprudencia interpretativa del Título 12 del Código de los Estados Unidos.”

Artículo 302. Nuevos Artículos 12 a 21 de la Ley Núm. 17

Se reenumeran los Artículos 12 al 21 de la Ley Núm. 17 de 23 de septiembre de 1948, *supra*, como Artículos 15 al 24, y se añaden nuevos Artículos 12 al 13, que leerán como sigue:

“Artículo 12. Prioridad de gastos y reclamaciones no garantizadas en sindicatura.

(A) Las reclamaciones no garantizadas contra el Banco o el síndico del Banco bajo esta Ley que hayan sido debidamente evidenciadas a satisfacción del síndico deberán ser pagadas en el siguiente orden de prioridad:

- (1) Gastos administrativos del síndico.
- (2) Salarios, sueldos o comisiones, incluyendo pago por concepto de vacaciones, mesada y licencia por enfermedad u otros beneficios de empleo similares adquiridos por un individuo previo a la designación del síndico, conforme a las políticas de empleo del Banco o las leyes aplicables.
- (3) Contribuciones adeudadas a planes de beneficio de empleados relacionadas a servicios prestados previo a la fecha de la designación del síndico.

(4) Cualquier saldo pendiente de pago por dinero en posesión del Banco en sus cuentas de depósito para crédito del depositante y cualquier otra obligación general o preferente del Banco (que no sea una de las obligaciones que se describen en el inciso (5)).

(5) Cualquier obligación que sea subordinada a los acreedores generales por medio de ley o contrato.

(B) Este Artículo no afectará los créditos colateralizados o gravámenes sobre activos o bienes en posesión del Banco, y dichos créditos colateralizados o gravámenes sobre activos o bienes deberán ser pagados de la colateral o del valor realizado de la colateral. En la medida en que la colateral sea insuficiente para satisfacer la reclamación, la diferencia entre la reclamación y el valor realizado de la colateral deberá ser pagada de acuerdo con este Artículo.

(C) No obstante cualquier otra disposición de esta Ley o de la Ley de Moratoria de Emergencia y la Rehabilitación Financiera de Puerto Rico, cualquier obligación o compromiso de prestar o proveer dinero o crédito, un depositante o síndico puede compensar o canjear el monto de su depósito contra cualquier saldo pendiente de un préstamo con el Banco como pago completo y final de tal obligación hasta la cantidad del depósito.

(D) La prioridad por gastos administrativos, según esta frase se utiliza en el inciso (A), incluirá, (i) aquellas obligaciones incurridas por el Banco previo a la designación del síndico relacionadas a bienes y servicios provistos al Banco previo a dicha designación, con excepción de reclamaciones individuales en exceso de una cantidad a ser determinada por el síndico en su discreción razonable; (ii) aquellas obligaciones incurridas por el Banco luego de la designación del síndico relacionadas a bienes y servicios provistos al Banco luego de dicha designación; y (iii) cualquier otra obligación que el síndico determine sea apropiada para facilitar la resolución ordenada del Banco.

(E) El Secretario de Hacienda, luego de haber consultado con el síndico y el Gobernador, tendrá el poder de renunciar a, reducir, subordinar, o asignar cualquier reclamación de una unidad gubernamental excepto si dicha unidad gubernamental es un municipio, sin embargo, cualquier porción de la reclamación que ha sido asignada de acuerdo con esta subsección no podrá ser compensada por el cesionario según dispuesto en la subsección (C) de esta Sección.

Artículo 13. Disposiciones Relacionadas a Contratos Celebrados antes del Nombramiento del Síndico.

A. Salvo por lo que se dispone en este Artículo, el síndico podrá exigir el cumplimiento de cualquier contrato o acuerdo celebrado por el Banco a pesar de que el mismo contenga alguna disposición contractual que provea para la terminación, incumplimiento, aceleración o ejercicio de algún otro derecho como resultado de, o por razón de, la insolvencia o la designación de un síndico a medida que sea necesario para una administración ordenada y/o una liquidación de los asuntos del Banco.

B. Además de cualquier otro derecho que el síndico pueda tener, el síndico, en el ejercicio de sus poderes de administrar y liquidar el Banco, puede anular o repudiar cualquier contrato o arrendamiento (1) del cual el Banco sea una parte; (2) si, a discreción del síndico, sería oneroso continuar el cumplimiento de dicho contrato; y (3) si, a discreción del síndico, la

anulación o repudiación de dicho contrato o arrendamiento fomentaría la administración ordenada y/o una liquidación de los asuntos del Banco.

C. El síndico designado debe determinar si ejercerá o no los derechos de repudiación bajo esta Sección dentro de los ciento ochenta (180) días de su designación.

D. La responsabilidad de la sindicatura por la anulación o repudiación de cualquier contrato bajo el inciso (B) debe estar (1) limitada a daños compensatorios directos reales, y (2) determinada a la fecha de la designación del síndico. Para propósitos de este inciso, la frase "daños compensatorios directos reales" no incluye daños punitivos o ejemplares, daños por pérdida de oportunidad o ganancia o daños por sufrimiento o angustias.

E. Ninguna persona podrá ejercer un derecho o poder para terminar, acelerar o declarar un incumplimiento bajo un contrato del cual el Banco sea parte (y no exigible será disposición alguna de cualquiera de dichos contratos que provea para dicho incumplimiento, terminación o ejecución) o para obtener la posesión o ejercer control sobre una propiedad del Banco o afectar algún derecho contractual del Banco y el síndico podrá exigir el cumplimiento de cualquier contrato a pesar de cualquier disposición del contrato que provea para la terminación, incumplimiento, aceleración o ejercicio de derechos por, o exclusivamente por razón de la insolvencia, la condición financiera, la designación o el ejercicio de los derechos o poderes de un síndico, o la transferencia de cualquier operación, activo o pasivo del Banco a un banco puente o a cualquier otra persona o entidad; disponiéndose, sin embargo, que ninguna disposición de esta Sección deberá interpretarse como que impide o afecta cualquier derecho del síndico a exigir el cumplimiento de, o a recuperar bajo, un contrato de seguro de responsabilidad de un director o funcionario o una fianza de una institución financiera bajo alguna otra ley aplicable.

F. Ninguna persona podrá ejercer ningún derecho o poder para terminar, acelerar o declarar un incumplimiento bajo cualquier contrato del cual el Banco sea parte (y no será exigible disposición alguna de cualquiera de dichos contratos que provea para dicho incumplimiento, terminación o ejecución) o para obtener posesión o ejercer control sobre cualquier propiedad del Banco o afectar cualquier derecho contractual del Banco, sin el consentimiento del síndico del Banco dentro de los primeros noventa (90) días de la designación de dicho síndico; disponiéndose, sin embargo, que ninguna disposición de este párrafo será aplicable a un contrato de seguro de responsabilidad de directores o funcionarios o a una fianza de una institución financiera ni se interpretará como que le permite al síndico incumplir con alguna disposición de alguno de dichos contratos que de otra manera fuese válida."

CAPÍTULO 4. ENMIENDAS A LA LEY ORGÁNICA DEL BGF RELACIONADAS AL PODER DE ORGANIZAR Y OPERAR UN BANCO PUENTE

Artículo 401. Nuevo Artículo 14 de la Ley Núm. 17

Se añade un Artículo 14 a la Ley Núm. 17 de 23 de septiembre de 1948, según enmendada, que leerá como sigue:

"Artículo 14. Poder para organizar y operar un Banco Puente.

A. Una vez se designe un síndico para el Banco, el Secretario de Hacienda de Puerto Rico tendrá facultad para, a su discreción, organizar un banco temporero, al cual se le referirá como "Banco Puente", para asistir al síndico a llevar a cabo sus funciones y obligaciones. Dicho banco se organizará conforme a una Resolución de Constitución aprobada por el Secretario de Hacienda de Puerto Rico, la cual deberá radicarse en el Departamento de Estado. El banco

puente se organizará en la fecha que se presente la Resolución de Constitución en el Departamento de Estado. El Departamento de Estado procederá a registrar el banco puente como una institución bancaria. Cualquier enmienda a la Resolución de Constitución será también presentada en el Departamento de Estado. La fecha de vigencia será la fecha de presentación.

B. Un banco puente organizado bajo este Artículo tendrá (1) los poderes, beneficios y atributos establecidos en el Artículo 2 de esta Ley y las exenciones contributivas que contempla el Artículo 5 de esta Ley, y (2) aquellos poderes, derechos, funciones y responsabilidades conferidos, y las limitaciones impuestas, al Banco por esta Ley, y por cualquier otra ley federal o del Estado Libre Asociado, salvo en la medida en la que el Secretario de Hacienda de Puerto Rico, en la Resolución de Constitución del banco puente, limite los poderes, beneficios, atributos, derechos, funciones, responsabilidades y limitaciones establecidos en los subincisos (1) y (2). Las disposiciones de la Ley Núm. 55 de 12 de mayo de 1933, según enmendada, conocida como "Ley de Bancos de Puerto Rico", no aplicarán al banco puente. Dicho banco puente estará bajo la administración de una junta de directores, que inicialmente será la Junta de Directores del Banco y posteriormente, o luego de producirse una vacante, será nombrada de la misma manera que los miembros de la Junta de Directores del Banco eran nombrados de acuerdo a esta Ley. En la medida que el síndico le transfiera al banco puente cualquiera de las subsidiarias del Banco cuya Junta de Directores es la misma que la del Banco, la Junta de Directores de dicha subsidiaria será, luego de dicha transferencia, la misma que la del banco puente. Si el banco puente dejase de existir, los miembros de la Junta de Directores de cualquier subsidiaria sobreviviente serán nombrados de la misma manera que los miembros de la Junta de Directores del Banco eran nombrados de acuerdo a esta Ley. El nombre del banco puente se especificará en la Resolución de Constitución. Para evitar cualquier duda, se aclara que cuando se organice un banco puente, cualquier referencia al Banco en cualquier ley del Estado Libre Asociado, se entenderá que se refiere o aplica a dicho banco puente, según sea el caso, pero en ninguna circunstancia el banco puente será responsable por cualquier responsabilidad del Banco a menos que el banco puente expresamente asuma dicha obligación. El Secretario de Hacienda podrá incluir en la Resolución de Constitución una disposición donde cualquiera de todas de las subsidiarias y afiliadas del Banco se convertirá en una subsidiaria o una afiliada del banco puente.

C. El síndico podrá transferir cualquier o todo de los poderes, derechos, funciones y deberes del Banco y cualquier propiedad, intereses contractuales u operacionales o relaciones entre el Banco y sus subsidiarias y afiliadas del banco puente, según se determine que sea apropiado.

D. Al transferir activos y pasivos a un banco puente y llevar a cabo sus operaciones, el síndico podrá ejercer todos los derechos otorgados al síndico y no estará sujeto a limitación alguna sobre la transferencia de activos o deberes establecidos en esta Ley al hacerse tal transferencia.

E. El banco puente podrá (1) asumir aquellas responsabilidades del Banco, incluyendo depósitos, que el síndico pueda, a su discreción, determinar sean apropiados; (2) adquirir aquellos activos incluyendo activos asociados con fideicomisos del Banco que el síndico, a su discreción, determine sean apropiados; (3) asumir dichos derechos, títulos, poderes, privilegios, intereses o autoridades del Banco con respecto a sus subsidiarias o afiliadas cuyas subsidiarias o afiliadas tendrán a partir de ese momento todos los derechos, títulos, poderes, privilegios, intereses o autoridades que ellos gozaban el día que fueron transferidos al banco

puente, y (4) realizar cualquier otra acción temporera que el Secretario de Hacienda, a su discreción, recomiende de acuerdo con esta Sección. Dicho banco puente no estará sujeto a cualquier requisito que le requiera mantener reservas de depósitos sobre cierto nivel según lo disponga alguna ley aplicable y, en la medida que un requisito de reserva podría aplicarse al banco puente, el Secretario de Hacienda tendrá potestad para renunciar a este requisito cuando conceda permiso para organizar dicho banco puente.

F. El síndico ordenará la transferencia de todo el personal de carrera, transitorio y/o de confianza que trabaje en el Banco al banco puente y dichos empleados se convertirán en empleados del banco puente. Esta transferencia de empleados se hará respetando los términos y condiciones de empleo vigentes al momento de la designación del síndico, incluyendo, los derechos, privilegios, obligaciones y antigüedad, adquiridos bajo las leyes, convenios de negociación colectiva y reglamentos de personal en vigor, sujeto a las modificaciones contenidas en la Ley 66-2014, según enmendada, mientras ésta continúe en vigor. Ninguna de las disposiciones de esta Ley afectará el derecho constitucional a la negociación colectiva que han disfrutado los empleados del Banco, ni los derechos, beneficios y privilegios adquiridos por virtud de los convenios colectivos. El banco puente reconocerá las uniones que representan a los empleados unionados del Banco transferidos a un banco puente y asumirá los convenios de negociación colectiva aplicables vigentes a la fecha. Se garantizarán también aquellos derechos relacionados a pensiones o a un sistema de retiro al cual puedan estar afiliados o del cual sean miembros a la fecha de efectividad de esta Ley. El banco puente vendrá obligado a satisfacer a todos los empleados cualesquiera salarios, sueldos o comisiones, incluyendo pago por concepto de vacaciones, mesada y licencia por enfermedad u otros beneficios de empleo similares adquiridos previo a la designación del síndico, conforme a las políticas de empleo del Banco o las leyes aplicables.

G. El banco puente, y cada una de sus subsidiarias, será una instrumentalidad pública y corporación pública independiente del Estado Libre Asociado de Puerto Rico, con existencia legal separada, autonomía fiscal y administrativa, e independencia del Estado Libre Asociado.

H. Un banco puente se tratará como un banco en incumplimiento en aquellas ocasiones y para aquellos propósitos que el síndico del Banco, a su discreción, determine, y no será tratado como si estuviera insolvente o en un estado de impago.

I. El Secretario de Hacienda de Puerto Rico podrá proveer fondos en nombre del Estado Libre Asociado de Puerto Rico, garantías bajo la Ley Núm. 12 de 9 de mayo de 1975, según enmendada, o cualquier otro apoyo adecuado para facilitar el funcionamiento y los negocios del banco puente y cualquier de sus subsidiarias de conformidad con las facultades provistas en esta Ley, y facilitar cualquier transacción del banco puente descrita en este Artículo o facilitar la adquisición o transferencia de cualquier función o activo, o la asunción de cualquier pasivo, del Banco o del banco puente, según se dispone en esta Ley.

J. El síndico del Banco puede transferir cualquier operación, activo o pasivo del Banco incluyendo cualquier operación, activo o pasivo asociado con fideicomisos al banco puente de acuerdo con, y sujeto a, las restricciones de los incisos (A) al (D) de este Artículo 14. En cualquier momento después del establecimiento del banco puente, el síndico podrá transferir cualquier operación, activo o pasivo del Banco o del banco puente y tomar cualquier otra acción que entienda, a su discreción, apropiada, de acuerdo con, y sujeto a, las restricciones de los incisos (A) al (D) de este Artículo 14. La transferencia de cualquier operación, activo o pasivo a

un banco puente será efectiva sin necesidad de ninguna aprobación adicional bajo las leyes del Estado Libre Asociado, cesión o consentimiento con respecto a éstas. Se podrán transferir activos a un banco puente a cambio de la obligación de dicho banco de pagar, a través de un periodo de tiempo, con intereses a la tasa de interés legal aplicable, una cantidad determinada por el síndico, cuya cantidad no podrá ser menor a la cantidad que los acreedores del Banco, cuyas obligaciones no fueron asumidas por el banco puente, hubieran recibido por el valor de los activos transferidos al banco puente, luego de tomar en consideración el beneficio que reciban los acreedores del Banco tras la asunción por el banco puente de las obligaciones del Banco, como si el Banco se hubiese liquidado en la fecha de la designación del síndico ("Valor de Liquidación Neto"). A petición del banco puente, cualquier acción judicial de la cual un banco puente advenga parte en virtud de la adquisición de cualquier activo o asunción de cualquier pasivo del Banco se paralizará por un periodo de no más de noventa (90) días (o un periodo más corto o largo con el consentimiento de todas las partes). El síndico determinará el Valor de Liquidación Neto tomando el promedio de dos estimados de dicho valor preparados por dos expertos en valoración a los que se les haya provisto acceso completo a los récords del Banco y tiempo razonable para determinar el Valor de Liquidación Neto probable, neto de gastos, que se pudiera obtener de los activos del Banco si estos se vendieran con una cantidad razonable de mercadeo dentro de noventa (90) días del comienzo de la sindicatura; disponiéndose, sin embargo, que si el estimado más alto del Valor de Liquidación Neto es más de veinte por ciento (20%) más alto que el estimado más bajo, el síndico debe contratar a un tercer experto en valoración independiente para que prepare un estimado adicional, teniendo acceso a los récords del Banco por un periodo de tiempo razonable, y el Valor de Liquidación Neto debe ser el promedio de los dos estimados más altos. Si un acreedor cuestiona el Valor de Liquidación Neto en un procedimiento judicial, se creará una presunción rebatible de que el Valor de Liquidación Neto es correcto.

K. Ningún banco puente que el Secretario de Hacienda organice como parte de la resolución o reestructuración del Banco, y ningún cesionario ulterior de todas o parte de las operaciones, activos o pasivos del Banco, será una entidad sucesora del Banco ni estará sujeto a ninguna responsabilidad derivada de las operaciones del Banco antes de la designación del síndico, salvo por lo acordado contractualmente entre el banco puente y el síndico, según sea el caso.

L. Sujeto a los incisos (M) y (P), la carta constitucional de un banco puente expirará dos (2) años después de su aprobación o en cualquier fecha anterior que el Secretario de Hacienda establezca. El Secretario de Hacienda puede, a su discreción, extender la condición de un banco puente como tal por no más de tres (3) periodos adicionales de un (1) año cada uno. La terminación de la carta constitucional para el banco puente no afectará ninguna de sus subsidiarias y afiliadas, y cada una permanecerá como corporación pública e independientes, salvo que se establezca lo contrario por el Secretario de Hacienda, cuyas juntas de directores serán nombradas de la misma manera que la junta de directores del Banco fue nombrada.

M. El Secretario de Hacienda podrá modificar la carta constitucional del banco puente para reflejar la terminación de la condición del banco puente como tal y proveer que el banco puente deberá ser un banco nuevo, tras lo cual el banco puente tendrá todos los derechos, poderes o privilegios aplicables bajo sus documentos constitutivos y las leyes del Estado Libre Asociado. Con relación a esto, el Secretario de Hacienda de Puerto Rico podrá tomar aquellos pasos que sean necesarios y convenientes para reincorporar al banco puente bajo las leyes del

Estado Libre Asociado de Puerto Rico e, independientemente de lo que disponga cualquier otra ley del Estado Libre Asociado, tal entidad se considerará que adquiere por operación de ley todos aquellos derechos, títulos, poderes e intereses del banco puente establecidos en su carta constitucional.

N. El banco puente podrá tomar cualquier y toda acción que sea razonable y necesaria para permitir que el banco puente continúe realizando sus operaciones regulares y cumpla con sus deberes legales, incluyendo, pero sin limitarse a, lo siguiente —

- (1) estableciendo condiciones o restricciones sobre las operaciones del banco puente, incluyendo eximir del cumplimiento con requisitos establecidos por otras leyes aplicables, en todo o en parte, incluyendo los que requieren que el banco puente mantenga una reserva de depósitos por encima de cierto límite;
- (2) limitando o condicionando el desembolso de préstamos;
- (3) limitando o condicionando retiros o transferencias de depósitos según los términos que disponga el banco puente para atender las necesidades de liquidez del banco puente y facilitar la habilidad del banco puente a realizar sus operaciones normalmente; y
- (4) limitando o suspendiendo—
 - pagos de cualquier obligación;
 - pagos sobre cualquier carta de crédito (*letter of credit*); y
 - cualquier obligación o compromiso de prestar o proveer dinero o crédito.

O. No obstante cualquier disposición en esta Ley a lo contrario, el banco puente no tendrá la autoridad de exigir depósitos de entidades gubernamentales conforme a los requisitos del Artículo 1, de la Ley 24-2014.

P. No obstante cualquier otra disposición de las leyes del Estado Libre Asociado, si la condición del banco puente como tal no ha terminado de conformidad con la subsección (L) o (M), (1) la Junta de Directores, con la aprobación del Secretario de Hacienda de Puerto Rico podrá disolver el banco puente conforme a este inciso en cualquier momento y (2) la junta de directores del banco puente, con la autorización del Secretario de Hacienda deberá comenzar inmediatamente procedimientos de liquidación de conformidad con este párrafo tras la expiración del periodo de dos (2) años a partir de la fecha de la organización del banco puente, o cualquier extensión de este término de conformidad con el inciso (M). El Secretario de Hacienda podrá designar un síndico para un banco puente si determina que dicha acción facilita la liquidación final del banco puente o del banco bajo sindicatura. El síndico de un banco puente deberá liquidar los asuntos del banco puente de conformidad con las disposiciones aplicables a la resolución del Banco bajo esta Ley. Con relación a cualquier banco puente, el síndico tendrá todos los derechos, poderes y privilegios y llevará a cabo las responsabilidades relacionadas al ejercicio de dichos derechos, deberes, poderes o privilegios otorgados por la ley al síndico del Banco bajo esta Ley e, independientemente de cualquier otra disposición de ley del Estado Libre Asociado, en el ejercicio de dichos derechos, poderes y privilegios, el síndico no estará sujeto a la dirección o supervisión de ninguna agencia del Estado Libre Asociado, con excepción de lo que se provee para un síndico del Banco en esta Ley.”

CAPÍTULO 5. ENMIENDAS A LA LEY ORGÁNICA DEL BDE RELACIONADAS A LA SINDICATURA

Artículo 501. Enmiendas al Artículo 11 de la Ley Núm. 22 del 24 de julio de 1985

Se enmienda el Artículo 11 de la Ley Núm. 22 del 24 de julio de 1985, según enmendada, para que lea en su totalidad como sigue:

“Artículo 11. Nombramiento y poderes de un síndico.

A. La Junta de Directores del Banco o el Secretario de Hacienda de Puerto Rico tendrán autoridad para recomendarle al Gobernador la designación de un síndico para el Banco si la Junta de Directores del Banco o el Secretario de Hacienda de Puerto Rico determina que (1) los activos del Banco son menores que sus obligaciones a sus acreedores; (2) el Banco es incapaz de pagar sus deudas a su vencimiento en el curso ordinario de los negocios; (3) el Banco está operando de manera insegura o inapropiada para desempeñar sus funciones estatutarias; o (4) el Banco ha incurrido o es probable que incurra en pérdidas que agotarán todo o sustancialmente todo su capital, y no hay una expectativa razonable de que el Banco llegue a estar adecuadamente capitalizado.

B. Tras recibir una recomendación conforme al inciso (A), el Gobernador podrá (1) designar, o solicitarle al Secretario de Hacienda de Puerto Rico que designe, un síndico para el Banco; (2) designar a otra entidad, ya sea una entidad privada o instrumentalidad gubernamental existente o nueva, después de consultar con el Secretario de Justicia, para asumir las responsabilidades de pago y funciones depositarias del Banco; y (3) designar Juntas de Directores nuevas, y si es necesario, de cualquiera de las subsidiarias directas o indirectas o afiliadas que podrán haber tenido la misma Junta de Directores del Banco. En el ejercicio de la discreción del Gobernador o del Secretario de Hacienda de Puerto Rico, cualquier persona podrá ser nombrada síndico.

C. Excepto en la medida que se pruebe mediante sentencia final y firme que la persona haya incurrido en conducta dolosa para beneficio propio o en negligencia crasa que conlleve una indiferencia temeraria de sus deberes y la omisión de llevarlos a cabo, los miembros de la Junta de Directores y los funcionarios del Banco y cualquier subsidiaria del Banco, cualquier empleado, agente del Banco o cualquier subsidiaria del Banco, cualquier síndico o aquellas personas privadas o entidades contratadas, designadas o empleadas por dicho síndico no tendrán responsabilidad personal hacia ninguna entidad y, sin necesidad de notificación u orden adicional, serán exonerados de responsabilidad por acciones u omisiones de buena fe en su capacidad, y dentro de su autoridad bajo esta Ley. Cualquier reclamación contra una persona o entidad enumerada en este inciso con relación a sus actos u omisiones relacionados a, o que surjan de, esta Ley deberá presentarse en el Tribunal de Primera Instancia de Puerto Rico, Sala de San Juan.

D. Inmediatamente después de la designación de un síndico, dicho síndico adquirirá (1) todos los derechos, títulos, poderes y privilegios del Banco y de cualquier titular de cuenta, depositante, oficial o director del Banco con relación al Banco y a los activos del Banco, con poder absoluto para realizar todos los actos y ejecutar en nombre y en representación del Banco todas las funciones, incluyendo, sin limitación, otorgar escrituras, recibos y otros documentos; y (2) título sobre los libros, récords y activos de cualquier síndico anterior o cualquier otro custodio legal del Banco.

E. Inmediatamente después de la designación de un síndico, dicho síndico podrá (1) hacerse cargo de y operar los activos del Banco con todos los poderes de los directores y oficiales del Banco, incluyendo el poder de emplear y utilizar el sello del Banco y llevar a cabo todo negocio del Banco; (2) recaudar todas las obligaciones y dinero adeudado al Banco, incluyendo, sin limitación, llevar a cabo todos los actos necesarios para obtener pago de cualquier dinero adeudado por cualquier deudor del Banco o su patrimonio, para evidenciar, establecer prioridad y reclamar en la quiebra, insolvencia o embargo de cualquier deudor del Banco cualquier balance contra cualquier patrimonio y para recibir pagos en cualquier procedimiento por dinero adeudado al Banco; (3) vender, transferir y comprometer cualquier activo, pasivo, derecho, poder u obligación del Banco, a través de subasta pública o contrato privado, sin necesidad de aprobación alguna, cesión o consentimiento con relación a dicha transferencia y sin pago de ninguna tarifa, cargo, sello, comprobante de inscripción u otro comprobante; (4) elaborar, aceptar, realizar, comprometer, terminar y endosar cualquier letra de cambio, pagaré u otro documento u obligación del Banco en nombre y en representación del Banco; (5) proveer o facilitar a través de garantías o de otra manera el financiamiento necesario para cumplir los propósitos y ejercer los poderes autorizados por esta Ley; (6) retener, nombrar y contratar los servicios de personas y entidades privadas, bajo aquellos términos y condiciones que el síndico apruebe, para ayudar al síndico en el desempeño de las responsabilidades bajo esta Ley, y dichas personas o entidades privadas tendrán el pleno recurso de los poderes y derechos del síndico, según sea el caso, en la manera en que lo ordene, limite o dirija el síndico; (7) demandar y ser demandado, salvo en la medida en la que esto se limite en esta Ley, y realizar en nombre del Banco todas las funciones de éste que sean consistentes con la designación del síndico; (8) según sea apropiado, preservar y conservar los activos y la propiedad del Banco; (9) pagar todas las reclamaciones y obligaciones válidas del Banco de acuerdo con las disposiciones y limitaciones de esta Ley; (10) investigar e instar toda reclamación o acción judicial y cobrar las sentencias de las reclamaciones en contra de personas que puedan ser responsables por los daños y las pérdidas del Banco por negligencia o alguna otra falta; (11) ejercer todos los derechos y autorizaciones expresamente concedidos bajo esta Ley al síndico, respectivamente, y aquellos poderes incidentales que sean necesarios para llevar a cabo los poderes concedidos; y (12) tomar cualquier acción autorizada por esta Sección que el síndico entienda está en los mejores intereses del Banco o sus depositantes y acreedores.

F. El síndico:

- (1) podrá colocar al Banco en liquidación y proceder a vender los activos del Banco, teniendo en cuenta las funciones y responsabilidades del Banco.
- (2) podrá permitir, rechazar o de alguna otra manera hacer determinaciones sobre reclamaciones conforme a los requisitos de este Artículo.
- (3) deberá (i) publicar sin demora en un periódico de circulación nacional, en un periódico de circulación local y en el portal electrónico del Banco un aviso general a los acreedores del Banco y enviará por correo una notificación a los acreedores que aparezcan en los récords del Banco para que presenten sus reclamaciones al síndico, junto con evidencia de éstas, en o antes de la fecha especificada en la notificación, la cual deberá ser al menos noventa (90) días después de la publicación de dicha notificación; (ii) publicar otra notificación aproximadamente treinta (30) días después de la publicación bajo la cláusula (i); y (iii) si se descubriese el nombre y la dirección de un acreedor que no esté

identificado en los récords del Banco, se deberá enviar notificación a dicho acreedor dentro de los treinta (30) días de dicho descubrimiento.

- (4) determinará si permitirá o no la reclamación y notificará al reclamante, por correo a la dirección identificada en la reclamación, de cualquier decisión del síndico sobre dicha reclamación, estableciendo las razones para cualquier denegatoria de la reclamación y los procedimientos disponibles para revisión adicional, no más de ciento ochenta (180) días después de la fecha en la que se presentó la reclamación al síndico. Dicho periodo podrá extenderse a través de un acuerdo escrito entre el reclamante y el síndico.
- (5) no tendrá que prestar fianza y podrá designar a un agente o agentes para asistirle en sus deberes como síndico. El síndico fijará los honorarios, la compensación y los gastos de liquidación, los cuales podrán ser pagados por éste de los fondos que estén en su posesión como síndico.

G. Si el síndico deniega una reclamación o parte de ella, o si el síndico no toma una decisión dentro de los ciento ochenta (180) días desde que se presenta cualquier reclamación y no ha habido una extensión de dicho término, el reclamante podrá presentar una acción judicial con relación a dicha reclamación (o continuar una acción iniciada antes de la designación del síndico) en la Sala de Cumplimiento con las Deudas y para la Recuperación de las Corporaciones Públicas creada por la Ley 71-2014, y si dicha sala no está operando, el Tribunal de Primera Instancia, Sala de San Juan, dentro de los sesenta (60) días de la desestimación de toda o cualquier parte de la reclamación o la expiración del término de ciento ochenta (180) días para la determinación de las reclamaciones. Si el reclamante no presenta una acción judicial sobre su reclamación (o no continúa una acción iniciada antes de la designación del síndico) dentro de dicho término, se entenderá abandonada la reclamación (salvo cualquier parte de la reclamación que haya sido permitida por el síndico), y tal abandono será final y el reclamante no tendrá derechos o remedios adicionales con relación a dicha reclamación. Ningún tribunal tendrá jurisdicción para tomar alguna acción, y ningún reclamante podrá continuar alguna acción judicial pendiente contra el Banco en sindicatura, hasta que el reclamante haya agotado todos los remedios especificados en esta Sección. Una vez se hayan agotado todos los remedios antes mencionados, cualquier acción judicial con relación a dicho reclamo debe radicarse o continuarse dentro de sesenta (60) días y, de no radicarse dentro de dicho periodo, el reclamante no tendrá más derechos o remedios con relación a dicha reclamación y ningún tribunal tendrá jurisdicción.

H. Cada persona que tenga una reclamación contra el Banco o la sindicatura no deberá recibir, en ningún caso, pago o propiedad con un valor menor a la cantidad que el acreedor hubiese tenido derecho a recibir si el Banco se hubiese liquidado en la fecha de la designación del síndico, y la máxima responsabilidad a cualquier persona que tenga una reclamación contra el Banco o el síndico o la sindicatura deberá ser igual que la cantidad que dicho acreedor hubiese recibido si el Banco se hubiese liquidado en la fecha de la designación del síndico.

I. El síndico deberá pagar todas las obligaciones válidas del Banco de acuerdo con las disposiciones y limitaciones de esta Ley.

J. El derecho a ceder o transferir conferido en los Artículos 11 al 13 de esta Ley reemplazará todos los demás derechos e intereses, incluyendo, sin limitación, los derechos a

consentir u objetar a dicha transferencia o cesión que pudieran tener otras partes bajo contratos de empleo, arrendamientos, cobros, hipotecas, “*indentures*” u otros acuerdos en los que el Banco pueda haber participado previo a la designación del síndico. Todo funcionario público que tenga el poder de aceptar y registrar o modificar cualquier entrada en cualquier registro relacionado a la transferencia o cesión de un activo o pasivo debe, previa solicitud del síndico, cesionario u otra persona, hacer todo lo necesario bajo las leyes para completar el registro de la cesión o transferencia.

K. Una vez designado un síndico para el Banco, dicho síndico podrá solicitar una paralización de cualquier acción o procedimiento judicial o administrativo en el que el Banco sea o se convierta en parte por un periodo que no excederá noventa (90) días. El tribunal o ente administrativo que reciba una solicitud de cualquier síndico para la paralización de cualquier acción o procedimiento judicial o administrativo de conformidad con este párrafo deberá conceder dicha paralización con relación a todas las partes.

L. Salvo lo que se dispone en esta Ley, ningún tribunal, funcionario, empleado o departamento del Estado Libre Asociado de Puerto Rico podrá tomar acción alguna, excepto a solicitud del síndico, para restringir o afectar el ejercicio de los poderes y funciones del síndico. Salvo lo que se dispone en esta Ley, el remedio exclusivo en cualquier acción judicial en contra de la sindicatura o el Banco bajo sindicatura, será daños compensatorios, los cuales no incluirán daños punitivos o ejemplares, daños por pérdida de oportunidad o ganancia o daños por sufrimiento o angustias.

M. Una vez designado un síndico para el Banco, éste tendrá discreción para utilizar los servicios de aquellos empleados del Banco que sean necesarios para llevar a cabo sus funciones y facultades autorizadas por esta Ley y, en ese sentido, podrá suspender temporeraente toda cláusula, precepto y/o disposición aplicable a dichos empleados y/o puestos del Banco contenidas en leyes, convenios colectivos, acuerdos, acuerdos suplementarios, políticas, manuales de empleo, cartas circulares, cartas contractuales, addenda, certificaciones, reglamentos, reglas y condiciones de empleo, cartas normativas, planes de clasificación y/o planes de retribución, referentes a toda y cualquier condición de empleo, siempre y cuando a dichos empleados no se le reduzca el sueldo o sus beneficios marginales. El síndico también podrá ordenar, efectuar o solicitar destagues y/o traslados de los empleados del Banco a otras agencias o entidades existentes o creadas por ésta y/o cualquier legislación, incluyendo a cualquier subsidiaria del Banco. En el caso de liquidación del Banco, el síndico también podrá efectuar cesantías. De los empleados del Banco ser permanentemente transferidos a una agencia existente, sus términos y condiciones de empleo quedarán modificados para ajustarse a cualquier ley, reglamento y/o convenio que atienda la retribución y clasificación de los empleados de la agencia a la cual ha sido trasferido. En todo caso, se respetarán los términos y condiciones de empleo vigentes al momento de la designación del síndico, incluyendo, los derechos, privilegios, obligaciones y antigüedad, adquiridos bajo las leyes, convenios de negociación colectiva y reglamentos de personal en vigor, sujeto a las modificaciones contenidas en la Ley 66-2014 mientras ésta continúe en vigor. También en todo caso se garantizará que se satisfaga a todos los empleados cualesquiera salarios, sueldos o comisiones, incluyendo pago por concepto de vacaciones, mesada y licencia por enfermedad u otros beneficios de empleo similares adquiridos previo a la designación del síndico, conforme a las políticas de empleo del Banco o las leyes aplicables.

N. Para propósitos de interpretar los Artículos 11 al 13 de esta Ley, un tribunal debe considerar, en la medida en que sea aplicable, jurisprudencia interpretativa del Título 12 del Código de los Estados Unidos.”

Artículo 502. Nuevos Artículos 12 al 25 de la Ley Núm. 22 de 24 de julio de 1985

Se reenumeran los Artículos 12 al 23 de la Ley Núm. 22 de 24 de julio de 1985, según enmendadas, como Artículos 14 al 25, y se añaden nuevos Artículos 12 al 13, que leerán en su totalidad como sigue:

“Artículo 12. Prioridad de gastos y reclamaciones no garantizadas en sindicatura.

A. Las reclamaciones no garantizadas contra el Banco o el síndico del Banco bajo esta Ley que hayan sido debidamente evidenciadas a satisfacción del síndico deberán ser pagadas en el siguiente orden de prioridad:

- (1) Gastos administrativos del síndico.
- (2) Salarios, sueldos o comisiones, incluyendo pago por concepto de vacaciones, mesada y licencia por enfermedad u otros beneficios de empleo similares adquiridos por un individuo previo a la designación del síndico, conforme a las políticas de empleo del Banco o las leyes aplicables.
- (3) Contribuciones adeudadas a planes de beneficio de empleados relacionadas a servicios prestados previo a la fecha la designación del síndico.
- (4) Cualquier saldo pendiente de pago por dinero en posesión del Banco en sus cuentas de depósito para crédito del depositante y cualquier otra obligación general o preferente del Banco (que no sea una de las obligaciones que se describen en el inciso (5)).
- (5) Cualquier obligación que sea subordinada a los acreedores generales por medio de ley o contrato.

B. Este Artículo no afectará los créditos colateralizados o gravámenes sobre activos o bienes en posesión del Banco, y dichos créditos colateralizados o gravámenes sobre activos o bienes deberán ser pagados de la colateral o del valor realizado de la colateral. En la medida en la que la colateral sea insuficiente para satisfacer la reclamación, la diferencia entre la reclamación y el valor realizado de la colateral deberá ser pagada de acuerdo con este Artículo.

C. No obstante cualquier otra disposición de esta Ley o de la Ley de Moratoria de Emergencia y la Rehabilitación Financiera de Puerto Rico, cualquier obligación o compromiso de prestar o proveer dinero o crédito, un depositante o síndico puede compensar o canjear el monto de su depósito contra cualquier saldo pendiente de un préstamo con el Banco como pago completo y final de tal obligación hasta la cantidad del depósito.

D. La prioridad por gastos administrativos, según esta frase se utiliza en el inciso (A), incluirá, (i) aquellas obligaciones incurridas por el Banco previo a la designación del síndico relacionadas a bienes y servicios provistos al Banco previo a dicha designación, con excepción de reclamaciones individuales en exceso de una cantidad a ser determinada por el síndico a su discreción razonable, (ii) aquellas obligaciones incurridas por el Banco luego de la designación del síndico relacionadas a bienes y servicios provistos al Banco luego de dicha designación y (iii)

cualquier otra obligación que el síndico determine sea apropiada para facilitar la resolución ordenada del Banco.

E. El Secretario de Hacienda, luego de haber consultado con el síndico y el Gobernador, tendrá el poder de renunciar a, reducir, subordinar, o asignar cualquier reclamación de una unidad gubernamental excepto si dicha unidad gubernamental es un municipio, sin embargo, cualquier porción de la reclamación que ha sido asignada de acuerdo con esta subsección no podrá ser compensada por el cesionario según dispuesto en la subsección (C) de esta Sección.

Artículo 13. Disposiciones Relacionadas a Contratos Celebrados antes del Nombramiento del Síndico.

A. Salvo por lo que se dispone en este Artículo, el síndico podrá exigir el cumplimiento de cualquier contrato o acuerdo celebrado por el Banco a pesar de que el mismo contenga alguna disposición contractual que provea para la terminación, incumplimiento, aceleración o ejercicio de algún otro derecho como resultado de, o por razón de, la insolvencia o la designación de un síndico a medida que sea necesario para una administración ordenada y/o una liquidación de los asuntos del Banco.

B. Además de cualquier otro derecho que el síndico pueda tener, el síndico, en el ejercicio de sus poderes de administrar y liquidar el Banco, puede anular o repudiar cualquier contrato o arrendamiento (1) del cual el Banco sea una parte; (2) si, a discreción del síndico, sería oneroso continuar el cumplimiento de dicho contrato; y (3) si, a discreción del síndico, la anulación o repudiación de dicho contrato o arrendamiento fomentaría la administración ordenada y/o una liquidación de los asuntos del Banco

C. El síndico designado debe determinar si ejercerá o no los derechos de repudiación bajo esta Sección dentro de los ciento ochenta (180) días de su designación.

D. La responsabilidad de la sindicatura por la anulación o repudiación de cualquier contrato bajo el inciso (B) debe estar (1) limitada a daños compensatorios directos reales y (2) determinada a la fecha de la designación del síndico. Para propósitos de este inciso, la frase "daños compensatorios directos reales" no incluye daños punitivos o ejemplares, daños por pérdida de oportunidad o ganancia o daños por sufrimiento o angustias.

E. Ninguna persona podrá ejercer un derecho o poder para terminar, acelerar o declarar un incumplimiento bajo un contrato del cual el Banco sea parte (y no exigible será disposición alguna de cualquiera de dichos contratos que provea para dicho incumplimiento, terminación o ejecución) o para obtener la posesión o ejercer control sobre una propiedad del Banco o afectar algún derecho contractual del Banco y el síndico podrá exigir el cumplimiento de cualquier contrato a pesar de cualquier disposición del contrato que provea para la terminación, incumplimiento, aceleración o ejercicio de derechos por, o exclusivamente por razón de la insolvencia, la condición financiera, la designación o el ejercicio de los derechos o poderes de un síndico, o la transferencia de cualquier operación, activo o pasivo del Banco a cualquier otra persona o entidad; disponiéndose, sin embargo, que ninguna disposición de esta sección deberá interpretarse como que impide o afecta cualquier derecho del síndico a exigir el cumplimiento de, o a recuperar bajo, un contrato de seguro de responsabilidad de un director o funcionario o una fianza de una institución financiera bajo alguna otra ley aplicable.

F. Ninguna persona podrá ejercer ningún derecho o poder para terminar, acelerar o declarar un incumplimiento bajo cualquier contrato del cual el Banco sea parte (y no será exigible disposición alguna de cualquiera de dichos contratos que provea para dicho incumplimiento, terminación o ejecución) o para obtener posesión o ejercer control sobre cualquier propiedad del Banco o afectar cualquier derecho contractual del Banco, sin el consentimiento del síndico del Banco dentro de los primeros noventa (90) días de la designación de dicho síndico; disponiéndose, sin embargo, que ninguna disposición de este párrafo será aplicable a un contrato de seguro de responsabilidad de directores o funcionarios o a una fianza de una institución financiera ni se interpretará como que le permite al síndico incumplir con alguna disposición de alguno de dichos contratos que de otra manera fuese válida.

CAPÍTULO 6. LA AUTORIDAD DE ASESORÍA FINANCIERA Y AGENCIA FISCAL DE PUERTO RICO

ARTÍCULO 601. ESTABLECIMIENTO

Por la presente se crea la Autoridad de Asesoría Financiera y Agencia Fiscal de Puerto Rico, que será una corporación pública e instrumentalidad del gobierno, con existencia legal, fiscal y autonomía administrativa separada, e independiente del Estado Libre Asociado.

ARTÍCULO 602. PROPÓSITOS, FACULTADES Y PODERES DE LA AUTORIDAD

(a) La Autoridad es creada con el propósito de que actúe como agente fiscal, asesor financiero y agente informativo del Estado Libre Asociado y sus corporaciones públicas, instrumentalidades, comisiones, autoridades municipales y subdivisiones políticas y asistir tales entidades en confrontar la grave crisis fiscal y emergencia económica que Puerto Rico atraviesa.

(b) Todas las funciones relacionadas a agencia fiscal, asesoría financiera, y agente informativo del Banco se transfieren a la Autoridad, incluyendo todos aquellos poderes y responsabilidades bajo la Ley Núm. 272 de 15 de mayo de 1945, según enmendada. A menos que sean asumidos de acuerdo al Artículo 108(b) de esta Ley, la Autoridad deberá supervisar todos los asuntos relacionados con la reestructuración o ajuste de cualquier obligación incluida, o planes de contingencia para cualquier obligación incluida. Así mismo, la Autoridad asumirá, y se convertirá en parte en, cualquier y todos los contratos entre el Banco y cualquier asesor, incluyendo los asesores legales y financieros, aunque los salarios y los honorarios hayan sido incurridos antes de la fecha de dicha asunción, relacionados con la reestructuración o ajuste de las obligaciones incluidas. Cualquier referencia en alguna ley del Estado Libre Asociado al Banco en su carácter de agente fiscal y asesor financiero del Estado Libre Asociado y sus instrumentalidades se entenderá que se refiere y aplica a la Autoridad una vez entre en vigor esta Ley.

(c) Con el fin de lograr estos propósitos, se le confiere a la Autoridad, y ésta tendrá y podrá ejercer, todos los derechos y poderes que sean necesarios o convenientes para llevar a cabo dichos propósitos, incluyendo, pero sin limitar la generalidad de lo anterior, los siguientes—

- i. adoptar, cambiar y usar un sello corporativo que será reconocido por las cortes;
- ii. formular, adoptar, enmendar y derogar estatutos para la administración de sus asuntos corporativos y aquellas normas, reglas y reglamentos que fueren necesarios o pertinentes para ejercitar y desempeñar sus funciones, poderes y deberes;

- iii. tener dominio completo sobre todas sus propiedades;
- iv. determinar el carácter y la necesidad de todos sus gastos, y el modo cómo los mismos deberán incurrirse, autorizarse y pagarse, sin tomar en consideración cualquier disposición de ley que regule los gastos de fondos públicos y tal determinación será final y definitiva para con todos los funcionarios del Estado Libre Asociado, pero deberá adoptar reglas para el uso y desembolso de sus fondos y estará sujeta a la intervención de la Oficina del Contralor de Puerto Rico
- v. demandar y ser demandada bajo su propio nombre, querellarse y defenderse en todos los tribunales de justicia y cuerpos administrativos y participar en procedimientos de arbitraje comercial;
- vi. negociar y otorgar, con cualquier persona, incluyendo cualquier agencia gubernamental, federal o estatal, todo tipo de contrato, incluyendo todos aquellos instrumentos y acuerdos necesarios o convenientes para ejercer los poderes y funciones conferidos a la Autoridad por esta Ley;
- vii. adquirir cualquier propiedad mediante cualquier forma legal;
- viii. nombrar y destituir aquellos funcionarios, agentes, o empleados y conferirles aquellas facultades, imponerles aquellos deberes y fijarles, cambiarles y pagarles aquella compensación que la Autoridad determine;
- ix. aceptar donaciones de cualquier persona, y utilizar el producto de cualesquiera de dichas donaciones para cualquier fin corporativo;
- x. procurar seguros contra pérdidas en las cantidades y con los aseguradores que considere deseable, cuyo seguro podría incluir, sin que se entienda como una limitación, seguro contra responsabilidad civil de directores, oficiales, agentes y empleados;
- xi. asumir cualquier y todo contrato del Banco o su sucesor y cualquier responsabilidad relacionada a dichos contratos;
- xii. facultad de cobrar y recolectar cargos relacionados a su función como agente fiscal;
- xiii. ejercer todos aquellos otros poderes corporativos no incompatibles con los aquí expresados que por las leyes de Puerto Rico se confieren a las corporaciones privadas, y ejercer todos esos poderes, dentro y fuera de Puerto Rico, en la misma extensión que lo haría o podría hacerlo una persona natural; y
- xiv. realizar todos los actos o medidas necesarias o convenientes para llevar a cabo los poderes que se le confieren por esta Ley o por cualquier otra ley de la Asamblea Legislativa de Puerto Rico o del Congreso de los Estados Unidos.

ARTÍCULO 603. JUNTA DE DIRECTORES

(a) La Autoridad será dirigida por una junta integrada por el Director Ejecutivo de la Autoridad, quien será su único miembro y servirá a voluntad del Gobernador y podrá ser removido o reemplazado por el Gobernador en cualquier momento, con o sin causa.

- (b) El único miembro de la Junta fungirá como presidente y secretario de la Junta.
- (c) La Junta también podrá designar comités para atender cualquier asunto que la Junta pueda atender, siempre y cuando la mayoría de los miembros designados de dichos comités sean independientes.
- (d) Salvo que el reglamento de la Autoridad lo prohíba o lo restrinja, cualquier acción necesaria o permitida en cualquier reunión de la Junta o cualquier comité de la Junta, será autorizada sin que medie una reunión, siempre y cuando todos los miembros de la Junta o comité de la Junta, según sea el caso, den su consentimiento escrito a dicha acción. En tal caso, el documento escrito constará en las actas de la Junta o comité de la Junta, según sea el caso. Salvo que el reglamento de la Autoridad provea otra cosa, los miembros de la Junta o de cualquier comité de la Junta podrán participar en cualquier reunión de la Junta o de cualquier comité de ésta, respectivamente, mediante conferencia telefónica, u otro medio de comunicación, a través del cual todas las personas participantes en la reunión puedan escucharse simultáneamente. La participación de cualquier miembro de la Junta o cualquier comité de ésta en la forma antes descrita constituirá asistencia a dicha reunión.
- (e) El miembro de la Junta no recibirá compensación por sus servicios. Un miembro de la Junta tendrá derecho a que se le reembolsen los gastos de viajes necesariamente incurridos para el desempeño de sus funciones oficiales de acuerdo a los reglamentos aplicables del Departamento de Hacienda.
- (f) La Junta tendrá, sin que se entienda como una limitación, los siguientes deberes y facultades—
- i. establecer la política general de la Autoridad para cumplir con los objetivos de esta Ley;
 - ii. autorizar el plan de trabajo y el presupuesto anual de la Autoridad;
 - iii. adoptar y aprobar reglas y reglamentos que rijan su funcionamiento interno, así como aquéllos que sean necesarios para desempeñar las facultades y poderes que le han sido conferidas bajo esta Ley;
 - iv. requerir de cualquier funcionario o empleado de la Autoridad los informes y datos estadísticos que entienda necesarios;
 - v. en la medida que la Junta de Supervisión Fiscal y Recuperación Económica de Puerto Rico no se haya constituido, para validar o seleccionar el asesor independiente que validará las proyecciones de ingresos del Estado Libre Asociado para cualquier año fiscal antes de que dichas proyecciones sean sometidas a la Asamblea Legislativa como parte de presupuesto del Estado Libre Asociado de acuerdo al Artículo 4(a) de la Ley Núm. 147 de 18 de junio de 1980, según enmendada;
 - vi. emitir citaciones requiriendo la comparecencia y el testimonio de testigos y la producción de cualquier evidencia para recopilar información relacionada a un asunto que se encuentre bajo su jurisdicción. Si cualquier persona se rehusare a cumplir con un requerimiento hecho por la Autoridad, la Autoridad podrá solicitar una orden judicial ante el Tribunal de Primera Instancia, Sala de San Juan, para requerir a esa persona a comparecer ante la Autoridad para testificar,

producir evidencia, o ambos, con relación al asunto bajo su consideración, cuyos requerimientos deberán ser notificados de la misma manera en la que éstos se notificarían bajo las reglas de procedimiento civil aplicables.

- vii. promulgar normas para proteger la confidencialidad de la información y los documentos que se le entreguen de acuerdo con las leyes y la jurisprudencia vigente sobre la materia en el Estado Libre Asociado, cuyo acto de proveer información o documentos a solicitud de la Autoridad no se interpretará como una renuncia a una reclamación de confidencialidad, de cualquier persona natural o jurídica, con relación a la información o el documento entregado.
- viii. delegar en cualquier comité de la Junta o en el Director Ejecutivo cualesquiera de los poderes y facultades que tiene la Junta bajo esta Ley; y
- ix. tomar todas aquellas acciones que considere conveniente o necesarias para llevar a cabo los propósitos de la Autoridad según las disposiciones de esta Ley.

ARTÍCULO 604. DIRECTOR EJECUTIVO

(a) La Autoridad funcionará bajo la dirección de un Director Ejecutivo, quien será nombrado por el Gobernador. El Gobernador establecerá los deberes y poderes del Director Ejecutivo de acuerdo con las disposiciones de esta Ley y determinará su compensación. Sus funciones serán, sin que constituya una limitación, las siguientes:

- i. ser el principal oficial ejecutivo de la Autoridad;
- ii. preparar y presentar a la Junta el plan de trabajo y el presupuesto anual de la Autoridad;
- iii. autorizar y supervisar cualquier contrato que sea necesario para el funcionamiento de la Autoridad sujeto a las normas que establezca la Junta;
- iv. establecer, organizar, dirigir y supervisar la estructura administrativa de la Autoridad;
- v. contratar personal y profesionales, incluyendo asesores legales, consultores financieros, y economistas, bajo términos razonables y según determine la Autoridad, para ayudar al Director Ejecutivo en el ejercicio de las funciones de la Autoridad;
- vi. establecer los niveles de funcionamiento de las operaciones de la Autoridad, incluyendo el poder de reclutar y contratar a cualquiera de los funcionarios y empleados bajo su supervisión, sujeto a las normas que establezca la Junta; y
- vii. desempeñar todas aquellas otras funciones que le sean asignadas por la Junta.

ARTÍCULO 605. FUNCIONARIOS Y EMPLEADOS

(a) El personal de la Autoridad quedará excluido de la Ley Número 5 de 14 de octubre de 1975, según enmendada, conocida como "Ley de Personal del Servicio Público de Puerto Rico". Los nombramientos, despidos, ascensos, traslados, ceses, reposiciones, suspensiones, licencias y cambios de categoría, remuneración o título de los funcionarios y empleados de la Autoridad se harán y permitirán como dispongan las normas y reglamentos que

prescriba la Junta, las que deberán ser consistentes con los principios de mérito establecidos en la Ley de Personal del Servicio Público de Puerto Rico.

(b) El Director Ejecutivo y los funcionarios y empleados de la Autoridad tendrán derecho al reembolso de los gastos necesarios de viaje, o a las dietas correspondientes, que sean autorizados o aprobados de acuerdo con los reglamentos adoptados por la Junta para la Autoridad.

ARTÍCULO 606. INMUNIDAD

En ausencia de prueba clara y convincente de negligencia crasa que conlleve una indiferencia temeraria hacia sus deberes o la omisión de llevarlos a cabo, los miembros de la Junta, oficiales y empleados de la Autoridad no tendrán responsabilidad personal civil hacia ninguna persona y serán indemnizados por la Autoridad y exonerados de responsabilidad civil por acciones u omisiones de buena fe, en su capacidad y dentro de su autoridad. Cualquier acción civil presentada ante un tribunal en la que se alegue la existencia de negligencia crasa deberá ser desestimada con perjuicio si el demandado produce documentos que demuestren que recibió información sobre los hechos relevantes, participó en persona o por teléfono y deliberó de buena fe o recibió y confió en el asesoramiento de expertos respecto a cualquier acción u omisión que sea base para la demanda.

ARTÍCULO 607. COLABORACIÓN ENTRE ENTIDADES GUBERNAMENTALES

La Autoridad podrá solicitar a cualquiera de las siguientes entidades, o a cualquier sucesor del mismo, apoyo administrativo y tales servicios estadísticos y profesionales razonablemente necesarios para que la Autoridad pueda llevar a cabo sus responsabilidades bajo esta Ley: el Banco, el Departamento de Hacienda, la Oficina de Gerencia y Presupuesto, el Departamento de Desarrollo Económico y Comercio de Puerto Rico, el Instituto de Estadísticas y cualquier otra entidad gubernamental. En la medida de lo posible, la Autoridad reembolsará a estas entidades para tales servicios.

ARTÍCULO 608. EXENCIÓN DE OTRAS LEYES

La Autoridad gozará de las mismas exenciones de la aplicación de ciertas leyes que actualmente tiene el Banco.

ARTÍCULO 609. EMPLEADOS DEL BANCO

En la medida en que la Autoridad determine, a su discreción, asumir la totalidad o parte de los empleados permanentes, temporeros y/o no-unionados del Banco, dichos empleados pasarán a ser empleados de la Autoridad. Esta transferencia de empleados se efectuará mientras se honran los términos y condiciones de empleo efectivos a la fecha de la transferencia a la Autoridad, incluyendo los derechos, privilegios, obligaciones y antigüedad, adquiridos bajo las leyes aplicables, convenios colectivos y los reglamentos vigentes de personal, sujeto a las modificaciones provistas por la Ley 66-2014 mientras la misma continúe vigente. Ninguna de las disposiciones de este capítulo afectará el derecho constitucional de negociación colectiva que tienen los empleados del Banco, ni los derechos, beneficios y privilegios adquiridos por virtud de cualquier convenio colectivo. La Autoridad reconocerá los sindicatos que representan a los trabajadores sindicalizados del Banco transferidos a la Autoridad y asumirá los convenios colectivos en vigor en dicha fecha. Los derechos con relación a cualquier sistema de pensión o retiro a las que pueden estar afiliados a; o miembros de, la fecha de vigencia de esta Ley también

están garantizados. La Autoridad estará obligada a satisfacer los salarios, compensación, comisión, incluyendo pagos relacionados a vacaciones, licencias y días de enfermedad o cualquier otro beneficio de empleo adquirido antes de la transferencia a la Autoridad, conforme las políticas aplicables del Banco o cualquier ley aplicable.

ARTÍCULO 610. TÉRMINOS DE LA EXISTENCIA DE LA AUTORIDAD

La Autoridad existirá en perpetuidad, a menos que se termine mediante legislación.

Capítulo 7. Separabilidad y Vigencia

Artículo 701. Separabilidad

Esta Ley deberá ser interpretada de forma tal que pueda mantener su validez, en la medida en que esto sea posible, conforme a la Constitución del Estado Libre Asociado y la Constitución de los Estados Unidos. Si cualquier cláusula, párrafo, subpárrafo, Artículo, disposición, sección, inciso, o parte de esta Ley fuese declarado inconstitucional por un tribunal con jurisdicción, la orden emitida por dicho tribunal a esos efectos no afectará ni invalidará el resto de esta Ley. El efecto de dicha orden estará limitado a la cláusula, párrafo, subpárrafo, Artículo, disposición, sección, inciso o parte de esta Ley declarada inconstitucional y solamente con respecto a la aplicación del mismo o la misma sobre la obligación cubierta sujeta a dicha controversia.

Artículo 702. Vigencia

Esta Ley entrará en vigor inmediatamente después de su aprobación.

EXHIBIT 5B

Parte II – English Version of the Puerto Rico Emergency Moratorium and Financial Rehabilitation Act

A. Introduction

The fiscal situation of the Government of Puerto Rico is more dire than at any other point in its history. Notwithstanding bold, unprecedented and comprehensive efforts that this Administration has put in place during the last three years to return the Commonwealth of Puerto Rico (“Commonwealth”) to a path of economic recovery and fiscal sustainability, the lack of access to the capital markets, high levels of indebtedness and relentless economic headwinds have brought the Government of Puerto Rico’s fiscal crisis to a perilous tipping point. This Administration has endeavored to marshal the means to meet debt service payments on its General Obligation bonds (as well as the obligations of other Commonwealth instrumentalities), while providing essential services. However, depleted resources and strained liquidity threaten to bind the Commonwealth to a choice between honoring its commitments to bondholders or continuing to provide the residents of Puerto Rico with essential services.

All governments are morally and legally indebted, first and foremost, to the people they serve and to whom they are accountable. The Commonwealth’s obligation to the well-being of its people thus, necessarily, takes precedence over all others. Substantial payment obligations of the Commonwealth and the Government Development Bank for Puerto Rico (“GDB”) will come due in the following months, as has been made public before. In light of this juncture, in which the Government of Puerto Rico does not have sufficient resources to comply with debt service obligations as originally scheduled and, additionally, to continue providing essential services to the people, the Commonwealth needs tools to exercise its police powers in order to protect the health, safety and welfare of the people of Puerto Rico.

B. Fiscal Reform Efforts

The priority of this Administration has been to address Puerto Rico’s fiscal and economic crisis. From inauguration day, this Administration has taken robust measures to correct decades-old problems that had been draining the Commonwealth’s finances, to phase out deeply flawed historical fiscal practices, and to secure the necessary financing needs for Puerto Rico’s fiscal sustainability. These efforts have been undertaken hand-in-hand with the management of GDB, the Commonwealth’s fiscal agent, depositor, and historically, its lender of last resort, which has also adamantly endeavored to manage its own liquidity constraints.

In March of 2014, the Commonwealth issued \$3.5 billion in General Obligation bonds due to a pressing need to secure financing. The proceeds of this issuance would provide the Commonwealth with financing as much-needed structural efforts at fiscal reform took place. Well aware that, in order to achieve a sustainable, long-term solution to the Government of Puerto Rico’s financial problems, we had to abandon the recurring practice of deficit financing, the proceeds of this issuance were nonetheless used to pay several outstanding obligations and to provide financing while the Administration implemented several fiscal reform measures, and while a number of other structural changes already in place generated results.

Likewise, in order to bolster central government revenues, this government passed Act 72-2015, which increased the Sales and Use Tax from 7% to 11.5%. Additionally on the

revenue side, and in order to tackle one of the more pressing issues facing GDB, Act 1-2015 increased the crude oil excise tax. The new revenues were assigned to the Puerto Rico Infrastructure Financing Authority (“PRIFA”), allowing it market access, and the proceeds were pledged to a future bond issuance towards the payment of the Puerto Rico Highways and Transportation Authority’s (“HTA”) outstanding debt of \$2.2 billion held by GDB, for which there was no payment source. HTA’s indebtedness to GDB originated as a result of the unsound past practice – particularly from 2009 to 2012 – of GDB providing financing to the Commonwealth’s instrumentalities without securing a clear and dependable source of repayment.

Additionally, the repeal of Section 936 led to a significant loss of a key funding source for GDB since depositaries of Section 936-funds were required to keep a certain percentage of their Section 936 deposits in GDB. The completion of the 10-year phase out period of Section 936 led to a profound transformation in GDB’s funding structure. It likewise led to the loss of thousands of manufacturing jobs with catastrophic effects to the Commonwealth’s economy. Consequently, GDB was forced to turn to other sources of funds in order to continue providing financing to the Commonwealth and its instrumentalities. Throughout the second-half of the Section 936 phase-out period (2001-2006), GDB relied on a robust commercial paper program as a key source of financing, enabled by the Commonwealth’s and GDB’s excellent credit rating. As the Commonwealth and, subsequently the GDB, began experiencing the first credit rating downgrades between 2004 and 2006, the viability of the Bank’s commercial paper program was put in jeopardy, hence leaving the Bank, once again, without a key source of funding to continue acting as financing agent of the Commonwealth. Therefore, in 2006, GDB issued its first series of notes, which then increased dramatically thereafter from 2009 to 2012. The administration in office during that four-year period brought GDB’s outstanding debt to \$5.6 billion by June 30, 2012. To make matters worse, GDB’s balance sheet was severely compromised during that period, since GDB made a series of long-term loans – including some with maturities over 20 years – while the notes issued during the same period had short-term bullet maturities of between 5 and 15 years. In other words, between 2009 and 2012, GDB incurred a series of medium-term debt obligations but set the receipt of income on its loans to long-term maturities, therefore creating a dramatic imbalance between its assets and liabilities.

Notwithstanding the Legislative Assembly’s approval of the measure, and PRIFA’s and GDB’s attempt to place an issuance of PRIFA bonds, by that time market uncertainty and Moody’s Investor Service’s downgrading of several of the Commonwealth’s outstanding credits had dramatically increased the risk premium on the issuance of PRIFA bonds, and led potential investors to require burdensome and unreasonable concessions as a condition to participate in the deal. Consequently, notwithstanding the fact that the repayment of HTA’s debt would have dramatically strengthened GDB’s balance sheet and liquidity, market conditions were simply not favorable, and the Commonwealth made the responsible decision to forego what would have been an extremely onerous transaction.

In addition to these and other revenue measures already put in place, through Acts 3-2013 and 160-2013, and an attempt to access the capital markets, this Administration has also begun to implement comprehensive structural reforms to address and stabilize the historic actuarial deficits of Puerto Rico’s public employee and teacher’s pension systems, respectively. This Legislative Assembly also enacted the Puerto Rico Special Fiscal and Operational Sustainability Act – Act 66-2014 – which introduced profound cuts in central government and public

corporation expenditures, and resulted in hundreds of millions of dollars in savings for the Commonwealth without resorting to laying off public employees. Shortly thereafter, and wary of the effect that the debt load of the Commonwealth's public corporations would have on the central government, and on the Government of Puerto Rico's ability to provide essential services, this Legislative Assembly enacted Act 71-2014, the Puerto Rico Public Corporation Debt Enforcement and Recovery Act. Act 71-2014, known as the "Recovery Act," provides a legal framework for restructuring the debts of our public corporations – with due regard to the rights of creditors – while also ensuring that vital public services, such as clean water and electricity, are not interrupted due to debilitating debt loads.

C. The Krueger Report, the Fiscal and Economic Growth Plan, and Debt Restructuring Efforts

Having made the responsible decision to cease the flawed and unsustainable practice of deficit financing, the Commonwealth commissioned former World Bank Chief Economist and former deputy director of the International Monetary Fund, Dr. Anne Krueger, to conduct a comprehensive study of Puerto Rico's fiscal and economic outlook. Dr. Krueger and her team of renowned economists produced their report, *Puerto Rico: A Way Forward* (the "Krueger Report"), which laid bare the extent of the Commonwealth's fiscal and economic problems, and traced a path to recovery.

The Krueger Report arrived at a number of fundamental conclusions. First, it concluded that Puerto Rico's fiscal and economic problems are structural in nature, and can thus only be meaningfully addressed by further comprehensive structural reforms. Second, it concluded that the Government of Puerto Rico had historically underestimated General Fund deficits by leaving out capital expenditures as well as the deficits of other government component units that are regularly and ultimately financed by the central government. Accordingly, the true General Fund deficit was in fact much greater than had been estimated before. Third, and most importantly, the Krueger Report concluded that the Commonwealth's debt load is unsustainable without significant economic growth.

Based in part on the findings and recommendations of the Krueger Report, on June 29, 2015 Governor García Padilla publicly declared that the Commonwealth's debt is unpayable, and that our Administration would seek to restructure the Commonwealth's debt by way of a voluntary exchange process with our creditors. Accordingly, shortly thereafter, Governor García Padilla issued Executive Order OE-2015-022, creating the Working Group for the Fiscal and Economic Recovery of Puerto Rico (the "Working Group"), and ordered the drafting of the Puerto Rico Fiscal and Economic Growth Plan (the "Plan"), which would outline the structural measures needed for Puerto Rico to return to a path of economic growth and fiscal sustainability.

Thereafter, the Working Group published the Plan on September 9, 2015. The Plan set forth a comprehensive program with fiscal and economic measures designed to ignite growth, implement sound fiscal policy throughout the Commonwealth, and restore financial credibility to Puerto Rico. Also, as an important negotiation tool, it provides our creditors with assurances that the Commonwealth will be able to meet its debt service commitments in the future.

Implementation of many of the measures in the Plan has begun and are projected to bear fruit in the future. Likewise, discussions with our creditors are also well underway, proposals toward restructuring the Commonwealth's debt have been presented, and negotiations are active and ongoing.

D. Extraordinary and Emergency Financial Management Measures

Throughout the last three years, the Commonwealth has implemented several additional extraordinary liquidity preservation and cash management measures with the aim of preserving the government's ability to render essential services, while allowing time for both the fiscal reforms already implemented and the Plan measures to take effect, and also time for negotiations with our creditors to bear fruit. These extraordinary measures include the following: (1) the Commonwealth received short-term financing from Tax and Revenue Anticipation Notes issued by three public corporations; (2) the Commonwealth received special dividends from public sector entities; (3) the Department of the Treasury required the public employees' and teachers' retirement systems to advance the amounts due to pensioners, as opposed to the traditional payment mechanism whereby Treasury would advance pension payments and have the retirement systems reimburse the central government at a later date; (4) set asides for the payment of general obligation bonds were suspended during fiscal year 2016; (5) payments due to private sector providers were delayed; (6) the disbursement of certain budgetary appropriations was delayed; and (7) tax refunds owed to citizens were delayed, to mention a few.

Furthermore, and notable amongst the extraordinary measures employed by the Commonwealth, the Governor issued Executive Order OE-2015-046 on November 30, 2015, pursuant to Section 8, Article VI of the Commonwealth's Constitution. This order redirected revenue streams pledged to the payment of debts of PRIFA, HTA, the Puerto Rico Convention Center District Authority, and the Metropolitan Bus Authority which are "available resources" for purposes of Section 8, Article VI, towards the payment of general obligation debt.

Concurrently, GDB has taken its own set of extraordinary cash management measures in order to preserve and maximize liquidity for the central government, and to preserve its own functions and meet its own obligations. Nonetheless, the measures employed by both GDB and the Commonwealth are temporary, one-off and extraordinary in nature, and not sustainable in the long term, and their effects are quickly waning.

E. Need for a Moratorium

Restructuring negotiations are ongoing with our creditors. GDB has also engaged its own noteholders over the possibility of reaching an agreement in the near future. We are hopeful that an agreement will be reached that will bring the Commonwealth's debt service within reasonable and sustainable bounds, and with due regard to the rights of our creditors.

We are also actively engaged in litigation over the constitutionality of the Recovery Act before the United States Supreme Court. The case has been argued and submitted, and we are confident the Court will find our arguments persuasive, that the Recovery Act is within the limits of the U.S. Constitution, and that Congress could not have intended to strip Puerto Rico of the benefits of Chapter 9 of the U.S. Bankruptcy Code, while also prohibiting Puerto Rico from passing the Recovery Act pursuant to its police powers to keep and maintain its fiscal house in order, and to preserve its ability to continue providing essential services to the people.

We are also actively engaged in the federal political process, working together closely with our allies in the U.S. Congress and the White House in the hopes that the U.S. government will provide Puerto Rico with a debt restructuring mechanism by way of federal legislation. A number of draft bills have been proposed, and though our creditors are lobbying for their own interests, we are hopeful that Congress will address our debt crisis in a fair and equitable manner.

Notwithstanding progress on many fronts, Puerto Rico is in need of immediate relief. The Commonwealth and GDB face formidable debt-service obligations in the very near future. On May 1, 2016, GDB is due to make a principal payment of \$400 million on GDB notes, but as of April 1, 2016, GDB's liquidity nevertheless stood at only \$562 million. More importantly, the Commonwealth faces its own debt service payment on its general obligation debt of \$780 million shortly thereafter on July 1, 2016. Neither the Government of Puerto Rico nor GDB may have sufficient resources to make their respective payments without potentially jeopardizing the Commonwealth's ability to provide essential services. The wages of police officers, firemen and other emergency management workers, the funds needed to operate our public health facilities and to provide our schoolchildren with meals during the school day, and our public utilities' ability to provide power and water, all hang in the balance.

The time has come for this Legislative Assembly to act to protect the safety and welfare of the people of Puerto Rico, and empower the executive to declare a moratorium on the government's debts, should the Governor deem it a necessary exercise of this Government's police powers.

F. The Commonwealth's Police Powers and Legal Basis for a Moratorium

The Commonwealth's police powers derive directly from Article II, Section 19 of the Constitution of the Commonwealth of Puerto Rico, which states that "[t]he power of the Legislative Assembly to enact laws for the protection of the life, health, and general welfare of the people shall likewise not be construed restrictively." Thus, the Commonwealth wields inherent and broad powers to legislate for the protection of the general welfare of its citizens. Domínguez Castro v. E.L.A., 178 D.P.R. 1 (2010). Amongst the inherent powers of a sovereign to legislate for the general welfare of its citizens lies the power to suspend payments and extend due dates and maturities on the obligations of the state and its instrumentalities, in order to address a fiscal or financial crisis or avert a humanitarian disaster. Ropico, Inc. v. City of New York, 425 F. Supp. 970 (S.D.N.Y. 1976).

Accordingly, pursuant to the Commonwealth's police powers, we the Legislative Assembly of the Commonwealth of Puerto Rico have resolved to provide the Governor with powers to declare a state of emergency for the Commonwealth and its instrumentalities, including GDB, and declare a moratorium on the payment of certain obligations of those entities. Known as the Puerto Rico Emergency Moratorium and Financial Rehabilitation Act (the "Act"), it empowers the Governor with narrowly tailored authority, within the bounds of our body of laws and our Constitution, to enable the Commonwealth and its instrumentalities to continue providing essential services to Puerto Rico's residents while addressing the critical need for structural and fiscal reform and debt restructuring.

The measures prescribed herein are narrowly tailored to meet the paramount public purpose of securing the health, safety and welfare of the people of Puerto Rico and averting the further deterioration of the humanitarian crisis in Puerto Rico, and are the least burdensome of alternatives to accomplish this purpose. The Act provides for moratorium measures that are temporary in nature and only apply upon a finding by the Governor that invoking the provisions of the Act is necessary to provide for the health, safety and welfare of the residents of the Commonwealth. Further, such measures (including the stay on creditor actions) are invoked on an entity-by-entity basis and, without a specification by the Governor of further enumerated

obligations, only affect limited financial indebtedness obligations coming due during a temporary period.

In addition, the measures set forth in the Act are crafted with due regard to the rights of Puerto Rico's creditors. The Act does not provide for a composition or discharge of debts; instead, all claims and priorities are preserved, and any unpaid amounts on the obligations of the Commonwealth and its instrumentalities are not forgiven and instead are payable, as set forth in the Act, at the end of any moratorium period to the extent permitted by otherwise applicable law. Further, the Act respects Constitutional priorities by establishing minimum criteria for the payment of the Commonwealth's public debt that may come due during the temporary moratorium period. The Act also provides for the recognition of bona fides property rights and allows creditors access to adequate protection or, in the event of an expropriation, a mechanism to seek just compensation and redress. This Legislative Assembly further recognizes that the measures set forth in this Act, by affording the Commonwealth the ability to stabilize and grow the Puerto Rican economy while avoiding a morass of litigation, represent the best chance for the Commonwealth's creditors to recover their investments. Accordingly, the Act seeks only to empower the Commonwealth to delay payment on certain obligations while protecting creditor rights, and serves its utmost duty to protect the citizens of Puerto Rico.

Additionally, beyond providing for a moratorium alone, and as described in the summary below, the Act addresses GDB's critical situation by modernizing the receivership provisions of its organic act and providing for the authorization to create a bridge bank for GDB, in order to preserve liquidity and valuable assets for the benefit of the Commonwealth and to ease the transition of GDB into a more modern entity. Finally, the Act provides for the creation of an authority specifically designed to take charge of the Commonwealth's restructuring efforts.

This Act is the culmination of years of attempts by this Administration to forestall an economic and humanitarian catastrophe; while such attempts have contributed meaningfully to improving the fiscal position of the Commonwealth, it has become evident to this Legislative Assembly that such measures are no longer sufficient. At the same time, the Commonwealth and its instrumentalities, including GDB, face looming debt service payments in the immediate future, payments that Puerto Rico will not be able to make while still providing for essential services. As a consequence, Puerto Rico stands at the precipice of a disastrous phase of disorderly payment defaults, multiple litigations, and further economic decline as our dwindling resources are devoted to litigation defense instead of paying for essential public services. It is therefore of utmost importance to provide the government with the legal framework to weather this extremely difficult period, and this Act establishes a comprehensive framework of measures that this Legislative Assembly deems reasonable, necessary and narrowly tailored in light of the fiscal and humanitarian emergency that Puerto Rico faces.

G. Summary of the Act

The Act's has four primary objectives. The first objective is contained in Chapter 2 of the Act, which authorizes the Governor to (i) declare—at some point in the future—a moratorium on debt service payments for a temporary period for the Commonwealth, GDB, the Economic Development Bank for Puerto Rico ("EDB"), or any of the remaining government instrumentalities of Puerto Rico, and (ii) stay creditor remedies that may result from the moratorium. The second objective is contained in Chapters 3 and 4 of the Act, which amend GDB's Enabling Act to give GDB options and tools that it may need—at some point in the

future—to address its own resolution. These amendments (a) modernize GDB’s Organic Act related to a receivership for GDB, and (b) authorize the creation of a temporary “bridge” bank to carry on certain of GDB’s functions and honor deposits. The third objective is contained in Chapter 5 of the Act, which amends the Enabling Act of the EDB to modernize its receivership provisions. The fourth objective is contained in Chapter 6 to create a new fiscal agency and financial authority.

Summary of Chapter 1 of the Act

Chapter 1 of the Act establishes the general provisions of the law. These provisions include those related to a declaration of a state of emergency, key definitions, and authorization for certain governmental units to hire employees. Chapter 1 also establishes immunities for persons acting in furtherance of this Act by providing that no person (including any person, director, officer, employee, contractor, agent, or representatives) shall have any liability for actions taken, or not taken, in good faith in furtherance of this Act.

Summary of Chapter 2 of the Act

Chapter 2 authorizes the Governor to declare a moratorium and stay creditor remedies with respect to obligations of the government entities covered by the moratorium. It also provides conditions on the government’s use of a moratorium and provides protections for creditors, such as preserving security interests and collateral used to secure various obligations.

The provisions of the Act authorizing the Governor to declare a moratorium go into effect immediately upon its enactment, and they generally expire on January 31, 2017. The period during which a moratorium may be declared is defined as the “covered period,” and it is subject to a two-month extension by the Governor. The moratorium provisions classify the various Puerto Rico entities (including the Commonwealth itself) into the following two categories because the Act treats the creditors thereof slightly differently: (i) the “Bank,” which is defined as GDB and/or the EDB, and (ii) “government entities,” which includes the Commonwealth itself and the remaining government entities and public corporations with significant indebtedness in Puerto Rico (regardless of whether they are covered by the Fiscal and Economic Growth Plan issued by the Working Group of the Fiscal and Economic Recovery of Puerto Rico).

The Governor has the power to declare, by executive order, which order may be terminated by the Governor, an emergency with respect to the Bank and/or any government entity during the covered period. The period after such a declaration has been made is known as, with respect to such Bank or government entity, the “emergency period,” and the emergency period for all entities ends on the last day of the covered period. The Governor’s declaration of an emergency can render the debt service obligations of the Bank or such government entity, as applicable, as “covered obligations.” The Governor’s declaration can also identify additional obligations specifically or by category—such as obligations related to derivatives—to be “covered obligations.” If so provided in an executive order, payments on covered obligations may not be made during the emergency period, and covered obligations will be due on the last day of the covered period to the extent they are otherwise due before or during the covered period.

During the emergency period *for the Bank*, legal actions in respect of covered obligations are stayed, and at any time during the covered period, the Governor may take any and all actions

reasonable and necessary to allow the Bank to continue performing its operations. The term “reasonable and necessary” is defined to include, among other things, easing restrictions on deposit reserves, suspending payments on letters of credit and extending credit, prohibiting disbursements of loans, and refusing to honor withdrawal requests unless the funds will be used for essential services. During the emergency period for a *government entity*, including the Commonwealth itself, legal actions in respect of covered obligations are stayed, and the Governor may take any and all actions that are (i) reasonable and necessary to preserve the Commonwealth’s ability to continue providing essential public services, or (ii) necessary to provide for the health, safety and welfare of the residents of the Commonwealth. These actions include the ability to expropriate property in a constitutionally permitted manner through eminent domain.

The Act also contemplates that covered obligations (whether of the Bank or other government entities) will either be paid interest or accrue interest during the covered period as follows:

<p>“Public Debt” (full faith and credit debt protected by the Constitution)</p>	<p>If an <i>interest obligation</i> of the Bank or a government entity is guaranteed by the Commonwealth, or if the <i>interest obligation</i> is a full faith and credit obligation of the Commonwealth, then such interest obligation will be paid in full if due prior to July 1, 2016. Starting July 1, 2016, interest obligations that are public debt will be paid at an amount determined by the Governor after consultation with the Secretary of the Treasury that is consistent with the Constitution. There is no payment if the public debt obligation is for <i>principal</i> or if it is an <i>enumerated obligation</i> and it became due on or after July 1, 2016.</p>
<p>Bank Deposits</p>	<p>For <i>deposits of the Bank</i>, interest will accrue based on the nature of the deposits as follows: for time deposits, interest will accrue at the contractual rate until maturity and for deposits that could otherwise be withdrawn at any time, and after maturity for time deposits, interest will accrue at a rate that is the average rate of interest received by holders of the Bank’s unpaid principal obligations.</p>
<p>Principal and Interest obligations (excluding public debt)</p>	<p>There will be no payment of <i>principal</i> during the emergency period unless the issuer already has funds on deposit with a trustee (or paying agent) to make such payment; unpaid principal will accrue interest at the contractual rate. Payment of principal and accrued interest on principal will be paid, to the extent permitted by applicable law, at the end of the emergency period for the Bank or government entity, if such payments become due during the emergency period, unless a voluntary restructuring or other statute is enacted. If <i>interest</i> is not paid during the covered period, it will accrue at the contractual rate. Payment of accrued interest will be paid, to the extent permitted by applicable law, at the end of the emergency period for the Bank or government entity if such payments become due during the emergency period unless a voluntary restructuring has occurred or another statute is enacted.</p>

**Enumerated
obligations**
(excluding public debt)

Enumerated obligations may accrue interest if entitled to under any applicable agreement.

Under certain circumstances, the Act provides something called “adequate protection” to creditors that have a legitimate security or property interest with respect to any delayed debt service payment.

Summary of Chapters 3 and 4 of the Act

Chapters 3 and 4 of the Act contain amendments to GDB’s Enabling Act consisting of updated receivership provisions (Chapter 3) and bridge bank provisions and related procedures (Chapter 4) that are intended to provide an alternative to GDB’s liquidation and resolution under existing law. With respect to the *receivership* provisions, Chapter 3 of the Act would replace the outdated receivership provisions currently found in GDB’s Enabling Act by establishing a set of rules better suited to confront the challenges currently faced by GDB by modifying the process for the appointment of a receiver, clarifying the receiver’s powers, and establishing priorities of expenses and unsecured claims in a receivership. The priority of bondholders and depositors will remain the same as they do under existing law. With respect to the *bridge bank* provisions, Chapter 4 of the Act allows for the creation of a bridge bank, which could assume certain liabilities of the Bank, including deposits, and continue certain of the existing functions of GDB. Creditor claims that are not assumed by the bridge bank would remain at the old GDB, but all creditors shall be entitled to receive something known as a “net liquidation amount,” which is the amount such creditors would have received if GDB were liquidated.

Summary of Chapter 5

Chapter 5 of the Act would replace the outdated receivership provisions currently found in the EDB Enabling Act by modifying the process for the appointment of a receiver, clarifying the receiver’s powers, and establishing priority of expenses and unsecured claims in a receivership. The amendments are intended to bring EDB’s receivership provisions closer in line to the substantially similar amendments being proposed for GDB.

Summary of Chapter 6

Chapter 6 of the Act creates a new instrumentality called the “Puerto Rico Fiscal Agency and Financial Advisory Authority,” and it will be structured as an independent public corporation and public instrumentality of the Commonwealth with a board of directors composed of one appointed by the Governor. The Authority is created for the purpose of acting as fiscal agent, financial advisor and reporting agent of the Commonwealth and its public corporations, instrumentalities, commissions, authorities, municipalities and political subdivisions and to assist such entities in confronting the grave fiscal and economic emergency that the Commonwealth is currently experiencing. The Authority will also oversee all matters related to the restructuring or adjustment of any covered obligation, or otherwise coordinate and implement liability management transactions for any covered obligation.

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BE IT ENACTED BY THE LEGISLATIVE ASSEMBLY OF PUERTO RICO:

CHAPTER 1 GENERAL PROVISIONS

SECTION 101. SHORT TITLE

This Act shall be known and may be cited as the “Puerto Rico Emergency Moratorium and Rehabilitation Act.”

SECTION 102. DECLARATION OF STATE OF EMERGENCY

It is hereby found and declared that the grave public emergency identified and declared to exist by the Legislative Assembly on numerous occasions has worsened dramatically, requiring additional measures to be taken by the Legislative Assembly, in the further exercise of its police powers, to provide for the health, safety and welfare of the residents of the Commonwealth. The Legislative Assembly has consistently sought to avert the fiscal emergency in which Puerto Rico currently finds itself through the enactment of a diverse set of legislative measures. These efforts

include Act 3-2013 (reforming the ERS), Act 160-2013 (reforming the Teachers Retirement System), Act 66-2014 (implementing special fiscal and operational measures to reduce the deficit and address the fiscal emergency), Act 71-2014 (providing certain of Puerto Rico's instrumentalities with an orderly debt restructuring mechanism), and Act 1-2015 (increasing the sales and use tax surcharge and implementing additional revenue raising measures), to name a few.

However, despite these efforts, Puerto Rico's fiscal emergency continues and indeed has become more desperate. Today, not only is the Bank threatened with a disorderly default on its outstanding obligations, but other government entities of Puerto Rico are similarly threatened by the prospect of a disorderly default on their respective obligations. In addition, adding further obstacles, failure by the United States Congress to provide Puerto Rico with an orderly regime to restructure the outstanding debt of the Commonwealth and its instrumentalities leaves Puerto Rico at the mercy of uncertainty and chaos. The people of Puerto Rico are faced with a humanitarian crisis never before experienced in Puerto Rico, or elsewhere in the United States. Simply and plainly, the grave fiscal emergency now facing Puerto Rico threatens its ability to honor its outstanding obligations while protecting the health, safety and welfare of the inhabitants of Puerto Rico. But we, as a Government, have a duty to act responsibly, in the exercise of our police powers, to provide essential government services and safeguard the interests of all of the Commonwealth's stakeholders, including its creditors.

The Legislative Assembly hereby finds that asking the Commonwealth government, its instrumentalities, and the inhabitants of Puerto Rico to continue shouldering by themselves the burdens of the Governor of Puerto Rico's grave fiscal emergency is unsustainable and would further damage the economy of Puerto Rico to the detriment of every stakeholder of the Commonwealth, including its creditors. The Governor of Puerto Rico must also be authorized and directed to honor his duty to provide for the health, safety and welfare of the residents of the Commonwealth by granting him emergency police powers under this Act to declare a temporary moratorium of debt payments. These measures will positively enhance the Commonwealth's and the other government entities' ability to honor their outstanding debt obligations. Otherwise, the potential catastrophic effects of allowing creditors to exercise their enforcement remedies would undeniably harm the health, safety and welfare of the residents of the Commonwealth. Likewise, it could further impair creditors' ability to recover on their claims.

SECTION 103. DEFINITIONS

The following words and terms, when used in chapters 1, 2, 6, and 7 of this Act shall have the meaning stated below:

- (a) "Act" shall mean this Puerto Rico Emergency Moratorium and Rehabilitation Act.
- (b) "AFICA" shall mean the Puerto Rico Industrial, Tourist, Educational, Medical and Environmental Control Facilities Financing Authority.
- (c) "AMA" shall mean the Metropolitan Bus Authority.
- (d) "Authority" shall mean the Fiscal Agency and Financial Advisory Authority.
- (e) "Available resources" shall have the meaning given to such term for purposes of Section 8 of Article VI of the Constitution of the Commonwealth.
- (f) "Bank" shall mean either or both of—

- i. the Government Development Bank for Puerto Rico, and for the purpose of Section 201(b)(i) and (ii) of this Act, it shall also include its employees, officers, directors, agents, and professional advisors; and
 - ii. the Economic Development Bank for Puerto Rico, and for the purpose of Section 201(b)(i) and (ii) of this Act, it shall also include its employees, officers, directors, agents, and professional advisors.
- (g) “Board” shall mean the Board of Directors of each Bank and the Authority.
- (h) “CCDA” shall mean the Puerto Rico Convention Center District Authority.
- (i) “Children’s Trust” shall mean the not-for-profit entity created by the Commonwealth pursuant to the Children’s Trust Law, Act No. 173-1999, as amended.
- (j) “COFINA” shall mean the Puerto Rico Sales Tax Financing Corporation.
- (k) “Commonwealth” means the Commonwealth of Puerto Rico.
- (l) “Covered obligation” shall mean (1) any interest obligation, principal obligation or enumerated obligation of a government entity that is due or becomes due during the emergency period in respect of such government entity, (2) any obligation arising or resulting from, or related to, the guarantee by such government entity of any obligation of another entity that is due or becomes due during the emergency period, and (3) if provided for in an order issued pursuant under Section 201(c) of this Act, the transfer of, or obligation to transfer, funds required to be made in advance of, or on the due date of, any obligation identified in the preceding clauses (1) and (2), if, and in each case, such government entity, as applicable, is declared to be in a state of emergency by an executive order of the Governor as contemplated in Section 201(a) of this Act, as may be amended from time to time, but shall not include—
- i. any obligation of an insurer to pay on any policy related to any interest obligation, principal obligation or enumerated obligation that would have come due as provided for in any law or document as if this Act had not been enacted;
 - ii. any obligation (or portion thereof), unless otherwise provided in such executive order, the payment of which can be made solely from money that has been deposited with a trustee or other custodian prior to the commencement of the emergency period for such obligor, which money is pledged for the sole purpose of paying such obligation (or portion thereof) when it becomes due;
 - iii. any obligation of AFICA, with the exception of the Educational Facilities Revenue Bonds, 2000 Series A (Educational Plaza Project) issued pursuant to a trust agreement, dated as of December 1, 2000, as amended, by and between The Bank of New York Mellon, as trustee, and AFICA;
 - iv. any obligation of a bridge bank created under chapter 4 of this Act, and
 - v. any debt issued by a government entity after the enactment of this Act provided that the Governor certifies at the time of issuance that such debt will be excluded from the definition of “covered obligation” under this Section for the purposes of this Act.

- (m) "Covered period" means the period beginning immediately upon the effectiveness of this Act through and including January 31, 2017, which period may be extended by executive order of the Governor for not more than two months.
- (n) "Debt instrument" shall include any document or instrument for, used in connection with, or related to:
- i. any obligation to pay the principal of, premium of, if any, interest on, penalties, reimbursement or indemnification amounts, fees, expenses, or other amounts relating to any indebtedness, and any other liability, contingent or otherwise,
 - a. for borrowed money,
 - b. evidenced by bonds, debentures, indentures, notes, resolutions, credit agreements, trade finance agreements, trade finance facility agreements, securities, or similar instruments, or
 - c. for any letter of credit or performance bond;
 - ii. any contingent obligation in respect of or related to any liability of the kind described in the preceding clause (i), including, but not limited to, any guaranty of such liability and any reimbursement agreement in respect of an insurance policy covering such liability;
 - iii. any obligation in respect of bankers' acceptances;
 - iv. any obligation in respect of a swap agreement, derivative contract or related agreement, hedge agreement, securities contract, forward contract, repurchase agreement, option, warrant, commodities contract, or similar document;
 - v. any and all deferrals, renewals, extensions, and refunding of, or amendments, modifications, or supplements to, any liability of the kind described in any of the preceding clauses (i) through (iv);
 - vi. any liability arising out of any judgment relating to any liability of the kind described in any of the preceding clauses (i) through (v); or
 - vii. any liability arising from an obligation of insurance relating to any liability of a kind described in this section.
- (o) "Depositor" shall mean any person, or authorized representative thereof, who is the primary or beneficial owner of any account containing deposits held by the Bank.
- (p) "Deposit" shall mean funds held by the Bank that are classified by such Bank as deposits.
- (q) "Emergency period", in respect of any government entity, shall mean the period beginning on the date designated by the Governor in an executive order, as may be amended from time to time, issued pursuant to Section 201(a) of this Act, with respect to such government entity and ending on the last day of the covered period.
- (r) "Enumerated obligation" shall mean any obligation specifically listed or identified by category in an executive order, as may be amended from time to time, issued pursuant to Section 201(a) of this Act, which obligation (whether contingent or non-contingent, due or not due) may arise from any contract or agreement, including any financial

instrument, debt instrument or unexpired lease, any obligation to pay the principal of, premium of, if any, penalties, reimbursement or indemnification amounts, fees, expenses, or other amounts relating to any indebtedness, any other liability, contingent or otherwise, and any other agreement or instrument providing for amounts or benefits due by a government entity to any person, provided that an “enumerated obligation” shall not include any principal obligation or interest obligation due by such government entity.

- (s) “ERS” shall mean the Employees Retirement System of the Government of the Commonwealth of Puerto Rico and its Instrumentalities.
- (t) “Government entity” shall mean any of the following—
 - i. AFICA, AMA, each Bank, CCDA, Children’s Trust, COFINA, the Commonwealth, ERS, HFA, HTA, MFA, PBA, PFC, PRASA, PREPA, PRIDCO, PRIFA, and UPR; and
 - ii. the employees, officers, directors, agents, or professionals of any government entity listed in the preceding clause (i) when the term is used in Section 201(b)(i) and (ii) of this Act.
- (u) “Governor” shall mean the Governor of the Commonwealth.
- (v) “HFA” shall mean the Puerto Rico Housing Finance Authority.
- (w) “HTA” shall mean the Puerto Rico Highways and Transportation Authority.
- (x) “Interest obligation” shall mean any obligation arising under or related to the payment of interest on any debt instrument but shall not include any interest obligation determined by the Governor, in his sole discretion, and identified in an executive order, as may be amended from time to time, issued pursuant to Section 201(a) of this Act, as not being an interest obligation for the purposes of this Act.
- (y) “Minimum public debt payment” shall mean, with respect to a covered obligation that is public debt and an interest obligation—
 - i. an amount determined by the Governor that is consistent with the Constitution of the Commonwealth, after consultation with the Secretary of the Treasury, which amount may be calculated as the difference between the amount of available resources projected for the applicable emergency period and the projected expenses for essential public services during such period, applied pro rata to all holders of covered obligations that are interest obligations that constitute public debt that are due and payable (or projected to become due and payable) during the applicable emergency period (excluding any deferred or accrued amounts that will be paid on the last day of such emergency period as a result of this Act), provided that the minimum public debt payment in this clause (i) need not be paid all at once if such amount exceeds the available resources of the Commonwealth that are available to make such payment, including those subject to an executive order or applicable law that diverts such available resources towards the payment of public debt; and
 - ii. the full amount of such obligation if such obligation is due prior to June 30, 2016.
- (z) “MFA” shall mean the Puerto Rico Municipal Finance Agency.

- (aa) "PBA" shall mean the Puerto Rico Public Buildings Authority.
- (bb) "Person" shall mean any natural person or legal entity, including, but not limited to, any government agency, department, instrumentality, public corporation, municipality, board, office, committee or dependency or any public or private individual, firm, partnership, stock company, limited liability company, association or corporation organized and existing under the laws of the Commonwealth, the United States of America or any of its states, or of any foreign country, or any combination of the above.
- (cc) "PFC" shall mean the Puerto Rico Public Finance Corporation.
- (dd) "PRASA" shall mean the Puerto Rico Aqueduct and Sewer Authority.
- (ee) "PREPA" shall mean the Puerto Rico Electric Power Authority.
- (ff) "PRIDCO" shall mean Puerto Rico Industrial Development Company.
- (gg) "PRIFA" shall mean the Puerto Rico Infrastructure Financing Authority.
- (hh) "Principal obligation" shall mean any obligation arising under or related to the payment of principal of any debt instrument but shall not include any principal obligation determined by the Governor, in his sole discretion, and identified in an executive order, as may be amended from time to time, issued pursuant to Section 201(a) of this Act, as not being a principal obligation for the purposes of this Act.
- (ii) "Public debt" shall mean any obligation or evidence of indebtedness of the Commonwealth, or a government entity, that is issued or guaranteed by the Commonwealth pursuant to the authority provided in Section 2 of Article VI of the Constitution of the Commonwealth, for the payment of which the good faith, credit and taxing power of the Commonwealth shall have been pledged.
- (jj) "UPR" shall mean the University of Puerto Rico.

SECTION 104. RELATION TO CONSTITUTIONAL PROVISIONS; SUPREMACY OVER OTHER LAWS

This Act has been enacted pursuant to and in accordance with the police powers of the Commonwealth of Puerto Rico. In the event that the provisions of this Act are in conflict with the provisions of any other law, the provisions of this Act shall prevail.

SECTION 105. IMMUNITIES

(a) Except to the extent proven by final and unappealable judgment to have engaged in willful misconduct for personal gain or gross negligence comprising reckless disregard of applicable duties, no person shall have any liability, civil, criminal, or otherwise, for, and without further notice or order shall be exonerated from, actions taken or not taken in their capacity, and within their authority in connection with, related to, or arising under, or as permitted under this Act, nor for any transfer, sale or assignment of assets or withdrawal of funds approved or executed by any government entity prior to or after the enactment of this Act if any such transfer, sale, assignment or withdrawal of deposits or other funds, as applicable, is found by a court to be in violation of this Act or Act No. 17 of September 23, 1948, as amended, sections 1243, 1244 and 1249 of the Civil Code of Puerto Rico, or any other similar or analogous law or provision.

(b) Any action brought for gross negligence shall be dismissed with prejudice if: (i) a defendant, as an official, officer, director, committee member, or professional produces documents showing in respect of whatever acts or omissions form the basis of the complaint, such defendant received or relied on the advice of experts or was advised of relevant facts, participated in person or by phone, and deliberated in good faith; or (ii) the acts or omissions that form the basis of the complaint, indictment, or information do not clearly violate an established duty of which a reasonable person would have clear notice under the particular circumstances.

SECTION 106. HIRING OF GOVERNMENT WORKERS AND PROFESSIONAL PERSONS; EXEMPTION FROM OTHER LAWS

(a) At any time during an emergency period, the following acts or provisions thereof shall not apply to the hiring by the Governor, the Department of the Treasury, PRIFA, any subsidiary of the Bank, and/or the Authority, on a temporary or permanent basis, of any individual that is employed by the Bank or any other government entity to work in the Governor's office, the Department of the Treasury, PRIFA, any subsidiary of the Bank, and/or the Authority on matters related to the restructuring of any covered obligation or adjusting of any covered obligation, implementing liability management transactions for covered obligations, managing the fiscal affairs of the Commonwealth or any government entity, or any matters otherwise related to functions or operations performed or carried out by the Bank under Act No. 17 of September 23, 1948, as amended, or Act No. 272 of May 15, 1945, as amended—

- i. the "Public Service Human Resources Administration Act of the Commonwealth of Puerto Rico," Act No. 184-2004, as amended;
- ii. the "Act to Regulate the Transition Process of the Government of Puerto Rico," Act No. 197-2002, as amended;
- iii. Articles 6 through 11 of Act 66-2014, known as the "Fiscal Sustainability Act";
- iv. items (b) and (c) of Article 4.6 of Act No. 1-2012, as amended, known as the "Puerto Rico Government Ethics Act of 2011";
- v. the "Commonwealth of Puerto Rico Government Fiscal Reform Act of 2006", Act No. 103-2006, as amended;
- vi. Act No. 164 of July 23, 1974, as amended, known as the "General Services Administration Act"; and
- vii. Article 2.001 of Act 78-2001, as amended, known as the "Commonwealth of Puerto Rico Electoral Law."

(b) The Governor, the Department of the Treasury, PRIFA, any subsidiary of the Bank, and/or the Authority may employ, retain, or honor existing obligations under and/or assume existing contracts of the Bank with consultants and essential employees, including legal and financial advisors, whether or not the salaries or fees were incurred prior to the date of such assumption, to advise the Governor, the Bank or any government entity on matters related to restructuring or adjusting any covered obligation, implementing liability management transactions for covered obligations, managing the fiscal affairs of the Commonwealth and any government entity, or any matters otherwise related to functions or operations performed or carried out by the Bank under Act No. 17 of September 23, 1948, as amended, or Act No. 272 of May 15, 1945, as amended. The Governor, the Department of the Treasury, PRIFA, any

subsidiary of the Bank, and/or the Authority, as applicable, shall submit to the Office of Management and Budget an estimate of the total costs and expenses related to the contracts and obligations to be incurred or assumed pursuant to this Section for the remainder of this fiscal year 2016. The Secretary of the Treasury and the Director of the Office of Management and Budget are hereby directed to identify from the fiscal year 2016 budget the funds necessary to cover such expenses and/or to transfer to PRIFA, any subsidiary of the Bank, or the Authority sufficient funds to cover such expenses. Beginning in fiscal year 2017, such expenses shall be paid from appropriations made by the Legislative Assembly.

SECTION 107. LANGUAGE CONFLICT

This Act shall be adopted both in English and Spanish. If in the interpretation or application of this Act any conflict arises as between the English and Spanish texts, the English text shall govern.

SECTION 108. PRIORITIZATION OF ESSENTIAL SERVICES

It is the Legislative Assembly's finding that, given the Commonwealth's ongoing fiscal crisis, during this extraordinary emergency period the Government should prioritize the payment of essential services over debt service not only to provide for the health, safety and welfare of the residents of the Commonwealth but also to avoid a further economic downturn and fiscal and humanitarian crisis that would ultimately materially worsen the creditor's recovery on their Puerto Rico bonds.

CHAPTER 2 MORATORIUM FOR GOVERNMENT ENTITIES

SECTION 201. DECLARATION COMMENCING EMERGENCY PERIOD AND MORATORIUM FOR ANY GOVERNMENT ENTITY; POWERS OF THE GOVERNOR

(a) Consistent with Section 108, the Legislature hereby directs the Governor to prioritize payment of essential services over covered obligations to promote the health, safety, and welfare of the residents of the Commonwealth during such covered period, as defined in this Act, and the Governor is hereby empowered, by executive order, to declare the Bank or any government entity to be in a state of emergency and identify in such order enumerated obligations of the Bank or any government entity, as applicable, and if the executive order so provides, no payment on a covered obligation of such Bank or government entity shall be made, other than as provided in sections 202 or 204 of this Act, during the emergency period for such Bank or government entity, as applicable. Any executive order issued under this subsection may be terminated or modified at any time by the Governor.

(b) During the emergency period for any government entity—

- i. no act shall be done, and no action or proceeding, including issuance of process, shall be commenced or continued in any court in any jurisdiction, which could result in—
 - A. the recovery from; or judgment or enforcement against such government entity related to any covered obligation, or any funds, property, receivables or revenues thereof;
 - B. any order, judgment, lien, set-off, right of attachment or counterclaim related to any covered obligation against such

- government entity, or the indebtedness or liability evidenced thereby; or
- C. the application of any funds, property, receivable or revenues of such government entity related to any covered obligation of such government entity, or the indebtedness or liability evidenced thereby;
- ii. no entity or person asserting claims or other rights (including a beneficial or assignable interest), no trustee, no collateral agent, no indenture trustee, no fiscal agent, no insurer, and no financial institution that receives or holds funds from such government entity may exercise any remedy, which remedy shall include any right of acceleration or termination, right of set-off, right of attachment or counterclaim related to any covered obligation of such government entity, under any contract or applicable law as a result of—
 - A. non-payment of any obligation arising under or related to any covered obligation of such government entity;
 - B. breach of any condition or covenant under or related to any covered obligation of such government entity;
 - C. the accrual of any right that is conditioned upon the financial condition of, or the commencement of a restructuring, insolvency, bankruptcy, or other proceeding, or a moratorium by, such government entity, including a default or an event of default thereunder; or
 - D. the presentment or approval of this Act or any similar legislation, including moratorium legislation;
- iii. no contract to which such government entity is a party may be terminated or modified, nor may any right or obligation under such contract be terminated or modified solely because of a provision in such contract conditioned on—
 - A. the insolvency or financial condition of such government entity;
 - B. the commencement of a restructuring, insolvency, bankruptcy, or other proceeding, or a moratorium by such government entity; or
 - C. a default under a separate contract that is due to, triggered by, or as the result of the occurrence of the events or matters in subsections (ii)(A), (ii)(B), (ii)(C), or (ii)(D) of this section; and
- iv. notwithstanding the provisions of the preceding clauses (i), (ii) and (iii) above, the Governor may take any and all actions that are reasonable and necessary to preserve the Commonwealth's ability to continue providing essential public services and may take any and all actions reasonable and necessary to protect the health, safety and welfare of the residents of the Commonwealth, including, in each case without limitation, expropriating property or rights in property interests related to a covered obligation in a constitutionally permitted manner pursuant to the Commonwealth's power of eminent domain, provided, however, that if property is taken pursuant

to this Act, just compensation or other relief may be sought in the Court of First Instance, San Juan Part notwithstanding any other provision or this Section of this Act. The provisions of the General Act of Expropriation of March 12, 1903, as amended, other than Articles 3 and 3(a), and the requirement of Article 5(a) that funds be deposited in court prior to acquiring title and possession of the property being expropriated, will apply to expropriations pursuant to this section.

(c) Any act found to violate subsection (b) of this Section shall be void and punishable by contempt of court. Any person or entity found to violate this Section may also be liable to such government entity for damages, costs, and attorneys' fees incurred by the Governor or such government entity in defending against actions taken in violation of this Section, and punitive damages for intentional or knowing violations, and upon determining that there has been a violation of this section, the court may order additional appropriate remedies.

(d) If ordered by the Governor during the emergency period created by this section, the following obligations may be suspended or modified, if applicable, until the end of the covered period, without the need for further legislation,—

- i. any statutory or other obligation to appropriate money to pay or secure any covered obligation or request the inclusion of an appropriation in the Commonwealth's proposed budget to pay or secure any covered obligation (or take any action in furtherance thereof);
- ii. any statutory or other obligation to transfer money (or its equivalent) to pay or secure any covered obligation (or take any action in furtherance thereof);
- iii. any statutory or other obligation to setoff revenues used to pay or cover, directly or indirectly, a covered obligation that would normally be used or effected to pay or secure any covered obligation (or take any action in furtherance thereof); and
- iv. any statutory or other obligation to ensure payment of a covered obligation as if this Act were not enacted (or take any action in furtherance thereof).

(e) During the covered period, notwithstanding Section 4(c) of Act No. 147 of June 18, 1980, as amended, the Governor may reprioritize services and expenses described in Section 4(c)(3) to higher payment priority than as listed in Section 4(c).

(f) Nothing in this Section shall be read or construed to limit the authority of any government unit or agency to commence or continue any regulatory proceeding to enforce such governmental unit's or agency's police or regulatory power as it relates to a covered obligation.

SECTION 202. CONDITIONS OF EMERGENCY PERIOD; PAYMENT OR ACCRUAL OF INTEREST

(a) If provided for in an executive order, as may be amended from time to time, issued pursuant to Section 201(a) of this Act, during the emergency period for any government entity created by this chapter,—

- i. holders of a covered obligation of such government entity—

- A. that constitutes public debt and is an interest obligation shall receive at least the minimum public debt payment;
- B. that does not constitute public debt but is an interest obligation shall be entitled to have the unpaid portion of the interest obligation accrue interest at a rate equal to the contract rate of interest, which shall be paid at the end of the covered period to the extent permitted by otherwise applicable law; and
- C. that is a principal obligation shall be entitled to have the unpaid portion of the principal obligation accrue interest at a rate equal to the contract rate of interest, which unpaid principal and accrued and unpaid interest shall be paid at the end of the covered period to the extent permitted by otherwise applicable law;

ii. interest shall accrue on an enumerated obligation as provided in any applicable agreement or contract.

(b) Notwithstanding any other provision of this section, no holder of a covered obligation that is not public debt shall receive payment as otherwise required by this Section from available resources if any portion of an obligation that is public debt remains due, outstanding, and unpaid.

(c) Unless provided in the executive order, as may be amended from time to time, issued pursuant to Section 201(a) of this Act, or unless otherwise paid prior to the end of the covered period, any payments due in respect of any covered obligation of any government entity that comes due before or during the covered period for which an emergency period has been declared, including accrued interest, or arising or resulting from, or related to, the failure to pay such obligation (whether arising or resulting from a guarantee, reimbursement, indemnity or other obligation of, or undertaking by any government entity), shall, unless otherwise provided for under this Act, be paid on the last day of the covered period to the extent permitted by otherwise applicable law.

(d) The requirements to pay interest pursuant to subsections (a) and (b) of this Section shall not apply to the payment of any portion of a covered obligation that is not public debt the payment of which is—

- i. subject to appropriation of funds for the purpose of making such payment by the Legislative Assembly; and
- ii. made solely from available resources that have been diverted pursuant to an executive order or applicable law towards the payment of public debt, if any portion of any obligation that constitutes public debt is due and owing and remains unpaid.

(e) Notwithstanding any other provision of this Act, a holder of any covered obligation may make an application to the Court of First Instance of the Commonwealth, San Juan Part, upon thirty days' written notice to the government entity seeking an order enforcing the provisions of this Section 202 unless such order would unreasonably endanger the health, safety and welfare of the residents of the Commonwealth.

**SECTION 203. EMERGENCY BANK MEASURES; DEPOSITS; PERMISSIBLE
AND PROHIBITED WITHDRAWALS**

(a) At any time during the covered period, regardless of whether the Bank has covered obligations, the Governor is authorized to take any and all actions that are reasonable and necessary to allow the Bank to continue carrying out its operations.

(b) For the purposes of this section, actions that are “reasonable and necessary” shall include, but are not limited to, the following—

- i. prescribing such conditions or restrictions for the conduct of the business of the Bank, including dispensing with the compliance, in whole or in part, of any requirement prescribed by otherwise applicable law, including those that require the Bank to maintain deposit reserves above a certain threshold;
- ii. ordering the limitation of any payment of any obligation pursuant to terms the Governor prescribes to address the Bank’s liquidity needs or facilitate the Bank’s ability to carry out its operations;
- iii. suspending—
 - A. payments on any obligation guaranteed by the Bank;
 - B. payments on any letter of credit; and
 - C. any obligation or commitment to lend or extend money or credit;
- iv. taking any action with respect to the Bank as provided for in Act No. 17 of September 23, 1948, as amended; and
- v. delegating to the Bank, its Board, or its employees authority to take actions in furtherance of this Section.

(c) If any restriction is placed on disbursements by the Bank pursuant to subsection (a) of this Section,—

- i. the Bank shall not be permitted to disburse any loans unless authorized by the Governor;
- ii. the Bank shall honor requests to withdraw or transfer any deposit, including by check or other means, of an agency, public corporation, or instrumentality of the Commonwealth (other than those listed in subsection (c)(iii) of this subsection) as may be authorized by the Governor, from time to time, and in making any such authorization, the Governor shall consider the availability of funds and the need to fund the provision of essential services by such depositor, which must be demonstrated by a joint certification from the Office of Management and Budget and the Secretary of the Treasury that honoring such request, with respect to such deposit, is necessary to fund the provision of specifically identified essential services by a government entity, provided, further, that when certifying such withdrawal requests, the Office of Management and Budget and the Secretary of the Treasury may reduce the amount of any request to an amount deemed necessary to fund essential services; and

iii. subject to the availability of funds and the aggregate disbursements established by the Governor, the Bank shall honor any request to withdraw or transfer any deposit held by, or request to honor any check written by, a municipality or any of the Judicial Branch, UPR, Legislative Branch, Office of the Comptroller, Office of the Electoral Comptroller, State Elections Commission, Government Ethics Office, Independent Prosecutors Panel, provided, however, that an authorized officer of such municipality or listed entity certifies along with supporting documentation that such funds will be used for the payment of essential services.

(d) During the covered period, deposits shall accrue interest at a rate---

- i. equal to the contract rate but only to the extent that the depositor's ability to withdraw such deposits is limited by other laws or contract and not solely by this Act; or
- ii. equal to the average interest rate applicable to the unpaid principal obligations of the Bank, if—
 - A. such deposits could be withdrawn at any time but for the operation of this Act, or
 - B. such deposits would otherwise become eligible for withdrawal during the emergency period but for the operation of this Act.

(e) Except as provided in subsection (f) of this section, if any restriction is placed on disbursements from the Bank pursuant to this section, then any value disbursed to a creditor after such restriction is imposed shall be subtracted from the value of any distribution that such creditor is entitled to receive, as of the first date of the restriction, if the Bank is subsequently liquidated or placed into a receivership.

(f) Disbursements made by the Bank before or during the covered period that are made in the ordinary course, including disbursements to cover expenses of the nature described in Article 12 Section (A)(2) or (3) of Act No. 17 of September 23, 1948, as amended by this Act, or to pay for goods and services provided to the Bank, shall, for the avoidance of doubt, in each case, be exempt from Article 14 of Act No. 17 of September 23, 1948, as amended (renumbered as Article 17 pursuant to Section 302 of this Act).

(g) Any and all actions undertaken pursuant to sections 201, 202, and 203 of this Act shall expire at the end of the covered period.

(h) Any check written in violation of this Act or an executive order issued pursuant to it shall be null and void, and any person that intentionally writes a check to withdraw all or a substantial portion of their deposit balance in violation of this Section shall be guilty of a felony punishable by imprisonment for up to one (1) year or by a fine of not less than twenty-five thousand dollars (\$25,000).

(i) The Secretary of Treasury of the Commonwealth and the Director of the Office of Management and Budget are hereby authorized to identify from the fiscal year 2016 General Fund budget the funds necessary to cover essential governmental needs that would have otherwise been funded during fiscal year 2016 from disbursements from GDB loans subject to the restrictions included in Section 203(c)(1) of this Act.

(j) The Secretary of the Treasury of the Commonwealth and the Director of the Office of Management and Budget are directed to identify from the fiscal year 2016 general fund budget, \$2,000,000 to fund the costs of the commission of the integral public credit created by Act No. 97-2015.

SECTION 204. COLLATERAL, SECURITY INTERESTS, AND PRIORITIES PRESERVED; NON-IMPAIRMENT; REMEDIES

(a) If a covered obligation that was otherwise or became due before or during an emergency period becomes payable at the end of the covered period as a result of this Act, and unless an expropriation has occurred in accordance with this Act, nothing in this Act shall be construed to limit the rights of a holder to any collateral, security interest, or lien that secures such obligation, and nothing in this Act authorizes any government entity to compromise any obligation over the objection of a creditor.

(b) Unless property has been expropriated in accordance with this Act, on motion of a party in interest and after notice and a hearing, the Court of First Instance of the Commonwealth, San Juan Part, may grant any party in interest with security or property rights, to the extent required by applicable constitutional law, adequate protection of any security or other interest in property of such party in interest resulting from actions taken or not taken in furtherance of this Act, provided, however, that nothing in this Act prohibits any government entity from arguing in favor of abstention, if applicable, or that adequate protection is not required, or requires a court to provide adequate protection if adequate protection is not constitutionally required.

(c) When a person's right or interest in property is entitled to adequate protection, it may be provided by any reasonable means, including—

- i. cash or periodic cash payments; or
- ii. a replacement lien or liens (on future revenues or otherwise),

in each case, solely to the extent this Act results in a decrease in value of such entity's interest in property subject to the lien as of the declaration of an emergency period under this Act.

(d) Without limiting subsection (b) of this section, adequate protection of a person's interest in cash collateral, including revenues, of the government entity, may take the form of a pledge to such person of future revenues (net of any current expenses, operational expenses or other expenses incurred under this Act) of such government entity if—

- i. the then-current enforcement of such person's interest would substantially impair the ability of such government entity to perform its public functions;
- ii. there is no practicable alternative available to fulfill such public functions in light of the circumstances; and
- iii. the generation of future net revenues to repay such person's secured claims is dependent on the then-current continued performance of such public functions and the future net revenues will be enhanced by the then-current use of cash collateral or revenues to avoid then-current impairment of public functions.

(e) Without limiting subsections (c) and (d) of this section, a government entity may recover from or use property securing an interest of a person the reasonable, necessary costs and expenses of preserving, or disposing of, such property to the extent of any benefit to such person,

including payment of expenses incurred by such government entity pursuant to or in furtherance of this Act.

**SECTION 205. STATUTE OF LIMITATIONS NOT TO RUN DURING
EMERGENCY PERIOD FOR GOVERNMENT ENTITY**

Any action that, but for the enactment of this Act, would have been maintainable against a government entity at any time during the emergency period for such government entity shall not be barred by any provision of Puerto Rico law, nor by any defense of laches, during the period of one year after the expiration of the emergency period. This Section shall not be construed to shorten the period within which any such action may be commenced.

**SECTION 206. ISSUANCE BY A GOVERNMENT ENTITY OF EVIDENCE OF
INDEBTEDNESS**

Nothing contained in this Act shall be construed as prohibiting or preventing any government entity, whether or not an emergency period has been declared, from issuing to consenting holders of any covered obligation any debt instrument or other evidence of indebtedness, in payment, renewal or refunding of or in exchange for such consenting holder's covered obligation, on terms that otherwise comply with this Act and any other applicable law.

**CHAPTER 3 AMENDMENTS TO GDB ORGANIC ACT RELATED TO
RECEIVERS**

SECTION 301. AMENDMENTS TO ARTICLE 11 OF ACT NO. 17

Article 11 of Act No. 17 of September 23, 1948, as amended, is hereby amended to read in its entirety as follows:

“Article 11. Appointment of and powers of a receiver.

- A. The Board of Directors of the Bank or the Secretary of the Treasury of Puerto Rico shall have the power to recommend to the Governor the appointment of a receiver for the Bank if the Board of Directors of the Bank or the Secretary of the Treasury of Puerto Rico determines that: (1) the Bank's assets are less than its obligations to its creditors; (2) the Bank is unable to pay valid debts or obligations as they mature in the normal course of business; (3) the Bank is operating in an unsafe or unsound condition to perform its statutory functions; or (4) the Bank has incurred or is likely to incur losses that will deplete all or substantially all of its capital, and there is no reasonable prospect for the Bank to become adequately capitalized.
- B. Following a recommendation pursuant to subsection (A) above, the Governor may then (1) appoint, or direct the Secretary of the Treasury of Puerto Rico to appoint, a receiver for the Bank, (2) designate another entity, whether a privately owned entity or an existing or new government instrumentality, after consultation with the Secretary of Justice, to assume the Bank's payment and depository functions, and (3) appoint new Boards of Directors, if necessary, of any of the Bank's direct or indirect subsidiaries or affiliates that may have had the same Board of Directors of the Bank. In the exercise of discretion by the Governor or the Secretary of the Treasury of Puerto Rico, any person may be appointed receiver.
- C. Except to the extent proven by final and unappealable judgment to have engaged in willful misconduct for personal gain or gross negligence comprising reckless disregard of

and failure to perform applicable duties, the Board of Directors and officers of the Bank, the bridge bank and any subsidiary of the Bank, any employee, agent of the Bank, the bridge bank or of any subsidiary of the Bank, any receiver, or such private persons or entities retained, appointed or employed by such receiver, shall not have any personal liability to any person for, and without further notice or order shall be exonerated from liability for, actions taken or not taken in good faith in their capacity, and within their authority under this Act. No action shall be brought against a person or entity concerning its acts or omissions in connection with, related to, or arising under this Act, except in the Commonwealth Court of First Instance for the Judicial Region of San Juan.

- D. Immediately upon the appointment of a receiver, the receiver shall succeed to (1) all rights, titles, powers, and privileges of the Bank, and of any accountholder, depositor, officer, or director of the Bank with respect to the Bank and the assets of the Bank, with full power to do all acts and to execute in the name and on behalf of the Bank all functions, including without limitation all deeds, receipts, and other documents; and (2) title to the books, records, and assets of any previous legal custodian of the Bank.
- E. Immediately upon the appointment of a receiver, the receiver may (1) take over the assets of and operate the Bank with all the powers of the directors and the officers of the Bank, including the power to employ and utilize the seal of the Bank, and conduct all business of the Bank; (2) collect all obligations and money due to the Bank, including without limitation to take all acts necessary for obtaining payment of any money due from a debtor of the Bank or his estate, to prove, rank and claim in the bankruptcy, insolvency, or sequestration of any debtor of the Bank for any balance against any estate, and to receive dividends in any proceeding for monies due to the Bank; (3) sell, transfer and compromise any asset, liability, right, power, or obligation of the Bank, by public auction or private contract, without any approval, assignment, or consent with respect to such transfer and without payment of any registration or other fee, charge, stamp or duty; (4) draw, accept, make, compromise, terminate, and endorse any bill of exchange, promissory note, or other document or obligation in the name and on behalf of the Bank; (5) provide or facilitate through guarantees or other support such funding as may be necessary to accomplish the purposes and exercise the powers authorized by this Act; (6) retain, appoint, and employ the services of private persons and entities, on such terms and conditions as the receiver may approve, to assist the receiver in fulfilling the duties under this Act and such private persons and entities shall have full recourse to the powers and rights of the receiver, as appropriate, as directed, limited and managed by the receiver; (7) sue and be sued in the name of the Bank, except as otherwise limited in this Act, and perform all functions of the Bank in the name of the Bank that are consistent with the appointment as receiver; (8) as appropriate, preserve and conserve the assets and property of the Bank; (9) pay all valid claims and obligations of the Bank in accordance with the prescriptions and limitations of this Act; (10) investigate, pursue all claims or lawsuits, and collect all claims against persons who may be liable for injuries or losses of the Bank through negligence or other wrongdoing; (11) exercise all powers and authorities specifically granted to receivers, respectively, under this Act and such incidental powers as shall be necessary to carry out such powers; and (12) take any action authorized by this Section, which the receiver determines is in the best interests of the Bank or its depositors and obligees.

F. The receiver:

- (1) may place the Bank in resolution and proceed to realize upon the assets of the Bank, having due regard to the functions and responsibilities of the Bank.
 - (2) may allow or disallow and otherwise determine claims in accordance with the requirements of this Section.
 - (3) shall (i) promptly publish in a newspaper of national circulation and a newspaper of local circulation and in the Bank's website, a general notice to the Bank's creditors, and mail notice to any creditor shown in the Bank's records, to present their claims, together with proof, to the receiver by a date specified in the notice which shall be not less than ninety (90) days after the publication of such notice; (ii) republish such notice approximately thirty (30) days after publication under clause (i); and (iii) upon discovery of the name and address of a claimant not identified in the Bank's records, mail notice to such claimant within thirty (30) days of such discovery.
 - (4) shall determine whether to allow or disallow the claim and shall notify the claimant, by mail at the address identified in the claim, of any decision by the receiver on such claim, stating the reasons for any denial of the claim and the procedures available for further review, not later than one hundred eighty (180) days after the date the claim is presented to the receiver. Such period may be extended by a written agreement between the claimant and the receiver.
 - (5) may petition the Secretary of the Treasury of Puerto Rico to organize a bridge bank pursuant to Article 14 of this Act.
 - (6) may create one or more subsidiaries pursuant to Article 2 of this Act, to assume any of the functions of the Bank, other than the lending and depositary functions.
 - (7) shall not be required to furnish bond and may appoint an agent or agents to assist in its duties as receiver. All fees, compensation, and expenses of resolution and administration shall be fixed by the receiver, and may be paid by it out of funds coming into its possession as receiver.
- G. If the receiver disallows all or any portion of a claim, or if no decision has been made by the receiver within one hundred eighty (180) days following the presentment of any claim and there has been no extension of that time, the claimant may file a judicial action on such claim (or continue an action commenced before the appointment of the receiver) in the Public Corporations Debt Enforcement and Recovery Act Courtroom created by Act 71-2014, and if such courtroom is not operative, then in the Court of First Instance of Puerto Rico, San Juan Part, not later than sixty (60) days after disallowance of all or any portion of the claim or the expiration of the 180-day period for determination of claims. If any claimant fails to file a judicial action on such claim (or continue an action commenced before the appointment of the receiver), within such time, the claim shall be deemed to be disallowed (other than any portion of such claim which was allowed by the receiver), such disallowance shall be final, and the claimant shall have no further rights or remedies on such claim. No court shall have any jurisdiction to take any action, and no pending judicial action against the Bank in receivership by any claimant may be continued, until the claimant has exhausted all remedies available under the claims procedures specified in this Section. After all remedies under the foregoing claims

procedures are exhausted, any judicial action concerning such claim must be filed or continued within sixty (60) days or the claimant shall have no further rights or remedies on such claim and no court shall have further jurisdiction.

- H. Each person having a claim against the Bank or against the receivership shall, in no event, receive in payments and/or property less than the amount the creditor would have been entitled to receive if the Bank had been liquidated on the date of the appointment of the receiver, and the maximum liability to any person having a claim against the Bank or against the receiver or receivership shall equal the amount such creditor would have received if the Bank had been liquidated on the date of the appointment of the receiver.
- I. The receiver shall pay all valid obligations of the Bank in accordance with the prescriptions and limitations of this Act.
- J. The right of transfer or assignment conferred by Articles 11 to 14 of this Act shall override all other rights and interests, including but not limited to rights to consent or object to such transfer or assignment, of parties under indentures, contracts of employment, leases, charges, mortgages, or any other agreements the Bank may have entered into before the appointment of the receiver. Every public officer having the power or duty to accept and register or amend any entry in any register relating to a transfer or assignment of an asset or liability shall, upon request made by the receiver, transferee, or other person, do all such things as are by law necessary to complete the registration of the transfer or assignment.
- K. After the appointment of a receiver for the Bank, the receiver may request a stay for a period not to exceed ninety (90) days in any judicial or administrative action or proceeding to which the Bank is or becomes a party. Upon receipt of a request by any receiver pursuant to this paragraph for a stay of any judicial or administrative action or proceeding in any court or administrative body with jurisdiction of such action or proceeding, the court or administrative body shall grant such stay as to all parties.
- L. Except as provided in this Act, no court, officer, employee, agency, or department of the Commonwealth of Puerto Rico may take any action, except at the request of the receiver, to restrain or affect the exercise of the powers and functions of the receiver. Except as permitted in this Act, the exclusive remedy in any judicial action against the receivership, or the Bank in receivership, shall be compensatory monetary damages, which shall not include any punitive or other non-compensatory damages.
- M. Once a receiver for the Bank has been appointed, the receiver shall have the discretion to use the services of those employees of the Bank that are necessary to exercise its function and powers pursuant to this Act, and in that sense, it may temporarily suspend every clause, precept and/or provision applicable to such employees and/or positions of the Bank contained in applicable laws, collective agreements, supplemental agreements, policies, employment manuals, circular letters, contractual letters, addenda, certifications, rules, regulations and employment conditions, regulation letters, classification plans and/or remuneration plans, referring to all and any employment condition, provided that the salary and marginal benefits of such employees are not reduced. The receiver may also order, effectuate or request the detachment and/or transfer of the Bank's employees to other agencies or existing entities or new entities created by this Act and/or any other legislation, including to any subsidiary of the Bank or to a bridge bank created pursuant

to Article 14 of this Act. In the case the Bank is liquidated, the receiver may also effectuate dismissals. If the employees of the Bank are permanently transferred to an existing agency, the terms and conditions of their employment shall be modified to comply with any law, regulation and/or agreement that addresses the remuneration and classification of the employees of the agency to which they have been transferred. In every case, the terms and conditions of employment effective as of the time the receiver is appointed shall be honored, including the rights, privileges, obligations and seniority, acquired pursuant to applicable laws, collective bargaining agreements and current personnel regulations, subject to the modifications contained in Act 66-2014 while it remains effective. In addition, the salaries, wages or commissions of every employee shall be guaranteed in every case, including payments related to paid vacations, allowances and sick leaves or other similar employment benefits acquired prior to the appointment of a receiver, in accordance with the employment policies of the Bank or applicable laws. The transfer of employees to a bridge bank shall also be governed by the provisions included in Article 14 of this Act.

N. For purposes of interpreting Articles 11 to 14 of this Act, a court shall consider, to the extent applicable, jurisprudence interpreting Title 12 of the United States Code.”

SECTION 302.- NEW ARTICLES 12 THROUGH 21 OF ACT NO. 17

Articles 12 through 21 of Act No. 17 of September 23, 1948, as amended, are hereby renumbered as Articles 15 through 24, and new Articles 12 and 13 are hereby added, to read in their entirety as follows:

“Article 12.- Priority of expenses and unsecured claims in a receivership

- A. Unsecured claims against the Bank, or the receiver for the Bank under this Act, that are proven to the satisfaction of the receiver, shall have priority in the following order:
- (1) Administrative expenses of the receiver.
 - (2) Wages, salaries, or commissions, including vacation, severance, and sick leave pay, or other similar employee benefits, earned by an individual prior to the appointment of the receiver in accordance with the Bank’s employment policies or by applicable law.
 - (3) Contributions owed to employee benefit plans arising from services rendered before the date of appointment of the receiver.
 - (4) Any unpaid balance of money held by the Bank in its depository accounts for the credit of a depositor and any other general or senior liability of the Bank (which is not a liability described in clause (5)).
 - (5) Any obligation that is statutorily or contractually subordinated to general unsecured creditors.
- B. This Article shall not affect secured claims or security entitlements in respect of assets or property held by the Bank, and all such secured claims or security entitlements shall be paid from the security or from the realized value of the security. To the extent that the security is insufficient to satisfy the claim, then the difference between the claim and the realized value of the security shall be paid in accordance with this Section.

- C. Notwithstanding any other provision of this Act or the Puerto Rico Emergency Moratorium and Financial Rehabilitation Act, a depositor or receiver may offset the amount of its deposit against any outstanding balance of a loan from the Bank as full and final payment up to the amount of the deposit.
- D. The priority for administrative expenses, as that term is used in subsection (A), shall include (i) those obligations incurred by the Bank before the appointment of the receiver relating to goods and services provided to the Bank before such appointment, other than individual claims in excess of a threshold to be determined by the receiver in its reasonable discretion; (ii) those obligations incurred by the Bank after the appointment of the receiver relating to goods and services provided to the Bank after such appointment; and (iii) any other obligations that the receiver determines are appropriate to facilitate the orderly resolution of the Bank.
- E. The Secretary of the Treasury, after consultation with the receiver and the Governor, shall have the power to waive, reduce, subordinate or assign any claim of a governmental unit except if such governmental unit is a municipality, provided, however, that any portion of a claim that has been assigned pursuant to this subsection may not be setoff by the assignee as provided for in subsection (C) of this Section.

Article 13.- Provisions relating to contracts entered into before appointment of receiver

- A. Except as otherwise provided by this Article, the receiver may enforce any contract or agreement entered into by the Bank notwithstanding any provision of a contract providing for termination, default, acceleration, or exercise of rights upon, or by reason of, insolvency or the appointment of a receiver to the extent necessary for the orderly administration and/or winding up of the Bank's affairs.
- B. In addition to any other rights a receiver may have, the receiver, in the exercise of his power to administer and wind up the Bank, may disaffirm or repudiate any contract or lease (1) to which the Bank is a party; (2) if, in the receiver's discretion, its continued performance will be burdensome; and (3) if, in the discretion of the receiver, the disaffirmance or repudiation of the contract or lease will promote the orderly administration and/or winding up of the Bank's affairs.
- C. The receiver appointed shall determine whether or not to exercise the rights of repudiation under this Section within one hundred eighty (180) days following such appointment.
- D. The liability of the receivership for the disaffirmance or repudiation of any contract pursuant to subsection (B) shall be (1) limited to actual direct compensatory damages; and (2) determined as of the date of the appointment of the receiver.

For purposes of this subsection, the term "actual direct compensatory damages" does not include punitive or exemplary damages, damages for lost profits or opportunity, or damages for pain and suffering.

- E. No person may exercise any right or power to terminate, accelerate, or declare a default under any contract to which the Bank is a party (and no provision in any such contract providing for such default, termination, or acceleration shall be enforceable), or to obtain possession of or exercise control over any property of the Bank or affect any contractual rights of the Bank, in reliance on, and the receiver may enforce any contract

notwithstanding, any provision of the contract providing for termination, default, acceleration, or exercise of rights upon, or solely by reason of, insolvency, financial condition, the appointment of or the exercise of rights or powers by a receiver, or the transfer of any operations, assets or liabilities of the Bank to a bridge bank pursuant to Article 14 of this Act or to any other person or entity, provided, however, no provision of this Section may be construed as impairing or affecting any right of the receiver to enforce or recover under a liability insurance contract of a director or officer or financial institution bond under other applicable law.

- F. No person may exercise any right or power to terminate, accelerate, or declare a default under any contract to which the Bank is a party (and no provision in any such contract providing for such default, termination, or acceleration shall be enforceable), or to obtain possession of or exercise control over any property of the Bank or affect any contractual rights of the Bank, without the consent of the receiver for the Bank during the 90-day period beginning from the appointment of the receiver, provided, however, no provision of this paragraph shall apply to a director or officer liability insurance contract or a financial institution bond, or shall be construed as permitting the receiver to fail to comply with otherwise enforceable provisions of such contract.”

CHAPTER 4.- AMENDMENTS TO GDB ORGANIC ACT RELATED TO THE POWER TO ORGANIZE AND OPERATE A BRIDGE BANK

SECTION 401.- NEW ARTICLE 14 OF ACT NO. 17

A new Article 14 of Act No. 17 of September 23, 1948, as amended, is hereby added to read in its entirety as follows:

“Article 14.- Power to organize and operate a bridge bank

- A. When a receiver has been appointed for the Bank, the Secretary of the Treasury of Puerto Rico shall have the power, in his/her discretion, to organize and charter a temporary bank to be referred to as a bridge bank to assist the receiver in fulfilling its powers and duties. Such bank shall be organized and chartered pursuant to a Charter Resolution adopted by the Secretary of the Treasury of Puerto Rico and filed in the Department of State. The bridge bank shall be chartered on the date the Charter Resolution is filed in the Department of State. The Department of State shall proceed to register the bridge bank as a banking institution. Any amendment to the Charter Resolution shall also be filed in the Department of State. The effective date shall be the date of filing.
- B. A bridge bank so organized shall have (1) the powers, benefits and attributes set forth in Article 2 of this Act and the tax exemptions set forth in Article 5 of this Act; and (2) those powers, rights, functions and duties conferred to the Bank and such limitations as are imposed on the Bank by this Act and by any other Commonwealth or federal statute, except to the extent that any powers, benefits, attributes, rights, functions and duties provided in clauses (1) and (2) are limited or otherwise modified by the Secretary of the Treasury of Puerto Rico in the bridge bank’s Charter Resolution, subject to and in accordance with the provisions of this Article. The provisions of Act No. 55 of May 12, 1933, as amended, known as the Puerto Rico Banking Act, shall not apply to the bridge bank. Such bridge bank shall be under the management of a board of directors, which initially shall be the Board of Directors of the Bank and shall thereafter, or upon the

occurrence of a vacancy, be appointed in the same manner as the members of the Board of Directors of the Bank were appointed pursuant to this Act. To the extent the receiver transfers to the bridge bank any of the subsidiaries of the Bank whose Board of Directors is the same as that of the Bank, the Board of Directors of such subsidiary shall upon such transfer be the same as that of the bridge bank. If the bridge bank ceases to exist, the members of the Board of Directors of any surviving subsidiary shall be appointed in the same manner as the members of the Board of Directors of the Bank were appointed pursuant to this Act. The name of the bridge bank shall be set forth in its Charter Resolution. For the avoidance of doubt, upon the charter of a bridge bank, any reference to the Bank in any Commonwealth law shall be understood to refer and apply to such bridge bank, as applicable, but in no case shall the bridge bank be responsible for any liabilities of the Bank unless such liabilities are expressly assumed by the bridge bank. The Secretary of the Treasury may include in the Charter Resolution a provision whereby any or all of the Bank's subsidiaries and affiliates shall become subsidiaries or affiliates of the bridge bank.

- C. The receiver may transfer any or all of the Bank's powers, rights, functions and duties, and any ownership, contractual or operational interests or relationships between the Bank and its subsidiaries and affiliates to the bridge bank, as is determined to be appropriate.
- D. In transferring assets and liabilities to a bridge bank, and otherwise conducting its operations, the receiver may exercise all powers granted to the receiver and shall not be subject to any limitation on the transfer of assets or liabilities contained in this Act when making such transfer.
- E. The bridge bank may (1) assume such liabilities of the Bank, including deposits, as the receiver may, in its discretion, determine to be appropriate; (2) purchase such assets (including assets associated with any trust business); of the Bank as the receiver may, in its discretion, determine to be appropriate; (3) assume such rights, titles, powers, privileges, interests or authorities of the Bank relating to its subsidiaries or affiliates (which subsidiaries or affiliates shall thereafter have all rights, titles, powers, privileges, interests, or authorities as they enjoyed on the date they were transferred to the bridge bank); and (4) perform any other function that the Secretary of the Treasury, may, in its discretion, prescribe in accordance with this Section. Such bridge bank shall not be subject to any requirement to maintain deposit reserves above a certain threshold pursuant to applicable law and, to the extent a reserve requirement may be deemed to apply to such bridge bank, the Secretary of the Treasury may waive this requirement upon the granting of a charter to such bridge bank.
- F. The receiver shall order the transfer of all permanent, temporary and/or non-union employees, that work for the Bank to the bridge bank and said employees shall become employees of the bridge bank. This transfer of employees shall be effectuated while honoring the terms and conditions of employment effective as of the appointment of the receiver, including the rights, privileges, obligations and seniority, acquired pursuant to applicable laws, collective bargaining agreements and current personnel regulations, subject to the modifications contained in Act 66-2014 while it remains effective. None of the provisions of this Act shall affect the constitutional right to collective bargaining enjoyed by the employees of the Bank, nor the vested rights, benefits and privileges, by virtue of any collective bargaining agreements. The bridge bank shall recognize the

unions that represent the unionized workers of the Bank transferred to the bridge bank and shall assume the applicable collective bargaining agreements in effect on such date. Rights with regard to any pension or retirement system to which they may be affiliated or members of on the effective date of this Act shall also be guaranteed. The bridge bank shall be obligated to satisfy to all employees any of their salaries, wages, commissions, including payments related to vacations, allowances and sick leaves or other employment benefits acquired prior to the appointment of the receiver, in accordance with the Bank's employment policies or applicable law.

- G. The bridge bank, and each of its subsidiaries, shall be an independent public corporation and a public instrumentality of the Commonwealth of Puerto Rico with separate legal existence, fiscal and administrative autonomy, and independence from the Commonwealth.
- H. A bridge bank shall be treated as the Bank in default at such times and for such purposes as the receiver for the Bank may, in its discretion, determine, and shall not otherwise be treated as in default or insolvent.
- I. The Secretary of the Treasury of Puerto Rico may provide funding on behalf of the Commonwealth of Puerto Rico and provide such guarantees under Act No. 12 of May 9, 1975, as amended, or other support appropriate to facilitate the operation and conduct of the business of the bridge bank and any of its subsidiaries consistent with the authorities provided by this Article, and to facilitate any transaction described in this Section by the bridge bank or facilitate the acquisition or transfer of any functions or assets, or the assumption of any liabilities, of the Bank or of the bridge bank as provided in this Section.
- J. The receiver for the Bank may transfer any operations, assets, and liabilities of the Bank (including any operations, assets or liabilities associated with any trust or custody business) to the bridge bank, in accordance with subsections (A)-(D). At any time after the establishment of the bridge bank with respect to the Bank, the receiver may transfer any operations, assets and liabilities of the Bank or the bridge bank and take any other action as it determines, in his discretion, to be appropriate in accordance with subsections (A)-(D). The transfer of any operations, assets or liabilities to a bridge bank shall be effective without any further approval under Commonwealth law, assignment, or consent with respect thereto. Assets may be transferred to a bridge bank in exchange for such bank's obligation to pay, over time, with interest at the then applicable judgment rate of interest, an amount determined by the receiver, which amount shall be at least the amount that the Bank's creditors whose debt is not assumed by the bridge bank would have received for the value of the assets transferred to the bridge bank, after taking into account the benefit to creditors of the Bank of the bridge bank's assumption of liabilities of the Bank, as if the Bank had been liquidated on the date of the appointment of the receiver (the "Net Liquidation Amount"). Any judicial action to which a bridge bank becomes a party by virtue of its acquisition of any assets or assumption of any liabilities of the Bank shall be stayed from further proceedings for a period of not longer than ninety (90) days (or such longer or shorter period as may be agreed to upon the consent of all parties) at the request of the bridge bank. The receiver shall determine the Net Liquidation Amount by taking the average of two assessments of such amount by two independent valuation experts provided full access to the Bank's records and sufficient

time to determine the likely liquidation value, net of expenses, that could be obtained for the Bank's assets if sold with a reasonable amount of marketing within ninety (90) days of the date the receivership commenced, provided, however, that if the higher assessment is more than 20% higher than the lower assessment of the Net Liquidation Value, the receiver shall retain a third independent valuation experts that shall prepare its assessment after having access to the Bank's records for a sufficient time, and the Net Liquidation Value shall be the average of the two highest assessments. If a creditor challenges the Net Liquidation Value in a judicial proceeding, there shall be a rebuttable presumption that the Net Liquidation Value is correct.

- K. Any bridge bank that the Secretary of the Treasury of Puerto Rico charters in relation to the resolution or restructuring of the Bank, and any subsequent transferee of all or any part of the operations, assets, or liabilities of the Bank, shall not be a successor entity to the Bank and shall not be subject to any liability arising from the operations of the Bank before the appointment of the receiver, except as contractually agreed by the bridge bank and the receiver, as applicable.
- L. Subject to subsections (M) and (P), the charter of a bridge bank as such shall terminate two (2) years after the date it was granted or at such earlier time as determined by the Secretary of the Treasury of Puerto Rico. The Secretary of the Treasury of Puerto Rico may, in his discretion, extend the status of the bridge bank as such for no more than 3 additional 1-year periods. The termination of the charter for the bridge bank shall not affect any of its subsidiaries and affiliates, and each shall remain as independent public corporations, unless otherwise provided by the Secretary of the Treasury, whose board of directors shall be appointed in the same way the board of directors of the Bank was appointed.
- M. The Secretary of the Treasury of Puerto Rico may amend the charter of the bridge bank to reflect the termination of the status of the bridge bank as such and provide that the bridge bank shall be a new bank, whereupon the bridge bank shall have all of the rights, powers, and privileges under its constituent documents and applicable Commonwealth law. In connection therewith, the bridge bank may be deemed to succeed by operation of law to such rights, titles, powers, and interests of the bridge bank provided by its charter.
- N. The bridge bank may take any and all actions that are reasonable and necessary to allow the bridge bank to operate normally and fulfill its statutory obligations, including without limitation—
 - (1) prescribing such conditions or restrictions for the conduct of the business of the bridge bank;
 - (2) limiting or conditioning the disbursement of any loans;
 - (3) limiting or conditioning any withdrawals or transfers of deposits pursuant to terms the bridge bank prescribes to address the bridge bank's liquidity needs or facilitate the bridge bank's ability to perform its normal operations; and
 - (4) limiting or suspending —
 - (A) payments on any obligation;

- (B) payments on any letter of credit; and
 - (C) any obligation or commitment to lend or extend money or credit.
- O. Notwithstanding anything to the contrary in this law, the bridge bank shall not have the authority to require government entities to deposit in the bridge bank pursuant to Article 1 of Act 24-2014.
- P. Notwithstanding any other provision of Commonwealth law, if the status of a bridge bank as such has not previously been terminated pursuant to subsection (L) or (M), (1) the Board of Directors, with the approval of the Secretary of Treasury of Puerto Rico, shall dissolve the bridge bank in accordance with this subsection at any time; and (2) the board of directors of the bridge bank with the approval of the Secretary of Treasury shall promptly commence dissolution proceedings in accordance with this paragraph upon the expiration of the 2-year period following the date on which the bridge bank was chartered, or any extension thereof, as provided in subsection (M). The Secretary of the Treasury of Puerto Rico may appoint a receiver for a bridge bank if it determines that such action will facilitate the winding up and final resolution of the bridge bank or the Bank in receivership. The receiver for a bridge bank shall wind up the affairs of the bridge bank in conformity with the provisions of law relating to the resolution of the Bank under this Act. With respect to any such bridge bank, the receiver shall have all the rights, powers, and privileges and shall perform the duties related to the exercise of such rights, powers, or privileges, granted by law to the receiver for the Bank under this Act and, notwithstanding any other provision of Commonwealth law, in the exercise of such rights, powers, and privileges, the receiver shall not be subject to the direction or supervision of any agency of the Commonwealth of Puerto Rico, except as provided for a receiver for the Bank in this Act.”

CHAPTER 5.- AMENDMENTS TO EDB ORGANIC ACT RELATED TO RECEIVERS

SECTION 501.- AMENDMENTS TO ARTICLE 11 OF ACT NO. 22 OF JULY 24, 1985

Article 11 of Act No. 22 of July 24, 1985, as amended, is hereby amended to read in its entirety as follows:

“Article 11.- Appointment of and powers of a receiver.

- A. The Board of Directors of the Bank or the Secretary of the Treasury of Puerto Rico shall have the power to recommend to the Governor the appointment of a receiver for the Bank if the Board of Directors of the Bank or the Secretary of the Treasury of Puerto Rico determines that: (1) the Bank’s assets are less than its obligations to its creditors; (2) the Bank is unable to pay valid debts or obligations as they mature in the normal course of business; (3) the Bank is operating in an unsafe or unsound condition to perform its statutory functions; or (4) the Bank has incurred or is likely to incur losses that will deplete all or substantially all of its capital, and there is no reasonable prospect for the Bank to become adequately capitalized.
- B. Following a recommendation pursuant to subsection (A) above, the Governor may then (1) appoint, or direct the Secretary of the Treasury of Puerto Rico to appoint, a

receiver for the Bank; (2) designate another entity, whether a privately owned entity or an existing or new government instrumentality, after consultation with the Secretary of Justice, to assume the Bank's payment and depositary functions; and (3) appoint new Boards of Directors, if necessary, of any of the Bank's direct or indirect subsidiaries or affiliates that may have had the same Board of Directors of the Bank. In the exercise of discretion by the Governor or the Secretary of the Treasury of Puerto Rico, any person may be appointed receiver.

- C. Except to the extent proven by final and unappealable judgment to have engaged in willful misconduct for personal gain or gross negligence comprising reckless disregard of and failure to perform applicable duties, the Board of Directors and officers of the Bank and any subsidiary of the Bank, any employee, agent of the Bank or of any subsidiary of the Bank, any receiver, or such private persons or entities retained, appointed or employed by such receiver, shall not have any personal liability to any person for, and without further notice or order shall be exonerated from liability for, actions taken or not taken in good faith in their capacity, and within their authority under this Act. No action shall be brought against a person or entity concerning its acts or omissions in connection with, related to, or arising under this Act, except in the Commonwealth Court of First Instance for the Judicial Region of San Juan.
- D. Immediately upon the appointment of a receiver, the receiver shall succeed to (1) all rights, titles, powers, and privileges of the Bank, and of any accountholder, depositor, officer, or director of the Bank with respect to the Bank and the assets of the Bank, with full power to do all acts and to execute in the name and on behalf of the Bank all functions, including without limitation all deeds, receipts, and other documents; and (2) title to the books, records, and assets of any previous legal custodian of the Bank.
- E. Immediately upon the appointment of a receiver, the receiver may (1) take over the assets of and operate the Bank with all the powers of the directors and the officers of the Bank, including the power to employ and utilize the seal of the Bank, and conduct all business of the Bank; (2) collect all obligations and money due to the Bank, including without limitation to take all acts necessary for obtaining payment of any money due from a debtor of the Bank or his estate, to prove, rank and claim in the bankruptcy, insolvency, or sequestration of any debtor of the Bank for any balance against any estate, and to receive dividends in any proceeding for monies due to the Bank; (3) sell, transfer and compromise any asset, liability, right, power, or obligation of the Bank, by public auction or private contract, without any approval, assignment, or consent with respect to such transfer and without payment of any registration or other fee, charge, stamp or duty; (4) draw, accept, make, compromise, terminate, and endorse any bill of exchange, promissory note, or other document or obligation in the name and on behalf of the Bank; (5) provide or facilitate through guarantees or other support such funding as may be necessary to accomplish the purposes and exercise the powers authorized by this Act; (6) retain, appoint, and employ the services of private persons and entities, on such terms and conditions as the receiver may approve, to assist the receiver in fulfilling the duties under this Act and such private persons and entities shall have full recourse to the powers and rights of the receiver, as appropriate, as directed, limited and managed by the receiver; (7) sue and be sued

in the name of the Bank, except as otherwise limited in this Act, and perform all functions of the Bank in the name of the Bank that are consistent with the appointment as receiver; (8) as appropriate, preserve and conserve the assets and property of the Bank; (9) pay all valid claims and obligations of the Bank in accordance with the prescriptions and limitations of this Act; (10) investigate, pursue all claims or lawsuits, and collect all claims against persons who may be liable for injuries or losses of the Bank through negligence or other wrongdoing; (11) exercise all powers and authorities specifically granted to receivers, respectively, under this Act and such incidental powers as shall be necessary to carry out such powers; and (12) take any action authorized by this section, which the receiver determines is in the best interests of the Bank or its depositors and obligees.

F. The receiver:

- (1) may place the Bank in resolution and proceed to realize upon the assets of the Bank, having due regard to the functions and responsibilities of the Bank.
- (2) may allow or disallow and otherwise determine claims in accordance with the requirements of this Section.
- (3) shall (i) promptly publish in a newspaper of national circulation and a newspaper of local circulation and in the Bank's website, a general notice to the Bank's creditors, and mail notice to any creditor shown in the Bank's records, to present their claims, together with proof, to the receiver by a date specified in the notice which shall be not less than 90 days after the publication of such notice; (ii) republish such notice approximately thirty (30) days after publication under clause (i); and (iii) upon discovery of the name and address of a claimant not identified in the Bank's records, mail notice to such claimant within thirty (30) days of such discovery.
- (4) shall determine whether to allow or disallow the claim and shall notify the claimant, by mail at the address identified in the claim, of any decision by the receiver on such claim, stating the reasons for any denial of the claim and the procedures available for further review, not later than one hundred eighty (180) days after the date the claim is presented to the receiver. Such period may be extended by a written agreement between the claimant and the receiver.
- (5) shall not be required to furnish bond and may appoint an agent or agents to assist in its duties as receiver. All fees, compensation, and expenses of resolution and administration shall be fixed by the receiver, and may be paid by it out of funds coming into its possession as receiver.

G. If the receiver disallows all or any portion of a claim, or if no decision has been made by the receiver within one hundred eighty (180) days following the presentment of any claim and there has been no extension of that time, the claimant may file a judicial action on such claim (or continue an action commenced before the appointment of the receiver) in the Public Corporations Debt Enforcement and Recovery Act Courtroom created by Act 71-2014, and if such courtroom is not operative, then in the Court of First Instance of Puerto Rico, San Juan Part, not later than sixty (60) days after disallowance of all or any portion of the claim or the expiration of the 180-day period for determination of claims. If any claimant fails to

file a judicial action on such claim (or continue an action commenced before the appointment of the receiver), within such time, the claim shall be deemed to be disallowed (other than any portion of such claim which was allowed by the receiver), such disallowance shall be final, and the claimant shall have no further rights or remedies on such claim. No court shall have any jurisdiction to take any action, and no pending judicial action against the Bank in receivership by any claimant may be continued, until the claimant has exhausted all remedies available under the claims procedures specified in this Section. After all remedies under the foregoing claims procedures are exhausted, any judicial action concerning such claim must be filed or continued within sixty (60) days or the claimant shall have no further rights or remedies on such claim and no court shall have further jurisdiction.

- H. Each person having a claim against the Bank or against the receivership shall, in no event, receive in payments and/or property less than the amount the creditor would have been entitled to receive if the Bank had been liquidated on the date of the appointment of the receiver, and the maximum liability to any person having a claim against the Bank or against the receiver or receivership shall equal the amount such creditor would have received if the Bank had been liquidated on the date of the appointment of the receiver.
- I. The receiver shall pay all valid obligations of the Bank in accordance with the prescriptions and limitations of this Act.
- J. The right of transfer or assignment conferred by Articles 11 to 13 of this Act shall override all other rights and interests, including but not limited to rights to consent or object to such transfer or assignment, of parties under indentures, contracts of employment, leases, charges, mortgages, or any other agreements the Bank may have entered into before the appointment of the receiver. Every public officer having the power or duty to accept and register or amend any entry in any register relating to a transfer or assignment of an asset or liability shall, upon request made by the receiver, transferee, or other person, do all such things as are by law necessary to complete the registration of the transfer or assignment.
- K. After the appointment of a receiver for the Bank, the receiver may request a stay for a period not to exceed ninety (90) days in any judicial or administrative action or proceeding to which the Bank is or becomes a party. Upon receipt of a request by any receiver pursuant to this paragraph for a stay of any judicial or administrative action or proceeding in any court or administrative body with jurisdiction of such action or proceeding, the court or administrative body shall grant such stay as to all parties.
- L. Except as provided in this Act, no court, officer, employee, agency, or department of the Commonwealth of Puerto Rico may take any action, except at the request of the receiver, to restrain or affect the exercise of the powers and functions of the receiver. Except as permitted in this Act, the exclusive remedy in any judicial action against the receivership, or the Bank in receivership, shall be compensatory monetary damages, which shall not include any punitive or other non-compensatory damages.
- M. Once a receiver for the Bank has been appointed, the receiver shall have the discretion to use the services of those employees of the Bank that are necessary to

exercise its function and powers pursuant to this Act, in that sense, it may temporarily suspend every clause, precept and/or applicable provision to such employees and/or positions of the Bank contained in applicable laws, collective agreements, supplemental agreements, policies, employment manuals, circular letters, contractual letters, addenda, certifications, rules, regulations and employment conditions, regulation letters, classification plans and/or remuneration plans, referring to all and any employment condition, provided that the salary and marginal benefits of such employees are not reduced. The receiver may also order, effectuate or request the detachment and/or transfer of the Bank's employees to other agencies or existing entities or new entities created by this Act and/or any other legislation, including to any subsidiary of the Bank. In the case the Bank is liquidated, the receiver may also effectuate dismissals. If the employees of the Bank are permanently transferred to an existing agency, the terms and conditions of their employment shall be modified to comply with any law, regulation and/or agreement that addresses the remuneration and classification of the employees of the agency to which they have been transferred. In every case, the terms and conditions of employment effective as of the time the receiver is appointed shall be honored, including the rights, privileges, obligations and seniority, acquired pursuant to applicable laws, collective bargaining agreements and current personnel regulations, subject to the modifications contained in Act 66-2014 while it remains effective. In addition, the salaries, wages or commissions of every employees shall be guaranteed in every case, including payments related to paid vacations, allowances and sick leaves or other similar employment benefits acquired prior to the appointment of a receiver, in accordance with the employment policies of the Bank or applicable laws.

N. For purposes of interpreting Articles 11 to 13 of this Act, a court shall consider, to the extent applicable, jurisprudence interpreting Title 12 of the United States Code."

**SECTION 502.- NEW ARTICLES 12 THROUGH 25 OF ACT NO. 22 OF
JULY 24, 1985**

Articles 12 through 23 of Act No. 22 of July 24, 1985, as amended, are hereby renumbered as Articles 14 through 25, and new Articles 12 and 13 are hereby added, to read in their entirety as follows:

"Article 12.- Priority of expenses and unsecured claims in a receivership

A. Unsecured claims against the Bank, or the receiver for the Bank under this Act, that are proven to the satisfaction of the receiver, shall have priority in the following order:

- (1) Administrative expenses of the receiver.
- (2) Wages, salaries, or commissions, including vacation, severance, and sick leave pay, or other similar employee benefits, earned by an individual prior to the appointment of the receiver in accordance with the Bank's employment policies or by applicable law.
- (3) Contributions owed to employee benefit plans arising from services rendered before the date of appointment of the receiver.
- (4) Any unpaid balance of money held by the Bank in its depository accounts for the credit of a depositor and any other general or senior liability of the Bank (which is not a liability described in clause (5)).

- (5) Any obligation that is statutorily or contractually subordinated to general unsecured creditors.
- B. This Article shall not affect secured claims or security entitlements in respect of assets or property held by the Bank, and all such secured claims or security entitlements shall be paid from the security or from the realized value of the security. To the extent that the security is insufficient to satisfy the claim, then the difference between the claim and the realized value of the security shall be paid in accordance with this Section.
- C. Notwithstanding any other provision of this Act or the Puerto Rico Emergency Moratorium and Financial Rehabilitation Act, a depositor or receiver may offset the amount of its deposit against any outstanding balance of a loan from the Bank as full and final payment up to the amount of the deposit.
- D. The priority for administrative expenses, as that term is used in subsection (A), shall include (i) those obligations incurred by the Bank before the appointment of the receiver relating to goods and services provided to the Bank before such appointment, other than individual claims in excess of a threshold to be determined by the receiver in its reasonable discretion; (ii) those obligations incurred by the Bank after the appointment of the receiver relating to goods and services provided to the Bank after such appointment; and (iii) any other obligations that the receiver determines are appropriate to facilitate the orderly resolution of the Bank.
- E. The Secretary of the Treasury, after consultation with the receiver and the Governor, shall have the power to waive, reduce, subordinate, or assign any claim of a governmental unit except if such governmental unit is a municipality, provided, however, that any portion of a claim that has been assigned pursuant to this subsection may not be setoff by the assignee as provided for in subsection (C) of this Section.

Article 13.- Provisions relating to contracts entered into before appointment of receiver

- A. Except as otherwise provided by this Article, the receiver may enforce any contract or agreement entered into by the Bank notwithstanding any provision of a contract providing for termination, default, acceleration, or exercise of rights upon, or by reason of, insolvency or the appointment of a receiver to the extent necessary for the orderly administration and/or winding up of the Bank's affairs.
- B. In addition to any other rights a receiver may have, the receiver, in the exercise of his power to administer and wind up the Bank, may disaffirm or repudiate any contract or lease (1) to which the Bank is a party; (2) if, in the receiver's discretion, its continued performance will be burdensome; and (3) if, in the discretion of the receiver, the disaffirmance or repudiation of the contract or lease will promote the orderly administration and/or winding up of the Bank's affairs.
- C. The receiver appointed shall determine whether or not to exercise the rights of repudiation under this Section within one hundred eighty (180) days following such appointment.
- D. The liability of the receivership for the disaffirmance or repudiation of any contract pursuant to subsection (B) shall be (1) limited to actual direct compensatory damages; and (2) determined as of the date of the appointment of the receiver. For purposes of this subsection, the term "actual direct compensatory damages" does not include punitive or

exemplary damages, damages for lost profits or opportunity, or damages for pain and suffering.

- E. No person may exercise any right or power to terminate, accelerate, or declare a default under any contract to which the Bank is a party (and no provision in any such contract providing for such default, termination, or acceleration shall be enforceable), or to obtain possession of or exercise control over any property of the Bank or affect any contractual rights of the Bank, in reliance on, and the receiver may enforce any contract notwithstanding, any provision of the contract providing for termination, default, acceleration, or exercise of rights upon, or solely by reason of, insolvency, financial condition, the appointment of or the exercise of rights or powers by a receiver, or the transfer of any operations, assets or liabilities of the Bank to any other person or entity, provided, however, no provision of this Section may be construed as impairing or affecting any right of the receiver to enforce or recover under a liability insurance contract of a director or officer or financial institution bond under other applicable law.
- F. No person may exercise any right or power to terminate, accelerate, or declare a default under any contract to which the Bank is a party (and no provision in any such contract providing for such default, termination, or acceleration shall be enforceable), or to obtain possession of or exercise control over any property of the Bank or affect any contractual rights of the Bank, without the consent of the receiver for the Bank during the 90-day period beginning from the appointment of the receiver, provided, however, no provision of this paragraph shall apply to a director or officer liability insurance contract or a financial institution bond, or shall be construed as permitting the receiver to fail to comply with otherwise enforceable provisions of such contract.”

CHAPTER 6.- THE PUERTO RICO FISCAL AGENCY AND FINANCIAL ADVISORY AUTHORITY

SECTION 601.- ESTABLISHMENT

There is hereby created the Puerto Rico Fiscal Agency and Financial Advisory Authority, which is established as an independent public corporation and governmental instrumentality with separate legal existence, fiscal and administrative autonomy, and independence from the Commonwealth.

SECTION 602.- PURPOSES, FACULTIES AND POWERS OF THE AUTHORITY

(a) The Authority is created for the purpose of acting as fiscal agent, financial advisor and reporting agent of the Commonwealth and its public corporations, instrumentalities, commissions, authorities, municipalities and political subdivisions and to assist such entities in confronting the grave fiscal and economic emergency that the Commonwealth is currently experiencing.

(b) All fiscal agency, financial advisory, and reporting functions of the Bank are transferred to the Authority, including all powers and responsibilities under the Act No. 272 of May 15, 1945, amended. Unless assumed pursuant to Section 108(b) of this Act, the Authority shall oversee all matters related to the restructuring or adjustment of any covered obligation, or otherwise coordinate and implement liability management transactions for any covered obligation. The Authority shall also assume, and become a party to, any and all contracts

between the Bank and any advisor, including legal and financial advisors, whether or not the salaries or fees were incurred prior to the date of such assumption, related to the restructuring or adjustment of covered obligations. Any reference in any Commonwealth law to the Bank in its role as fiscal agent and financial advisor to the Commonwealth and its instrumentalities shall be understood to refer and apply to the Authority upon the enactment of this Act.

(c) In order to achieve its purposes, the Authority is granted, and will have and may exercise, all the rights and powers as are necessary or convenient to carry out such purposes, including, but without limiting the generality of the foregoing, the following—

- i. to adopt, alter and use a corporate seal which shall be recognized by the courts;
- ii. to formulate, adopt, amend and revoke by-laws for the administration of its corporate affairs and those standards, rules and regulations that may be necessary or pertinent to exercise and perform its functions, powers and duties;
- iii. to have complete dominion over all its properties;
- iv. to determine the nature of and need for all its expenses, and the manner in which the same shall be incurred, authorized and paid without taking into consideration any legal provisions that regulate the expenditure of public funds, and such determination shall be final and binding for all the officials of the Commonwealth, but it must adopt rules for the use and disbursement of its funds and it shall be subject to audits conducted by the Office of the Comptroller of Puerto Rico;
- v. to sue and be sued under its own name, to file complaints and defend itself in all courts of justice and administrative bodies and to participate in commercial arbitration proceedings;
- vi. to negotiate and execute with any person, including any federal or state government agency, any type of contract, including all those instruments and agreements necessary or convenient to exercise the powers and functions conferred to the Authority by this Act;
- vii. to acquire any property through any legal means;
- viii. to appoint and remove officers, agents and employees and to grant them the powers, impose on them the duties and fix, change and pay them the compensation determined by the Authority;
- ix. to accept donations from any person, and to use the proceeds of any such donations for any corporate purpose;
- x. to procure insurance against losses in the amounts and with the insurers it deems desirable, which insurance may include, without it being construed as a limitation, civil liability insurance for directors, officers, agents and employees;
- xi. to assume any and all contracts and related liabilities of the Bank, or its successor;

- xii. the power to charge and collect fiscal agency fees;
- xiii. to exercise such other corporate powers, not inconsistent herewith, as are conferred upon private corporations by the laws of Puerto Rico and to exercise all its powers within and without Puerto Rico to the same extent as natural persons might or could do; and
- xiv. to take any action or measure necessary or convenient to enforce the powers conferred by this Act or by any other law of the Legislative Assembly of Puerto Rico or of the United States Congress.

SECTION 603.- BOARD OF DIRECTORS

(a) The Authority shall be governed by a board of directors, whose sole member shall be the Executive Director of the Authority and shall serve at the pleasure of the Governor and may be removed or replaced by the Governor at any time, with or without cause.

(b) The sole member of the Board shall serve as both president and secretary of the Board.

(c) The Board may also appoint committees to address any matter that the Board may address.

(d) Unless the Authority's regulations so prohibit or restrict, any action necessary or allowed during any meeting of the Board or any Board committee shall be authorized without the need for a meeting, provided that all the members of the Board or Board committee, as the case may be, give their written consent to such action. In such event, the written document shall be included in the minutes of the Board or Board committee, as the case may be. Unless the Authority's regulations provide otherwise, the members of the Board or of any Board committee may participate in any meeting of the Board or any Board committee, respectively, through telephone conference, or other communication mediums whereby all of the persons participating in the meeting may listen in and communicate simultaneously. The participation of any member of the Board or any Board committee in the manner described above shall constitute attendance at said meeting.

(e) The member of the Board shall not receive any compensation for his or her services. A Board member shall be entitled to reimbursement for those travel expenses necessarily incurred while performing his or her official duties, in accordance with the applicable regulations of the Department of the Treasury.

(f) The Board shall have, without it being construed as a limitation, the following duties and faculties—

- i. to establish the general policy of the Authority in order to comply with the objectives of this Act;
- ii. to authorize the Authority's work plan and annual budget;
- iii. to adopt and approve rules and regulations to govern its internal affairs, as well as those that may be necessary to exercise the faculties and powers conferred to it pursuant to this Act;
- iv. to require any officer or employee of the Authority those reports and statistical data that are deemed necessary;

- v. to the extent that the Puerto Rico Fiscal Oversight and Economic Recovery Board has not been constituted, to validate or select the independent consultant that will validate the revenue projections of the Commonwealth for any given fiscal year prior to such revenue projection being submitted to the Legislative Assembly as part of the Commonwealth's budget pursuant to Article 4(a) of Act No. 147 of June 18, 1980, as amended;
- vi. to issue summons to require the attendance and testimony of witnesses, as well as the production of any evidence to gather information related to any matter under its jurisdiction and, if any person refuses to obey any summons issued by the Authority, the Authority may apply to the Court of First Instance of the Commonwealth, San Juan Part, for an order to compel such person to appear before the Authority to testify, produce evidence, or both, in relation to the issue under its consideration, which such requests shall be notified in the same manner as they would be notified under the applicable rules of civil procedure;
- vii. to promulgate rules to protect the confidentiality of the information and documents it receives in accordance with the laws and case law in effect in the Commonwealth in matters related thereto, which act of furnishing information or documents as requested by the Authority shall not be construed as a waiver to the right to file a confidentiality claim by any natural or juridical person with respect to the information or the document thus furnished;
- viii. to delegate to any Board committee or to the Executive Director any of the powers and faculties granted to the Authority pursuant to this Act; and
- ix. to take all those actions deemed convenient or necessary to carry out the purposes of the Authority pursuant to this Act.

SECTION 604.- EXECUTIVE DIRECTOR

(a) The Authority shall operate under the direction of an Executive Director, who shall be appointed by the Governor. The Governor shall establish the duties and powers of the Executive Director in accordance with the provisions of this Act and will to fix his or her compensation. Without it being understood as a limitation, his or her duties shall be the following—

- i. to be the chief executive officer of the Authority;
- ii. to draft and submit to the Board the Authority's work plan and annual budget;
- iii. to approve and monitor any contract necessary for the functioning of the Authority subject to the rules established by the Board;
- iv. to establish, organize, direct and supervise the Authority's administrative structure;
- v. to hire personnel and professional persons, including legal advisors, financial advisors, and economists, on reasonable terms and as determined by the Authority, to assist the Executive Director in the performance of the Authority's duties;

- vi. to establish the functional levels of the Authority's operations, including the power to recruit and contract any of the officers and employees under his or her supervision, subject to the standards established by the Board; and
- vii. to perform all those other functions assigned to him or her by the Board.

SECTION 605.- OFFICERS AND EMPLOYEES

(a) The Authority's personnel are hereby exempted from the provisions of Act No. 5 of October 14, 1975, as amended, known as the "Puerto Rico Public Service Personnel Act". All appointments, severances, promotions, transfers, lay-offs, replacements, suspensions, leaves and changes in classification, remuneration or title of the officers and employees of the Authority shall be executed and authorized pursuant to the standards and regulations prescribed by the Board, which must conform to the merit principles established in the Puerto Rico Public Service Personnel Act.

(b) The Authority's Executive Director and the officers and employees shall be entitled to reimbursement for all necessary travel expenses, or to the corresponding per diems, which may be authorized or approved in accordance with the regulations adopted by the Board for the Authority.

SECTION 606.- IMMUNITIES

In the absence of clear and convincing evidence of gross negligence involving a reckless disregard of their duties or failure to carry them out, members of the Board, officers and employees of the Authority shall not be subject to personal civil responsibility towards any person and shall be compensated by the Authority and exonerated from civil liability for acts or omissions in good faith, in their capacity and within their authority. Any civil action brought before a court that alleges the existence of gross negligence must be dismissed with prejudice if the defendant produces documents showing that he or she received information about the relevant facts, participated in person or by phone and deliberated in good faith or received and relied on expert advice regarding any act or omission which is the basis for the lawsuit.

SECTION 607.- COLLABORATION AMONG GOVERNMENT ENTITIES

The Authority may request any of the following entities or any successor thereof administrative support and such statistical and professional services reasonably necessary for the Authority to carry out its responsibilities under this Act: the Bank, the Department of the Treasury, the Office of Management and Budget, the Puerto Rico Department of Economic Development and Commerce, the Institute of Statistics and any other government entity. To the extent possible, the Authority shall reimburse these entities for such services.

SECTION 608.- EXEMPTION FROM CERTAIN LAWS

The Authority shall enjoy the same exemptions from the application of certain laws as currently enjoyed by the Bank.

SECTION 609.- ASSUMPTION OF BANK EMPLOYEES

To the extent the Authority determines, in its discretion, to assume all or some of the permanent, temporary and/or non-union employees of the Bank, such employees shall become employees of the Authority. This transfer of employees shall be effectuated while honoring the terms and conditions of employment effective as of the transfer to the Authority, including the

rights, privileges, obligations and seniority, acquired pursuant to applicable laws, collective bargaining agreements and current personnel regulations, subject to the modifications contained in Act 66-2014 while it remains effective. None of the provisions of this Chapter shall affect the constitutional right to collective bargaining enjoyed by the employees of the Bank, nor the vested rights, benefits and privileges, by virtue of any collective bargaining agreements. The Authority shall recognize the unions that represent the unionized workers of the Bank transferred to the Authority and shall assume the applicable collective bargaining agreements in effect on such date. Rights with regard to any pension or retirement system to which they may be affiliated or members of on the effective date of this Act shall also be guaranteed. The Authority shall be obligated to satisfy to all employees any of their salaries, wages, commissions, including payments related to vacations, allowances and sick leaves or other employment benefits acquired prior to the transfer to the Authority, in accordance with the Bank's employment policies or applicable law.

SECTION 610.- EXISTENCE

The Authority shall exist in perpetuity, unless terminated by subsequent legislation.

CHAPTER 7.- SEVERABILITY AND EFFECTIVENESS

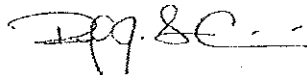
SECTION 701.- SEVERABILITY

This Act shall be interpreted in a manner to render it valid to the extent practicable in accordance with the Commonwealth Constitution and the U.S. Constitution. If any clause, paragraph, subparagraph, article, provision, section, subsection, or part of this Act, were to be declared unconstitutional by a competent court, the order to such effect issued by such court will neither affect nor invalidate the remainder of this Act. The effect of such an order shall be limited to the clause, paragraph, subparagraph, article, provision, section, subsection, or part of this Act declared unconstitutional and only with respect to the application thereof to the particular covered obligation subject to such challenge.

SECTION 702.- EFFECTIVENESS

This Act shall take effect immediately upon enactment.

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Fecha: 6 de abril de 2016



Firma

Rolando J. Torres Carrion
Sub Secretario de Estado

EXHIBIT 6

(P. de la C. 2866)

17 ASAMBLEA 7 SESION
LEGISLATIVA ORDINARIA
Ley Núm. 40-2016
(Aprobada en 5 de Mayo 2016)

LEY

Para enmendar los Artículos 11 y 12 de la Ley Núm. 17 de 23 de septiembre de 1948, según enmendada, mejor conocida como la "Ley Orgánica del Banco Gubernamental de Fomento para Puerto Rico"; y para enmendar los Artículos 103 y 108 de la Ley 21-2016, mejor conocida como la "Ley de Moratoria de Emergencia y Rehabilitación Financiera de Puerto Rico", a fin de establecer disposiciones específicas sobre los depósitos de las instituciones depositarias; y para otros fines relacionados.

EXPOSICIÓN DE MOTIVOS

La recién aprobada Ley 21-2016, "Ley de Moratoria de Emergencia y Rehabilitación Financiera de Puerto Rico", enmendó la Ley Núm. 17 de 23 de septiembre de 1948, según enmendada, mejor conocida como la "Ley Orgánica del Banco Gubernamental de Fomento para Puerto Rico", para, entre otros asuntos, modificar las normas y procesos relacionados a una posible sindicatura. Estas medidas permiten procesos de sindicatura, de reorganización o rehabilitación en lugar de limitarse al escenario de liquidación que contemplaba originalmente la Ley Núm. 17, *supra*.

Esta nueva normativa es consistente con las estrategias de aplazamiento de principal de la deuda pública y el mantenimiento de los servicios públicos esenciales.

Ahora bien, el Banco Gubernamental de Fomento (BGF) opera interconectado con otras entidades financieras. En el sistema federal, luego de la crisis financiera de 2008, se establecieron parámetros de política pública para manejar circunstancias como las que confronta el BGF en la actualidad. Véase Ley *Dodd-Frank* del 2010.

Esta Asamblea Legislativa considera que es sumamente importante integrar a la Ley 21-2016 principios similares a los adoptados en la Ley *Dodd-Frank* para adoptar salvaguardas contra el riesgo sistémico, preservar la capacidad de las entidades depositarias para mantener la actividad prestataria y proteger a los depositantes de recursos bajos y moderados.

DECRÉTASE POR LA ASAMBLEA LEGISLATIVA DE PUERTO RICO:

Sección 1.-Se enmienda el Artículo 11 de la Ley Núm. 17 de 23 de septiembre de 1948, según enmendada, para que lea como sigue:

"Artículo 11.-Nombramiento y poderes del síndico.

(A) ...

(H) Cada persona que tenga una reclamación contra el Banco o la sindicatura no deberá recibir, en ningún caso, pago o propiedad con un valor menor a la cantidad que el acreedor hubiese tenido derecho a recibir si el Banco se hubiese liquidado en la fecha de la designación del síndico, y la máxima responsabilidad a cualquier persona que tenga una reclamación contra el Banco o el síndico o la sindicatura deberá ser igual que la cantidad que dicho acreedor hubiese recibido si el Banco se hubiese liquidado en la fecha de la designación del síndico. Debido al efecto que la sindicatura del Banco podrá tener en las condiciones económicas y en la estabilidad financiera de las instituciones depositarias y en las comunidades de bajos ingresos, minorías o marginadas, el proceso de sindicatura deberá preservar y priorizar la seguridad, solvencia y estabilidad de las instituciones depositarias y sus depósitos.

(I) ...”.

Sección 2.-Se enmienda el Artículo 12 de la Ley Núm. 17 de 23 de septiembre de 1948, según enmendada, para que lea como sigue:

“Artículo 12.-Prioridad de gastos y reclamaciones no garantizadas en sindicatura.

(A) Las reclamaciones no garantizadas contra el Banco o el síndico del Banco bajo esta Ley que hayan sido debidamente evidenciadas a satisfacción del síndico deberán ser pagadas en el siguiente orden de prioridad:

(1) ...

(4) Cualquier saldo pendiente de pago por dinero en posesión del Banco en sus cuentas de depósito para crédito del depositante (incluyendo sumas adeudadas por cualquier razón a instituciones depositarias) y cualquier otra obligación general o preferente del Banco (que no sea una de las obligaciones que se describen en el inciso (5)).

(5) ...

(B) ...”.

Sección 3.-Se enmienda el Artículo 103 de la Ley 21-2016, para que lea como sigue:

"Artículo 103.-Definiciones

Las siguientes palabras y términos, cuando se usen o se haga referencia a ellos en los Capítulos 1, 2, 6 y 7 de esta Ley, tendrán los significados que se establecen a continuación:

(a) ...

...

(kk) "Institución Depositaria"- significa, para propósitos de esta Ley, bancos y cooperativas de ahorro y crédito operando en Puerto Rico, y la Corporación Pública para la Supervisión y Seguro de Cooperativas de Puerto Rico, como asegurador de las acciones y depósitos de las cooperativas de ahorro y crédito de Puerto Rico."

Sección 4.-Se enmienda el Artículo 108 de la Ley 21-2016, para que lea como sigue:

"Artículo 108.-Prioridad de Servicios Esenciales

La Asamblea Legislativa encuentra que, dada la crisis fiscal por la que atraviesa el Estado Libre Asociado, durante este periodo de emergencia, el Gobernador debe darle prioridad a los servicios esenciales sobre el pago de la deuda no sólo para proveer para la salud, seguridad y bienestar de los residentes del Estado Libre Asociado pero también para evitar una contracción económica adicional y la crisis fiscal y humanitaria que en última instancia materialmente empeoraría el recobro de los acreedores de los bonos de Puerto Rico. Esto incluye darle prioridad a la seguridad, solvencia y estabilidad de las instituciones financieras depositarias, protegiendo sus depósitos."

Sección 5.-Esta Ley se adoptará en español y en inglés. Si en la interpretación o aplicación de esta Ley surgiere algún conflicto entre el texto en inglés y el texto en español, prevalecerá el texto en inglés.

Section 6.-Article 11 of Act No. 17 of September 23, 1948, as amended, is hereby amended to read in its entirety as follows:

"Article 11.-Appointment of and powers of a receiver.

(A) ...

(H) Each person having a claim against the Bank or against the receivership shall, in no event, receive in payments and/or property less than the amount the creditor would have been entitled to receive if the Bank had been liquidated on the date of the appointment of the receiver, and the

maximum liability to any person having a claim against the Bank or against the receiver or receivership shall equal the amount such creditor would have received if the Bank had been liquidated on the date of the appointment of the receiver. Due to the effect that the receivership of the Bank would have on economic conditions in Puerto Rico and in the financial stability of depository institutions and for low income, minority, or underserved communities, the receivership process shall preserve and prioritize the safety, soundness and stability of depository financial institutions and their deposits.

(I) ...”.

Section 7.-Article 12 of Act No. 17 of September 23, 1948, as amended, is hereby amended to read in its entirety as follows:

“Article 12.-Priority of expenses and unsecured claims in a receivership

(A) Unsecured claims against the Bank, or the receiver for the Bank under this Act, that are proven to the satisfaction of the receiver, shall have priority in the following order:

(1) ...

(4) Any unpaid balance of money held by the Bank in its depository accounts for the credit of a depositor (including amounts owed for any reason to depository institutions) and any other general or senior liability of the Bank (which is not a liability described in clause (5)).

(5) ...

(B) ...”.

Section 8.-Section 103 of Act No. 21-2016, is hereby amended to read in its entirety as follows:

“SECTION 103. DEFINITION

The following words and terms, when used in chapters 1, 2, 6, and 7 of this Act shall have the meaning stated below:

(a) ...

...

(kk) “Depository Institution”- means, for purpose of this Act, Banks and cooperative savings and credit associations (state chartered credit unions)

operating in Puerto Rico, and the Public Corporation for the Supervision and Insurance of Cooperatives of Puerto Rico, as insurer of the share and deposits of cooperative savings and credit associations (state chartered credit unions).”

Section 9.-Section 108 of Act No. 21-2016, is hereby amended to read in its entirety as follows:

“SECTION 108. PRIORITIZATION OF ESSENTIAL SERVICES

It is the Legislative Assembly’s finding that, given the Commonwealth’s ongoing fiscal crisis, during this extraordinary emergency period the Government should prioritize the payment of essential services over debt service not only to provide for the health, safety and welfare of the residents of the Commonwealth but also to avoid a further economic downturn and fiscal and humanitarian crisis that would ultimately materially worsen the creditor’s recovery on their Puerto Rico bonds. This includes prioritizing the safety, soundness and stability of depository financial institutions, protecting their deposits.”

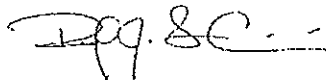
Sección 10.-Si cualquier cláusula, párrafo, subpárrafo, artículo, disposición, sección, inciso, o parte de esta Ley, fuere declarada inconstitucional por un tribunal competente, la sentencia a tal efecto dictada no afectará, perjudicará, ni invalidará, el resto de esta Ley. El efecto de dicha sentencia quedará limitado a la cláusula, párrafo, subpárrafo, artículo, disposición, sección, inciso, o parte de la misma, que así hubiere sido declarada inconstitucional.

Sección 11.-Vigencia

Esta Ley comenzará a regir inmediatamente después de su aprobación.

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Fecha: 10 de mayo de 2016

Firma: _____



Rolando J. Torres Carrión
Subsecretario de Estado

EXHIBIT 7A

**ESTADO LIBRE ASOCIADO DE PUERTO RICO
LA FORTALEZA
SAN JUAN, PUERTO RICO**

Boletín Administrativo Núm. OE-2016-014

ORDEN EJECUTIVA DEL GOBERNADOR DEL ESTADO LIBRE ASOCIADO DE PUERTO RICO, HON. ALEJANDRO J. GARCÍA PADILLA, AL AMPARO DE LOS ARTÍCULOS 201, 202 Y 203 DE LA LEY NÚM. 21-2016, CONOCIDA COMO LA “LEY DE MORATORIA DE EMERGENCIA Y REHABILITACIÓN FINANCIERA DE PUERTO RICO”, PARA DECLARAR UNA MORATORIA EN EL PAGO DE CIERTAS OBLIGACIONES DEL BANCO GUBERNAMENTAL DE FOMENTO PARA PUERTO RICO, DECLARAR UN PERIODO DE EMERGENCIA PARA LA AUTORIDAD PARA EL FINANCIAMIENTO DE LA INFRAESTRUCTURA DE PUERTO RICO, PARA ORDENAR LA IMPLANTACIÓN DE OTRAS MEDIDAS QUE SON RAZONABLES Y NECESARIAS PARA PERMITIR QUE SE CONTINÚEN BRINDANDO SERVICIOS ESENCIALES PARA PROTEGER LA SALUD, SEGURIDAD Y EL BIENESTAR DE LOS RESIDENTES DEL ESTADO LIBRE ASOCIADO DE PUERTO RICO, Y PARA ENMENDAR EL DECIMOQUINTO DE LOS POR TANTO DEL BOLETÍN ADMINISTRATIVO NÚM.: OE-2016-10.

POR CUANTO: El 6 de abril de 2016, firmé la Ley 21-2016, conocida como la “Ley de Moratoria de Emergencia y Rehabilitación Financiera de Puerto Rico” (la “Ley”) (los términos que se utilizan en mayúscula en esta Orden Ejecutiva y que no están definidos aquí tendrán los significados que se le dieron en la Ley). El 8 de abril de 2016, al amparo de los Artículos 201 y 203 de la Ley, aprobé el Boletín Administrativo Núm.: OE-2016-10 (la “OE-2016-10”) para declarar un Periodo de Emergencia para el Banco Gubernamental de Fomento para Puerto Rico (el “BGF”), establecer restricciones al retiro de depósitos del BGF e implantar otras medidas razonables y necesarias para permitirle al BGF continuar llevando a cabo sus operaciones para proteger la salud, seguridad y el bienestar de los residentes de Puerto Rico.

POR CUANTO: Durante las pasadas semanas la liquidez del BGF ha empeorado. Hoy vence un pago de servicio de deuda de aproximadamente \$423 millones por concepto de notas emitidas por el BGF. Actualmente el BGF no tiene suficiente liquidez para hacer dicho pago en su totalidad. Agotar la liquidez limitada del BGF afectaría significativamente la habilidad de éste de continuar llevando a cabo sus operaciones, lo que, a su vez, pondría en peligro la prestación de servicios esenciales que se pagan con fondos de ciertas entidades gubernamentales que están depositados en el BGF.

POR TANTO: Yo, ALEJANDRO J. GARCÍA PADILLA, Gobernador del Estado Libre Asociado, en virtud de los poderes inherentes a mi cargo y de la autoridad que me ha sido conferida por la Constitución del Estado Libre Asociado, por la presente dispongo lo siguiente:

PRIMERO: Conforme al Artículo 201 de la Ley, por la presente declaro que todas las cartas de crédito emitidas por el BGF y todos los depósitos del BGF son “Obligaciones Enumeradas” de BGF para todos los propósitos dispuestos en la Ley. Por la presente también ratifico y extiendo hasta el final del Periodo Cubierto la declaración del Periodo de Emergencia para el BGF, así como todas las disposiciones de la OE-2016-10.

SEGUNDO: Conforme al Artículo 201 de la Ley, por la presente declaro que la Autoridad para el Financiamiento de la Infraestructura de Puerto Rico (“AFI”) está en un estado de emergencia y anuncio el comienzo, efectivo a la fecha de esta Orden Ejecutiva, de un Periodo de Emergencia para AFI. No obstante, para todos los propósitos contemplados en la Ley, por la presente se excluyen de la definición de Obligaciones Cubiertas de AFI todas las obligaciones de AFI, excepto aquellas relacionadas con los bonos denominados “Puerto Rico Infrastructure Financing Authority Revenue Bonds (Ports Authority Project), Series 2011B”.

TERCERO: Conforme a los Artículos 201 y 202 de la Ley, por la presente declaro una moratoria en el pago de todas las Obligaciones Cubiertas del BGF que sean pagaderas durante el Periodo de Emergencia excepto: (a) depósitos, y (b) Obligaciones de Intereses que no requieran que el pago de intereses se haga en efectivo.

CUARTO: Esta Orden Ejecutiva no declara un Periodo de Emergencia para ninguna Entidad Gubernamental, excepto el BGF y AFI, y no impone una moratoria en ninguna obligación, excepto las que se enumeran en el párrafo TERCERO. Esta Orden Ejecutiva no autoriza a una Entidad Gubernamental a utilizar fondos que se hayan depositado previo a la fecha de esta Orden Ejecutiva con un fiduciario u otro custodio para el pago de una Obligación Cubierta ni pretende impedir el uso de dichos fondos para el pago de dicha Obligación Cubierta.

- QUINTO:** No obstante el párrafo TERCERO de esta Orden Ejecutiva, si su liquidez lo permite, la Junta de Directores del BGF podrá solicitar autorización del Gobernador para realizar el pago de toda o cualquier porción de una Obligación de Intereses que requiera pago en efectivo y que hubiese vencido durante el Periodo de Emergencia.
- SEXTO:** Conforme a los incisos i. al iv. del Artículo 201(d) de la Ley, por la presente ordeno la suspensión de todas las obligaciones allí identificadas en la medida en que estén relacionadas con las Obligaciones Cubiertas sujetas a una moratoria de pago conforme al párrafo TERCERO de esta Orden Ejecutiva.
- SÉPTIMO:** Conforme al Artículo 201(b) de la Ley, no se tomará acción alguna y no se comenzará o continuará reclamación o procedimiento alguno en alguna corte de cualquier jurisdicción que esté relacionado con o que surja bajo una Obligación Cubierta de AFI o BGF, incluyendo acciones o procedimientos relacionados con las obligaciones mencionadas en los párrafos PRIMERO, SEGUNDO, TERCERO y SEXTO de esta Orden Ejecutiva. Ninguna entidad o persona podrá ejercer remedio alguno, incluyendo cualquier derecho de aceleración, que esté relacionado, ya sea directa o indirectamente, con la declaración de una moratoria para cualquier Obligación Cubierta del BGF a tenor con el párrafo TERCERO de esta Orden Ejecutiva o el impago de alguna de Obligación Cubierta de AFI según incluida en el párrafo SEGUNDO.
- OCTAVO:** No obstante el párrafo PRIMERO de esta Orden Ejecutiva y las restricciones impuestas a la transferencia y el retiro de fondos depositados en el BGF bajo la OE-2016-10, y como parte de un esfuerzo para mejorar la liquidez del BGF, por la presente declaro que el BGF estará autorizado a permitir a sus depositantes utilizar sus fondos depositados en el BGF como pago parcial de un préstamo con el BGF si la cantidad de los fondos depositados es menor a la cantidad pendiente de pago bajo el préstamo y dicho depositante paga concurrentemente el balance de dicho préstamo con fondos que no están depositados en el BGF.
- NOVENO:** Por la presente aclaro que cualquier fondo transferido después de la fecha de la OE-2016-10 por cualquier departamento, agencia, corporación pública, instrumentalidad o municipio del Estado Libre

Asociado (cada una, una "Entidad del Estado Libre Asociado") al BGF, únicamente en su capacidad como agente pagador de obligaciones de deuda de dicha Entidad del Estado Libre Asociado, no se considerarán fondos en depósito en el BGF para propósitos de la OE-2016-10 y, por lo tanto, no estarán sujetas a las restricciones de desembolso ahí establecidas.

DÉCIMO: Se enmienda el párrafo DECIMOQUINTO de la OE 2016-10 y se añade la siguiente oración al final del mismo: "Cualquier institución financiera en la cual se deposite un cheque emitido por cualquier Entidad del Estado Libre Asociado o que reciba cualquier instrucción para transferir fondos de una Entidad del Estado Libre Asociado podrá honrar dicho cheque o instrucción en el curso ordinario de sus operaciones bancarias sin indagar sobre los cumplimientos de esa Entidad del Estado Libre Asociado con cualquier boletín administrativo. Con referencia a las transacciones anteriormente mencionadas, las Entidades del Estado Libre Asociado aplicables serán las únicas responsables por el cumplimiento con cualquier disposición de la Ley o de cualquier reglamento o boletín administrativo emitido bajo la Ley, incluyendo cualquier boletín administrativo que restrinja el uso de fondos gubernamentales o la emisión de cheques u otra instrucción relacionada con fondos gubernamentales en manos de dichas instituciones financieras."

UNDÉCIMO: SEPARABILIDAD. Esta Orden Ejecutiva deberá ser interpretada de tal manera que pueda mantener su validez, en la medida que sea posible, conforme a la Constitución del Estado Libre Asociado y la Constitución de los Estados Unidos. Si cualquier cláusula, párrafo, subpárrafo, disposición o parte de esta Orden Ejecutiva fuese declarada inconstitucional por un tribunal con jurisdicción, la orden emitida por dicho tribunal a esos efectos no afectará ni invalidará el resto de esta Orden Ejecutiva. El efecto de dicha orden estará limitado a la cláusula, párrafo, subpárrafo, disposición o parte de esta Orden Ejecutiva declarada inconstitucional y solamente con respecto a la aplicación de la misma a la obligación particular sujeta a dicha controversia.

DUODÉCIMO: RATIFICACIÓN DE LA OE-2016-10. Por la presente se ratifica y confirma la OE-2016-10 en todos sus aspectos, según modificada por


esta Orden Ejecutiva, y se dispone que expirará al final del Periodo Cubierto.

DECIMOTERCERO: DEROGACIÓN. Se deja sin efecto cualquier otra Orden Administrativa que en todo o en parte sea incompatible con esta, hasta donde existiera tal incompatibilidad.

DECIMOCUARTO: VIGENCIA Y PUBLICACIÓN. Esta Orden Ejecutiva entrará en vigor inmediatamente y permanecerá en vigor hasta (i) el final del Periodo Cubierto o (ii) la fecha en la que la misma sea revocada por escrito por el Gobernador, lo que ocurra primero. Se ordena su más amplia publicación y divulgación.

EN TESTIMONIO DE LO CUAL, expido la presente Orden Ejecutiva bajo mi firma y hago estampar en esta el Gran Sello del Estado Libre Asociado de Puerto Rico, en San Juan, Puerto Rico, hoy 30 de abril de 2016.




ALEJANDRO J. GARCÍA PADILLA
GOBERNADOR

Promulgada de acuerdo a la ley, hoy 30 de abril de 2016.


VÍCTOR A. SUÁREZ MELÉNDEZ
SECRETARIO DE ESTADO DESIGNADO

EXHIBIT 7B

COMMONWEALTH OF PUERTO RICO
LA FORTALEZA
SAN JUAN, PUERTO RICO

Administrative Bulletin No. OE-2016-014

EXECUTIVE ORDER OF THE GOVERNOR OF THE COMMONWEALTH OF PUERTO RICO, THE HONORABLE ALEJANDRO J. GARCÍA PADILLA, UNDER THE SCOPE OF SECTIONS 201, 202, AND 203 OF ACT NO. 21-2016, KNOWN AS THE “PUERTO RICO EMERGENCY MORATORIUM AND FINANCIAL REHABILITATION ACT,” TO DECLARE A MORATORIUM ON THE PAYMENT OF CERTAIN OBLIGATIONS OF THE GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO, TO DECLARE AN EMERGENCY PERIOD FOR THE PUERTO RICO INFRASTRUCTURE FINANCING AUTHORITY, TO ORDER THE IMPLEMENTATION OF SUCH OTHER MEASURES AS ARE REASONABLE AND NECESSARY MEASURES TO CONTINUE PROVIDING SERVICES ESSENTIAL FOR THE PROTECTION OF THE HEALTH, SAFETY, AND WELFARE OF THE RESIDENTS OF THE COMMONWEALTH OF PUERTO RICO, AND TO AMEND THE FIFTEENTH OF THE THEREFORE CLAUSES OF ADMINISTRATIVE BULLETIN NO.: 03-2016-10.

WHEREAS: On April 6, 2016, I signed Act 21-2016, known as the “Puerto Rico Emergency Moratorium and Financial Rehabilitation Act” (the “Act”) (the terms capitalized in this Executive Order and not herein defined shall have the meanings given to them in the Act). On April 8, 2016, under the scope of Sections 201 and 203 of the Act, I approved Administrative Bulletin No. OE-2016-10 (“OE-2016-10”) to declare an Emergency Period for the Governmental Development Bank for Puerto Rico (“GDB”), to establish restrictions on withdrawals of deposits from GDB and to implement other reasonable and necessary measures to allow GDB to continue performing its operations to protect the health, safety, and welfare of the residents of Puerto Rico.

WHEREAS: During the past weeks GDB’s liquidity has worsened. Today a debt service payment comes due of approximately \$423 million, for notes issued by GDB. Currently GDB does not have enough liquidity to make such payment in its entirety. To exhaust GDB’s limited liquidity would significantly affect its ability to continue performing its operations, which in turn could jeopardize the provision of essential services which are paid for with funds from certain government entities which are deposited in GDB.

THEREFORE: I, ALEJANDRO J. GARCÍA PADILLA, Governor of the Commonwealth, by virtue of the inherent powers of my position and the authority vested in me by the Constitution of the Commonwealth, hereby order the following:

FIRST: Pursuant to Section 201 of the Act, I hereby declare that all the letters of credit issued by GDB and all GDB's deposits are GDB "Listed Obligations" for all purposes stipulated in the Act. I also hereby confirm and extend through the end of the Covered Period, the declaration of the Period of Emergency for GDB, as well as all the provisions of OE-2016-10.

SECOND: Pursuant to Article 201 of the Act, I hereby declare that the Puerto Rico Infrastructure Financing Authority ("PRIFA") is in a state of Emergency and I announce the start, effective on the date of this Executive Order, of a Period of Emergency for PRIFA. However, for all purposes contemplated in the Act, all Covered Obligations of PRIFA are excluded from the definition of PRIFA Covered Obligations, except for those related to the bonds called "Puerto Rico Infrastructure Financing Authority Revenue Bonds (Ports Authority Project), Series 2011B."

THIRD: Pursuant to Articles 201 and 202 of the Act, I hereby declare a moratorium on the payment of all GDB Covered Obligations which are payable during the Emergency Period, except: (a) deposits; and (b) Interest Obligations which do not require that the interest be paid in cash.

FOURTH: This Executive Order does not declare an Emergency Period for any Government Entity other than GDB and PRIFA, and it does not impose a moratorium on any obligation except those listed in paragraph THIRD. This Executive Order does not authorize a Government Entity to use funds that have been deposited prior to the date of this Executive Order with a trustee or other custodian to pay a Covered Obligation nor does it seek to prevent the use of such funds for the payment of such Covered Obligation.

- FIFTH:** Notwithstanding the THIRD paragraph of this Executive Order, if its liquidity so allows, GDB's Board of Directors may request authorization from the Government to pay all or any portion of an Interest Obligation which requires a cash payment and which shall have come due during the Emergency Period.
- SIXTH:** Pursuant to points i. to v. of Section 201(d) of the Act, I hereby order the suspension of all obligations thereat identified insofar as they are related to the Covered Obligations subject to a payment moratorium pursuant to the THIRD paragraph of this Executive Order.
- SEVENTH:** Pursuant to Section 201(b) of the Act, no action whatsoever shall be taken and no claim or proceeding whatsoever shall commence or continue in any court of any jurisdiction that is related to or arises under a Covered Obligation of PRIFA or GDB, including actions or proceedings related to the obligations cited in the FIRST, SECOND, THIRD and SIXTH paragraphs of this Executive Order. No entity or person may exercise any remedy whatsoever, including any right of acceleration, which is related, directly or indirectly, to the declaration of a moratorium on any GDB Covered Obligation pursuant to the THIRD paragraph of this Executive Order or the nonpayment of a PRIFA Covered Obligation included in the SECOND paragraph.
- EIGHTH:** Notwithstanding the FIRST paragraph of this Executive Order and the restrictions imposed on the transfer and withdrawal of funds deposited in GDB under OE-2016-10, and as part of an effort to improve GDB's liquidity, I hereby declare that GDB shall be authorized to allow its depositors to use their funds deposited with GDB as a partial payment of a loan with GDB if the amount of such funds deposited is less than the amount pending payment under the loan and such depositor concurrently pays off the balance of such loan with funds which are not deposited with GDB.
- NINTH:** I hereby clarify that any fund transferred after the date of OE-2016-10 by any department, agency, public corporation, instrumentality, or municipality of the Commonwealth

(each one, a “Commonwealth Entity”) to GDB, only in its capacity as payor agent for the debt obligations of such Commonwealth Entity, shall not be deemed funds on deposit at GDB for the purposes of OE-2016-10 and, therefore, shall not be subject to the disbursement restrictions thereat established.

TENTH: The FIFTEENTH paragraph of OE 2016-10 is amended and the final sentence is added to the end of it: “Any financial institution where a check issued by any Commonwealth Entity is deposited or which receives any instruction to transfer funds of a Commonwealth Entity may nor such check or instruction during the ordinary course of its bank operations without investigating compliance by such Commonwealth Entity with any administrative bulletin. In respect of the transactions cited above, the applicable Commonwealth Entities shall be solely responsible for compliance with any provision of the Act or any regulation or administrative bulletin issued under the Act, including any administrative bulletin restricting the use of government funds or the issuance of checks or another instruction related to government funds in the hands of such financial institutions.”

ELEVENTH: SEVERABILITY. This Executive Order shall be interpreted such that it may maintain its validity, insofar as possible, pursuant to the Constitution of the Commonwealth and the Constitution of the United States. If any clause, paragraph, subparagraph, provision, or part of this Executive Order shall be declared unconstitutional by a court with competent jurisdiction, the order issued by such court to those ends shall not affect or invalidate the rest of this Executive Order. The effect of such order shall be limited to the clause, paragraph, subparagraph, provision, or part of this Executive Order declared unconstitutional and only with respect to its applicability to the specific obligation subject to such dispute.

TWELFTH: RATIFICATION OF OE-2016-10. OE-2016-10 is hereby ratified and confirmed in all its aspects, as amended by

this Executive Order, and it is stipulated that it shall expire at the end of the Covered Period.

THIRTEENTH: DEROGATION. Any other Administrative Order which in whole or in part is incompatible with this order is ineffective, to the extent of such inconsistency.

FOURTEENTH: EFFECTIVENESS AND PUBLICATION. This Executive Order shall take effect immediately and remain in effect until (i) the end of the Covered Period; or (ii) the date on which it is revoked in writing by the Governor, whichever occurs first. Its widest publication and dissemination is ordered.

IN WITNESS OF WHICH, I issue this Executive Order under my signature and I cause to have the Great Seal of the Commonwealth of Puerto Rico stamped upon it, in San Juan, Puerto Rico, today, [handwritten:] April 30, 2016.

[signature]

ALEJANDRO J. GARCÍA PADILLA
GOVERNOR

[seal of the Commonwealth of Puerto Rico]

Promulgated pursuant to law, today, [handwritten:] April 30, 2016.

[signature]

VÍCTOR A. SUÁREZ MELÉNDEZ
SECRETARY OF STATE DESIGNATE

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COUNTY OF NEW YORK)

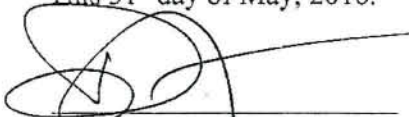
CERTIFICATION

This is to certify that the accompanying is, to the best of my knowledge and belief, a true and accurate translation into English of the phrases "**Commonwealth of Puerto Rico, Administrative Bulletin No. OE-2016-014**", completed 5/31/2016, originally written in Spanish.



Roberto J. Millan
Senior Account Manager
LanguageWorks

Sworn to and subscribed before me,
This 31st day of May, 2016.



Notary Public

DAWN M JORDAN
NOTARY PUBLIC-STATE OF NEW YORK
No. 01JO6328681
Qualified in Kings County
My Commission Expires August 03, 2019

EXHIBIT 8A

**ESTADO LIBRE ASOCIADO DE PUERTO RICO
LA FORTALEZA
SAN JUAN, PUERTO RICO**

Boletín Administrativo Núm. OE-2016-018

ORDEN EJECUTIVA DEL GOBERNADOR DEL ESTADO LIBRE ASOCIADO DE PUERTO RICO, HON. ALEJANDRO J. GARCÍA PADILLA, AL AMPARO DE LOS ARTÍCULOS 201 Y 202 DE LA LEY NÚM. 21-2016, CONOCIDA COMO LA “LEY DE MORATORIA DE EMERGENCIA Y REHABILITACIÓN FINANCIERA DE PUERTO RICO”, PARA DECLARAR UN PERIODO DE EMERGENCIA PARA LA AUTORIDAD DE CARRETERAS Y TRANSPORTACIÓN DE PUERTO RICO (LA “ACT”) HASTA EL 30 DE JUNIO DE 2016, SUSPENDER LA OBLIGACIÓN DE LA ACT DE TRANSFERIR O DEPOSITAR EN INSTITUCIONES FINANCIERAS O CUALQUIER OTRA ENTIDAD QUE ACTÚE COMO AGENTE FISCAL LOS INGRESOS DE LOS PEAJES Y CUALQUIER OTRO INGRESO RECIBIDO, Y ORDENAR LA IMPLEMENTACIÓN DE OTRAS MEDIDAS RAZONABLES Y NECESARIAS PARA LA CONTINUACIÓN DE LA PRESTACIÓN DE LOS SERVICIOS ESENCIALES PARA PROTEGER LA SALUD, LA SEGURIDAD Y EL BIENESTAR DE LOS RESIDENTES EN EL ESTADO LIBRE ASOCIADO DE PUERTO RICO.

POR CUANTO: El 6 de abril de 2016, firmé la Ley 21-2016, conocida como la “Ley de Moratoria de Emergencia y Rehabilitación Financiera de Puerto Rico” (la “Ley”). Los términos que comienzan en mayúscula en esta Orden Ejecutiva y que no están definidos aquí tendrán los significados que se le concedieron en la Ley.

POR CUANTO: El Artículo 108 de la Ley establece que durante el Periodo Cubierto el Gobernador debe darle prioridad a los servicios esenciales sobre el pago de la deuda no sólo para proveer para la salud, la seguridad y el bienestar de los residentes en el Estado Libre Asociado de Puerto Rico (el “ELA”) pero también para evitar una contracción económica adicional y la crisis fiscal y humanitaria que en última instancia materialmente empeoraría el recobro de los acreedores de los bonos de Puerto Rico.

POR CUANTO: El 8 de abril de 2016, al amparo de los Artículos 201 y 203 de la Ley, aprobé el Boletín Administrativo Núm. OE-2016-10 (la “OE-2016-10”) para declarar un Periodo de Emergencia para el Banco Gubernamental de Fomento para Puerto Rico (el “BGF”), establecer restricciones al retiro de depósitos del BGF e implantar otras medidas razonables y necesarias para permitir al BGF continuar llevando a cabo sus operaciones. El 30 de abril de 2016, al amparo de los Artículos 201 y

202 de la Ley, aprobé el Boletín Administrativo Núm. OE-2016-14 (la "OE-2016-14") para declarar una moratoria en el pago de ciertas obligaciones del BGF e implementar otras medidas razonables y necesarias para continuar la prestación de servicios esenciales para proteger la salud, la seguridad y el bienestar de los residentes en el ELA, entre otras cosas.

POR CUANTO: La crisis fiscal del ELA ha afectado sustancialmente varias entidades e instrumentalidades públicas, incluyendo, sin limitarse a la Autoridad de Carreteras y Transportación de Puerto Rico (la "ACT").

POR CUANTO: Históricamente la ACT ha contado con distintas fuentes de ingresos y liquidez para la prestación de servicios esenciales a los residentes en el ELA, que incluyen el mantenimiento y la operación de las carreteras, puentes y autopistas del ELA. Dichas fuentes de ingresos y liquidez consistían principalmente en: (1) ingresos derivados de los peajes y otros cargos impuestos por la ACT por el uso de sus instalaciones de tránsito (en inglés *traffic facilities*) (los "Ingresos de Peajes" y en inglés *Toll Revenues*); (2) ingresos recibidos del impuesto a la gasolina que se destina a la ACT a tenor con la Ley Núm. 75 de 23 de junio de 1965; (3) ingresos recibidos de ciertos impuestos sobre la gasolina, *gas oil* y *diesel oil* que se destina a la ACT a tenor con la Ley Núm. 223 de 30 de noviembre de 1995; (4) ingresos recibidos de un cargo especial anual sobre la licencia para los vehículos de motor destinado a la ACT a tenor con la Ley Núm. 9 de 12 de agosto de 1982, según enmendada; (5) ingresos recibidos del impuesto al crudo destinado a la ACT a tenor con la Ley Núm. 34 de 16 de julio de 1997 (los ingresos referidos en los incisos anteriores (1) al (5) de este Por Cuanto, en conjunto denominados en adelante, los "Ingresos de las Resoluciones 68/98"); (6) ingresos derivados de impuestos a los cigarrillos, cargos sobre licencias de vehículos de motor y excesos de impuestos al petróleo destinados a la ACT de conformidad con las Leyes Núm. 30 y 31, ambas aprobadas el 25 de junio de 2013 (en conjunto, los "Ingresos de las Leyes 30-31"); (7) liquidez proveniente de un acuerdo con el BGF mediante el cual el BGF concedía préstamos a la ACT; (8) fondos recibidos por la ACT del Gobierno federal por conducto de programas de asistencia federal de carreteras del Título 23 del *United States Code* (los "Ingresos Federales de Carreteras"); y (9) fondos recibidos por la ACT del Gobierno federal por conducto de programas de asistencia

federal de tránsito del Título 23 del *United States Code* (los “Fondos Federales de Tránsito”). Como consecuencia de la crisis fiscal del ELA, la disponibilidad de estos ingresos, fondos y fuentes de liquidez ha disminuido significativamente en los pasados seis (6) meses.

POR CUANTO: La ACT previamente emitió bonos al amparo de la Resolución de la Autoridad de Carreteras de Puerto Rico Núm. 68-18, aprobada el 13 de junio de 1968 (la cual autoriza y garantiza los *HTA's Highways Revenue Bonds*) y la Resolución de la ACT Núm. 98-06, aprobada el 26 de febrero de 1998 (la cual autoriza y garantiza los *HTA's Transportation Revenue Bonds*) (conjuntamente, las “Resoluciones 68/98”). El 30 de noviembre de 2015, al amparo de la Sección 8 del Artículo VI de la Constitución del ELA, aprobé el Boletín Administrativo Núm. OE-2015-046 (la “OE-2015-046”), mediante el cual, entre otras cosas, se le ordenó al Secretario de Hacienda de Puerto Rico a retener los ingresos asignados a la ACT y redirigirlos para el pago de la deuda pública del ELA y para garantizar los servicios esenciales de los residentes en el ELA (los “Fondos Retenidos de la ACT”). El principal e interés de los bonos emitidos al amparo de las Resoluciones 68/98 están garantizados en parte y son pagaderos en parte de los Fondos Retenidos de la ACT. Los Ingresos de Peajes, los cuales no son fondos retenidos sujetos a la OE-2015-046, también garantizan parte del pago de la deuda emitida al amparo de las Resoluciones 68/98. De conformidad con las Resoluciones 68/98, cualquier exceso relacionado con los Fondos Retenidos de la ACT y los Ingresos de Peajes luego de los depósitos requeridos y el repago del servicio de la deuda debían ser devueltos a la ACT para el pago de sus gastos operacionales. Tras la aprobación de la OE-2015-046, la cual ordena la retención de los Fondos Retenidos de la ACT, la ACT experimentó una disminución significativa en su liquidez, que se exacerbó por el hecho de que la ACT, en cumplimiento con las Resoluciones 68/98, continuó remitiendo la totalidad de los Ingresos de Peajes al fiduciario de los bonos para el servicio de la deuda emitida al amparo de las Resoluciones 68/98.

POR CUANTO: La ACT y el BGF son partes de cierto *Loan Agreement*, con fecha del 28 de agosto de 2013, mediante el cual la ACT obtuvo una línea de crédito no rotativa del BGF (el “Préstamo del BGF”). Como condición para el Préstamo del BGF, la ACT y el BGF otorgaron cierto *Assignment and Security Agreement*, pactado el mismo día, mediante el cual la ACT cedió

al BGF sus derechos de recibir los Ingresos de las Leyes 30-31 con el fin de garantizar el repago del Préstamo del BGF y otras cantidades debidas al BGF. En un esfuerzo por atender la crisis de liquidez de la ACT y de garantizar la continuidad de la provisión de los servicios esenciales de la ACT para proteger la salud, la seguridad y el bienestar de los residentes en el ELA, el BGF y la ACT entraron en un acuerdo mediante el cual el BGF se comprometió a transferir a la ACT ciertos fondos para cubrir los costos operacionales y gastos de la ACT. El 1 de abril de 2016, el BGF informó a la ACT que no tenía la capacidad financiera de continuar la transferencia de dichos fondos creando un problema de liquidez mayor para la ACT, amenazando la continuidad de la provisión de los servicios esenciales para proteger la salud, la seguridad y el bienestar de los residentes en el ELA y poniendo en riesgo la elegibilidad de la ACT para recibir los Ingresos Federales de Carreteras y los Fondos Federales de Tránsito.

POR CUANTO:

El 19 de abril de 2016, la ACT enmendó el Contrato de Alianza de las Autopistas PR-22 y PR-5 con Autopistas Metropolitanas de Puerto Rico, LLC (el "Concesionario") para conceder ciertos derechos al Concesionario. A cambio de esos derechos, el Concesionario hizo un pago inicial de \$100 millones (el "Pago Inicial") y hará un pago diferido de \$15 millones pagadero al momento en que se implementen ciertos carriles bidireccionales o al 30 de junio 2017, lo que ocurra primero. De conformidad con el Artículo 17 de la Ley Núm. 29-2009, según enmendada ("Ley de las APP"), la Autoridad de Asesoría Financiera y Agencia Fiscal de Puerto Rico (la "AAFAP"), luego de consultarlo con la Oficina de Gerencia y Presupuesto (la "OGP"), sometió ante la consideración del Gobernador una misiva recomendando los usos del Pago Inicial. El BGF también cursó una recomendación sobre los potenciales usos de estos dineros. El 9 de mayo de 2016, luego de evaluar detenidamente las recomendaciones de la OGP, el BGF y la AAFAP, considerando la complicada situación de liquidez que enfrentan el ELA, el BGF y otras entidades gubernamentales, y en virtud de la facultad conferida en los Artículos 9(g)(iv) y 17 de la Ley de las APP, el Gobernador autorizó que los fondos fueran utilizados para el pago de servicios esenciales, según propuesto por la AAFAP y OGP.

POR CUANTO: Esta situación ha provocado una situación de emergencia pública que amerita la declaración, al amparo del Artículo 201 de la Ley, de un periodo de emergencia para la ACT y suspender ciertas obligaciones de la ACT para garantizar la prestación de servicios esenciales relacionados con la salud, la seguridad y el bienestar de los residentes en el ELA. Esta declaración de emergencia tendrá la breve duración aquí dispuesta y no afectará los derechos de cobro de ningún acreedor de la ACT, pues el fiduciario de los bonos emitidos al amparo de las Resoluciones 68/98 ha recibido y tiene ya depositados por adelantado suficientes fondos para cubrir los pagos vencidos hasta el próximo año.

POR TANTO: Yo, ALEJANDRO J. GARCÍA PADILLA, Gobernador del Estado Libre Asociado, en virtud de los poderes inherentes a mi cargo y de la autoridad que me ha sido conferida por la Constitución del Estado Libre Asociado, por la presente dispongo lo siguiente:

PRIMERO: Conforme al Artículo 201 de la Ley, por la presente declaro un estado de emergencia para la ACT y el comienzo de un Periodo de Emergencia para la ACT hasta el 30 de junio de 2016, de manera que se proteja la salud, la seguridad y el bienestar de los residentes en el ELA.

SEGUNDO: Esta Orden Ejecutiva no declara un Periodo de Emergencia para ninguna Entidad Gubernamental excepto la ACT y no impone una moratoria a ninguna obligación de la ACT. Esta Orden Ejecutiva no autoriza a una Entidad Gubernamental a utilizar fondos que se hayan depositado previo a la fecha de esta Orden Ejecutiva con un fiduciario u otro custodio para el pago de una Obligación Cubierta ni pretende impedir el uso de dichos fondos ya depositados para el pago de dicha Obligación Cubierta.

TERCERO: Conforme al Artículo 201 (d) de la Ley, por la presente ordeno la suspensión de toda obligación de la ACT de transferir a, o depositar con, cualquier institución financiera o autoridad que actúe como agente fiscal al amparo de cualquier resolución mediante la cual los bonos en circulación de la ACT hayan sido emitido los Ingresos de Peajes y cualquier otro ingreso asignado o recibido por la ACT. Lo anterior incluye los Ingresos de Peajes correspondientes a bonos emitidos bajo las Resoluciones 68/98, independientemente de cuándo dichos fondos

hayan sido recolectados. En adelante se autoriza a la ACT a utilizar los Ingresos de Peajes y cualquier otro ingreso asignado o recibido por la ACT para la continuación de la prestación de servicios esenciales para proteger la salud, la seguridad y el bienestar de los residentes en el ELA. No se afectan por esta Orden Ejecutiva los fondos necesarios para el pago de las obligaciones mencionadas en este párrafo que han sido transferidos o depositados por la ACT a los fiduciarios pertinentes para responder por los pagos vencidos hasta el próximo año.

CUARTO:

Conforme al Artículo 201 (b) de la Ley, no se tomará acción alguna y no se comenzará o continuará reclamación o procedimiento alguno en alguna corte de cualquier jurisdicción que esté relacionado con o que surja bajo una Obligación Cubierta de la ACT, incluyendo acciones o procedimientos relacionados con las obligaciones mencionadas en el párrafo TERCERO de esta Orden Ejecutiva.

QUINTO:

Se ordena a la Directora Ejecutiva de la ACT a remitir un informe semanal al Gobernador en el cual se detalle el flujo de efectivo de la entidad.

SEXTO:

SEPARABILIDAD. Esta Orden Ejecutiva deberá ser interpretada de tal manera que pueda mantener su validez, en la medida que sea posible, conforme a la Constitución del Estado Libre Asociado y la Constitución de los Estados Unidos. Si cualquier cláusula, párrafo, subpárrafo, disposición o parte de esta Orden Ejecutiva fuese declarada inconstitucional por un tribunal con jurisdicción, la orden emitida por dicho tribunal a esos efectos no afectará ni invalidará el resto de esta Orden Ejecutiva. El efecto de dicha orden estará limitado a la cláusula, párrafo, subpárrafo, disposición o parte de esta Orden Ejecutiva declarada inconstitucional y solamente con respecto a la aplicación de la misma a la obligación particular sujeta a dicha controversia.

SÉPTIMO:

RATIFICACIÓN DE LA OE-2016-10 Y OE-2016-14. Por la presente se ratifica y confirma la OE-2016-10, según enmendada por la OE-2016-14 y la OE-2016-14 en todos sus aspectos, según modificada por esta Orden Ejecutiva, y se dispone que ambas expirarán al final del Periodo Cubierto.

OCTAVO: DEROGACIÓN. Se deja sin efecto cualquier otra Orden Ejecutiva que en todo o en parte sea incompatible con esta, hasta donde existiera tal incompatibilidad.

NOVENO: VIGENCIA Y PUBLICACIÓN. Esta Orden Ejecutiva entrará en vigor inmediatamente y permanecerá en vigor hasta (i) el 30 de junio de 2016 o (ii) la fecha en la que la misma sea revocada por escrito por el Gobernador, lo que ocurra primero. Se ordena su más amplia publicación y divulgación.

EN TESTIMONIO DE LO CUAL, expido la presente Orden Ejecutiva bajo mi firma y hago estampar en esta el Gran Sello del Estado Libre Asociado de Puerto Rico, en San Juan, Puerto Rico, hoy 17 de mayo de 2016.

A handwritten signature in blue ink, which appears to be "Alejandro J. García Padilla".

ALEJANDRO J. GARCÍA PADILLA
GOBERNADOR

Promulgada de acuerdo a la ley, hoy 17 de mayo de 2016.

A handwritten signature in blue ink, which appears to be "Víctor A. Suárez Meléndez".

VÍCTOR A. SUÁREZ MELÉNDEZ
SECRETARIO DE ESTADO DESIGNADO

EXHIBIT 8B

**COMMONWEALTH OF PUERTO RICO
LA FORTALEZA
SAN JUAN, PUERTO RICO**

Administrative Bulletin No. OE-2016-018

EXECUTIVE ORDER OF THE GOVERNOR OF THE COMMONWEALTH OF PUERTO RICO, HON. ALEJANDRO J. GARCIA PADILLA, UNDER ARTICLES 201 AND 202 OF LAW 21-2016, KNOWN AS THE “PUERTO RICO EMERGENCY MORATORIUM AND FINANCIAL REHABILITATION ACT,” TO DECLARE A STATE OF EMERGENCY FOR THE PUERTO RICO HIGHWAYS AND TRANSPORTATION AUTHORITY (THE “HTA”) UNTIL JUNE 30, 2016, SUSPENDING THE OBLIGATION OF THE ACT TO TRANSFER OR DEPOSIT IN FINANCIAL INSTITUTIONS OR ANY OTHER ENTITY ACTING AS A FISCAL AGENT ANY REVENUE FROM TOLLS OR ANY OTHER REVENUE RECEIVED, AND AUTHORIZES THE IMPLEMENTATION OF ANY OTHER REASONABLE AND NECESSARY MEASURES FOR THE CONTINUED PROVISION OF ESSENTIAL SERVICES TO PROTECT THE HEALTH, SAFETY, AND WELL-BEING OF THE RESIDENTS OF THE COMMONWEALTH OF PUERTO RICO.

WHEREAS: On April 6, 2016, I signed Law 21-2016, known as the “Puerto Rico Emergency Moratorium and Financial Rehabilitation Act” (the “Law”). The terms that are capitalized in this Executive Order but are not defined herein shall have the meaning assigned to such terms in the Law.

WHEREAS: Article 108 of the Law establishes that during the Covered Period the Governor shall prioritize the essential services over the payment of debt not only to provide for the health, security, and well-being of the residents of the Commonwealth of Puerto Rico (the “Commonwealth”) but also to avoid further economic contraction and additional fiscal and humanitarian crises which would materially worsen the repayment of Puerto Rico’s bondholders.

WHEREAS: On April 8, 2016, pursuant to Articles 201 and 203 of the Law, I approved Administrative Bulletin No. OE-2016-10 (“OE-2016-10”) to declare a State of Emergency for the Government Development Bank (the “GDB”), stabilize restrictions on withdrawals from the GDB and implement other reasonable and necessary measures to allow GDB to continue carrying on its business operations. On April 30, 2016, under Article 201 and

pep

I, Juan E. Segarra, USCCI #06-067/translator, certify that the foregoing is a true and accurate translation, to the best of my abilities, of the document in Spanish which I have seen.

202 of the Law, I approved Administrative Bulletin No. OE-2016-14 (“OE-2016-14”) to declare a moratorium on the payment of certain obligations of the GDB and to implement other reasonable and necessary measures to continue essential lending services to protect the health, security, and well-being of the residents of the Commonwealth, among other things.

WHEREAS: The fiscal crisis of the Commonwealth has substantially affected various public entities and instrumentalities, including, but not limited to the Puerto Rico Highways and Transportation Authority (the “HTA”).

WHEREAS: Historically, the HTA has relied on different sources of revenue and liquidity for the provision of essential services to the residents of the Commonwealth, which includes the maintenance and operation of the roads, bridges, and highways of the Commonwealth. The reference revenue and liquidity principally consists of: (1) revenue derived from tolls and other charges imposed by the HTA for the use of its transit facilities (in English *traffic facilities*) (the “Toll Revenues” and in English *Toll Revenues*); (2) revenue received from the gasoline tax earmarked for the HTA under Law Number 75 of June 23, 1965; (3) revenue received from certain gasoline taxes, *gas oil and diesel oil* that is earmarked for the HTA pursuant to Law 223 of November 30, 1995; (4) revenue received from a special annual fee on motor vehicle licenses earmarked for the ACT pursuant to Law 9 of August 12, 1982, as amended; (5) revenue received from taxes imposed on crude oil earmarked for the HTA under Law 34 of July 16, 1997(the revenue referred to in section (1) through (5) under this Clause, collectively referred to as, the “Revenue from Resolutions 68/98”); (6) revenue derived from taxes imposed on cigarettes, fees on vehicle licenses, and surpluses from petroleum taxes earmarked for the HTA pursuant to Laws 30 and 31, both passed on June 25, 2013 (collectively referred to as, the “Revenue from Laws 30-31”); (7) liquidity from an agreement with the GDB according to which the GDB issues loans to the HTA; (8) funds received by the HTA from the federal Government for conducting federal highway assistance programs under Title 23 of the *United States Code* (the “Federal Highway Revenue”); and (9) funds received by the HTA from the federal Government for conducting transit assistance programs

under Title 23 of the *United State Code* (the “Federal Transit Funds”). As a result of the Commonwealth’s fiscal crisis, the availability of this revenue, funds and liquidity has significantly diminished in the past six (6) months.

WHEREAS:

The HTA previously issued bonds under Puerto Rico Highway and Transportation Authority Resolution No. 68-18, passed on June 13, 1968 (which authorizes and guarantees the *HTA’s Highways Revenue Bonds*) and Resolution of the HTA Number 98-06, approved February 26, 1998 (which authorizes and guarantees the *HTA’s Transportation Revenue Bonds*) (collectively, “Resolutions 68/98”). On November 30, 2015, under Section 8 of Article VI of the Constitution of the Commonwealth, I approved Administrative Bulletin No. OE-2015-046 (“OE-2015-046”), through which, among other things, the Secretary of the Treasury of Puerto Rico was ordered to retain the revenues assigned to the HTA and reallocate them to the payment of the Commonwealth’s public debt and to guaranteeing essential services for the residents of the Commonwealth (the “HTA’s Retained Funds.”) The principal and interest of the bonds issued under the 68/98 Resolutions are guaranteed in part and are paid in part from the HTA’s Retained Funds. The Toll Revenues, which are not retained funds subject to OE-2015-046, also guarantee part of the payment of the debt issued under Resolutions 68/98. In accordance with the 68/98 Resolutions, whatever excess related to the HTA’s Retained Funds and the Toll Revenues after the required deposits and the repayment of services of the debt shall be returned to the HTA for the payment of its expenses and operations. After the approval of OE-2015-046, which orders the retention of the HTA’s Retained Funds, the HTA experimented with a significant decrease in its liquidity, which was exacerbated by the fact that the HTA, in complying with Resolutions 68/98, continued to remit the entirety of the Toll Revenues to the bond trustee for the servicing of the debt issued under Resolutions 68/98.

WHEREAS:

The HTA and the GDB are parties to that certain *Loan Agreement*, dated August 28, 2013, through which the HTA obtained a revolving line of credit from the GDB (the “GDB Loan”). As a condition of the GDB Loan, the HTA and the GDB granted certain *Assignment and Security Agreement*, agree the same day, through which the HTA transferred to the GDB its



rights to receive the Revenue from Laws 30-31 as a way to guarantee the repayment of the GDB Loan and other amounts owed to the GDB. In its attempts to deal with the liquidity crisis of the HTA and to guarantee the continued provision of the essential services of the HTA to protect the health, security and the wellbeing of the residents of the Commonwealth, the GDB and the HTA entered into an agreement through which the GDB has promised to transfer to the HTA certain funds to cover the operational costs and expenses of the HTA. On April 1, 2016, the GDB informed the HTA that it did not have the financial capacity to continue to transfer said funds, thus creating a major liquidity problem for the HTA, threatening the continued provision of the essential services to protect the health, security and the wellbeing of the residents of the State and placing under risk the HTA's ability to receive the Federal Highway Revenue and the Federal Transit Funds.

WHEREAS:

On April 19, 2016, the HTA amended its Highway Alliance Contracts PR-22 and PR-5 with Autopistas Metropolitanas de Puerto Rico, LLC (the "Concessionaire") to assign certain rights to the Concessionaire. In exchange for those rights, the Concessionaire made an initial \$100 million (the "Initial Payment") and will make a \$15 million deferred payment upon the implementation of certain multidirectional lanes or on June 30, 2017, whichever occurs first. In accordance with Article 17 of Law 29-2009, as amended ("APP Law), the Financial Advisory Authority and Tax Agency of Puerto Rico (the "AAFAF"), after consulting with the Office of Management and Budget (the "OGP"), submitted for consideration by the Governor a missive list of recommendations for the use of the Initial Payment. The GDB also made a recommendation regarding the potential uses of these funds. On May 9, 2016, after thoroughly evaluating the recommendations of the OGP, the GDB and the AAFAF, considering the complicated situation regarding liquidity facing the Commonwealth, the GDB and other government entities, by virtue of the power granted under Articles 9(g)(iv) and 17 of the APP Laws, the Governor authorized that the funds be used for the payment of essential services, as proposed by the AAFAF and the OGP.



I, Juan E. Segarra, USCCI #06-067/translator, certify that the foregoing is a true and accurate translation, to the best of my abilities, of the document in Spanish which I have seen.

WHEREAS: This situation has provoked a state of public emergency that warrants the declaration, under Article 201 of the Law, for a state of emergency for the HTA and suspending certain obligations of the HTA to guarantee the benefit of essential services related to the health, safety, and well-being of the residents of the Commonwealth. This state of emergency shall have a brief duration stated herein and shall not affect the collection rights of any creditor of the HTA, as the trustee of the bonds issued under Resolutions 68/98 has received and has at its disposal sufficient funds to pay its debts until next year.

WHEREFORE: I, ALEJANDRO J. GARCIA PADILLA, Governor of this Commonwealth, under the powers inherent to my position and the authority vested in me by the Constitution of the Commonwealth, hereby provide for the following:

ONE: In accordance with Article 201 of the Law, I hereby declare a state of emergency for the HTA and state an Emergency Period for the HTA until June 30, 2016, so as to protect the health, security, and well-being of the residents of the Commonwealth.

TWO: This Executive Order does not declare an Emergency Period for any Government Entity except the HTA and does not impose a moratorium on any obligation of the HTA. This Executive Order does not authorize any Government Entity to utilize funds that have been deposited prior to the date of this Executive Order with a trustee or other custodian for the payment of the Covered Obligation nor does it pretend to prevent the use of said funds already deposited for the payment of said Covered Obligation.

THREE: Pursuant to Article 201 (d) of the Law, I hereby order the suspension of all obligations of the HTA to transfer to, or deposit with, any financial institution or authority acting as a fiscal agent under any resolution by way of which any bonds of the HTA in circulation have been issued, the Toll Revenues, and any other revenue assigned or received by the HTA. The foregoing includes Toll Revenues corresponding to the bonds issued under Resolutions 68/98, without regard to when said funds were collected.

I hereby authorize the HTA to utilize the Toll Revenues and whatever other revenue assigned or received by the HTA for the continuation of provision of the essential services for the protection of the health, security, and well-being of the residents of the Commonwealth. This Executive Order does not affect the funds necessary for the payment of the stated obligations in this paragraph that have been transferred or deposited by the HTA to the pertinent trustees to account for the outstanding payments until next year.

FOUR: Pursuant to Article 201(b) of the Law, no actions shall be commenced and no claims or proceedings shall be initiated or continued in any court of any jurisdiction that is related to or arises under a Covered Obligation of the HTA, including actions or proceedings related to the obligations stated in the paragraph THREE of this Executive Order.

FIVE: The Executive Director of the HTA is ordered to submit a weekly report to the Governor itemizing the cash flow of the entity.

SIX: SEVERABILITY. This Executive Order shall be interpreted in such a way so as to maintain its validity, to the extent possible, in accordance with the Constitution of the Commonwealth and the Constitution of the United States. If any clause, paragraph, subparagraph, provision, or part of this Executive Order is declared unconstitutional by any court or jurisdiction, the order issued by said court to that effect shall not affect or invalidate the remainder of this Executive Order. The effect of said order shall be limited to the clause, paragraph, subparagraph, disposition, or part of this Executive Order declared unconstitutional and only with respect to the application of the same to the obligation subject to said dispute.

SEVEN: RATIFICATION OF OE-2016-10 AND OE-2016-14. OE-2016-10, as amended by the OE-2016-14 and the OE-2016-14 is hereby ratified and confirmed in all aspects, as modified by this Executive Order, and it is hereby provided that both shall expire at end of the Covered Period.



EIGHT: REPEAL. Any other Executive Order that is fully or partially incompatible with this order is hereby repealed to the extent to which such incompatibility exists.

NINE: EXPIRATION AND PUBLICATION. This Executive Order shall enter into force immediately and shall remain in force until (i) June 30, 2016 or (ii) the date upon which this order shall be revoked in writing by the Governor, whichever occurs first. It is ordered that this shall be published and disseminated as broadly as possible.

IN WITNESS WHEREOF, I hereby issue this Executive Order under my signature and stamp in this Great Seal of the Commonwealth of Puerto Rico, San Juan, Puerto Rico, today, May 17, 2016.

[affixed seal]

[signature]
ALEJANDRO J. GARCÍA PADILLA
GOVERNOR

Promulgated pursuant to the law, today May 17, 2016.

[signature]
VÍCTOR A. SUÁREZ MELÉNDEZ
DESIGNATED SECRETARY OF STATE

EXHIBIT 9A

**ESTADO LIBRE ASOCIADO DE PUERTO RICO
LA FORTALEZA
SAN JUAN, PUERTO RICO**

Boletín Administrativo Núm. OE-2016-027

ORDEN EJECUTIVA DEL GOBERNADOR DEL ESTADO LIBRE ASOCIADO DE PUERTO RICO, HON. ALEJANDRO J. GARCÍA PADILLA, AL AMPARO DE LA LEY NÚM. 21-2016, SEGÚN ENMENDADA, CONOCIDA COMO LA “LEY DE MORATORIA DE EMERGENCIA Y REHABILITACIÓN FINANCIERA DE PUERTO RICO”, PARA ORDENAR LA IMPLEMENTACIÓN DE MEDIDAS CON RELACIÓN A LA AUTORIDAD PARA EL FINANCIAMIENTO DE LA INFRAESTRUCTURA DEL ESTADO LIBRE ASOCIADO DE PUERTO RICO QUE SON RAZONABLES Y NECESARIAS PARA LA CONTINUACIÓN DE LA PRESTACIÓN DE LOS SERVICIOS ESENCIALES PARA PROTEGER LA SALUD, LA SEGURIDAD, LA EDUCACIÓN Y EL BIENESTAR DE LOS RESIDENTES EN EL ESTADO LIBRE ASOCIADO DE PUERTO RICO.

POR CUANTO: El 6 de abril de 2016, firmé la Ley 21-2016, conocida como la “Ley de Moratoria de Emergencia y Rehabilitación Financiera de Puerto Rico” (la “Ley”), y el 30 de abril de 2016, aprobé el Boletín Administrativo Núm. OE-2016-14 (la “OE-2016-14”) para declarar, entre otras medidas, un Periodo de Emergencia en la Autoridad para el Financiamiento de la Infraestructura de Puerto Rico (la “AFI”). Los términos que comienzan en mayúscula en esta Orden Ejecutiva y que no están definidos aquí tendrán los significados que se le conceden en la Ley o en la OE-2016-14, según aplique.

POR CUANTO: Durante las pasadas semanas, la crisis fiscal y de liquidez que encara el Estado Libre Asociado de Puerto Rico (“ELA”) y sus instrumentalidades, incluyendo pero sin limitarse a la AFI, ha empeorado, lo que requiere la implementación de medidas adicionales al amparo de la Ley para continuar la prestación de servicios esenciales para proteger la salud, la seguridad, la educación y el bienestar de los residentes en el ELA, entre otras cosas, mediante el ejercicio válido de su Poder de Razón de Estado.

POR TANTO: Yo, ALEJANDRO J. GARCÍA PADILLA, Gobernador del Estado Libre Asociado, en virtud de los poderes inherentes a mi cargo y de la autoridad que me ha sido conferida por la Constitución del Estado Libre Asociado, por la presente dispongo lo siguiente:

PRIMERO: La OE-2016-14 continuará en vigor en cuanto a su aplicación a la AFI, disponiéndose que, a partir de la fecha de esta Orden Ejecutiva, las

obligaciones relacionadas con las notas denominadas “Puerto Rico Infrastructure Financing Authority, Dedicated Tax Fund Revenue Bond Anticipation Notes Series 2015A” se declaran Obligaciones Cubiertas para todos los propósitos contemplados en la Ley. Además, cualquier obligación de transferir fondos a AFI o por AFI, con respecto a dichas Obligaciones Cubiertas, se designa como Obligación Enumerada y se ordena la suspensión de dicha transferencia, incluyendo la obligación de transferir cualquier ingreso proveniente de impuestos al amparo de la Sección 3060.11A del Código de Rentas Internas de Puerto Rico de 2011 y el Artículo 34 de la Ley Núm. 44 de 12 de junio de 1988, según enmendada.

SEGUNDO: Conforme a la Sección 201(b) de la Ley no se tomará acción alguna, y no se comenzará o continuará reclamación o procedimiento alguno en corte alguna de cualquier jurisdicción con relación a cualquier acción incoada con relación al párrafo PRIMERO de esta Orden Ejecutiva.

TERCERO: SEPARABILIDAD. Esta Orden Ejecutiva deberá ser interpretada de tal manera que pueda mantener su validez, en la medida que sea posible, conforme a la Constitución del Estado Libre Asociado de Puerto Rico y la Constitución de los Estados Unidos. Si cualquier cláusula, párrafo, subpárrafo, disposición o parte de esta Orden Ejecutiva fuese declarada inconstitucional por un tribunal con jurisdicción, la orden emitida por dicho tribunal a esos efectos no afectará ni invalidará el resto de esta Orden Ejecutiva. El efecto de dicha orden estará limitado a la cláusula, párrafo, subpárrafo, disposición o parte de esta Orden Ejecutiva declarada inconstitucional y solamente con respecto a la aplicación de la misma a la obligación particular sujeta a dicha controversia.

CUARTO: RATIFICACIÓN DE LA OE-2016-10 Y OE-2016-14. Por la presente se ratifica y confirma el Boletín Administrativo Núm. OE-2016-10 (la “OE-2016-10”), según enmendada por la OE-2016-14. Asimismo, se ratifica y confirma la OE-2016-14, en todos los aspectos no enmendados por esta Orden Ejecutiva.

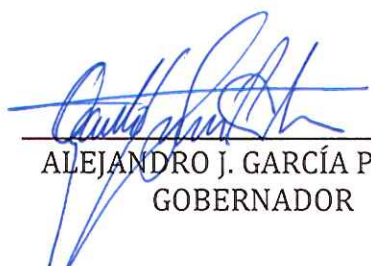
QUINTO: DEROGACIÓN. Se deja sin efecto cualquier otra Orden Ejecutiva que en todo o en parte sea incompatible con esta, hasta donde existiera tal incompatibilidad.

SEXTO: VIGENCIA Y PUBLICACIÓN. Esta Orden Ejecutiva entrará en vigor inmediatamente y permanecerá en vigor hasta (i) el final del Periodo de

Emergencia o (ii) la fecha en la que la misma sea revocada por escrito por el Gobernador, lo que ocurra primero. Se ordena su más amplia publicación y divulgación.

EN TESTIMONIO DE LO CUAL, expido la presente Orden Ejecutiva bajo mi firma y hago estampar en esta el Gran Sello del Estado Libre Asociado de Puerto Rico, en San Juan, Puerto Rico, hoy 24 de junio de 2016.




ALEJANDRO J. GARCÍA PADILLA
GOBERNADOR

Promulgada de acuerdo a la ley, hoy 24 de junio de 2016.


VÍCTOR A. SUÁREZ MELÉNDEZ
SECRETARIO DE ESTADO DESIGNADO

EXHIBIT 9B

**COMMONWEALTH OF PUERTO RICO
LA FORTALEZA
SAN JUAN PUERTO RICO**

Administrative Bulletin No. OE-2016-027

EXECUTIVE ORDER OF THE GOVERNOR OF THE COMMONWEALTH OF PUERTO RICO, HON.ALEJANDRO J. GARCÍA PADILLA, PURSUANT TO ACT NO. 21-2016, AS AMENDED, KNOWN AS THE “PUERTO RICO EMERGENCY AND FINANCIAL REHABILITATION MORATORIUM ACT”, TO ORDER THE IMPLEMENTATION OF MEASURES RELATING TO THE PUERTO RICO INFRASTRUCTURE FINANCING AUTHORITY OF THE OF THE COMMONWEALTH OF PUERTO RICO WHICH ARE REASONABLE AND NECESSARY FOR THE CONTINUATION OF THE PROVISION OF ESSENTIAL SERVICES TO PROTECT HEALTH, SAFETY. THE EDUCATION AND WELFARE OF THE RESIDENTS OF THE COMMONWEALTH OF PUERTO RICO.

WHEREAS: On April 6, 2016, I signed Law 21-2016, known as the “Emergency Moratorium and Financial Rehabilitation Act of Puerto Rico” (the “Act”), and on April 30, 2016, I approved Administrative Bulletin No. OE-2016-14 (OE-2016-14) to declare, among other measures, an Emergency Period at the Puerto Rico Infrastructure Financing Authority (“PRIFA”). The terms that begin in capital letters in this Executive Order and which are not defined herein will have the meanings provided to them in the Act or in OE-2016-14, as applicable.

WHEREAS: Over the past few weeks, the fiscal and liquidity crisis faced by the Commonwealth of Puerto Rico (the “Commonwealth”) and its instrumentalities, including but not limited to PRIFA, has worsened, requiring the imposition of additional measures under the Act to continue the provision of essential services to protect the health, education and well-being of residents in the Commonwealth, among others, through the valid exercise of its Police Power.

WHEREFORE: I, ALEJANDRO J. GARCIA PADILLA, Governor of the Commonwealth of Puerto Rico, by virtue of the powers inherent to my office and the authority conferred upon me by the Constitution of the Commonwealth of Puerto Rico, hereby provide as follows:

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I, Juan E. Segarra, USCCI #06-067/translator, certify that the foregoing is a true and accurate translation, to the best of my abilities, of the document in Spanish which I have seen.

FIRST: OE-2016-14 will continue in force regarding its application to PRIFA, provided that, after the date of this Executive Order, the obligations related to the “Puerto Rico Infrastructure Financing Authority, Dedicated Tax Fund Revenue Bond Anticipation Notes Series 2015A” notes are declared Covered Obligations for all purposes contemplated in the Act. In addition, any obligation to transfer funds to PRIFA or by PRIFA, with respect to such Covered Obligations, is designated as a Listed Obligation and such transfer is ordered suspended, including the obligation to transfer any income from taxes pursuant to Section 3060.11A of the Puerto Rico Internal Revenue Code of 2011 and Section 34 of Act No. 44 of June 12, 1988, as amended.

SECOND: Pursuant to Section 201(b) of the Act, no action shall be taken, and no claim or proceeding shall be commenced or continued in any court of any jurisdiction with respect to any action brought in relation to the FIRST paragraph of this Executive Order.

THIRD: SEPARABILITY. This Executive Order shall be interpreted in such a way as to maintain its validity, as far as possible, in accordance with the Constitution of the Commonwealth of Puerto Rico and the Constitution of the United States. If any clause, paragraph, sub-paragraph, provision or part of this Executive Order is declared unconstitutional by a court with jurisdiction, the order issued by said court for such purposes shall not affect or invalidate the remainder of this Executive Order. The effect of such order shall be limited to the clause, paragraph, sub-paragraph, provision or part of this Executive Order declared unconstitutional and only with respect to the application thereof to the particular obligation subject to said controversy.

FOURTH: RATIFICATION OF OE-2016-10 and OE-2016-14. Administrative Bulletin No. OE-2016-10 (“OE-2016-10”), as amended by OE-2016-14, is hereby ratified and confirmed, in all aspects not amended by this Executive Order.

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FIFTH: REPEAL. Any other Executive Order that, in whole or in part, which is inconsistent with this one, is rendered null and void, to the extent of such inconsistency.

SIXTH: EFFECTIVENESS AND PUBLICATION. This Executive Order shall come into force immediately and shall remain in force until (i) the end of the Emergency Period or (ii) the date on which it is revoked in writing by the Governor, whichever occurs first. Its widest publication and dissemination is hereby ordered.

IN WITNESS WHEREOF, I hereby issue this Executive Order under my signature and cause it to be stamped with the Great Seal of the Commonwealth of Puerto Rico, in San Juan, Puerto Rico, on June 24, 2016.

/s/ Alejandro J. García Padilla
ALEJANDRO GARCÍA PADILLA
GOVERNOR

Promulgated in accordance with the law, on June 24, 2016.

/s/ Víctor A. Suárez Meléndez
VÍCTOR A. SUÁREZ MELÉNDEZ
DESIGNATED SECRETARY OF STATE

EXHIBIT 10A

**ESTADO LIBRE ASOCIADO DE PUERTO RICO
LA FORTALEZA
SAN JUAN, PUERTO RICO**

Boletín Administrativo Núm. OE-2016-30

ORDEN EJECUTIVA DEL GOBERNADOR DEL ESTADO LIBRE ASOCIADO DE PUERTO RICO, HON. ALEJANDRO J. GARCÍA PADILLA, AL AMPARO DE LOS ARTÍCULOS 201 Y 202 DE LA LEY NÚM. 21-2016, SEGÚN ENMENDADA, CONOCIDA COMO “LEY DE MORATORIA DE EMERGENCIA Y REHABILITACIÓN FINANCIERA DE PUERTO RICO”, PARA DECLARAR UN PERIODO DE EMERGENCIA PARA EL ESTADO LIBRE ASOCIADO DE PUERTO RICO (EL “ELA”), Y ORDENAR LA IMPLEMENTACIÓN DE OTRAS MEDIDAS RAZONABLES Y NECESARIAS PARA LA CONTINUACIÓN DE LA PRESTACIÓN DE LOS SERVICIOS ESENCIALES PARA PROTEGER LA SALUD, LA SEGURIDAD Y EL BIENESTAR DE LOS RESIDENTES EN EL ESTADO LIBRE ASOCIADO DE PUERTO RICO; Y PARA OTROS FINES RELACIONADOS.

POR CUANTO: El 6 de abril de 2016, firmé la Ley 21-2016, conocida como la “Ley de Moratoria de Emergencia y Rehabilitación Financiera de Puerto Rico” (la “Ley”). Los términos que comienzan en mayúscula en esta Orden Ejecutiva y que no están definidos aquí tendrán los significados que se le concedieron en la Ley.

POR CUANTO: La Ley declaró un estado de emergencia en reconocimiento de la crisis fiscal que enfrentan el Estado Libre Asociado de Puerto Rico (el “ELA”) y las Entidades Gubernamentales. Ello, ante la amenaza de un incumplimiento desordenado del pago de sus respectivas obligaciones en circulación que afecte la salud, la seguridad y el bienestar de sus residentes.

POR CUANTO: El Secretario de Hacienda me ha informado que, después de pagar los gastos necesarios para proteger la salud, la seguridad, la educación y el bienestar público de los residentes en Puerto Rico, el ELA: 1) no tendrá fondos suficientes para efectuar el pago total al servicio de la Deuda Pública (según definida en la Ley) vencidos el 1 de julio de 2016, y 2) permanecerá en una posición de liquidez frágil durante el año fiscal 2016-2017, periodo durante el cual estará obligado a tomar medidas extraordinarias, como las incluidas en esta Orden Ejecutiva y en el Artículo 108 de la Ley, para garantizar la continuación de los servicios esenciales del gobierno.

POR CUANTO: El ELA tiene la responsabilidad y el deber de garantizar la salud, la seguridad, la educación y el bienestar de los residentes mediante el ejercicio de su poder de razón de estado.

POR TANTO: Yo, ALEJANDRO J. GARCÍA PADILLA, Gobernador del Estado Libre Asociado, en virtud de los poderes inherentes a mi cargo y de la autoridad que me ha sido conferida por la Constitución del Estado Libre Asociado de Puerto Rico, por la presente dispongo lo siguiente:

PRIMERO: Conforme a los Artículos 201 y 202 de la Ley, por la presente declaro un estado de emergencia y el comienzo de un Periodo de Emergencia para el ELA, a partir de la vigencia de esta Orden Ejecutiva, de manera que se proteja la salud, la seguridad y el bienestar de los residentes en el ELA. Además, declaro:

- 1) una moratoria sobre la obligación del ELA de efectuar pagos sobre cualesquier bonos o pagarés emitidos o garantizados por el ELA, distintos a los descritos en el párrafo OCTAVO de esta Orden Ejecutiva;
- 2) que la obligación del ELA de transferir los impuestos al consumo de cigarrillos a la Autoridad Metropolitana de Autobuses (“AMA”) al amparo del Artículo 3060.11 del Código de Rentas Internas de 2011, según enmendado, es una Obligación Enumerada en virtud de la Ley y queda suspendida por esta Orden Ejecutiva;
- 3) que las obligaciones de pago del ELA y sus agencias e instrumentalidades por concepto de contratos de arrendamiento celebrados con la Autoridad de Edificios Públicos de Puerto Rico (“AEP”) son Obligaciones Enumeradas en virtud de la Ley, y, en la medida en que no se incluyan en el presupuesto del Fondo General del año fiscal 2016-2017, quedan suspendidas por esta Orden Ejecutiva; y
- 4) cualquier obligación de la Oficina de Gerencia y Presupuesto del Estado Libre Asociado de Puerto Rico de incluir una asignación de fondos en el presupuesto recomendado presentado a la Asamblea Legislativa para el pago de los bonos emitidos por la Corporación de Finanzas Públicas de Puerto Rico es una Obligación Enumerada en virtud del Ley y queda suspendida por esta Orden Ejecutiva.

SEGUNDO: El Boletín Administrativo Núm.: OE-2016-18, sobre la Autoridad de Carreteras y Transportación de Puerto Rico (“ACT”), permanecerá en vigor, salvo que se extiende el Periodo de Emergencia declarado durante la totalidad del Periodo Cubierto. Asimismo, se suspende el

pago de todas las obligaciones de deuda de la ACT que venzan durante el Periodo de Emergencia emitidas al amparo de la Resolución Núm. 68-18, aprobada el 13 de junio de 1968, según enmendada, y la Resolución Núm. 98-06, aprobada el 26 de febrero de 1998, según enmendada.

TERCERO:

Los Boletines Administrativos Núm.: OE-2016-14 y OE-2016-27 relacionados con la Autoridad para el Financiamiento de la Infraestructura de Puerto Rico ("AFIPR") continuarán en vigor. Además, se suspende el pago de los bonos de la AFIPR que venzan durante el Periodo de Emergencia que sean pagaderos de los ingresos provenientes del impuesto especial a los productos de petróleo transferidos a la AFIPR en el Artículo 3060.11A del Código de Rentas Internas de Puerto Rico de 2011, según enmendado, y la Sección 34 de la Ley. Núm. 44 del 12 de junio de 1988, según enmendada, y los ingresos provenientes del impuesto especial federal al consumo de ron transferidos a la AFIPR en virtud del Artículo 25 de la Ley Núm. 44 del 21 de junio de 1988, según enmendada.

CUARTO:

Conforme a los Artículos 201 y 202 de la Ley, declaro un estado de emergencia y el comienzo de un Periodo de Emergencia para la AEP a partir de la vigencia de esta Orden Ejecutiva. Además, declaro que la obligación de la AEP de transferir, al amparo de la Resolución Núm. 77, aprobada el 16 de noviembre de 1970, que autoriza y asegura los Bonos de Refinanciamiento de Ingresos, Serie L, y cualquier resolución complementaria pertinente, y la Resolución Núm. 468, aprobada el 22 de junio de 1996, que autoriza y asegura los Bonos de Refinanciamiento de Ingresos de Instalaciones Gubernamentales (Series C, D, F, G, H, I, K, M, N, P, Q, R, S, T y U), y cualquier resolución complementaria pertinente, todos los Arrendamientos del Servicio de la Deuda al Agente Fiscal (que se definen, en cada caso, en tales resoluciones), y cualquier obligación de pago correspondiente a la AEP estipulada en la Ley Núm. 56 del 19 de junio de 1958, según enmendada, de transferir tales Arrendamientos del Servicio de la Deuda al Agente Fiscal son Obligaciones Enumeradas en virtud de la Ley y quedan suspendidas por esta Orden Ejecutiva. Además, se suspende el pago de todas las Obligaciones Cubiertas de la AEP que venzan durante el Periodo de Emergencia.

- QUINTO:** Conforme a los Artículos 201 y 202 de la Ley declaro un estado de emergencia y el comienzo de un Periodo de Emergencia para la AMA a partir de la vigencia de esta Orden Ejecutiva. Además, se suspende toda obligación de efectuar pagos de cualquiera de las obligaciones de deuda de la AMA. La presente Orden Ejecutiva no suspende el pago ni la transferencia de cualesquiera obligaciones de la AMA distintas a las previstas en el presente párrafo.
- SEXTO:** Conforme al Artículo 103 (l) (ii)¹ de la Ley, aclaro que no son Obligaciones Cubiertas los pagos al servicio de la deuda que se puedan efectuar de los fondos en depósito con un fiduciario, pero únicamente en la medida en que dichos pagos al servicio de la deuda venzan y sean pagaderos de acuerdo con sus términos programados.
- SÉPTIMO:** Conforme al Artículo 201 (b) de la Ley, no se tomará acción alguna y no se comenzará o continuará reclamación o procedimiento alguno, incluyendo la expedición de emplazamientos en ninguna corte de ninguna jurisdicción, que se relacione con cualquier Obligación Cubierta de cualquier Entidad Gubernamental o sea derivado de ella, incluidas las acciones o procedimientos relacionados con dichas obligaciones o derivados de ellas en los párrafos PRIMERO, SEGUNDO, TERCERO, CUARTO y QUINTO de esta Orden Ejecutiva.
- OCTAVO:** Esta Orden Ejecutiva no suspende ni prohíbe el pago de los préstamos u otras formas de endeudamiento de ninguna Entidad Gubernamental con el Banco Gubernamental de Fomento para Puerto Rico (“BGF”), cuyo producto se use para el desembolso de los fondos depositados en el BGF para garantizar la prestación de los servicios esenciales, de conformidad con el Boletín Administrativo Núm.: OE-2016-10.
- NOVENO:** SEPARABILIDAD. Esta Orden Ejecutiva deberá ser interpretada de manera tal que pueda mantener su validez, en la medida que sea posible, conforme a la Constitución del Estado Libre Asociado, la Constitución de los Estados Unidos y otras leyes aplicables. Si cualquier cláusula, párrafo, subpárrafo, disposición o parte de esta Orden Ejecutiva fuese declarada inconstitucional por un tribunal con jurisdicción, la orden emitida por dicho tribunal a esos efectos no afectará ni invalidará el resto de esta Orden Ejecutiva. El efecto de dicha

¹ La disposición según la versión en español de la Ley es el Artículo 103 (x) (ii).

orden estará limitado a la cláusula, párrafo, subpárrafo, disposición o parte de esta Orden Ejecutiva declarada inconstitucional y solamente con respecto a la aplicación de la misma a la obligación particular sujeta a dicha controversia.

DÉCIMO: DEROGACIÓN. Se deja sin efecto cualquier otra Orden Ejecutiva que en todo o en parte sea incompatible con esta, hasta donde existiera tal incompatibilidad.

UNDÉCIMO: VIGENCIA Y PUBLICACIÓN. Esta Orden Ejecutiva entrará en vigor inmediatamente y permanecerá en vigor hasta (i) la caducidad del Periodo Cubierto o (ii) la fecha en la que sea revocada esta Orden Ejecutiva por escrito por el Gobernador, lo que ocurra primero. Cualquier suspensión de pago, transferencia o disposición de otro tipo por esta Orden Ejecutiva se mantendrá vigente hasta la terminación de la presente Orden Ejecutiva de acuerdo con el presente párrafo o la revocación por escrito por parte del Gobernador de la suspensión en particular. Se ordena su más amplia publicación y divulgación. Esta Orden Ejecutiva se aprobará en español e inglés. Si en la interpretación o aplicación de esta Orden Ejecutiva surge un conflicto entre el texto en español e inglés, prevalece el texto en inglés.

EN TESTIMONIO DE LO CUAL, expido la presente Orden Ejecutiva bajo mi firma y hago estampar en esta el Gran Sello del Estado Libre Asociado de Puerto Rico, en San Juan, Puerto Rico, hoy 30 de junio de 2016.



A handwritten signature in blue ink, appearing to read "Alejandro J. García Padilla".

ALEJANDRO J. GARCÍA PADILLA
GOBERNADOR

Promulgada de acuerdo a la ley, hoy 30 de junio de 2016.

A handwritten signature in blue ink, appearing to read "Victor A. Suarez Melendez".
VÍCTOR A. SUÁREZ MELÉNDEZ
SECRETARIO DE ESTADO

EXHIBIT 10B

COMMONWEALTH OF PUERTO RICO
LA FORTALEZA
SAN JUAN, PUERTO RICO

Administrative Bulletin Num. EO-2016-30

EXECUTIVE ORDER ISSUED BY THE GOVERNOR OF THE COMMONWEALTH OF PUERTO RICO, HON. ALEJANDRO J. GARCÍA PADILLA, PURSUANT TO ACT NO. 21-2016, AS AMENDED, KNOWN AS THE “PUERTO RICO EMERGENCY MORATORIUM AND REHABILITATION ACT,” TO ORDER THE IMPLEMENTATION OF MEASURES THAT ARE REASONABLE AND NECESSARY TO ALLOW FOR THE CONTINUED PROVISION OF ESSENTIAL SERVICES TO PROTECT THE HEALTH, SAFETY AND WELFARE OF THE RESIDENTS OF THE COMMONWEALTH OF PUERTO RICO

WHEREAS: On April 6, 2016, I signed into law Act 21-2016, as amended, known as the “Puerto Rico Emergency Moratorium and Rehabilitation Act” (the “Act”). Capitalized terms used herein and not otherwise defined shall have the meanings assigned to them in the Act.

WHEREAS: The Act declared a state of emergency in recognition of the fiscal crisis faced by the Commonwealth and related Government Entities—namely, that both are threatened with the prospect of disorderly default on outstanding obligations.

WHEREAS: The Secretary of the Treasury has advised me that, after paying for the necessary expenses to protect the public health, safety, education, and welfare of the residents of Puerto Rico, the Commonwealth (1) will have insufficient funds to make the total debt service payments on the Public Debt (as defined in the Act) due on July 1, 2016, and (2) will remain in a fragile liquidity position during fiscal year 2016-2017, during which time it will be required to take extraordinary measures, including those provided herein and in Section 108 of the Act, to ensure the continuation of essential government operations.

WHEREAS: The Commonwealth of Puerto Rico has the responsibility and the duty to ensure the public health, safety, education, and welfare of its residents through the exercise of its police power.

WHEREFORE: I, ALEJANDRO J. GARCÍA PADILLA, Governor of the Commonwealth, by virtue of the inherent powers of my position and the authority vested in

me by the Constitution and the laws of the Commonwealth of Puerto Rico, do hereby order as follow:

FIRST:

Pursuant to Sections 201 and 202 of the Act, I hereby declare the Commonwealth to be in a state of emergency and announce the commencement, as of the date of this Executive Order, of an Emergency Period for the Commonwealth. I further hereby declare (1) a moratorium on the Commonwealth's obligation to make payments on any bonds or notes issued or guaranteed by the Commonwealth, other than those described in the EIGHTH paragraph; (2) that the Commonwealth's obligation to transfer cigarette excise taxes (the "Cigarette Taxes") to the Metropolitan Bus Authority ("AMA") pursuant to Section 3060.11 of the Puerto Rico Internal Revenue Code of 2011, as amended, is an Enumerated Obligation under the Act, and is hereby suspended; (3) that the payment obligations of the Commonwealth and its departments and agencies with respect to leases entered into with the Puerto Rico Public Buildings Authority ("PBA") are Enumerated Obligations under the Act, and, to the extent not included in the fiscal year 2016-2017 general fund budget, are hereby suspended; and (4) any obligation of the Office of Management and Budget of the Commonwealth to include an appropriation in the proposed budget submitted to the Legislative Assembly for the payment of bonds issued by the Puerto Rico Public Finance Corporation ("PFC") is an Enumerated Obligation under the Act, and is hereby suspended.

SECOND:

Administrative Bulletin No. OE-2016-18, as it relates to the Puerto Rico Highways and Transportation Authority ("HTA"), shall continue in effect, except that the Emergency Period declared therein shall be extended through the entirety of the covered period. I further hereby suspend payment of all debt obligations of HTA that come due during the Emergency Period issued pursuant to its Resolution No. 68-18, dated as of June 13, 1968, as amended, and its Resolution No. 98-06, dated as of February 26, 1998, as amended.

THIRD:

Administrative Bulletin Nos. OE-2016-14 and OE-2016-27, as they relate to the Puerto Rico Infrastructure Financing Authority ("PRIFA"), shall continue in effect. I further suspend payment of bonds of PRIFA that come due during the Emergency Period that are payable from petroleum products excise tax revenues transferred to PRIFA under Section 3060.11A of the Puerto Rico Internal Revenue Code of 2011, as amended, and Article 34 of Act. No. 44 of June 12, 1988, as amended (the "PRIFA Crudita") and

federal rum excise tax revenues transferred to PRIFA under Section 25 of Act No. 44 of June 21, 1988, as amended.

FOURTH:

Pursuant to Sections 201 and 202 of the Act, I hereby declare the Puerto Rico Public Buildings Authority (“PBA”) to be in a state of emergency and announce the commencement, as of the date of this Executive Order, of an Emergency Period for PBA. I further hereby declare that PBA’s obligation to transfer, pursuant to its Resolution No. 77, dated November 16, 1970, authorizing and securing the Revenue Refunding Bonds, Series L, and any supplemental resolution thereto, and Resolution No. 468, dated June 22, 1996, authorizing and securing the Government Facilities Refunding Revenue Bonds (Series C, D, F, G, H, I, K, M, N, P, Q, R, S, T and U), and any supplemental resolution thereto, all Debt Service Rentals to the Fiscal Agent (defined, in each case, in such resolutions), and any related obligation of PBA set forth in Act No. 56 of June 19, 1958, as amended, to transfer such Debt Service Rentals to the Fiscal Agent are Enumerated Obligations under the Act, and are hereby suspended. I further hereby suspend payment of all Covered Obligations of PBA that come due during the Emergency Period.

FIFTH:

Pursuant to Sections 201 and 202 of the Act, I hereby declare the Puerto Rico Metropolitan Bus Authority (“AMA”) to be in a state of emergency and announce the commencement, as of the date of this Executive Order, of an Emergency Period for AMA. I further hereby suspend any obligation to make payments on any debt obligations of AMA. This Executive Order does not suspend the payment or transfer of any obligation of AMA other than as provided for in this paragraph.

SIXTH:

Pursuant to Section 103(I)(ii) of the Act,¹ I hereby clarify that debt service payments, but solely to the extent that such debt service payment shall become due and owing according to their scheduled terms, that can be made from funds on deposit with a trustee are not Covered Obligations.

SEVENTH:

Pursuant to Section 201(b) of the Act, no act shall be done, and no action or proceeding shall be commenced or continued in any court of any jurisdiction that is related to or arises under any Covered Obligation of any Government Entity, including actions or proceedings related to or arising under such obligations listed in the FIRST, SECOND, THIRD, FOURTH, and FIFTH paragraphs of this Executive Order.

¹ [Spanish Provision: Section 103(x)(ii)].

EIGHTH: Notwithstanding any provision herein, this Executive Order does not suspend or prohibit the payment of the loans or other indebtedness of any Government Entity owed to the Government Development Bank for Puerto Rico ("GDB"), the proceeds of which shall be used to disburse funds deposited at GDB to ensure the provision of essential services, consistent with Executive Order 2016-10.

NINTH: SEVERABILITY. This Executive Order shall be interpreted in a manner to render it valid to the extent practicable in accordance with the Constitution of the Commonwealth of Puerto Rico and otherwise applicable law. If any clause, paragraph, subparagraph, provision or part of this Executive Order were to be preempted by federal legislation or declared unconstitutional or unlawful by a competent court, the preemption or the order to such effect issued by such court will neither affect nor invalidate the remainder of this Executive Order. The effect of such preemption or order shall be limited to the clause, paragraph, subparagraph, provision or part of this Executive Order preempted or declared unconstitutional and only with respect to the application thereof to the particular obligation subject to such challenge.

TENTH: REPEAL. This order shall prevail over any other Executive Order that may, in whole or in part, be inconsistent with this Executive Order, to the extent of such incompatibility.

ELEVENTH: EFFECTIVENESS AND PUBLICATION. This Executive Order shall take effect immediately upon signature. Its widest publication and dissemination are hereby ordered. This Executive Order shall be enacted in English and Spanish. If in the interpretation or application of this Executive Order any conflict arises as between the English and Spanish texts, the English text shall govern.

TWELFTH: TERMINATION. This Executive Order shall remain in full force and effect until the earlier of (i) expiration of the Covered Period or (ii) revocation of this Executive Order as provided by the Governor in writing. Any suspension of payment, transfer, or otherwise directed by this Executive Order shall remain in effect until the termination of this Executive Order according to this paragraph or the revocation by the Governor in writing of the particular suspension.

IN TESTIMONY BY WHICH, I issue this order under my signature and I
stamp on it the Great Seal of the Commonwealth of Puerto Rico, in the city
of San Juan, today, the 30 day of June, 2016.



Handwritten signature of Alejandro J. García Padilla in blue ink.

ALEJANDRO J. GARCÍA PADILLA
GOVERNOR

Enacted pursuant to applicable law, on June 30, 2016.

Handwritten signature of Víctor A. Suárez Meléndez in blue ink.

VÍCTOR A. SUÁREZ MELÉNDEZ
SECRETARY OF STATE

EXHIBIT 11A

**ESTADO LIBRE ASOCIADO DE PUERTO RICO
LA FORTALEZA
SAN JUAN, PUERTO RICO**

Boletín Administrativo Núm.: OE-2016-31

ORDEN EJECUTIVA DEL GOBERNADOR DEL ESTADO LIBRE ASOCIADO DE PUERTO RICO, HON. ALEJANDRO J. GARCÍA PADILLA, AL AMPARO DE LA LEY NÚM. 21-2016, SEGÚN ENMENDADA, CONOCIDA COMO "LEY DE MORATORIA DE EMERGENCIA Y REHABILITACIÓN FINANCIERA DE PUERTO RICO", PARA DECLARAR UN PERIODO DE EMERGENCIA PARA CIERTAS ENTIDADES GUBERNAMENTALES, APLAZAR CIERTAS OBLIGACIONES DE DEUDA DE ESAS ENTIDADES, SUSPENDER TRANSFERENCIAS DE INGRESOS Y ORDENAR LA IMPLEMENTACIÓN DE OTRAS MEDIDAS RAZONABLES Y NECESARIAS PARA LA CONTINUACIÓN DE LA PRESTACIÓN DE LOS SERVICIOS ESENCIALES PARA PROTEGER LA SALUD, LA SEGURIDAD Y EL BIENESTAR DE LOS RESIDENTES EN EL ESTADO LIBRE ASOCIADO DE PUERTO RICO.

POR CUANTO: El 6 de abril de 2016, firmé la Ley 21-2016, conocida como la "Ley de Moratoria de Emergencia y Rehabilitación Financiera de Puerto Rico" (la "Ley"). Los términos que comienzan en mayúscula en esta Orden Ejecutiva y que no están definidos aquí tendrán los significados que se le concedieron en la Ley.

POR CUANTO: La Ley declaró un estado de emergencia en reconocimiento de la crisis fiscal que enfrentan el Estado Libre Asociado de Puerto Rico (el "ELA") y las Entidades Gubernamentales. Ello, ante la amenaza de un incumplimiento desordenado del pago de sus respectivas obligaciones en circulación que afecte la salud, la seguridad y el bienestar de sus residentes.

POR CUANTO: El Secretario de Hacienda me ha informado que, después de pagar los gastos necesarios para proteger la salud, la seguridad, la educación y el bienestar público de los residentes en Puerto Rico, el ELA: 1) no tendrá fondos suficientes para efectuar el pago total al servicio de la Deuda Pública (según definido en la Ley) vencidos el 1 de julio de 2016, y 2) permanecerá en una posición de liquidez frágil durante el año fiscal 2016-2017, periodo durante el cual estará obligado a tomar medidas extraordinarias, como las incluidas en esta Orden Ejecutiva y en el Artículo 108 de la Ley, para garantizar la continuación de los servicios esenciales del gobierno.

POR CUANTO: El ELA tiene la responsabilidad y el deber de garantizar la salud, la seguridad, la educación y el bienestar de los residentes mediante el ejercicio de su poder de razón de estado.

POR TANTO: Yo, ALEJANDRO J. GARCÍA PADILLA, Gobernador del Estado Libre Asociado de Puerto Rico, en virtud de los poderes inherentes a mi cargo y de la autoridad que me ha sido conferida por la Constitución del Estado Libre Asociado de Puerto Rico, por la presente dispongo lo siguiente:

PRIMERO: Conforme a los Artículos 201 y 202 de la Ley, declaro un estado de emergencia y el comienzo de un Periodo de Emergencia para la Autoridad del Distrito del Centro de Convenciones de Puerto Rico (la "ADCC"), a partir de la vigencia de esta Orden Ejecutiva. Además, declaro que las obligaciones de deuda de la ADCC serán Obligaciones Cubiertas en virtud de la Ley. Declaro, también, que cualquier obligación de la ADCC de transferir los ingresos fiscales de ocupación hotelera (los "Ingresos Fiscales Hoteleros"), al amparo de la sección 31 de la Ley 272-2003 o el Contrato de Fideicomiso, aprobado el 24 de marzo de 2006, según enmendado, con el Banco Gubernamental de Fomento para Puerto Rico (el "BGF") o cualquier Fiduciario (tal como se define en dicho Contrato de Fideicomiso) es una Obligación Enumerada y queda suspendida por esta Orden Ejecutiva. Esta Orden Ejecutiva no suspende el pago de otras obligaciones de la ADCC distintas a las mencionadas en este párrafo.

SEGUNDO: Los Boletines Administrativos Núm.: OE-2016-10, OE-2016-14 y OE-2016-30, relacionados con el BGF, continuarán en vigor, salvo que la obligación del BGF de transferir los Ingresos Fiscales Hoteleros al Fiduciario (cada uno, como se ha definido en el PRIMER párrafo de la presente Orden Ejecutiva) se declara una Obligación Enumerada y queda suspendida por esta Orden Ejecutiva.

TERCERO: Conforme al Artículo 201 (d) de la Ley, declaro que queda suspendida la obligación de la Compañía de Turismo de Puerto Rico de transferir los Ingresos Fiscales Hoteleros (como se define en el PRIMER párrafo de la presente Orden Ejecutiva) al BGF en lo que respecta al pago de las Obligaciones Cubiertas de la ADCC.

CUARTO: Conforme a los Artículos 201 y 202 de la Ley, declaro un estado de emergencia y el comienzo de un Periodo de Emergencia para el Sistema

de Retiro de Empleados del Gobierno del Estado Libre Asociado de Puerto Rico y sus instrumentalidades (el "SRE") a partir de la vigencia de esta Orden Ejecutiva. Además, declaro que queda suspendida cualquier obligación del SRE, al amparo de la Resolución de Bonos para el Financiamiento de Pensiones, aprobada el 24 de enero de 2008, según enmendada, de transferir las aportaciones efectuadas por los patronos que participan en el SRE, y cualesquiera activos en su lugar o derivados del mismo pagados al SRE conforme a los Artículos 2-116, 3-105 y 4-113 de la Ley Núm. 447 del 15 de mayo de 1951, según enmendada, al fiduciario (tal como se define en la Resolución de Bonos para el Financiamiento de Pensiones) es una Obligación Enumerada. Esta Orden Ejecutiva no suspende el pago de otras obligaciones del SRE distintas a las mencionadas en este párrafo.

QUINTO:

Los Boletines Administrativos Núm.: OE-2016-18 y OE-2016-30, que se refieren a la Autoridad de Carreteras y Transportación de Puerto Rico (la "ACT"), continuarán en efecto, salvo que las obligaciones de la ACT de transferir fondos comprometidos en virtud de la Resolución Núm. 68-18, aprobada el 13 de junio de 1968, según enmendada, y la Resolución Núm. 98-06, aprobada el 26 de febrero de 1998, según enmendada, incluyendo los Ingresos por Puestos de Peaje Existentes y los Ingresos por Peaje, al Agente Fiscal (cada uno, según definido en las mencionadas Resoluciones) se declaran por la presente Obligaciones Enumeradas, y quedan suspendidas por esta Orden Ejecutiva. Además, declaro que toda obligación de la ACT de transferir los ingresos pignorados para el pago de préstamos en circulación del BGF queda modificada únicamente en la medida necesaria para proporcionar a la ACT los ingresos que necesita para financiar sus gastos operacionales o servicios esenciales. Esta Orden Ejecutiva no suspende el pago de otras obligaciones de la ACT distintas a las mencionadas en este párrafo.

SEXTO:

El Boletín Administrativo Núm.: OE-2016-030, en lo que respecta al ELA, permanecerá en vigor, excepto que se declaran Obligaciones Enumeradas y quedan suspendidas por esta Orden Ejecutiva:

(a) las obligaciones del ELA de (i) hacer o transferir las Aportaciones del Patrono al SRE hasta el monto del servicio de la deuda a pagar por el SRE durante el año fiscal 2016-2017, (ii) transferir a la ACT los ingresos al amparo de la Sección 3060.11 del Código de Rentas Internas de Puerto Rico de 2011, según enmendada, y la sección 23.01 de la Ley Núm. 22-2000, según enmendada, salvo aquellos mencionados en el

párrafo QUINTO de esta Orden Ejecutiva, los cuales han sido pignorados para el pago de los préstamos del BGF, y (iii) transferir a la Autoridad para el Financiamiento de la Infraestructura de Puerto Rico (la "AFIPR") los ingresos al amparo de los Artículos 25 y 25-A de la Ley Núm. 44 del 21 de junio de 1988, según enmendada; y

b) la obligación de la Autoridad de los Puertos de Puerto Rico de transferir los ingresos al fiduciario de los Bonos para el Financiamiento de la AFI (Proyecto de la Autoridad de los Puertos), Serie 2011.

SÉPTIMO:

El Boletín Administrativo Núm.: OE-2016-14 relacionado con la AFIPR permanecerá en vigor. No obstante, las obligaciones de deuda de la AFIPR declaradas Obligaciones Cubiertas al amparo de la Ley.

OCTAVO:

Conforme a los Artículos 201 y 202 de la Ley, declaro un estado de emergencia y el comienzo de un Periodo de Emergencia para la Compañía de Fomento Industrial de Puerto Rico (la "CFIPR") a partir de la vigencia de esta Orden Ejecutiva. Además, declaro que toda obligación de la CFIPR, al amparo del Contrato de Fideicomiso, aprobado el 1 de julio de 1964, según enmendado, de transferir los ingresos de las Propiedades Fideicomisadas al Fiduciario (cada una, según definida en dicho Contrato de Fideicomiso) es una Obligación Enumerada y queda suspendida por esta Orden Ejecutiva. Sin perjuicio del Periodo de Emergencia decretado para la CFIPR, esta Orden Ejecutiva no suspende el pago de otras obligaciones de la CFIPR.

NOVENO:

Conforme a los Artículos 201 y 202 de la Ley, declaro un estado de emergencia y el comienzo de un Periodo de Emergencia para la Universidad de Puerto Rico (la "UPR") a partir de la vigencia de esta Orden Ejecutiva. Además, declaro que cualquier obligación de la UPR, al amparo del Contrato de Fideicomiso, aprobado el 1 de junio de 1971, según enmendado, de transferir los Ingresos Comprometidos al Fiduciario (cada uno, según definido en dicho Contrato de Fideicomiso) es una Obligación Enumerada y queda suspendida por esta Orden Ejecutiva. Declaro, también, que cualquier obligación de la UPR al amparo del Contrato de Arrendamiento con Desarrollos Universitarios Inc., aprobado el 21 de diciembre de 2000, es una Obligación Cubierta en virtud de la Ley. Esta Orden Ejecutiva no suspende el pago de otras obligaciones de la UPR distintas a las mencionadas en este párrafo.

DÉCIMO:

Conforme a los Artículos 201 y 202 de la Ley, declaro un estado de emergencia y el comienzo de un Periodo de Emergencia para la

Corporación de Finanzas Públicas de Puerto Rico (la “CFP”) a partir de la vigencia de esta Orden Ejecutiva. Además, declaro que cualesquiera obligaciones de la CFP de solicitar la inclusión de una asignación de fondos en el presupuesto propuesto presentado a la Asamblea Legislativa para el pago de los bonos emitidos por la CFP y cualquier obligación de la CFP de hacer que el Secretario de Hacienda transfiera dicha asignación al fiduciario de bonos pertinente son Obligaciones Enumeradas en virtud de la Ley y quedan suspendidas por esta Orden Ejecutiva.

UNDÉCIMO: Conforme al Artículo 103(l)(ii)¹ de la Ley, aclaro que no son Obligaciones Cubiertas los pagos del servicio de la deuda que se puedan efectuar de los fondos en depósito con un fiduciario, pero únicamente en la medida en que dichos pagos del servicio de la deuda venzan y sean pagaderos de acuerdo con sus términos programados.

DUODÉCIMO: Conforme al Artículo 201 (b) de la Ley, no se tomará acción alguna y no se comenzará o continuará reclamación o procedimiento alguno, incluyendo la expedición de emplazamientos en ninguna corte de ninguna jurisdicción, que se relacione con cualquier Obligación Cubierta de cualquier Entidad Gubernamental o sea derivado de ella, incluidas las acciones o procedimientos relacionados con dichas obligaciones o derivados de ellas en los párrafos PRIMERO, SEGUNDO, TERCERO, CUARTO, QUINTO, SEXTO, SÉPTIMO, OCTAVO, NOVENO y DÉCIMO de esta Orden Ejecutiva.

DECIMOTERCERO: Esta Orden Ejecutiva no suspende ni prohíbe el pago de los préstamos u otras formas de endeudamiento de ninguna Entidad Gubernamental debidos al BGF, cuyo producto se use para el desembolso de los fondos depositados en el BGF para garantizar la prestación de los servicios esenciales, de conformidad con el Boletín Administrativo Núm.: OE-2016-10.

DECIMOCUARTO: SEPARABILIDAD. Esta Orden Ejecutiva deberá ser interpretada de tal manera que pueda mantener su validez, en la medida que sea posible, conforme a la Constitución del Estado Libre Asociado y la Constitución de los Estados Unidos. Si cualquier cláusula, párrafo, subpárrafo, disposición o parte de esta Orden Ejecutiva fuese declarada inconstitucional por un tribunal con jurisdicción, la orden emitida por dicho tribunal a esos efectos no afectará ni invalidará el resto de esta

¹ La disposición según la versión en español de la Ley es el Artículo 103 (x) (ii).


Orden Ejecutiva. El efecto de dicha orden estará limitado a la cláusula, párrafo, subpárrafo, disposición o parte de esta Orden Ejecutiva declarada inconstitucional y solamente con respecto a la aplicación de la misma a la obligación particular sujeta a dicha controversia.

DECIMOQUINTO: DEROGACIÓN. Se deja sin efecto cualquier otra Orden Ejecutiva que en todo o en parte sea incompatible con esta, hasta donde existiera tal incompatibilidad.

DECIMOSEXTO: VIGENCIA Y PUBLICACIÓN. Esta Orden Ejecutiva entrará en vigor inmediatamente y permanecerá en vigor hasta (i) la caducidad del Periodo Cubierto o (ii) la fecha en la que la misma sea revocada por escrito por el Gobernador, lo que ocurra primero. Cualquier suspensión de pago, transferencia o disposición de otro tipo por esta Orden Ejecutiva se mantendrá vigente hasta la terminación de la presente Orden Ejecutiva de acuerdo con el presente párrafo o la revocación por escrito por parte del gobernador de la suspensión en particular. Se ordena su más amplia publicación y divulgación.

EN TESTIMONIO DE LO CUAL, expido la presente Orden Ejecutiva bajo mi firma y hago estampar en esta el Gran Sello del Estado Libre Asociado de Puerto Rico, en San Juan, Puerto Rico, hoy 30 de junio de 2016.




ALEJANDRO J. GARCÍA PADILLA
GOBERNADOR

Promulgada de acuerdo a la ley, hoy 30 de junio de 2016.


VÍCTOR A. SUÁREZ MELÉNDEZ
SECRETARIO DE ESTADO

EXHIBIT 11B

COMMONWEALTH OF PUERTO RICO
LA FORTALEZA
SAN JUAN, PUERTO RICO

Administrative Bulletin Num. EO-2016-31

EXECUTIVE ORDER ISSUED BY THE GOVERNOR OF THE COMMONWEALTH OF PUERTO RICO, HON. ALEJANDRO J. GARCÍA PADILLA, PURSUANT TO ACT NO. 21-2016, AS AMENDED, KNOWN AS THE “PUERTO RICO EMERGENCY MORATORIUM AND REHABILITATION ACT,” TO DECLARE AN EMERGENCY PERIOD FOR CERTAIN GOVERNMENT ENTITIES, TO DEFER CERTAIN DEBT SERVICE OBLIGATIONS OF THOSE ENTITIES, TO SUSPEND TRANSFERS OF REVENUES, AND TO ORDER THE IMPLEMENTATION OF OTHER MEASURES THAT ARE REASONABLE AND NECESSARY TO ALLOW FOR THE CONTINUED PROVISION OF ESSENTIAL SERVICES TO PROTECT THE HEALTH, SAFETY AND WELFARE OF THE RESIDENTS OF THE COMMONWEALTH OF PUERTO RICO

WHEREAS: On April 6, 2016, I signed into law Act 21-2016, as amended, known as the “Puerto Rico Emergency Moratorium and Rehabilitation Act” (the “Act”). Capitalized terms used herein and not otherwise defined shall have the meanings assigned to them in the Act.

WHEREAS: The Act declared a state of emergency in recognition of the fiscal crisis faced by the Commonwealth and related Government Entities—namely, that both are threatened with the prospect of disorderly default on outstanding obligations.

WHEREAS: The Secretary of the Treasury has advised me that, after paying for the necessary expenses to protect the public health, safety, education, and welfare of the residents of Puerto Rico, the Commonwealth (1) will have insufficient funds to make the total debt service payments on the Public Debt (as defined in the Act), and (2) will remain in a fragile liquidity position during fiscal year 2016-2017, during which time it will be required to take extraordinary measures, including those provided herein and in Section 108 of the Act, to ensure the continuation of essential government operations.

WHEREAS: The Commonwealth of Puerto Rico has the responsibility and the duty to ensure the public health, safety, education, and welfare of its residents through the exercise of its police power.

WHEREFORE: I, ALEJANDRO J. GARCÍA PADILLA, Governor of the Commonwealth, by virtue of the inherent powers of my position and the authority vested in me by the Constitution and the laws of the Commonwealth of Puerto Rico, do hereby order as follow:

FIRST: Pursuant to Sections 201 and 202 of the Act, I hereby declare the Puerto Rico Convention Center District Authority (“CCDA”) to be in a state of emergency and announce the commencement, as of the date of this Executive Order, of an Emergency Period for CCDA. I further hereby declare that debt obligations of CCDA shall be Covered Obligations under the Act. I further declare any obligation of CCDA to transfer hotel occupancy tax revenues (the “Hotel Tax Revenues”) pursuant to Article 31 of Act 272-2003 or the Trust Agreement, dated as of March 24, 2006, as amended, to the Government Development Bank for Puerto Rico (“GDB”) or any Trustee (as defined in such Trust Agreement) is an Enumerated Obligation, and is hereby suspended. This Executive Order does not suspend the payment of other obligations of CCDA other than as provided for in this paragraph.

SECOND: Administrative Bulletin Nos. OE-2016-10, OE-2016-14, and OE-2016-30, as they relate to GDB, shall continue in effect, except that GDB’s obligation to transfer Hotel Tax Revenues to the Trustee (each, as defined in the FIRST paragraph of this Executive Order) is declared an Enumerated Obligation, and is hereby suspended.

THIRD: Pursuant to Section 201(d) of the Act, I hereby declare that the Puerto Rico Tourism Company’s obligation to transfer Hotel Tax Revenues (as defined in the FIRST paragraph of this Executive Order) to GDB is hereby suspended as it relates to payment of Covered Obligations of CCDA.

FOURTH: Pursuant to Sections 201 and 202 of the Act, I hereby declare the Employees Retirement System of the Government of the Commonwealth of Puerto Rico and its Instrumentalities (“ERS”) to be in a state of emergency and announce the commencement, as of the date of this Executive Order, of an Emergency Period for ERS. I further declare that any obligation of ERS, pursuant to the Pension Funding Bond Resolution, dated as of January 24, 2008, as amended, to transfer contributions made by employers that participate in ERS, and any assets in lieu thereof or derived thereunder paid to ERS under Sections 2-116, 3-105, and 4-113 of Act No. 447 of May 15, 1951, as amended, to the Trustee (as defined in such Pension Funding Bond

Resolution) is an Enumerated Obligation, and is hereby suspended. This Executive Order does not suspend payment of other obligations of ERS other than as provided for in this paragraph.

FIFTH:

Administrative Bulletin Nos. OE-2016-18 and OE-2016-30, as they relate to the Puerto Rico Highways and Transportation Authority (“HTA”), shall continue in effect, except that HTA’s obligations to transfer pledged funds under Resolution No. 68-18, dated as of June 13, 1968, as amended, and Resolution No. 98-06, dated as of February 26, 1998, as amended, including Existing Toll Facilities Revenues and Toll Revenues, to the Fiscal Agent (each, as defined in such Resolutions) are hereby declared Enumerated Obligations, and are hereby suspended. I further hereby declare that any obligation of HTA to transfer revenues pledged for the payment of outstanding loans owed to GDB, is hereby modified solely to the extent necessary to provide HTA with the revenues it requires to fund operating expenses or essential services. This Executive Order does not suspend payment of other obligations of HTA other than as provided for in this paragraph.

SIXTH:

Administrative Bulletin No. OE-2016-30, as it relates to the Commonwealth of Puerto Rico, shall continue in effect, except that (a) the Commonwealth’s obligations to (i) make or transfer Employer Contributions to ERS up to the amount of debt service payable by ERS during fiscal year 2016-2017, (ii) transfer revenues to HTA pursuant to Section 3060.11 of the Puerto Rico Internal Revenue Code of 2011, as amended, and Section 23.01 of Act No. 22-2000, as amended, other than those revenues referred to in paragraph FIFTH, which have been pledged for the payment of outstanding loans owed to GDB, and (iii) transfer revenues to the Puerto Rico Infrastructure Finance Authority (“PRIFA”) pursuant to Articles 25 and 25-A of Act No. 44 of June 21, 1988, as amended, and (b) the Puerto Rico Ports Authority obligation to transfer revenues to the Trustee of the Puerto Rico Infrastructure Financing Authority Revenue Bonds (Ports Authority Project), Series 2011, are declared Enumerated Obligations, and are hereby suspended.

SEVENTH:

Administrative Bulletin No. OE-2016-14 related to PRIFA shall continue in effect, except that any debt obligations of PRIFA are declared Covered Obligations under the Act.

EIGHTH: Pursuant to Sections 201 and 202 of the Act, I hereby declare the Puerto Rico Industrial Development Company (“PRIDCO”) to be in a state of emergency and announce the commencement, as of the date of this Executive Order, of an Emergency Period for PRIDCO. I further hereby declare that any obligation of PRIDCO, pursuant to the Trust Indenture, dated as of July 1, 1964, as amended, to transfer revenues from the Trusteed Properties to the Trustee (each, as defined in such Trust Indenture) is an Enumerated Obligation, and is hereby suspended. Notwithstanding the declaration of the Emergency Period for PRIDCO pursuant to this Executive Order, this Executive Order does not suspend payment of other obligations of PRIDCO.

NINTH: Pursuant to Sections 201 and 202 of the Act, I hereby declare the University of Puerto Rico (“UPR”) to be in a state of emergency and announce the commencement, as of the date of this Executive Order, of an Emergency Period for UPR. I further declare that any obligation of UPR, pursuant to the Trust Agreement, dated as of June 1, 1971, as amended, to transfer Pledged Revenues to the Trustee (each, as defined in such Trust Agreement) is an Enumerated Obligation, and is hereby suspended. I further declare that any obligation of UPR pursuant to the Lease Agreement with Desarrollos Universitarios Inc., dated as of December 21, 2000, is a Covered Obligation under the Act. This Executive Order does not suspend payment of other obligations of UPR other than as provided for in this paragraph.

TENTH: Pursuant to Sections 201 and 202 of the Act, I hereby declare the Puerto Rico Public Finance Corporation (“PFC”) to be in a state of emergency and announce the commencement, as of the date of this Executive Order, of an Emergency Period for PFC. I further declare that any obligation of PFC to request the inclusion of an appropriation in the proposed budget submitted to the Legislative Assembly for the payment of bonds issued by PFC and any obligation of PFC to cause the Secretary of the Treasury to transfer such appropriation to the relevant bond trustee are Enumerated Obligations under the Act, and are hereby suspended.

ELEVENTH: Pursuant to Section 103(1)(ii) of the Act,¹ I hereby clarify that debt service payments, but solely to the extent that such debt service payment shall become due and owing according to their scheduled terms, that can be made from funds on deposit with a trustee, are not Covered Obligations.

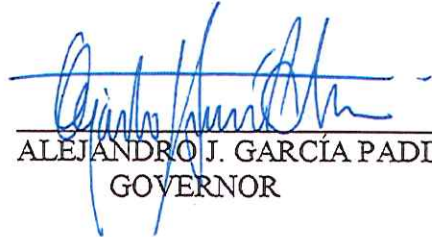
¹ [Spanish Provision: Section 103(x)(ii)].

- TWELFTH:** Pursuant to Section 201(b) of the Act, no act shall be done, and no action or proceeding shall be commenced or continued in any court of any jurisdiction that is related to or arises under any Covered Obligation of Government Entities, including actions or proceedings related to or arising under such obligations listed in the FIRST, SECOND, THIRD, FOURTH, FIFTH, SIXTH, SEVENTH, EIGHTH, NINTH and TENTH paragraphs of this Executive Order.
- THIRTEENTH:** Notwithstanding any provision herein, this Executive Order does not suspend or prohibit the payment of the loans or other indebtedness of any Government Entity owed to GDB, the proceeds of which shall be used to disburse funds deposited at GDB to ensure the provision of essential services, consistent with Executive Order 2016-10.
- FOURTEENTH:** SEVERABILITY. This Executive Order shall be interpreted in a manner to render it valid to the extent practicable in accordance with the Constitution of the Commonwealth of Puerto Rico and otherwise applicable federal law. If any clause, paragraph, subparagraph, provision or part of this Executive Order were to be preempted or declared unconstitutional or unlawful by a competent court, the order to such effect issued by such court will neither affect nor invalidate the remainder of this Executive Order. The effect of such preemption or order shall be limited to the clause, paragraph, subparagraph, provision or part of this Executive Order preempted or declared unconstitutional or unlawful and only with respect to the application thereof to the particular obligation subject to such challenge.
- FIFTEENTH:** REPEAL. This order shall prevail over any other Executive Order that may, in whole or in part, be inconsistent with this Executive Order, to the extent of such incompatibility.
- SIXTEENTH:** EFFECTIVENESS AND PUBLICATION. This Executive Order shall take effect immediately. Its widest publication and dissemination are hereby ordered. This Executive Order shall be enacted in both English and Spanish. If in the interpretation or application of this Executive Order any conflict arises as between the English and Spanish texts, the English text shall govern.
- SEVENTEENTH:** TERMINATION. This Executive Order shall remain in full force and effect until the earlier of (i) expiration of the Covered Period or (ii) revocation of this Executive Order as provided by the Governor in writing. Any

suspension of payment, transfer, or otherwise directed by this Executive Order shall remain in effect until the termination of this Executive Order according to this paragraph or the revocation by the Governor in writing of the particular suspension.

IN TESTIMONY BY WHICH, I issue this order under my signature and I stamp on it the Great Seal of the Commonwealth of Puerto Rico, in the city of San Juan, today, the 30 day of June, 2016.




ALEJANDRO J. GARCÍA PADILLA
GOVERNOR

Enacted pursuant to applicable law, on June 30, 2016.


VÍCTOR A. SUÁREZ MELÉNDEZ
DESIGNATED SECRETARY OF STATE

EXHIBIT 12A

(P. de la C. 675)

LEY

Para crear la "Ley de Emergencia Financiera y Responsabilidad Fiscal de Puerto Rico" a los fines de establecer los mecanismos para que el Gobierno de Puerto Rico satisfaga sus obligaciones reconociendo a su vez la responsabilidad de proveer servicios esenciales a los residentes de Puerto Rico; para proveer facultades al Gobernador con el objetivo de viabilizar los mecanismos necesarios para que el Gobierno de Puerto Rico pueda salir de la situación de emergencia; así como para reconocer al Gobernador la facultad de delegar estas funciones en algún componente de la Rama Ejecutiva; para derogar los Capítulos 1 y 2; y para reenumerar los existentes Capítulos 3, 4 y 5 como 1, 2 y 3 de la Ley de Moratoria de Emergencia Fiscal y Rehabilitación Financiera de Puerto Rico, Ley 21-2016, según enmendada; para añadir el Artículo 23 a la Ley Núm. 22 de 24 de julio de 1985, según enmendada, a los fines de establecer que en cuanto a las enmiendas que se realizaron mediante la Ley 21-2016 a su Ley Orgánica en caso de conflicto entre el idioma inglés y español, el idioma inglés prevalecerá; y para reenumerar el Artículo 23 como 24 de la Ley Núm. 22 de 24 de julio de 1985, según enmendada; disponer que el texto en inglés prevalecerá sobre el español y para otros fines relacionados.

EXPOSICIÓN DE MOTIVOS

I. Declaración de intención

La 18^{va}. Asamblea Legislativa ha iniciado sus labores en momentos en que Puerto Rico se encuentra en medio de una crisis financiera y económica crónica y sistémica. El 30 de junio de 2016 el Presidente Barack Obama firmó la ley denominada *Puerto Rico Oversight, Management, and Economic Stability Act*, conocida como PROMESA (por sus siglas en inglés), Pub. L. 114-187. PROMESA fue promulgada de conformidad con la Sección 3 del Artículo IV de la Constitución de los Estados Unidos de América, la cual confiere al Congreso la potestad de disponer y establecer todas las reglas y reglamentos que sean necesarios para los territorios. PROMESA estableció una Junta de Supervisión Fiscal para Puerto Rico (Junta de Supervisión Fiscal) para disponer un método mediante el cual el Gobierno de Puerto Rico y sus instrumentalidades alcancen la responsabilidad fiscal y logren acceder a los mercados de capital. El 30 de octubre de 2016, la Junta de Supervisión Fiscal designó a Puerto Rico, al Sistema de Retiro de los Empleados del Gobierno, al Sistema de Retiro de la Judicatura, al Sistema de Retiro para Maestros, a la Universidad de Puerto Rico y veintiuna corporaciones públicas de Puerto Rico como "entidades cubiertas" sujetas a supervisión fiscal a tenor con PROMESA. La Sección 405(b) de PROMESA impone además una paralización temporera de los litigios y las

reclamaciones contra Puerto Rico y sus instrumentalidades sobre distintos asuntos (según puedan ser ampliados conforme a PROMESA, la "Paralización en virtud de PROMESA"), con la esperanza de que el Gobierno de Puerto Rico, a nombre propio y a nombre de sus instrumentalidades, entable negociaciones voluntarias con sus acreedores para reorganizar y transigir el repago de sus obligaciones de deuda y simultáneamente emprenda una reestructuración responsable del Gobierno de Puerto Rico y sus instrumentalidades que reajuste los servicios esenciales requeridos para la salud, seguridad y bienestar de los residentes de Puerto Rico con el repago puntual de sus obligaciones de deuda. Conforme a PROMESA, las continuas acciones de planificación fiscal, las acciones presupuestarias, legislativas y ejecutivas de Puerto Rico, así como las reestructuraciones de deuda, consensuales o no, y la emisión, garantía, intercambio, modificación, recompra o redención de deuda están sujetas a supervisión.

Esta Ley que se conocerá como la "Ley para la Emergencia Financiera y Responsabilidad Fiscal de Puerto Rico" (la Ley) pretende facilitar y fomentar un proceso de negociación voluntaria conforme a PROMESA entre el Gobernador y/o la Autoridad de Asesoría Financiera y Agencia Fiscal de Puerto Rico, a nombre del Gobierno de Puerto Rico, y los acreedores del Gobierno de Puerto Rico y sus instrumentalidades. Esta Ley autoriza al Gobierno de Puerto Rico, dentro de los parámetros establecidos por PROMESA, a designar ciertos servicios necesarios para la salud, la seguridad y el bienestar de los residentes de Puerto Rico que son prestados por el Gobierno de Puerto Rico y sus instrumentalidades como "servicios esenciales" con arreglo a la Constitución de Puerto Rico.

Con la aprobación de esta Ley, la Asamblea Legislativa remueve obstáculos significativos y contenciosos a las negociaciones voluntarias con los acreedores del Gobierno. En específico, esta Ley enmienda y deroga partes de la "Ley de Moratoria de Emergencia y Rehabilitación Financiera de Puerto Rico", Ley 21-2016, según enmendada por la Ley 40-2016 y la Ley 68-2016 (la Ley de Moratoria). La "Ley de Moratoria" y las Órdenes Ejecutivas emitidas por el Gobernador de conformidad con la "Ley de Moratoria" (las Órdenes Ejecutivas) le permitían al Gobierno detener el pago puntual de sus obligaciones antes de la promulgación de PROMESA. La aprobación de PROMESA, sin embargo, ha establecido procesos y términos de tiempo puntuales para la resolución de la emergencia financiera del Gobierno que tienen prelación sobre las disposiciones de la "Ley de Moratoria" y las dejan sin efecto. Con PROMESA y el establecimiento de la Junta de Supervisión Fiscal se le han dado a Puerto Rico las herramientas para establecer disciplina fiscal, reestructurar su deuda y ofrecerle una nueva oportunidad al Territorio.

La promulgación de la "Ley de Moratoria" y la emisión de algunas de las Órdenes Ejecutivas han producido además litigios significativos incoados por acreedores del Gobierno de Puerto Rico y sus instrumentalidades. Estos litigios son

costosos y consumen los recursos necesarios para salvaguardar la salud, seguridad y el bienestar de los residentes de Puerto Rico y para hacer crecer la economía del Territorio. Además, impiden las negociaciones voluntarias con los acreedores. Con el establecimiento de la Junta de Supervisión Fiscal y el requisito de PROMESA de que la Junta de Supervisión Fiscal prepare un plan fiscal conforme a PROMESA, es imprescindible que esta Asamblea Legislativa y el Gobierno de Puerto Rico dirijan rápidamente su atención a colaborar con la Junta de Supervisión Fiscal para garantizar un proceso de negociación y transacción voluntaria (en lugar de uno impuesto sobre el Territorio) para el Gobierno de Puerto Rico y sus acreedores. Sin concederle primero una oportunidad al Gobierno de Puerto Rico de emprender unos intentos significativos para alcanzar una resolución consensual con sus acreedores, la cual es necesaria para la salud, seguridad y bienestar de los residentes de Puerto Rico, PROMESA ordena que la Junta de Supervisión Fiscal imponga una resolución al Territorio.

La Sección 204(c)(3) de PROMESA confiere a la Junta de Supervisión Fiscal la facultad de derogar cualesquiera leyes promulgadas entre el 4 de mayo de 2016 y el 30 de septiembre de 2016 (esta última fecha es la fecha en que la Junta de Supervisión Fiscal y su Presidente asumieron sus cargos) y que permitan la transferencia de cualesquier fondos o bienes fuera del curso ordinario de los negocios o que sean incongruentes con la Constitución de Puerto Rico o las leyes de Puerto Rico (el Periodo de Derogación). Esta Asamblea Legislativa y el nuevo Gobernador de Puerto Rico, actuando de buena fe y con la intención de facilitar negociaciones lideradas por el Gobierno con los acreedores del Gobierno de Puerto Rico y sus instrumentalidades, sostienen que resulta en el mejor interés de Puerto Rico derogar leyes que sean incongruentes con PROMESA y que impidan un proceso de negociación voluntaria con los acreedores del Gobierno de Puerto Rico y sus instrumentalidades. En consecuencia, esta Ley: (i) deroga partes significativas de la Ley de Moratoria; y (ii) suspende o cancela, o ambas, todas las asignaciones especiales no presupuestadas en el año fiscal en curso que puedan haber sido aprobadas para múltiples años en años fiscales anteriores.

Según datos provistos por el Departamento del Tesoro, Puerto Rico sufre una contracción económica de 14.6% en el Producto Estatal Bruto (PEB real) con una proyección de una contracción adicional de 3% para los próximos 2 años. Por años, el Gobierno ha operado con un déficit estructural el cual ha sido financiado con emisiones de bonos y préstamos al Banco Gubernamental de Fomento. Hace más de 1 año que el Gobierno carece de liquidez y se han estado utilizando los reintegros, pagos de los contratistas, el dinero de los pensionados y préstamos intra-gubernamentales para sustituir las fuentes de liquidez.

El acceso a la información financiera del Gobierno, así como la preparación de proyecciones adecuadas, se ha visto afectado por una estructura gubernamental fraccionada y sistemas gubernamentales obsoletos. Los recaudos son consistentemente sobreestimados y continúan disminuyendo a pesar de que se impusieron múltiples

nuevos impuestos. El Banco Gubernamental de Fomento incumplió sus obligaciones con los bonistas desde el 1 de mayo de 2016 y ya no cumple su rol de proveer liquidez. La cartera de obligaciones de Puerto Rico asciende a \$66,000 millones e incluye 18 emisores distintos los cuales están en precario estado financiero. El servicio de la deuda asciende a un promedio de \$3,500 millones y consume más de una cuarta parte de las fuentes de ingresos. Los sistemas de retiro están prácticamente insolventes con una deuda actuarial de \$50,000 millones de dólares. Lo anterior se agrava por la reducción poblacional ocasionada por la ola migratoria que comenzó en el 2006 y que se convierte en uno de los retos para encaminarnos hacia la recuperación.

Ante este tétrico cuadro es hora de enrollarnos las mangas y trabajar arduamente por el bienestar de Puerto Rico. Nos corresponde construir un nuevo Puerto Rico e implementar una administración y política pública que deje de improvisar y administrar las finanzas de año en año, y empezar a abordar el desequilibrio a largo plazo entre el gasto y los ingresos. Nuestro compromiso en el Plan para Puerto Rico es atender de manera responsable estas situaciones y devolverle la credibilidad a nuestra Isla. Tenemos que mirar hacia el futuro y anticipar estos desafíos en lugar de simplemente sobrevivir de una crisis a la siguiente. Los líderes y funcionarios de los componentes gubernamentales de Puerto Rico deben concentrarse en equilibrar los gastos y los ingresos, reducir el nivel de intervención gubernamental en la economía de Puerto Rico y proporcionar un ambiente de negocios competitivo, donde impere la buena fe, para que los inversionistas y empresarios locales y externos lideren el camino hacia la recuperación económica. Las políticas del pasado llevaron al Congreso de los Estados Unidos a promulgar PROMESA, que delega en una Junta de Supervisión Fiscal la facultad de trabajar con el Gobierno de Puerto Rico para sacarnos de la crisis por la que atravesamos. A esos efectos, el 20 de diciembre de 2016, la Junta Supervisión Fiscal ha solicitado como prioridades de Puerto Rico el incluir un plan y compromiso para implementar cambios significativos dirigidos a:

- o Restaurar el crecimiento económico y crear una economía más competitiva. A corto plazo, se debe liberalizar el mercado laboral y los programas de ayuda social, reducir el costo energético, racionalizar y optimizar los impuestos y mejorar el proceso de permisos para promover la inversión.
- o Reestructurar el Gobierno para obtener presupuestos balanceados mientras se mantienen los servicios esenciales para los puertorriqueños.
- o Reestructurar el sistema de pensiones conforme a PROMESA y restablecer el acceso a los mercados capitales.

Para ello, es preciso hacer cambios sin precedentes que hagan un gobierno más eficiente y fiscalmente responsable. Precisamente, el Plan para Puerto Rico que el Pueblo avaló el 8 de noviembre de 2016 recoge medidas para lograr responsabilidad fiscal y desarrollar la economía de la Isla.

II. Trasfondo.

A. Aprobación de la "Ley de Moratoria"

El 6 de abril de 2016, el entonces Gobernador Alejandro García Padilla (Gobernador García Padilla) firmó la "Ley de Moratoria". Cuando aprobó la "Ley de Moratoria", la 17^{ma}. Asamblea Legislativa hizo ciertas determinaciones, según se refleja en el Artículo 108 de la "Ley de Moratoria", en el sentido de que el Gobierno debía priorizar el pago de servicios esenciales sobre el servicio a la deuda.

La "Ley de Moratoria" se promulgó en un momento en que no se había completado aún una acción por parte del Congreso federal que atendiera la crisis financiera de Puerto Rico.

La "Ley de Moratoria" tenía cuatro objetivos principales. El primero, establecido en el Capítulo 2 de la "Ley de Moratoria", autorizaba al Gobernador a: (i) declarar una moratoria en los pagos del servicio a la deuda por un periodo temporero para el Gobierno de Puerto Rico, el Banco Gubernamental de Fomento para Puerto Rico (BGF), el Banco de Desarrollo Económico para Puerto Rico, o cualquier otra instrumentalidad del Gobierno de Puerto Rico, y (ii) suspender los remedios de los acreedores que pudiesen surgir como resultado de la moratoria. El segundo objetivo, establecido en los Capítulos 3 y 4 de la "Ley de Moratoria", era enmendar la "Ley Orgánica del BGF" para proporcionarle al BGF opciones y herramientas para atender sus propias dificultades financieras. Estas enmiendas (a) modernizaban la "Ley Orgánica del BGF" en lo que respecta al nombramiento de un síndico para el BGF y (b) autorizaban la creación de un banco "puente" temporero para llevar a cabo ciertas funciones del BGF y para honrar depósitos. El tercer objetivo, establecido en el Capítulo 5 de la "Ley de Moratoria", era enmendar la "Ley Orgánica del BDE" para modernizar las disposiciones sobre el nombramiento de un síndico para el BDE. El cuarto objetivo, establecido en el Capítulo 6 de la "Ley de Moratoria", era crear la Autoridad de Asesoría Fiscal y Financiera de Puerto Rico. La nueva Administración promulgó una ley que deroga el Capítulo 6 de la Ley 21-2016 y creó una nueva Autoridad, con amplios poderes, conocida como la Autoridad de Asesoría Financiera y Agencia Fiscal de Puerto Rico, Ley 2-2017.

B. Declaración de Estado de Emergencia del Estado Libre Asociado y Ciertas Entidades Gubernamentales

Luego de que se promulgara la "Ley de Moratoria", el Gobernador García Padilla emitió varias Órdenes Ejecutivas conforme a la autoridad que le confería la "Ley de Moratoria". Como parte de las Órdenes Ejecutivas, el Gobernador García Padilla declaró un estado de emergencia para el Estado Libre Asociado (EO 2016-30); el BGF (EO 2016-10); la Autoridad para el Financiamiento de la Infraestructura (AFI) (EO 2016-14), la Autoridad de Carreteras y Transportación (ACT) (EO 2016-17); la Autoridad de

Edificios Públicos (AEP) (EO 2016-30); la Autoridad Metropolitana de Autobuses (AMA) (EO 2016-30); la Autoridad del Distrito del Centro de Convenciones (ADCC) (EO 2016-31); el Sistema de Retiro de los Empleados del Gobierno del Estado Libre Asociado de Puerto Rico y sus Instrumentalidades (Sistema de Retiro) (EO 2016-31); la Compañía de Fomento Industrial (PRIDCO) (EO 2016-31); la Universidad de Puerto Rico (UPR) (EO 2016-31); y la Corporación para el Financiamiento Público (PFC) (EO 2016-31). Las Órdenes Ejecutivas EO-2016-17 y EO-2016-29 excluyen a la Autoridad de Energía Eléctrica (AEE) del alcance de la "Ley de Moratoria".

La derogación de partes de la "Ley de Moratoria", inclusive de aquellas partes que establecen periodos de emergencia y la paralización de litigios, no deben exponer al Gobierno a más litigios incoados por los acreedores. La Sección 405 de PROMESA concede una paralización temporera de los litigios para facilitar las negociaciones voluntarias entre el Gobierno y sus acreedores. Con la derogación de los periodos de emergencia y la paralización de los litigios bajo la "Ley de Moratoria", esta Asamblea Legislativa y el Gobernador están comunicando su deseo de emprender negociaciones voluntarias con los acreedores del Gobierno de Puerto Rico y sus instrumentalidades en lugar de gastar más recursos y tiempo litigando mociones procesales que no ayudan a facilitar una transacción y reestructuración justa ni a atender la necesidad extrema de crecimiento económico y de servicios efectivos y eficientes que tiene el pueblo del Territorio.

DECRÉTASE POR LA ASAMBLEA LEGISLATIVA DE PUERTO RICO:

CAPÍTULO 1.-DISPOSICIONES GENERALES

Artículo 101.-Título Corto

Esta Ley se conocerá y podrá citarse como la "Ley para la Emergencia Financiera y Responsabilidad Fiscal de 2017".

Artículo 102.-Declaración de Emergencia Financiera

Por la presente se determina y declara que la grave emergencia que la Asamblea Legislativa ha identificado y declarado en numerosas ocasiones continúa empeorando, que esta continua emergencia financiera y el impacto que ha producido en la solvencia del Gobierno de Puerto Rico y sus instrumentalidades continúan afectando significativa y adversamente la capacidad de cumplir con las obligaciones financieras y salvaguardar la salud, seguridad y el bienestar de los residentes de Puerto Rico; y que resolver la emergencia financiera y establecer responsabilidad fiscal dentro del Gobierno de Puerto Rico y sus instrumentalidades es indispensable para garantizar que se provean aquellos servicios gubernamentales que son esenciales para salvaguardar la salud, seguridad y el bienestar de los residentes de Puerto Rico.

Esta continua emergencia financiera ha sido reconocida por el Gobierno de los Estados Unidos mediante la promulgación de la ley conocida como *Puerto Rico Oversight, Management, and Economic Stability Act*, Pub. L. 114-187 (PROMESA), la cual establece, entre otras cosas, medidas para asistir al Gobierno de Puerto Rico y sus instrumentalidades a alcanzar la responsabilidad fiscal y acceder a los mercados de capital.

En el proceso de aprobar PROMESA, el Congreso de los Estados Unidos determinó que la combinación de un descenso severo de la economía y, ocasionalmente, déficits operacionales acumulados, falta de transparencia financiera, ineficiencias administrativas y préstamos excesivos crearon una emergencia fiscal en Puerto Rico y como resultado de su emergencia fiscal, el Gobierno de Puerto Rico no ha podido garantizar su continua operación y proveer servicios esenciales de manera efectiva a los residentes de Puerto Rico.

Existen ciertos derechos, poderes y obligaciones generales de Puerto Rico, fundamentados o impuestos en la Constitución de los Estados Unidos y la Constitución de Puerto Rico, el derecho estatutario y la equidad, que surgen como resultado de tal emergencia; y ciertos derechos, poderes y obligaciones adicionales conferidos o impuestos por PROMESA y el ejercicio por parte del Congreso de los Estados Unidos de sus poderes bajo la cláusula territorial. En vista de la continua emergencia financiera y de la promulgación de PROMESA, la Asamblea Legislativa tiene la responsabilidad de ejercer su poder de razón de estado, de forma tal que se reconozca la responsabilidad de satisfacer las obligaciones financieras del Gobierno de Puerto Rico y sus instrumentalidades, mientras se continúan proveyendo servicios gubernamentales esenciales para salvaguardar la salud, seguridad y el bienestar de los residentes de Puerto Rico dados los limitados recursos disponibles del Gobierno de Puerto Rico y sus instrumentalidades, todo esto de manera congruente con PROMESA. En el ejercicio de su poder de razón, la Asamblea Legislativa reconoce además la necesidad de remediar la emergencia financiera asegurando un manejo fiscal prudente, una administración eficiente y la prestación de servicios esenciales y permitiendo al mismo tiempo la negociación con los acreedores y la reestructuración de las obligaciones contractuales.

La Asamblea Legislativa declara además que el Gobernador de Puerto Rico también debe estar completamente autorizado para ejercer la responsabilidad del Gobernador de salvaguardar la salud, seguridad y el bienestar de los residentes de Puerto Rico y confiere al Gobernador con carácter de emergencia el ejercicio del poder de razón de Estado conforme a esta Ley, incluyendo, pero sin limitarse, a los poderes relacionados con la identificación de aquellos servicios esenciales para la salud, seguridad y bienestar de Puerto Rico; garantizar la administración eficiente y efectiva del Gobierno de Puerto Rico y sus instrumentalidades; y la supervisión y dirección de los asuntos fiscales del Gobierno de Puerto Rico y sus instrumentalidades.

Artículo 103.-Definiciones

Las siguientes palabras y términos, cuando se usen en esta Ley, tendrán los significados que se establecen a continuación:

- (a) "Ley" significa esta "Ley para la Emergencia Financiera y Responsabilidad Fiscal de Puerto Rico de 2017".
- (b) "Autoridad" significa la Autoridad de Asesoría Financiera y Agencia Fiscal de Puerto Rico.
- (c) "AFICA" significa la Autoridad de Puerto Rico para el Financiamiento de Facilidades Industriales, Turísticas, Educativas, Médicas y de Control Ambiental.
- (d) "Acuerdo con Acreedores" - significa un acuerdo otorgado entre una entidad gubernamental y ciertos acreedores de dicha entidad gubernamental, incluyendo, pero sin limitarse a un acuerdo consensual en apoyo a la reestructuración de su deuda, según sea enmendado, suplementado o reinstalado de tiempo en tiempo, independientemente de que el mismo esté titulizado o no.
- (e) "AMA" significa la Autoridad Metropolitana de Autobuses.
- (f) "Recursos disponibles" tiene el significado que se le da a dicho término para propósitos de la Sección 8 del Artículo VI de la Constitución de Puerto Rico.
- (g) "Banco" significa uno de los siguientes o ambos—
 - i. el Banco Gubernamental de Fomento para Puerto Rico, y
 - ii. el Banco de Desarrollo Económico para Puerto Rico.
- (h) "Junta" significa la Junta de Directores de cada Banco.
- (i) "Reclamación de bono" (bond claim), para propósitos del Artículo 206, tiene el significado del término según se define bajo la Sección 5 de PROMESA.
- (j) "ADCC" significa la Autoridad del Distrito del Centro de Convenciones de Puerto Rico.
- (k) "Fideicomiso de los Niños" significa la entidad sin fines de lucro creada por el Territorio de conformidad con la "Ley del Fideicomiso de los Niños", Ley 173-1999, según enmendada.
- (l) "COFINA" significa la Corporación del Fondo de Interés Apremiante de Puerto Rico.
- (m) "Instrumento de deuda" incluye cualquier documento o instrumento para, utilizado en relación con, o relacionado a:

- i. cualquier obligación de pagar el principal o la prima, si alguna, de cualquier interés, penalidad, reembolso, indemnización, cargo, gasto o cualquier otra cantidad relacionada con cualquier endeudamiento, y cualquier otra obligación, sea contingente o no,
 - a. por dinero tomado a préstamo,
 - b. evidenciada por bonos, pagarés, instrumentos de fideicomiso (indentures), notas, resoluciones, cualquier contrato de préstamo o financiamiento, valores o cualquier instrumento similar, o
 - c. por una carta de crédito o fianza de cumplimiento;
- ii. cualquier obligación contingente respecto de, o relacionada con, cualquier pasivo de la clase descrita en la cláusula anterior (i), incluyendo, pero sin limitarse, a cualquier garantía de tal responsabilidad y de cualquier acuerdo de reembolso con respecto a una póliza de seguro que cubra dicha obligación;
- iii. cualquier obligación relacionada con alguna aceptación bancaria (banker's acceptance);
- iv. cualquier obligación con relación a un acuerdo de intercambio de tasas de interés, contrato derivado o acuerdo relacionado, contrato de cobertura (hedge agreement), contrato de valores, contrato de entrega futura (forward), acuerdo de recompra, opción, promesa (warrant), contrato de materia prima (commodity) u otro instrumento similar;
- v. cualquier y todo aplazamiento, renovación, extensión y refinanciamiento de cualquier obligación de los tipos descritos en las cláusulas (i) a (v) o enmiendas, modificaciones o suplementos a dicha obligación;
- vi. cualquier obligación que surja de cualquier sentencia relacionada a cualquier obligación del tipo que se describe anteriormente en las cláusulas (i) a (iv); o
- vii. cualquier obligación que surja de una obligación de asegurar relacionada a cualquier obligación del tipo descrito en este Artículo.

Disponiéndose que "instrumento de deuda" no incluye ningún contrato para la prestación de bienes o servicios, ni incluye ningún acuerdo de servicio de compensación (clearing) u otro acuerdo conforme al cual una institución

financiera provea servicios al Banco o a cualquier otra entidad gubernamental.

- (n) "Depósito" significa los fondos en custodia del Banco que sean clasificados por dicho Banco como depósitos.
- (o) "Depositante" significa cualquier persona, o su representante autorizado, que sea el dueño primario o beneficiario de cualquier cuenta que contenga depósitos en poder del Banco.
- (p) "Institución Depositaria" significa, para propósitos de esta Ley, los bancos y cooperativas de ahorro y crédito en Puerto Rico, y la Corporación Pública para la Supervisión y Seguro de Cooperativas de Puerto Rico (COSSEC), como aseguradora de las acciones y los depósitos de las cooperativas de ahorro y crédito.
- (q) "Periodo de Emergencia" significa el periodo que comienza en la fecha de efectividad de esta Ley y que termina el 1 de mayo de 2017, término que el Gobernador podrá extender por un periodo adicional de tres (3) meses mediante una Orden Ejecutiva.
- (r) "Sistema de Retiro" significa el Sistema de Retiro de los Empleados del Gobierno del Territorio y sus Instrumentalidades.
- (s) "Servicios esenciales" significa un servicio prestado por el Territorio o una instrumentalidad del Territorio identificado por el Gobernador en el Capítulo 2 de esta Ley como un servicio esencial para salvaguardar la salud, seguridad y el bienestar público de los residentes de Puerto Rico.
- (t) "Buena fe", para propósitos del Artículo 206, significa la participación de una parte interesada en un proceso de evaluación neutral con la intención de negociar una resolución de los asuntos sujetos al proceso de evaluación neutral, incluyendo el suministro oportuno de información completa y precisa para proveerles a los participantes relevantes, mediante el proceso de evaluación neutral, suficiente información, de manera confidencial, para negociar el reajuste de una obligación de deuda.
- (u) "Entidad gubernamental" significa Territorio, AFICA, AMA, cada Banco y cualquier subsidiaria del mismo, ADCC, COFINA, Sistema de Retiro, AFV, ACT, AEP, PFC, AAA, AEE, PRIDCO, AFI, AP, la UPR y cualquier otra entidad pública o instrumentalidad del Territorio designada por la Junta de Supervisión Fiscal como una entidad cubierta y sujeta a la supervisión de la Junta de Supervisión Fiscal.

- (v) "Gobernador" significa el Gobernador del Territorio de conformidad con el Artículo IV de la Constitución de Puerto Rico.
- (w) "AFV" significa la Autoridad para el Financiamiento de la Vivienda de Puerto Rico.
- (x) "ACT" significa la Autoridad de Carreteras y Transportación Pública de Puerto Rico.
- (y) "Obligación de intereses" significa cualquier obligación que surja bajo, o que esté relacionada con el pago de intereses sobre cualquier instrumento de deuda.
- (z) "Parte interesada", para propósitos del Artículo 206, significa un síndico, un comité de acreedores, un acreedor afectado, un fiduciario de un contrato de bonos, un tenedor de bonos, o una aseguradora de obligaciones de deuda o un comité de aseguradoras de obligaciones de deuda.
- (aa) "AFM" significa Agencia de Financiamiento Municipal de Puerto Rico.
- (bb) "Proceso de evaluación neutral", para propósitos del Artículo 206, significa un medio alternativo para resolución de disputas o mediación entre el Territorio o una instrumentalidad del Territorio que se lleva a cabo de manera que promueva la toma de decisiones voluntaria y libre de coacción en el que cada participante hace selecciones libres e informadas de buena fe respecto al proceso y su resultado, y en el que el evaluador neutral hace sus mejores esfuerzos para ayudar a los participantes a llegar a una resolución satisfactoria de su disputa respecto a las obligaciones de deuda.
- (cc) "Evaluador neutral", para propósitos del Artículo 206, significa una persona imparcial y sin prejuicios, comúnmente conocida como un mediador, que asiste al Territorio o a una instrumentalidad del Territorio y a las partes interesadas a llegar a su propio acuerdo sobre asuntos relacionados con las obligaciones de deuda del Territorio o de una instrumentalidad del Territorio.
- (dd) "Junta de Supervisión Fiscal" o "JSF" significa la Junta de Supervisión Fiscal y Administración (Financial Oversight and Management Board) establecida para Puerto Rico al amparo de PROMESA.
- (ee) "AEP" significa la Autoridad de Edificios Públicos de Puerto Rico.
- (ff) "Persona" significa cualquier persona natural o entidad legal, incluyendo, pero sin limitarse, a cualquier agencia gubernamental, departamento, instrumentalidad, corporación pública, municipio, junta, oficina, comité o

dependencia, o cualquier individuo público o privado, firma, sociedad, sociedad por acciones, compañía de responsabilidad limitada, asociación o corporación organizada y existente bajo las leyes del Territorio, los Estados Unidos de América o cualquiera de sus estados, o de cualquier país extranjero, o cualquier combinación de los anteriores.

- (gg) "PFC" significa Corporación para el Financiamiento Público de Puerto Rico.
- (hh) "AAA" significa la Autoridad de Acueductos y Alcantarillados de Puerto Rico.
- (ii) "AEE" significa la Autoridad de Energía Eléctrica de Puerto Rico.
- (jj) "PRIDCO" significa la Compañía de Fomento Industrial de Puerto Rico.
- (kk) "AFI" significa la Autoridad para el Financiamiento de Infraestructura de Puerto Rico.
- (ll) "Obligación de principal" significa cualquier obligación que surja bajo, o que esté relacionada con el pago de intereses sobre cualquier instrumento de deuda, según puedan ser debidamente ajustados para tomar en cuenta el valor acumulado en el caso de los bonos de apreciación de capital o los bonos convertibles de apreciación de capital antes de la conversión, o el descuento o la prima sin amortizar de la emisión original.
- (mm) "AP" significa la Autoridad de los Puertos de Puerto Rico.
- (nn) "PROMESA" significa la Ley Federal Pub. L. 114-187 denominada *Puerto Rico Oversight, Management, and Economic Stability Act*.
- (oo) "Deuda pública" significa cualquier obligación o evidencia de deuda del Territorio, o una entidad gubernamental, con el significado provisto en la Sección 2 del Artículo VI de la Constitución de Puerto Rico.
- (pp) "Territorio" significa el Estado Libre Asociado de Puerto Rico según quedó constituido con arreglo a la Sección 1 del Artículo de la Constitución de Puerto Rico.
- (qq) "UPR" significa la Universidad de Puerto Rico.

Artículo 104.-Política Pública

Es la política pública del Gobierno de Puerto Rico tomar todas las medidas requeridas para Puerto Rico establecer la responsabilidad fiscal necesaria dentro del Gobierno y sus instrumentalidades para satisfacer sus obligaciones y garantizar que se

provean aquellos servicios gubernamentales esenciales para la salud, seguridad y bienestar de los residentes de Puerto Rico. Además, es la política pública del Gobierno de Puerto Rico ejercer su poder de razón de Estado de una manera que reconozca la responsabilidad de satisfacer las obligaciones financieras del Gobierno de Puerto Rico y sus instrumentalidades, mientras continúa proveyendo servicios gubernamentales esenciales para la salud, seguridad y bienestar de los residentes de Puerto Rico a la luz de los limitados recursos disponibles del Gobierno de Puerto Rico y sus instrumentalidades.

Artículo 105.-Relación con las Disposiciones Constitucionales; Supremacía Sobre Otras Leyes

Esta Ley ha sido promulgada de acuerdo y de conformidad con la Constitución de Puerto Rico y conforme al poder de razón de Estado del Territorio y según se especifique otra cosa en esta Ley. En caso de que las disposiciones de esta Ley estén en conflicto con las disposiciones de cualquier otra ley, las disposiciones de esta Ley prevalecerán. La implementación de esta Ley está sujeta a los requisitos de la Constitución de Puerto Rico y PROMESA.

No obstante cualquier otra cosa en contrario, si un poder o responsabilidad fuera delegado en la Autoridad conforme a la Ley de la Autoridad de Asesoría Financiera y Agencia Fiscal de Puerto Rico, Ley 2-2017, esta Ley no debe interpretarse como que afecta, altera, revoca o de otro modo modifica dicha delegación. Además, una delegación de un poder o responsabilidad conforme a la Ley de la Autoridad de Asesoría Financiera y Agencia Fiscal, Ley 2-2017, no limita o de otro modo restringe el ejercicio por parte del Gobernador de los poderes o responsabilidades que se le confieren al Gobernador por esta Ley o por otro modo.

Artículo 106.-Inmunidades

- (a) Excepto en la medida en que se pruebe mediante sentencia final y firme que ha incurrido en conducta dolosa para beneficio propio o en negligencia crasa que conlleve una indiferencia temeraria hacia sus deberes, ninguna persona incurrirá en responsabilidad civil, criminal o de otro tipo y, sin necesidad de notificación u orden adicional, será exonerada por acciones u omisiones en su capacidad y dentro de su autoridad en relación con, relacionadas con, que surjan bajo, o según permitido conforme a esta Ley, y asimismo por cualquier transferencia, venta o cesión de activos o retiro de fondos aprobado o llevado a cabo por una entidad gubernamental antes o después de la aprobación de esta Ley si dicha transferencia, venta, cesión o retiro de depósitos u otros fondos, según sea el caso, se declara por un tribunal en violación de esta Ley, la Ley Núm. 17 de 23 de septiembre de 1948, según enmendada, la Ley Núm. 22 de 24 de julio de 1985, según enmendada, los Artículos 1243, 1244 y 1249 del Código Civil de Puerto Rico, o alguna otra ley o disposición análoga o similar.

- (b) Ninguna institución financiera o agente de la misma que provea servicios de compensación (clearing) u otro servicio financiero al Banco u otra entidad gubernamental conforme a cualquier acuerdo con el Banco o dicha entidad gubernamental incurrirá en responsabilidad civil, criminal o de otro tipo y, sin necesidad de notificación u orden adicional, será exonerada por acciones u omisiones relacionadas con dicho acuerdo, y asimismo por cualquier transferencia o retiro de depósitos u otros fondos hecho conforme a dicho acuerdo si dicha transferencia o retiro se declara por un tribunal en violación de esta Ley, la Ley Núm. 17 de 23 de septiembre de 1948, según enmendada, la Ley Núm. 22 de 24 de junio de 1985, según enmendada, o los Artículos 1243, 1244 y 1249 del Código Civil de Puerto Rico, cualquier regulación u orden ejecutiva emitida conforme a ésta o dichas leyes, o alguna otra ley o disposición análoga o similar.
- (c) Cualquier institución financiera en la que se deposite un cheque emitido por cualquier entidad del gobierno o que reciba cualquier otra instrucción de una entidad gubernamental para transferir fondos tendrá derecho a honrar dicho cheque o instrucción en el curso ordinario de sus operaciones bancarias sin tener que indagar si se ha cumplido con los requisitos de esta Ley o de cualquier orden ejecutiva emitida conforme a esta Ley. El Banco y las entidades gubernamentales serán los únicos responsables por el cumplimiento con cualquier disposición de esta Ley o cualquier otra regulación u orden ejecutiva emitida conforme a esta Ley que restrinja el uso de los fondos gubernamentales o la emisión de cheques u otras instrucciones relacionadas con los fondos gubernamentales depositados en instituciones financieras.
- (d) Cualquier acción presentada por negligencia crasa será desestimada con perjuicio si: (i) un demandado, como oficial, director, miembro de comité o profesional produce documentos que demuestren, con relación a cualquier acto u omisión objeto de la demanda, que dicho demandado recibió o descansó en la asesoría de expertos o recibió información sobre los hechos relevantes, participó en persona o por teléfono y deliberó de buena fe (ii) o si las acciones u omisiones que son la base de la demanda, acusación formal por un gran jurado o acusación no violan claramente un deber establecido del cual una persona razonable tendría conocimiento claro bajo las circunstancias particulares.

Artículo 107.-Idioma que Prevalece

Esta Ley se adoptará en los dos idiomas oficiales de Puerto Rico, el español e inglés. Si en la interpretación o aplicación de esta Ley surgiere algún conflicto entre el texto en inglés y el texto en español, prevalecerá el texto en inglés. De igual manera, toda orden ejecutiva emitida al amparo de esta Ley se adoptará y publicará en los dos idiomas oficiales de Puerto Rico, el español e inglés. Si en la interpretación o aplicación de dichas órdenes

ejecutivas surgiere algún conflicto entre el texto en inglés y el texto en español, prevalecerá el texto en inglés.

CAPÍTULO 2.-PODERES DE EMERGENCIA FINANCIERA

Artículo 201.-Determinación sobre los Poderes de Emergencia Financiera

La Asamblea Legislativa ha determinado que dada la continua emergencia financiera del Territorio, durante el Periodo de Emergencia, el Gobernador debe estar autorizado a ejercer los poderes conferidos al Gobernador bajo este Artículo para designar los servicios que proveen el Territorio y sus instrumentalidades como servicios esenciales o como servicios que no son servicios esenciales y a utilizar los recursos disponibles para asegurar que se satisfagan las obligaciones del Territorio y sus instrumentalidades, al mismo tiempo que se reconoce la necesidad de salvaguardar los servicios esenciales de salud, seguridad y bienestar de los residentes de Puerto Rico.

Artículo 202.-Mantener los Servicios Esenciales

Durante el periodo de emergencia, el Gobernador puede emitir órdenes ejecutivas para designar la prioridad con que se usarán los recursos disponibles para pagar por los servicios esenciales que el Gobernador estime necesario para salvaguardar la salud, seguridad y bienestar de los residentes de Puerto Rico, a la vez que se reconocen las obligaciones de deuda del Territorio y sus instrumentalidades.

Artículo 203.-Pago por Servicios Esenciales y Prioridades de Pago

- (a) Durante el Periodo de Emergencia, el Gobernador deberá pagar el servicio de la deuda en la medida: (a) de lo posible luego de que todos los servicios esenciales del Territorio hayan sido provistos; o (b) en que la Junta de Supervisión Fiscal, u otra junta creada bajo las leyes federales, así lo haya ordenado. En la eventualidad de que las disposiciones de esta Ley estén en conflicto con las disposiciones de otras leyes, las disposiciones de esta Ley prevalecerán.
- (b) Durante el Periodo de Emergencia, el Gobernador puede emitir órdenes ejecutivas para requerir el uso de los recursos disponibles para que se deposite en una cuenta bajo el control exclusivo de la Autoridad (lockbox account) y pagar por servicios esenciales según el Gobernador estime necesario para proteger la salud, seguridad y bienestar de los residentes de Puerto Rico. El Gobernador puede tomar cualquiera y todas las acciones que estime razonables y necesarias para preservar la capacidad del Territorio y de una de sus instrumentalidades para continuar brindando servicios esenciales a los residentes de Puerto Rico.

- (c) Durante el Periodo de Emergencia, el Gobernador puede emitir órdenes ejecutivas que establezcan normas de prioridad para el desembolso de fondos públicos cuando los recursos disponibles para el año fiscal sean insuficientes para cubrir las asignaciones hechas para ese año fiscal.
- (d) Durante el Periodo de Emergencia, no obstante lo establecido en el Artículo 4(c) de la Ley Núm. 147 de 18 de junio de 1980, según enmendada, el Gobernador puede priorizar los servicios y gastos descritos en el Artículo 4(c)(3) a un nivel de prioridad más alto que el listado en el Artículo 4(c).
- (e) Durante el Periodo de Emergencia, el Gobernador puede emitir las órdenes ejecutivas que estime necesarias o recomendables para asegurar el pago de las obligaciones de deuda del Territorio o de una instrumentalidad del Territorio.

Artículo 204.-Medidas de Emergencia para el Banco

- (a) Durante el Periodo de Emergencia, el Gobernador puede tomar cualesquiera y todas la acciones que estime razonables y necesarias para permitir al Banco continuar llevando a cabo sus operaciones.
- (b) Para los propósitos de este Artículo, las acciones que son “razonables y necesarias” incluyen, sin limitación, todas las siguientes—
 - i. prescribir condiciones o restricciones para la manera de conducir los negocios del Banco, incluyendo otorgar dispensas para el cumplimiento, total o parcial, de cualquier requisito prescrito por otras leyes aplicables, incluyendo aquellas que requieran al Banco mantener reservas de depósitos sobre ciertos límites;
 - ii. ordenar la limitación, posposición o suspensión de cualquier pago, total o parcial, de una obligación a tenor con los términos que el Gobernador prescriba para atender las necesidades de liquidez del Banco o facilitar la capacidad del Banco para llevar a cabo sus operaciones;
 - iii. suspender—
 - A. los pagos de obligaciones garantizadas por el Banco;
 - B. pagos de cualquier carta de crédito; y
 - C. cualquier obligación o compromiso de aprobar préstamos o de extender fondos o crédito;

- iv. tomar cualquier acción respecto al Banco según dispuesta en la Ley Núm. 17 de 23 de septiembre de 1948, según enmendada, o la Ley Núm. 22 de 24 de julio de 1985, según enmendada, según aplique; y
 - v. delegar en el Banco, su Junta, o sus empleados la autoridad para tomar acciones para cumplir con este Artículo.
- (c) Si se establece cualquier restricción sobre los desembolsos del Banco a tenor con el párrafo (a) de este Artículo,
- i. el Banco no debe desembolsar ningún préstamo o facilidad de crédito a menos que sea autorizado por el Gobernador;
 - ii. el Banco deberá honrar las solicitudes de retiro o transferencia de cualquier depósito, incluso mediante cheque u otros medios, de una agencia, corporación pública o instrumentalidad del Territorio (que no sean las listadas en el inciso (c)(iii) de este párrafo) según puedan ser autorizadas por el Gobernador de tiempo en tiempo;
 - iii. sujeto a la disponibilidad de fondos y a los desembolsos agregados establecidos por el Gobernador, el Banco debe honrar cualquier solicitud para retirar o transferir cualquier depósito en su custodia hecha por, o solicitar que se honre cualquier cheque emitido por, la Rama Legislativa, la Rama Judicial, la UPR, la Oficina del Contralor, la Oficina del Contralor Electoral, la Comisión Estatal de Elecciones, la Oficina de Ética Gubernamental, el Panel sobre el Fiscal Especial Independiente, o un municipio del Territorio; siempre y cuando un oficial autorizado de una entidad listada en este inciso certifique, junto con documentación de apoyo, que los fondos serán usados para el pago de servicios esenciales.
- (d) Salvo según dispuesto en el párrafo (e) de este Artículo, si se establece alguna restricción a los desembolsos del Banco al amparo de este Artículo, entonces cualquier valor desembolsado a un acreedor luego de que dicha restricción sea impuesta deberá ser restado del valor de cualquier distribución que dicho acreedor tiene derecho a recibir, a partir de la primera fecha de la restricción, si el Banco es subsecuentemente liquidado o se le nombra un síndico.
- (e) Los desembolsos que el Banco haga antes o durante el Periodo de Emergencia en el curso ordinario de sus operaciones, incluyendo desembolsos para cubrir gastos de la naturaleza descrita en el Artículo 12, Sección (A)(2) o (3) de la Ley Núm. 17 de 23 de septiembre de 1948, según enmendada, o para pagar por bienes y servicios prestados al Banco, deberán, para evitar dudas, en cada caso, estar exentos del Artículo 17 de la Ley Núm. 17 de 23 de septiembre de 1948, según enmendada.

- (f) Un cheque escrito en violación de esta Ley o una orden ejecutiva emitida a tenor con esta Ley será nulo, y cualquier persona que intencionalmente escriba un cheque para retirar todo o una porción sustancial del balance de sus fondos depositados en violación a este Artículo será culpable de un delito grave sancionable con una pena de cárcel de hasta un (1) año o una multa de no menos de veinticinco mil dólares (\$25,000), o ambas penas a discreción del Tribunal.

Artículo 205.-Emisión de Evidencia de Deuda por las Entidades Gubernamentales

Nada en esta Ley prohíbe o evita que cualquier entidad gubernamental, sea o no durante el Periodo de Emergencia, pueda emitir a tenedores que consienten evidencia de deuda relacionada con cualquier deuda, cualquier instrumento de deuda u otra evidencia de deuda como pago, renovación o refinanciamiento de o en intercambio de la obligación de deuda de dicho tenedor que consiente, conforme a términos que por lo demás cumplan con esta Ley y con cualquier otra ley aplicable, incluyendo, pero sin limitarse a PROMESA. Se dispone, además, que dicha evidencia no puede constituir y no constituirá emisión de deuda nueva conforme a esta Ley.

Artículo 206.-Poderes de Emergencia Adicionales del Gobernador

- (a) Durante el Periodo de Emergencia, esta Ley confiere al Gobernador el poder para nombrar síndicos a fin de rectificar la emergencia financiera declarada por esta Ley, tomar las acciones necesarias para satisfacer las obligaciones de deudas del Territorio y sus instrumentalidades y actuar para salvaguardar la prestación de servicios esenciales; sin menoscabar los deberes y facultades de la Asamblea Legislativa, el Gobernador, junto a la Autoridad, pueden tomar las siguientes acciones según estimen necesario o recomendable para rectificar la emergencia financiera, incluyendo pero sin limitarse a:
- i. analizar los factores y circunstancias que contribuyen a la emergencia financiera y tomar medidas para corregir dichos factores y circunstancias;
 - ii. limitar los gastos de fondos asignados;
 - iii. emitir órdenes ejecutivas u otras directrices relacionadas con el desembolso o disposición de fondos en poder del Banco u otra entidad gubernamental;
 - iv. requerir y aprobar o desaprobado, o enmendar o revisar, un plan para el pago de las obligaciones de deuda del Territorio y sus instrumentalidades;

- v. requerir y prescribir la forma de los informes especiales que deberán hacer el Territorio o una instrumentalidad del Territorio a los acreedores, Junta de Supervisión Fiscal y a la Asamblea Legislativa;
- vi. examinar todos los récords y libros contables de una entidad gubernamental y requerir la comparecencia de testigos y la producción de libros, papeles, contratos y otros documentos pertinentes para el análisis de la condición financiera de una agencia del gobierno;
- vii. aprobar o desaprobar cualquier contrato de ejecución futura, gasto o préstamo, la creación de cualquier puesto nuevo o que se llene cualquier puesto vacante en una entidad del gobierno dentro de la Rama Ejecutiva;
- viii. revisar y aprobar nóminas u otros cobros reclamados a una entidad del gobierno dentro de la Rama Ejecutiva previo al pago;
- ix. no obstante cualquier requisito de nivel mínimo de personal que pueda ser aplicable, establecer e implantar niveles de personal para una entidad gubernamental de la Rama Ejecutiva;
- x. rechazar, modificar o dar por terminado uno o más términos o condiciones de un contrato de ejecución futura existente de una entidad gubernamental dentro de la Rama Ejecutiva;
- xi. actuar como, o designar a un agente único de una entidad gubernamental dentro de la Rama Ejecutiva para las negociaciones de convenios colectivos con empleados o sus representantes y aprobar cualquier contrato o acuerdo en nombre de la entidad gubernamental;
- xii. nombrar, dirigir, supervisar y remover administradores, incluyendo los jefes de entidades gubernamentales dentro de la Rama Ejecutiva; se podrá remover los administradores cuyos puesto son de confianza exceptuando aquellos que tengan un nombramiento a término. Disponiéndose que cuando el jefe de una entidad gubernamental sujeto al consejo y consentimiento del Senado sea removido dicha acción será notificada no más tarde de tres (3) días laborables al Senado de Puerto Rico;
- xiii. emplear o contratar, en nombre y a expensas de una entidad del gobierno de la Rama Ejecutiva, auditores y otro personal técnico;
- xiv. contratar una o más personas como inspectores generales locales para una o más entidades gubernamentales dentro de la Rama Ejecutiva para asegurar la integridad, economía, eficiencia y efectividad de las

operaciones de las entidades gubernamentales haciendo investigaciones significativas y precisas, y auditorías forenses, para detectar y prevenir derroches, fraudes y abusos;

- xv. vender, alquilar, traspasar, asignar o de otro modo usar o transferir los activos, y obligaciones, de una entidad gubernamental dentro de la Rama Ejecutiva, si la venta, alquiler, traspaso, asignación, uso o transferencia no pone en peligro la salud, seguridad y bienestar de los residentes de Puerto Rico o afecta inconstitucionalmente un bono, pagaré, valor u obligación legal no impugnada de una entidad del gobierno. Estas acciones solo se podrán realizar sujeto al ordenamiento jurídico vigente;
- xvi. autorizar que una entidad gubernamental dentro de la Rama Ejecutiva tome dinero en préstamo. Estas acciones solo se podrán realizar sujeto al ordenamiento jurídico vigente;
- xvii. aprobar o desaprobar la emisión de obligaciones de deuda de una entidad gubernamental dentro de la Rama Ejecutiva. Estas acciones solo se podrán realizar sujeto al ordenamiento jurídico vigente;
- xviii. entrar en un proceso de evaluación neutral con una o más de las partes interesadas respecto a una obligación de deuda del Territorio o una instrumentalidad del Territorio, bajo el cual los participantes, mediante un proceso acordado mutuamente, seleccionen un evaluador neutral para supervisar el proceso de resolución neutral y facilitar discusiones y negociaciones de buena fe entre los participantes, en un esfuerzo por resolver sus disputas relacionadas con la obligación de deuda y bajo el cual el evaluador neutral pueda hacer recomendaciones para una transacción o plan de reajuste. Se dispone, sin embargo, que el uso de un proceso de evaluación neutral conforme a este subpárrafo (a) (xviii) no restringe o de otro modo prohíbe otras negociaciones o acuerdos con una parte interesada en relación con una obligación de deuda del Territorio o una instrumentalidad del Territorio;
- xix. tomar las acciones necesarias para garantizar el cumplimiento con la Ley Orgánica de la Oficina de Gerencia y Presupuesto, Ley Núm. 147 de 18 de junio de 1980, según enmendada, que no sean inconsistentes con las disposiciones de esta Ley;
- xx. requerirle a un oficial, empleado, agente o contratista del Territorio o de una instrumentalidad del Territorio que provea a la Junta de Supervisión Fiscal copias, sean escritas o en medio electrónico, de los

récords, documentos, información o datos que la Junta de Supervisión Fiscal pueda requerir;

- xxi. asegurar el pago y administración de impuestos oportunos y eficientes mediante la adopción de tecnologías electrónicas de radicación de informes, pagos y auditorías;
- xxii. prevenir una transferencia de propiedad por parte de una instrumentalidad del Territorio prohibida bajo la Sección 201(b)(1)(M) y 407(a) de PROMESA;
- xxiii. rescindir una autorización aprobada por la Rama Ejecutiva o la Rama Legislativa luego del 4 de mayo de 2016 y antes de la fecha de efectividad de esta Ley para la venta pendiente de ejecutarse o transferencia de activos y pasivos de una entidad gubernamental dentro de la Rama Ejecutiva, si la venta o transferencia pone en peligro la salud, seguridad y bienestar de los residentes de Puerto Rico o afecta un bono, pagaré, valor u obligación legal no impugnada de una entidad del gobierno; y
- xxiv. los poderes adicionales conferidos al Gobernador no menoscabarán los deberes y facultades de la Asamblea Legislativa.

Artículo 207.-Controles Administrativos y Financieros

- (a) Durante el Periodo de Emergencia, y sin que se interprete este Artículo como una limitación a los poderes del Gobernador, el Gobernador ejercerá control de supervisión general sobre las funciones y actividades de todas las entidades gubernamentales dentro de la Rama Ejecutiva.
- (b) Sin que se interprete este Artículo como una limitación a los poderes del Gobernador, en el ejercicio del control de supervisión general dispuesto en el párrafo (a), el Gobernador y/o la Autoridad pueden hacer todo, sin limitarse a lo siguiente, sujeto a las limitaciones contenidas en las Secciones 201(b)(1)(M) y 407 de PROMESA;
 - i. instruir a una entidad gubernamental dentro de la Rama Ejecutiva a reducir gastos mediante la implantación de eficiencias administrativas;
 - ii. imponer límites sobre gastos contractuales de entidades gubernamentales dentro de la Rama Ejecutiva;
 - iii. ordenar la prescripción o el reembolso de asignaciones para múltiples años no gastadas del fondo general dentro de la Rama Ejecutiva;

- iv. prohibir el establecimiento de nuevos programas o la expansión de programas existentes por parte de una entidad gubernamental dentro de la Rama Ejecutiva;
- v. emitir directrices para la distribución de asignaciones;
- vi. transferir los fondos asignados de un programa a otro en una misma entidad gubernamental dentro de la Rama Ejecutiva sin que se trastoque la partida asignada al pago de nómina, costos relacionados y utilidades; e
- vii. intervenir en cualquier asunto referente a las funciones y actividades bajo el párrafo (a).

Artículo 208.-Implementación y Órdenes Ejecutivas

- (a) Para propósitos de este Capítulo, cada entidad gubernamental dentro de la Rama Ejecutiva estará bajo la supervisión del Gobernador salvo que se disponga lo contrario en la Constitución de Puerto Rico. El Gobernador deberá acordar todos los asuntos de negocio necesarios con los oficiales de las entidades gubernamentales dentro de la Rama Ejecutiva y puede requerir información por escrito de todos los oficiales ejecutivos y administrativos de las entidades gubernamentales dentro de la Rama Ejecutiva en relación con el cumplimiento de este Capítulo y con cualquier asunto relacionado con los deberes de dichos oficiales dentro de sus respectivas oficinas.
- (b) El Gobernador puede iniciar procedimientos judiciales en nombre del Territorio para implementar el cumplimiento de cualquier mandato constitucional o requerimiento de esta Ley, o para restringir violaciones de cualquier mandato, deber o derecho constitucional, o requerimiento de esta Ley por parte de cualquier oficial de una entidad gubernamental dentro de la Rama Ejecutiva.
- (c) El Gobernador estará facultado a inquirir sobre la condición y administración de cualquier oficina pública de una entidad gubernamental dentro de la Rama Ejecutiva y sobre los actos de cualquier oficial público de una entidad gubernamental dentro de la Rama Ejecutiva.
- (d) El Gobernador puede emitir órdenes ejecutivas para implantar y requerir el cumplimiento con este Capítulo. Una orden ejecutiva emitida al amparo de esta Sección es vinculante para los oficiales, empleados, agentes y contratistas de una entidad gubernamental dentro de la Rama Ejecutiva. Los oficiales de una entidad gubernamental dentro de la Rama Ejecutiva deberán tomar y dar las directrices para que se tomen las acciones necesarias y recomendables

para cumplir con una orden ejecutiva emitida bajo esta Sección aplicable a la entidad gubernamental.

- (e) El Gobernador puede enmendar, rescindir o reemplazar una orden ejecutiva emitida bajo esta Ley o la anterior Ley de Moratoria de Emergencia y Rehabilitación Financiera de Puerto Rico, las que continuarán en efecto con toda fuerza y vigor hasta que sean enmendadas, rescindidas o sustituidas.
- (f) Para implantar el cumplimiento con este Capítulo o con una orden ejecutiva emitida al amparo de este Capítulo, el Gobernador puede iniciar procedimientos judiciales en nombre del Territorio.
- (g) Los poderes adicionales conferidos al Gobernador no menoscabarán los deberes y facultades de la Asamblea Legislativa.

Artículo 209.-Delegación

El Gobernador puede delegar en la Autoridad mediante Orden Ejecutiva cualquier poder o responsabilidad incluida en esta Ley, en la medida en que tal poder o facultad no haya sido ya delegada en la Autoridad mediante esta Ley o conforme a la Ley 2-2017, todo lo cual continuará en pleno vigor . Una delegación adicional de poder o responsabilidad en la Autoridad no limita o de otro modo restringe el ejercicio por parte del Gobernador de los poderes y responsabilidades que se le confieren al Gobernador por esta Ley o de otro modo. Los poderes adicionales conferidos al Gobernador no menoscabarán los deberes y facultades de la Asamblea Legislativa.

Artículo 210.-Contratación de empleados gubernamentales y otros profesionales; Exención de otras leyes

- (a) En cualquier momento durante el Periodo de Emergencia, las siguientes leyes o disposiciones de las mismas no aplicarán a las contrataciones temporeras o permanentes hechas por parte del Gobernador, el Departamento de Hacienda, AFI, cualquier subsidiaria del Banco o la Autoridad, de cualquier individuo que sea empleado del Banco o de cualquier otra entidad gubernamental para trabajar en la Oficina del Gobernador, el Departamento de Hacienda, AFI, o cualquier subsidiaria del Banco o la Autoridad respecto a asuntos relacionados con la reestructuración de cualquier obligación de deuda o ajuste de cualquier obligación de deuda, la implantación de transacciones de manejo de pasivos para las obligaciones de deuda, manejo de asuntos fiscales del Territorio o cualquier entidad gubernamental, o cualquier asunto que de otra manera se relacione con las funciones u operaciones hechas o llevadas a cabo por el Banco al amparo de la Ley 17 de 23 de septiembre de 1948, según enmendada, o de la Ley 272 del 15 de mayo de 1945, según enmendada:

- i. Ley 184-2004, según enmendada, conocida como “Ley para la Administración de los Recursos Humanos en el Servicio Público del Estado Libre Asociado de Puerto Rico”;
 - ii. Ley 197-2002, según enmendada, conocida como “Ley del Proceso de la Transición del Gobierno”;
 - iii. Ley 3-2017;
 - iv. Los incisos (b) y (c) del Artículo 4.6 de la Ley 1-2012, según enmendada, conocida como “Ley de Ética Gubernamental de Puerto Rico de 2011”;
 - v. Ley 103-2006, según enmendada, conocida como “Ley para implantar la Reforma Fiscal del Gobierno del Estado Libre Asociado de Puerto Rico”;
 - vi. Plan 3-2011, según enmendado, conocido como “Plan de Reorganización de la Administración de Servicios Generales; y
 - vii. La Ley 78-2011, según enmendada.
- (b) El Gobernador, el Departamento de Hacienda, AFI, o cualquier subsidiaria del Banco o la Autoridad podrán emplear, contratar, u honrar obligaciones existentes bajo, o asumir, contratos existentes del Banco o de cualquier entidad gubernamental con consultores y empleados esenciales, incluyendo asesores legales y financieros, fueran o no los salarios u honorarios incurridos antes de la fecha en que se hayan asumido, y podrán emplear dichos consultores y empleados esenciales para asesorar al Gobernador, al Banco o a cualquier entidad gubernamental en asuntos relacionados con la reestructuración o el ajuste de cualquier obligación de deuda, implantar transacciones de manejo de pasivos para las obligaciones de deuda o para la administración de los asuntos fiscales del Territorio y de cualquier entidad gubernamental, o cualquier asunto relacionado con las funciones y operaciones hechas o llevadas a cabo por el Banco al amparo de la Ley Núm. 17 de 23 de septiembre de 1948, según enmendada, o de la Ley Núm. 272 de 15 de mayo de 1945, según enmendada. El Gobernador, el Departamento de Hacienda, AFI, o cualquier subsidiaria del Banco o la Autoridad, según sea aplicable, deberá someter a la Oficina de Gerencia y Presupuesto un estimado del total de costos y gastos relacionados con los contratos y obligaciones que incurrirá o asumirá de acuerdo con este Artículo para lo que resta del Año Fiscal 2016-2017. Por la presente se ordena al Secretario de Hacienda y el Director de la Oficina de Gerencia y Presupuesto a identificar, del presupuesto del Año Fiscal 2016-2017, los fondos necesarios para cubrir dichos gastos, o a transferir a AFI, cualquier subsidiaria del Banco o la

Autoridad suficientes fondos para cubrir dichos gastos. Comenzando en el Año Fiscal 2017-2018, dichos gastos serán pagados mediante asignaciones hechas por la Asamblea Legislativa. Las leyes y disposiciones listadas en los incisos (a) i hasta vii de este Artículo no aplicarán a los casos en que se contraten o se asuman obligaciones al amparo de este párrafo.

Artículo 211.-Paralización Automática

Mientras la paralización en virtud de PROMESA esté en vigor, cualquier acción que pudiera ser requerida por PROMESA en un tribunal federal, estatal o de Puerto Rico también es requerida bajo esta Ley, y cualquier acción similar que surja de, o se relacione con esta Ley es igualmente requerida mientras la paralización en virtud de PROMESA esté en vigor.

CAPÍTULO 3.-DEROGACIÓN DE LAS DISPOSICIONES DE LA LEY DE MORATORIA

Artículo 301.-Los capítulos 1 y 2 de la Ley 21-2016, según enmendada, quedan por la presente derogados; y se reenumeran los existentes Capítulos 3, 4 y 5 como 1, 2 y 3.

CAPÍTULO 4.-ENMIENDA A LA LEY ORGÁNICA DEL BANCO DE DESARROLLO ECONÓMICO PARA PUERTO RICO

Artículo 401.-Para añadir un nuevo Artículo 23 a la Ley Núm. 22 de 24 de julio de 1985, según enmendada, conocida como "Ley Orgánica del Banco de Desarrollo Económico", para que lea como sigue:

"ARTÍCULO 23.-IDIOMA QUE PREVALECE

Si en la interpretación o aplicación de las enmiendas a esta Ley promulgadas por la Ley 21-2016 surgiere algún conflicto entre el texto en inglés y el texto en español, prevalecerá el texto en inglés."

Artículo 402.-Se reenumera el Artículo 23 de Ley Núm. 22 de 24 de julio de 1985, según emendada, como Artículo 24.

CAPÍTULO 5.-SEPARABILIDAD Y VIGENCIA

Artículo 501.-Separabilidad

Si cualquier cláusula, párrafo, subpárrafo, oración, palabra, letra, artículo, disposición, sección, subsección, título, capítulo, subcapítulo, acápite o parte de esta Ley fuera anulada o declarada inconstitucional, la resolución, dictamen o sentencia a tal efecto dictada no afectará, perjudicará, ni invalidará el remanente de esta Ley. El efecto de dicha sentencia quedará limitado a la cláusula, párrafo, subpárrafo, oración, palabra, letra, artículo, disposición, sección, subsección, título, capítulo, subcapítulo, acápite o parte de la

misma que así hubiere sido anulada o declarada inconstitucional. Si la aplicación a una persona o a una circunstancia de cualquier cláusula, párrafo, subpárrafo, oración palabra, letra, artículo, disposición, sección, subsección, título, capítulo, subcapítulo, acápite o parte de esta Ley fuera invalidada o declarada inconstitucional, la resolución, dictamen o sentencia a tal efecto dictada no afectará ni invalidará la aplicación del remanente de esta Ley a aquellas personas o circunstancias en que se pueda aplicar válidamente. Es la voluntad expresa e inequívoca de esta Asamblea Legislativa que los tribunales hagan cumplir las disposiciones y la aplicación de esta ley en la mayor medida posible, aunque se deje sin efecto, anule, invalide, perjudique o declare inconstitucional alguna de sus partes, o aunque se deje sin efecto, invalide o declare inconstitucional su aplicación a alguna persona o circunstancia. Esta Asamblea Legislativa hubiera aprobado esta Ley sin importar la determinación de separabilidad que el Tribunal pueda hacer.

Artículo 502.-Vigencia

Esta Ley entrará en vigor inmediatamente después de su aprobación.

EXHIBIT 12B

English version of the Puerto Rico Financial Emergency and Fiscal Responsibility Act.

I. STATEMENT OF INTENT

The 18th Legislative Assembly has convened as Puerto Rico is in the midst of a continuing and systemic financial and economic crisis. On June 30, 2016, President Barack Obama signed into law the Puerto Rico Oversight, Management, and Economic Stability Act, Public Law 114-187 (PROMESA). PROMESA was enacted pursuant to Section 3 of Article IV of the United States Constitution, which provides Congress the power to dispose of and make all needful rules and regulations for territories. PROMESA established a Financial Oversight and Management Board for Puerto Rico (the "Oversight Board") to provide a method for the Government of Puerto Rico and its instrumentalities to achieve fiscal responsibility and access to capital markets. On October 30, 2016, the Oversight Board designated Puerto Rico, the Employees Retirement System, the Judiciary Retirement System, the Teachers Retirement System, the University of Puerto Rico and twenty-one public corporations of Puerto Rico as "covered entities" subject to oversight under PROMESA. Section 405(b) of PROMESA also imposes a temporary stay of litigation and claims against Puerto Rico and its instrumentalities for various matters (as the same may be extended under PROMESA, the "Enactment Stay"), with the hope that the Government of Puerto Rico, on its own behalf and on behalf of its instrumentalities, will enter into voluntary negotiations with its creditors to reorganize and settle the repayment of its debt obligations, while simultaneously embarking on a responsible restructuring of the Government of Puerto Rico and its instrumentalities that realigns the essential services required for the health, safety, and welfare of the residents of Puerto Rico with the timely repayment of its debt obligations. Pursuant to PROMESA, ongoing fiscal planning, budgeting, legislative, and executive action of Puerto Rico, as well as consensual and non-

consensual debt restructurings and the issuance, guarantee, exchange, modification, repurchase, or redemption of debt, is subject to oversight.

This Act, to be known as the Puerto Rico Financial Emergency and Fiscal Responsibility Act (the "Act"), is intended to facilitate and encourage a voluntary negotiation process under PROMESA between the Governor and/or the Puerto Rico Fiscal Agent and Financial Advisory Authority, on behalf of the Government of Puerto Rico, and the creditors of the Government of Puerto Rico and its instrumentalities. This Act authorizes the Government of Puerto Rico, within the parameters established by PROMESA, to designate certain services necessary for the health, safety and welfare of the residents of Puerto Rico and provided by the Government of Puerto Rico and its instrumentalities as "essential services", in accordance with the Constitution of Puerto Rico.

In passing this Act, this Legislative Assembly is removing several significant and contentious obstacles to voluntary negotiations with the Government's creditors. Specifically, this Act amends and repeals portions of the Puerto Rico Emergency Moratorium and Financial Rehabilitation Act, Act 21-2016, as amended by Act 40-2016 and Act 68-2016 (the "Moratorium Act"). The Moratorium Act, and executive orders issued by the Governor under the Moratorium Act (the "Executive Orders"), permitted the Government to withhold the timely payment of its obligations at a point in time before the enactment of PROMESA. The enactment of PROMESA has, however, established processes and timelines for the resolution of the Government's financial emergency that preempt and supersede provisions of the Moratorium Act. Through PROMESA and the establishment of the Oversight Board, Puerto Rico has been given tools to establish fiscal discipline, restructure its debt, and restore opportunity to the Territory.

The enactment of the Moratorium Act and the issuance of certain of the Executive Orders also has resulted in significant litigation initiated by creditors of the Government of Puerto Rico and its instrumentalities. This litigation is costly and both consumes resources needed to provide for the health, safety and welfare of the residents of Puerto Rico, and the economic development of the Territory. Also impedes voluntary negotiations with creditors. With the establishment of the Oversight Board, and requirements in PROMESA for the Oversight Board to prepare a fiscal plan in accordance with PROMESA, it is critical that this Legislative Assembly and the Government of Puerto Rico quickly turn their attention to working with the Oversight Board to ensure a voluntary negotiation and settlement process (rather than one imposed on the Territory) for the Government of Puerto Rico and its creditors. Without first affording an opportunity for the Government of Puerto Rico to engage in meaningful attempts to reach its own consensual resolution with its creditors, necessary for the health, safety and welfare of the residents of Puerto Rico PROMESA mandates that the Oversight Board impose a resolution on the Territory.

Section 204(c) (3) of PROMESA also grants the Oversight Board authority to rescind any laws enacted between May 4, 2016 and September 30, 2016 (the latter date being the date when the Oversight Board and Oversight Board Chair assumed office), that either

permit the transfer of any funds or assets outside the ordinary course of business or that are inconsistent with Constitution of Puerto Rico or the laws of Puerto Rico (the "Rescission Period"). This Legislative Assembly and Puerto Rico's new Governor, acting in good faith and with the intent to facilitate Government-led negotiations with the creditors of the Government of Puerto Rico and its instrumentalities, contend that it is in Puerto Rico's best interests to rescind laws inconsistent with PROMESA that impede a voluntary negotiation process with creditors of the Government of Puerto Rico and its instrumentalities. As a result, this Act does the following: (i) repeals significant portions of the Moratorium Act; and (ii) suspends or cancels, or both, all special appropriations not budgeted in the current fiscal year that may have been multi-year authorizations from prior fiscal years.

According to data provided by the Treasury Department, Puerto Rico suffers an economic contraction with a 14.6% decline in its Gross State Product (real GSP), and an additional 3% contraction is forecasted for the next two years. For years, the Government has been operating with a structural deficit that has been financed with bond issues and loans from the Government Development Bank. For more than one year, the Government has lacked liquidity and has been using tax refunds, payments to suppliers, government pension moneys, and intra-government loans as substitute for liquidity sources.

Access to the financial information of the Government, as well as the preparation of adequate forecasts, have been affected by a fragmented government structure and obsolete government systems. Revenues are consistently overestimated and are continuously decreasing despite the fact that multiple new taxes were levied. As of May 1, 2016, the Government Development Bank defaulted on its bonds and is no longer fulfilling its role of liquidity provider. Puerto Rico's obligations portfolio totals \$66 billion and includes 18 different issuers, which are in a precarious financial situation. Debt service averages \$3.5 billion and consumes more than one fourth of the revenue sources. The retirement systems are practically insolvent with a \$50 billion dollar actuarial deficit. The foregoing is exacerbated by the population decrease caused by a migration wave that began in 2006 and has become one of the challenges to steering Puerto Rico towards recovery.

In view of this dismal picture, it is time to roll up our sleeves and work very hard for the wellbeing of Puerto Rico. It is our job to build a new Puerto Rico by implementing a public policy and administration that no longer improvises or manages finances from one year to the next, but rather starts addressing the long-term revenue/expenditure imbalance. Our commitment, as stated in our Plan for Puerto Rico, is to address these situations in a responsible manner and restore the credibility of our Island. We have to look into the future and anticipate these challenges instead of simply surviving from one crisis to the next. The leaders and officers of the government components of Puerto Rico must focus on balancing revenue and expenditure, reducing the level of government intervention in the economy of Puerto Rico and creating a competitive environment for business, where good faith prevails and local and foreign investors as well as business owners can lead the way toward economic recovery. The politics of the past led the United States Congress to enact PROMESA, delegating in a Financial Oversight Board the power

to work with the Government of Puerto Rico to get us out of the crisis we are facing. In this respect, on December 20, 2016, the Oversight Board requested as a priority to bring forth a plan and commitment to implement major changes addressed at:

- o Restoring economic growth and create a more competitive economy. In the short-term, these changes should include liberalizing the labor market and social assistance programs, lowering the cost of energy, rationalizing and optimizing taxation and streamlining the permitting processes to enable investment.
- o Restructuring the Government to achieve balanced budgets while preserving essential services for the people of Puerto Rico.
- o Restructuring pension systems pursuant to PROMESA and re-establishing access to the capital markets.

For these reasons, it is essential to bring about unprecedented changes that will make the Government more efficient and fiscally responsible. As a matter of fact, the Plan for Puerto Rico, which the People of Puerto Rico endorsed on November 8, 2016, includes measures to achieve fiscal responsibility and grow the economy of the Island.

II. Background.

A. Passage of Moratorium Act

On April 6, 2016, then-Governor Alejandro García Padilla (Governor García Padilla) signed into law the Moratorium Act. When adopting the Moratorium Act, the 17th Legislative Assembly made certain findings, as reflected in Section 108 of the Moratorium Act, that the Government should prioritize the payment of essential services over debt service. The Moratorium Act was enacted at a point in time when federal congressional action to address Puerto Rico's financial crisis had not yet been completed.

The Moratorium Act had four primary objectives. The first, contained in Chapter 2 of the Moratorium Act, authorized the Governor to (i) declare a moratorium on debt service payments for a temporary period for the Government of Puerto Rico, the Government Development Bank of Puerto Rico (GDB), the Economic Development Bank of Puerto Rico (EDB), or any of the other instrumentalities of the Government of Puerto Rico, and (ii) stay creditor remedies that might result from the moratorium. The second objective, contained in Chapters 3 and 4 of the Moratorium Act, amended GDB's Enabling Act to give GDB options and tools to address its own financial difficulties. These amendments (a) modernized GDB's Organic Act related to receivership of GDB and (b) authorized the creation of a temporary "bridge" bank to carry on certain of GDB's functions and to honor deposits. The third objective, contained in Chapter 5 of the Moratorium Act, amended the EDB's Enabling Act to modernize its receivership provisions. The fourth objective, contained in Chapter 6 of the Moratorium Act, created the Puerto Rico Fiscal and Financial Advisory Authority. The new Administration enacted a law to repeal Chapter 6 of Act 21-2016, and created a new Authority, with broad

powers, known as the Puerto Rico Fiscal Agency and Financial Advisory Authority, Act 2-2017.

B. State of Emergency Declared for Commonwealth and Certain Governmental Entities

Following enactment of the Moratorium Act, Governor García Padilla issued various executive orders pursuant to authority granted under the Moratorium Act. As part of the Executive Orders, Governor García Padilla declared a state of emergency for the Commonwealth (EO 2016-30); GDB (EO 2016-10); the Puerto Rico Infrastructure Finance Authority (PRIFA) (EO 2016-14); the Highway and Transportation Authority (HTA) (EO 2016-17); the Puerto Rico Public Building Authority (PBA) (EO 2016-30); the Puerto Rico Metropolitan Bus Authority (AMA) (EO 2016-30); the Puerto Rico Convention Center District Authority (CCDA) (EO 2016-31); the Employees Retirement System of the Government of the Commonwealth of PR and its Instrumentalities (ERS) (EO 2016-31); the Puerto Rico Industrial Development Company (PRIDCO) (EO 2016-31); the University of Puerto Rico (UPR) (EO 2016-31); and the Puerto Rico Public Finance Corporation (PFC) (EO 2016-31). Executive Orders (EO-2016-17 and EO 2016-29) exclude the Puerto Rico Electric Power Authority (PREPA) from the Moratorium Act's coverage.

The repeal of portions of the Moratorium Act, including those providing for emergency periods and a stay of litigation, should not expose the Government to more litigation from creditors. Section 405 of PROMESA affords a temporary stay of litigation to facilitate voluntary negotiations between the Government and its creditors. By repealing the emergency periods and litigation stay under the Moratorium Act, this Legislative Assembly and Governor are signaling their desire to engage in voluntary negotiations with the creditors of the Government of Puerto Rico and its instrumentalities instead of spending more resources and time litigating procedural motions that are unproductive to facilitating a fair settlement and restructuring and to addressing the dire need for economic growth and for the effective and efficient services for the people of the Territory.

CHAPTER 1.-GENERAL PROVISIONS

Section 101.-Short Title

This Law shall be known and may be cited as the "Puerto Rico Financial Emergency and Fiscal Responsibility Act of 2017".

Section 102.-Declaration of Financial Emergency

It is hereby found and declared that the grave public financial emergency identified and declared to exist by the Legislative Assembly on numerous prior occasions continues and has worsened; that this ongoing financial emergency and the resulting impact upon the solvency of the Government of Puerto Rico and its instrumentalities continues to materially and adversely affect the ability to meet financial obligations and to provide for

the health, safety, and welfare of the residents of Puerto Rico; and that resolution of the financial emergency and establishing fiscal responsibility within the Government of Puerto Rico and its instrumentalities is vitally necessary to assure the provision of those governmental services essential to the public health, safety, and welfare of the residents of Puerto Rico.

The continuing financial emergency has been recognized by the Government of the United States through the enactment of the Puerto Rico Oversight, Management, and Economic Stability Act, Public Law 114-187 (PROMESA), which, among other things, provides measures to assist the Government of Puerto Rico and its instrumentalities in achieving fiscal responsibility and access to capital markets.

When enacting PROMESA, the United States Congress found that a combination of severe economic decline, and, at times, accumulated operating deficits, lack of financial transparency, management inefficiencies, and excessive borrowing has created a fiscal emergency in Puerto Rico and that, as a result of its fiscal emergency, the Government of Puerto Rico has been unable to guarantee its ongoing operations and provide the residents of Puerto Rico with effective essential services.

There exist certain broad rights, powers, and obligations of Puerto Rico, founded in or imposed by the United States Constitution and the Constitution of Puerto Rico, statutory law, and equity that arise as a result of such an emergency; and certain additional rights, powers, and obligations granted to or imposed by PROMESA and the exercise by the United States Congress of its territorial clause powers. In light of the continuing financial emergency and the enactment of PROMESA, the Legislative Assembly has a responsibility to exercise its police powers in a manner that recognizes the responsibility to satisfy financial obligations of the Government of Puerto Rico and its instrumentalities, while continuing to provide governmental services essential to the health, safety, and welfare of the residents of Puerto Rico given the limited available resources of the Government of Puerto Rico and its instrumentalities, all in a manner consistent with PROMESA. In exercising its police powers, the Legislative Assembly also recognizes the need to remedy the financial emergency by providing for prudent fiscal management, efficient administration, and provision of essential services, while permitting negotiation with creditors and the restructuring of contractual obligations.

The Legislative Assembly also declares that the Governor of Puerto Rico must also be fully empowered to exercise the Governor's duty to provide for the health, safety, and welfare of the residents of Puerto Rico by granting the Governor emergency police powers under this Act, including, but not limited to, powers relating to the identification of those governmental services essential to the health, safety, and welfare of Puerto Rico; assuring efficient and effective administration of the Government of Puerto Rico and its instrumentalities; and supervising and directing the fiscal affairs of the Government of Puerto Rico and its instrumentalities.

Section 103.-Definitions

The following words and terms, when used in this Act, shall have the meaning stated below:

- (a) "Act" shall mean this "Puerto Rico Financial Emergency and Fiscal Responsibility Act of 2017".
- (b) "Authority" shall mean the Fiscal Agency and Financial Advisory Authority.
- (c) "AFICA" shall mean the Puerto Rico Industrial, Tourist, Educational, Medical and Environmental Control Facilities Financing Authority.
- (d) "Agreement with Creditors" shall mean an agreement executed among a government entity and certain creditors of such government entity, including, but not limited to, a consensual restructuring support agreement relating to the restructuring of its debt, as it may be amended, supplemented or reinstated from time to time, regardless of whether or not it is securitized.
- (e) "AMA" shall mean the Metropolitan Bus Authority.
- (f) "Available resources" shall have the meaning given to such term for purposes of Section 8 of Article VI of the Constitution of Puerto Rico.
- (g) "Bank" shall mean either or both of—
 - i. the Government Development Bank for Puerto Rico; and
 - ii. the Economic Development Bank for Puerto Rico.
- (h) "Board" shall mean the Board of Directors of each Bank.
- (i) "Bond claim" for purposes of Section 206, shall mean that term as defined under Section 5 of PROMESA.
- (j) "CCDA" shall mean the Puerto Rico Convention Center District Authority.
- (k) "Children's Trust" shall mean the not-for-profit entity created by the Territory pursuant to the Children's Trust Law, Act 173-1999, as amended.
- (l) "COFINA" shall mean the Puerto Rico Sales Tax Financing Corporation.
- (m) "Debt instrument" shall include any document or instrument for, used in connection with, or related to:

- i. any obligation to pay the principal of, premium of, if any, interest on, penalties, reimbursement or indemnification amounts, fees, expenses, or other amounts relating to any indebtedness, and any other liability, contingent or otherwise,
 - a. for borrowed money,
 - b. evidenced by bonds, debentures, indentures, notes, resolutions, credit agreements, trade finance agreements, trade finance facility agreements, securities, or similar instruments, or
 - c. for any letter of credit or performance bond;
- ii. any contingent obligation in respect of or related to any liability of the kind described in the preceding clause (i), including, but not limited to, any guaranty of such liability and any reimbursement agreement in respect of an insurance policy covering such liability;
- iii. any obligation in respect of bankers' acceptances;
- iv. any obligation in respect of a swap agreement, derivative contract or related agreement, hedge agreement, securities contract, forward contract, repurchase agreement, option, warrant, commodities contract, or similar document;
- v. any and all deferrals, renewals, extensions, and refunding of, or amendments, modifications, or supplements to, any liability of the kind described in any of the preceding clauses (i) through (iv);
- vi. any liability arising out of any judgment relating to any liability of the kind described in any of the preceding clauses (i) through (v); or
- vii. any liability arising from an obligation of insurance relating to any liability of a kind described in this Section.

Provided that "debt instrument" shall not include any contract for the provision of goods or services, nor shall it include any clearing services agreement or other agreement pursuant to which a financial institution provides services to the Bank or any other government entity.

- (n) "Deposit" shall mean funds held by the Bank that are classified by such Bank as deposits.

- (o) "Depositor" shall mean any person, or authorized representative thereof, who is the primary or beneficial owner of any account containing deposits held by the Bank.
- (p) "Depository Institution" shall mean, for purposes of this Act, banks and cooperative savings and credit associations (state chartered credit unions) operating in Puerto Rico, and the Public Corporation for the Supervision and Insurance of Cooperatives of Puerto Rico, as insurer of the share and deposits of cooperative savings and credit associations (state chartered credit unions).
- (q) "Emergency Period" shall mean the period beginning on the effective date of this Act and ending upon May 1, 2017, which term may be extended by the Governor pursuant to an executive order for one additional period of three (3) months.
- (r) "ERS" shall mean the Employees Retirement System of the Government of the Territory and its Instrumentalities.
- (s) "Essential service" shall mean a service provided by the Territory or an instrumentality of the Territory identified by the Governor in Chapter 2 of this Act as a service essential to the public health, safety, and welfare of the residents of Puerto Rico.
- (t) "Good faith" for purposes of Section 206, shall mean participation by an interested party in a neutral evaluation process with the intent to negotiate a resolution of the issues that are the subject of the neutral evaluation process, including the timely provision of complete and accurate information to provide the relevant participants through the neutral evaluation process with sufficient information, in a confidential manner, to negotiate the readjustment of a debt obligation.
- (u) "Government entity" shall mean the Territory, AFICA, AMA, each Bank and any subsidiary thereof, CCDA, COFINA, ERS, HFA, HTA, PBA, PFC, PRASA, PREPA, PRIDCO, PRIFA, PRPA, UPR, and any other public entity or instrumentality of the Territory designated by the Oversight Board as a covered entity and subject to oversight by the Oversight Board.
- (v) "Governor" shall mean the Governor of the Territory under Article IV of the Constitution of Puerto Rico.
- (w) "HFA" shall mean the Puerto Rico Housing Finance Authority.
- (x) "HTA" shall mean the Puerto Rico Highways and Transportation Authority.

- (y) "Interest obligation" shall mean any obligation arising under or related to the payment of interest on any debt instrument.
- (z) "Interested party" for purposes of Section 206, shall mean a trustee, a committee of creditors, an affected creditor, an indenture trustee, a bondholder or an insurer of a debt obligation or a committee of insurers of debt obligations.
- (aa) "MFA" shall mean the Puerto Rico Municipal Finance Agency.
- (bb) "Neutral evaluation process" for purposes of Section 206, shall mean a form of alternative dispute resolution or mediation between the Territory or an instrumentality of the Territory conducted in a manner that promotes voluntary, un-coerced decision-making in which each participant makes free and informed choices in good faith regarding process and outcome and in which a neutral evaluator uses his or her best efforts to assist the participants in reaching a satisfactory resolution of their disputes relating to debt obligations.
- (cc) "Neutral evaluator" for purposes of Section 206, shall mean an impartial, unbiased person commonly known as a mediator, who assists the Territory or an instrumentality of the Territory and interested parties in reaching their own settlement of issues relating to debt obligations of the Territory or an instrumentality of the Territory.
- (dd) "Oversight Board" shall mean the Financial Oversight and Management Board established for Puerto Rico under PROMESA.
- (ee) "PBA" shall mean the Puerto Rico Public Buildings Authority.
- (ff) "Person" shall mean any natural person or legal entity, including, but not limited to, any government agency, department, instrumentality, public corporation, municipality, board, office, committee or dependency or any public or private individual, firm, partnership, stock company, limited liability company, association or corporation organized and existing under the laws of the Territory, the United States of America or any of its states, or of any foreign country, or any combination of the above.
- (gg) "PFC" shall mean the Puerto Rico Public Finance Corporation.
- (hh) "PRASA" shall mean the Puerto Rico Aqueduct and Sewer Authority.
- (ii) "PREPA" shall mean the Puerto Rico Electric Power Authority.
- (jj) "PRIDCO" shall mean Puerto Rico Industrial Development Company.

- (kk) "PRIFA" shall mean the Puerto Rico Infrastructure Financing Authority.
- (ll) "Principal obligation" shall mean any obligation arising under or related to the payment of principal of any debt instrument, as may be adjusted to account for accretion in the case of capital appreciation bonds or convertible capital appreciation bonds prior to conversion, or for unamortized original issue discount or premium.
- (mm) "PRPA" shall mean the Puerto Rico Ports Authority.
- (nn) "PROMESA" shall mean the Puerto Rico Oversight, Management, and Economic Stability Act, Public Law 114-187.
- (oo) "Public debt" shall mean any obligation or evidence of indebtedness of the Territory, or a government entity, with the meaning of in Section 2 of Article VI of the Constitution of Puerto Rico.
- (pp) "Territory" shall mean the Commonwealth of Puerto Rico as constituted under Section 1 of Article I of the Constitution of Puerto Rico.
- (qq) "UPR" shall mean the University of Puerto Rico.

Section 104.-Public Policy

It is the public policy of the Government of Puerto Rico to take all the required measures for Puerto Rico to establish fiscal responsibility within the Government and its instrumentalities necessary to satisfy its obligations and to assure the provision of those governmental services essential to the public health, safety, and welfare of the residents of Puerto Rico. Also, to exercise its police powers in a manner that recognizes the responsibility to satisfy financial obligations of the Government of Puerto Rico and its instrumentalities, while continuing to provide governmental services essential to the health, safety, and welfare of the residents of Puerto Rico given the limited available resources of the Government of Puerto Rico and its instrumentalities.

Section 105.-Relation to Constitutional Provisions; Supremacy Over Other Laws

This Act has been enacted pursuant to and in accordance with the Constitution of Puerto Rico and in furtherance of the police powers of the Territory and as otherwise detailed in this Act. In the event that the provisions of this Act are in conflict with the provisions of any other law, the provisions of this Act shall prevail. Implementation of this Act is subject to the requirements of the Constitution of Puerto Rico and PROMESA.

Notwithstanding anything herein to the contrary, if a power or duty is delegated to the Authority under the Puerto Rico Fiscal and Financial Advisory Authority Act, Act 2-2017, this Act should not be interpreted to affect, alter, rescind or in any way modify that

delegation. Further, a delegation of a power or duty under Puerto Rico Fiscal and Financial Advisory Authority Act, Act 2-2017, does not limit or otherwise restrict the exercise by the Governor of powers or duties vested in the Governor by this Act or otherwise.

Section 106.-Immunities

- (a) Except to the extent proven by final and unappealable judgment to have engaged in willful misconduct for personal gain or gross negligence comprising reckless disregard of applicable duties, no person shall have any liability, civil, criminal, or otherwise, for, and without further notice or order shall be exonerated from, actions taken or not taken in their capacity, and within their authority in connection with, related to, or arising under, or as permitted under this Act, nor for any transfer, sale or assignment of assets or withdrawal of funds approved or executed by any government entity prior to or after the enactment of this Act if any such transfer, sale, assignment or withdrawal of deposits or other funds, as applicable, is found by a court to be in violation of this Act, Act No. 17 of September 23, 1948, as amended, Act No. 22 of July 24, 1985, as amended, Sections 1243, 1244, and 1249 of the Civil Code of Puerto Rico, or any other similar or analogous law or provision.
- (b) No financial institution or agent thereof providing clearing services or other financial services to the Bank or any other government entity pursuant to any agreement with the Bank or such government entity shall have any liability, civil, criminal, or otherwise, for, and without further notice or order shall be exonerated from, actions taken or not taken in connection with such agreement, nor for any transfer or withdrawal of deposits or other funds made pursuant thereto if any such transfer or withdrawal is found by a court to be in violation of this Act, Act No. 17 of September 23, 1948, as amended, Act No. 22 of June 24, 1985, as amended, or Sections 1243, 1244 and 1249 of the Civil Code of Puerto Rico, any regulation or executive order issued hereunder or thereunder, or any other similar or analogous law or provision.
- (c) Any financial institution in which a check issued by any government entity is deposited or which receives any other instruction from a government entity to transfer funds shall be entitled to honor such check or instruction in the ordinary course of its banking operations without inquiring whether the requirements of this Act or any executive order issued hereunder have been complied with. The Bank and the government entities shall be solely responsible and liable for compliance with any provision of this Act or any regulation or executive order issued hereunder that restricts the use of government funds or the issuance of checks or other instructions relating to government funds held by financial institutions.
- (d) Any action brought for gross negligence shall be dismissed with prejudice if:
 - (i) a defendant, as an official, officer, director, committee member, or

professional produces documents showing in respect of whatever acts or omissions form the basis of the complaint, such defendant received or relied on the advice of experts or was advised of relevant facts, participated in person or by phone, and deliberated in good faith; or (ii) the acts or omissions that form the basis of the complaint, indictment, or information do not clearly violate an established duty of which a reasonable person would have clear notice under the particular circumstances.

Section 107.-Language Conflict

This Act shall be adopted in both of Puerto Rico's official languages, Spanish and English. If in the interpretation or application of this Act any conflict arises between the English and Spanish texts, the English text shall govern. Likewise, every executive order issued under the authority of this Act shall be adopted and published in both of Puerto Rico's official languages, Spanish and English. If in the interpretation or application of these executive orders any conflict arises between the English and Spanish texts, the English text shall govern.

CHAPTER 2.-FINANCIAL EMERGENCY POWERS

Section 201.-Finding on Financial Emergency Powers

It is the Legislative Assembly's finding that given the Territory's continuing financial emergency, that during the Emergency Period, the Governor should be authorized to exercise the powers vested in the Governor under this Section to designate services provided by the Territory and its instrumentalities as essential services or services that are not essential services and utilize available resources to provide for the satisfaction of obligations of the Territory and its instrumentalities, while also recognizing the need to provide for the services essential to the health, safety, and welfare of the residents of Puerto Rico.

Section 202.-Maintaining Essential Services

During the Emergency Period, the Governor may issue executive orders designating the priority for use of available resources to pay for the essential services the Governor deems necessary to provide for health, safety, and welfare of the residents of Puerto Rico, while also recognizing the debt obligations of the Territory and its instrumentalities.

Section 203.-Payment for Essential Services and Payment Priorities

- (a) During the Emergency Period, the Governor shall pay debt service to the extent (a) possible after all essential services of the Commonwealth of Puerto Rico have been provided for; or (b) ordered to do so by the Oversight Board or any other board created under federal law. In the event that the provisions

of this Act are in conflict with the provisions of any other law, the provisions of this Act shall prevail.

- (b) During the Emergency Period, the Governor may issue executive orders requiring the use of available resources to be deposited in a lockbox account under the sole control of the Authority pay for essential services as the Governor deems necessary to protect the health, safety, and welfare of the residents of Puerto Rico. The Governor may take any and all actions that the Governor deems reasonable and necessary to preserve the ability of the Territory or an instrumentality of the Territory to continue providing essential services to residents of Puerto Rico.
- (c) During the Emergency Period, the Governor may issue executive orders establishing priority rules for the disbursement of public funds when resources available for a fiscal year are insufficient to cover the appropriations made for that fiscal year.
- (d) During the Emergency Period, notwithstanding Section 4(c) of Act No. 147 of June 18, 1980, as amended, the Governor may reprioritize services and expenses described in Section 4(c)(3) to a higher payment priority than as listed in Section 4(c).
- (e) During the Emergency Period, the Governor may issue executive orders as the Governor deems necessary or advisable to assure the payment of a debt obligation of the Territory or an instrumentality of the territory.

Section 204.-Emergency Bank Measures

- (a) During the Emergency Period, the Governor may take any and all actions that the Governor deems reasonable and necessary to permit the Bank to continue carrying out its operations.
- (b) For the purposes of this Section, actions that are "reasonable and necessary" include, without limitation, all of the following—
 - i. prescribing such conditions or restrictions for the conduct of the business of the Bank, including dispensing with the compliance, in whole or in part, of any requirement prescribed by otherwise applicable law, including those that require the Bank to maintain deposit reserves above a certain threshold;
 - ii. ordering the limitation, postponement or suspension of any payment, in whole or in part, of any obligation pursuant to terms the Governor prescribes to address the Bank's liquidity needs or facilitate the Bank's ability to carry out its operations;

- iii. suspending—
 - A. payments on any obligation guaranteed by the Bank;
 - B. payments on any letter of credit; and
 - C. any obligation or commitment to lend or extend money or credit;
 - iv. taking any action with respect to the Bank as provided for in Act No. 17 of September 23, 1948, as amended or Act No. 22 of July 24, 1985, as amended, as applicable; and
 - v. delegating to the Bank, its Board, or its employees authority to take actions in furtherance of this Section.
- (c) If any restriction is placed on disbursements by the Bank pursuant to subsection (a) of this Section, —
- i. the Bank shall not disburse any loans or credit facility unless authorized by the Governor;
 - ii. the Bank shall honor requests to withdraw or transfer any deposit, including by check or other means, of an agency, public corporation, or instrumentality of the Territory (other than those listed in subsection (c)(iii) of this subsection) as may be authorized by the Governor, from time to time;
 - iii. subject to the availability of funds and the aggregate disbursements established by the Governor, the Bank shall honor any request to withdraw or transfer any deposit held by, or request to honor any check written by, the Legislative Branch, the Judicial Branch, UPR, the Office of the Comptroller, the Office of the Electoral Comptroller, the State Elections Commission, the Government Ethics Office, the Independent Prosecutors Panel, or a municipality of the Territory; provided, however, that an authorized officer of an entity listed in this paragraph certifies along with supporting documentation that such funds will be used for the payment of essential services.
- (d) Except as provided in subsection (e) of this Section, if any restriction is placed on disbursements from the Bank pursuant to this Section, then any value disbursed to a creditor after such restriction is imposed shall be subtracted from the value of any distribution that such creditor is entitled to receive, as of the first date of the restriction, if the Bank is subsequently liquidated or placed into a receivership.

- (e) Disbursements made by the Bank before or during the Emergency Period that are made in the ordinary course, including disbursements to cover expenses of the nature described in Article 12 Section (A)(2) or (3) of Act No. 17 of September 23, 1948, as amended, or to pay for goods and services provided to the Bank, shall, for the avoidance of doubt, in each case, be exempt from Article 17 of Act No. 17 of September 23, 1948, as amended.
- (f) A check written in violation of this Act or an executive order issued pursuant to this Act is null and void, and any person that intentionally writes a check to withdraw all or a substantial portion of their deposited fund balance in violation of this Section is guilty of a felony punishable by imprisonment for up to one (1) year or by a fine of not less than twenty-five thousand dollars (\$25,000), or both, at the court's discretion.

Section 205.-Issuance by Government Entity of Evidence of Debt

Nothing in this Act prohibits or prevents any government entity, whether during the Emergency Period or not, from issuing evidence of debt to consenting holders of any debt obligation, any debt instrument or other evidence of debt, in payment, renewal, or refunding of or in exchange for such consenting holder's debt obligation, on terms that otherwise comply with this Act and any other applicable law, including, but not limited to, PROMESA. Providing such evidence may not, and shall not, constitute the issuance of new debt under the Act.

Section 206.-Additional Emergency Powers of Governor

- (a) During the Emergency Period the Governor is hereby granted broad receivership powers to rectify the financial emergency declared by this Act, take action necessary to satisfy the debt obligations of the Territory and its instrumentalities and to act to ensure the provision of essential services, consistent with the Constitution of Puerto Rico, the Governor's inherent police powers, and PROMESA, without undermining the powers and faculties of the Legislative Assembly. The Governor, together with the Authority, may take the following actions as they deem necessary or advisable to rectify the financial emergency, including but not limited to:
 - i. analyze factors and circumstances contributing to the financial emergency and initiate steps to correct the factors and circumstances;
 - ii. limit the expenditure of appropriated funds;
 - iii. issue executive orders or other directives regarding the disbursement or disposition of funds held by the Bank or other government entity;

- iv. require and approve or disapprove, or amend or revise, a plan for paying debt obligations of the Territory or its instrumentalities;
- v. require and prescribe the form of special reports to be made by Territory or an instrumentality of the Territory to creditors, or Oversight Board, and the Legislative Assembly;
- vi. examine all records and books of account of a government entity and require attendance of witnesses and the production of books, papers, contracts, and other documents relevant to an analysis of the financial condition a government agency;
- vii. approve or disapprove any executory contract, expenditure, or loan, the creation of any new position, or the filling of any vacancy in a position by any government entity within the Executive Branch;
- viii. review and approve payrolls or other claims against a government entity within the Executive Branch before payment;
- ix. notwithstanding any otherwise applicable minimum staffing level requirement, establish and implement staffing levels for a government entity within the Executive Branch;
- x. reject, modify, or terminate one or more terms and conditions of an existing executory contract of a government entity within the Executive Branch;
- xi. act as or designate a sole agent of a government entity within the Executive Branch in collective bargaining with employees or representatives and approve any contract or agreement on behalf of the government entity;
- xii. appoint, direct, supervise, and remove administrators, including heads of government entities within the Executive Branch; Administrators that are employees of trust and confidence may be removed, except those administrators that have a term appointment. Provided, however, that when a head of a government entity subject to the consent and approval of the Senate is removed from such position, said removal must be notified to the Senate of Puerto Rico within three (3) business days.
- xiii. employ or contract for, at the expense of a government entity within the Executive Branch, auditors and other technical personnel;

- xiv. retain one or more persons as a local inspector general for one or more government entities within the Executive Branch to assure integrity, economy, efficiency, and effectiveness in the operations of the government entities by conducting meaningful and accurate investigations and forensic audits, and to detect and deter waste, fraud, and abuse;
- xv. sell, lease, convey, assign, or otherwise use or transfer the assets, and liabilities, of a government entity within the Executive Branch, if the sale, lease, conveyance, assignment, use, or transfer does not endanger the health, safety, or welfare of the residents of Puerto Rico or unconstitutionally impair a bond, note, security, or uncontested legal obligation of the government entity. These actions can only be carried out according to the existing legal framework;
- xvi. authorize the borrowing of money by a government entity within the Executive Branch. These actions can only be carried out according to the existing legal framework;
- xvii. approve or disapprove of the issuance of debt obligations of a government entity within the Executive Branch. These actions can only be carried out according to the existing legal framework;
- xviii. enter into a neutral evaluation process with one or more interested parties relating to a debt obligation of the Territory or an instrumentality of the Territory under which the participants, through an agreed upon process select a neutral evaluator to oversee the neutral resolution process and facilitate discussions and negotiations in good faith among the participants in an effort to resolve their disputes relating to the debt obligation and under which the neutral evaluator may make recommendations for a settlement or plan of readjustment. Provided, however, that use of a neutral evaluation process under this subparagraph (a)(xviii) does not restrict or otherwise prohibit other negotiations or agreements with an interested party relating to a debt obligation of the Territory or an instrumentality of the Territory;
- xix. take action necessary to assure compliance with the Enabling Act of the Office of Management and Budget, Act No. 147 of June 18, 1980, as amended, not inconsistent with the provisions of this Act;
- xx. require an officer, employee, agent, or contractor of the Territory or an instrumentality of the Territory to provide to the Oversight Board copies, whether written or electronic, of such records, documents, information, data, as requested by the Oversight Board;

- xxi. ensure the prompt and efficient payment and administration of taxes through the adoption of electronic reporting, payment and auditing technologies;
- xxii. prevent a transfer of property by an instrumentality of the Territory prohibited under Sections 201(b)(1)(M) and 407(a) of PROMESA;
- xxiii. rescind an authorization approved by the Legislative Branch or the Executive Branch after May 4, 2016 and before the effective date of this Act for the unexecuted sale or transfer of the assets and liabilities of a government entity within the Executive Branch, if the sale or transfer endangers the health, safety, or welfare of the residents of Puerto Rico or impairs a bond, note, security, or uncontested legal obligation of the government entity; and
- xxiv. the additional powers conferred to the Governor hereunder shall not undermine the powers and faculties of the Legislative Assembly.

Section 207.-Administrative and Financial Controls

- (a) During the Emergency Period, and without this Section being construed as a limitation to the powers of the Governor, the Governor shall exercise general supervisory control over the functions and activities of all government entities within the Executive Branch.
- (b) Without this Section being construed as a limitation to the powers of the Governor, in exercising general supervisory control under subsection (a) the Governor and/or the Authority may, and are not limited to, do all of the following, subject to the limitations contained in Sections 201(b)(1)(M) and 407 of PROMESA:
 - i. direct a government entity within the Executive Branch to reduce expenditures through the implementation of administrative efficiencies;
 - ii. impose limits on contractual expenditures by government entities within the Executive Branch;
 - iii. order the lapse or return of unexpended multi-year appropriations to the general fund within the Executive Branch;
 - iv. prohibit the establishment of new program or expansion of a current program by a government entity within the Executive Branch;
 - v. issue directives for the allotment of appropriations;

- vi. transfer appropriated funds from one program to another within a government entity within the Executive Branch, without modifying the amounts assigned for the payment of salaries, related costs and utilities;
- vii. intervene in any matter touching functions and activities under subsection (a).

Section 208.-Enforcement and Executive Orders

- (a) For purposes of this Chapter, each government entity within the Executive Branch shall be under the supervision of the Governor unless otherwise provided by the Constitution of Puerto Rico. The Governor shall transact all necessary business with the officers of governmental entities within the Executive Branch and may require information in writing from all executive and administrative officers of government entities within the Executive Branch relating to the compliance with this Chapter and upon any subject relating to the duties of their respective offices.
- (b) The Governor may initiate court proceedings in the name of the Territory to enforce compliance with any constitutional mandate or requirement of this Act, or to restrain violations of any constitutional mandate, duty, or right, or requirement of this Act by any officer of a governmental entity within the Executive Branch or a governmental entity within the Executive Branch.
- (c) The Governor shall have power to inquire into the condition and administration of any public office of a government entity within the Executive Branch and the acts of any public officer of a government entity within the Executive Branch.
- (d) The Governor may issue executive orders to implement or enforce compliance with this Chapter. An executive order issued under this Section is binding on the officials, employees, agents, and contractors of a government entity within the Executive Branch. Officers of a government entity within the Executive Branch shall take and direct the action necessary and advisable to comply with an executive order issued under this Section applicable to the government entity.
- (e) The Governor may amend, rescind, or supersede an executive order issued under this Act or under the former Puerto Rico Emergency Moratorium and Financial Rehabilitation Act, which shall continue in full force and effect until amended, rescinded or superseded.

- (f) To enforce compliance with this Chapter or an executive order issued under this Chapter, the Governor may initiate court proceedings in the name of the Territory.
- (g) The additional powers conferred to the Governor shall not undermine the powers and faculties of the Legislative Assembly.

Section 209.-Delegation

The Governor may delegate to the Authority by Executive Order any power or duty contained in this Act, to the extent any such power or faculty has not already been delegated to the Authority herein or pursuant to Act 2-2017, all of which shall continue to be in full force and effect. A further delegation of a power or duty to Authority, does not limit or otherwise restrict the exercise by the Governor of powers or duties vested in the Governor by this Act or otherwise. The additional powers conferred to the Governor shall not undermine the powers and faculties of the Legislative Assembly.

Section 210.-Hiring of Government Workers and Professional Persons; Exemption from other Laws.

- (a) At any time during an Emergency Period, the following acts or provisions thereof shall not apply to the hiring by the Governor, the Department of the Treasury, PRIFA, any subsidiary of the Bank, and/or the Authority, on a temporary or permanent basis, of any individual that is employed by the Bank or any other government entity to work in the Governor's office, the Department of the Treasury, PRIFA, any subsidiary of the Bank, and/or the Authority on matters related to the restructuring of any debt obligation or adjusting of any debt obligation, implementing liability management transactions for debt obligations, managing the fiscal affairs of the Territory or any government entity, or any matters otherwise related to functions or operations performed or carried out by the Bank under Act No. 17 of September 23, 1948, as amended, or Act No. 272 of May 15, 1945, as amended—
 - i. the "Public Service Human Resources Administration Act of the Commonwealth of Puerto Rico," Act 184-2004, as amended;
 - ii. the "Act to Regulate the Transition Process of the Government of Puerto Rico," Act 197-2002, as amended;
 - iii. Act 3-2017;
 - iv. items (b) and (c) of Article 4.6 of Act 1-2012, as amended, known as the "Puerto Rico Government Ethics Act of 2011";

- v. the "Commonwealth of Puerto Rico Government Fiscal Reform Act of 2006", Act 103-2006, as amended;
 - vi. Plan 3-2011, as amended, known as the "Reorganization Plan of the General Services Administration"; and
 - vii. Act 78-2011, as amended.
- (b) The Governor, the Department of the Treasury, PRIFA, any subsidiary of the Bank, and/or the Authority may employ, retain, or honor existing obligations under and/or assume existing contracts of the Bank of any government entity with consultants and essential employees, including legal and financial advisors, whether or not the salaries or fees were incurred prior to the date of such assumption, and may employ such consultants and essential employees to advise the Governor, the Bank or any government entity on matters related to restructuring or adjusting any debt obligation, implementing liability management transactions for debt obligations, managing the fiscal affairs of the Commonwealth and any government entity, or any matters otherwise related to functions or operations performed or carried out by the Bank under Act No. 17 of September 23, 1948, as amended, or Act No. 272 of May 15, 1945, as amended. The Governor, the Department of the Treasury, PRIFA, any subsidiary of the Bank, and/or the Authority, as applicable, shall submit to the Office of Management and Budget an estimate of the total costs and expenses related to the contracts and obligations to be incurred or assumed pursuant to this Section for the remainder of this fiscal year 2016-2017. The Secretary of the Treasury and the Director of the Office of Management and Budget are hereby directed to identify from the fiscal year 2016-2017 budget the funds necessary to cover such expenses and/or to transfer to PRIFA, any subsidiary of the Bank, or the Authority sufficient funds to cover such expenses. Beginning in fiscal year 2017-2018, such expenses shall be paid from appropriations made by the Legislative Assembly. The laws and provisions listed in items (a) i. through vii. of this Section shall not apply to the contracting or the assumption of obligations under this subsection.

Section 211.-Automatic Stay

While the Enactment Stay under PROMESA is in effect, any action that would be enjoined by PROMESA in a federal, state, or Puerto Rico court also is enjoined under this Act, and any similar action arising out of, or related to, this Act is similarly enjoined while the Enactment Stay under PROMESA is in effect.

CHAPTER 3.-REPEAL OF PROVISIONS OF MORATORIUM ACT.

SECTION 301.-Chapters 1 and 2 of Act 21-2016, as amended, are hereby repealed; and to reenumerate the existing Chapters 3, 4 and 5 as 1, 2 and 3.

CHAPTER 4.-AMENDMENT TO EDB ORGANIC ACT OF THE ECONOMIC DEVELOPMENT BANK FOR PUERTO RICO.

SECTION 401.-To add a new Article 23 to the Organic Act of the Economic and Development Bank, Act No. 22 of July 25, 1985, as amended, to read as follows:

“ARTICLE 23.-Language Conflict.

If in the interpretation or application of the amendments to this Act as enacted by Act 21-2016 any conflict arises between the English and Spanish texts, the English text shall govern.”

Section 402.-Article 23 of the Organic Act of the Economic and Development Bank, Act No. 22 of July 24, 1985, is hereby renumbered as Article 24.

CHAPTER 5.-SEVERABILITY AND EFFECTIVENESS.

Section 501.-Severability

If any clause, paragraph, subparagraph, sentence, word, letter, article, provision, section, subsection, title, chapter, subchapter, heading, or part of this Act, were to be annulled or declared unconstitutional, the order to such effect will neither affect nor invalidate the remainder of this Act. The effect of such an order shall be limited to the clause, paragraph, subparagraph, sentence, word, letter, article, provision, section, subsection, title, chapter, subchapter, heading, or part of this Act so annulled or declared unconstitutional. If the application to a person or circumstance of any clause, paragraph, subparagraph, sentence, word, letter, article, provision, section, subsection, title, chapter, subchapter, heading, or part of this Act, were to be annulled or declared unconstitutional, the order to such effect will neither affect nor invalidate the application of the remainder of this Act to such persons or circumstances to which it may be validly applied. It is the express and unequivocal intent of this Legislative Assembly that the courts of law enforce the provisions and application of this act to the greatest possible extent, even if any of its parts is annulled, invalidated, affected or declared unconstitutional, or even if the application thereof to any person or circumstance is annulled, invalidated or declared unconstitutional. This Legislative Assembly would have passed this Act regardless of the ruling on severability that a Court may issue.

Section 502.-Effectiveness

This Act shall take effect immediately upon enactment.

EXHIBIT 13A

GOBIERNO DE PUERTO RICO
LA FORTALEZA
SAN JUAN, PUERTO RICO

Boletín Administrativo Núm. OE-2017-31

ORDEN EJECUTIVA DEL GOBERNADOR DE PUERTO RICO, HON. RICARDO A.
ROSSELLÓ NEVARES, PARA EXTENDER EL PERIODO DE EMERGENCIA
DECRETADO POR LA LEY NÚM. 5-2017 Y DECRETAR MEDIDAS PARA PERMITIR
QUE EL BANCO GUBERNAMENTAL DE FOMENTO (“BGF) PUEDA CONTINUAR
LLEVANDO A CABO SUS OPERACIONES

POR CUANTO: Puerto Rico atraviesa actualmente por la mayor crisis financiera y económica de su historia moderna. Esta coyuntura llevó al Congreso federal a aprobar la *Puerto Rico Oversight, Management, and Economic Stability Act*, conocida como PROMESA por sus siglas en inglés. Dicho estatuto, a su vez, estableció una Junta de Supervisión Fiscal para el Gobierno de Puerto Rico (“Junta”).

POR CUANTO: Por su parte, con el propósito de atender la crisis, la Asamblea Legislativa de Puerto Rico aprobó la Ley Núm. 5-2017, conocida como *Ley para la Emergencia Financiera y Responsabilidad Fiscal de Puerto Rico*. Mediante esta ley se decretó un “Periodo de Emergencia”, según definido en ese estatuto, durante el cual el Gobernador puede tomar medidas para garantizar la responsabilidad fiscal en el Gobierno de tal forma que se puedan satisfacer las obligaciones del Gobierno y sus instrumentalidades y a la misma vez, garantizar que se provean aquellos servicios gubernamentales esenciales para la salud, seguridad y bienestar de los residentes de Puerto Rico.

POR CUANTO: Conforme al Artículo 103(q) de la Ley 5-2017, ese “Periodo de Emergencia” termina el 1 de mayo de 2017. No obstante, el Gobernador, mediante una Orden Ejecutiva, está autorizado a extenderlo por un término adicional de tres (3) meses.

POR CUANTO: Desde el mes de enero, el Gobierno de Puerto Rico se encuentra inmerso en un proceso abarcador de reforma fiscal, el cual incluye la adopción de un Plan Fiscal que fue certificado por Junta, el desarrollo de un presupuesto compatible con dicho Plan, así como la adopción de un sinnúmero de medidas para reformar la estructura de Gobierno.

POR CUANTO: Resulta necesario extender el “Periodo de Emergencia” por un término de tres (3) meses adicionales para permitir que puedan continuar las negociaciones voluntarias entre el Gobierno y sus

instrumentalidades y los acreedores, y al mismo tiempo, se puedan continuar prestando los servicios esenciales al Pueblo de Puerto Rico.

POR CUANTO: El Artículo 204 de la Ley Núm. 5-2017 autoriza al Gobernador a tomar cualesquiera y todas las acciones que estime razonables y necesarias para permitir al BGF continuar llevando a cabo sus operaciones.

POR TANTO: YO, RICARDO A. ROSSELLÓ NEVARES, Gobernador de Puerto Rico, en virtud de los poderes que me confieren la Constitución y las leyes del Gobierno de Puerto Rico, por la presente decreto y ordeno lo siguiente:

SECCIÓN 1ra. Al amparo del Artículo 103(q) de la Ley Núm. 5-2017, se extiende el "Periodo de Emergencia" decretado por dicho estatuto por un término adicional de tres (3) meses, el cual terminará el 1 de agosto de 2017.

SECCIÓN 2da. Conforme al Artículo 208(e) de la Ley Núm. 5-2017, las Órdenes Ejecutivas emitidas bajo la "Ley de Moratoria de Emergencia y Rehabilitación Financiera de Puerto Rico", Ley Núm. 21-2016, según enmendada, y bajo la Ley Núm. 5-2017, continuarán en efecto y con toda fuerza y vigor hasta que sean enmendadas, rescindidas o sustituidas.

SECCIÓN 3ra. A tenor con el Artículo 204 de la Ley Núm. 5-2017, se dispone que con el propósito de permitir que el BGF pueda continuar con sus operaciones, las mismas deberán regirse por lo dispuesto en la Orden Ejecutiva 2016-010 y la Orden Ejecutiva 2016-014, así como por lo dispuesto en el Plan Fiscal del BGF aprobado por la Junta, según pueda ser enmendado, y por cualquier otra determinación de la Junta, disponiéndose, sin embargo, que en la medida que surja una inconsistencia o discrepancia entre lo dispuesto por dichas Órdenes Ejecutivas y el Plan Fiscal del BGF o cualquier determinación de la Junta, prevalecerán las determinaciones de la Junta y el Plan Fiscal del BGF.

SECCIÓN 4ta. DEROGACIÓN. Esta Orden Ejecutiva deja sin efecto cualquier otra Orden Ejecutiva que en todo o en parte sea incompatible con esta, hasta donde existiera tal incompatibilidad.

SECCIÓN 5ta. VIGENCIA. Esta Orden Ejecutiva entrará en vigor inmediatamente y se mantendrá vigente hasta que sea enmendada o revocada por una orden ejecutiva posterior o por operación de ley.

SECCIÓN 6ta. SEPARABILIDAD. Las disposiciones de esta Orden Ejecutiva son independientes y separadas unas de otras y si un tribunal con jurisdicción y competencia declarase inconstitucional, nula o inválida cualquier parte, sección, disposición y oración de esta Orden Ejecutiva, la determinación a tales efectos no afectará la validez de las disposiciones restantes, las cuales permanecerán en pleno vigor.

SECCIÓN 7ma. PUBLICACIÓN. Esta Orden Ejecutiva debe ser presentada inmediatamente en el Departamento de Estado y se ordena su más amplia publicación.

EN TESTIMONIO DE LO CUAL, expido la presente Orden Ejecutiva bajo mi firma y hago estampar el gran sello del Gobierno de Puerto Rico, en La Fortaleza, en San Juan, Puerto Rico, hoy 30 de abril de 2017.



RICARDO ROSSELLÓ NEVARES
GOBERNADOR

Promulgada de conformidad con la Ley, hoy 30 de abril de 2017.



LCDA. MARÍA MARCANO DE LEÓN
SECRETARIA DE ESTADO INTERINA



EXHIBIT 13B

GOVERNMENT OF PUERTO RICO
THE FORTALEZA
SAN JUAN, PUERTO RICO

Administrative Bulletin No. EO-2017-031

EXECUTIVE ORDER OF THE GOVERNOR OF PUERTO RICO, HON. RICARDO A. ROSSELLÓ NEVARES, TO EXTEND THE EMERGENCY PERIOD UNDER THE PUERTO RICO FINANCIAL EMERGENCY AND FISCAL RESPONSIBILITY ACT OF 2017, ACT NO. 5-2017 AND TO DECREE MEASURES TO PERMIT THE GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO (“GDB”) TO CONTINUE CARRYING OUT ITS OPERATIONS

WHEREAS: Puerto Rico is currently undergoing the worst financial and economic crisis of its modern history. This precarious situation led the United State Congress to enact the *Puerto Rico Oversight, Management, and Economic Stability Act*, known as PROMESA. Said statute established the Financial Oversight and Management Board for Puerto Rico (the “Board”).

WHEREAS: In order to address the crisis, the Legislative Assembly of Puerto Rico enacted Act 5-2017, known as *Puerto Rico Financial Emergency and Fiscal Responsibility Act*. Said statute declared an “Emergency Period” during which the Governor can take measures to guarantee fiscal responsibility in the Government in such a way that the obligations of the Government and its instrumentalities can be satisfied while at the same time ensure for the provision of essential services required for the health, safety, and welfare of the residents of Puerto Rico.

WHEREAS: Pursuant to article 103(q) of Act 5-2017, the “Emergency Period” ends May 1, 2017. Notwithstanding, the Governor pursuant to an Executive Order, may extend the term for an additional three (3) months.

WHEREAS: Since January, the Government of Puerto Rico has been immersed in a comprehensive fiscal reform process, which includes the adoption of a Fiscal Plan which was certified by the Board, the development of a budget compatible with said Plan, as well as the adoption of a number of measures to reform the structure of the Government.

WHEREAS: It is necessary to extend the “Emergency Period” for an additional three months (3) to enable the voluntary negotiations to continue between the Government, its instrumentalities and the creditors to continue, and at the same time, while allowing for the continued provision of essential services to the People of Puerto Rico.

WHEREAS: Section 204 of Act 5-2017 authorizes the Governor to take any and all actions it deems reasonable and necessary to permit the GDB to continue carrying out its operations.

NOW, THEREFORE: I, RICARDO A. ROSSELLÓ NEVARES, Governor of Puerto Rico, by virtue of the inherent powers of my position and the authority vested in me by the Constitution and laws of Puerto Rico, hereby order and decree the following:

1st SECTION. Pursuant Article 103(q) of Act 5-2017, the "Emergency Period" is hereby extended by an additional period of three (3) months, which shall end on August 1, 2017.

2nd SECTION. Pursuant to Section 208(e) of Act 5-2017, it is hereby provided that the Executive Orders adopted pursuant to Act 21-2016, the Puerto Rico Emergency Moratorium and Financial Rehabilitation Act and Act 5-2017, shall remain in full force and effect until such orders are amended, rescinded, or superseded.

3rd SECTION. Pursuant to Section 204 of Act 5-2017, it is hereby provided that in order to permit the GDB to continue carrying out its operations, such operations shall be governed by the provisions of Executive Order 2016-010 and Executive Order 2016-014, as well as the provisions of the Fiscal Plan for the GDB approved by the Board, as it may be amended, and by any other determination of the Board, provided, however, that to the extent that there is an inconsistency or discrepancy between the provisions of said Executive Orders and the Fiscal Plan for the GDB or any determination of the Board, the Fiscal Plan for the GDB and the determinations of the Board shall prevail.

4th SECTION. REPEAL. This order renders without any effect any other Executive Order that may, in whole or in part, be inconsistent with this Executive Order, to the extent of such incompatibility.

5th SECTION. EFFECTIVENESS. This Executive Order shall take effect immediately and shall remain in effect until it is amended or repealed by a future Executive Order or by operation of law.

6th SECTION SEVERABILITY. This Executive Order shall be interpreted in a manner to render it valid to the extent practicable in accordance with the Puerto Rico Constitution and the United States Constitution. If a section, clause, paragraph, subparagraph, provision, or other part of this Executive Order is declared unconstitutional or unlawful by a competent court, a court order to that effect will neither affect nor invalidate the remainder of this Executive Order. The effect of such a court order will be limited to the section, clause, paragraph,

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subparagraph, provision, or other part of this Executive Order declared unconstitutional or unlawful and only with respect to the application to the particular obligation subject to the court order.

7TH SECTION

PUBLICATION. This Executive Order shall be filed immediately with the Department of State and its widest publication is hereby ordered.

IN TESTIMONY BY WHICH, I issue this Executive Order under my signature and I affix the Great Seal of the Government of Puerto Rico, at The Fortaleza, in San Juan, Puerto Rico, this 30th day of April, 2017.



RICARDO A. ROSSELLO NEVARES
GOVERNOR

Promulgated pursuant to law, this 30th day of April, 2017.



MARÍA MARCANO DE LEÓN, ESQ.
INTERIM SECRETARY OF STATE

EXHIBIT 14A

(P. de la C. 1133)

LEY

Para enmendar las Secciones 4042.03 y 4042.04 de la Ley 1-2011, según enmendada, conocida como "Código de Rentas Internas para un Nuevo Puerto Rico"; enmendar los Artículos 2, 26 y 27 de la Ley 272-2003, según enmendada, conocida como "Ley del Impuesto sobre el Canon por Ocupación de Habitación del Estado Libre Asociado de Puerto Rico"; enmendar el Artículo 103 de la Ley 5-2017, conocida como "Ley de Emergencia Financiera y Responsabilidad Fiscal de Puerto Rico"; enmendar los Artículos 12 y 26 de la Ley 3-2017, mejor conocida como "Ley para Atender la Crisis Económica, Fiscal y Presupuestaria para Garantizar el Funcionamiento del Gobierno de Puerto Rico", a los fines de establecer medidas adicionales de recaudo y liquidez para el Gobierno de Puerto Rico; establecer la obligación a ciertos comerciantes de remitir el Impuesto sobre Ventas y Uso en plazos quincenales; aclarar la responsabilidad que tienen los comerciantes intermediarios, con relación al cobro del Impuesto sobre el Canon por Ocupación de Habitación; extender el periodo de emergencia establecido en la "Ley de Emergencia Financiera y Responsabilidad Fiscal de Puerto Rico"; modificar que los informes requeridos en la Ley 3-2017, se deban presentar de forma semestral en lugar de trimestral, a partir de noventa (90) días de la aprobación de la Ley y durante el periodo de su vigencia; y para otros fines relacionados.

EXPOSICIÓN DE MOTIVOS

Al presente, Puerto Rico atraviesa una crisis fiscal y social monumental. Dicha crisis fue causada, en parte, porque faltaron controles sobre el gasto, medidas de desarrollo sustentable y sistemas de información gerencial que promovieran claridad y transparencia en la gestión gubernamental.

Según datos provistos por el Departamento del Tesoro Federal, Puerto Rico sufre una contracción económica acumulativa de 14.6% en el Producto Estatal Bruto (PEB real) con una predicción de una contracción adicional de 3% para los próximos dos años. Por años, el Gobierno ha operado con un déficit estructural que ha sido financiado con emisiones de bonos y préstamos al Banco Gubernamental de Fomento. Hace más de un año que el Gobierno carece de liquidez y se utilizaron los reintegros, pagos de los contratistas, el dinero de los pensionados y préstamos intragubernamentales para sustituir las fuentes de liquidez. El Banco Gubernamental de Fomento incumplió sus obligaciones con los bonistas desde el 1 de mayo de 2016 y ya no cumple su rol de proveer liquidez. Los sistemas de retiro están prácticamente insolventes.

Las malas decisiones del pasado, junto a nuestra indefensión colonial, llevaron al Congreso de los Estados Unidos a promulgar la ley denominada *Puerto Rico Oversight*,

Management, and Economic Stability Act, conocida como PROMESA (por sus siglas en inglés), Pub. L. 114-187, la cual le delegó amplísimos poderes en una Junta de Supervisión Fiscal (en adelante "Junta de Supervisión"). Conforme a PROMESA, las continuas acciones de planificación fiscal, las acciones presupuestarias, legislativas y ejecutivas de Puerto Rico, así como las reestructuraciones de deuda, consensuales o no, y la emisión, garantía, intercambio, modificación, recompra o redención de deuda están sujetas a supervisión.

Por medio de la Sección 4 de PROMESA, el Congreso de forma expresa hizo manifiesta su intención de que dicha Ley tiene supremacía sobre legislación estatal que sea antagónica con ella. Esto queda igualmente reconocido en la Sección 8 (2) que dice que el Gobierno de Puerto Rico no puede adoptar, implementar o hacer cumplir cualquier estatuto, resolución, política o regla que pueda menoscabar o anular los propósitos de PROMESA, según lo determine la Junta de Supervisión. Así pues, estamos imposibilitados de promulgar legislación que deje sin efecto a PROMESA o que menoscabe sus disposiciones y su alcance. Esto pone de manifiesto que tenemos que trabajar dentro de los parámetros de PROMESA para iniciar la recuperación económica y fiscal de Puerto Rico, de la mano con la solución del problema de nuestro estatus político.

Esta Administración se encontró un gobierno con un déficit en caja de más de \$7,000 millones según certificado por el Tesoro Federal y la Junta de Supervisión. En otras palabras, se heredó un gobierno sin acceso a los mercados de capital, con un crédito de categoría chatarra, sin liquidez, sin transparencia en las finanzas públicas, con un gasto gubernamental inflado y con deudas de miles de millones de dólares. Además, el Gobernador ha enfrentado el reto increíble de recuperar la credibilidad ante el mercado y ante la Junta de Supervisión. Es preciso pues, garantizar un gobierno donde los gastos respondan a la realidad de los ingresos.

Desde el 2 de enero hemos estado implementando una agenda para controlar el gasto gubernamental, reactivar nuestra economía y facilitar las condiciones para la creación de más y mejores empleos en el sector privado. Estamos demostrándole al mundo que Puerto Rico está abierto para hacer negocios en un ambiente de seguridad y estabilidad gubernamental. No hemos parado de trabajar y la aprobación de más de una veintena de medidas reformistas durante los primeros meses de nuestra Administración así lo demuestra. Sin duda, con nuestro esfuerzo hemos cambiado el rumbo de Puerto Rico a uno de responsabilidad fiscal.

El pasado 28 de febrero de 2017, el Gobernador presentó un Plan Fiscal completo, abarcador, real y, a la misma vez, sensible a las necesidades de nuestro Pueblo. El 13 de marzo de 2017 la Junta de Supervisión aceptó y certificó nuestro Plan Fiscal acompañado de una serie de contingencias que garantizan que no habrá despidos de empleados

públicos, sin afectar la jornada laboral, manteniendo el acceso a servicios de salud a nuestro Pueblo y protegiendo las pensiones de los más vulnerables.

Las medidas del Plan Fiscal están enmarcadas en cumplir con los objetivos fiscales; pero también en promover el desarrollo económico, en nuestra capacidad de restablecer la credibilidad; en que el cambio se traduzca no tan solo un mero recorte, si no en un beneficio a largo plazo, y, sobre todo, en velar que los sectores más vulnerables y los que trabajan duro, día a día, tengan una mejor calidad de vida. La validación del Plan Fiscal representa un reconocimiento a la credibilidad del nuevo Gobierno. Demostramos que pasamos de los tiempos de la incoherencia e improvisación, a los tiempos de trabajar en equipo, y tener resultados por el bien de Puerto Rico.

Los cambios que estamos encaminando no serán fáciles y tomarán tiempo, pero también tendrán sus resultados en los primeros dos años. Bajo el Plan Fiscal certificado, lograremos balancear los ingresos con los egresos para el Año Fiscal 2019. Ahora nos compete ejecutar. Las contingencias que acompañan al Plan Fiscal le requieren al Gobierno cumplir. Debemos asegurar que tengamos el dinero líquido para no afectar el salario de los empleados públicos, la salud del Pueblo y los ingresos de los pensionados.

Aunque son muchos los obstáculos que debemos superar en el camino hacia la recuperación definitiva, hay esperanza y optimismo en nuestra gente. Tenemos que aprovechar este momento para enfrentar los retos, y procurar los grandes cambios que Puerto Rico necesita.

Ante la precaria situación de liquidez, se hace necesario adoptar medidas que mejoren la salud del fisco. Esta Ley, provee dos de estas instancias.

Actualmente, las Secciones 1061.20 y 1061.23 del Código de Rentas Internas de 2011, según enmendado, mejor conocido como "Código de Rentas Internas para un Nuevo Puerto Rico" (Código), establece la obligación de individuos y corporaciones de pagar una contribución estimada de la contribución sobre ingresos dispuesta en el Subtítulo A del Código en cuatro plazos durante un año contributivo. Este mecanismo de estimada, ayuda al Gobierno a sostener su liquidez durante el año fiscal en lugar de depender del pago de contribuciones luego del decimoquinto día del cuarto mes luego del cierre del año contributivo del contribuyente. Esta enmienda provee para que ciertos contribuyentes remitan al Departamento de Hacienda en plazos quincenales los pagos del IVU. De esta manera, se logra mayor liquidez en caja y permite el ingreso constante de recaudos.

A tono con lo anteriormente expuesto, esta Asamblea Legislativa entiende meritorio incorporar nuestro sistema de estimadas al Impuesto Sobre Ventas y Uso con el propósito de mejorar la liquidez de nuestro fisco y poder cumplir con las obligaciones del Gobierno de Puerto Rico de manera puntual y responsable.

Por otro lado, durante la pasada década, la industria del turismo ha visto grandes cambios, particularmente, ante el advenimiento de la economía del compartir (sharing economy) y de los mercados en línea o mercados de comercio electrónico en línea (online marketplace). La popularidad de estas plataformas, que sirven como intermediarios entre potenciales huéspedes y hosteleros, tiene un impacto significativo para la industria del turismo en Puerto Rico. El aumento de reservas por conducto de estos intermediarios, unido a la falta de claridad de la Ley 272-2003, según enmendada, mejor conocida como la "Ley del Impuesto sobre el Canon por Ocupación de Habitación del Estado Libre Asociado de Puerto Rico", en cuanto al proceder frente a muchos de estos nuevos escenarios, tiene el potencial de privar al Gobierno de Puerto Rico de cuantiosos recaudos por concepto del canon por ocupación de habitación.

Durante el Año Fiscal 2016-2017, los ingresos producto del impuesto por canon de ocupación de habitaciones se redujeron en más de \$10,000,000.00 en comparación con el Año Fiscal 2015-2016. Esta merma es consecuencia de los efectos del virus del ZIKA, entre otras cosas, sumado al hecho de que muchos visitantes están recurriendo a la utilización de estas nuevas plataformas y modelos de negocios al momento de reservar sus estadías.

Debido a la falta de claridad existente en la definición de Hostelero contenida en la Ley 272-2003, la Compañía de Turismo de Puerto Rico estima que hay una cantidad significativa de proveedores de alojamiento a través de nuevos modelos y plataformas que no están registrados conforme lo requiere la Ley. A base de los últimos números obtenidos sobre la cantidad de hospederías registradas en ciertas plataformas (tarifa promedio y porcentaje de ocupación), se estima que el impuesto a ser recaudado por concepto de canon de arrendamiento en esas plataformas totaliza alrededor de \$560,000.00 mensuales. De ese total mensual, se estima que un 50% no está siendo reportado por los Hosteleros. Esto representa pérdidas de aproximadamente \$280,000.00 mensuales y \$3,360,000.00 anuales. Estas cantidades aumentarán exponencialmente a medida que esos nuevos modelos de negocios continúen adquiriendo auge y los visitantes opten por utilizarlos al momento de reservar sus estadías en vez de recurrir al sistema tradicional de reservación de hospederías.

La definición de Hostelero que contiene la Ley 272-2003, aunque muy abarcadora, carece de especificidad para propósitos de atender las innovaciones tecnológicas y, por tanto, poder obligar a estos nuevos modelos de negocios que han entrado al mercado y sirven como intermediarios entre los hosteleros y huéspedes, a recaudar el canon por ocupación de habitación. Esa ambigüedad ha ocasionado que muchos de estos intermediarios se desvinculen de su responsabilidad de cobrar el canon por ocupación de habitación, amparándose en la alegada inaplicabilidad de esta legislación a sus modelos de negocios particulares. Para aclarar esta laguna jurídica, con estas enmiendas se modificarán ciertas definiciones y descripciones contenidas en la Ley 272-2003 de manera que se ajusten a la realidad contemporánea que impera tras la inmersión de nuevas plataformas y modelos de negocios tecnológicos creados en los últimos años y

que no están explícitamente contemplados en la Ley. Asimismo, se aclara cómo debe calcularse el canon por ocupación de habitación de acuerdo al modelo de negocio particular del intermediario, en aras de cumplir con las obligaciones que la legislación impone actualmente al Hostelero.

Como se aprecia, la Compañía de Turismo confronta grandes retos ante la práctica de algunos de estos intermediarios, que a todas luces pretenden evitar el cumplimiento con el recaudo y pago de este impuesto. Dicha práctica no tan solo afecta las actividades de la Compañía de Turismo de Puerto Rico y la economía de Puerto Rico en general, sino que representa un acto ilícito. Ante ello, esta Asamblea Legislativa entiende que amerita la aprobación de enmiendas a la antes citada Ley, con el propósito de que no se continúe privando al Gobierno de Puerto Rico de este importante ingreso, y que los consumidores puedan utilizar estas plataformas, intermediarios y/o nuevos modelos de negocios según su preferencia. De esta manera, se pone en igual de condiciones a los hosteleros locales, con las plataformas antes mencionadas. Estas enmiendas permitirán una fiscalización de todos los hosteleros, así como una competencia justa de mercado para todos aquellos que a la fecha están obligados por la Ley 272-2003. Así, se asegura el cobro, retención y posterior pago del canon por ocupación de habitación en cuanto a las transacciones hechas a través de esas plataformas, intermediarios y/o nuevos modelos de negocios que sirven como intermediarios entre el Hostelero y el Ocupante o Huésped.

El Gobierno de Puerto Rico se encuentra ahora en proceso de implantar las medidas contempladas en el Plan Fiscal. Paralelamente, el Gobierno se encuentra en proceso de reestructurar sus deudas a través de un procedimiento bajo el Título III de la "Ley para la Supervisión, Administración y Estabilidad Económica de Puerto Rico", ("PROMESA," por sus siglas en inglés). Dichos procesos trazarán la ruta para la recuperación económica y fiscal de Puerto Rico. Por lo tanto, esta Asamblea Legislativa entiende necesario otorgarle al Gobierno de Puerto Rico las herramientas y el espacio necesario para permitirle implantar las medidas contempladas en el Plan Fiscal y finalizar el proceso de la reestructuración de sus deudas.

El pasado 29 de enero de 2017, esta Asamblea Legislativa aprobó la Ley 5-2017, conocida como la "Ley de Emergencia Financiera y Responsabilidad Fiscal de Puerto Rico" (la "Ley de Responsabilidad Fiscal"). Dicha ley declaró un periodo de emergencia (el "Periodo de Emergencia") que se extendía hasta el 1 de mayo de 2017 y podía ser extendido por tres meses adicionales mediante orden ejecutiva del Gobernador. El pasado 30 de abril de 2017, el Gobernador promulgó la Orden Ejecutiva 2017-31 mediante la cual, entre otras cosas, extendió el Periodo de Emergencia por tres meses adicionales hasta el 1 de agosto de 2017. Sin embargo, esta Asamblea Legislativa entiende que el Gobierno necesita tiempo adicional para implantar exitosamente las medidas contempladas en el Plan Fiscal y completar la reestructuración de sus deudas. Por lo tanto, este proyecto de ley extiende el Periodo de Emergencia hasta el 31 de diciembre de 2017 y le permite al Gobernador extender dicho periodo, de ser necesario, por periodos

de no más de seis meses cada uno, mientras esté constituida una Junta de Supervisión Fiscal para Puerto Rico bajo PROMESA.

Esta Administración considera que esta propuesta legislativa es necesaria, en especial atención a la situación fiscal por la que estamos atravesando.

Esta Ley dispone diferentes medidas que esta Administración está tomando para cumplir y adelantar la implementación del Plan Fiscal certificado conforme a las disposiciones de PROMESA. Los asuntos atendidos en esta Ley son germanos entre sí, toda vez que todos van dirigidos a dar cumplimiento al Plan Fiscal.

La Sección 17 del Artículo III de la Constitución de Puerto Rico, dispone en lo pertinente que “[n]o se aprobará ningún proyecto de ley ...que contenga más de un asunto, el cual deberá ser claramente expresado en su título, y toda aquella parte de una ley cuyo asunto no haya sido expresado en el título será nula. Dicha citada Sección establece la regla de un solo asunto que exige que toda ley aprobada por la Legislatura regule un solo asunto o materia. Sobre este particular el Tribunal Supremo de Puerto Rico ha señalado que dicha disposición “no requiere que el título constituya un índice detallado del contenido de la ley, sino meramente que sea un hito indicador del asunto cubierto por la misma.” *Herrero v. Emmanuelli*, 179 D.P.R. 277, 295 (2010); *Rodríguez v. Corte*, 60 D.P.R. 919, 922 (1942).

Además, la jurisprudencia ha sido consistente al establecer que sólo ante un caso claro y terminante se justifica anular una ley por violar dicha disposición constitucional. *Dorante v. Wrangler of P.R.*, 145 D.P.R. 408, 429-431 (1998) y casos allí citados. Nuestro máximo foro judicial ha “adoptado una postura comprensiblemente laxa para no maniar al legislador”. *Herrero v. Emmanuelli*, *supra*. Véase también J.J. Álvarez González, *Derecho Constitucional de Puerto Rico y Relaciones Constitucionales con los Estados Unidos*, Bogotá, Editorial Temis S.A., 2009, pág. 244. En ese sentido, el Tribunal Supremo ha acotado que **“una interpretación estricta de la disposición constitucional podría impedir y obstaculizar el proceso legislativo, pues obligaría al legislador a aprobar múltiples leyes para regular un sólo asunto o materia general.”** *Herrero v. Emmanuelli*, *supra*. (Énfasis nuestro.) Véase además M.H. Ruud, *No Law Shall Embrace More Than One Subject*, 42 Minn. L. Rev. 389, 393-394 (1958). Es decir, “el requerimiento no está diseñado como subterfugio para destruir legislación válida, sino como garantía de que el proceso legislativo se realice de forma transparente, de manera que cada proyecto de ley se discuta y se analice a cabalidad antes de ser aprobado.” *Herrero v. Emmanuelli*, *supra*, págs. 295-296.

Por lo tanto, al examinarse la validez de una ley a la luz de la regla de un sólo asunto, es necesario auscultar todas sus disposiciones para determinar si éstas se relacionan entre sí y son afines con el asunto que se expresa en su título. Id. Lo que comprende “un solo asunto” se interpreta liberalmente, sin dejar de lado el propósito y

objetivo de la exigencia constitucional. En ese tenor, “un estatuto puede comprender todas las materias afines al asunto principal y todos los medios que puedan ser justamente considerados como accesorios y necesarios o apropiados para llevar a cabo los fines que están propiamente comprendidos dentro del asunto general”. Id. Véase además R.E. Bernier & J.A. Cuevas Segarra, *Aprobación e Interpretación de las Leyes en Puerto Rico*, Segunda Edición, San Juan, Publicaciones JTS, 1987, pág. 81.

Esta Ley persigue un solo asunto: dar fiel cumplimiento al Plan Fiscal certificado por la Junta, y en ese contexto atender tiempo adicional para implantar exitosamente las medidas contempladas en el Plan Fiscal y completar la reestructuración de sus deudas. Por tal razón, promulgamos esta Ley, que atiende varios temas dirigidos a cumplir con el Plan Fiscal y la situación financiera que estamos atravesando.

Una vez más reiteramos nuestro compromiso de reencaminar a Puerto Rico por la ruta de la responsabilidad fiscal y el desarrollo económico para poder salir de la crisis vigente. No nos detendremos ante nada para devolverle a nuestra isla la estabilidad económica y fiscal necesaria para el mayor bienestar de nuestra ciudadanía en general.

DECRÉTASE POR LA ASAMBLEA LEGISLATIVA DE PUERTO RICO:

Sección 1.-Se enmienda el apartado (a) de la Sección 4042.03 de la Ley 1-2011, según enmendada, conocida como “Código de Rentas Internas para un Nuevo Puerto Rico”, para que lea como sigue:

“Sección 4042.03.-Tiempo de Remisión del Impuesto sobre Ventas y Uso

(a) Los impuestos que se fijan por este Subtítulo, serán pagaderos al Secretario por la persona responsable de emitir el pago, en las fechas que se indican en esta Sección.

(1) ...

(2) Impuesto sobre Ventas.- Como regla general, el impuesto sobre ventas que se fija por este Subtítulo, será pagadero al Secretario por la persona responsable de emitir el pago, no más tarde del vigésimo (20mo.) día del mes siguiente al que ocurrió el cobro de dicho impuesto, o en aquella otra fecha o forma, según se establezca por el Secretario en relación con la forma, el tiempo y las condiciones que regirán el pago o depósito de dichas contribuciones retenidas.

(A) Pago del impuesto sobre ventas en plazos quincenales.- Efectivo el mes de julio de 2017, toda persona que cumpla con lo establecido en la cláusula (i) de este inciso (A) deberá

remitir el impuesto sobre ventas en plazos quincenales, conforme a lo dispuesto en este inciso.

- (i) Persona sujeta al pago del Impuesto sobre Ventas en Plazos Quincenales.- En los siguientes casos, el impuesto sobre ventas deberá ser pagadero al Secretario en dos plazos quincenales durante el mes en que surja el evento que da lugar a la imposición y pago del impuesto sobre ventas:
 - (I) cuando la persona sea un Gran Contribuyente, según este término se define en la Sección 1010.01(a)(35) de este Código; o
 - (II) cuando la persona sea un comerciante cuyo promedio mensual de impuesto sobre ventas depositado durante el año natural anterior exceda dos mil (2,000) dólares.
- (ii) Plazo Quincenal.- Para propósitos de este inciso (A), el primer plazo quincenal será el decimoquinto (15to) día de cada mes natural. El segundo plazo quincenal será el último día del mes natural.
- (iii) Cómputo del pago del Impuesto sobre Ventas en Plazos Quincenales.- Se entenderá que el comerciante sujeto al pago del impuesto sobre ventas bajo este inciso (A) cumplió con su obligación de depositar el impuesto sobre ventas en los plazos quincenales establecidos la cláusula (ii) anterior, si durante el mes natural en que surja el evento que da lugar a la imposición y pago del impuesto sobre ventas depositó lo menor de una de las siguientes cantidades:
 - (I) ochenta (80) por ciento del impuesto sobre ventas determinado para dicho mes; o
 - (II) setenta (70) por ciento del total de impuesto sobre ventas remitido durante el mismo mes del año natural anterior.
- (iv) Penalidad por no depositar el Impuesto sobre Ventas en Plazos Quincenales.- Toda persona obligada a

depositar el impuesto sobre ventas en plazos quincenales, estará sujeta a la imposición de la penalidad de diez (10) por ciento sobre el monto del impuesto que debió ser depositado y no fue depositado en los plazos quincenales según lo dispuesto en este inciso (A). Esta penalidad será adicional a cualquier otra penalidad impuesta por este Código. El Secretario podrá eximir, total o parcialmente, la penalidad aquí impuesta a cualquier persona que demuestre que el haber dejado de cumplir con lo dispuesto en este inciso (A) se debió a causa razonable o circunstancias fuera de su control.

(3) Reservada.

(b) ...

..."

Sección 2.-Se enmienda el apartado (e) de la Sección 4042.04 de la Ley 1-2011, según enmendada, conocida como "Código de Rentas Internas para un Nuevo Puerto Rico", para que lea como sigue:

"Sección 4042.04.-Forma de Pago.

(a) ...

...

(e) Con respecto a cualquier pago de impuesto sobre ventas o sobre uso, el Secretario aceptará los pagos como remitidos a tiempo si tienen el matasellos postal o recibo de pago electrónico fechado no más tarde del décimo (10mo.) o vigésimo (20mo) día del mes siguiente a que se recauden dichos impuestos, del mes siguiente al que ocurrió la transacción objeto del impuesto, según sea el caso, a tenor con la Sección 4042.03 de este Código, o no más tarde del último día del período quincenal correspondiente conforme a la Sección 4042.03(a)(2)(A)(ii) de este Código. Si el día de pago correspondiente fuese sábado, domingo, o día festivo federal o estatal, los pagos serán aceptados si tienen matasellos o recibo de pago electrónico del día hábil siguiente. Disponiéndose, que aquellos pagos que el Secretario requiera que se envíen por medios electrónicos deberán ser recibidos no más tarde del día de pago indicado en la Sección 4042.03 de este Código, sujeto a lo dispuesto en esta Sección, o la fecha establecida por el Secretario

mediante reglamento a tenor con la Sección 4042.03 de este Subtítulo, cual fuere aplicable.”

Sección 3.-Se enmienda el Artículo 2 de la Ley 272-2003, según enmendada, mejor conocida como la “Ley del Impuesto sobre el Canon por Ocupación de Habitación del Estado Libre Asociado de Puerto Rico”, para que lea como sigue:

“Artículo 2.-Definiciones

A los propósitos de esta Ley, los siguientes términos tendrán el significado que a continuación se expresa:

- (1) Anotación...
- (2) Alojamiento Suplementario a Corto Plazo (short term rentals) - Significa cualquier instalación, edificio o parte de un edificio, dado en alquiler por un período de tiempo menor a noventa (90) días, dedicado al alojamiento de personas mediante paga, cuya instalación, edificio o parte del mismo no sea un hotel, condohotel, hotel todo incluido, motel, Parador, pequeña hospedería, casa de hospedaje y/o hotel de apartamentos. Dicho término incluirá, sin limitarse a, cualquier tipo de propuesta de alojamiento alternativo como casas, apartamentos, cabañas, villas, casas rodantes (móviles), flotantes, botes, entre otros conceptos de arrendamientos por un término menor de noventa (90) días.
- (3) Procedimiento de Apremio...
- (4) Auditar...
- (5) Autoridad...
- (6) Banco...
- (7) Casa de Hospedaje...
- (8) Canon por Ocupación de Habitación - Significa la Tarifa que le sea facturada a un Ocupante o Huésped por un Hostelero por la ocupación de cualquier habitación de una Hospedería, valorado en términos de dinero, ya sea recibido en moneda de curso legal o en cualquier otra forma e incluyendo, pero sin limitarse a entradas en efectivo, cheque de gerente o crédito. La definición de Canon por Ocupación de Habitación incluirá, sin limitarse a, el dinero recibido por la Hospedería por concepto de Habitaciones Cobradas pero no Utilizadas y por concepto de Penalidades

por Habitación y por concepto de cualesquiera cargos, tarifas o impuestos adicionales (fees, resort fees y/o taxes) que le sea facturada a un Ocupante o Huésped por concepto de la estadía en una Hospedería. En caso de ofertas, especiales, paquetes de estadías o programas de descuentos, que sean vendidas u ofrecidas por cualquier medio incluyendo, pero sin limitarse a, internet o cualquier aplicación tecnológica, se deberá excluir del canon por ocupación de habitación aquellas partidas reembolsables por concepto de depósitos de garantía (security deposits) facturadas al ocupante o huésped, así como aquellas comisiones por concepto del servicio brindado por el intermediario, siempre y cuando dichas Comisiones sean divulgadas a la Compañía al momento de someter su planilla mensual y evidenciadas debidamente por parte del Hostelero a la Compañía. Si las comisiones son pagadas al intermediario dentro de la Tarifa cargada por el Hostelero al Ocupante o Huésped, entonces dicha Comisión estará sujeta al canon por ocupación de habitación. En aquellos casos en los cuales la cantidad facturada al Ocupante o Huésped sea diferente a la recibida por el Hostelero, se entenderá que el Canon por Ocupación de Habitación será el que resulte más alto de los dos.

- (9) Canon por Habitación cobrada y no utilizada...
- (10) Centro...
- (11) Costo por Habitación...
- (12) Comisión - Cualquier pago o compensación otorgada al Intermediario por concepto del servicio acordado u ofrecido.
- (13) Compañía...
- (14) Compañía de Parques Nacionales...
- (15) Contribuyente...
- (16) Corporación...
- (17) Declaración...
- (18) Deficiencia...
- (19) Deuda...
- (20) Director...

- (21) Error matemático o administrativo...
- (22) Habitación...
- (23) Hostelero - Significa cualquier persona natural o jurídica que opere una Hospedería en Puerto Rico incluyendo, pero sin limitarse a, el dueño, agente, propietario, operador, arrendatario, subarrendatario hipotecario, tenedor de los mismos, proveedores, Intermediarios, dueños, u operadores de propiedades que se utilicen como Alojamientos Suplementarios a Corto Plazo (short term rentals). Para efectos de esta Ley, el término agente comprenderá a aquellos individuos incluyendo, sin limitarse a, corredores de bienes raíces que gestionen el cobro de un canon de arrendamiento por concepto de alquiler de Alojamientos Suplementarios a Corto Plazo para el alojamiento de huéspedes.
- (24) Hospedería - Significa cualquier instalación o edificio amueblado, regularmente usado y mantenido abierto para el alojamiento de huéspedes mediante el pago de un canon de alquiler, que derive sus ingresos del alquiler o arrendamiento de habitaciones, y que dentro de sus ofrecimientos provea tarifas de alquiler o arrendamiento computadas en forma diaria, semanal, fraccional, o mediante un canon global por concepto de todo incluido. El término Hospedería también incluirá hoteles, condohoteles, hoteles todo incluido, moteles, Paradores, casas de huéspedes, Alojamiento Suplementario a Corto Plazo (short term rentals), pequeñas hospederías, casas de hospedaje, hoteles de apartamentos y facilidades recreativas operadas por agencias o instrumentalidades del Gobierno de Puerto Rico.
- (25) Hotel todo incluido...
- (26) Impuesto...
- (27) Intermediario - Se refiere a cualquier persona natural o jurídica que por cualquier medio, incluyendo el internet o cualquier aplicación tecnológica, ofrezca o facilite la ocupación entre huéspedes y proveedores, dueños, u operadores de propiedades que se utilicen como Alojamientos Suplementarios a Corto Plazo (short term rentals), aunque dicho intermediario no opere, directa o indirectamente, tal propiedad utilizada como Alojamiento Suplementario a Corto Plazo (short term rental). Incluye, además, a personas naturales o jurídicas que promuevan o vendan ofertas, especiales, paquetes de estadías o programas de descuentos para estadías en Hospederías por cualquier medio incluyendo, pero sin limitarse a, internet o cualquier aplicación tecnológica.

- (28) Negociado...
- (29) Notificación...
- (30) Número de Identificación Contributiva - Significa el número que sea asignado por la Compañía al Contribuyente, y el cual deberá ser utilizado por dicho Contribuyente en la Declaración, según se establezca por esta Ley o los reglamentos aprobados a su amparo. En el caso de Intermediarios entre huéspedes y proveedores, dueños, u operadores de propiedades que se utilicen como Alojamientos Suplementarios a Corto Plazo (short term rentals), dichos Intermediarios tendrán la obligación de requerirle a los proveedores, dueños, u operadores de propiedades que se utilicen como Alojamientos Suplementarios a Corto Plazo (short term rentals) que se registren con la Compañía y obtengan un Número de Identificación Contributiva previo a realizar negocios con estos.
- (31) Ocupación...
- (32) Ocupante o huésped...
- (33) Penalidad por Habitación...
- (34) Revisar...
- (35) Tarifa...
- (36) Tarifa Promedio Diaria...
- (37) Tasación..."

Sección 4.-Se enmienda el Artículo 26 de la Ley 272-2003, mejor conocida como la "Ley del Impuesto sobre el Canon por Ocupación de Habitación del Estado Libre Asociado de Puerto Rico", para que lea como sigue:

"Artículo 26.-Número de Identificación Contributiva

Toda Hospedería y/o Hostelero sujeto a las disposiciones de esta Ley solicitarán y obtendrán de la Compañía un Número de Identificación Contributiva, y para ello se registrará por los procedimientos que la Compañía adopte mediante reglamentación aprobada al efecto. Toda persona natural o jurídica que sea intermediario entre huéspedes y proveedores, dueños, u operadores de propiedades que se utilicen como Alojamientos Suplementarios a Corto Plazo (short term rentals), tendrá la obligación de requerirle a sus proveedores, dueños,

u operadores de propiedades que se utilicen como Alojamientos Suplementarios a Corto Plazo (short term rentals) que se registren como Contribuyente con la Compañía y obtengan Número de Identificación Contributiva, previo a realizar negocios con estos.”

Sección 5.- Se enmienda el Artículo 27 de la Ley 272-2003, mejor conocida como la “Ley del Impuesto sobre el Canon por Ocupación de Habitación del Estado Libre Asociado de Puerto Rico”, para que lea como sigue:

“Artículo 27.-Responsabilidad del Hostelero de retener y remitir a la Compañía el Impuesto

- A. Todo Hostelero tendrá la obligación de recaudar, retener y remitir a la Compañía el Impuesto fijado en el Artículo 24 de esta Ley. Los Intermediarios vendrán obligados a recaudar, retener y remitir a la Compañía el mencionado Impuesto. En el caso de personas naturales o jurídicas que promuevan o vendan ofertas, especiales, paquetes de estadías o programas de descuentos para estadías en Hospederías por cualquier medio incluyendo, pero sin limitarse a, internet o cualquier aplicación tecnológica, serán dichas personas naturales o jurídicas las responsables de recaudar, retener y remitir a la Compañía el Impuesto mencionado.
- B. ...
- C. ...
- D. ...
- E. ...”

Sección 6.-Reglamentación.

El Secretario de Hacienda establecerá mediante reglamento, carta circular, u otra determinación administrativa de carácter general, las normas necesarias para la aplicación de esta Ley.

Sección 7.-Se enmienda el inciso (q) del Artículo 103 de la Ley 5-2017, para que lea en su totalidad como sigue:

“Artículo 103.-Definiciones

Las siguientes palabras y términos, cuando se usen en esta Ley, tendrán los significados que se establecen a continuación:

...

- (q) "Periodo de Emergencia" significa el periodo que comienza en la fecha de efectividad de esta Ley y que termina el 31 de diciembre de 2017, disponiéndose que, mientras esté constituida la Junta de Supervisión Fiscal para Puerto Rico de conformidad con PROMESA, el Gobernador podrá, de ser necesario, extender dicho periodo por términos de no más de seis (6) meses cada uno mediante orden ejecutiva.

...

EN EL TEXTO EN INGLÉS:

Article 103.- Definitions

The following words and terms, when used in this Act, shall have the meaning stated below:

...

- (q) "Emergency Period" shall mean the period beginning on the effective date of this Act and ending on December 31, 2017, provided that, so long as the Oversight Board is constituted for Puerto Rico pursuant to PROMESA, the Governor may, if necessary, extend such period for additional terms of no more than six (6) months each through executive order.

..."

Sección 8.- Se enmienda el Artículo 12 de la Ley 3-2017, mejor conocida como la "Ley para Atender la Crisis Económica, Fiscal y Presupuestaria para Garantizar el Funcionamiento del Gobierno de Puerto Rico", para que lea como sigue:

"Artículo 12.- Control fiscal y reconstrucción económica.

...

INFORME SEMESTRAL.- Toda Entidad de la Rama Ejecutiva tendrá el deber ministerial de preparar y enviar al Gobernador y a las Secretarías del Senado de Puerto Rico y la Cámara de Representantes, un informe semestral, a partir de noventa (90) días luego de aprobada esta Ley y durante el periodo de su vigencia,

que indique en forma segmentada y detallada las medidas tomadas, los resultados y toda aquella información pertinente que demuestre y pueda medir el cumplimiento con las disposiciones de esta Ley.

..."

Sección 9.-Se enmienda el Artículo 26 de la Ley 3-2017, mejor conocida como la "Ley para Atender la Crisis Económica, Fiscal y Presupuestaria para Garantizar el Funcionamiento del Gobierno de Puerto Rico", para que lea como sigue:

"Artículo 26.-Responsabilidad Fiduciaria.

...

La Oficina de Gerencia y Presupuesto estará a cargo de reglamentar e implementar las disposiciones en este Artículo relacionadas a la imposición de multas administrativas. Además, la Oficina de Gerencia y Presupuesto tendrá el deber ministerial de preparar y enviar al Gobernador y a las Secretarías del Senado de Puerto Rico y la Cámara de Representantes, un informe semestral, a partir de noventa (90) días luego de aprobada esta Ley y durante el periodo de su vigencia, que indique en forma segmentada y detallada las medidas tomadas, los resultados y toda aquella información pertinente que demuestre y pueda medir el cumplimiento con las disposiciones de esta Ley.

..."

Sección. 10.-Separabilidad.

Si cualquier cláusula, párrafo, subpárrafo, oración, palabra, letra, artículo, disposición, sección, subsección, título, capítulo, subcapítulo, acápite o parte de esta Ley fuera anulada o declarada inconstitucional, la resolución, dictamen o sentencia a tal efecto dictada no afectará, perjudicará, ni invalidará el remanente de esta Ley. El efecto de dicha sentencia quedará limitado a la cláusula, párrafo, subpárrafo, oración, palabra, letra, artículo, disposición, sección, subsección, título, capítulo, subcapítulo, acápite o parte de la misma que así hubiere sido anulada o declarada inconstitucional. Si la aplicación a una persona o a una circunstancia de cualquier cláusula, párrafo, subpárrafo, oración, palabra, letra, artículo, disposición, sección, subsección, título, capítulo, subcapítulo, acápite o parte de esta Ley fuera invalidada o declarada inconstitucional, la resolución, dictamen o sentencia a tal efecto dictada no afectará ni invalidará la aplicación del remanente de esta Ley a aquellas personas o circunstancias en que se pueda aplicar válidamente. Es la voluntad expresa e inequívoca de esta Asamblea Legislativa que los tribunales hagan cumplir las disposiciones y la aplicación de esta Ley en la mayor medida posible, aunque se deje sin efecto, anule, invalide, perjudique o declare inconstitucional

alguna de sus partes, o aunque se deje sin efecto, invalide o declare inconstitucional su aplicación a alguna persona o circunstancia. La Asamblea Legislativa hubiera aprobado esta Ley sin importar la determinación de separabilidad que el Tribunal pueda hacer.

Sección. 11.-Vigencia.

Esta Ley entrará en vigor inmediatamente después de su aprobación.

DEPARTAMENTO DE ESTADO
Certificaciones, Reglamentos, Registro
de Notarios y Venta de Leyes
Certifico que es copia fiel y exacta del original
Fecha: 20 de julio de 2017

Firma 

Eduardo Arosemena Muñoz
Secretario Auxiliar
Departamento de Estado
Gobierno de Puerto Rico

EXHIBIT 14B

(H. B. 1133)

(No. 46-2017)

(Approved July 19, 2017)

AN ACT

To amend Sections 4042.03 and 4042.04 of Act No. 1-2011, as amended, known as the “Internal Revenue Code for a New Puerto Rico”; amend Sections 2, 26, and 27 of Act No. 272-2003, as amended, known as the “Commonwealth of Puerto Rico Room Occupancy Rate Tax Act”; amend Section 103 of Act No. 5-2017, known as the “Puerto Rico Financial Emergency and Fiscal Responsibility Act of 2017”; amend Sections 12 and 26 of Act No. 3-2017, better known as the “Act to Address the Economic, Fiscal, and Budget Crisis to Guarantee the Operations of the Government of Puerto Rico,” in order to establish additional revenue and liquidity measures for the Government of Puerto Rico; establish that certain merchants are required to remit the Sales and Use Tax in semimonthly installments; clarify the responsibility of certain merchant intermediaries with respect to the collection of the Room Occupancy Rate Tax; extend the period of emergency established in the “Puerto Rico Financial Emergency and Fiscal Responsibility Act of 2017”; modify the report requirement provided for in Act No. 3-2017 from quarterly reports to semiannual reports, within ninety (90) days as of the approval of this Act and during its effectiveness; and for other related purposes.

STATEMENT OF MOTIVES

Puerto Rico is currently undergoing a serious fiscal and social crisis. Said crisis was caused, in part, by a lack of expenditure controls, sustainable development measures, as well as management information systems that promote clarity and transparency in government affairs.

According to data provided by the U.S. Department of the Treasury, Puerto Rico is suffering a 14.6% cumulative economic contraction in the Gross State Product (actual GSP) with a forecast of an additional 3% contraction in the next two years. For years, the Government of Puerto Rico has operated with a structural deficit

that has been financed with bond issues and loans from the Government Development Bank. The Government of Puerto Rico has been lacking liquidity for over a year, and the tax refunds, the payments to contractors, pensioners' funds, and intra-governmental loans have been used to substitute sources of liquidity. The Government Development Bank has failed to meet its obligations to bondholders since May 1, 2016, and is no longer fulfilling its duty to provide liquidity. Moreover, retirement systems are practically insolvent.

Bad past decisions combined with our defenselessness as a colony led the United States Congress to promulgate the Puerto Rico Oversight, Management, and Economic Stability Act, known as PROMESA, Public Law 114-187, which delegated vast powers to the Financial Oversight Board (hereinafter the "Oversight Board"). Pursuant to PROMESA, any ongoing fiscal, budget, legislative, or executive actions taken in Puerto Rico, as well as any debt restructuring, whether consensual or not, as well as any debt issue, guarantee, exchange, modification, repurchase, or redemption is subject to oversight.

Through Section 4 of PROMESA, the Congress expressly stated its intent that said Act shall prevail over any state legislation that is in conflict with PROMESA. Section 8(2) likewise reasserts this provision by providing that the Government of Puerto Rico may not enact, implement, or enforce any statute, resolution, policy, or rule that would impair or defeat the purposes of PROMESA, as determined by the Oversight Board. Hence, we cannot promulgate legislation to defeat or impair PROMESA, its provisions, and its scope. It is evident therefore that we must work within the parameters of PROMESA to initiate the financial and fiscal recovery of Puerto Rico and, in turn, solve our political status issue.

At the beginning of our Administration, we found a cash deficit of over \$7 billion as certified by the Federal Treasury and the Oversight Board. In other words, what was passed on to us was a Government with no access to capital markets, with

a “junk” credit rating, with no liquidity and no transparency in public finances, where public spending was excessive, and the public debt amounted to billions of dollars. Furthermore, the Governor had the enormous task of restoring the credibility of the Island in the market and before the Oversight Board. We must guarantee therefore a Government that spends in accordance with the actual revenues generated.

Since January 2nd, we have been implementing a systematic plan to control government spending, reactivate our economy, and allow for the conditions to create more and better jobs in the private sector. We are showing the world that Puerto Rico is open to do business in an environment of government stability and security. We have worked nonstop, and the approval of over twenty reform measures during the first three (3) months of this Administration proves it. Undoubtedly, our efforts have changed the course of Puerto Rico and have set it on a path of fiscal responsibility.

On February 28, 2017, the Governor submitted a Fiscal Plan that is complete, thorough, real, and also sensible to the needs of our People. On March 13, 2017, the Oversight Board accepted and certified our Fiscal Plan together with a series of contingencies to guarantee that government employees shall not be dismissed, the workweek shall not be affected, the People’s access to healthcare services shall be maintained, and the pensions of those who are most vulnerable shall be protected.

The Fiscal Plan’s approved measures are geared toward achieving the fiscal goals, promoting the economic development and our capacity to restore our credibility, allowing the change to translate into a long-term benefit rather than a mere cutback and, most of all, ensuring that those who are most vulnerable and those who work hard every day have a better quality of life. The validation of the Fiscal Plan represents the recognition of the credibility of the new Government. We have shown that the times of incoherence and improvisation are over to give way to working as a team and obtaining results that inure to the benefit of Puerto Rico.

The changes we are implementing are not easy and will take time, but they will also yield results within the first two years. Under the certified Fiscal Plan, we shall be able to strike a balance between revenues and expenditures by Fiscal Year 2019. Now is the time to execute these changes. The contingencies of the Fiscal Plan require the Government's compliance. Liquidity must be ensured in order to avoid any impact on the salary of government employees, the health of the People, and the income of pensioners.

Even though there are many obstacles that we must overcome in our journey toward a definite recovery, there is hope and optimism among our people. We must seize this moment and rise to the challenges in order to successfully achieve the significant changes that Puerto Rico needs.

In view of our dire liquidity situation, we need to adopt measures to improve the treasury's condition. This Act provides therefor in two instances:

Currently, Sections 1061.20 and 1061.23 of the Internal Revenue Code of 2011, as amended, better known as the "Internal Revenue Code for a New Puerto Rico," (the Code) establishes the requirement for individuals and corporations alike to pay an estimated income tax, provided for in Subtitle A of the Code, in four installments during a taxable year. This estimated tax mechanism assists the Government in maintaining its liquidity throughout the fiscal year in lieu of relying on the payment of taxes after the fifteenth day of the fourth month following the close of the taxpayer's fiscal year. This amendment provides for certain taxpayers to remit the payment of the SUT to the Department of the Treasury in semimonthly installments. In doing so, a greater cash flow is achieved and the constant receipt of revenues is thus allowed.

In keeping with the foregoing, this Legislative Assembly deems it meritorious to include the Sales and Use tax in the estimated tax system for the purpose of improving the liquidity of the Island's treasury and meeting the obligations of the Government of Puerto Rico responsibly and timely.

Moreover, the tourism industry has experienced great changes over the last decade, specifically upon the birth of the sharing economy and the online marketplace. The popularity of these platforms that serve as intermediaries between hoteliers and potential guests has a significant impact on Puerto Rico's tourism industry. The increase in reservations using these intermediaries coupled with the lack of clarity of Act No. 272-2003, as amended, better known as the "Commonwealth of Puerto Rico Room Occupancy Rate Tax Act," in terms of the process to be followed in the case of these new scenarios may potentially prevent the Government of Puerto Rico from collecting large amounts of revenues on account of the room occupancy rate.

During Fiscal Year 2016-2017, the proceeds from the room occupancy rate tax were reduced by over \$10,000,000.00 compared to Fiscal Year 2015-2016. This decrease is the result of the effects of the ZIKA virus, among other issues, in addition to the fact that many visitors are resorting to these new platforms and business models to reserve their stays.

The Puerto Rico Tourism Company argues that a significant number of lodging providers of these new models and platforms are not registered as required by law due to the existing lack of clarity of the current definition of Hotelier of Act No. 272-2003. Based on the latest figures on the number of lodgings registered in certain platforms (average rate and occupancy percentage), it is estimated that the room occupancy rate tax to be collected from these platforms amounts to around \$560,000 a month. From this monthly total, it is estimated that 50% is not being reported by Hoteliers. This represents losses of approximately \$280,000 monthly

and \$3,360,000 annually. These numbers shall increase exponentially as the popularity of these new business models continues to increase and visitors choose them to reserve their stays rather than resorting to the traditional lodging reservation system.

The definition of Hotelier of Act No. 272-2003 is comprehensive but lacks specificity for purposes of addressing technological innovations and, in turn, requiring these new business models that have made their way into the market and serve as intermediaries between hoteliers and guests to collect the room occupancy rate. This ambiguity has led many of these intermediaries to disengage from their responsibility to collect the room occupancy rate arguing that such legislation cannot be applied to their specific business models. To clarify this juridical loophole, these amendments modify certain definitions and descriptions of Act No. 272-2003 so as to adjust them to the modern reality, which now includes these new online business platforms and models created in recent years, and for which the Act does not explicitly provides. Likewise, the manner in which the room occupancy rate shall be computed in the specific case of the intermediaries' business model is clarified in order to meet the obligations currently imposed on Hoteliers by legislation.

As shown, the Tourism Company faces great challenges posed by the practices of some intermediaries who evidently seek to avoid complying with the collection and payment of such tax. Such practice not only affects the activities of the Tourism Company and the economy of Puerto Rico in general, but also is illegal. Hence, this Legislative Assembly believes that approving the amendments to the aforementioned Act is warranted in order to ensure that the Government of Puerto Rico collects such important revenues and that consumers are able to use these platforms, intermediaries, and/or new business models at their leisure. In this manner, local hoteliers and the aforementioned platforms shall be on an equal footing. These amendments shall allow for the oversight of all hoteliers as well as

the fair competition in this market for all those who are subject to the requirements of Act No. 272-2003 as of this date. Thus, the collection, withholding, and subsequent payment of the room occupancy rate is guaranteed in connection with transactions conducted through these platforms, intermediaries, and/or new business models that serve as intermediaries between the Hotelier and the Occupant or Guest.

The Government of Puerto Rico is in the process of implementing the measures included in the Fiscal Plan. In turn, the Government is undergoing a debt restructuring process under Title III of the “Puerto Rico Oversight, Management, and Economic Stability Act,” (PROMESA). Such processes shall lead the way toward the economic and fiscal recovery of Puerto Rico. For such reason, this Legislative Assembly deems it necessary to provide the Government of Puerto Rico with the tools and room necessary to allow for the implementation of the measures included in the Fiscal Plan and the completion of the debt restructuring process.

On January 29, 2017, this Legislative Assembly approved Act No. 5-2017, known as the “Puerto Rico Financial Emergency and Fiscal Responsibility Act of 2017” (the Fiscal Responsibility Act). Such Act declared an emergency period (the “Emergency Period”) until May 1, 2017, which may be extended for three additional months through an executive order of the Governor. On April 30, 2017, the Governor issued Executive Order 2017-31 whereby the Emergency Period was extended for three additional months, until August 1st, 2017, among other things. This Legislative Assembly, however, believes that the Government needs additional time to implement successfully the measures included in the Fiscal Plan and to complete the debt restructuring. Therefore, this bill extends the Emergency Period until December 31, 2017, and allows the Government to extend it, if necessary, for additional periods of not more than six months each, while a Financial Oversight Board for Puerto Rico is still constituted under PROMESA.

This Administration believes that this legislative proposal is necessary especially in view of the fiscal situation that we are currently undergoing.

This Act provides different measures that this Administration is taking to comply with and further the implementation of the Fiscal Plan certified in accordance with the provisions of PROMESA. The matters addressed herein are all germane since they are geared toward compliance with the Fiscal Plan.

Section 17 of Article III of the Constitution of Puerto Rico provides that: “Every bill, [...] shall be confined to one subject, which shall be clearly expressed in its title, and any part of an act whose subject has not been expressed in the title shall be void.” Said Section establishes the rule of only one subject, which requires that every law approved by the Legislative Assembly embraces no more than one subject. On this matter, the Supreme Court of Puerto Rico has held that said provision “does not require the title to be a detailed account of the contents of the law, but rather a mere indicator of the subject matter covered thereunder.” [Translation supplied]. *Herrero v. Emmanuelli*, 179 D.P.R. 277, 295 (2010); *Rodríguez v. Corte*, 60 D.P.R. 919, 922 (1942).

Moreover, the case law has been consistent in establishing that only when a case is clear and conclusive it is thus warranted to void a law that violates said constitutional provision. *Dorante v. Wrangler of P.R.*, 145 D.P.R. 408, 429-431 (1998) and cases cited therein. Our highest court has “adopted a stance understandably lax not to curtail lawmakers.” [Translation supplied]. *Herrero v. Emmanuelli, supra*. See also, J.J. Álvarez-González, *Derecho Constitucional de Puerto Rico y Relaciones Constitucionales con los Estados Unidos* [Constitutional Law of Puerto Rico and Constitutional Relationships with the United States], Bogotá, Editorial Temis, S.A., 2009, p. 244. In this sense, the Supreme Court has held that “**a strict interpretation of the constitutional provision may impair and hinder the legislative process, since it will compel the lawmaker to enact**

multiple laws to regulate one general subject or matter.” *Herrero v. Emmanuelli*, *supra*, [Emphasis added]. *See also*, M. H. Ruud, No Law Shall Embrace More Than One Subject, 42 Minn. L. Rev. 389,393-394 (1958). That is,

The requirement is not intended as a subterfuge to destroy valid legislation, but rather as a guarantee that the legislative process is to be carried out with transparency and that each bill is to be discussed and analyzed in depth before it is approved.

Herrero v. Emmanuelli, *supra*, pp. 295-296.

Therefore, upon examining the validity of an act in light of the one subject rule, it is necessary to consider all of the provisions of a law in order to determine whether these have a correlation or not and if they pertain to the subject expressed in the title. *Id.* What constitutes “only one subject” is construed liberally without neglecting the purpose and objective of the constitutional requirement. In this regard, “a statute may address all the topics related to the subject matter and all of the means that may be fairly considered to be supplementary and necessary or appropriate to fulfill the purposes inherent to the general subject.”[Translation supplied] *Id.* *See also*, R. E. Bernier & J.A. Cuevas Segarra, *Aprobación e Interpretación de las Leyes en Puerto Rico* [Approval and Interpretation of the Laws of Puerto Rico], Segunda Edición, San Juan, Publicaciones JTS, 1987, p. 81.

This Act addresses one subject: to achieve full compliance with the Fiscal Plan certified by the Board and, within such context, allow additional time to successfully implement the measures of the Fiscal Plan and complete the debt restructuring. For such reason, we promulgate this Act, which addresses several topics geared to complying with the Fiscal Plan and our current financial situation.

Once again, we reassert our commitment to set Puerto Rico on a path of fiscal responsibility and economic development in order to be able to overcome the current crisis. We will stop at nothing to restore our Island's economic and fiscal stability which is necessary for the welfare of our People.

BE IT ENACTED BY THE LEGISLATIVE ASSEMBLY OF PUERTO RICO:

Section 1.- Subsection (a) of Section 4042.03 of Act No. 1-2011, as amended, known as the "Internal Revenue Code for a New Puerto Rico," is hereby amended to read as follows:

"Section 4042.03.- Time to Remit the Sales and Use Tax

(a) The taxes imposed in this Subtitle shall be payable to the Secretary by the person liable for issuing the payment, on the dates set in this Section.

(1) ...

(2) Sales and Use Tax.- In general, the sales tax imposed in this Subtitle shall be payable to the Secretary by the person liable for issuing the payment not later than the twentieth (20th) day of the month following the month in which said tax was collected, or on that other date or manner, as established by the Secretary regarding the manner, time, and conditions that shall govern the payment or deposit of said withheld taxes.

(A) Payment of Sales Tax in Semimonthly Installments.- Effective on July 2017, any person who complies with the provisions of clause (i) of this subparagraph (A) shall remit the sales tax in semimonthly installments in accordance with this subparagraph.

(i) Person subject to the payment of the Sales Tax in Semimonthly Installments.- In the following cases, the sales tax shall be payable to the Secretary in two semimonthly installments during the month in which the event that caused the imposition and payment of the sales tax occurs:

(I) when the person is a Large Taxpayer, as this term is defined in Section 1010.01(a)(35) of this Code; or

(II) when the person is a merchant whose average sales tax deposited monthly during the previous calendar year exceeds two thousand dollars (\$2,000).

(ii) Semimonthly Installment.- For purposes of this subparagraph (A) the first semimonthly installment shall be due on the fifteenth (15th) day of every calendar month. The second semimonthly installment shall be due on the last day of the calendar month.

(iii) Computation of the Payment of Sales Tax in Semimonthly Installments.- It shall be understood that the merchant subject to the payment of the sales tax under this subparagraph (A) fulfilled his obligation to deposit the sales tax in semimonthly installments as established in clause (ii) above, if during the calendar month in which the event that caused the imposition and payment of the sales tax occurs the merchant deposited the lesser of the following amounts:

(I) eighty percent (80%) of the sales tax determined for such month; or

(II) seventy percent (70%) of the total sales tax remitted during the same month of the previous calendar year.

(iv) Penalty for failure to deposit the Sales Tax in Semimonthly Installments.- Any person required to deposit the sales tax in semimonthly installments shall be subject to the imposition of a penalty of ten percent (10%) of the tax amount that he should have, but failed to deposit in semimonthly installments as provided in this subparagraph (A). This penalty shall be in addition to any other penalty imposed under this Code. The Secretary may exempt any person, whether in whole or in part, from the penalty provided herein when it is

shown that a noncompliance with the provisions of this subparagraph (A) was for a reasonable cause or circumstances out of his control.

(3) Reserved.

(b) ...
...”

Section 2.- Subsection (e) of Section 4042.04 of Act No. 1-2011, as amended, known as the “Internal Revenue Code for a New Puerto Rico,” is hereby amended to read as follows:

“Section 4042.04.- Payment Method

(a) ...
...

(e) Regarding any payment of sales and use tax, the Secretary shall accept all payments as remitted on time if they are postmarked, or if the date on the electronic payment receipt is not later than the tenth (10th) or twentieth (20th) day of the month following the month in which said taxes are collected or the month following the month in which the transaction subject to taxation was carried out, as the case may be, in accordance with Section 4042.03 of this Code, or not later than the last day of the appropriate semimonthly period, in accordance with Section 4042.03(a)(2)(A)(ii) of this Code. Should the day of payment fall on a Saturday, Sunday, or Federal or Commonwealth holiday, the payments shall be accepted if they are postmarked on, or if the date of electronic payment receipt is the following business day. Provided, that those payments that the Secretary requires to be electronically transferred must be received not later than the day of payment established in Section 4042.03 of this Code, subject to the provisions of this Section, or on the date, or on the date established by the Secretary through regulations, pursuant to Section 4042.03 of this Subtitle, as applicable.”

Section 3.- Section 2 of Act No. 272-2003, as amended, better known as the “Commonwealth of Puerto Rico Room Occupancy Rate Tax Act,” is hereby amended to read as follows:

“Section 2.- Definitions

For purposes of this Act, the following terms shall be defined as follows:

- (1) Entry...
- (2) Short-term Rentals. — Means every facility, building or part of a building leased for a period of less than ninety (90) days, devoted to the lodging of people for pay, which facility, building or part thereof is not a hotel, condohotel, all-inclusive hotel, motel, Parador, inn, guesthouse, and/or apartment hotel. Said term shall include, without limitation, any type of proposed alternative lodging such as houses, apartments, cottages, villas, mobile homes, floating homes, boats, among other types of rentals, for a period of less than ninety (90) days.
- (3) Compulsory Procedure...
- (4) Audit...
- (5) Authority...
- (6) Bank...
- (7) Guesthouse...
- (8) Room Occupancy Rate. — Means the Rate charged by an Hotelier to an Occupant or Guest for the occupancy of any room of a Lodging, valued in terms of money, whether received in cash or otherwise, including, without limitation, all the income in cash, manager’s check, or credit. The definition of Room Occupancy Rate shall include, without limitation, the money received by the Lodging on account of Paid but Unused Rooms, Room Penalties and any other charge, rate, or additional tax (‘fees,’ ‘resort fees,’ and/or ‘taxes’) that a hotelier charges to an Occupant or Guest for a stay in a lodging. In the event of offers, specials, stay packages, or discount programs, sold or offered by any means including, but not limited to,

internet or any application software, any refundable items such as security deposits, charged to an occupant or guest as well as any commission on account of the services rendered by the intermediary shall be exempt from the room occupancy rate, provided that said Commissions are disclosed to the Company at the time of filing the monthly return and are duly evidenced by the Hotelier to the Company. If the commissions are paid to the intermediary as part of the Rate charged by the Hotelier to the Occupant or Guest, then, such Commission shall be subject to the room occupancy rate. In the event that the amount charged to the Occupant or Guest is different from that received by the Hotelier, it shall be understood that the Room Occupancy Rate shall be the higher of the two amounts.

- (9) Rate for paid but unused room...
- (10) Center...
- (11) Room cost...
- (12) Commission – Any payment or compensation that the Intermediary receives on account of agreed or rendered services.
- (13) Company...
- (14) National Parks Company...
- (15) Taxpayer...
- (16) Corporation...
- (17) Declaration...
- (18) Deficiency...
- (19) Debt...
- (20) Director...
- (21) Mathematical or clerical error...
- (22) Room...

(23) Hotelier. — Means any natural or juridical person that operates a Lodging in Puerto Rico including, without limitation, the owner, agent, proprietor, operator, lessee, mortgagor sublessee or the holder thereof, providers, Intermediaries, owners, or operators of properties used as Short-term Rentals. For purposes of this Act, the term agent shall include those individuals including, without limitation, real estate brokers that collect the room occupancy rate for Short-term Rentals for the lodging of guests.

(24) Lodging. — Means any furnished building or facility, commonly used and maintained open for the lodging of guests for a rental rate, which derives revenues from the rental of rooms, and that within its offerings provides rental rates computed daily, weekly, fractionally, or by a global rent on account of an all-inclusive concept. The term Lodging shall also include hotels, condohotels, all-inclusive hotels, motels, Paradores, bed and breakfast, Short-term Rentals, inns, guesthouses, apartment hotels, and recreational facilities operated by the agencies or instrumentalities of the Government of Puerto Rico.

(25) All-inclusive hotel...

(26) Tax...

(27) Intermediary. — Means any natural or juridical person that by any means, including the internet and application software, offers or facilitates occupancy between guests and providers, owners, or operators of property used as Short-term Rentals, even when such intermediary does not operate, directly or indirectly, such property used as a Short-term Rental. The term also includes natural or juridical persons who promote or sell offers, specials, stay packages, or discount programs to stay at a Lodging by any means, including, but not limited to, the internet and any application software.

(28) Bureau...

(29) Notification...

(30) Taxpayer Identification Number. — Means the number the Company shall assign to the Taxpayer, and that must be used by said Taxpayer in the Declaration, as shall be established by this Act or the regulations approved hereunder. In the case of Intermediaries between guests and providers, owners, or operators of property used as Short-term Rentals, such Intermediaries shall require said providers, owners, or operators of property used as Short-term Rentals to register with the Company and obtain a Taxpayer Identification Number prior to doing business with them.

(31) Occupancy...

(32) Occupant or Guest...

(33) Room Penalty...

(34) Review...

(35) Rate...

(36) Daily Average Rate...

(37) Assessment..."

Section 4.- Section 26 of Act No. 272-2003, as amended, better known as the "Commonwealth of Puerto Rico Room Occupancy Rate Tax Act," is hereby amended to read as follows:

"Section 26.- Tax Identification Number

Every Lodging and/or Hotelier subject to the provisions of this Act shall apply for and obtain a Tax Identification Number from the Company, and for this purpose shall follow the procedures adopted by the Company through regulations approved to such effect. Any natural or juridical person who is an intermediary between guests and providers, owners, or operators of property used as Short-term Rentals shall require said providers, owners, or operators of property used as Short-term Rentals to register with the Company as a Taxpayer to obtain a Taxpayer Identification Number prior to doing business with them."

Section 5.- Section 27 of Act No. 272-2003, as amended, better known as the “Commonwealth of Puerto Rico Room Occupancy Rate Tax Act,” is hereby amended to read as follows:

“Section 27.- Responsibility of the Hotelier to Withhold and Remit the Tax to the Company

A. Every Hotelier shall be required to collect, withhold, and remit to the Company the Tax established in Section 24 of this Act. Every Intermediary shall be required to collect, withhold, and remit said Tax to the Company. In the case of natural or juridical persons who promote or sell offers, specials, stay packages, or discount programs to stay at a Lodging by any means, including, but not limited to, the internet and any application software, such natural or juridical persons shall be required to collect, withhold, and remit said Tax to the Company.

B. ...

C. ...

D. ...

E. ...”

Section 6.- Rulemaking Authority

The Secretary of the Treasury shall establish through regulations, circular letter, or other administrative determination of a general nature, the rules necessary for the application of this Act.

Section 7.- Subsection (q) of Section 103 of Act No. 5-2017 is hereby amended to read entirely as follows:

“Article 103.– Definitions

The following words and terms, when used in this Act, shall have the meaning stated below:

...

(q) ‘Emergency Period’ shall mean the period beginning on the effective date of this Act and ending on December 31, 2017, provided, that so long as the Oversight Board is constituted for Puerto Rico pursuant to PROMESA, the Governor may, if necessary, extend such period for additional terms of no more than six (6) months each through executive order.

...”

Section 8.- Section 12 of Act No. 3-2017, better known as the “Act to Address the Economic, Fiscal, and Budget Crisis to Guarantee the Operations of the Government of Puerto Rico,” is hereby amended to read as follows:

“Section 12.- Fiscal Control and Economic Reconstruction.-

...

SEMIANNUAL REPORT.- Every Entity of the Executive Branch shall have the ministerial duty to draft and file with the Governor and the Offices of the Clerk of the House of Representatives and of the Secretary of the Senate of Puerto Rico a semiannual report within ninety (90) days after the approval of this Act and during the effective term thereof, stating separately and in detail the measures taken, as well as the results and any other pertinent information to show and assess compliance with the provisions of this Act.

...”

Section 9.- Section 26 of Act No. 3-2017, better known as the “Act to Address the Economic, Fiscal, and Budget Crisis to Guarantee the Operations of the Government of Puerto Rico,” is hereby amended to read as follows:

“Section 26.- Fiduciary Duty.-

...

The Office of Management and Budget shall be responsible for regulating and implementing the provisions of this Section pertaining to the imposition of administrative fines. Moreover, the Office of Management and Budget shall have

the ministerial duty to draft and file with the Governor and with the Offices of the Secretary of the Senate and of the Clerk of the House of Representatives a semiannual report within ninety (90) days after the approval of this Act and during the effective term thereof, stating separately and in detail the measures taken, as well as the results and any other pertinent information to show and assess compliance with the provisions of this Act.

...”

Section 10.- Severability

If any clause, paragraph, subparagraph, sentence, word, letter, article, provision, section, subsection, title, chapter, subchapter, heading, or part of this Act were held to be null or unconstitutional, the holding, ruling, or judgment to such effect shall not affect, impair, or invalidate the remainder of this Act. The effect of such holding shall be limited to the clause, paragraph, subparagraph, sentence, word, letter, article, provision, section, subsection, title, chapter, subchapter, heading, or part of this Act thus held to be null or unconstitutional. If the application of any clause, paragraph, subparagraph, sentence, word, letter, article, provision, section, subsection, title, chapter, subchapter, heading, or part of this Act to any person or circumstance were held to be null or unconstitutional, the holding, ruling, or judgment to such effect shall not affect or invalidate the application of the remainder of this Act to such persons or circumstances where it may be validly applied. It is the express and unequivocal will of this Legislative Assembly that the courts enforce the provisions and application thereof to the greatest extent possible, even if it renders ineffective, nullifies, invalidates, impairs, or holds to be unconstitutional any part thereof, or even if it renders ineffective, invalidates, or holds to be unconstitutional the application thereof to any person or circumstance. This Legislative Assembly would have approved this Act regardless of any determination of severability that the Court may make.

Section 11.- Effectiveness

This Act shall take effect immediately after its approval.

CERTIFICATION

I hereby certify to the Secretary of State that the following **Act No. 46-2017 (H. B. 1133)** of the **1st Regular Session** of the **18th Legislative Assembly of Puerto Rico**:

AN ACT to amend Sections 4042.03 and 4042.04 of Act No. 1-2011, as amended, known as the “Internal Revenue Code for a New Puerto Rico”; amend Sections 2, 26, and 27 of Act No. 272-2003, as amended, known as the “Commonwealth of Puerto Rico Room Occupancy Rate Tax Act”; amend Section 103 of Act No. 5-2017, known as the “Puerto Rico Financial Emergency and Fiscal Responsibility Act of 2017”; amend Sections 12 and 26 of Act No. 3-2017, better known as the “Act to Address the Economic, Fiscal, and Budget Crisis to Guarantee the Operations of the Government of Puerto Rico,” in order to establish additional revenue and liquidity measures for the Government of Puerto Rico; establish that certain merchants are required to remit the Sales and Use Tax in semimonthly installments; [...]

has been translated from Spanish to English and that the English version is correct.

In San Juan, Puerto Rico, on this 12th day of February, 2018.

Orlando Pagán-Ramírez
Acting Director

EXHIBIT 15A

GOBIERNO DE PUERTO RICO
LA FORTALEZA
SAN JUAN, PUERTO RICO

Boletín Administrativo Núm. OE-2017-076

ORDEN EJECUTIVA DEL GOBERNADOR DE PUERTO RICO, HON. RICARDO A. ROSSELLÓ NEVARES, PARA EXTENDER EL PERIODO DE EMERGENCIA DECRETADO POR LA LEY 5-2017, SEGÚN ENMENDADA.

POR CUANTO: Puerto Rico atraviesa actualmente por la mayor crisis financiera y económica de su historia moderna. Esta coyuntura llevó al Congreso federal a aprobar la *Puerto Rico Oversight, Management, and Economic Stability Act*, conocida como PROMESA por sus siglas en inglés. Dicho estatuto, a su vez, estableció una Junta de Supervisión Fiscal para el Gobierno de Puerto Rico (“JSF”).

POR CUANTO: Por su parte, con el propósito de atender la crisis, la Asamblea Legislativa de Puerto Rico aprobó la Ley Núm. 5-2017, conocida como *Ley para la Emergencia Financiera y Responsabilidad Fiscal de Puerto Rico* (“Ley 5-2017”). Mediante esta ley se decretó un “Periodo de Emergencia” durante el cual el Gobernador podía tomar medidas para garantizar la responsabilidad fiscal en el Gobierno de Puerto Rico y sus instrumentalidades, de tal forma que se puedan satisfacer las obligaciones y, a la misma vez, proteger la salud, seguridad y bienestar de los residentes de Puerto Rico.

POR CUANTO: El Periodo de Emergencia terminaba originalmente el 1 de mayo de 2017. No obstante, conforme a lo dispuesto en la Ley 5-2017 el Gobernador extendió dicho periodo por un término adicional de tres (3) meses mediante el Boletín Administrativo OE-2017-31.

POR CUANTO: Posteriormente, la Asamblea Legislativa aprobó la Ley 46-2017, mediante la cual se enmendó la Ley 5-2017 para extender el Periodo de Emergencia hasta el 31 de diciembre de 2017. De igual forma, mediante la referida enmienda se dispuso que “mientras esté constituida la Junta de Supervisión Fiscal para Puerto Rico de conformidad con PROMESA, el Gobernador podrá, de ser necesario, extender dicho periodo por términos de no más de seis (6) meses cada uno mediante orden ejecutiva”.

POR CUANTO: Durante los días 19 y 20 de septiembre, el huracán María hizo su paso por Puerto Rico, convirtiéndose en el fenómeno atmosférico más devastador en los pasados ochenta (80) años. Dicho impacto ha afectado adversamente las finanzas gubernamentales, lo que ha provocado que la crisis fiscal continúe agravándose.

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POR CUANTO: A raíz del impacto del huracán María, la JSF ha solicitado que se presente un borrador de Plan Fiscal revisado para el Gobierno de Puerto Rico. Del mismo modo, la JSF solicitó que se presenten borradores de Planes Fiscales revisados para la Autoridad de Energía Eléctrica, la Autoridad de Acueductos y Alcantarillados, la Universidad de Puerto Rico, la Autoridad de Carreteras y Transportación, el Banco Gubernamental de Fomento y la Corporación Pública para Supervisión y Seguro de Cooperativas de Puerto Rico ("COSSEC").

POR CUANTO: Por otra parte, el Gobierno de Puerto Rico, la Corporación del Fondo de Interés Apremiante ("COFINA"), el Sistema de Retiro de los Empleados del Gobierno de Puerto Rico, la Autoridad de Carreteras y Transportación, y la Autoridad de Energía Eléctrica, actualmente se encuentran en el proceso de reestructuración de sus obligaciones, conforme al Título III de PROMESA.

POR CUANTO: Por todo lo anterior, resulta indispensable extender el Periodo de Emergencia decretado por la Ley 5-2017, según enmendada, por un término adicional de seis (6) meses, de forma tal, que contemos con las herramientas necesarias para afrontar los retos fiscales que enfrenta el Gobierno de Puerto Rico y sus instrumentalidades.

POR TANTO: YO, RICARDO ROSSELLÓ NEVARES, Gobernador de Puerto Rico, en virtud de los poderes que me confieren la Constitución y las leyes del Gobierno de Puerto Rico, por la presente decreto y ordeno lo siguiente:

SECCIÓN 1ra. Al amparo del Artículo 103(q) de la Ley Núm. 5-2017, según enmendada, se extiende el "Periodo de Emergencia" decretado por dicho estatuto por un término adicional de seis (6) meses, el cual terminará el 30 de junio de 2018.

SECCIÓN 2da. DEROGACIÓN Y VIGENCIA. Esta Orden Ejecutiva deja sin efecto cualquier otra Orden Ejecutiva que en todo o en parte sea incompatible con esta, hasta donde existiera tal incompatibilidad. Esta Orden Ejecutiva entrará en vigor inmediatamente y se mantendrá vigente hasta que sea enmendada o revocada por una orden ejecutiva posterior o por operación de ley.

SECCIÓN 3ra. SEPARABILIDAD. Las disposiciones de esta Orden Ejecutiva son independientes y separadas unas de otras y si un tribunal con jurisdicción y competencia declarase inconstitucional, nula o inválida cualquier parte, sección, disposición y oración de esta Orden

Ejecutiva, la determinación a tales efectos no afectará la validez de las disposiciones restantes, las cuales permanecerán en pleno vigor.

SECCIÓN 4ta. PUBLICACIÓN. Esta Orden Ejecutiva debe ser presentada inmediatamente en el Departamento de Estado y se ordena su más amplia publicación.



EN TESTIMONIO DE LO CUAL, expido la presente Orden Ejecutiva bajo mi firma y hago estampar el gran sello del Gobierno de Puerto Rico, en La Fortaleza, en San Juan, Puerto Rico, hoy 28 de diciembre de 2017.


RICARDO ROSSELLÓ NEVARES
GOBERNADOR

Promulgada de conformidad con la Ley, hoy 28 de diciembre de 2017.


LCDA. MARÍA MARCANO DE LEÓN
SECRETARIA DE ESTADO INTERINA

EXHIBIT 15B

GOVERNMENT OF PUERTO RICO
LA FORTALEZA
SAN JUAN, PUERTO RICO

Administrative Bulletin. OE-2017-076

EXECUTIVE ORDER OF THE GOVERNOR OF PUERTO RICO, HON. RICARDO A. ROSSELLÓ NEVARES, TO EXTEND THE EMERGENCY PERIOD DECLARED UNDER ACT 5-2017, AS AMENDED.

WHEREAS: Puerto Rico is currently undergoing the worst financial and economic crisis of its modern history. This precarious situation led the United States Congress to enact the *Puerto Rico Oversight, Management, and Economic Stability Act*, known as PROMESA. Said statute established the Financial Oversight and Management Board for Puerto Rico (the "Board").

WHEREAS: In order to address the crisis, the Legislative Assembly of Puerto Rico enacted Act 5-2017, known as *Puerto Rico Financial Emergency and Fiscal Responsibility Act*. Said statute declared an "Emergency Period" during which the Governor can take measures to guarantee fiscal responsibility in the Government in such a way that the obligations of the Government and its instrumentalities can be satisfied while safeguarding the health, safety, and wellbeing of the residents of Puerto Rico.

WHEREAS: The Emergency Period originally ended on May 1, 2017. However, pursuant to the provisions of Act 5-2017, the Governor extended the term for an additional three (3) months through Administrative Bulletin OE-2017-31.

WHEREAS: Subsequently, the Legislative Assembly enacted Act 46-2017, to amend Act 5-2017 in order to extend the Emergency Period until December 31, 2017. In addition, said amendment provided that "while the Financial Oversight and Management Board for Puerto Rico is constituted, the Governor may, if necessary, extend said term for periods of six (6) months or less each through an executive order".

WHEREAS: On September 19 and 20, Hurricane María made landfall in Puerto Rico as the most devastating atmospheric event in the last eighty (80) years. Said impact has adversely affected government finances, which has caused the fiscal crisis to worsen.

WHEREAS: Due to the impact of Hurricane María on Puerto Rico, the Board has requested a draft of the revised Fiscal Plan for the Government of Puerto Rico. In addition, the Board requested the submission of

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drafts of revised Fiscal Plans for the Puerto Rico Electric Power Authority ("PREPA"), the Aqueduct and Sewers Authority ("PRASA"), the University of Puerto Rico, the Highway and Transportation Authority ("PRHTA"), the Government Development Bank ("GDB"), and the Public Corporation for the Supervision and Insurance of Cooperatives of Puerto Rico (COSSEC, by its Spanish acronym).

WHEREAS: In addition to the foregoing, at present, the Government of Puerto Rico, the Puerto Rico Sales Tax Financing Corporation ("COFINA"), the Puerto Rico Government Employees Retirement System, PRHTA and PREPA are in the process of restructuring their obligations pursuant to Title III of PROMESA.

WHEREAS: In view of the foregoing, it is essential to extend the Emergency Period declared under Act 5-2017, as amended, for an additional six (6)-month term to have the tools needed to work with the fiscal challenges the Government of Puerto Rico and its instrumentalities are facing.

WHEREFORE: I, RICARDO A. ROSSELLÓ NEVARES, Governor of Puerto Rico, by virtue of the powers vested in me by the Constitution and the laws of Puerto Rico, hereby order as follows:

SECTION 1 Pursuant to Article 103(q) of Act 5-2017, as amended, the "Emergency Period" declared under said statute is hereby extended by an additional six (6)-month term, which shall end on June 30, 2018.

SECTION 2 REPEAL AND EFFECTIVENESS. This order leaves without effect any other Executive Order that may, in whole or in part, be inconsistent with this Executive Order, to the extent of such incompatibility. This Executive Order shall take effect immediately and shall remain in effect until it is amended or repealed by a future executive order or by operation of the Law.

SECTION 3 SEVERABILITY. The provisions of this Executive Order are independent and apart ones from the others, and if any part, section, provision or sentence of this Executive Order were to be declared unconstitutional, null or void by a court of competent jurisdiction, the decision to that effect will not affect the validity of the remaining provisions, which shall remain in full force and effect.

SECTION 4 PUBLICATION. This Executive Order shall be filed immediately with the Department of State, and its widest publication is hereby ordered.

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IN WITNESS WHEREOF, I issue this Executive Order
under my signature and cause the Great Seal of the
Government of Puerto Rico to be affixed in La
Fortaleza, San Juan, Puerto Rico, this 28th day of the
December 2017.




RICARDO ROSSELLÓ NEVARES
GOVERNOR

Enacted pursuant to the Law, this 28th day of December 2017.


MARÍA MARCAÑO DE LEÓN, ESQ.
ACTING SECRETARY OF STATE

EXHIBIT 16

**FINANCIAL OVERSIGHT AND MANAGEMENT BOARD
FOR PUERTO RICO**



José B. Carrión III
Chair

Members

Andrew G. Biggs
Carlos M. García
Arthur J. González
José R. González
Ana J. Matosantos
David A. Skeel, Jr.

Ramón M. Ruiz-Comas
Executive Director

SENT VIA ELECTRONIC MAIL

March 9, 2017

Honorable Ricardo A. Rosselló Nevares
Governor of Puerto Rico
La Fortaleza
PO Box 9020082
San Juan, PR 00902-0082

Dear Governor Rosselló Nevares:

The Board has received the Government's proposed fiscal plan (the "Proposed Plan") and recognizes the many difficult decisions put forth to move Puerto Rico's financial condition in the right direction. Nonetheless, the Board has determined that the Proposed Plan does not comply with the requirements set forth in PROMESA.¹ Specifically, the Proposed Plan is based on unrealistic projections of economic growth, substantially underestimates spending, and reflects overly optimistic revenue projections. The Proposed Plan also fails to provide for the scale and timing of expenditure reduction required to achieve medium-term structural balance and near-term liquidity. As such, the Proposed Plan does not provide a path to restructuring debt and pension obligations to reach a sustainable level, and ensuring funding of essential services for the people of Puerto Rico. The Proposed Plan also does not provide the specificity of implementation detail required to fully evaluate the feasibility of most measures.

PROMESA provides the Government with a powerful tool to restore economic growth and opportunity to the people of Puerto Rico. Debt restructuring is necessary, but it alone is neither sufficient nor a sustainable solution. The scope of the Government's response to these fiscal challenges must be commensurate with the magnitude of the fiscal imbalance.

¹ For the reasons stated in this letter, the Board has determined the Proposed Plan does not provide a method to achieve fiscal responsibility and access to the capital markets because it does not satisfy adequately PROMESA § 201(b)(1)(B), (D), (E), (F), (G), and (I). Additionally, it does not provide sufficient data to determine whether it satisfies PROMESA § 201(b)(1)(M) and (N), although the Board understands compliance with those sections is dependent on future debt restructuring negotiations and other events. The Board's recommended revisions for the violations are also included in this letter.

Honorable Ricardo A. Rosselló Nevares

March 9, 2017

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Baseline

The Board has concluded that the revenue projections used by the Government to calculate structural deficits are overly optimistic in terms of: a) economic growth rates and the time to return to nominal economic growth; and, b) the failure to reflect near-certain declines in baseline revenues associated with corporate taxes and non-resident withholding taxes. In addition, based on the Ernst & Young analysis, the Board has concluded that the Government’s FY17 expenditures could be understated by an amount ranging from \$60 to \$510 million, with a cumulative impact much greater over the next ten years. The Government’s liquidity projection is further understated by \$300 million in FY17.

The Board recommends that the FY17 General Fund Expenses (\$8.3 billion per page 129 of the February 28th Proposed Plan) be increased by \$585 million, based on recent historical expenditure trends. The impact of this adjustment over the next ten years is modeled in *Table 1* below.

Table 1: Board guidance for adjustments to baseline expenditures on page 129 of the Proposed Plan

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Expense reconciliation adjustment, \$M	(585)	(592)	(598)	(604)	(610)	(618)	(627)	(637)	(647)	(657)

The Board recommends the following annual GNP and inflation rates included in *Table 2*:

Table 2: Guidance on nominal annual GNP and inflation growth rates

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
PR Nominal GNP growth factor, %	(2.2%)	(2.8%)	(2.4%)	(0.5%)	(0.4%)	0.3%	1.0%	1.6%	2.1%	2.6%
PR inflation rate factor, %	(0.2%)	1.2%	1.0%	1.0%	1.1%	1.3%	1.5%	1.5%	1.6%	1.6%

Recommendations regarding revenues, subsidies and pensions

The Board believes the Proposed Plan is headed in the right direction for the key reform areas of pensions, subsidy reductions (municipal, UPR, and private transfers), and improving tax compliance while committing to replacing and improving the corporate tax code. There are, however, a few areas where the Board requires corrections or supporting data, to reach certification:

- Revenues:** The Board appreciates and supports efforts by the Government to continue to address tax non-compliance through improved audit and collections programs, particularly with regard to the sales and use tax and the income tax. The Board is concerned, however, that the aggressive pace of revenue enhancement included in the Proposed Plan is not supported by sufficient detail to justify these assumptions. The Board has concluded that a compliance uplift of around \$150 million in FY18 and \$300 million in FY19 is more achievable. The Board has also concluded that the rate of implementation for corporate tax reform as a replacement for Act 154 revenues is also too ambitious and that the revenues are overstated by at least \$250 million in FY19. Moreover, as noted earlier, the Board believes the baseline growth assumptions in the

Honorable Ricardo A. Rosselló Nevares

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Proposed Plan are too optimistic, which in turn results in unrealistic projections for the impact of these measures on future revenues. Puerto Rico has been in a steady state of economic decline for the past 10 years and there is insufficient economic evidence to suggest a turnaround in revenues at the level envisioned in the Proposed Plan.

- **Higher education.** The Board is supportive of the Governor's difficult decision to reduce subsidies to the University of Puerto Rico by \$300 million in FY19. The magnitude of the Government's structural deficit, however, requires that this reduction in annual subsidy grow to a minimum of \$450 million by FY21 as a result of: (1) application of measures to a growing expenditure baseline; and, (2) the phasing-in of additional measures related to tuition, other revenue enhancements, and operational improvements.
- **Pensions.** The Board agrees with the Government's proposal to shift active employees to a defined contribution system in which employee contributions would be segregated from funds used to pay benefits to current retirees, and employees would receive the full investment return on their accounts (versus currently receiving only 80 percent of investment returns in the ERS). The Board also supports the Government's proposal to reduce pension costs in a progressive way that protects the most vulnerable citizens. However these principles are inadequately implemented in the Proposed Plan. The Proposed Plan does not budget for the segregation of employee pension contributions. Unless contributions are immediately segregated, employees face the risk that their contributions will not be saved and invested to pay their future benefits. Additionally, the reductions in benefit costs proposed in the Proposed Plan are insufficient. Pension cost reductions substantially lower than the 10% benchmark set by the Board will shift an excessive amount of cost burdens to other stakeholders, including those who already are suffering from reductions in government outlays to health, education and other priorities. Benefit adjustments should be implemented in a manner that accounts for differences in Social Security coverage among different classes of Government employees. More detailed implementation plans for pension reforms are required, including provisions to ensure that the administrator chosen to manage employee accounts does so in a responsible way at the lowest possible cost to employees.

Recommendations regarding healthcare and right-sizing

There are two reform areas where the Proposed Plan needs significant improvement in terms of specificity, scale and timing, to achieve structural balance.

- **Healthcare reforms focused on "bending the cost curve".** While the Board supports efforts to curb fraud, waste and abuse in the Puerto Rican healthcare system, lasting and scaled reductions in healthcare expenditure on the Island require reforms focused on actually shifting care to lower cost sites, reducing unnecessary utilization of the health system and otherwise making the system more efficient. Further, in light of the fiscal cliff pending with the reduction in Affordable Care Act ("ACA") funding, the Government will need to implement further actions around cost-sharing and elimination of optional benefits. The Board suggests the Government include in its Proposed Plan interim

Honorable Ricardo A. Rosselló Nevares

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milestones to create targeted per member per month (“PMPM”) ceilings to optimize government hospital traffic and a pathway to curb prescription drug costs. Further, while the Board would like to expand coverage on the Island, it does not believe the current fiscal situation allows for expansion of coverage during this period of fiscal crisis. Bottom line, the Government should achieve at least \$100 million in annual expenditure reductions in healthcare in FY18; \$300 million in FY19, and \$750 million by FY21.

- **Government right-sizing that is sustainable in the short and long-term.** The Board agrees that employee benefits offered by public corporations should match those offered in other public agencies. However, the right-sizing measures are deficient in two dimensions: (1) there is a need for aggressive, emergency measures to reduce Government spending starting in FY18 (e.g., furloughs, greater reductions to Christmas bonuses, reduction of professional service fees and other contracts, and other measures outlined in the Board’s March 8th letter); and (2) over the medium-term, the Proposed Plan lacks sufficient detail to demonstrate how consolidation and externalization measures will save sufficient funds in personnel and procurement expenses to close the structural deficit. Specifically, there need to be expenditure reductions in the legislative and executive branches of government, commensurate with those required of the executive branch, of at least 20%, as well as efforts to consolidate schools to align to the decline in student population. The Government will need to achieve personnel-related expenditure reductions of at least \$550 million by FY18, \$900 million by FY19, and \$1.3 billion by FY21.

Timing to reach fiscal balance

Our review of the Proposed Plan leads us to the conclusion that the Government’s structural reform measures will not achieve fiscal balance in two years. In order to achieve the right balance between mitigating the near-term economic crisis while also needing to rapidly address the near-term liquidity and debt sustainability needs of the Island, the Board has updated its guidance to recommend an additional year to achieve fiscal equilibrium. The Government needs to implement reforms to accomplish three objectives: (1) near-term liquidity; (2) medium-term structural balance; and (3) long-term economic recovery and growth.

Structural Reforms

The Board agrees with many of the structural reforms proposed by the Government to achieve long-term growth, particularly reforms to private labor and the Government permitting process. The levels of structural reforms laid out in the Proposed Plan are, however, insufficient to achieve the necessary rate of GNP growth. Specifically, the Government should strengthen its plans for lowering energy prices and improving labor force participation. Reforms should include, but not be limited to: reforming welfare and other public assistance programs to encourage work, removing anti-competitive regulations, reducing transaction costs associated with property registry, and creating a professional, technocratic government workforce. The Commonwealth must provide additional detail on the implementation and sequencing of each of its proposed measures.

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The Board appreciates the focus in the Proposed Plan on delivering the Government's capital projects more efficiently, including even greater utilization of public-private partnerships (P3s). When successfully executed, innovative procurement approaches can reduce costs, accelerate delivery and introduce new technologies. As the Government builds out a more specific project pipeline, it is critical that objective criteria be established that include projected return on investment or benefit/cost ratio as a foundational element for each investment. The Government should also continue to focus on building overall capital procurement and delivery capabilities (not just for P3 projects). In addition, while executive actions related to accelerated permitting are encouraging, the Government will need to build management systems (supported by adequate information technology) to drive faster decisions, focus on the way agencies coordinate with each other on the front lines, and develop project and program-level performance metrics related to approval speeds.

Conclusion

The Board recognizes the difficulties implicit in these policy decisions, as well as the long path to return Puerto Rico to fiscal stability. Reaching this goal will take time, enormous effort and the full commitment of Puerto Rico's political leadership, but done properly and in a sustained manner it will put Puerto Rico on the path to a better future. The Board specifies 9:00am AST on Saturday, March 11th as the deadline for submitting a revised, proposed fiscal plan.

Sincerely,



José B. Carrión
Chair

Andrew G. Biggs
Carlos M. García
Arthur J. González
José R. González
Ana J. Matosantos
David A. Skeel, Jr.

CC: Elías F. Sánchez-Sifontes

EXHIBIT 17

United States Senate

WASHINGTON, DC 20510

April 7, 2017

Mr. José B. Carrión III
Chairman
Financial Oversight and Management Board for Puerto Rico

Dear Chairman Carrión:

We are writing today to express our concern that the Fiscal Plan for Puerto Rico, which was certified by the Financial Oversight and Management Board of Puerto Rico on March 13, 2017, is not compliant with the Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA).

During a recent hearing before the House Committee on Natural Resources' Subcommittee on Indian, Insular and Alaska Native affairs, you were asked if the Fiscal Plan complied with Section 201(b)(1)(N) of PROMESA. As you know, PROMESA requires that a certified fiscal plan "respect the relative lawful priorities or lawful liens, as may be applicable, in the constitution, other laws, or agreements of a covered territory or covered territorial instrumentality." Unfortunately, your answer to this question was unsatisfactory. Rather than explaining why the Fiscal Plan was compliant, you merely stated that the Oversight Board has not taken a position on the dispute between the General Obligation and COFINA bondholders—a matter unrelated to the Fiscal Plan's compliance with PROMESA.

We have heard numerous concerns regarding the Fiscal Plan's failure to comply with lawful priorities and liens established by Puerto Rico's Constitution, its failure to differentiate between non-essential and essential spending, its elevation of all non-debt spending above debt service, and its unexplained economic assumptions. Multiple creditor groups have asserted that the Commonwealth and the Oversight Board have not attempted to negotiate with bondholders under Title VI of PROMESA, and in fact have failed to respond to creditors' attempts to initiate negotiations. This is a violation of both the spirit and letter of PROMESA, which plainly intends for the Commonwealth and the Oversight Board to make every effort to reach a negotiated settlement with bondholders under Title VI and reserves Title III restructuring as a last resort.

Given your response to Congress and these troubling reports from financial groups, we do not believe the Commonwealth and the Oversight Board are interested in addressing these issues. Furthermore, we are deeply concerned that PROMESA is not on track to achieve its goals of promoting fiscal responsibility in Puerto Rico and returning the Commonwealth to the capital markets.

In closing, we request that the Oversight Board promptly supply our staffs with a compliance certification for the Fiscal Plan and set forth in detail how each requirement of Section 201(b)(1) of PROMESA has been satisfied. Additionally, we request that you promptly meet with our staffs in Washington, D.C., and fully brief our offices on: (1) the status of your negotiations; (2) who you are negotiating with; (3) how you are fulfilling the requirements of PROMESA; (4) the

Carrión III
Page 2

percentage of revenues that Puerto Rico is spending on payments owed to U.S. taxpayers; and
(5) any other pertinent information.

Thank you for your attention to these issues. Please reply to Senator Thom Tillis' office at
Towers_Mingledorff@Tillis.Senate.gov and Senator Tom Cotton's office at
Brian_Colas@Cotton.Senate.gov with your answers to these requests, no later than April 25,
2017.

Sincerely,



THOM TILLIS
United States Senate



TOM COTTON
United States Senate

EXHIBIT 18

**FINANCIAL OVERSIGHT AND MANAGEMENT BOARD
FOR PUERTO RICO**



José B. Carrión III
Chair

BY ELECTRONIC MAIL

April 25, 2017

U.S. Senator Thom Tillis
c/o Towers_Mingledorff@Tillis.senate.gov

U.S. Senator Tom Cotton
c/o Brian_Colas@Cotton.senate.gov

Re: FOMB Response to Your Letter dated April 7, 2017 (the “Letter”)

Dear Senators Tillis and Cotton:

The Financial Oversight and Management Board for Puerto Rico (“FOMB”) has received and reviewed your Letter and very much appreciates this opportunity to respond.¹

FOMB’s Statutory Mission:

The Mission: PROMESA section 101(a) provides the purpose of the FOMB is to provide a method for Puerto Rico to achieve fiscal responsibility and to restore access to the capital markets.

Returns to Creditors: Subject to the objectives of achieving fiscal balance and market access, which can only be achieved by ensuring economic growth in

¹ The Letter expresses concerns stemming from certain responses we recently provided at the March 22 hearing of the House Committee on Natural Resources Subcommittee on Indian, Insular, and Alaska Native Affairs.

Members

Andrew G. Biggs
Carlos M. García
Arthur J. González
José R. González
Ana J. Matosantos
David A. Skeel, Jr.

Natalie A. Jaresko
Executive Director

U.S. Senators Tillis and Cotton

April 25, 2017

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Puerto Rico, the FOMB intends to maximize returns to creditors. The nub of the issue with the creditors alluded to in your Letter is the size of the economic pie available to be divided. The creditors insist that the pie is larger than FOMB's economists and consultants believe it to be. The FOMB shares the creditors' desires to enlarge the funds available for debt service, but cannot adopt lofty assumptions for available funds without violating PROMESA § 101(a) because PROMESA §§ 104(i) and 314(b) both require outcomes consistent with a certified fiscal plan's debt sustainability analysis.

To address the questions in your Letter, after the Executive Summary we provide the material facts and economic principles at issue, and then an explanation of how the facts and economic principles answer your questions and concerns.

Executive Summary:

1. Fiscal Plan Increases Revenues and Cuts Expenses to the Maximum: The fiscal plan the FOMB certified starts by increasing revenues and cutting virtually *all* expense areas, including education, healthcare, pension, employment, and even legislative expenses.
 - a. The FOMB Pushed Revenues, Expenses, and Clawbacks to the Limits of Where they Will Maximize Funds for Debt Service without Preventing Necessary Economic Growth: The one undisputed economic principle governing the fiscal plan is that *no* solution to Puerto Rico's fiscal distress is possible if its negative economic growth is not reversed. The FOMB has cut *all* categories of expenses up to the point where its economists have determined that further material annual cuts for the foreseeable future would (a) prevent growth from reaching levels needed to ensure fiscal sustainability, and (b) create minimally larger short-term savings at the expense of a significantly lower resource envelope over the medium and long-term. Put differently, trying to impose additional cuts would create the opposite effect than creditors want. It would render Puerto Rico's viability impossible because further short run savings would lead to an unstoppable downward fiscal spiral in the long run.
2. Fiscal Plan Confronts Two Fiscal Cliffs: (a) Puerto Rico has unfunded pension liabilities to public employees approaching \$50 billion and its three

U.S. Senators Tillis and Cotton

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public pension funds are each either already out of funding or will be out of funding in summer 2017. Average pension benefits are \$14,000 per year, and roughly one-third of employees are ineligible for Social Security benefits. Therefore, Puerto Rico will need to begin paying pensions of nearly \$1 billion per year that in recent years were paid out of a drawdown of pension system assets. (b) In December 2017, Puerto Rico will exhaust its supplemental Medicaid funding from the federal government. This imposes new healthcare coverage demands on Puerto Rico's own resources of approximately \$850 million in the next fiscal year (FY 18, July 2017-June 2018) that is projected to reach almost \$2.4 billion a year by FY 26.

3. The Fiscal Plan Does Not Elevate All Spending over Debt Service, and Does Respect Priorities: The creditors' concerns reported in the Letter are that all non-debt spending is elevated above debt service and there is no differentiation between non-essential and essential services. The creditors have it in reverse. The fiscal plan first reduces spending and increases revenue to the maximum extents possible without preventing the essential reversal of Puerto Rico's fiscal sustainability, and then computes the funds available for debt service. The whole purpose of increasing revenues, cutting expenses and reallocating tax revenues to the Commonwealth is to respect priorities and to maximize funds for debt service.
4. The Fiscal Plan Computes Debt Capacity *after* Raising Revenues and Cutting Expenses: The fiscal plan shows \$7.873 billion available for debt service on \$51.2 billion of debt² for the ten fiscal years through 2026, or an average of \$787 million per year. Including the amendments introduced by the Board with the certified the fiscal plan, at a 4.5% interest rate, this would service interest and limited amortization of approximately \$15 billion of debt.
5. The FOMB Would Only Support a Self-Correcting Restructuring Plan: While the FOMB does not believe the fiscal plan understates cash available for debt service in the first 10 years, it understands creditors are skeptical. To assure creditors they will receive the maximum available, the FOMB has advised creditors from the outset that it wants any restructuring plan to

² The certified fiscal plan covers the Commonwealth, PBA, COFINA, HTA, PRIFA, PRCCDA, PFC, UPR, ERS, GDB, and PRIDCO.

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provide a mechanism for creditors to be paid more to the extent actual results exceed projections.

6. The Real Issue is the Size of the Economic Pie, Not any Lack of Desire to Negotiate: Your letter reports creditor concerns that the FOMB has failed to negotiate and to respond to creditor attempts to negotiate settlements. In fact, the FOMB and government held more than 30 meetings with creditor representatives from December 2016 through March 2017. The current governor was inaugurated January 2, 2017 and proposed a fiscal plan on February 28, 2017. On March 13, 2017, the FOMB certified an amended version of the governor's plan, which provided for the first time a debt capacity analysis, which was necessary to determine how much debt the government could offer creditors. Thereafter, creditors have requested a new fiscal plan that allows issuing them more fixed-payment debt. The FOMB and government convened a mediation on April 13, 2017. Mediation efforts are ongoing.
7. The FOMB Prioritizes Title VI Settlements: Your letter reports the creditors' concern that the FOMB is violating the letter and spirit of PROMESA by failing to pursue Title VI settlements. As the preceding paragraph demonstrates, the FOMB has endeavored to follow both the letter and spirit of the law. The creditors have refused to pursue Title VI settlements unless the FOMB certifies a fiscal plan providing more funds available for debt service. The PROMESA stay terminates by May 2, 2017. PROMESA does not allow the restructuring of pensions or any non-bond or non-financial contract in Title VI. Puerto Rico has \$48 billion in unfunded pension liabilities that require restructuring, or else less money will be available for the creditors you have heard from. To deal with this reality, the FOMB has made clear that it may have to commence Title III cases to extend the stay and to restructure non-financial debt. If that were to occur, the FOMB would fold into its Title III plans any Title VI settlements reached with financial creditors. This is the most the FOMB can possibly do to foster Title VI settlements. Title VI settlements require both the FOMB and creditors to agree.

Puerto Rico's Current Economic Condition:

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Economic Decline since 2006: From fiscal years 2006 through 2015, Puerto Rico's real GNP fell every year except one.³ The Economic Activity Index comprised of four factors (payroll employment, electric power generation, cement sales, and gasoline consumption) fell from 160.0 to 124.1 between August 2005 and August 2016.⁴

Population Decline since 2003: From 2003, Puerto Rico's population has declined over 9% down to less than 3.5 million people in 2015.⁵

Poverty and Unemployment: According to the U.S. Census Bureau's 2015 community survey, 46.1% of Puerto Rico's residents live below the federal poverty level compared to the national average of 14.7%,⁶ and 36% of the residents of Detroit,⁷ whose financial distress was viewed by many as uniquely devastating. Puerto Rico's is more so. For Puerto Rico children under age 5, 63.7% live under the federal poverty level, compared to the national average of 22.8%.⁸ Median household income in Puerto Rico was \$18,626 in 2015, compared to \$56,515 in the United States,⁹ and to \$27,862 in Detroit in 2011.¹⁰ In October 2016, Puerto Rico's unemployment rate was 12.1%, and only 987,606 persons were employed, down 23% from 1,277,559 employed persons in December 2006.¹¹

³ Report to the House and Senate by the Congressional Task Force on Economic Growth in Puerto Rico, 114th Congress (December 20, 2016) at p. 9.

⁴ *Id.* at 10.

⁵ Puerto Rico Population, retrieved at: http://www.countrysimeters.info/en/Puerto_Rico/; FactTank, "Historic Population Losses Continue across Puerto Rico" (Pew Research Center), retrieved at: <http://www.pewresearch.org/fact-tank/2016/03/24/historic-population-losses-continue-across-puerto-rico/>; Report to the House and Senate by the Congressional Task Force on Economic Growth in Puerto Rico, 114th Congress (December 20, 2016) at p. 13.

⁶ Report to the House and Senate by the Congressional Task Force on Economic Growth in Puerto Rico, 114th Congress (December 20, 2016) at p. 9.

⁷ Second Amended Disclosure Statement with respect to Second Amended Plan for the Adjustment of Debts of the City of Detroit, at 100, retrieved at: <http://www.kccllc.net/detroit/document/135384614041600000000062>

⁸ Report to the House and Senate by the Congressional Task Force on Economic Growth in Puerto Rico, 114th Congress (December 20, 2016) at p. 9.

⁹ *Id.* at 11.

¹⁰ Second Amended Disclosure Statement with respect to Second Amended Plan for the Adjustment of Debts of the City of Detroit, at 100, retrieved at: <http://www.kccllc.net/detroit/document/135384614041600000000062>

¹¹ Report to the House and Senate by the Congressional Task Force on Economic Growth in Puerto Rico, 114th Congress (December 20, 2016) at p. 11.

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Public Debt as a Percentage of Income: Puerto Rico has approximately \$74.5 billion of bond debt and \$48 billion of unfunded pension liabilities.¹² As of 2012, Puerto Rico's public debt as a percentage of aggregate income was 100.7%, as compared to 29% for New York, which has the highest ratio of public debt to income in the United States (the average is 16.8%).¹³

Immediate New Cash Needs:

The Pension Funding Cliff: As of June 30, 2015, the largest public pension fund (ERS), owing \$33.2 billion, was negative 1.8% funded.¹⁴ The highest funded public pension was 8.1% funded, and as a practical matter, virtually all public pension funding will be exhausted this summer for all pension plans, forcing the Puerto Rico government to pay public pensions or welfare out of general revenues. In fiscal year 2018, this will cost the Puerto Rico \$989 million.¹⁵

To put Puerto Rico's \$48 billion unfunded pension liability in perspective, the unfunded actuarial accrued liabilities in Detroit in 2013 were approximately \$3.474 billion and the public pension funds were over 70% funded.¹⁶

Notwithstanding that the average pension benefit payment for government retirees in Puerto Rico is about \$14,000 – about half the benefit of government retirees in the U.S., as shown below, the certified fiscal plan reduces pension payments to the extent combined pension and Social Security benefits exceed the federal poverty threshold of \$1,000 per month.

The Medicaid Cliff: The Affordable Care Act provided supplemental Medicaid funding for territories, of which Puerto Rico drew an average of \$917

¹² Certified Fiscal Plan for Puerto Rico (March 13, 2017) at 26; footnote 13 below.

¹³ An Update on the Competitiveness of Puerto Rico's Economy by the Federal Reserve Bank of New York (July 31, 2014) at 16 (Figure 12).

¹⁴ Report to the House and Senate by the Congressional Task Force on Economic Growth in Puerto Rico, 114th Congress (December 20, 2016) at pp. 12-13.

¹⁵ Commonwealth Fiscal Plan certified March 13, 2017 at p. 13.

¹⁶ Second Amended Disclosure Statement with respect to Second Amended Plan for the Adjustment of Debts of the City of Detroit, at 91-93, retrieved at:

<http://www.kccllc.net/detroit/document/1353846140416000000000062>

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million per year from fiscal years 2012 through 2016.¹⁷ Puerto Rico drew \$1.3 billion in fiscal year 2016. The balance of the supplemental funding will be spent by the end of calendar year 2017.¹⁸ There is no replacement funding thereafter. As the Congressional Task Force on Economic Growth in Puerto Rico reported in December 2016:

“The government of Puerto Rico, which currently lacks the ability to borrow money in the capital markets to fill the large hole that will be left by the loss of federal funding, would presumably be compelled either to drop hundreds of thousands of current enrollees from the Medicaid program (harming quality of life and spurring outmigration) or to reallocate funds from other areas, such as payments to creditors and the provision of public services. *** Given its magnitude, the cliff is certain to disrupt any existing stability in the provision of health care services in Puerto Rico for a large number of beneficiaries.”¹⁹

Additional Cash Need:

The fiscal plan takes into account these fiscal cliffs, as well as Puerto Rico’s repeated understatement of its expenses in its annual budgets. The FOMB retained Ernst & Young (“E&Y”) to bridge the last audited financials to the present. In its report, E&Y determined that the government’s fiscal year 2017 expenditures could be understated by a range of \$360 million to \$810 million. The fiscal plan uses \$585 million, the midpoint of this range, and adopts a variety of stringent measures to fill the gaps created by the fiscal cliffs and understatement of expenses.

Certain Savings Measures Taken by Government or Imposed by FOMB:

The certified fiscal plan provides within three years for:

- (i) Self Sufficient Municipalities: a 100% reduction in subsidies to municipalities, amounting to approximately \$375 million per year.

¹⁷ Report to the House and Senate by the Congressional Task Force on Economic Growth in Puerto Rico, 114th Congress (December 20, 2016) at 19 n.23.

¹⁸ *Id.* at 19.

¹⁹ *Id.* at 20.

U.S. Senators Tillis and Cotton

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- (ii) Savings in Higher Education: a 50% reduction in contributions to higher education, amounting to approximately \$475 million per year.
- (iii) Savings in Personnel and Operating Expenses and Sectoral Subsidies: a 35% reduction in personnel and operating expense, amounting to approximately \$1.6 billion per year and reductions in firm-specific subsidies in various sectors of \$100 million per year.
- (iv) Healthcare Savings: a 30% reduction in healthcare costs, amounting to approximately \$800 million per year.
- (v) Pension Savings: an average 10% reduction in pension expenses implemented in a progressive manner, amounting to approximately \$250 million per year.
- (vi) Cancellation of Christmas Bonus if certain liquidity targets are not satisfied.
- (vii) Four-Day per Month Furlough if certain liquidity targets are not satisfied.

34% Overall Savings: After five years, the certified fiscal plan saves about \$3.6 billion per year off the structural budget, starting with more than \$1.1 billion of savings in its first year. The \$3.6 billion savings represents a 28% reduction off projected structural spending levels in the Commonwealth of Puerto Rico's \$12.85 billion of non-federal expenses in fiscal year 2022.

Reasons for Less Money Available for Debt Service than the FOMB and Creditors Want:

One undisputed principle guiding this restructuring is that the government and the FOMB cannot accomplish PROMESA's twin mandate for Puerto Rico to achieve fiscal responsibility and to restore access to the capital markets if we do not end Puerto Rico's negative economic growth and grow sufficiently.

Further Cost Cutting and Revenue Raising Produce Small Benefits for 10 Years and Detriments for the Next 32 Years: Virtually all the measures available for balancing the budget in the short term worsen economic growth, without which adequate debt service payments are impossible. As the certified fiscal plan

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provides, the savings measures negatively impact growth through FY 21 and real economic growth does not turn positive until FY 24, when the positive impact of the authorities' structural reform agenda (downplayed by the creditors) begins to take hold.²⁰

The FOMB retained economists and consultants to gauge the impact on Puerto Rico's real growth outlook of the measures the FOMB is requiring to attain fiscal responsibility. The savings measures summarized above are so large that our advisors warn that (1) additional short-term cuts might produce slightly higher resources over the first 10 years, but never do over the longer 2018-60 period; (2) the amount of additional cutting is limited as the policies needed to generate annually further material resources is not consistent with a sustainable growth and primary balance path; and (3) with all the other downside risk, we cannot push the baseline path to the minimum of the viable range.

FOMB Discussions with Creditors:

Creditor Meetings: From December 2016 through March 2017, FOMB's members and advisors participated in over 30 meetings with representatives of the different creditor groups. Most groups met with the FOMB more than once. The Government joined the FOMB in most of those meetings and held many additional meetings. The FOMB did not decline to meet with any creditor group requesting a meeting.

Timing of Formulation of Restructuring Proposals: Pursuant to PROMESA § 104(i)(1), FOMB can only certify a Title VI restructuring agreement if it is consistent with the entity's debt sustainability. To determine debt sustainability, either a fiscal plan or most of the work for a fiscal plan needs to be completed. Puerto Rico's prior governor proposed a fiscal plan in 2016, but declined to remedy the PROMESA violations that the FOMB identified. Puerto Rico's current governor, Governor Rosselló Nevares, was inaugurated January 2, 2017 and proposed a fiscal plan on February 28, 2017. The FOMB amended and certified the governor's fiscal plan on March 13, 2017, less than three months after the new governor took office.

Restructuring Proposals: Promptly after certification of the fiscal plan, the FOMB and the government undertook a joint effort to formulate restructuring

²⁰ Certified Fiscal Plan for Puerto Rico (March 13, 2017) at 10.

U.S. Senators Tillis and Cotton

April 25, 2017

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proposals for all major credits, based on the debt sustainability analysis in the certified fiscal plan.

Creditor Resistance to FOMB/Government Making Restructuring Proposals:

The certified fiscal plan's debt sustainability analysis makes plain the funds available for debt service. Creditors responded by asking the FOMB to certify a new fiscal plan with more frothy and optimistic assumptions.

Mediation: In March 2017, the FOMB and the government requested holders of General Obligation debt ("GO debt") and COFINA debt to participate in a mediation with the FOMB and the government commencing April 3, 2017. Those debts together account for approximately 55% of the total bond debt to be restructured. Ultimately, the mediation commenced April 13, 2017 under the auspices of former Bankruptcy Judge Allan Gropper, nominated by a plurality of creditors. The FOMB remains hopeful that the mediation will lead to consensual resolutions at some point.

The Creditor Concerns Reported in Your Letter Form Part of Current Negotiations:

It is important to recognize that the creditors whose concerns you reported in your Letter are in the midst of negotiations with the FOMB and government. When viewed in the full context of facts set forth above, it becomes clear that airing those concerns is part of their negotiating strategy. In fact, the creditors already know most of the answers in this response.

Negotiations: Your Letter mentions that creditors have alleged the FOMB and the government have not attempted to negotiate and have failed to respond to creditors' attempts to initiate negotiations. As set forth above:

1. The FOMB and the government held over 30 meetings with creditors from December 2016 through March 2017.
2. The FOMB never declined any creditor's request to discuss its claims.
3. Because the prior governor would not cure violations in his fiscal plan, and the new governor was not inaugurated until January 2, 2017 and initiated a new business plan, a debt sustainability analysis could not be completed before March 13, 2017.
4. Creditors who made the same complaints to us as reported in your Letter are the same creditors who asked us to take more time to redo the fiscal plan.

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Title VI is the Spirit of PROMESA: Contrary to complaints that the FOMB has violated PROMESA's emphasis on Title VI, the FOMB has actively pursued Title VI settlements in the following ways:

1. The FOMB and the government have been attempting to negotiate.
2. The FOMB has been steadfast from the outset that it favors Title VI over Title III.
3. Congress crafted PROMESA so that the stay terminates on May 2, 2017. The only means of obtaining a general stay after May 1, 2017 is to commence a Title III case.
4. Congress crafted PROMESA so that pension liabilities and other liabilities not constituting bond debt or other financial debt likely cannot be resolved in Title VI, and likely can only be resolved in Title III. As explained above, there is \$48 billion of unfunded pension debt the government cannot pay in full.
5. To carry out the spirit of PROMESA notwithstanding that only Title III can provide a stay and restructure pension debt, the FOMB has told bondholders for many months that even if it must resort to Title III, it would continue negotiating with bondholders and would incorporate into a plan under Title III any Title VI-type settlement it makes with bondholders.

Whether the Fiscal Plan Legally Complies with a Statute Is a Legal

Question: Your Letter states that during the House Subcommittee on Indian, Insular, and Alaska Native Affairs' March 22 hearing I was asked whether the certified fiscal plan complies with PROMESA. I said it does, because that is my belief. When it appeared the same question was being repeated, I believed the subcommittee might be referring to the COFINA-GO dispute, and I responded that the FOMB had not taken a position on that dispute. But, your Letter asserts my response was "unsatisfactory," and that I did not explain why the fiscal plan is compliant. While I am not a lawyer, I am advised that PROMESA section 201(b) governs the compliance requirements, and that it has fourteen subdivisions, which would make it difficult for me to give a complete explanation in the context of a hearing even if I had fully appreciated the focus of the question.

PROMESA Is on Track to have Puerto Rico Achieve Fiscal Responsibility and Access to the Capital Markets: Your letter provides that because of my response (discussed above) and the creditors' reports of their concerns, you are concerned PROMESA is not on track to have Puerto Rico achieve fiscal responsibility and access to the capital markets. As explained above, that a non-

U.S. Senators Tillis and Cotton

April 25, 2017

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lawyer did not provide a legal explanation to a complex legal question is not a cause for concern. But, more importantly, the very fact that creditors demanding that Puerto Rico pay them more complain that the FOMB has not accommodated them, demonstrates that the FOMB is assuring that Puerto Rico will achieve fiscal responsibility and access to the capital markets. If the FOMB had yielded and approved higher payments, Puerto Rico would again be overleveraged and almost assuredly locked out of the capital markets.

Your Request for Compliance Certification, PROMESA § 201(b)(1) Analysis, and Meeting with Your Staffs: Your letter requests a compliance certification of the fiscal plan. Pursuant to PROMESA § 201(e), the FOMB provided a compliance certification to the governor and legislature, a copy of which is enclosed herewith. Additionally, your Letter requests that the FOMB meet with your staffs about current progress under PROMESA on several fronts, and we are pleased to arrange such a meeting.

Finally, your Letter requests an explanation stating in detail how each requirement of PROMESA § 201(b)(1) is satisfied. This letter addresses in detail the issue you raised under PROMESA § 201(b)(1), namely how the fiscal plan “respects” local priorities and the like. As you know, Congress deployed the word “respect,” while consciously twice declining to use “comply with.”²¹ “Respect” provides flexibility and is different than the words Congress used for other fiscal plan requirements, such as to “ensure” the funding of essential public services, “provide” adequate funding for public pension systems, and “provide” for the elimination of structural deficits. I assume this is the requirement you are most concerned with, and I have explained throughout this letter how the fiscal plan respects priorities by reallocating tax revenues to the Commonwealth, increasing revenues, and cutting expenses. If you would like the FOMB and its advisors to address some of the other requirements, we would be happy to meet with you or your staffs.

What Congress Can Do:

The FOMB invites Congress to help enlarge the pie, such as by renewing the flow of Medicaid funds under the Affordable Care Act to Puerto Rico, which funds

²¹ 162 Cong. Rec. H3600-01, 162 Cong. Rec. H3600-01, H3601.

U.S. Senators Tillis and Cotton

April 25, 2017

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will otherwise be exhausted in December 2017. The bipartisan Congressional Task Force on Economic Growth in Puerto Rico unanimously reported:

“...However, Task Force members agree that, irrespective of these larger policy disagreements and the congressional debates they will continue to generate in the coming years, an equitable and sustainable legislative solution to the financing of Puerto Rico’s Medicaid program should be enacted early in 2017.”²²

Similarly, the FOMB encourages Congress to consider other Task Force recommendations.

Conclusion:

In summary, PROMESA requires the FOMB to achieve for Puerto Rico fiscal responsibility and market access. Subject to those requirements, the FOMB wants to maximize returns to creditors and to ensure economic growth. The FOMB is balancing fairness to Puerto Rico’s people with paying creditors while not allowing debt to exceed levels that would prevent fiscal responsibility and market access.

We trust this letter adequately addresses your concerns, and as always, we are at your service.

Sincerely,



José B. Carrión, Chair
& all Members of the FOMB

C: Elías Sánchez Sifonte
Natalie Jaresko

²² Report to the House and Senate by the Congressional Task Force on Economic Growth in Puerto Rico, 114th Congress (December 20, 2016) at 17.

EXHIBIT 19

124 RUSSELL SENATE OFFICE BUILDING
WASHINGTON, DC 20510
PHONE: (202) 224-2353

United States Senate

COMMITTEES
ARMED SERVICES
BANKING, HOUSING, AND
URBAN AFFAIRS
JOINT ECONOMIC COMMITTEE
SELECT COMMITTEE ON INTELLIGENCE

Mr. Jose B. Carrion III
Chairman
Financial Oversight and Management Board for Puerto Rico
PO Box 192018
San Juan PR 00919-2018

Dear Chairman Carrion:

I thank you for your April 25 letter on the Fiscal Plan adopted by the Financial Oversight and Management Board of Puerto Rico. But I must be frank: I found your answers vague and unresponsive. I am compelled to write again to ensure that I—and the Arkansans I represent—receive specific answers. As taxpayers whose interests are directly impacted by the Oversight Board's actions, Arkansans deserve those answers.

Section 201(b)(1)(N) of the Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA) requires that the Fiscal Plan “respect the relative lawful priorities or lawful liens, as may be applicable, in the constitution, other laws, or agreements of a covered territory or covered territorial instrumentality.” The Oversight Board claims that Congress, in using the word “respect,” actually gave the board “flexibility” to decide which legal obligations to meet—which, in my book, is the exact opposite of what the word “respect” means.

According to the *Wall Street Journal*, retail investors in mutual funds nationwide stand to lose \$5.4 billion as a result of the Board's bizarre interpretation. These retirees—many of whom are Puerto Rican—put their savings into these funds because of a constitutional guarantee that Congress twice approved. The Board's decision to subordinate the lawful priorities of bondholders has jeopardized the retirement savings of many Arkansans. In addition, this decision creates a dangerous precedent that property and investor rights are open to interpretation in a fiscal crisis, which could badly destabilize the municipal-bond market. If this is what “respecting” legal obligations means, what would “disrespecting” them look like?

Given the stakes, I have some additional questions I'd like to ask—and for you to answer:

- 1. Did the Board anticipate that its interpretation would hurt the appeal of municipal and sovereign investment products and thus potentially raise the cost of public borrowing for all states and municipalities?**

I'd also point out that your letter didn't address why the Fiscal Plan fails to distinguish between essential expenses and non-essential ones.

- 2. Is it the opinion of the Board that the servicing of Puerto Rico's lawful debt is a non-essential expense? Please explain.**

Once again, I request that the Board promptly address these questions with a much more detailed response than your letter of April 25.

Finally, I'm asking Mick Mulvaney, director of the Office of Management and Budget, to provide my office with a list of all federal transfer payments to Puerto Rico and analyses of the per capita cost as compared to other states and territories.

I look forward to your prompt response.

Sincerely,



Tom Cotton
United States Senator

cc: Don McGahn, White House Counsel
Justin Clark, White House Director of Inter-Governmental Affairs
Mick Mulvaney, Director, Office of Management and Budget

EXHIBIT 20

CODY STEWART
STAFF DIRECTOR

DAVID WATKINS
DEMOCRATIC STAFF DIRECTOR

U.S. House of Representatives
Committee on Natural Resources
Washington, DC 20515

March 29, 2018

Mr. José B. Carrión III
Chairman
Financial Oversight and Management Board of Puerto Rico
PO Box 192018
San Juan PR 00919-2018

Dear Chairman Carrión and members of the Financial Oversight and Management Board:

Six months ago, Puerto Rico was ravaged by two devastating hurricanes. The destruction endured by our American brethren added a humanitarian emergency to the already severe fiscal crisis. As such, you – the members of the Financial Oversight and Management Board (Oversight Board) – published a Fiscal Plan Revision Process to reflect the new reality faced by the residents of Puerto Rico and the Commonwealth government. Although no revised plans have been certified by the Oversight Board, the draft plans released by Governor Rosselló circumvent the stated purpose of the Puerto Rico Oversight, Management and Economic Stability Act (PROMESA). I write today to reemphasize the purpose of the Fiscal Plans, to reiterate my frustration with your lack of creditor engagement, and to ensure the Puerto Ricans have hope in their island's future.

As you well know, Congress created the Oversight Board under PROMESA as a mechanism for the territory to achieve financial transparency, fiscal stability and returned access to the capital markets. Fiscal Plans under PROMESA are not advisory documents or mere suggestions to the Puerto Rican government; rather, as the Committee on Natural Resources (Committee) report accompanying PROMESA states, a Fiscal Plan is “the cornerstone for the *structural reforms* the Oversight Board deems necessary” to carry out its responsibilities under the law. Thus, through the Constitutional powers conferred upon Congress “to dispose of and make all needful rules and regulations for territories,” you have been delegated a statutory duty to mandate any reforms – be they fiscal or structural – on the government of Puerto Rico to ensure the realization of PROMESA's purpose.

Chairman Carrión

March 29, 2018

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With such power governing the development of the Fiscal Plans, it is imperative you adhere to the tenets and Congressional mandate of PROMESA, while providing an avenue for Puerto Ricans to recover from the storms. This careful balance requires you to transparently assess the economic impact of the hurricanes and “respect the relative lawful priorities or lawful liens” of debt issued, while working cooperatively with creditors on holistic solutions to revitalize the local economy and stabilize Puerto Rico’s finances. Furthermore, these Fiscal Plans must “provide adequate funding for public pension systems” – and indeed, one of the key tasks will be to ensure the government pension plans that so many Puerto Rican retirees rely on are properly maintained. A good start would be to determine what constitutes “essential public services,” clearly defining where governmental cuts should occur. Furthermore, the recognition of existing debt is paramount to Puerto Rico’s recovery, and will require much greater degrees of transparency, accountability, goodwill and cooperation on the part of the Puerto Rican government and the Oversight Board. Your authorities under PROMESA include subpoena powers to obtain all appropriate fiscal information from the territorial government and relevant instrumentalities. Transparency is the only path to ensure that Fiscal Plans and any plans for adjustment under Title III are informed by accurate and realistic data and deemed to be fair and equitable by all stakeholders.

Federal funding has and will continue to help in the recovery process, but structural reforms and the elimination of redundancy must also occur. Of particular note is the increase in governmental costs while population is projected to drop, and the extreme amount being spent on the litigation of Title III cases. As your March 12 letter to Congress indicated, triple representation within the restructuring cases is not only averse to PROMESA, but also wasteful of Puerto Rico’s limited fiscal capacity. Reduction of these expenses and a focus on consensual deals to avoid costly litigation is imperative. Going forward, any certified Fiscal Plan should reflect the Oversight Board as the *sole* representative of debtors involved in Title III cases – and any attempt by the Commonwealth to circumvent this uniformity of representation should be met with appropriate budget reductions under Section 203.

I remain frustrated with the Oversight Board’s inability and unwillingness to reach consensual restructuring agreements with the holders of Puerto Rico’s debt. Indeed, as Section 206 clearly provides, one of the requirements to entering into a Title III case is that the “entity has made good-faith efforts to reach a consensual restructuring with creditors.” PROMESA’s emphasis on these good faith efforts reflects Congress’ desire for the debt restructuring process to be efficient and geared toward achieving a return to capital market access for Puerto Rico, without undermining the respect for the rule of law that is fundamental to efficient capital raising for municipalities across the United States. Unfortunately, one of *only* two good-faith efforts that resulted in a consensual restructuring agreement – the former Puerto Rico Electric Power Authority’s Restructuring Settlement Agreement – was eviscerated by the Oversight Board. If litigation and Title III costs are of concern to you, then you – as PROMESA clearly explains – should actively work alongside creditors to consensually resolve the issues, and expedite the bankruptcy claims. Not only would such outreach result in more expeditious Title III cases, but also promote the development of more transparent and effective Fiscal Plans.

Chairman Carrión

March 29, 2018

Page 3

To date, the Committee has been unsatisfied with the implementation of PROMESA, and the lack of respect for the Congressional requirements of the Fiscal Plan. And now, due to intentional misinterpretations of the statute, the promise we made to Puerto Rico may take decades to fulfill. I ask that you adhere to the mandates of PROMESA and work closely with creditors and the Puerto Rican government as you finalize and certify the Fiscal Plans; in doing so, you will not only bring a revitalized economy to the Puerto Rican people, but also revitalized hope. My Committee will be monitoring your actions closely; and as we near the two-year anniversary of the passage of PROMESA, an oversight hearing on the status of achieving PROMESA's goals will likely be merited.

Sincerely,



Rob Bishop
Chairman
Committee on Natural Resources

Cc:

Andrew G. Biggs, Member, Financial Oversight and Management Board of Puerto Rico
Carlos M. García, Member, Financial Oversight and Management Board of Puerto Rico
Arthur J. González, Member, Financial Oversight and Management Board of Puerto Rico
José R. González, Member, Financial Oversight and Management Board of Puerto Rico
Ana J. Matosantos, Member, Financial Oversight and Management Board of Puerto Rico
David A. Skeel, Member, Financial Oversight and Management Board of Puerto Rico

EXHIBIT 21

Committee on Natural Resources

Rob Bishop Chairman
Markup Memorandum

May 23, 2016

To: All Natural Resources Committee Members

From: Majority Committee Staff (x5-2761)

Mark-Up: H.R. 5278 (Rep. Sean Duffy), To establish an Oversight Board to assist the Government of Puerto Rico, including instrumentalities, in managing its public finances, and for other purposes
May 24 & 25, 2016; 1324 Longworth HOB

H.R. 5278 (Rep. Sean Duffy), *Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA)*

Summary of the Bill

H.R. 5278, sponsored by Congressman Duffy, is the second iteration of legislation with the express purpose of bringing fiscal responsibility and access to capital markets to the territory of Puerto Rico. The bill establishes an Oversight Board to supervise the development of Fiscal Plans, which act as roadmaps to revitalize Puerto Rico's economy, and budgets. Furthermore, the Oversight Board will work to ensure transparency and efficiency in the island's finances, as well as facilitate private capital to invest in the island's infrastructure.

PROMESA provides Puerto Rico with potential access to debt restructuring overseen by a district court and driven by the Oversight Board acting in place of the debtor. Such restructuring access, however, is conditioned on the Oversight Board's determination that the debtor has met specific criteria, including whether the debtor has undertaken good-faith voluntary negotiations to reach a consensual restructuring agreement.

To ensure the bill's debt restructuring provisions meet the constitutional requirement for the uniform application of bankruptcy laws, PROMESA provides identical debt restructuring for any other U.S. territory (i.e., Guam, American Samoa, U.S. Virgin Islands, Commonwealth of the Northern Mariana Islands) but only if the territory adopts a resolution signed by its governor requesting the establishment of an Oversight Board in accordance with PROMESA.

Cosponsors

Chairman Bishop
Rep. Sensenbrenner

Background

The economic outlook for Puerto Rico is grim. The island has accumulated over \$110 billion in combined debt and unfunded pension liabilities, and has seen a 10% decline in

population over the past decade.¹ Puerto Rico's local politicians have only accelerated the fiscal crisis on the island through the passage of harmful legislation, including the recent debt moratorium.² Due to the realities facing the island, and the inability of its local politicians to bring order and transparency, immediate and bold congressional action is required. Indeed, as a United States territory, Congress has the responsibility and authority to make all needful rules and regulations for Puerto Rico. The relationship of the Congress to a territory is analogous to that of a state to one of its municipal subdivisions.

Puerto Rico's situation underscores the necessity for Congressional action, and highlights the purpose of the Committee on Natural Resources' (Committee) efforts to address the crisis. Over the past few months, the Committee has held four hearings and a markup on legislation to address the situation in Puerto Rico. The hearings focused on: the need for energy and infrastructure development;³ the outline for an oversight board;⁴ why Puerto Rico needs access to debt restructuring;⁵ and H.R. 4900, the first legislative draft of PROMESA. On May 18, 2016, Rep. Duffy introduced a modified version of PROMESA as H.R. 5278. In addition to incorporating the testimony received during the Committee's hearings, the new PROMESA responds to concerns raised by Members and stakeholders since the legislative hearing on H.R. 4900.

Creating an Oversight Board to Ensure Fiscal Responsibility

Puerto Rico has enabled poor fiscal decisions due to limited oversight and transparency within its governmental structures. Highlighting these realities is the failure to provide any audited financials for the past two fiscal years.⁶ This lack of institutional control illustrates why credit rating agencies have compared Puerto Rico to Greece.⁷ As such, there is a demonstrable need for an independent body to oversee Puerto Rico's fiscal activity. Titles I and II of PROMESA remedy the deteriorating health of Puerto Rico's finances and economy – at no net cost to the U.S. taxpayer – through the establishment of an Oversight Board (Board) for territory.

The Board will be comprised of seven members appointed under procedures that ensure Republican Leaders in Congress effectively determine or confirm a voting majority of the entire Board.⁸ First, if the President fails to select a member from a list provided by a congressional leader, such appointment must occur with the advice and consent of the Senate. Second, if any Board member is not appointed from lists or by Senate confirmation on or before September 30, 2016, then the President must select Board members from the respective list for which there exists a vacancy and such appointment must occur by December 1, 2016. Because the Speaker

¹ See: http://naturalresources.house.gov/uploadedfiles/testimony_weiss.pdf, p. 2, Testimony of Antonio Weiss, February 25, 2016.

² Puerto Rico Senate Act P. del S. 1591, April 5, 2016.

³ Committee on Natural Resources, Subcommittee on Energy and Mineral Resources, Oversight Hearing on "Exploring Energy Challenges and Opportunities Facing Puerto Rico," January 12, 2016.

⁴ Committee on Natural Resources, Subcommittee on Indian, Insular and Alaska Native Affairs, Oversight Hearing on "The Need for the Establishment of a Puerto Rico Financial Stability and Economic Growth Authority," February 2, 2016.

⁵ Committee on Natural Resources, Oversight Hearing on "The U.S. Department of the Treasury's Analysis of the Situation in Puerto Rico," January 12, 2016.

⁶ Megan Davies and Nick Brown, Puerto Rico may issue delayed audited 2014 statements in April, Feb. 22, 2016, *available at* <http://www.reuters.com/article/us-usa-puertorico-accounts-idUSKCN0VV2A0>.

⁷ Trading Economics, Puerto Rico | Credit Rating, *available at* <http://www.tradingeconomics.com/puerto-rico/rating>.

⁸ See H.R. 5278, § 101(e).

of the House and Majority Leader of the Senate shall each provide lists from which four of the seven Members are selected by the President, these provisions effectively ensure a majority of the Board will be Republican nominees.

Once a Board has been appointed, it will begin to fulfill two of its key duties, which are the development of budgets and fiscal plans for Puerto Rico. The development of these documents will require Puerto Rico to balance its budgets, incorporate pro-growth reforms, and ensure legislative acts advance Puerto Rico towards the goal of fiscal responsibility and regaining access to the capital markets. The Board's broad powers include: the imposition of legislative or executive recommendations,⁹ the requirement that Puerto Rico "score" (estimate the costs of) its legislative acts, and the authority to review and veto new contracts, rules, regulations, or executive orders that are inconsistent with the fiscal plans and budgets.¹⁰

The fiscal plans represent the cornerstone to the Board's powers. Not only are budgets based on these documents, but any debt restructuring plan authorized under Title III must comply with them as well.¹¹ The fiscal plans will outline the five upcoming economic years for Puerto Rico and will be revised each year to account for changes in the island's finances and economy. Each fiscal plan must provide a "method to achieve fiscal responsibility and access to the capital markets" as well as incorporate a number of specific provisions that will assist Puerto Rico in achieving economic and structural reform.¹² If Puerto Rico's government fails to comply with a fiscal plan, then the Oversight Board may impose mandatory cuts on Puerto Rico's government and instrumentalities – a power far beyond that exercised by the Control Board established for the District of Columbia, to which PROMESA's Board has been compared, as the DC Control Board's power was exercised mainly by cutting federal funding for the city government.¹³

Two new provisions found in H.R. 5278 require fiscal plans to: 1) prohibit the unlawful transfer of assets, funds, or resources between instrumentalities,¹⁴ and to 2) "respect the relative lawful priorities or lawful liens, as may be applicable, in the constitution, other laws, or agreements of a covered territory or covered instrumentality".¹⁵ Both of these new provisions will ensure fiscal plans keep intact the structural hierarchy of prioritized debt, and that funds are not illicitly funneled to other instrumentality accounts.

The Oversight Board model that has been used elsewhere (e.g., for the District of Columbia by Congress, or for a municipality by a state) has been effective in ensuring the pertinent government entity returned to fiscal responsibility.¹⁶ As such, the Board proposed by H.R. 5278 will only terminate after Puerto Rico has produced audited financials and a balanced budget for four consecutive years.

⁹ See H.R. 5278, § 205.

¹⁰ See H.R. 5278, § 204.

¹¹ See H.R. 5278, §§ 202, 314(b)(7).

¹² See H.R. 5278, § 201(b)(1).

¹³ Pub. L. 104-8, § 206 (d).

¹⁴ See H.R. 5278, § 201(b)(1)(M).

¹⁵ See H.R. 5278, § 201(b)(1)(N).

¹⁶ See Testimony of James E. Spiotto before the Subcommittee on Indian, Insular and Alaska Native Affairs, Oversight Hearing on "The Need for the Establishment of a Puerto Rico Financial Stability and Economic Growth Authority."

Ensuring Order Prevails after Enactment

H.R. 5278 provides for a stay on litigation relating to defaults by Puerto Rico while the Board develops its bylaws and procedures during its infancy.¹⁷ This stay lasts until the later of February 15, 2017, or six months after the enactment of PROMESA. It is a critical component of the legislation as it preempts a rush to court, if and when Puerto Rico defaults on upcoming bond payments, between the date of enactment of this bill and the time when the Oversight Board can fully implement the bill's fiscal and debt restructuring measures.

Critics of the stay argue it would give Puerto Rico's government an opportunity to shuffle money around, and that it acts as a federal taking through the impairment of a contract. However, H.R. 5278 responds to these claims in two ways. First, multiple sections of the bill prohibit the transfer of funds between debtors and provide creditors with a right to sue if any such unlawful transfers do occur.¹⁸ Once full appointment of the Oversight Board occurs, it will have the express authority to review and reverse any movement of funds or assets that occurred before such appointment. Second, H.R. 5278 authorizes aggrieved parties to be excused from the stay in order to prevent irreparable damage to their interest, and the bill permits the Board to authorize interest payments during the stay if such payments are feasible.¹⁹

These provisions reinforce the purpose of the stay, which is to allow the Board the opportunity to begin its monumental role, and to ensure there is no chaotic rush to the courts if Puerto Rico defaults during the timeframe of the stay. A chaotic rush to the courts by creditors before the Board is set up could increase the impact of and accelerate Puerto Rico's debt crisis.

Allowing for an Orderly Restructuring of Debts if Necessary

Consistently, the Committee has been told of the unsustainability of Puerto Rico's debt, and that an avenue for debt restructuring must be made available to assist Puerto Rico in managing debt levels. In response to these calls, Titles III and VI of PROMESA provide Puerto Rico the opportunity to restructure its debts in a fair and equitable manner for debtor and creditor. However, access to this restructuring is contingent on three "gating" requirements to ensure that only truly unsustainable debt is allowed to be restructured through the Title III process.

First, the entity (i.e., the government of Puerto Rico or one of its instrumentalities) must have "made good-faith efforts to reach a consensual restructuring with creditors."²⁰ Such consensual efforts may be made through the Title VI collective action process, or some other voluntary mechanism negotiated between the parties. The good faith standard is a legal standard, which has been defined as "acting with a sincere belief that the accomplishment intended is not unlawful or harmful to another."²¹

¹⁷ See H.R. 5278, § 405.

¹⁸ See H.R. 5278, §§ 201(b)(1)(M), 303(3), 204(c)(3), 407.

¹⁹ See H.R. 5278, § 405(g) and (l).

²⁰ H.R. 5278, § 206(a)(1).

²¹ *Smith v. Indiana*, 13 N.E.2d 562.

Second, the entity must have “adopted procedures necessary to deliver timely audited financial statements” and “made public draft financial statements and other information sufficient for any interested person to make an informed decision with respect to a possible restructuring.”²² As discussed, Puerto Rico’s fiscal house is in chaos – it has not produced audited financials for two years, while taxes and utility payments go uncollected.²³ Before any restructuring is to occur, the Oversight Board must have an understanding of the finances of the entity seeking restructuring to determine whether the entity actually needs restructuring.

Third, the entity must have adopted a fiscal plan.²⁴ Again, fiscal plans are the foundations that will ensure Puerto Rico returns to fiscal solvency. Each entity seeking access to restructuring, including municipalities such as the Puerto Rico Electric Power Authority, must have a fiscal plan in place.

If an entity meets these criteria, it can then be restructured only if five of the seven board members agree that such restructuring should proceed. Therefore, a creditor’s gate to gain access to Title III ensures voluntary negotiations have occurred and that any entity capable of paying its bills will not get restructured.

Once in Title III, a host of provisions ensure creditors are protected, and that any restructuring is in their best interests. Importantly, and unlike the situation in Detroit, the Board – rather than the debtor – controls the restructuring process, and as such files the petition as well as any final plan of adjustment to be used to restructure debts.

Title VI provides a means for voluntary debt restructuring outside of Title III. Upon supermajority votes in each pool of creditors for a debtor, a mechanism is provided for the supermajorities to seek an order of a court to bind the non-consenting minority of creditors in each pool for a debtor, thereby avoiding Title III.

Promoting Economic Development in Puerto Rico

Development of infrastructure in Puerto Rico is hampered both by the fiscal crisis, and by permitting inefficiencies. In fact, the World Bank has identified Puerto Rico as 135th out of 189 countries for ease of “Dealing with Construction Permits.”²⁵ PROMESA addresses both the bureaucratic processes that hinder development on the island, and promotes the infusion of private capital to spur economic development.

Title V addresses the infrastructure and permitting problems by providing the Oversight Board an opportunity to fast-track infrastructure projects through the co-opting of Puerto Rico Act 76-2000 (Act 76). That act allows for the fast-track of projects that address emergencies on Puerto Rico. Title V replicates the Act 76 process by establishing the position of “Revitalization

²² H.R. 5278, § 206(a)(2).

²³ See Michelle Kaske, Puerto Rico Utility Averts Default After Deal with Creditors, July 1, 2015, *available at* <http://www.bloomberg.com/news/articles/2015-07-01/puerto-rico-s-prepa-says-it-has-made-bond-payments-due-today>.

²⁴ H.R. 5278, § 206(a)(3).

²⁵ World Bank Group, Doing Business 2016 data for Puerto Rico, *available at* <http://www.doingbusiness.org/data/exploreeconomies/puerto-rico/>.

Coordinator,” who, in consultation with the Governor and various agencies of Puerto Rico, can designate infrastructure projects as “Critical Projects.” Once a project is designated as a “Critical Project,” it will gain access to the expedited permitting process envisioned by Act 76. Furthermore, Title V seeks to encourage quick resolution of federal processes, by designating points of contact for federal agencies, and encouraging the rapid discharge of federal duties for designated critical projects within Puerto Rico.

In addition to Title V, other pro-growth provisions exist within the bill, primarily in Title IV. PROMESA provides for an exemption to the prescribed minimum wage provisions of the Fair Standards Labor Act for certain types of workers, as well as an exemption from the recently finalized Department of Labor overtime rule. Two new provisions studying the effectiveness of the “HUBZone” program and the creation of a congressional task force to study Puerto Rico’s economic situation further add to the pro-growth purposes of H.R. 5278.

Cost

TBA

Section-By-Section

Administration Position

Secretary of the Treasury Jack Lew Statement in support of H.R. 5278:

We are pleased the bill reintroduced in the House last night includes restructuring tools for Puerto Rico that are comprehensive and workable. The legislation would allow the Commonwealth to restructure all of its liabilities, provide no bailouts for any creditors, and enable an orderly resolution to Puerto Rico’s worsening crisis. These critical tools paired with independent fiscal oversight will help put an end to Puerto Rico’s debt crisis, which is already showing signs of becoming a humanitarian crisis.²⁶

Effect on Current Law (Ramseyer)

Showing Current Law as Amended by H.R. 5278, PROMESA (5/12/16)

[new text highlighted in yellow; text to be deleted in brackets and highlighted in blue]

Section 6 of the Fair Labor Standards Act of 1938 (29 U.S.C. 206)

§206. Minimum wage.

(a) Employees engaged in commerce; home workers in Puerto Rico and Virgin Islands; employees in American Samoa; seamen on American vessels; agricultural employees. Every employer shall pay to each of his employees who in any workweek is engaged in commerce or in the production of goods for commerce, or is employed in an enterprise engaged in commerce or in the production of goods for commerce, wages at the following rates:

(1) except as otherwise provided in this section, not less than-

²⁶ U.S. Dep’t of the Treasury, Statement from Secretary Lew on Puerto Rico Legislation, May 19, 2016, *available at* <https://www.treasury.gov/press-center/press-releases/Pages/jl0461.aspx>.

- (A) \$5.85 an hour, beginning on the 60th day after May 25, 2007;
- (B) \$6.55 an hour, beginning 12 months after that 60th day; and
- (C) \$7.25 an hour, beginning 24 months after that 60th day;

(2) if such employee is a home worker in Puerto Rico or the Virgin Islands, not less than the minimum piece rate prescribed by regulation or order; or, if no such minimum piece rate is in effect, any piece rate adopted by such employer which shall yield, to the proportion or class of employees prescribed by regulation or order, not less than the applicable minimum hourly wage rate. Such minimum piece rates or employer piece rates shall be commensurate with, and shall be paid in lieu of, the minimum hourly wage rate applicable under the provisions of this section. The Administrator, or his authorized representative, shall have power to make such regulations or orders as are necessary or appropriate to carry out any of the provisions of this paragraph, including the power without limiting the generality of the foregoing, to define any operation or occupation which is performed by such home work employees in Puerto Rico or the Virgin Islands; to establish minimum piece rates for any operation or occupation so defined; to prescribe the method and procedure for ascertaining and promulgating minimum piece rates; to prescribe standards for employer piece rates, including the proportion or class of employees who shall receive not less than the minimum hourly wage rate; to define the term "home worker"; and to prescribe the conditions under which employers, agents, contractors, and subcontractors shall cause goods to be produced by home workers;

(3) if such employee is employed as a seaman on an American vessel, not less than the rate which will provide to the employee, for the period covered by the wage payment, wages equal to compensation at the hourly rate prescribed by paragraph (1) of this subsection for all hours during such period when he was actually on duty (including periods aboard ship when the employee was on watch or was, at the direction of a superior officer, performing work or standing by, but not including off-duty periods which are provided pursuant to the employment agreement); or

(4) if such employee is employed in agriculture, not less than the minimum wage rate in effect under paragraph (1) after December 31, 1977.

(b) Additional applicability to employees pursuant to subsequent amendatory provisions. Every employer shall pay to each of his employees (other than an employee to whom subsection (a)(5) applies) who in any workweek is engaged in commerce or in the production of goods for commerce, or is employed in an enterprise engaged in commerce or in the production of goods for commerce, and who in such workweek is brought within the purview of this section by the amendments made to this chapter by the Fair Labor Standards Amendments of 1966, title IX of the Education Amendments of 1972 [20 U.S.C. 1681 et seq.], or the Fair Labor Standards Amendments of 1974, wages at the following rate: Effective after December 31, 1977, not less than the minimum wage rate in effect under subsection (a)(1).

(c) Repealed. Pub. L. 104-188, [title II], §2104(c), Aug. 20, 1996, 110 Stat. 1929

(d) Prohibition of sex discrimination.

(1) No employer having employees subject to any provisions of this section shall discriminate, within any establishment in which such employees are employed, between employees on the basis of sex by paying wages to employees in such establishment at a rate less than the rate at which he pays wages to employees of the opposite sex in such establishment for equal work on jobs the performance of which requires equal skill, effort, and responsibility, and which are performed under similar working conditions, except where such payment is made pursuant to (i) a seniority system; (ii) a merit system;

(iii) a system which measures earnings by quantity or quality of production; or (iv) a differential based on any other factor other than sex: *Provided*, That an employer who is paying a wage rate differential in violation of this subsection shall not, in order to comply with the provisions of this subsection, reduce the wage rate of any employee.

(2) No labor organization, or its agents, representing employees of an employer having employees subject to any provisions of this section shall cause or attempt to cause such an employer to discriminate against an employee in violation of paragraph (1) of this subsection.

(3) For purposes of administration and enforcement, any amounts owing to any employee which have been withheld in violation of this subsection shall be deemed to be unpaid minimum wages or unpaid overtime compensation under this chapter.

(4) As used in this subsection, the term "labor organization" means any organization of any kind, or any agency or employee representation committee or plan, in which employees participate and which exists for the purpose, in whole or in part, of dealing with employers concerning grievances, labor disputes, wages, rates of pay, hours of employment, or conditions of work.

(e) Employees of employers providing contract services to United States.

(1) Notwithstanding the provisions of [section 213 of this title](#) (except subsections (a)(1) and (f) thereof), every employer providing any contract services (other than linen supply services) under a contract with the United States or any subcontract thereunder shall pay to each of his employees whose rate of pay is not governed by [chapter 67 of title 41](#) or to whom subsection (a)(1) of this section is not applicable, wages at rates not less than the rates provided for in subsection (b) of this section.

(2) Notwithstanding the provisions of [section 213 of this title](#) (except subsections (a)(1) and (f) thereof) and the provisions of [chapter 67 of title 41](#), every employer in an establishment providing linen supply services to the United States under a contract with the United States or any subcontract thereunder shall pay to each of his employees in such establishment wages at rates not less than those prescribed in subsection (b), except that if more than 50 per centum of the gross annual dollar volume of sales made or business done by such establishment is derived from providing such linen supply services under any such contracts or subcontracts, such employer shall pay to each of his employees in such establishment wages at rates not less than those prescribed in subsection (a)(1) of this section.

(f) Employees in domestic service.

Any employee-

(1) who in any workweek is employed in domestic service in a household shall be paid wages at a rate not less than the wage rate in effect under subsection (b) unless such employee's compensation for such service would not because of [section 209\(a\)\(6\) of the Social Security Act \[42 U.S.C. 409\(a\)\(6\)\]](#) constitute wages for the purposes of [title II of such Act \[42 U.S.C. 401 et seq.\]](#), or

(2) who in any workweek-

(A) is employed in domestic service in one or more households, and

(B) is so employed for more than 8 hours in the aggregate,

shall be paid wages for such employment in such workweek at a rate not less than the wage rate in effect under subsection (b).

(g) Newly hired employees who are less than 20 years old.

(1) In lieu of the rate prescribed by subsection (a)(1), any employer may pay any employee of such employer, during the first 90 consecutive calendar days after such employee is initially employed by such employer, a wage which is not less than \$4.25 an hour.

(2) In lieu of the rate prescribed by subsection (a)(1), the Governor of Puerto Rico, subject to the approval of the Financial Oversight and Management Board established pursuant to section 101 of the Puerto Rico Oversight, Management, and Economic Stability Act, may designate a time period not to exceed four years during which employers in Puerto Rico may pay employees who are initially employed after the date of enactment of such Act a wage which is not less than the wage described in paragraph (1). Notwithstanding the time period designated, such wage shall not continue in effect after such Board terminates in accordance with section 209 of such Act.

~~(2)~~(3) No employer may take any action to displace employees (including partial displacements such as reduction in hours, wages, or employment benefits) for purposes of hiring individuals at the wage authorized in paragraph (1) or (2).

~~(3)~~(4) Any employer who violates this subsection shall be considered to have violated section 15(a)(3).

~~(4)~~(5) This subsection shall only apply to an employee who has not attained the age of 20 years, except in the case of the wage applicable in Puerto Rico, 25 years, until such time as the Board described in paragraph (2) terminates in accordance with section 209 of the Act described in such paragraph.

Section 1492a of title 48, United States Code

§1492a. Study of electric rates in the insular areas

(a) Definitions

In this section:

(1) Comprehensive energy plan

The term "comprehensive energy plan" means a comprehensive energy plan prepared and updated under subsections (c) and (e) of section 1492 of this title.

(2) Energy action plan

The term "energy action plan" means the plan required by subsection (d).

(3) Freely Associated States

The term "Freely Associated States" means the Federated States of Micronesia, the Republic of the Marshall Islands, and the Republic of Palau.

(4) Insular areas

The term "insular areas" means American Samoa, the Commonwealth of the Northern Mariana Islands, Puerto Rico, Guam, and the Virgin Islands.

(5) Secretary

The term "Secretary" means the Secretary of the Interior, except that, with respect to Puerto Rico, the term means, the Secretary of Energy.

(6) Team

The term "team" means the team established by the Secretary under subsection (b).

(b) Establishment

Not later than 180 days after December 16, 2014 (except in the case of Puerto Rico, in which case not later than 270 days after the date of enactment of the Puerto Rico Oversight, Management, and Economic Stability Act), the Secretary shall, within the Empowering Insular Communities activity (except in the case of Puerto Rico), establish a team of technical, policy, and financial experts-

- (1) to develop an energy action plan addressing the energy needs of each of the insular areas and Freely Associated States; and
- (2) to assist each of the insular areas and Freely Associated States in implementing such plan.

(c) Participation of regional utility organizations

In establishing the team, the Secretary shall consider including regional utility organizations.

(d) Energy action plan

In accordance with subsection (b), the energy action plan shall include-

- (1) recommendations, based on the comprehensive energy plan where applicable, to-
 - (A) reduce reliance and expenditures on fuel shipped to the insular areas and Freely Associated States from ports outside the United States;
 - (B) develop and utilize domestic fuel energy sources; and
 - (C) improve performance of energy infrastructure and overall energy efficiency;
- (2) a schedule for implementation of such recommendations and identification and prioritization of specific projects;
- (3) a financial and engineering plan for implementing and sustaining projects; and
- (4) benchmarks for measuring progress toward implementation.

(e) Reports to Secretary

Not later than 1 year after the date on which the Secretary establishes the team and annually thereafter, the team shall submit to the Secretary a report detailing progress made in fulfilling its charge and in implementing the energy action plan.

(f) Annual reports to Congress

Not later than 30 days after the date on which the Secretary receives a report submitted by the team under subsection (e), the Secretary shall submit to the appropriate committees of Congress a summary of the report of the team.

(g) Approval of Secretary required

The energy action plan shall not be implemented until the Secretary approves the energy action plan.

Section 1469e of title 48, United States Code

§1469e. Insular government purchases.

[The Governments of American Samoa, Guam, the Northern Mariana Islands, the Trust Territory of the Pacific Islands, and the Virgin Islands are authorized to make purchases through the General Services Administration.]

The Governments of the Commonwealth of Puerto Rico, Guam, American Samoa, the Commonwealth of the Northern Mariana Islands, and the United States Virgin Islands are authorized to make purchases through the General Services Administration.

Section 15 of the Small Business Act (15 U.S.C. 644)

Section 644. Award of Contracts.

* * * * *

(t) GAO REPORT ON SMALL BUSINESS ADMINISTRATION PROGRAMS IN PUERTO RICO.—Not later than 180 days after the date of enactment of this subsection, the Comptroller General of the United States shall submit to the Committee on Small Business of the House of Representatives and the Committee on Small Business and Entrepreneurship of the Senate a report on the application and utilization of contracting activities of the Administration (including contracting activities relating to HUBZone small business concerns) in Puerto Rico. The report shall also identify any provisions of Federal law that may create an obstacle to the efficient implementation of such contracting activities.

EXHIBIT 22

**FINANCIAL OVERSIGHT AND MANAGEMENT BOARD
FOR PUERTO RICO**



José B. Carrión III
Chair

Members

Andrew G. Biggs
Carlos M. García
Arthur J. González
José R. González
Ana J. Matosantos
David A. Skeel, Jr.

Natalie A. Jaresko
Executive Director

BY ELECTRONIC MAIL

June 16, 2017

Honorable Ricardo A. Rosselló Nevares
Governor of Puerto Rico
La Fortaleza
PO Box 9020082
San Juan, PR 00902-0082

Honorable Thomas Rivera Schatz
President of the Senate of Puerto Rico

Honorable Carlos J. Méndez Núñez
Speaker of the House of Representatives
of Puerto Rico

Dear Governor Rosselló Nevares, Senator Rivera Schatz, and Speaker Méndez Núñez:

As we continue to move towards our common goal of achieving an Oversight Board-approved and certified Commonwealth budget for fiscal year 2018 by June 30, 2017, I write to you out of concern that some of the progress we appeared to have made in the past few weeks as a result of the close and positive collaboration between the Board and the administration—and their respective teams of advisors—may be receding, and that the necessary resolve to attain the goals set forth in the certified fiscal plan may be waning.

It is equally of concern that some of the narrative taking hold in the public discourse fails to characterize adequately the truly dire fiscal situation the Commonwealth is facing, thus leading the public to underestimate the true nature and impact of some of the fiscal responsibility measures mandated in the fiscal plan and that, accordingly, will have to be incorporated in the budget. Stability can only be earnestly projected if the people know and understand the reality of Puerto Rico's fiscal situation and the serious steps being undertaken to address it.

Honorable Ricardo A. Rosselló Nevares

Honorable Thomas Rivera Schatz

Honorable Carlos J. Méndez Núñez

June 16, 2017

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A good example is the narrative that incorrectly asserts that the measures the Board approved in the way of amendments to the administration's proposed fiscal plan to ensure sufficient liquidity to pay for essential services during FY18—i.e., a furlough program and the Christmas bonus reduction or elimination—will not go into effect if only the administration's liquidity plan can reasonably be expected to generate additional cash reserves of \$200 million by June 30, 2017. In fact—as stated in the Board Resolution of March 13, 2017, certifying the fiscal plan—the \$200 million cash reserve requirement is in addition to the main requirement that the administration submit for Board approval, along with the proposed budget for FY18, implementation plans for the right-sizing or spending reduction measures that provide necessary certainty that the critical liquidity and budgetary savings required by the fiscal plan will be achieved by the administration.

The importance of the implementation plans for the right-sizing or spending reduction measures the administration commits to undertake cannot be overestimated. We stressed it again in our Unanimous Written Consent approving the submission of the Commonwealth FY18 budget to the Legislature when we noted that “the Board expects that the final budget will...reflect any necessary changes to align to achievable implementation plans for spending reductions, to ensure the budget is fully aligned to the Commonwealth's fiscal plan....”

Let me assure you those implementation plans will be evaluated fairly and responsibly. We need to make sure all the measures the administration has committed to undertake to generate the liquidity and budgetary savings necessary to fund essential services throughout FY18 can reasonably be expected to do just that.

Casual reference to a particular level of funding in the Treasury Single Account not only can be deceiving, but is bound to generate the confusion that we witnessed yesterday in the wake of certain press reports on the subject. Scant progress will be made towards the goal of ensuring the necessary liquidity to fund essential services in FY18 if we just focus on a certain balance in the Secretary's TSA in a particular moment in time—let alone tout it—and, more importantly, if implementation plans to produce the necessary budgetary savings during the fiscal year are inadequate or poorly executed. If that happens, Puerto Rico is all but certain to run out of money to fund the central government's payroll come November or December of this year.

Modest improvements in liquidity don't change the reality of the Island's fiscal situation. Under current law, beginning in July, Puerto Rico will face a worsening cash flow problem because of loss of federal funds and the depletion of pension funds' assets.

In short, the issue of liquidity needs to be understood in the context of the cash flow over time. That is precisely the importance of the liquidity plan. While the administration did submit a liquidity plan in line with the proposed budget, we have yet to achieve confidence

Honorable Ricardo A. Rosselló Nevares

Honorable Thomas Rivera Schatz

Honorable Carlos J. Méndez Núñez

June 16, 2017

Page 3

in the ability of Puerto Rico to fund essential services in an uninterrupted manner throughout the fiscal year taking into account several risk scenarios.

On that note, we must reiterate our earlier requests urging the administration to make and communicate as soon as possible the necessary public policy determinations with respect to what it understands constitute “essential services” in the context of PROMESA. As you know, in light of Puerto Rico’s fiscal situation, a PROMESA-compliant budget needs to reflect appropriate allocations for the adequate funding of essential services, pension benefits, investments to spur growth and other PROMESA priorities. We can no longer afford business as usual.

As we have stated in the past, the Oversight Board supports a fair, orderly and equitable restructuring of Puerto Rico’s debt, but such restructuring will take time and will not solve by itself Puerto Rico’s considerable fiscal disarray. We need to work within the parameters of PROMESA that provide for restructuring to a sustainable debt level so we can fund essential services, pension benefits, and the capital investments necessary to spur economic growth.

Finally, let me urge you further to work with the Oversight Board in the establishment of an appropriate, consistent and reliable protocol for the submission and publication of the various financial reports—including, but not limited to liquidity, collections, actual vs. budget—the administration must regularly submit to the Oversight Board. Transparency is a guiding principle specifically mandated by PROMESA. It is also, I know, a guiding principle of the Governor’s administration. Let’s make sure that, together, we deliver to all interested parties, stakeholders and, most importantly, the people of Puerto Rico the accurate and timely financial information they deserve and have every right to expect.

Governor, Mr. President and Mr. Speaker, in the past five and a half months the Oversight Board has given the Government of Puerto Rico—sometimes upon its request, sometimes out of our own volition—latitude to facilitate compliance with the mandates of PROMESA. For example, of our own accord, we changed our own guidelines regarding the formulation of a fiscal plan to grant the administration one more year in which to effect the spending reduction and revenue enhancement measures leading to fiscal equilibrium. At the administration’s request, we extended the automatic stay against litigation provided by PROMESA. We certified the administration’s proposed fiscal plan, noting our reservations in the way of amendments thereto. In every instance, we have provided the accommodation that you have required for two basic reasons: first, because we believed it was the reasonable and prudent thing to do given your short time in office as a new administration and a new legislature and, second, because we were, and remain, convinced of your steadfast resolve to comply with the requirements of PROMESA for the benefit of the people of Puerto Rico.

Honorable Ricardo A. Rosselló Nevares

Honorable Thomas Rivera Schatz

Honorable Carlos J. Méndez Núñez

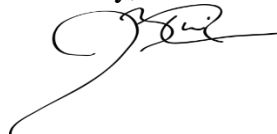
June 16, 2017

Page 4

Now we are at a critical juncture that requires that we collectively strengthen that resolve. I trust that, working together, we will successfully remove any potential roadblocks in our path towards successful implementation of PROMESA and the attainment of its goals of establishing fiscal responsibility, regaining access to markets, restructuring the public debt, strengthening economic competitiveness, and restoring opportunity to everyone in Puerto Rico.

The Oversight Board looks forward to continue working with your administration and the Legislature to accomplish the considerable remaining requirements and goals of PROMESA for the benefit of the people of Puerto Rico, its creditors and other stakeholders.

Sincerely,



José B. Carrión
Chair

Andrew G. Biggs
Carlos M. García
Arthur J. González
José R. González
Ana J. Matosantos
David A. Skeel, Jr.

CC: Natalie A. Jaresko
Elías F. Sánchez-Sifonte

EXHIBIT 23

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IN THE UNITED STATES DISTRICT COURT

FOR THE DISTRICT OF PUERTO RICO

In Re:)
)
THE FINANCIAL OVERSIGHT AND)
MANAGEMENT BOARD FOR PUERTO RICO,)
)
as representatives of) No. 17 BK 3283-LTS
)
THE COMMONWEALTH OF PUERTO RICO,)
et al,)
) Pages 1 - 58
)
Debtors.)
) December 14, 2017
_____)

HEARING

BEFORE THE HONORABLE JUDITH GAIL DEIN
UNITED STATES MAGISTRATE JUDGE

United States District Court
1 Courthouse Way, Courtroom 8
Boston, Massachusetts 02210

JOAN M. DALY
OFFICIAL COURT REPORTER
United States District Court
1 Courthouse Way, Room 5507
Boston, MA 02210
joanmdaly62@gmail.com

1 A P P E A R A N C E S:

2 GARY ORSECK, ESQ., and KATHERYN ZECCA, ESQ., Robbins
3 Russell, for GO Bondholders.

4 PETER FRIEDMAN, ESQ., and ASHLEY PAVEL, ESQ., O'Melveny &
5 Myers, for AAFAF.

6 TIMOTHY W. MUNGOVAN, ESQ., GREGG M. MASHBERG, ESQ., and
7 CARL FORBES, JR., ESQ., Proskauer Rose, for the Financial
8 Oversight and Management Board for Puerto Rico (FOMB).

9 ELLEN HALSTEAD, ESQ., Cadwalader, Wickersham & Taft, for
10 Assured Guaranty.

11 CHRISTOPHER DiPOMPEO, ESQ., Jones Day, for ERS Secured
12 Creditors.

13 RICHARD LEVIN, ESQ., Jenner & Block, for Official
14 Committee of Retired Employees.

15 SHANNON WOLF, ESQ., Bracewell LLP, for QTCB Noteholder
16 Group.

17 LUC DESPINS, ESQ., Paul Hastings, for UCC.

18 MARTIN SOSLAND, ESQ., Butler Snow, LLP, for Financial
19 Guaranty Insurance Company.

20 GREGORY A. HOROWITZ, ESQ., Kramer Levin Naftalis &
21 Frankel, for The Mutual Fund Group.

22 ERIC WEISS, ESQ., Milbank, Tweed, Hadley & McCloy, for
23 Ambac.

24

25

1 there's a deposition or something?

2 MR. ORSECK: No. That's different. That's
3 Dr. Wolfe which they have produced. Excuse me.

4 The materials that I'm talking about they have
5 placed in category four which is to say we would not be able
6 to use it, which to me is the same point.

7 So on the use issue, Judge, to circle back, we are
8 in agreement in principle on the first two categories. On
9 the third category we're also in agreement in principle so
10 long as what they are holding within the mediation folder in
11 the data room are materials that relate only to the mediation
12 and are in the underlying factual materials.

13 Where we disagree are as to materials that underlie
14 the old fiscal plan and the new fiscal plan. We think that
15 they are both discoverable under 2004. And to the extent
16 they want to assert deliberative process privilege, they
17 should just go ahead and assert it.

18 The last thing I want to do is touch on a couple of
19 the specific requests that are outstanding. Most of these
20 they've said that they will continue to look for materials.
21 We've asked for a response in a week as to where they stand
22 on these. They've asked to do it a bit later than that. But
23 the one I want to raise --

24 We had a request that asked for all documents that
25 identify what they have defined as essential services. Under

1 PROMESA there is a requirement to fund essential services.
2 And they have at times taken the position that essential
3 services come before payment of the debt to GO Bondholders.
4 So we have asked them identify what the essential services
5 are in the fiscal plan or any other discussion or
6 identification of what are essential services.

7 We were told in a meet and confer, and if counsel
8 will confirm this, we will deem request number 12 to be
9 satisfied, but we were told that they are unaware of any such
10 documents that identify essential services or define
11 essential services either that were provided to the Oversight
12 Board or that have been used or relied upon in connection
13 with the formulation of any draft or final fiscal plan.

14 If they will make that representation, then we deem
15 that request satisfied. I think the rest remain to be worked
16 out as to what they will and won't produce as to by when and
17 the question of use and whether deliberative process must be
18 logged or not.

19 MR. FRIEDMAN: Peter Friedman from AAFAF, Your
20 Honor. I will say with respect to the last issue, number 12,
21 that is my understanding with respect to essential services.
22 We will continue to look. If we identify something that
23 falls into the category of -- so I view it as part of a
24 continuing obligation on our part to look to see if there are
25 documents about essential services that have been provided to

1 the FOMB by AAFAF or used or relied upon in connection with
2 the formulation of a fiscal plan. I'm not aware of it.
3 We've made inquiries. We will keep looking. And if it turns
4 out, I understand we have an obligation to produce. I have
5 made a representation based on my current understanding and
6 our firm's understanding based on reasonable increase, we'll
7 keep looking.

8 THE COURT: So as I understand, I have a decision
9 as between December 22 and January 5 on when you're
10 reporting?

11 MR. ORSECK: I think that's right.

12 THE COURT: I'll give you January 5 if you want to
13 wreck your holidays. I don't have a problem with that.

14 MR. MUNGOVAN: Your Honor, can I just be heard at
15 the podium with respect to one item?

16 THE COURT: Yes.

17 MR. MUNGOVAN: Your Honor, Timothy Mungovan for the
18 Oversight Board. What is it specifically that we're supposed
19 to be reporting on for January 5?

20 THE COURT: Are you asking me? As I understood it
21 from the papers, that was your agreement as to when you were
22 going to report on what you had been searching for, and they
23 wanted you to give them a status report as of December 22.
24 You wanted to give a status report as of January 5.

25 MR. MUNGOVAN: That's right, Your Honor.

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CERTIFICATION

I certify that the foregoing is a correct transcript of the record of proceedings in the above-entitled matter to the best of my skill and ability.

/s/ Joan M. Daly

December 15, 2017

Joan M. Daly, RMR, CRR
Official Court Reporter

Date

EXHIBIT 24

**FINANCIAL OVERSIGHT AND MANAGEMENT BOARD
FOR PUERTO RICO**



José B. Carrión III
Chair

Members
Andrew G. Biggs
Carlos M. García
Arthur J. González
José R. González
Ana J. Matosantos
David A. Skeel, Jr.

Natalie A. Jaresko
Executive Director

BY ELECTRONIC MAIL

August 30, 2017

The Honorable Ricardo A. Rosselló Nevares
Governor of Puerto Rico
La Fortaleza
P.O. Box 9020082
San Juan, PR 00902-0082

The Honorable Thomas Rivera Schatz
President of the Senate of Puerto Rico

The Honorable Carlos J. Méndez Núñez
Speaker of the House of Representatives of Puerto Rico

Dear Governor Rosselló Nevares, President Rivera Schatz, and Speaker Méndez Núñez:

We write in response to the certification, dated August 1, 2017, that Act 47 is compliant with the Commonwealth's Fiscal Plan pursuant to Section 204(a) of PROMESA (the "Compliance Certification"). Having carefully reviewed Act 47, the Compliance Certification, and the supporting materials provided with the Compliance Certification, the Oversight Board concludes that the Compliance Certification failed to provide the formal estimate of the fiscal impact that the law will have as required under paragraph (2)(A) of Section 204(a). Moreover, as further explained below, the Oversight Board's preliminary analysis leads us to conclude that Act 47 is significantly inconsistent with the Fiscal Plan for the Commonwealth, contrary to the conclusion reached in the Compliance Certification.

* * *

Honorable Ricardo A. Rosello Nevares
Honorable Thomas Rivera Schatz
Honorable Carlos J. Méndez Núñez

Page 2

Section 204(a)(2)(A) provides that a compliance certification shall include a “formal estimate . . . of the impact, if any, that the law will have on expenditures and revenues.” The Compliance Certification is deficient in two ways.

First, whatever fiscal impact that Act 47 will have will be determined to a large degree by the fiscal effect of the Patient Advocate’s expanded powers to commence Summary Proceedings on behalf of private citizens to stay a health insurance company’s coverage determination. Act 47 requires the Patient Advocate to issue regulations (the “Required Regulation”) to control the application of Summary Proceedings. The Required Regulation has not been promulgated and therefore their fiscal impact cannot be determined. The Section 204(a)(2)(A) formal estimate cannot be complete without an analysis of the fiscal impact of the Required Regulation.

Second, the Compliance Certification by its own terms does not provide an analysis of the impact that Act 47 will have on the Commonwealth’s Fiscal Plan. *See* Compliance Certification at 4 (stating that “the fiscal impact of Act 47 on the Fiscal Plan cannot be conclusively determined”). This is not surprising given the first deficiency. Indeed, the Compliance Certification admits as much: “The impact of Act 47 on the Fiscal Plan is indeterminable before the approval and implementation of the Required Regulation.” Yet the Compliance Certification, inexplicably, goes on to certify that “Act 47 is not significantly inconsistent with the Fiscal Plan.” The Section 204(a) certification must include an analysis of the impact that Act 47 will have on the Commonwealth’s Fiscal Plan before it can certify that the law is not significantly inconsistent with the Fiscal Plan.

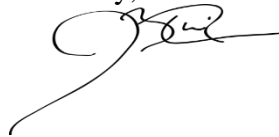
Moreover, based on the information currently available, it appears unrealistic to expect that Act 47 will not increase medical costs. MMAPA, in a letter addressed to the Governor and copied to the Oversight Board, conservatively estimated that the yearly economic impact of Act 47 would be \$70 million to the GHP and \$15 million to other governmental entities, including public corporations. This estimate alone suggests that healthcare costs would increase from the current cost base, inconsistent with the Fiscal Plan.

More importantly, Act 47 will likely interfere with the Commonwealth’s ability to meet the healthcare savings goals over the next several years that are required by the Fiscal Plan. The Fiscal Plan commits to \$500 million in savings by 2020 and \$1 billion by 2026. All of the savings for the years after 2020 are projected to come from a new MCO model. While we recognize that ASES is still in the process of designing the new MCO model, because MCOs are to be the primary vehicle to deliver future healthcare savings, we are concerned that Act 47 will impede whatever progress MCOs are able to make toward achieving the Fiscal Plan’s significant healthcare savings targets. In particular, we are focused on the impact that the expanded powers of the Patient Advocate and the ability of healthcare providers to challenge MCO decisions regarding utilization management will have on the Fiscal Plan. We strongly encourage you to consider carefully the impact that Act 47 will have on MCOs’ ability to produce the targeted healthcare savings through care and utilization management when you submit a revised Compliance Certification.

* * *

Accordingly, the Oversight Board is notifying you, pursuant to Section 204(a)(3)(A), that the formal estimate required by Section 204(a)(2)(A) is missing, and directing you, pursuant to Section 204(a)(4)(A), to provide the missing estimate within seven (7) days of the date on which the Required Regulation is promulgated. Should the Oversight Board determine that you have failed to comply with our directive under Section 204(a)(4)(A), we reserve the right to take such actions as we consider necessary, consistent with Section 204(a)(5), including preventing the enforcement or application of Act 47.

Sincerely,



José B. Carrión
Chair

Andrew G. Biggs
Carlos M. García
Arthur J. González
José R. González
Ana J. Matosantos
David A. Skeel, Jr.

CC: Natalie A. Jaresko
Christian Sobrino Vega

EXHIBIT 25

Reorg Research

Puerto Rico

PROMESA Board, Commonwealth in Talks to 'Improve' Certified Fiscal Plan

Tue 04/24/2018 16:54 PM

The PROMESA oversight board and the administration of Gov. Ricardo Rosselló are holding conversations about “improving” the [commonwealth fiscal plan](#), which was certified last Thursday.

PROMESA oversight board Chairman José Carrión discussed the talks during an [interview](#) today with Noti-Uno radio station, saying that they were part of efforts to avoid a costly legal battle and to ensure the fiscal plan’s implementation. Christian Sobrino, the governor’s non-voting representative on the board, confirmed the talks, telling Reorg Research that “conversations are indeed taking place.”

The board chairman said he would not “enter into details” of the ongoing conversations but discussed them while addressing the administration’s stated opposition to a labor reform and a \$200 million annual cut in pension benefits that the board included in the certified fiscal plan.

“We would like the executive and Legislature to reconsider and take the fiscal plan as the route to follow and implement it. Unfortunately, if we don’t achieve this goal, one of the options we are considering will be the legal issue. I am concerned ... because this carries an additional cost for the public and is something that we obviously want to avoid,” Carrión said.

“What are we doing to avoid this? Without entering into details, we have had conversations to see if we can push forward with something that makes sense to improve the certified fiscal plan,” he added.

During the interview, the PROMESA board chairman reiterated that the board and administration agree on the “vast majority” of the reforms and initiatives contained in the fiscal plan, but he acknowledged that the two major differences - the pension cut and labor reform - are “material” to the fiscal plan.

Carrión emphasized that the proposed labor reform is an “extremely important” initiative that is expected to produce \$1.2 billion over the six-year course of the plan.

Meanwhile, the proposed pension benefit cut is important not only because of the \$200 million in annual savings it will generate but because it is an important step to show that the fiscal plan is “balanced.”

“The reason we are promulgating this type of cut and reform is we need to present a balanced plan to undertake a restructuring,” he said, referring to the plan of adjustment process outlined under PROMESA that requires approval from the Title III court. Carrión said that the fiscal plan is “essential” to being able to finish debt restructuring negotiations because it contains a series of projections that imply the capacity to pay debt. He said that both the fiscal plan and subsequent plan of adjustment that will be submitted to the court must be balanced under the PROMESA statute.

“If we don’t do this, there exists the probability that the judge takes the issue of the percentage into her hands and decides for more severe cuts,” Carrión said, adding that during the Detroit bankruptcy, police and firefighters received pension cuts of about 13% and general government workers suffered cuts of about 20%.

The PROMESA board chairman said that bondholders have a higher payment priority under the law than pensioners. “Legally, the bondholders in effect have rights over pensioners, which are unsecured creditors. ... In effect, there is a reality that first come the bondholders and afterwards come the pensioners. We want to ensure that the cut will be modest and we can justify the debt

During the interview, Carrión said that in the case of public corporations with their own pension systems, the cuts would be made through the Title III court process. Although the average 10% cuts to pension benefits are outlined in the [certified commonwealth fiscal plan](#), the plan states that one important aspect of the proposed reform - the freezing of current pension benefits for teachers and the judiciary - will be “implemented through the Plan of Adjustment.”

Resident Commissioner Jenniffer González told Reorg Research during a Monday [interview](#) that the entire pension issue should be handled through the Title III court process because beneficiaries will likely challenge in the courts any move to reduce their benefits, and that would only work to delay the implementation of the fiscal plan.

News of the talks between the board and commonwealth regarding potential improvements to the fiscal plan comes a day after the U.S. House Natural Resources Committee released a statement urging increased collaboration between the board and the commonwealth. “The Committee is reviewing the newly approved fiscal plans, but [Chairman Rob Bishop, R-Utah] is hopeful the structural reforms imposed by the certified plans will finally begin to guide Puerto Rico along the path towards fiscal accountability, balanced budgets, and much needed government reforms,” Committee spokeswoman Katie Schoettler said. “The lofty goals will require effective implementation by the Puerto Rican government, and we encourage increased collaboration with the Oversight Board to ensure the goals of PROMESA are accomplished, allowing the island access to the capital markets and the growing of a strong and sustainable economy.”

During the radio interview, Carrión also noted that the Puerto Rico Legislature is the second most costly on a per capita basis in the U.S. when compared with state legislatures, trailing only Alaska. While the fiscal plan calls for a 17.5% or \$20 million cut to the Legislature, Carrión said that it would take an 85% cut to bring the legislature in line with other state legislatures. “Puerto Rico is a poor country, and the legislature does not reflect this,” the board chairman said.

In a [subsequent interview](#) on Noti-Uno, Senate President Thomas Rivera Schatz responded by questioning the achievements of the board and saying that that Carrión, as a businessman, stands to benefit from the labor reform and other initiatives the board is pushing.

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EXHIBIT 26



The Commonwealth of Puerto Rico

Update on Fiscal and Economic Progress

FY 2014 Q1 Investor Webcast - October 15, 2013

Forward-Looking Statements

The information included in this presentation contains certain “forward-looking” statements. These forward-looking statements may relate to the fiscal and economic condition, economic performance, plans and objectives of the Commonwealth of Puerto Rico (the “Commonwealth”) and/or its agencies or instrumentalities. All statements contained herein that are not clearly historical in nature are forward-looking, and the words “anticipates,” “believes,” “continues,” “expects,” “estimates,” “intends,” “aims,” “projects,” and similar expressions, and future or conditional verbs such as “will,” “would,” “should,” “could,” “might,” “can,” “may,” or similar expressions, are generally intended to identify forward-looking statements.

These statements are not guarantees of future performance and involve certain risks, uncertainties, estimates, and assumptions by the Commonwealth and/or its agencies or instrumentalities that are difficult to predict. The economic and financial condition of the Commonwealth and its agencies or instrumentalities is affected by various financial, social, economic, environmental, and political factors. These factors can be very complex, may vary from one fiscal year to the next, and are frequently the result of actions taken or not taken, not only by the Commonwealth and/or its agencies or instrumentalities, but also by entities such as the government of the United States of America or other nations that are not under the control of the Commonwealth. Because of the uncertainty and unpredictability of these factors, their impact cannot, as a practical matter, be included in the assumptions underlying the Commonwealth’s or its agencies or instrumentalities’ projections.

The projections set forth in this presentation were not prepared with a view toward complying with the guidelines established by the American Institute of Certified Public Accountants with respect to prospective financial information, but, in the view of the officers of the Commonwealth or its agencies or instrumentalities responsible for the preparation of such information, were prepared on a reasonable basis, reflect the best currently available estimates and judgments, and present, to the best of such officers’ knowledge and belief, the expected course of action and the expected future financial performance of the Commonwealth and/or its agencies or instrumentalities, as applicable. However, this information is not fact and should not be relied upon as being necessarily indicative of future results, and readers of this presentation are cautioned not to place undue reliance on the prospective financial information. Neither the Commonwealth’s nor any agency or instrumentality’s independent auditors, nor any other independent auditors, have compiled, examined, or performed any procedures with respect to the prospective financial information contained herein, nor have they expressed any opinion or any other form of assurance on such information or its achievability and disclaim any association with the prospective financial information. Neither the Commonwealth’s nor any agency or instrumentality’s independent auditors, nor any other independent auditors, have been consulted in connection with the preparation of the prospective financial information set forth in this presentation, which is solely the product of the Commonwealth and/or its agencies or instrumentalities, and the independent auditors assume no responsibility for its content.

Agenda

1 Principal Credit Accomplishments






2 Revenue and Expense Update

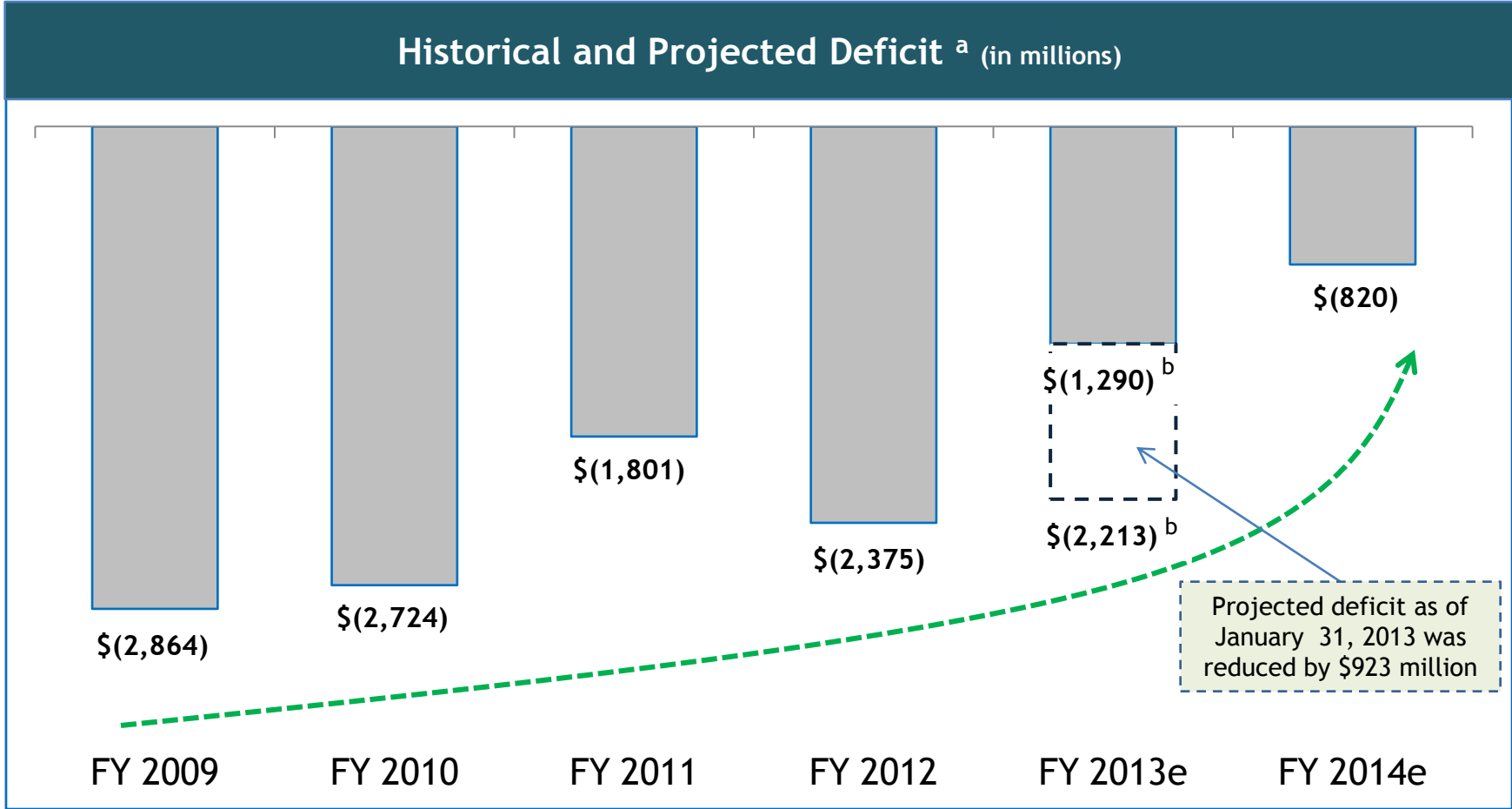
3 Economic Development

4 Financial Highlights

5 Concluding Remarks

We have tackled the key challenges faced by Puerto Rico for decades in order to strengthen our credit and protect bondholders

Challenges faced...	...Puerto Rico has taken action:	
<p>1 Size of the General Fund's Deficit</p>	<ul style="list-style-type: none"> Approved budget for fiscal year 2014 was designed to reduce the budget deficit from \$2.375 billion in FY2012, and a projected \$1.290 billion in FY2013, to \$820 million in FY2014, by enhancing and diversifying our revenue base, including through an increase in the Act 154 excise tax to 4%, and by reducing our reliance on debt service restructuring. Q1 preliminary revenues are above estimates and Q1 preliminary expenditures are in line with budgeted appropriations. 	
<p>2 Funding of the Commonwealth's Pension System</p>	<ul style="list-style-type: none"> Act 3 delivered on the long-standing promise of enacting meaningful and comprehensive pension reform to the ERS that reduces the projected need for approximately \$900 million in annual pay-as-you-go contributions in the future and ensures cash flow sufficient to pay pension obligations when due. 	
<p>3 Public Corporations Dependent on General Fund and GDB support</p>	<ul style="list-style-type: none"> Significant steps have been taken to turn the Commonwealth's main public corporations, including PRASA, PRHTA, PRPA and PREPA, into entities capable of operating without budgetary subsidies or deficit financing from the General Fund or GDB. 	
<p>4 Need for Meaningful Spending Controls</p>	<ul style="list-style-type: none"> During the second half of FY2013, the Commonwealth reduced General Fund expenses, turning a \$140 million over expenditure projection as of January into approximately \$50 million of under spending. For FY2014, General Fund payroll for July and August reflects an 11% decrease over the same period in the prior year. As of August 30, 2013, cumulative General Fund headcount was approximately 5,000 less than January 1, 2013. 	
<p>5 Need to Jumpstart Economic Growth</p>	<ul style="list-style-type: none"> We are currently executing a short-term, aggressive outreach plan with clear and achievable goals and benchmarks that we are confident will result in thousands of new jobs and reposition Puerto Rico as a competitive business and investment destination. Our focus on job creation has already led to commitments expected to generate approximately 25,000 direct and indirect jobs. This presentation includes a description of the five-year economic plan developed by the Commonwealth with the input of Boston Consulting Group. We are confident this plan will jumpstart our economic engine and lead us to sustainable, long-term economic growth. 	

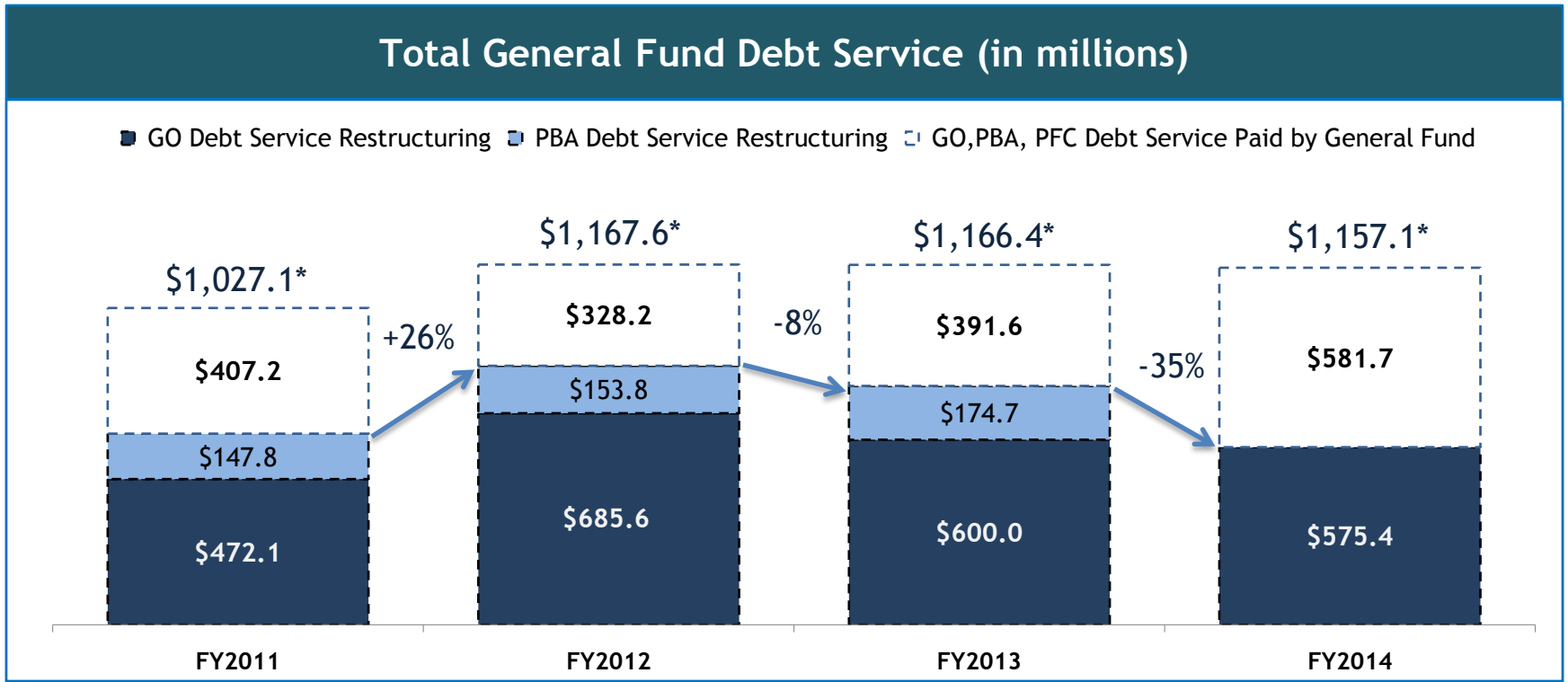


(a) Source: “Commonwealth of Puerto Rico - Financial Information and Operating Data Report”, dated October 15, 2013. Deficit for fiscal year 2013 and 2014 is preliminary and subject to change. Results presented for FY 2009 and FY 2010 exclude approximately \$442 million and \$50 million, respectively, of non-recurring expenses accrued during prior fiscal years that have been previously accounted as part of total expenditures for such fiscal years.

(b) After implementation of corrective measures by current Administration, deficit for FY 2013 was initially revised from \$2.213 billion as of January 31, 2013 to \$1.602 billion as of April 30, 2013, and again revised to \$1.290 billion as of June 30, 2013. The approximately \$2.213 billion deficit found in January 31, 2013 was composed of (i) a revenue shortfall of \$965 million, (ii) \$333 million COFINA deficit financing, (iii) \$775 million in debt refinancing and (iv) \$140 million of overspending (eliminated by OMB by June 30, 2013).

E: Estimated, preliminary and subject to change.

We are phasing out the practice of restructuring GO and PBA debt service payments for budgetary relief



- General Fund budgets for FY 2013 and FY 2014 were designed with a debt service restructuring of \$775 million (\$600 million in GO and \$175 million in PBA bonds) and \$575 million (in GOs), respectively.
- For the first time since FY 2009, there will be no PBA debt service restructuring in FY 2014.
- Our plan is to significantly reduce debt service restructuring for FY 2015 and eliminate the practice by FY 2016.

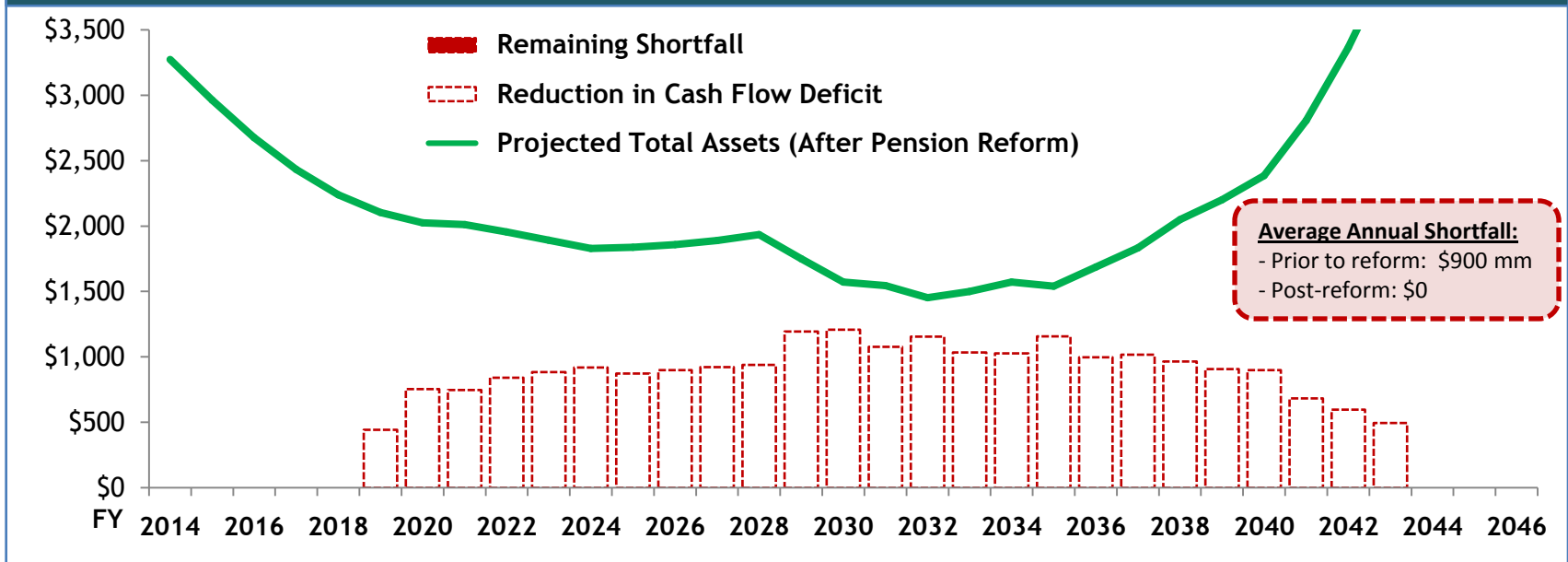
Source: "Commonwealth of Puerto Rico - Financial Information and Operating Data Report, dated October 15, 2013." Debt restructuring for fiscal year 2014 is preliminary and subject to change without prior notice, including as a result of market and general economic conditions

*Total debt service due for each fiscal year before any restructuring

We enacted meaningful, comprehensive pension reform

- The Employees Retirement System’s pension reform, which has been labeled a “credit positive” by the rating agencies, provides a **cash-flow solution** to ensure that all the System’s obligations are paid when due.
- Changes enacted by Act 3-2013 include moving participants to a **defined contribution plan**, **annuitizing the defined contribution benefits**, **increasing retirement age**, **increasing employee contribution**, modifying (and eliminating for future retirees) “Special Law” benefits, eliminating disability benefits and changing survivor benefits.
- With an additional annual contribution through 2033 (\$120 million for FY 2014), it is **projected that the system’s \$900 million average cash flow deficit is eliminated**.
- The Puerto Rico Supreme Court has already **upheld the constitutionality** of the reform.
- **In contrast to other U.S. jurisdictions**, Puerto Rico has shown **political courage** and taken decisive action to tackle the long-term risk presented by its largest retirement system.

Cash Flow Deficit Projection After Act 3 and Act 32 of 2013 (in millions)



Note: The amounts presented are estimates, the end result could vary. This chart takes into account an investment rate of return of 6.00% and does not take into account the retirement of ERS covered employees that may have retired as a result of the reform.

3

Significant steps have been taken to turn public corporations into self-sufficient entities capable of operating without budgetary subsidies or GDB deficit financing



- In July 2013, PRASA implemented a 60% rate increase (on average) that will provide additional revenues to cover operational expenses and improve debt service coverage.
- As a result of this increase, in contrast with prior years, the Commonwealth does not anticipate having to appropriate funds to PRASA for its operational expenses.



- Acts 30 and 31 of 2013, signed into law on June 25, 2013, increase HTA's recurring annual revenues by approximately \$270 million.
- These new revenue measures allow HTA to (i) begin amortizing its lines of credit outstanding with GDB and other financial institutions, (ii) access the capital markets over time to repay GDB lines and (iii) fund operational expenses.



- On February 27, 2013, Puerto Rico finalized the P3 transaction involving the Luis Muñoz Marín International Airport and received an upfront payment of \$615 million.
- This transaction strengthened the Ports Authority's fiscal position and reduced both the Port Authority's and GDB's risk position by repaying over \$490 million most of which had been either owed to or guaranteed by the GDB.



- Conversion to natural gas as a fuel source has been completed at PREPA's 2nd largest generating plant, reducing oil dependency by another 11%; negotiations to permit the conversion of PREPA's largest generating plant (18% of total capacity) are underway.
- In August 2013, with over \$1.6 billion of orders from investors, PREPA successfully completed a \$673 million bond issuance to fund its capital improvement program, including the conversion to natural gas of existing oil-fired generation units, which is expected to enable PREPA to improve its operating efficiency.

These public corporations are key drivers of Puerto Rico's economic growth with a combined CIP of approximately \$1,206 million in FY 2014. At this point, GDB does not expect any of these public corporations to need budgetary subsidies or operational loans from GDB for FY 2014.

Next Steps of Fiscal Plan



Reform the Teachers Retirement System

- Before the end of the calendar year, we will present legislation to reform our teacher's pension system to ensure that the system does not run out of assets and pension benefits can be paid when due.
- Similar to the reform of the ERS, the reform of the TRS will be a cash flow solution that will alleviate future pay-as-you go pressure on the General Fund.



Finish the Job of Eliminating the Budget Deficit

- For FY2015, the Commonwealth will reduce its budget deficit by at least an additional 50% versus FY2014's budgeted deficit (\$820 million).
- We expect to have a balanced budget by no later than FY2016.
- We are committed to cutting expenses this fiscal year if revenue targets are not substantially met.

The Commonwealth is committed to continue demonstrating its willingness and ability to further strengthen its fiscal health.

Agenda

1 Principal Credit Accomplishments

2 Revenue and Expense Update

3 Economic Development

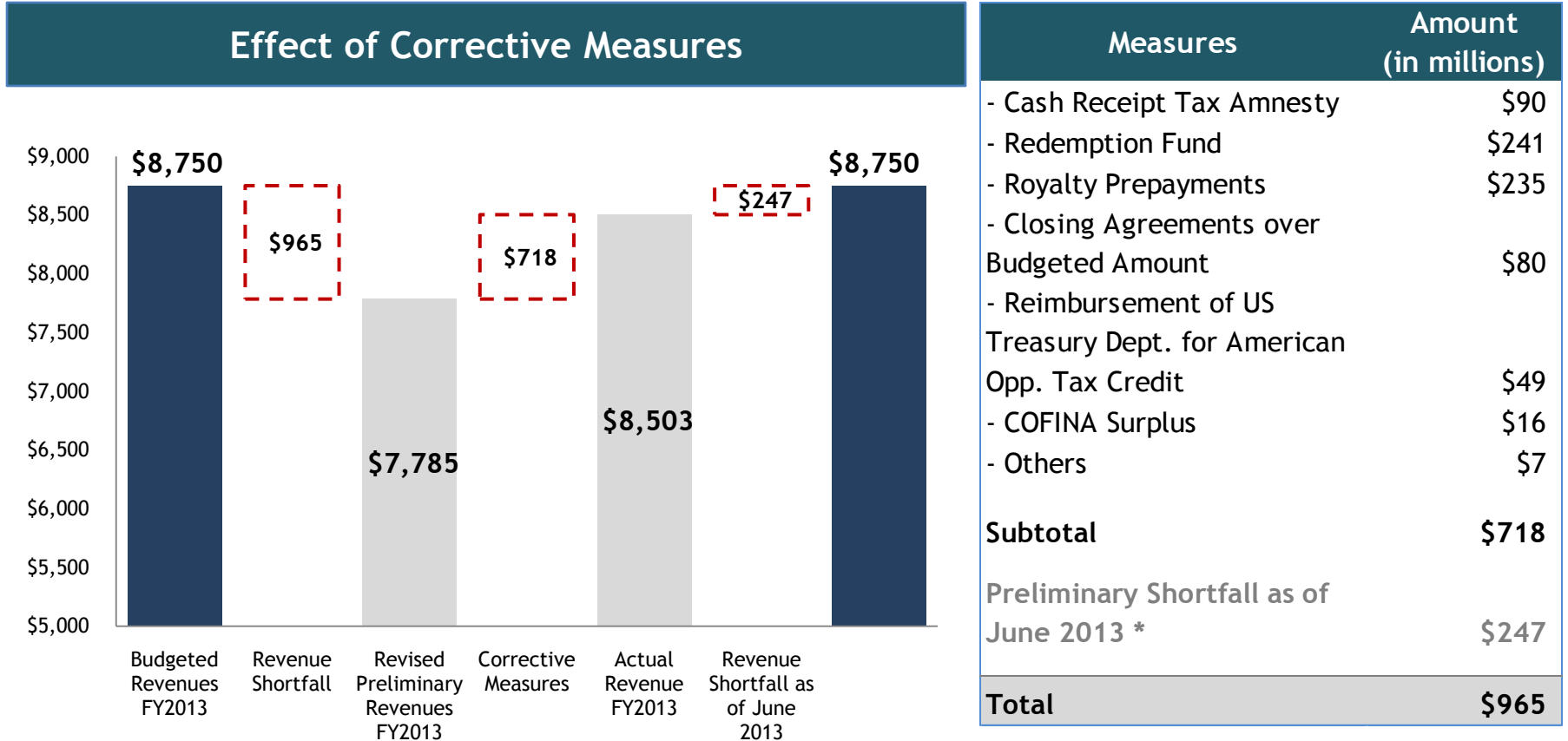
4 Financial Highlights

5 Concluding Remarks

FY2013 and FY2014 Revenue Update

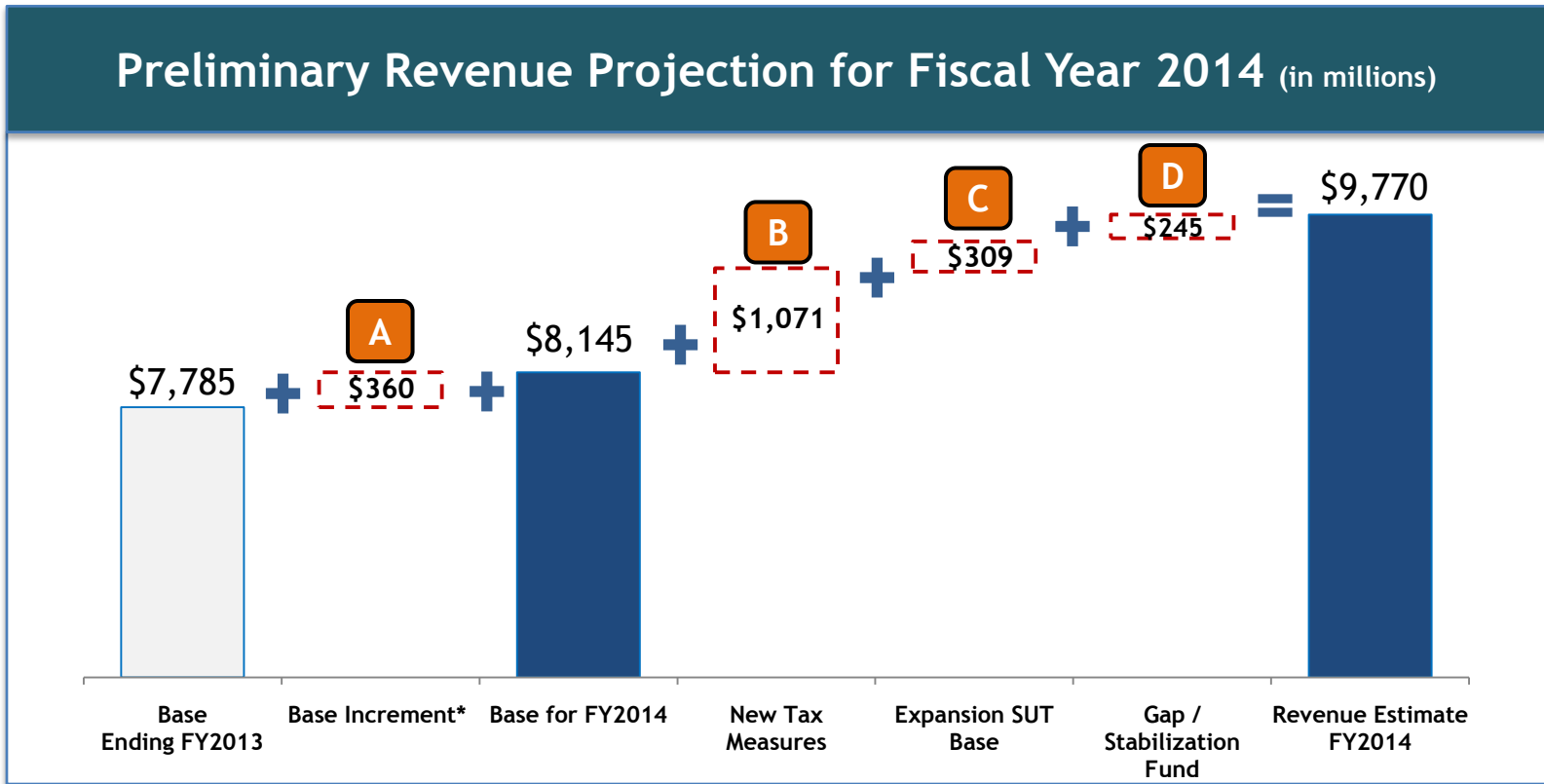
After significant corrective measures, the \$965 million FY2013 revenue shortfall was reduced to \$247 million. Funds to reduce the remaining shortfall have been identified.

The following measures were undertaken to reduce the \$965 million revenue shortfall:



* Shortfall is expected to be reduced or eliminated through (i) sale of old (\$128 million) and new payment plans (\$199 million) from Tax Amnesty and (ii) the closing of pending transactions with two pharmaceutical companies (\$98 million), expected later this month.

FY 2014 Budget - General Fund Revenue Projection

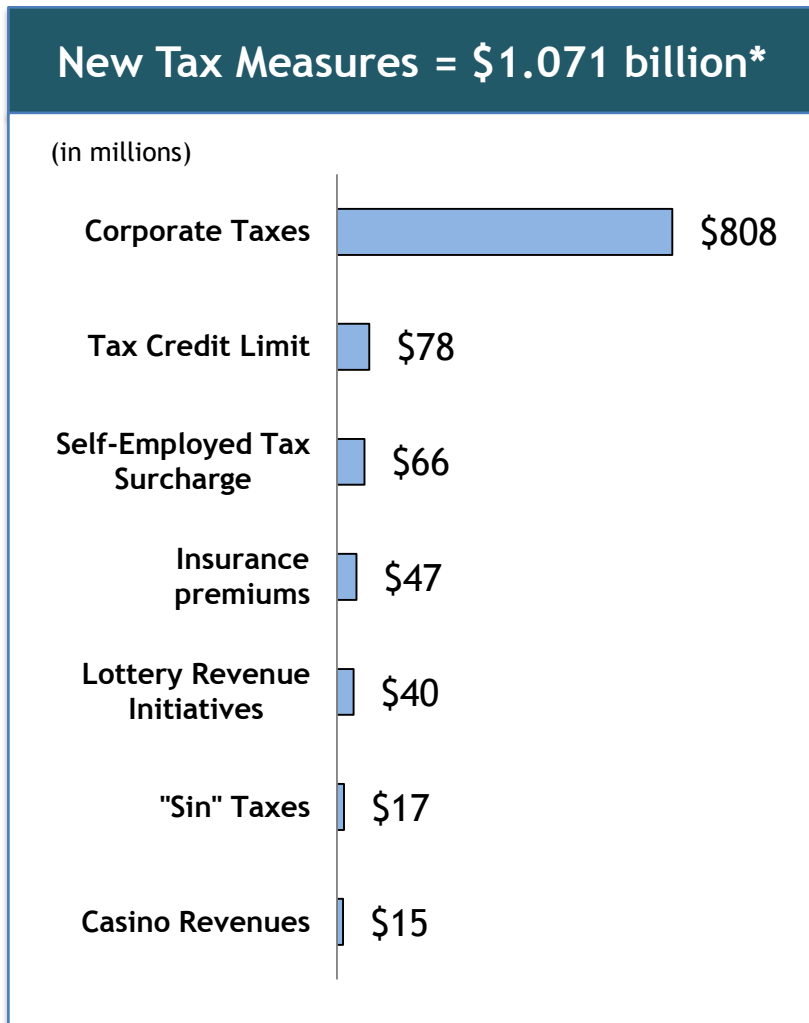


- A** Results primarily from the increase of the Act 154 excise tax, minus a reduction due to royalty pre-payments received in FY 2012-13 as part of deferral of amendments to Act 154, minus \$62 million of vehicle license fees transferred to PR Highways.
- B** Approved FY 2014 Budget includes new tax measures expected to raise \$1.071 billion of additional revenues, excluding the expansion to the “SUT” base.
- C** Expansion of Sales and Use Tax (“SUT”) base of approximately \$309 million principally relies on the extension of the SUT to certain business-to-business services and the elimination of exemptions for certain institutions and resellers.
- D** Budget contemplates a Stabilization Fund of \$245 million.

*Economic growth projections reflect the most up-to-date PR Planning Board projections for FY 2014 (+0.2%).

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Adopted budget for FY 2014 includes new tax measures expected to result in \$1.071 billion of additional revenues, excluding the SUT expansion



Commentary

Measures include among others:

- Gross Receipts Tax, AMT adjustment and 2010 tax rate code.
- Modified corporate AMT - Adjustment Net Operational Loss and Book-Tax Adjustment

- Tax credits with questionable impact on economic growth legislated over time reduced by 50%

- 2% top-line tax on sole proprietorships and self employed professionals earning over \$200,000
- Limit on mortgage interest deductions

- 1% tax on underwriting premiums

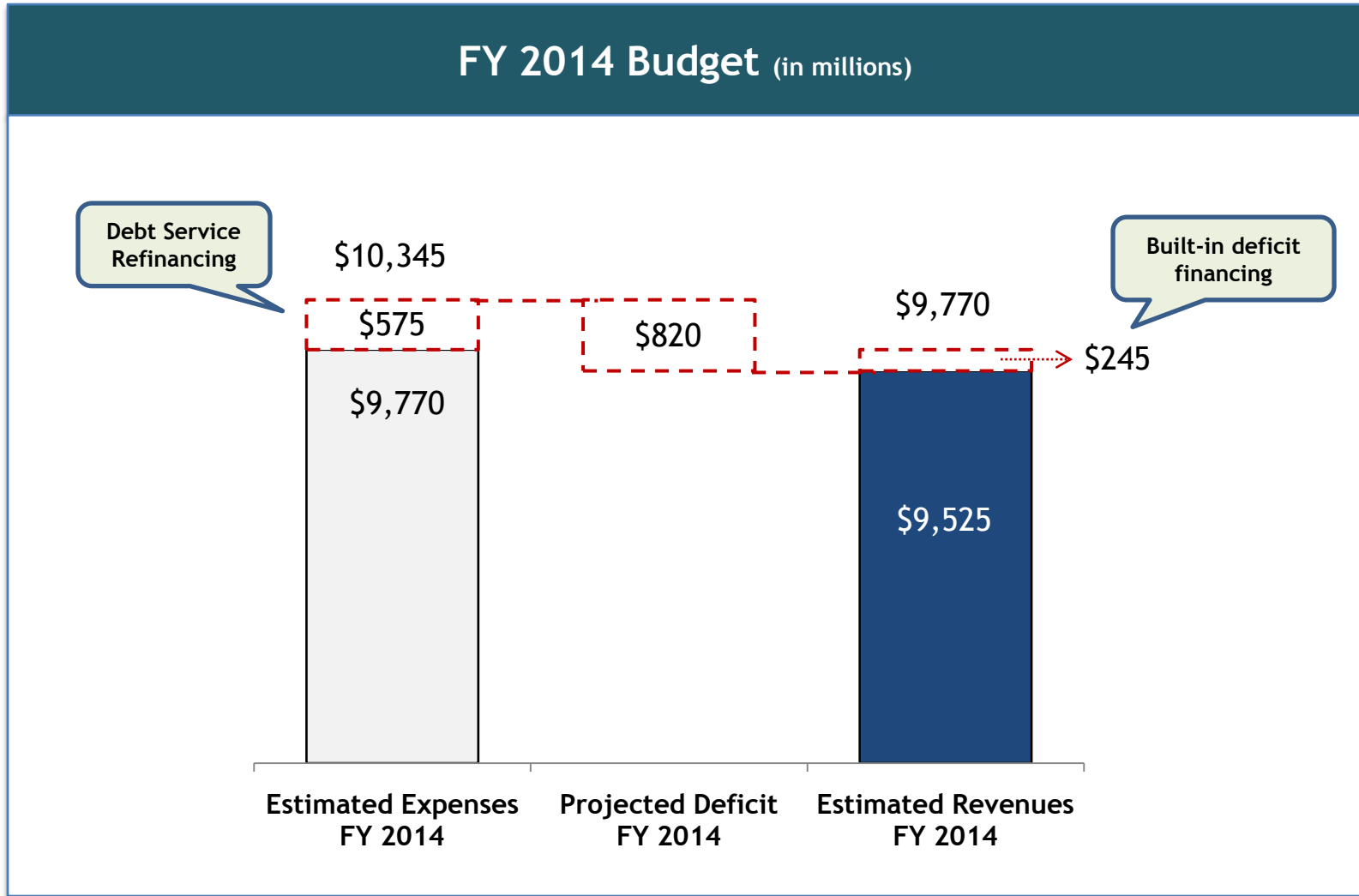
- Lottery revenue from certain initiatives (changes in modality)
- Effect of already repealed UPR scholarship extraction

- Increase excise tax on cigarettes
- Effect calculated net of demand elasticity

- More casino (slot) machines allowed in hotels

* Numbers are preliminary estimates and subject to change.

FY 2014 General Fund budget deficit represents a reduction of 65% vs. audited FY 2012 results*

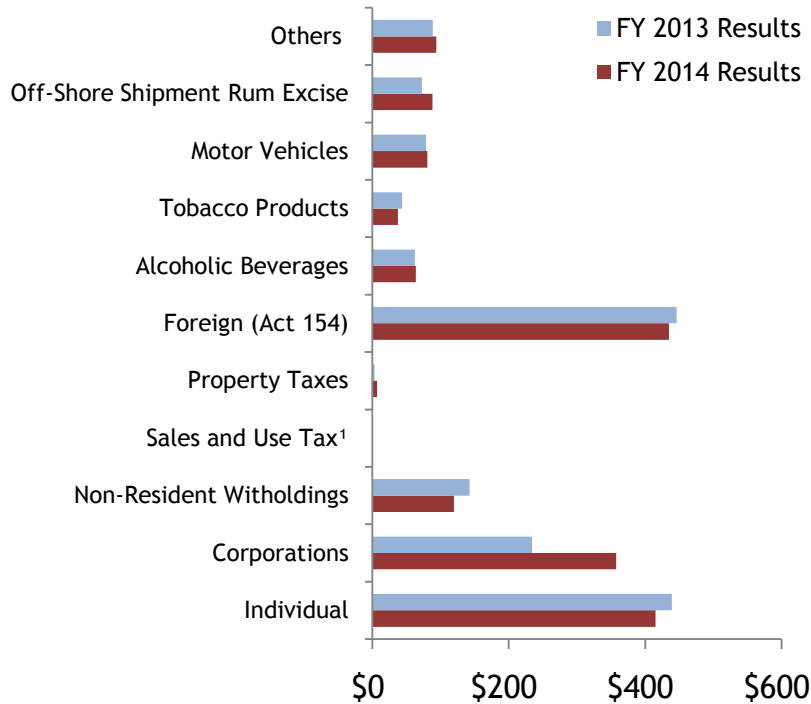


* The FY2014 GF deficit represents a reduction of 65% when compared to audited June 30, 2012 deficit results, 63% when compared to preliminary FY2013 deficit projection as of January 31, 2013, and a reduction of 37% when compared to most recent estimates of the FY2013 deficit.

FY 2014 Q1 revenues are above estimates...

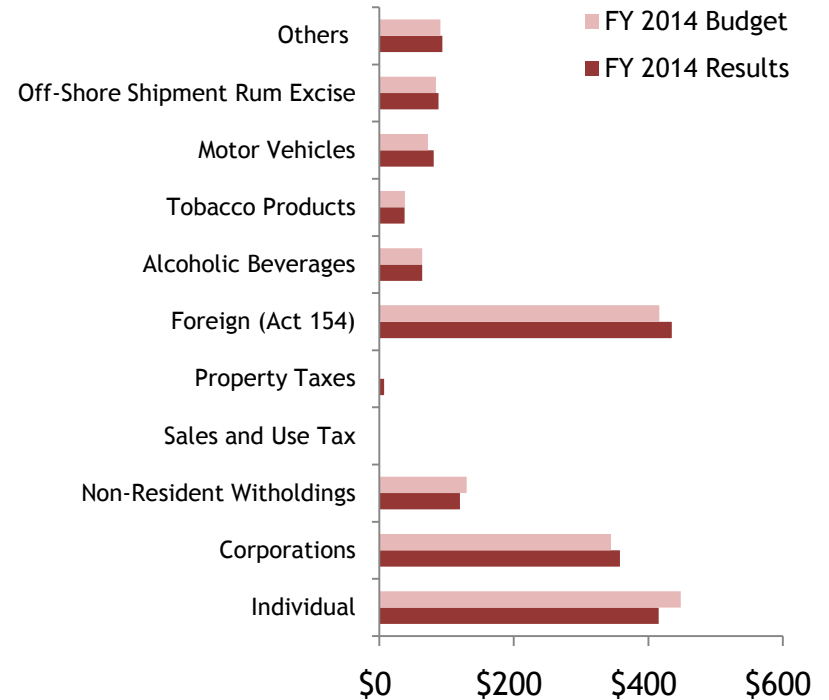
Q1 FY 2013 vs. Q1 FY 2014

FY 2013 YTD Results: \$1,611 million
FY 2014 YTD Results: \$1,699 million



FY 2014 Q1 Budget vs. FY 2014 Q1 Results

FY 2014 YTD Budget: \$1,688 million
FY 2014 YTD Results: \$1,699 million



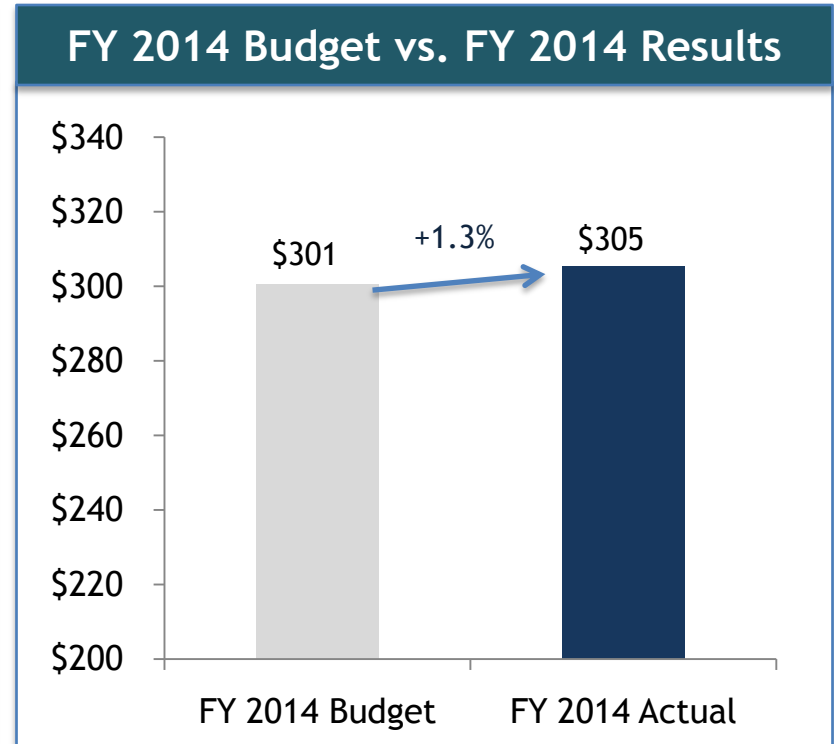
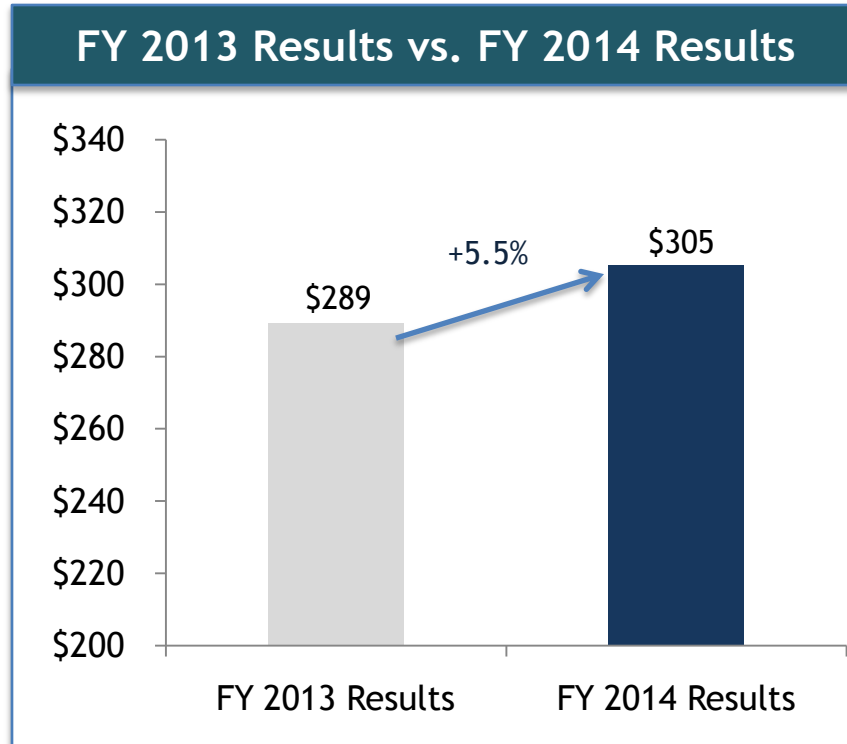
General Fund July-September (Q1) preliminary revenues are higher by (i) \$88 million above FY 2013 Q1 results and (ii) \$10.4 million over budgeted estimates for FY 2014 Q1.

* Detailed revenue numbers are available in the Appendix A.

¹ Sales and Use tax revenues flow to COFINA until receiving the Pledged Sales Tax Base Amount.

...and Sales Tax Fiscal YTD revenue is also above projections

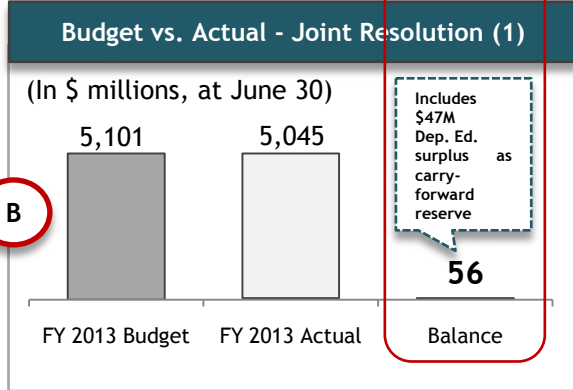
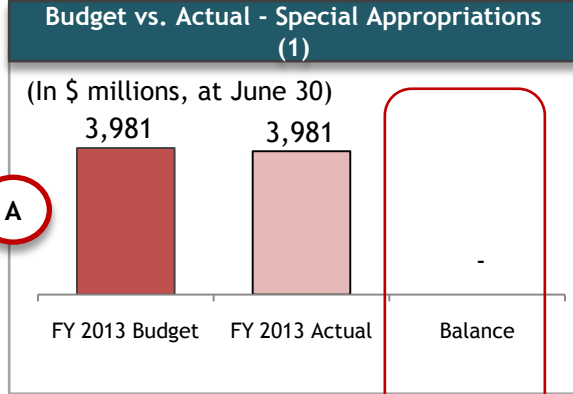
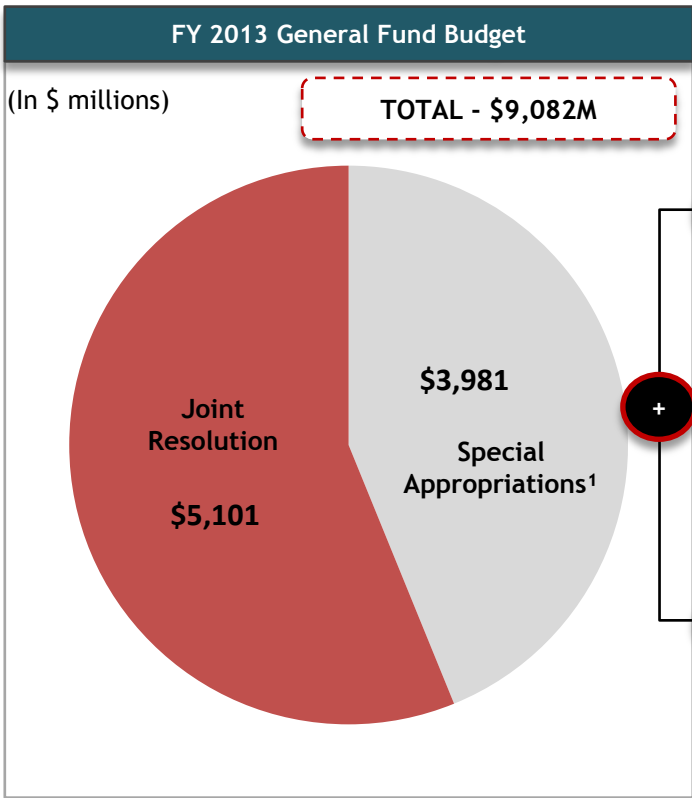
SUT Revenues for FY 2014 Q1 were \$16 million higher than for the same period in FY2013, even without the full effect of SUT base expansion.



July-September (Q1) preliminary SUT collections of \$305.3 million are (i) 5.5% above the same period of FY 2013 and (ii) 1.3% above budgeted estimates.

FY2013 and FY2014 Expense Update

FY 2013 Preliminary Expense Results show a \$56 million under spending vs. budget overview



- Appropriations for specific purposes. Three year life. Obligated as expenses at FY-end regardless of uncommitted balance.
- Debt service, public health insurance, public corporation subsidies, retirement special laws, and pre-legislated formula based contributions to the UPR, Judicial Branch and Municipalities, among others

- Operating cost of the agencies of the Commonwealth of Puerto Rico. Unobligated balance released as surplus at FY-end, except for carry-forward of the Dep. Ed.
- **Includes:** Payroll (including employer contributions); operating expenses such as facilities, transportation, services and materials; and “non-distributed” lump sum appropriations.

Corrections to the overspending forecast during the 2nd Semester (January - June) of FY 2013:

Excess Spending Estimate at Jan 2013	\$140M
(-) Freezing of account balances per spending control Executive Order (transferred in June to the Dep. Ed.)	\$29M
(-) Department of Education year-end spending versus initial projections at January 2013	\$32M
(-) Payment of excess sick leave for the Police Department covered with one-time transfer of non-General Fund balance	\$30M
(-) Payment of excess sick leave for certain agencies paid with non-General Fund, internal sources (fee income, federal)	\$28M
(-) Additional factors (slowdown of spending due to transition effect; austerity measures; conservative forecast)	\$76M
Year End Excess (+) or Under (-) Spending Estimate at Sep 2013	-\$56M

(1) All results per PRIFAS Central Accounting System balances, as adjusted by OMB, in its best judgment, to reflect pending obligations or disbursements, unsynchronized independent platforms at different agencies, and other adjustments. As with all estimates, final results will vary. At this date, with the Department of Education final balance certified, we expect no substantial changes to the outlook.

FY 2014 Approved Budget - Non Discretionary Pre-Legislated Expenses

Non Discretionary	Semi Discretionary	Discretionary
UPR Formula	Public Health Insurance	Special Appropriations - Agencies/Programs
Judicial Branch Formula	Special Appropriations - OMB Custody	Department of Education - Operating Cost
Municipalities Formula & Legislature (Fixed)	Contributions to Legislature	All Other Agencies - Operating Cost
General Obligations & 3 rd Party Debt	Contributions to Municipalities	All Other Agencies - Payroll
Debt to GDB	Special Appropriations - To Public Corp's	Department of Education - Payroll
Retirement Systems - Special Laws		

32%

Total Non Discretionary
\$3,167M

12%

Total Semi Discretionary
\$1,168M

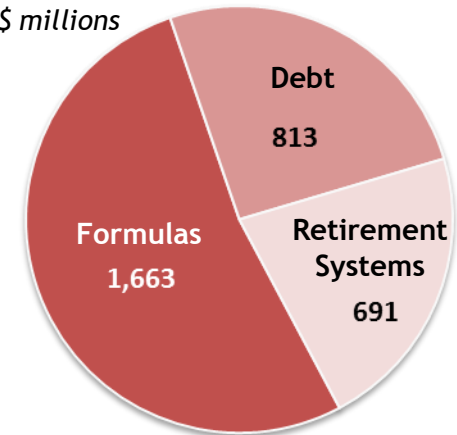
56%

Total Discretionary
\$5,435M

Non Discretionary Expenses - \$3,167M

UPR Formula	\$834M
Retirement System - Special Laws	\$691M
General Obligations and 3 rd Party Debt	\$521M
Municipalities & Legislature Formulas	\$480M
Judicial Branch Formula	\$349M
Debt to GDB	\$291M

In \$ millions



FY 2014 Approved Budget - Semi-Discretionary Expenses (Primarily Entitlements and Contributions)

Non Discretionary	Semi Discretionary	Discretionary
UPR Formula	Public Health Insurance	Special Appropriations - Agencies/Programs
Judicial Branch Formula	Special Appropriations - OMB Custody	Department of Education - Operating Cost
Municipalities Formula & Legislature (Fixed)	Contributions to Legislature	All Other Agencies - Operating Cost
General Obligations & 3 rd Party Debt	Contributions to Municipalities	All Other Agencies - Payroll
Debt to GDB	Special Appropriations - To Public Corp's	Department of Education - Payroll
Retirement Systems - Special Laws		

32%

Total Non Discretionary
\$3,167M

12%

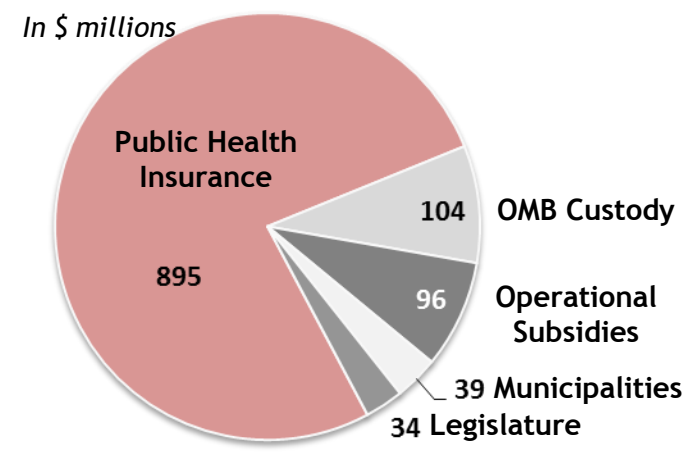
Total Semi Discretionary
\$1,168M

56%

Total Discretionary
\$5,435M

Semi Discretionary Expenses - \$1,168M

Public Health Insurance - ASES (Public Corporation)	\$895M
Special Appropriations - OMB Custody	\$104M
Operational Subsidies - Public Corporations	\$96M
Contributions to Municipalities	\$39M
Contributions to Legislature	\$34M



FY 2014 Approved Budget

Discretionary Expenses (Commonwealth Agencies)

Non Discretionary	Semi Discretionary	Discretionary
UPR Formula	Public Health Insurance	Special Appropriations - Agencies/Programs
Judicial Branch Formula	Special Appropriations - OMB Custody	Department of Education - Operating Cost
Municipalities Formula & Legislature (Fixed)	Contributions to Legislature	All Other Agencies - Operating Cost
General Obligations & 3 rd Party Debt	Contributions to Municipalities	All Other Agencies - Payroll
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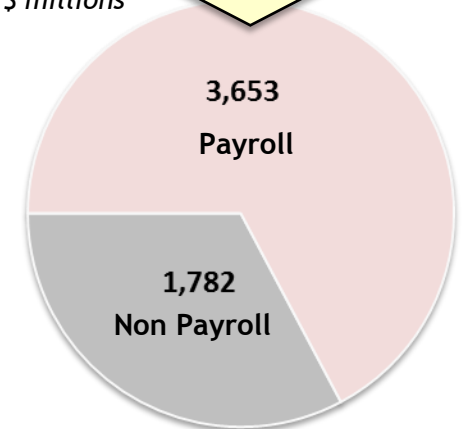
56%

Total Discretionary
\$5,435M

Non Payroll Expenses - \$1,782M

Rent and Utilities	\$532M	Transportation	\$146M
↳ PBA Rent (Excluding Debt)	\$214M	Professional Services	\$106M
↳ PREPA & PRASA	\$149M	Materials	\$90M
Non Distributed Appropriations	\$398M	Others	\$55M
Purchased Services	\$257M	Equipment	\$32M
Subsidies and Incentives	\$151M	Federal Funds Matching	\$15M

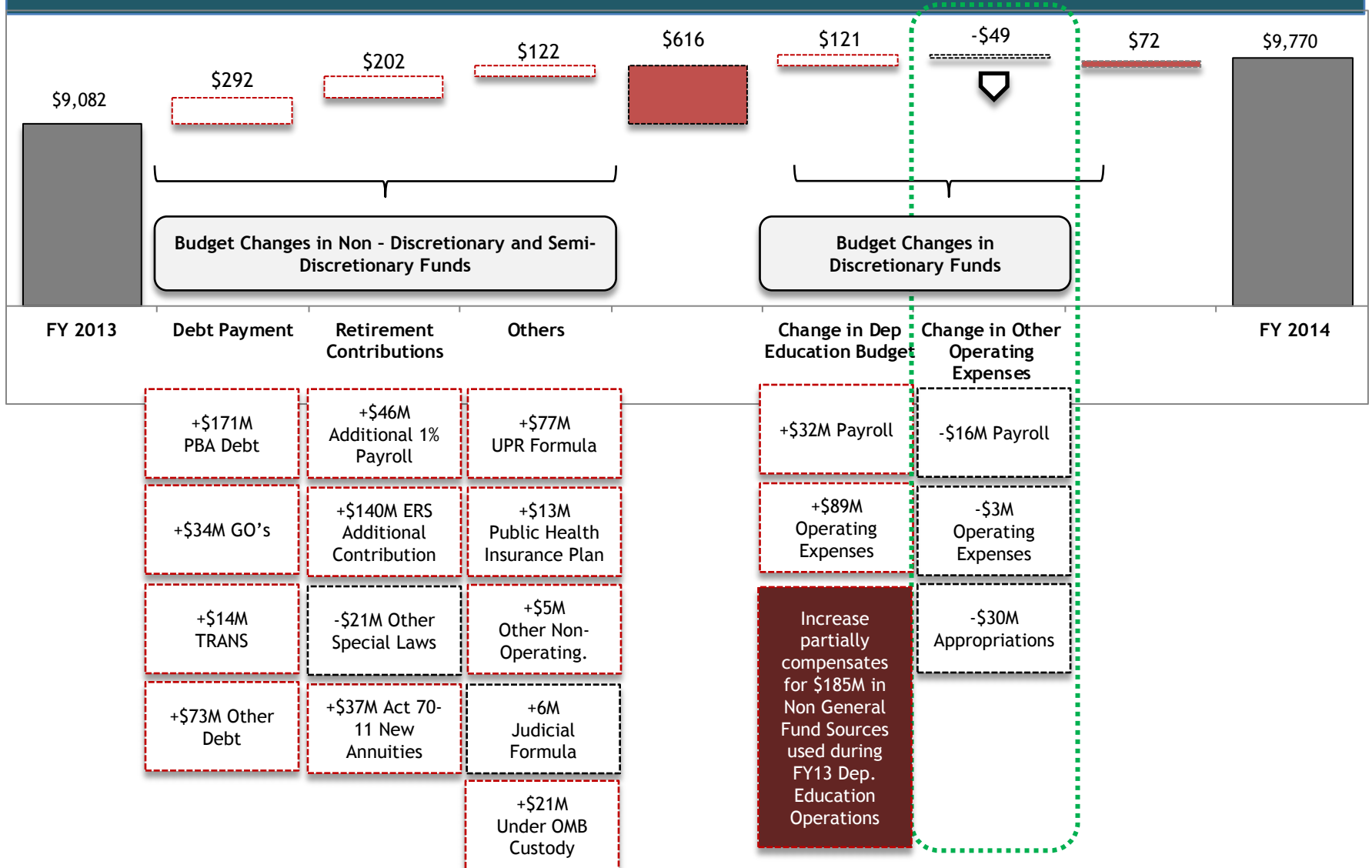
In \$ millions



*Reconciliation with Joint Resolution for Operating Expenses: Discretionary Expenses of \$5,435M plus (i) add-back \$171M in PBA Rent that were reclassified as Non Discretionary - Debt Service; (ii) add-back of Legislature budget of \$119M that were reclassified as Non-Discretionary - Legislature; and (iii) subtract Special Appropriations (\$351M) which are substantially Discretionary in nature but not included in the Joint Resolution for Operating Expenses. This reconciles with the \$5,375M in Joint Resolution total appropriations.

Detail on Appropriation Increments

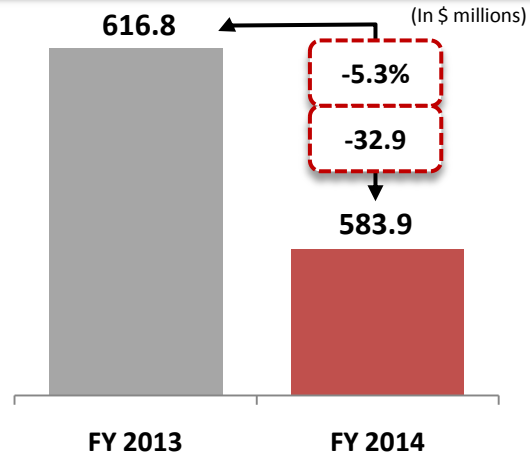
Year-over-Year Change in Adopted General Fund Budget (in millions)



FY 2014 Approved Budget

YTD Expenses (Q1 - July to September 2013)

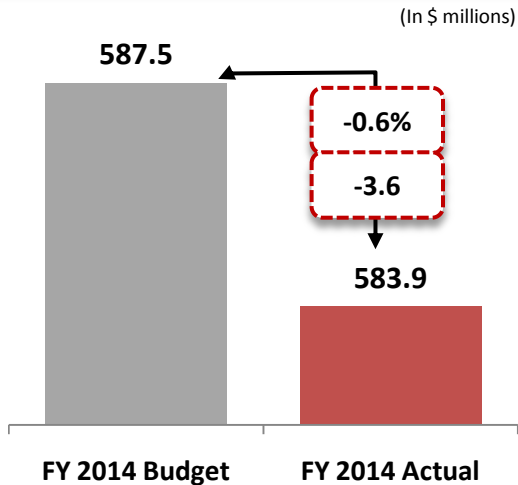
1 Year over Year Payroll (Jul to Sept)



- Reduction primarily due to employee attrition from Act 70 (early retirement); unusual retirement pattern due to the enactment of Act 3 ERS Reform; and austerity in hiring and rehiring measures, including political appointees.
- Figures exclude payroll at 22 smaller agencies with autonomous platforms that have a separate payroll from Treasury (for example, the State Elections Commission; Office of the Comptroller; et cet).

Payroll accounts (excluding *Schoolwide* appropriation) represent ~\$2.6 billion or 27% of the General Fund Budget

2 Budget vs Actual Payroll (Jul to Sept)



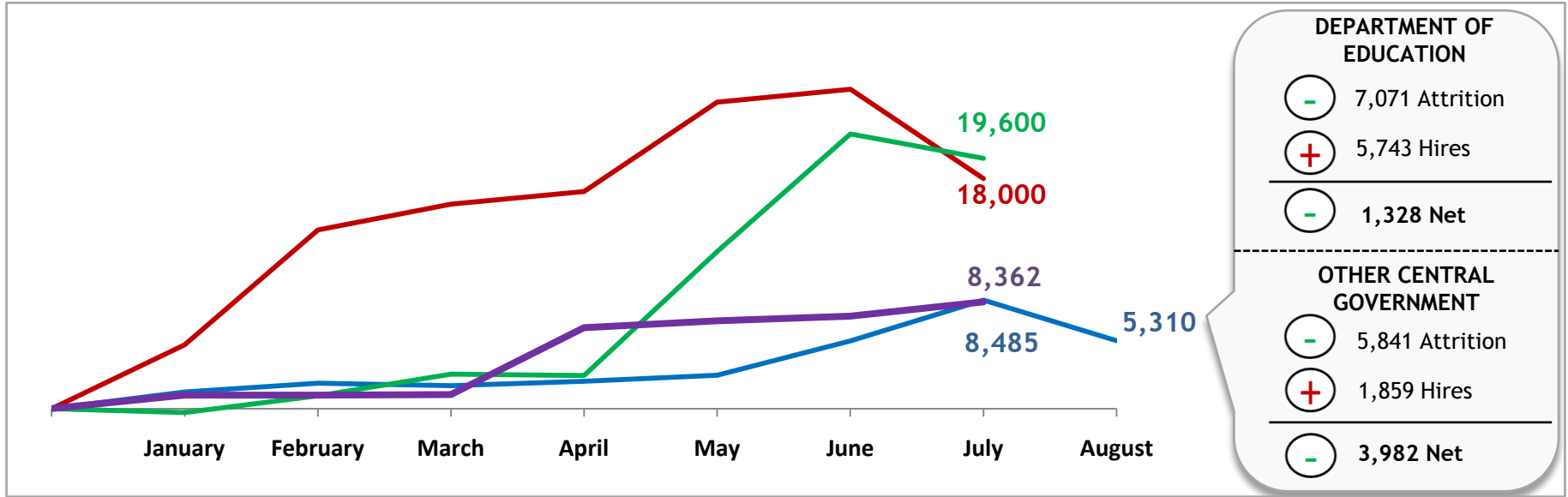
- Not all of the year over year reduction flows into budget vs actual savings since
 - reserves of ~\$140 million for one-time liquidation payments were budgeted or have since been transferred to OMB custody and are excluded from the budget figures
 - some payroll savings were already built into the budget, particularly to cover previously agreed-upon collective bargaining increases
 - Budget includes other adjustments upward or downward, including higher annuity payments for those retirees under Act 70 incentive program
- OMB has issued re-hiring guidelines with respect to employees that retired on June 30 due to the effect of Act 3 Employee Retirement System Reform. A limited number will be rehired.

Department of Education

- These numbers do not include the *Schoolwide Program* mixed federal and state funds pool, which covers much of the payroll at the individual schools. Not charged as a payroll account but rather a non-distributed appropriation. The process of allocating expenses to state or federal has a lag.
- Dep. Of Education as of August 31st reported projected expenses over budget, mostly related to summer hiring for the new school year. However, this is preliminary and corrective measures are expected to be effective so that an over-spending forecast is not currently warranted. Corrective measures include carryforward reserve; applicable of eligible federal resources, actions to reduce security & transportation; application of surpluses at other agencies and overall OMB contingencies.
- Going forward, teachers retirement system reform will also probably result in attrition, representing an opportunity for school consolidation and payroll adjustments.

January 2013 - August 2013

Cumulative Headcount Reduction – January to August 2013 (By Information Source)



Source	Scope	Comments
<ul style="list-style-type: none"> ■ PR Department of Labor – Payroll Register 	<ul style="list-style-type: none"> • Includes <u>all government employees</u>, including Municipal, Federal, and Public Corporations • Monthly official statistics from the Statistics Bureau of the Dep. of Labor. 	<ul style="list-style-type: none"> • Relies on payroll surveys of actual salaried employees.
<ul style="list-style-type: none"> ■ PR Department of Labor – Workforce Poll			• Relies on polls from a statistical sample. Depends on self-reported employer classification.
<ul style="list-style-type: none"> ■ Office of the Comptroller 	<ul style="list-style-type: none"> • Includes <u>government agencies</u> whose operating expenses are funded by the Budget Joint Resolution. Excludes, for example, UPR, Judicial Branch and Municipalities. • Excludes 22 smaller agencies funded by General Fund remittances whose payroll is independent from the central Treasury System, except for the Police, which was included as self-reported. 	<ul style="list-style-type: none"> • Figures are self reported by agencies. May include statistical input for blank data. Includes all sources, state and federal.
<ul style="list-style-type: none"> ■ Dep. Treasury – Payroll Database (1)			• Includes only employees covered by General Fund sources and by Schoolwide mixed state and federal funding pool.

(1) Data from RHUM Dep. Treasury payroll database extracted by manual queries, subject to data quality issues. Should be used directionally only and not as a valid statistical source.

Agenda

1 Principal Credit Accomplishments

2 Revenue and Expense Update

3 Economic Development

4 Financial Highlights

5 Concluding Remarks

Puerto Rico Economic Roadmap: Overview

Vision

Build upon Puerto Rico's historic strengths to achieve a *more diversified, knowledge-driven economy* that addresses the challenges of globalization and seizes upon emerging opportunities

Goals

Near-term goal

Shore up and diversify the economy by leveraging Puerto Rico's competitive advantages and consolidating its productive base

Long-term goal

Build sustainable competitive advantage with a diversified, adaptive economy and workforce driven by technology and innovation

Policy Priorities

- 1 *Defend anchor industries* while diversifying job sources on the Island
- 2 *Stimulate local entrepreneurship* - drive growth of small and medium enterprises (SMEs)
- 3 Support Puerto Rico's status as a *stable, business-friendly jurisdiction*
- 4 Take full advantage of opportunities tied to *Puerto Rico's relative fiscal autonomy*

Impact

By beginning of 2016

Over 90,000 jobs created
\$6 to \$7 billion in incremental GDP

By beginning of 2018

Over 130,000 jobs created
\$10 to \$12 billion in incremental GDP

Strategic Priorities

Four themes drive the focus on and strategies behind the priority sectors

- Seize our capabilities to provide **high-quality products and services at competitive costs**
- **Leverage our unique geographic positioning** between the US, Latin America, and the Caribbean
- **Identify and win emerging opportunities** - sectors and niche markets
- Bring technology and innovation to **build upon historic strengths and "move up value chain"**

Five priority sectors identified

Global	Life Sciences	<ul style="list-style-type: none"> • Defend traditional Pharmaceutical base and pursue innovative opportunities (generics, biologics, contract manufacturing) • Consolidate Puerto Rico's position as a global manufacturing hub for medical devices • Bolster Puerto Rico as the Center for Scientific R&D in the Americas (Agricultural Biotechnology)
	Knowledge Services	<ul style="list-style-type: none"> • Become the Knowledge Services Center of the Americas • Pursue niche plays to grow Insurance and Financial Services
	Tourism	<ul style="list-style-type: none"> • Re-capture historic strengths in tourism to become a premier U.S. and global travel destination • Additionally, target emerging niche markets including ecotourism, medical, cultural and sports tourism
Internal	SMEs	<ul style="list-style-type: none"> • Build world-class SME support through a full-suite of coordinated programs targeting SMEs at all levels of development
	Agriculture	<ul style="list-style-type: none"> • Reduce reliance on food imports by investing in high-productivity agricultural production

Investments in infrastructure will support longer-term competitiveness

- **Infrastructure investment** required to support growth in sectors and boost long-term competitiveness (e.g. airports, seaports, roads etc.)
- **Strategic initiatives** such as developing Roosevelt Roads and the Science City that can add significant long-term lift to Puerto Rico's economy

Recent successes underline Puerto Rico's potential (I/II)

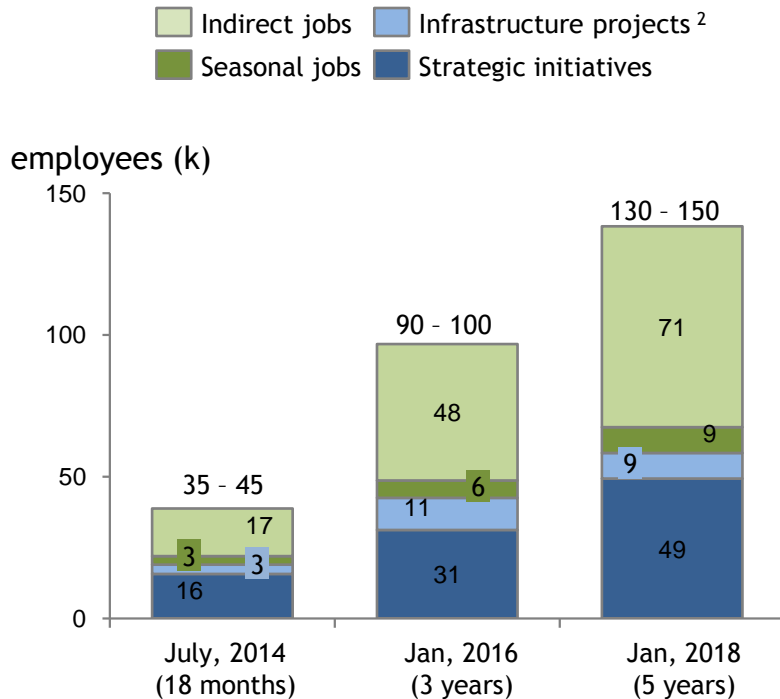
Area	Recent wins
Life sciences	<p>Biopharma manufacturing</p> <ul style="list-style-type: none">• Expansion of Johnson & Johnson with 308 new jobs and \$226 million in investment• Expansion of Bristol Myers Squibb with the creation of 100 new jobs and an investment of \$200 million in expansion and renovation of the physical plant and factor equipment <p>Medical devices manufacturing</p> <ul style="list-style-type: none">• Expansion of CooperVision's manufacturing facilities attracting \$250 million investment and 350 new jobs• Expansion of Covidien's manufacturing facilities attracting 200 new jobs• Expansion of Saint Jude Medical with the creation of 150 new jobs over a period of 5 years, with estimated payroll expansion worth \$6.2 million
Knowledge services	<ul style="list-style-type: none">• Expansion of IBM / True North with the creation of 400 new jobs• Expansion of AON Hewitt with the creation of 200 new jobs
Tourism	<ul style="list-style-type: none">• Increased air access (Southwest to Orlando, Avianca to Bogota, expanded Caribbean services via Seabourne); with focus on LatAm. expansion ongoing (e.g. Brazil)• Cruise ships visits increased 84% in August 2013 vs. year before and targeted incentives in place to drive traffic in years to come, supported by Pier 3 infrastructure improvement• Over 900 hotel rooms under construction and hundreds more in the pipeline

Recent successes underline Puerto Rico's potential (II/II)

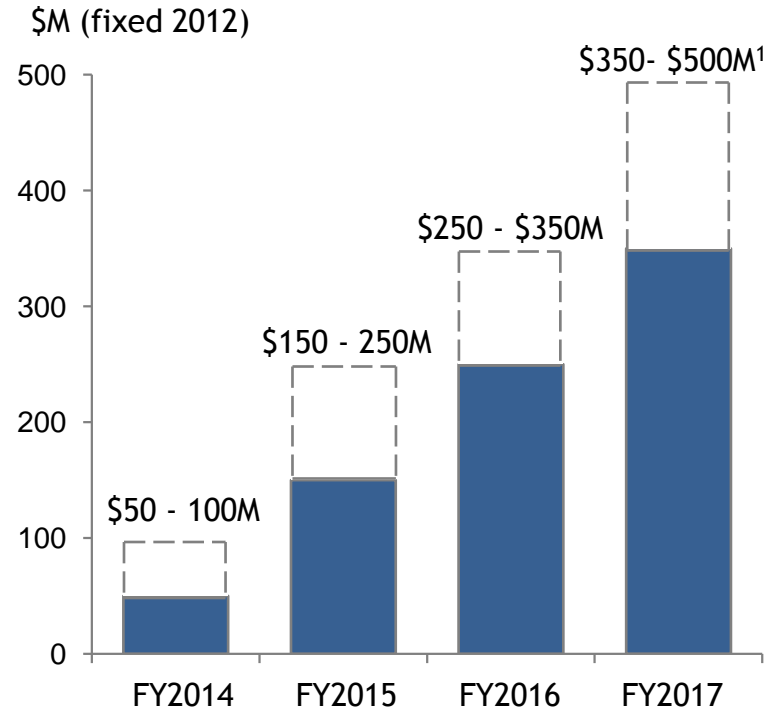
Area	Recent wins
Other key wins	<p>Jobs and investments</p> <ul style="list-style-type: none">• Commitments for 5,860 new jobs in small and medium-size enterprises under the incentives of the Jobs Now Act• Commitments for over 7,500 new jobs under incentives offered by PRIDCO• Federal contract win: \$137 million 3-year military apparel mfg contract worth 2,200 jobs• Putnam Bridge Company to invest \$450 million in renovating Marina Puerto Del Rey, creating up to 400 construction jobs and up to 500 permanent jobs• Paulson & Co. acquired an 80% interest in the Bahía Beach Resort & Golf Club, including the St. Regis Resort, and plans to invest \$500 million in further development <p>Recognition around the world</p> <ul style="list-style-type: none">• Ranked #30 in 2013 World Economic Forum ranking, higher than last year and top Latin American country• Included in FutureBrand Top LatAm countries for first time (ranked in top ten)
Promising leads	<ul style="list-style-type: none">• Outreach negotiations at advanced stages with multiple new KS players• Life sciences: Promising opps. in emerging areas (e.g. Generics, Med. Devices)
Supporting reforms	<ul style="list-style-type: none">• Energy transition to natural gas has begun, first plant converted June 2013; Major Aguirre plant scheduled for early 2015• Plan to increase share of energy produced with natural gas from 24% to 72% by 2017• Permitting IT systems improvement plan in place and contracted

Estimated jobs creation and resulting tax revenues

Jobs created by strategic initiatives in Economic Roadmap



Potential gross tax revenue from Roadmap's strategic initiatives

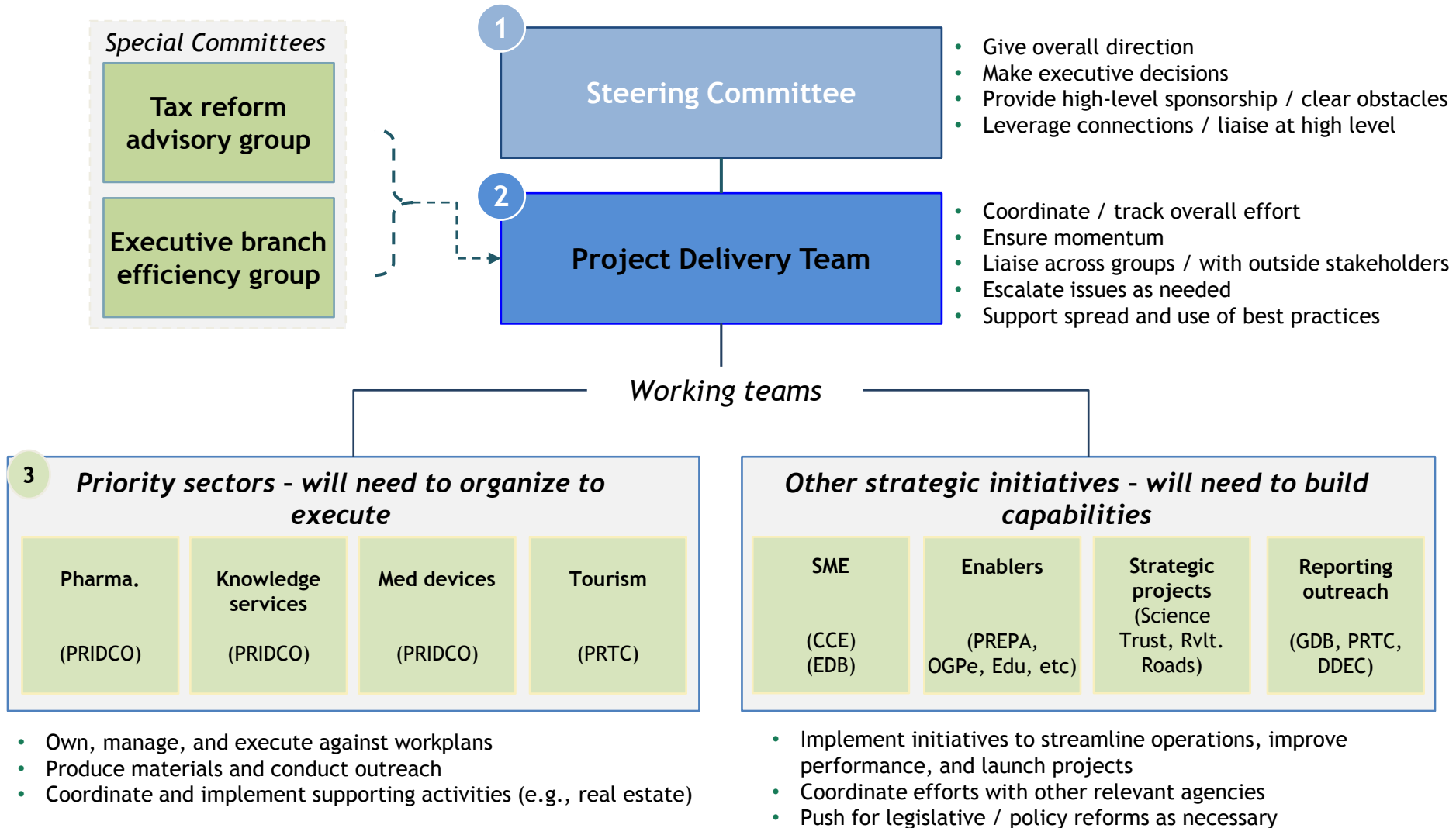


The economy is expected to benefit from imported capital which will create jobs and generate tax revenues

1. Jobs added in non-focus sectors based on La Fortaleza's job tracker, but excludes jobs which overlap w/ strategic initiatives in Economic Roadmap (eg. Jobs Now). Assumes all committed jobs will be created within 18 months, given current run-rate of 22k jobs created in 7 months. 2. Includes strategic bets (RR, Port of the Americas); 3. Total number of jobs will depend on degree of overlap between indirect jobs created from strategic initiatives and jobs projected outside of strategic initiatives; Note: Initiative job impacts estimated by PR initiative leads w/ BCG validation; Sources: BCG economic model, PR Economic Planning Board, Bureau of Labor Statistics, Bureau of Economic analysis, Initiative leads, La Fortaleza jobs tracker

1. Upper range assumes historical average effective tax rates from 2008 to 2012 multiplied by incremental GDP over baseline. Note that recent tax changes and revenue collection efforts may push average effective tax rates upwards in the future. 2. Includes impact from both direct and indirect jobs created. Source: Puerto Rico Planning Board, Puerto Rico Treasury Department, BCG analysis

Proposed Implementation Taskforce structure



Cumulative direct jobs estimates by initiative (I/II)

Group	Initiative	2013	2014	2015	2016	2017	Description
Life sciences	Biopharma. mfg.	-	400	1,100	1,800	2,600	1. Defend pharma: Goal to defend projected jobs loss. 2. Generics, co-mfg, supply chain: Goal of 5 plants / packing operations each
	Medical devices mfg	400	800	2,700	4,500	5,800	Target of 40 new projects in 5 yrs. Attract global giants, cardiac, high growth segments.
	Ag-bio (scientists)	100	200	300	400	500	Jobs growth driven by creation and expansion of seed research laboratories.
	Ag-bio (contract farmers)	400	800	1,300	1,900	2,600	Assumes 5x contract farmer jobs created per scientist job created. Contract farmer works 8-12 months/yr
Services	Knowledge services	750	1,600	3,200	5,600	8,700	Target of 28 new co's in 5 yrs. Attract ITO, BPO, KPO, Integrated outsourcers, Aerospace & defense.
	Insurance & financial services	40	60	150	200	300	Target attract 90 insurers incl. 15 class 4 co's in 5 yrs.
Tourism	Traditional tourism	400	2,900	5,500	6,500	7,500	90% jobs growth is in new hotel, diversifying offerings
	Medical tourism & related health services	-	300	500	900	2,700	Based on PRHA projections for US and LatAm market penetration
SMEs	SMEs	3,900	7,500	7,700	8,100	8,300	Jobs mostly driven by Jobs Now. Others include incubator, Urban Center programs.
Agriculture	Traditional agriculture	2,500	5,000	7,500	10,000	10,000	Jobs driven by 5.5k jobs in coffee, 4k in sugarcane and 500 jobs in greenhouses
	Agriculture - seasonal workers	1,600	3,300	4,900	6,500	6,500	Seasonal workers for coffee picking
Other	Film & media production	-	100	100	200	200	Jobs driven by Film Co's incentive promotions
	MRO	-	-	400	400	400	Potential MRO facility - currently in discussion w/ co's
	Military apparel mfg	-	2,200	2,200	2,200	2,200	Jobs growth from one large Federal contract.
INITIATIVES TOTAL		10,100	24,900	37,300	49,200	58,400	

Cumulative direct jobs estimates by initiative (II/II)

Group	Initiative	2013	2014	2015	2016	2017	Description
Strategic bets	Roosevelt Roads	-	100	1,600	1,700	1,700	Construction of Industrial Zone, Academic project, Eco-tourism, Marina
	Science Trust	-	-	100	200	300	Estimates for Oso Blanco, Cancer Center, Biomolecular bldg, & Bioprocess Dev't Complex - to be refined
	Port of the Americas	-	-	400	400	400	350 operating jobs once begins operations.
Strategic bets total		-	100	2,000	2,200	2,300	
Infra-structure	Airport P3	-	600	600	600	600	PPP w/ \$195M investment in 3yrs, \$1,400M in 40 yrs
	Highways (PR-22)	-	-	4,000	4,000	4,000	\$1B investment across 2015-2017.
	Caguas Commuter Rail	-	-	1,200	1,200	1,200	\$400M investment. Currently in feasibility / desirability phase.
	PRASA (water)	-	1,300	1,300	1,300	-	\$354M construction for Valencia water treatment plant and reservoir
	Correctional facilities	-	-	900	900	900	\$220M investment. Feasibility / desirability phase set to finish Oct. 2013
	Natural Gas Infrastructure	-	1,300	1,300	-	-	\$180M-\$300M investment . Feasibility / desirability phase set to finish Dec. 2013
Infrastructure total		-	3,200	9,300	8,000	6,700	
TOTAL DIRECT JOBS		10,100	28,200	48,700	59,400	67,500	

Agriculture, Tourism and SMEs

Target Growth Sector: Agriculture

<u>Focus sector</u>	<u>Vision</u>		
Agriculture	Reduce reliance on food imports by building on Puerto Rico's traditional strengths and increasing capacity for high-productivity industrial agricultural production		
<u>Why this sector?</u>	<u>Why PR can win</u>	<u>Key initiatives</u>	
<p>Once a major component of the Puerto Rican economy, still significant room for growth</p> <ul style="list-style-type: none"> • Puerto Rico currently produces only 15-20% of total food needs • Opportunity to reduce roughly \$3.5B in agricultural imports per year, keeping money in local economy <p>New opportunities for innovative, high-productivity agricultural production</p> <ul style="list-style-type: none"> • Room to expand both cultivated land and modern production technology 	<p>Favorable climatic conditions</p> <ul style="list-style-type: none"> • Allow PR to have several harvests per year, including year-round mango production <p>Strong internal infrastructure</p> <ul style="list-style-type: none"> • Allows quick and efficient transportation of high-value crops <p>Close proximity to the U.S.</p> <ul style="list-style-type: none"> • Ability to access one of the largest agricultural importers in the world <p>Highly skilled and technically proficient workforce</p>	<p>Expand dairy production - Support partnerships with local dairy producers and processing facility workers</p> <p>Invest in sugarcane processing - Partner with the Puerto Rican Rum Association to invest in the expansion of sugarcane production and processing</p> <p>Build high technology greenhouses - Develop five high technology greenhouses to pilot the production of high-value vegetables for export markets</p> <p>Expand coffee cultivation - Increase the acreage available for coffee production by 16,000 acres</p>	

Target Growth Sector: Tourism

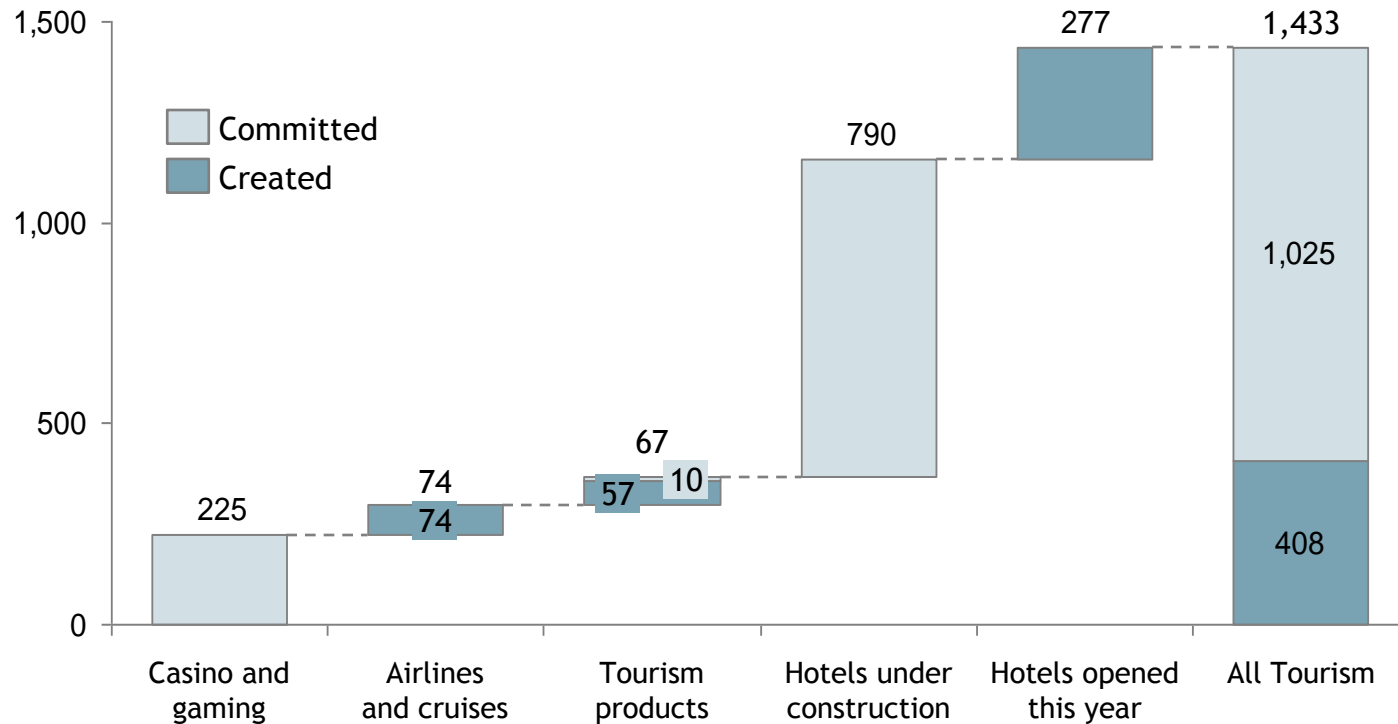
<u>Focus sector</u>	<u>Vision</u>
Tourism	Capitalize on Puerto Rico's diverse tourism offerings to develop new niche markets and become premier U.S. and global travel destination

<u>Why this sector?</u>	<u>Why PR can win</u>	<u>Key initiatives</u>
<p>Tourism is a fundamental driver of the local economy and job creation</p> <ul style="list-style-type: none"> Represents 6% of total GDP <p>Puerto Rico's tourism sector has significant room for growth</p> <ul style="list-style-type: none"> Global average of 9% GDP Opportunity to meet global average <p>U.S. economic recovery provides base to drive tourism sector recovery</p> <ul style="list-style-type: none"> Puerto Rico highly dependent on U.S. tourism, which declined significantly in 2008-2009, but has been steadily improving since 	<p>Most developed air access within all the Caribbean</p> <ul style="list-style-type: none"> Makes travel to/from PR faster and more convenient than any other Caribbean destination <p>Relationship with the U.S.:</p> <ul style="list-style-type: none"> Tourists do not need passports to come to the Island (making PR easy for short-term vacation segment) Tourists have the advantage of being in U.S. territory where medical and legal services are similar to their home states, making PR a safer destination. <p>Highest skilled labor force in the Caribbean, largely bilingual</p> <p>Modern infrastructure (roads, convention and meeting facilities, etc)</p>	<p>Promote and market Puerto Rico - Roll out "Five Star Reviews" and "Puerto Rico: All-Star Island" campaigns</p> <p>Improve air and maritime access - Expand into Lat Am., recover position as hub of Caribbean, grow cruise access, rebuild European connections</p> <p>Tourism product development - Expand range of accommodations, from ultra luxury to urban bed and breakfasts.</p> <p>Grow niche markets - Particular emphasis on luxury, nature, adventure, gastronomy, and sports tourism</p> <p>Strengthen quality and service - Ally with key academic institutions to develop tourism and quality and service educational programs</p>

Tourism: 408 jobs created and 1,025 committed (Jan - Sep 2013)

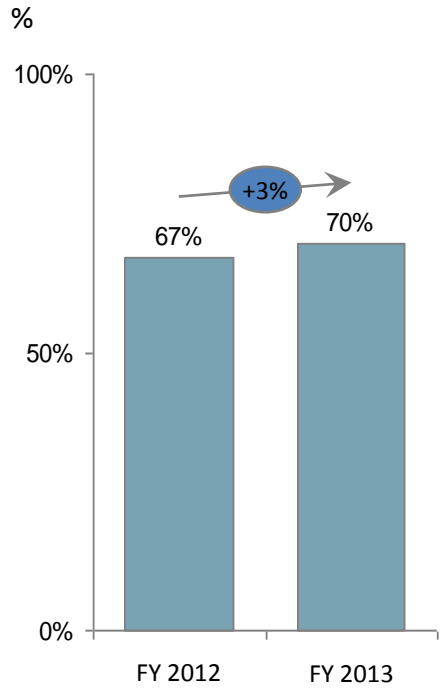
Jobs committed and created by category, as of Sept 24th

Created / Committed Jobs

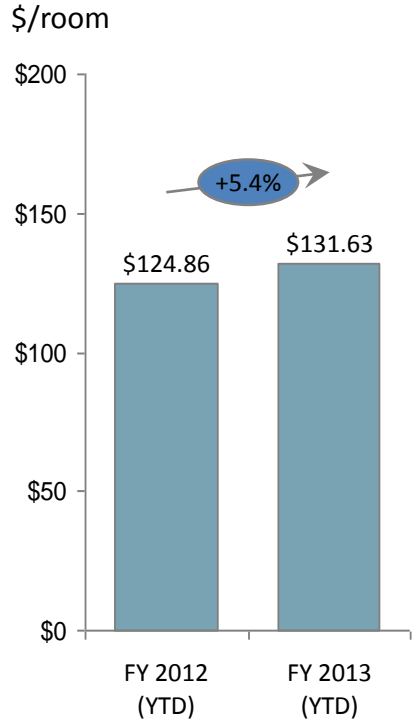


Key Tourism metrics are up in 2013 compared to 2012

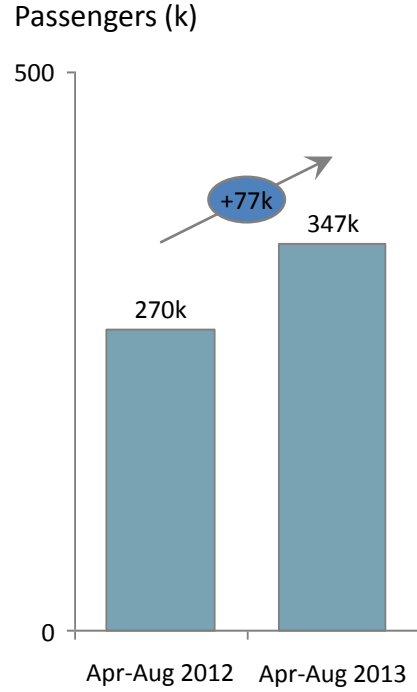
Occupancy (%) as of April 2013



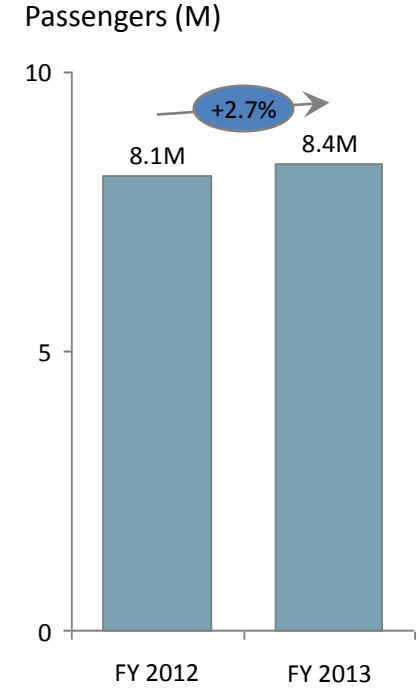
Average Room Rate (\$) as of April 2013



Cruise Passenger Movement



Airport Turnover (Total Passengers)



Source: PRTC - Registration and Occupancy %/ Average Room Rate (ARR\$) Report Surveys, April 2013; Puerto Rico Ports Authority

Target Growth Sector: Small & Medium Size Enterprises

<u>Focus sector</u>	<u>Vision</u>		
Small and Medium- Sized Enterprises	Build world-class SME support through a full suite of coordinated programs targeting SMEs at all levels of development		
<u>Why is this sector important?</u>	<u>Where is Puerto Rico today?</u>	<u>Key initiatives</u>	
<p>Small and medium-sized enterprises (SMEs) are the largest sector in Puerto Rico's economy - representing ~65% of employment¹ and up to 90% of companies²</p> <p>SMEs have struggled to recover from the economic downturn - small business bankruptcies in PR increased by over 8% from 2009-2011, compared to a decrease in 7.5% for the U.S. overall³</p>	<p>Today, there is no overarching strategy to support and grow SMEs</p> <ul style="list-style-type: none"> • ~ 11 government agencies and nongovernmental organizations (NGOs) are involved in supporting SMEs • Many have overlapping missions - offering redundant services or leaving open gaps • No central coordination mechanism to ensure that SMEs receive needed support (e.g., Puerto Rico Trade and Export Company cannot expedite loans from the Economic Development Bank) <p>Because services are spread through many agencies, additional burden on small businesses seeking support</p> <ul style="list-style-type: none"> • No "one-stop shop" where SMEs can seek help in a central location 	<ul style="list-style-type: none"> • Improve coordination of SME support services around the Island • Support entrepreneurial culture and development of innovative companies through educational programs, mentoring, and the establishment of incubators • Help SMEs start, expand, and succeed through targeted incentives/credit, business advisory programs, and coordinated financing • Take mature SMEs to the next level through trade and export programs, taking advantage of increased air and sea connectivity to Latin America and other key trade partners 	

1. "Puerto Rico: Small and medium-sized business sector initiatives for job creation." Presentation by the Economic Development Bank, May 2012. SME defined here as is a company with up to 250 employees and less than \$5M in sales. 2. U.S. Census Bureau, 2011 County Business Patterns. SMEs defined here as a company with up to 20 employees; Nearly 99% of all establishments counted had fewer than 250 employees. 3. Small Business Administration and the US Territories Small Business Profile 2012.

Jobs Now Act Commitments: 5,860 jobs (Mar - Oct 2013)

Jobs Now Act Overview

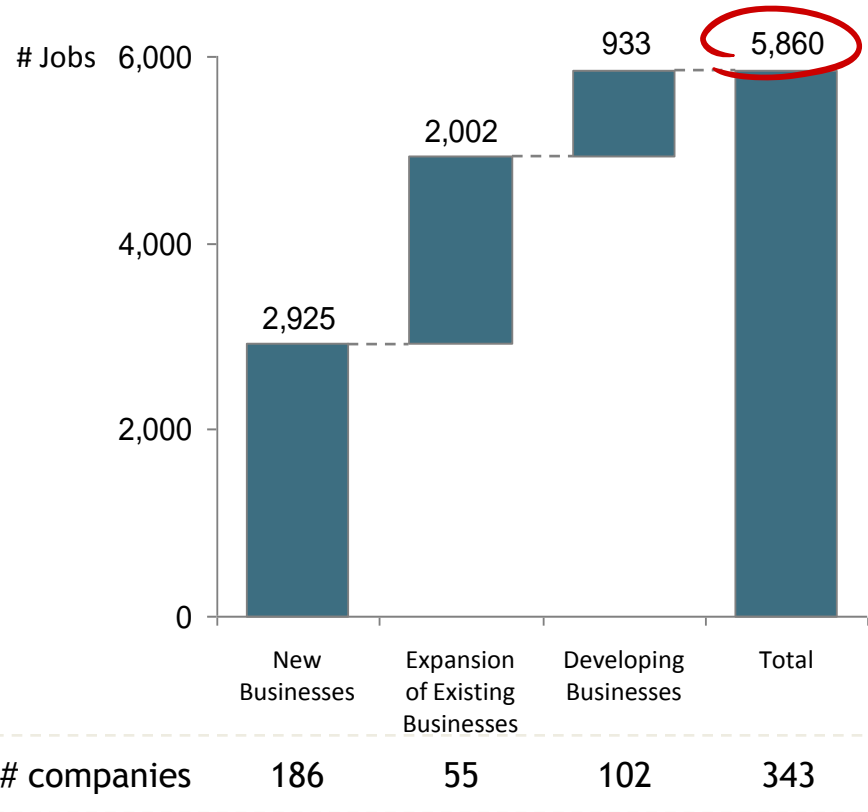
Jobs Now Act objective is to foster immediate job creation across the Island

- Eases the permitting process to enable the establishment and expansion of businesses
- Reduces costs of doing business by offering several tax and energy related credit incentives

Eligible businesses will then receive, the following incentives, among others:

- Discounts on worker compensation premiums to developing businesses (15 employees or less)
- Salary subsidies for hiring certain former public sector employees, women who are 40 or older, and indigent persons who are 25 or younger
- Salary subsidies for certain new co-op businesses
- Property and municipal tax exemptions for new businesses
- Special rental rates for certain PRIDCO and CCE properties
- Expedited application process for loans with the Economic Development Bank
- Credits for the payment of electricity

Jobs committed by type of eligible business, as of October 2



1. Total approved cases by LEA committee
Source: Consejo de Empleos a Corto Plazo, La Fortaleza (Week of Sep 24, 2013)

Life Sciences and Services



Our goal is to position **PUERTO RICO** as a GLOBAL LEADER in the **KNOWLEDGE ECONOMY**, based upon our competitive advantages to generate:

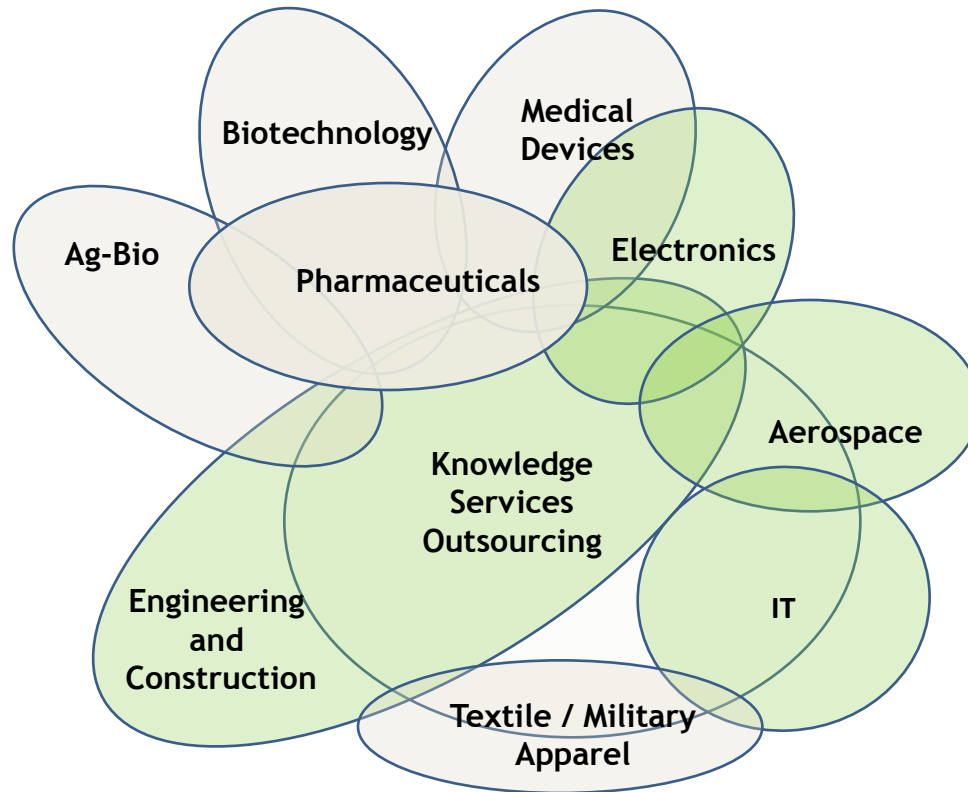
- ◆ **SUSTAINABLE ECONOMIC GROWTH**
- ◆ **JOB CREATION**

Strategic Priorities

- Protect existing industrial base
- Enable the expansion of existing companies through cluster strategies
- Attract new global (and local) companies to invest in Puerto Rico
- Identify emergent segments that match Puerto Rico's capabilities



Puerto Rico Strategic Clusters



Based on three major pillars:

Human Capital

Infrastructure

Regulatory, Financial and Institutional Environment

Target Growth Sector: BioPharma Manufacturing

<u>Focus sector</u>	<u>Vision</u>
BioPharma manufacturing	Preserve Puerto Rico's status as key BioPharma manufacturing location and increase share of growing sub-segments (generics) & advanced technologies (biologics)

<u>Why this sector?</u>	<u>Why PR can win</u>	<u>Key initiatives</u>
<p>BioPharma manufacturing represents ~25% of PR's GDP</p> <p>To date, ~17K people work in the sector</p> <p>Special attention needed to preserve jobs in this sector</p> <p>Focus to be placed in generics and biologics / biosimilars</p> <ul style="list-style-type: none"> • Generics sub-sector expected to continue fast growth • Most new products in innovation pipeline are biologics • Biologic technologies require higher quality manufacturing sites 	<p>PR is a proven, high-quality manufacturing location</p> <p>Opportunity to acquire high quality plants at low prices</p> <p>PR well suited for large batch production</p> <ul style="list-style-type: none"> • Benefit for biologics and niche drugs as they grow in scale <p>Low manufacturing cost compared to US and western countries</p> <p>PR uniquely advantaged of potential contract manufacturing opportunity</p> <ul style="list-style-type: none"> • High industry concentration • No IP concerns with generics 	<ul style="list-style-type: none"> • Defend existing Pharma operations • Opportunistically pursue generics and biologics / biosimilars <ul style="list-style-type: none"> – I.e. support repurpose of assets • Make innovative bets <ul style="list-style-type: none"> – Establish contract manufacturing operation – Enable direct to retail distribution – Invest in education for advanced technologies

Target Growth Sector: Medical Device Manufacturing

<u>Focus sector</u>	<u>Vision</u>
Medical device manufacturing	Consolidate Puerto Rico's position as a global manufacturing hub for the medical technology sector

Why this sector?

The medical technology sector has seen significant growth over the past decade (\$300B in sales with 7-8% growth projected through 2020)

The U.S. med tech market is the world's largest (~\$120 billion in sales in 2012)

U.S. manufacturers shifting to low cost and tax-advantaged locations abroad (e.g., Ireland, Latin America), in order to re-import to the U.S.

At \$4.5B in exports, Puerto Rico supplies ~2% of global med tech export market, on par with Singapore

Med tech sector supports over 19,000 jobs in Puerto Rico today

Why PR can win

PR has a 50-year history of life sciences manufacturing experience

Puerto Rico has a competitive advantage given tax incentives, skilled workforce, and U.S. jurisdiction (FDA, IP protection)

Industry trends favor Puerto Rico's positioning

- Industry consolidation leading to larger facilities, manufacturing network optimization
- Affordable Care Act's med device excise tax makes PR tax advantage more important

Opportunity to target companies seeking low-cost nearshore manufacturing for U.S. market

Key initiatives

Grow share from global giants already present in Puerto Rico - Support process innovation and production of higher value products

Create the Cardiac Cluster of the Americas - Establish PR as a global destination for cardiovascular device manufacturing

Attract companies from high-growth segments aligned with PR's strengths - Orthopedics/trauma, minimally invasive surgery, and vision/ophthalmic devices

Attract med tech suppliers to establish an advanced supply chain ecosystem - Opportunity to create significant competitive advantage for Puerto Rico

Target Growth Sector: Agriculture Biotechnology

<u>Focus sector</u>	<u>Vision</u>
Agriculture Biotechnology	Bolster Puerto Rico as the center for scientific crop R&D in the Americas

Why this sector?

Agricultural Biotechnology (R&D) employment expected to increase by 5.5% annually

- Result of rapid adoption of biotech crop technology in developing countries

Why PR can win

Major Ag Biotech companies are already operating in Puerto Rico:

- Monsanto, Illinois Crop, Pioneer, Ag Reliant Genetics, Dow Agro, Rice Tec, Syngenta Seeds, etc.

Puerto Rico offers major advantages to Ag Biotech companies:

- Positive weather and environmental conditions ideal for agriculture
- Quality labor force and employee availability
- Excellent soil quality
- Government incentives
- Easy transport to mainland U.S.
- Same regulatory environment as U.S.

Key initiatives

Vertical integration of research activities within established companies - Explore possibility of integrating trait identification and selection laboratories and genetic modification of seeds with companies already on Island

Diversify and add research capabilities to existing companies in PR - Expand research on improved seed varieties to include greenhouse vegetables (tomato, bell pepper, etc) and sugarcane varieties

Grow the availability of contract research in Agriculture Biotechnology - Expand and diversify contract research opportunities to smaller companies operating throughout the world

Target Growth Sector: Knowledge Services

<u>Focus sector</u>	<u>Vision</u>
Knowledge Services	Establish Puerto Rico as a global center for the Knowledge Services industry, especially focused on near-shoring

Why this sector?

Companies are seeking to specialize in core business and outsource other activities

- Solid growth for KS in past 10 years

Outsourcing shifting from pure cost arbitrage (low-cost focus) to higher productivity, better workforce profile

- Trend favors Puerto Rico, given highly-trained and bilingual labor pool

Ease of operations becoming increasingly important

- Clients want more control over outsourcing operations
 - Near-shoring, same time zone, ease of communications
- PR offers compelling proposition given proximity to mainland U.S.
- Talent pools in some areas becoming saturated (e.g., Chile, Costa Rica)

Why PR can win

PR has convincing value proposition for America-focused near-shoring

- Low cost structure and solid tax incentives (Act 20, 22 and 73)
- Highly-skilled workforce, better trained than region's competitors

As U.S. jurisdiction, PR has access to industries with U.S. soil requirement

- PR ideal destination for US A&D, financial services

Recognized through high ranking from World Economic Forum (#30), higher than Chile, other competitors

Key initiatives

Establish PR as a worldwide KPO hub: Provide knowledge services to clients worldwide, with focus on the Americas and mainland U.S.

Selectively go after integrated outsourcers: Large integrated outsourcers with presence across the sector, with high potential for job creation

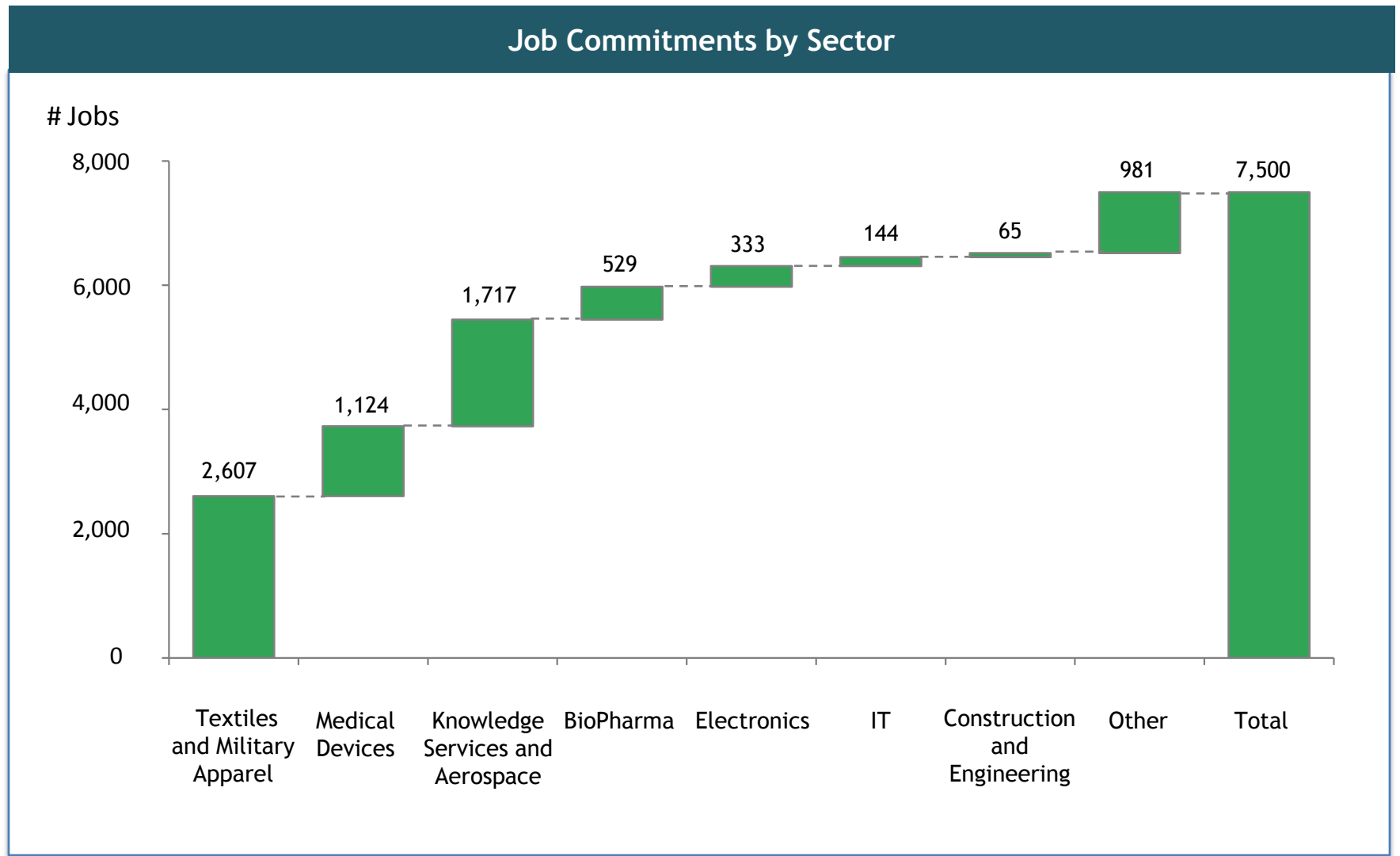
Expand ITO and BPO sectors: Focus on clients with presence in the Americas, seeking to expand to U.S./Caribbean - promote software development

Build on initial progress to expand in Aerospace & Defense: Focus on U.S. industry across all KS sectors, with concentration in ER&D and support functions

Sample deals achieved YTD 2013

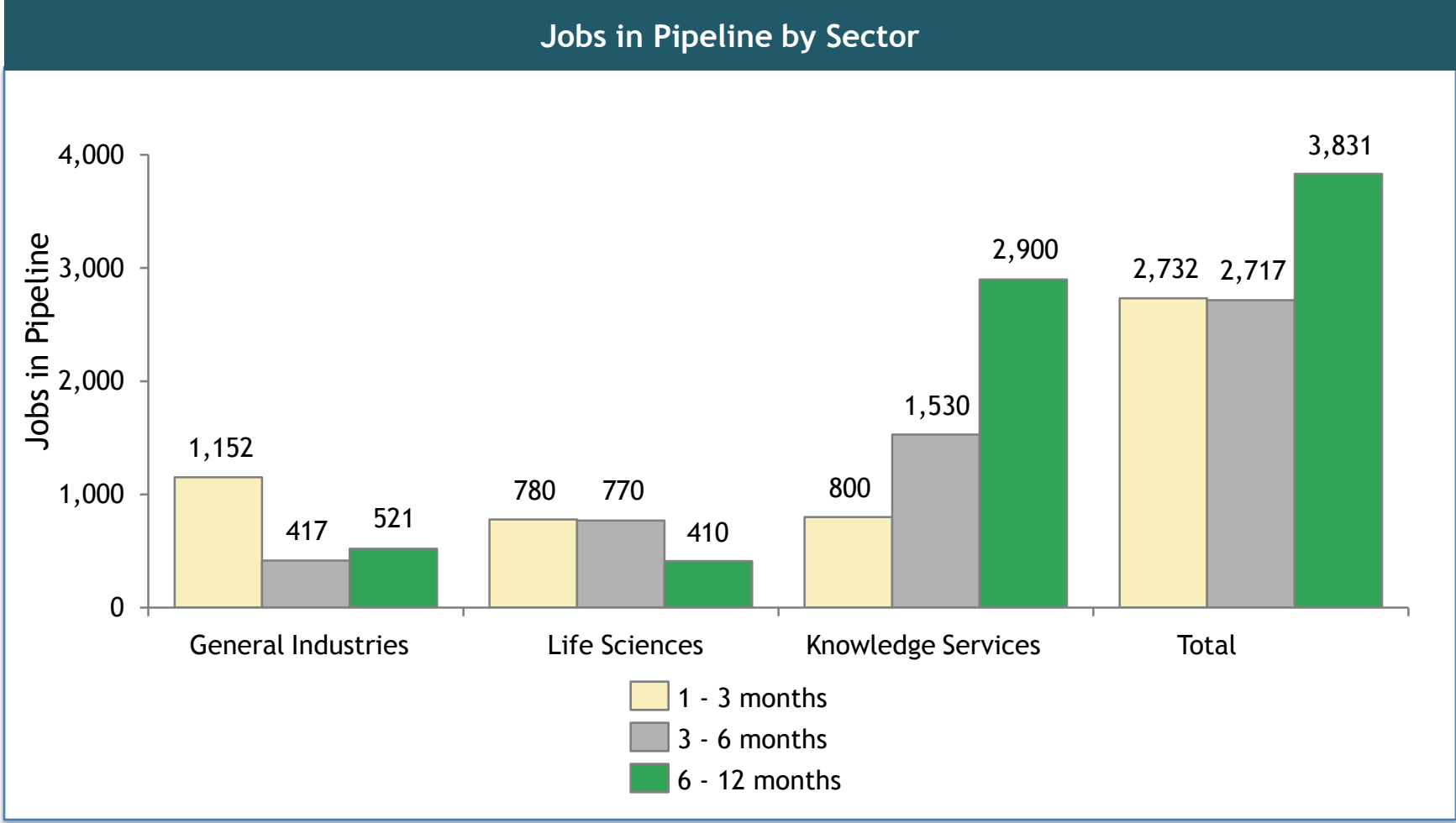
Company	Job Commitment / Date	Segment
AON Hewitt	200 / February 2013	Knowledge Services
Covidien	200 / April 2013	Medical Devices
CooperVision	350 / April 2013	Medical Devices
IBM / True North	400 / May 2013	Knowledge Services
Proper International	2,200 / September 2013	Military Apparel

Job Commitments (January - September 2013): 7,500



Expected new jobs based upon ongoing negotiation: 9,280 in the next 12 months

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Life Sciences Sector includes: Pharmaceuticals, Bio Technology, Ag-Bio & Medical Devices

Knowledge Services Sector includes: Aerospace & Defense, Information Technology, telecommunications

General Industries Sector includes: Electronics, Engineering & Construction, Textile / Military Apparel, and Others

Agenda

1 Credit Accomplishments

2 Revenue and Expense Update

3 Economic Development

4 Financing Highlights

5 Concluding Remarks

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GDB promotes fiscal stability and economic development through four primary roles

1
**Lending
Institution**

Structures and approves all permanent financing and provides interim and permanent lending, together with private financial institutions, to government entities

2
Fiscal Agent

Oversees the credit and financial management of the Commonwealth, its municipalities, agencies and public corporations

3
**Financial
Advisor**

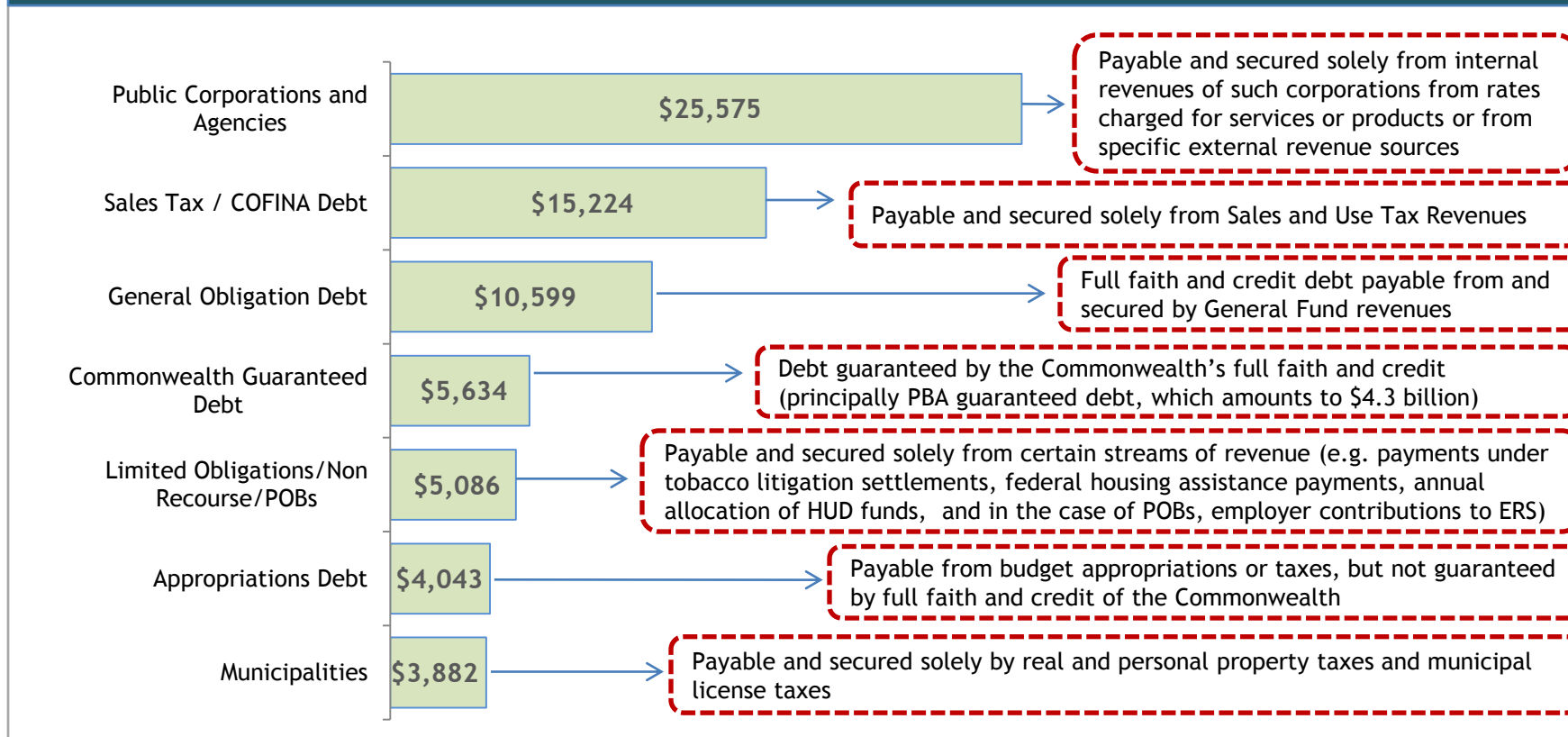
Manages all financings and capital market activities for the Commonwealth, its municipalities, agencies and public corporations

4
**Economic
Development**

Promotes investment in strategic projects to fuel economic development and growth

GDB, as fiscal agent, oversees the Commonwealth's credit and approves the terms of any debt issuance

Puerto Rico outstanding debt by category as of June 30, 2013 (in millions)



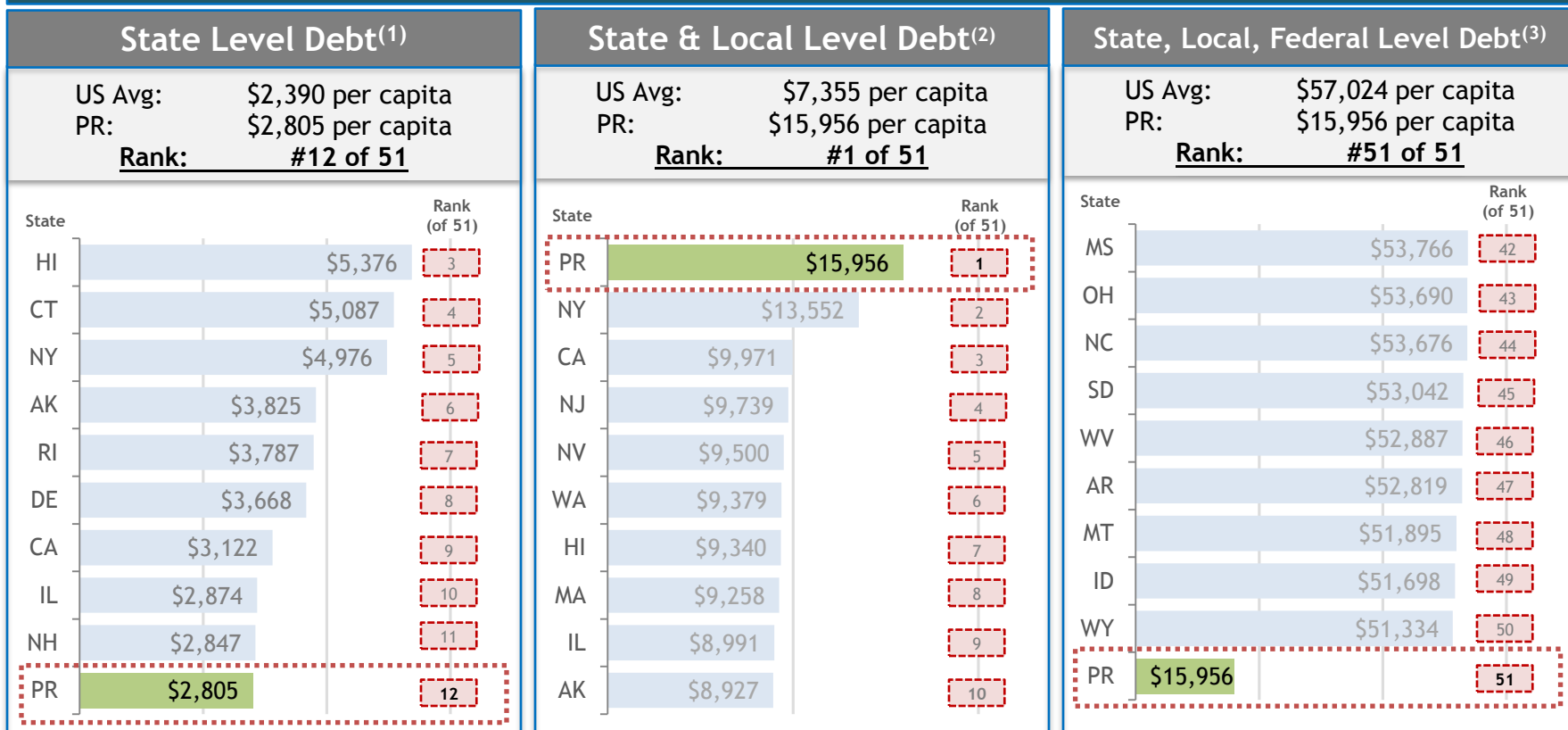
The consolidated budget of the Commonwealth, its agencies, and instrumentalities, including federal funds, but excluding municipalities, is approximately \$29 billion per year.

Note: For a comprehensive description of the outstanding debt of the Commonwealth, its agencies and instrumentalities, see "Commonwealth of Puerto Rico—Financial Information and Operating Data Report—DEBT—Public Sector Debt", dated October 15, 2013.

GDB believes that any comparison of the public debt levels of Puerto Rico with the states should include state, local and federal debt

If one factors in the federal debt load, PR would rank last in outstanding debt per capita amongst all US jurisdictions*

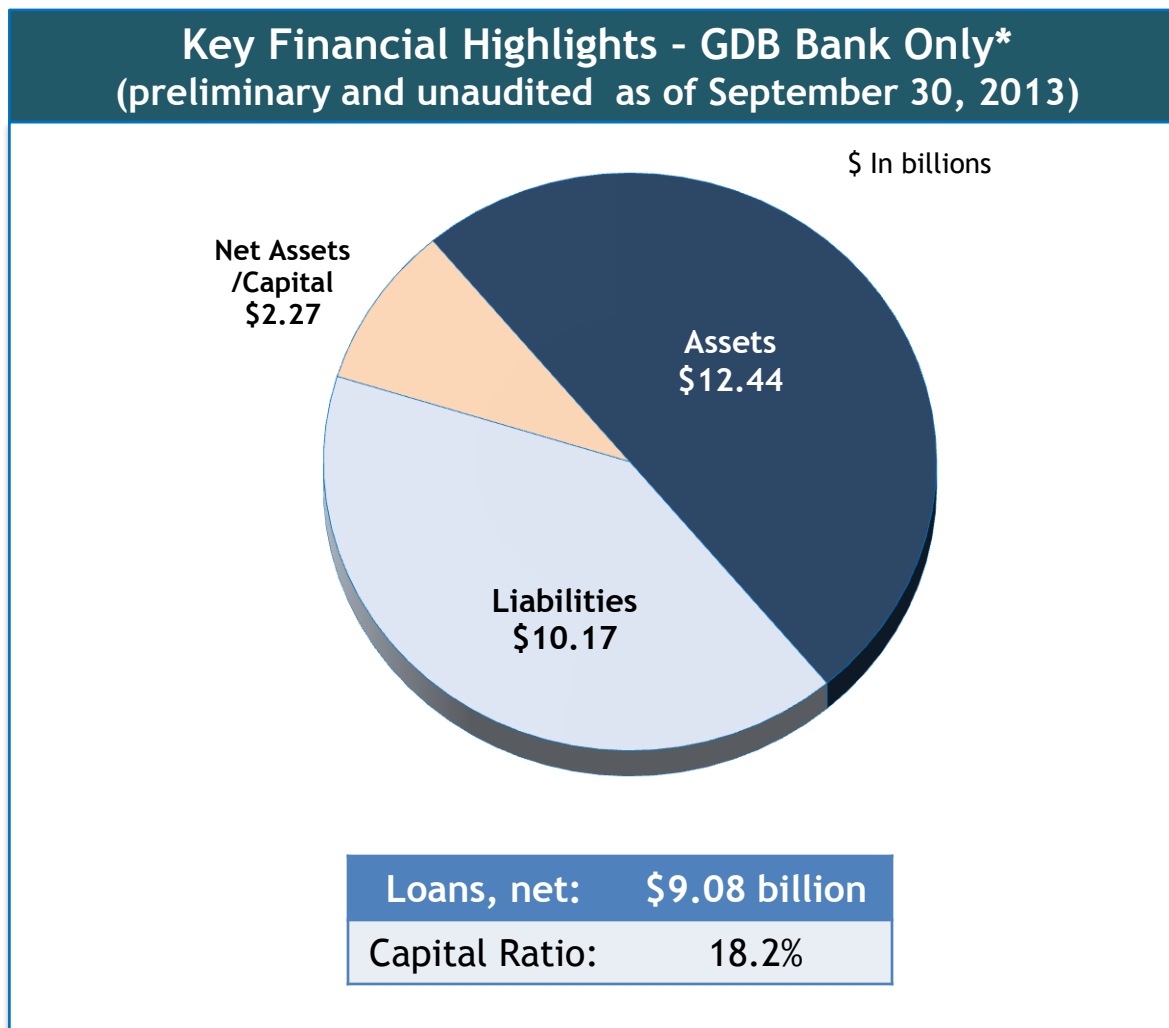
Puerto Rico Debt Per Capita vs the USA Comparison Analysis as of June 30, 2011 (in millions)



*Source: US Bureau of the Census and the Government Development Bank for Puerto Rico
 (1) For Puerto Rico State Debt includes GO debt.
 (2) For Puerto Rico local debt includes debt of Municipalities and Public Corporations.
 (3) US Federal Debt per capita is \$49,669

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The strength of GDB's balance sheet enables it to continue providing liquidity support to the Commonwealth



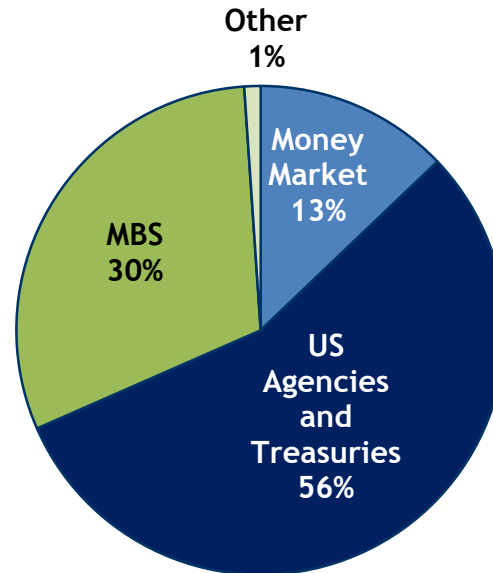
* GDB serves a multi-purpose economic development mandate through the direct oversight of 5 subsidiaries. "GDB Bank Only" information refers only to the bank's operating activities, excluding subsidiaries and other component units.

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GDB's investment portfolio consists primarily of high quality, liquid securities*

Investment Portfolio Composition (\$ in millions, mark-to-market)

September 30, 2013*



Market Value: \$2.77 B

- High-grade investment portfolio (98.6% > A-)
- Portfolio average life is 3.48 years

* Preliminary financial information is unaudited and subject to change as of September 30, 2013.

GDB has a diversified and stable source of funding

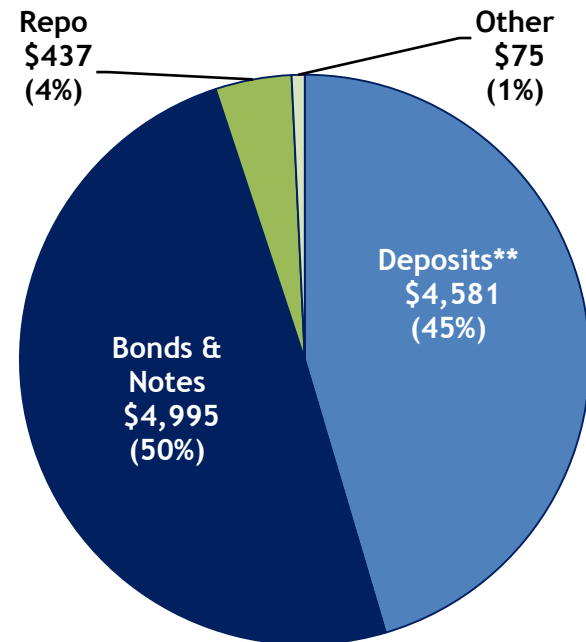
Diversified Funding Sources

- Approximately \$5 billion in GDB notes provide locked-in rates and multi-year, staggered maturity structure.
- The primary source of short-term funding are public sector deposits (\$4.1 billion).
- The Office of the Commissioner of Financial Institutions informed that there are currently approx. \$2.8 billion in governmental deposits at private institutions, a significant portion which could be brought to the GDB in short order.
- GDB has nine Master Repurchase Agreements (MRAs) with primary dealers which provided aggregate REPO commitments in excess of \$2 billion dollars as of September 30, 2013.

Cost and Average Life of Funding Sources*

	Average Cost	Average Life
Liabilities	2.72%	2.70 Y

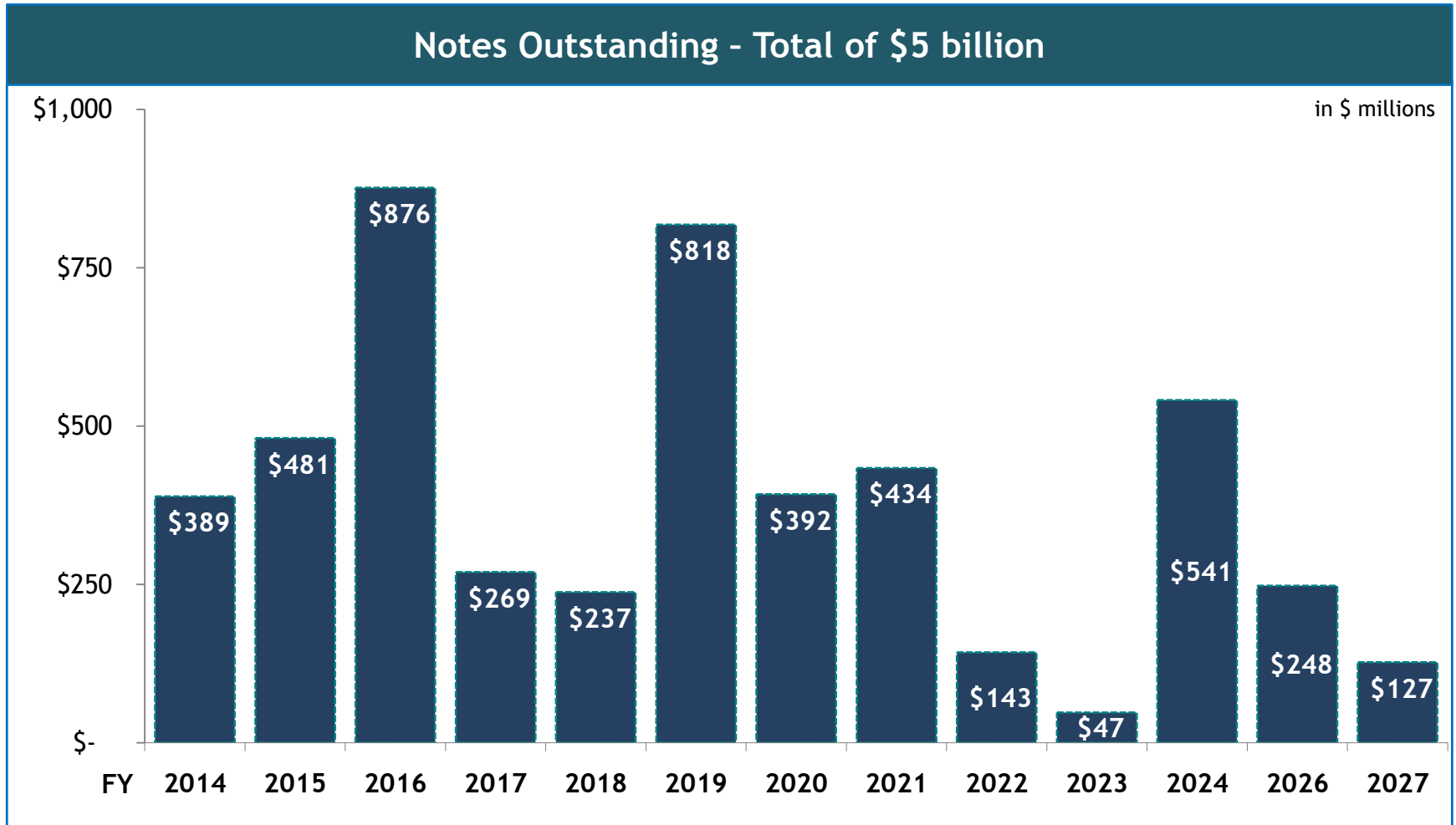
in \$ millions



* Unaudited and preliminary financial information as of September 30, 2013.

** Includes demand deposits, CDs and private deposits.

Staggered maturities of our Senior Notes program reduce roll-over risk



* As of September 30, 2013. Outstanding amount distributed as of fiscal year.

Projected Transaction Calendar*

Current Calendar Year	Calendar Year 2014
<p><u>Sales Tax Financing Corp. (COFINA)</u> Restructuring FYs 2013-2014 (103)</p>	<p><u>Sales Tax Financing Corp. (COFINA)</u> Restructuring FYs 2013-2014 (103)</p> <p><u>Highways and Trans. Auth. (HTA)</u> GDB L/C's (Take-out)(103)</p>

- GDB's capital markets plan for the remainder of the calendar year is limited to between \$500 million and \$1.2 billion of debt, depending on market conditions.
- The GDB is only contemplating a bond issuance through COFINA for the rest of the calendar year.
- Measures taken to provide HTA with approximately \$270 million in new revenues have significantly diminished HTA's needs to access the capital markets in the short-term.

The Commonwealth and the GDB have the financial flexibility to adjust its financing plan and transaction calendar as necessary

*Preliminary and subject to change without notice, including as a result of changing market conditions.

New COFINA Legislation

- With the enactment of Act 116-2013, the Sales and Use Tax percentage allocated to COFINA is increased from 2.75 percent to 3.50 percent, increasing Puerto Rico's financing capacity.

COFINA's credit is bolstered by strong legal protections for bondholders

COFINA is secured by a stable stream of revenues that is not subject to "claw-back"

- Law 91-2006, which created COFINA, transferred ownership of a portion of the Sales Tax to COFINA and provided that any transferred portion was not "available resources" under the Constitutional provisions relating to full faith and credit bonds.
- COFINA will close, by resolution, its Senior and First Subordinate liens (except for refundings that generate savings).
- Law provides that no amendments to the law shall impair any obligation to COFINA bondholders.
- For a future legislature to exercise its constitutional power to limited or restrict the SUT, COFINA's bond documents require written confirmation of all outstanding ratings, taking the substitution into account, and opinions confirming that new revenue would not constitute "available resources".
- US-based Bond Counsel, PR-based Underwriter's Counsel and the PR Secretary of Justice have provided, for each COFINA transaction (13 in total), strong legal opinions that the SUT is not subject to "claw-back" by GO bondholders under the PR Constitution.
- "Claw-back" opinion enjoys broad bipartisan support: four different Secretaries of Justice, serving three different administrations (of alternating political parties), have issued official opinions that the SUT allocated to COFINA is not subject to "claw-back".
- Any new COFINA transaction would again receive "claw-back" opinions from Bond Counsel, Underwriter's Counsel and the PR Secretary of Justice.
- Legal opinions can be made available for review by existing and prospective bondholders

COFINA is the best rated credit among Puerto Rico issuers and has historically been the most attractive source of financing for the Commonwealth.

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GDB expects to have the liquidity necessary to fund the Commonwealth's needs through at least fiscal year 2014

- The GO has \$786 million in short-term financings maturing during FY 2014 that the Commonwealth expects to manage through refinancings, or repayments in full.
- GDB has addressed the short-term financing needs of our main public corporations.
 - PRASA does not need funding from the Commonwealth or GDB to cover its operational expenses or finance its capital improvement plan as a result of its recent rate increase.
 - HTA's \$270 million in additional recurring revenues allows HTA to begin amortizing its outstanding financing with GDB and other financial institutions and fund its operational expenses.
 - PREPA issued approximately \$673 million in bonds in August 2013, funding PREPA's capital improvement plan for the next two years.
 - The Commonwealth's cash flow needs for FY2014 have been met through the issuance of \$1.2 billion in Tax and Revenue Anticipations Notes.
- Additional financing alternatives available to the Commonwealth and GDB include:
 - Accessing, within a short timeframe, a significant amount of the approximately \$2.8 billion in unrestricted government deposits in private financial institutions.
 - Entering into secured or unsecured credit lines with private financial institutions.
 - Securing medium-term or long-term private placements with institutional investors.

Even without extraordinary measures, Puerto Rico can choose not to access the capital markets during FY 2014.

Agenda

1 Principal Credit Accomplishments

2 Revenue and Expense Update

3 Economic Development

4 Financial Highlights

5 Concluding Remarks

We have delivered on our investors' expressed concerns

- ✓ Our track record proves that we have the political will and ability to address each of our investors' concerns in a swift, decisive and unprecedented manner.
- ✓ The tough decisions made by this Administration stand in stark contrast with the failure of many other U.S. jurisdictions, and previous Commonwealth administrations, to take similar steps to address their fiscal and economic challenges.
- ✓ We know that there is yet work to be done. Our plans include:
 - Filing, before the end of the calendar year, a comprehensive reform of our teacher's pension system in order to ensure that the system never runs out of assets, alleviating future pressure on the General Fund.
 - Cutting our deficit by submitting a budget for fiscal year 2015 that contains no new deficit financing and reduces to approximately \$400 million or less our need for debt service restructurings.
 - Taking necessary action to eliminate the budget deficit completely by no later than fiscal year 2016.
 - Ensuring that tax revenues remain on track with estimates and acting decisively to address any projected revenue shortfall or overspending.
 - Executing the economic growth plan that will result in immediate and long-term results.

The people of Puerto Rico are confident that investors will recognize what we have accomplished responsibly through hard work and shared sacrifice.

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Puerto Rico will take action to improve its disclosure practices and increase information available to investors

Actions to improve disclosure practices

GDB will begin holding regular investor webcasts at least once per quarter

GDB will publish the Commonwealth Report on a regular quarterly basis

Treasury and OMB will continue providing revenue and expense updates at least once per month

Consistent with PREPA's disclosure practices, PRASA and HTA will begin posting their quarterly and, when ready, their monthly results on their webpage

GDB will continue to hold its annual Credit Conference in Puerto Rico

GDB will require disclosure counsel for all bond issuances

The Commonwealth and GDB are committed to observe best disclosure practices and improve our relationship with our investor base

Appendix A - YTD Revenue Detail

Fiscal 2014 YTD General Fund Revenues

YTD General Fund Revenues (July - September)							
(in millions) Tax Type	YTD Results				Estimated Jul-Sep FY2014	Revenues vs Estimated (\$)	Revenues vs Estimated (%)
	FY13	FY14	Variance	% Change			
Individual	\$438.90	\$415.40	(\$23.50)	-5.35%	\$448.10	(\$32.70)	-7.30%
Corporations	\$233.90	\$357.70	\$123.80	52.93%	\$344.50	\$13.20	3.83%
Non-Resident Withholdings	\$142.50	\$119.70	(\$22.80)	-16.00%	\$129.70	(\$10.00)	-7.71%
Sales and Use Tax	\$0.00	\$0.00	\$0.00	0.00%	\$0.00	\$0.00	0.00%
Property Taxes	\$3.30	\$7.00	\$3.70	112.12%	\$0.00	\$7.00	0.00%
Foreign (Act 154)	\$446.20	\$435.00	(\$11.20)	-2.51%	\$416.40	\$18.60	4.47%
Alcoholic Beverages	\$62.30	\$63.70	\$1.40	2.25%	\$63.80	(\$0.10)	-0.16%
Tobacco Products	\$43.70	\$37.70	(\$6.00)	-13.73%	\$37.90	(\$0.20)	-0.53%
Motor Vehicles	\$78.90	\$80.70	\$1.80	2.28%	\$72.50	\$8.20	11.31%
Off-Shore Shipment Rum Excise	\$72.50	\$88.20	\$15.70	21.66%	\$84.40	\$3.80	4.50%
Others	\$88.60	\$93.70	\$5.10	5.76%	\$91.10	\$2.60	2.85%
Total YTD Results	\$1,610.80	\$1,698.80	\$88.00	5.46%	\$1,688.40	\$10.40	0.62%

Sales Tax Fiscal 2014 YTD Revenue

SUT Revenues (in millions)

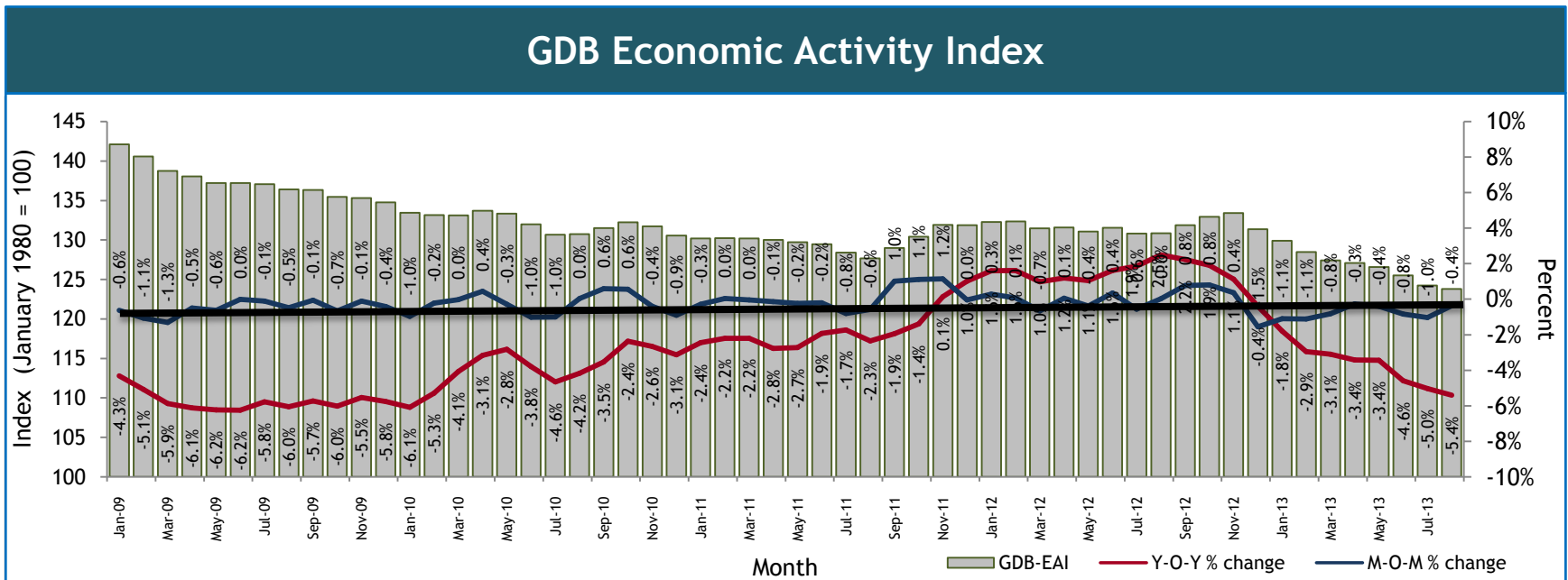
	FY13	FY14	FY13 to FY14 Variance	FY13 to FY14 %	FY2014 Budget	FY2014 Actual Vs Budget (\$)	FY2014 Actual Vs Budget (%)
July	\$102.90	\$111.50	\$8.60	8.36%	\$105.20	\$6.30	5.99%
August	\$93.90	\$96.30	\$2.40	2.56%	\$96.10	\$0.20	0.21%
September	\$92.60	\$97.50	\$4.90	5.29%	\$99.30	(\$1.80)	-1.81%
YTD Results	\$289.40	\$305.30	\$15.90	5.49%	\$300.60	\$4.70	1.56%

Appendix B - GDB-EAI

Understanding the GDB Economic Activity Index

The GDB-EAI is an indicator of the general economic activity, not a direct measurement of the real GNP. The GDB-EAI annual growth rates are not the same as the real GNP growth rates, because the former are more volatile than the latter.

- When it is annualized, the level of the EAI is highly correlated with the level of the real GNP. Nevertheless, the annual growth rate of the EAI IS NOT the same as the annual growth rate of the real GNP. Being highly correlated does not mean being equal.
- The negative indicators of the GDB-EAI for 2013 may have been accentuated by the consequences of the election cycle in 2012, which activated particularly the construction and the services sectors, and the revision of the payroll employment benchmark, which increased the employment base for 2012. Finally, the employment reductions during the past three months have been more noticeable due to the significant reduction in state and local public employment, both related to Act 3 of 2013.





The Commonwealth of Puerto Rico

Update on Fiscal and Economic Progress

Q & A Session

EXHIBIT 27



FEMA

JAN 09 2018

Mr. Gerardo J. Portela Franco
Executive Director and Chairman of the Board
Fiscal Agency and Financial Advisory Authority
Government of Puerto Rico
Roberto Sánchez Vilella Government Center
De Diego Avenue, Stop 22
San Juan, Puerto Rico, 00907

Dear Mr. Portela Franco:

This letter summarizes the Federal Government's policy for providing Community Disaster Loan (CDL) Program assistance to the Commonwealth of Puerto Rico, its instrumentalities, and municipalities as a result of Hurricanes Irma (DR-4336-PR) and Maria (DR-4339-PR).

The purpose of the CDL Program is to provide loans to eligible recipients that have suffered a substantial loss of tax and other revenues as a result of a major disaster and that demonstrate a need for Federal financial assistance to perform essential governmental functions. The *Additional Supplemental Appropriations for Disaster Relief Requirements Act of 2017*, signed into law by the President on October 26, 2017, included \$4.9 billion for CDLs to assist the Commonwealth of Puerto Rico, the U.S. Virgin Islands, and local governments in Florida and Texas in maintaining essential services as a result of Hurricanes Harvey, Irma, and Maria.

Implementing the CDL Program in the Commonwealth must be undertaken in a manner that is compatible with the ongoing financial restructuring of the Commonwealth's financial obligations, including pursuant to the Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA). For example, pursuant to PROMESA the Financial Oversight and Management Board (FOMB) must approve any new debt incurred by the Commonwealth or by any of its instrumentalities that the FOMB has designated as covered territorial instrumentalities under PROMESA, including the Puerto Rico Electric Power Authority (PREPA) and the Puerto Rico Aqueduct and Sewer Authority (PRASA). Title III of PROMESA also established a bankruptcy-like restructuring process for Puerto Rico and its covered territorial instrumentalities. As you are aware, the Commonwealth and PREPA have filed for Title III restructuring; PRASA has not.

As a result of Hurricanes Irma and Maria, the Commonwealth, PREPA, and PRASA projected in late September 2017 that they would exhaust their operating funds on or about October 31, 2017. However, as of December 29, 2017, the Commonwealth's central cash balance was approximately \$1.7 billion. It is our understanding that the higher-than-expected central cash balance three months after the hurricanes resulted from greater-than-expected receipts, strategic management of payables, and the structure of relief funds from FEMA and other federal agencies, among other factors, although a review of the underlying detail is still underway. In addition to its central cash balance, on December 18, 2017, the Commonwealth released a report indicating that \$6.875 billion in unrestricted and restricted cash was on deposit in over 800 accounts across all Commonwealth governmental entities. Despite these Commonwealth cash balances, the Commonwealth now indicates that PREPA

and PRASA have an imminent need for liquidity in January 2018, and, as a result, each entity has applied for a CDL to cover operating expenditures.

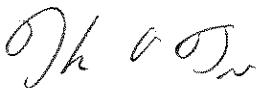
Because the Commonwealth's central cash balance, as publicly reported, has consistently exceeded \$1.5 billion in the months following the hurricanes, and considering the implications of the reported \$6.875 billion of total cash across the Commonwealth, the Federal Government will institute, as a matter of policy, a Cash Balance Policy that will determine the timing of CDLs to the Commonwealth and its instrumentalities, including PREPA and PRASA. Under this Cash Balance Policy, funds will be provided through the CDL Program when the Commonwealth's central cash balance decreases to a certain level. This Cash Balance Policy level will be determined by the Federal Government in consultation with the Commonwealth and the FOMB.

The current posture of the Federal Government is to disburse CDL program financing directly to the Commonwealth, which could then sub-lend to its various entities (including PREPA and PRASA), although this approach may be revised over time. Subsidiary borrowers will be expected to comply with reporting, repayment, and collateral requirements that apply to the primary borrower. Unless the Cash Balance Policy level is reached, however, the Commonwealth will need to support its own liquidity needs and those of PREPA and PRASA.

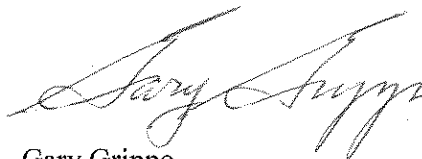
Notwithstanding the above policy, local governments (as such term is defined in 42 U.S.C. § 5122(8)) in Puerto Rico, including the 78 municipalities, will be eligible to apply directly for CDLs independent of the Commonwealth under the traditional terms and conditions of Section 417 of the Robert T. Stafford Disaster Relief and Emergency Assistance Act, 42 U.S.C. §5184 (irrespective of the cash balance of the Commonwealth). Under these terms, a local government demonstrating a substantial loss of revenues may receive a streamlined CDL up to 25 percent of its annual budget, subject to a \$5 million cap. FEMA will make arrangements to meet directly with the local governments and their management associations the week of January 15, 2018, in Puerto Rico to facilitate applications to the CDL Program on the most timely basis possible consistent with program terms and requirements. If it is determined that a local government should require assistance beyond the \$5 million cap, the Federal Government will consider providing additional financing under different terms and conditions, as appropriate.

FEMA and the Department of Treasury look forward to continuing to work with the Commonwealth of Puerto Rico and its instrumentalities and local governments to ensure funding is available for operating expenses to perform governmental functions while respecting the PROMESA Title III proceedings, the statutory authorities granted to the FOMB under PROMESA, and the overall fiscal condition of the Commonwealth and its instrumentalities and local governments.

Respectfully,



Alex Amparo *for*
Assistant Administrator Recovery Directorate
Federal Emergency Management Agency



Gary Grippo
Deputy Assistant Secretary for Public Finance
U. S. Department of Treasury

cc: Governor Ricardo Rosselló Nevares, Commonwealth of Puerto Rico
Financial Oversight and Management Board, Commonwealth of Puerto Rico
Puerto Rico State Agency for Emergency and Disaster Management
U.S. Office of Management and Budget

EXHIBIT 28

Reorg Research

Puerto Rico

Resident Commissioner Says Commonwealth Should Analyze Using Budget Surplus to Make Debt Interest Payments, Calls Lack of Market Access 'Dangerous'

Fri 03/02/2018 16:14 PM

Resident Commissioner Jennifer González said this afternoon that the administration of Gov. Ricardo Rosselló should consider using any budget surplus to pay interest on its public debt, a move which she said could help regain investor trust and reopen capital markets for the Puerto Rico government. She also expressed confidence that the commonwealth government will receive a Community Disaster Loan of more than \$2 billion from the federal government during the current fiscal year. The resident commissioner spoke after delivering a speech at a Minority Business Development Agency event in San Juan. González gave an overview of the federal disaster aid coming to the island and pledged to fight to ensure that local contractors participate in the recovery and rebuilding work on the island.

The resident commissioner said that the [recently approved \\$16.5 billion](#) injection of federal funding in critical areas such as healthcare “will relieve the pressure of having to make payments that you had to make before” and open the way for the government to begin analyzing making debt payments. “Making a serious evaluation will contribute to creating the environment that will enable Puerto Rico access these markets again. We are going to be in hurricane season again in a few months, and we don’t have access to these markets. This is very dangerous,” she said, adding that the state government needs market access despite the federal government disaster funding.

“I have confidence in what the governor is doing, but I believe if there is a surplus, after complying with pensions and other obligations, there should be an evaluation as to whether you can at least pay the interest on the debt,” she added. González also said such a move would bring more “certainty” to Puerto Rico’s bond market. She noted that local COFINA and general obligation bondholders are not currently investing because of the uncertainty, which is harming the island economy. This is another consideration in restarting interest payments, she said.

González said she has not discussed the issue with Gov. Ricardo Rosselló and declined to speculate whether the move would win commitments from creditors to lend to the commonwealth once again.

The resident commissioner said her call for an analysis of resuming interest payments is completely separate from the CDL issue and expressed confidence that the commonwealth government could get a loan of \$2.065 billion. González said she met with U.S. Treasury officials on Tuesday after Rosselló [sent a letter](#) to congressional leaders complaining about the “arbitrary conduct” by federal officials that has “effectively blocked Puerto Rico’s access to approximately \$4.7 billion in CDL program funds that Congress made available last fall.”

The resident commissioner said that the CDL is meant to cover revenue losses and unexpected payments by jurisdictions in the wake of disasters, and Treasury officials explained to her that the reduced \$2.065 billion corresponds to the losses the commonwealth was able to demonstrate. González said she is against the U.S. Treasury policy that conditions release of CDL proceeds on the commonwealth’s cash balance dipping below \$800 million.

Two sources familiar with the matter said the U.S. Treasury’s cash balance policy is akin to a rejection of the lending because the commonwealth’s cash balance is not expected to dip that low. The day after [the governor’s letter](#) was released, the U.S. Treasury issued [a release](#) highlighting its cash balance policy and stated that it was putting in place loan documentation for the Puerto Rico government to “quickly access funding” should the commonwealth’s cash balance fall below \$800 million

However, the resident commissioner said her office is arranging a meeting with U.S. Treasury, commonwealth and PROMESA board officials that is aimed at “harmonizing the need that the Puerto Rico government has” with these requirements, and she expressed confidence that the loan proceeds would begin flowing during the current fiscal year.

González emphasized that the CDL process for island municipalities is under way, and she said she expects all towns to receive the financing to cover their needs. Although the program is typically capped at \$5 million, she said large town governments will be able to receive more in order to cover their losses and that towns will have a full year under the program to assess their financial losses.

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EXHIBIT 29



A final fiscal plan is subject to the approval of the Board of Directors of the Puerto Rico Highway and Transportation Authority as per Law 74 June 23, 1965 as amended and the PRHTA Bylaws.

The Puerto Rico Fiscal Agency and Financial Advisory Authority (“AAFAF”), the Puerto Rico Highway and Transportation Authority (the “PRHTA”), the Government of Puerto Rico (the “Government”), and each of their respective officers, directors, employees, agents, attorneys, advisors, members, partners or affiliates (collectively, with AAFAF, PRHTA and the Government instrumentalities the “Parties”) make no representation or warranty, express or implied, to any third party with respect to the information contained herein and all Parties expressly disclaim any such representations or warranties.

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I. Executive Summary



Executive Summary

- The Puerto Rico Highway and Transportation Authority (PRHTA) is a public corporation responsible for developing, operating and maintaining Puerto Rico's toll road network, major highways and mass transportation facilities. The current Administration has developed an aggressive plan to obligate \$135 million annually from Federal Highway Administration (FHWA) and \$20 million from Federal Transit Administration (FTA) for projects meeting four key objectives including: (a) transit security and safety projects, (b) improvement of existing transportation infrastructure, (c) complete highway systems, and (d) congestion mitigation. Although this has not been the norm of the agency, PRHTA had difficulties in obligating and deploying federal funds during the last 3 years.
- In order to maximize the infrastructure development in Puerto Rico, PRHTA is revamping its operations and streamlining its project delivery process. With this in mind, A Memorandum of Understanding was signed in February 2016 between Secretary of the Federal Department of Transportation and the Government of Puerto Rico geared at improving PRHTA's operational effectiveness through several key initiatives, some of which are already in progress.
- PRHTA's current fiscal situation reflects a \$4.49 billion financial gap for the next 10 year mostly impacted by the clawback provision which redirects 73%, or about \$4.57 billion, of its operating revenues to the Central Government. Bondholders of the PRHTA are expected to cease receiving money for debt repayment by July 2017, when the reserve funds that have been used until now run out. In light of this financial reality and in accordance with the current Administration's public policy, PRHTA will implement several measures geared at optimizing its operations with fiscal measures with an impact representing \$616 million during the 10 year, or 14%, of the current financial gap.
- A default of PRHTA with any of its obligations may trigger questions as to its financial capacity, a key requirement to receiving applicable grants from the FHWA and FTA. Furthermore, in the case of FTA, the reimbursement of previous funds may be requested if the use of an asset, previously federally funded, is discontinued. PROMESA establishes a process for the restructuring of debt (voluntary or involuntary) towards sustainable levels but not before the certification of its Fiscal Plan by the Oversight Board, among other requirements. The Government of Puerto Rico and its instrumentalities (including PRHTA) expect to continue this process in order to strengthen its financial capacity. PRHTA will also continue to work with all the federal agencies (including FTA & FHWA) as Partners throughout this process in order to achieve our common financial and operational objectives.



II. DESCRIPTION OF PRHTA



Puerto Rico Highway and Transportation Authority

Mission

Lead Puerto Rico towards economic development through an efficient transportation system, safely and in accord with the environment, while procuring the delivery of excellent service

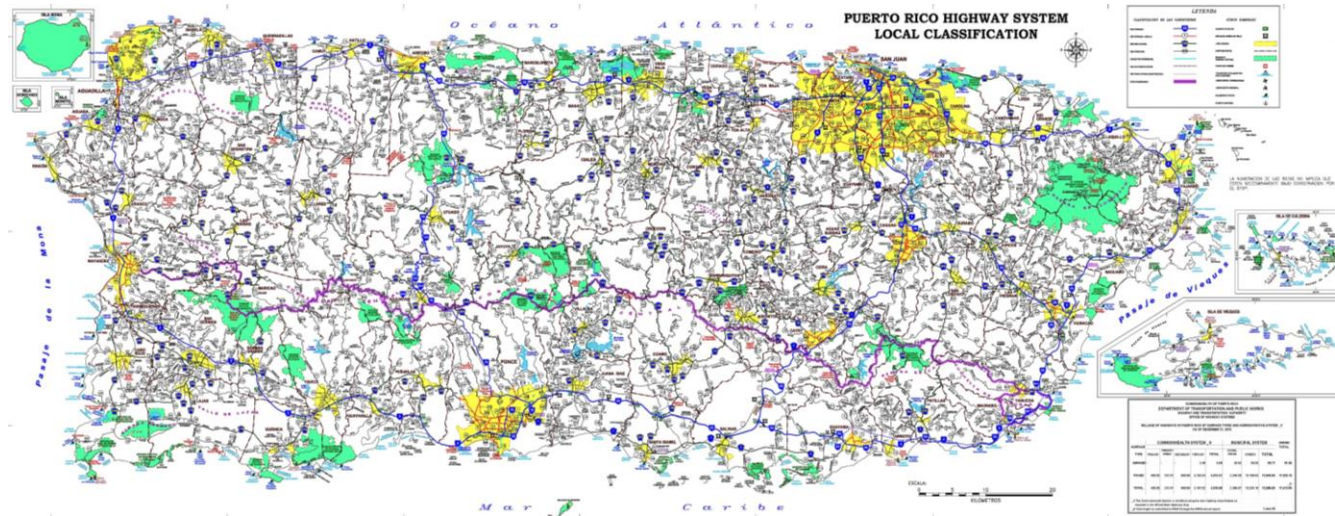
Vision

Develop and promote an integrated transportation system that, along with a highway infrastructure and service delivery, will facilitate the economic development of Puerto Rico in harmony with the environment

About PRHTA

- The Puerto Rico Highway and Transportation Authority is a public corporation founded with the purpose of continuing the government's effort of providing the public with the best highways, easing the flow of vehicles and minimizing the risks and inconveniences that traffic congestions may cause.
- PRHTA is charged with constructing, operating, and maintaining Puerto Rico's toll road network, major highways and mass transportation facilities, which are financed by revenue bonds, federal grants and specified tax revenues.
- The Puerto Rico State Highway System consists of a total of **4,814 miles**:

Primary Roads – 650 miles
Secondary Roads – 1,000 miles
Tertiary Roads – 3,164 miles



GOVERNMENT OF PUERTO RICO
Puerto Rico Highway and Transportation Authority

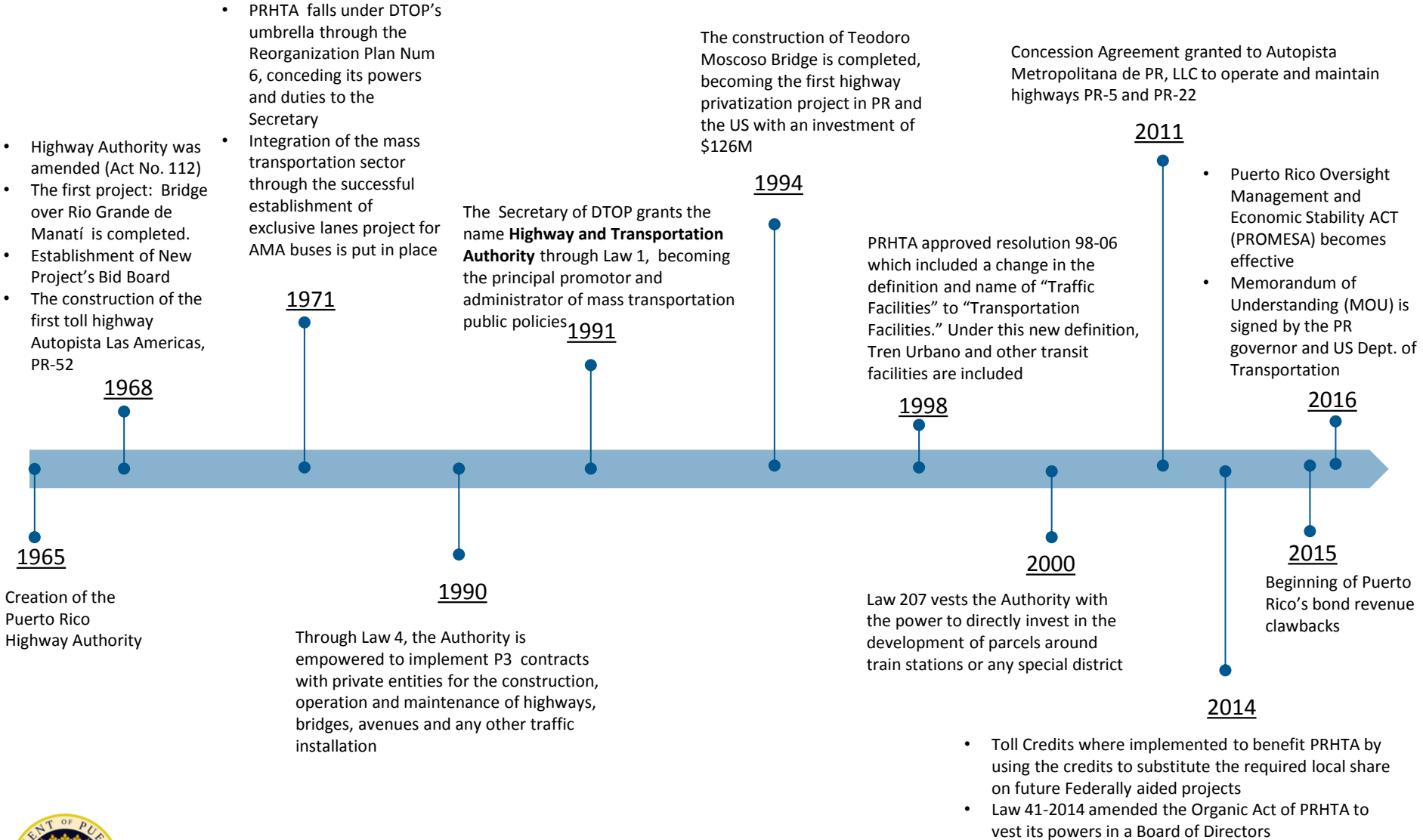
PRHTA: An Evolving Mission

- PRHTA falls under DTOP's umbrella through the Reorganization Plan Num 6, conceding its powers and duties to the Secretary
- Integration of the mass transportation sector through the successful establishment of exclusive lanes project for AMA buses is put in place

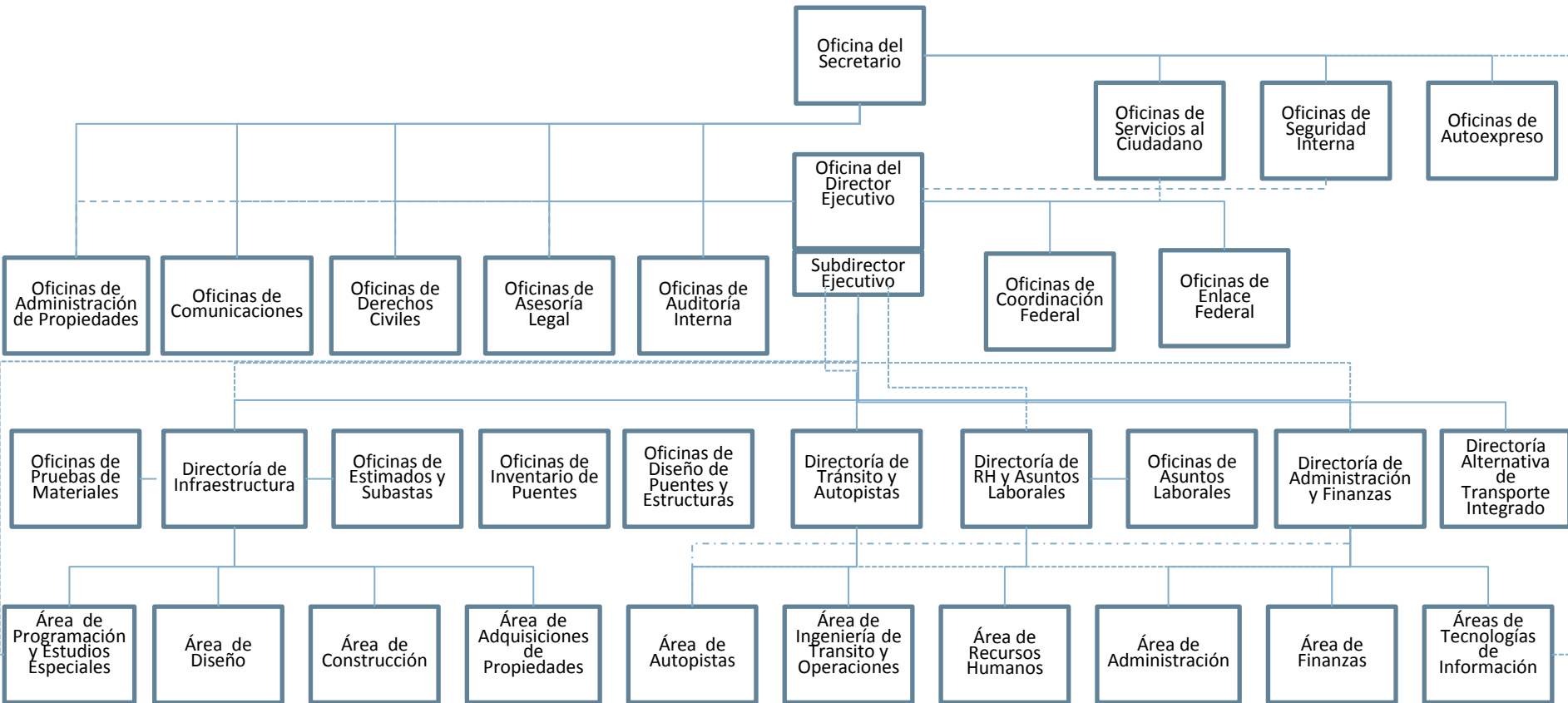
- Highway Authority was amended (Act No. 112)
- The first project: Bridge over Rio Grande de Manatí is completed.
- Establishment of New Project's Bid Board
- The construction of the first toll highway Autopista Las Americas, PR-52

The construction of Teodoro Moscoso Bridge is completed, becoming the first highway privatization project in PR and the US with an investment of \$126M

Concession Agreement granted to Autopista Metropolitana de PR, LLC to operate and maintain highways PR-5 and PR-22



Current organization has a total head count of 1,485 as of February 2017



- - - Special relation between advisory offices that directly report to the Secretary and, at the same time, provide services and advice to the Executive Director
- - - Special relationship of counseling and coordination between offices or areas
- . - Special relation between administrative and finance phases



PRHTA as a grantee of the Federal Government

PRHTA receives federal funds from two agencies, Federal Transit Administration (FTA) and Federal Highway Administration (FHWA). This funding requires that the grantee demonstrates specific and well defined technical, financial and organizational capabilities. If the grantee does not meet these capabilities, federal funds will not be allocated.

	<u>FHWA</u>	<u>FTA</u>
Description	Federal Agency within the U.S Department of Transportation responsible for administering the federal-aid highway program and highway transportation programs of the Department of Transportation.	Provides financial and technical assistance to local public transit systems , including buses, subways, light rail, commuter rail, trolleys and ferries. The FTA also oversees safety measures and helps develop next-generation technology research.
Compliance Requirements	According to 23 U.S.C. § 302 and Title 23 of the Code of Federal Regulations, any state needs to be suitably equipped and organized to discharge to the satisfaction of the Secretary the duties required by this title. In the following areas: <ul style="list-style-type: none"> • Payment procedures- Chapter 1, subchapter 8 • Planning/Environmental- Section 135, Chapter I, Subchapter E • Design- Highway Standard/ Design Criteria- Section 109, Chapter I, Subchapter G • Construction and Contracting Procedures- Chapter I, Subchapter G • Transportation Infrastructure Management- Chapter I, Subchapter F • Maintenance- Properly Maintenance all Roads- Section 116 • Highway Safety- Section 402, Chapter I, Subchapter II • Right of Way and Environment- Chapter I, Subchapter H 	To become a grantee of FTA Funding, PRHTA is required to meet the following minimum criteria: <ul style="list-style-type: none"> • Legal Capacity • Technical Capacity • Proven Financial Capacity • Disadvantage Business Enterprise • American with Disabilities Act Compliance • Title IV (Civil Rights) 48 U.S.C §5301 <i>et seq.</i>
Risks of non-compliance	Non compliance with federal laws and regulations or diversion of highway revenues may result in: <ul style="list-style-type: none"> • Suspension of Funding • Lack of Maintenance and essential services that will cause highways to deteriorate • Transportation of goods and emergency services will be hindered 	The default of PRHTA with any of its obligations (mainly bond debt) may trigger questions as to its financial capacity leading to a potential loss of federal funds. If, during the useful life of the property, the recipient unreasonably delayed or failed to use the federally assisted property for its originally intended purpose, recipients may be required to return the entire amount of federal assistance spent on the Award or federally assisted property.
Max Available Funding	\$150 million/year*	\$20 million/year*



III. INFRASTRUCTURE AGENDA



Infrastructure Agenda

PRHTA has established an aggressive infrastructure agenda to maximize federal funds obligated from FHWA¹ and FTA¹, as can be seen in the Capital Improvement Plan (CIP), which includes active and programmed projects. This infrastructure plan follows a structured approach aimed at maximizing the impact of available resources to support economic growth.

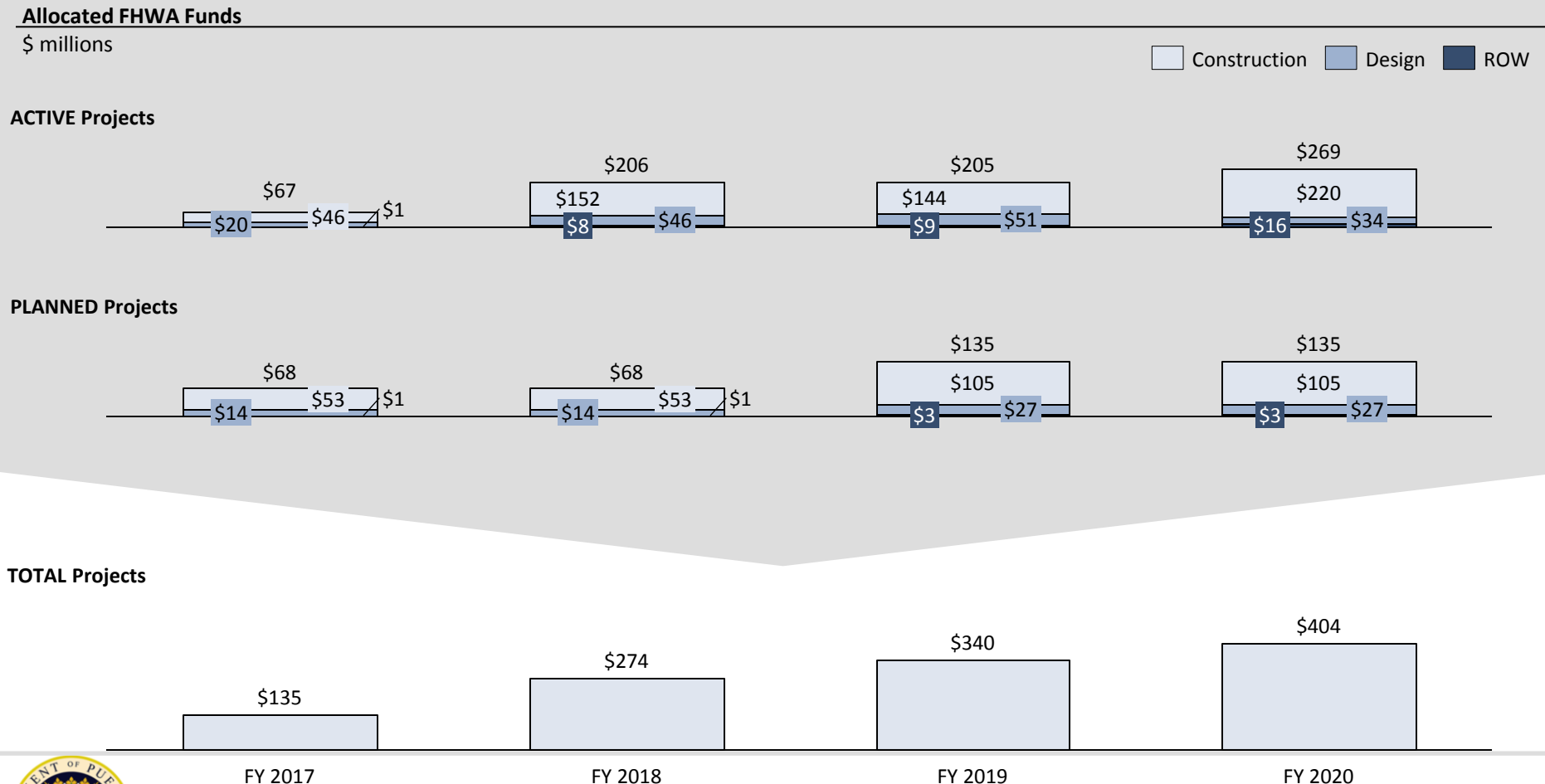
Strategy:	Focus:	Funds:	Projects:										
<ul style="list-style-type: none"> Continue aggressive plan to maximize funds and develop best in class infrastructure Utilize P3's and outsourcing as strategies to achieve a more efficient and modern infrastructure, in accordance with Puerto Rico's government public policies Expedite project delivery through: <ul style="list-style-type: none"> Engage expedited design services to accelerate preliminary designs and obligate funds Increase Project supervision through additional qualified resources Pursue Puerto Rico's new infrastructure reform, when applicable 	<p>Planned projects for the next four years will mainly focus on:</p> <ul style="list-style-type: none"> Highway Safety Projects Improvement of existing transportation infrastructure Complete Highway Systems Congestion Mitigation 	<ul style="list-style-type: none"> Obligate as much Federal Funds as possible to support economic growth Current Federal match percentage is 80% of project costs for eligible projects, with state match being set at 20% Currently, PRHTA uses toll credits for its state match percentage. <p>Future initiatives to increase federal funding include:</p> <ul style="list-style-type: none"> Congress approval to begin contributing to Highway Trust Fund Decrease current penalties 	<ul style="list-style-type: none"> The FY 2017 CIP emphasizes highway reconstruction projects with a Data Driven Approach focusing on high crash locations and critical condition roadways with emphasis in segments in the National Highway System, <p>Total allocated funds \$ millions</p> <table border="1"> <caption>Total allocated funds (\$ millions)</caption> <thead> <tr> <th>Fiscal Year</th> <th>Total Allocated Funds (\$ millions)</th> </tr> </thead> <tbody> <tr> <td>FY 2017</td> <td>\$135</td> </tr> <tr> <td>FY 2018</td> <td>\$274</td> </tr> <tr> <td>FY 2019</td> <td>\$340</td> </tr> <tr> <td>FY 2020</td> <td>\$404</td> </tr> </tbody> </table>	Fiscal Year	Total Allocated Funds (\$ millions)	FY 2017	\$135	FY 2018	\$274	FY 2019	\$340	FY 2020	\$404
Fiscal Year	Total Allocated Funds (\$ millions)												
FY 2017	\$135												
FY 2018	\$274												
FY 2019	\$340												
FY 2020	\$404												



¹ Total available FTA & FWHA funding may not equal that of obligated funds and/or actual expenditures
Source: CIP 2017-2020; PRHTA Management Assessment

Infrastructure Agenda: Fund Allocation Profile

PRHTA is currently working on an aggressive capital improvement plan which includes active and planned projects with a total investment amount of \$1.1 billion in a 4 year period.



Infrastructure Agenda: Strategic Projects

General Strategy on Key Projects

Strategic Projects to be incorporated in future FY STIP emphasize **new toll roads, dynamic toll lanes/flyovers and reconstruction and maintenance of existing toll roads** which will include **new revenues** to enhance private sector **participation through P3, APP-P or Outsourcing**

Strategic Projects

Key Projects	Project Cost \$ millions	Project Revenues \$ millions
<ul style="list-style-type: none"> Extension of PR-22 from Hatillo to Aguadilla (Northwest Corridor)¹ 	\$500	\$15/year
<ul style="list-style-type: none"> PR-5 Extension Toa Alta- Bayamón 	\$170	\$8/year
<ul style="list-style-type: none"> Reversible Overpasses with Dynamic Tolling - Efficient Peak Period Congestion Relief in Critical Intersections 	\$250 - based on 10 intersections at \$25 per intersection	\$15/year
<ul style="list-style-type: none"> Reconstruction and Maintenance of Primary Highway Network (PR-52, PR-2, PR-20, PR-53, PR-66) based on PPPP 	<ul style="list-style-type: none"> \$300- Reconstruction \$10/year - Maintenance 	\$4/year with 3% annual growth



¹ Numbers revised as per Northwestern Corridor: Desirability and Convenience Final Report, April 2016, where study suggests construction of Hatillo to Quebradilla and Aguadilla By Pass, both with toll revenues
Source: STIP 2017-2020; PRHTA Management Assessment

IV. CURRENT SITUATION WITH BASELINE FINANCIAL PROJECTION



PRHTA's current fiscal situation with clawback provision impact

Current fiscal situation continues to be dire for PRHTA and was recently aggravated by the need of the Government of Puerto Rico to **clawback revenues¹** pledged to the Authority. These revenues are now used within the Government of Puerto Rico. **Government of Puerto Rico has collected \$310 million as of June 30, 2016 under this clawback provision.**

Statement of Revenues and Expenses	June 30				
	2016 UNAUDITED	2015 UNAUDITED	2014 AUDITED	2013 AUDITED	2012 AUDITED
Total operating revenues	\$ 210.8	\$ 268.9	\$ 213.7	\$ 184.9	\$ 201.6
Total operating expenses	(186.3)	(227.5)	(391.5)	(314.4)	(275.1)
Depreciation and amortization	(451.8)	(448.7)	(448.0)	(432.0)	(438.2)
Operating loss	(427.3)	(407.3)	(625.8)	(561.5)	(511.8)
Non-operating revenues	478.2	518.2	531.9	292.6	292.6
Non-operating expenses	(329.0)	(419.4)	(324.7)	(294.3)	(528.3)
Loss before capital contribution	(278.0)	(308.6)	(418.6)	(563.2)	(747.5)
Transfers and Capital contributions	58.4	358.7	228.4	428.9	306.5
Change in net position	(219.6)	50.1	(190.2)	(134.3)	(441.0)
Net position at beginning of year	3,027.6	2,977.5	3,167.7	3,302.0	3,742.9
Net position at end of year	\$ 2,807.9	\$ 3,027.6	\$ 2,977.5	\$ 3,167.7	\$ 3,302.0



¹ As stated in the Puerto Rico Constitution, Article VI, Section 2 "The Secretary of the Treasury may be required to apply the available revenues including surplus to the payment of interest on the public debt and the amortization thereof in any case provided for by Section 8 of this Article VI at the suit of any holder of bonds or notes issued in evidence thereof."

PRHTA's current operational situation and MOU Objectives

Following years of operational and organizational challenges to effectively and efficiently deploy federal funds in compliance for with Federal requirements, **PRHTA and FHWA signed a Memorandum of Understanding¹ on February 29th 2016 geared at revamping PRHTA's Project and Program Delivery capabilities.**

PRHTA Challenges







- More than \$400 million in available funding is not deployed due to delayed processes for project advancement, project completion and provider payments
- Outdated and non-standard documentation and requirements
- Lack of communication and feedback integration between planning and construction departments
- Increased project costs and overruns from original budgets
- Misalignment of current capabilities with needed core competencies

MOU between PRHTA and FHWA

- Establishes procedures, systems and project delivery objectives for the Puerto Rico Highway Program
- Identifies roles , responsibilities and actions for the PRHTA and the FHWA to accelerate the funding, planning, design and construction of various highway, bridge and transportation improvement projects
- Improves the economic vitality of the Government of Puerto Rico and serves as a catalyst for sustainable job growth associated with highway construction in Puerto Rico



MOU requirements and current status of initiatives

Initiative	Description	Status
Federal Aid Billing Procedures	<ul style="list-style-type: none"> Revise and submit to FHWA its billing process to ensure prompt payment to contractors as follow: <ul style="list-style-type: none"> Paying all contractors by EFT Paying all contractors within 40 days of receipt of invoices Tracking status of payments using electronic method acceptable to FHWA Paying all contractors on the first business day after funds are received from FHWA 	E-Business Suite contract is being undertaken using sole sourcing strategy and professional services hiring to expedite its implementation. 
Toll Credits	<ul style="list-style-type: none"> Validate that PRHTA's existing toll credit balance complies with current FHWA guidance (the current guidance at the time of execution of this Agreement is "Interim Guidance- Toll Credit for non-federal Share, Nov 20, 2015) Identify that amount of toll credits available for use by PRHTA, and Identify modifications that PRHTA must make to its processes for approving, tracking and reconciling toll credit usage 	Since inception only \$91M in toll credits have been claimed, there is an outstanding balance of \$665M waiting validation for future federally aided projects. 
Organizational Capacity Development	<ul style="list-style-type: none"> Engage a management consultant to assist the PRHTA to review and develop plans, guidelines, SOP's and recommendations for PRHTA's project billing, project delivery process, contracts, training, planning programs and quality assurance process 	Notice to Proceed provided on 3/31 Consultant has begun with preliminary interviews and data gathering  
Expediting Project Delivery	<ul style="list-style-type: none"> Procure services to improve systems such as email communication, electronic project monitoring system, improvements to financial billing system in order to reduce the PRHTA's obligated but unexpected balances. Submit to the FHWA a report identifying the reasons for the delay of every project that the PRHTA has obligated, but for which less than 5% of funds have been expended since the date a recorded obligation existed Develop and Submit to the FHWA a schedule with milestones to accelerate obligation of its annual Federal-aid allocation to ensure all funds are properly obligated before redistribution of Federal-aid obligation limitation 	The email migration started on 12-12-16 and was completed in February 2017 The PMIS was signed and approved while E-Bid System is waiting for approval based on new requirements of PR Law 03-2017  



MOU initiatives encompass all elements needed to create an effective organization

	Federal Aid Billing Procedures	Toll Credits	Organizational Capacity Development (LEAN)	Expediting Project Delivery
--	--------------------------------	--------------	--	-----------------------------

Processes

- | | | | |
|--|--|--|--|
| <ul style="list-style-type: none"> Develop an efficient billing process with specific goals to ensure on-time payment to contractors Ensure best practices and guarantee financial accuracy and consistency | <ul style="list-style-type: none"> Identify improvements for the approval, tracking and reconciling of toll credit usage | <ul style="list-style-type: none"> Implement a LEAN Project delivery and billing process that will result in higher quality projects, faster project completion and more efficient delivery | <ul style="list-style-type: none"> Establish processes to provide continuous visibility to under performance projects and allow for effective development of action plans |
|--|--|--|--|

Organization

- | | | | | |
|--|--|--|---|--|
| | | | <ul style="list-style-type: none"> Develop capacity analysis to correctly size the needed organization to support the process | |
|--|--|--|---|--|

Infrastructure

- | | | | |
|---|--|---|--|
| <ul style="list-style-type: none"> Establish measurable goals tied to the development of the agency's goals and objectives Tracking the status of payments with electronic methods | <ul style="list-style-type: none"> Establish critical KPI's that are essential for auditing and validating compliance with FHWA guidance | <ul style="list-style-type: none"> Establish measurable performance levels and KPI's to improve process visibility and track whether projects are achieving targets Develop an effective method for capturing voice of the client to support performance measurement and strategic decision making | <ul style="list-style-type: none"> Implementation of systems for email and electronic monitoring to increase visibility and communication between areas |
|---|--|---|--|

Culture

- | | | | |
|--|---|---|--|
| | <ul style="list-style-type: none"> Train personnel on toll audit process to ensure compliance | <ul style="list-style-type: none"> Promote collaborative culture and communication Establish agenda for workshops and trainings to develop core competencies and deliver business value | |
|--|---|---|--|



Financial Sustainability, Federal Agencies & PROMESA

Bondholders of the PRHTA would cease to receive money for debt repayment by July 2017, when the reserve funds that have been used until now run out. Although PRHTA stopped remitting payments to the trust, the trustee has been using a reserve fund to comply with bondholder payments.

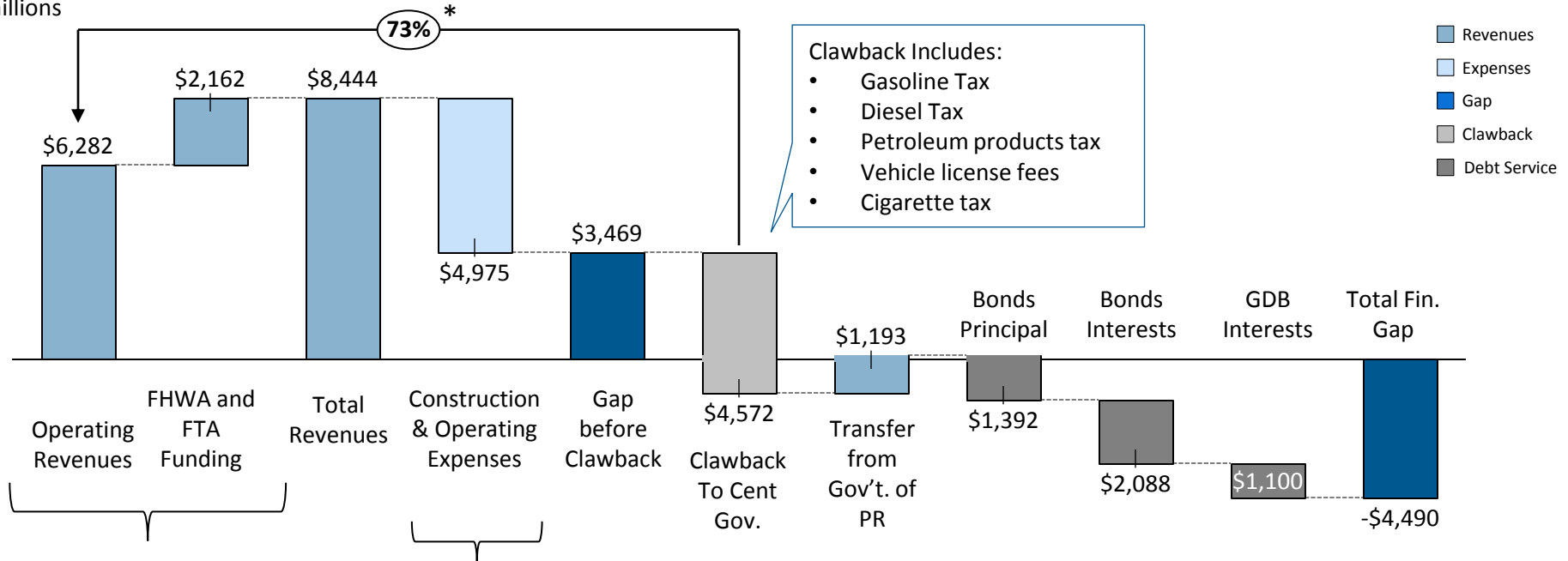
- PRHTA receives about \$155 millions per year from FTA and FHWA. This funding requires that the grantee demonstrates specific and well defined technical, financial and organizational capabilities. If the grantee does not meet these capabilities, there is a substantial risk that federal funds will not be allocated. **A default of PRHTA with any of its obligations may trigger questions as to its financial capacity.** Furthermore, in the case of FTA, the reimbursement of previous funds may be requested if the transportation use is discontinued.
- The **Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA)** establishes a process for the restructuring of debt (voluntary or involuntary) towards sustainable levels but not before the certification of its Fiscal Plan by the Oversight Board, among other requirements. The Government of Puerto Rico and its instrumentalities (including PRHTA) expect to continue this process in order to strengthen its financial capacity. We will continue to work with all the federal agencies (including FTA & FHWA) as Partners throughout this process in order to achieve our common objectives.



Overview of PRHTA's Projected Financial Gap over 10 years

Financial Gap Pre-Measures after Clawback & Debt Service

\$ millions



Clawback Includes:

- Gasoline Tax
- Diesel Tax
- Petroleum products tax
- Vehicle license fees
- Cigarette tax

- Revenues
- Expenses
- Gap
- Clawback
- Debt Service

- Revenues
- Toll revenues
 - Gas/Diesel/Petroleum Products tax
 - Cigarettes taxes
 - Motor Vehicle License Fees
 - Transit Revenues and Toll Fines
 - FHWA Funding
 - FTA Funding

- Expenses
- Construction costs associated with project deployment as per STIP
 - Toll highways administration and maintenance
 - Train operation and maintenance
 - Integrated transportation system operation and maintenance
 - General administration



GOVERNMENT OF PUERTO RICO
Puerto Rico Highway and Transportation Authority

* Clawback Revenues amount to 74% of Operating Revenues
Source: Jorge F. Freyre, PHD Projections analysis, PRHTA Management Estimates

PRHTA Baseline projections results in a \$4.5 billion financial gap after debt service for the next 10 years*

	2016-17 P	2017-18 P	2018-19 P	2019-20 P	2020-21 P	2021-22 P	2022-23 P	2023-24 P	2024-25 P	2025-26 P	Total	
											5 Yr	10 Yr
Revenues												
Toll fares ⁽¹⁾⁽²⁾	\$ 136,195	\$ 137,363	\$ 138,547	\$ 139,747	\$ 139,188	\$ 139,606	\$ 141,002	\$ 143,258	\$ 146,266	\$ 150,069	\$ 691,040	1,411,241
Gasoline Tax** ⁽¹⁾	151,242	146,447	144,677	145,931	147,906	143,357	138,760	133,958	129,315	125,623	736,204	1,407,217
Diesel Tax** ⁽¹⁾	12,500	12,500	12,500	12,500	12,500	12,116	11,727	11,321	10,929	10,617	62,500	119,209
Petroleum Products Tax** ⁽¹⁾	254,567	185,000	185,000	185,000	185,000	185,000	185,000	185,000	185,000	185,000	994,567	1,919,567
Cigarettes taxes** ⁽¹⁾	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	100,000	200,000
Motor Vehicle License Fees** ⁽¹⁾⁽³⁾	32,651	32,651	32,651	32,651	32,651	32,651	32,651	32,651	32,651	32,651	163,253	326,507
Act 30 - Licenses Fees Transferred to Act** ⁽¹⁾⁽³⁾	60,000	60,000	60,000	60,000	60,000	60,000	60,000	60,000	60,000	60,000	300,000	600,000
Transit Revenues ⁽⁴⁾	10,200	10,200	10,404	10,612	10,612	10,612	10,612	10,612	10,612	10,612	52,028	105,088
Electronic Toll Fines ⁽⁴⁾	10,600	10,600	10,600	10,600	10,558	10,589	10,695	10,866	11,094	11,383	52,958	107,586
Other income ⁽⁴⁾	8,400	8,400	8,400	8,400	8,366	8,391	8,475	8,611	8,792	9,020	41,966	85,257
Total Revenues	\$ 696,355	\$ 623,161	\$ 622,778	\$ 625,441	\$ 626,781	\$ 622,322	\$ 618,923	\$ 616,277	\$ 614,659	\$ 614,974	\$ 3,194,516	\$ 6,281,672
Active Obligated Funds	67,118	206,199	204,814	268,816	-	-	-	-	-	-	746,947	746,947
STIP Obligated funds	67,500	67,500	135,000	135,000	135,000	135,000	135,000	135,000	135,000	135,000	540,000	1,215,000
Federal Aid - FHWA & Earmarked Projects	134,618	273,699	339,814	403,816	135,000	135,000	135,000	135,000	135,000	135,000	1,286,947	1,961,947
Federal Aid-FTA (Sec. 5307 & Sec. 5309)	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	100,000	200,000
Capital Contributions	\$ 154,618	\$ 293,699	\$ 359,814	\$ 423,816	\$ 155,000	\$ 155,000	\$ 155,000	\$ 155,000	\$ 155,000	\$ 155,000	\$ 1,386,947	\$ 2,161,947
Total Revenues After Federal Fund Transfers	\$ 850,972	\$ 916,860	\$ 982,592	\$ 1,049,257	\$ 781,781	\$ 777,322	\$ 773,923	\$ 771,277	\$ 769,659	\$ 769,974	\$ 4,581,463	\$ 8,443,617
Expenses												
Right of Way	\$ (31,000)	\$ (31,000)	\$ (31,000)	\$ (31,000)	\$ (31,000)	\$ (31,000)	\$ (31,000)	\$ (31,000)	\$ (31,000)	\$ (31,000)	\$ (155,000)	\$ (310,000)
Design	(23,000)	(23,000)	(10,000)	(10,000)	(10,000)	(10,000)	(10,000)	(10,000)	(10,000)	(10,000)	(76,000)	(126,000)
Construction Local	(10,000)	(10,000)	(10,000)	(10,000)	(10,000)	(10,000)	(10,000)	(10,000)	(10,000)	(10,000)	(50,000)	(100,000)
Active Obligated Funds	(67,118)	(206,199)	(204,814)	(268,816)	-	-	-	-	-	-	(746,947)	(746,947)
STIP Obligated funds	(67,500)	(67,500)	(135,000)	(135,000)	(135,000)	(135,000)	(135,000)	(135,000)	(135,000)	(135,000)	(540,000)	(1,215,000)
Construction Federal (FHWA & EARMARKED)	(134,618)	(273,699)	(339,814)	(403,816)	(135,000)	(135,000)	(135,000)	(135,000)	(135,000)	(135,000)	(1,286,947)	(1,961,947)
Salaries and related benefits	(47,837)	(48,425)	(49,393)	(50,381)	(50,381)	(50,381)	(50,381)	(50,381)	(50,381)	(50,381)	(246,417)	(498,322)
Litigation Reserve	(8,160)	(8,160)	(5,863)	(3,520)	(3,520)	(3,520)	(3,520)	(3,520)	(3,520)	(3,520)	(29,223)	(46,823)
Right of Way Payments	(16,960)	(16,960)	(15,299)	(13,605)	(13,605)	(13,605)	(13,605)	(13,605)	(13,605)	(13,605)	(76,429)	(144,454)
Other program expenses	(3,596)	(3,596)	(3,667)	(3,741)	(3,741)	(3,741)	(3,741)	(3,741)	(3,741)	(3,741)	(18,341)	(37,046)
Total Construction ⁽⁶⁾	\$ (275,171)	\$ (414,840)	\$ (465,036)	\$ (526,063)	\$ (257,247)	\$ (257,247)	\$ (257,247)	\$ (257,247)	\$ (257,247)	\$ (257,247)	\$ (1,938,357)	\$ (3,224,592)
Salaries and related benefits	(44,740)	(43,958)	(43,714)	(44,589)	(44,636)	(44,613)	(44,733)	(44,874)	(44,902)	(44,890)	(221,637)	(445,622)
Toll highways administration and maintenance	(33,358)	(33,358)	(34,025)	(34,706)	(34,706)	(34,706)	(34,706)	(34,706)	(34,706)	(34,706)	(170,153)	(343,683)
Train operating and maintenance costs	(65,360)	(66,478)	(68,090)	(69,733)	(69,733)	(69,733)	(69,733)	(69,733)	(69,733)	(69,733)	(339,394)	(688,059)
Integrated transportation system	(14,076)	(14,075)	(14,075)	(14,075)	(14,075)	(14,075)	(14,075)	(14,075)	(14,075)	(14,075)	(70,376)	(140,751)
Other operating expenses	(12,817)	(12,817)	(13,074)	(13,335)	(13,335)	(13,335)	(13,335)	(13,335)	(13,335)	(13,335)	(65,378)	(132,053)
Total operating expenses ⁽⁵⁾	\$ (170,351)	\$ (170,686)	\$ (172,978)	\$ (176,438)	\$ (176,485)	\$ (176,462)	\$ (176,582)	\$ (176,696)	\$ (176,751)	\$ (176,739)	\$ (866,938)	\$ (1,750,168)
Total expenses	\$ (445,522)	\$ (585,526)	\$ (638,014)	\$ (702,501)	\$ (433,732)	\$ (433,709)	\$ (433,829)	\$ (433,943)	\$ (433,998)	\$ (433,986)	\$ (2,805,295)	\$ (4,974,760)
Total Fin. Gap Pre-Measures before Clawback & Gov. Funding	\$ 405,450	\$ 331,334	\$ 344,578	\$ 346,756	\$ 348,049	\$ 343,613	\$ 340,094	\$ 337,334	\$ 335,661	\$ 335,988	\$ 1,776,167	\$ 3,468,857
Clawback to Central Government ⁽⁷⁾	\$ (530,959)	\$ (456,598)	\$ (454,828)	\$ (456,082)	\$ (458,057)	\$ (453,123)	\$ (448,138)	\$ (442,930)	\$ (437,894)	\$ (433,890)	\$ (2,356,524)	\$ (4,572,499)
Transfer from Government of PR ⁽⁹⁾	119,340	119,340	119,340	119,340	119,340	119,340	119,340	119,340	119,340	119,340	596,700	1,193,400
Total Fin. Gap Pre-Measures after Clawback & Gov. Funding	\$ (6,169)	\$ (9,924)	\$ 9,091	\$ 10,014	\$ 9,332	\$ 9,830	\$ 11,295	\$ 13,744	\$ 17,107	\$ 21,438	\$ 16,344	\$ 89,758
Debt Service ⁽⁸⁾												
Principal	\$ (113,355)	\$ (116,723)	\$ (120,488)	\$ (124,510)	\$ (129,652)	\$ (162,568)	\$ (153,750)	\$ (149,800)	\$ (156,754)	\$ (164,034)	\$ (604,728)	\$ (1,391,634)
Interest	(234,088)	(229,507)	(224,560)	(219,408)	(213,891)	(207,510)	(201,300)	(193,636)	(185,774)	(178,397)	(1,121,454)	(2,088,070)
Total debt due to Bonds	\$ (347,443)	\$ (346,230)	\$ (345,048)	\$ (343,919)	\$ (343,543)	\$ (370,078)	\$ (355,050)	\$ (343,436)	\$ (342,528)	\$ (342,431)	\$ (1,726,182)	\$ (3,479,704)
Interest on GDB Line of Credit	\$ (110,000)	\$ (110,000)	\$ (110,000)	\$ (110,000)	\$ (110,000)	\$ (110,000)	\$ (110,000)	\$ (110,000)	\$ (110,000)	\$ (110,000)	\$ (550,000)	\$ (1,100,000)
Total debt	\$ (457,443)	\$ (456,230)	\$ (455,048)	\$ (453,919)	\$ (453,543)	\$ (480,078)	\$ (465,050)	\$ (453,436)	\$ (452,528)	\$ (452,431)	\$ (2,276,182)	\$ (4,579,704)
Total Fin. Gap Pre-Measures after Debt Service & Clawback	\$ (463,612)	\$ (462,154)	\$ (445,957)	\$ (443,904)	\$ (444,210)	\$ (470,248)	\$ (453,754)	\$ (439,692)	\$ (435,421)	\$ (430,992)	\$ (2,259,838)	\$ (4,489,946)

* Additional notes and assumptions on page 51

** Revenue streams included on Government Clawback

*** Only interest payments are considered in the projections

Source: Operational revenue information based on Jorge F. Freyre, PHD analysis on long term revenue projection. Federal funding, expenses and debt servicing information where provided by PRHTA.



V. FISCAL MEASURES WITH FINANCIAL PROJECTIONS



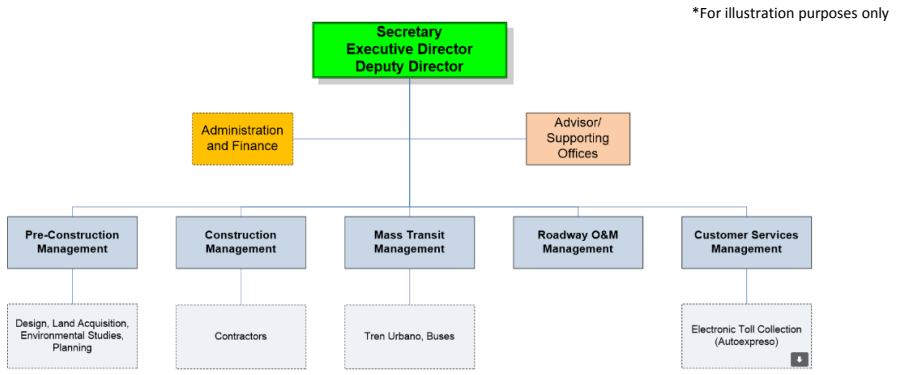
Our goal is to transform PRHTA's towards a best-in-class infrastructure developer and operator

As previously mentioned, PRHTA is responsible of constructing, operating, and maintaining Puerto Rico's toll road network, major highways and mass transportation facilities. To properly meet its duty, the measures in this plan follow two main philosophies:

An effective organization focused in gaining synergies and carrying out the specific goals of PRHTA

- Organize PRHTA into a world class infrastructure developer and operator moving it towards a contract management model, such as it is currently done today for design, land acquisition, construction and mass transit operations. Expect PRHTA to manage third party contracts engaged through competitive bidding for each service required.

PRHTA envisioned structure



*For illustration purposes only

- Competitiveness will be maintained by constantly evaluating current contracts and its performance and re-bidding to assure accurate market value of service provided.

A streamlined project delivery process by engaging the best resources available

- Establish best-in-class Project Delivery Process to assure federal compliance and efficiently deployment of resources available to maximize the infrastructure developed and maintained.

Project Delivery Phases



- The streamlined process will be complemented by having the adequately sized resources, visibility of important metrics to allow for accurate and timely decision making, as well as the correct people with the right motivators and capabilities.
- Project delivery methods will include Value Engineering analysis and innovative contract approaches¹ early in the planning phase to maximize the value of each project
- Skilled teams in the management of design and construction activities will assure to meet objectives of reducing average change orders from 30% to 15%²



¹ Case study of PR-18 & PR-66 procurement approach to be used as guideline for applicable projects. See Appendix: Additional Information

² Federal funded projects budget allows for a maximum of 15% increase to projects

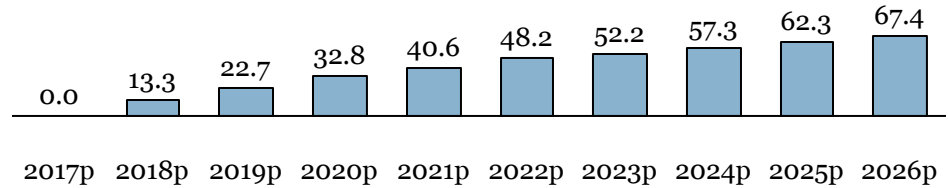
Organizational Transformation Fiscal Measure (1/2)

1 Transform organization from an in-house infrastructure developer to contract management

- Organize PRHTA into a world class infrastructure developer and manager moving towards a contract management business model, such as done today for different functions.

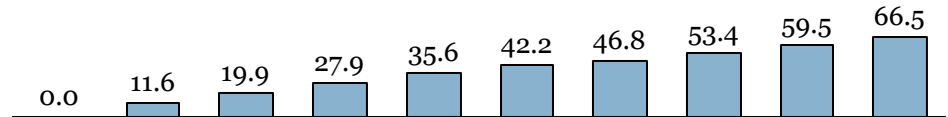
Results

\$ millions, Full year impact



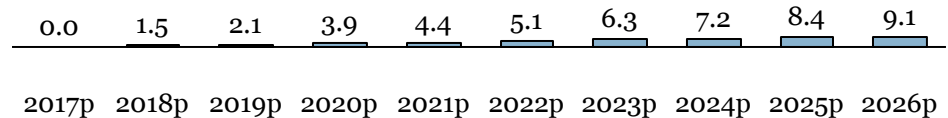
1a Organization Transformation

- Transform organization from an in-house infrastructure developer to contract management leveraging the Labor Transformation and Flexibility Act of 2017¹ and through a normal attrition rate



1b Pre-Retirement Program Act

- Application of Voluntary Pre-Retirement Program Act²
- 187 candidates opted for the plan on the first year adding to \$58.1M in savings the 10 year period



¹ Assumes Labor Transformation and Flexibility Act of 2017 applies to PRHTA and resources can be relocated appropriately
² PRHTA submitted Pre-retirement Plan to Office of Management and Budget (OMB) on December 2016 for approval
 Source: Analysis and Labor need by PRHTA ; Pre retirement analysis by PRHTA; Operating budget 2016

Organizational Transformation Fiscal Measure (2/2)

Measures

1c Overhead Savings

- Additional operational expenses savings due organizational transformation which include utilities expenses such as energy, water, etc. for the 10 year period

1d Outsourcing Costs

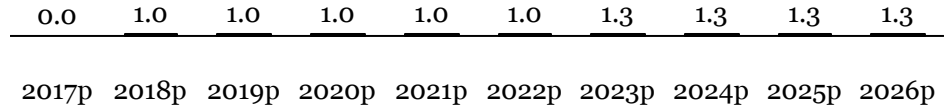
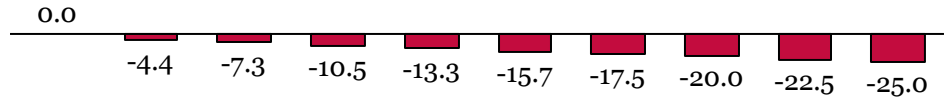
- Incremental costs associated with increasing contract management

1e Rent Reduction

- Rent reduction due to a decrease in organization size

Results

\$ millions, Full year impact



Optimization of Outsourced Operations and Development of Real Estate Program Fiscal Measures

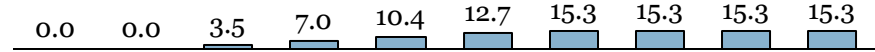
Measures

Results

\$ millions, Full year impact

2 Optimization of Outsourcing Operations

- PRHTA believes it can obtain additional savings in their Transit Services.



3 Revenues from new Dynamic Toll Lanes (DTL)

- As presented in the current CIP, on 2018, PRHTA will begin the implementation of a DTL on PR-52 and PR-18 with expected operation start date on 2020



4 Toll Collection Optimization

- An update of toll hardware and software will result in an increase in revenues by an amount of 2% of collected revenues per toll updated
- Tolls will be updated at 5 per year and revenues are seen on next fiscal year
- Updates will start on most profitable tolls that cover over 45% of total revenues for the 2nd year, 65% the 3rd, 85% the 4th and 100% onwards
- Ponce and Caguas Norte tolls will be made bi-directional which will increase 10% of its toll revenues



5 Additional Revenue Initiatives

- Reactivation of the Joint Development Program which provides for residential and commercial projects in the Tren Urbano corridor. Currently two initiatives are underway with additional \$2.0 M in revenues to the PRHTA in the first year and over \$80 M private investment.
- The development of a noncore real estate asset disposition program that can represent additional income of approximately \$1.5M per year.
- Toll Concessions Advertisement and ATM services agreement which is estimated at \$275K in the 10 year period.
- Implementation of Specific Service Signs in Toll Highway Concessions approximately \$250K per year. Additional income if implemented in non-concession toll highways.



2017p 2018p 2019p 2020p 2021p 2022p 2023p 2024p 2025p 2026p



Financial Gap after measures and Debt Service

Projected Financial Gap over the 10 year period

\$ thousands

	2016-17 P	2017-18 P	2018-19 P	2019-20 P	2020-21 P	2021-22 P	2022-23 P	2023-24 P	2024-25 P	2025-26 P	Total	
											5 Yr	10 Yr
Total Fin. Gap Pre-Measures after Clawback	\$ (6,169)	\$ (5,924)	\$ 9,091	\$ 10,014	\$ 9,332	\$ 9,830	\$ 11,295	\$ 13,744	\$ 17,107	\$ 21,439	\$ 16,344	\$ 89,759
Less: Transfer from Government of PR ⁽⁹⁾	\$ (119,340)	\$ (119,340)	\$ (119,340)	\$ (119,340)	\$ (119,340)	\$ (119,340)	\$ (119,340)	\$ (119,340)	\$ (119,340)	\$ (119,340)	\$ (596,700)	\$ (1,193,400)
Total Fin. Gap Pre-Measures before Gov. Funding	\$ (125,509)	\$ (125,264)	\$ (110,249)	\$ (109,326)	\$ (110,008)	\$ (109,510)	\$ (108,045)	\$ (105,596)	\$ (102,233)	\$ (97,901)	\$ (580,356)	\$ (1,103,641)
Measures												
Meas. aimed at a Organizational Transformation												
Organization Transformation	\$ -	\$ 11,633	\$ 19,938	\$ 27,883	\$ 35,639	\$ 42,220	\$ 46,756	\$ 53,353	\$ 59,480	\$ 66,465	\$ 95,094	\$ 363,368
Pre-Retirement program Act	-	1,540	2,119	3,936	4,406	5,127	6,257	7,161	8,449	9,089	12,001	48,085
Overhead Savings	-	3,475	6,950	10,425	12,741	15,290	15,290	15,290	15,290	15,290	33,591	110,041
Outsourcing Costs	-	(4,360)	(7,301)	(10,532)	(13,255)	(15,672)	(17,547)	(20,030)	(22,484)	(25,008)	(35,449)	(136,191)
Rent Reduction	-	950	950	950	950	1,045	1,254	1,254	1,254	1,254	3,800	9,861
Total Organizational Transformation	\$ -	\$ 13,238	\$ 22,656	\$ 32,662	\$ 40,481	\$ 48,010	\$ 52,010	\$ 57,028	\$ 61,988	\$ 67,090	\$ 109,038	\$ 395,164
Meas. aimed at Mass Transportation Optimization												
Optimization of Outsourcing Operations	\$ -	\$ -	\$ 3,475	\$ 6,950	\$ 10,425	\$ 12,741	\$ 15,290	\$ 15,290	\$ 15,290	\$ 15,290	\$ 20,850	\$ 94,751
Revenues from DTL	-	-	-	3,000	6,000	6,000	6,000	6,000	6,000	6,000	9,000	39,000
Ponce Sur and Caguas Norte Bidirectionality	-	4,223	4,259	4,296	4,279	4,292	4,334	4,404	4,496	4,613	17,056	39,195
Increase vehicle classification	-	432	624	816	960	960	960	960	960	960	2,832	7,632
Toll Leakage Minimization	-	1,236	1,801	2,376	2,784	2,792	2,820	2,865	2,925	3,001	8,197	22,601
Toll Collection Optimization	\$ -	\$ 5,891	\$ 6,684	\$ 7,488	\$ 8,022	\$ 8,044	\$ 8,114	\$ 8,229	\$ 8,382	\$ 8,575	\$ 28,085	\$ 69,428
Additional Revenue Initiatives	\$ -	\$ 3,778	\$ 1,778	\$ 1,778	\$ 1,778	\$ 1,778	\$ 1,778	\$ 1,778	\$ 1,778	\$ 1,778	\$ 9,111	\$ 17,998
Total Measures	\$ -	\$ 22,907	\$ 34,592	\$ 51,878	\$ 66,706	\$ 76,572	\$ 83,192	\$ 88,325	\$ 93,438	\$ 98,732	\$ 176,083	\$ 616,341
Total Fin. Gap after Measures before Gov. Funding	\$ (125,509)	\$ (102,357)	\$ (75,657)	\$ (57,448)	\$ (43,301)	\$ (32,938)	\$ (24,853)	\$ (17,271)	\$ (8,796)	\$ 831	\$ (311,701)	\$ (487,300)

Summary of Results

- PRHTA Fiscal Measures of \$616 MM are expected in the next ten years
- Without the assumption of continued transfers from the Government of Puerto Rico totaling \$1,193 million, PRHTA has a funding gap after clawback before Government funding of \$ 1,103 million before measures
- PRHTA fiscal measures of \$616 million are expected to reduce the funding gap to \$487 million after measures before Government funding and before debt service. **Once the Central Government confirms that the impact of such measures have been fully realized, then they will proceed to make the necessary adjustments to “Transfers from Government of PR”**



Pursue guiding principles to address the financial gap and re-focus PRHTA towards its objectives

Obtain an efficient organization

- Obtain organization with the necessary resources to meet objectives and provide the services required
- Have a properly sized organization according to active project need
- Engage the best resources available to move PRHTA agenda forward

Strengthen partnership with federal agencies

- Maintain strong communication with FHWA & FTA
- Comply with FHWA MOU and move forward towards full compliance
- Communicate Fiscal Plan to Federal Agencies and work together towards a sustainable solution
- Discuss support from FHWA & FTA to help re-position PRHTA's as a first class Federal Grantee and infrastructure developer

Improve infrastructure towards new standards

- Focus infrastructure program on improvements to current Highway system, finishing interstate system, congestion mitigation and safety projects
- Implement data driven process for project selection based on asset ROI
- Maximize deployment of federal funds

Create a sustainable debt structure

- Obtain a sustainable debt structure to allow for provision of services and realistic economic growth infrastructure
- Evaluate new structures used in other jurisdictions

Improve project delivery effectiveness

- Set-up processes and organization to streamline project delivery and improve average project times from planning to completion (MOU Project to achieve this)
- Implement new contracting practices, such as CHICA¹ Contracts
- Maintain close communication with Federal Agencies and improve internal controls and feedback loops

Adhere to Financial Control Reform

- Assure measures from Fiscal Plan are budgeted, as well as all expenses associated with core services
- Establish a zero-based budget approach and the culture required to sustain it
- Implement procurement process reform as established in the Government of Puerto Rico's Fiscal Plan



¹ CHICA contracts are hybrid contracts with contingencies and acceleration clauses

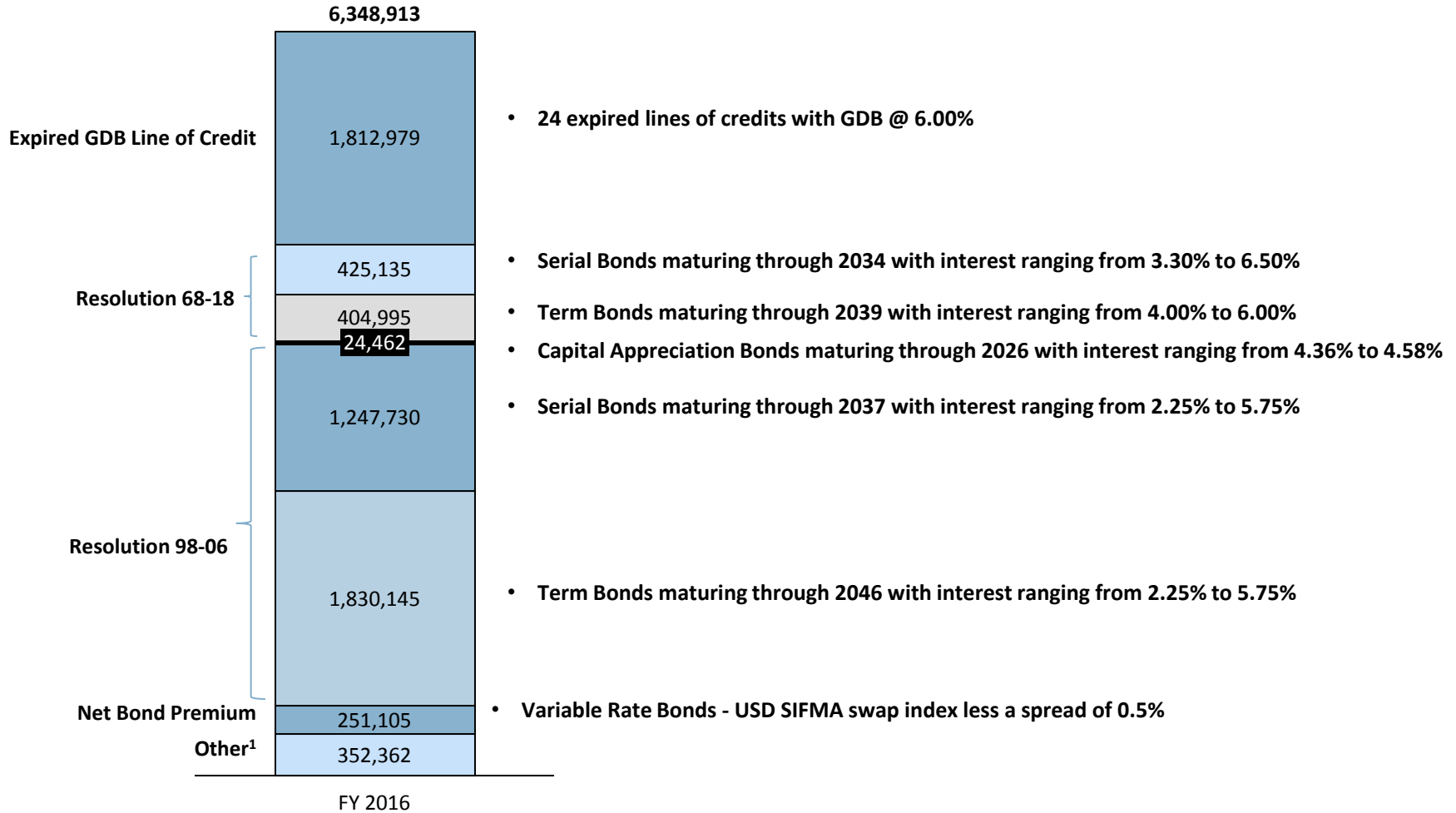
VI. DEBT SUSTAINABILITY



PRHTA Debt Structure

Current Debt Structure

\$ thousands



¹ Other Includes: \$200MM in Variable Rate Bonds - USD SIFMA swap index less a spread of 0.5%, \$57MM in CPI based interest-rate bonds, reset monthly on CPI changes, \$.7MM in LIBOR based interest rate bonds maturing through 2045, \$93MM in Capital Appreciation Bonds maturing through 2026 with interest ranging from 4.47% to 5.08%

Source: Draft PRHTA Unaudited Financial Statements FY2015

Debt Sustainability

As a result of the clawback of certain revenues to the Government of Puerto Rico, PRHTA has insufficient cash flows to service its debt

- 1 After accounting for the clawback, PRHTA does not have sufficient positive cash flows to support its expenses and debt service, requiring support from the Government of Puerto Rico to maintain essential operations
- 2 Even after accounting for the incremental positive cash flows of fiscal plan measures, PRHTA will require support from the Government of Puerto Rico to maintain essential operations and expenses

Cash flow available for debt service (\$ in millions)

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	Total	
											5 Yr	10 Yr
Total Revenues After Federal Fund Transfers ¹	\$851.0	\$916.9	\$982.6	\$1,049.3	\$781.8	\$777.3	\$773.9	\$771.3	\$769.7	\$770.0	\$4,581.5	\$8,443.6
Clawback to Central Government	(\$531.0)	(\$456.6)	(\$454.8)	(\$456.1)	(\$458.1)	(\$453.1)	(\$448.1)	(\$442.9)	(\$437.9)	(\$433.9)	(\$2,356.5)	(\$4,572.5)
Revenues net of Clawback	\$320.0	\$460.3	\$527.8	\$593.2	\$323.7	\$324.2	\$325.8	\$328.3	\$331.8	\$336.1	\$2,224.9	\$3,871.1
Total expenses	(\$445.5)	(\$585.5)	(\$638.0)	(\$702.5)	(\$433.7)	(\$433.7)	(\$433.8)	(\$433.9)	(\$434.0)	(\$434.0)	(\$2,805.3)	(\$4,974.8)
1 Cash Flow available for Debt Service (pre-measures)	(\$125.5)	(\$125.3)	(\$110.2)	(\$109.3)	(\$110.0)	(\$109.5)	(\$108.0)	(\$105.6)	(\$102.2)	(\$97.9)	(\$580.4)	(\$1,103.6)
Total Measures	\$0.0	\$22.9	\$34.6	\$51.9	\$66.7	\$76.6	\$83.2	\$88.3	\$93.4	\$98.7	\$176.1	\$616.3
2 Cash Flow available for Debt Service (post-measures)	(\$125.5)	(\$102.4)	(\$75.7)	(\$57.4)	(\$43.3)	(\$32.9)	(\$24.9)	(\$17.3)	(\$8.8)	\$0.8)	(\$404.3)	(\$487.3)

Government of Puerto Rico tax revenues conditionally pledged to support PRHTA obligations are excluded from PRHTA revenues and are included in the Government of Puerto Rico's Fiscal Plan, while system toll revenue is assumed to be collected by PRHTA and applied to system expenses



VII. Liquidity Situation



13-week Cash Flow Projection

Cash Positions before Measures

	\$ thousands												TOTAL
	1	2	3	4	5	6	7	8	9	10	11	12	
	14-Apr	21-Apr	28-Apr	5-May	12-May	19-May	26-May	2-Jun	9-Jun	16-Jun	23-Jun	30-Jun	
1 Toll fares	\$ 2,200	\$ 2,650	\$ 1,700	\$ 3,400	\$ 2,200	\$ 2,650	\$ 1,700	\$ 3,400	\$ 2,200	\$ 2,650	\$ 1,700	\$ 2,650	\$ 29,100
2 Transit Revenues (Non-Cash)	-	-	-	-	-	-	-	-	-	-	812	-	812
3 Electronic Toll Fines	227	227	227	227	227	227	227	227	227	227	227	227	2,718
4 Other Income	106	106	106	108	108	108	108	108	108	108	15,108	108	16,289
5 Transfer from Government of PR	-	-	10,925	-	-	-	9,945	-	-	-	-	10,625	31,495
6 Subtotal - Operating Inflows	\$ 2,533	\$ 2,983	\$ 12,958	\$ 3,734	\$ 2,534	\$ 2,984	\$ 11,979	\$ 3,734	\$ 2,534	\$ 2,984	\$ 17,846	\$ 13,609	\$ 80,414
7 Gasoline Tax	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
8 Diesel Tax	-	-	-	-	-	-	-	-	-	-	-	-	-
9 Petroleum Products Tax	-	-	-	-	-	-	-	-	-	-	-	-	-
10 Cigarettes taxes	-	-	-	-	-	-	-	-	-	-	-	-	-
11 Motor Vehicle License Fees	-	-	-	-	-	-	-	-	-	-	-	-	-
12 Act 30 - Licenses Fees Transferred to Act	-	-	-	-	-	-	-	-	-	-	-	-	-
13 Subtotal - Non Operating Inflows	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
14 Federal Aid - FHWA & Earmarked Projects	\$ 1,822	\$ 1,822	\$ 1,822	\$ 1,818	\$ 1,818	\$ 1,818	\$ 1,818	\$ 1,818	\$ 1,818	\$ 1,818	\$ 1,818	\$ 1,818	\$ 21,828
15 Federal Aid-FTA (Sec. 5307 & Sec. 5309)	-	-	1,667	-	1,667	-	1,667	-	-	-	1,667	-	6,668
16 Subtotal - Fedral Funding	\$ 1,822	\$ 1,822	\$ 3,489	\$ 1,818	\$ 3,485	\$ 1,818	\$ 3,485	\$ 1,818	\$ 1,818	\$ 1,818	\$ 3,485	\$ 1,818	\$ 28,496
18 Total Inflows	\$ 4,355	\$ 4,805	\$ 16,447	\$ 5,552	\$ 6,019	\$ 4,802	\$ 15,464	\$ 5,552	\$ 4,352	\$ 4,802	\$ 21,331	\$ 15,427	\$ 108,910
19 Salaries and Benefits	\$ 3,601	\$ -	\$ 3,601	\$ -	\$ 3,601	\$ -	\$ 3,601	\$ -	\$ 3,601	\$ -	\$ 3,601	\$ -	\$ 21,606
20 Toll and Highway Administration	-	2,026	-	2,026	-	2,026	-	2,026	-	2,026	-	2,026	12,156
21 Tren Urbano	-	-	3,400	-	3,400	-	3,400	-	-	-	4,212	7,712	22,124
22 First Transit	-	-	2,438	-	2,438	-	1,219	-	1,219	-	1,219	-	8,533
23 Construction Project Expense and Related ¹	1,972	3,072	1,972	1,968	1,968	2,868	1,968	2,182	2,182	2,982	3,417	4,682	31,231
24 Litigation Reserve ²	-	-	3,200	-	-	-	3,200	-	-	-	3,200	-	9,600
25 AP Prior Year ³	-	833	2,500	-	833	585	2,500	-	833	-	1,216	2,500	11,800
26 Additional investment required to appropriate federal funds	-	-	260	-	-	-	1,050	-	-	-	1,160	-	2,470
27 Other Operating Expenses ⁴	-	-	3,972	-	-	3,972	-	-	-	3,972	-	-	11,916
28 Total Outflows	\$ 5,573	\$ 5,931	\$ 21,343	\$ 3,994	\$ 12,240	\$ 9,451	\$ 16,938	\$ 4,208	\$ 7,835	\$ 8,980	\$ 18,025	\$ 16,920	\$ 131,436
30 Net Cashflow Excluding Measures & Clawback	\$ (1,218)	\$ (1,126)	\$ (4,896)	\$ 1,558	\$ (6,221)	\$ (4,649)	\$ (1,474)	\$ 1,345	\$ (3,482)	\$ (4,177)	\$ 3,307	\$ (1,492)	\$ (22,527)
31													
32 Cash Position, Beginning	\$ 28,983	\$ 27,765	\$ 26,638	\$ 21,742	\$ 23,300	\$ 17,080	\$ 12,431	\$ 10,957	\$ 12,302	\$ 8,820	\$ 4,642	\$ 7,949	\$ 28,983
34 Cash position, Ending	\$ 27,765	\$ 26,638	\$ 21,742	\$ 23,300	\$ 17,080	\$ 12,431	\$ 10,957	\$ 12,302	\$ 8,820	\$ 4,642	\$ 7,949	\$ 6,456	\$ 6,456



¹ \$2.5 millions – Barrio Obrero transfer to AAA
² \$2.0 millions R/W, \$600 thousand legal fee, \$400 thousand reserve
³ \$2.2 millions States certifications, \$405 thousands arbitral award ACI
⁴ Utilities, Insurance, Rentals and others operating costs
 Source: PRHTA Management Estimates

VIII. Implementation Plan



Strong governance at both the entity and project level will ensure implementation compliance of Fiscal Plan

Entity Level - Governance

- Puerto Rico Act 74-1965, as amended, which creates the Puerto Rico Highway and Transportation Authority, provides for a Board of Directors composed of seven members, three of which are to be appointed by the governor with the consent and advice of the Senate for (4) year term. One of them is required to be a licensed engineer, one must have ample knowledge and experience in the field of finance, and one is to be selected from a list to be provided by professional and non-governmental organizations. The other members of the board are the Secretary of Transportation and Public Works, the Executive Director of FAFAA, the President of the Planning Board and the Secretary of the Treasury.
- The Board composition described above provides the necessary balance between the government interest with respect to the implementation of public policy and the members appointed based on their merit and professional knowledge and experience. **It is management belief that in order to enhance continuity and knowledge transfer between political cycles, terms of the three members from the private sector be increased from 4 to 6 years ensuring a more stable and independent corporate leadership.**
- The Board has approved bylaws through resolution 2014-17 that clearly define the role and responsibilities of the Board. In summary, the Board is responsible for the governance of the Authority, the appointment of an Executive Director that in turns manages the operations and reports to the Board, the approval of the budget, overseeing compliance, approving major contracts beyond the delegations allowed to the Executive Director, monitoring the auditing process and ensuring the Authority performs according to its purpose and outline objectives.

Entity Level - Management & Performance Indicators

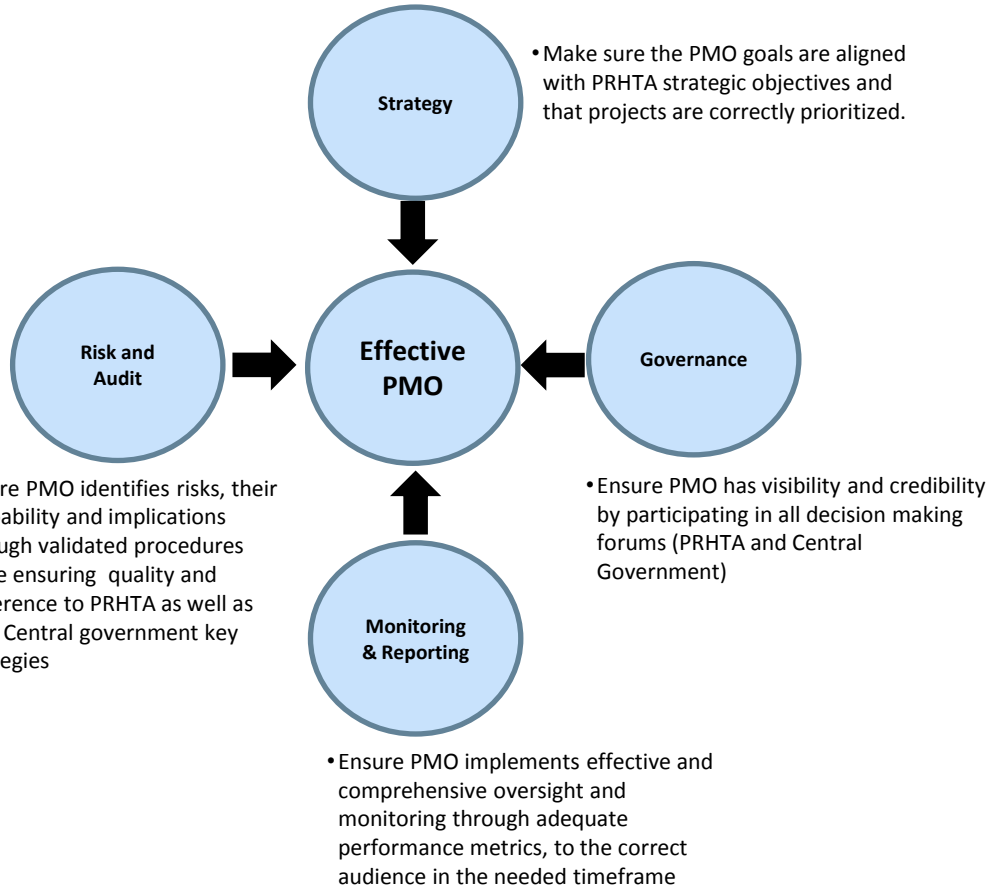
- The Authority's staff are government employees subject to the merit principle. As such they are not subject in general to changes in political cycles. Senior management is composed of "trust positions" appointed by the Board and the Executive Director. As a result of the current financial crisis, most of the trust positions have been filled with current employees. This has the adding benefit of reducing salary costs and employee benefits while maintaining the knowledge toward the future with employees that will continue in the agency independent of the political cycle.
- Together with the Statistics Institute, the Authority will design and implement a new set of standard indicators that will be followed and monitored to determined the level of performance being achieved.



At a project level, PRHTA will establish a Project Management Office (PMO) to effectively implement PRHTA's critical projects

PRHTA will establish a PMO with the required organization and processes to assure it can effectively implement the fiscal measures, MOU initiatives and the reforms proposed by the Central Government's fiscal plan

Main Elements of the PMO



Primary Initiatives

I. Fiscal Measures:

- 1) Transform organization from an in-house infrastructure developer to contract management
- 2) Optimize Outsourced Operations
- 3) Develop non-core Real Estate Program

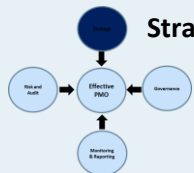



II. MOU Initiatives

III. Financial Reform

- 1) Budget
- 2) Procurement
- 3) Disbursement

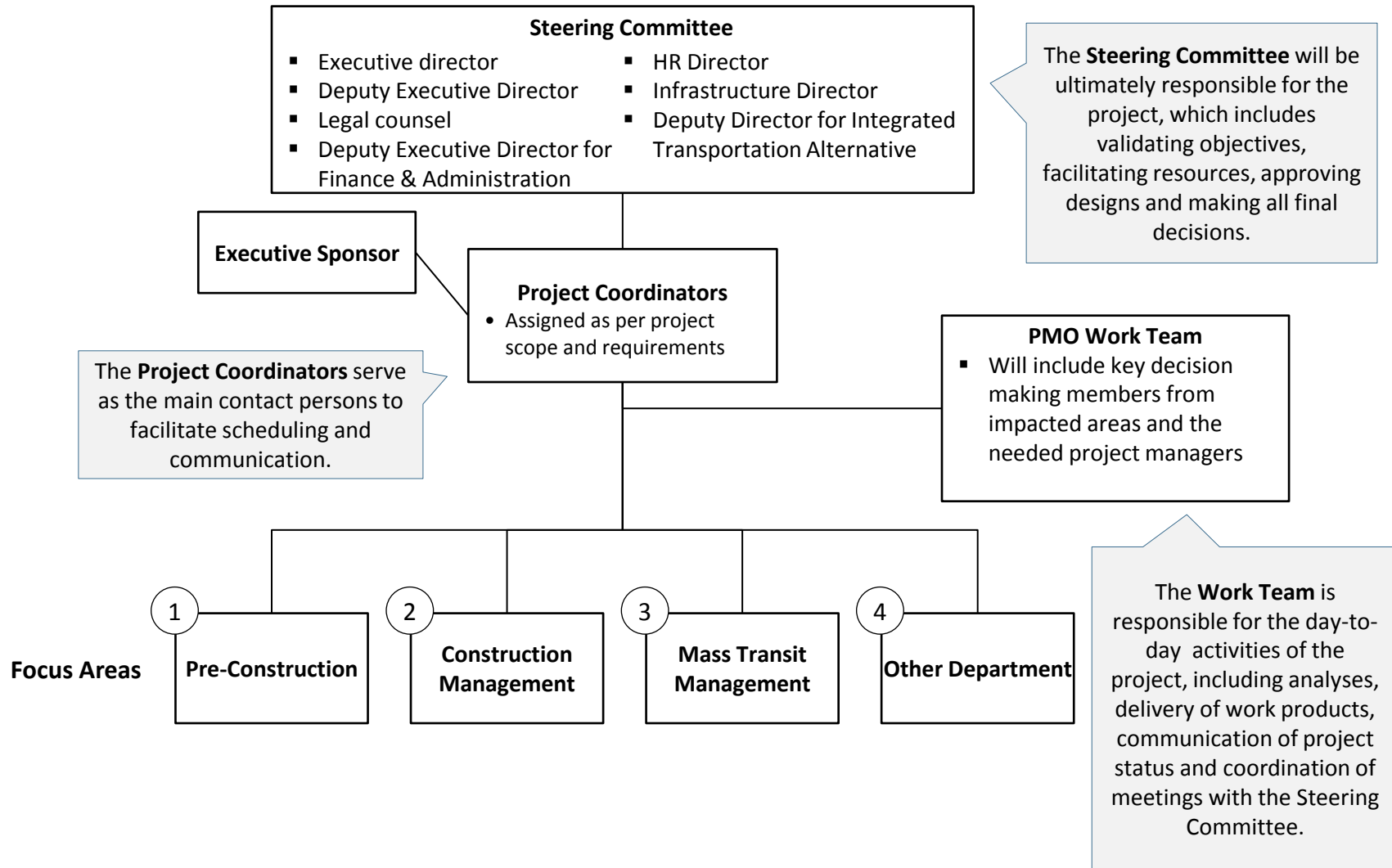


PMO guiding principle and actions definition


PMO Element	Guiding Principle	Action Step
 <p>Strategy</p>	<ul style="list-style-type: none"> Alignment between PMO governance and business strategy 	<ul style="list-style-type: none"> Define PMO strategy and objectives Define projects to prioritize based on organization’s strategy, such as Fiscal Measure and MOU initiatives Standardize methodologies, procedures and templates for projects
 <p>Risk & Audit</p>	<ul style="list-style-type: none"> Assurance on effective internal controls and risk mitigation 	<ul style="list-style-type: none"> Implement tools for risk assessment, such as a risk probability matrix Set up an Internal auditing committee to guide actions Strengthen requirements for continuous monitoring of risks Enhance transparency and competition in contractor selection process Enable recording and tracking of issues and action plans
 <p>Monitoring & Reporting</p>	<ul style="list-style-type: none"> Oversight and monitoring through adequate performance metrics 	<ul style="list-style-type: none"> Develop appropriate Key Performance Indicators (KPIs) with the adequate frequency and audience Implement reporting tools to allow for proper visibility, such as visual boards
 <p>Governance</p>	<ul style="list-style-type: none"> Visibility and Credibility assurance and centralize decision making 	<ul style="list-style-type: none"> Place PMO to directly report to Executive Director’s office or Steering Committee Coordinate and allocate skilled resources to deliver, monitor and control any governance initiatives Provide a structure through which project objectives are set and the means of attaining those objectives are met

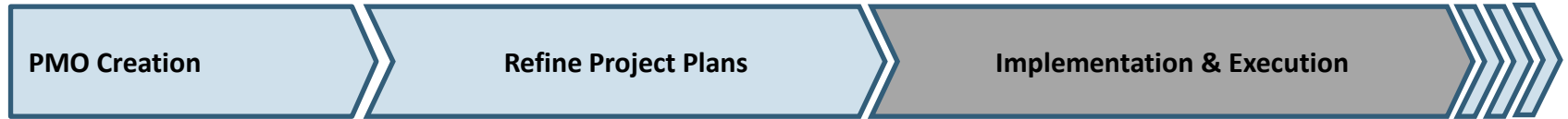
PMO Organizational Structure

FOR ILLUSTRATION PURPOSES



Project Management General Timeline

 To be discussed in detail



Time ← 6 weeks → ← 6 weeks → ← On going →

- | | | |
|---|---|--|
| <p>Activities</p> <ul style="list-style-type: none"> • Setting up project selection and prioritization process • Defining PMO's areas of responsibility , hierarchical position and competencies • Establish needed roles and organization to support initiatives • Define general work plan | <ul style="list-style-type: none"> • Creation of team charters, milestones and work plans • Perform Stakeholder analysis • Establish risk matrix mitigation plan • Development of Key Performance Metrics (KPI's) | <ul style="list-style-type: none"> • Development and implementation of master plans • Execution, monitoring and project control • Structuring of project interaction processes • Implementation of standards and reporting tools • Implementation of project management process improvements • Integration of PRHTA resources to project management support team |
|---|---|--|

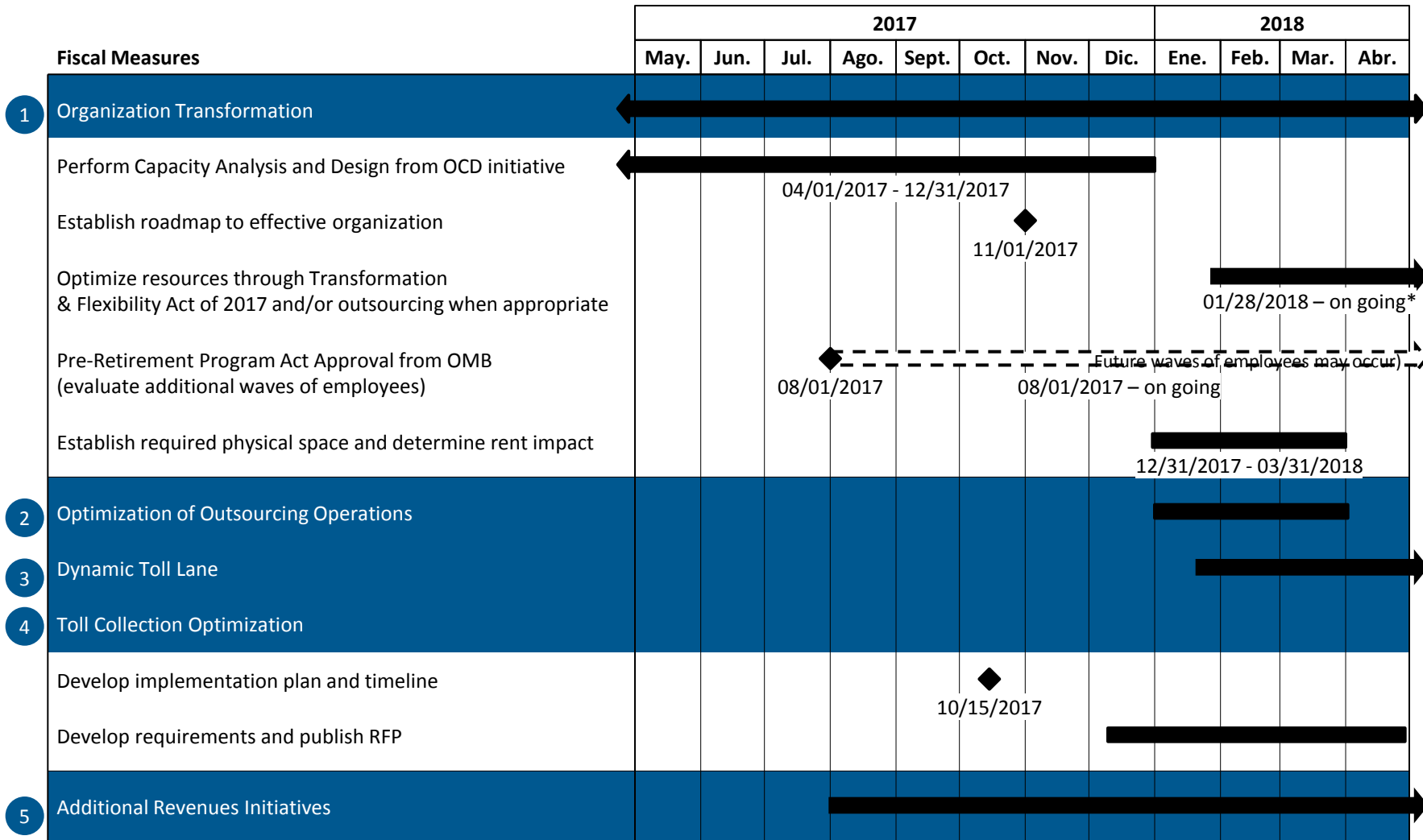


Implementation plan for Key Initiatives (2017 - 2020)

Año	2017	2018	2019	2020
Fiscal Initiatives				
Organizational Transformation	→			
Optimization of Outsourcing Operations	█ 01/01/2018 - 05/03/2018 →			
Revenues from new Dynamic Toll Lanes (DTL)	Design		Construction	
Toll Collection Optimization	█ →			
Other Revenue Initiatives	→			
Fiscal Reform				
Budget	█ →			
Procurement	█ 06/01/2017 - 03/03/2018			
Disbursement	█ 10/01/2017 - ongoing →			
MOU Initiatives				
Federal Aid Billing Procedures	█ 04/01/2017 - 02/29/2020			
Toll Credits	█			
Organizational Capacity Development	◀ 03/31/2017	█ 10/29/2017	█ 03/01/2017 - 12/31/2019	
	NTP	Final Report w/ Implementation Plan		
Expediting Project Delivery	→			



Fiscal Measures Implementation Timeline



* As per Financial Projections in Fiscal Plan, measures will be implemented through the 10 years

Financial Reform Implementation Timeline

Fiscal Reform	2017							2018							
	May.	Jun.	Jul.	Ago.	Sept.	Oct.	Nov.	Dic.	Ene.	Feb.	Mar.	Abr.	May.		
Budget															
Definition of Core Services			[Timeline Bar]												
Inclusion of tracking mechanisms					12/31/2017 - 03/09/2018			[Timeline Bar]							
Implementation of a Zero-based Budget			[Timeline Bar]												
						07/02/2017 - ongoing									
Procurement															
Categorize goods and services									[Timeline Bar]						
								01/01/2018 - 03/03/2018							
Creation of PMO Office		[Timeline Bar]													
		06/01/2017 - 10/28/2017													
Review procurement contracts							[Timeline Bar]								
						11/01/2017 - 12/31/2017									
Disbursement															
Establishment of Disbursement Authorization Group						[Timeline Bar]									
					10/01/2017 - 12/30/2017										
Priority payment protocol based on Core Services Definition								[Timeline Bar]							
							12/31/2017 - 03/01/2018								
Implementation of Rolling 13-week forecast and weekly reporting			[Timeline Bar]												
						07/01/2017 - ongoing									



MOU Initiatives Implementation Timeline

MOU Initiatives	2017							2018					Completed ¹	
	May.	Jun.	Jul.	Ago.	Sept.	Oct.	Nov.	Dic.	Ene.	Feb.	Mar.	Abr.		May.
I. Federal –aid Billing Procedures														
Implement 100% EFT to contractors	←—————→													✓
Achieve 40 days lead time for contractor payment	←—————→													✓
Upgrade Billing electronic tracking system	←—————→													✓
Achieve next day payment after fund receipt	←—————→													✓
II. Toll Credits														
Identify & Validate existing balance of toll credits	←—————→													✓
Design & Implement changes to the approval, tracking & reconciliation processes	←—————→													✓
III. Organizational Capacity Development														
Billing Process Diagnostic of Current Situation	←—————→													
Billing Process Design & Recommendations	←—————→													
Project Development Process Diagnostic of Current Situation	←—————→													
Project Development Process Design & Recommendations	←—————→													
IV. Expediting Project Delivery														
Improve email communication system through	←—————→													✓
Improve Project Management System (PMIS)	←—————→													✓
Report reason & action plan for projects with less than 5% of expended funds	←—————→													✓
Develop & Submit schedule to accelerate obligation of allocated funds	←—————→													✓

¹Action items from MOU completed; however, efforts still remain in assuring sustainability of those efforts

IX. APPENDIX: PRHTA'S MASS TRANSIT OPERATION OVERVIEW (INCLUDING TREN URBANO OPERATION)



Tren Urbano is the first rapid transit system in the Caribbean and one of the most modern in the United States

Case:17-03283-LTS, Doc#:3126-29, Filed:05/23/18, Entered:05/23/18 11:45:37 Desc:
Exhibit PRHTA Certified Fiscal Plan (2017) Page 47 of 58

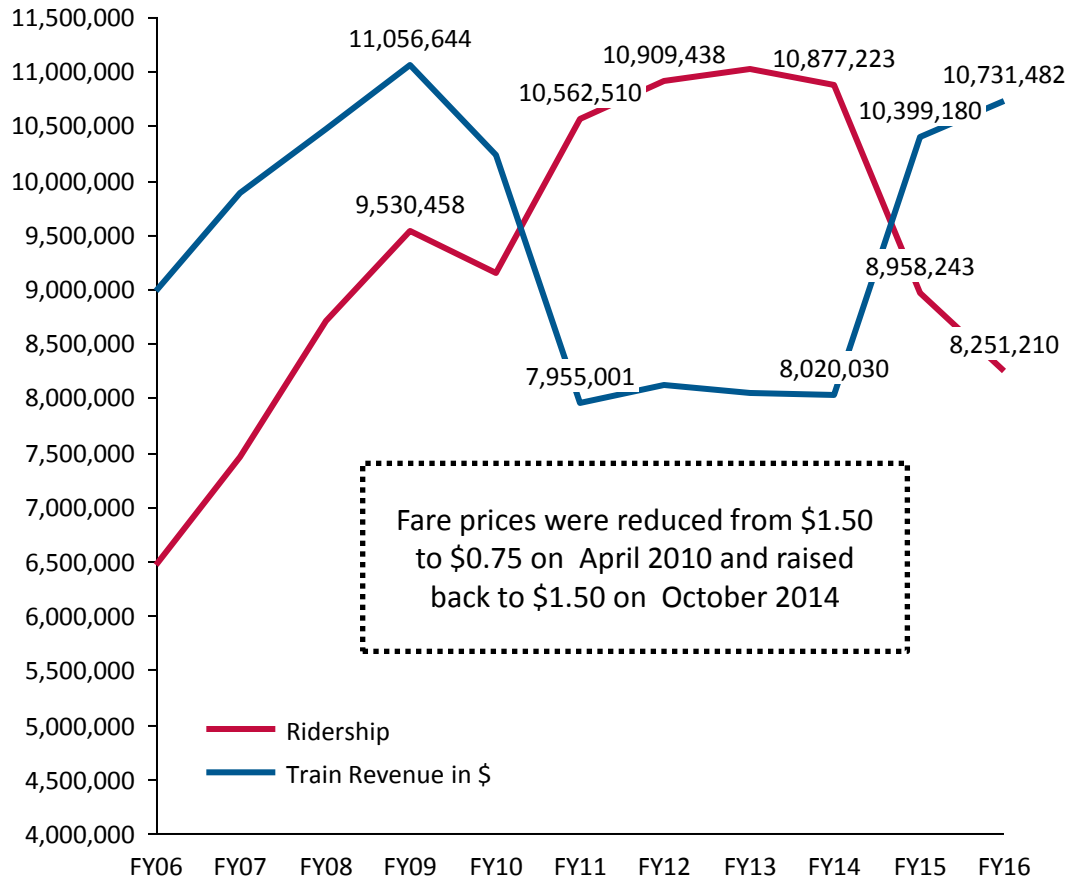
About Tren Urbano

- The Tren Urbano is the heavy rail component of the metropolitan transportation system. It encompasses a 16 stations alignment along 10.7 miles across the cities of Bayamón, Guaynabo and San Juan that serves as the spinal cord of the multimodal public transportation
- The Tren Urbano complements other forms of public transportation services in the San Juan metropolitan area such as the Metropolitan Bus Authority, Cataño Ferry, taxis and shuttles
- Currently underperforming its original ridership projections, it provide service to approximately 30,000 passengers daily with increase ridership during special events



Ridership increased from the 8-9MM range to the 10-11MM range when prices were reduced from \$1.50 to \$0.75, negatively impacting revenue levels

Historic Trends Tren Urbano: Ridership & Revenue



Fare System

- Regular \$1.50
- Medicare Participants \$0.75
- Golden Age (60 a 74 años) \$0.75
- Handicapped Citizens \$0.75
- Students \$0.75
- Elderly (above 75 y/o) Free
- Children (< 6 y/o) Free

- Unlimited Use
 - Day: \$5.00
 - Week: \$15.00
 - Month : \$50.00
 - 3 Months: \$90.00



Note: TU started revenue service in June 6, 2005

GOVERNMENT OF PUERTO RICO
Puerto Rico Highway and Transportation Authority

Source: PRTHA

PRHTA manages a series of mass transit bus systems servicing customers in the Metro Area

First Transit Network-3rd Party Provider

- The **Metrobus** routes (E10 and T3 routes) run and extend through the heavy transited corridor between Tren Urbano Sagrado Corazón Station and the Covadonga Bus Terminal in Old San Juan
- **TU Conexión** service consists of four (4) fixed route bus service provided with smaller vehicles in areas where regular bus vehicles cannot be use due to geometrical limitations on the street network, or where travel demand cannot justify the use of regular transit buses in the vicinity of selected Tren Urbano Stations (Sagrado Corazón and Piñero).
- **Metro Urbano** is an express commuter type service, with stops only at the end points of the route, the Campanillas-Toa Baja Park-and-Ride Station and the Tren Urbano Bayamon Station.

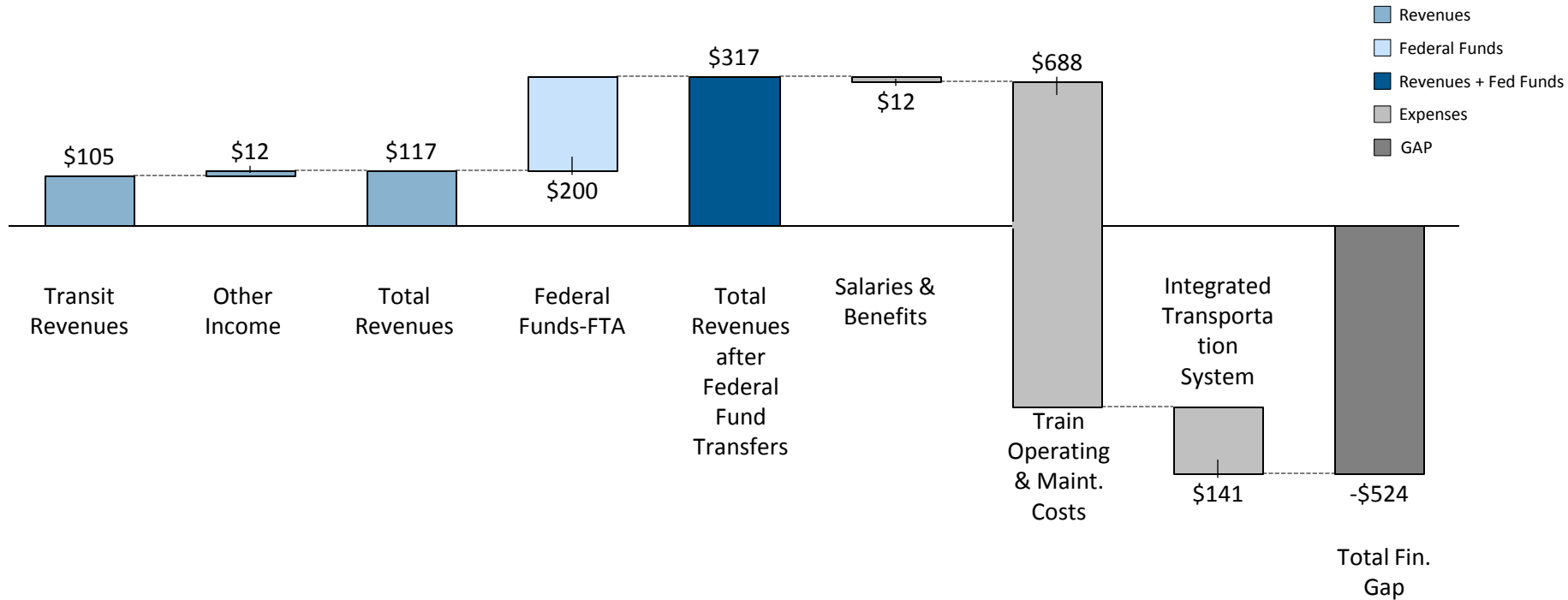


10-Year Projected Financial GAP for PRHTA's mass transit operation

Financial Gap Pre-Measures

\$ millions

*



Baseline projections for PRHTA's mass transit operation results in a \$524 million financial gap for the next ten years

Projected Financial Gap over the 10 year period

\$ thousands

	2016-17 P	2017-18 P	2018-19 P	2019-20 P	2020-21 P	2021-22 P	2022-23 P	2023-24 P	2024-25 P	2025-26 P	Total		
											5 Yr	10 Yr	
Revenues													
Transit Revenues (1)	10,200	10,200	10,404	10,612	10,612	10,612	10,612	10,612	10,612	10,612	10,612	52,028	105,088
Other income (2)	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	6,000	12,000
Total Revenues	\$ 11,400	\$ 11,400	\$ 11,604	\$ 11,812	\$ 11,812	\$ 11,812	\$ 11,812	\$ 11,812	\$ 11,812	\$ 11,812	\$ 11,812	\$ 58,028	\$ 117,088
Federal Aid-FTA (Sec. 5307 & Sec. 5309) (1)	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	100,000	200,000
Total Revenues After Federal Fund Transfers	\$ 31,400	\$ 31,400	\$ 31,604	\$ 31,812	\$ 31,812	\$ 31,812	\$ 31,812	\$ 31,812	\$ 31,812	\$ 31,812	\$ 31,812	\$ 158,028	\$ 317,088
Expenses													
Salaries and related benefits (3)	(1,200)	(1,200)	(1,200)	(1,200)	(1,200)	(1,200)	(1,200)	(1,200)	(1,200)	(1,200)	(1,200)	(6,000)	(12,000)
Train operating and maintenance costs (1)	(65,360)	(66,478)	(68,090)	(69,733)	(69,733)	(69,733)	(69,733)	(69,733)	(69,733)	(69,733)	(69,733)	(339,394)	(688,059)
Integrated transportation system (1)	(14,076)	(14,075)	(14,075)	(14,075)	(14,075)	(14,075)	(14,075)	(14,075)	(14,075)	(14,075)	(14,075)	(70,376)	(140,751)
Total operating expenses	\$ (79,436)	\$ (80,553)	\$ (82,165)	\$ (83,808)	\$ (83,808)	\$ (83,808)	\$ (83,808)	\$ (83,808)	\$ (83,808)	\$ (83,808)	\$ (83,808)	\$ (415,770)	\$ (840,810)
Total Fin. Gap Pre-Measures	\$ (48,036)	\$ (49,153)	\$ (50,561)	\$ (51,996)	\$ (51,996)	\$ (51,996)	\$ (51,996)	\$ (51,996)	\$ (51,996)	\$ (51,996)	\$ (51,996)	\$ (251,742)	\$ (523,722)

- 1) Same assumptions as used in PRHTA Fiscal Plan (Section V, p. 34)
- 2) Other Income includes revenues from \$600k from Metrobus ridership and about \$600K coming from Advertising
- 3) Salaries and benefits assumed to continue at same rate as in FY2016 & FY2017



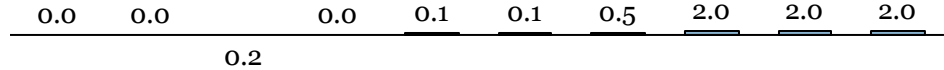
Some measures included in Section V, will have a direct impact on PRHTA Mass Transit Operation (including Tren Urbano)

1 Transform organization from an in-house infrastructure developer to contract management

- Organize PRHTA into a world class infrastructure developer and manager moving towards a contract management business model, such as done today for different functions. Impact includes net savings from Organizational Transformation, Pre-Retirement Program, Overhead Savings, Additional Outsourcing costs and Rent Reduction

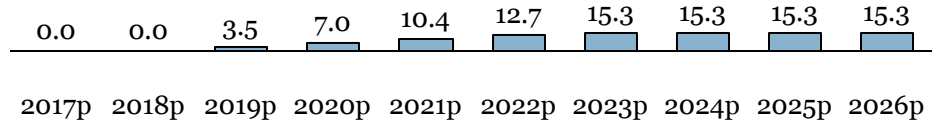
Results

\$ millions, Full year impact



2 Optimization of Outsourcing Operations

- PRHTA believes it can obtain additional savings in their Transit Services by promote more competition in the acquisition of equipment and services to guarantee the best possible prices



3 Commercial Real Estate Development

- The Tren Urbano Alignment posses a considerable amount of currently unused Commercial Retail Space. An initiative is underway market and lease those spaces. This initiative will represent additional revenue and will enhance the experience of users of the system as increase ridership will make stations not only points of access to the rail system and its surroundings, but also destinations themselves.

Initiative is under management evaluation/analysis. Current expectation is to generate incremental revenues of \$25K per year starting with FY 2018

3 Additional Measures to Reduce Transit Losses

- Generate additional revenues from Advertising & Filming Rights
- Participate in Competitive Grants to procure additional Federal Funding
- Increase Safety Programs and Measures to reduce at a minimum patron claims
- Implement additional digital surveillance to reduce vandalism and perimeter breaches in so doing reducing costs associated to this activities

Initiative is under management evaluation/analysis. Initial expectation is to generate incremental revenues of \$400K at peak levels



Financial Gap after measures

PRHTA Certified Fiscal Plan (2017) Page 53 of 58

Projected Financial Gap over the 10 year period

\$ thousands

	2016-17 P	2017-18 P	2018-19 P	2019-20 P	2020-21 P	2021-22 P	2022-23 P	2023-24 P	2024-25 P	2025-26 P	Total		
											5 Yr	10 Yr	
Total Fin. Gap Pre-Measures	\$ (48,036)	\$ (49,153)	\$ (50,561)	\$ (51,996)	\$ (51,996)	\$ (51,996)	\$ (51,996)	\$ (51,996)	\$ (51,996)	\$ (51,996)	\$ (51,996)	\$ (251,742)	\$ (523,722)
Measures													
Organizational Transformation (1)	\$ -	\$ -	\$ (232)	\$ 30	\$ 77	\$ 124	\$ 546	\$ 1,957	\$ 1,957	\$ 1,957	\$ 1,957	\$ (125)	\$ 6,416
Optimization of Outsourcing Operations (1)	\$ -	\$ -	\$ 3,475	\$ 6,950	\$ 10,425	\$ 12,741	\$ 15,290	\$ 15,290	\$ 15,290	\$ 15,290	\$ 15,290	\$ 20,850	\$ 94,751
Total Impact from Measures	\$ -	\$ -	\$ 3,243	\$ 6,980	\$ 10,502	\$ 12,865	\$ 15,836	\$ 17,247	\$ 17,247	\$ 17,247	\$ 17,247	\$ 20,725	\$ 101,167
Total Financial Gap after Measures	\$ (48,036)	\$ (49,153)	\$ (47,318)	\$ (45,016)	\$ (41,494)	\$ (39,131)	\$ (36,160)	\$ (34,749)	\$ (34,749)	\$ (34,749)	\$ (34,749)	\$ (231,017)	\$ (422,555)

Summary of Results

- PRHTA's mass transit operation Fiscal Measures of \$101 MM are expected in the next ten years
- Funding gap expected to be reduced from \$524MM to \$423MM after measures
- Management is assessing additional measures to close the GAP even further
- Management to complete PRITA (Puerto Rico Integrated Transit Authority) integration in order to enable further significant savings and revenue enhancements opportunities



A way forward for all Mass Transit operations (within PRHTA) including Tren Urbano

What is PRITA?

- The Puerto Rico Integrated Transportation Authority (PRITA) was created by Act 123-2014 **to integrate the different transportation programs under one single entity**. A requirement prior to the full integration within PRITA was acquiring Federal Grantee Status (currently the Tren Urbano project falls under the Puerto Rico Highway and Transportation Authority as Grantee of the Federal Transit Administration)

Obtain Grantee Status & Consolidate

- The PRHTA new executive team is diligently working in partnership with PRITA and the FTA **to complete all pending requirements to obtain the Grantee Status**. The law provides that once the grantee status is granted to PRITA, PRHTA will fully transfer the TU Project to PRITA who will in turn, **consolidate the administration, finance, human resources and other management overhead** of the current Metropolitan Bus Authority, the Maritime Transportation Authority and the Tren Urbano Project.

Achieve Planned Synergies

- Just like the PRHTA, PRITA is subject to the Public Policy established by the Department of Transportation and Public Works but with this separation, the Tren Urbano can **develop new ways to enhance its profitability by integrating with the other transportation components, maximizing savings opportunities, focusing on the development of additional sources of revenue** while establishing a governance structure that guarantees stability throughout political cycles



X. APPENDIX: FINANCIAL PROJECTIONS NOTES ON BASE CASE SCENARIO



Financial Projections Assumptions and Notes on Base Case Scenario

- (1) Revenues from Tolls, Gasoline taxes, Diesel taxes, Petroleum Products taxes, Cigarette taxes and Vehicle License Fees are projected in a span of ten years using values from the Government of Puerto Rico Certified Fiscal Plan
- (2) No change in toll tariffs is considered
- (3) Revenues due to vehicle license fees are projected to remain constant per year
- (4) Other income (impact fees, advertisement, etc.) revenue line was provided by PRHTA management
- (5) All operational expenses were based on operational budget 2016
- (6) All Construction expenses are PRHTA management estimates
- (7) Clawback values are taken to be equal to the amount of revenues coming from Gasoline taxes, Diesel taxes, Petroleum Products taxes, Cigarette taxes and Vehicle License Fees
- (8) Debt Service information was provided by PRHTA management
- (9) Reflects estimated amounts to maintain necessary operating expenses before debt service



XI. APPENDIX: Additional information

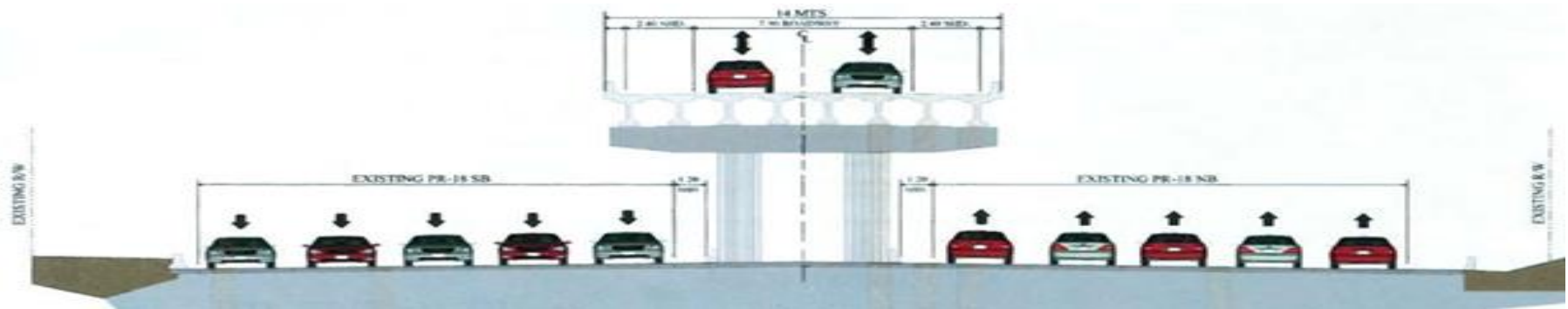


PR-18 Value Engineering Example

Express Lanes Project - Las Américas Expressway (PR-18)

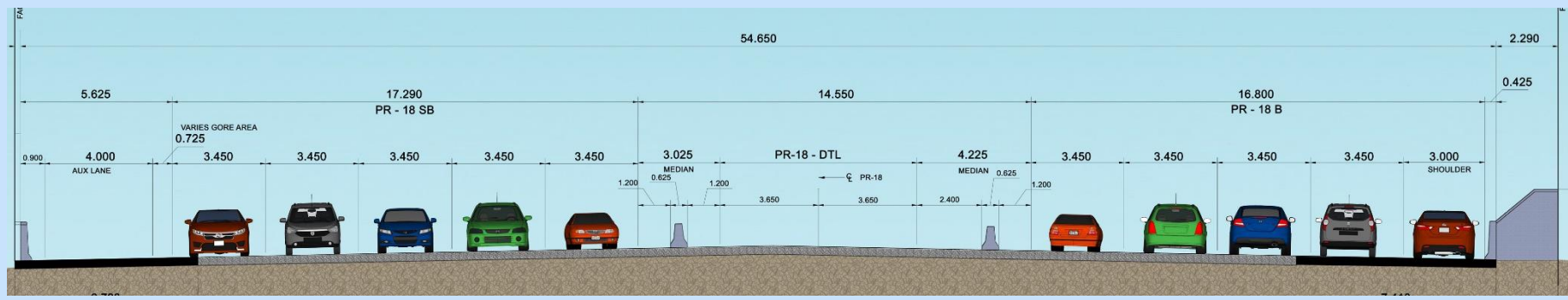
Original Proposal: Construction of a 950 meter bridge

Estimated cost: \$30.9M



New Proposal: Construction levelled with current lanes

Estimated Cost: \$15.9M



GOVERNMENT OF PUERTO RICO
Puerto Rico Highway and Transportation Authority

EXHIBIT 30



As Certified by The Financial Oversight and Management Board for Puerto Rico
April 20, 2018

- The Financial Oversight and Management Board for Puerto Rico (the “FOMB,” or “Oversight Board”) has formulated this New Fiscal Plan based on, among other things, information obtained from the Puerto Rico Fiscal Agency and Financial Advisory Authority (“AAFAF”) and the Puerto Rico Highways and Transportation Authority (“HTA” and together with AAFAF, the “Government”).
- This document does not constitute an audit conducted in accordance with generally accepted auditing standards, an examination of internal controls or other attestation or review services in accordance with standards established by the American Institute of Certified Public Accountants or any other organization. Accordingly, the Oversight Board cannot express an opinion or any other form of assurance on the financial statements or any financial or other information or the internal controls of the Government and the information contained herein.
- This New Fiscal Plan is directed to the Governor and Legislature of Puerto Rico based on underlying data obtained from the Government. No representations or warranties, express or implied, are made by the Oversight Board with respect to such information.
- Any statements and assumptions contained in this document, whether forward-looking or historical, are not guarantees of future performance and involve certain risks, uncertainties, estimates and other assumptions made in this document. The economic and financial condition of the Government and its instrumentalities is affected by various legal, financial, social, economic, environmental, governmental and political factors. These factors can be very complex, may vary from one fiscal year to the next and are frequently the result of actions taken or not taken, not only by the Government, the Oversight Board, and other third-party entities such as the government of the United States.
- Because of the uncertainty and unpredictability of these factors, their impact cannot be included in the assumptions contained in this document. Future events and actual results may differ materially from any estimates, projections, or statements contained herein. Nothing in this document should be considered as an express or implied commitment to do or take, or to refrain from taking, any action by the Oversight Board, the Government, or any government instrumentality in the Government or an admission of any fact or future event. Nothing in this document shall be considered a solicitation, recommendation or advice to any person to participate, pursue or support a particular course of action or transaction, to purchase or sell any security, or to make any investment decision.
- By receiving this document, the recipient is deemed to have acknowledged the terms of these limitations. This document may contain capitalized terms that are not defined herein, or may contain terms that are discussed in other documents or that are commonly understood. You should make no assumptions about the meaning of capitalized terms that are not defined, and you should refer questions to the Oversight Board at comments@oversightboard.pr.gov should clarification be required.
- This New Fiscal Plan is based on what the Oversight Board believes is the best information currently available to it. To the extent the Oversight Board becomes aware of additional information after it certifies this New Fiscal Plan that the Oversight Board determines warrants a revision of this New Fiscal Plan, the Oversight Board will so revise it.

- I. Executive Summary**
- II. Description of PRHTA**
- III. Infrastructure Agenda**
- IV. Current Situation with Baseline Financial Projection**
- V. Fiscal Measures with Financial Projections**
- VI. Liquidity Situation**
- VII. Debt Sustainability**
- VIII. Implementation Plan**

Appendix:

- FHWA MOU**
- Summary Fiscal Plan Bridges to July 2017**

I. EXECUTIVE SUMMARY

- **Puerto Rico’s economic development requires an efficient transportation system that provides safety, sustainability and high-quality service for its citizens.** A safe and efficient transportation system, with feasible options for public transit, is the right of every Puerto Rican, and an imperative for economic development. The Puerto Rico Highways and Transportation Authority (HTA) has four objectives aligned with this goal: (a) transit security and safety projects, (b) improvement of existing transportation infrastructure, (c) completing highway systems, and (d) traffic reduction. This mandate was made dramatically more difficult in the face of Hurricane Maria, which severely damaged the Island’s highway and public transit networks (current estimates of the damages are at \$750M+ and growing). The New Fiscal Plan for HTA provides a roadmap for transforming not only the Authority, but also infrastructure across Puerto Rico to catalyze economic growth.
- **HTA must transform drastically to achieve its goals.** Recent performance of this system has lagged nationwide targets. The Puerto Rico transportation system has among the highest fatality rate, poorest pavement conditions, and worst costs of congestion nationwide. HTA has amassed over \$6B of debt, and has been unable to deliver on its CIP in recent years, despite underutilization of its workforce. Potential inflation in the construction market after Hurricane Maria constitutes a major risk that would adversely impact HTA’s ability to deliver on a necessary capital program. Given this inflation risk, the CIP will need to be regularly evaluated to ensure successful delivery. HTA faces the task of improving this performance as the responsible entity for developing, operating and maintaining Puerto Rico’s toll roads, highway network, and mass transportation facilities.
- **The New Fiscal Plan provides a roadmap to ensure a successful transformation of HTA.** The New Fiscal Plan transforms HTA from an in-house infrastructure developer to an independently governed contract manager to deliver on a \$3B capital program while capturing \$413M in revenue and expense opportunities. The plan represents a step change in performance from the recent past. The governance and operating model will be dramatically transformed to orient around outcomes and efficient delivery. At its peak, the capital program is expected to increase by 5x the size of recent programs delivered, on the heels of an MOU with FHWA to improve delivery. Successful implementation of the New Fiscal Plan will ensure HTA is fiscally sustainable, maintains its assets in a state of good repair, reduces traffic in the system, and is prepared for future disasters.

Successfully implementing a comprehensive transportation sector transformation will require HTA to deliver on the following activities, as detailed in the New Fiscal Plan:

- **Improving governance and performance management:** The New Fiscal Plan outlines a strategy to develop organizational KPIs to incentivize and monitor performance across the organization at the operational level and to ensure that the leaner organization can deliver on its capex plan. The New Fiscal Plan also calls for the recruitment and engagement a Board of diversified professionals to define and implement HTA's long term strategy.
- **Pursuing greater revenue opportunities:** The New Fiscal Plan details strategies to pursue additional operating revenue opportunities including toll increases and optimization (to ensure that purchasing power of toll revenues keeps up with inflation), discretionary federal funding (including the Community Development Block Grant allocation to Puerto Rico), and ancillary revenue opportunities from real estate, signage, and advertising.
- **Focusing on operational excellence including capital efficiency:** The New Fiscal Plan optimizes capital expenditures through improved project prioritization based on economic benefits/safety, enhanced delivery, and soft cost reductions. To also optimize operating expenses, the New Fiscal Plan requires that certain contracts are re-bid using Title III processes to be in line with competitive benchmarks. To right-size the organization and become a best-in-class lean department of transportation, HTA will complete early retirement programs (Law 211) that are already in progress, and further workforce transition efforts to reduce personnel cost by 15%. HTA will also continue to evaluate concession opportunities that create value, and capture pension savings related to the reform of the Employees Retirement System as detailed in the New Commonwealth Fiscal Plan dated April 2018.
- **Reducing traffic to drive economic growth:** HTA will complete projects already in progress to reduce traffic (e.g. DTL, BRT) and plan for additional projects to further promote economic growth and revenue benefits.

II. DESCRIPTION OF PRHTA

Mission

Lead Puerto Rico towards economic development through an efficient transportation system, safely and in accord with the environment, while procuring the delivery of excellent service

Vision

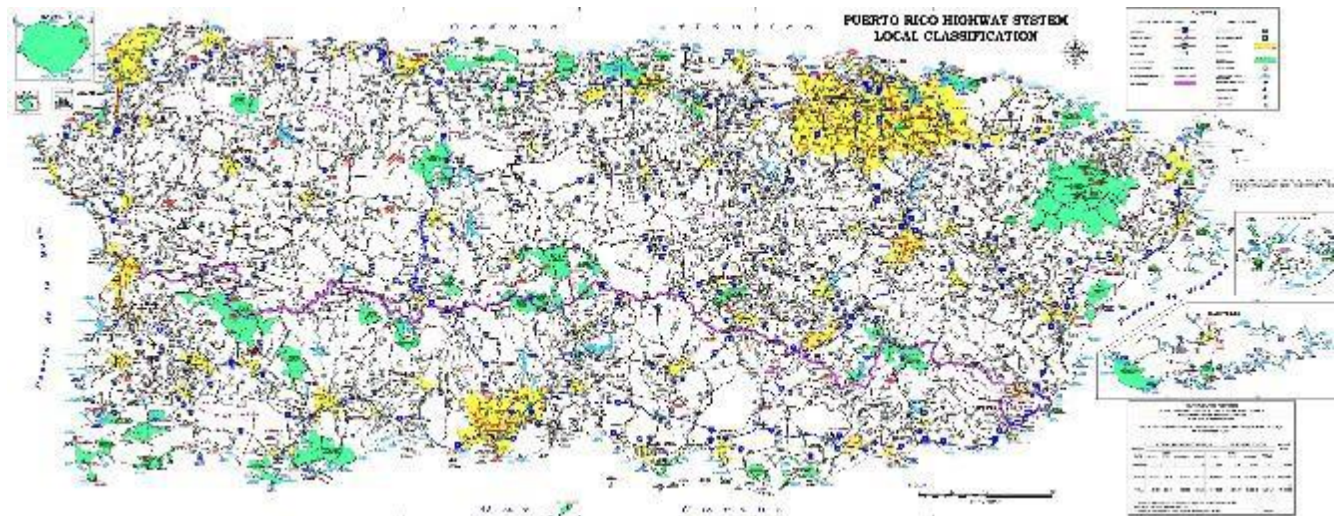
Develop and promote an integrated transportation system that, along with a highway infrastructure and service delivery, will facilitate the economic development of Puerto Rico in harmony with the environment

About PRHTA

- HTA is a public corporation founded with the purpose of continuing the government’s effort of providing the public with the best highways, easing the flow of vehicles, and minimizing the risks and inconveniences that traffic congestions may cause.
- HTA is charged with constructing, operating, and maintaining Puerto Rico’s toll road network, major highways and mass transportation facilities, which are financed by revenue bonds, federal grants and specified tax revenues.
- The Puerto Rico State Highway System consists of a total of **4,605 miles**:

Breakdown by type of Road:

Toll Roads (incl. PR 22 & 5) – 185.6 miles
Primary Roads (incl. Urban) – 986 miles
Secondary & Tertiary Roads – 3,434 miles
Total = 4,605 Miles



SOURCE: <http://www.dtop.gov.pr/historia.asp>

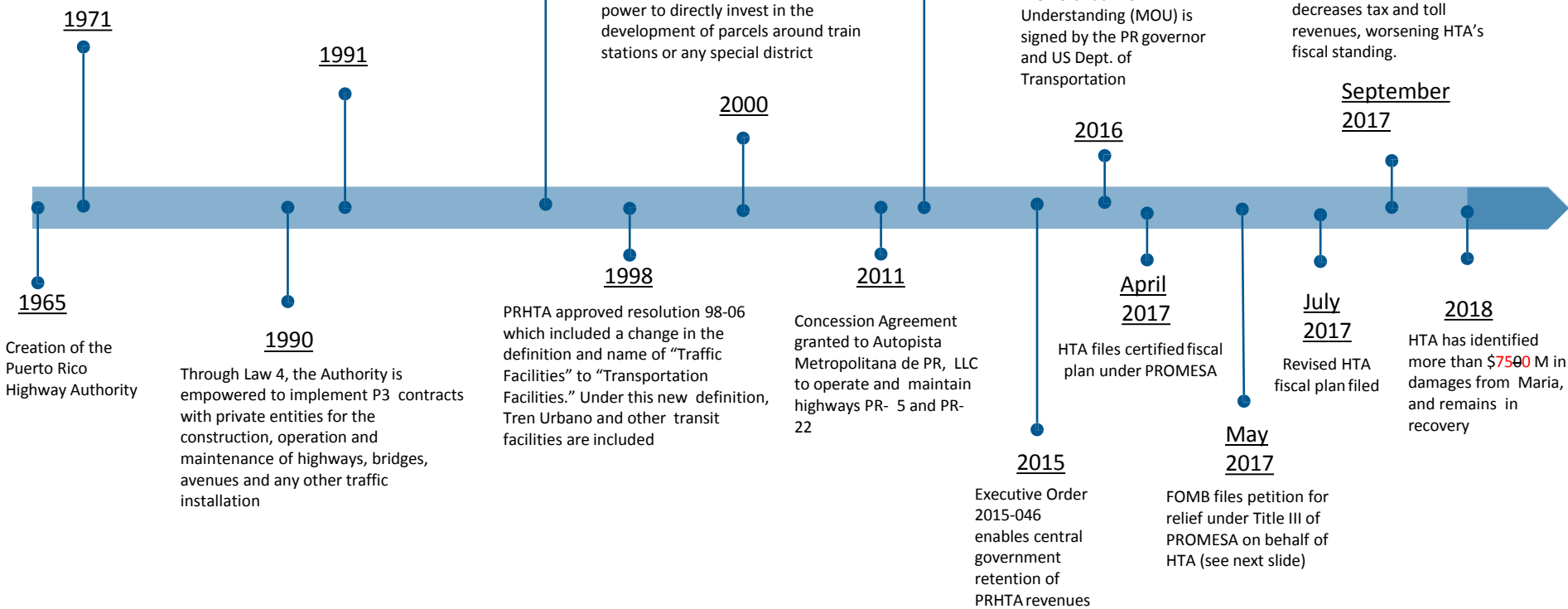
- HTA falls under DTOP's umbrella through the Reorganization Plan Num 6, conceding its powers and duties to the Secretary
- Integration of the mass transportation sector through the successful establishment of exclusive lanes project for AMA buses is put in place

The Secretary of DTOP grants the name Highways and Transportation Authority through Law 1, becoming the principal promoter and administrator of mass transportation public policies

The construction of Teodoro Moscoso Bridge is completed, becoming the first highway privatization project in PR and the US with an investment of \$126M

- Toll Credits were implemented to benefit HTA by using the credits to substitute the required local share on future Federally aided projects
- Law 41-2014 amended the Organic Act of PRHTA to vest its powers in a Board of Directors

- Hurricane Maria hits Puerto Rico, causing widespread damage to infrastructure, including prolonged power outages, damage to toll facilities, roads, and bridges.
- Economic impact of Maria decreases tax and toll revenues, worsening HTA's fiscal standing.



SOURCE: http://www.dtop.gov.pr/carretera/det_content.asp?cn_id=217

Financial Sustainability, Federal Agencies & PROMESA

- The **Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA)** establishes a process for the restructuring of debt towards sustainable levels but not before the certification of its Fiscal Plan by the Oversight Board. HTA has filed for Title III protections under PROMESA and will continue to work with all the federal agencies (including FTA & FHWA) as partners throughout the Title III process in order to achieve our common objectives.
- HTA receives about \$158.8M per year from FTA and FHWA. Conditions of this funding require that the grantee demonstrates specific and well-defined technical, financial and organizational capabilities. There are federal requirements associated with continued operation and disposition of grant-funded assets that constrain HTA's flexibility to some extent.
- FTA and FHWA agreements require continued operation of grant-funded assets, limiting HTA's options for reducing operating costs of systems which relied on central government revenue which has since been retained.
- HTA recognizes that its continued partnership with Federal partners, including FHWA and FTA are critical to the continued development of the Commonwealth's transportation network and the health of Puerto Rico's economy. HTA will continue to work collaboratively and inclusively with federal agencies to ensure it meets all federal funding requirements.

HTA receives federal funds from two agencies, the Federal Transit Administration (FTA) and the Federal Highway Administration (FHWA). This funding requires a grantee to demonstrate that it has specific and well-defined technical, financial, and organizational capabilities.

FHWA



FTA



Agency Description

Agency within the U.S Department of Transportation responsible for administering the federal-aid highway program and highway transportation programs of the Department of Transportation.

Provides financial and technical assistance to local public transit systems, including buses, subways, light rail, commuter rail, trolleys and ferries. The FTA also oversees safety measures and helps develop next-generation technology research.

Grantee Compliance Requirements

According to 23 U.S.C. § 302 and Title 23 of the Code of Federal Regulations, any state needs to be suitably equipped and organized to discharge to the satisfaction of the Secretary the duties required by this title. In the following areas:

- Payment procedures- Chapter 1, subchapter 8
- Planning/Environmental- Section 135, Chapter I, Subchapter E
- Design- Highway Standard/ Design Criteria- Section 109, Chapter I, Subchapter G
- Construction and Contracting Procedures- Chapter I, Subchapter G
- Transportation Infrastructure Management- Chapter I, Subchapter F
- Maintenance- Properly Maintenance all Roads- Section 116
- Highway Safety- Section 402, Chapter I, Subchapter II
- Right of Way and Environment- Chapter I, Subchapter H

To become a grantee of FTA, HTA is required to meet the following minimum criteria:

- Legal Capacity
- Technical Capacity
- Proven Financial Capacity
- Disadvantage Business Enterprise
- American with Disabilities Act Compliance
- Title IV (Civil Rights) 48 U.S.C §5301 *et seq.*

Risks of Non-Compliance

Non-compliance with federal laws and regulations or diversion of highway revenues may result in:

- **Suspension of funding**
- Lack of maintenance and essential services that will cause **highways to deteriorate**
- **Transportation of goods and emergency services will be hindered**
- **HTA and FHWA are currently operating under an MOU which stipulated requirements to maintain funding – for additional information, see MOU slides in the Appendix.**

The default of HTA with any of its obligations (mainly bond debt) may trigger questions as to its financial capacity leading to **a potential loss of federal funds**. If, during the useful life of the property, the recipient unreasonably delayed or failed to use the federally assisted property for its originally intended purpose, recipients may be required to **return the entire amount of federal assistance spent on the award or federally-assisted property**. However, **this Fiscal Plan is designed to mitigate this risk** by closing any operational financial gap for the six-year period, subject to the realization of projected revenues, fiscal measures, and fund transfers from both Federal and PR Governments.

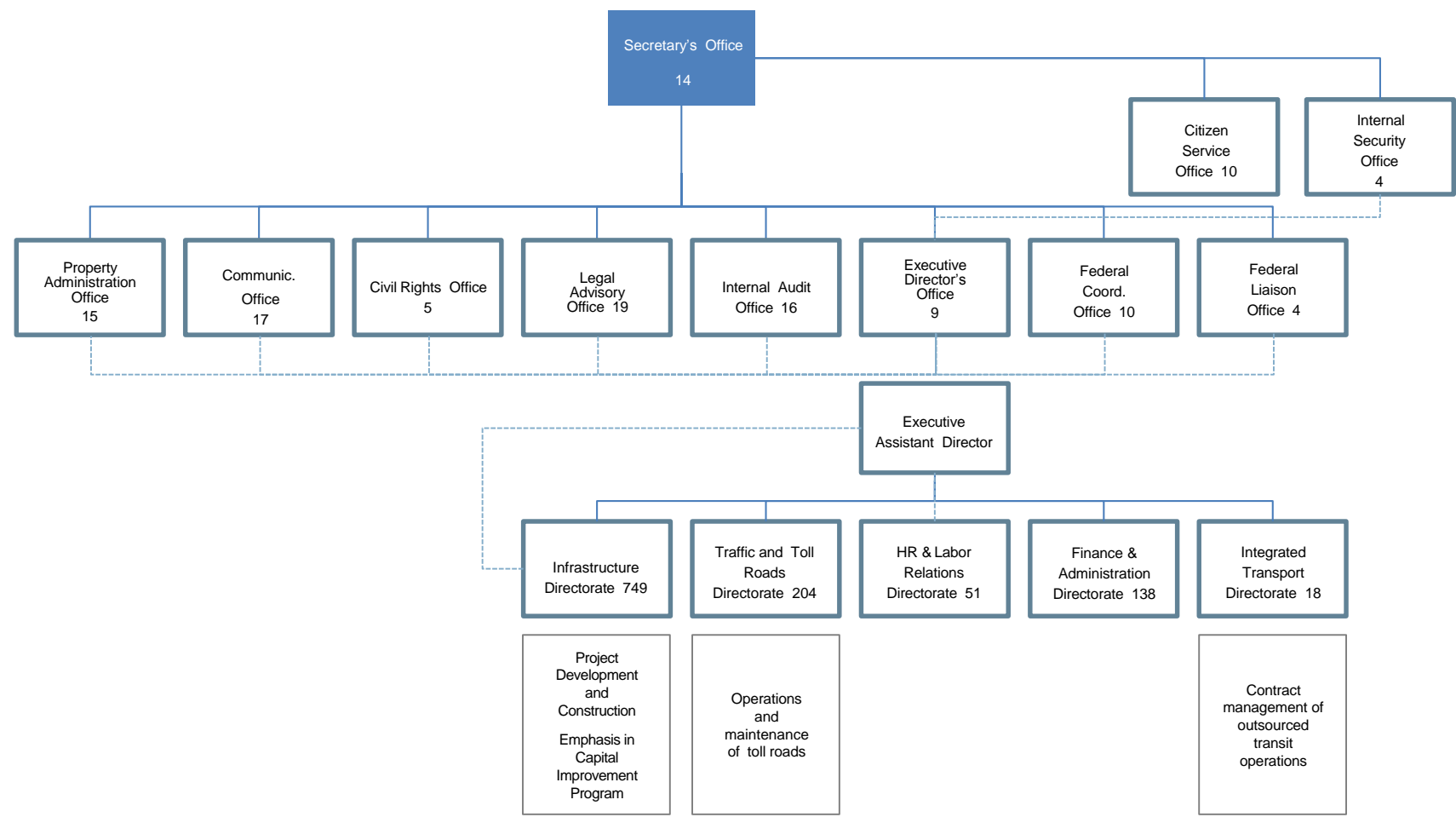
Max Available Funding*

\$138.8 million/year*

\$20 million/year*

1 Maximum available funding represents recurring annual payments and does not include emergency reconstruction grants. Maximum available funding may not equal that of obligated funds and/or actual expenditures. Amounts include penalties and \$3.8M return from PR Transit Safety Commission.

SOURCE: USC 23; Title 23 CFR

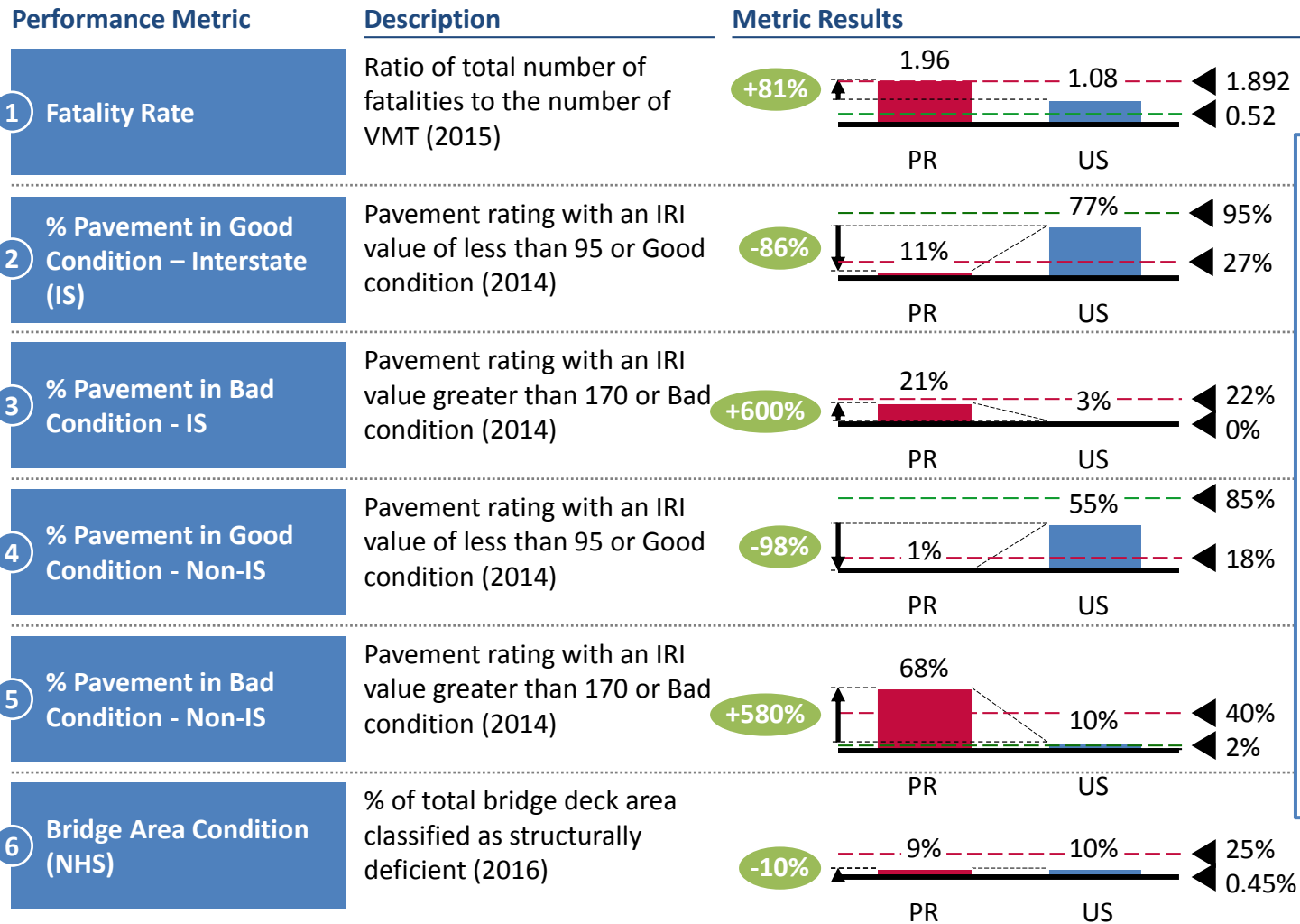


- Special relation between advisory offices that directly report to the Secretary and, at the same time, provide services and advice to the Executive Director
- - - Special relationship of counseling and coordination between offices or areas
- . - . Special relation between administrative and finance phases

Source: January 2018 HTA roster provided by HTA Human Resources.
Relationships and offices via discussions with HTA executives and its consultants.

Before Maria, Puerto Rico's road system was underperforming in nationwide Highways KPIs when compared to other states

--- Top state
 --- Bottom State



- National Safety Goal on is to have a significant reduction in the fatality rate, while target is set by state at 1.85 for fatalities by 2018.
- National goal is to maintain the highway infrastructure asset system in a state of good repair.
- HTA will monitor performance against these key metrics, and strive to make improvements in road and bridge conditions and safety within its budgetary constraints.

SOURCE: <https://crashstats.nhtsa.dot.gov/Api/Public/ViewPublication/812318>; <https://www.fhwa.dot.gov/bridge/nbi/no10/condition16.cfm>; <https://www.fars.nhtsa.dot.gov/Crashes/CrashesTime.aspx>; SHSP 2016

- **Infrastructure Damage:** Roads, bridges, were damaged in the hurricane, and major projects were delayed due to the temporary realignment of resources towards recovery. HTA was unable to execute planned capital improvements, focusing instead on emergency repairs to bring infrastructure back online.
- **Public Transit Damage:** Several Tren Urbano (TU) stations were damaged by Maria, with limited service returning in late December.
- **Revenue:** Revenue from operations were severely depleted in the wake of Hurricane Maria. Toll plazas were damaged or left without power, TU and several bus lines were left temporarily inoperable, and both traffic and ridership were greatly reduced.
- **Economy:** Hurricanes contributed to greater-than-anticipated economic decline, leading to a long-term reduction in revenue, traffic, and ridership.
- **Insurance and aid:** FEMA grants and insurance proceeds are expected to partially finance some capital improvement projects necessitated by Maria's damage, and offset some of the negative economic impact of the storm.



Hurricane Maria caused an estimated \$114M in damages to HTA's non-highway assets, almost all covered by ER funds and insurance

PW Assistance Project - PW Listing
PR Highway and Transportation Authority (PRHTA)

- HTA's direct loss assessment to-date indicate that Maria caused \$71M in damages, excluding damage to the highway network.
- At the time received, the assessment (shown to the right) was only complete for 62% of assessed categories.
- Assuming a linear distribution, HTA estimates total costs in the fiscal plan to be \$114M. Additional loss estimates are likely.
- HTA estimates that the vast majority of the direct costs, or \$108M, will be covered by emergency funds and insurance payments, with a local funding need of \$6M. HTA will meet the local share of all additional federal funding it receives.
- Some indirect costs, including lost revenues may not be covered

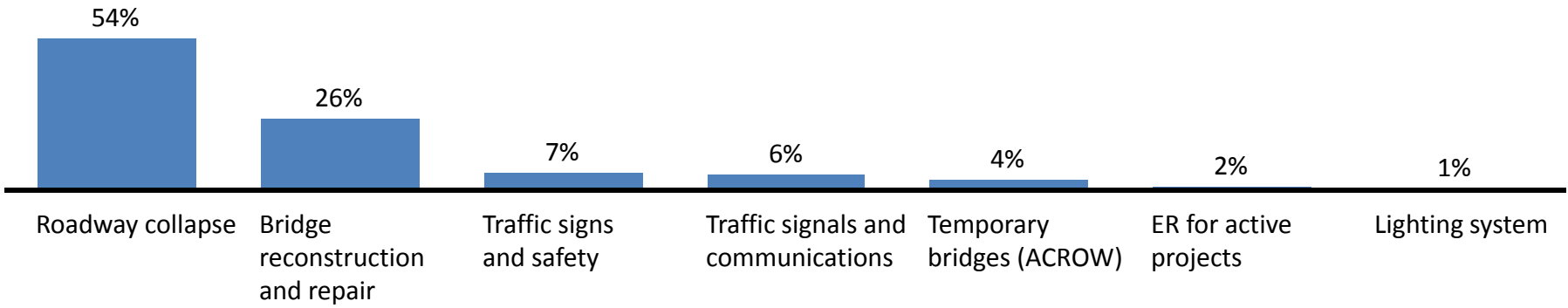
Category	Sub-Category	Costs
Force Account Labor and Equipment	Force Labor Account Payroll	184,111
	Total	184,111
Emergency Protective Measures	First Transit Buses for Military Personnel	44,686
	First Transit Buses use during Emergency	29,236
	Security Protection for Toll System Facilities	21,392
	Health & Safety Inspections Facilities	3,500
	Provision of Foods, Water and Other Essential Items to COE (Central Operacional de Emergencia)	20,287
	First Transit Security Protection	63,000
	Direct Administrator Cost	17,078
	Temporary Generators Facilities Rental (including Maintenance and Diesel)	346,691
	Vehicle Rentals, Equipment, Parts	213,829
	Total	759,699
Emergency Road Repairs	Emergency Road Repairs	1,800
	Total	1,800
Building and Equipment Damages	PRHTA Offices Damages and Repairs	1,508,049
	PRHTA - Toll System Equipment Damages and Repairs	97,191
	PRHTA- 2% Mapfre Insurance Deductible	958,687
	PRHTA Vehicles Damages and Repairs	18,311
	First Transit Bus Damages	16,142
Total	2,598,380	
Debris, Emergency Protective Measures & Building and Equipment Damages	Debris, Emergency Protective Measures & Building and Equipment Damages	67,668,704
	Total	67,668,704
Total		71,212,694

Preliminary Damage Estimates. Subject to Change / Finalization

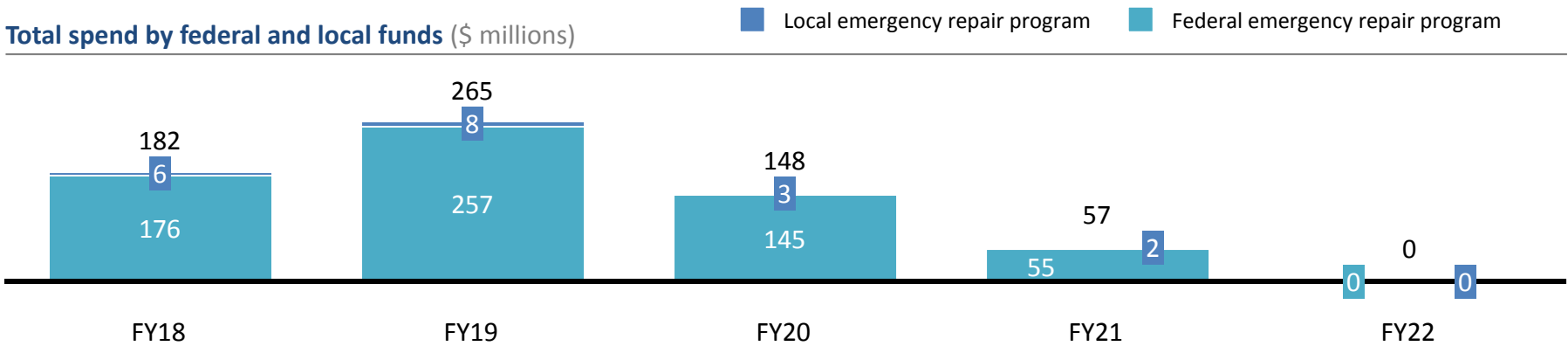
Damage to the Highway network was estimated at \$652M, with federal funding covering 97% of losses

Puerto Rico’s highway system suffered significant damages following Hurricane Maria. As of February 19, HTA estimated that repairs would cost a total of **\$652M**. Of this total, **\$20M** is projected to come from local funds assuming a 100% federal match for all FHWA expenses¹ and some local spending for design management and a share of FEMA expenses. Over half of the total spend will go towards repairing collapsed roads, with another 26% going towards bridge repair and reconstruction.

Percent of budgeted repair cost by category

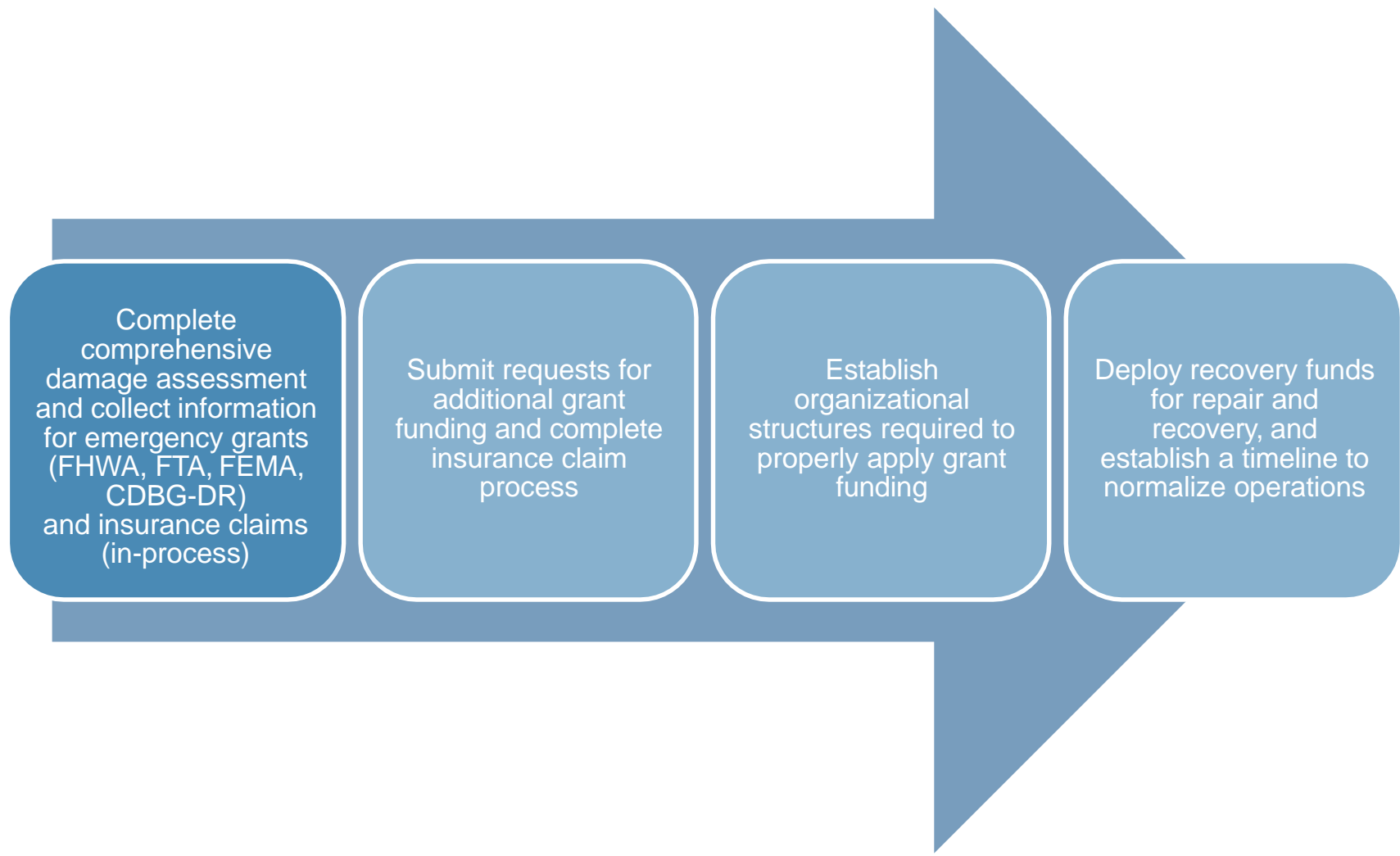


Total spend by federal and local funds (\$ millions)



¹ Bipartisan Budget Act of 2018, 115th Cong., 2d Sess. (2018). Page. 88; line 8.

Next Steps for Hurricane Recovery



III. INFRASTRUCTURE AGENDA

HTA has established an infrastructure agenda to improve the condition and performance of its assets to improve economic growth, and maximize federal funds obligated from FHWA¹ and FTA¹ to enable it to meet its goals. Puerto Rico has a six-year Capital Improvement Plan (CIP). The six-year CIP is comprised of the 2017-2020 Statewide Transportation Improvement Plan (STIP) which are planned projects, active projects not included in the STIP, and projections beyond the STIP to maintain the system in a state of good repair.

Strategy	Focus	Funds	Projects and execution
<ul style="list-style-type: none"> ▪ Focus CIP on maintaining the existing highways asset in an adequate operating condition ▪ Continue aggressive plan to maximize funds and develop best-in-class infrastructure ▪ Expedite project delivery: <ul style="list-style-type: none"> – Engage expedited design services to accelerate preliminary designs and obligate funds – Increase project supervision through additional qualified resources ▪ Utilize P3's and outsourcing as strategies to achieve a more efficient and modern infrastructure, in accordance with Puerto Rico's government public policies 	<p>Planned projects for the next six years will mainly focus on:</p> <ul style="list-style-type: none"> ▪ Highway Safety Projects ▪ Improvement of existing transportation infrastructure, including: pavement reconstruction and preservation; bridge repairs and preservation; and the upgrade of traffic signals. ▪ Congestion Mitigation ▪ For the Transit Asset, the CIP will focus on the replacement and upgrades of buses and the TU train system 	<ul style="list-style-type: none"> ▪ Obligate as much Federal Funds as possible to support economic growth ▪ Current federal match is 80.25% of project costs for eligible projects, with the state matching 19.75% (exception: 100% for emergency relief). ▪ Currently, HTA uses toll credits to cover the spend requirements of the state match. ▪ Transfers agreed upon in CW plan to fund projects beyond federal funds 	<ul style="list-style-type: none"> ▪ The current CIP has been developed to maximize the deployment of already-assigned federal funding on existing projects and optimize the use of future funding by prioritizing infrastructure needs in order to keep the road network in a safe operating condition. ▪ As part of a Memorandum of Understanding (MOU) between the HTA and the FHWA, HTA is undergoing a transformation geared at revamping its project and program delivery capabilities to eliminate its project backlog. HTA feels confident that it will be able to deliver the described CIP in this fiscal plan, once this transformation is completed. ▪ HTA has included in the fiscal plan a CIP for the Transit Assets at \$5M per year, previously allocated on PRITA's budget, to ensure availability of funds to overhaul any bus units and train system components in disrepair.

¹ Total available FTA & FWHA funding may not equal that of obligated funds and/or actual expenditures

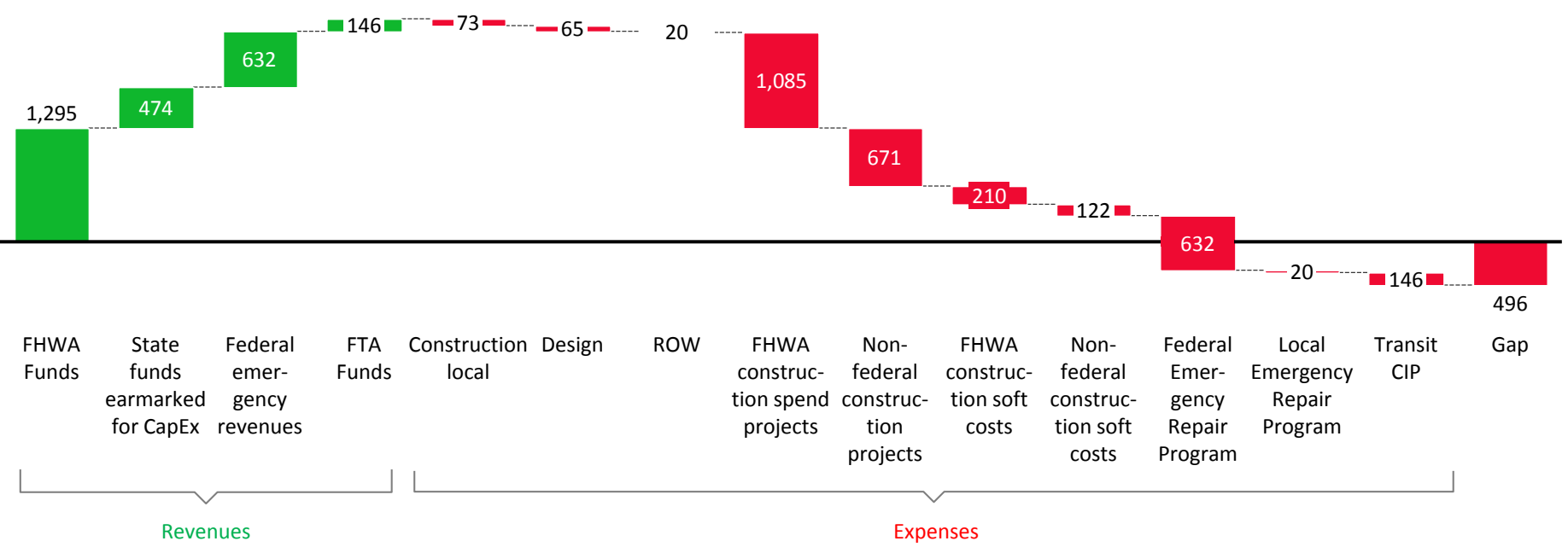
SOURCE: HTA CIP

In order to maintain its assets in a state of good repair, comply with federal requirements, and invest in critical economic development projects, HTA estimates that it will need **\$3.0B** of capital expenditures (not including capex optimization measures), from FY18 to FY23, of which:

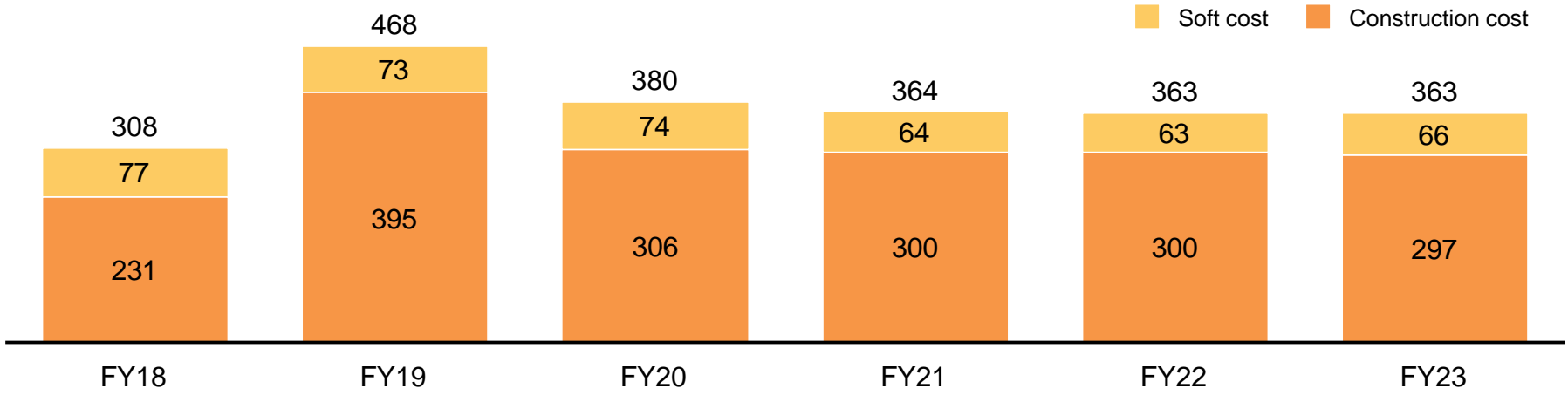
- \$2.25B is for HTA’s Highway-related Capital Improvement Plan
- \$652M is for Hurricane Maria-related emergency repair expenditures to occur over the next four years
- \$146M is for HTA’s Transit-related Capital Improvement Plan

During the six-year period, HTA’s CIP expenses exceed capital revenues by **\$496M**. **This gap will need to be funded by operating revenues or allocations from Central Government.**

FY18 to FY23 CIP: Revenues and Expenses, (\$ millions)



HTA has prioritized its CIP around four main objectives, 1) eliminate its federal backlog in the next 4 years, 2) maintain the national highway system (NHS) and interstate system in a state of good repair compliant with federal standards, 3) make critical investments in strategic projects to reduce congestion and drive economic growth, and 4) provide minimal intervention state of good repair spend to the non-NHS roads.



Main Assumptions:

Construction Assumptions:

- Federal and local Capital expenses for FY18-FY21 were developed using project-specific costs provided by HTA for active projects, STIP projects (State Transportation Improvement Program), federal projects, and projected expenditures on dynamic toll lanes.
- FY22-23 estimates were developed using CIP projections (**\$261.8M per year**) produced by HTA and its consultants, and projects the total spending needed per year to keep the highway network in a state of good repair.

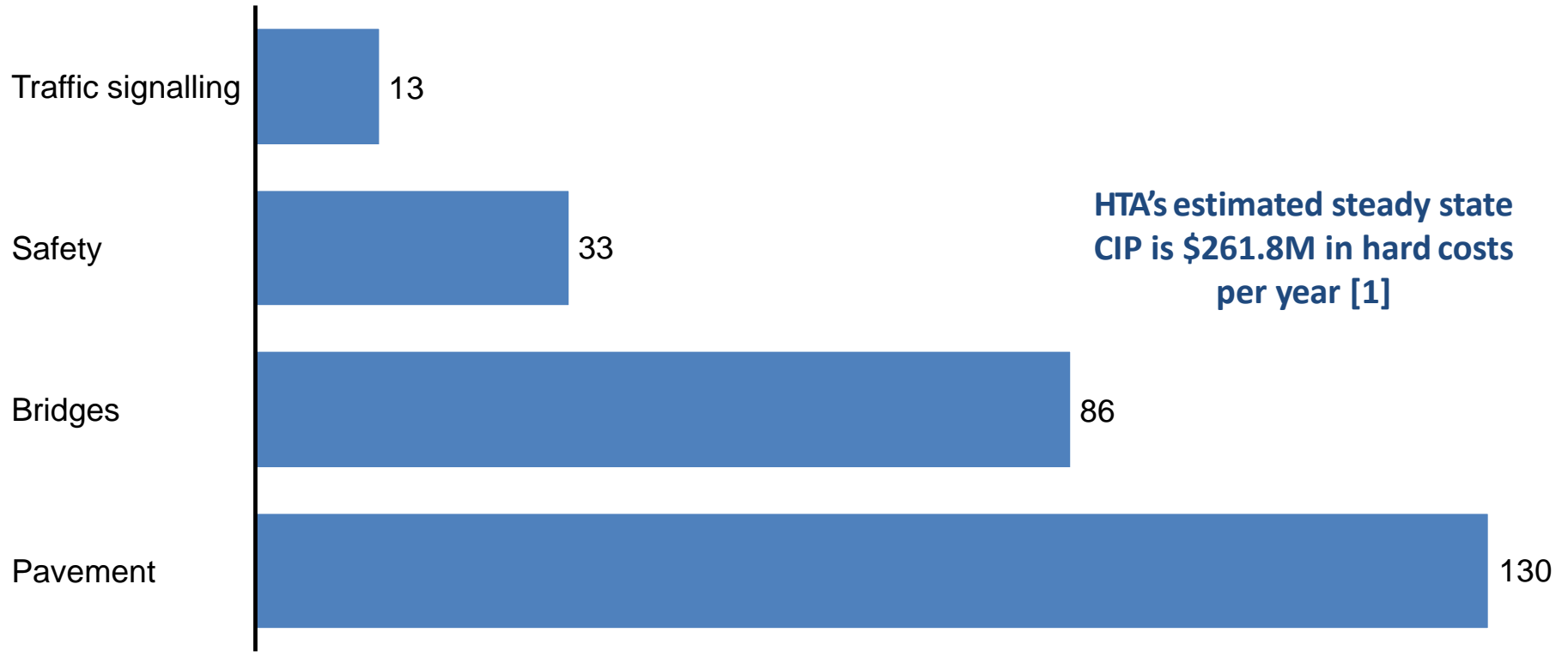
Soft-Cost Assumptions:

- Includes \$65 M in soft cost backlog. Assumes 10% of Capital expenses for 2018 and 2019, 15% for 2020 and 2021, and 18.5% of Capital expenses for Years 2022 to 2023. Soft cost assumptions by year were provided by HTA and its engineering consultants.

[1] Some of FY21's total construction spend was also developed with inputs from the CIP
 * Includes both construction and soft costs but does NOT include CIP for Transit Asset

Highways Asset Baseline CIP by Type of Work

Steady State Expenses By Type of Work (\$ in millions)



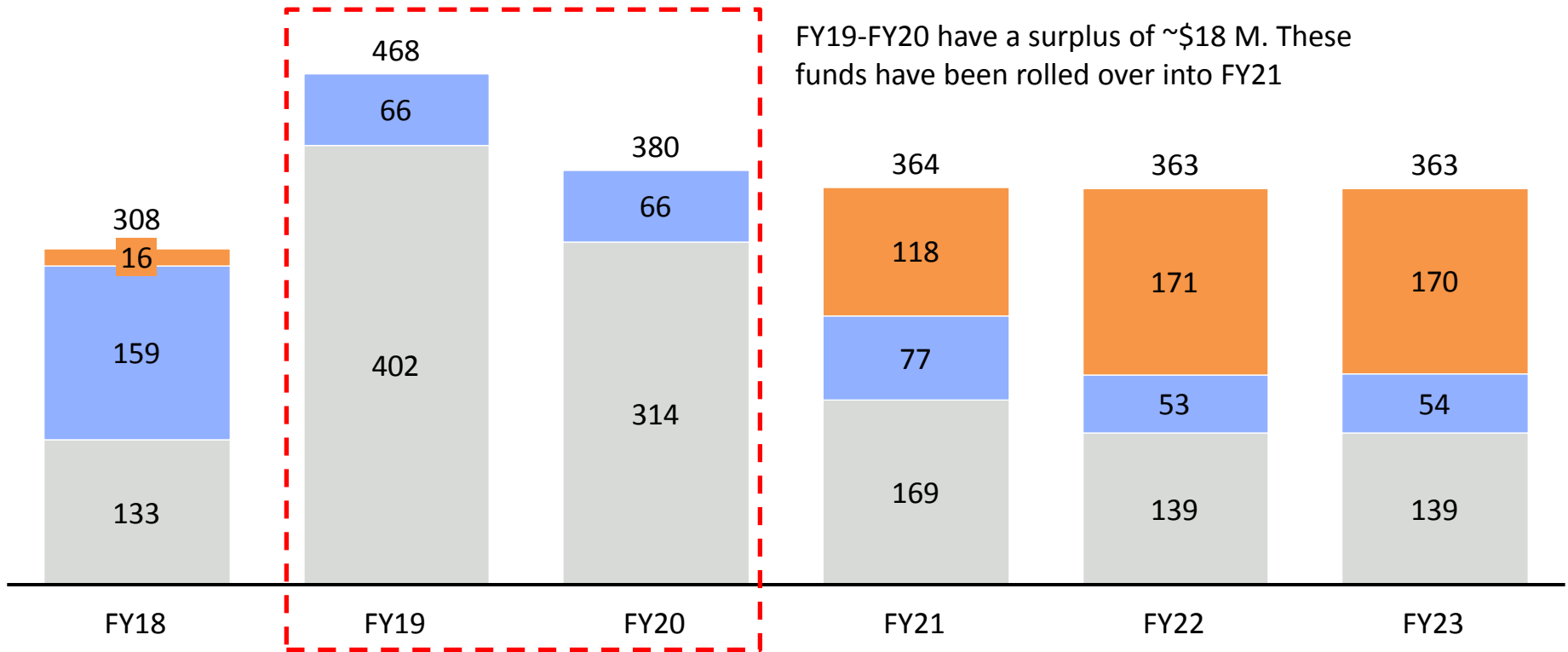
[1] HTA developed a long-term, steady-state CIP for its highway infrastructure it believes it needs to keep the highway system in a state of good repair and critical to HTA receiving full federal funds. To develop these funding levels, HTA used available data on asset condition, lifecycle, and historical costs. Following its initial analysis, HTA hired an outside engineering consultant to conduct a validation the CIP. After integrating the results of the external study, PRHTA estimates a steady-state CIP of \$261.8M per year.

* Includes both construction and soft costs and does NOT include CIP for Transit Asset

HTA has developed its Highways CIP with the goal of maintaining the highway network in a state of good repair at an expected cost of \$2,245 M. HTA has identified **\$1,769M** over the six-year period in capital funding. In order to implement its non-Emergency Repair CIP, **\$476M** in additional funding will be required from operations, fiscal measures, or appropriations from the Central Government.

Highways CIP by Funding Source (\$ millions)

Additional funding required State funds earmarked for capex FHWA funds

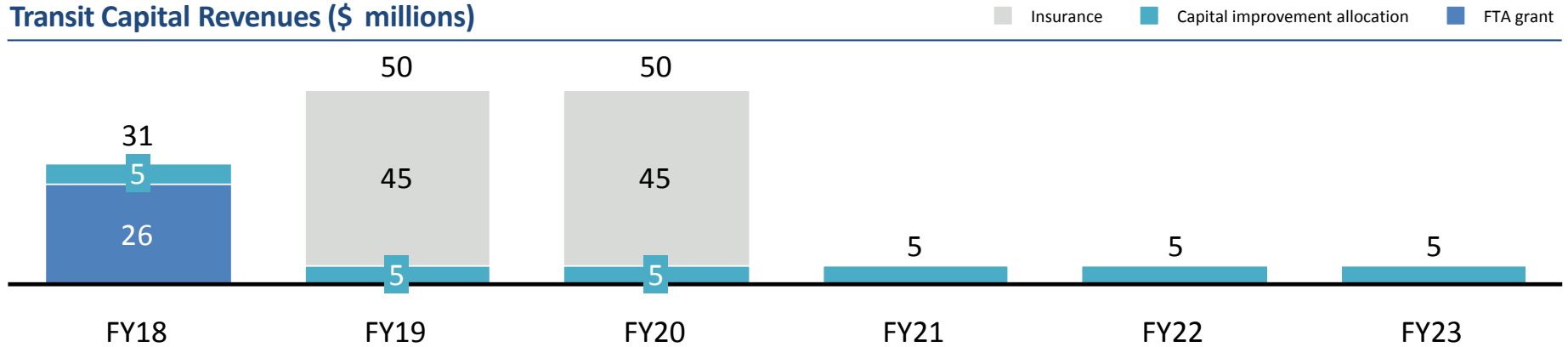


*Includes both construction and soft costs and does NOT include CIP for Transit Asset

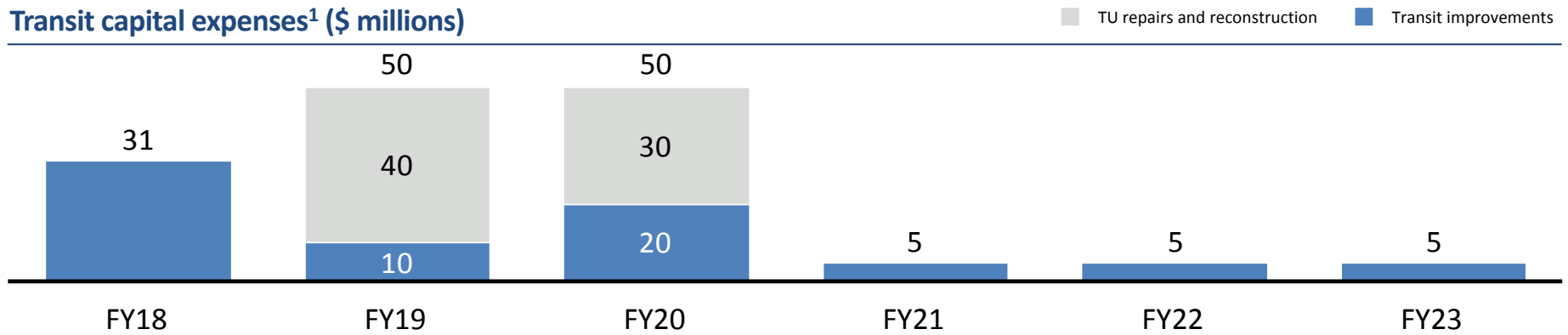
** Allocation for the PRHTA for infrastructure improvements from the FY 2018 Central Govt Budget

Transit Estimated CIP for Fiscal Plan Period

Transit Capital Revenues (\$ millions)



Transit capital expenses¹ (\$ millions)



Main Assumptions:

Transit CIP – Overhaul of Bus and Train System Units, as needed.

¹ Note that the annual \$5 million is currently allocated for CapEx on PRITA's budget.

*Includes both construction and soft costs

- These priority projects are aligned with HTA’s strategic goals to promote economic development and reduce congestion.
- The Projects emphasize include of existing toll roads, and dynamic toll lanes/flyovers which would include new revenue to enhance private sector participation through Participative P3’s.
- HTA is currently exploring executing these projects under a P3 model. Preliminary studies suggest that gap funding will be required for these projects. Further study will be needed to determine which project will be pursued, but HTA will prioritize the project with the highest socioeconomic benefit to Puerto Rico.
- As part of this process, HTA will work to identify additional funding will allow HTA to provide adequate gap financing and facilitate the development of P3’s
- Currently, funding for dynamic toll viaducts is included in HTA’s fiscal plan. However, HTA will continue to explore using a P3 model on this project to make the best use of available funds.

	Project Cost	Project revenue
1 Extension of PR-22 from Hatillo to Camuy	\$200 MM	\$5 MM / year
2 PR-5 Extension Toa Alta- Bayamón	\$170 MM	\$8 MM / year
3 Dynamic Toll Viaducts – Efficient Peak Period Traffic Reduction in Critical Intersections	\$249 MM – based on initial engineering estimates	\$1 MM / year

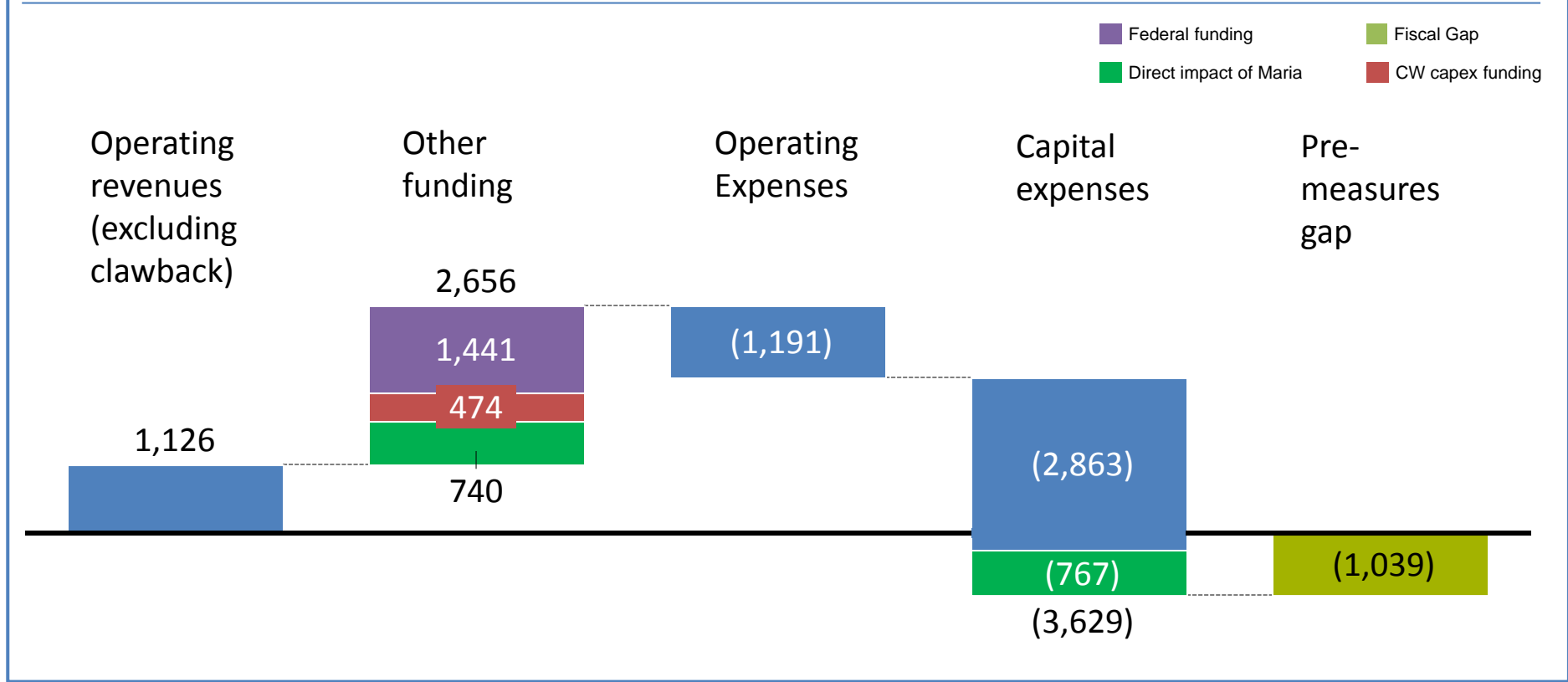
Note: Numbers revised as per Northwestern Corridor: Desirability and Convenience Final Report, April 2016.
 Source: STIP 2017-2020; HTA Management Assessment

IV. CURRENT SITUATION WITH BASELINE FINANCIAL PROJECTION

HTA's projected fiscal situation without fiscal measures: Summary

HTA's total financial gap over the six years, without considering fiscal plan measures or central government transfers, is \$1.039B

Total financial gap without fiscal measures, FY18-FY23 in \$millions



HTA's projected fiscal situation without considering fiscal measures: Detail

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\$ thousands	2017-18 P	2018-19 P	2019-20 P	2020-21 P	2021-22 P	2022-23 P	6 Yr Total: FY18-FY23
▪ Toll fares	117,121	123,146	125,032	127,441	130,187	132,602	755,528
▪ Gasoline Tax	131,242	137,993	140,106	142,805	145,883	148,589	846,616
▪ Diesel Tax	12,500	12,500	12,500	12,500	12,500	12,500	75,000
▪ Petroleum Products Tax	290,748	290,748	290,748	290,748	290,748	290,748	1,744,485
▪ Cigarettes taxes	19,992	19,992	19,992	19,992	19,992	19,992	119,952
▪ Motor Vehicle License Fees	26,701	27,711	27,855	28,014	28,276	28,472	167,029
▪ Act 30 - Licenses Fees Transferred to Act	49,066	50,923	51,187	51,480	51,960	52,321	306,938
▪ Transit Revenues	28,909	29,308	29,617	29,829	29,965	30,024	177,651
▪ Electronic Toll Fines	27,177	25,265	26,103	26,679	27,048	27,208	159,481
▪ Other income	4,618	5,487	5,670	5,795	5,875	5,910	33,354
Operating Revenue¹	708,074	723,072	728,809	735,282	742,432	748,365	4,386,034
▪ FHWA Funds ²	132,766	401,926	313,922	168,768	138,830	138,830	1,295,042
▪ State Funds Earmarked for CapEx ²	159,000	82,073	67,334	59,067	53,020	53,761	474,256
▪ Federal Emergency Revenues ²	175,553	256,565	145,201	55,135	-	-	632,454
▪ FTA Funds ²	31,000	50,000	50,000	5,000	5,000	5,000	146,000
▪ Hurricane Loss Assessment - Insurance and FEMA Revenue	27,002	54,004	27,002	-	-	-	108,007
Capital Contribution	525,320	844,568	603,458	287,971	196,850	197,591	2,655,759
Total Revenues After Federal Fund Transfers	1,233,394	1,567,640	1,332,267	1,023,253	939,283	945,956	7,041,792
▪ Right of Way ²	(3,300)	(3,300)	(3,300)	(3,300)	(3,300)	(3,300)	(19,800)
▪ Design ²	(23,000)	(7,769)	(10,716)	(7,882)	(7,882)	(7,882)	(65,132)
▪ Construction Local ²	(23,160)	(10,000)	(10,000)	(10,000)	(10,000)	(10,000)	(73,160)
▪ Salaries and related benefits ³	(46,807)	(46,970)	(46,732)	(46,522)	(46,299)	(46,146)	(279,475)
▪ PayGo Retirement Impact ³	(13,536)	(14,489)	(14,489)	(14,489)	(14,489)	(14,489)	(85,982)
▪ Litigation Reserve ³	(6,465)	(8,516)	(9,809)	(10,722)	(11,442)	(11,004)	(57,957)
▪ Right of Way Payments ³	(16,626)	(13,736)	(7,068)	(1,900)	-	-	(39,330)
▪ Other program expenses ³	(1,471)	(1,471)	(1,471)	(1,471)	(1,471)	(1,471)	(8,828)
▪ FHWA Construction Spend Projects ²	(96,242)	(347,242)	(260,540)	(143,610)	(120,009)	(117,156)	(1,084,799)
▪ Non-Federal Construction Projects ²	(111,750)	(38,222)	(35,033)	(146,122)	(169,687)	(169,687)	(670,502)
▪ FHWA Construction Soft Costs ²	(36,524)	(54,684)	(53,382)	(25,158)	(18,821)	(21,674)	(210,243)
▪ Non-Federal Construction Soft Costs ²	(14,153)	(6,800)	(6,481)	(27,644)	(33,242)	(33,242)	(121,563)
▪ Federal Emergency Repair Program ²	(175,553)	(256,565)	(145,201)	(55,135)	-	-	(632,454)
▪ Local Emergency Repair Program ²	(6,496)	(7,780)	(3,240)	(2,484)	-	-	(20,000)
▪ Transit CIP ²	(31,000)	(50,000)	(50,000)	(5,000)	(5,000)	(5,000)	(146,000)
▪ Hurricane Loss Assessment - Local Funding Needs	(1,552)	(3,104)	(1,552)	-	-	-	(6,209)
▪ Hurricane Loss Assessment - Insurance / FEMA Covered	(27,002)	(54,004)	(27,002)	-	-	-	(108,007)
Total Construction	(634,637)	(924,654)	(686,016)	(501,440)	(441,643)	(441,052)	(3,629,442)
▪ Salaries and related benefits ³	(39,988)	(40,563)	(40,394)	(40,244)	(40,085)	(39,975)	(241,250)
▪ PayGo Retirement Impact ³	(4,423)	(4,734)	(4,734)	(4,734)	(4,734)	(4,734)	(28,094)
▪ Toll highways administration and maintenance ³	(37,189)	(46,798)	(38,818)	(39,744)	(40,606)	(41,230)	(244,386)
▪ Train operating and maintenance costs ³	(63,527)	(65,402)	(65,106)	(67,148)	(66,820)	(69,250)	(397,254)
▪ Integrated transportation system ³	(14,603)	(14,959)	(15,324)	(15,697)	(16,080)	(16,472)	(93,134)
▪ Other operating expenses ³	(33,398)	(35,476)	(32,535)	(30,535)	(28,635)	(26,588)	(187,165)
Total operating expenses	(193,128)	(207,932)	(196,910)	(198,102)	(196,961)	(198,250)	(1,191,283)
Total expenses	(827,765)	(1,132,586)	(882,927)	(699,542)	(638,603)	(639,302)	(4,820,725)
Total Fin. Gap Pre-Measures before Rev Retention & Gov. Funding	405,629	435,054	449,340	323,710	300,679	306,654	2,221,067
Retained Revenues to Central Government	(530,248)	(539,866)	(542,388)	(545,538)	(549,358)	(552,621)	(3,260,019)
Total Fin. Gap Pre-Measures post-Rev Retention & pre-Gov. Funding	(124,619)	(104,812)	(93,047)	(221,828)	(248,679)	(245,967)	(1,038,952)

1 See revenue snapshot for details, 2 See CIP snapshot for details, 3 See operating expenses snapshot for details

HTA projects total revenue over the six years of \$4.4B, including operating revenue of \$1.1B and tax and fee 'retained' revenue of \$3.3B This 'retained' revenue is clawed back by the CW, and passes through HTA's balance sheet

Revenue \$millions

	FY18	FY19	FY20	FY21	FY22	FY23	FY18-FY23 Total	
Toll Revenue	117,121	123,146	125,032	127,441	130,187	132,602	755,528	[A]
Transit Revenue	28,909	29,308	29,617	29,829	29,965	30,024	177,651	[B]
Toll Fines	27,177	25,265	26,103	26,679	27,048	27,208	159,481	[C]
Other Income	4,618	5,487	5,670	5,795	5,875	5,910	33,354	[D]
Operating Revenue	177,826	183,206	186,421	189,744	193,075	195,744	1,126,014	
Gasoline Tax	131,242	137,993	140,106	142,805	145,883	148,589	846,616	[E]
Diesel Tax	12,500	12,500	12,500	12,500	12,500	12,500	75,000	[E]
Petroleum Products Tax	290,748	290,748	290,748	290,748	290,748	290,748	1,744,485	[F]
Cigarettes taxes	19,992	19,992	19,992	19,992	19,992	19,992	119,952	[G]
Motor Vehicle License Fees	26,701	27,711	27,855	28,014	28,276	28,472	167,029	[H]
Act 30 - Licenses Fees Transferred to Act	49,066	50,923	51,187	51,480	51,960	52,321	306,938	[H]
Tax and Fee Revenue	530,248	539,866	542,388	545,538	549,358	552,621	3,260,019	
Total Revenue	708,074	723,072	728,809	735,282	742,432	748,365	4,386,034	

A. Toll revenues were estimated using FY17 actual toll revenues and then increased / decreased each year based on the Commonwealth's Real GNP projections as of February 2018. Toll fares consists of revenues derived from (i) Toll fares, (ii) Toll optimization, (iii) Viaduct and Dynamic Tolling Lane revenues.

B. FY18 projected based on annualized Tren Urbano and Metro Bus actuals. FY19 is the average of FY17 and FY18; FY20 onward uses Real GNP projections as of April 2018. Includes FTA funding.

C. FY18 is the average between annualized FY18 YTD December and FY17 actuals. FY19 is the average of FY17 and FY18; FY20 onward uses Commonwealth's Real GNP projections as of Apr 2018

D. FY18 projected based on annualized actuals. FY19 is the average of FY17 and FY18; FY20 onward uses Commonwealth's Real GNP projections as of April 2018

E. FY18 based on FY17 projected forward using Puerto Rico real GNP. FY19 onwards grown at the Puerto Rico real GNP growth rate.

F. FY18 applies a 10% year-over-year increase to monthly petroleum tax collections (volume-based) from FY17 for 2H FY18; AFI * HTA distributions of these revenues split based on FY17 amounts. FY19 onwards projected to remain consistent with FY18 revenue

G. FY18 forecast based on run-rate, excluding non-recurring revenues from extraordinary promotions; year-over-year growth in cigarette mainly driven by increase in tobacco taxes in May 2017 (Act 26-2017). FY19 onwards grown at PR population and inflation

H. Considers FY17 actuals as a baseline for projections grown in line with PR population growth rate.

■ Operating Revenue

- Toll revenues were estimated using FY17 actual toll revenues and then increased / decreased each year based on the Commonwealth’s Real GNP projections as of February 2018.
 - The baseline does not include any plan to increase toll rates, (shown separately as a fiscal measure)
- Toll Fine Revenue is based on toll operations-related violations, which include a \$15 fine plus the cost of the unpaid toll transactions. FY18 was estimated at ~\$27million based on the average of the FY17 actuals and annualized FY18 YTD data (to account for post - Maria impact as well as expected return to steady state). For FY19 through FY23, this line item varies with Commonwealth’s Real GNP assumptions as of March 2018. **These projections assume that HTA will receive both payments made to it directly as well as through Hacienda / Treasury, and that these pass-through receipts from Hacienda are not deducted from the central government’s transfer to HTA.**
- Transit Revenues are composed of Tren Urbano and Metrobus income and are estimated at ~\$8million for FY18 based on the average of FY17 actuals and annualized FY18 YTD data. For FY19 through FY23, this line item varies with Commonwealth’s Real GNP assumptions as of March 2018. In addition, transit revenues includes FTA funding at ~\$20million/year.
- Other Income for FY18 is estimated at \$4.6million, of which over 80% consists of income from rent and lease, Import Levy Tax fees and income improvements. For FY19 through FY23, this line item varies with Commonwealth’s Real GNP assumptions as of March 2018.

Total CIP expenses are \$3billion and total revenues are \$2.5 billion over the six-year period.

Capital Expenses

\$millions	FY18	FY19	FY20	FY21	FY22	FY23	FY18-FY23 Total	
FHWA Funds	133	402	314	169	139	139	1,295	[A]
State Funds Earmarked for CapEx	159	82	67	59	53	54	474	[B]
Federal Emergency Revenues	176	257	145	55	-	-	632	[C]
FTA Funds	31	50	50	5	5	5	146	[D]
Total Revenues	498	791	576	288	197	198	2,548	
Construction Local	(23)	(10)	(10)	(10)	(10)	(10)	(73)	[E]
Design	(23)	(8)	(11)	(8)	(8)	(8)	(65)	[F]
ROW	(3)	(3)	(3)	(3)	(3)	(3)	(20)	
FHWA Construction Spend Projects	(96)	(347)	(261)	(144)	(120)	(117)	(1,085)	[G]
Non-Federal Construction Projects	(112)	(38)	(35)	(146)	(170)	(170)	(671)	
FHWA Construction Soft Costs	(37)	(55)	(53)	(25)	(19)	(22)	(210)	[H]
Non-Federal Construction Soft Costs	(14)	(7)	(6)	(28)	(33)	(33)	(122)	
Federal Emergency Repair Program	(176)	(257)	(145)	(55)	-	-	(632)	[I]
Local Emergency Repair Program	(6)	(8)	(3)	(2)	-	-	(20)	
Transit CIP	(31)	(50)	(50)	(5)	(5)	(5)	(146)	[J]
Total Expenses	(521)	(782)	(578)	(426)	(368)	(368)	(3,044)	
Net Capital Expenses	(23)	8	(1)	(138)	(171)	(170)	(496)	

A. PRHTA receives \$138.8M (net of penalties) in federal funds per year. FY18-21 is based on obligated Federal Funds and exceeds 138.8M in some years as a result of backlogged projects. FY22 onwards assumes PRHTA receives its historical allocation from FHWA of \$138.8M.
 B. PRHTA receives an annual appropriation from the Commonwealth for capital expenses.
 C. Assumed that FHWA match of emergency repair spending was 100% per the Bipartisan Budget Act of 2018, 115th Cong., 2d Sess. (2018). Page. 88; line 8.
 D. Provided by PRHTA leadership.
 E. Earmarked funding for annual local construction needs.
 F. Earmarked funding for annual design needs.
 G. Federal and local construction costs for FY18-21 were developed using project specific costs provided by PRHTA for active projects, STIP projects, Federal earmark projects, and projected spend on dynamic toll lanes. FY22-27 were developed using long-term OIP projections produced by PRHTA and its consultants and projects the total spend needed by year to keep the highway network in a state of good repair.
 H. Includes \$65M in soft cost backlog. Assumes 10% of construction costs for 2018 and 2019, 15% for 2020 and 2021, and 18.5% of construction costs for Years 2022 to 2027. Soft cost assumptions by year were provided by PRHTA and its engineering consultants.
 I. Developed using current damage estimates prepared as of February 19th, 2018. Local emergency repair costs include the local share of FEMA emergency repair and \$12M for local design management not eligible for FHWA reimbursement.
 J. Provided by PRHTA leadership.

Key Base Case Scenario Assumptions – CIP (1 of 2)

▪ Capital expenses

- Federal and local Capital expenses for FY18-21 were developed using project specific costs provided by PRHTA for active projects, STIP projects, Federal earmark projects, and additional locally funded projects.
 - A previously budgeted \$23M was allocated to the Construction Local line item.
- FY21-23 Capital expenses were developed using long-term CIP projections produced by PRHTA and its consultants and validated by an external engineering firm and projects the total spend needed by year to keep the highway network in a state of good repair.
 - FY21 is the first year where long-term CIP costs are incurred. Per PRHTA consultants, only 20% of steady-state FHWA long-term CIP costs can be incurred in the first year due to additional standard delay in obligating federal funds. The remaining portion of costs in this year are contributed from STIP-programmed and current active projects.
 - \$10M per year of the FY22+ non-federal spend has been allocated to the local construction line item as an earmark for annual needs.
- All years incorporate additional costs based on the long-term CIP projections to achieve adequate levels of state of good repair spending.

▪ Soft Costs

- Includes \$65M in soft cost backlog. Assumes 10% of Capital expenses for 2018 and 2019, 15% for 2020 and 2021, and 18.5% of Capital expenses for Years 2022 to 2023. Soft cost assumptions by year were provided by PRHTA and its engineering consultants
 - A previously budgeted \$23M was allocated to the Construction Local line item.
 - For FY19 onwards, \$5M was deducted per year from the total soft cost and allocated to the design line item to ensure funding for annual needs.

- **Funding**

- PRHTA receives \$138.8M (net of penalties) in federal funds per year. Total FHWA funds for FY18-21 is based on obligated Federal Funds and exceeds 138.8 M in some years as a result of backlogged projects. FY22 onwards assumes PRHTA receives its historical allocation from FHWA of \$138.8M.
- PRHTA had previously received a capex allocation from central government of \$75M which is currently allocated for FY18. PRHTA is also set to receive additional Capex funds of \$399M. This amount will fund emergency reconstruction as well as allow HTA to meet its capital requirements to maintain a state of good repair and fund additional strategic projects.

- **Emergency Repair**

- Assumed that FHWA match of emergency repair spending was 100% per the Bipartisan Budget Act of 2018, 115th Cong., 2d Sess. (2018). Page. 88; line 8.
- Developed using current damage estimates prepared as of February 19th, 2018. Local emergency repair costs include the local share of FEMA emergency repair and 12 M for local design management not eligible for FHWA reimbursement

- **Transit CIP**

- Developed on a line item basis by CIP leadership. Includes costs and revenues associated with reconstruction and repair following Hurricane Maria.
- Of the \$20million received from the FTA each year, \$5million has been allocated to the transit CIP in FY21 onwards whereas the remaining \$15million has been allocated to subsidize transit operating expenses. \

HTA's projected fiscal position, pre-measures: Operating Expenses snapshot

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Total FY18 budgeted Opex is \$1.7billion over six years, with almost 40 percent of the expected costs from personnel (salary/benefits, including PayGo retirement)

Operating Expenses

\$millions	FY18	FY19	FY20	FY21	FY22	FY23	FY18-FY23 Total	
Salaries and related benefits	(46.8)	(47.0)	(46.7)	(46.5)	(46.3)	(46.1)	(279.5)	[A]
PayGo Retirement Impact	(13.5)	(14.5)	(14.5)	(14.5)	(14.5)	(14.5)	(86.0)	[B]
Litigation Reserve	(6.5)	(8.5)	(9.8)	(10.7)	(11.4)	(11.0)	(58.0)	[C]
Right of Way Payments	(16.6)	(13.7)	(7.1)	(1.9)	-	-	(39.3)	[D]
Other program expenses	(1.5)	(1.5)	(1.5)	(1.5)	(1.5)	(1.5)	(8.8)	[E]
Subtotal, Construction Support	(84.9)	(85.2)	(79.6)	(75.1)	(73.7)	(73.1)	(471.6)	
Salaries and related benefits	(40.0)	(40.6)	(40.4)	(40.2)	(40.1)	(40.0)	(241.2)	[F]
PayGo Retirement Impact	(4.4)	(4.7)	(4.7)	(4.7)	(4.7)	(4.7)	(28.1)	[G]
Toll highways administration and maint.	(37.2)	(46.8)	(38.8)	(39.7)	(40.6)	(41.2)	(244.4)	[H]
Train operating and maintenance costs	(63.5)	(65.4)	(65.1)	(67.1)	(66.8)	(69.3)	(397.3)	[I]
Integrated transportation system	(14.6)	(15.0)	(15.3)	(15.7)	(16.1)	(16.5)	(93.1)	[J]
Other operating expenses	(33.4)	(35.5)	(32.5)	(30.5)	(28.6)	(26.6)	(187.2)	[K]
Subtotal, Operating Expenses	(193.1)	(207.9)	(196.9)	(198.1)	(197.0)	(198.3)	(1,191.3)	
Total	(278.0)	(293.1)	(276.5)	(273.2)	(270.7)	(271.4)	(1,662.9)	

- A. Salary: # of FY18 employees times their average salary. Assume salaries remain flat over period; Benefits: FY18: based on average of annualized FY18 YTD actuals through Dec 2017 and FY18 budget and is assumed to grow at 0.5% per year (FY16-FY18 CAGR). Other FY18 benefits based on share of salary and assumed flat over period. Law 70 and 211: Early Retirement based on by-person schedules
- B. FY18: based on Department of Treasury's invoice; Assumed Milliman's actuarial estimates projected at \$36M / year as of FY19
- C. Considers FY17 actuals as baseline and splits it into construction (93%) & non construction (7%). The construction component varies according to capital expenditure growth.
- D. Based on a specific payment schedule for active cases - trails off as no expected new construction in near-term to drive ROW
- E. FY18 vehicle lease and plotters: based on expected payments (\$585K) this fiscal year; all other (rent, security and others): assumed flat with FY17 actuals
- F. Salary: # of FY18 employees times their average salary. Assume salaries remain flat over period; Benefits: FY18: based on average of annualized FY18 YTD actuals through Dec 2017 and FY18 budget and is assumed to grow at 0.5% per year (FY16-FY18 CAGR). Other FY18 benefits based on share of salary and assumed flat over period. Law 70 and 211: Early Retirement based on by-person schedules
- G. FY18: based on Department of Treasury's invoice; no additional information available, assumed flat during period
- H. FY18 Toll Operator (GILA) estimates based on the 12 months pre-Hurricane (Sep 2016 to Aug 2017); split 40% fixed and 60% variable - variable based on expected traffic volume. Both costs escalated at 2% / year. Vehicles and maintenance based on expected traffic; insurance based on specific post-Hurricane Maria estimates (if not other hurricanes, insurance will regress to pre-Maria levels starting in FY23); all other variables constant with FY17 actuals
- I. Tren Urbano operating contract (\$53mm in FY18) based on contract requirements and projected hour and mile rates (about 1% increase per year); insurance based on specific post-Hurricane Maria estimates; all other variables (lighting, etc.) assumed constant with FY17 actuals
- J. Bus operating estimates based on recent contract trends (2.4% per year) extended for all years of period
- K. Professional Services, which includes FOMB consulting providers (represents 79% of all providers) is expected to decrease during the period. All other variables (rent, lighting, etc.) assumed constant with FY17 actuals

▪ Salaries and related benefits

- Salaries and related benefits consider the latest HTA roster, and each employee’s costs at the average current salary. Additional benefits such as overtime, pension, social security and Medicare are calculated as a proportion of the base salary. HTA has not increased salaries in the last nine years, so we assumed no increase over this period. HTA is self-insured, and over the last two years has experienced a 0.5% CAGR in health care costs, which we assumed will extend for the remaining fiscal years.
- Law 70 Early Retirement Program went into effect prior to HTA’s fiscal plan period, and its costs are based on the known payout schedule for the program’s participants. As expected, the program costs trails off as participants age and are removed from the program. For this reason, Law 70 impact is included in the baseline.
- Law 211 Early Retirement Program went into effect at the beginning of FY18, and our baseline considers participants at their then-current costs at the time of their 6/30/17 separation (note: savings from this Law is captured and represented as a fiscal measure).

▪ PayGo Retirement

- HTA received an invoice from the Puerto Rico Treasury Department for \$34million related to FY18, the first year when PayGo went into effect. For forecasts from FY19 through FY23, HTA used Milliman’s PayGo-related actuarial estimates projected at \$36million per year.

▪ Litigation Reserve

- HTA considered litigation case-by-case breakdown for FY17 and split between construction and non-construction. Non-construction component (7%) assumed constant while construction component (93%) reflects variation in capital expenditure.

▪ Right of Way Payments

- HTA built a by-case projection based on specific litigation cases and their expected payments. These expenses are expected to gradually decrease until reaching zero by FY22, as HTA’s new construction activity reduces.

- **Other program expenses**

- Consists of additional expense related to construction support. Equipment rental is the largest item within this category and is due primarily to car leases to support transportation within construction sites. This item is expected to increase to support increased construction activity in the next few years. Other remaining expenses such as building rent and security considers FY17 actuals and is expected to remain flat.

- **Toll highways administration and maintenance**

- Electronic toll collection, the cost of HTA's toll operator third-party service provider, has been split into variable (costs driven by traffic volume) and fixed (fixed costs). To get a good steady state estimate, FY18 considers the last twelve months prior to Hurricane Maria (Sep 2017 to Aug 2018); for future years, this line item varies based on real GNP plus a small per year contractor cost escalation.
- Highway Repair and maintenance, which supports HTA's highways, consists of several components (e.g. green area contracts; repavement) that total \$10million per year for FY18 and FY19. As of FY20 this line item includes a small per year contractor cost escalation.
- Vehicle maintenance and repair, which supports HTA's highway operations, assumes FY18 is consistent with FY17, and future years include small per year contractor cost escalation.
- Insurance and maintenance, for HTA's highways operations, considers actual insurance policy costs for years FY18 and FY19. Insurance costs are estimated to remain steady until FY22 and then gradually decline back to FY18 levels (assuming no Maria-like events will recur).
- All other line items such as lighting, security, rent, etc. use FY17 actuals for projections for each year through FY23.

- **Train operating and maintenance costs**

- Tren Urbano's operating contract represents approx. 80% of this line item. Between FY18 and FY23, projections have been made on a detailed, per-year estimate consisting of the FY18 to FY23 contracted base compensation, price / mile, price per hour, estimated miles, estimated hours and an annual allowance in order to reach the total expected contract costs. CAGR is approx. 1% over the six years.
- Insurance and maintenance, for Tren Urbano operations, considers actual insurance policies for years FY18 and FY19. Insurance costs are estimated to remain steady until FY22 and then gradually decline back to FY18 levels.
- All other line items such as lighting, security, rent, etc. use FY17 actuals for projections for each year through FY23.

- **Integrated transportation system**

- The bus system that flows into Tren Urbano is operated by a third-party provider and the budget information is based off on the existing operating contract. Based on the contract pricing, a CAGR of approximately 2% is expected through FY23.

- **Other operating expenses**

- Professional services represent approximately 80% of this line item. Professional services includes FOMB support, which is almost 80% of this subtotal. In addition, services includes Title III consulting, accounting, law and financial services consulting. Professional services is expected to gradually decline over the years from approximately \$26million in FY18 to approximately \$18million in FY23, mostly related to a decline in FOMB services and Title III support.

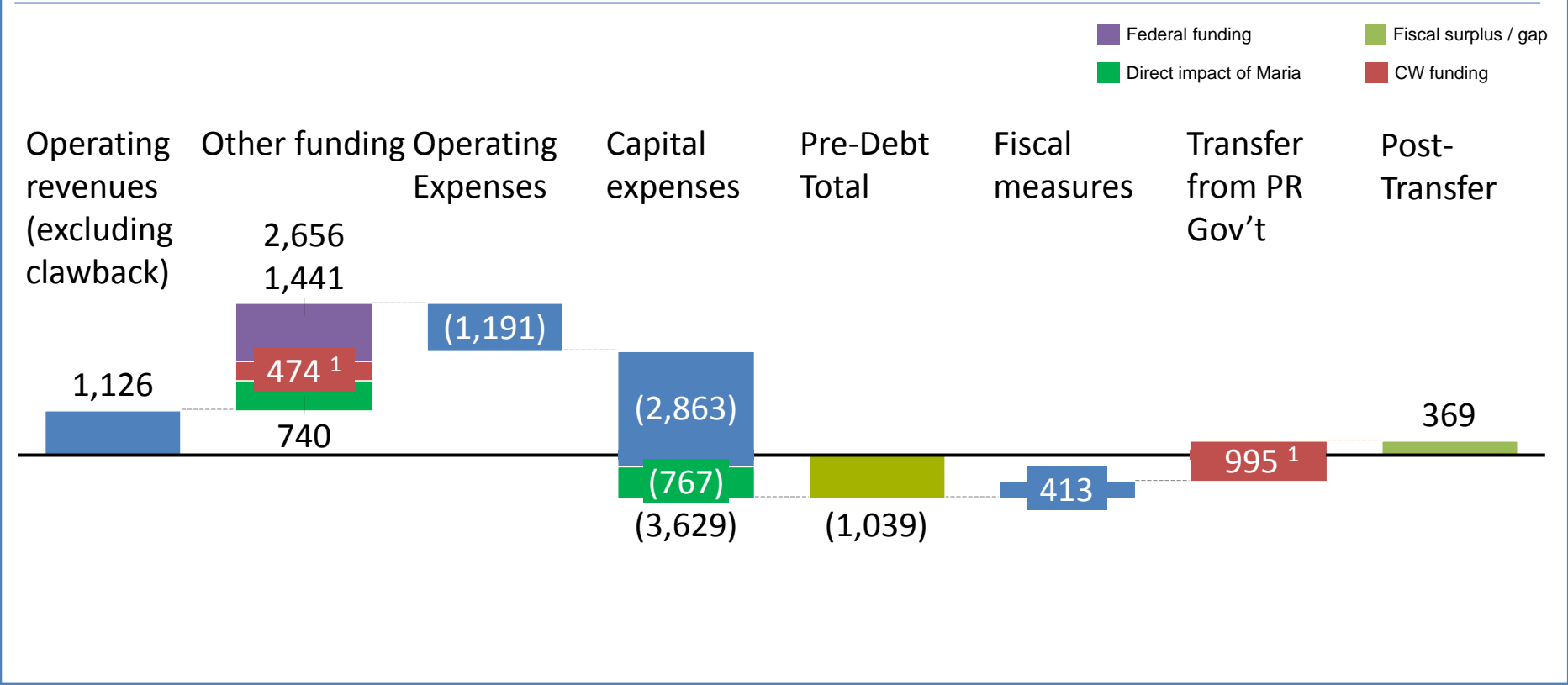
- Insurance and maintenance regarding operating and overhead, considers actual insurance policies for years FY18 and FY19. Insurance costs are estimated to remain steady until FY22 and then gradually decline back to FY18 levels.

- All other line items such as lighting, security, rent, etc. use FY17 actuals for projections for each year through FY23.

IV. FISCAL MEASURES WITH FINANCIAL PROJECTIONS

After retained revenues, Central Government transfers, and fiscal plan measures, HTA's pre-debt fiscal surplus is \$369M from FY18-FY23

Total financial gap with fiscal measures, FY18-FY23 in \$millions



¹ Since July FP, increase of \$399M in 'Other funding' capex from the central government (originally \$75M) and increase of \$279M in PR govt transfer (originally \$716M)

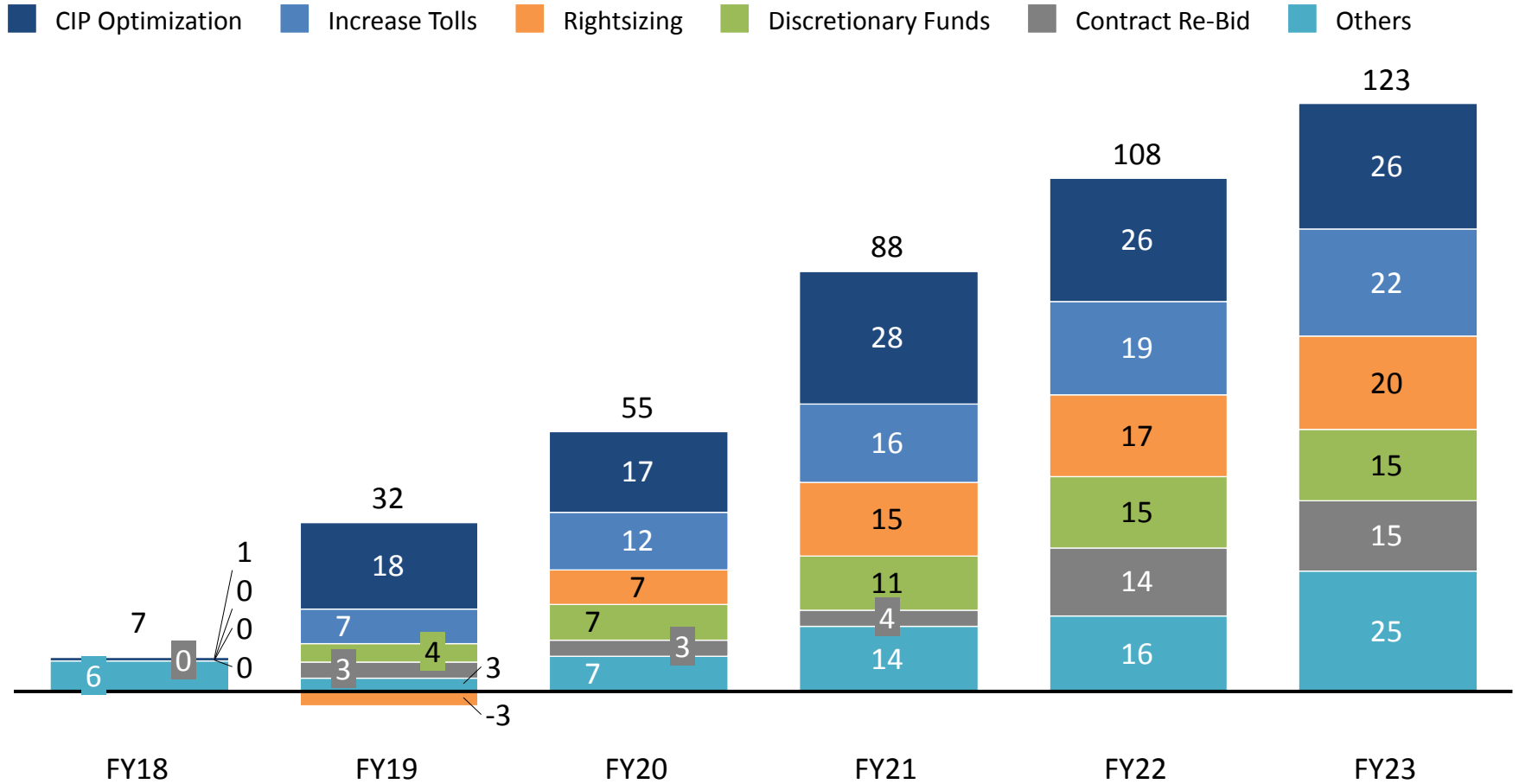
Fiscal Plan Measures - Summary

Fiscal measure	Description	Fiscal impact \$M		
		6 years (FY18-23)	Average/year	Final year (FY23)
Enhance org	1 Enhance board composition	-3	(0.4)	(0.5)
	2 Rollout organizational KPIs	0	-	-
Increase revenue	3 Increase tolls on existing roads	77	12.9	22.5
	4 Increase discretionary funds	52	8.7	14.9
	5 Toll optimization	14	2.4	6.3
	6 Capture ancillary revenue	11	1.8	3.1
Optimize expenses	7 Optimize CIP	116	19.3	26.3
	8 Rightsizing	57	9.4	19.5
	9 Pensions	14	2.4	3.6
	10 Contract re-bid	39	6.5	14.6
	11 Early exits	27	4.5	7.2
	12 Traffic reduction	13	2.2	5.6
	13 Concessions	-5	(0.8)	-
Total		413	68.8	123.2

■ Impacted by measure

In \$ thousands	2017-18 P	2018-19 P	2019-20 P	2020-21 P	2021-22 P	2022-23 P	6 Yr Total: FY18-FY23
Toll fares, includes [3] and [5]	120,621	131,898	140,633	145,875	150,002	162,225	851,254
Gasoline Tax	131,242	137,993	140,106	142,805	145,883	148,589	846,616
Diesel Tax	12,500	12,500	12,500	12,500	12,500	12,500	75,000
Petroleum Products Tax	290,748	290,748	290,748	290,748	290,748	290,748	1,744,485
Cigarettes taxes	19,992	19,992	19,992	19,992	19,992	19,992	119,952
Motor Vehicle License Fees	26,701	27,711	27,855	28,014	28,276	28,472	167,029
Act 30 - Licenses Fees Transferred to Act	49,066	50,923	51,187	51,480	51,960	52,321	306,938
Transit Revenues, includes [12]	28,909	29,308	29,617	32,579	35,906	36,410	192,728
Electronic Toll Fines, includes [5]	27,177	18,948	19,602	20,050	20,329	20,445	126,552
Other income, includes [6]	4,618	6,265	7,225	8,128	8,986	9,021	44,244
Operating Revenue	711,574	726,286	739,464	752,171	764,581	780,722	4,474,798
FHWA Funds, includes [4]	132,766	405,596	321,342	179,938	153,750	153,750	1,347,142
State Funds Earmarked for CapEx	159,000	82,073	67,334	59,067	53,020	53,761	474,256
Federal Emergency Revenues	175,553	256,565	145,201	55,135	-	-	632,454
FTA Funds	31,000	50,000	50,000	5,000	5,000	5,000	146,000
Hurricane Loss Assessment - Insurance and FEMA Revenue	27,002	54,004	27,002	-	-	-	108,007
Capital Contribution	525,320	848,238	610,878	299,141	211,770	212,511	2,707,859
Total Revenues After Federal Fund Transfers	1,236,894	1,574,524	1,350,343	1,051,312	976,351	993,233	7,182,656
Right of Way	(3,300)	(3,300)	(3,300)	(3,300)	(3,300)	(3,300)	(19,800)
Design	(23,000)	(7,769)	(10,716)	(7,882)	(7,882)	(7,882)	(65,132)
Construction Local	(23,160)	(9,146)	(9,146)	(9,146)	(9,146)	(9,146)	(68,890)
Salaries and related benefits, includes [8], [9] and [11]	(46,178)	(45,683)	(36,140)	(30,904)	(28,394)	(25,838)	(213,136)
PayGo Retirement Impact, includes [9]	(13,536)	(14,489)	(13,040)	(13,040)	(13,040)	(13,040)	(80,186)
Litigation Reserve	(6,465)	(8,516)	(9,809)	(10,722)	(11,442)	(11,004)	(57,957)
Right of Way Payments	(16,626)	(13,736)	(7,068)	(1,900)	-	-	(39,330)
Other program expenses, includes [8]	(1,471)	(2,809)	(6,364)	(7,550)	(8,728)	(9,867)	(36,789)
FHWA Construction Spend Projects, includes [7]	(95,767)	(340,801)	(255,568)	(140,769)	(120,009)	(117,156)	(1,070,070)
Non-Federal Construction Projects, includes [7]	(111,750)	(30,840)	(27,650)	(129,212)	(152,778)	(152,778)	(605,008)
FHWA Construction Soft Costs, includes [7]	(36,260)	(51,316)	(49,612)	(22,967)	(18,821)	(21,674)	(200,651)
Non-Federal Construction Soft Costs, includes [7]	(14,153)	(6,800)	(6,481)	(22,555)	(24,988)	(24,687)	(99,664)
Federal Emergency Repair Program	(175,553)	(256,565)	(145,201)	(55,135)	-	-	(632,454)
Local Emergency Repair Program	(6,496)	(7,780)	(3,240)	(2,484)	-	-	(20,000)
Transit CIP	(31,000)	(50,000)	(50,000)	(5,000)	(5,000)	(5,000)	(146,000)
Hurricane Loss Assessment - Local Funding Needs	(1,552)	(3,104)	(1,552)	-	-	-	(6,209)
Hurricane Loss Assessment - Insurance / FEMA Covered	(27,002)	(54,004)	(27,002)	-	-	-	(108,007)
Total Construction	(633,270)	(906,658)	(661,888)	(462,567)	(403,529)	(401,372)	(3,469,284)
Salaries and related benefits, includes [8], [9] and [11]	(39,543)	(39,774)	(28,548)	(21,943)	(19,035)	(15,981)	(164,825)
PayGo Retirement Impact, includes [9]	(4,423)	(4,734)	(4,261)	(4,261)	(4,261)	(4,261)	(26,200)
Toll highways administration and maintenance, includes [5] and [13]	(35,278)	(41,849)	(37,544)	(34,732)	(35,979)	(35,269)	(220,650)
Train operating and maintenance costs, includes [10]	(63,527)	(65,402)	(65,106)	(67,148)	(56,423)	(58,317)	(375,924)
Integrated transportation system, includes [10] and [12]	(14,603)	(11,538)	(11,834)	(12,513)	(13,225)	(13,570)	(77,281)
Other operating expenses, includes [1] and [8]	(33,398)	(37,125)	(37,295)	(36,365)	(35,575)	(34,601)	(214,359)
Total operating expenses	(190,771)	(200,422)	(184,588)	(176,962)	(164,497)	(161,999)	(1,079,240)
Total expenses	(824,041)	(1,107,080)	(846,477)	(639,529)	(568,026)	(563,372)	(4,548,524)
Total Fin. Gap Post-Measures before Rev Retention & Gov. Funding	412,854	467,443	503,866	411,782	408,325	429,862	2,634,132
Retained Revenues to Central Government	(530,248)	(539,866)	(542,388)	(545,538)	(549,358)	(552,621)	(3,260,019)
Total Fin. Gap Post-Measures post-Rev Retention & pre-Gov. Funding	(117,394)	(72,423)	(38,522)	(133,756)	(141,033)	(122,760)	(625,887)
Operating Surplus / Deficit	138,100	97,300	73,900	222,400	238,000	224,900	994,600
Total Fin. Gap Post-Measures after Rev Retention & Gov. Funding	20,706	24,877	35,378	88,644	96,967	102,140	368,713

Fiscal Measures by initiative, FY18-FY23 in \$millions



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1 HTA will reorganize into a more effective organization focused on gaining synergies and carrying out its specific goals

1. Governance

- New structure attenuated from future political cycles and influence.
- The Board of Directors will include independent directors with the power to appoint/remove management; they will have expertise in roads, infrastructure, revitalization, innovation, and private sector partnerships

2. Organization

- Forward-thinking lean organizational strategy with best-in-class FTE efficiency achieved through workforce transition
- Construction and O&M program internally overseen but optimized through outsourcing
- Build scalable contract management approach, which aligns resource levels with funding

3. Objective Decision-Making

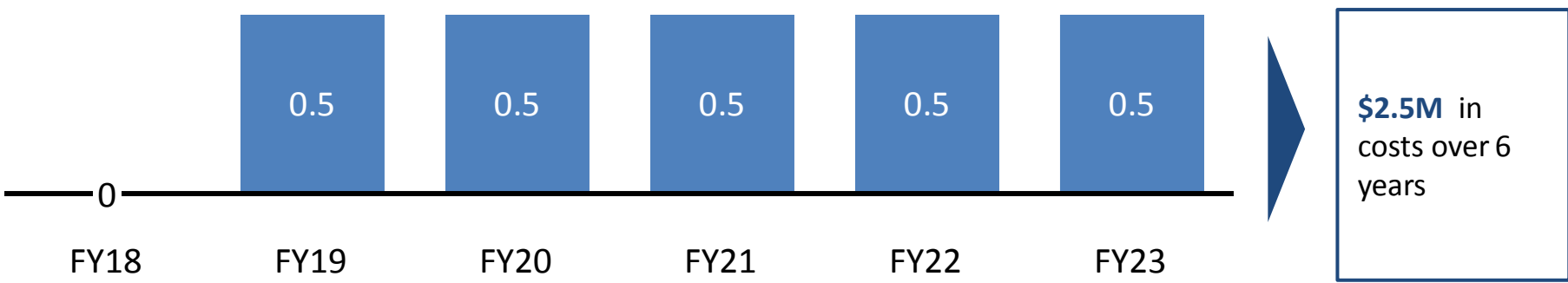
- HTA will prioritize the following key design principles to create more effective governance and organization structures:
 - Deliver upon HTA mission to provide a safe and efficient transportation system
 - Move towards a contract management model to deliver excellent service at best value
 - Outcomes-based prioritization of projects based on economic impact
 - Maximize access to federal funding and, if possible, facilitate future access to capital markets
 - Incorporate streamlined processes to deliver a lean and effective organization
 - Include public policy decisions as defined and measured input into cost-benefit analyses
- HTA will institute a performance based culture in which:
 - Project and program performance are evaluated based on industry standard KPIs
 - All employees evaluated on merit principle, with strict position control and cost-benefit analysis requirements for all new positions and promotions

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1 HTA's new board structure will increase other operating expenses by \$500k per annum

- Beginning in Fiscal Year 2019 – PRHTA will operate under the control of a new board, which includes four industry expert board members.
- In order to attract and retain board members with the desired qualification, HTA will need to compensate non-employee members in a manner similar to private board members.
- HTA intends to compensate each non-employee board member **\$75k per year**. Total direct compensation will total **\$300k per year**. Board members are payed salaries as stipends, and are not entitled to any payroll benefits.
- These professional board members will be identified by a search firm, at an estimated cost of 33% of board compensation, total search fees not to exceed **\$100k in years in which new members are recruited**.
- Each board member will be reimbursed for applicable office expenses and required board travel based on expenses incurred at a rate of **\$25k per year, or \$100k total per year**.
- In total, the new, professional board structure will **increase other operating expenses by \$500k per year**, and serve to enable the organization to operate as an objective corporate-like entity.

Total cost to implement \$M



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1 The new board structure will consist of both administration leaders and independent members to ensure effective governance of the organization

Board Design Overview

- A** Establish an independent governing body of 7 members with a minority (3) appointed by the Governor and a majority (4) identified by a private search firm from the private sector (and approved by the Governor).

- B** Stagger membership tenure to further mitigate the risk of board disruption through political turnover.

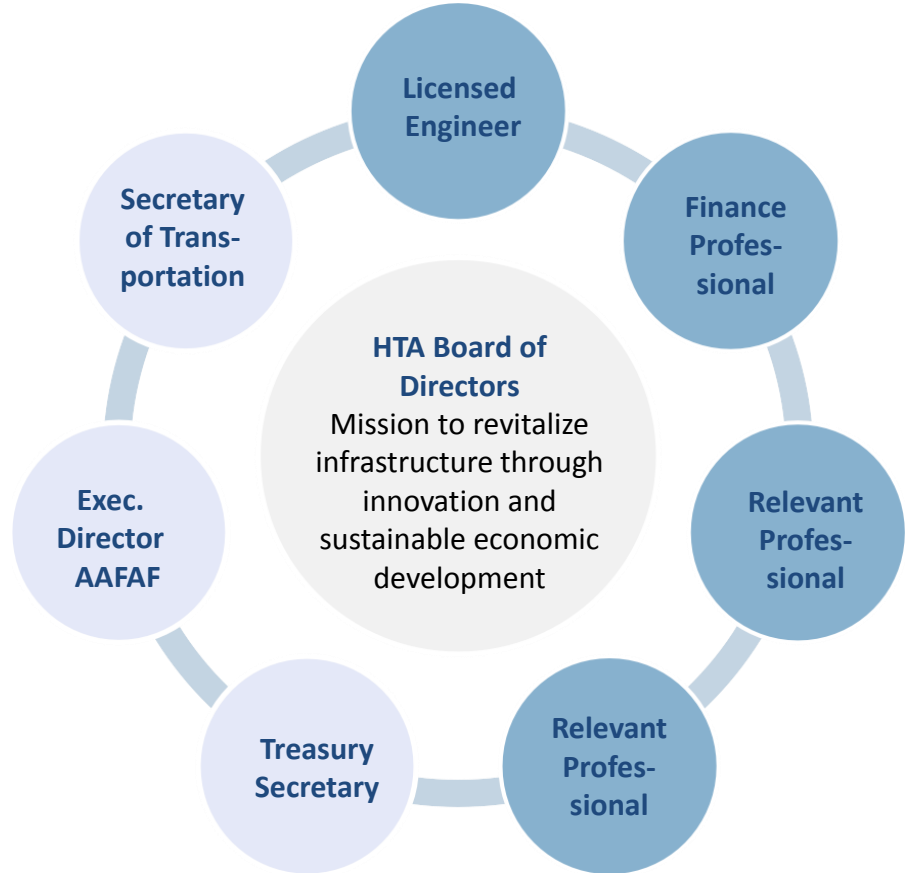
- C** Achieve desired expertise to maximize efficacy of long-term strategic planning and decision-making.

- D** Apply strict conflicts of interest limitations and independence requirements to ensure that directors are correctly incentivized.

- E** Appointment and removal of HTA leaders entrusted in the board, according to objective, merit-based standards, and pre-established KPIs

HTA board members will be held to the highest ethical standards, independent members can only be removed from roles before term expiration for a breach of the public trust

Board Composition



Industry experts will be identified by a professional search firm, approved by the Governor and serve staggered 2, 4, and 6 year terms, with 5 year terms following. Estimated cost of maintaining professional board is \$500K per year

New tools to track key performance indicators

- HTA is reshaping its organizational culture to emphasize accountability and performance through the use industry best practice Key Performance Indicators (KPIs)
- HTA has developed performance management dashboarding capabilities for many of its key programs, including:
 - Construction Department Controls included within Fiscal Plan Assumptions
 - Pre-construction planning timeline and cost variance (Target <15%)
 - Bid price-to-completion variance (Target <15%)
 - Road Network Condition Improvements have been Targeted in the Capital Improvement Plan
 - Improve and Maintain Road Conditions to Federal Categories of Good and Fair (Target 95%)
 - Improve and Maintain NBI bridge conditions (deck area) to achieve and sustain a state of good repair (Target 95%)
 - Incident Response – HTA has developed an Incident Response Dashboard, tracking incident response time, average service time (tow and non-tow) and tracking progress towards mainland benchmarks, including:
 - Average Response Time Incidents & Service Patrol (Target < 15 minutes)
 - Average Roadway Clearance Time (Target < 90 minutes)
 - Incident Duration Classification (Targets TBD)
- HTA is developing systems to support performance management metrics
 - HTA is developing integrated Traffic Management Center reporting system (Sunguide) in collaboration with the Southwest Research Institute (SwRI).
 - HTA's Performance Management Information System (PMIS) will go live by the beginning of FY19, with additional modules coming online by Dec. 2019. HTA will utilize this system to support improved metrics collection, reporting and management, including:

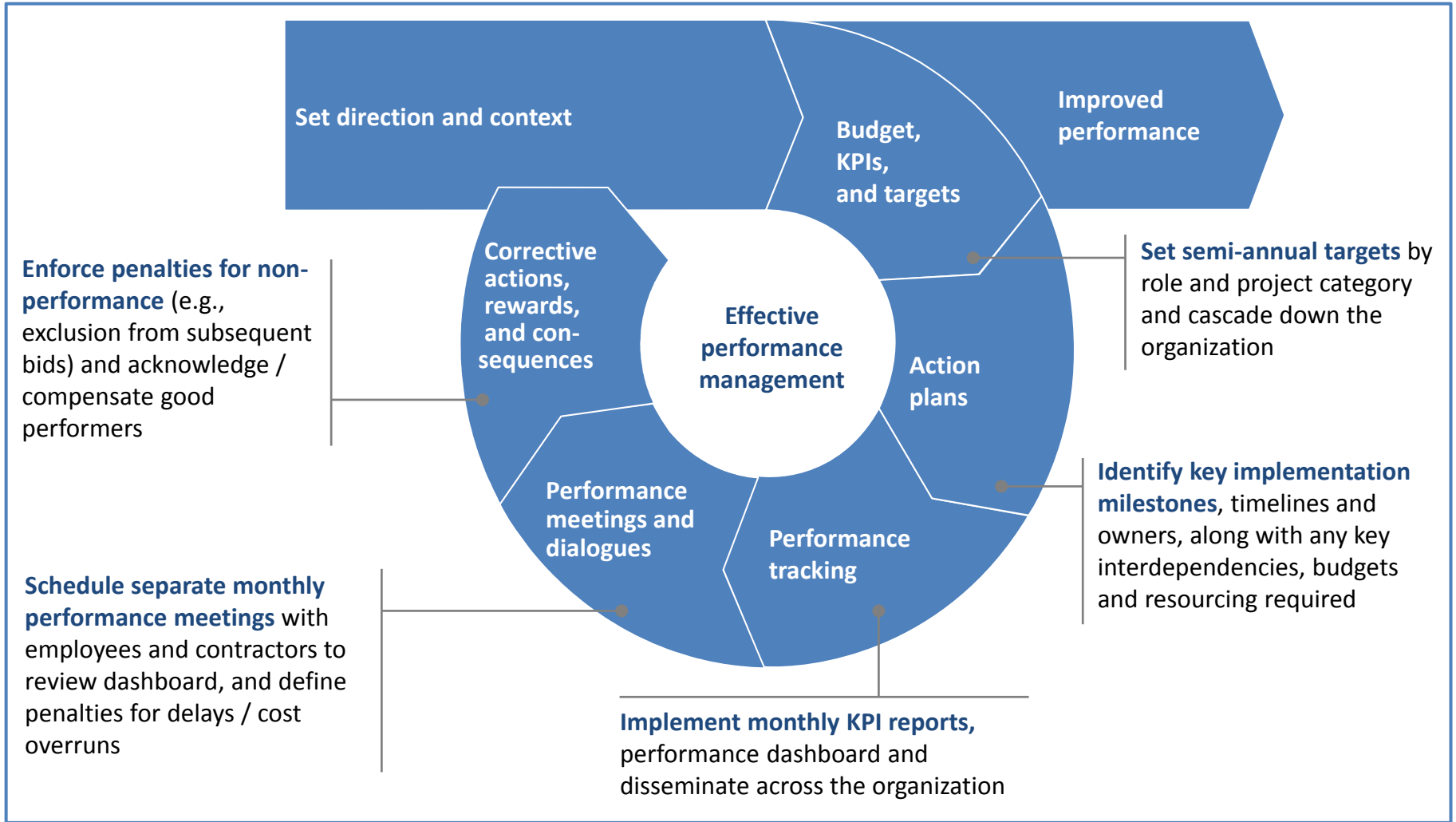
<ul style="list-style-type: none"> ▪ Highway safety (accident and fatality rates) ▪ Transit usage ▪ Signal Conditions 	<ul style="list-style-type: none"> ▪ Farebox Recovery Ration ▪ Environmental Impact ▪ Urban Area Congestion
--	--

Category	Indicator	Metrics ¹
Customer welfare	Safety	<ul style="list-style-type: none"> Reduce road fatality rates (PR - 2.13 per 100M VMT, most unsafe US state (South Carolina) - 1.88 VMT)
	Mobility	<ul style="list-style-type: none"> Reduce single passenger automobile journey to work (PR - 80%, US average - 76%)
	Traffic reduction	<ul style="list-style-type: none"> Reduce the congestion cost per commuter (San Juan - \$1,150, US average - \$1,045)
	Connectivity	<ul style="list-style-type: none"> Reduce travel time index (PR - 1.31, US average - 1.23)
	Environmental sustainability	<ul style="list-style-type: none"> Reduce GHG transportation emissions - PR currently at ~11 MMtCO2e
Financial discipline	Debt sustainability	<ul style="list-style-type: none"> Generate enough excess cash flow to be able to fund strategic projects (e.g., Traffic reduction) and sustainable debt service
Operational excellence	Project delivery	<ul style="list-style-type: none"> Reduce pre-construction planning timeline and cost variance to <15% Reduce bid price-to-completion variance to <15%
	Incident management	<ul style="list-style-type: none"> Reduce average incident response time and service time to < 15 minutes Reduce average roadway clearance time to < 90 minutes
	O&M efficiency	<ul style="list-style-type: none"> Reduce annual O&M expenditures - ~\$7.4M yearly savings expected from contract re-bid and toll optimization Increase farebox recovery ratio across all transit operations – estimated at ~39% for new BRT
	Resilience	<ul style="list-style-type: none"> Improve and maintain road conditions to Federal categories of Good and Fair (i.e., 95%) Improve and maintain NBI bridge conditions (deck area) to achieve and sustain a state of good repair (i.e., 95%)

1 HTA will undertake a long range planning effort to set targets against these key metrics, and strive to make improvements towards US national benchmarks

SOURCE: US DOT, Texas A&M Transportation Institute, PR DRNA, ACS, BTS

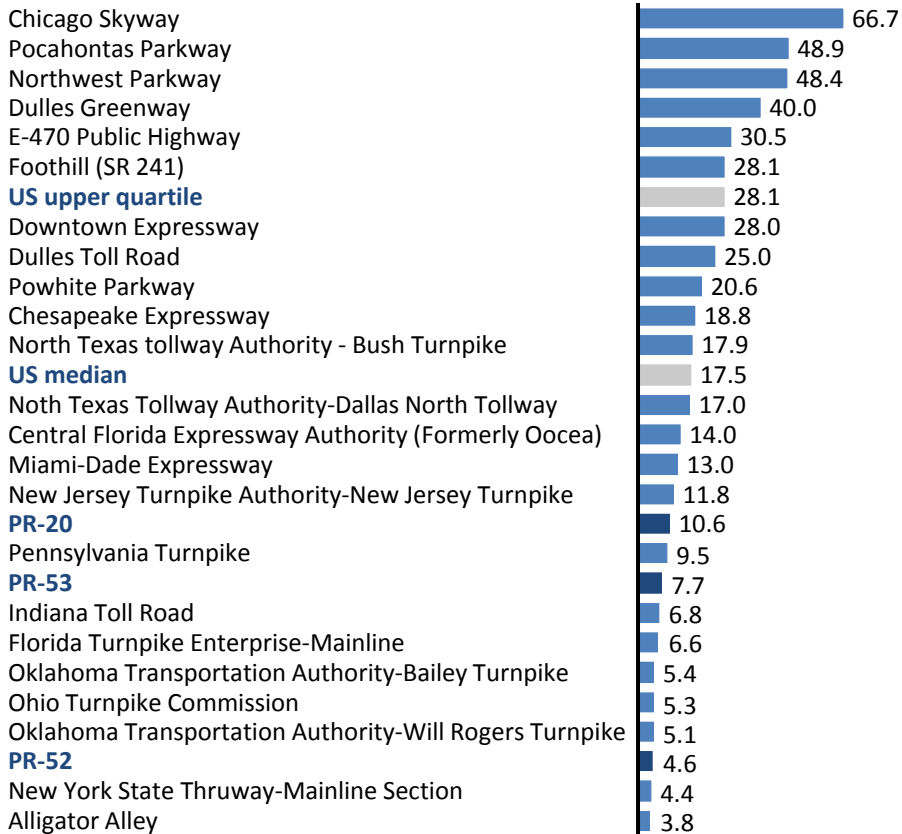
A priority set of KPIs will facilitate improved performance by increasing transparency and providing a base for incentives / penalties



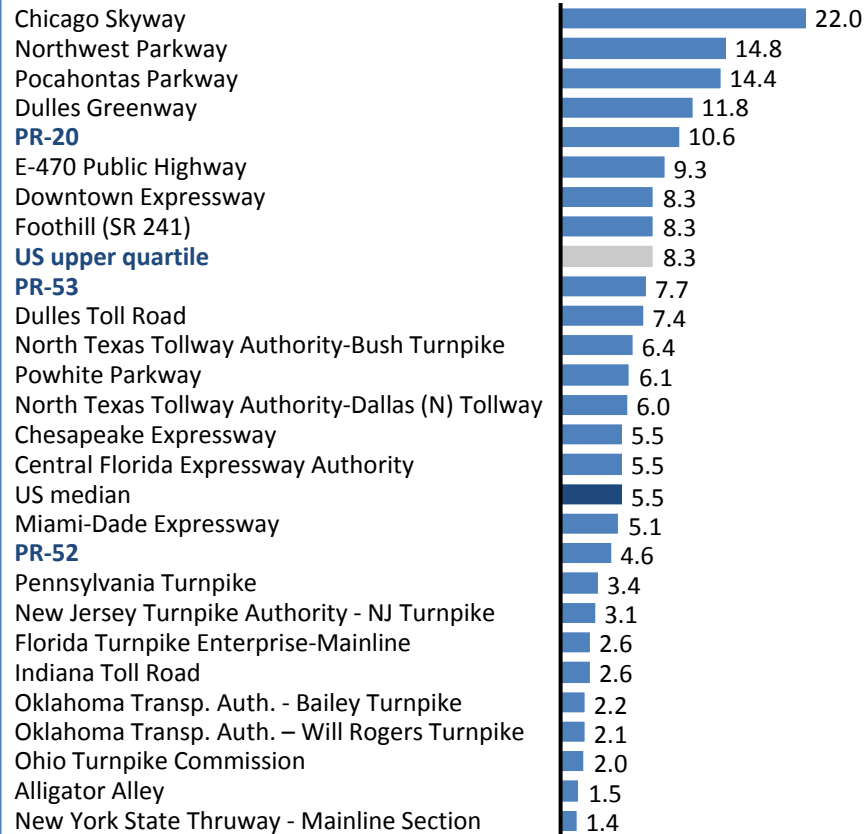
Unlike PR-22, which is operated by concessionaires, HTA has not implemented a regular toll rate increase system to keep up with inflation

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Toll mile comparison by state¹, cents



Income adjusted toll mile comparison by state^{1,2}, cents



- HTA has not increased tolls in line with inflation, while PR-22 (concessioned) has implemented regular rate increases to keep up with inflation. As such, PR-22 and PR-5 are not reflected in the above, nor is PR-66 which as of today is priced in line with peer states
- On a toll per mile basis, PR-52 and PR-20 are below the US median, while PR-53 is below the upper quartile
- On an income adjusted toll per mile basis, PR-52 is below the US median, PR-53 is below the upper quartile while PR-20 is in the top quartile

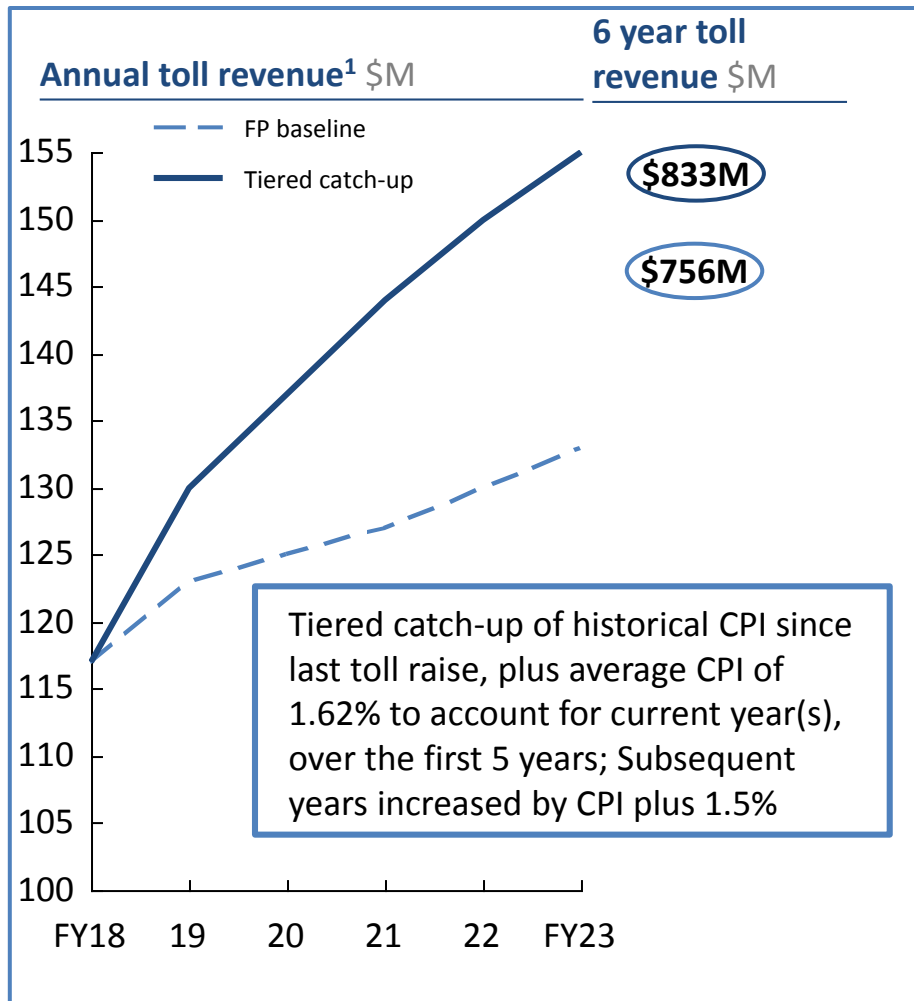
1 Toll rates are the standard Electronic Tag Tolls with no further discounts (e.g., no weekend, volume, senior, loyalty programs). Tolls as of Jan 2018

2 Income adjusted to specific road corridor within Puerto Rico

SOURCE: SDG toll rate benchmarking analysis, SDG toll rate & traffic revenue forecast,

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3 Increasing tolls based on a tiered CPI catch up should generate ~\$77M in incremental revenue from 2018 to 2023



- HTA can increase toll revenues by ~10% or \$77M over the next 6 years, by adopting a tiered increase in toll rates between FY19-23
- PR-52 represents 91% of the \$77M incremental revenues, and is currently **below the income adjusted US median toll per mile** (see previous slide)
- The tiered catch up helps to ensure that the purchasing power of toll revenues keeps up with inflation, and is supported by third party revenue estimates

1 Scope includes existing tolls only (i.e., PR-20, PR-52 and PR-53), and excludes higher tolls on PR-66

SOURCE: SDG toll rate benchmarking analysis, SDG toll rate & traffic revenue forecast

PR-52, which is >90% of incremental revenues, will have average annual increases of 5 cents on toll plazas over the next 5 years

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Toll rate projections¹ \$

Toll plaza	2018 (existing)	2019	2020	2021	2022	2023
MONTEHIEDRA	0.35	0.37	0.39	0.41	0.43	0.46
CAGUAS NORTH	1.50	1.59	1.69	1.79	1.88	1.98
CAGUAS SOUTH	1.00	1.06	1.13	1.19	1.25	1.32
SALINAS	1.75	1.86	1.98	2.09	2.20	2.32
SOUTH RAMP SAL.	0.35	0.37	0.39	0.41	0.43	0.46
NORTH RAMP J DIAZ	0.50	0.53	0.56	0.59	0.62	0.66
SOUTH RAMP J DIAZ	0.50	0.53	0.56	0.59	0.62	0.66
PONCE	0.75	0.79	0.84	0.89	0.93	0.98

- Toll rates on PR-52 will increase by **5.5% annually between 2019-23 to catch-up with CPI, and increase at CPI plus 1.5%(~3%) subsequently, in line with PR-22**
- **Toll roads would continue to offer significant time and reliability value to customers that well exceeds out of pocket costs** (total cost of delay of \$9.10 an hour² for someone taking an alternative toll-free route from Ponce to San Juan, vs. \$5.51³ total tolls paid on PR-52 via Ponce, J. Diaz, Salinas, Salinas South Ramo, Caguas North and Montehiedra toll plazas).

¹ Tiered catch-up of historical CPI since last toll raise, plus average CPI of 1.62% to account for current year(s), over the first 5 years. Subsequent years increased by CPI plus 1.5%

² Assumes \$7.00 wage cost per hour (50% of hourly wage) and \$2.10 cost of excess fuel per hour. Total delay of one hour based on estimated additional time taken for a one way trip on a toll free route (i.e., PR-14) from Ponce to San Juan vs. PR-52, departing at 8am on a weekday

³ Based on total tolls in 2019 (after first year of increase)

SOURCE: BLS, Reuters, SDG 2018 tolling report

HTA expects to increase federal funding by over \$50M over six years by targeting discretionary federal grants, including the \$18B PR CDBG allocation

Key program opportunities

Program	Total Program Funding (To date) ¹ , \$M	Funding received by Puerto Rico (To date) ¹ , \$M	Funding received by PR (% of total)
Capital Investment Grants (1996-2017) ²	37,659	\$308	0.8%
Community Development Block Grant – Disaster Recovery (2018)	28,000	\$18,000	64%
TIFIA loans (1999-2017)	26,000	\$300	1.2%
TIGER (2009-2016)	3,581	\$10	0.3%
INFRA (2016-2018)	840	\$0	0%
Highways for LIFE (HfL) (2006-2013)	68	\$0.10	0.1%

- **\$18.1B in HUD CDBG-DR funding has been awarded Puerto Rico**, providing a set of funds that HTA has the opportunity and commitment to pursue
- **PR has not secured any discretionary grants over the last 5 years** - the last discretionary grant Puerto Rico received was in 2012 under IBRD, while TIFIA and CIG grants date to the early 2000s
- **PR can generate at least ~\$15M in additional run rate funding by 2023 or >\$50M over 6 years**, by capturing 0.3% of the CDBG-Disaster Relief grant to PR, or its per capita fair share (1%) of only TIGER and INFRA funds
- **HTA will meet the local share of all additional federal funding it receives**

1 Time period for each program denoted in brackets

2 ~\$2.3B available p.a. from FY 2018

SOURCE: FHWA website, transportation.gov

Background

▪ System Improvements and Vendor Enhancements

- **Open Road Toll (ORT) System Enhancement:** Improve legacy system’s ORT hardware (lasers, cameras, antennas and sensors) and software that will allow HTA to reduce leakage, improving TAG (AutoExpreso) and License Plate transaction data and increased accuracy and reliability of vehicle classification.
- **Toll Operator Improvement:** Upgrade system to improve toll transaction life cycle and user accounts recharge channels, decrease gross Violations (better violation management and violation letter bundling), provide consistent reporting, improved system monitoring, minimize redundancy and reduce current revenue leakage. In addition, HTA expects improved customer service.
- **Violation Avoidance:** Create automatic registration functionality, based on AutoExpreso traffic records, between the user’s tag code (AutoExpreso) and the user’s vehicle license plate number, allowing HTA to charge vehicles based on license plate, when the tag code is not available. This functionality will reduce the amount of violations as those transactions will be charged to the AutoExpreso user rather than becoming a Violation, in addition to reducing the current Violations Management cost supported by PRHTA.
- **Improved Void Accountability:** Map all types of “void” transactions (those that are not pursuable due to data quality) and define which void transactions HTA should not be paying for. (Currently, HTA pays for all void transactions).

▪ New Initiatives

- **ORT Conversion:** Convert existing (canalized) lanes into ORT lanes. HTA expects the latter to be more accurate and have lower leakage as well as better classification.
- **Web Maria:** Collect post-Hurricane Maria toll fares that could not be collected in the weeks following the hurricane.

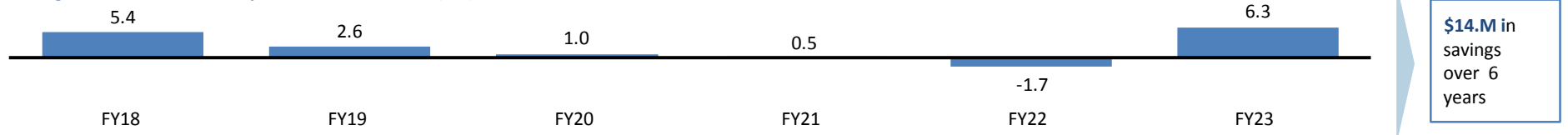
Analysis of Opportunity

\$M	FY18	FY19	FY20	FY21	FY22	FY23	FY18-FY23 total	
ORT System Enhancement	1.9	4.6	1.3	1.3	1.3	1.3	11.7	[A]
Toll Operator Improvement	-	-	1.8	5.4	5.4	5.4	17.9	[B]
Violation Avoidance	-	(3.8)	(3.9)	(4.1)	(4.2)	(4.2)	(20.1)	[C]
Improved Void Accountability	-	1.8	1.8	1.8	1.8	1.8	8.9	[D]
System Improvements and Vendor Enhancements	1.9	2.6	1.0	4.4	4.3	4.2	18.4	
ORT Conversion	-	3.9	-	(3.9)	(6.0)	2.1	(7.8)	[E]
Web Maria	3.5	-	-	-	-	-	3.5	[F]
New Initiatives	3.5	3.9	1.0	(3.9)	(6.0)	2.1	(4.3)	
Total Savings	5.4	2.6	1.0	0.5	(1.7)	6.3	14.1	

- [A]: ORT System Enhancement: HTA's vendor negotiations will produce cost savings of \$6.5mm over 17 months in FY18 and FY19.
- [A]: ORT System Enhancement: based on toll operator experience, HTA expects upgrades of the current system will reduce revenue leakage by around 1% or \$1.3mm/year.
- [B]: Toll Operator Improvement: based on toll operator experience, HTA expects improving operator capability to increase revenue by 2%(reduced leakage) and reduce cost by 20%; needed CAPX = \$3.5 mm, starts FY19.
Includes Eclipse \$500k / year and a one-time \$50K RFP cost
- [C]: Violation Avoidance: based on toll operator experience, HTA expects adding automated license plate / AutoExpresso tags will help HTA to reduce violations (currently 600K / month) by 25%, at \$0.60 cost per letter, savings achieved are about \$1.1mm / year. [C]: Violation Avoidance: based on toll operator experience, by adding automated license plate / AutoExpresso tags, HTA will be able to reduce its violations by 25%. Accordingly, it will automatically collect the average toll fare of \$1.06 versus the \$0.23 on average that it collects currently on each violation letter sent (due to its 22% violation collection rate). Reducing the 600K violations letters it sends each month by 25% leads HTA to send 150K fewer violation letters. The difference of \$0.83 collected per instance for 150K instances per month is \$125K additional revenue per month, or \$1.5mm per year.
- [C]: Violation Avoidance: as noted above, based on toll operator experience, HTA expects to reduce its violations by 25%. Without this change, HTA's baseline projection is to receive about \$26.6 mm per year in toll violations. Reducing violation instances by 25% would have a proportional impact on HTA's violation revenue, or an average reduction of about \$6.7 mm per year.
- [D]: Improved void accountability: based on toll operator experience, HTA expects a decrease of 140K voids per month that HTA is currently paying for (or about 4% of the total gross violations). For each of 140K voids per month, HTA no longer will pay the average toll fare of \$1.06, and will save about \$150K per month, or about \$1.8mm per year.
- [E]: ORT Conversion: based on toll operator experience, at select plazas, HTA expects 5% revenue gain from increased traffic bi-directionality. The current revenue baseline for those plazas is \$47 mm, so a 5% increase would lead to a \$2.3 mm per year revenue increase (starting in FY20). The CAPX needed to support this investment is \$21mm.
- [E]: ORT Conversion: based on toll operator experience, at select plazas (rolled out in three phases CAPX \$18mm), HTA expects 2% revenue gain from ORT based on reduced leakage. The revenue baseline for those plazas (for all three phases) is \$96 mm, so a 2% increase would lead to a \$1.9mm per year revenue increase once all the phases are complete. Similarly, HTA expects 3% cost reduction mostly from lower maintenance costs. On a cost baseline of \$12mm, a 3% reduction would lead to savings of \$0.4 mm per year.
- [F]: Web Maria: estimate of how much of the \$7 mm revenue HTA can recover (assumed 50% recovery) from those drivers not able to pay their tolls for weeks following Hurricane Maria.

Implementation timeline and expected annual savings

Savings from Toll Collection Optimization, FY18-FY23 (\$M)



\$14.1M in savings over 6 years

HTA will continue to explore innovative ways to increase revenue, including:

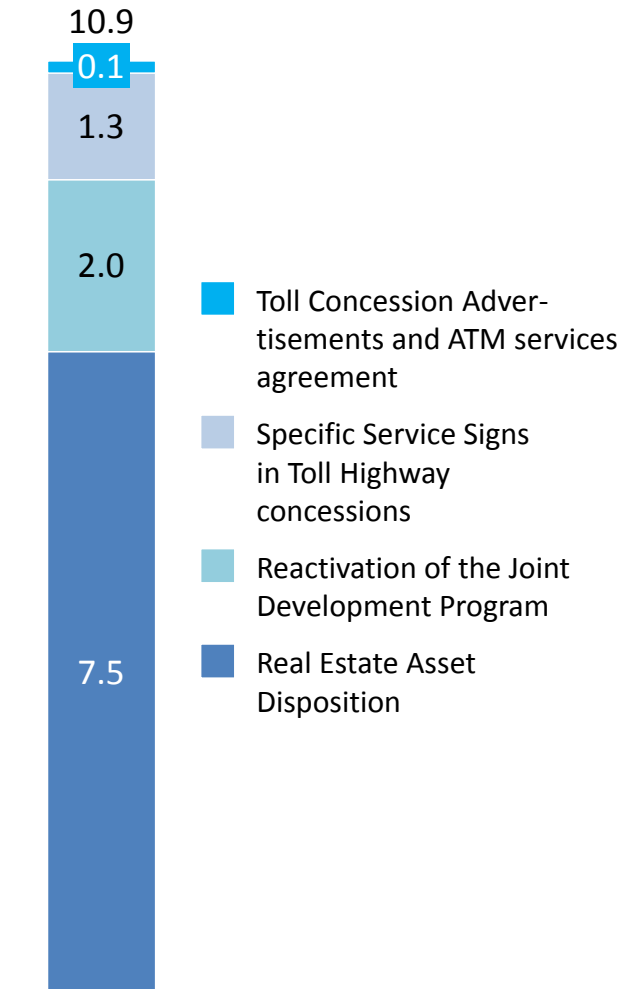
- **Real Estate Asset Disposition:** HTA estimates a potential \$1.5M of annual revenue by developing a noncore asset disposition program
- **Reactivation of the Joint Development Program:** This program provides for residential/commercial projects in the Tren Urbano corridor
- **Specific Service Signs in Toll Highway Concessions:** Implementation of service signs could result in ~\$250K of annual revenue to HTA
- **Toll Concession Advertisement and ATM services agreement:** HTA estimates the potential for \$25-30K of annual revenue related to concession advertisements

HTA will research and consider the below potential revenue streams:

- **Traffic Information Monetization:** Identify opportunities to monetize traffic information and continue to expand highway sensor network.
- **Right of Way / Utilities Infrastructure Rights:** Determine opportunity for monetizing unused right of way via utilizes and other infrastructure rights.
- **Other-Mobility Services:** Evaluate viability of increasing mobility services (park & ride / ride share) and develop an implementation plan as necessary
- **Equity Solutions:** Equity in new P3 concessions could be used to settle debt obligations and raise capital for reinvestment

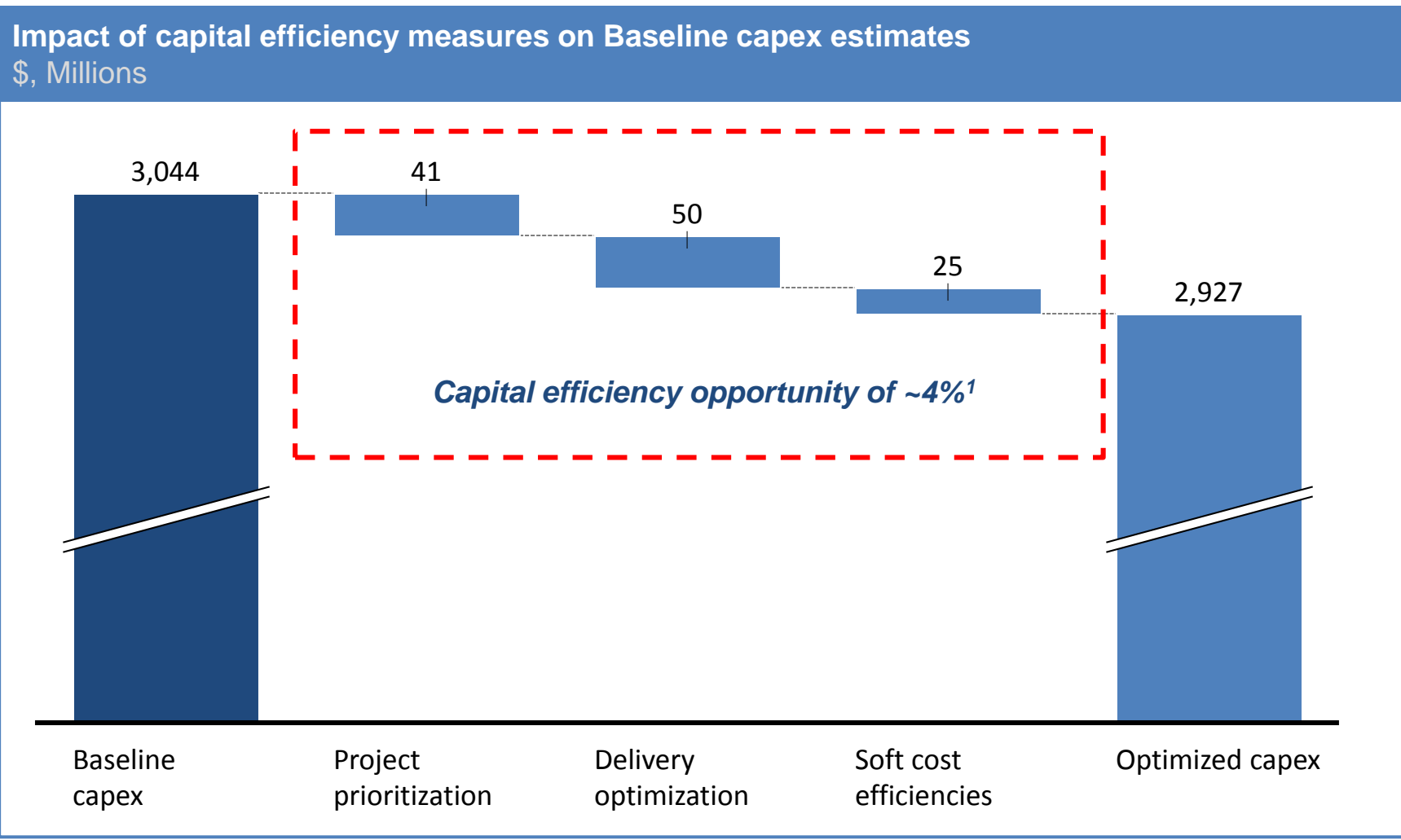
Other Revenue Initiatives

FY18-FY23 Total, \$M



[1] specific dollar estimates from HTA's July 2017 Fiscal Plan

A total capital efficiency opportunity of ~4% will help HTA target improved performance within a constrained capital environment



¹ Best in class project prioritization in infrastructure projects can save 7-15% while improved delivery efficiencies can reach 15-25% in savings. Based on these benchmarks, further opportunity may exist in addition to the estimate of 4% across the portfolio. The delivery optimization opportunity is discounted using the Commonwealth's inflation adjustment to account for potential increases in construction costs.

7 HTA will target capital efficiencies through project prioritization, delivery improvements, and soft cost savings

Key levers		Capex reduction, %	Estimated savings, \$M
Project prioritization ¹	<ul style="list-style-type: none"> Further align projects with socioeconomic priorities e.g., congestion, road quality, average AADTs, and economic benefits Further review STIP and CIP projects on secondary and tertiary roads and de-prioritize roads with less AADTs and economic benefit, to ensure that resources are being well utilized in capital constrained environment 	~1.4%	\$41
	<p>6a PR-66 case study highlights proof-of-concept that projects can be limited to a 5% targeted cost overrun by improved delivery</p> <ul style="list-style-type: none"> Additional optimization with project management, contractor incentives (e.g., ratings/bonuses), and contract structures (passing delivery risk) Improve project execution on whole portfolio with improved delivery with on locally funded roads projects and federally funded roads projects, with innovative contracting and better project execution 	~1.6%	\$50
Soft cost savings	<p>6b</p> <ul style="list-style-type: none"> Find opportunities to segment Federal and non-Federal dollars to reduce pre-construction regulatory burden Capture efficiency benefits of outsourcing (economies of scale etc.) and reduce overall budgeted soft costs to allow for lower soft cost budgets for both federal and state construction projects (~\$200M value at stake) 	~0.8%	\$25
Total			\$116

Improved project prioritization focusing on just the local projects (non-FHWA) portfolio has the opportunity to save ~\$41M over the next 6 years, while delivery optimization of both federal and local projects and soft cost improvements can produce ~\$75M of savings in 6 years.

1 Value at stake limited to not-yet-active locally funded roads projects.

2 Value at stake limited to not-yet-active roads projects. Previous estimates had an additional ~\$78M opportunity for delivery optimization, but because construction cost inflation was not factored into previous analyses, an inflationary factor in line with the Commonwealth (~1.5-2%) was added to reduce the CIP's delivery optimization opportunity by approximately ~\$78M. Note that other Title III instrumentalities (PREPA and PRASA) did not adjust Fiscal Plans for inflation.

Historically, HTA has experienced cost overruns averaging approximately 30% more than initial cost estimates.¹ Through the implementation of outsourcing and improved project delivery methods via the Workforce Transition Program and “MOU” initiatives, HTA believes it can reduce cost overruns by 15% or more (depending on project type and asset class), which is in line with industry standards and builds on experience from PR-66.

Historical Project Execution:

- Highway projects have historically been delivered using a design-bid-build process, where construction contracts have been structured on a per-unit-price basis.
- Because the bidding process (via RFP) has been typically based on unit price contracts, contractors have not been incentivized to present bids with the lowest possible costs to adequately complete a project. Instead, contractors provide unbalanced bids that result in higher prices at project completion. This problem has been extensively discussed in the construction management literature.
- Additionally, because construction has been predominately managed in-house, personnel costs have not declined commensurately with less construction spend, nor were in-house managers’ appropriately incentivized to adhere to project goals.
- These methods of project execution have resulted in cost overruns averaging 30% and significant completion delays.¹
- Some historical projects have seen better success - such as PR- 66 which experienced just 5% cost overruns when it utilized outsourcing and innovative contracting to improve project execution.³ *See the following page for additional discussion on the results of PR-66.*

Target Project Execution:

- HTA has already begun transforming its project delivery capabilities in an attempt to eliminate its project backlog. These transformations have begun via compliance with the Memorandum of Understanding (“MOU”) between the HTA and the FHWA.⁴ *See the Appendix for more information on the MOU.*
- HTA forecasts that by complying with the objectives specified in the MOU, and more widely implementing an outsourcing model and innovative contracting methods, the organization can reduce cost overruns by more than 15%.³
- Implementing the outsourcing and innovative contracting models will better align contract managers’ incentives with on time/on budget project delivery, improve HTA’s ability to scale staff to properly implement construction spend, and align contractors’ incentives for more cost-conscious competitive bidding, among other benefits.
- The baseline Fiscal Plan already includes project execution improvements and estimates 15% cost cost overruns.
- If HTA continued with historical highs of 30% cost overruns, the baseline CIP would be \$279M higher than forecasted in the baseline. These savings have not been factored as its own fiscal measure due to how the CIP was prepared.

1 Historical cost overruns estimate provided by HTA Management.
 2 Industry standard cost overruns provided by HTA construction office.
 3 2016 Case Study on PR-66 base on published technical papers. González Quevedo, Sergio L., Effective Competitive Procurement and Financing with Innovative Contracting: The Solution to Transportation Infrastructure Construction, Operations and Maintenance in the 21st Century, Key Note Speaker in CRC 2016, June 2016.
 4 MOU signed by the government of Puerto Rico and Federal Highway Administration. Source: MOU-PR2016-02-29-094734.

Providing Better Construction Results Through Innovative Project Execution

Case Study: PR-66*

During construction of PR-66, HTA used various methods to implement each stage of the project over various periods from 1998 through 2012. In Phase II (2011-2012), HTA utilized a combination of innovative contracting and outsourcing to reduce cost overruns and project delays^{1*}

Case Study: PR-66 1, *

During construction of Phase II of PR-66, HTA utilized (i) innovative contracting, such as simplifying the RFP process by prequalifying bidders and granting early completion bonuses, and, (ii) outsourcing, to unlock future savings from value engineering to reduce cost overruns to 5% and project duration to just 6% over schedule.¹ Previous phases of PR-66 were delivered via design-bid-build using a unit-price contract. These phases had average cost overruns of 33.1% and average project delays of 60%.¹

Notably, cost and project duration savings occurred once HTA fully utilized both innovative contracting and outsourcing.

Some Benefits seen during PR-66 Phase II:*

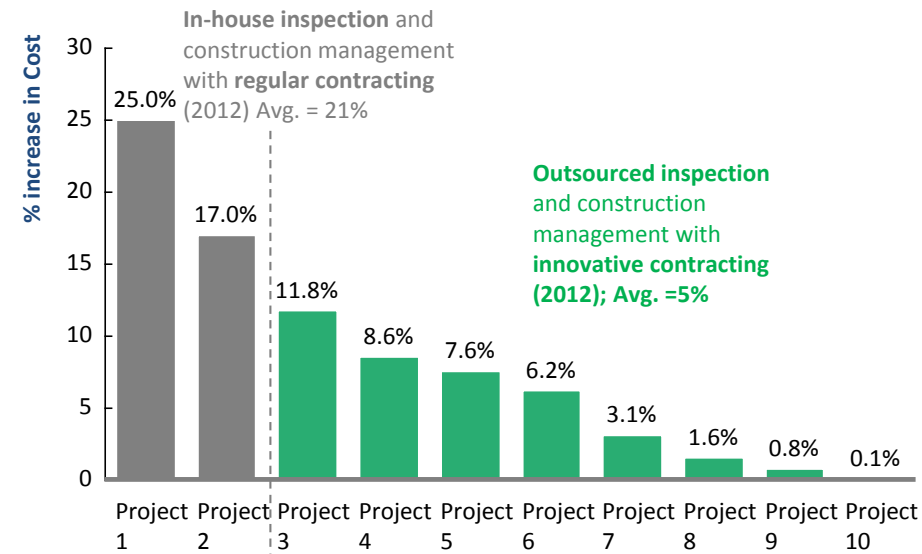
Outsourcing

- Increased flexibility to hire specialized support for projects
- Increased usage of value engineering
- Increased ability to scale staff to properly implement the funding
- Better aligned managers' incentives with on time/on budget project delivery

Innovative Contracting

- Streamlined RFP process (such as prequalified bidders), thus reducing process duration
- More competitive bidding process drove costs down
- Better structured contracts aligned incentives with project goals (e.g. early completion bonuses)

Sample PR-66 Project Results: Project Execution Methods Lead to Cost Differences²



Out of ten sample PR-66 projects in 2012, two projects used historical execution methods which resulted in 21% cost overruns. When innovative contracting and outsourcing was used, the projects averaged just 5% overruns. Over the course of the entire PR-66 project, cost overruns averaged 33.1%.¹

*** Note:** PR-66's Phase II results were successful in reducing costs and increasing project delivery speed. Such success is the target for HTA, and HTA will strive to achieve similar results where feasible during the Fiscal Plan period. Although HTA cannot recognize savings from innovative contracting methods in the current CIP for projects already contracted (i.e. RFP process is complete), HTA will be able to reduce costs through outsourcing and better project management on projects not yet contracted (~3.8% of CIP).

¹ 2016 Case Study on PR-66 base on published technical papers. González Quevedo, Sergio L., Effective Competitive Procurement and Financing with Innovative Contracting: The Solution to Transportation Infrastructure Construction, Operations and Maintenance in the 21st Century, Key Note Speaker in CRC 2016, June 2016

² González Quevedo, Sergio L., J.J Fontán et al. Use of Hybrid bidding method for costs and risks reductions in highway construction. Construction Research Congress. 2 016, pp. 759–769. 2016

Background

- From 1986-2015, HTA experienced 20% cost overruns on construction projects on a weighted average basis. In 2015, cost overruns averaged approximately 29%.
- In prior years, construction cost overruns could be as high as 37% per year.
- These cost overruns resulted from poor cost minimizing incentives in the RFP process, high headcount in periods of low construction spend, and a lack of adequate incentives for internal staff to adhere to project cost and duration goals.

Proposed Changes

- Not all projects have seen higher-than-budgeted costs. For example, some portions of PR-66 experienced just 5% cost overruns when HTA effectively used outsourcing and innovative contracting to improve project execution.² (See previous slide for additional discussion on the results of PR-66).
- In its baseline projections**, HTA has already set aggressive targets for reducing cost overruns to 15% or 8% depending on project type; thus reducing expected construction cost overruns by 24% and 60%, respectively, when compared to the 20% historical weighted average. This change represents savings of approximately \$92M already captured in the baseline.
- Via improvements from outsourcing and innovative contracting on all applicable federal and local projects not yet underway,³ HTA is aiming to reduce its cost overruns from 15% to 8-10% in total, after accounting for the Commonwealth's inflation adjustment, these changes represent an estimated **\$50.1M** in savings.



1 Historical cost overruns estimate provided by HTA Management.
 2 2016 Case Study on PR-66 base on published technical papers. González Quevedo, Sergio L., Effective Competitive Procurement and Financing with Innovative Contracting: The Solution to Transportation Infrastructure Construction, Operations and Maintenance in the 21st Century, Key Note Speaker in CRC 2016, June 2016
 3 Assumes reduced contingency for bridge projects to factor in the more intensive requirements and uncertainty.

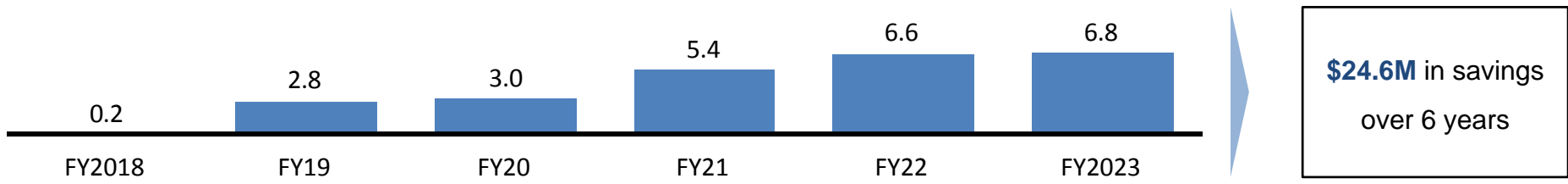
Background

- HTA estimates that external soft costs will average 18.5% of hard costs. Of this total, planning, development, and environmental costs have been estimated to be 3.0% of hard costs.
- In FY18-FY19, HTA has begun to execute an accelerated program for eligible reconstruction costs.
- Under this program, planning, development and environmental costs were reduced to 1.0% of total hard costs.

Proposed Changes

- HTA will expand the accelerated reconstruction program to eligible projects, improving project delivery time and reducing total soft costs on these projects by ~22%.
- HTA estimates that **\$730.6M** in hard costs could be covered by this program over the 6-year period, resulting in savings of **~\$25M**.

\$ millions	Total Hard Costs	Eligible Hard Cost	Eligible Soft costs	Post-Measure Soft Costs	Savings
Earmarked Projects	22.1	19.9	2.1	1.7	0.4
STIP	478.2	264.2	33.7	26.5	7.2
Long-term CIP	641.7	446.5	79.0	62	17
Total	1142.0	730.6	114.8	90.2	24.6

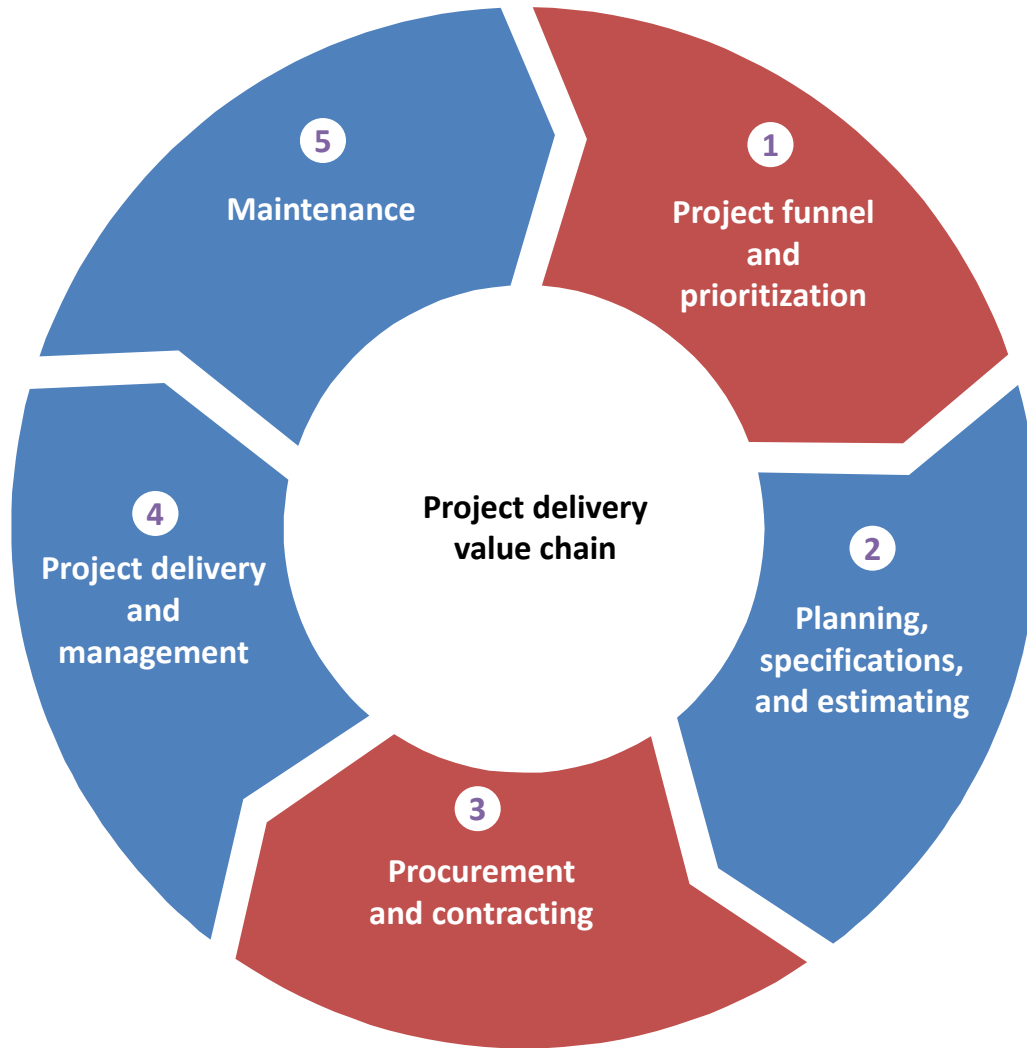


\$24.6M in savings over 6 years

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7 Project delivery value chain opportunities exist allowing delivery optimization and efficiency, and outsourcing to reduce costs

- Outsourcing opportunities
- Internal optimization opportunities



Opportunities to outsource for higher quality and lower costs:

Planning, specifications, and estimating:

Outsourcing of project PS&E functions

Project delivery and management:

Contractor rating systems to incentivize and use past performance as a measure for winning future contracts

Maintenance:

Evaluate maintenance contracts, enforce contractual obligations, and develop innovative incentives

Internal optimization measures:

Project funnel and prioritization:

Agency to assess project needs and prioritization, and create a project funnel in line with fiscal constraints

Procurement and contracting:

Alignment of payment methods (e.g., CHICA, unit price) based on project type, size, and scope

HTA has utilized multiple delivery methods and payment structures in the past, and plans to utilize those experiences to further improve delivery

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Utilization

Current challenges



Improvement opportunities

Design-bid-build

- Most commonly used method in PR for highway projects
- Unit price payment structure typically incorporated

- Quantity uncertainty has resulted in significant cost overruns and schedule delays
- Unbalanced bids producing cost overruns and schedule delays
- Contractors may not be incentivized by completion cost

- Improve project quantification during project the project scoping, and design stage
- Consider project risk transfer when selecting payment structure
- Evaluate hybrid payment structures when possible

Design-build

- Utilized in late 90's for Carolina to Canovanas projects
- Contractor prequalification based on experience and financials

- Previous project financing utilized PRHTA municipal bonds
- Delivery method previously utilized for specific projects, current project pipeline limited
- Limited apparent recent utilization for project delivery

- Identify potential projects that could effectively utilize a design-build delivery (DB) method
- Right size volume of DB projects to increase competition
- Evaluate hybrid payment structure for optimal risk transfer

Public private partnership

- P3s have become the globally preferred solution for large scale, complex projects

- Need to explore further funding for P3 project opportunities
- Processes have taken longer and required more external support given potential complexity

- Identify project opportunities that would generate sufficient revenues to service debt
- Evaluate and optimize risk transfer during procurement
- Explore bundling a series of smaller projects into a potential program

- HTA currently operates as an in-house infrastructure developer and has 1,283 employees.
- HTA's headcount has not reduced commensurately with the reduction in construction investment. From 2004 to 2017, the compound annual growth rate of construction investment has declined by 10% while headcount has only declined by 4%.
- Outsourcing and a workforce transition will therefore align headcount with construction spend; aiding the transition to a lean, contract management organization. The transformed organization will have fewer internal staff and will provide opportunities for cost-effective outsourcing of various functions.
- By outsourcing key functions, HTA:
 - Obtains efficiencies to allow for an effective program management
 - Can adjust the organization to adequate size and provides flexibility to adjust resources to achieve future CIP or projects
 - Enhances functions and services to effectively meet best practices and updated requirements
- Historically, HTA's experience with outsourcing has been positive. Outsourcing has resulted in improved road conditions as well as reduced construction project duration and cost overruns, as demonstrated with HTA's experience with PR-22, and PR-66.
- HTA's operational transformation relies on the successful implementation of the workforce transition program.
- HTA must meet the FOMB's 15% Commonwealth wide personnel cost reduction target during the 6 year Fiscal Plan period. The method HTA chooses to reach these targets is still being developed, but the target will be enforced through PROMESA's budgetary approval process. The target may be met with further reduction in personnel, not from other areas of expenditure.
- HTA has already begun taking steps to comply with a Memorandum of Understanding ("MOU")¹ with the FHWA. The MOU's goals overlap with HTA's transformation to a contract manager from an in-house developer. Under the MOU, HTA is working to, among other things, streamline the project billing process, project delivery process, and contracting procedures. See Appendix for further discussion on the MOU initiatives.
- HTA will also capture pension savings related to the reform of the Employees Retirement System as detailed in the New Commonwealth Fiscal Plan dated April 2018 (see next page)

¹ MOU signed by the government of Puerto Rico and Federal Highway Administration
Source: Signed Memorandum of Understanding MOU-PR2016-02-29-094734

Applying CW-wide pension reduction target of 10% yields \$14.4M in savings over the next 6 years

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	<u>FY18</u>	<u>FY19</u>	<u>FY20</u>	<u>FY21</u>	<u>FY22</u>	<u>FY23</u>	<u>FY18-23 Total</u>
Construction - PayGo	13.5	14.5	14.5	14.5	14.5	14.5	86.0
Construction - non-PayGo	5.3	5.7	5.7	5.7	5.7	5.7	34.0
Non-Construction PayGo	4.4	4.7	4.7	4.7	4.7	4.7	28.1
Non-Construction non-PayGo	10.3	11.1	11.1	11.1	11.1	11.1	65.6
Baseline pension contributions	33.6	36.0	36.0	36.0	36.0	36.0	213.6
Savings (10%)			(3.6)	(3.6)	(3.6)	(3.6)	(14.4)
Post-reduction pension contributions	33.6	36.0	32.4	32.4	32.4	32.4	199.2

Background

- HTA’s operating budget includes major, long-term operating contracts, including those supporting transit, design and construction, and other long-term outsourced functions
- Many HTA contracts operate on longstanding contracts which have been extended or modified and are currently overpriced due to:
 - Not reflecting HTA’s current operating environment
 - Including fuel costs from earlier eras in which fuel costs were much higher
 - Pricing in risk of non-payment
- HTA is developing systems to support performance management metrics
 - HTA is developing integrated Traffic Management Center reporting system (Sunguide) in collaboration with the Southwest Research Institute (SwRI)
 - HTA’s Performance Management Information System (PMIS) will go live by the beginning of FY19, with additional modules coming online by Dec. 2019. HTA will utilize this system to support improved metrics collection, reporting and management, including:
 - Highway safety (accident and fatality rates)
 - Transit usage
 - Signal Conditions
- Contracts in many cases exceed cost benchmarks from reputable national data sets, past procurements, and other performance metrics

Proposed Changes

- In accordance with HTA’s status under Title III of PROMESA, the terms of individual contracts, and changes in cost drivers including fuel, HTA has sufficient leverage to request improved terms from contracting partners, or recomplete outdated contracts through solicitation.
- As HTA’s financial operations improve in accordance with MOU requirements and this Fiscal Plan, HTA will strengthen the case for reduced cost of risk
- HTA will re-compete contracts and negotiate with vendors to improve contract terms to reflect current circumstances

Background

■ Law 211

- The article 211-2015 “Pre-Retirement Voluntary Program Act” is a retirement incentive program that was passed on December 28, 2015.
- To qualify for the Law 211 incentive program, HTA employees had to be less than 61 years old and have a minimum of 20 years of service
- Employees who met the criteria and chose to participate would receive 60% of base salary (average of the 3 highest salaries)
- 162 HTA employees chose to participate in this retirement incentive program: Group A: 131 participants; Group B: 31 participants
- Program participants’ employment ended with HTA on June 30, 2017 (the end of FY17) and therefore the only additional ongoing cost related to those employees was the amount they were owed under the retirement incentive program parameters
- The savings to HTA is the difference between those payments and the ongoing salary and benefits that HTA would have paid those employees had they remained employed at HTA

■ Early Termination Incentive Program

- The Early Termination Program was initiated in February 2018 with 14 participants enrolled for termination from HTA as of 2/28/18 (deadline to enter the program is 3/15/18)
- Each participant will receive full base salary until June 30, 2018 in addition to health insurance, at a cost of \$100 / participant
- As of June 30, 2018 HTA will not incur any additional Early Termination program costs

Proposed Changes

- No further changes needed: HTA executed this retirement incentive plan as of June 30, 2017
- Since July 1, 2017, HTA has been receiving salary and benefits savings from Law 211 program
- As of July 1, 2018, HTA starts benefiting from the Early Termination program

Analysis of Opportunity
Voluntary Exit Programs

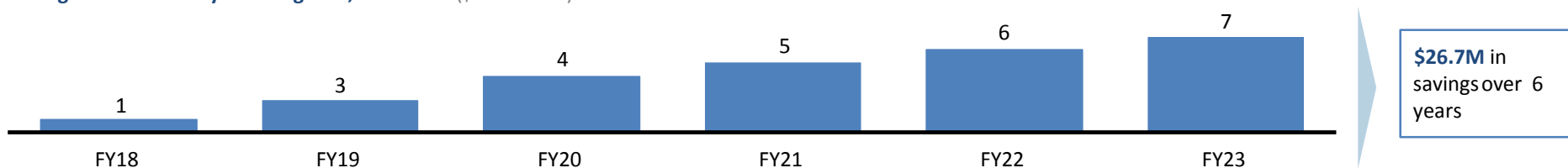
	Group A	Group B	Total	
Law 211 participants	131	31	162	[A.1]
Early Termination Incentive Program	14	-	14	[A.2]
Average salary at time of retirement	44,548	44,548		[B]
Average benefits at time of retirement	17,151	17,151		[C]
Average salary + benefits	\$61,699	\$61,699		[D] = [B] + [C]
Total cost per year at time of retirement	\$8,946,413	\$1,912,681	\$10,859,095	[E] = ([A.1]+[A.2]) * [D]
Total cost (FY18 - FY23)			\$65,154,568	[F] = [E] * 6
less: payouts to Law 211 participants			\$38,160,471	[G]
less: payouts to Early Termination Incentive Program			\$260,448	[H]
Savings from voluntary exit measure			\$26,733,649	[I] = [F] - [G] - [H]

[A.1]: Per participant list from HTA's finance team [A.2]: Per participant list from HTA's finance team
 [B]: Average salary of 131 Group A participants - assumed same for other participants
 [C]: Applying a 38.5% benefit factor based on FY18's relative ratio of benefits / salary
 [D]: Calculation

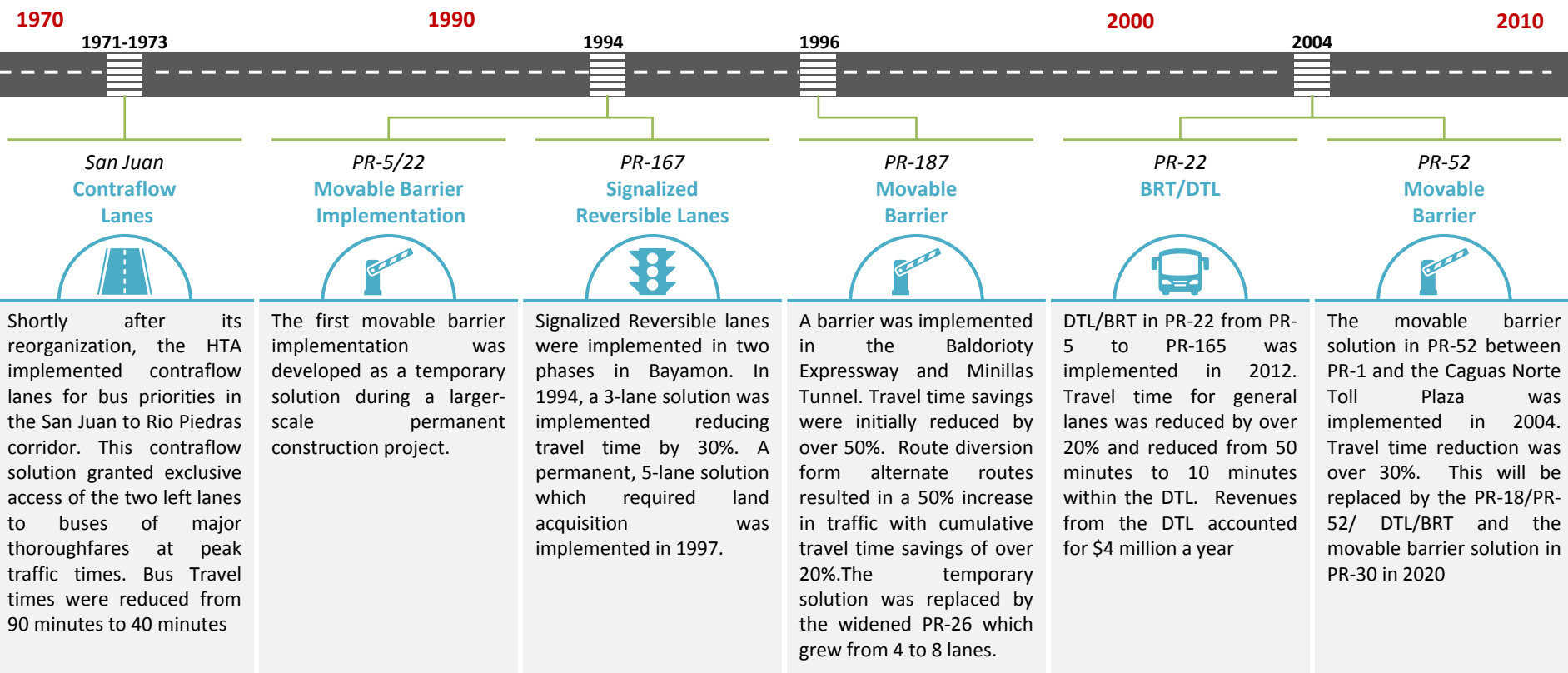
[E]: Calculation [F]: Calculation
 [G]: Based on detailed payout schedule provided by HTA's finance team
 [H]: 14 Participants * 5 months of base salary (until June 30th 2018) plus 5 months of health insurance at \$100/participant/month
 [I]: Calculation

Implementation timeline and expected annual savings

Savings from Voluntary Exit Programs, FY18-FY23 (\$ in millions)



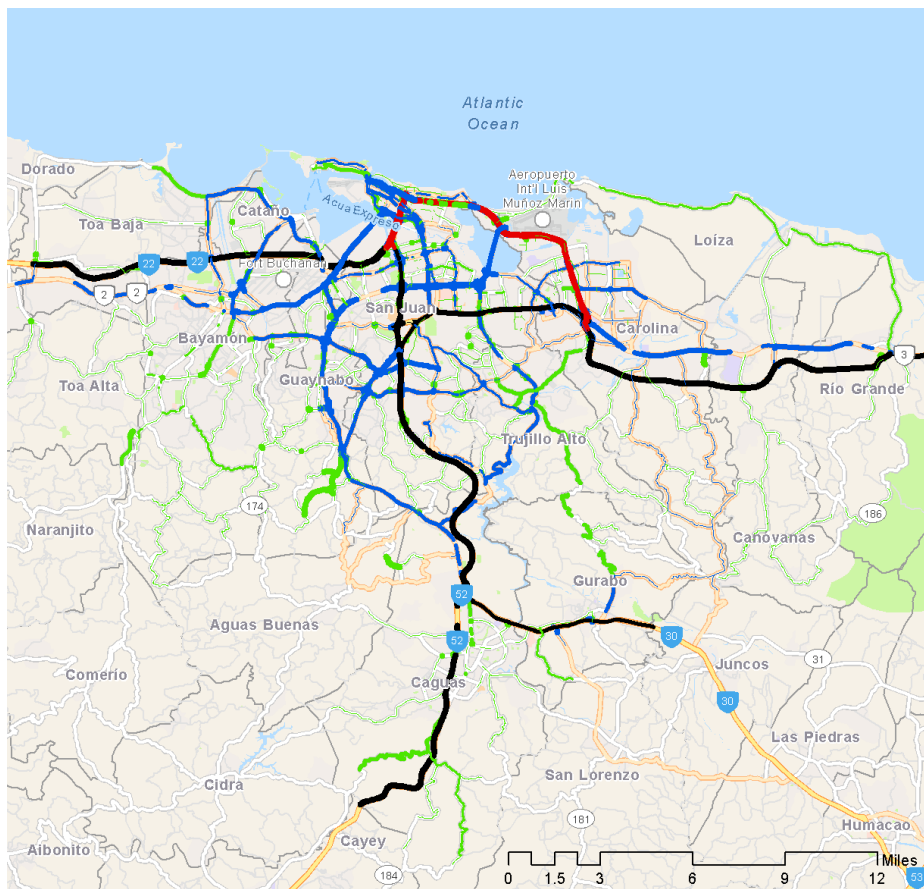
- Since its reorganization in the early 1970s, HTA has committed itself to traffic reduction through new infrastructure projects. Specifically, HTA has been an innovator in the utilization of contraflow lanes, reversible lanes, and movable barriers for congestion relief.
- HTA has implemented various temporary solutions in situations when long-term construction would take too long, and permanent, flexible solutions where the latter have been necessary. For example:



San Juan incurs annual congestion costs of ~\$165M, with traffic spread across key highways and local 'hot spots'

Congestion map of San Juan by delay and road type

Line width denotes amount of total delay hours along route



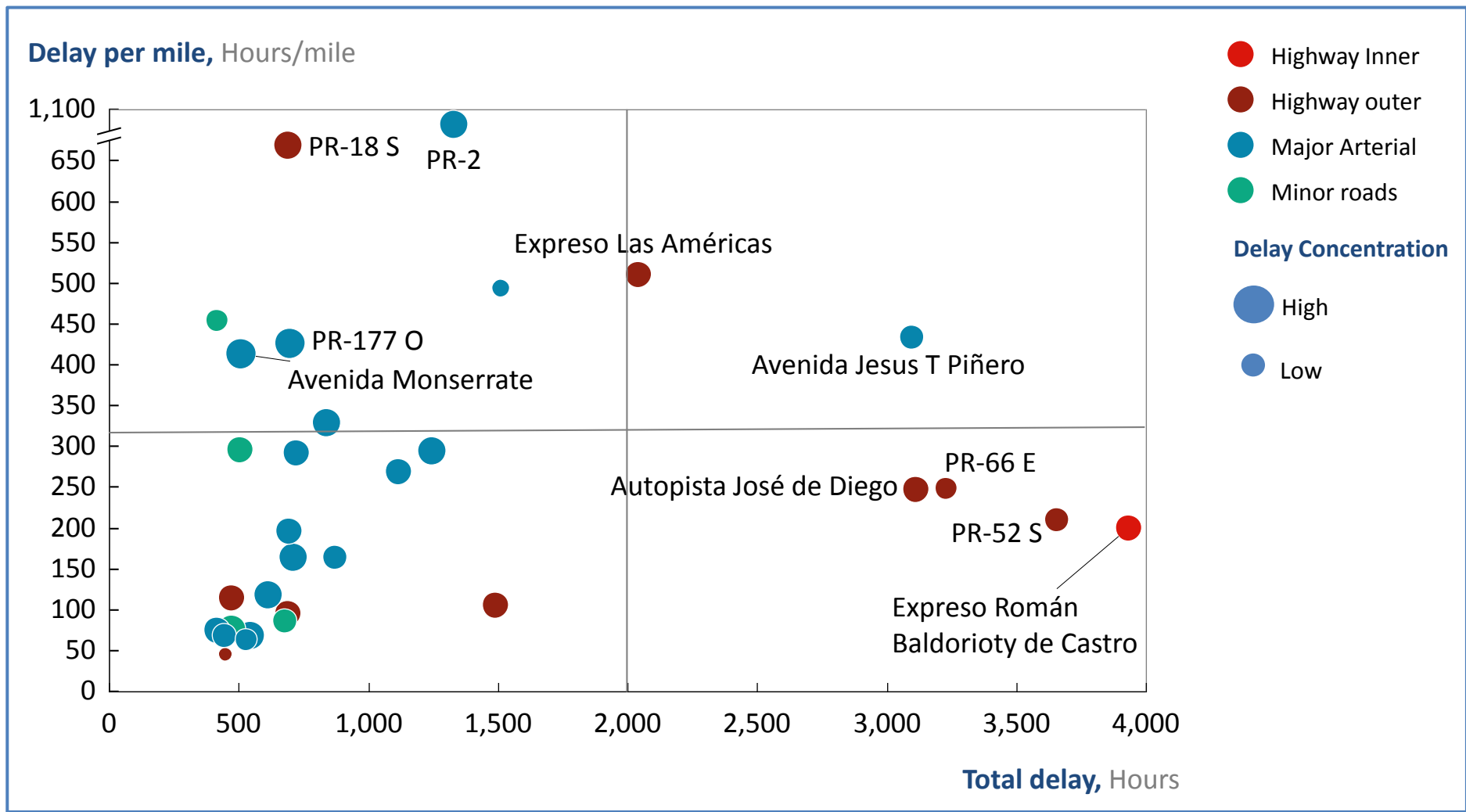
- San Juan incurs daily delays of ~54,000 hours on average, with an hour of delay valued at \$9.1¹
- Assuming 260 working days, and 75% congestion levels on non-working days, congestion cost is ~\$165M annually
- 52% of the delay is concentrated on 26% of roads in downtown San Juan (including feeders), with a delay intensity of 264 hours/mile compared to 193 hours/mile on average for minor road and arterials
- Highways contribute to 37% of the delay, despite being only 17% of the road length
- The 23 miles of inner highways in San Juan are a particular traffic reduction target: 10 congested miles with 399 delay hours per mile

- Highway - outer
- Highway - inner
- Major arterial
- Minor roads

1 Assuming that an hour of excess fuel costs \$2.1 at vehicle fuel economy of 24.7, with traffic speed of 18 miles / hour during congestion, and assuming that value of time is half the median hourly wage (\$14)

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12 Top target routes for traffic reduction include major highways such as PR-52, PR-66, and PR-18



HTA will implement high benefit-to-cost ratio solutions to manage traffic and positively impact economic recovery

Non-Recurring	Enhanced Incident Management	<ul style="list-style-type: none"> Improve efficiency of incident clearing by integrating services with Police and EMS on major roadways (e.g., PR-52 and PR-66 Traffic Management Centers – see following slides for details) Facilitate expedited incident clearance (towing, patch and debris clearing) in high traffic corridors (e.g., PR-18/26/30/52 Highway Service Patrol – see following slides for details)
Recurring	Implement Traveler Information Systems	<ul style="list-style-type: none"> Further Develop HTA’s capability to provide real-time traveler information to major roadways in the San Juan – Caguas – Gurabo corridor, including: <ul style="list-style-type: none"> Install Additional Intelligent Transportation Systems (ITS) field devices which allow HTA to provide real time information to the traveling public (e.g., PR-26 ITS – see following slides for details) Utilize real-time data to provide roadside messaging and alerts to the traveling public Support enhanced performance management through traffic data consolidation and analysis, and utilize congestion data to inform future capital investments Improve traveler alert capabilities with the inauguration of HTA’s traffic management center and improvement of integrated capabilities (e.g., PR-52 and PR-66 Traffic Management Centers – see following slides for details)
Recurring	Improve Congestion Management Infrastructure	<ul style="list-style-type: none"> Invest in improvements to traffic signaling hardware and software (e.g., PR-52/18/30/1 intersection modernization – see following slides for details) Invest in building additional assets such as viaducts and tunnels to reduce congestion, and implement dynamic tolling at these intersections to generate own-source revenues (e.g., San Antonio tunnel – see following slides for details) Consider the expansion of lane control and dynamic merge control to ease traffic during commuting hours, construction projects, and for special events w/ use of reversible lanes. Explore use of Active Traffic Management, including variable speed limits, shoulder use, and dynamic restrictions to improve efficiency of current highway networks (e.g., DTL lane on PR-52 BRT project – see following slides for details)
	Electronic Toll Systems	<ul style="list-style-type: none"> Optimize toll collection systems to improve traffic flow on major toll roads, increase compliance and improve revenue capture. Reduce reliance on toll plazas in favor of overhead tolling, decreasing labor costs and improving rate of travel
	Transit improvements	<ul style="list-style-type: none"> Expand transit coverage by creating BRT systems and increasing feeder links to HTA (e.g., BRT line from Caguas to the TU Centro Medico Station – see following slides for details)

HTA continues to invest in traffic reduction through innovative technology and key infrastructure investments. HTA recognizes that effective traffic reduction will contribute to Puerto Rico’s economic recovery.

HTA prioritizes traffic reduction within Capital Improvement Programs based on cost/benefit analysis which include economic impact on a project-specific basis, but has not conducted the econometric studies required to estimate impact on the Island’s overall GNP.



PR-52 Traffic Management Center
Estimated Completion

**PR-52
Traffic Management Center**

Collect incident and traveler information and marshal resources to manage congestion

- Facility will house EMS, Police of P.R., PRHTA – Traffic Management and Freeway Operations, and Public Services Center
- Center will continue data collection practices in place since Jan 2016
- 100% Federally Funded

Dec. 2018

**PR-66
Integrated Traffic Incident Management Facility**

Facilitate quicker responses to incidents

- Facility will house EMS, PRHTA, Police of P.R., and Public Services
- 100% Federally Funded

Oct. 2018

**PR-18/26/30/52
Highway Service Patrol**

Expedite resolution of roadway incidents safely

- Implementation limited by independent contractors and regulatory issues
- Phase 1 started April 2017; Phase 2 (for PR-1/2/20) underway

May 2018

12 Ongoing traffic reduction projects as a priority for HTA (2 of 2)

PR-52/18/30/1
Intersection
Modernization
Congestion
Managed Lanes
Dynamic Tolls
Reversible Lanes

- Reduce congestion in major intersection in Caguas, enable public transportation and lane capacity management through variable toll rates**
- \$148 M total investment in traffic reduction, funded with regular Federal funds. An Infrastructure for Rebuilding America (INFRA) discretionary grant of \$118M is currently pending. HTA is not currently considering this grant in its baseline projections, but if the grant is received it would allow for redirection of resources to other projects.
 - The DTL project facilitates PR-52 Bus Rapid Transit Implementation
 - Phases I-III (PR-52/18/1) Replaces and improves Reversible Contraflow Lane Replacement providing two lanes with shoulders up to PR-18.
 - Phases III-V (PR-52/30/1) Bridge Construction (connecting PR-52 and PR-30) for congestion management lanes, facilitating seamless transfer from highway to high-traffic surface road.

**Estimated
Completion**

**Dec. 2019
(Phase I-III)**

**Oct. 2020
(Phase III-V)**

**PR-26 ITS Devices
and Traveler
Information**

- Install Intelligent Transportation System(ITS) Devices to gather traveler information**
- Closed Circuit Television (CCTV) cameras; Bluetooth (travel time and origin/destination); Microwave Vehicle Detection Systems (MVDS) (speed and volume); Fiber Optics; and Dynamic Message Signs (DMS) (traveler communication) – a first in Puerto Rico

Nov. 2018

**Congestion
Management
Completion
Timeline
(select initiatives)**



Reversible Contraflow Lane (PR-18)



Highway Service Patrol (PR-18, 26,30, 52)



PR-26 ITS Devices



PR-66 Integrated Incident Management Center

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12 Optimizing Existing Infrastructure – Planned Signal System Investments (included in baseline)

- HTA’s network of nearly 1,300 intersection traffic signals can enable reductions in travel time, vehicle operations costs, accidents, and emissions. However, the system is currently in a state of disrepair:
 - Signals Damaged or Destroyed by Hurricanes
 - Regular repairs and system maintenance deferred
 - Insufficient intersection timing investments
 - Interrupted network connectivity
- Without a consistent signal maintenance, repair, and operations program, the network is ineffective, and often counter-productive
- HTA is reinvesting in its signal systems infrastructure with both capital investments, and a dedicated signal management program to reclaim the signal grid as an asset for traffic reduction, including:
 - Emergency Repairs
 - Annual Maintenance
 - Restoring network connectivity to 833 signals

Opex

**Signal Optimization Program
Operating Expenditures (\$,millions)**

Year	Intersection			
	Timing	Maint.	Comms	Total
FY18	0.0	0.0	0.0	0.0
FY19	3.2	1.0	0.5	4.7
FY20	0.0	1.0	0.5	1.6
FY21	0.0	1.1	0.5	1.6
FY22	0.0	1.1	0.5	1.6
FY23	0.0	1.1	0.5	1.6
	\$3.20	\$5.31	\$2.60	\$11.1

Capex

**Signal Optimization Program
Capital Expenditures (\$,millions)**

Year	Emergency		
	Repair	Maint.	Total
FY18	6.8	13.3	20.1
FY19	17.8	13.3	31.1
FY20	2.0	13.3	15.3
FY21	0.0	13.3	13.3
FY22	0.0	13.3	13.3
FY23	0.0	13.3	13.3
	\$26.55	\$79.97	\$106.5

Total Improvements to Signaling Systems:
\$117.6M in Fiscal Plan Period (included in baseline)

Specific estimates of surface grid traffic across the 1,300 intersections included in this effort are not currently collected. However, HTA expects the economic impact of these improvements to be very high.

- HTA recognizes that congestion in the San Juan metropolitan area exceeds many major metropolitan areas, and negatively impacts quality of life, and economic productivity in the region.
- HTA continues to prioritize projects to maximize economic impacts - both those with direct benefits to HTA and also to the Commonwealth more generally - associated with traffic reduction, including travel time, vehicle operating costs, accidents, and emissions.

Annual Economic Impact of Traffic Reduction Projects

	PR-52 Intersection Modernization	PR-26 Information Traveler Systems	Traffic Mgt. Centers And Service Patrol	Total
Annual Person-Hours Saved	3.2	0.2	0.7	4.1
Itemized Inputs (mil. \$)				
Travel Time Savings	\$21.1	\$1.3	\$4.7	\$27.1
Veh. Op. Cost Savings	\$18.4	\$0.4	\$1.5	\$20.3
Accident Cost Savings	\$5.9	\$0.4	\$1.3	\$7.6
Emission Cost Savings	\$2.5	\$0.2	\$0.6	\$3.2
TOTAL BENEFITS	\$47.8	\$2.3	\$8.1	\$58.2

PR52 estimates based on Metric Engineering Cost-Benefit Analysis Study, general assumptions of ~\$7 per lost hour in traffic (half of median wage) and excess fuel costs of \$2.1 at vehicle fuel economy of 24.7, with traffic speed of 18 MPH.

Background

- HTA places traffic reduction as a priority within its Capital Improvement Plan, targeting reductions in travel time, emissions, and congestion-related accidents. Some priority CIP projects can support revenue generation.
- HTA currently operates the Caguas-to-San Juan stretch of PR-52 as a toll road on a flat fee basis.
- HTA has received \$175M in FTA project funding to support develop Bus Rapid Transit (BRT) lanes, and construction is scheduled to begin in FY18, and complete in FY20.
- HTA will establish a workday Bus Rapid Transit (BRT) line from Caguas to the TU Centro Medico station in accordance with the HTA agreement, providing a more-convenient option for reaching the TU system, offsetting roughly 39% of the BRT operating costs.
- The new BRT lanes, restricted from traffic during peak commuting hours to allow efficient travel for BRT buses, present the opportunity to provide congestion relief while generating additional revenue.

Proposed Changes

- HTA will operate the Bus Rapid Transit Systems operating at an estimated 39% farebox recovery ratio, exceeding local bus operation standards, and supporting ridership growth for Tren Urbano.
- HTA will implement Dynamic Toll Lanes within the PR-52 Caguas BRT corridor to provide congestion relief, while generating additional toll revenue.
- In accordance with CIP, HTA will implement phased construction of 7 viaducts and 1 tunnel to reduce congestion, and will implement dynamic tolling at these intersections to generate own-source revenues.

Analysis of Opportunity

Revenue Generating Traffic Reduction
PR 52 - BRT, DTL, DTL Viaducts - Combined (\$, millions)

Year	Bus Rapid Transit			DTL	Viaduct	Total
	Exp.	Rev.	Net	Rev.	Rev.	
FY18	0	0	0	0	0	0
FY19	0	0	0	0	0	0
FY20	0	0	0	0	0	0
FY21	-0.6	0.3	-0.3	2.8	0	2.4
FY22	-1.3	0.5	-0.8	5.6	0.3	5
FY23	-1.3	0.5	-0.8	5.8	0.6	5.6
Total	-3.2	1.3	-1.9	14.2	0.9	13.1

- Operating expenditures for BRT (contracted operation with ATI vendor) begin in 2021 at \$1.3 million per year (with a half year in 2021)
- DTL implementation follows BRT, with partial revenue in 2021
- \$175 million in PR52 total capital costs are being invested in FY19-22, funded entirely with federal funding (FTA)
- Phased implementation of 7 viaducts and the San Antonio tunnel is included in HTA’s Fiscal Plan, with a total of \$249M in local funds

BRT revenue of \$2 per-person with 1.1k estimated riders on 220 work days per year.

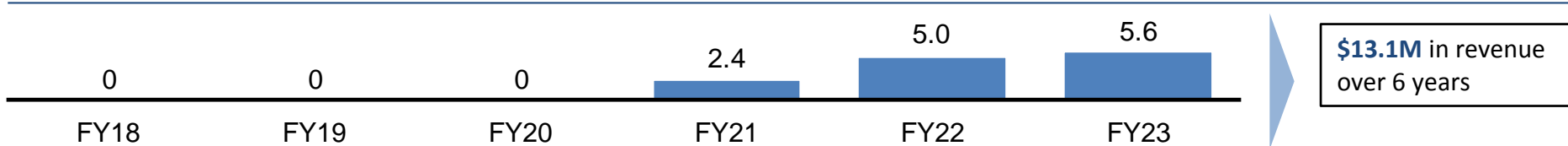
DTL/BRT optimized scenario based on SDG feasibility study.

Viaduct revenue estimates are preliminary engineering estimates, and there exists an opportunity for potential savings and congestion reduction.

Ridership impact on TU not estimated due to bus-to-TU transfer policy.

Implementation timeline and expected annual savings

Net Revenue Traffic Reduction, FY18-FY23 (\$ in millions)



- Currently, HTA operates and performs CapEx for the toll roads PR-20, PR-52, PR-53 and PR-66.
- HTA continues to analyze options for how to efficiently operate the toll roads, including: 1) complete outsourcing of toll operations and hiring of a contract manager, 2) A PR-22/PR-5 style concession with an upfront payment, and 3) a concession with no upfront payment and a 40-year share of revenues (broken out into two 20-year contracts).
- Preliminary analysis using a basic NPV model reveals a wide disparity of valuations between these options depending on a variety of assumptions, including: toll rates; financing costs (including costs of equity and debt and debt/equity ratios; opex assumptions; competitive environment for bidding; recapitalization costs; terms of concession, etc.
- HTA will explore different structures of concessions while simultaneously implementing the outsourcing model. Built in flexibility will be used in outsourcing so that the contracts can be transferred to concessions in case an adequate concession model is developed.
- Implementation of concessions requires additional third party analytical and advisory support based on a two year schedule and has an estimated cost of \$5M. Savings associated with outsourcing can be implemented even more quickly. This \$5M cost is reflected within the fiscal measures for FY19 and FY20 of the Fiscal Plan as HTA explores its concession options.

Concessions on key roads, such as PR-52, could allow HTA to secure capital inflows, improve operations and attract private investment

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Efficient operations and maintenance by the private sector

Private-sector participation could bring about **innovation in O&M such as the use of advanced technology**, e.g., weight-in motion systems to ensure cost-effective and foolproof O&M, since the concessions are **typically long-term agreements which incentivize operators** to use technology.

Reduction in toll violations

Private players have the **incentive to minimize toll violations** as it directly impacts their own cash flows, and could **build on the toll collection optimization measures** in the Fiscal Plan (see previous slides on Toll Collection Optimization measure)

Capital inflow to the government

Concessions can help generate upfront capital for the government, and can help **create bandwidth in the government to focus more on developing greenfield projects**.

A variety of concession structures, such as a revenue share agreement, could potentially achieve similar efficiencies as a single lump sum concession depending on precise deal terms, including the use of proceeds

Opportunity to attract private sector investments

Many institutional investors, such as pension funds, insurance funds and sovereign wealth funds, are increasingly investing in infrastructure assets as:

- Such investments **match their long-term investment horizon** and help them hedge against inflation.
- Since these toll roads are operational, there is **lesser risk** in investing in these assets compared to greenfield projects.

HTA is committed to analyzing the concession opportunity for its existing toll roads, and implementing results, by 2020

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Approach to analysis

Asset specific financial and economic analysis	Mechanism and costs of implementation	Decision on precise long-term form of PPP
<ul style="list-style-type: none"> Identify assets, including PR-52 Evaluate different potential deal structures using a variety of scenarios within Fiscal Plan constraints Determine the socio-economic impact of different potential structures 	<ul style="list-style-type: none"> Model capital costs and resource needs of implementing different PPP scenarios Understand necessary initial and ongoing investments Conduct “value for money” analysis 	<ul style="list-style-type: none"> Value concessions based on projected cash flows, growth, and potential deal terms considering Fiscal Plan financial constraints

HTA has budgeted \$5M towards evaluating the comprehensive PPP opportunity as a fiscal measure

HTA expects that the specific cost transformation opportunities identified within this plan account for the vast majority of cost reduction opportunities currently available, however HTA will continue to explore innovative ways to reduce costs, including:

Additional Operations Optimization	Assess post-transformation workforce and contracting model, and identify areas for improvement and savings.
Workforce modeling, hours and overtime control	Associate workload drivers with each remaining FTE and develop zero-based staffing model to justify positions, hours, and overtime. Improve controls to reduce excess hours and eliminate overlapping positions.
Procurement Modernization	Identify opportunities to consolidate purchasing across categories and use collaborative purchasing to leverage market power to pursue discounted prices from vendors not yet addressed through contract re-bid and optimization. Improve controls over operating contracts to improve collection of contractor and concessionaire penalties.
Enhance Internal Controls	Continue efforts begun in compliance with MOU requirements to develop best-in-class internal controls over contracting, employee expenses, and other categories of operating expenses not yet optimized within fiscal measures.
Optimize Construction Value Chain	<p>Along with the MOU initiatives, HTA plans to identify opportunities to optimize the construction process (which would also be complemented by workforce transition and organizational structure initiatives). These include:</p> <ul style="list-style-type: none"> ▪ Pre-construction: Develop standardized decision tree to apply to the project bidding process in order to maximize competition among pre-qualified bidders. Develop best practices for contracting, such as standard term sheets to ensure consistent delivery. ▪ Construction: Identify detailed short term and long term construction projects that should be outsourced to third party experts. ▪ Quality assurance: Develop a quality assurance plan which includes standard procedures on appropriately adding incentive clauses to contracts in order to ensure contractors' goals are aligned with HTA's goals.

VI. LIQUIDITY SITUATION

13-Week Cash Flow Projection

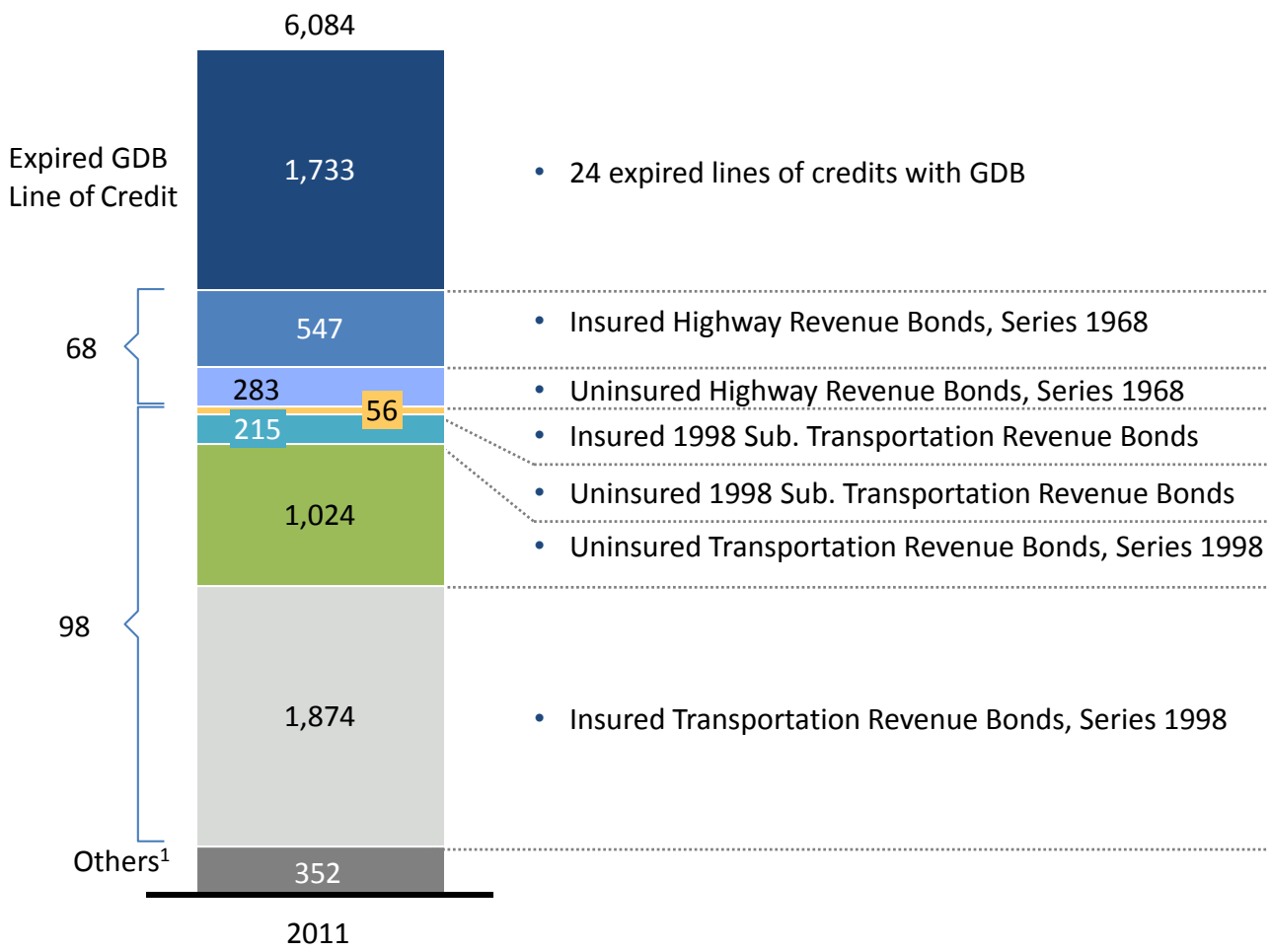
Actual (Act.) / Projected (Fcst.): (\$000's) Week Ended:	Fcst. 16-Mar	Fcst. 23-Mar	Fcst. 30-Mar	Fcst. 6-Apr	Fcst. 13-Apr	Fcst. 20-Apr	Fcst. 27-Apr	Fcst. 4-May	Fcst. 11-May	Fcst. 18-May	Fcst. 25-May	Fcst. 1-Jun	Fcst. 8-Jun	13-week	...
Operating Receipts	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...
1 Net Toll Fares	1,569	2,479	-	4,527	1,500	2,370	699	4,632	1,535	2,425	715	4,632	1,575	28,657	[A]
2 Transit Revenues	...	...	...	...	...	...	...	...	...	...	...	...	...	-	[B]
3 HTA Collected Electronic Toll Fines	628	647	768	591	520	536	636	656	578	595	707	656	1,184	8,704	[C]
4 Other Income	54	49	79	39	71	47	59	54	49	61	52	50	20	684	[D]
5 Total Operating Receipts	2,251	3,175	847	5,157	2,091	2,953	1,394	5,342	2,161	3,081	1,474	5,338	2,779	38,045	...
Intra- Government Receipts	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...
6 Transfer from Government of PR	-	1,567	-	-	-	1,567	-	-	-	1,567	-	-	4,700	-	[E]
7 Special State Grant	-	-	-	-	-	-	-	-	-	-	-	-	-	-	...
8 PR Gov. Infrastructure Funding	-	-	-	-	-	-	-	-	-	-	-	-	-	-	[F]
9 Total Intra- Government Receipts	-	1,567	-	-	-	1,567	-	-	-	1,567	-	-	4,700	-	...
Other Receipts [Separate Federal Transfers by Program]	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...
10 Federal Aid - FHWA & Earmarked Projects	644	1,104	497	552	1,426	322	920	460	1,564	212	984	230	920	9,835	[G]
11 Federal Aid - FTA (Sec. 5307 & Sec. 5309)	-	...	...	1,383	1,383	1,383	1,383	1,383	1,383	1,383	1,383	1,383	12,450	-	[H]
12 Emergency Reconstruction Program	5,400	3,500	2,734	2,734	2,734	2,734	2,734	2,734	2,734	2,734	2,734	2,734	2,734	38,971	[I]
13 Total Other Receipts	6,044	4,604	3,231	3,286	5,543	4,439	5,037	4,577	5,681	4,329	5,101	4,347	5,037	61,256	...
14 Total Receipts	8,295	7,779	5,645	8,443	7,634	7,392	7,998	9,919	7,842	7,410	8,142	9,685	7,816	104,001	...
Operating Disbursements	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...
15 Payroll and Fringe Benefits	2,100	1,300	4,300	...	1,900	1,350	4,450	333	2,050	1,500	4,150	333	2,196	25,962	[H]
16 PayGo	-	2,764	-	-	-	2,764	-	-	-	2,764	-	-	-	8,292	[I]
17 Christmas Bonus	-	-	-	-	-	-	-	-	-	-	-	-	-	-	...
18 Utilities	200	400	400	663	200	400	400	663	200	400	400	663	200	5,188	[J]
19 Contracted Services	2,703	2,929	3,993	-	2,500	2,875	4,250	-	2,350	2,700	4,575	-	3,645	32,520	[K]
20 Litigation Reserve/Right of Way	-	760	-	-	-	760	-	-	-	760	-	-	-	2,280	[L]
21 Transportation	47	18	15	51	47	18	20	51	47	18	20	20	31	403	[M]
22 Professional Services	380	521	503	375	480	380	265	450	400	275	375	250	375	5,029	[N]
23 Other Operating Expenses	...	...	...	395	1,070	...	686	...	...	...	...	1,534	1,792	5,477	[O]
24 Misc Expenses	-	-	-	-	-	-	-	-	-	-	-	-	-	-	...
25 Total Operating Disbursements	5,430	8,692	9,211	1,484	6,197	8,547	10,071	1,497	5,047	8,417	9,520	2,800	8,238	85,150	...
Capex Disbursements	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...
26 CIP Federal	700	1,200	540	600	1,550	350	1,000	500	1,700	230	1,070	250	1,000	10,690	[P]
27 CIP State	220	235	249	270	166	100	168	304	150	100	150	-	150	2,262	[Q]
28 Emergency Reconstruction Program	5,400	3,500	2,734	2,734	2,734	2,734	2,734	2,734	2,734	2,734	2,734	2,734	2,734	38,971	[R]
29 Total Disbursements	11,750	13,627	12,734	5,087	10,647	11,731	13,973	5,035	9,631	11,481	13,474	5,784	12,122	137,073	...
30 Net Cash Flow	(3,455)	(5,848)	(7,089)	3,356	(3,012)	(4,338)	(5,975)	4,885	(1,788)	(4,071)	(5,332)	3,901	(4,306)	(33,073)	...
Unrestricted Bank Cash Balance Roll- Forward	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...
31 Beginning Cash Balance	98,140	94,685	88,837	81,748	85,104	82,091	77,753	71,778	76,663	74,875	70,804	65,472	69,373	82,053	...
32 Net Cash Flow	-3,455	-5,848	-7,089	3,356	-3,012	-4,338	-5,975	4,885	-1,788	-4,071	-5,332	3,901	-4,306	-18,434	...
33 Other Inflows	-	-	-	-	-	-	-	-	-	-	-	-	-	8,524	[S]
34 Other Outflows	-	-	-	-	-	-	-	-	-	-	-	-	-	-7,076	...
35 Ending Bank Cash Balance	94,685	88,837	81,748	85,104	82,091	77,753	71,778	76,663	74,875	70,804	65,472	69,373	65,068	65,068	[T]

13-Week Cash Flow Assumptions

Footnote	Line assumptions
[A]	1 Toll fares estimated based on January and February 2018 Collections, and adjusted for seasonality based on FY17 Toll Collections per day in each month. Assumes no more than four toll collection transfers per-month.
[B]	2 These revenues are used as a credit in Tren Urbano operating expenses invoice (ACI).
[C]	3 Toll fares estimated based on January and February Collections, and adjusted for seasonality based on FY17 Violation Collections per day in each month. Toll fines collected by treasury are included within Line 6 - Transfer from Central Government
[D]	4 Monthly other income (including Tag, Impact Fee, Rent, etc.) estimated based on average of other income received during the months of January and February 2018 . Actuals reflect a \$1.2M sale of land in the week ending in 8/11, and a transfer of \$1.5M from investments the week of 2/16.
[E]	6 Total FY18 transfers will be \$120.0M.
[F]	8 No funds are expected to be received for the rest of the fiscal period.
[G]	10 Forecast for remainder of FY18 represents request of the 92% of funds disbursed (Line 26). Estimate based on actuals from FY16- 17, Non-toll credit amount includes utilities and other grant ineligible expenses.
[H]	11 HTA Management Estimate for Approved Grant funding for Maint. & Operations for TU - exact amount to be confirmed based on Operator Invoices
[I]	12 Total revenues for emergency reconstruction programs are 47.2M - Construction Office Estimate, including HTA Management Estimate including \$8.9M underway in weeks ending 3/16 and 3/23.
[H]	15 Based on monthly payroll cost of \$7.7M, including non-paygo retirement costs, plus \$1M expected to be disbursed related to Pre- Retirement Contributions
[I]	16 Based on once-monthly invoice of approximately \$2.7M YTD.
[J]	18 Based on monthly utilities cost (HTA estimate based on FY17 &18 historical) of \$1M, plus TU electricity invoices delayed and expected to be paid before 6-30.
[K]	19 Based on monthly invoices of GILA (historical), ACI, First Transit and Other minor suppliers (as contracted) totaling approximately \$9.6M.
[L]	20 Monthly payment of \$760K was determined based on average of payments made during the months of January and February 2018 based on payment plan agreements. Cash basis estimate reflects reduced impact due to Title III status.
[M]	21 Monthly payment of \$136K was determined based on average of payments made during the months of December 2017, January and February 2018.
[N]	22 Monthly payment of \$1.5M was determined based on average of payments made during the months of December 2017, January and February 2018 plus additional consulting involves expected to be paid in the upcoming months.
[O]	23 Reflects \$6.7M in outstanding invoices scheduled to be paid by year-end, including 2-year payment to Department of Labor, TU Operator Arbitration Award, and past year unpaid operator invoices.
[P]	26 Monthly construction payments of \$3.5M was determined based on average of payments made during the months of January and February 2018.
[Q]	27 Monthly construction payments of \$704K was determined based on average of payments made during the months of January and February 2018.
[R]	28 Total funds expected to be disbursed for emergency reconstruction programs are \$47.2M - Construction Office Estimate, including HTA Management Estimate including \$8.9M underway in weeks ending 3/16 and 3/23.
[S]	33 Line used to register transfers between bank accounts or passthrough funds.
[T]	35 Ending Cash Balance Includes \$20M in cash restrictions based on Federal Government requirements, \$75M approved by OMB for FY18 has not yet been received, but upon receipt would be considered restricted and used in FY2019.

VII. DEBT SUSTAINABILITY

Current debt structure, USD millions



1 Outstanding bond estimates as of Fiscal Year End 2017 based on a Bloomberg data extract. 1 Other Includes: \$200MM in Variable Rate Bonds, \$57MM in CPI based interest-rate bonds, \$.7MM in LIBOR based interest rate bonds maturing through 2045, \$93MM in Capital Appreciation Bonds maturing through 2026. DGB line of debt based on HTA management estimates.

USD millions

- HTA has had insufficient cash flows to service its debt, and entered Title III in May 2017. It has not made payments since July 2017
- However, post the expected HTA allocation from the Commonwealth CAPX Fund, transfer from Government of PR, and the incremental positive cash flows of fiscal plan measures, HTA will have \$355M cash flow as a surplus available through the Fiscal Plan Period for strategic projects and / or debt service.

	<u>FY18</u>	<u>FY19</u>	<u>FY20</u>	<u>FY21</u>	<u>FY22</u>	<u>FY23</u>	<u>FY18-FY23 total</u>
Toll Revenues Including federal Funds	1,233	1,568	1,332	1,023	939	946	7,042
Retained Revenues to Central Government	(530)	(540)	(542)	(546)	(549)	(553)	(3,260)
Revenues net of Retained Revenues	703	1,028	790	478	390	393	3,782
Total operating and CIP expenses	(828)	(639)	(1,133)	(883)	(700)	(639)	(4,821)
Expected HTA Allocation from Commonwealth CAPX Fund	-	-	-	-	-	-	-
Transfer from Government of PR	138	97	74	222	238	225	995
Cash Flow available (pre-measures)	13	(8)	(19)	1	(11)	(21)	(44)
Total Measures	7	32	55	88	108	123	413
Cash Flow available (post-measures)	21	25	35	89	97	102	369

- The following matrix illustrates, for varying coupon levels and primary surplus, or net revenue, figures, the amount of restructured HTA debt that could be supported by that surplus level.
- The matrix assumes a 30-year, level debt service payment structure and only one-time coverage of net revenues to debt service.

Illustrative Cash Flow Available
Sensitivity Analysis: PV rate %

Sensitivity Analysis: Implied Debt Capacity at 1.0x Coverage

	<u>\$25</u>	<u>\$50</u>	<u>\$75</u>	<u>\$100</u>
4.0%	\$432	\$865	\$1,297	\$1,729
5.0%	\$384	\$769	\$1,153	\$1,537
6.0%	\$344	\$688	\$1,032	\$1,376

Values in USD millions

VIII. IMPLEMENTATION PLAN

Our goal is to transform HTA into a best-in-class infrastructure developer and operator

As previously mentioned, PRHTA is responsible of constructing, operating, and maintaining Puerto Rico’s toll road network, major highways and mass transportation facilities. To properly meet its duty, the measures in this plan follow two main philosophies:

1. Transform the organization structure in order to gain synergies and position it for future effectiveness

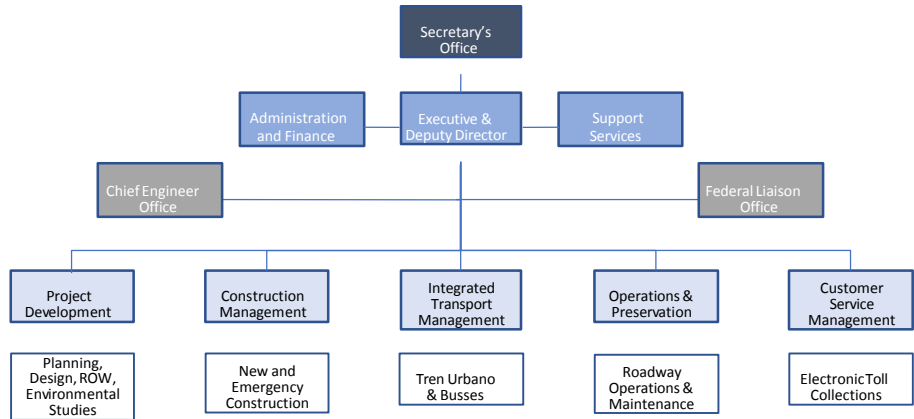
Organize HTA into a world class infrastructure developer and operator moving it towards a contract management model, such as it is currently done today for design, land acquisition, construction and mass transit operations. HTA would manage third party contracts engaged through competitive bidding for each service required.

2. Streamline project execution and management by engaging the best resources available

Establish best-in-class project delivery process to assure federal compliance and efficiently deployment of resources available to maximize the infrastructure developed and maintained.

HTA envisioned structure

**For illustration purposes only*



- Competitiveness will be maintained by constantly evaluating current contracts and its performance and re-bidding to keep contracts costs and performance in-line with market expectations.

Project Delivery Phases



- The streamlined process will be complemented by having the adequately sized resources, visibility of important metrics to allow for accurate and timely decision making, as well as the correct people with the right motivators and capabilities.
- Project delivery methods will include Value Engineering analysis and
 - innovative contract approaches early in the planning phase to maximize the value of each project.
- Skilled teams in the management of design and construction activities will assure to meet objectives of reducing average change orders from 30% to 15%.²

1 Case study of PR-18 & PR-66 procurement approach to be used as guideline for applicable projects.
 2 Federal funded projects budget allows for a maximum of 15% increase to projects

Create a comprehensive Transformation Plan to enable HTA to effectively operate under current fiscal constraints, optimize revenue and expenses with consideration of macroeconomic, socioeconomic and environmental impacts, and to exit Title III status, while providing high-quality management of Puerto Rico's integrated highway network to benefit its users / residents

Structure

- **Specialized roads and transit authority** with enhanced governance, expert leaders, and a mission to sustainably improve roads and infrastructure
- **Lean entity to efficiently and sustainably deliver roads and infrastructure mission** without internal rigidities

Revenue

- **Optimized toll roads** with socio-economic and environmental impact of tolling and pricing considered
- **Real estate assets identified & monetization options considered** to provide cash flows for reinvestment
- **Federal funds maximized**, existing and future transit projects optimized to achieve higher fair box recovery
- **Concessions considered for all optimized assets** including as an implementation mechanism that maintains adequate funding for the integrated highway network

Expenses

- **Scale workforce to meet current needs, and pursue cost-effective outsourcing, and margin optimization** to right-size opex and generate cash flows
- **Optimized** construction value chain, renegotiated operating contracts, and outsourced project-specific functions

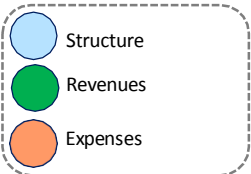
Pursue guiding principles to address the financial gap and re-focus HTA towards its objectives

<p>Establish an efficient organization</p>	<ul style="list-style-type: none"> Transform HTA into an organization in which resources are aligned to critical objectives and scale appropriately to available resources and planned investments. Engage best resources efficiently to move HTA agenda forward in a fiscally sustainable manner.
<p>Demonstrate capacity to implement</p>	<ul style="list-style-type: none"> Demonstrate capacity to implement reconstruction capex, STIP, and CIP Clear implementation plans, with milestones and metrics monitoring progress of all fiscal measures and structural reforms Transformation office with stakeholder representation and clear ownership and leadership structures defined
<p>Improve infrastructure towards new standards</p>	<ul style="list-style-type: none"> Focus infrastructure program on maintaining and improving existing road systems and mitigating congestion Implement data-driven process for project selection and prioritization based on asset condition, and safety Embrace best-in-class approaches for traffic reduction (see previous slides on traffic reduction (measure 11)) Maximize deployment of federal funds and utilize toll credits to receive highest-possible federal share
<p>Reach a sustainable debt structure</p>	<ul style="list-style-type: none"> Obtain a sustainable debt structure to allow for provision of services and realistic economic growth infrastructure Evaluate new funding structures used in other jurisdictions
<p>Improve project delivery effectiveness</p>	<ul style="list-style-type: none"> Streamline project delivery and improve project times from planning to completion through better project management, innovative contracting (e.g., CHICA, ratings/bonuses), and contract structures (passing risk) Maintain compliance with FHWA MOU and demonstrate improved project performance management Improve internal controls and integrate lessons learned into ongoing and new projects
<p>Sustain Financial Control Reform</p>	<ul style="list-style-type: none"> Establish a zero-based budget approach and develop the tools and culture required to sustain it Implement procurement process reform to improve timeliness, accountability, and cost-control
<p>Strengthen partnership with federal agencies</p>	<ul style="list-style-type: none"> Maintain strong communication with FHWA & FTA, and move HTA forward towards full federal compliance Communicate Fiscal Plan to federal agencies and work together towards sustainable solutions Engage proactively with FHWA & FTA to re-position HTA's as a first-class federal grantee and infrastructure developer

1 CHICA contracts are hybrid contracts with contingencies and acceleration clauses

Transformation Implementation Structure

Organizing for Results



Steering Committee

The **Steering Committee** is ultimately responsible for the project, which includes validating objectives, facilitating resources, approving designs and making all final decisions and includes HTA and FOMB representatives.

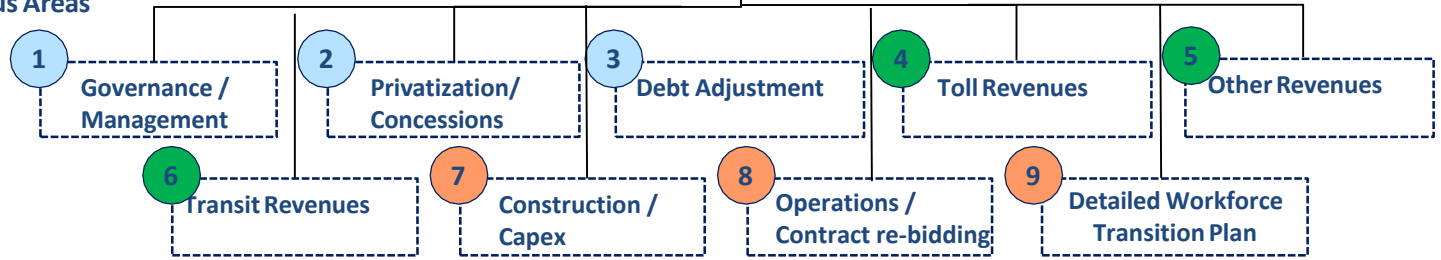
Transformation Plan Lead

Transformation Plan Lead serves as the main contact to facilitate scheduling, project support and communication, approved by the FOMB.

PMO Work Team

The **Work Team** is responsible for the day-to-day activities of the project, including analyses, delivery of work products, communication of project status and coordination of meetings with the Steering Committee.

Focus Areas



PMO Principles: HTA has established a PMO with the required organization and processes to implement the fiscal measures, initiatives and the reforms proposed within this plan.

<p>Strategy:</p> <p>PMO goals are aligned with HTA strategic objectives and that projects are correctly prioritized.</p>	<p>Governance:</p> <p>PMO has visibility and credibility by participating in all decision making forums (HTA and Central Government)</p>	<p>Risk and Audit:</p> <p>PMO identifies risks, their probability and implications through validated procedures while ensuring quality and adherence to HTA as well as with Central government key strategies</p>	<p>Monitoring and Reporting:</p> <p>PMO implements effective and comprehensive oversight and monitoring through adequate performance metrics, to the correct audience in the needed timeframe</p>
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Summary Timeline

Fiscal Plan Submitted

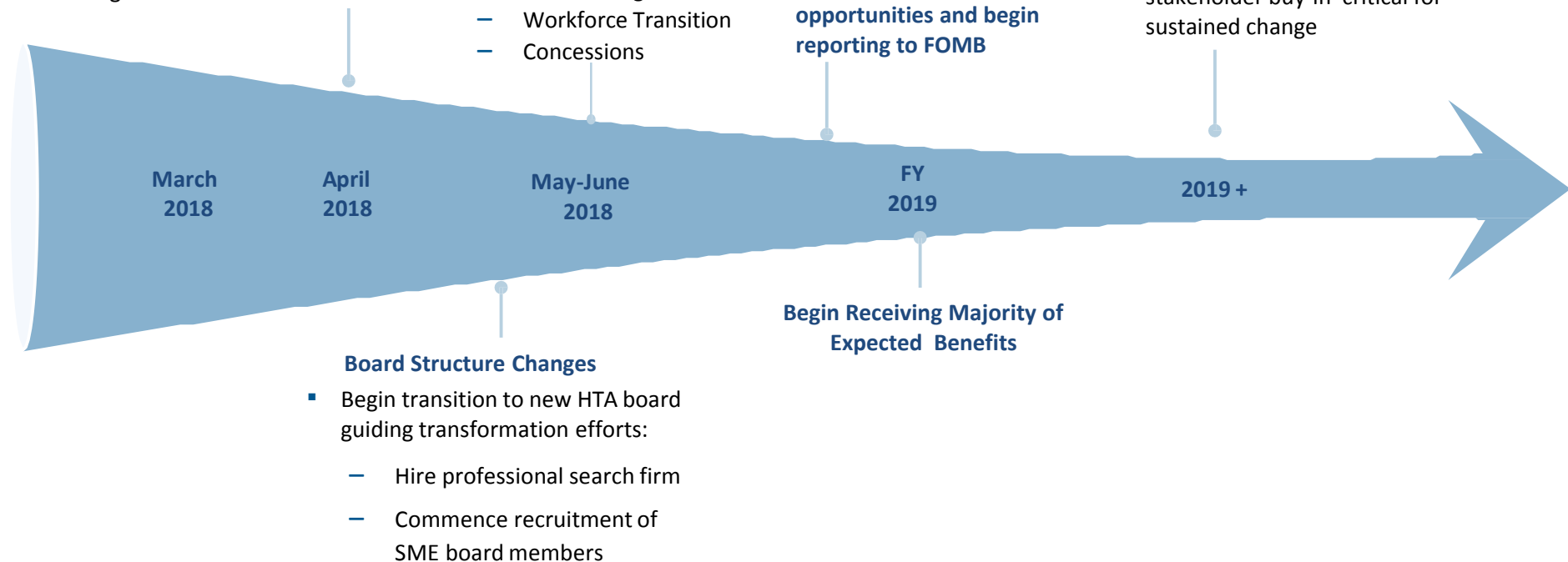
- Detailed Fiscal Plan consisting of:
 - Initiatives and steps of progression
 - Timeline of implementation and expected goals for Fiscal Measures
 - High-level milestones

Begin Transformational Changes

- Detailed implementation plans for all measures
- Begin major initiatives, including
 - Outsourcing
 - Workforce Transition
 - Concessions

Maintain Momentum

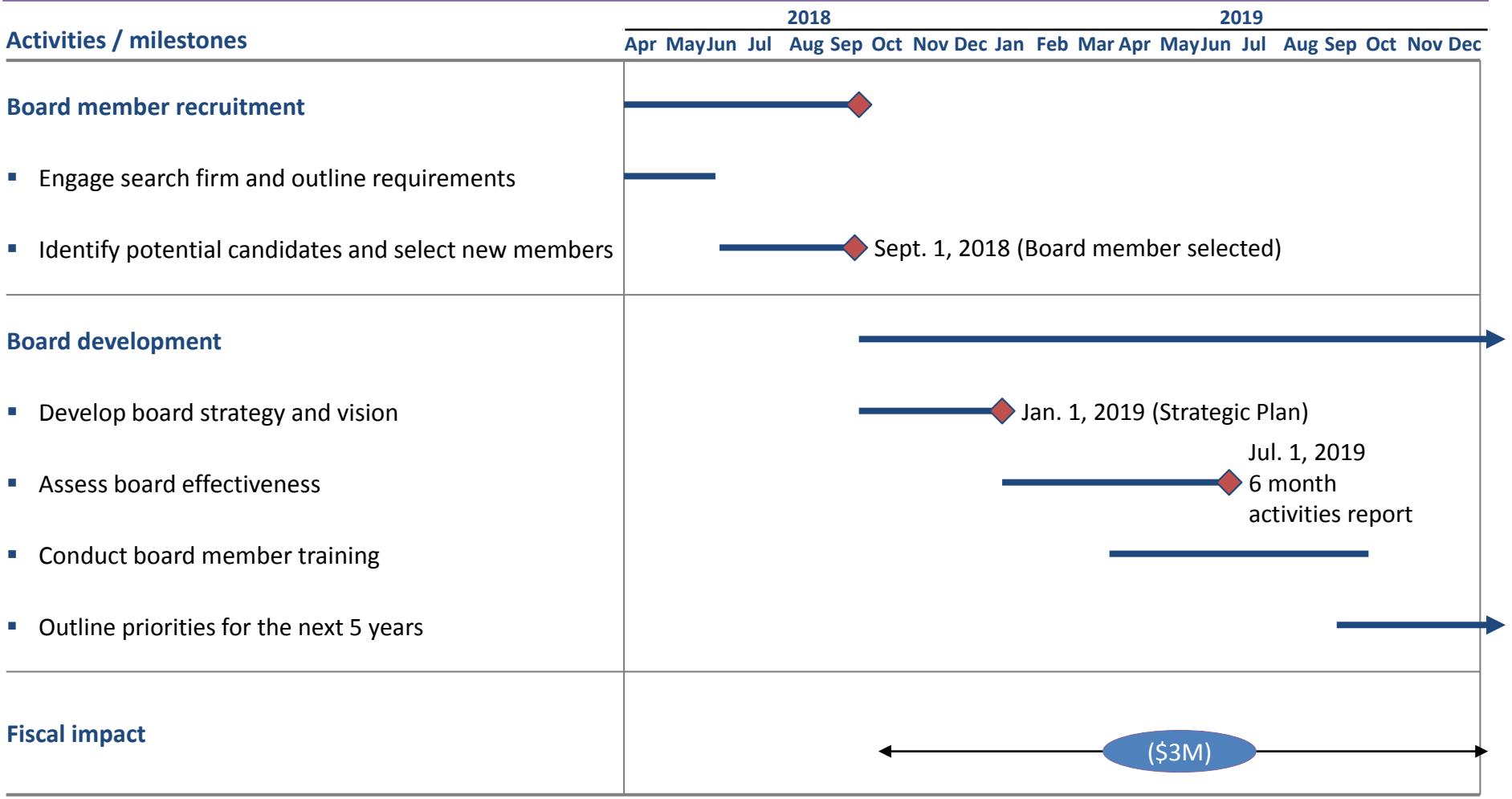
- Realize results to build-in additional internal and external stakeholder buy-in critical for sustained change



Establish Board of Directors – Implementation plan

Implementation Milestone Fiscal impact

Board establishment implementation

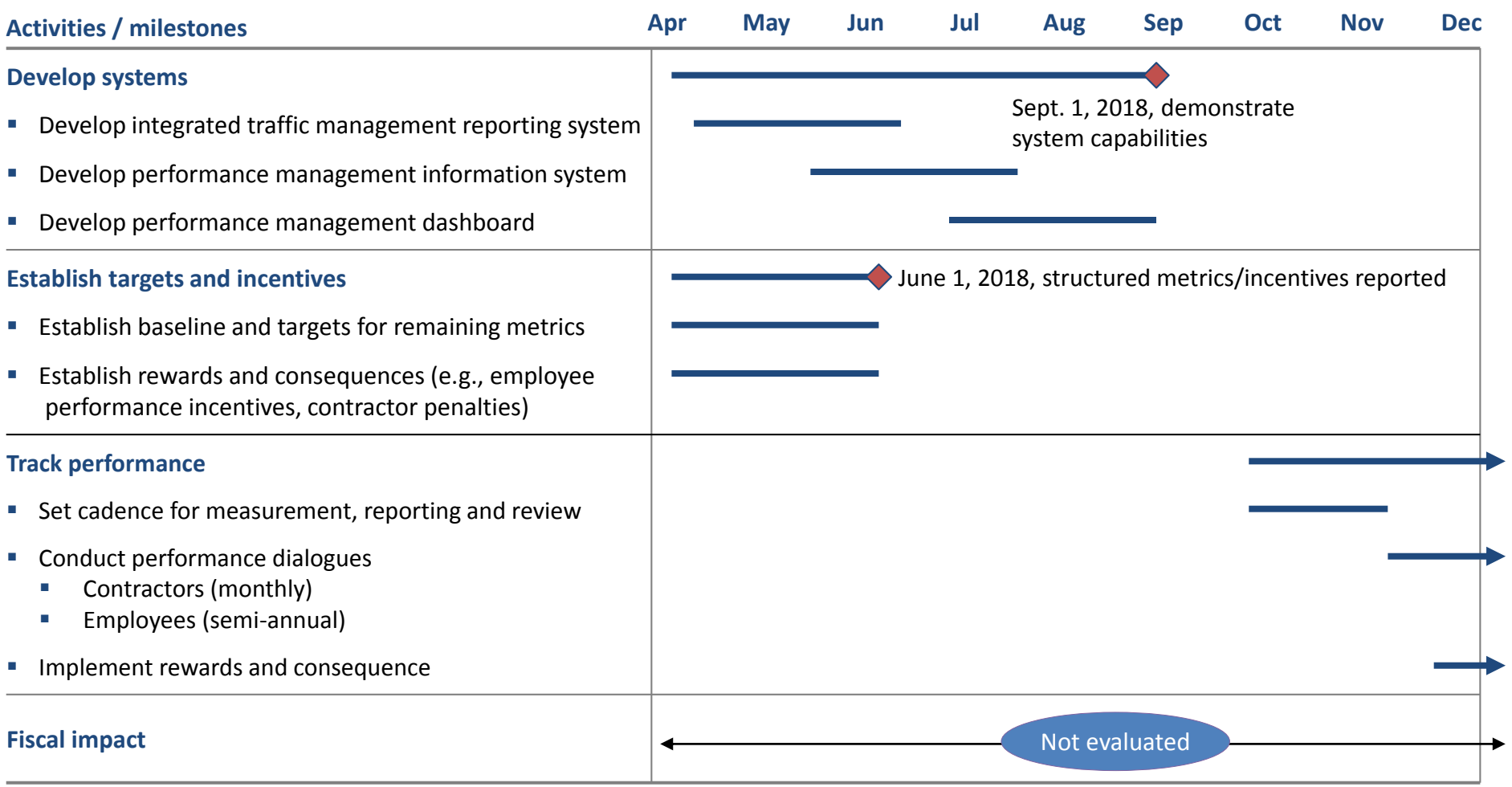


1 \$0.5M in costs effective from FY19 onwards. 6-year impact of \$2,5M.

Rollout organizational KPIs – Implementation plan

Implementation Milestone Fiscal impact

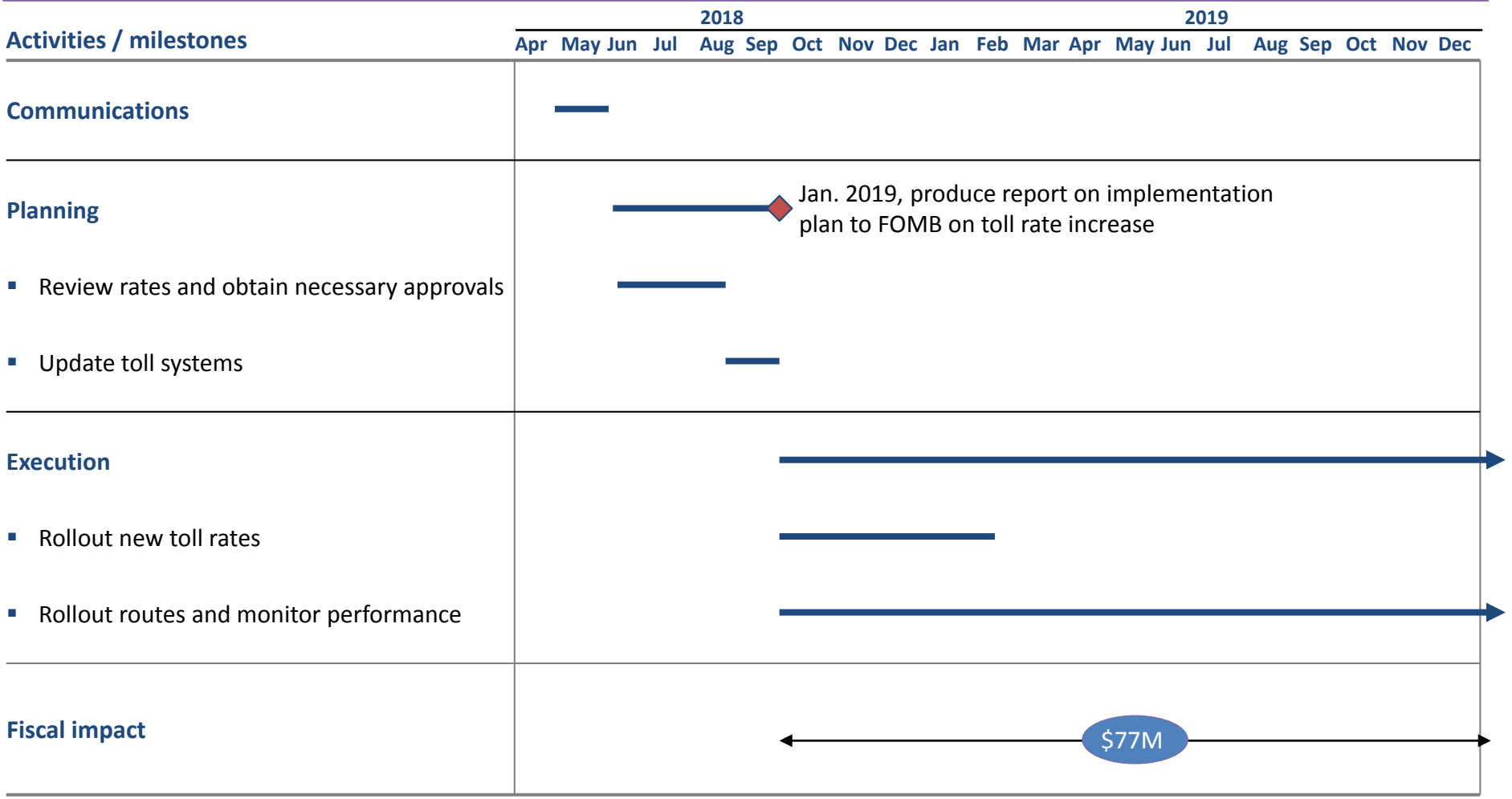
Organizational KPIs implementation



Increase toll rates – implementation plan

Implementation Milestone Fiscal impact

Tolling implementation

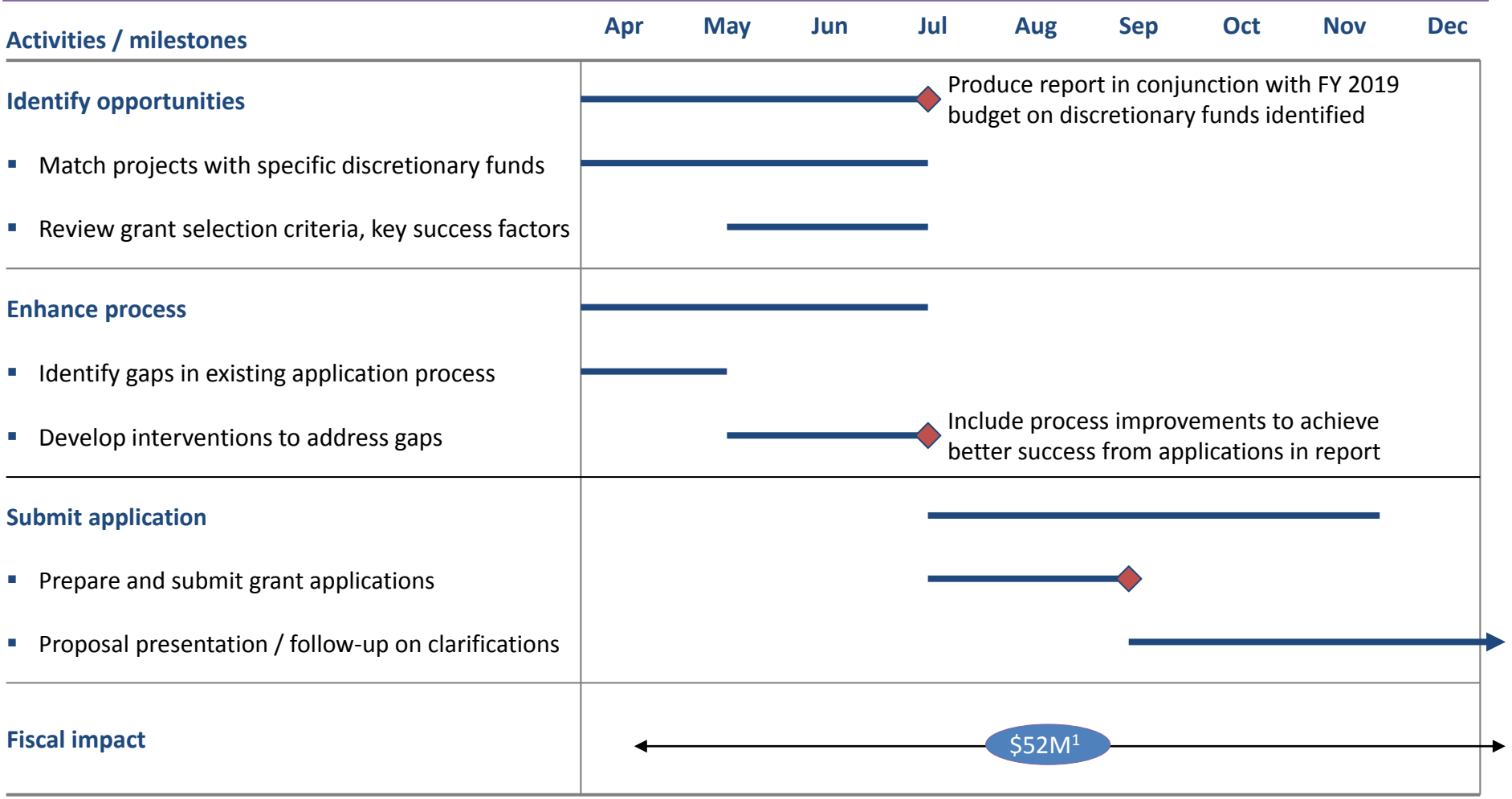


1 Increases to take place every effective from FY18 onwards (linked to CPI). Total 6-year impact of \$77M.

Increase federal discretionary funds – implementation plan

Implementation Milestone Fiscal impact

Discretionary funds implementation

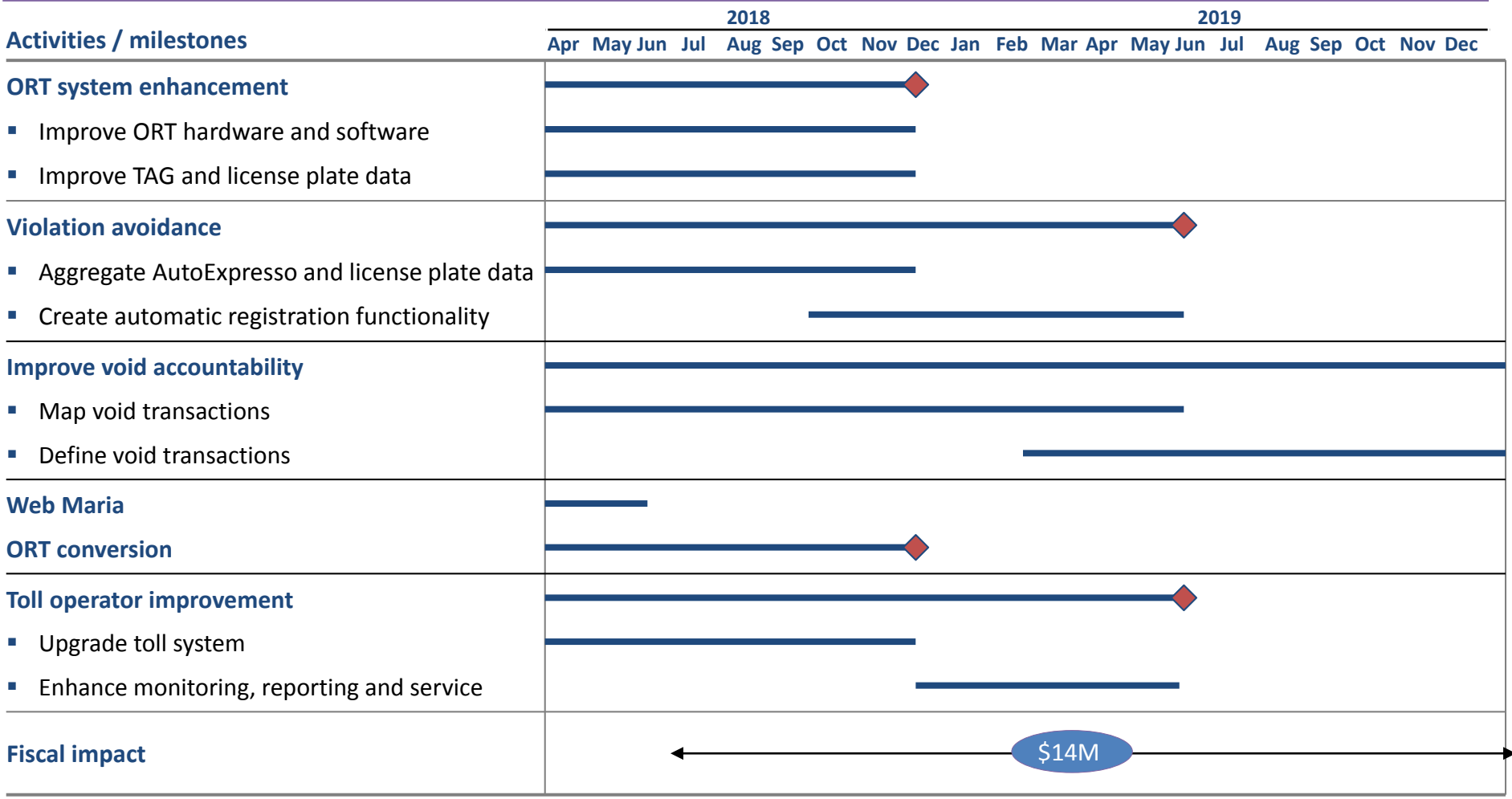


1 \$4M in FY19, \$8M in FY20, \$11M in FY21 and \$15M in FY22 onwards. \$52M over the next 6 years.

Toll optimization – Implementation plan

Implementation Milestone Fiscal impact

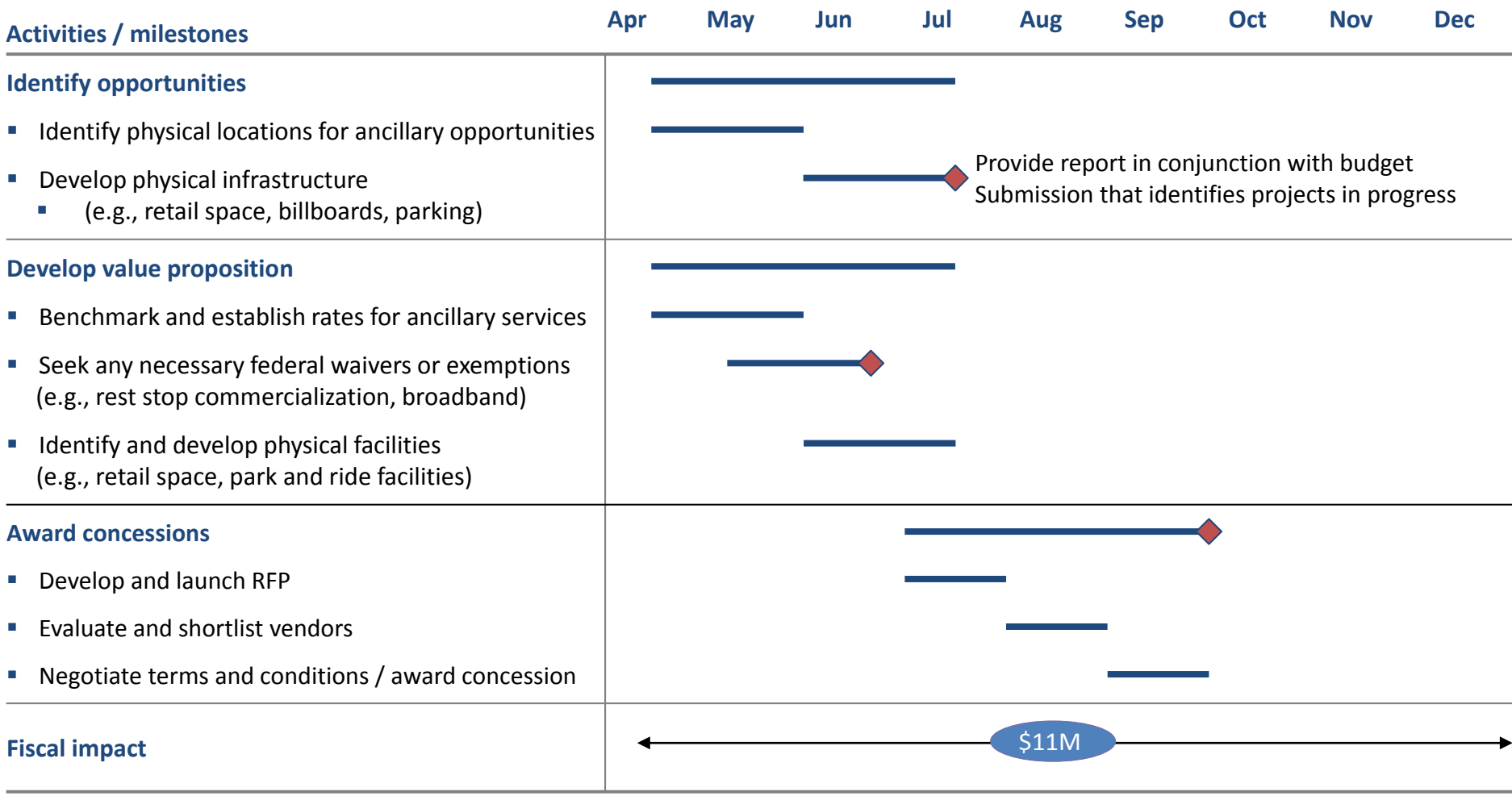
Toll optimization implementation



1 Declining impact due to one-off Web Maria impact in FY18 (\$3.5M). Run-rate of \$6.3M in FY23, with total 6-year impact of \$14.1M.

Capture ancillary revenue – Implementation plan

Ancillary revenue implementation

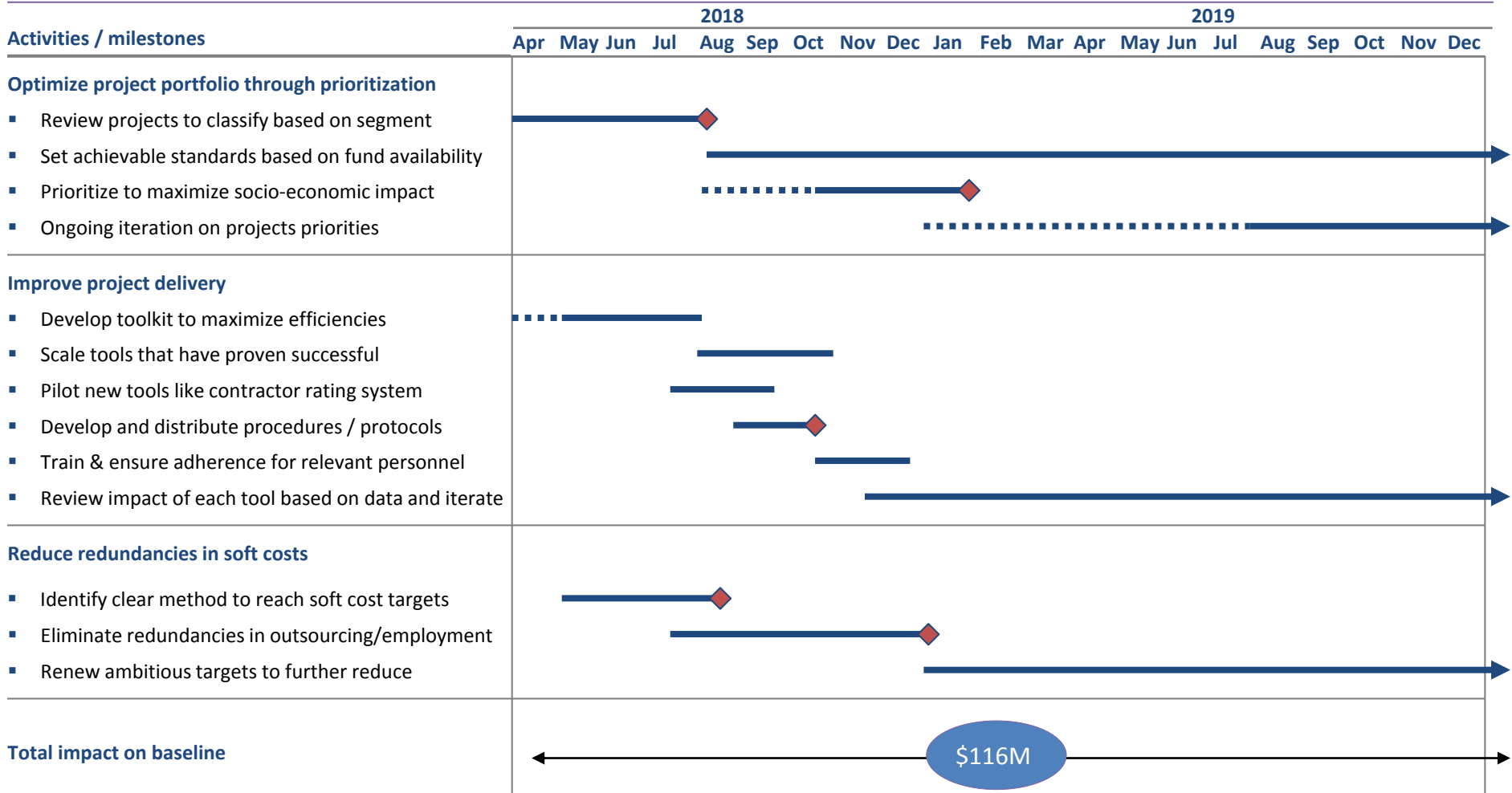


Capital expenditure optimization - implementation plan

Implementation Milestone Fiscal impact

XX

Capex optimization implementation

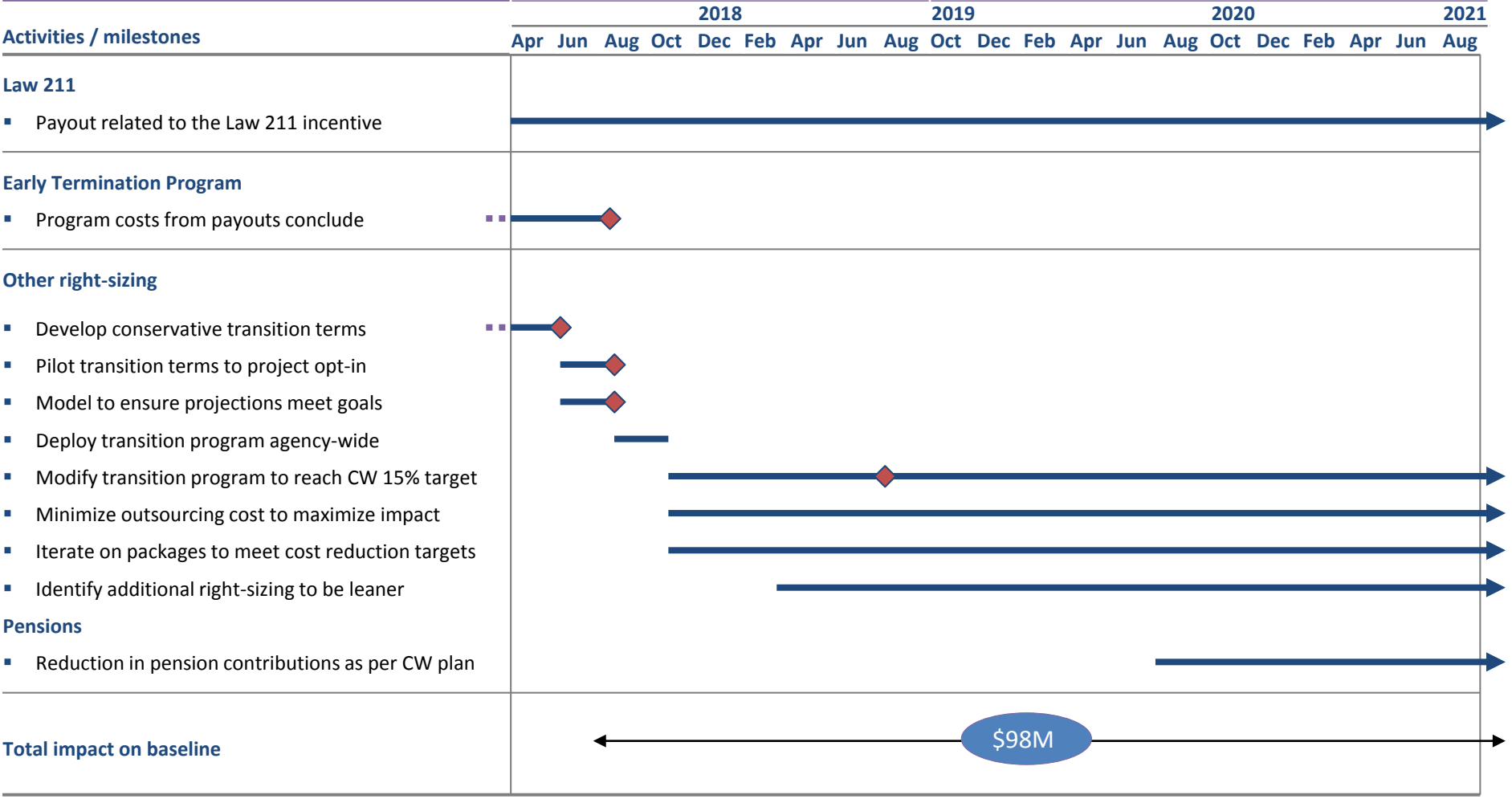


Right-sizing, early exits, outsourcing, and pensions - implementation plan

Case 17-83288-LTS Doc# 312630 Filed 05/23/18 Entered 05/23/18 11:45:37 Desc Exhibit PRHTA Certified Fiscal Plan (2018) Page 103 of 116

Implementation Milestone Fiscal impact

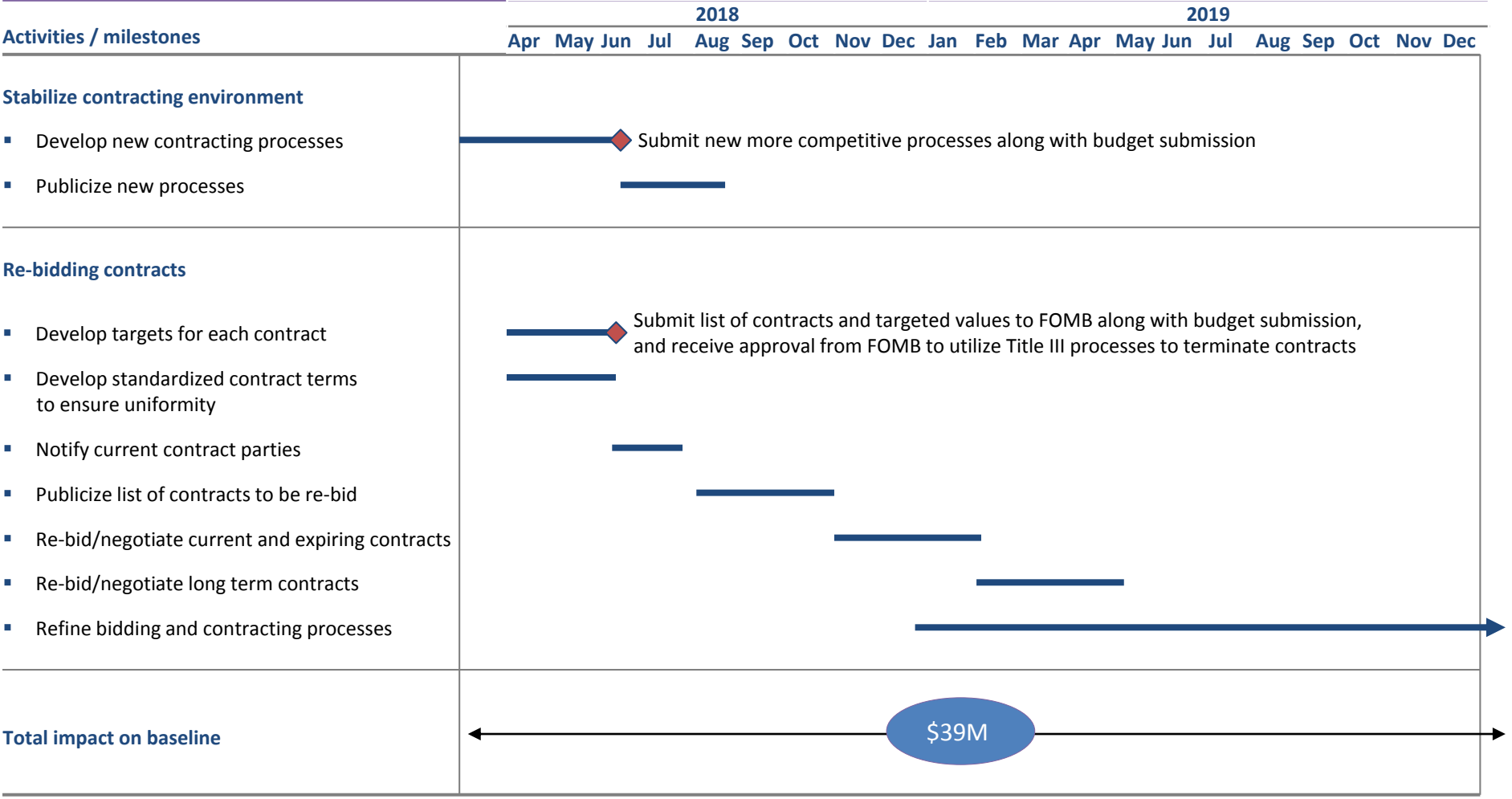
Right-sizing implementation



Operating contract re-bidding and optimization

Implementation Milestone Fiscal impact

Operating contract re-bid



Traffic Reduction – implementation plan

Implementation Milestone Fiscal impact

Traffic Reduction implementation

Activities / milestones

Operationalize BRT

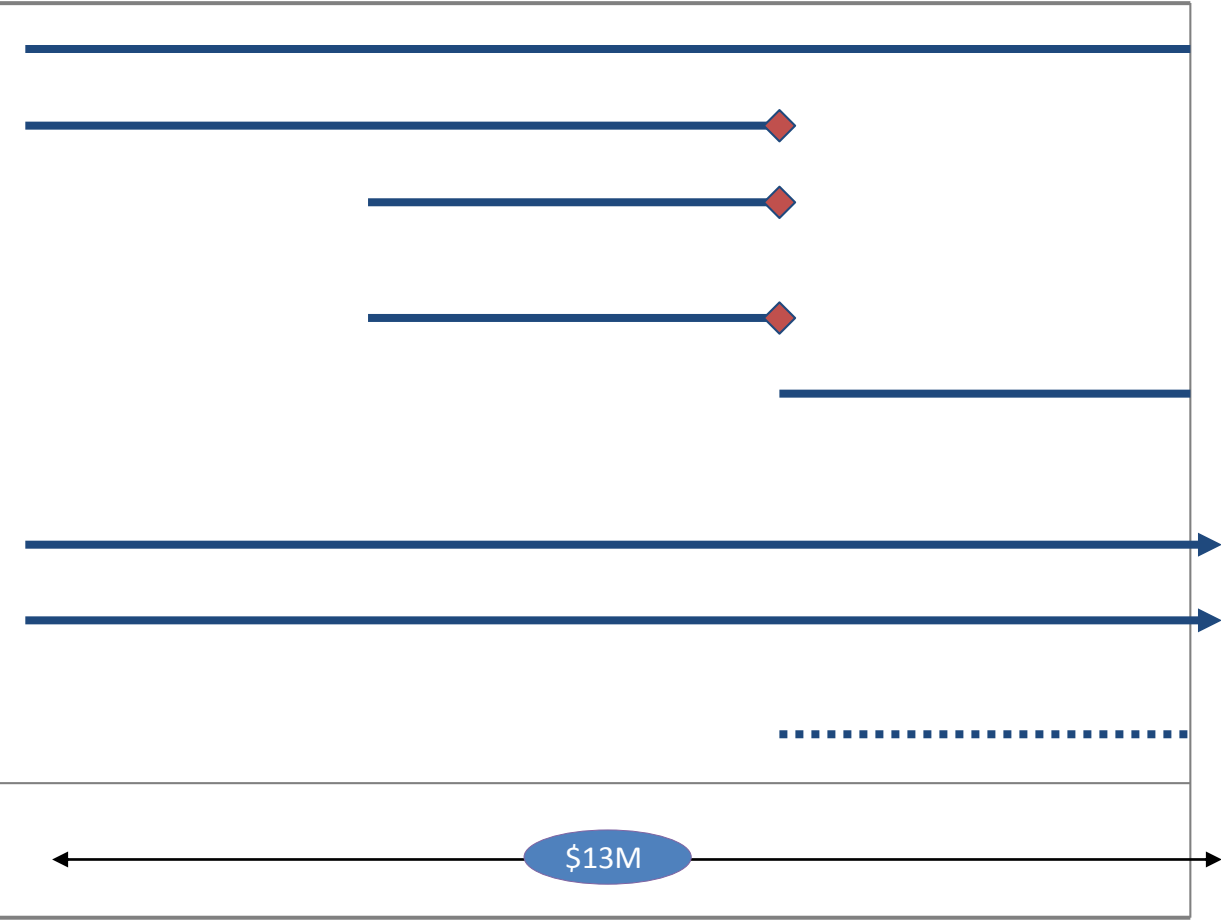
- Complete BRT Lanes
- Repurpose bus fleet and modify bus contract
- Approve bus pricing schedule
- Operationalize bus operations

Operationalize DTL and viaducts

- Implement DTLs on PR-52
- Construction of viaducts and San Antonio tunnel
- Implement DTL on viaducts

Fiscal impact

2018 2019 2020
Apr May Jun Jul Aug Sep Oct Nov Dec Jan Feb Mar Apr May Jun Jul Aug Sep Oct Nov Dec Jan Feb Mar Apr May Jun Jul Aug Sep Oct Nov Dec



1 Cost of \$0.4M in FY21 and \$0.8M in FY22 onwards. Total 6-year impact of (\$2.0M)

Post-certification reporting Financial Reporting

Post-certification reporting requirements (to begin within 90 days of Fiscal Plan Certification approval)¹

Report type	Detail	FOMB reporting cadence	Public reporting
Budget to actuals	<ul style="list-style-type: none"> Tracking budgeted to actual cash flow per budget certification agreements with FOMB package, including: <ul style="list-style-type: none"> Explanation for material variances (>10% and >\$1 million or >\$10 million) Material delays (>1 quarter) in project planning and delivery cost allocations based on STIP/CIP implementation schedule Revenues and additional funding procured in excess (>10%) of budgeted amounts 	<ul style="list-style-type: none"> Monthly reporting of headline inflows and outflows including variances, delivery delays, and additional funding 	<ul style="list-style-type: none"> Monthly reporting of headline inflows and outflows including variances, delivery delays, and additional funding
Liquidity	<ul style="list-style-type: none"> 13-week cash flow report including: <ul style="list-style-type: none"> Accounts payable and accounts receivable roll-forwards 12 common weeks analysis to track material changes 	<ul style="list-style-type: none"> Monthly post-certification 	<ul style="list-style-type: none"> Monthly post-certification
Initiatives	<ul style="list-style-type: none"> Refine high-level implementation plans for measures and submit within three months Track planned vs. actual expenditure / savings on fiscal measures 	<ul style="list-style-type: none"> Final implementation plans to be submitted three months post certification Monthly post-certification 	<ul style="list-style-type: none"> Monthly post-certification

¹ Implementation plan development and progress towards the post-certification reporting requirements will be supervised and monitored by the FOMB.

Post-certification reporting

Governance, revenues, and expenses

Post-certification reporting requirements (to begin within 90 days of Fiscal Plan Certification approval)²

Report type	Detail (refer to initial implementation plans ¹)	FOMB reporting cadence	Public reporting
Governance and performance management	<ul style="list-style-type: none"> Identify elements of corporate governance report e.g., compensation, articles of association, board meetings, and set reporting cadence Develop metrics, targets, and incentives system for organization wide KPIs Develop system to track and enforce metrics 	<ul style="list-style-type: none"> Monthly reporting of KPIs Bi-Annual reporting of corporate governance 	<ul style="list-style-type: none"> Quarterly reporting of KPIs Bi-Annual reporting of corporate governance
Revenues	<ul style="list-style-type: none"> Identify project list and targeted amount and source of discretionary funds for each Identify sources and timing of ancillary revenue opportunities Finalize schedule of rates and corresponding revenue projections for toll increases Develop monthly revenue DTL and viaduct targets by toll lane / viaduct 	<ul style="list-style-type: none"> Monthly reporting on toll collections Quarterly reporting on discretionary funding and ancillary revenues 	<ul style="list-style-type: none"> Quarterly reporting of toll collections, discretionary funding and ancillary revenues
Operating expenses and capital expenses	<ul style="list-style-type: none"> Develop monthly targets for capex savings by lever, line item and project (where possible) Translate annual rightsizing measures into monthly targets by division Track contract costs post-bid against targets Outline concession evaluation report requirements and review prior to public disclosure 	<ul style="list-style-type: none"> Monthly reporting on capex and rightsizing Reporting on contract re-bid savings as and when relevant One-off reporting on concession evaluation 	<ul style="list-style-type: none"> Quarterly reporting of capex and rightsizing Reporting on contract re-bid savings as and when relevant One-off reporting on concession evaluation

¹ Implementation plans are high-level and meant to be refined, finalized and submitted to FOMB within 2 months of certification

² Implementation plan development and progress towards the post-certification reporting requirements will be supervised and monitored by the FOMB.

APPENDIX: FHWA MOU

Following years of operational and organizational challenges to effectively and efficiently deploy federal funds in compliance for with Federal requirements, **PRHTA and FHWA signed a Memorandum of Understanding¹ on February 29, 2016 geared at revamping PRHTA's Project and Program Delivery capabilities.**

PRHTA Challenges

- More than \$400 million in available funding is not deployed due to delayed processes for project advancement, project completion and provider payments
- Outdated and non-standard documentation and requirements
- Lack of communication and feedback integration between planning and construction departments
- Increased project costs and overruns from original budgets
- Misalignment of current capabilities with needed core competencies

MOU between PRHTA and FHWA

- Establishes procedures, systems and project delivery objectives for the Puerto Rico Highway Program
- Identifies roles , responsibilities and actions for the PRHTA and the FHWA to accelerate the funding, planning, design and construction of various highway, bridge and transportation improvement projects
- Improves the economic vitality of the
- Government of Puerto Rico and serves as a catalyst for sustainable job growth associated with highway construction in Puerto Rico

¹ MOU signed by the government of Puerto Rico and Federal Highway Administration

SOURCE: Signed Memorandum of Understanding MOU-PR2016-02-29-094734

MOU requirements and current status of initiatives

● Not Started ● In Process ● Completed

Initiative	Description	Status
Federal Aid Billing Procedures	<ul style="list-style-type: none"> Revise and submit to FHWA its billing process to ensure prompt payment to contractors as follow: <ul style="list-style-type: none"> Paying all contractors by EFT Paying all contractors within 40 days of receipt of invoices Tracking status of payments using electronic method acceptable to FHWA Paying all contractors on the first business day after funds are received from FHWA 	<p>Completed on Q2 2016. Tracking status of payments will be upgraded with E-Business Suite and Program Management Information System (PMIS)</p> <p>●</p>
Toll Credits	<ul style="list-style-type: none"> Validate that PRHTA's existing toll credit balance complies with current FHWA guidance (the current guidance at the time of execution of this Agreement is "Interim Guidance- Toll Credit for non-federal Share, Nov 20, 2015) Identify that amount of toll credits available for use by PRHTA, and Identify modifications that PRHTA must make to its processes for approving, tracking and reconciling toll credit usage 	<p>In Q1 2016 PRHTA validated compliance with FHWA guidance and identified the amount of toll credits available. The tracking status of toll credits will be upgraded with PMIS.</p> <p>●</p>
Organizational Capacity Development	<ul style="list-style-type: none"> Contract the services of a management consultant to assist the PRHTA to review and develop recommendations for streamline the PRHTA's project billing process, project delivery process, contracts standard language, training program, SOP's and applicable commonwealth laws or regulation. 	<p>Notice to Proceed (NTP) provided on 3/2017</p> <p>Consultant is conducting assessment and is expected to complete the recommendations by Q22018.</p> <p>●</p> <p>●</p>
Expediting Project Delivery	<ul style="list-style-type: none"> Procure services to improve systems such as email communication, electronic project monitoring system, improvements to financial billing system in order to reduce the PRHTA's obligated but unexpected balances. Submit to the FHWA a report identifying the reasons for the delay of every project that the PRHTA has obligated, but for which less than 5% of funds have been expended since the date a recorded obligation existed Develop and Submit to the FHWA a schedule with milestones to accelerate obligation of its annual Federal-aid allocation to ensure all funds are properly obligated before redistribution of Federal-aid obligation limitation 	<p>The email migration was completed in 2/2017. Improvements of email communications was completed in July 2017.</p> <p>PMIS is on schedule with a go live date for core functionality Phases 1&2 to be completed Q2 2018. E-bidding and contract management will be complete in Q1 2019.</p> <p>E-Business Suite implementation Consultant has been awarded and expected NTP 3/2018.</p> <p>●</p> <p>●</p> <p>●</p>

MOU initiatives encompass all elements needed to create an effective organization

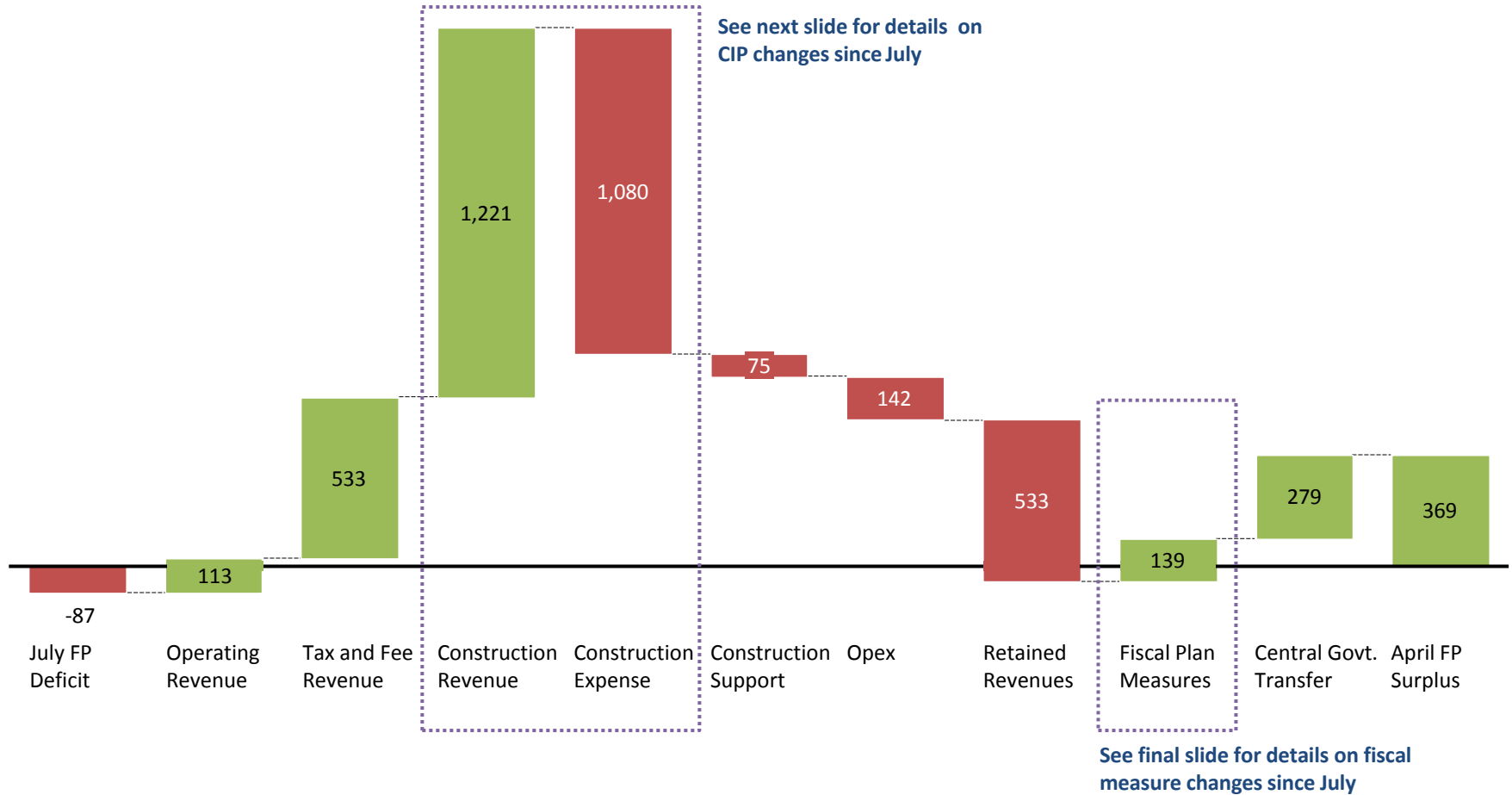
	Federal Aid Billing Procedures	Toll Credits	Organizational Capacity Development (LEAN)	Expediting Project Delivery
Processes	<ul style="list-style-type: none"> Develop an efficient billing process with specific goals to ensure on-time payment to contractors Ensure best practices and guarantee financial accuracy and consistency 	<ul style="list-style-type: none"> Identify improvements for the approval, tracking and reconciling of toll credit usage 	<ul style="list-style-type: none"> Implement a LEAN Project delivery and billing process that will result in higher quality projects, faster project completion and more efficient delivery 	<ul style="list-style-type: none"> Establish processes to provide continuous visibility to under performance projects and allow for effective development of action plans
Organization			<ul style="list-style-type: none"> Develop capacity analysis to correctly size the needed organization to support the process 	
Infrastructure	<ul style="list-style-type: none"> Establish measurable goals tied to the development of the agency's goals and objectives Tracking the status of payments <ul style="list-style-type: none"> with electronic methods 	<ul style="list-style-type: none"> Establish critical KPI's that are essential for auditing and validating compliance with FHWA guidance 	<ul style="list-style-type: none"> Establish measurable performance levels and KPI's to improve process visibility and track whether projects are achieving targets Develop an effective method for capturing voice of the client to support performance measurement and strategic decision making 	<ul style="list-style-type: none"> Implementation of systems for email and electronic monitoring to increase visibility and communication between areas
Culture		<ul style="list-style-type: none"> Train personnel on toll audit process to ensure compliance 	<ul style="list-style-type: none"> Promote collaborative culture and communication Establish agenda for workshops and trainings to develop core competencies and deliver business value 	

Source: Signed Memorandum of Understanding MOU-PR2016-02-29-094734

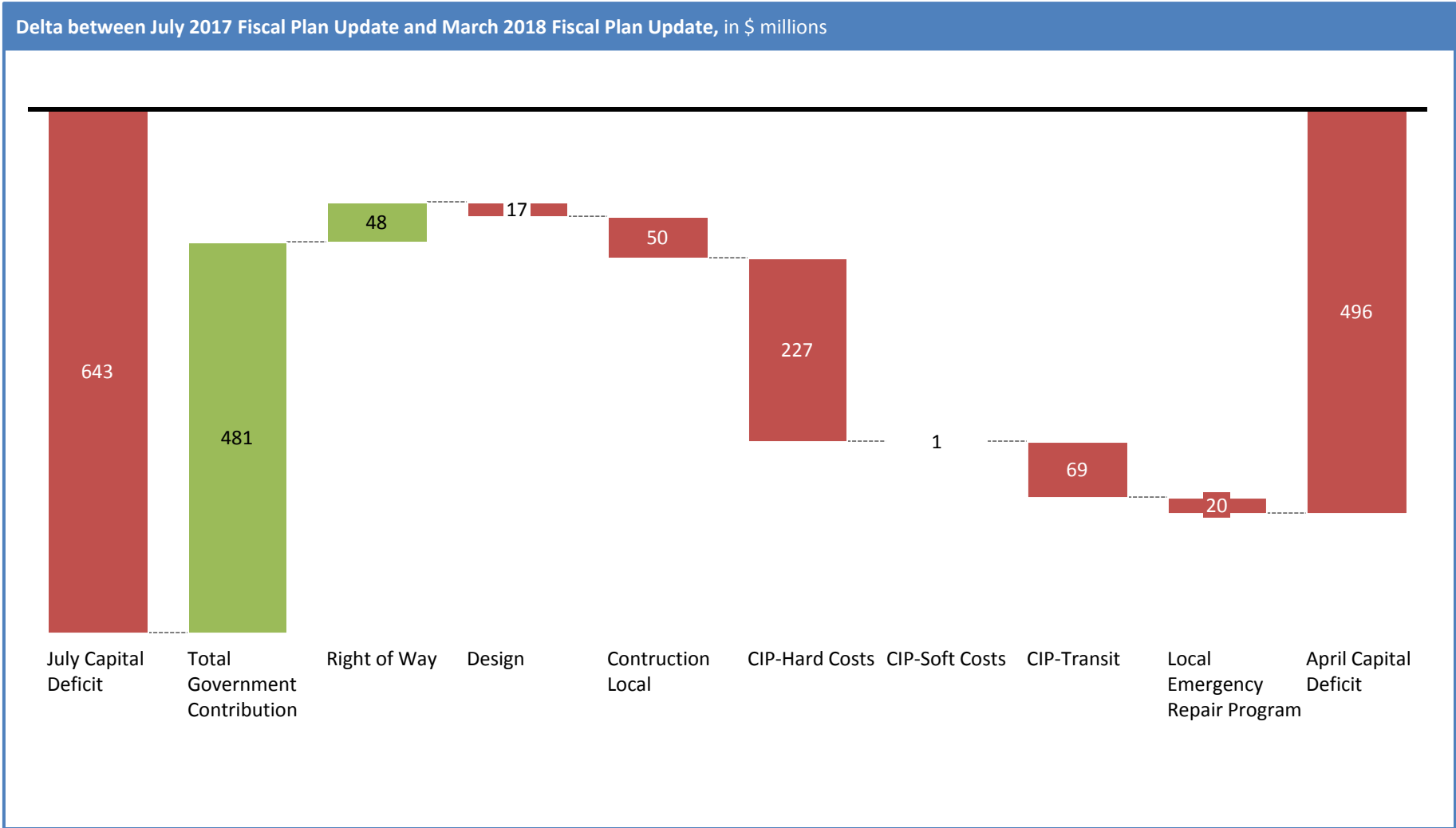
APPENDIX: Summary Fiscal Plan Bridges to July 2017

- Negative contribution
- Positive contribution

Delta between July 2017 Fiscal Plan Update and March 2018 Fiscal Plan Update, \$ in millions



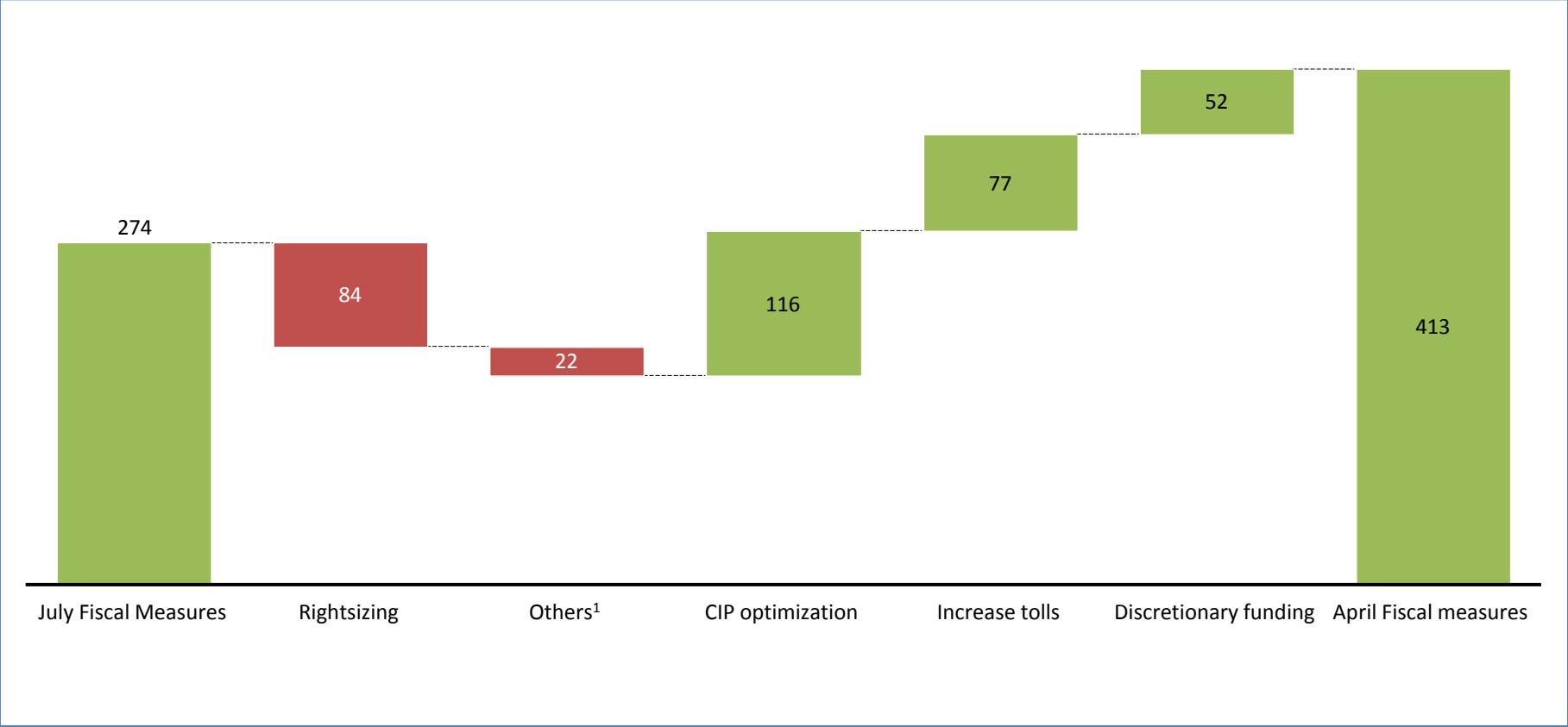
Desc:
■ Negative contribution
■ Positive contribution



- Negative contribution
- Positive contribution

The majority of the increase in fiscal measures since July is driven by CIP optimization, increased tolls and discretionary funding, while there has been a decrease in the original size of the rightsizing measure.

Delta between July 2017 and March 2018 Fiscal Measures, \$ in millions



¹ Early exits, contract re-bid, toll optimization, traffic reduction, ancillary revenue, pensions and concessions

EXHIBIT 31

**FINANCIAL OVERSIGHT AND MANAGEMENT BOARD
FOR PUERTO RICO**



José B. Carrión III
Chair

Members

Andrew G. Biggs
Carlos M. García
Arthur J. González
José R. González
Ana J. Matosantos
David A. Skeel, Jr.

Natalie A. Jaresko
Executive Director

BY ELECTRONIC MAIL

May 10, 2018

Honorable Ricardo A. Rosselló Nevares
Governor of Puerto Rico
La Fortaleza
PO Box 9020082
San Juan, PR 00902-0082

Dear Governor Rosselló Nevares:

This letter serves as a Notice of Violation pursuant to Section 202(c)(1)(B) of PROMESA that the Oversight Board has determined, in its sole discretion, that the proposed Commonwealth of Puerto Rico budget for fiscal year 2019, submitted to the Oversight Board on May 4, 2018, is not compliant with the New Fiscal Plan for Puerto Rico as certified by the Oversight Board on April 19, 2018 (the “New Fiscal Plan”). The Oversight Board looks forward to reviewing a revised budget that it hopes it can determine is compliant with the New Fiscal Plan so that the Oversight Board can submit it to the Legislature on or before the deadlines set forth in this letter.

Background

At the Oversight Board’s eleventh public meeting, held on December 5, 2017, the Oversight Board outlined an approach to the FY19 integrated budget review process, including guiding principles and key milestones.

By letter dated December 12, 2017, the Oversight Board, pursuant to Section 202(a), set a schedule for the Governor’s submission to the Oversight Board of the proposed budget for FY19, and requested that the budget be prepared in accordance with the principles provided by the Oversight Board.

Hon. Ricardo A. Rosselló Nevares

May 10, 2018

Page 2 of 6

By letter dated December 21, 2017, the Oversight Board provided a revised schedule for the FY19 budget process due to the delay in the certification of the New Fiscal Plan.

By letter dated January 5, 2018, the Oversight Board provided guidelines for Milestone 1 (complete inventory listing), which was due on January 10, 2018.

By letter dated February 5, 2018, the Oversight Board provided guidelines for Milestone 2 (proposed revenues), which was due on February 23, 2018.

By letter dated February 22, 2018, the Oversight Board provided a revised schedule for the FY19 budget process due to the delay in the certification of the New Fiscal Plan.

By letter dated April 24, 2018, the Oversight Board set deadlines for intermediate steps before the FY19 budget for the Commonwealth could be adopted and set May 4, 2018 as the date by which the Governor must provide his proposed budget and supporting details. These supporting details had to include a detailed reconciliation between the budget and the New Fiscal Plan, as well as budget to actual templates, which included key performance indicators for reporting post-certification. The Oversight Board also requested that all New Fiscal Plan attributes, including reserves, revenue and expenses measures, be incorporated into Milestone 4 (proposed expense budgets and reporting templates), and required that total expenditures be consistent with the New Fiscal Plan. Finally, the Oversight Board provided the revenue forecast as required by Section 202(b).

By letters dated April 26, 2018 and May 2, 2018 (together, the “Guidance Letters”), the Oversight Board provided additional guidance regarding the development, approval, and certification of the budget in advance of the delivery of the materials required by Milestone 4. The Guidance Letters required the delivery of proposed expense budgets and reporting blueprints.

Government’s Submission

The Government’s submitted budget is not compliant with the New Fiscal Plan, and it does not meet the requirements set forth by the Oversight Board in its correspondence with the Government. The Oversight Board requires substantial revisions and additional information from the Government before it could approve the Government’s proposed budget and submit it to the Legislature.

Pursuant to Section 104(c), we request all outstanding information in our correspondence with the Government as outlined above. This will enable the Oversight Board to review the proposed budget in its entirety and determine its compliance with the New Fiscal Plan.

A summary of items that remain outstanding are included below. Please refer to the Appendix of this letter for a status update on compliance with the full set of requirements established by the Oversight Board.

Hon. Ricardo A. Rosselló Nevares

May 10, 2018

Page 3 of 6

Preliminary Status Update of Materials Not Submitted

The following materials required by the Oversight Board were not provided or included with the proposed budget submitted by the Government:¹

<p>FY19 Consolidated Budget</p>	<p>A detailed budget of expenses for FY19 consistent with the New Fiscal Plan. From the General Fund material provided, these items, among others, appear inconsistent with the New Fiscal Plan:</p> <ul style="list-style-type: none"> - No inclusion of UPR and Workforce Development reinvestments generated from comprehensive labor reform - Lack of a Commonwealth appropriation to ASES - Inclusion of additional reserves beyond the \$130 mm emergency reserve in the Fiscal Plan - Inclusion of \$100 mm to municipalities for regionalization of services, which is separate from \$176 mm in Fiscal Plan appropriations and not included in the Fiscal Plan - Inclusion of Christmas Bonus payments to employees - \$3.5 mm for State Revolving Funds instead of \$114 mm enumerated in the Fiscal Plan - \$33 mm for Police employees inclusion of Social Security payments - No inclusion of \$132 mm of unallocated CapEx - Utility payments that are inconsistent with projections - No agency holdbacks of 5% as its own concept of spend - Incorrect appropriations
<p>FY19 General Fund Budget Resolutions</p>	<p>Supporting detail for the General Fund resolution</p> <p>Control language, including reporting, holdback, and accounts payables, sent by the Oversight Board in our letters to you</p> <p>Preliminary budget balances by concept of spend by agency</p>

¹ Preliminary observations of violations identified as of May 9, 2018, include inconsistencies with the Fiscal Plan, incomplete submission, guidance not followed and missing support.

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FY19 Budget to Fiscal Plan Reconciliation	A reconciliation of the budget to the Fiscal Plan for expenditures with explanations of any variance
Underlying Assumptions, Supporting Detail and Documentation	Supporting documents evidencing underlying assumptions for the FY19 Consolidated Budget
Reporting Templates	Preliminary draft versions of reporting templates. These were due as part of Milestone 4 Deliverables, with blueprints to be finalized within 30 days after year end (July 30, 2018)
Expense Measures by Agency/Public Corporation	Insufficient information has been provided to assess whether the Governor’s FY19 Budget resolutions include FOMB’s detailed mapping of the measures to each instrumentality for use in developing the fiscal year 2019 budget, including reinvestments afforded by expense measures and rightsizing measures by personnel and non-personnel cost categories

Conclusion

The Oversight Board recognizes the hard work required to fulfill the FY19 budget milestones, and appreciates the Government’s leadership in proposing a budget for FY19. However, the Oversight Board takes exception to the allegation that “the FOMB did not consult with the Governor or Puerto Rico’s Legislature in devising the schedule” for development of budgets pursuant to Section 202(a). There was significant collaboration and discussion between the Oversight Board, the Government, and our respective advisors in the preparation of the information requested. From December 2017 to April 2018, the Oversight Board shared more than seven letters on the topic with various Government officials. Moreover, the Oversight Board met in person dozens of times with members of OMB, AAFAF and Hacienda (as well as their advisors) to consult on the proposed schedule for the development of budgets. The Oversight Board also met separately with members of the Legislature to consult on the proposed schedule for the development of budgets.

* * *

Pursuant to Section 202(c)(1)(B), please submit a budget that corrects the violations described in this letter no later than 12:00pm on May 15, 2018.

We are committed to reviewing the revised submission promptly and believe this deadline provides the Government with adequate time to submit a budget that is compliant with the New Fiscal Plan and to provide the requested information and documentation.

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Sincerely,



Natalie A. Jaresko

José B. Carrión

Andrew G. Biggs

Carlos M. García

Arthur J. González

José R. González

Ana J. Matosantos

David A. Skeel, Jr.

CC: Christian Sobrino Vega
Gerardo Portela Franco

Hon. Ricardo A. Rosselló Nevares

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Appendix

Puerto Rico Milestones Checklist - Commonwealth

	Guideline Description	Date Received	Status	Violation
1	Provide a detailed budget of expenses for FY19 that is consistent with the trajectory for the primary fiscal balance in the Fiscal Plan, using the same basis of accounting used to prepare the Fiscal Plan (modified accrual basis of accounting) and in accordance with the accounting policies used to prepare the audited financial statements of the Commonwealth. If the basis of accounting is different than modified accrual, please confirm the basis of accounting being used.		Outstanding	Incomplete submission
2	Provide a reconciliation of the budget to the Fiscal Plan for expenditures with explanations of any variance. However, it is not expected that total expenditures would deviate from Fiscal Plan submitted and approved. To the extent the budget changes after May 4, provide the updated reconciliation in excel within five business days of the update and no later than eight business days before certification of the FY19 budget.		Outstanding	Incomplete submission
3	Provide additional detail on expenditures:		Outstanding	Incomplete submission
3a	Where available, provide a comparison of expenditures to prior two budgets and to prior two years of actuals (where available) and latest twelve ("LTM") months ending December 31, 2017 of actuals and explain key differences. If the actuals for the prior two years or LTM period, are just draft versions, indicate so when providing the information		Outstanding	Incomplete submission
3b	Provide support for FY19 expenditures estimates by major expenditure category by agency and by fund, including key economic, demographic, policy and other assumptions affecting expenditure trends, and comparisons to historical periods. To the extent these differ significantly from those used in the Fiscal Plan, please explain significant differences and provide explanations for these differences.		Outstanding	Incomplete submission
3c	Provide breakdown of major categories of total revenues and expenditures by month and by quarter, so that the sums across months and quarters equal total revenues and expenditures in the proposed annual budget. Please identify underlying assumptions driving the monthly budgets (ie. seasonality, historical patterns, etc.). Prepare detailed monthly cash flow projections for the budget period and a reconciliation between cash flow projections and the monthly breakdown described above		Outstanding	Incomplete submission
4	Provide greater transparency of payroll related expenses:		Outstanding	Incomplete submission
4a	Provide projected employment levels ('full time employees', 'transitory employees' and 'at will employees'[1]) by agency/public corporation. Please provide key terms of collective bargaining agreements and other labor related costs (including benefits, early retirement programs, etc.) for FY19 that are consistent with the Fiscal Plan. Please provide a comparison with projected and actual numbers in FY18.		Outstanding	Incomplete submission
4b	Provide details of transitory employee levels by agency (headcount and cost), not included above, and in total.		Outstanding	Incomplete submission
4c	Provide details of vacant positions, frozen positions (per Acts 70, 211 and any other early retirement programs). Please provide a comparison with projected numbers of FY18.		Outstanding	Incomplete submission
4d	d. Provide details of Christmas Bonus amounts included as part of the payroll appropriations for each agency.		Outstanding	Incomplete submission
4e	e. Provide savings/costs estimates for Law 70, Law 211 and/or VTP by agency and confirm where they are located in the budget. Identify any other ongoing/new incentive programs and impact in the FY19 Budget by agency/public corporation.		Outstanding	Incomplete submission
4f	Provide details of personnel service contracts by agency (headcount and cost) and in total. Please provide a comparison with actual numbers in FY18.		Outstanding	Incomplete submission
5	Identify all reserves within the Budget and provide a reconciliation back to the Fiscal Plan to evidence consistency between both. Identify restrictions and/or requirements around each reserve and where FOMB approval is required to access. Provide reporting blueprint for reserve balances, identifying major categories of usage, dates used and nature of each expense. Provide a contingency plan to ensure provision of critical services in the event that reserves set aside are insufficient.		Outstanding	Incomplete submission
6	Include Paygo contributions related to the pension plan in excess of asset balance, consistent with the Fiscal Plan. Provide a detailed analysis of the Paygo calculation and components by retirement system, agency and fund, including: Retirement Benefits, Special Laws, Other Benefits, Expected Asset Sales, Contributions from entities outside of budget, Admin Costs		Outstanding	Incomplete submission
7	Provide for reasonable and necessary capital expenditures consistent with the Fiscal Plan. Please provide detail in FY19 budget document and justification for large capex. Please provide comparison of FY19 budgeted expenses to FY18 actual expenses incurred. Please provide 3-5 year capex plan (if applicable). Provide separate breakouts and descriptions by project of the nature of the capex where the capex is expected to be funded by a third party source such as FEMA.		Outstanding	Incomplete submission
8	Provide amounts and descriptions of all new expenditure measures included in the budget and reconcile to measures identified in the Fiscal Plan. Please ensure measures can be mapped by agency by concept of spend, and by fund and that they can be measured and success tracked from July 1 onwards.		Outstanding	Incomplete submission
9	Identify one-time revenues and expenditures and provide amounts and descriptions of each stream of revenue and expenditure.		Outstanding	Incomplete submission
10	Provide for costs, such as legal and other expenses, associated with the process of debt restructuring and collection of debts, this should include underlying support for legal and other professional fees included in the budget, including historical actual professional fees by professional firm incurred in FY18 and submitted as part of the fee examination process. Identify total legal/professional fees paid by the Commonwealth on behalf of other agencies/instrumentalities in prior year. Legal and professional costs should include: Non-Title III expenses related to the government and FOMB and Title III expenses related to all parties (including assumptions underlying budgeted expenses)		Outstanding	Incomplete submission
11	Where applicable for FY19 Budget, Provide for the costs associated with Office of the Chief Financial Officer ("OCFO") to comply with all the financial reporting requirements of PROMESA and as identified in the Fiscal Plan. Provide underlying support for budgeted costs.		Outstanding	Incomplete submission
12	Reaffirm that the Government is in compliance with the requirement that appropriations are not being carried over from prior fiscal periods and/or are subject to restrictions identified in Budget resolutions:		Outstanding	Incomplete submission
12a	Identify if there are any exceptions to complying with the resolutions and explain why.		Outstanding	Incomplete submission
12b	Provide a total balance of outstanding encumbered amounts as at year end, and confirm amount that has been included as part of the budget. Please provide on an agency by agency basis, where information is available.		Outstanding	Incomplete submission
13	Please outline next steps and timeline to move all accounting of payables/accruals outside of the system into the Government's accounting system.		Outstanding	Incomplete submission
14	Identify potential risks and opportunities within the budget and mitigating factors steps the Government is taking to reduce risk and maximize the opportunity on each.		Outstanding	Incomplete submission
15	Provide the detail of spending by program, including the comparison of FY19 budget to projected FY17 expenses and YTD FY18 expenditures.		Outstanding	Incomplete submission
16	Provide reporting templates and additional information as requested below.		Outstanding	Incomplete submission
16a	Provide consolidated Budget to Actual blueprint reporting templates, identifying the following where applicable:		Outstanding	Incomplete submission
16a(i)	Agency numbers and names		Outstanding	Incomplete submission
16a(ii)	Budgeted expenditures for each type of fund per agency (General Fund, Special Revenue Funds, Federal Funds, Other Income)		Outstanding	Incomplete submission
16a(iii)	Actual expenditures for each type of fund per agency (General Fund, Special Revenue Funds, Federal Funds, Other Income)		Outstanding	Incomplete submission
16a(iv)	Annual budgets split into monthly budgets for the year		Outstanding	Incomplete submission
16a(v)	Expenditures to be reported on a periodic basis as well as a cumulative basis		Outstanding	Incomplete submission
16a(vi)	Assumption underlying budgets		Outstanding	Incomplete submission
16a(vii)	Materiality thresholds that will guide requirements for further explanations for significant variances		Outstanding	Incomplete submission
16a(viii)	Explanations for key variances		Outstanding	Incomplete submission
16a(ix)	Names of individuals responsible for providing reporting on a regular basis (including contact names, email addresses and numbers)		Outstanding	Incomplete submission
16a(x)	A calendar/timeline for the year identifying timing for ongoing reporting on a monthly basis		Outstanding	Incomplete submission
16b	Provide templates for additional reporting, including:		Outstanding	Incomplete submission
16b(i)	Reporting on measures identified as part of the Fiscal Plan		Outstanding	Incomplete submission
16b(ii)	Other specific reporting requirements identified as part of the Fiscal Plan (including, but not limited to, reporting on liquidity, payroll/headcount/attendance, Paygo)		Outstanding	Incomplete submission
16b(iii)	Summary Budget to Actual ("B2A") report on Consolidated Budget		Outstanding	Incomplete submission
16b(iv)	Emergency-related Federal Funding requested/drawn (including FEMA and non-FEMA funds)		Outstanding	Incomplete submission
16b(v)	Annual tax expenditure report ("TER") requirement		Outstanding	Incomplete submission
17	Provide unique account string for all possible combinations of fund, agency, concept, program, budget year. Submit draft of combinations to Hacienda prior to budget certification for necessary PRIFAS programming and testing in preparation of certified Budget upload on July 1.		Outstanding	Incomplete submission
18	Provide a list of merged/deleted agencies and/or new additional agencies.		Outstanding	Incomplete submission
19	Provide preliminary draft budget resolutions to be submitted for Legislature for review and comment.	5/4/2018	Received	Inconsistent with Certified Fiscal Plan Incomplete submission FOMB guidance not followed Missing support
20	Provide all items above, where applicable (i.e. numerical inputs and outputs), in Excel.		Outstanding	Incomplete submission

Puerto Rico Milestones Checklist - Public Corporations in the CW Budget

	Guideline Description	Date Received	Status	Violation
1	Provide a detailed budget of total expenditures defined in this document to include operating expenses and separately capital improvement plan ("CIP") expenditures for FY19 that is consistent with the trajectory in the Fiscal Plan covers transactions conducted by all subsidiaries. There should be a detailed breakout of operating expenses.		Outstanding	Incomplete submission
2	Provide a reconciliation of the budget to the Fiscal Plan with explanations of any variance. However, total expenditures should not deviate from the Fiscal Plan operating expenses and CIP submitted and approved. To the extent the budget changes after May 4, 2018 based upon specific information not known at that time, provide the updated reconciliation in excel within five business days of the update and no later than eight business days before certification of the FY19 budget.		Outstanding	Incomplete submission
3	Provide a comparison of expenditures to the prior two budgets (FY17 and FY18) and to the prior two years (FY16 and FY17) and year-to-date ("YTD") from July 1, 2017 through March 31, 2018 of actuals versus July 1, 2016 through March 31, 2017. Explain key differences by both \$ and % differences for any variance over 10%. If the actuals for the prior two years or YTD period are draft versions, indicate so when providing the information.		Outstanding	Incomplete submission
4	Provide support for FY19 expenditures estimates by major expenditure category. To the extent these differ by over 10% from those used in the Fiscal Plan or in the prior two years (FY17 and FY18), explain significant differences and provide explanations for these differences. Identify expenditures that are related to recovery due to the Hurricanes and separately expenditures that are needed to continue to provide basic services. Identify potential risks and opportunities within the budget and mitigating steps being taken to reduce risks and maximize opportunities.		Outstanding	Incomplete submission
5	Provide breakdown of major categories of total revenues and total expenditures by month and by quarter. The sums across months and quarters should equal total revenues and total expenditures in the proposed annual budget considering seasonality and other factors specific to the instrumentality / public corporation.		Outstanding	Incomplete submission
6	Provide accounts payable information as of March 31, 2018. For materiality purposes, this should include top 20 vendors and a total for all others.		Outstanding	Incomplete submission
7	Provide accounts receivable information as of March 31, 2018. This information should also include aging by days (0-30, 31-60, 60-89, 90+ or other aging report grouping currently utilized). Provide information on total allowance for doubtful accounts.		Outstanding	Incomplete submission
8	Provide total projected full-time employee headcount and cost for FY19, and attendance report that is consistent with the format already in place. Please provide a comparison with actual numbers in FY17 and FY18. To the extent there are temporary employees, identify the total headcount and related costs.		Outstanding	Incomplete submission
9	Provide amounts and descriptions of all new revenue and expenditure measures / initiatives included in the budget. There should be a clear mapping of the revenues, operating expenses and CIP, if any, to tracked line items in the budget so that the measures can be easily tracked and traced to specific line items.		Outstanding	Incomplete submission
10	Identify one-time revenues and expenditures and provide amounts and descriptions of each one time item.		Outstanding	Incomplete submission
11	Provide monthly and year-to-date blueprint budget to actuals ("B2A") reporting templates, identifying the following where applicable:		Outstanding	Incomplete submission
12	Provide a schedule of total revenues, total expenses broken by fund type – general fund, federal fund, other fund – and, separately, capital improvement plan ("CIP") expenditures, if applicable, that is not inconsistent with the trajectory in the Commonwealth Fiscal Plan, by completing the template provided. As outlined in the template, the schedule should include a comparison of revenues and expenditures to the prior two budgets (FY17 and FY18) and to the prior two years of draft unaudited actuals (FY16 and FY17). Report if there are no revenues and/or expenses this year.		Outstanding	Incomplete submission
13	Provide all items above, where applicable (i.e. numerical inputs and outputs), in a letter sized print friendly excel format.		Outstanding	Incomplete submission