# 2023 Fiscal Plan for the Puerto Rico Industrial Development Company

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

May 26, 2023

# DISCLAIMER

The Financial Oversight and Management Board for Puerto Rico (the “FOMB,” or “Oversight Board”) has formulated this 2023 Certified Fiscal Plan ("Fiscal Plan") based on, among other things, information obtained from the Commonwealth of Puerto Rico (the “Commonwealth,” or the “Government”) and the Puerto Rico Industrial Development Company (“PRIDCO” or “Company”).

This document does not constitute an audit conducted in accordance with generally accepted auditing standards, an examination of internal controls or other attestation or review services in accordance with standards established by the American Institute of Certified Public Accountants or any other organization. Accordingly, PRIDCO, the Commonwealth, and the Oversight Board (together herein, the “Parties”) do not express an opinion or any other form of assurance on the financial statements or any financial or other information or the internal controls of the Government and the information contained herein. Numbers throughout this document may not perfectly reconcile due to rounding.

This Fiscal Plan is directed to the Governor and Legislature of Puerto Rico based on underlying data obtained from the Government. No representations or warranties, express or implied, are made by the Oversight Board with respect to such information.

This Fiscal Plan is not a Title III plan of adjustment. It does not specify classes of claims and treatments. It neither discharges debts nor extinguishes liens. It neither discharges debts not extinguishes liens. This fiscal plan is based on what the Oversight Board believes is the best information currently available to it. To the extent the Oversight Board becomes aware of additional information after it certifies this fiscal plan that the Oversight Board determines warrants a revision of this plan, the Oversight Board will so revise it.

For the avoidance of doubt, the Oversight Board does not consider, and has not considered, anything in this fiscal plan as a “recommendation” pursuant to Section 205(a). Nevertheless, to the extent that anything in this fiscal plan is ever deemed by the Governor or Legislature, or determined by a court having subject matter jurisdiction, to be a “recommendation” pursuant to Section 205(a), the Oversight Board hereby adopts it in this fiscal plan pursuant to PROMESA Section 201(b), unless such recommendation is directly contrary to specific language in this fiscal plan, in which case this fiscal plan controls.

Any statements and assumptions contained in this document, whether forward-looking or historical, are not guarantees of future performance and involve certain risks, uncertainties, estimates, and other assumptions made in this document. The economic and financial condition of the Government and its instrumentalities is affected by various legal, financial, social, economic, environmental, governmental, and political factors. These factors can be very complex, may vary from one fiscal year to the next, and are frequently the result of actions taken or not taken, not only by the Government and the Oversight Board, but also by other third-party entities such as the government of the United States. Examples of these factors include, but are not limited to:

- 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 Maria 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 (“COVID-19”);
- 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

Because of the uncertainty and unpredictability of these factors, their impact cannot be reasonably included in the assumptions contained in this document. Future events and actual results may differ materially from any estimates, projections, or statements contained herein. Nothing in this document is, and should not be considered as, an express or implied commitment to do or take, or to refrain from taking, any action by the Parties or an admission of any fact or future events; provided, however, that the Government is required to implement the measures in this fiscal plan and the Oversight Board reserves all its rights to compel compliance. Nothing in this document shall be considered a solicitation, recommendation, or advice to any person to participate, pursue or support a course of action or transaction, to purchase or sell any security, or to make any investment decision.

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List of Acronyms and Key Terms

| | |
|---|---|
| AAFAF | Puerto Rico Fiscal Agency and Financial Advisory Authority (Spanish acronym) |
| ACH | Automated Clearing House |
| A/R | Accounts Receivables |
| COVID-19 | Coronavirus Disease 2019 |
| Commonwealth or Government | Commonwealth of Puerto Rico |
| CW POA | Commonwealth Plan of Adjustment confirmed January 18, 2022 |
| DDEC | Puerto Rico Department of Economic Development Commerce (Spanish acronym) |
| EDA | Economic Development Administration |
| EPA | United States Environmental Protection Agency |
| FAS | Financial Accounting System |
| Federal Government | The U.S. Federal Government |
| FEMA | Federal Emergency Management Agency |
| FOMB or Oversight Board | Financial Oversight and Management Board for Puerto Rico |
| GDB | Government Development Bank for Puerto Rico |
| GDB-DRA | GDB Debt Recovery Authority |
| Governor | Governor Pedro Rafael Pierluisi Urrutia |
| Hurricanes | Hurricane Irma and Hurricane Maria |
| Island | Puerto Rico |
| KPIs | Key Performance Indicators |
| MOU | Memorandum of Understanding |
| Parties | PRIDCO, the Commonwealth, and the Oversight Board |
| 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” |
| PREPA | Puerto Rico Electric Power Authority |
| PRIDCO or Company | Puerto Rico Industrial Development Company |
| PRIICO | Puerto Rico Industrial Investment Corporation |
| PROMESA | Puerto Rico Oversight, Management and Economic Stability Act |
| RFP | Request for Proposal |
| SF | Square feet |
| 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 |
| 2023 CW Fiscal Plan | 2023 Fiscal Plan for Puerto Rico as certified by the Financial Oversight and Management Board on April 3, 2023 |
| 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 |
| 2022 PRIDCO Fiscal Plan | PRIDCO Fiscal Plan certified by the Financial Oversight and Management Board on May 20, 2022 |
| 2023 PRIDCO Fiscal Plan or Fiscal Plan | PRIDCO Fiscal Plan certified by the Financial Oversight and Management Board on May 26, 2023 |

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# EXECUTIVE SUMMARY

The Puerto Rico Industrial Development Company, 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 1,495 units and 713 lots located throughout Puerto Rico.

Not all of the portfolio, however, is occupied or able to be rented without significant investment. Of PRIDCO's 22.7 million square feet ("SF") of buildings, 15.6 million is currently occupied, and 7.0 million is vacant.[1] It is also estimated that approximately 136 units (across 84 buildings)[2] are not able to be occupied and must be demolished or remediated. Based on the Expanded CapEx Study completed in accordance with Section 4.7 of this Fiscal Plan, at least 33 of the 84 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 PRIDCO must have a demolition plan in place for each property (e.g., timeline for demolition).[3]

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 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, and provides for reimbursement by PRIDCO to DDEC for such services (discussed in Section 3.4). Although economic development priorities now sit at DDEC with the passage of Act 141-2018 and Act 60-2019, PRIDCO must take several actions to enhance the marketability of the properties to potential tenants.

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[1] Portfolio statistics as of April 2023, provided in PRIDCO's May 12, 2023, NOV response.

[2] Per the 2022 PRIDCO Fiscal Plan, 88 buildings were deemed structurally unsafe to enter. Four buildings were demolished since the Certification date of the 2022 PRIDCO Fiscal Plan.

[3] 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. These requirements include improving PRIDCO's capital expenditures ("CapEx") funding and prioritization, the hiring of a third-party manager ("Third-Party Manager") and transition of PRIDCO's operating model, 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. AAFAF and PRIDCO have been working, and continue to work, closely with the Oversight Board and its advisors to complete the various studies. PRIDCO, AAFAF, and the Oversight Board have successfully completed the majority of the aforementioned studies, with only one study pending (close to completion).

To date, PRIDCO has been in receipt of the following strategic studies: (1) an analysis of the occupancy process and systems assessment ("Systems Assessment and Occupancy Process Optimization Report"); (2) quantification of capital spending needs extrapolated to the entire portfolio ("Expanded CapEx Study"); (3) a final Desirability and Convenience Study ("Feasibility Study"), intended to be consistent with the provisions of Article 7 of the Public-Private Partnership Act of Puerto Rico 2009 (Act 29-2009), and (4) an evaluation and identification of properties for divestment ("Divestment Study"). An analysis pending completion includes a continued assessment of CapEx spending prioritization ("Prioritization Study").

Where feasible, this Fiscal Plan incorporates conclusions from the completed studies and estimates the financial benefits of fulfilling the recommendations from those studies. The Prioritization Study is still pending and will provide further critical insight into the required prioritization of CapEx needs once it is completed.

The 2022 PRIDCO Fiscal Plan incorporated conclusions from the studies completed at the time of its certification. The implementation of these studies mainly resulted in the 30-year forecast reflecting the hiring of a Third-Party Manager, as well as the inclusion of PRIDCO's CapEx needs. This laid the foundation for the inclusions of the additional studies and analyses conducted throughout FY2023, which are included in the 2023 PRIDCO Fiscal Plan. This Fiscal Plan estimates the financial benefits of fulfilling recommendations from the completed studies mentioned hereof and includes accretive forecast adjustments based on information provided by PRIDCO.

Pursuant to the requirement in Section 4.5 of the 2022 PRIDCO Fiscal Plan, PRIDCO has initiated a request for proposals ("RFP") process to engage a Third-Party Manager to institutionalize PRIDCO's management and leasing processes, as well as improve its operational and financial performance. This RFP process generated a number of interested proponents, and PRIDCO has recently announced the selection of the proponent for the Third-Party Manager role; agreement negotiations are ongoing. The result of the RFP process will greatly influence PRIDCO's implementation of operating goals and may further improve the financial benefit that is already included in this Fiscal Plan.

Assuming all measures are implemented and PRIDCO achieves the expected results, this Fiscal Plan outlined herein results in a 30-year cumulative surplus of approximately $474.8 million. This forecasted surplus includes a portion of the necessary CapEx described in Section 4.7, taking into consideration the utilization of and access to Federal Emergency

Management Agency ("FEMA") funding.

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 mechanisms developed 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.

PRIDCO, AAFAF, and the Oversight Board have worked collaboratively throughout FY2023 to restructure PRIDCO's existing debt. Since FY2021, PRIDCO has entered into six forbearance agreements with creditors pertaining to Revenue Bonds with an outstanding principal balance of $150.0 million ("Revenue Bonds" as further defined in Chapter 2). These payments, which commenced in July 2021 until October 2022, amounted to a total of $11.4 million.

Following a lull in forbearence interest payments, the Revenue Bond creditors filed litigation on January 19, 2023, against PRIDCO, AAFAF, and the Oversight Board seeking restitution for outstanding principal and interest payments. PRIDCO, AAFAF, and the Oversight Board have engaged in restructuring negotiations with creditors since this initial filing date and are working to seek a fiscally responsible solution for PRIDCO's long-term debt structure. Litigation deadlines have so far been extended while negotiations continue.

Following the certification of the 2022 PRIDCO Fiscal Plan, an evaluation of certain fiscal plan assumptions were updated and resulted in adjustments to the surplus as a result of the receipt of new portfolio data compiled by PRIDCO and the release of the Divestment Study in September 2022. PRIDCO, AAFAF, and the Oversight Board have aligned on these adjustments, which are included in the 30-year forecast period of this Fiscal Plan.

For further information on adjustments and measures applied to this Fiscal Plan, please refer to Chapter 4. For further information on PRIDCO's Revenue Bonds negotiations with creditors, please refer to Chapter 8.

<u>Volume 1, Chapter 4</u>: "Economic Trends and Financial Projections" and <u>Volume 2, Chapter 2</u>: "Economic Trends in Puerto Rico" of the 2023 Commonwealth Fiscal Plan For Puerto Rico as certified by the Financial Oversight and Management Board for Puerto Rico on April 3, 2023 ("2023 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 ("Act 188-1942"), 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 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 which 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 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 providing assistance with property planning and permitting. PRIDCO also provides build-to-suit properties for strategic projects. For further information regarding the relationship between PRIDCO and DDEC, please refer to the Executive Summary.

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 April 30, 2023, PRIDCO had $95.3 million[4] in total cash reported, of which $76.0 million is deemed to be unrestricted and available for PRIDCO operations. Certain funds classified as restricted include, for example, FEMA funds, tenant deposits, and incentive funds (unrelated

[4] Excludes RUMS incentives bank accounts which were transferred to DDEC's control as part of Act 60-2019.

to PRIDCO operations).[5] 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 (as of the date of the certification of this Fiscal Plan). To the extent needed, for years in which deficits are projected in this Fiscal Plan, available unrestricted cash and prior year surpluses must be used as the funding source for CapEx and certain other operating costs, subject to the approval of the Oversight Board.

[5] 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 1,495 units and 713 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 136 units (across 84 buildings) are not able to be occupied without remediation and the majority should be demolished.[6]

EXHIBIT 1: PRIDCO PROPERTY PORTFOLIO

| Real Estate | Unit Count | Sq. Ft. |
|---|---|---|
| Single Tenant Building | 1,159 | 21,107,065 |
| Multi-Tenant Building | 336 | 1,577,929 |

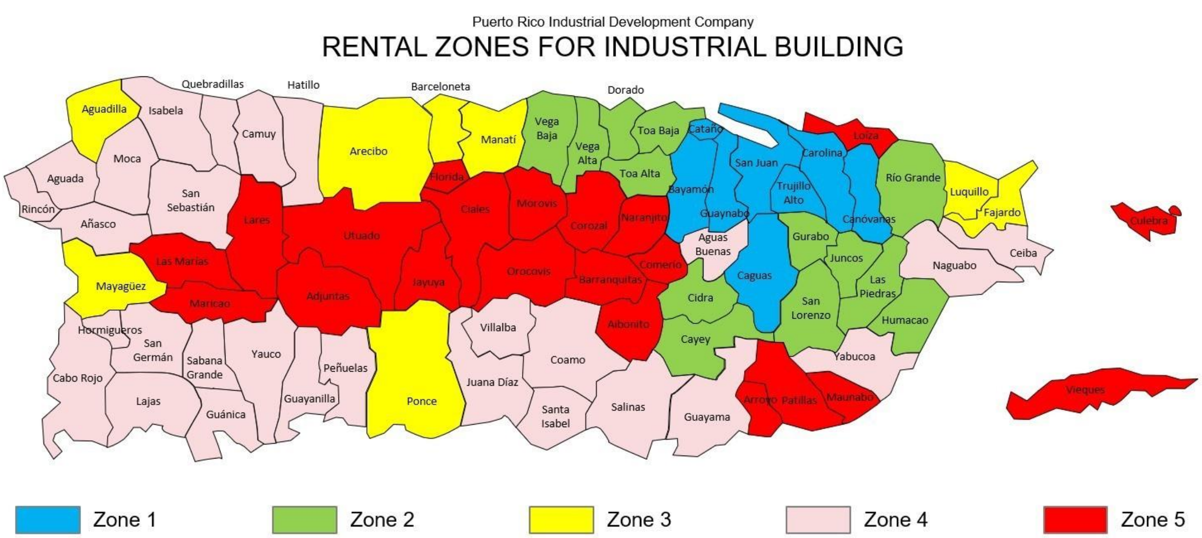
| Land | Count | Sq. Meters |
|---|---|---|
| Lots | 713 | 17,851,474 |

Source: PRIDCO Property List as of April 2023; subject to change

PRIDCO's current real estate portfolio includes 22.7 million SF of buildings, of which 15.6 million is occupied and 7.0 million is vacant.[7] The PRIDCO portfolio is considered diverse, with over 575 tenants with rental agreements ranging from $0 to $96,755 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




[6] Portfolio statistics as of April 2023, provided in PRIDCO's May 12, 2023, NOV response.
[7] Portfolio statistics as of April 2023, provided in PRIDCO's May 12, 2023, 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 76% of units and 69% of SF) 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 Puerto Rico Industrial Investment Company ("PRIICO") Properties.

**Trusteed Properties:** The Trusteed Properties are those properties owned by PRIDCO whose revenues are claimed to be 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").[8] At this time, the Trusteed Properties are believed to represent 1,336 units with over 18 million SF of space (of which, approximately 76% of units and 68% of SF occupied, respectively). Before the costs of maintenance and CapEx to ensure the properties remain inhabitable, the Trusteed Properties are anticipated to generate over ~$40.4 million of gross revenue in FY2023.

**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 149 units and 3.9 million SF of space (of which, approximately 72% of units and 70% of SF occupied, respectively). Before the costs of maintenance and CapEx to ensure the properties remain inhabitable, the Non-Trusteed Properties are anticipated to generate ~$14.4 million of gross revenue in FY2023. The proceeds of 27 specified Non-Trusteed Properties (which comprise over 8.0 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.

[8] 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 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 four special facilities[9] and lent the funds to PRIDCO to build the facilities. These four facilities, totaling approximately 0.7 million SF, 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 fully occupied with rent collected directly by the lender through a lock-box arrangement. These leases will expire simultaneously with the associated mortgage loans, and the 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 eight PRIICO units with two tenants. The lease agreements with the two PRIICO tenants will expire in 2031 and 2045, although the mortgages for the PRIICO tenants both mature in 2031[10].

Despite constituting only 3% of PRIDCO's portfolio by total rentable square footage, the PRIICO properties are anticipated to generate revenue of approximately $4.4 million during FY2023, or 8% of PRIDCO's total annual rental revenue and will cover mortgage payments of the same amount.

[9] The 2022 PRIDCO Fiscal Plan mentioned six facilities; however, the leases for two of these facilities expired at the end of FY2022, therefore, this Fiscal Plan only refers to the four facilities remained. For further information, refer to Section 3.1 and Chapter 2 in the 2022 PRIDCO Fiscal Plan.

[10] Revenues generated post-expiration of these mortgages could potentially be "dividended" up to PRIDCO, that is after PRIICO's debt is paid in full.

# PART II: 2022 PRIDCO FISCAL PLAN

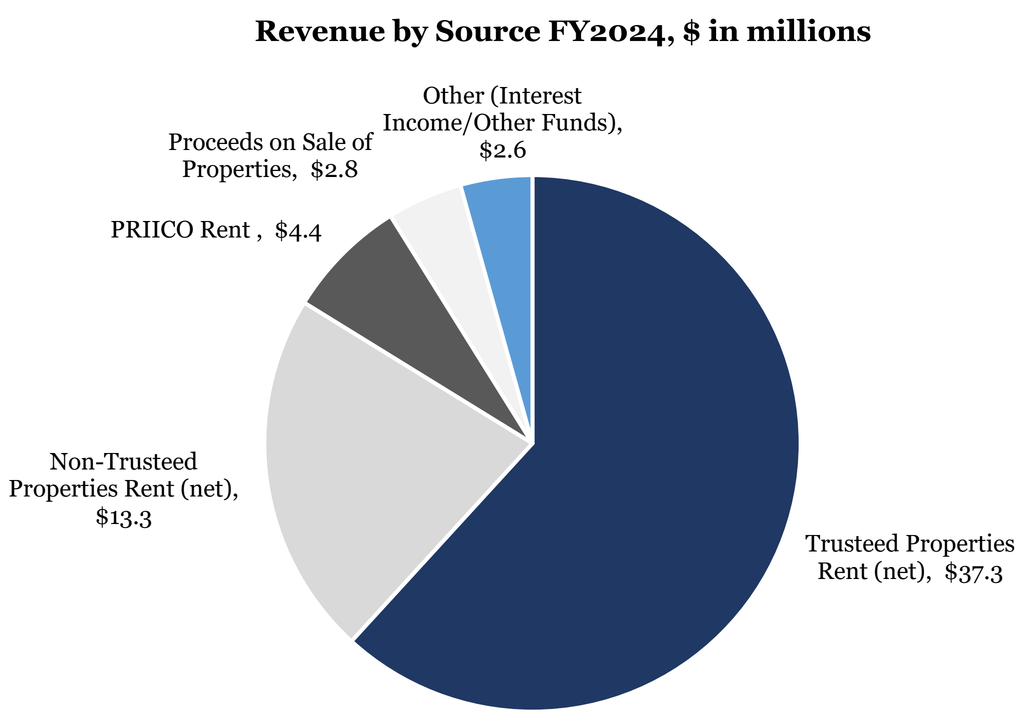
## Chapter 3. BASELINE PROJECTIONS

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 FY2024 budget as the starting point. This Fiscal Plan, outlined herein, also incorporates the macroeconomic forecasts utilized in the 2023 CW Fiscal Plan.

### 3.1 Baseline Projections Overview

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

EXHIBIT 3: FY2024 REVENUE BY SOURCE – BASELINE PROJECTIONS




PRIDCO's baseline surplus expectation is outlined in Exhibit 5, below. The net revenue forecast is based on active leases within PRIDCO's property portfolio, net of anticipated uncollectible accounts. As illustrated in Exhibit 4, total projected revenue declines from FY2024 through FY2028 because asset sales are forecasted to return to the lower historical levels, 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).

EXHIBIT 4: BASELINE TOTAL REVENUES PROJECTION

| Item ($ thousands) | FY24 | FY25 | FY26 | FY27 | FY28 | FY24-FY53 |
|---|---|---|---|---|---|---|
| Baseline Total Revenues | $60,423 | $60,205 | $60,051 | $59,897 | $59,745 | $1,712,853 |

The total operating expenses for FY24 are expected to be $48.4M[11] of which employee payroll and related expenses are projected to be approximately $5.8 million for PRIDCO's 60 budgeted employees.[12] Consistent with the 2023 CW Fiscal Plan, expenses grow annually by inflation. Non-operating expenses also include an environmental liability payment estimated at $2.1 million per year from FY2024 through FY2030 (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 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.

In June 2022, the mortgages of two PRIICO units were paid in full. As such, the underlying leases associated with these mortgages expired. In FY2023, this tenant renewed its lease. The new rental rate is considerably higher than the average PRIDCO rate of ~$3.4 per SF[13]. The new lease is now considered a part of Non-Trusteed revenue and PRIDCO owns the units in full.

EXHIBIT 5: BASELINE SURPLUS PROJECTION (EXCLUDING DEBT SERVICE)

| Item ($ thousands) | FY23 | FY24 | FY25 | FY26 | FY27 | FY28 | FY24-FY53 |
|---|---|---|---|---|---|---|---|
| Baseline Surplus | $1,873 | ($549) | ($85) | $1,985 | $1,891 | $1,474 | $24,191 |

## 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. Per the 2022 PRIDCO Fiscal Plan, PRIDCO's payroll includes mobilized employees[14] transferred to PRIDCO from PREPA. For further information on the PREPA employees, please see Section 3.2 in the 2022 PRIDCO Fiscal Plan. This Fiscal Plan assumes PRIDCO covers payroll costs for currently

[11] See Appendix A for the breakdown of Baseline Operating Expenses in FY2024.

[12] The 2022 PRIDCO Fiscal Plan provided PRIDCO with a FY2023 budget for 60 employees. The PRIDCO's May 12, 2023 NOV response includes the following: (i) request for two additional employees; (ii) data showing that (a) two employees of the requested employee headcount are PREPA employees who were transferred to PRIDCO (as part of a PREPA mobility program; see Footnote 13) and are currently not being salaried, (b) one employee transferred from PREPA is no longer included in PRIDCO's headcount, and (c) remaining active employees transferred from PREPA employees is 13.

[13] Estimated rental rate excluding PRIICO leases.

[14] These 13 active 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.

budgeted vacant positions, as well as additional revenues generated by renewing expired leases as mandated in previous fiscal plans.[15]

## 3.3 Pay As You Go Pensions

In compliance with Act 106-2017, PRIDCO pays the PayGo Fee to reimburse the Commonwealth for annual pension benefit obligation payments required by the Pay-as-you-go ("PayGo") system. The forecast for FY2024 includes payments for approximately 630 pensioners that have retired from PRIDCO. PayGo has been forecasted using baseline actuarial assumptions consistent with the 2023 CW Fiscal Plan.

Volume 3, Chapter 13 "Pension reform" of the 2023 CW Fiscal Plan is hereby incorporated by reference.

## 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. Throughout FY2023, PRIDCO and DDEC management teams made progress to implement best practices and reduce the DDEC Management Fee to improve fiscal performance. The result of these efforts are reflected in the post-measures forecast of the DDEC Management Fee as an incremental reduction in cost (see Exhibit 13). Those actions and further improvements to the MOU structure shall include minimizing unnecessary overlap of incurred expenses, aligning the DDEC Management Fee with the services provided, and setting expectations for the further reduction of the DDEC Management Fee over time.

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. For further information on the history of the DDEC MOU, please refer to Section 3.4 in the 2022 PRIDCO Fiscal Plan.

The baseline forecast uses the $9.8 million DDEC Management Fee in FY2023 as a starting point for FY2024. The baseline DDEC Management Fee is then reduced in a scheduled amount consistent with the 2023 CW fiscal plan.

## 3.5 Enhancing Property Investment

PRIDCO's budget constraints have historically limited PRIDCO's ability to make adequate investment spending for its critical CapEx and capital stock, leading to significant deferred maintenance, and the visible deterioration of its properties. Without adequate investments it

[15] These payroll costs incorporate salaries, as well as adjustments for healthcare, social security, and other benefits for these mobilized employees. As stated in Section 3.2.11 in Volume 2 of the 2023 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.

is unlikely that PRIDCO would be able to continue to collect rent on many of the buildings it owns and manages. Consequently, PRIDCO faces numerous funding challenges related to past, current, and future CapEx 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 PRIDCO 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 CapEx separately.

EXHIBIT 6: BASELINE MAINTENANCE AND CAPEX FORECAST

| Item ($ thousands) | FY24 | FY25 | FY26 | FY27 | FY28 | FY24-FY53 |
|---|---|---|---|---|---|---|
| Baseline Maintenance | $5,900 | $5,981 | $6,060 | $6,140 | $6,225 | $255,618 |
| Baseline CapEx | $4,101 | $4,157 | $4,213 | $4,268 | $4,327 | $156,837 |

To remedy this history of underinvestment and to facilitate adequate funding and investment in the current portfolio, PRIDCO intends to maintain the FY2023 budgeted repairs and maintenance, and roll-over any unused capital spending budgeted in FY2023. Any unspent CapEx amounts from FY2023 that PRIDCO intends to use in FY2024 or beyond will require approval by the Oversight Board. However, these deferred expenses will account as spent in the year they were budgeted for. Therefore, PRIDCO must submit a budgetary request for the corresponding analysis and approval of the Oversight Board to extend the utilization of these unused funds in FY2024. 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.

Specifically, the 2022 Fiscal Plan included $3.5 million of incremental CapEx in the FY2023 baseline forecast to fund a tenant-specific growth expansion project, which was not initiated in FY2023 as originally anticipated. This Fiscal Plan has maintained this one-time request as a part of FY2023 expenses, and extended PRIDCO's ability to use these funds. Additionally, the 2022 PRIDCO Fiscal Plan included a one-time incremental amount of $7.6 million in the FY2023 maintenance budget to address maintenance CapEx and infrastructure needs. PRIDCO did not utilize these funds in FY2023; this amount was re-appropriated to CapEx in FY2023 and PRIDCO was granted an extension for the use of this budget item. PRIDCO has indicated that the tenant expansion project will in fact require an additional amount of $3.5 million (above the $3.5 million that was already budgeted for this project; totaling ~$7.0 million), therefore PRIDCO will partially utilize the re-appropriated $7.6 million budget to cover this incremental need for the tenant expansion project.

Furthermore, the 2022 PRIDCO Fiscal Plan included an incremental budget of $6.0 million for CapEx on a post-measures basis. PRIDCO was not able to spend the $6.0 million to-date. PRIDCO was granted a similar extension for the FY2023 budget item to be spent throughout FY2024.

The requested baseline budget for FY2024 includes maintenance of $5.9 million, as requested by PRIDCO, and CapEx of $4.1 million, representing the level of CapEx originally requested last year by PRIDCO, net of incremental requested CapEx.

Additionally, as outlined in Section 4.7, an Expanded CapEx Study was completed on March 7, 2022. This Fiscal Plan considers CapEx outlays to align with the conclusions of the Expanded CapEx Study.

## 3.6 EPA Litigation

Recent environmental litigation (initiated in 2015) related to the Maunabo Area Groundwater Contamination Superfund Site (the "Site") has concluded that four of PRIDCO's Trusteed Properties located on the Site 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 that were previously 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.

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 that is expected to cover a 20-year period. Cost of remediation was previously estimated to be $700,000 incurred throughout the remediation period.

To account for these and similar liabilities, PRIDCO has included in its financial forecast $2.1 million of environmental liability payments per year over seven years from FY2024 to FY2030. This increase of $0.6 million per year, compared to the $1.7 million projected per year in the 2022 PRIDCO Fiscal Plan, is included, as per PRIDCO's request, as a contingency for additional liability that may arise from ongoing litigation. The total Environmental Liability forecast in this Fiscal Plan amounts to ~$15.0 million (including the FY2023 budgeted amount; the 2022 PRIDCO Fiscal Plan forecasted $11.9 million).

PRIDCO has been party to several claims and lawsuits related to environmental pollution remediation obligations in which the Federal Environmental Protection Agency ("EPA") 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 "Superfund"), a United States federal law designed to clean-up 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. Per PRIDCO, based upon information presently available, such future costs are not expected to have a material effect on PRIDCO's financial position. However, this is subject to change, and such costs could be material to results of operations in a particular future year.

# Chapter 4. 2023 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 conclusions or recommendations from various strategic studies commissioned as part of previous fiscal plans for PRIDCO.

Action item tables presented in this chapter and Chapter 6 include periodic reporting items that are required to be implemented by PRIDCO and requirements related to reporting to the Oversight Board. After the certification of the Fiscal Plan, PRIDCO and the Oversight Board will work collaboratively to build a monthly reporting package, which shall include the required reporting items.

## 4.1 Payroll Measures

The Uniform Healthcare Contribution has been set to $125 per member per month, aligned with the methodology used in Section 4.1 of the 2022 PRIDCO Fiscal Plan. The savings associated with this measure, in addition to the payroll freeze through FY2023, reduce the baseline payroll expenditure. Forecasts of these measures are consistent with amounts used in the 2021 PRIDCO Fiscal Plan, 2022 PRIDCO Fiscal Plan and the 2023 CW Fiscal Plan.

## 4.2 Pay as You Go Pension Measures

PayGo pension projections in this Fiscal Plan rely on demographic and actuarial estimations consistent with the 2023 CW Fiscal Plan. The forecast for FY2023 includes payments for approximately 630 pensioners that have retired from PRIDCO. Aligned with Section 4.2 of the 2022 PRIDCO Fiscal Plan, this Fiscal Plan reflects the benefits 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.

Volume 3, Chapter 13 "Pension Reform" of the 2023 CW Fiscal Plan is hereby incorporated by reference.

## 4.3 Delinquency Rate Improvement Measure

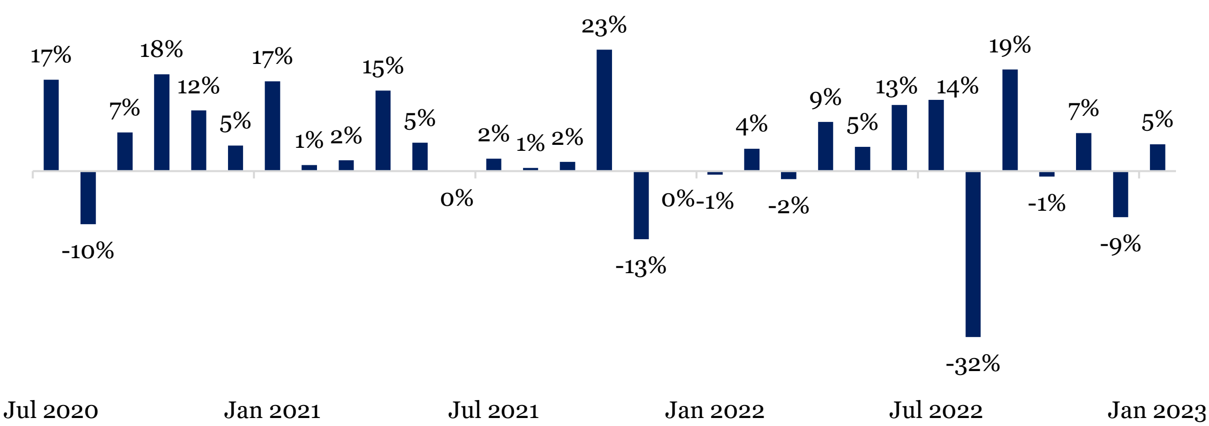
Delinquency rates at PRIDCO have historically been high, resulting in negative impacts on rental revenues. The average delinquency rate at PRIDCO from FY2020 to FY2022 was ~7.6%, resulting in considerable lost rental revenues.[16]

Through various tenant initiatives including pro-active collection of current and past-due rents, PRIDCO has significantly lowered delinquencies from the historical average of ~7.6%

[16] Per data provided in PRIDCO's May 12, 2023, NOV response.

to ~0.6% year-to-date January 2023.[17] Some of this improvement is related to the proactive collection of past-due rents, which is expected to abate and would increase the delinquency rate to more normalized levels. PRIDCO anticipates that future delinquency rates can and should improve from past performance. Accordingly, this Fiscal Plan requires PRIDCO to reduce long-term delinquencies to 4.3% of gross rental revenue on a monthly basis. The delinquency rate improvement in the post-measures forecast is reflected as a 0.5% annual improvement until PRIDCO meets the 4.3% target level by FY2029.

EXHIBIT 7: HISTORICAL DELINQUENCIES AS PERCENT OF GROSS REVENUE[18]




The 2021 PRIDCO Fiscal Plan (Section 6.1) included a strategic initiative to prepare a study to identify value-add strategic initiatives related to IT, leasing processes, operational inefficiencies, and internal reporting. The Systems Assessment and Occupancy Process Optimization Report was completed in July 2021 to address this initiative. This study required, among other things, several tasks to improve account receivables including:

- Aggressively track and collect past due Accounts Receivables ("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 improvements included in the Systems Assessment and Occupancy Process Optimization Report. Moreover, as of March 2023, approximately 52%[19] of tenants currently pay their rents to PRIDCO with a physical check. Compared to last year's ~75%[20], this represents a significant improvement of PRIDCO's collection efforts. In October 2022, PRIDCO sent a letter informing its tenants that the only accepted payment method, starting December 1, 2022, would be through electronic Automated Clearing House ("ACH") payment. This has resulted in a meaningful increase in the percentage of ACH payments. The

[17] Data provided in PRIDCO's May 12, 2023, NOV response.
[18] The negative percentages are collections from prior period delinquencies.
[19] Data provided in PRIDCO's May 12, 2023, NOV response.
[20] 2022 PRIDCO Fiscal Plan, Section 4.3.

average rent paid through ACH between January 2023 and March 2023 was 57%.[21]

PRIDCO must continue these efforts to reduce payments paid with a physical check. Physical checks are a highly inefficient form of payment, and they make improvements in collections even more challenging at times. Accordingly, this Fiscal Plan requires PRIDCO to continue the implementation of an ACH or similar style automated payment system to collect rents.

Additionally, PRIDCO has indicated that its Finance department is working on a report that will map collections to invoices, in order to enable tracking of collections from delinquent prior-periods. PRIDCO must continue to work on this measure, as required by the milestones set forth in Exhibit 8.

Exhibit 8 includes milestones for the implementation of these measures. Deliverables described in all action items tables in this Fiscal Plan (including Exhibit 8) represent submissions to the Oversight Board.

EXHIBIT 8: DELIQUENCY RATE IMPROVEMENT MEASURE

| **Action Items** | **Owner** | **Timing/ Deadline** |
|---|---|---|
| Track and collect past due A/R and enforce terms of lease agreements | PRIDCO | Ongoing |
| Submit a plan to automate PRIDCO's rent collection system to reduce the reliance on physical checks for rental collection | PRIDCO | October 1, 2023 |
| Submit a draft template weekly report on status of A/R aging that will provide management with adequate information to proactively manage real estate operations; template must include plan to enforce weekly cadence | PRIDCO | November 1, 2023 |
| Submit an updated 'Informe-PRIDCO' file, to distinguish between collections of past due rent versus on-time collections, on a monthly-basis | PRIDCO | November 15, 2023 *Ongoing* |
| Submit a new process to map lease income to related invoice to enable tracking of prior period delinquency collections | PRIDCO | December 15, 2023 |
| Centralize the A/R collection process, which is bifurcated between Legal and Finance departments with separate entries for input by both departments | PRIDCO | February 15, 2024 |
| Formally move all leases (existing and new) to ACH | PRIDCO | June 30,2024 |

# 4.4 Expired Lease Measure

PRIDCO currently has over ~7.5 million SF of space expiring over the next five years. The 2022 PRIDCO Fiscal Plan identified at least 64 expired leases. To-date, two units were sold, therefore the population of leases included in this Fiscal Plan's Expired Lease Measure is now 62, representing ~800K SF. Per the latest data provided by PRIDCO, this Fiscal Plan sets a target for PRIDCO to reach ~$883K in additional revenue related to these expired leases at the current rate card (which is higher than the current expired lease amount). As of May 2023,

[21] Data provided in PRIDCO's May 12, 2023, NOV response.

PRIDCO renewed 32 of the 62 leases. These 32 leases will result in an increase in baseline revenue of approximately $394K in FY2024. For the remaining 30 leases, there were two leases that, according to PRIDCO, will not be renewed. As it pertains to the 28 remaining leases, they are in various stages of renewal and are assumed to be renewed by FY2026.

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 6.2, 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.

As per PRIDCO, delays in the renewal process are largely due to lack of cooperation by tenants and in some cases, legal actions to either collect debt or evict the tenant.

This Fiscal Plan uses a ~$883K target requirement for the increase in revenues as a result of this measure and extends the implementation through FY2026. To incentivize the implementation of this milestone, the Fiscal Plan permits access to a payroll allocation equal to the realized targeted revenue increase. Specifically, the payroll allocation can be used to hire up to two additional personnel. 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 the annual target. To the extent benefits generated from the Expired Lease Measure exceed the salaries of the two additional personnel mentioned herein, the incremental residual amount can be allocated to discretionary Operating Expense items, subject to the approval of the Oversight Board.

EXHIBIT 9: EXPIRED LEASE MEASURE TARGETS

| Item ($ thousands) | FY23 | FY24 | FY25 | FY26 | FY27 | FY28 | FY24-FY53 |
|---|---|---|---|---|---|---|---|
| Baseline revenue achieved | $275 | $394 | $394 | $394 | $394 | $394 | $12,331 |
| Cumulative revenue target[22] | $389 | $441 | $736 | $883 | $883 | $883 | $27,164 |
| Incremental payroll achieved[23] | $389 | $52 | $295 | $147 | - | - | $585 |

EXHIBIT 10: EXPIRED LEASE MEASURE

| Action Items | Owner | Timing/ Deadline |
|---|---|---|
| Submit a monthly list of all leases that have been re-signed and those that are still pending | PRIDCO | Ongoing |
| Submit a detailed and comprehensive plan to renew upcoming lease expirations | PRIDCO | September 15, 2023 |

[22] Excludes baseline revenues achieved from 32 renewed leases with a realized increase in revenue.
[23] Represents incremental payroll benefit from achieving target renewals.

## 4.5 Third-Party Manager Measure

In conformance with the 2021 PRIDCO Fiscal Plan requirements, the Feasibility Study was completed on July 31, 2022. The study evaluated the viability for outsourcing asset management via the hiring of a Third-Party Manager to institutionalize PRIDCO's management and leasing processes and improve its operational and financial performance. The Feasibility Study was 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 2022 PRIDCO Fiscal Plan included the conclusions of an initial draft of the Feasibility Study, which was released after the certification of the 2022 PRIDCO Fiscal Plan. This Fiscal Plan includes the final conclusions from the Feasibility Study, which are aligned with the same assumptions used in the 2022 PRIDCO Fiscal Plan.

The Feasibility 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.

This Fiscal Plan, therefore, requires PRIDCO to complete the process of delegating certain responsibilities to a Third-Party Manager to augment PRIDCO's current operations in a manner consistent with the conclusions in the Feasibility Study. As shown in Exhibit 11, this Fiscal Plan incorporates the savings estimates included in the Feasibility Study, particularly data showing the implications on revenue and expenses once implemented.

The 2022 PRIDCO Fiscal Plan described the measures included herein and assumed a Third-Party Manager would be hired in FY2023. Despite PRIDCO's efforts to meet the expected timeline for this measure, as of May 2023, the Third-Party Manager was selected but has not yet been hired. Unforeseen delays were partially driven by material turnover in PRIDCO's leadership and Hurricane Fiona, which struck Puerto Rico in September 2022.

Pursuant to the requirements of the 2022 PRIDCO Fiscal Plan, PRIDCO initiated a RFP process to engage a Third-Party Manager. This RFP process generated a number of interested proponents. In May 2023, PRIDCO announced the selection of the proponent for the Third-Party Manager role. This Fiscal Plan assumes a Third-Party Manager will be hired by June 2023. As such, measures associated with the hiring of a Third-Party Manager will be delayed to FY2024. The following paragraphs describe the assumptions behind implementation of a Third-Party Manager and the resulting impact to revenues and expenses. Given the timing of the certification of this Fiscal Plan and the ongoing Third-Party Manager negotiations, which are still taking place, the forecast of expenses associated with the Third-Party Manager reflects information up to the certification date of this Fiscal Plan.

On the revenue side, the preliminary study shows hiring 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 which are required by this Fiscal Plan. These three required measures are: (i) a revenue increase from leasing (0.33%), (ii) a revenue increase from improved maintenance (0.33%), and (iii) a revenue 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 that the measures are intertwined, and it is highly unlikely that 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 Feasibility 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 Feasibility 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, aligned with the 2022 PRIDCO Fiscal Plan, requires PRIDCO to reduce (1) the fee paid to DDEC (see Exhibit 13), and (2) professional services fees paid by PRIDCO, by at least 60% within each category, through the hiring of a Third-Party Manager.

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 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 CapEx. The fee is required to help support the material increase in CapEx 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[24], a property management fee of 3% of operating revenues, a construction management fee of 6% of CapEx,[25] and a leasing fee of 6% of new revenue generated from newly occupied SF each year. These percentages are consistent with estimates identified in the Feasibility Study.

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

EXHIBIT 11: THIRD-PARTY MANAGER TARGET IMPROVEMENTS

| Item ($ thousands) | FY24 | FY25 | FY26 | FY27 | FY28 | FY24-FY53 |
|---|---|---|---|---|---|---|
| Occupancy Measures | 594 | 1,389 | 2,192 | 2,994 | 3,795 | **$291,249** |
| Better Strategic Planning | 275 | 553 | 552 | 551 | 550 | **$16,449** |
| **Revenue Improvement Target** | **$869** | **$1,942** | **$2,744** | **$3,545** | **$4,345** | **$307,698** |
| Prof. Service reduction | 964 | 1,303 | 1,321 | 1,338 | 1,357 | **$48,847** |
| DDEC Fee reduction | 5,339 | 4,806 | 4,335 | 4,392 | 4,453 | **$163,031** |
| Management Fee | (4,318) | (4,446) | (4,510) | (4,563) | (4,617) | **$(155,525)** |
| Leasing Fee | (684) | (925) | (927) | (925) | (924) | **$(22,519)** |
| **Expense Improvement Target** | **$1,301** | **$738** | **$219** | **$243** | **$269** | **$33,834** |
| **Estimated Net Effect[26]** | **$2,170** | **$2,680** | **$2,963** | **$3,788** | **$4,614** | **$341,532** |

The Third-Party Manager fiscal measures required in the 2023 Fiscal Plan are aligned with the conclusions and assumptions presented in the Feasibility Study.

The 2022 PRIDCO Fiscal Plan budgeted $2.9 million in Third-Party Manager expenses for FY2023. As the Third-Party Manager was not hired in FY2023, this amount was not spent but will be rolled over to FY2024 as part of the Professional Services budget.

- This Fiscal Plan assumes $2.5 million will be used for an emergency FEMA project in Coamo, as requested by PRIDCO.

- The remaining $400K will be used to build out a business opportunities platform ($300K; further discussed in Section 6.1) and other professional services needed ($100K).

- To the extent PRIDCO would like to use these funds for another purpose, this must be addressed through the FY2024 budget process. The amount specified is all that is

[24] Excluding non-collections / delinquencies.
[25] Excluding FEMA-related CapEx.
[26] Does not include revenue improvement from Delinquency Rate Improvement Measure.

available for discretionary use at this time.

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

EXHIBIT 12: THIRD-PARTY MANAGER

| Action Items | Owner | Timing/ Deadline |
|---|---|---|
| Submit draft RFP for hiring Third-Party Manager to augment the current operational structure | PRIDCO | Completed |
| Finalize RFP draft and issue RFP | PRIDCO | Completed |
| Present RFP response overview & analysis | PRIDCO | Completed |
| Complete price and legal negotiations with the potential Third-Party Manager | PRIDCO | June 2, 2023 |
| Submit the Third-Party Manager selection and proposed on-boarding process | PRIDCO | June 30, 2023 |

## 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 that PRIDCO pays to DDEC. Exhibit 13 below illustrates the expected decreases in the DDEC Management Fee that PRIDCO must implement.

As part of the Feasibility 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 Feasibility Study clearly states an additional reduction in the DDEC Management Fee of no less than 60% and as much as 80% is warranted, so this Fiscal Plan (like the 2022 PRIDCO Fiscal Plan) assumes and requires a 60% reduction. PRIDCO shall implement this Third-Party Management reduction in the DDEC Management Fee.

While this Fiscal Plan does not contemplate right-sizing of the PRIDCO front-office personnel cost, the reduction of the DDEC Management Fee will make available a major funding source for the Third-Party Manager. The Third-Party Manager reduction in the DDEC Management Fee forecasts a net savings of approximately $163 million over the 30-year period, representing a 60% reduction beyond the caps established in prior fiscal plans.

Additionally, this Fiscal Plan adopts an incremental MOU fee reduction of 50% as proposed by PRIDCO to support the ongoing debt restructuring negotiations.

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

| Item | FY23 | FY24 | FY25 | FY26 | FY27 | FY24-FY53 |
|---|---|---|---|---|---|---|
| Personnel Costs | 5,355 | 4,732 | 4,106 | 4,169 | 4,224 | **$155,878** |
| Non-Personnel Costs | 3,543 | 3,278 | 3,012 | 3,056 | 3,096 | **$114,062** |
| **Total Caps** | **$8,898** | **$8,010** | **$7,118** | **$7,225** | **$7,320** | **$269,940** |
| Third-Party Manager measure | (2,935) | (5,339) | (4,806) | (4,335) | (4,392) | **($163,031)** |
| MOU incremental fee reduction | - | (1,336) | (1,156) | (1,445) | (1,464) | **($53,454)** |
| **New DDEC Fee** | **$5,962** | **$1,336** | **$1,156** | **$1,445** | **$1,464** | **$53,454** |

## 4.7 Capital Expenditure Improvement Measure

PRIDCO has historically underinvested in its capital stock, leading to a significant accrual of deferred CapEx and the physical deterioration of PRIDCO's properties. Consequently, PRIDCO faces numerous funding challenges related to past, current, and future CapEx 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 to 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 that were all estimated in the Expanded 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 CapEx is 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. A number 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, that group of properties includes approximately 136 units (across 84 buildings) that are potentially subject to demolition. Collectively, these buildings could expose PRIDCO to additional risk in various forms of liability (e.g., crime or injury).

A $15 million demolition reserve was set aside to demolish 33 uninhabitable properties due to life-safety concerns.[27] PRIDCO shall utilize these funds subject to a 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 must be developed once demolition costs are confirmed through an open RFP process.

This Fiscal Plan requires a reduction of $15 million to CapEx to account for the cash in the demolition reserve since use of these funds will not impact PRIDCO's surplus.

PRIDCO has indicated that the population of 33 properties mentioned herein may change. Any changes to this population must be supported with analysis and approved by the Oversight Board. Furthermore, any adjustments to this population may potentially result in negative change to the projected surplus because this Fiscal Plan includes adjustments to reduce CapEx due to the divestment of the properties in tiers 1-5 identified in the Divestment Study.

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 an Expanded CapEx Study. This study was completed on February 28, 2022. For further information on the Expanded CapEx Study analysis process, please refer to Section 4.7 of the 2022 PRIDCO Fiscal Plan.

The Expanded CapEx Study concluded there is a critical and time sensitive need to invest in CapEx due to some level of necessary repairs for 94% of the buildings within the portfolio. Some key observations are included below[28]:

- The total estimated CapEx requirement across the 200 PRIDCO properties visited,

[27] See Oversight Board letter to PRIDCO, dated December 20, 2021, and March 2, 2022, available on the Oversight Board's website.

[28] Data is quoted from the Expanded CapEx Study and may have changed since the release of the study; the Expanded CapEx Study and any other study conducted with PRIDCO, that is discussed in this Fiscal Plan, was conducted based on data provided by PRIDCO. The Expanded CapEx Study results are indicative estimates and were based on extrapolation methodology described in the study.

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

- Accordingly, the Expanded CapEx Study concluded that $392 million in CapEx were required in total to rehabilitate PRIDCO's portfolio over the next ten years. As noted in the Expanded 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 Expanded CapEx Study.
- The Expanded CapEx Study further stated that an outsized portion of the identified CapEx requirements was forecasted within the 12-month immediate term window for assets in the most critical condition.
- According to the study, the most critical repairs required in the first year will cost an estimated $216 million (see Exhibit 14). Roofing components represent 60% of the total.
- The East and West regions require ~60% of the critical estimated CapEx due to backlogged rehabilitation in the aftermath of recent hurricanes and seismic events.
- In addition to the $392 million, $53 million was estimated to be needed to address 88 properties[29], at least 33 of which were deemed structurally unsafe to enter, meaning that these buildings represented 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 CapEx and repair requirements identified in the Expanded CapEx Study.

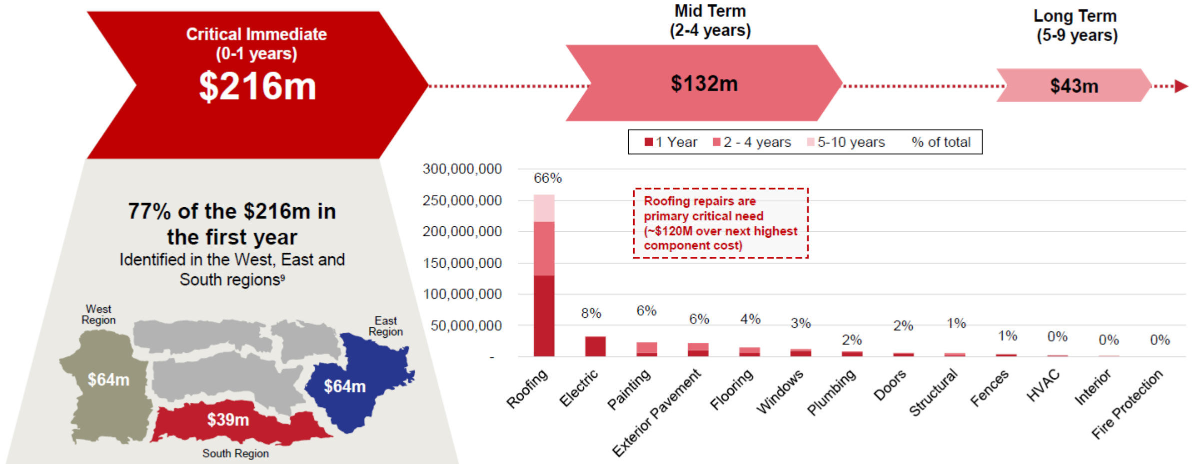
As of March 2023, PRIDCO has $265 million in project worksheets, out of which, $238.5 million has been obligated by FEMA. The remaining project cost of $26.5 million is a local cost share that will be reimbursed by CDBG-DR per an intent letter received from the Department of Housing.

Furthermore, PRIDCO, AAFAF, and the Oversight Board have worked collaboratively to assess the potential FEMA overlap mentioned above. Based on the information provided by PRIDCO and AAFAF, the FEMA overlap is estimated in the 2023 PRIDCO Fiscal Plan to be $100.7 million, which is within the range mentioned above.

PRIDCO must take action to address the results of the Expanded CapEx Study, including the observations noted above, and implement the necessary CapEx. Accordingly, PRIDCO must achieve the milestones as set forth in Exhibit 16.

[29] Per the 2022 PRIDCO Fiscal Plan, 88 buildings were deemed structurally unsafe to enter. 4 of these units were sold or demolished since the Certification date of the 2022 PRIDCO Fiscal Plan.

## EXHIBIT 14: CAPITAL EXPENDITURE CRITICAL NEEDS TIMELINE[30]




## 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: CAPEX SPENDING

| Action Items | Owner | Timing/ Deadline |
|---|---|---|
| Submit a detailed capital outlay schedule to address the conclusions presented in the Expanded CapEx Study, including growth, maintenance, and demolition-related CapEx | PRIDCO | October 15, 2023 |
| Submit FEMA-approved projects that are eligible for funding from COR3 Revolver or alternative FEMA Funding tools planned for FY2024 and path to complete funding requirements | PRIDCO | October 31, 2023 |
| Submit a template to show the status reports of all CapEx spending activities regarding proposed and ongoing projects | PRIDCO | November 30, 2023 |

30 Data is quoted from the Expanded CapEx Study and may have changed since the release of the study; the Expanded CapEx Study and any other study conducted with PRIDCO, that is discussed in this Fiscal Plan, was conducted based on data provided by PRIDCO. The Expanded CapEx Study results are indicative estimates and were based on extrapolation methodology described in the study.

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 CapEx 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 includes 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 Expanded CapEx Study findings. This Prioritization Study has been worked on throughout FY2023 in close collaboration between PRIDCO and the Oversight Board. The Prioritization Study will result in a comprehensive analytical tool for PRIDCO to utilize to make future CapEx prioritization decisions. As of the date of the certification of this plan, the study has been sustainably completed, and the prioritization tool has been shared with PRIDCO for finalization.

**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. PRIDCO must proactively plan and prepare for these future expenses instead of reactively responding to emergencies, consistent with commonly used asset management practice.

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. The 2022 PRIDCO Fiscal Plan included a CapEx reserve fund totaling $20.2 million. The reserve was reduced by 50% in this Fiscal Plan to $10.1 million, resulting in a minimum reserve level that is aligned with the average range of levels identified within the industrial warehouse operators in the United States.

To the extent additional surplus is generated beyond the 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 a dedicated bank account for CapEx Reserve Fund | PRIDCO | Completed |
| Submit an assessment of strategic prioritization of capital investment across the portfolio | PRIDCO | September 30, 2023 |
| Submit a building-by-building schedule of the remaining useful life of all building components to support planning and funding for these expenditures | PRIDCO | February 29, 2024 |
| Submit a policy document to define how the reserve will be utilized and funded | PRIDCO | April 30, 2024 |

## 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.

Throughout FY2023, PRIDCO undertook several initiatives related to marketing efforts to improve occupancy, indicated below[31]:

- Shared available inventory with Invest PR for publication on its website, promoting the rental of properties and targeting businesses in and outside Puerto Rico.
- Worked to redesign PRIDCO's web page and improved inventory availability, creating 'virtual showings' of the properties, user navigation, contact information, explanation of the leasing process and support options available, as well as the inclusion of success stories.
- Updated and improved property catalog through greater visibility of available properties, enhanced mapping, increased available data per property and improved communication channels with interested parties.
- Worked with municipalities to market available properties through the mayors and their administrations.
- Identified lots that are readily available for rent and communicated this information to PRIDCO partners such as: Invest PR, Discover Puerto Rico's DMO and mayors.
- Identified and tracked potential tenants that have previously expressed interest in PRIDCO properties via a digital database to reduce vacancy times as properties become available and to guide investment decisions related to vacant properties.
- Placed signs at properties readily available for rent.

Given the importance of improving occupancy, this Fiscal Plan assumes PRIDCO will gradually increase occupancy to 85% (up from PRIDCO's current FY2023 occupancy level of 69%). Notably, this drives nearly $291 million of the forecasted 30-year surplus PRIDCO is expected to generate. The increase is mainly expected to be generated once the Third-Party

[31] As provided in PRIDCO's May 12, 2023, NOV response.

Manager is hired, and it is also predicated on the successful and timely CapEx 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 |
|---|---|---|
| Submit an evaluation of outsourcing the leasing process to a broker or group of brokers | PRIDCO | January 31, 2024 |
| Appoint a head of leasing | PRIDCO | March 31, 2024 |

## 4.10 Divestment of non-rentable properties

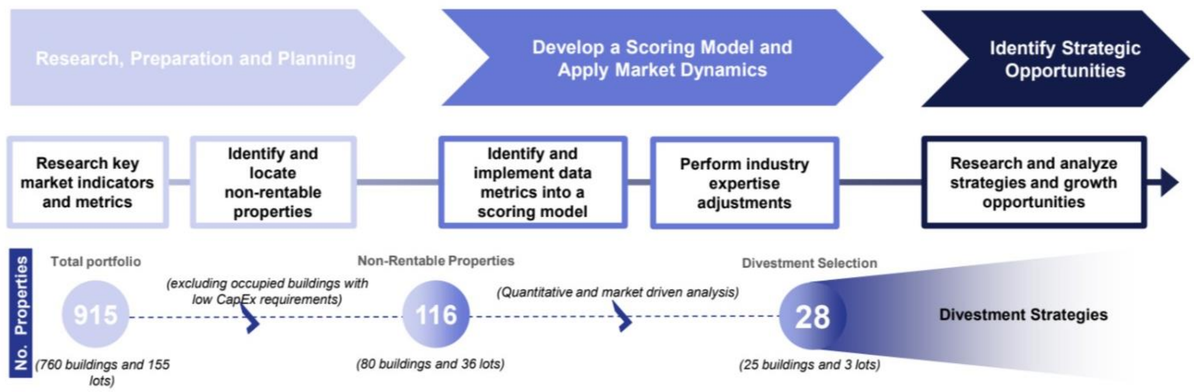
A Divestment Study was developed to provide PRIDCO with a plan to divest non-rentable properties that require either significant investment to restore them to rentable condition or ongoing expense to protect the property or the public. The study was completed and released on September 9, 2022. The study focused 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.

The scope of work included in the Divestment Study was as follows:

- Conduct an analysis of the PRIDCO portfolio to identify non-rentable properties and other prospective disposition candidates, which may include land parcels
- Identify strategic alternatives to divestment for non-rentable properties
- Identify value enhancement strategies at the portfolio level
- Research and incorporate relevant internal or third-party data sources to evaluate assets against the private marketplace
- Perform benchmarking of current market conditions relevant to potential divestment of portfolio properties
- Review and provide observations on PRIDCO's asset disposition policies and guidelines, including the roles and responsibilities of its Real Estate Sales Committee

EXHIBIT 19: DIVESTMENT STUDY APPROACH[32]




Key findings include:

- At the time of the Divestment Study, PRIDCO had 915 properties within its portfolio, 116 of which were determined to be non-rentable.

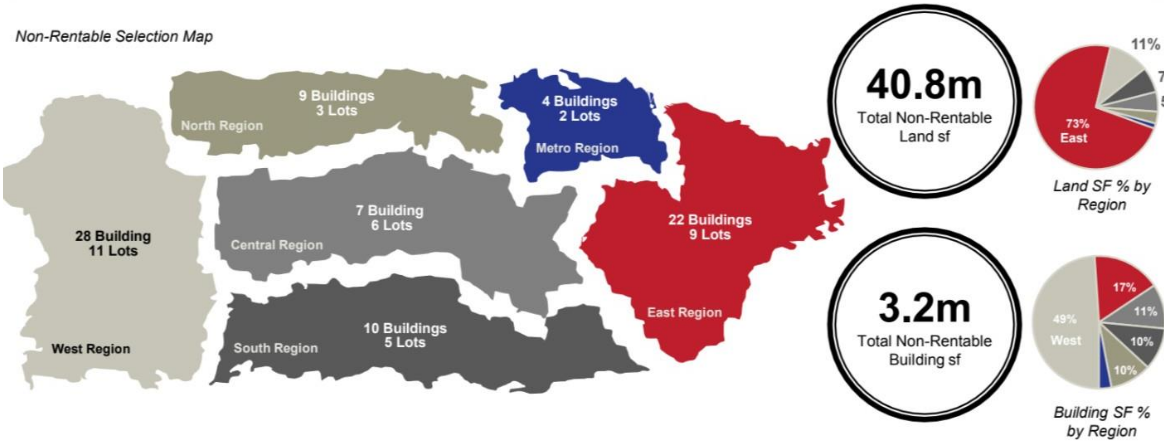
- Non-rentable properties identified to have divestment potential in the study include 80 buildings and 36 lots, including 40.8 million non-rentable land SF and 3.2 million non-rentable building SF. These properties are heavily concentrated in the East and West of Puerto Rico.

- Properties were allocated into five buckets of varying divestment potential, with Tier 1 properties and lots assumed to have the highest absorption in the market.
  - 25 buildings and 3 lots are assumed within Tier 1 of Divestment Study.
  - At the time of the Study, Tier 1 properties were estimated to require a combined $17.5 million in CapEx and demolition costs. Divestment of these assets would result in a total estimated CapEx and demolition cost reduction of 4% compared to the $445 million backlog need identified in the Expanded CapEx Study ($392 million in CapEx and $53 million demolition).
  - Tier 1 properties have estimated proceeds from divestment of $8.5 million - $21.5 million, excluding CapEx and demolition costs.

[32] Data per Divestment Study, as of September 22, 2022.

EXHIBIT 20: GEOGRAPHIC OVERVIEW OF NON-RENTABLE SELECTION

**The 116 non-rentable properties, located across 44 municipalities, have been estimated to require a combined $65m in CapEx and demolition costs**. This figure represents approximately 15% of the total estimated portfolio cost of $445 million associated with CapEx and demolition.




The Divestment Study was released following the certification of the 2022 PRIDCO Fiscal Plan. A surplus adjustment related to the study was evaluated to calculate CapEx and demolition savings related to divestment of all five tiers of properties in the study.

Including all tiers of properties in the study, 78 buildings and 34 lots were selected. Four properties initially selected for divestment, consisting of two lots and two buildings, were requested by PRIDCO to be removed from the pool of properties identified for divestment due to joint ownership in one of the lots, and previously deployed CapEx to the two buildings, which PRIDCO identified to have potential for rentability, one of which sits on the remaining lot. Excluding these four properties, a surplus adjustment of $50 million is included in this Fiscal Plan, expecting that CapEx and demolition funds are saved due to the potential divestment of these properties.

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 may potentially result in a higher projected surplus.

PRIDCO must take action to achieve the divestment of non-rentable properties for appropriate financial consideration. Exhibit 21 provides actions and timelines for the divestment program, which PRIDCO must undertake and achieve.

EXHIBIT 21: DIVESTMENT OF NON-RENTABLE PROPERTIES

| Action Items | Owner | Timing/Deadline |
|---|---|---|
| Submit a scope of options to evaluate the divestment study | PRIDCO | Complete |
| Submit results of the divestment of non-rentable properties study | PRIDCO | Complete |

| | | |
|---|---|---|
| Submit 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 | September 30, 2023 |
| Submit a monthly status update on sales process (pipeline and non-rentable condition report) | PRIDCO | October 31, 2023, *monthly thereafter* |

# 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 forecasted to 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 until FY2023
- Increase in operating expenses driven by rental revenue growth
- Additional adjustments to reflect latest portfolio data and incremental DDEC Management Fee reduction shared by PRIDCO

Exhibit 22 bridges the baseline 30-year surplus to the post-measures 30-year surplus.

EXHIBIT 22: BASELINE TO POST-MEASURES 30-YEAR SURPLUS/DEFICIT

*$ in thousands*

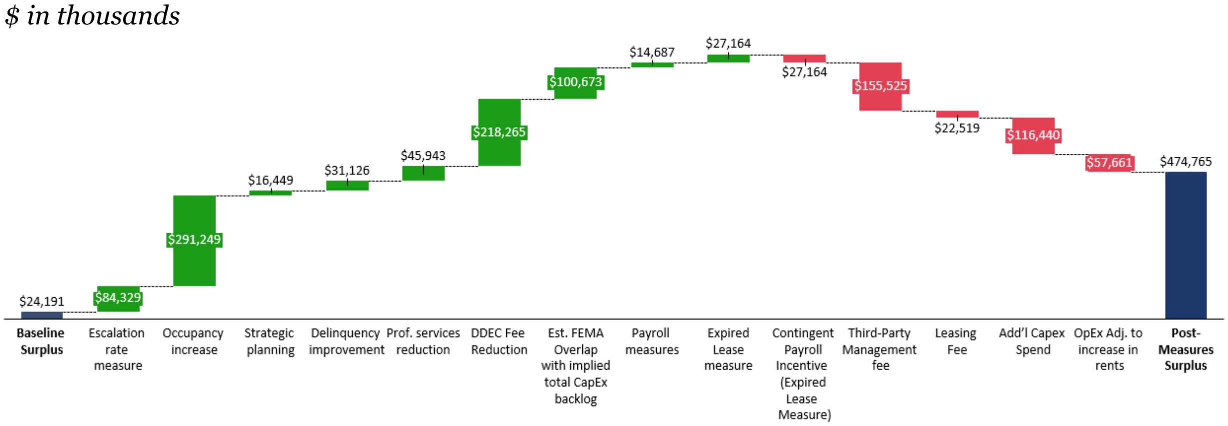



Exhibit 23 bridges the 30-year $133.3 million post-measures surplus projected in the 2022 PRIDCO Fiscal Plan to this Fiscal Plan's projected surplus. The main drivers for the significant increase in the projected surplus are adjustments to CapEx savings and incremental reduction in the DDEC Management Fee. Another factor that drives the surplus increase is PRIDCO's better-than-expected revenue performance in FY2023[33], which is reflected incrementally across the forecasted period.

[33] As provided in PRIDCO's May 12, 2023, NOV response.

EXHIBIT 23: 2022 PRIDCO FISCAL PLAN TO 2023 PRIDCO FISCAL PLAN - POST-MEASURES 30-YEAR SURPLUS

*$ in thousands*

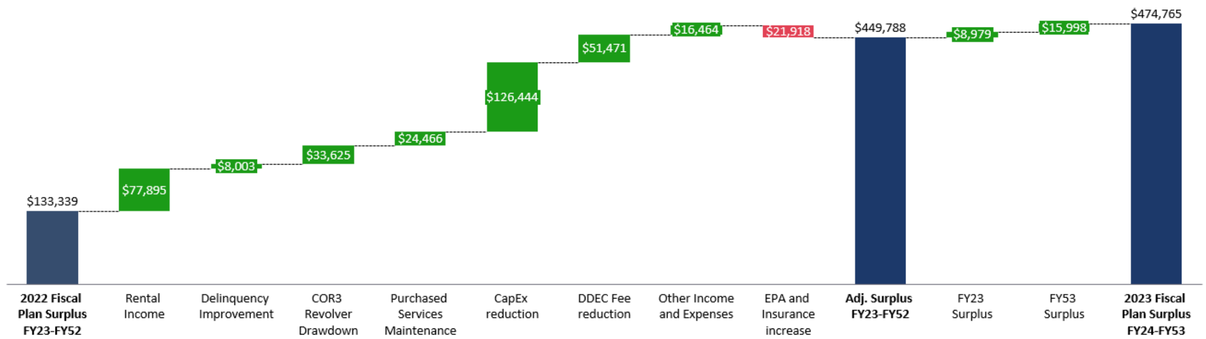



Exhibit 24 illustrates PRIDCO's financial projections after fiscal measures. The post-measures projections estimate a 30-year surplus of ~$474.8 million before debt service. For more detailed estimates of the long-term post-measures forecast, see Appendix 2.

EXHIBIT 24: POST MEASURES SURPLUS PROJECTION (BEFORE DEBT SERVICE)[34]

| Item ($ thousands) | FY23 | FY24 | FY25 | FY26 | FY27 | FY28 | FY24-FY53 |
|---|---|---|---|---|---|---|---|
| Post-Measures Surplus | ($8,979) | $6,931 | $10,575 | $12,546 | $13,524 | $14,211 | $474,765 |

[34] 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 CapEx 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 crises 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 should encourage accurate and disciplined long-term capital plans to increase the desirability of the available real estate in PRIDCO's portfolio, as well as enable PRIDCO to modernize its systems and prioritize investments.

Many of the initiatives outlined herein require ongoing efforts from PRIDCO and various government entities, as well as close collaboration with the Oversight Board. As mentioned earlier in this Fiscal Plan, PRIDCO is in the advanced stages of engaging a Third-Party Manager. Therefore, the true cost and the fiscal benefits of strategic opportunities implemented by PRIDCO with the Third-Party Manager will continue to be identified as their collaboration process progresses.

Additionally, as mentioned in Section 4.7, PRIDCO and the Oversight Board have been working collaboratively throughout FY2023 to development a capital prioritization investment plan with supporting economic rationale and priority of spending, which is expected to be completed by June 30, 2023 contingent on PRIDCO's cooperation.

The fiscal measures and strategic initiatives outlined in this Fiscal Plan are expected to be implemented by the incoming Third-Party Manager and/or PRIDCO; however, it is up to PRIDCO to ensure achievement of milestones and any collaboration that may be needed with the Oversight Board.

## 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 has limited PRIDCO's ability to forecast adequate CapEx 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 consideration to 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, must be supported by a recommendation from the Third-Party Manager. PRIDCO must implement the recommendations in the Systems Assessment and Occupancy Process Optimization Report, including as outlined below.

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 of 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 CapEx 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 CapEx 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 its pursuits, improve tenant retention, improve CapEx 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 inadequate 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).
- While the Third-Party Manager RFP process is being finalized and the onboarding process of the selected manager is being launched, 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.
- Continue to aggressively track and collect past-due A/R and enforce terms of lease agreements.
- Develop monthly 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.

In addition to the recommendations included in the Systems Assessment and Occupancy Process Optimization Report, the IT upgrades must include a business opportunities platform. PRIDCO seeks to implement a platform capable of handling business opportunities with prospects inside and outside of Puerto Rico with continuous and automatable communications features, which generates commitment and stimulates the commercialization of the properties that PRIDCO manages. Per PRIDCO, the platform will integrate its database with existing properties to achieve operational and process efficiencies. The aim is to refresh the image, experience, and interface of the current website for better alignment with PRIDCO's objectives and established business needs.

PRIDCO has estimated this platform will cost $300K, which will be further defined in the budget process. PRIDCO has provided a scope of work for this project, and the first phase of the project includes listing properties for rent.

As mentioned in Section 4.5, this Fiscal Plan rolls over $2.9 million from the unspent FY2023 Third-Party Manager budget to Professional Services in FY2024. While the use of these funds will be determined in the FY2024 budget process, PRIDCO will be granted the option to utilize $300K for this business opportunities platform.

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. 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 25.

The Third-Party Manager must play a key role in the implementation of the upgraded real estate IT system; therefore, the actions items in Exhibit 25 focus on the planning and design stages of the system.

EXHIBIT 25: REAL ESTATE INFORMATION SYSTEM

| **Action Items** | **Owner** | **Timing/ Deadline** |
|---|---|---|
| Submit a workplan for the implementation of a Business Opportunities platform, including timeline and uses of funds | PRIDCO | September 15, 2023 |
| Submit a workplan to implement an upgraded real estate IT including timeline and costs | PRIDCO | November 30, 2023 |
| Establish on-going IT program management guidelines and governance, to be updated upon completion of implementation of the new real estate IT | PRIDCO | November 30, 2023<br>*Ongoing* |

| | | |
|---|---|---|
| Develop detailed business and systems requirements, aligned between all PRIDCO's departments, to develop future state selected system | PRIDCO | December 30, 2023 |
| Complete design build of system implementation in full, with validation from PRIDCO's departments for alignment | PRIDCO | May 31, 2024 |
| Begin implementation of the real estate IT | PRIDCO | July 15, 2024 |
| Complete implementation of the real estate IT | PRIDCO | June 30, 2025 |

## 6.2 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.

As per PRIDCO, it is currently developing an RFP to receive proposals from real estate appraisal firms to assist in the review of market rates and evaluate the potential economic impact of an increase in rental rates. 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 26.

EXHIBIT 26: UPDATE RENTAL RATE CARD

| Action Items | Owner | Timing/Deadline |
|---|---|---|
| Complete a review of PRIDCO's 2003 rental rate card rates and report on findings | PRIDCO | October 31, 2023 |
| Submit review of standard rates and potential changes to such rates that would be effective April 1, 2024 | PRIDCO | February 28, 2024 |

## 6.3 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 should 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. Further, PRIDCO has indicated it will explore and implement strategies available to incentivize participating entities to present leasing or sales opportunities to prospective economic development targets or investors to facilitate a transaction.

PRIDCO has a dedicated employee who 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.[35] If a municipality identifies a potential tenant, it contacts the liaison to start the leasing process. The liaison must also proactively schedule separate meetings with municipalities on an opportunistic basis.

Furthermore, in May 2023 PRIDCO began to actively include municipalities in marketing efforts. Specifically, by the end of each month, PRIDCO must send a letter with a list of available properties to each municipality. This letter must also be sent to the Governor's Chief of Staff, the Secretary of DDEC, and Invest PR. The list must be accompanied by the process for rent and relevant contact information.

Accordingly, PRIDCO must achieve the milestones as set forth in Exhibit 27.

EXHIBIT 27: INTER-GOVERNMENT REAL ESTATE REPRESENTATION

| Action Items | Owner | Timing/Deadline |
|---|---|---|
| Provide the Oversight Board access to the monthly letter of available listings, which will be distributed to each municipality as described above in this section | PRIDCO | Ongoing |
| Submit an implementation plan (including a timeline schedule) to achieve effective collaboration with, at a minimum, the government entities mentioned herein | PRIDCO | January 30, 2024 |

[35] Data provided in PRIDCO's May 12, 2023, NOV response.

# 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 correct course 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 FY2024, 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 day 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 be 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, and (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 FY2024 any amount that exceeds the appropriations authorized for FY2024. 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, 2023, that no amount was spent or encumbered that exceeded the appropriations and authorized spending in the certified budget for FY2023.

- In addition, PRIDCO shall submit to the Oversight Board a monthly reporting package detailing CapEx spending by project including details for expenditures that 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, 2023, PRIDCO shall provide to the Oversight Board budget projections of revenues and expenditures for each quarter of FY2024, 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. PRIDCO must comply with this policy, including when entering into any and all contracts involving the transfer of properties.

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 that 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. PRIDCO must comply with this policy.

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.

## 7.2 Skills and Know-how Transfer from Consultants to Public Sector Personnel

The lack of adequate human capital planning at PRIDCO has led to the delegation of critical responsibilities to government contractors and consultants. Contractors and consultants should be limited to short-term projects that do not require full-time employment or other similar items. Additionally, PRIDCO's reliance upon contractors for critical tasks can result in a lack of transparency of true expenses. Professional services costs can exceed the cost of comparable full-time employees, or a Third-Party Manager, as contractors and consultants often have additional contractual remuneration and benefits.

Consequently, PRIDCO must work on reducing its professional services spending to enable the professionalization of the civil service and reduce the reliance on outside consultants. 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 PRIDCO 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 PRIDCO creates internal teams of appropriately trained and experienced employees to carry out such functions upon the expiration of consulting contracts. Additionally, PRIDCO must establish clear expectations with consultants that internal knowledge transfer and technical training are key priorities. Therefore, shared responsibility and progress must be measured and monitored for the purposes of contract compliance and performance.

Accordingly, PRIDCO must 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 2023, totals approximately $230.7 million, including[36]:

- $150.0 million (excluding accrued, unpaid interest) of the Revenue Bonds
- $53.0 million (excluding accrued, unpaid interest) in loans owed to the GDB-DRA[37]
- $27.7 million in mortgages for PRIICO, a not-for-profit corporation whose only member is PRIDCO.[38, 39]

Since FY2021, PRIDCO has entered into six forbearance agreements to make interest-only payments to PRIDCO's Revenue Bond creditors. These payments, which commenced in July 2021 until October 2022, amounted to a total of $11.4 million.

Following a lull in forbearence interest payments, the Revenue Bond creditors filed litigation on January 19, 2023, against PRIDCO, AAFAF, and the Oversight Board seeking restitution for outstanding principal and interest payments. PRIDCO, AAFAF, and the Oversight Board have engaged in restructuring negotiations with creditors since this initial filing date and are working to seek a fiscally responsible solution for PRIDCO's long-term debt structure. Litigation deadlines have so far been extended while negotiations continue.

Following the certification of the 2022 PRIDCO Fiscal Plan, an evaluation of fiscal plan adjustments was conducted following the receipt of new portfolio data compiled by PRIDCO and the release of the Divestment Study in September 2022.

PRIDCO, AAFAF, and the Oversight Board are aligned on the adjustments referenced in this Fiscal Plan. For further information on adjustments and measures applied to the Fiscal Plan please refer to Chapter 4.

PRIDCO is forecasted to have a cumulative post-measures surplus before debt service of $474.8 million from FY2024 through FY2053. The average annual surplus for this period is $15.8 million. Exhibit 28 below provides an illustrative analysis of implied debt capacity.

An evaluation of sustainable debt capacity, prior to the execution of a deal with Revenue Bond creditors, is likely premature considering the potential magnitude of debt service expenditures and the associated impact on the Fiscal Plan surplus estimates.

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[36] 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.
[37] GDB-DRA holds a $25M loan payable from PRIDCO operating revenues and proceeds from the sale of select properties (the "PRIDCO-DRA Loan"); three loans totaling $28M are payable from legislative appropriations.
[38] Data as of April 2023; per data provided in PRIDCO's May 12, 2023, NOV response.
[39] Revenues generated post-expiration of these mortgages could potentially be "dividended" up to PRIDCO, that is after PRIICO's debt is paid in full.

EXHIBIT 28: IMPLIED DEBT CAPACITY ($ IN MILLIONS)

| **Period** | | **30-Year** | | |
|---|---|---|---|---|
| Annual Cash Flow | | $10.0 | $15.0 | $20.0 |
| Interest Rate Range | 6.0% | $137.6 | $206.5 | $275.3 |
| | 8.0% | $112.6 | $168.9 | $225.2 |
| | 10.0% | $94.3 | $141.4 | $188.5 |

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.

# Appendix 1. Detailed 30-year baseline model[40]

| Fiscal Year Ended June 30: | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | FY24-FY53 |
|---|---|---|---|---|---|---|---|
| **Operating Revenue** | | | | | | | |
| Trusteed Properties Rent | $40,420 | $40,420 | $40,420 | $40,420 | $40,420 | $40,420 | $1,212,605 |
| Non-Trusteed Properties Rent | 14,384 | 14,384 | 14,621 | 14,417 | 14,212 | 14,007 | 378,917 |
| PRIICO Rent | 4,426 | 4,426 | 4,426 | 4,426 | 4,426 | 4,426 | 73,687 |
| Non-Collection / Delinquency | (4,175) | (4,175) | (4,193) | (4,178) | (4,162) | (4,147) | (121,251) |
| Expired Lease Measure | - | - | - | - | - | - | - |
| **Net Rental Income** | **55,055** | **55,055** | **55,274** | **55,085** | **54,896** | **54,706** | **1,543,959** |
| **Non - Operating Revenues** | | | | | | | |
| Proceeds on Sale of Properties | 6,250 | 2,750 | 2,276 | 2,276 | 2,276 | 2,276 | 68,767 |
| Other (Interest Income/Other Funds) | 2,568 | 2,618 | 2,654 | 2,689 | 2,725 | 2,763 | 100,128 |
| **Other Income** | **8,818** | **5,368** | **4,931** | **4,966** | **5,002** | **5,039** | **168,894** |
| **Total Revenues (Net)** | **63,873** | **60,423** | **60,205** | **60,051** | **59,897** | **59,745** | **1,712,853** |
| **Operating Expenses** | | | | | | | |
| Payroll | (5,661) | (5,775) | (5,840) | (5,905) | (5,972) | (6,043) | (216,582) |
| PayGo | (14,790) | (14,865) | (14,691) | (14,488) | (14,275) | (14,037) | (271,018) |
| Facilities and Payment for Public Services | (694) | (725) | (735) | (745) | (755) | (765) | (27,724) |
| Purchased Services - Maintenance | (5,030) | (5,900) | (5,981) | (6,060) | (6,140) | (6,225) | (225,618) |
| Purchased Services - Insurance | (4,469) | (5,980) | (6,062) | (6,142) | (6,224) | (6,310) | (228,678) |
| Purchased Services - Other | (2,437) | (2,499) | (2,533) | (2,567) | (2,601) | (2,637) | (95,553) |
| Transportation Expenses | (224) | (252) | (255) | (259) | (262) | (266) | (9,637) |
| Professional Services | (2,090) | (2,143) | (2,172) | (2,201) | (2,230) | (2,261) | (81,947) |
| Materials and Supplies | (18) | (44) | (45) | (45) | (46) | (46) | (1,683) |
| Advertising and media expenses | (226) | (236) | (239) | (242) | (246) | (249) | (9,025) |
| Equipment Purchase | (61) | (64) | (65) | (66) | (67) | (68) | (2,447) |
| Other Expenses | (964) | (988) | (1,002) | (1,015) | (1,029) | (1,043) | (37,798) |
| DDEC Fee | (9,785) | (8,898) | (8,010) | (7,225) | (7,320) | (7,422) | (271,719) |
| **Total Operating Expenses** | **(46,449)** | **(48,369)** | **(47,630)** | **(46,959)** | **(47,166)** | **(47,372)** | **(1,479,427)** |
| **Non-Operating Expenses** | | | | | | | |
| Capex | (7,500) | (4,101) | (4,157) | (4,213) | (4,268) | (4,327) | (156,837) |
| PRIICO Mortgage Payments | (4,423) | (4,423) | (4,423) | (4,423) | (4,423) | (4,423) | (33,172) |
| PayGo Liability Payment Plan | (1,931) | (1,931) | (1,931) | (322) | - | - | (4,183) |
| Environmental Liability | (1,697) | (2,149) | (2,149) | (2,149) | (2,149) | (2,149) | (15,043) |
| **Total Non-Operating Expenses** | **(15,551)** | **(12,604)** | **(12,660)** | **(11,106)** | **(10,840)** | **(10,899)** | **(209,235)** |
| **Total Expenses** | **(62,000)** | **(60,972)** | **(60,290)** | **(58,065)** | **(58,006)** | **(58,271)** | **(1,688,662)** |
| **Surplus / (Deficit)** | **$1,873** | **($549)** | **($85)** | **$1,985** | **$1,891** | **$1,474** | **$24,191** |

40 For years in which deficits are projected in this Fiscal Plan, available unrestricted cash and prior year surpluses are anticipated to be used as the funding source for CapEx and certain other operating costs.

# Appendix 2. Detailed 30-year post-measures model[41]

| Fiscal Year Ended June 30: | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | FY24-FY53 |
|---|---|---|---|---|---|---|---|
| **Operating Revenue** | | | | | | | |
| Trusteed Properties Rent | $40,420 | $41,198 | $42,046 | $42,725 | $43,406 | $44,090 | $1,516,052 |
| Non-Trusteed Properties Rent | 14,384 | 14,633 | 15,193 | 15,219 | 15,232 | 15,260 | 464,031 |
| PRIICO Rent | 4,426 | 4,426 | 4,426 | 4,426 | 4,426 | 4,426 | 73,687 |
| Non-Collection / Delinquency | (3,929) | (3,724) | (3,547) | (3,305) | (3,047) | (2,782) | (90,125) |
| Expired Lease Measure | 389 | 441 | 736 | 883 | 883 | 883 | 27,164 |
| **Net Rental Income** | **55,690** | **56,974** | **58,854** | **59,947** | **60,901** | **61,877** | **1,990,809** |
| **Non - Operating Revenues** | | | | | | | |
| Proceeds on Sale of Properties | 6,250 | 2,750 | 2,288 | 2,292 | 2,295 | 2,302 | 72,233 |
| COR3 Revolver Draw / FEMA Funding | - | 33,130 | 33,130 | 33,130 | 33,130 | 33,130 | 265,043 |
| Other (Interest Income/Other Funds) | 2,568 | 2,618 | 2,654 | 2,689 | 2,725 | 2,763 | 100,128 |
| **Other Income** | **8,818** | **38,499** | **38,073** | **38,112** | **38,150** | **38,195** | **437,403** |
| **Total Revenues (Net)** | **64,508** | **95,473** | **96,927** | **98,060** | **99,051** | **100,072** | **2,428,213** |
| **Operating Expenses** | | | | | | | |
| Payroll | (5,637) | (5,833) | (6,187) | (6,393) | (6,455) | (6,521) | (229,059) |
| PayGo | (14,790) | (14,865) | (14,691) | (14,488) | (14,275) | (14,037) | (271,018) |
| Facilities and Payment for Public Services | (694) | (739) | (768) | (787) | (807) | (828) | (33,738) |
| Purchased Services - Maintenance | (6,934) | (3,723) | (3,902) | (3,991) | (4,079) | (4,169) | (223,789) |
| Purchased Services - Insurance | (4,469) | (5,980) | (6,062) | (6,142) | (6,224) | (6,310) | (228,678) |
| Purchased Services - Other | (2,437) | (2,546) | (2,645) | (2,714) | (2,783) | (2,855) | (116,280) |
| Transportation Expenses | (224) | (257) | (267) | (274) | (281) | (288) | (11,727) |
| Professional Services | (1,463) | (4,123) | (965) | (1,007) | (1,048) | (1,092) | (53,781) |
| Materials and Supplies | (18) | (45) | (47) | (48) | (49) | (50) | (2,048) |
| Advertising and media expenses | (226) | (240) | (250) | (256) | (263) | (270) | (10,982) |
| Equipment Purchase | (61) | (65) | (68) | (70) | (71) | (73) | (2,978) |
| Other Expenses | (964) | (1,007) | (1,046) | (1,073) | (1,101) | (1,129) | (45,997) |
| DDEC Fee | (5,962) | (1,336) | (1,156) | (1,445) | (1,464) | (1,484) | (53,454) |
| Management Fee | - | (4,318) | (4,446) | (4,510) | (4,563) | (4,617) | (155,525) |
| Leasing Fee | - | (684) | (925) | (927) | (925) | (924) | (22,519) |
| **Total Operating Expenses** | **(43,879)** | **(45,759)** | **(43,425)** | **(44,123)** | **(44,387)** | **(44,648)** | **(1,461,573)** |
| **Non-Operating Expenses** | | | | | | | |
| Capex | (21,557) | (34,280) | (34,425) | (34,497) | (34,569) | (34,642) | (439,477) |
| PRIICO Mortgage Payments | (4,423) | (4,423) | (4,423) | (4,423) | (4,423) | (4,423) | (33,172) |
| PayGo Liability Payment Plan | (1,931) | (1,931) | (1,931) | (322) | - | - | (4,183) |
| Environmental Liability | (1,697) | (2,149) | (2,149) | (2,149) | (2,149) | (2,149) | (15,043) |
| **Total Non-Operating Expenses** | **(29,608)** | **(42,782)** | **(42,927)** | **(41,391)** | **(41,140)** | **(41,214)** | **(491,875)** |
| **Total Expenses** | **(73,487)** | **(88,541)** | **(86,352)** | **(85,514)** | **(85,527)** | **(85,861)** | **(1,953,447)** |
| **Surplus / (Deficit)** | **($8,979)** | **$6,931** | **$10,575** | **$12,546** | **$13,524** | **$14,211** | **$474,765** |

[41] For years in which deficits are projected in this Fiscal Plan, available unrestricted cash and prior year surpluses are anticipated to be used as the funding source for CapEx and certain other operating costs.