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Robert F. Mujica Jr.
Executive Director

BY ELECTRONIC MAIL

June 27, 2025

The Honorable Jenniffer A. González Colón
Governor of Puerto Rico

The Honorable Thomas Rivera Schatz
President of the Senate of Puerto Rico

The Honorable Carlos J. Méndez Núñez
Speaker of the House of Representatives of Puerto Rico

Dear Governor González Colón, President Rivera Schatz, and Speaker Méndez Núñez:

Pursuant to a Resolution adopted by the Financial Oversight and Management Board for Puerto Rico (the “Oversight Board”), a copy of which is attached hereto as **Exhibit A** (the “Resolution”), the Oversight Board hereby issues this compliance certification for the 2025 Fiscal Plan for the Puerto Rico Aqueduct and Sewer Authority (the “2025 PRASA Fiscal Plan”), as jointly developed and reflecting a consensus between the Governor and the Oversight Board pursuant to PROMESA Section 201(f). The 2025 PRASA Fiscal Plan is attached to the Resolution as **Exhibit 1**.

The Oversight Board looks forward to working with you and PRASA to implement the 2025 PRASA Fiscal Plan.

Sincerely,

Robert F. Mujica, Jr.
Executive Director

Hon. González Colón

Hon. Rivera Schatz

Hon. Méndez Núñez

June 27, 2025

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CC:

Mr. Francisco J. Domenech Fernández

Mr. Luis González Delgado

PRASA Governing Board

EXHIBIT A

**FINANCIAL OVERSIGHT AND MANAGEMENT BOARD
FOR PUERTO RICO**

June 27, 2025

**RESOLUTION CERTIFYING THE 2025 FISCAL PLAN FOR THE PUERTO RICO
AQUEDUCT AND SEWER AUTHORITY**

WHEREAS, on June 30, 2016, the federal Puerto Rico Oversight, Management, and Economic Stability Act (“PROMESA”) was enacted;

WHEREAS, PROMESA Section 101 created the Financial Oversight and Management Board for Puerto Rico (the “Oversight Board”);

WHEREAS, PROMESA Section 201 establishes a multi-step procedure for the development, review, approval, and certification of a fiscal plan for covered instrumentalities of the Commonwealth of Puerto Rico;

WHEREAS, on September 30, 2016, the Oversight Board designated the Public Corporation for the Puerto Rico Aqueduct and Sewer Authority (“PRASA”) as a covered territorial instrumentality pursuant to PROMESA Section 101(d)(1);

WHEREAS, on June 11, 2024, the Oversight Board certified a fiscal plan for PRASA as developed by the Oversight Board pursuant to PROMESA Section 201(d)(2) and, pursuant to PROMESA Section 201(e)(2), issued a compliance certification to the Governor and the Legislature in connection therewith;

WHEREAS, by letter dated March 6, 2025, the Oversight Board notified the Governor of the schedule for developing, submitting, reviewing, approving, and certifying the 2025 fiscal plan for PRASA;

WHEREAS, on March 31, 2025, the Governor submitted to the Oversight Board a proposed 2025 fiscal plan for PRASA (the “Proposed 2025 PRASA Fiscal Plan”);

WHEREAS, the Oversight Board reviewed and discussed the Proposed 2025 PRASA Fiscal Plan with the Governor’s representatives;

WHEREAS, on April 28, 2025, the Oversight Board notified the Governor, pursuant to PROMESA Section 201(c)(3)(B), that the Proposed 2025 PRASA Fiscal Plan did not satisfy PROMESA’s requirements;

WHEREAS, the Oversight Board’s notice to the Governor described the violations that the Oversight Board had identified, along with the required revisions, and provided the Governor an opportunity to correct the violations;

EXHIBIT A

WHEREAS, on May 12, 2025, the Governor submitted to the Oversight Board a revised proposed 2025 fiscal plan for PRASA attempting to address the violations identified by the Oversight Board (the “Revised Proposed 2025 PRASA Fiscal Plan”);

WHEREAS, the Oversight Board reviewed and discussed the Revised Proposed 2025 PRASA Fiscal Plan with the Governor’s representatives and determined that it satisfies the requirements set forth in PROMESA Section 201(b) (the “2025 PRASA Fiscal Plan”);

NOW, THEREFORE, IT IS HEREBY RESOLVED THAT, pursuant to PROMESA Section 201(f), the Governor and the Oversight Board have jointly developed the 2025 PRASA Fiscal Plan attached hereto as **Exhibit 1**; and it is

FURTHER RESOLVED THAT, pursuant to PROMESA Section 201(f), the 2025 PRASA Fiscal Plan reflects a consensus between the Governor and the Oversight Board and shall serve as the fiscal plan for PRASA.



PUERTO RICO AQUEDUCT
AND SEWER AUTHORITY

PRASA

GOVERNMENT OF PUERTO RICO

PUERTO RICO AQUEDUCT AND SEWER AUTHORITY

2025 FISCAL PLAN FISCAL YEARS 2025 TO 2039

AS CERTIFIED BY THE FINANCIAL OVERSIGHT AND
MANAGEMENT BOARD FOR PUERTO RICO | MAY 30,
2025



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Acronyms and other defined terms

2008 Senior Bonds	2008 Senior Revenue Bonds, Series A&B, issued on March 18, 2008
2008 Guaranteed Bonds	Revenue Refunding Bonds, Series A&B, issued on March 18, 2008
2008 Bonds	2008 Senior Bonds and 2008 Guaranteed Bonds Collectively
2012 Senior Bonds	2012 Senior Revenue Bonds, Series A&B, issued on February 29, 2012
2017 Hurricanes	Hurricanes Irma and María
2020 Senior Bonds	2020 Senior Revenue Refunding Bonds, Series A&B, issued on December 17, 2020
2021 Senior Bonds	2021 Senior Revenue Refunding Bonds, Series A&B, issued on August 25, 2021
2021/2022 Bonds	2021 Senior Bonds and 2022 Senior Bonds, collectively
2022 Senior Bonds	2022 Senior Revenue Refunding Bonds, Series A (forward delivery bonds) to be issued on June 15, 2022
2024 Master Plan	PRASA Master Plan dated April 30, 2024
Senior Debt	2008 Bonds, 2020 Senior Bonds, 2021 Senior Bonds, and Federal Debt
Fiscal Plan	Puerto Rico Aqueduct and Sewer Authority 2025 Certified Fiscal Plan
AAFAF	Puerto Rico Fiscal Agency and Financial Advisory Authority
AM	Asset Management
AMI	Advanced Metering Infrastructure
ARPA	American Rescue Plan Act of 2021
ASES	Puerto Rico Health Insurance Administration
Authority	Puerto Rico Aqueduct and Sewer Authority
AWIA	America Water Infrastructure Act of 2018
AWWA	American Water Works Association
B	Billion
BANs	Bond Anticipation Notes
BBA	Bipartisan Budget Act of 2018
BESS	Battery Energy Storage System
BIL	Infrastructure Investment and Jobs Act of 2021, also known as the Bipartisan Infrastructure Law
BLS	U.S. Bureau of Labor Statistics
CAA	Consolidated Appropriations Act

CDBG-DR	Community Development Block Grants – Disaster Recovery
CDBG-MIT	Community Development Block Grants – Mitigation
CGI	Commonwealth Guaranteed Indebtedness
Commonwealth	Commonwealth of Puerto Rico
CIF	Capital Improvement Fund
CIP	Capital Improvement Program
CSO	Commonwealth Supported Obligations
CSR	Civil Service Reform
COR3	Central Office for Recovery, Reconstruction, and Resilience
CWSRF	Clean Water State Revolving Fund
DG	Distributed Generation
DMA	District Metering Area
DOJ	Puerto Rico Department of Justice
DRA	GDB Debt Recovery Authority
DSA	Debt Sustainability Analysis
DWSRF	Drinking Water State Revolving Fund Programs
D&B	Design and Build
EPA	Environmental Protection Agency
EPCs	Energy Performance Contracts
EQB	Environmental Quality Board, succeeded by PRDNER
ERAP	Emergency Rental Assistance Program
ERI	Economic Research Institute
ERPs	Emergency Response Plans
ERS	Employees Retirement System of the Government of the Commonwealth of Puerto Rico
FAASt	FEMA Accelerated Award Strategy
Federal Debt	Debt held by EPA (SRFs) and USDA RD
Federal Lenders	EPA and RD
FEMA	Federal Emergency Management Agency
FOMB	Financial Oversight and Management Board for Puerto Rico
FTE	Full-Time Employee
FY	Fiscal Year
GAAP	Generally Accepted Accounting Principles

GDB	Government Development Bank for Puerto Rico
GIS	Geographical Information System
Government	Government of Puerto Rico
Governor	Governor of Puerto Rico
HFA	Housing Financing Authority for Puerto Rico
HMGP	Hazard Mitigation Grant Program
HUD	United States Department of Housing and Urban Development
IRP	Integrated Resource Plan for PREPA
IT	Information Technology
KPIs	Key Performance Indicators
kWh	Kilowatt-Hours
LIHWAP	Low-Income Household Drinking Water and Wastewater Assistance Program
LUMA	LUMA Energy, LLC, responsible for the operation and maintenance of Puerto Rico's electric power transmission and distribution system owned by PREPA
M	Million
MAT	Master Agreement of Trust
MGD	Million Gallons per Day
MHI	Median Household Income
MTBF	Mean Time Between Failure
NFMP	Non-Federal Match Program
NPV	Net Present Value
NRW	Non-Revenue Water
OATRH	Oficina de Administración y Transformación de los Recursos Humanos
OH	Overhead
OMB	Puerto Rico Office of Management and Budget
O&M	Operations and Maintenance
ORF	Operating Reserve Fund
Oversight Board	Financial Oversight and Management Board for Puerto Rico
P3	Public-Private Partnership
P3 Authority	Puerto Rico Public-Private Partnership Authority
P3 Project	Metering System and Customer Service Optimization Project
PAN	Nutritional Assistance Program

PAPPG	Public Assistance Program and Policy Guide
PayGo	Pay-As-You-Go
PFC	Puerto Rico Public Finance Corporation
PM	Project Manager
PMA	Pressure Management Area
PMC	Project Management Consortium
PMO	Project Management Office
PMIS	Project Management Information System
PPAs	Power Purchase Agreements
PPE	Personal Protection Equipment
PRASA	Puerto Rico Aqueduct and Sewer Authority
PRDNER	Puerto Rico Department of Natural and Environmental Resources
PRDOH	Puerto Rico Department of Health
PREB	Puerto Rico Energy Bureau
PREPA	Puerto Rico Electric Power Authority
PRGSA	Puerto Rico General Services Administration
PRHUD	Puerto Rico Department of Housing
PRIFA	Puerto Rico Infrastructure Financing Authority
PROMESA	Puerto Rico Oversight, Management, and Economic Stability Act
PSI	Pounds per Square Inch
PWSIDs	Potable Water System Identification
RD	USDA Rural Development
Regions	Operational Regions
RFP	Request for Proposals
RFQ	Request for Qualifications
RRAs	Risk and Resiliency Assessments
R&R	Renewal and Replacement Projects
RSA	Rate Stabilization Account
SA	Robert T. Stafford Disaster Relief and Emergency Assistance Act
SAHFI	SRF Supplemental Appropriation for Hurricanes Fiona and Ian
SAP	Proprietary Computer Software
SBA	Small Business Administration
SCADA	Supervisory Control and Data Acquisition

SSOMP	Sewer System Operation and Maintenance Program
SOP	Standard Operating Procedure
SPI	Schedule Performance Index
SRF	State Revolving Fund
System	Authority's Public Water Supply and Wastewater System
TANF	Puerto Rico Temporary Assistant for Needy Families
TBD	To Be Determined
STS	Sludge Treatment System
UIA	Unión Independiente Auténtica (Independent Authentic Union)
US	United States of America
USACE	United States Army Corps of Engineers
USDA	United States Department of Agriculture
USEPA	United States Environmental Protection Agency
VDMA	Virtual District Metering Area
VHCC	Visualization and Hydraulic Control Center
WPS	Water Pump Station
WRO	Water Recovery Office
WTP	Water Treatment Plant
WWTP	Wastewater Treatment Plants
WWPS	Wastewater Pumping Station

Disclaimer

The Puerto Rico Fiscal Agency and Financial Advisory Authority (“AAFAF,” by its Spanish acronym), the Puerto Rico Aqueduct and Sewer Authority (“PRASA” or the “Authority”), the Government of Puerto Rico (the “Government”), and each of their respective officers, directors, employees, agents, attorneys, advisors, members, partners, or affiliates (collectively, with the AAFAF, the Authority, and the Government, the “Parties”), make no representation or warranty, express or implied, to any third party with respect to the information contained herein, and all Parties expressly disclaim any such representations or warranties. Similarly, the Financial Oversight and Management Board for Puerto Rico (the “FOMB,” or “Oversight Board”) makes no representation or warranty, express or implied, to any third party with respect to the information contained herein and expressly disclaims any such representations or warranties.

The Oversight Board and the Parties do not owe or accept any duty or responsibility to any reader or other recipient of this Fiscal Plan, whether in contract, tort or otherwise, and shall not be liable for or in respect of any loss, damage (including, without limitation, consequential damages or lost profits) or expense of such third party that may be caused by, or alleged to be caused by, the use of this Fiscal Plan or that is otherwise consequent upon the gaining of access to this document by such third party. The Oversight Board and the Parties do not undertake any duty to update the information contained herein.

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

This Fiscal Plan is directed to the Authority, Governor, and Legislative Assembly (“Legislature”) of Puerto Rico based on underlying data obtained from the Government.

This Fiscal Plan does not specify classes of claims and treatments. It neither discharges debts nor extinguishes liens.

This Fiscal Plan may be amended from time to time, at the sole discretion of the Oversight Board, pursuant to PROMESA Section 201, and is based on what the Oversight Board believes is the best information currently available to it. The Oversight Board has no duty to update the information contained herein and does not undertake or assume any such duty. However, to the extent the Oversight Board becomes aware of additional information that the Oversight Board determines, in its sole discretion, warrants a revision of this Fiscal Plan, the Oversight Board will commence the process to revise it.

For the avoidance of doubt, the Oversight Board does not consider anything in this Fiscal Plan to be a “recommendation” submitted pursuant to PROMESA Section 205(a). However, where this Fiscal Plan specifically refers to an Oversight Board Section 205(a) submission, or the Governor or Legislature deems anything in this 2025 Fiscal Plan to be a recommendation, such “recommendations” contained therein are appropriate recommendations and adopted in their totality (unless otherwise expressly limited) into this 2025 Fiscal Plan pursuant to PROMESA Section 201(b)(1)(K) with the same legal effect as all other directions in the 2025 Fiscal Plan.

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. Future events and actual results may differ materially from any estimates, projections, or statements contained herein. The economic and financial condition of the Authority, Government and its instrumentalities is affected by various legal, financial, social, public health, 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 its instrumentalities, and the Oversight Board but also by third-parties such as the government of the United States. Examples of these factors include, but are not limited to:

- *The longer-term economic ramifications of behavioral changes caused by COVID-19 (i.e., reduced travel, increased work from home, reduced activity in large gathering places, etc.);*
- *The behavior of certain economic indicators, including inflation and population changes;*
- *Future actions taken or not taken by the United States government related to Medicaid and the Affordable Care Act;*
- *The impact of outmigration and declining population;*
- *The amount and timing of receipt of any funds allocated to Puerto Rico and provided under the Community Disaster Loans Program;*
- *The amount and timing of receipt of any distributions from the Federal Emergency Management Agency, U.S. Department of Housing and Urban Development’s Community Development Block Grant-Disaster Recovery, USDA, USEPA, and private insurance companies to repair damage caused by recent earthquakes or Hurricanes María, Irma, and Fiona;*
- *The amount and timing of receipt of any additional funds appropriated by the United States government to address funding gaps described herein;*
- *The limited availability of resources to reconstruct Puerto Rico infrastructure after the events mentioned previously and to create a more resilient structure to prevent or mitigate future natural disasters;*
- *The timeline for completion of the capital projects to repair PRASA’s infrastructure;*
- *The impact of any future environmental regulations on PRASA’s required investment and operational costs;*

- *The impact of the measures described in the 2024 CW Fiscal Plan on outmigration; and*
- *The impact of the resolution of any pending litigation in the Title III cases.*

The financial projections included in this document incorporate certain macroeconomic assumptions developed by the Oversight Board.

Because of the uncertainty and unpredictability of these and other factors, their potential impact cannot be reasonably included in the assumptions contained in this document. Future events and actual results may differ materially from any estimates, projections, or statements contained herein. Even though the Government and the Authority are required to implement the measures in this Fiscal Plan and the Oversight Board reserves all its rights to compel compliance, nothing in this document should be considered as an express or implied warranty of facts or future events. This Fiscal Plan provides the Oversight Board's direction and guidance to the Government and the Authority. 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.

By receiving this document, the recipient shall be deemed to have acknowledged and agreed to the terms of these limitations. This document may contain terms that are not defined herein or may contain terms that are discussed in other documents or that are commonly understood. The reader should make no assumptions about the meaning of such terms and you should refer questions to the Oversight Board should clarification be required. Unless otherwise identified, all governmental departments and agencies refer to those of the Government of Puerto Rico.

Executive Summary

The Puerto Rico Aqueduct and Sewer Authority (the “Authority” or “PRASA”) is committed to providing reliable, affordable, and safe water and wastewater services to the people of Puerto Rico.

Over the past several years, PRASA has made substantial progress implementing measures that have improved its fiscal condition and set the Authority on a path towards fiscal responsibility. Still, PRASA has a long road ahead to address the historical challenges that have previously hindered, and continue to affect, its operational performance. Therefore, PRASA shall continue pursuing improvements in key operational areas with the Oversight Board’s support, including:



Non-revenue water (“NRW”): In addition to PRASA’s treatment and distribution system needs, the significantly high levels of NRW present challenges to PRASA’s operations and financial condition to the extent the cost of production rises. PRASA completed the installation of master meters to properly measure most of its water production at treatment facilities. PRASA has prioritized the reduction of commercial water losses resulting from inaccurate water consumption metering and theft, while the Authority continues with the implementation of strategies to reduce physical water losses from leakage and overflows.



Accurate metering and effective customer service: PRASA’s aged mechanical customer meters present a high level of inaccuracy and degradation. Dependence on these meters precludes PRASA from properly billing for actual consumption, measuring the scale and impact of NRW, understanding customer consumption patterns and improving efficiency. With a FEMA grant funding agreement in place, PRASA completed the pilot phase to determine the best smart meter technology and product, which resulted in the selection of a proponent to move forward to the full deployment and installation of smart meters across the Island.



Capital delivery: The expected influx of federal grants (including a \$3.7B FEMA award¹) and additional funds for mitigation and resiliency projects will allow PRASA’s Capital Improvement Program (“CIP”) to reach its highest historical level and implement transformational capital improvements to its Systems that can gradually reduce operating costs (including financing costs), generate new revenue, increase resiliency, and most importantly, improve the quality of service and customer experience. New capital projects must be executed on-budget and on-schedule to rebuild PRASA’s infrastructure to achieve top-tier water utility standards.

¹ In connection with this award, PRASA is required to meet a 10% local cost share match of ~\$400M. PRASA met this match requirement with CDBG-DR funds, with an obligation of \$400M. Refer to Chapter 4 (Federal Funds for Disaster Recovery and Resiliency) for additional detail.

PRASA's financial condition has improved materially since 2017, mainly due to the implementation of various revenue enhancing and debt optimization measures, including modest and gradual rate increases across all customer segments, proactive collection of past-due amounts from government accounts, debt modification and debt refunding transactions. PRASA's debt optimization strategies resulted in approximately \$1.3 billion in debt service relief through (i) a modification of the terms of its debt with the Federal Lenders, (ii) refunding a significant portion of its outstanding 2008 Senior Bonds and all of the 2008 Guaranteed Bonds in 2020 and 2021, (iii) refunding of all the outstanding 2012 Series A and B senior bonds, and (iv) the discounted settlement with GDB/DRA of an outstanding loan. Furthermore, renewed access to SRF and RD loans and grants, FEMA recovery, mitigation and reconstruction funds, and CDBG disaster related and mitigation funds, are collectively expected to provide the necessary financial support to improve, rebuild, recover, and upgrade critical water and wastewater facilities.

PRASA has now a unique opportunity to invest in its infrastructure at a much lower cost than usual without the need to access capital markets in the short term.

Given PRASA's current fiscal situation and given the need to prioritize improving System performance, this Fiscal Plan outlines areas of opportunity largely related to operations and capital investment, such as NRW, capital delivery, and metering infrastructure upgrades. Through the successful and timely implementation of each of the measures identified herein, PRASA is expected to continue improving its financial condition and the operational capacity of its System, thereby ensuring top-tier water utility standards in the provision of safe, reliable, and affordable water and wastewater services for the people of Puerto Rico.

This Fiscal Plan provides a roadmap for PRASA's fiscal and operational transformation by continuing to address the following areas of opportunity:

- Collecting sufficient revenues to continue improving its fiscal condition;
- Investing in water metering infrastructure in a cost-effective manner to address commercial water losses (theft, water metering errors, and data errors);
- Implementing a robust action plan to mitigate physical water losses resulting in water production reduction and the expenses related thereto;
- Executing an aggressive CIP to maintain and upgrade the System's safety, reliability, resiliency, and the overall performance; and
- Maximizing federal funding opportunities to allow for low or no-cost financing for the execution of the CIP.

This Fiscal Plan outlines several measures that, if successfully implemented, would improve PRASA's financial performance and operational condition. These measures are necessary to address revenue enhancement, cost reductions, operational efficiencies, CIP delivery, and federal funding, including:

1. **Rate Adjustments:** Continuing with the scheduled implementation of modest rate increases, consistent with the recently simplified rate structure.
2. **Metering Optimization:** Replacing existing mechanical meters with more precise smart meter technology, to measure water consumption more accurately, providing real time information for the benefit of its customers, identifying commercial water losses more rapidly, and thus increasing efficiency and billed revenues.
3. **Electricity Expense Reduction:** Reducing electricity costs through solar energy microgrid projects.

4. **Physical Water Loss Reduction:** Reducing water losses through leak detection and reduction, pressure management, and water balance monitoring, among other efforts.
5. **New Financing for CIP:** Maximizing funding from federal programs with low or no cost financing.

Table 0-1 provides an annual and cumulative summary of PRASA's pre-measures and post-measures financial results. Through the implementation of these measures, and the continuation of investments into its Systems, PRASA projects balanced budgets during the Fiscal Plan Period.

TABLE 0-1: POST-MEASURES FINANCIAL RESULTS FOR FY2025-FY2039 (IN \$ MILLIONS)

in \$Millions	FY2025	FY2026	FY2027	FY2028	FY2029	FY2030	FY2031	FY2032
Authority Revenues	1,177.4	1,190.2	1,179.1	1,167.1	1,160.4	1,158.8	1,156.0	1,152.2
Senior Debt Service	(243.7)	(246.2)	(245.0)	(245.7)	(245.5)	(270.2)	(270.2)	(270.2)
Net Operating Expenses	(870.2)	(902.6)	(930.0)	(938.6)	(958.2)	(977.7)	(995.3)	(1,022.2)
Operating Reserve Fund	(8.5)	-	-	-	-	-	-	-
Capital Improvement Fund	(210.1)	(316.7)	(383.4)	(327.6)	(222.4)	(180.2)	(180.8)	(161.3)
Pre-Measures Financial Need	(155.1)	(275.2)	(379.2)	(344.9)	(265.7)	(269.2)	(290.3)	(301.5)
Measures Benefit	155.3	275.7	379.6	345.3	266.1	269.6	291.1	301.7
Financial Result	0.14	0.45	0.41	0.40	0.40	0.35	0.82	0.21
in \$Millions	FY2033	FY2034	FY2035	FY2036	FY2037	FY2038	FY2039	FY25/39
Authority Revenues	1,147.4	1,141.7	1,135.1	1,127.2	1,119.2	1,110.9	1,102.6	17,225.4
Senior Debt Service	(270.2)	(270.2)	(242.3)	(242.3)	(242.3)	(242.4)	(242.3)	(3,788.5)
Net Operating Expenses	(1,045.4)	(1,065.5)	(1,093.6)	(1,115.5)	(1,138.2)	(1,172.7)	(1,190.3)	(15,415.7)
Operating Reserve Fund	-	-	-	-	-	-	-	(8.5)
Capital Improvement Fund	(150.1)	(128.3)	(144.3)	(140.7)	(140.7)	(130.2)	(132.0)	(2,948.8)
Pre-Measures Financial Need	(318.2)	(322.3)	(345.0)	(371.2)	(402.0)	(434.4)	(462.0)	(4,936.1)
Measures Benefit	318.6	322.6	345.6	371.8	402.3	434.4	462.5	4,942.0
Financial Result	0.38	0.30	0.61	0.57	0.28	0.03	0.55	5.9

In addition to the benefits from the initiatives listed above, this Fiscal Plan also incorporates the following critical enabling measures.

- **Organization Optimization and Efficiency:** implementing updated Classification and Compensation plans to retain a motivated and efficient workforce for the operation of PRASA's Systems and providing personnel evaluation to improve efficiency.
- **CIP Delivery:** implementing processes to ensure the timely and on-budget execution of capital projects in order to leverage federal funds available for recovery and reconstruction projects after the 2017 Hurricanes, as well as from the recently approved funding to address PRASA's aging water and wastewater infrastructure (BIL Act) and the impact of Hurricane Fiona in 2022 (SAHFI).
- **Master Plan:** providing a long-term roadmap to transform PRASA's System, making it simpler, safer, more operationally efficient, and sustainable.
- **Asset Management:** implementing best practices for effective asset management and maintenance.
- **Chemical Expense Stabilization:** conducting an independent assessment of the current challenges, risks, and opportunities to optimize chemical dosing.
- **Procurement Best Practices:** maintaining regulations that ensure a transparent competitive process for the acquisition of goods, works, and non-professional services.

The continuous progress and improvements in PRASA's financial condition, as highlighted in this Fiscal Plan, are significantly dependent on the Authority succeeding in (i) developing a comprehensive NRW plan designed to reduce and control water losses entity-wide, focusing on

commercial and physical water losses; (ii) stabilizing rising operating costs like electricity and chemical expenditures; and (iii) investing heavily in the System through its federally-funded CIP. Achieving these strategic objectives will not only support the Authority's improving financial condition, but will also provide the foundation for PRASA to become a more stable water utility capable of investing capital at sustainable asset replacement levels. Accordingly, this Fiscal Plan projects that PRASA will deploy billions of federal funds from partners such as FEMA, EPA (SRF), RD and HUD (CDBG-DR funds), among others, into its critical infrastructure such as water quality testing laboratories, advanced metering technology, distribution and sewer pipe replacement, and treatment plant upgrades.

The Authority has identified a total of \$9 billion in federal funds under different programs for infrastructure projects. Of this amount, \$6.6 billion has been obligated, with the balance pending obligation, including funds for mitigation projects and mandatory projects. While this influx of funds has been instrumental in ensuring the continuity of PRASA's services for the residents of Puerto Rico, it has also introduced risks due to uncertainties from the shifting landscape of federal funds that may require replacement from other sources. Any change on the expected funding may result in changes to the capital improvement program presented herein. The Authority's capital improvement program relies heavily on federal funding programs for the improvement of its water infrastructure, including treatment facilities, pipelines, and distribution systems. A reduction in federal funding could significantly impact PRASA's ability to undertake necessary capital projects and upgrades, thereby potentially compromising the quality and reliability of water services provided to customers. This situation may lead to increased operational costs, funding shortfalls, and the necessity for further rate increases and/or cost-reduction measures, which could adversely affect customer satisfaction and the Authority's financial stability. Inadequate funding may also limit PRASA's capacity to comply with federal and state regulatory requirements concerning water quality and supply, further exposing it to legal and operational risks. In case of changes to federal funds availability, PRASA will be required to revise its Capital Improvement Program to adapt it to available sources of funding.

Lastly, this Fiscal Plan reflects the financial and operational requirements for PRASA in compliance with the requirements mandated by PROMESA to develop and implement a path towards fiscal responsibility and to have the capacity to access the capital markets at reasonable rates, when and if needed.

1 Introduction

As the sole provider of public water and wastewater services in Puerto Rico, PRASA is committed to providing reliable, affordable, and safe water and wastewater services to the people of Puerto Rico. This Fiscal Plan outlines the required actions that are expected to continue PRASA's transformation into a well-performing, efficient, and sustainable water and wastewater utility for the benefit of the people of Puerto Rico.

1.1 Purpose of this Fiscal Plan

To implement this Fiscal Plan, PRASA's will focus its efforts in the following areas:

	Enhance revenues
	Reduce expenses
	Improve operational performance
	Improve customer satisfaction and reduce NRW
	Increase water availability and reduce service rationing potential
	Execute a timely, on budget, multi-year Capital Improvement Program (CIP) maximizing federal funding, including recovery funds

Successful implementation of measures and initiatives to meet these objectives will keep PRASA on a path towards financial and fiscal responsibility and operational efficiency, establishing the foundation for PRASA to become a top-tier water utility with access to short-term and long-term credit markets at reasonable rates to meet borrowing needs, when and if needed.

1.2 Changes from Previous Fiscal Plan

The key changes from the prior PRASA fiscal plan certified by the Oversight Board on June 11, 2024, are as follows:

1. Updated projection period, maintaining the extended 15-year projection period, covering the period from FY2025 through FY2039, which is referred herein as the Fiscal Plan Period. The extended projection period results in increased uncertainty with respect to the estimates included herein, as many critical projects are in initial or development stages, which reduces accuracy of long-term projections. Examples include, but are not limited to:

- a) Final approval of the Jobs Classification and Compensation Plan, which is under review by the Oversight Board, and which will require negotiation with labor unions. This plan may materially impact the payroll projected cost.
 - b) Definition of NRW strategy based on information obtained from the Advanced Metering Infrastructure (AMI) Project.
 - c) Final impact of the AMI Project in the System and financial projections.
 - d) Final impact of CIP investments on future operational costs.
 - e) Final funding for mitigation projects.
2. Revised projections based on updated information, including current service rates, electricity rates and the 2024 Commonwealth Certified Fiscal Plan (“2024 CW Certified Fiscal Plan”) macroeconomic assumptions developed by the Oversight Board, as well as updated historical information.
 3. Incorporation of (i) salary adjustments based on current legislation for minimum wages and the preliminary results of the updated Compensation Plan, and (ii) headcount requirements update.
 4. Update of expected levels of federal funding arising from disaster recovery (FEMA, CDBG), and from SRF programs, including BIL and SAHFI.
 5. Inclusion of revised and updated action plans and financial projections for proposed measures set forth herein.
 6. Updated CIP projections as approved by PRASA’s Governing Board on February 27, 2025.

1.3 Authority’s General Information

PRASA is a public corporation and instrumentality of the Government. PRASA owns and operates the public water and wastewater Systems throughout Puerto Rico.

1.3.1 Authority’s Mission and Vision

PRASA’s core mission is to provide high-quality, safe, reliable, and affordable water and wastewater services to the people of Puerto Rico, to help ensure the protection of the people’s health and the environment. To accomplish its mission, PRASA has adopted a vision to become a top-performing utility while continuously exceeding customer expectations and ensuring sustainable water resources management.

1.3.2 History of the Authority

PRASA is an instrumentality of the Government created by Act 40 of 1945, as amended, for the purpose of owning and operating the Government's public water supply and wastewater systems. Exhibit 1-1 below provides a timeline of PRASA's historical background.

EXHIBIT 1-1: THE AUTHORITY'S HISTORICAL BACKGROUND TIMELINE

1945	PRASA was created through Act No. 40-1945
1990–1993	PRASA state of emergency declared by Governor PRASA subsidized by Government (over \$400 million annually)
1994	Debt downgraded below investment grade, no capital market access Severe drought impacted Puerto Rico
1995–2004	PRASA's Management Privatization: Operations directed by private operators and performed by both private and PRASA's employees
2004	Operational restructuring through Act No. 92-2004 - PRASA management transferred back to public sector - Operations reorganized into five Regions and Infrastructure Directorate
2005–2006	Rate increase implemented in two phases (128% on average across customer segments) Elimination of Government subsidies Bond anticipation note obtained from private banks
2008	Investment grade rating recovered , allowing return to capital markets - Master agreement of Trust was created \$1.3 billion in revenue bonds were issued and \$284 million in refunding bonds
2008–2012	Lines of credit from GDB and BANs used to finance PRASA's CIP
2012	\$2.1 billion in revenue bonds issued by PRASA
2013–2014	Credit ratings downgraded to “non-investment grade” Rate increase of 60% on average across customer segments \$200 million bond anticipation note to finance CIP
2015	Severe drought required water rationing plan, resulting in decreased billings
2016	PROMESA enacted in response to Puerto Rico's financial and debt crisis - PRASA designated as covered territorial instrumentality under PROMESA

2017	• Hurricanes Irma and Maria caused extensive system damage • Series of gradual rate increases adopted from FY 2018 to FY2022
2019	• Federal debt reprogramming allowing for re-access to federal funds and debt service savings of \$370 million in 10 years
2020	• January 2020 earthquakes caused extensive system damage • COVID-19 pandemic caused collection delays due to its economic impact • New \$163 million CWSRF loan dated August 18, 2020 • Return to capital markets on December 17, 2020, refunding \$1.4 billion of the 2008 outstanding bonds for savings of \$348 million in debt service
2021	• \$3.7 billion were obligated by FEMA on January 8, 2021, for projects to rebuild the Authority infrastructure after the 2017 Hurricanes impact (FAASt) • Obligation from CDBG-DR of \$200 million for FAASt State Match • \$1.8 billion in 2012 Bonds were refunded for savings of \$570 million in debt service
2022	• New simplified rate structure implemented on July 1, 2022 • Hurricane Fiona (category 1) affected Puerto Rico and PRASA system island wide • New SRF loans for CIP and RD funds for Irma related expenditures
2023	• AMI Project Contract execution and pilot phase start
2024	• New updated Master Plan • Job Classification and Compensation Plans Drafts • AMI Project pilot phase completion • Obligation of additional \$200 million from CDBG-DR for FAASt State Match
2025	• AMI Project: Full deployment contract execution

Beginning in the early 1990s the Authority's revenues became insufficient to meet all its obligations, including paying debt service on its outstanding revenue bonds. As a result, the Government provided the Authority with subsidies, including direct Government appropriations to fund the Authority's capital projects. In 1994, the Governor declared the Authority in a state of emergency, and its debt was downgraded below investment grade, limiting the Authority's access to the capital markets to finance its CIP.

Between 1995 and 2004, to improve service and overall efficiency, the Government and the Authority engaged and contracted with private companies to manage, operate, and maintain its System. In 2004, the Government enacted Act 92-2004 and transferred all responsibilities back to the Authority. Post-privatization, and in an effort to allow the Authority to become more autonomous, a two-phased rate increase was implemented in October 2005 and July 2006; the first rate increase in almost 20 years. Implementation of the rate increases allowed the Authority to meet all operational and debt service obligations without the need for Government subsidies, which were discontinued shortly thereafter. However, the Authority still faced challenges in generating sufficient revenues to execute its CIP. As such, the Authority CIP costs were financed through short-term interim financing facilities until 2008.

In 2008, as a result of its improved financial condition, the Authority recovered its investment grade credit rating and was able to restore access to the capital markets. The Authority raised \$1.3 billion in new senior lien debt in March 2008 to finance its CIP and repay outstanding lines of credit. Also, \$284 million of PRASA's 1995 bonds were refunded for a total bond issuance of approximately \$1.6 billion.

Once the proceeds of the 2008 Senior Bonds were used for the construction of CIP projects, the Authority resumed financing its CIP with interim lines of credit from GDB and Bond Anticipation Notes (BANs) from commercial banks until 2012. In 2012, the MAT was amended to enhance bondholder protections, including providing a gross revenue pledge (i.e., absent an event of default, senior lien debt service would be paid ahead of the Authority's operating expenses). The MAT amendments facilitated the Authority's issuance of its \$2.1 billion 2012 Senior Bonds to pay outstanding lines of credits and BANs and to provide additional funds for PRASA's CIP execution.

In 2013, a new rate structure was implemented to generate enough revenue to cover the Authority's operating needs (i.e., expenses and debt service) at the time. In addition, a \$200 million BAN was extended to the Authority by a syndicate of local commercial banks to fund its CIP costs until a new, long-term bond issuance could be completed. The bond issuance was expected to be completed during FY2014 but couldn't be executed due to the fiscal crisis faced by the Government and the ensuing loss of capital market access. These events led to multiple downgrades in the credit ratings of the Government and PRASA. The loss of access to capital markets to finance its system improvements forced the Authority to suspend its CIP and accumulate approximately \$150 million in debt to its vendors and suppliers by FY2016, subsequently paid in full.

On June 30, 2016, the President of the United States enacted PROMESA to address the fiscal crisis in Puerto Rico. PROMESA created the Oversight Board to provide a framework for the Government and its covered agencies and instrumentalities to achieve fiscal responsibility and regain access to the capital markets, among other things. On September 30, 2016, the Authority was designated as a covered territorial instrumentality by the Oversight Board.

In September 2017, Hurricanes Irma and Maria struck Puerto Rico (the "2017 Hurricanes") and caused devastating and lasting damage to the Island. Both hurricanes damaged the electric power infrastructure and PRASA's facilities and Systems, which in turn affected the continuity of water and sewer services to customers throughout the Island.

From 2016 until July 2019, the Authority maintained several forbearance agreements that provided for the deferral or reduction of payments on its Federal Debt. On July 26, 2019, the Authority and AAFAF consummated definitive agreements that reprogrammed approximately \$1 billion in Federal Debt, both SRF and USDA RD. This reprogramming resulted in \$370 million in debt service relief over the following ten years and renewed access to potential sources of federal funding for the Authority's CIP. Thereafter, the Authority re-activated regulatory-driven CIP projects.

In August 2020, the Authority obtained its first loan after the 2019 SRF debt modification from the CWSRF program for \$163 million at a 1% interest rate with a 30-year maturity. Subsequently, PRASA continued to execute financial assistance agreements for SRF funding.

On November 2020, the Authority settled a non-secured loan with the GDB Debt Recovery Authority, resulting in over \$55 million in savings.

On December 17, 2020, the Authority issued the 2020 Senior Bonds to refinance most of its 2008 Bonds through a limited public offering. The issuance of the 2020 Senior Bonds resulted in \$350 million in total debt service savings. Also, the new bondholders consented to a MAT amendment that will modify the existing revenue pledge from a gross revenue pledge to a net revenue pledge. To date, all senior bondholders have consented to the amendment. The amendment will become effective when and if the Federal Lenders consent to the change.

On January 5, 2021, after over three years of collaborative work by and among the Authority, COR3 and FEMA, the President of the United States announced an award of \$3.66 billion for infrastructure projects to rebuild PRASA's Systems from the devastation caused by the 2017 Hurricanes. Such funds were obligated by FEMA on January 8, 2021. The amount obligated by FEMA represents the federal government's 90% funding share of the \$4.07 billion fixed cost estimate for repairing the damages to PRASA's facilities. As required by the FEMA award, the Authority must meet a 10% cost share ("match") requirement for its FEMA-funded permanent work projects (approximately \$400 million). On September 2, 2021, the PRHUD and the Authority entered into a sub-award agreement for \$200 million under the CDBG-DR Non-Federal Match Program to fund half of the state match requirement of the FEMA award. On November 22, 2024, PRHUD and PRASA executed a sub-award agreement obligating the remaining \$200 million required as state match.

On August 25, 2021, the Authority issued a portion of its 2021/2022 Bonds in a total principal amount of \$1,089.8 million and, on June 15, 2022, the Authority issued the remaining 2021/2022 Bonds in a total principal amount of \$565.2 million to refinance all of the \$1,806 million 2012 Senior Bonds. These efforts resulted in a total debt service reduction of \$570 million when compared to the 2012 Senior Bonds. The holders of the 2021/2022 Bonds have also consented to the MAT amendments referred to above.

On July 1, 2022, PRASA implemented a new simplified rate structure, including a prospective minimum annual rate increase of 2% for subsequent years, as further described in Chapter 3.

During September 2022, Puerto Rico was impacted by Hurricane Fiona, a Category 1 hurricane in the Saffir-Simpson Hurricane Wind Scale, requiring incremental emergency expenditures and resulting in revenue reductions as a result of service interruptions. Despite the impact of Hurricane Fiona, PRASA managed to protect its liquidity mainly through savings from lower-than-expected electricity expenditures for FY2023 and the receipt of federal funds from several sources, including FEMA, to cover a portion of the incremental costs.

More recently, PRASA was able to complete the pilot phase for the AMI Project and execute the meter acquisition contract for the full deployment phase of the project.

In summary, during recent years, the Authority has made meaningful and measurable progress towards achieving fiscal responsibility, as evidenced by its Federal Debt modification and subsequent access to SRF loans, the refunding for substantial debt service savings of its 2008 and 2012 Senior Revenue Bonds, and the obligation of disaster recovery funds from the FEMA and CDBG programs.

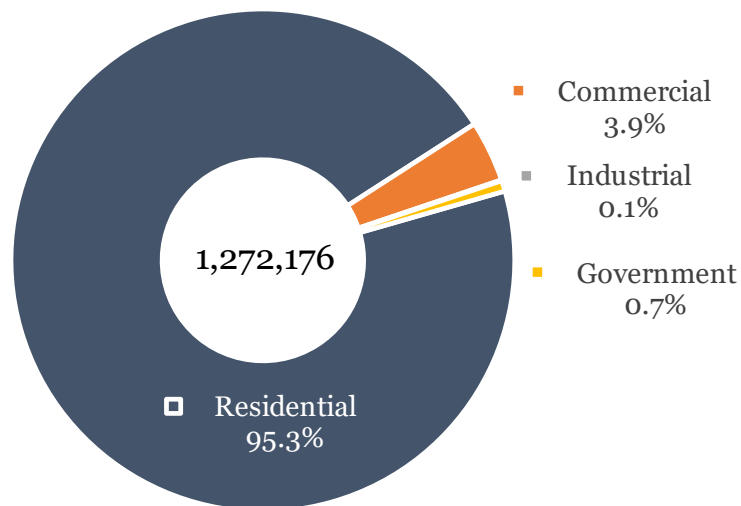
1.4 Overview of the Authority's System

The Authority is a component unit of the Commonwealth of Puerto Rico, created in 1945 under Act No. 40, as amended, and reenacted for the purpose of owning, operating, and developing public water and sewer systems in Puerto Rico.

The Authority serves most of Puerto Rico’s population (including Government and businesses) which, based on the 2020 census as of April 2020 was 3,285,874 residents, and millions of tourists every year. On July 1, 2024, the US Census Bureau estimated Puerto Rico’s population at 3,203,295, reflecting a decline of over 2.5% from the 2020 census on April 1, 2020.²

The Authority provides drinking water supply to approximately 96% of the population and wastewater management to 59%³ of the population. As of March 31, 2025, PRASA had 1,272,176 active accounts, of which 95% were residential accounts. Exhibit 1-2 provides a breakdown of customers by category.

EXHIBIT 1-2: CUSTOMER BREAKDOWN BY CATEGORY (AS OF MARCH 31, 2025)



The Authority provides water and wastewater services throughout the Island, which has an approximate area of 3,535 square miles. Because of Puerto Rico’s varied topography, dispersed demographic distributions, and its diverse mix of users, the Authority has a fragmented and localized system of water sources, treatment, and delivery as shown in Exhibits 1-3, 1-4 and 1-5. While a few facilities serve the large urban centers and several adjacent communities in a single area, most of the Authority’s facilities are small in terms of service capacity and coverage.

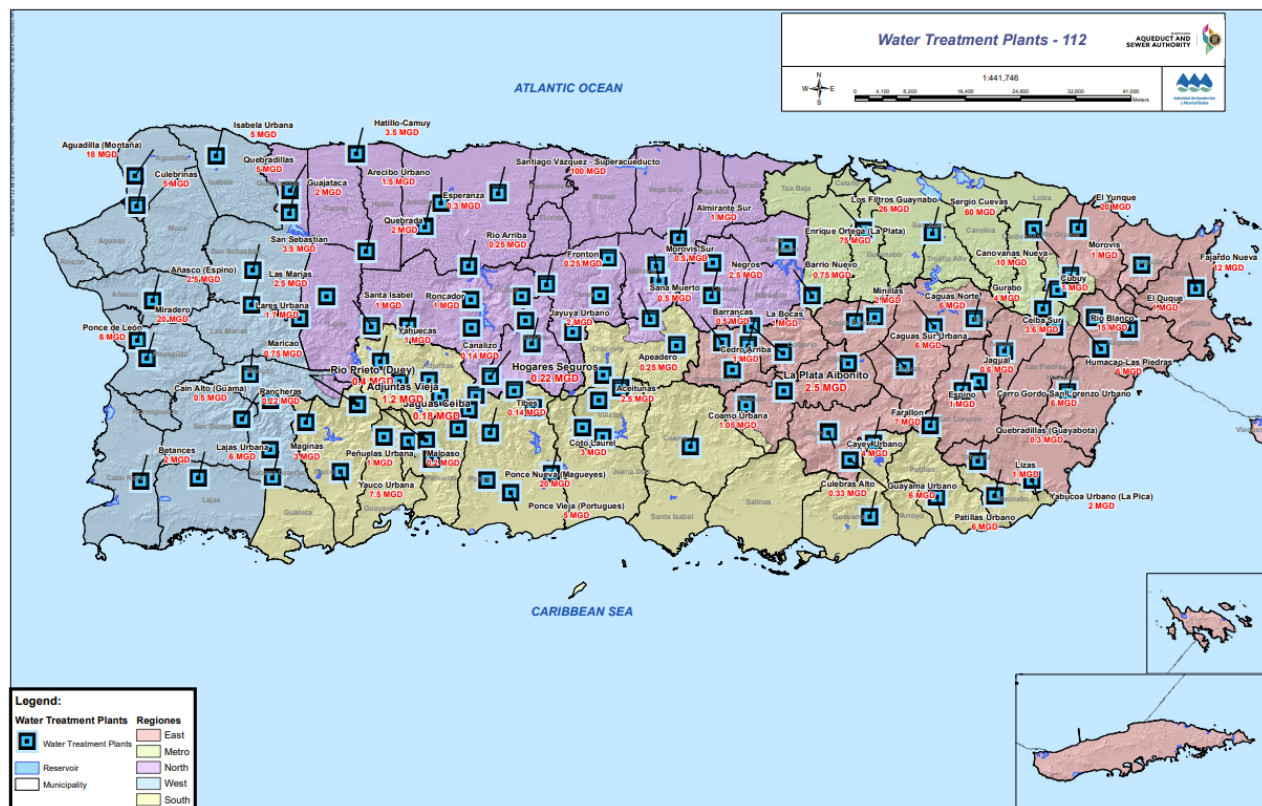
² Source: US Census Bureau – <https://www.census.gov>, Population Estimates for Puerto Rico.

³ The remaining 41% of wastewater service customers use septic tanks or other forms of wastewater disposal (smaller private effluent disposal systems).

EXHIBIT 1-3: OVERVIEW OF THE AUTHORITY'S INFRASTRUCTURE SYSTEM⁴



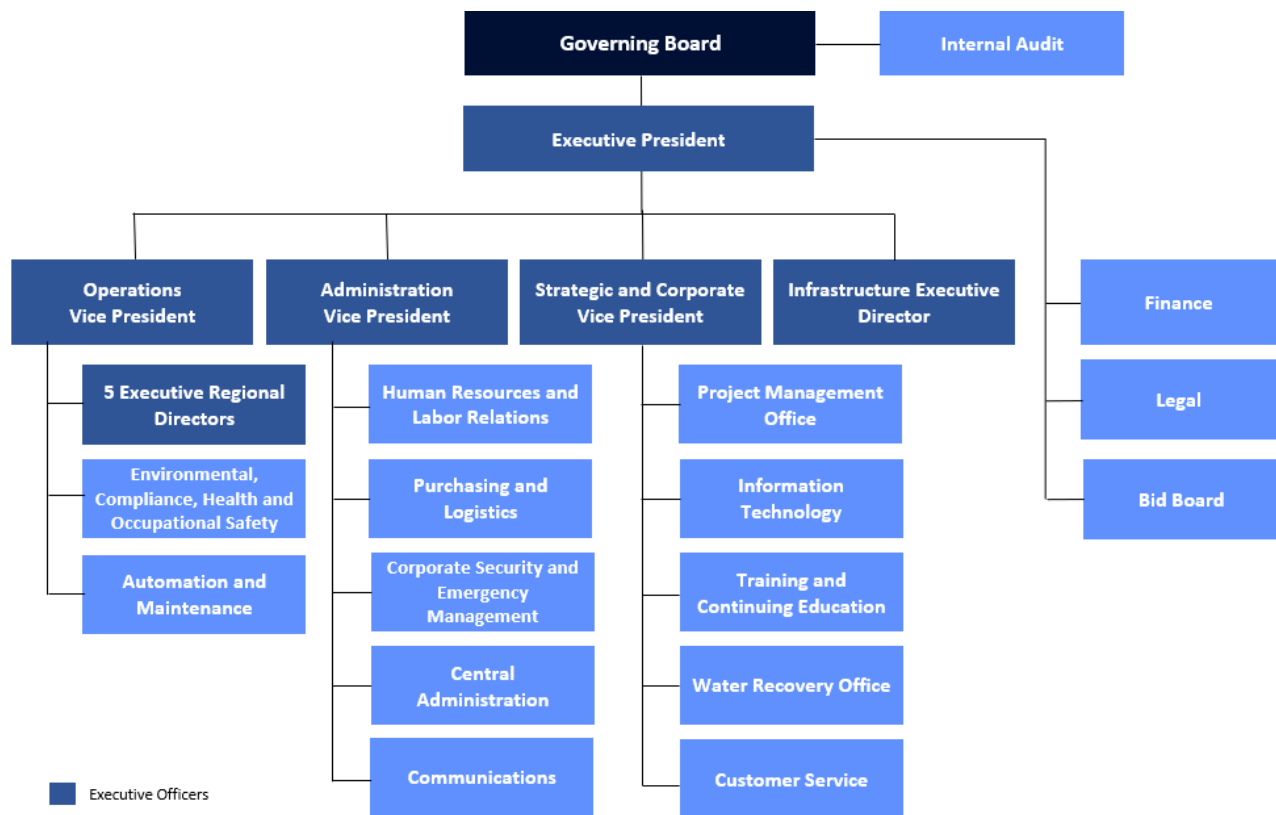
EXHIBIT 1-4: PRASA WATER TREATMENT PLANTS⁵



⁴ Preliminary information on facilities retrieved from PRASA's GIS database as of March 31, 2025.

⁵ Active facilities as of March 31, 2025, according to PRASA's GIS database.

EXHIBIT 1-6: ORGANIZATIONAL STRUCTURE AS OF APRIL 30, 2025



1.5.1 Governing Board

PRASA has an experienced Governing Board that is independent from direct political influence and has the ability to effectively carry out its duties. Moreover, existing law allows Governing Board members to serve their entire term—rather than being replaced with changes in the Government administrations—which is essential to maintaining consistency and institutional knowledge in decision-making.

Pursuant to Act No. 68-2016, which sets requirements for a diversified and professionalized board, PRASA's Governing Board was restructured to include seven members, consisting of four Independent Directors appointed by the Governor (with advice and consent from the Senate), two ex officio members, and one Consumer Representative, with the following qualifications:

1. One Professional Engineer licensed to practice in Puerto Rico with at least ten years of experience;
2. One attorney with at least ten years of experience in Puerto Rico and licensed to practice in the Commonwealth of Puerto Rico;

3. One Corporate Finance Specialist with wide knowledge and experience in the field;
4. One Professional with expertise in any field related to PRASA's functions;
5. The Executive Director of the Mayor's Association (ex officio member);
6. The Executive Director of the Mayor's Federation (ex officio member); and
7. One Consumer Representative, a private citizen representing the Authority's customers.

Additionally, an AAFAF representative will sit on the Governing Board while the Authority is a covered territorial instrumentality under PROMESA, thus temporarily increasing its size to eight board members as required by Act 2 of 2017.

Members appointed by the Governor are selected from a list of at least ten candidates, vetted by a recognized executive search firm, and evaluated according to objective criteria that includes the professional and educational backgrounds of the candidates.

Members not named by the Governor include the consumer representative, the Executive Director of the Mayor's Association, the Executive Director of the Mayor's Federation and the AAFAF representative. The consumer representative is elected by PRASA's customers through a process under the jurisdiction of the Puerto Rico Ombudsman.

Term lengths for non-ex-officio members are as follows:

- The Governor-appointed members serve staggered five-year terms and may only hold office for three terms.
- The Consumer Representative serves a three-year term with no term limits.

PRASA's Governing Board is responsible for making and approving all major decisions taken by the Authority, including decisions related to overall institutional policies, strategies and programs, operational budget and capital improvement programs, executive and key management recruitment and terminations, approval of collective bargaining agreements, major procurements and professional services and other contracts that exceed the materiality limits for Executive President approval.

1.5.2 Executive Officers

Executive Officers are appointed by the Governing Board. Having an independent and experienced Governing Board selecting the Authority's executive leadership further protects the Authority from political influence and ensures only the most qualified individuals are selected for these roles.

The Executive Officers include:

- **Executive President:** The Authority's chief executive officer, selected based solely on experience, ability, and other qualities that especially enables them to lead the Authority, achieving its strategic mission and vision.
- **Infrastructure Executive Director:** A Licensed Professional Engineer with experience in activities related to the development and management of infrastructure projects.
- **Five Regional Executive Directors:** For the Metro, North, South, East, and West Regions.

- **Three Vice Presidents:** Operations, Administration, and Strategic & Corporate Planning.

The Executive President, the Infrastructure Director and the Regional Executive Directors, unless appointed on an interim basis, serve five-year terms as established by Act No. 68-2016.

1.6 The Authority's Challenges

The Authority faces financial, strategic, and operational challenges common or typical to water utilities. Also, PRASA faces a specific set of challenges related to the size and complexity of its Systems, as well as Puerto Rico's economic and demographic environment, which are exacerbated by the exposure to natural disasters typical to the Caribbean region such as hurricanes and droughts, in addition to earthquakes.

Some of the main challenges faced by PRASA are:

- Declining population and water consumption;
- Maintaining large, complex, and capital-intensive facilities (managing over 20,000 miles of pipelines and a combined 162 water and wastewater treatment plants);
- Improving measurement and reducing NRW;
- Addressing System's vulnerabilities to climate change and natural disasters;
- Meeting environmental and safety regulatory requirements, including implementing EPA and PRDOH consent decree and agreements requirements; and
- Maximizing and effectively utilizing available federal funding to enable the restoration of and improvements to the System to meet industry standards.

While many of these challenges are not unique to water utilities, the Authority's challenges also represent an opportunity to rebuild a better and more resilient System for the benefit of Puerto Rico.

1.6.1 Non-Revenue Water

High levels of water losses in distribution systems (both real and apparent losses) continue to burden water utilities and customers around the world.

Water losses consist primarily of commercial and physical losses. The AWWA defines the water balance components of water losses as apparent (or commercial) and real (or physical) losses, as detailed in Table 1-1.⁷

TABLE 1-1: WATER BALANCE COMPONENTS (AWWA M36 MANUAL)

System	Authorized consumption	Billed authorized consumption	Billed metered consumption	Revenue water
			Billed unmetered consumption	

⁷ "M36 Water Audits and Loss Control Programs, 4th Edition", AWWA, 2016.

		Unbilled authorized consumption	Unbilled metered consumption	NRW
			Unbilled unmetered consumption	
	Water losses	Commercial losses (apparent losses)	Unauthorized consumption (theft)	
			Customer metering inaccuracies	
			Data handling (billing) errors	
		Physical losses (real losses)	Main line leakage	
			Storage tank overflows	
			Service connection leakage	

Source: AWWA and International Water Association

Commercial losses are due to unauthorized activities such as theft, or operational shortcomings like meter error, misbilling, or data error. Hence, commercial losses represent water that is produced and reaches customers but is not billed, and therefore does not generate revenue for PRASA.

Physical losses, on the other hand, are due to leaks and breaks throughout the System network. It represents water that is produced but never reaches the end customer, and thus, is not billed. This is partially due to the gradual aging and depreciation of the infrastructure. This results in higher than required water production and increased variable costs of production (mainly chemicals and electricity).

PRASA's Water Balance Report is developed following the guidelines / methodology established by the American Water Works Association (AWWA) and the International Water Association (IWA). It is an assessment that summarizes the management of water resources from the time the water is withdrawn from source (raw water) to its distribution system until reaching the final customer. Currently, much of the information related to water use or consumption is based on estimation or reading of old inaccurate meters, resulting in information that may be misleading. The AMI project is key to properly and accurately measuring consumption and then determining the difference between production and consumption to reach to a representative water loss number. Until the project is completed, numbers included in the Water Balance Report, except for water production, reflect an imprecise estimation which should not be relied on.

In the past, the result of the water audit mostly showed NRW as a percentage of the Water Supplied. However, the **AWWA Water Loss Control Committee (WLCC)** recommended against the use of NRW as a percentage and added new indicators to its water management guidelines. The use of percentage is only for visualization purposes and internal decision-making purposes. Nevertheless, to promote transparency and better inform stakeholders, a summary of the water balance estimates, acknowledging the potential for material inaccuracies, are included herein.

Table 1-2 below presents the different water balance components for PRASA during FY2024 compared to the FY2019 results.

TABLE 1-2: PRASA WATER BALANCE COMPONENTS FY2024

Water Balance Components (in MGDs)	2019	2024	Change	Change %
------------------------------------	------	------	--------	----------

Annual Production	541.7	513.2	(28.5)	-5%
Authorized Billed Consumption (Revenue Water)	192.4	174.9	(17.5)	-9%
Unbilled Authorized Consumption (CANF)	7.3	15.5	8.2	113%
Total Authorized Consumption	199.7	190.4	(9.3)	-5%
Commercial or Apparent Losses	39.4	55.5	16.1	41%
Physical or Real Losses	302.7	267.3	(35.4)	-12%
Water Losses	342.0	322.8	(19.2)	-6%
NRW = Water Losses + CANF	349.3	338.3	(11.0)	-3%

When comparing the evolution of the water balance components during the last 5 years, since FY2019, it is important to highlight the following improvements:

- ✓ Annual Production of water decreased by 28.5 MGDs or 5%.
- ✓ Non-Revenue Water decreased by 11 MGDs or 3%.
- ✓ Water Losses reduced by 19 MGDs or 6%.
- ✓ Physical Losses decreased by 35 MGDs or 12%.

In contrast, the continuous aging of the meters resulted in a reduction of billed meter consumption of 17.5 MGDs or 9%, which, after netting the improvements in authorized unbilled water consumption ended with a reduction in authorized consumption of 9.3 MGDs or 5%.

Therefore, most of the water balance components improved except for commercial losses which were mostly driven by an increase in meter inaccuracies. These results reflect the positive impact of NRW initiatives but there is still much more to do.

The value of the water losses is estimated at \$98.8 million for physical losses based on variable production costs and \$210 million in annual lost income or commercial water losses, measured at the average price of sale. While commercial water losses are less than physical losses in total MGD, because they are valued at the price of sale of water, their financial impact is much higher than real losses. With the implementation of the AMI Project, the meter inaccuracy losses should be minimized, and valuable information will be generated to strategically address physical losses to ultimately reduce production costs and improve water availability.

As to physical losses, the programs implemented by PRASA have shown progress. By focusing on Leak Detection and adequate Pressure Management, PRASA has achieved a reduction in physical water losses of 35.4 MGDs, representing a 12% decrease over the past five years.

Additionally, AWWA has developed a standard for monitoring and evaluating a water distribution agency's water control, known as the Infrastructure Leakage Index (ILI). As the WRO continues to gather more accurate water audit data to improve the performance indicators, PRASA will manage to utilize this for cross-system comparison (benchmarking). The ILI is defined as the ratio of actual current annual loss to annual unavoidable water loss. The ILI has four main performance categories:

- Category A - ILI ranges from 1 through 2: Further loss reduction may be uneconomic.
- Category B - ILI ranges from 2 through 4: Potential for marked improvements.
- Category C - ILI ranges from 4 through 8: Poor leakage record.
- Category D - ILI ranges from 8 and beyond: Leakage reduction programs should be imperative and high priority.

There are two variables for the construction of the ILI indicator: Unavoidable Annual Real Loss (UARL) and Current Annual Real Loss (CARL). To calculate UARL, the AWWA software takes into consideration several variables: pressure, pipe length, and service connections within the system. Currently, PRASA is using an assumption of average pressure for each region based on specific measures taken. The WRO is working to improve the indicator by means of the Pressure Management program, where PRASA will obtain real live pressure along the system.

As per PRASA's FY2024 Water Balance Report,⁸ the ILI for FY2024 resulted in 12.30, placing PRASA under category D, and as such, leakage reduction programs are imperative and must be a high priority. This ratio is subject to adjustment and refinement once more precise information on its components is gathered and until system's pressure data is based on actual data rather than estimates.

The Authority's Management has established NRW reduction as a top priority and the plan to address this challenge is detailed in Section 3.1.2.2 herein.

⁸ PRASA asserts that based on available information, the actual water consumption component of PRASA's Water Balance Report is uncertain.

2 Pre-Measures Financial Projections

Pre-Measures Financial Projections considers the Authority's current financial situation and assumes PRASA will continue its current state of operation without implementing any new measures to enhance revenues or reduce expenses. This includes the benefits from measures and initiatives that have already been implemented such as the debt modification with the Federal Lenders, the 2020 and 2021 refunding of outstanding debt, and the new rate structure implemented as of July 1, 2022. These implemented measures resulted in material financial benefits to PRASA, including annual debt service reduction of approximately \$75 million per year and approximately \$20 million in additional revenues every year since the rate structure modification was implemented in fiscal year 2023.

2.1 Main Assumptions

The main assumptions underlying the four components of PRASA's financial projections, (i) revenues, (ii) expenses, (iii) CIP, and (iv) financing and debt service, are explained in this Chapter.

PRASA's Pre-Measures Financial Projections presented herein reflect the best estimates of future results based on PRASA's current financial situation, and several assumptions, including the following:

- PRASA's current service rates as approved in 2022 and published on PRASA's website. The Pre-Measures Financial Projections do not include the minimum approved rate adjustment of 2% for future years (to be implemented in FY 2026 and subsequent years);
- Payroll costs adjusted to reflect updated headcount and the new preliminary job classification and compensation plans to allow for (i) alignment with the government CSR, as required by the Oversight Board, (ii) adequate personnel salaries and (iii) resources retention;
- Electricity costs are projected based on the assumptions described in Section 2.3.2;
- Expenses based on FY2025 adjusted projections and the identified needs for FY2026, as adjusted by inflation and non-recurrent expenses thereafter;
- Current contractual debt service, taking into account the Federal Debt modification completed on July 26, 2019, as well as the debt refinancing agreements which closed on December 17, 2020 and August 25, 2021 and included the forward delivery bonds;
- The Capital Improvement Program, as approved by PRASA's Governing Board on February 27, 2025, then increased to include funds to gradually fund a reserve for meter replacement and other infrastructure and operational needs, starting in FY2029; and

- Macroeconomic indicators from the 2024 CW Certified Fiscal Plan.⁹ In accordance with PROMESA Section 201(a), the Oversight Board may determine in its sole discretion to initiate a process to revise this Fiscal Plan due to future events.

As previously mentioned, the extended projection period results in an increased level of uncertainty of the estimates included herein, as many critical projects are in initial or development stages, such as:

- Actual impact of the meter replacement project, in both, projected revenues and expenses.
- Final approval of the Jobs Classification and Compensation Plan impact, which is currently under the evaluation of the Oversight Board.
- Definition of NRW strategy based on information obtained from the AMI Project.
- Final impact of CIP investments on future operational costs.
- Final funding for mitigation projects.

A summary of some specific assumptions used to develop the fifteen-year Pre-Measures Financial Projections are included in Table 2-1.

TABLE 2-1: ASSUMPTIONS SUMMARY TO DEVELOP THE FISCAL PLAN

Revenues	• Billings: Residential, Commercial and Government billings are projected based on demographic indicators. Industrial billing is projected based on real GNP macroeconomic indicators. • Collections Rate: FY2025 adjusted to reflect actual collections, and 98% collections rate is assumed for all regular customers categories during the subsequent years.
Expenses	• Payroll and related costs: Based on average revised cost per FTE, including salary adjustments, and assuming the headcount level will increase from 4,500 in FY2025 to 4,700 by FY2029 to properly operate the Systems. • Electricity: Projected considering estimates based on actual consumption and initiatives, and electricity rates applicable to PRASA as provided by PREPA's advisors on March 11, 2025. • Other expenses: Projected based on the FY2025 updated projections, the identified needs for FY2026 and subsequently adjusted by projected inflation rate.
Capital Improvement Program	• Reconstruction and Recovery Projects: Estimated funding based on FEMA funding obligations (for 90% of the total estimate) to address the impact from the 2017 Hurricanes to PRASA's infrastructure, assuming the 10%

⁹ The macroeconomic indicators referenced herein were developed by the Oversight Board.

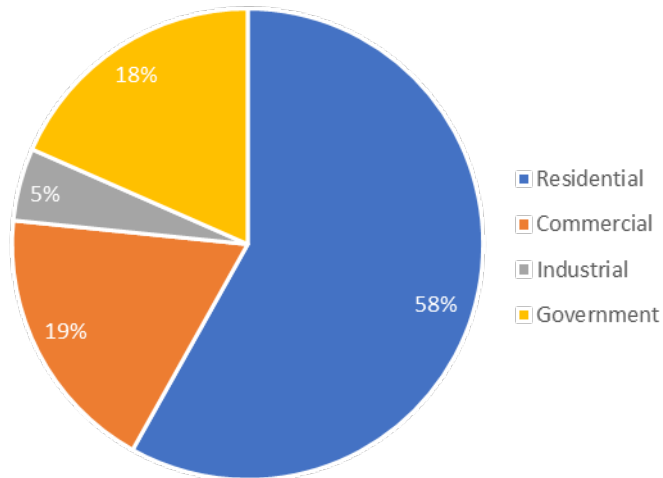
	match for such projects will be provided by the CDBG-DR Program. • Compliance Projects: Based on agreements with USEPA and PRDOH as negotiated or resulting from ongoing negotiations. • Mitigation and Resiliency: To harden the infrastructure based on availability of Hazard Mitigation funding. • Renewal and replacement: Estimated based on expected needs of the Systems and funding availability.
Contractual Debt Service	• Debt Service: Projected based on current debt service as per amortization tables, reflecting the benefit of the Federal Debt modification and the issuance of the 2020 and 2021-2022 Revenue Refunding Bonds.

2.2 Revenues

2.2.1 Customers and Revenue Base

As of March 31, 2025, PRASA had 1,272,176 active accounts, of which over 95% were residential as presented in Exhibit 1-2 (included in Chapter 1), which provides the breakdown of customers by category. Residential customers accounted for almost 60% of the Authority's revenues during FY2024 as presented in Exhibit 2-1.

EXHIBIT 2-1: FY2024 REVENUE BREAKDOWN BY CUSTOMER CATEGORY



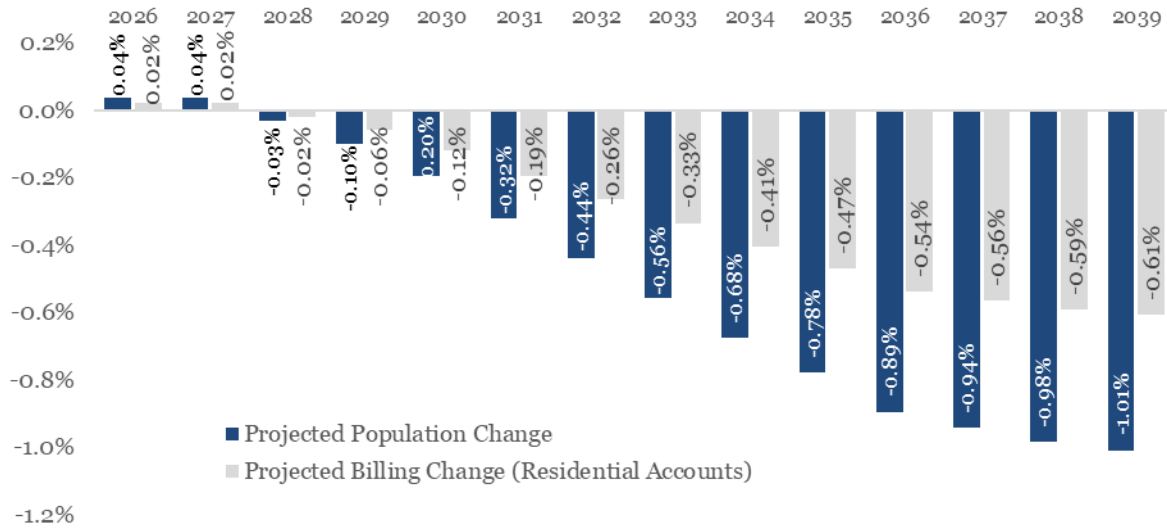
2.2.2 Service Revenue

The Authority's service revenues (base fee and service charges) are derived from water and wastewater service billings and are presented net of current subsidies (i.e., PAN, TANF, ASES and Public Housing). Service revenue projections are based on FY2025's actual and projected billings and the current rate structure as implemented on July 1, 2022. The annual adjustments already approved by PRASA's Governing Board (by a minimum of 2% per year) are included as a New Measure for subsequent years, as further described in Chapter 3.

2.2.2.1 Billing Trend

The billing trends for residential, commercial, and government accounts are projected based on expected population changes for Puerto Rico. Exhibit 2-2 illustrates the projected population decline as well as the expected reduction in billings.

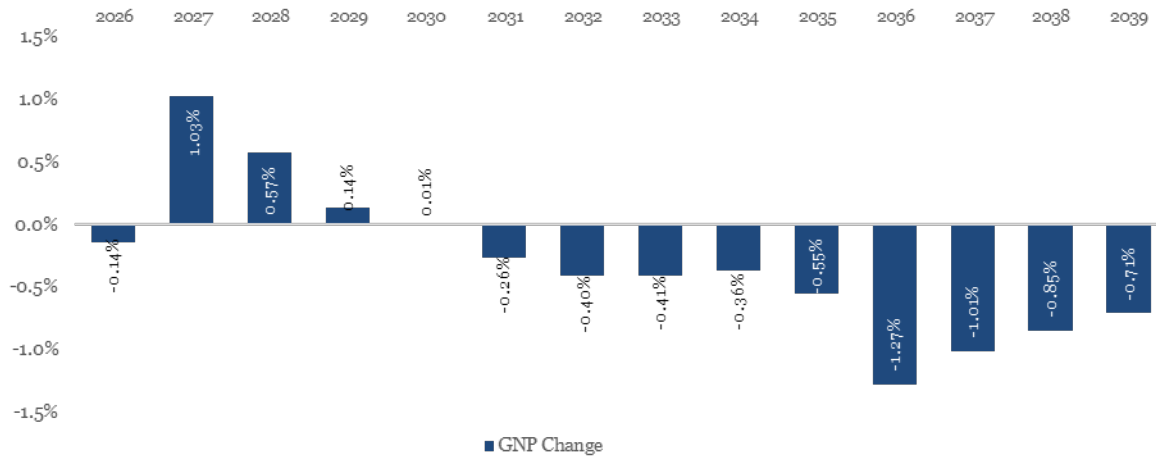
EXHIBIT 2-2: POPULATION AND RESIDENTIAL BILLINGS TREND¹⁰



Billings for Industrial accounts are projected using the real Gross National Product (GNP) forecast as included in Exhibit 2-3.

¹⁰ Based on macroeconomic indicators from the 2024 Commonwealth Certified Fiscal Plan, which were developed by the Oversight Board and do not reflect the views of the Authority or the Government. The Authority makes no representations or warranties, express or implied, as to the accuracy of this information.

EXHIBIT 2-3: GNP GROWTH RATES¹¹



2.2.2.2 Collections Rate

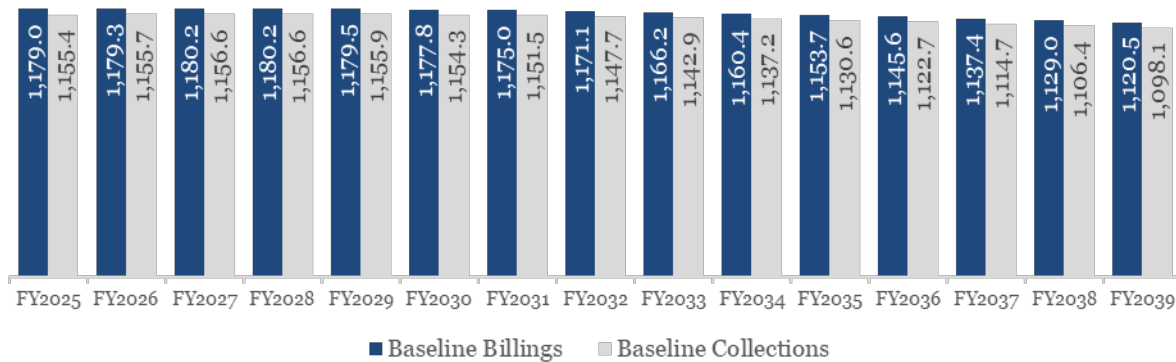
Historically, PRASA's collection rate averaged 96% under ordinary conditions. Situations such as the 2017 Hurricanes, the 2020 Earthquakes and the COVID-19 pandemic resulted in reduced service collections. However, since FY2022, the collection rate rebounded to levels of over 98%. Therefore, for FY2026 and subsequent years PRASA projects to maintain the collection rate at 98%.

2.2.2.3 Projected Service Revenues

Based on the assumptions set forth above, PRASA's projected service revenue and collections are presented in Exhibit 2-4.

¹¹ Ibid.

EXHIBIT 2-4: PRE-MEASURES BILLINGS AND COLLECTIONS (IN \$ MILLIONS)



2.2.3 Miscellaneous Income

Miscellaneous income includes revenues received mainly from interest income and Developers' Contributions.¹² Based on historical results, miscellaneous income is projected at \$4.5 million per year.

2.2.4 Transfers to and from the Rate Stabilization Account

The MAT stipulates the Authority can deposit into the Rate Stabilization Account amounts in its Surplus Fund, after covering all obligations as required under the MAT.

Operating Revenues will include the amounts paid from the Rate Stabilization Account into the Operating Revenue Fund in any fiscal year minus the amounts, if any, paid from the Operating Revenue Fund into the Rate Stabilization Account during the same fiscal year.

The intention of the RSA is to minimize or eliminate the need for rate adjustments to cover temporary needs. The current balance of the RSA (\$53 million as of April 30, 2025) and estimated interest to be accrued, are projected to be used during FY2026 to FY2028 (\$30 million, \$18 million and \$6 million, respectively) to cover for payroll and maintenance costs and forecasted increases in electricity, while the benefit of the measures proposed in Chapter 3 start to materialize.

2.2.5 Summary of Projected Pre-Measures Revenues

Table 2-2 summarizes projected pre-measures revenues for the Fiscal Plan Period, presented on a cash basis.

TABLE 2-2: PRE-MEASURES PROJECTED REVENUES (IN \$ MILLIONS)

¹² Fees paid by developers to connect their projects to the Authority's Systems.

in \$Millions	FY2025	FY2026	FY2027	FY2028	FY2029	FY2030	FY2031	FY2032
Service Collections	1,155.4	1,155.7	1,156.6	1,156.6	1,155.9	1,154.3	1,151.5	1,147.7
Transfer from RSA	17.5	30.0	18.0	6.0	-	-	-	-
Miscellaneous Income	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5
Total Service Revenues	1,177.4	1,190.2	1,179.1	1,167.1	1,160.4	1,158.8	1,156.0	1,152.2

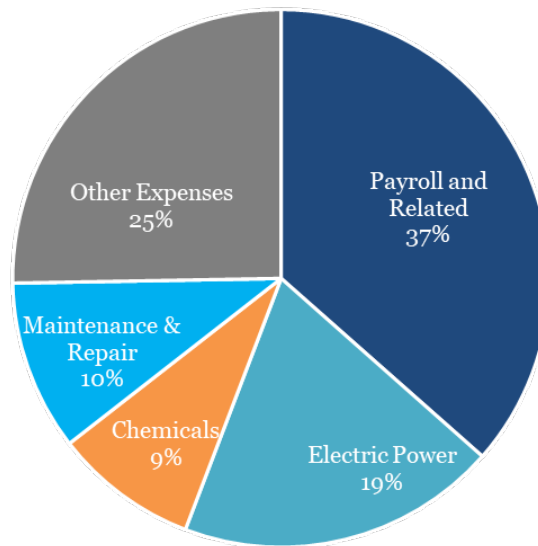
in \$Millions	FY2033	FY2034	FY2035	FY2036	FY2037	FY2038	FY2039	FY25/39
Service Collections	1,142.9	1,137.2	1,130.6	1,122.7	1,114.7	1,106.4	1,098.1	17,086.4
Transfer from RSA	-	-	-	-	-	-	-	71.5
Miscellaneous Income	4.5	4.5	4.5	4.5	4.5	4.5	4.5	67.5
Total Service Revenues	1,147.4	1,141.7	1,135.1	1,127.2	1,119.2	1,110.9	1,102.6	17,225.4

The benefit for projected rate adjustments to be implemented in the future is included in Chapter 3 under Revenue Enhancement Measures.

2.3 Expenses

Approximately two-thirds of PRASA's expenses are made up of payroll and electricity costs. Including the costs of maintenance & repairs, as well as and chemicals, these four cost categories represent approximately 75% of total expenses. Other expenses consist largely of costs directly related to operations, including rentals, security services, insurance, billings and collections related costs, water purchase, sludge disposal, and water transport, among others. Exhibit 2-5 provides the operating expense breakdown by category.

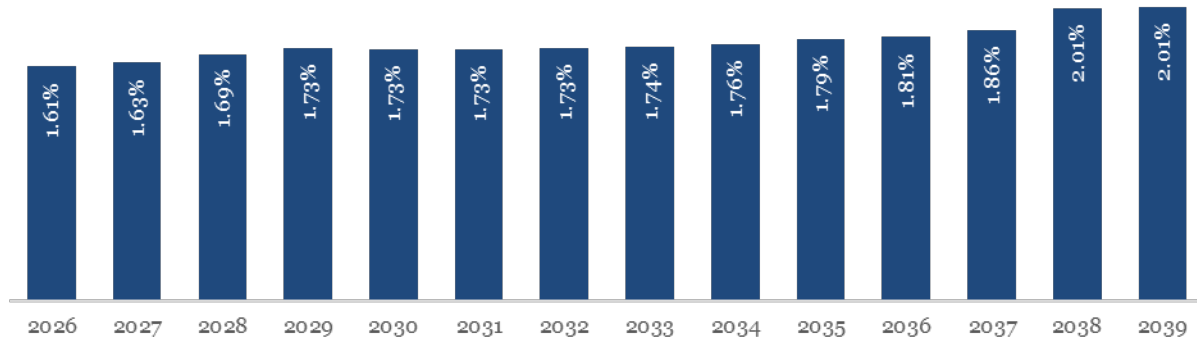
EXHIBIT 2-5: EXPENSE BREAKDOWN BY CATEGORY (FY2025 PROJECTION)



For the Pre-Measures Financial Results, the updated FY2025 projections and the needs identified for FY2026 were used as the baseline for future financial projections. Most of the expenses were then increased year-over-year to account for projected inflation and adjusted for non-recurring needs. For payroll and related costs and electricity expenses, different assumptions are applied, as illustrated below.

Inflation rates used to project most of the operating expenses are included in Exhibit 2-6.

EXHIBIT 2-6: PROJECTED INFLATION RATE¹³



2.3.1 Payroll and Related Costs

PRASA's largest expense category, representing almost 40% of its annual operating budget, is Payroll and Related Costs. This cost category includes direct labor costs and associated benefits, such as healthcare and pension obligations, and is then presented net of capitalized labor costs related to capital projects (estimated at 2.7% of total operating expenses¹⁴).

The following main assumptions were applied to develop the Payroll and Related Costs projections:

- Headcount of 4,500 employees for FY2025, increasing gradually until reaching 4,700 employees by FY2029.
- Salaries based on current legislation and as projected to increase based on the preliminary updated Jobs Classification and Compensation Plans.
- Current benefits:
 - Maximum overtime factor of 1.5 times the normal pay
 - Accrual of a maximum of 15 days of vacations and 18 days of sick leave per year, respectively.
 - Healthcare plan. Costs based on proposals received for FY2025, increased by projected healthcare cost inflation thereafter.
- Pension costs paid through "PayGo" based on the projections provided by the Employees Retirement System (ERS).

¹³ Based on macroeconomic indicators from the 2024 Commonwealth Certified Fiscal Plan, which were developed by the Oversight Board and do not reflect the views of the Authority or the Government. The Authority makes no representations or warranties, express or implied, as to the accuracy of this information.

¹⁴ Source: Arcadis, Fiscal Year 2022 Overhead and Capitalization Rate Study dated August 2022.

2.3.2 Electricity

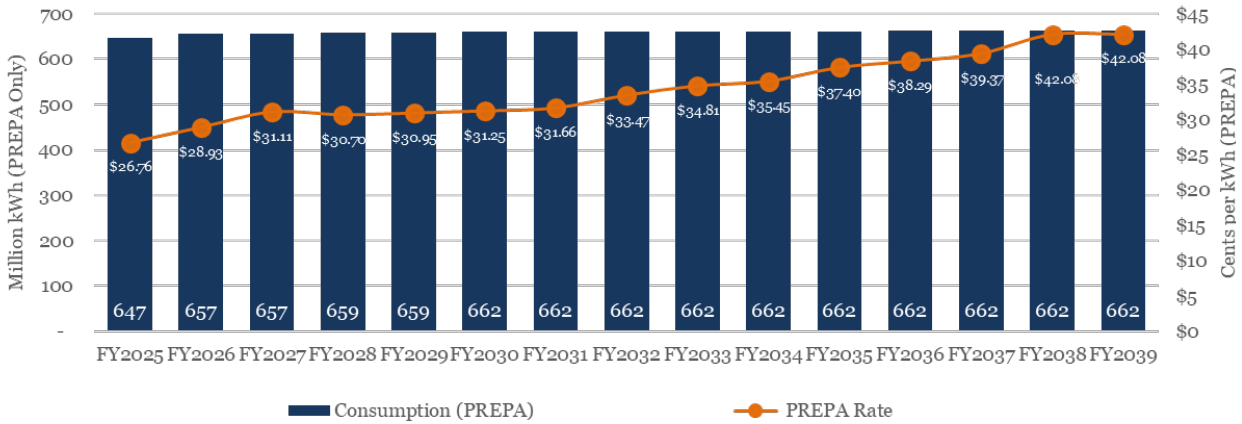
The cost of electricity represents PRASA's second largest expense and is highly sensitive to fluctuations in electricity rates, which are established by the Puerto Rico Energy Bureau (PREB). To illustrate, a $\pm \$0.01$ variation in the cost per kWh may represent an impact of over \$6 million per year in PRASA's annual operational budget.

The expected cost of electricity purchased from PREPA/LUMA is based on rates applicable to PRASA during the Fiscal Plan Period. For FY2025, the cost of electricity is based on (i) actual rates approved by PREB until March 31, 2025 and (ii) projected rates for the last quarter of the fiscal year. For subsequent fiscal years the electricity rate was projected applying the following components and assumptions:

- a) Base Charge: forecast is based on the 2023 PREPA Fiscal Plan base rate revenue requirement and rates for commercial and industrial customers. The base rate is assumed to be updated every three years, consistent with regulatory cycle for rate review processes.
- b) Purchase of fuel (Fuel Cost Adjustment or "FCA"): FCA is projected based on fuel price forecasts from the U.S. Energy Information Administration and an hourly generation dispatch model forecast that is consistent with the PREB approved IRP and Modified Action Plan.
- c) Purchase of power (Purchased Power Cost Adjustment or "PPCA"): PPCA is projected using a capacity expansion model and hourly generation dispatch model forecast that is consistent with the PREB approved IRP and Modified Action Plan, and updated contract and market pricing for fuel and renewable power.
- d) Contribution in Lieu of Taxes and Subsidy Riders: forecasts are based on LUMA cost projections that incorporate the base rate, FCA and PPCA projections.
- e) Energy Efficiency Rider: cost projections are based on LUMA estimates for annual energy efficiency program costs.
- f) Pension Charge: based on projected expenses to fund PayGo pension benefits and other post-employment benefits for retirees assumed to be implemented starting in January 2026.
- g) Debt service charge: projected based on the Legacy Charge structure outlined in PREPA Plan of Adjustment filed in December 2023 with the Title III court and assumed to be implemented starting in January 2026.

Exhibit 2-7 below includes the total projected electricity rates for energy supplied by PREPA/LUMA (based on the assumptions previously discussed) and PRASA's projected annual consumption for such energy supplied by PREPA/LUMA during the Fiscal Plan Period.

EXHIBIT 2-7: PROJECTED ELECTRICITY COSTS AND CONSUMPTION (PRE-MEASURE)



The increase in rates in FY2026 and FY2027 reflects the incorporation of the additional charges stemming from potential PREPA Title III outcomes to cover legacy debt service and pensions starting in January 2026.

Additionally, PRASA currently consumes around 10 million kWh per year produced through PPA Agreements, representing approximately 2% of its total annual energy consumption at \$0.15 per kWh.

1.1.3 Maintenance and Repair

Maintenance and repair costs represent PRASA's third largest expense category within its operating budget. The maintenance cost includes contracted services for both corrective and preventive maintenance, and incremental costs to comply with the SSOMP requirements by the USEPA. FY2025 and FY2026 costs have been projected based on identified operational needs. For subsequent years, PRASA has included an annual increase for this cost category based on the projected annual inflation rate (see Exhibit 2-6, above) as may be adjusted by non-recurring expenses.

2.3.3 Chemicals

PRASA's chemical expense has steadily risen since 2015, mainly due to increased chemical costs and consumption to ensure compliance with environmental and health standards.

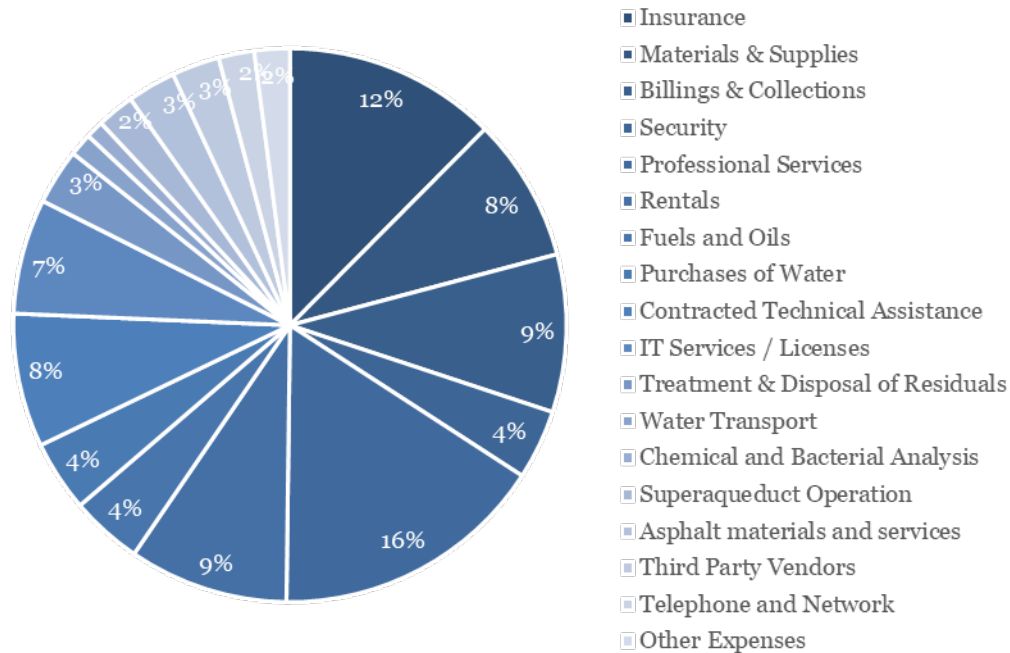
PRASA's chemical expense includes costs for coagulants, flocculants, chlorine, and other chemicals required to properly treat water and wastewater. This expense is projected based on the requirements for treatment and disinfection at PRASA's treatment plants and wells, which is necessary to comply with environmental standards and regulations set by federal and local agencies (e.g., EPA and PRDOH).

PRASA's FY2026 projected chemical cost is based on actual identified needs as a base to project future costs. For subsequent years, the Authority has included an annual increase for this cost category based on the projected inflation rate (see Exhibit 2-6 above).

2.3.4 Other Expenses

This expense category includes all other Operating Expenses, representing ~25% of the total operating budget, which is not covered in the previously discussed categories. This category of “other” Operating Expenses increases over time at the projected inflation rate (see Exhibit 2-6, above). Exhibit 2-8, included below, presents the dispersed nature of the Other Expenses category.

EXHIBIT 2-8: OTHER EXPENSES BREAKDOWN (FY2025 PROJECTION)



2.3.5 Summary of Projected Pre-Measures Expenses

Total operating expenses during the Fiscal Plan Period are summarized in Table 2-3.

TABLE 2-3: PRE-MEASURES PROJECTED EXPENSES (IN \$ MILLIONS)

in \$Millions	FY2025	FY2026	FY2027	FY2028	FY2029	FY2030	FY2031	FY2032
Payroll and Related	329.1	342.1	344.5	348.6	359.8	370.0	378.0	386.0
Electric Power	174.0	191.7	206.0	204.0	205.7	208.3	211.1	223.1
Chemicals	78.1	77.9	79.2	80.5	81.9	83.3	84.8	86.2
Maintenance & Repair	92.4	93.2	94.7	96.3	98.0	99.7	101.4	103.1
Other Expenses	227.9	227.7	231.4	235.3	239.4	243.5	247.7	252.0
FEMA Reimbursement	(7.2)	(5.0)	-	-	-	-	-	-
Capitalized Expenses	(24.1)	(25.0)	(25.8)	(26.0)	(26.6)	(27.1)	(27.6)	(28.4)
Operating Expenses, Net	870.2	902.6	930.0	938.6	958.2	977.7	995.3	1,022.2

<i>in \$'Millions</i>	FY2033	FY2034	FY2035	FY2036	FY2037	FY2038	FY2039	FY25/39
Payroll and Related	393.4	401.9	409.7	417.8	425.2	433.0	441.1	5,780.2
Electric Power	231.9	236.2	249.1	255.0	262.2	280.1	280.1	3,418.4
Chemicals	87.7	89.3	90.9	92.5	94.2	96.1	98.1	1,300.7
Maintenance & Repair	104.9	106.8	108.7	110.7	112.7	115.0	117.3	1,554.7
Other Expenses	256.4	260.9	265.6	270.4	275.5	281.0	286.7	3,801.7
FEMA Reimbursement	-	-	-	-	-	-	-	(12.2)
Capitalized Expenses	(29.0)	(29.6)	(30.3)	(31.0)	(31.6)	(32.5)	(33.0)	(427.8)
Operating Expenses, Net	1,045.4	1,065.5	1,093.6	1,115.5	1,138.2	1,172.7	1,190.3	15,415.7

2.4 Capital Improvement Program

One of PRASA's main priorities is the successful and efficient execution of its CIP projects. In the aftermath of the 2017 Hurricanes and the 2020 Earthquakes, and more recently Hurricane Fiona in 2022, a material portion of the CIP was designated for the reconstruction of all critical infrastructure required to achieve compliance with industry standards, protect public health, and the environment. Additionally, the CIP includes projects aimed at meeting mandatory compliance with the 2015 USEPA Consent Decree, as recently amended, and the 2006 Drinking Water Settlement Agreement. The CIP also includes projects to renew and replace aging infrastructure, optimize and simplify the System, and address mitigation, resiliency, and technology modernization projects, among others.

Specific funding matters for CIP reconstruction projects as provided by FEMA are discussed in greater detail in Chapter 4. Given the large number of PRASA's assets eligible for funding, FEMA developed FAAS, an accelerated award strategy, using the cost estimates of a sample of assets to extrapolate the results to the total population of assets. As a result of FAAS, PRASA agreed to a total award of \$4.1 billion with a net obligation of \$3.66 billion of FEMA funds for the System's recovery. The corresponding cost share of \$400 million will be covered with CDBG-DR funds, which has already been obligated. This federal obligation process required a detailed review of the CIP with the objective of maximizing the award by including new projects and consolidating others for the benefit of the System. Additional funds for mitigation and resiliency projects are also expected and incorporated into the financial projections.

The Pre-Measures Financial Results do not include any future bond issuance or external financing for the CIP. Instead, for the baseline projections, the CIP is expected to be financed exclusively through operating revenues and funds from FEMA, ARPA, and CDBG-DR programs. Additional funding from SRF (including BIL and SAHFI funds) and USDA-RD Programs are incorporated under Section 3.1.3 - New Financing for CIP.

2.4.1 CIP Projects Classification and Prioritization

PRASA's CIP projects are classified into the following main categories:

- **Reconstruction & Recovery Projects:** Projects to repair capital infrastructure impacted by the 2017 Hurricanes, 2020 Earthquakes, and 2022 Hurricane Fiona to industry standards and, for the FAAS portion projects to address the impact of the 2017 Hurricanes, based on a workplan submitted to FEMA on April 8, 2021, as subsequently updated every 90-days.

- **Renewal and Replacement (R&R):** Projects aimed at renewing or replacing required infrastructure (e.g., pipelines, pumps, motors, etc.).
- **Compliance (Mandatory/Non-mandatory):** Projects required by agreements—including USEPA Consent Decree, PRDOH Drinking Water Settlement Agreement, civil actions, administrative orders, court orders, and other mandatory projects—or those projects that may result in non-compliance in the future if not addressed.
- **Mitigation and Resiliency:** Mitigation projects aim (i) to reduce risks posed by natural disasters and disaster losses, and (ii) to protect life and property from future disasters. Resiliency projects are planned to create an infrastructure to withstand and adapt to changing conditions and recover promptly from shocks and stresses.
- **Quality:** Projects aimed at increasing the quality of the water and wastewater service provided to customers.
- **Fleet and IT:** Replacement of vehicles in PRASA’s fleet and IT infrastructure improvements.
- **Optimization and Emergencies:** Projects to increase efficiency and to address emergency and contingency needs.
- **Electric Generators:** To acquire emergency generator units to provide redundancy and backup for electricity supply at critical facilities.
- **Safety and Growth:** Projects to allow for System growth and to increase security at PRASA’s facilities.

A clear and objective project prioritization process is key to identifying critical projects across the CIP portfolio and ensuring the most important projects are prioritized.

2.4.2 CIP Projects Status

As of March 31, 2025, PRASA had 291 active projects in different stages for a total investment of \$8,208 million as included in Table 2-4.

TABLE 2-4: ACTIVE PROJECTS BY STAGE

Stage	# Projects	Investment (\$M)	%
Pre-Planning	2	1,204	15
Planning	22	1,079	13
Design	64	2,356	29
Bidding/Contracting	31	1,569	19
Construction	106	1,642	20
Completed	66	357	4
Total	291	\$ 8,208	100%

2.4.3 CIP Main Projects

Projects included in Table 2-5 are the top ten – based on total investment –under construction as of March 31, 2025.

TABLE 2-5: MAIN PROJECTS UNDER CONSTRUCTION

Project	Funding Source	Investment (\$M)
Meter Replacement	FEMA	790
Rehabilitation of Enrique Ortega WTP	FEMA/ CDBG-DR	159
Carraízo Dredging	FEMA	111
Rehabilitation of Culebrinas WTP	FEMA/ CDBG-DR	110
Rehabilitation of Guayama WWTP	FEMA / CDBG-DR	98
Rehabilitation Camuy Trunk Sewer	FEMA / CDBG-DR	77
Improvements to Vieques WWTP	FEMA / CDBG-DR	61
Barceloneta Trunk Sewer	FEMA / CDBG-DR	50
Trunk Sewer Patillas-Guayama	CWSRF	47
Rehabilitation Morovis Sur WTP	FEMA 406/ CDBG-DR	45
Total Top 10 Projects Under Construction		\$ 1,548

Some of the most impactful projects currently under the design or bidding phases are included in Table 2-6 below.

TABLE 2-6: MAIN PROJECTS UNDER BIDDING OR DESIGN PHASES

Project	Funding Source	Investment (\$M)
Sanitary/Water Distrib. System Com. Buena Vista Santurce	Restricted Funds	164
Rehabilitation Guaynabo WTP	FEMA/ CDBG-DR	144
Rehabilitation Superaqueduct WTP	FEMA / CDBG-DR	125
Mayaguez WWTP Improvement	FEMA / CDBG-DR	123
Rehabilitation Sergio Cuevas WTP	FEMA / CDBG-DR	113
Rehabilitation Caguas Norte WTP	FEMA/ CDBG-DR	110
Super Aqueduct Microgrid	FEMA 406	98
Carolina WWTP	FEMA / CDBG-DR	97
Completion of Valenciano WTP	DWSRF	91
Rehabilitation Santa Isabel WWTP	FEMA/ CDBG-DR	76
Total Top 10 Projects Under Bid/Design		\$ 1,141

2.4.4 CIP Projections

The projected CIP spending during the Fiscal Plan Period is included in Table 2-7 below.

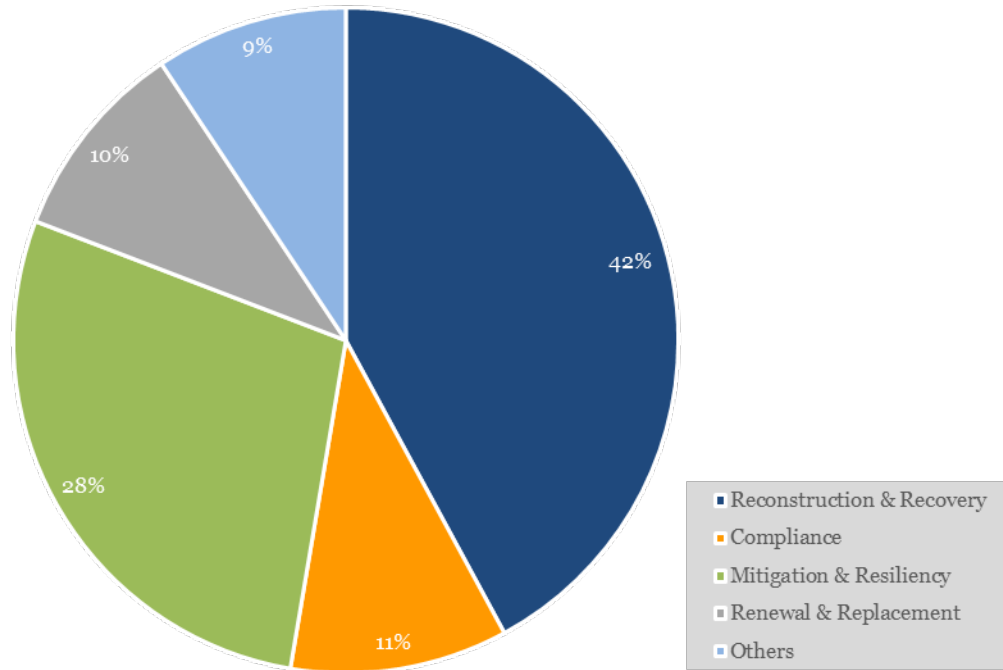
TABLE 2-7: PROJECTED CIP (IN \$ MILLIONS)

<i>in \$'Millions</i>	FY2025	FY2026	FY2027	FY2028	FY2029	FY2030	FY2031	FY2032
Reconstruction & Recovery	518.0	1,069.7	1,459.3	1,238.7	428.4	95.3	25.8	18.1
Mandatory Compliance	40.1	96.4	100.5	38.1	19.2	14.7	5.9	1.5
Mitigation & Resiliency	24.6	161.3	449.0	809.7	532.5	249.3	239.9	389.2
Electric Generators and Meters	15.0	2.5	0.7	3.5	5.5	5.5	19.0	24.0
Renewal & Replacement	60.8	71.9	40.0	40.0	58.0	69.5	80.0	80.0
Non-Mandatory Compliance	129.1	152.0	214.2	187.4	76.6	42.3	41.9	34.4
Quality	5.2	12.8	11.5	1.5	-	-	-	-
Fleet and IT	2.4	5.7	5.0	8.0	8.0	8.0	8.0	8.0
Others	24.7	74.3	137.9	149.0	107.0	68.7	40.9	23.9
Total	845.8	1,647.1	2,418.2	2,475.9	1,235.2	553.1	461.4	579.1

<i>in \$'Millions</i>	FY2033	FY2034	FY2035	FY2036	FY2037	FY2038	FY2039	FY25/39
Reconstruction & Recovery	11.5	15.3	17.7	11.9	10.7	10.7	0.0	4,931.1
Mandatory Compliance	3.4	4.5	1.2	-	-	-	-	325.6
Mitigation & Resiliency	332.4	108.5	2.0	0.2	-	-	-	3,298.6
Electric Generators and Meters	24.0	24.0	34.0	34.0	34.0	23.5	32.0	281.2
Renewal & Replacement	80.5	83.5	96.0	96.0	96.0	96.0	100.0	1,148.2
Non-Mandatory Compliance	31.8	4.9	-	-	-	-	-	914.6
Quality	-	-	-	-	-	-	-	31.0
Fleet and IT	8.0	8.0	8.0	8.0	8.0	8.0	-	101.1
Others	13.6	4.5	5.0	2.7	2.7	2.7	-	657.6
Total	505.4	253.5	164.0	152.8	151.4	140.9	132.0	11,715.8

The total CIP includes \$11.2 billion of identified projects under the CIP approved by PRASA Governing Board on February 27, 2025 and additional funds for renewal and replacement projects, including \$572 million for meter replacement and for other infrastructure needs or incremental costs of capital projects. Exhibit 2-9 illustrates that around 80% of the CIP is related to Reconstruction & Recovery, Mitigation & Resiliency, and Compliance projects (mandatory and non-mandatory).

EXHIBIT 2-9: CIP BREAKDOWN BY CATEGORY (FY2025-FY2039)



For the baseline financial projections included in this Chapter, the CIP is assumed to be fully funded by PRASA's operating revenues and reserves in addition to insurance, FEMA, CDBG, and other available funds.

A summary of the funds required for the CIP spending over the Fiscal Plan Period, prior to the benefit of measures included in Chapter 3, is included in Table 2-8 below:

TABLE 2-8: REQUIRED SOURCES FOR CIP (IN \$ MILLIONS)

in \$ Millions	FY2025	FY2026	FY2027	FY2028	FY2029	FY2030	FY2031	FY2032
Available Cash for CIP	47.9	34.3	11.7	-	-	-	-	-
FEMA/CDBG DR	544.8	1,087.1	1,550.4	1,309.3	443.2	106.1	28.1	18.1
Mitigation (404/406/CDBG MIT)	23.1	154.2	387.7	760.4	531.7	259.1	252.6	399.7
Restricted Funds	19.8	54.8	85.0	78.5	37.8	7.8	-	-
Operating Revenues	210.1	316.7	383.4	327.6	222.4	180.2	180.8	161.3
Total	845.8	1,647.1	2,418.2	2,475.9	1,235.2	553.1	461.4	579.1

in \$ Millions	FY2033	FY2034	FY2035	FY2036	FY2037	FY2038	FY2039	FY25/39
Available Cash for CIP	-	-	-	-	-	-	-	93.9
FEMA/CDBG DR	11.5	15.3	17.7	11.9	10.7	10.7	0.0	5,164.8
Mitigation (404/406/CDBG MIT)	343.9	109.8	2.0	0.2	-	-	-	3,224.5
Restricted Funds	-	-	-	-	-	-	-	283.8
Operating Revenues	150.1	128.3	144.3	140.7	140.7	130.2	132.0	2,948.8
Total	505.4	253.5	164.0	152.8	151.4	140.9	132.0	11,715.8

Note: Under Mitigation Projects (Sources and Uses) the CIP includes \$43 million for a project that will not be executed and will be eliminated for the next CIP revision to be presented to PRASA's Governing Board.

Additional sources of funds for the CIP, such as SRF and RD funding, are included as the results of the new measures, as further described in Section 3.1.3 “New Financing for CIP”.

In prior years PRASA requested from FEMA an increase in the funds committed under the FAASf appropriation to cover for the incremental costs experienced in the US and Puerto Rico in infrastructure projects and the impact such increases may have on future CIP projections. Based on FEMA responses to PRASA’s request and the revised needs of funds for the CIP to be reviewed at least annually, PRASA expects to (i) maximize the use of federal funds, (ii) prioritize its projects, and (iii) determine the need for additional sources of funding. Currently, based on actual costs and the updated CIP, PRASA is not considering the need for additional external sources of funds, other than interim financing for federal funds. The need for sources of funding for PRASA’s CIP will be evaluated, at least, on an annual basis.

2.5 Debt Service and Other Deposits Required Under the Master Agreement of Trust (MAT)

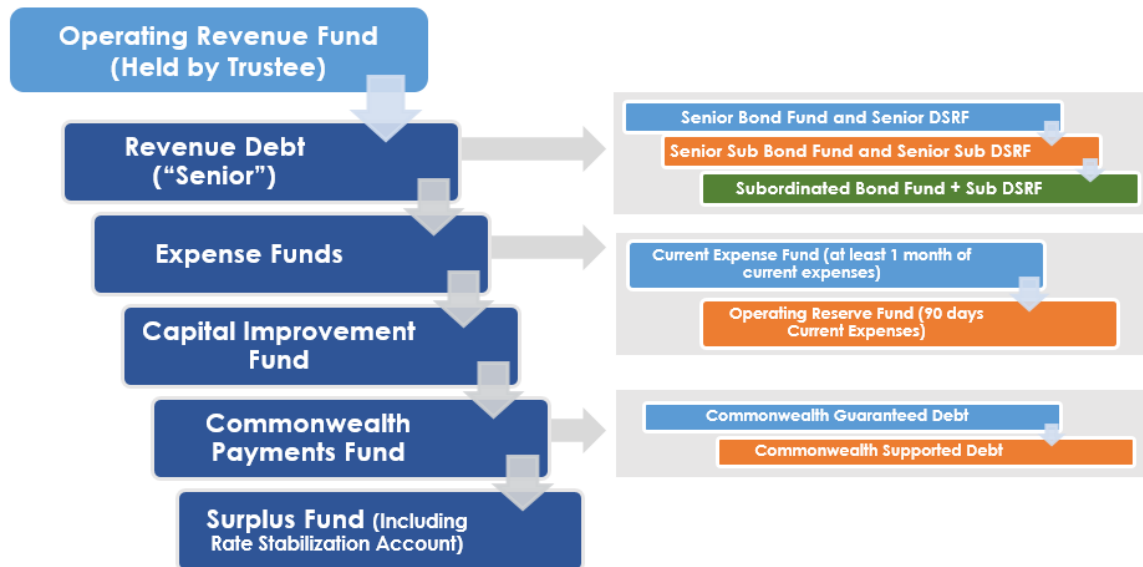
Debt service costs included in the Pre-Measures financial projections reflect PRASA’s current debt structure and contractual obligations, incorporating the benefits from the Federal Debt modification completed in July 2019, the refunding of the 2008 Senior Bonds and all of the 2008 Guaranteed Bonds, completed in December 2020, and the refunding of the 2012 Senior Bonds completed in August 2021 and June 2022.

2.5.1 MAT Payment Priorities

The MAT, executed in 2008, as subsequently amended and restated, establishes the way that PRASA’s revenues are to be applied to the payment of debts and the lawful priorities for payment thereof, among other things.

The payment priority for the different levels of debt service and other required deposits under the MAT is presented in Exhibit 2-10.

EXHIBIT 2-10: MAT PAYMENT PRIORITIES¹⁵



The payment priority established by Article V of the MAT is outlined below:

- **Revenue or Senior Debt:** Currently, all of PRASA’s debt consists of Senior Debt—including Other System Indebtedness held by the Federal Lenders—which is paid from operating revenues prior to the payment of current expenses.
 - Senior debt service includes payments related to the 2020 Senior Bonds, 2021/2022 Bonds, and the Federal Debt.
- **Expense Funds:** Accounts for two funds to cover operating expenses:
 - **Current Expense Fund:** On a monthly basis, after the payment of debt service, the Trustee deposits in the Current Expense Fund, at PRASA’s request, at least one month and up to three months (90 days) worth of current expense needs.
 - **Operating Reserve Fund:** PRASA is required to maintain an Operating Reserve Fund equal to three months of current expenses. The Operating Reserve Fund is currently fully funded.
- **Capital Improvement Fund:** The amount to be deposited in the Capital Improvement Fund is set forth in PRASA’s annual budget and is used to pay for the portion of CIP funded from the Authority’s revenues. Under the Pre-Measures Financial Projections, as the total amount required for the CIP (net of FEMA, CDBG, and other available funds) is expected to be funded solely by PRASA’s cash balances and operating revenues, the requirements are higher than available funds. The benefit of expected additional funds for the CIP from SRF and USDA-RD Programs is included in Chapter 3, under Section 3.1.3, “New financing for CIP,” to allow for balanced projections.

¹⁵ Bondholders consented to amend the MAT to change the revenue pledge from a gross revenue pledge to a net revenue pledge, to become effective when and if the Federal Lenders consent to the amendment.

- **Commonwealth Payments Fund:** Currently, PRASA has no outstanding balance from debts to be paid from this fund, which are the CGI and CSO.
 - **Commonwealth Guaranteed Indebtedness (CGI):** CGI is debt issued by PRASA guaranteed by the Commonwealth. After the modification of the Federal Debt and the issuance of the 2020 Senior Bonds that refunded all of the 2008 Revenue Refunding Bonds guaranteed by the Commonwealth, there is no outstanding debt under this category.
 - **Commonwealth Supported Obligations (CSO):** There is currently no outstanding debt qualified as CSO.
- **Surplus Fund:** After making all required deposits to the funds set forth above and any other fund required under the terms of the MAT, any excess cash can be deposited into the Surplus Fund to be used at the discretion of PRASA. As part of the Surplus Fund, a Rate Stabilization Account (RSA) can be created to cover any operating needs in the future and minimize the need for rate increases.

In connection with the issuance of the 2020 Senior Bonds and the 2021/2022 Bonds, as further explained in Section 1.3.2, PRASA proposed certain amendments to the MAT to, among other things, change the current order of payments. The amendment, when and if effective, will result in revenues being applied for the payment of current operating expenses ahead of deposits for debt service on outstanding Senior Debt and Other System Indebtedness. The holders of the 2020 Senior Bonds and the 2021/2022 Bonds have consented to these amendments. The amendments will become effective when and if written consent of the Federal Lenders is obtained. As of the date of this Fiscal Plan, PRASA has not formally requested consent from the Federal Lenders.

2.5.2 Contractual Debt Service

PRASA's debt as of March 31, 2025, is presented in Table 2-9.

TABLE 2-9: OUTSTANDING LONG-TERM DEBT AS OF MARCH 31, 2025 (IN \$ MILLIONS)

<i>In \$ Millions</i>	March 31, 2025
<u><i>Senior Bonds</i></u>	
2020 Series A Bonds	1,288.8
2021 Series A Bonds	84.7
2021 Series B Bonds	791.6
2021 Series C Bonds	107.1
2022 Series A Bonds	517.4
	2,789.6
<u><i>Other Senior Indebtedness</i></u>	
2019 State Revolving Fund Loans	540.7
New State Revolving Fund Loans*	119.5
2019 Rural Development Loans	390.2
	1,050.4
Total Senior Debt	\$ 3,840.0

* Since August 2020, the Authority has closed on \$372.1 million in new SRF loans. The balance shown reflects amounts drawn down under the new SRF loans as of March 31, 2025.

The Authority's Pre-Measures projected debt service, excluding new SRF funds received after the 2019 debt modification, during the Fiscal Plan Period is included in Table 2-10:

TABLE 2-10: PROJECTED PRE-MEASURES DEBT SERVICE (IN \$ MILLIONS)

<i>in \$ Millions</i>	FY2025	FY2026	FY2027	FY2028	FY2029	FY2030	FY2031	FY2032
Senior Debt	243.7	246.2	245.0	245.7	245.5	270.2	270.2	270.2
	FY2033	FY2034	FY2035	FY2036	FY2037	FY2038	FY2039	FY25/39
	270.2	270.2	242.3	242.3	242.3	242.4	242.3	3,788.5

2.5.3 Other Deposits Required by the MAT

Deposits under the baseline scenario that are projected to fund a portion of PRASA's CIP and to maintain the Operating Reserve Fund balance required under the MAT (varying based on the projected level of operating expenses) are included in Table 2-11:

TABLE 2-11: OTHER DEPOSITS REQUIRED BY THE MAT (IN \$ MILLIONS)

<i>in \$ Millions</i>	FY2025	FY2026	FY2027	FY2028	FY2029	FY2030	FY2031	FY2032
Operating Reserve Fund	8.5	-	-	-	-	-	-	-
Capital Improvement Fund	210.1	316.7	383.4	327.6	222.4	180.2	180.8	161.3
Total Other Deposits	218.7	316.7	383.4	327.6	222.4	180.2	180.8	161.3
<i>in \$ Millions</i>	FY2033	FY2034	FY2035	FY2036	FY2037	FY2038	FY2039	FY25/39
Operating Reserve Fund	-	-	-	-	-	-	-	8.5
Capital Improvement Fund	150.1	128.3	144.3	140.7	140.7	130.2	132.0	2,948.8
Total Other Deposits	150.1	128.3	144.3	140.7	140.7	130.2	132.0	2,957.3

Projected deposits to the Operating Reserve Fund assume that PRASA does not make any withdrawals from such reserve throughout the Fiscal Plan Period and that interest earned by the reserve balance, assuming a 2% interest rate during the Fiscal Plan period, will allow PRASA to meet the MAT required amount and therefore no additional deposits are projected starting in FY2026.

Deposits to the Capital Improvement Fund reflect the amount required to be deposited in such fund from operating revenues, after using funds available for the CIP and projected federal funds for Reconstruction and Recovery and for Mitigation projects. The deposits are presented prior to considering the projected inflow of additional federal funds for the CIP such as SRF and RD funding.

The major assumptions discussed above and used for the development of the Pre-Measures Financial Projections for FY2026 through FY2039 are summarized in Table 2-12 below.

TABLE 2-12: PRE-MEASURES FINANCIAL PROJECTIONS ASSUMPTIONS

Revenues	Average Annual Billing Change (Residential)	-0.29%	Expenses	Headcount by FY 2029 and afterwards	4,700
	Average Collections Rate	98.0%		Average Electricity Cost (cents/kWh)	\$ 34.82
	Average Annual Rate Increase	2%		Average Expenses Growth (inflation)	1.77%
CIP	Average Annual CIP (in \$'M)	\$776		Expense Capitalization Rate	2.70%
CIP Funding	Operating Revenues, FEMA, CDBG and ARPA		Debt Service	Contractual debt as reprogrammed and refunded	

Total pre-measures financial needs projections are mostly attributable to CIP funding requirements, assuming no external funding or additional federal funds beyond the forecasted funds for Recovery and Reconstruction and Mitigation projects. Table 2-13 included below presents a summary of the Pre-Measures Financial Projections.

TABLE 2-13: PRE-MEASURES FINANCIAL PROJECTIONS (IN \$ MILLIONS)

in \$'Millions	FY2025	FY2026	FY2027	FY2028	FY2029	FY2030	FY2031	FY2032
Authority Revenues	1,177.4	1,190.2	1,179.1	1,167.1	1,160.4	1,158.8	1,156.0	1,152.2
Senior Debt Service	(243.7)	(246.2)	(245.0)	(245.7)	(245.5)	(270.2)	(270.2)	(270.2)
Net Operating Expenses	(870.2)	(902.6)	(930.0)	(938.6)	(958.2)	(977.7)	(995.3)	(1,022.2)
Operating Reserve Fund	(8.5)	-	-	-	-	-	-	-
Capital Improvement Fund	(210.1)	(316.7)	(383.4)	(327.6)	(222.4)	(180.2)	(180.8)	(161.3)
Pre-Measures Financial Need	(155.1)	(275.2)	(379.2)	(344.9)	(265.7)	(269.2)	(290.3)	(301.5)

in \$'Millions	FY2033	FY2034	FY2035	FY2036	FY2037	FY2038	FY2039	FY25/39
Authority Revenues	1,147.4	1,141.7	1,135.1	1,127.2	1,119.2	1,110.9	1,102.6	17,225.4
Senior Debt Service	(270.2)	(270.2)	(242.3)	(242.3)	(242.3)	(242.4)	(242.3)	(3,788.5)
Net Operating Expenses	(1,045.4)	(1,065.5)	(1,093.6)	(1,115.5)	(1,138.2)	(1,172.7)	(1,190.3)	(15,415.7)
Operating Reserve Fund	-	-	-	-	-	-	-	(8.5)
Capital Improvement Fund	(150.1)	(128.3)	(144.3)	(140.7)	(140.7)	(130.2)	(132.0)	(2,948.8)
Pre-Measures Financial Need	(318.2)	(322.3)	(345.0)	(371.2)	(402.0)	(434.4)	(462.0)	(4,936.1)

This Fiscal Plan, as further discussed in Chapter 3, identifies several measures, including but not limited to the already approved rate increase for future years, the metering optimization program

and additional funds for the CIP, to balance the financial projections and to ensure PRASA's financial responsibility.

3 Fiscal Plan Measures and Post-Measures Financial Projections

One of PRASA's primary financial objectives is to achieve fiscal responsibility while ensuring continued investments in the System. Achieving fiscal responsibility through the elimination of structural deficits and the implementation of the measures set forth herein will ensure the Authority has the necessary resources to provide safe, reliable, and affordable water and wastewater services to the people of Puerto Rico. PRASA has already made significant progress toward achieving financial sustainability by completing the following milestones: (i) implementing moderate, annual rate increases since 2018 as well as a new revised and simplified rate structure implemented on July 1, 2022; (ii) modifying the terms of the Federal Debt in 2019; (iii) reducing annual debt service through the refunding of a substantial portion of the 2008 Bonds, and all of the 2012 Bonds in 2020 and 2021/2022, respectively; and (iv) securing over \$4 billion in FEMA and CDBG-DR funds for System recovery and reconstruction after the 2017 Hurricanes. These improvements in PRASA's financial condition have now paved the way for the Authority to invest additional resources in upgrading key operational areas and its infrastructure.

PRASA is now focusing on investments to ensure delivery of essential public services, including: (i) reducing Non-Revenue Water (NRW) through initiatives to reduce commercial and physical water losses and (ii) investing in critical upgrades to the System with available federal funding.

This Chapter summarizes a set of measures across categories, such as revenue enhancement, cost savings, and new funding for infrastructure projects. In addition, certain enabling measures have been identified to improve PRASA's operational performance and project delivery.

PRASA must implement these measures as they represent a significant opportunity to strengthen the Authority's financial position, operational performance, and capital delivery. Successful and sustained implementation of the measures outlined in this Chapter will pave the way for continued progress and long-term sustainability.

3.1 New Measures Summary

PRASA has identified certain measures to ensure continued progress in PRASA's long-term fiscal condition and to ensure the Authority can continue to provide safe, reliable, and affordable water and wastewater service that the people of Puerto Rico deserve ("New Measures"). Four broad categories of measures are incorporated in the Post-Measures Financial Projections:

1. **Revenue Enhancement Measures:** targeting adequate cost recovery levels executed through future rate adjustments and improvements in billing accuracy, which is primarily dependent on the successful implementation of the AMI Project.
2. **Expense Reduction Measures:** reducing PRASA's largest expense, excluding payroll, which is electricity.
3. **New Financing for CIP:** securing additional federal funding to finance the CIP.
4. **Enabling Measures:** enacting measures to provide for operational sustainability and efficiency throughout the organization and an aggressive CIP execution.

A summary of the expected net benefit for each individual measure is included in Table 3-6, at the end of this chapter.

3.1.1 Revenue Enhancement Measures

PRASA is pursuing two major measures aimed at increasing revenues:

- **Rate Adjustments:** the new simplified rate structure provides for a minimum annual adjustment of 2% with a maximum annual cap of 5%, subject to actual projected needs. These moderate adjustments are consistent with standard utility practices to allow PRASA to increase revenues to meet rising operational costs, while ensuring the people of Puerto Rico can afford the cost of water and wastewater services provided by PRASA.
- **Metering and Customer Service Optimization:** replacing old meters with modern, accurate and reliable meters, addressing theft, improving data quality, and improving system visualization as well as customer experience and satisfaction, by ultimately reducing commercial water losses and identifying opportunities to reduce physical water losses.

3.1.1.1 Rate Structure Simplification and Adjustments

Best practices in the water sector¹⁶ suggest that through the implementation of moderate annual rate increases, water utilities should be able to stabilize their service revenues and be better positioned to deliver capital projects.

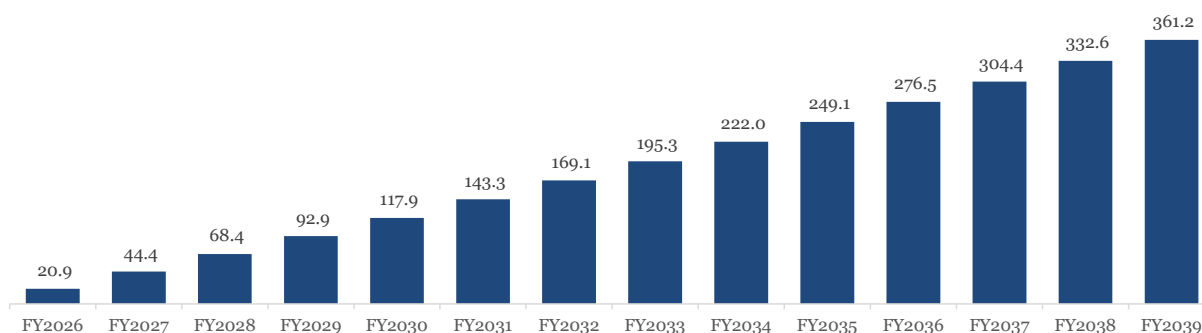
On July 1, 2022, PRASA implemented a new simplified rate structure which incorporated minimum annual adjustments for subsequent years. The new rate structure provides for a minimum adjustment of 2%, however the rate may be adjusted up to a maximum of 5% per year, subject to actual needs, with a cumulative rate increase cap of 30% starting from FY2024. The scope and magnitude of future rate adjustments will therefore be dynamic and guided by PRASA's fiscal needs to finance its operations and capital requirements, as well to comply with the reserves required by the MAT. These rate adjustments are not only necessary for PRASA to balance budgets and keep up with rising operating costs, but are also critical to maintain sufficient liquidity for PRASA to fund its CIP, as described in Section 2.4.

As a result of the new, minimum rate adjustments, PRASA is expected to have sufficient funding to meet all of its current obligations (operational & deposits), while deploying capital as projected for its CIP work schedule and maintaining healthy levels of cash reserves. However, this assessment may need to be reconsidered in the event of federal fund clawbacks or significant delays in the implementation of the AMI Project, as these factors could impact PRASA's financial stability. Once all the initiatives are fully implemented, including the AMI Project, the need for continuous annual rate adjustments may be reevaluated based on PRASA's updated financial projections with actual results of such initiatives.

The accumulated projected impact of future rate increases is illustrated in Exhibit 3-1.

EXHIBIT 3-1: RATE ADJUSTMENT PROJECTED BENEFITS (IN \$ MILLIONS)

¹⁶ For best practices, PRASA consults the study on rate increases by water and wastewater utilities of 37 of the top U.S. cities as conducted by Bluefield Research in August of 2021.



The following table outlines the key future action items for successful and timely delivery of this measure.

EXHIBIT 3-2: ACTION PLAN FOR RATE ADJUSTMENT MEASURE

Action Item	Deadline	Owner
Implementation of applicable Rate Adjustment	1-Jul-25	VP of Strategic Planning
Provide status to the Oversight Board on the analysis to assess financial needs for FY2027	31-May-26	Finance

3.1.1.2 Metering Optimization

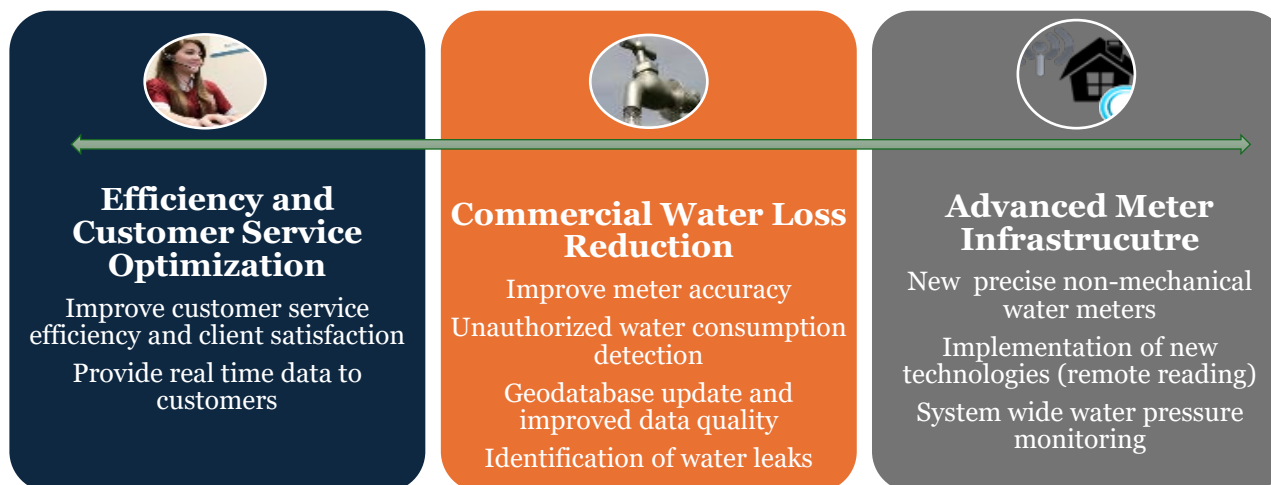
With respect to NRW reduction, the major potential and recovery opportunity is to reduce commercial water losses which will also result in reducing expenses and improving customer experience and satisfaction through the Advanced Metering Infrastructure project (the “AMI Project”).

The AMI Project aims to (i) install new ultrasonic meters in order to implement real-time smart meter technologies, (ii) support for the identification of physical water loss sources through meters with pressure sensors and implement plans to decrease commercial water losses, and (iii) improve customer service operation and efficiency.

Replacing mechanical meters with ultrasonic technology provides multiple benefits for PRASA. Ultrasonic meters do not require a filter, are not affected by water quality or wear and tear over the years and provide accurate readings for the life of the equipment, which is estimated to be 20 years. They also incorporate features such as pressure sensors and leak detection which allows for system visualization, management and protection. The Advanced Metering Infrastructure (AMI) will complement the new meters by enabling remote reading capabilities and providing real-time water flow and pressure information, allowing PRASA to anticipate potential breakdowns or service interruptions and avoid or address them promptly.

The main objectives of this measure for PRASA are summarized in Exhibit 3-3.

EXHIBIT 3-3: GOALS FOR METERING & CUSTOMER SERVICE OPTIMIZATION MEASURE



In summary, the AMI Project is expected to (i) improve meter accuracy and precision, (ii) provide for system-wide water pressure management, and (iii) improve customer service by allowing for remote reading, which will enable PRASA to focus resources on NRW loss reduction.

By increasing the accuracy of water meters, PRASA will be able to transition away from estimated commercial losses and achieve a greater level of precision in its measurements. Moreover, by reducing the uncertainty of the System's apparent losses (commercial losses), PRASA will be able to recover revenues lost to theft (especially in active accounts) and unmetered usage, as well as determine with greater accuracy the volume of actual physical water losses. Ultimately, through this measure, PRASA will be able to appropriately plan its CIP needs and intelligently address the renewal and replacement of its linear (pipe) assets to reduce physical losses and will have systemwide visualization of pressures and service status throughout the island, allowing PRASA to prioritize projects as well to protect its infrastructure.

On January 4, 2022, PRASA, with the support of a technical advisor, published an RFP for water meters and advanced metering infrastructure (AMI). Master Contracts were executed on November 15, 2023, with the two selected proponents for the pilot phase (the "Pilot Phase").

The metering pilot projects were completed, including the installation of approximately 3,000 meters (with different diameters of up to 2") by the selected proponents. The results of the pilot projects were evaluated and used to award the selection of the type of water meters and data gathering technology to be deployed across the Island.

The master contract for the full deployment phase with the selected proponent, to purchase the water meters, materials as well as the reading technology and integration services, was executed on April 14, 2025. The PRGSA Review Board is currently considering a challenge to the award which is expected to be addressed by PRGSA by mid-July 2025. Therefore, considering a meter's supply lag of 3 months, the installation is expected to commence by mid-October 2025.

Contracts for the water meter installation services for the full deployment phase are in the process of final evaluation to be awarded in July 2025.

After the contract execution for the provision of meters, the Full Deployment Implementation Plan shall be revised at least annually or more frequently as may be agreed in good faith by PRASA and the contractor, and may include, but not be limited to, demand forecast for delivery of goods

(which forecast may be revised on a 12-month rolling basis), inventories to be maintained by PRASA, on-going installation planning, schedules for training, network deployment and integration, and related services. The Full Deployment Implementation Plan also accounts for the necessary steps and actions needed to implement the Network Design and Integration Design as approved by PRASA during the Pilot Phase.

As presented in Exhibit 3-4, meter installations are expected to commence during the last quarter of calendar year 2025. PRASA is also working to ensure its infrastructure, including communications and warehouses, is ready for integration between the AMI system, PRASA's SAP ISU (billing system), and applicable PRASA information systems.

The full deployment phase is expected to have a duration of approximately 5 to 7 years.

EXHIBIT 3-4: METER REPLACEMENT TIMELINE

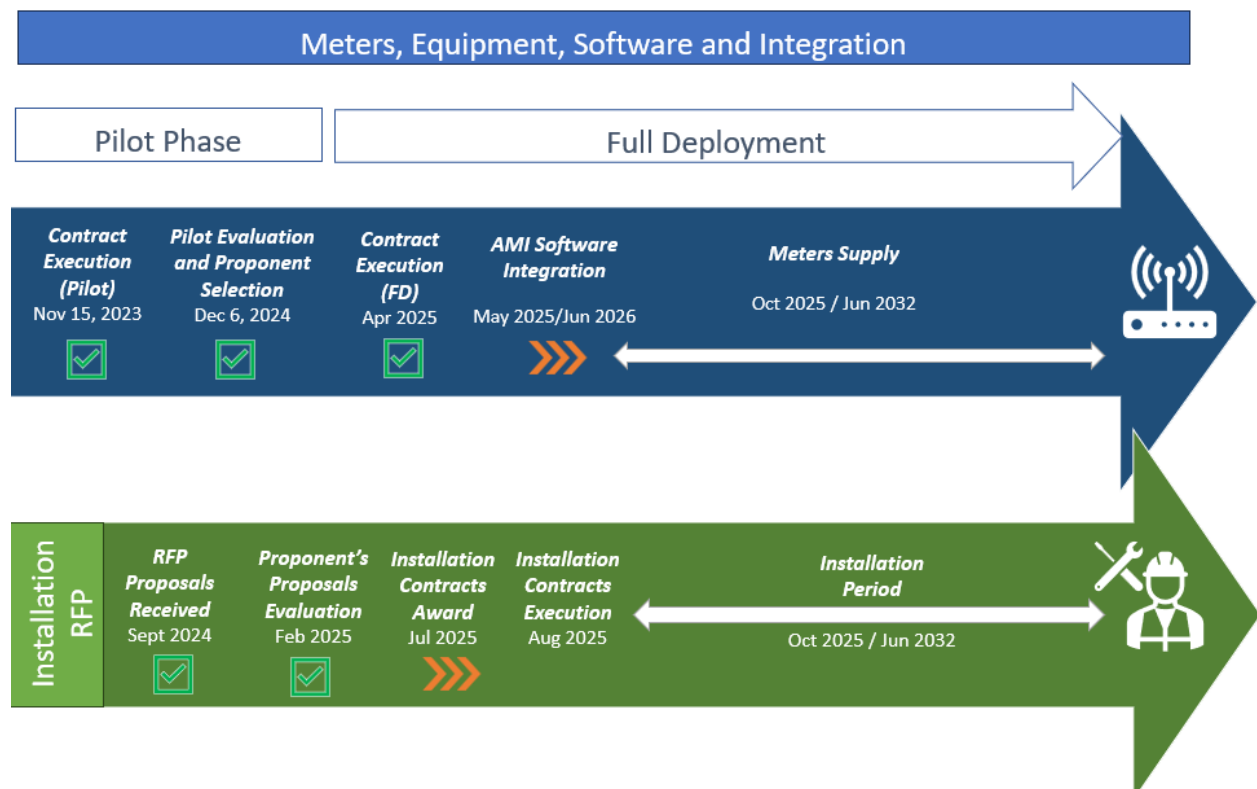
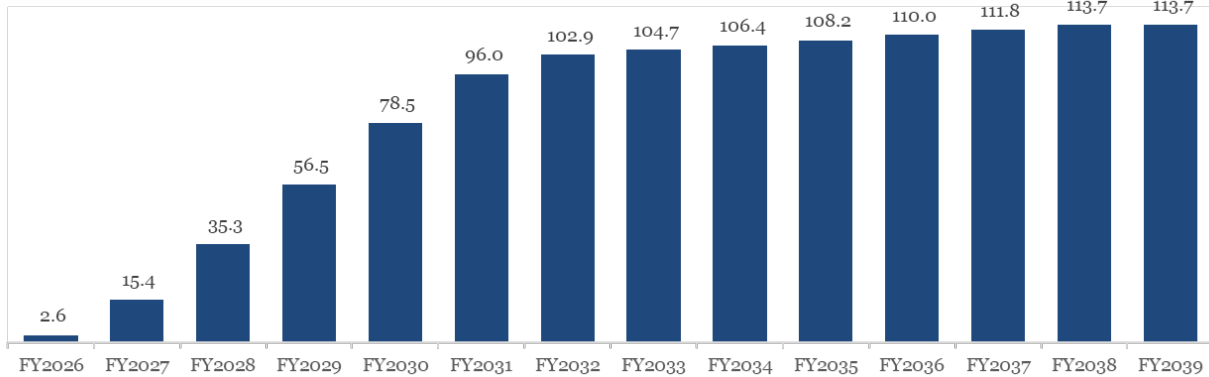


Exhibit 3-5 illustrates the projected impact of this measure in the revenue projections. Additionally, this measure will also have an impact on operating expenses, which have been incorporated in the financial projections presented herein.

EXHIBIT 3-5: METERING OPTIMIZATION BENEFITS (IN \$ MILLIONS)



The funding for the AMI Project is expected to be from federal programs. On April 11, 2024, FEMA announced an award of \$790 million for the AMI Project, with a federal portion of \$711 million and a required Commonwealth match of \$79 million. The obligation of the funds will protect and modernize PRASA’s infrastructure, and will also protect the federal investment, as mitigation works add resiliency against future events. The allocation includes nearly \$580 million in HMGP funding to replace all meters, to avoid the risks associated with partial infrastructure repair, including their AMI infrastructure. The Commonwealth match for such portion, estimated at \$57 million, has been requested from CDBG-DR funds and is pending approval.

Based on the current expected deployment of the project, the annual disbursement schedule for the obligated federal funds is included in Exhibit 3-6.

EXHIBIT 3-6: AMI PROJECT FEDERAL FUNDS DISBUREMENT SCHEDULE (IN \$M)



The schedule included above is based on the expected cost incurrence. Considering the timing for the suppliers and contractors to bill and the process of submitting the request for reimbursement to FEMA, the actual funds approved or received from FEMA by fiscal year may not match the projections above.

Based on the current project status, PRASA remains committed to implementing the AMI project in the timeline as included herein. PRASA completed several important steps such as the execution of the meter acquisition contract, the contract for the improvement of the new warehouse for the meters, and the contract for the IT systems' integration. Nevertheless, due to the magnitude and number of stakeholders in the project, it is to be expected that changes in estimates and timeframe may occur. The AMI Project timeline will be revised as needed to reflect any change in the expected dates.

The proposed Action Plan for this measure is included in Exhibit 3-7.

EXHIBIT 3-7: ACTION PLAN FOR METERING OPTIMIZATION MEASURE

Action Item	Deadline	Owner
PRGSA due date for response to award challenge by non-selected proponent	15-Jul-25	PRGSA
Issuance of Notice to Proceed (NTP) for equipment	15-Jul-2025	Infrastructure/PM
Meter installation contract award	31-Jul-25	Infrastructure / Legal
Meter installation contract execution	31-Aug-25*	Infrastructure / Legal
Commencement of meters installation (3 month after NTP)	15-Oct-25*	Infrastructure/PM
Improvements to warehouse completion	31-Dec-25	Infrastructure/PM
Integration Completion	31-Jan-26	PM / IT

(*) Date dependent on "Final Full Deployment Implementation Plan" approval and/or lead time for meters and equipment required for the Full Deployment Phase and approval process by external parties.

Based on AMI Project benefits explained through this Section and the funding availability, its implementation is fundamental for a resilient system and to allow for balanced projections without the need of additional rate adjustments, resulting in a fair distribution of costs among clients and leveraging the benefits of federal funds availability.

In case the timeline included in the action plan for the AMI Project does not materialize, PRASA may not be able to meet its financial projections and additional measures will have to be implemented, including (i) additional revenue enhancements, (ii) expense saving initiatives, and/or (iii) reduction to deposits into the Capital Improvement Fund, which may impact the implementation of projects within the Capital Improvement Program.

3.1.2 Expense Reduction Measures

PRASA is pursuing the following measures to reduce operating expenses:

1. **Electricity expense reduction:** analyzing alternate energy options and implementing new renewable energy and off-grid projects.
2. **Physical water loss reduction:** reducing physical water loss through leaks reduction, pressure management, and maximizing the benefits of key information provided by the AMI Project.

3.1.2.1 Electricity Expense Reduction

Electricity expense is PRASA's third largest operating cost. Given unpredictable and often rising energy prices, PRASA identified measures to improve efficiency and implement alternate sources of energy.

Existing Power Purchase Agreements ("PPAs")

PRASA has implemented energy supply projects through PPAs to reduce its electricity costs.

The Authority currently has 10 facilities under PPA mechanisms using photovoltaic energy, with a guaranteed energy production of approximately 11.3 million kWh per year at a \$0.15 per kWh blended rate, which is less than the rates charged by PREPA/LUMA. Annual savings from these PPAs vary based on PREPA rates. Facilities currently under PPAs along with their associated average annual guaranteed solar energy production, are shown in Table 3-1.

TABLE 3-1: FACILITIES WITH SOLAR ENERGY

Facility	Million kWh/yr
Yunque WTP	3.43
Arecibo WTP	1.71
Canóvanas WWTP	1.71
Guaynabo WTP	0.86
Aguada WWTP	0.86
Humacao WWTP	0.86
Cayey WWTP	0.86
Culebra WWTP	0.49
Vieques WWTP	0.33
Arcadia WPS	0.19
Total kWh	11.30

PRASA has also implemented, among other initiatives, a set of regional level commitments to execute non-capital-intensive energy conservation measures throughout its facilities. Regional initiatives include measures such as facility consolidations, minor repairs, operational

optimization, and installation improvements. Since FY2013, PRASA has reduced its electricity consumption by over 10%, from over 740 million kWh to around 650 million kWh.

Currently, PRASA is focusing its efforts on strengthening the resilience of its critical facilities through the use of federal funds by implementing projects that integrate distributed generation systems (microgrids). These systems incorporate renewable energy sources with energy storage (BESS), interconnected with the electrical grid. This strategy not only diversifies the available energy sources but also promotes a more sustainable and reliable operation of our essential facilities.

Additionally, we are currently evaluating PPAs based on renewable energy sources, leveraging regulatory mechanisms such as the Wheeling program from the Puerto Rico Energy Bureau (NEPR). This initiative is being explored as a potential strategy to reduce costs associated with electric billing.

These projects are evaluated and ranked on a case-by-case basis taking into account: (i) the most convenient economic performance, (ii) viability, (iii) purpose (savings vs. resiliency), (iv) PRASA's prior experience with different technologies, (v) applicable regulatory framework and other requirements and limitations (such as PREPA/LUMA requirements and/or PREB regulations), (vi) the all-in life cycle cost of the project (which must be lower than the avoided utility electricity cost), and (vii) the financing source (with priority given to projects qualifying for available reconstruction funds or other federal grants).

Based on funding availability and project status, this Fiscal Plan expects the implementation of two new initiatives from economic and environmentally friendly energy sources: a new PPA agreement and microgrid projects as described below.

New PPA Agreements

PRASA is negotiating a PPA agreement with a company (the "Resource Provider") that will result in operating expenses reduction.

The PPA Agreement does not require any payment from PRASA during the engineering, development, or construction phases of the Facility, with payments commencing only when electricity is generated and wheeled to PRASA, creating a performance-based contract.

The amount of electricity required to be wheeled to PRASA facilities shall be up to 130 MkWh per year (approximately 20% of PRASA consumption) with an annual minimum payment.

Savings from this initiative are estimated based on the projected energy to be consumed from this PPA at the differential rate of the projected LUMA rate versus the projected rate for the Resource provider plus the cost of wheeling.

Microgrid Projects

Four microgrid projects are expected to be implemented and financed with hazard mitigation funds (FEMA-HMGP 406):

1. Superaqueduct raw water pump station: The project consists of implementing a microgrid for the raw water pumping station, with an annual energy consumption of approximately 56 million kWh, or approximately 9% of PRASA's yearly consumption. This pumping station would operate grid-tied under the net-metering mechanism and would be powered by photovoltaic energy combined with BESS as the main energy source in case of grid outage. Fossil fuel generators would be available as an alternate energy source, if needed.

This project would increase resiliency for one of PRASA's main facilities, which pumps 100MGDs to one of PRASA's main water filtration plants that processes 20% of the island's total water production. The project is expected to be operational starting in FY2030.

2. Superaqueduct WTP: Project for the implementation of a microgrid at the Superaqueduct Water Treatment Plant, with a current annual energy consumption of approximately 2.2 million kWh. This microgrid will operate grid-tied under the net-metering mechanism and be powered by photovoltaic energy (existing PPA photovoltaic system plus additional photovoltaic panels) combined with BESS in case of grid outage. Existing fossil fuel emergency generators will still be available as an alternate energy source, if needed. This microgrid project is expected to be operational starting in FY2030.
3. Santa Isabel WWTP: Project for the implementation of a microgrid at the Santa Isabel Wastewater Treatment Plant, with an annual energy consumption of approximately 3 million kWh. This WWTP would operate grid-tied under the net-metering mechanism powered by photovoltaic energy combined with wind power and BESS. Existing fossil fuel emergency generator will still be available as an alternate energy source, if needed. The project is expected to be operational starting in FY2030.
4. Maunabo WWTP and WWPS: Assumes the implementation of two microgrids at the Maunabo Wastewater Treatment Plan that will be converted to a Wastewater Pump Station and an additional microgrid for Guardarrayas WWPS. These pumping stations would operate grid-tied under the net-metering mechanism powered by photovoltaic energy combined with BESS. Existing fossil fuel emergency generators will still be available as an alternate energy source, if needed. This project is expected to be operational starting in FY2030.

Based on the projected costs for operating and maintaining these four microgrids and assuming they are funded with mitigation funds, the resulting costs per kWh for such projects are estimated to range between \$0.13 and \$0.16 cents per kWh for the initial year (FY2030), increased by inflation afterwards. The total capital cost for the 4 projects listed above is estimated at around \$235 million and will result in an additional 10% of PRASA's energy being produced by renewable energy as the main source with fossil fuel energy back-up generators.

PRASA expects to reach production of around 25% of its consumption from renewable/alternate energy sources in 22 sites for microgrids already identified. To reach this level of energy source diversification, including resiliency through grid-tied projects with off-grid capability in case of outage, a total investment of around \$1 billion (including the 4 projects underway) is required. Subject to funding availability PRASA will implement additional microgrid projects in following years.

The actual electricity cost savings produced by these measures will largely depend on the funding availability, the cost of electricity supplied by PREPA/LUMA, the implementation timing, and the regulatory framework (for instance, impact of the new net-metering framework to be defined by PREB in the future).

Alternate Energy Projects Cost Savings

Based on the comparison of the projected electricity rates from LUMA and the rates under the new agreements, the financial impact of the measures described herein is illustrated in Exhibit 3-8.

EXHIBIT 3-8: PROJECTED ELECTRICITY EXPENSE REDUCTION (IN \$ MILLIONS)

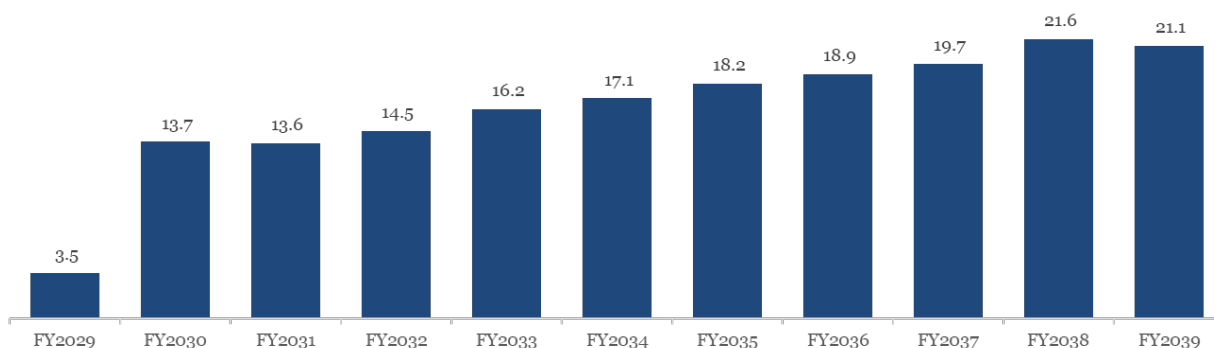


Exhibit 3-9 outlines the required key action items for successful and timely delivery of this measure.

EXHIBIT 3-9: ACTION PLAN FOR ELECTRICITY EXPENSE REDUCTION MEASURE

Action Item	Deadline	Owner
Superaqueduct (RWPS and WTP), Maunabo and Santa Isabel microgrid projects design completion	28-Feb-2026	Infrastructure
Superaqueduct (RWPS and WTP), Maunabo and Santa Isabel microgrid projects bidding process completion and award	30-Sept-2026	Infrastructure
Completion of new PPA provider facilities (subject to the PPA execution)	30-Jun-2027	Resource Provider
Completion of the four microgrid projects	1-Jul-2029	Infrastructure

3.1.2.2 Physical Water Loss Reduction

High levels of physical water losses continue to be one of PRASA's major challenges. With the implementation of the AMI Project, the meter inaccuracy losses should be reduced, and valuable information will be generated to strategically address physical losses to ultimately reduce production costs and improve water availability. In the meantime, PRASA will remain focused on the following key measures to reduce physical water losses:

- Master Meters:** accurately measuring water production by the installation, calibration, and maintenance of water meters at critical water treatment facilities;
- Pressure Management:** incorporating pressure management best practices across the distribution network addressing pressure zones optimization and tanks overflow; and

3. Leak Detection and Reduction: improving identification, prioritization, and resolution of unreported leaks across PRASA's System.

The Water Recovery Office (WRO) is responsible for designing and implementing strategies to reduce physical water losses. Specifically, WRO oversees the development and execution of initiatives that mitigate the Real or Physical loss portion of the Water Balance Audit.

The initiatives are designed based on the four pillars for Physical Water loss management as established by the American Water Works Associations (AWWA):

- Pressure Management
- Active Leakage Control
- Infrastructure Management
- Speed & Quality of Repairs

3.1.2.2.1 Master Meters Program

The validation, calibration, or replacement of the meters at water treatment plants and wells (master meters) enables PRASA to obtain accurate information on water production for evaluating and adjusting the System's performance and performing water balance calculations.

The goal of this program is to increase the percentage of the Authority's water production that is accurately and reliably measured. As of January 31, 2025, the program replaced or validated/calibrated 181 master meters at 146 facilities measuring around 93.5% of the total potable water throughout the Water System. This is a key component to define the amount of water losses more accurately and consequently, identify reduction opportunities.



The Master Meter program has set a target to reach 100% water production measurement by the end of FY2027.

3.1.2.2.2 Pressure Management Program

PRASA's main program to deal with water loss management is Pressure Management. To prevent leaks within the system, it is imperative that levels of pressure are managed on a parallel track while renewing and replacing sections of pipes. If the pressure is inadequate, the higher the chances of pipes burst occurrences. This happens as leaks are the system's natural way to control pressure.

Pressure management is one of the most basic and effective tools available to address total water losses. Lowering the water pressure within the System promotes a healthy infrastructure, extends physical life expectancy of the distribution lines, reduces leakages, and thereby minimizes water production requirements. Therefore, implementing a robust pressure management program is an essential effort to significantly reduce water losses.

Based on the information from the AMI Project and from the planned visits per year to pressure zones, the WRO will monitor pressure zones to optimize the System.

Within the Pressure Management program, WRO is actively working on five initiatives:

- Automatic Control Valves (ACV)
- Water Tanks (overflow)
- Top 10 regional valves

- Special configuration valves
- VHCC

Automatic Control Valves (ACV)

This initiative aims to implement a measuring point of pressure in certain valves, already identified by WRO, across the system. The focus is to install sensors to measure the pressure exiting the valve. The information obtained from the valves will be visualized in the VHCC. At the same time, pressure reduction opportunities can be identified by comparing demand versus population using GIS.

Water Tanks (overflow)

WRO has already implemented level controls at several tanks across the Island. This activity will continue monitoring overflow levels per tank. The initiative aims to recondition level control valves and integrate the different levels of the tank as a variable pressure element within the VHCC.

Top 10 Regional Valves

This initiative consists of identifying the most important ACV based on the insight of each operational region. Once identified sensors will be installed to measure the pressure at the valves and visualize it in the VHCC to determine actions for pressure system management, improvements and optimization.

Special Configuration Valves

The main purpose of this initiative is to install water hammer anticipator valves on pump stations that have a historic trend of breakage. Part of this and all initiatives is to create the inventory of components to create intelligent valves, to measure and control flow and pressure. By doing so, it will facilitate the development of DMAs across the Island.

Visualization and Hydraulic Control Center (VHCC)

To identify and address areas of opportunity, during the upcoming years, WRO will focus on implementing virtual hydraulic modeling and visualization using software for modeling, simulation, and predictive analyses. Further, this solution centralizes infrastructure asset visibility to optimize capital and operational expenses. The final goal is to develop the WRO Visualization and Hydraulic Control Center (VHCC) to provide insights by comparing pressure and flow levels seamlessly through the System. The cost for the VHCC, based on its current scope, is estimated to be around \$400 thousand per year (included in the WRO operational projected budget) plus an annual investment in capital costs of \$500 thousand (included in the CIP budget).

With the VHCC, PRASA will be able to visualize and study any changes on the calibrated hydraulic model within the pressure zone to identify any system anomalies (leakage, service interruption, loss of power, schedule maintenance, etc.).

The VHCC is a long-term initiative as the WRO needs to make sure that all elements within the system are integrated within the GIS platform. Furthermore, the deployment of installing the initial sensors must be strategically planned to provide the initial information of the calibrated hydraulic model effectively. Then, all newly added instrumentation needs to communicate with the SCADA system and in turn the VHCC will visualize the hydraulic modeling. At that point, PRASA will be able to start visualizing and analyzing the data obtained.

To analyze trends within the system regarding changes in flow, pressure, and consumption, the VHCC integrates three principal components:

1. Data obtained from SCADA
2. Sensors installed across the network
3. Specialized software providing System insights

Once completed, the VHCC system will be able to simulate predictive hydraulic modeling and form part of the decision-making process regarding the elements within the System.

In summary, the VHCC will allow PRASA to:

1. Divide the System into smaller areas to facilitate the visualization of several hydraulic scenarios consisting of flow level and pressure to understand water behavior within a specific sector.
2. Systematically identify potential areas of water losses across the System and proactively address them without the need for increasing production.
3. Create more precise points of interest (POI), effectively repair the leaks, and subsequently measure system pressure to determine if leakage levels were reduced.
4. Challenge the operational water system's behavior based on automated predictive analysis.
5. Have real-time data of changes in pressures and/or flow within the measured pressure zones.

The VHCC can eventually be used to control the elements within the pressure zones with the objective of mitigating the risk of line bursts or just controlling the flow during low-consumption hours. However, initially, it will serve as a visualization tool to model virtual scenarios with possible adjustments to physical components that in turn, will serve as guidelines for the field teams to physically make the proper changes.

The initiative will ultimately impact a total of 112 WTPs which distribute water to over 900 pressure zones. Each Pressure Zone requires evaluation of its pressure control component, usually an Automatic Control Valve (ACV), which is a device that can reduce pressure at the downstream side or sustain pressure at the upstream side, according to mechanical settings

Each pressure zone will be divided into quadrants with its own hydraulic profile. As such, each quadrant will provide insight to adjust the production at the WTP. With each adjustment, the information will be analyzed to determine the adequate production reduction factor of the plant based on the specific behavior of each quadrant within a pressure zone. The data will be analyzed to establish a production reduction factor based on the behavior of each quadrant.

The WTPs, have been categorized for the purpose of developing Pressure Management (PM) initiatives by tiers based on the range of production capacity.

- Tier 1 range covers flows up to 10 MGDs, with a count of 104 WTPs representing an average of 165 MGDs.
- Tier 2 covers WTPs with a range of 10 to 20 MGDs, with a count of 4 WTPs with an average production of 58 MGDs.
- Tier 3 WTPs with a capacity of 20 to 100 MGDs, with 4 WTPs representing 246 MGDs.

The VHCC initiative will start with the objective of impacting at least one pressure zone for 52 WFPs (50% of the Tier 1 WFPs) in the next 4 years, representing a cumulative production of 17 MGD. The initial plan involves impacting at least one pressure within each WFP, where at least 1 psi of pressure is reduced, with an expected water recovery of 1.7 MGDs. This plan would reduce 620 million gallons (MG) per year, with an expected cost impact of approximately \$0.62 million.

The VHCC unites technology (server, hydraulic model, database, hardware, human machine interface (HMI), and the human supervisory component). Pressure Management leverages on the VHCC to implement water recovery procedures based on hydraulic modeling, virtual district metered area (vDMA) development, and physical evaluations to produce recommendations for: PRV adjustments; PRV replacements; installation of new PRVs; and pumping system modifications.

Supplemented by GIS updates and field condition assessment exercises, the VHCC would serve three main purposes: (1) visualizing the “instantaneous” operation of pressure zones that are equipped with monitoring instrumentation; (2) providing a digital twin of pressure zones; and (3) simulating the operation of the pressure zone in response to planned adjustments. Further, the continued gathering of daily pressure and flow data (“big data”) and the analysis of this data using advanced hydraulics modeling will train the model to improve the simulation results.

The first phase of the implementation of the VHCC would rely on installation of field instruments (pressure and flow) within selected pressure zones. The WRO intends to install approximately 500 pressure sensors and tenths of flow metering components within existing PRVs to start developing the “big data” capability. Ultimately, the VHCC relies on data collected by advanced metering infrastructure (AMI) which is currently in the initial phases of implementation. The WRO is recommending installing 2,000 to 3,000 smart meters from the initial order within pressure zones that are currently in active analysis, condition assessment, and hydraulic modeling. This effort is also supplemented with plans to provide metering of water transfer between operational areas.

The two areas of active pressure management activity include the Patillas WTP system, specifically the Patillas Urbano Pressure Zone, and the water transfer from the Farallon WTP to the Second Phase Booster Pumping system of the Beatriz sector in Caguas. In these areas, WRO is:

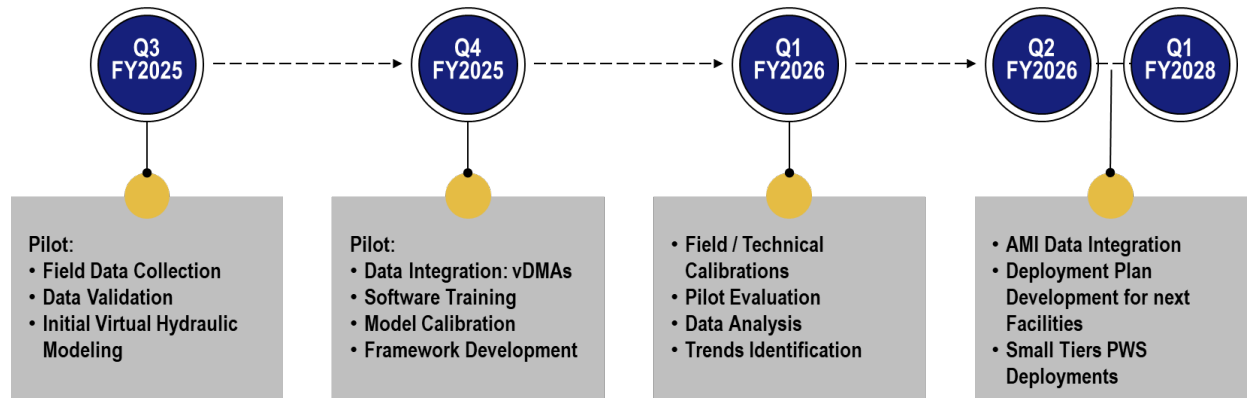
- Physically assessing of all components within the pressure zones
- Reviewing the assets within the GIS to include those missing
- Reconditioning and maintaining existing valves
- Reviewing locations to install sensors
- Developing hydraulic modeling and the virtual DMA

Simultaneously, WRO is working within the operational area of the municipality of Cayey studying the inclusion of the eight inter-regional and inter-operational water transfers. The WRO selected the water transfers within Cayey as they will provide the blueprint for the future inclusion of the VHCC on the four water filtration plants forming the Mega Tier on the Metro region.

The insights obtained from the analysis of the field data will guide adjustments in production on the specific WTP where the VHCC is being implemented. Tier 1 and Tier 2 consist of 108 WTPs, and they represent approximately half of PRASA’s total water production. The plan is to start the implementation from the WTPs and to cover initially at least 1 pressure zone per WFP first impacted. Afterwards, with lessons learned and the Cayey transfers implementation, WRO will be working on Tier 3, which represents the other half of the total production.

The VHCC project started at the end of FY2024. Future steps regarding VHCC are being included in Exhibit 3-10.

EXHIBIT 3-10: VHCC PROJECT STATUS



The first step of the VHCC was to produce the feasibility report and develop the implementation plan through the selected pressure zones by the end of calendar year 2024. The VHCC started within two of the 27 pressure zones in the Patillas Urbano PWS by revising the components (valves, hydrants, tanks, pump station) throughout these two zones and updating their information in GIS. Once the data was updated, flow and pressure tests were performed and the information obtained from these field activities is being used to develop the hydraulic model for these two pressure zones and establish the future locations of the data transmitting sensors.

Once the software is set and information gathered is transmitted by the sensors, the data will be analyzed to make system adjustments by combining fieldwork with tabletop analysis to anticipate any deviation from the optimal system pressures defined by the software.

This is a long-term project that will take several years to complete, and the final benefit will result in lower infrastructure repair needs and, in the long-term, lower production levels.

3.1.2.2.3 Leak Reduction Program

Water leaks are one of the main reasons for physical water losses. Leaks are the system’s “natural way” to control pressure. A new leak can easily appear after a previous one is repaired. Leaks are a continuous and recurring reality for any water system that must be addressed on a consistent basis. As such, the key to maintain adequate levels of pressure is to permanently install Pressure Reducing Valves (PRV) throughout the system. Leakage is directly dependent on pressure. The higher the pressure, the higher the leakage throughout the system. To control pressure, the system needs to be divided into smaller areas or District Metering Areas (DMAs). Chances of finding unreported leaks increase within an enclosed and controlled DMA, where flow, pressure, and frequency of leakage can be permanently measured. This will be possible once the AMI Project starts providing information on consumption and water pressure throughout the Island and its comparison with water production for such areas.

The NRW Plan is now oriented to activities that complement the Pressure Management water loss control pillar and go beyond the traditional leak detection and reduction efforts with the introduction of the VHCC. The VHCC serves as a holistic solution to operate in both a reactive and

proactive environment regarding “where the water goes.” The NRW Plan will provide the WRO with tools to:

1. Find leaks, support traditional leak activities by creating opportunities to establish new and more precise Point of Interest (POI).
2. Control leak levels by monitoring them through DMAs, vDMAs, and PMA.
3. Reduce production by evaluating the potable water system’s behavior to ensure a proper measurable and real distribution pattern without the ability to react to network changes.

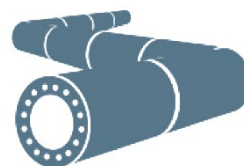
In principle, the estimated recovered water resulting from WRO efforts will eventually result in a water production reduction. However, since water production levels are affected by multiple variables, it is assumed that the ratio between water recovered, and production reduction is not 1:1.

Water leaks are one of the main reasons for physical water losses. Leaks can occur in transmission or distribution lines, tanks, and service connections up to the customer meter. An active leak detection program paired with prompt repair is an essential component for lowering and controlling NRW levels.

The three components of leakage include (1) reported, (2) unreported, and (3) background leakage. Reported leakage is the type which surfaces and is identified and called in to the utility for isolation and repair. Unreported is the type which does not surface, yet is detectable using existing leak finding technology such as acoustic listening equipment (which PRASA owns and utilizes). The third type is background leakage, which is the very small weeps and seeps that occur at joints and connections and is undetectable using acoustic listening technology.

The only way to reduce or eliminate background leakage is through pressure reduction or pipeline replacement. PRASA implemented several practices to reduce real losses, including a Pressure Management program, which reduces the amount of volume that leaks through the existing unreported and background leaks that exist, and an active Leak Detection program that searches for unreported leaks to isolate and repair them.

PRASA has entered into service contracts to identify leaks and prioritize underground infrastructure repairs and replacements. Specialized equipment will allow the identification of unreported leaks and the affected distribution pipelines allowing to prioritize emergency responses. The WRO is responsible for collecting field data on leak occurrences and guiding regional teams to make repairs.



For the past several years, WRO has been working proactively to identify unreported hidden leaks throughout PRASA’s five (5) regions.

WRO will continue to identify leaks throughout the regions using field brigades’ personnel and, with the implementation of the VHCC and the AMI Project, the system will provide real time flow or pressure variance information throughout the system allowing proactive identification of areas of interest, which in turn the field brigades will reduce to a Point of Interest (“POI”) and finally pinpoint the exact unreported hidden leak location.

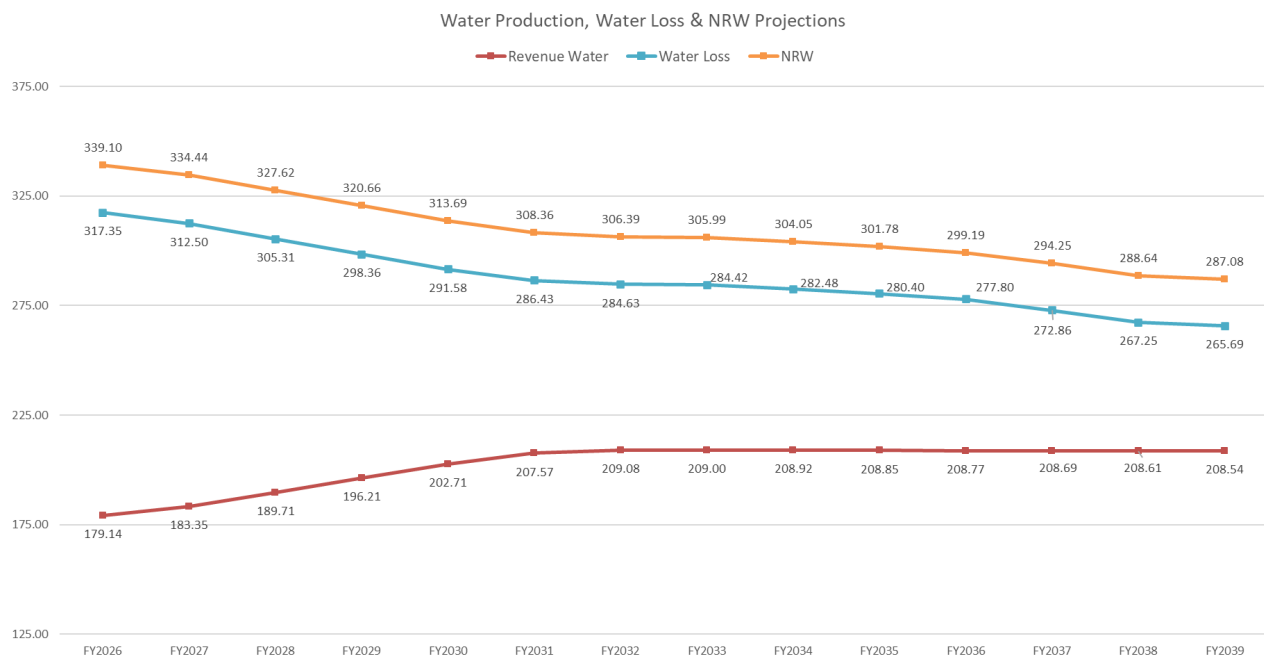
During the Fiscal Plan Period, an investment of around \$20 million in equipment, sound loggers, valves, sensors, and other hydraulic components is projected to provide the WRO with more tools, technology, and knowledge to keep improving current results.

3.1.2.2.4 Physical Water Loss Reduction Projected Financial Impact

During the Fiscal Plan Period, an investment of \$23 million in equipment, sound loggers, valves, sensors, and other hydraulic components is projected to provide the WRO with more tools, technology, and knowledge to keep improving current results. Additionally, PRASA will continue renewing and replacing pipes as needed and will address areas of high leakage frequency or require identified improvement to the distribution system, through its CIP with an investment estimated of over \$750 million during the Fiscal Plan Period, from FY2025 to FY2039. Taking into account the \$790 million for meter replacement (addressing commercial losses), and the annual renewal and replacement, PRASA expects to invest almost \$2 billion in NRW related projects and initiatives during the Fiscal Plan Period.

The chart included under Exhibit 3-11, presents the expected behavior on water loss reduction and increase in revenue water through FY2039. These projections may change materially, subject to the progress of the WRO initiatives, and the final impact of the AMI project in water consumption.

EXHIBIT 3-11: WATER LOSS AND NRW PROJECTIONS (IN MGDS)



3.1.2.2.5 Milestones and Action Plan

To effectively implement these NRW reduction measures, PRASA established specific goals for each fiscal year, which, until FY2032, are summarized in Exhibit 3-12.

EXHIBIT 3-12: GOALS FOR PHYSICAL WATER LOSS MEASURE (FY2026 TO FY2032)

	FY2026	FY2027	FY2028	FY2029	FY2030	FY2031	FY2032
<u>Master Meters (MM):</u>							
Installed / Calibrated Meter by year	20	8					
Additional Production Measured (in MGD)	10	9					
Measured Production (Accum %)	98.12%	100.00%					
<u>Pressure Management (PM):</u>							
New Pressure Zones Visits	83	84	85	85	86	86	87
Projected MGDs Recovery	1.9	1.9	1.9	2.0	2.0	2.0	2.0
<u>Leak Detection (LD):</u>							
Projected MGDs Recovery	13.1	13.2	13.3	13.4	13.5	13.6	13.7
Potential Annual Mile Coverage (miles)	988	988	988	988	988	988	988
Estimated Annual Leaks	274	274	274	274	274	274	274

Note: Recovered MGDs should not be interpreted as a direct reduction in water production.

Exhibit 3-13 lays out the actions required for timely and effective delivery of the overall NRW reduction measure.

EXHIBIT 3-13: ACTION PLAN FOR PHYSICAL WATER LOSS REDUCTION MEASURE

Action Item	Deadline	Owner
Define pressure zones to be optimized and monitored during FY2026	31-Jul-25	WRO
Complete a plan to achieve the leak detection goal for FY2026	31-Jul-25	WRO
FY2025 Water Balance Submission to the Oversight Board	31-Oct-25	WRO
VHCC Implementation Progress Report	31-Dec-25	WRO
Complete Master Meters calibration and installation goal for FY2026	30-Jun-26	WRO

3.1.3 New Financing for CIP

In addition to the funds obligated by FEMA and CDBG-DR, PRASA obtained or expects to obtain new financing for CIP from SRF and USDA-RD Programs.

After the modification of the Federal Debt, PRASA recovered access to new funding from SRF and USDA-RD Programs. Table 3-2 describes the two federal funding programs.

TABLE 3-2: FEDERAL FUNDING PROGRAMS

Program	Description
State Revolving Funds (SRF) Loans	Annual grants from USEPA of around \$30 million from DWSRF and CWSRF Programs.

Program	Description
	- Commonwealth match of 20% of annual grants provided by PRDOH and PRDNER. - Repayment Funds not committed may also be available through the assignment of new loans for qualifying projects without a state match requirement. - Additionally, BIL and SAHFI will grant new funding for water and wastewater infrastructure projects as described in Chapter 4.
Rural Development (RD) Program	- Based on qualifying projects, annual allocations for Puerto Rico are expected. - The funds are expected to be assigned through grants and loans.

As further detailed in Section 4.5, new funding was assigned recently under the BIL Act and the Consolidated Appropriations Act of 2023 to improve water and wastewater infrastructure in Puerto Rico, most of which is expected to be assigned for PRASA's projects. Table 3-3 presents the total available funds under these two appropriations and the estimated annual amount of the allocation.

TABLE 3-3: BIL AND SAHFI FUNDS (IN \$'MILLIONS)

Program	Funding	Category	Approx Annual Appropriation	Total Expected Appropriation
Bipartisan Infrastructure Law (BIL)	Emerging Contaminants (DWSRF)	100% grant	7.5	37.5
	Lead (DWSRF)	49% grant/51% loan	28.0	140.0
	Supplemental CWSRF	49% grant/51% loan	40.0	170.0
	Supplemental DWSRF	49% grant/51% loan	13.0	40.0
Supplemental Appropriation for Hurricanes Fiona and Ian (SAHFI)	SAHFI CWSRF	Grants/Loan Forgiveness/Negative Interest Loans		333.0
	SAHFI DWSRF			222.0
TOTAL BIL / SAHFI				\$ 942.5

PRASA's opportunities for funding are limited to the cost of qualifying projects and capped at Puerto Rico's share of the funds available through these programs.

The new funds expected to be assigned to PRASA under loans or grants are presented in the financial projections net of the expected debt service for the loan portion of such funds, calculated assuming 30-year loans at 1% for the SRF Program and 40-year loans at 4% for the USDA-RD Program. Table 3-4 presents the expected federal funding and corresponding costs during the Fiscal Plan Period.

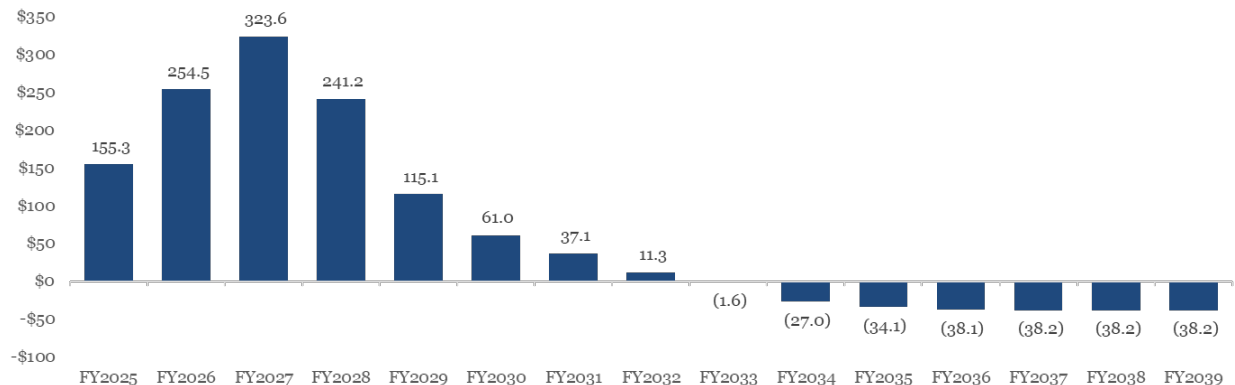
TABLE 3-4: EXPECTED FEDERAL FUNDING AND COST (IN \$ MILLIONS)

<i>in \$ Millions</i>	FY2025	FY2026	FY2027	FY2028	FY2029	FY2030	FY2031	FY2032
SRF Funds	152.6	245.9	295.5	236.7	124.0	73.3	51.1	35.3
RD Funds	4.8	18.1	44.1	26.6	19.4	19.8	20.0	11.3
SRF DS	(2.1)	(9.1)	(14.2)	(18.5)	(23.6)	(26.3)	(27.3)	(27.8)
RD DS	-	(0.4)	(1.8)	(3.6)	(4.8)	(5.7)	(6.7)	(7.5)
New Federal Funds, Net	155.3	254.5	323.6	241.2	115.1	61.0	37.1	11.3

<i>in \$ Millions</i>	FY2033	FY2034	FY2035	FY2036	FY2037	FY2038	FY2039	FY25/39
SRF Funds	30.2	9.9	3.5	-	-	-	-	1,258.0
RD Funds	4.4	-	-	-	-	-	-	168.4
SRF DS	(28.3)	(28.8)	(29.6)	(30.0)	(30.1)	(30.1)	(30.1)	(356.1)
RD DS	(7.9)	(8.0)	(8.0)	(8.0)	(8.0)	(8.0)	(8.0)	(86.7)
New Federal Funds, Net	(1.6)	(27.0)	(34.1)	(38.1)	(38.2)	(38.2)	(38.2)	983.7

A total of \$1.4 billion of additional SRF and RD funds are projected to be received during the Fiscal Plan Period with a net impact after debt service, when applicable, of \$984 million as presented in Exhibit 3-14.

EXHIBIT 3-14: NET IMPACT OF PROJECTED NEW FEDERAL FUNDS MEASURE (IN \$ MILLIONS)



The projections included herein may change based on the projects and progress of federally-funded capital improvements and annual funding appropriations and availability.

Exhibit 3-15 outlines the key action items for successful and timely delivery of this measure.

EXHIBIT 3-15: ACTION PLAN FOR NEW FINANCING FOR CIP

Action Item	Deadline	Owner
Execute Financial Assistance Agreement for new CWSRF funds – FY2023 Appropriations	30-Jun-25	Finance
Execute Financial Assistance Agreement for SAHFI funds – DWSRF	31-Jul-25	Finance
Execute Financial Assistance Agreement for new DWSRF funds – FY2023 Appropriations	31-Oct-25	Finance
Execute Loan or Grant Agreements for USDA RD funds (as needed)	TBD	Finance

3.2 Enabling Measures

Beyond the measures discussed above, PRASA is developing additional measures with the goal of achieving organizational optimization to properly and adequately maintain and operate the System and ensure efficient and timely CIP delivery. The enabling measures are the following:

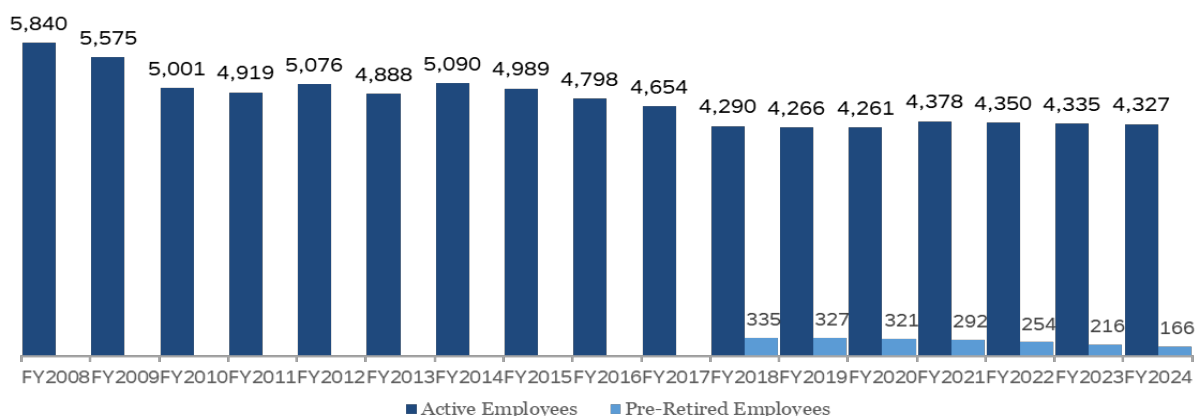
- **Organization Optimization and Efficiency:** optimizing organization through proper staffing, increasing efficiency, and motivating and retaining valuable, and high performing resources.
- **CIP Delivery:** revitalizing infrastructure, executing capital projects on-time and on-budget, while leveraging Federal funding for recovery and reconstruction projects stemming from the 2017 Hurricanes, Hurricane Fiona in 2022, earthquakes and aging water and wastewater system infrastructure (BIL Act and SAHFI).
- **Master Plan:** providing guidance for PRASA future capital projects and priorities.
- **Asset Management:** effectively managing and maintaining PRASA's facilities and equipment.
- **Chemical Expense Stabilization:** optimizing chemical dosing to reduce costs and waste on PRASA water and wastewater treatment plants.
- **Procurement Best Practices:** enhancing procedures and regulations that ensure a transparent competitive process for the acquisition of goods, works, and non-professional services.

3.2.1 Organization Optimization and Efficiency

Since FY2008, the Authority has experienced a headcount reduction of over 20% of its personnel. In part, this reduction was accelerated between FY2016 and FY2017 with over 300 employees accepting the terms of the Pre-Retirement Program¹⁷. As part of the program, participants do not render any services to the Authority despite being on the payroll.

¹⁷ Incentives include: 60% payment of average salary, payout of unused vacation and sick days (as per Act 66-2014), and maintaining health insurance coverage for a term of two years. These incentives are applicable to pre-retired employees and payable by PRASA until the eligible employee reaches full retirement age under ERS's rules.

EXHIBIT 3-16: PRASA HEADCOUNT FY2008-FY2024



During FY2021, PRASA engaged an external consultant to perform a labor capacity and productivity assessment study to determine PRASA’s optimal staffing levels. In January 2022, the consultant presented its final recommendations. The study found (including amendments to incorporate updates on Customer Service and Infrastructure Departments), a need of around 5,000 employees. PRASA’s headcount as of June 30, 2024 was 4,493, of which 166 employees were under the Pre-Retirement Program. Based on the initiatives PRASA is currently implementing, the optimal headcount is expected to be lower than established in 2022 by approximately 300 employees. PRASA expects to reach its revised optimal headcount level of 4,700 FTEs by FY2029 and to maintain it at that level afterwards, as presented in the Table 3-5 below.

TABLE 3-5: HEADCOUNT PROJECTION

	2025	2026	2027	2028	2029
Base Employees (Dec 31, 2024)	4,262	4,262	4,262	4,262	4,262
PreRetired Employees	150	124	82	53	30
Total Base + PreRetired	4,412	4,386	4,344	4,315	4,292
Accum Net Additions	88	164	256	335	408
Employees by the end of FY	4,500	4,550	4,600	4,650	4,700
Annual Additions	88	76	92	79	73

PRASA expects to gradually increase its headcount by:

- Recruiting key technical and operating personnel, such as plant operators, electro-mechanics, and other workers for operations.
- Progressively recruiting personnel for positions left open as the pre-retired employees reach full retirement age.
- Filling headcount needs in the Infrastructure and Compliance Departments, among others.

PRASA’s recruitment will be prioritized based on position criticality and System needs. Additionally, the AMI Project is expected to result in shifting some functions of customer service employees to other areas based on the needs of the Authority.

3.2.1.1 Competitive Compensation

To maintain a motivated and efficient workforce, during FY 2023 PRASA reviewed its pay scales and implemented incentives for some critical operating positions, such as plant operators and electro-mechanics. An additional in-depth review and update to the pay analysis was completed in November 2024, to align the pay scales, when and if possible and necessary, with the OATRHS pay scales (following the Government Civil Service Reform) or other representative comparable data such as the salaries published by the AWWA, ERI, or BLS. The proposed Job Classification Plan and an updated Compensation Plan is under review by the Oversight Board to then be discussed and negotiated with the unions prior to implementation.

Based on a preliminary analysis, the incremental costs of this review were incorporated in the financial projections included in this Fiscal Plan starting in FY2026. The final analysis is expected to result in proper and competitive compensation levels for Authority employees. After final review and approval of the pertinent parties, the final impact of the new Compensation Plan will be reviewed and amendments to the Fiscal Plan projections included herein may be required.

3.2.1.2 Efficiency

Improving personnel performance is important, not only to maintain compliance with increasing regulatory and investment requirements, but also to efficiently tend to customers' demands, including shorter response times at minimal cost. However, the changing demographics and high demand in the labor market, among other factors, have made it difficult to identify skilled personnel.

To that end, improving workforce management through the inclusion of digitalization and automation tools, and measuring personnel efficiency are essential for addressing current personnel challenges proactively.

Certain projects like AMI and automation/technology projects are expected to result in increased productivity and maximization of available resources by adding value functions. The use of mobile data terminals (MDTs) should likewise result in increased productivity.

PRASA is designing an evaluation system geared towards assisting the Authority to track and analyze employees' productivity in the workplace by identifying strengths and areas for improvement and providing constructive feedback. In summary, the objective is to develop employees' skillset through direct and honest constructive feedback from supervisors. This should also have the added benefit of not only improving but also encouraging effective manager-employee engagement.

The new system will be implemented with a calibration process aimed at making reviews fair and consistent across managers, supervisors, departments (when applicable), and even job levels. Generally, a calibration process entails a multi-evaluator appraisal, which provides a comprehensive view of an employee's performance. Specifically, it includes employees' self-assessments, while also gathering anonymous feedback on employee performance from their inner circle, including fellow peers, subordinates (when applicable), and managers. This approach ensures that every employee receives feedback that is both fair and designed to support their growth at PRASA.

Accordingly, this new system should be helpful with the organization's retention goals as well as the transfer of knowledge to employees in new roles or newly hired employees.

It should be noted that PRASA currently uses a manual evaluation system for performance reviews of employees during their initial probation period and for temporary workers under contract. Specifically, these evaluations take into account performance measures such as:

productivity, efficiency, knowledge of work, ability to learn, assistance, reliability, integrity, sociability, cooperation, and proactivity or creativity.

PRASA aims to switch from traditional, manual employee performance evaluations to an automated performance evaluation system that standardizes the review process, ensures recurrent performance reviews, improves employee satisfaction, and increases productivity.

The use of technology in combination with the evaluation system and tracking metrics such as absenteeism and overtime should result in increased efficiency and productivity of PRASA's workforce.

3.2.1.3 Action Plan for Human Resources Measures

The main milestones to implement this measure are presented in Exhibit 3-17.

EXHIBIT 3-17: ACTION PLAN FOR HUMAN RESOURCES MEASURES

Action Item	Deadline	Owner
New Job Classification Plan and Updated Compensation Plan Oversight Board approval	30-Sept-25	Oversight Board
New Job Classification Plan and Updated Compensation Plan negotiation with unions	Subject to Oversight Board Approval	Human Resources
New Job Classification Plan and Updated Compensation Plan implementation	Subject to Plans Negotiation	Human Resources
Workforce evaluation system implementation	31-Jul-26	Human Resources

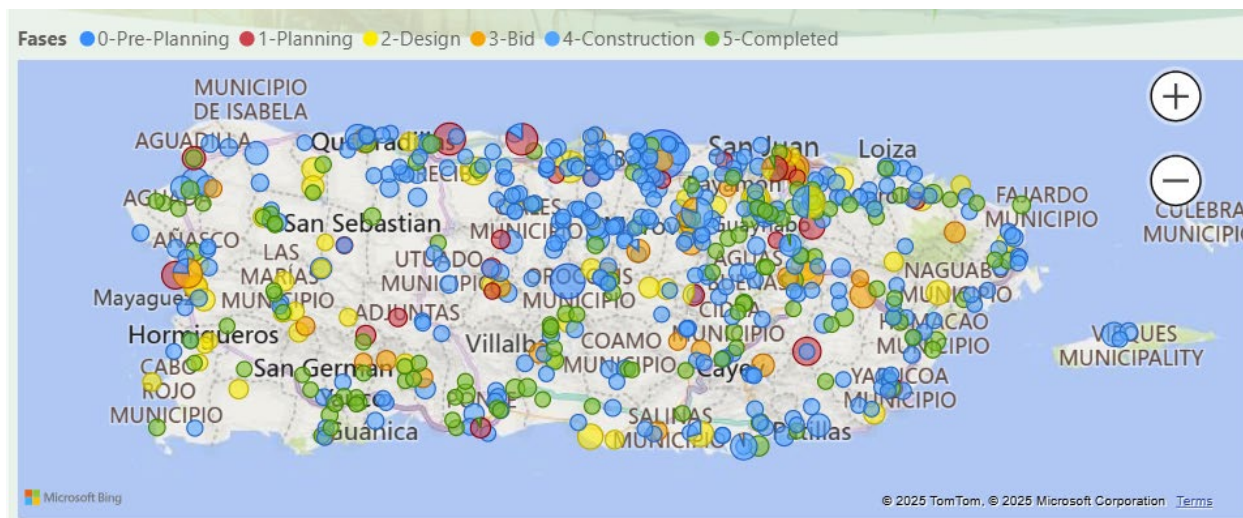
3.2.2 CIP Delivery

A timely and budget conscious execution of the CIP is essential in order to take advantage of the multibillion-dollar grants and other funding available for recovery and reconstruction projects following the 2017 Hurricanes and 2022 Hurricane Fiona, and to improve an aging water and wastewater infrastructure.

The total CIP consists of over 500 identified projects with an estimated investment of \$11.7 billion during the Fiscal Plan Period. Currently, PRASA has active projects across the Island as presented in Exhibit 3-18.



EXHIBIT 3-18: ACTIVE PROJECTS BY REGION



The work needed to complete the projects and their level of investment, from their planning phase to completion, requires both internal and external personnel. For such purposes the Infrastructure Department structure has been redefined, updated, and provided with external support from major multinational engineering firms currently under contract.

With the changes to the infrastructure structure in place, please refer to the 2024 Certified Fiscal Plan for more details, covering the required positions for the department, and with the support of the project management consortiums (“PMCs”), PRASA expects to successfully deliver an aggressive CIP to maximize available funding and revamp Puerto Rico’s water and wastewater infrastructure.

Project Management Consortiums

Following an RFQ/RFP process, PRASA selected and contracted with four firms to serve as a PMC and assist the Authority in the execution of its CIP. The contracted firms are Black & Veatch Puerto Rico PSC, CH Caribe Engineers PSC (now Jacobs Caribe Engineers P.S.C.), Arcadis Caribe PSC, and CSA-Louis Berger JV, LLC (now CSA Architects & Engineers, LLP & WSP Puerto Rico PC).

Partnering with the PMCs allows PRASA to focus on project administration and financing with the PMCs supporting the design through construction phases.

CIP Execution Tracking

Through a CIP tracking tool, PRASA tracks CIP execution by looking at established project metrics and monitoring compliance and execution of the capital works. Moreover, PRASA implemented a new module in SAP (its enterprise operating system) to enable the review and update of its current tracking tool to enhance compliance with expected execution schedules and costs.

The established metrics allow for high level planning and management of the CIP, while the tracking tool provides a detailed tracking of CIP compliance against what was planned.

Typically, the construction phase includes the highest potential for deviations in cost and time. To maintain control of this phase, PRASA keeps a monthly tracker of two industry standard KPIs:

- **Cost Performance Index (“CPI”):** Measures the cost efficiency of resources committed to the project, evaluating whether the project will be completed on budget.

- **Schedule Performance Index** (“SPI”): Measures the relationship between the earned value of the executed work versus the planned work, assessing whether the project will be completed on time.

3.2.3 Master Plan

Approximately every ten years, PRASA updates its Water and Wastewater Master Plan. PRASA’s most recent update to its Master Plan (the “2024 Master Plan”) was completed on April 30, 2024.

The 2024 Master Plan provides PRASA with an implementation roadmap that addresses the challenges included in Section 1.6 of this Fiscal Plan, while also preparing for future conditions. The 2024 Master Plan refines the alignment with utility infrastructure needs and the long-term CIP, setting the basis for achieving long-term system reliability, and ensuring the Island’s water and wastewater is clean, affordable, and safe.

PRASA’s CIP includes targeted investments to increase water availability and reduce reliance on overburdened aquifers. Puerto Rico has 36 reservoirs, of which 22 serve as the Island’s main drinking water sources. While PRASA owns and operates 6 of these reservoirs, 13 are operated by PREPA and 3 by PRDNER — from which PRASA purchases raw water for potabilization. Surface water sources, including reservoirs, rivers, and irrigation channels, supply nearly 90% of PRASA’s treated water, with the remaining 10% provided by approximately 250 active wells. To enhance long-term water security, the CIP includes key initiatives such as the construction of the Valenciano Reservoir, Carraizo dredging, expansion of the SuperAqueduct, the Bauta Tunnel, and the development of new treatment plants. These projects are expected to increase the available supply by over 50 MGD and reduce groundwater extraction, particularly in regions facing saltwater intrusion and aquifer degradation.

The 2024 Master Plan focused on the following key assessments:

- **Water Demand Satisfaction:** Assessment considering water supply resources and projections aligned with the projected water demand, providing guidance on priority areas, insights into alternatives to evaluate efforts to reduce non-revenue water (NRW) and identify opportunities to transfer surplus water to areas experiencing water deficits.
- **Infrastructure and Water Supply Resilience Evaluation:** Identifying relevant climate change stressors for PRASA’s System and a roadmap to increase the resiliency of its infrastructure as well as to ensure sustainable and long-term water supply.
- **Wastewater balance evaluation:** Identifying treatment needs and prioritizing infiltration and inflow control to optimize Capex and Opex, and exploring opportunities for consolidating wastewater treatment facilities, building on the efforts previously identified by PRASA.

In addition to the assessments listed above, the 2024 Master Plan also included additional assessments of PRASA’s Drinking and Wastewater Systems such as Water Treatment Plants (WTP) and Wastewater Treatment regulatory compliance, WTP sludge treatment system assessment, water storage tank assessment, and biosolid management strategies review.

CIP Update

PRASA's CIP projects, as recently approved by the Governing Board, was updated in accordance with the 2024 Master Plan recommendations, aligning the System's needs and the resources availability. PRASA evaluated the recommended projects under the Amster Plan case by case to determine which were not addressed under the CIP. Only certain studies recommended in the Master Plan were not included, such as the Regional Surface Water's Safe Yield studies update. These studies will be included subject to the approval of mitigation funds for such purposes. PRASA continuously evaluates its CIP and additional projects may be included in the future subject to the System needs, priorities and funding availability.

3.2.4 Asset Management

An asset management program is a systematic approach to managing an organization's assets throughout their lifecycle to maximize value and minimize risks. It involves planning, developing, and implementing strategies for acquiring, using, maintaining, upgrading, replacing and disposing of assets in a cost-effective manner.

Asset management provides guidance on scheduling O&M tasks and determining when to replace versus repair assets to minimize service interruptions.

PRASA expects to gradually shift to a program that emphasizes systematic, data-driven, and preventive assets maintenance to maximize asset life, reduce operating and capital expenditures, enhance security and safety, and shorten response times for maintenance and repair needs.

Adequate metrics, coupled with up-to-date cost data, will enable the Maintenance Department to make more informed, data-driven decisions on whether to repair or replace underperforming or failing assets.

A third-party consultant recently completed an evaluation of PRASA's current Asset Management policies and practices, issuing a technical memorandum with its findings and recommendations.

A gap analysis was included in the report comparing PRASA AM competency and best industry practices. Undertaking the AM gap assessment was a crucial initial step for PRASA to identify strengths and areas needing improvement in its current AM practices.

Asset Management Roadmap

The consultant has identified high-level initiatives to bridge the gap between PRASA's current AM practices and a state of competency, considering the strengths and weaknesses identified. PRASA executive management prioritized the consultant recommendations based on resources and organization maturity as included in the roadmap presented in Exhibit 3-19.

EXHIBIT 3-19: ASSET MANAGEMENT ROADMAP

Deliverable	2Q'24	3Q'24	4Q'24	1Q'25	2Q'25	3Q'25	4Q'25	1Q'26	2Q'26
1. Governance and AM Policy									
2. Strategic Assets Management Plan									
3. Vertical Assets Design and Pilot Runs									
4. Linear Assets Process Design									
5. Linear Assets Pilot Runs									

6. AM Prioritization and Capital Planning									
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Asset Management Achievements and Progress

The activities completed under the Assets Management Roadmap include

1. SAP System Enhancement – PRASA has enhanced its current enterprise platform in order to take advantage of data and history of organization assets.
2. AM Governance Board creation – Executive Management officially assigned a multidisciplinary team to help put together a formal process to execute and monitor the program progress. The AM Governance Board has recurrent meetings and defined workstreams with business owners and key players within the assets Lifecycle.
3. Assets Management Policy – To ensure alignment with organization objectives, a policy has been drafted explaining how the program fits the organization needs. This policy confirms PRASA’s executive management’s commitment to strengthen assets analysis and to develop a culture and conscience of monitoring and planning equipment replacement and therefore reducing impact to services provided as a result of asset breakdowns.
4. Strategic Assets Management Plan (SAMP) – The SAMP was developed with the objective of capturing and following a standard methodology to monitor and analyze the condition of selected key assets. SAMP includes program structure, scope, execution, risk analysis, communication process, as well as a process to monitor program evolution and continuous improvement. A lower-level AMP will be defined for assets under the AM program scope, which are currently vertical and linear Assets.
5. Vertical Assets Pilots – PRASA monitors its vertical assets through the SAP PM Platform which contributes to the analysis of the assets through maintenance and repairs work orders. Various facilities were selected to run a pilot and iterations were made on different scenarios where the team has identified areas of opportunity associated with data availability, interdepartmental connections, and missing process controls within the lifecycle. These observations are being addressed in various workstreams to continue tailoring the program.

Next Steps

The Assets Management program will continue to build its foundation by considering lessons learned in the pilot runs and improving original design while working on process ownership with different departments. As part of this evolution, PRASA recognizes the need to systematically plan for the replacement of capital assets based on their condition and expected useful life. This requires not only evaluating the asset condition, but also anticipating asset deterioration and performance decline as well as the available financial resources to allocate funds for renewal and replacement projects. Aligning the replacement needs with long-term capital investment planning is essential to ensure infrastructure reliability and service continuity. To support this long-term planning PRASA must also conduct an assessment—to determine the annual capital investment

needed to maintain the system in a state of good repair and at water industry-standards. This assessment is essential to ensure PRASA can make informed, data-driven decisions regarding future capital, operational, and maintenance needs and the revenues required to support these needs, particularly as federal funds may be reduced or no longer available for future use. The AM Governance structure will help in monitoring and completion of each of the activities to be addressed in this term which are summarized as follows:

1. Workshops for identified gaps to determine the optimal process to follow. Focused workshops will include operational activities, system improvements, people, and change management.
2. Vertical Assets Management Process Deployment - To identify additional facilities for each operational region and to assess key assets based on aging and condition.
3. Linear Assets Program – In depth analysis of linear asset needs to be reviewed as they are being monitored differently from vertical assets. Currently users continue to update the GIS mapping that eventually will support Assets Management features. A pilot run will be designed and tested to determine possible approach to take decisions on linear assets.
4. Link Assets Management to the CIP planning and other programs– To consider the impact capital projects and other initiatives will have on the Assets Management Program. Examples of initiatives or investments with impact in the AM program are, among others:
 - a. Emergency Generators Acquisition – Including the need of a detailed inventory and maintenance program by asset.
 - b. Pressure Management Program – Including the inventory of all pressure valves updating critical attributes and parameters.
 - c. Fleet and equipment purchases – Including the need of a detailed inventory and maintenance program by asset.

Continuous monitoring of tasks and organization engagement will be assured by the AM Governance Board, which is also responsible of complying with the Action Plan included in Exhibit 3-20.

EXHIBIT 3-20: ACTION PLAN FOR ASSET MANAGEMENT MEASURE

Action Item	Deadline	Owner
Vertical Assets Deployment Plan	31-Dec-25	AM Governance Board
Linear Asset Pilot Completion	31-Mar-26	AM Governance Board

3.2.5 Chemicals Expense Stabilization

Chemical expenditure is PRASA's fourth largest operating expense. Despite PRASA's efforts to reduce overall chemical costs through non-capital-intensive initiatives such as enhanced chemical usage, rising input costs associated with chemical production coupled with heightened compliance requirements for water quality, have precluded PRASA from generating savings.

The recent sharp increase in chemical costs is driven primarily by market factors, including supply and demand, which are beyond PRASA's control. However, PRASA continues to work on options to change chemical consumption at its plants in search of savings while ensuring water quality and compliance with environmental regulations.

PRASA awarded a contract to a technical consultant for the evaluation of the chemical dosage process to identify areas of opportunity. The benefit of such initiative, if any, cannot be determined at this time and therefore no benefits are projected herein. If the evaluation results in the identification of potential benefits, PRASA must then evaluate potential measures to be included in future Fiscal Plans.

Exhibit 3-21 outlines the high-level action plan to address chemical expense stabilization.

EXHIBIT 3-21: ACTION PLAN FOR CHEMICAL EXPENSE STABILIZATION

Action Item	Deadline	Owner
Results for Phase 1 of the evaluation of current chemical management practices	30-Jun-25	VP of Operations
Results for Phase 2 of the evaluation of current chemical management practices	31-Jul-26	VP of Operations
Complete assessment and report to the Oversight Board on areas of opportunity with potential benefits	30-Sep-26	VP of Operations
Develop strategies for implementation as recommended in the consultant's report	31-Dec-26	VP of Operations

3.2.6 Procurement Best Practices

PRASA's procurement procedures, as currently established and enforced, are designed to allow for a transparent and competitive process. PRASA purchasing procedures (procedure 400 for regular purchases and procedure 399 for emergency purchases) have been updated in 2020 and aligned with Act 73-2019 known as "*General Services Administration Act for the Centralization of Purchased of the Government of Puerto Rico*" ("Act 73") dispositions. From a regulatory perspective, in April 2021, the Puerto Rico General Services Administration ("PRGSA") approved PRASA's procurement procedures on a provisional basis, pending a final determination by the agency.

All contracts for goods, works, and non-professional services at PRASA are the result of a competitive process, except for goods or non-professional services with exclusive suppliers or providers and some emergency purchases. Competitive bidding in government contracting is an optimal way to avoid instances of and the appearance of favoritism, improvidence, fraud and corruption in government.

When applicable, and based on market data availability, an internal process to obtain market indicative prices for cost estimates is followed and documented and based on the outcome of such analysis some contracts for goods or services which originally followed a competitive process may be extended or renewed to ensure the lowest cost possible to the Authority and avoid negative budgetary impacts.

There are also currently two proposals for legislation to modify Act 73 applicability, which can in turn result in the requirement of adjustment to purchase procedures. Subject to the outcome of PRGSA determination and the future of such proposed legislation (including the determination by the Oversight Board that such legislation is compliant with PROMESA and does not frustrate its purposes), PRASA will then commence the process to review its purchasing procedures as applicable and to review and update its current bid regulation. At that time, and to better document those instances in which PRASA awards contracts without a new competitive process, PRASA plans to incorporate in its procedures the steps to determine the most cost-effective decision regarding renewing a contract under a prior competitive process or to start a new competitive process based on PRASA's best interests. PRASA's competitive procurement procedures must not be modified to permit no-bid contracts beyond what may be currently permitted.

3.3 Summary of Proposed Measures

A summary of the projected net benefit from the New Measures is set forth in Table 3-6.

TABLE 3-6: NEW MEASURES PROJECTED BENEFIT (IN \$ MILLIONS)

<i>in \$Millions</i>	FY2025	FY2026	FY2027	FY2028	FY2029	FY2030	FY2031	FY2032
Rate Adjustment	-	20.9	44.4	68.4	92.9	117.9	143.3	169.1
AMI Incremental Revenues	-	2.6	15.4	35.3	56.5	78.5	96.0	102.9
Electricity Savings	-	-	-	3.6	3.5	13.7	13.6	14.5
AMI Impact in OpEx	-	(2.4)	(3.9)	(3.3)	(2.0)	(1.1)	1.6	4.4
Federal Funds, Net	155.3	254.5	323.6	241.2	115.1	61.0	37.1	11.3
Impact in OH and ORF	-	0.1	0.1	(0.0)	(0.0)	(0.3)	(0.4)	(0.5)
Measures Benefit	155.3	275.7	379.6	345.3	266.1	269.6	291.1	301.7

<i>in \$Millions</i>	FY2033	FY2034	FY2035	FY2036	FY2037	FY2038	FY2039	FY25/39
Rate Adjustment	195.3	222.0	249.1	276.5	304.4	332.6	361.2	2,598.1
AMI Incremental Revenues	104.7	106.4	108.2	110.0	111.8	113.7	113.7	1,155.7
Electricity Savings	16.2	17.1	18.2	18.9	19.7	21.6	21.1	181.6
AMI Impact in OpEx	4.6	4.7	4.9	5.1	5.2	5.4	5.4	28.6
Federal Funds, Net	(1.6)	(27.0)	(34.1)	(38.1)	(38.2)	(38.2)	(38.2)	983.7
Impact in OH and ORF	(0.6)	(0.6)	(0.6)	(0.6)	(0.7)	(0.7)	(0.7)	(5.7)
Measures Benefit	318.6	322.6	345.6	371.8	402.3	434.4	462.5	4,942.0

3.4 Post-Measures Financial Projections

Implementation of the measures outlined in this Chapter will allow PRASA to improve both its financial and operational situation.

Table 3-7 presents the Post-Measures Financial Projections during the Fiscal Plan Period.

TABLE 3-7: POST-MEASURES FINANCIAL RESULTS (IN \$ MILLIONS)

<i>in \$Millions</i>	FY2025	FY2026	FY2027	FY2028	FY2029	FY2030	FY2031	FY2032
Authority Revenues	1,177.4	1,213.7	1,238.8	1,270.9	1,309.8	1,355.2	1,395.3	1,424.2
Senior Debt Service	(245.7)	(255.7)	(261.0)	(267.8)	(273.8)	(302.3)	(304.2)	(305.5)
Net Operating Expenses	(870.2)	(904.9)	(933.7)	(938.4)	(956.7)	(965.5)	(980.6)	(1,003.8)
Operating Reserve Fund	(8.5)	-	-	-	-	-	-	-
Capital Improvement Fund	(52.8)	(52.7)	(43.8)	(64.3)	(79.0)	(87.1)	(109.7)	(114.7)
Financial Result	0.1	0.4	0.4	0.4	0.4	0.4	0.8	0.2

<i>in \$Millions</i>	FY2033	FY2034	FY2035	FY2036	FY2037	FY2038	FY2039	FY25/39
Authority Revenues	1,447.4	1,470.1	1,492.4	1,513.7	1,535.4	1,557.2	1,577.5	20,979.1
Senior Debt Service	(306.4)	(307.1)	(279.9)	(280.3)	(280.4)	(280.6)	(280.5)	(4,231.2)
Net Operating Expenses	(1,025.2)	(1,044.3)	(1,071.2)	(1,092.1)	(1,114.0)	(1,146.3)	(1,164.5)	(15,211.2)
Operating Reserve Fund	-	-	-	-	-	-	-	(8.5)
Capital Improvement Fund	(115.5)	(118.5)	(140.7)	(140.7)	(140.7)	(130.2)	(132.0)	(1,522.3)
Financial Result	0.4	0.3	0.6	0.6	0.3	0.0	0.6	5.9

In summary, the projections included herein reflect a balanced budget for each year of the Fiscal Plan Period, consistent with PROMESA Section 201(b)(1)(d). The projections ensure proper maintenance of the System and provide for continued, gradual improvement of PRASA's financial condition, as the full benefits of proposed measures are realized by the end of the Fiscal Plan Period.

4 Federal Funds for Disaster Recovery and Resiliency

As a result of the damage to PRASA's infrastructure caused by the 2017 Hurricanes, 2020 Earthquakes, and Hurricane Fiona, among other natural events, the Authority qualified for federal funding for infrastructure projects including disaster recovery efforts and mitigation projects. This federal funding is further described in this Chapter.

PRASA has received federal grants aimed at disaster relief and hazard mitigation covering reconstruction, recovery, environmental protection, and enhancing infrastructure. While this influx of funds has been instrumental in ensuring the continuity of PRASA's services for the residents of Puerto Rico, it has also introduced a substantial risk of the dependency on federal funds that may require replacement by other sources. The current uncertainty surrounding the continuity of federal funding for state, local, and territorial entities means that PRASA could potentially lose federal support for ongoing and planned projects. This evolving fiscal landscape may require a thorough assessment of the potential impacts of a reduction of inflowing federal funds on PRASA and the development of a robust contingency strategy.

4.1 Disaster Recovery Programs Overview

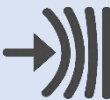
PRASA's main sources of federal funding identified for disaster recovery are: (1) FEMA's Public Assistance (PA) and Hazard Mitigation (HMGP) Programs; (2) HUD's Community Development Block Grant – Disaster Recovery (CDBG-DR) and Mitigation (CDBG-MIT) Programs; and (3) EPA and RD supplemental or special programs.

FEMA's Emergency and Permanent Work Program:

Under the Robert T. Stafford Disaster Relief and Emergency Assistance Act (SA), PRASA receives FEMA funds through COR3, the officially designated recipient of the Federal grant funding. COR3 was created to ensure adequate management and use of federal funds for Puerto Rico's recovery and reconstruction. FEMA's Public Assistance Program addresses both emergency work (e.g., debris removal and emergency protective measures), and permanent work (e.g., post-

disaster reconstruction of the Authority's System to current industry standards). In addition, FEMA's Hazard Mitigation Grant Program (HMGP) provides funding to improve resiliency for facilities not damaged by a declared disaster.

The Community Development Block Grant (CDBG) Program: Provides annual grants on a formula basis to states, cities, and counties to develop viable urban communities by providing

Type of Works	Relevant Legislation
Emergency Work 	Section 403 of SA (Cat A&B)
Permanent Work 	Section 406 of SA (Cat C-G) Section 428 of SA (Cat C-G)
Hazard Mitigation 	Section 406 of SA (PA HM) Section 404 of SA (HMGP) Section 20601 of BBA

housing and a suitable living environment, and by expanding economic opportunities, principally for low- and moderate-income people. The program is authorized under Title 1 of the Housing and Community Development Act of 1974, Public Law 93-383, as amended 42 U.S.C. 5301 et seq.

The **CDBG-Disaster Recovery** (DR) and **CDBG-Mitigation** (MIT) are one-time federal appropriations made after natural disasters to assist communities by providing housing and a suitable living environment and expanding economic opportunities, principally for low- and moderate-income people.

4.2 FEMA’s Public Assistance and Hazard Mitigation Programs

4.2.1 Emergency Work

Under the Public Assistance Program, FEMA is authorized to provide funding for Emergency Works¹⁸, including emergency protective measures and debris removal. Emergency Works are performed immediately after a disaster to:

- Save lives;
- Protect public health and safety;
- Protect improved property; and
- Eliminate or lessen an immediate threat of additional damage.

Emergency Work is comprised of work that addresses two types of immediate threats: Category A for debris removal, and Category B for emergency protective measures.

4.2.2 Permanent Work

Funding for permanent work is available for projects to repair or restore the infrastructure to pre-disaster design, function, and capacity in accordance with codes or standards. This work is typically completed under Section 406 of the SA, which requires project worksheets to be submitted by qualifying sub-recipients for qualifying work. If the repairs or restoration is under the Alternative Procedures Program (Section 428 of the SA), FEMA funds all large permanent work projects based on fixed cost estimates. This is applicable to projects submitted under Hurricane Maria and could include other projects in other declared events if PRASA chose to enter the Alternative Procedures Program.

In light of the damage caused by the 2017 Hurricanes, the Bipartisan Budget Act of 2018 (BBA) allows FEMA to provide assistance to restore the disaster-damaged facilities to current industry standards without regard to pre-disaster conditions.

FEMA may approve projects developed based on codes and standards that are widely accepted and used, or best practices that are generally accepted by experts in the industry as long as standards are reasonable. The BBA allows for the repair or replacement of components not damaged by the disaster if the work connected to those components is required to restore the critical service function of the facility or system to an approved industry standard or standards. The pre-disaster condition of damaged or undamaged components is not a factor in determining the eligible scope of work.

¹⁸ 44 CFR § 206.201(b).

PRASA, FEMA, and COR3 worked collaboratively to adequately define the full need for reconstruction projects after the 2017 Hurricanes, size the cost estimates, and determine an efficient way of disbursing and utilizing pertinent federal funding to reconstruct the System.

On January 5, 2021, the President of the United States announced a total award of \$4.1 billion for infrastructure projects to rebuild the System from the devastation caused by the 2017 Hurricanes. The total amount obligated for permanent work projects has been agreed to by PRASA, COR3, and FEMA pursuant to the FAASt program. This obligation of funds from FEMA does not constitute an authorization for construction, and each project must be submitted to FEMA for eligibility determination and formulation.

From the total award, FEMA will provide 90% or \$3.7 billion and PRASA must identify the remaining 10% of state match, which were obligated for the benefit of PRASA under the CDBR-DR program.

As a requirement associated with this funding obligation, FEMA and COR3 required PRASA to submit a work plan (called PRASA's FAASt Workplan) within 90 days of the funding obligation date. PRASA submitted the initial work plan on April 8, 2021, outlining PRASA's proposed investments in its System over the next ten years. The Authority has been updating and submitting the work plan to COR3 and FEMA every 90 days, as required by FEMA.

4.2.3 *Public Assistance Hazard Mitigation (Section 406 of the SA)*

Section 406 mitigation measures are funded under the Public Assistance Program. This program provides funding for cost-effective measures that would reduce or eliminate the threat of future similar damage to facilities previously damaged by a disaster. Section 406 funding provides discretionary authority to fund mitigation measures in conjunction with the repair of the disaster-damaged facilities and is limited to eligible damaged facilities. Section 406 funds should be applied to work on the disaster-damaged facilities when the mitigation measure directly reduces the potential of future, similar disaster damage to the eligible facility. The projects with funds obligated under this program (as of March 31, 2025) are included in Table 4-1.

TABLE 4-1: DISASTER RELATED HAZARD MITIGATION (§ 406) PROJECTS (IN \$ MILLIONS)

Project Name	Obligated FAAST	Obligated 406	Total Amount Obligated
Water Meters Islandwide Project	\$212.41	\$578.04	\$790.45
Enrique Ortega WTP Rehabilitation	124.48	2.33	126.81
Morovis Sur WTP Rehabilitation	40.46	3.89	44.35
42" Sewer Trunk Rehab PR 684 South to Barceloneta WWTP	25.76	17.10	42.86
Membranes - Isabela Lake	19.05	6.91	25.96
Lares Espino WTP Rehabilitation	22.92	1.80	24.72
Negros Corozal RWI Rehabilitation	0.71	5.95	6.66
Replacement Utuado Urbano WTP RWI (Viví Reservoir)	4.72	0.06	4.78
Morovis Sur WTP RWI Rehabilitation	1.86	0.85	2.71
Cayey Operations Office Rehabilitation	1.71	0.02	1.73
	\$454.08	\$616.95	\$1,071.03

The higher award under this program is for the replacement of all water meters across the Island with resilient smart meters and implementing remote meter reading. For more detail on the AMI project please refer to Section 3.1.1.2.

Required matching funds for these projects is expected to be obtained from CDBG-DR and CDBG-MIT funds.

4.2.4 Hazard Mitigation Grant Program (Section 404 of the SA)

Funds under Section 404 HMGP can be used to provide mitigation funding to undamaged parts of a facility or to prevent or substantially reduce the risk of damage caused by future disasters.

A percentage (20%) of the total federal share of the declared disaster damage amount Puerto Rico receives may be used to fund projects anywhere in Puerto Rico, regardless of where the declared disaster occurred or the disaster type.

Federal grants provided under Section 404 may be used in conjunction with Section 406 mitigation funds to bring an entire facility to a higher level of disaster resiliency, but only when portions of the facility were damaged by the current disaster event.

As of March 31, 2025, PRASA has submitted HMGP Section 404 Applications requesting \$421.6 million in assistance as shown in Table 4-2, of which \$22.6 million has been approved.

TABLE 4-2: HMGP (404) APPLICATIONS (IN \$ MILLIONS)

Non Disaster Related (HMGP) - Section 404 Projects		
Projects	Requested \$'M	Approved \$'M
Valenciano	\$ 417.5	\$ 18.5
EGUs La Plata - Phase I	\$ 1.4	\$ 1.4
Salinas WTP - Phase I	\$ 2.7	\$ 2.7
	\$ 421.6	\$ 22.6

The required matching funds for these projects is expected to be obtained from other federal programs such as CDBG-MIT Program funds.

4.3 HUD CDBG Programs

4.3.1 HUD CDBG-DR Program

Financial assistance from CDBG-DR will fund a broad range of recovery activities allowing HUD to help communities and neighborhoods that otherwise might not recover due to limited resources.

Each CDBG-DR activity must meet the following criteria: (1) address a disaster-related impact (direct or indirect) in a Presidentially-declared disaster area; (2) be an eligible activity under the program; and (3) meet a national objective. The CDBG-DR national objectives include: (1) benefiting low-and moderate-income persons; (2) aiding in the prevention or elimination of slums or blight; and (3) meeting urgent community development needs. The Puerto Rico Department of Housing has been designated by the Government as the agency responsible for administering CDBG-DR funds. Under the commitment to administer the funds in an efficient and transparent manner, PRHUD built its “Action Plan” to govern the recovery and reconstruction of the Island,

after receiving multi-sector recommendations. The latest version of the Action Plan is available on the Department of Housing’s website.

CDBG-DR funding supplements other federal recovery assistance programs administered by FEMA, the Small Business Administration (SBA), and USACE. CDBG-DR funds cannot duplicate funding available from federal, state or local governments, private and non-profit organizations, insurance proceeds, or any other source of assistance. CDBG-DR funds can be applied to fund the local match requirement – NFMP (Non-Federal Match Program). NFMP uses CDBG-DR funds to provide a separate grant to meet the local cost share requirement for other federal programs, including FEMA and consists of three sub-programs:

- FEMA Public Assistance (PA) Match;
- FEMA Individual Assistance (IA) Match; and
- HMGP Global Match.

Most FEMA funding for permanent works requires the recipient to match 10% of the total amount. The Authority plans to meet its cost-share portion with CDBG-DR Program funds, as they become available and as designated in accordance with the Department of Housing’s Action Plan. On September 2, 2021, PRHUD and the Authority entered into a subrecipient agreement for \$200 million under the CDBG-DR NFMP to fund the state match of the FEMA FAAS award. On November 22, 2024, the subrecipient agreements amount was increased to \$400 million to cover most of the cost share for the FAAS awarded amount.

Additional cost share requirements for Section 404 and Section 406 programs are also expected to be covered by CDBG-DR or CDBG-MIT funds. If these funds for mitigation projects are not available or otherwise not designated in the Action Plan, PRASA will be required to identify alternate options to cover the cost share portion to be able to execute the projects.

4.3.2 HUD CDBG-MIT Program

CDBG-MIT Program is a unique and significant opportunity for eligible grantees to use this financial assistance to support areas impacted by recent disasters to carry out strategic and high-impact activities to mitigate disaster risks and reduce future losses.

CDBG-MIT defines mitigation as activities that increase resilience to disasters and reduce or eliminate the long-term risk of loss of life, injury, damage to and loss of property, and suffering and hardship by lessening the impact of future disasters. Unlike Disaster Recovery funds, which have been awarded for hurricane-specific recovery, mitigation dollars can fund projects of a varying nature to serve the Island’s most important mitigation needs, regardless of a tie-back to a specific disaster.

The Infrastructure Mitigation Program under CDBG-MIT aims to develop solutions to mitigate risk to infrastructure assets through innovative and self-sustaining solutions. Infrastructure mitigation projects must support the stability in one (1) or more of the seven (7) FEMA community lifelines to create a resilient infrastructure system for Puerto Rico. The critical service areas, or lifelines, include: (1) Safety and Security; (2) Communications; (3) Food, Water, and Sheltering; (4) Transportation; (5) Health and Medical; (6) Hazardous Material Management; and (7) Energy (power & fuel).

On January 27, 2020, the United States Department of Housing and Urban Development (HUD) allocated \$8.3 billion to the Government in Community Development Block Grant Mitigation (CDBG-MIT) funds. CDBG-MIT funds represent a unique and significant opportunity for Puerto

Rico to carry out strategic and high-impact activities to mitigate disaster risks and reduce future losses.

A total of \$4.57 billion was approved for the Infrastructure Mitigation Program, of which (i) \$2.57 million will be distributed for strategic projects and competitive applications, (ii) \$1 billion will be distributed for FEMA 404 HMGP match, and (iii) \$1 billion will be distributed for healthcare facilities.

The CDBG-MIT Program applies for costs not covered or in excess of funding available from the FEMA Public Assistance Non-Disaster Related Hazard Mitigation (Section 404) Program. Therefore, the availability of these funds will be subject to Congressional appropriation under Section 404.

Table 4-3 lists the CDB-MIT Applications that PRASA has submitted as of March 31, 2025 and its approval status.

TABLE 4-3: CDBG-MIT APPLICATIONS (IN \$ MILLIONS)

MITIGATION PROJECTS			
Projects	FEMA (404)	CDBG - MIT	Approved \$'M
Bauta Water Supply System (HMGP)	\$ -	\$257.4	\$ 26.4
Broadband (Competitive Project)	-	48.0	48.0
Salinas WTP (HMGP)	2.7	24.3	27.0
Enrique Ortega WTP Generators (HMGP)	1.4	19.8	21.2
	\$ 4.1	\$ 349.5	\$ 122.6

4.4 Supplemental SRF Programs

In addition to the regular annual appropriations from the SRF Program, which assigns funds through loans or grants for water and sanitation infrastructure, pollution control, and other projects, recently there have been additional appropriations through BIL and SAHFI Programs benefiting Puerto Rico, among other states, as described below.

4.4.1 Bipartisan Infrastructure Law (BIL)

In November 2021, the Bipartisan Infrastructure Law (BIL), was signed into law. BIL allocates \$550 billion in new spending over the subsequent five years, destined for the improvement of the surface-transportation network (including roads and bridges, public transit, and electric vehicles) and core infrastructure, which includes water infrastructure. BIL will provide more than \$50 billion to address aging water infrastructure, provide funding to replace lead pipes, upgrade water treatment facilities, address emerging contaminants in small and disadvantaged communities, and ensure that water systems are resilient.

The funding will be administered through programs managed by USEPA, and will be divided as follows:

- \$20+ billion for safe drinking water;
- \$15 billion to replace lead pipes;

- \$12+ billion to ensure clean water for communities; and
- \$1.8 billion to protect regional waters, including \$135 million for additional water improvements.

TABLE 4-4: TOTAL BIL FUNDS FOR WATER PROJECTS – (IN \$ BILLIONS)

Program	Objective	Funding Source	Grant	Loan	State Match	Amount (\$B)
Drinking Water	Lead Service Line Replacement	DWSRF	49%	51%	No	\$ 15.0
	Drinking Water Infrastructure	DWSRF	49%	51%	10%	11.7
	Addressing Emerging Contaminants	DWSRF	100%	0%	No	4.0
Clean Water	Waste and Storm Water Infrastructure	CWSRF	49%	51%	10%	11.7
	Addressing Emerging Contaminants	CWSRF	100%	0%	No	1.0
						\$ 43.4

BIL also provides an additional \$2 billion in funding for regional water protection, including estuaries and other specific projects.

The funds allocated and expected to be allocated to Puerto Rico, under BIL by program are included in Table 4-6:

TABLE 4-5: BIL FUNDS FOR PUERTO RICO – (IN \$ MILLIONS)

	Actual Allocation			Projected Allocation		
Program	FY2022	FY2023	FY2024	FY2025	FY2026	Total
<u>DWSRF</u>						
Supplemental	\$17.99	\$21.06	\$22.98	\$24.89	\$23.00	\$109.92
Lead Service Lines Replacement	28.35	28.65	28.65	28.50	28.50	142.65
Emerging Contaminants	7.55	7.64	7.64	7.64	7.30	37.77
Total DWSRF BIL	53.89	57.35	59.27	61.03	58.80	290.34
<u>CWSRF</u>						
Supplemental	23.20	29.90	29.96	32.13	30.00	145.19
Emerging Contaminants	1.20	2.77	2.80	2.80	2.50	12.07
Total DWSRF BIL	24.40	32.67	32.76	34.93	32.50	157.26
Total BIL Funds	\$78.29	\$90.02	\$92.03	\$95.96	\$91.30	\$447.60

A material portion of this funding has been allocated or is expected to be allocated to PRASA. The final appropriation under BIL for Puerto Rico for FY2025 and FY2026 is subject to final allocation.

4.4.2 Supplemental Appropriation for Hurricanes Fiona and Ian (SAHFI)

The 2023 Consolidated Appropriations Act, signed into law on December 29, 2022, assigned approximately \$1.1 billion in disaster relief supplemental funding for the SRF programs: \$665.2 million for CWSRF programs and \$402 million for DWSRF programs, available only to states or territories in EPA Regions 2 and 4 for wastewater treatment works and drinking water facilities impacted by Hurricanes Fiona or Ian. Only Florida and Puerto Rico are eligible to apply for these DWSRF and CWSRF supplemental funds.

Puerto Rico had to apply for and receive SAHFI capitalization grant award(s) from EPA by the end of federal government fiscal year 2024 (September 30, 2024). The awarded funds must be committed (i.e., sign assistance agreements) by the recipient (PRDNER or PRDOH) within one year after the receipt of each capitalization grant payment from EPA.

For projects to be eligible under the SAHFI, they must be SRF eligible and have the purpose of reducing flood or fire damage risk and vulnerability or enhancing resiliency to rapid hydrologic change or natural disaster.

The allocation for Puerto Rico was \$555 million, \$333 for the CWSRF and \$222 for the DWSRF. PRASA is currently in the process of executing the Financial Assistance Agreement for these funds.

4.5 Supplemental RD Programs

RD has recently allocated additional funds for eligible rural areas to address past or future emergencies, such as hurricanes, flooding and earthquakes.

The calendar year 2022 Disaster Water Grants program helps eligible communities pay expenses related to damages to rural water systems as a result of events (Presidentially-Declared Disasters) that occurred between January 1, 2022, and December 31, 2022. For the purposes of this program, the term “water” refers to all water resource infrastructure, including drinking water, wastewater, stormwater drainage, and solid waste facilities.

As of March 31, 2025 PRASA received \$18.4 million from this program to cover incremental costs as a result of Hurricane Fiona (to supplement the ECWAG funds, which were only for water projects) in its wastewater infrastructure, which were not covered under the FEMA programs.

4.6 Funding Status

The total federal funds for reconstruction and recovery projects after the 2017 Hurricanes and 2020 Earthquakes, and for water and wastewater infrastructure needs as identified, obligated and received as of March 31, 2025, are presented in Table 4-6.

TABLE 4-6: IDENTIFIED, OBLIGATED, AND RECEIVED FEDERAL FUNDS (IN \$ MILLIONS)

Program	Funding Source	Identified Amount (\$M)	Obligated/ Approved (\$M)	Received (\$M)
Permanent Work	FEMA (PA)	3,662.7	3,662.7	67.1
Permanent Work (Working Cap Adv)	FEMA (PA)	-	-	452.1
Disaster Related Hazard Mitigation	FEMA (406)	2,738.9	1,071.0	-
Non Disaster Related (HMGP)	FEMA (404)	421.6	22.6	10.3
CDBG - MIT	HUD	349.5	122.6	-
CDBG – DR (Non Federal Match)	HUD	406.9	400.0	13.7
Direct Administrative Costs (DAC)	FEMA (PA)	213.6	213.6	-
SRF - SAHFI	EPA	555.0	545.0	-
RD - Harvey, Irma and Maria Grant	RD	24.7	24.7	24.7
Emergency Communities Water Assist.	RD	3.6	3.6	3.6
CY22 Disaster Grants (Fiona)	RD	18.4	18.4	18.4
Reconstruction & Recovery Funds		\$ 8,394.9	\$ 6,084.3	\$ 589.9
CWSRF - Regular + BIL	EPA	322.3	282.0	121.7
DWSRF - Regular + BIL	EPA	268.5	193.7	61.4
Infrastructure Projects		\$ 590.8	\$ 475.7	\$ 183.1
TOTAL		\$ 8,985.7	\$ 6,560.0	\$ 773.0

A total of \$9 billion of federal funding has been identified, of which \$6.6 billion has been obligated and \$773.0 million has been received.

As of March 31, 2025, the funds for infrastructure projects received by fiscal year are included in Table 4-7.

TABLE 4-7: FEDERAL FUNDS RECEIVED FOR INFRASTRUCTURE (IN \$ MILLIONS)

Program	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025 (as of 3/31/25)	Total
Permanent Work	0.8	\$ 0.6	\$ 1.0	\$ 16.1	\$ 14.1	\$ 25.8	\$ 8.7	\$ 67.1
Permanent Work (Working Cap Adv)	-	-	-	-	232.7	104.6	114.8	452.1
Non Disaster Related (HMGP)	-	-	-	-	-	9.7	0.6	10.3
CDBG – DR (Non Federal Match)	-	-	-	1.7	2.6	1.9	7.6	13.7
RD - Harvey, Irma and Maria Grant	-	-	-	23.3	1.4	-	0.0	24.7
Emergency Communities Water Assist.	-	-	-	-	-	3.6	-	3.6
CY22 Disaster Grants (Fiona)	-	-	-	-	-	-	18.4	18.4
Reconstruction & Recovery Funds	\$ 0.8	0.6	1.0	41.0	250.8	145.6	150.2	589.9
CWSRF - Regular + BIL	-	19.2	11.0	16.6	21.2	26.8	26.9	121.7
DWSRF - Regular + BIL	-	7.0	3.0	11.2	8.9	17.3	14.0	61.4
Infrastructure Projects	\$ -	26.2	14.0	27.8	30.1	44.1	41.0	183.1
TOTAL	\$ 0.8	\$ 26.8	\$ 15.0	\$ 68.8	\$ 280.9	\$ 189.7	\$ 191.1	\$ 773.0

5 Risks and Mitigation Strategies

As a large and complex utility, PRASA's financial projection and the implementation of its key measures are subject to risks and unforeseen events, many of which are outside of the Authority's control. Table 5-1 summarizes an analysis of the key risks that have been identified as having the potential to impact or delay PRASA's Fiscal Plan implementation and the corresponding mitigation strategies. It is worth noting that this outlook is based on the best information available as of the date of preparation of this Fiscal Plan and, over time, PRASA may become aware of additional existing risks or new risks may arise that could significantly affect the Authority's financial and/or operational performance, including actions by Federal or Local Governments and/or the U.S. Congress.

TABLE 5-1: FISCAL PLAN IMPLEMENTATION RISKS AND MITIGATION STRATEGIES

Risk Category	Potential Impacts	Mitigation Strategies
Natural Disasters & Climate Vulnerability	Catastrophic natural disasters – Events such as droughts, floods, pandemics, hurricanes, and earthquakes could have significant financial and operational impacts, including system failures, water rationing, and environmental noncompliance. The severity of some of these events and their impacts on the Authority may be exacerbated over time due to climate change.	- Emergency Response Plans and a Climate Change Vulnerability Study and Adaption Plan are integrated into operations and into the 2024 Master Plan considered for PRASA's infrastructure investments. - Maintain a fully funded Operating Reserve Fund equivalent to 3-month of operating expenses.
Revenue risks	Decreased demand – Decreases in population and reduced consumption, as well as aging meters, are expected to reduce revenues during the Fiscal Plan Period. Lower collections rates – Collections rates may be lower than forecast due to overall inability of customers to pay for services, resulting in decreased revenues.	- Timely execution of the meter replacement program (AMI Project) focused on resiliency and increasing the precision of billed water consumption. - Maintain a fully funded Operating Reserve Fund equivalent to 3-month of operating expenses. - Increased and enhanced digital payment options and collection capabilities. - Payment plans are available for eligible customers. - Performance of service disconnection following PRASA's procedures and policies. - AAFAF and PR Treasury Department involvement to maintain Government Accounts current.

Risk Category	Potential Impacts	Mitigation Strategies
Expenditures	Major change in System performance – A decrease in System performance (e.g., major infrastructure failure, water quality crisis) due to deteriorating System conditions may significantly increase operating and capital expenses to address issues.	• Maintain a fully funded Operating Reserve Fund equivalent to 3 months of operating expenses. • Ensure CIF is funded to appropriate levels to address CIP project outlays such as renewal and replacements and potential emergency projects. • Maximize federal funding to materially improve the System conditions.
	Changes in payroll legislation – Payroll cost is PRASA's largest expense being around 40% of its total operating expenses. Changes in payroll legislation, including changes to the state or federal pay scales and minimum wages, may materially impact PRASA's largest cost component, the execution of right-sizing measures and PRASA's salary competitiveness and employee retention in a high demand labor market.	• New Job Classification and Compensation Plan aligned with OATRH and other applicable benchmarks. • The projected impact of the updated Compensation Plan is incorporated into the financial projections included herein, starting in fiscal year 2026.
	Changes in electricity rate costs – Electricity accounts for around 20% of projected operating expenses. Variations of \$0.01/kWh can lead to annual expense variances of over \$6 million.	• Closely monitor energy consumption behavior. • Implement renewable energy alternatives as described in this Fiscal Plan. • Implementation of initiatives to reduce non-revenue water that will reduce overall operating expenses based on information gathered from the AMI Project.
	Increase in chemicals costs – As a result of the current market prices and chemicals availability, material changes may further impact PRASA's financial projections.	• Increased costs were incorporated into the financial projections. • Continuous analysis and implementation of efficiency measures. • Implementation of initiatives to reduce non-revenue water that will reduce overall operating expenses based on information gathered from the AMI Project.

Risk Category	Potential Impacts	Mitigation Strategies
CIP, Regulatory and Financing Risks	Reduction in federal funds availability or timing delays – Either would require additional self-funding for the CIP or interim financing to cover any shortfalls or delays in the federal funding disbursement process.	• Efficient process to ensure prompt obligation of federal funds. • Proper and efficient management of federal funds requests and documentation, including the reorganization of the Infrastructure Department to address the increased volume of federally funded projects. • Maintain fluid and continued communication with federal and local agencies, such as FEMA, EPA, PRDOH, PRDNER, PRHUD, and USDA-RD. • Access the credit market for interim financing, as and if needed.
	Availability of contracted resources to execute the CIP as planned – The recent inflow of FEMA and other federal funds has increased demand for contractors and materials which has created challenges in executing the CIP as planned, regarding both timing and cost. Additionally, changes to salaries in the construction industry and increased prices of commodities and other raw materials may further increase the CIP projected costs and therefore create incremental financing needs.	• Attract contractors to PRASA projects through timely payment and long-term contracting. • Maintain healthy liquidity levels to allow timely payments to contractors prior to receipt of federal funds. • Closely monitoring the implementation of CIP to allow for timely correction of deviations, when possible. • Frequent revisions to identify material changes to CIP and adjust timing or required funding needs, when applicable.
	More stringent environmental regulations – Changes in environmental legislation (e.g., more stringent drinking water standards) may increase overall expenses for chemical and lab usage, in addition to possible requirement of additional CIP need for regulatory compliance.	• Prioritize projects to address environmental compliance and agreement of the modified Consent Decree, adapted to PRASA's updated situation and condition. • Frequent revisions to reflect material changes to CIP and adjust timing or required funding needs, when applicable. • Identify federal funds to cover incremental cost of compliance with new potential regulations and quality parameters.
Operational Risks	Management capability – Ability to execute and fully deliver the measures included in this Fiscal Plan that could result in forecasted benefits not achieved and/or falling short of targets that could negatively affect the financial projections included herein.	• Management focus on the proper and timely execution on the three main initiatives of this Fiscal Plan (modest/continuous rate adjustments as needed, AMI Project and New Financing for CIP). • Continuous and consistent monitoring of KPIs and milestones for the measures identified in this Fiscal Plan to monitor progress, identify roadblocks, and address them in a timely manner.

Risk Category	Potential Impacts	Mitigation Strategies
	Workforce availability – Personnel recruiting challenges due to the lack of resources and salary levels can impact PRASA’s operations and the provision of adequate service.	• Gradually achieve appropriate headcount level based on PRASA’s needs. • Adjust the Compensation Plan to allow for competitive salaries, reduce employee turnover, and improve PRASA’s competitiveness in the labor market.

6 Long-Term Fiscal Responsibility and Operational Sustainability

Since 2019, PRASA has executed several debt optimization transactions, including two successful refundings that resulted in significant debt service savings. The debt optimization and debt service reduction measures, together with other revenue enhancement and cost savings measures, have set PRASA on a path of fiscal responsibility and laid the foundation to address its main long-term operational challenges. Some of the operational and infrastructure initiatives that will address long-term operational challenges, including addressing NRW, reducing electricity costs, and materially improving PRASA's system conditions, are long-term initiatives. Therefore, these efforts will require significant resources and longer timelines for both implementation and the materialization of its benefits. Furthermore, although PRASA has consistently been complying with its financial and operational obligations, the Certified Fiscal Plan projects the use of cash reserves under the RSA until FY2028 to cover short-term operational needs which in turn underscores the importance of implementing the measures included herein.

Following the January 5, 2021 FEMA obligation that provides \$3.66 billion for recovery projects and the availability of other significant federal grants and other funding described in Chapter 4, the Authority does not anticipate needing access to the capital markets for CIP financing purposes in the near- to medium-term. This funding has placed PRASA in a stable financial situation, allowing it to strengthen its liquidity profile while focusing on improving the condition of the System and the Authority's operations for the benefit of the people of Puerto Rico.

Except for cost-effective loans from the Federal Lenders, no additional long-term debt borrowings are forecasted during the Fiscal Plan Period. However, given the capital-intensive nature of water utility operations, PRASA will, from time to time, evaluate available financing options to determine its optional capital structure, including partially financing its CIP with long-term debt, as needed. Future debt issuances will be considered if they enable a more equitable and fair distribution of the financial burden of major capital works on customers across a longer period and sustain affordable water and wastewater rates while funding essential works on the System.

Also, PRASA may seek interim financing to address timing gaps between the time federally funded debts and grants are approved and executed and when disbursements occur, to avoid adversely impacting PRASA's liquidity. Any debt issuance or modification would require prior Oversight Board approval pursuant to PROMESA section 207.

6.1 Plan for Maintaining Long-Term Fiscal Responsibility

To achieve long-term fiscal responsibility, PRASA will remain focused on (a) implementing the measures outlined in Chapter 3 to build on improvements made in financial and operational performance to mitigate future demographic, economic, environmental/climate, and fiscal challenges, (b) executing a CIP at historic levels of investments, and (c) maximizing federal funding from the programs described in Chapter 4 and from any additional funding that may become available.

PRASA is committed to building on its past financial accomplishments, particularly by improving the System conditions and operational efficiency and timely, on-budget execution of its CIP. These

areas are expected to be properly addressed with the projected inflow of federal funds to cover (with corresponding contributions from PRASA's own funds to address cost-share requirements) its CIP needs. Table 6-1 below sets forth key steps that are being and will continue to be taken by PRASA to ensure long-term fiscal responsibility through meaningful and measurable actions.

TABLE 6-1: ACTIONS TAKEN TO MAINTAIN LONG-TERM FISCAL RESPONSIBILITY

Action plan		STATUS
Implementation of Fiscal Plan Measures	• Ensure implementation of measures discussed in Chapter 3.	Ongoing
Federal Funds Maximization	• Maximize FEMA funds for System recovery and reconstruction in a manner consistent with best industry practices. • Maximize use of low-cost funding resources, such as SRF and USDA RD programs. • Identify and maximize funding of other federal programs as described in Chapter 4 and any additional funding that may become available.	Ongoing
System health, service area, and economy	• Ensure long-term planning by updating the Authority's Master Plan, 15-year CIP, and Emergency Response Plan.	On going
Financial strength of operations	• Budgeting to comply with MAT covenant requirements, including proper funding for operating expenses, debt service, reserves, and CIP. • Develop and publish long-term financial projections (Fiscal Plans). • Publish quarterly interim financial results and key operational information. • Maintain 90-day cash balance in the ORF.	Completed
Rate setting process and regulatory compliance	• Timely, moderate systematic annual rate increases from FY2026 and onward, consistent with industry best practices, economic factors, and feedback from key stakeholders. • Ensure rate affordability.	Ongoing
Strength and independence of governance	• Limit turnover of key decision makers by continuing the current succession process. • Compliance with Act No. 68-2016: (i) a diversified, independent, and professionalized Governing Board; (ii) Executive Officers appointed by the Governing Board complying with specific requirements and qualifications; and (iii) specific terms for non-ex-officio Governing Board members and key executive officers.	Completed

Action plan		STATUS
Operational and financial management assessments	- Develop and implement disclosure best practices, including: - Operational and financial measure tracking; - Timely publication of audited financial statements; - Quarterly interim operating reports; and - Annual consulting engineer reports.	Completed
CIP delivery	Ensure efficient execution of capital projects through capital delivery optimization.	Ongoing

6.2 Debt Sustainability Analysis (DSA)

The DSA provides a framework to assess PRASA's long-term capacity to pay debt service under the terms of the MAT and future market access needs. PRASA's debt levels need to be consistent with industry standards to ensure market access for future borrowing to fund, when needed, ongoing infrastructure investment.

As described in this Fiscal Plan, PRASA is focused on continuing to execute a set of financial, operational, and non-financial measures to ensure continued access to capital markets at reasonable rates. The annual projected debt service on all its outstanding senior indebtedness is presented in Exhibit 6-1 included below.

EXHIBIT 6-1: PROJECTED ANNUAL DEBT SERVICE (IN \$ MILLIONS)

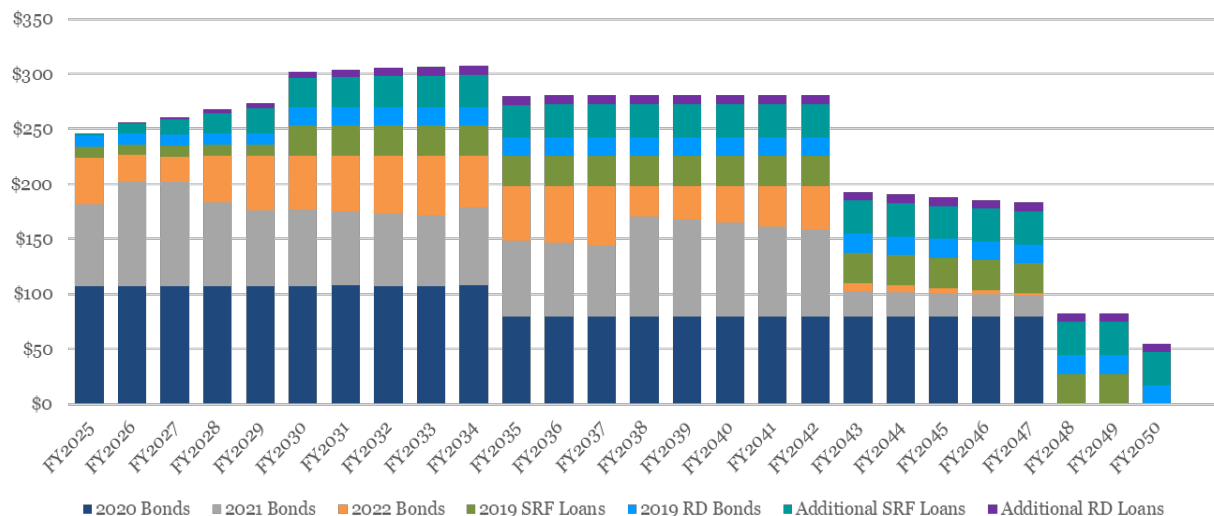
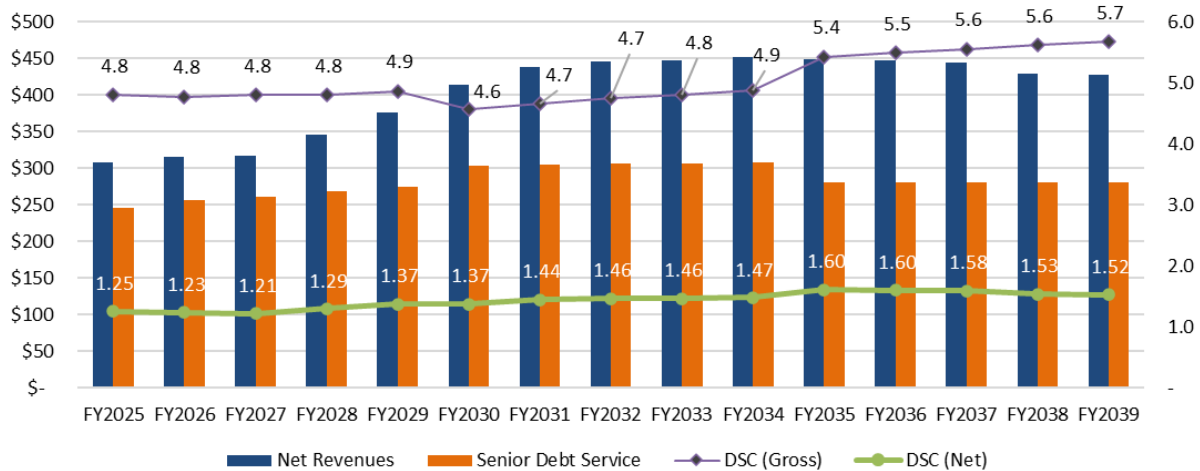


Exhibit 6-2 below illustrates PRASA's capacity to pay current and projected debt within the constraints of the current MAT (gross revenue pledge) during the Fiscal Plan Period.

EXHIBIT 6-2: DEBT SERVICE COVERAGE (GROSS REVENUE PLEDGE), (IN \$ MILLIONS)



As explained in Section 1.3.2 under Chapter 1, the proposed MAT amendment will modify the revenue pledge from a gross revenue pledge to a net revenue pledge. This amendment will become effective when and if the Federal Lenders consent to the change. As of the date of this Fiscal Plan, PRASA has not formally requested consent from the Federal Lenders to implement the MAT amendment.

6.3 PRASA's Creditworthiness

PRASA asserts its creditworthiness and its opinion that it has access the capital markets at reasonable rates based on the following measurable facts: (i) the execution of two successful debt refundings, (ii) market data on PRASA's bonds trading activity and yields, and (iii) the profile of the Senior Bondholders. PRASA's institutional website has a section – Financial and Investor Information – that includes key relevant material for capital markets, including:

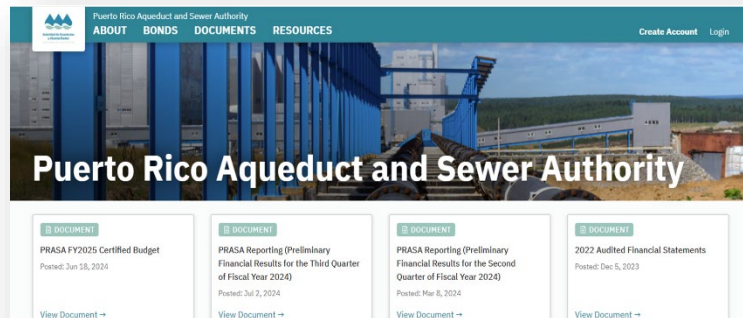
- A summary of PRASA's system
- Annual audited financial statements (currently up to FY2024)
- Quarterly unaudited reports including:
 - Operating data with details on clients, consumption, billings and collections.
 - Actual results for each reporting period, compared to the budget for such period.
 - Capital Improvement Program incurred costs compared to budget.
 - Liquidity status, including cash balances and days of cash on hand indicator.
 - Outstanding debt and debt service coverage
- Detailed outstanding debt
- Public debt offering documents

- Master Agreement of Trust, as amended (MAT)
- Annual Consulting Engineer Reports, as required by the MAT, including a third-party independent opinion on:
 - PRASA's Organization Structure
 - Condition of the System
 - Operations and Maintenance Practices
 - Capital Improvement Program and Regulatory Compliance Status
 - Insurance Program
 - System Assets and Financial Analysis, including an evaluation and opinion of PRASA's financial projections



In addition, through a joint initiative with AAFAF, the Authority joined the Bondlink network in May 2023. Bondlink is the same investor relations platform used by some of the largest and most active issuers in the U.S. municipal bond market, including California, Georgia, Virginia, Wisconsin, and Florida and cities like Atlanta, Chicago, Dallas and Los Angeles, among others.

The address for the investor relations website of the Government and public corporations with outstanding public debt is www.puertoricobonds.pr.gov.



The Oversight Board commends PRASA's efforts to seek creditworthiness and will continue to work closely with PRASA to ensure that the Authority achieves one of PROMESA's purposes, to obtain credit market trust and access at reasonable rates. To determine that PRASA has adequate access to short and long-term credit markets, among other things, the Oversight Board will evaluate the Authority's ability to achieve and maintain investment grade credit rating characteristics on its indebtedness obligations. For further information, please refer to Section 4.1 of the 2024 Commonwealth Certified Fiscal Plan. In the upcoming fiscal years, PRASA, the Government, and the Oversight Board will work together to continue assessing the Authority's creditworthiness.

7 Reporting Requirements

As part of monitoring the progress of the Fiscal Plan measures, PRASA is required to submit periodic reports to the Oversight Board and, on occasion, to the public. Table 7-1 lists these reports and their frequency.

TABLE 7-1: REPORTS TO BE PRESENTED

Report Type	Details	FOMB Reporting Timing	Public Reporting Timing
Budget to Actuals (B2A)	Tracking of budget to actual spend per budget certification agreement with the Oversight Board: • Explanation for material variances for YTD (>10% and >\$1 million or > \$10 million) • Accounts receivable by type of client (residential, commercial, industrial, and governmental) • Schedule with amounts owed by each government client • Government collections and payment plans (for all govt. customers) • Collections by customer segment • Monthly headcount roll forward by function • Monthly profit and loss statement	• Monthly reporting after budget is certified • Quarterly, PROMESA Section 203 reporting after budget is certified	• Quarterly
Liquidity	Cash flow report: • Actual and projected cash flows for the FY, including Current Expense Fund beginning and ending balances	• Monthly	• Monthly (cash flow actuals)

Report Type	Details	FOMB Reporting Timing	Public Reporting Timing
	Total cash balance by account, available upon the FOMB's request		
Measures	Status, schedule, and fiscal impact of Fiscal Plan measures	Based on each measure's due date as established in this Fiscal Plan	N/A
CIP: implementation tracking	CIP monthly progress reports and actual spend to date	Project-level reporting: monthly	N/A
Water quality KPIs and environmental compliance	- Summary of compliance KPIs. - Detailed compliance reports, by plant, available upon the FOMB's request	KPI reports: quarterly	Annual Consumer Confidence Report
Water Balance	Publish water balance in accordance with AWWA M36 standards to include the following components: - Water supply; - Water consumption; and - Water losses	Annual	Annual
FEMA	Provide updates on FEMA Federal funding, particularly on the summary of YTD FEMA disbursements for permanent works	Quarterly FAASt status and summary of disbursements	Quarterly

7.1 Monthly KPIs for Measures

Table 7-2 identifies the critical KPIs to be tracked monthly and the start date for tracking such measures. All start dates are assumed to be August 15 of the indicated Fiscal Year, unless otherwise listed or modified by agreement between PRASA and the FOMB.

TABLE 7-2: NEW MEASURE KPIs

Measure	KPI	Frequency	Start Date
Rate Adjustment	Financial Impact of Measure	Monthly	FY2026
	AMI meters installed	Quarterly	FY2026

Measure	KPI	Frequency	Start Date
Metering Optimization	Increase in revenues due to meter replacement	Semi-Annually	FY2026
Electricity Expense Reduction	Energy from new PPAs	Monthly	FY2030
Physical Water Loss Reduction-Overall	Annual Water Balance including real and apparent losses	Annual 60 days after FY end	FY2026
Physical Water Loss Reduction-Master Meters	Measured and estimated water production (in MGDs)	Quarterly	FY2026
	Master Meters to be replaced and number replaced / installed	Quarterly	FY2026
Physical Water Loss Reduction-Pressure Management	Number of pressure zones visited	Monthly	FY2026
	MGDs saved due to pressure management	Monthly	FY2026
Physical Water Loss Reduction-Leaks Detection	Unreported Leaks Pinpointed	Monthly	FY2026
	Average Leak Cost per Day (identified leaks)	Monthly	FY2026
	Leak Mean Time to Repair	Monthly	FY2026
	MGDs saved due to leaks repaired	Monthly	FY2026
	Percentage (%) of Identified Leaks Repaired	Monthly	FY2026
CIP tracking	Cost Performance Index	Monthly	FY2026
	Schedule Performance Index	Monthly	FY2026
New Federal Funds	Federal Funds Received (SRF and RD)	Monthly	FY2026

8 Conclusion

This Fiscal Plan reflects PRASA's achievements and progress towards its financial and operational goals, complying with requirements under PROMESA to ensure fiscal responsibility and operational sustainability while prioritizing the delivery of reliable, safe, and affordable water and wastewater services to the people of Puerto Rico. In providing these essential services, the Authority prioritizes complying with applicable federal and local environmental and other regulations, safeguarding public health, and protecting the environment.

As demonstrated throughout this Fiscal Plan, PRASA has made significant progress in stabilizing its finances, while recognizing there are areas of opportunity to address NRW, stabilizing rising operational costs, and ensuring proper CIP execution while adequately maintaining the System's infrastructure.

For an entity that is heavily reliant on capital-intensive works to maintain and improve its performance, the inflow of federal funds for critical CIP projects and PRASA's improved financial condition provides a unique, generational opportunity to the Authority. The execution of reconstruction and resiliency projects made possible as a result of the funds received through federal programs, will allow PRASA to be well equipped for future natural disasters and other unforeseen situations in the future. The successful implementation of the initiatives explained in this Fiscal Plan will enable the Authority's continued progress towards fiscal responsibility and operational sustainability, while ensuring a reliable and resilient infrastructure in the long-term.

The full implementation of the comprehensive fiscal and operational measures outlined in this Fiscal Plan is essential to facilitate PRASA's transformation into a sustainable water and wastewater utility. Provided that the Fiscal Plan measures continue to be implemented in an efficient and timely manner, PRASA will continue on a path towards achieving its long-term objectives of fiscal responsibility and operational sustainability.



Appendix

Consolidated Action Plan

Measure	Action Item	Deadline	Owner
Human Resources Measures	New Job Classification Plan and Updated Compensation Plan Oversight Board approval	30-Sept-25	Oversight Board
New Financing for CIP	Execute Financial Assistance Agreement for new CWSRF funds – FY2023 Appropriations	30-Jun-25	Finance
Human Resources Measures	New Job Classification Plan and Updated Compensation Plan negotiation with unions	Subject to Oversight Board Approval	Human Resources
Chemicals Expense Stabilization	Results for Phase 1 of the evaluation of current chemical management practices	30-Jun-25	VP of Operations
Rate Adjustment	Implementation of applicable Rate Adjustment	1-Jul-25	VP of Strategic Planning
Metering Optimization	PRGSA due date for response to award challenge by non-selected proponent	15-Jul-25	PRGSA
Human Resources Measures	New Job Classification Plan and Updated Compensation Plan implementation	Subject to Plans Negotiation	Human Resources
Metering Optimization	Issuance of Notice to Proceed (NTP) for equipment	15-Jul-25	Infrastructure/PM
Metering Optimization	Meter installation contract award	31-Jul-25	Infrastructure / Legal
Physical Water Loss Reduction	Define pressure zones to be optimized and monitored during FY2026	31-Jul-25	WRO
New Financing for CIP	Execute Financial Assistance Agreement for SAHFI funds – DWSRF	31-Jul-25	Finance
Physical Water Loss Reduction	Complete a plan to achieve the leak detection goal for FY2026	31-Jul-25	WRO
Metering Optimization	Meter installation contract execution	31-Aug-25	Infrastructure / Legal
Metering Optimization	Commencement of meters installation (3 months after NTP)	15-Oct-25	Infrastructure/PM

Measure	Action Item	Deadline	Owner
Physical Water Loss Reduction	FY2025 Water Balance Submission to FOMB	31-Oct-25	WRO
New Financing for CIP	Execute Financial Assistance Agreement for new DWSRF funds – FY2023 Appropriations	31-Oct-25	Finance
Metering Optimization	Improvements to warehouse completion	31-Dec-25	Infrastructure/PM
Physical Water Loss Reduction	VHCC Implementation Progress Report	31-Dec-25	WRO
Asset Management	Vertical Assets Deployment Plan	31-Dec-25	AM Governance Board
Metering Optimization	Integration Completion	31-Jan-26	PM / IT
Electricity Expense Reduction	Superaqueduct (RWPS and WTP), Maunabo and Santa Isabel microgrid projects design completion	28-Feb-26	Infrastructure
Asset Management	Linear Asset Pilot Completion	31-Mar-26	AM Governance Board
Rate Adjustment	Provide status to the Oversight Board on the analysis to assess financial needs for FY2027	31-May-26	Finance
Physical Water Loss Reduction	Complete Master Meters calibration and installation goal for FY2026	30-Jun-26	WRO
Chemicals Expense Stabilization	Results for Phase 2 of the evaluation of current chemical management practices	31-Jul-26	VP of Operations
Human Resources Measures	Workforce evaluation system implementation	31-Jul-26	Human Resources
Electricity Expense Reduction	Superaqueduct (RWPS and WTP), Maunabo and Santa Isabel microgrid projects bidding process completion and award	30-Sep-26	Infrastructure
Chemicals Expense Stabilization	Complete assessment and report to the Oversight Board on areas of opportunity with potential benefits	30-Sep-26	VP of Operations
Chemicals Expense Stabilization	Develop strategies for implementation as recommended in the consultant's report	31-Dec-26	VP of Operations
Electricity Expense Reduction	Completion of new PPA provider facilities (subject to the PPA execution)	30-Jun-27	Resource Provider

Measure	Action Item	Deadline	Owner
Electricity Expense Reduction	Completion of four microgrid projects	1-Jul-29	Infrastructure
New Financing for CIP	Execute Loan or Grant Agreements for USDA RD funds (as needed)	TBD	Finance