

FINANCIAL OVERSIGHT & MANAGEMENT BOARD FOR PUERTO RICO



David A. Skeel, Jr.
Chair

Members

Andrew G. Biggs
Arthur J. González
Antonio L. Medina
John E. Nixon
Justin M. Peterson
Betty A. Rosa

BY ELECTRONIC MAIL

June 9, 2022

The Honorable Pedro Pierluisi Urrutia
Governor
Commonwealth of Puerto Rico

Dear Governor Pierluisi Urrutia,

Pursuant to a Resolution a copy of which is attached hereto as Exhibit A (the “Resolution”), adopted by the Financial Oversight and Management Board for Puerto Rico (the “Oversight Board”), and Section 202(f) of the Puerto Rico Oversight, Management, and Economic Stability Act (“PROMESA”), the Oversight Board hereby issues to the Governor this compliance certification that the proposed fiscal year 2023 budget for the Puerto Rico Aqueduct and Sewer Authority (“PRASA”), as jointly developed by the Governor and the Oversight Board, consisting of the document attached hereto as Exhibit 1, is a compliant budget as set forth in the Resolution.

The Oversight Board looks forward to working with the Commonwealth and PRASA to accomplish the goals of PROMESA for the benefit of the people of Puerto Rico.

Sincerely,

David A. Skeel, Jr.

Andrew G. Biggs
Arthur J. Gonzalez
Antonio L. Medina
John E. Nixon
Justin M. Peterson
Betty A. Rosa

CC: Mr. Jaime A. El Koury
Hon. Omar Marrero Díaz
PRASA Governing Board

Governor Pierluisi-Urrutia
June 9, 2022
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Ms. Doriel Pagán Crespo

EXHIBIT A

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

June 3, 2022

**RESOLUTION CERTIFYING A PROPOSED FISCAL YEAR 2023 BUDGET 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; and

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

WHEREAS, Section 202(f) of PROMESA establishes a procedure for the joint development, review and approval of budgets for covered instrumentalities of the Commonwealth of Puerto Rico, such as the Puerto Rico Aqueduct and Sewer Authority (“PRASA”), providing that (i) the budget meets the general budget compliance requirements set forth under Title II; and (ii) the relevant parties – the Governor and the Oversight Board – certify that such budget reflects a consensus among them; and

WHEREAS, on May 23, 2022, the Oversight Board sent PRASA the fiscal year 2023 revenue forecast letter for PRASA to draft a proposed budget for fiscal year 2023 (“FY 2023 Proposed PRASA Budget”); and

WHEREAS, on June 1, 2022, PRASA submitted to the Oversight Board the FY 2023 Proposed PRASA Budget; and

WHEREAS, the Oversight Board held several discussions with PRASA’s representatives about the FY 2023 Proposed PRASA Budget; and

WHEREAS, after substantial deliberations, on June 3, 2022, the Oversight Board determined that the FY 2023 Proposed Revised PRASA Budget is a compliant budget as required by Section 202(f) of PROMESA, which budget is attached hereto as Exhibit 1 (the “Compliant FY 2023 PRASA Budget”); and

NOW, THEREFORE, IT IS HEREBY RESOLVED THAT, pursuant to Section 202(f) of PROMESA, the Oversight Board shall submit to the Governor the Compliant FY 2023 PRASA Budget, and such Compliant FY 2023 PRASA Budget shall be (i) deemed to be approved in consensus between the Governor and the Oversight Board; (ii) subject of a compliance certification, in the form of this Resolution, which shall also be issued by the Oversight Board to the Governor; and (iii) in full force and effect beginning on June 9, 2022.

**EXHIBIT 1: PUERTO RICO AQUEDUCT & SEWER AUTHORITY
FISCAL YEAR 2023 CERTIFIED BUDGET**

EXHIBIT 1

Section 1 – The Budget. ^[1]

REVENUES

\$ Thousands	FY23 Budget
Total Service Revenues ^[2]	\$1,098,728
Miscellaneous Revenues (incl. insurance proceeds and interest revenues)	\$2,500
Total Authority Revenues	\$1,101,228
Total Senior and Senior Sub Debt	(\$254,376)
Payroll and Related, Net ^[2]	(\$340,238)
Electricity ^[2]	(\$206,857)
Maintenance & Repair ^[2]	(\$57,942)
Chemicals ^[2]	(\$55,565)
Other Expenses ^[2]	(\$189,792)
Capitalized Expenses	\$31,465
Total Net Operating Expenses	(\$818,929)
Capital Improvement Fund, Net	(\$12,976)
Operating Reserve Fund	(\$14,849)
Other Deposits and Funds	(\$27,825)
Commonwealth Payments Fund	\$ 0
Balance	\$98

Notes:

[1] Includes net impact of revenue and cost saving measures that have been applied to the respective line items in the budget.

[2] Further detail and measures breakdown shown in the following pages.

TOTAL REVENUES ^[1]

\$ Thousands	FY23 Budget
Service Revenues - Regular	\$908,866
Service Revenues - Government	\$189,862
Total Service Revenues	\$1,098,728
Miscellaneous Revenues	\$2,500
Total Authority Revenues	\$1,101,228

Notes:

[1] Includes net impact of revenue measures that have been applied to the respective line items in the budget.

PAYROLL ^[1]

\$ Thousands	FY23 Budget
Payroll & Related ^[2]	\$217,660
Net Additions ^[3]	\$3,654
Christmas Bonus	\$3,182
Health Medical Plan ^[4]	\$21,742
Pension Pay Go	\$94,000
Total Gross Payroll and related	\$340,238
Capitalized Cost	(\$31,465)
Total Net Payroll and related	\$308,773

Notes:

- [1] Includes net impact of expense saving measures that have been applied to the respective line items in the budget.
- [2] Includes Pre-Retirement expenses.
- [3] Net additions (i.e., net additions = new hires - employees leaving). This value is based on the best available information provided by PRASA at the time of reporting.
- [4] Excludes health medical plan costs for Net additions and Pre-Retired employees which are accounted for in the respective line items.

MAINTENANCE & REPAIRS ^[1]

\$ Thousands	FY23 Budget
Corrective Maintenance and Repair	\$53,645
Preventive Maintenance	\$4,297
Total Maintenance & Repair	\$57,942

Notes:

[1] Includes net impact of cost saving measures that have been applied to the respective line items in the budget.

OTHER EXPENSES ^[1]

\$ Thousands	FY23 Budget
Operations ^[2]	\$34,349
Professional Services ^[3]	\$28,235
Technical Assistance ^[3]	\$20,742
Materials & Supplies	\$16,121
Billings & Collections	\$14,332
Rentals	\$16,303
IT Services / Licenses	\$11,829
Water Transport	\$1,485
Asphalt materials and services	\$5,500
Fuels and Oils	\$10,526
Waste Treatment & Disposal	\$6,573
Third Party Vendors	\$5,176
Telephone and Network	\$4,700
Other Expenses (office supplies + others)	\$3,823
Water Purchase	\$9,096
Contingencies & Fines	\$1,002
Total Other Expenses ^[3]	\$189,792

Notes:

- [1] Includes net impact of cost saving measure that have been applied to the respective line items in the budget.
- [2] Includes SuperAqueduct Operations, Insurance and Security expenses.
- [3] Further details in schedules below.

PROFESSIONAL SERVICES ^[1]

\$ Thousands	FY23 Budget
Legal Consulting Fee	\$3,256
Financial Audit and Consulting	\$350
Marketing and Advertising	\$100
Other Professional Services	\$24,529
Total Professional Services	\$28,235

TECHNICAL ASSISTANCE ^[1]

\$ Thousands	FY23 Budget
Technical Assistance	\$16,967
Bacteriological and Chemical Analysis	\$3,775
Total Technical Assistance	\$20,742

Notes:

[1] Includes net impact of cost saving measures that have been applied to the respective line items in the budget.

CAPITAL IMPROVEMENT FUNDING BREAKDOWN

\$ Thousands	FY23 Budget
Beginning Cash Balance Use	\$109,075
FEMA/CDBG Appropriations ^[1]	\$280,316
American Rescue Plan Act Funds	\$21,085
State Revolving Funds (Grants & Loans)	\$176,537
Rural Development Funds (Grants & Loans)	\$6,171
PRASA Operating Revenues	\$12,976
Total Capital Improvement Plan Funding	\$606,160

CAPITAL IMPROVEMENT PLAN EXPENDITURES BREAKDOWN ^[2]

\$ Thousands	FY23 Budget
Reconstruction & Recovery	\$274,230
Renewal & Replacement	\$55,185
Mandatory Compliance	\$94,828
Non-Mandatory Compliance	\$51,230
Fleet & IT	\$23,426
Quality	\$38,721
Safety & Growth	\$12,526
Electric Generators and Meters	\$26,601
Emergency & Contingencies	\$1,000
Others	\$28,413
Total Capital Improvement Plan Expenditures	\$606,160

Notes:

[1] Authority entered into a sub-award agreement with for \$200 million in CDBG funding to cover the state match of the FEMA permanent works.

[2] Per PRASA's 2022 Certified Fiscal Plan.

EXHIBIT 1 (cont'd)

ENFORCEMENT OF THE PUERTO RICO AQUEDUCT AND SEWER AUTHORITY FY23 BUDGET

Section 2.- All expenditures authorized in any prior fiscal year are terminated and no disbursement of public funds may be covered by such expenditure authorization, except: (1) expenditures to carry out capital improvements that have been accounted for and kept on the books; (2) capital and maintenance expenditures with procurement cycles that extend beyond the end of the fiscal year that have been accounted for and kept on the books; (3) the portion of any other expenditures authorized in the Puerto Rico Aqueduct and Sewer Authority (“PRASA”) Certified Budget for fiscal year 2022; and (4) the portion of the appropriations authorized for fiscal year 2022 that have been allocated, transferred, or designated on or before June 30 of such fiscal year. This restriction on expenditures authorized in any prior fiscal year shall not apply to: (i) programs financed in whole or part with federal funds; to (ii) orders by the United States district court with jurisdiction over all matters under Title III of PROMESA; (iii) matters pertaining to any consent decree or injunction, or an administrative order or settlement entered into with a Federal Agency, with respect to Federal programs; and (iv) as otherwise required under PRASA’s Master Agreement of Trust.

Section 3.- On or before August 31, 2022, the Executive Director of PRASA will provide to the Oversight Board a certification indicating whether there are any unused amounts of the fiscal year 2022 certified budget for items (1), (2), (3), and (4) of Section 2 and, if so, an itemization of such unused amounts.

Section 4.- Notwithstanding any other statement, no unused budget allotments from any previous fiscal year shall be used by PRASA to fund current fiscal year expenditures, except as otherwise expressly authorized by the Oversight Board in writing after June 30, 2022.

Section 5.- Any amount remaining to the credit of the Surplus Fund in accordance with Section 5.13(e) of the MAT may only be applied to expenditures set forth in this certified Budget and subject to prior express written approval by the Oversight Board.

Section 6.- Prior express written approval from the Oversight Board shall be required for: (a) any reapportionment between the expense categories set forth on page 2 of this Exhibit; and (b) any reapportionment within (i) the Payroll category on page 4 of this Exhibit, (ii) the Professional Services category on page 7 of this Exhibit.

Section 7.- Reapportionments within (i) Maintenance and Repair and (ii) Chemicals, set forth on page 1 of this Exhibit, and (iii) the Technical Assistance category on page 7 of this Exhibit will not require prior approval from the Oversight Board, provided that on a monthly basis PRASA

reports to the Oversight Board a detailed description of the event that required such reapportionment and the specific budget line items being modified.

Section 8.- Pursuant to Section 203 of PROMESA, PRASA must submit to the Oversight Board, no later than 15 days after the last day of each month of fiscal year 2023, a budget to actual report, along with an explanation of relevant variances as provided in the certified Fiscal Plan. The Oversight Board may determine to provide PRASA a template to be used for such reporting, in which case any quarterly budget to actual reports submitted by PRASA must be submitted consistent with such reporting template.

Section 9.- The Executive Director of PRASA shall be responsible for not spending or encumbering during FY2023 any amount that exceeds the authorized budget amounts. This prohibition applies to every budget amount authorized herein, including amounts for payroll and related costs. The Executive Director of PRASA shall also certify to the Oversight Board by August 31, 2022 that no amount was spent or encumbered that exceeded the authorized budget amount in the certified budget for fiscal year 2022.

Section 10.- The Oversight Board reserves the right to, in its sole discretion, issue a notice to the Governor, pursuant to PROMESA Section 202(a), setting forth a schedule for revising PRASA's budget.

Section 11.- The PRASA budget for FY2023 shall take effect on July 1, 2022.