



GOVERNMENT OF PUERTO RICO
PUERTO RICO FISCAL AGENCY AND FINANCIAL ADVISORY AUTHORITY

Government of Puerto Rico

Debt Affordability Report

For Fiscal Years 2022 & 2023

(Pursuant to Article VI of the Debt Management Policy)

November 4, 2024

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1. Introduction

Pursuant to Article VI of the Government of Puerto Rico's (the "**Government**", or the "**Commonwealth**") Debt Management Policy (the "**DMP**"), the Puerto Rico Fiscal Agency and Financial Advisory Authority ("**AAFAF**", for its Spanish acronym) is required to conduct periodic reviews of the affordability of its tax-supported debt and publish an annual Debt Affordability Report (the "**Report**"). This Report covers the Government's review for Fiscal Years ("**FY**") 2022 and 2023.

This Report includes illustrative calculations of the comprehensive cap ("DMB Comprehensive Cap") and Debt Limit ("Constitutional Debt Limit"), as established in the Debt Management Policy¹ and the Constitution of the Commonwealth of Puerto Rico (the "Constitution"), respectively. These calculations are provided for informational purposes as the Government has not issued new tax-supported debt since the effective date of the Commonwealth's Plan of Adjustment ("CW POA") on March 15, 2022.

This Report includes an overview of the Government's tax-supported debt portfolio as of Fiscal Years 2022 and 2023, along with a risk assessment of the Government's tax-supported debt.

¹ <https://puertoricobonds.pr.gov/puerto-rico-fiscal-agency-and-financial-advisory-authority-pr/documents/view-file/i6113?mediald=736594>

2. DMP Comprehensive Cap

A. FY2022 DMP Comprehensive Cap Calculation

FY2022 Debt Policy Revenues

The following table provides a breakdown of the Debt Policy Revenues for FY2021 and FY2022, in accordance with Article I of the DMP.

(\$ in millions)	FY 2021	FY 2022
General Fund Revenues¹		
Sales and Use Tax	\$ 2,498	\$ 2,686
Individual Income Taxes	2,343	2,806
Corporate Income Taxes	2,144	2,608
Act 154	1,753	1,579
Non-Resident Withholdings	367	493
Alcoholic Beverages	266	283
Cigarettes	114	91
Motor Vehicles	612	650
Excise Off-Shore Shipment Rum	155	254
Partnerships	474	465
Other Excise Taxes	319	201
Other General Fund Revenues ²	622	686
Sub-total, General Fund Revenues	\$ 11,667	\$ 12,800
General Fund Misc. Tax Streams ³	479	436
Conditionally Allocable Revenues ⁴	993	672
Total General Fund Revenues	\$ 13,139	\$ 13,908
Special Revenue Fund (SRFs)		
SRF Commonwealth Agencies Public Corps. ⁵	1,290	1,305
SRF - IFCUs ⁶	1,205	1,502
Enterprise Fund Revenues ⁷	794	862
Total Special Revenue Funds	\$ 3,289	\$ 3,670
Total Own Source of Revenues	\$ 16,428	\$ 17,578
(+) COFINA Settlement Amount ⁸	454	473
Debt Policy Revenues	\$ 16,882	\$ 18,050

1. Source: General Fund Revenues included in the subtotal are sourced from the Puerto Rico Treasury Department, General Fund Net Revenues Report, [General Fund Net Revenues | Puerto Rico Treasury Department](#).

2. Note: Caption includes select, smaller revenue streams, such as interest, tax on dividends, excise taxes on horse races, insurance premiums, slot machine revenue, lottery revenues, motor vehicle licenses, alcoholic licenses, among others.

3. Source: Puerto Rico Treasury Department. Note: Caption includes select portions of various revenue streams tied to General Fund and specific allocations, such as FAM portion of SUT, portion of rum cover over tax transferred to third parties, portions of cigarette excise tax collections allocated to third parties, among others.

4. Source: Puerto Rico Treasury Department. Note: Caption includes select revenue streams based on legal designation, such as gasoline excise taxes, gas oil and diesel taxes, Vehicle License Fees, certain portions of the cigarette excise tax, among others.

5. Source: Puerto Rico Treasury Department, Treasury Single Account Liquidity Report – Report 1(A), [Treasury Single Account \(TSA\)](#). Note: Includes all Special State Funds, Own Income, and Other Income related to all Commonwealth agencies and public corporations (e.g., Gaming Commission, Department of Health, AACA, Transportation and Public Works, Education, Justice, General Services Administration), among approximately 45 other Government Entities and programs.

6. Source: Puerto Rico Treasury Department, Independently Forecasted Component Unit Liquidity Report – Report 1(C), [Independently Forecasted Component Unit Liquidity Report - Report 1\(C\)](#). Note: Caption includes revenues generated by the Tourism Company, ASES, ADEA, PRITA, ASEM, PBA, Cardiovascular Center Corporation of Puerto Rico and the Caribbean, CCDA, SIFC and AAFAF. In accordance with the DMP, this caption excludes HFA and Ports Authority revenues.

7. Source: Puerto Rico Treasury Department. Note: Caption includes revenues generated by the 9-1-1 Fund, the Lottery Fund, and the Unemployment Fund.

8. Source: Municipal Rulemaking Securities Board, Electronic Municipal Market Access, Collection Highlights Report, [Municipal Securities Rulemaking Board:EMMA](#).

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The Debt Policy Revenues presented in this report are based on a cash or budgetary accounting basis, recognizing revenue only when cash is received. Conversely, in accordance with the Government Accounting Standards Board (GASB), the Government-wide financial statements are prepared using an accrual basis of accounting, recognizing revenue when earned, regardless of the timing of related cashflows, and Governmental Fund financial statements are prepared using modified accrual basis of accounting, recognizing revenue as soon as it both measurable and available, and net of estimated overpayments and amounts considered not collectible. This difference in accounting methods may result in differences between the Debt Policy Revenues contained in this report and the revenues reported in the Government's audited financial statements.

FY2022 DMP Comprehensive Cap Calculation

The following table provides the calculation of the DMP Comprehensive Cap on all net tax-supported debt as of June 30, 2022, in accordance with Article II of the DMP. As of June 30, 2022, the Government's Primary Debt Limit Ratio was 6.58%, below the established limit of 7.94%, while the Government's Secured Debt Sub-Limit Ratio remained at 0.00%, below the established limit of 0.25%.

<i>(\$ in millions)</i>	FY 2021	FY 2022
Debt Policy Revenues	\$ 16,882	\$ 18,050
Average Annual Debt Policy Revenues (FY21 & FY22)	\$17,466	
Maximum Annual Debt Service on Net Tax-Supported Debt (Per DMP Exhibit D)¹	\$1,150	
Maximum Annual Debt Service on Secured Net Tax-Supported Debt (As Defined in DMP)²	\$0	
A. Primary Debt Limit Ratio as of June 30, 2022 (Per Article 2.1.A of DMP)	6.58%	
Primary Debt Limit (As Defined in DMP)	7.94%	
B. Secured Debt Sub-Limit Ratio as of June 30, 2022 (Per Article 2.1.B of DMP)	0.00%	
Secured Debt Sub-Limit (As Defined in DMP)	0.25%	

1. As defined in Article I of the DMP, excludes debt service on the General Obligation Capital Appreciation Bonds and Contingent Value Instruments issued as part of the Commonwealth of Puerto Rico's Plan of Adjustment.
2. As defined in Article II of the DMP, excludes debt service on COFINA bonds that were outstanding as of the effective date of the Commonwealth of Puerto Rico's Plan of Adjustment.

B. FY2023 DMP Comprehensive Cap Calculation

FY2023 Debt Policy Revenues

The following table provides a breakdown of the Debt Policy Revenues for FY2022 and FY2023, in accordance with Article I of the DMP.

(\$ in millions)	FY 2022	FY 2023
General Fund Revenues¹		
Sales and Use Tax	\$ 2,686	\$ 2,778
Individual Income Taxes	2,806	2,883
Corporate Income Taxes	2,608	2,954
Act 154	1,579	742
Non-Resident Withholdings	493	662
Alcoholic Beverages	283	292
Cigarettes	91	83
Motor Vehicles	650	652
Excise Off-Shore Shipment Rum	254	186
Partnerships	465	405
Other Excise Taxes	201	50
Other General Fund Revenues ²	686	955
Sub-total, General Fund Revenues	\$ 12,800	\$ 12,643
General Fund Misc. Tax Streams ³	436	445
Conditionally Allocable Revenues ⁴	672	653
Total General Fund Revenues	\$ 13,908	\$ 13,741
Special Revenue Fund (SRFs)		
SRF Commonwealth Agencies Public Corps. ⁵	1,305	1,748
SRF - IFCUs ⁶	1,502	1,829
Enterprise Fund Revenues ⁷	862	927
Total Special Revenue Funds	\$ 3,670	\$ 4,504
Total Own Source of Revenues	\$ 17,578	\$ 18,245
(+) COFINA Settlement Amount ⁸	473	492
Debt Policy Revenues	\$ 18,050	\$ 18,737

- Source: General Fund Revenues included in the subtotal are sourced from the Puerto Rico Treasury Department, General Fund Net Revenues Report - [General Fund Net Revenues | Puerto Rico Treasury Department](#).
- Note: Caption includes select, smaller revenue streams, such as interest, tax on dividends, excise taxes on horse races, insurance premiums, slot machine revenue, lottery revenues, motor vehicle licenses, alcoholic licenses, among others.
- Source: Puerto Rico Treasury Department. Note: Caption includes select portions of various revenue streams tied to General Fund and specific allocations, such as FAM portion of SUT, portion of rum cover over tax transferred to third parties, portions of cigarette excise tax collections allocated to third parties, among others.
- Source: Puerto Rico Treasury Department. Note: Caption includes select revenue streams based on legal designation, such as gasoline excise taxes, gas oil and diesel taxes, Vehicle License Fees, certain portions of the cigarette excise tax, among others.
- Source: Puerto Rico Treasury Department, Treasury Single Account Liquidity Report – Report 1(A), [Treasury Single Account \(TSA\)](#). Note: Includes all Special State Funds, Own Income, and Other Income related to all Commonwealth agencies and public corporations (e.g., Gaming Commission, Department of Health, AACA, Transportation and Public Works, Education, Justice, General Services Administration), among approximately 45 other Government Entities and programs.
- Source: Puerto Rico Treasury Department, Independently Forecasted Component Unit Liquidity Report – Report 1(C), [Independently Forecasted Component Unit Liquidity Report - Report 1\(C\)](#). Note: Caption includes revenues generated by the Tourism Company, ASES, ADEA, PRITA, ASEM, PBA, Cardiovascular Center Corporation of Puerto Rico and the Caribbean, CCDA, SIFC and AAFAF. In accordance with the DMP, this caption excludes HFA and Ports Authority revenues.
- Source: Puerto Rico Treasury Department. Note: Caption includes revenues generated by the 9-1-1 Fund, the Lottery Fund, and the Unemployment Fund.
- Source: Municipal Rulemaking Securities Board, Electronic Municipal Market Access, Collection Highlights Report, [Municipal Securities Rulemaking Board:EMMA](#).

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FY2023 DMP Comprehensive Cap Calculation

The following table provides the calculation of the DMP Comprehensive Cap on all net tax-supported debt as of June 30, 2023, in accordance with Article II of the DMP. As of June 30, 2023, the Government's Primary Debt Limit Ratio was 6.25%, below the established limit of 7.94%, while the Government's Secured Debt Sub-Limit Ratio remained at 0.00%, below the established limit of 0.25%.

<i>(\$ in millions)</i>	FY 2022	FY 2023
Debt Policy Revenues	\$ 18,050	\$ 18,737
Average Annual Debt Policy Revenues (FY22 & FY23)	\$18,394	
Maximum Annual Debt Service on Net Tax-Supported Debt (Per DMP Exhibit D)¹	\$1,150	
Maximum Annual Debt Service on Secured Net Tax-Supported Debt (As Defined in DMP)²	\$0	
A. Primary Debt Limit Ratio as of June 30, 2023 (Per Article 2.1.A of DMP)	6.25%	
Primary Debt Limit (As Defined in DMP)	7.94%	
B. Secured Debt Sub-Limit Ratio as of June 30, 2023 (Per Article 2.1.B of DMP)	0.00%	
Secured Debt Sub-Limit (As Defined in DMP)	0.25%	

1. As defined in Article I of the DMP, excludes debt service on the General Obligation Capital Appreciation Bonds and Contingent Value Instruments issued as part of the CW POA.
2. As defined in Article II of the DMP, excludes debt service on COFINA bonds that were outstanding as of the effective date of the CW POA.

3. ***Constitutional Debt Limit***

A. ***FY2022 Constitutional Debt Limit Calculation***

The following table provides the calculation of the Constitutional Debt Limit Ratio as of June 30, 2022, in accordance with Section 2 of Article VI of the Constitution. As of June 30, 2022, the Constitutional Debt Limit Ratio was 6.61%.

<i>(\$ In millions)</i>	FY 2021	FY 2022
General Fund Revenues from Internal Sources ¹	\$ 11,389	\$ 12,519
Average General Fund Revenues from Internal Sources (FY21 & FY22)	\$11,954	
Maximum Annual Debt Service on General Obligation Bonds ²	\$790	
Debt Service Paid on Guaranteed Obligations in Preceding FY ³	<u>\$0</u>	
Debt Service Subject to Constitutional Debt Limit	<u>\$790</u>	
Constitutional Debt Limit Ratio as of June 30, 2022 (§2 Article VI of PR Constitution)	6.61%	
Constitutional Debt Limit (§2 Article VI of PR Constitution)	15.00%	

B. ***FY2023 Constitutional Debt Limit Calculation***

The following table provides the calculation of the Constitutional Debt Limit Ratio as of June 30, 2023, in accordance with Section 2 of Article VI of the Constitution. As of June 30, 2023, the Government's Constitutional Debt Limit Ratio was 6.18%.

<i>(\$ In millions)</i>	FY 2022	FY 2023
General Fund Revenues from Internal Sources ¹	\$ 12,519	\$ 12,426
Average General Fund Revenues from Internal Sources (FY22 & FY23)	\$12,473	
Maximum Annual Debt Service on General Obligation Bonds ²	\$771	
Debt Service Paid on Guaranteed Obligations in Preceding FY ³	<u>\$0</u>	
Debt Service Subject to Constitutional Debt Limit	<u>\$771</u>	
Constitutional Debt Limit Ratio as of June 30, 2023 (§2 Article VI of PR Constitution)	6.18%	
Constitutional Debt Limit (§2 Article VI of PR Constitution)	15.00%	

1. In accordance with Section 2 of Article VI of the Constitution, Revenues from Internal Sources represent the Net General Fund Revenues from internal sources as published by the Treasury Department on its website.

2. Maximum Annual Debt Service on General Obligation Bonds excludes the debt service on Contingent Value Instruments and COFINA bonds that were outstanding as of the effective date of the CW POA.

3. Excluding COFINA bonds that were outstanding as of the effective date of the CW POA, the Government did not have any Guaranteed Obligations.

4. Tax-Supported Debt Portfolio

A. **General Obligation Bonds**

On the effective date² of the CW POA, the Commonwealth issued \$7.4 billion in Current Interest Bonds (the “**New GO CIBs**”) and Capital Appreciation Bonds (the “**New GO CABs**”, and together, the “**New GO Bonds**”).

The following table provides the outstanding par amount of New GO CIBs and accreted value of New GO CABs as of June 30, 2022:

New GO CIB Bonds			New CABs			
CUSIP	Par Amount	Maturity Date	CUSIP	Initial Accreted Value	Accreted Value (As of 6/30/22)	Maturity Date
74514L3E5	\$ 725,770,000	7/1/2023	74514L3Q8	\$ 288,241,990	\$ 302,792,981	7/1/2024
74514L3F2	723,735,000	7/1/2025	74514L3R6	442,506,554	466,549,460	7/1/2033
74514L3G0	717,180,000	7/1/2027				
74514L3H8	705,545,000	7/1/2029				
74514L3J4	685,290,000	7/1/2031				
74514L3K1	649,835,000	7/1/2033				
74514L3L9	584,115,000	7/1/2035				
74514L3M7	501,325,000	7/1/2037				
74514L3N5	681,610,000	7/1/2041				
74514L3P0	708,865,000	7/1/2046				
Total	\$ 6,683,270,000		Total	\$ 730,748,543	\$ 769,342,441	

The following table provides the outstanding par amount of New GO CIBs and accreted value of New GO CABs as of June 30, 2023:

New GO CIB Bonds			New CABs			
CUSIP	Par Amount	Maturity Date	CUSIP	Initial Accreted Value	Accreted Value (As of 6/30/23)	Maturity Date
74514L3E5	\$ 362,955,000	7/1/2023	74514L3Q8	\$ 288,241,990	\$ 206,504,822	7/1/2024
74514L3F2	723,735,000	7/1/2025	74514L3R6	442,506,554	491,963,857	7/1/2033
74514L3G0	717,180,000	7/1/2027				
74514L3H8	705,545,000	7/1/2029				
74514L3J4	685,290,000	7/1/2031				
74514L3K1	649,835,000	7/1/2033				
74514L3L9	584,115,000	7/1/2035				
74514L3M7	501,325,000	7/1/2037				
74514L3N5	681,610,000	7/1/2041				
74514L3P0	708,865,000	7/1/2046				
Total	\$ 6,320,455,000		Total	\$ 730,748,543	\$ 698,468,679	

² March 15, 2022.

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The table showing outstanding New GO CIBs and accreted value of New GO CABs as of June 30, 2023 has been adjusted to reflect sinking fund installments paid on July 1, 2022.

B. COFINA Bonds

On the effective date³ of the COFINA Plan of Adjustment (the “**COFINA POA**”), COFINA issued \$12 billion in Current Interest Bonds (the “**COFINA CIB Bonds**”) and Capital Appreciation Bonds (the “**COFINA CABs**”, and together the “**New COFINA Bonds**”).

The following table provides the outstanding par amount of COFINA CIBs and accreted value of COFINA CABs as of June 30, 2022:

COFINA CIBs			COFINA CABs			
CUSIP	Par Amount	Maturity Date	CUSIP	Initial Principal	Accreted Value (6/30/2022)	Maturity Date
74529JPU3	\$ 370,347,000	7/1/2034	74529JQB4	\$ 164,709,061	\$ 154,223,055	7/1/2024
74529JQJ7	4,743,000	7/1/2034	74529JQR9	2,109,895	1,975,404	7/1/2024
74529JRJ6	456,562,000	7/1/2040	74529JQC2	243,231,623	288,126,228	7/1/2027
74529JRH0	1,851,794,000	7/1/2040	74529JS7	3,114,981	3,689,930	7/1/2027
74529JQY4	301,265,000	7/1/2040	74529JD0	217,406,115	257,535,545	7/1/2029
74529JPY5	53,291,000	7/1/2040	74529JT5	2,784,372	3,298,320	7/1/2029
74529JPV1	187,553,000	7/1/2040	74529QE8	252,923,992	301,045,217	7/1/2031
74529JRR8	26,422,000	7/1/2040	74529JU2	3,238,971	3,855,217	7/1/2031
74529JQK4	2,402,000	7/1/2040	74529JQF5	260,417,546	309,964,054	7/1/2033
74529JRQ0	81,670,000	7/1/2040	74529JV0	3,334,878	3,969,365	7/1/2033
74529JRM9	35,156,000	7/1/2040	74529JG3	1,094,968,232	1,347,590,276	7/1/2046
74529JPW9	1,375,772,000	7/1/2053	74529JW8	14,023,070	17,258,358	7/1/2046
74529JRK3	56,194,000	7/1/2053	74529JH1	631,551,115	784,684,146	7/1/2051
74529JPZ2	827,000	7/1/2053	74529JX6	8,087,931	10,049,022	7/1/2051
74529JQL2	17,619,000	7/1/2053				
74529JRN7	723,000	7/1/2053				
74529JPX7	3,479,051,000	7/1/2058				
74529QA6	19,673,000	7/1/2058				
74529JRL1	744,111,000	7/1/2058				
74529JQM0	44,554,000	7/1/2058				
74529JRP2	9,691,000	7/1/2058				
Total	\$ 9,119,420,000		Total	\$ 2,901,901,783	\$ 3,487,264,135	

³ February 12, 2019.

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The following table provides the outstanding par amount of COFINA CIBs and accreted value of COFINA CABs as of June 30, 2023:

COFINA CIBs			COFINA CABs			
CUSIP	Par Amount	Maturity Date	CUSIP	Initial Principal	Accreted Value (6/30/2023)	Maturity Date
74529JPU3	\$ 370,347,000	7/1/2034	74529JQB4	\$ 164,709,061	\$ 124,128,641	7/1/2024
74529JQJ7	4,743,000	7/1/2034	74529JQR9	2,109,895	1,590,483	7/1/2024
74529JRJ6	456,562,000	7/1/2040	74529JQC2	243,231,623	300,870,458	7/1/2027
74529JRH0	1,851,794,000	7/1/2040	74529JQS7	3,114,981	3,853,141	7/1/2027
74529JQY4	301,265,000	7/1/2040	74529JQD0	217,406,115	268,924,381	7/1/2029
74529JPY5	53,291,000	7/1/2040	74529JQT5	2,784,372	3,444,179	7/1/2029
74529JPV1	187,553,000	7/1/2040	74529JQE8	252,923,992	314,742,776	7/1/2031
74529JRR8	26,422,000	7/1/2040	74529JQU2	3,238,971	4,030,629	7/1/2031
74529JQK4	2,402,000	7/1/2040	74529JQF5	260,417,546	324,070,342	7/1/2033
74529JRQ0	81,670,000	7/1/2040	74529JQV0	3,334,878	4,150,008	7/1/2033
74529JRM9	35,156,000	7/1/2040	74529JQG3	1,094,968,232	1,420,998,926	7/1/2046
74529JPW9	1,375,772,000	7/1/2053	74529JQW8	14,023,070	18,198,490	7/1/2046
74529JRK3	56,194,000	7/1/2053	74529JQH1	631,551,115	829,428,005	7/1/2051
74529JPZ2	827,000	7/1/2053	74529JQX6	8,087,931	10,622,032	7/1/2051
74529JQL2	17,619,000	7/1/2053				
74529JRN7	723,000	7/1/2053				
74529JPX7	3,479,051,000	7/1/2058				
74529JQA6	19,673,000	7/1/2058				
74529JRL1	744,111,000	7/1/2058				
74529JQM0	44,554,000	7/1/2058				
74529JRP2	9,691,000	7/1/2058				
Total	\$ 9,119,420,000		Total	\$ 2,901,901,783	\$ 3,629,052,492	

5. Risk Assessment

A. Authorization for Issuance of GO Bonds and COFINA Bonds

The bonds issued under the CW POA and COFINA POA were authorized under Commonwealth law and are protected by the findings, injunctions and continuing jurisdiction of the US District Court for the District of Puerto Rico.

Puerto Rico Act No. 53-2021 (the “**CW POA Legislation**”) and Act No. 241-2018 (the “**COFINA POA Legislation**”) authorized the issuance of the New GO Bonds and New COFINA Bonds. The respective Title III Court Confirmation Orders confirmed that the CW POA Legislation and COFINA POA Legislation were validly enacted by the Commonwealth and are valid and effective in accordance with their terms.

B. Debt Management Policy

Pursuant to Article 3 of Act No. 101-2020, as amended, known as the “Puerto Rico Debt Responsibility Act” (the “**Debt Responsibility Act**”), AAFAF was required to adopt and maintain a debt management policy that is consistent with the CWPOA. On March 9, 2022, AAFAF adopted the DMP.

The DMP established procedures and limitations to ensure the prudent use and management of debt instruments by the Government. Specifically, the DMP provides for the following:

Article II: Establishes the DMP Comprehensive Cap on all net tax-supported debt, including the Primary Debt Limit and Secured Debt Sub-Limit levels, to ensure that any new tax supported debt issuances remain within acceptable levels, as determined by the DMP.

- I. As of June 30, 2022, and June 30, 2023, the Government’s tax-supported debt levels were below both the Primary Debt and the Secured Debt Sub-Limits (Refer to Section 2 for these calculations).*

Article III: Establishes additional restrictions on the issuance of tax-supported Debt and outlines the parameters for the issuance of debt by the Commonwealth. These restrictions include limiting debt issuances for specific purposes, establishing maturity limitations and mandatory principal amortization for future debt issuances, and setting savings hurdles required for refinancings.

- I. The Commonwealth has not issued incremental debt, or refinanced existing debt since the effective date of the CWPOA on March 15, 2022.*

Article IV: Establishes restrictions on the issuance of debt by Public Corporations and outlines the parameters for the issuance of debt by Government Entities. The restrictions set forth in this section do not apply to the Puerto Rico Aqueduct and Sewer Authority (“**PRASA**”), the Puerto Rico Electric Power Authority (“**PREPA**”), and the Puerto Rico Highways and Transportation Authority (“**HTA**”).

- I. Public Corporations subject to Article IV of the DMP have not issued debt since the establishment of the DMP.*

Article V: Establishes limitations on short-term borrowings and advance fundings, which apply to Tax and Revenue Anticipation Notes (“**TRANS**”) and Bond or Grant Anticipation Notes (“**BANS**” or “**GANS**”).

- I. Since establishing the DMP, the Government has not issued short-term borrowings or advance fundings.*

Article VI: Requires AAFAF to conduct periodic reviews of the affordability of its tax-supported debt and publish an annual debt affordability report.

- I. As stated in Section 1, this Report covers the Government’s review of the affordability of its tax-supported debt for Fiscal Years 2022 and 2023.*

C. Constitutional Debt Limitations

Section 2 of Article VI of the Constitution established procedures and limitations to ensure the prudent use and management of debt instruments by the Government. Specifically, the Constitution provides the following:

Constitutional Debt Limit: Direct obligations of the Commonwealth shall not be issued if the principal of, and interest on, such proposed obligations that is payable in any fiscal year, together with any amount paid by the Commonwealth in the preceding fiscal year of such proposed issuance on account of obligations guaranteed by the Commonwealth, exceeds 15% of the average annual revenues deposited into the Treasury in the two fiscal years preceding the fiscal year of such proposed issuance.

- I. As of June 30, 2022, and June 30, 2023, the Government’s general obligation debt levels were below the Constitutional Debt Limit (Refer to Section 3 for the calculations).*

Maturity Limitation: Obligations of the Commonwealth shall not mature later than 30 years from their date of issuance, except for obligations for housing facilities that may mature up to 40 years from their date of issuance.

- I. The final maturity for the New General Obligation Bonds (GO Bonds) issued as part of the Commonwealth Plan of Adjustment on March 15, 2022, is in Fiscal Year 2046. This maturity falls within the maximum allowed period of 30 years from the date of issuance. Moreover, the Commonwealth did not*

issue any additional incremental Tax-Supported Debt during Fiscal Years 2022 and 2023.

D. Use of Derivatives | Exposure to Variable Rate Obligations

On September 9, 2022, AAFAF adopted the Government’s Interest Rate Derivatives Policy (the “**Derivatives Policy**”). The purpose of the Derivatives Policy is to provide general procedural direction regarding the future use, procurement and execution of all interest rate management tools, including, but not limited to, interest rate swaps, swaptions, caps, collars and floors. The Derivatives Policy assists AAFAF in determining the appropriate uses and structures for hedging strategies and the administration of derivatives.

- I. Since establishing the Derivatives Policy, the Government has not had exposure to variable debt obligations or other forms of derivative products.*