2022 Fiscal Plan for the Puerto Rico Industrial Development Company

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

May 20, 2022

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- Any future actions taken or not taken by the United States government related to Medicaid or the Affordable Care Act;
- The amount and timing of receipt of any distributions from the Federal Emergency Management Agency and private insurance companies to repair damage caused by Hurricanes María and Irma;
- The amount and timing of receipt of any amounts allocated to Puerto Rico and provided under the Community Disaster Loans Program;
- The amount and timing of any additional amounts appropriated by the United States government to address the impacts of the COVID-19 pandemic;
- The amount and timing of receipt of any additional amounts appropriated by the United States government to address the funding gap described herein;
- The timeline for completion of the work being done by the Puerto Rico Electric Power Authority ("PREPA") to repair PREPA's electric system and infrastructure and the impact of any future developments or issues related to PREPA's electric system and infrastructure on Puerto Rico's economic growth;
- The impact of the COVID-19 pandemic on the financial, social, economic, and demographic condition of Puerto Rico;
- The impact of the measures described herein on outmigration; and
- The impact of the resolution of any pending litigation in the Title III cases

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List of Acronyms and Key Terms

AAFAF	Puerto Rico Fiscal Agency and Financial Advisory Authority (Spanish acronym)
A/R	Accounts Receivables
ARP	American Rescue Plan Act
COVID-19	Coronavirus Disease 2019
Commonwealth or CW	Commonwealth of Puerto Rico
CW POA	Commonwealth Plan of Adjustment confirmed January 18, 2022
DDEC	Puerto Rico Department of Economic Development Commerce (Spanish acronym)
DSA	Debt Sustainability Analysis
EPA	United States Environmental Protection Agency
FAS	Financial Accounting System
Federal Government	The U.S. Federal Government
FEMA	Federal Emergency Management Agency
FOMB	Financial Oversight and Management Board for Puerto Rico
GDB	Government Development Bank for Puerto Rico
GDB-DRA	GDB Debt Recovery Authority
Government	Government of Puerto Rico
Governor	Governor Pedro Rafael Pierluisi Urrutia
Hurricanes	Hurricane Irma and Hurricane Maria
Island	Puerto Rico
Parties	AAFAF and the Government
PayGo	New pensions program by which agencies and instrumentalities are responsible for paying their pension obligations on an annual basis via a “Pay as you go charge”
PRIDCO	Puerto Rico Industrial Development Company
PRIICO	Puerto Rico Industrial Investment Corporation
PROMESA	Puerto Rico Oversight, Management and Economic Stability Act
RFP	Request for Proposal
VTP	Voluntary Transition Program
2021 CW Fiscal Plan	2021 Fiscal Plan for Puerto Rico as certified by the Financial Oversight and Management Board on April 23, 2021
2022 CW Fiscal Plan	2022 Fiscal Plan for Puerto Rico as certified by the Financial Oversight and Management Board on January 27, 2022
2020 PRIDCO Fiscal Plan	PRIDCO Fiscal Plan certified by the Financial Oversight and Management Board on June 29, 2020
2021 PRIDCO Fiscal Plan	PRIDCO Fiscal Plan certified by the Financial Oversight and Management Board on May 27, 2021

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EXECUTIVE SUMMARY

The Puerto Rico Industrial Development Company ("PRIDCO"), a public corporation under the Puerto Rico Department of Economic Development and Commerce ("DDEC", for its Spanish acronym), was created to foster economic development in Puerto Rico by attracting investment and job creation in a variety of industries, including manufacturing, information technology and life sciences, through a portfolio of buildings, facilities, and properties.

PRIDCO is the beneficial owner of industrial and commercial-use buildings and lots that companies may rent or, in limited cases, purchase. The PRIDCO portfolio comprises one of the largest inventories of industrial properties, with 1,509 units and 727 lots located throughout Puerto Rico.

Not all of the portfolio, however, is occupied or able to be rented without significant investment. Of PRIDCO's 22.6 million square feet of buildings, 15.4 million is currently occupied, and 7.2 million is vacant.[1] It is also estimated that approximately 173 units (88 buildings) of these facilities are not able to be occupied and must be demolished or remediated. Based on the Capital Expenditures Study recently completed in accordance with section 4.7 of this fiscal plan, at least 33 of the 88 buildings were deemed structurally unsafe to enter. As the Oversight Board communicated to PRIDCO, at a minimum, these 33 properties must be closed to the public and have a plan in place for each property (e.g., timeline for demolition).[2]

Act 141-2018 mandated the consolidation of related business development activities and back-office staff functions within DDEC. As part of that effort, PRIDCO transferred all business development and back-office employees to DDEC in January 2021. In conformance with Act 141-2018 and Act 60-2019, having transferred its economic development responsibilities to DDEC, PRIDCO is no longer directly responsible for economic development activities or managing economic incentive funds. PRIDCO will instead focus exclusively on its responsibilities as a manager of PRIDCO's real estate holdings. These real estate activities will position PRIDCO as an asset owner/manager focused on: (i) servicing the needs of tenants; (ii) providing for the long-term capital needs of PRIDCO's properties to maintain occupancy; (iii) developing or re-developing sites to accommodate long-term demand for real estate; and (iv) increasing occupancy and revenue while managing expenses—all subject to the overall goal of fostering economic development in Puerto Rico.

The relationship between DDEC and PRIDCO is regulated by a memorandum of understanding ("MOU") that outlines services provided as well as reimbursement by PRIDCO to DDEC for such services (discussed further herein). Although economic development priorities now sit at DDEC with the passage of Act 141-2018 and Act 60-2019, PRIDCO can still take several actions to enhance the marketability of the properties to potential tenants.

[1] Portfolio statistics as of March 11, 2022, provided in PRIDCO's May 2, 2022, NOV response.
[2] See Oversight Board letter to PRIDCO, dated December 20, 2021 and March 2, 2022, available on the Oversight Board's website.

Similar to previously certified fiscal plans, this fiscal plan requires the enactment of certain strategic initiatives for PRIDCO to improve its operations and enhance revenue generation. This includes improving PRIDCO's capital expenditure funding, evaluating the feasibility of alternative operating models, pursuing increased occupancy, conducting a needs assessment relating to information systems, and divestment of non-rentable properties, which are discussed further in Chapters 4 and 6. Several of these strategic initiatives require the completion of studies or assessments. As a result of an agreement for a division of labor between the Oversight Board and AAFAF, PRIDCO has been working and continues to work closely with the Oversight Board and its advisors to complete the various studies, with support from AAFAF and its advisors.

To date, PRIDCO has received: (1) an analysis of the occupancy process and systems assessment; (2) quantification of capital spending needs extrapolated to the entire portfolio and, most recently, (3) a draft Desirability and Convenience Study, commonly referred to as the feasibility study, and intended to be consistent with the provisions of Article 7 of the Public-Private Partnership Act of Puerto Rico 2009 (Act 29-2009). Analyses pending completion includes: (1) continued assessment of capital spending prioritization and its impact on fiscal projections; (2) a final feasibility study assessing alternative operating models and the mechanism through which to pursue it; and (3) evaluation and identification of properties for divestment.

Where feasible, this fiscal plan incorporates conclusions from the completed studies and estimates the financial benefits of fulfilling the recommendations from those studies. To the extent possible, the implementation of conclusions from studies still in process are also incorporated in measures described in this fiscal plan. The study regarding the potential divestment of non-rentable properties is still pending and will provide further critical insight into the funding required to meet capital expenditures needs once it is completed.

Assuming all measures are implemented and achieve the expected results, this fiscal plan outlined herein results in a 30-year cumulative surplus of approximately $133.3 million. This forecasted surplus includes a portion of the necessary capital expenditures described in section 4.7 as well as cost share obligations to access FEMA funding. Furthermore, the projected surplus assumes implementation of the preliminary results of the Outsourcing Study described in section 4.5 is completed during FY23 and provides incremental revenue and improvement in underlying expenses.

PRIDCO's corporate mandate hinges on its ability to maintain its properties. PRIDCO's management team must have the proper decision-making tools and reporting internally to ensure they have the resources required to maintain PRIDCO's asset portfolio. The measures required by this fiscal plan will facilitate PRIDCO's ability to meet its mission requirements.

Chapter 1: "Long-term economic trends in Puerto Rico" and Chapter 4: "Macroeconomic and demographic trajectory" of the 2022 Commonwealth Fiscal Plan For Puerto Rico as certified by the Financial Oversight and Management Board for Puerto Rico on January 27, 2022 ("2022 CW Fiscal Plan") are hereby incorporated by reference.

PART I: PRIDCO OVERVIEW

Chapter 1. BACKGROUND

PRIDCO is a government-owned corporation established in 1942 through Act No. 188 of May 11, 1942 ("the Act"), as amended. PRIDCO was created primarily to develop industrial parks and buildings to encourage U.S. and foreign investors to establish and expand their business operations in Puerto Rico.

Until 1997, PRIDCO's efforts in fostering Puerto Rico's economic development were complemented by the activities of the Economic Development Administration ("EDA"). The EDA was an investment promotion agency of the Government of Puerto Rico ("Government") in charge of attracting new businesses in the manufacturing and services sectors. On January 1, 1998, in accordance with Act 203-1997, the powers and functions of the EDA were transferred to PRIDCO and the latter became responsible for all the operations and activities that were previously conducted by the two separate entities. After the merger, PRIDCO remained a public corporation under the umbrella of DDEC in accordance with the Executive Reorganization Act of 1993, Reorganization Plan Num. 4 of June 22, 1994.

DDEC was established to implement and monitor the execution of public policy regarding economic development in the industrial, commercial, services and tourism sectors. PRIDCO falls under the umbrella of DDEC along with the Tourism Company, Trade and Export Company, and other agencies that contribute to the economic development of Puerto Rico. PRIDCO's real estate activity complements the incentives DDEC offers to attract companies by providing access to a large inventory of industrial properties at affordable rental rates, as well as assistance with planning and permitting. PRIDCO also provides build-to-suit properties for strategic projects.

Act 141-2018 mandated the consolidation of related business development activities and back-office staff functions within DDEC. As part of that effort, PRIDCO transferred its business development and back-office employees to DDEC in January 2021. In conformance with Act 141-2018 and Act 60-2019, PRIDCO is no longer directly responsible for economic development activities or managing economic incentive funds and now focuses exclusively on its responsibilities as a manager of PRIDCO's real estate holdings. These real estate activities will position PRIDCO as an asset owner/manager focused on: (i) servicing the needs of tenants; (ii) providing for the long-term capital needs to maintain occupancy of PRIDCO's properties; (iii) developing or re-developing sites to accommodate long-term demand for real estate; and (iv) increasing occupancy and revenue while managing expenses.

The relationship between DDEC and PRIDCO is regulated by a memorandum of understanding ("MOU") that outlines services provided as well as reimbursement by PRIDCO to DDEC for such services (discussed further herein). Although economic development strategies are now the responsibility of DDEC following the passage of Act 141-2018 and Act 60-2019, PRIDCO can still take several actions to enhance the marketability of its properties to potential tenants and to greatly improve day-to-day operations to be more effective and efficient in pursuit of its critical mission.

PRIDCO's powers are vested in and exercised by a board of directors. Act 141-2018 provides that the board of directors shall consist of seven members. The Secretary of DDEC, the Secretary of the Treasury, the Executive Director of AAFAF, and the President of the Planning Board are each ex-officio members. The remaining three members are appointed by the Governor and confirmed by the Senate for terms of four years.

PRIDCO's facilities and buildings were significantly damaged by Hurricanes Irma and Maria in 2017. The earthquakes that struck Puerto Rico in 2019 and 2020 also damaged an estimated 200 PRIDCO buildings and, in a few instances, displaced PRIDCO tenants. The continuation of aftershocks through May 2020 and the impact of the COVID-19 pandemic further delayed the completion of property inspections, some of which are still ongoing. Investment in PRIDCO properties remains a priority of the current management team.

As of March 31, 2022, PRIDCO had $105.6 million in total cash reported, of which $67 million is deemed to be unrestricted and available for PRIDCO operations. Certain funds classified as restricted include, for example, incentive funds (unrelated to PRIDCO operations), FEMA funds, and tenant deposits.[3] Although many restricted account balances have been transferred to the proper account owner in accordance with Act 60-2019, a few incentive funds that do not belong to PRIDCO are still reported as being in PRIDCO's possession. For years in which deficits are projected in this fiscal plan, available unrestricted cash and prior year surpluses will be used as the funding source for capital expenditures and certain other operating costs.

[3] PRIICO is a separate public corporation, and its debt will be paid from its own resources. Any surplus cash, however, could potentially be "dividended" up to PRIDCO after PRIICO's debt is paid in full.

Chapter 2. REAL ESTATE PORTFOLIO

PRIDCO owns the largest inventory of industrial properties in Puerto Rico, with approximately 1,509 units and 727 lots. PRIDCO also owns the common areas located at industrial parks, such as street and utilities infrastructure, and is responsible for their maintenance. It is estimated that approximately 173 units (88 buildings) are not able to be occupied without remediation and the majority should be demolished.[4]

EXHIBIT 1: PRIDCO PROPERTY PORTFOLIO

Real Estate	Unit Count	Sq. Ft.
Single Tenant Building	1,173	21,418,342
Multi-Tenant Building	336	1,577,877

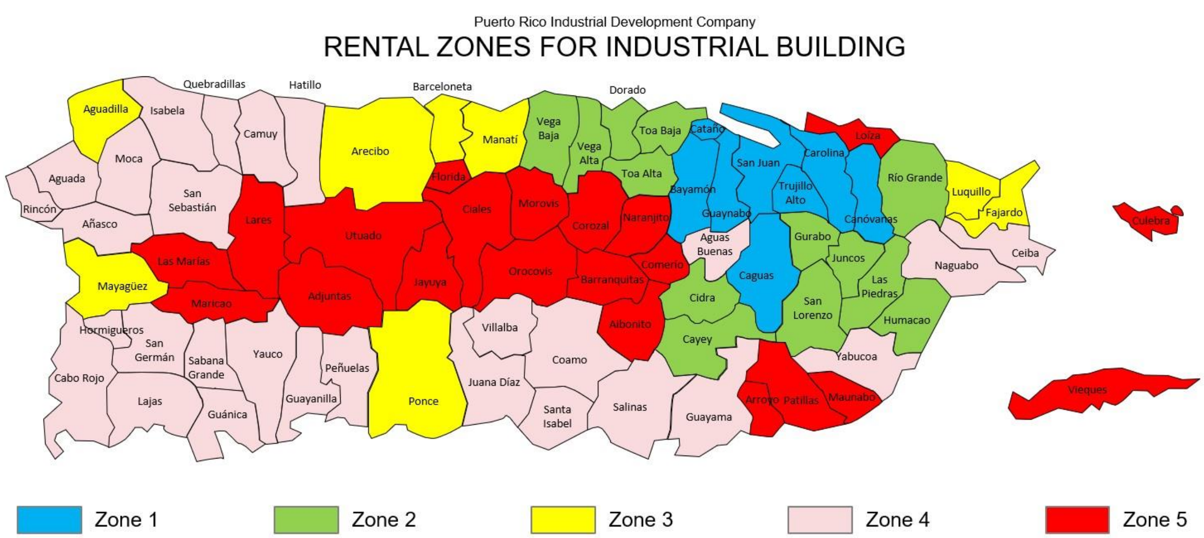
Land	Count	Sq. Meters
Lots	727	17,899,125

Source: PRIDCO Property List as of March 2022; subject to change

PRIDCO's current real estate portfolio includes 22.6 million square feet of buildings, of which 15.4 million is occupied and 7.2 million is vacant.[5] The PRIDCO portfolio is considered quite diverse, with over 524 tenants with rental agreements ranging from $0 to $268,500 per month (excluding PRIICO tenants).

Rental rates within PRIDCO's portfolio are principally determined by the industrial zone in which a property's respective municipality lies. There are 5 zones in total (ranked based on the rental rate per square foot, with Zone 1 having the highest demand and Zone 5 the lowest), as illustrated in Exhibit 2.

EXHIBIT 2: MAP OF PRIDCO RENTAL ZONES



4 Portfolio statistics as of March 22, 2021.
5 Portfolio statistics as of March 11, 2022, provided in PRIDCO's May 2, 2022, NOV response.

PRIDCO's portfolio is heavily clustered in the west, south and east regions and primarily consists of manufacturing and warehouse & distribution space. The zone categorizations for rental rates mostly consider economic factors based on a 2003 economic study performed for the issuance of the Series 2003 General Purpose Revenue Bonds. Zone 1 consists of the seven municipalities that make up the metropolitan area where real estate is considered to be highly desirable due to stable infrastructure, proximity to ports and concentration of economic activity. Zone 5 municipalities are considered to be the least desirable real estate due to their distance from the metropolitan area and limited development potential. Due to the economic hardship that Puerto Rico has suffered since 2006, rental rates have not been increased.

The portion of PRIDCO's portfolio that is currently under lease agreements (approximately 68% of units) is subject to a variety of terms and conditions resulting from different arrangements with tenants. Terms and conditions vary from full-service to triple net rent arrangements. The most common lease contract used in PRIDCO's portfolio makes tenants responsible for most maintenance expenses and makes PRIDCO responsible for major repairs and maintenance such as roofing, electrical, plumbing, and underground pest control.

PRIDCO's assets fall into three broad categories: Trusteed Properties, Non-Trusteed Properties, and PRIICO Properties.

Trusteed Properties: The Trusteed Properties are those properties owned by PRIDCO whose revenues are purportedly pledged to the holders of certain General Purpose Revenue Bonds, Series A and B (collectively, the "Revenue Bonds"), issued under a Trust Indenture, dated as of July 1, 1964, as amended (the "Trust Indenture").[6] At this time, the Trusteed Properties are believed to represent 1,343 units with over 18 million square feet of space (~67% occupied). Before the costs of maintenance and capital expenditures to ensure the properties remain inhabitable, the Trusteed Properties are anticipated to generate ~$38.2 million of gross revenue in FY2022.

Non-Trusteed Properties: The Non-Trusteed Properties are those properties owned by PRIDCO that are neither Trusteed Properties nor PRIICO Properties. At this time, the Non-Trusteed Properties are believed to represent approximately 148 units (~ 70% occupied) with 3.7 million square feet of space. Before the costs of maintenance and capital expenditures to ensure the properties remain inhabitable, the Non-Trusteed Properties are anticipated to generate ~$12.8 million of gross revenue in FY2022. The proceeds of 27 specified Non-Trusteed Properties (which comprise over eight million square meters of industrial and public lands), if and when sold, are purportedly collateral under a $25.0 million (excluding accrued, unpaid interest) note payable to the Government Development Bank – Debt Recovery Authority (the "GDB-DRA"). The GDB-DRA loan is not secured by mortgages over such Non-Trusteed Properties.

[6] Pursuant to the Trust Indenture, the term "Trusteed Properties" means: (i) those PRIDCO properties that constituted the Trusteed Properties under the 1958 Trust Indenture on the date of its release, including all machinery and other equipment owned by the Company and located on or used in connection with such properties, (ii) any other properties of the Company, including any such machinery and other equipment owned by the Company and any first mortgages on real property held by the Company as mortgagee or first mortgage bonds, which become "Trusteed Properties" by the terms of the 1964 Trust Indenture, and (iii) all improvements of and additions to the properties referred to in clauses (i) and (ii) of this paragraph which are acquired or constructed by or on behalf of the Company.

PRIICO Properties: On several occasions, PRIDCO constructed highly customized facilities that required significant capital investment to attract high-caliber tenants to Puerto Rico. PRIDCO established the Puerto Rico Industrial Investment Corporation ("PRIICO"), a separate entity, as a conduit used to borrow construction funds to develop these facilities. PRIICO borrowed funds from a commercial bank to construct six special facilities and lent the funds to PRIDCO to build the facilities. These six facilities, totaling approximately 0.8 million square feet, are leased to the tenants by PRIDCO with the rent therefrom assigned to the lender as security for the loan to PRIICO, together with a mortgage over the facility. These mortgages remain current, as the properties are 100% occupied with rent collected directly by the lender through a lock-box arrangement. These leases will expire simultaneous to the associated mortgage loans, these tenants are expected to renegotiate new leases with PRIDCO, purchase the property, or terminate the relationship. If units are not sold upon maturity of the mortgages, rental revenue is reported in the Non-Trusteed Properties rent.

There are currently ten PRIICO units with three tenants. In June 2022, the mortgage related lease agreement with one of the PRIICO tenants will terminate. PRIDCO and the tenant recently executed a two-year lease agreement covering the two units occupied by the tenant through the end of FY24. The lease agreements with the two other PRIICO tenants will expire in 2031 and 2045, although the mortgages for the two other PRIICO tenants both mature in 2031.

Despite constituting only 3.3% of PRIDCO's portfolio by total square footage, the PRIICO properties are anticipated to generate revenue of approximately $10.2 million during FY2022, or 17.0% of PRIDCO's total annual rental revenue, and will cover mortgage payments of the same amount.

PART II: 2022 PRIDCO FISCAL PLAN

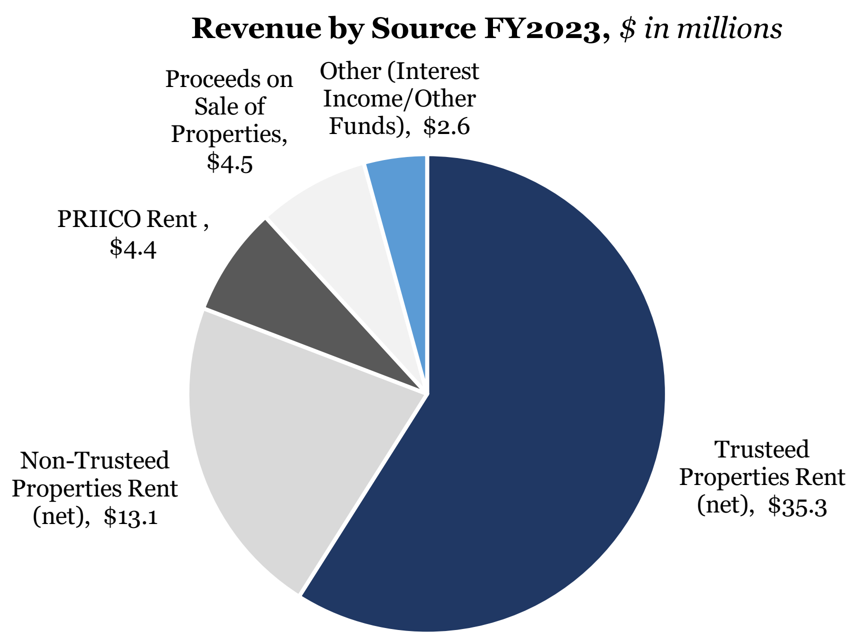
Chapter 3. BASELINE PROJECTIONS

A 30-year financial forecast was developed for PRIDCO to estimate operating cash flows and support long-term financial planning. These estimates were used to determine the viability of PRIDCO's operational measures and to estimate operating cash flows. PRIDCO's baseline revenues and expenditures are associated with real estate management and forecasted using the proposed FY2023 budget as the starting point. This fiscal plan, outlined herein, also $1incorporates the macroeconomic forecasts utilized in the 2022 CW Fiscal Plan.

3.1 Baseline Projections Overview

Considering operations per PRIDCO's existing infrastructure, the forecasted revenue is mainly driven by consistent occupancy with each occupied property renewing its lease at current rental rates upon maturity. The baseline forecast also assumes operations per PRIDCO's existing infrastructure.

EXHIBIT 3: FY23 REVENUE BY SOURCE – BASELINE PROJECTIONS



PRIDCO's baseline surplus expectation is outlined in Exhibit 4, below. The net revenue forecast is based on active leases within PRIDCO's property portfolio, net of anticipated uncollectible accounts. As illustrated in Exhibit 6, total projected revenue declines from FY2022 through FY2027 because asset sales are forecasted to return to historical norms, rental revenues decline once properties are sold throughout the projection period, and delinquency rates return to a rolling historical average (including this year's lower than historical average delinquency rate). The baseline forecast also includes a level of property sales each year consistent with historical levels.

The total operating expenses for FY23 are expected to be $40.8M of which employee payroll and related expenses are projected to be approximately $5.7 million for PRIDCO's 60 employees.[7] Consistent with the 2022 CW Fiscal Plan, expenses grow annually by inflation. Operating expenses also include an environmental liability payment estimated at $1.7 million per year from FY2023 through FY2029 (see Section 3.6 for a description). For more detailed estimates of the long-term baseline forecast, please see Appendix 1.

Revenue from PRIICO properties does not currently generate surplus because the PRIICO rents are equal to the payment of principal and interest on the mortgage loans secured by such properties. PRIICO is a separate public corporation from PRIDCO, but if excess revenues are generated by PRIICO properties after the mortgages expire in FY22 and FY31, those revenues could potentially be "dividended" up to PRIDCO after PRIICO's mortgage debt is paid in full. While this might be accretive to PRIDCO's revenues, it would likely be at significantly lower rental income levels because the original PRIICO lease rates were designed to service their mortgages, which resulted in rental rates that are higher than average market rates.

EXHIBIT 4: BASELINE SURPLUS PROJECTION (EXCLUDING DEBT SERVICE)

Item ($ thousands)	FY2023	FY2024	FY2025	FY2026	FY2027	FY2023-FY2052
Baseline Surplus	($2,166)	$2,001	($208)	$2,176	$2,071	$30,046

3.2 Personnel

PRIDCO's forecasted payroll consists of positions approved by the government human resources department at the current payroll ranges for the positions. PRIDCO's payroll also includes 16 mobility employees[8] transferred to PRIDCO from PREPA. The former PREPA employees transferred to PRIDCO include licensed engineers, project inspectors, environmental specialists, and real estate specialists, among others. While payroll and related costs for the former PREPA employees totals $1.1 million, the fiscal plan assumes PRIDCO covers this cost from currently budgeted, vacant positions and from additional revenues generated by renewing expired leases as mandated in previous fiscal plans.[9]

3.3 Pay As You Go Pensions

In compliance with Act 106-2017, PRIDCO pays the annual pension benefit obligation required by the Pay-as-you-go ("PayGo") system. The forecast for FY2023 includes payments for approximately 600 pensioners that have retired from PRIDCO. PayGo has been forecasted using baseline actuarial assumptions consistent with the 2022 CW Fiscal Plan.

Chapter 20 "Pension reform" of the 2022 CW Fiscal Plan is hereby incorporated by reference.

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[7] Includes additional of 16 PREPA employees, of which, three are inactive and not salaried.

[8] These 16 employees were transferred pursuant to the provisions of Act 8-2017, as amended, known as the "Puerto Rico Human Resources Management and Transformation in Government Act." The employees were mobilized to PRIDCO from PREPA in connection with the transfer of responsibilities to operate and maintain PREPA's Transmission & Distribution System to LUMA.

[9] These payroll costs incorporate salaries, as well as adjustments for healthcare, social security, and other benefits for these mobilized employees. As stated in Section 5.2.10 of the 2022 CW Fiscal Plan, PRIDCO must also set aside 15% of the former PREPA employee salaries to provide the employer contribution to the PREPA employee retirement system.

3.4 Shared Services Memorandum of Understanding

DDEC and its subsidiary organizations have customarily relied on MOUs to facilitate the transfer to DDEC of services and costs related to business development activities and back-office staff functions. Under an MOU, DDEC is paid by the transferor which is benefiting from the services but not directly incurring the costs. In the case of the PRIDCO MOU with DDEC, the amount transferred is referred to by DDEC and PRIDCO as the "DDEC Management Fee." The DDEC Management Fee compensates DDEC for the costs incurred with back-office services provided to PRIDCO. The PRIDCO and DDEC management teams must continue working to implement best practices and structure the MOU to improve fiscal performance. Such actions include minimizing unnecessary overlap of incurred expenses, aligning the DDEC Management Fee with the services provided, and setting expectations for the reduction of the DDEC Management Fee over time.

In January 2021, PRIDCO reassigned 143 employees to DDEC including 87 back-office personnel and 56 developmental personnel. As of March 2022, PRIDCO maintains core personnel responsible for asset management functions ("PRIDCO front office").

In November 2020, PRIDCO and DDEC entered into a five-year MOU that regulates reimbursement by PRIDCO of back-office personnel and non-personnel costs incurred by DDEC to provide services to PRIDCO. The cost of the transferred back-office expenses in FY2022 was approximately $9.8 million, comprised of approximately $6.0 million of personnel costs and approximately $3.8 million of non-personnel costs.

The baseline forecast uses the $9.8 million DDEC Management Fee in FY2022 as a starting point for FY2023. The baseline DDEC Management Fee is then reduced in a scheduled amount consistent with the 2022 CW fiscal plan.

3.5 Enhancing Property Investment

PRIDCO's budget constraints have historically limited its ability to make adequate investment spending for its critical capital expenditures and capital stock, leading to significant deferred maintenance and the visible deterioration of its properties. Without adequate investments it is doubtful that PRIDCO would be able to continue and collect rent on many of the buildings it owns and manages. Consequently, PRIDCO faces numerous funding challenges related to past, current, and future capital expenditure projects, including:

- Urgent backlogged projects;
- Restoration of hurricane and earthquake related building damage;
- Reserve funding for future maintenance, repairs of damages due to natural catastrophes and greenfield/brownfield developments;
- Demolition and environmental remediation.

Additionally, PRIDCO's budgetary challenges prevented it from completing maintenance requirements such as plumbing, electrical and minor roof repairs. Such items are required to maintain property integrity and occupancy. However, such activities do not significantly extend the life of the property, so PRIDCO budgets for these capital expenditures separately.

EXHIBIT 5: BASELINE CAPEX FORECAST

Item ($ thousands)	FY2023 [10]	FY2024	FY2025	FY2026	FY2027	FY2023-FY2052
Baseline CapEx	$7,500	$4,069	$4,133	$4,197	$4,262	$157,137

To remedy this history of underinvestment and facilitate adequate funding and investment in the current portfolio, PRIDCO intends to maintain the FY2022 budgeted increases for repairs and maintenance, and roll-over any unused capital spending budgeted in FY2022. Any unspent amounts from FY2022 that PRIDCO intends to use in FY2023 or beyond will required approval by the Oversight Board.

In managing deferred capital projects, PRIDCO will draw from funds set aside in the 2020 PRIDCO Fiscal Plan. This includes $11 million of funds allocated, but unused, during FY2022 for specific projects and provides for up to $8.4 million to address urgent demolition needs. Specifically, the requested budget for FY2023 includes a $5.0 million of spending for repairs and maintenance (not shown in Exhibit 5), $4.0 million of forecast capital spending, and $3.5 million of tenant specific growth capital spending for an expansion project (estimated to be initiated and completed in FY2023). Any unspent amounts from FY2022 that PRIDCO intends to use in FY2023, will require Oversight Board approval. PRIDCO must continue to provide status reports of capital spending activities and submit supporting data regarding proposed and ongoing capital projects for review by the Oversight Board.

Additionally, as outlined in section 4.7, a capital expenditures study was completed on March 7, 2022 ("CapEx Study"). This fiscal plan updates capital expenditure outlays to align with the conclusions of the CapEx Study.

3.6 EPA Litigation

Recent environmental litigation (initiated in 2015) has concluded related to the Maunabo Area Groundwater Contamination Superfund Site (the "Site"). Four of PRIDCO's Trusteed Properties are located on the Site which contain elevated levels of hazardous substances in the groundwater. PRIDCO has been found liable to the United States government for response costs related to the Site which are currently estimated in the range of $11 to $12 million. PRIDCO is pursuing litigation against the tenants who occupied the property at that time (sites are now vacant); however, this litigation is in early stages. To account for this liability, PRIDCO has included in its financial forecast $11.8 million of environmental liability payments over seven years.

In addition, environmental remediation for a site in Cabo Rojo is being negotiated with the EPA. It is anticipated that remediation will be carried out by PRIDCO through its environmental consultant. PRIDCO and the environmental consultant are currently developing a remediation plan which is expected to cover a 20-year period. Cost of remediation is currently estimated to be $700,000 incurred throughout the remediation period.

[10] Includes a $3.5M request to fund a current tenant expansion project

PRIDCO has been party to several claims and lawsuits related to environmental pollution remediation obligations in which the Federal Environmental Protection Agency and the Puerto Rico Environmental Quality Board have been involved. Such liabilities are pursuant to the Comprehensive Environmental Response, Compensation and Liability Act of 1980 (CERCLA, or commonly known as Superfund), a United States federal law designed to cleanup sites contaminated with hazardous substances. This law authorizes EPA to identify parties responsible for contamination of sites and compel the parties to remediate environmental pollution.

Estimates of the amount and timing of future costs of environmental remediation are by their nature imprecise because of the continuing evolution of environmental laws and regulatory requirements, the availability and application of technology, the indemnification of presently unknown remediation sites and the allocation of costs among the potential responsible parties. Based upon information presently available, such future costs are not expected to have a material effect on PRIDCO's financial position. However, such costs could be material to results of operations in a particular future year.

3.7 COVID-19

The COVID-19 pandemic created economic dislocation around the world. For Puerto Rico, the economic shock from COVID-19 came on top of multiple prior shocks in the last four years. Hurricanes Irma and Maria struck with devastating impact in September 2017, and the southern part of the Island was hit by the strongest earthquakes that the Island had seen in decades at the end of 2019. With the onset of the pandemic, the economy of Puerto Rico virtually ground to a halt as the public health imperative for people to stay at home left all but the most essential workers unable to travel to their places of business. The economy responded to the vast amount of local and federal stimulus funding, and an economic recovery is now underway, though there is still significant uncertainty about the future of the global, U.S. mainland, and Puerto Rican economies. See the 2022 CW Fiscal Plan, for further commentary on the impact of COVID-19 on Puerto Rico.

Prior to the onset of the COVID-19 pandemic, PRIDCO's management team did not expect any significant change in occupancies or rent collections. However, as a result of the pandemic, PRIDCO experienced an immediate spike in rent delinquencies, totalling 35.2% in March 2020, 24.8% in April 2020 and 19.5% in May 2020. Since then, delinquencies have returned to historical trends. See section 4.3 Deliquency Rate Improvement Measure.

The higher rent delinquencies experienced during the COVID-19 pandemic is the result of business interruption experienced by many PRIDCO tenants due to the implementation of strict lockdown measures imposed on March 15, 2020. In May 2020, PRIDCO had over 75 tenants requesting moratoriums on their rent payments, representing approximately $620,000 or ~12% of monthly rent collections. PRIDCO management worked closely with tenants on a case-by-case basis to address pandemic concerns and maximize occupancy for the long-term. As a point of reference, after Hurricane Maria delinquencies spiked to approximately 40%, it took approximately 6 months to recover to normal levels. The long-term rent and occupancy implications from changes in the way people work and businesses operate in the post-COVID world is still uncertain for PRIDCO's portfolio.

Chapter 4. 2022 PRIDCO FISCAL PLAN MEASURES

The operational measures presented in this fiscal plan seek to support cost reductions and improve property management resulting in a more efficient and effective PRIDCO operating structure. Where possible, this fiscal plan's post-measures forecast implements the analysis from various strategic studies commissioned as part of previous fiscal plans for PRIDCO.

4.1 Payroll Measures

The Uniform Healthcare Contribution has been set to $125 per member per month is aligned with Act 26-2017. The savings associated with this measure, in addition to the payroll freeze through FY2023, reduces the baseline payroll expenditure.

4.2 Pay As You Go Pension Measures

Pay as you go pension projections in this fiscal plan rely on demographic and actuarial estimations consistent with the 2022 CW Fiscal Plan. The forecast for FY2022 includes payments for approximately 600 pensioners that have retired from PRIDCO. PRIDCO's pension reform initiative is part of the Commonwealth's overall measure to restore fiscal health to Puerto Rico. While the prior fiscal plan included a benefit modification to reduce pensions up to 8.5%, this fiscal plan reflects the elimination of the 8.5% pension benefit reduction, as provided for in the Commonwealth's Plan of Adjustment, which became effective on March 15, 2022.

The Commonwealth Plan of Adjustment required full implementation of pension reform measures, including for retirees and current workers at PRIDCO, upon effectiveness of the Plan of Adjustment.

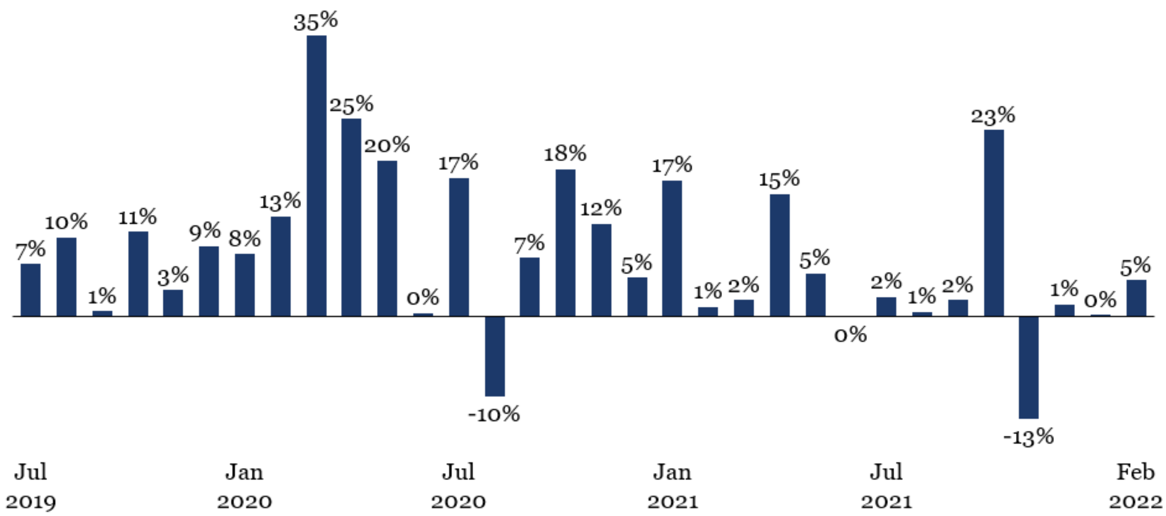
Chapter 20 "Pension Reform" of the 2022 CW Fiscal Plan is hereby incorporated by reference.

4.3 Delinquency Rate Improvement Measure

Delinquency rates at PRIDCO have historically been high, resulting in negative impacts on rental revenues. The average delinquency rate at PRIDCO from FY2017 to FY2021 was ~10%, resulting in considerable lost rental revenues.

Through various tenant initiatives including proactive collection of current and past due rents, PRIDCO has reported a lower delinquency rate from a historical average of 8.7% (average from 2019 to 2021) to 2.68% year-to-date February 2022. Some of this improvement is related to the proactive collection of past due rents which is expected to abate and, thereby, increase the delinquency rate to more normalized levels. However, PRIDCO anticipates that future delinquency rates can and should improve from past performance with estimated delinquencies. Accordingly, this fiscal plan requires PRIDCO to reduce long-term delinquencies to 5% of gross revenue on a monthly basis.

EXHIBIT 6: HISTORICAL DELINQUENCIES AS PERCENT OF GROSS REVENUE[11]



The 2021 PRIDCO Fiscal Plan included a strategic initiative to prepare a study to identify value-add strategic initiatives related to IT, leasing process, operational inefficiencies, and internal reporting. The Systems Assessment and Occupancy Process Optimization Report was completed in July 2021 to address the initiative. This study required, among other things, several tasks to improve account receivables including:

- Aggressively track and collect past due A/R and enforce terms of lease agreements.
- Develop weekly reports on status of real estate portfolio A/R that will provide management with adequate information to proactively manage real estate operations.
- Centralize the A/R collection process which is bifurcated between legal and finance departments with separate entries input by both departments.

PRIDCO must implement the suggested improvements included in the Systems Assessment and Occupancy Process Optimization Report. Moreover, approximately 75% of tenants currently pay their rents to PRIDCO with a physical check. This is a highly inefficient form of payment and makes improvements in collections even more challenging at times. Accordingly, this fiscal plan requires PRIDCO to quickly implement an ACH or similar style automated payment system to collect rents.

Exhibit 7 includes milestones for the implementation of these measures.

EXHIBIT 7: DELIQUENCY RATE IMPROVEMENT MEASURE

Action Items	Owner	Timing/ Deadline
Track and collect past due A/R and enforce terms of lease agreements	PRIDCO	Ongoing
Present to the Oversight Board a plan to automate PRIDCO's	PRIDCO	September 1, 2022

[11] The negative percentages are collections from prior period delinquencies.

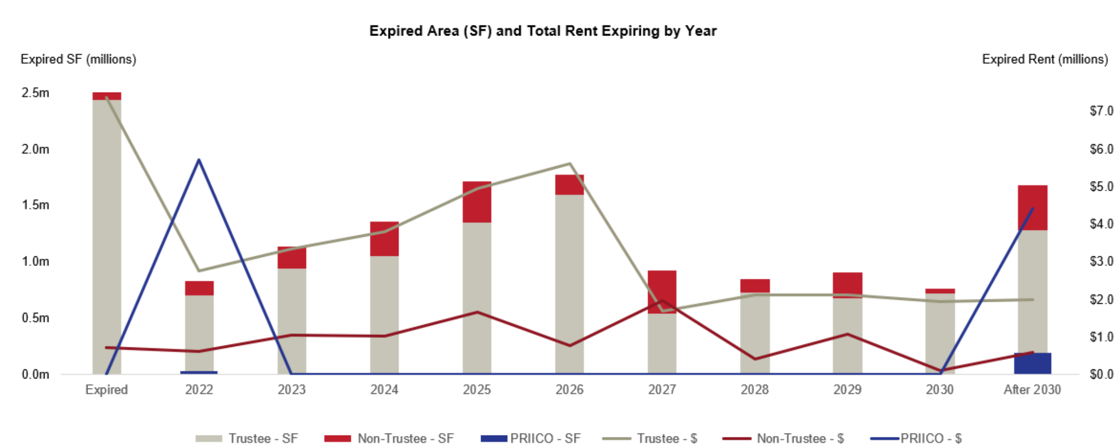
rent collection system to reduce the reliance on physical checks for rental collection		
Present to the Oversight Board draft template weekly reports on status of A/R that will provide management with adequate information to proactively manage real estate operations	PRIDCO	October 1, 2022
Present to the Oversight Board a new process to map lease income to related invoice to enable tracking of prior period delinquency collections	PRIDCO	November 15, 2022
Centralize the A/R collection process which is bifurcated between legal and finance departments with separate entries input by both departments	PRIDCO	January 31, 2023
Move all leases (existing and new) to ACH	PRIDCO	June 30,2023

4.4 Expired Lease Measure

The 2021 PRIDCO Fiscal Plan identified at least 64 expired leases representing 3.7 million square feet of leased space. Addressing these expired leases could generate up $2 million per annum in additional revenue. The 2021 PRIDCO Fiscal Plan set a target for PRIDCO to reach at least $1 million in additional revenue related to these expired leases at the current rate card (which is higher than the expired lease amount). In FY2022, PRIDCO addressed 47 of 64 of these leases (~73%) by renewing the leases, pursuing legal action, or listing for sale. Within this group, 19 leases remain in the legal process of a preliminary eviction notice or seeking collections through legal measures. There were 20 renewed leases with a realized increase in revenue of approximately $275,000 that will be realized in FY2023.

PRIDCO must continue to re-sign expired and soon-to-be expired leases at rates no less than the existing rental rate card, although updating the rate card itself as described in section 6.4 of this fiscal plan must also be accomplished as a way to further increase rent collections. Re-signing leases provides additional certainty on future revenues as compared to the month-to-month structure currently in place upon lease expiry under the same terms and conditions, pursuant to Puerto Rico law.

EXHIBIT 8: EXPIRED AREA (SQUARE FEET) AND TOTAL RENT EXPIRING BY YEAR



This fiscal plan uses the same target requirement for this measure as the 2021 PRIDCO Fiscal Plan of ~$1.0 million but extends the implementation through FY2026. Contingent on achieving incremental revenue through this measure, this fiscal plan permits, at the Oversight Board's discretion, access to a payroll allocation equal to the targeted revenue increase. A schedule of the targeted increase is shown below. The Oversight Board will evaluate requests for additional payroll once sufficient documentation is provided for each of the expired leases that were re-signed up to a maximum of $1.0 million annually.

EXHIBIT 9: EXPIRED LEASE MEAURE TARGETS

Item ($ thousands)	FY2023	FY2024	FY2025	FY2026	FY2027	FY2023-FY2052
Baseline revenue achieved	$275	$275	$275	$275	$275	$8,261
Cumulative revenue target[12]	$389	$831	$968	$1,053	$1,053	32,089
Incremental payroll available[13]	$389	$442	$137	$85	$0	$1,053

EXHIBIT 10: EXPIRED LEASE MEASURE

Action Items	Owner	Timing/ Deadline
Present to the Oversight Board a list of all leases that have been resigned and those that are still pending through June 30, 2022	PRIDCO	July 31, 2022
Present to the Oversight Board a detailed and comprehensive plan to renew upcoming lease expirations	PRIDCO	July 31, 2022

4.5 Third-Party Manager Measure

In conformance with prior fiscal plan requirements, an initial draft of a feasibility study was completed to evaluate the viability for outsourcing asset management ("Outsourcing Study") via the hiring of a third-party manager ("Third-Party Manager") to institutionalize PRIDCO's management and leasing processes and improve its operational and financial performance. The Outsourcing Study is also designed to meet the requirements of a desirability and convenience study consistent with the provisions of Article 7 of the Public-Private Partnership Act of Puerto Rico 2009 (Act 29-2009).

The draft Outsourcing Study makes it clear that procuring a Third-Party Manager to augment the current operational structure of PRIDCO would introduce private sector experience and expertise, relationships, and innovation. Additionally, implementing a third-party management approach within PRIDCO's current operations will enable the portfolio to become more efficiently managed and better positioned to serve the needs of PRIDCO's current tenants and community. It would also reduce projected costs. This fiscal plan, therefore, requires PRIDCO to start the process, in collaboration with other governmental agencies of delegating certain responsibilities to a Third-Party Manager to augment PRIDCO's

[12] Excludes baseline revenues achieved from 20 renewed leases with a realized increase in revenue of approximately $275,000
[13] Incremental payroll available from target renewals expected through FY2026

current operations in a manner consistent with the conclusions in the Outsourcing Study. As shown in Exhibit 11, this fiscal plan incorporates the preliminary savings estimates included in the Outsourcing Study, particularly data showing the implications to revenue and expenses once implemented. The following paragraphs describe the assumptions behind implementation of a Third-Party Manager and the resulting impact to revenues and expenses.

On the revenue side, the preliminary study shows hiring of a Third-Party Manager will enhance revenues by (1) improving occupancy, and (2) improving strategic planning. There are three occupancy measures discussed in the study and are required by this fiscal plan. These three measures are: (i) an increase from leasing (0.33%), (ii) an increase from improved maintenance (0.33%), and (iii) an increase from improved CapEx (0.33%). On a combined basis, the occupancy measures are expected to increase PRIDCO's tenant occupancy rate by an incremental 1% per year. The improvements in revenue are mainly due to establishing systems and processes that are known to improve the leasing operations and rent collections as well as automation, high-quality systems, and tested processes to execute all necessary maintenance on a routine and scheduled basis. It is worth noting it is highly unlikely the occupancy measures forecast in this fiscal plan, and the resulting increase in revenues, can be achieved without implementing other measures in this fiscal plan, including, but not limited to, the CapEx Improvement Measure described in section 4.7.

The Outsourcing Study also identifies ways PRIDCO can enhance revenues and improve strategic planning by delegating responsibilities to a Third-Party Manager. This is heavily supported by an updated real estate software system to enable managers to track Key Performance Indicators ("KPIs") on the portfolio and individual property level. As a result, this fiscal plan includes a forecasted increase in Trusteed and Non-Trusteed rents by 1% per year as a required measure from the improvement in strategic planning over the portfolio.

On the expense side, hiring a Third-Party Manager in a manner consistent with the Outsourcing Study would enable PRIDCO to significantly reduce other overhead costs. For example, there are several professional service costs that PRIDCO incurs due to the lack of in-house engineers, appraisers, and inspectors. The Third-Party Manager would provide these services at a lower overall cost as part of its monthly fees. Furthermore, there are several back-office functions provided by DDEC including finance, legal and IT that would be covered by the Third-Party Manager. As such, this fiscal plan requires PRIDCO to reduce (1) the fee paid to DDEC, and (2) professional services fees paid by PRIDCO, by at least 60% within each category.

It is assumed the arrangement with the Third-Party Manager will include a property management fee, asset management fee, leasing fee, and construction management fee to address non-FEMA related projects (FEMA projects are assumed to include a construction management fee).

- The property management fee is related to the day-to-day activities of managing the properties including rent collections, arrangement of site tours, scheduling maintenance and repairs, direct communications with tenants, etc.
- The asset management fee is related to the overall portfolio level management requiring the allocation of resources through the acquiring, developing, maintaining, and disposing of portfolio assets in the most cost-effective manner.

- The leasing fee covers an additional leasing commission that will be required by a Third-Party Manager to support improvements in the leasing process.
- The construction management fee supports management and oversight of the planning and implementation of all capital expenditures. The fee is required to help support the material increase in capital expenditures required in this fiscal plan.

This fiscal plan includes the estimated costs associated with the hiring of a Third-Party Manager. Specifically, this fiscal plan includes an asset management fee of 3% of operating revenues[14], a property management fee of 3% of operating revenues, a construction management fee of 6% of Capital expenditures,[15] and a leasing fee of 6% of new revenue generated from newly occupied square feet each year. These percentages are consistent with estimates identified in the Outsourcing Study.

Exhibit 11 describes the changes to revenues and expenses from this measure.

EXHIBIT 11: THIRD-PARTY MANAGER TARGET IMPROVEMENTS

Item ($ thousands)	FY2023	FY2024	FY2025	FY2026	FY2027	FY2023-FY2052
Occupancy Measures	$372	$1,132	$1,901	$2,664	$3,430	$279,516
Better Strategic Planning	-	526	522	524	523	15,384
Revenue Improvement Target	**$372**	**$1,658**	**$2,423**	**$3,188**	**$3,954**	**$294,900**
Prof. Service reduction	627	1,276	1,296	1,316	1,336	47,538
DDEC Fee reduction	2,935	5,339	4,806	4,345	4,413	159,527
Management Fee	(2,438)	(4,529)	(4,563)	(4,646)	(4,698)	(155,408)
Leasing Fee	(466)	(950)	(945)	(950)	(948)	(18,867)
Expense Improvement Target	**$658**	**$1,135**	**$594**	**$65**	**$102**	**$32,791**
Estimated Net Effect[16]	**$1,031**	**$2,794**	**$3,017**	**$3,253**	**$4,056**	**$327,691**

Based on the Outsourcing Study, PRIDCO must achieve the following action in Exhibit 12 related to retention of a Third-Party Manager.

[14] Excluding non-collections / delinquencies
[15] Excluding FEMA-related capital expenditures
[16] Does not include revenue improvement from Delinquency Rate Improvement Measure

EXHIBIT 12: THIRD-PARTY MANAGER

Action Items	Owner	Timing/ Deadline
Present to the Oversight Board draft RFP for hiring Third-Party Manager to augment the current operational structure	PRIDCO	August 31, 2022
Finalize RFP draft and issue RFP	PRIDCO	September 30, 2022
Present RFP response overview & analysis to the Oversight Board	PRIDCO	October 31, 2022
Complete price and legal negotiations with the potential Third-Party Manager	PRIDCO	November 30, 2022
Present to the Oversight Board the Third-Party Manager selection and proposed onboarding process	PRIDCO	December 30, 2022

4.6 Shared Services Measures on the MOU

The 2020 PRIDCO Fiscal Plan set forth an initial schedule for reductions in the DDEC Management Fee. Exhibit 13 below illustrates the expected decreases in the DDEC Management Fee that PRIDCO pays to DDEC and must abide by.

Furthermore, as part of the Outsourcing Study described in Section 4.5, the DDEC Management Fee was reviewed for the value of services provided. Given the overlap with the finance, legal, and IT services expected to be provided by a Third-Party Manager, the Outsourcing Study clearly states an additional reduction in the DDEC Management Fee of no less than 60% and as much as 80% is warranted. PRIDCO shall implement this reduction in the DDEC Management Fee, and Exhibit 13 outlines the new DDEC Management Fee.

EXHIBIT 13: BACK-OFFICE MOU CAPS ($ IN THOUSANDS)

Item	FY2022	FY2023	FY2024	FY2025	FY2026
Personnel Costs	$5,975	$5,355	$4,732	$4,106	$4,179
Non-Personnel Costs	3,809	3,543	3,278	3,012	3,063
Total Caps	**$9,785**	**$8,898**	**$8,010**	**$7,118**	**$7,242**
Fee reduction	--	(2,935)	(5,339)	(4,806)	(4,345)
New DDEC Fee	**$9,785**	**$5,962**	**$2,672**	**$2,312**	**$2,897**

This fiscal plan does not contemplate right-sizing of the PRIDCO front office personnel costs. The reduction of the DDEC Management Fee, however, is a major source of funding for the Third-Party Manager. The reduction in the DDEC fee forecasts a net savings of approximately $160 million over the 30-year period if the DDEC fee were reduced by 60% beyond the caps already established in prior fiscal plans.

4.7 Capital Expenditure Improvement Measure

PRIDCO has historically underinvested in its capital stock, leading to a significant accrual of deferred capital expenditures and the physical deterioration of PRIDCO's properties. Consequently, PRIDCO faces numerous funding challenges related to past, current, and future capital expenditure projects, including:

- Urgent backlogged projects
- Restoration of earthquake affected building damage
- Reserve funding for future maintenance, repairs of damages due to natural catastrophes and greenfield/brownfield developments
- Demolition and environmental remediation

To remedy this history of underinvestment with adequate funding amounts and facilitate the well-being of PRIDCO's tenants and, stabilize revenue and tenant occupancy, PRIDCO must increase its near-term capital spending. PRIDCO has three types of capital spending needs which were all estimated in the CapEx Study referenced below:

- Maintenance Capex
- Growth Capex
- Demolition and Remediation Spending

Maintenance Capex. Includes investments in currently occupied or temporarily vacant buildings or units to maintain portfolio occupancy and extend useful life. These costs are reported as operating expenses and may include electrical, plumbing, minor roof repairs, etc.

Growth Capex. Includes investments to develop new sites (greenfield) or restore existing sites (brownfield) prior to the identification of anchor tenants. PRIDCO accounts for these structural repairs, and large capital expenditures are capitalized for financial reporting purposes. Property additions, renewals, and betterments, unless of a minor amount, are all capitalized on the balance sheet.

Demolition and Remediation Spending. This includes investments to properties that require redevelopment or preparations for a potential sale. Several of PRIDCO's buildings are beyond repair or are in a state of disrepair such that rehabilitation is not viable or fiscally prudent. Based on available information, this includes approximately 88 buildings that are potentially subject to demolition. Collectively, these buildings, if not able to be leased to a prospective tenant, could expose PRIDCO to additional risk in various forms of liability (e.g., crime or injury).

The 2021 PRIDCO Fiscal Plan set aside approximately $8.4 million in one-time funds for the purpose of demolishing unoccupiable and/or uninhabitable properties. PRIDCO shall utilize these funds in FY2023 subject to detailed spending plan currently being developed by PRIDCO management and subject to Oversight Board review and approval. The proposed timeline to complete the demolition work for several of these properties has been prepared and submitted to the Oversight Board. Detailed spending plans will be developed once demolition costs are confirmed through an open RFP process.

In July 2021, PRIDCO, AAFAF and the Oversight Board outlined the workplan to address the mounting capital investment challenges at PRIDCO including specific scope of services and assigning responsibilities. The workplan sought to develop a long-term investment plan by (1) quantifying the capital spending requirements of the portfolio, and (2) assessing the strategic prioritization of investments.

To understand the magnitude of PRIDCO's capital needs and assess the reasonable level of capital spending required to maintain and restore PRIDCO's facilities, previous fiscal plans required the completion of a CapEx Study. The CapEx Study is intended to determine the status of capital expenditure needs throughout PRIDCO's portfolio. This study was completed on February 28, 2022. The scope of the study was extensive and included:

- 200 multi-point site visits and facility condition assessments including highly detailed assessments of the interior and exterior of each of the 200 properties visited;
- Detailed site visits to 100% of the vacant properties that were safe to visit as part of the detailed facility condition assessments;
- In addition, additional exterior observations were conducted on the rest of PRIDCO's 764 buildings, offices, and industrial parks;
- The 200 properties were sampled to be the most representative of PRIDCO's portfolio in totality, so the data collected from the detailed facility condition assessments were used as a basis to extrapolate the remaining capital expenditure needs for PRIDCO's remaining properties;
- Extensive analysis was also done to incorporate other datapoints, including existing building assessment reports prepared by external structural engineers engaged by PRIDCO, 325 FEMA Project Worksheets, and 35 interviews with PRIDCO management and personnel;
- Collectively, these assessments document the cost category, size, remaining expected useful life, critical issues and recommendations which ultimately informed the action time frame, priority level and cost estimates;
- Assessments of leases were also conducted across the portfolio to identify whether PRIDCO, as landlord, or the tenants, are responsible for funding capital expenditures at individual properties. Where costs were identified as tenant liabilities, those costs were deducted from the outputs of the Capex Study.

The CapEx Study concluded there is a critical and time sensitive need to invest in capital expenditures due to some level of necessary repairs for 94% of the buildings within the portfolio. Some key observations are included below:

- The total estimated capital expenditure requirement across the 200 PRIDCO properties visited, projected over 10 years, is approximately $72 million. The report then extrapolates the projected capital expenditure cost of the 200 sites across the full PRIDCO portfolio, resulting in an estimated $392 million in total capital expenditure needs over the next 10 years, exclusive of the cost of properties that have been earmarked for full demolition which is estimated at an additional $53 million.

- Accordingly, the CapEx Study concludes that $392 million in capital expenditures are required in total to rehabilitate PRIDCO's portfolio over the next ten years. As noted in the Capex Study, existing building condition assessment reports commissioned by PRIDCO during 2020 and 2021 from locally based certified structural engineering firms cited a capital need of $360 million, indicating a low variation from the conclusions in the Capex Study.
- The Capex Study further states that an outsized portion of the identified capital expenditure requirements are forecasted within the 12-month immediate term window and represent assets in the most critical condition.
- The most critical repairs required in the first year will cost an estimated $216 million. Roofing components represent 60% of the total.
- The East and West regions require ~60% of the critical estimated capital expenditures due to backlogged rehabilitation in the aftermath of recent hurricanes and seismic events.
- In addition to the $392 million, $53 million is needed to address 88 properties, at least 33 of which were deemed structurally unsafe to enter, meaning that these buildings represent a potential life-safety hazard.
- When the study was completed, $200 million in project worksheets had been submitted to FEMA for damages resulting from Hurricane Maria. An estimated $90 to $140 million of these reimbursements may potentially offset certain capital expenditures and repair requirements identified in the CapEx Study. As of May 2022, PRIDCO has completed $257 million in project worksheets, out of which, $231 million has been obligated by FEMA. The remaining project cost is the local cost share.

PRIDCO must take action to address these observations and implement the necessary capital expenditures. Accordingly, PRIDCO must achieve the milestones as set forth in Exhibit 16.

EXHIBIT 14: CAPITAL EXPENDITURE CRITICAL NEEDS TIMELINE

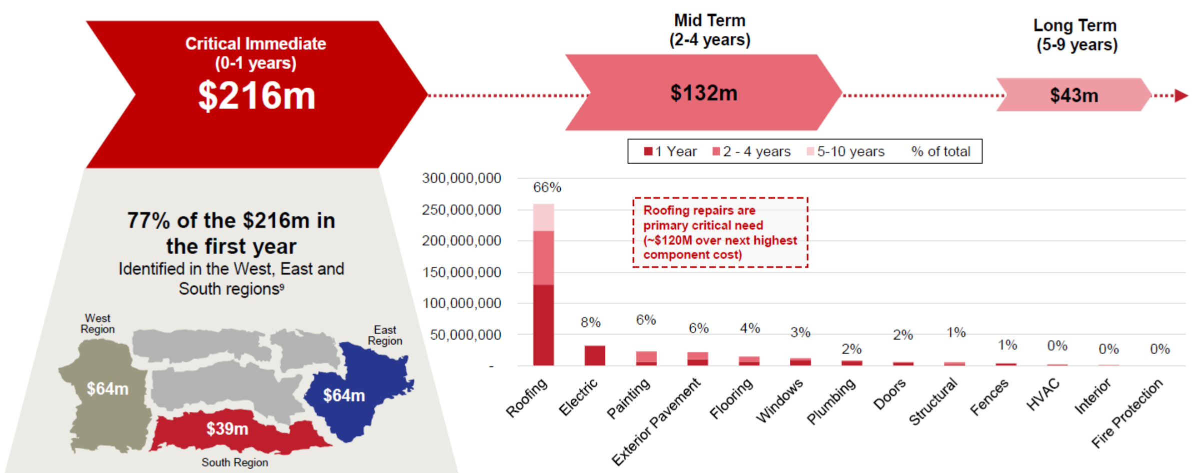


EXHIBIT 15: VARIABLE CONDITIONS OF THE PRIDCO PORTFOLIO

View of the inside of a heavily damaged building within the San Juan Metro area

View of the front of building 0951 from road access

View of the side of the rear Prent building taken from the adjacent access road

EXHIBIT 16: CAPITAL EXPENDITURE SPENDING

Action Items	Owner	Timing/ Deadline
Present to the Oversight Board a detailed capital outlay schedule to address the conclusions presented in the CapEx Study including growth, maintenance, and demolition-related capital expenditures	PRIDCO	September 30, 2022
Present to the Oversight Board FEMA-approved projects that are eligible for COR3 Revolver funding planned for FY23 and path to complete COR3 Revolver requirements	PRIDCO	October 31, 2022
Present to the Oversight Board a template to show the status reports of all CapEx spending activities regarding proposed and ongoing projects	PRIDCO	November 30, 2022

In addition to achieving the milestones set forth in Exhibit 16, PRIDCO must address the following items:

CapEx Prioritization. The final determination on how to prioritize these capital expenditures must take into consideration each property's revenue-generating potential, market need and demand, potential return on investment, and best-use analysis, among other considerations. This analysis must include consideration of the cost versus benefit of each investment and a sequencing proposal for the investment of proposed expenditures. This analysis will complement the existing Capex Study findings.

CapEx Reserve. A portion of the surplus from the rental portfolio must also be set aside as a reserve to fund the periodic building components that wear out more rapidly than the building itself and therefore must be replaced to keep the building operational. A properly funded CapEx reserve supports maintaining the market standards for properties. In addition, it prevents major disruptions of the properties' normal operating cash flows. Proactively planning and preparing for these future expenses instead of reactively responding to emergencies is a commonly used asset management practice and is required in this fiscal plan.

PRIDCO must develop a policy document to govern the funding and use criteria of the CapEx reserve. The policy must describe the types of expenses that are covered and potentially a minimum dollar threshold. In addition, the policy must have a threshold for the percentage or dollar value that can be utilized on an annual basis. The funding of the reserve must be clearly defined and may include a percentage of rental revenue collections or a per square foot amount. Finally, the CapEx reserve must be segregated from other account balances and only used for the purposes stated in the policy.

The magnitude of a properly funded CapEx reserve is determined by forecasting the remaining useful life of all building components and estimating their costs for each property. In the absence of a precise reserve figure, this fiscal plan includes a CapEx reserve fund of approximately 3.0x the average annual maintenance capital expenditure requirement, totaling no less than $20 million, to be funded with annual installments for ten years (~$2 million/year) starting in FY2031. This reserve level also reflects the vulnerability of the PRIDCO portfolio to natural disasters. To the extent additional surplus is generated beyond that forecast in this fiscal plan, a portion of that incremental surplus must be allocated to adequately fund the Capex Reserve Fund faster than currently projected.

Addressing Proper Maintenance Scheduling. In addition to these ongoing milestones, PRIDCO must meet specific milestones that demonstrate that realization of backlogged expenditures is improving the performance of the properties:

- Demonstrable tenant satisfaction and tenant experience (e.g. through higher tenant retention and greater realization of gross rents)
- Lower repair costs by preparing a schedule to repair and replace depreciated components in each of the properties
- In the case of demolition projects, that the demolition is warranted according to documented inspection

Once the respective milestones are achieved, PRIDCO must provide a formal notice and submit supporting data corroborating such achievement for the Oversight Board's review. Accordingly, PRIDCO must achieve the milestones as set forth in Exhibit 17.

EXHIBIT 17: CAPEX PRIORITIZATION, RESERVE FUND AND MAINTENANCE SCHEDULING

Action Items	Owner	Timing/Deadline
Establish dedicated bank account for CapEx Reserve Fund	PRIDCO	September 30, 2022
Present to the Oversight Board assessment of strategic prioritization of capital investment across the portfolio	PRIDCO	December 31, 2022
Present to the Oversight Board a building-by-building schedule of the remaining useful life of all building components to support planning and funding for these expenditures	PRIDCO	March 31, 2023
Present to the Oversight Board a policy document to define how the reserve will be utilized and funded	PRIDCO	June 30, 2023

4.8 Rent Escalation Measure

Lease escalations in the PRIDCO portfolio are not widely contracted and are subject to negotiations with individual tenants. This fiscal plan requires PRIDCO to implement a modest improvement in revenue by requiring no less than a 2% escalation in lease rates every five years on a rolling schedule when leases come due.

4.9 Occupancy Process Optimization

PRIDCO's management team anticipates that the leasing process would be made incrementally more efficient by developing a standard lease template that would be required for most tenants in PRIDCO's real estate configurations.

PRIDCO's management team continually seeks to identify and resolve process impediments to placing tenants in PRIDCO properties, reducing the time between identifying a prospective tenant and converting the client to a complete occupancy. PRIDCO's management team is working with DDEC's management team and AAFAF and its advisors to develop a standard lease template and evaluate tenants credit worthiness, all aimed to shorten negotiations, decrease costs, reduce delinquencies, and accelerate revenues.

As initially discussed in Section 4.3, a review of PRIDCO's leasing process from prospect to closing by measuring cycle time, identifying inefficiencies, and comparing results to benchmarks was completed on July 31, 2021, in a report entitled the Systems Assessment and Occupancy Process Optimization Report. This report identified that PRIDCO's biggest occupancy challenges are (1) the pursuit of new business/tenants; (2) getting new tenants to start the leasing process; and (3) identifying and pursuing opportunities to sell properties that no longer fit PRIDCO's mission or objectives.

Additionally, the Systems Assessment and Occupancy Process Optimization Report included several recommendations including:

- Consider outsourcing the leasing process to a broker or group of brokers.
- Management must appoint a head of leasing tasked immediately with developing and implementing a plan to market PRIDCO and pursue new tenants whilst working with the aforementioned broker(s).
- Proactively updating the database system to improve reporting and decision-making capabilities.

Implementation of the reforms proposed in the Systems Assessment and Occupancy Process Optimization Report is essential to PRIDCO's long-term reform prospects. PRIDCO must implement the suggested improvements included in the Systems Assessment and Occupancy Process Optimization Report.

Given the importance of improving occupancy, this fiscal plan requires PRIDCO to gradually increase occupancy to 85% (up from PRIDCO's current FY2022 occupancy level of 68%). Notably, this drives nearly $280 million of the forecasted 30-year surplus PRIDCO is expected to generate. If PRIDCO fails to achieve the long run occupancy estimate of 85%, there will be materially less surplus available over the forecast period. It is also unlikely that material improvements in occupancy can be achieved unless a Third-Party Manager is hired to help achieve that goal. It is also predicated on the successful and timely capital expenditures investments being completed as described in Section 4.7 of this fiscal plan. Accordingly, PRIDCO must achieve the milestones as set forth in Exhibit 18.

EXHIBIT 18: OCCUPANCY PROCESS OPTIMIZATION

Action Items	**Owner**	**Timing/Deadline**
Present to the Oversight Board an evaluation of outsourcing the leasing process to a broker or group of brokers	PRIDCO	January 31,2023
Appoint a head of leasing	PRIDCO	March 31, 2023

Chapter 5. PROJECTIONS POST-MEASURES

PRIDCO's baseline forecast is adjusted for the measures in Chapter 4. As discussed in section 4.5, hiring a Third-Party Manager is forecast increase revenues due to improvements in occupancy and strategic planning. Increased occupancy will also, however, increase variable costs associated with property management.

PRIDCO's baseline and post-measures' projection variances are driven by the following:

- Implementation of the Third-Party Management Measure improving revenue through higher occupancy and better strategic planning as well as a reduction in expenses for DDEC and professional services fees (offset by a new Third-Party Manager Fee)
- Delinquency Rate Improvement Measure
- Capital Expenditure Improvement Measure
- Expired Lease Measure and the associated payroll incentive
- Payroll measures including Uniform Healthcare and the payroll freeze
- Increase in operating expenses driven by rental revenue growth

Exhibit 19 bridges the baseline 30-year surplus to the post-measures 30-year surplus.

EXHIBIT 19: BASELINE TO POST-MEASURES 30-YEAR SURPLUS/DEFICIT

$ in thousands

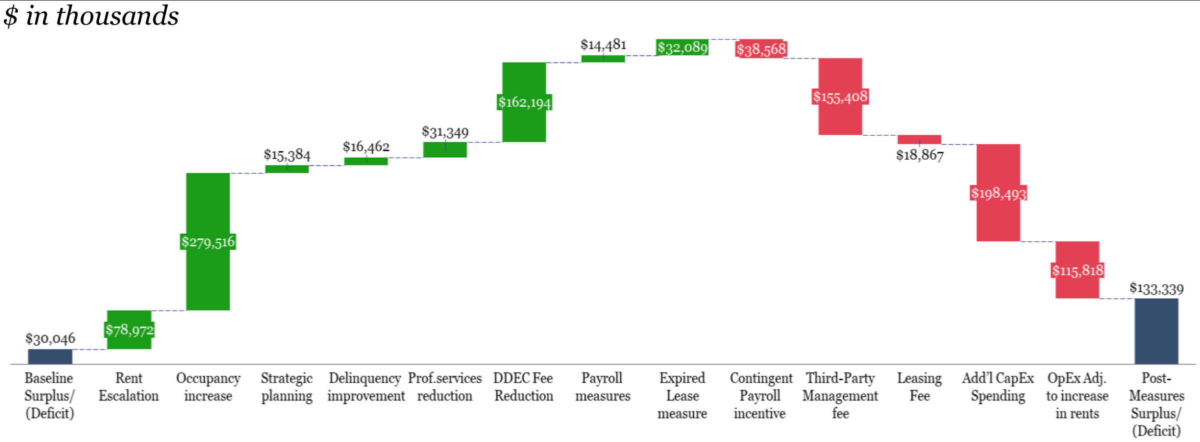


Exhibit 20 illustrates PRIDCO's financial projections after fiscal measures. The post-measures projections estimate a 30-year surplus of ~$133.3 million before debt service. For more detailed estimates of the long-term post-measures forecast, see Appendix 2.

EXHIBIT 20: POST MEASURES SURPLUS PROJECTION (BEFORE DEBT SERVICE)[17]

Item ($ thousands)	FY2023	FY2024	FY2025	FY2026	FY2027	FY2023-FY2052
Post-Measures Surplus	($15,673)	($952)	($2,657)	($918)	($65)	$133,339

[17] For years in which deficits are projected in this fiscal plan, available unrestricted cash and prior year surpluses will be used as the funding source for capital expenditures and certain other operating costs

Chapter 6. STRATEGIC INITIATIVES

As discussed earlier, to encourage businesses to locate in Puerto Rico, PRIDCO offers real estate locations throughout the Commonwealth. PRIDCO must continually invest in the properties in its portfolio to extend the useful life of improvements and enhance the value propositions to tenants. However, the combination of financial and economic distress, environmental disasters and public health crisis have left PRIDCO with limited resources to keep pace with investment needs. The financial distress of the Commonwealth and PRIDCO has therefore limited the effectiveness of its important function.

This fiscal plan includes several additional strategic initiatives that would further reinvigorate PRIDCO's sustainability. Many of these solutions were described in previous fiscal plans but the implementation of these measures was delayed largely due to the COVID-19 pandemic. Such initiatives remain central to PRIDCO's ability to operate effectively and, in addition to the measures described in chapter 4, must be a primary focus going forward. These initiatives will encourage more accurate and disciplined long-term capital plans to increase the desirability of the available real estate. They will also enable PRIDCO to modernize its systems and prioritize investments.

6.1 Needs Assessment of Real Estate Information Systems

PRIDCO does not presently use a robust real estate asset management information system, limiting its ability to keep accurate records of the current and prospective financial needs of its properties. The lack of information has resulted in PRIDCO being reactive to the needs of current tenants and limits its ability to forecast adequate capital expenditure needs. Furthermore, through an adequate real estate information system, PRIDCO would be able to forecast its budget needs with greater accuracy and uphold the terms and conditions of existing lease agreements. The current information system, known as Financial Accounting System ("FAS") is an inhouse application developed many years ago to serve the needs of the finance department. The system was designed without considering the needs, functions, and reporting requirements that the real estate department needs to be successful in today's market.

The Systems Assessment and Occupancy Process Optimization Report required by the 2021 PRIDCO Fiscal Plan, was completed on July 31, 2021. The assessment of PRIDCO's information systems was designed to determine whether additional value can be obtained from utilizing its current system or whether more robust functionality will improve decision making and ultimately long-term performance. Accordingly, the Systems Assessment and Occupancy Process Optimization Report reviewed FAS as a property management and reporting tool to determine if it meets the current and future needs of the organization. The final determination of whether to invest in a new system, as recommended by the study, will be supported by a recommendation from the Third-Party Manager. Any associated implementation costs will, therefore, be included in a future fiscal plan.

In accordance with the recommendations of the Systems Assessment and Occupancy Process Optimization Report, going forward, any asset management system deployed must be a fully integrated database, including a dynamic pricing tool, CRM, collections information, lease administration, financial reporting, and building condition. A robust customer database would allow for additional analysis on PRIDCO's overall tenant mix, potential concentration risks, and identification of tenants with multiple properties. PRIDCO must look to manage and track the condition, asset type, and capital expenditures needs of its buildings. For each building PRIDCO must track, at a minimum, the following: location, tax IDs, cadaster numbers, occupancy status, asset class and use, property condition and estimated remaining useful life, physical characteristics, and capital expenditures needs and schedules.

Additionally, on a portfolio level, PRIDCO must maintain an overall capex plan, prioritizing buildings based on current condition and revenue potential. Upgrading to a real estate software platform would allow PRIDCO to better manage their pursuits, improve tenant retention, improve capital expenditures management needs and deployment, and address overall operational inefficiencies.

The Systems Assessment and Occupancy Process Optimization Report identified alternatives to FAS and provided a list of recommendations. The report concluded:

- FAS is not adequate for PRIDCO's ongoing and future requirements.
- PRIDCO must evaluate the cost-benefit of substituting FAS with a system tailored for real estate operations.
- PRIDCO must conduct a competitive process to select a software platform that combines integrated commercial/industrial property software with finance, leasing, and property management modules (subject to input from the Third-Party Manager when it is hired).
- Until the Third-Party Manager is hired, PRIDCO must:
    - Improve communications and coordination between the finance, real estate-property management, and legal departments.
    - Develop and implement a process for timely input of data to FAS, including assigning a dedicated resource with adequate senior management support as owner of FAS coordination and communication.
    - Begin the conversion of all property management paper files to digital files.
    - Be more aggressive tracking and collecting past due A/R and enforcing terms of lease agreements.
    - Develop weekly reports on status of real estate portfolio, A/R, capex projects, leasing activities, etc. that will provide management with adequate information to proactively manage real estate operations.

The Systems Assessment and Occupancy Process Optimization Report concluded it is in PRIDCO's best interest to transition from FAS to a real estate industry-specific software program. Accordingly, this fiscal plan requires the implementation of the recommendations in the Systems Assessment and Occupancy Process Optimization Report and, accordingly, PRIDCO must achieve the milestones set forth in Exhibit 21.

EXHIBIT 21: REAL ESTATE INFORMATION SYSTEM

Action Items	Owner	Timing/ Deadline
Present to Oversight Board a workplan to implement an upgraded real estate information system including timeline and costs	PRIDCO	November 30, 2022
Establish on-going IT program management guidelines and governance	PRIDCO	Ongoing
Develop detailed business and systems requirements, aligned between all PRIDCO's departments, to develop future state selected system	PRIDCO	December 30, 2022
Complete design build of system implementation in full, with validation from PRIDCO's departments for alignment	PRIDCO	May 31, 2023
Begin implementation of the real estate information system	PRIDCO	June 30, 2023
Complete implementation of the real estate information system	PRIDCO	TBD

6.2 Divestment of non-rentable properties

PRIDCO has approximately 1.6 million square feet of real estate in various states of disrepair, neglect, or damage. These properties are likely to require either significant investment to restore them to rentable condition or ongoing expense to protect the property or the public. PRIDCO is, therefore, currently developing a plan to divest non-rentable properties. The study will focus on:

- Evaluation of PRIDCO's assets characteristics to determine the group of properties that could be sold or what other alternatives shall be considered for such properties.
- Identification of select properties for potential actions such as dispositions, continued operations, or valuation enhancement strategies.
- Portfolio performance and diversification analysis based on municipality, building size, property use, and zone to support property and portfolio rationalization recommendations.
- Revision of PRIDCO's asset disposition policies/guidelines, including the role and responsibility of its Real Estate Sales Committee, and make recommendations, as deemed appropriate.

Given the lack of visibility into the realizable value and timing of strategic divestitures, these cash flows are presently excluded from the projections in this fiscal plan. However, proceeds from the sale of these properties will support, among other things, the additional capital expenditure requirements as described in section 4.7.

PRIDCO must take action to achieve the divestment of non-rentable properties. Exhibit 22 provides actions and timelines for the divestment program, which PRIDCO must undertake and achieve.

EXHIBIT 22: DIVESTMENT OF NON-RENTABLE PROPERTIES

Action Items	Owner	Timing/Deadline
Present to the Oversight Board with scope of options to evaluate the divestment study	PRIDCO	Complete
Present the Oversight Board results of the divestment of non-rentable properties study	PRIDCO	July 31, 2022
Present to the Oversight Board detailed action items to implement the conclusions of the divestment of non-rentable properties study, as well as a monthly reporting template to monitor implementation	PRIDCO	August 30, 2022
Present to Oversight Board a monthly status update on sales process (pipeline and non-rentable condition report)	PRIDCO	September 30, 2022, thereafter

6.3 Update Rental Rate Card

PRIDCO must evaluate its current rental rate card across all building/use types and benchmark it to prevailing industrial rents in Puerto Rico. PRIDCO has not updated its rental rate card since 2003, even though the industrial real estate market in Puerto Rico has changed significantly since then. Economic and demographic dynamics of the industrial userbase have changed as well. By evaluating all of its rental rate cards annually relative to market rents and updating them accordingly, PRIDCO can better account for periodic changes to market conditions. PRIDCO, in collaboration with DDEC, must also assess the level of discounted rental rates it offers tenants.

Updating the 2003 rate card would provide several benefits to PRIDCO's real estate portfolio. It would, for example, establish a basis for all negotiations with future companies that are considering establishing a presence in Puerto Rico; currently, rates are set on a case-by-case basis. Furthermore, the updated rent cards would support negotiations for near-term expiring leases. Finally, a market rate analysis would support increases in revenue to accommodate PRIDCO's high cost to operate.

Accordingly, PRIDCO must achieve the milestones set forth in Exhibit 23.

EXHIBIT 23: UPDATE RENTAL RATE CARD

Action Items	Owner	Timing/Deadline
Complete a review of PRIDCO's 2003 rental rate card rates and report on findings to the Oversight Board	PRIDCO	September 30, 2022
Present to Oversight board a review of standard rates and potential changes to such rates that would be effective April 1, 2023	PRIDCO	February 28, 2023

6.4 Inter-Government Real Estate Representation

PRIDCO must expand its reach to solicit tenants or buyers for its properties by entering into non-exclusive MOUs with other government entities that have close relationships with targeted business communities. These MOUs will enable PRIDCO to, for instance, retain DDEC, the 78 municipalities and Invest Puerto Rico as real estate agents ("Real Estate Representatives") for PRIDCO. PRIDCO must work closely with these entities to educate them on the key features and supply of available properties.

Each participating entity must be granted access to relevant property information and availability under specific parameters to be established by PRIDCO and in a manner consistent with DDEC's reorganization processes under Act 141-2018.

PRIDCO has a dedicated employee that acts as a liaison with municipalities on a day-to-day basis. In addition, PRIDCO's executive director participates in periodic regional meetings and briefs municipal leaders on opportunities within PRIDCO's portfolio. If a municipality identifies a potential tenant, they contact the liaison to start the leasing process. The liaison must also proactively schedule separate meetings with municipalities on an opportunistic basis.

Accordingly, PRIDCO must achieve the milestones as set forth in Exhibit 24.

EXHIBIT 24: INTER-GOVERNMENT REAL ESTATE REPRESENTATION

Action Items	Owner	Timing/Deadline
Present to the Oversight Board an implementation plan (including a timeline schedule) to achieve effective collaboration with, at a minimum, the government entities mentioned herein	PRIDCO	January 30, 2023

Chapter 7. IMPLEMENTATION OF FISCAL CONTROLS AND KNOWLEDGE TRANSFER PRACTICES BY PRIDCO

7.1 Implementation of Fiscal Controls

The fiscal measures described in this fiscal plan represent a significant and transformative effort across PRIDCO – which PRIDCO must implement. As such, there are strict reporting requirements needed to ensure savings and growth targets are being achieved on time, and to identify any major risks to reform to course correct at an early stage. PRIDCO must improve fiscal governance, accountability, and internal controls over its finances and budget. To ensure that there is transparency into PRIDCO's progress toward meeting its savings targets, PRIDCO must comply with the following requirements:

- Pursuant to Sections 104 and 203 of PROMESA, not later than 15 days after the last day of each quarter of a fiscal year (beginning with the fiscal year determined by the Oversight Board), PRIDCO shall submit to the Oversight Board a report, in such form as the Oversight Board may require, describing (1) the actual cash revenues, cash expenditures, and cash flows for the preceding quarter, as compared to the projected revenues, expenditures, and cash flows contained in the certified Budget for such preceding quarter; and (2) any other information requested by the Oversight Board.

- In conjunction with the reports that PRIDCO must submit to the Oversight Board, no later than 15 days after the last day of each quarter of FY2023, pursuant to Sections 104 and 203 of PROMESA, PRIDCO shall produce monthly performance reports, which shall be submitted to the Oversight Board on the 15th of each month, demonstrating the progress made on all key initiatives. Implementation reports must explicitly explain how budget-to-actuals reports tie to agency actions and reforms, and what is driving major discrepancies. These monthly reports shall include but not limited to: (1) headcount by regular and transitory with more details in specific agency cases, (2) budget to actuals by cost category and concept, (3) milestones progress, (4) KPIs/leading indicators, (5) achieved savings to date

- The Oversight Board must approve in writing, in advance, any reprogramming requests for any appropriations approved in PRIDCO's budget. For the avoidance of doubt, this prohibition includes any reprogramming of any amount, line item, or expenditure provided in this budget, regardless of whether it is an intra-agency reprogramming.

- The Executive Director of PRIDCO is responsible for not spending or encumbering during FY2023 any amount that exceeds the appropriations authorized for FY2023. This prohibition applies to every appropriation set forth in a budget certified by the Oversight Board, including appropriations for payroll and related costs.

- The Executive Director of PRIDCO shall also certify to the Oversight Board by September 30, 2022 that no amount was spent or encumbered that exceeded the appropriations and authorized spending in the certified budget for FY2022.

- In addition, PRIDCO shall submit to the Oversight Board a monthly reporting package detailing capital expenditure spending by project including details for expenditures which have RFPs issued, which contracts have been awarded, and which are in process of execution.

- The reports required pursuant to this section are in addition to the reports that PRIDCO must submit to the Oversight Board in accordance with Section 203 of PROMESA.

- On or before July 31, 2022, PRIDCO shall provide to the Oversight Board budget projections of revenues and expenditures for each quarter of FY2023, which must be consistent with the corresponding budget certified by the Oversight Board (the "Quarterly Budget"). The Quarterly Budget shall be provided to the Oversight Board in Excel format and include detailed allocations by concept of spend. Together with the report that PRIDCO must provide under Sections 104 and 203 of PROMESA not later than 15 days after the last day of each quarter, PRIDCO shall provide a quarterly variance analysis.

- If during the fiscal year PRIDCO fails to comply with the liquidity and budgetary savings measures required by this fiscal plan, the Oversight Board may take all necessary corrective action, including, but not limited to, the measures provided in Sections 203 of PROMESA.

- Pursuant to Section 204(b)(2) of PROMESA, the Oversight Board has maintained since November 6, 2017 a Contract Review Policy to require prior Oversight Board approval of certain contracts to assure that they "promote market competition" and "are not inconsistent with the approved fiscal plan." The Policy applies to any contract or series of related contracts, inclusive of any amendments, modifications, or extensions, with an aggregate expected value of $10 million or more, that is proposed to be entered into by the Commonwealth (which includes the Executive, Legislative, and Judicial branches of government) or any covered instrumentality, including PRIDCO. In addition, the Oversight Board may select to review contracts below the $10 million threshold for these purposes, on a random basis or at its own discretion. Finally, in order to further ensure certain contracts promote market competition, the Oversight Board may require, at its own discretion, the Commonwealth, or any covered instrumentality, to give it access to ongoing procurement processes for the execution of new contracts.

Moreover, pursuant to Section 204(b)(4) of PROMESA, the Oversight Board has maintained since August 6, 2018 a Policy for the Review of Rules, Regulations, and Orders to be issued by the Executive Branch of the Commonwealth of Puerto Rico. This Policy is aimed at ensuring that certain rules, regulations, administrative orders, and executive orders proposed to be issued by the Governor (or the head of any department or agency) "are not inconsistent with the approved fiscal plan." The Policy requires prior Oversight Board approval of any rule, regulation, administrative order, or executive order that is proposed to be issued in connection with or that concerns financial aspects, or which has the potential to impact fiscal governance, accountability, or internal controls of the Commonwealth or any covered instrumentality under the most recently certified fiscal plan. The above implementation and fiscal controls requirements are important tools to ensure the Government can make meaningful progress towards achieving the goals of this fiscal plan.

7.1 Skills and Knowhow Transfer from Consultants to Public Sector Personnel

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

Consequently, the Commonwealth must work on reducing its professional services spending to enable the professionalization of the civil service and reduce the reliance on outside consultants. Starting in FY2022, professional consulting contracts must include provisions requiring adequate transfer of skills and technical knowledge, from consultants to pertinent public sector personnel to the extent that the contract reflects recurring work that could be done by appropriately trained government staff.

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

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

Chapter 8. DEBT SUSTAINABILITY ANALYSIS

The consolidated financial debt at PRIDCO, as of March 2022, totals approximately $235 million, including[18]:

- $150 million (excluding accrued, unpaid interest) of the Revenue Bonds
- $53.0 million (excluding accrued, unpaid interest) in loans owed to the GDB-DRA
- $32.5 million in mortgages for PRIICO, a not-for-profit corporation whose only member is PRIDCO. [19]

PRIDCO is forecasted to have a cumulative post-measures surplus before debt service of $133.3 million from FY2023 through FY2052. During the near-term of the fiscal plan period, PRIDCO is forecasting a very small cumulative post-measures surplus. In later years, PRIDCO is expected to improve annual surplus amounts as revenue measures are implemented, occupancy increases, and backlogged property investment is addressed.

An evaluation of sustainable debt capacity, prior to the completion of the remaining studies and their associated economic impact on PRIDCO revenues, is likely premature considering the potential magnitude of those expenditures, the potential revenue implications, and the associated impact on the fiscal plan surplus estimates.

Exhibit 25, however, estimates the implied sustainable debt capacity based on a range of unlevered cash flows and interest rates assuming a 30-year term and level debt service. For purposes of this illustration, the implied debt capacity is calculated to 1.0x coverage to the assumed annual cash flows. For example, $7.5 million in annual free cash flow would imply $93.1 million in total debt capacity assuming a 7% interest rate. An appropriate level of coverage greater than 1.0x may, however, be necessary for PRIDCO.

EXHIBIT 25: IMPLIED DEBT CAPACITY ($ IN MILLIONS)

Period		**30-Year**		
Annual Cash Flow		$5.0	$7.5	$10.0
Interest Rate Range	5.0%	$76.9	$115.3	$153.7
	7.0%	$62.0	$93.1	$124.1
	9.0%	$51.4	$77.1	$102.7

The Implied Debt Capacity Analysis should not be viewed as the sustainable debt available within PRIDCO's projections in this Fiscal Plan. Rather, the Implied Debt Capacity Analysis presents the following general considerations:

- The more cash flows available, the more debt that is sustainable.
- The shorter or longer the period in which cash flows are available to repay debt, the less or more debt capacity there will be.

[18] The Debt Sustainability Analysis does not account for potential infirmities with the debt including whether the debt is merely an "appropriation debt" that will only be paid if the Commonwealth appropriates moneys for such use as well as other issues.
[19] PRIICO is a separate public corporation, and its debt will be paid from its own resources, however, and surplus could be "dividend" up to PRIDCO after PRIICO's debt is paid in full.

Appendix 1. Detailed 30-year baseline model

Fiscal Year Ended June 30:	2022	2023	2024	2025	2026	2027	FY23-FY52
Operating Revenue							
Trusteed Properties Rent	$38,197	$38,197	$38,197	$38,197	$38,197	$38,197	$1,145,918
Non-Trusteed Properties Rent	12,839	14,145	14,145	13,634	13,776	13,592	369,010
PRIICO Rent	10,151	4,426	4,426	4,426	4,426	4,426	78,113
Non-Collection / Delinquency	(1,531)	(3,988)	(3,988)	(3,949)	(3,960)	(3,946)	(115,416)
Expired Lease Measure	-	-	-	-	-	-	-
Net Rental Income	**59,656**	**52,781**	**52,781**	**52,308**	**52,440**	**52,269**	**1,477,625**
Non - Operating Revenues							
Proceeds on Sale of Properties	5,000	4,500	4,500	2,050	2,050	2,050	66,414
Other (Interest Income/Other Funds)	2,487	2,554	2,598	2,638	2,679	2,721	98,085
Other Income	**7,487**	**7,054**	**7,098**	**4,689**	**4,730**	**4,771**	**164,499**
Total Revenues (Net)	**67,143**	**59,834**	**59,879**	**56,997**	**57,169**	**57,040**	**1,642,124**
Operating Expenses							
Payroll	(5,578)	(5,661)	(5,745)	(5,824)	(5,905)	(5,989)	(215,290)
PayGo	(15,017)	(14,790)	(14,620)	(14,436)	(14,198)	(13,970)	(290,560)
Facilities and Payment for Public Services	(1,517)	(694)	(706)	(717)	(728)	(739)	(26,656)
Purchased Services - Maintenance	(4,919)	(5,030)	(5,117)	(5,197)	(5,277)	(5,359)	(193,199)
Purchased Services - Insurance	(5,100)	(4,469)	(4,547)	(4,617)	(4,689)	(4,761)	(171,651)
Purchased Services - Other	(1,092)	(2,437)	(2,479)	(2,518)	(2,557)	(2,596)	(93,603)
Donations, Subsidies and Other Distributions	(6)	-	-	-	-	-	-
Transportation Expenses	(189)	(224)	(228)	(231)	(235)	(239)	(8,604)
Professional Services	(2,325)	(2,090)	(2,126)	(2,159)	(2,193)	(2,227)	(80,275)
Materials and Supplies	(24)	(18)	(18)	(19)	(19)	(19)	(691)
Advertising and media expenses	(226)	(226)	(230)	(233)	(237)	(241)	(8,680)
Equipment Purchase	(30)	(61)	(62)	(63)	(64)	(65)	(2,343)
Other Expenses	(722)	(964)	(981)	(996)	(1,011)	(1,027)	(37,027)
DDEC Fee	(10,659)	(9,785)	(8,898)	(8,010)	(7,242)	(7,354)	(270,771)
Total Operating Expenses	**(47,403)**	**(46,449)**	**(45,757)**	**(45,021)**	**(44,355)**	**(44,587)**	**(1,399,351)**
Non-Operating Expenses							
Capex	(4,000)	(7,500)	(4,069)	(4,133)	(4,197)	(4,262)	(157,137)
PRIICO Mortgage Payments	(10,148)	(4,423)	(4,423)	(4,423)	(4,423)	(4,423)	(37,595)
PayGo Liability Payment Plan	(1,931)	(1,931)	(1,931)	(1,931)	(322)	-	(6,114)
Environmental Liability	-	(1,697)	(1,697)	(1,697)	(1,697)	(1,697)	(11,882)
Total Non-Operating Expenses	**(16,079)**	**(15,551)**	**(12,120)**	**(12,184)**	**(10,639)**	**(10,382)**	**(212,727)**
Total Expenses	**(63,482)**	**(62,000)**	**(57,878)**	**(57,205)**	**(54,993)**	**(54,969)**	**(1,612,078)**
Surplus / (Deficit)	**$3,661**	**($2,166)**	**$2,001**	**($208)**	**$2,176**	**$2,071**	**$30,046**

Appendix 2. Detailed 30-year post-measures model[20]

Fiscal Year Ended June 30:	2022	2023	2024	2025	2026	2027	FY23-FY52
Operating Revenue							
Trusteed Properties Rent	$38,197	$38,601	$39,628	$40,246	$40,897	$41,551	$1,435,704
Non-Trusteed Properties Rent	12,839	14,278	14,635	14,338	14,703	14,730	450,087
PRIICO Rent	10,151	4,426	4,426	4,426	4,426	4,426	78,113
Non-Collection / Delinquency	(1,531)	(3,792)	(3,646)	(3,399)	(3,183)	(2,935)	(98,954)
Expired Lease Measure	-	389	831	968	1,053	1,053	32,089
Net Rental Income	**59,656**	**53,902**	**55,873**	**56,580**	**57,896**	**58,825**	**1,897,040**
Non - Operating Revenues							
Proceeds on Sale of Properties	5,000	4,500	4,500	2,063	2,068	2,071	69,422
COR3 Revolver Drawdown	-	4,326	32,442	32,442	32,442	32,442	231,418
Other (Interest Income/Other Funds)	2,487	2,554	2,598	2,638	2,679	2,721	98,085
Other Income	**7,487**	**11,379**	**39,540**	**37,143**	**37,189**	**37,233**	**398,925**
Total Revenues (Net)	**67,143**	**65,281**	**95,413**	**93,723**	**95,085**	**96,058**	**2,295,965**
Operating Expenses							
Payroll	(5,146)	(5,637)	(6,192)	(6,416)	(6,590)	(6,685)	(239,376)
PayGo	(15,017)	(14,790)	(14,620)	(14,436)	(14,198)	(13,970)	(290,560)
Facilities and Payment for Public Services	(1,517)	(694)	(725)	(740)	(766)	(787)	(32,032)
Purchased Services - Maintenance	(4,919)	(14,290)	(6,865)	(6,906)	(7,034)	(7,120)	(246,181)
Purchased Services - Insurance	(5,100)	(4,469)	(4,666)	(4,766)	(4,930)	(5,068)	(206,269)
Purchased Services - Other	(1,092)	(2,437)	(2,544)	(2,599)	(2,688)	(2,763)	(112,481)
Donations, Subsidies and Other Distributions	(6)	-	-	-	-	-	-
Transportation Expenses	(189)	(224)	(234)	(239)	(247)	(254)	(10,339)
Professional Services	(2,325)	(1,463)	(906)	(933)	(990)	(1,034)	(48,927)
Materials and Supplies	(24)	(18)	(19)	(19)	(20)	(20)	(831)
Advertising and media expenses	(226)	(226)	(236)	(241)	(249)	(256)	(10,431)
Equipment Purchase	(30)	(61)	(64)	(65)	(67)	(69)	(2,815)
Other Expenses	(722)	(964)	(1,006)	(1,028)	(1,063)	(1,093)	(44,494)
DDEC Fee	(9,785)	(5,962)	(2,672)	(2,312)	(2,897)	(2,942)	(108,577)
Management Fee	-	(2,438)	(4,529)	(4,563)	(4,646)	(4,698)	(155,408)
Leasing Fee	-	(466)	(950)	(945)	(950)	(948)	(18,867)
Total Operating Expenses	**(46,098)**	**(54,139)**	**(46,227)**	**(46,209)**	**(47,336)**	**(47,708)**	**(1,527,588)**
Non-Operating Expenses							
Capex	(4,000)	(18,763)	(42,087)	(42,120)	(42,225)	(42,295)	(579,448)
PRIICO Mortgage Payments	(10,148)	(4,423)	(4,423)	(4,423)	(4,423)	(4,423)	(37,595)
PayGo Liability Payment Plan	(1,931)	(1,931)	(1,931)	(1,931)	(322)	-	(6,114)
Environmental Liability	-	(1,697)	(1,697)	(1,697)	(1,697)	(1,697)	(11,882)
Total Non-Operating Expenses	**(16,079)**	**(26,814)**	**(50,138)**	**(50,171)**	**(48,667)**	**(48,415)**	**(635,038)**
Total Expenses	**(62,177)**	**(80,954)**	**(96,365)**	**(96,380)**	**(96,003)**	**(96,123)**	**(2,162,626)**
Surplus / (Deficit)	**$4,966**	**($15,673)**	**($952)**	**($2,657)**	**($918)**	**($65)**	**$133,339**

[20] For years in which deficits are projected in this fiscal plan, available unrestricted cash and prior year surpluses will be used as the funding source for capital expenditures and certain other operating costs