

2020 FISCAL PLAN FOR PUERTO RICO

AS SUBMITTED TO THE FINANCIAL OVERSIGHT AND
MANAGEMENT BOARD FOR PUERTO RICO ON MAY 3, 2020



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- The effect of the Coronavirus Disease 2019 (“COVID-19”) on the health and well-being of the people of Puerto Rico;
- The short-term economic effects of COVID-19 on the global economy and the economy of the United States and Puerto Rico as it relates to Puerto Rico’s tax revenue and budget;
- The longer-term economic ramifications from behavioral changes caused by COVID-19 (i.e., reduced travel, increased work from home, reduced activity in large gathering places, etc.);
- The amount of federal aid and the efficacy and speed of disbursement of such aid;
- The need to shift resources to create a more resilient structure to prevent or mitigate future pandemics;
- Any future actions taken or not taken by the United States government related to Medicaid;
- The amount and timing of receipt of any distributions from the Federal Emergency Management Agency (FEMA), U.S. Department of Housing and Urban Development (HUD)’s Community Development Block Grant-Disaster Recovery (CDBG-DR) Program and private insurance companies to repair damage caused by Hurricanes Irma and Maria;
- 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 measures described herein on outmigration; and
- The impact of the resolution of any pending litigation in the Title III cases

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List of Acronyms and Key Terms

AAFAF	Puerto Rico Fiscal Agency and Financial Advisory Authority (Spanish acronym)
ACA	Affordable Care Act
Administration	Administration of Governor Wanda Vázquez
AFSCME	American Federation of State, County and Municipal Employees
AMT	Alternative Minimum Tax
ASES	Puerto Rico Health Insurance Administration (Spanish acronym)
ASG	General Services Administration (Spanish acronym)
ASSMCA	Mental Health and Addiction Services Administration (Spanish acronym)
BBA	Bipartisan Act of 2018
CARES Act	Coronavirus Aid, Relief and Economic Security Act
CBO	Congressional Budget Office
CDBG-DR	Community Development Block Grant Disaster Recovery
CHIP	Children's Health Insurance Program
CIT	Corporate Income Tax
CMS	Centers for Medicare and Medicaid Services
COFINA	Puerto Rico Sales Tax Financing Corporation (Spanish acronym)
COR3	Central Office of Recovery, Reconstruction, and Resiliency
COVID-19	Coronavirus Disease 2019
CPA	Certified Public Accountant
CPFF	Commercial Paper Funding Facility
CPO	Chief Procurement Officer
CSU	Colorado State University
CU	Component Unit
DDEC	Puerto Rico Department of Economic Development Commerce (Spanish acronym)
DOE	Department of Education
DOH	Department of Health
DPR	Discover Puerto Rico
DPS	Department of Public Safety
DRG	Diagnosis-Related Group
DRF	Disaster Relief Fund
DRNA	Department of Natural and Environmental Resources (Spanish acronym)
DSA	Debt Sustainability Analysis
DTRH	Department of Labor and Human Resources (Spanish acronym)
EAP	Employee Assistance Program
EITC	Earned Income Tax Credit
ERS	Employee Retirement System
FAA	Federal Aviation Administration
FCE	Fixed Cost Estimate
Federal Government	U.S. Federal Government
FEMA	Federal Emergency Management Agency
FIMA	Foreign and International Monetary Authorities
FMAP	Federal Medical Assistance Percentage
FOMB	Financial Oversight and Management Board for Puerto Rico
FQHC	Federally Qualified Health Center
FY	Fiscal Year
GAO	Government Accountability Office
GDP	Gross Domestic Product
GHP	Government Health Plan
GNP	Gross National Product
GO	General Obligation
Government	Government of Puerto Rico
GPO	Group Purchasing Organization
Hacienda	Puerto Rico Department of Treasury
HHS	United States Department of Health and Human Services
HUD	U.S. Department of Housing and Urban Development
IA	Individual Assistance
INFRA	Infrastructure for Rebuilding America Grant
IFCU	Independently Forecasted Component Units
IMF	International Monetary Fund
IPEDS	Integrated Postsecondary Education Data System
iPR	Invest Puerto Rico
IRP	Integrated Resource Plan
IRS	Internal Revenue Service

JRS	Judicial Retirement System
MADS	Maximum Annual Debt Service
March 2017 Fiscal Plan	Fiscal Plan certified by the Financial Oversight and Management Board on March 23, 2017, before Hurricanes Irma and Maria
MCOs	Managed Care Organizations
MLF	Municipal Liquidity Facility
MMLF	Money Market Mutual Fund Liquidity Facility
MOU	Memorandum of Understanding
MSLP	Main Street Lending Program
MTA	Maritime Transportation Authority
NAP	Nutrition Assistance Program (Spanish: Programa de Asistencia Nutricional, PAN)
NOAA	North Oceanic and Atmospheric Administration
NRW	Non-Resident Withholdings
OATHR	Office of the Administration and Transformation of Human Resources
OCFO	Office of the CFO
OIPC	Independent Office for Consumer Protection (Spanish acronym)
OMB	Office of Management and Budget
OPEB	Other Post-Employment Benefits
O&M	Operations and Maintenance
P3	Public Private Partnerships
P3A	The Puerto Rico Public Private Partnership Authority
PA	Public Assistance
PAN	Nutritional Assistance Program (Spanish Acronym)
PayGo	New pensions program by which agencies and instrumentalities are responsible for paying their pensions obligations on a monthly basis via a Pay-as-you-Go Charge
PBA	Public Building Administration
PCP	Primary Care Physician
PDCF	Primary Dealer Credit Facility
PDL	Prescription Drug List
PFC	Public Finance Corporation
PIT	Personal Income Tax
Platino	Medicare Advantage program that also provides Medicaid wraparound services equivalent to Mi Salud program
PMCCF	Primary Market Corporate Credit Facility
PMGs	Primary Medical Groups
PMPM	Per Member Per Month
PPE	Personal Protection Equipment
PPP	Paycheck Protection Program
PRIDCO	Puerto Rico Industrial Development Company
PREB	Puerto Rico Energy Bureau
PRPA	Puerto Rico Ports Authority
PRPL	Puerto Rico Poverty Level
PRASA	Puerto Rico Aqueduct and Sewer Authority
PRCCDA (CCDA)	Puerto Rico Convention Center District Authority
PREPA	Puerto Rico Electric and Power Authority
PRHTA (or HTA)	Puerto Rico Highways and Transportation Authority
PRIFA	Puerto Rico Infrastructure Financing Authority
PRITS	Puerto Rico Innovation and Technology Service
PROMESA	Puerto Rico Oversight, Management and Economic Stability Act
PR Code	Puerto Rico Internal Revenue Code of 2011
PSRB	Puerto Rico Public Service Regulatory Board
Puerto Rico COVID-19 Stimulus Package	The stimulus package announced by the local government for direct assistance to workers and businesses in response to the COVID-19 pandemic
RFQ	Request for Qualifications
S&P	Standard & Poor's
SBA	Small Business Administration
SBP	Single Business Portal
SMCCF	Secondary Market Corporate Credit Facility
SNAP	Supplemental Nutrition Assistance Program
SPA	State Plan Amendment
SSI	Supplementary Security Income
SURI	Internal Revenue Unified System (Spanish acronym)
SUT	Sales and Use Tax
TALF	Term Asset-Backed Securities Loan Facility
TANF	Temporary Assistance for Needy Families
TIFIA	Transportation Infrastructure Finance and Innovation Act

TRS	Teachers' Retirement System
T&D	Transmission and Distribution
UPR	University of Puerto Rico
USGS	United States Geological Survey
WCF	Working Capital Fund
WHO	World Health Organization
WIOA	Workforce Innovation and Opportunity Act
VTP	Voluntary Transition Program

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“I have for a long time been an advocate for the need for the United States to return to a sustainable path from a fiscal perspective at the federal level. This is not the time to act on those concerns. This is the time to use the great fiscal power of the United States to do what we can to support the economy and try to get through this with as little damage to the longer-run productive capacity of the economy as possible. The time will come again, and reasonably soon I think, where we can think about a long-term way to get the fiscal house in order, and we absolutely need to do that. But, in my personal view, this is not the time to let that concern, which is a very serious concern, to let that get in the way of us winning this battle.”

- Jerome Powell, Federal Reserve Chairman, April 29, 2020

INTRODUCTION

This is the 11th revision to the fiscal plan that the Financial Oversight and Management Board for Puerto Rico (FOMB) has required the Government of Puerto Rico to prepare since the enactment of the Puerto Rico Oversight, Management and Economic Stability Act (PROMESA) on June 30, 2016. This revision is by far the most complex due to the high level of social and economic uncertainty caused by the unprecedented challenge resulting from the outbreak of a respiratory illness caused by a novel coronavirus known as COVID-19. While still reeling from a financial crisis, two catastrophic hurricanes and multiple earthquakes¹, Puerto Rico’s challenging recovery is now further complicated by COVID-19’s profound economic effects.

There is no doubt that the COVID-19 pandemic is inflicting unprecedented human and economic costs. Since the beginning of 2020, the COVID-19 virus has spread across the world, creating a health crisis pandemic.² To protect lives, governments around the world (including the United States and Puerto Rico) have implemented shelter-in-place orders to promote the social distancing necessary to slow the spread of the virus and preserve previous medical supplies and healthcare services. These isolation efforts, however, have included the widespread closure of businesses, which is causing severe damage to the economy, especially in sectors that heavily rely on social interactions (such as travel, hospitality, entertainment, and tourism and the service sector broadly). “The sudden stop in economic activity resulting from virus mitigation measures that we are seeing in the world’s largest economies is simply unprecedented”.³ The resulting economic slowdown has put an end to the longest economic expansion in U.S. history and threatens a global economic crisis unlike any faced in our lifetimes. According to the International Monetary Fund’s (IMF) April 2020 update to the World Economic Forum, this “Great Lockdown” will likely cause the “worst recession since the Great Depression.”⁴ The IMF projects the global economy to contract by 3% and the U.S. economy to contract by 6% in 2020, an outcome far worse than the global financial crisis a decade ago. And the prospect of a positive rebound in 2021 depends on the pandemic fading in the second half of 2020, which at this point remains highly uncertain.

The Great Lockdown and its negative economic ramifications also comes against the backdrop of a U.S. economy that has amassed a precariously high level of debt: nearly \$10 trillion of non-financial corporate debt⁵ representing a record 47% of U.S. GDP.⁶ To make matters worse, approximately \$3.8 trillion of this debt is rated in the high-yield category, and a record \$1.2 trillion of high-yield debt will mature by 2024.⁷ To put this in perspective, U.S. corporate high-

¹ Including a 5.4 magnitude earthquake that hit the southern coast of Puerto Rico on May 2, 2020.

² The World Health Organization defines a pandemic as the worldwide spread of a new disease. An influenza pandemic occurs when a new influenza virus emerges and spreads around the world, and most people do not have immunity.

³ Jan Hazius, Goldman Sachs Chief Economist.

⁴ Gita Gopinath, International Monetary Fund, “World Economic Outlook, April 2020: The Great Lockdown” (published Apr. 14, 2020), available at <https://www.imf.org/en/Publications/WEO/Issues/2020/04/14/weo-april-2020> (last visited May 1, 2020).

⁵ https://www.washingtonpost.com/business/economy/corporate-debt-nears-a-record-10-trillion-and-borrowing-binge-poses-new-risks/2019/11/29/1f86ba3e-114b-11ea-bf62-eadd5d11f559_story.html (last visited May 3, 2020).

⁶ David J. Lynch, “Corporate debt nears a record \$10 trillion, and borrowing binge poses new risks,” The Washington Post (Nov. 29, 2019), available at https://www.washingtonpost.com/business/economy/corporate-debt-nears-a-record-10-trillion-and-borrowing-binge-poses-new-risks/2019/11/29/1f86ba3e-114b-11ea-bf62-eadd5d11f559_story.html (last visited May 3, 2020).

⁷ Jeff Cox, “Junk bond scare is rising: ‘No one cares. People are buying everything.’” CNBC.com (Feb. 7, 2020), available at <https://www.cnbc.com/2020/02/07/junk-bond-scare-is-rising-no-one-cares-people-are-buying-everything.html> (last visited May 3, 2020).

yield debt is currently more than 20 times higher than in 1987, when the Dow Jones Industrial Average plunged 22.6% to its largest one-day percentage-point drop ever. In addition, U.S. states, territories, and municipalities are also under severe economic strain. The states have racked up approximately \$1.5 trillion in unfunded debt and at least 40 states do not have enough money to pay all of their obligations.⁸ Unfortunately, the COVID-19 pandemic has exposed and exacerbated these weaknesses by causing an unprecedented shutdown of significant portions of society with an unknowable scope and duration. While some of the issues related to Puerto Rico's restructuring remain the same and the Government remains committed to the Title III process, a lot has changed in a matter of weeks that requires rethinking how the Government should approach many of the challenges facing the people of Puerto Rico. As the FOMB recently acknowledged in its May 1, 2020 status report to the Title III Court, "the COVID-19 pandemic has reshaped the economic landscape of the world, including Puerto Rico" and we must "assess this new and changing landscape, beginning with the development of a revised Commonwealth fiscal plan and budget."

Puerto Rico is not and will not be immune from the negative economic effects of COVID-19. Because of Puerto Rico's close ties to the United States' mainland economy, a downturn in the U.S. economy indirectly affects Puerto Rico. These indirect impacts stem from the slowdown of the overall U.S. economy and the threat of a prolonged recession that will affect many industries, including retail, manufacturing, oil and gas, tourism, gaming and lodging, transportation, healthcare, and education, to name a few. Government revenue collections are already being materially adversely affected by reductions in overall economic activity as a result of mobility restrictions and business closures, and delays in the receipt of income taxes as a result of the postponement of tax return filing dates. In fact, Puerto Rico may lose in excess of \$1.5 billion in tax revenue due to a combination of reduced economic activity and delays or postponements of tax payments during the remaining four months of the current fiscal year ending June 30, 2020.

The COVID-19 outbreak is also having a direct negative impact on economic and social life in Puerto Rico. The public safety measures mandated by executive order, which entail the closing of certain businesses and the implementation of a curfew, have halted much of the economic activity on the Island. Due to the restrictions on travel in Puerto Rico and as globally compounded by changes in consumer behavior, the loss of tourist expenditures will accumulate not only for the duration of the crisis, but potentially for a much longer period. As businesses struggle to survive, many have been forced to lay off or furlough workers, resulting in a record number of new unemployment claims in Puerto Rico. The Puerto Rico Tourism Department estimates that occupancy rates in Puerto Rico hotels have dropped to an average of 5% versus 22% in the U.S.⁹ and from March 15 to April 25, 2020, the Puerto Rico Department of Labor received over 217,000 new unemployment claims. The 2020 Fiscal Plan estimates an economic impact of approximately \$5.7 billion between FY2020 and FY2022 of the pandemic in Puerto Rico. The total impact could be much greater depending on the trajectory of the virus and the ability of policy decisions to sustain households and businesses during this difficult period. But not all of the direct effects will necessarily be negative. For example, the Government and FOMB have called for Puerto Rico to become the new epicenter of pharmaceutical and medical supply manufacturing in the United States to meet increasing demand and reduce future supply chain disruptions. It remains to be seen, however, if and to what extent this shift will occur (if at all).

⁸ "Financial State of the States 2019," Truth in Accounting (Sept. 24, 2019), available at <https://www.truthinaccounting.org/library/doclib/FSOS-booklet-2019.pdf>

⁹ Discover Puerto Rico Tourism Recovery Plan, April 2020, page 12.

Another looming challenge related to the COVID-19 crisis is how to reopen the \$22 trillion U.S. economy after it has been largely dormant for nearly two months. As Dr. Anthony Fauci, a member of the Trump administration’s Coronavirus Task Force, recently noted, reopening the economy “isn’t like a light switch on and off. It’s a gradual pulling back on certain of the restrictions to try and get society a bit back to normal¹⁰.” Puerto Rico was the first jurisdiction in the United States to implement a shelter-in-place order and is also among the first, along 24 other states,¹¹ beginning to gradually reopening its businesses. On May 1, 2020, the Governor issued Executive Order OE-2020-038, which extended Puerto Rico’s shelter-in-place period until May 25, 2020 but also lifted certain business restrictions to allow limited openings of certain industries, shops, and services at specific times while continuing to observe social distancing rules. This initial reopening is limited to primary and specialist doctors and dentists, animal shelters, vehicle repair and parts services, laundromats, elevator inspections, services to ports and airports, air conditioner repair and maintenance services, notary services, and critical infrastructure services, among others. As the Government observes and assesses the results of this limited reopening, it will re-evaluate and further amend business restrictions as necessary to promote economic recovery while preserving the health, welfare and safety of the people of Puerto Rico. Because the reopening of business activity throughout the world, including Puerto Rico, must be done gradually to reduce the potential of future COVID-19 flare-ups, the economic recovery in Puerto Rico likewise will be a slow process drawn out over several months or longer. In fact, the FOMB expressed agreement with this approach, in its April 23, 2020 letter to the Governor, noting that the Government should “slowly, gradually reopen the economy so that companies can regain business, employees can regain work, and governments can regain tax revenue, but the health well-being of individuals is not put at risk.”

Prior to the global spread of COVID-19, the Government strongly advocated for the retention of any excess cash or additional resources so that Puerto Rico would be prepared to address its next unexpected crisis. The last several weeks have vindicated and reinforced this policy, as substantial resources have been and will continue to be needed to respond to and mitigate the negative effects of COVID-19. In fact, as discussed in AAFAF’s status report to the Title III Court on April 21, 2020, the FOMB has already authorized the use of Puerto Rico’s emergency reserve funds for preparedness and response to the COVID-19 emergency. In March 2020, the FOMB authorized the use of nearly \$1 billion of Puerto Rico funds, which included an increase and reallocation of \$800 million for the Government’s fiscal year 2020 budget and \$160 million of the remaining balance available from the Government’s Emergency Reserve Fund. On April 6, 2020, the FOMB also approved the Government’s request for a \$400 million advance of Commonwealth funds to expedite the distribution of direct payments to individuals under the Coronavirus, Aid, Relief and Economic Security Act (the CARES Act) that will be reimbursed to the Commonwealth by the U.S. Treasury Department. The Treasury Single Account (TSA) balance has declined from \$8.8 billion (as of March 20, 2020) to \$8.1 billion (as of April 17, 2020) mostly as a result of the COVID-19 pandemic and the Governor’s shelter-in-place order that has been in effect since March 15, 2020 and will continue until May 25, 2020 (subject to potential extensions and modifications). In addition, other Government entities such as the Puerto Rico Ports Authority (PRPA), the Tourism Company and PREPA, to name a few, are already suffering from reduced revenues due to the direct impact of the virus.

¹⁰ Stephanie Amour and Jon Hilsenrath, “Government and Businesses Turn Attention to Eventual Reopening of \$22 Trillion U.S. Economy,” *The Wall Street Journal* (Apr. 8, 2020), available at <https://www.wsj.com/articles/government-and-businesses-turn-attention-to-eventual-reopening-of-22-trillion-u-s-economy-11586301615> (last visited May 3, 2020).

¹¹ *New York Times*, “See Which States Are Reopening and Which Are Still Shut Down”, May 1, 2020.

Even with the funds that Puerto Rico will receive from recently enacted federal stimulus programs, the lingering uncertainties regarding the long-term effects of COVID-19 and ongoing natural disasters pose a substantial risk to the future economic recovery of Puerto Rico. As the Government begins the process of reopening its economy, Puerto Rico continues to be plagued with ongoing earthquakes, including the most recent one with a 5.4 magnitude on the Richter scale that shook the southern region near Ponce on May 2, 2020. Recent history has taught Puerto Rico that the Island remains perilously exposed to ongoing natural catastrophes and the uncertainties of both global and domestic recessionary events. Therefore, Puerto Rico must be realistic and prudent in conserving its resources in preparation for unknown and unexpected events that are becoming increasingly inevitable. This level of preparation is critically important for Puerto Rico, especially given Puerto Rico's second-class status afforded by the Federal Government through disparate treatment under federal law as compared to the states.

The 2020 Fiscal Plan reflects the best information the Government currently possesses in light of substantial ongoing social and economic uncertainties caused by COVID-19. But the reality remains that we do not know the duration of governmental mitigation efforts (such as social distancing measures, shelter-in-place orders and the closing of all non-essential businesses)¹² taking place around the U.S. and the world, the efficacy of such measures to "flatten the curve," or the severity of a potentially prolonged economic recession in the United States and other major global economies. Although the Government is grateful for the FOMB's extension of the 2020 Fiscal Plan submission deadline from March 23, 2020 to May 3, 2020 in light of ongoing uncertainties, many of the assumptions incorporated into the 2020 Fiscal Plan will still be subject to reconsideration and (potentially substantial) revisions may be required to more accurately reflect Puerto Rico's new economic reality.

In view of what most certainly will be significant changes to the current FOMB-certified fiscal plan for the Commonwealth dated May 9, 2019 (the May, 9 2019 Certified Fiscal Plan), the Government strongly believes that the FOMB will have to reconsider its proposed plan of adjustment for the Commonwealth, dated February 28, 2020 (the Proposed Plan of Adjustment), which is founded upon the pre-COVID-19 economic assumptions contained in the May 9, 2019 Certified Fiscal Plan. When the Proposed Plan of Adjustment was filed, the Government opposed it because the FOMB's proposed pension reduction measures imposed a disproportionate burden on Puerto Rico's retirees and did not properly take into account the improved treatment of bondholder claims and the cuts that Government pensioners already suffered prior to the commencement of the Title III cases, which was in contrast to pension treatment in other municipal bankruptcies. Now, because of the substantial negative effects COVID-19 will have on the economic assumptions used in the May 9, 2019 Certified Fiscal Plan (particularly with respect to debt sustainability and the economic impact of certain cost-cutting measures), the Proposed Plan of Adjustment is likely not feasible in our post-COVID-19 reality. As such, the Proposed Plan of Adjustment must and should be subject to re-evaluation and potentially substantial revision.¹³

As with prior fiscal plan submissions, the 2020 Fiscal Plan does not include pension cuts and certain other austerity measures that the Board has insisted in the past be included. In its prior certified fiscal plans, including the May 9, 2019 Certified Fiscal Plan, the FOMB has ignored the

¹² At the time of this fiscal plan submission, Governor Vázquez has extended the Puerto Rico's shelter-in-place order through May 25, 2020 with limited allowances for certain businesses to operate between 9:00 a.m. and 5:00 p.m.

¹³ As the FOMB noted in its May 1, 2020 status update: "Before the Debtors' plan of adjustment and disclosure statement process can move forward, the Oversight Board must assess the pandemic's impact and the extremely difficult recovery ahead for Puerto Rico. . . . Accordingly, the Oversight Board is unprepared at this time to propose a schedule for the Debtors' plan and disclosure statement process, and respectfully requests that it be permitted to provide the Court an updated status report on the Oversight Board's position on or before July 15, 2020, which will allow the Oversight Board time to assess a proposed timeline in light of the certified budgets and fiscal plans."

Government's position on these policies. Nevertheless, we continue to believe that pension cuts and other austerity measures are not warranted and urge the FOMB to reconsider its position on these matters in light of the human costs and uncertainties related to COVID-19.

Make no mistake, the Government's resolve to achieve fiscal responsibility and access to the capital markets for Puerto Rico has never been stronger. But, as the FOMB noted in its newsletter dated April 9, 2020, the responsible approach to fulfilling these goals will require "stepping back and analyzing the economic and fiscal effects of COVID-19," working together to "find reasonable, comprehensive, and sustainable solutions to this emergency and then later, support for an economic recovery." While the 2020 Fiscal Plan presents a necessary first step, a substantial amount of ongoing analysis must be done to finalize an appropriate long-term solution for Puerto Rico in the aftermath of this unprecedented global health crisis.

The 2020 Fiscal Plan attempts to navigate through these uncertainties by updating and building upon the reforms and fiscal measures presented in prior fiscal plans, while recognizing the need to re-evaluate certain measures in light of the current crisis. The goal of this fiscal plan is to begin to grapple with the economic impact of the COVID-19 crisis with the ongoing commitment to achieve for the U.S. citizens of Puerto Rico an effective and efficient public sector, which will put Puerto Rico on the pathway to achieving fiscal responsibility and regaining access to the capital markets.

PART I: Background

Chapter 1. BACKGROUND AND CONTEXT FOR RESTRUCTURING

The people of Puerto Rico need and deserve plentiful good jobs, a dynamic and prosperous economy, affordable and reliable electricity, and an efficient and responsive public sector. Since 2005, the number of people living under the poverty level has increased, the economy has shrunk, and electricity has remained expensive and unreliable. These problems predate Hurricanes Irma and Maria, the recent earthquakes and the COVID-19 pandemic, and will continue to plague Puerto Rico long after it recovers from these uncontrollable economic disruptions unless the necessary actions are taken.

Unlike the impact of recent natural disasters (which were singular events), the COVID-19 pandemic has had a broader impact on the global economy in profound ways. In particular, the economic aftershocks of COVID-19 will create unprecedented unemployment in the United States and Puerto Rico. The near-term challenge will be how to restore as many lost jobs as possible and to ensure that those who cannot find new work will have sufficient governmental support. There is no doubt that this will put extra pressure on Puerto Rico's ability to deliver essential services to its people. But the scope and duration of these impacts are still simply unknown.

For over a decade, Puerto Rico has experienced a severe fiscal and economic crisis. Puerto Rico's real Gross National Product (GNP) has shrunk by more than 20.8% between 2006 and 2019. Over 44.9% of Puerto Rico residents live in poverty, more than double the highest poverty rate of any U.S. state.¹⁴ Puerto Rico's 8.4% unemployment rate is more than 2.4 times the national average as of December 2019.¹⁵ This has resulted in a historic population outmigration. Over the past decade, more than 500,000 people have left Puerto Rico. The impact of Hurricanes Irma and Maria and the recent earthquakes, albeit to a lesser extent, accelerated this trend, with an additional 80,000 people expected to leave Puerto Rico by fiscal year 2024. The negative impacts of the COVID-19 crisis will further complicate matters and may accelerate outmigration. What remains to be seen is whether Puerto Rico will experience any positive impacts from the COVID-19 crisis, such as an influx of new manufacturing business from the pharmaceutical and medical supply industries.

Puerto Rico's unfair and inequitable treatment as an unincorporated territory has been a driving factor causing the Island's precipitous economic decline. Given Puerto Rico's territorial status, Congress has the right to disparately treat U.S. citizens on the Island under multiple federal laws, programs, and other policies (such as Medicaid, Medicare, nutritional assistance, child tax credit, and the earned income tax credit)—and Congress does in fact do so. For example, the Census Bureau reported in 2014 that Oregon—a relatively prosperous state with a population size similar to Puerto Rico—received over \$29 billion from the U.S. Federal Government (the Federal Government), whereas Puerto Rico received only \$19 billion for the same year. These inequitable policies lead to an overall quality of life in Puerto Rico that is below the standard in the states in multiple respects. In 2018, the median household income of Puerto Rico residents was \$20,296,

¹⁴ U.S. Census Bureau.

¹⁵ U.S. DOL Bureau Labor of Statistics.

which was approximately 67% less than the U.S. median income of \$61,936.¹⁶ This disparate quality of life is the primary reason for Puerto Rico's ongoing population loss, which is detrimental to Puerto Rico's tax base, labor force, consumer demand, debt repayment capacity, and overall prospects for economic growth. Although it is true that the Federal Government has increased its financial support for U.S. citizens in Puerto Rico in recent years, the fact remains that U.S. citizens living in Puerto Rico are still not receiving equal treatment under the law as compared to those living in the states. As a result of this disparate treatment, Puerto Rico residents have migrated to the U.S. mainland in unprecedented numbers, leaving Puerto Rico with a diminished workforce.

Indeed, the most important and critical structural reform for Puerto Rico is a permanent solution to its territorial status.

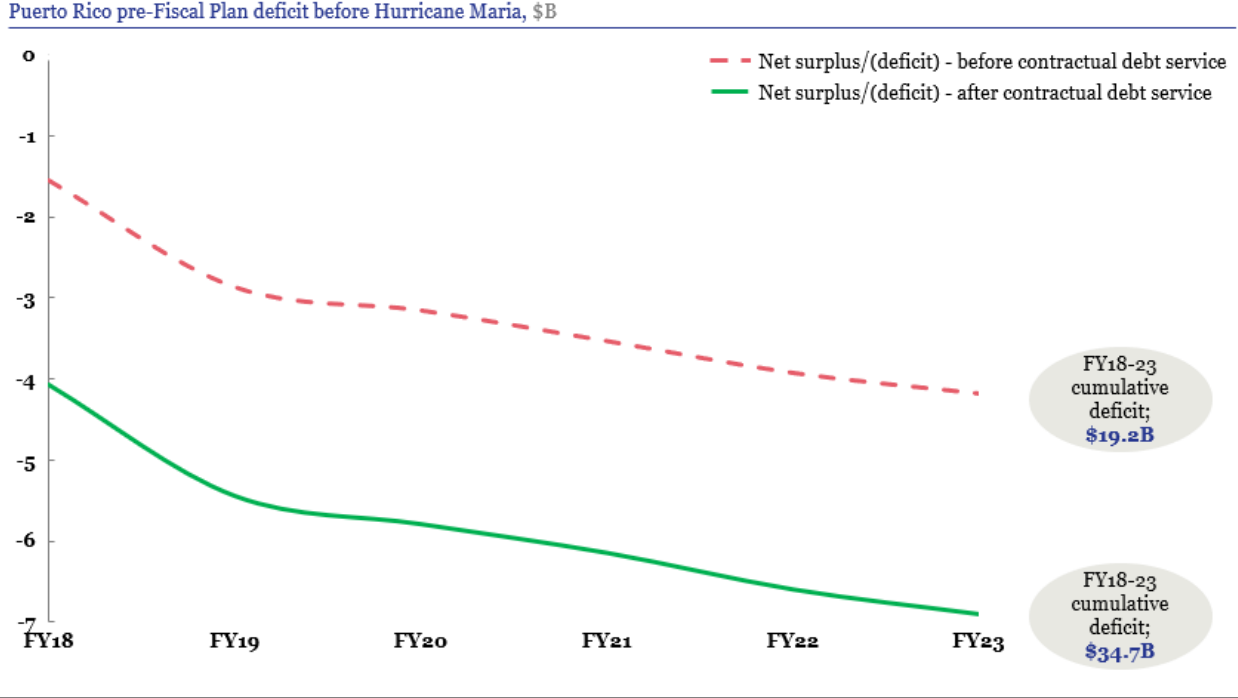
The solution to these inequalities is statehood for Puerto Rico. Although it is the 34th most populated region of the United States, Puerto Rico has no voting representation in Congress. If admitted as a U.S. state, Puerto Rico likely would have two Senators and four Representatives in Congress, similar to states such as Connecticut and Iowa that have comparable populations. As a result, Puerto Rico residents could shape federal legislation and receive equal treatment under federal laws, thereby eliminating the primary benefits of moving to the U.S. mainland. Statehood, therefore, is the best way for Puerto Rico to stop outmigration, increase the on-Island workforce, and grow Puerto Rico's economy.

These pre-Hurricane Maria and pre-COVID-19 problems are not new and temporary—they are long-standing and structural. For decades, the private sector was overly reliant on now expired federal tax advantages while having to operate in a difficult business climate with poor infrastructure, especially expensive and unreliable electricity and transit systems, a public sector that is significantly larger than the size of the typical U.S. state yet often has provided poor service.

Puerto Rico has also had structural and fiscal imbalances for years, with actual revenues lower and actual expenses higher than projected, creating a growing general fund deficit (**Exhibit 1**). Puerto Rico has also been in an economic structural decline for over a decade, which has meant an eroding tax base. Therefore, even before Maria, the primary deficit was growing consistently and considerably. To finance these primary deficits, Puerto Rico resorted to issuing debt which steadily became unsustainable.

¹⁶ Data USA (U.S. Government Data Platform).

EXHIBIT 1: PROJECTED PRE-MARIA DEFICIT BEFORE MEASURES AND STRUCTURAL REFORMS (PRE- AND POST- CONTRACTUAL DEBT SERVICE)



It was amidst the protracted demographic, fiscal, and debt crises that Hurricanes Irma and Maria hit the Island. Hurricane Maria has caused unprecedented and catastrophic damage to Puerto Rico, its people, and its businesses. According to current estimates, Hurricane Maria has created over \$80 billion in damages, and has caused a real decline to GNP of 4.7% in FY2018. On the other hand, approximately \$74 billion in Federal dollars and \$8 billion in private insurance proceeds are estimated to be invested to help helping Puerto Rico recover and rebuild from Hurricane Maria. The 2020 Fiscal Plan is prepared assuming this support from the Federal Government, even though there have been substantial and unwarranted delays in receiving this aid. This aid is projected to create temporary fiscal surpluses over the next several years but will not change the underlying structural problems Puerto Rico faces. The COVID-19 crisis has also caused unprecedented damage to the economy. Current damage is estimated at \$6.6 billion over two years, with the economy shrinking by 11% in FY2020 and FY2021. While there is unprecedented federal support, it might not be enough to ensure a swift and prompt recovery.

The Government remains committed to executing a series of bold actions to improve its fiscal and economic trajectory and recognizes that these reforms and measures are essential to making the Government more efficient and responsive. However, in addition to the execution risk associated with the implementation of certain measures, the COVID-19 crisis requires a pause and a reassessment of the approach.

On May 3, 2017, the Oversight Board—at the request of the former Governor—commenced a debt adjustment proceeding for the Commonwealth of Puerto Rico by filing a petition for relief under Title III of PROMESA in the United States District Court for the District of Puerto Rico. Since then, the Oversight Board has similarly commenced Title III proceedings for five additional Government instrumentalities and public corporations, including the Puerto Rico Sales Tax Financing Corporation (COFINA), Puerto Rico Highways and Transportation Authority (HTA), Employee Retirement System (ERS), PREPA, and Public Building Administration (PBA). During

the Title III proceedings, the Oversight Board has insisted on imposing cost-saving measures and budgets—including a pension cut that it seeks to implement through a Plan of Adjustment—that would under-invest in Puerto Rico’s economy and will not ameliorate its fundamental problems. At every turn and prior to the COVID-19 crisis, the Government has rejected all pension cut proposals on the basis that reducing pension benefits would unfairly harm a group of Puerto Rico’s most vulnerable citizens—its pensioners—and, therefore, is not in the best interests of the people of Puerto Rico. In addition, the Government and the Oversight Board have been engaged in costly, prolonged litigation with certain creditor groups regarding the validity and scope of their liens, which at times has delayed the progress of the Title III cases generally.

In light of the current crisis, the Government is highly motivated to seek a full and just resolution that will extract Puerto Rico from the Title III process, but will also only accept a resolution without undue burden on future generations that is based on fundamental fairness and justice for the people of Puerto Rico and its pensioners, who have already endured great suffering as a consequence of recent natural disasters and now the COVID-19 crisis.

Prior to the COVID-19 outbreak, the Government repeatedly advocated for reserving excess cash and additional resources so that Puerto Rico could adequately address future natural disasters or other uncontrollable events that might negatively affect the economy. Recent events have vindicated that position. Upon its emergence from Title III, the Commonwealth’s cash position will be dictated by the effective date of any confirmed plan of adjustment and, to the maximum extent possible, the Government continues to believe it should utilize any excess available resources after such effective date to reinvest in areas earmarked as the most critical to Puerto Rico’s future economic growth. In light of the current shutdown of the U.S. and Puerto Rico economies, however, the Board’s Proposed Plan of Adjustment will require re-evaluation because its assumptions are based on the May 9, 2019 Certified Fiscal Plan, which must be substantially adjusted downward to reflect COVID-19’s negative economic impacts. As a practical matter, the Board’s commitments made to various creditor groups in the Proposed Plan of Adjustment no longer work. The Proposed Plan of Adjustment as currently constituted is simply not feasible in our post-COVID-19 economic reality. Nevertheless, the Government’s goal is to utilize the Title III process to formulate new innovative solutions that will truly unlock Puerto Rico’s potential and create a robust economy that leaves no one behind.

Chapter 2. LONG-TERM ECONOMIC TRENDS

Before being battered by the most powerful hurricane to strike the Island in almost a century and now, like the rest of the world, impacted by the most unprecedented economic shock in history caused by the COVID-19 pandemic, Puerto Rico’s economy had been in an acute structural decline for over a decade, the Government had defaulted on debt exceeding the size of Puerto Rico’s annual GNP, and nearly half of Puerto Rican residents lived below the national poverty line. The reasons for these problems are multiple, but the root causes stretch back decades.

On June 25, 1938, Congress legislated to authorize the Puerto Rico Legislature “to create public corporate authorities to undertake slum clearance and projects, to provide dwelling accommodations for families of low income, and to issue bonds therefore.”¹⁷ Bonds issued by public corporations did not constitute debt of the Puerto Rican insular government. This federal legislation permitted Puerto Rico to dramatically increase its debt capacity. By 1947, the Puerto Rico Water Resources Authority (today PREPA) placed the largest debt issuance of any agency or

¹⁷ U.S. Statute at Large, 75th Cong. 3rd Session, Ch. 703, June 25, 1938, 52 Stat., p. 1203.

public corporation in the U.S. while Puerto Rico was dramatically poorer than mainland jurisdictions.

In the 1940s and 1950s, led by Operation Bootstrap, Puerto Rico's economy grew rapidly, and productivity increased by 5% per annum as it transitioned from an agricultural-led to a manufacturing-led economy. This transition was anchored to the institutionalist economic policy adopted in Puerto Rico during the governorship of Rexford G. Tugwell. However, as economic performance began to decline in the 1970s, the Federal Government adopted two significant policies to help Puerto Rico shore up its economy.

First, transfer programs increased dramatically, particularly as Puerto Rico started receiving NAP funding, eventually providing, in aggregate, a portion of residents' personal income that was twice the U.S. mainland average.

Second, in 1976, Section 936 of the Federal tax code was introduced to promote investments by companies that could transfer their "intangible assets" to Puerto Rico, and thereby shift profits to the Island. These Section 936 companies, which were mostly in the pharmaceuticals and life sciences industries, became a pillar of Puerto Rico's economy, creating valuable local supply chains, increasing local banking deposits, and contributing substantial tax revenue.

In 1996, Congress decided to end Section 936, gradually phasing it out by 2006. In the face of an anemic local private sector, the Government also expanded its employment to the point that by 2000, 30% of Puerto Rico's jobs were in Government. Large sectors like water, electricity and ports are still run by public corporations, and have consistently crowded out private investment. This crowding out is partly the result of the institutionalist policies instituted long ago. There is also pervasive cross-subsidization between the Government and public corporations and other parts of the public sector that obfuscates financial management and accountability. As a result, today Puerto Rico underperforms on all important measures of a modern economy, including educational attainment, cost of electricity, quality of water, tax compliance, and labor market participation.

To promote the private sector, the Government undertook a broad tax incentives policy.

Government revenues suffered and became increasingly hard to forecast. To make up for this recurring and growing budgetary shortfall, Puerto Rico turned to debt markets. As investor appetite began to wane, the Government turned to securing new debt by pledging various revenue streams. The result was a highly complex financial structure that limited transparency and financial accountability and management.

When the Great Recession hit in 2008, Puerto Rico's economy was already in a fragile fiscal and financial position. Since then, the economy has continued to worsen – Puerto Rico has seen its GNP shrink by 20.8% between 2006 and 2019, and the Island's population has fallen by 10%. As a result, Puerto Rico is much poorer today relative to the U.S. than it was in 1970. Now with the threat of a severe global recession in the aftermath of the COVID-19 crisis, there is strong possibility that Puerto Rico's economy will suffer deterioration worse than the Great Recession of 2008, leaving Puerto Rico in a far worse economic and financial situation.

It is important to note that over the last three years and prior to the COVID-19 crisis, Puerto Rico had made significant progress in the implementation of Structural Reforms, Fiscal Measures and Debt Restructurings (**See Appendix A**). The impact of these Government initiatives was already paying off with improvement in the private sector labor market which is net positive over the last three years. Certain of these reforms and measures, however, may need to be put on hold as a result of the COVID-19 crisis. While the Government is not arguing for the abandonment of the

fiscal measures implemented in prior fiscal plans, there must be an evaluation as to which measures need to be suspended, amended, or modified.

Chapter 3. ENACTMENT OF PROMESA AND FISCAL PLAN PROCESS

By 2016, Puerto Rico was facing an imminent default. Because Puerto Rico and its public corporations cannot take advantage of Chapter 9 of the U.S. Bankruptcy Code, and an attempt to create a territorial bankruptcy law was struck down by the U.S. Supreme Court, Congress stepped in to address Puerto Rico's financial crisis by passing the Puerto Rico Oversight, Management, and Economic Stability Act. PROMESA imposed an automatic stay on Puerto Rico's debt obligations and created the Financial Oversight and Management Board for Puerto Rico. Puerto Rico continues to benefit from a temporary reprieve from debt service achieved through the automatic stay, which allows the Government additional time and funding to change the underlying economic foundations and prepare for a fiscally responsible future.

As required by PROMESA, the duly elected Government of Puerto Rico began drafting a fiscal plan that would help the Government achieve fiscal responsibility and regain access to the capital markets. The outcome of this work was the Commonwealth Fiscal Plan that the Oversight Board certified on March 13, 2017 (the "March 2017 Certified Fiscal Plan"). A few months later, the Oversight Board commenced Title III cases for the Commonwealth, COFINA, HTA, ERS, and PREPA. On September 27, 2019, the Oversight Board also commenced a Title III case for PBA.

The damage inflicted on Puerto Rico by Hurricanes Irma and Maria required that the March 2017 Certified Fiscal Plan be revised. On October 31, 2017, in light of the devastating effects of these historic storms, the Oversight Board requested the Government submit a fiscal plan to replace the March 2017 Certified Fiscal Plan. After several months of intense negotiations between the former Governor and Oversight Board, the Government submitted revised Commonwealth fiscal plans to the Oversight Board on January 24, 2018, February 12, 2018, March 23, 2018, and April 5, 2018. On April 19, 2018, the Oversight Board instead certified its own fiscal plan, which was subsequently amended and recertified on May 30, 2018 and June 29, 2018 (the "June 29, 2018 Certified Fiscal Plan").

The prior administration had several fundamental disagreements with the Oversight Board regarding certain legislation and pension reform as prescribed in the Oversight Board's March 2017 Certified Fiscal Plan (and as revised and updated in subsequent fiscal plans for the Commonwealth and other instrumentalities). Although the administration of Governor Vázquez also disagrees with the Oversight Board's approach to certain issues—particularly, the treatment of pension claims and future retiree benefits—it has made substantial efforts to collaborate with the Board where possible and alleviate prior tensions so that despite their differences the Government and Board can engage in effective communication to move the Title III cases forward.

On August 1, 2018, the Oversight Board requested the Government submit a revised fiscal plan to replace the June 29, 2018 Certified Fiscal Plan in light of new information including, among other things, fiscal year 2018 financial information, revised federal disaster spending estimates, and updated demographic projections.

On August 20, 2018 the Government submitted a revised fiscal plan. On August 30, 2018 the Oversight Board issued a notice of violation. On September 7, 2018 the Government resubmitted the Fiscal Plan. On October 23, 2018 the Oversight Board certified its own plan. On January 18,

2019 the Oversight Board requested the Government submit another revised fiscal plan. On March 11, 2019 the Government submitted the its revised fiscal plan. On March 15, 2019, the Oversight Board issued a notice of violation. On March 27, 2019 the Government resubmitted a further revise fiscal plan. On May 9, 2019 the Oversight Board certified its own plan as the currently operative May 9, 2019 Certified Fiscal Plan.

On July 24, 2019, then-Governor Ricardo Rosselló Nevares announced his resignation as Governor of Puerto Rico effective August 2, 2019 at 5:00 p.m. Atlantic Standard Time. Before his resignation became effective, then-Governor Rosselló appointed former resident commissioner Pedro Pierluisi as Secretary of State. After being confirmed by the House of Representatives (but not the Senate), Mr. Pierluisi was sworn in as acting Governor. On August 7, 2019, the Puerto Rico Supreme Court unanimously determined that Mr. Pierluisi was illegally sworn into office as Governor. As a result, Justice Secretary Wanda Vázquez was sworn in as Governor on August 7, 2019 to complete former Governor Rosselló's term through 2020 and currently serves as the Governor of Puerto Rico. Despite the political crisis that led to the Island's new administration, the Government's position in terms of right-sizing measures and efforts to implement economic reforms remain fundamentally unchanged.

On December 12, 2019, the Oversight Board requested the Government to submit a revised fiscal plan (the "2020 Fiscal Plan"), which the Government submitted to the Oversight Board on February 28, 2020. On March 13, 2020, the Oversight Board sent the Government a notice of violation related to its February 28 fiscal plan proposal and requested a further revised fiscal plan submission to address its concerns by March 23, 2020. The Oversight Board granted the Government's requests to extend the 2020 Fiscal Plan submission deadline to May 3, 2020 to coincide with the then-existing end date of the Governor's shelter-in-place order and allow for economic forecasts and models to be based on more concrete, reliable data. This plan is a revision of the February 28, 2020 submission reflecting the best estimate we have today of the impact of COVID-19 on the economy. The current situation, however, remains a moving target and the scope of economic impacts are likely to change further and potentially get worse. While there is a positive potential economic benefit that the relocation of pharmaceutical and medical supply manufacturing to Puerto Rico could happen as the result of a heightened concern related to supply chains in foreign jurisdictions, it is more likely that the current uncertainties will later reveal worse economic effects that will negatively impact projections.

PART II: Natural Disasters, COVID-19 Pandemic and Ensuing Federal Relief Funding

Chapter 4. NATURAL DISASTERS

4.1 Hurricanes Irma & Maria

On September 6, 2017 and September 20, 2017, Hurricanes Irma and Maria struck Puerto Rico, causing unprecedented humanitarian, economic, and infrastructure-related damages and upending the daily lives of Puerto Rico's over 3 million residents. Thousands of residents were left homeless, basic utilities were completely shut down, and schools, hospitals, and businesses were destroyed. Tens of thousands of Puerto Ricans fled the Island. The Federal Government's response has been one of the largest and most complex disaster recovery efforts in U.S. history.

On December 7, 2019, as part of the Government's firm commitment to ensure the transparent and effective use of the federal investment for the recovery, Governor Vázquez signed executive order OE-2019-062. This order ensures consistency and coordination and provides oversight and assistance across all Government agencies for recovery projects. Specifically, this order gives AAFAF the authority to establish a rigorous fiscal supervision structure and compliance mechanisms to guarantee the correct use of taxpayer federal moneys. This order authorizes AAFAF to create or modify management and organizational structures of any governmental agency, particularly those impacting critical infrastructure areas such as: roads, energy, ports, water, education, housing and health. In order to accelerate the recovery process, AAFAF can delegate to the Central Office of Recovery, Reconstruction and Resiliency (COR3), FEMA recipient, and the Puerto Rico Department of Housing, HUD grantee, to assist and supervise agencies in the recovery project's implementation.

Strengthening the working relationship between FEMA and Puerto Rico has served to expedite the pace of recovery. Over the past six months, COR3 worked collaboratively with FEMA to move forward several initiatives that have slowed the pace of recovery and have reached agreement on:

- **Use of industry standards:** FEMA agreed on the ability to use industry standards and consensus based codes in project formulation so investments in these projects are informed by evidence based research and best practices.
- **Processing of Small Projects:** FEMA has permitted the Government to begin processing small projects under traditional rules which has jumpstarted permanent work on small projects. Additionally, since September 2019, FEMA allowed COR3 to take the lead on the formulation of all small projects.
- **Sub-Recipients' Use of Outside Consultants for the development of Fixed Cost Estimates (FCE):** Sub-recipients can now use their own consultants to produce their application packages. In these cases, COR3's participation is limited to a review of the subrecipients' small project in order to ensure the level of quality required by FEMA. This was also done in order to prevent duplication of funding, for the same purpose, to subrecipients and COR3 ensuring the best use of federal taxpayer money.

- **Fixed Cost Estimate Extension:** COR3 and FEMA agreed that an extension of the October 11th, 2019 deadline for the Fixed Cost Estimation of all projects was deemed necessary. This was a result of an analysis performed jointly on a sector by sector basis that helped create milestones aimed to improve the operations towards the obligation of projects.

During the past six months, COR3 has been able to define five priority projects that FEMA has adopted and greatly supported. The emphasis is on improving the operational aspects of the Public Assistance (PA) program at various levels:

- 1) Setting milestones to work more efficiently with the 428 alternative procedures, particularly during those phases of which COR3 is responsible;
- 2) Increasing the disbursement of the non-permanent completed projects already obligated;
- 3) Formulating of small projects for permanent work;
- 4) Working closely with FEMA and the local stakeholders on a set of large projects from the water and energy sectors, having weekly meetings and daily phone calls to ensure progress;
- 5) Working closely with HUD, White House Office of Management, and other federal officials to swiftly release disaster relief aid amid delays and setbacks from the Trump administration; and
- 6) Developing a data driven process to guide the 404 Hazard Mitigation Grant Program.

Thanks to effective leadership and collaboration, Puerto Rico’s recovery has made considerable progress in the past few months. All that has been accomplished will ease the way into the upcoming works. Despite the many challenges, Puerto Rico is optimistic, determined, and full of potential.¹⁸

4.2 Earthquakes

4.2.1 Overview of Recent Earthquakes

On December 28, 2019, the first of many earthquakes shook Puerto Rico and its people. On January 8, 2020 President Trump issued an Emergency Declaration for Puerto Rico, wherein Direct Federal Assistance was granted to aid Puerto Rico in the Preliminary Damage Assessments after Puerto Rico experienced an earthquake with magnitude of 5.8 on the Richter scale on January 6, 2020 and the next day was hit by the most destructive earthquake in a century with a magnitude of 6.4 on January 7, 2020.

This increase in seismic activity collapsed homes and schools, and knocked out power. Since then, there have been more than 500 earthquakes of magnitude 2 or greater, primarily in the southern region. Thousands have been forced into “refugee camps” as they are afraid to sleep in homes that could collapse in an aftershock.

The disaster declaration was issued on January 16, 2020, wherein 6 municipalities were approved for the Individual Assistance (IA) Program (Guánica, Guayanilla, Peñuelas, Ponce, Utuado and Yauco) and 6 municipalities were approved for the Public Assistance Program, for Category A and

¹⁸ January 29, 2020 Third Congressional Status Report on the Economic Disaster Recovery Plan.

Category B work (Guánica, Guayanilla, Peñuelas, Ponce, San Germán and Yauco). Since that time, 9 municipalities have been added to the IA Program and 8 municipalities to the Public Assistance Program.

The aftershocks are not expected to stop any time soon. According to a January 29, 2020 report¹⁹ published by the United States Geological Survey (USGS), there is a high likelihood of continued, material aftershocks and while there will be fewer over time, Puerto Rico is at risk of many potentially catastrophic earthquakes in the near term. Specifically, the USGS reported the current and future probabilities for additional aftershocks for the following magnitudes:

- **Magnitude 3+** - Earthquakes will occur daily for months and weekly for years.
- **Magnitude 5+** - Currently > 99% chance and will remain over 50% for 3 to 10 years.
- **Magnitude 6+** - Currently 50% and will stay over 25% for 3 months to 3 years.
- **Magnitude 7+** - Currently 8%, will stay over 5% for 1 month to 10 months and will stay over 1% for 2 years to 10 years.

On May 2, 2020, an earthquake with a 5.4 magnitude struck Puerto Rico's southern coast near Ponce. The seismic event, which briefly knocked out power in some areas, hit near the city of Ponce in the southern coast of the Island where hundreds of structures, including homes and houses of worship, remain damaged or destroyed from the devastating earthquakes earlier this year. This earthquake is a powerful reminder that although the global COVID-19 pandemic is currently controlling the public spotlight, the physical and psychological threat of natural catastrophes has not subsided for Puerto Rico and its residents.

4.2.2 Impact of Earthquakes on Financial and Macroeconomic Projections

The damages caused by the January 7 earthquake and subsequent aftershocks are already estimated to be \$1 billion, and the figure may increase as inspections continue in the most affected municipalities. In addition to the structural damage, the *psychological* impact of an additional and ongoing wave of natural disasters while Puerto Rico is still in the preliminary stages of rebuilding from Hurricanes Irma and Maria cannot be understated, yet it is too early to quantify the psychological impact on outmigration. Due to the disasters mentioned above, outmigration above what is forecast in the 2020 Fiscal Plan remains a major risk to recovery that Puerto Rico faces.

Another unknown is the eventual cost and time of repairing power-generating equipment at PREPA's Costa Sur plant, which was significantly damaged as a result of the earthquake. With Costa Sur out of service, Puerto Rico would need to rely on its other power plants to operate almost at full capacity in order to meet demand. This is in addition to PREPA still struggling to recover from the severe damage to the power grid caused by Hurricanes Irma and Maria.

4.2.3 Earthquake-Related Disaster Recovery and Federal Funding

While the earthquake damage is not as extensive as the damage caused by Hurricanes Irma and Maria two years ago, federal disaster recovery funds and a post-earthquake recovery program will have to be implemented alongside the post-Maria reconstruction plan. This has presented the

¹⁹ 2020 Southwest Puerto Rico Earthquake Sequence (Jan 29, 2020) (<https://www.usgs.gov/media/images/2020-southwest-puerto-rico-earthquake-sequence-jan-29-2020>).

Government with the additional challenge of running two overlapping disaster recovery programs simultaneously over the next several years.

After the earthquake, and under public pressure in addition to the Government, HUD proceeded to issue guidelines for CDBG-DR funding adding a list of restrictions on the use of funds and reiterating their concern about alleged mismanagement of assistance money by Puerto Rico's Government. HUD also appointed a monitor for the CDBG-DR program on the Island. One of the restrictions included as part of the Federal CDBG-DR funding guidelines is a requirement that CDBG-DR funded projects must be authorized by the FOMB.

On February 2, 2020, President Donald Trump appointed Coast Guard Rear Admiral Peter J. Brown as the Trump administration's liaison to the Government of Puerto Rico for natural disaster recovery efforts on the Island. Brown previously served as Homeland Security advisor to President Trump and also headed the Coast Guard operations in the southeast region of the United States and the Caribbean basin as 7th District Commander. The Government expects the appointment of such Federal Coordinator will help the Island expedite its reconstruction efforts after Hurricanes Irma and Maria, as well as the recent earthquakes.

Governor Vázquez issued an executive order on February 3, 2020 creating an advisory council for the oversight of CDBG disaster recovery funds authorized for Puerto Rico. Their task is to work with the Puerto Rico Housing Department to create an integrated work plan for the efficient, transparent and correct use of these funds. The council is an important step in Puerto Rico's ongoing efforts to combat corruption in Government contracting and restore the Government of Puerto Rico's credibility before the Federal Government.

Chapter 5. DISASTER RELIEF FUNDING FOR HURRICANES IRMA AND MARIA

In response to Hurricanes Irma and Maria, the United States Congress approved nearly \$20 billion in emergency relief funds to assist in Puerto Rico's rebuilding efforts. However, due to concerns regarding the Government's control mechanisms for appropriately managing funds, the Trump administration placed a hold on releasing much of Puerto Rico's allocation. In January 2020, the Trump administration announced that it would end a months-long hold on more than \$8.2 billion of Puerto Rico relief administered by HUD. On January 16, 2020, an agreement was reached with HUD on the \$8.2 billion action plan, bringing the total HUD CDBG-DR funds available for disbursements to approximately \$9.7 billion. Despite providing some relief, the Trump administration recently expressed that it "strongly opposes" a new bill that would provide an additional \$4.7 billion in disaster relief to Puerto Rico in response to the earthquakes that have impacted the Island throughout 2020, noting the administration's concerns that the bill's restrictive provisions would "prevent the Administration from ensuring these funds are well-spent." However, after a recent review of the Government's recovery operations, Coast Guard Admiral Peter J. Brown—the Trump administration's liaison to the Government for natural disaster recovery efforts—reported on February 26, 2020 that the pace of recovery efforts has "accelerated dramatically" and that Puerto Rico's "reputation seems to lag the reality" because the Government has implemented "very strong internal control mechanisms to counter any attempts at corruption or diversion of funds." Admiral Brown further indicated that, after reporting his findings to President Trump, he hopes the administration will be convinced that federal money is being spent wisely in Puerto Rico and that the Federal Government and Puerto Rico Government have established a new atmosphere of cooperation and trust.

Notwithstanding the release of existing federal emergency funds or the future appropriation of additional federal funds, Admiral Brown emphasized that “private investment is very important to the long-term sustainability of Puerto Rico.” Eventually, federal disaster and recovery aid will run out, and when it does Puerto Rico’s fragile economy alone may not be sufficient for long-term viability. In part, private investment in Puerto Rico’s aging infrastructure will be crucial to sustainability. For example, in January 2020, a group of congressional democrats sent a letter to the Oversight Board urging it to “prioritize the restoration of critical infrastructure and services at affordable rates over channeling available cash flow” to debt service payments. Consistent with these views, to the extent additional resources exist or become available in the future, the Government believes that its first priority must be to reinvest in areas most critical to Puerto Rico’s future economic growth.

Disaster spending has a short-term stimulative effect on an economy post-crisis. While the fiscal impact of the spending is short-lived, disaster relief funds are to rebuild the Island’s productive capital and its long-term productive capacity.²⁰ The level of public and private disaster relief spending is anticipated to be significant when compared to the overall size of the economy. Public and private disaster relief spending will impact the economy in two ways in the short term:

- **Short-term stimulative impact caused by spending on the Island:** This stimulus will come in multiple forms, such as construction companies hiring local, unemployed workers, or workers from the mainland U.S. paying local withholding taxes and spending money for food and lodging.
- **Expected refurbishment of the capital stock on the Island:** The 2020 Fiscal Plan factors in significant damage to the Island’s capital stock that is repaired, rebuilt, and augmented in large part, by this significant infusion of federal and private monies, contributing to increase in long-term trend growth by rebuilding destroyed capital and contribution to long-term productive capacity.

The 2020 Fiscal Plan projects that ~\$82 billion of disaster relief funding, including federal and private sources, will be disbursed in the reconstruction effort. It will be used for a mix of IA (e.g., reconstruction of houses, personal expenditures related to the hurricane such as clothing and supplies), PA (e.g., reconstruction of major infrastructure, roads, and schools), and in the case of CDBG-DR funds, to cover part of the Government’s share of the cost of disaster relief funding under the FEMA Public Assistance program (recipients often must match some portion of federal PA funds).

Of that, ~\$47 billion is estimated to come from FEMA’s Disaster Relief Fund (DRF) for PA, hazard mitigation, mission assignments, and IA. An estimated \$8.4 billion will come from private and business insurance payouts, and \$6.7 billion is related to other federal funding. The 2020 Fiscal Plan includes ~\$20 billion from the CDBG-DR.






A total of \$3.9 billion in CDBG funding from fiscal years 2020 – 2032 is estimated to be allocated to offset the Government’s and its entities’ expected cost-share requirements under federal programs. This portion of CDBG funding will go towards covering the ~10% cost share burden on expenditures attributable to the Government between fiscal year 2020 and fiscal year 2032, and the ~10% cost share burden attributable to PREPA, the Puerto Rico Aqueduct and Sewer Authority (PRASA), and HTA between fiscal year 2020 and fiscal year 2032. While current statute calls for CDBG funds to be spent over a seven year period, HUD has historically extended the

²⁰ Relief aid after the Haitian Earthquake represented nearly 200% of overall GDP, providing a major economic “cushion” after the disaster. In Grenada, disaster aid after Hurricane Ivan (2005) equaled about two-thirds of GDP at the time, and after declines in growth immediately following the hurricane, Grenada’s economy grew at a faster rate than any year since 1985, at a clip of 12.5%. However, revenues returned to pre-storm levels after about two fiscal quarters.

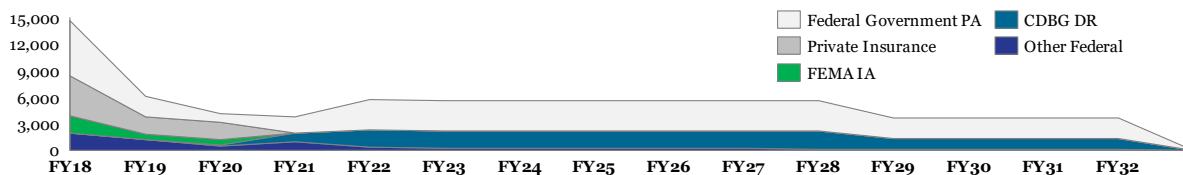
expenditure deadlines for countless CDBG-DR recipients including: Texas after Hurricane Ike, Louisiana after Hurricane Katrina, and Mississippi after Hurricane Katrina. Given the magnitude of the devastation experienced in Puerto Rico on account of both Hurricanes Irma and Maria, it is assumed that Puerto Rico will receive an extension to the 7-year CDBG expenditure deadline.

The estimated ~10% cost share comes from a weighted average of all categories of FEMA Public Assistance funding expected to be received by Puerto Rico and is informed by specific FEMA cost share guidelines (**Exhibit 2**).

EXHIBIT 2: PROJECTED PRIVATE AND PUBLIC DISASTER RELIEF FUNDING AND ROLL OUT

	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30	FY31	FY32+	Total	Total
	\$M	\$M	\$M	\$M	\$M	\$M	\$M	\$M	\$M	\$M	\$M	\$M	\$M	\$M	\$M	\$M	%
Federal Public Assistance 	\$6,190	\$2,370	\$959	\$1,836	\$3,359	\$3,359	\$3,359	\$3,359	\$3,359	\$3,359	\$3,359	\$2,217	\$2,217	\$2,217	\$2,217	\$43,736	53.2%
	14.2%	5.4%	2.2%	4.2%	7.7%	7.7%	7.7%	7.7%	7.7%	7.7%	7.7%	5.1%	5.1%	5.1%	5.1%		
CDBG-DR 	\$0	\$0.82	\$88	\$922	\$2,022	\$2,022	\$2,022	\$2,022	\$2,022	\$2,022	\$2,022	\$1,264	\$1,264	\$1,264	\$1,264	\$20,233	24.6%
	0.0%	0.0%	0.4%	4.6%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	6.3%	6.3%	6.3%	6.3%		
FEMA Individual Assistance 	\$1,996	\$604	\$604	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$3,204	3.9%
	62.3%	18.9%	18.9%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%		
Private Insurance 	\$4,512	\$1,942	\$1,942	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$8,397	10.2%
	53.7%	23.1%	23.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%		
Other Federal Funding 	\$1,933	\$1,238	\$493	\$1,023	\$342	\$205	\$190	\$190	\$190	\$190	\$181	\$120	\$120	\$120	\$120	\$6,651	8.1%
	29.1%	18.6%	7.4%	15.4%	5.1%	3.1%	2.9%	2.9%	2.9%	2.9%	2.7%	1.8%	1.8%	1.8%	1.8%		
Total	\$14,631	\$6,155	\$4,086	\$3,781	\$5,724	\$5,587	\$5,571	\$5,571	\$5,571	\$5,571	\$5,563	\$3,600	\$3,600	\$3,600	\$3,600	\$82,213	100%
Spending as a % of GNP	21.6%	8.7%	6.0%	6.0%	8.8%	8.5%	8.3%	8.2%	8.0%	7.9%	7.8%	5.0%	5.0%	4.9%	4.9%		
CDBG cost share	\$0	\$0	\$56	\$205	\$375	\$375	\$375	\$375	\$375	\$375	\$375	\$248	\$248	\$248	\$248		

Disaster aid by source of funding, \$M



Based on more recent information, estimates of federal fund disbursements have been revised. FEMA-PA actuals have been updated for the latest information provided by COR3²¹, while CDBG actuals are sourced from the Department of Housing Puerto Rico²². Curves have flattened due to the historical federal funding receipts and future uncertainties tied to bureaucratic complications. The major sources of disaster relief funding are detailed below:

- **FEMA Disaster Relief Fund:** FEMA provides IA to individuals and families who have sustained uncovered losses due to disasters. FEMA also provides Public Assistance for infrastructure projects and other permanent improvements.²³ Relative to the May 9, 2019 Certified Fiscal Plan, the FEMA-PA spend curve included herein is flatter with lower spend upfront and a less significant decline in the latter years. FEMA's Hazard mitigation funds

²¹ <https://recovery.pr/en/financial-analysis/table-vie>

²² <https://www.cdbg-dr.pr.gov/en/projections/>.

²³ The 2020 Fiscal Plan does not account for Operations and Administration funding, which only flows to federal agencies. Rather, it looks at funds that are spent for reconstruction on-Island, though those funds could flow to firms that are local or external.

projects to reduce or eliminate long-term risks. FEMA's Mission Assignments provide emergency work and debris removal services primarily in the immediate aftermath of the disaster.

- **HUD Community Development Block Grant-Disaster Recovery:** Based on a housing recovery plan, HUD provides CDBG-DR funding that can be used for assistance to individuals (e.g., housing repair), for PA (e.g., infrastructure development), and for covering disaster relief funding match among other things. To date, two action plans have been approved, leading to the approval of ~\$9.7 billion in CDBG federal relief funding. The first action plan was approved on July 29, 2018 and outlined the uses of the approximately \$1.5 billion in CDBG-DR made available by Congress on February 1, 2018. The allocation focused primarily on addressing urgent housing and socioeconomic needs and laying the foundation for the next phase of the long-term recovery. The foundational approaches included: planning, housing, economy, and infrastructure. An amended action plan was approved on March 1, 2019 and incorporated an additional ~\$8.2 billion in CDBG-DR funding. This substantial amendment amended the program scope and budget in some of the original 19 programs from the initial Action Plan and included eight additional programs for unmet needs. The 2020 Fiscal Plan also assumes that \$3.9 billion in CDBG funding will be used to cover cost share for the Government of Puerto Rico and its instrumentalities from fiscal year 2020 on.
- **Private insurance funding:** Large personal property and casualty losses have been incurred in the aftermath of Hurricane Maria. Early analysis of data from the Office of the Insurance Commissioner of Puerto Rico, adjusted for self-insured and other types of coverage, was used to determine the total amount that will be paid out to individuals and businesses for major damages.
- **Other supplemental federal funding:** Additional federal funding has been allocated to various agencies and projects in Puerto Rico following the hurricane. This money is directed at a wide range of recovery efforts, from reconstruction of damaged buildings (for example, funding to repair damage to Job Corps centers in Puerto Rico) to funding for health programs and environmental management (for example, North Oceanic and Atmospheric Administration (NOAA) coastal habitat restoration funding).

In prior Government Fiscal Plan submissions and Certified Fiscal Plans, disaster roll out for FEMA PA funds have been projected in line with historical spending on other major disaster events, particularly Hurricane Katrina in Louisiana.

The 2020 Fiscal Plan assumes a more conservative approach on FEMA PA disaster roll out given the delay in funds since the Island suffered two critical blows from Hurricanes Irma and Maria. Based on data from the FEMA's website²⁴, only \$5.9 billion of FEMA PA funds have been obligated over the last 27 months (September 2017 – November 2020). In addition, over that same timeframe, only \$3.8 billion of FEMA PA funds have been obligated, the overwhelming majority of which were for category A (debris removal) & category B (protective measures), which occurred immediately post storms.

The extended spend curve is rooted in a number of issues specifically relating to: 1.) actual federal funding consistently falling short of expectations, and 2.) more federal funding constraints being considered in Washington. COR3 has been working closely with FEMA to address these areas of concern and Governor Vázquez recently announced that FEMA has agreed to allow Puerto Rico to use the standard section 406 procedure under the Stafford Act for non-critical infrastructure projects. Because this route does not require FCEs, projects under section 406 can get underway

²⁴ <https://recovery.fema.gov/state-profiles>.

more quickly. The roll out of FEMA PA has been updated from the May 9, 2019 Certified Fiscal Plan for FY2019 actuals, assumes minimal funding in FY2020 given the year-to-date pace of funding and assumes a relatively flat level of funding from FY2021 through FY2035.

An extension past the current seven-year roll out per the statute is assumed for CDBG expenditures. CDBG roll out assumptions mirror the flatten curve assumed for FEMA Public Assistance funding. Additional funding is assumed to cover the FEMA PA cost share requirements post FY2025 as a portion of CDBG funding will be used to fund the FEMA PA cost share. IA and private insurance are assumed to have been spent in the immediate aftermath of the storm.

Historically, as funding is predominantly done on a reimbursement basis, liquidity constrains limit the ability for recipients and sub-recipients to spend disaster recovery money at an accelerated rate, particularly when they don't have money, but neither access to credit. Therefore, the 2020 Fiscal Plan assumes a \$1 billion Working Capital Fund (WCF) to address the liquidity constraints associated with disaster relief funding reimbursements in order to promote economic recovery activity.

As stated before, disaster relief funds will impact the economy in a number of ways: building the capital stock of the Island by constructing, repairing, or replacing damage to buildings, utilities, or other physical goods, directly through consumption of goods and services on the Island, or funding programs and services on the Island. The Plan estimates the rate of pass-through to the economy for these different types of funding as follows:²⁵

- A 100% pass-through rate is assumed for funding that is used directly and in full to replace income or stimulate spending on goods and services originating on the Island. Hence, this corresponds to the final consumption expenditure that are spent on the Island for immediate disaster relief needs, and that are financed by transfer payments from Federal Disaster Relief Spending funds. This kind of current expenditure or final consumption expenditure on relief goods and services does not contribute to the capital stock on the Island, and therefore does not contribute to long-term growth.
- An 18% pass-through rate is assumed for all other funding, including funding used to construct, repair, and replace buildings, utilities, and other physical goods, or funding directed toward programs and services on the Island. The pass-through of 18% consists of a base pass-through rate of 12.5% based on a combined top-down and bottom-up analysis of historical FEMA contracts and Government Accountability Office (GAO) data on FEMA spending that includes all categories of reconstruction spending, including capital projects (both utility-related and other) and spending on programs and services. It is increased by a 5.5% addition for on-cost logistics for a total pass-through rate of 18%. The 18% represents the portion of funding spent on-Island for labor and on-Island services. The remaining 82% corresponds to capital expenditures or fixed capital formation, and consists of spending on goods and services intended to create future benefits such as infrastructure investment in transport, health, communication, education, etc.²⁶

²⁵ Estimated using local contracts for PREPA, residential construction and school construction. These contracts were estimated to have between 10% and 18% pass-through on the economy, respectively, which was then augmented by 5.5% average spend on transportation and logistics on construction projects, which rely on 100% domestic labor. Historical FEMA spending and the percentage of DHS contracts awarded to local Puerto Rican firms supported this figure.

²⁶ The Government recognizes all capital formation related expenditure consistent with the above definition as yielding an increase in Puerto Rico's capital stock. This recognition drives a material difference with the FOMB plan, which excludes a category of capital expenditures defined as funding that is directed towards programs and services (e.g., private insurance payments to reimburse personal auto expenditures). The Government views programs and services that lead to increases in the capital stock, such as new auto expenditures, as on-Island fixed capital formation that increases the capital stock. The FOMB excludes these from the capital stock.

5.1 Disaster Relief Working Capital Fund

The FEMA PA program requires the Government have access to working capital funding that covers the entirety of project costs in order to initiate and complete Permanent Recovery Projects. These recovery projects are essential to Puerto Rico's reconstruction efforts and present opportunities to impact the Island's future economic success. The disaster relief WCF will ensure the Government has access to the capital necessary to initiate the reimbursement processes associated with Federal funding. The capital will be used to cover the estimated cash flow and liquidity needs for eligible Subrecipients, which can be Puerto Rico agencies, municipalities or local non profit organizations, to jumpstart the recovery process. The 2020 Fiscal Plan assumes a \$1 billion WCF to address the liquidity constraints associated with the reimbursement nature of disaster relief programs. The fund will be set up in FY2021 and will allow to get reconstruction work off the ground.

While the Federal awards provide for most of the recovery needs, the unique nature of the economic situation in Puerto Rico requires additional measures for successful project completion. When executing Federally funded projects there can be a time lag between the need to pay contractors and the availability of Federal funds. This is generally caused by the reimbursable nature of FEMA and HUD programs and could lead to work stoppages and increased costs to account for the potential of delayed payment. To assist with these potential issues, the disaster relief WCF would be a COR3 account used to finance working capital advances to provide the liquidity needed to initially fund permanent recovery projects, which will be replenished through collection of other sources of funding (e.g., reimbursements) as they become available. The fund, will assist with the following five (5) objectives:

- 1) Provide a faster means of liquidity to begin Permanent Recovery Projects;
- 2) Allow for the segregation and availability of funds for Puerto Rico's recovery;
- 3) Assist with disaster recovery and reconstruction cash flow;
- 4) Assist with Subrecipient cash flow concerns; and
- 5) Determine funds are available for project continuity.

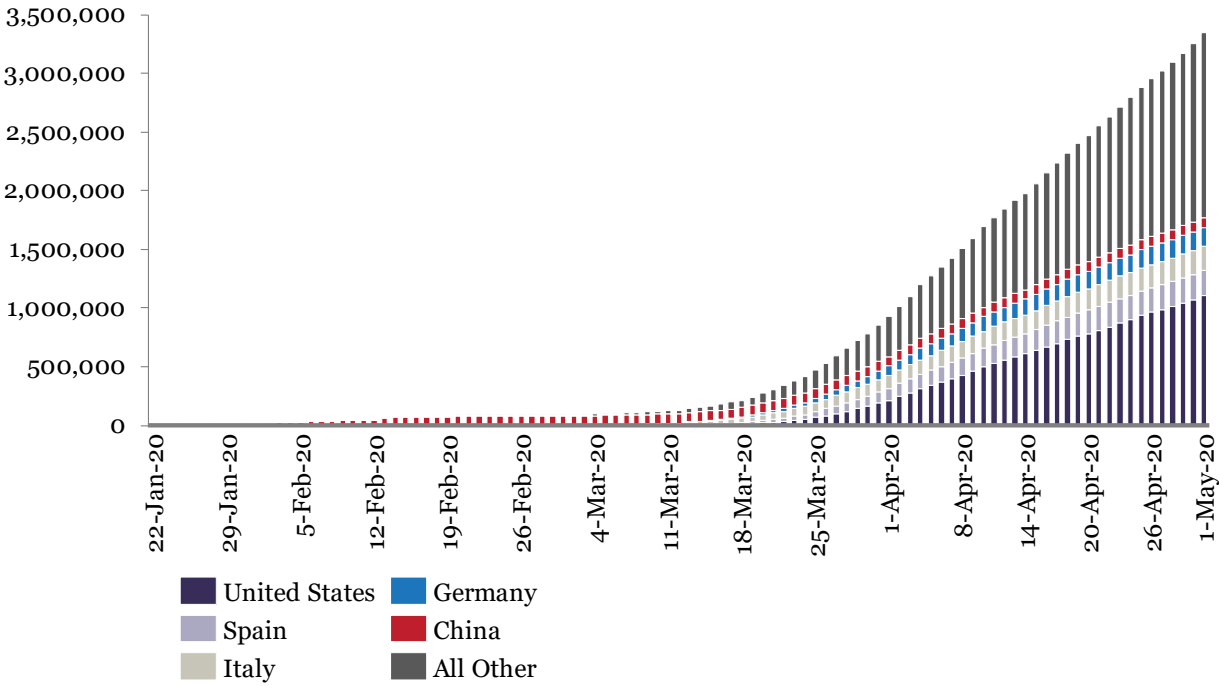
Part III: The COVID-19 Pandemic

Chapter 6. A GLOBAL CRISIS

6.1 The Evolution of the Pandemic

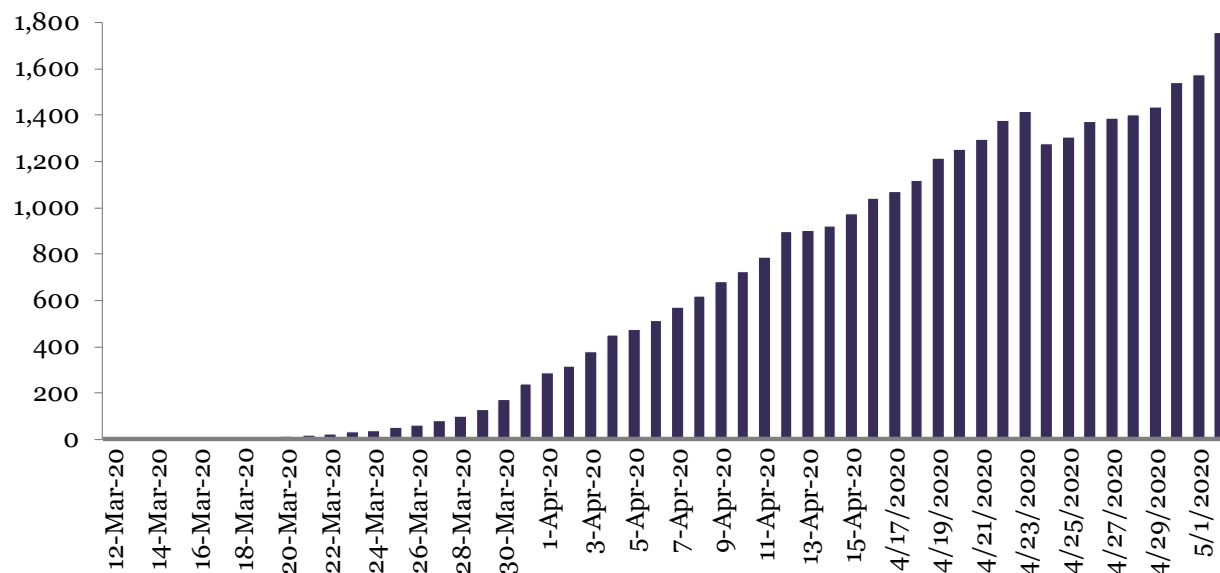
Since China first alerted the World Health Organization (WHO) of flu-like cases in Wuhan on December 31, 2019, at the time of this writing, the COVID-19 virus has spread to 187 countries/regions with over 3.4 million confirmed cases (**Exhibit 3**). This is a global humanitarian challenge, and many people are courageously battling the virus and putting their own lives at risk to help others in need. Puerto Rico is no exception. Solving this humanitarian challenge is the Government’s top priority at this moment. As of May 2, 2020, Puerto Rico had 1,757 cases in 73 municipalities that tested positive for COVID-19 and 95 deaths related to the illness (**Exhibit 4**).

EXHIBIT 3: COVID-19 CONFIRMED CASES BY COUNTRY²⁷



²⁷ John Hopkins University Coronavirus Resource Center data as of May 1, 2020.

EXHIBIT 4: COVID-19 CONFIRMED CASES IN PUERTO RICO²⁸



Note: On April 24, 2020, there is a decrease in the cumulative reported cases due to the fact the data was scrubbed for inconsistencies in reporting.

COVID-19 is caused by a new coronavirus. Coronaviruses are a large family of viruses that are common in people and many different species of animals, including camels, cattle, cats, and bats. Rarely, animal coronaviruses can infect people and then spread between people such as with MERS-CoV, SARS-CoV, and now with this new virus (named SARS-CoV-2).

The COVID-19 virus is a betacoronavirus, like MERS-CoV and SARS-CoV. All three of these viruses have their origins in bats. The sequences from U.S. patients are similar to the one that China initially posted, suggesting a likely single, recent emergence of COVID-19 from an animal reservoir.

Fever, cough, and shortness of breath are the most common symptoms. Older adults and people who have severe underlying medical conditions like heart or lung disease or diabetes seem to be at higher risk for developing more serious complications from the COVID-19 illness. Reported illnesses have ranged from mild symptoms to severe illness and death for confirmed COVID-19 cases. The best way to prevent infection is to avoid being exposed. COVID-19 spreads from person to person and can be spread by those who are infected but do not display symptoms.²⁹

Early on, many of the patients at the epicenter of the outbreak in Wuhan, Hubei Province, China had some link to a large seafood and live animal market, suggesting animal-to-person spread. Later, a growing number of patients reportedly did not have exposure to animal markets, indicating person-to-person spread. Person-to-person spread was subsequently reported outside Hubei and in countries outside China, including in the United States. Most of the world now has ongoing community spread with COVID-19. Community spread means some people have been infected and it is not known how or where they became exposed. This has forced governments throughout the world to take aggressive measures that in turn have triggered the economic disaster we are now facing.

²⁸ Salud.pr.gov.

²⁹ Centers for Disease Control

6.2 The Aftermath of the COVID-19 Crisis

The aftermath of the COVID-19 crisis poses unprecedented uncertainties for local, national, and global economies. While the societal and economic consequences cannot yet be accurately measured, the impacts will be profound and widespread, evidenced by President Trump declaring a major emergency in every U.S. state and the U.S. Virgin Islands, the Northern Mariana Islands, Washington, D.C., Guam and Puerto Rico. This is the first time in the history of the United States that every state and territory is under a major disaster declaration. Even while some areas of the world are experiencing a slowdown of COVID-19 cases, it is currently unknown whether the outbreak has reached its peak in the United States or whether a second or third wave of the disease will cause a further drag on the U.S. economy in general and the Puerto Rico economy in particular. Although it is clear that the COVID-19 pandemic has affected nearly every economy and industry in the world, it is still unclear which cross-sections of the economy will experience disproportionately negative effects. In any event, one thing is clear: COVID-19 will have much broader and more profound economic ramifications on Puerto Rico's economy than prior exogenous shocks like natural disasters.

6.3 Public Health Actions to Fight the COVID-19 Pandemic

The primary focus, at the state, federal and worldwide level is to ensure the safety of all. This has led governments around the world to adopt strict measures to contain the spread of the virus. In the absence of treatments and vaccines, governments have implemented shelter-in-place orders and social distancing guidelines that have disrupted normal life in much of the world, including the closing of schools, stores, offices, manufacturing plants, and construction sites. Unemployment claims in the U.S. have surged over 30 million in seven weeks, causing a historic collapse in spending that Glenn Hubbard, chairman of the White House Council of Economic Advisers from 2001 to 2003, has described as an “aggregate demand doom loop.”

On March 13, 2020, President Trump declared a National Emergency and issued national social distancing guidelines. Under the direction of the White House Coronavirus Task Force, FEMA, the United States Department of Health and Human Services (HHS) and other federal agencies are working with state, local, tribal and territorial governments to fight the COVID-19 pandemic and protect the public. On March 29, 2020, the Coronavirus Task Force extended its social distancing guidelines through April 30, 2020. The guidelines were not further extended and have now expired, as the Trump administration has pivoted to a phased reopening plan that leaves social distancing decisions to the states.

As the Federal Government leads the national response to COVID-19, state and local health departments stand on the front lines. States of emergency and health emergency declarations have been issued in each state and territory. As of the date of this fiscal plan submission, a large portion of the nation remains in lockdown, with 24 states still in lockdown and 26 partially reopening or having lifted orders reopening soon. While all these measures are absolutely necessary to contain the contagion of COVID-19, the sudden stop in the economy has required and will continue to require forceful action as well.

6.4 Economic Damage Resulting from the COVID-19 Pandemic

More people have lost their jobs in the final two weeks of March than in the entire 2008–2009 recession. In the Great Depression, real GDP declined for 43 months, eventually shrinking by 30%. In the first quarter of 2020, the U.S. economy shrank by nearly 5% on an annualized basis

according to the U.S. Bureau of Economic Analysis, ending the longest economic expansion in U.S. history. The second quarter is certain to see an even sharper decline. Morgan Stanley forecasts a 30% decline in the second quarter; Goldman Sachs says 34%; and St. Louis Fed president James Bullard says 50%.³⁰ In addition to economic indicators, weekly trends in new COVID-19 cases, number of deaths, and governors making isolation orders more stringent or lenient are key to understand the eventual depth and length of the “economic malaise”.

The COVID-19 pandemic is affecting Puerto Rico in several different ways simultaneously:

- Puerto Rico has close ties to the United States mainland economy, and economic contractions in the U.S. are being transmitted to Puerto Rico in the same way any economic shocks originating in the U.S. would ultimately indirectly affect Puerto Rico (e.g. the Great Recession).
- Unlike a strictly U.S.-focused economic shock, the COVID-19 pandemic has an additional direct effect on the Island. Puerto Rico has undertaken its own response to the virus similar to the social distancing measures intended to slow the spread of the COVID-19 on the U.S. mainland. The Executive Orders closing nonessential businesses and implementing a curfew have directly halted much economic activity on the Island.

To estimate the direct effect of the pandemic in Puerto Rico, the 2020 Fiscal Plan includes a detailed unemployment analysis. The increase in initial unemployment claims over the past seven weeks since the shutdown began is used to estimate total additional claims resulting from the pandemic. The Department of Labor’s estimates of claims from self-employed workers, who are newly eligible for unemployment benefits under the federal CARES Act are also included. The analysis assumes a 2.5 month lockdown, from March 15 to the end of May, during which unemployment reaches a peak. While the federal Paycheck Protection Program (PPP) for small businesses is expected to help small businesses retain some workers, unemployment claims will nevertheless reach an unprecedented level during the shutdown.

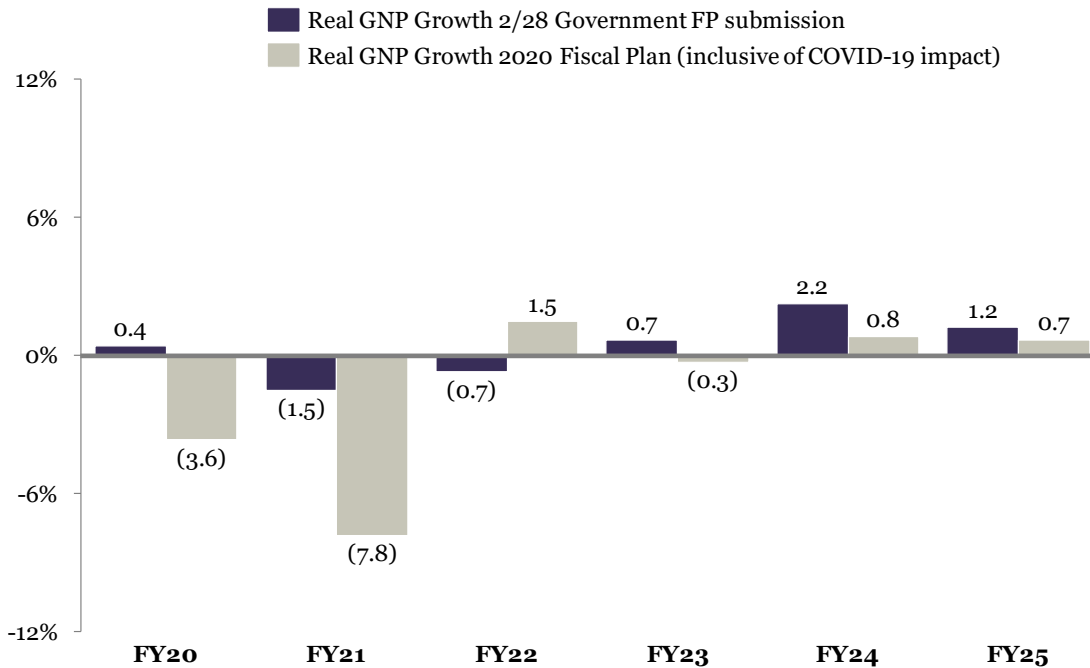
Following the end of the lockdown, a gradual reopening is forecasted, based on the rate at which unemployment claims declined as Puerto Ricans returned to work following Hurricane Maria in 2017-18. A regression model quantifying the historical relationship between unemployment and output (GNP) is then used to estimate the magnitude of the direct economic losses in FY2020 and FY2021.

In total, the 2020 Fiscal Plan estimates the direct economic damage of the COVID-19 pandemic in Puerto Rico at \$0.8 billion in FY2020 and \$5.8 billion in FY2021, corresponding to 1.1 % of Puerto Rico Nominal GNP in 2020 and nearly 10% (9.2%) in FY2021. This is in addition to the indirect impact of the slowdown in the United States. Taking all this into account, and based on the most recently available information, the Fiscal Plan estimates Puerto Rico’s real GNP will contract at 3.6% in FY2020 and 7.8% in FY2021 (**Exhibit 5**).

³⁰ "How the American economy can recover from the coronavirus pandemic." (Fortune) April 20, 2020 <https://fortune.com/2020/04/20/coronavirus-business-impact-us-economy-2020-covid-19/>

EXHIBIT 5: REAL GNP GROWTH RATE COMPARISON

Real GNP Growth Rate, %



There remains considerable uncertainty surrounding the ultimate duration and magnitude of the pandemic and thus the size of the economic losses. The estimate presented is based on the best information available as of April 30.

6.5 Impact of COVID-19 on the Public Sector

On April 1, 2020, Standard & Poor's (S&P) changed the outlook on all U.S. public finance sectors to negative in light of the ongoing COVID-19 emergency. The announcement follows a March 17, 2020 statement from S&P stating that the U.S. and global economies had fallen into a recession. In changing the sector outlook from stable to negative, S&P cited the following as key macro factors influencing its decision: (1) Uncertain duration of the pandemic, (2) impact of the mobility restrictions and related business closures, (3) expected decline in GDP and increases in unemployment, (4) the costs of containment and mitigation likely to be absorbed by public financing entities, (5) uncertainty of the timing and extent of Federal stimulus funding and (6) market volatility and its impact on both revenue streams (income taxes) and pension plan investment portfolios.

All the key macro factors taken into consideration by S&P impact Puerto Rico directly. Government revenue collections are being adversely affected by reductions in overall economic activity as a result of the mobility restrictions and business closures, and delay in the receipt of income taxes as a result of postponement of income tax return filing dates. The Local and Federal Governments will absorb many of the containment and mitigation costs and will have the obligation to provide support to municipalities, businesses and individuals.

S&P specifically noted that “lower rated states are most exposed to credit pressure from exogenous shocks” like the current crisis.³¹ The compounding effect of an extended duration of mobility restrictions and the uncertainty of any economic recovery will impose ongoing costs and revenue losses on the Government. Possible federal stimulus may serve to partially mitigate the damage done during the current crisis but are unlikely to provide full reimbursement of costs and losses. The timeliness of the receipt of such funds is another uncertainty.

The National Governors Association estimates at \$500 billion the impact of lost revenues, with others estimating the need for states and local governments including cities as high as \$1 trillion.

6.6 Government Actions in Response to the Economic Shock Caused by the Pandemic

In response to the COVID-19 pandemic, the Federal Government has dedicated a historic amount of financial support through both monetary and fiscal policy actions.

The total impact of the federal monetary and fiscal stimulus programs so far exceeds \$6.8 trillion (**Exhibit 6**).

EXHIBIT 6: FEDERAL STIMULUS PACKAGE³²

Action	Est. Amount (\$ billions)
Phase 1: Preparedness and Response Supplemental Appropriations Act	\$8
Phase 2: Families First Coronavirus Response Act	104
Phase 3: Coronavirus Aid, Relief, and Economic Security Act	2,283
Phase 3.5: April 2020 Package	484
Subtotal Fiscal Policy Action	\$2,879
Estimated Monetary Policy Actions	4,000
Estimated Total Impact	\$6,879

6.6.1 Monetary Policy Actions

Since the COVID-19 crisis began, the Federal Reserve (the Fed) has issued statements asserting its commitment to using its full range of tools to support the economy, promoting its maximum employment and price stability goals. Since March 15, 2020, the Fed has taken significant and unprecedented monetary policy action to combat the negative impact of COVID-19 on the economy.

- **Cutting of Interest Rates to near zero.** On March 15, 2020, the Fed announced that it would lower the fed funds rate, a benchmark both for short-term lending for financial

³¹ S&P Global Ratings, “All U.S. Public Finance Sector Outlooks Are Now Negative”, April 1, 2020.

³² The impact of fiscal and monetary policy on the U.S. varies based on the source providing the estimate. As it relates to the Phase 3 CARES Act, the consensus amongst most economists and financial institutions is that funding would total between \$2.0 – \$2.3 trillion as originally signed, or between \$2.5 – \$2.8 as amended (inclusive of the April 2020 amendment).

institutions and a peg to many consumer rates. The targeted rate decreased from a previous target range of 1% -1.25% to 0% -0.25% (i.e. reduced to near zero rates).

- **Quantitative Easing and Assets Purchases expected to be ~\$4 trillion.** On March 15, 2020, the Fed indicated that it would buy at least \$700 billion, with no limit, worth of Treasury bonds and agency-backed mortgages.
- **Encouraging Use of the Discount Window.** On March 15, 2020, the Fed announced that it would encourage use of the discount window by lowering the primary credit rate 150 basis points, designed to encourage a more “active” use of the window.
- **Flexibility in Bank Capital Requirements.** On March 15, 2020, the Fed announced that it would support banks using emergency reserves, which normally are not considered accessible, to lend to households and businesses impacted by COVID-19, provided that lending occurs in a safe and sound manner. For smaller lenders, the Fed also reduced reserve requirements to zero.
- **Commercial Paper Funding Facility (CPFF).** On March 17, 2020, the Fed established the CPFF on March 17, 2020, to support the flow of credit to households and businesses.
- **Primary Dealer Credit Facility (PDCF).** On March 17, 2020, the Fed established the PDCF to support the credit needs of American households and businesses. The facility will allow primary dealers to support smooth market functioning and facilitate the availability of credit to businesses and households.
- **Money Market Mutual Fund Liquidity Facility (MMLF).** On March 18, 2020, the Fed established the MMLF to broaden its program of support for the flow of credit to households and businesses. The Federal Reserve Bank of Boston will make loans available to eligible financial institutions secured by high-quality assets purchased by the financial institution from money market mutual funds. Money market funds are common investment tools for families, businesses, and a range of companies. The MMLF will assist money market funds in meeting demands for redemptions by households and other investors, enhancing overall market functioning and credit provision to the broader economy.
- **Primary Market Corporate Credit Facility (PMCCF).** On March 23, 2020, the Fed established the PMCCF to support credit to employers through bond and loan issuances. The PMCCF will provide companies access to credit so that they are better able to maintain business operations and capacity during the period of dislocations related to the pandemic. This facility is open to investment grade companies, as well as certain companies that were investment grade as of March 22, 2020.
- **Secondary Market Corporate Credit Facility (SMCCF).** On March 23, 2020, the Fed established the SMCCF to support credit to employers by providing liquidity to the market for outstanding corporate bonds. The SMCCF may purchase in the secondary market corporate bonds issued by investment grade U.S. companies or certain U.S. companies that were investment grade as of March 22, 2020, as well as U.S.-listed exchange-traded funds whose investment objective is to provide broad exposure to the market for U.S. corporate bonds.
- **Term Asset-Backed Securities Loan Facility (TALF).** On March 23, 2020, the Fed established the TALF to support the flow of credit to consumers and businesses. The TALF

will enable the issuance of asset-backed securities backed by student loans, auto loans, credit card loans, loans guaranteed by the Small Business Administration (SBA), and certain other assets.

- **PPP Liquidity Facility.** To bolster the effectiveness of the SBA PPP, the Fed is supplying liquidity to participating financial institutions through term financing backed by PPP loans. The PPP provides loans to small businesses so that they can keep their workers on the payroll.
- **Municipal Liquidity Facility (MLF).** The Fed established the MLF to help state and local governments better manage cash flow pressures in order to continue to serve households and businesses in their communities. The facility will purchase up to \$500 billion of short-term notes directly from U.S. states (including the District of Columbia, but excluding Puerto Rico and other U.S. territories), U.S. counties with a population of at least 500,000 residents, and U.S. cities with a population of at least 250,000 residents. Eligible state-level issuers may use the proceeds to support additional counties and cities. Eligibility criteria includes a minimum investment grade rating.
- **Main Street Lending Program (MSLP).** The Fed established the MSLP to enhance support for small and mid-sized businesses that were in good financial standing before the crisis by offering 4-year loans to companies employing up to 15,000 workers or with revenues of less than \$5 billion. Principal and interest payments will be deferred for one year. Eligible banks may originate new MSLP loans or use MSLP loans to increase the size of existing loans to businesses. Eligible businesses must have been formed prior to March 13, 2020, under the laws of the U.S., one of the several states, the District of Columbia, any of the territories and possessions of the U.S., or an Indian Tribal government.
- **Central Bank Liquidity Swaps.** The Bank of Canada, the Bank of England, the Bank of Japan, the European Central Bank, the Fed, and the Swiss National Bank have taken coordinated action to enhance the provision of liquidity via the standing U.S. dollar liquidity swap line arrangements. In addition, the Fed has established temporary dollar liquidity swap lines with nine additional foreign central banks.
- **Temporary Foreign and International Monetary Authorities (FIMA) Repo Facility.** The Fed established a temporary repurchase agreement facility for foreign and international monetary authorities (FIMA Repo Facility) to help support the smooth functioning of financial markets, including the U.S. Treasury market, and thus maintain the supply of credit to U.S. households and businesses.

Puerto Rico stands to benefit from most of the federal monetary actions, excluding certain facilities like the MLF, which do not apply to Puerto Rico and other territories.

6.6.2 Fiscal Measures

On March 13, 2020, President Donald Trump declared a national emergency in response to the COVID-19 pandemic. The declaration allows the administration to utilize the Stafford Act, a federal law governing disaster-relief efforts. The declaration makes \$50 billion in emergency funding available to states and territories.

The emergency declaration follows a \$8.3 billion emergency COVID-19 aid package signed by the President on March 6, 2020. At least \$1.05 billion of this package will go to state, local and tribal efforts through grants and cooperative agreements with the Centers for Disease Control and

Prevention or as reimbursements from the Federal Government. The initial federal aid package was focused largely on public health concerns.

On March 18, 2020, the Families First Coronavirus Aid Package was signed into law. The bill includes free COVID-19 testing for those uninsured, emergency paid sick leave, expanded family and medical leave programs, unemployment assistance, food aid and federal funding for Medicaid.

A third phase of federal COVID-19 relief, the CARES Act, was signed into law on March 27, 2020. The relief package, as amended on April 24, 2020, allocates an estimated \$2.8 trillion to battle the harmful effects of the COVID-19 pandemic (**Exhibit 7**). The package is the biggest fiscal stimulus package in modern American history. As one of the main categories of the stimulus bill, state and local governments will receive \$150 billion to help fund the unanticipated costs of fighting the pandemic. Additionally, the bill establishes a ~\$500 billion lending fund for businesses, states and cities. Eligible taxpayers will receive a \$1,200 direct payment and \$500 for each dependent child.

On April 24, 2020, the PPP and Health Care Enhancement Act was signed into law as an amendment to the CARES Act. The \$484 billion package includes \$310 billion for the SBA's PPP with \$60 billion allocated for loans made by small lenders and community-based institutions, \$50 billion for the SBA's Economic Injury Disaster Loan program, and \$10 billion for the SBA's Emergency Economic Injury Grant program. It also includes the HHS Hospital and Provider Grants under the Public Health and Social Services Emergency Fund that provides an additional \$75 billion to support the need for COVID-19 related expenses and lost revenue due to COVID-19. Finally, it provides \$25 billion for necessary expenses to research, develop, validate, manufacture, purchase, administer and expand capacity for COVID-19 tests.

EXHIBIT 7: PROVISIONS OF CARES ACT, AS AMENDED

Provision of CARES Act	Type	Total (\$millions)
Loans and Guarantees for Large Business and Governments	Business Focused	\$510,000
Small Business Loans and Grants	Business Focused	377,000
Business Tax Breaks	Business Focused	280,000
Support to Transportation and Transit Providers	Business Focused	72,000
Direct Payment of 1,200 per Adult and 500 per Child	Household and Other	290,000
Unemployment Boost of 600 per Week and Extension	Household and Other	260,000
Hospital, Medicare and Other Health Related Funding	Household and Other	180,000
Aid to State and Local Governments	Household and Other	150,000
FEMA and Disaster Assistance Funds	Household and Other	45,000
Increased Food Stamp, Nutrition and Housing Funds	Household and Other	42,000
Education Stabilization Fund and Related Programs	Household and Other	32,000
Other Spending	Household and Other	25,000
Individual Tax Breaks	Household and Other	20,000
PPP and Health Care Enhancement Act	Comprehensive	484,000
Total		\$2,767,000

Source: CFRB.org, JP Morgan

6.6.3 Additional Potential Federal Fiscal Measures

Congressional leaders are beginning to define the parameters of the next phase of the response to the crisis. It is anticipated that legislation will be presented in the near future that will serve as a

“second CARES Act”, likely pivoting from stabilization to stimulus and will also likely include support for state and local governments. Recently the National Governors Association requested Congress an additional \$500 billion in direct federal aid that allows for replacement of lost revenue. While the parties seem to be aligned in terms of the need for additional funding, the best use of those funds remain controversial. Democrats appear to be adamant that new funding be used to provide funding for state, territories and local governments. House Speaker Nancy Pelosi stated on April 30, 2020 that states, territories and local governments could need almost \$1.0 trillion in additional relief money from the Federal Government. However, Republicans have stated their resistance to “bailout states”. They have also stated that they will not agree to any COVID-19 stimulus bill that does not include what they call “liability protections,” which reflect protections for employers from lawsuits. On May 1, 2020, Senate Majority Leader Mitch McConnell and House Minority Leader Kevin McCarthy said in a joint statement that congressional Republicans “are united in our demand that healthcare workers, small businesses, and other Americans on the front lines of this fight must receive strong protections from frivolous lawsuits.” While the details of a new COVID-19 stimulus bill remain uncertain, there does appear to be momentum in Congress for an additional COVID-19 stimulus package.

6.6.4 State Government Responses

As the global and national response to COVID-19 dominates public attention, state legislatures are taking steps to address budgetary and economic threats. The majority of states issued stay-at-home orders and imposed restrictions on mobility to protect citizens and “flatten the curve”, reducing the likelihood of overwhelming hospitals with sick patients **(See Appendix B)**.

Legislatures are moving quickly to ensure agencies and local governments have the funds to prepare and respond to the COVID-19 outbreak. Several states have enacted legislation that either appropriates additional funding for COVID-19 related tasks or authorizes a transfer of funds from the states’ rainy day fund.

6.6.5 Puerto Rico Government Response

Addressing this humanitarian challenge is the Government’s top priority. Puerto Rico’s health system is less robust than the one on the United States mainland and the Island cannot afford to react in the same way as many U.S. jurisdictions. Puerto Rico hospitals, subject to discriminatory reimbursements for Medicaid patients, do not have the same resources to stock ventilators and Personal Protection Equipment (PPE) compared to their mainland counterparts. In addition, under normal conditions, the Puerto Rico health system struggles to maintain minimum staffing levels. A major shock from the COVID-19 pandemic has the potential to become catastrophic in Puerto Rico. In light of these risks, the Government of Puerto Rico has adopted some of the most aggressive containment and mitigation measures in response to the COVID-19 pandemic. Based on data from the Google Mobility Report, Puerto Rico has experienced an 83% decline in mobility trends for places related to retail and recreation.

The Google Mobility Report is useful to show the impact of social distancing measures adopted by different jurisdictions because it tracks mobility data from a sample of users based on location history and compares it to a baseline before the COVID-19 pandemic. The report referenced in **Exhibit 8** is updated with information as of April 26, 2020.

EXHIBIT 8: GOOGLE MOBILITY REPORT

Google Mobility Report as of 4/26/20 Puerto Rico

Retail and Recreation	(83%)
Grocery and Pharmacy	(89%)
Parks	(74%)
Transit Stations	(83%)
Workplaces	(52%)
Residential	22%

On March 15, 2020, Governor Vázquez signed Executive Order No. OE-2020-023 to Make Viable the Necessary Government and Private Closures to Fight the Effects of COVID-19 and Control the Risk of Contagion on Our Island, Administrative Bulletin. This Executive Order directed the “closure of all businesses in Puerto Rico as of, March 15 at 6:00 p.m. until March 30, 2020.” putting Puerto Rico into lockdown, earlier than any state. This was before California (March 19, 2020), New York (March 20, 2020) or Washington (March 23, 2020). The Executive Order also imposed a curfew from 9:00 p.m. through 5:00 a.m. during which time all residents of Puerto Rico must remain in their residences. However, businesses related to the distribution of food, medical supplies and equipment, gas, financial and banking institutions, and elderly care centers were excluded and have remained open. On, March 30, 2020, Governor Vázquez announced that, based on recommendations from Health Taskforce, and due to the continuing state of emergency, the closure of businesses and curfew established in the Executive Order was extended until April 12, 2020.

On March 18, 2020, Governor Vázquez requested the Federal Aviation Administration (FAA) to limit air traffic into Puerto Rico, including suspending all domestic and international flights to and from Puerto Rico. In response, the FAA agreed that all commercial flights must now land at Luis Muñoz Marín International Airport, located in San Juan. Governor Vázquez is requiring that every passenger, both domestic and international, arriving in Puerto Rico remain quarantined for 14 days.

Governor Vázquez has issued an additional fifteen executive orders in response to COVID-19 to address, among other things, the homeless, school and private sector closures, acquisition of goods and services, use of the National Guard, prompt diagnosis of COVID-19, special leave for public employees affected by COVID-19, the creation of a medical task force to advise Governor Vázquez, and the state of emergency due to the pandemic. Taken together, these measures help protect the physical, mental, and economic health of the people of Puerto Rico, while preserving the social fabric of the Island’s diverse communities.

Executive Order (EO) 2020-033, enacted on April 12, 2020, includes an extension of the shelter in place directive issued under EO 2020-023 and extended by EO 2020-029, up to May 3, 2020. It also includes a curfew from 9:00 PM to 5:00 AM and authorization to operate a limited number of businesses deemed as essential. On April 14, 2020, Governor Vázquez announced she was amending the curfew established pursuant to EO 2020-33. The new curfew will be from 7:00 PM to 5:00 AM.

EO 2020-033 allows somewhat more flexibility than previous orders, particularly by trying to promote working from home and expanding slightly the list of essential businesses. However, the margin of error allowed by the Puerto Rico health system is rather small and the Government is acting accordingly.

On May 1, 2020, the Governor issued Executive Order OE-2020-038, which extended Puerto Rico's shelter-in-place period until May 25, 2020 but also lifted certain business restrictions to allow limited openings of certain industries, shops, and services at specific times while continuing to observe social distancing rules. This initial reopening is limited to primary and specialist doctors and dentists, animal shelters, vehicle repair and parts services, laundromats, elevator inspections, removals, services to ports and airports, air conditioner repair and maintenance services, notary services, and critical infrastructure services, among others. As the Government observes the results of this limited reopening, the Government will re-evaluate and further amend business restrictions as necessary to promote economic recovery while preserving the health and safety of the people of Puerto Rico.

These decisive and aggressive measures have helped the Island better control the infection rate of COVID-19 compared to the rest of the U.S. As of May 2, 2020, Puerto Rico had 519 cases per million people, far lower than the U.S. total of 3,466 per million people³³. Additionally, while COVID-19 caused a shortage of ventilators in New York, such has not been the case in resource-poor Puerto Rico. As of April 29, 2020, the number of ventilators in use was 254 out of a total of 1,145.

In order to enhance coordination with the private sector, the Health and Economics task forces were constituted. The Health Taskforce is led by Dr. Segundo Rodríguez, head of the University of Puerto Rico Medical Sciences Campus. The Economics Taskforce, which uses FEMA's Business Emergency Operations Center framework, was implemented in Puerto Rico in the aftermath of Hurricane Maria. With this previous emergency management experience, the Economics Taskforce was able to start executing quickly. It is led by Eng. Emilio Colón, former president of the P.R. Homebuilders Association. The Government has enabled coordination between the Economic and Health Taskforces with an understanding that economic activity is badly hurt but a breakout of COVID-19 would wreak havoc with the economy.

In addition to the federal stimulus package, the local government has also announced an unprecedented package of direct assistance to workers and businesses (the "Puerto Rico COVID-19 Stimulus Package") amounting to almost \$800 million (**Exhibit 9**).

The 2020 Fiscal Plan assumes that of the \$787 million Puerto Rico COVID-19 Stimulus Package, \$336 million will be reimbursed by the Federal Government through the CARES Act, \$157 million is reappropriated from the existing budget, and \$131 is reappropriated from federal funding. The remaining \$163 million is assumed to be funded by the General Fund. In addition to the \$787 million package, the Governor has proposed a \$500 per person stimulus payment for private sector workers and retirees which equates to an additional \$349 million to be funded out of the General Fund.

³³ Worldometer: <https://www.worldometers.info/coronavirus/country/us/>.

EXHIBIT 9: PUERTO RICO COVID-19 STIMULUS PACKAGE PROVISIONS

Measure	Impacted Stakeholder	Description	Total Cost (\$ MM's)
Direct Payment to Self-Employed	Self-employed	\$500 one-time cash payment for approximately 200,000 self-employed individuals	\$100.0
Direct Payment to Small Businesses	Small businesses	\$1,500 one-time cash payment for approximately 40,000 small businesses	60.0
Bonus for Medical and Support Staff	Public nurses	Public nurses (not including 272 Dept. of Correctional Health nurses; separate line)	23.2
	Private sector nurses	Private sector nurses	73.4
	Professional services nurses	Professional services nurses	22.6
	Dept of Correctional Health nurses	\$4,000 bonus per nurse, same as public sector nurses	1.1
	Technicians	\$2,500 bonus for 600 technicians	1.5
	Others	Public sector pharmacists (116), medical technologists (3,834), Residents-MD (605)	4.5
Bonus for Certain DPS Employees	EMS personnel	581 staff	2.0
	Police officers	11,650 front office roles (does not include 600 currently reported under leave of absence)	46.6
	Firefighters	1,455 front office roles (does not include 65 reported under leave of absence)	5.1
	Emergency Management	112 front office roles (does not include 12 reported under leave of absence)	0.4
	9/1/2001	154 front office roles (does not include 2 reported under leave of absence)	0.5
	Special Investigations Unit	74 front office roles	0.3
	Forensics	220 front office roles	0.8
	Municipal police	\$4,000 bonus for 3,428 officers	13.7
	Municipal firefighters	\$3,500 bonus for 50 officers	0.2
Bonus for Court Staff	Court staff on duty	\$1,000 bonus for 400 officers	0.8
Bonus for Hacienda Internal Revenue Agents	Internal revenue agents on duty	\$2,000 bonus for 250 agents	0.5
Materials for the Department of Education	Dept. of Education teachers, students, and directors	Purchase of tablets, software, training for approximately 325,000 individuals @ \$750 each	124.3
		Materials for 159,330 individuals will be paid by the U.S. Department of Education through two contracts	130.6
Hospital Investments	Public hospitals	\$15M per month for two months for medical supplies not directly related to COVID-19; materials related to COVID-19 are covered with \$160 Emergency Reserve and federal funding	30.0
Public Safety Investments Support to the Municipalities	Dept. of Public Safety	\$20M for equipment and capital expenditures	20.0
	Municipalities	\$50M per month for two months based on a 3-tier division of population by municipality	100.0
Bonus for Corrections Employees	Dept. of Corrections	\$3,500 bonus per front-line Corrections staff	16.8
	Correctional Health	\$3,500 bonus per front-line Correctional Health staff (non-nurses)	0.5
HTA	Cost of moratorium on tolls	Loss of outstanding \$3 million monthly receipts for two months	6.0
Reserve	Reserve	Reserve (will be transferred to first responders and healthcare agencies on an as-needed basis to cover any deficiency in the distribution of the cash incentives. Numbers are based on estimates; actual disbursements may vary from this estimates)	1.6
TOTAL			\$787

The spread of COVID-19 and the economic effects therefrom, including from the closure of all non-essential businesses, remains highly uncertain. At a minimum, short-term economic activity will be severely impacted for several months, with certain critical sectors of the Puerto Rico economy—such as tourism—being particularly hard hit. The depth and duration of the economic downturn will depend largely on the trajectory of COVID-19 and the ability of policy decisions to sustain households and businesses during this difficult period, as well as to successfully restart the economy. The Government of Puerto Rico will continue taking the necessary actions to contain the spread of COVID-19, prioritizing the safety and well-being of the people of the Island and supporting the business community to ensure economic activity is restored in a sustainable manner.

6.7 Impact of Federal and Local Government Stimulus Actions

The 2020 Fiscal Plan accounts for the impact of federal funds granted through several government programs, including the CARES Act and the Puerto Rico COVID-19 Stimulus Package in FY2020, FY2021 and FY2022. Through several Federal programs (the principal being the

CARES Act) Puerto Rico and its residents will receive approximately \$12.8 billion dollars, primarily through \$3.0 billion direct payments to Puerto Rico residents, \$2.2 billion in state and local government relief and \$3.9 billion in additional unemployment benefits, as detailed below.

Recovery Rebate: Puerto Rico residents with an adjusted gross income under \$75,000 (\$150,000 if married) are eligible to receive economic impact payments up to \$1,200 (in the case of individual taxpayers who are not dependents of another taxpayer) or \$2,400 (in the case of married taxpayers filing jointly). In addition, they can also receive up to \$500 per qualifying child which, under the Act, cannot be 18 years or older. For example, a single parent with one (1) qualifying child, and whose adjusted gross income is under \$75,000 shall receive \$1,700. On the other hand, a married couple filing jointly with 2 qualifying children would receive \$3,400 in economic impact payments. On May 1, 2020, the U.S. Treasury Department approved Hacienda's proposed plan to distribute \$1,200 in direct payments to Puerto Rican taxpayers as part of economic assistance efforts to address the COVID-19 crisis. These payments, which are estimated at \$3 billion, will be distributed in phases. Hacienda will make the first round of payments to taxpayers that have already filed their 2019 tax year returns. Hacienda will use \$400 million from the treasury for this first round of payments which will be subsequently reimbursed by the U.S. Treasury Department.

State and Local Government Relief: The CARES Act provides \$150 billion in federal aid to state and local governments. Included in this grant is an amount of \$3.0 billion for the District of Columbia, Puerto Rico, Virgin Islands, Guam, Northern Mariana Islands and American Samoa. The CARES Act specifies that the allocation of this funding between territories is based on proportionate population between the territories. Puerto Rico's population of 3.2 million people accounts for 74.7% of the total population for these territories, equating to approximately \$2.2 billion of the \$3.0 billion included in the CARES Act. The 2020 Fiscal Plan assumes that \$336 million of the \$787 million of the Puerto Rico COVID-19 Stimulus Package announced by the Government will be funded by these amounts and that the remaining \$1.9 billion (up to the \$2.2 billion) will be utilized in necessary expenditures incurred due to the public health emergency with respect to COVID-19. On April 22, 2020 the U.S. Treasury Department issued guidelines which limit the use of the \$150 billion in aid to state and local governments. These federal funds will only be used to cover:

- Necessary expenditures incurred due to the public health emergency with respect to COVID-19
- Costs that were not accounted for in the budget most recently approved as of March 27, 2020 (the date of enactment of the CARES Act) for the State or government
- Costs that were incurred from March 1, 2020 to December 30, 2020

The Government is in process of finalizing a plan for the use of these funds and, as many other states, is working with the U.S. Department of Treasury to validate proper uses.

Additional Unemployment Benefits: The CARES Act makes several changes to unemployment compensation, including a federal program offering 39 weeks of unemployment insurance (rather than the standard 26 weeks), and unemployment insurance benefits for self-employed workers who would not otherwise qualify, under the Pandemic Unemployment Assistance program. Additionally, the bill adds an incremental benefit amount of \$600/week to the standard weekly benefit amount for weeks of unemployment ending prior to July 31, 2020, which in some cases will cover more than 100% of the worker's lost wages.

Through the federal and local stimulus efforts, there will be an impact to the Puerto Rico economy of approximately \$5.7 billion between FY2020 and FY2022 (**Exhibit 10**). The impact to the economy each year is subject to capacity constraints. Due to delays in the disbursement of federal funding and the delay in processing unemployment claims (due to unprecedented volumes), that like many states, Puerto Rico is also experiencing, as well as capacity constraints on spending, the full impact of the stimulus will not be felt for over a year. The 2020 Fiscal Plan assumes that consumer spending of COVID-19 related stimulus funds will not exceed the maximum rate at which hurricane relief money was spent in 2018, when consumers and businesses received insurance and federal assistance to replace income and meet immediate consumption needs. Therefore, the impact in FY2020 totals ~\$0.5 billion. The impact in FY2021 totals ~\$4.2 billion, and the remaining \$0.9 billion are assumed to be spent in FY2022.

EXHIBIT 10: STIMULUS IMPACT ON MACRO ECONOMIC FORECAST³⁴

(\$ in millions)	Category	Title(s) / Section(s)	Estimated United States Funding	Estimated Puerto Rico Funding	Aggregate Implied Pass Through	Estimated P.R. Stimulus Impact
Phase 1 and Phase 2	Phase 1: Preparedness & Response Supp. Approp. Act	Multiple	\$8,267	-	n/a	-
	Phase 2: Families First Coronavirus Response Act	Multiple	104,000	97	19.7%	19
	Sub-Total, Phase 1 and Phase 2		\$112,267	\$97		\$19
Phase 3: CARES Act	Emergency Relief and Taxpayer Protections (corporate loans)	4002, 4003 (189)	454,000	43	36.6%	16
	Emergency Relief and Taxpayer Protections (airlines)	4002, 4003 (189)	46,000	180	57.7%	104
	Coronavirus Relief Fund	5001 (221)	150,000	2,241	21.8%	489
	Federal Transit Administration	Title XII (319)	25,000	169	5.5%	9
	Governor's Emergency Education Relief Fund	Title XII (284)	3,075	48	5.5%	3
	Elementary and Secondary School Emergency Relief Fund	Title XII (284)	13,530	349	5.5%	19
	Higher Education Emergency Relief Fund	Title XII (284)	14,145	324	5.5%	18
	Community Development Fund	Title XII (326)	5,000	51	5.5%	3
	Homeless Assistance Grants	Title XII (328)	4,000	34	5.5%	2
	State and Local Law Enforcement Activities	Title II (233)	850	10	36.6%	4
	Recovery Rebates for Individuals	2201 (55)	285,000	3,000	57.7%	1,730
	Pandemic Unemployment Assistance	2102 (33), 2104 (38)	250,000	3,930	57.7%	2,266
	Paycheck Protection Program	1102, 1106 (6)	350,000	659	44.6%	294
	Public Health and Social Services Emergency Fund	Title VIII (283), Title VIII (280)	127,000	71	5.5%	4
	Domestic Food Programs	Title I (227), Title I (228)	24,610	165	19.7%	33
Deferred Taxes For Businesses	Multiple	221,000	-	n/a	-	
All Other CARES Act Measures	Multiple	68,635	-	n/a	-	
	Sub-Total, CARES Act		\$2,041,845	\$11,273		\$4,992
Phase 3-5: April 2020 Package	Incremental Paycheck Protection Program	Amendment to CARES	321,000	789	44.6%	352
	Incremental Small Business Emergency Grant	Amendment to CARES	60,000	-	n/a	-
	Incremental Hospital Funding	Amendment to CARES	75,000	69	36.6%	25
	Incremental Coronavirus Testing Funding	Amendment to CARES	25,000	14	5.5%	1
	Sub-Total, April 2020 Package		\$481,000	\$871		\$378
Incr. PR Local Package	Portion of PR Local Package not Funded by CARES Act	n/a	-	163	42.8%	70
	Incremental \$500/person Governor Support	n/a	-	349	57.7%	201
	Sub-Total, PR Local Package		-	\$512		\$271
Total	Total Est. Impact Across All Packages		\$2,635,112	\$12,753		\$5,660

6.8 Roadmap to Recovery

Since the beginning of the COVID-19 Pandemic, leaders across the world have wrestled with the balance of saving lives and protecting the livelihoods of their citizens and mitigating the economic impact of the sudden stop to the economy. Those that took early actions with strong community compliance and support were able to better suppress the broad spread of transmissions and “flatten the curve” earlier. Most of the world has restricted movement to curtail the spread of COVID-19 for the last several weeks (if not longer); now as COVID-19 transmissions start to be brought under control in certain geographies combined with increasing visibility on the economic devastation, leaders are tasked with their next big test, when and how to re-open their economies. There are a variety of strategies that have been designed and are in process of execution at all

³⁴ Amounts included in this summary are preliminary and subject to change as the different federal agencies provide guidelines on eligibility of uses for the different categories.

levels of government around the world. While the criteria for re-opening of economies varies, adopting an iterative and gated model is consistent. The Federal Government has provided a widely accepted phased approach to the easing of social distancing restrictions and gradual re-opening of businesses that is intended to mitigate a resurgence of transmission, protect its vulnerable citizens, and be adjusted for local circumstances. Gating criteria included in the U.S. Federal Government's guidelines, "Opening Up America Again", set clear recommendations for core responsibilities local government and employers should adhere to, combined with data-driven health indicators that are to be used when measuring its population's readiness to move to the next phase of re-opening. Where evidence shows a rebound of COVID-19 transmission, the guidelines recommend local government revert to the previous phase's recommendations until such time that the gating criteria can be satisfied to progress once again to the next phase and restrictions eased accordingly. Perhaps most notably, the Federal Government's guidelines are only recommendations, with states being provided the latitude to follow or develop their own re-opening plans. This lack of required coordination has led to adjacent states adopting different approaches and start-dates to their plans, on the other hand, this has also led to neighboring states creating pacts to coordinate their re-openings, with seven east coast states joining together and California, Oregon, and Washington unifying on the west coast. As of May 1, 2020, roughly half of the states in U.S. have eased social distancing restrictions and opened portions of closed areas of their economies, while the other half remain firm in maintaining near-term restrictions.³⁵

After considering the Federal Government's guidelines and state level plans to re-open economies, Mayors in the U.S. will be tasked with how to re-open their cities in a manner most appropriate for their populations. Finally, individual businesses of all sizes will need to create their own plans and strategies on how to redeploy their workforces back into the field, and when to do so. Some businesses have suggested the idea of moving to a shift model with their labor force being broken up into two or more shifts, rotating the personnel in the office on a weekly basis, and conducting thorough cleanings between shifts. This model limits exposure to others, facilitates better contact tracing, and may have the added long-term benefit of reduced office space and other overhead. Perhaps most of all, governments and businesses will be required to re-build trust by demonstrating appropriate measures are in place to protect the health and safety to those they serve and employ.

Early indications from China can potentially be used as a barometer for how recoveries in other parts of the world may look. Currently, many in the service sector, one of the hardest hit sectors by movement restrictions, fear a demand deficit that could cause business owners to close their doors for good. Even with restaurants opening back up, many are struggling from people's unwillingness to dine out, even with lighter restrictions in place.

With a vaccine unlikely to come to market until early 2021, and no positive signs of herd immunity, the availability and sophistication of surveillance, monitoring, testing, and contact tracing capabilities will be critical in effectively re-opening economies, while continuing to combat the spread of COVID-19. Whatever strategy is deployed, leaders must be prepared to quickly and effectively make decisions with the best data available in an ever-shifting situation. Strong leadership, sound decision making, and strategic agility will be critical in a smooth transition to the new normal.

Following the Island-wide lockdown that was implemented on March 15, 2020, the Government has been monitoring the impact of mitigation and containment efforts on the spread of COVID-19 on the Island. Emphasis has been placed on containing the spread of COVID-19 to ensure a sustainable path can be taken to gradually reopen the economy and not put the health of residents

³⁵ New York Times: <https://www.nytimes.com/interactive/2020/us/states-reopen-map-coronavirus.html>.

of Puerto Rico at risk. After evaluating the progress and conditions of recent days, Governor Vázquez made the determination to initiate a gradual reopening of the Puerto Rico economy.

6.9 Puerto Rico’s Gradual Approach to Restoring the Economy

After a successful containment effort by Governor Vázquez, on May 1, 2020 the Governor issued an amended executive order effective May 4, 2020 that paves the way for reopening the Puerto Rico economy. The reactivation of the economy will take place in phases and strives to achieve a balance between the health and economic needs of the people of Puerto Rico.

The economic sectors that will be allowed to resume operations under this initial phase were determined to have a relatively low contagion risk. Examples of businesses exempt from closure now include vehicle repair shops, textile businesses, dry cleaners and laundromats. Examples of services that will be allowed to resume operations include plumbing, maintenance, legal, accounting, and other professional services. Furthermore, the amended executive order allows for some physical outdoor activities, such as running and cycling, at pre-determined hours of the day and following social distancing guidelines. Strict protocols and mitigation plans in the workplace will need to be followed to protect the health of workers and prevent a collapse of the hospital and health industry in the event of a second wave of contagion. The sectors that reopen are responsible for ensuring their employees follow established protective measures for their own safety, that of their clients and the broader population. Businesses that reopen under the amended executive order must still abide by social distancing guidelines and must ensure employees have the proper safety and protective equipment to carry out their work without putting themselves and others at risk of infection. The rate of contagion during this period will be closely monitored and will be a key determinant on continued progress to reopen the economy.

The businesses and individuals that are not exempt pursuant to the amended executive order must continue to follow the same lockdown rules and shelter-in-place protocols. The Island-wide curfew will continue to be from 7:00 PM to 5:00 AM and residents are only permitted to leave their homes to provide services permitted under the amended executive order or carryout necessary tasks. Businesses that have not been permitted to open under the amended executive order must remain closed. The current curfew and shelter-in-place guidelines will remain in effect until May 25, 2020.

Governor Vázquez’s announcement was an important first step to pave the way for reopening the Puerto Rico economy. The priority continues to be the safety of Puerto Rico residents, and as such the Government will continue to follow the recommendations of its medical experts to ensure the economy is restored in a sustainable manner.

6.9.1 Opportunity Arising from the COVID-19 Crisis

The Puerto Rico Government is strongly supporting HR 6443 (titled as the “Securing the National Supply Chain Act of 2020”) filed by Representative Jennifer Gonzalez to provide federal income tax credits to U.S. taxpayers that establish operations in certain economically distressed zones of the United States, including Puerto Rico. The tax credits proposed by HR 6433 are based on the amount of wages and investments made in an economically distressed zone. If approved, HR 6443 will serve as an important tool to address the supply chain needs that the current COVID-19 situation has revealed and to the creation of employment and investments in these needed areas. Furthermore, the Puerto Rico Government is also identifying other incentives that can be offered to companies that conduct operations on the Island to lower costs of operations and permit Puerto Rico to favorably compete as a place of business with any other State or jurisdiction.

Part IV: Structural Reforms

A sustainable fiscal and economic turnaround depends largely on comprehensive structural reforms to the economy of Puerto Rico. Only such reforms can drive growth in the economy, reversing the negative growth trend over the last ~10 years and enabling the Island to become a vibrant and productive economy going forward. To reverse the negative economic trends, the Government will pursue the reforms outlined below. The impact and timing of these reforms has been adjusted to reflect delay caused by various forces, but the Government continues to believe on these reforms due to their potential economic impact.

The Government's prior fiscal plan submissions focused on fiscal and economic reforms to address the aftermath of discrete, single-event crisis (such as hurricanes and earthquakes). The COVID-19 crisis poses a new challenge that is ongoing and much more profound. Even though the Government has kept the same timing for implementation of the structural reforms as the February 28, 2020 submission, at this time it is simply uncertain that the timing of the implementation of these structural reforms can be maintained.

Chapter 7. SUMMARY OF STRUCTURAL REFORMS

7.1 Human Capital and Welfare Reforms

- These reforms will improve workforce participation and the well-being and self-sufficiency of welfare recipients, resulting in a cumulative GNP impact of 0.15% by FY2025. The impact is enhanced in the long-term as K-12 education reforms begin adding an additional 0.01% GNP impact per year, resulting in an additional 0.07% by FY2039.
 - *Earned Income Tax Credit (EITC)*: The EITC is a benefit for working people with low to moderate income. The EITC reduces the amount of taxes owed and may result in a cash refund if the benefit is higher than owed taxes. From 2006 to 2014, Puerto Rico had a Worker's Tax Credit, which was later discontinued due to its ineffective application. This prior Worker's Tax Credit applied to 45% of all tax filers at a cost of \$152 million in its last year of implementation. It was smaller than federal EITC programs (\$150 to \$450 versus ~\$2,000 average credit) and did not eliminate high implicit tax rates on low-income employees or do enough to incentivize formal employment³⁶. The EITC program would cost approximately \$205 million per year, but the program will raise formal labor force participation significantly, providing a positive return on the investment.
 - *NAP Work Requirements*: NAP, Puerto Rico's largest welfare program, is similar to the mainland Supplemental Nutrition Assistance Program (SNAP), but is funded and administered separately and does not include a work requirement nor specific budget allocations to administer such requirements. As part of the human capital and welfare reform package, the Government will institute work requirements with a 4-year phase-in period starting July 1, 2021 for able-bodied adults without dependents in order to qualify for PAN benefits. Like mainland SNAP, this work requirement must become effective after the individual has

³⁶ New York Federal Reserve Bank, 2014

collected NAP benefits for three months. The work requirement may be satisfied with 80 hours per month of paid work, volunteer work, and/or qualified training and education. General exceptions would include those under age 18 or over age 60, parents with dependents under age 18, as well as those who are medically certified as physically or mentally unfit for employment. Children, even if their parents do not work, will continue to receive the benefit. The phase-in is the most viable approach because high unemployment rate (lack of supply of jobs) and high volume for training and re-training (lack of skilled professionals) has become a stumbling block that could endanger the current benefits provided by the NAP Program. Contrary to other U.S. jurisdictions, Puerto Rico receives the NAP Programs benefits as a block grant. Puerto Rico cannot redistribute funds immediately in order to mitigate the economic impact to over 150,000 citizens that would qualify for work requirements. To support the efforts for this program, in the FY2020 General Fund budget, the Oversight Board included a \$4.7 million increase within the Department of Families grouping to hire case workers and supervisors for the NAP program.

- *Workforce Innovation and Opportunity Act (WIOA)*: The Government has already updated the WIOA State Plan to focus its programs and incentives on high-priority sectors and capabilities (e.g., aerospace, software development, and creative services). WIOA is the primary way in which the Federal Government invests in adult education and workforce development, and it is designed to help jobseekers access employment, education, and support services to succeed in the labor market, and to match employers with the skilled workers they need. The Government will broaden the list of core industries that qualify under WIOA and focus on high impact economic sectors to provide a skilled workforce that meets the needs of employers in each specific region. It will integrate this WIOA program with the broader promotional efforts of the Department of Economic Development and Commerce (DDEC).

7.2 Ease of Doing Business Reforms

- These reforms will improve conditions for economic activity, job creation, and business vitality, resulting in a cumulative GNP impact of 0.40% by FY2025.
 - *Improve Ease of Doing Business World Ranking*: One of the best ways to increase economic growth is to attract additional investment and create new jobs. The competitive environment in Puerto Rico requires improvement if it is to compete with other investment destinations, specifically by reducing a variety of inefficiencies related to building, expanding and attracting businesses. Easier-to-navigate regulations, less complex and faster investment and permitting mechanisms, and streamlined tax administration systems can encourage new businesses to hire employees and invest in growth. These outcomes can be achieved by making necessary administrative and legislative changes and by investing in digitization. To quantify a jurisdiction's overall effectiveness in this regard, the World Bank created the Doing Business Index, which ranks 190 countries and entities worldwide on several core indicators. Countries and territories that have been able to meaningfully improve their ranking have shown real growth. For example, when the Republic of Georgia improved its ranking from #98 in 2006 to #8 by 2014, output per capita increased by 66% and business density tripled. Meanwhile, ease of doing business remains an area in which Puerto

Rico has much room for improvement. Puerto Rico will achieve a best-in-class business environment by taking targeted steps to improve rankings in key identified Doing Business Index indicators by FY2023, with the goal of closing the gap with the mainland U.S. by at least 50% from its 2019 rankings:

- **Overall:** Move from 64 (65 in 2020) to at least 57³⁷
- **Construction Permits:** Move from 138 (143 in 2020) to at least 87
- **Registering Property:** Move from 153 (161 in 2020) to at least 95
- **Paying Taxes:** Move from 161 (163 in 2020) to at least 99
- **Getting Electricity:** Move from 69 (92 in 2020) to at least 59

The 2020 Fiscal Plan re-iterates the **need for urgent action, particularly in light of no progress in Puerto Rico's ranking in the categories of Ease of Doing Business that have proven most important to stimulating growth in other jurisdictions.** The Government has implemented initiatives to streamline the permitting process and will continue committed actions to ensure that this results in meaningful change during the next fiscal years.

- *Single Business Portal (SBP):* The April Certified Fiscal Plan required that the Government target 100% integration into SBP by end of 2018 for the following metrics: Licenses integrated into SBP; cases filed in SBP; cases issued in SBP; concerned entities integrated into SBP; and autonomous municipalities integrated into SBP. The Government has moved forms online to the extent possible, including decoupling all non-related procedures from permitting, centralizing and digitizing permits. The SBP receives constant upgrades in order to keep it running at its highest capacity, and help it integrate new features as required by the May 9, 2019 Certified Fiscal Plan.
- *Reduce occupational licensing:* Reducing occupational licensing requirements can encourage activity in the formal labor market. The Government has taken an inventory of all occupational licensing requirements and has begun developing reforms to reduce unnecessary regulations, creating a more open labor market. It will also consider joining U.S. mainland agreements to recognize licenses obtained in other states, such as the Compact for the Temporary Licensure of Professionals. Such an agreement enables professionals with licenses from other states to enter the Puerto Rican labor market without undue barriers.
- *Improve ease of registering property:* The Government has improved the process for business permitting and registrations through a digitized one-stop-shop system for business processes, expanding on work initiated under Act 19. A revised property registration (with improved geographic coverage and transparency of information) must be integrated into the SBP and all permitting requirements must be carried out within the SBP. The SBP should contain clear and coherent rules for permitting, as well as transparency and access to regulations.
- *Improve ease of paying taxes:* The Government will develop a one-stop tax registration and payment portal linked to the SBP (or directly within the SBP) in order to reduce time taken to file corporate and sales tax. Puerto Rico Department

³⁷ In line with the top ranked Latin American country in 2018.

of Treasury (“Hacienda”) has made some progress to date on automating internal systems, but this work must be completed and fully integrated with SBP – to date it has not been possible to e-file and returns have been slow to process. These efforts can focus on reducing the core measures of performance, which include number of payments per year, the hours required per year, and the burden of the tax system after the tax filing.

- *Invest Puerto Rico (iPR)*: iPR has created an internal platform to track data (both inputs and outcomes) that has begun developing benchmarks for project ROI. Further, iPR has already published its first annual report and is currently developing a template for quarterly reports, these reports address key metrics and performance results and track/course-correct projects on an ongoing basis, including feedback from investors and data trends.
- *Discover Puerto Rico (DPR)*: DPR has completed an analysis comparing tourism statistics in Puerto Rico versus tourism industries worldwide.³⁸ After such analysis DPR has created a promotional plan to target specific markets that can bring the most return to the Island. In addition, DPR is currently trying to take over the duties of visitor surveys from the Puerto Rico Planning Board. Further, DPR has developed an annual report addressing key metrics and performance results as well as update on targets.

7.3 Power Sector Reforms

- For decades, Puerto Rico has suffered the burden of unreliable and costly electric power, a result of an aging infrastructure with insufficient investment, poor operating performance and high and volatile fuel prices. Devastation in 2017 caused by Hurricanes Irma and Maria resulted in significant damage to an already aged Transmission and Distribution (T&D) system.
 - *Outsourcing T&D*: Hiring a third-party T&D system operator creates significant benefits to Puerto Rico ratepayers including modernizing and hardening the grid to ensure long term resiliency, improving safety and security and improving affordability and customer experience.
 - *General Transformation*: The transformation of PREPA-owned generation will allow for increased competition of fuels and technology stabilizing electric rates impacting Puerto Rican ratepayers and driving local and foreign investment in Puerto Rico and ultimately promoting economic development across the Island.
- These reforms will improve availability and affordability of energy for families and businesses, resulting in 0.30% cumulative GNP impact by FY2025.

7.3.1 Puerto Rico Energy Bureau (PREB)

- The current regulator of the power sector in Puerto Rico is PREB. PREB has the responsibility to “regulate, monitor and enforce the energy public policy of the Commonwealth of Puerto Rico.” As Puerto Rico’s energy sector is transformed into a vibrant, modern system, PREB will continue to be responsible for regulating, monitoring, and enforcing the energy policy of the Commonwealth of Puerto Rico. To that end, PREB

³⁸ For example, utilizing the Tourism Satellite Account tool leveraging economic tourism data.

will have regulatory oversight over all participants in Puerto Rico's energy sector. To fully achieve its purpose, PREB should continue to be independent of the Government, operate under public service ethics and conduct rules and enjoy both substantive and financial independence.

- *Organizational structure:* Although administratively located within the Puerto Rico Public Service Regulatory Board (PSRB), PREB's decision-making process should not be subject to direct or indirect review by any other Government entity, except for any review under applicable administrative procedure rules. Any staff involved in substantive decision-making should be kept separate and independent from the PSRB and be fully dedicated to matters within PREB's jurisdiction and purview. PREB may, on an annual basis, provide funds to the PSRB to cover administrative and other operational costs, however, PREB's resources should be kept separate and shall not be controlled or placed under the direction of the PSRB. In line with best practices for regulatory commissions (e.g. California Public Utilities Commission, Hawaii Public Utilities Commission, New York Public Services Commission), PREB is headed by 5 commissioners who serve staggered 6-year terms. The commissioners are appointed based on their technical, professional and/or academic credentials, with potential candidates being identified and appointed through a candidate list developed by a professional recruitment firm. The commissioners should be supported in their oversight role by a professional civil servant staff that has utility expertise. PREB shall develop and implement a plan for transitioning from its existing employee structure to a structure comprised of no less than 75% civil servant (career) employees and no more than 25% trust employees. This transition should be achieved no later than the end of FY2021. Both, during and after the energy sector reform process, PREB shall have sufficient staff to effectively undertake its duties and responsibilities in a timely and professional manner. The selection, hiring and management of PREB's staff should not be subject to review or approval by any other entity of the Executive or Legislative Branch. All commission decisions in adjudicatory proceedings should comply with applicable requirements of administrative procedure. Separate from the regulator, there shall be an independent ratepayer advocate, a role currently filled by the Independent Office for Consumer Protection (OIPC).
- *Funding:* PREB's substantive independence should be supported by financial independence. Under current law, PREB's yearly budget is set at \$20 million³⁹ and collected through charges assessed on certified energy companies. To provide for a steady and predictable funding source, PREB's enabling act should be amended to provide that PREB's budget shall be funded entirely through rates, as part of the revenue requirement used to determine the T&D System's rates. PREB's funds are then collected by the T&D operator through customer bills and periodically remitted to PREB. This funding mechanism is consistent with the mechanisms used to fund other mainland regulators. Providing for an independent, unencumbered source of income for PREB helps create the conditions for protecting ratepayer interests, increase transparency, and reduce system costs. PREB's budget and funding shall be kept separate and independent from the Commonwealth budget or the budget of any other Commonwealth agency, entity or instrumentality, and neither the Executive nor the Legislative branches shall

³⁹ Amount in line with other jurisdictions; the Hawaii Public Utilities Commission had revenues of \$19M in FY2017 to serve a population of 1.4 million.

have authority to modify PREB's budget or reappropriation any of PREB's funds without PREB's prior consent.

- *Mandate and authorities for the strengthened regulator:* To be effective, PREB must have a clear mandate to deliver reliable, safe power at an affordable cost. Accordingly, PREB shall have, among others, the following tools and authorities.
 - Review and approval of rate cases filed by the electric service companies, including ability to mandate target rates and the use of rate structure and design tools that create predictability, minimize risk and “rate shock”, and create incentives to support equitability, economic development, and economically efficient rate designs
 - Evaluation and approval of an electric service company's performance, establishment of appropriate performance incentives and total compensation structures, including, when applicable, a reasonable, market-based return on equity
 - Review and approval of integrated resource plans, which will guide generation and capacity needs and approval of purchased power agreements and other contract terms
 - Support for and integration of renewables, distributed generation and new energy technologies as appropriate and consistent with the New Fiscal Plan for PREPA [e.g., through an Integrated Resource Plan (IRP) process and enforcement of applicable renewable portfolio standards]
 - Mechanisms providing for efficient enforcement of final orders and determinations
 - Solicitation of input from public related to rates, IRP, and transformation process, with such input to be shared with the Oversight Board while it is in existence
- Until the transformation of the energy system is complete, and as applicable, the role of the Oversight Board with respect to energy sector regulation should be as follows based on its rights, powers, and duties in PROMESA:
 - *IRP:* The Oversight Board approves revenue requirements and expenditures, including a capital plan, in the New Fiscal Plan for PREPA. PREPA's Fiscal Plan should be informed by the results of the IRP and should provide a clear framework for executing the modernization of generation resources.
 - *Budget and rate-making:* The Oversight Board approves a yearly budget for PREPA that aligns with PREPA's Fiscal Plan and thus should align with revenue requirements and expenditures.
 - *Utility debt:* The Oversight Board approves restructuring of existing debt through the Plan of Adjustment for PREPA.
 - *Transformation:* As the representative of PREPA in Title III, the Oversight Board has the exclusive right to file a plan of adjustment, which will contain the transformation agreements.

- The role of the PREB during the transition period should be as follows:
 - *IRP*: PREB will approve the IRP. The IRP process shall be open and transparent so that third parties can understand inputs and methodologies behind each scenario and be able to participate and attend hearings to understand tradeoffs and decisions driving approval of the final capital plan and revenue requirement.
 - *Budget and rate-making*: PREB shall authorize rates (either formulaic or on an expedited manner) which align with the budget as certified by the Oversight Board.
 - *Utility debt*: No additional authorities because debt service implied by the current rate case will be superseded by the Oversight Board-approved budget and Plan of Adjustment.
 - *Other*: PREB will continue to exercise its duties and responsibilities as outlined in its enabling laws except when doing so is inconsistent with the powers and authorities delegated to the Oversight Board under PROMESA.

7.4 Infrastructure Reform

- These reforms, along with capital investment, will improve the flow of goods, services, information, and people across the Island. It has not been scored to provide a specific GNP uptick, but will likely contribute a consequential uptick in the Island's long-term development.
 - *Infrastructure and Reconstruction Efforts*: The Government created COR3 to lead the coordination, development and execution of long-term recovery and reconstruction efforts, and facilitate federal funding and private capital to promote a more rapid economic turnaround. The Public Private Partnerships (P3) Authority could serve as counter-party, introducing exclusivity provisions to lower the risk for private capital, and subordinating government-provided capital. The P3 Authority would further seek to leverage the skills and assets of the public and private sectors to service the people of Puerto Rico in delivering prioritized projects efficiently and effectively. Puerto Rico's proven P3 framework and record in executing landmark projects such as Toll Roads PR-22 / PR-5 and LMM International airport highlight the potential for an Island-wide team to develop and deliver technical, financial and legal expertise for P3 projects. Further investing in these entities can enable their ability to facilitate needed improvements in infrastructure, knowledge services, and other strategically important sectors to improve the fiscal situation in Puerto Rico and spark economic growth and environmental compliance. Additional funding that becomes available for the COR3/P3 Authority could also go towards improving governance and execution. Additional investment in infrastructure projects and recovery efforts through the Puerto Rico Infrastructure Authority (PRIFA) will promote further economic growth and reduce the risk of reform implementation. To avoid the potential for wasteful spending, these investments must adhere to the following principles:
 - Set clear priorities using cost-benefit analysis to guide investment
 - Accelerate the pre-construction process

- Build sustainable funding models and financing strategies focused on full lifecycle costs of any capital investments
- Promote procurement and project delivery best practices to lower costs
- Build infrastructure of tomorrow

7.4.1 Current State of Infrastructure and Capital Investment

Infrastructure investment as a percentage of Gross Domestic Product (GDP) decreased from 3.3% in 2000 to 1.2% in 2018⁴⁰, in part as a result of the fiscal crisis, but the capital investments enabled by federal disaster recovery funding offer a unique opportunity to make transformational investments that support economic development.

There are several critical elements that Puerto Rico will include to capitalize on the transformational opportunity afforded by historic federal capital funding:

- **Build organizational structures and capabilities** in the Government to prioritize and deliver projects faster and at lower cost;
- **Prioritize projects with the highest long-term benefit-cost ratios** taking account a variety of monetizable and non-monetizable benefits; and
- **Systematically leverage private sector capabilities** to improve overall public outcomes

7.4.2 Organizational Structures and Capabilities

When creating a reconstruction plan, it is imperative to build a central capability with the skills and mandate to design an overall recovery portfolio and oversee efficient project delivery. To address this, the Government created COR3 as a Division of the P3 Authority to lead the coordination, development, and execution of long-term recovery and reconstruction efforts. The COR3 has been created based on leading practices used in many jurisdictions, including New Jersey, Louisiana, New York and New Zealand, to ensure higher accountability, transparency and coordination of disaster recovery efforts.

COR3 will aggressively pursue next level resiliency activities with federal dollars, to ensure that Puerto Rico's critical assets are sufficiently protected from future hazards.

Specific COR3 activities will include:

- Developing, presenting and administering recovery action plans
- Financing, executing and effecting infrastructure projects related to recovery efforts
- Monitoring contracting for compliance and effectiveness purposes
- Implementing and enforce checks and balances for procurement and approval of contracts and payments
- Coordinating and channeling all efforts and activities of the Government related to recovery efforts

⁴⁰ American Society of Civil Engineers 2019 *Infrastructure Report Card*.

- Monitoring capital project delivery, focused on major projects, to ensure on-time, on-budget delivery, highlight risks of cost overrun or delay, and create transparency for overall capital program delivery, including recovery spending led by COR3 or another Government entity with capital delivery expertise

7.4.3 Prioritization and Delivery

The Government will employ infrastructure delivery best practices (e.g., prioritization of projects for economic impact, fast-track permitting, procurement reform). These best practices improve efficiency and transparency and should be applied to all areas of infrastructure expenditure of the Government including reconstruction, construction and maintenance of Government owned assets, and procurement of infrastructure through public corporations and Public-Private Partnerships.

The Government will pursue five sub-strategies:

1) Set Government infrastructure priorities to guide investment

- Set target outcomes to guide prioritization of projects
- Develop clear, systematic cost-benefit analysis and quantitative scoring to prioritize projects based on return on public investment and the ability to implement

2) Accelerate the pre-construction process

- Identify opportunities for local review and permitting, for as many projects as possible, to avoid federal delays
- For projects requiring local review, revisit existing process to reduce hurdles, and ease of meeting them, wherever possible
- Where federal approval is needed, focus on: clarifying decision rights and confirming processes with all major stakeholders; harmonizing local processes to match federal processes and seeking waivers where applicable; ensuring transparency and clarity from Federal Government on where projects are in the pipeline; and utilizing Title V of PROMESA

3) Build sustainable funding models and financing strategies

- Leverage external capital, by expanding P3's and access to federal credit [e.g., the Transportation Infrastructure Finance and Innovation Act (TIFIA)] and grant [e.g., Infrastructure for Rebuilding America (INFRA)] programs
- Increase bankability, and eligibility for participation in P3's by deploying monetary and non-monetary incentives (e.g., recyclability of proceeds from asset monetization, including monetization of Government-owned real estate to support the revenue models for P3's)
- Provide support to de-risk greenfield investment (e.g., reduction of early stage demand risk)

4) Promote procurement and delivery best practices

For projects that receive Government funding, ensure such projects:

- Develop an aligned owner organization with streamlined processes (e.g., early procurement involvement, accountable owner team oversight)
- Build an effective contracting strategy (e.g., tailored bidding process and pricing models, change order management tools)
- Utilize advanced procurement tools and approaches (e.g., rigorous clean sheet models, quantified view of Total Cost of Ownership drivers)
- Implement lean construction and digital techniques

5) Build the infrastructure of tomorrow

- Identify innovative technologies (e.g., automotive transformations, drones, new tunnel creation methods, the Internet of Things) and develop a strategy to actively promote them (e.g., AV pilot test zones), or at least find a way to not stifle their development (e.g., job trainings for displaced workers)
- Critically evaluate major new investments against future trends, to avoid disruption by innovation (e.g., avoid the buildout of excessive parking given increase in shared mobility and growth of autonomous vehicles)

The 2020 Fiscal Plan assumes the growth from these reforms will reach 0.85% in the short term and does not fully occur until FY2025. These reforms equal approximately \$12.8 billion in increased Government revenues over FY2020-2039. In the long term, education reforms are projected to add an additional cumulative 0.07% to GNP growth, making total impact 0.92% by FY2039.

7.4.4 Puerto Rico Public-Private Partnerships

Through P3s, the Government seeks to leverage the skills and assets of the public and private sectors to deliver better services to the people of Puerto Rico, as well as building and/or operating high priority facilities or projects of the Government.

- The prioritized projects will serve one of the following goals:
 - Long-term and sustainable increase in overall productivity.
 - Carry out extraordinary repairs and renovations to extend useful life of critical public assets.
 - Reduce operational costs and/or increase revenues.
 - Attract significant private investment in critical sectors (e.g. highway, ports, water, and waste management).
- **PREPA P3s:** The PREPA Certified Fiscal Plan contemplates the complete transformation of PREPA to become a customer-centric and financially sustainable utility that provides affordable, reliable and resilient services to the people of Puerto Rico. In the context of the proposed transformation, the P3A is conducting a procurement process to select a private operator under an O&M agreement for PREPA's T&D system. The P3A has advanced the process of selecting a proponent for the O&M agreement that will be responsible for the operation of the T&D operation. Selection is expected to be announced by the end of the second calendar quarter of 2020, with a transition period following. The prospective

transformation of PREPA-owned generation assets may involve a similar O&M agreement, a sale, lease, concession or other similar structures. A preliminary target date for the completion of the transformation process for the generation assets is by December 2020.

- **PRASA Meter and Customer Service P3:** PRASA and P3A are establishing a 15 to 20 year public-private partnership that consists of the design, build, finance, maintenance and operations of a series of infrastructure and technological improvements to reduce the amount of non-revenue water produced by the utility while improving water conservation and customer service operations. These advanced technologies include, but are not limited to, remote smart meter reading technology and geo-referencing of customer accounts. PRASA aims to increase revenues by reducing meter error, establishing new connections of inactive accounts and reducing theft.
- **MTA P3:** The Puerto Rico Maritime Transportation Authority (MTA) desires to have a private operator invest and participate in the operation and maintenance of MTA's ferry system, including the vessels and facilities, and engage in other ancillary commercial activities to increase revenue and improve services and customer experience. The P3A is leading a public-private partnership process between a private operator and MTA that will require the private operator to maintain specific performance standard to ensure the safety, reliability and efficiency of ferry services. The Government will allocate the necessary resources so that the people of Vieques and Culebra have reliable transportation services.
- **PRPA P3:** The P3A is currently evaluating a transaction that contemplates the concession of Piers 1 through 4, Piers 11 through 14 and Pan American Piers 1 and 2 in the San Juan Bay to a private operator. Piers 11 through 14 are currently closed by the U.S. Coast Guard due to poor structural conditions and the remaining piers could face similar risks. In exchange for the concession, PRPA expects the operator to invest in significant capital improvements that will bring the existing piers to adequate standards to accommodate larger cruise ships and allow for additional growth in cruise ship passenger volumes. Additionally, PRPA is expected to receive an upfront payment from a preferred proponent and participate in a revenue share agreement. In addition, the P3A is currently evaluating a project that would result in the engagement of a private entity to operate and maintain nine regional airports under a single Operation and Maintenance (O&M) contract in accordance with performance standards and applicable laws. Through this initiative, operations of regional airport operations would be optimized with improved services, increased revenues and reduced costs. The private operator will be responsible for performing routine and preventive maintenance of the airport facilities, providing administrative functions, advising PRPA on recommended capital improvements and issuing alerts to aircraft pilots of potential hazards.

In light of the impact that the COVID-19 will have on the global economy, the timeline and implementation of each of the P3 projects that are being prioritized is currently under review. However, the implementation of each P3 project must move forward given their importance for each of the sponsor entities. The 2020 Fiscal Plan does not include a projected implementation for each of the named P3s as it would be premature given the uncertainty surrounding the local, national and global economies.

Part V: A More Effective Government

Chapter 8. REVENUE ENHANCEMENTS

8.1 Tax Reform

Future Vision for Tax Environment

The 2020 Fiscal Plan includes a revenue neutral tax model that provides significant relief to individuals and businesses and helps drive economic development as described below (Act-40-2020 discussed separately in section 1.1.1):

- Reduces by 5% the total regular tax responsibility for individuals
- New thresholds for Alternative Basic Tax rates that range from 1% to 24%
- Earned Income Tax Credit ranging from \$300 dollars to \$2,000 dollars, will be granted to qualifying Puerto Rico resident taxpayers with earned income
- Reduces the corporate base tax from 20% to 18.5%, and the top rate from 39% to 37.5%
- The Alternative Minimum Tax (AMT) rate is reduced to 18.5% for certain small and medium enterprises, and 23% to those corporations with volume of business of \$3 million or more
- Reduction of the cost of compliance to taxpayers through offering Optional Contribution option for self-employed individuals and corporations that have income derived primarily from services. This provides the option for taxpayers to pay fixed tax rates of up to 20% as long as income is subject to withholding tax or estimated payments
- Use of greater controls in deductions to provide a greater degree of certainty and discourage tax evasion
- Increased use of technology and digitization of information that will allow simplification of interaction with the Department of the Treasury, increased efficiency in making tax administration decisions, improve operational aspects of the Department of Treasury, and reduce the complexity using a unified and integrated system
- Eliminates the requirement of collecting B2B tax for 77% of merchants registered in the Internal Revenue Unified System (SURI)
- Reduces the tax rate on prepared foods transactions (e.g., at restaurants) from 11.5% to 7%

8.1.1 Act 40 – Technical Amendments

On April 17, 2020 Governor Vázquez signed into law House Bill No. 2419. The new Act 40-2020 incorporates technical amendments to the Puerto Rico Internal Revenue Code of 2011, as amended (the “PR Code”). Act 40-2020 provides new measures that will impact the taxation of individuals, corporations, and small business. Act 40 will also increase Sales and Use Tax (SUT) collections by implementing new requirements on sales in online marketplaces.

- **Income Tax Highlights:** Act 40 will allow capital losses to be carried over to subsequent taxable years as a capital loss up to 90% (instead of 80%) of the net capital gain generated in the taxable year to which such losses are carried over beginning in taxable years after December 31, 2018. The new Act 40 will limit tax credits under the Urban Centers Revitalization Act up to \$20 million per year until FY18-19 (instead of FY23-24). The new legislation also provides more flexible requirements regarding the filing of financial statements. For taxable years beginning December 31, 2019 companies whose volume of business for the taxable year is \$3 million or more, but less than \$10 million can file an Agreed Upon Procedures Report or Compliance Attestation instead of audited financial statements. Individuals with income below \$100,000 will receive an additional 3% tax credit on their income taxes for a total of 8%.
- **Retirement Plans:** Individuals that only receive pensions will not be subject to the alternative minimum tax. An additional tax credit is available to all pensioners, including those with more than 65 years of age. This credit is in addition to the already existing tax credit for low income taxpayers over 65 years of age.
- **SUT and Other Consumption Taxes:** Act 40 introduces the concept of the marketplace facilitator and marketplace seller in order to impose SUT responsibility on internet sales. Marketplace sellers are retailers which sell through any physical or electronic marketplace that is owned, operated or controlled by a marketplace facilitator. Marketplace facilitators are entities which facilitate the sale of goods by listing, advertising, or promoting the marketplace seller’s product and directly or indirectly collecting payment from the purchaser and transmitting that payment to the seller. The sale of goods or services by a marketplace seller through a marketplace facilitator will be considered a mail order sale. After December 31, 2019, all mail order sales will be considered taxable transactions and the marketplace facilitator will be required to collect SUT on behalf of the marketplace seller even if the only nexus with Puerto Rico is that the purchaser is a resident of the Island. Act 40 will also exempt residential and commercial property owners from the SUT for services rendered to them.
- **Corporations:** Act 40 allows corporations to claim deductions for insurance premiums, advertising, telecommunications, internet and cable or satellite television services related to the operation of the trade or business. Payments made for water and electric services directly related to the operation of a business do not have to be reported in an informative return to be deductible. Corporations engaged in rendering services can elect to pay the optional tax on gross income instead of paying a tax on net income if 80% of gross income is derived from rendering services.
- **Income Tax Withholding and Informative Returns:** As of January 1, 2019, wages from agricultural and housekeeping services, religious services provided by a duly ordained minister and severance compensation will not be subject to a withholding tax. Payments made for continuing education services to professionals who render designated professional services, as defined in the PR Code, will be exempt from income tax

withholding. Entities which provide advertising, insurance, telecommunication, internet and cable or satellite television services will be required to submit an informative return, Form 480.7E, to every commercial customer on or before February 28th for taxable years beginning after December 31, 2019. Taxpayers that wish to claim a deduction for payments to these service providers from their tax returns must file the Form 480.7E no later than the income tax return filing date.

The projected value of tax reductions and offsets are shown below (**Exhibit 11**).

EXHIBIT 11: DETAILED ACT-40 INITIATIVES AND OFFSETS

	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025	Total
Tax cuts / revenue reductions							
Retirement Plans Tax Credit	(\$14.0)	(\$13.0)	(\$13.4)	(\$13.5)	(\$13.8)	(\$14.0)	(\$81.7)
Elim. B2B tax for Merchants < \$300k business	(5.3)	(4.9)	(5.1)	(5.1)	(5.2)	(5.3)	(30.9)
2020 3% Tax Credit	(26.0)	-	-	-	-	-	(26.0)
Subtotal	(\$45.3)	(\$18.0)	(\$18.4)	(\$18.6)	(\$19.0)	(\$19.3)	(\$138.6)
Tax initiative offsets							
Repeal law 212-2002	5.0	4.7	4.8	4.8	4.9	5.0	29.2
Limitation on Contributory Credits Law-183-2001	3.9	3.6	3.7	3.8	3.8	3.9	22.7
Limitation on Donation Credits Law-183-2001	0.5	0.5	0.5	0.5	0.5	0.5	2.9
Limitation to Trading Net Loss Deduction	7.0	6.5	6.7	6.7	6.9	7.0	40.8
Law-159-2011 Moratorium Indefinitely	2.5	2.3	2.4	2.4	2.5	2.5	14.6
Subtotal	\$18.9	\$17.6	\$18.0	\$18.2	\$18.6	\$18.9	\$110.2
Subtotal Total Net Impact	(\$26.4)	(\$0.4)	(\$0.4)	(\$0.4)	(\$0.4)	(\$0.4)	(\$28.3)

8.2 Tax Compliance and Fees Enhancements

8.2.1 Current state and future vision for tax revenue collection

Puerto Rico has suffered from low tax compliance due to an unevenness in who pays taxes and lack of fear among violators, leading to limited downside for non-compliance and high upside for tax avoidance. **Due to its compliance and collections issues, the Government has not been able to drive as many revenues from taxes as it should each year.**

In response to these challenges, the Government has already started implementing compliance-related changes. It is driving improvements in its culture and organization to boost enforcement capabilities, streamlining the process of filing taxes and reducing complexity in the system to lighten the burden of compliance on taxpayers. These efforts have already resulted in some success: in 2012, SUT compliance stood at 56%, and by 2016 had improved by 12 percentage points, to 68% compliance.⁴¹

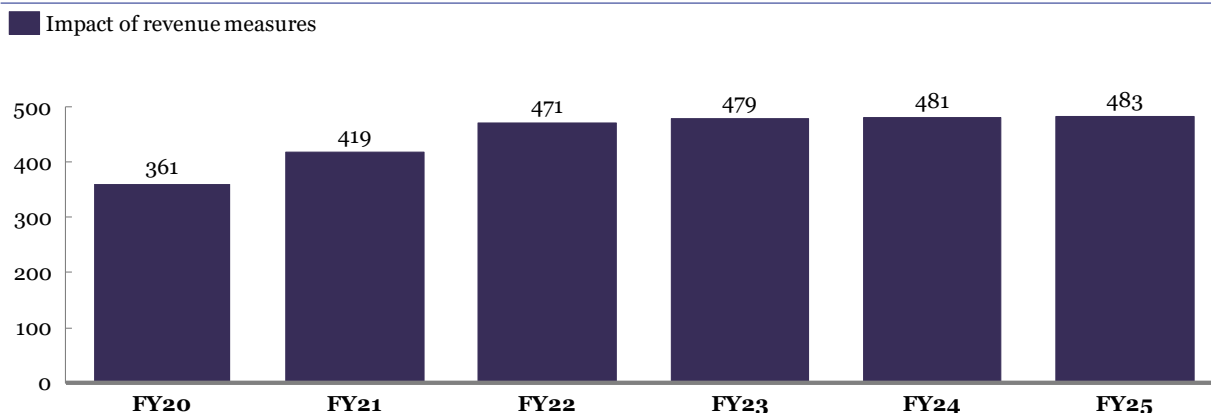
8.2.2 Administrative tax initiatives to increase revenue collections

By driving administrative reform, the Government of Puerto Rico will increase revenues by approximately \$2.7 billion over six years, as shown below (**Exhibit 12**).

⁴¹ Departamento de Hacienda, November 2016.

EXHIBIT 12: TAX COMPLIANCE AND FEE ENHANCEMENTS SUMMARY OF IMPACT

Summary of tax compliance and fees enhancement measures impact¹, \$M



¹ Includes both measures embedded in FY20 baseline and incremental go forward measures

8.2.3 Improve compliance rate

Given the progress to date in improving compliance rates and the ongoing effort to close the gap and reach mainland performance figures, the Government is targeting a 5% net increase in revenues due to enhanced compliance by FY2022 across the major tax lines Personal Income Tax (PIT), Corporate Income Tax (CIT), and SUT. Such an improvement would also be in line with improvements seen in other tax transformations.⁴²

Recent compliance efforts have largely focused on collections outreach activities, obtaining one-time back taxes owed through a collection call center, flexible payment plans, and a large corporate taxpayer-focused team (with a longer-term goal of establishing a permanent separate unit). In the future, emphasis will shift towards initiatives that promote a culture of compliance to boost voluntary payment. The goal will be to reduce the cost of compliance while simultaneously raising the cost of non-compliance, through a combination of increased detection rate of tax delinquency and more effective and enforceable penalties.⁴³

- **Use new systems and processes to identify and remediate non-payment.** Hacienda will create a “premium return system” for individual and corporate taxpayers that enables taxpayers to claim certain deductions and exemptions only if their return is prepared by a CPA following agreed upon procedures; the CPA’s review and certification of the return and supporting documentation as compliant with Puerto Rico’s tax laws would functionally serve as a “pre-audit,” reducing the likelihood of tax evasion and the need for a fuller review by Hacienda. The enactment of Act 40-2020 on April 17, 2020 allows individual tax payers engaged in trade or business with a volume of business under \$1 million to validate their deductions through a “Specialist Agent” who does not need to be a CPA.
- **Create a new culture internally and externally** that shifts from the agency existing to serve the public (“*Hacienda para servirle*”) towards emphasis on Hacienda making

⁴² Analogous case studies include Panama, Jamaica, and Spain, which saw 1.0 to 2.5 percentage point increases in tax ratio relative to GDP through their comprehensive tax overhauls. Puerto Rico achieving a 5% uplift from compliance, along with the other measures on corporate tax reform and increased fees, would produce a 2.25 percentage point increase in tax ratio relative to GDP, in line with these case studies.

⁴³ Ms. Xenia Velez presentation to the Oversight Board (Nov. 30, 2017).

sure everyone pays their taxes, but with as little friction as possible for the taxpayer and the agency.

- **Reduce the complexity of the tax system and process of filing taxes** to make it easier for individuals and businesses to pay their taxes correctly. Hacienda reports it plans to introduce pre-filled tax returns and fully digitize the tax filing system onto the SURI platform that will enable easier filing, communication, and levying of penalties for late payment or non-payment. It must also ease the process of paying for licenses, stamps, and fees by shifting from a system of 64 agency payment centers to instead partner with retail banks, enabling taxpayers to pay their fees at any of 200 private sector locations in various communities (and within four years, 1,000 locations).
- **Institute advanced analytics and broad-reach, low-touch correspondence audits.** Small and medium taxpayers account for a significant share of the unpaid and underpaid taxes, but only a tiny fraction of these taxpayers receive full-scale audits due to the significant time and cost investment needed. While a traditional Internal Revenue Service (IRS) audit costs an average of \$2,278 per case, automated notices or letters can be executed for \$52 to \$274 per case.⁴⁴ Hacienda had begun a correspondence audit program prior to Hurricanes Irma and Maria, receiving such a strong response to the first batch of 1,000 letters that it overwhelmed the call center. This program helped contribute to \$7.1 million of collections outreach revenues in the first 2 months of FY2018 (against a \$1.4 million target),⁴⁵ with half of those responding to the letters agreeing to pay the proposed penalty amount.⁴⁶ Fully implementing data-driven tiered audits will enable Puerto Rico to reach a significantly larger share of nonpayers.
- **Collecting SUT on Internet sales.** Nationally, the percent of taxpayers voluntarily reporting and paying use tax on their income tax forms ranges from 0.2% to 10.2%,⁴⁷ while nearly 80% of Americans shop online.⁴⁸ Pursuant to the recently published United States Supreme Court decision on *South Dakota vs. Wayfair*, U.S. S.Ct., Dkt. No. 147-494 (June 21, 2018), the Supreme Court overruled the judicially created physical presence requirement to the imposition of SUT collection responsibility on remote retailers (or internet retailers) and validated the economic nexus standard implemented by South Dakota. The Supreme Court ruled that the correct standard is “whether the tax applies to an activity with a substantial nexus with the taxing State”. In holding that the substantial nexus requirement was met, the Supreme Court noted that the sellers in *South Dakota vs. Wayfair* “maintain an extensive virtual presence”.⁴⁹ Through legislation combining click-through nexus, affiliate nexus, and economic nexus following the standards of *South Dakota vs. Wayfair*, as well as voluntary agreements with major online retailers, the

44 IRS Enforcement Results, the Treasury General Inspector for Tax Administration (TIGTA) Filing Season Audit, IRS Taxpayer Advocate, Team Analysis, GAO.

45 Hacienda, Fiscal Reforms August 2017 reporting.

46 Conversation with Hacienda, Dec 13, 2017.

47 <http://www.house.leg.state.mn.us/hrd/pubs/usetax.pdf>.

48 Tech Crunch, 2016.

49 The economic nexus standard in *South Dakota vs. Wayfair*, U.S. S.Ct., Dkt. No. 147-494 (June 21, 2018) imposing SUT collection and remittance responsibility on out-of-state sellers applies to retailers that deliver more than \$100,000 of goods or services to South Dakota or engage in 200 or more separate transactions for the delivery of goods or services to South Dakota. In upholding the South Dakota’s economic nexus law, the Supreme Court held that the standard met the constitutional requirements of the Commerce Clause because: (i) “the Act applies a safe harbor to those who transact only limited business in South Dakota”, (ii) “the Act ensures that no obligation to remit sales tax may be applied retroactively”, and (iii) “South Dakota is one of the more than 20 States that have adopted the Streamlined Sales and Use Tax Agreement”.

Government should be able to capture SUT on a much larger share of Internet sales.⁵⁰ In fact, the Government has approved several amendments to the Puerto Rico Internal Revenue Code of 2011, as amended, that incorporate these nexus standards and impose certain notice and reporting obligations on out of state retailers that don't meet the nexus requirements.⁵¹ For example, out of state sellers classified as non-withholding agents for SUT are required to: (i) include with their invoice a notice to every Puerto Rico customer of their obligation to pay the SUT and (ii) file a quarterly report with Hacienda to report sales made to Puerto Rico residents.⁵² Additionally, Hacienda has already announced an agreement with a large online retailer to charge Puerto Rico sales tax on sales of goods.⁵³ With Internet sales growing at ~15% annually, Internet sales tax presents an even more important opportunity going forward.

Considering the post-hurricane limitations, additional compliance activities should be implemented throughout FY2019, and are expected to cause revenue impacts growing throughout FY2020 and beyond. The impact would phase-in over the course of 4 years given the need for training and movement of workers into Hacienda through the Single Employer Act (Act 8-2017), establishment of new offices and processes, and gradual shift in public perception and voluntary compliance as a result of enforcement activities.

8.2.4 Right-rate other taxes and fees

Prior to Hurricane Maria, the Government had already developed a plan to right-rate the following taxes and fees. These original plans, as well as any adjustments mutually agreed upon between the Government and the Oversight Board during implementation of the March 2017 Fiscal Plan, have been largely included in this 2020 Fiscal Plan, except where explicitly noted below.

- **Gaming tax:** Legislation passed in 2017 that increased licenses and fees on mechanical and electronic gaming machines to \$3,000 from \$100. This was originally estimated to generate \$~71 million in incremental revenues.⁵⁴ Part of this calculation involved assumptions of improved enforcement improvements, as the Government has previously estimated it is losing approximately \$170 million per year due to illegal machines that are not paying licensing fees. However, when factoring in the potential that a 2,900% increase in taxes on the machines could decrease total revenues from gaming – a change from 2017 forecasting – run-rate, incremental revenue from the gaming tax has now been reduced to approximately ~\$52 million by FY2024.
- **Licenses and other fees:** Act 28-2017 legislation enabled fee increases in miscellaneous categories. A committee composed of AAFAF, Hacienda and OMB will determine which exact fees are to be increased to meet these minimum thresholds, achieving an overall

⁵⁰ Click Through refers to a nexus between an out of state seller and the state, which enables them jurisdiction to collect taxes, created via an affiliate in the state that links to another "out-of-state" business via an affiliate program (i.e., they send sales your way, you give them a small cut of the profits). Economic nexus refers to the dollar amount spent by a consumer at a business, which provides sufficient local economic activity for the state to be able to collect taxes from that out-of-state seller. Affiliate nexus refers to out-of-state sellers with ties to local sellers, such as through parent or subsidiary arrangements, or local order fulfillment, which creates sufficient local ties to subject the out of state seller to local taxes. Voluntary agreements occur when corporations agree through individual negotiations with states to collect and remit sales tax directly to the state.

⁵¹ Sections 4010.01(h), 4020.08 and 4041.03 of the Puerto Rico Internal Revenue Code of 2011, as amended (the "PR Code").

⁵² Sections 4020.08 and 4041.03 of the PR Code.

⁵³ Caribbean Business, "Amazon to charge Puerto Rico sales tax".

⁵⁴ Based on an assumption of 23,000 gaming machines on which Hacienda is able to collect fees (<http://www.oslpr.org/2017-2020/leyes/pdf/ley-108-23-Ago-2017.pdf>).

revenue of ~\$65 million by FY2024.⁵⁵ Categories that will be considered are: Charges for services; Fines; Insurance; Licenses; Permits; Rent; Royalties; Stamps; Other.

- **Tobacco taxes:** Legislation was passed in 2017 to increase specific tobacco taxes, including taxes on cigarettes, cigars, rolling tobacco, cigarette paper and tubes, chewing tobacco, snuff, electronic cigarettes, nicotine cartridges, and vaporizers. A new tax is included in the baseline to account for one-time declines in use due to price-related elasticities after the new fees went into place.⁵⁶
- **Medical marijuana tax:** The Government has passed legislation to tax medical marijuana. Based on an estimated 29,000 patients, the Government can be expected to collect approximately ~\$15 million per year in additional revenue through this initiative.⁵⁷
- **Airbnb & Short-term Rental Tax:** The Government has passed a law to apply a 7% hotel room tax to Airbnb and all other short-term rentals, resulting in a projected ~\$4 million of annual revenue increases, based on annualization of the actual Airbnb tax receipts from before Hurricanes Irma and Maria.⁵⁸

Chapter 9. REINVESTMENT IN PUERTO RICO TO ENSURE PROSPERITY AND EFFICIENT GOVERNMENT

As part of the 2020 Fiscal Plan, Governor Vázquez has developed six initiatives to improve the standard of living in Puerto Rico by accelerating the reconstruction process and protecting some of the most critical career public servants.

9.1 Uniform Remuneration Plan for Career Government Employees (Excludes At-Will or “Confianza” Employees)

Governor Vázquez’s Uniform Remuneration Plan is an initiative that is being carried out by the Office of the Administration and Transformation of Human Resources (OATHR). The legal framework for the Uniform Remuneration Plan has been established through Law No. 8-2017⁵⁹ and Executive Order No. OE-2017-026⁶⁰. The ultimate goal of the Uniform Remuneration Plan is to optimize the administration of Government career employee functions and improve the quality of life of career public service employees. To achieve its goal, the initiative has been divided in two parts, the “Classification Plan” which aims to standardize roles and compensation structures across all agencies, and the “Compensation Plan” which aims to increase compensation to Government career employees (Excludes At-Will or “Confianza” Employees).

- **Classification Plan:** The Classification Plan standardizes Government functions for career employees across agencies to facilitate the administration of human resources

⁵⁵ Assumes an 80% capture rate on the \$73 million potential to account for potential elasticities in demand based on fee increases.

⁵⁶ Based on an 18% decline, per Hacienda (April 5, 2017 calculations).

⁵⁷ \$15 million projected receipts, minus \$1.5 million of dedicated revenues for the medical marijuana council established in 2017-Act 42 and controlled substances monitoring in 2017-Act 70.

⁵⁸ Hacienda August 2017 Revenue Scorecard, submitted Sept 15, 2017.

⁵⁹ Law No. 8-2017, as amended, known as “Law for the Administration and Transformation of Human Resources in the Puerto Rico Government”.

⁶⁰ Executive Order No. OE-2017-026, “Executive Order from the Governor of Puerto Rico to Increase the Minimum Wage in the Public Service and Government Construction Contracts”.

processes, preparation of training plans, and improvement of utilization of services offered by Government employees. To achieve this, a series of uniform criteria were developed for classes of functions, position titles, and minimum academic and work experience requirements. Prior to this initiative, an overwhelming amount of different job titles existed for career employees who perform similar functions across Government agencies. By consolidating these job titles into standardized roles, Government career employees could more efficiently transfer between agencies and were provided transparency around responsibilities and compensation as compared to their peers. This initiative has been successful to date, having already reduced the amount of job positions and titles across Government agencies by 94%.

- **Compensation Plan:** The Compensation Plan addresses the need to determine a clear and reasonable way to pay the new groups of career employees outlined in the Classification Plan. The Compensation Plan accomplishes this goal by dividing Government career employees into two categories: Career Union Employees and Career Administrative Employees. Each of these categories has three standardized compensation structures, which will be maintained real time such that they are representative of the economic reality, fiscal capacity and cost of living in Puerto Rico. In creating these uniform pay structures, a variety of aspects are being carefully considered, including complexity of the functions performed, grade of responsibility and authority related to the position, and employment conditions. These new compensation groups will receive increased salaries in accordance with the aforementioned criteria, which are not only transparent but will also allow Government employees to live an improved standard of life.

The 2020 Fiscal Plan projects this initiative will cost approximately \$146 million in FY2021, growing to \$155 million by FY2025.

9.2 Puerto Rico Police Department Retirement

Pension benefits are an important component of Puerto Rico Police overall compensation and it is of critical importance that the first responders in Puerto Rico are compensated for putting their lives on the line. Up until 2013, police officers with 30 years of service received 75% of average compensation when retiring at age 55, or 65% when retiring before the age of 55. However, Law 3-2013⁶¹ drastically decreased these benefits for police officers. As a result, the average pension benefits are currently 41% of base salary for police officers hired under Law 447 and 26% for those hired under Law 1.⁶² This initiative increases the average pension benefit to 50% of base salaries for certain police officers. The 2020 Fiscal Plan projects this initiative will cost approximately \$25 million in FY2021 and growing with inflation through the 20-year forecast period.

9.3 Government Proposal to the Oversight Board in Response to the Repeal of Act 29-2019

Municipalities deliver accessible and affordable public services such as health, sanitation and emergency services. In recent years, many municipalities have been facing financial distress due to unforeseen disaster relief spending, payment of PayGo liabilities on account of Act 106-2017

⁶¹ Law 3-2013, an amendment to Law 447 “*Commonwealth Employee Retirement System Law*”, altered the defined contribution structure of pension benefits for police officers who started working for the Government before January 1, 2000.

⁶² Law 447 is used to determine pension benefits for police officers that started working before April 1, 1990; Law 1: used to determine pension benefits for officers hired between April 1, 1990 and December 31, 1999.

and debt service payments. Such distress burdens the municipalities' day-to-day functions, which has a resulting negative impact on the critical services that they provide. Act 29-2019 was enacted to alleviate municipalities' financial distress via the payment of Municipality PayGo and Medicaid by the General Fund. On July 3, 2019, the Oversight Board initiated an adversary proceeding against Governor Vázquez and AAFAF seeking, among other things, to prevent the implementation and enforcement of Act 29. According to the Board, Act 29 violated the May 9, 2019 Certified Fiscal Plan and Board budgets for fiscal years 2019 and 2020 because the Board relied on the assumption that municipalities would continue paying the PayGo fee to the Government under Act 106-2017. On August 22, 2019, the Title III Court denied the Government's motion to dismiss the complaint and the Board subsequently filed a motion for summary judgment, which was heard on March 4, 2020.

On April 15, 2020, the Title III Court granted the Board's summary judgment motion, finding that Act 29-2019 is unenforceable and permanently enjoining the Commonwealth from implementing and enforcing it effective May 6, 2020. In accordance with the explicit language of the Order, the Oversight Board, municipalities and AAFAF are currently in ongoing discussions regarding possible alternatives to Act 29-2019. Despite the unenforceability of Act 29-2019, the Government is committed to resume good faith negotiations with the Oversight Board to establish a fair and fiscally responsible solution that allows municipalities to continue operating and providing basic services to the people of Puerto Rico. The 2020 Fiscal Plan incorporates the proposal made by the Government to the Oversight Board to resolve this dispute. The details of the proposal are as follows:

1. Provide the municipalities with the 1.03% property tax through FY2025 (or an equivalent amount).
2. Provide for a reduction in the municipality ASES contribution in an amount equal to the Medicaid Federal Matching Percentage (FMAP). To the extent in any future year the FMAP is below 55%, a 55% FMAP will be used to calculate the municipality portion of the ASES contribution.
3. In FY2020 and FY2021, the Commonwealth shall fund any shortfall in both the municipal PayGo and ASES obligations.
4. No incremental reduction in the Municipal appropriation in FY2021 and FY2022.

9.4 Disaster Relief Working Capital Fund

The 2020 Fiscal Plan assumes a \$1 billion working capital fund to address the liquidity constraints associated with the reimbursement nature of disaster relief programs. The WCF will be set up in FY2021 and will accelerate the rebuilding process, particularly permanent projects. There will be a one-time budgetary impact with substantially all funds returning to the General Fund upon completion of the program.

9.5 Parametric Insurance

Following steps already taken by several jurisdictions, including some mainland states such as Louisiana and Utah, after experiencing the aftermath of Hurricanes Irma and Maria, and the multiple earthquakes, the Government plans to acquire a Parametric Insurance Coverage, or similar catastrophic insurance program. Unlike traditional insurance policies, these solutions offer a means to guarantee direct payout, after a qualifying event, and cover potential devastating risks in ways traditional Property Insurance Policies won't. This proposal intends to cover both Central Government Agencies and key Component Units (CU) (in terms of services offered).

There are several inherent benefits provided under said insurance programs, such as more immediate liquidity available to the Government to restore services in a more expedient manner, building up resiliency, and gradual reduction of insurance costs through the Government during the next fiscal years. Also, the inclusion of said initiative in the Proposed Plan is the Government's proactive response to comply with the Obtain & Maintain Insurance Requirement ("O&M Requirement"), as levied by the Stafford Act and FEMA's Recovery Policies. In lieu of the upcoming hurricane season, and in the midst of the ongoing COVID-19 Pandemic, and the multiple earthquakes experienced, the Government simply cannot afford to lose support from FEMA for subsequent natural catastrophes simply because of noncompliance with the O&M Requirement.

9.6 Government's Centralized Procurement Act of 2019 (Act 73-2019)

The Government is in the process of transforming the General Services Administration (or ASG for its Spanish acronym) into a Centralized Procurement Office to increase the efficiency of its procurement activities. This change is being implemented in accordance with the Government's Centralized Procurement Act of 2019 (Act 73-2019). Beginning in FY2021, ASG will be funded through the General Fund and no longer charge fees for the vast majority of the services that it offers to other Government Agencies⁶³. This integration is beneficial to Puerto Rico in a multitude of ways, including the following:

- Increased Visibility & Transparency: by appropriating General Fund monies to ASG, the Central Government will have a direct line of vision over ASG's budgetary structure which creates increased visibility & transparency. Previously, a relatively complex structure existed whereby the Office of Management and Budget (OMB) appropriated General Funds monies for each of the individual agencies, and ASG charged each of these agencies a fee for their services. Act 73-2019 simplifies this process by providing one General Fund appropriation to ASG, thereby eliminating the need for ASG to charge each of the agencies a fee for their services. The result is a single, transparent budget related to procurement services which can be managed by the Central Government.
- Additional Oversight: as part of the creation of the Centralized Procurement Office, a variety of additional oversight positions and boards will be established to ensure an efficient process:
 - Chief Procurement Officer (CPO)⁶⁴: created to oversee all procurement activities at ASG. This position exists across the majority of the United States; 41 of the 48 states, that have a procurement office, have a single CPO that is in charge of overseeing activities.
 - New Management Team⁶⁵: in addition to a CPO, Act 73-2019 creates a new management structure to drive the success of procurement reform, including a new Administrator and Deputy Administrator.

⁶³ Following this change, ASG will continue to offer fuel consumption to Government Agencies for a fee. Additionally, ASG will have a second source of income from charging government suppliers a yearly registration fee from the RUL platform.

⁶⁴ Mandated by Article 9 of Act 73-2019.

⁶⁵ Mandated by Articles 7 and Article 9 of Act 73-2019.

- Centralized Auction Board⁶⁶: created to evaluate all auctions, which will eliminate the need to have independent auction boards at each individual Government entity level.
- Centralized Revisory Board⁶⁷: created to handle all requests for reviews, reconsiderations and protests resulting from decisions made by ASG.

The 2020 Fiscal Plan projects this initiative will cost approximately \$5 million annually beginning in FY2021 to ensure the procurement savings included in the 2020 Fiscal Plan are achieved.

In the past, the Government has been criticized for its contract procurement procedures, especially in connection with the application of federal relief funds. Act 73-2019 is but one example of Governor Vázquez’s commitment to addressing any irregularities in the use of federal funds and diligently ensuring that relief is utilized for the maximum benefit of the people of Puerto Rico. Since becoming Governor in August 2019, Governor Vázquez has issued a series of executive orders designed to combat corruption in government contracting and restore Puerto Rico’s credibility with the Federal Government.⁶⁸ In fact, after reviewing the Government’s recovery operations in February 2020, Coast Guard Admiral Peter J. Brown—the Trump administration’s liaison to the Government for natural disaster recovery efforts—reported that Puerto Rico’s “reputation seems to lag the reality” because the Government has implemented “very strong internal control mechanisms to counter any attempts at corruption or diversion of funds.”⁶⁹ Admiral Brown further indicated that, after reporting his findings to President Trump, he hopes the administration will be convinced that federal money is being spent wisely in Puerto Rico and that the federal and Puerto Rico government establish a new atmosphere of cooperation and trust. In fact, even before this crisis, the Trump Administration committed over a dozen departments and agencies, thousands of federal employees and billions of taxpayer dollars toward the recovery and resilience of Puerto Rico.⁷⁰

Chapter 10. FISCAL MEASURES

In addition to structural reforms, the Government has been implementing fiscal measures to create a sustainable fiscal future for Puerto Rico. Fiscal reforms are designed to reduce costs long-term while maintaining or improving the quality of services. There are a wide range of Government efficiency initiatives which target an increase in revenues through new and more efficient collections activities and decrease Government expenditures by ensuring reasonable and responsible usage of resources. However, due to the ongoing uncertainties related to COVID-19, it is premature to make any accurate predictions as to which fiscal measures are necessary to appropriately address the crisis. The 2020 Fiscal Plan assumes a delay in implementing any incremental savings for all agencies until FY2023 in order to allow Puerto Rico adequate time to recover from the COVID-19 pandemic. Additionally, the 2020 Fiscal Plan assumes no incremental

⁶⁶ Mandated by Article 47 of Act 73-2019.

⁶⁷ Mandated by Article 55 of Act 73-2019.

⁶⁸ See Executive Orders OE-2019-047, OE-2019-062, OE-2020-009, and OE-2020-016.

⁶⁹ “Federal Disaster Liaison Brown Says Pace of Recovery Has ‘Accelerated Dramatically,’ Predicts Trump Will Be Convinced Federal Resources Are Being Spent Wisely in Puerto Rico,” Reorg Research (Feb. 26, 2020), available at www.reorg.com (last visited Apr. 21, 2020).

⁷⁰ See “Joint Statement by Rear Admiral Peter J. Brown, White House Special Representative for Puerto Rico Disaster Recovery; Governor Wanda Vázquez-Garced (PR) and Congresswoman Jennifer Gonzalez-Colon (PR).”

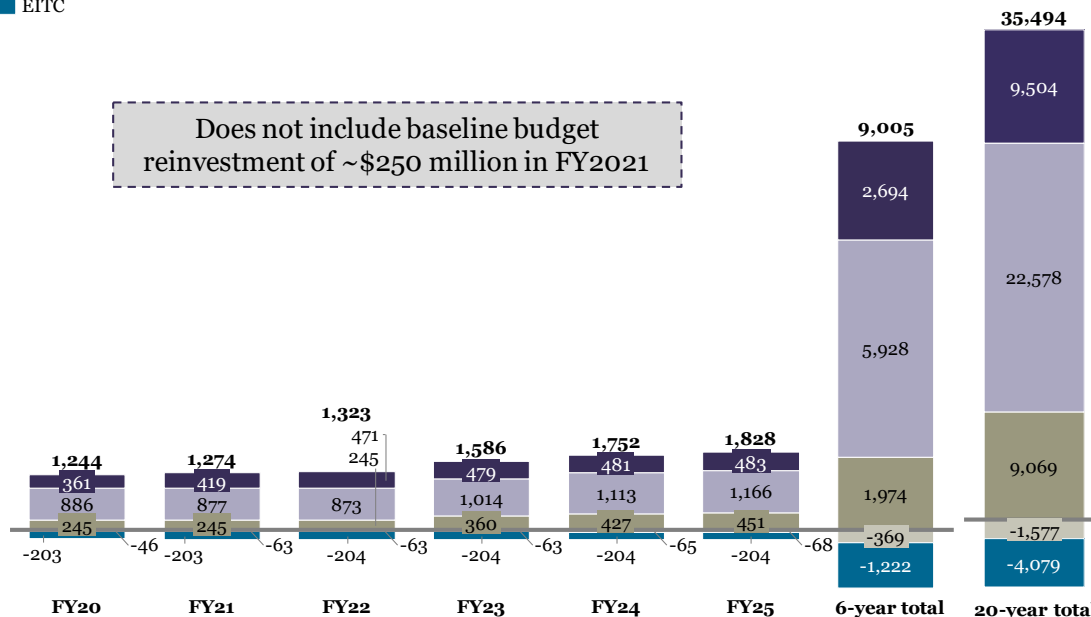
expense cuts for the DOE, DOH and DPS for the duration of the forecast given the critical nature of the service these agencies provide. Many state governments have had challenges reacting to the COVID-19 crisis. Puerto Rico has had challenges as well and these agencies were not positioned to efficiently and adequately respond to the crisis given the austerity measures imposed by the Oversight Board to date. As in prior fiscal plans submitted by the Government, the 2020 Fiscal Plan does not go into the granular detail of defining savings by measure/agency which will be clearly defined as part of the budgeting process in future years. The measures include the following:

- **Agency Efficiencies:** The 2020 Fiscal Plan presents a new way forward, one which focuses on the delivery of efficient, high-quality, sustainable Government services for the people of Puerto Rico. The model rests on four pillars focused on Growth, Efficiency, Customer Experience, and Sustainability, all meant to drive a healthy and thriving Puerto Rico.
- **Healthcare Reform:** Healthcare measures implemented by the Government have reduced the rate of healthcare cost inflation through the launch of the new managed care model, pharmacy reimbursement reform, lowering prescription drug cost by effectively managing the Prescription Drug List (PDL) and sharing coordination of benefits data with Managed Care Organizations (MCOs). The Government will not implement any additional healthcare measures.
- **Tax Reform:** Puerto Rico has reduced income tax rates as well as other taxes such as business to business sales and use tax and prepared foods sales and use tax while broadening the tax base and technology and other innovative practices. This has been done on a revenue neutral basis.
- **Tax Compliance and Fees Enhancement:** Tax compliance initiatives involve employing technology and other innovative practices, to capture revenue from under-leveraged sources. These initiatives will increase run-rate revenues by \$474 million by FY2025.
- **Reduction of Appropriations:** The Central Government will decrease appropriations granted to municipalities and the University of Puerto Rico (UPR), which will result in \$496 million in run-rate savings by FY2026 (inclusive of savings embedded in FY2020 baseline).
- **Social Security:** Act 71-2019 established a mechanism to enroll police officers in Social Security (optional for officers with less than 10 years until mandatory retirement). Said enrollment was effective on January 1, 2020. The Government will enact future legislation to enroll teachers and judges in Social Security, subject to certain terms and conditions.

Together, these measures are crucial to the structural balance of Puerto Rico's economy, and are projected to result in over \$9.0 billion in the next six years and over \$35.5 billion over the next 20 years (**Exhibit 13**).

EXHIBIT 13: IMPACT OF FISCAL MEASURES ON SAVINGS AND REVENUES⁷¹

Impact of fiscal measures – Baseline and Incremental, \$M



1 Agency Right-sizing includes Utility Reduction measure

2 Includes both measures embedded in FY20 baseline and incremental go forward measures

10.1 Agency Efficiencies

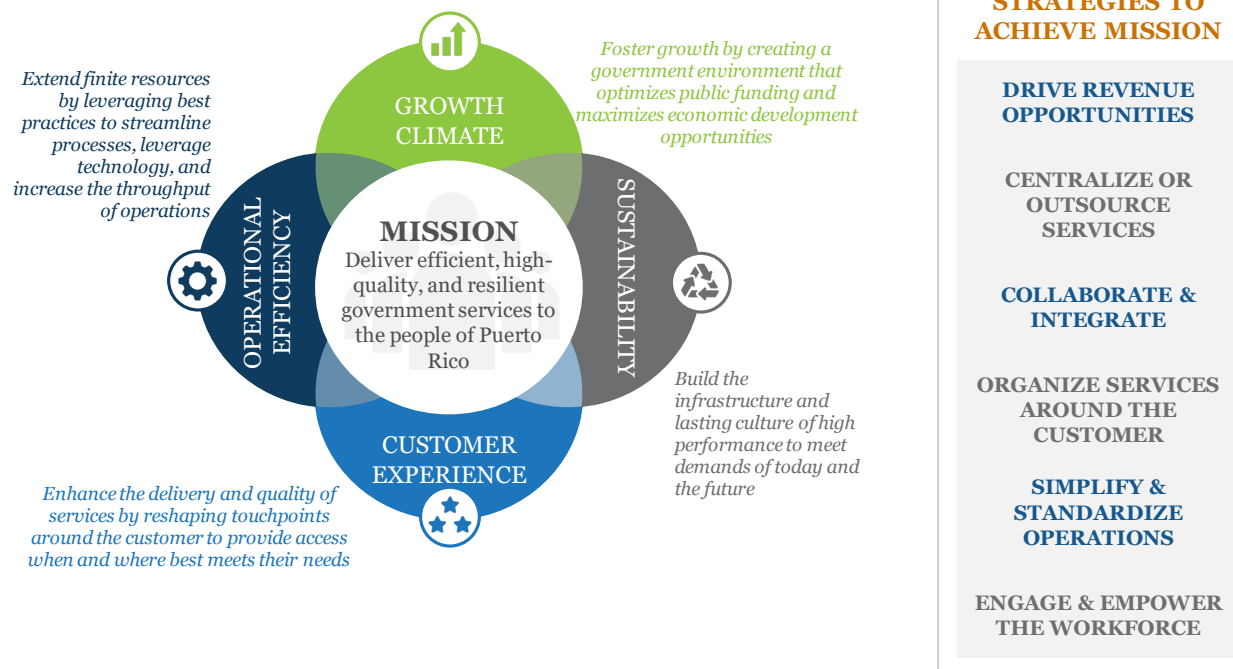
Government agencies have executed a number of efficiency measures to drive down personnel and non-personnel operating costs. The focus will now shift to providing Government agencies the tools, resources, and insights into leading practices that will allow them to reshape their models to focus on efficient, high-quality services, delivered when and where the people of Puerto Rico need them. The following proposed strategic framework is designed to create a solid foundation upon which agencies can build, withstanding future market volatility, geopolitical disruption, and emergencies arising from the natural environment.

10.1.1 A New Framework for Efficiency Measures

The Government will organize its agency efficiency initiatives around the following focus areas: Growth, Operational Efficiency, Customer Experience, and Sustainability. Connecting growth and operational efficiency can only be viable with the end customer in mind. Additionally, all actions taken under this framework must anchor on a long-term vision, connected with the mission to deliver efficient, high-quality, and resilient Government services to the people of Puerto Rico. This will ensure initiatives are resilient and sustainable in the face of ever-changing conditions on the Island.

⁷¹ Totals do not include Medicaid counter measure.

EXHIBIT 14: NEW FRAMEWORK FOR EFFICIENCY MEASURES



Growth: Foster a growth climate by creating a Government environment that optimizes public funding and maximizes economic development opportunities.

A prime example of this focus area, including maximizing public funding, is the continued effort to receive Medicare certification for the Mental Health and Addiction Services Administration (ASSMCA). An investment now to improve the General Psychiatric Hospital and receipt of the Medicare certification will not only make ASSMCA eligible to receive reimbursements from Medicare for services delivered to qualified patients, but have the added benefit of modernizing and enhancing the facilities and improving the experience of the patients. Another representative initiative is the Government’s pursuit of E-Sport events and related gambling. This initiative recognizes a new revenue and entertainment opportunity realized via non-traditional and innovative thinking.

Operational Efficiency: Extend finite resources by leveraging best practices to streamline processes, leverage technology, and increase the throughput of operations.

By fully resourcing and supporting the Puerto Rico Innovation and Technology Services (PRITS), as outlined in Act 75-2019, the Government will fuel innovative efficiencies afforded by the strategic implementation of technology that takes advantage of centralized standards, leading practices, and integrated information systems. Looking beyond technology-centric solutions, an office acting as a clearinghouse and advisor to Government agencies on real estate matters such as consolidating partially used spaces and terminating leases on unused or vacant buildings will further optimize real estate spend and reduce unnecessary utilities. Centralizing office space will lead to several ancillary benefits in addition to reduced overall building costs. These benefits include fostering cross-agency integrations and collaborations leading to additional efficiency gains; a reduction in costs and lost time associated with employees commuting between buildings

and offices; and easing service delivery for those who often service the same populations. The COVID-19 pandemic has forced entities worldwide to rethink remote work policies and this is an opportunity for the Government to take advantage of the current sentiment and successes to accelerate remote work opportunities, which are proven to improve productivity, increase employee satisfaction, and reduce operating expense.

Customer Experience: *Enhance the delivery and quality of services by reshaping touchpoints around the customer to provide access when and where those services are needed.*

This strategic focus area requires understanding how citizens are interacting with agencies and consuming their services. This understanding will enhance the quality of services delivered and can also work to reduce waste and gain efficiencies via a streamlined process. For example, the Department of Natural and Environmental Resources (DRNA) is undertaking an initiative to move their customer facing and internal processing of permits into a web-based platform. The ease of access to customers, combined with workflow efficiencies gained through digitization and process optimization, will deliver operational efficiencies and improve the customer experience.

Additionally, outsourcing Government functions can allow single entities to better focus on the needs of the customer. For example, outsourcing the management and administration of the Act 106 Defined Contribution plan will allow Government employees to take control of their own financial future. As a further example, partnering with and leveraging private sector resources has allowed the Retirement System to access education resources and technology platforms to engage with participants across multiple channels in a unified, consistent way.

Sustainability: *Build the infrastructure and lasting culture of high performance to meet current and future demands.*

The Government of Puerto Rico must continuously execute on the other three focus areas with an eye toward sustainability. Foundational procedures, processes, practices, and systems should be built to last and withstand internal and external volatilities. Whenever possible, the Government should look to simplify and standardize across agencies and instrumentalities to facilitate smart growth, efficiency, and continuity of operations. At times, this will require financial and human capital investments.

In considering the human capital component of ongoing sustainability, one critical aspect of sustainability is to address the workforce participation on the Island. On the demand side, Puerto Rico must continue to attract and retain quality employers for the Island. On the supply side, Puerto Rico must continue to invest in upskilling the workforce to meet the demands of the changing employment landscape, creating a labor force with the skills and mindset necessary for the jobs of tomorrow. Managing the Government controlled labor supply and demand can be accomplished through the full implementation and agency adoption of The Single Employer Act 8-2017, coupled with training programs that provide workers the foundational information needed to shift effectively from one setting to the next.

10.1.2 Special Public Health Considerations in Light of COVID-19

The humanitarian and economic crisis unfolding as a result of conditions brought on by COVID-19 has and will be nothing short of tragic now and for some time to come. The Government's response has been decisive and includes social distancing measures which will help to suppress transmission of the disease. Additionally, stakeholders such as the Medical Task Force, Puerto Rico Hospital Association are working to provide best practice information that will aid both public and private health systems (hospitals, health centers, Independent Physician Associations,

managed care companies, laboratories, pharmacies, etc.) preparedness and response. However, gaps and deficiencies that have been known for some time, the underlying condition of the state of the DOH and overall health care system in Puerto Rico are evident.

While the acute tactics will vary, many priorities that exist now in the response to COVID-19 are shared with long-term strategic priorities that can bring about lasting and meaningful improvements to Puerto Rico's health care. These priorities include, but are not limited to:

Coordination of Patient Care between Private and Public sectors

Ensuring patients receive treatment in the most appropriate care setting is vital to the quality of patient care, cost, and quality outcomes. With respect to COVID-19, this includes considerations such as where patients presenting with COVID-19 symptoms are to be triaged, treated, and how the health system best supports emergent and chronic-care patients who are not being treated for COVID-19. Both short and long-term policies, procedures, and protocols to coordinate patient transfers between the DOH and private health care systems will help to optimize care delivery and the patient experience.

Hiring and Retention of Clinical Staff

Providing the DOH health system with the funding required to build and maintain medically appropriate levels of clinical staffing is a well-established priority of Puerto Rico. The Government further demonstrated its commitment to nurses and technicians by offering a one-time bonus payment to both reward and incentivize these essential clinical care providers. Maximizing funding available under the CARES Act will help the medical community in Puerto Rico ensure there is enough staff available and who are trained to care for COVID-19 patients. Additionally, efforts to streamline accelerate the hiring process for DOH health system nursing and technical staff will eliminate a key barrier that holds DOH institutions back from achieving necessary staffing levels.

Improvements to Clinical Infrastructure

Improving upon clinical infrastructure will remain a key priority for the DOH health system. This includes but is not limited to bringing the ASSMCA General Psychiatric Hospital up to Medicare certification standards, making appropriate investments to enhance intensive care and specialty treatment capabilities, and opening additional beds in care settings that allow the DOH health system to use its bed-space to best meet the need of its diverse patient mix. Additionally, focused investments required to enhance the DOH health system's ability to support widespread diagnostic and serologic testing will be key to supporting short-term COVID-19 disease containment and use of resources, while providing surveillance capabilities that will support both return to normalcy and ability to respond to potential future disease outbreaks.

Transformation of Hospital Management

Initiatives to drive investments in clinical technology infrastructure and optimization of clinical workflow within the DOH hospitals will provide them with the systems and data necessary to best coordinate care, allocate finite resources, and support payor negotiations. Also, efforts will be undertaken to evaluate facilities which are underutilized and can be deployed in new ways to maximize the use of DOH resources. All the aforementioned play significant roles in both short-term COVID-19 response and long-term sustainability.

Optimization of Medical Supply Chain Management

Now more than ever, having an optimized DOH health system medical supply chain is vital to protecting the health workers of Puerto Rico and the delivery of high-quality care. Grants available through the CARES Act must be fully leveraged to support the centralized procurement and distribution of COVID-19 related diagnosis, treatment, and personal protective equipment, as well as future emergency response preparedness. Looking beyond COVID-19, significant opportunities remain to improve procurement efficiency through best practice supply and demand management. This effort includes category and item standardization, physician preference item optimization, vendor consolidation, Group Purchasing Organization (GPO) evaluation, volume discounts, and should reflect any synergies available through ASG.

Attention to Revenue Cycle Management and Reimbursement

The financial stress to health care systems attributed to COVID-19 related lost revenue from elective procedures and unplanned investments in people, supplies, and infrastructure will bring many health institutions to and beyond their fiscal breaking point. A comprehensive and coordinated effort to apply for and maximize use of federal funds will provide a vital lifeline, allowing health care providers to care for their patients and persist beyond the current pandemic. As both a current and forward-looking measure, the DOH health system must continue its efforts to optimize its fiscal modeling, payor negotiations, billing, and collections functions through a combination of outsourcing and improvements to its revenue cycle supporting processes and technology.

As Puerto Rico emerges from the COVID-19 response along with the rest of the country and the rest of the world, it must focus on building momentum. In order to begin the journey on the correct footing Puerto Rico must focus on initiatives and activities that create the new platform for growth, innovation, and operational excellence.

Anchored in the strategic framework proposed above, the government has identified a five-step process that will help guide it through the key phases necessary to meet today’s challenges and prepare for the future:



A precise and overwhelming response to the COVID-19 crisis matched with a forward-looking view to long-term sustainability via growth, operational efficiency, and customer experience, will provide the foundation for ongoing delivery of efficient, high-quality, and resilient government services to the people of Puerto Rico. Only with a solid foundation can the government look to revitalize, build, transform, and ultimately optimize, attaining the vision of a healthy, thriving Island.

10.2 Appropriations

10.2.1 Current state and vision for Government appropriations

The Central Government provides a range of appropriations to three main groups of recipients: The UPR, Puerto Rico's 78 municipalities, and "other" recipients (typically private industry or non-profit institutions).

Currently, UPR is 46.7% subsidized (~\$560 million in annual appropriations in FY2020) by state and local funds, compared to 25% average level of state/local subsidization of U.S. public universities.⁷² UPR's tuition is less than one-third of the U.S. public average even after adjusting for per-capita income, and UPR spends ~10% more per student on operational spend than the average public university.

A reduction of the appropriation for UPR was determined in 2017 through a shared process with the Oversight Board to identify reasonable, sustainable reductions to the UPR appropriation that brought UPR closer to U.S. public university tuition and cost benchmarks. This reduction was included in the original March 2017 Fiscal Plan.

Municipalities receive ~\$132 million (FY2020) in annual support from the Government, but despite this aid many municipalities are operating significant deficits.⁷³ With additional reductions on the horizon, municipalities must undergo substantial operating model changes, or else risk increasing their annual operating deficits. In addition to fiscal discipline, the Government can support consolidations of municipal services to encourage efficiencies, such as through service provision collectives or streamlining the legal framework to remove barriers to collaboration.

In total, the Central Government will have decreased support granted to municipalities and UPR by a total of \$451 million including prior and incremental reductions through FY2025.

10.2.2 Support UPR appropriations to levels in line with funding of other U.S. public universities

In light of the COVID-19 crisis and measures taken by the Central Government to reduce the spread of the virus, UPR is more financially distressed than ever before. In addition, given the uncertainty surrounding the extent and duration of the COVID-19 crisis, the Government believes it is necessary to provide UPR with the financial flexibility to endure this crisis. Further reductions in financial support will be delayed to FY2023 to provide the UPR adequate time to recover from the COVID-19 pandemic. This approach is consistent with the timing delay of all other rightsizing measures.

Also, the Government will afford the UPR with additional flexibility with its appropriations. Currently, UPR receives \$20 million for Central Government training related services and Seminars. UPR has historically used ~ \$5 million of this appropriation and currently has \$60 million in cash earmarked for these purposes. The Central Government will continue to provide this appropriation but allow UPR to use the funds for other operational needs while continuing to provide the trainings and seminars program over at least the next five years. This re-classification, of only future support, provides additional relief to UPR without any fiscal implications to the

⁷² UPR, Integrated Postsecondary Education Data System (IPEDs), College Board.

⁷³ Draft Report prepared by V2A November 2016.

Government. The Central Government will also provide capital expenditure support to UPR to free up Special Revenue Fund Capital Expenditure dollars for operational needs.

10.2.2.1 ESTABLISH INDEPENDENT SCHOLARSHIP FUND FOR UPR

In response to scheduled tuition increases for the UPR system, prior Fiscal Plans established a new endowment to support means-based scholarships initially supported through reductions to the budgets of the Oversight Board, the General Court of Justice, the Legislative Assembly, and AAFAF. The FY2020 certified budget included a \$38.9 million contribution to the endowment that would be held under custody by the Department of the Treasury. For FY2021 to FY2023, additional amounts of \$43 million to \$51 million annually will be contributed for a total of ~ \$180 million. The endowment fund will be managed by the Department of the Treasury and the Office of the CFO (OCFO) with the assistance of independent third parties providing administrative, trustee and investment management services.

On November 7, 2019, the Government issued a Request for Qualifications (RFQ) for scholarship fund and investment management services, a process which successfully closed on December 6, 2019. An intragovernmental committee established by the Government evaluated the submitted qualifications. The committee determined that the best course of action would be to split the duties of investment management and scholarship administration between two specialized firms based on the nature and content of the submitted statements of qualification. On April 6, 2020, the Government issued a request for proposals (RFP) for Fund Trustee and Administrative Services for the UPR Scholarship Endowment. The Government expects to have the Administrator and Trustee in place for the Endowment by the end of May 2020, with the goal of establishing the UPR Scholarship Program for the fall semester of 2020.

10.2.3 Municipal Support

Intergovernmental transfers to local governments, both explicit and implicit, are common and necessary across the U.S. public sector fiscal system. According to an analysis of the National League of Cities, states contributed 29% of municipal revenues in 2012. In Puerto Rico, due to the austerity measures imposed by the FOMB, Commonwealth aid as a percent of municipal revenues accounts for approximately 11%.

Starting in 2017, Commonwealth support to municipalities have been reduced, bringing the new baseline appropriations to ~\$132 million per year (FY2020). From this current baseline, the 2020 Fiscal Plan provides municipalities a two-year delay in additional reductions to afford them adequate time to address the fiscal crisis they face, which has now been further compounded by the significant drop in revenues many municipalities are facing due to the economic impact of COVID-19.

The Government has no choice but to continue to gradually reduce the current level of municipal appropriations before ultimately phasing out all subsidies in FY2026. This, together with the same economic and fiscal challenges that the Central Government is facing, could cause significant financial stress for municipalities over the coming years.

It is important to note that intergovernmental transfers to local governments, both explicit and implicit, are common and necessary across the U.S. public sector fiscal system. According to an analysis of the National League of Cities, states contributed 29% of municipal revenues in 2012. In Puerto Rico, due to the austerity measures imposed by the FOMB, Commonwealth aid as a percent of municipal revenues accounts for approximately 11%. There is not one state in the U.S. that does not provide support to its municipalities.

Part VI: Fiscal Plan Forecast – Macroeconomic and Financial Results

Chapter 11. 2020 FISCAL PLAN FORECAST UPDATE

Summary of Material Updates Relative to May 9, 2019 Certified Fiscal Plan

The 2020 Fiscal Plan incorporates a number of important updates relative to the May 9, 2019 Certified Fiscal Plan including the best estimate we have today of the economic impact to the U.S. and Puerto Rico economy of the COVID-19 pandemic, new information and data, as well as focused investments and fiscal priorities including:

- *COVID-19:* The 2020 Fiscal Plan has been updated to reflect the current understanding of the ongoing COVID-19 crisis including the best estimate of the economic shock to both the mainland U.S. and directly impact to Puerto Rico. In addition, the forecast includes estimate of the impact of the various federal and local actions taken to both “flatten the curve” and mitigate the negative impact to economic activity as a result of the shelter in place orders throughout the country and in Puerto Rico. While it is too soon to conclude what the direct benefit will be to Puerto Rico given many factors including interpretation of the CARES Act and individual/small business participation in certain programs, the plan estimates the stimulative impact of these measures to be approximately \$5.7billion.
- *Forecast Scenarios:* The 2020 Fiscal Plan includes several scenarios: baseline, upside and downside forecasts to account for the material uncertainty surrounding the magnitude and duration of the COVID-19 pandemic and the enduring impact on the tourism industry in Puerto Rico. The upside and downside scenarios stress the macroeconomic drivers of the 2020 Fiscal Plan forecast but reflect a consistent level of Government spend and Federal/local stimulus. To the extent actual results ultimately materially deviate from the baseline scenario, the Government would anticipate a change in spending patterns in response to the particulars of the situation.
- *General Fund Revenues:* General fund revenues have been updated in fiscal year 2020 for actual results through March 2020. Additionally, the forecast has been revised in the short term to include a set of adjustments to account for temporary shocks to general fund revenues due to the COVID-19 pandemic. The COVID-19 pandemic is forecast to result in a -10.5% decline in Nominal GNP from FY19 to FY21. Major revenue streams including SUT, PIT and CIT are highly sensitive to economic activity resulting in a significant decline in General Fund collections. The forecast continues to segregate funds related to hurricane recovery , consistent with the May 9, 2019 Certified Fiscal Plan, and COVID-19 relief from general fund revenues generated by recurring on-Island economic activity. The longer-term impact of COVID-19 on the general fund revenue forecast is captured through the macro-economic forecast, as year-over-year growth of the largest general fund revenue concepts (PIT, CIT and SUT) are aligned with Puerto Rico nominal GNP growth.
- *Medicaid:* The Medicaid federal funding forecast has been updated to reflect the enactment of the “Further Consolidated Appropriations Act, 2020” (the “New Medicaid Funding Bill”) which granted the Government of Puerto Rico \$5.3 billion of Medicaid funding in federal FY2020 through FY2021 at a 76% FMAP. The cap was further increased

by ~\$180 million and the FMAP was increased to ~83% in response to the COVID-19 pandemic over the life of the bill. Subsequent years have been updated from a capped approach that was used in the May 9, 2019 Certified Fiscal Plan to an assumed 55% flat FMAP.

- *Payroll, Operating Expenses and Associated Measures:* General Fund payroll and operating expenses have been updated to reflect the FY2020 budget and measures are included in the baseline forecast in FY2020. In subsequent years, the 2020 Fiscal Plan provides for a pause in incremental expense reductions until FY2023 in order to allow Puerto Rico adequate time to recover from the COVID-19 pandemic. Given the contractionary nature of expense reductions during such a crisis, it is prudent to do to minimize further strain on the economy.
- *Independently Forecasted Components Units (IFCU):* IFCU forecasts have been updated to reflect the FY2020 budget and FY2021 OMB budget recommendations. Consistent with the right-sizing approach with Commonwealth agencies, a delay in incremental expense reductions is incorporated until FY2023. Some of the more economically sensitive IFCU's have been further diligence to understand and incorporate the impact of COVID-19 on their operating models. The Puerto Rico Industrial Development Company (PRIDCO), which has outstanding debt and cash flows that will need to be used to fund restructured debt, has been removed from the 2020 Fiscal Plan.
- *Pensions:* The Government has not changed its public policy that pensions should be honored without further adjustment. Because elderly citizens are highly vulnerable to the worst health risks of COVID-19, the Government has a moral obligation to ensure that its pensioners are adequately supported. The Government has already taken critical steps toward a more stable pension system through legislation and opposes additional pension reduction measures because they impose a disproportionate burden on Government retirees. Although the FOMB has historically ignored the Government's position on pensions, we continue to believe that pension cuts are not warranted and urge the FOMB to reconsider its position on these matters in light of the tragic human costs and uncertainties related to COVID-19. The Government's position is further supported by statements made by FOMB Chairman, Jose B. Carrión III, who on March 24, 2020 indicated that the FOMB is reevaluating its position on the current plan of adjustment, which includes a reduction in pension benefits. He indicated that as a result of the COVID-19 pandemic, the Board has decided to put everything on the table and that in his personal opinion, it is not appropriate to reduce pensions at this time.⁷⁴

Chapter 12. MACROECONOMIC AND DEMOGRAPHIC TRAJECTORY POST-MARIA INCLUDING COVID-19 OUTLOOK

12.1 Economic Outlook

Hurricanes Irma and Maria created a new economic reality for Puerto Rico, drastically impacting Puerto Rico's future. FY2018 saw a decline in real GNP of 4.7%, reflecting economic devastation

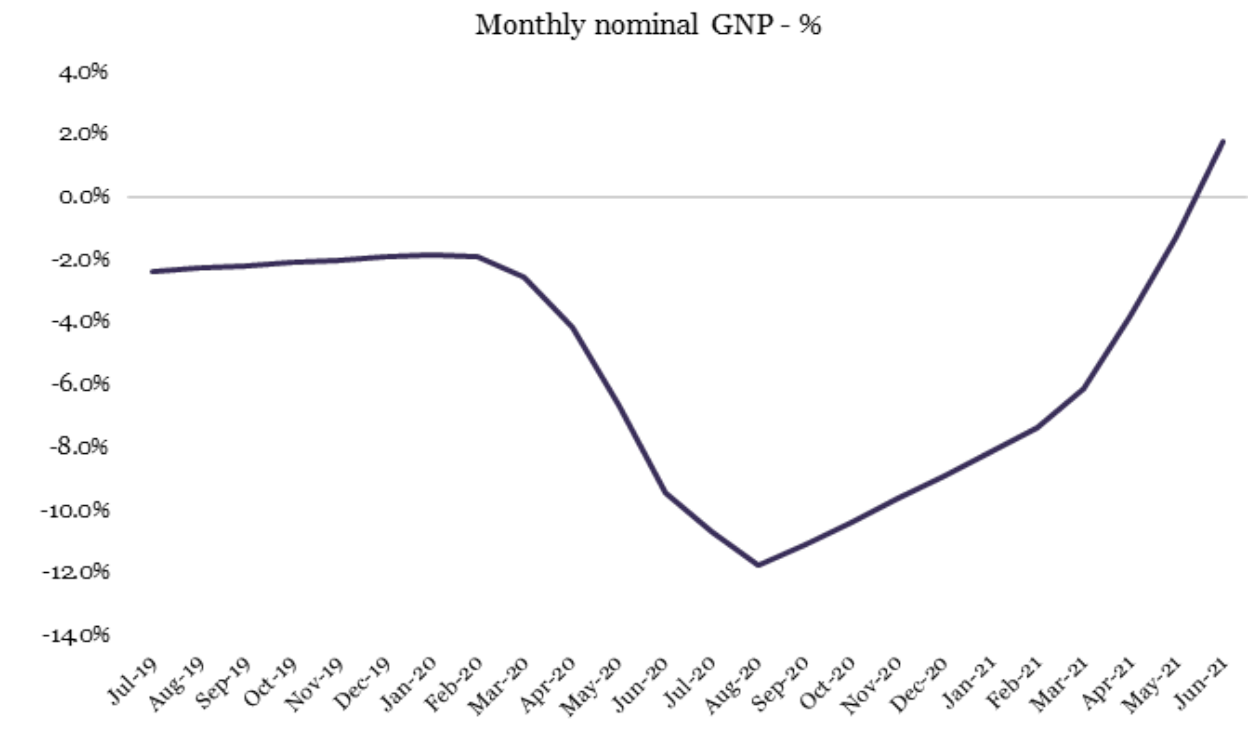
⁷⁴ El Nuevo Dia, March 24, 2020: Junta de Supervisión Fiscal echaría a un lado el recorte en pensiones, by Joanisabel Gonzalez.

in the wake of Hurricanes Irma and Maria, which struck the Island in the first quarter of the fiscal year. There was a bounce-back in FY2019 of 1.5%, fueled by disaster relief funding. The recovery was expected to continue as more federal reconstruction funding is disbursed and rebuilding of the Island's damaged infrastructure progresses, but the onset of the global COVID-19 pandemic in 2020 has changed global economic prospects. In light of the social distancing measures being undertaken to control the spread of COVID-19 in Puerto Rico, the United States, and the rest of the world, a steep and widespread decline in economic activity is expected. It is very likely that this year the global economy will experience its worst recession since the Great Depression. Economic indicators point in that direction: First quarter U.S. GDP contracted at an annual rate of 4.8% in the first three months. This is the biggest drop in quarterly economic output since the fourth quarter of 2008. This reflects the early impact of widespread disruptions in the U.S. economy caused by business and school shutdowns, social distancing and other initiatives aimed at containing the virus. Consumer spending, a key driver of the U.S. economy, posted its steepest monthly decline in records tracing back to 1959 as much economic activity ceased amid the COVID-19 pandemic. The Commerce Department reported consumer spending fell 7.5% in March. Personal income fell by 2%, the largest decrease since 2013, as employers started to cut payrolls and reduce workers' hours and compensation. New unemployment claims have reached record highs. An additional 3.8 million Americans filed for unemployment claims in the week ending April 25, 2020, bringing the total unemployment claims in the U.S. to over 30 million over the past six weeks, representing roughly 18.6% of the U.S. labor force. In Puerto Rico, an approximately 17,000 new unemployment claims for the week ending April 25, 2020, bringing the total unemployment claims in P.R. to over 200,000. This amount of claims does not include the new federal unemployment program for self-employed.

According to a preliminary estimate by the European Union's statistics office Eurostat, economic output in the 19 countries sharing the euro currency was 3.8% smaller in the first quarter than in the previous three months – the sharpest quarterly decline since the time series started in 1995.

The 2020 Fiscal Plan projects growth of -3.8% in FY2020, reflecting a sharp decline beginning in March 2020 as the pandemic took hold and Governor Vázquez closed nonessential businesses to combat the spread of the virus. Real GNP is projected to decline further by -7.8% in FY2021 as the cumulative impact of the pandemic reaches its height before a recovery begins (**Exhibit 15**). All monthly GNP figures are shown as an illustrative monthly interpretation of the projected annual figures only and do not constitute official Government projections. Monthly GNP forecasts are generally not produced by statistical authorities. Where monthly GNP or similar factor-type proxies are reported, they are understood to be useful as metrics of ongoing activity with varying levels of accuracy, and are usually interpreted as short-term leading economic indicators when the official quarterly or annual figures unavailable. **There is considerable uncertainty surrounding the progression of the pandemic and therefore this economic forecast.**

EXHIBIT 15: MONTHLY GNP FORECAST (FY2021 Q1 – Q4)



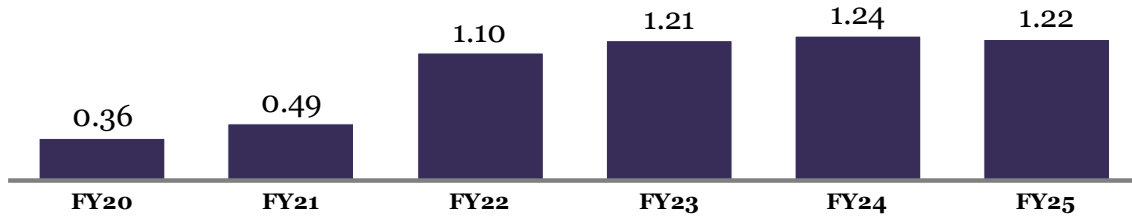
As in prior fiscal plan submissions, the 2020 Fiscal Plan economic outlook model estimates the pre-hurricane trend growth of Puerto Rico as well as the economic impact of Hurricanes Irma and Maria and now incorporates the COVID-19 pandemic based on a comprehensive data set of official Puerto Rican economic data from 1965 to 2019. The data set includes both variables that collectively describe the Puerto Rican economy (e.g. growth, federal transfers, capital investment, etc.) and data on damage from past natural disasters. Reflecting the close relationship of Puerto Rico to the U.S. economy and the rest of the world, the model also includes external economic data. U.S. mainland GDP growth and inflation and world price conditions also influence economic conditions in Puerto Rico and are included in the model. The model uses statistical regression techniques to estimate and describe the impact of each economic driver on Puerto Rican growth. This analysis forms the basis for the economic projections through 2039: by combining the estimated effects with projections of the stimulative impact of disaster relief assistance and its impact on the growth of the capital stock and future policy changes such as the proposed fiscal and structural measures, the model produces a forecast of economic growth for the Government.

The economic forecast includes a reduction in productive capital caused by the earthquakes that have struck the southern coast in January 2020. The Government has estimated damage at \$1 billion. Given the USGS estimates the probability of an earthquake of magnitude 5 or higher is 99% for 3-10 years and 6 or higher is 25% for 3 years, it is possible that additional earthquake inflicted damage will occur. This damage affects the economy in the same way as damage to capital caused by hurricanes.

Projected inflation rates serve as a proxy for the GNP deflator for calculating nominal GNP growth (**Exhibit 16**).

EXHIBIT 16: ANNUAL INFLATION RATE

Annual inflation rate, %



The macroeconomic forecast in this fiscal plan also reflects updates made to source data. The Puerto Rico Planning Board released its official national accounts statistics for FY2019 in early April 2020, including data on GNP levels and growth, federal transfers, and investment. An abridged version of the IMF World Economic Outlook was released on April 14, 2020, including updated food and oil price forecasts reflecting the impact of COVID-19 for 2020 and 2021.

While a new Congressional Budget Office (CBO) Economic Outlook was released in January 2020, the forecast was developed prior to the onset of the pandemic and ensuing economic crisis. On April 24, the CBO Director Phillip Swagel published a blog titled “CBO’s Current Projections of Output, Employment, and Interest Rates and a Preliminary Look at Federal Deficits for 2020 and 2021” in the CBO website predicting a decline of inflation-adjusted gross domestic product (real GDP) of about 12 percent during the second quarter, equivalent to a decline at an annual rate of 40 percent for that quarter (**Exhibit 17**). The unemployment rate is expected to average close to 14 percent during the second quarter.⁷⁵ As with previous fiscal plans, the current forecast uses the CBO forecast of U.S. GDP growth, converted to Puerto Rico Fiscal Year basis (July – June), to take into account the important effects of the timing of the crisis in the last quarter of the Puerto Rico Fiscal Year. No official forecast of U.S. GDP growth beyond calendar year 2021 has been released as of May 1.

⁷⁵ Congressional Budget Office: <https://www.cbo.gov/publication/56335>.

EXHIBIT 17: CBO ECONOMIC PROJECTIONS

	2020				Annual	
	Q1	Q2	Q3	Q4	2020	2021
Real GDP (Percentage change from preceding quarter)¹	-0.9	-11.8	5.4	2.5	n/a	n/a
Real GDP (Percentage change, annual rate)¹	-3.5	-39.6	23.5	10.5	-5.6	2.8
GDP (\$ Trillions)	21.6	19.1	20.1	20.7	20.4	21.3
Unemployment Rate (%)	3.8	14.0	16.0	11.7	11.4	10.1
Interest Rate on 3-Month Treasury Bills (%)	1.1	0.1	0.1	0.1	0.4	0.1
Interest Rate on 10-Year Treasury Notes (%)	1.4	0.6	0.7	0.7	0.8	0.7

¹ Real values are nominal values that have been adjusted to remove the effects of changes in prices

The COVID-19 pandemic will be felt in Puerto Rico through two channels: the recession caused by the pandemic in the mainland U.S. will affect Puerto Rico through its close economic ties to the mainland, but there is also an additional direct impact in Puerto Rico as the Commonwealth daily living and economic activity is impacted by its own social distancing measures and stay at home order, increased unemployment claims and economic uncertainty. The 2020 Fiscal Plan model includes a forecast for direct economic losses in Puerto Rico based on a projected increase in the output gap associated with the increase in unemployment claims. The relationship between output (GNP) and unemployment is known in economics as Okun's law. For purposes of the 2020 Fiscal Plan, the precise relationship in Puerto Rico was estimated with a historical regression model. A predicted rise in the level of unemployment, estimated using data released as of April 30 and validated through discussions with the Puerto Rico Department of Labor, can therefore be used to estimate the associated fall in output, or GNP. The 2020 Fiscal Plan thus forecasts economic losses resulting from the COVID-19 crisis of \$6.6 billion.

To offset the economic decline, Puerto Rico will receive stimulus funds included in the CARES Act package as well as stimulus funds from the Commonwealth Government's own measures. The 2020 Fiscal Plan economic model includes an estimate of the portion of funds from both the federal CARES Act and local government response that will be received by Puerto Rican households and stimulate the economy. The impact is based on analysis of the benefits available and expected increase in unemployment. Because a significant proportion of personal consumption expenditures in Puerto Rico are devoted to imported goods and services, the stimulative impact of the stimulus funding is less than the gross dollar amount of the funds received. The projection uses an estimate of the impact based on analysis of the Puerto Rico consumer spending basket and relative shares of imports and domestic goods and services. In total, 57.7% of household spending is estimated to have a positive impact on the economy. This approach is similar to the approach used in previous fiscal plans for disaster relief funding, in which pass-through rates are calculated to measure the precise impact of assistance received on the economy.

12.1.1 Impact of fiscal measures and structural reforms

By optimizing revenue collection and reducing Government-wide expenditures, fiscal measures seek to streamline and transform the Government of Puerto Rico. Such policy actions will generate a contractionary impact on the economy in the short term, but are necessary to drive fiscal sustainability in the long term. The net effect of these two forces is still significantly positive from a fiscal savings perspective. In the long-term, the cost-saving measures will have limited economic contraction and are critical for providing financial stability. The macroeconomic impact of the measures is summarized in **(Exhibit 18)** below.

EXHIBIT 18: MACROECONOMIC IMPACT OF FISCAL MEASURES, INCLUSIVE OF DISASTER RELIEF SPENDING

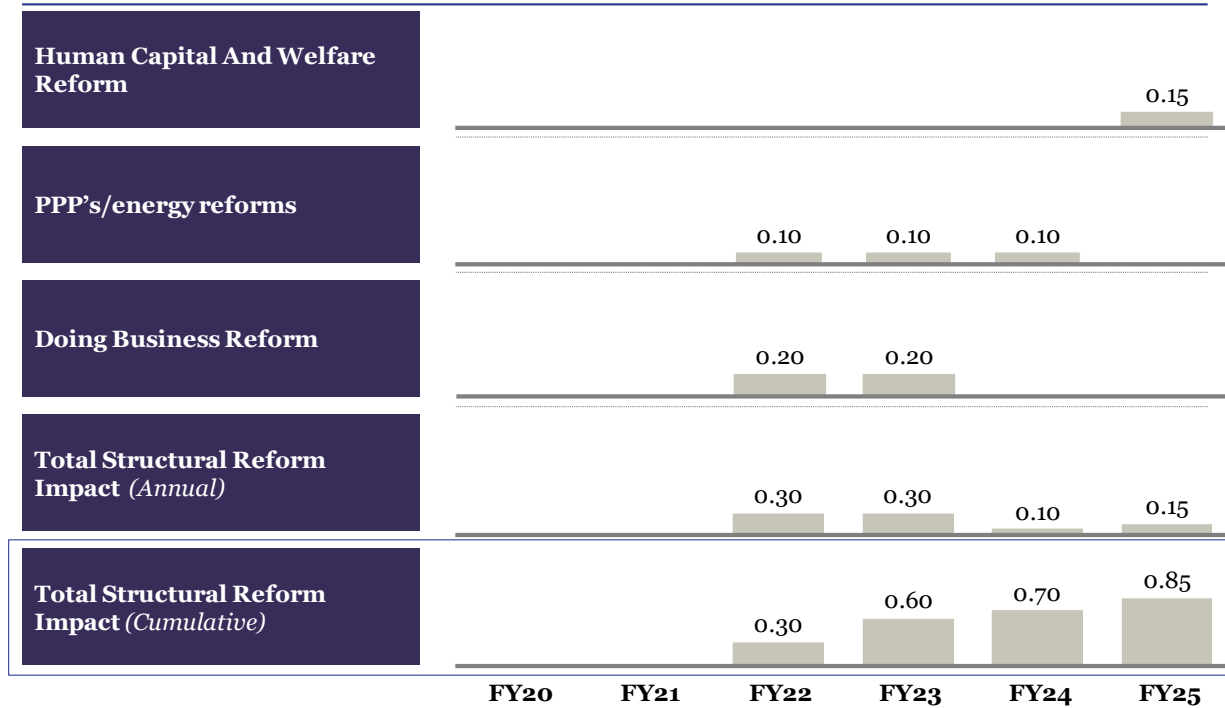
Fiscal Measures Effect on Real GNP, %



The timing and impact of structural reforms are based on work done by the IMF on similar reforms implemented in Europe (e.g., Spain and Estonia), South America (e.g., Peru and Colombia), among other jurisdictions, utilities reform in Latin America, and broadly accepted metrics for measuring improvement in the World Bank's Ease of Doing Business Rankings. Structural reform benchmarks generally come from nations or jurisdictions without monetary policy options and large informal labor markets, like Puerto Rico. Labor, energy, and doing business reforms are projected to increase GNP by 0.85% by FY2025 **(Exhibit 19)**. K-12 education reforms add an additional 0.01% annual impact beginning in FY2033, resulting in a total annual GNP increase from structural reforms of 0.92% by FY2039.

EXHIBIT 19: MACROECONOMIC IMPACT OF STRUCTURAL REFORMS

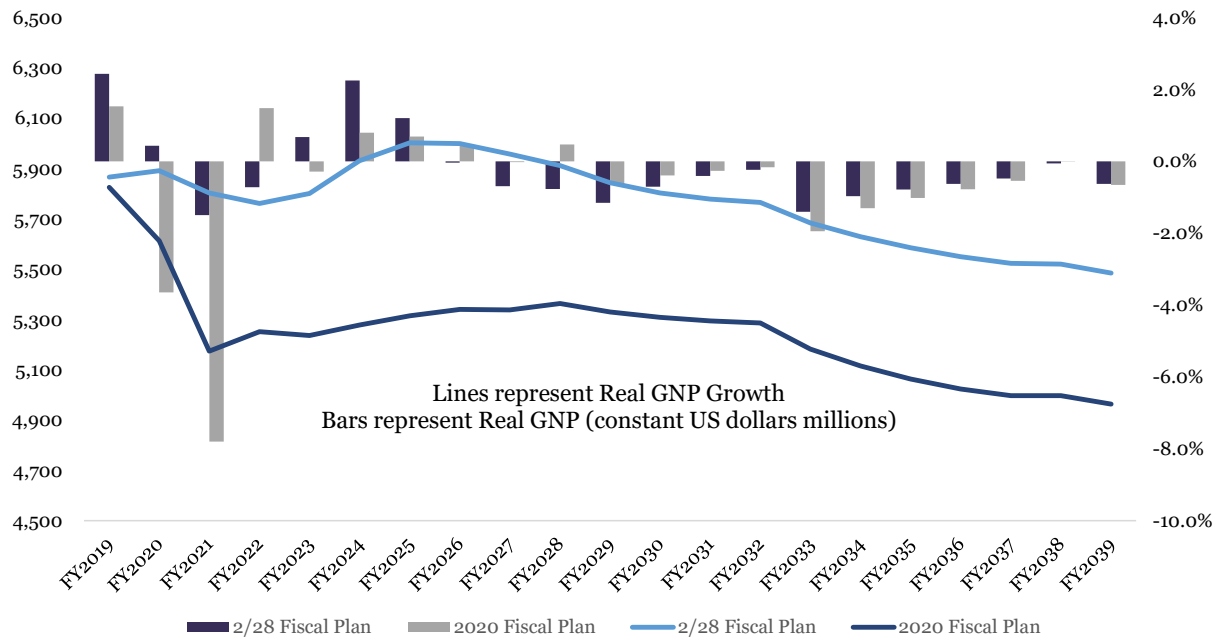
Structural Reform Effect on GNP, %



By FY2039, K-12 Education reforms add an additional 0.07% cumulative impact, resulting in 0.92% annual impact on GNP

In total, the 2020 Fiscal Plan estimates the direct economic damage of the COVID-19 pandemic in Puerto Rico at \$0.8bn in FY2020 and \$5.8bn in FY2021, corresponding to 1.1% of GNP in 2020 and nearly 10% (9.2%) in FY2021 (**Exhibit 20**). Taking all this into account, and based on the most recently available information, the 2020 Fiscal Plan estimates Puerto Rico's real GNP will contract at 3.8% in FY2020 and 7.8% in FY2021.

EXHIBIT 20: FORECAST COMPARISON WITH 2/28 PLAN



There remains considerable uncertainty surrounding the ultimate duration and magnitude of the pandemic and thus the size of the economic losses. The estimate presented is based on the best information available as of April 14.

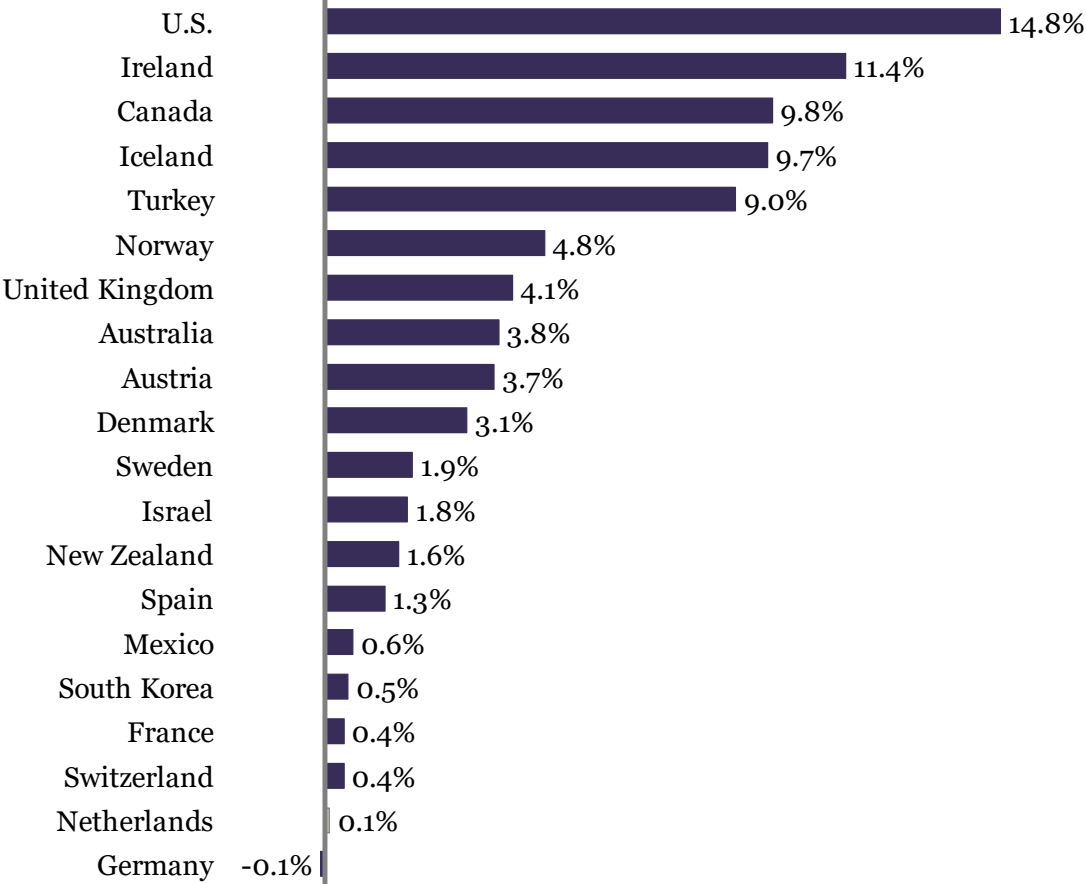
12.2 Labor Markets

The implementation of strict lockdown and social distancing measures have kept non-essential businesses closed and consumers at home. Economies around the world are grappling with rising unemployment claims as businesses lay off workers and shutdown altogether when unable to continue operating under the current conditions.

Since March, approximately 11.9% of workers across 20 nations have registered as unemployed, representing 58 million workers.⁷⁶ The U.S. stands out with 14.8% of its workforce having filed for unemployment benefits (**Exhibit 21**).

⁷⁶ Gallup and Brookings: <https://www.brookings.edu/research/the-effect-of-covid-19-and-disease-suppression-policies-on-labor-markets-a-preliminary-analysis-of-the-data/>.

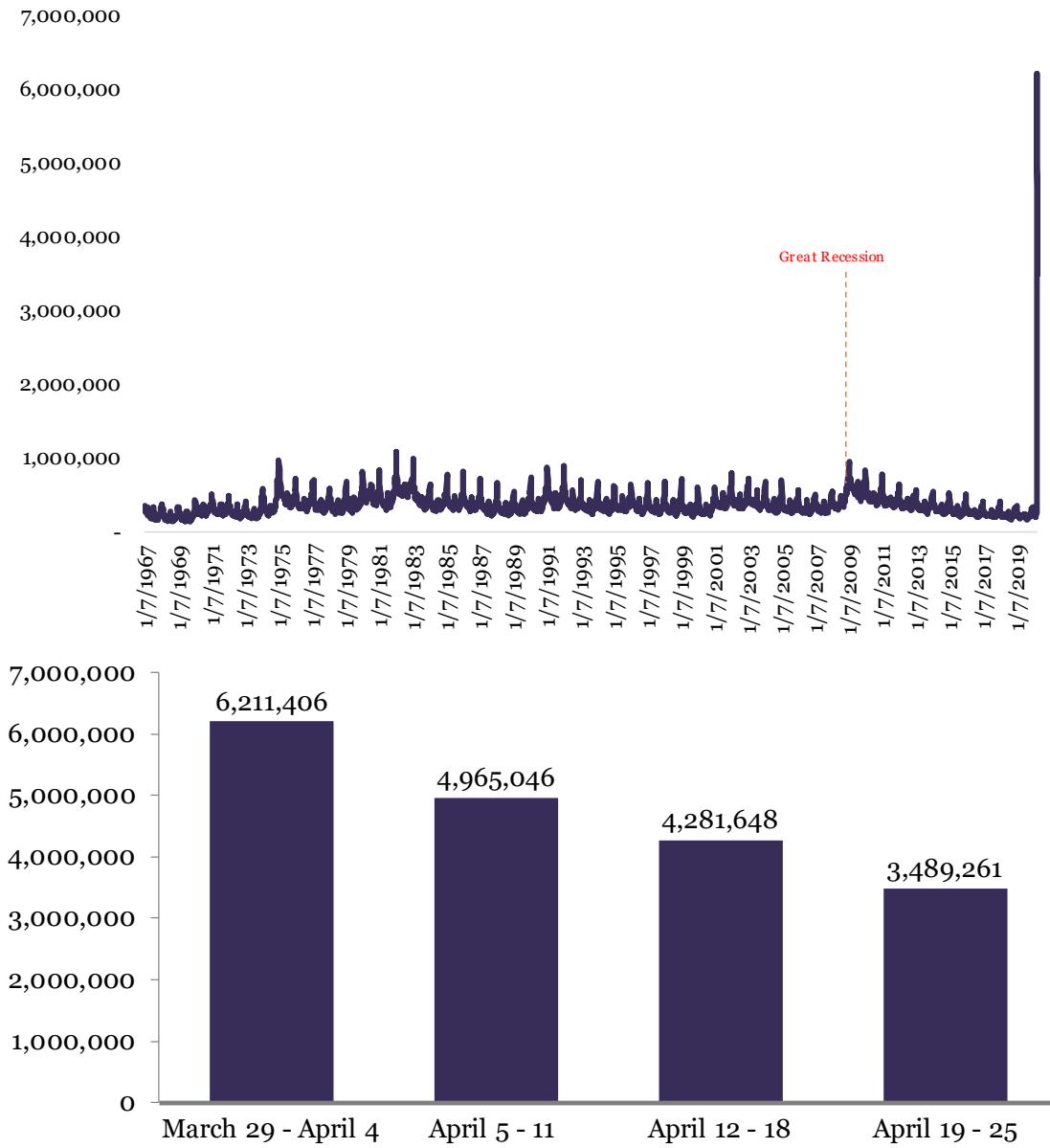
EXHIBIT 21: UNEMPLOYMENT CLAIMS AS SHARE OF LABOR FORCE IN SELECTED COUNTRIES



Source: Gallup and Brookings analysis of country data from March to April 23, 2020

The magnitude of this crisis can be measured by the number of jobs lost since the COVID-19 pandemic began. The unemployment claims in the U.S. now exceed 30 million, by comparison dwarfing those of the Great Recession in just one month (**Exhibit 22**). CBO predicts the unemployment rate will average 15% during Q2 and Q3 of 2020, up from less than 4% in Q1 of 2020.

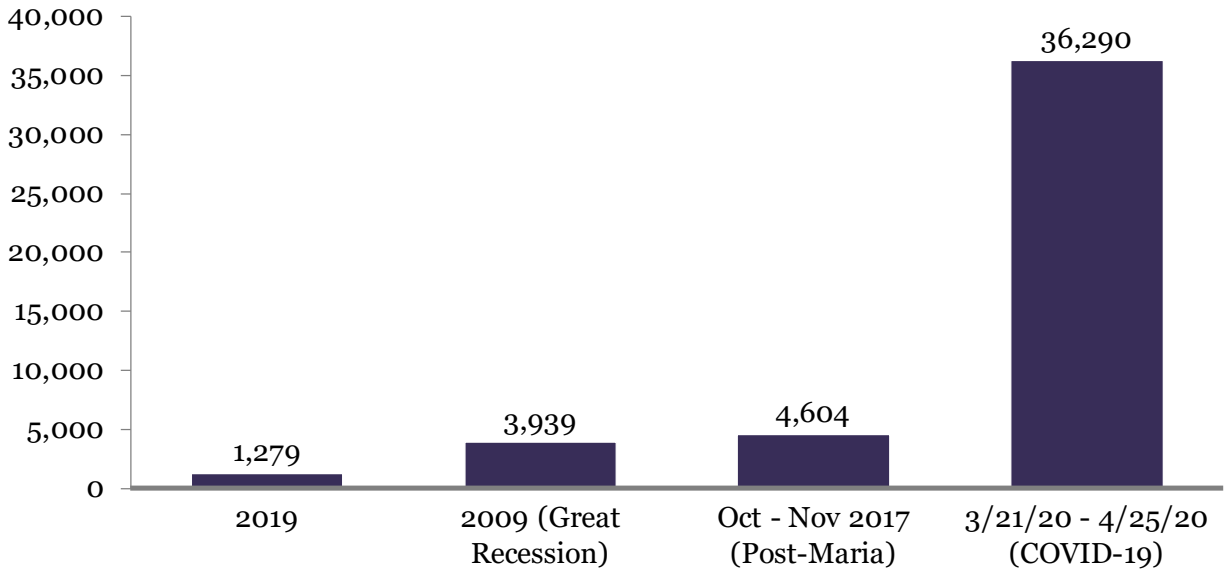
EXHIBIT 22: U.S. INITIAL UNEMPLOYMENT CLAIMS



Source: U.S. Department of Labor
 Note: Figures are not seasonally adjusted

Puerto Rico has been mired in a profound fiscal crisis for years, which has been exacerbated by several additional economic shocks that include Hurricanes Irma and Maria, recent earthquakes and now COVID-19. However, the economic repercussions resulting from the Island-wide lockdown and shutdown of non-essential businesses have caused a historic increase in unemployment claims. The average number of weekly unemployment claims in Puerto Rico during the COVID-19 shutdown is approximately 8 times greater than the period following the hurricanes (**Exhibit 23**).

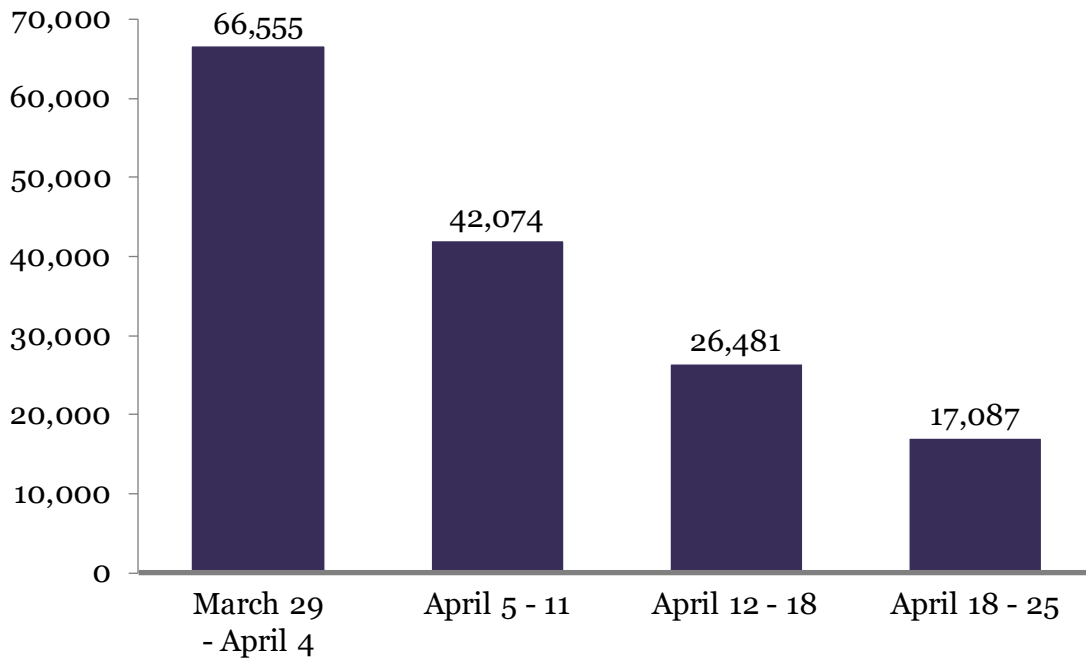
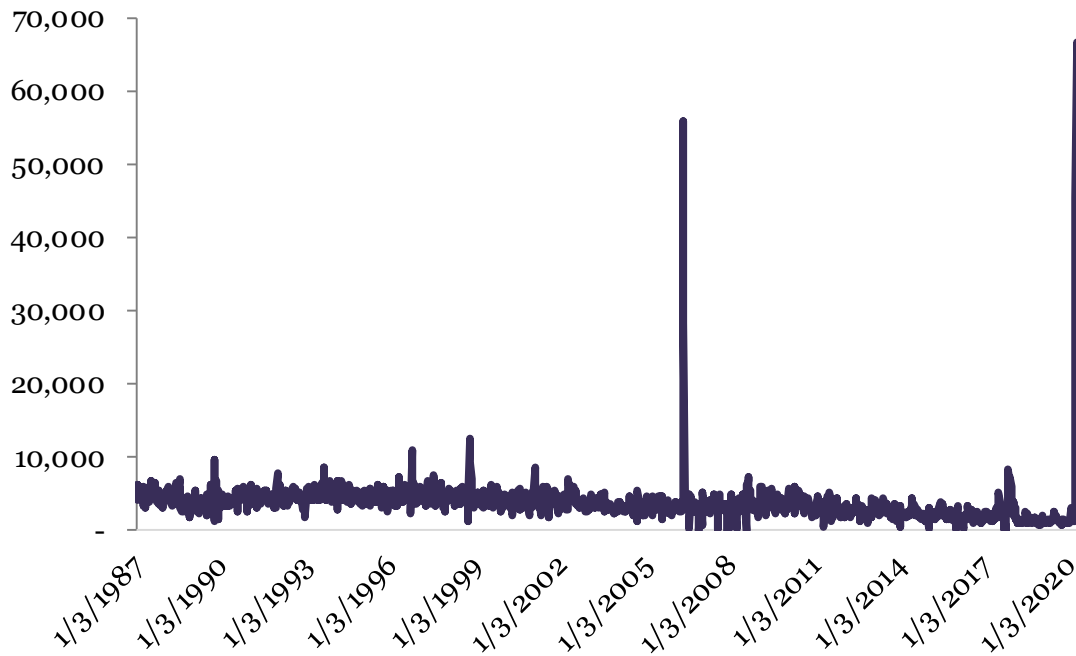
EXHIBIT 23: AVERAGE WEEKLY INITIAL UNEMPLOYMENT CLAIMS IN PUERTO RICO



There were over 66,000 unemployment claims in Puerto Rico during the first week of April⁷⁷ (**Exhibit 24**). Claims have gradually decreased since then, when initial unemployment claims were at their highest.

⁷⁷ Puerto Rico Department of Labor (via El Nuevo Dia): <https://www.elnuevodia.com/negocios/economia/nota/historicoelnumerodereclamacionesalseguropordeseempleo-2559924/>.

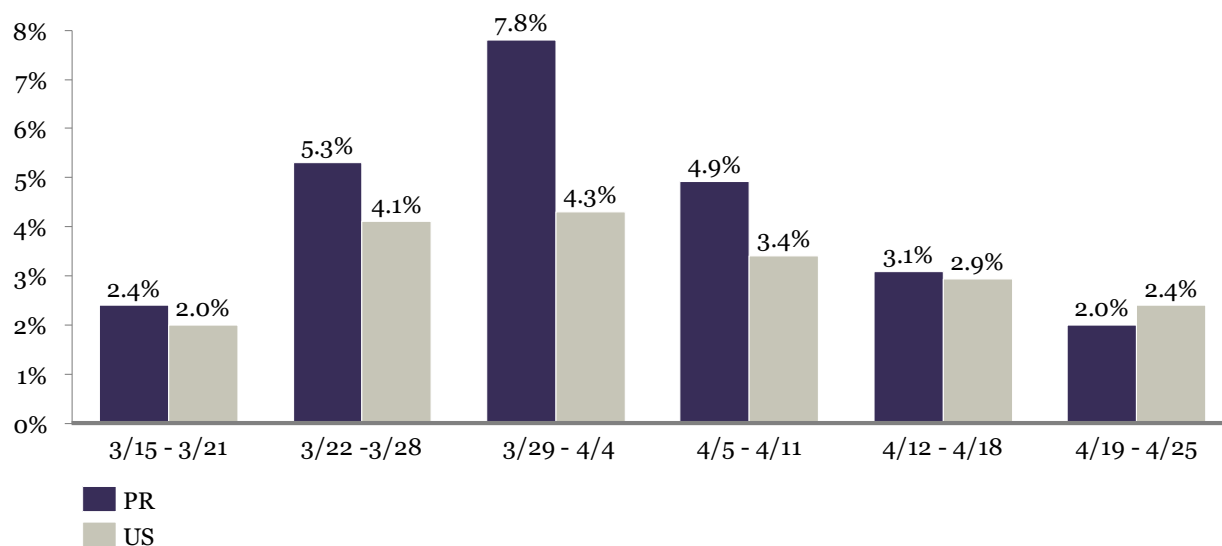
EXHIBIT 24: PUERTO RICO INITIAL UNEMPLOYMENT CLAIMS



Source: U.S. Department of Labor
 Note: Figures are not seasonally adjusted

So far, the economy of Puerto Rico has suffered proportionally more than the U.S. economy, as shown by initial unemployment claims data. Over five of the last six weeks, the ratio of unemployment claims to covered employment has been higher in Puerto Rico than in the United States (**Exhibit 25**).

EXHIBIT 25: PUERTO RICO AND U.S. RATIO OF INITIAL CLAIMS TO COVERED EMPLOYMENT



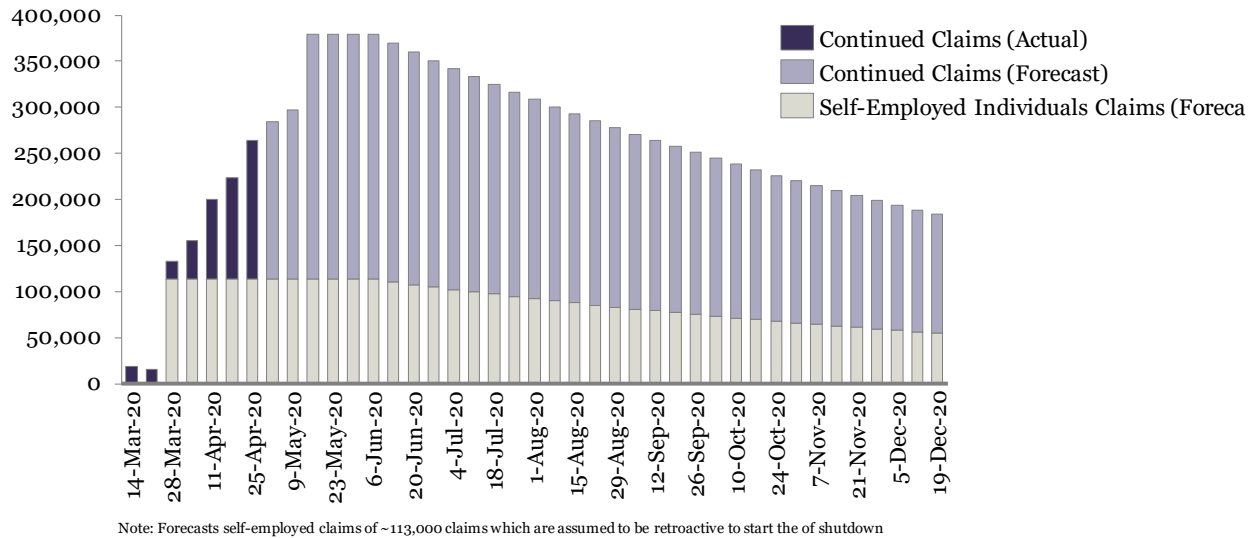
Source: U.S. Department of Labor
 Note: Figures are not seasonally adjusted

Moreover, the unemployment claims data understates the situation of the economy of Puerto Rico, where the informal economy is significant. This segment of the economy does not show up in the unemployment data, but its contraction would contribute to a decline in SUT and employment in the formal economy. Possible reasons for these differences include the earlier lockdown of economic activities in Puerto Rico and the relative importance of the tourism sector for Puerto Rico compared to the United States as a whole.

Unemployment Claims Forecast:

Unemployment claims are forecasted using the latest (to-date) new unemployment claims data (as of April 30, 2020) and comparable information from historical events. Using the 2008-2009 Great Recession as a comparator, the analysis estimates that over 350,000 Puerto Rico residents (including self-employed residents) will file for unemployment due to the COVID-19 pandemic. These individuals are assumed to receive the incremental \$600/week, for 17 weeks, in addition to their standard unemployment benefits for the extended 39 week period. The economic analysis assumes that the continuing claims will begin to decline from their peak of ~379,000 beginning in June 2020 at a rate consistent with the declining trend following Hurricane Maria. Like many other states, the 2020 Fiscal Plan assumes a delay in processing and gradual back payment of unemployment benefits, due to the unprecedented volume of unemployment claims filed as a result of the COVID-19 outbreak as the Puerto Rico Department of Labor ramps up its response to this unprecedented caseload. State systems throughout the nation are not built for a crisis, they are built to manage regular historical volumes.

EXHIBIT 26: CONTINUED UNEMPLOYMENT CLAIMS FORECAST



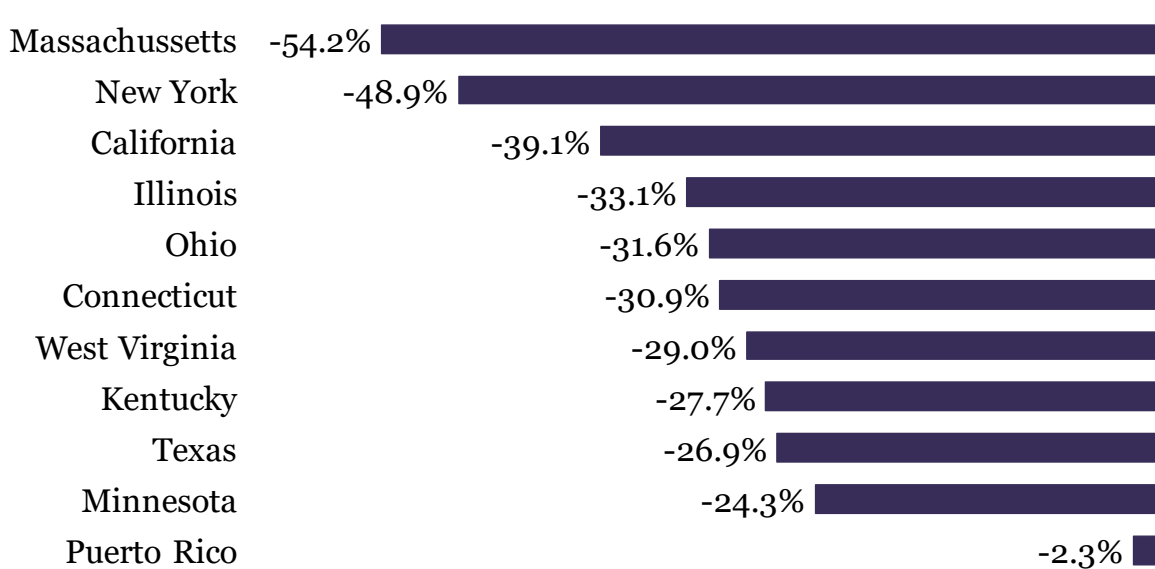
12.3 State Unemployment Trust Fund

The level of unemployment claims is putting significant pressure on state unemployment trust fund balances across the nation. The solvency levels of state unemployment insurance trust funds in twenty-two states and jurisdictions are below the recommend minimum adequate solvency level⁷⁸.

Almost half of all U.S. states have logged double digit percentage declines in their unemployment trust fund balances since the end of February⁷⁹, just before the pandemic triggered shutdowns that led to widespread job losses and record-setting unemployment claims (**Exhibit 27**). For example, New York state has already applied for a \$4 billion interest-free loan from the federal government to cover unemployment payments.

⁷⁹ U.S. States Burn Through Cash for Unemployment Payments, Sarah Chaney, Wall Street Journal April 22, 2020.

EXHIBIT 27: UNEMPLOYMENT TRUST FUND BALANCES FROM FEBRUARY-APRIL



Source: Treasury Department

Puerto Rico’s trust fund solvency level as of January 1, 2020 is at 1.44, ranking number 15 among states and territories and above the recommended minimum level of the Advisory Council on Unemployment Insurance.⁸⁰ That said, given the massive spike in unemployment due to COVID-19, even the most well-capitalized funds are susceptible to liquidity concerns. Puerto Rico’s state unemployment trust fund balance as of April 16th was roughly \$661 million.⁸¹ Depending on the length of this crisis, the risk that the unemployment trust fund will need financial assistance is high. Assuming an average weekly continued claims level of 200,000 and an average weekly benefit payment of \$143 per person, Puerto Rico’s balance could be depleted in 23 weeks.

In practice, the calculation is significantly more complex than the simplified assumptions outlined above. For example, the trust fund will receive employer contributions during this period which increase the balance (although these contributions are of a much smaller magnitude than the outflow of unemployment claim payments during a crisis of this size). With respect to the average weekly benefit, the amount is currently \$143/person but is expected to increase beginning in July to \$157/person. Perhaps the most important assumption is the average weekly claim figure. While the latest continued claims data as of week ended April 18th showed 150,908 of continued claims⁸², this figure may be understated as there is likely a backlog of claimants who will receive retroactive payments if ultimately approved for unemployment insurance. That said, the claims are expected to decline at some point in time as the economy is reopened and people return back to the work. Of note, if an individual claimant is required to stay on unemployment beyond the typical 26 weeks, they are allowed to do so for an additional 13 weeks through the CARES Act, but the liability for these additional 13 weeks is of the federal government rather than the state. For simplicity, the above situation is outlined to show the severity of the issue and the potential liquidity impact to the trust fund going forward.

⁸⁰ Advisory Council on Unemployment Insurance (1996) recommendation 95-2.

⁸¹ Treasury Direct. <https://www.treasurydirect.gov/govt/reports/tfmp/utf/pr/dfiw00420aspr.txt>.

⁸² U.S. DOL weekly news release as of April 30th, 2020. <https://www.dol.gov/ui/data.pdf>.

12.4 Alternative Macroeconomic Forecast Scenarios

In light of the impact on the macroeconomic and financial projections caused by the uncertainty surrounding the COVID-19 pandemic, the 2020 Fiscal Plan includes alternative downside and upside scenarios (**Exhibit 28**). The downside scenario assumes a longer recession and slower recovery, in which the U.S. economy experiences a further economic decline in the third quarter of 2020 and does not begin a recovery until the fourth quarter. The upside scenario assumes a lesser impact and quicker recovery, with a less severe U.S. economic decline in April.

EXHIBIT 28 ALTERNATIVE MACROECONOMIC FORECAST SCENARIOS

Upside Scenario						
U.S. mainland real GDP grows at -0.4% in FY2020 and 3.4% in FY2021						
	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025
Real GNP Change (%)	-2.9%	-3.8%	3.9%	0.0%	0.8%	0.7%
<i>Var to Baseline</i>	0.7%	4.0%	2.4%	0.3%	0.0%	0.0%
Revenue (pre Fed Transfers) ¹	14,218	14,618	14,699	14,970	15,214	15,453
<i>Var to Baseline</i>	2	370	637	683	703	722
Surplus (pre Debt Service) ²	710	(344)	397	522	816	910
<i>Var to Baseline</i>	3	363	575	611	626	638

Baseline (2020 Fiscal Plan)						
U.S. mainland real GDP grows at -1.7% in FY2020 and -2.2% in FY2021						
	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025
Real GNP Change (%)	-3.6%	-7.8%	1.5%	-0.3%	0.8%	0.7%
Revenue (pre Fed Transfers) ¹	14,215	14,248	14,062	14,288	14,511	14,731
Surplus (pre Debt Service) ²	707	(708)	(178)	(89)	190	271

Downside Scenario						
U.S. mainland real GDP grows at -1.7% in FY2020 and -2.2% in FY2021						
	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025
Real GNP Change (%)	-4.1%	-12.8%	-1.8%	-0.7%	0.8%	0.7%
<i>Var to Baseline</i>	-0.5%	-5.0%	-3.3%	-0.4%	0.0%	0.0%
Revenue (pre Fed Transfers) ¹	14,214	13,786	13,274	13,449	13,647	13,844
<i>Var to Baseline</i>	(1)	(462)	(788)	(839)	(864)	(887)
Surplus (pre Debt Service) ²	706	(1,161)	(889)	(840)	(579)	(512)
<i>Var to Baseline</i>	(2)	(454)	(710)	(751)	(769)	(784)

Notes

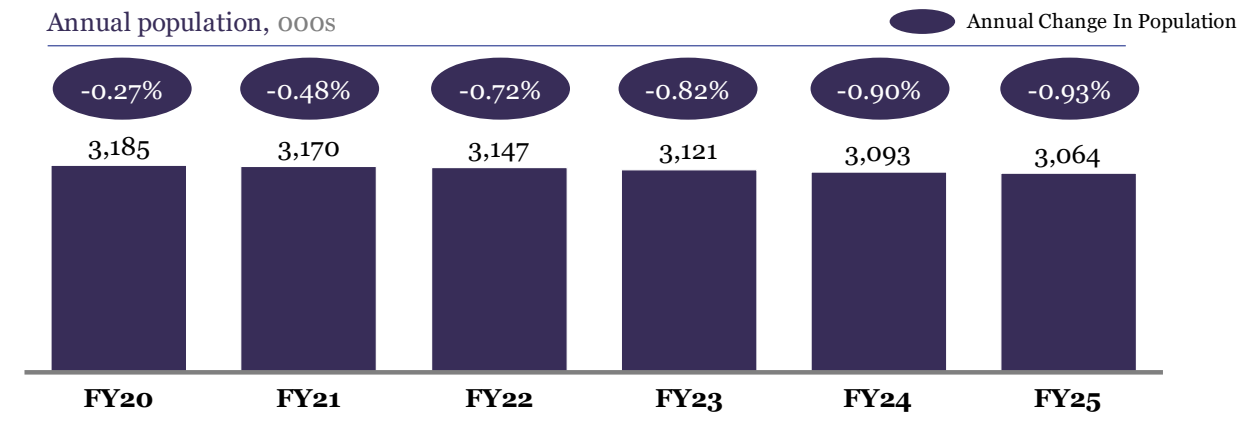
(1) Reflects Adj. Revenue Post Measures (Excl. Federal Transfers).

(2) Reflects Surplus/(Deficit) Post Measures (excl. Debt Payments).

12.5 Population Projections

In December 2019, the United States Census Bureau released its official estimates of population growth for the year beginning July 1, 2018 (FY2019), showing a population increase of 340 persons (0.0%) over FY2018. This ends a near decade and a half long streak of annual population declines as Puerto Ricans left the Island to seek opportunities elsewhere, and birth rates declined. Despite the growth in FY2019, the downward trend driven by long-run macroeconomic factors is expected to resume over the 2020 Fiscal Plan forecast period, returning to -0.93% by FY2025, similar to the trend over the past decade (**Exhibit 29**).

EXHIBIT 29: PROJECTED POPULATION CHANGE



The 2020 Fiscal Plan economic model estimates population growth jointly with GNP based on official data since 1965. The population data set includes variables that influence migration decisions as well as long-term drivers of population growth, including Puerto Rican GNP growth, U.S. mainland GDP growth, net federal transfers, the effects of storms and recent earthquakes, as well as taking into account trends in population growth.

12.6 Tourism Outlook

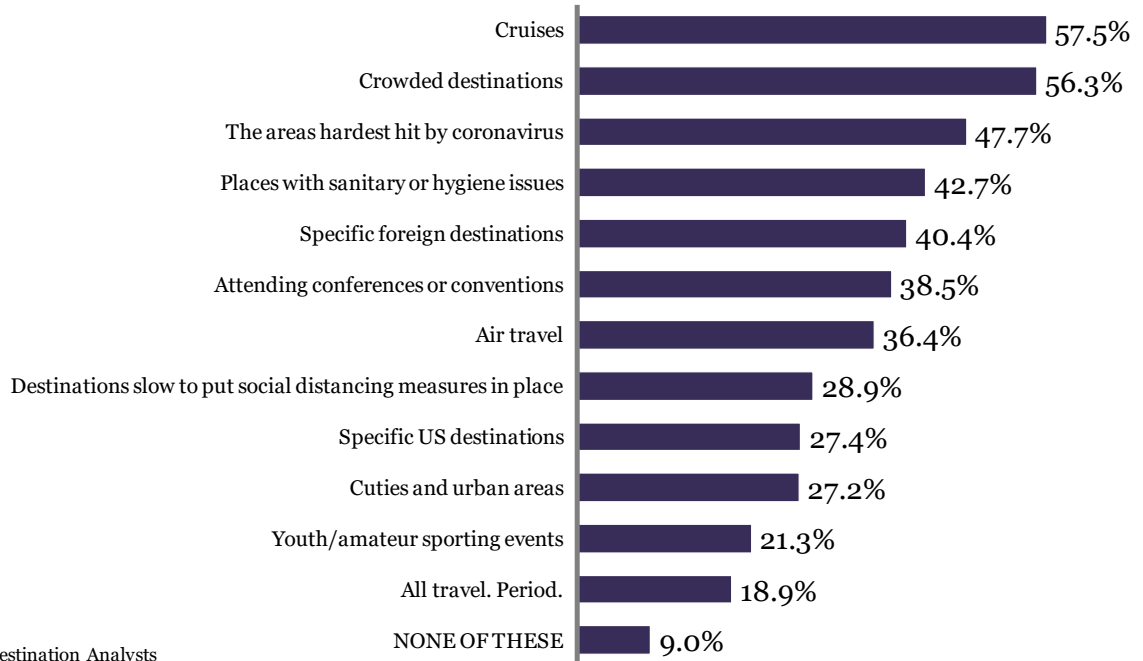
The short-term outlook of tourism is worrisome, as the COVID-19 impact will extend beyond the initial Puerto Rico lockdown phase. Potential visitors would weigh the option of flying compared to driving to destinations. The recovery of the cruise ship business could take particularly long. However, tourism is benefiting from some structural changes in the world economy. There is a long-term trend for households, particularly in the United States, to spend a larger percentage of their income in tourism related activities.

While this is positive for Puerto Rico it is looking increasingly likely that consumers will take additional precautions when it comes to travel related activities. In a recent survey performed by Destination Analysts, 58% of respondents indicated that they expect to avoid cruises and 36% of respondents said they will avoid air travel in the 6 month period immediately after the COVID-19 situation is resolved (**Exhibit 30**). Even after shut-down periods subside, it appears that the COVID-19 pandemic could change the way consumers travel, which could have a long-term, negative impact on the tourism industry.

EXHIBIT 30: CHANGE IN CONSUMER BEHAVIOR – AVOIDING CROWDED DESTINATIONS

Question: Do you expect that you will avoid any of the following in the SIX (6) MONTH period immediately after the coronavirus situation is resolved? (Select all that would complete the following sentence for you)

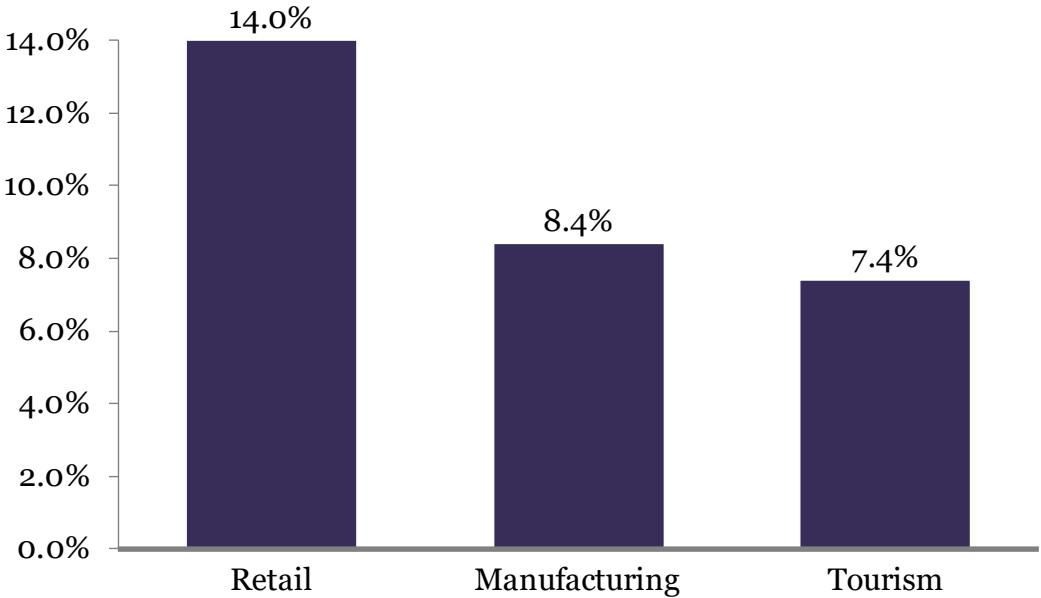
I will most likely avoid _____.



Source: Destination Analysts
 Base: All respondents, 1,238 completed surveys. Data collected April 17-19, 2020.

The tourism sector represented 65,000 direct jobs in Puerto Rico equivalent to 7% of total employment as of 2019 (**Exhibit 31**). This was close to the 73,000 jobs in the manufacturing sector (8%) and half of the 122,000 jobs in the retail sector (14%).

EXHIBIT 31: SHARE OF RETAIL, TOURISM AND MANUFACTURING EMPLOYMENT IN PUERTO RICO



Source: U.S. Bureau of Labor Statistics and Oxford Economics Company
*Figure of 2019 is average from January through November

Puerto Rico’s drop in occupancy has been swifter and more drastic than the average occupancy in the U.S. (**Exhibit 32**). Hotel demand in Puerto Rico during 2020 had been higher than 2019 levels for all but the two weeks post-earthquake until the sharp drop off during the week of March 8 (**Exhibit 33**). Before the earthquakes, both leisure and group bookings were ahead of the 2019 pace. A forecast showing year over year leisure and group bookings projects a steep decline for the rest of 2020 (**Exhibit 34**). There was a decline in the weeks following the earthquake, but bookings were running above 2019 levels until the first week of March when the sharp declines in future bookings started. Puerto Rico travel sector revenue will average 62% below normal in March and April. The declines are expected to lessen in the summer as travel restrictions are lifted, but losses will continue throughout the rest of 2020 (**Exhibit 35**).

EXHIBIT 32: HOTEL OCCUPANCY % - PUERTO RICO VS. U.S. AVERAGE

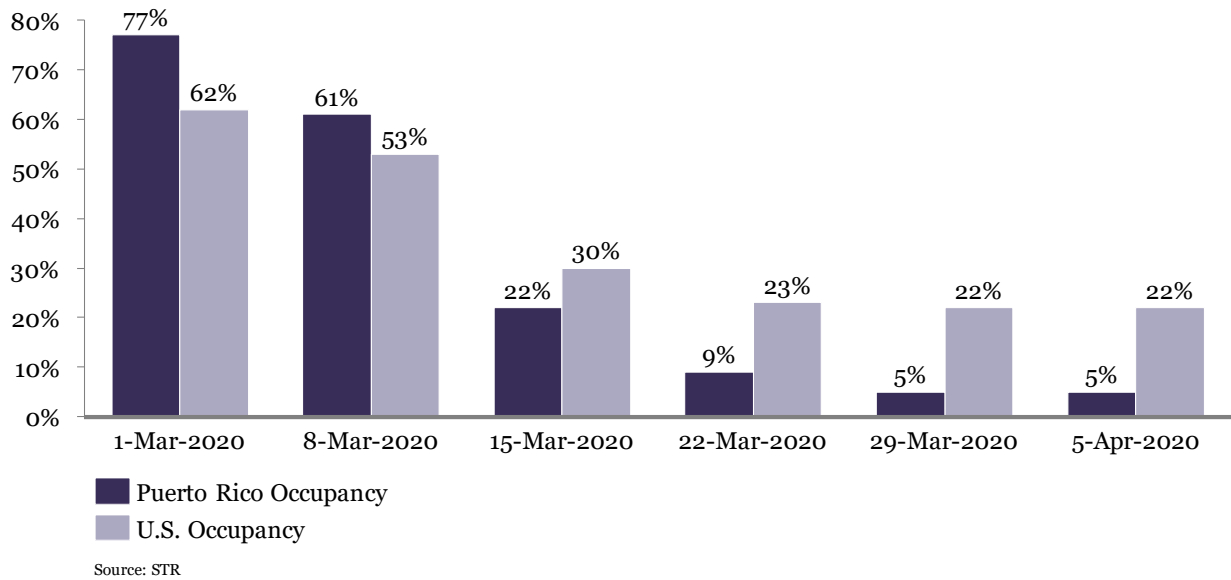


EXHIBIT 33: PUERTO RICO HOTEL DEMAND

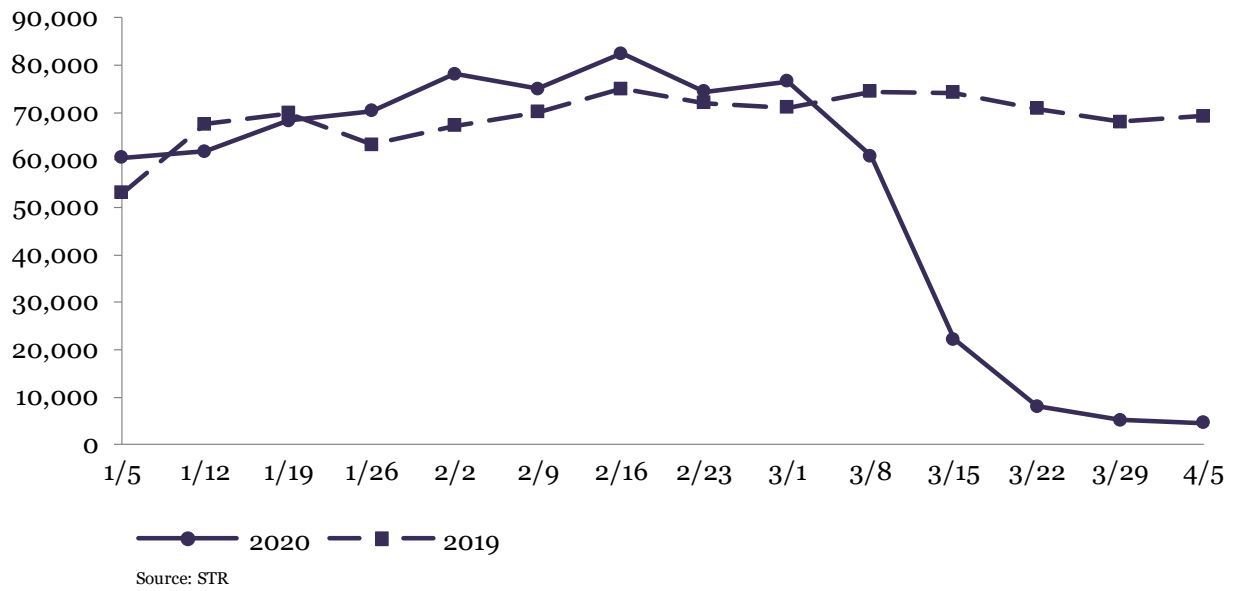


EXHIBIT 34: YEAR OVER YEAR PUERTO RICO OCCUPANCY FORECAST

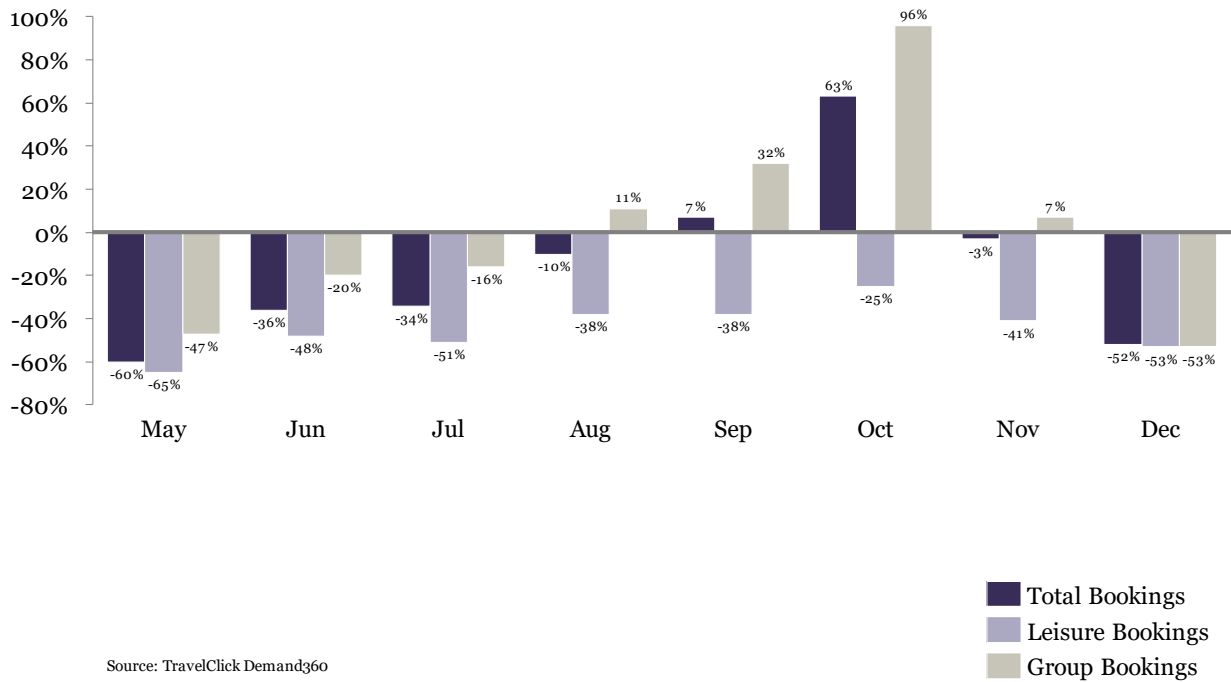
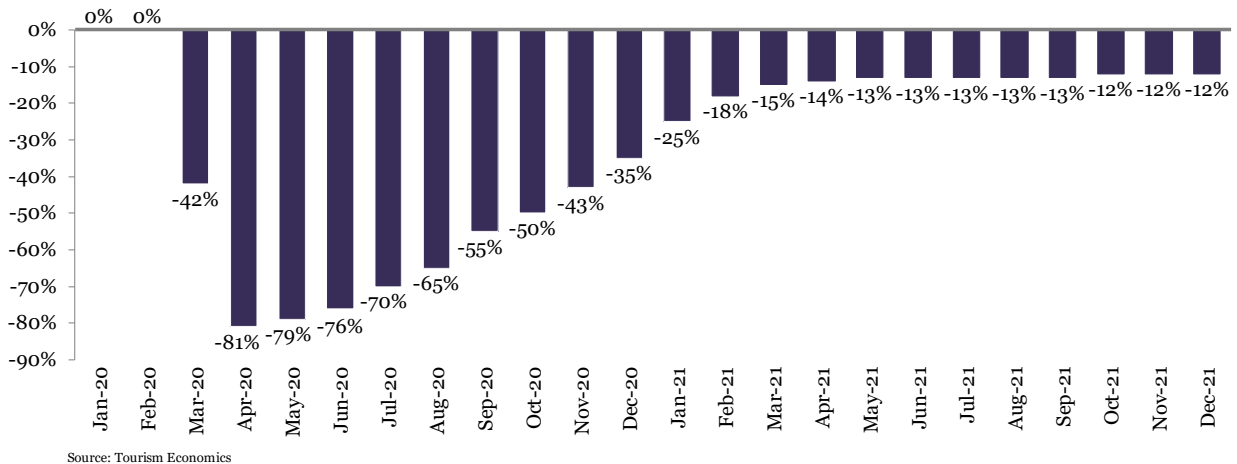


EXHIBIT 35: PROJECTED COVID-19 IMPACT ON PR TOURISM INDUSTRY REVENUE IN 2020



While the industry outlook is complicated, there is an opportunity to position Puerto Rico as an attractive destination. Discover Puerto Rico, the newly established private, not for-profit Destination Marketing Organization (DMO) whose mission is to make Puerto Rico visible to the world as a premier travel destination and the PRTC has developed a Tourism Recovery Plan focused on the following objectives:

- Position Puerto Rico as a leader in tourism recovery

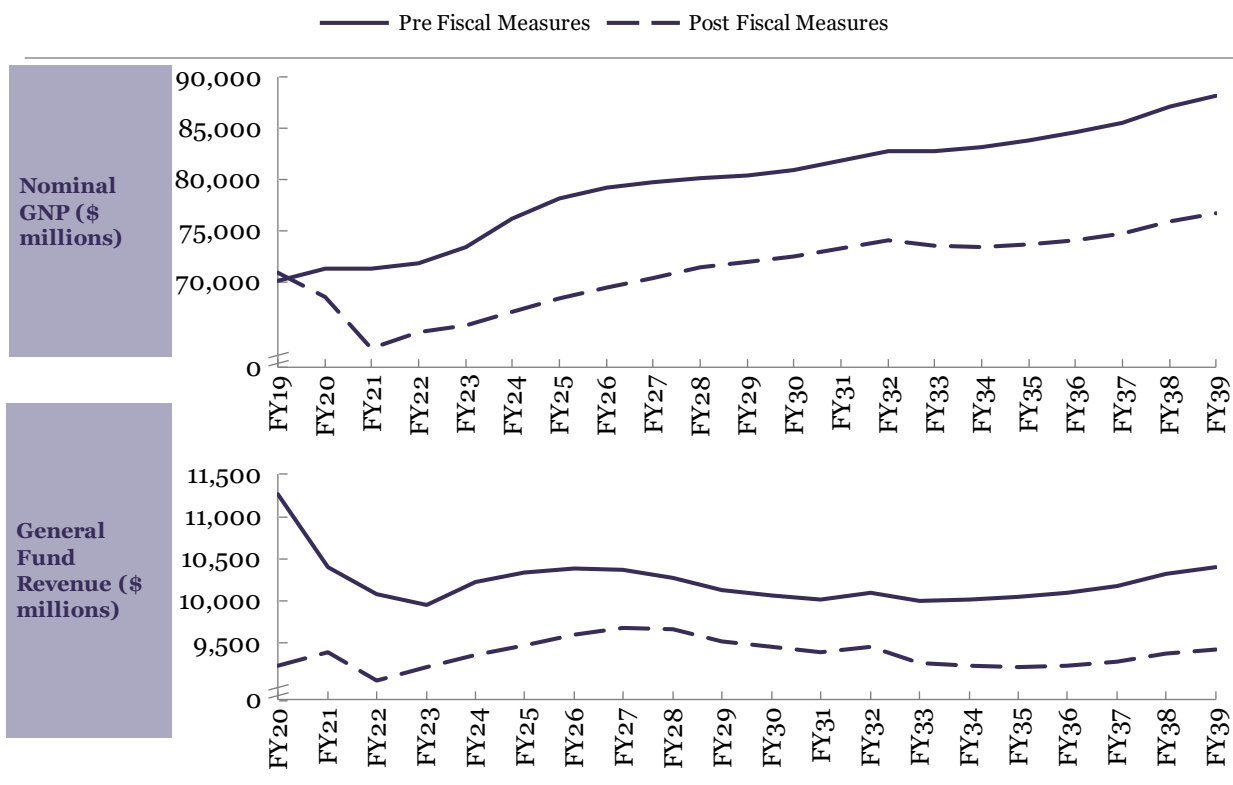
- Accelerate tourism recovery by capturing short-term opportunities
- Establish demand-building activities to quickly protect/restore air service capacity
- Optimize Leisure and MICE Re-bookings
- Prominently position Puerto Rico as a MICE Destination-of-Choice for U.S. Planners

Chapter 13. 2020 FISCAL PLAN FINANCIAL PROJECTIONS

The COVID-19 pandemic is having a profound impact on economic growth and ultimately on Government revenues. In a recent report, Moody's Investor Services stated that "the crisis is wreaking havoc on state budget forecasts and will cause fiscal 2021 tax revenue to fall short of 2019 collections by nearly 15%. It will take years for state revenue to return to 2019 levels without tax increases, while recovery to a level where no COVID-19 crisis occurred is unlikely over a five-year horizon".⁸³ Unfortunately, Puerto Rico is not an exception. Nominal GNP declines in FY2020 and FY2021 of -3.3% and -7.4%, respectively, change the course of economic activity in Puerto Rico over the entire forecast period. **Exhibit 36** compares the Nominal GNP forecast included in the 2/28 Fiscal Plan to the Nominal GNP forecast included in the 2020 Fiscal Plan. Nominal GNP in the 2020 Fiscal Plan never reaches the same level as the 2/28 Fiscal Plan in the same year. The level of economic activity has essentially been shifted out. Nominal GNP in the 2/28 Fiscal Plan was forecast to reach \$76.1 billion in FY2024, whereas in the 2020 Fiscal Plan forecast this amount will not be reached until FY2039 when Nominal GNP reaches \$76.6 billion. As can be seen in **Exhibit 36**, this translates into billions of dollars of lost revenue over the long term.

⁸³ Moody's Investors Service, April 24, 2020: "Revenue recovery from coronavirus hit will lag GDP revival, prolonging budget woes"

EXHIBIT 36: COMPARISON OF PROJECTED NOMINAL GNP AND GENERAL FUND REVENUES – 2/28 FISCAL PLAN COMPARED TO 2020 FISCAL PLAN



General fund revenues decrease 13.0% in FY2020 relative to FY2019, after adjusting out the impact of timing related tax deferrals. Despite the sharp negative impact of COVID-19 on FY2020 fourth quarter general fund revenues, the full-year FY2020 pre-contractual debt service surplus is still \$707 million. The surplus in FY2020 is due, in part, to:

- Revenues that are bolstered by a positive macroeconomic trajectory resulting from the disaster relief funding stimulus and non-recurring revenue in the first part of the year.
- The New Medicaid Funding Bill which granted Puerto Rico \$5.3 billion of Medicaid funding in federal fiscal years 2020 through 2021 at a 76% FMAP which freed up budgeted General Fund expenditures for Medicaid expenditures. The cap was further increased by ~\$180 million and the FMAP was increased to ~83% in response to the COVID-19 pandemic over the life of the bill.
- Offset by the impact of policy decisions to extend the filing dates of certain taxes resulting in a timing related loss in FY2020 that is recouped in FY2021.

Beginning in FY2021, the unfavorable impact of the COVID-19 pandemic on the Puerto Rico economy results in a -7.4% decrease to nominal GNP and a resulting pre-contractual debt service *deficit* of -\$708 million. The deficit in FY2021 is due, in part, to:

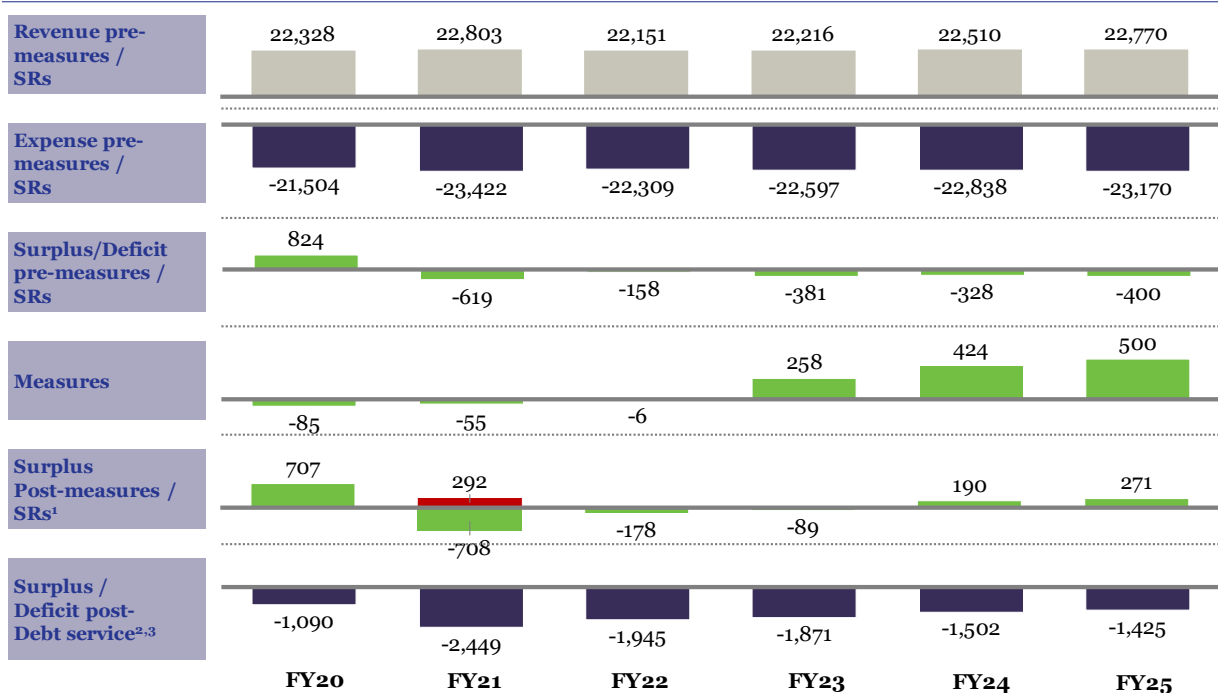
- Positive impact to surplus on account of revenues continuing to be bolstered by disaster relief funding and increased Medicaid funding per the New Medicaid Funding Bill, as outlined above.

- Assumed collection of timing related revenues on account of the reversal of the extension of tax filings that were delayed from FY2020 to FY2021.
- Offset by a decrease to recurring general fund revenue driven by the -7.4% in nominal GNP in FY2021.
- Offset by the increase in general fund payroll and operating expenses to ensure prosperity and efficient government beginning in FY2021.
- Offset by the establishment of the \$1 billion major project working capital fund.

An annual deficit is forecast to continue through FY2023, as growth rebounds but the impacts of COVID-19 linger. From FY2024 through FY2029, Puerto Rico is forecast to achieve an annual surplus as the impact of COVID-19 diminish and the Commonwealth achieves positive Nominal GNP growth averaging 1.5% per year. However, even after fiscal measures and structural reforms, there is an annual pre-contractual debt service deficit reflected in the projections starting in FY2030 and lasting through the remainder of the forecast. This is in part due to a slowdown of Federal disaster relief funding, declining Act 154 and Non-Resident Withholding (NRW) revenues, rising pension expenses, and long-term healthcare expenditures growing at a faster rate than GNP.

EXHIBIT 37: PROJECTED DEFICIT / SURPLUS PRE- AND POST-MEASURES AND STRUCTURAL REFORMS

Projected deficit / surplus pre- and post- measures and structural reforms (“SRs”), \$M



1. FY21 illustrates surplus inclusive and exclusive of the \$1.0 billion working capital fund
2. Contractual debt service does not include COFINA debt service
3. FY21 surplus includes impact of the \$1.0 billion working capital fund

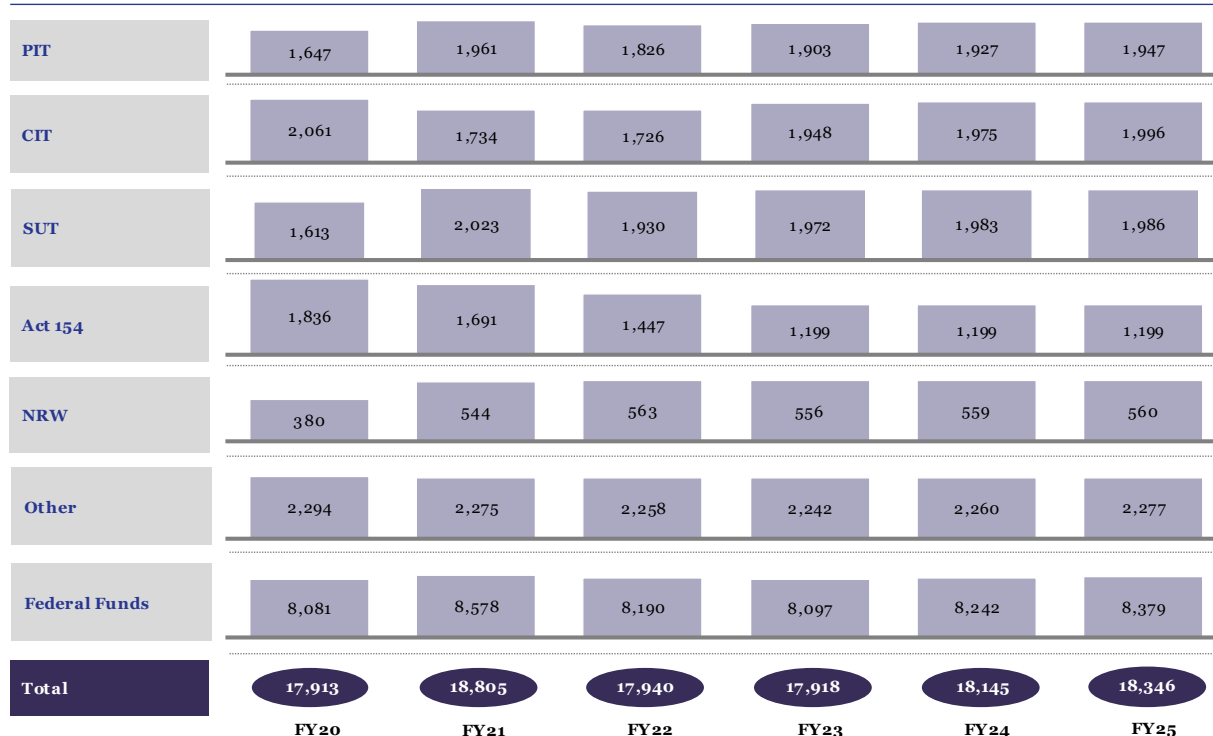
13.1 Baseline Revenue Forecast

Major revenue streams (**Exhibit 38**) include non-export sector General Fund revenues (including PIT, CIT, and SUT) and export sector revenues (including Act 154 excise taxes paid by multinationals operating on the Island, and NRWs), as well as federal funding.

Impact of COVID-19 on General Fund Revenues: The forecast includes a set of adjustments to account for short-term shocks to general fund revenues on account of executive actions and economic activity. Certain of these adjustments, such as the extension of individual and corporate income tax filing dates, are strictly timing related and are expected to reverse out in FY2021⁸⁴. Other COVID-19 adjustments are primarily related to the expected decrease in economic activity on account of the island-wide shut-down. These adjustments are most prominent in FY2020 while the economy is enduring the shut-down, but are assumed to last, on a decreasing basis, through FY2022 to account for the expected behavioral changes over the subsequent two years as the economy returns to a new normal. The longer-term impact of COVID-19 is captured through the macro-economic forecast, as year-over-year growth of the largest general fund revenue concepts (PIT, CIT and SUT) are aligned with Puerto Rico nominal GNP growth. For FY2021, general fund revenues are expected to drop 11.3%, after adjusting out the impact of timing related tax deferrals.

EXHIBIT 38: MAJOR REVENUE CATEGORIES PRE-MEASURES AND STRUCTURAL REFORMS

Key Baseline Revenue Drivers, Pre-measures and structural reforms¹, \$M



1. Including COVID-19 timing related deferrals in FY 2020 that are recouped in FY 2021

⁸⁴ There is assumed to be a 10% cost associated with these timing adjustments, as the extension of tax deadlines is expected to result in some leakage. As such, 90% of the forecast revenue related to these timing adjustments is expected to be re-captured in FY2021, whereas the remaining 10% is assumed to be lost.

13.1.1 Non-export sector General Fund revenue projections

In the midst of a decline in economic activity from FY2017 to FY2018, income tax collections proved more resilient than the economy as a whole. Recovery related activities in FY2019 continued to support strong individual income tax collections. Moreover, revenues in FY2020 and FY2021 are heavily impacted the COVID-19 pandemic, largely by the territory wide shut-down and the extension of tax filings into FY2021. As such, the forecast attempts to segregate the hurricane recovery-related revenues and the COVID-related impact from the general fund revenues driven by recurring on-Island economic activity. The recurring revenue growth trajectory closely mimics the change in Puerto Rico economic growth, as the largest drivers of General Fund revenue (PIT, CIT and SUT) are aligned with Puerto Rico nominal GNP. The impact of COVID-19 is estimated to shift down the level of economic activity throughout the 20 year forecast with directly impacts these economically sensitive revenues streams for years to come when compared to the 2/28 Fiscal Plan revenue forecast.

Individual income taxes: Individual income taxes are highly concentrated, with 78.2% of revenues coming from the 8.7% of returns reporting income above \$60,000.⁸⁵ Post-Maria revenues have been impacted by mainland corporations ramping up activity to support disaster recovery related projects. COVID-19 related adjustments, continued disaster recovery spend, out-performance year to date in FY2020, and baseline Island economic activity have been considered in the near-term forecast (**Exhibit 39**), while the longer term forecast is more aligned with Puerto Rico nominal GNP and year-to-year changes in Puerto Rico nominal GNP. On average, individual income taxes from FY2022-FY2039 reflect 2.9% of the nominal GNP, directly in line with the 5-year historical average of 3.0%.

Corporate income taxes: There is also concentration in tax receipts among the largest corporations operating in Puerto Rico (e.g., ~29% of corporate income taxes are paid by 20 corporate taxpayers).⁸⁶ Corporate activity spurred by reconstruction funding, mainland-based firms entering the Island economy, and Puerto Rican firms receiving new business have contributed to strong revenues post-Maria. Similar to personal income taxes, COVID-19 related adjustments, continued disaster recovery spend, out-performance year to date in FY2020, and baseline Island economic activity drive the near-term forecast for CIT (**Exhibit 39**), while the longer term forecast is more aligned with Puerto Rico nominal GNP and year-to-year changes in Puerto Rico nominal GNP. Additionally, FY2020 included \$488 million of one-time M&A activity that was not budgeted and is not assumed to be recurring in go-forward years. On average, corporate income taxes from FY2022-FY2039 reflect 2.7% of the nominal GNP, directly in line with the 5-year historical average of 2.7%.

Sales and use taxes: Like corporate and personal income taxes, SUT revenues were likely boosted by the increased economic activity resulting from the post-disaster reconstruction process (including through replacement of lost inventory), as well as enhanced compliance by those firms less impacted by the storm. Near-term SUT collections consider the impacts of COVID-19 related adjustments, continued disaster recovery spend, under-performance year to date in FY2020, and baseline economic activity (**Exhibit 39**), while the longer term forecast is more aligned with Puerto Rico nominal GNP and year-to-year changes in Puerto Rico nominal GNP. On average, sales and use taxes from FY2022-FY2039 reflect 3.0% of the nominal GNP, which is slightly above the 4-year⁸⁷ historical average of 2.6%. This difference relative to historical

⁸⁵ Hacienda historical reports as of April 2018.

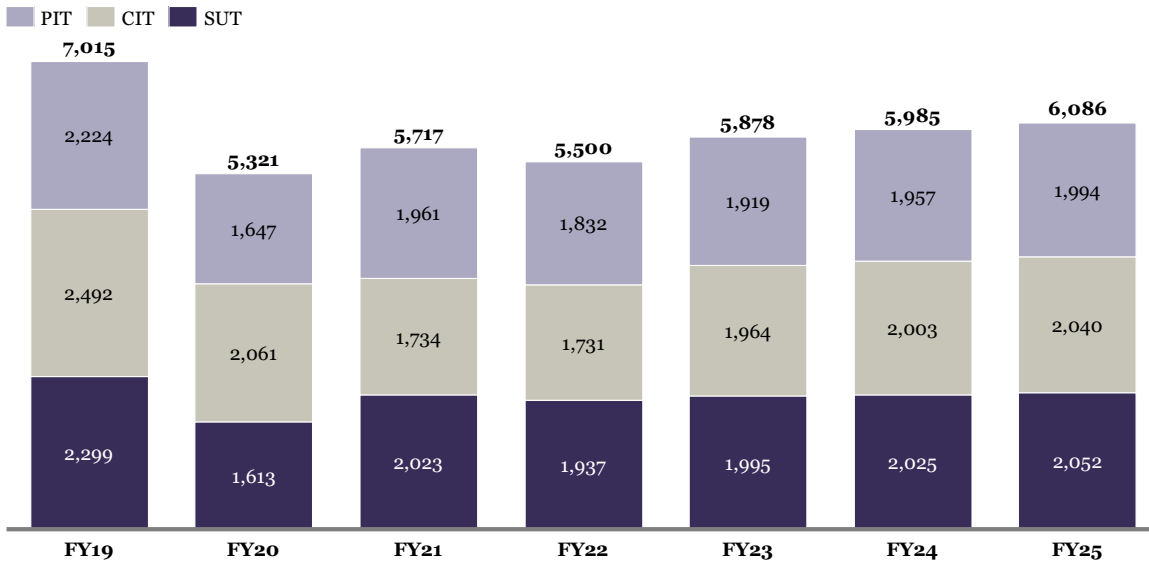
⁸⁶ Hacienda historical reports as of April 2018.

⁸⁷ A 4-year historical average was used (rather than 5-year) because prior to FY2016, a fundamentally different percentage of SUT was allocated to the general fund. As such, FY2015 data is not applicable when comparing on a percentage of GNP basis.

percentages is consistent with developing trends, given that the hurricanes resulted in a supply side shift in the informal/formal economies. Smaller retailers are more negatively impacted by the storms, and therefore are more prone to closure as a result of the catastrophe. This pushes consumers to the formal economy where retailers are more SUT compliant.

EXHIBIT 39: PRIMARY GENERAL FUND REVENUE CONCEPTS – SHORT TERM FORECAST

General Fund Revenue Forecast – PIT, CIT and SUT pre-measures, \$M



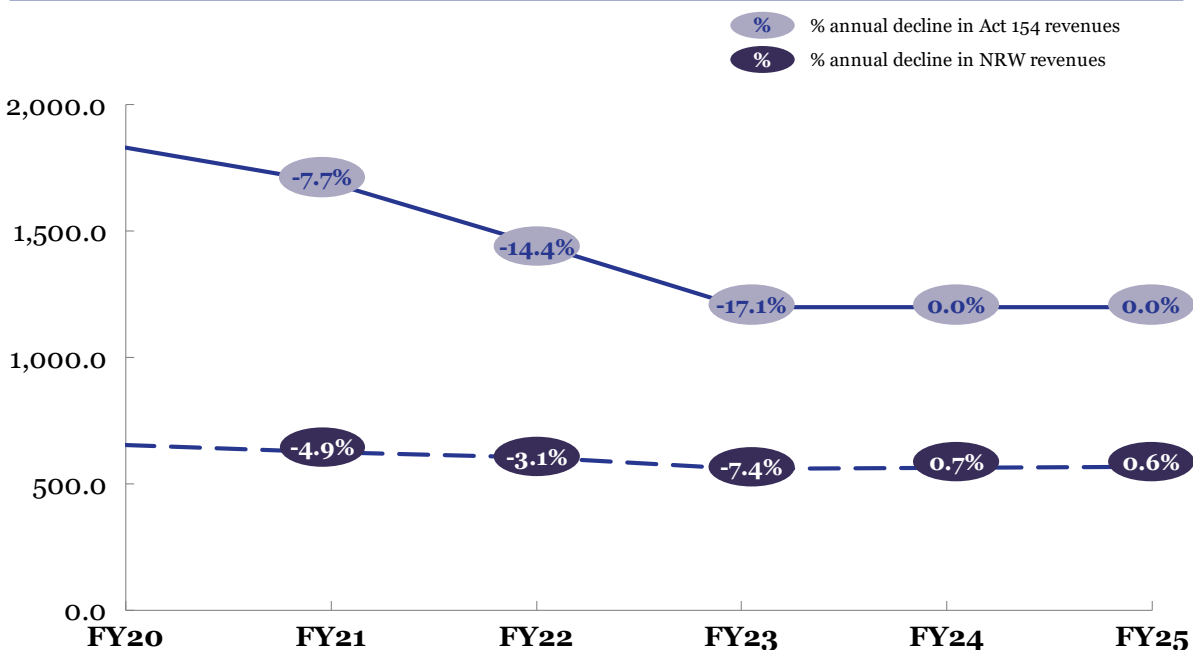
Note: FY2019 and FY2020 include measures captured during those years. From FY2021 and beyond, forecast incremental measures are excluded.

Motor Vehicles: Disaster related spend seemed to have a positive impact on motor vehicle revenue in recent years. This is believed to be due to many residents replacing motor vehicles in the wake of the storm and purchases of vehicles to support disaster recovery activities. While there has been a surge in motor vehicle revenue from FY2018 through FY2020 year-to-date, this is expected to be offset by the COVID-19 related adjustments on account of the decreased economic activity in the short-term. The longer term forecast for motor vehicle revenue is aligned with changes in Puerto Rico nominal GNP. On average, motor vehicle revenues from FY2022-FY2039 reflect 0.5% of the nominal GNP, directly in line with the 5-year historical average of 0.5%.

Export sector revenue projections: Act 154 and NRW tax revenues have proven to be less resilient than other types of revenues after the hurricane. Both revenue types are concentrated in a small number of multinational corporations, and the absence of payments from large payers in previous years has had an impact on the overall trendline of these revenues. From FY2020 to FY2025, Hacienda estimates that, excluding COVID-19 related adjustments, ~35% of Act 154 and ~14% of NRW revenues will erode (**Exhibit 40**) due to the combination of federal tax reform (reducing Puerto Rico’s attractiveness as a low tax jurisdiction for multinationals) and hurricane impacts (creating challenges of restoring manufacturing operations and exporting).

EXHIBIT 40: PROJECTED ACT 154 AND NON-RESIDENT WITHHOLDING REVENUES

Projected annual Act 154 and NRW revenues¹, \$M



¹ Revenue figures and related percent change are shown prior to COVID-19 related adjustments.

13.1.2 Medicaid funding

Puerto Rico's Government-funded health plan, Vital, covers individuals through four primary funding sources: Federally-matched Medicaid funds, Employee Assistance Program (EAP) funds, the Children's Health Insurance Program (CHIP), and the Government's self-funded insurance program for low-income adults who do not qualify for federally-matched Medicaid. An additional ~8% of the people of Puerto Rico receive some benefits from the Government as part of the Platino program, which supports Medicare Advantage recipients who also qualify for Medicaid (also known as "dual-eligible").

The Bipartisan Budget Act of 2018 (BBA) provided the Commonwealth temporary relief from raising healthcare costs by expanding the amount of federal reimbursement over an 18-month period. Starting in September 2019, however, the Commonwealth was projected to hit a "Medicaid cliff" whereby it would be responsible for multi-billion-dollar annual healthcare expenditures unseen since the Affordable Care Act (ACA) provided additional federal funding in 2011. In response, in May of 2019, the Government of Puerto Rico lobbied the Federal Government for a continuation of Medicaid benefits to enhance its Medicaid program and ensure the continued support of the most vulnerable population

Due to these efforts, on December 16, 2019 the Federal Government passed the New Medicaid Funding Bill and granted Puerto Rico \$5.3 billion of Medicaid funding in federal fiscal years 2020 through 2021 at a 76% FMAP. The Act allows for \$200 million of additional Medicaid funding each year so long as the Secretary certifies that, with respect to such fiscal year, Puerto Rico's state plan establishes a reimbursement floor for physician services that is not less than 70 percent of the Medicare schedule rate and allows an audit of payments to health insurers participating in the Medicaid program. Furthermore, following the COVID-19 pandemic, the Federal Government

increased the 76% FMAP to ~83% for the duration on emergency period and increased the funding cap by approximately \$180 million over the two federal fiscal years.

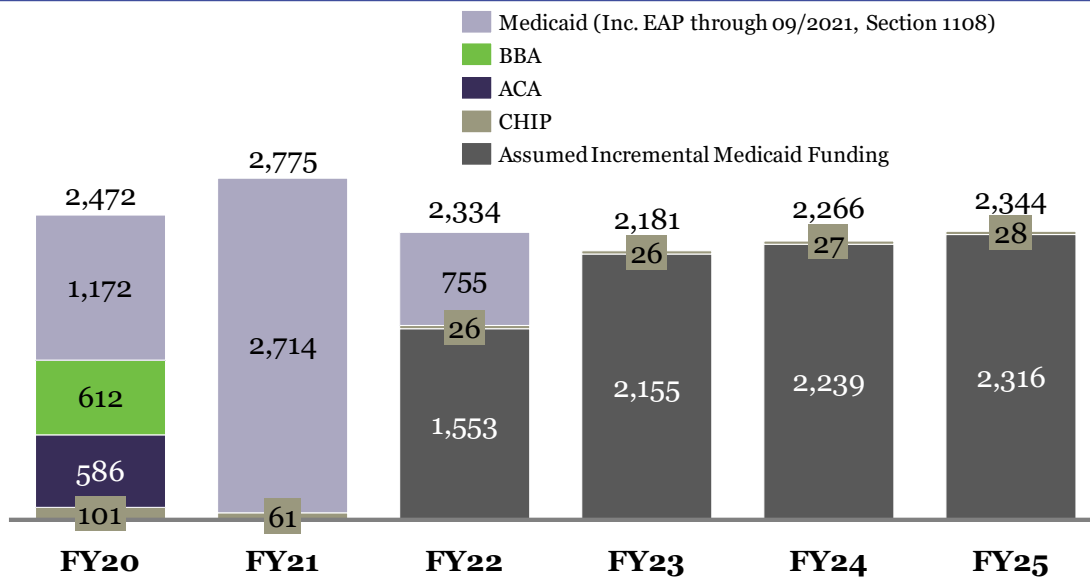
The 2020 Fiscal Plan assumes incremental Medicaid funding from the Federal government to cover approximately 55% of Puerto Rico Medicaid related expenses beginning in Federal Fiscal Year 2022, after the expiration of the New Medicaid Funding Bill, and extending over the life of the forecast. This percentage is consistent with the Statutory Rate for the Medicaid population, which represents the largest population of participants in the program, and the approximate 10-year historical average. This incremental Medicaid funding covers the Standard Annual Federal Medicaid Funding and EAP Funding.

In addition to these funds, the Commonwealth is assumed to continue to receive CHIP funding which is not subject to a federal cap. Federal matching of CHIP related expenditures is approximately 99% in FY2020, an adjustment made in light of the COVID-19 pandemic. This federal cost share is projected to decrease to a long-term 68.5% FMAP in federal fiscal year 2022. In FY2020, the amount of CHIP funding is projected to be approximately \$101.2 million, decreasing to ~\$28.5 million in FY2025 due to the poverty level adjustment critical sustainability measure.

In February 2018, the BBA allocated a supplemental \$4.8 billion of federal funding to Puerto Rico Medicaid for use between January 2018 and September 2019. Per guidance from the Centers for Medicare and Medicaid Services (CMS), this funding is estimated to apply only as a reimbursement for eligible populations (i.e., federally funded Medicaid expenditures). ASES spent as much of the BBA allocation as possible before drawing down any remaining ACA funds, which can resume use from September 30, 2019 until expiration in December 31, 2019. In FY2020, ASES used \$612 million of BBA funds and \$586 million of ACA funds. It will continue to receive its annual CHIP, Federally Qualified Health Center (FQHC), and DOH Medicaid operations funding. **Exhibit 41** outlines expected Medicaid federal fund receipts.

EXHIBIT 41: MEDICAID EXPECTED FEDERAL FUND RECEIPTS

Medicaid Federal funding sources, \$M



13.1.3 Other federal funding

In addition to Medicaid funding, Puerto Rico receives other federal funds on a regular basis. (These are not to be confused with disaster relief funds, which are directly tied to post-storm reconstruction activity.) These funds typically cover both social benefits and operational expenditures. In the 2020 Fiscal Plan, these funds have been modeled based on what types of costs they cover (e.g., benefits or operations) as well as the statutory formula that defines the size of Puerto Rico's allotment. For example, while Temporary Assistance for Needy Families (TANF) funds are typically pass-through (e.g., none of these funds go to operational costs), some Title I education funds are used for operational purposes (e.g., teachers' salaries, school supplies for programs for students with special needs, etc.). For the former, federal fund inflows and outflows mirror each other (as benefit needs decline, so do funds). For the latter, though inflows may decline, it does not necessarily mean expenditures decline as well – as expenditures are based on operations, not on benefits formulas. Meanwhile, while Head Start funds are allocated from the Federal Government based on the number of children living in poverty, NAP funds are provided through a block grant that is capped. The former, therefore, should change by population aged 0-4, while the latter should be consistent regardless of population size.

Supplemental Security Income

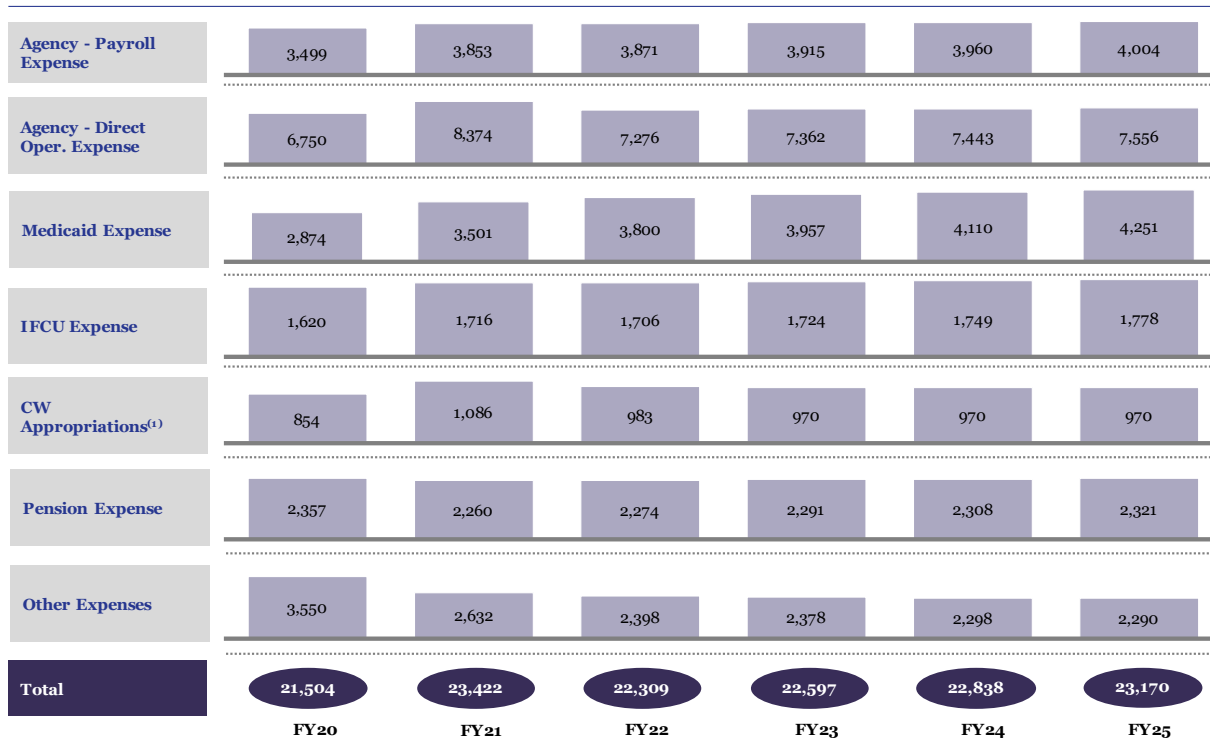
On April 10, 2020, the First Circuit of the U.S. Court of Appeals recognized the equal rights of American citizens residing in Puerto Rico to qualify for Supplemental Security Income (SSI) benefits. SSI is a Federal income supplement program funded by general tax revenues; it does not require a beneficiary to make payments in the program to be eligible for program benefits. It is designed to help aged, blind, and disabled people, who have little or no income and it provides cash to meet basic needs for food, clothing, and shelter. Minors with disabilities including Down Syndrome, autism, cancer and cerebral palsy qualify for this benefit. The average beneficiary in the U.S. receives \$533 monthly. At this time, the Government is not including an estimate of the total amount of benefits to be received by potential Island recipients.

13.2 Baseline Expenditure Forecast

Over the next six years, baseline expenditures are set to increase relative to FY2020 due to inflation and increases in Medicaid costs (**Exhibit 42**).

EXHIBIT 42: MAJOR EXPENDITURE CATEGORIES PRE-MEASURES AND STRUCTURAL REFORMS

Key Baseline Expense Drivers (pre-measures and structural reforms), \$M



¹ Includes appropriations to HTA, UPR, and municipalities

13.2.1 Payroll expenditures and non-payroll operating expenditures

Payroll and Non-personnel operating expenses: FY2020 payroll and non-personnel operating expenses are expected to be consistent with the FY2020 certified budget, including reapportionments and adjustments that have been approved by the FOMB. FY2021 payroll and non-personnel expense reflect the OGP recommended FY2021 budget as submitted in February 2020, which does not include any rightsizing measures. Additional measures are assumed to resume again in FY2023 in order to allow Puerto Rico adequate time to recover from the COVID-19 pandemic.

If not for the proposed reinvestment, the Government would face a critical scenario in which services to the most vulnerable citizens would be affected. Among these, we can distinguish that the most affected programs and initiatives are:

- Administration of Criminal Institutions and Services to Inmates and Young Offenders
- Comprehensive Educational Services for People with Disabilities
- Medical Services to Injured Workers
- Auxiliary Administrative Services, Labor Insurance Issues and Claims
- Integrity and Government Efficiency
- Administration of the Government Employee Retirement System and the Judiciary
- Family Services with Children
- Administration of the University Adult Hospital
- Criminal Investigation

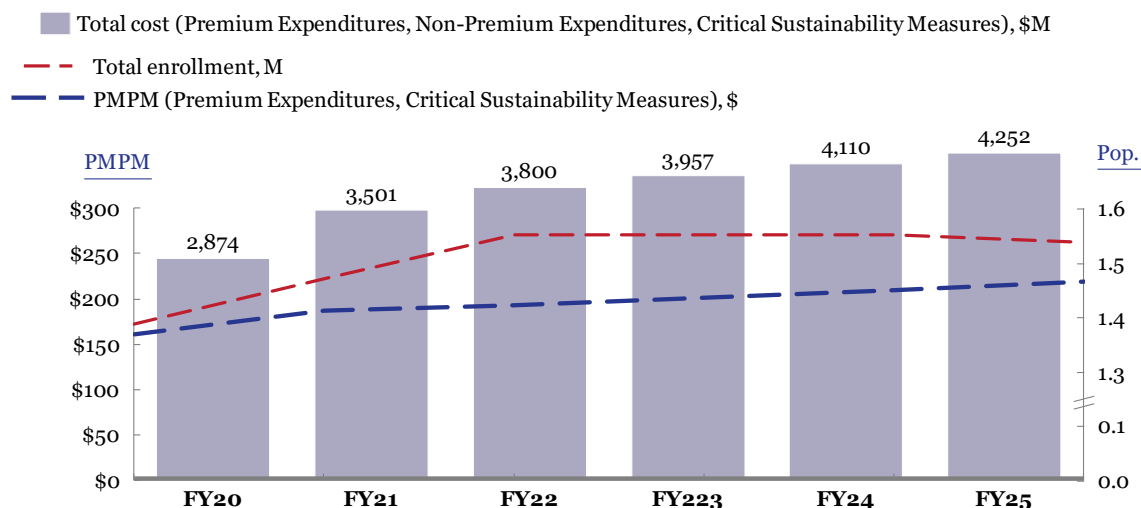
- Planning and Development of Electoral Activities
- Health Services Criminal Population
- Criminal Investigation and Prosecution
- Administration of the Pediatric University Hospital
- Permanent membership boards
- Programming and Production of Television Programs
- Nutrition Assistance for People of Limited Income (PAN)
- Medical Emergency Services
- Health Institutions
- Administration and Supervision of the Ponce Correctional Complex
- Services to the Agricultural Sector
- Land Registry
- Internal Revenue and Collections
- Administration and Supervision of the Bayamon Correctional Complex
- Legal Advice and Representation in Litigation
- Social Services for the Elderly and Adults with limitations
- "Child Care"
- Evaluation and Compliance (Direct Services to Agencies, Municipalities and Corporations)
- Treatment and Rehabilitation Services for Minor Offenders
- Maintenance and Conservation of Roads
- Agribusiness Integrity
- USA Regulation and Supervision of Energy in Puerto Rico
- Collective Land Transportation
- Random Games Supervision
- Administration of Piedras Psychiatric Hospital
- Evaluation and Award of Cases of the State Insurance Fund
- Research and Processing of Children and Family Affairs
- Corporation of the Symphony of Puerto Rico
- Auxiliary services
- Auxiliary Technical Services
- Environmental Health Regulations

13.2.2 Medicaid costs

Medicaid costs are projected to reach over \$4.2 billion annually by FY2025 (**Exhibit 43**). These costs are primarily driven by the cost per member per month (PMPM), the estimated number of people enrolled in Medicaid, and the implementation of critical sustainability measures. Other categories also include non-premium expenditures.

EXHIBIT 43: PROJECTIONS FOR VITAL BASELINE PMPM AND ENROLLMENT (NOT INCLUDING PLATINO)

Medicaid projected PMPM, enrollment, and expenditures, \$M total cost, M enrollees, \$ PMPM



With the incremental federal money granted through the New Medicaid Funding Bill, the Government will implement several critical sustainability measures that are aimed to stabilize, strengthen, and improve the healthcare system.

The additional Medicaid funding will allow the Government of Puerto Rico to implement three critical sustainability measures needed to provide essential health services to Puerto Rico’s Medicaid recipients. The three critical sustainability measures are as follows: (i) Increase provider reimbursement rates; (ii) Provide coverage for hepatitis C drugs; and (iii) Adjust the Puerto Rico poverty level (PRPL).

- i. Increase provider reimbursement rates:** Reimbursement rates for Government Health Plan (GHP) providers are particularly low compared to other Medicaid programs in the states and territories. In addition, increases in reimbursement rates have been limited due to budgetary constraints. For example, from July 2016 to July 2017 primary care services were reimbursed at 19% of the Puerto Rico Medicare fee, while these services are reimbursed at 66% of the Medicare fee nationally. Also, maternity services were reimbursed at 50% of the Puerto Rico Medicare fee while these services are reimbursed at 81% of Medicare fee nationally. The low reimbursement rates have caused provider shortages, lack of access to certain specialty services, and lengthy wait times. To address this issue the Puerto Rico Government will implement the following measures:

- Establish a 70% of Medicare reimbursement floor for all outpatient physician services**

ASES wants to establish a 70% of Puerto Rico Medicare fee schedule reimbursement floor for all physician services. The floor will be implemented through a directed payment arrangement that will be submitted for approval by the Centers for Medicare and Medicaid Services. The costs associated with the measure will be included in the Managed Care Organization PMPM capitation rate. In turn, the MCOs will be contractually obligated to reimburse all contracted providers at

the rate of at least 70% of the Puerto Rico Medicare fee schedule, which will ensure that the increase will be transferred to providers. The directed payment arrangement will not apply to services that MCOs sub-capitated.

- **Increase sub-capitation payment to Primary Care Physician (PCP) services**

Almost all primary care services are paid through sub-capitation arrangements where MCOs delegate the risk for these services to Primary Medical Groups (PMGs). The PMGs are reimbursed through a fixed PMPM payment. In order to improve access to primary and preventive services ASES will include a 10% increase in PMPM sub-capitation paid to PMGs for contract year 2020. This will be considered a one-time increase and therefore no trend is applied to subsequent periods. However, the sub-capitation will increase when MCO premiums are revised each contract year.

- **Increase dental reimbursement rates**

Currently, the GHP covers child and adult dental services. Historically, dentists have not received reimbursement rate increases for these services. In Puerto Rico, dental services are being reimbursed at a much lower level when compared to other Medicaid programs. ASES submitted a directed payment arrangement to CMS, which was approved, that will ensure that the increase will be transferred to dental providers which is pending approval.

- **Increase hospital reimbursement rates**

According to the latest available CMS Hospital Cost Reports, over 50% of Puerto Rico hospitals reported net losses. Medicaid, as is the case in most other States, is the payer with the lowest reimbursement rates for hospitals. Puerto Rico hospitals are disproportionately affected by the low reimbursement rates because Medicaid covers almost half of the Island's population. These conditions jeopardize the ability for hospitals to operate and re-invest in their infrastructure. To support the sustainability of hospital services, additional funds are needed to compensate hospitals for losses attributable to Medicaid. The increase will be tied to the new Diagnosis Related Group (DRG) payment system that is currently being designed for the GHP. The payment system will allow reimbursement rates to be tied to acuity, quality, and value of services offered by each facility. ASES will ensure that the increase will be transferred to providers by mandating all MCOs to increase the base rate payment to hospitals by this amount. Subsequent increases to hospital reimbursement rates will be reflected in increases in the DRG base rate.

- ii. **Provide coverage for hepatitis C drugs:** Puerto Rico's Medicaid plan currently does not provide coverage for drugs that cure the Hepatitis-C virus. There are approximately 14,000 Puerto Ricans that are eligible for treatment and could be cured by making these drugs available to them. While the short-term cost is high, however, in the long term it is estimated that savings can be achieved due to the avoidance of costs related to the treatment of Hepatitis-C virus such as decompensated cirrhosis and liver transplants. Puerto Rico is investing in the long-term health and well-being of its population to provide this benefit and negate the need for more serious, more dangerous treatment options in the future.

- iii. Adjust the Puerto Rico poverty level:** Due to the disproportionately low level of federal Medicaid funding for Puerto Rico, the Island has been forced to limit Medicaid eligibility well below the federal poverty level used in the states. As a result, a large portion of low-income and vulnerable families and individuals remain without health coverage even though they would clearly qualify if they moved stateside. Currently, Puerto Rico provides benefits to 120,000 individuals known as the State or Commonwealth population directly from its state funds. However, state funds are insufficient to meet the full needs of this population so additional federal funding is needed to continue to provide essential healthcare services on the Island so that these individuals do not see themselves forced to move stateside in search of adequate health coverage which is bound to be more costly to the Federal Government. The modification of the Puerto Rico poverty level on which income requirements for Medicaid is based would increase the fairness in eligibility for this population compared to their fellow citizens in the states. The full transparency of this change would be guaranteed through the approval by CMS of a State Plan Amendment (SPA).

PMPM costs for premium expenditures are projected to grow at an annual growth rate of 5.1% for the entirety of the forecast. This rate tracks pre-hurricane growth in Puerto Rico after the Island switched to a fully managed care model in 2015. Additionally, the poverty level adjustment critical sustainability measure increases the income threshold to be closer to comparable U.S. states, resulting in increased enrollment and provision of other services. This impact is included in the baseline. Beginning in FY2026, membership is forecast to decline by the forecast change in population, which averages ~-1.1% over the remainder of the forecast.

Other Government expenditures, which include HIV/PDP, Health Insurance Provider Fee, Air Ambulance, MC21 administrative fee, Super Utilizers, and Pulmonary, among others, are projected to grow at the rate of Puerto Rico inflation. The Health Insurance Provider was eliminated as part of the New Medicaid Funding Bill.

Expenditures for the Platino dual-eligible program were estimated using a consistent \$10 PMPM over FY2020-FY2025, representing payment for wrap-around services supplementing main Medicare coverage. Platino costs are estimated to be approximately \$34 million per year by FY2025.

13.2.3 Other expenditures

Appropriations: Baseline municipal appropriations are projected to be \$132 million beginning in FY2020 for the remainder of the forecast. Beginning in FY2023, these expenses are reduced through a measure, which ultimately reduces the net annual municipal appropriations to zero by FY2026. The UPR appropriation baseline remains at \$560 million from FY2020-FY2025 and grows by inflation thereafter for the remainder of the forecast. Beginning in FY2023, these expenses are reduced through a measure, which ultimately reduces the net annual UPR appropriations to \$442 million by FY2025. **Pension costs:** Projections rely on demographic estimates for the Employees Retirement System, Teachers' Retirement System (TRS), and Judicial Retirement System (JRS) populations and benefit obligations which have been updated to reflect the most recent actuarial valuations conducted by the Governments actuarial firm as of June 30, 2017. From FY2020-FY2025, costs are projected to grow slowly but remain at approximately \$2.3 billion. Since FY2018, ERS pension benefits have been paid on a pay-as-you-go basis, given that the majority of the liquid assets in the retirement system have been depleted. Baseline pension costs have been updated to remove the System 2000 benefits, consistent with

the American Federation of State, County and Municipal Employees (AFSCME) plan support agreement.

Capital expenditures: Centrally funded maintenance and capital expenditures of the Government (excluding PREPA, PRASA, HTA self-funded capex and one-time transfers) are expected to grow by inflation from a baseline of \$382 million in FY2020. Of note, FY2021 includes a one-time incremental capital expenditure consistent with the OMB FY2021 Recommended Budget resulting in \$450 million on FY2021 capital expenditures. Of this FY2021 amount, ~\$101 million will be appropriated annually to HTA and UPR, with the remaining ~\$348 million for use by the Government. After the devastation caused by Hurricanes Irma and Maria, Puerto Rico is in a unique position to become a platform for innovation in resiliency and climate change. To this end, Governor Vázquez is making a pledge to invest 100% of available capital expenditure resources (except funds needed for UPR and HTA) solely for resiliency and mitigation purposes. These amounts will be assigned to and managed by PRIFA.

HTA's capital expenditure funds will be used to support reconstruction, maintenance, traffic reduction, completion of the strategic network, and P3-related expenditures. UPR's capital expenditure funds will support, among other projects, several floors of the Molecular Sciences building, building restoration at Rio Piedras and Medical Sciences, and the development and restorations of campus buildings at Mayagüez including residential housing (among others).

Disaster relief funding cost share: Federal funds for PA typically require a local match from the entity receiving them (anywhere from 10-25% of funds). The 2020 Fiscal Plan projects that the Government will need to cover an estimated 10% of Federal PA funds, amounting to approximately \$1.8 billion from FY2020-FY2032, and instrumentalities not covered under the 2020 Fiscal Plan will shoulder a further ~\$2.1 billion in total cost match expenditures during the same period, for a total of ~\$3.9 billion. The 2020 Fiscal Plan assumes the cost match expenditures will be covered by CDBG funds. As previously stated, the 2020 Fiscal Plan forecasts CDBG funds will be accessible past the statutory seven-year limit.

PROMESA-related costs: PROMESA-related expenditures for the Government are projected to be \$1.1 billion for FY2020 to FY2024, comprised of professional fees and funding for the Oversight Board. The estimate for professional fees was developed by analyzing FY2018 run-rate billings and soliciting input from certain professionals. Fees were benchmarked versus comparable restructuring situations that yield an average professional-fee-to-funded-debt ratio of 1.89% relative to 1.72% projected for the Government (**Exhibit 44**). The 2020 Fiscal Plan assumes that the Plan of Adjustment is not substantially delayed, therefore the professional fees estimate remains the same. However, if there is a material delay due to the COVID-19 crisis, the timing and magnitude of professional fees may have to be adjusted.

EXHIBIT 44: PROJECTED PROFESSIONAL FEES RELATIVE TO OTHER MAJOR RESTRUCTURINGS

Professional fees for restructuring

	Date filed	Outstanding debt, USD	Total fees and expenses, USD	Fees to funded debt, %
City of Detroit, Michigan	Jul. 2013	\$20,000,000,000	\$177,910,000	0.89%
Residential Capital, LLC	May 2012	\$15,000,000,000	\$409,321,308	2.73%
Sabine Oil & Gas Corp.	Jul. 2015	\$2,800,000,000	\$78,553,223	2.81%
Caesars Entertainment Operating Company	Jan. 2015	\$18,000,000,000	\$258,278,005	1.43%
Lehman Brothers Holdings Inc.	Sep. 2008	\$613,000,000,000	\$956,957,469	0.16%
Lyondell Chemical Company	Jan. 2009	\$22,000,000,000	\$205,932,292	0.94%
American Airlines	Nov. 2011	\$11,000,000,000	\$391,637,858	3.56%
Washington Mutual, Inc.	Sep. 2008	\$8,000,000,000	\$271,085,213	3.39%
Edison Mission Energy	Dec. 2012	\$5,000,000,000	\$96,244,628	1.92%
Energy Future Holdings Corp.	Apr. 2014	\$40,000,000,000	\$450,110,233	1.13%
Puerto Rico	2017	\$64,000,000,000	\$1,099,000,000	1.72%

Summary Statistics

Avg.	1.89%
Max	3.56%
Min	0.16%
Med	1.68%



Puerto Rico involves added complexity as the largest public sector restructuring in the history of the United States

Emergency reserve: The Government has established an emergency reserve based on 2.0% of FY18 GNP, which will be funded at \$1.3 billion by 2028. To achieve this, the Government will reserve \$130 million per year for 10 beginning in FY2019. The methodology supporting this reserve is informed by guidance provided to other Caribbean islands by the IMF in defining an adequate emergency reserve (2-4% of GNP, accumulated at ½% per year).⁸⁸ Restrictions on the use of this fund will ensure that it is a true emergency reserve.

Federal emergency funds provide only temporary relief for Puerto Rico’s recovery from natural disasters. Eventually, federal emergency funds will run out and Puerto Rico will need to have in place a solution to respond to future natural disasters. The emergency reserve is designed to provide a long-term solution for Puerto Rico’s emergency response to natural disasters. However, even with the emergency reserve, Puerto Rico will need significant private investment to build infrastructure improvements strong enough to withstand such events so that they will have a minimal negative impact on Puerto Rico’s economy.

Other non-recurring expenditures: The 2020 Fiscal Plan includes the following non-recurring expenditures:

- *One-Time Litigation – Case No. KPE2002-1037 in Puerto Rico Court:* in Primary Health Association of Puerto Rico, Inc. and Others vs. Commonwealth of Puerto Rico and Others: forecast \$92 million of one-time litigation expenses in FY’2021, which are required to

⁸⁸ IMF Bahamas Article IV report published March 22, 2018.

comply with the Transactional Stipulation of the case. These funds reflect the amounts owed by the Government to 330 centers for supplementary wraparound payments related to the claims during the period from January 1, 2001 to June 30, 2006.

- *One-Time Litigation – Case No. 99-1435 in Federal Court: United States of America vs. Commonwealth of Puerto Rico:* forecast \$20 million of one-time litigation expenses in FY'2021, which reflect amounts needed to replenish the surpluses of State Funds not used by the Division of Services to Persons with Intellectual Disabilities, which were returned to the General Fund during fiscal years 2015 to 2019.
- *One-Time Accrued and Unpaid Paid Time Off (PTO) –* forecast \$15 million of one-time accrued and unpaid PTO in FY2021.
- *Electoral Expenses –* forecast \$33 million of electoral-related expenditures which are included every fourth year (election years).

Chapter 14. FISCAL RISKS

COVID-19: The novel COVID-19 poses a significant risk to the outlook. In early March the WHO declared the outbreak to be a global pandemic. Throughout the United States, state and local governments have implemented stay at home orders and ordered nonessential businesses to close to slow the spread of the virus. Nations have implemented travel restrictions and closed borders to nonessential travel.

These measures have a direct effect on economic activity and are certain to impact real GDP growth and consumer confidence severely. Unemployment claims have risen sharply as business closures and layoffs resulting from the social distancing measures, stay at home orders, and economic uncertainty have grown. Over 30 million new unemployment claims were filed in the U.S. in the six weeks ending April 25, 2020, including more than 200,000 initial claims in Puerto Rico, far exceeding the levels of claims seen during the recession of 2008-09.

The Federal Reserve and Congress have responded with stimulus measures, including the CARES Act, which provides for a massive expansion of unemployment insurance and direct stimulus payments to Americans, but there remains considerable uncertainty surrounding the duration of the pandemic, social distancing measures, and subsequent recovery.

Direct impact from slowing tourism globally is also a risk. The busy spring break travel season in the Caribbean was halted suddenly in March. The cruise and hotel industries are expecting 2020 to be a historically bad year, but it is unclear how tourism will fare in the next fiscal years, or whether the cruise industry may suffer extended losses due to the high profile COVID-19 outbreaks on cruise ships.

Risk to Revenue Generation: Revenues could be compromised through lower growth generation than expected by structural reforms, and revenues could be impacted by demographic shifts described below. Additionally, revenue upticks might be shorter than expected, while the creditability of Act 154 revenues is in question.

Economic Downturn: Puerto Rico has faced a profound fiscal and economic crisis, which has affected many of the Island's municipalities and public instrumentalities. Puerto Rico's gross national product contracted in real terms in all but one year between fiscal year 2007 and fiscal

year 2018. The 2020 Fiscal Plan, which accounts for the impact of Hurricanes Irma and Maria, includes a 4.7% contraction in real gross national product in fiscal year 2018. While economic activity experienced a bounce back in FY2019, factors that may continue to adversely affect the Government's ability to increase economic activity include the following:

- high cost of energy,
- changes in federal policy,
- the cost of repairs and rebuilding from severe weather events and the recent earthquakes,
- United States and global economic and trade conditions,
- population decline,
- epidemics or pandemics of communicable diseases,
- temporary economic stimulus of disaster relief funds may be shorter than expected,
- delays or withholding of federal funds, particularly disaster relief and Medicaid funding, and
- the Government's high level of debt and the ongoing debt restructuring proceedings.

Rebuilding efforts, funded by federal disaster recovery assistance, are expected to alleviate the recession and result in positive growth in the short term, but growth is dependent on the disbursement of federal funds and the Island's economic fundamentals remain weak.

Implementation risk of agency efficiency measures: The implementation of a massive reorganization of Government agencies could be difficult to achieve due to unforeseen obstacles or delays at some point along the way. To date, delays have occurred, and the 2020 Fiscal Plan projects the savings forecast in the May 9, 2019 Certified Fiscal Plan to be delayed until FY2023.

Population loss: Population decline has had, and may continue to have, an adverse impact on Puerto Rico's economic growth. According to the United States Census Bureau, the Island's population decreased by 2.2% from 2000 to 2010, and by an estimated 14.3% decline from 2010 to 2019. Population decline has been driven primarily by the falling birth rate, a rising death rate, and migration to the United States mainland, with over 500,000 leaving the Island in the past decade. Population decline has accelerated following the disruption caused by Hurricanes Irma and Maria, with a steep decline of 4.0% in fiscal year 2018. Reductions in population, particularly of working-age individuals, are likely to have an adverse effect on tax and other Government revenues that will not be entirely offset by reductions in Government expenses in the short or medium term. In addition, the average age of the Puerto Rico population is increasing, due mainly to a reduction in the birth rate and the migration of younger people to the United States mainland. This phenomenon is likely to affect every sector of the economy to the extent that the local consumer base is diminished, and the local labor force fails to meet the demand for workers. Moreover, this trend increases the demand for health and other services provided by the Government and its municipalities, and the relative cost to the Government and its municipalities of providing such services.

Federal Government Political Risk: Federal Government policy has a direct impact on the economy of Puerto Rico. With uncertainty surrounding the amount and timing of disaster relief funding that will ultimately be disbursed to Puerto Rico, the Government may need to delay

repairs to infrastructure and the funding to those on the Island impacted by Hurricanes Irma and Maria. This could significantly impact the economy's ability to recover.

Medicaid Funding Risk: Puerto Rico's colonial status is an impediment for equal treatment under this vital federal program. Unlike states, Puerto Rico receives capped federal Medicaid funds. While the 2020 Fiscal Plan assumes a stable level of federal Medicaid support after the expiration of the recently passed Medicaid funding bill, there is no certainty that such funding will be made available. The expiration of temporary federal Medicaid funds without legislation to provide additional funds would result in significant funding shortfalls and have severe consequences.

Environmental Risks: The recent earthquakes that struck Puerto Rico highlight the continued environmental risks that the Island faces. In addition to physical damage, these natural disasters contribute to population erosion and will likely remain on the minds of corporations looking to locate or expand in Puerto Rico. Puerto Rico faces significant risk around the compounding impact of past disasters as well as the risk of future natural disasters which could negatively impact the Island's growth trends.

Title III Process Risk: The Oversight Board and the Government are currently engaged in costly, prolonged litigation with certain creditor groups regarding the validity and scope of their liens (among other issues), which at times has delayed the progress of the Title III cases generally. To the extent the parties fail to resolve outstanding issues consensually or the Board's proposed plan of adjustment is not confirmed or cannot be implemented in the near term, there is a substantial risk that Puerto Rico will not benefit from the favorable aspects of the Board's plan of adjustment proposal and, as a consequence, may not be able to comply with all aspects of the 2020 Fiscal Plan.

Municipalities Risks: Municipalities have been facing financial stress arising from the requirements of Act 106 PayGo requirement, the impact of Hurricanes Irma and Maria, the gradual reductions in Government financial support and the impact of the earthquakes to municipalities in the Southwestern region of the Island. The recent decision by the Title III Court granting the Board's summary judgment motion, finding that Act 29-2019 is unenforceable and permanently enjoining the Commonwealth from implementing and enforcing it effective May 6, 2020 will create further financial stress to municipalities. These challenges are now being exacerbated by the COVID-19 emergency, threatening the ability of municipalities to provide necessary services to their residents such as health, sanitation, public safety and emergency services and forcing them to make difficult decisions in prioritizing obligations.

2020 Atlantic Hurricane Season: Puerto Rico is less than two months away from another hurricane season. The electric system's vulnerability is substantial given the pending reconstruction of the grid, the impact of the earthquakes on power plants and the impending summer months when electric consumption and demand rises given hotter temperatures. This vulnerability leaves the Island at risk of further infrastructure damages and population loss which could steepen economic decline. The 2020 Atlantic basin hurricane season will have above-normal activity. Sea surface temperatures averaged across the tropical Atlantic are somewhat above normal. Most of the tropical Atlantic is warmer than normal. Colorado State University (CSU), a leading forecaster of long-term outlooks for the Atlantic Hurricane season, anticipates an above-average probability for major hurricanes making landfall along the continental United States coastline and in the Caribbean. The university predicts the probability of at least one major (CAT 3-4-5) hurricane tracking into the Caribbean (10-20°N, 88-60°W) - 1) is 58% while the

average for the last century is 42%⁸⁹. Information obtained through March 2020 indicates that the 2020 Atlantic hurricane season will have activity above the 1981-2010 average. They estimate that 2020 will have about 8 hurricanes (average is 6.4), 16 named storms (average is 12.1), 80 named storm days (average is 59.4), 35 hurricane days (average is 24.2), 4 major (Category 3-4-5) hurricanes (average is 2.7) and 9 major hurricane days (average is 6.2). The probability of U.S. major hurricane landfall is estimated to be about 130 percent of the long-period average. This forecast is based on a new extended-range early April statistical prediction scheme that was developed using by the CSU Department of Atmospheric Science using 38 years of past data.

14.1 Liquidity Risks

Central Government Liquidity: While the Central Government is not currently facing immediate liquidity problems, the Government continues to assess the impact of COVID-19 on both the Central Government's liquidity and instrumentalities' liquidity position. Depending on the duration and depth of the impact of COVID-19 crisis, the Commonwealth could experience lower cash collections and potentially additional cash outflows to support instrumentalities.

Component Unit Liquidity: As a result of the COVID-19 pandemic and the resulting island-wide shut-down, it is expected that certain component units will endure material decreases to collections which could result in liquidity issues. For example, the Puerto Rico Convention Center District Authority (PRCCDA or CCDA) has already seen a decline in activity due to the restriction on large gatherings, and it is unclear what convention and large event activity (including concerts) will look like in the coming months. The PRPA, which is heavily reliant on cruise ship activity, expects significant short-term decreases to collections on account of the 'No Sail Order' for all cruise ships through the middle of July 2020. Moreover, the Puerto Rico Tourism Company expects fewer collections as a result of casino and hotel closures, which drive room taxes and slot machine operations. While it is still too early to determine the exact impact of COVID-19 pandemic, it appears that certain component units, including but not limited to PRCCDA, MSA, PORTS, PRITA, and Tourism, could see material decreases to collections and face resulting near term liquidity pressure.

⁸⁹ Colorado State University (CSU) (<http://tropical.colostate.edu>): Extended Forecast of Atlantic Seasonal Hurricane Activity and Landfall Strike Probability for 2020 issued April 2, 2020.

Part VII: Debt Restructuring Progress, Commonwealth Plan of Adjustment and Debt Sustainability Analysis (DSA)

Chapter 15. DEBT SUSTAINABILITY ANALYSIS

It should be noted that the DSA, which is a required component of a fiscal plan pursuant to PROMESA section 201(b)(1)(E), must be fundamentally re-evaluated and potentially adjusted to accurately reflect Puerto Rico's post-COVID-19 economic reality. The contours of the post-COVID-19 economy are uncertain but have already caused a significant global economic recession and could have both positive and negative effects on various industries vital to Puerto Rico's local economy. Due to these unknown impacts, any projections at this time will necessarily be uncertain and imprecise, especially any attempts to accurately reflect Puerto Rico's debt capacity. The Government is calling on the Oversight Board to seriously consider a re-evaluation, if not withdrawal, of the Board's Proposed Plan of Adjustment filed with the Title III Court.

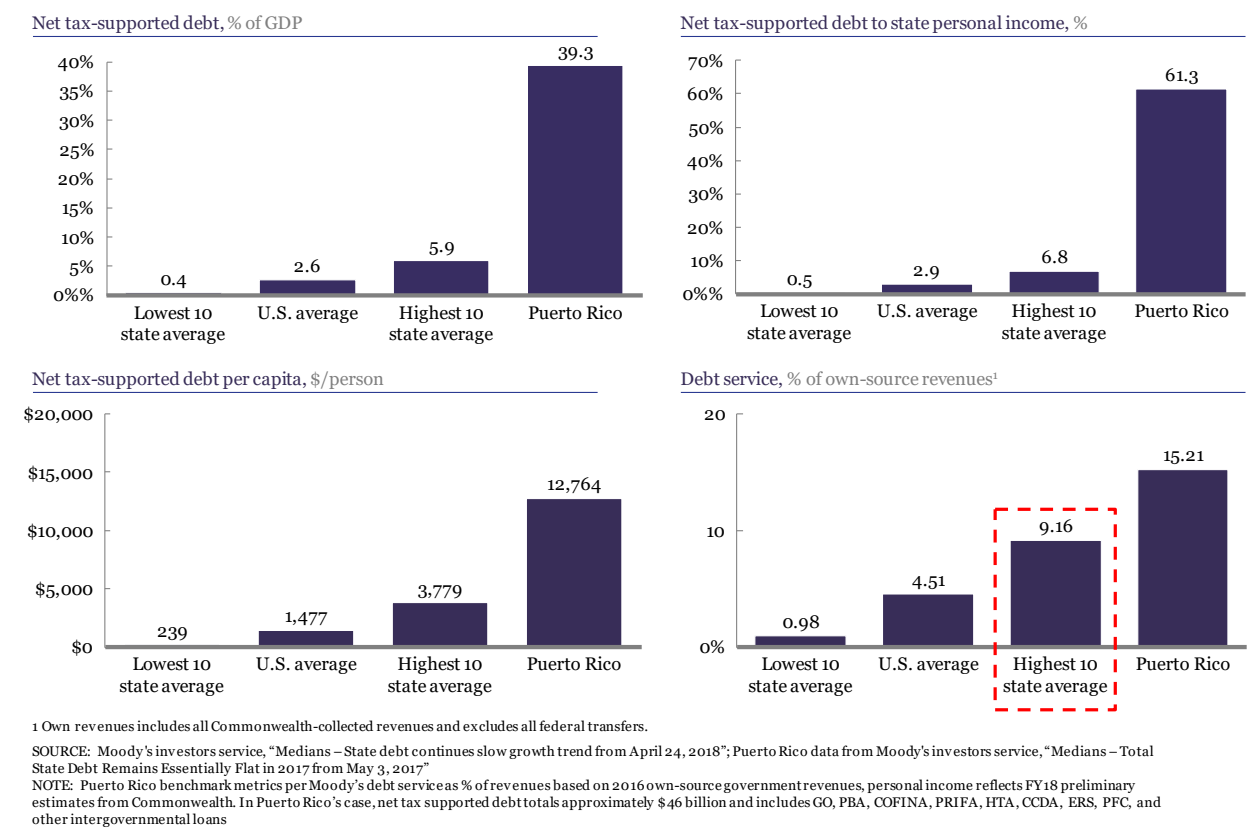
Prior to the enactment of PROMESA, Puerto Rico had approximately \$45 billion in tax-supported debt with a declining economy and no guarantee of sustained federal funding. If the Oversight Board's plan of adjustment is confirmed, Puerto Rico's debt will essentially be cut in half to approximately \$25 billion and just under \$1.5 billion a year in debt service. However, the impact of federal disaster and recovery aid eventually tapers off and given Puerto Rico's aging demographic there is reasonable uncertainty as to the amount of debt Puerto Rico's economy can realistically support. Therefore, even if a plan of adjustment is confirmed for the Government, it will be crucial for the Government to seek and obtain private investment and other outside cash resources to enhance Puerto Rico's infrastructure so that it can withstand future natural disasters and better support long-term economic growth to the extent additional cash resources become available above what is presently forecasted; such resources as a matter of first priority and importance to the Government have to be dedicated to investment in Puerto Rico's future.

The DSA is intended to provide a framework for assessing the long-term capacity of the Government to pay debt service on its bonded debt. Debt levels post-restructuring need to be sustainable over the long-term and consistent with both a minimal risk of default on the restructured debt and a recovery of market access for future new money capital borrowings for ongoing infrastructure investment. The analysis begins with the 2020 Fiscal Plan and is then informed by the debt sustained by the most appropriate peer group against which to benchmark Puerto Rico. The DSA then applies rating agency metrics for that benchmark group to Puerto Rico to arrive at an assessment of what debt levels are sustainable in light of long-term projections and the peer metrics. Net tax-supported debt is defined as debt payable from statewide taxes and other general resources, net of obligations that are self-supporting from pledged sources other than state taxes or operating resources (such as utility or local government revenues). Post COFINA restructuring, Puerto Rico net tax supported debt outstanding was approximately \$41 billion, comprised of GO, PBA, COFINA, PRIFA, HTA, CCDA, ERS, Public Finance Corporation (PFC), and other intergovernmental loans. Net of the restructured COFINA debt, Puerto Rico's other net tax-supported debt outstanding totals approximately \$28 billion.

U.S. states as peer comparables: Like U.S. states, Puerto Rico does not control its own currency, has no access to IMF restructuring support programs or similar international sovereign

relief funding packages, and traditionally has been reliant on access to the same long-term municipal bond market used by the U.S. states to finance their capital needs. Puerto Rico’s bonds are also rated by the same rating agency analyst groups that assign ratings to U.S. states, not by foreign sovereign bond rating analysts. For these and other reasons, Puerto Rico has more similarities to U.S. states than to sovereign nations. By virtually any measure tracked by the rating agencies, Puerto Rico’s existing debt levels are clear outliers relative to these U.S. state peers (**Exhibit 45**).

EXHIBIT 45: U.S. STATES AS COMPARABLES



While some observers note that Puerto Rico residents do not pay federal income taxes, they do pay Social Security and Medicare taxes, and the low per capita income levels would place most Puerto Ricans in a tax bracket where they would otherwise pay little or no federal income tax. Meanwhile, federal reimbursement levels provided to Puerto Rico for the largest Government spending programs (including Medicaid and transportation) are capped at levels well below the FMAP and federal highway reimbursement levels provided to comparably sized and wealthier states. Puerto Rico’s residents pay graduated income taxes to Puerto Rico at brackets comparable to the federal income tax rates, thereby providing the funds needed to provide services to the Puerto Rico resident population, which is far poorer than the population of any U.S. state. Yet Puerto Rico receives less federal support.

Metrics for debt sustainability: Viewing U.S. states as the most comparable group for benchmarking Puerto Rico, the DSA uses the debt ratio metrics in the April 24, 2018 Moody’s Investors Service (Moody’s) report “States – U.S. Medians – State debt continues slow growth trend” and the “Fixed Costs” ratio metrics in Exhibit 20 of the August 27, 2018 Moody’s report “States – U.S. Medians – Adjusted net pension liabilities spike in advance of moderate declines”

to develop a range of levels for sustainable debt capacity, including MADS levels for Puerto Rico on its restructured existing debt. The key debt ratios for the ten lowest indebted states, the 25 lowest indebted states, the 25 highest indebted states, the ten highest indebted states, and the mean for all U.S. states are shown below (**Exhibit 46**).

EXHIBIT 46: KEY DEBT RATIOS FOR STATES

NTSD as a % of GDP ¹			NTSD as a % of Personal Income ¹			Debt per capita (U.S. dollar) ¹			Debt Service to Revenue ²			Fixed Cost to Own-Source Revenues ²		
	Low 10	0.4%		Low 10	0.5%		Low 10	\$239		Low 10	1.0%		Low 10	3.6%
	Low 25	1.1%		Low 25	1.2%		Low 25	\$522		Low 25	2.3%		Low 25	5.8%
	Mean	2.6%		Mean	2.9%		Mean	\$1,477		Mean	4.5%		Mean	10.4%
	Top 25	4.1%		Top 25	4.7%		Top 25	\$2,432		Top 25	6.7%		Top 25	14.9%
	Top 10	5.9%		Top 10	6.8%		Top 10	\$3,779		Top 10	9.2%		Top 10	20.9%
1	Connecticut	9.0%	1	Hawaii	10.4%	1	Connecticut	\$6,544	1	Connecticut	13.8%	1	Connecticut	30.3%
2	Hawaii	8.9%	2	Connecticut	9.5%	2	Massachusetts	\$6,085	2	Massachusetts	11.7%	2	Illinois	28.4%
3	Massachusetts	8.3%	3	Massachusetts	9.5%	3	Hawaii	\$5,257	3	Hawaii	10.5%	3	Hawaii	24.8%
4	New Jersey	6.7%	4	New Jersey	7.0%	4	New Jersey	\$4,281	4	New Jersey	9.4%	4	Kentucky	20.5%
5	Mississippi	5.1%	5	Illinois	5.6%	5	New York	\$3,082	5	Illinois	9.2%	5	Massachusetts	19.0%
6	Illinois	4.7%	6	Delaware	5.5%	6	Illinois	\$2,919	6	New York	8.1%	6	New Jersey	19.1%
7	Kentucky	4.5%	7	Mississippi	5.2%	7	Washington	\$2,662	7	Washington	7.7%	7	Pennsylvania	17.9%
8	Washington	4.1%	8	New York	5.2%	8	Delaware	\$2,587	8	Kentucky	7.3%	8	Maryland	17.5%
9	New York	4.1%	9	Kentucky	5.1%	9	California	\$2,188	9	Maryland	7.0%	9	West Virginia	16.0%
10	Rhode Island	4.0%	10	Washington	5.0%	10	Rhode Island	\$2,188	10	Mississippi	6.9%	10	Utah	14.2%

1 Moody's investors service, "Medians – State debt continues slow growth trend from April 24, 2018"

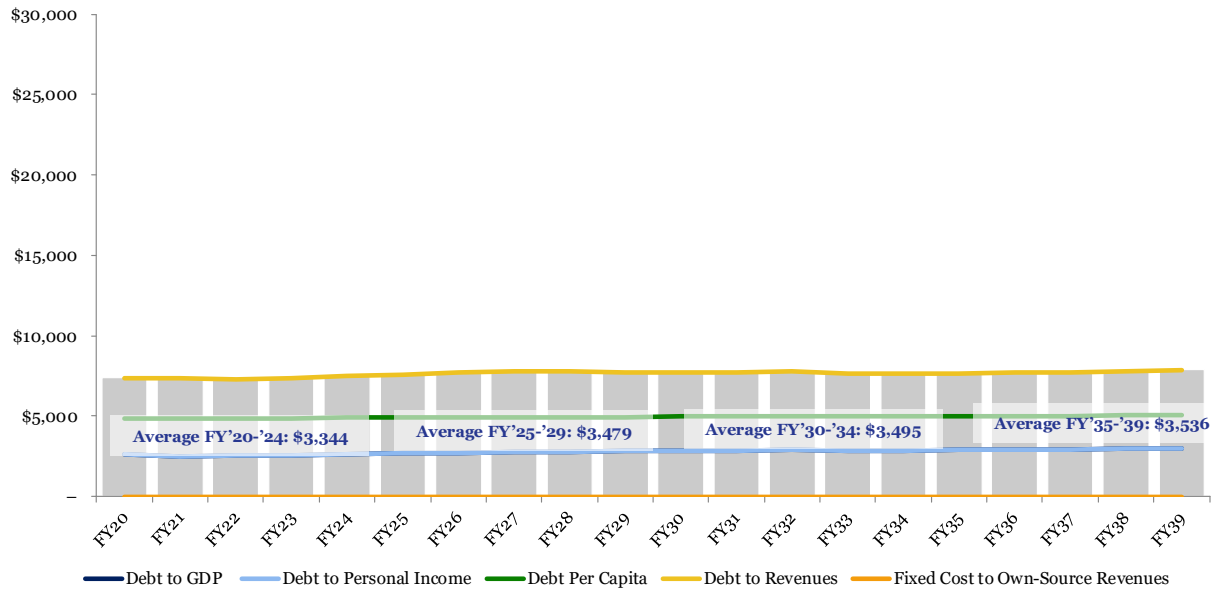
2 Moody's investors service, "Medians – Adjusted net pension liabilities spike in advance of moderate declines from August 27, 2018"

"Fixed costs" are the FY2017 sum of each state's (1) net tax-supported debt service expense and their (2) actual budgetary contributions to pension expense and retiree health care ("OPEB"), as reported by Moody's

Exhibit 47 uses the long-term 20-year macroeconomic forecast to determine a range of implied debt capacity based on the debt and fixed cost metrics of the *average* U.S. state. The debt capacity ranges shown are based off the following five methodologies: (i) debt to own-source revenues, (ii) debt per capita, (iii) debt to state personal income; (iv) debt to GDP; and (v) fixed costs to own-source revenues. Implied debt capacity and expected growth in debt capacity must be sufficient to cover both restructured debt and debt service on any future new money capital borrowings Puerto Rico needs to maintain its public infrastructure. To the extent new and additional revenues are enacted in the future, including revenues designed to support future capital projects or generated by public-private partnership infrastructure investments, then those initiatives could generate additional debt capacity for Puerto Rico that is not reflected in the current 2020 Fiscal Plan projections. The 5-year average capacity statistics represent the average par amount between the five methodologies of an implied 5.65% 20-year level debt service structure. Moody's defines "fixed costs" as the sum of a state's annual debt service and its annual budgetary pension and retiree healthcare (i.e. Other Post-Employment Benefits (OPEB)) expenditures. Given that Puerto Rico's public employee pension system is essentially zero percent funded—and that as a consequence the Central Government will pay pension expenditures on a fully PayGo basis from budgeted revenues each year—the fixed costs ratio helps capture that burden in comparison to the level of fixed costs as a percentage of Own- Source Revenues for U.S. States.

EXHIBIT 47: IMPLIED NET TAX-SUPPORTED DEBT CAPACITY RANGE BASED ON AVERAGE U.S. STATE (\$M)

Implied debt capacity range based on average US state, \$M

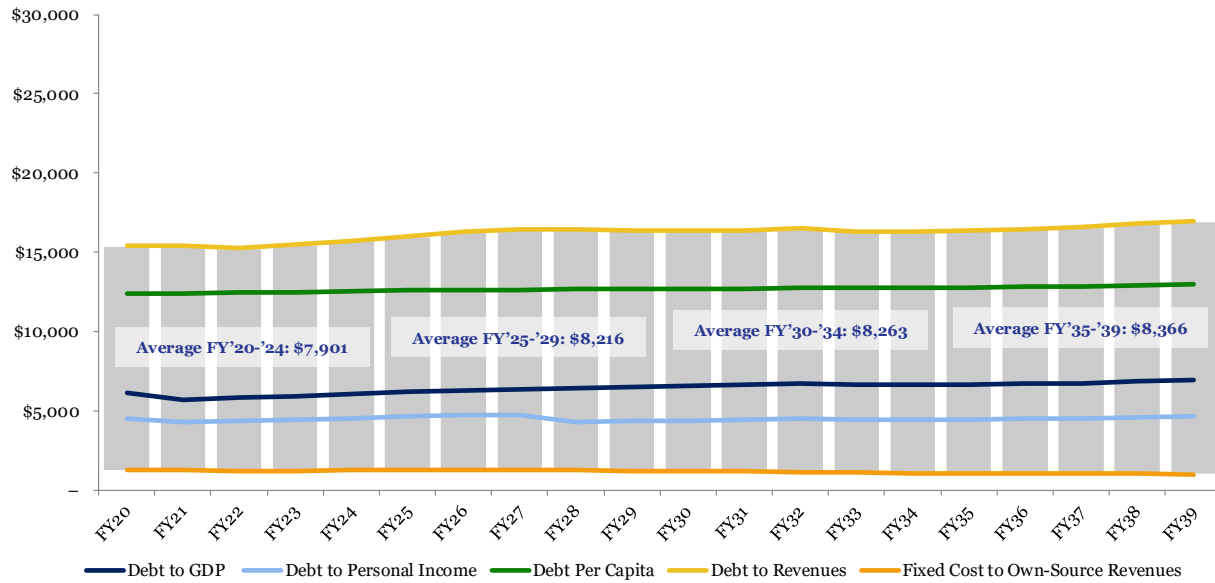


For illustration purposes; values in (\$000's)
 The Own Source Revenues metric used for the Debt Service and Fixed Costs measures includes the 53.65% Pledged Sales Tax Base Amount used to pay the restructured COFINA bonds, excludes restructured COFINA debt service to reach the implied debt capacity, and also excludes Federal Transfers. In all cases, future implied debt capacity range is limited to the Debt Service to Own Source Revenues Metric.

Exhibit 48 uses the long-term 20-year macroeconomic forecast to determine a range of implied debt capacity based on the debt metrics of the *10 highest indebted* U.S. states. The debt capacity ranges shown are based off the following five methodologies: (i) debt service to own source revenues, (ii) debt per capita, (iii) debt to state personal income, (iv) debt to GDP, and (v) fixed costs to own-source revenues. Implied debt capacity and expected growth in debt capacity must be sufficient to cover both restructured debt and future debt issuance. The 5-year average capacity statistics represent the average amount between the five methodologies of an implied 5.65% 20-year level debt service structure.

EXHIBIT 48: IMPLIED NET TAX-SUPPORTED DEBT CAPACITY RANGE BASED ON TOP-10 HIGHEST INDEBTED U.S. STATE DEBT METRICS (\$M)

Implied debt capacity range based on top-10 highest indebted US state debt metrics, \$M



For illustration purposes; values in (\$000's)

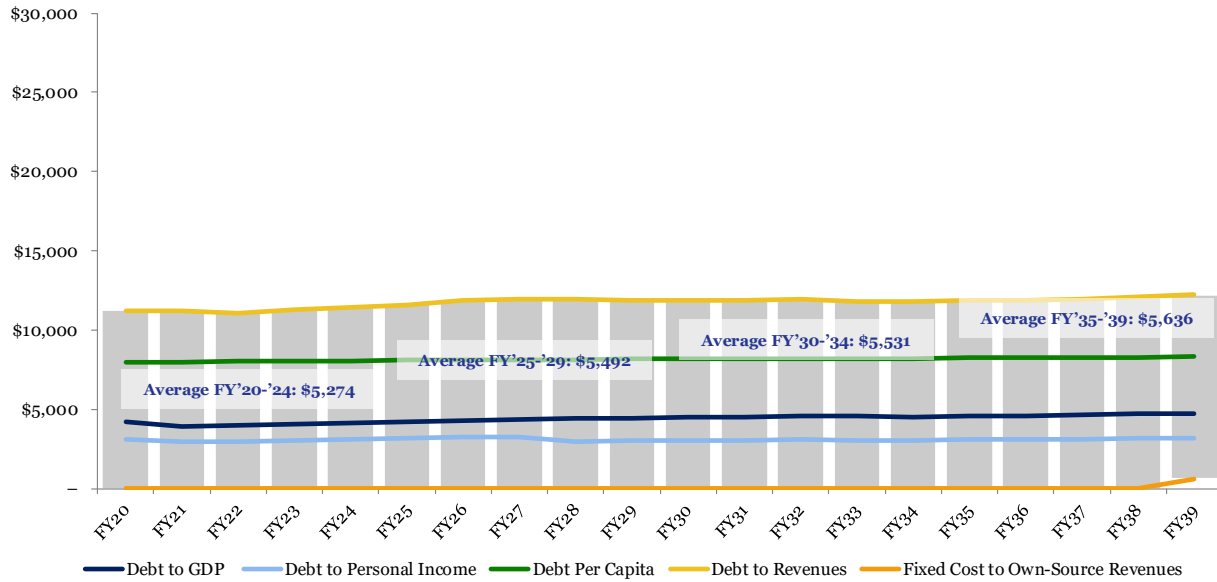
The Own Source Revenues metric used for the Debt Service and Fixed Costs measures includes the 53.65% Pledged Sales Tax Base Amount used to pay the restructured COFINA bonds, excludes restructured COFINA debt service to reach the implied debt capacity, and also excludes Federal Transfers. In all cases, future implied debt capacity range is limited to the Debt Service to Own Source Revenues Metric.

The illustrative implied levels of the Government’s restructured debt in the previous chart are calculated by applying the Net Tax Supported Debt ratios of the “top ten” U.S. states (in terms of debt load) to Puerto Rico’s future projected GDP, population and Own-Source Revenues. Debt Service to Own Source Revenue and Fixed Costs to Own Source Revenues figures are derived assuming debt service of a long-term level debt service structure, with a 5.65% average coupon.

Exhibit 49 uses the long-term 20-year macroeconomic forecast to determine a range of implied debt capacity based on the debt metrics of the *25 highest indebted* U.S. states with the same five methodologies.

EXHIBIT 49: IMPLIED NET TAX-SUPPORTED DEBT CAPACITY RANGE BASED ON TOP-25 HIGHEST INDEBTED U.S. STATE DEBT METRICS (\$M)

Implied debt capacity range based on top-25 highest indebted US state debt metrics, \$M



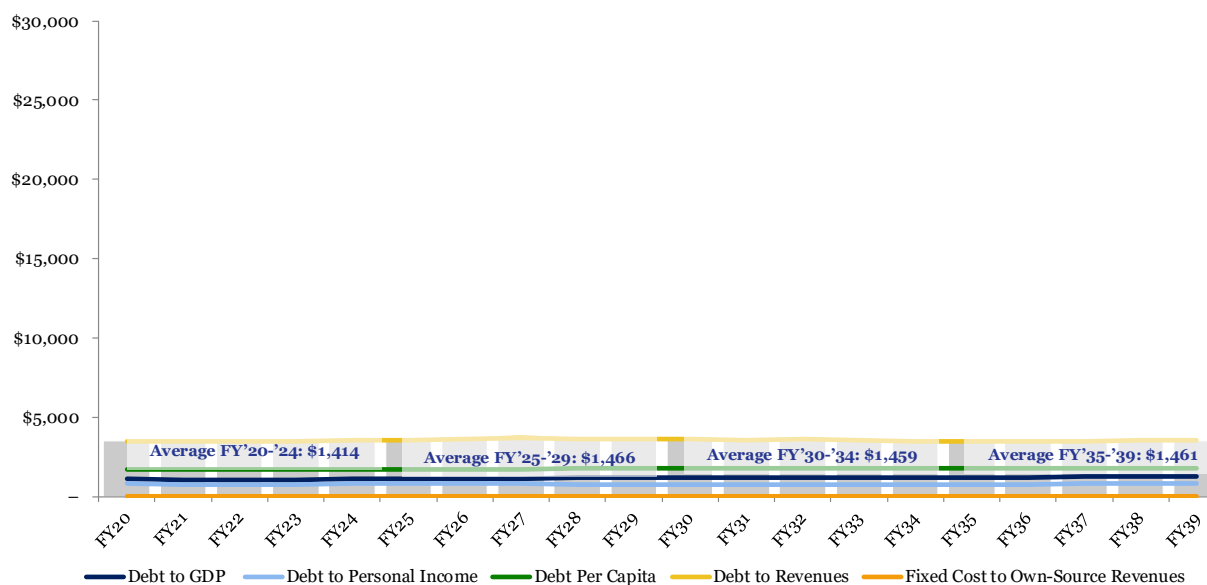
For illustration purposes; values in (\$ 000's)

The Own Source Revenues metric used for the Debt Service and Fixed Costs measures includes the 53.65% Pledged Sales Tax Base Amount used to pay the restructured COFINA bonds, excludes restructured COFINA debt service to reach the implied debt capacity, and also excludes Federal Transfers. In all cases, future implied debt capacity range is limited to the Debt Service to Own Source Revenues Metric.

Exhibit 50 uses the long-term 20-year macroeconomic forecast to determine a range of implied debt capacity based on the debt metrics of the *25 lowest indebted* U.S. states with the same five methodologies.

EXHIBIT 50: IMPLIED NET TAX-SUPPORTED DEBT CAPACITY RANGE BASED ON 25 LOWEST INDEBTED U.S. STATE DEBT METRICS (\$M)

Implied debt capacity range based on 25 lowest indebted US state debt metrics, \$M



For illustration purposes; values in (\$000's)

The Own Source Revenues metric used for the Debt Service and Fixed Costs measures includes the 53.65% Pledged Sales Tax Base Amount used to pay the restructured COFINA bonds, excludes restructured COFINA debt service to reach the implied debt capacity, and also excludes Federal Transfers. In all cases, future implied debt capacity range is limited to the Debt Service to Own Source Revenues Metric.

Maximum annual debt service cap on restructured fixed payment debt: The implied debt capacity and expected growth in debt capacity must be sufficient to cover both the payments due on the restructured debt and all payments due on future new money borrowings. Accordingly, the aggregate debt service due on all fixed payment debt issued in the restructuring of the Government's existing tax-supported debt should be capped at a Maximum Annual Debt Service (MADS) level. The cap would be derived from the U.S. state rating metrics, and specifically from what Moody's calls the "Debt Service Ratio." The Debt Service Ratio is the ratio of total payments due in a year on all existing net tax-supported debt over that state government's own-source revenues (i.e., excluding federal transfer payments) in that year.

The Moody's report indicates that the average Debt Service Ratio for the all U.S. states is 4.5%. The Moody's report indicates that the average Debt Service Ratio for the top 10 most indebted states is 9.16%. To the extent either of these Debt Service Ratios is used to set a MADS cap on the restructured debt and the Primary Surplus is below the MADS level, then the debt service due on fixed payment debt would need to be set at the lower of the amount available for debt service or the MADS limit.

With respect to the Moody's Fixed Costs Ratio, the August 2018 Moody's report indicates that the average Fixed Costs Ratio for all U.S. States is 10.4%. The same report indicates that the average Fixed Costs Ratio for the 10 States with the highest Fixed Costs Ratios is 20.9%.

Debt sustainability analysis: Exhibit 51 below calculates implied debt capacity based on a range of interest rates and 2020 Fiscal Plan risk factors under an assumed illustrative 20-year term and level debt service. The risk factor is calculated by reducing the amount of projected cash flow available per year for debt service by a certain percentage. For example, a 20% risk factor

case would use only 80% of the projected cash flow available to pay debt service on fixed payment debt.

EXHIBIT 51: IMPLIED DEBT CAPACITY BASED ON RANGE OF INTEREST RATES AND RISK FACTORS (\$M)

Implied debt capacity based on range of interest rates and contingency, \$M

Illustrative Cash Flow Available		Implied Debt Capacity at Cash Flow				
		\$200	\$300	\$400	\$500	\$600
Sensitivity Analysis: PV Rate %	4.0%	2,174	3,262	4,349	5,436	6,523
	5.0%	1,994	2,991	3,988	4,985	5,982
	6.0%	1,835	2,753	3,670	4,588	5,506
Illustrative Cash Flow Available		Implied Debt Capacity at 5% PV Rate				
		\$200	\$300	\$400	\$500	\$600
Sensitivity Analysis: % Contingency	10.0%	2,243	3,365	4,486	5,608	6,730
	20.0%	1,994	2,991	3,988	4,985	5,982
	30.0%	1,745	2,617	3,489	4,362	5,234

Restoration of cost-effective market access: As Puerto Rico seeks to regain cost-effective capital markets access, rating analysts and investors will demand that the Government demonstrate improvement in all four core areas of creditworthiness identified by Moody's: (i) the economy, (ii) Government finances, (iii) governance and "fixed cost" debt service and (iv) pension expenditures. The Government will adhere to structurally balanced budgets reflecting ongoing fiscal discipline and return to the timely publication of audited financial statements and related disclosure information. Together, these and other measures outlined in the 2020 Fiscal Plan can chart a path to restoring Puerto Rico's market access.

Part VIII: Conclusion

There is no doubt that COVID-19 has and will continue to change our lives profoundly, even if it is unclear exactly how and to what extent. Even assuming social distancing and other mitigation efforts successfully bend the curve, the sobering human costs of COVID-19 will linger in our collective psyche and, in turn, this experience will fundamentally change how we do business with each other. But as perilously high debt levels overhang many U.S. companies and governments, the economic shutdown caused by the pandemic has exposed substantial weaknesses in the overall U.S. economy that will reverberate across local communities, including Puerto Rico.

The lingering issue is how both the global and national economies will come back from the shutdowns. In the absence of herd immunity or a vaccine for COVID-19—neither of which seem likely in the near term, countries will require an effective testing regime so that people can have confidence that when they go to restaurants or other businesses, they won't get sick. As the number of COVID-19 cases begin to subside in the United States, it remains to be seen how quickly the U.S. economy will restart as restrictions on everyday activity are lifted. Dr. Zeke Emanuel, Vice Provost for Global Initiatives at the University of Pennsylvania, cautions “that a near term “reopening” of the U.S. economy may not deliver much of an economic reprieve, emphasizing that the current economic damage may be less a function of businesses being closed—i.e., a supply-side problem—and more of a function of the public's health fears—i.e., a demand-side problem”. Or the uncertainty of additional surges of the virus could continue to disrupt the economy for another 12 months or more, at least until a vaccine permanently solves for the crisis. The economy will need to go through a painful realignment—much like after the terrorist attacks of September 11, life will never be the same. Consolidation in many industries and layoffs will certainly occur. State and territorial governments and their municipalities (including Puerto Rico)—further strained from unprecedented stresses on the social safety net—will need to re-evaluate the sustainability of their debt. In addition, the supply chain vulnerabilities exposed over the last several weeks have caused policymakers to reconsider how medicines are obtained in the United States to avoid shortages in the event of a war, trade conflict, or future public health crisis. Puerto Rico could play a key role in this paradigmatic shift.

Although the Federal Reserve recently announced that it is prepared to bailout industries and some projections indicate that its balance sheet could exceed \$9 trillion, such actions would be an unprecedented reaction to a crisis that is rife with ongoing uncertainty. And the solution may be beyond the control of government policy altogether. There is still so much that we simply do not know.

Despite these many challenges, the state of the U.S. territory of Puerto Rico is optimistic, determined and full of potential. In the nearly four years since Congress passed PROMESA, Puerto Rico has been challenged by the most damaging hurricanes in U.S. history and the strongest earthquakes in the Caribbean in over a century. And now the Island faces unprecedented uncertainty with the rest of the world related to the global COVID-19 pandemic. These natural disasters and the COVID-19 health crisis have further complicated an already decades-long, Island-wide recession marked by significant population loss. As it navigates the Island through its litigious Title III cases, the Government will continue to pursue outcomes that are fair and just to all constituents. The Government's goal is to reimagine, revitalize and rebuild Puerto Rico so that it can develop to its full capacity for the benefit of not only Island residents, but for the United States as a whole.

Part IX. Appendix

Appendix A. Progress and Achievements to Date

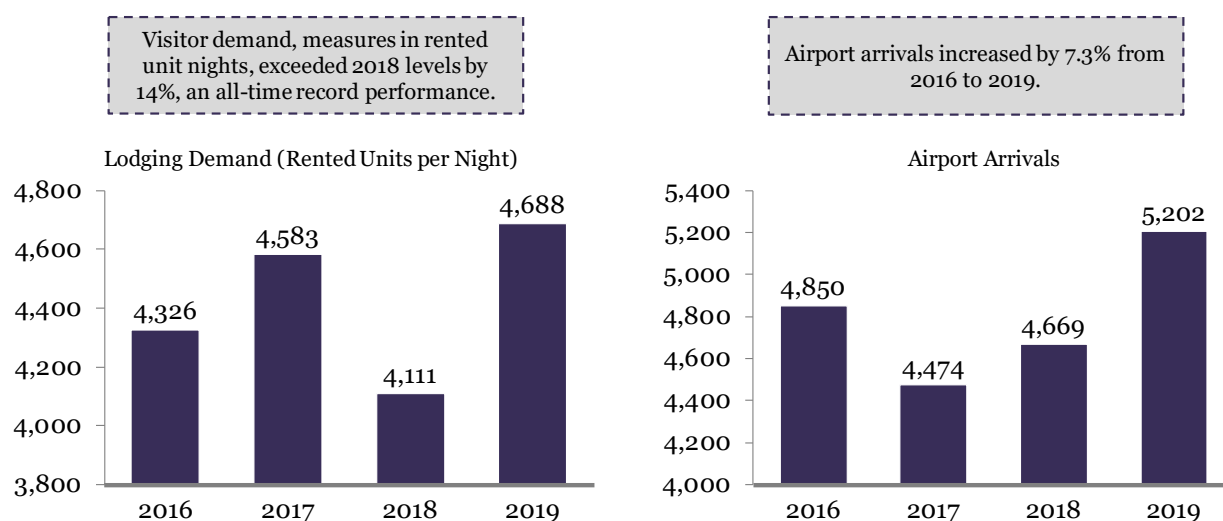
Structural Reforms

- Achievements to Date:
 - *Human capital and welfare reform:* Private labor reform began in 2017 through the Labor Transformation and Flexibility Act, the most comprehensive change in labor laws in the last 50 years. This Act amended several labor legislations with the intention of improving labor market competitiveness, enhancing the labor participation, and limiting employee turnover. Notable changes aimed at reducing employment-related costs such as: increasing minimum probation period, amending accrual of vacation leave and adjusting Christmas bonus criteria, among others. The Act also facilitates “Flexible Work Schedules” and eliminates “Ley de Cierre” restrictions.
 - As part of the Human Capital & Welfare Reform the Government proposed an EITC to facilitate that individuals enter the formal labor force. In order to qualify, the individual must meet certain criteria and file their annual tax return; the EITC reduces the amount of taxes owed and could result in a cash refund if the benefits surpass the taxes owed. The Department of Treasury has already included the EITC Section for the upcoming Tax Season (April 2020), and rolled out an extensive promotional plan on January 1st, 2020 in order to educate the public and promote participation.
 - During Fiscal Year 2019, a Memorandum of Understanding (MOU) was drafted between the Department of Labor and Human Resources (DTRH) and the Puerto Rico DDEC/PRIDCO to develop apprenticeship programs. A separate MOU was drafted between UPR and DDEC/PRIDCO for continued education programs.
 - *Ease of doing business reform:* The Government has ongoing efforts to digitize Government services to improve speed and accessibility through the SBP launched in July 2018, which currently includes an online filing system for defined Acts (Acts 14, 20 and 22), but will ultimately consolidate permit requests, filing for incentives and annual reporting on these.
 - *Power sector reform:* In January 2018, the Government of Puerto Rico announced its intent to transform and modernize the electric system through private operation or ownership of the assets of PREPA. In the context of the proposed transformation, the P3A is conducting a procurement process to select a private operator under an O&M agreement for PREPA’s T&D system. The prospective transformation of PREPA-owned generation assets may involve a similar O&M agreement, a sale, lease, concession or other similar structures. The Government has advanced the process of selecting a proponent for the O&M agreement that will

be responsible for the operation of the transmission and distribution operation. Selection will be announced by the end of second calendar quarter with a transition period following. A preliminary target date for the completion of the transformation process for the generation assets is by December 2020.

- *Tourism sector revitalization:* Through its initiatives, DPR has accomplished measurable results for Puerto Rico, such as a 115% increase in internet searches for San Juan compared to 2018, the designation as a top travel destination in 22 leading travel and lifestyle publications in 2019, the direct and indirect employment of 80,000 people in Puerto Rico, a 6.5% contribution to the Island’s GDP from the tourism sector and additional contributions to 17 other sectors of the economy. Additionally, Puerto Rico saw a significant increase in lodging demand and airport arrivals during 2019 achieving a record performance (**Exhibit 52**). These achievements contribute significantly to the Puerto Rican economy with an estimated \$98 economic impact and \$7 generated tax contribution for every \$1 invested by DPR.

EXHIBIT 52: LODGING DEMAND AND AIRPORT ARRIVALS

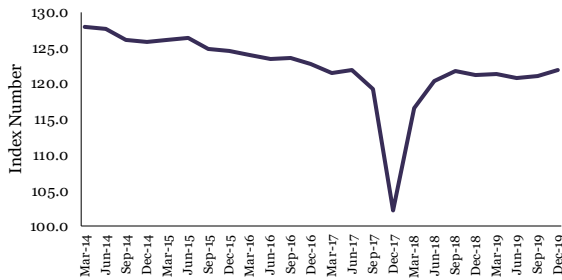


Source: STR, AirDNA

- *Economic Recovery:* While Hurricanes Irma and Maria in late 2017 affected virtually all aspects of the economy sharply and negatively, there are signs of a recovery. Key economic indicators as shown in (**Exhibit 53**) all point to a strengthening economy. Cement sales, an important measure of economic activity, reflects increased activity since late 2017. Unemployment rate has been steadily declining, while retail sales have rebounded. Sales and use tax collections are strong, currently performing above 2016-17 levels, bankruptcies continue a downward trend, and approved construction permits have increased.

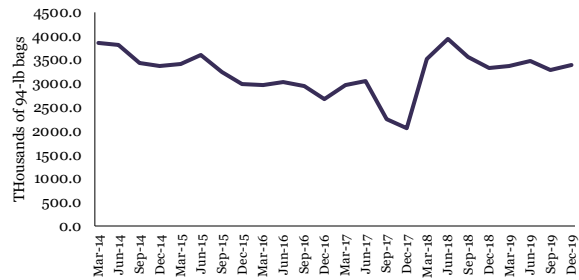
EXHIBIT 53: KEY ECONOMIC INDICATORS PRIOR TO COVID-19 PANDEMIC

Economic Activity Index



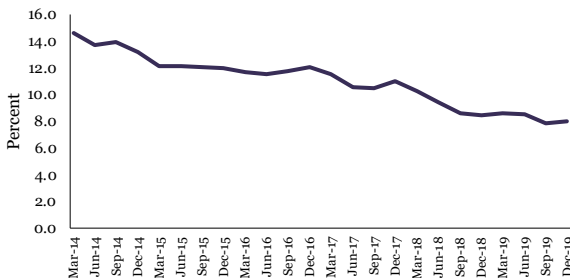
Source: Economic Development Bank of Puerto Rico.

Cement Sales



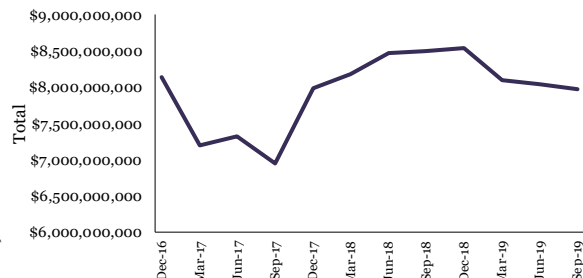
Source: CEMEX Puerto Rico and Argos Puerto Rico.

Unemployment Rate



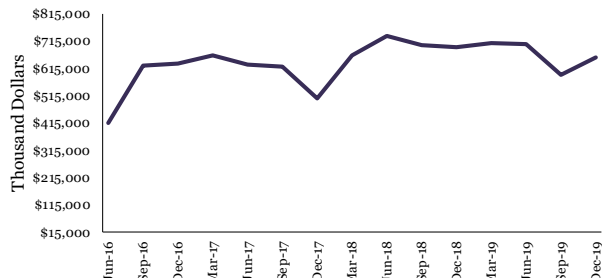
Source: Puerto Rico Department of Labor and Human Resources.

Retail Sales



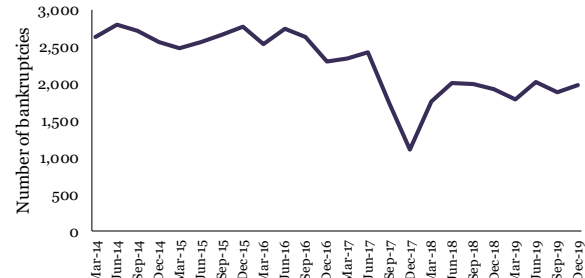
Source: Puerto Rico Exports and Trade Company.

Sales and Use Tax



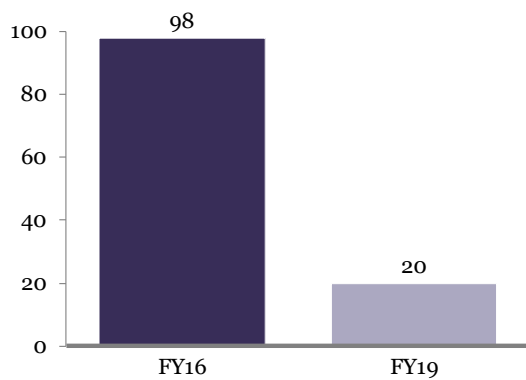
Source: Puerto Rico Treasury Department.

Bankruptcies



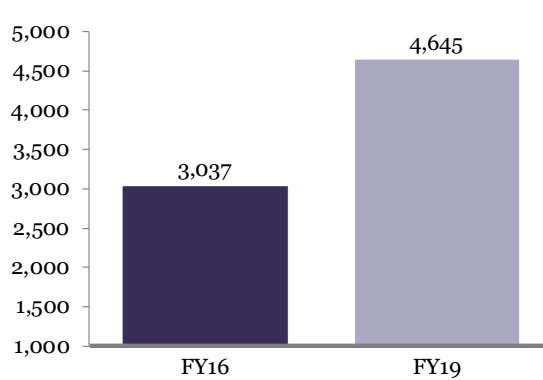
Source: US Bankruptcy Court for the District of Puerto Rico.

Number of Days to Receive Building Permits



Sources:
Fortaleza: Number of days to Receive Building Permits
OGPE SBP Historical Database: Approved Construction Permits

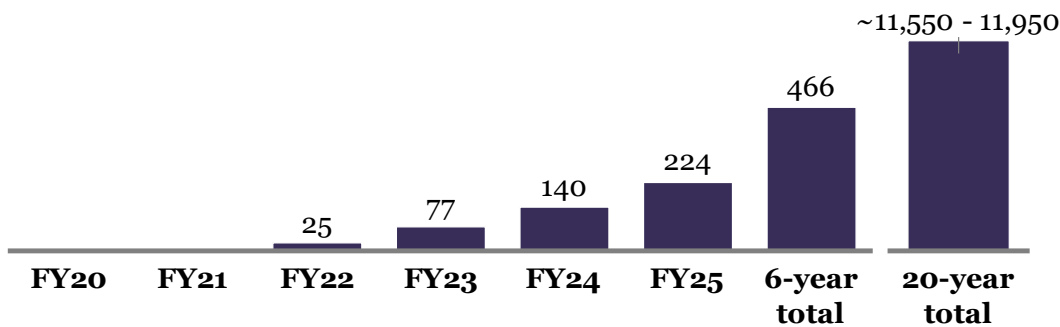
Approved Construction Permits



- **Ongoing Efforts:** The 2020 Fiscal Plan maintains the following structural reforms that will improve the economy and drive long term GNP growth by a cumulative 0.85%, excluding the impact of education reform, and will have an impact to surplus of approximately \$11.5 to \$12 billion (**Exhibit 54**):
 - *Human capital and welfare reform:* promoting participation in the formal labor force by creating incentives to work through EITC benefits and welfare reform and providing comprehensive workforce development opportunities. These measures are projected to increase economic growth by 0.15% by FY2025.
 - *Ease of doing business reform:* promoting economic activity and reducing the obstacles to starting and sustaining a business in Puerto Rico through comprehensive reform to improve ease of paying taxes, importing and transporting goods, registering property, and obtaining permits. These reforms are projected to drive a 0.40% uptick in overall growth by FY2025, with annual upticks of 0.20% in FY2022 and FY2023.
 - *Power sector reform:* providing low-cost and reliable energy through the transformation of PREPA and establishment of an independent, expert, and well-funded energy regulator. This is projected to increase growth by 0.30% by FY2025 with incremental annual upticks of 0.10% from FY2022 to FY2024. The Government has advanced the process of selecting a proponent for the O&M agreement that will be responsible for the operation of the transmission and distribution operation. Selection will be announced by the end of first calendar quarter with a transition period following.
 - *Infrastructure reform:* prioritizing economically transformative capital investments with Federal funds and launching maintenance and infrastructure investment policies including utilizing the P3A to deliver projects efficiently and effectively.

EXHIBIT 54: IMPACT OF STRUCTURAL REFORMS

Impact of structural reforms, \$M



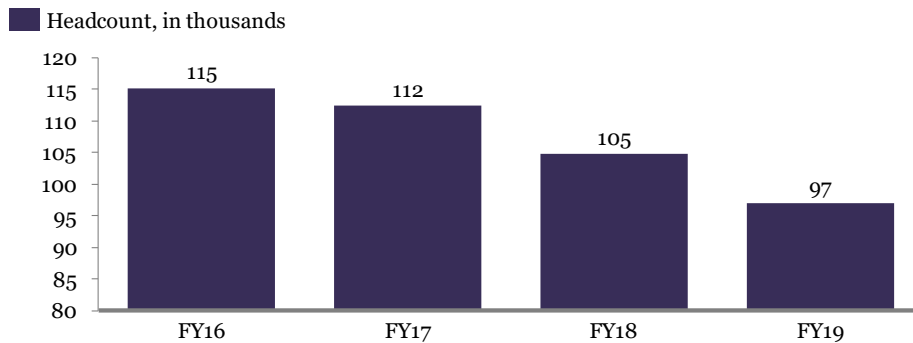
Fiscal Measures

Thanks to sound financial discipline coupled with a clear a set of priorities, the Government has consistently reduced expenses that have allowed to ensure that all pensioners receive their pension payments.

- Achievements to Date:
 - *Operating expense reduction:* The Government’s fiscal discipline has resulted in a cumulative headcount reduction of ~ 18,000 employees, the majority of which were non-critical, back-office functions, from FY2016 to FY2019 via natural attrition, early retirement and Voluntary Transition Programs (VTPs) (**Exhibit 55**). This has resulted in a reduction of Payroll expenses of over 19% over this time period. Additionally, non-payroll operating expenses have been reduced by over \$1 billion or 20% over the same period (**Exhibit 56**). This has made possible the payment of pension benefits (PayGo) to all retirees reflecting the moral obligation and priority of this Administration to pensioners.

EXHIBIT 55: GOVERNMENT HEADCOUNT REDUCTIONS

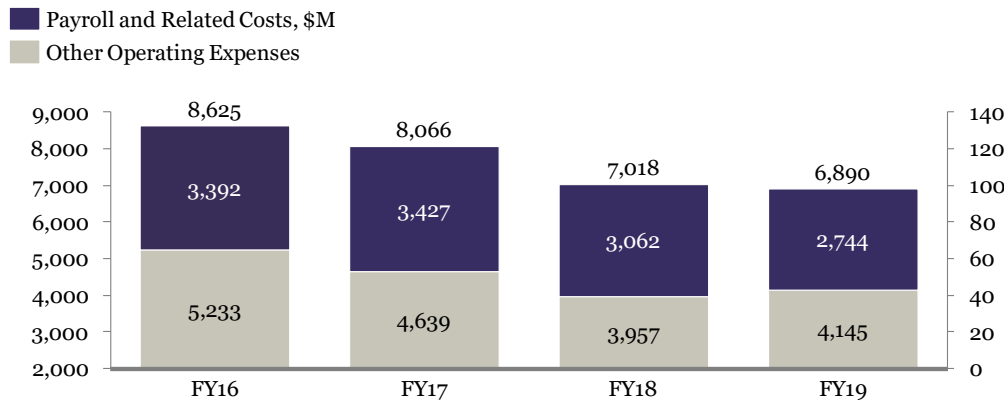
Government Headcount Reduction



Source: OMB

EXHIBIT 56: GENERAL FUND EXPENSES

General Fund Expenses

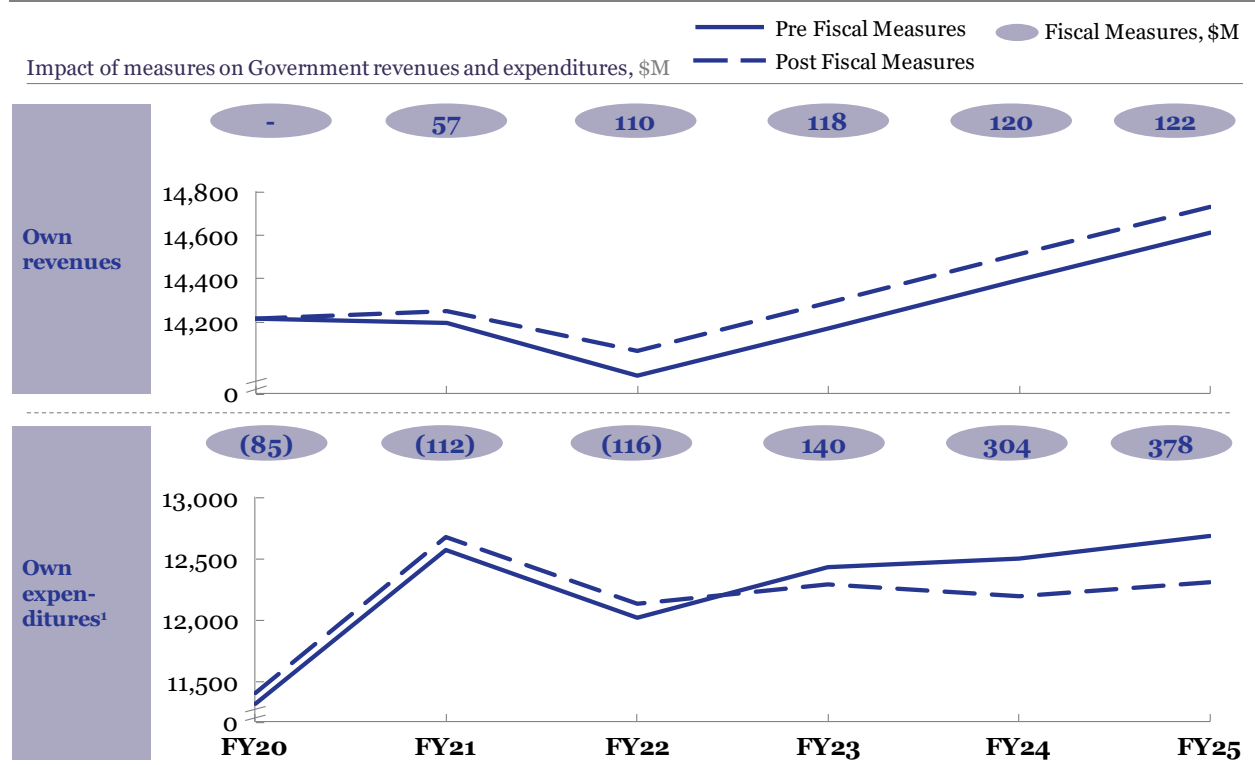


Figures above exclude Paygo Costs and Debt Payments
 FY2019 figures are estimates; FY2020 figures budgeted
 Source: OMB

- *Agency Consolidations:* 10 Reorganization Plans have been passed to date in order to reorganize the Government and reduce public spending while providing similar or better services to the people of Puerto Rico (**Appendix D**).
- *Healthcare reform:* The Government has completed the implementation of initiatives that will help control healthcare cost inflation through the launch of the new managed care model, pharmacy reimbursement reform, lowering prescription drug cost inflation by effectively managing the PDL and sharing coordination of benefits data with MCOs. In addition, ASES is continuing the design and implementation of the DRG inpatient hospital payment reform that will establish the foundation for additional value based payment models.
- *Procurement Reform:* The Government is in the process of creating a Centralized Procurement Office to increase the efficiency of its procurement activities in accordance with Act 73-2019, the Government Centralized Procurement Act, as further discussed in section 9.6.
- **Ongoing Efforts:** The 2020 Fiscal Plan includes a set of fiscal measures to reduce expenditures and optimize Government revenues (**Exhibit 57**):
 - *Agency efficiencies:* Consolidating agencies, instituting shared services programs and incorporating best practices to deliver better Government services at lower costs including increased buying power through centralization of procurement function across Government agencies. Consistent with the methodology assumed with savings targets, the 2020 Fiscal Plan assumes a delay in implementation of incremental measures to afford the Government adequate time to identify additional savings in an efficient and responsible manner. As such, certain consolidations/ reorganizations will occur later than anticipated in the May 9, 2019 Certified Fiscal Plan
 - *Reduction of appropriations:* Lowering the fiscal burden on the General Fund by slowly reducing appropriations to municipalities and the UPR.

- *Enhancing tax compliance:* Employing new technology and other innovative practices to broaden the tax base, reduce fraud, and improve fairness to boost overall tax revenues.

EXHIBIT 57: IMPACT OF REVENUE AND EXPENSE MEASURES ON OWN REVENUES AND EXPENDITURES



¹ Own expenditures include all Commonwealth funded expenditures and exclude all other federally funded expenditures.

Natural Disaster Recovery Efforts

COR3 achievements have focused on establishing institutional capacity and accelerating the obligation process of permanent work to start the rebuilding process.

▪ Achievements to Date:

- Creation of COR3 as centralized oversight authority with sufficient capacity, as required by Presidential Disaster Declaration Post Maria.
- Engagement of third-party experts on grant management, project formulation, compliance services and data services.
- Establishment of unprecedented transparency and accountability measures for FEMA disaster relief funding including, without limitation, transparency portal, Fraud-Waste-Abuse Hotline, sub-recipient monitoring, risk-based compliance, and internal controls.
- *Elimination of manual drawdown process:* Continued implementation of controls, accounting and project management procedures at the "Grantee" and Subrecipient levels. These measures demonstrated to the Federal Government that

the Government of Puerto Rico is able to assume responsibility and access to federal funds, including the implementation of all phases of the disbursement process. As a result, the manual drawdown process was again removed with Governor Vázquez in power, releasing important projects from additional administrative burdens.

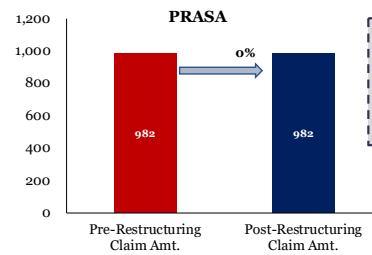
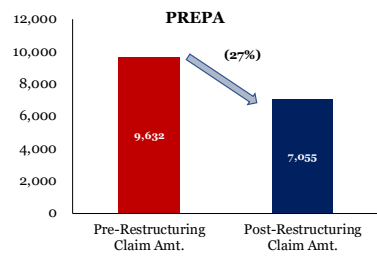
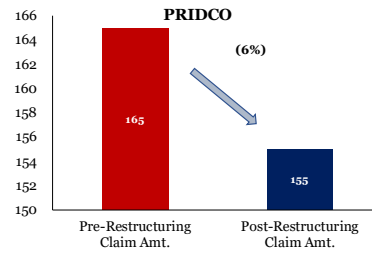
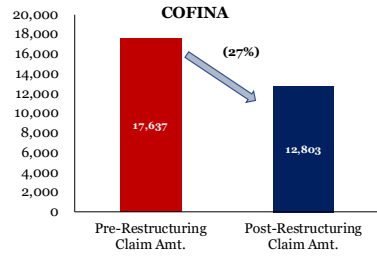
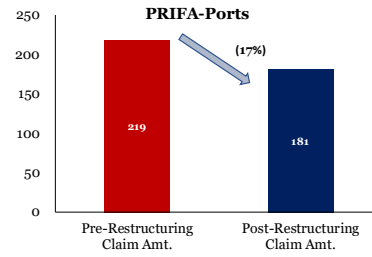
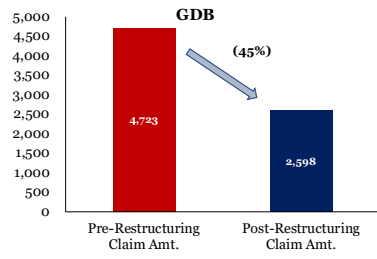
- *Accelerate small projects:* In the past six months we have increased the pace of processing small projects under traditional rules which have reduced the initial administrative burdens and allow small projects to start faster without the restrictions of Section 428. This review has allowed our sub-recipients to start over 5,000 small projects that had stalled because of bureaucratic hurdles.
- *Make section 428 optional:* Consistent with the intent of the Disaster Recovery Reform Act of 2018, when Governor Vázquez took office, she insisted that the Federal Government lift the requirement for any permanent project to be formulated under the procedures of Section 428 of the Stafford Act. In January 2020, FEMA agreed that any permanent project, except critical facilities, can be done under traditional procedures at the choice of the sub-recipient versus Section 428 of the Stafford Act, thus accelerating the project formulation and obligation of funds for permanent work.
- *Disaster Relief WCF:* On December 26, 2019, the Government of Puerto Rico finalized the establishment of the disaster relief WCF account with the availability of \$1 billion in funds under the supervision of the COR3. The WCF account provides a means of liquidity to eligible sub-recipients, mostly municipalities, to begin their small projects, as defined by FEMA as those with an estimated cost of up to \$123,100.

Debt Restructuring

- Achievements to Date: Puerto Rico has made substantial progress in its debt restructuring efforts, having restructured over \$23 billion of existing indebtedness through the various mechanisms available under PROMESA.⁹⁰ Puerto Rico is committed to repaying an affordable and sustainable amount of its outstanding debt. Creditor recoveries are based on a DSA assuming affordable and sustainable amounts of debt after taking into account the legal rights of each class of creditors.
 - *Announced Transactions:* The Government and the FOMB have shown the willingness and ability to reach consensual deals. Completed and announced transactions are shown in **Exhibit 58** below.

⁹⁰ Includes Government Development Bank for Puerto Rico (“GDB”), COFINA Sr./Jr., PRIFA-Ports and PRASA.

EXHIBIT 58: COMPLETED AND ANNOUNCED TRANSACTIONS



Restructuring resulted in the termination of 100% of CW Guarantee

Note: Values in \$ millions. PREPA and PRIDCO transactions not yet consummated.

Appendix B. COVID-19 State Actions

As of April 30, 2020

	Emergency Declaration	Major Disaster Declaration	National Guard State Activation	State Employee Travel Restrictions	Stay at Home Order	Statewide School Closures	Statewide Closure of Some or All Non-Essential Businesses	Statewide Curfew
Puerto Rico (PR)	✓	✓	✓	✗	✓	✓	✓	✓
Alabama (AL)	✓	✓	✓	✓	✓	✓	✓	✓
Alaska (AK)	✓	✓	✓	✓	✓	✓	✓	✗
Arizona (AZ)	✓	✓	✓	✗	✓	✓	✓	✓
Arkansas (AR)	✓	✓	✓	✓	✗	✓	✓	✓
California (CA)	✓	✓	✓	✗	✓	✓	✓	✓
Colorado (CO)	✓	✓	✓	✓	✓	✓	✓	✗
Connecticut (CT)	✓	✓	✓	✓	✓	✓	✓	✗
Delaware (DE)	✓	✓	✓	✓	✓	✓	✓	✗
District of Columbia (DC)	✓	✓	✓	✓	✓	✓	✓	✗
Florida (FL)	✓	✓	✓	✓	✓	✓	✓	✓
Georgia (GA)	✓	✓	✓	✓	✓	✓	✓	✓
Hawaii (HI)	✓	✓	✓	✓	✓	✓	✓	✓
Idaho (ID)	✓	✓	✓	✗	✓	✓	✓	✗
Illinois (IL)	✓	✓	✓	✓	✓	✓	✓	✓
Indiana (IN)	✓	✓	✓	✓	✓	✓	✓	✗
Iowa (IA)	✓	✓	✓	✓	✗	✓	✓	✗
Kansas (KS)	✓	✓	✓	✓	✓	✓	✓	✗
Kentucky (KY)	✓	✓	✓	✓	✗	✓	✓	✗
Louisiana (LA)	✓	✓	✓	✓	✓	✓	✓	✗
Maine (ME)	✓	✓	✓	✓	✓	✓	✓	✗
Maryland (MD)	✓	✓	✓	✓	✓	✓	✓	✗
Massachusetts (MA)	✓	✓	✓	✓	✗	✓	✓	✗
Michigan (MI)	✓	✓	✓	✗	✓	✓	✓	✗
Minnesota (MN)	✓	✓	✓	✓	✓	✓	✓	✗
Mississippi (MS)	✓	✓	✓	✗	✓	✓	✓	✗
Missouri (MO)	✓	✓	✓	✗	✓	✓	✓	✗
Montana (MT)	✓	✓	✓	✗	✓	✓	✓	✗
Nebraska (NE)	✓	✓	✓	✓	✗	✓	✓	✗
Nevada (NV)	✓	✓	✓	✗	✓	✓	✓	✗
New Hampshire (NH)	✓	✓	✓	✓	✓	✓	✓	✗
New Jersey (NJ)	✓	✓	✓	✓	✓	✓	✓	✗
New Mexico (NM)	✓	✓	✓	✓	✓	✓	✓	✗
New York (NY)	✓	✓	✓	✗	✓	✓	✓	✗
North Carolina (NC)	✓	✓	✓	✗	✓	✓	✓	✗
North Dakota (ND)	✓	✓	✓	✗	✗	✓	✓	✗
Ohio (OH)	✓	✓	✓	✓	✓	✓	✓	✗
Oklahoma (OK)	✓	✓	✓	✓	✗	✓	✓	✗
Oregon (OR)	✓	✓	✓	✗	✓	✓	✓	✗
Pennsylvania (PA)	✓	✓	✓	✓	✓	✓	✓	✗
Rhode Island (RI)	✓	✓	✓	✓	✓	✓	✓	✗
South Carolina (SC)	✓	✓	✓	✗	✓	✓	✓	✗
South Dakota (SD)	✓	✓	✓	✓	✗	✓	✓	✗
Tennessee (TN)	✓	✓	✓	✓	✓	✓	✓	✗
Texas (TX)	✓	✓	✓	✗	✓	✓	✓	✗
Utah (UT)	✓	✓	✓	✗	✗	✓	✓	✗
Vermont (VT)	✓	✓	✓	✓	✓	✓	✓	✗
Virginia (VA)	✓	✓	✓	✓	✓	✓	✓	✗
Washington (WA)	✓	✓	✓	✓	✓	✓	✓	✗
West Virginia (WV)	✓	✓	✓	✓	✓	✓	✓	✗
Wisconsin (WI)	✓	✓	✓	✓	✓	✓	✓	✗
Wyoming (WY)	✓	✓	✓	✗	✗	✓	✓	✗
American Samoa (AS)	✓	✓	✗	✓	✗	✓	✗	✗
CNMI (MP)	✓	✓	✗	✓	✗	✓	✓	✗
Guam (GU)	✓	✓	✓	✓	✗	✓	✓	✗
Virgin Islands (USVI)	✓	✓	✓	✗	✓	✓	✓	✗

Source: National Governor's Association

Appendix C. Legislation and Executive Order

- Department of Public Safety (Act 20-2017)
- Office of the Municipal Affairs Commissioner into the Office of Management and Budget (Act 81-2017)
- Model Forest to Nonprofit Trust (Act 131-2018)
- Puerto Rico Education Council into the Department of State (Act 212-2018)
- Environmental Quality Board, Natural Resources Administration, and Solid Waste Authority into the Department of Environmental and Natural Resources (Act 171-2018)
- Puerto Rico Energy Board, Public Services Commission, Independent Bureau of Consumer Protection, and Telecommunications Regulatory Board into the - Public Service Regulatory Board (Act 211-2018)

- Office of the Chief Financial Officer (Executive Order 2018-034)⁹¹
- Department of Economic Development and Commerce (Act 122-2018)
- Department of Agriculture, the Agricultural Enterprise Development Administration, and the Farm Insurance Corporation into the Agriculture grouping (Executive Order 2018-039)
- Office of the Financial Institutions Commissioner and the Office of the Commissioner of Insurance into the Finance Commission grouping (Executive Order 2018-040)

Appendix D. Interagency Agreements

Another strategy used by the Government to generate savings and efficiencies are interagency agreements signed to leverage shared services by pooling administrative resources such as HR, Accounting and Finance, Legal Services, Technology, and sharing real estate, among other initiatives:

- Agreement between the Department of Agriculture, the Agricultural Enterprise Development Administration, and the Farm Insurance Corporation;
- Agreement between AAFAF and OMB (Executive Order 2018-034)⁹²
- Agreement between Office of the Financial Institutions Commissioner and the Office of the Commissioner of Insurance; and

Agreement between the Fine Arts Center Corporation, the Institute of Puerto Rican Culture, and the Musical Arts and Stagecraft Corporation.

⁹¹ Pending final signature.

⁹² Pending final signature.