Financial Oversight &
Management Board
for Puerto Rico

2023 Transformation Plan for Puerto Rico

Restoring Growth and Prosperity

Volume 1: Transformation plan

As certified by the Financial Oversight and Management Board for Puerto Rico

April 3, 2023

2023 Commonwealth Fiscal Plan pursuant to PROMESA Section 201

DISCLAIMER

The Financial Oversight and Management Board for Puerto Rico (the "FOMB," or "Oversight Board") has formulated this 2023 Fiscal Plan based on, among other things, information obtained from the Commonwealth of Puerto Rico (the "Commonwealth," or the "Government").

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This 2023 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.

This 2023 Fiscal Plan is not a Title III plan of adjustment, it does not specify classes of claims and treatments, and it neither discharges debts nor extinguishes liens. For additional historical financial information, parties are referred to the Disclosure Statement approved in the Commonwealth's Title III case. Parties are referred to the Title III plan of adjustment for the Commonwealth that was confirmed by the Title III court, and the Title III court's related orders, with respect to all matters covered by the Title III plan of adjustment.

The 2023 Fiscal Plan may be amended from time to time, as appropriate at the sole discretion of the Oversight Board.

This 2023 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 2023 Fiscal Plan that the Oversight Board determines warrants a revision of this 2023 Fiscal Plan, the Oversight Board will so revise it.

For the avoidance of doubt, the Oversight Board does not consider and has not considered anything in the 2023 Fiscal Plan as a "recommendation" pursuant to Section 205(a). However, for those instances of the 2023 Fiscal Plan which specifically prefer to a Section 205(a) letter issued by the Oversight Board, the Oversight Board herby adopts those instances into the 2023 Fiscal Plan pursuant to PROMESA Section 201(b). Nevertheless, to the extent that anything in the 2023 Fiscal Plan is ever deemed by the Governor or Legislature or determined by a court having subject matter jurisdiction to be a "recommendation" pursuant to Section 205(a), the Oversight Board hereby adopts it in the 2023 Fiscal Plan pursuant to PROMESA Section 201(b).

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 and the Oversight Board, but also by 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 the Earthquakes and/or Hurricanes María, Irma, and Fiona;*
- *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; and*
- *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.*

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 warranty of facts or future events; provided, however, that the Government is required to implement the measures in this 2023 Fiscal Plan and the Oversight Board reserves all its rights to compel compliance. Nothing in this document shall be considered a solicitation, recommendation, or advice to any person to participate, pursue or support a course of action or transaction, to purchase or sell any security, or to make any investment decision.

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1 Guide to the 2023 Commonwealth Fiscal Plan

The 2023 Transformation Plan for Puerto Rico satisfies the requirement of the Commonwealth Fiscal Plan pursuant to PROMESA Section 201. The document contains three parts:

- ***Volume 1: Transformation plan***

  The 2023 Commonwealth Transformation Plan provides an overview of the Government and Oversight Board's achievements under PROMESA, a summary of economic trends and financial projections for the Commonwealth, and highlights priority areas to accelerate economic growth and restore market access for Puerto Rico. In addition, the plan describes areas where the Oversight Board is working with stakeholders to find solutions to priority challenges impacting growth.

- *Volume 2: Economic trends and financial projections – Additional Details*

  These additional details are provided to expand on the economic trends and financial projections introduced in Volume 1.

- *Volume 3: Implementation requirements and plan*

  These supplementary implementation details are provided to guide the Government's implementation of the requirements of this 2023 Fiscal Plan. Additional initiatives from prior fiscal plans remain mandatory and must still be implemented fully.

2 Introduction

In 2016, Puerto Rico was in crisis as a result of chronic financial mismanagement. The crisis was compounded by subsequent natural disasters including Hurricanes Irma and María in 2017, earthquakes in 2020, and a global pandemic resulting in shutdowns through 2022. Today, Puerto Rico is in recovery. Under the Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA) working with the government of Puerto Rico, massive government budget deficits have given way to government budgets that are aligned with annual revenues sufficient to ensure the funding of essential services and important investments. These investments can be channeled into critical government priorities and the beginnings of reform of Puerto Rico civil service so government can deliver services to residents more effectively.

Most of Puerto Rico's unaffordable debt has been dramatically reduced. The restructuring of the central government debt saved Puerto Rico more than $50 billion in debt payments to creditors. The restructurings of the Puerto Rico Sales Tax Financing Corporation (COFINA) saved about $17.5 billion, the Highways and Transportation Authority (HTA) about $3 billion, and the Puerto Rico Aqueducts and Sewers Authority (PRASA) about $400 million. The savings of more than $70 billion reduced the debt burden on the people of the Island by approximately $24,000 per person in Puerto Rico. This provided critical relief and will allow the government to manage its future finances with more certainty.

Restructuring the debt, however, was only half of PROMESA's mandate. The debt restructuring of the Puerto Rico Electric Power Authority (PREPA) and the Puerto Rico Industrial Company (PRIDCO) are pending. In order to fulfill the mandate of PROMESA, fiscal responsibility still needs to be secured over the long term. Necessary improvements to systems and procedures are underway. However, appropriate spending discipline to preserve and institutionalize the recent success and prevent Puerto Rico from falling back into old habits of overpromising and overspending that resulted in bankruptcy has not been achieved. Strong financial management is critical to long-term fiscal stability and will be required to restore access to the capital markets at reasonable rates.

Puerto Rico has made progress in these areas and many improvements are underway. Continued improvement of the financial management institutions is of paramount importance to ensure Puerto Rico has a strong and stable foundation that supports future growth.

Achieving fiscal responsibility and market access for the Commonwealth and its instrumentalities means more than restructuring and repaying debt. It means generating sufficient revenue to meet the Island's spending needs while also providing for a sustainable economy and restoring opportunity and creating a path to prosperity for the 3.2 million residents of Puerto Rico.

As the Commonwealth of Puerto Rico leaves bankruptcy behind, the Government and Oversight Board's focus will shift toward growing the economy. This revised Fiscal Plan includes urgent and concerted actions to sustain and build momentum toward growth.

The U.S. Government has provided unprecedented recovery and stimulus funds for Puerto Rico. Rarely in its history has Puerto Rico received so much support from the United States government. Puerto Rico needs and deserves this support as a matter of fairness and equity. However, this support comes with expectations – expectations of responsibility, progress, excellence, and performance. Puerto Rico can and must meet those expectations.

Fueled by over $100 billion in recovery and stimulus funds provided by the U.S. Government, Puerto Rico is experiencing a strong economic recovery. The unemployment rate is at a historic low and labor force participation continues to rise. Welcoming this strong recovery and the resilience of

Puerto Ricans, the Governor, and the Legislature must, however, recognize that this surge in federal funds is masking underlying weaknesses in economic fundamentals. Significant work to improve the baseline economy remains to be done, and political decisions that impact the revenues and budgets must be informed by this reality.

Ever since the Government and the Oversight Board together created the Fiscal Plan and the budget it enables under PROMESA, it has been a statement of priorities. This latest Fiscal Plan is a roadmap that prioritizes growth and opportunity. Establishing priorities requires making choices – and sometimes difficult choices – to ensure that necessary investments fit within expected financial resources. Decisions must reflect financial plan impacts over the long-term budget horizon to ensure the recovery and current stability will turn into long-term fiscal responsibility and market access.

The Fiscal Plan also includes critical initiatives to support economic development, including actions to improve the ease of doing business, upgrade infrastructure, prepare the workforce to compete for the jobs of the future, and a roadmap for tax reform.

The Fiscal Plan prioritizes initiatives designed to improve educational opportunities from primary to higher education. It includes a dedication to reengage with stakeholders on how to rebuild the University of Puerto Rico in light of changing trends in demographics and enrollment, with the mission of increasing career opportunity and fueling social mobility.

Reliable and affordable electricity is a prerequisite for any successful economy. While the power sector has failed residents and businesses in the past, its transformation is well underway.

With the certainty provided by the end of the bankruptcy, there is an opportunity to explore improvements to Puerto Rico's tax regime in a way that incentivizes investment and enables economic growth while ensuring sufficient revenues to fund essential services. Puerto Rico's tax regime could be more competitive for investors and more equitable for individuals. Any tax reform must be informed by rigorous evidence-based analysis to ensure that changes result in growth and investments while also providing a sustainable level of funding for government services and obligations.

These economic development initiatives are designed to maximize the impact of an unprecedented influx of federal funds. In response to multiple natural disasters and the COVID-19 pandemic, the federal government has committed over $120 billion in funding to Puerto Rico, equivalent to 150% of the Commonwealth's Gross National Product. These federal funds present an unprecedented opportunity if deployed efficiently and aligned to initiatives that improve long-term growth, resiliency, employment, and prosperity. Decisions on how to deploy these funds must be made with this singular focus in mind, otherwise a once in a lifetime opportunity will be squandered. While the Oversight Board does not directly oversee federal fund expenditures pursuant to a federally authorized or federally delegated program, federal funding has such substantial impact on the economy and its future direction that they must be part of the overall fiscal conversation.

The Fiscal Plan also prioritizes support for a high performing public sector by investing in the people, efficiency, effectiveness, and capacity of the Government to deliver more efficient and higher quality services.

The Fiscal Plan describes a path to investing in economic growth and prosperity, entrenching a legacy of strong fiscal management, and instilling a culture of public-sector excellence. This immediate post-bankruptcy period presents a true inflection point for Puerto Rico. The choices made over the next few years will define the economic future and prosperity of Puerto Rico for future generations.

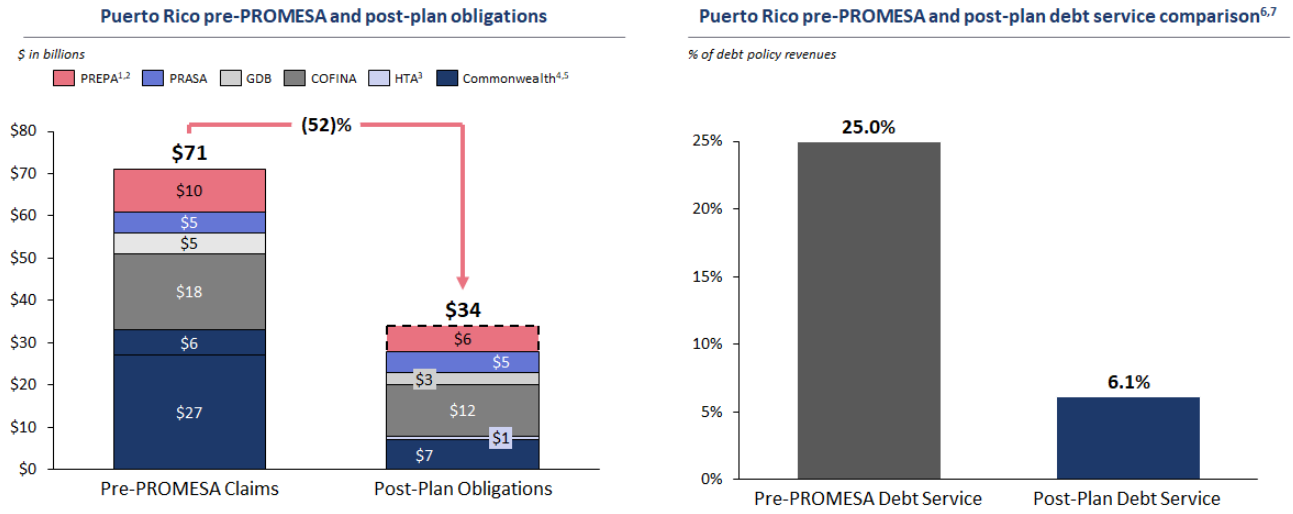
Achievements under PROMESA

2023 Commonwealth Fiscal Plan pursuant to PROMESA Section 201

3 Achievements under PROMESA

The Commonwealth's debt has been drastically reduced and made more affordable. Prior to the enactment of PROMESA, the Government accumulated a debt burden of $71 billion, roughly $24,000 per resident of Puerto Rico. Through the concerted efforts of the Oversight Board and the Government described below, the debt is on course to be reduced to $34 billion, as shown in *Exhibit 1*.

EXHIBIT 1: EVOLUTION OF PUERTO RICO'S OBLIGATIONS PRE- AND POST-PROMESA[1]



1) Pre-PROMESA Claims include ~$9 billion of bonded debt and ~$1 million est. GUCs pool per PREPA Title III Amended Disclosure Statement filed on March 3, 2023
2) Post-Plan Obligations of ~$6 billion represents total Series A and Series B Bonds per proposed terms in the pending PREPA Title III Plan of Adjustment filed on December 16, 2022.
3) Post-Plan Obligations of ~$1 billion settles ~$6 billion of CW related claims under the HTA Plan of Adjustment and supported by HTA toll revenues
4) Pre-PROMESA Claims include GO/PBA of ~$19 billion, est. GUCs of ~$3 billion, and ERS of ~$3 billion, as well as ~$2 billion PRIFA and ~$450 million CCDA and MBA (other-clawback entities)
5) Post-Plan Obligations Includes General Obligation claims,; but excludes CVI Claims
6) Pre-PROMESA Debt Service from 2022 Certified Fiscal Plan and Moody's Investor Service "State Government – U.S. Medians," 2020. (Moody's 2015 number was adjusted to exclude HTA debt service).
7) Post-Plan Debt Service represents FY23 Commonwealth debt service, including COFINA, as a percent of own-source revenues.

The lower debt service on the new debt now accounts for nearly 6% of debt policy revenues, compared to roughly 25% before the restructuring.

The reduction in the level of debt has been accomplished through multiple successful restructurings.

- In May 2017, the **Puerto Rico Government and the Government Development Bank** (GDB) signed a Restructuring Support Agreement (RSA) with a significant portion of GDB creditors to restructure GDB's debt under PROMESA's Title VI. The RSA, as amended in April 2018, reduced about $5 billion of debt to about $3 billion, reducing the face value of claims by 45%. The debt payments are secured by GDB cash flow from certain legacy assets without recourse to the Puerto Rico Government. This restructuring also offset loans owed by municipalities to the GDB against the full amount of their deposits at GDB.
- In February 2019, the U.S. District Court approved the Plan of Adjustment for the **Puerto Rico Sales Tax Financing Corporation** (COFINA), the first debt restructuring completed under PROMESA's Title III. It reduced COFINA debt by $6 billion, from $18 billion to $12 billion, and service payments by 32%, saving the people of Puerto Rico roughly $17.5 billion that will now be available to support needs of the Commonwealth.

1 Debt policy revenue refers to adjusted revenue post-measures (excluding federal transfers) plus COFINA debt service

- In August 2019, the **Puerto Rico Aqueduct and Sewer Authority** (PRASA) and the Government of Puerto Rico reached an agreement with the U.S. Environmental Protection Agency (EPA) and U.S. Department of Agriculture (USDA) to a consensual modification under PROMESA Section 207 of about $1 billion of outstanding loans. This agreement lowers PRASA's debt service payments on the U.S. Government program loans by about $380 million over the next 10 years and eliminates approximately $1 billion in guaranty claims against the Puerto Rico Government. It also provides PRASA with access to $400 million in new federal funding through various clean water programs over the next five years to support PRASA's ongoing effort to improve water quality and safety for the people of Puerto Rico.
- On January 18, 2022, Judge Laura Taylor Swain approved an historical debt restructuring by confirming the **Commonwealth Plan of Adjustment (PoA)** restructuring of approximately $35 billion of debt and other claims against the Commonwealth of Puerto Rico, the Public Buildings Authority (PBA), and the Employee Retirement System (ERS), as well as more than $50 billion of unfunded pension liabilities. The Commonwealth Plan of Adjustment went effective on March 15, 2022, a historic day for Puerto Rico. The Plan of Adjustment saves the taxpayers of Puerto Rico more than $50 billion in debt service and reduces outstanding obligations to just over $7 billion down from $33 billion.[2]

The retirement security of government employees is now protected. Historically, government pensions were not sufficiently funded, putting the ability to make pension payments for current and future retirees at risk. The PoA and 2023 Fiscal Plan, together, minimize this risk through a series of pension initiatives. Most importantly, the budget now funds estimated pay-as-you-go (PayGo) payments and the PoA authorizes the establishment of a new Pension Reserve Trust, which allocates surplus funds to support future payments to retirees.[3] The full list of ways the Government has strengthened its ability to meet future commitment to pensioners include:

- Developing the Pension Reserve Trust to strengthen the ability of the Commonwealth to fund future PayGo in the event of a future adverse economic situation in the Commonwealth;
- Enrolling employees in the defined contribution accounts created pursuant to Act 106-2017;
- Automatically enrolling all judges and teachers under the age of 45 in Social Security and allowing those age 45 or over to opt into Social Security on a voluntary basis;
- Segregating approximately $1.5 billion in employee contributions made pursuant to System 2000 and Act 3-2017 to employees' defined contributions;
- Providing $94 million benefiting over 36,000 ERS Act 1-1990 and Act 477-1951 active employees in Act 106 accounts for lost interest in Act 3-2017 accounts; and
- Freezing the defined benefit accumulation for the Teacher and Judicial Retirement Systems (TRS and JRS, respectively).

The 2023 Fiscal Plan reflects full implementation of all pension initiatives required under the PoA. The Government, with the help of the Oversight Board, successfully implemented the key provisions of the PoA related to pensions in a timely fashion. However, the Oversight Board continues to monitor the implementation of key pension initiatives included in the PoA to ensure that processes that were

2 Financial Oversight and Management Board for Puerto Rico, "Modified Eighth Amended Title III Joint Plan of Adjustment of the Commonwealth of Puerto Rico, et al.," 2022

3 Pension Reserve Trust and PayGo accounts for about 10% and 20% of General Fund expenditures in FY2023, respectively

put in place as of the PoA effective date are completed as soon as administratively possible and to ensure the retirement security required by the PoA is ultimately provided to Government employees. In addition, the Oversight Board continues to monitor activity related to the retirement benefits of Commonwealth employees including:

- Monitor compliance with PayGo requirements from Act 106-2017;
- Support establishment of operational capacities of the Pension Reserve Trust;
- Review implementation of enhanced police retirement benefit;
- Collaborate with the Government towards finding a path for partial implementation of Act 80-2020; and
- Monitor funding of Symphonic Orchestra Pension Plan.

Recent federal legislation has boosted Medicaid funding through 2027; however, long-term funding remains uncertain and presents severe risks to outyear budgets and long-term financial planning. H.R. 2617, the "2023 Consolidated Appropriations Act," increases the amount of federal funding available for the Medicaid program for five years. (FY2023-FY2027). As a result, future program costs that were forecasted to be funded using Commonwealth resources are now paid by the Federal Government in the short term. Under the 2023 Consolidated Appropriations Act, Puerto Rico is eligible to receive more than $19 billion in Medicaid funding over FFY2023–FFY2027. This total includes additional enhancements to the base federal allotment subject to certain conditions that Puerto Rico must meet.

Beginning in FY2028, however, the Commonwealth could face a "Medicaid fiscal cliff", where it becomes responsible for a significantly increased share of Medicaid expenses (expenditures that had previously been covered by federal funding since 2011).

The Congressional Budget Office's (CBO) cost analysis of the 2023 Consolidated Appropriations Act estimates that in October 2027 the federal Medicaid funding cap for Puerto Rico will fall from about $4 billion to about $500 million annually. CBO also projects that the roughly $500 million Medicaid federal funding cap will grow each year from FY2028 onwards according to the medical care services component of the Consumer Price Index for All Urban Consumers (CPI-U).[4] In addition, under current law, in October 2027 the Federal Medicaid Assistance Percentage (FMAP) for Puerto Rico would be reduced from what is effectively 76% now to the 55% statutory FMAP for most beneficiaries. However, the Medicaid program for Puerto Rico is subject to a maximum dollar threshold unlike State programs that operate with an FMAP percentage and no spending cap.

The 2023 Fiscal Plan financial projections assume current law and do not assume that future legislation will change Medicaid federal funding for Puerto Rico after FY2028. The 2023 Fiscal Plan assumes the Commonwealth would support Medicaid costs (at current program size) after the Medicaid federal funding reduction scheduled for FY2028 under current law. Periodically since 2010, the Federal government has enacted legislation to provide additional Medicaid funding to the Commonwealth to mitigate a federal funding reduction. Between FFY2011–FFY2022, the Commonwealth received an average of approximately $2 billion in federal Medicaid funding per year. If similar legislation were passed prior to the expiration of the 2023 Consolidated Appropriations Act

4 According to Section 1108(g) of the Social Security Act., from 2011 to 2016, the cap grows by the medical care services component of CPI-U as reported by BLS each year. From FY2011 to FY2016, this growth averaged 2.9%. From FY2012 to FY2022, the growth averaged 3.1%. This inflation rate differs from the health care inflation index for Medicaid and Medicare used elsewhere in the 2023 Fiscal Plan (4.5% to 5.5% from FY2020-FY2022, decreasing to 4.75% in FY2051). Instead, the medical care services component of CPI-U includes other factors that lower the inflation rate by approximately 1-3 percentage points, meaning the increase in the federal funding cap will not keep up with actual increases in expenditures.

funds, the impact of the statutory federal funding shortfall on the people of Puerto Rico could be mitigated. However, the degree and amount of any future legislation is an unknown. The uncertainty of Medicaid federal funding is a major budget risk that is reflected in the outyear financial projections.

The Earned Income Tax Credit Program (EITC) supports low income working families and has boosted workforce participation, though its costs are far exceeding local funding allocated.

Puerto Rico's labor force participation rate is significantly lower than that in the mainland U.S. This divergence is especially pronounced among workers under age 24 years and over age 45. Structural challenges in Puerto Rico, including limited access to child and elder care, regional inequities in the availability of jobs, and the average time to complete advanced degrees all may contribute to this gap. Measures to increase overall labor force participation will be instrumental in rebuilding Puerto Rico's economy.

The EITC is one of the most effective tools to increase formal sector labor force participation and to reduce poverty. The EITC increases hourly take-home wages for low-income workers and has been shown to encourage workers to enter the labor force in the United States.[5] Puerto Rico's government greatly expanded the local EITC program starting in tax year 2021. Since the adoption of the expanded EITC, Puerto Rico's non-farm employment level increased by over 83,000 from about 845,000 in January 2021 to 928,000 in September 2022.[6] Puerto Rico's labor force also increased by about 100,000 over this same period and the participation rate (the size of the labor force relative to the size of the working age population) increased from around 40.6% in 2020 (1.1 million workers) to 43.8% in 2022 (1.2 million workers). More recent data is not available on demographics but the labor force participation rate of 45 and older females, likely beneficiaries of the expanded EITC, also grew from 2019. [7]

The American Rescue Plan (ARP) Act included permanent additional funds to incentivize Puerto Rico to expand the local EITC program put in place for tax year 2019. The ARP Act permanently provides for an annual grant of up to three times local spending, capped at $600 million (indexed to US inflation). The Government, with the Oversight Board's assistance, successfully amended the existing Puerto Rico EITC program to qualify for the additional federal funding provided in the ARP Act.

The total cost of the EITC in its first year, tax year 2021, exceed initial projections. The total EITC benefits (the sum of the non-refundable and refundable portions of the EITC) amounted to $1.05 billion, received by nearly 640,000 tax filers, representing nearly half of the 1.3 million tax returns filed for tax year 2021 with an average benefit of about $1,600. Given the size of the program, the Commonwealth spent roughly $450 million of local funds on the EITC program, significantly more than $200 million budgeted for the credit. Initial filing trends indicate the total size of Puerto Rico's EITC claims for 2023 may significantly exceed those of 2022, meaning that the locally funded costs for the program may be substantially greater than the roughly $450 million in local costs in 2022. If the estimated program size meets current projections, the Commonwealth contribution for the EITC could exceed $600 million, representing a more than 50% cost share and nearly three times the initial estimate.

Given the rapid increase in locally funded costs above the level originally forecast, Puerto Rico will need to reevaluate the EITC forecast assumptions and closely monitor whether the benefits are being

5 Eissa, Nada, and Jeffrey B. Liebman. "Labor supply response to the earned income tax credit." The quarterly journal of economics 111.2 (1996): 605-637.

6 Bureau of Labor Statistics, Quarterly Census of Employment and Wages.

7 Bureau of Labor Statistics: Puerto Rico Economy at a Glance

accurately and equitably deployed, particularly to self-employed individuals and those claiming dependents.

The EITC has numerous benefits, including its ability to help lower poverty, increase labor supply, and encourage employment in the formal sector. It is, however, important that only those who qualify receive the credit. In the U.S. mainland, the IRS estimates 21% to 26% of EITC funds are paid in error. In Puerto Rico, independent reports have suggested that 24% of filers (accounting for 24% of the value of the credit paid) received the EITC even though they may not have met the qualification requirements.[8] The Government must evaluate potential fraud, waste, and abuse of the EITC program to ensure the funding goes only to those who qualify. If strong compliance measures are not enforced, the Government may need to adjust the size of the benefit to reduce the program's overall costs.

To maximize the ability to improve labor force participation, Puerto Rico should consider alleviating other obstacles as well. For instance, the EITC could be supported by a labor regulatory environment that is supportive of hiring in the formal sector.

The Labor Transformation and Flexibility Act, or Act 4-2017, eased some restrictions on labor hiring by eliminating some elements of Act 80 of 1976, also known as the Unjust Dismissal Act. While some stakeholders have called for the repeal of Act 4-2017, its elimination would likely reestablish onerous provisions related to probationary periods, overtime, and bonuses, which would all make the hiring environment more costly in the formal sector. Its repeal would discourage new hiring and reduce the labor market flexibility, thus limiting the effectiveness of the EITC expansion in promoting labor force participation, economic growth, and the revenues associated with that growth. Therefore, the Government must refrain from repealing Act 4-2017 or enacting new legislation that negatively impacts labor market flexibility, including currently proposed legislation that is similar to Act 41-2022.

On June 20, 2022, the Government enacted Act 41-2022, formerly known as House Bill 1244 (HB 1244). Notwithstanding the Oversight Board's resolution directing the Senate not to pass and the Governor not to sign HB 1244 and its resolution finding HB 1244 would impair and/or defeat PROMESA's purposes[9] the Legislature and Governor enacted and implemented Act 41-2022. In contravention of the 2022 Fiscal Plan, Act 41-2022 sought to repeal elements of Act 4-2017 and reestablish many burdensome labor restrictions. The Oversight Board filed an adversary proceeding seeking declaratory and injunctive relief pursuant to PROMESA to nullify and enjoin Act 41-2022.[10] On March 3, 2023, the Title III Court granted in part the Oversight Board's motion for summary judgment, declared Act 41 null and void ab initio, and enjoined the Government from taking any acts to help private parties implement or enforce Act 41-2022.[11] The Governor and the Speaker have filed an appeal of the injunction before the United States Court of Appeals for the First Circuit.[12] For additional details, see Volume 3.

According to a 2021 World Bank report, labor market reforms that result in greater labor market flexibility and efficiency have been associated with significant declines in informal economic

8 Alvarez, Wilmari de Jesus. Espacios Abiertos, "Our Dollars and Their Data: A Look at the 2021 Earned Income Tax Credit and Child Tax Credit," 2022

9 PROMESA § 108(a)(2).

10 Adv. Proc. No. 22-00063, ECF No. 1.

11 Adv. Proc. No. 22-00063, ECF No. 90.

12 Case No. 23-1267 and Case No. 23-1268.

activity.[13] Clearly then, the elimination of Act 4- 2017 or other actions taken that are detrimental to a labor regulatory environment supportive of hiring labor in the formal sector would put at risk the benefits of increasing the labor force participation.

13 Ohnsorge, Franziska, and Shu Yu (2021). The Long Shadow of Informality: Challenges and Policies. Advance Edition

Economic trends and financial projections

2023 Commonwealth Fiscal Plan pursuant to PROMESA Section 201

4 Economic trends and financial projections

A strong post-COVID recovery fueled by federal stimulus funding has generated near-term economic outperformance in Puerto Rico and across U.S. states. However, federal funds have an outsized and temporary impact that may mask underlying structural weaknesses. Across key economic indicators, Puerto Rico has shown strong performance as shown in *Exhibit 2*.

EXHIBIT 2: CHANGES IN KEY ECONOMIC INDICATORS IN PUERTO RICO

Indicator	Key Findings	Metrics	2010	2022	Change
Macro-economic	Puerto Rico GNP has increased in nominal terms since 2010, but real GNP is continuing to decline. This is in part due to a shrinking and aging population. High inflation in Puerto Rico and across the globe is reducing nominal gains in per capita income	Gross National Product (2010-2021, $ billions)	$64.3	$73.6	14%
		Real Gross National Product (2010-2021, $2021 billions)	$84.0	$73.6	-12%
		Economic Activity Index	138.8	124.2	-10%
		Population (2010-2021, millions)	3.7	3.3	-11%
		Population under 5 (2010-2021, 1000s)	223	104	-53%
		Population over 65 (2010-2021, 1000s)	547	740	35%
		Per Capita Income (2010-2021)	$18,791	$21,967	17%
		Inflation rate (percent)	2.5%	6.1%	3.6%
Labor force	Though having rebounded to or past 2010 levels, PR labor force participation and unemployment rate still lags even the lowest performing US state	Total Nonfarm Employment (1,000s)	932	923	-1%
		Labor Force Participation Rate	43.5%	43.8%	0.3%
		Unemployment Rate	16.4%	6.0%	-10.4%
		Manufacturing Jobs (2010-2021, 1,000s, BLS)	87	78	-10%
Fiscal	Puerto Rico successfully restructured debt obligations, which declined by 52%. General Fund revenue increased, in part due to the transference of Special Revenue Funds to the General Fund	Total Debt ($ billions, pre-PROMESA and post-plan)[1,2,3,4,5]	$71	$34	-52%
		General Fund Net Revenues ($ billions)	$9.2	$12.8	39%
		Bank deposits (2013 - 2021, $ billions)	$45.4	$81.4	79%
		Commercial Bank Lending (2013 - 2021, $ billions)	$43.5	$32.6	-25%
		Commercial Bankruptcies	10,221	3,811	-63%
		Industrial Lending (2013 - 2021, $ billions)	$8.2	$3.6	-56%
Other	School enrollment has declined along with the population. Mortgage originations, delinquencies and foreclosures have all started to decline as well	K-12 school enrollment (1000s)	493	276	-44%
		NAEP test math score[6]	218	216	-1%
		NAEP test math score points below national average	-64	-57	-11%
		Mortgage Originations (1,000s)	16	13	-19%
		Mortgage 90+ day delinquencies (Dec 2012-Dec 2022 -1,000s)	36	19	-47%
		Foreclosures (2012 - 2021- 1,000s)	4	3	-21%

1 Pre-PROMESA Claims include $9 billion of bonded debt and —$1 million est. GUCs pool per PREPA Title III Amended Disclosure Statement filed on March 3, 2023
2 Post-Plan Obligations —$6 billion represents total Series A and Series B Bonds per proposed terms in the pending PREPA Title III Plan of Adjustment filed on December 16, 2022.
3 Post-Plan Obligations $1 billion settles $6 billion of CW related claims under the HTA Plan Adjustment and supported by HTA toll revenues
4 Pre-PROMESA Claims include GO/PBA of —$19 billion, ese GUCs of $3 billion, and ERS of $3 billion, as well as $2 billion PRIFA and $450 million CCDA and MBA entities)
5 Post-Plan Obligations Includes General Obligation claims, but excludes CVI claims
6 2011 and 2022 8th grade math scores were used as proxies for 2010 and 2021 respectively

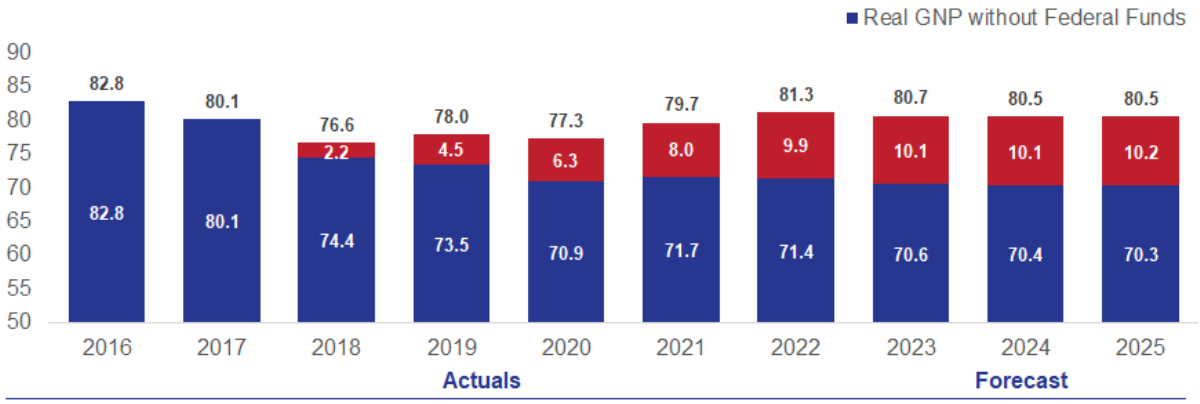
Note: Green indicates positive effect and red indicates negative effect

Sources: Puerto Rico Development Bank, Bureau of Labor Statistics, Puerto Rico Planning Board, Puerto Rico Department of Labor and Human Resources, Puerto Rico Office of Commissioner of Financial Resources, Instituto Estadistica de Puerto Rico, PRDE M1C data (2021), NAEP Report Card, Puerto Rico Community Survey

Near term, unprecedented inflows of federal funds are waning, and may be masking underlying weakness in the economy. The economy of Puerto Rico is sensitive to changes in the level of federal funding since federal funds have historically comprised approximately a quarter of personal income. In recent years, Puerto Rico has received an unprecedented infusion of federal funds in the form of Disaster Relief Funding and COVID-19 stimulus that has helped the economic recovery. Through successive federal stimulus and recovery packages, Puerto Rico received approximately $120 billion in federal funds, equivalent to over 150% of 2022 GNP. Comparable levels of federal support for major U.S. states would be equivalent to New York state receiving over $2 trillion or California receiving nearly $4 trillion in relief funds. Most of these COVID-related funds, such as enhanced unemployment benefits, Paycheck Protection Program (PPP) loans, and economic impact payments were one-time infusions that temporarily boosted output. This major influx of one-time federal funds has strengthened the economy during the pandemic, but even at this level of support Puerto Rico GNP has not yet returned to FY2016 levels, as shown in *Exhibit 3*.

EXHIBIT 3: PUERTO RICO GNP WITH AND WITHOUT FEDERAL RELIEF SPENDING FROM 2016 - 2025[14]

Puerto Rico real GNP, with and without federal relief spending
Fiscal Year, in billions of constant 2023 dollars



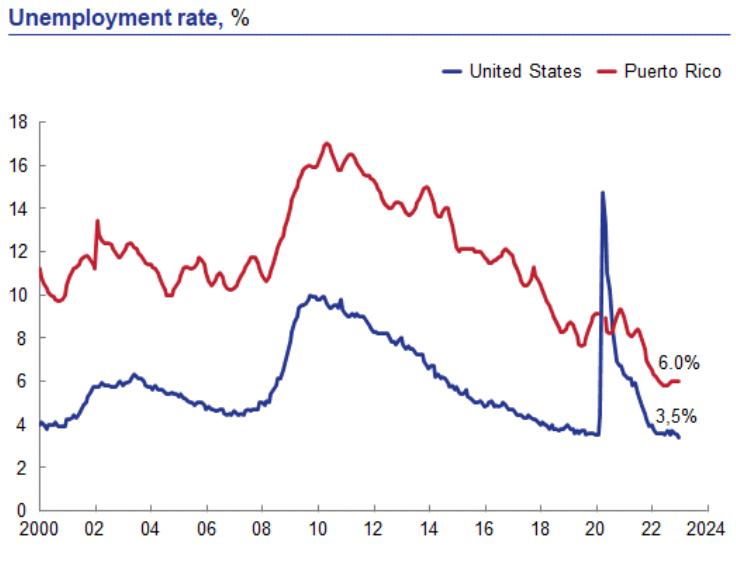
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Nominal GNP growth, %	-1.3%	-2.1%	4.7%	-0.4%	4.4%	6.9%	2.5%	1.8%	1.4%
Real GNP growth, %	-3.2%	-4.4%	1.8%	-0.9%	3.1%	2.0%	-0.7%	-0.2%	-0.0%
Real GNP growth w/o federal funds, %	-3.2%	-7.1%	-1.3%	-3.4%	1.0%	-0.4%	-1.2%	-0.2%	-0.1%
US real GDP growth, %	2.3%	3.0%	2.2%	-2.8%	5.9%	1.9%	0.3%	1.8%	2.7%

Note: The stimulus estimates for FY2018 through FY2025 were calculated as the difference between the actual or projected level of real GNP less the level of real GNP that would have occurred if there were no federal DRF, COVID-19, federal benefits, or infrastructure funds (primarily IIJA). The implicit GNP deflator was used to convert nominal values to constant 2023 dollars. Numbers in figures may not add up to totals because of rounding. Puerto Rico real GNP growth in 2020-2021 is adjusted for the impact of direct income transfers as part of COVID-19 federal relief packages. US real GDP forecast is for calendar years and sourced from the February 2023 CBO Budget and Economic Outlook.

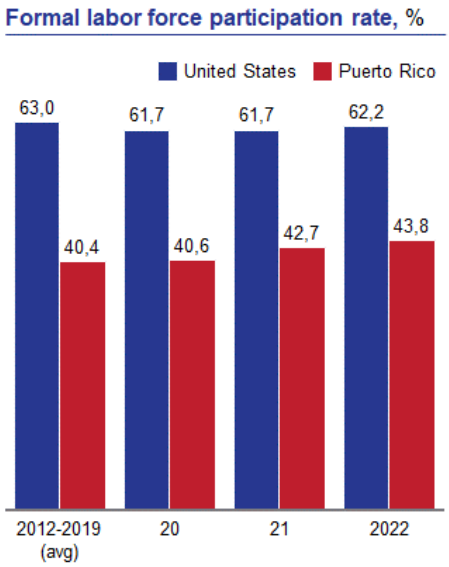
Labor force participation is up, and unemployment is at historically low levels. As Puerto Rico continues to emerge from the COVID-19 pandemic, the unemployment rate continues to decline in a trend started in 2010 reaching a historic low of 5.8% in August 2022. While unemployment is still relatively high compared to the mainland, Puerto Rico has narrowed the gap to just over 2 percentage points. In addition, labor force participation, despite being below other U.S. states, continues to rise. This increase is likely related in part to the recent expansion of the EITC program in 2021.

14 The stimulus estimates for FY2018 through FY2025 were calculated as the difference between the actual or projected level of real GNP less the level of real GNP that would have occurred if there were no federal DRF, COVID-19, federal benefits, or infrastructure funds (primarily IIJA). The implicit GNP deflator was used to convert nominal values to constant 2023 dollars. Numbers in figures may not add up to totals because of rounding.

EXHIBIT 4: PR AND U.S. UNEMPLOYMENT AND LABOR FORCE PARTICIPATION RATES



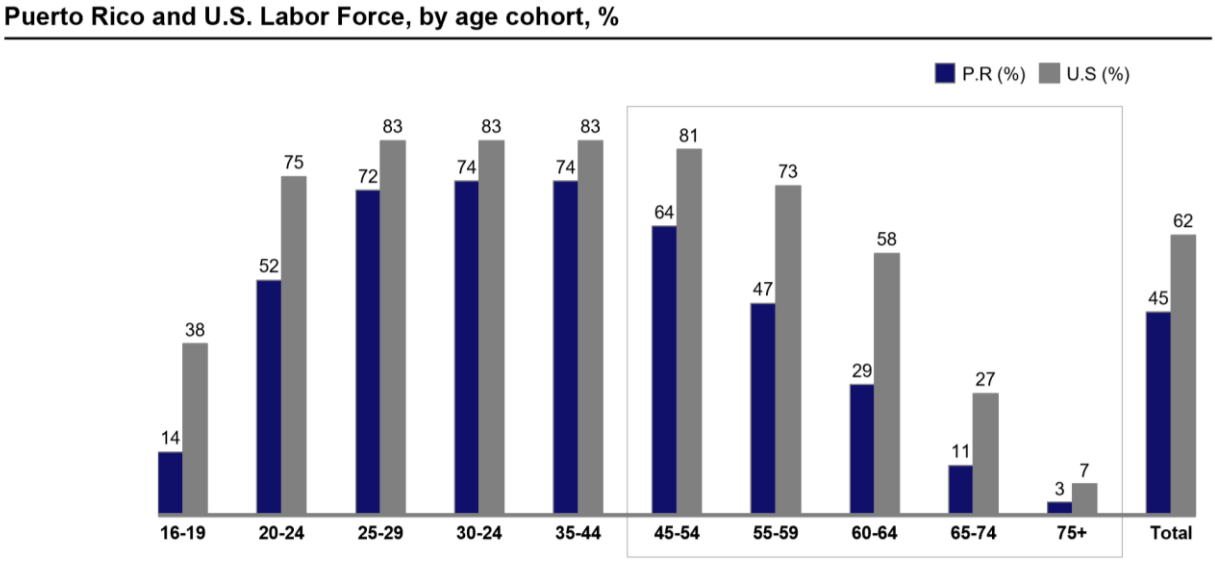
Note: While Puerto Rico's labor force participation appears much lower than US average, Puerto Rico has a large informal sector. The formal + informal labor force participation is estimated to be 62%-79%.
Source: PRDOL and Bureau of Labor Statistics



Note: Puerto Rico does not show a positive spike at start of COVID-19 pandemic because: (1) Survey was not conducted in March and April of 2020 and thus the data is missing for there two months; (2) PRDOL did not include those employed but working 0 hours as part of the unemployed.
Source: Bureau of Labor Statistics

While overall labor force participation is relatively low compared to the mainland, the gap is particularly stark among those over age 45. Given the large share of that group in the total population, their low labor force participation significantly affects the average.

EXHIBIT 5: LABOR FORCE PARTICIPATION BY AGE GROUP

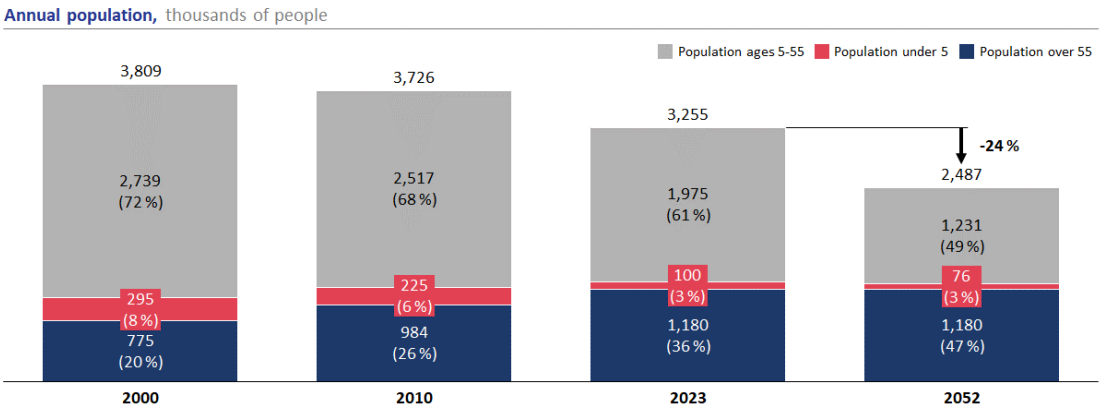


	16-19	20-24	25-29	30-24	35-44	45-54	55-59	60-64	65-74	75+	Total
PR Pop # 2021	171K	227K	224K	195K	404K	430K	221K	221K	378K	326K	2.8M
PR Pop % 2021	5%	7%	7%	6%	12%	13%	7%	7%	11%	10%	84%
US Pop % 2021	5%	7%	7%	7%	13%	13%	7%	6%	10%	6%	80%

*Totals are derived from BLS and PRDOL and represent values for December 2022 while age disaggregation is derived from Census
SOURCE: Bureau of Labor Statistics; Puerto Rico Department of Labor; Census ACS 2021 5-year estimates

The population is projected to decline due to the demographic composition of Puerto Rico's residents. In 2016, Puerto Rico began to experience negative natural population change (a higher number of deaths than births). This negative natural change has continued unabated into 2023. Natural population decline is exacerbated by outmigration. While the updated population forecast in the 2023 Fiscal Plan shows higher population projection relative to the 2022 Fiscal Plan due to updates from the 2020 federal census, the declining population trend remains.

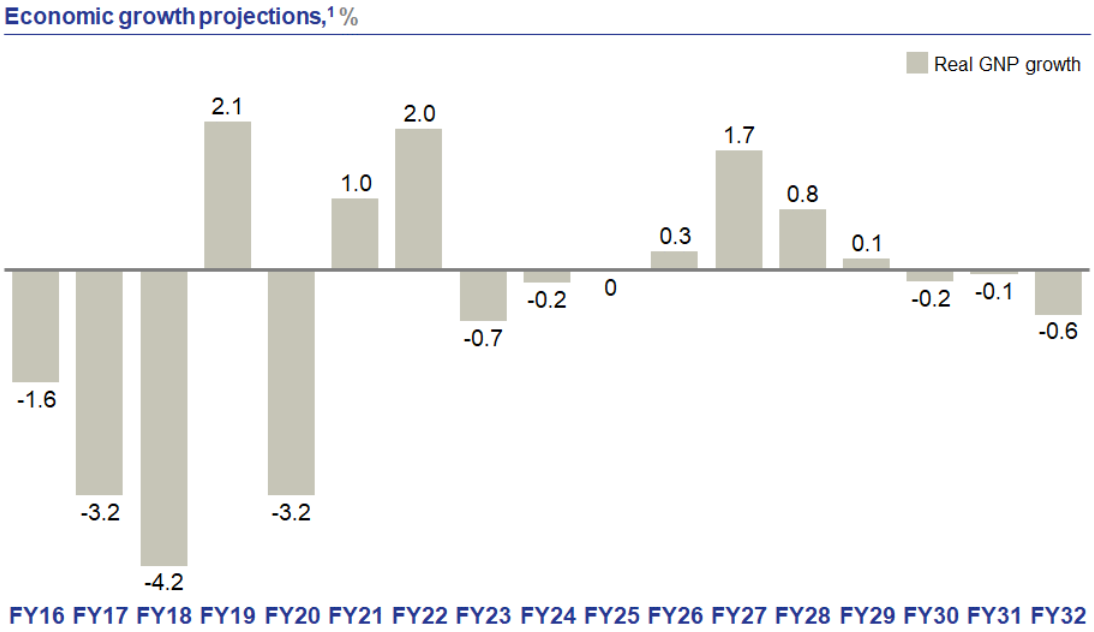
EXHIBIT 6: POPULATION GROWTH RATE OF SELECTED AGE GROUPS



Source: US Census Bureau for 2000 and 2010; Fiscal Model forecast for 2023 and 2052

As COVID stimulus funds dwindle, the growth outlook for the next several years is anemic. Households in Puerto Rico and across the U.S. have been buoyed by COVID relief funds. As those funds are drawn down, a drag on the economy may be expected as the pace of consumption and economic activity slows. These economic forecasts are critical to the revenue projections and for informing the budgeting capacity to fund government service delivery.

EXHIBIT 7: PUERTO RICO REAL GNP GROWTH RATE



1 FY2016-FY2021 actuals sourced from the 2021 Statistical Appendix to the Economic Report to the Governor; FY2022 and beyond are 2023 Fiscal Plan model estimates and projections

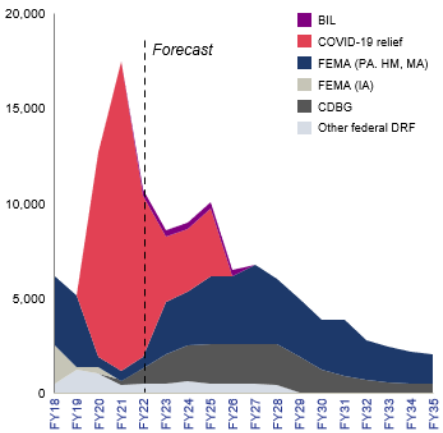
Future growth is highly dependent on Puerto Rico's ability to deploy federal reconstruction funds. The 2023 Fiscal Plan assumes full deployment of disaster relief funds by 2035 (*Exhibit 8*). Less than full deployment is a risk that would substantially lower GNP growth. For example, a scenario with 50% deployment of relief funds would result in a 1.9 percentage point decrease in average GNP growth between FY2023 and FY2027, and a scenario with no further federal reconstruction fund deployments would decrease growth by 3.1 percentage points per year over the same period. (*Exhibit 9*)

EXHIBIT 8: FEDERAL RELIEF FUNDS BY SOURCE OF FUNDING

Federal disaster relief funds by category, $M

Federal funds	FY18, $M, %	FY19, $M, %	FY20, $M, %	FY21, $M, %	FY22, $M, %	FY23, $M, %	FY24, $M, %	FY25, $M, %	FY26-35, $M, %	Total, $M
Total federal disaster relief programs	6,167	5,139	1,942	1,196	1,915	4,783	5,350	6,146	41,144	73,780
	8%	7%	3%	2%	3%	6%	7%	8%	56%	
FEMA Public Assistance, Hazard Mitigation, Mission Assignments[1]	3,607	3,772	544	585	596	2,708	2,845	3,578	26,992	45,226
	8%	8%	1%	1%	1%	6%	6%	8%	60%	
FEMA Individual Assistance[1]	2,050	130	317	(70)	10	4	0	0	-	2,442
	84%	5%	13%	-3%	0%	0%	0%	0%	0%	
CDBG	-	-	66	257	787	1,532	1,858	2,054	12,643	19,198
	0%	0%	0%	1%	4%	8%	10%	11%	66%	
Other federal disaster relief funding	509	1,237	1,014	426	522	539	646	513	1,509	6,915
	7%	18%	15%	6%	8%	8%	9%	7%	22%	
COVID-19 relief programs[2]	-	-	10,764	16,275	8,465	3,465	3,276	2,583	-	44,828
	-	-	24%	36%	19%	8%	7%	6%	-	
Bipartisan Infrastructure Law	-	-	-	-	322	323	324	325	326	1,620
	-	-	-	-	20%	20%	20%	20%	20%	
Total	6,167	5,139	12,706	17,471	10,702	8,571	8,950	9,053	41,470	120,228

Federal disaster relief funds and stimulus, $M

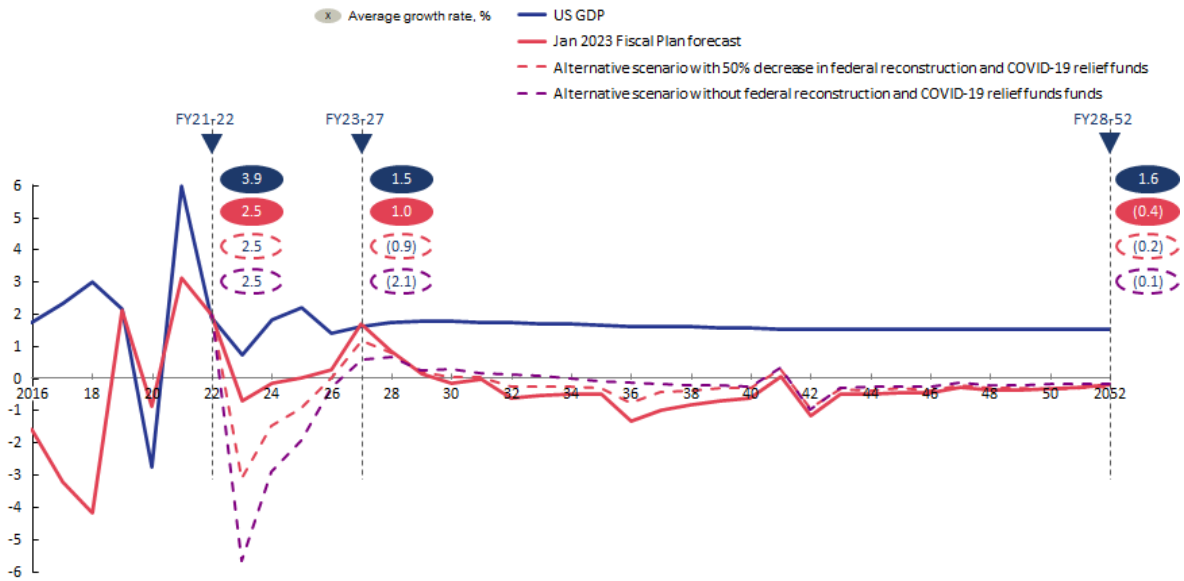


1.Includes federal assistance for 2019/2020 earthquakes

2.Includes CARES Act, CRRSA Act, ARPA, Preparedness and Response Supplemental Appropriations Act, Families First Coronavirus Aid Package, CW stimulus package

EXHIBIT 9: GNP GROWTH SCENARIOS

Puerto Rico real GNP and US GDP, % change



Note: Fiscal Plan model forecast for PR GNP is adjusted for income effects of direct federal transfers as part of COVID-19 relief programs

The near-term economic performance and trends have translated into revenue outperformance. Puerto Rico had stronger than forecasted revenue performance in FY2022, which has continued into FY2023. The 2023 Fiscal Plan raises the forecast of full year FY2023 General Fund revenues by approximately 11%. This trend is consistent with U.S. states, where 33 of 41 states reported FY2023 revenue collections above-forecast revenue collections largely driven by federal stimulus and COVID-19 rebound.[15] The 2023 Fiscal Plan projects that the lingering effects of historically unprecedented federal stimulus money will carry over through FY2024, while returning to long-term trend by FY2025. Separate from the current economic cycle, and consistent with prior fiscal plans, the Commonwealth revenue forecast attributes long-term improved collections of core sales and income taxes to improved tax administration processes. For example, Hacienda has expanded its sales and use tax (SUT) internet sales collections through regulations enabled by the passage of Act 40-2020, which allowed the Government to reach tax-collection agreements with remote sellers and marketplace facilitators.

The Puerto Rico Department of Treasury (Hacienda) is committed to implementing initiatives with the potential of increasing collections and has already successfully implemented an integrated tax system paired with increased information reporting to improve tax compliance. Hacienda is driving improvements in its culture and organization to boost enforcement capabilities and digitize the process of filing taxes to lighten the burden of compliance on taxpayers. In addition, the 2023 Fiscal Plan suggests that Hacienda evaluate strategic investment opportunities in tax compliance programs. Previous studies of large-scale investments in tax compliance programs show at least an overall return of two times the investment, potentially more if the investments are made in areas of high compliance risk.[16]

The 2023 Fiscal Plan incorporates the effects of the newly enacted Act 52-2022, signed into law on June 30, 2022. The law builds a framework for companies to voluntarily transition out from the Act 154 excise tax, and into a regime that taxes industrial development income and royalties. The new Act 52 sets the statutory tax rate at 10.5% potentially increasing to 15% if the U.S. enacts a qualifying 15% or higher minimum tax on corporate income. The tax rate is then reduced by a series of adjustments based on the tier a decree holder falls into, resulting in a net tax liability as low as 1.6%.

As described in its correspondence with Hacienda, the Oversight Board remains uncertain about Act 52's long-term effect, given that the tax is highly concentrated in a handful of multinational entities. Considering this, the 2023 Fiscal Plan does not budget incremental revenue relative to the projections in the 2022 Fiscal Plan related to Act 154 revenues. As required in the 2023 Fiscal Plan, the Government set aside a $250 million reserve out of FY2022 revenue surpluses to fund any potential Act 52 near-term revenue shortfall. The $250 million reserve must be retained until at least December 31, 2025, to allow an adequate assessment of Act 52's FY2023 revenue, after which the Act's revenue implications will be re-examined by the Oversight Board. In the interim, actual receipts under Act 52 will be closely monitored and the 2023 Fiscal Plan forecast will be updated as appropriate based on actual performance.

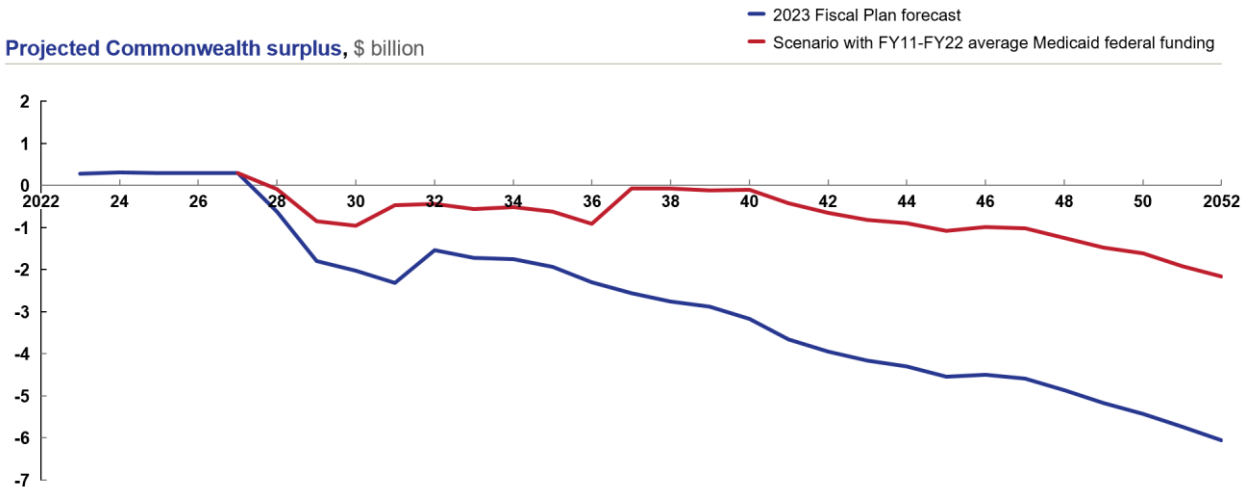
Longer-term, the changes to Federal funding for the Medicaid program create uncertainty. Changes included in the federal 2023 Consolidated Appropriations Act provided a near term boost in funding for the Commonwealth but does not provide additional Medicaid federal funds beyond FFY2027. The Commonwealth could face a "Medicaid fiscal cliff," where it becomes responsible for a significantly increased share of Medicaid expenses (expenditures that had

15 Data from 41 reporting states. National Association of State Budget Officers (NASBO), The Fiscal Survey of States; Fall 2022

16 Congressional Budget Office, "The Effects of Increased Funding for the IRS", September 2021: Government Accountability Office, "Tax Gap: IRS Could Significantly Increase Revenues by Better Targeting Enforcement Resources", December 2012

previously been covered by federal funding since 2011). The updated financial forecast reflects current federal law, while the alternative forecast shows for illustrative purposes what the forecast would look like if Puerto Rico were to receive Medicaid funding at the level of the average over the past 10 years.

EXHIBIT 10: COMMONWEALTH PROJECTED BUDGET GAPS/SURPLUS



Priority initiatives to restore market access and accelerate growth

2023 Commonwealth Fiscal Plan pursuant to PROMESA Section 201

5 Priority initiatives to restore market access and accelerate economic growth

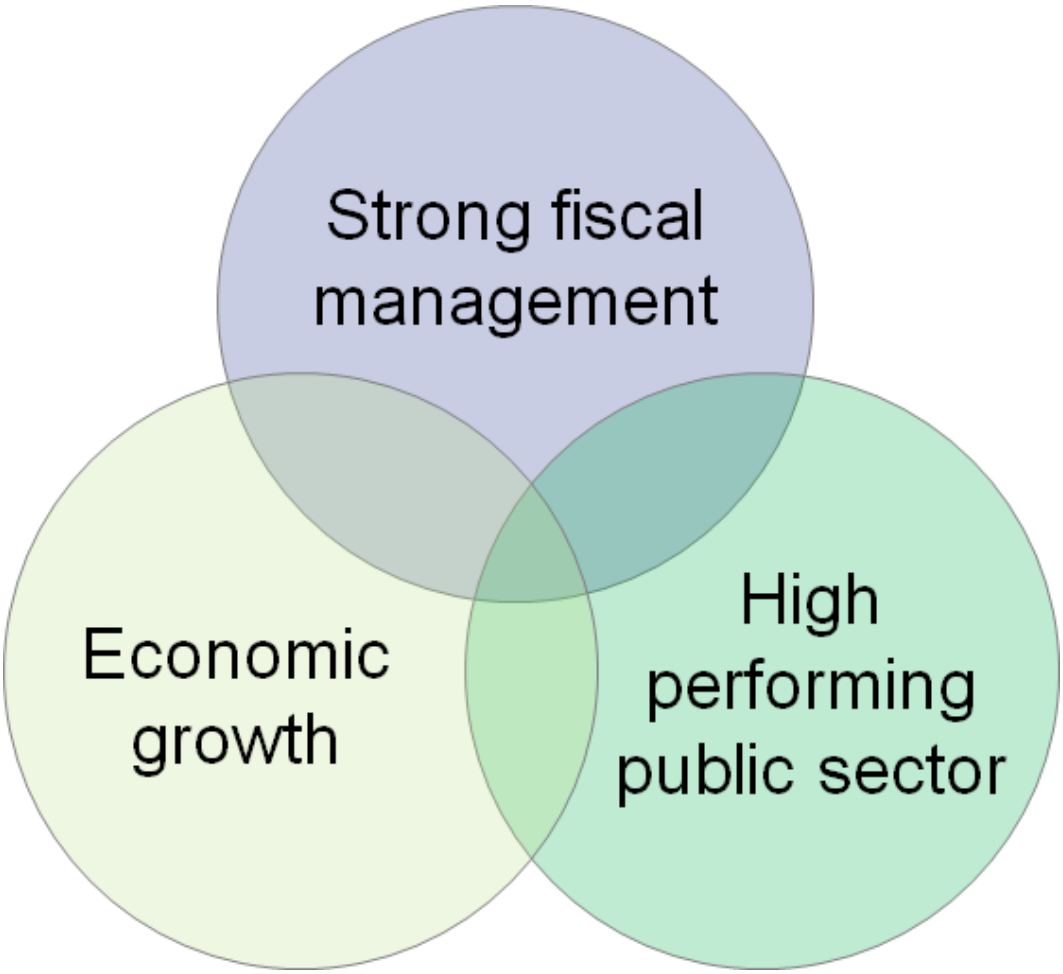
To thrive and grow, Puerto Rico needs access to capital markets at reasonable rates. All governments need the financial flexibility to invest for the future, which requires access to capital markets to finance long-term investments across economic cycles. As part of the long road to recovery post-bankruptcy, Puerto Rico will have to demonstrate to investors and the public that its financial management capabilities are strong, and its mistakes are in the past. The Government will also have to show a serious commitment to improving the delivery of government services while reforming its civil service to better serve the people.

The 2023 Fiscal Plan prioritizes resource allocation across three major pillars. These are designed to cascade throughout the Government of Puerto Rico and serve as an overarching guide for allocating the resources needed to achieve the Commonwealth long-term economic, fiscal, and social outcomes.

- **Entrenching a legacy of strong financial management:** The Government must implement a comprehensive Financial Management Agenda (Agenda), as outlined in this Fiscal Plan. The Agenda calls for timely financial audits, transparent financial reporting, improved resource management, and implementation of long-term planning objectives. Furthermore, the Agenda includes implementation of initiatives such as an improved real property registry, enhanced time and attendance reporting, debt management policy, and budget best practices. A new comprehensive Enterprise Resource Planning (ERP) system will be instrumental in supporting financial data recording, reconciliations, and timely interim and year-end financial reporting, as well as timely preparation and audit of its financial statements.
- **Instilling a culture of public-sector performance and excellence:** The Government must cultivate a high performing public sector to deliver quality public services. This would allow the Commonwealth to bolster the Government's capacity to address 21st-century challenges and fulfill the most fundamental and emerging needs of the residents of Puerto Rico. The cornerstone of these efforts is the continued investment in the Civil Service Reform (CSR) originally established in the 2021 Fiscal Plan. Having completed the CSR Pilot Program, in 2023 CSR will be scaled up government-wide with further optimization in its recruitment processes, evaluation, and organizational restructuring. The 2023 Fiscal Plan also introduces a second phase to the salary adjustment process to implement the Uniform Classification and Remuneration Plan (URP), where the Government can keep its commitment to pay market competitive salary rates while also cementing the program's sustainability.
- **Investing for economic growth:** One of the basic expectations for Government is the effective delivery of services to the people. Providing these services requires revenues sufficient to fund the level of services required. Puerto Rico's economy must generate enough revenues to support the need. The economy must grow over time and thus increase revenues available to fund the government. The fiscal and economic turnaround of Puerto Rico cannot be accomplished without the implementation of structural economic reforms that promote sustainable economic development. If implemented quickly and widely, structural reforms are projected to drive real economic growth, reversing decades-long economic challenges and enabling the economy to flourish. These reforms include power/energy sector reform to improve availability, reliability, and affordability of energy, K-12 and higher education reform to expand opportunity and improve

outcomes, and infrastructure reform to improve the efficiency of the economy and facilitate investment.

EXHIBIT 11: 2023 FISCAL PLAN RESOURCE ALLOCATION PRIORITIES



Additionally, the 2023 Fiscal Plan continues to support investments from previous fiscal plans to support frontline services and agency operations. These include continued funding to bolster healthcare infrastructure and services (e.g., through capital and IT investments at public hospitals) and funding for supporting critical Government operations (e.g., Enterprise Resource Planning implementation, additional staff to finalize centralized procurement initiatives). The 2023 Fiscal Plan also continues to support efforts to improve public safety given its impact on the quality of life of Puerto Ricans and its potentially catalytic effect on economic development. The Oversight Board and the Government are committed to redoubling their efforts to improve public safety by continuing previous investments in the workforce (e.g., salary increases, police equipment and capital) and maximizing the impact of those investments (e.g., by allocating as many sworn officers to the field as possible and improving the efficiency and effectiveness of procurement).

5.1 Strong Financial Management

The Financial Management Agenda included in this Plan was designed to implement and institutionalize the reforms necessary for Puerto Rico to achieve fiscal responsibility and economic renewal and is a critical precondition for balanced budgeting over the long-term and restoring market access. Improving financial management through the Agenda will have direct and positive impacts on the lives of the people of Puerto Rico. It will ensure federal disaster aid is used to rebuild critical infrastructure and provide aid to families and businesses. Finally, it seeks to prevent misuse of taxpayer dollars. The Financial Management Agenda includes 12 initiatives described in *Exhibit 12*.

EXHIBIT 12: INITIATIVES TO ACHIEVE STRONG FISCAL MANAGEMENT

Financial Management Agenda initiatives		
Foundational initiatives – lay the foundation for sound, sustained financial management	**Office of the Chief Financial Officer (OCFO)**	Aligns financial management functions across the Government under singular leadership, enabling consistent policies and procedures
	A Civil Service Reform (CSR)	Will result in more competitive compensation and better recruiting, training, and performance management for public service employees
Central initiatives – essential for meeting the conditions for terminating the Oversight Board	**Timely Audited Financial Statements**	Fulfil a prerequisite for issuing bonds at reasonable interest rates, and debt management policy implementation
	Debt Management Policy	Is necessary to assure investors, safeguard against future over borrowing, and ensure future market access
	Budgeting Best Practices	Budget best practices and federal funds management work together to help the Gov. more accurately forecast available revenue, prepare, and adhere to responsible spending plans, and maximize the use of federal funding to supplement local revenue sources
	Federal Funds Management	
Supporting initiatives – support other aspects of financial management improvement	**Automated time and attendance**	Will ensure that only active employees who are working get paid
	Cash & bank account monitoring	Will close idle government bank accounts and reduce erroneous bank account activity and inaccurate cash reporting
	Procurement best practices	Will make Gov. purchases transparent to the public, reduce non-competitive contract awards, and standardize procurement rules
	Non-partisan legislative scoring	Will ensure that the fiscal impact of legislative actions is accurately estimated and that budgets are based on revenue forecasts
	Real estate best practices	Will ensure that all Gov.-owned property is accounted for, properly maintained, and delivers the maximum value to the people of PR
	Real property registry	Will streamline the land registration process, verify ownership of all land on the Island, and assist with tax compliance and distribution of DRF

The initiatives in the Agenda were carefully chosen to lay a foundation for success, build on progress that has already been made, and achieve milestones that are most critical for restoring Puerto Rico's financial responsibility. Overall, the Agenda requires the Government's commitment to achieve immediate, concrete, and measurable results. The Agenda focuses on remedies to serious problems and requires the Government to implement the initiatives fully. The Agenda is being undertaken in coordination with, not instead of, other needed management improvements.

A strong financial architecture is essential to effective financial management across the Commonwealth. The Commonwealth will need to centralize all financial management functions with the intent of providing a uniform and coordinated structure to support fiscal governance and transparency. A robust financial management architecture will be instrumental in implementing the new comprehensive ERP system that will support financial data recording,

reconciliations, and timely interim and year-end financial reporting, as well as timely preparation and audit of its financial statements.

Additional core financial management goals should include centralizing treasury and liquidity management, enhancing the budget development process, driving the standardization and integration of the Government's financial information technology (IT) systems, ensuring compliance with procurement, contract, pension, and human resource management policies, strengthening oversight of Special Revenue Funds (SRF) , improving the timeliness of the Government's annual audited report and financial reporting, centralizing and validating the management of Government funds, debts, and other financial transactions, overseeing the implementation of the 2023 Certified Fiscal Plan, and ensuring robust management of federal funds.

There are several important steps the Government has already undertaken to support the implementation of the Agenda. For example, the Government created detailed implementation plans for several initiatives, with definitive timelines, milestones, action steps, budgets, and responsibilities. The Government issued the FY2019 and FY2020 audited financial statements and established a comprehensive debt management policy, which was approved by the Oversight Board. The Governor and the Legislature also enacted Act 1-2023, which creates the Budget Office of the Legislative Assembly (OPAL, for its Spanish acronym).

Annual Comprehensive Financial Reports (ACFRs) provide markets and the public with financial transparency; the Government is making progress toward the goal of providing ACFRs within 6 months after the end of the fiscal year. The Oversight Board has continuously encouraged the Government to finalize and publish its past due audited financial statements, including spending time at two public board meetings on the topic and providing increased funding for required personnel at Hacienda. The Commonwealth published fiscal year 2017 audited financial statements on August 31, 2020, taking more than 1,158 days (about 38 months) to issue. The Commonwealth published fiscal year 2018 audited financial statements on June 30, 2021, taking more than 1,096 days (about 36 months) to issue. These intervals are too long and must be shortened. By comparison, according to a study by the Governmental Accounting Standards Board (GASB), state governments issued their annual audited financial reports (AAFRs) on average 189 days after fiscal year-end during 2012-2014 and 199 days during 2015-2017.[17] Best practice calls for ACFRs to be made public approximately 180 days or 6 months after the close of the fiscal year. Some states, like Michigan, have taken less than 100 days to release their ACFRs. The Government has made initial progress in closing this gap, publishing the FY2019 statements on April 8, 2022, and the FY2020 statements on September 30, 2022.

To continue progress toward timely financial reporting the Government must, among other things, provide a detailed timeline and implementation plan, positioning Hacienda to successfully oversee the publication of the ACFRs, and signing a multi-year master audit contract. Perhaps most importantly, the Government must transition to implementing monthly closing procedures over its books and records and implement strict monitoring over the process with consequences for agencies that fall behind. Without implementing these changes, ACFR issuance will continue to be delayed and unpredictable.

The Commonwealth has adopted a comprehensive written Debt Management Policy to help protect against unsustainable borrowing practices. The Policy lays the foundation for fiscal responsibility critical for future fiscal stability and sustainable economic growth. Specifically, the Debt Management Policy includes several controls on the current and future indebtedness of the

17 Financial Oversight and Management Board for Puerto Rico, "Internal Research and Public Policy Department Reporting", 2022

Commonwealth. For example, it defines Debt Policy Revenue[18], sets a maximum annual net-tax supported debt service limit to 7.94% of the average Debt Policy Revenues for two prior fiscal years, limits new long-term borrowing to capital improvements only, mandates the periodic release of Debt Affordability Report, and sets newly issued debt to begin amortizing within two to five years of issuance and have a maximum maturity of 30 years or less. In the fiscal year 2024, the 2023 Fiscal Plan projects net-tax supported debt service to be 6.2% of debt policy revenues, in accordance with the Policy ratio. In addition, the Government has adopted a separate policy to govern the use of derivatives and structured products by Government entities. Fifty-seven percent of all Commonwealth agencies have identified their capital leases and lease-purchase transactions and submitted the information to AAFAF. In February 2023, Government representatives met with officials from the three principal credit rating agencies to commence efforts towards a future credit rating for the Government obligations.

The implementation of the Time & Attendance (T&A) project has already resulted in multiple benefits and savings. In September 2020, the Puerto Rico Department of Education (PRDE) identified almost 700 employees registered as inactive but still receiving payments. This, along with an estimated $80 million in unlawful payroll payments made in previous years, prompted the T&A initiative. Most Government agencies and public corporations have some form of electronic system for employee attendance registration in place, however, these attendance registration systems are not integrated with payroll systems. The project seeks to automatically link time and attendance systems to payroll systems, which ensures both systems have the same employee data. Such automation ensures only active employees who are working get paid, and thus prevents incorrect payroll payments being disbursed to employees across Government agencies, as well as, preventing errors in reporting and/or miscalculation of employee balances. Upon completion, which is expected to occur in the summer of 2024, 87 agencies will have been impacted. The fully automated T&A infrastructure has, to date, been implemented in four agencies and approximately 53% of total employees across the 87 agencies have been given access to register and utilize the system to monitor their attendance. Automated processes have been implemented that deliver continuous savings each pay period as payroll / leave discounts are reflected in a timely manner. For example, T&A has led to the following additional benefits in the Department of Education: increased school staffing levels, reduction by 77% in the number of employees who had not registered their time and attendance between November 2020 (project initiation) and February 2021 (project launch). Since the last Fiscal Plan, expansion T&A milestones have been completed across additional agencies: Department of Justice, Department of Health, and Medical Services Administration of Puerto Rico. The Government is working in conjunction with the Oversight Board in the implementation of the T&A project. A substantial number of agencies remain in the pipeline for completion. However, agencies with larger headcounts and more complex structures have been addressed first. Critical learnings garnered through those implementations are facilitating a ramp up in the implementation processes.

For detailed description of the Agenda, implementation plans, and progress to date, please refer to Volume 3.

The Plan of Adjustment allows the Government to demonstrate its ability to deliver balanced budgets. Before PROMESA, Puerto Rico had a history of overstating revenues and understating, misstating, or not stating all its expenditures in a given year. This lack of budgetary

[18] Debt Policy Revenues include revenues derived from taxes, fees, permits, licenses, fines, or other charges authorized by the Legislative Assembly of the Commonwealth, including COFINA, and all additional revenues or monies deposited in the General Fund or any debt service or other governmental fund of the Government, and the revenues generated by any of the entities identified in Exhibit A of the Debt Management Policy (DMP). It excludes revenues from the entities identified in Exhibit B of the DMP, owned by any municipality of the Commonwealth, proceeds from the issuance of Debt (including from a refinancing transaction), transfers from the federal government, and proceeds from claims on property or casualty insurance policies. See DMP for a comprehensive definition.

control enabled budgets which appeared to be balanced consistent with the Puerto Rico Constitution's requirements, yet resulted in deficits, forced additional borrowing, and led to dire financial situation that existed before PROMESA.

There are numerous benefits of transitioning from cash accounting to modified accrual accounting. A modified accrual accounting method is more conservative since it requires recognition of revenues when measurable and promised payments when liabilities are incurred. Consequently, the books and records will present a more realistic picture of spending, help Puerto Rico avoid overspending, and present an accurate financial picture to Government managers, taxpayers, other stakeholders, and capital markets. Furthermore, it would eliminate many one-time maneuvers and lead to genuinely balanced budgets once all the debt restructurings are consummated. The transition to modified accrual budgeting was one element that led to New York City's financial recovery in the 1970's, helping to establish stricter budgetary discipline within the city.

To fully implement modified accrual budgeting, the Government must adopt policies and train employees to record expenses, make sure adjusting entries are communicated and coordinated across agencies, and shift to having accruals and interagency reconciliations automated. Furthermore, revenues and expenditures must be periodically reviewed against the forecast to respond to changes and there must be detailed resolution certifications and expense system registration. Additionally, payroll must be adequately tracked, controlled, and integrated. Accounts payable must be automated and follow clear procedures. Purchase orders and other encumbrances must be booked for the entire year, at the beginning of the year, and as many special revenue funds as possible must be eliminated.

The Government needs to ensure that it fully funds all known liabilities and maintains sufficient rainy-day funds and reserves. As the Government seeks to regain access to capital markets, rainy-day funds and cash reserves become critically important. Investors and ratings agencies pay close attention to the level of reserves that governments maintain, and their behaviors in accumulating and spending them. For example, ratings analysts often look for governments to tie rainy-day fund contributions to revenue volatility. According to a Pew Charitable Trust report on state financial management, "credit rating analysts from all three agencies agree that well-managed states administer rainy-day funds in a way that reinforces structural balance, or a budget that is financially sustainable over several years."[19] The 2023 Fiscal Plan adopts these practices by prioritizing the allocation of revenue outperformance to rainy day funds or reserves against pre-existing obligations.

The Oversight Board and the Government can more frequently communicate to the public and the markets about the financial performance of the Commonwealth. Since its establishment, the Oversight Board typically updates the fiscal plan annually, with a handful of exceptions. This annual update includes an updated revenue and expenditure forecast, with in-year public updates provided of actual performance relative to budget for TSA revenues and agencies. Moving forward, the Oversight Board will work with the Government to move toward periodic updates to forecasts, in addition to updates on actuals vs budget (e.g., quarterly). This will allow the Oversight Board and Government to communicate transparently about changes to the outlook and get ahead of potential changes needed as conditions evolve. Note that in evaluating potential changes on a more frequent basis, the Oversight Board and Government may decide that no update is warranted (e.g., if the outlook is uncertain, or if the changes are not material).

Strong financial management is a precondition for termination of the Oversight Board. The Oversight Board was designed to have a finite life, defined objectives, and defined tools and authorities to achieve those objectives. Every action taken by the Oversight Board over the past six

19 Pew Charitable Trusts, Rainy Day Funds and State Credit Ratings, May 2017

years has been dedicated specifically and exclusively to completing its mission as stated in the law as soon as possible. The Oversight Board seeks to complete its work under PROMESA as soon as the conditions are met, so that fiscal controls, fiscal sustainability, and economic prosperity and growth can return to Puerto Rico.

PROMESA is specific in terms of how and when the Oversight Board can be terminated. The two requirements found in Section 209 of PROMESA were designed to ensure that Puerto Rico's financial outlook is stabilized, and better financial management processes are institutionalized before the Board's oversight can be terminated. Now that the Commonwealth debt restructuring is completed and restructured debt service is included in Annual Budgets, in the coming months, the Oversight Board intends to provide more guidance on the performance standards and metrics by which the Section 209 requirements will be measured. In any case, while the Oversight Board must certify that these requirements have been satisfied, the Commonwealth Government bears the responsibility for completing the work necessary to meet the Section 209 termination requirements.

Section 209 of PROMESA (Termination of the Oversight Board) states the following:

An Oversight Board shall terminate upon certification by the Oversight Board that:

1) *the applicable territorial government has adequate access to short-term and long-term credit markets at reasonable interest rates to meet the borrowing needs of the territorial government; and*
2) *for at least 4 consecutive fiscal years--*
   A. *the territorial government has developed its Budgets in accordance with modified accrual accounting standards; and*
   B. *the expenditures made by the territorial government during each fiscal year did not exceed the revenues of the territorial government during that year, as determined in accordance with modified accrual accounting standards.*

5.2 Instilling a culture of public-sector excellence

The Government and the Oversight Board have been working collaboratively to change the way government manages its human resources for generations to come, by co-designing and implementing a comprehensive and integrated Civil Service Reform (CSR).[20] The objective of the CSR is to build a more efficient, effective, and accountable government through the creation of an improved work experience and an enhanced employee value proposition for public sector employees. Civil servants are under increasing pressure to deliver important public services in an environment that demands more of them to build a high-performing government. The Government requires CSR to equip civil servants with the appropriate skills, structure, and support to tackle current and future needs effectively and to empower the workforce to carry on professional duties with competence and excellence.

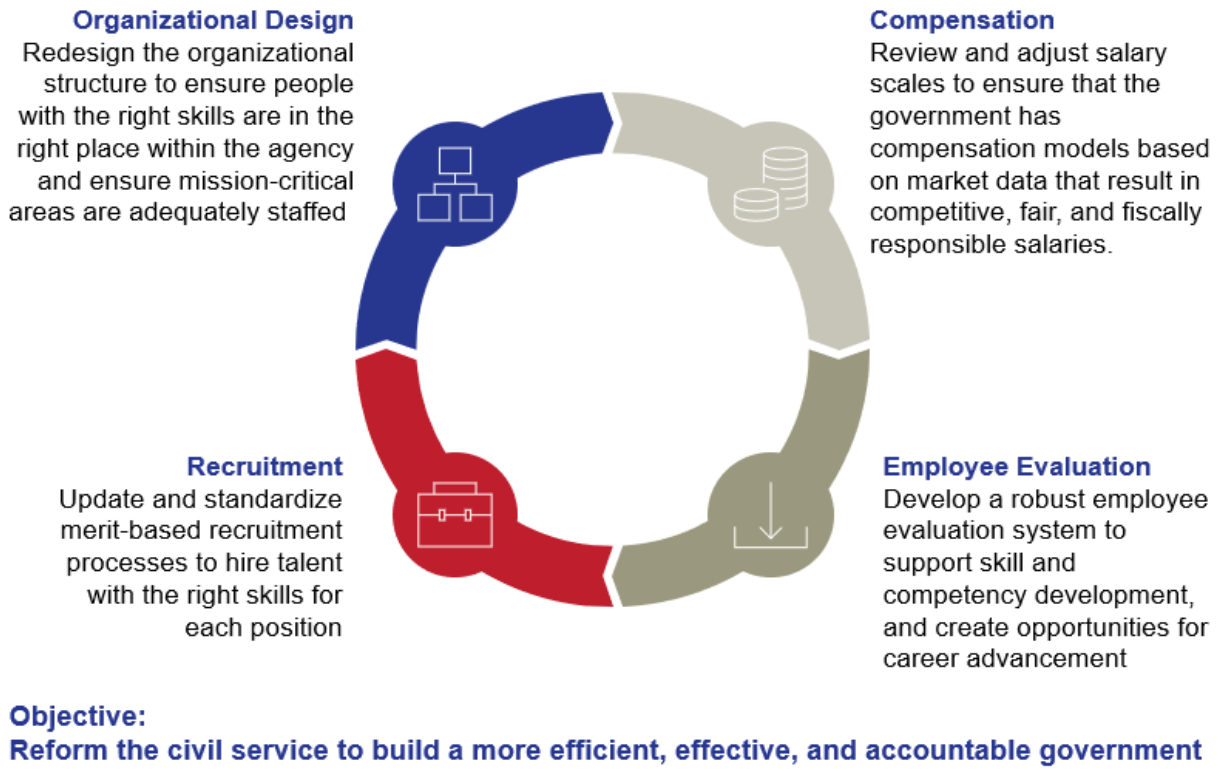
The Civil Service Reform seeks to meet this objective by:

- Revamping disjointed and outdated organizational structures across government, ensuring people with the right skills are at the right place within the organization, and mission-critical functions are adequately staffed (Organizational Design)

20 For more on the origins, approaches, and methods of the reform, refer to the CSR Pilot Essay Vol. 1 titled "Planning and Implementation of the Civil Service Reform of the Government of Puerto Rico: Methods and Practices"

- Reviewing and adjusting compensation structures and ensuring the government has data-driven and market-based compensation models that lead to competitive, fair, and fiscally responsible salaries (Compensation)
- Building a robust employee evaluation system to support the continuous development of core, technical, and leadership skills and developing clear paths to career advancement to promote greater motivation, engagement, and retention (Employee Evaluation and Development)
- Enabling tech-driven and streamlined recruitment processes to recruit the right talent for each role (Recruitment)

EXHIBIT 13: COMPONENTS OF CIVIL SERVICE REFORM



The four strategic components of the CSR are intimately intertwined and are essential to achieve lasting change in human resource management in the Government of Puerto Rico. Framing and addressing the perennial problems faced by the public workforce solely from a remunerative perspective will not result in the necessary transformation of human resources management in the government. While adopting a compensation system and philosophy that ensures competitive, equitable, and justifiable salaries in the Government is a crucial pillar of good human resource management, other important areas such as operating in an up-to-date organizational structure with clear lines of supervision and roles, having a transparent, merit-based recruitment process, and an employee-centric evaluation system centered around professional development, are also vitally important to transforming the public service.

The CSR effort has made significant progress through the initial pilot phase. The organizational design component of the pilot included an organizational review and restructuring of several critical areas within Hacienda and OGP to provide future state organizational design and

workforce investment recommendations focused on enabling more effective financial management and reporting.

In the case of Hacienda, sections and divisions were consolidated to make work areas more efficient, with clearer lines of supervision throughout the organization. The Financial Statements Office was restructured and strengthened with new principal and senior accountant positions, a new Customer Service Center was created to consolidate administrative and transactional activities to streamline internal and external consultations, and an Operational Center of Excellence (CoE) was established focused on carrying out continuous improvement and optimization studies of operational areas within Hacienda through process reengineering, data analysis and visualization, and the development of digital solutions.

The organizational component of the pilot program also brought about important changes in OGP including a new Center for Government Excellence replacing the Public Management Area. This new center was equipped with resources to be able to lead the transformation of the government and the development of more specialized work divisions in the Budget Directorate to achieve greater focus and effectiveness in budget management activities.

When the new organizational structures were established in Hacienda and OGP, the job classification system was revised to ensure that the positions were aligned with the future-state structures outlined in new designed organizational charts with revised roles and functions. Furthermore, one of the top recommendations at the pilot agencies was the recruitment of new positions to close skills gaps in critical areas leveraging external talent pools. After the development of the new structures, the positions for new recruitment in each functional area of the pilot were identified. In total, the recruitment of 112 new positions was recommended in both agencies, 85 in Hacienda and 27 in OGP. Positions vary between areas including accounting, data science, project management, and technology.

A core component of the CSR Pilot is conducting a compensation benchmarking analysis for in scope job classes to ensure their pay is closely aligned with market competitive rates of public- and private-sector peers. Pay or compensation benchmarking is a process of collecting data on the compensation for comparable jobs in the public and private sectors to establish their market rate; in other words, it is a gap analysis of what a current employee makes relative to a similar employee in the wider market.

Employee salaries were compared to market salaries for each job classification to determine the number of employees below the minimum of the market's competitive range. The analysis revealed that the salary of most of the employees participating in the pilot were below the minimum of the competitive range. Specifically, 80% of the OGP employees were below the competitive range, 73% for Hacienda. Pilot employees who were paid below the minimum of the competitive range (90% of the median) within their new job classification received a salary adjustment, while employees who were above the minimum of the competitive range did not receive an adjustment. With the application of this methodology, no employee who participated in the Pilot has a salary below the market-based competitive salary.

The 2023 Fiscal Plan requires the Government to continue the full government-wide rollout. To do so, the Government's milestones in the 2023 Fiscal Plan include:

- Implementing Phase 2 of the two-phase salary adjustment for the Uniform Classification and Renumeration Plan
- Recruiting 500 mission-critical positions across the government

The Puerto Rico Department of Education (PRDE) and other public agencies are undergoing broad Civil Service Reform to become financially and operationally sustainable and to build capacity among personnel, beginning with finance and accounting functions. The CSR efforts they are undergoing include implementing best practices in procurement, staff and financial management, and performance tracking and reporting.

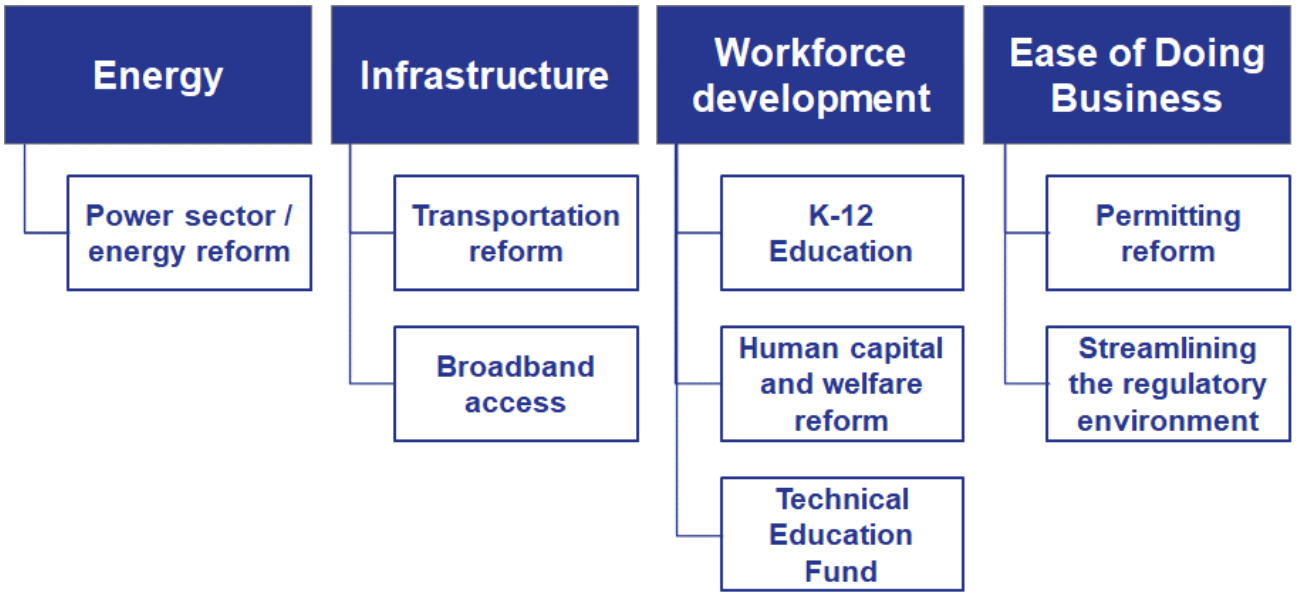
For a detailed description of public agencies' CSR initiatives, implementation plans, and progress to date, please refer to Volume 3.

5.3 Investing for economic growth

As Puerto Rico emerges from bankruptcy and the pandemic, it is more important than ever that the Government focus on a comprehensive approach to economic development. The economy of Puerto Rico is buoyed by federal funding that is temporary in nature. Without urgent actions to improve the conditions for growth and development, the economic outlook over the medium term is anemic. Realizing economic growth will require a proactive, prioritized, and coordinated effort. Large scale investments require careful definition and prioritization to execute and maximize the impact federal and local funds. Rigorous prioritization of investments based on long-term benefits is essential to ensuring the maximum benefits for residents.

The Oversight Board is eager to collaborate with the Commonwealth and Island-wide stakeholders to refine priorities with a focus on identifying near-term actions that can be taken to accelerate progress against economic development priorities. While the Oversight Board recognizes the role of the private sector in driving economic development, the 2023 Fiscal Plan has identified the following strategic areas that can significantly contribute to improving economic outcomes on the Island.

EXHIBIT 14: KEY STRATEGIC AREAS TO DRIVE ONG-TERM ECONOMIC GROWTH ON THE ISLAND



5.3.1 Power sector / energy reform

Customer-centric, affordable, reliable, sustainable, and resilient electric power service is essential for Puerto Rico's economic growth and development. As an important element of household and business activity, electricity is also a critical factor for attracting and maintaining investment in Puerto Rico. The Puerto Rico Electric and Power Authority (PREPA), which until recently was Puerto Rico's sole energy provider, has been encumbered by numerous financial and operational issues, including underinvestment in the grid and poor maintenance practices.[21] Politicized management and volatile fuel prices, exacerbated by declining energy demand and an economic contraction, have resulted in PREPA's inability to service its debt, and ultimately resulted in PREPA seeking PROMESA Title III protection in July 2017.[22]

Puerto Rico has almost twice as many forced outages as the U.S. industry average.[23] Following Hurricane Fiona, the Puerto Rico electric grid is operating in a condition of heightened risk of load shed due to generation issues. Prior to Hurricane Fiona, customers were 88 times more likely to have a load shed event, when compared to the average mainland electric customer (8.8 days a year versus 0.1 days a year). They are now approximately 500 times more likely to have a load shed event when compared to the average mainland electric customer (50 days a year versus 0.1 a year). On November 15th, 2022, the Governor of Puerto Rico and FEMA, announced that FEMA's power stabilization initiative aimed to install between 600 to 700 MW of temporary emergency generation capacity through the mobilization of power generation maritime barges and temporary land-based generator. As a result, on March 17, 2023, the first electric generator arrived. This will add 150 MWs to the system and help stabilize it, particularly during hurricane season.

PREPA has historically also significantly underperformed against mainland utilities in its elevated carbon dioxide emissions, high reliance on fossil fuels, lack of capital investments in a new generation asset, and notably, its struggle to maintain a very high reserve margin.[24] Although historically, PREPA had maintained a very high reserve margin with double the capacity needed to serve demand, most of its reserve margin is currently out of service and has been in a precarious state in recent years, consistently falling below best practices.[25] This problem was exacerbated by Hurricane Fiona.

To achieve Puerto Rico's energy system transformation, a change in PREPA's historical roles and responsibilities and their reassignment through multiple entities is imperative. Much progress has been achieved so far to begin this reorganization, but more work remains to be done.

The focus in the coming months will be to: (i) create the Puerto Rico Energy Bureau (PREB) approved subsidiaries (PREPA GenCo, PREPA GridCo, PREPA HydroCo, and PREPA PropertyCo); and (ii) assign separate PREPA assets, roles, and responsibilities into each of the subsidiaries.[26] [27]

GridCo comprises transmission and distribution, customer service and administrative functions, operated and maintained by LUMA Energy, LLC and LUMA Energy ServCo, LLC (together, "LUMA"),

21 For more information, refer to the 2022 Certified Fiscal Plan.

22 "Puerto Rico's Power Authority Effectively Files for Bankruptcy", New York Times, 2 July 2017

23 PREPA reported 417 forced outages during 2020; U.S. Energy Information Administration (EIA), Independent Statistic & Analysis, Major Disturbances and Unusual Occurrences, Year-to-Date 2020

24 See PREB Docket Number NEPR-MI-2022-0003.

25 See PREB Docket Number NEPR-MI-2022-0003.

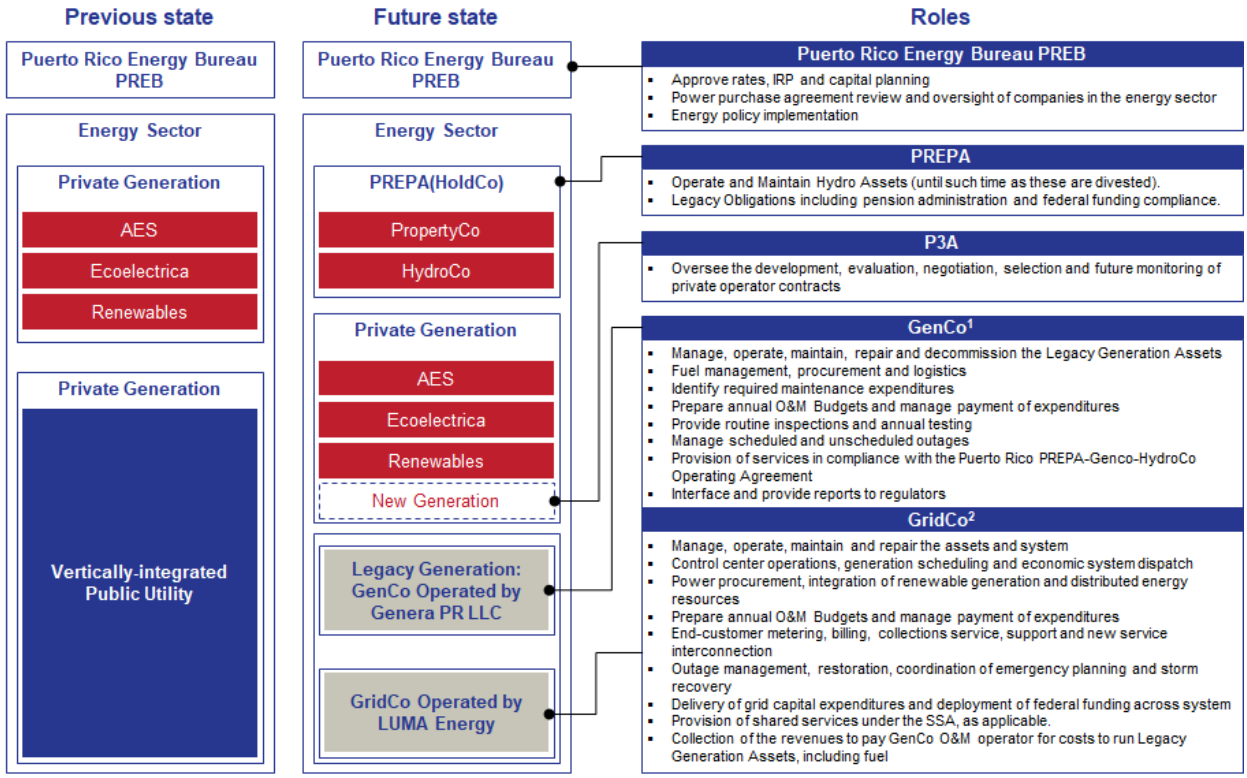
26 We note that GridCo is a subsidiary that has not yet been approved by the PREB but will instead be a "de facto" entity whilst the assets remain under the PREPA HoldCo entity. All other entities listed herein were approved pursuant to PREB's Resolution and Order issued on December 29, 2022, under PREB Docket No. CEPR-CT-2016-0018.

27 See PREPA's 2022 Certified Fiscal Plan for subsidiaries description.

GenCo comprises existing PREPA-owned thermal generation resources that are to be operated and maintained by the newly selected private operator, Genera PRs LLC ("Genera"), until their retirement, as mandated by PREPA's approved Integrated Resource Plan.[28] Genera will be responsible for, among other activities, the operation and maintenance of existing PREPA-owned generation resources, environmental compliance, safety, and eventual plant retirement and decommissioning. Moreover, Genera will be responsible for working closely with LUMA to ensure appropriate short, mid, and long-term system planning and timely and efficient execution of system-wide capital improvements.

Finally, PREPA's existing day-to-day roles and responsibilities over the operation of the energy system, deployment of federally and non-federally funded capital investments, short, medium, and long-term system planning, and energy sector oversight are expected to be reduced in the near future as such roles and responsibilities are taken up by relevant Government agencies and private operators.[29]

EXHIBIT 15: ENERGY SECTOR TRANSFORMATION – PREVIOUS AND FUTURE STATE



1. GenCo refers to the wholly-owned subsidiary of PREPA who would obtain ownership of the Legacy Generation after a potential reorganization of PREPA
2. GridCo refers to PREPA, in its capacity as owner of the T&D assets

28 See Section 1.8 of the Puerto Rico Energy Public Policy Act; Act 17-2019

29 See Section 1.7 of Act 17-2019, which states that "the Government of Puerto Rico, by itself or through the Authority or another public corporation affiliated to the Authority, shall maintain ownership of the transmission and distribution assets and may maintain ownership of the legacy power generation assets." See Section 1.8(b) of Act 17-2019 which also provides that PREPA shall only "retain personnel as are necessary to fulfill its responsibility as a Partnering Government Entity, as such term is defined in Act No. 29-2009, of assisting the Public-Private Partnership Authority in overseeing the Contractor's performance of the Partnership Contract and compliance with the performance-based metrics set forth therein." Pursuant to the LUMA agreement, PREPA delegated any duties with respect to overseeing LUMA's performance to the P3A

PREB plays a critical role in promoting an efficient, reliable, resilient, and customer-responsive energy system. PREB has been operational since its creation by Act 57-2014. PREB has the responsibility to "regulate, monitor, and enforce the energy public policy of the Commonwealth of Puerto Rico." In a transformed energy system state (after transitioning operations to private parties and emerging from Title III), PREB's responsibilities will include (i) rate setting, (ii) Integrated Resource Plan (IRP) approval and compliance oversight, (iii) protecting customers, (iv) ensuring workforce safety, and (v) renewable procurement oversight (now run through the appointed independent coordinator (Accion Group LLC)).

PREB must "review and approve and, if applicable, modify the rates or fees charged by electric power service companies in Puerto Rico."[30] In doing so, PREB must ensure rates and rate structure are rational and predictable, minimize risk and "rate shock", and create incentives to support equitability and economic development. PREB should set a clear, transparent, and efficient process for rate cases. All rate adjustments and revisions, other than those approved under the plan of adjustment, must be approved by PREB before enactment.

To ensure PREB becomes a best-in-class regulator, several structural changes are required. There are five key structural elements that will ensure PREB is a best-in-class regulatory agency[31]:

- **Governance:** It is imperative that PREB's governance structure enable independent, quick, and robust decision-making. Commissioners serving staggered terms should be supported in their oversight role by professional civil servant staff that has utility expertise.
- **Independent ratepayer advocate:** All commission decisions in adjudicatory proceedings must comply with applicable requirements of administrative procedure. Separate from the regulator, there shall be an independent ratepayer advocate, a role currently filled by the Oficina Independiente de Protección al Consumidor (OIPC).
- **Employee Structure:** PREB must comply with the career employee structure required by Act 17-2019, as described in detail in the 2022 Certified Fiscal Plan.
- **Transparency:** PREB must ensure proactive transparency, while being diligent in excluding confidential information such as customer data and operational details that would increase cyber or risk vulnerabilities. Transparency practices may include making information publicly accessible, maintaining quick and efficient decision-making, and holding public events when appropriate to consider public opinion.
- **Budget:** PREB's substantive independence must be supported by financial independence. Neither the Executive nor the Legislative branches should have authority to modify PREB's budget or reapportion any of PREB's funds without PREB's prior consent. Under current law, PREB's yearly budget is set at $20 million and collected through charges assessed on certified energy companies. To provide for a steady and predictable funding source, PREB's enabling act must be amended by the Governor and the Legislature to provide that PREB's budget shall be funded entirely through rates, as part of the revenue requirement used to determine energy rates. PREB's funds are then collected by the T&D operator through customer bills and periodically remitted to PREB. Providing for an independent and unencumbered source of income for PREB helps create the conditions to protect ratepayer interests, increase transparency, and reduce

30 Puerto Rico Energy Bureau, "About the Puerto Rico Energy Bureau," 2021

31 Refer to the 2022 Certified Fiscal Plan for the full details on the five structural elements required to ensure PREB is a best-in-class regulatory agency

system costs. PREB is subject to periodic reviews from relevant authorities regarding its use of public funds, which is consistent with all other Government agencies in Puerto Rico.

Finally, the Oversight Board is working closely with the Government to restructure PREPA's legacy debt obligations to regain access to capital markets at reasonable rates.

The Oversight Board has the authority to approve a yearly budget and restructure PREPA's existing debt through a Plan of Adjustment and oversee liquidity management. At the same time, the Oversight Board approves any private operator that engages with PREPA, and after the operator has been installed, ensures compliance with PROMESA and the energy sector transformation objectives.

On December 16, 2022, the Oversight Board filed its proposed Plan of Adjustment to restructure approximately $9.9 billion of debt and other claims against PREPA, which prior to the PREPA Title III filing would have represented an unsustainable repayment schedule; PREPA would have had to repay approximately $4.5 billion of debt service obligations between FY2019 and FY2023.

The filed PREPA Plan of Adjustment reduces PREPA's legacy financial and general unsecured debt by approximately 40%.[32] The Plan contemplates the issuance of $5.68 billion in New Bonds that will be exchanged for the discharge of about $8.4 billion in bond debt, $700 million in "Fuel Line Loans", and general unsecured claims estimated at $800 million. The New Bonds will be paid from revenues generated by a "Legacy Charge", which consists of a fixed and volumetric charge on customers' bills that will vary based on category of customer and level of usage. To protect the most vulnerable, an exempted residential class will be established to protect lower-income residential customers. The Legacy Charge is expected to generate sufficient revenue to pay down the New Bonds in 35 years based on the projections in PREPA's 2022 certified fiscal plan. For pensions, the Plan provides PREPA's pension system with treatment substantially similar to the treatment of pensions at the Commonwealth. The PREPA plan closes the pension system to new entrants, preserves the benefits of current retirees, eliminates any future cost of living adjustments (COLAs), and ensures all benefits accrued to date by active participants are protected. Pension costs on a "pay as you go" (PayGo) basis will be paid through reimbursements of pension costs paid by the PREPA ERS, to be funded by PREPA through a new separate trust and paid as an operating expense of PREPA that will require sufficient rates to ensure pensions are covered and paid.

The Plan is supported by settlements with three separate creditor classes: (i) PREPA's prepetition fuel line lenders, (ii) National Public Finance Guarantee Corporation, and (iii) Vitol. Recoveries to general unsecured creditors and PREPA's bondholders and monoline insurers who did not elect to settle under the Plan will "toggle" based on the final outcome of pending litigation with PREPA's bondholders regarding the scope of the security interest and recourse claim of the bond trustee against PREPA. Pursuant to a ruling issued by the Title III Court on March 22, 2023, the security interest of the bond trustee is limited to a relatively small amount of funds in certain bank accounts. The court also ruled the bond trustee has an unsecured claim against PREPA in an amount yet to be determined. Depending on the amount of the unsecured claim of the bond trustee ultimately allowed by the court, recoveries to most of PREPA's creditors could be as high as 100%. If the claim of the bond trustee is allowed at a higher amount, recoveries will be allocated on a pro rata basis to general unsecured creditors and non-settling bond parties and could be less than 100%."

Under the PoA, the Legacy Charge's fixed monthly fee for general residential customers is $13, whereas the volumetric charge is 0.75 c/kWh for the first monthly 500 kWh consumed, and 3 c/kWh for all monthly kWh consumed above that amount. Moreover, because the PREPA Plan contemplates payment of pensions costs as general operating expenses, PREPA Employee Retirement System

32 PREPA's legacy financial and unsecured debt totals about $9.9 billion.

pensions are to be funded through a rate increase of an estimated 2.40 c/kWh.[33] This cost will come down over time because of the freeze of pension benefits and elimination of COLAs.

Small commercial customers, on the other hand, will pay a Legacy Charge consisting of a $16.25 fixed monthly fee and a volumetric charge of 1.50 c/kWh for the first monthly 500 kWh consumed, and 3 c/kWh for all monthly kWh consumed above 500. As described above, small commercial customers would also pay the same pension charge of 2.40 c/kWh.

The Title III plan confirmation process is underway, confirmation hearing is set for mid-July 2023 and the plan is expected to go effective in Q2 FY2024.

For detailed description of the power sector / energy reform, implementation plans, and progress to date, please refer to Volume 3.

5.3.2 Infrastructure reform: Transportation sector

The transportation sector is essential for both economic and social development in Puerto Rico, given its critical role in facilitating the movement of goods and people. A well-performing transportation system can increase access to jobs and business opportunity, unlocking the productive potential of residents and firms. In turn, a transportation system can increase economic output and invite further private investment. Meanwhile, a poorly performing system can mire its residents in wasted time, inequitable access to jobs and opportunities, fractured communities, and productivity losses. Puerto Rico is currently suffering from several of these factors.

Puerto Rico's transportation sector currently underperforms across a range of outcomes, including congestion, safety, and road quality. In 2020, the Highways and Transportation Authority (HTA) reported to the Federal Highway Administration (FHWA) that 12% of Puerto Rico's lane miles are in "poor" condition. Federal law mandates that no more than 5% of lane miles may be in a "poor" state for pavement conditions on the Interstate System.[34] [35] The state of public transit infrastructure and management in Puerto Rico deserves special focus given its many challenges. Congestion is increasing in many metropolitan areas, creating additional delays for commuting and transportation of goods. High congestion is due in part to the minimal use of mass transit; the San Juan metro area has 37,000 more households commuting by private vehicle than would be expected if mass-transit usage matched the U.S. average.[36] As a result of the extra vehicle journeys, San Juan experiences two additional weeks of low air-quality days per year, compared to the U.S. average.[37] Worse yet, NOx and PM2.5 emissions from vehicles are statistically associated with higher mortality rates in the local population.[38]

While HTA has made some improvements over the past few years, including the addition of a new dynamic toll lane to alleviate congestion, the current transit system suffers from limited efficiency, route coordination, operational cohesiveness, and accessibility. These issues result in higher congestion and reduced mobility, particularly for low-income residents who experience long commutes or are forced to bear the costs of owning a private vehicle.

33 Illustrative pension charge assuming $388 million annual PREPA pension PayGo.

34 As defined by 23 USC 103(c)

35 23 USC 119(f)(1) and 23 CFR 490.315

36 22% of San Juan metro area residents commute via carpool, walking, bicycling, or public transit, compared to 27% for the U.S.

37 Low air quality defined as AQI > 100; PR has 19 days per year to U.S. median of 4, as per the Department of Natural and Environmental Resources website

38 EPA estimates excess deaths per ton of emissions at 0.002 for NOx and 0.1 for PM 2.5.

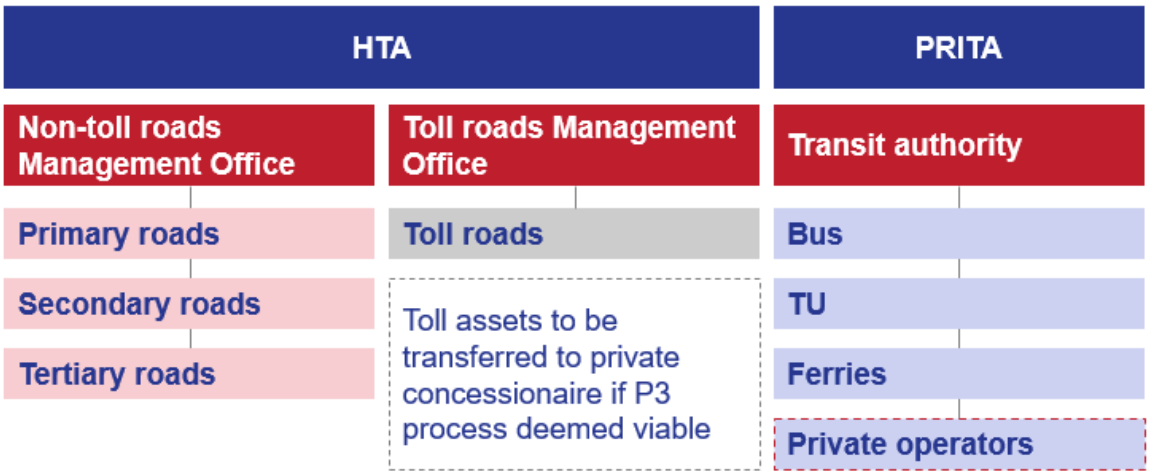
To address these issues, a comprehensive reform of the transportation sector is required. HTA, being the manager of critical assets across different transport modes, should be a key driver of that reform. To achieve this reform, the Government must:

- Reorganize Puerto Rico's transportation assets into transportation mode-specific entities to integrate all transit assets under PRITA, internally segregate HTA responsibilities into toll and non-toll assets, and create a Toll Roads Management Office
- Create an overarching transportation policy board to guide multi-modal transportation strategy
- Develop and use objective frameworks for project selection to optimize capital expenses
- Improve performance management through integration in public systems, performance-based contracts, and better supervision
- Maximize the Commonwealth's funding envelope through a more aggressive federal grants strategy and by improving grant management to attract private capital

In addition, the Oversight Board and the Government will explore the use of traffic enforcement technologies that are in use in other jurisdictions to improve safety and traffic conditions.

The cornerstone of the Transportation Sector Reform (TSR) should be the rationalization of asset ownership, with the creation of mode-specific transport entities. To achieve that, HTA would need to transfer all transit assets to the Puerto Rico Integrated Transit Authority (PRITA), establish an internal separation ("ringfence") between its toll and non-toll operations and pursue a public-private partnership for further structural independence of toll assets.

EXHIBIT 16: PROPOSED ALIGNMENT OF ASSET TYPES TO ENTITIES



The HTA Plan of Adjustment (PoA), confirmed on October 12, 2022, enables HTA to make the necessary investments to improve and maintain Puerto Rico's roads and other transportation infrastructure. The PoA became effective on December 6, 2022, marking an important milestone towards the future of Puerto Rico's transportation sector. Through the PoA, HTA is required to implement this comprehensive reorganization, enabling HTA to optimize decisions on toll pricing policy and enhance its financial position to accommodate investments that support economic growth priorities. Furthermore, it will enable HTA to deploy funds more effectively, thus reducing the proportion of pavement in poor condition and making the roads of Puerto Rico safer. Moreover,

during FY2023, HTA has implemented the first two toll fare increases since 2005, a critical measure in advancing its internal restructuring.

The rationalization of asset ownership must be accompanied by a series of other structural measures and rolled out as a holistic reform package. The October 2022 HTA Fiscal Plan establishes how the HTA, Department of Transportation and Public Works (DTOP), PRITA, the Fiscal Agency, and Financial Advisory Authority (AAFAF), and other Government agencies must support the implementation of this reform, in line with the PROMESA section 205(a) letter sent to the Government on January 29th, 2021.

The Government must create an overarching transportation policy board to guide multi-modal transportation strategy. The Transportation Policy Board (TPB) must control a common transportation fund and suggest projects for funding across all transportation modes based on their potential to advance the overall transportation strategy. These projects must be proposed by a variety of transportation stakeholders, including metropolitan planning organizations, local governments, and local transit agencies. The TPB must facilitate coordination between the agencies to ensure ease of multi-modal transportation for its users.

The Government must maximize federal funding flowing into its transportation network. By establishing a holistic federal funding strategy, attracting more private investment, and increasing ancillary revenue, HTA, alongside other agencies, can improve the transportation sector's financial health and invest more in service delivery and capital projects for public transportation users. To obtain Puerto Rico's proportional share of federal funds, transportation entities should have a proactive strategy to identify, apply for and pursue additional discretionary federal funding. Similarly, P3s and ancillary revenue are effective strategies to attract private investment into the transportation network. The importance of these efforts has been magnified with the passage of the Bipartisan Infrastructure Law, which increases the available pool of discretionary grant funding for which HTA can compete. If HTA were to get its "fair share" (i.e., 1%, comparable to Puerto Rico's share of the U.S. population), discretionary grant programs would add an additional $90 million per year for capital investments. Similarly, P3s and ancillary revenue are effective strategies to attract private investment into the transportation network.

For detailed description of the transportation sector reform, implementation plans, and progress to date, please refer to Volume 3.

5.3.3 Infrastructure reform: Broadband access and affordability

The 2012 Puerto Rico Broadband Strategic Plan (written by Connect Puerto Rico, in conjunction with the Puerto Rico Telecommunications Regulatory Board and the Puerto Rico Broadband Taskforce) established a vision of a Puerto Rico with fast, robust, redundant, and ubiquitous broadband access. Broadband provides numerous socio-economic benefits to communities and individuals, including improving labor market outcomes by enabling remote education and increasing business productivity through better connectivity, providing access to better health care through telemedicine for those in rural areas, and enhancing civic participation through better access to information.

During and post-COVID-19 pandemic, internet access has become even more important to residents' livelihoods. Across the U.S., telemedicine is becoming more widespread to deliver health services safely. As public and private school systems alike move to distance learning models, students who do not have access to reliable, high-speed internet are unable to participate – and therefore fall farther behind. Finally, many employers have shifted to remote or hybrid working models, meaning participation in the formal sector requires stable broadband access.

Unfortunately, within Puerto Rico, while there was some growth in broadband deployment in 2011-2014 (driven by an aggressive capacity upgrade of cable networks, as well as the deployment of fiber by other broadband providers), critical broadband infrastructure gaps still exist, particularly across rural areas. As of 2014 (the most recent year for which data is available), while roughly 99% of urban households across Puerto Rico had access to speeds of at least 10 Mbps download and 1.5 Mbps upload, this was true for only about 66% of rural households.[39] Broadband adoption figures across Puerto Rico also reveal a persistent gap among certain demographic groups. Broadband non-adopters in Puerto Rico are generally low-income groups, senior residents, people with disabilities, and / or individuals with less education, which mirrors demographic trends related to broadband adoption on the U.S. mainland. These gaps have possibly widened since Hurricanes Irma and María, particularly in the mountainous region of Puerto Rico, where topography has hindered replacement of damaged infrastructure.

Addressing the digital divide is critical to ensuring that all residents of Puerto Rico can take advantage of the many well-documented socio-economic benefits afforded by Internet connections. These benefits are most evident when people have access to the Internet at speeds fast enough to be considered broadband since these speeds are required to facilitate full interaction with advanced online platforms.

Governor Pierluisi issued Executive Order 2022-040 which creates the Puerto Rico Broadband Program (PRBP) under the Puerto Rico Office of Management and Budget and created an Executive and an Advisory Committee to oversee and advise the execution of projects and disbursement of funds. PRBP is responsible for coordination across local and federally funded broadband programs across multiple entities that provide funding (FCC, NTIA, Treasury). Through the competitive process held by AAFAF in 2021, Tilson Technologies was selected and contracted to not only serve as Grant Manager and Grant Creator, but also to advise the Executive Committee on the rollout of a comprehensive 5-year broadband execution plan, known as the Smart Island Initiative. The plan is being jointly developed by OMB, the office of the Governor and Tilson Technologies. This 5-year plan will serve as requisite for the different Federal Programs and will serve as a detailed map for Puerto Rico's Broadband infrastructure and Digital Inclusion projects. Broadband infrastructure projects cannot be effectively implemented without a Digital Inclusion plan to guide their deployment.

The 2023 Fiscal Plan continues the prior investment of $400 million (to be used over three years) to complement federal funding, accelerate growth in broadband access, expand resident adoption and use of online resources, develop necessary and reliable data through an assessment of broadband availability, incentivize private sector investments in broadband build-out, and improve access to faster speed offerings in underserved areas (the "Broadband Infrastructure Fund"). This emulates the approach taken by several states such as Illinois, Minnesota, California, and Kentucky. While the overarching goal of all these sources of funding is aligned with that of federal programs, their focus, scope, granting and eligibility criteria, and disbursement timeline are different and complementary.

39 Puerto Rico Broadband Taskforce, "Puerto Rico Broadband Strategic Assessment," 2015

5.3.4 Workforce development: K-12 education reform

A high-quality education is the cornerstone for creating economic opportunities for the residents of Puerto Rico—especially after years of devastating natural disasters and the unprecedented impacts of the COVID-19 crisis. Educational attainment is a key factor in strong economic growth and on conceptualizing and visualizing a 21st-century workforce development and employment system. Indeed, improvements in education will bring prosperity and growth to individuals and the Island as a whole. It also sets the groundwork for the workforce preparation pipeline that ensures people have equitable access to opportunities for acquiring in-demand skills over the course of their working lives. Across occupations, there is greater demand for so-called 21st-century skills that go beyond routine cognitive skills and stock academic knowledge to capture competencies in such areas as information synthesis, creativity, problem-solving, communication, and teamwork. However, in survey after survey, employers report that they cannot find the workers they need and that skilled positions go unfilled[40]. Despite these changes, education and training institutions in Puerto Rico, in many cases, still follow a 20th-century linear pipeline.

The Puerto Rico Department of Education (PRDE) is the largest government agency in the Commonwealth with a FY2023 General Fund budget of approximately $2.4 billion and $4.6 billion in federal funds available; its roughly 45,000 employees are charged with providing high quality education for approximately 245,000 K-12 students in about 860 schools. PRDE has been under a Third-Party Fiduciary Agreement since April 2021, as mandated by the United States Department of Education (USDE) for the receipt of USDE grant funds. Unfortunately, educational progress has been slow. PRDE trails mainland counterparts on measures of academic achievement, and natural disasters, and the COVID-19 pandemic has exacerbated the challenges PRDE faces. In 2022, PRDE students scored the lowest in the U.S. on the math NAEP exam, more than 57 points below the national average. Only 10% of 4th graders and 6% of 8th graders at PRDE met basic math understanding and no PRDE students scored proficient. Furthermore, despite technological change, globalization, and important demographic changes, PRDE has been preparing students for jobs using essentially the same set of strategies they've been relying on for decades. In other words, learning models and curricula are appropriate for the world of work 20 or 30 years ago and have been slow to adapt to the need to prepare children and youth to be lifelong learners.

Notwithstanding some recent strides, PRDE has not yet developed the internal capacity, or led with commitment to a clear plan to manage the complex educational dynamics in Puerto Rico to align financial resources to students' needs. A significant factor driving PRDE's subpar outcomes is a set of underlying bureaucratic systems and structures that are ineffective and inefficient. Rather than operating in more strategic ways while aiming to fulfill its core function of driving a more efficient and cost-effective educational delivery model, PRDE has relied on actions that enable near-term savings but hurt its ability to provide optimal services in a sustainable way in the long term. A recent examination of the existing human resources management structure at PRDE conducted by the Oversight Board revealed many deficiencies in areas such as strategic human capital planning, recruitment, selection, talent management, performance management and evaluations, and succession planning. Lastly, despite its importance, PRDE currently lacks a standardized approach to teacher and school principal professional development. Effective teachers are better equipped to develop strong lesson plans, understand their curricula, and support their students. Similarly, school

[40] A 2015 survey by the Manufacturing Institute—consistent with earlier surveys in 2001, 2005, and 2011—showed that six out of ten manufacturing companies had open skilled production positions that were unfilled because of a talent shortage. The 2018 survey suggests the skills gap has continued to grow. See Manufacturing Institute and Deloitte Insights, 2018 Deloitte and the Manufacturing Institute Skills Gap in Manufacturing, 2018.

directors are better equipped to improve school operations, implement reforms, and oversee the development of teachers when they receive robust training on how to do so[41].

To improve the capabilities and capacity of the Puerto Rican population, PRDE will need to set high aspirations and redouble efforts. This involves both immediate actions while also driving the operational and management improvements to provide better services for the children of Puerto Rico. Successful education reforms require a strategic and operational foundation to succeed. This will demand strong leadership, accountability, continuity, and willingness to work with a broad range of entities, both within the government and non-governmental organizations (NGOs). The first step is developing the right framework with different reform dimensions, and each dimension has goals to influence policy and practice. A framework is intended to recognize the strategies that are needed for making changes in the various components of the educational system. These reform dimensions are carefully chosen to lay a foundation for success, build on progress that has already been made, and achieve milestones that are most critical for reforming K-12 education in Puerto Rico.

EXHIBIT 17: K-12 EDUCATION REFORM FRAMEWORK

Financial Management	• Improving financial management to increase accountability for timely financial reporting, efficient resource use, and sharing of expertise and best practices
Civil Service Reform	• Improving the Civil Service to ensure competitive compensation and better recruiting, retention, training, and performance management for all PRDE employees
Education standards and programs	• Modernizing education standards, curriculums, assessments and educational programs to ensure students are acquiring in-demand skills and are prepared for the future of the workforce
Teacher and School Principal Development	• Improving preparation, evaluations, upskilling, reskilling, professional development, and training opportunities for school principals and teachers
Bureaucratic Systems and Structures	• Reimagining bureaucratic systems and structures to allow PRDE to fully mobilize the organization to execute on a clear strategy to accelerate progress

Stakeholder engagement is critically important for the success of any reform initiative. Stakeholders consist of the entire community involved: those in leadership positions within the school, educators, principals, counselors, administrators, NGOs and all the other members of a school district that students may or may not come face to face with. To drive effective education reform efforts and effective learning environments, all stakeholders need to come together in a meaningful way, through collaboration and therefore connection. Over the next fiscal year, in partnership with public and private stakeholders, PRDE should institute a new Panel of Education Reform Advisors comprised of nonprofits, government agencies, and school community leaders to inform policy, identify further areas for support, and monitor results to assess, evaluate, and map various opportunities for

41 Investigators found that a one standard deviation increase in teacher quality in a single grade raises annual earnings by 1% on average. Moreover, researchers linked the replacement of a low (bottom 5%) value-added teacher with an average value-added teacher to a $267,000 increase in students' average lifetime incomes per classroom taught; see Chetty, et. al, "The Long-Term Impacts of Teachers: Teacher Value-Added and Student Outcomes in Adulthood," 2011.

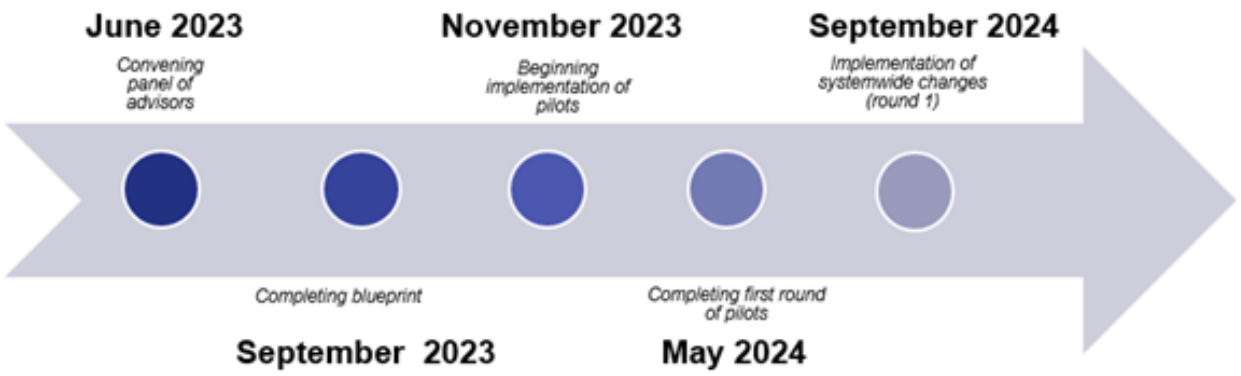
improving education outcomes on the Island. This new advisory council will develop an **Education Development Blueprint** to enable a better understanding of the main challenges, including underserved populations, as well as prioritize future investments to improve education outcomes. This Education Development Blueprint should contain an ambitious set of initiatives to improve educational outcomes and deliver better labor market results on the Island. This Blueprint should require PRDE's commitment to achieve immediate, concrete, and measurable results, focused on remedies to serious problems and commitments to implement them fully. Once the Education Development Blueprint is completed, PRDE will work with the Oversight Board to ensure all initiatives, actions and projects are properly planned and funded through various sources (including federal funds). The Blueprint should be goal oriented, innovative, and accountable and should incorporate:

- **Project charters** that establish the goals and structures of measures, identify risks and obstacles, and establish metrics and KPIs for each initiative, action or project.
- **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 metrics and KPIs.

This new Blueprint will allow the Commonwealth to reprioritize spending based on initiatives that are essential to having a high-quality education system on the Island.

Given the amount of administrative and political challenges with reform in Puerto Rico, a gradual and more narrowed approach, focused on actionable and concrete initiatives might be more practical. Adopting a pilot-then-scale implementation approach will enable government leadership to see reforms in action and allow for policy changes and new programs to be adapted and tweaked as required prior to a larger-scale implementation and roll out. It also allows leadership to get a more concrete and accurate idea of the operational and financial challenges that might be faced in the implementation of reforms across the education system. As such, the Oversight Board and PRDE will work with the Panel of Education Reform Advisors on designing pilot projects derived from the list of actionable initiatives on the Education Reform Blueprint. Pilots can be designed to be implemented within an educational region, a school, or a municipality. The Oversight Board will allocate $10 million for pilot projects for fiscal year 2024.

EXHIBIT 18: TIMELINE FOR NEW EDUCATION REFORM INITIATIVES



5.3.5 Workforce development: Human capital and welfare reform

Historically Puerto Rico's economy has suffered from low labor force participation. Increasing the productivity of Puerto Rico's labor force is essential to creating growth. There are several structural reasons why Puerto Rico is lagging its potential, and they each must be addressed with tailored actions. Despite recent improvement, levels of productivity have much room to grow. In 2022, Puerto Rico's formal labor force participation rate was on average 43.8% (slight increase from 2020s 40.2%), among the lowest in the world and far below U.S. and Caribbean averages.[42] There are several factors that contribute to this low rate, which include suboptimal eligibility criteria for welfare programs and underperforming human capital development systems influencing behavior. Additionally, relative to U.S. states, Puerto Rico lacks some features of the social safety net that may hold back labor participation. Specifically, certain nursing facility and home health services covered by Medicaid on the mainland are not covered in Puerto Rico, which may increase elder care responsibilities faced by working age residents.

According to the Congressional Budget Office, labor force participation is an important component of economic growth, since it allows firms to expand employment and increase production and has an important impact on fiscal and budget trends.[43] Puerto Rico has an opportunity to increase this rate and must aspire to reach at least the rate of the lowest U.S. state (West Virginia, with 54.7%), to provide its economy with the dynamism it requires to foster growth.[44] Puerto Rico must continue to build on this progress in 2023 if it continues to implement human capital and welfare reforms.

Changes to welfare program rules are needed to address disincentives to working in the formal economy while ensuring sufficient nutritional support, housing, and health care.[45] For instance, current welfare eligibility guidelines sharply phase-out beneficiaries as their income rises, informally taxing workers for seeking work within the formal economy.[46] This phenomenon is particularly pronounced in the case of recipients of public housing assistance: even securing a part-time minimum wage job can render a beneficiary ineligible for public housing, potentially forcing some beneficiaries to choose between formal sector work and keeping their homes.[47] Working with the Federal Government to revise eligibility guidelines and other policies that encourage residents to work could help resolve these issues.

In addition, the 2023 Fiscal Plan requires the Government to introduce a work / volunteer requirement for select adult NAP beneficiaries, with full implementation by the beginning of FY2024.

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42 For comparison, the U.S. has a 61% labor force participation rate. In the Caribbean, the Dominican Republic's labor force participation rate was 62% in 2020. Jamaica and Haiti's rates were even higher (64% and 65%, respectively). See the World Bank Group via International Labor Organization, "Labor force participation rate, total (% of total population ages 15+)," 2020; and Departamento del Trabajo y Recursos Humanos, "Empleo y Desempleo en Puerto Rico," Diciembre 2020

43 Congressional Budget Office, "Factors Affecting the Labor Force Participation of People Ages 25 to 54," 2018

44 U.S. Bureau of Labor Statistics, "Employment status of the civilian noninstitutional population 16 years of age and over by region, division, and state, 2019-2020 annual averages," 2020

45 Cordero-Guzmán, "The production and reproduction of poverty in Puerto Rico," in Nazario, ed. Poverty in Puerto Rico: A Socioeconomic and Demographic Analysis with data from the Puerto Rico Community Survey (2014), 2016

46 For example, a single parent with two dependents and an annual income below $4,900 was eligible to receive up to $4,229 dollars in annual Nutritional Assistance Program (NAP) benefits in 2016. But should this parent work 35 hours per week at minimum wage—generating approximately $12,180 in annual earnings, they would become ineligible for NAP benefits. Net of taxes on their earning, full-time formal sector work would increase household income by only $7,002—the equivalent of a $3.86 effective hourly wage. Effective hourly wage income equals income received from formal sector work minus income lost from loss of benefits.

47 The U.S. Department of Housing and Urban Development (HUD) sets income limits that determine the eligibility of applicants for assisted housing programs. For U.S. states, the limit to be considered an "extremely low-income family" is determined by HUD using the Department of Health and Human Services (HHS) poverty guidelines. However, an alternative formula is used to define an extremely low-income family for Puerto Rico—30% of the median family income for an area or lower—which results in lower income limits. The current HUD income limits are so low that, in many cases, entering the formal labor market in a part time job at the minimum wage would result in losing eligibility for housing assistance. Thus, the existing income limits directly disincentivize formal employment and hinder economic mobility in Puerto Rico.

NAP is Puerto Rico's largest Government assistance program and provides nutritional assistance. Unlike mainland Supplemental Nutritional Assistance Program (SNAP) benefits, NAP does not include a work / volunteer requirement. The Federal Government requires that all able-bodied adult beneficiaries without dependent children work, volunteer, or be enrolled in worker training classes for at least 20 hours per week to receive SNAP benefits.[48] When well-designed, including such requirements in similar programs has led to increases in labor force participation.[49] The implementation of a NAP work / volunteer requirement will contribute to increasing labor market participation and achieve the potential growth anticipated from human capital and welfare reforms. The 2023 Fiscal Plan requires the Government to implement a NAP work / volunteer requirement.

The 2020 Fiscal Plan provided design parameters and specific milestones for the implementation of a NAP work / volunteer requirement. The Government committed to a 2-year implementation timeline beginning in July 2021. Reaching full and timely implementation requires urgent and nimble action from the Government. While the Administration of the Socio-Economic Development of the Family (ADSEF, by its Spanish acronym) began to review the NAP caseload to identify eligible NAP participants, progress has been delayed due to Hurricane Fiona. As such, the Government has yet to meet any major milestones in the implementation of this reform.

In August 2021, the Food and Nutrition Service at the U.S. Department of Agriculture announced an update to the Thrifty Food Plan, which is an important part of determining benefit amounts for NAP and other federal nutrition assistance programs. Due to this change, the funds available for benefit payments in Puerto Rico are projected to increase in future years.[50] These additional funds could help further incentivize labor force participation if a work / volunteer requirement is successfully implemented.

Worker training programs in Puerto Rico can be better coordinated across 15 local workforce boards. DDEC may focus on creating partnerships with private and social sector organizations to strengthen worker training and conduct regular analyses to understand private sector labor market needs. DDEC can also create a holistic strategic plan that outlines how different workforce development efforts blend in a cohesive way across programs and the 15 local boards.

Investments in the health care workforce are needed to support high-quality primary care as the foundation of the health care system. Primary care provides continuous, person-centered, relationship-based care that considers the needs and preferences of individuals, families, and communities. Creating economic opportunities, including job trainings and workforce development will address academic and social impacts. Anecdotal evidence suggests that the health sector in Puerto Rico is facing a shortage in medical personnel. Currently, Puerto Rico does not have a system in place to track data regarding the number of working health care professionals. Many professionals may continue to renew their membership with a professional association; however, this does not mean they are actively practicing in Puerto Rico. In addition, there is no data regarding the number of residents that graduate and remain working in Puerto Rico. Hence, the Oversight Board in collaboration with the Department of Health (DOH) and AAFAF will conduct a health care workforce analysis to understand the current health care workforce environment in Puerto Rico. The goal is to particularly understand the health care workforce supply and demand imbalance of today

48 NAP also differs from SNAP in that the former is funded as a block grant and is administered separately from the latter; see Center on Budget and Policy Priorities, "How Does Household Food Assistance in Puerto Rico Compare to the Rest of the United States?" 2020

49 For example, when the Federal Government first introduced a work / volunteer requirement for recipients of Temporary Assistance for Needy Families (TANF) benefits in the 1970's, the labor force participation rates of single mothers rose while poverty rates among single mothers and children both fell substantially. See Gitis, "A Menu of Options to Grow the Labor Force," 2017, and Gitis and Arndt, "The 20th Anniversary of Welfare Reform," 2016

50 USDA FNS, "USDA Thrifty Food Plan Increase Means More Nutrition Assistance Funding for Puerto Rico," 2021

and tomorrow, as well as understand the drivers of the supply and demand. The results gathered will be used to identify and help address the most acute health care workforce shortages in the Commonwealth. By determining the key drivers for the lack of health care workers, targeted ideas may be identified to continue supporting the health care system. At present, an initial kick-off meeting was held between the participating project sponsors, a list of potential stakeholders has been identified, and a draft survey has been prepared with the expectation to begin distribution of such survey during FY2023.

Investments are being deployed to support doctors who serve the residents of Puerto Rico. The 2020 Fiscal Plan allocated a total of $30 million over two fiscal years to be used to establish an independently managed loan forgiveness program to incentivize doctors to practice in underserved areas in Puerto Rico. Under this program, each medical student or resident would be eligible for up to $25,000 of loan forgiveness per year of service – up to four years – in underserved areas and the program would be administered by an independent third party. On June 24, 2022, AAFAF officially published the request for proposal (RFP) to identify the third-party vendor for the Medical Student Loan Forgiveness Program (MSLFP) and provided the proponents until July 22, 2022, to submit the proposals. After further evaluation no proponents were received, and an updated RFP will be published during FY2023.

The Government can invest to close core skill gaps and ensure the people of Puerto Rico can compete in a global economy. Creating an aligned, 21st century workforce that prepares residents of Puerto Rico to thrive is the central challenge to maintaining economic competitiveness over the next decade.

As the pace of technological change has accelerated, one core skill gap in Puerto Rico is around technical capabilities. To close the gap for people who are already in the workforce, Puerto Rico must take a learner-centric approach to make it easier to access targeted technical education.

Meanwhile, as businesses look for new skillsets, they are often willing to look beyond college graduates to fill open roles – especially for technical skills. According to a recent 2019 survey by Future Workforce, 90% of employers would hire candidates who validate their knowledge using a certification, digital badge, or coursework in lieu of a college degree.[51] In addition, 55% of employers often offer jobs to people who have not finished college. Today, the number of both traditional and non-degree credentials is rising. There are now 315,067 unique credential programs from non-academic organizations, with the largest categories being digital badges and online course completion certificates. Coding bootcamps, which have appeared recently, were responsible for over 1,000 unique credentials.

The University of Puerto also has important role to play in adapting offerings to meet 21st century workforce in line with Puerto Rico's economic development strategy. For additional details, please refer to Section 6.1.

5.3.6 Workforce development: 21st Century Technical Education Fund

Prior fiscal plans allocated $50 million for a 21st century Technical and Business Education Fund. Given that DDEC has talent and workforce development as one of their priorities in their economic development framework, PRopósito, and they are the recipients of funds under the Workforce Innovation and Opportunity Act (WIOA), the Oversight Board has agreed to make DDEC the owner of this initiative. DDEC's vision is for Puerto Rico to become a top 10 state/territory for 21st Century talent by generating about 50,000 additional skilled workers over the next 10 years. To

51 Future Workplace and Wiley Education Services, "Closing the Skills Gap," 2019

achieve this vision, DDEC has identified the following five key initiatives to launch and begin delivering impact:

- **PR 21st Century Skills Stacked Credentials:** developing a common, aligned framework fully adopted by employers and educational institutions to ensure the roughly 45% of students who only gain partial college credits have a recognized credential
- **PR 21st Century Talent Accelerator (Skilling Platform):** building a cadre of 'digital athletes' via immersive skill building in project-based, short-form programs with deep employer integration
- **12 Career Connection Lighthouses:** driving earlier exposure and awareness to 21st century skills and career paths
- **Scaling 21st Century Credentials (with existing providers and employers):** unlocking the expansion of proven models through capacity-building grants
- **PR QuickStart:** providing a one-stop shop to deliver talent pipeline and upskilling/reskilling solutions to employers

To ensure success, clear targets have been identified for each initiative that includes robust strategic oversight, program management and executional support, Teams/partners to build, launch and begin to scale on both PR 21st Century Skilling Platform and PR QuickStart, Resources driving rigorous grant lifecycle support from design to dissemination to selection to compliance and impact tracking. To support these efforts, DDEC must establish an engagement mechanism with stakeholders (e.g., a private sector taskforce), publish the results of initiatives, create, and put in place a regular monitoring and evaluation process.

5.3.7 Ease of doing business reform

The last issued World Bank report in 2020 rated Puerto Rico the 65th most business-friendly economy.[52] By comparison, the U.S. mainland ranked 6th in that same year. While future publications of the Doing Business report were suspended due to data irregularities, the metrics are still relevant to track business friendliness. Puerto Rico's lowest rankings are in construction permitting, property registration, electricity, and the ease of paying taxes (for more information, please refer to the 2022 Fiscal Plan). Given heightened levels of competition in the global marketplace, Puerto Rico needs to further address the needs of the Puerto Rico business community and urgently improve its business friendliness through implementation of ease of doing business reforms to support economic growth.

Empirical studies (cited in the 2022 Fiscal Plan) have shown that, because of business environment reforms, countries have seen increases in firm creation, business activity, investment, and economic growth, after controlling for other relevant variables, such as overall governance and macroeconomic conditions.

The Government can improve the conditions for growth and opportunity by taking concrete action to:

- Improve the availability, cost, and reliability of electricity

52 The World Bank suspended the publication of future reports due to irregularities found in the data in the Doing Business 2018 and 2020 reports. Nevertheless, the data and benchmarking contained in the last published report continues to be a good resource to compare Puerto Rico's doing business regulatory environment to best-in-class economies and top reformers.

- Streamline approvals and make permits more easily accessible to enable business activity and public safety
- Overhaul property registration to facilitate financial transactions and promote disaster-preparedness
- Simplify paying taxes to spur economic activity
- Reduce occupational licensing requirements to facilitate labor force participation
- Minimize the negative effect of inefficient on-Island freight regulations
- Strengthen offshore investment attraction efforts
- Prime tourism attraction efforts for success

There has been some progress in improving important elements of the business climate, including:

- **Reducing the amount of time required to register a property**. Department of Justice – Public Registry (DOJ-PR) has consolidated 29 sections into 12 offices as of September 2022 and is expected to consolidate down to 9 offices by the end of 2023. The digitization efforts for property registrations may also have boosted productivity at the DOJ-PR by roughly 2%, enabling the registry to process 4,500 more applications than it receives per month.[53]
- **Increasing investment attraction**. Invest Puerto Rico (IPR) exceeded some of its internal targets in FY2022 related to new leads, new businesses, new investment committed, and average payroll. IPR has also identified areas of growth and targets for the FY2023 in its IPR Strategy and Workplan, including 2,000 qualified prospect opportunities, $320 million in new investment committed, and $45,000 on average payroll.
- **Encouraging strategic development projects**. The Naval Station Roosevelt Roads (NSRR), located in eastern Puerto Rico in the municipality of Ceiba, was closed on March 31, 2004, as part of the Base Realignment and Closure (BRAC) process. Like many other former military installations, NSRR can be redeveloped into a multi-purpose destination with housing, retail, educational institutions, and recreational opportunities. Projects include a magnet secondary residential high school, a commercial beach and marina, several businesses related to eco-tourism, a multi-tenant shipyard facility and a ship dismantling and materials recovery operation. Additionally, PR Conservation Trust signed a contract to establish a visitor center at NSRR and a research and education center in the natural and social sciences which would also include archeological excursions, an information center, an incubator for community enterprises, and an archaeological repository. Most recently in 2020, the LoopLand Hotel broke ground at Roosevelt Roads, making it the first hotel on the property.
- **Growing the tourism sector**. According to third-party travel data, Puerto Rico was moving the needle of growth in this sector before the onset of the COVID-19 pandemic, and it has had a strong recovery since. In 2022, approximately $8.9 billion in revenue was generated by travel and tourism in Puerto Rico, representing a 39% increase over the previous high in 2019. Puerto Rico also reported peaks in incoming travelers and a record level of local tourism employees. One

53 Puerto Rico Department of Justice-Property Registry, performance data shared with Oversight Board, 2019; The World Bank Group, "Ease of Doing Business Report 2020", 2019.

market insights and research firm with a focus on travel and tourism found that likelihood of visiting Puerto Rico in the next 12 months has grown to 22%, as of late 2022.[54]

There is significantly more work to be done to accelerate progress on improving ease of doing business and improve growth and opportunity. Building on initial efforts, the Government will need to redouble its efforts to meaningfully move the needle on key ease of doing business processes. Specifically, the Government must focus on:

- **Streamlining the permits and approvals processes**. Adopting a Joint Regulation will reduce regulatory uncertainty and provide a common set of rules for agencies to move forward. Successful adoption of a new regulation will require considerable effort on the part of multiple agencies. The Puerto Rico Planning Board (PRPB) must continue to engage in close communication with these agencies to monitor the progress and quickly resolve roadblocks to implementation of the regulations. To improve efficiency in permitting processes and reduce bottlenecks in the system, roles and responsibilities need to be rebalanced among OGPe and other entities. The Government should implement training programs, enhanced processes for internal communications, and a tool for centralized knowledge sharing to ensure standard procedures are implemented and followed throughout various permitting offices. Also, PRPB should coordinate with municipalities to complete territorial planning, including updating existing plans, since not having territorial plans up to date can cause significant delays in the permitting process. In addition, the Government must simplify the overall permitting process, establishing thresholds for smaller, less complex projects with reduced application requirements. Finally, the Single Business Portal (SBP) should also be overhauled to have expanded capacity to handle more users and provide a better customer interface.
- **Accelerating Invest Puerto Rico's implementation of its strategic plan to compete with U.S. mainland states and other economies for investments that arise as companies move to shift their supply chains to the U.S. to minimize risk**. IPR should also continue to partner with DDEC to implement a strategic plan to promote Puerto Rico as a cold-chain sensitive materials logistics center. Puerto Rico's historical strength in the pharmaceutical manufacturing industry and the established concentration of companies and accompanying infrastructure make it an ideal regional hub for products that require true end-to-end refrigeration.
- **Maximizing federal funds available to boost the tourism sector**. In FY2023, Discover Puerto Rico (DPR) has a plan to optimize its core budget that comes as part of contract with the Puerto Rico Tourism Company (PRTC) to cover 25 destinations in the east of the U.S. and leveraging ARP funds to cover the Midwest and invest in 6-7 international destinations. The overall return on investment (ROI) for 2022 was $54 million in influenced visitor spending for every $1 of the Destination Marketing Organization's (DMO) nearly $65 million budget for the year. The ARP funds generated an additional $375 million in influenced visitor spending in new markets to DPR. The ROI for these new markets was $16 dollars for every $1 dollar invested. DPR's American Rescue Plan (ARP) Investment Strategy includes a description of how funds will be used to achieve strategic priorities.[55]

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54 PR Newswire, "Puerto Rico Reflects on 2022 as Strongest Year in Tourism History, this National Plan for Vacation Day," 2023.

55 American Rescue Plan Investment Strategy developed by DPR.

- **Fully deploying FEMA grants set to expire in 2024**. The $2.3 billion FEMA Hazard Mitigation grant funds include resources that have been critical to staffing and equipping a properly sized and functioning permitting office. These funds have been used to hire staff, purchase technology, and provide training to support the permitting activity, all of which provide the critical foundation to support the economic development efforts of the Commonwealth. Although there has been significant progress made on satisfying the requirements of the FEMA Hazard Mitigation Grant program, additional work in streamlining the processes remains. For instance, 73% of additional personnel have been hired, but only $30 million of the $144 million grant resources associated with the permitting efforts have been spent. The grant program is set to expire as of January 2024, and PRPB is planning to apply for an extension of the grant in June 2023. Furthermore, the grant program is designed so that the Commonwealth cost share obligation increases annually. In past years, this amount was relatively small and was covered by the agency's expenditures on existing personnel. As expenditures from the grant program continue, the cost share obligation will increase substantially. Currently, the agency has not been successful in identifying a source of funds to cover the cost share obligation. The Oversight Board will continue to work with PRPB to implement initiatives to streamline the permitting processes, improve the user-interface of the SBP, and develop consistent training and documentation materials with the aim of reducing processing time and errors. The Oversight Board will also continue to work with PRPB to develop a sustainable staffing level which is able to process permits according to the statutory mandates and to identify funds to satisfy the cost share obligation.
- **Reducing occupational licensing to facilitate labor force participation**. At least 129 professions are licensed by autonomous boards and supervised mainly by the Department of Health (DOH), the Department of State (DOS), the Puerto Rico Tourism Company (PRTC), the Sports and Recreation Department (DRD, by its Spanish acronym), and eleven other agencies. Workers must meet application requirements set by licensing boards. Applications are then processed by their respective boards and issued by DOH, DOS, PRTC, and DRD. Processing times vary substantially and can range anywhere from 30 days to 3 years. While there has been some analysis done to identify the occupational licenses and their requirement and processes in the Commonwealth vs. other states, further analysis should be done to assess the need for these licenses in Puerto Rico given the low extent of licensing in the mainland U.S. and to ensure adherence to requirements which provide consumer, health, and safety protections. The relevant government agencies such as DOS, DOH, PRTC, and others could consider partnering with organizations such as UPR, the Institute of Economic Liberty of PR (Instituto de Libertad Economical or ILE in Spanish) and others to leverage deep knowledge, experience, and eagerness to drive change on this reform.
- **Deregulating on-Island freight**. Puerto Rico is one of only two major U.S. jurisdictions that still regulates land freight prices. The cargo industry has sufficient providers to be able to compete on prices. Regulated freights in other jurisdictions in the past have reportedly decreased the quality of services rendered by carriers and shippers and forced companies to hold additional inventory, all of which have contributed to the increased cost of doing business in Puerto Rico.[56] Tariff rates in Puerto Rico are also more than 2.5 times that of market rates in most states. Higher transportation costs negatively impact businesses and lead to more expensive consumer goods relative to the mainland. The interpretation by the Transportation and Other Public Services

56 Advantage Business Consulting, "Progress Report on Deregulation of Land Freight Rates," 2016

Bureau (NTSP by its Spanish acronym) of the most recently approved regulation on land freight prices extended its applicability to private contracts (while previously only applicable to spot contracts). Even though said regulation on land freight prices was not approved by the Oversight Board, the NTSP is operating in accordance with its provisions as per an agreement with the Government. Such agreement was expected to be valid a period not to exceed 18 months. During this period the NTSP was to develop a new regulatory framework compliant with the Certified Fiscal Plan for the cargo industry. Upon expiration of said agreement, the Government should retract the extension of the tariff setting function of the NTSP to private contracts. Future NTSP economic studies also include a simulation on the economic impact on any tariff increase on consumer prices, economic growth, and tax collections. Moreover, the regulations should be reviewed to ensure they do not place oversized burdens on the trucking industry.

- **Continuously engaging with and getting feedback from stakeholders**. DDEC organized the Red Tape Commission (Comite Timon) which is comprised of private and public sector stakeholders involved in the permitting process, including OGPe, PRPB, DRNA, Health, Bomberos, Tourism, LUMA, and several others. The purpose of the monthly meetings is to exchange information and ideas with the goal of identifying opportunities to streamline required documents while at the same time protecting the health and safety of the residents and the environment. This group provides a forum to introduce and develop initiatives designed to improve the permitting process on the Island. The Oversight Board recommends regular meetings of the Comite Timon. These meetings should be focused on providing solutions that impact processes for the Single Permit (PU) and the Consolidated Construction Permit (PCOC) which are the most common permit applications and will have the most significant impact on supporting economic development activities. The Oversight Board has engaged with this group and will continue to do so in the future to support their initiatives.

5.4 Medicaid Reform

As of January 2023, an estimated 39% of Puerto Rico's population receive their health coverage through the Commonwealth's state-run Medicaid Program ("Plan Vital", formerly known as "Mi Salud"). The percent of residents receiving benefits via Plan Vital increases to 48% when considering the addition of dual-eligible enrollees who are also in one of the Medicare Advantage programs (Platinos). This share of the population enrolled in Medicaid/CHIP-funded health insurance exceeds that of any U.S. state.[57]

Two separate agencies are responsible for the administration and provision of Plan Vital. The Department of Health is the state agency responsible for the administration of Medicaid, via the Puerto Rico Medicaid Program (PRMP). PRMP oversees enrollment and eligibility processes, and it also operates the Medicaid Management Information System (MMIS). Meanwhile, the Puerto Rico Health Insurance Administration (ASES, by its Spanish acronym) is responsible for negotiating, managing, and implementing the provisioning of Medicaid benefits, primarily through contracts with private managed care organizations (MCOs), pharmacy benefit managers (PBMs), and other health services organizations.

Plan Vital consists of four primary eligibility groups: federally-qualified Medicaid recipients; expanded federally-qualified Medicaid recipients; Children's Health Insurance Program (CHIP); and the Commonwealth's self-funded health insurance program, which covers (a) low-income adults who

57 Kaiser Family Foundation, "Medicaid State Fact Sheets: Percent of People Covered by Medicaid/CHIP", 2019

do not qualify for federal programs but qualify under the eligibility criteria established by the local government as well as (b) certain Commonwealth employees and retirees.[58] The first three programs are eligible for federal matching at varying rates, known as the federal medical assistance percentage (FMAP). The Vital program also covers dual-eligible enrollees, which are those who meet the eligibility standards for both federal Medicaid and Medicare. For those dual-eligible who are enrolled in Medicare Advantage plans, the Commonwealth provides an additional "wrap-around" payment.

Because federal-matching funds for Medicaid in U.S. territories are subject to an annual allotment cap, the federal portion of the Vital program revenues functions more like a block grant than a traditional Medicaid reimbursement system. Given the federal funding increases provided in the 2023 Consolidated Appropriations Act, the 2023 Fiscal Plan projects that Puerto Rico will have $3.7 billion federal funds available during FY2023, including traditional Medicaid (non-CHIP), Enhanced Allotment Plan (EAP), and CHIP funds. Even though Puerto Rico has received an increase to the inflow of federal funds, due to the significant portion of the population reliant on Medicaid for health care, it is important that the Commonwealth always be prepared to fund these services in the event that federal legislators reduce the Commonwealth's appropriations of federal Medicaid funds in future years. It is therefore crucial for ASES to put in place required reforms to reduce the long-term growth rate of health care expenditures.

The Fiscal Plan provides investments in Medicaid to address the significant strain in the health care system stemming from hurricanes, earthquakes, and the COVID-19 pandemic. These events amplified provider shortages and created increases in demand for health services, particularly behavioral health care. Given these turbulent circumstances the 2020 and 2021 Fiscal Plans included incremental investments in the health system. Such investments were made possible through additional federal funding made available through legislation such as the 2020 Further Consolidated Appropriations Act and were further supported by the FFY2022 and FFY2023 allotments. These investments included providing Hepatitis C drug coverage, increasing reimbursement rates to specialty and primary care providers and hospitals, and expanding coverage of the Medicaid Program to more than 200,000 local residents by increasing Puerto Rico's Poverty Level, which is the key determinant of Medicaid eligibility.

To ensure the system can continue to support the vulnerable populations who rely on its services, Puerto Rico will need to improve the efficiency and effectiveness of its public health insurance plan by "bending the health care cost curve" on premium inflation, which is reflective of escalating expenditures on health care delivery. There are several categories of actions the Government can take to both curb the growth rate in per capita health care expenditure as well as shift the overall public health system toward higher-value care. None of these actions should result in reduction in service quality for beneficiaries and savings derived from the implementation of Medicaid reform measures can be reinvested back into Puerto Rico's Medicaid Program.

Program integrity initiatives help to ensure that eligibility decisions are made correctly, prospective and enrolled providers meet federal and state participation requirements, services provided to enrollees are medically necessary and appropriate, and provider payments are made in the correct amount and for appropriate services.[59] Puerto Rico has taken meaningful steps towards improving program integrity. These include the integration of ASES data with the MMIS. In FY2021, the Centers for Medicare & Medicaid (CMS) approved the certification of Phase 2 of Puerto Rico's MMIS. On November 1, 2022, the PRMP kicked off Phase 3 of the implementation (to be completed by January

58 As it relates to (b) of the wholly Commonwealth-funded enrollees, Plan Vital coverage for currently retired police offices and active police officers upon their expected retirement was added beginning in FY2022.

59 MACPAC, "Program integrity," 2018

2024), which will set up the financial module of the MMIS and develop the processes necessary to calculate provider payments.

Typical fraud, waste, 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 (i) pre-payment review (e.g., reviewing claims before payment to identify outliers / issues); (ii) auditing and enforcement units to investigate suspicious behavior; (iii) advanced analytics capabilities to identify inefficient or fraudulent activities in post-payment review, such as identification of "impossible" utilization (e.g., billing for over 24 hours of service in one day) or frequently repeated, high value procedures; and (iv) long-term policy or organizational transformation. Pursuant to federal requirements, ASES has established a contracting reform plan to improve procurement and contracting prices, as well as combat fraudulent, wasteful, and abusive contracts. ASES should begin implementing fraud, waste, and abuse reduction programs, with a goal of achieving 3% cost savings from these programs by FY2025.

In addition, it is imperative for Medicaid programs to deploy robust enrollment verification to ensure that coverage is offered only to eligible individuals. In December 2020, the Office of the Inspector General at the U.S. Department of Health, and Human Services (HHS-OIG) performed a Risk Assessment of Puerto Rico's Medicaid Program and identified the beneficiary eligibility process as a high-risk area. Specifically, the HHS-OIG noted weaknesses related to Puerto Rico's post-eligibility determination process for validating beneficiary eligibility. Outdated, missing, or inaccurate beneficiary eligibility information may limit the effectiveness of the eligibility validation process and increase the risk that ineligible applicants will be enrolled in the Puerto Rico Medicaid Program.[60] Full compliance with Medicaid Eligibility Quality Control (MEQC) requirements and establishment of an asset verification system that utilizes third-party data sources can strengthen enrollment verification.[61] The PRMP must finalize establishment of a robust enrollment verification program in FY2023, with a target of identifying a significant proportion of ineligible beneficiaries (estimated to be roughly 5% of total enrollees) by FY2025.

To further support program integrity, ASES must hire a chief financial officer to accurately and efficiently track cash flow and financial planning, analyze the Medicaid Program's financial health, and develop robust budget to actuals reports to identify and prevent potential cost overruns.

Under value-based care initiatives, providers are reimbursed based on their ability to improve quality of care in a cost-effective manner or to lower costs while maintaining standards of care, rather than on the volume of care they provide.[62] Pursuing value-based improvement initiatives with demonstrated success is required to help the Commonwealth "bend the curve" on health care inflation without jeopardizing outcomes. There are several potential sources of value in Puerto Rico's health care system. These sources of value are opportunities to reduce wasteful health care spending and increase efficiency while improving quality of care and health outcomes. By implementing value-based reforms beginning in FY2023, ASES should aim to achieve 3% in annual cost savings from these reforms by FY2025.

Examples of best practice for value-based payment models include implementing a Diagnosis Related Group (DRG)-based payment model where providers are reimbursed a fixed amount to fully treat a patient with a given medical condition. These models help control medical costs by incentivizing providers to deliver cost-effective care without sacrificing quality, while also improving the effectiveness of Medicaid service delivery by standardizing the measurement of patient acuity across

60 HHS, "Risk Assessment of Puerto Rico Medicaid Program, A-02-20-01011," 2020

61 GAO, "Medicaid Eligibility: Accuracy of Determinations and Efforts to Recoup Federal Funds Due to Errors," 2020

62 CMS, "CMS Issues New Roadmap for States to Accelerate Adoption of Value-Based Care to Improve Quality of Care for Medicaid Beneficiaries," 2020

providers and reducing the administrative burden associated with reimbursement. Another potential source of value lies in reducing emergency room (ER) visits. Successfully shifting unnecessary ER visits to lower-cost settings, such as primary care offices or urgent care, could save tens of millions of dollars annually.

New approaches that emphasize care coordination and align incentives between patients, providers, and payors can produce improvements in health outcomes while lowering costs. Direct pay-for-performance quality bonuses provide special incentives to care for members with high-cost needs like behavioral health. Care coordination models like patient-centered medical homes have been quite effective at improving outcomes for members with chronic conditions by empowering primary care providers to work closely with patients and manage treatment plans across multiple care providers.[63] Given the preponderance of chronic conditions and potential rising behavioral and mental health needs in the wake of recent natural disasters and the pandemic, better access and coordination of care for multiple comorbidities across populations will become increasingly important.[64]

Additional opportunity exists through reduction of both inpatient length of stay and hospital readmissions. Puerto Rico's inpatient length of stay was 1.5 times the U.S. average in 2014,[65] and 35 out of 41 Puerto Rico hospitals show readmission rates above the U.S. average of 15.3%.[66] Hospital readmissions occur when patients are discharged from hospitals but must return for additional treatment for the same condition. This can occur when patients are not adequately prepared to return home due to lack of education, lack of access to follow-up care, or challenges with prescription drugs, among other factors. MCOs can incentivize both reduced hospital readmissions and shorter length of stay through improved discharge planning, as well as by increasing weekend staffing to manage discharges. Similar value-based programs piloted in mainland states have typically saved 2-10% of costs. In Puerto Rico, value-based reforms may result in lower-than-average savings due to the breadth of other simultaneous savings measures being implemented for Vital. Nevertheless, these structural changes to reimbursement and care delivery present the most viable path to long-term sustainability for the program.

For detailed description of the Medicaid reform, implementation plans, and progress to date, please refer to Volume 3.

63 Patient-Centered Primary Care Collaborative, "Benefits of Implementing the Primary Care Medical Home: A Review of Cost & Quality Results," 2012

64 Thomas Huelskoetter (Center for American Progress), "Hurricane Katrina's Health Care Legacy," 2015

65 Estimates exclude Platino beneficiaries; see JEL Consulting, analysis of ASES data and public use microdata from the Puerto Rico Community Survey (as of 2014), 2016

66 V2A Consulting, "The disparity in hospital quality metrics between Puerto Rico and the U.S.," 2019

Working together to find solutions and stakeholder engagement

2023 Commonwealth Fiscal Plan pursuant to PROMESA Section 201

6 Working together to find solutions

As outlined above, the Oversight Board and the Government have a robust agenda of initiatives identified in prior fiscal plans designed to set the stage for fiscal stability and economic growth. The needs are clear, project teams have been created, and implementation is being actively monitored.

At the same time, there are a handful of outstanding issues that are holding back progress and there is no consensus on how to proceed. The Oversight Board has exercised its responsibility to make sure that fiscally sound decisions are made but continues to explore more comprehensive discussions to engage and build consensus with stakeholders on potential solutions for improving outcomes in the following critical areas:

- University of Puerto Rico
- Municipalities
- Tax system
- Title V infrastructure projects

6.1 University of Puerto Rico

The University of Puerto Rico (UPR), founded in 1903, is Puerto Rico's largest and main university system. Its mission is to serve the people of Puerto Rico, contribute to the development and enjoyment of the fundamental values of Puerto Rican culture, and uphold the ideals of a democratic society. UPR has a history of academic excellence and is an important center of research. UPR plays a critical role in providing avenues for social and economic advancement, with Pell Grants covering about 70% of total undergraduate tuition and fees.[67]

The central Government provides a range of appropriations, including to the UPR. In FY2022, UPR was 52% subsidized (roughly $466 million in annual appropriations) by state and local funds, compared to an average 21% state and local subsidization for U.S. public universities.[68] In FY2018, UPR's undergraduate tuition was less than one-third of the U.S. average for public universities, even after adjusting for per-capita income, and more than 40% below the average tuition of private universities in Puerto Rico.[69]

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

However, UPR has suffered significant setbacks in its academic reputation and standing due to probationary status and in some cases losses of accreditations particularly those in the medical science area. These accreditation bodies repeatedly highlighted a lack of financial planning, identifying and prioritizing needs to effectively appropriate available resources, and having a well-

67 Data from UPR FY2021 Certified Fiscal Plan

68 Data gathered from UPR, IPEDs 2020, and the College Board

69 Represents the average reported in IPEDS across the Ana G. Mendez University system, Inter-American University, Sacred Heart University, and Polytechnic University for SY20-21

defined decision-making process as potentially impacting the system's performance, including student enrollment, student academic performance, research funding and output, infrastructure, faculty composition and labor relations.

The university must take a holistic and proactive approach to address the challenges it faces and invest in strategic initiatives to improve its academic reputation and standing with the understanding that responding to the workforce needs and adapting to technological change, globalization, and important demographic changes is critical to their role in supporting Puerto Rico's economy. The UPR, as a stakeholder, should actively participate and contribute to the activities related to the 21st Century Fund currently led by the DDEC.

To bring UPR closer to U.S. mainland public university tuition and administrative cost benchmarks, UPR appropriations were reduced beginning in 2017 through a collaborative process with the Government to identify reasonable and sustainable efficiency measures, while maintaining (and in many cases improving) the performance of the system. Previous Fiscal Plans provided for Commonwealth appropriations to UPR totaling approximately $442 million by FY2023 (growing with inflation starting FY2024). However, reflecting the approval of Act 53-2021, the 2022 Fiscal Plan increased the UPR appropriation to a constant $500 million annually, starting in FY2023 through FY2027.

While these prudent measures are necessary given the financial pressures on both UPR and the Commonwealth, there has been little consensus on a longer-term economic model that will allow UPR to embrace its role at the center of Puerto Rico's economic growth agenda. The Oversight Board will redouble its efforts to engage with a wide range of UPR stakeholders, along with higher education and economic development leaders in pursuit of options for how to move forward. Through open and transparent consultation, the Oversight Board will strive for a common understanding of the facts and challenges, and ideally, agreement on a vision and plan that can be implemented to anchor the UPR in its vital role to the economic prosperity of the Island.

6.2 Municipal services reform

Similar to the central government, in recent years, Puerto Rico's 78 municipalities have confronted significant fiscal and economic challenges. To respond to this fiscal reality and to incentivize a new operating model between the central and municipal governments, starting in 2015, the Commonwealth government proposed the reduction of certain Commonwealth financial transfers to the municipalities. The Oversight Board subsequently adopted the Central Government's proposal to reduce these financial transfers in the certified fiscal plans.

It is well known, however, that Puerto Rico's municipalities are important providers of critical services to all citizens. In recognition of the important value provided by municipalities, over the past 3 years, the Oversight Board authorized and funded the establishment of multiple new appropriations and investments to offset the decline in intergovernmental transfers. This incremental funding includes, among other funds: the Act 53-2021 Extraordinary Waste Fund to share in POA debt savings, Medicaid relief from additional federal funding to the Commonwealth, $66 million of unutilized Municipal Consolidation Fund appropriations, Emergency Reserve support, school and road maintenance funding, and other one-time economic support.

Beyond those sources of alternate funding, municipalities are also in possession of significant federal funds to supplement their budgets in the near term. Taken together, the funding available to municipalities in the near-term is substantial, including: State Fiscal Recovery Funds, direct fiscal assistance through ARPA, additional COVID-19 emergency aid through the CARES Act, and access to the State Revolving Fund.

To date, despite multiple efforts designed to strengthen Puerto Rico's municipal structure, achieve fiscal discipline, implement critical reforms and boost economic growth, the desired progress to achieve improved outcomes has not been achieved. Municipalities must work with the Executive branch to analyze financial needs for each individual municipality and focus on the necessary enhancements in municipal shared services and other municipal and government initiatives, including: inventory tax reform, permitting reform, improvement in tax filing processes, and restructuring of municipal debt, in addition to initiatives proposed from mayors on broader financial reforms. Starting in FY2024, once established transformational measures and milestones related to these initiatives are achieved, additional funding from the Commonwealth may be made available to municipalities as part of ongoing collaboration to improve fiscal sustainability. The Oversight Board, the Commonwealth, and the municipalities must use the FY2024 budget certification process to agree on specific conditional funding amounts and operational milestones required for disbursement.

6.3 Tax reform

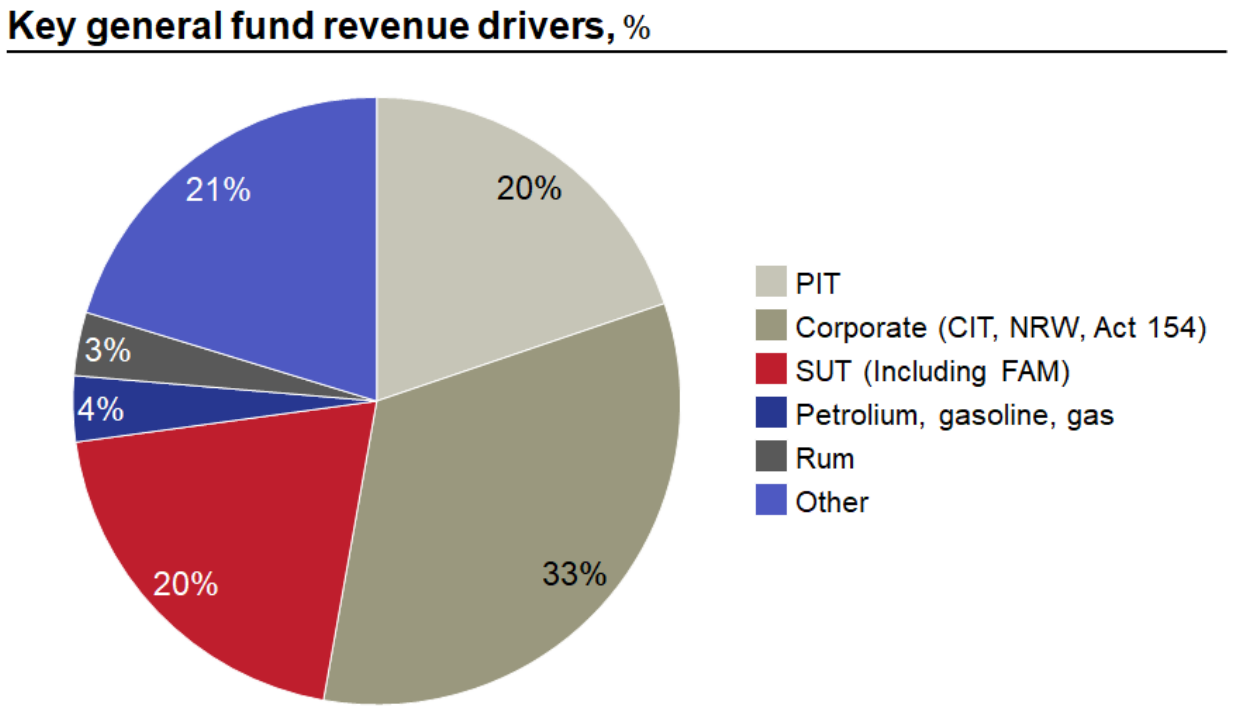
Over the past several years, Puerto Rico's government has improved Puerto Rico's tax system by changing information reporting requirements and improving the organization of tax information and forms, including the digitization of certain processes. Significant reform is still, however, required because Puerto Rico's current tax system has historically suffered from structural complexity, instability, internal inconsistency, inefficient administration, and inadequate enforcement. There have been at least 11 major revisions to Puerto Rico's tax code since 1994, including at least six adjustments since 2013.[70] As a result, the government must continue efforts to reduce the tax system's complexity, enhance equity, increase transparency, reduce tax administrative and compliance costs and maintain, if not enhance, revenue.

Effective revenue systems are based on taxes that generate sufficient revenue to fund needed public expenditures, are simple to administer, are transparent, are perceived as fair and equitable, and encourage economic efficiency and growth. Effective tax systems that have a broad base and low rates generally conform to these precepts. These tax systems generally avoid targeted tax incentives unless those incentives are supported by clearly demonstrated economic or social benefits. Furthermore, a broad base combined with low tax rates reduces the potential gain from tax evasion or avoidance. Promoting compliance is another central feature of properly designed revenue systems. An overly complex and poorly designed tax structure cannot be implemented effectively and, therefore, compliance and enforcement typically fall short. Beyond simplicity, perceptions of fairness are another important factor for promoting compliance and enforcement.

Because revenue can be raised from a variety of different sources, it is important that Puerto Rico's mix of tax sources be carefully considered so that government programs are not excessively reliant on sources that may be uncertain or volatile or to a degree which excessively distorts economic activity or taxpayer choices. This is particularly relevant because Puerto Rico's tax regime disproportionately relies on two tax sources, income taxes and sales and use taxes, which represented roughly 73% of General Fund revenue collections in FY2022.

[70] Reforms include: Act 40-2013, the "Tax Burden Redistribution and Adjustment Act;" Act 120-2014, the "Small and Medium Business Job Generation and Retention Act;" Act 72-2015, the "Adjustments to the Internal Revenue Code of 2011;" Administrative Orders 2017-01 and 2017-05; and Act 257-2018, the "2018 Puerto Rico Tax Reform Act."

EXHIBIT 19: GENERAL FUND REVENUE DRIVERS



Source: Hacienda reports, FY2022 General Fund revenue collections

A comprehensive review of Puerto Rico's revenue structure must be completed as part of a tax reform process because Puerto Rico's income tax structure (for both individuals and corporations) is complex and opaque. Unlike the federal tax code, Puerto Rico's tax brackets are fixed and do not adjust for inflation. The tax code also includes numerous targeted deductions, exemptions, credits, and special rates that benefit narrow groups of taxpayers while potentially distorting the allocation of resources and reducing revenue available to fund needed public expenditures. These incentives are often privately issued and are not always disclosed publicly. At the same time businesses faced with paying statutory corporate income taxes face a relatively high tax burden, as Puerto Rico has not followed the global trend of reducing statutory corporate income tax rates over the last 20 years. Similarly, Puerto Rico's 11.5% Sales and Use Tax (SUT), is higher than the rate imposed by other U.S. jurisdictions, though there are multiple reductions and exemptions to the rate.

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

The Oversight Board has long advocated for a truly comprehensive tax reform that can contribute to Puerto Rico's competitiveness and contribute to economic growth. Having now exited the restructuring process, it is finally time to evaluate opportunities for broad-based, holistic tax reform. At the same time, any potential reform must be fiscally responsible, meaning it cannot lose revenues in the process. Therefore, any tax reform or tax law initiative that the Government undertakes or

pursues during a year within the 2023 Fiscal Plan period must be revenue neutral. That is, all tax reductions must be accompanied by specific, offsetting revenue measures of at least the same amount that are identified in the enabling legislation. Each tax measure must also include confidence building elements, such as behavioral adjustments and reasonable capture rates. To ensure revenue neutrality, the implementation of any tax law initiative must occur sequentially, with the Government ensuring that initiatives are paid for before rates are reduced. Enforcement mechanisms that yield additional revenues must be part of any tax initiative package that results in a tax revenue decrease to prevent a scenario where tax reductions are not accompanied by sufficient offsetting revenue measures identified in the enabling legislation. Any potential tax reform should also be inextricably linked to the economic development strategy while preserving resources needed to fund essential services. The Oversight Board, Government, and Legislature have not yet been able to agree on far-reaching proposals that meet this criterion. Nevertheless, the Oversight Board is committed to pursuing fair and competitive solutions that can improve the tax climate for individuals and business while also maintaining fiscal stability.

When assessing comprehensive tax reform opportunities, there are several design features that can be explored in future discussions with the government. Reforms, for example, could be phased in over time, and could be designed such that progressive phases are only triggered if the performance of the reform is in line with expectations. This would provide local businesses with the certainty and stability they require to make long-term investments. Similarly, exemptions and tax incentives could be explored broadly to determine whether reductions could help to offset reductions in tax rates or the one-time recalibration of tax brackets. The Government could also evaluate ways in which digitization of economic activity impacts the nexus and identification of economic activity and impacts tax administration (valuation, audit, collection). There are numerous other design choices that could be explored to stimulate economic growth and make Puerto Rico more competitive. All of this can and should be done in the context of Puerto Rico's overall spending priorities. By evaluating the Government's spending needs now that there is more clarity on the resources required to cover the remaining debt and pension obligation, the ability to reshape and reform the tax system to contribute to making the Island more competitive will become clearer. The Oversight Board looks forward to engaging with the Government and a broad group of stakeholders to identify creative solutions that meet Puerto Rico's long-term needs.

6.4 Title V infrastructure projects

In order to accelerate growth and opportunity, there will need to be renewed focus on revitalizing Puerto Rico's infrastructure. Congress included Title V in PROMESA to facilitate and expedite private investment in infrastructure, Title V created the Revitalization Coordinator position to review private infrastructure projects for consideration as Critical Projects. Per the statute, if the Oversight Board agrees with the Revitalization Coordinator that a project is a Critical Project, it is entitled to expedited local permitting.

The Title V process has been under-utilized since the enactment for a variety of reasons. Recently, the Oversight Board has redoubled its efforts to expand use of this process for critical infrastructure and development investments. The Board hopes to use the Title V process more expansively to support critical energy and economic development projects. To ensure the Oversight Board is prepared to manage the renewed demand, the Board is currently in the process of hiring a full-time Revitalization Coordinator.

Conclusion

Conclusion

The 2023 Fiscal Plan is the result of six years of intensive working sessions, dialogue, stakeholder engagement, and hands on work to establish the conditions for economic recovery and growth for the benefit of residents of Puerto Rico. Across these activities, the Oversight Board and the Government have collaborated to create a deep and rich fact base to underpin their work and have remained focused on creating an integrated approach to restoring fiscal sustainability and economic opportunity for future generations of residents.

Puerto Rico must entrench a legacy of strong fiscal management to prevent a recurrence of past challenges and secure a stable base for future prosperity. To do so, it must prioritize implementing the Financial Management Agenda, while also tracking federal fund spending, strengthening tax revenue collection, and encouraging the efficient use of public resources. The Government must take advantage of this unique time following bankruptcy to build key fiscal controls and a general financial prudence into its fiscal policy. This foundation of proper fiscal management is crucial to ensuring that any initiative outlined in this plan will have a sustained, long-term impact.

Puerto Rico must instill a culture of public-sector excellence to improve the delivery and efficacy of government services. The 2023 Fiscal Plan includes investments aimed at improving the operational capacity of the government, cultivating a high-performing public workforce, enhancing frontline services, improving healthcare, and fulfilling public pensions. However, the cornerstone of this cultural change is the continuation and expansion of the CSR, which empowers civil servants by strengthening their skills, performance management, and offering more attractive incentives for hiring.

In addition, Puerto Rico must establish conditions for economic prosperity to improve the livelihood of residents and cultivate an environment conducive to economic development. Although COVID-19 federal relief and disaster relief-related spending will provide economic buoyancy in the coming years, the fiscal and economic turnaround of Puerto Rico cannot be accomplished without the implementation of structural economic reforms and other initiatives that promote sustainable economic development. Specifically, it must prioritize power sector reforms, education reforms and support, ease of doing business reforms, transportation reforms, and technology reforms. The 2023 Fiscal Plan lays out a series of practical and proven growth-oriented structural reforms and investments, which, when coupled with the federal funds, can restore long-term opportunity to the people of Puerto Rico.

The Government has the unique and historic opportunity to capitalize on substantial federal funding support without the blanket of bankruptcy-related uncertainty to transform the future of Puerto Rico. Focusing on the proposed three pillars of entrenching a legacy of strong fiscal management, establishing conditions for economic prosperity, and instilling a culture of public-sector excellence will make enduring change possible for the everyday residents of Puerto Rico. **The Oversight Board stands ready to work in partnership with the Government to fulfill the detailed action steps outlined in this Fiscal Plan and achieve long-term financial success.**

Since certifying the first Fiscal Plan in 2017, and notwithstanding multiple natural disasters and the global pandemic, the Oversight Board has worked with the Government to create the conditions for long term fiscal stability and economic growth. This has resulted in the ability of the Government to increase expenditures in times of crisis and uncertainty, while ensuring total expenditure levels remain within total available revenues. There

is a new level of transparency and control over government spending, including controls over the reapportionment of funding between concepts of spend to eliminate the defunding of accrued liabilities and d regular reporting on revenues and expenses. Moreover, the Fiscal Year FY2020-2023 budgets were built at a granular "concept code" level (e.g., differentiating between spend on professional IT services versus advisory services). The Oversight Board has exercised authority over government contracts to avoid overspending, and the Government has been held accountable to its implementation requirements via public hearings, such as those held on education, public safety, corrections, and economic development.

The Oversight Board is working diligently to complete its statutory obligations under PROMESA and meet the criteria for termination and devolution of its responsibilities to the Government of Puerto Rico. While the Plan of Adjustment and end of the Commonwealth's bankruptcy proceeding is a significant enabling milestone, significant work remains to meet other criteria under the law, including four consecutive fiscal years of balanced budgets and restoration of adequate access to credit markets at reasonable interest rates. The Oversight Board is working diligently with the Government to take the steps necessary to achieve these milestones in the years ahead and conclude its responsibilities on behalf of the people of Puerto Rico.

Financial Oversight &
Management Board
for Puerto Rico

2023 Transformation Plan for Puerto Rico

Restoring Growth and Prosperity

Volume 2: Economic trends and financial projections – Additional details

As certified by the Financial Oversight and Management Board for Puerto Rico

April 3, 2023

2023 Commonwealth Fiscal Plan pursuant to PROMESA Section 201

DISCLAIMER

The Financial Oversight and Management Board for Puerto Rico (the "FOMB," or "Oversight Board") has formulated this 2023 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 2023 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.

This 2023 Fiscal Plan is not a Title III plan of adjustment, it does not specify classes of claims and treatments, and it neither discharges debts nor extinguishes liens. For additional historical financial information, parties are referred to the Disclosure Statement approved in the Commonwealth's Title III case. Parties are referred to the Title III plan of adjustment for the Commonwealth that was confirmed by the Title III court, and the Title III court's related orders, with respect to all matters covered by the Title III plan of adjustment.

The 2023 Fiscal Plan may be amended from time to time, as appropriate at the sole discretion of the Oversight Board.

This 2023 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 2023 Fiscal Plan that the Oversight Board determines warrants a revision of this 2023 Fiscal Plan, the Oversight Board will so revise it.

For the avoidance of doubt, the Oversight Board does not consider and has not considered anything in the 2023 Fiscal Plan as a "recommendation" pursuant to Section 205(a). However, for those instances of the 2023 Fiscal Plan which specifically prefer to a Section 205(a) letter issued by the Oversight Board, the Oversight Board herby adopts those instances into the 2023 Fiscal Plan pursuant to PROMESA Section 201(b). Nevertheless, to the extent that anything in the 2023 Fiscal Plan is ever deemed by the Governor or Legislature or determined by a court having subject matter jurisdiction to be a "recommendation" pursuant to Section 205(a), the Oversight Board hereby adopts it in the 2023 Fiscal Plan pursuant to PROMESA Section 201(b).

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 and the Oversight Board, but also by 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 the Earthquakes and/or Hurricanes María, Irma, and Fiona;*
- *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; and*
- *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.*

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 warranty of facts or future events; provided, however, that the Government is required to implement the measures in this 2023 Fiscal Plan and the Oversight Board reserves all its rights to compel compliance. Nothing in this document shall be considered a solicitation, recommendation, or advice to any person to participate, pursue or support a course of action or transaction, to purchase or sell any security, or to make any investment decision.

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1 Guide to the 2023 Commonwealth Fiscal Plan

The 2023 Transformation Plan for Puerto Rico satisfies the requirement of the Commonwealth Fiscal Plan pursuant to PROMESA Section 201. The document contains three parts:

- *Volume 1: Transformation plan*

  The 2023 Commonwealth Transformation Plan provides an overview of the Government and Oversight Board's achievements under PROMESA, a summary of economic trends and financial projections for the Commonwealth, and highlights priority areas to accelerate economic growth and restore market access for Puerto Rico. In addition, the plan describes areas where the Oversight Board is working with stakeholders to find solutions to priority challenges impacting growth.

- ***Volume 2: Economic trends and financial projections – Additional Details***

  These additional details are provided to expand on the economic trends and financial projections introduced in Volume 1.

- *Volume 3: Implementation requirements and plan*

  These supplementary implementation details are provided to guide the Government's implementation of the requirements of this 2023 Fiscal Plan. Additional initiatives from prior fiscal plans remain mandatory and must still be implemented fully.

Economic trends in Puerto Rico

2023 Commonwealth Fiscal Plan pursuant to PROMESA Section 201

2 Economic trends in Puerto Rico

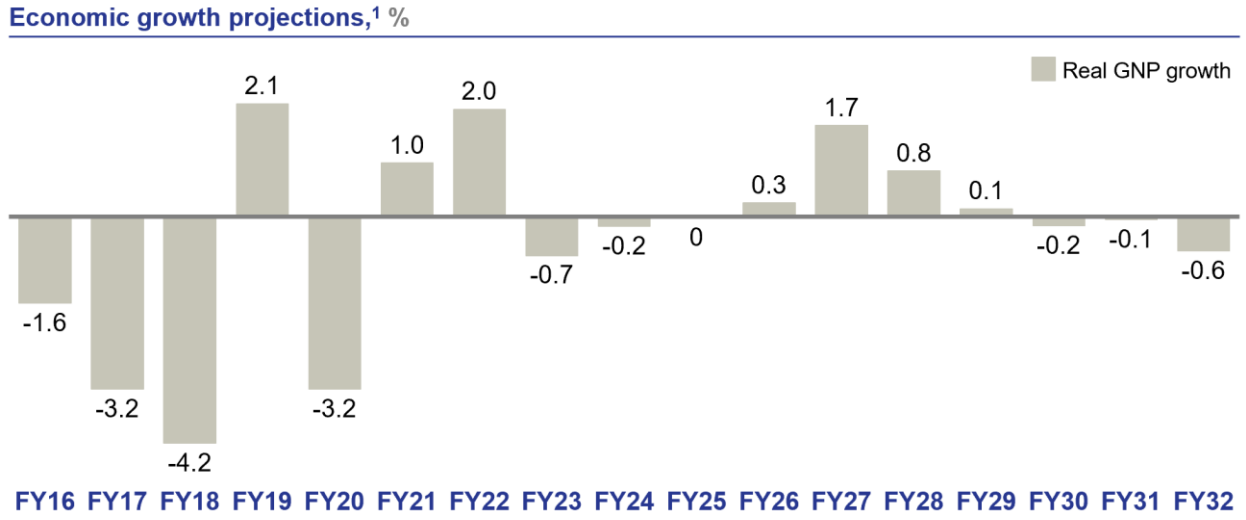
2.1 Macroeconomic overview

The 2023 Fiscal Plan includes an updated macroeconomic forecast reflecting the impact of fiscal and structural measures, natural disasters and COVID-19, and federal funding in response to such natural disasters and the pandemic on the baseline economic trajectory. The baseline economic outlook model, which forecasts growth in real gross national product (GNP), relies primarily on a comprehensive dataset of the Puerto Rican economy from 1965 to 2017. It includes dozens of variables that collectively describe the economy (e.g., economic growth, population, capital stock, etc.). Major drivers of this forecast include projected U.S. GDP growth, certain federal transfers, trends in capital stock growth, and key commodity prices.

The baseline macroeconomic forecast is then impacted by four major factors: (a) the impact of hurricanes, earthquakes, and COVID-19 on economic activity, employment, and the capital stock; (b) federal and local relief assistance for hurricanes, earthquakes, and COVID-19 (discussed in *Section 2.2*); (c) incremental federal funds from the Bipartisan Infrastructure Law (*Section 2.2*); and (d) proposed government efficiency measures, investments, and structural reforms. While the 2023 Fiscal Plan maintains these key inputs from the prior Fiscal Plan model, the Fiscal Plan forecast in the short term particularly accounts for recent changes in the macroeconomic environment, including higher U.S. inflation, declining economic growth, and spikes in energy and food prices.

Exhibit 1 shows the resulting projection for real GNP growth. The 2023 Fiscal Plan projects a 0.7% decline in FY2023 real GNP followed by a period of near-zero growth in FY2024-FY2026 (Exhibit 1). A brief growth rebound in FY2027-FY2028 is followed by the return to Puerto Rico's negative historical trend (average decline of 0.5% per year in FY2029-FY2052).

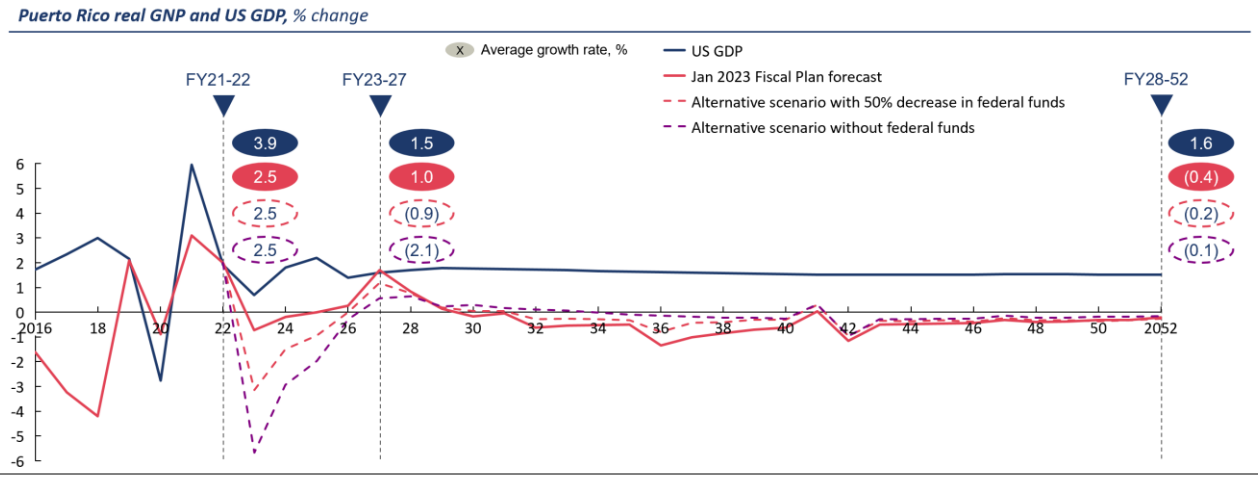
EXHIBIT 1: PUERTO RICO REAL GNP GROWTH RATE



1 FY2016-FY2021 actuals sourced from the 2021 Statistical Appendix to the Economic Report to the Governor; FY2022 and beyond are 2023 Fiscal Plan model estimates and projections

The unprecedented one-time influx of federal funds has strengthened the economy during the pandemic, but those funds are waning and may mask underlying weaknesses in the Island's economy. The 2023 Fiscal Plan assumes full deployment of disaster relief and COVID-19 relief funds by 2035; less than full deployment would substantially lower GNP growth. For example, a scenario with 50% deployment of relief funds would result in a 1.9 percentage point decrease in average GNP growth between FY2023 and FY2027, while a scenario without the effects of relief funds would decrease growth by 3.1 percentage points per year over the same period.

EXHIBIT 2: GNP GROWTH SCENARIOS CONTINGENT ON FEDERAL FUNDS



Over the last year, both U.S. and Puerto Rico have experienced a sharp increase in inflation rates. Prices continue to rise in Puerto Rico and on the mainland. While U.S. inflation dropped to 6.4% in January 2023, the lowest rate since 2021, it remains at historically high levels. Puerto Rico's year-over-year (YoY) inflation rate was 6.0% in October 2022. Puerto Rico inflation has been driven by large increases in the prices of food and beverages, other goods and services, and transportation (including motor fuels).

The 2023 Fiscal Plan U.S. inflation forecast is sourced from the Congressional Budget Office (CBO). Estimates of oil and food prices in the short term (2022-2024) are based on the World Bank Commodity Markets Outlook. The long-term forecast (2025-2052) is based on the U.S. Energy Information Administration's (EIA) long-term forecast. The long-term world food forecast is projected as a function of long-term U.S. inflation.

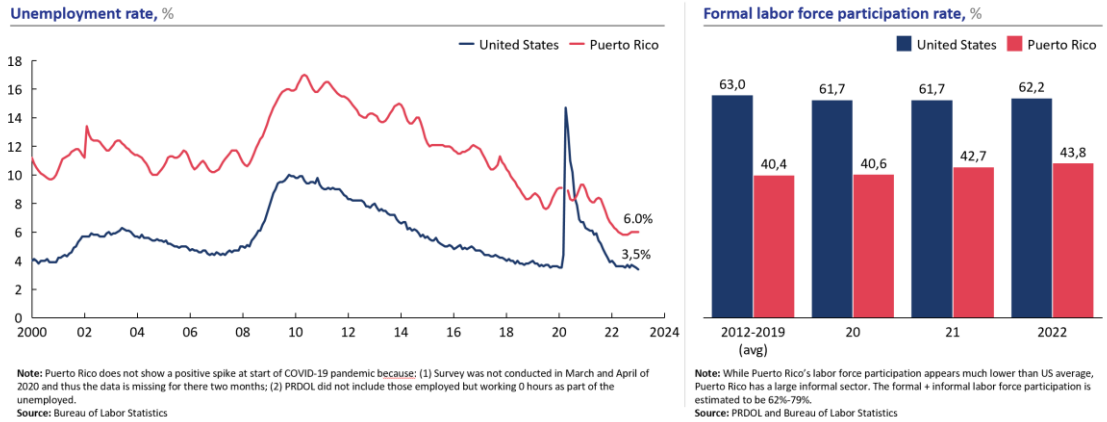
Projections for Puerto Rico inflation, U.S. inflation, world food prices, and world oil prices used for the 2023 Fiscal Plan are summarized in *Exhibit 3*.

EXHIBIT 3: ANNUAL PUERTO RICO PRICE CHANGES

Puerto Rico Inflation	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Inflation	3.3%	2.0%	1.4%	1.3%	1.3%	1.4%	1.4%	1.5%	1.5%	1.5%
US inflation	4.8%	3.0%	2.2%	2.1%	2.1%	2.2%	2.3%	2.3%	2.3%	2.3%
Change in world oil prices	(8.0%)	(13.0%)	(4.6%)	5.0%	5.1%	4.7%	3.4%	4.2%	4.3%	3.7%
Change in world food prices	(6.2%)	(0.4%)	1.8%	1.7%	1.7%	1.9%	1.9%	1.9%	2.0%	2.0%

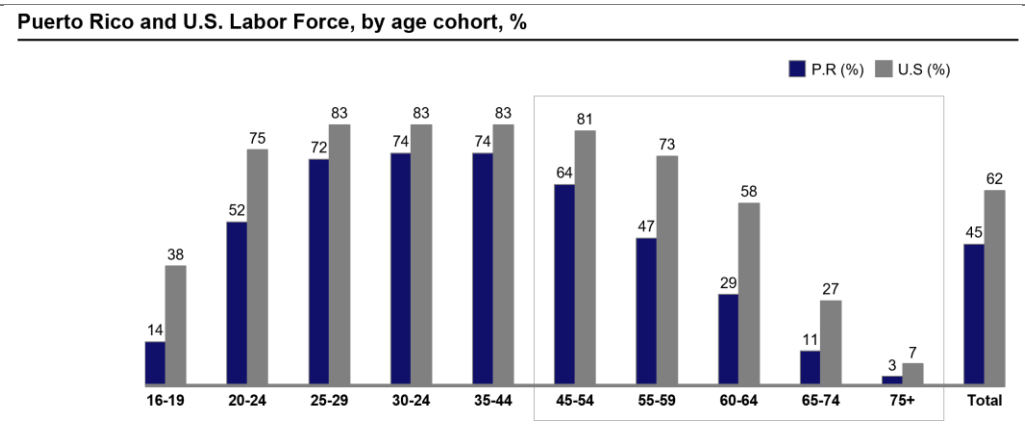
The unemployment rate in Puerto Rico reached a historic low of 5.8% in August 2022. While unemployment is still relatively high compared to the mainland, Puerto Rico has narrowed the gap to just over 2 percentage points.

EXHIBIT 4: UNEMPLOYMENT RATE AND LABOR FORCE PARTICIPATION



Labor force participation in Puerto Rico, despite being well below that of any U.S. state, continues to rise (*Exhibit 4*). This increase is likely related in part to the recent expansion of the Earned Income Tax Credit (EITC) program in 2021. The low level of labor force participation is especially pronounced among workers under age 24 and over age 45. Given the large share of workers over age 45 in the total population, their low labor force participation significantly affects the average (*Exhibit 5*). Structural challenges in Puerto Rico, including limited access to child and elder care, regional inequities in the availability of jobs, and the average time to complete advanced degrees all may contribute to this gap. Labor force participation is an essential component of economic growth, since it allows firms to expand employment, increase production, and has an important impact on fiscal and budget trends. For additional information on labor force participation, and the Puerto Rico EITC program, see Volume 1 and Volume 3.

EXHIBIT 5: LABOR FORCE PARTICIPATION BY AGE GROUP



	16-19	20-24	25-29	30-24	35-44	45-54	55-59	60-64	65-74	75+	Total
PR Pop # 2021	171K	227K	224K	195K	404K	430K	221K	221K	378K	326K	2.8M
PR Pop % 2021	5%	7%	7%	6%	12%	13%	7%	7%	11%	10%	84%
US Pop % 2021	5%	7%	7%	7%	13%	13%	7%	6%	10%	6%	80%

*Totals are derived from BLS and PRDOL and represent values for December 2022 while age disaggregation is derived from Census
SOURCE: Bureau of Labor Statistics; Puerto Rico Department of Labor; Census ACS 2021 5-year estimates

2.2 Federal and local fiscal stimulus

In recent years, Puerto Rico has received an unprecedented infusion of federal funds in the form of Disaster Relief Funding and COVID-19 stimulus that has helped the economy recover. Through successive federal stimulus packages, Puerto Rico received approximately $120 billion in federal funds, equivalent to over 150% of the Island's 2022 GNP. To put this in perspective, comparable levels of federal support for major U.S. states would be equivalent to New York state receiving over $2 trillion or California receiving nearly $4 trillion in relief funds. Most of these COVID-related funds, such as enhanced unemployment benefits, Paycheck Protection Program (PPP) loans, and economic impact payments were one-time infusions that temporarily boosted output.

2.2.1 Federal stimulus: Disaster Relief Funds, COVID-19 stimulus, and the Bipartisan Infrastructure Law

Disaster Relief Funds (DRF)

Disaster spending tends to have a short-term stimulative effect on an economy in the wake of a crisis, but not in a long-term effect. In Puerto Rico, the level of committed public and private disaster relief spending is significant when compared to the overall economy. Public and private disaster relief spending has and will continue to impact the economy in two major ways:

- **Stimulative impact from post-hurricane disaster relief spending**. This stimulus comes from aid packages and can take multiple forms, such as construction companies hiring local, unemployed workers, or workers from the U.S. mainland who will pay local withholding taxes and spend money on food and lodging.
- **Expected reconstruction of the capital stock on the Island.** The 2023 Fiscal Plan reflects the long-term impact of federal funds on repairing the capital stock damaged by the hurricanes. The extraordinary infusion of federal and private disaster relief funds accounts for a large share of capital stock reconstruction and contributes to economic growth in the long run.

The 2023 Fiscal Plan presents updated disaster relief funding disbursement projections, based on actual disbursement data for FY2020-FY2022, and July-November FY2023. Actual disbursement data show that for the majority of DRF categories, except for CDBG-DR, disbursement was lower than projected in the 2022 Fiscal Plan. However, FY2023 actuals, coupled with new guidelines that facilitate the application process for FEMA approval, suggest that disbursement will pick up starting in FY2023. These changes are reflected in the 2023 Fiscal Plan.

While the updated disbursement projections are based on actuals and procedural changes, continued efforts from the Government to maintain more efficient disbursement will be necessary to meet projections.

The 2023 Fiscal Plan projects that about $81 billion of disaster relief funding in total, from federal and private sources, will be disbursed as part of the reconstruction effort over 18 years (FY2018-FY2035). The funding will benefit individuals (e.g., reconstruction of houses, personal expenditures related to the hurricane such as clothing and supplies), the public (e.g., reconstruction of major

infrastructure, roads, and schools), and will cover part of the Commonwealth's share of the cost of disaster relief funding (recipients often must match some portion of federal public assistance spend).[1]

Of the total, about $47 billion is estimated to come from the Federal Emergency Management Agency (FEMA) Disaster Relief Fund (DRF) for Public Assistance, Hazard Mitigation, Mission Assignments, and Individual Assistance. An estimated $7 billion comes from private and business insurance payouts, and another $7 billion from other sources of federal funding.

The 2023 Fiscal Plan includes about $19 billion from the federal Housing and Urban Development (HUD) Community Development Block Grant-Disaster Recovery (CDBG-DR) program, of which about $2.3 billion is estimated to be allocated to offset the Commonwealth and its associated entities' expected FEMA-related cost-share requirements.[2] This portion of CDBG-DR funding will be used to cover part of the roughly 10% cost-share burden on federal expenditures attributable to the Commonwealth, PREPA, PRASA, and HTA from FY2019 to FY2032. The 2023 Fiscal Plan allocates about $4.2 billion for Puerto Rico's cost-match responsibility. After the CDBG-DR funds, out-of-pocket cost-share is reduced to $2.5 billion for Puerto Rico, of which $1.4 billion is attributable to the Commonwealth.

In 2022, Hurricane Fiona struck Puerto Rico, with material negative impact on the economy, although not to the same degree as Hurricanes Maria and Irma. Most of the negative economic impact is expected to be offset by disaster relief funds provided by FEMA. As of February 2023, about $600 million of individual assistance has been approved and about $115 million of public assistance emergency and permanent work obligated. However, detailed disbursement data and projections have not been made available. The net economic impact of Fiona will be included in the next Fiscal Plan update once more comprehensive data is available.

COVID-19 stimulus

The 2023 Fiscal Plan incorporates updated allocation and disbursement projections for federal COVID-19 relief spending, including initial support rounds, CARES Act, ARP Act, CRRSA Act. The update reflects a slower-than-expected pace of disbursement of federal funds with around $4 billion less in actual disbursement in FY2021-FY2022 than the 2022 Fiscal Plan projection. The 2023 Fiscal Plan projects accelerated deployment of remaining COVID-19 relief funds in FY2023 through FY2025, with around $9.3 billion expected to be disbursed, compared to $4.5 billion projected in the 2022 Fiscal Plan. In the first months of FY2023, the Government achieved progress in accelerated disbursement of previously lagging funds, particularly, School Emergency Relief Funds. Complete, efficient, and effective disbursement of the remaining stimulus support is critical to improving the growth outlook in the next several years.

Bipartisan Infrastructure Law

The 2023 Fiscal Plan continues to account for $2.3 billion in federal funds to Puerto Rico from the Bipartisan Infrastructure Law (BIL). The BIL funds were allocated to Puerto Rico to improve the Island's infrastructure over FY2022-2026. Incremental funding from the BIL, accounting for prior federal infrastructure support, amounts to around $1.6 billion.

1 Puerto Rico's cost-match responsibility was estimated using FEMA-provided data, adjusted by category as necessary for waivers and exceptions

2 Estimate based on early assessment of CDBG-DR and CDBG-MIT Action Plans for Puerto Rico (with public data as of October 16, 2022), as well as patterns of cost share coverage from CDBG-DR in previous storms

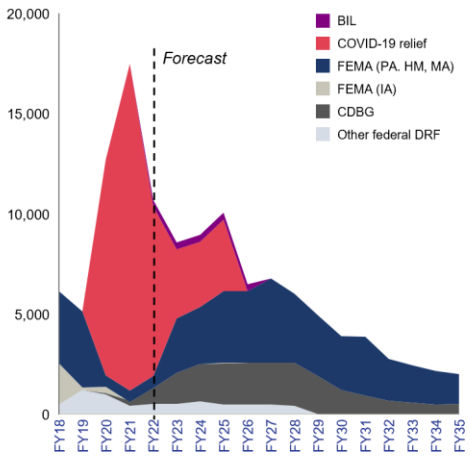
EXHIBIT 6: PROJECTED DISBURSEMENT OF DISASTER RELIEF, COVID-19, AND BIL FUNDS[3]

Federal disaster relief funds by category, $M

Federal funds	FY18, $M, %	FY19, $M, %	FY20, $M, %	FY21, $M, %	FY22, $M, %	FY23, $M, %	FY24, $M, %	FY25, $M, %	FY26-35, $M, %	Total, $M
Total federal disaster relief programs	6,167	5,139	1,942	1,196	1,915	4,783	5,350	6,146	41,144	73,780
	8%	7%	3%	2%	3%	6%	7%	8%	56%	
FEMA Public Assistance, Hazard Mitigation, Mission Assignments[1]	*3,607*	*3,772*	*544*	*585*	*596*	*2,708*	*2,845*	*3,578*	*26,992*	45,226
	8%	*8%*	*1%*	*1%*	*1%*	*6%*	*6%*	*8%*	*60%*	
FEMA Individual Assistance[1]	*2,050*	*130*	*317*	*(70)*	*10*	*4*	*0*	*0*	-	2,442
	84%	*5%*	*13%*	*-3%*	*0%*	*0%*	*0%*	*0%*	*0%*	
CDBG	-	-	*66*	*257*	*787*	*1,532*	*1,858*	*2,054*	*12,643*	19,198
	0%	*0%*	*0%*	*1%*	*4%*	*8%*	*10%*	*11%*	*66%*	
Other federal disaster relief funding	*509*	*1,237*	*1,014*	*426*	*522*	*539*	*646*	*513*	*1,509*	6,915
	7%	*18%*	*15%*	*6%*	*8%*	*8%*	*9%*	*7%*	*22%*	
COVID-19 relief programs[2]	-	-	10,764	16,275	8,465	3,465	3,276	2,583	-	44,828
	-	-	24%	36%	19%	8%	7%	6%	-	
Bipartisan Infrastructure Law	-	-	-	-	322	323	324	325	326	1,620
	-	-	-	-	20%	20%	20%	20%	20%	
Total	**6,167**	**5,139**	**12,706**	**17,471**	**10,702**	**8,571**	**8,950**	**9,053**	**41,470**	**120,228**

Forecast

Federal disaster relief funds and stimulus, $M



1.Includes federal assistance for 2019/2020 earthquakes

2.Includes CARES Act, CRRSA Act, ARPA, Preparedness and Response Supplemental Appropriations Act, Families First Coronavirus Aid Package, CW stimulus package

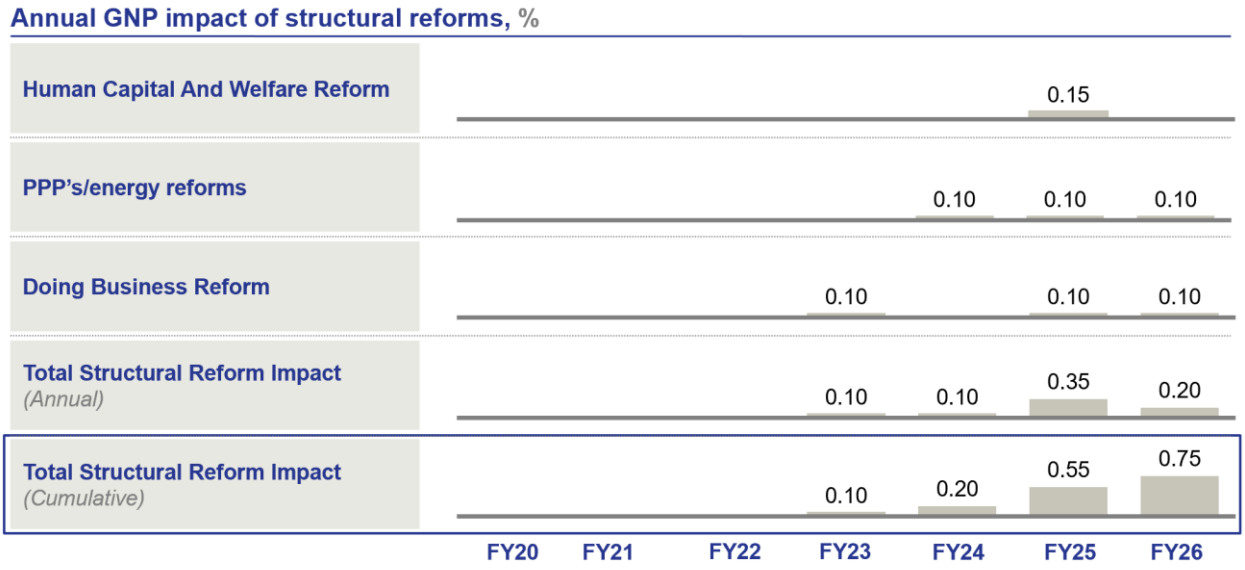
2.3 Impact of structural reforms

The estimated impact of structural reforms is based on work by the International Monetary Fund on labor reforms implemented in Europe (e.g., Spain and Estonia) and South America (e.g., Peru and Colombia), among other jurisdictions; utilities reform in Latin America; broadly accepted metrics for measuring improvement in the World Bank's Doing Business Rankings (as well as examples of growth experienced by countries that have implemented such reforms) and education reforms in Europe and elsewhere. Structural reform benchmarks, to the extent possible, come from nations or jurisdictions with constraints similar to Puerto Rico's (e.g., limited monetary policy options and high informal labor markets).

Reforms related to power sector / energy and ease of doing business are projected to increase GNP by 0.60% by FY2026. Human capital and welfare reform is expected to add another 0.15% in FY2025. K-12 education reforms should add another 0.01% annual impact beginning in FY2037, resulting in total GNP increase from structural reforms of 0.75% by FY2026 and 0.91% by FY2052

3 Please reference previous Fiscal Plans for detailed description of all major DRF categories

EXHIBIT 7: MACROECONOMIC IMPACT OF STRUCTURAL REFORMS



2.4 Population projections

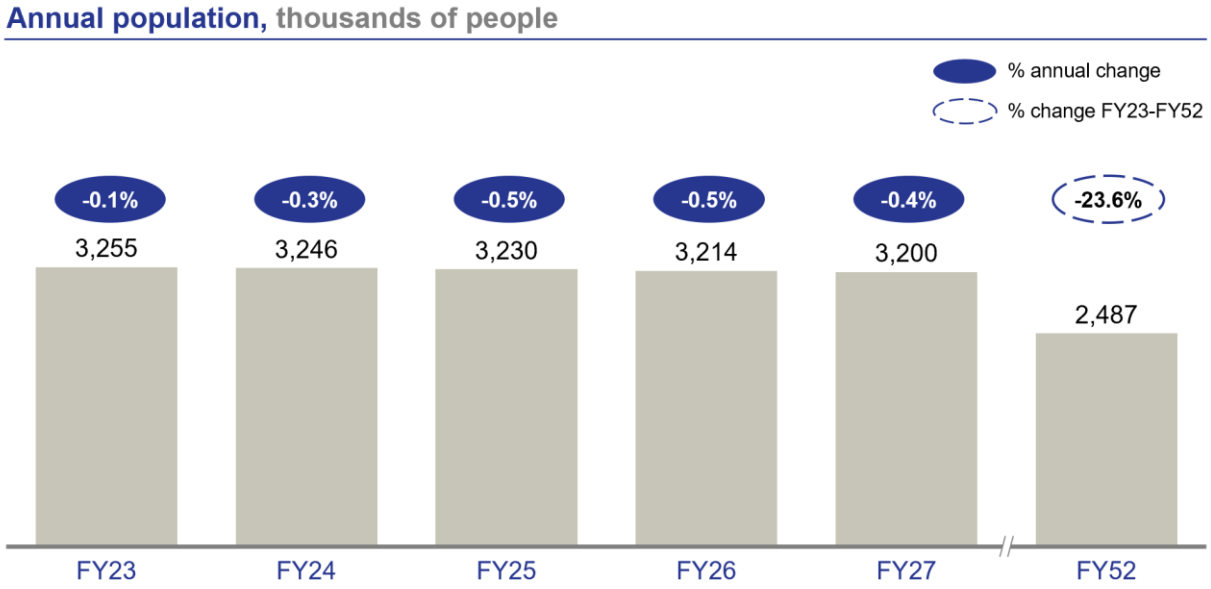
The trend in population has significant implications for economic opportunity in Puerto Rico, as well as the nature and scope of services that the Government will need to deliver in the future. Puerto Rico's population has been trending downwards for the past decade and this trend is forecasted to continue for many years to come. In 2021, the U.S. Census Bureau's forecast projected a declining population outlook (-1%) due in part to Puerto Rico's rapidly aging population. This high average age range results from extremely low age-adjusted birth rates and outmigration of younger people. In 2016, Puerto Rico began to experience negative natural population change – a higher number of deaths than births – which has continued unabated into 2023.

Hurricanes Irma and Maria compounded the problem, spurring an additional outflow of people just as natural population decline set in, as many residents lost houses, jobs, and loved ones. In 2018, just after the hurricanes, Puerto Rico suffered the highest decline in population, a 4.4% net decrease. While some of those who departed have returned to the Island, the population is still projected to decline over the course of the 2023 Fiscal Plan period and beyond. While net migration is a large driver of population change in the short term, this factor is volatile; in the long run, net migration is projected to return to more balanced trends. The declining trend in natural population change is driven by continued decline in births combined with a projected slow rise in deaths in the mid-term.

In April 2022, the Census Bureau revised the 2020 Census data, showing a population of about 3.3 million in Puerto Rico at the end of 2020. The 2023 Fiscal Plan includes updated population forecasts that reflect the revised 2020 Census data as well as updated data on migration trends and births and deaths in Puerto Rico.

While the updated population forecast in the 2023 Fiscal Plan shows a higher population than in the 2022 Fiscal Plan, the declining population trend remains. As outlined in *Exhibit 8*, the 2023 Fiscal Plan projects that by FY2027 approximately 2% fewer people will be living on the Island than in FY2022. By FY2052, the population is projected to decline by about 24% compared to FY2023.

EXHIBIT 8: PROJECTED POPULATION CHANGE



Financial projections

3 Financial projections

The 2023 Fiscal Plan projects a surplus between FY2023 and FY2027, driven primarily by strong revenue performance and increases in Medicaid federal funding over this period. The unallocated surplus is projected to amount to roughly $300 million each year for FY2023-FY2027. This surplus is projected to decline over time as federal disaster relief funding slows, nominal GNP growth declines from a cyclical high in FY2022, Act 154 and Non-Resident Withholding revenues decline, and with the projected decrease in Medicaid federal funding in FY2028 under current law. Please see the Appendix for additional details.

3.1 Revenue forecast

Major revenue streams include non-export sector General Fund revenues (including individual, corporate, and sales and use taxes) and export sector revenues (including Act 154 excise taxes and Non-Resident Withholdings), as well as federal funding. The 2023 Fiscal Plan also includes certain Commonwealth revenues that the Commonwealth appropriated to certain instrumentalities prior to PROMESA pursuant to statutes enacted by prior legislatures. The inclusion of these revenues in the 2023 Fiscal Plan is based on the Oversight Board's legal conclusions that (i) such monies are property of the Commonwealth, (ii) each pre-PROMESA statute appropriating or transferring such monies to instrumentalities of the Commonwealth is preempted by PROMESA, (iii) such statutes were enacted by prior legislatures that cannot bind the current legislature, and (iv) under the Commonwealth Plan of Adjustment (POA), the debt obligations of such instrumentalities were discharged and certain statutory provisions providing for appropriations to such instrumentalities were preempted, and therefore there is no need for the Commonwealth to transfer those revenues for their originally intended use.

The macroeconomic environment is highly dynamic due to the Federal Open Market Committee (FOMC)'s actions to control the high levels of inflation and the early evidence of a slowing economy. Despite this volatility, the 2023 Fiscal Plan projects strong revenue collections for FY2023 and FY2024 driven by the remnant of historically unprecedented stimulus money provided by the Federal Government, with a return to trend in FY2025 onwards, which is in line with the projections of most U.S. mainland states. Since the April 2021 Fiscal Plan, collections data reflects a strong economic recovery related to resumption of economic activity post COVID-19 and federal stimulus funding. Correspondingly, Puerto Rico continues to see strong General Fund performance, reflected in outperformance in actual FY2022 General Fund revenues (roughly 9%) primarily driven by Personal Income Tax, Corporate Income Tax, and Sales and Use Tax. Some of the revenue outperformance is projected to be cyclical.

Additional details on the 2023 Fiscal Plan revenue streams are provided below, with details on the financial projections included in the Appendix. The following sections describe the approach to estimating revenues for key revenue streams.

EXHIBIT 9: MAJOR REVENUE STREAMS

Key general fund revenue drivers, post-measures, $M

	FY23	FY24	FY25	FY26	FY27
Corporate taxes[1]	4,783	4,278	4,033	4,075	4,161
Corporate income tax	*2,728*	*2,570*	*2,426*	*2,464*	*2,543*
Act 154 / Act 52	*1,447*	*1,199*	*1,199*	*1,199*	*1,199*
Non-resident withholdings	*559*	*463*	*367*	*370*	*376*
FEDE	*49*	*45*	*41*	*42*	*43*
Personal income tax[2]	3,036	2,604	2,184	2,216	2,290
Sales and use tax[3]	2,716	2,692	2,704	2,734	2,812
Other general fund revenues[4]	2,406	2,092	2,032	2,060	2,109
FAM portion of SUT	160	153	155	157	162
Incremental excise taxes on off-shore rum	129	167	168	169	170
Petroleum, gasoline, diesel taxes	486	529	503	503	504
Vehicle license fees	53	77	102	103	104
CRIM property tax inflows	123	125	126	128	132
Incentive Funds (excluding FEDE)	14	14	15	15	15
Miscellaneous other	56	63	69	69	69
Total	**13,961**	**12,794**	**12,092**	**12,229**	**12,530**

1. Including CIT, NRW, Act 154, Act 52, FEDE
2. Includes expense related to EITC
3. Sales and use tax (SUT) reflects collections after payout of the COFINA settlement
4. 'Other' general fund revenues include cigarette, rum, motor vehicles, alcoholic beverages, and other GF taxes; exclude adjustments for revenue gross up

3.1.1 Non-export sector General Fund revenue projections

Individual income taxes

Relative to FY2020, the individual income tax (net of EITC payments) was 4.7% higher in FY2021 and 24.8% higher in FY2022. The high performance for personal income tax has continued into FY2023 to date, about 19% above FY2022 collections. The 2023 Fiscal Plan projects that disaster relief spending and federal pandemic support will continue to contribute to the income tax base through increased consumption, increased employment from local and mainland workers related to disaster relief projects, among other effects. The 2023 Fiscal Plan also reflects recurring increases to individual income taxes driven by improvements in tax compliance due to the implementation of the Internal Revenue Unified System (SURI, by its Spanish acronym) platform and increases in public workers' salaries.

Corporate income taxes (CIT)

Corporate income tax receipts year-to-date for FY2023 have increased by 14% over the same period in FY2022. The 2023 Fiscal Plan includes updates to the near-term forecast to reflect the waning effects of federal stimulus, while incorporating changes to the expected contribution of disaster relief spending to the corporate tax base in future years. Like individual income tax, the 2023 Fiscal Plan also accounts for recurring increases to corporate income tax revenue driven in part by improvements

in compliance due to the implementation of the SURI platform combined with enhancements to information reporting.

Sales and use taxes (SUT)

As with corporate and personal income taxes, SUT outperformed relative to GNP in FY2018 and FY2019, likely boosted by the increased economic activity resulting from post-disaster reconstruction. Since FY2020, the SUT collection has increased persistently along with post-COVID economic recovery and reached its peak in FY2022 at almost $2.7 billion. The year-to-date SUT receipts for FY2023 are mostly flat compared to the same period in FY2022, rising by just 1%.

Other excise taxes (including motor vehicles, alcoholic beverages, and cigarettes)

Motor vehicle receipts surged in FY2018 and this trend continued into FY2022, as residents continued to purchase motor vehicles at an accelerated rate in the aftermath of the 2017 hurricanes and during the COVID-19 pandemic supported by federal stimulus payments. FY2023 year-to-date motor vehicle receipts have remained mostly flat compared to the same period in FY2022, showing a roughly 2% decline.

Export sector revenue projections

Act 154 and Non-Resident Withholding (NRW) tax revenues are concentrated in a small number of multinational corporations. The 2022 Fiscal Plan projected that Act 154 revenues will gradually decrease until reaching a steady state of about $900 million in FY2030. The projected decline is due to U.S. federal tax reform (reducing Puerto Rico's attractiveness as a low tax jurisdiction for multinationals), global supply chain diversification, patent expirations, and Puerto Rico's introduction of an Act 154 alternative, Act 52. After calendar year 2022, parent corporations of Controlled Foreign Corporations (CFCs) paying Act 154 could lose a significant tax advantage of locating CFCs in Puerto Rico.[4]

In response to the expected loss of creditability of Act 154, Act 52 was signed into law by the Governor on June 30, 2022. The law builds a framework for companies to voluntarily transition from the Act 154 excise tax into a regime that taxes industrial development income (IDI) and royalties. The new Act 52 sets the statutory tax rate at 10.5% but could increase it to 15% if the U.S. enacts a qualifying 15% or higher minimum tax on corporate income.[5] For some companies, income exemptions reduce the effective tax rate (tax as percentage of IDI) to as low as 1.6%. To raise revenue, Act 52 repeals or limits some tax credits, establishes a new Credit Management System and increases taxes on certain digital products.[6] Act 52 also changes the withholding tax rate on license fees, rents and royalties paid by Puerto Rican companies. The new tax rate is 12%, but with a 37.5% exemption for certain companies.

The Oversight Board remains uncertain about the long-term effect of Act 154/52 changes, given that the tax is highly concentrated in a handful of multinational entities. Considering this, the 2023 Fiscal

4 During FY2021, the Government submitted comments for the U.S. Treasury's consideration in response to the IRS notice of proposed rulemaking REG-101657-20 publication. On December 29, 2021, the U.S. Treasury issued final guidance agreeing to delay for one year, until January 1, 2023, the application of new foreign tax credit regulations to the excise tax imposed by Act 154. Thus, the Act 154 excise tax paid by multinational corporations will continue to be creditable against the U.S. income tax liability through calendar year 2022.

5 While the Inflation Reduction Act imposed a 15% alternative minimum tax on adjusted financial statement income of certain corporations, Hacienda ruled in Informative Bulletin No. 22-22 that the US changes do not trigger the Act 52 increase

6 The Act also includes an increase in the cap for conservation tax credits, which lowers revenue to the Commonwealth, and changes the application date for tax incentives for physicians, which may lower revenue, unless accompanied by appropriate guardrails or pay-fors

Plan does not budget incremental revenue relative to the projections in the 2022 Fiscal Plan related to Act 154 revenues. As required in the 2023 Fiscal Plan, the Government set aside a $250 million reserve out of FY2022 revenue surpluses to fund any potential Act 52 near term revenue shortfall. The $250 million reserve must be retained until at least December 31, 2025, to allow an assessment of Act 52's FY2023 revenue, after which the Act's revenue implications will be re-examined by the Oversight Board. In the interim, actual receipts under Act 52 will be closely monitored and the 2023 Fiscal Plan forecast will be updated as appropriate based on actual performance.

Additional information about improvements to tax administration and parameters around tax law changes can be found in Volume 3.

3.1.2 Medicaid funding

Under Section 1108(g) of the Social Security Act, Puerto Rico can access federal funds for Medicaid but is subject to an annual funding ceiling for the federal non-CHIP (Children's Health Insurance Program) Medicaid fund – meaning the Commonwealth is responsible for covering all costs above this cap. Historically, the actual cap applied to Puerto Rico's Medicaid Program varied based on a series of one-time legislative actions to increase funding to the Island's Medicaid Program. Most recently, under the 2023 Consolidated Appropriations Act, Puerto Rico is eligible to receive more than $19 billion over FFY2023-FFY2027. This total includes additional enhancements to the base federal allotment subject to certain conditions that Puerto Rico must meet. About $140 million of the Section 1108(g) funds are allocated to the Department of Health each year to cover the eligible federal match on expenditures related to Federally Qualified Health Centers (FQHCs, or "Centros 330") and Medicaid Program operations. That portion of federal funding is therefore considered unavailable for use on other Medicaid expenditures.

In addition, the 2023 Consolidated Appropriations Act extends the increased federal medical assistance percentage (FMAP) of 76% until September 30, 2027. The incremental FMAP of 6.2 percentage points that was tied to the COVID-19 Public Health Emergency period (PHE) will ramp down and end by December 31, 2023.

EXHIBIT 10: INCREMENTAL FMAP IN RESPONSE TO COVID-19 PANDEMIC

Effective period	Incremental FMAP
January 1, 2020 – March 31, 2023	6.2%
April 1, 2023 – June 30, 2023	5%
July 1, 2023 – September 30, 2023	2.5%
October 1, 2023 – December 31, 2023	1.5%
January 1, 2024 onwards	0%

1 To both support Medicaid and provide broad fiscal relief as state revenues declined precipitously, the Families First Coronavirus Response Act authorized a 6.2 percentage point increase in the FMAP (retroactive to January 1, 2020) available if states meet certain "maintenance of eligibility" (MOE) requirements while the COVID-19 PHE lasted. The 2023 Consolidated Appropriations Act mandated a ramp-down of this incremental FMAP beginning on April 1, 2023.

Beginning in FY2028, the Commonwealth could face a "Medicaid fiscal cliff," where it becomes responsible for a significantly higher share of Medicaid expenses – expenditures that have been covered by federal funding since 2011. The Congressional Budget Office's cost estimates of the 2023 Consolidated Appropriations Act suggest that in October 2027 the federal Medicaid funding cap for Puerto Rico will fall to about $500 million annually.[7] The cap will grow each year from FFY2028 according to the medical care services component of the Consumer Price Index for All Urban Consumers (CPI-U), but this growth rate does not keep pace with the Island's projected healthcare expenditure growth.[8] In October 2027, Puerto Rico will also revert to receiving a 55% statutory FMAP for most beneficiaries.

The 2023 Fiscal Plan financial projections do not assume that future legislation will materialize that may change Medicaid federal funding for Puerto Rico after FY2028, but rather reflects that the Commonwealth would assume the relevant costs under current law in the absence of incremental federal legislation. Periodically since 2010, except for FFY2022 when the Centers for Medicare & Medicaid Services (CMS) issued an interpretation of Section 1108(g) to effectively raise the cap, the Federal government has enacted legislation to provide additional Medicaid funding to mitigate a federal funding shortfall (*Exhibit 11*). Between FFY2011-FFY2022, the Commonwealth received an average of about $2 billion in federal Medicaid funding per year.

EXHIBIT 11: LEGISLATIVE ADJUSTMENTS TO PUERTO RICO'S MEDICAID FUNDING

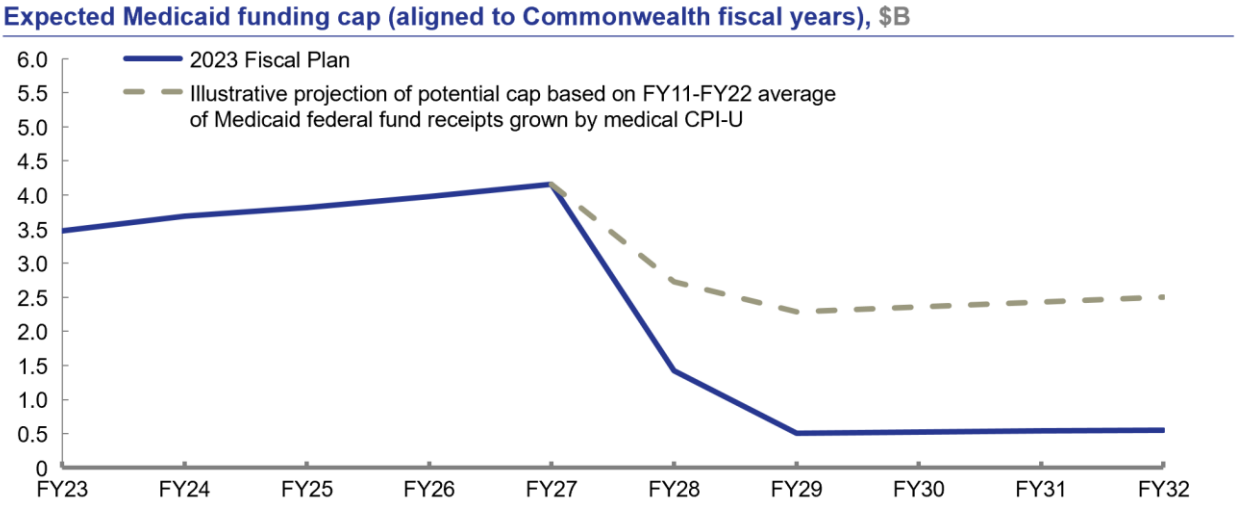
Date passed	Legislation / Interpretation	Provided funding	FMAP	Time period available
03/23/2010	Affordable Care Act	$5.4B	55%	July 2011 – September 2019
03/23/2010	Affordable Care Act	$925M	55%	Through December 2019
05/05/2017	Consolidated Appropriations Act, 2017	$296M	55%	Through September 2019
02/09/2018	Bipartisan Budget Act, 2018	$4.8B	100%	January 2018 – September 2019
12/20/2019	Further Consolidated Appropriations Act, 2020 (year 1)	$2.8B	76%	December 2019 – September 2020
12/20/2019	Further Consolidated Appropriations Act, 2020 (year 2)	$2.9B	76%	October 2020 – September 2021
03/18/2020	Families First Coronavirus Response Act (year 1)	$90M	82.2% (76% + 6.2%)	December 2019 – September 2020
03/18/2020	Families First Coronavirus Response Act (year 2)	$93M	82.2% (76% + 6.2%)	October 2020 – September 2021
09/24/2021	CMS Interpretation	$2.9B (continues to grow by the medical care component of the CPI-U)	N/A	October 2021 – December 2022 (interpretation was superseded by passage of following legislation)
12/23/2022	Consolidated Appropriations Act, 2023	$19.4B	76% (ramp down of 6.2% FMAP)	October 2022 – September 2027

7 This figure is based on the Congressional Budget Office's scoring of the Section 5101 of the 2023 Consolidated Appropriations Act that modified Section 1108(g) of the Social Security Act; see Congressional Budget Office, "CBO Estimate for Divisions O Through MM of H.R. 2617, the Consolidated Appropriations Act, 2023, Enacted as Public Law 117-328 on December 29, 2022," 2023

8 According to Section 1108(g) of the Social Security Act., from 2011 to 2016, the cap grows by the medical care services component of CPI-U as reported by BLS each year. From FY2011 to FY2016, this growth averaged 2.9%. From FY2012 to FY2022, the growth averaged 3.1%. This inflation rate differs from the health care inflation index for Medicaid and Medicare used elsewhere in the 2023 Fiscal Plan (4.5% to 5.5% from FY2020-FY2022, decreasing to 4.75% in FY2051). Instead, the medical care services component of CPI-U includes other factors that lower the inflation rate by approximately 1-3 percentage points, meaning the increase in the federal funding cap will not keep up with actual increases in expenditures.

If similar legislation were passed prior to the expiration of the 2023 Consolidated Appropriations Act funds, the impact of the statutory federal funding shortfall on the people of Puerto Rico could be mitigated. However, the nature of future legislation is unknown and remains a major uncertainty that is reflected in the outyear financial projections. *Exhibit 12* shows the current law's funding of Medicaid through FY2032; it also illustrates where federal funds would be in FY2028 and beyond if the Commonwealth were to receive an allotment grown from that FFY2011-FFY2022 average.

EXHIBIT 12: EXPECTED MEDICAID FUNDING CAP



To continue providing healthcare for the population, the Commonwealth must be able to pay and manage these critical costs, which are projected to grow faster than consumer inflation, regardless of the future federal legislative environment.

Federal funding streams for the Commonwealth, projected based on current law and statutory growth rates, can be grouped in six main categories:

- **Increases in available Medicaid funding from federal legislation as described above:** The 2023 Consolidated Appropriations Act provides specific federal appropriations for FFY2023 through FFY2027 starting at $3.65 billion in FFY2023. In addition, the legislation precludes the Secretary of Health and Human Services (HHS) from determining future federal allotments based on CMS's 2021 interpretation of the statute.
- **Enhanced Allotment Plan (EAP) funding:** The EAP provides an additional source of federal funding to support low-income beneficiaries in their purchase of prescription drugs under Medicare Part D. This allotment can be used only for this purpose and is not countable against the Section 1108(g) funding cap. Estimates for this funding come from the Puerto Rico Health Insurance Administration (ASES, by its Spanish acronym). In FY2024, EAP funding is projected to be about $70 million. The EAP inflation rate is forecasted to be roughly 5.3% annually.[9]
- **CHIP funding:** The Children's Health Insurance Program provides health coverage to eligible children through both Medicaid and separate CHIP programs. CHIP, administered by the Commonwealth according to federal requirements, is funded jointly by Commonwealth and federal funds. This funding is incremental to Section 1108(g) capped funding and is not subject

9 According to ASES, this rate is equal to the expected annual increase in Medicare Part D prescription drug costs.

to a federal funding cap. Without additional legislation, the CHIP matching rate, also known as the Enhanced FMAP (or eFMAP), for Puerto Rico is statutorily set at a minimum of 68.5% under Title XXI of the Social Security Act.

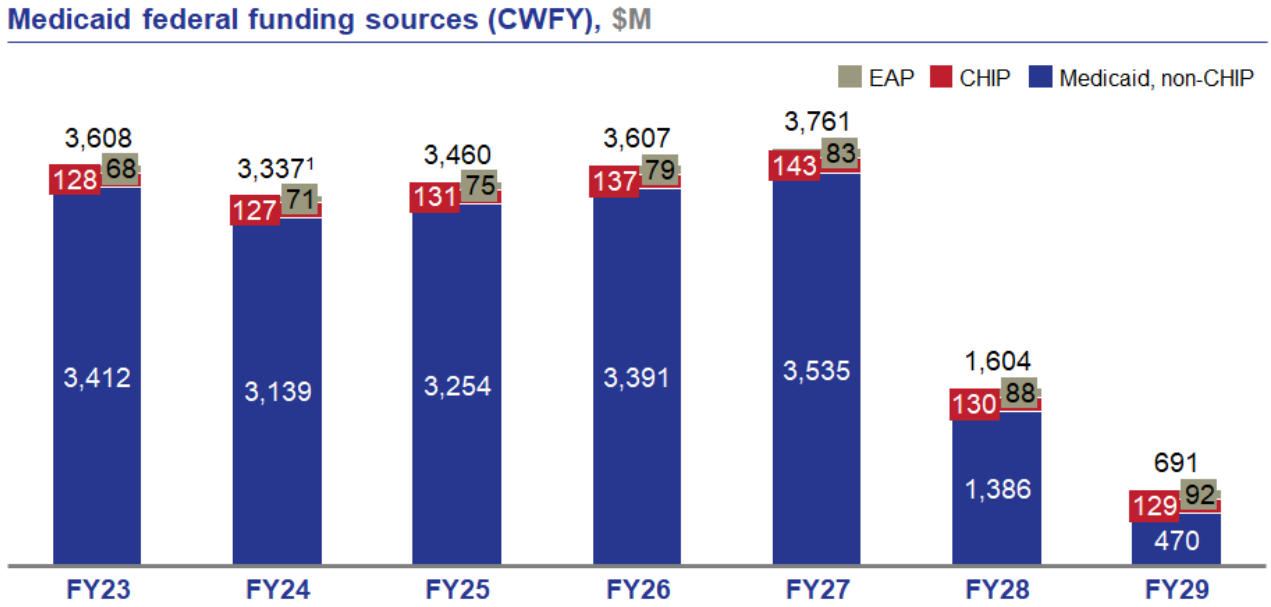
- **Special Revenue Fund (SRF) revenues from municipalities:** Under Act 72-1993 setting up the modern Puerto Rico Medicaid program, municipalities were required to contribute about $164 million annually to fund the public health plan. In 2018, a deal was reached with municipalities to reduce that contribution in years when the federal matching rate (FMAP) exceeded the statutory 55% under which Act 72-1993 was developed. Starting in FY2024, this agreement is projected to reduce the municipal contribution to about $86 million.
- **Special Revenue Fund revenues from Commonwealth employers:** Additional revenue for the Medicaid Program comes from intra-governmental transfers to cover retirement and health care expenses incurred by various Commonwealth entities on behalf of their employees. Please see *Section 3.1.4* for more information.
- **Special Revenue Fund revenues from prescription drug rebates:** In January 2023, ASES joined the Medicaid Drug Rebate Program (MDRP). Puerto Rico's entry into MDRP is expected to yield higher gross rebates from drug manufacturers than those from the Commonwealth's previous local drug rebate program. Partly to enable entry into the federal program, the Government has indicated its intention to update its accounting systems and the methodology it uses to report prescription drug utilization to CMS.[10] In doing so, Puerto Rico will also share a portion of the rebate revenue with the federal government to the extent it reduces the costs eligible for federal matching. Estimates received from ASES indicate MDRP could bring in nearly $630 million in gross rebates in FY2024 and about $660 million in FY2025.

The 2023 Fiscal Plan ensures that the Commonwealth is appropriately funded to meet its matching obligations under current law. If the amount of federal funds expected to become available during any future fiscal year changes, and, depending on the conditions imposed on the federal funds granted, the Oversight Board may revise the General Fund appropriation for ASES accordingly.

Exhibit 13 outlines expected Medicaid federal fund receipts, with funding aligned from federal fiscal years to Puerto Rican fiscal years. Medicaid expenditures are discussed in detail in *Section 3.2.4*.

10 In December 2021, ASES announced a contract with Abarca Health as its pharmacy benefit manager (PBM) and Medicaid Drug Rebate Program (MDRP) manager.

EXHIBIT 13: BASELINE FEDERAL FUNDS RECEIPT PROJECTIONS



1 The decrease in Medicaid federal fund receipts between FY23 and FY24 is due to the entry into the Medicaid Drug Rebate Program (MDRP) and a reduction in federal fund receipts due to a higher level of rebate sharing. This decrease in federal fund receipts is overcome by higher gross rebate projections beginning in FY24.

3.1.3 Other federal funding

In addition to Medicaid funding, Puerto Rico receives other federal funds on a regular basis to cover social benefits and operational expenditures. These are separate from disaster relief funds, which are tied directly to Hurricane Maria and earthquake reconstruction activity, and from COVID-19 response and relief funds, which are meant to cover incremental government spending to respond to the pandemic. These other funds cover both social benefits and operational expenditures. In the 2023 Fiscal Plan, these funds have been modeled based on what types of costs they cover (e.g., benefits or operations) as well as statutory formulas that define the size of Puerto Rico's allotment. For example, while Temporary Assistance for Needy Families (TANF) funds are typically pass-through (i.e., none of these funds go to operational costs), some Title I education funds are projected to be used for operational purposes (e.g., teachers' salaries, school supplies for programs for students with special needs, etc.). For the pass-through category, federal fund inflows and outflows mirror each other (as benefit needs decline, so do funds). For the other funds used for operational purposes, though inflows may decline, it does not necessarily mean expenditures decline as well – as expenditures are based on operations, not on benefits formulas, and the Commonwealth may have to cover operational expenditures via the General Fund should they outpace reduced federal funding. Meanwhile, while Head Start funds are allocated from the federal government based on the number of children living in poverty, NAP funds are provided through a block grant that is capped. The former should therefore change by population, while the latter should grow only with inflation, regardless of population changes.

3.1.4 Special Revenue Funds

Commonwealth agency Special Revenue Fund (SRF) revenues

The Commonwealth collects a significant portion of its revenues through Special Revenue Funds, which are funded from, among other sources, tax revenues transferred by statutes, fees and charges for services by agencies, dividends from public corporations, and financing proceeds. Government tracking and reporting of these SRF revenues, associated expenses, and resulting surpluses or deficits has historically been incomplete and inconsistent. The baseline level of SRF revenues of Commonwealth agencies (excluding Independently Forecasted Component Units or IFCUs) has been updated in the 2022 Fiscal Plan by agency. The 2023 Fiscal Plan does not further detail SRF by type (special state funds, own revenues, and other revenues), as Commonwealth agencies (excluding IFCUs) do not report this level of detail consistently. Future budget and Fiscal Plan processes will aim to further clarify Special Revenue Funds and apply controls to ensure transparency and accountability for these revenues.

Independently Forecasted Component Unit (IFCU) revenues

The Commonwealth contains 12 Independently Forecasted Component Units, which range from public corporations (e.g., the State Insurance Fund Corporation) to public hospitals (e.g., the Cardiovascular Center Corporation of Puerto Rico and the Caribbean). These entities are funded mostly by Special Revenue Funds and may also receive General Fund appropriations. Through the annual budget process and by tracking actual receipts and expenditures, the Oversight Board has gained more insight into the specific revenue streams for these entities to further refine IFCU revenue projections. While most IFCU revenues are projected using GNP, given the unique nature of each IFCU, certain revenue streams are grown by other factors, such as inflation or population, or as governed by legislation.

Municipal contributions to PayGo and ASES

The 2023 Fiscal Plan includes receipts from municipalities to cover retirement and healthcare expenses incurred by the Commonwealth on their behalf. Since the passage of Act 106-2017, municipalities that participate in the Employee Retirement System (ERS) are financially responsible for PayGo expenditures covered by the Commonwealth, which are funded directly by the municipality and paid to the ERS on a monthly basis.

Under Act 72-1993, which set up the modern Puerto Rico Medicaid program, municipalities were also required to contribute about $164 million annually to fund the public health plan. In 2018, a deal was reached with municipalities to reduce that contribution in years where federal matching rate (FMAP) exceeded the statutory 55% under which Act 72-1993 was developed. Starting in FY2024, this agreement is projected to reduce the municipal contribution to roughly $86 million.

Public Corporation PayGo receipts

The 2023 Fiscal Plan includes receipts from public corporations (e.g., PRASA) that participate in the Employee Retirement System (ERS) to cover PayGo expenditures on behalf of their retirees covered by the Commonwealth. The Commonwealth shall be reimbursed for these payments and will act to obtain these contributions if they are not received (e.g., the Commonwealth may withhold payments for utilities).

Municipal Administration Fund

The Municipal Administration Fund (FAM) collects 0.5% of the SUT which is distributed into three funds: (i) 0.2% to the Municipal Development Fund; (ii) 0.2% to the Municipal Redemption Fund; and (iii) 0.1% to the Municipal Improvement Fund (FMM). Pursuant to Section 4050.09 of Act 1-2011, the FMM are to be distributed through annual legislation and appropriated for select capital works and improvement projects for the municipalities (e.g., public housing, schools). The legislature passes resolutions each year to allocate the FMM. These resolutions must be consistent with the 2023 Fiscal Plan and the applicable special revenue funds included in the Certified Budget.

3.1.5 Gross-up for tax credits

Gross-up of revenues to reflect potential revenues without payment of tax incentives

In addition to offering preferential tax rates, tax exemptions, tax abatements, and cash grants, the Government of Puerto Rico provides hundreds of millions of dollars in tax credits to corporations and individuals each year. Some function as entitlement programs: any business that meets the requirements set forth in law is entitled to the benefit. Other tax credits give government officials considerable discretion over which projects receive incentives. Many of these tax credits are intended to advance policy goals such as stimulating employment, stimulating economic activity and economic development, encouraging investment, and protecting local industries. Unlike traditional expenditures, however, tax credits are not incurred in a transparent fashion, and, with only a few exceptions, are currently uncapped by any aggregate amount of benefits conveyed. The issuance of tax credits also tends to be done in an ad hoc manner, with unclear economic justification for the costs incurred and without monitoring of the goals described above (e.g., how many jobs in any particular year were created). This leads to an unpredictable, and potentially costly, foregone revenue stream each year.

Policy makers in Puerto Rico must understand both the budget implications of current and proposed tax expenditures and must manage the size of tax incentives by setting limits on their annual cost and eliminating tax credits with negative returns. The issuance of reliable cost estimates, including a detailed analysis of the budget implications from each tax incentive and annual cost controls is necessary to help Puerto Rico avoid unexpected negative outcomes. Otherwise, the Government will remain powerless to manage the cost of these incentives or keep them from growing uncontrollably.

Recognizing the importance of this question to the fiscal sustainability of Puerto Rico, the 2023 Fiscal Plan includes a forecast of gross revenues inclusive of the value of tax credits to show the foregone revenue associated with these credits. The 2023 Fiscal Plan also includes a forecast of gross revenues based on the historical level of certain tax credits claimed on income tax filings for individual filers, regular corporation filers, and incentive tax filers, as provided by Hacienda. As shown in the period of the report, over 12 tax years (2010-2021), tax credits claimed across all tax filers averaged $257 million annually. The 2023 Fiscal Plan requires all reporting going forward to include monthly and quarterly reports as to the gross revenues, tax credits claimed, and the net revenues received for the period of the report.

EXHIBIT 14: TAX CREDITS BY YEAR

Actual[1], $M	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	AVERAGE
Regular Corporations	131	94	48	89	89	140	66	75	82[2]	145	133	98	99
Incentive Corporations	135	147	133	158	116	78	70	56	66	N/A[3]	N/A[3]	N/A[3]	107
Individuals	65	59	37	90	69	65	66	61	89	157	96	83	78
Total Tax Credits Claimed	**331**	**300**	**218**	**337**	**274**	**283**	**202**	**192**	**237**	**302**	**229**	**181**	**257**

1 The tax credits reflected for a fiscal year correspond mainly to those claimed in the income tax returns of the previous taxable year. For example, for fiscal year 2021, the credits presented are those claimed in the 2020 income tax returns. This changes the period in which tax credit is reflected
2 Regular corporation income tax returns processing for FY18 is incomplete
3 No data available
SOURCE: Office of Economic and Financial Affairs of the Treasury Department of Puerto Rico, as of March 1, 2023

Gross-up for COFIM receipts

The Municipal Finance Corporation (COFIM, by its Spanish acronym) is the public corporation that collects the 1% Municipal SUT established by law for certain municipalities. The 2023 Fiscal Plan includes projections of this 1% revenue stream, along with exact offsetting expenses. COFIM is not an entity that receives appropriations from the General Fund, but rather relies solely on municipal SUT.

3.2 Expenditure forecast

The trend of expenditures is summarized in *Exhibit 15*. Total Commonwealth funded expenditures remains relatively flat through FY2027 as non-recurring expenditures end and are partially offset by increases in federal funds and inflation.

EXHIBIT 15: MAJOR EXPENDITURE CATEGORIES

Key expenditure drivers, $M

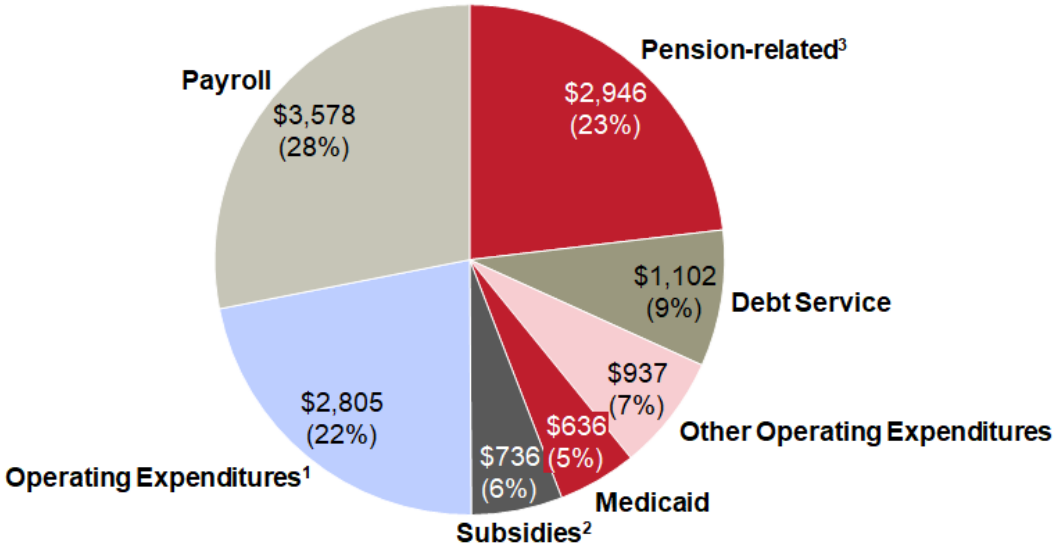
	FY23	FY24	FY25	FY26	FY27	FY23 - FY27 % change
Payroll (General Fund)	3,352	3,522	3,572	3,620	3,669	9%
Operating Expenditures (General Fund)	2,972	2,815	2,402	2,492	2,540	-15%
CW Appropriations	1,170	1,148	1,156	1,179	1,185	1%
Commonwealth Medicaid Expenditures (GF & SRF)	1,238	1,354	1,433	1,505	1,582	28%
PayGo (GF & SRF)	2,236	2,238	2,235	2,228	2,220	-1%
IFCU & CW SRF (Payroll & Operating Expenditures)	2,788	2,840	2,880	2,917	2,981	7%
Total Operating Expenditures (GF & SRF)	13,755	13,916	13,678	13,941	14,178	3%
Federally Funded Expenditures	8,157	8,050	8,222	8,427	8,642	6%
Other Non-Operating Expenditures, Includes Measures[1]	3,188	2,390	2,075	2,074	2,114	-34%
Debt Service and CVI Payments	1,147	1,102	978	954	951	-17%
Pension Reserve Trust	1,036	906	970	971	1,132	9%
Total CW Funded Expenditures	27,284	26,364	25,924	26,366	27,017	-1%
Year-over-Year % change	17%	-3%	-2%	2%	2%	

1 Includes Disaster Recovery Cost Match, Restructuring / Title III Costs, Other GF Expenses, Social Programs CW Funded, Expense Measures, Adjustments For Expenditure Gross Up, Capital Expenditures, Cigarettes & Rum Tax Disbursements To Public Corporations

3.2.1 General fund payroll and non-personnel operating expenditures

EXHIBIT 16: BREAKDOWN OF GENERAL FUND EXPENDITURE CATEGORIES

FY2024 General Fund expenditure, $M



1. Other Operating Expenses include: PREPA ($132m), PRASA ($88m), PBA ($134m), PRIMAS ($54m) & Capital Expenditures ($539m)
2. Subsidies include: UPR ($500m), HTA ($192m) & Municipalities ($44m)
3. Pension-related includes: PayGo ($2,039m) & the Pension Reserve Trust ($906m)

Payroll expenditures

Despite progress made through the FY2023 budget process, consistent granular payroll data continues to be a challenge for the Government. During the FY2023 budget process, agencies were analyzed to develop detailed payroll estimates based on agency rosters, actual payroll run rates, and anticipated changes to headcount and salaries. Beginning in FY2024, base payroll has been assumed to mainly grow at the same rate as Puerto Rico's inflation. Adjustments are made to capture any increase or reduction to payroll expenditure projections from investment decisions, attrition, absenteeism, or workforce reductions.

Non-personnel operating expenditures

Non-personnel operating expenditures are assumed to grow at the same rate as Puerto Rico inflation, with select adjustments as necessary. For example, the 2023 Fiscal Plan projects a reduction in professional fees given that the Title III proceedings concluded, and fees are now related only to plan implementation and plan-related litigation.

3.2.2 Special Revenue Funds

Commonwealth agency Special Revenue Fund (SRF) operational expenditures

The Commonwealth funds a significant portion of its expenses with Special Revenue Funds but previously did not report on these expenses transparently in a consistent manner. Starting with the FY2019 budget process, the Oversight Board has certified SRF expenditures with the objective of

applying controls and reporting requirements to ensure transparency and accountability for these revenues and expenditures. With data made available by the Commonwealth, the baseline level of SRF expenses of Commonwealth agencies (excluding IFCUs) has been updated and allocated across agencies (by payroll and non-payroll expenditures). Given the mandate of the Office of the CFO to place controls on SRF expenditures, baseline SRF expenses are forecasted to be equal to the estimated revenues in each year.

Independently Forecasted Component Unit (IFCU) operational expenditures

Most IFCU payroll and non-payroll expenses grow at the same rate as Puerto Rico's inflation or nominal GNP, with exceptions for certain expense categories (e.g., health care costs grow with medical inflation, variable costs grow in line with revenues).

The baseline expenditures include municipality and public corporation PayGo, COFIM, and FAM expenditures, including all the conditions outlined in *Section 3.1.4*.

3.2.3 Other federal funding

Most federal funds received by the Commonwealth are passed through to residents directly in the form of social benefits (e.g., TANF, WIC), but federal funds are also used to cover operating expenditures in many agencies. Expenditures related to pass-through federal funds are set equal to the associated revenue stream. Baseline expenditures related to operating expenditures are set based on the FY2018 federal funds budget reported by the Government (updated in select cases for new information received FY2019-2023) and grow with inflation (and in some cases population). In the case of the Community School Program (largely funding under Title I of the Elementary and Secondary Education Act, as amended by the Every Student Succeeds Act), revenues will grow with inflation, but decline with decreasing population and, consequently, enrollment, which is the most salient determinant of Puerto Rico's annual allocation.

3.2.4 Medicaid expenditures

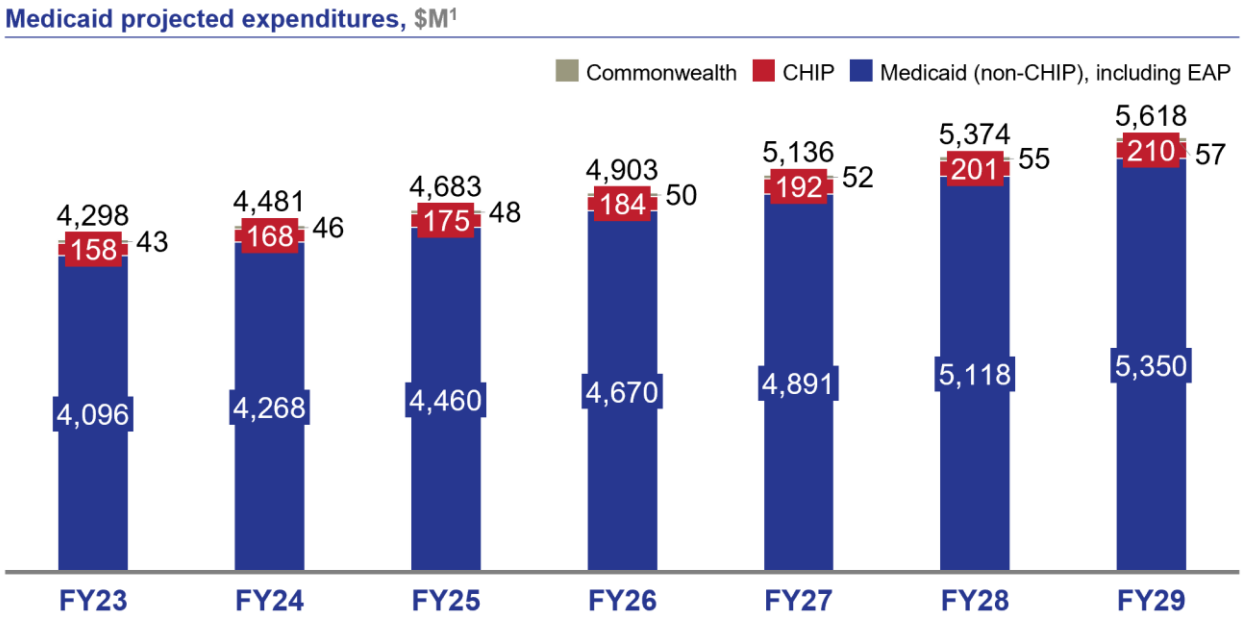
Total Medicaid expenditures are projected to be $4.3 billion in FY2023 and $4.5 billion in FY2024. Beginning in FY2025, the plan assumes the Puerto Rican Medicaid Program's total expenditures will grow at the same rate as population-adjusted health care inflation.[11] Total program expenditures include managed care premiums for all federally eligible enrollment groups, including wrap-around payments for those eligible for both Medicare and Medicaid who enroll in Medicare Advantage programs (also known as Platinos). This total includes eligible direct health expenditures (e.g., Hepatitis C, HIV, and pulmonary programs) that do not flow through managed care. These expenditures also include coverage for the wholly Commonwealth-funded enrollees, whose expenses are not federally subsidized, and non-premium administrative costs to ASES. That said, program size excludes costs incurred by the Department of Health for FQHC and Medicaid Program administration, which are also eligible for federal matching funds. *Exhibit 17* shows a breakdown of projected Medicaid expenditures.[12]

The 2023 Fiscal Plan allocates an additional $100 million in FY2023 to cover a budget shortfall reported by ASES.

11 The post-FY2024 growth rate of the total Medicaid program size is forecasted to be a combination of the PMPM growth rate and the rate of change of the Island's population.

12 Plan Vital for current and future police retirees also included in these expenditures.

EXHIBIT 17: PROJECTIONS FOR MEDICAID AND CHIP EXPENDITURES



1 Does not include ASES payroll and general administrative expenditures

3.2.5 Commonwealth pension expenditures

Projections rely on demographic and actuarial estimations for Employees' Retirement System (ERS), Teachers' Retirement System (TRS), and Judiciary Retirement System (JRS) populations and benefit obligations. Since FY2018, pension benefits for all plans have been paid on a pay-as-you-go basis. Total pension related costs from FY2024 to FY2051 are projected to decrease progressively from $2.6 billion to $0.8 billion, with an average annual cost across the period of $1.9 billion.

3.2.6 Appropriations

Municipalities

Baseline municipal appropriations are currently projected to be $44 million in FY2024, with the full sunset planned for FY2025. Starting in FY2024, once established transformational measures and milestones are achieved, additional funding from the Commonwealth may be made available to municipalities. The Oversight Board, the Commonwealth, and the municipalities must use the FY2024 budget certification process to agree on the financial milestones and conditional funding amounts required for disbursement.

University of Puerto Rico (UPR)

The 2023 Fiscal Plan is consistent with Act 53-2021, which requires a total UPR appropriation of $500 million annually from FY2023 to FY2027. Following this period, the appropriation will be $479 million beginning in FY2028 and grow by Puerto Rico inflation.

For additional information on UPR please refer to Volumes 1 and 3.

Highways and Transportation Authority (HTA)

HTA is currently funded through a combination of its own revenues, federal funds, and Commonwealth funds, including capital and operating appropriations.

Notably in FY2023, the Title III Court confirmed the HTA Plan of Adjustment (HTA PoA) filed by the Oversight Board which became effective on December 6, 2022. The HTA PoA provides that HTA be reorganized through an internal segregation – operational, legal, and financial – between its toll and non-toll road assets within 15 months following the HTA Plan of Adjustment Effective Date. HTA must also transfer its transit assets to PRITA once the agency obtains grantee status from the U.S. Department of Transportation Federal Transit Administration. Consistent with the HTA PoA, the 2023 Fiscal Plan sets the HTA operating transfer to cover the full cost of non-toll assets. The appropriation does not include funding for the HTA emergency reserve, nor does it draw down existing balances. It also assumes toll roads have access to federal funds until reorganization is complete (assumed FY2023), but not thereafter. As a result, over FY2024-FY2051, the 2023 Fiscal Plan includes an average annual operating appropriation of $111 million and average capital appropriation of $68 million per year.

Additionally, the HTA PoA includes one-time cash payments, the issuance of new debt, and contingent value instruments (CVIs). The Commonwealth provided a one-time loan to HTA in FY2023 for $360 million, a portion of which had already been disbursed in FY2022, in addition to the above-referenced annual operating and capital appropriations to ensure HTA's liquidity upon the PoA effective date. The 2023 Fiscal Plan reflects a 30-year multi-draw term loan of $360 million to be repaid over 30 years at a 2.50% interest rate.

3.2.7 Other operating and capital expenditures

Utilities

The PREPA utility rates in the 2023 Fiscal Plan have been updated to reflect the rates in the 2022 PREPA Certified Fiscal Plan and legacy charge. The rates will be amended to reflect the rates and legacy charge included in the 2023 PREPA Certified Fiscal Plan.

The 2023 Fiscal Plan uses the estimated billings for electric and water costs provided by PREPA and PRASA, respectively. Estimated water billings from PRASA are projected to grow at the same rate as water rate increases over the period of FY2024-FY2025; thereafter, PRASA billings are projected to grow according to inflation. Estimated electric billings from PREPA are projected to grow at the same rate as power rate increases over the period of FY2024-FY2051.

Parametric insurance

The 2023 Fiscal Plan includes an investment of about $34 million in FY2024 to cover the Commonwealth's portion of the annual cost of parametric insurance, which is projected to grow by inflation through FY2051. The parametric insurance program is supplemental to the existing budgeted premiums for renewing traditional insurance policies. Certain conditions applicable to Commonwealth entities are placed on the requested funding as outlined in *Section 3.2.12*.

Insurance (PRIMAS)

The Commonwealth bears costs related to insurance premiums (e.g., property insurance, liability insurance). Government reporting on these costs has not been transparent or consistent over time (e.g., not all agencies report these costs independently of other operating expenses, reporting is not consolidated across General Fund and Special Revenue Funds). The Government reported that

insurance costs increased from FY2018 to FY2020 due to Hurricanes Maria and Irma. Adjustments were made based on agency reported needs for FY2021, FY2022 and FY2023 (e.g., costs for the Department of Housing have been reduced, costs for PRDE and Institute of Puerto Rican Culture have been increased).

Capital expenditures

Centrally funded General Fund maintenance and capital expenditures of the Commonwealth (excluding PREPA, PRASA, HTA self-funded capital expenditures and one-time transfers) are expected to grow at the same rate as inflation from FY2024 to FY2040, at which point maintenance capital expenditures increase to 1.9% of GNP[13] and grow in line with GNP, to account for the new level of capital stock the Commonwealth will be responsible for maintaining post-disaster reconstruction. The 2023 Fiscal Plan includes annual Special Revenue Fund capital expenditures for the Public Buildings Authority of about $2 million for FY2024 onwards for recurring needs.

3.2.8 Reconstruction and restructuring related expenditures

Cost-share for disaster relief funding: Federal funds for FEMA's Public Assistance, Individual Assistance and Hazard Mitigation programs typically require a local match from the entity receiving them – anywhere from 10-25% of funds. In the case of Puerto Rico, the 2023 Fiscal Plan projects that the Commonwealth will need to cover an estimated about 10% of federal Public and Individual Assistance funds that are obligated to them, amounting to $2.6 billion from FY2018-FY2035. (Based on obligation data, instrumentalities are assumed to shoulder a further $1.6 billion in total cost-match expenditures during the same period). A portion of the Commonwealth and instrumentalities' cost-match expenditures are projected to be covered by CDBG funds from FY2020 to FY2035, which amounts to $2.25 billion. As a result, instrumentalities and the Commonwealth are anticipated to need to cover $680 million and $1.4 billion out of pocket, respectively.

After accounting for excess funds budgeted for cost share in FY2018-FY2021 (when DRF disbursements were anticipated to be higher), as well as $135 million in unspent cost share funds considered available for future cost share needs, the ultimate out-of-pocket cost share burden for the Commonwealth is $1.5 billion. Moving forward, cost share matching funds are to be used only on approved projects and requirements under FEMA's Individual Assistance, Public Assistance, and Hazard Mitigation programs. Any unused cost share matching funds in a given fiscal year are to be rolled over to the following fiscal year and to remain available for use in meeting cost share requirements for approved projects and requirements under FEMA's programs. The restriction of use of cost share matching funds is applicable to funds in the current year and any funds rolled over to subsequent years. The use of these funds must be coordinated with CDBG-DR and CDBG-MIT in meeting cost-share requirements.

Restructuring-related costs: Commonwealth restructuring-related expenditures are projected to be $346 million from FY2023 to FY2026, and are comprised of all professional fees, including those of the Unsecured Creditors' Committee, the Retiree Committee, the Government (mostly the Puerto Rico Fiscal Agency and Financial Advisory Authority, or AAFAF by its Spanish acronym), and the Oversight Board. Restructuring-related costs will continue after the PoA effective date to support potential litigation and other Title III implementation costs. Fees were benchmarked versus comparable restructuring situations that yield an average professional-fee-to-funded-debt ratio of 2.08% and median ratio of 2.33% relative to 2.48% projected for the Commonwealth (*Exhibit 18*). In total, from FY2018 to FY2026, restructuring-related expenditures are projected at around $1.6

13 Corresponds to the state average of capex as percentage of GNP.

billion. Uncertainty stemming from recent natural disasters and the COVID-19 pandemic has resulted in an extended restructuring process contributing to the overall estimate. For some perspective, the City of Detroit's restructuring (the largest municipal restructuring prior to that of the Commonwealth of Puerto Rico) took 17 months (July 2013 to December 2014); while the restructuring of the Commonwealth took almost five years. Separately, the Oversight Board's operating costs are forecasted to be flat at approximately $59 million post-measures per year.

EXHIBIT 18: PROFESSIONAL FEES RELATIVE TO OTHER MAJOR RESTRUCTURINGS

Professional fees for restructuring

	Date filed	Outstanding debt, $M	Total fees and expenses, $M	Fees to funded debt, %
City of Detroit, Michigan	Jul 2013	6,400[1]	178	2.8
Residential Capital, LLC	May 2012	15,000	409	2.7
Sabine Oil & Gas Corp.	Jul 2015	2,800	79	2.8
Caesars Entertainment Operating Company	Jan 2015	18,000	258	1.4
Lehman Brothers Holdings Inc.	Sep 2008	613,000	957	0.2
Lyondell Chemical Company	Jan 2009	22,000	206	0.9
American Airlines	Nov 2011	11,000	392	3.6
Washington Mutual, Inc.	Sep 2008	8,000	271	3.4
Edison Mission Energy	Dec 2012	5,000	96	1.9
Energy Future Holdings Corp.	Apr 2014	40,000	450	1.1
Puerto Rico	**2017**	**60,785[2]**	**1,236[3]**	**2.0**

Summary Statistics

Avg.	2.08%
Max	3.56%
Min	0.16%
Med	2.33%

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

1. Excludes pensions and other retirement liabilities
2. Excludes pension liabilities and debt issued by PREPA and HTA; for additional details refer to https://oversightboard.pr.gov/debt/
3. Estimated professional fees through FY'22 related to Title III proceedings excluding those associated with the PREPA and HTA Title III proceedings

3.2.9 Emergency reserve

The purpose of the Emergency Reserve fund is to expedite response activities and, upon request, provide the Commonwealth agencies, public corporations, and affected municipalities known as Emergency Reserve Recipients with capital to quickly begin response activities that exceed their capacity during emergency events in Puerto Rico. Starting in FY2019, the Commonwealth started to set aside funds in an emergency reserve that is to total $1.3 billion, or about 2.0% of FY2018 GNP. The methodology supporting this reserve is informed by guidance provided to other Caribbean islands by the International Monetary Fund in defining an adequate emergency reserve (2-4% of GNP, accumulated at 0.5% per year).[14] The 2022 Fiscal Plan assumed the Emergency Reserve would be funded through annual contributions of $130 million over a 10-year period. The 2023 Fiscal Plan allocates $650 million in FY2023 to fully fund the remaining contributions to the Emergency Reserve and mitigate the heightened uncertainty from higher inflation levels, declining revenues and slowing

14 IMF, Bahamas Article IV report, 2018.

disaster relief and Medicaid federal funding. The 2023 Fiscal Plan also assumes a $295 million one-time contribution in FY2023 to replenish previously utilized funds for recovery efforts including Hurricane Fiona.

This Emergency Reserve does not constitute a reserve for economic downturns, which is a common best practice in US states. Restrictions placed on these funds must ensure that they are used only in response to extraordinary events such as natural disasters or as otherwise agreed with the Oversight Board; the Commonwealth can make disbursements only with approval from the Oversight Board. Historically, the Oversight Board authorized use of the emergency reserve in response to the 2017 hurricanes (Maria and Irma), the 2020 earthquakes impacting the southwestern part of Puerto Rico, and the COVID-19 pandemic. Moving forward, a fund advance will require the following:

- The Governor to declare a state of emergency
- AAFAF requests Oversight Board access to the emergency reserve fund for a finite period
- Once the Oversight Board authorizes access to the emergency reserve funds; OMB must submit to the Oversight Board requests from the Emergency Reserve Recipients to approve amount and usage of funds
- Amounts approved by the Oversight Board and disbursed to the Emergency Reserve Recipients must be replenished not later than the following fiscal year
- Emergency Reserve Recipients that received funds from the emergency reserve fund are required to file with FEMA a Request for Public Assistance (RPA) and Project Worksheet to ensure that any federal reimbursements to Emergency Reserve Recipients are replenished into the emergency reserve state fund
- Emergency Reserve Recipients are required to update OMB on a quarterly basis on the process of obtaining Public Assistance from FEMA
- OMB must provide quarterly reporting to the Oversight Board on the use of authorized funds

3.2.10 Expenditure gross-ups

For each of the gross-up revenue items, an equivalent expenditure is included in the baseline expense forecast.

3.2.11 Expenses for mobilized employees

The 2022 Fiscal Plan reflected the mobilization of approximately 2,300 employees from PREPA to public corporations and agencies across the Commonwealth in connection with Transmission and Distribution P3 to transfer the responsibilities of operating and maintain PREPA's electric grid to LUMA. The salary and benefit expenses assumed by the Commonwealth included the assumption that each agency to which a former PREPA employee was mobilized will contribute on behalf of their mobilized employees to the PREPA ERS, in addition to the contributions currently being withheld from the earnings of such employees for their individual employee contributions. The employer contribution amount was assumed to be equal to 15% of payroll for these employees, based on the average estimated cost of additional PREPA ERS pensions that mobilized employees earn in each pay cycle.

For FY2023, these funds were held in a custodial account at the Commonwealth. Upon receipt of the required documentation a contribution of $8 million was released to PREPA ERS based on the Normal Contribution rate identified for the year of 6.51%, covering the period from July 1, 2021, through October 31, 2022. These funds provide for the payment of accumulated employer

contributions for former PREPA employees relocated to other government agencies through the PREPA mobility employee initiative. These funds were released based on the documentation of the basis of the Normal Contribution rate, identification of how the contributions were to be transferred and accepted by PREPA ERS, and the Commonwealth providing a formal written legal opinion identifying the legal basis on which former PREPA employees transferred to the Commonwealth may continue to participate in the PREPA ERS, as opposed to being enrolled in the Commonwealth Act 106 Defined Contribution plan, including the Government's ability or obligation to assume the PREPA ERS employer contributions for mobilized employees. The Commonwealth also provided confirmation that any pension reform measures applied to PREPA ERS would also be applied to mobilized employees.

Furthermore, as PREPA continues its transformation via the announced GenCo P3 transaction to transfer the operation of PREPA' generation units, the provisions of Act 120-2018 ensure that government employees maintain employment and vested benefits as part of any P3 transaction. While the P3 operator is seeking to hire many of the approximate 1,000 generation employees, in the event PREPA employees do not elect to work at the private operator, the Commonwealth may be required to absorb the remaining employees as part of a similar mobility program conducted at the end of FY2021 as part of the Transmission & Distribution P3 transaction with LUMA. In the event employees are mobilized, funds may be needed in the FY2024 budget and beyond to fund these employees' salaries and benefits.

To the extent that mobilized employees continue to earn pension benefits in FY2024 and beyond, funds will continue to be held each year in a custodial account at the Commonwealth until documentation of the basis of the calculation of the Normal Contribution rate (with supporting source documentation) is provided, including the estimate of the annual cost.

3.2.12 Funds for parametric insurance

Funds to cover parametric insurance will be made available upon reaching specific milestones and after the approval and authorization from the Oversight Board.

- Develop a comprehensive insurance plan to develop a program that considers the available markets, costs, meeting Obtain and Maintain (O&M) requirements and levels of coverage
- Conduct a risk analysis including hazards / perils covered
- Analyze expected O&M requirements on a building-by-building basis
- Identify the types and extent of insurance needed to protect against risk and meet O&M requirements
- Identify insurance gaps between O&M requirements and insurance that is reasonably available
- Identify the authority for developing, implementing, and enforcing the plan
- Design the financial arrangement structure for funding the plan and pay for losses, which includes a system for fixed contributions, a formalized plan to pay losses as they occur, and a plan for how funds will be distributed

Prioritize insurance and strategically consider options to supplement the existing insurance coverage:

- Identify how the Commonwealth will meet flood insurance requirements
- Consider broader and expanded limits on existing policies
- Consider a separate excess insurance policy that provides coverage above the current limits

- Consider a parametric policy and catastrophe (CAT) bond or a hybrid combination of the two to provide supplemental or excess coverage

Engage the Puerto Rico Insurance Commissioner

- Establish the criteria for the insurance commissioner's certification of the insurance coverage that is reasonably available

3.2.13 Plan of Adjustment expenditures

In accordance with the confirmed PoA, the 2023 Fiscal Plan forecasts and sets aside funding to disburse payments towards new General Obligation (GO) debt service, contingent value instruments, pension trust contributions, and surplus outperformance bonuses as follows:

New General Obligation Debt Service

Per the PoA, the 2023 Fiscal Plan accounts for annual debt service capped at $1.15 billion, including COFINA debt service forecasted separately in its own fiscal plan. Debt service included in the 2023 Fiscal Plan is calculated based on this cap less COFINA debt service to represent payments on the principal and interest of the Current Interest Bonds (CIB). In addition, payments on account of (i) the 5.375% GO Capital Appreciation Bonds (CAB) and (ii) the 5.000% GO CAB are included within debt service (but are not part of the $1.15 billion cap). The 5.375% GO CABs are to be repaid in equal annual installments of $150 million from FY2029-2033 and the 5.000% GO CABs are to be repaid in equal annual installments of $106 million through FY2024.

General Obligation Capital Appreciation Bonds (GO CABs)

The 2023 Fiscal Plan includes payments on account of (i) the 5.375% GO CABs and (ii) the 5.000% GO CABs as set forth in the PoA. The 5.375% GO CABs are expected to be repaid with funds released from the Commonwealth working capital fund for disaster relief advances in equal annual installments of $150 million from FY2029-FY2033 and the 5.000% GO CABs are expected to be repaid with funds previously intended for the Debt Service Reserve Fund in equal annual installments of $106 million through FY2024.

Contingent Value Instruments (CVIs)

There are two CVIs, both backed by a narrow set of revenue streams, one by 5.5% of sales tax collections (5.5% SUT) and the other by rum cover over collections. The 2023 Fiscal Plan includes payments to both CVIs based on portions of the projected outperformance in such revenue streams in comparison to prior certified fiscal plan projections as detailed by the PoA.

Pension Reserve Trust Contributions

The pension reserve trust is designed to protect the Commonwealth's ability to pay future pension obligations and is funded annually through FY2031 with annual base contributions of $175 million, if surpluses as projected in the 2022 Fiscal Plan are lower than $1.75 billion, and 50% of surplus if such projected surpluses are higher than $1.75 billion, capped at the 2022 Fiscal Plan projected contribution amounts, plus an additional contribution based on the actual remaining surplus after funding certain obligations for each fiscal year during the funding period. In the event a significant change occurs to non-own source revenues such as Federal Medicaid funding, or in the event of a federally declared natural disaster or pandemic (other than Covid-19) that reduces the surplus in any given year below the projected surplus, the base contribution is subject to reduction.

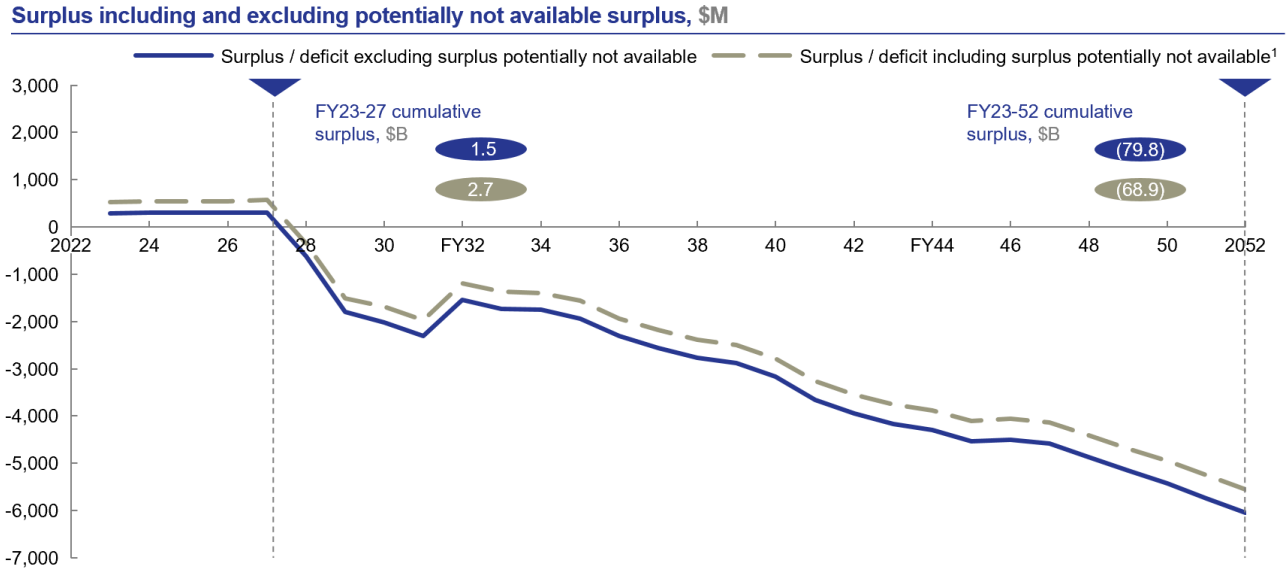
Outperformance Bonus

Through fiscal year 2026, AFSCME / SPU workers as well as other rank and file employees of the Commonwealth and its agencies covered by the 2023 Fiscal Plan will share 25% of the excess cash surplus outperformance relative to the 2022 Fiscal Plan in the event such outperformance yields an excess cash surplus above the projected surplus of at least $100 million in any applicable year. The amount of this bonus is subject to a minimum of $2,000 in any subject fiscal year solely for AFSCME members.

3.3 Surplus potentially not available for the Commonwealth

The 2023 Fiscal Plan financial projections show the surplus generated by all entities covered by the Commonwealth Fiscal Plan. However, some of the surplus is generated by Commonwealth public corporations, and the Commonwealth's ability to access such surplus amounts could be problematic without further legislative action. As such, the 2023 Fiscal Plan also represents what the surplus would be if these funds were inaccessible.

EXHIBIT 19: SURPLUS POTENTIALLY NOT AVAILABLE FOR THE COMMONWEALTH



1 These surplus amounts are generated by Commonwealth corporations and the Commonwealth's ability to access such surplus amounts could be at risk without further legislative action

3.4 Long-term revenue and expenditure projections

The 2023 Fiscal Plan projects a 0.7% decline in FY2023 real GNP followed by a period of near-zero growth in FY2024-FY2026 (*Exhibit 1*). A brief growth rebound in FY2027-FY2028 is followed by the return to Puerto Rico's negative historical trend (average decline of 0.5% per year in FY2029-FY2052). Population is estimated to steadily decline at an average rate of about 0.9% annually, due to a combination of outmigration and demographic factors.

Most revenues are projected to grow with nominal GNP in the long-term.[15] 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 at the same rate as inflation and population.
- **Rum excise on offshore shipments,** which is expected to grow at the same rate as U.S. mainland population and is partially driven by the statutory waterfall by which rum excise taxes are paid into the General Fund. The 2023 Certified Fiscal Plan maintains the update to the estimation of statutory waterfall revenues, which now incorporates data allowing for a disaggregation of revenues deriving from locally produced and other rum.
- **Independently Forecasted Component Units (IFCU) revenues**, which are projected on a line-item basis and share growth rate assumptions with corresponding short-term projections (largely at the same rate as nominal GNP, with exceptions for those related to health care, population, or other factors).
- **Federal fund revenues**, which grow based on historical and statutory appropriations. The cap for Medicaid matching funds grows by the medical care services component of CPI-U, and CHIP funding grows proportional to the growth of premiums and enrollment. With the passage of the 2023 Consolidated Appropriations Act, Puerto Rico is eligible to receive more than $19 billion over FFY2023–FFY2027. The federal non-CHIP Medicaid funding cap for Puerto Rico is set at $3.65 billion for FFY2023. This funding helps alleviate some of the cost pressures the Puerto Rico Medicaid Program could have faced over the period and allows the Commonwealth to plan out its expenditures in a more sustainable way.

Just as most revenues are assumed to grow at the same rate as GNP, most expenditures grow at the same rate as Puerto Rico CPI inflation. Exceptions include:

- **Medicaid premiums** grow at a faster pace than standard inflation and are instead assumed to grow at the same rate as the growth rate in per member per month (PMPM) costs and the rate of population change. The PMPM growth rate is estimated through actuarial analysis of historic utilization trends and projected demographic changes on-Island. While PMPMs decreased slightly in FY2022 (mainly due to lower utilization rates in FY2021 given COVID-19), long-term PMPM growth trends (FY2027-FY2051) are expected to be about 5% on average.
- **Capital expenditures** are anticipated to rise to 1.9% of GNP (in line with the mainland average) by FY2041 to account for an enhanced capital stock needing maintenance after the significant reconstruction efforts in the wake of Hurricanes Maria and Irma.
- **Cost match for disaster-related federal funding** reaches an average of about $61 million from FY2027 to FY2035, after full usage of CDBG-DR funds available for local cost matching. The Commonwealth is not responsible for the portion of funds allocated to instrumentalities (e.g., PREPA, PRASA, HTA, UPR).
- **Independently Forecasted Component Units (IFCU) expenditures** are forecasted on a line-item basis. Most grow with standard Puerto Rico inflation or nominal GNP with some exceptions, such as health care- or claims-related expenditures. Over the long-term, the expenses

15 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.

of some health care related IFCUs (e.g., Cardiovascular Center Corporation of Puerto Rico and the Caribbean) are projected to grow faster than revenues, creating a deficit. This 2023 Fiscal Plan assumes deficits related to health care will be funded by the Commonwealth.

Please refer to the Appendix for details on long-term macroeconomic and financial projections.

Debt Sustainability Analysis

2023 Commonwealth Fiscal Plan pursuant to PROMESA Section 201

4 Debt sustainability analysis

The Commonwealth's Plan of Adjustment and corresponding Commonwealth legislation included a Debt Management Policy to control current and future borrowing. Additionally, the Commonwealth must restore cost-effective market access. Below are descriptions of both concepts.

Debt Management Policy: The Commonwealth's Plan of Adjustment contains an ongoing Debt Management Policy that will lay the foundation for fiscal responsibility critical for future fiscal stability and sustainable economic growth. This Policy is adopted pursuant to Article 3 of Act 101-2020, as amended, known as the "Puerto Rico Debt Responsibility Act", which requires AAFAF adopt and maintain a debt management policy that is consistent with the Plan of Adjustment. Specifically, the Debt Management Policy includes several controls on the current and future indebtedness of the Commonwealth for net-tax supported debt that are described below. The definition of net-tax supported debt includes both the General Obligation bonds, the previously restructured COFINA debt and any debt the Commonwealth may issue in the future that is supported by its taxes. The 2023 Fiscal Plan does not anticipate the Commonwealth borrowing for any purpose over the next five years.

Debt Management Policy concepts:

- Maximum annual debt service on all net-tax supported debt is limited to 7.94% or lower than the prior year's debt policy revenues (at the time of the Commonwealth's Title III exit the ratio was about 6.5%)
- Any new long-term borrowing must be for capital improvements only
- Newly issued debt must begin to amortize within two to five years of issuance
- Newly issued debt must have a maximum maturity of 30 years or less
- A refinancing of any debt must provide cash flow savings in every fiscal year and produce positive present value savings16

Restoration of market access at reasonable rates: The Oversight Board will use specific performance standards and consult with independent third-party specialists to determine whether Puerto Rico has achieved market access at reasonable rates. The Commonwealth and its Instrumentalities will have to demonstrate they have achieved and sustained the specific levels of fiscal performance and transparency consistent with municipal regulatory and market standards.

For example, in addition to bringing delinquent audited financial statements up to date, accessing credit markets will require the government to demonstrate its capacity to consistently deliver future audited financials on a timely basis, typically within 180 days from end of the prior fiscal year consistent with industry and Government Finance Officer Association (GFOA) "best practices" guidelines. Furthermore, the Commonwealth and Instrumentalities will have to adopt and institutionalize the financial practices and fiscal management reforms outlined elsewhere in this Fiscal Plan that are consistent with market standards and investor requirements. The government will also need to demonstrate its ability to comply with the regulatory requirements and securities laws for the issuance of municipal securities. This includes the ability to enter into standard Continuing Disclosure Agreement (CDA) with dealers and obtain standard market legal and audit opinions.

16 Refinancings in direct response to a natural disaster are permitted not to have cash flow savings in every year, cannot increase future debt service by more than 10%, and must be repaid within 10 years.

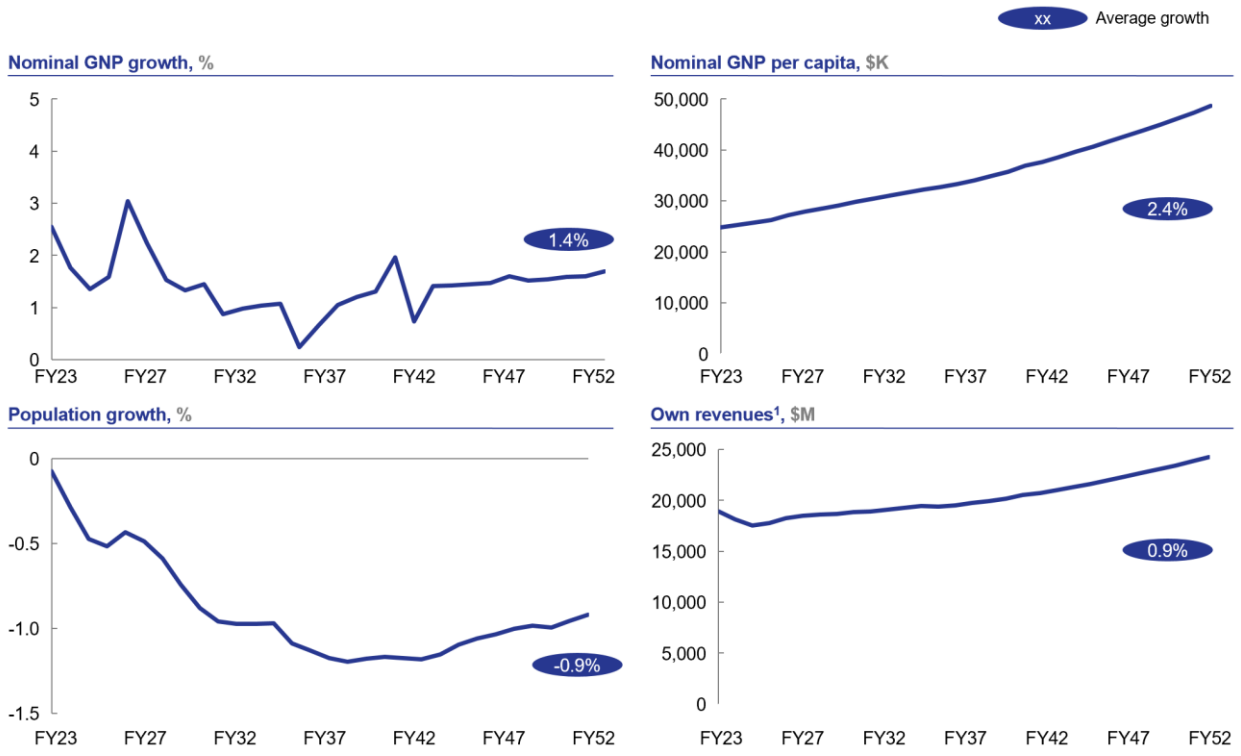
To lay the groundwork to achieving market access, the Government recently met with credit agencies. It is likely credit rating agencies will look beyond the Section 209 provisions in assessing Puerto Rico's credit worthiness. The rating agencies maintain detailed models to assess the riskiness of public sector debts. In addition to its standard metrics, the rating agencies have also historically required sustained periods of fiscal reform and recovery before assigning new credit ratings for previously bankrupt issuers. The government will need to demonstrate its ability to meet the criteria necessary to achieve credit ratings. The Oversight Board continues to work with the Government so it can eventually meet the requirements to gain access to, and the trust of, the credit markets.

In evaluating whether Puerto Rico has achieved reasonable rates, the Oversight Board will look to see whether new or restructured outstanding debt is actively trading in the municipal market at reasonable levels relative to market indices and will look for evidence investors are ready to invest in Puerto Rico again, including the level of interest from traditional municipal bond buyers. The Oversight Board will rely on the expert opinion of independent third-party entities with municipal market experience for compliance with this requirement.

Appendix

Appendix

EXHIBIT 20: FY2023-FY2052 FINANCIAL AND MACROECONOMIC PROJECTIONS



1 Own revenues includes all Commonwealth-collected revenues and excludes all federal transfers and gross up revenues; includes impact of COFINA settlement

EXHIBIT 21: MACROECONOMIC TRENDS

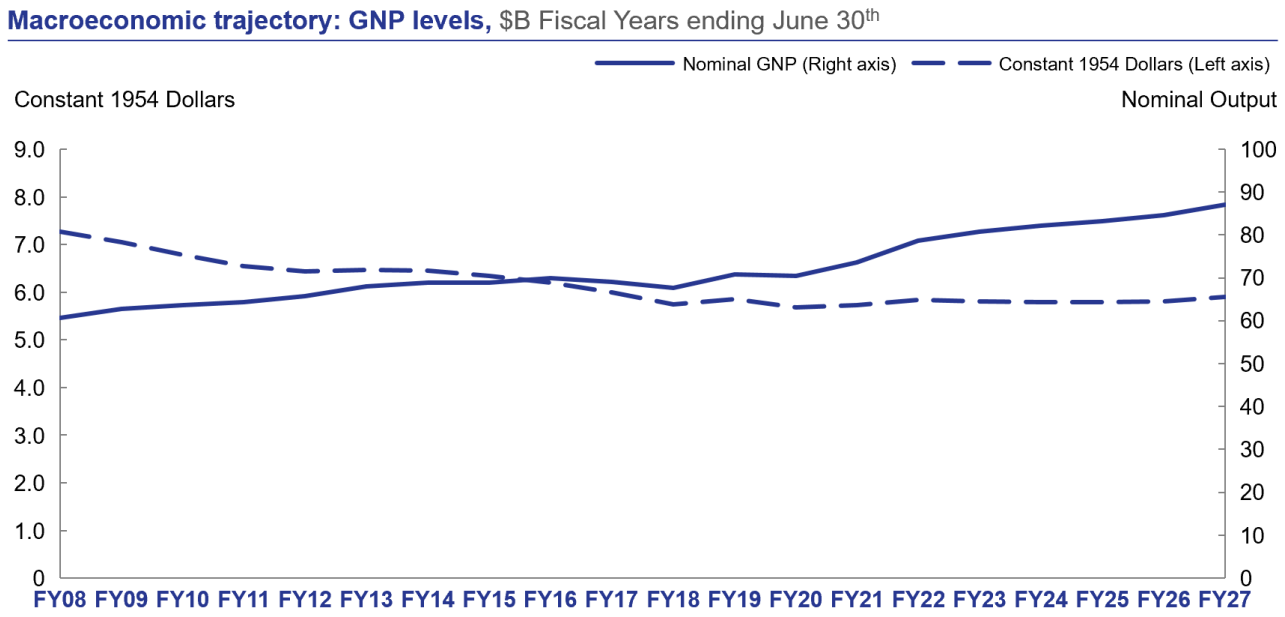


EXHIBIT 22: POPULATION TREND

Historical and projected population, millions of people

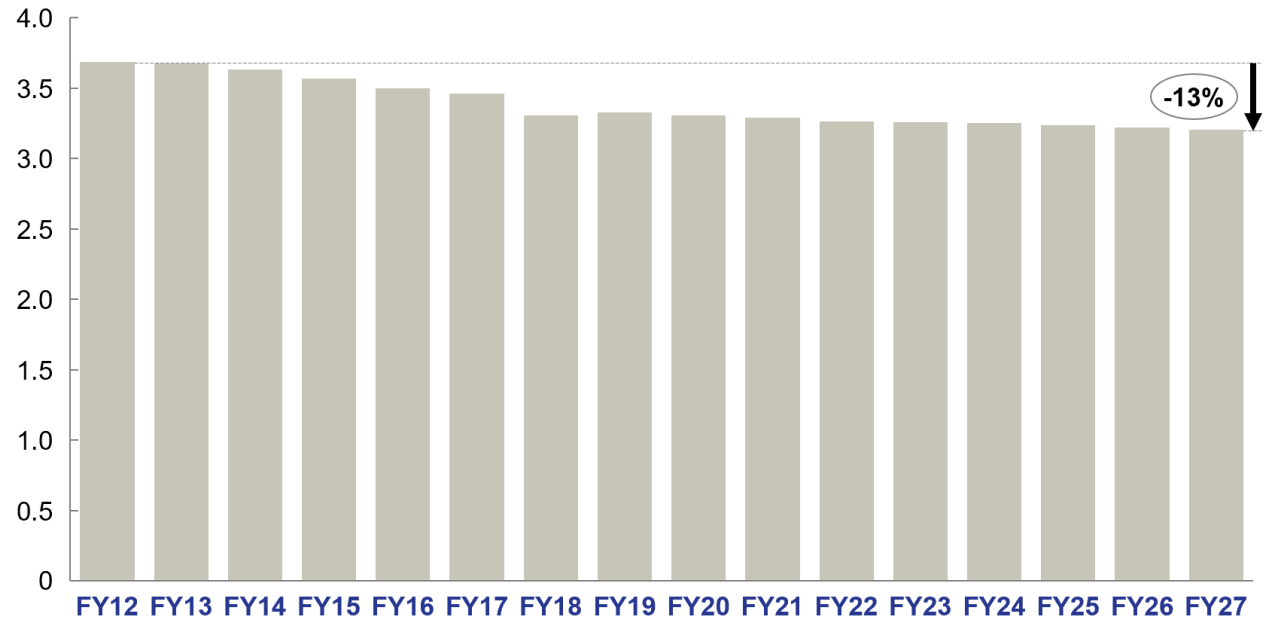


EXHIBIT 23: PER CAPITA GNP TREND

Historical and projected GNP per capita, $ USD

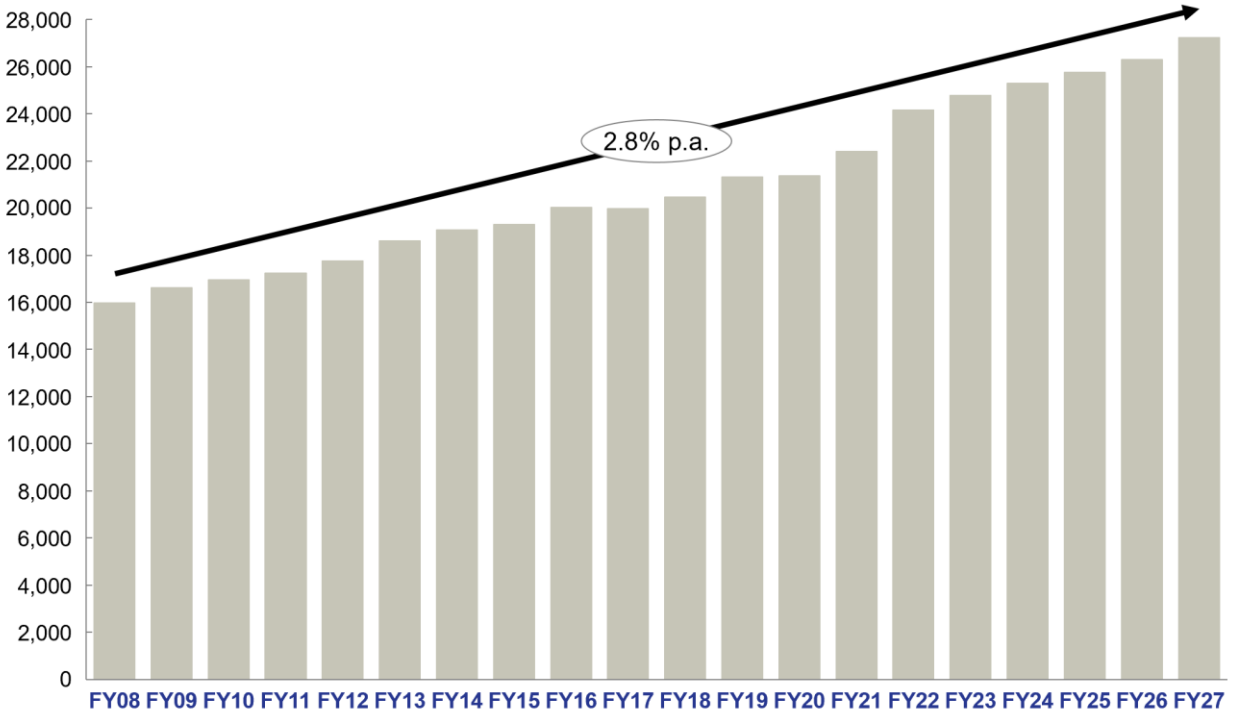


EXHIBIT 24: LONG-TERM FISCAL PLAN PROJECTIONS

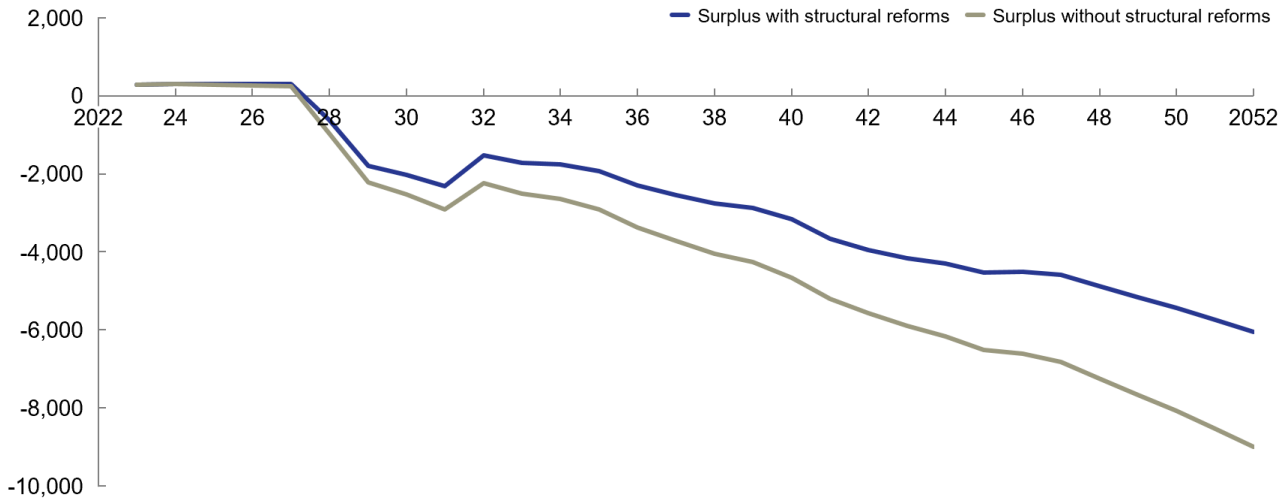
Financial projection detail, units as labeled

Projection	FY27	FY32	FY37	FY42	FY47	FY52
Population, thousand	3,200	3,084	2,929	2,760	2,611	2,487
Population growth rate, %	-0.4%	-1.0%	-1.1%	-1.2%	-1.0%	-0.9%
Real growth rate, %	**1.7%**	**-0.6%**	**-1.0%**	**-1.2%**	**-0.3%**	**-0.2%**
Nominal GNP, $M	**87,114**	**93,769**	**97,570**	**103,837**	**111,722**	**120,899**
Nominal GNP per capita, $	27,226	30,403	33,313	37,618	42,789	48,622
Nominal GNP per capita growth, %	3.5%	1.9%	1.8%	1.9%	2.7%	2.6%
Inflation, %	**1.3%**	**1.5%**	**1.7%**	**1.9%**	**1.9%**	**1.9%**
Disaster relief and infrastructure funding, $M	6,794	2,779	-	-	-	-
Revenues[1], $M	**26,860**	**24,912**	**25,990**	**27,761**	**30,052**	**32,709**
Commonwealth revenues, $M	18,218	18,926	19,526	20,710	22,346	24,261
Federal transfers, $M	8,642	5,986	6,463	7,051	7,707	8,448
Expenditures[1], $M	**(24,210)**	**(25,904)**	**(28,221)**	**(31,386)**	**(34,670)**	**(38,600)**
Commonwealth-funded expenditures, $M	(15,568)	(19,919)	(21,758)	(24,335)	(26,963)	(30,152)
Federally funded expenditures, $M	(8,642)	(5,986)	(6,463)	(7,051)	(7,707)	(8,448)
Surplus potentially not available[2], $M	*268*	*351*	*367*	*402*	*451*	*506*
Debt service and Pension Fund contributions, $M	*(2,083)*	*(193)*	*44*	*83*	*478*	*342*
Unallocated surplus / deficit, $M	**299**	**(1,537)**	**(2,555)**	**(3,945)**	**(4,590)**	**(6,054)**

1 Revenues and expenditures excluding gross up adjustments; revenues do not account for Earned Income Tax Credit
2 These surplus amounts are generated by Commonwealth corporations and the Commonwealth's ability to access such surplus amounts could be at risk without further legislative action

EXHIBIT 25: COMPARISON OF SURPLUS BEFORE AND AFTER IMPACT OF STRUCTURAL REFORMS

Comparison of annual surplus with and without structural reforms,[1] FY23-FY52, $M



1. Surplus excluding surplus of public entities potentially not available to the Commonwealth

EXHIBIT 26: REVENUE BREAKDOWN

Fiscal Year Ending June 30, $M	FY2023	FY2024	FY2025	FY2026	FY2027
General Fund Revenues:					
Individual Income Taxes[1]	3,036	2,604	2,184	2,216	2,290
Corporate Income Taxes	2,728	2,570	2,426	2,464	2,543
SUT	2,716	2,692	2,704	2,734	2,812
Act 154	1,447	1,199	1,199	1,199	1,199
Non-Resident Withholdings	559	463	367	370	376
Alcoholic Beverages	287	293	297	300	302
Cigarettes	80	90	99	100	101
Motor Vehicles	619	493	427	434	447
Excises on Off-Shore Shipment Rum	90	93	96	98	99
Partnerships	479	420	395	402	414
Other excise taxes	69	77	85	86	89
Other General Fund Revenue	665	509	515	524	540
Sub-total before additional General Fund Revenues	**12,775**	**11,504**	**10,796**	**10,927**	**11,213**
Total GF portion of misc. tax streams	441	543	548	552	559
Total Conditionally Allocable Revenues (including CRIM)	775	777	779	781	788
Total Other Non-Tax Revenues	19	18	13	13	14
Total General Fund Revenues	**14,011**	**12,842**	**12,136**	**12,273**	**12,574**
Special Revenue Fund:					
SRF revenues - CW Agencies	1,493	1,417	1,433	1,446	1,484
SRF revenues - IFCUs	1,950	2,351	2,406	2,475	2,562
Enterprise Fund Revenues	1,015	1,040	1,054	1,068	1,083
SRF revenue measures	9	9	9	9	10
Total SRF Revenues	**4,466**	**4,817**	**4,903**	**4,998**	**5,138**
Federal Fund Revenues:					
Central Government	1,236	1,274	1,284	1,301	1,319
IFCUs	162	166	168	171	173
Social Programs	3,381	3,483	3,526	3,570	3,615
Federal Fund Revenues (excl. Medicaid receipts)	**4,780**	**4,923**	**4,978**	**5,041**	**5,107**
Federal Transfers - Medicaid	3,378	3,127	3,244	3,386	3,535
Total Federal Fund Revenues	**8,157**	**8,050**	**8,222**	**8,427**	**8,642**
Revenue Post measures, pre gross up	**26,634**	**25,710**	**25,262**	**25,699**	**26,354**
Adjustments for revenue gross up	728	720	721	721	723
Revenue Post measures, post gross up	**27,363**	**26,430**	**25,982**	**26,420**	**27,078**

1 Includes impact of EITC

EXHIBIT 27: EXPENDITURES BREAKDOWN

Fiscal Year Ending June 30, $M	FY2023	FY2024	FY2025	FY2026	FY2027
General Fund Expenditures:					
Direct Payroll	(3,352)	(3,522)	(3,572)	(3,620)	(3,669)
Non-Personnel Operating Expenses (excl. Capex)	(2,972)	(2,815)	(2,402)	2,492)	(2,540)
Municipal, HTA and UPR appropriations	(1,170)	(1,148)	(1,156)	(1,179)	(1,185)
PayGo	(2,039)	(2,040)	(2,037)	(2,031)	(2,024)
Total GF Operating Expenditures	**(9,532)**	**(9,524)**	**(9,168)**	**(9,322)**	**(9,418)**
Medicaid - Commonwealth funded	(896)	(636)	(681)	(708)	(737)
Total GF Expenditures + Medicaid (excl. Other Non-Operating Expenditures)	**(10,428)**	**(10,160)**	**(9,848)**	**(10,030)**	**(10,155)**
Special Revenue Funds Expenditures:					
Direct Payroll	(832)	(848)	(860)	(868)	(887)
Non-Personnel Operating Expenses (excl. Capex)	(1,956)	(1,992)	(2,020)	(2,049)	(2,094)
PayGo	(198)	(198)	(198)	(197)	(196)
Total SRF Operating Expenditures	**(2,986)**	**(3,038)**	**(3,077)**	**(3,114)**	**(3,177)**
Medicaid - Special Revenue Fund	(342)	(718)	(752)	(797)	(845)
Total SRF Operating Expenditures + Medicaid (excl. Other Non-Operating Expenditures)	**(3,328)**	**(3,756)**	**(3,829)**	**(3,910)**	**(4,022)**
Total GF + SRF Operating Expenditures:	**(13,755)**	**(13,916)**	**(13,678)**	**(13,941)**	**(14,178)**
Federal Fund Expenditures:					
Direct Payroll	(800)	(825)	(834)	(843)	(853)
Non-Personnel Operating Expenses (excl. Capex)	(1,037)	(1,070)	(1,077)	(1,091)	(1,106)
Medicaid - federally funded	(3,378)	(3,127)	(3,244)	(3,386)	(3,535)
Social Programs - federally funded	(2,943)	(3,028)	(3,067)	(3,107)	(3,148)
Total Federal Fund Expenditures	**(8,157)**	**(8,050)**	**(8,222)**	**(8,427)**	**(8,642)**
Other Non-Operating Expenditures:					
Disaster Recovery Cost Match	(11)	(11)	(40)	(73)	(92)
Restructuring / Title III Costs	(168)	(130)	(49)	(1)	(1)
Other GF Expenses	(1,100)	-	-	-	-
Social Programs - Commonwealth funded	(15)	(15)	(15)	(15)	(15)
Expense Measures	528	415	450	458	464
Adjustments for expenditure gross up	(728)	(720)	(721)	(721)	(723)
Maintenance Capex	(290)	(523)	(280)	(284)	(288)
Enterprise Funds	(1,014)	(1,039)	(1,054)	(1,068)	(1,083)
Others[1]	(390)	(367)	(365)	(370)	(377)
Total Other Non-Operating Expenditures	**(3,188)**	**(2,390)**	**(2,075)**	**(2,074)**	**(2,114)**
Plan of Adjustment Expenditures:					
Debt Service (CIB and CABs, exl COFINA)	(771)	(752)	(625)	(604)	(582)
CVI Debt Service	(376)	(350)	(353)	(350)	(370)
Pension Reserve Trust	(1,036)	(906)	(970)	(971)	(1,132)
Total Plan of Adjustment Items	**(2,183)**	**(2,008)**	**(1,948)**	**(1,925)**	**(2,083)**
Total CW Funded Expenditures	**(27,284)**	**(26,364)**	**(25,924)**	**(26,366)**	**(27,017)**

1 Cigarettes & Rum Tax Disbursements To Public Corporations

EXHIBIT 28: DEBT POLICY REVENUES

Year	Adj. Revenue Post Measures (excl. federal transfers), $M	COFINA debt service, $M[1]	Debt policy revenues, $M	Year	Adj. Revenue Post Measures (excl. federal transfers), $M	COFINA debt service, $M[1]	Debt policy revenues, $M
FY23	18,479	485	18,964	FY38	19,238	880	20,118
FY24	17,719	504	18,223	FY39	19,449	917	20,366
FY25	17,105	525	17,630	FY40	19,678	955	20,633
FY26	17,343	546	17,889	FY41	20,011	991	21,002
FY27	17,788	568	18,357	FY42	20,202	991	21,193
FY28	18,045	591	18,636	FY43	20,499	991	21,490
FY29	18,158	615	18,773	FY44	20,805	991	21,796
FY30	18,230	640	18,870	FY45	21,121	991	22,112
FY31	18,379	666	19,045	FY46	21,447	991	22,438
FY32	18,473	693	19,166	FY47	21,801	991	22,792
FY33	18,624	721	19,345	FY48	22,150	991	23,141
FY34	18,787	750	19,537	FY49	22,509	991	23,500
FY35	18,962	780	19,743	FY50	22,883	991	23,874
FY36	18,925	812	19,737	FY51	23,268	991	24,259
FY37	19,050	846	19,896	FY52	23,676	991	24,667

1 COFINA debt service figures based on May 2021 COFINA Certified Fiscal Plan

Financial Oversight &
Management Board
for Puerto Rico

2023 Transformation Plan for Puerto Rico

Restoring Growth and Prosperity

Volume 3: Implementation requirements and plan

As certified by the Financial Oversight and Management Board for Puerto Rico

April 3, 2023

2023 Commonwealth Fiscal Plan pursuant to PROMESA Section 201

DISCLAIMER

The Financial Oversight and Management Board for Puerto Rico (the "FOMB," or "Oversight Board") has formulated this 2023 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 2023 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.

This 2023 Fiscal Plan is not a Title III plan of adjustment, it does not specify classes of claims and treatments, and it neither discharges debts nor extinguishes liens. For additional historical financial information, the parties are referred to the Disclosure Statement approved in the Commonwealth's Title III case. Parties are referred to the Title III plan of adjustment for the Commonwealth that was confirmed by the Title III court, and the Title III court's related orders, with respect to all matters covered by the Title III plan of adjustment.

The 2023 Fiscal Plan may be amended from time to time, as appropriate at the sole discretion of the Oversight Board.

This 2023 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 2023 Fiscal Plan that the Oversight Board determines warrants a revision of this 2023 Fiscal Plan, the Oversight Board will so revise it.

For the avoidance of doubt, the Oversight Board does not consider and has not considered anything in the 2023 Fiscal Plan as a "recommendation" pursuant to Section 205(a). However, for those instances of the 2023 Fiscal Plan which specifically prefer to a Section 205(a) letter issued by the Oversight Board, the Oversight Board herby adopts those instances into the 2023 Fiscal Plan pursuant to PROMESA Section 201(b). Nevertheless, to the extent that anything in the 2023 Fiscal Plan is ever deemed by the Governor or Legislature or determined by a court having subject matter jurisdiction to be a "recommendation" pursuant to Section 205(a), the Oversight Board hereby adopts it in the 2023 Fiscal Plan pursuant to PROMESA Section 201(b).

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 and the Oversight Board, but also by 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 the Earthquakes and/or Hurricanes María, Irma, and Fiona;*
- *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; and*
- *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.*

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 warranty of facts or future events; provided, however, that the Government is required to implement the measures in this 2023 Fiscal Plan and the Oversight Board reserves all its rights to compel compliance. Nothing in this document shall be considered a solicitation, recommendation, or advice to any person to participate, pursue or support a course of action or transaction, to purchase or sell any security, or to make any investment decision.

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1 Guide to the 2023 Commonwealth Fiscal Plan

The 2023 Transformation Plan for Puerto Rico satisfies the requirement of the Commonwealth Fiscal Plan pursuant to PROMESA Section 201. The document contains three parts:

- *Volume 1: Transformation plan*

  The 2023 Commonwealth Transformation Plan provides an overview of the Government and Oversight Board's achievements under PROMESA, a summary of economic trends and financial projections for the Commonwealth, and highlights priority areas to accelerate economic growth and restore market access for Puerto Rico. In addition, the plan describes areas where the Oversight Board is working with stakeholders to find solutions to priority challenges impacting growth.

- *Volume 2: Economic trends and financial projections – Additional Details*

  These additional details are provided to expand on the economic trends and financial projections introduced in Volume 1.

- ***Volume 3: Implementation requirements and plan***

  These supplementary implementation details are provided to guide the Government's implementation of the requirements of this 2023 Fiscal Plan. Additional initiatives from prior fiscal plans remain mandatory and must still be implemented fully.

2 The Financial Management Agenda

The 12 required initiatives to support the Financial Management Agenda, described in *Exhibit 1*, are grouped into three categories: Foundational, Central, and Supporting:

EXHIBIT 1: INITIATIVES TO ACHIEVE STRONG FISCAL MANAGEMENT

Financial Management Agenda initiatives

Foundational initiatives – lay the foundation for sound, sustained financial management	**Office of the Chief Financial Officer**	Aligns financial management functions across the Government under singular leadership, enabling consistent policies and procedures
	A Civil Service Reform (CSR)	Will result in more competitive compensation and better recruiting, training, and performance management for public service employees
Central initiatives – essential for meeting the conditions for terminating the Oversight Board	**Timely Audited Financial Statements**	Fulfill a prerequisite for issuing bonds at reasonable interest rates, and debt management policy implementation
	Debt Management Policy	Is necessary to assure investors, safeguard against future over borrowing, and ensure future market access
	Budgeting Best Practices	Budget best practices and federal funds management work together to help the Gov. more accurately forecast available revenue, prepare, and adhere to responsible spending plans, and maximize the use of federal funding to supplement local revenue sources
	Federal Funds Management	
Supporting initiatives – support other aspects of financial management improvement	**Automated time and attendance**	Will ensure that only active employees who are working get paid
	Cash & bank account monitoring	Will close idle government bank accounts and reduce erroneous bank account activity and inaccurate cash reporting
	Procurement best practices	Will make Gov. purchases transparent to the public, reduce non-competitive contract awards, and standardize procurement rules
	Non-partisan legislative scoring	Will ensure that the fiscal impact of legislative actions is accurately estimated and that budgets are based on revenue forecasts
	Real estate best practices	Will ensure that all Gov.-owned property is accounted for, properly maintained, and delivers the maximum value to the people of PR
	Real property registry	Will streamline the land registration process, verify ownership of all land on the Island, and assist with tax compliance and distribution of DRF

Implementation of the agenda

While the Government has taken initial steps to ensure that the Agenda initiatives are implemented in a coordinated manner that delivers on promised results, implementation must be strengthened. Key steps the Government must take to achieve a successful implementation include:

- A Governor's Management Council (GMC) consisting of the chief operating officers (or equivalent senior officials) of major agencies and Government public corporations. The GMC, headed by the Governor, with the CFO as deputy, will serve as a steering committee for the Agenda's implementation. Importantly, the GMC will provide a way for leadership across agencies to support Government-wide priorities and to build a community of management practice that identifies obstacles, solves problems, and innovates together. This initiative has been kicked off by the OCFO but is still a work in progress.
- Alternatively, expanding the role of the existing Enterprise Resource Management (ERP) Steering Committee, which may include monitoring implementation of the Agenda. The Steering

Committee, led by Hacienda, includes representatives from all agencies who are responsible for Agenda initiatives.

- To provide Puerto Rico the best chance for success and make the most of limited resources, the Governor must direct a small number of large agencies to meet standards of financial management excellence and provide financial services to smaller entities. These agencies can serve as centers of excellence to implement and maintain modern financial management standards across more than 100 units of government.

Key steps the Government has already undertaken to further the implementation of the Agenda are:

- Executing the ERP Solution contract and a service agreement with an ERP implementor. The ERP Implementation began in November 2022. The Oversight Board anticipates continued collaboration as implementation begins.
- Creating detailed implementation plans for several initiatives, with definitive timelines, milestones, action steps, budgets, and responsibilities.[1]
- Enacting Act 1-2023 for the creation of the Budget Office of the Legislative Assembly (OPAL for its Spanish acronym).
- Issuing the FY2019 and FY2020 audited financial statements.
- Establishing a comprehensive debt management policy approved by the Oversight Board.

Further information can also be found in the initiative sections below.

2.1 Office of the Chief Financial Officer

Currently, the financial management of the Government is divided among five independent entities that make financial decisions regarding treasury and cash management, budgeting, fiscal planning, procurement, and human resources. By centralizing key financial management functions, including financial reporting, procurement, and payroll under a capable and well-resourced OCFO, the Government can address long-standing issues that have arisen under the historically decentralized financial management regime.

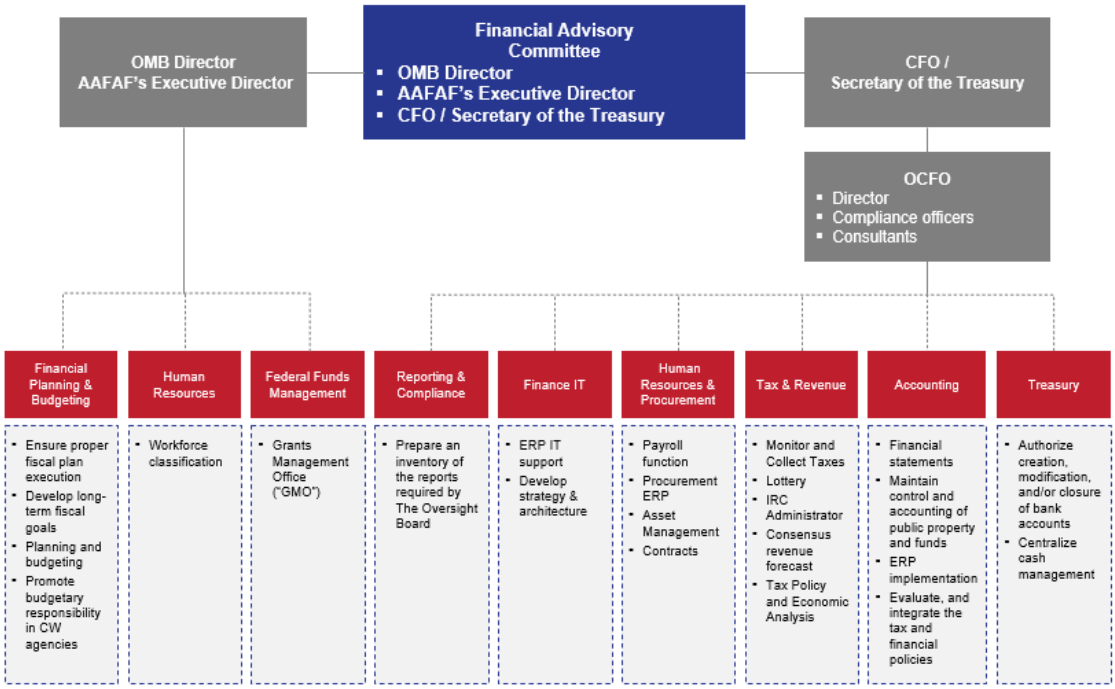
On March 9, 2021, the Governor issued Executive Order 18-2021, which repealed and replaced prior administrative orders to create the OCFO. The OCFO will centralize all financial management functions for the Commonwealth with the intent to provide a uniform and coordinated structure to support fiscal governance and transparency. The OCFO will be instrumental in implementing the new comprehensive ERP system that will support financial data recording, reconciliations, and timely interim and year-end financial reporting, as well as timely preparation and audit of its financial statements.

Over time, relevant responsibilities and specific functions now distributed across various Government agencies must be consolidated within a legislated OCFO. Depending on the functions transitioned to the OCFO, serious consideration should be given to improving efficiencies by consolidating or eliminating certain heritage agencies.

[1] Work plans for the following initiatives were prepared by the Government and approved by the Oversight Board: Audited Financial Statements, Budget Best Practices, and Federal Funds Management. Cash and Bank Accounts Oversight work plan is pending.

The proposed OCFO consolidated agencies and advisory committee are illustrated in the organizational chart below:

EXHIBIT 2: PUERTO RICO FINANCIAL STRUCTURE



The Agenda requires strengthening the OCFO in line with the below core objectives and responsibilities:

- Centralizing treasury and liquidity management to:
  - Enforce and manage a consolidated Treasury Single Account (TSA) for the Government that controls and offers visibility into all Government bank accounts to the extent possible, including those of component units (CU) at private banks
  - Enable all other public entities to maintain zero balance sweep accounts
  - Empower the OCFO to serve as the sole authority for Government bank account creation and closure—facilitating liquidity reporting, monitoring, and analysis
  - Facilitate the rationalization of the Government's account portfolio to support maximization of earnings, cash pooling, daily cash sweeps and treasury operations, and implement uniform accounts payable and disbursement prioritization processes and reports
- Enhancing the budget development process by improving formulation, execution, monitoring, and performance tracking to:
  - Comply with the Oversight Board budget guidelines to develop an auditable budget that is readily traceable to the 2023 Certified Fiscal Plan and its priorities
  - Forecast and manage the seasonality of tax receipts
  - Forecast and report the fiscal cost of tax credits

- Collaborate with the Department of Economic Development (DDEC, by its Spanish acronym) to oversee all tax decrees and tax agreement issues
- Operationalize the financial budget system to ensure consistency between accounts and facilitate their monitoring
- Estimate, protect, and enhance tax collections and revenue streams
- Establish budgetary priorities—namely, effective expenditure controls and Government-wide procurement reforms
- Develop budgets using detailed and granular account-level structures for expenditures and revenues accounting through standard guidelines followed by all Government agencies
- Report revenues and expenditures' budget-to-actuals for the General Fund, Special Revenue Funds, and Federal Funds on a recurring monthly basis

- Driving the standardization and integration of the Government's financial information technology (IT) systems to:
  - Identify disparate systems being used for financial tracking and reporting
  - Establish a roadmap to standardize and integrate systems to the fewest financial management systems possible
  - Orchestrate the integration of financial management systems across agencies, including defining new policies and procedures, coordinating data migration and validation, and training system users to effectively utilize new systems
  - Improve and standardize processes that support and contribute to the accuracy of financial information provided to the ERP
  - Evaluate current laws that exempt certain government entities from the Puerto Rico Government Accounting Act. While some entities are mandated by law to maintain fiscal independence, they could still leverage central financial IT systems to reduce costs and automate current processes
- Ensuring compliance with procurement, contract, pension, and human resource management policies across Government agencies to:
  - Certify all contracts, bills, invoices, payroll charges, and other evidence of claims, demands, or charges relating to the Government and entities reliant upon its taxing authority by prescribing receipts, vouchers, and claims for all agencies to leverage
  - Manage centralized health insurance procurement and policy management
  - Oversee human resources, Government payroll operations, and all Government-related financial transactions. Implement uniform time, attendance, and overtime processes, payroll controls, and reporting standards
- Strengthening oversight of Special Revenue Funds (SRF) through enhanced control mechanisms to:
  - Implement processes and guidelines that improve stewardship and centralization of all SRFs
  - Ensure all revenue streams attributable to SRFs are deposited within the TSA
  - Improve centralization of revenues and expenditure budget-to-actual reporting and accounting of transactions in a centralized accounting system
- Improving the timeliness of the Government's annual audited report and financial reporting to:

- Produce unqualified audited financial statements in accordance with GAAP standards and leverage new forecasting, e-settlement, and analytics capabilities within established regulatory timeframes
- Issue the FY2021 and FY2022 audited Basic Financial Reports as quickly as possible
- Implement long-lasting standard reporting processes and policies to ensure FY2022 and beyond audit issuances can occur within six months of a fiscal year end
- Support stronger implementation of measures required by the Certified Fiscal Plan and more robust reporting of actuals
- Supervise property tax assessment reforms, prepare tax maps, and provide notice of taxes and special assessments

- Centralizing and validating the management of Government funds, debts, and other financial transactions to:
  - Maintain custody of all public funds, investments, and cash
  - Administer cash management programs to invest surplus cash
  - Facilitate short- and long-term borrowing programs
  - Establish accountability over all Government funds, property, and assets
  - Oversee all tax decrees and agreements issued
  - Build on previously issued annual Tax Expenditure Report (TER) that identifies and quantifies all tax expenditures, and does so in a manner the TER can be used for budgeting and fiscal planning purposes
- Overseeing the Implementation of the 2023 Certified Fiscal Plan to:
  - On a timely basis, provide the Oversight Board with the implementation plans and monthly progress reports needed to effectively track the status of key initiatives
  - Facilitate timely and targeted interventions to address areas of underperformance relative to efficiency measures
- Ensuring robust management of new federal funds to maximize and optimize their usage to:
  - Assign leaders to spur accountability and improve transparency
  - Establish mechanisms to coordinate with federal counterparts
  - Plan for financial inflows
  - Provide appropriate resources for agencies to handle the influx of demand

Implementation of some of these objectives and responsibilities is ongoing, incomplete or has not started yet.

Progress will be required in the following areas to realize the vision of the OCFO:

ERP System

The OCFO will prioritize the implementation of ERP, which formally kicked-off in November 2022, to drive efficiency in organizational processes, procedures, and staffing requirements. To facilitate the implementation, the Government must document and standardize all processes that lead up to recording transactions and eliminate processes that are redundant or inconsistent with those contained in the new ERP. As processes change, so do the roles of the people executing them, providing an opportunity to consolidate functions.

During the implementation of a new ERP system, the OCFO will educate all individuals involved in the transaction flow on the importance of their roles to the overall integrity of the new ERP. The Government should not automate inefficiencies but rethink processes to take maximum advantage of the controls built into the new system and be constantly vigilant at pushing back on modifications allowing for old processes and procedures to continue. If implemented appropriately, the ERP can be a key driver of efficiency and accuracy of financial functions.

The 2023 Fiscal Plan requires that the OCFO complete the required implementation items in *Exhibit 3*.

EXHIBIT 3: ERP REQUIRED IMPLEMENTATION ACTIONS

	Required implementation actions	Responsible party	Deadline & status
To be completed in FY 22	▪ **Create an Executive Project Steering Committee,** chaired by the CFO and composed by other executive level officials to oversee the implementation.	▪ OCFO	▪ May 2021 *Completed*
	▪ **Designate project management team** (with 3+ FTEs) to monitor and evaluate the progress and completion of the Enterprise Resource Management implementation. This team should be dedicated to this project on a full-time basis.	▪ OCFO	▪ June 2021 *Completed*[1]
To be completed in FY 23	▪ **Agree on a project plan with milestones and budget** for completion of phases and projections of total project completion.	▪ OCFO	▪ November 2022 *Completed*
	▪ **Select ERP solution and implementer.**	▪ OCFO	▪ December 2022 *Completed*
	▪ **Review and change accounting system cycles,** perform data clean-up to ensure new system does not start with inaccurate data, change management strategy for staff involved in all accounting cycles.	▪ OCFO	▪ June 2023 *Revised deadline*
To be completed in FY 24	▪ **Complete Annual Financial (ACFR) track**	▪ OCFO	▪ October 2023 *New milestone*
	▪ **Reassess the full project timeline and fees based on the results achieved in Wave 1.** Furthermore, at the conclusion of Wave 1, present the impact of lessons learned throughout the implementation process of Wave 1.	▪ OCFO	▪ December 2023 *Revised deadline*
To be completed in FY 25	▪ **Complete finance, budget, and sourcing track for all central Government agencies**	▪ OCFO	▪ July 2024 *New milestone*
	▪ **Complete human capital management track for all central Government agencies**	▪ OCFO	▪ July 2024 *New milestone*
	▪ **Complete ERP Wave 1 implementation** for the internal ERP system at Hacienda.	▪ OCFO	▪ September 2024 *Revised deadline*

1. Milestone budget incentive was released on November 4, 2021, upon completion

The Commonwealth will limit its reliance on contractors in implementing the ERP. The ERP Steering Committee will ensure that the new ERP is fully functional for centralized Government entities by FY2024, functional for component units by FY2027, and that the system remains up to date and meets the evolving financial challenges of the future.

The combination of the changes planned for the OCFO, and the Government-wide ERP implementation shall drive the standardization and integration of the Government's financial information technology (IT) systems.

Financial controls

Priority activities for OCFO include:

- Standardize accounting policies and procedures across the Government. OCFO will prepare circular letters guiding all Commonwealth entities to close their books monthly and report monthly and annual results to OCFO. This will be achieved through a standard chart of accounts, automated journal entries, and automated reconciliations supported by the ERP system.
- Centralize and validate the management of Government funds, debts, and other financial transactions.
- Revise procurement procedures to increase transparency and lower costs. OCFO will implement a transaction monitoring process for all entities, lower the threshold for competitive purchases, manage centralized insurance policy procurement, and build a searchable procurement portal within the ERP system that will make information on bid winners available to the public.
- Enforce and manage a consolidated Treasury Single Account (TSA) for the Government that controls and offers visibility into all Government bank accounts, including those of component units (CUs) at private banks. All other public entities will maintain zero balance sweep accounts. The OCFO will: serve as the sole authority for Government bank account creation and closure-facilitating liquidity reporting, monitoring, and analysis, implement a monthly cash utilization report, and will keep a record of all transactions at the time of occurrence.
- Enhance budget execution process by improving monitoring and performance tracking.
- Strengthen oversight of SRF through enhanced control mechanisms.
- Account for all Government funds, property, and assets. This will include producing, monitoring, and managing the Central Government's capital plan in coordination with all relevant executive branch agencies. OCFO will also oversee the preparation of a consolidated list of all real estate assets owned by the Commonwealth and issue a monthly report with summary analysis of all Commonwealth investments.
- Hire adequate staff to oversee all mandates established in the Executive Order 18-2021, including centralizing all cash reporting and monitoring, as well as evaluating current procedures and regulations related to the creation, modification and closing of bank accounts to centralizing the process and broaden the scope to include all public corporations.

The 2023 Fiscal Plan requires the following implementation items as shown in *Exhibit 4*:

EXHIBIT 4: OCFO REQUIRED IMPLEMENTATION ACTIONS

	Required implementation actions	Responsible party	Deadline & status
To be completed in FY 22	▪ **Transfer DC plan funds from 2017 onward (located in temporary trust) into newly created segregated accounts**, including payroll transfer of the employee contributions to the new DC account.[1]	▪ OCFO	▪ Quarterly progress *Completed*
To be completed in FY 24	▪ **Identify all workstreams** for which OCFO is responsible to establish organizational framework with appropriate staffing and complete the organizational and budget plan.	▪ OCFO	▪ October 2023 *Revised deadline*
	▪ **Create and recruit associate CFO positions** for the following groupings: (a) Economic Development, (b) Education, (c) Health, (d) Housing, (e) Public Safety, and (f) Justice, whose authority would fall under the OCFO pursuant to legislation.	▪ OCFO	▪ December 2023 *Revised deadline*
	▪ **Ensure passage of legislation** to enable consolidation and empower OCFO as the central authority over finance, budget, human resources, audit, etc[1]	▪ OCFO	▪ March 2024 *Revised deadline*
	▪ **Centralize procurement** for items purchased across the Commonwealth.	▪ OCFO & GSA	▪ March 2024 *On-Track*

1. For all entities supported by the General Fund or dependent on the Government's taxing authority

For further information about this initiative, please refer to Section 13.2.1 in the 2022 Fiscal Plan.

2.2 Civil Service Reform

A capable, motivated civil service is essential for successfully implementing and institutionalizing the initiatives in the Agenda. Past attempts at Civil Service Reform in Puerto Rico have fallen short, which is why the Government and the Oversight Board collaborated to complete a pilot of human resource management leading practices in Puerto Rico's core financial agencies. For more information about this initiative please refer to Chapter 4 of this document.

2.3 Timely audited financial statements

Puerto Rico has had fiscal management challenges for years that created growing Government deficits. For the Government to adhere to structurally balanced budgets reflecting ongoing fiscal discipline, it must return to the timely publication of audited financial statements and related information—key steps to regain access to credit markets, as required by PROMESA for the termination of the Oversight Board. Best practice calls for audited statements to be published no later than 180 days (six months) after the end of each fiscal year.

The 2023 Fiscal Plan requires the following implementation activities:

- Audited financial statements will be issued no later than 180 days (six months) after the end of the fiscal year, consistent with financial reporting preferred best practices according to the Government Finance Officers Association (GFOA). To ensure this schedule is met, the Government will direct that:
  - Component units audited financial statements are issued three months after the close of the fiscal year.
  - Reporting formats and distribution are standardized.

- Auditors identify control deficiencies to managers and suggest corrective actions prior to publishing an audit.

- Financial information will be consistently monitored and updated. Agencies and component units will:
  - Follow the policies and procedures that define a 'record to report' cycle, such as:
    - Preparing monthly, quarterly, and annual accounting closings and financial statements
    - Performing recurring monthly cash reconciliations to close accounting period
- Agencies and component units will improve their internal capacity and capability to prepare timely and accurate financial statements.
- Personnel will be provided with job-specific training.
- The financial reporting module of the ERP system under development will be utilized to support the Government in performing these tasks. Specifically, the financial reporting module of the ERP system will (i) allow for more timely reporting of actuarial reports, (ii) create an ability to close financial records in a timely manner, and (iii) complete the necessary steps for the timely submission of the annual comprehensive financial report.

Progress to date

The most recent ACFRs, for fiscal years 2019 and for 2020, were published in April 2022 and September 2022, 34 and 27 months after the close of the respective fiscal years. Although these were not finalized within the six-month period, the Government is making progress in reducing the backlog of past ACFRs.

Multi-year contracts have been established to audit the Basic Financial Statements and component units, which should allow a more coordinated and efficient audit process. As noted, the ERP system cloud provider and implementation partner firm have been selected.

EXHIBIT 5: TIMELY AUDITED FINANCIAL STATEMENTS

	Required implementation actions	Responsible party	Deadline & status
To be completed in FY 22	**Issue FY19 audited financial statement.**	OCFO	April 2022 *Completed*
	Issue FY20 audited financial statement.	OCFO	September 2022 *Completed*
To be completed in FY 23	**Expedite actuarial reports** to complete CU financial a "record-to-report" cycle.	OCFO	Completed
	Establish a multi-year contract with prequalified contractors for ACFR and Component Units.	OCFO	Completed
	Issue FY21 audited financial statement.	OCFO	March 2023 *Revised deadline*
	Perform closing financial records on a monthly, interim, and annual basis for agencies and Component Units.	OCFO	December 2023 *On-Track*
	Publish a management letter for each audit that includes management's comments and corrective actions for auditor-identified control deficiencies.	OCFO	Ongoing
	Issue FY22 audited financial statement.	OCFO	September 2023 *Revised deadline*
To be completed in FY 24	**Develop policies and procedures** that define and support a "record-to-report" cycle.	OCFO	December 2023 *Revised deadline*

For further information about this initiative, please refer to Section 13.3.1 in the 2022 Fiscal Plan.

2.4 Debt management policy

Puerto Rico has faced an unprecedented fiscal emergency for the past decade as a result of economic decline, accumulated operating deficits and excessive borrowing, among other challenges. In 2016, the United States approved the federal law known as PROMESA, which included two titles dealing with debt restructuring: Title III, an in-court process for adjusting the debt of Puerto Rico, and Title VI, an out-of-court process for negotiating modifications of certain bond financings and other indebtedness.

The provisions of the newly restructured debt issued in connection with the Plan of Adjustment includes a strict debt management policy. The Government must abide by those provisions, including limitations on the issuance, purpose, duration, amortization, and refinancing requirements, as long as the newly issued debt remains outstanding. At the urging of the Oversight Board, the Commonwealth also adopted a similar written Debt Management Policy. This Policy was adopted pursuant to Article 3 of Act 101-2020, as amended, known as the "Puerto Rico Debt Responsibility Act", which requires the Fiscal Agency and Financial Advisory Authority (AAFAF, by its Spanish acronym) to adopt and maintain a debt management policy that is consistent with the Plan of Adjustment. AAFAF will use the obligations outlined in the Policy to set up additional guardrails, where needed, to limit unsustainable borrowings at the Commonwealth and sub-borrower level. The 2023 Fiscal Plan requires the following implementation activities:

- Any future policies and procedures will be prepared to clearly identify the roles, responsibilities and objectives of the agencies involved in debt management, and such roles will be publicly disclosed to increase transparency and accountability.
- AAFAF will conduct periodic reviews of the affordability of all Tax-Supported Debt Outstanding and publish an annual debt affordability report. The report should focus on the composition of Commonwealth and public corporations' debt and financial assets, including total debt, maturity schedules, and interest rate structure. The report may also include details on the debt portfolio, a risk assessment, debt affordability analysis for short- and long-term periods, among other information. AAFAF has drafted the first debt affordability report, which is currently being reviewed to ensure its comprehensiveness.
- Audits of the Commonwealth's debt management operations, debt manager's performance, and systems and control procedures will be conducted regularly on a predetermined schedule, but no less than annually.
- AAFAF and related entities will create a working committee to ensure that key factors used by credit rating entities are adequately addressed and incorporated into the action plan for the next several years to convey a positive debt position of the Commonwealth.
- At the municipal (sub-borrower) level, AAFAF and OCFO will improve and enforce debt disclosure, debt reporting and debt analysis.
- AAFAF will create a designated page on its website to disclose all adopted policies, including the Debt Management Policy and its auxiliary policies, annual affordability report, audit reports, and any other supporting documents to increase transparency and accountability.
- The Government must document and standardize all processes that lead to recording transactions related to debt issuance, management, and debt service through the ERP system. While

implementing a new ERP system, the OCFO will educate all parties involved in debt financing and management on the importance of their role to the overall integrity of the new ERP and transparency and accountability.

Progress update

- The Government of Puerto Rico has adopted a written Debt Management Policy.
- 57% of all Commonwealth agencies have identified their capital leases and lease-purchase transactions and submitted the information to AAFAF.
- The Government has adopted a separate policy to govern the use of derivatives and structured products by government entities.

EXHIBIT 6: DEBT MANAGEMENT POLICY

	Required implementation actions	Responsible party	Deadline & status
To be completed in FY 23	▪ Each government Entity shall identify a **report of all its capital leases and lease-purchase transactions**, including the term, annual payments, residual payments, and any other requested information to AAFAF	AAFAF/ Government Entities	December 2022 *New milestone; in progress*
	▪ Develop a **separate policy** amendment to Debt Management Policy to regulate and establish limitations **for capital leases and lease-purchase transactions**	AAFAF and OCFO	February 2022 *New milestone*
	▪ **Publish an annual debt affordability report.** The report should include the debt portfolio, risk assessment, and debt affordability.	AAFAF and all Commonwealth entities	December 2022, annually thereafter *Delayed*
	▪ **Develop policies and procedures to support debt management.** Identify the roles, responsibility, and objectives of various agencies involved in debt management and publicly disclose them.	AAFAF	April 2023 *Delayed*
	▪ **Create a credit rating working committee.** The committee should ensure that key factors used by credit rating entities are adequately addressed and incorporated into the Policy.	AAFAF and OCFO	May 2023 *Delayed*
	▪ **Determine an audit schedule and publish a request for proposal** to procure a third party to audit debt management operations, debt manager's performance, and systems and control procedures.	AAFAF and OCFO	June 2023 *On-track*
	▪ **Create a designated website to disclose all adopted policies**, including Debt Management Policy and its auxiliary policies, annual affordability report, audit reports, and any other supporting documents	AAFAF	June 2023 *New milestone*
	▪ **Audit, on a recurring basis, debt management operations, debt manager's performance, and systems and control procedures**. On a predetermined schedule that is no less than on an annual basis.	AAFAF	June 2023, annually thereafter *On-track*

EXHIBIT 7: IMPROVING DEBT MONITORING OF SUB-BORROWERS

	Action items	Responsible party	Deadline & status
To be completed in FY 23	▪ **Reconcile and report debt balances**. Certify each Municipality's outstanding intergovernmental payables and payment plans with government agencies and public corporations.	▪ AAFAF	▪ May 2023 *Revised deadline*
	▪ **Monitor pension and intergovernmental obligations**. AAFAF and FOMB to monitor municipality intergovernmental obligations and payment plan compliance.	▪ AAFAF	▪ June 2023, quarterly thereafter *Revised deadline*
	▪ **Report Municipality debt levels**. Annual reporting to include legislative debt limits, debt repayment capacity, and upcoming debt maturities.	▪ AAFAF and OCFO	▪ June 30, 2023, annually thereafter *Revised deadline*
	▪ **Include debt analysis in the annual debt certification by OGP.** OGP to validate all 78 municipalities have budgeted for required debt payments.	▪ OGP	▪ June 2023, annually thereafter *On-track*
To be completed in FY 24	▪ **Report intergovernmental data.** Annual certification and public reporting of all intergovernmental payment plans with government agencies and public corporations.	▪ AAFAF and OCFO	▪ December 2023, annually thereafter *Revised deadline*

For further information about this initiative, please refer to Section 13.3.2 in the 2022 Fiscal Plan.

2.4.1 Budget best practices

PROMESA's conditions for termination of the Oversight Board include that the Government budget is in accordance with modified accrual accounting standards and that expenditures do not exceed revenues for four consecutive fiscal years. Meeting these conditions will require adopting and implementing best practices for budget development and monitoring, revenue forecasting, and accounting. The 2023 Fiscal Plan requires the following implementation activities:

- The OCFO will establish a revenue committee that reviews budget-to-actuals and provides guidance on the revenue forecast for the next twelve months. The revenue committee will be presented economic forecasts provided by the Government and other experts to support a consensus view of macroeconomic trends. The recommendations of the revenue committee will provide parameters for budget development and appropriations processes.
- The OCFO will propose legislation requiring quarterly revenue analysis and budgetary adjustments as necessary. The proposed legislation will include language to ensure that a revenue source is identified before any spending bill is enacted.
- With the implementation of the ERP system, the OCFO will present the results of the revenue and expense budget-to-actuals variance report each quarter, informing the public of any required spending changes based on recommendations from the revenue committee. The OCFO will be able to explain all variances from the original forecast revenues.

- The OCFO will propose legislation to amend Act 230-1974 to ensure the Office of Management and Budget (OMB) has authority to assign budgets for the entire Commonwealth
- The OCFO will provide a summary of SRFs that can be consolidated into the General Fund (GF) and a list of SRFs that will maintain zero-balance sweep accounts.
- OMB will develop training materials to ensure all entities are using best practices to prepare budgets. OMB will host training seminars every two months for financial staff members.
- The OMB will leverage OCFO staffing initiatives to increase the financial management capacity across government.
- To promote budgetary control processes, OMB will evaluate and issue recommendations regarding reapportionment requests for the Commonwealth entities that have a total Budget GF appropriation under $5 million.

Progress to date

Due to the importance and impact on the operations of the rest of the government entities, the Government determined that the OMB's Budget Division was one of the essential areas that required attention. As part of its analysis, the OMB reviewed different organizational structures and researched best practices that could be implemented in this division, in compliance with all the emerging requirements. As a result of these efforts, OMB developed a work plan to improve on three main areas:

- Budget Operations –focused on the daily budget operations regarding government agencies
- Strategic Planning –focused on the planning of the budget process both long and short-term
- Quality and Compliance –focused on monitoring compliance requirements and regulations as defined in the approved Budget, as well as the Fiscal Plan

OMB continues seeking and implementing best practices regarding access to information as well as complying with government management in accordance with Fiscal Transparency public policy for the Government of Puerto Rico. As a direct result of these efforts, new modules of Enterprise Resource Management (ERP) have been developed, such as Roster, CapEx and Spending Projections. These modules have the main objective of providing clear visibility to standardize and make the budget process more agile and efficient.

There has been additional progress made:

- Bi-weekly meetings with Hacienda are in place to review budgets.
- The principle of revenue neutrality is applied to some extent when preparing budgets, though not yet sufficiently institutionalized into budget development.
- Three circular letters have been published, including:
  - No. 1300-03-22: To establish the monthly workplan requirement for all agencies and public corporations.
  - No. 1300-05-22: To require a corrective action plan for all control deficiencies identified by external auditors, regulators, the comptroller's office, etc.
  - No. 1300-13-22: To establish a collaboration with the General Inspector Office of Puerto Rico for them to visit each agency and component unit to ensure their compliance with the monthly closings.

Limited progress has been made in establishing a reporting process that includes the Judiciary and Legislative branches.

There have been delays in the completion of the items due to cost overruns.

EXHIBIT 8: BUDGET BEST PRACTICES

	Action items	Responsible party	Deadline & status
To be completed in FY 24	▪ **Prepare training materials** to support budget best practices and compliance with modified accrual.	▪ OMB	▪ July 2023 *Revised deadline*
	▪ **Prepare reporting template or financial system** to allow for consolidated reporting in a consistent format showing compliance with modified accrual.	▪ OCFO	▪ October 2023 *Revised deadline*
	▪ **Enact legislation** to establish a revenue committee requiring quarterly revenue analysis and identification of revenue sources prior to enactment of spending bills.	▪ Legislature and AAFAF	▪ October 2023 *Revised deadline*
	▪ **Establish a reporting process** that includes the Judiciary and Legislative branches.	▪ AAFAF	▪ December 2023 *Revised deadline*
	▪ **Issue circular letters** detailing reporting requirements.	▪ OCFO and AAFAF	▪ December 2023 ▪ *Revised deadline*
	▪ **Prepare and present consolidated reporting**. Timely and regularly reported budget to actuals of revenues and expenses at the close of each month.	▪ OCFO	▪ May 2024 *Revised deadline*
	▪ **Amend Act 230-1974** to allow OMB oversight over all Commonwealth entities.	▪ Legislature	▪ May 2024 *Revised deadline*

For further information about this initiative, please refer to Section 13.3.3 in the 2022 Fiscal Plan.

2.5 Federal funds management

Currently, federal funds represent 40% of Puerto Rico's FY2023 Consolidated Budget. Given the importance of federal funds to the Island, there must be an effort to better manage these funds. There is a need to consolidate grants management to make visible the single period and recurring revenues the Government receives from grants from federal sources. Individual agencies and Hacienda must better understand their federal allocations and the implications of maintenance of effort (MOE). The Government must implement continuous tracking of potential and actual resources and the availability of funds for reprogramming to improve utilization of the available resources. Further, there is a need for accurate accounting records and reconciliation processes surrounding federal funds. Taking these actions will allow the Commonwealth to fully utilize available federal funding, providing benefits to residents and businesses and reducing pressure on local revenues to meet the Island's needs.

The 2023 Fiscal Plan requires the following implementation activities:

- The OMB has the responsibility of ensuring compliance and adequate management of federal funds by state government agencies. Currently, federal funds represent 40% of PR's FY2023 Consolidated Budget.
- Grants Management Office (GMO) will be centrally managed within the OMB and reporting requirements will be harmonized across agencies.
  - OMB will publish bi-weekly reports of disbursements of federal funds.
  - Centralized reporting of funds will be utilized to understand which federal funds are not being optimized.
  - Agencies will be aware of all the funding made available to them from the disaster relief funds and COVID-stimulus, among other recurrent programming sources.
- All agencies will use a centralized accumulation fund to track federal allocations, obligations, commitments, and disbursements of federal funding.
- Grant revenue and expenditures and reprogramming funds will be tracked and reported monthly.
  - Agencies will use a harmonized version of the most recent GASB practices for reporting revenues.
- Federal Funds Management will benefit greatly from using the Grants Management Module of the ERP system. This module will allow the Government to monitor fund performance by viewing funds available at both detail and summary levels.
- To facilitate the management and oversight of federal funds, the OMB, together with the OCFO, must, establish a GMO using existing governmental personnel and financial resources. This office would have several responsibilities, including:
  - Risk Management:
    - Compliance – Reducing possible noncompliance by providing technical assistance to state agencies and municipalities.
    - Unspent funds – Equip local government entities with the information and tools needed to manage and use federal grants efficiently and in accordance with federal regulations.
    - Lost opportunities – In collaboration with the federal government, provide the latest information on new federal funding opportunities and their eligibility requirements to state agencies.
  - Capacity Building:
    - The GMO will provide capacity building activities to maximize the return of federal investment in Puerto Rico.
    - Training will be provided on topics such as federal regulations, sources of funding, reporting, best practices, and overall grant management.
    - Supporting the development of local capacity ensures long-term compliance with federal regulations and requirements.
    - Implement change management within each agency to ensure continuation of federal funds.
  - Policy Making:
    - Development of uniform models of Manuals and Standard Operating Procedures to establish the minimum requirements for agencies to follow when drafting their own.

- Development of educational material, guides, and communications in accordance with applicable laws and regulations.
- These models will ensure uniformity throughout the government-wide framework in the management of federal funds as well as improve visibility and accountability.
- The policy-making process will include possible changes and amendments in current laws, circular letters, and local regulations to ensure they are in conformity with federal guidelines and regulations, such as 2 CFR Part 200.

- Fiscal Guidance:
  - Coordinated budgets to complement state and federal funding sources, in compliance with applicable laws and regulations.
  - Develop corrective action plans to provide the technical assistance necessary to rectify any critical findings.
  - Provide technical assistance to ensure compliance with matching funds and negotiate indirect cost rate agreement, when applicable.
- Facilitator with State and Federal Government:
  - The GMO, in close collaboration with the OCFO, will serve as a liaison between the Government of Puerto Rico and Federal agencies to achieve continuity of efforts, as well as collaborate in the development of local capacity.
  - With the GMO providing support between local agencies and their federal counterparts, a consistent exchange of information will further expand the knowledge in the local government improving compliance and streamlining disbursements.
- Data Analysis:
  - Assess federal grant data, allowing for strategic decision making and reduction of missed opportunities.
  - Collaborate with the ERP Steering Committee to ensure the system contemplates the requirements for federal programs.
  - If necessary, analyze the implementation of grants management software to have visibility of all federally funded programs in Puerto Rico.

Progress update

- The OMB has appointed a Director of the Grants Management Office (GMO). The GMO is to propose a suitable structure for the office.
- The creation of the Grants Management Office is currently being reviewed by the Oversight Board.
- The Grants Management Office is to be overseen by the Director of OMB.

EXHIBIT 9: FEDERAL FUNDS MANAGEMENT

	Action items	Responsible party	Deadline & status
To be completed in FY 23	▪ **Assign staff to OCFO with Federal Funds oversight.** The OCFO will need oversight capabilities to ensure agencies are following proper reporting, oversight practices of federal funds, and clearing agency for assuring compliance with Single Audit requirements for use of federal funds.	▪ Governor, Hacienda and AAFAF	▪ May 2023 *Delayed*
To be completed in FY 24	▪ **Begin process of harmonizing agency FF budgeting and reporting.** Guidance on GASB accounting standards and practices should be issued to governmental departments and agencies.	▪ OCFO and GSA	▪ July 2023 *Delayed*
	▪ **Update Treasury Single Account with detailed programmatic information for federal funds**. Update chart of accounts so agencies have an understanding on federal funding sources.	▪ Hacienda, AAFAF, & Agencies	▪ January 2024 *On-track*
To be completed in FY 25	▪ **Legislate and/or regulate to ensure federal funds are always appropriated.** Legislation or regulations should give limited power to executive to appropriate mid-year or emergency funds.	▪ Governor, Legislature & or GSA	▪ August 2024 *Delayed*

For further information about this initiative, please refer to Section 13.3.4 in the 2022 Fiscal Plan.

2.6 Automated Time & Attendance

A critical part of the Oversight Board's mandate under PROMESA is to help ensure fiscal responsibility in Puerto Rico. Fiscal responsibility means that all available resources are used effectively for the benefit of the people of Puerto Rico.

The automated Time & Attendance (T&A) initiative solves both fiscal and operational issues by ensuring the Government has proper payroll controls. The goal of this initiative is to enable agencies to validate personnel assigned to offices / areas and measure compliance with assigned work schedules. The T&A initiative includes 87 Commonwealth agencies and impacts over 100,000 employees.

The Government is working in conjunction with the Oversight Board in the implementation of the T&A project – the milestones in *Exhibit 10* are subject to change upon joint agreement between AAFAF and the Oversight Board. The timeline to complete the T&A implementation is from December 2021 until June 2024.

The 2023 Fiscal Plan requires the following implementation activities:

EXHIBIT 10: AUTOMATED TIME & ATTENDANCE

Action Items	Responsible Party	Deadline & Status
Complete remaining steps of the T&A Project with the Department of Correction and Rehabilitation	DCR / AAFAF	April 2023 *Revised deadline*
Complete remaining steps of the T&A Project with the Secretariat of the Department of the Family and its Administrations	DOF & its Administrations / AAFAF	April 2023 *Revised deadline*
Complete remaining steps of the T&A Project with the Department of Labor and Human Resources	DOL / AAFAF	April 2023 *Revised deadline*

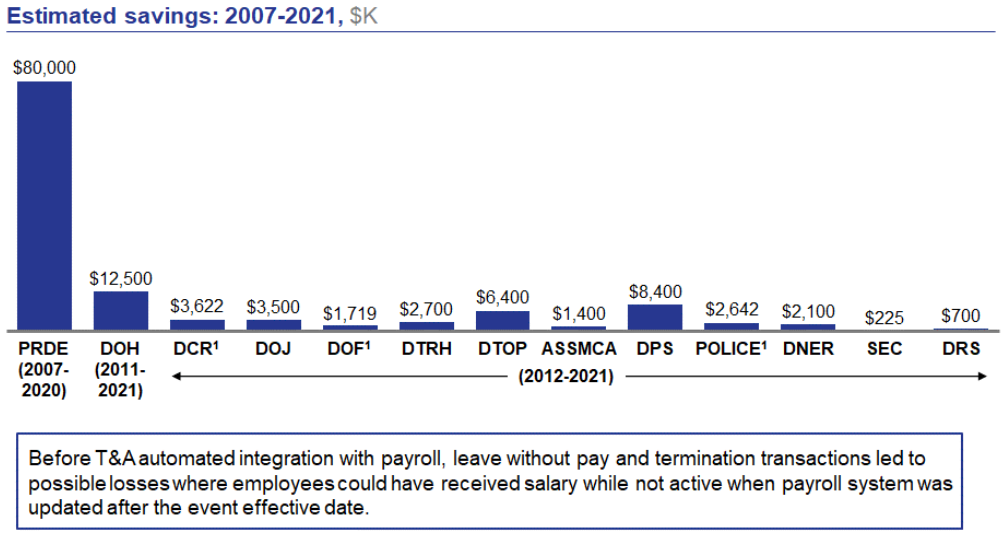
Complete remaining steps of the T&A Project with the Mental Health and Drug Addiction Services Administration	ASSMCA / AAFAF	April 2023 *Revised deadline*
Complete remaining steps of the T&A Project with the Department of Transportation and Public Works	DTOP / AAFAF	April 2023 *Revised deadline*
Implement the T&A Project with the Public Building Authority	PBA / AAFAF	April 2023 *Revised deadline*
Implement the T&A Project with the Puerto Rico Police Bureau	PRPB / AAFAF	April 2023 *Revised deadline*
Implement the T&A Project with the Department of Natural and Environmental Resources	DNER / AAFAF	May 2023 *Revised deadline*
Implement the T&A Project with the Department of Public Safety	DPS / AAFAF	May 2023 *On-track*
Implement the T&A Project with the State Elections Commission	SEC / AAFAF	May 2023 *On-track*
Implement the T&A Project with the Cardiovascular Center Corporation of Puerto Rico and the Caribbean	CCCPRC / AAFAF	May 2023 *Revised deadline*
Implement the T&A Project with the University of Puerto Rico Comprehensive Cancer Center	UPRCCC / AAFAF	May 2023 On-track
Implement the T&A Project with the Automobile Accidents Compensation Administration	AACA / AAFAF	May 2023 On-track
Implement the T&A Project with the Department of Economic Development and Commerce	DDEC / AAFAF	May 2023 *On-track*
Implement the T&A Project with the Puerto Rico Ports Authority	PRPA / AAFAF	May 2023 *On-track*
Implement the T&A Project with the Puerto Rico Conservatory of Music Corporation	PRCMC / AAFAF	July 2023 *On-track*
Implement the T&A Project with the Agricultural Enterprises Development Administration	AEDA / AAFAF	May 2024 *On-track*
Implement the T&A Project with the Authority of the Port of Ponce	APP / AAFAF	May 2024 *On-track*
Implement the T&A Project with the Comprehensive Fund for Agricultural Development	CFAD / AAFAF	May 2024 *On-track*
Implement the T&A Project with the Center for Diabetes	CD / AAFAF	May 2024 *On-track*
Implement the T&A Project with the Convention Center of District Authority	CCDA / AAFAF	May 2024 *On-track*
Implement the T&A Project with the Corporation for the Caño Martin Peña Enlace Project	CCMPEP / AAFAF	May 2024 *On-track*
Implement the T&A Project with the Fine Arts Center Corporation	FACC / AAFAF	May 2024 *On-track*
Implement the T&A Project with the Fiscal Agency & Financial Advisory Authority	AAFAF	May 2024 *On-track*
Implement the T&A Project with the Housing Finance Authority	HFA / AAFAF	May 2024 *On-track*
Implement the T&A Project with the Institute of Forensic Sciences	IFS / AAFAF	May 2024 *On-track*
Implement the T&A Project with the Integral Development of the Peninsula de Cantera	IDPC / AAFAF	May 2024 *On-track*
Implement the T&A Project with the Land Administration	LA / AAFAF	May 2024 *On-track*
Implement the T&A Project with the Land Authority	LA / AAFAF	May 2024 (*On track*)
Implement the T&A Project with the Musical Arts Corporation	MAC / AAFAF	May 2024 *On-track*
Implement the T&A Project with the Office of Government Ethics	OGE / AAFAF	May 2024 *On-track*
Implement the T&A Project with the Office of the Inspector General	OIG / AAFAF	May 2024 *On-track*
Implement the T&A Project with the Ponce Authority (Authority of the Port of the Americas)	PA / AAFAF	May 2024 *On-track*

Implement the T&A Project with the Agricultural Insurance Corporation	AIC / AAFAF	May 2024 *On-track*
Implement the T&A Project with the PR Health Insurance Administration	PRHIA / AAFAF	May 2024 *On-track*
Implement the T&A Project with the PR Infrastructure Financing Authority	PRIFA / AAFAF	May 2024 *On-track*
Implement the T&A Project with the PR Institute of Statistics	PRIS / AAFAF	May 2024 *On-track*
Implement the T&A Project with the PR Public Broadcasting Corporation	PRBC / AAFAF	May 2024 *On-track*
Implement the T&A Project with the PR Public-Private Partnership Authority	PRPPPA / AAFAF	May 2024 *On-track*
Implement the T&A Project with the PR School of Plastic Arts	PRSPA / AAFAF	May 2024 *On-track*
Implement the T&A Project with the PR Tourism Company	PRTC / AAFAF	May 2024 *On-track*
Implement the T&A Project with the PR Traffic Safety Commission	PRTSC / AAFAF	May 2024 *On-track*
Implement the T&A Project with the Public Service Appeals Commission	PSAC / AAFAF	May 2024 *On-track*
Implement the T&A Project with the Puerto Rico Integrated Transit Authority	PRITA / AAFAF	May 2024 *On-track*
Implement the T&A Project with the Redevelopment Authority of Roosevelt Roads	RARR / AAFAF	May 2024 *On-track*
Implement the T&A Project with the Special Independent Prosecutor Panel	SIPP / AAFAF	May 2024 *On-track*
Integrate T&A project within ERP system with the Commission of Investigation, Processing and Appeals	CIPA / DOT	June 2024 *On-track*
Integrate T&A project within ERP system with the Cooperative Development Commission of PR	CDCPR / DOT	June 2024 *On-track*
Integrate T&A project within ERP system with the Department of Housing	DH / AAFAF	June 2024 *On-track*
Integrate T&A project within ERP system with the Department of Recreation and Sports	DRS / DOT	June 2024 *On-track*
Integrate T&A project within ERP system with the Elderly and Retired People Advocate Office	ERPAO / DOT	June 2024 *On-track*
Integrate T&A project within ERP system with the General Services Administration	GSA / DOT	June 2024 *On-track*
Integrate T&A project within ERP system with the Human Resources and Transformation	HRT / DOT	June 2024 *On-track*
Integrate T&A project within ERP system with the Industrial Commission	IC / DOT	June 2024 *On-track*
Integrate T&A project within ERP system with the Institute of PR Culture	IPRC / DOT	June 2024 *On-track*
Integrate T&A project within ERP system with the Office for People with Disabilities	OPD / DOT	June 2024 *On-track*
Integrate T&A project within ERP system with the Office for the Patients Advocate	OPA / DOT	June 2024 *On-track*
Integrate T&A project within ERP system with the Office of Management and Budget	OMB / DOT	June 2024 *On-track*
Integrate T&A project within ERP system with the Office of Socioeconomic Development	OSD / DOT	June 2024 *On-track*
Integrate T&A project within ERP system with the Office of the Commissioner of Insurance	OCI / DOT	June 2024 *On-track*
Integrate T&A project within ERP system with the Office of the Election Comptroller	OEC / DOT	June 2024 *On-track*
Integrate T&A project within ERP system with the Office of the Financial Institutions Commissioner	OFIC / DOT	June 2024 *On-track*
Integrate T&A project within ERP system with the Office of the Governor	OG / DOT	June 2024 *On-track*

Integrate T&A project within ERP system with the Office of the Women Advocate	OWA / DOT	June 2024 *On-track*
Integrate T&A project within ERP system with the Parole Board	PB / DOT	June 2024 *On-track*
Integrate T&A project within ERP system with the PR Department of Agriculture	PRDA / DOT	June 2024 *On-track*
Integrate T&A project within ERP system with the PR Department of Consumer Affairs	PRDCA / DOT	June 2024 *On-track*
Integrate T&A project within ERP system with the PR Department of State	PRDS / DOT	June 2024 *On-track*
Integrate T&A project within ERP system with the PR Federal Affairs Administration	PRFAA / DOT	June 2024 *On-track*
Integrate T&A project within ERP system with the PR Gaming Commission	PRGC / DOT	June 2024 *On-track*
Integrate T&A project within ERP system with the PR Innovation and Technology Service	PRITS / DOT	June 2024 *On-track*
Integrate T&A project within ERP system with the PR Labor Relations Board	PRLRB / DOT	June 2024 *On-track*
Integrate T&A project within ERP system with the PR National Guard	PRNG / DOT	June 2024 *On-track*
Integrate T&A project within ERP system with the Puerto Rico Planning Board	PRPB / AAFAF	June 2024 *On-track*
Integrate T&A project within ERP system with the Public Housing Administration	PHA / AAFAF	June 2024 *On-track*
Integrate T&A project within ERP system with the Public Service Regulatory Board	PSR / DOT	June 2024 *On-track*
Integrate T&A project within ERP system with the Retirement Board of the Government	RBGPR / AAFAF	June 2024 *On-track*
Integrate T&A project within ERP system with the State Historic Preservation Office of PR	SHPOPR / DOT	June 2024 *On-track*
Integrate T&A project within ERP system with the Veterans Advocate Office of PR	VAOPR / DOT	June 2024 *On-track*
Integrate T&A project within ERP system with the Vocational Rehabilitation Administration	VRA / AAFAF	June 2024 On-track

Exhibit 11 outlines the expected savings from these initiatives.

EXHIBIT 11: T&A ESTIMATED SAVINGS



1 Amount confirmed by Agency

SOURCE: Agency's Payroll System data. Estimated savings calculation consists of terminations and leaves without pay transactions entered to the attendance and payroll systems 16 days or more after their effective date.

Progress to date

The implementation of the T&A project has already resulted in multiple benefits and savings to the Government, including:

- Fully automated T&A infrastructure implemented for the Department of Education, Department of Health, Department of Justice, and the Medical Services Administration of Puerto Rico. This represents approximately 53% of total Government employees across the agencies that will be impacted
- 100% of employees within the agencies that completed implementation have access to register, justify and monitor their attendance electronically (mobile, tablets, laptops, computers, biometric clocks)
- Trainings provided and documented to ensure continuity of processes
- Bidirectional automated interfaces established between attendance and payroll systems, which ensure salary discounts are made semimonthly or biweekly, and employee data is synchronized daily
- Updated and automated leave balances
- Updated Attendance Policy to reflect newly automated T&A processes and ensure continuity
- Manual of Procedures established documenting all T&A processes to ensure continuity
- Automated processes implemented which provide continuous savings each pay period, as employees who do not record their time and attendance per T&A policy receive a payroll / leave discount in a timely manner

Additionally for the Department of Education the T&A project has:

- Increased school staffing levels, directly impacting the wellbeing of public-school students
- Reduced by 77% the number of employees who have not registered their time and attendance between November 2020 (project initiation) and February 2021 (project launch)
- Identified 17,500 employees as inactive but still receiving payment and included in the roster, representing approximately $80 million in unlawful payroll payments made since 2007 to 2020

For further information on this initiative, please refer to Section 13.4.1 in the 2022 Fiscal Plan.

2.7 Cash and bank accounts oversight and transparency

The cash and bank accounts oversight and transparency initiative focuses on Government transparency and risk management, reduction of fraudulent activity within the Government, and institutionalization of cash and bank account management processes. The initiative will advance the Government to a higher level of data transparency and promote accountability on the agency level. Furthermore, the initiative requires the timely implementation of cash banking risk management procedures, which are necessary for access to capital markets. The 2023 Fiscal Plan requires the following implementation activities:

EXHIBIT 12: CASH AND BANK ACCOUNTS OVERSIGHT AND TRANSPARENCY

	Action items		Deadline & status
To be completed in FY 23	▪ **Establish a centralized database**. Obtain all bank accounts information, account users, authorized personnel, insurance policies, and agencies' treasury management protocols. Database to include all bank accounts that are currently being reported on a monthly basis by AAFAF as well as the following: Legislative Branch, Judicial Branch, Municipal Funds (custodian funds), Government Development Bank, Investment Accounts, and any bank accounts required to be opened as a result of the confirmation of the Plan of Adjustment.	▪ PRDT, OCFO and AAFAF	▪ June 2023, updated monthly thereafter
To be completed in FY 24	▪ **Establish agreement between FOMB and AAFAF** on variances in quarterly forensic cash and bank accounts analysis reports.	▪ PRDT, OCFO and AAFAF	▪ August 2023
	▪ **Eliminate all idle and unnecessary bank accounts**	▪ PRDT, OCFO and AAFAF	▪ September 2023
	▪ **Sweep all closely held Component Unit cash into the TSA** and eliminate third-party bank accounts.	▪ PRDT, OCFO and AAFAF	▪ November 2023
	▪ **Establish appropriate direct access to bank account information** (i.e., online portals) for any remaining accounts that are not swept into the TSA.	▪ PRDT and OCFO	▪ December 2023
	▪ **Draw conclusions and produce unified guidelines** for treasury procedures and cash management to serve as a "true north" for Government's continued efforts in this initiative.	▪ PRDT, OCFO and AAFAF	▪ June 2024

For further information about this initiative, please refer to Section 13.4.2 in the 2022 Fiscal Plan.

Progress to date

A critical component to the success of the initiative is the implementation of a Government-wide ERP system, which is currently underway. The ERP system will be utilized to centralize all cash and bank accounts information to easily generate various cash reports and monitor bank accounts activity. Specifically, the ERP systems will (i) enable processing and analyzing cash and bank account transactions arising from receipt and disbursements, (ii) provide insight on specific transactions based on certain criteria and investigate sources and uses of bank account activity, (iii) assist in the development of Government-wide cash and bank accounts compliance procedures to strengthen oversight and mitigate erroneous activity, and (iv) serve as a tool for the Government to link transaction data to a general ledger and to easily generate output of bank account details such as payment authorizations, related parties, and signatories.

Currently, the Government and Oversight Board are in the process of achieving the first milestone presented in *Exhibit 12*. A successful ERP implementation requires the Government to develop a transition process through the achievement of an accurate and updated database of cash and bank accounts information. Therefore, the Government must implement an immediate restriction on agencies ability to open and close accounts without the authorization of the Secretary of the Treasury. While this represents a delay in execution, the Government has made meaningful progress in the implementation of the ERP system and the preparation of the initiative's work plan.

2.8 Procurement best practices

Puerto Rico has recently implemented regulations surrounding Act 73-2019 Uniform Purchasing guidelines. The procurement best practices section focuses on expanding and augmenting the existing regulations to bring Puerto Rico in line with public procurement best practices. Effectively updating the regulations will promote efficient spending and transparency and ensure proper stewardship of public funds.

The Fiscal Plan sets forth several actions to further improve procurement policies and practices:

- The GSA has assumed supervisory authority over all entities exempt from centralized procurement processes under Act 73-2019 and Regulation 9230 with the creation of a Specialized Investigations Unit. However, additional resources and technology should be made available to this unit to ensure that they implement effective guidelines for the purchase of goods, works, and nonprofessional services. Providing GSA with additional tools to supervise exempt entities will be crucial to ensure uniform procurement practices across all Government entities.
- Amendments must be incorporated to Act 73-2019 regulations surrounding the cases for emergency purchases, exceptional purchases, required documentation, informal/formal bidding, evaluation of awards and other technical changes. For example, Act 73-2019 allows for exceptional purchases when funds are set to expire. This is a highly unusual provision. Competitive processes should be the default, and exceptional purchases should be a rare exception.
- Apply a centralized, systematic procurement process for recurring municipal government services such as waste collection, sanitation, and road maintenance to promote efficient and cost-effective contracts. This transparent contracting process must be coupled with the establishment of robust and efficient oversight mechanisms by the Puerto Rico Central Government, or any government entity tasked with oversight functions.
- Apply better buying practices through the implementation of Strategic Sourcing strategies by leveraging agencies' collective buying power and acting as a single enterprise to negotiate with contractors. GSA has used Strategic Sourcing strategies by leveraging agencies' collective buying power and acting as a single enterprise to negotiate with contractors. Strategic Sourcing has allowed the Government to realize savings through economies of scale. GSA performs a yearly analysis of the Government's spending across agencies and uses that information to make improved decisions.
- For the Central Government, the greatest opportunities for the implementation of Strategic Sourcing will require expanding the scope of Act-73-2019 to include the procurement of professional services, particularly in the following areas: (i) Strategy Consulting, (ii) Special Services, (iii) Financial Services, and (iv) Technology Services. FY2022 budgeted amounts for Professional Services were $474.8 million and $177.9 million, for the General Fund and Special Revenue Fund, respectively. Additionally, other procurement areas, such as leasing real estate, must be formalized into the Act 73-2019 regulations.
- Amend Act 237-2004 to promote competitive procurement processes for professional services in accordance with best practices.
- GSA has initiated a digital transformation of the Government's procurement practices that will conclude with the implementation of the ERP's procurement modules. The Government must

complete the implementation of an eProcurement portal to allow both taxpayers and bidders to have access to information surrounding bids and awards. Such a portal will provide an additional level of oversight on procurement activities and build taxpayer trust in the purchasing system.

- Take affirmative steps upon conclusion of the procurement phase to ensure that awarded contracts are adequately managed and that accountability is promoted by all contracting parties. Specifically, assign intra-agency contract managers to oversee the implementation of contracts and keep detailed and accurate descriptions of rendered services or purchased goods, to ensure these are satisfactorily performed or delivered prior to the payment of invoices.
- Implement a uniform contracting policy which shall apply to all government entities and encompass the following principles:
  - Contracts (inclusive of Purchase Orders) must be drafted in such a way that the contracted services are described clearly and specifically so that both the agency and the contractor know exactly what is expected of them pursuant to the contract, and so that the agencies with oversight responsibilities can carry out their audits and revisions in a uniform manner. In that regard, template contract models for recurring purchases or services, such as, for example, employee health insurance, legal advisory services, or maintenance services, must be implemented across all government entities to ensure that all government entities adhere to the same contracting principles.
  - To promote adequate transparency in the provision of recurring services, contracts must include a clause that specifically outlines recurring tasks and requires specific information regarding the actual tasks performed. This requirement may be complied with by providing sufficient statistical data, or information certifying the performance of services, to allow confirmation of such performance by any overseeing persons or entities.
  - Further, contracts must contain a clause stating that vague descriptions of provided goods or performed services that do not provide exact descriptions of such goods and services will be deemed unacceptable and will not be subject to payment until a full description (as detailed in the specific contract) is provided in a manner which is satisfactory to the contracting government entity.

EXHIBIT 13: UNIFORM PURCHASING AND PUBLIC PROCUREMENT

	Action items	Responsible party	Deadline & status
To be completed in FY 23	▪ **Update Act 73-2019 Uniform Purchasing Guidelines** that would fix and address smaller technical issues surrounding competitive purchases, exempt entities and other technical changes.	▪ Governor and Legislature	▪ June 2023 *Revised deadline*
To be completed in FY 24	▪ **Produce first draft of updated procurement regulations.** Modifications should address previously identified issues to bring Puerto Rico in-line with best practices.	▪ GSA	▪ September 2023 *Revised deadline*
	▪ **Submit Annual Acquisition Plan to GSA**, as provided for in Circular Letter 2021-04. All entities covered under Act 73-2019 must submit the plan.	▪ OCFO, GSA and Gov't entities covered under Act 73-2019	▪ December 2023 *Revised deadline*
	▪ **Respond to input from stakeholders.** Stakeholders, including FOMB, can provide comment to GSA on the proposed regulations to help ensure they meet best practices for public procurement.	▪ GSA and Government wide	▪ March 2024 *Revised deadline*
To be completed in FY 25	▪ **Issue new guidance detailing modified procedures to agencies.** GSA should give roughly 6-months for agencies to begin adopting new procurement rules and regulations.	▪ GSA and other stakeholders	▪ November 2024 *Revised deadline*

For further information about this initiative, please refer to Section 13.4.3 in the 2022 Certified Fiscal Plan.

Progress update

There has been substantial progress made in FY2021 on Act 73-2019 regulations and subsequent guidance issued to agencies. This guidance laid out processes and procedures of issuing awards, competitive purchasing process, emergency purchases process, and other technical information to be used for public procurement. Additionally, Circular Letter No. 013-2021 issued in the last month of FY2021 included guidance for procurement processes for professional services. This was an important step, though more detail on processes is needed to protect public resources. Milestone dates from FY2022 were pushed back a year, in recognition of time needed to implement recently issued Act 73-2019 regulations.

While substantial progress has been made through the implementation of current procurement systems, the eventual implementation of an ERP system should strengthen the Government's procurement practices. The procurement module of the ERP platform provides a complete process that will support every aspect of the procurement cycle from strategic sourcing to bill payment. It will also provide tracking of every transaction from start to resolution and interfaces with other modules to make sure that transactions have budget authorization, manger approval, and are from approved vendors. The system will allow for greater analytical information across the entire process and detailed analysis of items that are delayed due to process exceptions.

- Self-service procurement cloud will help with the buying experience.

- Once an order is placed, confirmation will be given back to the employee that their requisition has been submitted.
- Managers will receive the requisition digitally for approval in the system.
- For receipts of goods, the employee will have to verify goods were received in good order. The workflow then sends documents to accounts payable where the invoice is automatically matched.
- With visibility into all parts of the transactions and reporting on process flow and time to approval and other metrics, this system will provide a much more professional experience for both the government and vendors.

2.9 Non-partisan legislative scoring

In January 2023, the Governor signed into law Act 1-2023 creating the Budget Office of the Legislative Assembly (OPAL). As a nonpartisan legislative services agency, OPAL will provide services to both the Puerto Rico Senate and House of Representatives without participating in their deliberative processes or decision-making. The Fiscal Impact Assessment and Certification Unit of the OPAL will be responsible for determining the fiscal impact of legislative proposals considered by the Legislature.

The provisions of Act 1-2023 require the drafting of implementing regulations. Effective implementation of the law will be key to the success of OPAL. To ensure legitimacy in budgetary decisions, the agency must commit to the nonpartisan staffing of career professionals who are independent of influence from partisan politics or personal conflicts of interest. The staff should consist of career civil servants, not temporary political appointees. Developing a strong, independent Legislative Fiscal Office will help Puerto Rico's legislators and political decisionmakers understand the Commonwealth's current fiscal position and how that position would be affected by policy alternatives.

This can be accomplished through the drafting and approval of Act 1-2023's regulations, which will require the approval of the Oversight Board before implementation. In doing so the Oversight Board will help the Legislature engage with entities such as, the NCSL, GAO, and CBO to assist in the operationalization of the OPAL. These regulations should address the following:

- **Excessive proposed scope:** Budget development in Puerto Rico is executive-driven. The scope proposed for OPAL is more consistent with a legislatively dominated process. OPAL does not realistically reflect the relative positions of the executive and legislative branches in the budget process. A more appropriate role for OPAL would be to function as a fiscal office. The office should be reactive to policy proposals, it should not initiate proposals. The primary function should be objective, politically insulated, non-partisan fiscal analysis of legislative proposals.
- **Purview beyond fiscal / budget functions:** OPAL's purview as defined in the law extends beyond issues related to the budget. As is, the law provides the potential for the OPAL to directly participate in the deliberative processes of a chamber if established by a chamber's administrative order. This involvement may stray from objective analysis into policy making. The law also implies program, managerial and operational evaluation and audit functions which overlap those of an audit agency. This is reinforced by a suggestion of executive oversight. These ancillary roles should be minimized, and greater attention and resources should be directed to the primary role of the OPAL which is evaluation of the fiscal impact of legislative proposals.

- **Blurred and variable administrative direction**: Administrative reporting lines of OPAL are not clearly defined. The regulations must provide a clear interpretation of the law to establish clear administrative direction and insulate professional staff from partisan influence.
- **Staff appointment and reporting**: The law provides for the House and Senate to directly make appointments to the Fiscal Impact Assessment and Certification Unit on a 50/50 basis. The Executive Directorate (Executive Director and Deputy Executive Director) "designates" two Deputy Executive Officers who serve each chamber, but it is not clear who appoints them. This all points in the direction of partisanship. It is critical that individuals involved in the evaluation of proposed legislation are nonpartisan and objective. Without this, the analyses will lack credibility. With technical staff appointed by the House and Senate, objectivity is jeopardized. Best practices provide that technical staff be hired based on experience and education by the executive director. Merit and professionalism are emphasized in the law, but the operationalization of appointment processes and lines of reporting are inconsistent with an objective, merit-based appointment (e.g., there is no protection for staff, serving as "trust" employees and subject to removal without cause).

EXHIBIT 14: LEGISLATIVE SERVICE AGENCY

	Action items	Responsible party	Deadline& status
To be completed in FY 22	▪ **Study state agencies with similar mandates**. Refer to examples in U.S. states for their agencies' responsibilities, organizational structures, Legislative mandates, staffing, and budgets.	▪ Legislature[1]	▪ June 2022 *Completed*
	▪ **Determine appropriate objectives, structure, and staffing level for the agency.**	▪ Legislature	▪ June 2022 *Completed*
To be completed in FY 23	▪ **Establish a legislative requirement** that all legislation meeting determined parameters undergo a fiscal impact assessment prior to floor consideration.	▪ Legislature	▪ December 2022 *Completed*
	▪ **Enact additional legislation** required to create and fund a legislative services agency empowered to do this work.	▪ Legislature	▪ December 2022 *Completed*
	▪ **Prepare the office's regulations for FOMB review** including required administrative orders and personnel rules as specified in Act 1-2023. These should address the Board's concerns as discussed in Section 2.9	▪ Legislature & OPAL	▪ June 2023 *On-track*
	▪ **Prepare training materials** to support budget best practices and compliance with modified accrual.	▪ Legislature &	▪ June 2023 *On-track*
	▪ **Hire the appropriate staff**. A non-partisan, career professional staff is crucial for producing creditable forecasts and analyses.	▪ Legislature	▪ June 2023 *On-track*
To be completed in FY 24	▪ **Begin scoring new legislation**.	▪ Legislature	▪ December 2023 *On-track*

1. The Legislature (both the House of Representatives and Senate) should identify appropriate committees / agencies to complete these tasks.

For further information about this initiative, please refer to Section 13.4.4 in the 2022 Certified Fiscal Plan.

Progress to date

In January 2023, the Governor signed into law Act-1-2023 creating the OPAL. The next step in establishing the OPAL is for the Legislature to issue Joint Administrative Order establishing the functions and powers of the components of the OPAL. The Legislature is also expected to appoint an executive director and a deputy. Together, the Executive Directorate is expected to prepare the internal regulations of the OPAL to ensure effective implementation of the provisions of Act 1-2023.

Impact of ERP system on OPAL

The OPAL would benefit from the budget module information and financial data in the ERP system. This will assist OPAL in their analysis of proposed legislation.

2.10 Real estate best practices

The Government currently owns approximately 16,800 real properties and parcels of land (about 4,100 buildings and 12,700 land parcels). These holdings consist of more than 70 million square feet of office space and more than 340,000 acres of land. The Government does not currently have a standardized approach for accounting, tracking, managing, and disposing of its real estate assets.

The real estate asset management reform initiative will address long-standing revenue, budgeting, and capital forecasting issues across the Government's real estate holdings to improve efficiencies in the overall maintenance and value preservation of the portfolio. The 2023 Fiscal Plan requires the following implementation activities:

EXHIBIT 15: REAL ESTATE BEST PRACTICES

	Action items	Responsible party	Deadline & status
To be completed in FY 23	▪ **Benchmark existing asset management processes and systems**. FOMB will benchmark existing asset management systems related to real estate as part of a larger gap analysis to identify and understand existing efficiency gaps related to the management, maintenance, and capital improvement of the Commonwealth's real estate.	▪ AAFAF	▪ March 2023 *Revised deadline*
	▪ **Create a corrective plan of action to address gaps in existing asset management.** Leveraging the findings of the prior task, the FOMB will work with advisors to draft a plan to implement recommended changes and efficiencies within the management of the portfolio.	▪ AAFAF	▪ June 2023 *Revised deadline*
To be completed in FY 24	▪ **Identify relevant IT implementations.** Identify the available asset management tools in the marketplace that can increase accounts receivable, decrease remittance delinquencies, and allow for more accurate forecasting and budgeting across the portfolio.	▪ PRITA	▪ August 2023 *Revised deadline*
	▪ **Create a quarterly asset management reporting protocol**. Establish a quarterly cycle of reporting on real estate related cash flows, capital events, and budgetary forecasts to be distributed to all stakeholders across the Commonwealth.	▪ AAFAF and all stakeholder Commonwealth entities	▪ September 2023, quarterly thereafter *Revised deadline*
	▪ **Modernize lease administration**. All Commonwealth entities have up to date, signed, and digitized leases in their existing asset management database.	▪ AAFAF	▪ December 2023 *Revised deadline*
	▪ **Normalize repairs, maintenance, and capital forecasting**. All Commonwealth properties have detailed maintenance and repair plans as well as 10-to-20-year capital expenditure plans.	▪ AAFAF	▪ February 2024 *Revised deadline*
	▪ **Normalize asset management systems and marked increase in operational outputs**. Portfolio properties have seen 60% revenue increase as identified against market rents, with efficient accounts receivable plans implemented while securing 80%+ of contracted lease revenues across the Commonwealth's existing real estate.	▪ AAFAF	▪ June 2024, quarterly thereafter *Revised deadline*

For further information about this initiative, please refer to Section 13.4.5 in the 2022 Certified Fiscal Plan.

Progress update

Implementation of these initiatives has been delayed, and the milestones have been adjusted approximately one year.

2.11 Real property registry

The real property registry reform is an important supporting initiative for the Financial Management Agenda. Reforms will protect property rights and will make real estate transactions more efficient, improving ease of doing business and attracting foreign and local investment. Establishing clear property rights via a complete and up-to-date property registry will also reduce fraud and allow for federal relief to reach those who need it most. This will protect these limited resources and will contribute to ensuring that recovery efforts do not go to waste. Finally, a complete and accurate property registry will contribute to completing the Municipal Revenues Collection Center (CRIM, by its Spanish acronym) property tax cadaster, which in turn will ensure that the municipalities will raise sufficient revenue to fund much needed local services. Implementation milestones are captured in the property registry Ease of Doing Business reforms. These milestones cover the Department of Justice (DOJ)'s property registry and Vivienda's GeoFrame project, which aims to create a uniform parcel registry layering geospatial data from the CRIM, DOJ, and the Puerto Rico Planning Board.

For further information about this initiative, please refer to Section 13.4.6 in the 2022 Fiscal Plan.

3 Ensuring successful implementation and fiscal controls

As outlined in Volume 1, the Office of the Chief Financial Officer (OCFO) has broad responsibility for improving fiscal management as outlined in the 2023 Fiscal Plan. Below are specific details regarding the necessary implementation steps and reporting required by the 2023 Fiscal Plan.

3.1 Implementation architecture

Developing a centrally run Project Management Office (PMO) is an important step toward ensuring the implementation and tracking of the core operational transformation initiatives under the 2023 Fiscal Plan. AAFAF has and should continue to serve as the central PMO with defined reporting to the Governor of all economic and transformation measures. The PMO should be run by AAFAF's senior leadership, regularly coordinated across the OMB and the Office of the Administration and Transformation of Human Resources (OATRH, by its Spanish acronym), work directly and frequently with agency PMOs, and report directly to the Governor's office.

Individual agency PMOs should be established with direct reporting to the central PMO. Each agency head shall be responsible for developing and implementing a PMO structure that best fits their respective agency groupings. They must coordinate across all agencies in their grouping and lead the implementation of initiatives for said grouping. Through this PMO structure, the Government will be positioned to effectively manage and implement the 2023 Fiscal Plan.

The PMOs must ensure continued implementation progress through robust tracking and reporting tools that foster growth in transparency and ownership. These tools include the creation of project charters, detailed implementations plan, dashboards and monthly implementation reports. More detailed descriptions of these tools can be found in the 2022 Certified Fiscal Plan.

3.2 Reporting on Fiscal Plan reforms

The fiscal and structural reforms described in the 2023 Fiscal Plan represent a significant and transformative effort across the Government. As such, there are strict reporting requirements needed to ensure initiatives are implemented and growth targets are achieved on time, and to identify any major risks to reform to course correct at an early stage.

To date, the Government has struggled with implementing reforms and reporting on this implementation in a timely manner. Accordingly, the Government shall produce monthly performance reports, which shall be submitted to the Oversight Board on the 15th of each month, demonstrating the progress made on all key reform areas. Currently, approximately 80% of agencies have consistently provided implementation reporting. The Government must continue to improve reporting such that it and the Oversight Board can hold agencies accountable for achieving the implementation of fiscal measures and initiatives.

To ensure that there is transparency into the Government's progress toward implementing initiatives, the Government must meet with the fiscal controls, reports, and milestones detailed in *Exhibit* 70.

3.3 Skills and knowhow transfer from consultants to public sector personnel

The lack of adequate workforce planning in the Government has led to the excessive delegation of critical responsibilities to government contractors and consultants. Contractors and consultants are often performing day-to-day planning and management functions within agencies, instead of being limited to temporary, short-term projects which do not require full time employment. Additionally, agencies' pervasive reliance upon contractors for increasingly critical tasks can result in a lack of transparency of true government expenses. Professional services costs can exceed the cost of comparable full-time employees as contractors and consultants often have additional contractual remuneration and benefits (e.g., travel expenses) creating needless tension and budgetary shortfalls at the Commonwealth agencies.

Consequently, the Commonwealth must work on reducing its professional services spending to enable the professionalization of the civil service and reduce the reliance on outside consultants. Starting in FY2023, professional consulting contracts should include provisions requiring adequate transfer of skills and technical knowledge, from consultants to pertinent public sector personnel, to the extent that the contract reflects recurring work that could be done by appropriately trained government staff.

Specifically, contracts must detail the functions carried out by consultants, as per their applicable Scopes of Work, and establish clear plans to ensure that agencies create internal teams of appropriately trained and experienced employees to carry out such functions upon the expiration of consulting contracts. Additionally, agencies must establish clear expectations with consultants that internal knowledge transfer and technical training is a key priority. Therefore, shared responsibility and progress must be measured and monitored for the purposes of contract compliance and performance.

Accordingly, agencies must strive to ensure that both the creation of internal teams and the transfer of knowledge to such teams are completed within the applicable timeframes of proposed contracts.

4 Cultivating a high-performing public workforce

The Government of Puerto Rico and the Oversight Board have been working collaboratively to change the way government works and manages its human resources for generations to come, by co-designing and implementing a comprehensive and integrated Civil Service Reform (CSR). The CSR began with a pilot program to test approaches and methods prior to a government-wide implementation, as initially established and outlined in *Chapter 13* of the 2021 Certified Fiscal Plan certified on April 23, 2021, and further developed in *Chapter 12* of the 2022 Certified Fiscal Plan.

4.1 Uniform Remuneration Plan Implementation and Pending CSR Government-wide Implementation Planning and Preparation Deliverables

4.1.1 Two-Phase Salary Adjustment Process

The 2022 Certified Fiscal Plan allocated $99.6 million for the implementation of the new Uniform Remuneration Plan (URP), contingent upon the successful completion of the CSR Pilot and robust planning and preparation for the government-wide implementation of the reform, as per an Oversight Board audit report. The $99.6 million URP budget allocation includes $16.6 million or 20% more than the initial $83 million URP budget request submitted by the Government in 2021, to help ensure enough funds are available to bring all incumbent government employees to market competitive salary rates. In addition, the 2023 Certified Fiscal Plan added $45 million annually beginning in FY 2024 to further expand the URP subject to successful completion and implementation of a permanent regulatory framework for CSR. The release of incremental funds is contingent upon the Government meeting government-wide implementation planning and preparation deliverables, milestones, and objectives in a timely manner. This two-phase implementation approach will serve as an incentive to continue the work of the reform and further cement its sustainability, while keeping the commitment to pay at market competitive salary rates.

The Oversight Board and the Government had agreed and are committed to paying incumbent central government employees at market competitive rates. However, after conducting the market-based benchmarking analysis, placing all employees in the new salary structure based on their new job classification, and calculating the budgetary impact, it was found that adjusting employees' current salaries to the competitive range (90% of salary scale midpoint) and employees in "hot jobs" to 110% of salary scale midpoint, has a cost of approximately $144.3 million. The $144.3 million budgeted therefore allows for incumbent employees to be brought to the minimum of the new salary scales (not 90% of midpoint), and "hot jobs" to the midpoint of the new scales (not 110% of midpoint).

While the government did meet all CSR Pilot-related milestones and objectives and developed a new URP (government-wide) agreed by the Oversight Board and OATRH, as required by the 2022 Certified Fiscal Plan and CSR audit report, much remains to be done. Further work is required for scaling CSR and establishing the technological, organizational, and workforce infrastructure that is necessary for the dissemination and expansion of CSR throughout government. Given all the work ahead in terms of government-wide implementation planning of the reform, and the Oversight Board's and the Government's joint desire and commitment to bring all incumbent central government employees to a competitive salary, an agreement was reached to apply salary adjustments in 2 phases. This two-phase salary adjustment program will serve as an incentive to continue the work of the reform and further cement its sustainability, while keeping the commitment to pay at market competitive salary rates.

The Oversight Board understands the urgency of updating compensation structures to better recruit, retain, and motivate the workforce and has therefore approved the release of the $144.3 million for the first phase of salary adjustments, which went into effect January 1, 2023. The first phase impacted approximately 53% of the more than 22,000 URP employees and brought the current salary of incumbent employees to the minimum of their respective new salary scales and employees with "hot jobs" to the midpoint of the scales. Only employees with previous salaries below the minimum of their new scale, and employees with hot jobs with previous salaries below the midpoint of their new scale, received the salary adjustment in Phase 1.

Phase 2 salary adjustments, pending the Government establishing urgency required for compliance of all remaining government-wide implementation planning and preparation and implementation deliverables, will be implemented in FY2024 and will bring incumbent employees to 90% of the midpoint of their scales and employees with "hot jobs" to 110% of the midpoint of the scales. This second phase of salary adjustments will come at an incremental cost of approximately $45 million. Salary adjustments in both phases come at an aggregate cost of $144.3 million.

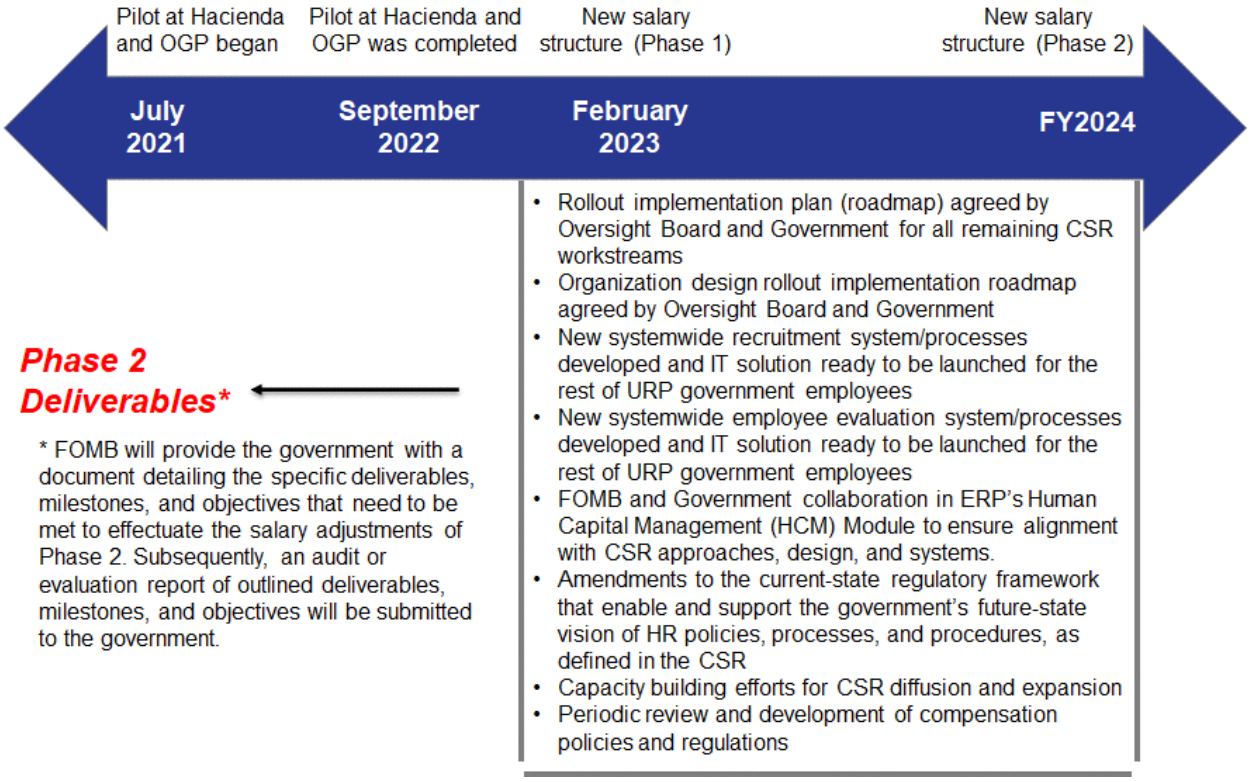
Separately, the 2023 Certified Fiscal Plan includes $42 million annually beginning FY2024 for salary increases for the Department of Justice employees, Executive Branch employees, and Judicial Branch employees and judges. These increases are conditional upon Oversight Board review of the proposed salary scales to ensure consistency with the CSR methodology and best practices.

4.1.2 CSR Government-wide Implementation Planning and Preparation Deliverables

The deliverables and milestones that must be met to release the funds for Phase 2 of the salary adjustments include the following:

- Completion of the pending items that were required in the 2022 Certified Fiscal Plan and corresponding CSR audit report
- Collaboration between the Oversight Board and the Government in designing the HR Module of the government's Enterprise Resource Planning (ERP) platform
- Crafting of necessary changes and amendments to the government's HR regulatory framework to ensure alignment with CSR approaches, design, and systems
- Demonstration of strong progress in the capacity building efforts in OATRH and OGP that will enable the government to diffuse and expand CSR, and effectuate the development and periodic review of compensation policies and regulations

EXHIBIT 16: TWO-PHASE SALARY ADJUSTMENT PROGRAM TO ENSURE THE SUSTAINABILITY AND EXPANSION OF CIVIL SERVICE REFORM



Collaboration in Designing the HR Module of the Government's ERP Platform.

The Government has begun planning for the implementation of a new government-wide ERP system based on the cloud that will replace the existing patchwork of accounting, budgeting, procurement, and human resources software with one platform. This platform streamlines financial and budgetary reporting, manages, and controls the entire purchasing workflow, standardizes, and integrates all human resources-related matters, and provides tools to enable more agile, data-driven decision-making across functional areas within government. The Government expects the ERP system to go live on July 2024, including the HCM Module. The HCM module, composed of submodules including Core HR, learning and professional development, organizational management, employee evaluations, recruiting, compensation, among others, must be well-aligned with the approaches and principles of the CSR and its strategic components. As part of Phase 2 salary adjustment deliverables, the Oversight Board, OATRH, and other key CSR stakeholders, must continue to work collaboratively to ensure that the Government's new vision with respect to HR policies, processes, and systems, as outlined in the CSR, are diligently incorporated and embedded in the ERP's HCM Module. A successful implementation of the HCM Module of the ERP will have transformative results for the Government, including enhancing the overall work experience of employees, supervisors, and HR departments, automating HR analytics, improving self-service capabilities, and enabling a data-driven HR culture.

Amendments to the Government's HR Regulatory Framework to Ensure Alignment with CSR

Additionally, in furtherance of its commitment to the continuing development of the CSR principles, OATRH, in collaboration with the Oversight Board, will continue to work on modernizing the current regulatory framework governing human resource management, to make sure that implementation of CSR with respect to compensation, organizational design, recruitment, and employee evaluations is enabled, supported, and in harmony with rules, regulations, and other directives. Specifically, they will conduct a thorough review of the government's recruitment policies and regulations, as well as its general human resources administration guidelines, and will issue the corresponding directives to facilitate and encourage the acquisition and retention of new talent, as well as promote inner mobility of employees as needed by the different entities of the executive branch.

Capacity Building Efforts for CSR Diffusion and Expansion

To ensure that the CSR continues its course, and all agencies of the central government can benefit from the type of work that was done as part of the CSR Pilot in Hacienda and OGP organizational and workforce capacity building in the government must occur.

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

Additionally, among the reform efforts undertaken to build capacity in the Government to ensure the continuity and sustainability of the reform is the newly created Center for Government Excellence in OGP. Recruiting the right leadership and staff to operate the new Center for Government Excellence, which will be responsible for providing technical support to agencies when making organizational and strategic decisions, has proven difficult. These are critical dependencies that must be in place for proper deployment and diffusion of the reform.

Periodic Review and Development of Compensation Policies and Regulations

For the CSR to be successful and lasting, the Government must frequently revise and review its compensation policies, so as not to stagnate as had happened prior to the approval of Act 8-2017 and the CSR implementation. The Oversight Board firmly believes in the CSR and is committed to collaborating with the Government to ensure its full realization, while also providing additional support and resources to OGP and OATRH, which are the agencies directly tasked with the government-wide implementation of the CSR. The Government must issue regulations pertaining to all other aspects of our public servants' compensation, in accordance with its new compensation philosophy subject to budgetary constraints, which entails the following:

- Base salary: Pay market competitive salaries
- Bonuses: Reward employees for stellar contributions with small rewards / bonuses
- Hot jobs: Pay above market for mission-critical or "hot" jobs
- Internal vs external equity: Maintain fair and equitable salary levels by considering external competitiveness and internal equity across agencies
- Communication: Deliver regular, branded messaging that improves awareness and perception of the employee value proposition

- Transparency: Provide clarity and visibility into the compensation program
- Employee evaluation: Employee evaluation of competency and proficiency should be considered for promotions and upward mobility
- Individual performance: Develop a more collaborative culture that does not significantly link pay and individual performance
- Manager discretion: Allow low to moderate manager discretion when deciding salary increases
- Total rewards: Attract and retain top talent based on the employee value proposition

4.2 Budgetary allocation to recruit mission-critical positions

In addition to Pilot and URP Implementation costs, $33 million was allocated in the 2022 Certified Fiscal Plan, increasing by inflation, to recruit approximately 500 additional positions across the Government. These positions were meant to address limited technical and leadership skills critical to implement needed reforms to maintain fiscal controls, drive strategic objectives, and promote accountability, efficiency, and effectiveness in the government. This will be done by tapping into external talent pools and top-performing current government employees for in-demand skills and competencies to support the digitalization of the Government, drive operational effectiveness, and provide strategic planning and advisory support in key government functions. These positions will be identified after high-level organizational reviews are conducted, which will provide organizational design and workforce capabilities investment recommendations to enable government transformation.

4.3 Judicial system Civil Service Reform

The Judicial Branch of the Government has developed a revised classification and remuneration plan benefiting employees and judges. As part of the implementation and in alignment with the ongoing CSR initiatives, the Judicial Branch shall work to digitalize the current evaluation system for all employees and judges, as well as include appellate judges in said system to be evaluated.

The evaluation system shall be focused on professional growth and development, which follows leading practices, and will be based on employee competencies. Furthermore, the employee evaluation system shall be linked to compensation policies to reward high-performing employees and those demonstrating strong skill development. The funds will be appropriated and will remain under the custody of the OMB until the review of the proposed classification and remuneration plan and proposed salary scales for judges is completed to determine consistency with the CSR implemented in the Executive Branch.

5 Power sector / energy reform

5.1 Current state and future view of Puerto Rico's power sector

Customer centric, affordable, reliable, sustainable, and resilient electric power service is essential for Puerto Rico's economic growth and development**.** As an important element of household and business activity, electricity is also a critical factor for attracting and maintaining investment in Puerto Rico. Puerto Rico Electric and Power Authority (PREPA), which until recently was Puerto Rico's sole energy provider, has been encumbered by numerous financial and operational issues, including underinvestment in the grid and poor maintenance practices.[2]

Politicized management and volatile fuel prices, exacerbated by declining energy demand and an economic contraction, have resulted in PREPA's inability to service its debt, and ultimately resulted in PREPA seeking Puerto Rico Oversight, Management and Economic Stability Act (PROMESA) Title III protection in July 2017.[3]

Puerto Rico has almost twice as many forced outages as the U.S. industry average.[4] In the immediate aftermath of Hurricane Fiona, the Puerto Rico electric grid is now operating in a condition of heightened risk of load shed due to generation issues. Prior to Hurricane Fiona, customers were 88 times more likely to have a load shed event, when compared to the average mainland electric customer (8.8 days a year versus 0.1 days a year). They are now approximately 500 times more likely to have a load shed event when compared to the average mainland electric customer. (50 days a year versus 0.1 a year) if no action is taken. On November 15, 2022, the Governor of Puerto Rico and FEMA, announced that FEMA's power stabilization initiative aimed to install between 600 to 700 MW of temporary emergency generation capacity through the mobilization of power generation maritime barges and temporary land-based generators. As a result, on March 17, 2023, the arrival of the first electric generator happened. This will add 150 MWs to the system and help stabilize it, particularly during hurricane season.

PREPA has historically also significantly underperformed against mainland utilities in its elevated carbon dioxide emissions, high reliance on fossil fuels, lack of capital investments in a new generation asset, and notably, its struggle to maintain a very high reserve margin. [5] Although historically, PREPA has maintained a very high reserve margin with double the capacity needed to serve demand, most of its reserve margin is currently out of service and have been in a precarious state in recent years, consistently falling below best practices.[6] This problem has only been exacerbated by Hurricane Fiona.

Previous Commonwealth and PREPA Fiscal Plans have outlined a comprehensive power sector transformation to address PREPA's financial and operational challenges. Although PREPA has taken successful steps toward increased financial stability over the last few years, several challenges still lie ahead.

2 For more information, refer to the 2022 Certified Fiscal Plan.

3 "Puerto Rico's Power Authority Effectively Files for Bankruptcy", New York Times, 2 July 2017

4 PREPA reported 417 forced outages during 2020; U.S. Energy Information Administration (EIA), Independent Statistic & Analysis, Major Disturbances and Unusual Occurrences, Year-to-Date 2020

5 See PREB Docket Number NEPR-MI-2022-0003.

6 See PREB Docket Number NEPR-MI-2022-0003.

Vision for power sector transformation

In the coming years, the power sector in Puerto Rico must continue its transformation and modernization to support the delivery of reliable, clean, and affordable power. The Commonwealth must continue to implement a comprehensive energy sector reform to enable a successful transformation and unlock the resulting growth from the 2022 Fiscal Plan projections. The successful transformation of Puerto Rico's power sector depends on:

- **Implementing regulatory reform:** A strong and independent energy sector regulator is essential for injecting certainty and stability into the energy market, promoting much needed investments, and enforcing compliance with the energy sector transformation's objectives.
- **Transitioning the operation and management of PREPA's electricity grid and generation assets to private operators, while steering the energy system's generation to 100% renewables:** Bringing on Genera PR LLC (Genera) as a private operator to manage and operate PREPA's legacy generation assets will improve affordability, efficiency, operational resilience, and performance, while new modern generation capacity is developed. LUMA as a private operator of the grid will yield improved customer experience, support rigorous capital project execution to modernize the Transmission and Distribution (T&D) system, strengthen grid resilience, ensure political independence, enable integration of renewable generation capacity, and ensure ongoing fiscal balance and control. The P3A serves as the sole administrator of both the Legacy Generation and T&D OMAs with respect to the private operators' performance.
- **Restructuring legacy debt obligations:** One of the objectives of PREPA's transformation and restructuring under PROMESA is ensuring that it, through the selected private operators for the T&D systems and legacy generation assets, regains access to capital markets at reasonable rates.

5.2 Reforming Puerto Rico's regulatory and oversight functions

The current regulator of the power sector in Puerto Rico is the Puerto Rico Energy Bureau (PREB), which has been operational since its creation by Act 57-2014. PREB has the responsibility to "regulate, monitor, and enforce the energy public policy of the Commonwealth of Puerto Rico."

Long-term mandate, authorities, and expertise for the energy sector regulator

To be effective, PREB's regulatory authority and its mandate to promote an efficient, reliable, resilient, and customer-responsive energy system must be clear and well-established. After PREPA emerges from Title III, PREB's responsibilities include (i) rate setting, (ii) Integrated Resource Plan (IRP) approval and compliance oversight, (iii) protecting customers, (iv) ensuring workforce safety, and (v) renewable procurement oversight (currently overseen by the appointed independent coordinator (Accion Group LLC)).

Rate setting for non-legacy debt

PREB has the responsibility to "review and approve and, if applicable, modify the rates or fees charged by electric power service companies in Puerto Rico."[7] In doing so, PREB must ensure rates and rate structure are rational and predictable, minimize risk and "rate shock", and create incentives to support equitability and economic development. PREB must set a clear, transparent, and efficient

7 Puerto Rico Energy Bureau, "About the Puerto Rico Energy Bureau," 2021

process for rate cases. All rate adjustments and revisions, other than those approved under the plan of adjustment, must be approved by PREB before enactment.

To ensure PREB becomes a best-in-class regulator, several structural changes are required. There are five key structural elements that will ensure PREB is a best-in-class regulatory agency[8]:

- **Governance:** It is imperative that PREB's governance structure enables independent, quick and robust decision-making. Commissioners serving staggered terms need to be supported in their oversight role by professional civil servant staff that have utility expertise.
- **Independent ratepayer advocate:** All commission decisions in adjudicatory proceedings must comply with applicable requirements of administrative procedure. Separate from the regulator, there shall be an independent ratepayer advocate, a role currently filled by the Oficina Independiente de Protección al Consumidor (OIPC).
- **Employee Structure:** PREB must comply with the career employee structure set forth in Act 17, as described in detail in the 2022 Certified Fiscal Plan.
- **Transparency:** PREB must ensure proactive transparency, while being diligent in excluding confidential information such as customer data and operational details that would increase cyber or risk vulnerabilities. Transparency practices may include making information publicly accessible, maintaining quick and efficient decision-making, and holding public events when appropriate to consider public opinion.
- **Budget:** PREB's substantive independence must be supported by financial independence. Under current law, PREB's yearly budget is set at $20 million and collected through charges assessed on certified energy companies. To provide for a steady and predictable funding source, PREB's enabling act must be amended to provide that PREB's budget shall be funded entirely through rates, as part of the revenue requirement used to determine energy rates. PREB's funds are then collected by the T&D operator through customer bills and periodically remitted to PREB. Providing an independent and unencumbered source of income for PREB helps create the conditions to protect ratepayer interests, increase transparency, and reduce system costs.

However, the Government has not yet complied with this requirement and has not ensured a steady and predictable source of funding for PREB. Instead, PREB is currently being funded through fees levied on energy companies certified by PREB to provide energy services in Puerto Rico. While the Oversight Board is in existence it can ensure PREB's budget through its budgetary powers. However, moving forward, PREB's budget and funding must be kept separate and independent from the Commonwealth budget or the budget of any other Commonwealth agency, entity, or instrumentality, and neither the Executive nor the Legislative branches can have authority to modify PREB's budget or reapportion any of PREB's funds without PREB's prior consent. PREB is subject to periodic reviews from relevant authorities for use of public funds, which is consistent with all other Government agencies in Puerto Rico.

Additionally, more detailed descriptions of what PREB's roles and responsibilities will be in the long-term can be found in the 2022 Certified Fiscal Plan. Until PREPA emerges from Title III and the transformation of the energy system is complete, it is important to clearly delineate the role of the Oversight Board and PREB with respect to energy sector regulation. *Exhibit 17* describes the role of each entity during the transition period.

8 Refer to the 2022 Certified Fiscal Plan for the full details on the five structural elements required to ensure PREB is a best-in-class regulatory agency

EXHIBIT 17: ROLES OF THE OVERSIGHT BOARD AND PREB DURING THE TRANSITION PERIOD

	Oversight Board	PREB
IRP	Approves revenue requirements and expenditures in the Fiscal Plan for PREPA. PREPA's Fiscal Plan should be informed by the results of the IRP and provide a clear framework for executing the modernization of generation resources.	Approves the IRP. The IRP process shall be 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 the decisions driving approval of the final capital plan and revenue requirement.
Budget and rate-making	Approves a yearly budget for PREPA that aligns with PREPA's Fiscal Plan and thus should align with revenue requirements and expenditures.	Authorize rates, except those approved under a plan of adjustment, (either formulaic or on an expedited manner) which align with the budget as certified by the Oversight Board.
Utility debt	Approves restructuring of existing debt through the Plan of Adjustment for PREPA.	No authority
Liquidity management	Oversees liquidity management in the energy system, to ensure that consistent and quality energy service to customers is not disrupted.	No authority
Title III	As the representative of PREPA in Title III, the Oversight Board has the exclusive right to file a Plan of Adjustment, which will contain any transformation-related agreements.	No authority
Transition to Privately Managed Operations	Approves any operator that engages with PREPA (e.g., T&D and generational operators). After the operators have been installed, the Oversight Board will continue to ensure compliance with PROMESA and the energy sector transformation objectives. The interaction between PREPA, the operators, and the Oversight Board will be determined at a later date.	Issues Energy Compliance Certificate and approves the following: performance metrics, rate orders (when applicable), System Operation Principles, System Remediation Plan, Integrated Resource Plan ("IRP"), among others.
Other	Track PREB's actions around distributed generation, net metering, and CILT to ensure the regulator is providing proper oversight over these critical topics.	Continues to exercise duties and responsibilities (e.g., addressing distributed generation, net metering, and CILT) as outlined in its enabling laws, except when doing so is inconsistent with the powers and authorities delegated to the Oversight Board under PROMESA.

Progress to date and required implementation actions

These regulatory reforms build upon recommendations from earlier Fiscal Plans. *Exhibit 18* shows a list of already completed regulatory actions.

EXHIBIT 18: COMPLETED MILESTONES FOR POWER SECTOR REGULATORY REFORM

Area of focus	Action item	Responsible party	Deadline
Implement regulatory reform	▪ Provide interim feedback on PREPA's Integrated Resource Plan (IRP)	▪ PREB	▪ Completed
	▪ Remove CW government approval needed for PREB staff appointments	▪ CW government	▪ Completed
	▪ Revise charter legislation to provide dedicated funding for power sector regulation that provides regulator with annual budget of $20 million in line with benchmark	▪ CW government	▪ Completed[1]
	▪ Appoint the remaining PREB commissioner to serve staggered six-year terms	▪ PREB	▪ Completed
	▪ Increase number of PREB staff in line with appropriate benchmarks	▪ PREB	▪ Completed
	▪ Approve IRP	▪ PREB	▪ Completed
	▪ Conclude and publish a study regarding an optimal CIL T structure and submit recommendation to the Governor and tile Legislature	▪ PREB	▪ Completed

1 Partially completed. Legislation was adopted (Act No. 17). providing $20 million in funding. However. the funding was not from e dedicated source: PRES will need to confirm completion in the near future.

Additionally, the Government must continue to implement the regulatory reform in *Exhibit 19*.

EXHIBIT 19: PENDING MILESTONES FOR POWER SECTOR REGULATORY REFORM

Area of focus	Action item	Responsible party	Deadline
Implement regulatory reform	▪ Create an oversight and monitoring division for LUMA operation and management agreement and other P3A deals, with experienced career civil servants and minimal trust employees	▪ P3 Authority	▪ Delayed - June 1, 2021
	▪ Provide FOMB with staffing plan and organizational chart outlining the monitoring and compliance division created within P3A and required funding sources.	▪ P3 Authority/ AAFAF/ Legislature	▪ Delayed - June 1, 2021
	▪ Amend PREB enabling act (Act 57-2014) to stipulate that PREB's budget will be funded through rates	▪ Governor/ Legislature	▪ Delayed - December 31, 2021
	▪ Submit implementation plan for achieving a workforce with no more than 10% trust employees.	▪ PREB	▪ Delayed – June 30, 2021
	▪ Reduce the percentage of trust employees to 15% of total employees	▪ PREB	▪ Delayed – June 30, 2021
	▪ Reduce the percentage of trust employees to 10% of total employees	▪ PREB	▪ Delayed – June 30, 2022
	▪ Develop a CILT process by which municipalities pay for electricity consumption not covered by CILT, and are able to file complaints related to CILT*	▪ PREB	▪ Delayed - December 2021

5.3 Transforming the vision and structure for energy system operators

Each private operator's overall objective will be to improve service quality and deliver reliable service at just and reasonable prices. As such, a private operator will be motivated to deliver financial and operational performance improvements across six dimensions:

- Reducing costs by introducing experienced personnel
- Upgrading technology
- Improving processes and procedures
- Limiting political interference
- Effective and efficient capital delivery
- Enabling renewable energy generation and transmission

Energy Sector Reorganization

To achieve Puerto Rico's energy system transformation, a change in PREPA's historical roles and responsibilities and their reassignment through multiple entities is imperative. Much progress has been achieved so far in this reorganization, but more work remains to be done.

The focus in the coming months will be to: (i) create the approved subsidiaries (PREPA GenCo, PREPA GridCo, PREPA HydroCo, and PREPA PropertyCo); and (ii) assign separate PREPA assets, roles, and responsibilities into each of the subsidiaries. [9] [10]

GridCo comprises transmission and distribution, customer service and administrative functions, operated and maintained by LUMA; GenCo comprises existing PREPA-owned thermal generation

9 GridCo is a subsidiary that has not yet been approved by the PREB but will instead be a "de facto" entity whilst the assets remain under the PREPA HoldCo entity. All other entities listed herein were approved pursuant to PREB's Resolution and Order issued on December 29, 2022, under PREB Docket No. CEPR-CT-2016-0018.

10 See PREPA's 2022 Certified Fiscal Plan for subsidiaries description.

resources that are to be operated and maintained by the now selected private operator, Genera PR LLC (Genera), until their retirement, as mandated by PREPA's approved Integrated Resource Plan.[11] Genera will be responsible for, among other activities, the operation and maintenance of existing PREPA-owned generation resources, environmental compliance, safety, and eventual plant retirement and decommissioning. Moreover, Genera will be responsible for working closely with LUMA to ensure appropriate short, mid and long-term system planning and timely and efficient execution of system-wide capital improvements. The 2023 Fiscal Plan allocates funding to establish working capital reserves for Genera to operate the generation assets according to the terms of the Operating & Maintenance Agreement[12].

Considering P3A's pivotal roles in the Power Sector Reform, the 2023 Fiscal Plan provides incremental funding of $9.5 million for its oversight role of the PREPA private operators and management contracts, as Administrator thereunder; and for the upcoming FY2024, P3A will be allotted a one-time contribution of $25 million to be held in reserve and used for asset reconciliation and accounting remediation work costs in order to enable the full reorganization of PREPA.

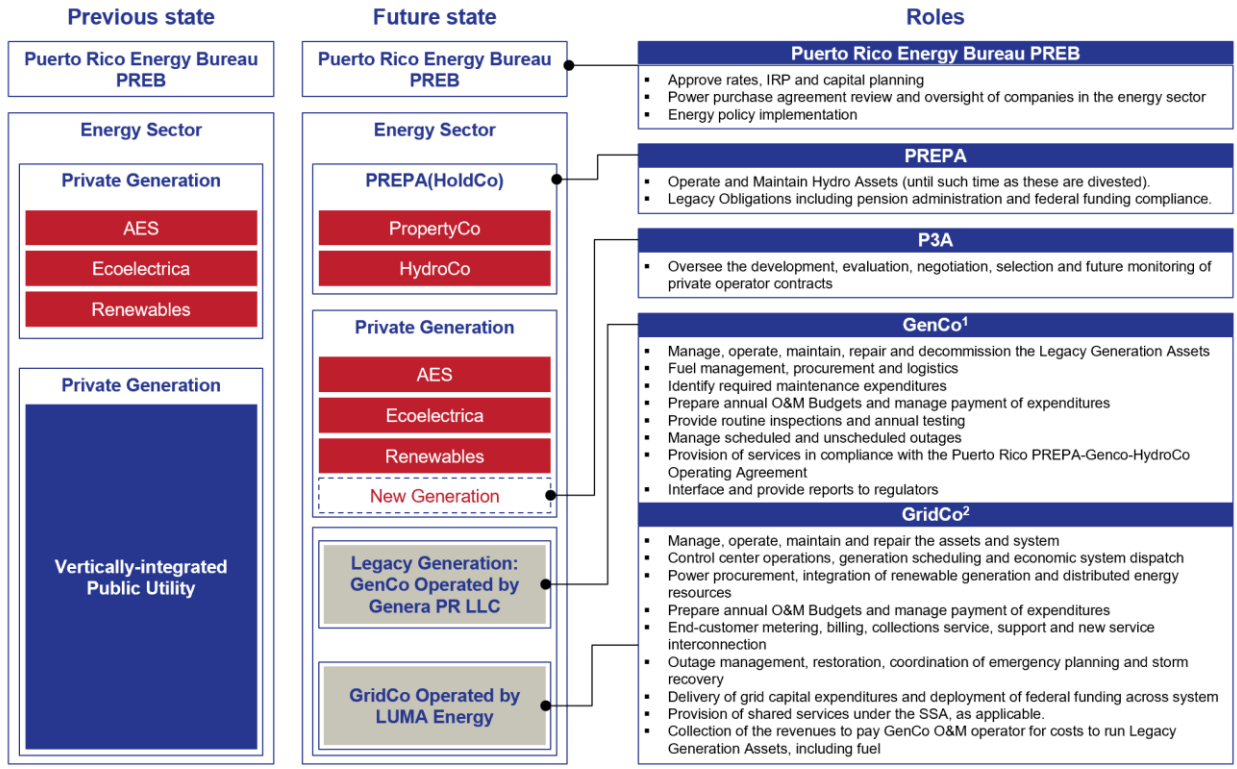
Finally, PREPA's existing day-to-day roles and responsibilities over the operation of the energy system, deployment of federally and non-federally funded capital investments, short, medium, and long-term system planning, and energy sector oversight are expected to be reduced soon as such roles and responsibilities are taken up by relevant Government agencies and private operators. [13]

11 See Section 1.8 of the Puerto Rico Energy Public Policy Act; Act 17-2019

12 Puerto Rico Thermal Generation Facilities Operation and Maintenance Agreement, dated as of January 24, 2023, by and among the Puerto Rico Electric Power Authority, the Puerto Rico Public-Private Partnerships Authority as administrator, and Genera PR LLC as operator

13 See Section 1.7 of Act 17-2019, which states that "the Government of Puerto Rico, by itself or through the Authority or another public corporation affiliated to the Authority, shall maintain ownership of the transmission and distribution assets and may maintain ownership of the legacy power generation assets." See Section 1.8(b) of Act 17-2019 which also provides that PREPA shall only "retain personnel as are necessary to fulfill its responsibility as a Partnering Government Entity, as such term is defined in Act No. 29-2009, of assisting the Public-Private Partnership Authority in overseeing the Contractor's performance of the Partnership Contract and compliance with the performance-based metrics set forth therein." Pursuant to the LUMA agreement, PREPA delegated any duties with respect to overseeing LUMA's performance to the P3A

EXHIBIT 20: ENERGY SECTOR TRANSFORMATION – CURRENT AND FUTURE STATE



System modernization

In September 2017, Puerto Rico's electric system was completely devastated by the landfall of Hurricanes Irma and María, resulting in the longest electrical blackout in modern U.S. history. In efforts to mitigate the economic, fiscal, and social impacts of future storms, FEMA and the Government agreed to a fixed cost estimate of $10.7 billion to repair the electricity system in Puerto Rico (*Exhibit 21*). Of those $10.7 billion, $9.7 billion would be provided by FEMA, with the remaining $1 billion to be covered by PREPA through its own funds and CDBG DR funding (of which only approximately 50% is expected to be eligible for cost-sharing).

Transmission & Distribution Modernization

LUMA is now responsible for implementing the modernization of the T&D system.

Generation Assets Modernization

As directed by PREB, and as required under Act-57, PREPA prepared an IRP intended to consider all reasonable resources to satisfy the demand for electrical services over a twenty-year planning horizon. The IRP as well as Act 82-2010, as amended by Act 17, requires the procurement of renewable energy resources in accordance with the following milestones relative to the aggregate percentage of generation supplying its system: 20% by 2022, 40% by 2025, 60% by 2040 and 100% by 2050.

On February 22, 2021, PREPA released RFP No. 112648 for the procurement of up to 1,000 MW of renewable energy resources capacity and 500 MW of energy storage resource capacity. In December 2021, and after some delay, PREPA announced the selection of over 800 MW of renewable energy generation and 220 MW of energy storage and submitted the proposed projects to PREB for approval. On February 2, 2022, PREB approved 18 of the solar PPOAs recommended by the Evaluation Committee for Tranche 1. However, because of the numerous delays experienced during the Tranche 1 procurement process, PREB determined to assume direct responsibility over future procurement tranches through the appointment of an independent coordinator, with PREPA retaining a limited support role. PREB initiated the second Tranche of procurements on January 13, 2022 and launched the RFP on September 28, 2022.[14] Renewable competitive procurement tranches and efforts that are transparent and promote competition must continue to be supported as required.

EXHIBIT 21: YEARLY INCREMENTAL RENEWABLE GENERATION CAPACITY PROCURED AND ADDED BASED ON PREB'S GUIDANCE

PREB guidance for procurement of renewable generation and battery storage capacity

				Solar PV or equivalent other energy, MV		4-hr battery storage equivalent, MV	
Tranche	RFP target release date	Actual or new release date	Award date	Minimum	Cumulative	Minimum	Cumulative
1	Dec 2020	Feb 2021	TBD	1,000	1,000	500	500
2	Jun 2021	Nov 2022	TBD	500	1,500	250	750
3	Dec 2021	TBD	TBD	500	2,000	250	1,000
4	Jun 2022	TBD	TBD	500	2,500	250	1,250
5	Dec 2022	TBD	TBD	500	3,000	125	1,375
6	Jun 2023	TBD	TBD	750	3,750	125	1,500

Role of operators

PREPA's existing operations will be split into GridCo (comprising T&D and customer service functions) and GenCo (comprising PREPA's existing thermal generation assets). GridCo and GenCo are to be privately operated by professional entities selected through a competitive process under the supervision of the P3A. LUMA has been selected and has entered into an agreement to manage GridCo, while Genera has been selected and entered into an agreement to manage GenCo. The transition to private, professional operators is expected to improve quality of services, bring cutting-edge knowledge and expertise, improve efficiency, ensure compliance with applicable laws, and promote long-term sustainable planning, among others.

Transmission & Distribution

On June 22, 2020, the P3A, PREPA and LUMA signed a 15-year Operation and Maintenance Agreement (OMA) for the T&D system. Under the OMA, LUMA is responsible for, among other activities, the operation and maintenance of the transmission and distribution assets and system, control center operations, generation scheduling and dispatch, and integration of renewable generation and distributed energy resources, customer metering, billing and collections, regulatory

[14] Accion Group, "RFP Schedule for Renewable Energy Generation and Energy Storage Resources," 2023

and environmental compliance delivery of grid-related capital expenditures and deployment of federal funding across the system. On June 1, 2021, LUMA officially took over O&M responsibilities for the T&D system.

Generation

On November 10, 2020, the P3A launched a Request for Proposal (RFP) to select one or more private operators for PREPA's existing generation assets. On January 2023, the P3A Governing Board and PREPA's Governing Board approved the OMA for PREPA's legacy generation assets. The selected proponent, Genera, will be responsible for the operation and maintenance of existing generation assets until those assets are retired and decommissioned in accordance with the PREB-approved IRP.

Similar to the GridCo transaction, it is expected that during the transition, GenCo will undertake a process by which the new operator is required to offer employment to all full-time PREPA plant employees who are employed and in good standing as of June 30, 2022. With respect to all other PREPA employees, the Operator must give hiring priority to any PREPA Employee who meets the Operator's employee requirements over other equally qualified applicants for the same job category. Those employees who do not transfer to the Operator may be eligible to transfer to the Commonwealth, as provided by Act 120-2014. In the event that employees are mobilized, funds may be needed in the FY2024 budget and beyond to fund these employees' salaries and benefits. Current PREPA generation employees should be incentivized to transfer over to Genera because their skills would be most valued there. However, the Government must nonetheless identify specific needs at Commonwealth agencies that have space within their budgets to the extent there are PREPA mobility employees who may be able to address them. Lessons learned from the LUMA transition may provide for a more efficient transition process.

EXHIBIT 22: CURRENT PREPA STRUCTURE

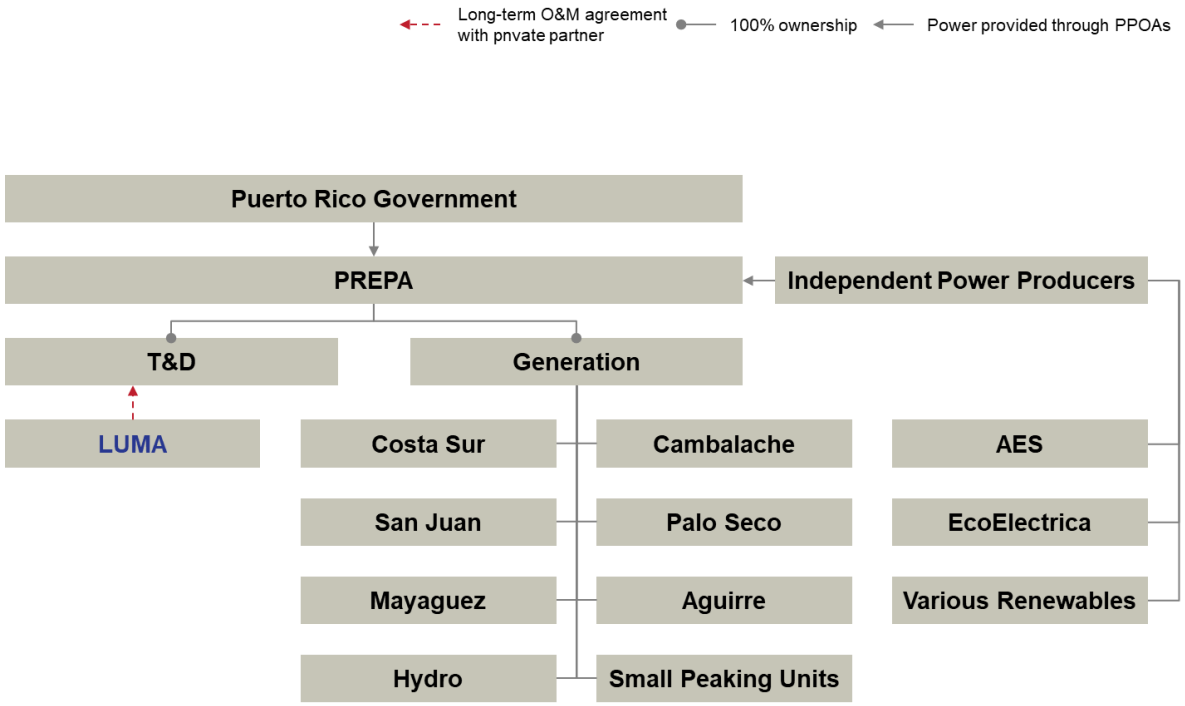
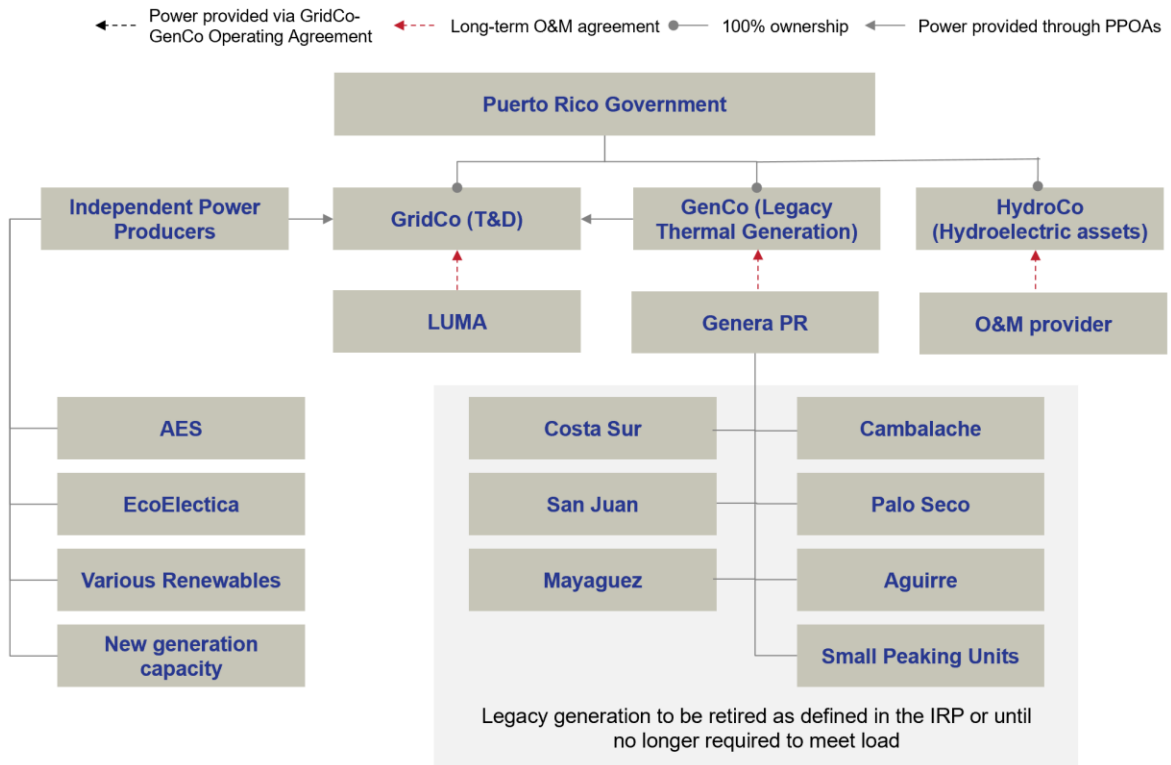


EXHIBIT 23: FUTURE PREPA STRUCTURE



Oversight

During the transformation of Puerto Rico's energy system, i.e., while PREPA remains a covered instrumentality under PROMESA and until PREPA emerges from Title III, PREB will share responsibility for the regulation of the energy sector with the Oversight Board.[15] The Oversight Board has the authority to approve a yearly budget and restructure PREPA's existing debt through a Plan of Adjustment and oversee liquidity management. At the same time, the Oversight Board may approve any private operator that engages with PREPA, and after the operator has been installed, ensures compliance with PROMESA and the energy sector transformation objectives.

Once the transformation is complete and PREPA has emerged from Title III, oversight responsibility in Puerto Rico's transformed energy system lies with PREB and the P3A.[16] The P3A, as Administrator, is responsible for overseeing the development, evaluation, negotiation, selection, and future monitoring of private operator contracts.

The PREB and P3A have pivotal roles to play, and it is essential that they continue to be supported as necessary. In terms of incremental funding, the P3A in particular needs to continue to ensure it: (i) gets its allotted $9.5 million in funding for its oversight role of the PREPA OMA contracts, as Administrator thereunder, and (ii) for the upcoming FY2024 in particular, the P3A must be allotted a reserve of $25 million to be used for necessary asset and accounting remediation work costs up to

15 Stated above in this section

16 The Oversight Board will also retain its power and duties under PROMESA with respect to PREPA as long as PREPA is a covered territorial instrumentality

that amount, in order to enable the full reorganization of PREPA (and its assets) into its corresponding subsidiaries and organizational structure.

Progress to date and required implementation actions

This proposed transformation builds upon recommendations from the previous Fiscal Plan. *Exhibit 24* shows a list of already completed milestones:

EXHIBIT 24: COMPLETED MILESTONES FOR POWER SECTOR TRANSFORMATION

Area of focus	Action item	Responsible party	Deadline
Transition to private operators	Perform market sounding to collect feedback on interests and concerns from interested parties for generation asset privatization	P3 Authority/ Oversight Board	Completed
	Select a winning proponent to manage and operate PREPA's T&D system	P3 Authority	Completed
	Prepare for and launch RFQ for tile selection of a proponent for PREPA's generation assets	P3 Authority	Completed
	Prepare for and launch RFP for the selection of a proponent for PREPA's generation assets	P3 Authority	Completed
Renewable Generation & Battery Storage RFP	Launch Tranche 2 RFP	PREB	Completed

Additionally, to encourage a widescale transformation, the Government must focus on the following actions:

EXHIBIT 25: PENDING MILESTONES FOR POWER SECTOR TRANSFORMATION

Area of focus	Action item	Responsible party	Deadline
Transition to private operators	Select a winning proponent to manage and operate PREPA's existing generation assets	P3 Authority	Completed
	Implement approved IRP and grid modernization plan to ensure a modernized, resilient, and reliable grid	PREPA	In process
Renewable Generation & Battery Storage RFP	Complete and announce Tranche 2 RFP selected proponents	PREB	Second half of FY23

5.4 Restructuring legacy debt obligations

As of May 2017, PREPA had $9.25 billion of outstanding bond and other debt obligations, and an unsustainable repayment schedule. Accordingly, PREPA would have had to repay approximately $4.5 billion of debt service obligations between FY2019 and FY2023.

On March 8, 2022, due to concerns regarding the affordability and sustainability of the electric system (among other reasons) AAFAF terminated the PREPA restructuring support agreement, an action supported by the Oversight Board. As a practical matter, the Oversight Board had the contractual right to terminate the agreement on its own. The termination terminated the agreement as to all parties such that the restructuring support agreement is no longer in effect. Restructuring efforts continue and PREPA is expected to exit Title III by the end of FY2024.

Specifically, the following efforts are still in progress:

EXHIBIT 26: PENDING MILESTONES FOR DEBT RESTRUCTURING

Area of focus	Action item	Responsible party	Deadline
Restructure legacy debt obligations	▪ Confirm Title III plan of adjustment	▪ FOMB	▪ To be determined
	▪ Implement PREPA plan of adjustment	▪ PREPA	▪ To be determined

6 Infrastructure reform

6.1 Current state and future view of Puerto Rico's transportation system

The transportation sector is essential for both economic and social development in Puerto Rico, given its critical role in facilitating the movement of goods and people. A well-performing transportation system can increase access to jobs and business opportunities, unlocking the productive potential of residents and firms. In turn, a transportation system can increase economic output and invite further private investment. Meanwhile, a poorly performing system can mire its residents in wasted time and result in inequitable access to jobs and opportunities, fractured communities, and productivity losses. Puerto Rico is currently suffering from several of these factors.

Puerto Rico's transportation sector currently underperforms across a range of outcomes, including congestion, safety, and road quality. In 2020, the Highways and Transportation Authority (HTA) reported to the Federal Highway Administration (FHWA) that 12% of Puerto Rico's lane miles are in "poor" condition; Federal law mandates that no more than 5% of lane miles may be in a "poor" state for pavement conditions on the Interstate System.[17] [18] The state of public transit infrastructure and management in Puerto Rico deserves special focus given its many challenges. Congestion is increasing in many metropolitan areas, creating additional delays for commuting and transportation of goods. High congestion is due in part to the minimal use of mass transit; the San Juan metro area has 37,000 more households commuting by private vehicle than would be expected if mass-transit usage matched the U.S. average.[19] As a result of the extra vehicle journeys, San Juan experiences two additional weeks of low air-quality days per year, compared to the U.S. average.[20] Worse yet, NOx and PM2.5 emissions from vehicles are statistically associated with higher mortality rates in the local population.[21]

While HTA has made some improvements over the past few years, including the addition of a new dynamic toll lane to alleviate congestion, the current transit system suffers from limited efficiency, route coordination, operational cohesiveness, and accessibility. These issues result in higher congestion and reduced mobility, particularly for low-income residents who experience long commutes or are forced to bear the costs of owning a private vehicle.

17 As defined by 23 USC 103(c)

18 23 USC 119(f)(1) and 23 CFR 490.315

19 22% of San Juan metro area residents commute via carpool, walking, bicycling, or public transit, compared to 27% for the U.S.

20 Low air quality defined as AQI > 100; PR has 19 days per year to U.S. median of 4, as per the Department of Natural and Environmental Resources website

21 EPA estimates excess deaths per ton of emissions at 0.002 for NOx and 0.1 for PM 2.5.

To address these issues, a comprehensive reform of the transportation sector on the Island is required. It is essential that the HTA, being the manager of critical assets across different transport modes, be a key driver of that reform. The cornerstone of the Transportation Sector Reform (TSR) should be the rationalization of asset ownership, with the creation of mode-specific transport entities. To achieve that, HTA would need to transfer all transit assets to the Puerto Rico Integrated Transit Authority (PRITA), establish an internal separation (ringfence) between its toll and non-toll operations and pursue a P3 for further structural independence of toll assets.

The HTA Plan of Adjustment (PoA), confirmed on October 12, 2022, provides a path for HTA to exit bankruptcy and enables HTA to make the necessary investments to improve and maintain Puerto Rico's roads and other transportation infrastructure. The PoA became effective on December 6, 2022, marking an important milestone in Puerto Rico's transportation sector. Through the PoA, HTA is required to implement this comprehensive reorganization, enabling HTA to optimize decisions on toll pricing policy and enhancing its financial position to accommodate investments that support economic growth priorities. Furthermore, it will enable HTA to deploy funds more effectively, thus reducing the proportion of pavement in poor condition and making the roads of Puerto Rico safer. Moreover, during FY2023, HTA implemented the first two toll fare increases since 2005, a critical measure in advancing its internal restructuring.

The rationalization of asset ownership must be accompanied by a series of other structural measures and be rolled out as a holistic reform package. The October 2022 HTA Fiscal Plan establishes how the HTA, Department of Transportation and Public Works (DTOP), PRITA, AAFAF, and other Government agencies need to support the implementation of this reform, in line with the Puerto Rico Oversight, Management and Economic Stability Act (PROMESA) section 205(a) letter sent to the government of Puerto Rico by the Financial Oversight and Management Board for Puerto Rico (FOMB or "Oversight Board") on January 29, 2021.

6.2 Reorganize Puerto Rico's transportation assets into transportation mode-specific entities

Pursuant to the Letter Agreement signed on August 12, 2022 by the Oversight Board and AAFAF on behalf of HTA and the Government (Letter Agreement), as part of the HTA Plan of Adjustment, the parties agreed that the current state of Puerto Rico's transportation sector, where several different agencies have overlapping control and responsibilities of toll roads, non-toll roads and transit assets, "hinders the ability of the Government of Puerto Rico (the "Government") to improve and maintain road safety and quality, develop and implement long-term system enhancements and maximize investments in the system."

To solve this, the TSR calls for the operational and financial segregation of transportation assets across three distinct classes: toll roads, non-toll roads and an integrated transit system. The parties to the Letter Agreement agree that the principal objective of the TSR is to assign direct responsibility over those specific transportation assets (i.e., toll, non-toll and transit) to mode-specific entities, clearly establish the extent of each entity's role, and ensure effective coordination of investment and management activities across transportation systems. The following implementation approach aims to achieve the segregation through the following:

- **Integrating all transit assets under PRITA:** HTA must transfer all its transit assets to PRITA to empower PRITA to fulfill its original mission as a unified transit authority (i.e., encompassing all buses, ferries, Urban Train (TU, by its Spanish acronym). On May 27, 2022, the

Government submitted the Federal Transit Administration (FTA) grantee status application – a key step towards PRITA achieving FTA grantee status to finance these new responsibilities.

Consistent with the HTA Plan of Adjustment, upon approval of the United States Department of FTA, HTA, must separate the toll assets from the transit assets and shall transfer the transit assets, including its management and operational responsibilities, costs, contract, personnel, etc., to PRITA. HTA and the Government must take all steps necessary to ensure that PRITA achieves FTA Grantee Status to finance the responsibilities and obligations of the transit assets.

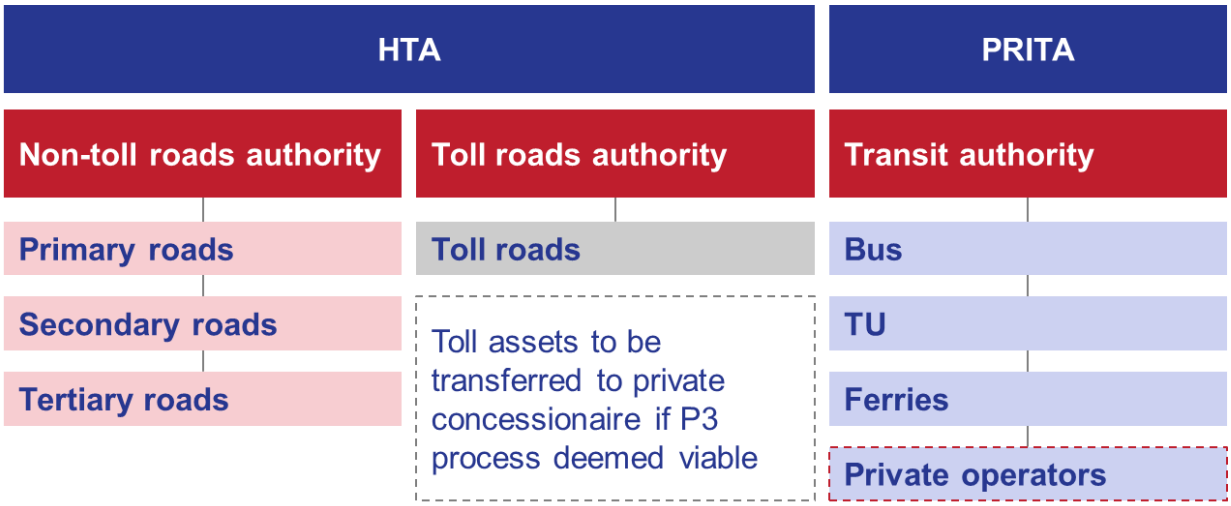
- **HTA internal segregation:** HTA must create an internal segregation (legal, financial, and operational) of its existing responsibilities over toll and non-toll assets through the establishment of separate management offices for each asset type. This will enable the structural independence of toll assets required to support HTA's restructuring and potential P3 transaction and help achieve operational efficiencies. Specifically, HTA must achieve operational, legal, and financial separation between toll road assets and non-toll road assets, with a "ring-fenced" structure and allocation of cost and expenses within 15 months after the HTA Plan of Adjustment Effective Date.
- **Preparing and advancing a future toll road concession for further structural independence as P3A continues to evaluate the viability of a toll road P3:** The separation of toll road assets into a newly created Toll Roads Management Office should streamline potential P3 processes because it would demonstrate to potential investors and operators that HTA is committed to a fiscally sustainable toll road operation. The RFP for the toll roads P3 was formally issued in January 2023, proposals are due by July 2023 and the transaction is expected to close by the end of the calendar year. The Government, HTA and the Oversight Board must continue to coordinate efforts to facilitate the ongoing P3 process for the toll road assets.

Pursuant to the Letter Agreement, the Government, HTA and the Oversight Board must coordinate on plans to consolidate the day-to-day management, operation and construction of non-toll roads and allocate such responsibilities to a specific entity or multiple entities, each of which would be responsible for different functions.

Implementation of toll and Non-toll segregation

Asset classes must be segregated with the creation of a Toll Roads Management Office within HTA, separate from the existing HTA departments (i.e., "Non-toll Roads Management Office"), and the transfer of the transit assets to PRITA (see *Exhibit 27)*.

EXHIBIT 27: PROPOSED ALIGNMENT OF ASSET TYPES TO ENTITIES



To accomplish the effective segregation of the toll roads, HTA must create a new Toll Roads Management Office. The Toll Roads Management Office will be separated from the Non-toll Roads Management Office in the following ways:

- **Segregation of Profit and Loss (P&L) and Accounting**: The Toll Roads Management Office must have its own chart of accounts and financial statements. Furthermore, it will maintain separate bank accounts and it will use its own revenues to cover expenses that are only directly associated with toll roads. Use of toll revenues to subsidize operations of the remaining highway network will be explicitly prohibited.
- **Separation of labor force:** The Toll Roads Management Office must have designated resources to carry out toll road operations and capital improvements (including back-office functions: e.g., HR, IT, Finance). Overall, the size of that labor force must be proportionate to the share of costs incurred by the Toll Roads Management Office within HTA.
- **Contract segregation**: The Toll Roads Management Office must have the independent authority to negotiate and sign contracts. Furthermore, it will be responsible for monitoring the implementation of these contracts and resolving any outstanding disputes with contractors.

As of March 2023, HTA has created the Toll Roads Management Office.

6.3 Create an overarching transportation policy board to guide multi-modal transportation strategy across the Island

The measures discussed in this section are incremental to the ones outlined in the Letter Agreement. In accordance with the future vision for coordinated transportation assets across Puerto Rico, a transportation policy board should be established to set coordinated priorities for each agency. The Transportation Policy Board (TPB) will control a common transportation fund and suggest projects for funding across all transportation modes based on their potential to advance the Island-wide transportation strategy. These projects need to be proposed by a variety of transportation stakeholders, including metropolitan planning organizations, local governments, and local transit agencies. The TPB seeks to facilitate coordination between the agencies to ensure ease of multi-modal transportation for its users.

The TPB must be empowered to, at a minimum:

- Set long-term, cross-modal, strategic plans and investment priorities applicable to all transportation investments
- Regularly review and report on execution compared against strategic plans, providing transparency and guidance on any corrective steps required
- Coordinate the federal grants strategy for all transportation entities to harmonize the process and maximize opportunity and availability of federal funds
- Develop and oversee the use of objective frameworks for project selection and project prioritization processes
- Provide oversight and compliance checks to both the pre-construction and capital delivery activities

The proposed TPB is intended to provide oversight and guidance for the transportation entities within the Government but does not seek to burden them with new regulations, leaving implementation of long-term strategic plans to each relevant entity.

Although the responsibility of creating an Island-wide transportation Board would largely fall on the Commonwealth, HTA must leverage its experience and provide input regarding the Oversight Board's recommended structure. Once established, HTA will formalize its interaction model with the Oversight Board through a Memorandum of Understanding (MOU) and leverage the Oversight Board's perspective to guide project planning, to ensure optimal multi-modal outcomes in Puerto Rico.

Progress to date and required implementation actions

To achieve the above requirements, the following milestones must be reached:

EXHIBIT 28: IMPLEMENTATION ACTIONS FOR THE TRANSPORTATION POLICY BOARD

Measure	Action item	Responsible party	Deadline
Establish Transportation Policy Board or analogous entity	▪ Establish an independent advisory board responsible for setting long term holistic strategic plans and oversight of investment prioritization processes to advance transportation from an Island-wide perspective	▪ AAFAF	▪ April 1, 2023
	▪ Establish processes and guidelines for reviewing and reporting on the execution of strategic plans and providing transparency and guidance on corrective action	▪ TPB	▪ May 1, 2023
	▪ Establish processes and guidelines for coordinating the federal grants strategy for all transportation entities to harmonize the process and maximize availability of federal funds	▪ TPB	▪ May 1, 2023
	▪ Assess and develop mechanisms to lower traffic congestion and increase accessibility to transit	▪ TPB	▪ May 1, 2023
	▪ Establish an MOU agreement outlining the approach for and terms under which all transportation entities will work with one another	▪ TPB, HTA, ATM, PRITA	▪ May 1, 2023

6.4 Develop and use objective frameworks for project selection

In Puerto Rico, poor performance management results in a backlog of maintenance projects, high costs relative to service levels and a disconnected system that cannot effectively execute a multi-modal strategy. HTA has historically struggled to deploy its available capital funding against its backlog of projects. The October 2022 HTA Fiscal Plan lays out a clear methodology for HTA to better manage its capital expenditure and ensure that it can deliver its ambitious capital program.

Implementation actions

To achieve the above requirements, the following milestones must be reached:

EXHIBIT 29: IMPLEMENTATION ACTIONS FOR OPTIMIZING CAPITAL EXPENSES

Measure	Action item	Responsible party	Deadline
Optimize capital expenses	▪ Propose set of projects that would benefit most from creation of standard project definition workflows (e.g., commonalities, frequencies)	▪ HTA	▪ Ongoing
	▪ Propose set of projects that would benefit most from creation of standard design packages (e.g., number of stakeholders, frequencies)	▪ HTA	▪ Ongoing
	▪ Identify and propose opportunities to leverage alternative procurement methods	▪ HTA	▪ Ongoing
	▪ Identify capability gaps within in-house construction team	▪ HTA	▪ Ongoing
	▪ Pilot improvements to address opportunities areas identified in capital delivery diagnostic	▪ HTA	▪ Ongoing
	▪ Use standard project definition workflows for initial set of projects	▪ HTA	▪ Ongoing
	▪ Create and propose alternative procurement RFP(s) for eligible projects	▪ HTA	▪ Ongoing
	▪ Complete FHWA-approved process improvements (e.g., pay-item sampling) to expedite invoice processing in project close-out	▪ HTA	▪ November 30, 2023
	▪ Complete implementation of electronic records management system to facilitate efficient project close-outs	▪ HTA	▪ November 30, 2023

6.5 Improve performance management through integration in public systems, performance-based contracts, and better supervision

At present, private transportation network companies operate broadly across Puerto Rico to satisfy excess demand for transportation beyond that provided by the public sector. There is limited coordination, however, between these private operators and the public networks. Similarly, private contractors execute much of the transportation construction without providing visibility into individual project performance. If managed well, the private sector will be a key partner in both operating transit systems and delivering capital projects efficiently and cost- effectively.

Progress to date and required implementation actions

To achieve the above requirements, the following milestones must be reached:

EXHIBIT 30: IMPLEMENTATION ACTIONS FOR IMPROVING PERFORMANCE MANAGEMENT IN TRANSPORTATION

Measure	Action item	Responsible party	Deadline
Leverage private-sector services for improved efficiency	▪ Design a series of initiatives that can be implemented in collaboration with private transport networks (e.g., públicos)	▪ HTA, PRITA, private networks	▪ May 31, 2023
	▪ Develop a strategy for communicating with private network operators	▪ PRITA	▪ May 31, 2023
Transit Service Integration and Coordination	▪ Adopt a single farecard for all public transit networks	▪ HTA, ATM, PRITA	▪ May 31, 2023
	▪ Harmonize fares and schedules across TU, buses, and ferries	▪ HTA, ATM, PRITA	▪ May 31, 2023
	▪ Pool data resources to conduct common research on future initiatives	▪ HTA, ATM, PRITA	▪ May 31, 2023

6.6 Maximize the Commonwealth's funding envelope through a more aggressive federal grants strategy and by improving bankability to attract private capital

Puerto Rico would benefit from a holistic strategy to maximize funding flowing into its transportation network. By establishing a federal funding strategy, attracting more private investment, and increasing ancillary revenue, HTA, alongside other agencies, can improve the transportation sector's financial health and invest more in service delivery and capital projects for public transportation users. To obtain Puerto Rico's proportional share of federal funds, transportation entities need to have a proactive strategy to identify, apply for and pursue additional discretionary federal funding. Similarly, P3s and ancillary revenue are effective strategies to attract private investment into the transportation network. The importance of these efforts has been magnified with the passage of the BIL, which increases the available pool of discretionary grant funding for which HTA can compete. If HTA were to get its "fair share" (i.e., 1%, comparable to Puerto Rico's share of the U.S. population), discretionary grant programs would add an additional $90 million per year for capital investments. Similarly, P3s and ancillary revenue are effective strategies to attract private investment into the transportation network.

Please refer to the October 2022 HTA Fiscal Plan for further details on the proposed strategies for attracting and maximizing availability of non-Commonwealth revenue.

Progress to date and required implementation actions

To achieve the above requirements, the following milestones must be reached:

EXHIBIT 31: IMPLEMENTATION ACTIONS FOR INCREASING REVENUE

Measure	Action item	Responsible party	Deadline
Collect discretionary grants	Hire discretionary grant management team	HTA	Completed
	Begin preparing discretionary grant applications and collecting all necessary supporting documents	HTA	June 30, 2023
Pursue P3 opportunities	Evaluate and prioritize potential areas for additional P3s led by 3rd party	HTA/P3A	Completed
	Finalize due diligence process and desirability and convenience study	HTA/P3A	Completed
	Continue to coordinate with FOMB on governance and efforts to facilitate the potential P3 process for the toll road assets	HTA/P3A	Ongoing
	Evaluate different potential deal structures using variety of scenarios within fiscal plan constraints. Finalize and share with FOMB detailed opportunity by opportunity execution plan for prioritized P3 opportunities	HTA/P3A	Completed
	Launch RFP(s) for prioritized P3	P3A	Completed
	Begin first new P3 agreement	HTA/P3A	Q4 2023
Improve ancillary revenue	Hire ancillary revenue management team	HTA	Completed
	Begin a campaign to acquire ancillary revenue increases (e.g., advertising)	HTA	January 31, 2023
	Begin coordination with third parties for ancillary revenue increases that require contracting (e.g., rentals)	HTA	February 28, 2023
	Begin ancillary revenue increases that require long-term planning and complex legal agreements (e.g., joint real estate development initiatives)	HTA	May 30, 2023
	Develop a comprehensive ancillary revenue strategy, which will include a full asset inventory and an analysis of administrative constraints and submit to FOMB for review	HTA	May 30, 2023

7 Ease of Doing Business reform

7.1 Current state of business friendliness and regulation, investment promotion, and tourism attraction

The last issued World Bank report in 2020 rated Puerto Rico the 65th most business-friendly economy.[22] By comparison, the U.S. mainland ranked 6th in that same year. While future publications of the Doing Business report were suspended due to data irregularities, the metrics are still relevant to track business friendliness. Puerto Rico's lowest rankings are in construction permitting, property registration, obtaining electricity, and the ease of paying taxes (for more information, please refer to 2022 Fiscal Plan). Given heightened levels of competition in the global marketplace, the Island needs to further address the needs of the Puerto Rico business community and urgently improve its business friendliness through implementation of ease of doing business reforms to support economic growth.

Empirical studies (cited in the 2022 Fiscal Plan) have shown that, as a result of business environment reforms, countries have seen increases in firm creation, business activity, investment, and economic growth, after controlling for other relevant variables, such as overall governance and macroeconomic conditions.

The Government must make every effort to prioritize implementing the reforms included in the 2023 Fiscal Plan and dedicate the necessary resources to achieve the implementation targets.

Specifically, the Government must focus on achieving the following:

- Improve the availability, cost, and reliability of electricity
- Streamline approvals and make permits more easily accessible to enable business activity and improve public safety
- Overhaul property registration to facilitate financial transactions and promote disaster-preparedness
- Simplify paying taxes to spur economic activity
- Reduce occupational licensing requirements to facilitate labor force participation
- Minimize the negative effect of inefficient on-Island freight regulations
- Strengthen offshore investment attraction efforts
- Prime tourism attraction efforts for success

Instituting comprehensive reforms is particularly important in Puerto Rico considering the aftermath and recovery of Hurricanes Irma, Maria, and Fiona, earthquakes, and the COVID-19 pandemic. Failure to institute reforms may enable U.S. mainland states and rapidly reforming countries to outcompete Puerto Rico for key investments. DDEC has recently released its economic development framework, PRopósito, which largely aligns with the goals and identified priorities in this Fiscal Plan and intends to identify priority sectors based on Puerto Rico's established competitive advantages. It is important that DDEC take the necessary steps to operationalize this plan in order to improve

22 The World Bank suspended the publication of future reports due to irregularities found in the data in the Doing Business 2018 and 2020 reports. Nevertheless, the data and benchmarking contained in the last published report continues to be a good resource to compare Puerto Rico's doing business regulatory environment to best-in-class economies and top reformers.

business friendliness on the Island, which includes making critical efforts to improve the entrepreneurial environment for small businesses.

7.2 Streamline permits and approvals to promote business activity and public safety

To foster economic development and promote public safety, the Government must revamp the Island's permitting approach. The process for obtaining construction and business permits has been considered an obstacle to economic development for a number of years. As it currently operates, the permit process in Puerto Rico is time-consuming and difficult to navigate, involving multiple stakeholders and government agencies, and requires a significant level of documentation – often resulting in several iterations to complete a permit application. This complexity and inefficiency create an incentive to circumvent the process, resulting in illegal operation, construction, or renovation of facilities. Unpredictability and inconsistency in the permitting environment are further driven by the ambiguity of the law(s) governing permitting activity. The Joint Regulation for Evaluation and Issuance of Permits Related to Development, Land Use and Business Operations was initially implemented in 2021 but was declared null by the Court of Appeals on March 31, 2021, on April 12, 2021, and on March 14, 2022, in three different judgements. Since that time, there has been considerable confusion over the governing regulations for the current permitting law. A revised Joint Regulation document was released by the PRPB for public comment in late October 2022 and has yet to be formally approved. Lastly, numerous municipalities have outdated Territorial Plans which further delay and complicate the ability of the Commonwealth to support their economic development initiatives.

Successful permitting reforms will allow Puerto Rico to compete with the top-ranked Latin American and Caribbean countries by reducing the time, number of procedures, and cost required to obtain permits. Supporting these efforts will require progress on several initiatives which are presented below.

- **Satisfy the requirements of the FEMA Hazard Mitigation Grant program. This** includes determining the appropriate staffing requirements for the efficient administration of the Permitting and Code Enforcement operations. Under the FEMA Hazard Mitigation grant program, funding for increased staffing, training, and technology has been provided. The agencies need to make progress on utilizing these resources to provide the proper level of support for these operations in the areas where they are most needed.
- **Finalize the Joint Regulation.** A draft of the newest version of the Joint Regulation was published in October 2022 and is currently undergoing a period of public comment. The PRPB anticipates finalizing these regulations in June 2023. The uncertainty surrounding the current regulatory environment has been a constraining factor in the economic development efforts of Puerto Rico. Adoption of the Joint Regulation will substantially resolve this uncertainty and provide a common set of rules by which to move forward. But it should be noted that the current draft of the Joint Regulation is extremely lengthy and covers numerous agencies and processes. Successful adoption of a new regulation will require considerable effort on the part of multiple agencies. The PRPB must continue to engage in close communication with these agencies to monitor the progress and quickly resolve roadblocks to implementation of the regulations.
- **Create a framework to foster collaboration, transparent communication, and training between permitting offices.** To ensure standard procedures are implemented and followed throughout various permitting offices, the Government must implement training

programs, enhanced processes for internal communications, and a tool for centralized knowledge sharing to facilitate tighter communication and coordination between central Permits Management Office (OGPe, by its Spanish acronym) and the regional offices with the aim of delivering consistent and unified service regardless of location.

- **Update territorial plans.** Territorial plans are master planning documents which provide a roadmap for current and future economic development in an area by assigning various acceptable activities for a given parcel of land, such as residential or commercial activities. Territorial plans must be updated by law every 8 years. Out of the 78 municipalities in Puerto Rico, 51 have outdated Territorial Plans. The permitting process is significantly delayed when Territorial Plans are not up to date. For instance, in municipalities where such a plan is in effect, applicants are easily able to determine the appropriate land use for a parcel. In the case of municipalities without an updated Territorial Plan, permit applicants must go through a land use consultation (*consulta de ubicación – CUB*) to seek approval for their intended land use. A land use consultation process involves review of the proposed land use by PRPB and / or OGPe, which is time consuming and may involve delays to the permitting process. In addition, land use consultations involve the approval of one parcel or set of parcels at a time. Such an approach leads to a haphazard and inefficient arrangement of land organization over time.

The PRPB must coordinate with applicable municipalities to complete territorial planning, including updating existing plans to reduce the need for location consultations (e.g., revising zones that have organically changed use but have not been recognized in the zoning maps). Based on conversations with PRPB, the typical cost is $65,000 for a plan which remains in effect for 8 years. It should be noted that municipalities have cited a lack of resources as a main obstacle to updating their plans. In addition, PRPB has faced staffing shortages in the past which have led to long delays in approving plans. The Hazard Mitigation Grant from FEMA provides funding to hire 11 additional planners to help the municipalities in developing and updating their Territorial Plans. In addition, PRPB received funding from FEMA to develop Territorial Plans for 14 municipalities which have never had one.

Reform indicators

The Oversight Board will track the following indicators to gauge the implementation of the reform initiatives:

- Progress made in the final adoption of the 2022 Joint Regulation (owner: PRPB)
- Progress in updating Territorial Plans for municipalities (owner: PRPB)
- Median number of days to adjudicate a Single Permit (owner: OGPe)
- Median number of days to adjudicate a Consolidated Construction Permit (owner: OGPe)
- Average number of procedures required to apply for and obtain a Consolidated Construction Permit (Owner: OGPe)
- Number of backlogged permit applications over established statutory time by permit type (Owner: OGPe)

7.3 Overhaul property registration to facilitate financial transactions and promote disaster-preparedness

The 2023 Fiscal Plan continues to require the Government to implement the property registration reforms highlighted in bold, below. The 2023 Fiscal Plan mandates that the Government adheres to the corresponding set of parameters when implementing the required property registration reforms. Specifically, the Government must continue to:

- **Reduce the amount of time required to register a property.** In the past years, productivity by employees increased once performance targets were established, and new cases in sections that are up to date in backlog elimination are now being registered in 15 days.[23] DOJ-PR has also consolidated 29 sections into 12 offices as of September 2022 and is expected to consolidate down to 9 offices by the end of 2023. The digitization efforts for property registrations seem to also have boosted productivity at the DOJ-PR by ~2%, enabling the registry to process 4,500 more applications than it receives per month.[24] During the next phase, DOJ-PR will continue to reduce paper documentation by digitalizing the people and parcel indices and the digitalization of blueprints (leveraging assigned ARP funds).
- **Eliminate the backlog of outstanding property registrations.** In the April 2021 Fiscal Plan, it was recommended that the Government promote legislation such as Act 216-2010, the Act to **Accelerate the Property Register.** Subsequently, PS (Project of the Senate, in Spanish) 340 was introduced to the legislature to accelerate registration of documents in backlog up to 2020, however, it was amended by the Senate to register documents in backlog until 2016. Currently, PS 340 is being considered by the House of Representatives.[25] It has the potential to help eliminate roadblocks for registration of the roughly 85,000 documents in backlog since 2016.
- **Improve registration of informal properties:** The existing land court-based system of property registration is antiquated. The Oversight Board recommends that the original taskforce share its progress on developing recommendations to simplify registration of informal properties outside of the judicial system and share an implementation plan for the recommendations.
- **Create a uniform parcel registry** that comprehensively records property ownership and rights across the Island and launch a geoportal that provides an interactive geospatial presentation of data populated within the uniform parcel registry (funded by a $50 million CDBG-DR grant for this purpose).

Reform indicators

Successful property registration reforms will allow Puerto Rico to compete with states focused on attracting manufacturing and other top-ranked Latin American and Caribbean countries by reducing the time and number of procedures required to register property by FY2024. It will also allow Puerto Rico to demonstrate to the U.S. Department of Housing and Urban Development (HUD) how ongoing efforts to develop a uniform parcel registry and GIS map will assist HUD in verifying legal and

23 The Property Registry currently has 29 operational sections that cover the 78 municipalities. For example, section San Juan I covers San Juan Antiguo, Puerta de Tierra, Santurce Norte and Santurce Sur.

24 Puerto Rico Department of Justice-Property Registry, performance data shared with Oversight Board, 2019; The World Bank Group, "Ease of Doing Business Report 2020", 2019.

25 Updated at the close of the Ordinary Session in November 2022

physical addresses associated with the use of Community Development Block Grant Mitigation (CDBG-MIT) funds.

The Oversight Board will also track the following indicators to ensure that the Government implements property registration reforms:

- Average number of days to register property
- Number of procedures required to register property
- Number of backlogged property registration applications
- Number of new unregistered properties processed

The Oversight Board will also continue to monitor progress on the GeoFrame project, specifically Vivienda's progress towards accomplishing milestones set forth in the 2021 GeoFrame Project Guidelines.

7.4 Reduce occupational licensing to facilitate labor force participation

Current occupational licensing requirements complicate certain workers' entry into the formal workforce and expose applicants to lengthy wait times and prohibitive costs. Occupational licensing is meant to ensure high-quality services while protecting public safety. However, overregulation in this area creates a strong disincentive for certain workers to move into or stay in the formal labor force and can artificially reduce the supply of individuals within occupation categories, limit competition and increase costs to consumers and businesses.[26] To promote labor force participation and create incentives for skilled workers to relocate to and remain on-Island, the Government must, as appropriate, streamline, eliminate, or harmonize occupational licensing requirements with those on the U.S. . Additionally, the Government should identify the different occupational licenses with the highest number of workforce members in the informal economy in order to leverage and establish best practices for the creation of new licenses and to avoid the production of burdensome regulations and time-intensive legislative overhauls.

Reform indicators

The Oversight Board will track the following indicators to ensure that the different Government agencies (e.g., DOS, DOH, PRTC) implement occupational licensing reforms:

- Median number of days to obtain an occupational license after application is complete
- Median number of days to renew a license
- Number of occupational licenses eliminated or harmonized with interstate compacts
- Total number of licenses in the workforce by type of job
- Ratio of informal vs formal workforce members by occupation
- Total fees for acquiring a license and other related costs including required training to issue or renew a license

26 The White House, "Occupational Licensing: A Framework for Policymakers," 2015; Carpenter, et. al., "License to Work: A National Study of Burdens from Occupational Licensing," 2017

7.5 Deregulate on-Island freight

Puerto Rico is one of only two major U.S. jurisdictions that still regulates land freight prices. The cargo industry has sufficient providers to be able to compete on prices. Regulated freights in other jurisdictions in the past have reportedly decreased the quality of services rendered by carriers and shippers, and forced companies to hold additional inventory, all of which have helped increase the cost of doing business in Puerto Rico.[27] Tariff rates in Puerto Rico are also more than 2.5 times that of market rates in most states. Higher transportation costs negatively impact businesses and lead to more expensive consumer goods relative to the mainland.

On August 2022 the Transportation and Other Public Services Bureau (NTSP by its Spanish acronym) outsourced an economic study to understand the tenability of the increase in the tariff. In summary, from the approval of Amendment 7037 at the end of fiscal year 2005-06 to the approval of the Code of Regulations of the NTSP and Other Public Services of July 23, 2021, now amended through fiscal year 2022, truckers who provide trucking services and general cargo have seen increases in their inputs of 40.3%, when tariff increases approved at current rates have increased by an average of 35.3% during the same period. However, most trucking services have been negotiated between the trucking company and the business service client via individual contracts; very few pay the tariff spot rate. The proposed tariff regulation intends to negate these private contracts, potentially significantly increasing the cost of moving goods.

Progress in the implementation of this reform has been quite challenging. Public hearings with entities subject to NTSP jurisdiction are planned to be held during December of 2022. The NTSP plans to submit to the Oversight Board an English version of the proposed phase IV Code after public hearings have been completed and prior to issuance, pursuant to Section 204(B)(4) of PROMESA.

The 2023 Fiscal Plan continues to recommend that the Government retract the extension of the tariff setting function of the NTSP to private contracts and that future NTSP studies also include a simulation on the economic impact on any tariff increase on consumer prices, economic growth, and tax collections. Moreover, the regulations must be reviewed to ensure they do not place oversized burdens on the trucking industry. It is critical that NTSP share its evaluation methodology with stakeholders to ensure transparency in the process. The regulations must also address reducing barriers to entry into the trucking sector and ensuring environmental and public safety without onerous requirements for trucking services providers.

7.6 Strengthen offshore investment attraction efforts

To transform Puerto Rico into a more competitive destination for offshore investment, DDEC must work together with Invest Puerto Rico (IPR), the Island's Investment Promotion Agency (IPA), to develop an economic development plan and obtain the tools and resources necessary to execute strategies that would bring new investment, jobs, and opportunities, which in turn would fuel the growth of local businesses. Jurisdictions across the globe have leveraged IPAs to attract offshore investments, fuel economic growth, and create jobs for their residents. Unlike other IPAs, Invest Puerto Rico only has one mandate: attract offshore investment (primarily from the mainland) to the Island (see 2022 Fiscal Plan for IPR in comparison to other IPAs).

Stronger investment promotion will also help ensure that the Island can effectively compete with mainland states and other countries for critical investments aligned to the Island's competitive advantages (e.g., life sciences research and manufacturing, knowledge services, and hospitality and

27 Advantage Business Consulting, "Progress Report on Deregulation of Land Freight Rates," 2016

tourism) – increasingly important as companies look to shift their supply chains in the aftermath of the COVID-19 pandemic.[28]

Access to existing small business funds and outside capital

To complement existing efforts by IPR to attract more outside capital to the island through initiatives like the investment deal platform Impeller and increased outreach in target regions, Puerto Rico must seek to diversify through enabling and investing in small and medium enterprises (SMEs or PYMEs in Spanish), which create local jobs and promote dense economic interconnections. DDEC could serve as an information provider, facilitator, and connector of the many existing support organizations with complementary but disparate offerings. Specifically, DDEC could consider:

Increasing utilization of existing SME-support funds

Analysis of public Small Business Administration (SBA) datasets reveals that businesses in Puerto Rico have received roughly $500 million less support through main SBA loan programs (7a and 504) and SBIR and STTR grant programs than mainland US states over a 5-year period, even when correcting for population size. Awareness and application barriers are the most likely reasons Puerto Rican SMEs are not utilizing these federal support programs. The Oversight Board encourages DDEC to explore initiatives that could help bridge these barriers.

More specifically, DDEC could modify its website to include a section tailored for entrepreneurs that includes information on resources organized by growth stage as several other states do, including California and Maryland.[29] Currently, many SMEs are unaware of existing programs that provide educational, counseling, and financial resources. Calling attention to these resources on the DDEC website would reduce the awareness gap and direct more entrepreneurs to them, increasing utilization. DDEC could consider leveraging CDBG-DR funds to make these and other improvements to its website as they are anticipated to improve awareness of resource availability and thus foment economic revitalization. CDBG-DR funds can be used for economic development purposes, including job training and workforce development.[30]

SME-focused funding mechanism

SMEs in Puerto Rico lack funding options at early stages of growth. The Oversight Board encourages DDEC to explore a new SME-focused funding mechanism based on the principles of a revolving loan fund (RLF). In contrast to typical RLFs capitalized using solely public funds, a modified version could include both public and private participation in initial capitalization.

Development of Roosevelt Roads

The Naval Station Roosevelt Roads (NSRR), located in eastern Puerto Rico in the municipality of Ceiba, was closed on March 31, 2004, as part of the Base Realignment and Closure (BRAC) process. Like many other former military installations, NSRR can be redeveloped into a multi-purpose destination with housing, retail, educational institutions, and recreational opportunities. The Local Redevelopment Agency for Roosevelt Roads (LRA-RR) has already been allocated over $30 million in federal funds and budgeted an additional $2.9 million in FY2023 by the Commonwealth of Puerto Rico.

28 Rapoza, "New Data Show U.S. Companies are Definitely Leaving China," 2020

29 See the California Office of the Small Business Advocate and Maryland Business Express

30 Department of Housing and Urban Development, "CDBG-DR Overview," 2020

The US Navy transferred NSRR to Puerto Rico under an Economic Development Conveyance with a price of $16.5 million, payable from 2015 through 2044. In 2013, the US Navy completed the transfer of roughly 3,400 acres to LRA-RR along with 1,600[31] facilities which comprise more than 5.8 million square feet.[32] The property contains more than 800 residential buildings including single and small-scale multi-family dwellings, apartment houses, and a hotel (~50% of all square footage). There are also facilities in use as commercial, retail, offices, and industrial facilities (~25% of all square footage). Educational, institutional, public amenity purpose buildings, and storage comprise most of the remainder of the structures. Some of the infrastructure related to the previous operations of NSRR is still present including the fuel pier, the airport (and its hangars), jet fuel tanks, and sewage treatment plants. Overall, the footprint of the area is 8,600 acres but due to the presence of wetlands areas, floodplains, and steep terrain, approximately 3,868 is available for development.[33]

Over the past decade, several projects have begun on Roosevelt Roads. These include a magnet secondary residential high school, a commercial beach and marina, several businesses related to eco-tourism, a multi-tenant shipyard facility and a ship dismantling and materials recovery operation. Additionally, PR Conservation Trust signed a contract to establish a visitor center at NSRR and a research and education center in the natural and social sciences which would also include archeological excursions, an information center, an incubator for community enterprises, and an archaeological repository. Most recently in 2020, the LoopLand Hotel broke ground at Roosevelt Roads, making it the first hotel on the property.

Although many projects have been initiated, the process must be more systematic and organized around a master plan. Given the size of the resource, this represents a unique opportunity for Puerto Rico. The Commonwealth must engage in the following to further the development of this property to its fullest potential and for the best interest of the people of Puerto Rico:

- Complete the inventory of facilities currently present on the Roosevelt Roads campus – a number of facilities and some basic infrastructure currently exists which may be leveraged in the development efforts.
- Engage with the surrounding communities to understand the current development initiatives regarding this property
- Develop an overarching development plan to avoid a piecemeal approach to economic development
- Use the tools of the Invest Puerto Rico and the Tourism Office to promote this site for future eco-tourism developments

The 2023 Fiscal Plan recommends the Government adhere to a set of parameters to more effectively attract growth-generating and job-creating investments to the Island. Specifically, the Government should:

- **Ensure that IPR implements the strategic plan it developed to compete with U.S. mainland states and other economies** for investments that arise as companies move to shift their supply chains to the U.S. to minimize risk. The IPR should also continue to partner with DDEC to implement a strategic plan to promote Puerto Rico as a cold-chain sensitive materials logistics center. Puerto Rico's historical strength in the pharmaceutical manufacturing industry

31 "Roosevelt Roads Reuse Plan: Site, Content, & Market Conditions: Appendix A.c: Existing Building Assessment," 2020

32 United States Department of Agriculture, "Roosevelt Roads Puerto Rico," 2016

33 Roosevelt Roads Puerto Rico, "Naval State Roosevelt Roads Reuse Plan," 2004

and the established concentration of companies and accompanying infrastructure make it an ideal regional hub for products that require true end-to-end refrigeration. These advantages should be marketed and socialized as part of a strategic plan. IPR noted that success on its promotional campaigns was in part due to a one-time budget allocation from Vivienda to help the Island recover from recent natural disasters.[34] DDEC could consider providing an increased budget for IPR's initiatives that demonstrate the ability to raise incremental new investment.

- **DDEC should provide IPR with the tools and capabilities to offer existing idle Government properties.[35] PRIDCO is the beneficial owner of a large inventory of industrial properties, with 1,520 units and 766 undeveloped lots throughout Puerto Rico (the Portfolio).** The Portfolio comprises industrial and commercial-use buildings and lots that companies may rent or, in limited cases, purchase. PRIDCO's current real estate portfolio includes 23.1 million square feet of buildings, of which 15.5 million is occupied, 6.0 million is vacant, and the remaining 1.6 million is unavailable for rent and needs structural repairs or remediation. Some of these properties, such as abandoned industrial parks, factories, and storage facilities could be used by potential investors as they explore the possibility of running their businesses on the Island. The Oversight Board encourages close coordination between the DDEC and IPR to allow IPR to present to investors a more compelling offer, as finding the right location to run operations in a new area is time consuming and challenging. To mitigate this, IPR has started a contractual relationship with RedAtlas (an analytics company that provides access to all public domain real estate and market data in Puerto Rican regions).

Reform indicators

The 10-year collaboration agreement between DDEC and IPR establishes a set of multi-year performance targets. Despite the disruptions caused by the pandemic, the growing number of firms considering shifting their supply chains to the U.S. to minimize risk in the aftermath of the pandemic—if well targeted—will ensure that IPR can meet or exceed its obligations. IPR is required to track the following indicators:

- Number of new businesses
- Number of new jobs
- Total dollars in capital investments
- Average payroll committed by each new business

7.7 Prime tourism attraction efforts for success

There are currently two agencies that drive tourism efforts in the Island: Puerto Rico Tourism Company (PRTC), which oversees tourism matters and regulations inside Puerto Rico, and Discover Puerto Rico (DPR) which serves as the Island's Destination Marketing Organization (DMO). As recommended in 2022 Fiscal Plan, DDEC needs to consolidate 10 entities, one of them being PRTC and clearly define its responsibilities and ways of reporting to distinguish from those of DPR, due to a high amount of overlap on current efforts.

34 Vivienda allocated a onetime amount of $7 million in CDBG-DR funding for FY2021.

35 PRIDCO Feasibility Study of Alternative Operating Models, February 2022

To continue Puerto Rico's transformation into a leading Caribbean tourism destination, the Government must continue to expand the mandate and resourcing of Discover Puerto Rico (DPR), the Island's Destination Marketing Organization (DMO). Despite its natural beauty and rich culture, Puerto Rico underperformed as a tourism destination even before the 2017 hurricanes. Destinations across the globe have leveraged DMOs to attract visitors, generate economic activity, and create jobs.[36] In Puerto Rico's case, DPR became fully operational in early 2019, when it launched its first promotional campaign and played an important role in driving record tourism performance in 2019.

As Puerto Rico looks forward, the Oversight Board is encouraged that, according to third-party travel data, Puerto Rico was moving the needle of growth in this sector before the onset of the COVID-19 pandemic, and it has had a strong recovery since. In 2022, approximately $8.9 billion in revenue was generated by travel and tourism in Puerto Rico, representing a 39% increase over the previous high in 2019. The Island also reported peaks in incoming travelers and a record level of local tourism employees. One market insights and research firm with a focus on travel and tourism found that likelihood to visit Puerto Rico in the next 12 months has grown to 22%, as of late 2022.[37]

Marketing influence tracking indicates that tourist familiarity, positive perception, and likelihood to visit metrics are all increasing for Puerto Rico in 2022 vs. previous years since 2018. However, with the recent passing of Hurricane Fiona, Puerto Rico may face challenges to tourism in the short-term as unfavorable news coverage of the island could give the impression that the island is not ready for visits. Additionally, it will likely take time both due to negative perceptions driven by bad press surrounding the hurricane and damaged infrastructure required for the tourism industry to fully restore offerings to tourists, especially in the southern and western regions harder hit by the hurricane. ARP funds have enabled DPR to strengthen its brand, emphasize in diversity, equity and inclusion, accelerate growth, increase efficiency, expand outreach efforts to new customer segments in new geographies and market niches and grow traffic in the group and convention and leisure segments.

DPR in comparison to other U.S. and Caribbean Destination Marketing Offices (DMOs)

DPR has a smaller mandate and lower budget in comparison to other DMOs. During FY2022 DPR received several federal grants including ~$12.5 million from ARP and $8.3 million from CBDG-DR. Besides the one-time federal funds received, DPR also received ~$25 million from PRTC from collections of room tax revenues and ~$5 million from matching funds. This is about 60% of the average budget of $42.1 million (or $1,485 per hotel room) for Caribbean DMOs.[38] The typical DMO markets to six distinct segments: visiting individuals and families; groups (e.g., family reunions); meetings, incentives, conferences, and exhibitions (MICE); events (e.g., major sports tournaments); residents; and airlines (e.g., purchasing airline ads, subsidizing seats). DPR, however, is only responsible for marketing to individuals, groups, and MICE. PRTC continues to manage events, as well as internal and airline marketing.

36 For example, the Barbadian Tourism Product Authority (TPA), created in 2014, helped increase the travel and tourism sector's direct contribution to Barbados' GDP (5.4% contribution in 2015, 10.3% contribution in 2016) and employment (4.3% contribution in 2015, 9.8% contribution in 2016). The creation of a DMO in New Orleans, LA was linked to higher business activity in other nearby cities as higher tourism demand for flights to New Orleans facilitated economic development in surrounding areas. And, in Chicago, the creation of a DMO helped raise the city's business exposure, resulting in a partnership between the city's DMO and its World Business Chicago (WBC), the city's economic development agency, to promote the city as both a tourist and business destination. As a result, 70% of WBC marketing is conducted via Chicago's DMO; see Oxford Economics, "Destination Promotion: An Engine of Economic Development," 2014

37 PR Newswire, "Puerto Rico Reflects on 2022 as Strongest Year in Tourism History, this National Plan for Vacation Day," 2023.

38 DPR budget is the established amount on 10-year contract with PRTC, in 2020-21 DPR have not received contracted amount due to lower room tax collected by PTRC. Numbers for other Islands comes from Destinations International.

The 2023 Fiscal Plan requires the Government to adhere to a set of parameters to enable DPR to capitalize on its early successes and continue leading the Island's emergence as a leading tourist destination. Specifically, DPR should:

- **Work in conjunction with the PRTC to define roles and responsibilities for each organization** in internal tourism, airline, and event marketing to ensure a uniform and consistent approach and to leverage DPR's expertise and knowledge on research and digital media. While in the past year, DPR participated with PRTC in the development of an airline and internal tourism marketing strategy, there's still further opportunity to transfer responsibility of these distinct segments to the DMO.
- **Continue to implement passenger component of Air Transit Hub** strategy developed by DPR that capitalizes on the U.S. DOT transshipment waiver. DPR has shared proposed next steps with DDEC, but it is pending access to information on passenger profiles from PRTC.
- **Execute plan to maximize promotional dollars from funds obtained from the CARES Act, American Rescue Plan (ARP) Act, CDBG-DR and other federal recovery programs.** In FY2023, DPR has a plan to optimize its ~$25 million in core budget that comes as part of contract with PRTC to cover 25 destinations in the east of the U.S. and leveraging ARP funds to cover the Midwest and invest in 6-7 international destinations. DPR's American Rescue Plan (ARP) Investment Strategy includes a description of how funds will be used to achieve strategic priorities. [39]
- **Continue to strengthen the DPR brand** through all marketing and promotions by maintaining a consistent message on Puerto Rico's strengths as a destination.
- **Implement destination visitor research program** to pivot marketing campaigns according to visitor's preference and to communicate to Government agencies areas of opportunities on infrastructure and services. In Q1 2022, DPR established a holistic methodology using in-person intercepts surveys and data mining. Initial data shows record numbers for lodging tax collection, rental revenue, hospitality employment, visitor spending, and benchmarking against Florida and other destinations in the Caribbean

Reform indicators

DPR's initial performance indicates that the organization can effectively compete with top-ranked Caribbean DMOs and destinations in attracting visitors and growing the Island's tourism sector.

- Percent of tourism sector's direct contribution to GNP
- Percent of direct contribution to employment
- Average travel receipts per visitor per year
- Percent change of tourist visitors per year
- Number of meetings and conventions attracted to the Island

39 American Rescue Plan Investment Strategy developed by DPR

8 Earned Income Tax Credit (EITC)

The ARP Act included permanent additional funds to incentivize Puerto Rico to expand the local EITC program put in place for tax year 2019. The ARP Act permanently provides for an annual grant of up to three times local spending, capped at $600 million (indexed to US inflation). The Government successfully amended the former EITC program to qualify for the additional federal funding provided in the ARP Act.

The ARP Act establishes that, in order to qualify for this additional funding, Puerto Rico must:

- Increase the percentage of earned income which is allowed as a credit for each group of recipients, in a manner designed to substantially increase labor force participation
- Spend an amount of local funds greater than a statutorily specified base amount of $200 million each year, adjusted for U.S. inflation
- Provide an annual report to the U.S. Department of the Treasury that includes an estimate of the EITC cost for that year and a statement of the actual costs in the preceding year

To fulfill these requirements, the 2021 Fiscal Plan included incremental funding needed to maximize the value of the federal grant. On August 29, 2021, the Governor signed legislation expanding EITC in Puerto Rico. On top of the funding for the tax credit expansion, the ARP Act includes an additional payment of $1 million per year for EITC outreach and education through 2025. Previous Fiscal Plans established that to effectively enhance labor force participation and reduce poverty through increased EITC benefits, the Government must more comprehensively promote the program for tax year 2022 and beyond. While the EITC should continue to be monitored for filing mistakes or potential impropriety, Hacienda should use the available Federal funds to inform eligible taxpayers of EITC benefits.[40]

U.S. policymakers have implemented and promoted the EITC across mainland states and have seen meaningful gains in formal labor force participation as a result, especially among low-to moderate-income workers.[41] The credit is an effective anti-poverty tool, empowering beneficiaries to defray the cost of education, training, and childcare and support their own self-sufficiency.[42] Since its creation in 1996, the EITC has lifted 6.5 million people out of poverty (half of them children)—more than any other U.S.-based anti-poverty initiative. However, the value of the EITC is greatest when the targeted population is sufficiently knowledgeable of its value to a degree that influences daily decision-making around whether they will enter or stay in the formal economy and whether they will seek employment in Puerto Rico or elsewhere.

The total cost of the EITC in its first year, tax year 2021, exceeded initial projections. The total EITC benefits (the sum of the non-refundable and refundable portions of the EITC) amounted to $1.05 billion, received by nearly 640,000 tax filers, representing nearly half of the 1.3 million tax returns filed for tax year 2021 with an average benefit of about $1,600. Given the size of the program, the Commonwealth spent roughly $450 million of local funds on the EITC program, significantly more than $200 million budgeted for the credit. Initial filing trends indicate the total size of Puerto Rico's EITC claims for 2023 may significantly exceed those of 2022, meaning that the locally funded costs for the program may be substantially greater than the roughly $450 million in local costs in 2022. If

40 Internal Revenue Service, "Earned Income Tax Credit & Other Refundable Credits Frequently Asked Questions," 2022

41 National Bureau of Economic Research, "Behavioral Responses to Taxes: Lessons from the and Labor Supply," 2006

42 To reward formal sector work, the credit reduces claimants' tax obligations and often generates a cash refund. For example, a $1,000 increase in EITC benefit has been tied to a 7.3% increase in employment; see Hoynes and Patel, "How Does EITC Affect Poor Families," 2015

the estimated program size meets current projections, the Commonwealth contribution for the EITC could exceed $600 million, representing more than 50% cost share and nearly three times the initial estimate.

The EITC has numerous benefits, including lowering poverty, increasing labor supply, and encouraging employment in the formal sector. However, it is important that the credit goes only to those who qualify. Independent reports have suggested that 24% of filers (accounting for 24% of the value of the credit paid) may not have qualified.[43] The Government must evaluate potential fraud, waste, and abuse of the EITC program to ensure the funding goes only to those who qualify. If strong compliance measures are not enforced, the Government may need to adjust the size of the benefit to reduce the program's overall costs.

To ensure the credit is administered effectively and to limit ineligible claims, the Commonwealth must monitor and enforce EITC claims. To ensure that those qualified receive the full benefit and to prevent ineligible claims the Commonwealth must:

- Employ targeted audits on taxpayers most likely to file EITC improperly, such as those with self-employment income that maximize the credit.
- Verify and augment data systems that automatically flag EITC claims as improper. This system has already been successfully implemented by Hacienda, but likely needs refinement.
- The EITC should be coupled with a robust promotional campaign to raise awareness of the benefit among potential claimants and encourage formal labor force participation. The Federal government provides $1 million in funding for outreach programs through 2025.

Path forward

As detailed in Volume 1, Puerto Rico has seen increases in non-farm employment levels and labor force participation rate since the initial rollout of EITC for tax year 2021. EITC costs have exceeded initial projections and total program costs are now projected to exceed $1.2 billion, about 50% higher than initial estimates, requiring the Commonwealth to approach a about 50% cost-share. The Government must evaluate potential fraud, waste, and abuse of the EITC program to ensure the funding goes only to those who qualify. If strong compliance measures are not enforced, the Government may need to adjust the size of the benefit to reduce the program's overall costs. To ensure proper use of both Federal and Commonwealth resources, the Government must accomplish the following actions by their respective deadlines to ensure proper use of the credit.

43 Alvarez, Wilmari de Jesus. Espacios Abiertos, "Our Dollars and Their Data: A Look at the 2021 Earned Income Tax Credit and Child Tax Credit," 2022

EXHIBIT 32: REQUIRED IMPLEMENTATION ACTIONS FOR EITC

	Action item	Owner	Deadline
To be completed in FY2023	▪ Augment monitoring for EITC filing data to prevent and detect fraud	▪ Hacienda	▪ Ongoing
	▪ Assume responsibility for managing EITC outreach in tax year 2022 and beyond	▪ ADSEF	▪ Ongoing
	▪ Discuss EITC performance with Oversight Board	▪ Hacienda, ADSEF	▪ Ongoing
	▪ As established by the ARP Act, increase the percentage of earned income which is allowed as a credit for each group of recipients, in a manner designed to substantially increase labor force participation	▪ Hacienda	▪ Completed
	▪ Launch new EITC promotional campaign	▪ ADSEF	▪ Annually from January 1, 2022
	▪ Monitor EITC uptake data in real-time to inform promotional campaign	▪ Hacienda, ADSEF	▪ Ongoing each tax year
	▪ Monitor and enforce EITC program integrity	▪ Hacienda, ADSEF	▪ Ongoing each tax year
	▪ Prepare EITC performance report and share with Oversight Board	▪ Hacienda, ADSEF	▪ Annually from June 1, 2022
To be completed in FY2024	▪ Design an EITC outreach strategy for tax year 2023 and share with Oversight Board	▪ Hacienda, ADSEF	▪ September 15, 2023
	▪ Provide an annual report to the U.S. Department of the Treasury that includes an estimate of the EITC cost for that year and a statement of the actual cost in the preceding year	▪ Hacienda	▪ Annually from September 15, 2022
	▪ Design a recurring assessment of performance to fulfill federal guidelines and reform the EITC platform so can be aligned with federal requirements	▪ Hacienda	▪ Annually from September 15, 2022
	▪ Meet with Oversight Board to discuss EITC performance report, tax year 2023 promotional strategy and claims monitoring	▪ Hacienda, ADSEF	▪ September 15, 2023

For Puerto Rico, a key element of the mechanism through which the EITC impacts measured economic activity might be its ability to bring informal labor into the formal labor sector and, thus, increase measured (formal) labor force participation. For this to happen, the EITC should be supported by a labor regulatory environment that is supportive of hiring labor in the formal sector.

The Labor Transformation and Flexibility Act, or Act 4-2017, eased some restrictions on labor hiring by eliminating some elements of Act 80 of 1976, also known as the Unjust Dismissal Act. While some stakeholders have called for the repeal of Act 4-2017, its elimination would likely reestablish onerous provisions related to probationary periods, overtime, and bonuses, which would all make the hiring environment more costly in the formal sector. Its repeal would discourage new hiring and reduce the labor market flexibility, thus limiting the effectiveness of the EITC expansion in promoting labor force participation, economic growth, and the revenues associated with that growth. Therefore, the Government must refrain from repealing Act 4-2017 or enacting new legislation that negatively impacts labor market flexibility, including currently proposed legislation that is similar to Act 41-2022.

On June 20, 2022, the Government enacted Act 41-2022 (Act 41), formerly known as House Bill 1244 (HB 1244). In contravention of the 2022 Fiscal Plan, Act 41 sought to reestablish many of the burdensome labor restrictions existing before enactment of Act 4-2017 and institute new employment law requirements.

While HB 1244 was pending, the Oversight Board issued a resolution, (i) "[d]irect[ing] the Senate not to pass HB 1244;" (ii) "[d]irect[ing] the Governor not to enact HB 1244;" (iii) "[d]irect[ing] the Government not to implement HB 1244;" (iv) "[advising] that the Government is barred by PROMESA section 108(a)(2) from enacting, implementing, and enforcing HB 1244;" and (v) "[a]pprov[ing] the taking [of] legal action against the Government and other appropriate parties, pursuant to its authority under PROMESA, including section 104(k), to enforce the bar against enacting, implementing, and enforcing HB 1244 and have it declared a nullity, to prevent further harm to the Commonwealth and its citizens and to carry out PROMESA." On June 7, 2022, the Legislature proceeded to pass HB 1244 with some minor amendments.

On June 10, 2022, the Oversight Board passed a "Resolution Relating to Amended HB 1244," in which the Oversight Board determined HB 1244 "will impair and/or defeat PROMESA's purposes, including of ensuring fiscal responsibility and achieving access to capital markets, by discouraging new hiring and reducing labor market flexibility in direct contravention of the Fiscal Plan, which in turn will (1) negatively impact Puerto Rico's dismal labor force participation rate; (2) reduce economic growth and market competition; (3) deprive the Commonwealth of the revenues associated with such revenue growth (including by reducing the effectiveness of the Earned Income Tax Credits); and (4) increase the Commonwealth's public assistance burden." The Governor proceeded to sign HB 1244 into law as Act 41 on June 20, 2022, notwithstanding PROMESA Section 108(a)(2).

Thereafter, on June 29, 2022, the Government made a submission regarding Act 41 pursuant to PROMESA Section 204(a). As the Oversight Board informed the Government on July 19, 2022, the submission was deficient in numerous respects, in that it failed to provide a formal estimate of the law's impact on Commonwealth expenditures for the correct fiscal years (it provided a defective estimate for the prior fiscal plan year) and did not include a certification that the law is or is not significantly inconsistent with the certified fiscal plan. Despite extensive correspondence, on August 1, 2022, Governor Pierluisi rejected the Oversight Board's proposed consent order suspending Act 41, which would have enabled the parties to avoid litigation.

On September 1, 2022, the Oversight Board filed an adversary proceeding seeking declaratory and injunctive relief pursuant to PROMESA to nullify and enjoin Act 41. See Adv. Proc. No. 22-00063, ECF No. 1. On March 3, 2023, the Title III Court denied the Governor's motion for judgment on the pleadings and granted in part the Oversight Board's motion for summary judgment. Adv. Proc. No. 22-00063, ECF No. 90. In so doing, the Title III Court ruled that "Act 41, and any actions that have been taken to implement it, are null and void ab initio" and "permanently prohibit[ed] and enjoin[ed] the Governor or other persons who are in active concert or participation with the Governor from taking any acts to help private parties implement or enforce Act 41." *Id*. at 39. The Governor and the Speaker filed an appeal of the injunction before the United States Court of Appeals for the First Circuit. Case No. 23-1267 and Case No. 23-1268.

As explained above, this Fiscal Plan repeats and incorporates the 2022 Fiscal Plan's provision requiring the Government refrain from enacting new legislation that negatively impacts labor market flexibility, including but not limited to currently proposed or future legislation that contain provisions similar to Act 41 or legislation that would in effect reinstate the provisions of Act 41.

9 Medicaid reform

9.1 Current state of Puerto Rico's Medicaid program

As of January 2023, an estimated 39% of Puerto Rico's population receive their health coverage through the Commonwealth's state-run Medicaid Program ("Plan Vital", formerly known as "Mi Salud"). The percentage of residents receiving benefits via Plan Vital increases to 48% when considering the addition of dual-eligible enrollees who are also in one of the Island's Medicare Advantage programs (Platinos). This share of the population enrolled in Medicaid/CHIP-funded health insurance exceeds that of any U.S. state.[44]

Two separate agencies are responsible for the administration and provision of Plan Vital. The Department of Health is the state agency responsible for the administration of Medicaid, via the Puerto Rico Medicaid Program (PRMP). PRMP oversees enrollment and eligibility processes, and it also operates the Medicaid Management Information System (MMIS). Meanwhile, the Puerto Rico Health Insurance Administration (ASES, by its Spanish acronym) is responsible for negotiating, managing, and implementing the provisioning of Medicaid benefits, primarily through contracts with private managed care organizations (MCOs), pharmacy benefit managers (PBMs), and other health services organizations.

Plan Vital consists of four primary eligibility groups: federally-qualified Medicaid recipients; expanded federally-qualified Medicaid recipients; Children's Health Insurance Program (CHIP); and the Commonwealth's self-funded health insurance program, which covers (a) low-income adults who do not qualify for federal programs but qualify under the eligibility criteria established by the local government as well as (b) certain Commonwealth employees and retirees.[45] The first three programs are eligible for federal matching at varying rates, known as the federal medical assistance percentage (FMAP). The Vital program also covers dual-eligible enrollees, which are those who meet the eligibility standards for both federal Medicaid and Medicare. For those dual-eligible who are enrolled in Medicare Advantage plans (referred to as Platinos), the Commonwealth provides an additional "wrap-around" payment.

Because federal-matching funds for Medicaid in U.S. territories is subject to an annual allotment cap, the federal portion of the Vital program revenues functions more like a block grant than a traditional Medicaid reimbursement system. See Volume 2 for further discussion on federal Medicaid funding for the Commonwealth.

Given the federal funding increases provided in the 2023 Consolidated Appropriations Act, the 2023 Fiscal Plan projects that Puerto Rico will have $3.7 billion in federal funds available during FY2023, including traditional Medicaid (non-CHIP), Enhanced Allotment Plan (EAP), and CHIP funds. Even though Puerto Rico has received an increase to the inflow of federal funds, due to the significant portion of the population reliant on Medicaid for health care, it is important that the Commonwealth always be prepared to fund these services if federal legislators reduce the Commonwealth's appropriations of federal Medicaid funds in future years. It is therefore crucial for ASES to put in place the required reforms to reduce the long-term growth rate of health care expenditures.

44 Kaiser Family Foundation, "Medicaid State Fact Sheets: Percent of People Covered by Medicaid/CHIP", 2019

45 As it relates to (b) of the wholly Commonwealth-funded enrollees, Plan Vital coverage for currently retired police offices and active police officers upon their expected retirement was added beginning in FY2022

Increased investments in Medicaid

Puerto Rico's health care system has experienced significant strain stemming from hurricanes, earthquakes, and the COVID-19 pandemic. These events amplified provider shortages and created increases in demand for health services, particularly behavioral health care. Given these turbulent circumstances the FY2020 and FY2021 Fiscal Plan included incremental investments in the health system. Such investments were made possible through additional federal funding made available through legislation such as the 2020 Further Consolidated Appropriations Act and were further supported by the FFY2022 and FFY2023 allotments. These investments included providing Hepatitis C drug coverage, increasing reimbursement rates to specialty and primary care providers and hospitals, and expanding coverage of the Medicaid Program to more than 200,000 local residents by increasing Puerto Rico's Poverty Level, which is the key determinant of Medicaid eligibility.

Vision for Medicaid reform

The goal of the Puerto Rican public health insurance system is to fund high-quality health care services to all residents in need and, in doing so, cultivate a healthier population, especially as it relates to lowering the Island's disproportionally high rates of chronic conditions. To ensure the system can continue to support the vulnerable populations who rely on its services, Puerto Rico will need to improve the efficiency and effectiveness of its public health insurance plan by "bending the health care cost curve" on premium inflation, which is reflective of escalating expenditures of health care delivery on the Island.

This section outlines several categories of actions the Government is required to execute to both curb the growth rate in per capita health care expenditure as well as shift the overall public health system toward higher-value care. In each of the below actions, the plan seeks to avoid reduction in service quality for beneficiaries and therefore assumes that any savings derived from the implementation of Medicaid reform measures will be reinvested into Puerto Rico's Medicaid Program. Such reforms include improving program integrity and quality relative to cost. Program integrity initiatives help to ensure that eligibility decisions are made correctly; prospective and enrolled providers meet federal and state participation requirements; services provided to enrollees are medically necessary and appropriate; and provider payments are made in the correct amount and for appropriate services.[46] Under value-based care initiatives, providers are reimbursed based on their ability to improve quality of care in a cost-effective manner or to lower costs while maintaining standards of care, rather than on the volume of care they provide.[47]

Enactment of these actions will require focused advancement of ASES and the Medicaid Program's capabilities, including IT systems. The 2023 Fiscal Plan includes additional reporting requirements to ensure the Commonwealth remains on track towards implementation.

9.2 Medicaid reforms to improve program integrity

Program integrity activities are meant to ensure that federal and state taxpayer dollars are spent appropriately on delivering quality, necessary care and preventing fraud, waste, and abuse from taking place.[48] Program integrity initiatives will help to ensure that the Government is performing accurate enrollment verifications and minimizing fraud, waste, and abuse.

46 MACPAC, "Program integrity," 2018 (Accessed March 30, 2021)

47 CMS, "CMS Issues New Roadmap for States to Accelerate Adoption of Value-Based Care to Improve Quality of Care for Medicaid Beneficiaries," 2020

48 MACPAC, "Program integrity," 2018 (Accessed March 30, 2021)

In 2016, the U.S. Government Accountability Office (GAO) reported that MCOs in U.S. territories did not consistently report improper payments to providers billing to the system and that many MCOs faced conflicts of interest in finding and eliminating fraud.[49] In a report released in February 2021, GAO found that seven of the eight selected Puerto Rico procurements[50] did not include important steps to promote competition and mitigate the risk for fraud, waste, and abuse, underscoring the need for federal oversight.[51]

Typical fraud, waste, 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 identify inefficient or fraudulent activities in post-payment review, such as identification of "impossible" utilization (e.g., billing for over 24 hours of service in one day) or frequently repeated, high value procedures; and long-term policy or organizational transformation. Pursuant to federal requirements, ASES has established a contracting reform plan to improve procurement and contracting prices as well as combat fraudulent, wasteful, and abusive contracts. ASES should begin implementing fraud, waste, and abuse reduction programs, with a goal of achieving 3% cost savings from these programs by FY2025.

In addition, it is imperative for Medicaid programs to deploy robust enrollment verification to ensure that coverage is offered only to eligible individuals. In December 2020, the Office of the Inspector General at the U.S. Department of Health and Human Services (HHS-OIG) performed a Risk Assessment of Puerto Rico's Medicaid Program and identified the beneficiary eligibility process as a high-risk area. Specifically, the HHS-OIG noted weaknesses related to Puerto Rico's post-eligibility determination process for validating beneficiary eligibility. Outdated, missing, or inaccurate beneficiary eligibility information may limit the effectiveness of the eligibility validation process and increase the risk that ineligible applicants will be enrolled in the Puerto Rico Medicaid Program.[52] Full compliance with Medicaid Eligibility Quality Control (MEQC) requirements and establishment of an asset verification system that utilizes third-party data sources can strengthen enrollment verification.[53] The PRMP should finalize establishment of a robust enrollment verification program in FY2023, with a target of identifying a significant proportion of ineligible beneficiaries (estimated to be roughly 5% of total enrollees) by FY2025.

Puerto Rico has taken meaningful steps towards improving program integrity. These include the integration of ASES data with the MMIS. In FY2021, the Centers for Medicare & Medicaid (CMS) approved the certification of Phase 2 of Puerto Rico's MMIS. On November 1, 2022, the PRMP kicked off Phase 3 of the implementation (to be completed by January 2024), which will set up the financial module of the MMIS and develop the processes necessary to calculate provider payments. Nonetheless, in an audit performed by the HHS-OIG which was published in November 2022 the HHS-OIG found that Puerto Rico's MMIS and Eligibility & Enrollment (E&E) Systems Security Controls are generally effective, but some improvements are needed.[54] For MMIS, the PRMP has

49 GAO, "Medicaid and CHIP Increased Funding in U.S. Territories Merits Improved Program Integrity Efforts," 2016

50 According to the report, these eight procurements represent a non-generalizable sample of Puerto Rico Medicaid procurements that were in effect as of April 1, 2020. They represent approximately 97% of the total cost of Puerto Rico's Medicaid procurements in effect at that time

51 GAO, "Medicaid: CMS Needs to Implement Risk-Based Oversight of Puerto Rico's Procurement Process," 2021 (Accessed March 20, 2021)

52 HHS, "Risk Assessment of Puerto Rico Medicaid Program, A-02-20-01011," 2020

53 GAO, "Medicaid Eligibility: Accuracy of Determinations and Efforts to Recoup Federal Funds Due to Errors," 2020

54 HHS, "Puerto Rico MMIS and E&E Systems Security Controls Were Generally Effective, but Some Improvements Are Needed, A-18-20-08005," 2022

submitted an RFP for approval by CMS to develop a provider credentialing model in the next phase of the MMIS implementation. For E&E, an information system to determine eligibility of beneficiaries was certified on February 14, 2023, though additional functionality is required (estimated to take 12 additional months of development). Other steps taken in prior years towards promoting program integrity can be found in the 2022 Fiscal Plan.

While Puerto Rico has made progress towards improving its Medicaid Program integrity, further improvement must occur. Limited recoupments from MCO investigations imply that more can be done to mitigate fraud, waste, and abuse. Furthermore, practices in other states support the development of additional program integrity tools in parallel to building MMIS capabilities, such as leveraging analytics vendors on a contingent basis to identify savings related to improper payments. Finally, in a report to Congress, ASES stated they face challenges with reporting data since its data is limited to the provider level and, therefore, the eligibility systems and data sets cannot track fraudulent activity performed by beneficiaries. Issues with enrollment verification can be improved by instituting an Asset Verification System and partnering with key out-migration states to conduct enrollment checks. As of February 2023, the PRMP is still in the process of identifying an Asset Verification System. Pursuant to the 2020 Further Consolidated Appropriations Act, Puerto Rico must continue to make progress to meet CMS's Payment Error Rate Measurement (PERM) and MEQC requirements. As evidence of this progress, in June 2021 CMS approved Puerto Rico's reports submitted on PERM and MEQC compliance. Puerto Rico is currently conducting the pilot program where they are reviewing a sample of claims paid during FY2023 while the full PERM measurement will occur on a sample of claims paid during FY2026. In addition, per information provided by the PRMP, the MEQC review process will be coordinated with the PERM cycle for Puerto Rico, with the MEQC review beginning the year following the end of the PERM review year.

To further support program integrity, ASES should hire a chief financial officer to accurately and efficiently track cash flow and financial planning, analyze the Medicaid Program's financial health, and develop robust budget to actuals reports to identify and prevent potential cost overruns.

9.3 Medicaid reforms to improve quality relative to cost

Pursuing value-based improvement initiatives with demonstrated success are required to help the Commonwealth "bend the curve" on health care inflation without jeopardizing outcomes. There are several potential sources of value in Puerto Rico's health care system. These sources of value are opportunities to reduce wasteful health care spending and increase efficiency while improving quality of care and health outcomes. By implementing value-based reforms beginning in FY2023, ASES should aim to achieve 3% in annual cost savings from these reforms by FY2025.

Examples of best practice for value-based payment models include implementing a Diagnosis Related Group (DRG)-based payment model where providers are reimbursed a fixed amount to fully treat a patient with a given medical condition. These models help control medical costs by incentivizing providers to deliver cost-effective care without sacrificing quality, while also improving the effectiveness of Medicaid service delivery by standardizing the measurement of patient acuity across providers and reducing the administrative burden associated with reimbursement. Another potential source of value lies in reducing emergency room (ER) visits. Successfully shifting unnecessary ER visits to lower-cost settings, such as primary care offices or urgent care, could save tens of millions of dollars annually.

New approaches that emphasize care coordination and align incentives between patients, providers, and payors can produce improvements in health outcomes while lowering costs. Direct pay-for-performance quality bonuses provide special incentives to care for members with high-cost needs like

behavioral health. Care coordination models like patient-centered medical homes have been quite effective at improving outcomes for members with chronic conditions by empowering primary care providers to work closely with patients and manage treatment plans across multiple care providers.[55] Given the preponderance of chronic conditions and potential rising behavioral and mental health needs in the wake of recent natural disasters and the pandemic, better access and coordination of care for multiple comorbidities across populations will become increasingly important.[56]

An additional opportunity exists through reduction of both inpatient length of stay and hospital readmissions. Puerto Rico's inpatient length of stay was 1.5 times the U.S. average in 2014,[57] and 35 out of 41 Puerto Rico hospitals show readmission rates above the U.S. average of 15.3%.[58] Hospital readmissions occur when patients are discharged from hospitals but must return for additional treatment for the same condition. This can occur when patients are not adequately prepared to return home due to lack of education, lack of access to follow-up care, or challenges with prescription drugs, among other factors. MCOs can incentivize both reduced hospital readmissions and shorter length of stay through improved discharge planning, as well as by increasing weekend staffing to manage discharges. Similar value-based programs piloted in mainland states have typically saved 2-10% of costs. In Puerto Rico, value-based reforms may result in lower-than-average savings due to the breadth of other simultaneous savings measures being implemented for Vital. Nevertheless, these structural changes to reimbursement and care delivery present the most viable path to long-term sustainability for the program.

EXHIBIT 33: REQUIRED IMPLEMENTATION ACTIONS FOR MEDICAID REFORM

	Required implementation actions	Deadline
To be Completed	Change the current CMS-64 Claiming Methodology to properly account for Rebates	January 2023
	Complete assessment for the need for additional third-party vendors to develop an Asset Verification System and analytics for fraud, waste, and abuse reduction and enrollment verification	March 2023
	Issue timeline and implementation plan for the DRG-based payment model	June 2023
	ASES must hire a chief financial officer	June 2023
	PRMP must complete unwinding of COVID-19 continuous enrollment	June 2024
	Launch DRG-based payment model	October 2024
	Inform recent developments on PERM and MEQC requirements	Monthly
	Provide monthly updates on PRMMIS Phase III, E&E and HIT	Monthly
	Provide monthly report updates on DRG implementation	Monthly
	PRMP must complete its analysis of CMS-64 financial management reports segregated by Medicaid and CHIP	Monthly
	Provide monthly reporting and quarterly progress updates on Fraud Waste and Abuse reduction, KPIs and activity outcomes. This information must include MMIS-related analytics, Medicaid Fraud Control Unit activities (convictions, funds recaptured, and recommendations for program improvement/MCO accountability) and all Medicaid Office and ASES programmatic and vendor initiatives	Monthly/Quarterly

55 Patient-Centered Primary Care Collaborative, "Benefits of Implementing the Primary Care Medical Home: A Review of Cost & Quality Results," 2012

56 Thomas Huelskoetter (Center for American Progress), "Hurricane Katrina's Health Care Legacy," 2015

57 Estimates exclude Platino beneficiaries; see JEL Consulting, analysis of ASES data and public use microdata from the Puerto Rico Community Survey (as of 2014), 2016

58 V2A Consulting, "The disparity in hospital quality metrics between Puerto Rico and the U.S.," 2019

10 University of Puerto Rico

10.1 Current state and vision

The University of Puerto Rico (UPR), founded in 1903, is Puerto Rico's largest and main university system. Its mission is to serve the people of Puerto Rico, contribute to the development and enjoyment of the fundamental values of Puerto Rican culture, and uphold the ideals of a democratic society. UPR has a history of academic excellence and is an important center of research. UPR plays a critical role in providing avenues for social and economic advancement, with Pell Grants covering about 70% of total undergraduate tuition and fees.[59]

The central Government provides a range of appropriations, including to the UPR. In FY2022, UPR was 52% subsidized (roughly $466 million in annual appropriations) by state and local funds, compared to an average 21% state and local subsidization for U.S. public universities.[60] In FY2018, UPR's undergraduate tuition was less than one-third of the U.S. average for public universities, even after adjusting for per-capita income, and more than 40% below the average tuition of private universities in Puerto Rico.[61]

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

However, UPR has suffered significant setbacks in its academic reputation and standing due to probationary status and in some cases losses of accreditations particularly those in the medical science area. These accreditation bodies repeatedly highlighted a lack of financial planning, identifying and prioritizing needs to effectively appropriate available resources, and having a well-defined decision-making process as potential impacting the system's performance, including student enrollment, student academic performance, research funding and output, infrastructure, faculty composition and labor relations.

The university must take a holistic and proactive approach to address the challenges it faces and invest in strategic initiatives to improve its academic reputation and standing with the understanding that responding to the workforce needs and adapting to technological change, globalization, and important demographic changes is critical to their role in supporting Puerto Rico's economy. The UPR, as a stakeholder, should actively participate and contribute to the activities related to the 21st Century Fund currently led by the DDEC.

To bring UPR closer to U.S. mainland public university tuition and administrative cost benchmarks, UPR appropriations were reduced beginning in 2017 through a collaborative process with the Government to identify reasonable and sustainable efficiency measures, while maintaining (and in many cases improving) the performance of the system. Previous Fiscal Plans provided for Commonwealth appropriations to UPR totaling approximately $442 million by FY2023 (growing

59 Data from UPR FY2021 Certified Fiscal Plan

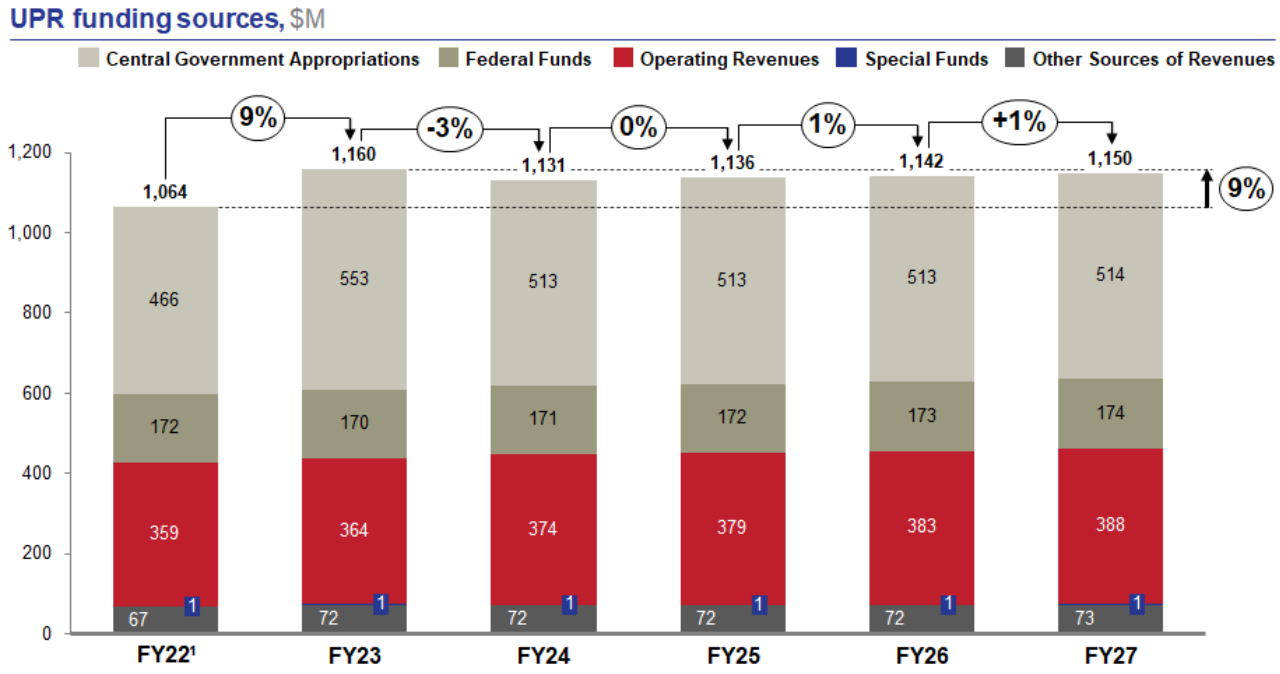
60 Data gathered from UPR, IPEDs 2020, and the College Board

61 Represents the average reported in IPEDS across the Ana G. Mendez University system, Inter-American University, Sacred Heart University, and Polytechnic University for SY20-21

with inflation starting FY2024). However, reflecting the approval of Act 53-2021, the 2022 Fiscal Plan increased the UPR appropriation to a constant $500 million annually, starting in FY2023 through FY2027.

While these prudent measures are necessary given the financial pressures on both UPR and the Commonwealth, there has been little consensus on a longer-term economic model that will allow UPR to embrace its role at the center of Puerto Rico's economic growth agenda. The Oversight Board will redouble its efforts to engage with a wide range of UPR stakeholders, along with higher education and economic development leaders in pursuit of options for how to move forward. Through open and transparent consultation, the Oversight Board will strive for a common understanding of the facts and challenges, and ideally agreement on a vision and plan that can be implemented to anchor the UPR in its vital role to the economic prosperity of the Island.

EXHIBIT 34: UPR REVENUE FROM ALL SOURCES



¹ Excludes one-time federal funds ($447 million)

Source: Data related to FY24 through FY27 periods were projected using UPR 2021 Certified Fiscal Plan updated with information for FY23 Certified Budget

10.2 Distribute needs-based scholarship fund for UPR students

The UPR 2021 Fiscal Plan included a measure to increase tuition in order to bring UPR closer to other public U.S. universities in terms of own-source revenues and ensuring that those who can afford university pay for attending. At the same time, the Commonwealth created a needs-based UPR scholarship fund with the intent of ensuring that tuition-related measures do not impact the ability of students with demonstrated financial-need to afford a UPR education.

The 2022 Fiscal Plan originally allocated funds to establish an independently managed needs-based scholarship fund to benefit the students of the university system. However, after an extensive and unfruitful Request for Proposal process directed by AAFAF to select an entity to provide

administrative and trust services to the scholarship endowment trust fund, the Government approved Act 4- 2022, which provided UPR the responsibility to administer the trust fund. Act No. 4 of January 18, 2022, also known as "Scholarship Fund to Mitigate the Increase in Tuition by the Fiscal Plan", was approved to replace Act 148-2020 with the purpose of creating an endowment fund for UPR to finance the scholarship program, which will allow for the disbursement of $10 million annually to eligible undergraduate and graduate students. The Commonwealth therefore contributed $51 million in FY2023 to be managed by UPR, for a total of approximately $214 million in contributions.

The fund was expected to award the annual $10 million for the first scholarships in the first half of FY2023. However, as of February 2023, UPR has reported that 75% of the $10 million has been disbursed to students. The university did not include details about how the scholarship fund was distributed or how student needs were identified. The Government of Puerto Rico and UPR must complete the disbursement of the scholarship fund before the end of FY2023 to guarantee that students who cannot otherwise afford tuition in Puerto Rico are able to through this program. In addition, transparency is required to ensure that funds are distributed among those that need them the most.

10.3 Increase of salary of all Medical Residents

The 2023 Fiscal Plan continues prior investments to increase the salaries of all Medical Residents who are part of the UPR residency programs. It includes an allocation of roughly $2.5 million annually starting in FY2023 to cover a 20% salary increase for the students whose salaries have not been revised since 2003. The increase is intended to enhance the retention of students on the Island to provide much-needed health related services. In addition, $500,000 has been allocated to fund the required accreditation fees of the medical and dental programs of the Medical Science Campus.

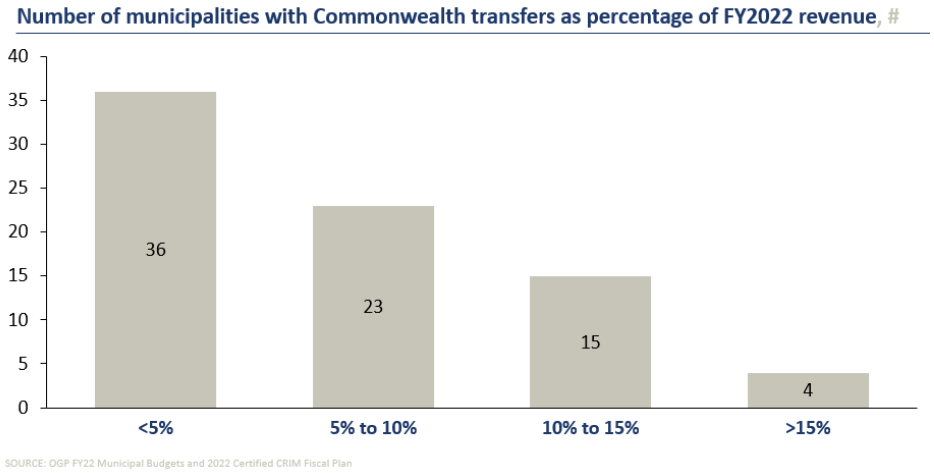
11 Municipal services reform

11.1 Current state of municipal services

Like the central government, in recent years, Puerto Rico's 78 municipalities have confronted significant fiscal and economic challenges. To respond to this fiscal reality and to incentivize a new operating model between the central and municipal governments, starting in 2015, the Commonwealth government proposed the reduction of certain Commonwealth financial transfers to the municipalities. The Oversight Board subsequently adopted the Central Government's proposal to reduce these financial transfers in the certified fiscal plans.

Commonwealth transfers are a component of the Equalization Fund, which also includes certain electronic lottery proceeds and the Act 53 Waste Fund. As shown in *Exhibit 35*, a significant number of municipalities continue to rely on these commonwealth transfers, including 4 municipalities that rely on the transfers for more than 15 percent of their operating budgets. Municipalities with higher reliance percentages tend to be smaller and are less resilient to reductions in central government funding.

EXHIBIT 35: REDUCTION IN MUNICIPAL APPROPRIATIONS UNDER STATUS QUO SCENARIO



It is well known, however, that Puerto Rico's municipalities are important providers of critical services to all citizens. Municipalities provide services including support for: public works, social affairs, education, recreation and culture, health, environmental protection, economic development and public order and safety. In recognition of the important value provided by municipalities, over the past 3 years, the Oversight Board authorized and funded the establishment of multiple new appropriations and investments to offset the decline in intergovernmental transfers. This incremental funding includes, among other funds the:

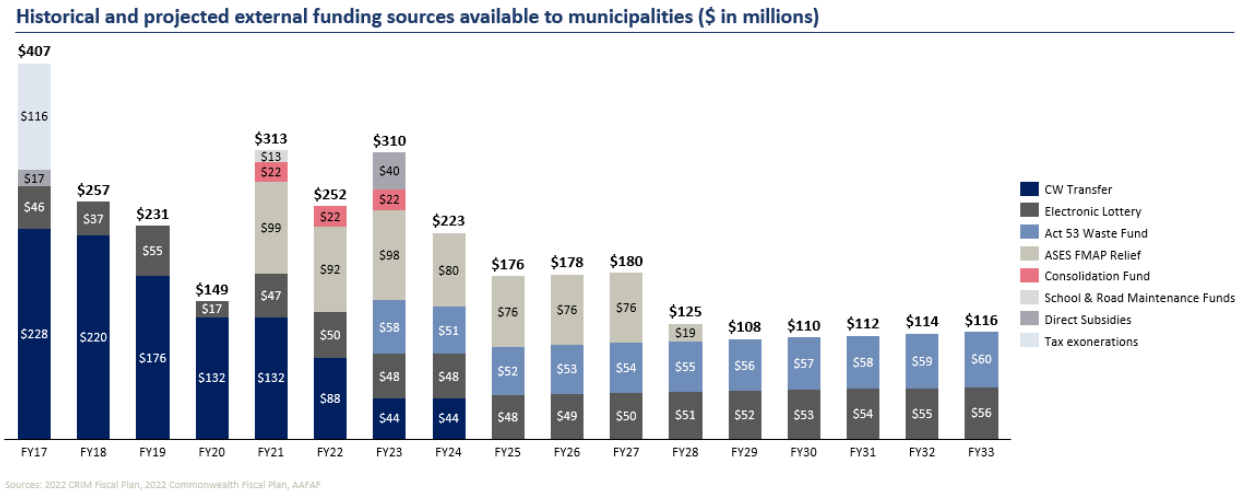
- **Act 53 Waste Fund** – The government enacted an "Extraordinary Fund to Address the Collection and Disposal of Residuals, Wastes, and to Implement Recycling Programs in the Municipalities" (Act 53 Waste Fund). This was first provided in the 2021 Fiscal Plan.[62] This fund helps to pay the sanitation and waste collection costs at the municipalities, partially offsetting one of the largest recurring expenses municipalities must pay.
- **Federal Funds Medicaid offset** – Currently, CRIM is responsible for remitting payments on behalf of the municipalities to fund the Puerto Rico Health Insurance Administration (ASES) in accordance with Act 72-1993 and Act 29-2019. This fiscal plan includes temporary relief for municipal ASES contributions to reflect the additional funds made available by the federal government using a Federal Municipal Adjustment Percentage (FMAP) calculation. This amount averages approximately $66 million per year for at least the next 5 fiscal years, for a total of $328 million. The Municipalities must, however, continue to pay the remaining share of payments due to ASES in accordance with Act 72-1993.
- **Municipal consolidation fund** – To further incentivize service consolidation, starting with the 2020 Fiscal Plan, incremental funds had been set aside to assist the municipalities in achieving fiscal sustainability. Consolidating services was intended to facilitate municipalities significantly reducing costs and generating additional revenues through economic development and other potential initiatives. This fund totaled $66 million through FY2023 and has been unutilized to date. As initially structured, these funds were to be accessible to municipalities upon the achievement of certain milestones designed to promote the consolidation and optimized administration of the municipalities.

62 See Article 401 of Act 53-2021

- **Municipal one-time economic support** – The certified Commonwealth FY2023 General Fund Budget included $40 million to provide a one-time economic support to municipalities for rising costs and economic uncertainty due to inflationary pressures. Such funds were allocated based on an equitable distribution methodology developed by CRIM and approved by the Oversight Board. The distribution methodology considered factors including budget per capita and assessed property value per capita.
- **Emergency Reserve** – In September 2022, the Office of Management and Budget (OGP) requested authorization for emergency disbursements of up to $250,000 per municipality ($19.5 million total) from the Commonwealth's Emergency Reserve to support recovery efforts related to the impacts of Hurricane Fiona. Given that the Emergency Reserve is intended for extraordinary events such as natural disasters that are generally outside of human control and unpreventable, the Oversight Board approved this emergency funding request. Access to the Emergency Reserve was granted for a period of fifteen (15) days, commencing on September 16, 2022.
- **School and road maintenance** – For school maintenance, the 2020 Fiscal Plan made available $2.5 million for FY2021 which was extended to FY2022. Within this incentive fund, municipalities were to be reimbursed for maintenance costs associated with their Public Building Authority (AEP for its Spanish acronym) managed schools. For road maintenance, the 2020 Fiscal Plan made available $10 million for FY2021 which was extended to FY2022. Within this incentive fund, municipalities were to be reimbursed for maintenance costs associated with their secondary and tertiary roads through coordination with the Department of Transportation and Public Works (DTOP, for its Spanish acronym).

As illustrated in *Exhibit 36* below, while the Commonwealth transfer to municipalities has declined since 2017, these other new funding sources have provided a significant offset to promote the fiscal stability of municipalities.

EXHIBIT 36: HISTORICAL AND PROJECTED EXTERNAL FUNDING SOURCES PROVIDED TO MUNICIPALITIES

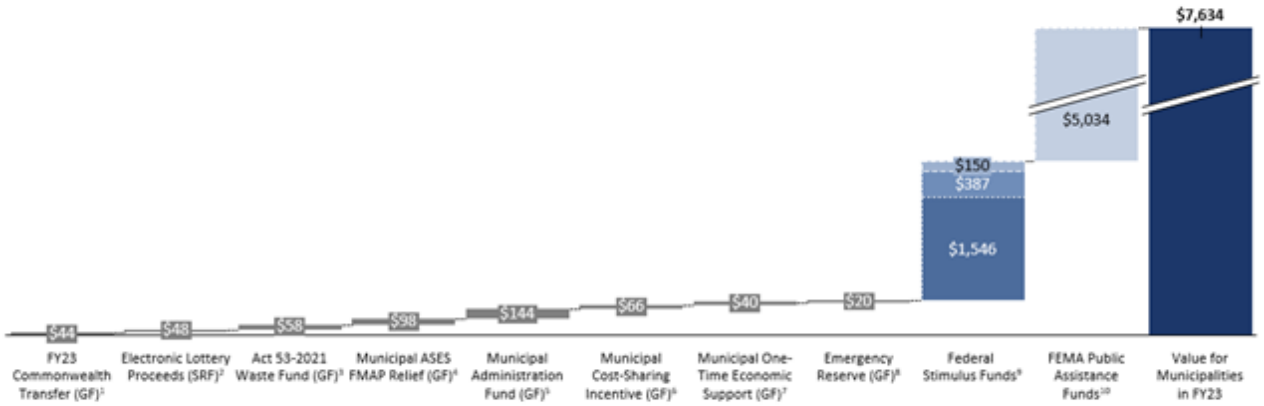


Beyond those sources of alternate funding, municipalities are also in possession of significant federal funds to supplement their budgets in the near term. Taken together, as shown in *Exhibit* 37, the funding available to municipalities in the near-term is substantial. This funding includes:

- **State Fiscal Recovery Funds** – The Federal government awarded Puerto Rico $2.47 billion in State Fiscal Recovery Funds through the American Rescue Plan Act (ARPA). From that funding, the Governor allocated $152 million to municipalities to facilitate a Municipal Strengthening Program. As of January 2023, $102 million had been disbursed from the $152 million program.
- **Direct fiscal assistance** – ARPA also transferred significant funding directly to state and local governments across the country. Puerto Rico's municipalities received $1.5 billion in direct funding via State and Local Fiscal Recovery Funds (SLFRF). Such funding was made available to assist municipalities in their response to the COVID-19 heath emergency and its economic impacts. Uses of funds include providing premium pay to essential workers, providing essential government services, and making necessary investments in water, sewer, or broadband infrastructure.
- **Other COVID-19 emergency aid** – As part of the CARES Act, Puerto Rico's municipalities received an additional $387 million via the Coronavirus Relief Fund (CRF). Such allocations were provided to help fund the unanticipated costs of battling the COVID-19 pandemic. Uses of funds include (i) testing, contact tracing, isolation and treatment, (ii), reactivating the economy and protecting jobs, and (iii) government service continuity.
- **Access to the State Revolving Fund** – On November 18, 2020, the Government of Puerto Rico established a $750 million Revolving Fund to be managed by COR3 through Joint Resolution 85-2020 to provide liquidity and short-term financing in the form of loan advances to central government agencies, public corporations, instrumentalities, and municipalities of the Commonwealth of Puerto Rico, with the goal of supporting and expediting reconstruction of the Island for damages incurred as a result of Hurricanes Irma and Maria and the January 2020 Earthquakes. The Revolving Fund is available to agencies and municipalities that are expecting to carry out FEMA Public Assistance Permanent Work and Hazard Mitigation Grant Programs and expect to be reimbursed by FEMA for such projects. Advances can cover up to 90% of the total project cost for Public Assistance projects, and up to 75% of the total project cost for Hazard Mitigation Grant projects. These funds supplement the advanced funding eligibility Puerto Rico's municipalities also have access to.
- **FEMA disaster recovery funding** – FEMA's Public Assistance (PA) program provides grants to municipalities to enable them to quickly respond to and recover from major disasters. Under this program and in support of recovering from a variety of recent natural disasters – including Hurricanes Maria, Irma, and Fiona, along with an earthquake and Covid-19 – municipalities have been allocated $3.8 billion from the PA program, with an additional $1.2 billion under review for approval in the project formulation stage. Combined, this results in over $5 billion in additional funding for municipalities.

EXHIBIT 37: HISTORICAL AND PROJECTED EXTERNAL FUNDING SOURCES PROVIDED TO MUNICIPALITIES

External funding sources available to municipalities, inclusive of Federal Stimulus Funds and FEMA Funds ($ in millions)



Note: Due to rounding, numbers presented may not add up precisely to the totals provided

1. The CW Transfer of $44m in FY23 is directly appropriated to municipalities through the Municipal Equalization Fund.
2. The Equalization Fund includes 35% of the net annual income from the Additional Lottery System ("Electronic Lottery") estimated at $48m per the FY22 OMM Fiscal Plan.
3. The Act 53-2021 Extraordinary Waste Fund was established in 2021, a sub-fund of the Equalization Fund to receive an amount equal to 42% of the prior year 1.03% State Redemption Fund tax; proceeds must be used for waste disposal and recycling programs.
4. ASES savings of $98m represents funding relief provided to municipalities from federal changes to the FMAP percentage, which reduces the statutory, baseline contribution to ASES required under Act 72-1993.
5. The Municipal Administration Fund (FAM) collects 0.5% of the SUT which is distributed into three funds: (1) 0.2% to the Municipal Development Fund; (2) 0.2% to the Municipal Redemption Fund; and (3) 0.1% to the Municipal Improvement Fund (referred to as the FMM).
6. Services Consolidation Cost-Sharing includes annual $22m appropriations from the Commonwealth for the prior three fiscal years, for a total of $66m.
7. One-time economic support from the Commonwealth to municipalities to offset the impacts of inflation and other macroeconomic factors contributing to rising costs.
8. The Oversight Board authorized an emergency disbursement of up to $250,000 for each of the 78 municipalities ($19.5m total) from the Commonwealth's Emergency Reserve to municipalities to support recovery efforts related to the effects of Hurricane Fiona
9. Federal Funding includes $2.1 billion of stimulus segmented into three tranches of funds: $1,546m in Federal Stimulus Funds from the ARP Act awarded directly to municipalities in Puerto Rico; $387m from CARES Act (see Appendix 2 in the OMM fiscal plan for a detailed breakdown of both amounts); and $150m allocated in FY23 from the State Fiscal Recovery Fund. State Fiscal Recovery Fund program details can be found here: https://recovery.pr.gov/documents/SLFRF_State_Programs_Awards_and_Disbursements.pdf
10. Represents funds that have been allocated, along with funds in the project formulation stage from the FEMA Public Assistance Program. Includes funding to support recovery from Hurricanes Maria, Irma, and Fiona, along with an earthquake and Covid-19. Values as of March 22, 2023.

Sources: OMM Fiscal Plan, Commonwealth Fiscal Plan, AAFAF, COR3 Transparency Portal

As illustrated in *Exhibit 37*, municipalities have access to approximately $7.6 billion in external funding sources, including over $500 million from a combination of new Commonwealth appropriations and investments, along with over $7 billion in federal funding.

For additional context on Puerto Rico's municipalities, please refer to previous Fiscal Plans.

11.2 Vision and reform needed to transform municipal services

To date, despite multiple efforts designed to strengthen Puerto Rico's municipal structure, achieve fiscal discipline, implement critical reforms and boost economic growth, desired progress to achieve improved outcomes has not been achieved. Municipalities must work with the Executive branch to analyze financial needs for each individual municipality and focus on the necessary enhancements in municipal shared services and other municipal and government initiatives, including: inventory tax reform, permitting reform, improvement in tax filing processes, and restructuring of municipal debt, in addition to initiatives proposed from mayors on broader financial reforms. Starting in FY2024, once established transformational measures and milestones related to these initiatives are achieved, additional funding from the Commonwealth may be made available to municipalities as part of ongoing collaboration to improve fiscal sustainability. The Oversight Board, the Commonwealth, and the municipalities must use the FY2024 budget certification process to agree on specific financial and operational milestones, along with the corresponding conditional funding amounts required for disbursement.

Commonwealth Funding Analysis

In addition to the achievement of financial and operational milestones, before any incremental funding to municipalities above the fiscal plan amount is appropriated, OGP must provide a detailed analysis with supporting documentation, to be certified by AAFAF, to the Oversight Board. The analysis must provide detailed documentation and sufficient justification, by municipality, supporting the individual dollar amount each municipality requires in FY2024 from the Commonwealth to continue providing essential services. The analysis must incorporate and reflect all of the other sources of funding currently provided by the Commonwealth and Federal Government to each municipality, as described in this fiscal plan. These amounts include remaining FY2024 equalization fund transfers, Act 53 waste fund transfer, federal funds, Medicaid offsets, one time Commonwealth support, emergency reserve funding, school and road maintenance fund transfers, as well as state fiscal recovery funds, direct federal fiscal assistance, and state revolving funding, among other funding sources. This analysis, along with the aforementioned financial and operational milestones, will be used to evaluate any potential incremental funding that may be appropriated as part of the FY2024 budgeting process. Incremental funding will not be appropriated in the FY2024 budget unless sufficient analysis and supporting documentation is provided to the Oversight Board. To align with the timeline of this process, OGP must deliver this analysis and supporting documentation no later than May 1, 2023.

Inventory Tax

A significant portion of the personal property tax is made up of the tax on businesses' inventories. Inventory represents approximately 53% of the total billable personal property taxes. There has been significant pressure from local business groups to repeal this tax as they claim it incentivizes companies to maintain suboptimal levels of inventory which leads to shortages of consumer products on the Island and higher prices. In addition, this is a self-reported tax, which is expensive to administer, and creates a distortionary taxing environment. In 36 U.S. states, inventory taxes have been fully eliminated; however, any efforts by the Government to eliminate the inventory tax in Puerto Rico must be budget-neutral to both the Commonwealth and the Municipalities. There are currently active efforts by the Governor, the Legislature, and CRIM to propose inventory tax reforms while the Oversight Board continues to work with these stakeholders and the private sector to find an optimal path forward.

Annual property tax collections in Puerto Rico average approximately $1.2 billion, split between real (about 60%) and personal (about 40%), with the inventory tax accounting for $235 million (52%) of the total $450 million of personal property[63]. Aggregate collections are concentrated among the large municipalities (i.e., San Juan accounts for 23% of personal property taxes), though the impact varies greatly when analyzed as a percentage of general fund revenues at the individual municipal level. When measured as a percentage of general fund revenues, though, the reliance on this revenue source is more evenly distributed across municipalities as shown in *Exhibit 38*.

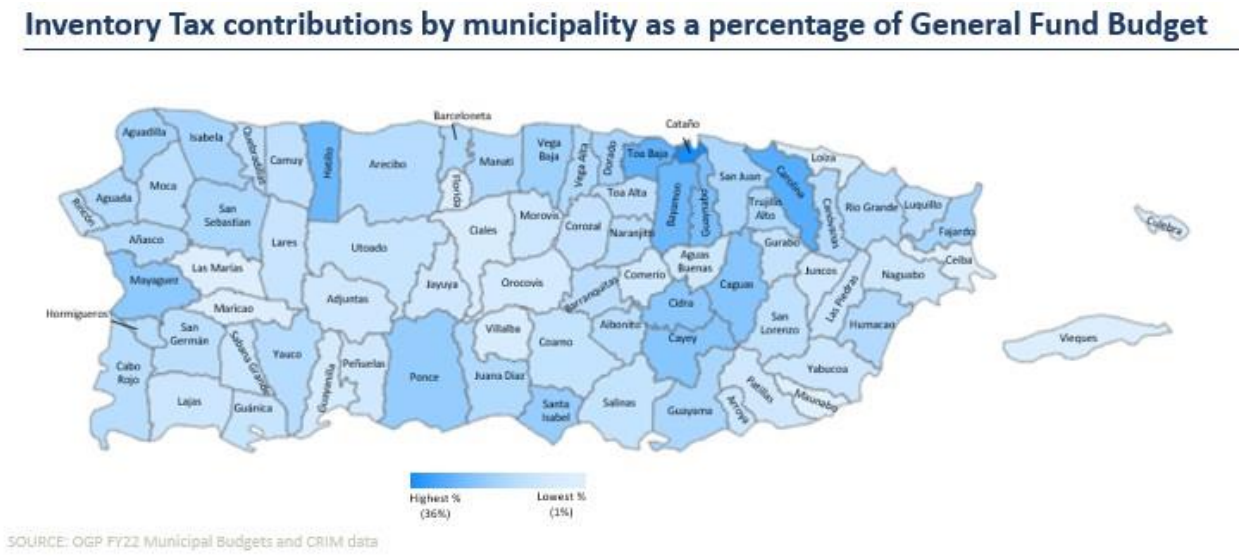
A recent inventory tax study commissioned by the Legislature[64] concluded that inventory tax reform should be pursued in conjunction with comprehensive structural real and personal property tax reforms, together with overall municipal financial reforms. Specific milestones for CRIM and the municipalities to complete as part of comprehensive tax reform are required measures in the 2022 CRIM Fiscal Plan (*Exhibit 45:* Structural Assessment of Real Property Tax Reform).

63 Inventory values as reported by CRIM for FY2021 and taxed at the average balance of acquisition cost.

64 Study conducted pursuant to Senate Resolution 65, published in November 2021.

The challenge with repealing or reforming inventory taxes is the disproportionate effect any reforms may have, including for the 13 municipalities where more than 10% of their general fund budget may be impacted or on the companies currently paying little to no inventory tax due to the significant exemptions and exonerations available. For example, 5 companies which are exempt from the inventory tax hold approximately 33% of the value of all inventory on the island.

EXHIBIT 38: INVENTORY TAX CONTRIBUTIONS BY MUNICIPALITY, AS % OF GENERAL FUND BUDGET



Real Property Tax Reform

The real property tax system in Puerto Rico is a significant lever that can increase municipal revenues. However, Puerto Rico has underperformed relative to its potential and needs a structural overhaul to modernize the system into a more fair and equitable system built on transparency to improve the efficiency, effectiveness, and, ultimately, collection levels. Continuing property tax reform efforts will enable municipalities to generate additional revenues, which could be used to provide additional municipal services and stimulate economic development.

The implementation of guiding principles - many of which require changes to existing legislation - must consider reducing the number and level of exemptions and exonerations, converting to a market value basis for property valuation, and imposing tax rates that reflect the revenue needs of the municipality. This further reinforces the need for municipalities to adopt financial reforms to determine the necessary revenue levels from the tax base required to adequately support municipal operations and limit outside reliance on external funding sources.

For further details on property tax reform, including specific milestones to be achieved, please refer to the 2022 CRIM Fiscal Plan, Chapter 3: Real Property, Section 3.5 Real Property Tax Reform and *Exhibit 45*: Structural Assessment of Real Property Tax Reform.

Permitting Reform

Territorial plans are master planning documents which provide a roadmap for current and future economic development in an area by assigning various acceptable activities for a given parcel of land, such as residential or commercial activities. Out of the 78 municipalities in Puerto Rico, 51 have outdated territorial plans. Another 14 municipalities are working with PBA to develop their first ever territorial plans. The permitting process is significantly delayed when territorial plans are not up to date. For municipalities without an updated Territorial Plan, it not only causes significant delays and challenges in processing, it also has hindered hazard mitigation with FEMA following natural disasters.

Updating these Territorial Plans will allow municipalities to facilitate more effective permitting processes, thus stimulating their local economies. Successful permitting reforms will allow Puerto Rico to better compete with other jurisdictions by reducing the time, number of procedures, and cost required to obtain permits.

The 2023 Fiscal Plan includes milestones related to required implementation actions to create and update municipal Territorial Plans. By June 2023, municipalities with expired plans must develop a budget and schedule to update such. Next steps for FY2024 would involve activities to update expired Territorial Plans based on defined budgets and schedules. Updating such plans involves a three-phase approach which includes (i) creating a statement of objectives, work plan, memorandum, and standing-up a program, (ii) reporting progress, and (iii) establishing a final plan, including a memorandum, relevant regulations, and GeoData.

In should be noted that municipalities have cited a lack of resources as a main obstacle to updating their plans. In addition, PRPB has faced staffing shortages in the past which have led to long delays in approving plans. However, the Hazard Mitigation Grant from FEMA provides funding to hire 11 additional planners to help the municipalities in developing and updating their Territorial Plans. In addition, PRPB received funding from FEMA to develop Territorial Plans for 14 municipalities which have never had one.

For further detail on permitting, please see the Ease of Doing Business reform section in Volume 1. In addition to updating the Territorial Plans, other areas of permitting reform are also required. As most municipalities have limited responsibility in permitting, the bulk of the reform initiatives must be carried out by the OGPe and the Puerto Rico Planning Board. These initiatives are summarized at a high level in Volume 1 and touch on the need to finalize the Joint Regulation governing the permitting processes, redistribute responsibilities between OGPe and other agencies and Autonomous Municipalities to help streamline and reduce constraints in the permitting process, and update the Single Business Portal to facilitate a more efficient process.

Tax Filing Processes

Municipalities have an opportunity to simplify, streamline, and accelerate the tax filing process by removing administrative burdens in filing returns for the Municipal License Tax, Municipal Sales & Use Tax (SUT), and property taxes. Currently, municipalities' processes for filing taxes and making payments are both time-consuming and complex. Some municipalities require taxpayers to file tax returns in-person, representing a significant barrier for taxpayers to make their required payments. However, the 2023 Fiscal Plan includes milestones related to the digitization and centralization of the tax filing process, including the implementation of the Internal Revenue Unified System (SURI, by its Spanish acronym) for Municipal Sales & Use Tax payments, which must be completed by July 31, 2023.

This Fiscal Plan also recommends the creation of a tax administration reform working group that includes CRIM and the municipalities. The development of an efficient process will not only make the process easier for taxpayers but will also lead to increased tax revenue collections and overall cost savings for all stakeholders.

Restructuring of Municipal Debt

Restructuring outstanding municipal debt could yield significant benefits, including debt service savings along with consolidation of debts. Such debt service savings could result in additional funding becoming available for important expenditures such as essential services. Additionally, improving municipalities' balance sheets will foster stronger access to financial markets for future debt financing. Municipalities should explore restructuring opportunities for all outstanding debt, including debt with DRA GDB and commercial banks. For DRA GDB, settling debts with municipalities would help effectuate its broader restructuring efforts.

Accordingly, municipalities should collaborate with AAFAF in FY2024 to complete an assessment of outstanding debt, along with opportunities to re-amortize or restructure said debt. Key findings, including opportunities and risks, should be detailed in a report that is submitted to the Oversight Board.

PayGo Compliance

Any changes to municipal funding or taxes must not impact municipalities' required PayGo payments. Municipalities are responsible for budgeting and paying their annual PayGo fee invoiced as determined by ERS. Therefore, per this Fiscal Plan and the CRIM Fiscal Plan, each municipality must pay newly accruing PayGo obligations immediately as they come due.

11.3 Decentralization

A new decentralized operating model for certain programs currently provided to municipalities by the Commonwealth could improve the delivery of services. Such a model has the potential to dramatically increase capacity to respond to a crisis and improve service delivery at a local level.

Most municipalities do not (individually) have the administrative or financial capacity to operate programs currently provided by the Commonwealth. Many also lack the economies of scale necessary to be efficient in operating such programs. However, a consolidated municipal service structure could enable the delegation of certain Commonwealth responsibilities to local governments. Such a model could yield municipal and Commonwealth savings, and a portion of those savings could be reinvested back into the municipalities where savings are realized. In addition, a more integrated government structure could help implement locally based economic development strategies, which are more viable at a regional level than on an individual municipality basis. On the revenue side, service consolidation could further enhance the coordination of property tax collection by standardizing and automating processes and integrating data and information systems.

While decentralization has been studied and piloted in prior years, it has resulted in little (if any) meaningful change to date. As such, any efforts towards decentralization of services will require the Commonwealth to collaborate with municipalities to conduct additional research, analysis, and trials. Initial next steps may include the development of additional pilot programs to validate an approach, along with planning for a wider rollout of decentralized services.

11.4 Municipal Consolidation Fund

Municipalities have exhibited a lack of progress on consolidation initiatives, including leaving the $66 million currently available under the Municipal Consolidation Fund completely unutilized. To facilitate improved consolidation and implementation of administrative efficiencies at the municipal level, the 2023 Fiscal Plan proposes that the Office of Municipal Management (OMM) of OMB lead the efforts for the promotion and creation of inter-municipal consortia or alliances for the integration of administrative services. In that role, OMM will work with the municipalities to propose amendments to the Oversight Board's existing Municipal Service Consolidation Fund guidelines and discuss and develop implementation plans with the municipalities pertaining to the creation of inter-municipal consortia. OMB's centralized leadership and expertise in creating fiscal solutions should help accelerate the administrative and back-office services integration that the Oversight Board has sought over the last fiscal years. To further these efforts, the 2023 Fiscal Plan contemplates OMM will have access to the $66 million of prior funding for the Municipal Service Consolidation Fund. This should allow OMM to accomplish these administrative efficiency goals quickly and effectively, subject to the approval of new guidelines. However, given the overall lack of progress in utilizing the currently available $66 million, the originally planned additional $22 million annual allocations for FY2024 and FY2025, will no longer be available to municipalities for consolidation purposes.

12 Tax System Structure

12.1 Context and Future State

The Oversight Board has long advocated for a comprehensive tax reform that can contribute to Puerto Rico's competitiveness and economic growth. At the same time, any potential reform must be fiscally responsible, which is why the Oversight Board has also required that reform proposals be revenue neutral. The Oversight Board, Government, and Legislature have not yet been able to agree on far-reaching proposals that meet these criteria. Nevertheless, the Oversight Board is committed to pursuing creative solutions that can improve the economy and the fairness of the tax climate for individuals and increase business competitiveness while also maintaining fiscal stability.

To date, Puerto Rico's government has taken numerous steps to improve aspects of Puerto Rico's tax system. This includes everything from changing information reporting requirements and improving collections to organizing tax information and forms, including digitization of certain processes. As noted in prior Certified Fiscal Plans, significant additional effort, however, remains to improve Puerto Rico's tax system. This is because Puerto Rico's current tax system has historically suffered from structural complexity, instability, internal inconsistency, inefficient administration, and inadequate enforcement. There have been at least 11 major revisions to Puerto Rico's tax code since 1994, including at least six adjustments since 2013.[65] As a result, the government must continue efforts to reduce the tax system's complexity, enhance equity, increase transparency, reduce tax administrative and compliance costs and maintain, if not enhance, revenue.

Sufficient resources must be devoted to administering and enforcing the Commonwealth's tax system so that anticipated and needed revenues are realized to fund services required for the people of Puerto Rico. Because revenue can be raised from a variety of different sources, it is also important that the

65 Reforms include Act 40-2013, the "Tax Burden Redistribution and Adjustment Act;" Act 120-2014, the "Small and Medium Business Job Generation and Retention Act;" Act 72-2015, the "Adjustments to the Internal Revenue Code of 2011;" Administrative Orders 2017-01 and 2017-05; and Act 257-2018, the "2018 Puerto Rico Tax Reform Act."

mix of sources be carefully considered so that government programs are not excessively reliant on sources that may be uncertain or volatile to a degree which excessively distorts economic activity or taxpayer choices.

In addition, alternative tax reform design features must be explored. For example, reforms could be phased in slowly over time, and designed such that progressive phases are only triggered if the performance of the reform is consistent with performance. Exemptions and tax incentives must be explored broadly to determine whether reductions could help to offset the revenue impact of lower of tax rates. There are numerous other design choices that could be explored, and the Oversight Board looks forward to engaging with the Government and a broad group of stakeholders to identify creative solutions to improve the overall tax climate of Puerto Rico.

Similar to prior Certified Fiscal Plans, this chapter summarizes the principles of tax policy any tax reform effort must adhere to. It discusses the requirements to improve the administration of the tax system and the need for evaluation of Puerto Rico's myriad tax incentives.

12.1.1 Tax reform principles

Effective revenue systems are based on taxes that generate sufficient revenue to fund needed public services, are simple to administer, are transparent, are perceived as fair and equitable, and encourage economic efficiency and growth.

Effective tax systems that have a broad base and low rates generally conform to these precepts. These tax systems generally avoid targeted tax incentives unless those incentives are supported by clearly demonstrated economic or social benefits. An important benefit of tax systems that follow these precepts is that they promote compliance, administration, and enforcement because the tax rules are simple and transparent, are perceived of as fair, and offer reduced incentives for tax avoidance and evasion. Furthermore, a broad base combined with low tax rates reduces the potential gain from tax evasion or avoidance. Promoting compliance is a central feature of properly designed revenue systems. An overly complex and poorly designed tax structure cannot be implemented effectively and, therefore, compliance and enforcement typically fall short. Beyond simplicity, perceptions of fairness are an important factor for promoting compliance and enforcement.

Any tax reform considered by the Government must establish rates, credits, deductions, and other alterations to tax structures firmly in the tax code. The Government must also limit the use of negotiated rates or incentives. Moreover, incentives should be evaluated based on return-on-investment criteria and those that do not provide a positive return should be eliminated or reduced. Consistent with prior certified Fiscal Plans, any adjustments to the tax base must be done in a revenue neutral manner. That is, all tax reductions must be accompanied by specific, offsetting revenue measures of at least the same amount that are identified in the enabling legislation, or by offsetting reductions in government spending. To the extent that additional resources become available (e.g., increased federal funds, economic outperformance), those resources can only be used to fund reductions in tax revenue if there is high confidence that they will persist over time.

To ensure revenue neutrality, the implementation of any tax law initiative must occur sequentially, with the Government ensuring that initiatives are paid for before taxes are adjusted. Changes to tax provisions must also include confidence building elements, such as behavioral adjustments and reasonable capture rates. Recent changes to the EITC and Acts 154/52 can be instructive to the need for careful design, implementation, monitoring and adjustment strategies.

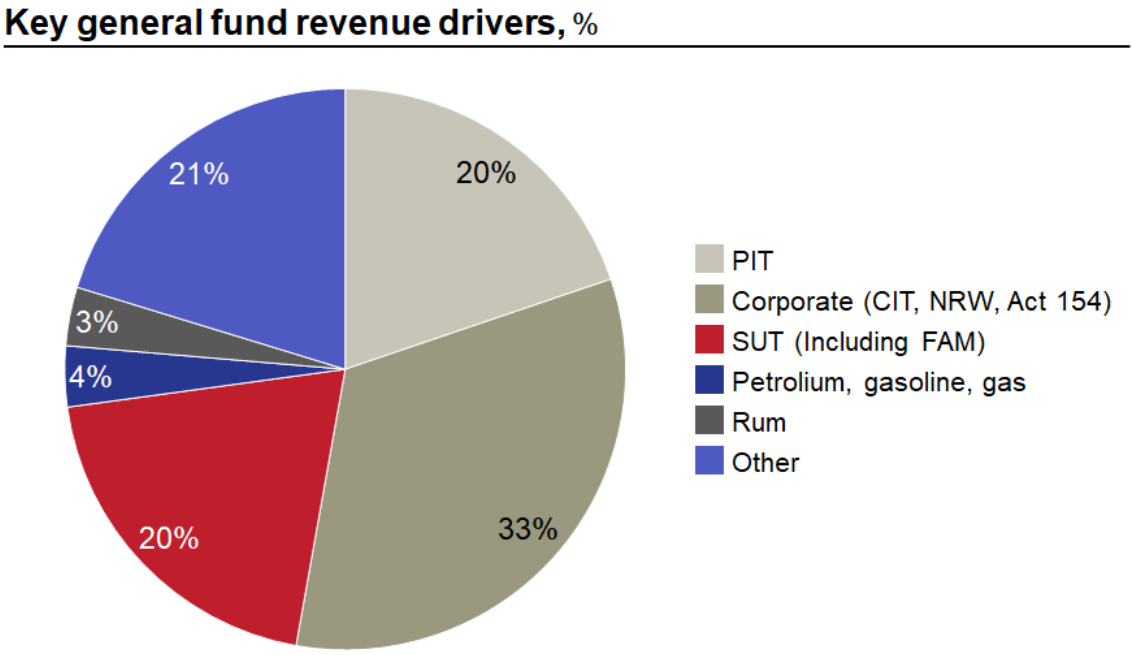
Adequate enforcement mechanisms must also be a part of tax initiatives to ensure that projected tax increases occur and that projected tax reductions are not larger than anticipated. Indeed, increased

investments in enforcement in and of themselves can sometimes be used to generate revenue through increased compliance (e.g., by hiring additional tax auditors).

12.1.2 Puerto Rico's current tax environment

Puerto Rico's tax regime is heavily reliant on income taxes and sales and use taxes.

EXHIBIT 39: GENERAL FUND REVENUE DRIVERS



Source: Hacienda reports, FY2022 General Fund revenue collections

Puerto Rico's income tax structure (for both individuals and corporations) is complex and opaque. The tax code includes numerous targeted deductions, exemptions, credits, and special rates that benefit narrow groups of taxpayers while potentially distorting the allocation of resources and reducing revenue available to fund needed public expenditures. These incentives are often privately issued and generally not disclosed publicly.

Similarly, Puerto Rico's individual income tax has multiple exclusions, deductions, special rates, and credits that deviate from basic tax principles. Puerto Rico's Tax Expenditure Report identifies and measures the foregone revenues from individual income tax expenditures. These include, among many others, Act 22-2012 (as incorporated into Act 60-2019), preferential tax rates for physicians, the home mortgage interest deduction, and an exemption of wage income for those under the age of 27. Individual income tax expenditures exceeded $2.9 billion in 2023.

Finally, Puerto Rico's 11.5% Sales and Use Tax (SUT), is higher than the rate imposed by other U.S. jurisdictions. There are, however, multiple reductions and exemptions to the rate. Starting in 2020 in response to the *Wayfair* decision by the U.S. Supreme Court, Puerto Rico expanded the base of the SUT to cover remote sales (e.g., purchases from on-line and internet retailers) and special digital products bought on-line (e.g., greeting cards, video games, movies, and music). Hacienda expanded tax collections on these sales through promulgation of new regulations and is in the progress of digitizing SUT payments.

12.2 Tax expenditures

12.2.1 Tax expenditure report

To provide a critical element of fiscal responsibility and transparency, the Government must regularly produce a tax expenditure report, which includes a comprehensive list of revenue losses attributable to provisions of the Puerto Rican tax code that deviate from the tax structure's benchmark law. It is essential to know how much revenue is foregone because of tax incentives and to periodically review such expenditures to ensure they continue to meet their strategic objective. Having a clear and accurate understanding of what the Government spends through tax expenditures is critical to ensuring the expenditures are continuing to contribute to economic growth and opportunity.[66]

The Government began reporting tax expenditures with a report issued in June 2019 and published the third iteration of the report in March 2022. The latest report included estimates of tax expenditures associated with tax years 2017 through 2023. The report gives taxpayers and the Government better visibility into the full scope of tax expenditures being offered, together with a description and approximate cost of each expenditure. The 2023 report included deviations from several major revenue sources, including individual income taxes, corporate income taxes, non-corporate income taxes, sales and gross receipts taxes and excise taxes. Relative to earlier iterations of the report, this report represents considerable effort, a high level of comprehensiveness (albeit with important omissions), and some significant improvements. Tax expenditures with low return on investment should be eliminated.

As shown in *Exhibit 40* the 2022 Tax Expenditures Report provided many key insights into Puerto Rico's use of tax expenditures as an economic development tool, including the fact Puerto Rico issues more than 400+ tax incentives with total foregone revenue projected to be more than $23 billion in 2023.

This analysis also revealed, as illustrated in

Exhibit 41 and *Exhibit 42,* that Puerto Rico offers a far more generous tax incentive program than virtually every other jurisdiction in the U.S. as a share of the economy or total tax collection.

66 Tax Policy Center at the Urban Institute & Brookings Institution, "State Income Tax Expenditures", 2020

EXHIBIT 40: SUMMARY OF TAX EXPENDITURES IN PUERTO RICO

Total Tax Expenditures by Count

	Credits	Deductions	Exclusions	Exemptions	Preferential Rate	Deferrals	Total
Individual	27	8	12	54	14	-	115
Business	88	18	16	76	44	21	263
▪ *Regular Corporations*	*21*	*4*	*7*	*39*	*5*	*10*	*86*
▪ *Incentive Acts*	*35*	*5*	*-*	*-*	*21*	*1*	*62*
▪ *Non-corporate Business*	*32*	*9*	*9*	*37*	*18*	*10*	*115*
SUT	-	-	4	27	-	-	31
Excise	1	-	16	12	-	-	29
Total	**116**	**26**	**48**	**169**	**58**	**21**	**438**

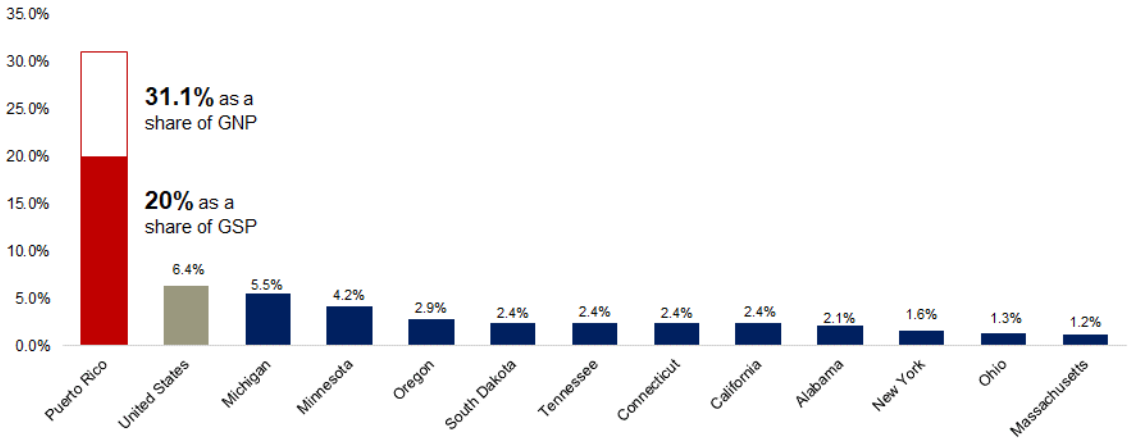
Total Tax Expenditures by Dollar Amount, $ millions

	Credits	Deductions	Exclusions	Exemptions	Preferential Rate	Deferrals	Total
Individual	97	338	339	1,364	799	-	2,937
Business	170	20	93	195	15,208	270	15,957
▪ *Regular Corporations*	*69*	*5*	*17*	*96*	*29*	*161*	*377*
▪ *Incentive Acts*	*71*	*7*	*-*	*-*	*15,054*	*10*	*15,141*
▪ *Non-corporate Business*	*31*	*8*	*77*	*99*	*125*	*100*	*439*
SUT	-	-	607	3,664	-	-	4,271
Excise	15	-	494	12	-	-	521
Total	**282**	**358**	**1,533**	**5,235**	**16,007**	**270**	**23,685**

Source: Puerto Rico's Tax Expenditure Report (TER), Issued March 2022

EXHIBIT 41: TOTAL ESTIMATED TAX EXPENDITURE AS SHARE OF GROSS STATE PRODUCT

Total tax expenditures as a share of Gross State Product



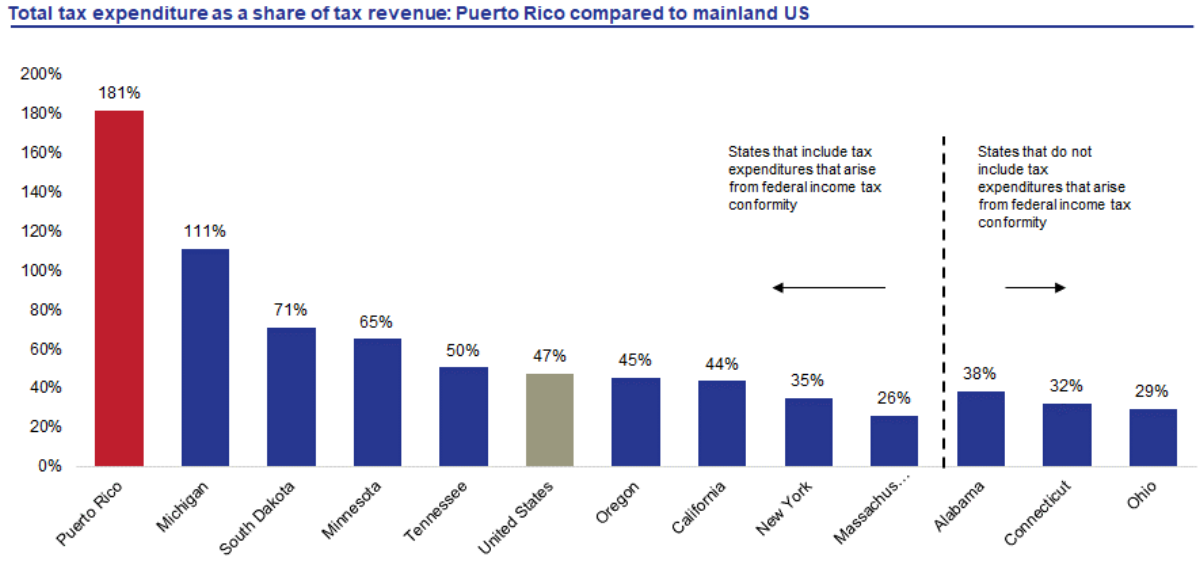
NOTE: Gross States Product (GSP) data is gathered from the Bureau of Economic Analysis (BEA). We also calculate, for Puerto Rico, total tax expenditures as a share of Gross National Product (GNP) to be 31.1%. GNP includes net income from foreigners, GSP does not.

Alabama, Connecticut and Ohio do not include tax expenditures that arise from federal income tax. A previous version of this report showed much higher tax expenditures for NY because the state's tax expenditure report included an appendix reporting tax expenditures resulting from federal exclusions from income. In 2018, NY state decoupled from several federal tax provisions, and since then, this appendix was no longer included as part of the NY TE report.

No state produces an entirely comprehensive set of tax expenditure estimates. As a result, some of the variance between states is due to differences in levels of this comprehensiveness.

*South Dakota's tax expenditures are for 2020, Alabama and Michigan's expenditures are for 2019. The remainder of the tax expenditure estimates are for 2021. The US tax total is not reduced for the cost of the refundable portion of tax credits, including the EITC.

EXHIBIT 42: TOTAL TAX EXPENDITURE AS A SHARE OF TOTAL TAXES



Note: Total tax expenditure includes tax expenditures associated with total individual income tax, corporate income tax, SUT, and excise tax as well as other taxes included in state tax expenditure reports (excluding property tax). Similarly, total taxes include all taxes other than property tax.

Alabama, Connecticut and Ohio, do not include tax expenditures that arise from federal income tax, further no state produces an entirely comprehensive set of tax expenditure estimates. As a result, some of the variance between states is due to differences in levels of this comprehensiveness.
A previous version of this report showed much higher tax expenditures for NY because the state's tax expenditure report included an appendix reporting tax expenditures resulting from federal exclusions from income. In 2018, NY state decoupled from several federal tax provisions, and since then, this appendix was no longer included as part of the NY TE report.

12.2.2 Tax expenditure recommendations

For tax expenditures reporting to maintain its relevance and maximize its impact on the policy making process, regular reviews of each tax incentive must be completed to assess whether each incentive is meeting its policy objective (including cost / benefits assessments).

In considering incentives offered through the tax system, consideration should be given to identifying the most appropriate way to offer the incentive. Not all incentives lend themselves to tax reductions. They should only be delivered through the tax system when there is some natural advantage to doing so; for example, when the incentive relies on measures of income and can be easily administered by the tax authority *or* does not require significant administration. If provided through the tax system, a tax credit generally is better for targeting and controlling revenue loss than a deduction or special rate. Credits also clearly differentiate special tax rules from the basic revenue raising features of the tax system. Typically, special tax subsidies should be eliminated in favor of having the incentives compete for resources on the expenditure side of the budget, promoting transparency, and more frequent review of their effectiveness.

The milestones outlined in *Exhibit 43* below and described in further detail in the text provide actionable steps the Government must undertake to improve its tax expenditure reporting.

EXHIBIT 43: KEY MILESTONES FOR TAX EXPENDITURE REPORTING

	Action item	Owner	Deadline
To be completed in FY2024	▪ Continue to produce an annual Tax Expenditure Report that identifies and quantifies all tax expenditures (including tax exclusions, exemptions, adjustments, deductions, subtractions, credits, abatements, deferrals, rebates, and special rules) on an annual basis and submit on time, by December 31	▪ Hacienda	▪ December 31, 2023
	▪ Include a multi-year forecast of tax expenditures	▪ Hacienda	▪ December 31, 2023
	▪ Utilize the most recently available data	▪ Hacienda	▪ December 31, 2023
	▪ Ensure the report reflects the full magnitude of incentives offered, including Commonwealth and municipal revenue loss from the property tax, municipal patent tax and other local sources	▪ Hacienda	▪ December 31, 2023

Of highest importance, the estimates in the Tax Expenditures Report must be systematically incorporated into the annual fiscal plan and budget review process. This means the estimates need to be considered in conjunction with direct spending proposals at the executive review and legislative levels and as a component of the budget envelope for agencies responsible for related direct spending programs. Ideally, for tax expenditures to be included in discussions about budgets and policies, the Tax Expenditure Report would be produced annually on a timely basis. The timing of the most recent report, while not as early as necessary to provide maximum input to the executive budget proposal, is the first time that the report arrived early enough to inform legislative deliberations on the proposed budget. Completion of subsequent reports by December 31, including the historical years, budget year and out-year estimates will facilitate achievement of the full purpose of the Tax Expenditures Report.

Future tax expenditure reports must also expand the time horizon to aid fiscal planning with a minimum five-year outlook. The 2022 Tax Expenditure Report represents the first release that includes estimates for the previous year, current year, and budget year. This is an important forward step and greatly improves relevance and utility for policy making. Expanding the time horizon further will be particularly advantageous as sunset provisions are incorporated into existing tax expenditures, allowing estimates to identify their implications in outyears.

The Department of the Treasury must update the data upon which future tax expenditure reports shall be based. As detailed in the Oversight Board's letter to the Secretary of the Treasury on April 27, 2022, the 2023 Tax Expenditure Report appears to still be based on tax data from 2017 (or before) to calculate tax expenditures arising from tax incentives on corporate income taxes. The same concern applies to the use of 2019 tax returns to estimate individual income tax expenditures. Much has happened in Puerto Rico over the previous five years, calling into question the overall accuracy of the 2023 estimates for current decisions. Updating the data used in the tax expenditure reports will make them even more useful for completing analysis that can be used to inform coming years' budget decisions.

Finally, future Tax Expenditure Reports must also broaden the universe of tax expenditures included in the reports. Notable progress has been achieved toward comprehensiveness with the incorporation of Act 257 and Act 60-2019 tax expenditures. However, Commonwealth grants of property tax, municipal patent tax, and other local tax incentives are not included. These need to be incorporated,

reflecting the full value of revenue lost to both the Commonwealth and municipalities. Furthermore, where no numerical estimates were made for specific expenditures due to a lack of data, an explanation as to why the data is not available must be included in the Report. In addition, the Report notes should include an inventory of all tax expenditures where amounts allocated can materially impact the Commonwealth's financials. This information will make the report more comprehensive and useful.

Rationalizing the amount of tax expenditures offered by the Government is smart and prudent fiscal management. This can only be done in a comprehensive way through the production of the annual tax expenditure report on a timely basis.[67]

12.2.3 Tax incentives regulations and supporting materials

In FY 2021 and FY 2022 the Oversight Board worked closely with DDEC to develop a framework in Act 60-2019 regulations (Regulation 9248) and the Cash Grant Regulations that would build stronger safeguards against waste and abuse of government resources. This partnership resulted in the conditional approval of Regulations 9248 (pending approval of supplemental/supporting Administrative Orders and the revised DDEC ROI manual) and the Cash Grants Regulations.

Amendments to the regulations had the aim of limiting the DDEC Secretary's discretion in awarding incentives, specifying in more detail the meaningful information to be submitted in the annual public reporting required by the statute, establishing a more robust audit process with meaningful penalties for firms that are found to be out of compliance or failing to provide the anticipated benefits, and establishing an ROI based standard of program evaluation that will meaningfully discriminate among projects so that incentives are concentrated on those projects most likely to provide net economic benefits to the commonwealth. Specifically, amendments to Regulations 9248 resulted in the following:

- Reduced the discretion of the Secretary of the DDEC by creating the Economic Incentive Review Committee (CRIE)
- Established guidelines for the Annual Incentives Report that are in line with preferred practices
- Established guidelines for audit procedures that are in line with accounting norms and preferred practices
- Develop a Return-on-Investment framework that sets an appropriate bar for determining ROI including providing a balanced accounting of the costs and benefits of incentives

Amendments to the Cash Grants regulations, which were approved in the summer of 2022, created a uniform review process across all grant application programs such that the same level of stringency of audit, reporting, discretion, and ROI criteria that are present in Regulations 9248 are applied to the grant application review. In addition, the regulations provided criteria for the evaluation of the grant program consistent with the criteria outlined in Regulations 9248.

To fully effectuate the goal of the Incentives Code and Regulations 9248, DDEC must complete the work necessary to finalize Regulation 9248 and Regulation 9222. Many provisions of Act 60-2019 require the drafting and approval of supplements to the regulations (Administrative Orders, Manuals, and other executive communiques, see table below) before they can be implemented,

67 Ibid.

including prior Oversight Board review and approval.[68] The promulgation of such regulations was included as part of the process during FY2021 and FY2022, and such supplements to the regulations must continue to be drafted and approved during FY2023. The goals and objectives of the regulatory process are discussed in more detail below.

To evaluate the fiscal benefit from each incentive, Regulation 9248 uses a Return on Investment (ROI) approach to prioritize high value-added incentives relative to those that do not generate sufficient economic return. Although Regulation 9248 has improved on the existing ROI framework, the regulation has not yet been implemented because the existing ROI manual has not been updated to reflect the updated framework. To implement the new ROI framework, it is essential that DDEC update its ROI manual and issue an Administrative Order adopting this updated manual.

In addition, provisions of Act 60-2019 related to Opportunity Zones cannot be implemented until the drafting and approval of regulations governing provisions are complete and receive Oversight Board review and approval. This along with the drafting and approval of supplements to the regulation must be reviewed and approved by the Oversight Board. See table below for list of required supplements that must still be reviewed and approved by the Oversight Board.

EXHIBIT 44: LIST OF REGULATION, ADMINISTRATIVE ORDERS, MANUALS AND OTHER EXECUTIVE COMUNIQUES REQUIRED TO IMPLEMENT PROVISIONS OF ACT 60-2019

	Action items	Responsible party	Deadline & Status
To be completed in FY 2022	▪ Reestablish the DDEC and FOMB Incentives review Working Group	▪ DDEC ▪ FOMB	▪ Completed
	▪ Issue RFP to procure consultant to assist in completion of outstanding items related to completion of Act 60-2019 regulation, Opportunity Zones regulations and ROI manual	▪ DDEC	▪ Completed
	▪ Complete and issue the Administrative Order establishing the Economic Incentives Review Committee (CRIE)	▪ DDEC	▪ June 2023
	▪ Complete and issue the Administrative Order to Establish the Guidelines for the Annual Incentives Report	▪ DDEC	▪ June 2023
	▪ Complete and Issue the Administrative Order to Establish the Guidelines for Audit Procedures	▪ DDEC	▪ June 2023
	▪ Complete and Issue the Administrative Order to Adopt the ROI Manual, providing detailed Guidance for ROI Analysis	▪ DDEC	▪ June 2023
	▪ Issue the updated ROI manual which reflects the standards set in Act 60-2019 and Regulations 9248	▪ DDEC	▪ June 2023
	▪ Complete and issue amendments to Opportunity Zones Regulations (regulations 9222)	▪ DDEC	▪ June 2023
	▪ Complete amendments and reissue Opportunity Zones Resolution 2019-01	▪ DDEC	▪ June 2023
	▪ Complete amendments and reissue Opportunity Zones DDEC Administrative Determination 2020-01	▪ DDEC	▪ June 2023

68 Pursuant to PROMESA Section 204(b)(4) and the Oversight Board's policy with respect thereto, proposed rules, regulations, administrative orders and executive orders covered by said policy, including all regulations under Act 60-2019, must be submitted to the Oversight Board before being issued to ensure compliance with the certified 2021 Commonwealth Fiscal Plan

Prior Oversight Board review and approval is necessary to address the lack of transparency and high cost of the tax concessions of Act 60-2019. Specifically, these regulations and supplements to the regulations must, at minimum, include the following provisions:

- **Evaluation standards for tax incentive and grant award should be balanced.** Act 60-2019 established a positive ROI as the primary standard for determining incentive awards. The standard as currently operationalized, however, lacks balance. Benefits are defined more comprehensively and extensively than are costs, resulting in an ROI standard that does not assure net benefit accrues to the Commonwealth.
- **Revenue neutrality.** Firm limits should be established to limit the set of potentially eligible projects to ensure, with confidence, these projects satisfy development objectives and remain revenue neutral and consistent with the certified 2023 Fiscal Plan. Adopting a balanced approach to the consideration of costs and benefits in the ROI methodology will be useful to assure that incentives are provided to activities that will at a minimum be revenue neutral.
- **Public reporting of incentive recipient performance and audit.** Regular reporting of incentive effectiveness is required through publication of an Annual Incentive Effectiveness Report. The Act 60-2019 regulations provide for meaningful guidance on how required project performance measures will be obtained or calculated and require further operationalization in a reporting administrative order. The annual report must include detail sufficient to maintain transparency and accountability. Similar to the DDEC transparency portal, it should publicly disclose recipients, type, and level of performance on incentives and expected public benefits. To assure that recipients comply with the terms of incentive decrees, audits should be periodically performed in the form of detailed desk reviews of compliance reports and on-site audits of books and facilities. Audit selection and review should be based on the decision of an audit committee, rather than at the discretion of a single official. An important feature to consider including are random audits incorporating a full onsite review of performance targets related to, for example, facilities, employment documentation, charitable contributions, investment, local purchases, and exports.

Some statutory changes are also necessary. These include:

- **Budgeting incentives.** Cash grants require annual appropriation. All incentives, however, should be limited. Annual limits should be placed on the aggregate scale of incentives that can be offered each year. The estimated revenue loss calculated in the ROI should form the basis of determining annual revenue costs and the aggregate of these costs should be limited annually. Additional awards should be deferred to the following year once annual limits are reached. The accuracy of estimated revenue losses should be confirmed in subsequent program reports.
- **Consultation with affected agencies and municipalities.** All affected agencies and jurisdictions should be consulted regarding the offering of tax incentives and the Commonwealth Government should not be permitted to commit the tax resources of a municipality toward a tax incentive without that municipality's active concurrence. Procedures should be established to minimize the risk that municipalities' tax resources are committed toward a tax incentive without a mutual agreement in place ensuring that the incentive is in both governments' best interests.

The above discussion of the Incentives Code, combined with that of tax expenditures and tax principles generally makes clear that a few additional improvements must be made, including moving away from negotiated decrees. Rates, credits, deductions, and other alterations to tax structures must

be established in the tax code. There need to be clear limits on negotiated rates or incentives and negotiated tax decrees should be suspended over time (e.g., do not offer any more, let existing decrees expire).

13 Pension reform

13.1 Current status of pension benefits

The Government operates three public employee retirement systems in Puerto Rico: The Employees' Retirement System (ERS), the Teachers' Retirement System (TRS), and the Judiciary Retirement System (JRS). As of March 15, 2022, these pensions systems were reformed by the Plan of Adjustment (PoA) through a series of pension initiatives. As a result of these initiatives, the Commonwealth has strengthened its ability to pay for its future commitment to pensions. For more detail on the state of pensions prior to the PoA and for detail on the above measures, see the 2022 Certified Fiscal Plan.

The Oversight Board continues to monitor activity related to the retirement benefits of Commonwealth employees including:

- Monitor implementation of key pension initiatives remaining from PoA
- Monitor compliance with PayGo requirements from Act 106-2017
- Support establishment of operational capacities of Pension Reserve Trust
- Review implementation of enhanced police retirement benefit
- Collaborate with Government towards finding a path for partial implementation of Act 80-2020
- Monitor funding of Symphonic Orchestra Pension Plan

13.2 POA pension initiatives

13.2.1 Pension Freeze Provisions

Prior to the PoA, TRS members hired prior to August 1, 2014, and all JRS members were accruing benefits under the defined benefit components of their retirement plans. As of the PoA effective date, the Government implemented provisions of the PoA freezing accruals for JRS and TRS participants (described in detail in the 2022 Certified Fiscal Plan). Central to the implementation was a significant effort by the Retirement Board to communicate directly with impacted employees to educate them on the impacts the changes have on their benefits. The efforts took numerous forms, including but not limited to, providing detailed descriptions of PoA provisions on the Government websites and social media, coordination efforts with media, and hosting seminars customized for TRS and JRS participants on the changes in benefits contained in the PoA.

While the Government has completed the updates to its systems and processes needed to begin administering the freeze provisions effective March 15, 2022, as retirement calculations are performed, the Retirement Board is working towards implementing administrative procedures that improve the efficiency of plan administration prospectively. The updates are focused on (i) leveraging the freezing of plan benefits to improve administrative systems and include calculating accrued benefits for all participants not currently in payment as of the freeze date to be stored within the Retirement Board systems and (ii) continuing efforts to review census data stored in Retirement Board systems to resolve any inconsistencies identified within the data.

13.2.2 Social security

The PoA expanded participation in Social Security to teachers and judges. Prior to the PoA, teachers and judges did not participate in Social Security. Expanding Social Security coverage to teachers and judges was accomplished without either an employee referendum or new federal legislation by freezing the TRS and JRS plans and reducing the Defined Contribution (DC) account contributions to an amount lower than the 7.5% required by Section 218 to be considered as participating in a qualified retirement plan. This step triggered mandatory enrollment in Social Security. Concurrently, lowering the employee DC account contributions for those that are enrolled in Social Security will address the loss of take-home pay that they would experience by having to contribute the 6.2% Social Security payroll tax. The approach of lowering the DC contribution to 2.3% is consistent with the approach used to implement Social Security participation for police officers in FY2020.

Furthermore, federal law provides that Social Security retirement benefits are only provided for those who have ten years of covered earnings. Therefore, it would not be worthwhile for older workers, who may not meet the ten-year threshold and do not have other employment in which they were covered by Social Security, to be covered under Social Security. For this reason, the PoA provided for implementation of Social Security differently based on the age of the participants:

1) Teachers and judges under the age of 45 were automatically covered under Social Security and their DC contributions were adjusted effective March 15, 2022. The Government began remittance of employer and employee payroll taxes for payroll for pay periods beginning after the effective date.
2) The PoA provided for teachers and judges aged 45 and older to begin having earnings covered under Social Security as soon as administratively possible, including allowing a period of time for teachers and judges to opt into coverage, if they make the determination that they will benefit from such coverage. Teachers and judges were provided until May 15, 2022, to opt into coverage. Those electing coverage by May 15, 2022, have had DC contributions adjusted and the Government has begun remittance of employer and employee payroll taxes for employees electing coverage.

Following May 15, 2022, it was identified that a significant number of teachers had missed the deadline to participate in Social Security. It was communicated to the Government and the Oversight Board that many teachers did not fully understand the election and requested additional time to opt into coverage. The Government and the Oversight Board ultimately agreed to extend this deadline to December 15, 2022. Approximately 400 additional teachers were able to elect to participate in Social Security and as a result fewer than 5,000 teachers opted to decline Social Security (including 4,000 who never made an election).

13.2.3 System 2000 Segregation

The PoA includes specific treatment for certain ERS plan participants known as System 2000 members who were generally ERS members hired on or after January 1, 2000. The hybrid cash balance accounts that had been funded through employee contributions were returned to these ERS participants. Additionally, ERS participants hired prior to January 1, 2000, with defined benefits under Act 1 and Act 447 who were actively employed as of the effective date each received $2,600. The details surrounding these payments are outlined further in the 2022 Fiscal Plan.

The implementation of this aspect of the PoA required that payments were separated into two categories:

1) Participants holding an active Act 106-2017 account received deposits into their individual accounts as of the PoA effective date.
2) Inactive participants who did not have an active Act 106-2017 account had their contributions deposited into a segregated trust at Banco Popular from which they can claim their funds.

On the PoA effective date, roughly $1.178 billion was deposited into individual Act 106-2017 defined contribution accounts and about $291 million was deposited into Banco Popular for those inactive participants.

Subsequently, the Government identified an additional $18 million approximately attributable to active System 2000 participants who had been inappropriately misclassified in the Retirement System data and funds were reappropriated to ensure these deposits were made to individual accounts.

The Government also identified roughly $86 million attributable to additional inactive participants that was not included in the initial deposit into Banco Popular. In this case, however, the funds at Banco Popular have been monitored by the Government. Since the inactive participants are no longer employed by the Government, the Government relies on the individuals to claim the money they are owed from the segregated account. The Government has made multiple attempts to contact these individuals, including sending letters to the last known addresses on file; taking out advertisements in Puerto Rico, Florida, and New York news publications; and posting notices on how to claim funds on the Retirement Board's website. To date, the original allocation of $291 million has not been exhausted and the escrow balance at the end of November 2022 was about $91 million. Withdrawals to date from the Banco Popular account have declined since the period immediately following the PoA, and in recent periods the reimbursements fell to roughly $7 million and are expected to continue declining. As a result, the Government does not believe it is necessary to fund the additional amount at this time.

13.2.4 PayGo compliance

Established by Act 106-2017, the PayGo system, under which pension benefits are paid out of the annual Commonwealth budget rather than via amounts previously set aside into pension trust funds, was implemented to ensure the continued payment of benefits to retirees given that the ERS, TRS, and JRS trust funds were effectively insolvent. Act 106-2017 establishes a PayGo fee for entities to meet their responsibility to pay for the costs associated to the retirees and beneficiaries of each agency. Furthermore, Act 106-2017 provides a series of corrective actions to aid in ensuring that the covered entities fulfill their obligations. See the 2022 Fiscal Plan for additional detail.

As of December 15, 2022, 14 municipalities and public corporations have executed repayment plans, with one other active negotiation ongoing for the municipality of Guayanilla ($361,114 in outstanding debt). Signed payment plans account for approximately $137.9 million of the $246 million in outstanding debt. The Oversight Board will continue to closely monitor the municipalities budget and compliance with current year PayGo debt and the execution of Payment Plans. Current levels of outstanding debt owed by Public Corporations and Municipalities are detailed in *Exhibit 45*.

EXHIBIT 45: CURRENT PAYGO DEBT FOR MUNICIPALITIES AND PUBLIC CORPORATIONS

Entity type	FY2018 debt, $M	FY2019 debt, $M	FY2020 debt, $M	FY2021 debt, $M	FY2022 debt, $M	Total, $M
Municipality	6	68	0	57	0	131
Public Corporations	27	18	13	37	20	115
Total	**33**	**86**	**13**	**94**	**20**	**246**

To facilitate compliance, the Government will continue updating the future budget to ensure appropriate fees are collected. The Government will also review any issues raised by plan participants. Furthermore, to increase transparency of information related to the state of the PayGo system, the Oversight Board is working to establish a publicly available summary of the current PayGo debts by public corporations and municipalities.

13.2.5 Pension reserve trust

The PoA established a pension reserve trust that will be funded to ensure that future PayGo benefits can be supported regardless of the future economic situation in the Commonwealth. The trust is independently managed and overseen by a Pension Reserve Board and Pension Benefits Council whose members meet the independence, professionalism, experience, and qualification standards set forth in the Pension Reserve Deed of Trust.

Funding for the pension reserve trust is to be provided according to a formula based on the Commonwealth's annual surpluses with an initial deposit of about $1.4 billion having been made on September 29, 2022. After FY2031, withdrawals can be made to fund PayGo pension payments under certain conditions. Section 5.3 of the Guidelines for the Governance and Administration of the Puerto Rico Plan of Adjustment Pension Reserve Trust and Monitoring of Plan of Adjustment Pension Benefits, which are contained in a plan supplement to the Plan of Adjustment, lay out the detailed criteria for withdrawal from the trust, each of which must be proven to be satisfied. The Pension Benefits Council must ensure that these criteria have been satisfied prior to any withdrawals being approved. Criteria for withdrawal include generating an actual cash flow deficit after contractual debt service, the sum of cash balances in all TSA accounts and TSA sweep accounts is less than $2.0 billion at the end of the previous fiscal year, and municipalities and government entities obligated to pay PayGo fees have paid at least 75% of their PayGo fees on an aggregate and cumulative basis during the period beginning on July 1, 2017, until the end of the previous fiscal year (with offsets, withholdings, and payment plans being pursued to collect past due amounts). The Government needs to be prepared to provide necessary reporting to the Pension Benefits Council to validate that the withdrawal criteria in Section 5.3 have been satisfied, in particular the requirement that government entities and municipalities have paid 75% of their PayGo fees on an aggregate and cumulative basis during the period beginning on July 1, 2017. This reporting may be in addition to the 6 (A) PayGo and Individual Contribution Debt by Entity Report, or a modification to the 6 (A) report to show that the criteria have been met on a rolling basis.

Prospectively, the Pension Reserve Board will independently manage the funds allocated from current surpluses for future year to reimburse the Commonwealth for pension PayGo costs. The Pension Benefits Council will have the right to review the records and processes related to the calculation of deposits of funds to the pension reserve trust by the Commonwealth as well as the review of the collection of PayGo fees. The Oversight Board continues to provide support to the Pension Reserve Board and Pension Benefits Council as they establish their operational capabilities.

13.2.6 Enhanced police retirement

As noted in the 2022 Fiscal Plan, the Oversight Board acknowledges the increasingly difficult retirement situation for active Act 447 and Act 1 police officers due to the historical lack of pension funding, lack of prior Social Security enrollments, and a mandatory retirement age. Therefore, the 2022 Fiscal Plan segregated over $850 million to be spent over the next 15 years, including over $500 million by the end of FY2023 for these police officers' Act 106 Defined Contribution accounts. Following the certification of the 2022 Fiscal Plan, the Government, with the help of the Oversight Board, worked to implement an enhanced Act 106-2017 contribution for police that varies based on the age and service of these officers (detailed in *Exhibit 46*) to recognize differences in how long officers earned benefits through each retirement program, with the goal of bringing the average total retirement income from all sources (i.e., ERS, Act 106 Defined Contribution accounts, and Social Security) to 50% of the compensation received at the time of retirement. The Government successfully implemented the enhanced contributions, and the first payments were made in June 2022.

EXHIBIT 46: DEFINED CONTRIBUTIONS FOR ELIGIBLE POLICE OFFICERS

Contribution details

- **Total Contribution = Base Contribution + Special Contribution**
- Special Contribution is $30,000 in FY2022 and FY2023[1]
- Applies to active Act 447 / Act 1 officers hired prior to January 1, 2000

Base Annual Contribution and total Incremental contributions over officers' career to mandatory retirement age

Period when officer reaches later of age 58 or30 years of service	# of base contributions	Base annual contribution	Total base + special contributions	Assuming officer retirement in
Before 6/30/22	3	$17,500	$112,500	FY ending 6/30/24
7/ 1/22 - 6/30/23	4	$17,500	$130,000	FY ending 6/30/25
7/1/23- 6/30/24	4	$17,500	$130,000	FY ending 6/30/25
7/1/24 - 6/30/25	4	$17,500	$130,000	FY ending 6/30/25
7/1/25 - 6/30/26	5	$16,000	$140,000	FY ending 6/30/26
7/1/26 - 6/30/27	6	$14,500	$147,000	FY ending 6/30/27
7/1/27 - 6/30/28	7	$13,000	$151,000	FY ending 6/30/28
7/1/28 - 6/30/29	8	$11,500	$152,000	FY ending 6/30/29
711/29 - 6/30/30	9	$10,000	$150,000	FY ending 6/30/30
7/1/30 - 6/30/31	10	$9,000	$150,000	FY ending 6/30/31
7/1/31 - 6/30/32	11	$8,000	$148,000	FY ending 6/30/32
7/1/32 - 6/30/33	12	$7,000	$144,000	FY ending 6/30/33
7/1/33 - 6/30/34	13	$6,000	$138,000	FY ending 6/30/34
7/1/34 - 6/30/35	14	$5,000	$130,000	FY ending 6/30/35
7/1/35 - 6/30/36	15	$4,500	$127,500	FY ending 6/30/36
7/1/36 - 6/30/37	16	$4,000	$124,000	FY ending 6/30/37
After 6/30/37	17+	$3,500	$119,500 or more	6/30 of FY in which they reach age 58 and 30 years of service

Special provisions

- **Accelerated contributions for those near mandatory retirement:** Officers unable to work beyond 6/30/22 receive acceleration or $30,000 special contribution into FY2022
- **Current retirees:** Sworn officers who retired after Act 81 enactment in August 2020 who were forced to retire by mandatory retirement receive $77,500 in FY2022

1 Subject to vesting requirement

The Government solution also provided the following considerations:

- **Accelerated contributions for those near mandatory retirement**: The 2022 Fiscal Plan included funding so that officers unable to work beyond June 30, 2022, either because they have applied for an extension and been denied or have exhausted the work extensions currently available, received an acceleration of $30,000 of special contributions into FY2022, for a total of $77,500 each.
- **Current retirees**: The 2022 Fiscal Plan includes funding so that sworn officers who retired after the Act 81 enactment in August 2020 and were forced to retire by mandatory retirement also received $77,500 in FY2022.

Following the initial payments, the Government identified individuals for whom the initial data was incomplete or inaccurate. While the Government continues to resolve the remaining questions, the program remains consistent with the original budgeted estimates of the 2022 Fiscal Plan. The Government will continue to resolve any outstanding questions to ensure all eligible officers receive the proper payments and anticipates the next annual payment to be made as scheduled in June 2023.

13.2.7 Partial implementation of Act 80-2020

In August 2020 the Commonwealth enacted the following acts: (i) Act 80-2020 granting an incentivized retirement program for certain ERS participants, (ii) Act 81-2020 granting enhanced benefits to members of the Puerto Rico Police Ranking System, Fire Fighters Corps Bureau, Puerto Rico Custody Officers Corps, and medical emergency technicians of the Medical Emergency Corps Bureau and the Municipal Medical Emergency System, and (iii) Act 82-2020 granting credit to retirement benefits arising from unused sick leave balances for participants under the Teachers Retirement System. The parties stipulated to entry of an order in the Title III court (December Order) in mid-December 2021 to nullify Acts 80-2020, Act 81-2020, Act 82-2020, and Joint Resolution 33 (a resolution passed on December 16, 2021, which ordered the Executive Directors of OMB and the Retirement Systems Administration to begin at least partial implementation of Act 80-2020). In addition, the Oversight Board and the Governor stipulated that they would endeavor to reach agreements on an incentivized retirement program for certain ERS participants while creating the necessary offsetting savings for the Government through a partial implementation of Act 80-2020, providing enhanced retirement benefits to police officers, and providing possible alternatives for enhanced compensation packages for teachers. While agreements had been reached for providing enhanced benefits to police officers and providing alternative compensation packages to teachers, the Oversight Board and the Governor have worked actively to pursue agreements for the partial implementation of Act 80-2020 in a fiscally responsible way.

The Oversight Board and the Government have continued to meet and communicate regarding the partial implementation of Act 80-2020. Following the June 11, 2022, requested extension, the Government proposed only eliminating positions for non-essential employees on July 6, 2022. The Oversight Board agreed to explore the elimination of non-essential positions.

The Oversight Board remains committed to reaching a fiscally responsible solution to allow some public employees to retire early when the required level of savings can be achieved and maintained. The Oversight Board and the Government continue to work together to reach an agreement as soon as possible on a fiscally responsible solution that is in compliance with PROMESA and the Court's order and that the promises made to the pensioners will be able to be paid.

13.2.8 Symphonic Orchestra Pension Plan

The Puerto Rico Symphonic Orchestra Corporation (PRSOC) is a public corporation organized under Act No. 44 of May 12, 1980, as a subsidiary of the Musical Arts Corporation. The PRSOC sponsors a single employer defined benefit pension plan (PRSOC Retirement Plan) funded through member and employer contributions that are not tied to the actuarially determined levels necessary to fully fund the plan. As a result of years of underfunding, as of August 15, 2019, the PRSOC Retirement Plan was $20 million underfunded with a funded percentage of 14.43% and is projected to no longer have sufficient funds to pay benefits by the end of FY2025. As such, the 2022 Fiscal Plan provided roughly $20 million in incremental funding ($2 million on an annual basis through FY2032) aimed at supporting the fulfillment of existing promises to current and future retirees under the PRSOC Retirement Plan are met, while PRSOC continues to make its annual contributions. The incremental funding included in the 2022 Fiscal Plan is subject to implementation of a freeze of benefit accruals, closing of the plan and implementation of a defined contribution plan for its members, consistent with the treatment of all current Government employees provided through Act 106-2017.

On March 9, 2023, the Oversight Board authorized a partial release of the 2022 funds to ensure sufficient funds are available to pay benefits in the short-term while providing additional time for PRSOC to meet the requirements set forth in the 2022 Fiscal Plan. The PRSOC is actively working with the Oversight Board to satisfy the remaining requirements for additional funding. For future years, the annual allocation will be released, subject to review of an updated actuarial study once the requirements from the 2022 Fiscal Plan are met and PRSOC has contributed at least $200,000 from at least four (4) annual concerts to the PRSOC Retirement Plan.

14 Improving agency efficiency and effectiveness

To assure the delivery of essential services while achieving financial sustainability, the Government must be focused on improving operational efficiencies to enable better service delivery for the residents of Puerto Rico. A leaner, more efficient, and transformed future Government of Puerto Rico should wherever possible reflect mainland U.S. benchmarks in terms of both number and size of agencies.

As part of the new Government model, the Government must conclude the process of consolidating 120 agencies into no more than 54 groupings. In some cases, it is crucial that these consolidations focus the competing efforts of multiple agencies, such as the economic development grouping. In other cases, the consolidations must serve to move services closer to residents, such as the health care grouping, which will consolidate access points to important services like Medicaid. In all cases, consolidations must enable agencies to streamline back-office processes, eliminate duplicative resources and benefit from procurement efficiencies.

In addition to agency consolidations, the 2023 Fiscal Plan outlines operational and process improvements that must be made to use resources more efficiently—including staff, equipment, services, and buildings—across agency groupings such as education (PRDE), corrections (DCR), health (DOH), and public safety (DPS). The goal of such efficiency measures is to improve the quality of the underlying services for the population while also directing valuable resources toward key priorities. Also, the 2023 Fiscal Plan requires the transfer of ownership or change in legal status of the Public Broadcasting Corporation (WIPR, by its Spanish acronym) to a not-for-profit organization.

The implementation of 2023 Fiscal Plan initiatives is required to achieve operational efficiency and improve government services. The 2023 Fiscal Plan, like previous fiscal plans, outlines clear milestones, deadlines, and actions that account for agency needs (short and long-term), while also focusing on implementing crucial agency efficiencies detailed in this chapter.

14.1 Department of Education (PRDE)

The Puerto Rico Department of Education (PRDE) is the largest government agency within the Commonwealth. Its roughly 45,000 employees are charged with providing high quality education for about 251,000 K-12 students across the Island at roughly 860 schools. PRDE is working to improve educational outcomes for students through education reforms. Additionally, PRDE and other public agencies are undergoing broader Civil Service Reform to build capacity among personnel (beginning with finance and accounting functions) to have a better back-office structure that supports the education system. This chapter outlines the necessary measures for these reforms to be operationally and financially sustainable and to help PRDE develop its internal capacity and underlying systems to support delivery of a high-quality education to the Island's students.

- Procure goods and services efficiently
- Manage classroom staffing and student-teacher ratio
- Measure and improve teacher attendance rates
- Strategically manage finance functions
- Design and implement student-based budgeting
- Strategically invest in improvements to school infrastructure
- Provide services for all eligible Special Education students in a cost-effective way
- Provide transportations services for all eligible students
- Implement CSR at PRDE
- Improve student attendance data collection

14.1.1 Procure goods and services efficiently

School systems must be able to provide classrooms the resources they need in a timely matter. PRDE has faced consistent challenges because of:

- High volume of small dollar-value orders which require significant employee time to process
- Lack of strategic planning and sourcing vehicles which reduce potential economies of scale
- Manual processes and multiple necessary approvals are required to obtain resources, which create bottlenecks.

Additionally, the Department lacks transparency, detailed data, and an annual procurement plan that could help it consolidate vendor contracts to achieve time and spending efficiencies.

During FY2021, PRDE took some initial steps to implement new subcategories in its financial system (Financial Information System of the Department of Education or SIFDE by its Spanish acronym) that will enable it to better classify and assess spending, as well as identify areas for vendor consolidation and other procurement efficiencies.

During FY2022, the Oversight Board supported PRDE's engagement in a procurement study to identify potential areas of improvement that will help PRDE provide timely, necessary resources to classrooms.

Milestones for FY2023 procurement reform focus on reducing volume of transactions and improving PRDE's ability to make data-informed spending plans.[69] This work is particularly critical considering the upwards of $4.6 billion PRDE has received in stimulus funding that must be spent before the funding expires in September 2024. As of January 31, 2023, PRDE had spent 29% of its total award ($1.3 billion). PRDE has not provided regular visibility into how they are spending towards their priorities in their plan for the stimulus funds to-date.

EXHIBIT 47: PRDE REQUIRED IMPLEMENTATION ACTIONS: PROCUREMENT

Area of focus	Milestone alignment for PRDE strategic plan	Action item	Responsible Party	Deadline
Procurement	• Evaluate and improve administrative processes to increase operational efficiency and eliminate bureaucracy	• Launch a P-Card program that streamlines low dollar value material purchases at the school level to reduce the number of purchase orders	• PRDE	• April 30, 2023
		• Classify and analyse spending data to identify trends and areas of time/spending efficiencies by	• PRDE	• April 30, 2023
		• Enhance procurement software functionality to improve transparency and efficiency	• PRDE	• June 30, 2023
		• Support development of an annual procurement plan to improve strategic decision-making capabilities	• PRDE	• June 30, 2023

14.1.2 Manage classroom staffing and student-teacher ratio

Managing to a student-teacher ratio target is a leading practice for school systems, including PRDE, to staff classrooms in a way that supports student achievement and is also financially sustainable. PRDE sets class size limits through its Organización Escolar policy, which guides how many classroom teachers a school should have to meet the needs of its students. The student-teacher ratio is a measure of how efficiently PRDE implements this staffing policy.[70] When students do not divide equally into the maximum class size, this causes "breakage" and decreases efficiency (adds more teachers). Student-teacher ratio targets were developed with a view toward school enrollment inefficiencies on the Island and the teacher breakage that results. If PRDE staffs schools in line with its student-teacher ratio target, it will be able to allocate teachers in

69 Additionally, PRDE must comply with Act 73-2019, as amended, which requires the agency to prepare an Annual Procurement Plan based on the agency's annual estimate of probable needs and purchases

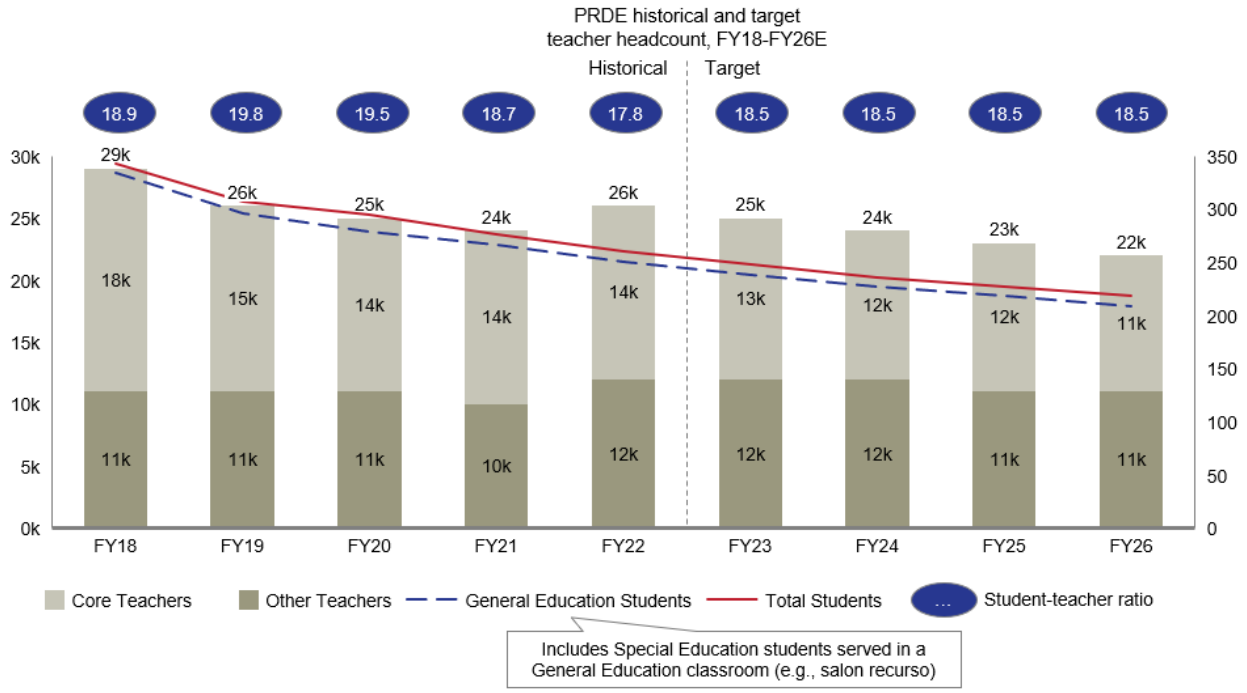
70 The student-teacher ratio calculation is based on data from the Department and includes both general education students as well as Special Education students who spend most of the school day in inclusive classrooms with their general education peers (known as "salón recurso"). The teachers counted in the student-teacher ratio are those that teach core subjects and/or homeroom classrooms. The staffing of all other teachers (previously referred to as 'non-academic' teachers) is expected to be rightsized through attrition.

accordance with its own staffing policy and operate at the expected number of teachers that match its budget.

PRDE currently has a student-teacher ratio that is less efficient than its target of 18.5, in large part because it has used its staffing platform to approve exceptions outside of its Organización Escolar policy in FY2022 (about 2,000 exceptions approved in FY2022). While there are a variety of valid reasons a district may choose to approve staffing exceptions, regions must make these decisions with a clear understanding of budget implications and funding sources. PRDE has one-time funds available through the Elementary and Secondary School Emergency Relief Fund (ESSER) that can fund staffing exceptions, however these will expire at varying points up to September 2024.[71] When one-time funds expire, if PRDE still employs the same number of teachers as it does now, it could exceed its budget targets and either be required to reduce headcount quickly or make significant cuts in critical areas. Because of ongoing declining enrollment, PRDE will need to continue to faithfully apply its staffing policy to meet its budget goals. Milestones in this section promote teacher staffing decisions that would align PRDE to a target student-teacher ratio that supports student achievement, appropriate class size, and financial stability.

EXHIBIT 48: TEACHER HEADCOUNT AND STUDENT ENROLLMENT

PRDE historical and target teacher headcount



Note: Does not include teachers assistants; "Other teachers" includes Specialists and Special Education teachers

Source: Dec 31, 2020 Active Enrollment (M1A), Jan 4, 2021 PROE Personnel Roster; AAFAF report FY22-0ci-21 report, PROE enrollment projections

71 Office of Elementary & Secondary Education, "Elementary and Secondary School Emergency Relief Fund," n.d.

EXHIBIT 49: PRDE REQUIRED IMPLEMENTATION ACTIONS: STUDENT-TEACHER RATIO

Area of focus	Milestone alignment for PRDE strategic plan	Action item	Responsible Party	Deadline
Student-teacher ratio	• Evaluate and improve administrative processes to increase operational efficiency and eliminate bureaucracy • Recruit, develop, and retain effective resources to establish a community of excellence	• Outline a plan to streamline the process for data-based, transparent school staffing that will allow PRDE to continue to systematically manage its student-teacher ratio	• PRDE	• June 30, 2023

14.1.3 Measure and improve teacher attendance rates

At its core, education happens when students and teachers are engaged in productive work in a positive learning environment. To this end, both the teacher's and student's attendance is critical, and thus it is important for districts to monitor metrics like teacher attendance.

Education research shows teacher absences can adversely impact student achievement.[72] For example, a teacher that misses 10 days a year has been shown to lower students' math achievement equivalent to that of students being taught by a beginner teacher vs. a teacher with 3-5 years of experience.

Regularly tracking and reporting attendance rates is a necessary practice among school districts for visibility, accountability, and progress monitoring. PRDE currently has inconsistent tracking and internal accountability measures for attendance metrics. Milestones in this section aim to support PRDE to reach a teacher attendance rate of 90%. Additionally, this section re-emphasizes the goal of reaching a 90% student attendance-taking rate. In January 2023, PRDE reported that it had reached a rate of 90% teacher attendance, but only had a student attendance-taking rate of 82%. PRDE has been actively collaborating with the Oversight Board to revise its student attendance policy to clarify processes and expectations that will support PRDE in meeting this milestone in a uniform manner across all schools.

EXHIBIT 50: PRDE REQUIRED IMPLEMENTATION ACTIONS: ATTENDANCE METRICS

Area of focus	Milestone alignment for PRDE strategic plan	Action item	Responsible party	Deadline
Attendance efficiency metrics	Recruit, develop, and retain effective resources to establish a community of excellence	Create a monthly report that shows teachers are present for less than or equal to 90% of days as in the automated T&A system to begin Note: additionally, continue to support student attendance-taking milestones	PRDE	May 15, 2023

72 Center for Research in Education and Social Policy (CRESP), "Chronic Absenteeism and Its Impact on Achievement", 2018

14.1.4 Strategically manage finance functions

Alignment between students' needs and the Department's financial resources supports an equitable educational model. PRDE is the largest government agency on the Island with a roughly $2 billion recurring budget. In recent years, it has received over triple that amount in one-time funds from the federal government, roughly $7 billion from ESSER stimulus funding ($4.6 billion), FEMA funds ($2.3 billion), and other grants. Considering this influx of one-time funds, PRDE has an unprecedented opportunity to invest in its students and their outcomes. December 2023 data indicates PRDE has spent about 27% of its ESSER allocation, most of which is set to expire in September 2024. While some delay in spending is due to procurement challenges (see *Section 14.1.1*), much is due to a lack of capacity in PRDE's strategic finance function.

Milestones in this section call for PRDE to thoughtfully and strategically consider its current and future financial state, including recurring and one-time funds, and the ways in which funds can support strategic priorities and student outcomes. Additionally, PRDE must consider its expenses in the context of its recurring annual revenue to maintain a balanced budget in the future as enrollment continues to decline and one-time funds expire.

EXHIBIT 51: PRDE REQUIRED IMPLEMENTATION ACTIONS: STRATEGIC FINANCE

Area of focus	Milestone alignment for PRDE strategic plan	Action item	Responsible Party	Deadline
Strategic finance	▪ Recruit, develop, and retain effective resources to establish a community of excellence ▪ Evaluate and improve administrative processes to increase operational efficiency and eliminate bureaucracy	▪ Hire a well-qualified Chief Financial Officer (CFO) who will work with PRDE leadership to develop a long-term financial plan, in addition to other budgeting and planning responsibilities	▪ PRDE	▪ Ongoing, in collaboration with CSR initiatives
		▪ Update and share with FOMB a long-term financial plan that aligns one-time and recurring resources to the Department's strategic priorities	▪ PRDE	▪ June 30, 2023
		▪ Publish a plan to spend all one-time funds, including ESSER, FEMA, and Federal carryover that includes projected impact on future General Fund budgetary needs	▪ PRDE	▪ June 30, 2023
		▪ Comply with financial reporting requirements as stated by Hacienda	▪ PRDE	▪ Ongoing, as required by Hacienda

There are a number of root causes of PRDE's financial management challenges, including: (i) the Department lacks sound human resource management systems and processes, which include outdated job descriptions and organizational structures, (ii) a lack of clear norms and protocols to evaluate employees' performance, (iii) an aging workforce with no succession planning in place for critical talent, (iv) inconsistent compensation structures, and (v) the lack of a fair and open recruitment and selection process, based on merit, competence and achievement, not political or

familial associations. The civil service is the backbone of good governance and quality public service provision. Developing a high-performing workforce is vital to PRDE's future.

To equip the PRDE with the right people who have the right knowledge, skillset, and motivation to improve financial management and reporting functions, a Civil Service Reform must commence at the Department to achieve long-lasting transformational change. Only by achieving this kind of reform will PRDE be able to change practices that prevent the Department from effectively fulfilling the most fundamental and emerging needs of its students.

The Civil Service Reform at PRDE will seek to improve the experience of public servants in the Department through the transformation of human resources. To this end, the first phase of the Civil Service Reform has begun with the evaluation of the organizational structure of the fiscal component of the agency. The objective of this phase is to understand the current status and main needs and to identify opportunities for improvement within the areas necessary to strengthen the Department's operations.

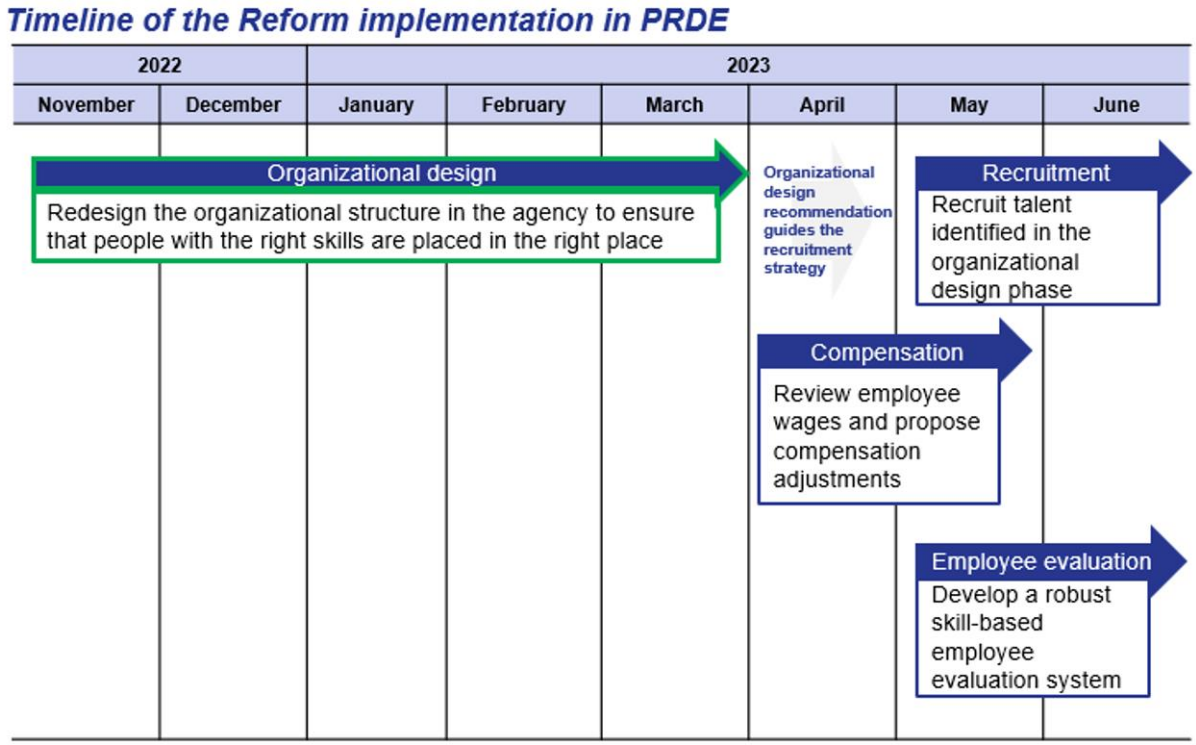
The Government, in close collaboration with Oversight Board staff, has commenced the CSR at the Department of Education to achieve an aligned and sustainable human capital strategy to meet future financial management challenges at the Department. The CSR at PRDE has the following objectives:

- Align PRDE's workforce capabilities and organizational structures to better meet financial objectives
- Enable PRDE to recruit and retain the right talent needed to meet financial reporting requirements.
- Augment employee development through standardized training, evaluation, and knowledge transfer
- Optimize processes, technology, compensation, and policies to effectively support human capital management
- Redesign employee evaluations, training, and succession planning to promote employee motivation, professional development, and retention

The implementation of the Civil Service Reform at PRDE impacts the following 10 organizational areas:

- Budget
- Federal Funds (OFA)
- Finance
- Office for Public School Improvement (OMEP)
- Payroll
- School Food Authority (AEA)
- Purchasing
- Associate Secretary for Special Education
- IT (OSIATD)
- State Agency for Food and Nutrition Services (AESAN)

EXHIBIT 52: PRDE REFORM IMPLEMENTATION TIMELINE



14.1.5 Design and implement student-based budgeting

Allocating federal and state funds to schools is an important step in providing equitable access to limited resources. Currently, PRDE provides resources to schools through its teacher staffing model, Organización Escolar, and its centralized purchasing system for supplies and services. Its current process lacks transparency and creates potential challenges when allocating funds to charter and Montessori schools, which are not subject to the same staffing guidelines.

Many mainland school districts have adopted an approach to school funding often referred to as student-based budgeting. This method allocates resources to schools based on the number of students served and measures of student need. It uses per-pupil formulas wherein students are assigned a certain weight or multiplier based on objective and measurable characteristics that warrant differentiated funding, such as grade level or special education status.

Shifting to student-based budgeting could provide several benefits to PRDE including: a more equitable distribution of funds to schools based on student need, increased accountability around teacher attendance and attendance-taking when included in the funding formula, increased transparency of how funds are allocated to schools, and more flexibility for school leaders to decide how to use their resources.

A shift to student-based budgeting at PRDE would require significant time and capacity over several years to plan, pilot, and implement. However, given the benefits described above the Oversight Board recommends that PRDE undertake this work. To do so, PRDE would need to engage in the following activities (some of which it has already started):

- Assess each school's student profile and level of need based on data
- Construct a specific student-based budgeting funding formula that meets the needs of its schools
- Develop an implementation plan (that likely includes a pilot and then formal roll-out) for the new budgeting approach that includes a transition plan for schools-especially for those which may receive fewer funds
- Train and empower directors and school leadership teams to deploy funding under the new approach as they will have greater autonomy around budget decisions that are currently made by the central office
- Message changes to school communities and support accordingly

In addition to PRDE's public schools, charter and Montessori schools would also be impacted by the new methodology. A student-based budgeting formula that allocates resources based on student enrollment and needs would ensure that all public schools are funded transparently and based on the same budget methodology. This approach would further increase public visibility into student-facing expenditures for schools, including those with charter and Montessori models, as consistent with requirements in the Puerto Rico Education Reform Act.

Given the importance and complexity of student-based budgeting, technical assistance might be required to successfully implement this approach.

EXHIBIT 53: PRDE REQUIRED IMPLEMENTATION ACTIONS: STUDENT-BASED BUDGETING

Area of focus	Milestone alignment for PRDE strategic plan	Action item	Responsible Party	Deadline
Student-based budgeting	• Educate about equity and respect for diversity to eliminate access and opportunity gaps and prevent discrimination • Evaluate and improve administrative processes to increase operational efficiency and eliminate bureaucracy	• Develop a preliminary student-based budgeting approach	• PRDE	• June 30, 2024
		• Meet with key stakeholders (including FOMB, PRDE, and Charters) to solicit feedback on the approach and revise accordingly on a regular basis	• PRDE	• Ongoing
		• Create an implementation plan to pilot the new budgeting approach	• PRDE	• January 30, 2025
		• Launch pilot of new budgeting approach	• PRDE	• June 30, 2025

14.1.6 Strategically invest in improvements to school infrastructure

A transparent and comprehensive Facilities Master Plan can help PRDE make important decisions related to its current and future building portfolio and support a plan to bring all students back to safe, in-person classes five days a week.[73] Historically, PRDE has not had a consolidated view of its building portfolio, including active and closed schools and administrative buildings. In FY2022, PRDE began to develop its Facilities Master Plan by identifying its portfolio's current state and the extent of the required repairs through site assessments and stakeholder engagement. PRDE's plan will account for changing needs and demographics of schools on the Island by prioritizing investments in school buildings that have a long-term place in the school footprint and are equipped with 21st century features and resources, as well as disaster-resilient infrastructure using FEMA funds. PRDE shared a draft of the plan with the Oversight Board in January 2023.

In FY2022, PRDE also made significant strides in reopening many of its school buildings. It increased the number of open buildings from 731 to 820 in school year 2021-2022 and 2022-2023 respectively, allowing roughly 244,000 students (about 98%) to attend classes in-person, five days a week in FY2023. However, some schools, primarily in the South, remain closed due to structural instability from prior hurricane and earthquake damage. Due to Hurricane Fiona in the first semester of FY2022, nearly 50% of PRDE schools closed for two weeks.

Milestones in this section support PRDE in developing a strategy for its current and future building portfolio and continuing to work towards reopening schools for full-day, full-week, in-person instruction.

EXHIBIT 54: PRDE REQUIRED IMPLEMENTATION ACTIONS: BUILDING PORTFOLIO AND INFRASTRUCTURE

Area of focus	Milestone alignment for PRDE strategic plan	Action item	Responsible Party	Deadline
Building portfolio and infrastructure	• Promote physical, mental, and social-emotional development that guarantees student resources based on their needs • Evaluate and improve administrative processes to increase operational efficiency and eliminate bureaucracy	• Publish a Facilities Master Plan to guide decisions around PRDE's building and infrastructure investment priorities and long-term strategy	• PRDE	• April 30, 2023
		• Track and report on implementation progress towards recommendations from the Facilities Master Plan; share implementation reports with FOMB	• PRDE	• June 30, 2023
		• Perform repairs to safely re-open schools and provide full-day, full-week, in-person learning option for all students	• PRDE	• September 30, 2023
		• Track and report on implementation progress towards recommendations from the Facilities Master Plan; share implementation reports with FOMB	• PRDE	• January 30, 2024
		• Track and report on implementation progress towards recommendations from the Facilities Master Plan; share implementation reports with FOMB	• PRDE	• June 30, 2024

73 The Facilities Master Plan is part of the requirements for the FEMA Accelerated Award Strategy (FAASt) funding obligation

14.1.7 Provide services for all Special Education students in a cost-effective way

Special Education services address varying student needs and promote equity for all students. Over 30% of PRDE students require special education services. For many years, PRDE has provided Special Education services through two parallel programs. Its primary program, known as Secretaría Asociada de Educación Especial (SAEE), provides services to students through the Department. A second program, *Remedio Provisional,* provides support services to students through third-party contractors. *Remedio Provisional* was created to provide services to students for whom SAEE did not have capacity. Typically, if PRDE does not provide services within 30 days from the drafting of an Individualized Education Program (IEP), the family of the special education student can receive services through this alternate channel. While it is good practice for districts to have a formal mechanism to ensure students receive adequate services and families can lodge complaints, *Remedio Provisional* has become a more permanent solution for students to receive services outside of SAEE.

During FY2021, PRDE formed a committee to identify students that could be transitioned into its own Special Education program. In FY2022, PRDE formalized the transition process from Remedio Provisional to SAEE, transitioning roughly 6,600 students successfully. Milestones in this section support continued efforts to streamline the provision of services to all eligible special education students in a cost-effective way.

EXHIBIT 55: PRDE REQUIRED IMPLEMENTATION ACTIONS: SPECIAL EDUCATION SERVICES

Area of focus	Milestone alignment for PRDE strategic plan	Action item	Responsible Party	Deadline
Special Education Services	• Recruit, develop, and retain effective resources to establish a community of excellence • Educate about equity and respect for diversity to eliminate access and opportunity gaps and prevent discrimination • Promote physical, mental, and social-emotional development that guarantees students resources based on their needs • Evaluate and improve administrative processes to increase operational efficiency and eliminate bureaucracy	• Define and implement a plan to increase the service offering capacity of PRDE's Special Education program in order to transition additional students from Remedio Provisional; provide status update to FOMB	• PRDE	• June 30, 2023
		• Define and implement a plan to increase the service offering capacity of PRDE's Special Education program in order to transition additional students from Remedio Provisional; provide status update to FOMB	• PRDE	• January 30, 2024
		• Define and implement a plan to increase the service offering capacity of PRDE's Special Education program in order to transition additional students from Remedio Provisional; provide status update to FOMB	• PRDE	• June 30, 2024

14.1.8 Provide transportation services for all eligible students

Transportation services enable students to access a free, public education. PRDE students are eligible for transportation services based on distance required to travel to school and any needs based on a student's individualized education plan (IEP) if that student qualifies for Special Education. In FY2021, the U.S. Department of Education imposed restrictions on PRDE's use of Federal IDEA funds for transportation, due to non-compliance with the provisions of the Code of Federal Regulations and the IDEA Law (improper payments, limited visibility into transportation spending, lack of internal controls, non-compliance with its own policies, and lack of adequate monitoring). Since then, PRDE has made progress in implementing the transportation system updates that would address USDE findings.[74] In FY2022, PRDE proved compliance with transportation regulations and USDE removed special conditions on use of Federal IDEA funds.

While PRDE can again access federal funds for transportation, it has not started to plan its reallocation of recurring funds to support transportation services in the future. In the short-term, PRDE can use stimulus funds to cover additional transportation services. However, milestones in this section support a plan to provide transportation services within PRDE's recurring budget to achieve greater flexibility in funding sources for student transportation and validate that all eligible students have access to transportation services.

EXHIBIT 56: PRDE REQUIRED IMPLEMENTATION ACTIONS: TRANSPORTATION SERVICES

Area of focus	Milestone alignment for PRDE strategic plan	Action item	Responsible Party	Deadline
Transportation Services	• Evaluate and improve administrative processes to increase operational efficiency and eliminate bureaucracy	• Provide transportation services to all eligible students and comply with all USDE requirements for use of Federal transportation funds	• PRDE	• August 30, 2023

14.1.9 Civil Service Reform (CSR) at PRDE

People are an organization's greatest resource. Chapter 4 describes the Civil Service Reform that supports capacity-building for public agency employees across the Island. This section provides additional context on CSR initiatives at PRDE.

In 2021, the Government of Puerto Rico and the Oversight Board began implementation of a comprehensive Civil Service Reform (CSR) to improve governance and operational capacity across all agencies to strengthen and improve the way government works for the people. Civil Service Reform combines enhancement in compensation with employee evaluations, organizational design, and the recruitment of new government personnel. Given the amount of administrative and political challenges delaying reform in Puerto Rico, a gradual and more narrowed approach was adopted, starting with a pilot within the financial management and reporting functions at OGP and Hacienda.

Although the Department of Education is not part of the CSR, since it is not covered by Act 8-2017, the Government and the Oversight Board agreed to include PRDE in the reform to improve the experience of the public servants at PRDE through the transformation of human resources. To this

74 U.S. D.O.E., "U.S. Secretary of Education Miguel Cardona Provides Puerto Rico Department of Education Access to Pandemic Relief Aid and Other Grant Funds," 2021; Acevedo, Nicole, "Puerto Rico gets over $900M in education funds previously restricted by Trump Admin," 2021

end, the first phase of the CSR approach began in November 2022 with the evaluation of the organizational structure of the fiscal component of the agency. The objective of this phase is to understand the current status and main needs and to identify opportunities for improvement necessary to strengthen the Department's financial operations.

PRDE, in close collaboration with Oversight Board staff, will continue the CSR to achieve an aligned and sustainable human capital strategy to meet future financial reporting challenges at PRDE. The pilot aimed to refine an organizational structure for accounting and finance functions, to benchmark compensation, and to develop tools for recruitment and professional development.

By the end of this pilot, the CSR at PRDE intends to achieve the following objectives:

- Align the PRDE's workforce capabilities and organizational structures to better meet objectives
- Enable PRDE to recruit and retain the right talent needed to meet financial reporting requirements
- Augment employee development through standardized training, evaluation, and knowledge transfer
- Optimize processes, technology, compensation, and policies to effectively support human capital management
- Implement new employee evaluations, training, and succession planning programs to promote employee motivation, professional development, and retention

14.1.10 Improve student attendance data collection to identify and address cases of chronic absenteeism

PRDE has faced persistent attendance challenges as measured by three key metrics, two of which relate to students and are addressed in this section. The third, teacher attendance, is addressed in the PRDE Agency Efficiency section *14.1.3*.

EXHIBIT 57: PRDE ATTENDANCE METRICS

Student attendance metrics

	Student attendance-taking	Student attendance	Teacher attendance
Definition	▪ Teachers record student attendance in SIE for each period daily	▪ Attendance – the rate at which students attend school ▪ Absenteeism – a measure of the percentage of students who have excessive absences (18+ days)	▪ Teachers are present in school as recorded in the Time and Attendance (T&A) system ▪ PRDE was the first CW agency to complete the T&A initiative
Metrics	▪ Data from the first semester of 2022 suggests that less than 90% of teachers take attendance in accordance with PRDE's policy ▪ Same-day attendance-taking is critical to PRDE's ability to identify and intervene with chronically absent students	▪ Student attendance rates at PRDE are lower than national benchmarks ▪ Student attendance rates also suggest a significant challenge with student absenteeism, which is a national issue since the pandemic	▪ PRDE has experienced significant teacher absenteeism that 2022 Fiscal Plan salary increase milestones looked to address ▪ The average teacher attendance rate at PRDE was ~65% in the 2020-21 school year

Student attendance is correlated to a variety of positive academic and social-emotional outcomes. Studies have shown eighth grade attendance rates to be as predictive an indicator of a student's likelihood to graduate as their GPA. Additionally, if students are not in school it raises safety concerns; truant students are more likely to be in unsafe environments and engage in high-risk behaviors.[75]

The 2023 Fiscal Plan includes milestones for PRDE to:

- Gain visibility into its rate of student attendance (student attendance-taking milestones)
- Use that data to improve the rate of student attendance and address cases of chronic absenteeism (student attendance milestones)

Student attendance-taking

As of the first semester of the 2022-23 school year, PRDE data suggests that teachers do not regularly take student attendance in the Student Information System (SIS) as PRDE's policy requires. This leaves a significant gap in PRDE's ability to know whether students are present in school. Daily student attendance tracking could allow for early and regular interventions to improve learning outcomes for chronically absent students. For example, in one study, an automatic absence notification to students' families reduced course failures by 38%.[76]

PRDE and the Government have policies in place that affirm the responsibility to take student attendance consistently. Law 85 requires compulsory attendance for students 5-18 and states that it is the school director's responsibility to ensure compliance. PRDE's handbook states teachers are required to keep a record of daily student attendance in the SIS. The 2022 Fiscal Plan also included incentives to improve attendance-taking. However, PRDE's student attendance-taking rate has seen little improvement. Potential root causes for this include:

- **Awareness:** Teachers may not be aware of their responsibilities or the critical role they play in equipping PRDE with the data to address absenteeism and improve student outcomes
- **Systems:** Teachers may face technological barriers to completing attendance-taking responsibilities (e.g., difficulty logging in, confusion around which attendance codes to select)
- **Accountability:** Teachers may not see incentives or consequences associated with fulfilling their role in attendance-taking

In response, the 2023 Fiscal Plan milestones for PRDE to improve its attendance-taking policy and support student outcomes. These changes are likely to allow attendance-taking to become a more seamless part of each teacher's everyday routine and equip PRDE with the data to intervene in cases of student absenteeism. Additionally, as PRDE continues to develop a student-based budgeting approach (see PRDE Agency Efficiency), attendance rates could become part of the formula for calculating per-pupil funding amounts.

75 Investigators found that truancy appears to be a robust predictor of substance use in a study comparing truant youth to their non-truant peers and when comparing periods of change within an adolescent; see Henry and Thornberry, "Truancy and Escalation of Substance Use During Adolescence." Journal of Studies on Alcohol and Drugs, 2010

76 See Bergman and Chan, "Leveraging Technology to Engage Parents at Scale: Evidence from a Randomized Controlled Trial," Social Science Research Network, Teachers College, Columbia University, 2017

EXHIBIT 58: PRDE STUDENT ATTENDANCE-TAKING METRICS

	Milestone alignment for PRDE strategic plan	Action item	Responsible Party	Deadline
To be completed in FY2023	▪ Establish and effectively implement evidence-based strategies to achieve the academic recovery plan ▪ Evaluate and improve administrative processes to increase operational efficiency and eliminate bureaucracy	▪ Create a monthly report that shows teachers submit student attendance via the student information system ≥90% of school days to begin	▪ PRDE	▪ May 15, 2023
		▪ Publish a clear and official policy on how frequently and by what time of day teachers are required to take attendance, including specific requirements by grade level and class type (e.g., Special Education), substitute protocol, etc.	▪ PRDE	▪ May 15, 2023
		▪ Streamline systems to make the process of entering attendance data easier for teachers (e.g., rationalize the number of potential attendance codes)	▪ PRDE	▪ June 30, 2023
		▪ Create materials to support all school staff in understanding the importance of attendance-taking and use of the system (e.g., how-to-videos for reporting in SIE, online FAQ)	▪ PRDE	▪ June 30, 2023
To be completed in FY2024		▪ Hold professional development and trainings on taking attendance in student information system (SIE) for teachers and directors (e.g., regional trainings, peer mentorship program at schools with high attendance-taking and low attendance-taking rates)	▪ PRDE	▪ August 30, 2023
		▪ Empower regional superintendents to support school-level accountability by requiring them to check attendance data weekly and support improvements at schools with low attendance-taking rates	▪ PRDE	▪ September 30, 2023

14.2 Department of Health (DOH)

As of 2021, the Government has several health-related agencies that are highly fragmented: five public corporations, and two agencies, with nine public hospitals in total. One of the agencies is the Department of Health, which is organized into seven health regions and sixteen programs—each of them with their own back-office support functions. Such fragmentation has driven up cost and created inefficiency, as each agency is required to provide its own human capital management, procurement, and financial support.

Additionally, access to health care on the Island is significantly lower when compared to national averages. For further information about the health-related agencies shortage areas, refer to the 2022 Certified Fiscal Plan. As such, the Oversight Board, in collaboration with the Department of Health (DOH) and AAFAF, will conduct a health care workforce analysis to understand the current health care workforce environment in Puerto Rico. For additional details refer to the Human capital and welfare reform section in Volume 1.

As established in earlier fiscal plans, the Department of Health is required to consolidate 6 health agencies shown in *Exhibit 59*.

EXHIBIT 59: AGENCIES INCLUDED IN FUTURE STATE DEPARTMENT OF HEALTH GROUPING

1 Department of Health	4 Puerto Rico and the Caribbean Cardiovascular Center Corporation
2 Health Insurance Administration (ASES)	5 Center for Research, Education and Medical Services for Diabetes
3 Medical Services Administration (ASEM)	6 Mental Health and Addiction Services Administration

To date, the Government has achieved no progress towards this consolidation requirement. Per recent news articles, however, the president of the House of Representatives of Puerto Rico has demonstrated interest in placing ASES within the Puerto Rico Medicaid Program and expects to present the legislation in early 2023. Moreover, ASEM has continued initiatives related to revenue cycle management optimization and Electronic Health Record (EHR) implementation. EHR implementation has been deployed across several health agencies. For further details about these initiatives, please refer to Section 14.4 of the 2022 Certified Fiscal Plan.

Moreover, to counter the pressures that the hurricanes and COVID-19 pandemic placed on the public health care system, the Oversight Board and the Government made investments of approximately $469 million during FY2020, FY2021, and FY2022 to enhance health care services; specifically, enhancements (i) to address critical infrastructure gaps in Hospital and Health Facilities, (ii) to increase capacity by expanding Public Hospitals, (iii) to invest in specific urgent care clinics and medical facilities and (iv) to improve technology with Medicaid IT and public hospital IT systems, among other items.

14.2.1 Investments to enhance health care services

Ensuring access to high quality, affordable health care for Puerto Rico continues to be a top priority of the Government and Oversight Board. In accordance with this priority, and given increased public health needs driven by hurricanes, earthquakes, the COVID-19 pandemic, and the Monkeypox virus, the previous Fiscal Plans and budgets recommended several strategic investments for the health system. Over the last few years, the Oversight Board has worked with the Department of Health (DOH), Puerto Rico Mental Health and Anti-Addiction Services Administration (ASSMCA, by its Spanish acronym), Puerto Rico Medical Services Administration (ASEM, by its Spanish acronym), University of Puerto Rico Comprehensive Cancer Center, Cardiovascular Center Corporation, and the University of Puerto Rico Medical Sciences Campus to ensure the funds are being spent effectively.

To further support health care in Puerto Rico, the 2023 Certified Fiscal Plan has allocated $181 million for strategic investments in capital expenditures for health care agencies and public corporations.

Capital expansions at public hospitals for hospital and health facility infrastructure

Funds were assigned to address critical, near-term infrastructure needs at public hospitals (e.g., renovation of facilities in major disrepair, installation of air conditioning and purification systems, purchase of power generators) and to complete major capital expansions. These investments are meant to ensure that the health system has the capacity and equipment needed to meet the long-term health care needs of Puerto Rico.

- The DOH has made noteworthy permanent structural improvements to urgent care clinics, hospitals and program facilities, along with roof waterproofing, design and construction of electrical substations, replacement of medical equipment and renovation of the operating rooms.
- To date, ASEM has achieved significant progress in their projects including acquisition of new equipment, elevator renovations, roof treatments, exterior painting, and most designs for projects have been finalized.
- Given the limited parking space at the Cancer Center, in October 2022, the Center in collaboration with PRIFA started the construction of an additional parking lot which will have a capacity of 100 vehicles. It is expected to be finished within 3 months. The Center is also working on the design of the Radiotherapy Center and Outpatient Clinics. Once this phase is completed, the construction is expected to span over 24 months.
- Purchase of equipment and system improvements has been ongoing at the Cardiovascular Center. Technical backup system advancements for data protection have been completed, along with the replacement of communication systems and Wi-Fi upgrades. The Center has also engaged to conclude the active projects such as the Hybrid Catheterization Room Equipment, painting the main building and the construction of the Turnkey Hybrid Room.
- ASSMCA has significantly developed its capital expenditures projects. Facility improvements such as roof treatments, door replacements, and bathroom renovations have been completed in various facilities including Hospitals, Central Offices, Medication-Assisted Comprehensive Treatment Clinics (CTIAM) and Residential Programs, among others.

Even though these agencies have made significant progress in executing projects, numerous roadblocks have been reported. Delays and adjustments of project priorities have been driven by inflation in construction costs, supply chain issues with the delivery of materials and equipment, and lack of contractors available for projects.

Modernizing public hospital IT and implementation of Electronic Health Records (EHR)

Funds were budgeted for public hospitals to modernize technology, particularly via implementation of EHR and digital tools for hospital management. EHR (or digital patient records) can be accessed by all clinicians involved in a patient's treatment in real-time, enabling integrated communication within and across provider facilities, and allowing clinicians to make informed decisions based on comprehensive patient treatment histories. Investing in EHR capabilities is expected to reduce clinical and prescription errors and will reduce the administrative burden in public hospitals. Digital hospital management tools allow hospitals to collect and analyze data on patient flow, equipment use, etc. in real-time. Investing in these tools will enable operational improvement in public hospitals.

The Cancer Center was assigned roughly $8 million out of this funding pool to complete the implementation of the EHR. The objective was to continue the development of the necessary infrastructure and implementation of the EHR project to comply with the requirements stipulated by the Centers for Medicare and Medicaid Services (CMS) and the different health insurance providers. Thus far, the Cancer Center completed the EHR implementation of phase one during October 2021, and the second phase, which involves integrating the financial modules, went live on July 1, 2022. Full optimization of the platform was reached by December 2022.

Moreover, during the previous fiscal year, the Cardiovascular Center was assigned $6.2 million to implement an updated EHR system. The EHR project kicked-off during August 2022 and the target completion date is September 2023, as detailed in *Exhibit 60* under the required implementation actions. Completion of this project is critical to be in compliance with the requirements of regulatory

agencies such as CMS. In addition, the Cardiovascular Center has hired a vendor to implement the Enterprise Resource Planning (ERP) Cloud Service. This project is expected to finalize during the month of August 2023.

Improving telehealth infrastructure

Funds were budgeted at DOH to implement telehealth infrastructure to address the urgent need to improve access to care outside the San Juan municipal area. Advancements in telehealth infrastructure would allow patients to receive care more seamlessly from physicians regardless of patient location. This is particularly beneficial to people living in rural areas, and to all of Puerto Rico during periods of heightened physical distancing. The goal is for the funding to be invested in a telehealth platform and / or to develop access points in facilities (e.g., Federally Qualified Health Centers or FQHCs) located in underserved areas.

To date, DOH has been offering workshops related to medical billing of telemedicine services to staff members at the selected entities and reviewing material developed by an advertising campaign to promote the benefits of telemedicine. Furthermore, on November 28, 2022, GSA published the notice of formal auction for the acquisition of equipment training of staff for the Telemedicine program. Once the equipment is acquired, DOH expects to sign the Memorandum of Understanding with the selected entities and perform the installation of the equipment. Action items related to Telehealth are outlined in *Exhibit 60* under the required implementation actions DOH must achieve.

Combating the opioid crisis

Approximately $30 million dollars were allocated over Fiscal Years 2020, 2021 and 2022 to combat the opioid crisis, which remains a pressing concern for Puerto Rico.[77] Funding was assigned to procure and distribute overdose reversal drugs, invest in community health events, and scale existing opioid treatment programs.

DOH and ASSMCA have been jointly undertaking efforts to support the implementation of improvements and expansion of Puerto Rico's Prescription Drug Monitoring Program (PDMP). DOH and ASSMCA agreed to invest in improvements to the PDMP and to implement an Opioid Dashboard. For further details of this project's improvements, refer to Section 14.4.1 of the 2022 Certified Fiscal Plan.

In addition, on December 9, 2022, DOH published a Request for Proposal (RFP) to implement public awareness campaigns and education on the prevention of, misuse, and overdose of opioids across health regions. Consequently, during January 2023 DOH selected the entity which will oversee the campaigns that are scheduled to start in March 2023. Moreover, they must continue to evaluate the action plan for the provision of opioid treatment and forensic analysis, in collaboration with relevant government agencies. Action items related to Opioid Prevention are outlined in *Exhibit 60* under the required implementation actions DOH must achieve.

Supporting hospital accreditation

ASSMCA's Dr. Ramón Fernández Marina Río Piedras Psychiatric Hospital lost its accreditation in 2009 and since then has been unable to bill for services rendered to their Medicaid and Medicare patient population. As such, additional funding was allocated to this hospital to enable it to receive accreditation by the CMS. For further details regarding funding, refer to previous Fiscal Plans.

77 The full extent of the tragedy remains unknown, as data quality from Puerto Rico has been contested.

The additional funds were intended to be used to increase care standards by making physical repairs to the hospital and improving staffing levels to comply with CMS regulations. In addition, ASSMCA was allocated $43.8 million in CAPEX funds during FY2020 (extended to be used until FY2023) to purchase anti-ligature beds, eliminate hanging points and to perform capital improvements to the hospital's structure and other facilities.

Achieving this certification is of utmost importance to ensure that the people of Puerto Rico have access to accredited mental and behavioral health inpatient services within the public health care system. Additionally, being able to bill for services rendered to the Medicaid and Medicare patient population will increase revenues, which can then be reinvested in hospital infrastructure and programs for further improvements. Thus far, ASSMCA has reviewed, updated and developed Policies and Procedures in compliance with CMS and the Joint Commission (TJC) standards, ordered and installed all non-ligature hardware required for the hospital's facility full compliance and submitted form 855-A to CMS. In January 2023 ASSMCA received its unannounced audit visit. The findings report was shared with ASSMCA during the beginning of February 2023, and the Agency has 60 days to achieve several requirements and receive a one-day follow-up visit. Once the hospital has received the final letter of recommendation and accreditation from CMS and the Joint Commission, the hospital can start billing for the Medicaid and Medicare patient populations. Reporting requirements related to ASSMCA's accreditation process are outlined in *Exhibit 60* under the required implementation actions.

Moreover, ASEM has the only Trauma Hospital on the Island providing specialized care to adult and pediatric patients with multiple body trauma. Additionally, the Adult University Hospital is the only supra tertiary public hospital in Puerto Rico. Both institutions serve as an Academy Program for different health professionals where 24 Residency Programs are offered. During April 2021, the Accreditation Council for Graduate Medical Education (ACGME) withdrew the accreditation (effective July 1, 2022) for the Neurosurgery Residency Program, which had been in probation for the past years. For more details about the findings identified by the ACGME and the funding appropriation refer to Section 14.4.1 of the 2022 Certified Fiscal Plan.

Per new regulations, the Medical Science Campus (MSC) must wait 2 years before reopening the Neurosurgery Program. Therefore, the expectation is to open the Program in July 2024. This means that by September 2023 MSC must submit the necessary paperwork to receive a visit from the ACGME in December 2023. Both ASEM and MSC believe they will be ready before September 2023 as they have achieved significant progress in the hiring of House Staff, hiring of neuro-intensivists, increasing bed capacity and recruitment of additional nurses. The roadblocks encountered included delays in the receipt of equipment for the operating rooms and low recruitment on ancillary positions such as clerks and escorts. The MSC has been in constant communication with the ACGME and has provided them with updates on the actions taken during the past year.

Funding the Comprehensive Cancer Center

The 2022 Certified Fiscal Plan allocated to the Cancer Center a $20 million investment over two years, contingent upon Cancer Center completing certain actions. During May 2021, the Cancer Center provided a Business Plan detailing specific actions the Center was going to take to become sustainable by FY2024. Due to the completion of this milestone, the Cancer Center had access to a $10 million appropriation for FY2022. In addition, the Center was required to focus on EHR implementation during FY2022. This implementation would allow the Center to properly and timely bill health insurance provides, increase their collections, and reduce margins of error in their billing process. The Center had access to the additional $10 million during FY2023 due to the successful implementation of the EHR Phase 1. Consequently, during the remainder of the fiscal year the Center

must focus on the transition to be self-sufficient and rely on their own revenues starting in FY2024 as required in *Exhibit 60* under the implementation actions.

The 2022 Certified Fiscal Plan also provided for $10 million in incremental funding for a period of 7 years starting in FY2023 to support cancer research initiatives that will allow the Comprehensive Cancer Center of Puerto Rico to obtain the formal federal designation of Cancer Center, which will in turn provide access to additional federal funds. This funding is contingent upon the Cancer Center completing certain milestones*:*

- During FY2022 the Cancer Center developed and implemented an integrated campaign through advertising, digital media, and public relations to promote prevention, early detection and specialized treatment health services programs offered at the Hospital and received an additional $10 million incentive during FY2023.
- To receive the incentive of $10 million in FY2024, the Cancer Center must implement the second phase of the Electronic Health Records implementation, which involved integrating the financial modules, by December 31, 2022.
- The Cancer Center must participate in the 340B Drug Pricing Program by obtaining Certifications to purchase prescription drugs at lower cost by June 30, 2024.
- Once the respective milestones are achieved, the Cancer Center must provide a formal notice and submit supporting data corroborating such achievement for the Oversight Board's review.

Maintaining direct patient care staffing levels

The 2023 Fiscal Plan maintains the $9 million annual funding for the direct patient care employees working at DOH. For additional details refer to Section 14.4.1 of the 2022 Certified Fiscal Plan.

Fulfilling federal requirements

The 2023 Fiscal Plan allocates funding for fulfillment of two federal requirements:

Intellectual Disability Program: The Puerto Rico Division of Services for People with Intellectual Disabilities is required to have certain standards for services, and state appropriations to the program must be fully utilized to meet those standards. A Federal Court found that Puerto Rico failed to use state funds allocated for this purpose from FY2015-FY2019. Accordingly, the 2021 Fiscal Plan allocated $20 million over four years (FY2021-FY2024) to reimburse the program. Additionally, as mentioned above, measures related to personnel have been eliminated.

Psychiatric hospital: The 2021 Certified Fiscal Plan ensured that the annual budget for the Psychiatric Hospital in Rio Piedras is a minimum of $23 million. To do this, the 2021 Certified Fiscal Plan allocated an incremental $5 million in FY2022 and $5 million in FY2023 to enable the facility to earn its Medicare certification. Certification will drive increased revenues, which can be reinvested in the hospital to maintain full compliance with the consent decree.

14.2.2 Overview of efficiency actions

Consolidating administrative and support functions

Consolidation of health agencies will enable efficiencies in administrative and support areas. In addition, operational efficiencies are expected to be realized through elimination of duplicative programs and tasks across agencies. For example, labor-intensive and / or paper-based processes must be streamlined through digitization and implementation of software solutions.

In addition, efforts must be undertaken to streamline internal management processes and enable the identification of further efficiencies. This must also be done to identify duplicative roles and programs across health agencies that must be reduced or centralized. Currently, DOH is in the process of restructuring the organizational structure and presenting it to OMB. Consequently, planning and implementation of the first phase for the reorganization of the DOH should be completed by the end of FY2023. Action items related to this topic are outlined in *Exhibit 60* under the required implementation actions DOH must achieve.

Rightsizing non-administrative health personnel

As the Puerto Rican population declines, spending on non-administrative payroll such as allied health professionals are expected to decline. There are several ways to decrease this spend without impacting health services. For example, wages should be aligned with fair market value to reduce turnover and the associated spend on temporary / overtime workers, and roles and responsibilities should be optimized to skill level and wage rate (e.g., nurses should practice at the "top of their license"). Furthermore, health agencies should also optimize staff placement wherever possible and best practice hospital management tools, such as shift management software, should be used to maximize efficiency. Simplification and streamlining of these processes will reduce administrative burden and improve operational efficiency. In addition, public hospitals must utilize IT investments to implement digital clinical management tools that can enable consistent data collection, reporting, and identification of opportunities for operational optimization.

Meanwhile, hospitals have yet to implement best-practice operational tools to manage personnel. Nevertheless, personnel and payroll records are in the process of being centralized. The Oversight Board and AAFAF are together implementing at several Health agencies an Automated Time and Attendance (T&A) system that is connected to payroll and will ensure that only employees who are working get paid to avoid distributing incorrect pay to employees. Most agencies already have attendance registration systems in place, but those systems are not connected to payroll. Details regarding the initiative can be found in Section 2.6.

The DOH started the project in August 2021, with agreed milestones mostly involving the integration of DOH's current platform with an on-premises attendance workforce management platform. DOH's outdated time-keeping system in certain non-hospital facilities posed challenges as employees were previously required to register attendance through cardboard punch cards. In addition, processing terminations and unpaid leave licenses took up to three months. The DOH successfully completed the implementation in November 2022 and ASEM in December 2022. The T&A initiative will not only benefit the DOH and ASEM, but it will also be implemented at the following agencies: ASSMCA, Cardiovascular Center, and the Cancer Center with the goal to be completed during 2023. The Diabetes Center and ASES are expected to begin the T&A effort in December 2023.

Consolidating regional Medicaid offices

At the end of FY2018, the Medicaid Program within DOH had 85 offices that provided face-to-face service to the public across the 78 municipalities. To date, the Medicaid Program has successfully reduced the number of offices to 63 across 78 municipalities. Additional office location consolidations are being considered with the expectation of reaching $500,000 in savings. Further details regarding the benefits of reducing the Medicaid office and regional hospital office footprint can be found in Section 14.4.2 of the 2022 Certified Fiscal Plan.

Optimizing supply chain management and transforming hospital management

Implementation of procurement best practices and leveraging economies of scale must also be extended to non-health care categories (e.g., office and general maintenance supplies, security services). Such initiatives are expected to be enabled by agency consolidation and operational streamlining. In addition, due to the level of spending and rising costs of medical supplies, services and equipment, there is a significant opportunity to improve procurement efficiency for hospitals and health systems by focusing on commodity standardization and sourcing, indirect spending (analyzing insourcing versus outsourcing opportunities), and physician preference item optimization.

ASEM was created to serve as a central procurement office for the member institutions of the Puerto Rico Medical Center to create economies of scale for medical supplies, devices, and services. Over time, procurement costs have increased at a higher rate than those of the broader health care industry, while procurement processes have become decentralized across the institutions that ASEM was created to serve.

During FY2021 and FY2022, ASEM made progress in achieving savings on medical supplies. The University District Hospital (UDH) and ASEM have accomplished about $3.5 million in savings due to the centralization of the purchasing and bidding process. ASEM has also worked on the implementation of Pyxis, an automated medication dispensing system. Pyxis has already been deployed across stations in the Emergency Room, Trauma and Endovascular centers reaching savings of about $1 million and is pending installment at the Radiology Center and external clinics.

Moreover, the DOH has successfully implemented uniform regulations for procurement and bids of goods, works and non-professional services. This regulation was established for the purpose of creating the standards, procedures, and uniform guidelines to be followed to process acquisitions, purchases, leases and award of goods, works and non-professional services. This regulation has been rolled out at the University Pediatric Hospital (HOPU, by its Spanish acronym), UDH, the Dr. Ramón Ruiz Arnau University Hospital (HURRA, by its Spanish acronym), the urgent care clinics (CDT, by their Spanish acronym) and the Intellectual Disability facilities of the Department of Health. It also establishes the guidelines for purchases without bids of materials, supplies, equipment, and parts, as well as the contracting of non-professional services that are necessary for the operations of the aforementioned entities, to guarantee the best use and administration of funds as well as healthy competition in a framework of transparency, all of which will result in a higher quality of services offered to Puerto Rico's residents.

Restructuring ASEM and Revenue Cycle Management (RCM)

Optimized revenue cycle management allows hospitals to establish the most advanced, efficient, and effective clinical services registration, improve effective billing of services, timely collection on account receivables, as well as health care utilization and patient discharge management. By working with analytics experts, ASEM will increase the speed and accuracy of claims processing, improve collection rates with external payors, and maximize revenue. The Revenue Cycle Management contractor began providing service to ASEM and UDH in mid-March 2021. The RCM was implemented using a three-phase approach and became fully operational and in charge in June 2021.

After almost 2 years of reviewing and monitoring the provider's performance, no significant savings or increased revenue and collections have been achieved to date. As a result, ASEM has hired a third party who will perform an audit of the current provider to review compliance. Therefore, given the expiration of the contract with the current provider, ASEM must issue a new RFP incorporating key opportunities identified. Action items related to RCM are outlined in *Exhibit 60* under the required implementation actions to be achieved.

14.2.3 Required implementation actions

To achieve the 2023 Fiscal Plan requirements, the DOH grouping must complete key operational efficiencies as outlined in *Exhibit 60*.

EXHIBIT 60: REQUIRED IMPLEMENTATION ACTIONS FOR THE DEPARTMENT OF HEALTH (DOH)

	Required implementation actions	Deadline
To be Completed	Identify common administrative and medical supplies across health agencies and public hospitals with opportunities for savings through procurement centralization	June 2023
	Centralize procurement of identified administrative and medical supplies within ASEM	December 2023
	DOH - Execute public awareness campaign on Opioid prevention	June 2023
	DOH - Provide monthly updates on the Prescription Drug Monitoring System	Monthly
	ASSMCA - Upon CMS accreditation, provide monthly updates of billings for Medicare and Medicaid patients	Monthly
	ASEM - Review the current providers performance on the RCM, report saving and KPI's	Monthly
	DOH - Complete the procurement, purchase and installation of the Telehealth Portals	June 2023
	Cancer Center - Become self-sufficient and rely on SRF's by FY2024	June 2023
	Cardiovascular Center - Fully implement Electronic Health Records	September 2023
	DOH - Identify duplicative roles and positions across agencies/programs and opportunities for centralization of duplicative tasks	June 2023

14.3 Department of Public Safety (DPS)

The 2023 Fiscal Plan also continues to support efforts to improve public safety given its impact on the quality of life of Puerto Ricans and its potentially catalytic effect on economic development. The Oversight Board and the Government are committed to redoubling their efforts to improve public safety by continuing previous investments in the workforce (e.g., salary increases, police equipment and capital) and maximizing the impact of those investments (e.g., by allocating as many sworn officers to the field as possible and improving the efficiency and effectiveness of procurement).

The Department of Public Safety (DPS) is an agency grouping which was approved by Puerto Rico's Legislature in 2017 (Act 20-2017) and includes seven bureaus responsible for **ensuring safety and security for all residents of the Island**. The DPS grouping includes the following agencies:[78]

78 Forensics Sciences has been maintained as an independent agency per Act 135-2020. Fiscal Plan savings expectations for agencies do not change if they are determined to remain independent versus consolidating. As such, 2023 Fiscal Plan targets for Forensics will not change

EXHIBIT 61: LIST OF BUREAUS IN DEPARTMENT OF PUBLIC SAFETY GROUPING

1 Puerto Rico Police Bureau (PRPB)	5 9-1-1 Services Governing Board
2 Firefighters Corps	6 Special Investigation Unit
3 Emergency Medical Services Corps	7 Department of Public Safety
4 Emergency Management and Disaster Administration Bureau	

1 Bureau of Forensic Science Institute will remain separate of the Department of Public Safety grouping

Of all Commonwealth agencies, the second largest agency by spend and personnel is the Puerto Rico Police Bureau (PRPB), representing roughly 85% of total DPS spend. Based on reports as of December 2022, over 1,000 of the 11,765 sworn officers in the Police continue to fulfill administrative roles. Please refer to previous versions of the Fiscal Plan for more details. The 2023 Fiscal Plan continues to be oriented towards rebalancing the transition of sworn officers to the field, adding civilians to backfill administrative roles.

For other DPS bureaus, the 2023 Fiscal Plan continues to require consolidation of back-office functions and optimization of non-personnel spend, while allocating funds for priorities such as consent decree compliance, materials, and equipment, among others. Specific investments and other funding are outlined below. DPS has outlined initiatives to transition sworn officers from administrative positions to front office duties including the design of a database to maintain control of the officers and positions to be addressed. In addition, various mass recruitment campaigns have been held across the Island.

In FY2022, the Department of Public Safety made progress towards consolidating back-office roles through the creation of a shared services structure within DPS. In addition, it is currently implementing a time and attendance system for its shared services structure as well as all its six bureaus and digitized all forms (including the computer-aided dispatch [CAD] system / incident reporting). However, the formation of a shared services structure within DPS has added bureaucratic issues and created additional hurdles in its operational processes at an administrative level, affecting the performance of the agencies within the umbrella. As of December 2022, DPS has already transferred most of the back-office personnel from the six bureaus to the shared facilities at DPS. The table below reflects the progress made by DPS to consolidate back-office functions.

EXHIBIT 62: BACK-OFFICE CONSOLIDATION PROGRESS TO DATE BY BUREAU

Back Office Consolidation Initiative – Progress to Date by Bureau	
Police Bureau	• 40% of Finance has been integrated as of October 31, 2022 • 100% of Budgeting has been integrated as of December 6, 2021 • Payroll Dept. requested letters dated 15 August 2022, move has not been finalized • Legal – Awaiting eight lawyers who work "querellas"(Complaints)
Firefighters Bureau	• All personnel has been integrated as of March 16, 2022
911 Governing Board	• 70% of Human Resources has been integrated as October 31, 2022 • 100% of Finance has been integrated as October 31, 2022 • 50% of Budgeting has been integrated as October 31, 2022
Medical Emergency Bureau	• All back office personnel has been integrated
Special Investigations Bureau	• All back office personnel has been integrated
Emergency & Disaster Management Bureau	• All back office personnel has been integrated

As of December 2022, PRPB reported that about 1,360 of 11,765 sworn officers were still performing administrative roles, with an additional 639 providing support as police escorts and task forces. A combination of high historic attrition rates, the agency's continued inability to hire additional civilian staff, and a push for headcount reductions through Voluntary Transition Programs (VTPs) has led to a shortage of field officers and increased overtime spend. PRPB implemented two academies and recruited 525 cadets in FY2022 to address this shortage and are currently working with the recruitment of 529 cadets from two additional academies, but despite these efforts, PRPB continues to have difficulties hiring civilians to enable more cadets and sworn officers to move into field roles.

Recruitment difficulties for front and administrative roles, continues to be a major hurdle amongst other DPS bureaus as well (please refer to previous versions of the Fiscal Plan for additional information). As such, the 2023 Fiscal Plan highlights the need to drive actual changes in processes and back-office efficiencies, as relying on retirement incentive programs to reduce frontline staff has the potential to negatively impact service levels.

14.3.1 Investments in safeguarding public safety

The 2022 Certified Fiscal Plan included continued investment in public safety for Puerto Rico. The 2023 Fiscal Plan maintains these investments. The below detailed investments were intended to enable the Bureaus to hire and retain frontline employees and work with proper and sufficient equipment. Investments included:

- **Sworn police officer salary increase (about $160 million per year):** The 2023 Fiscal Plan continues the provision of funds to support the 30% increase in salary relative to FY2019 levels. Please refer to previous versions of the Fiscal Plan for more details.
- **Plan Vital for current and future retired police officers:** The Government has indicated a need to provide continued health services to those who protect the Island's population in their years of retirement. As such, the 2023 Fiscal Plan continues to support the medical costs that will be endured by retired police officers. The average annual cost of this incremental spending initiative from FY2022 to FY2051 is approximately $23 million. These costs are estimated to be $8 million in FY2023, $10 million in FY2024, and rise steadily thereafter before reaching a peak of $35 million in FY2038. Please refer to previous versions of the Fiscal Plan for more details.
- **Enhanced police retirement:** The 2022 Certified Fiscal Plan segregated over $850 million to be spent over the next 15 years, including over $500 million by the end of FY2023, to allocate towards enhancing police officers' Act 106-2017 defined contribution accounts. The 2023 Fiscal Plan maintains this level of funding.
- **Investments in the Police Bureau for capital expenditures:** The 2022 Fiscal Plan provided additional funds for new vehicles and fleet replacement. The 2023 Fiscal Plan maintains this level of funding subject to the submission of the capital improvement plan with a priority list.
- **Investment in Firefighter salaries (about $10 million per year):** The 2023 Fiscal Plan continues to provide funds to support the $1,500 salary increase provided initially in FY2020 for all ranking officers and provides the funding required to preserve the FY2021 $1,500 salary increase for all Fire Bureau employees, which has an identified source of funds provided in Act 181-2019, as amended. Please refer to previous versions of the Fiscal Plan for more details.
- **Investments in personnel for Emergency Medical Services Corps (EMS):** The 2023 Fiscal Plan continues to provide an annual investment of $1.1 million towards the recruitment of paramedics and dispatchers. Please refer to previous versions of the Fiscal Plan for more details.
- **PRPB reform:** $20 million annual investment in 212 areas of police improvement for three consecutive years since FY2020. The 2023 Fiscal Plan includes funding to meet the requirements of the consent decree (Perez v. PRPB 16-cv-02849).
- **Police overtime:** Previous Fiscal Plans included funding for overtime pay and implementation and maintenance of the Kronos electronic timekeeping and overtime management system. The 2023 Fiscal Plan maintains this level of funding subject to the submission of a specific monthly workplan to eliminate the excess of compensatory time (accumulated by overtime) over 240 hours for civilian employees and 480 hours for ranking officers.
- **Investments in personnel and materials for Institute of Forensics:** The 2022 Fiscal Plan provided $4.7 million in payroll to enable the hiring of forensics scientists, pathologists, examiners, and DNA specialists. The 2023 Fiscal Plan continues an investment in Forensic Sciences Institute of $2.3 million, for this same purpose.

14.3.2 Overview of efficiency actions

Transferring sworn officers out of administrative roles and into the field

The PRPB has made some progress transferring sworn officers out of administrative roles and into the field. However, in accordance with the 2023 Fiscal Plan, PRPB needs to make significant progress on replacing sworn officers currently performing civilian duties—such as mechanics, radio operators,

record and report keepers, area command statistics compilers, and maintenance workers—with less expensive civilian personnel, and transfer sworn officers out into communities. In doing so, PRPB will be able to provide better services by enabling more officers to work in the field with the community, while reducing overall expenditures for the Bureau.

Fiscal Plans require PRPB to transfer more than 1,000 sworn officers to non-administrative roles between FY2020 and FY2025 and hire an additional about 900 civilian personnel to perform the administrative functions, while also pursuing Bureau efficiency to reduce the overall need for administrative personnel. PRPB must accomplish this by pursuing process optimization, digitizing incident reporting, automating time and attendance systems, and consolidating statistical reporting. Furthermore, DPS must streamline vehicle maintenance processes through superior scheduling and procurement protocols, which can reduce the need for vehicle maintenance staff, as detailed in *Exhibit 63*.

PRPB has made good progress on these goals, including successfully deploying and fully implementing a time and attendance system for its entire personnel as of December 2022, and updating to the latest software version of its incident reporting system (Tiburon / CAD). However, PRPB is still behind on overall process improvements, as well as its goal of moving more sworn officers into the field. The 2023 Fiscal Plan specifies that there should be 11,842 active sworn officers and 1,413 active civilians / back-office personnel in FY2023. Currently, there are 11,765 and 694, respectively.

The Bureau has reported no savings from back-office efficiencies. Further, as of December 2022, DPS reported that no officers in administrative roles had been replaced by civilian employees. This is not in line with the partial back-fill targets required in the 2023 Fiscal Plan. Efforts to implement two academies and recruit 525 cadets in FY2022, along with a pending start date for an Academy with 200 cadets, have not solved current staffing shortages.

The Bureau has also struggled severely to recruit civilians for administrative roles, despite multiple attempts to recruit from civilian staff within government as well as external efforts. The Department claims the limited hiring is due to non-competitive salaries for the civilian roles, limited availability of analysts from Human Resources for the evaluation of applications, additional requirements (such as thorough background checks) for qualification, and mandatory academic / professional experience needed to qualify. DPS claims to have implemented multiple recruitment drives, both within the Government as well as externally, to recruit for accounting and IT back-office roles, which they consider extremely difficult to recruit for due to the non-competitive compensation and benefits conditions, which DPS expects will be addressed through the Civil Service Reform.

Without focused action, PRPB will be unable to achieve the actions required to transform its operations and ensure it can move more sworn officers onto the streets to improve public safety on the Island. DPS is currently in the process of asserting the proper level of compensation required to attract front-office personnel throughout all its bureaus to achieve the optimal staffing levels. DPS also intends to close the competitive pay gap with other jurisdictions, which presents the most significant challenge to retain its personnel.

Reducing overtime

Previous Fiscal Plans have required PRPB to reduce paid overtime by 60% by FY2023, expected to be accomplished in part through the operational efficiencies noted above as well as by moving more sworn officers into the field and deploying more effective staffing and personnel management models.

While PRPB reduced overtime spend in FY2019, FY2020, and FY2021, it saw sharp increases driven by a shortage of field officers and failure to hire civilian staff. Projections for FY2023 overtime expenses maintain a continued increase from the previous two fiscal years. Additional statutory systemic factors, such as paying current pay rates for previously incurred overtime, also contributed to the increase in overtime pay. Based on the latest information from DPS, the Police Bureau had already spent approximately $66 million on overtime as of December 2022, and the Police Bureau is projecting an approximate expenditure of about $18 million for the remainder of the fiscal year.

Tracking and managing overtime in Puerto Rico is further complicated by the manual nature of the process and the lack of centralized reporting. As a result, DPS did not have visibility into the quantity of overtime for a given period. To address this issue, a system to track overtime hours (SITAS) has been implemented in the Police Bureau as of June 2021. After adopting the Kronos / SITAS time & attendance tool, the Police Bureau has been able to track its overtime. However, the Police Bureau must reduce yearly expenses to achieve the $20 million savings required in previous Fiscal Plans. The Police Bureau must outline an implementation plan to reduce overtime expenses.

The Police Bureau should make significant progress to improve its management of overtime to avoid unnecessary costs in future years, as detailed in *Exhibit 63*. Furthermore, the SITAS / Kronos tool must be used to identify specific areas and timeframes with patterns of unusually high overtime expenses. The data and experience gathered in the process will provide tools to deploy and manage personnel more efficiently. DPS and the Police Bureau should prepare and submit a specific monthly workplan to eliminate the excess of compensatory time (accumulated by overtime) over 240 hours for civilian employees and 480 hours for ranking officers.

Driving other DPS agency personnel efficiencies

The other DPS bureaus were required to consolidate back-office functions into the centralized DPS administrative agency starting in FY2019, with a goal of 50% reduction in transitory workers (excluding PRPB, Firefighter Corps, and EMS).[79]

Significant progress has been made at DPS in this consolidation. To date, approximately 598 employees have transferred to DPS from across the six Bureaus, including 352 administrative roles from the Police Bureau. DPS has also established direct reporting lines and process integration across the remaining six bureaus for Procurement, Legal, Communications, Human Resources and Finance, and has migrated all Bureaus onto standardized system software for key back-office functions (e.g., accounting, finance, procurement).

Although DPS now has a budget to fund centralized back-office roles, procedures and key performance indicators still need to be established. This is especially true for Recruitment and Procurement, where multiple duplicative manual processes are performed in both areas. The Oversight Board has yet to receive a proper staffing and capacity analysis of current personnel, including detailed information of year-to-date procurement activity. DPS must provide monthly implementation reports, as per reporting requirements, regarding recruitment and procurement activity and progress for all Bureaus, including CAPEX reports and vacant positions filled, as detailed in *Exhibit 63*.

The Special Investigations Bureau, the Emergency and Disaster Management Bureau, the Government Board of the 911 Service, the Police Bureau and the DPS Shared Service structure have adopted the time and attendance system (Kronos) for front office and administrative roles during FY2022. Please refer to previous versions of the Fiscal Plan for more details. DPS confirmed such

79 Excluding 9-1-1

adoption was completed in the Emergency Medical Services Bureau in March 2022, while the Fire Bureau completion date is March 2023. DPS and its Bureaus are yet to fully implement the Time and Attendance project, which requires all employees to register attendance that must be linked automatically to payroll. DPS and its Bureaus has suffered significant delays with this implementation due to a high number of hours in Time Not Registered (TNR) of approximately 1,500 employees. The time and attendance tool is necessary to enable better transparency in personnel time allocation and payroll expenditures.

Optimizing all DPS agency non-personnel spending

DPS must centralize and consolidate purchasing for all DPS agencies, leverage the negotiating power of the Federal General Services Administration, utilize e-auctions, and launch competitive Requests for Proposal (RFPs) for outsourcing responsibilities. Even though procurement has been centralized within the DPS Shared Services structure, they will have to coordinate directly with GSA as the Government's central procurement agency for all purchases of the Bureaus and re-engineer their processes as the Shared Services structure has become less effective due to multiple manual processes. DPS is committed and has made significant progress addressing these issues; however, DPS must continue to focus on eliminating all current manual procedures by June 30, 2023, as detailed in *Exhibit 63*.

14.3.3 Required implementation actions

To achieve the 2023 Fiscal Plan expectations, the Department of Public Safety grouping must complete key operational efficiencies as outlined in *Exhibit 63*.

EXHIBIT 63: DEPARTMENT OF PUBLIC SAFETY REQUIRED IMPLEMENTATION ACTIONS

	Required implementation actions	Previous deadline	Status / New deadline
To be completed in FY2023	▪ Scale up rollout of automated time and attendance system (Kronos) across all PRPB precincts and other DPS agencies (e.g., front-office personnel in Firefighters Corps)	▪ June 2022	▪ On-track / April 2023
	▪ Consolidate purchasing for all DPS agencies, eliminate all manual processes, and report procurement efficiency gains	▪ June 2022	▪ On-track / May 2023
	▪ Create a Transformation and Project Management Office within DPS to ensure the implementation and continuity of the operational transformation initiatives. (e.g., Procurement)		▪ On-track / June 2023
	▪ Launch external recruitment drive for civilians to fill target administrative role vacancies in DPS	▪ June 2022	▪ Delayed / June 2024
	▪ Launch recruitment drives to fill specialist front-office roles across DPS agencies (e.g., Institute of Forensics, Police Cadets, Firefighters, EMS)	▪ June 2022	▪ Delayed / June 2024
	▪ Outline implementation plan to achieve overtime savings and launch initiatives to achieve rightsized staffing levels of sworn officers in field roles	▪ June 2022	▪ Delayed / June 2024
	▪ Outline potential initiatives to achieve other operational process improvements across all bureaus and provide monthly B2A and procurement reporting (e.g., digitization of incident reporting, consolidation of statistical reporting, streamlining of vehicle maintenance)	▪ June 2022	▪ Delayed / June 2024
To be completed in FY2024	▪ Complete hiring of 900 civilians to administrative roles to enable transfer of all sworn officers to field roles	▪ June 2024	▪ On track

14.4 Puerto Rico Innovation and Technology Services (PRITS)

14.4.1 Investments in technology strategy

The Puerto Rico Innovation and Technology Services (PRITS) was created to establish an administrative structure responsible for technology strategy across the Government of Puerto Rico. The 2017 Executive Order that established PRITS gave it the following responsibilities, among others:

- Integration of technology into government management
- Promotion of public, private, and academic projects in the technological field
- Creation of a digital platform to integrate the different components and government entities
- Generation of a system of tax payment and bank transfers under Hacienda
- Development of a public accountability system

In July 2019, the Government enacted Act 75-2019, making PRITS the office of the Executive Branch responsible for implementing, developing, and coordinating the Government's public policy on innovation, and information technology (IT). Please refer to previous versions of the Fiscal Plan for more details.

During FY2022, PRITS improved oversight by establishing an exhaustive portfolio of digital initiatives prioritized by impact, feasibility, and relevance for central government agencies, as required in the previous fiscal plans. Additionally, PRITS made progress in improving transparency and accountability of IT spend across Government. For example, PRITS created a protocol with OMB to evaluate innovation and technology budget proposals submitted by the government agencies to be implemented for the FY2024 budget process. By conditioning approval of the agencies' technology budget to a connection with the government's digital initiatives, PRITS has begun to ensure that all government agencies comply with the submission of their digital initiatives into PRITS portfolio.

In addition to these accomplishments, PRITS has room to make more effective use of its technology resources and available funding. First, PRITS still has room for improvement in integrating its IT infrastructure (e.g., on-premises data centers and cloud storage) and services (e.g., applications) across the Government. During FY2021, PRITS was granted $10 million for centralized data center strategy and operations, cloud services and new equipment. Such funding should have been utilized by PRITS for investments in centralized IT infrastructure and the migration of existing government services into such centralized IT infrastructure. These efforts would significantly reduce the need for infrastructure and cloud services at the agency level, which, in many instances, are being underutilized.

During FY2022 PRITS provided a preliminary strategic detailed plan for the data center consolidation, which contemplated the retrofit of facilities in Roosevelt Roads, and aimed to achieve potential benefits such as reducing operational costs, meeting energy efficiency standards, limiting capital expenditures, increasing utilization of equipment, and preventing security risks, among others. To enable PRITS to complete the conditioning of the proposed data center, the Oversight Board approved in its FY2023 budget under Capital Expenditures $5.3 million for broadband infrastructure and the remodeling design of the data center in Roosevelt Road. On November 2022, PRITS was able to identify better suited locations for the centralized data center and is in the process of developing a new plan for the data center consolidation. PRITS has additionally made progress with the integration of services and applications identified in its inventory by consolidating the cloud service contract to include some Government agencies. PRITS must continue to make progress in the

implementation of centralized telecommunication services and cybersecurity strategy and operations.

Second, although PRITS was granted $3.6 million in FY2022 for full staffing (including specialized resources), which continues in FY2023, the agency suffered significant delays in formalizing a government-approved organizational structure. In fairness, these delays coincided with other bureaucratic obstacles in the recruitment process, such as outdated job classifications not reflective of agency staffing needs, which will be addressed through Civil Service Reform. PRITS was able to recruit key positions such as Chief Technology Officer (CTO) and is continuing its efforts to recruit the Chief Information Security Officer (CISO) and other personnel with expertise in solution development, operations, and technology architecture. However, the lack of a new approved organizational structure with the highly specialized positions required for PRITS to complete its hiring plan has resulted in a roughly $1.3 million Payroll underspend in FY2022 and FY2023 that continues to ultimately hinder the agency's ability to meet some implementation deadlines.

The Government and PRITS must continue to focus on the creation of centralized teams with the specialized skills needed to accelerate infrastructure consolidation and improve the Government's ability to deliver new technology solutions. Agencies continue to rely too heavily on external vendors rather than building the capabilities of PRITS to lead and manage these initiatives. Similarly, there continues to be unclear accountability for technologies developed at the agency level. As a result, pieces of infrastructure are developed and managed separately, with dispersed accountability, creating a complex web of oversight, incremental cost, and ineffective systems. Additionally, while it is apparent that certain agencies are taking advantage of the centralized cloud infrastructure by moving additional services into the cloud, the savings and existing budgets associated with the operational costs of on-premises data centers and other related expenses are not being transferred to PRITS.

As provided by Act 75 of 2019, the Governor has the authority to transfer to PRITS personnel, funds, budgets, documents, records, equipment, materials, and files of any other IT operational area of any agency, for use in the purposes of the Act. The Government and PRITS should continue to work together to ensure that PRITS has the necessary resources to fulfill its mandate of centralizing and standardizing the management of the information technologies and innovation areas of government.

14.4.2 Overview of efficiency actions

It is critical that the Government make effective use of its technology resources. The Government, via PRITS, must continue to improve its capabilities in digital delivery to achieve critical benefits, including:

- **Reducing expenses and improving reliability through data-center consolidation.** Since 2016, the Federal Government has closed 210-tiered data centers, and over 3,000 non-tiered data centers. To realize the full benefit of this action, PRITS must continue to implement best practices at the state and federal level. These practices should include increasing use of virtualization, freezing new data centers unless compelling justification exists, and exploring the use of cross-agency shared services.
- **Rationalizing the application portfolio to ensure that Government-wide resources are directed to the highest priority initiatives**. Modern governments face substantially higher demand for technology services than can be fulfilled. In a resource-constrained environment, disciplined application portfolio management can ensure alignment between IT spend and government priorities. Accordingly, PRITS must implement a government-wide

application rationalization effort which prioritizes proven solutions. Please refer to previous versions of the Fiscal Plan for more details.

- **Enhancing cybersecurity to prevent costly data breaches.** As cyber threats continue to proliferate, government agencies globally have adopted cybersecurity-specific risk management practices. PRITS must continue to improve the Government's cyber defenses by developing a cybersecurity awareness program where users are continuously exposed to training materials and perform exercises to validate their knowledge, complementing the actual policy by adding processes and procedures which include specific technical requirements and standards such as penetration testing of "crown jewels", vulnerability assessments, phishing tests, anti-virus, Wi-Fi tests, controls reviews, monitoring, user credentials and enterprise risk management, use of Endpoint Detection and Response systems across all Government technological devices, network monitoring software's, deployment of networking data logging (firewalls), IT Service Management asset management, maturity level assessments, a security operations center and coordinating delivery of specialized expertise across government where the need arises.
- **Improving transparency and accountability of IT spend across government and focusing on value for IT dollar spending**. PRITS will realize its greatest impact when stakeholders are given a clear line of sight into where IT spending is going, and what value is being delivered. Encouraging agencies spending government resources to provide this transparency should therefore be a core focus for PRITS, rather than pursuing a centralized effort that threatens transparency as incremental to existing IT spending.

14.4.3 Required implementation actions

In line with the four key initiatives stated above, PRITS must achieve the following objectives and milestones.

EXHIBIT 64: PUERTO RICO INNOVATION AND TECHNOLOGY SERVICES REQUIRED IMPLEMENTATION ACTIONS

	Required implementation actions	Deadline	Status / New deadline
To be completed in FY2023	Review all technology-related budget requests as part of the FY2024 Budget cycle	March 2023	On-track
	Complete the design of the cloud services and on-premises data center consolidation plan, including recovery strategy, and the onboarding of the team that will execute the consolidation	June 2023	On-track
	Achieve oversight of all digital initiatives, prioritized by impact, feasibility and relevance for Central Government Agencies in the digital portfolio	June 2023	On-track
	Define the full scope of Cybersecurity program implementation across all agencies and develop completeness goals according to specific needs and vulnerability assessments across agencies	June 2023	On-track
	Identify required resources to maintain the Cybersecurity program in perpetual operation with the responsibility of managing continuous improvement initiatives, alert monitoring, and resolution, and implementing awareness campaigns	June 2023	On-track
	Consolidate current personnel spending and establish cross-functional teams by identifying personnel in government agencies with specialized technology skills to be centralized	June 2023	On-track
To be completed in FY2024	Complete a legal and operational analysis of the data centers to be consolidated, understanding the contracts that must be terminated, consolidated, and created	September 2023	
	Ensure critical cybersecurity infrastructure, processes and control systems are set in place by PRITS and adopted by government agencies to minimize risks through clearly defined governance structures	December 2023	
	Develop a plan to migrate any other pending resources in the "closed" data centers, including personnel, contracts, and others	March 2024	
	Consolidate servers "as is" of the agencies identified in the first phase, including customer service protocols covering all consolidated agencies, while defining in parallel a recovery process based on the cloud and on-premises components in the new data center	June 2024	
	Develop a design on how to consolidate servers, services, tools, systems, databases, and other technological resources	June 2024	

14.5 Agency efficiency initiatives implementation plans

The following section consolidates and outlines implementation milestones, action plans, and timelines for efficiency initiatives across additional agencies

14.5.1 Department of Corrections and Rehabilitation (DCR)

EXHIBIT 65: REQUIRED IMPLEMENTATION ACTIONS FOR DEPARTMENT OF CORRECTIONS AND REHABILITATION

Areas of focus	Required implementation action	Deadline	Status	New Deadline
Consolidate agencies	▪ Provide outline for facility footprint and consolidations assessment study	July 2020	Completed	N/A
	▪ Publish facility footprint and consolidation assessment study listing facilities to be considered for consolidation or investment required to improve habitability of spaces	December 2020	Completed	N/A
	▪ Implement plan to consolidate additional facilities and improve habitability of spaces to improve system level utilization of existing spaces and provide supporting documentation (e.g., RFP documents submitted to proceed with consolidation)	March 2021	Delayed	December 2023
Rightsizing personnel	▪ Implement back-office process redesign (e.g., digitization of record keeping) to achieve personnel efficiencies and reach FY2022 headcount targets	July 2020	Delayed	June 2024
	▪ Outline initiatives to reduce headcount in order to achieve target headcount in FY2022 and onward	March 2021	Delayed	December 2023
Optimize procurement spend	▪ Provide facility-level data on opex spend, list of procurement contracts and outline initiatives to achieve procurement efficiencies in FY2022	September 2020	Completed	N/A
Redesign correctional health program	▪ Provide updated roster of Correctional Health employees (direct, contracted) outlining key roles and responsibilities to validate current staffing levels	July 2020	Completed	N/A
	▪ Provide assessment of healthcare spend per inmate and identify initiatives to generate personnel or opex savings	December 2020	Completed	N/A

14.5.2 Department of Economic Development and Commerce (DDEC)

EXHIBIT 66: REQUIRED IMPLEMENTATION ACTIONS FOR DEPARTMENT OF ECONOMIC DEVELOPMENT AND COMMERCE

	Required implementation actions	Deadline	Status / New deadline
To be completed in FY2022	▪ Publish quarterly reports in the agency's website detailing all economic incentive donation/subsidy amounts given to private corporations	Quarterly ▪ Q1 – October 2022 ▪ Q2 – January 2023 ▪ Q3 – April 2023 ▪ Q4 – July 2023	▪ On track, recurring
	▪ Identify which procurement contracts have been renegotiated or are pending renegotiation or elimination (across all consolidated and ascribed DDEC entities) to the Oversight Board	▪ June 2020	▪ Delayed – May 2023
	▪ Update operational needs assessment across all consolidated and ascribed entities (including PRTC and JP) to identify where to reduce front- and back-office personnel without inhibiting the performance of DDEC agencies	▪ September 2023	▪ On track
	▪ Finalize the consolidation of the physical footprint of all consolidated DDEC agencies	▪ September 2020	▪ Completed
	▪ Reduce excess front- and back-office headcount across all DDEC agencies (excluding PRTC and JP)	▪ March 2021	▪ Delayed – May 2023
	▪ Execute the administrative actions (e.g. systems integration) required to consolidate PRTC and ascribe JP	▪ March 2021	▪ Delayed – August 2023
	▪ Finalize procurement contract renegotiations	▪ June 2021	▪ Delayed – May 2023
	▪ Consolidate PB's key back-office personnel into DDEC's back office	▪ June 2021	▪ Delayed – August 2023
	▪ Reduce excess front- and back-office headcount from PRTC and back-office personnel from JP in line with September 2021 operational needs assessment	▪ June 2021	▪ Delayed – August 2023

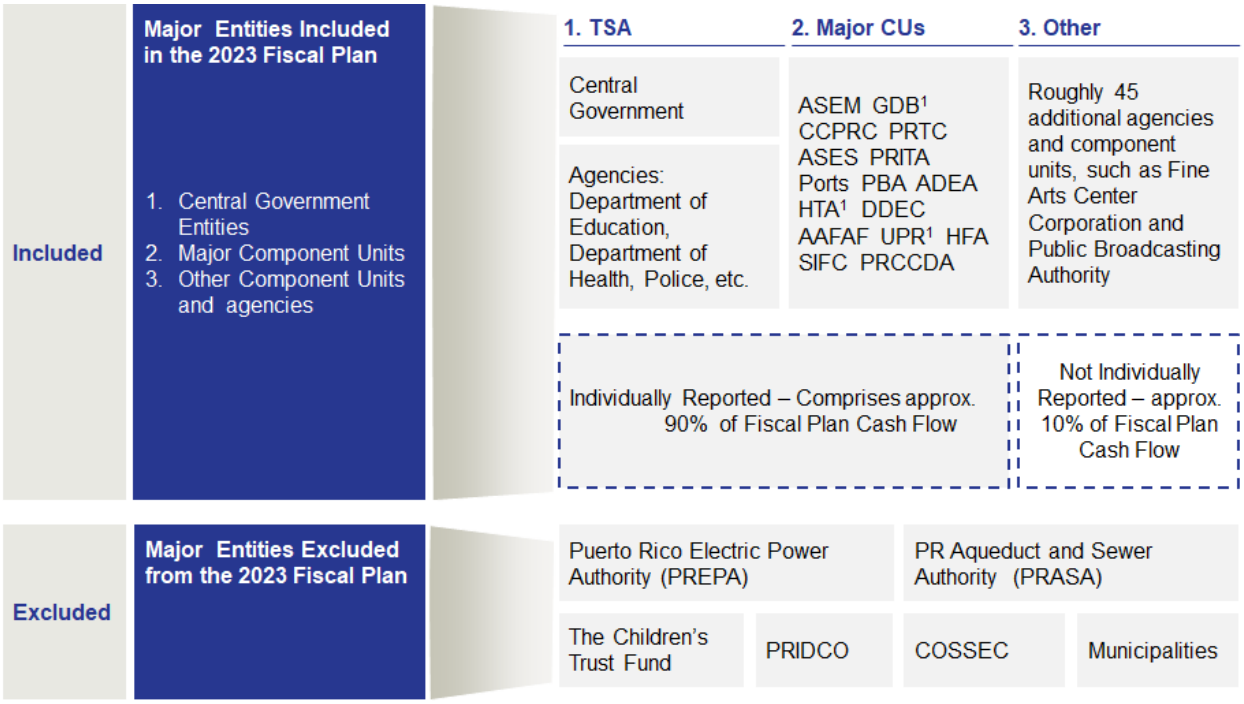
Appendix

Appendix

15 Entities included in this Fiscal Plan

The 2023 Fiscal Plan addresses the finances of central government agencies, component units, and other agencies. Agencies for which an independent 2023 Fiscal Plan is being developed have not been consolidated into the 2023 Fiscal Plan and are only represented to the extent they impact the Commonwealth.

EXHIBIT 67: MAJOR ENTITIES INCLUDED IN AND EXCLUDED FROM THE 2023 FISCAL PLAN



1 GDB, HTA, and UPR have separate and apart fiscal plans from the Central Government; HTA and UPR receive General Fund appropriations
2. Major CUs include the following IFCUs: 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 2022 Fiscal Plan

EXHIBIT 68: LIST OF ENTITIES COVERED BY THE 2023 FISCAL PLAN

Agency Code	Agency	Agency Code	Agency
8	Office of the Comptroller	100	Legislative Assembly
10	General Court of Justice	105	Industrial Commission
11	Traffic Safety Commission	106	Public Housing Administration
15	Office of the Governor	109	School of Plastic Arts
16	Office of Management and Budget	119	Dept of Economic Development and Commerce
18	Planning Board	120	Veterans Advocate Office
21	Emergency Management and Disaster Admin Agency	121	9-1-1 Services Governing Board
22	Office of the Commissioner of Insurance	122	Department of the Family
23	Department of State	123	Families and Children Administration
24	Department of the Treasury	124	Child Support Administration
25	Hacienda	126	Vocational Rehabilitation Administration
28	Commonwealth Election Commission	127	Admin for Socioeconomic Develop of the Family
29	Federal Affairs Administration	137	Department of Correction and Rehabilitation
30	Office of Admin and Transformation of HR	138	Institutional Trust of the National Guard of Puerto Rico
31	General Services Administration	139	Parole Board
34	Investigation, Prosecution and Appeals Commission	141	Telecommunication's Regulatory Board
35	Industrial Tax Exemption Office	143	Office of Protection and Defense for People with Disabilities
37	Civil Rights Commission	152	Elderly and Retired People Advocate Office
38	Department of Justice	153	Advocacy for Persons with Disabilities of the CW of PR
40	Puerto Rico Police	155	State Historic Preservation Office
42	Puerto Rico Firefighter Corps	161	Infrastructure Financing Authority
43	Puerto Rico National Guard	162	Public Buildings Authority (PBA)
45	Department of Public Safety	165	Land Authority of Puerto Rico
49	Department of Transportation and Public Works	167	Company for the Integral Development of Cantera's Peninsula
50	Department of Natural and Environmental Resources	168	Ports Authority
55	Department of Agriculture	177	Land Administration
60	Citizen's Advocate Office (Ombudsman)	180	Tourism Company
62	Cooperative Development Commission	186	Culebra Conservation and Development Authority
65	Public Services Commission	187	Health Insurance Administration (ASES)
67	Department of Labor and Human Resources	188	PR and the Caribbean Cardiovascular Center Corp
68	Labor Relations Board	189	Institute of Forensic Sciences
69	Department of Consumer Affairs	191	Musical Arts and Stagecraft Corporation
70	State Insurance Fund Corporation (SIFC)	192	Fine Arts Center Corporation
71	Department of Health	193	Office of Government Ethics
75	Office of the Financial Institutions Commissioner	195	Economic Development Bank
78	Department of Housing	196	Public Broadcasting Corporation
79	Automobile Accident Compensation Admin (ACAA)	198	Farm Insurance Corporation
81	Department of Education	200	Special Independent Prosecutor Panel
82	Institute of Puerto Rican Culture	208	Contributions to Municipalities (CRIM)
87	Department of Sports and Recreation	211	AFICA
89	Horse Racing Industry and Sport Administration	215	Conservatory of Music
90	Medical Services Administration (ASEM)	220	Correctional Health

Agency Code	Agency	Agency Code	Agency
95	Mental Health and Addiction Services Administration	221	Emergency Medical Services Corps
96	Women's Advocate Office	231	Health Advocate Office
238	Port of America Authority	235	Housing Financing Authority (HFA)
241	Administration for Integral Development of Childhood	285	Puerto Rico Integrated Transport Authority (PRITA)
258	Puerto Rico Trade and Export Company	286	Ponce Port Authority
264	Martin Pena Canal ENLACE Project Corporation	288	UPR Comprehensive Cancer Center
265	Roosevelt Roads Naval Station Redevelopment	289	Energy Commission
268	institute of Statistics	290	Energy Affairs Office
272	Office of the Inspector General	293	Center for Research, Education and Medical Service for Diabetes
273	Permit Management Office	294	Bosque Modelo de Puerto Rico
276	Public-Private Partnership Authority	295	Fiscal Agency and Financial Advisory Authority (AAFAF)
277	Agricultural Enterprises Development Admin (ADEA)	303	Convention Center District Authority (PRCCDA)
278	Puerto Rico Education Council	329	Socio Economic Development Office
279	Public Service Appeals Commission	928	Judicial Retiree System (JRS)
281	Office of the Electoral Comptroller	928	Teacher Retiree System (TRS)
	Maritime Shipping Authority	929	Additional (Electronic) Lottery
	Special Communities Perpetual Trust		Traditional Lottery
	Corp of the Industries of Blind, Mentally Retarded, and Other Disabled People of Puerto Rico		Unemployment Insurance Fund
			Puerto Rico Municipal Finance Corporación

EXHIBIT 69: LIST OF ENTITIES EXCLUDED FROM THE 2023 FISCAL PLAN

Entities issuing standalone Fiscal Plan	Entities excluded from Fiscal Plan
Development Bank for PR	Agency Fund (Special Deposit Fund)
Aqueduct and Sewer Authority	Commonwealth of Puerto Rico Regional Center Corporation
Municipal Revenues Collection Center (CRIM)	Public Finance Corporation (PFC)
PR Electric Power Authority	Puerto Rico Government Investment Trust Fund
PR Highways and Transportation Authority[1]	Puerto Rico Municipal Finance Agency
Puerto Rico Industrial Development Company	Puerto Rico Water Pollution Control Revolving Fund
University of Puerto Rico[2]	Puerto Rico Industrial Development Company
Public Corporation for the Supervision and Deposit Insurance of Puerto Rico Cooperatives	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

16 Reporting and other requirements

16.1 Fiscal controls and transparency reports

The OCFO must improve fiscal governance, accountability, and internal controls over the Government's finances and budget. To ensure that there is transparency into the Government's progress toward meeting its savings targets, the Government must meet and record the following milestones.

EXHIBIT 70: FISCAL CONTROLS & REPORTING KEY IMPLEMENTATION MILESTONES (1/2)

	Reporting Requirement	Closing of the 1st Reporting Period	Cadence for Oversight Board Reporting [A]	Cadence for Public Reporting [B]	Reporting Requirement Source
I. Cash Reporting	A. Treasury Single Account (TSA) Liquidity (Actuals vs. Liquidity Plan)	10/26/2018	Weekly, Monthly	Weekly, Monthly	Fiscal Plan
	B. Consolidated TSA including Agency Detail (Actuals vs. Liquidity Plan)	10/31/2018	Monthly	Monthly	Fiscal Plan
	C. Independently Forecasted Component Units (IFCUs) (Actuals vs. Liquidity Plan)	10/31/2018	Monthly	Monthly	Fiscal Plan
	D. Liquidity - Office of the Comptroller, Senate, House of Representatives, Judiciary Branch, Civil Rights Commission, OMBUDSMAN (Actuals vs. Liquidity Plan)	10/31/2018	Monthly	Monthly (beginning 11/30/18)	Fiscal Plan
	E. Summary of Bank Account for the Government of Puerto Rico and its Instrumentalities	10/31/2018	Monthly	Monthly	Fiscal Plan
	F. General Fund (GF) Revenues Actual Reconciliation: Treasury Single Account (TSA) Liquidity 1 (A) Report by AAFAF vs. GF Net Revenues Report by Puerto Rico Department of the Treasury (PRDT)	11/30/2021	Monthly	Monthly	Fiscal Plan
II. Additional Actuals Reporting	A. Budget to Actual Report - Including Revenues (including gross revenues, tax credits collected, and net revenues)[1]				
	1. General Fund	10/31/2018	Monthly	Monthly	Fiscal Plan
	2. Non-General Fund Funds (including Special Revenue Funds) [2,3]	10/31/2018	Monthly	Monthly (beginning 1/31/19)	Fiscal Plan
	3. Federal Funds	10/31/2018	Weekly, Monthly	Weekly, Monthly	Fiscal Plan
	4. IFCUs	10/31/2018	Monthly	Monthly (beginning 1/31/19)	Fiscal Plan
	5. Comptroller, Senate, House of Representatives, Judiciary, Civil Rights Commission, OMBUDSMAN	10/31/2018	Monthly	Monthly (beginning 11/30/18)	Fiscal Plan
	B. Central Government Payroll and Headcount	10/31/2018	Monthly	Monthly	Fiscal Plan
	C. IFCU Payroll and Headcount [4]	10/31/2018	Monthly	Monthly	Fiscal Plan
	D. Central Government 3rd Party Accounts Payable	10/26/2018	Weekly, Monthly	Weekly, Monthly	Fiscal Plan
	E. Central Government Invoice Processing KPIs	10/31/2018	Monthly	Monthly (beginning 11/30/18)	Fiscal Plan
	F. Tax Credits				

	Reporting Requirement	Closing of the 1st Reporting Period	Cadence for Oversight Board Reporting [A]	Cadence for Public Reporting [B]	Reporting Requirement Source
	1. Liability	12/31/2018	Quarterly	Quarterly (beginning 1/31/19)	Fiscal Plan
	2. New credits granted	10/31/2018	Monthly	Monthly (beginning 1/31/19)	Fiscal Plan
	3. Credits used (direct impact on collections)	12/31/2018	Monthly	Monthly	Fiscal Plan
	4. Tax Expenditure Report	12/31/2018	Yearly	Yearly	Fiscal Plan
	G. OATRH Attendance for the Preceding 4-Week Period	12/31/2018	Monthly	Monthly	Fiscal Plan
	H. Emergency Reserve Fund Quarterly Reporting	5/15/2020	Weekly, Monthly	Weekly, Monthly	Fiscal Plan
	I. Budget to Actual CAPEX Report	11/15/2020	Monthly	Quarterly	Fiscal Plan
	J. Prior Year Fund Extensions and Releases	8/15/2021	Monthly	Monthly	Fiscal Plan
	K. Quarterly budget to actual revenues, expenditures, and cash flows, together with a variance analysis, of the territorial government during the preceding quarter	10/31/2018	Quarterly	Quarterly	Fiscal Plan
	L. Revised Year End Quarterly budget to actual revenues, expenditures, and cash flows, together with a variance analysis, of the territorial govt. during the preceding quarter (60 days after year end)	8/31/2019	Annual	Annual	Fiscal Plan
III. Measures and Reforms Reporting (Progress Reports)5,6	A. Structural Reforms (4)				
	1. Labor Reform	10/31/2018	Monthly	Quarterly	Fiscal Plan
	2. Ease of Doing Business Reform	10/31/2018	Monthly	Quarterly	Fiscal Plan
	3. Energy Reform	10/31/2018	Monthly	Quarterly	Fiscal Plan
	4. Infrastructure Reform	10/31/2018	Monthly	Quarterly	Fiscal Plan
	B. Fiscal Measures (4)				
	1. Office of the Chief Financial Officer	10/31/2018	Monthly	Quarterly	Fiscal Plan
	2. Revenue Measures	10/31/2018	Monthly	Quarterly	Fiscal Plan
	3. Pension Reform	10/31/2018	Monthly	Quarterly	Fiscal Plan
	4. Healthcare Reform	10/31/2018	Monthly	Quarterly	Fiscal Plan
	C. Agency Efficiencies				
	1. Agriculture	10/31/2018	Monthly	Quarterly	Fiscal Plan
	2. Corrections	10/31/2018	Monthly	Quarterly	Fiscal Plan
	3. Culture	10/31/2018	Monthly	Quarterly	Fiscal Plan
	4. Economic Development	10/31/2018	Monthly	Quarterly	Fiscal Plan
	5. Environmental	10/31/2018	Monthly	Quarterly	Fiscal Plan
	6. Executive Offices	10/31/2018	Monthly	Quarterly	Fiscal Plan
	7. Finance Commission	10/31/2018	Monthly	Quarterly	Fiscal Plan
	8. Office of the CFO	10/31/2018	Monthly	Quarterly	Fiscal Plan
	9. Healthcare	10/31/2018	Monthly	Quarterly	Fiscal Plan
	10. Justice	10/31/2018	Monthly	Quarterly	Fiscal Plan
	11. Labor	10/31/2018	Monthly	Quarterly	Fiscal Plan
	12. Land	10/31/2018	Monthly	Quarterly	Fiscal Plan
	13. Ombudsman	10/31/2018	Monthly	Quarterly	Fiscal Plan

	Reporting Requirement	Closing of the 1st Reporting Period	Cadence for Oversight Board Reporting [A]	Cadence for Public Reporting [B]	Reporting Requirement Source
	14. Public Safety	10/31/2018	Monthly	Quarterly	Fiscal Plan
	15. Public Works	10/31/2018	Monthly	Quarterly	Fiscal Plan
	16. Social Welfare	10/31/2018	Monthly	Quarterly	Fiscal Plan
	17. State	10/31/2018	Monthly	Quarterly	Fiscal Plan
	18. Universities	10/31/2018	Monthly	Quarterly	Fiscal Plan
	19. Utilities Commission	10/31/2018	Monthly	Quarterly	Fiscal Plan
	20. Education	10/31/2018	Monthly	Quarterly	Fiscal Plan
	21. Independent Agencies	10/31/2018	Monthly	Quarterly	Fiscal Plan
IV. Macro-economic Indicators	Macroeconomic Indicators	12/31/2018	Quarterly	Quarterly	Fiscal Plan
V. Recovery Funding Reporting	A. Uses/Disbursement Related to Hurricane Assistance (PWs)	10/31/2018	Monthly	n/a	Fiscal Plan
	B. Department of Housing	10/31/2018	Monthly	n/a	Fiscal Plan
	C. Highways and Transportation Authority	10/31/2018	Monthly	n/a	Fiscal Plan
	D. TSA Vendor Disbursements	10/31/2018	Monthly	n/a	Fiscal Plan
VI. PayGo Reporting	PayGo Receivables and Contributions Reporting	10/31/2018	Monthly	Monthly	Fiscal Plan
VII. Certifications and Others	A. Quarterly revenue forecast update	10/31/2018	45 days after end of every quarter	n/a	Budget
	B. Certify that no appropriation of any previous fiscal year (except for appropriations covered by the exceptions authorized in the budget) has been used to cover any expense during the prior fiscal quarter	12/31/2018	15 days after end of every quarter	n/a	Budget
	C. Certify that no amount of the (i) Social Security Reserve or (ii) Emergency Reserve has been used to cover any expenses during the prior fiscal quarter	12/31/2018	15 days after end of every quarter	n/a	Budget
	D. Payroll transfers per Law 8-2017	12/31/2018	Monthly	n/a	Fiscal Plan
	E. Signed legislation Compliance Certificates	n/a	7 days after a bill is signed by the Governor	n/a	PROMESA
	F. Sabana file submission	n/a	n/a	n/a	Budget
	G. Quarterly budget submission	n/a	n/a	n/a	Budget
VIII. ASES Reporting	In order to increase transparency, going forward ASES must submit the following documentation to the Oversight Board: A. Detailed enrollment and PMPM projections for each Medicaid sub-population (Medicaid expansion, CHIP, Maternity, Dual-eligible, etc.) B. FMAP breakdown for each sub-population (Medicaid expansion, CHIP, Maternity, Duals, etc.) C. Projected federal funds vs. local funds required for the program D. Detailed breakdowns of available federal funding and SRF funding (full amount allocated for the FY vs. funds still available) E. Amount of Section 1108 funding allocated to DOH for administrative expenses and 330 Centers/FQHC payments	n/a	Quarterly	n/a	Fiscal Plan

	Reporting Requirement	Closing of the 1st Reporting Period	Cadence for Oversight Board Reporting [A]	Cadence for Public Reporting [B]	Reporting Requirement Source
	F. Detailed breakdown of non-premium expenditures including administrative and operating expenditures (e.g., PBM payments, hospital reimbursements, air ambulance, etc.) G. Progress reports on measures implementation H. Any previously completed data quality audits and assessments In addition, the Oversight Board may require the Puerto Rico Medicaid Program and ASES to submit detailed claims-based data, which, at a minimum, include membership and eligibility information (e.g., demographics, plan eligibility, attributions), provider information (e.g., provider demographics, network, and program participation), pharmacy information (e.g., dispensing information and amounts), and medical information (e.g., UB-04 and CMS1500 fields, including header and detail level amounts and type, granular diagnosis, and procedure codes). In addition, the Puerto Rico Medicaid Program and ASES should provide any additional materials and supporting datasets necessary to support data reconciliation, which may include data crosswalks and additional information on programs and products This information is essential to know the overall program size of the Medicaid Program. If ASES fails to comply with the reporting requirements stipulated here, the administrative funds assigned to ASES may be clawed back (in addition to other actions as determined by the Oversight Board)				

1. Revenues must include gross revenues received, less tax refunds; SRF revenues must be included.
2. The following fund types are included in non-GF reporting: (1) FEE (Fondos Especiales Estatales or Special State Funds) – This fund type should only include revenue designated by specific laws; (2) OI (Otros Ingresos or Other Income) - This fund type should only include non-recurring revenue with specific expenses tied to it. No recurring income should be included or recognized under this fund type OI; and (3) IP (Ingresos Propios or Own Income) – This fund type should only include revenue generated by the agencies or public corporation through their services.
3. The monthly deliverable must include: (1) All revenues and expenses for the current FY; (2) The cash balance for each fund type as of the beginning of the Fiscal Year; (3) The new cash earned during the current fiscal year; and (4) the net cash balance.
4. The report must include (1) the fund type; (2) overtime amounts; and (3) the breakdown of benefits.
5. Implementation plans must be provided for each agency under each agency grouping; the full list of the agencies is included in the Appendix of the Fiscal Plan.
6. Reporting must include: (a) Monthly monitoring by each government agency of key performance indicators for each of the fiscal reform measures. (b) Monthly self-reported realized savings achieved year to date by agency and agency groupings. (c) Implementation dashboard / tracker that provides status of each initiative in a distinct status. (d) Sub-measures dashboard.

A. Unless otherwise specified, monthly reporting to the Oversight Board must be received 15 days after the end of a reporting period.
B. Unless otherwise specified, public reporting must be published 30 days after the end of a reporting period.
C. Report shall be structured in a way that allows for the confidentiality of the agreements to be maintained, but the overall (summarized) numbers and trends to be available to the public.

In addition to meeting the above milestones, the Government must proceed according to the following budgetary requirements. These fiscal controls will ultimately be reflected and specified, with potential updates, in the upcoming certified budget resolutions:

- The Department of the Treasury (Treasury) will remit to the Legislative Branch and its components, the Judicial Branch, the University of Puerto Rico (UPR), and the non-profit entities that receive funds from the General Fund, monthly and in advance, the budgetary allotments corresponding to one-twelfth (1/12) of the budget allocation provided herein for such entities.

The one-twelfth monthly allocation to each entity (except with respect to the Judicial Branch) shall be subject to the 2.5% withholding set forth in the section below during the first three quarters of FY2024.

- The Director of the OMB may authorize the encumbrance and disbursement of up to 97.5% of each appropriation intended for encumbrance and disbursement during the first three quarters of FY2024. The Director of the OMB shall withhold the remaining two and a half percent (2.5%) of each appropriation until after the end of the third quarter of FY2024. The withheld percentage of each appropriation shall only be encumbered and disbursed during the fourth quarter of FY2024 if (i) the first eight months of actual General Fund revenues reported to the Oversight Board reach the revenue forecast in the 2023 Fiscal Plan for that period and (ii) the encumbrance and disbursement is approved by the Oversight Board. If actual General Fund revenues for the first eight months of FY2024 fail to reach the revenue forecast for that period, the amount of the withheld percentage of each appropriation that may be encumbered and disbursed shall be reduced proportionally according to the negative budget variance between projected and actual General Fund revenues. Notwithstanding the foregoing, PayGo appropriations, Consent Decree amounts, Highway and Transportation Authority (HTA) appropriations, economic incentive funds and distributions, cigarette and rum distributions, allocations of Sales and Use Tax (SUT) to the Municipal Administration Fund (FAM, by its Spanish acronym)," additional General Funds for the milestones and incentives detailed in the following sections, debt service payments under the custody of the Department of Treasury, contributions to the Pension Reserve Trust, Police retirement Act 106 Defined Contributions, and agencies in the Department of Public Safety and in the Health groupings, as defined in the 2023 Fiscal Plan, shall not be subject to the 2.5% withholding requirement.
- Notwithstanding any provision in the 2023 Fiscal Plan to the contrary, each of the appropriations listed in the upcoming FY2024 General Fund Budget under the following sources of revenue is entirely dependent on the level of revenues collected therefrom: (i) Allocation of SUT to FAM (excluding Debt Portion); (ii) Outflow of the Special Fund for Economic Development (FEDE, by its Spanish acronym) portion of Corporate Income Taxes and Non-Resident Withholding as well as all Law 60 incentives; (iii) cigarette and rum distributions; and (iv) The Municipal Revenue Collection Center's (CRIM, by its Spanish acronym) property tax of 1.03%. As such, the disbursements of those appropriations will be gradual and subject to the actual collections thereunder. No expenditure, disbursement, pledge, or any other encumbrance of any such funds may be made until such time as the revenues are collected and accounted for in the books.
- If and when the Government enacts new spending measures that do not provide for a dedicated, permanent source of revenue or rely on funding sources that fail to materialize, unless and until the Government (i) amends the law to eliminate the unfunded mandate, or (ii) specifically identifies alternate funding sources, the Oversight Board, in its discretion, may adopt a revised fiscal plan and budget to provide for a corresponding reduction in the appropriations to one or more governmental agencies to account for the shortfall and balance the budget.
- No later than 45 days after the closing of each quarter of FY2024, the Secretary of the Treasury shall revise the projected net revenues of the General Fund for FY2024 (the "Quarterly Revision") and shall notify the revision to the Director of the OMB, the Governor, and the Oversight Board, with a copy to the Legislative Assembly. The Quarterly Revision shall project future revenues based on actual General Fund revenues and include revisions to the assumptions used to generate the General Fund's net revenue projections.

- All appropriations authorized in any prior fiscal year, including appropriations without a specific fiscal year, are eliminated and no disbursement of public funds may be covered by such appropriations, except the following which the 2023 Fiscal Plan redeploys as current appropriations, subject to Oversight Board adjustment at any time: (i) appropriations authorized in the fiscal year to carry out permanent improvements that have been encumbered, accounted for, and kept on the books, but not exceeding two fiscal years on the books; (ii) appropriations in the certified budget for equipment with procurement cycles that extend beyond the end of the fiscal year, which are encumbered on or before June 30, 2023; (iii) the portion of the appropriations authorized for FY2023 that have been encumbered on or before June 30, 2023, which shall be kept in the books for 60 days after the termination of FY2023 and after those 60 days no amount shall be drawn against such portion for any reason; (iv) the annual appropriation in the amount of $130 million for the emergency reserve required in the 2023 Fiscal Plan (the "Emergency Reserve"); (v) the unobligated portion of the Public Assistance Federal Fund Matching appropriation included in the FY2023 certified budget; (vi) unused appropriations for use in audit services held at the Department of the Treasury; (vii) FY2023 unused General Funds intended for Medicaid related expenditures; (viii) unused Title III funds; (ix) reported unused funds from Department of Health's Intellectual Disability program; (x) reported unused funds from Department of Correction and Rehabilitation's (DCR) Juvenile program, as certified jointly by Hacienda and DCR; (xi) unused appropriations for State unemployment insurance, disability insurance, and chauffeur's insurance, which are held under the custody of the Department of Labor and Human Resources; (xii) unused appropriations for milestones and incentives held under the custody of OMB as approved by the Oversight Board; (xiii) unused appropriations for municipal voluntary cost sharing milestone; (xiv) FY2023 unused General Funds intended for Catastrophic Disease Fund related expenditures; (xv) unused appropriations for the Broadband infrastructure expansion and 21st Century Technical and Business Education Fund; (xvi) unused appropriations for the rural area health professionals scholarship and loan forgiveness endowment; a working group between the Department of Treasury, Office of the CFO, AAFAF, and the Oversight Board must be established to develop metrics, compliance requirements, and financial monitoring around the eligibility and disbursement of the scholarship and loan forgiveness endowment funds; (xvii) unused funds from the Puerto Rico Police Bureau reform, as jointly certified with the Department of Treasury; (xviii) unused General Funds from Universal Health Care (UHC) contributions; (xix) Social Security payments for minors under the Commonwealth's custody in the Family and Children Administration; and (xx) appropriations authorized in FY2023 for economic incentives held under the custody of the Department of Treasury that have yet to be transferred to the Department of Economic Development and Commerce (DDEC, by its Spanish acronym) will be made available until December 31, 2024. In addition, this restriction on the use of appropriations of prior fiscal years shall not apply to: (i) programs financed in whole or in part with federal funds; (ii) orders by the United States district court with jurisdiction over all matters under Title III of PROMESA; or (iii) matters pertaining to any consent decree or injunction, or an administrative order or settlement with a federal agency, with respect to federal programs.
- On or before July 31, 2023, the Secretary of the Treasury, Executive Director of AAFAF, and the Director of the OMB shall provide to the Oversight Board, with a copy to the Legislative Assembly, a certification indicating the amounts of unused FY2023 appropriations for all items enumerated in the previous section. If the Government fails to submit said certification, the amount of unused

funds in certain items listed above, as stated in the upcoming certified joint resolution, will not carry over to the following fiscal year.

- In a similar manner as in the previous fiscal year, the FY2024 total budget allocated for the Department of Health's Intellectual Disability program will be detailed in the upcoming fiscal year's certified budget resolution.
- Each power of OMB, AAFAF, or the Department of the Treasury, including the authorities granted under Act 230-1974, as amended, known as the "Puerto Rico Government Accounting Act" (Act 230), to authorize the reprogramming or extension of appropriations of prior fiscal years is hereby suspended.
- The appropriations approved in this budget may only be reprogrammed with the prior approval of the Oversight Board. For the avoidance of doubt, this prohibition includes any reprogramming of any amount, line item or expenditure provided in this budget, regardless of whether it is an intra-agency reprogramming. Reprogramming, also known as reapportionments, may be made into spend concepts and / or objects not explicitly listed in the certified budget resolutions as long as such requests are submitted to and approved by the Oversight Board in advance. Reprogrammed funds authorized for the hire of personnel in specialized roles are restricted for that specific use only and may not be made available nor be used for any other budgetary needs.
- The Governor must submit to the Oversight Board all reporting requirements set forth on *Exhibit 70* of the 2023 Fiscal Plan according to the reporting cadence described therein. In addition, if the Oversight Board approves a reprogramming pursuant to the sections above, the immediately subsequent report by the Governor must illustrate the specific implementation of such reprogramming, including the amount, the source of the reprogrammed amount identified by government entity and expenditure concept, the Government entity that received such amount, and the expenditure concept to which it was applied.
- In addition, the Governor shall submit to the Oversight Board a comprehensive reporting package in a similar format to that required in accordance with Section 203 of PROMESA for the following specified programs within different agencies: (i) Department of Education's (PRDE) Special Education Program; (ii) PRDE's Remedio Provisional Program (iii) Department of Health's (DOH) Adult Hospital Program; (iv) DOH's Pediatric Hospital Program; (v) DOH's Hospital Universitario Dr. Ramón Ruiz Arnau (HURRA) Bayamón Hospital Program; (vi) DOH's 330 Centers Payments; (vii) DOH's Intellectual Disability Program; (viii) Mental Health and Anti-Addiction Services Administration's (ASSMCA, by its Spanish acronym) Río Piedras Hospital Program; and (ix) DCR's Juvenile Program. Program reporting must include and clearly detail budget to actuals on a concept level basis, any reprogramming of funds within the program, and any reprogramming of funds to/from other programs or agencies.
    - In addition, the Governor shall submit to the Oversight Board a monthly reporting package detailing capital expenditure spending by agency and by project including details for expenditures which have RFPs issued, which contracts have been awarded, and which are in process. To the extent that the Oversight Board requires additional reporting regarding federal funds, it shall notify the Governor.
    - Separately, the Governor shall submit to the Oversight Board a monthly reporting package detailing all of PRDE's salary and other payroll expenses within four categories: (i) Central Administrative Personnel; (ii) Regional Administrative Personnel; (iii) Regional School Support Personnel; and (iv) School Personnel as established in the upcoming FY2024

certified budget resolution. In order to assess compliance and guarantee accountability, PRDE must submit such monthly reporting detailing salary and payroll expenses by the categories established herein along with a salaries and payroll reconciliation of funds disbursed and actual expenses recorded.

- In addition, on a quarterly basis, the Department of Treasury must submit a report certifying total income tax collected from exempt businesses and royalty income taxes withheld and deposited by exempt businesses under Act 60-2019 and prior tax incentives acts. This report must be accompanied by a variance analysis which compares collections to previous periods and explanations for said variances. As per Law 60-2019, all incentives are funded by 10% of the income tax paid by exempt businesses and royalty income taxes withheld and deposited by exempt businesses under Act 60-2019 and prior tax incentives acts. As such, disbursements related to the incentive appropriations covered by Law 60-2019 (Cruise Ships, Green Energy, Cine, FEDE, Export & Development fund incentives, rum program incentives, entrepreneurial incentives and promotion of employment and economic activity incentives, among others) will be gradual and subject to actual collections. The Department of Economic Development will determine the amount to be allocated to each incentive until reaching the amount budgeted.
- Furthermore, to ensure maximum and proper use of federal funds, such as, but not limited to, (i) DRF, (ii) CARES, (iii) FFCRA, (iv) CRRSAA, (v) and ARP, the Governor shall submit a work plan before any disbursement of funds. Improved reporting will help prevent and combat actual, and claims of, misuse, fraud, waste, and abuse. Therefore, the Governor shall also submit to the Oversight Board any report that the Commonwealth government (i) provides to the federal government or (ii) creates internally. Such reports shall be provided to the Oversight Board at the same time that they are provided to the federal government or circulated internally within the Commonwealth government. The Governor shall also provide, as requested, performance metrics with regards, but not limited to, time required to submit claims, time required to submit compliance reporting, and time required to collect reimbursement claims.
- The reports required pursuant to this section are in addition to the reports that the Governor must submit to the Oversight Board in accordance with Section 203 of PROMESA.

- In conjunction with the reports that the Governor must submit to the Oversight Board no later than 15 days after the last day of each quarter of FY2024, pursuant to Section 203 of PROMESA, the Secretary of the Treasury, Executive Director of AAFAF, and the Director of the OMB shall each certify to the Oversight Board: (i) that no appropriation of any previous fiscal year (except for the appropriations covered by the exceptions in the sections above) have been used to cover any expense; and (ii) the Director of the OMB shall certify to the Oversight Board that no amount of (1) the Emergency Reserve and (2) the unallocated capital expenditures under the custody of OMB has been obligated unless authorized in accordance with the section below.
- The Emergency Reserve, the unallocated capital expenditures, health care investments reserve, technology reserve, milestones reserve, utility reserve and the economic incentive fund under the custody accounts of OMB and the Department of the Treasury, as detailed in the certified budgets for FY2020, FY2021, FY2022 FY2023, and FY2024 may not be used to cover any allocation or expense whatsoever without the prior, written approval of the Oversight Board. If Federal Emergency Management Agency (FEMA) funding is not available for capital expenditures, a transfer from unallocated capital expenditures may be requested. The economic incentive funds

held under the custody of the Department of the Treasury will be released on a quarterly basis after a formal reapportionment is submitted by DDEC, reviewed and approved by OMB, and submitted to the Oversight Board for review, and the Oversight Board provides its authorization to release such funding. Exceptions to the economic incentive fund release may apply upon meeting all the specified criteria, if any, listed in the upcoming FY2024 certified budget resolution.

- The Emergency Reserve is intended to expedite response activities and, upon request, provide the Commonwealth Agencies and affected local governments with capital in the event of an emergency of such severity and magnitude that effective response exceeds the capacity of current budget resources and federal disaster assistance is not available or not yet available to respond to the emergency. Moreover, the Emergency Reserve is only intended for extraordinary events like natural disasters or as otherwise agreed with the Oversight Board and that are generally outside of human control and unpreventable. The Emergency Fund is not intended to mitigate emergencies related to operational inefficiencies.
  - Accessing Emergency Reserve funds shall require: (i) a State of Emergency declaration, by the Governor of the Commonwealth, in accordance with Article 6.10 of Act 20-2017, as amended, known as the Puerto Rico Public Safety Department Act and in accordance with the above description of what constitutes an extraordinary event; (i) OMB to make a request to the Oversight Board for access to the emergency reserve fund for a finite period, indicating the agency or local government that will receive the advance, the amount of the advance, usage of funds requested, and the PR Emergency Disaster Management (PREMA) request number from WEBEOC platform as well as the projected re-payment date of the funds; (iii) amounts approved by the Oversight Board and disbursed to the Government shall be replenished not later than the following fiscal year; and (4) agencies and municipalities, recipients of state emergency reserve funds, shall update OMB on a quarterly basis about the Public Assistance process with FEMA.
  - OMB shall request Emergency Reserve funds exclusively for the use of Government agencies and affected local governments. The agencies and affected local governments must be in an emergency declared area and the Emergency Reserve funds must be used for response activities related to the declared event. Non-profits, public corporations outside of the Commonwealth, and individuals are not eligible applicants for advances through the Emergency Reserve fund.
  - OMB shall submit quarterly reports to the Oversight Board detailing the status of Emergency Reserve funds, amounts provided to agencies and affected local governments, amount of funds expended, amount of funds remaining, and updated projected re-payment dates. Agencies and local governments that received funds from the Emergency Reserve are required to file with FEMA a Request for Public Assistance (RPA) and Project Worksheet to ensure maximum federal fund reimbursements are replenished into the Emergency Reserve. As a rule, OMB shall offset late repayment by agencies and local governments with other Commonwealth funding to repay the Emergency Reserve on time.
- Cost share matching funds are restricted for use on approved projects / requirements under FEMA's Individual Assistance, Public Assistance, and Hazard Mitigation programs. Any unused cost share matching funds in a given fiscal year may be rolled over to the following fiscal year and are subject to the same restrictions. The use of these funds must be coordinated with CDBG-DR and CDBG-MIT in meeting cost share requirements.

- Additional General Funds may be made available to agencies upon reaching certain, specified milestones and after written approval and authorization from the Oversight Board. Once respective milestones are achieved, agencies must provide a formal notice and submit supporting data corroborating such achievement to the Oversight Board for its review. The subsections below detail the allowable milestones and incentives for each relevant agency.
- Consistent with the stated requirements in the certified budget resolutions, funds to cover parametric insurance will also be made available upon reaching such stated milestones and after the approval and authorization from the Oversight Board
- As a rule, necessary for the responsible disbursement of budgetary allocations for operating and other expenses, OMB shall withhold from any of the allocations to the agencies of the Executive Branch the amounts necessary to pay for the PayGo contribution, unemployment insurance, or taxes withheld from their employees, when OMB determines that such a withholding is necessary to ensure compliance with these obligations by the agencies concerned. Any such amounts withheld by OMB shall solely be reprogrammed to pay the corresponding outstanding obligations related to PayGo contributions, unemployment insurance, or taxes withheld from employees.
- OMB and the Department of the Treasury are authorized to establish the necessary mechanisms to ensure that when implementing the concept of mobility, pursuant to the provisions of Act 8-2017, as amended, known as the "Puerto Rico Human Resources Management and Transformation in the Government Act," the corresponding transfer of funds allocated to payroll and related costs of said employee are to be carried out simultaneously.
- The Secretary of the Treasury, the Director of the OMB, and the Finance Director and Executive Director of each agency or public corporation covered by the 2023 Fiscal Plan will be responsible for not spending or encumbering during FY2024 any amount that exceeds the appropriations authorized for FY2024. This prohibition applies to every appropriation set forth in a budget certified by the Oversight Board, including appropriations for payroll and related costs. The Executive Director of AAFAF and the Director of the OMB shall also certify to the Oversight Board, with a copy to the Legislative Assembly, by September 30, 2023, that no amount was spent or encumbered that exceeded the appropriations in the certified budget for FY2024.
- For the avoidance of doubt, any reference within the budget to AAFAF, the Department of the Treasury, or OMB, or any of their respective officers, applies to any successor thereof.
- On or before July 31, 2023, the Governor shall provide to the Oversight Board budget projections of General Fund revenues and expenditures for each quarter of FY2024, which must be consistent with the corresponding budget certified by the Oversight Board (the "Quarterly Budget"). The Quarterly Budget shall be provided to the Oversight Board in Excel format and include detailed allocations by agency, public corporation, fund type and concept of spend. Together with the report that the Governor must provide under Section 203 of PROMESA not later than 15 days after the last day of each quarter, the Governor shall provide a quarterly variance analysis that is consistent with modified accrual accounting.
- If during the fiscal year the Government fails to comply with the liquidity and budgetary savings measures required by the 2023 Fiscal Plan, the Oversight Board may take all necessary corrective action, including the measures provided in PROMESA Sections 203 and 204.
- The Unallocated PREPA Employees' Payroll funds held under the custody of the OMB are to be allocated by OMB to those government entities that received former PREPA employees and demonstrated that they are unable to cover those expenses with their current budget. However,

those funds shall only be released after the OMB provides a detailed report to the Oversight Board of the employees transferred from the Puerto Rico Electric Power Authority (PREPA) to such other government entities, together with an attendance report for every transferred employee. Government entities that may receive these funds are required to provide a full roster with all active employees to the Oversight Board. Such roster must identify any employee transferred from PREPA to the respective government entity.

- Consistent with the stated requirements in the certified budget resolutions, the PREPA Employee Pension funds held under the custody of OMB shall only be released after AAFAF provides such documentation, to the satisfaction of the Oversight Board.
- The Police Retirement Funds held under the custody of OMB shall only be released upon approval from the Oversight Board.
- Pursuant to Section 204 (b)(2) of PROMESA, the Oversight Board has maintained since November 6, 2017, a Contract Review Policy to require prior Oversight Board approval of contracts with a value of $10 million or more to assure that they "promote market competition" and "are not inconsistent with the approved fiscal plan." The Policy applies to any contract or series of related contracts, inclusive of any amendments, modifications or extensions, with an aggregate expected value of $10 million or more, that is proposed to be entered into by the Commonwealth (which includes the Executive, Legislative, and Judicial branches of government) or any covered instrumentality. In addition, the Oversight Board may select to review contracts below the $10 million threshold for these purposes, on a random basis or at its own discretion. Specifically, in the case of the Puerto Rico Electric Power Authority (PREPA) the contract review threshold has been reduced to $250,000 exclusively for contracts which are payable from PREPA's "Professional & Technical Outsourced Services" and "PREPA Restructuring and Title III" budget lines. Consequently, all proposed contracts (or series of related contracts) that meet such threshold and are classified as Consulting Services Contracts by the Office of the Comptroller of Puerto Rico (and any applicable sub-categories) must be submitted to the Oversight Board for review and approval prior to execution. For all other PREPA contracts, the Oversight Board maintains the current $10 million threshold. Similarly, in the case of the University of Puerto Rico, the Oversight Board lowered the UPR's contract review threshold to $2 million for all contracts. Finally, to further ensure certain contracts promote market competition, the Oversight Board may require, at its own discretion, the Commonwealth or any covered instrumentality, to give it access to ongoing procurement processes for the execution of new contracts.

16.2 Agency groupings and consolidation process

EXHIBIT 71: 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		
Economic Development	1	Authority for the Redevelopment of Roosevelt Roads Naval Station	6	Permit Management Office
	2	Department of Economic Development and Commerce	7	Regional Center Corporation of Commonwealth of PR
	3	Energy Affairs Office	8	Puerto Rico Trade and Export Company
	4	Industrial Development Company		
	5	Industrial Tax Exemption Office	10	Tourism Company
Environ-mental[1]	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 Comm.	1	Office of the Commissioner of Insurance	2	Office of the Financial Institutions Commissioner
Health	1	Center for Research, Education and Medical Services for Diabetes	5	Medical Services Administration
	2	Department of Health	6	Mental Health and Addiction Services Administration
	3	Health Insurance Administration	7	Puerto Rico and Caribbean Cardiovascular Center Corporation
	4	University of Puerto Rico Comprehensive Cancer Center[1]		
Justice	1	Department of Justice	2	Parole Board
Labor	1	Department of Labor and Human Resources	4	Public Service Appeals Commission
	2	Investigation, Prosecution and Appeals Commission	5	Vocational Rehabilitation Administration[1]
	3	Labor Relations Board		
Land	1	Land Administration	2	Land Authority
	3	Agricultural Development Innovation Fund		
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		
Public Works	1	Department of Transportation and Public Works	3	Ports Authority[1]

	2	Integrated Transport Authority	4	Traffic Safety Commission
Families	1	Administration for Integral Development of Childhood	4	Department of the Family
	2	Administration for Socioeconomic Development of the Family	5	Families and Children Administration
	3	Child Support Administration		
Housing[2]	1	Department of Housing	3	Public Housing Administration
	2	Housing Financing Authority		
State	1	Department of State	2	Puerto Rico Education Council
Transparency & Control Entities	1	Office of Government Ethics	2	Office of the Comptroller
Department of Public Safety	1	Puerto Rico Police Department (PRPD)	5	9-1-1 Services Governing Board
	2	Firefighters Corps	6	Special Investigation Unit
	3	Emergency Medical Services Corps	7	Department of Public Safety
	4	Emergency Management and Disaster Administration Agency		
Treasury / OCFO	1	Department of the Treasury	4	General Services Administration
	2	Puerto Rico Office of Human Resources Management and Transformation	5	Fiscal Agency and Financial Advisory Authority[1]
	3	Office of Management and Budget		
Universities	1	Conservatory of Music[1]	2	School of Plastic Arts[1]
Utilities Commission	1	Puerto Rico Energy Board	4	Independent Bureau of Consumer Protection
	2	Public Services Commission	5	Telecommunications Regulatory Board
	3	Public Service Regulatory Board		
Corrections	1	Department of Correction and Rehabilitation	2	Correctional Health
Closures	1	Model Forest of Puerto Rico	2	Culebra Conservation and Development Authority
Independent Agencies	1	Civilian's Advocate Office (Ombudsman)	15	Office of Electoral Comptroller
	2	Civil Rights Commission	16	Office of the Inspector General
	3	State Elections Commission	17	Port of Ponce Authority
	4	Company for the Integral Development of Cantera's Peninsula	18	Port of the Americas
	5	Convention Center District Authority	19	Public Broadcasting Corporation
	6	Cooperative Development Commission	20	Puerto Rico Innovation and Technology Services
	7	Department of Consumer Affairs	21	Puerto Rico National Guard
	8	Department of Sports and Recreation	22	Special Independent Prosecutor Panel
	9	Gaming Commission	23	Teacher's Retirement System
	10	Industrial Commission	24	Institute of Statistics
	11	Martín Peña Canal ENLACE Project Corporation	25	Economic Development Bank
	12	Institutional Trust of the National Guard of Puerto Rico	26	Retirement Board of the Government of Puerto Rico

	13	Puerto Rico Industrial, Tourist, Educational, Medical, and Environmental Control Facilities Financing Authority	27	Department of Education
	14	PR Tourism company	28	Agricultural Innovation Development Fund
			29	Institute of Forensic Science
			30	PR Planning Board
Other	1	Automobile Accident Compensation Authority	3	State Insurance Fund Corporation
	2	Financial Oversight and Management Board		

1. Current draft of agency consolidation plan may leave this agency as a standalone entity
2. Federal funding requirements may limit consolidation of Housing agencies

EXHIBIT 72: AGENCY CONSOLIDATION PROGRESS DETAILS

Grouping	Agencies	Consolidation status	Legal provision (if applicable)	Remarks and key FY2021 priorities (indicated by agency)
State	Department of State, Puerto Rico Education Council	Completed	Law 212-2018	▪ Consolidation of shared services completed within 90 days; savings higher than USD 400 thousand realized in rental contract cancellation ▪ One single Finance reporting and HR system ▪ Staffing remains constrained
Utilities Commission	PR Energy Board (PREB), Public Service Commission (PSC), Independent Bureau of Consumer Protection, Telecommunications Regulatory Board	Completed	Law 211-2018	▪ Consolidation of shared services completed under Public Services Commission (JRSP) ▪ All administrative (e.g., HR, Legal, Finance) supervision consolidated under one director; IT yet to consolidate under central office location and implement platform integration
Environ-mental	Department of Natural and Environmental Resources, Environmental Quality Board, Natural Resources Administration, Solid Waste Authority	Completed	Law 171-2018	▪ Office locations consolidated in the same building ▪ Shared services and back-office systems consolidated across agencies
Agriculture	Agricultural Enterprises Development Administration (ADEA), Department of Agriculture (DA), Farm Insurance Corporation (CSA)	Completed	MOU signed (expiration December 31, 2020)	▪ Consolidation of administrative areas (HR, Legal, Finance, IT) for ADEA and DA is complete with shared back-office (with back-office personnel efficiencies) ▪ CSA continues to maintain operational independence (legal limitations on being an insurance company) but is in the process to merge IT systems with ADEA
Department of Public Safety	Puerto Rico Police Bureau (PRPB), Firefighters Corps, Emergency Medical Services Corps, Emergency Management and Disaster Administration Agency, 9-1-1 services Governing Board, Institute of Forensic Sciences, Special Investigations Unit	Completed	Law 20-2017	▪ Processes unified for all functions across bureaus; all back-office functions consolidated in shared services structure. ▪ Direct reporting and central office established across functional departments; currently staffing vacancies in DPS and other Bureaus. ▪ FY22 priority to recruit civilian staff for administrative roles in and reduce overtime expenses in PRPB and implement KRONOS across all bureaus. ▪ Forensic left grouping as of 12/23/2020

Grouping	Agencies	Consolidation status	Legal provision (if applicable)	Remarks and key FY2021 priorities (indicated by agency)
Economic Development	Authority of the Redevelopment of the Roosevelt Roads Naval Station (RR), Department of Economic Development and Commerce, Energy Affairs Office, Industrial Development Company (PRIDCO), Industrial Tax Exemption Office, Permit Management Office, Planning Board, PR Trade and Export Company, Regional Center Corporation of Commonwealth of PR (CRELA), PR Tourism Company (PRTC)	Delayed	**Law 141-2018** establishes all agencies to be reorganized into DDEC except ascribed agencies (RR, PRIDCO and Planning Board)	▪ Consolidation of accounting books (except PRTC, PRIDCO, CRELA and RR) ▪ Cross-training of employees across agencies ▪ PRIDCO building being remodeled to transfer all front-office personnel
Finance Commission	Office of the Commissioner of Insurance (OIC), Office of the Financial Institutions	No progress	**Legislation repealed; MOU certified**	▪ Third-party analysis of shared services consolidation is yet incomplete ▪ OCI to identify Commissioner to re-initiate consolidation effort.
Health	Center for Research Education and Medical Services for Diabetes, Comprehensive Cancer Center, Department of Health, Health Insurance Administration, Medical Services Administration, Mental Health and Addiction Services Administration, Puerto Rico and Caribbean Cardiovascular Center Corporation	No progress	**Legislation for ASES/DOH Consolidation was not recommended in the Legislature**	▪ Plans for consolidation of all health agencies have not been drafted nor presented to the Oversight Board ▪ No back-office consolidations achieved between agencies in the grouping
Labor	Department of Labor and Human Resources, Investigation, Prosecution and Appeals Commission, Labor Relations Board, Public Service Appeals Commission, Vocational Rehabilitation Administration	No progress	**MOU not signed**	▪ No progress reported on consolidation of shared services
Family	Administration for Integral Development of Childhood, Administration for Socioeconomic Development of the Family, Child Support Administration, Department of Family, Families and Children Administration	Delayed	**Legislation proposed but not presented**	▪ MOU pending for physical space consolidation ▪ Backoffice consolidation has been achieved partially between some sub-groups of agencies but inconsistently across different functions (e.g., HR, Procurement)
Treasury/ OCFO	Department of the Treasury, Puerto Rico Office of Human Resources Management and Transformation (OATRH), Office of Management and Budget (OMB), General Services Administration (GSA), Fiscal Agency and Financial Advisory Authority (AAFAF)	No progress	**EO 2021-018, legislation not presented**	▪ The Government has issued an Executive Order creating the CFO position in collaboration with other financial agencies ▪ There has not been concrete traction to enact legislation

Grouping	Agencies	Consolidation status	Legal provision (if applicable)	Remarks and key FY2021 priorities (indicated by agency)
Executive Office	Federal Affairs Administration, Infrastructure Financing Authority, Office of the Commissioner of Municipal Affairs, Office of the Governor, Office of Socioeconomic Development, Public Buildings Authority, Public-Private Partnership Authority, State Historical Preservation Office	No progress	**No legal provision**	▪ Government has indicated no willingness to merge agencies
Culture	Fine Arts Center Corporation, Institute of Puerto Rican Culture, Musical Arts and Stagecraft Corporation	No progress	**MOU signed (expiration June 30, 2023)**	▪ Only consulting services shared as of now ▪ No progress (or future plans) reported on unification of functions or offices
Public Works	Department of Transportation and Public Works (DTPW), Integrated Transport Authority (ITA), Ports Authority, Traffic Safety Commission (TSC)	No progress	**Legislation repealed**	▪ No progress or future implementation plans reported
Housing	Department of Housing, Housing Financing Authority, Public Housing Administration	No progress	**No law or MOU signed**	▪ All agencies currently operating independently; no progress or future implementation plans reported
Universities	Conservatory of Music, School of Plastic Arts	No progress	**Legislation proposed but not presented**	▪ Government letter to Oversight Board claimed lack of inter-agency cooperation
Justice	Department of Justice, Parole Board	No progress	**No detail provided on legal provision or MOU**	▪ No progress or future implementation plans reported; Parole board still under DCR
Land	Land Administration, Land Authority	No progress	**No law or MOU signed**	▪ Both agencies currently operating independently; no progress or future implementation plans reported
Ombudsman	Advocacy for Persons with Disability, Elderly and Retired People Advocate Office, Health Advocate Office, Veterans Advocate Office, Women Advocate Office	No progress	**Legislation repealed; MOU not signed**	▪ No progress or future implementation plans reported

17 Summary of 2023 Fiscal Plan Milestone Plans

Financial Management Agenda

ERP required implementation actions			
	Required implementation actions	**Responsible party**	**Deadline & status**
To be completed in FY 22	**Transfer DC plan funds from 2017 onward (located in temporary trust) into newly created segregated accounts**, including payroll transfer of the employee contributions to the new DC account.	OCFO	May 2021 *Completed*
	Designate project management team (with 3+ FTEs) to monitor and evaluate the progress and completion of the Enterprise Resource Management implementation. This team should be dedicated to this project on a full-time basis.	OCFO	June 2021 *Completed*
To be completed in FY 23	**Agree on a project plan with milestones and budget** for completion of phases and projections of total project completion.	OCFO	November 2022 *Completed*
	Select ERP solution and implementer.	OCFO	December 2022 *Completed*
	Review and change accounting system cycles, perform data clean-up to ensure new system does not start with inaccurate data, change management strategy for staff involved in all accounting cycles.	OCFO	June 2023 *Revised deadline*
To be completed in FY 24	**Complete Annual Financial (ACFR) track.**	OCFO	October 2023 *New milestone*
	Reassess the full project timeline and fees based on the results achieved in Wave 1. Furthermore, at the conclusion of Wave 1, present the impact of lessons learned throughout the implementation process of Wave 1.	OCFO	December 2023 *Revised deadline*
To be completed in FY 25	**Complete finance, budget, and sourcing track for all central Government agencies**	OCFO	July 2024 *New milestone*
	Complete human capital management track for all central Government agencies	OCFO	July 2024 *New milestone*
	Complete ERP Wave 1 implementation for the internal ERP system at Hacienda.	OCFO	September 2024 *Revised deadline*

OCFO required implementation actions			
	Required implementation actions	**Responsible party**	**Deadline & status**
To be completed in FY 22	**Transfer DC plan funds from 2017 onward (located in temporary trust) into newly created segregated accounts**, including payroll transfer of the employee contributions to the new DC account.	OCFO	Quarterly progress *Completed*
To be completed in FY 24	**Identify all workstreams** for which OCFO is responsible to establish organizational framework with appropriate staffing and complete the organizational and budget plan.	OCFO	October 2023 *Delayed*
	Create and recruit associate CFO positions for the following groupings: (a) Economic Development, (b) Education, (c) Health, (d) Housing, (e) Public Safety, and (f) Justice, whose authority would fall under the OCFO pursuant to legislation.	OCFO	December 2023 *Delayed*
	Ensure passage of legislation to enable consolidation and empower OCFO as the central authority over finance, budget, human resources, audit, etc.	OCFO	March 2024 *Delayed*
	Centralize procurement for items purchased across the Commonwealth.	OCFO & GSA	March 2024 *On-Track*

Timely audited financial statements			
	Required implementation actions	**Responsible party**	**Deadline & status**
To be completed in FY 22	**Issue FY19 audited financial statement.**	OCFO	April 2022 *Completed*
	Issue FY20 audited financial statement.	OCFO	September 2022 *Completed*
To be completed in FY 23	**Expedite actuarial reports** to complete CU financial a "record-to-report" cycle.	OCFO	*Complete*
	Establish a multi-year contract with prequalified contractors for ACFR and Component Units.	OCFO	*Complete*
	Issue FY21 audited financial statement.	OCFO	March 2023 *Revised deadline*
	Perform closing financial records on a monthly, interim, and annual basis for agencies and Component Units.	OCFO	December 2023 *On-Track*
	Publish a management letter for each audit that includes management's comments and corrective actions for auditor-identified control deficiencies.	OCFO	*Ongoing*
	Issue FY22 audited financial statement.	OCFO	September 2023 *Revised deadline*
To be completed in FY 24	**Develop policies and procedures** that define and support a "record-to-report" cycle.	OCFO	December 2023 Revised deadline

Debt management policy			
	Required implementation actions		**Deadline & status**
To be completed in FY 23	Each government Entity shall identify a **report of all its capital leases and lease-purchase transactions**, including the term, annual payments, residual payments, and any other requested information to AAFAF	AAFAF/ Government Entities	December 2022 *New milestone; in progress*
	Develop a **separate policy** amendment to Debt Management Policy to regulate and establish limitations **for capital leases and lease-purchase transactions**	AAFAF and OCFO	February 2022 *New milestone*
	Publish an annual debt affordability report. The report should include the debt portfolio. risk assessment. and debt affordability.	AAFAF and all Commonwealth entities	December 2022, annually thereafter *Delayed*
	Develop policies and procedures to support debt management. Identify the roles. responsibility and objectives of various agencies involved in debt management and publicly disclose them.	AAFAF	April 2023 *Delayed*
	Create a credit rating working committee. The committee should ensure that key factors used by credit rating entities are adequately addressed and incorporated into the Policy.	AAFAF and OCFO	May 2023 *Delayed*
	Determine an audit schedule and publish a request for proposal to procure a third party to audit debt management operations. debt manager's performance, and systems and control procedures.	AAFAF and OCFO	June 2023 *On-track*
	Create a designated website to disclose all adopted policies, including Debt Management Policy and its auxiliary policies. annual affordability report, audit reports, and any other supporting documents	AAFAF	June 2023 *New milestone*
	Audit, on a recurring basis, debt management operations, debt manager's performance, and systems and control procedures. On a predetermined schedule that is no less than on an annual basis.	AAFAF	June 2023, annually thereafter *On-track*

Improving debt monitoring of sub-borrowers			
	Action Items	**Responsible party**	**Deadline & status**
To be completed in FY 23	**Reconcile and report debt balances**. Certify each Municipality's outstanding intergovernmental payables and payment plans with government agencies and public corporations.	AAFAF	May 2023 *Revised deadline*
	Monitor pension and intergovernmental obligations. AAFAF and FOMB to monitor municipality intergovernmental obligations and payment plan compliance.	AAFAF	June 2023, quarterly thereafter *Revised deadline*
	Report Municipality debt levels. Annual reporting to include legislative debt limits, debt repayment capacity, and upcoming debt maturities.	AAFAF and OCFO	June 30, 2023, annually thereafter *Revised deadline*
	Include debt analysis in the annual debt certification by OGP. OGP to validate all 78 municipalities have budgeted for required debt payments.	OGP	June 2023, annually thereafter *On-track*
To be completed in FY 24	**Report intergovernmental data.** Annual certification and public reporting of all intergovernmental payment plans with government agencies and public corporations.	AAFAF and OCFO	December 2023, annually thereafter *Revised deadline*

Budget best practices			
	Action Items	**Responsible party**	**Deadline & status**
To be completed in FY 24	**Prepare training materials** to support budget best practices and compliance with modified accrual.	OMB	July 2023 *Revised deadline*
	Prepare reporting template or financial system to allow for consolidated reporting in a consistent format showing compliance with modified accrual.	OCFO	October 2023 *Revised deadline*
	Enact legislation to establish a revenue committee requiring quarterly revenue analysis and identification of revenue sources prior to enactment of spending bills.	Legislature and AAFAF	October 2023 *Revised deadline*
	Establish a reporting process that includes the Judiciary and Legislative branches.	AAFAF	December 2023 *Revised deadline*
	Issue circular letters detailing reporting requirements.	OCFO and AAFAF	December 2023 *Revised deadline*
	Prepare and present consolidated reporting. Timely and regularly reported budget to actuals of revenues and expenses at the close of each month.	OCFO	May 2024 *Revised deadline*
	Amend Act 230-1974 to allow OMB oversight over all Commonwealth entities.	Legislature	May 2024 *Revised deadline*

Federal funds management			
	Action Items	**Responsible party**	**Deadline & status**
To be completed in FY 23	**Assign staff to OCFO with Federal Funds oversight.** The OCFO will need oversight capabilities to ensure agencies are following proper reporting, oversight practices of federal funds, and clearing agency for assuring compliance with Single Audit requirements for use of federal funds.	Governor, Hacienda and AAFAF	May 2023 *Delayed*
To be completed in FY 24	**Begin process of harmonizing agency FF budgeting and reporting.** Guidance on GASB accounting standards and practices should be issued to governmental departments and agencies.	OCFO and GSA	July 2023 *Delayed*

Federal funds management			
	Action Items	**Responsible party**	**Deadline & status**
	Update Treasury Single Account with detailed programmatic information for federal funds. Update chart of accounts so agencies have an understanding on federal funding sources.	Hacienda, AAFAF, & Agencies	January 2024 *On-track*
To be completed in FY 25	**Legislate and/or regulate to ensure federal funds are always appropriated.** Legislation or regulations should give limited power to executive to appropriate mid-year or emergency funds.	Governor, Legislature & or GSA	August 2024 *Delayed*

Automated Time & Attendance		
Action Items	**Responsible Party**	**Deadline & Status**
Complete remaining steps of the T&A Project with the Department of Correction and Rehabilitation	DCR / AAFAF	April 2023 *Revised deadline*
Complete remaining steps of the T&A Project with the Secretariat of the Department of the Family and its Administrations	DOF & its Administrations / AAFAF	April 2023 *Revised deadline*
Complete remaining steps of the T&A Project with the Department of Labor and Human Resources	DOL / AAFAF	April 2023 *Revised deadline*
Complete remaining steps of the T&A Project with the Mental Health and Drug Addiction Services Administration	ASSMCA / AAFAF	April 2023 *Revised deadline*
Complete remaining steps of the T&A Project with the Department of Transportation and Public Works	DTOP / AAFAF	April 2023 *Revised deadline*
Implement the T&A Project with the Public Building Authority	PBA / AAFAF	April 2023 *Revised deadline*
Implement the T&A Project with the Puerto Rico Police Bureau	PRPB / AAFAF	April 2023 *Revised deadline*
Implement the T&A Project with the Department of Natural and Environmental Resources	DNER / AAFAF	May 2023 *Revised deadline*
Implement the T&A Project with the Department of Public Safety	DPS / AAFAF	May 2023 *On-track*
Implement the T&A Project with the State Elections Commission	SEC / AAFAF	May 2023 *On-track*
Implement the T&A Project with the Cardiovascular Center Corporation of Puerto Rico and the Caribbean	CCCPRC / AAFAF	May 2023 *Revised deadline*
Implement the T&A Project with the University of Puerto Rico Comprehensive Cancer Center	UPRCCC / AAFAF	May 2023 On-track
Implement the T&A Project with the Automobile Accidents Compensation Administration	AACA / AAFAF	May 2023 On-track
Implement the T&A Project with the Department of Economic Development and Commerce	DDEC / AAFAF	May 2023 *On-track*
Implement the T&A Project with the Puerto Rico Ports Authority	PRPA / AAFAF	May 2023 *On-track*
Implement the T&A Project with the Puerto Rico Conservatory of Music Corporation	PRCMC / AAFAF	July 2023 *On-track*
Implement the T&A Project with the Agricultural Enterprises Development Administration	AEDA / AAFAF	May 2024 *On-track*
Implement the T&A Project with the Authority of the Port of Ponce	APP / AAFAF	May 2024 *On-track*
Implement the T&A Project with the Comprehensive Fund for Agricultural Development	CFAD / AAFAF	May 2024 *On-track*
Implement the T&A Project with the Center for Diabetes	CD / AAFAF	May 2024 *On-track*

Automated Time & Attendance		
Action Items	**Responsible Party**	**Deadline & Status**
Implement the T&A Project with the Convention Center of District Authority	CCDA / AAFAF	May 2024 *On-track*
Implement the T&A Project with the Corporation for the Caño Martin Peña Enlace Project	CCMPEP / AAFAF	May 2024 *On-track*
Implement the T&A Project with the Fine Arts Center Corporation	FACC / AAFAF	May 2024 *On-track*
Implement the T&A Project with the Fiscal Agency & Financial Advisory Authority	AAFAF	May 2024 *On-track*
Implement the T&A Project with the Housing Finance Authority	HFA / AAFAF	May 2024 *On-track*
Implement the T&A Project with the Institute of Forensic Sciences	IFS / AAFAF	May 2024 *On-track*
Implement the T&A Project with the Integral Development of the Peninsula de Cantera	IDPC / AAFAF	May 2024 *On-track*
Implement the T&A Project with the Land Administration	LA / AAFAF	May 2024 *On-track*
Implement the T&A Project with the Land Authority	LA / AAFAF	May 2024 (*On track*)
Implement the T&A Project with the Musical Arts Corporation	MAC / AAFAF	May 2024 *On-track*
Implement the T&A Project with the Office of Government Ethics	OGE / AAFAF	May 2024 *On-track*
Implement the T&A Project with the Office of the Inspector General	OIG / AAFAF	May 2024 *On-track*
Implement the T&A Project with the Ponce Authority (Authority of the Port of the Americas)	PA / AAFAF	May 2024 *On-track*
Implement the T&A Project with the Agricultural Insurance Corporation	AIC / AAFAF	May 2024 *On-track*
Implement the T&A Project with the PR Health Insurance Administration	PRHIA / AAFAF	May 2024 *On-track*
Implement the T&A Project with the PR Infrastructure Financing Authority	PRIFA / AAFAF	May 2024 *On-track*
Implement the T&A Project with the PR Institute of Statistics	PRIS / AAFAF	May 2024 *On-track*
Implement the T&A Project with the PR Public Broadcasting Corporation	PRBC / AAFAF	May 2024 *On-track*
Implement the T&A Project with the PR Public-Private Partnership Authority	PRPPPA / AAFAF	May 2024 *On-track*
Implement the T&A Project with the PR School of Plastic Arts	PRSPA / AAFAF	May 2024 *On-track*
Implement the T&A Project with the PR Tourism Company	PRTC / AAFAF	May 2024 *On-track*
Implement the T&A Project with the PR Traffic Safety Commission	PRTSC / AAFAF	May 2024 *On-track*
Implement the T&A Project with the Public Service Appeals Commission	PSAC / AAFAF	May 2024 *On-track*
Implement the T&A Project with the Puerto Rico Integrated Transit Authority	PRITA / AAFAF	May 2024 *On-track*
Implement the T&A Project with the Redevelopment Authority of Roosevelt Roads	RARR / AAFAF	May 2024 *On-track*
Implement the T&A Project with the Special Independent Prosecutor Panel	SIPP / AAFAF	May 2024

Automated Time & Attendance		
Action Items	**Responsible Party**	**Deadline & Status**
		On-track
Integrate T&A project within ERP system with the Commission of Investigation, Processing and Appeals	CIPA / DOT	June 2024 *On-track*
Integrate T&A project within ERP system with the Cooperative Development Commission of PR	CDCPR / DOT	June 2024 *On-track*
Integrate T&A project within ERP system with the Department of Housing	DH / AAFAF	June 2024 *On-track*
Integrate T&A project within ERP system with the Department of Recreation and Sports	DRS / DOT	June 2024 *On-track*
Integrate T&A project within ERP system with the Elderly and Retired People Advocate Office	ERPAO / DOT	June 2024 *On-track*
Integrate T&A project within ERP system with the General Services Administration	GSA / DOT	June 2024 *On-track*
Integrate T&A project within ERP system with the Human Resources and Transformation	HRT / DOT	June 2024 *On-track*
Integrate T&A project within ERP system with the Industrial Commission	IC / DOT	June 2024 *On-track*
Integrate T&A project within ERP system with the Institute of PR Culture	IPRC / DOT	June 2024 *On-track*
Integrate T&A project within ERP system with the Office for People with Disabilities	OPD / DOT	June 2024 *On-track*
Integrate T&A project within ERP system with the Office for the Patients Advocate	OPA / DOT	June 2024 *On-track*
Integrate T&A project within ERP system with the Office of Management and Budget	OMB / DOT	June 2024 *On-track*
Integrate T&A project within ERP system with the Office of Socioeconomic Development	OSD / DOT	June 2024 *On-track*
Integrate T&A project within ERP system with the Office of the Commissioner of Insurance	OCI / DOT	June 2024 *On-track*
Integrate T&A project within ERP system with the Office of the Election Comptroller	OEC / DOT	June 2024 *On-track*
Integrate T&A project within ERP system with the Office of the Financial Institutions Commissioner	OFIC / DOT	June 2024 *On-track*
Integrate T&A project within ERP system with the Office of the Governor	OG / DOT	June 2024 *On-track*
Integrate T&A project within ERP system with the Office of the Women Advocate	OWA / DOT	June 2024 *On-track*
Integrate T&A project within ERP system with the Parole Board	PB / DOT	June 2024 *On-track*
Integrate T&A project within ERP system with the PR Department of Agriculture	PRDA / DOT	June 2024 *On-track*
Integrate T&A project within ERP system with the PR Department of Consumer Affairs	PRDCA / DOT	June 2024 *On-track*
Integrate T&A project within ERP system with the PR Department of State	PRDS / DOT	June 2024 *On-track*
Integrate T&A project within ERP system with the PR Federal Affairs Administration	PRFAA / DOT	June 2024 *On-track*
Integrate T&A project within ERP system with the PR Gaming Commission	PRGC / DOT	June 2024 *On-track*

Automated Time & Attendance		
Action Items	**Responsible Party**	**Deadline & Status**
Integrate T&A project within ERP system with the PR Innovation and Technology Service	PRITS / DOT	June 2024 *On-track*
Integrate T&A project within ERP system with the PR Labor Relations Board	PRLRB / DOT	June 2024 *On-track*
Integrate T&A project within ERP system with the PR National Guard	PRNG / DOT	June 2024 *On-track*
Integrate T&A project within ERP system with the Puerto Rico Planning Board	PRPB / AAFAF	June 2024 *On-track*
Integrate T&A project within ERP system with the Public Housing Administration	PHA / AAFAF	June 2024 *On-track*
Integrate T&A project within ERP system with the Public Service Regulatory Board	PSR / DOT	June 2024 *On-track*
Integrate T&A project within ERP system with the Retirement Board of the Government	RBGPR / AAFAF	June 2024 *On-track*
Integrate T&A project within ERP system with the State Historic Preservation Office of PR	SHPOPR / DOT	June 2024 *On-track*
Integrate T&A project within ERP system with the Veterans Advocate Office of PR	VAOPR / DOT	June 2024 *On-track*
Integrate T&A project within ERP system with the Vocational Rehabilitation Administration	VRA / AAFAF	June 2024 On-track

Cash and bank accounts oversight and transparency			
	Action Items	**Responsible party**	**Deadline & status**
To be completed in FY 23	**Establish a centralized database**. Obtain all bank accounts information, account users, authorized personnel, insurance policies, and agencies' treasury management protocols. Database to include all bank accounts that are currently being reported on a monthly basis by AAFAF as well as the following: Legislative Branch, Judicial Branch, Municipal Funds (custodian funds), Government Development Bank, Investment Accounts, and any bank accounts required to be opened as a result of the confirmation of the Plan of Adjustment.	PRDT, OCFO and AAFAF	June 2023, updated monthly thereafter
To be completed in FY 24	**Establish agreement between FOMB and AAFAF** on variances in quarterly forensic cash and bank accounts analysis reports.	PRDT, OCFO and AAFAF	Aug-23
	Eliminate all idle and unnecessary bank accounts	PRDT, OCFO and AAFAF	Sep-23
	Sweep all closely held Component Unit cash into the TSA and eliminate third-party bank accounts.	PRDT, OCFO and AAFAF	Nov-23
	Establish appropriate direct access to bank account information (i.e., online portals) for any remaining accounts that are not swept into the TSA.	PRDT and OCFO	Dec-23
	Draw conclusions and produce unified guidelines for treasury procedures and cash management to serve as a "true north" for Government's continued efforts in this initiative.	PRDT, OCFO and AAFAF	Jun-24

Uniform purchasing and public procurement			
	Action Items	**Responsible party**	**Deadline & status**
To be completed in FY 23	**Update Act 73-2019 Uniform Purchasing Guidelines** that would fix and address smaller technical issues surrounding competitive purchases, exempt entities and other technical changes.	Governor and Legislature	June 2023 *Revised deadline*

Uniform purchasing and public procurement			
	Action Items	**Responsible party**	**Deadline & status**
To be completed in FY 24	**Produce first draft of updated procurement regulations.** Modifications should address previously identified issues to bring Puerto Rico in-line with best practices.	GSA	September 2023 *Revised deadline*
	Submit Annual Acquisition Plan to GSA, as provided for in Circular Letter 2021-04. All entities covered under Act 73-2019 must submit the plan.	OCFO, GSA and Gov't entities covered under Act 73-2019	December 2023 *Revised deadline*
	Respond to input from stakeholders. Stakeholders, including FOMB, can provide comment to GSA on the proposed regulations to help ensure they meet best practices for public procurement.	GSA and Government wide	March 2024 *Revised deadline*
To be completed in FY 25	**Issue new guidance detailing modified procedures to agencies.** GSA should give roughly 6-months for agencies to begin adopting new procurement rules and regulations.	GSA and other stakeholders	November 2024 *Revised deadline*

Legislative service agency			
	Action Items	**Responsible party**	**Deadline & status**
To be completed in FY 22	**Study state agencies with similar mandates**. Refer to examples in U.S. states for their agencies' responsibilities, organizational structures, Legislative mandates, staffing, and budgets.	Legislature	June 2022 *Completed*
	Determine appropriate objectives, structure, and staffing level for the agency.	Legislature	June 2022 *Completed*
To be completed in FY 23	**Establish a legislative requirement** that all legislation meeting determined parameters undergo a fiscal impact assessment prior to floor consideration.	Legislature	December 2022 *Completed*
	Enact additional legislation required to create and fund a legislative services agency empowered to do this work.	Legislature	December 2022 *Completed*
	Prepare the office's regulations for FOMB review including required administrative orders and personnel rules as specified in Act 1-2023. These should address the Board's concerns as discussed in Section 2.9	Legislature & OPAL	June 2023 *On-track*
	Prepare training materials to support budget best practices and compliance with modified accrual.	Legislature &	June 2023 *On-track*
	Hire the appropriate staff. A non-partisan, career professional staff is crucial for producing creditable forecasts and analyses.	Legislature	June 2023 *On-track*
To be completed in FY 24	**Begin scoring new legislation**.	Legislature	December 2023 *On-track*

Real estate best practices			
	Action Items	**Responsible party**	**Deadline & status**
To be completed in FY 23	**Benchmark existing asset management processes and systems**. FOMB will benchmark existing asset management systems related to real estate as part of a larger gap analysis to identify and understand existing efficiency gaps related to the management, maintenance, and capital improvement of the Commonwealth's real estate.	AAFAF	March 2023 *Revised deadline*
	Create a corrective plan of action to address gaps in existing asset management. Leveraging the findings of the prior task, the FOMB will work with advisors to draft a plan to implement recommended changes and efficiencies within the management of the portfolio.	AAFAF	June 2023 *Revised deadline*
To be completed in FY 24	**Identify relevant IT implementations.** Identify the available asset management tools in the marketplace that can increase accounts receivable, decrease remittance delinquencies, and allow for more accurate forecasting and budgeting across the portfolio.	PRITA	August 2023 *Revised deadline*

Real estate best practices			
	Action Items	**Responsible party**	**Deadline & status**
	Create a quarterly asset management reporting protocol. Establish a quarterly cycle of reporting on real estate related cash flows, capital events, and budgetary forecasts to be distributed to all stakeholders across the Commonwealth.	AAFAF and all stakeholder Commonwealth entities	September 2023, quarterly thereafter *Revised deadline*
	Modernize lease administration. All Commonwealth entities have up to date, signed, and digitized leases in their existing asset management database.	AAFAF	December 2023 *Revised deadline*
	Normalize repairs, maintenance, and capital forecasting. All Commonwealth properties have detailed maintenance and repair plans as well as 10-to-20-year capital expenditure plans.	AAFAF	February 2024 *Revised deadline*
	Normalize asset management systems and marked increase in operational outputs. Portfolio properties have seen 60% revenue increase as identified against market rents, with efficient accounts receivable plans implemented while securing 80%+ of contracted lease revenues across the Commonwealth's existing real estate.	AAFAF	June 2024, quarterly thereafter *Revised deadline*

Power Sector / Energy Reform

Completed milestones for power sector regulatory reform			
Area of focus	**Action Items**	**Responsible party**	**Deadline**
Implement regulatory reform	Provide interim feedback on PREPA's Integrated Resource Plan (IRP)	PREB	Completed
	Remove CW government approval needed for PREB staff appointments	CW government	Completed
	Revise charter legislation to provide dedicated funding for power sector regulation that provides regulator with annual budget of $20 million in line with benchmark	CW government	Completed
	Appoint the remaining PREB commissioner to serve staggered six-year terms	PREB	Completed
	Increase number of PREB staff in line with appropriate benchmarks	PREB	Completed
	Approve IRP	PREB	Completed
	Conclude and publish a study regarding an optimal CIL T structure and submit recommendation to the Governor and tile Legislature	PREB	Completed

Pending milestones for power sector regulatory reform			
Area of focus	**Action Items**	**Responsible party**	**Deadline**
Implement regulatory reform	Create an oversight and monitoring division for LUMA operation and management agreement and other P3A deals, with experienced career civil servants and minimal trust employees	P3 Authority	June 1, 2021 *Delayed*
	Provide FOMB with staffing plan and organizational chart outlining the monitoring and compliance division created within P3A and required funding sources.	P3 Authority/ AAFAF/ Legislature	June 1, 2021 *Delayed*
	Amend PREB enabling act (Act 57-2014) to stipulate that PREB's budget will be funded through rates	Governor/ Legislature	December 31, 2021 *Delayed*
	Submit implementation plan for achieving a workforce with no more than 10% trust employees.	PREB	June 30, 2021 *Delayed*
	Reduce the percentage of trust employees to 15% of total employees	PREB	June 30, 2021 *Delayed*
	Reduce the percentage of trust employees to 10% of total employees	PREB	June 30, 2022 *Delayed*

Pending milestones for power sector regulatory reform			
Area of focus	**Action Items**	**Responsible party**	**Deadline**
	Develop a CILT process by which municipalities pay for electricity consumption not covered by CILT, and are able to file complaints related to CILT*	PREB	December 2021 *Delayed*

Completed milestones for power sector transformation			
Area of focus	**Action Items**	**Responsible party**	**Deadline**
Transition to private operators	Perform market sounding to collect feedback on interests and concerns from interested parties for generation asset privatization	P3 Authority/ Oversight Board	Completed
	Select a winning proponent to manage and operate PREPA's T&D system	P3 Authority	Completed
	Prepare for and launch RFQ for tile selection of a proponent for PREPA's generation assets	P3 Authority	Completed
	Prepare for and launch RFP for the selection of a proponent for PREPA's generation assets	P3 Authority	Completed
Renewable Generation & Battery Storage RFP	Launch Tranche 2 RFP	PREB	Completed

Pending milestones for power sector transformation			
Area of focus	**Action Items**	**Responsible party**	**Deadline**
Transition to private operators	Select a winning proponent to manage and operate PREPA's existing generation assets	P3 Authority	Completed
	Implement approved IRP and grid modernization plan to ensure a modernized, resilient, and reliable grid	PREPA	In process
Renewable Generation & Battery Storage RFP	Complete and announce Tranche 2 RFP selected proponents	PREB	Second half of FY23

Pending milestones for debt restructuring			
Area of focus	**Action Items**	**Responsible party**	**Deadline**
Restructure legacy debt obligations	Confirm Title Ill plan of adjustment	FOMB	To be determined
	Implement PREPA plan of adjustment	PREPA	To be determined

Infrastructure Reform

Implementation actions for the transportation policy board			
Measure	**Action Items**	**Responsible party**	**Deadline**
Establish Transportation Policy Board or analogous entity	Establish an independent advisory board responsible for setting long term holistic strategic plans and oversight of investment prioritization processes to advance transportation from an Island-wide perspective	AAFAF	April 1, 2023
	Establish processes and guidelines for reviewing and reporting on the execution of strategic plans and providing transparency and guidance on corrective action	TPB	May 1, 2023

Implementation actions for the transportation policy board			
Measure	**Action Items**	**Responsible party**	**Deadline**
	Establish processes and guidelines for coordinating the federal grants strategy for all transportation entities to harmonize the process and maximize availability of federal funds	TPB	May 1, 2023
	Assess and develop mechanisms to lower traffic congestion and increase accessibility to transit	TPB	May 1, 2023
	Establish an MOU agreement outlining the approach for and terms under which all transportation entities will work with one another	TPB, HTA, ATM, PRITA	May 1, 2023

Implementation actions for optimizing capital expenses			
Measure	**Action Items**	**Responsible party**	**Deadline**
Optimize capital expenses	Propose set of projects that would benefit most from creation of standard project definition workflows (e.g., commonalities, frequencies)	HTA	Ongoing
	Propose set of projects that would benefit most from creation of standard design packages (e.g., number of stakeholders, frequencies)	HTA	Ongoing
	Identify and propose opportunities to leverage alternative procurement methods	HTA	Ongoing
	Identify capability gaps within in-house construction team	HTA	Ongoing
	Pilot improvements to address opportunities areas identified in capital delivery diagnostic	HTA	Ongoing
	Use standard project definition workflows for initial set of projects	HTA	Ongoing
	Create and propose alternative procurement RFP(s) for eligible projects	HTA	Ongoing
	Complete FHWA-approved process improvements (e.g., pay-item sampling) to expedite invoice processing in project close-out	HTA	November 30, 2023
	Complete implementation of electronic records management system to facilitate efficient project close-outs	HTA	November 30, 2023

Implementation actions for improving performance management in transportation			
Measure	**Action Items**	**Responsible party**	**Deadline**
Leverage private-sector services for improved efficiency	Design a series of initiatives that can be implemented in collaboration with private transport networks (e.g., públicos)	HTA, PRITA, private networks	May 31, 2023
	Develop a strategy for communicating with private network operators	PRITA	May 31, 2023
Transit Service Integration and Coordination	Adopt a single farecard for all public transit networks	HTA, ATM, PRITA	May 31, 2023
	Harmonize fares and schedules across TU, buses, and ferries	HTA, ATM, PRITA	May 31, 2023
	Pool data resources to conduct common research on future initiatives	HTA, ATM, PRITA	May 31, 2023

Implementation actions for increasing revenues			
Measure	**Action Items**	**Responsible party**	**Deadline**
Collect discretionary grants	Hire discretionary grant management team	HTA	Completed
	Begin preparing discretionary grant applications and collecting all necessary supporting documents	HTA	June 30, 2023
Pursue P3 opportunities	Evaluate and prioritize potential areas for additional P3s led by 3rd party	HTA/P3A	Completed
	Finalize due diligence process and desirability and convenience study	HTA/P3A	Completed
	Continue to coordinate with FOMB on governance and efforts to facilitate the potential P3 process for the toll road assets	HTA/P3A	Ongoing

Implementation actions for increasing revenues			
Measure	**Action Items**	**Responsible party**	**Deadline**
	Evaluate different potential deal structures using variety of scenarios within fiscal plan constraints. Finalize and share with FOMB detailed opportunity by opportunity execution plan for prioritized P3 opportunities	HTA/P3A	Completed
	Launch RFP(s) for prioritized P3	P3A	Completed
	Begin first new P3 agreement	HTA/P3A	Q4 2023
Improve ancillary revenue	Hire ancillary revenue management team	HTA	Completed
	Begin a campaign to acquire ancillary revenue increases (e.g., advertising)	HTA	January 31, 2023
	Begin coordination with third parties for ancillary revenue increases that require contracting (e.g., rentals)	HTA	February 28, 2023
	Begin ancillary revenue increases that require long-term planning and complex legal agreements (e.g., joint real estate development initiatives)	HTA	May 30, 2023
	Develop a comprehensive ancillary revenue strategy, which will include a full asset inventory and an analysis of administrative constraints and submit to FOMB for review	HTA	May 30, 2023

Earned Income Tax Credit

Required implementation actions for EITC			
	Action item	**Owner**	**Deadline**
To be completed in FY2023	Augment monitoring for EITC filing data to prevent and detect fraud	Hacienda	Ongoing
	Assume responsibility for managing EITC outreach in tax year 2022 and beyond	ADSEF	Ongoing
	Discuss EITC performance with Oversight Board	Hacienda, ADSEF	Ongoing
	As established by the ARP Act, increase the percentage of earned income which is allowed as a credit for each group of recipients, in a manner designed to substantially increase labor force participation	Hacienda	Completed
	Launch new EITC promotional campaign	ADSEF	Annually from January 1, 2022
	Monitor EITC uptake data in real-time to inform promotional campaign	Hacienda, ADSEF	Ongoing each tax year
	Monitor and enforce EITC program integrity	Hacienda, ADSEF	Ongoing each tax year
	Prepare EITC performance report and share with Oversight Board	Hacienda, ADSEF	Annually from June 1, 2022
To be completed in FY2024	Design an EITC outreach strategy for tax year 2023 and share with Oversight Board	Hacienda, ADSEF	September 15, 2023
	Provide an annual report to the U.S. Department of the Treasury that includes an estimate of the EITC cost for that year and a statement of the actual cost in the preceding year	Hacienda	Annually from September 15, 2022
	Design a recurring assessment of performance to fulfill federal guidelines and reform the EITC platform so can be aligned with federal requirements	Hacienda	Annually from September 15, 2022
	Meet with Oversight Board to discuss EITC performance report, tax year 2023 promotional strategy and claims monitoring	Hacienda, ADSEF	September 15, 2023

Medicaid Reform

Required implementation actions for Medicaid reform		
	Required implementation actions	**Deadline**
To be Completed	Change the current CMS-64 Claiming Methodology to properly account for Rebates	January 2023
	Complete assessment for the need for additional third-party vendors to develop an Asset Verification System and analytics for fraud, waste, and abuse reduction and enrollment verification	March 2023
	Issue timeline and implementation plan for the DRG-based payment model	June 2023
	ASES must hire a chief financial officer	June 2023
	PRMP must complete unwinding of COVID-19 continuous enrollment	June 2024
	Launch DRG-based payment model	October 2024
	Inform recent developments on PERM and MEQC requirements	Monthly
	Provide monthly updates on PRMMIS Phase III, E&E and HIT	Monthly
	Provide monthly report updates on DRG implementation	Monthly
	PRMP must complete its analysis of CMS-64 financial management reports segregated by Medicaid and CHIP	Monthly
	Provide monthly reporting and quarterly progress updates on Fraud Waste and Abuse reduction, KPIs and activity outcomes. This information must include MMIS-related analytics, Medicaid Fraud Control Unit activities (convictions, funds recaptured, and recommendations for program improvement/MCO accountability) and all Medicaid Office and ASES programmatic and vendor initiatives	Monthly/Quarterly

Tax System Structure

Key milestones for tax expenditure reporting			
	Action item	**Owner**	**Deadline**
To be completed in FY2024	Continue to produce an annual Tax Expenditure Report that identifies and quantifies all tax expenditures (including tax exclusions, exemptions, adjustments, deductions, subtractions, credits, abatements, deferrals, rebates, and special rules) on an annual basis and submit on time, by December 31	Hacienda	December 31, 2023
	Include a multi-year forecast of tax expenditures	Hacienda	December 31, 2023
	Utilize the most recently available data	Hacienda	December 31, 2023
	Ensure the report reflects the full magnitude of incentives offered, including Commonwealth and municipal revenue loss from the property tax, municipal patent tax and other local sources	Hacienda	December 31, 2023

List of regulation, administrative orders, manuals and other executive communiques required to implement provisions of Act 60-2019			
	Action items	**Responsible party**	**Deadline & Status**
To be completed in FY 2022	Reestablish the DDEC and FOMB Incentives review Working Group	DDEC FOMB	February 2023

List of regulation, administrative orders, manuals and other executive communiques required to implement provisions of Act 60-2019			
	Action items	**Responsible party**	**Deadline & Status**
	Issue RFP to procure consultant to assist in completion of outstanding items related to completion of Act 60-2019 regulation, Opportunity Zones regulations and ROI manual	DDEC	January 2023
	Complete and issue the Administrative Order establishing the Economic Incentives Review Committee (CRIE)	DDEC	June 2023
	Complete and issue the Administrative Order to Establish the Guidelines for the Annual Incentives Report	DDEC	June 2023
	Complete and Issue the Administrative Order to Establish the Guidelines for Audit Procedures	DDEC	June 2023
	Complete and Issue the Administrative Order to Adopt the ROI Manual, providing detailed Guidance for ROI Analysis	DDEC	June 2023
	Issue the updated ROI manual which reflects the standards set in Act 60-2019 and Regulations 9248	DDEC	June 2023
	Complete and issue amendments to Opportunity Zones Regulations (regulations 9222)	DDEC	June 2023
	Complete amendments and reissue Opportunity Zones Resolution 2019-01	DDEC	June 2023
	Complete amendments and reissue Opportunity Zones DDEC Administrative Determination 2020-01	DDEC	June 2023

Ease of doing Business

Required implementation actions to satisfy FEMA grant program			
Timeframe	**Action items**	**Owner**	**Deadline**
To be completed in FY2023	Increase staff support for both PRPB and OGPe	Primary owner: PRPB Secondary owner: OGPe	To be completed in FY2024 (Sep 2023)
	Finish the User Acceptance Testing of the Arc GIS suite	PRPB	Complete
	Form a mechanism for cross agency review, re-engineering, and creation of the permit system	PRPB	To be completed in FY2024 (Jan 2024)
	Launch the website providing computer-based training to various audiences of code enforcement activities	Primary owner: PRPB Secondary owner: OGPe	To be completed in FY2024 (Aug 2023)
	Finalize CFM training activities and implement the L0273 course in San Juan	PRPB	To be completed in FY2024 (Jul 2023)
	Sign the required MOUs to develop a pool of experts to ensure long-term resilience of the island	PRPB	To be completed in FY2024 (Jan 2024)
	Finalize and approve municipal land use plans for the 13 municipalities being updated under the HMGP scope	PRPB	To be completed in FY2024 (Jan 2024)
	Request an extension of the HMGP and update the strategic work plan	PRPB	Jun 2023

Required implementation actions to finalize the joint regulation			
Timeframe	**Action items**	**Owner**	**Deadline**
To be completed in FY2023	Finalize draft Joint Regulation for public comment	PRPB	Complete
	Engage in public comment period	PRPB	Feb 2023
	Incorporate comments for public into draft document	PRPB	May 2023
	Submit Join Regulation for final review (including to FOMB)	PRPB	Jun 2023
	Adopt and publish final Joint Regulation	PRPB	To be completed in FY2024 (Jul 2023)

Required implementation actions to align authority related to permitting offices			
Timeframe	**Action items**	**Owner**	**Deadline**
To be completed in FY2023	Draft proposed legislative language in Joint Regulation of update authority of all permitting offices based on feedback received from stakeholders	Primary owner: PRPB Secondary owner: OGPe	Apr 2023
	Define staffing requirements to support additional roles and responsibilities of all impacted permitting offices	Primary owner: PRPB Secondary owner: OGPe	Jun 2023
	Design and roll our training to permitting office based on updating roles and responsibilities	Primary owner: PRPB Secondary owner: OGPe	To be completed in FY2024

Required implementation actions related to capacity building within permitting offices			
Timeframe	**Action items**	**Owner**	**Deadline**
To be completed in FY2023	Define and develop training programs for permitting office staff members (in Regional OGPe, Autonomous Municipalities, and Consortiums)	OGPe	Mar 2023
	Roll out training programs for permitting office staff members (in Regional OGPe, Autonomous Municipalities, and Consortiums)	OGPe	Jun 2023
	Define a role with Central OGPe to a manage communications across permitting offices and create a permitting community	OGPe	Jun 2023
	Establish a centralized portal for knowledge sharing *including guidance documents, rosters, and more)	OGPe	Mar 2023

Required implementation actions to create and update territorial plans			
Timeframe	**Action items**	**Owner**	**Deadline**
To be completed in FY2023	Develop budget and schedules for updating Territorials Plans for municipalities with expired plans	Primary owner: Municipalities Secondary owner: PRPB	Jun 2023

Required implementation actions to streamline permitting process			
Timeframe	**Action items**	**Owner**	**Deadline**
To be completed in FY2023	Identify business analysts and chief architecture for permit process evaluation	Primary owner: PRPB Secondary owner: OGPe	May 2023
	Engage business analysts and chief architect in process evaluation and reengineering efforts	Primary owner: PRPB	Jun 2023

Required implementation actions to streamline permitting process			
Timeframe	**Action items**	**Owner**	**Deadline**
		Secondary owner: OGPe	
	Review and implement results of findings from business analyst and chief architect review	Primary owner: PRPB Secondary owner: OGPe	To be completed in FY2024 (Jan 2023)
	Design and implement process to accelerate ministerial construction related permits for smaller, less complex projects	OGPe	(revised: Mar 2023)
	Design and implement process to accelerate ministerial single permits that align to Joint Regulation	OGPe	(revised: Mar 2023)

Required implementation actions to overhaul the SBP			
Timeframe	**Action items**	**Owner**	**Deadline**
To be completed in FY2023	Work with a system architect to complete the new SBP platform	Primary owner: OGPe Secondary owner: PRPB / BTS	To be completed in FY2024 (Jan 2024)
	Test the new SBP system	OGPe	Rev: Oct – Dec 2023
	Prepare technical documentation and training materials to support users of the SBP system,	Primary owner: OGPe Secondary owner: PRPB / BTS	In process
	Launch the new SBP system	Primary owner: OGPe Secondary owner: PRPB / BTS	Delayed -Mar 2022
	Fully digitalize all procedure to start a business with SBP	Third parties	In process – Jun 2023
	Publish significant metrics in SBP Permit's Performance Dashboard	OGPe	Rev: Oct 2023
	Establish and communicate performance goals for all permit office and PRPB employees and incorporate into the performance review process	Primary owner: OGPe Secondary owner: PRPB / BTS	Rev: Jul 2023
	Place the dashboard on the front page of the website so it is more easily accessible	OGPe	Rev: Jul 2023
	Create dashboard for Authorized Professionals' performance (audit scores and complaints) and deficiencies	Primary owner: OGPe Secondary owner: PRPB / BTS	Rev: Oct 2023

Required implementation actions to launch a red tape commission			
Timeframe	**Action items**	**Owner**	**Deadline**
To be completed in FY2023	Review the current draft version of the Joint Regulation and provide comments with the aim of reducing documentation and streamlining processes	Red tape commission	Delayed -Oct 2021
	Develop continuing open discussions with key stakeholders to create a current source of feedback and monitoring of the permitting process	Red tape commission	Rev: Mar 2023

Required implementation actions to reduce the amount of time to register a property			
Timeframe	**Action items**	**Owner**	**Deadline**
To be completed in FY2023	Develop and share implementation strategy to reduce the time required to register a property by identifying prioritization across multiple metrics (e.g., time required by sections, urgency of approvals, incremental costs for DOJ due to expiring paperwork)	DOJ-PR	In process
	Begin implementing strategy to reduce property registration processing times	DOJ-PR	In process
	Complete consolidation of 12 regional offices into 9 in order to optimize resource allocation	DOJ-PR	Delayed -Jun 2021 (Revised: Dec 2023)

Required implementation Actions to eliminate the backlog of outstanding property registrations			
Timeframe	**Action items**	**Owner**	**Deadline**
Timeframe 2022	Work with Legislature to pass PS 340 to register all documents in backlog up to 12/31/16 with track record (missing a partial payment, a small correction or a government required document)	Primary owner: Legislature Secondary Owner: DOJ - PR	Delayed -Jul 2022 Revised: Feb 2023)
	Complete ~85k potential applications covered under PS 340	DOJ - PR	Delayed -Jul 2022 Revised: Dec 2023)
Timeframe 2023	Develop implementation plan to address remaining backlog (e.g., UPR students, amending legislation)	DOJ – PR	Apr 2023
	Develop strategy to most effectively use resources to avoid elevated backlog levels (.g., section segmentation analysis, performance quotas)	DOJ - PR	May 2023

Required implementation actions to modify KARIBE			
Timeframe	**Action items**	**Owner**	**Deadline**
To be completed in FY2023	Identify timelines and change to be performed to KARIBE in order to improve front-end experience, increase user friendliness and automate tasks performed by technicians	DOJ – PR	In process
	Publish dashboards with all employees, teams and Registry Sections performance, internally and in KARIBE	DOJ – PR	In process
	Implement identified changes in KARIBE and track improvement in performance across different metrics (e.g., type of property, down time, number of users)	DOJ - PR	Delayed -Dec 2021 (Revised: Dec 2023)

Required implementation actions to register informal reports			
Timeframe	**Action items**	**Owner**	**Deadline**
Timeframe 2022	Create internal and external users' team as advisors (Civil Lar Notaries) and government agencies with vested interest in the process (e.g., Property Registry, OGPE, CRIM)	Primary owner: DOJ - PR Secondary Owner: CRIM and PRPB / OGPe	Delayed -Jul 2021 Revised: Feb 2023
	Develop an expedited ownership declaration process. Create pre-registration process to comply with Federal Government requirements to ensure properties in Puerto Rico have some type of evidence of ownership	Primary owner: PRPD Secondary owner CDBG – DR, CRIM, Vivienda	Jul 2023
Timeframe 2023	Develop implementation strategy and define roles and ownership across government agencies to maximize registration of informal properties	DOJ - PR	Jul 2023
	Implement strategic to successfully optimize registration of informal properties (e.g., registration and recordation protocols, unified database of unregistered properties)	DOJ - PR	Dec 2024

Required implementation actions to create uniform parcel registry and launch geoframe			
Timeframe	**Action items**	**Owner**	**Deadline**
Timeframe 2023	Re-establishing a property registration reform working group comprised of CRIM, DOJ – PR, PRPB, Vivienda and FOMB	Primary Owner: FOMB Secondary owner: CRIM, DOJ – PR, PRPB, Vivienda	Feb 2023
	Finalize merger of CRUM, DOJ – PR and JP property registries into uniform parcel registry	Primary Owner: Vivienda Secondary owner: CRIM, DOJ – PR, PRPB	Delayed – May 2022 (Revised: May 2023)
Timeframe 2024	Identify and map unregistered and informally developed properties of those with outdated ownership in the uniform parcel registry. To the extent possible utilize CRIM geographic area validation	Primary Owner: Vivienda Secondary owner: CRIM, DOJ – PR	Delayed -Feb 2023 Revised: Feb 2024
	Design protocol to incorporate unregistered and informal housing stock into the Property Registry when identified int the uniform parcel registry	Primary Owner: PR-DOJ Secondary owner: Vivienda	Delayed -Jan 2023 Revised: March 2024
	Finalize upload of data from mapping campaign into uniform parcel registry and GIS map	Vivienda	June 2024
	Finalize uniform parcel registry that maps all ownership and rights across the island	Vivienda	September 2024
	Finalize GIS map that include parcels, property IDs, property ownership, land use, and property value data	Vivienda	December 2024
Timeframe 2025	Introduce a technical mechanism to continuously update uniform parcel registry and GIS map in response to legal changes (e.g., ownership changes)	Primary Owner: Vivienda Secondary owner: PR-DOJ	Delayed – June 2022 (Revised: Apr 2025)
	Define administrative protocol to continuously update the uniform parcel registry in response to legal changes (e.g., ownership change)	Primary Owner: Vivienda Secondary owner: PR-DOJ	Delayed -Apr 2022 Revised: Apr 2025)

Required implementation actions for occupational licensing reform			
Timeframe	**Action items**	**Owner**	**Deadline**
Timeframe 2023	Leverage initial findings from occupational license benchmark report developed by URP, and identify areas where further research needs to be developed at each agency (e.g., 83% of licenses live in the informal industry, average time to receive natural resources is 3-5 years)	PRTC, DOH, DOS	Apr 2023
	Identify occupational license experts across different government agencies (e.g., DOH, DOS, PRTC) and establish relevant working groups dependent on occupational license needs and type of involvement required	PRTC, DOH, DOS	Delayed – Jun 2021 Revised- Feb 2023
	Publish performance report detailing (1) the average time and costs required to obtain each license types and (2) administrative changes made to reduce licenses or accelerate their processing	PRTC, DOH, DOS	Delayed – Dec 2021 Revised- May 2023
	Establish a plan at each of the different agencies to reduce excessive licenses requirements (e.g., certification boding, insurance, inspections and registration)	PRTC, DOH, PRTC	Delayed – Oct 2021 Revised- Jul 2023
	Discuss licensing reform, compliance strategy, processing improvements, projected costs, and necessary administrative and legislative changes with Oversight Board	PRTC, DOH, PRTC	Delayed – Feb 2022 Revised- Sep 2023
	Finalize necessary administrative and legislative changes required to implement occupational licensing reforms in FY2022 onwards	PRTC, DOH, PRTC	Delayed – Jun 2022 Revised- Dec 2023

Required implementation actions for on island freights reform			
Timeframe	**Action items**	**Owner**	**Deadline**
To be completed in FY2022	Revert tariff application to companies with negotiated contracts with carriers	NTSP	Delayed: Apr 2021 (tent Dec 2023)
	Revise regulation to eliminate duplicate permitting processes, excessive requirements and documentation to carriers and clarify that contracts between carriers and companies are exempt from tariff requirements	NTSP	Delated: Dec 2021 Revised: Dec 2023
To be completed in FY2023	Provide copy of regulation as request by letter send by FOMB on Nov 21, 2022	NTSP	Mar 2023

Required implementation actions to implement strategic plan			
Timeframe	**Action items**	**Owner**	**Deadline**
Timeframe 2023	Conduct business mission in targeted geographies in coordination with strategic partners	IPR	In process
	Develop and execute an outreach program to target companies, including event activations, campaign, familiarization torus, and other business development tactics	IPR	In process
	Implementation of strategy to attract manufacturing reshoring to the US	Primary owner: IPR Secondary owner: DDEC	In process
	Define strategy to attract companies in target industries, identified during research development wit DDEC	PPR	In process
	Develop with DDEC a strategy plan to connect the local innovation & entrepreneurship ecosystem talent to global capital (e.g., VS and PE firms, Conferences)	Primary owner: IPR Secondary owner: DDEC	In process

Required implementation actions to implement strategic plan			
Timeframe	**Action items**	**Owner**	**Deadline**
	Design economic development strategy including the focus on cold chain and related costs tot hen share with Oversight Board	IPR	Jul 2023

Required implementation actions to provide IPR with tools and capabilities to offer existing idle government properties			
Timeframe	**Action items**	**Owner**	**Deadline**
Timeframe 2023	Have a comprehensive and up to date list of real estate assets and their market value that IPR can market. This list should be representative of opportunities across sectors, sizes, and geographies; IPR should coordinate with both private and public entities (e.g., PRIDCO)	Primary Owner: IPR Secondary Owner: DDEC, PRIDCO	In process

Required implementation actions for effective tourism attraction			
Timeframe	**Action items**	**Owner**	**Deadline**
Timeframe 2023	Identify areas of growth for implementing strategy for "La idea", previously known as Island-wide multimedia content repository: a project which focuses on improving businesses' digital footprints and images on leading digital platforms	DPR	In process
	Define PRTC agency's responsibilities to be distinguished from those of DOR	PRTC	In process
	Participate with PRTC in the development of internal tourism marketing strategy	Primary owner: PRTC Secondary owner: DPR, Federal government	In process
	Create and share Puerto Rico's Travel and Tourism competitiveness scorecard with Fortaleza, the Legislature, PRTC, and the Oversight Board	DPR	In process
	Participate with PRTC in the development of the internal tourism marketing strategy	Primary owner: DPR Secondary owner: PRTC	In process
	Participate with PRTC in development on airline marketing strategy	Primary owner: DPR Secondary owner: PRTC	In process

Puerto Rico Department of Education (PRDE)

PRDE required implementation actions: Procurement				
Area of focus	**Milestone alignment for PRDE strategic plan**	**Action item**	**Responsible party**	**Deadline**
Procurement	Evaluate and improve administrative processes to increase operational efficiency and eliminate bureaucracy	Launch a P-Card program that streamlines low dollar value material purchases at the school level to reduce the number of purchase orders	PRDE	April 30, 2023
		Classify and analyze spending data to identify trends and areas of time/spending efficiencies by	PRDE	April 30, 2023

PRDE required implementation actions: Procurement				
Area of focus	**Milestone alignment for PRDE strategic plan**	**Action item**	**Responsible party**	**Deadline**
		Enhance procurement software functionality to improve transparency and efficiency	PRDE	June 30, 2023
		Support development of an annual procurement plan to improve strategic decision-making capabilities	PRDE	June 30, 2023

PRDE required implementation actions: Student-teacher ratio				
Area of focus	**Milestone alignment for PRDE strategic plan**	**Action item**	**Responsible party**	**Deadline**
Student-teacher ratio	Evaluate and improve administrative processes to increase operational efficiency and eliminate bureaucracy Recruit, develop, and retain effective resources to establish a community of excellence	Outline a plan to streamline the process for data-based, transparent school stalling that will allow PRDE to continue to systematically manage its student-teacher ratio	PRDE	June 30, 2023

PRDE required implementation actions: Attendance metrics				
Area of focus	**Milestone alignment for PRDE strategic plan**	**Action item**	**Responsible party**	**Deadline**
Attendance efficiency metrics	Recruit, develop, and retain effective resources to establish a community of excellence	Create a monthly report that shows teachers are present for less than or equal to 90% of days as in the automated T&A system to begin Note: additionally, continue to support student attendance-taking milestones	PRDE	May 15, 2023

PRDE required implementation actions: Strategic finance				
Area of focus	**Milestone alignment for PRDE strategic plan**	**Action item**	**Responsible party**	**Deadline**
Strategic Finance	Recruit, develop, and retain effective resources to establish a community of excellence Evaluate and improve administrative processes to increase operational efficiency and eliminate bureaucracy	Hire a well-qualified Chief Financial Officer (CFO) who will work with PRDE leadership to develop a long-term financial plan, in addition to other budgeting and planning responsibilities	PRDE	Ongoing, in collaboration with CSR initiatives
		Update and share with FOMB a long-term financial plan that aligns one-time and recurring resources to the department's strategic priorities	PRDE	June 30, 2023
		Publish a plan to spend all one-time funds, including ESSER, FEMA, and Federal carryover that includes projected impact on future General Fund budgetary needs	PRDE	June 30, 2023
		Comply with financial reporting requirements as stated by Hacienda	PRDE	Ongoing as required by Hacienda

PRDE required implementation actions: Student-based budgeting				
Area of focus	**Milestone alignment for PRDE strategic plan**	**Action item**	**Responsible party**	**Deadline**
Student-based budgeting	Educate about equity and respect for diversity to eliminate access and opportunity gaps and prevent discrimination Evaluate and improve administrative processes to increase operational efficiency and eliminate bureaucracy	Develop a preliminary student-based budgeting system	PRDE	30-Jun-24
		Meet key stakeholders (including FOMB, PRDE and Charters) to solicit feedback on the approach and revise accordingly on a regular basis	PRDE	Ongoing
		Create an implementation plan to pilot the new budgeting approach	PRDE	30-Jan-25
		Launch pilot of new budgeting approach	PRDE	30-Jun-25

PRDE required implementation actions: Building portfolio and infrastructure				
Area of focus	**Milestone alignment for PRDE strategic plan**	**Action item**	**Responsible party**	**Deadline**
Building portfolio and infrastructure	Promote physical, mental, and social-emotional development that guarantees student resources based on their needs Evaluate and improve administrative processes to increase operational efficiency and eliminate bureaucracy	Publish a Facilities Master Plan to guide decisions around PRDE's building and infrastructure investment priorities and long-term strategy	PRDE	April 30, 2023
		Track and report on implementation progress towards recommendations from the Facilities Master Plan; share implementation reports with FOMB	PRDE	June 30, 2023
		Perform repairs to safely re-open schools and provide full-day, full-week, in-person learning option for all students	PRDE	September 30, 2023
		Track and report on implementation progress towards recommendations from the Facilities Master Plan; share implementation reports with FOMB	PRDE	January 30, 2024
		Track and report on implementation progress towards recommendations from the Facilities Master Plan; share implementation reports with FOMB	PRDE	January 30, 2024

PRDE required implementation actions: Special education services				
Area of focus	**Milestone alignment for PRDE strategic plan**	**Action item**	**Responsible party**	**Deadline**
Special education services	Recruit, develop, and retain effective resources to establish a community of excellence Educate about equity and respect for diversity to eliminate access and	Define and implement a plan to increase the service offering capacity of PRDE's Special Education program in order to transition additional students from Remedio Provisional; provide status update to FOMB	PRDE	June 30, 2023
		Define and implement a plan to increase the service offering capacity of PRDE's Special Education program in	PRDE	January 30, 2024

PRDE required implementation actions: Special education services				
Area of focus	**Milestone alignment for PRDE strategic plan**	**Action item**	**Responsible party**	**Deadline**
	opportunity gaps and prevent discrimination	order to transition additional students from Remedio Provisional; provide status update to FOMB		
	Promote physical, mental, and social-emotional development that guarantees students resources based on their needs Evaluate and improve administrative processes to increase operational efficiency and eliminate bureaucracy	Define and implement a plan to increase the service offering capacity of PRDE's Special Education program in order to transition additional students from Remedio Provisional; provide status update to FOMB	PRDE	June 30, 2024

PRDE required implementation actions: Transportation services				
Area of focus	**Milestone alignment for PRDE strategic plan**	**Action item**	**Responsible party**	**Deadline**
Transportation services	Evaluate and improve administrative processes to increase operational efficiency and eliminate bureaucracy	Provide transportation services to all eligible students and comply with all USDE requirements for use of Federal transportation funds	PRDE	August 30, 2023

PRDE student attendance-taking metrics				
Area of focus	**Milestone alignment for PRDE strategic plan**	**Action item**	**Responsible party**	**Deadline**
To be completed in FY 2023	Establish and effectively implement evidence-based strategies to achieve the academic recovery plan Evaluate and improve administrative processes to increase operational efficiency and eliminate bureaucracy	Create a monthly report that shows teachers submit student attendance Via the student information system 290% of school days to begin	PRDE	May 15, 2023
		Publish a clear and Official policy on how frequently and by what time of day teachers are required to take attendance, including specific requirements by grade level and class type (e.g., Special Education), substitute protocol, etc.)	PRDE	May 15, 2023
		Streamline systems to make the process of entering attendance data easier for teachers (e.g., rationalize the number of potential attendance codes)	PRDE	June 30, 2023
		Create materials to support all school staff in understanding the importance of attendance-taking and use of the system (e.g., how-to-videos for reporting in SIE, online FAQ)	PRDE	June 30, 2023
To be completed in FY 2024		Hold professional development and trainings on taking attendance in student information system (SIE) for teachers and directors (e.g., regional trainings, peer mentorship program at schools with high attendance-taking and low attendance-taking rates)	PRDE	August 30, 2023

PRDE student attendance-taking metrics				
Area of focus	**Milestone alignment for PRDE strategic plan**	**Action item**	**Responsible party**	**Deadline**
		Empower regional superintendents to support school-level accountability by requiring them to check attendance data weekly and support improvements at schools with low attendance-taking rates	PRDE	September 30, 2023

Department of Health (DOH)

Required implementation actions for the Department of Health (DOH)		
	Required implementation actions	**Deadline & status**
To be Completed	Identify common administrative and medical supplies across health agencies and public hospitals with opportunities for savings through procurement centralization	June 2023
	Centralize procurement of identified administrative and medical supplies within ASEM	December 2023
	DOH - Execute public awareness campaign on Opioid prevention	June 2023
	DOH - Provide monthly updates on the Prescription Drug Monitoring System	Monthly
	ASSMCA - Upon CMS accreditation, provide monthly updates of billings for Medicare and Medicaid patients	Monthly
	ASEM - Review the current providers performance on the RCM, report saving and KPIs	Monthly
	DOH - Complete the procurement, purchase and installation of the Telehealth Portals	June 2023
	Cancer Center - Become self-sufficient and rely on SRF's by FY2024	June 2023
	Cardiovascular Center - Fully implement Electronic Health Records	September 2023
	DOH - Identify duplicative roles and positions across agencies/programs and opportunities for centralization of duplicative tasks	June 2023

Department of Public Safety (DPS)

Required implementation actions for the Department of Public Safety (DPS)			
	Required implementation actions	**Previous deadline**	**Status / New deadline**
To be completed in FY2023	Scale up rollout of automated time and attendance system (Kronos) across all PRPB precincts and other DPS agencies (e.g., front-office personnel in Firefighters Corps)	June 2022	On-track / April 2023
	Consolidate purchasing for all DPS agencies, eliminate all manual processes, and report procurement efficiency gains	June 2022	On-track / May 2023
	Create a Transformation and Project Management Office within DPS to ensure the implementation and continuity of the operational transformation initiatives. (e.g., Procurement)		On-track / June 2023
	Launch external recruitment drive for civilians to fill target administrative role vacancies in DPS	June 2022	Delayed / June 2024
	Launch recruitment drives to fill specialist front-office roles across DPS agencies (e.g., Institute of Forensics, Police Cadets, Firefighters, EMS)	June 2022	Delayed / June 2024
	Outline implementation plan to achieve overtime savings and launch initiatives to achieve rightsized staffing levels of sworn officers in field roles	June 2022	Delayed / June 2024
	Outline potential initiatives to achieve other operational process improvements across all bureaus and provide monthly B2A and procurement reporting (e.g., digitization of incident reporting, consolidation of statistical reporting, streamlining of vehicle maintenance)	June 2022	Delayed / June 2024

Required implementation actions for the Department of Public Safety (DPS)			
	Required implementation actions	**Previous deadline**	**Status / New deadline**
To be completed in FY2024	Complete hiring of 900 civilians to administrative roles to enable transfer of all sworn officers to field roles	June 2024	On track

Puerto Rico Innovation and Technology Services (PRITS)

Required implementation actions for the Department of Innovation and Technology Services (PRITS)			
	Required implementation actions	**Deadline**	**Status / New deadline**
To be completed in FY2023	Review all technology-related budget requests as part of the FY2024 Budget cycle	March 2023	On-track
	Complete the design of the cloud services and on-premises data center consolidation plan, including recovery strategy, and the onboarding of the team that will execute the consolidation	June 2023	On-track
	Achieve oversight of all digital initiatives, prioritized by impact, feasibility and relevance for Central Government Agencies in the digital portfolio	June 2023	On-track
	Define the full scope of Cybersecurity program implementation across all agencies and develop completeness goals according to specific needs and vulnerability assessments across agencies	June 2023	On-track
	Identify required resources to maintain the Cybersecurity program in perpetual operation with the responsibility of managing continuous improvement initiatives, alert monitoring, and resolution, and implementing awareness campaigns	June 2023	On-track
	Consolidate current personnel spending and establish cross-functional teams by identifying personnel in government agencies with specialized technology skills to be centralized	June 2023	On-track
To be completed in FY2024	Complete a legal and operational analysis of the data centers to be consolidated, understanding the contracts that must be terminated, consolidated, and created	September 2023	
	Ensure critical cybersecurity infrastructure, processes and control systems are set in place by PRITS and adopted by government agencies to minimize risks through clearly defined governance structures	December 2023	
	Develop a plan to migrate any other pending resources in the "closed" data centers, including personnel, contracts, and others	March 2024	
	Consolidate servers "as is" of the agencies identified in the first phase, including customer service protocols covering all consolidated agencies, while defining in parallel a recovery process based on the cloud and on-premises components in the new data center	June 2024	
	Develop a design on how to consolidate servers, services, tools, systems, databases, and other technological resources	June 2024	

Department of Corrections and Rehabilitation (CDR)

Required implementation actions for the Department of Corrections and Rehabilitation (CDR)				
Areas of focus	**Required implementation actions**	**Deadline**	**Status**	**New deadline**
Consolidate agencies	Provide outline for facility footprint and consolidations assessment study	July 2020	Completed	N/A
	Publish facility footprint and consolidation assessment study listing facilities to be considered for consolidation or investment required to improve habitability of spaces	December 2020	Completed	N/A
	Implement plan to consolidate additional facilities and improve habitability of spaces to improve system level utilization of existing spaces and provide supporting documentation (e.g., RFP documents submitted to proceed with consolidation)	March 2021	Delayed	December 2023
Rightsizing personnel	Implement back-office process redesign (e.g., digitization of record keeping) to achieve personnel efficiencies and reach FY2022 headcount targets	July 2020	Delayed	June 2024
	Outline initiatives to reduce headcount in order to achieve target headcount in FY2022 and onward	March 2021	Delayed	December 2023
Optimize procurement spend	Provide facility-level data on opex spend, list of procurement contracts and outline initiatives to achieve procurement efficiencies in FY2022	September 2020	Completed	N/A
Redesign correctional health program	Provide updated roster of Correctional Health employees (direct, contracted) outlining key roles and responsibilities to validate current staffing levels	July 2020	Completed	N/A
	Provide assessment of healthcare spend per inmate and identify initiatives to generate personnel or opex savings	December 2020	Completed	N/A

Department of Economic Development and Commerce (DDEC)

Required implementation actions for the Department of Economic Development and Commerce (DDEC)			
Areas of focus	**Required implementation actions**	**Deadline**	**Status/ New deadline**
To be completed in FY2022	Publish quarterly reports in the agency's website detailing all economic incentive donation/subsidy amounts given to private corporations	Quarterly • Q1 – October 2022 • Q2 – January 2023 • Q3 – April 2023 • Q4 – July 2023	On track, recurring
	Identify which procurement contracts have been renegotiated or are pending renegotiation or elimination (across all consolidated and ascribed DDEC entities) to the Oversight Board	June 2020	May 2023
	Update operational needs assessment across all consolidated and ascribed entities (including PRTC and JP) to identify where to reduce front- and back-office personnel without inhibiting the performance of DDEC agencies	September 2023	On track
	Finalize the consolidation of the physical footprint of all consolidated DDEC agencies	September 2020	Completed
	Reduce excess front- and back-office headcount across all DDEC agencies (excluding PRTC and JP)	March 2021	May 2023
	Execute the administrative actions (e.g., systems integration) required to consolidate PRTC and ascribe JP	March 2021	August 2023

Required implementation actions for the Department of Economic Development and Commerce (DDEC)			
Areas of focus	**Required implementation actions**	**Deadline**	**Status/ New deadline**
	Finalize procurement contract renegotiations	June 2021	May 2023
	Consolidate PB's key back-office personnel into DDEC's back office	June 2021	August 2023
	Reduce excess front- and back-office headcount from PRTC and back-office personnel from JP in line with September 2021 operational needs assessment	June 2021	August 2023