



GOVERNMENT OF PUERTO RICO

PUERTO RICO INDUSTRIAL, TOURIST, EDUCATIONAL, MEDICAL, AND ENVIRONMENTAL CONTROL FACILITIES FINANCING AUTHORITY

GUIDELINES FOR THE CONSIDERATION AND EVALUATION OF FINANCING APPLICATIONS FOR ELIGIBLE PROJECTS

SECTION 1: INTRODUCTION

The Puerto Rico Industrial, Tourist, Educational, Medical and Environmental Control Facilities Financing Authority (“AFICA,” by its Spanish acronym) is a public corporation of the Government of Puerto Rico created pursuant to Act No. 121 of June 27, 1977, as amended (“Act 121”). AFICA was created to provide financing for the acquisition, construction and equipping of industrial, tourist, medical, educational, pollution control and solid waste disposal facilities through the issuance of private activity bonds, by acting as conduit issuer (“AFICA Financings”).

Pursuant to Article 5 of Act 121, AFICA is authorized to adopt such financing norms and guidelines as may be necessary to administer its business affairs and to evaluate, underwrite and manage AFICA Financings.

Under this authority, the Board of Directors of AFICA has approved these guidelines (the “Guidelines”) to govern the evaluation, structuring, underwriting and management of AFICA Financings.

All AFICA Financings are subject to the consideration and approval of the Boards of Directors of AFICA and the Puerto Rico Fiscal Agency and Financial Advisory Authority (“AAFAF”). In addition, while AFICA is a “covered territorial instrumentality” under the Puerto Rico Oversight, Management and Economic Stability Act (“PROMESA”), AFICA Financings also require the approval of the Financial Oversight and Management Board for Puerto Rico (the “Oversight Board”).

SECTION 2: ELIGIBLE PROJECTS

AFICA can underwrite and structure AFICA Financings for the types of projects authorized by Act 121 (“Eligible Projects”). As examples and only for illustrative purposes, the following are some of the types of Eligible Projects that AFICA can finance: educational; medical; environmental and natural resources management and control; agricultural; tourism; industrial; general infrastructure; commercial real-estate; commercial office space; commercial centers and related projects; logistical/warehousing facilities.

SECTION 3: AFICA FINANCINGS

AFICA Financings are generally structured as follows:

- AFICA issues bonds (“AFICA Bonds”), either through an underwritten public bond issuance or a private placement;
- AFICA lends the proceeds of the AFICA Bonds to the conduit borrower (the “Obligor”) under a loan agreement between AFICA and the Obligor (the “Loan”); and
- The Obligor uses the proceeds of the Loan to finance an Eligible Project.

The AFICA Bonds are payable solely from payments made by the Obligor to AFICA under the Loan or from a separate letter of credit, guarantee, or other type of credit enhancement.

- AFICA can also finance an Eligible Project using the funding source of a loan or loans or credit facility (facilities) provided to AFICA by a financial institution(s) or institutional investor(s). The proceeds are then loaned as an AFICA loan under an AFICA loan agreement to an Eligible Project, as defined in Act 121 and in these Financing Guidelines.

AFICA Financings are non-recourse to AFICA and are not guaranteed by the Government of Puerto Rico or any of its instrumentalities.

Credit Quality of an AFICA Financing

Pursuant to Article 6 of Act 121, the Obligor (together with any guarantor) must be financially responsible and must also be capable and willing to fulfill its obligations under the Loan. An investment grade credit rating by one or more of the nationally recognized credit rating agencies will be considered a measure of financial responsibility and creditworthiness.

However, an investment grade credit rating shall not be required, and AFICA may consider other factors, such as financial performance, cash flow, collateral, debt-service capacity and the Obligor's business and operating experience, when assessing financial responsibility and creditworthiness for an AFICA Financing.

AFICA's determination as to these requirements will be considered final and conclusive.

SECTION 4: TYPES OF AFICA FINANCINGS

AFICA can provide the following types of AFICA Financings:

- Interim (construction) financing convertible into permanent financing;
- Permanent financing;
- Refinancing or refunding of existing AFICA Bonds; and
- Up to 49% of the proceeds of an AFICA Financing may be used to refinance non-AFICA debt of an Eligible Project, provided that the Board of Directors of AFICA may increase such percentage if it deems so appropriate to facilitate the feasibility and development of an Eligible Project.

Pursuant to Act 121, AFICA is authorized to issue refinancing bonds to refinance outstanding AFICA Bonds, including any redemption premium and accrued interest, and, if deemed advisable by the Authority, for the following purposes:

- Construction of improvements, additions, expansions regarding any project originally financed by the AFICA Bonds to be refinanced.
- To fully or to partially cover the cost of additional projects intrinsically related to the original project financed by the original AFICA Bonds.

SECTION 5: CAPITAL CONTRIBUTION

No less than 15% of the construction and development budget must be contributed in cash by the sponsors or owners of the Eligible Project.

If approved by AFICA, however, the contribution may also be made in kind, through the contribution of land that is free and clear of monetary liens and encumbrances. Land contributed must be valued by a certified appraiser (acceptable to AFICA), providing an appraisal report with an “as-is and without improvements” valuation of the contributed land. The appraisal report must be dated within one year of the application for the AFICA Financing.

The Board of Directors of AFICA can consider capital contribution of less than 15% subject to the review by the Office of Financial Advisory of AAFAF.

The following types of AFICA Financings shall not be required to comply with the foregoing capital contribution requirements:

- (i) Refinancing of an existing AFICA Financing;
- (ii) Refunding of existing AFICA Financings by issuing “refunding bonds” or similar AFICA Financings.

SECTION 6: COSTS OF ISSUANCE

For U.S. tax-exempt AFICA Financings that are private activity bonds under applicable U.S. federal income tax regulations:

- up to 2% of the principal amount of the AFICA Financing (or if applicable, such lower amount as is permitted to be so financed under applicable U.S. federal income tax regulations) can be used to cover legal and financial costs of an AFICA Financing.

The following costs, however, shall, to the extent permitted under applicable U.S. federal income tax regulations be excluded from the above limit: (i) AFICA Fee, (ii) costs to register a mortgage that secures an AFICA Financing and (iii) costs of a guarantee or letter of credit that guarantees an AFICA Financing.

There is no limit to the Costs of Issuance for AFICA Financings that are federally taxable (i.e., only exempt from Puerto Rico income taxes).

An AFICA Financing may be structured in separate series, one series that is U.S. federal tax-exempt and complies with applicable U.S. federal income tax code regulations and a second series that is federally taxable.

Issuance costs will vary depending on the structure and complexity of an AFICA Financing. Most costs of issuance will typically include: AFICA legal counsel, AFICA Financing issuance or bond counsel, local and lender’s counsel’s fees, underwriting discount or lender’s commitment fees, issuing agency financing fee, bond and official statement printing costs

(if required), trustee's fees, title insurance, credit enhancement fees and other miscellaneous expenses.

The total cost of issuance of an AFICA Financing will also depend on the proposed monetary size of the AFICA Financing. A more definitive estimate of issuance costs can be made as the credit and underwriting parameters of the AFICA Financing are determined.

SECTION 7: AFICA APPLICATION FEE | AFICA FEE

- AFICA Application Fee:** \$1,500.00, paid in cash to AFICA with the submittal of an AFICA Application.
- 1.00% AFICA Fee:** Paid in cash to AFICA at closing of an AFICA Financing based on the approved principal amount of an AFICA Financing. This fee applies to AFICA Financings that are federally taxable.
- 0.50% AFICA Fee:** Paid in cash to AFICA at closing of an AFICA Financing based on the approved principal amount of an AFICA Financing. This fee applies to AFICA Financings that are tax-exempt under the applicable income tax code regulations of the U.S. Internal Revenue Code.

SECTION 8: AFICA APPLICATION

Defined terms of the AFICA Application:

- Obligor*:** The entity primarily liable under a financing agreement with AFICA. It is usually a corporation doing business in the Commonwealth of Puerto Rico and seeking financing (or refinancing) through AFICA for the development of an Eligible Project.
- Guarantor*:** Any person directly or indirectly liable under the provisions of a financing agreement with AFICA in connection with an AFICA Financing. The Guarantor is usually the parent company or an affiliate of the Obligor.

(*) The Obligor and Guarantor are considered applicants under the AFICA Application until the execution of the AFICA loan agreement.

Initial Meeting

No less than seven (7) working days prior to submitting a formal financing application, the Obligor, Guarantor (if any) and AFICA will hold an initial meeting (the "Initial Meeting") for the following purposes:

- a. Confirm that Obligor/Guarantor understand all the requirements of the application.

- b. The date of the meeting marks the first day that development costs incurred of the Eligible Project will be considered eligible for an AFICA Financing. Development costs prior to the Initial Meeting may be considered eligible for an AFICA Financing on a case-by-case basis and if said development costs are deemed essential and part of the development of the Eligible Project.
- c. AFICA to provide any comments/feedback of information that should be included in the AFICA Application.
- d. Applicants to acknowledge that prior to submitting an AFICA Application they must secure any required endorsement from applicable governmental entities with jurisdiction per the type of Eligible Project to be presented and as provided by Act 121.

AFICA Application Contents

The AFICA Application, to be prepared and certified by the Obligor, must include and comply with the following:

- Should include a narrative explaining the concept and operability of the Eligible Project to be financed by an AFICA Financing.
- The Obligor must substantiate its ability and capability to operate the Eligible Project successfully. Must include background information on the Obligor's experience, technology, management (including appropriate resumes), and any other aspect of the Obligor's capabilities to develop and operate the Eligible Project.
- If the Obligor is an existing business, provide (to the extent applicable), (a) audited annual financial statements for the previous three-years, (b) SEC 10-K reports over past three years, (c) last quarterly earnings report, and (d) any other information substantiating financial resources and ability to meet future obligations, including those of the Eligible Project and AFICA Financing.
- Relationship of project to Obligor's and/or Guarantor's regular operations, services, etc., and rationale for the project in this context. If the project is a new venture, feasibility and market studies, analyses, and financial / operational projections of the business are to be included. Other Puerto Rico facilities and interests must be identified, if any. Discussion of those facilities or interests should set forth their relationship to the project.
- Include minimum of 10-year revenue and expenses projections of the Eligible Project, with explanation of the assumptions of how the revenues and expenses are compiled and prepared.
- If applicable, expected number of jobs to be created with estimated annual payroll.
- Details as to how water, sewer and electricity utilities will be provided to the project.
- Details of any current real estate facility that will be closed/abandoned as a result of the new project.

- Include financing term sheets from a financial institution or group of institutional investors that will be the funding source of the AFICA Financing. The financing term sheets must include a financing sources and uses.
- Include minimum 10-year projected debt-service coverage based on projected operating cash flows against projected interest and principal payment requirements of the AFICA Financing.
- For AFICA Financings to be used for the construction and development of an Eligible Project, include a construction and development budget, with construction line-items, AFICA Financing and cash capital equity disbursements at closing date and annually for the construction period. Obligor must include explanation on how the construction and development budget was prepared, level of completion of the construction and design plans, involvement of construction contractors in preparing the construction budget.

AFICA reserves the right to request any other type of information / data as part of its due diligence and review of a proposed AFICA Financing and to waive compliance with any of the foregoing requirements.