



GOVERNMENT OF PUERTO RICO

---

Puerto Rico Fiscal Agency and Financial  
Advisory Authority

# Liquidity Update to the Financial Oversight and Management Board for Puerto Rico (FOMB)

## 11<sup>th</sup> Public Meeting

New York, NY

December 5, 2017



# Executive Summary

---

Since the 10<sup>th</sup> FOMB meeting on October 31<sup>st</sup>, AAFAF has continued to collaborate with the FOMB on multiple initiatives:

- Updating the near term assessment of liquidity need
- Working with the FEMA and US Treasury to complete Community Disaster Relief Loan (CDL)
- Progressing towards the certification of a new Fiscal Plan
- Implementing initiatives to enhance public reporting

As more data becomes available, particularly related to the specifics of FEMA relief spending and the reimbursement process as well as the impact of Hurricane Maria on Q2 revenue collections, AAFAF, with information certified by Hacienda and the GAR, and FOMB will continue to revise the assessment of liquidity need

The following slides include:

- 1) Review of Actual versus Forecast for Q1 2018 (three months ending September 30, 2017) for the TSA, PREPA and PRASA
- 2) Updated liquidity outlook through December 29, 2017 and revised estimated near-term funding needs



# Q1 FY 2018 Actual vs. Forecast (Liquidity Plan) Analysis

Treasury Single Account (TSA)

(USD, MM)	Actual	Forecast	Variance (\$)	Variance (%)
<b>Inflows</b>				
1 General Collections	\$1,688	\$1,711	(\$23)	(1.3%)
2 Agency Collections	91	140	(49)	(35.1%)
3 Sales and Use Tax	266	246	20	8.1%
4 Other Collections	271	283	(12)	(4.2%)
5 General & Special Revenue Fund Inflows	\$2,316	\$2,380	(\$64)	(2.7%)
6 Retirement System Inflows	390	487	(97)	(19.8%)
7 Federal Fund Receipts	1,138	1,416	(279)	(19.7%)
8 Other Inflows	96	100	(4)	(4.4%)
9 <b>Total Inflows</b>	<b>\$3,941</b>	<b>\$4,384</b>	<b>(\$443)</b>	<b>(10.1%)</b>
<b>Outflows</b>				
10 Payroll and Related Costs	\$830	\$904	74	(8.2%)
11 Pension Related Costs	523	560	37	(6.6%)
12 Appropriations to Component Units	1,037	1,171	134	(11.4%)
13 Vendor Disbursements	617	820	203	(24.7%)
14 Tax Refunds	204	164	(40)	24.4%
15 Nutrition Assistance Program	497	502	5	(0.9%)
16 Other Disbursements	20	44	24	(55.4%)
17 Reconciliation Adjustment	–	148	148	(100.0%)
18 <b>Total Outflows</b>	<b>\$3,728</b>	<b>\$4,313</b>	<b>\$584</b>	<b>(13.6%)</b>
19 <b>Net Cash Flows</b>	<b>\$212</b>	<b>\$71</b>	<b>\$141</b>	<b>199.4%</b>
20 Bank Cash Position, Beginning (a)	1,799	1,799	–	–
21 <b>Bank Cash Position, Ending (a)</b>	<b>\$2,011</b>	<b>\$1,870</b>	<b>\$141</b>	<b>7.6%</b>

**General Collections:** Detailed comparison on the following slide

**Federal Fund Receipts:** The Q1 variance of 20% is largely timing-related and offset by decreases in both Vendor Disbursements and Federal Fund Appropriations to ASES (\$89MM of the \$134MM in line 12). Hurricane Maria impacted government agencies' ability to quickly process invoices and interface with Hacienda's systems, causing a lag in invoice processing for both disbursements and reimbursements from Federal Funds

**Appropriations to Component Units:** Of the \$134MM variance through Q1, \$89MM is related to pass-through Federal Fund appropriations to ASES. The remaining \$45MM variance is timing-related

**Vendor Disbursements:** As previously noted, Hurricane Maria impaired the Central Government agencies' invoicing processing and created a temporary variance in vendor disbursements



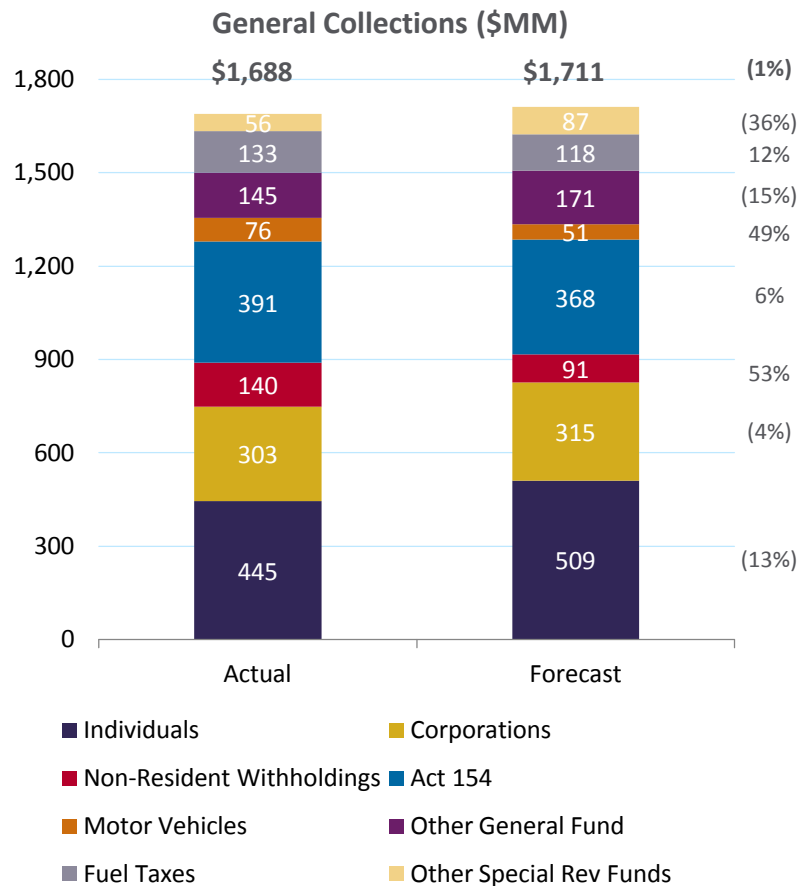
(a) Excludes BPPR Account with balance of approximately \$146mm; Amounts deposited in GDB subject to GDB restructuring.

# Q1 FY 2018 Actual vs. Forecast (Liquidity Plan) Analysis: Collection Detail

Treasury Single Account (TSA)

Given Hurricane Maria occurred on September 20<sup>th</sup>, actual collections for Q1-18 were largely in line with forecast. Collections following Maria are tracking sharply lower than forecast

- Actual collections of \$1,688MM versus forecast of \$1,711MM



## Q1-2018 Collections

- Through August, General Collections were above forecast by \$100MM
- Hurricane Maria caused a sharp dropoff in collections in late September
- The largest impact from the hurricane was to Individual Tax Collections which was below forecast by \$65MM (13%)
- Act 154 and Non-Resident Withholding collections were largely insulated and ended 6% and 53% above forecast, respective
- Additionally, collections of petroleum, oil and gasoline taxes above forecast by 12%

## October 2018 Collections

- October data is being finalized by Hacienda; preliminary information indicates decline versus forecast of 37%



# Q1 FY 2018 Actual vs. Forecast Analysis – PREPA

Preliminary unaudited results

## Q1-18 results largely in line with forecast; variance related to volume and price of fuel which has offsetting impact in both revenue and expense

- For the first two months of Fiscal Year 2018, actual current expenses were greater than budgeted primarily due to greater consumption of fuel oil equivalent BBLs versus Budget (4.1MM vs. 3.0MM, respectively) and higher fuel oil prices per bbl than Budget (\$61.03 vs. \$57.17, respectively). Consequently, energy sales were greater than budgeted primarily due to the pass-through effect of the fuel oil adjustment charge
- Q1-18 revenues and current expenses were less than Budget, primarily due to the business interruption from Hurricanes Irma and Maria on September 6 and 20, respectively. Specifically, actual kWh sales for the month of September were 28.4% lower than Budget (1.0MM vs. 1.4MM, respectively)
- Current operating expenses, overall, were lower than Budget by \$36.5MM or 19.5%. Variance largely due to (1) salaries & wages lower by \$14.7MM or 12.7% and (2) corporate expenses (such as entity-wide security, insurance policies, utilities, maintenance, bank fees and restructuring charges) and misc expenses lower by \$20MM or 39.5%
- Other Expenses: actual September YTD variance is primarily attributable to the \$190.6MM accrual of sinking fund appropriations, offset by \$38.8 million lower than budgeted interest expenses of lines of credit, the non-transfer of \$90.1MM of internal funds for CIP, \$61.9 million favorable application of the CILT caps and \$11.4 million lower costs of subsidies

	Q1-18 Variance			
	Actual	Budget	\$	%
<b>Revenues</b>				
Sales from Electric Energy	\$829.1	\$868.6	(\$39.5)	(4.5%)
Other Revenues	(8.6)	1.7	(10.3)	NM
<b>Total Revenues</b>	<b>\$820.5</b>	<b>\$870.3</b>	<b>(\$49.8)</b>	<b>(5.7%)</b>
<b>Current Expenses</b>				
Fuel	322.2	260.0	62.2	23.9%
Purchased Power	151.8	215.7	(63.9)	(29.6%)
Operating Expenses	150.5	187.0	(36.5)	(19.5%)
Total Current Expenses	624.5	662.7	(38.2)	(5.8%)
Other Expenses	196.0	207.6	(11.6)	(5.6%)
<b>Total Expenses</b>	<b>\$820.5</b>	<b>\$870.3</b>	<b>(\$49.8)</b>	<b>(5.7%)</b>
Total Revenues - Total Expenses	--	--	--	--



# Q1 FY 2018 Actual vs. Forecast Analysis – PRASA

Preliminary unaudited results

## Substantial drop in September revenues was mitigated through operational savings

- September revenue decline from Hurricanes Irma and Maria
- Payroll variance due to changes in pension expense and headcount
- Electricity expense under Budget due to period of PREPA offline
- Other operating expense tracked below Budget in line with overall operations

			Q1-18 Variance	
	Actual	Budget	\$	%
<b>Revenues</b>	<b>\$227.7</b>	<b>\$269.8</b>	<b>(\$42.1)</b>	<b>(15.6%)</b>
<b>Operating Expenses</b>				
Payroll	65.0	88.2	(23.2)	(26.3%)
Electricity	24.7	36.4	(11.7)	(32.1%)
Materials Renewals & Replacement	9.4	13.5	(4.1)	(30.4%)
Other	27.0	41.4	(14.4)	(34.8%)
<b>Total Operating Expenses</b>	<b>\$126.1</b>	<b>\$179.5</b>	<b>(\$53.4)</b>	<b>(29.7%)</b>
Debt Service	65.4	78.5	(13.1)	(16.7%)
<b>Net Cash Flow</b>	<b>\$36.2</b>	<b>\$11.8</b>	<b>\$24.4</b>	<b>206.8%</b>



## Revised Funding Need for Q2-18

---

The current assessment for this quarter is a need of \$781MM which is approximately \$2.8BN lower than the original forecast. The primary drivers of the smaller need include:

- \$1.4BN lower disaster relief spend from TSA based on (i) timing of expenditures and (ii) positive working capital impact from FEMA activity
- \$1.1BN in favorable variances within the Central Government's cash flow, comprised of:
  - \$700MM from revised macroeconomic assumptions
  - \$220MM temporary variance due to operational constraints in the processing and payment of vendor invoices
  - \$180MM of better-than-expected Corporate and ACT 154 tax revenue collections (inflows from pre-Maria amounts)
- \$274MM improvement related to PREPA and PRASA
  - \$260MM related to PREPA
  - \$14MM related to PRASA

The funding need through FY 2019 is being developed in coordination with the FOMB. Although not finalized, a substantial funding need is anticipated

AAFAF and FOMB are focused on securing immediate funding for PREPA and PRASA to ensure stability of the public utilities

- Substantial revenue loss since Hurricane Maria is driving a near-term funding need for both utilities

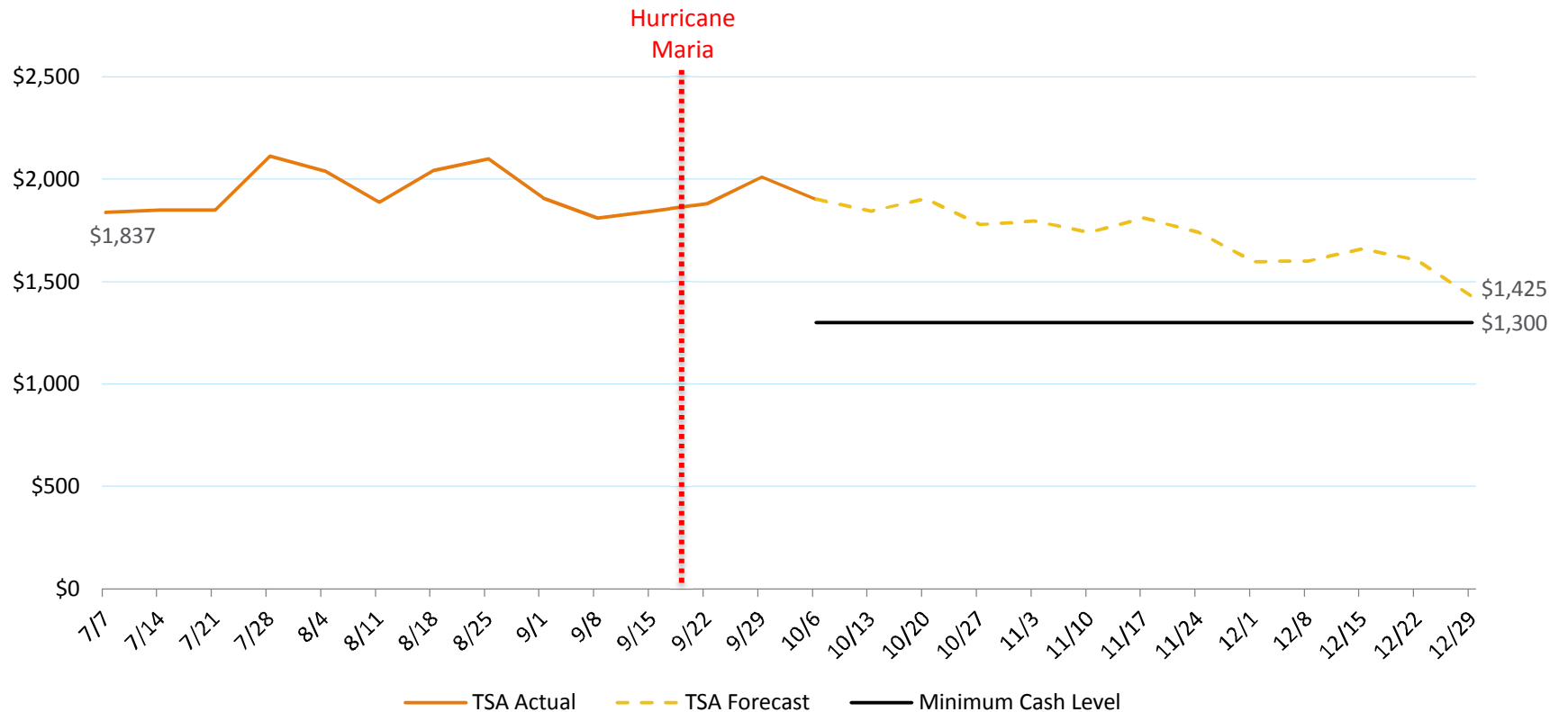


# FY 2018 Liquidity Update

Treasury Single Account (TSA)

## Near-term liquidity is expected to decline as (1) collections from Pre-Maria finish and (2) disaster spend grows

- Actual cash results in line with forecast through Hurricane Maria. Post-Maria, cash has remained in the \$1.7BN - \$2.0BN range. Cash has been supported by better-than-expected collections from Pre-Maria ACT 154 and Corporate tax activity, and is expected to decrease as disaster spend increases and Post-Maria effects on the island's businesses and workforce continue to impact TSA receipts



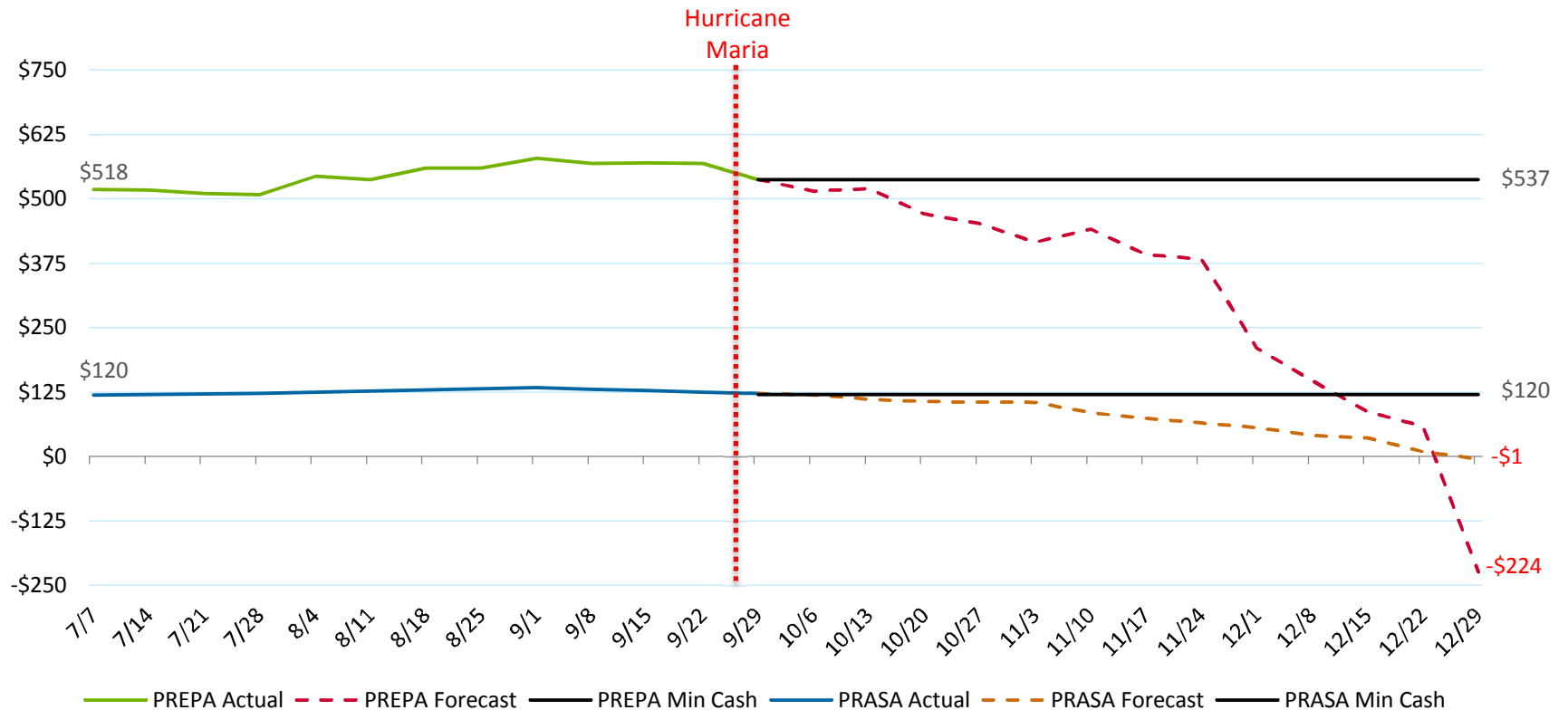


# FY 2018 Liquidity Update

PREPA and PRASA

## PREPA and PRASA are forecasted to go cash negative in December based on substantial declines in collections

- PREPA:** Minimum operating cash level of \$537MM vs. December 29<sup>th</sup> ending cash estimate of -\$224MM creates funding need of \$762MM, potentially impacting TSA if external financing not received
- PRASA:** Minimum operating cash level of \$120MM vs. December 29<sup>th</sup> ending cash estimate of -\$1MM creates funding need of \$121MM, potentially impacting the TSA if external financing not received



Note: Minimum operating cash levels are based on 60 days of operating expenses

