2023 Fiscal Plan for Puerto Rico

A NEW CHAPTER FOR PUERTO RICO

As Proposed by the Commonwealth of Puerto Rico

January 17, 2023

PUERTO RICO FISCAL AGENCY & FINANCIAL ADVISORY AUTHORITY

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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 economies of the United States and Puerto Rico as they relate to Puerto Rico's tax revenue and budget.
– The longer-term economic ramifications of 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 government aid provided to U.S. states and territories (including Puerto Rico) 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 federal 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 and recent earthquakes in Puerto Rico.
– The amount and timing of receipt of any additional amounts appropriated by the United States federal 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 timing and impact of the resolution of Puerto Rico's Title III cases and related litigation.

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Executive Summary

After too many years of fiscal crisis affecting each resident and business of Puerto Rico, under the Pierluisi administration, the end of the Commonwealth's bankruptcy is behind us. On January 18, 2022, Judge Laura Taylor Swain confirmed the Commonwealth Plan of Adjustment restructuring approximately $35 billion of debt and other claims against the Commonwealth of Puerto Rico, the Public Buildings Authority (PBA), and the Employee Retirement System (ERS), as well as more than $50 billion of unfunded pension liabilities. The Commonwealth Plan of Adjustment went effective on March 15th, 2022, a historic day for Puerto Rico. The Plan of Adjustment saves Puerto Rico more than $50 billion in debt service and reduces outstanding obligations to just over $7 billion.

The process of emerging from bankruptcy has been enormously complex. It took the concerted effort and hard work of a wide range of stakeholders, including the Government and Legislature of Puerto Rico, operating in an environment of considerable uncertainty to arrive at a largely consensual Plan of Adjustment enabling the Commonwealth, ERS, and PBA to exit bankruptcy. The bankruptcy process unfolded against the backdrop of a series of unprecedented events, including devastating natural disasters and a global pandemic.

This watershed event brings predictability and is the beginning of a new chapter for Puerto Rico, in which improving financial management and operational capacity can bring stability, and investment in structural reforms can bring new growth and prosperity. This Fiscal Plan prioritizes these critical steps for a better managed and more effective government, and for implementing structural reforms which are at the heart of all progress in economic development.

Until now the Commonwealth grappled with significant long-term uncertainty because the resources needed for future debt service and other liabilities were unclear. The confirmed Plan of Adjustment ends the uncertainty. With a more affordable and certain level of debt service, the Commonwealth can now use all other available resources to provide effective services for the people and business community of Puerto Rico. Many have misunderstood that the new debt service would force further reductions in spending; this is not true. The Commonwealth and the Board had together planned for this level of debt and there are no incremental reductions in spending necessary as a result of the new debt service. In fact, the end of this bankruptcy brings predictability to the finances of the Commonwealth and an opportunity to reinvest in critical initiatives such as Municipal Services Reform and Civil Service Reform.

Not only is there no further reduction in spending necessary at this time, but the 2023 Fiscal Plan outlines a set of historic investments in the workforce that provide critically important services to residents across the Island. These new investments, described further below, are an important step in rebuilding operational capacity and increasing the effectiveness of government. These investments are being made to support Government workers, many of whom have not had a pay raise since 2014 as a result of the financial crisis within which Puerto Rico has suffered since then. Today, having negotiated the new, reduced level of debt service, we have more available resources to proceed with strengthening the government by investing in high quality and effective government services.

In addition, the Plan of Adjustment and 2023 Fiscal Plan put an end to the longstanding practices of multiple Governments over many years, who made commitments to current and future retirees but did not invest adequate funding to be able to meet and deliver on those commitments. Moving forward, a pension reserve trust is established and funded over the next 10 years, so that current and future retirees can have confidence that their benefits will be available to them.

These new investments are enabled in part by a meaningful increase in federal resources and local revenues. Since the 2021 Fiscal Plan was certified, U.S. and global growth has continued to improve beyond expectations as a result of strong stimulus packages implemented to respond to the pandemic. As a result, Puerto Rico - like most U.S. states - has seen stronger than forecasted revenue performance. In addition, Puerto Rico has benefited from several meaningful increases in federal funding. H.R. 2617, the "Consolidated Appropriations Act, 2023, substantially increased the amount of federal funding available for the Medicaid program for a period of five years. As a result, program costs that were previously forecasted to be funded using Commonwealth resources are now paid by the Federal government. This in turn frees up incremental Commonwealth resources to be used in other high priority areas of public policy.

This is a very important moment for the Commonwealth. For the first time in years, it can manage its resources without the cloud of uncertainty of bankruptcy and the Medicaid cliff. In addition, Puerto Rico has received a welcome infusion of historic levels of federal support, creating new opportunities to address high priority needs. The 2023 Fiscal Plan provides a roadmap to take maximum advantage of the current situation to build on that predictability, create an environment of fiscal stability, and develop the conditions for long-term growth and economic development. The 2023 Fiscal Plan provides the funding and the detailed action steps needed to make these changes a reality.

Priorities in the 2023 Fiscal Plan

The 2023 Fiscal Plan prioritizes resource allocations across a few major themes:

- **Ensuring essential services provided by the Municipalities:** Due to the financial uncertainty of the last 6+ years, the oversight board implemented a series of reductions to the central government appropriations to the municipalities which has resulted in concerns regarding the municipalities ability to continue providing essential services including: public works, social affairs, education, recreation and culture, health, environmental protection, economic development and public order and safety. With the Commonwealth Title III behind us, continued general fund revenue outperformance and certainty of federal Medicaid funding, now is the time to reinvest in our municipalities and ensure that the essential services provided by the municipalities continue and are not required to be assumed by the Central Government. To that end, the 2023 Fiscal Plan provides for the establishment of the Municipal Essential Services fund, the Municipality Service Consolidation Fund and the Central Government assumption of the municipality's contribution to ASES. Together, these initiatives will relieve the strain endured by the municipalities today and provide the opportunity to streamline operations and provide essential services to the citizens in a more efficient manner.

- **Investing in the operational capacity of government to deliver services with Civil Service Reform (CSR), including increasing salaries:** The 2023 Fiscal Plan reflects the need to invest in and improve the civil service. This investment is made through comprehensive reform based on the implemented CSR Pilot Program ("CSR Pilot") to improve the civil service including evaluations, recruitment, and organizational restructuring. The 2023 Fiscal Plan includes support for a simple and uniform position classification system with a corresponding pay structure that is aligned to market rates. It ensures the Commonwealth has competitive, fair, and justified salaries. It includes salary raises for public employees that are providing critical day to day services but have not had a raise in many cases since 2014. This salary increase includes teachers, correctional officers, and firefighters, among others. Although a Uniform Classification and Remuneration Plan (URP) establishes a uniform role and pay structure for its employees, a URP alone will not lead to a long-overdue transformation of the civil service in Puerto Rico. The URP will be part of a comprehensive CSR plan. To address the urgency with compensation structures, the effective date of the URP implementation will be January 2023, pending compliance with CSR milestones.

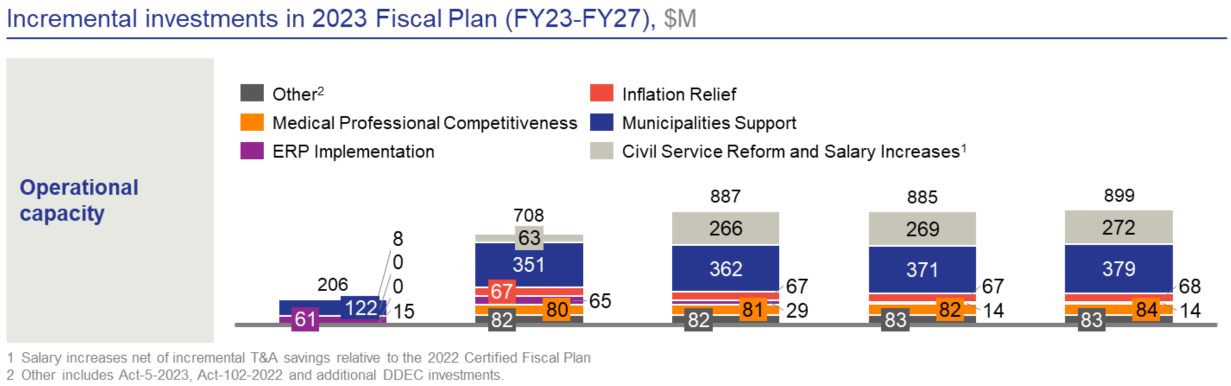
- **Prioritizing obligations to current and future retirees:** The Plan of Adjustment includes a mechanism to set aside resources to fund the Commonwealth's pension obligations. While most states have set aside resources equivalent to 70+% of pension liabilities, the Government of Puerto Rico (over many decades and administrations) did not fund its pension obligations. To bring the Commonwealth in line with at least the bottom decile of states, the 2023 Fiscal Plan provides for the Pension Reserve Trust to achieve an approximate 50% funding ratio by the end of fiscal year 2031. While contributions to the pension reserve trust will not continue after FY2031, it is expected that the funded ratio reach 100% by FY2039 as withdrawals to fund PayGo are not forecast to be needed. In addition, the 2023 Fiscal Plan provides for incremental funding of a total of $864 million for investment in enhanced police retirement benefits, $5 million annually for healthcare coverage for retired police officers who do not yet qualify for Medicare, and $20 million in total incremental funding over 11 years for the Symphonic Orchestra Pension Fund to address yet another existing unfunded pension liability.

- **Creating a fiscally responsible post-bankruptcy Government:** The Government intends to maintain fiscal responsibility by implementing a comprehensive financial management agenda to ensure that Puerto Rico never again suffers from the problems that led to the fiscal crisis in the first place. Successful implementation requires a deep-rooted change in the approach to financial management. A collective commitment from Government leadership including the Governor, the CFO, the legislature, and agency heads is critical for the institutionalization and roll out of the Financial Management Agenda ("FMA"), as outlined in this Fiscal Plan. The 12 initiatives in the FMA are carefully chosen to lay a foundation for success, build on progress that has already been made by the Board and the Government together, and achieve milestones that are most critical to restoring fiscal responsibility in Government and ensuring financial stability. The FMA calls for a properly structured and empowered Office of the Chief Financial Officer ("OCFO") that pursues timely financial audits, transparent and useful financial reporting, resource management, and implementation of long-term planning objectives. Furthermore, the FMA includes implementation of initiatives such as: Real property registry, Time & Attendance, Debt Management Policy, and Budget Best Practices. The 2023 Fiscal Plan includes additional detail and implementation steps for implementing the FMA across government.

Since certifying the first Fiscal Plan in 2017, and notwithstanding the multiple natural disasters and the global pandemic, the Government has worked with the Oversight Board to make initial progress toward these objectives. This resulted in the ability of the Government to increase expenditures in times of crisis and uncertainty, while ensuring total expenditure levels remain within total available revenues. There is a new level of transparency and control over government spending, including the elimination of multi-year appropriations that permitted overspending; controls over the reapportionment of funding between concepts of spend to eliminate the defunding of accrued liabilities; and regular reporting on revenues and expenses. Moreover, the fiscal year 2020, 2021, and 2022 budgets were built at a granular "concept code" level (e.g., differentiating between spend on professional IT services versus advisory services).

These actions have helped enable the Commonwealth to exit bankruptcy with sustainable and affordable debt, while increasing investment in government services.

Exhibit 1: INVESTMENTS IN 2023 FISCAL PLAN (FY2023-FY2031)



Continuing investments in sustained priorities from prior fiscal plans:

The 2023 Fiscal Plan also continues or makes incremental investments to support frontline services and to enhance agency operations. These include funding to bolster (i) healthcare infrastructure and services (e.g., capital improvements at public hospitals, public hospital IT, telehealth infrastructure, opioid treatments, education loan forgiveness for rural healthcare professionals, and funds to maintain nurse and health professional staffing levels), (ii) investments in public safety (e.g., police salary raises, police equipment and capital, funds to hire Forensics Institute personnel, and funds for a Department of Corrections and Rehabilitation facility consolidation), (iii) investments to improve educational outcomes (e.g., funds for school psychologists and nurses, better transportation for students, teacher time and attendance analysis, needs based scholarships, incentives for student attendance reporting, digitization, teacher and director salary raises, and innovation), and (iv) funding for critical supporting Government operations (e.g., funds to support Enterprise Support Planning (ERP) implementation, hire staff to finalize centralized procurement initiatives, accelerate municipal service consolidation, create transparency into economic incentives, hire special prosecutors and agents for the Specialized Domestic Violence, Sexual Crimes and Child Abuse units, and enable the fourth phase of the "Abriendo Caminos" infrastructure improvement program and for regular maintenance programs for the road infrastructure, etc.). These investments also include funds for the local portion of an Earned Income Tax Credit to encourage more formal labor market participation on the Island and needs-based scholarships for University of Puerto Rico to ensure every student on the Island can access higher education.

In addition, prior fiscal plans included important investments to create the conditions for growth. To ensure Puerto Rico can compete in a global economy, prior fiscal plans set aside critical funds for technology infrastructure and workforce development programs. These include $400 million to boost universal broadband access through incentives to expanded broadband roll out and the provision of faster service, and $50 million to establish a 21st Century Technical and Business Education Fund, designed to develop technical and business skills that are aligned with the needs of the 21st century economy. The 2023 Fiscal Plan details the intended use and timeline of these funds.

Increased resources available to the Commonwealth

Since the 2021 Fiscal Plan was certified in April, the Commonwealth has seen a surge in available resources, largely attributable to two major developments:

- Increased federal funding for health care as a result of recent CMS guidance increasing the federal funding cap by $2+ billion per year along with a projected increase in prescription drug rebate revenues that the Commonwealth will receive as a result of joining the federal Medicaid Drug Rebate Program (MDRP)
- Improved local revenue collections as a result of higher-than-expected overall U.S. growth, increased local consumption and economic activity enabled by enhanced income support programs (e.g., ~$460 million increase in annual federal funding for the Nutrition Assistance Program), and sustained increase in revenues resulting from a change to the tax treatment of partnership entities

Changes to expenditures post-bankruptcy

Relative to the 2021 Fiscal Plan, the 2023 Fiscal Plan arrives at a new set of expenditure projections that factor in the now-established debt service and other costs related to the Plan of Adjustment, as well as additional investments enabled by the increased resources available to the Commonwealth. The primary changes to the expenditures forecast fall into four major categories:

- Debt service costs as included in the Plan of Adjustment
- Costs related to Act 53-2021, which include additional funding for UPR for five years, removing reductions to retiree pensions, and additional funding for municipalities
- Costs related to the employees transferred from PREPA to the Commonwealth
- Incremental investments enabled by the increased resources available to the Commonwealth, including salary increases

A New Chapter for Puerto Rico

Prior Fiscal Plans have detailed the financial mismanagement of prior administrations and have focused on the past. The 2023 Fiscal Plan looks to a brighter future for Puerto Rico and its citizens. Building on the successes achieved since the passing of PROMESA, the 2023 Fiscal Plan looks to building a prosperous and resilient economy – one that provides an opportunity for all Puerto Rican's to thrive. With the Commonwealth emergence from bankruptcy, including sustainable and stable debt service, behind us the Government submits the 2023 Fiscal Plan to the oversight board for serious consideration for certification. Through years of hard work, and with the collaboration of hundreds of stakeholders, the conditions are now in place for the Government of Puerto Rico to invest in a better future for all its residents. Confirmation of the Plan of Adjustment and the unprecedented level of federal support provides a once in a generation opportunity to transform this newfound predictability into stability, and economic prosperity. This Fiscal Plan enables the necessary conditions for growth, including building resilient infrastructure, investing in economic development, improving government operational capacity, and promoting fiscal responsibility and financial management. Prudent use of both federal and local funds will allow Puerto Rico to rebound from the effect of the pandemic on residents, businesses, and the social sector. These investments can also unlock creativity, entrepreneurship, and private sector investment – especially when coupled with the much-needed civil service and ease of doing business reforms. The Government looks forward to working with the Oversight Board in the Fiscal Plan certification process and welcomes any productive recommendations to be included in the 2023 Fiscal Plan.

PART: 1 - Economics & Revenues

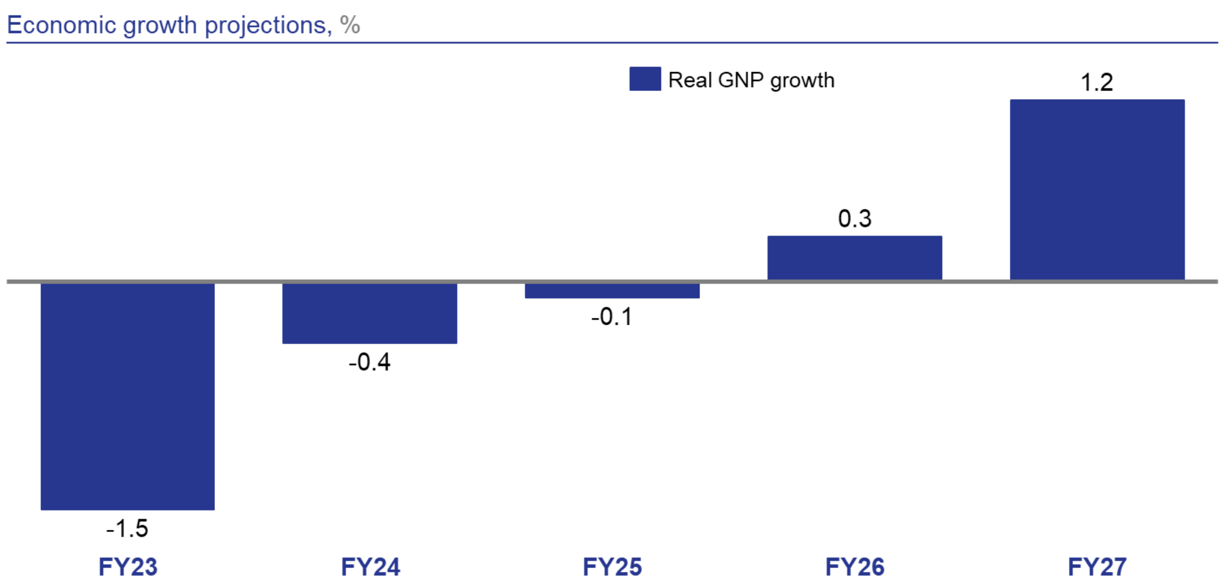
Chapter 1. Economic Trends in Puerto Rico

1.1 Macroeconomic Overview

The 2023 Fiscal Plan includes an updated macroeconomic forecast that incorporates the effect of fiscal and structural measures, shocks of natural disasters and COVID-19, and federal funding in response to natural disasters and the pandemic on the baseline economic trajectory. The baseline economic outlook model, which forecasts real gross national product (GNP) growth, primarily relies on a comprehensive dataset of the Puerto Rican economy from 1965 to 2021. It includes dozens of variables that collectively describe the Puerto Rican economy (e.g., economic growth, population, capital stock, etc.). Major drivers of this forecast include projected US GDP growth, certain federal transfers, trend capital stock growth, and key commodity prices.

The macroeconomic forecast is then impacted by four major factors: (a) impacts from the shocks of hurricanes, earthquakes, and COVID-19 on economic activity, employment and the capital stock, (b) the stimulative impact of federal and local relief assistance for hurricanes, earthquakes, and COVID-19, (c) the stimulative impact of incremental federal funds from the Infrastructure Investment and Jobs Act and (d) proposed government efficiency measures, investments, and structural reforms. While the 2023 Fiscal Plan maintains these key inputs from the prior Fiscal Plan model, the Fiscal Plan forecast in the short-term also incorporates recent changes in the macroeconomic environment, including higher US inflation, declining economic growth, and spikes in energy and food prices.

Exhibit 2: ECONOMIC GROWTH RATE AFTER MEASURES, STRUCTURAL REFORMS, AND DISASTER RELIEF FUNDING



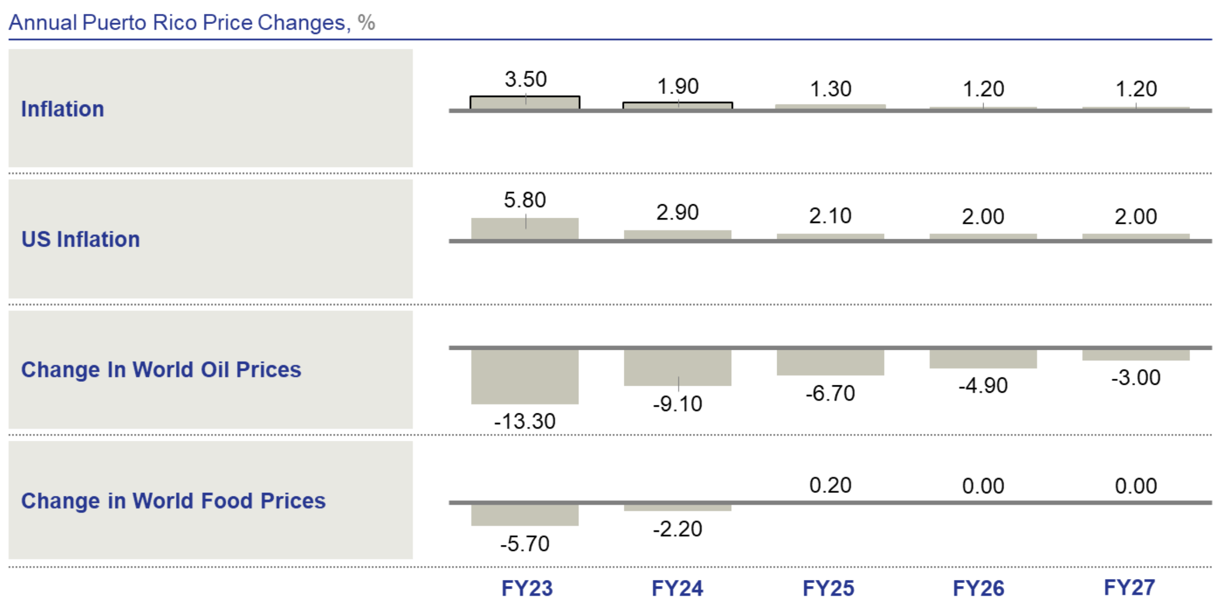
To project the trend in US GDP growth, the FY2023 Fiscal Plan uses the Conference Board's December 14, 2022 US economy forecast through 2024, converted to a Puerto Rico Fiscal Year basis. The Conference Board forecast temporarily replaces the Congressional Budget Office forecast, which has not been updated since May 2022 and does not include the most recent eight months of macroeconomic developments. After 2024, the October 2022 International Monetary

Fund World Economic Outlook (IMF WEO) forecast is used for long-term projections. If an updated Congressional Budget Office forecast becomes available prior to certification, these forecasts will be updated. The IMF WEO also provides the forecast for US inflation and world food and oil prices.

Over the last year, there has been a sharp rise in both U.S. and Puerto Rico inflation rates, driven by a combination of global and idiosyncratic (U.S.) supply shocks. Prices continue to rise in Puerto Rico and in the US mainland. Puerto Rico's year-over-year (YoY) inflation rate was 6.6% in October 2022, much higher than the 2% target rate used by the Fed. In October, US inflation dropped from 8.2% to 7.7%, the lowest rate since January 2022, but remained at a level that is very high compared to the trend rate since the early 1980s. The YoY increase of Puerto Rico's price level, measured using the Consumer Price Index (CPI), have been driven by large increases in the prices of food and beverages, other goods and services, and transportation (which includes motor fuels).[1]

Puerto Rico inflation projections are summarized below and have been updated to reflect higher U.S. inflation estimates, which take into account the recent rise in mainland inflation. Exhibit 3 also includes US inflation, world food prices and world oil prices.

Exhibit 3: ANNUAL PUERTO RICO PRICE CHANGES



1 U.S. Bureau of Labor Statistics, December 2022

1.2 Federal and local relief spending for Hurricanes Irma, Maria, and Fiona, earthquakes, and COVID-19 pandemic

1.1.2.1 Disaster relief spending from 2017 hurricanes

Disaster spending tends to have a short-term stimulative effect on an economy post-crisis. In Puerto Rico, the level of committed public and private disaster relief spending is significant when compared to the overall size of the economy. Public and private disaster relief spending has and will continue to impact the economy in two ways:

- Stimulative impact from post-hurricane disaster relief spending coming from aid packages equivalent to more than 100% of the Island's GNP. This stimulus can 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 reconstruction of the capital stock on the Island.** The 2023 Fiscal Plan factors in significant damage to capital stock resulting from the hurricanes that is repaired, in large part, by this extraordinary infusion of federal and private monies, contributing to growth in the long-term.

The 2023 Fiscal Plan projects that ~$84 billion of disaster relief funding in total, from federal and private sources, will be disbursed in the reconstruction effort over a period of 18 years (FY2018 to FY2035). It will be used for a mix of funding for individuals (e.g., reconstruction of houses, personal expenditures related to the hurricane such as clothing and supplies), funding for the public (e.g., reconstruction of major infrastructure, roads, and schools), and to cover part of the Commonwealth's share of the cost of disaster relief funding (recipients often must match some portion of federal public assistance spend).

Of the total, ~$48 billion is estimated to come from the Federal Emergency Management Agency (FEMA) Disaster Relief Fund (DRF) for Public Assistance, Hazard Mitigation, Mission Assignments, and Individual Assistance. An estimated $7 billion will come from private and business insurance payouts, and $8 billion is related to other sources of federal funding.

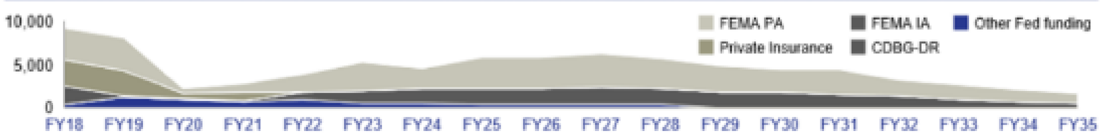
The 2023 Fiscal Plan includes ~$20 billion from the federal Housing and Urban Development (HUD) Community Development Block Grant - Disaster Recovery (CDBG-DR) program, of which ~$2.7 billion is estimated to be allocated to offset the Commonwealth and its associated entities' expected FEMA-related cost-share requirements.[1] This portion of CDBG-DR funding will go towards covering part of the ~10% cost-share burden on expenditures attributable to the Commonwealth, PREPA, PRASA, and HTA from FY2019 to FY2032. The 2023 Fiscal Plan allocates $4.2 billion for Puerto Rico's cost-match responsibility. After the CDBG-DR funds, out-of-pocket cost-share is reduced to $1.5 billion for Puerto Rico, of which $1 billion is attributable to the Commonwealth.

[1] Estimate based on early assessment of CDBG-DR and CDBG-MIT Action Plans for Puerto Rico (with public data as of March 15, 2021), as well as patterns of cost share coverage from CDBG-DR in previous storms

Exhibit 4: PROJECTED PRIVATE AND PUBLIC SECTOR DISASTER RELIEF FUNDING ROLLOUT

	FY18, $M, %	FY19, $M, %	FY20, $M, %	FY21, $M, %	FY22, $M, %	FY23, $M, %	FY24, $M, %	FY25-FY35 $M, %	Total, $M	Total, %
FEMA Public Assistance, Hazard Mitigation, Mission Assignments[1]	3,607	3,773	544	1,028	2,106	3,309	2,440	29,070	45,877	55%
	8%	8%	1%	2%	5%	7%	5%	63%		
FEMA Individual Assistance[1]	2,050	241	145	52	50	50	-	-	2,587	3%
	79%	9%	6%	2%	2%	2%	0%	0%		
CDBG-DR	-	-	-	125	737	1,328	1,618	16,416	20,223	24%
	0%	0%	0%	1%	4%	7%	8%	81%		
Private insurance	3,001	2,895	606	936	-	-	-	-	7,437	9%
	40%	39%	8%	13%	0%	0%	0%	0%		
Other federal funding	509	1,237	1,014	704	1,058	632	624	1,963	7,740	9%
	7%	16%	13%	9%	14%	8%	8%	25%		
Total	9,168	8,146	2,308	2,844	3,950	5,318	4,681	47,449	83,865	100%
CDBG cost share	-	-	-	21	96	177	216	2,700		

Disaster aid by source of funding, $M



1 Includes federal assistance for 2019/2020 earthquakes

The major sources of disaster relief funding are detailed below:

FEMA Disaster Relief Fund: FEMA provides Individual Assistance to individuals and families who have sustained uncovered losses due to disasters. FEMA also provides Public Assistance to state and local governments and certain types of private not-for-profits for debris removal, emergency protective measures, and permanent repair to damaged or destroyed infrastructure. Through both its Public Assistance Program and Hazard Mitigation Grant Program, FEMA funds projects to reduce or eliminate long-term risks to people or property from future disasters.[2]

The U.S. Department of Housing and Urban Development (HUD) CDBG-DR CDBG-MIT and CDBG-ENE: HUD provides CDBG-DR funding that can be used for assistance to individuals, businesses, state agencies, non-profit organizations, and economic development agencies. Funds are to be used in the most impacted and distressed areas for disaster relief, long-term recovery, restoration of infrastructure, housing assistance, and economic revitalization. The 2023 Fiscal Plan uses Action Plans approved by HUD to estimate the allocation of these funds, with ~$10 billion for disaster relief related activities, ~$8 billion to be used towards mitigating risks and potential losses in the event of a future disaster and ~$2 billion expected to be used to repair the Island's electric infrastructure. The total ~$18 billion in disaster relief and mitigation funds include ~$2.7 billion to cover cost-share for the Commonwealth and its instrumentalities.[3]

2 The 2022 Fiscal Plan does not attribute economic impact to FEMA's Administrative funding, which is used for FEMA's personnel (primarily outside of Puerto Rico), travel, and other internal costs

3 As per the Puerto Rico Disaster Recovery Action Plan, April 2020, "the cost share matching requirements of many of these [FEMA] programs create a financial burden on subrecipients that will dramatically hinder the recovery process without

Private insurance funding: Large personal property and casualty losses have been incurred in the aftermath of Hurricanes Irma, Maria, and Fiona. An 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 amount that has been paid out to individuals and businesses for major damages.

Other supplemental federal funding: Additional federal funding has been appropriated 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 (e.g., U.S. Department of Agriculture (USDA) funding to repair water systems in rural areas) to additional funds for the Nutritional Assistance Program (NAP).

1.3 Federal funds from the Infrastructure Investment and Jobs Act

On November 15, 2021, President Biden signed the Infrastructure Investment and Jobs Act (IIJA) into law. The IIJA bill allocates around $2.3 billion federal funds to Puerto Rico with the purpose of improving the Island's infrastructure stock over FY2022-2026. These funds will support repairing and rebuilding roads and bridges; improving public transportation options; building a network of electric vehicle chargers; increasing broadband coverage; preparing infrastructure for climate change, cyber-attacks, and extreme weather events; improving water infrastructure; developing airport infrastructure; among other purposes.[4] Incremental funding from the IIJA (accounting for prior Federal infrastructure support) is estimated to be around $1.6 billion. The 2023 Fiscal Plan accounts for the impact of these incremental funds, which have a positive temporary impact on economy and growth due to the temporary nature of the funds.

1.4 Impact of Structural Reforms

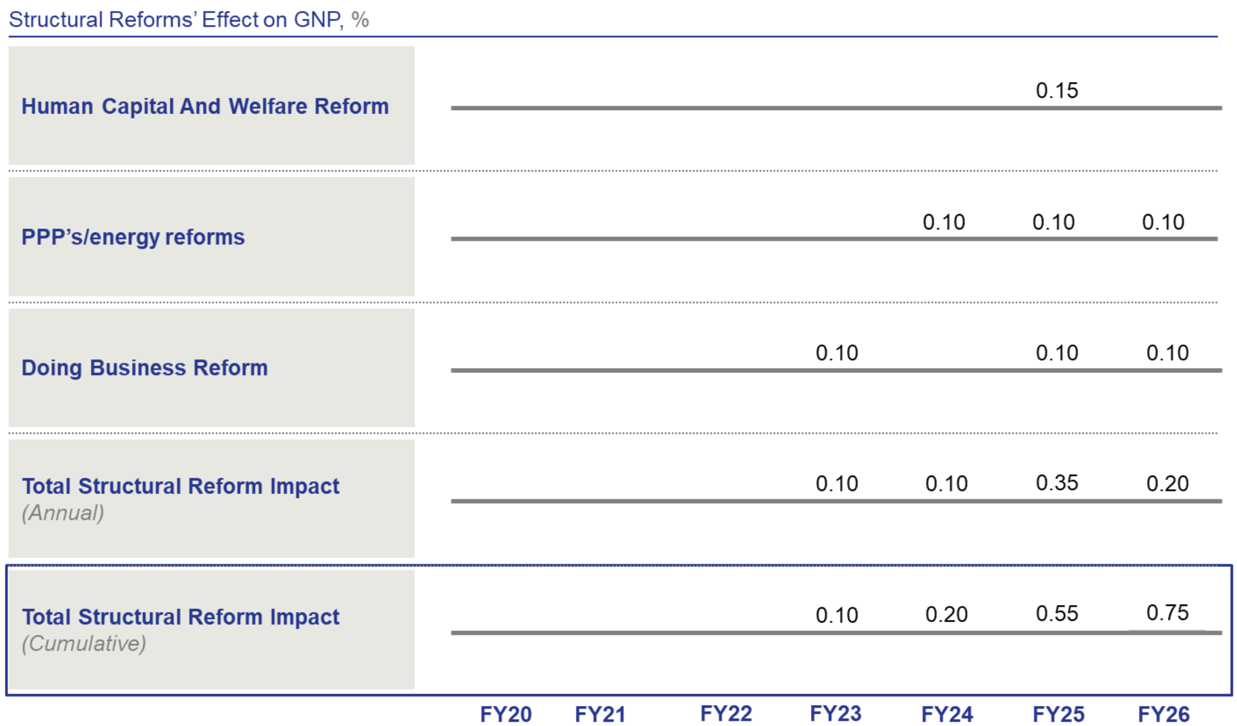
The estimated impact of structural reforms is based on work done by the International Monetary Fund on labor reforms implemented in Europe (e.g., Spain and Estonia) and South America (e.g., Peru and Colombia), among other jurisdictions; utilities reform in Latin America; broadly-accepted metrics for measuring improvement in the World Bank's Doing Business Rankings (as well as examples of growth experienced by countries that have implemented such reforms); and education reforms in Europe and elsewhere. Structural reform benchmarks, to the extent possible, come from nations or jurisdictions that face similar constraints to Puerto Rico (e.g., limited monetary policy options, high informal labor markets).

Energy and ease of doing business reforms are projected to increase GNP by 0.60% by FY2026, and human capital and welfare reform is expected to add another 0.15% in FY2025 (*Exhibit 5*). Finally, K-12 education reforms add an additional 0.01% annual impact beginning in FY2037, resulting in total GNP increase from structural reforms of 0.75% by FY2026 and 0.90% by FY2051.

supplemental funding. To substantially reduce this burden, PRDOH intends to leverage CDBG-DR to meet these matching fund requirements…"

4 White House, "White House Releases Updated State Fact Sheets Highlighting the Impact of the Infrastructure Investment and Jobs Act Nationwide", State Fact Sheet for Puerto Rico, 2021

Exhibit 5: MACROECONOMIC IMPACT OF STRUCTURAL REFORMS



1.5 Population Projections

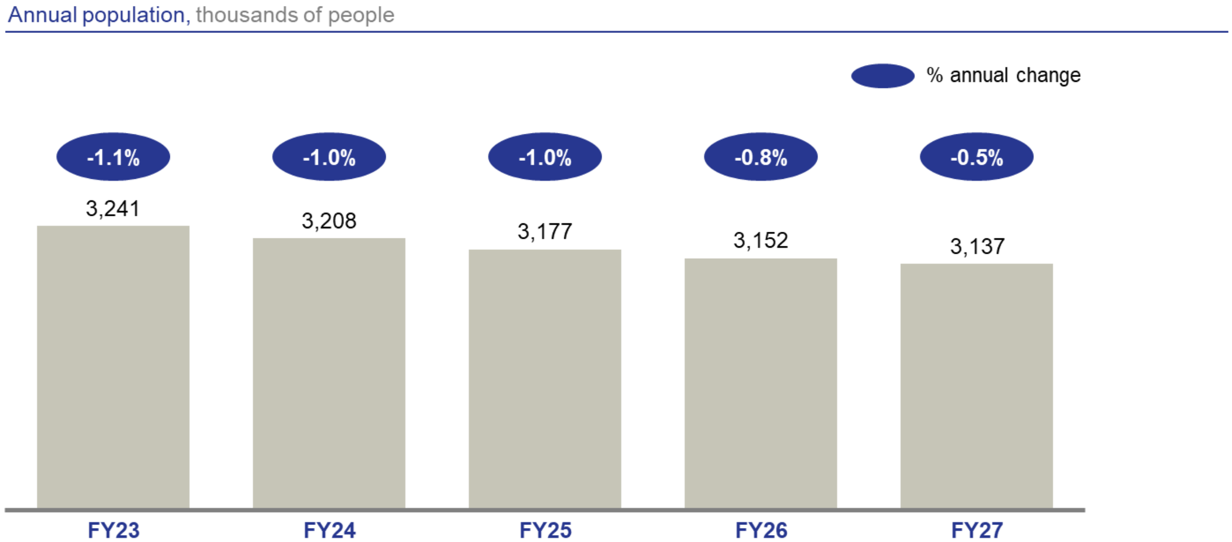
Puerto Rico's population has been trending downwards for the past decade and is forecasted to continue for many years to come. In 2022, the U.S. Census Bureau's official forecast, projected a declining population (-1%) due in part to Puerto Rico's rapidly aging population. This high average age range results from extremely low age-adjusted birth rates and outmigration of younger people. In 2016, Puerto Rico began to experience negative natural population change (a higher number of deaths than births). This negative natural change has continued unabated into 2022.

Hurricanes Irma and Maria served to compound the problem, spurring an additional outflow of people just as natural population decline has set in, as many residents lost houses, jobs, and loved ones. In 2018, just after the hurricanes, Puerto Rico suffered the highest decline in population at a 4.4% net decrease. While some of these people have returned, the population is still projected to decline over the course of the 2023 Fiscal Plan period and beyond. Further disasters, such as the series of earthquakes experienced in 2020, have not made a swift return to balanced migration any more likely. But while net migration is a larger driver of population change in the short term, this factor is volatile; in the long run, net migration is projected to return to more balanced trends. Meanwhile, natural population change is not guaranteed to rebalance at any point, and births are likely to continue declining, while deaths are projected to slowly rise in the mid-term.

In April 2022, the Census Bureau revised the published 2020 Census data, which showed a population of ~3.3 million in Puerto Rico at the end of 2020. The 2023 Fiscal Plan includes updated population forecasts that reflect the 2020 Census data as well as updated data on migration trends and births and deaths for Puerto Rico.

While the updated population forecast in the 2023 Fiscal Plan shows higher population projection relative to the 2022 Fiscal Plan, the population remains declining. As outlined in *Exhibit 6* below, the 2023 Fiscal Plan projects that by FY2027, there will be approximately 2.6% fewer people living on the Island than in FY2022.

Exhibit 6: PROJECTED POPULATION CHANGE



Chapter 2. Context for PROMESA and the creation of the Oversight Board

2.1 Enactment of PROMESA

On June 30, 2016, President Obama signed into law the Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA), 48 U.S.C. § 2101 et seq., to work toward a remedy to the ongoing fiscal and humanitarian crisis in Puerto Rico. PROMESA's goal is to meet Puerto Rico's need to provide its residents effective services, to formulate a debt restructuring, and to implement fiscal and structural reforms to lead to a sustainable economy, fiscal responsibility, and market access.

PROMESA establishes two primary mechanisms for restoring fiscal responsibility. First, Titles I, II, IV, and V of PROMESA create the Financial Oversight and Management Board (Oversight Board) for Puerto Rico. The Oversight Board is an independent entity within the territorial Government, rather than a department, agency, establishment, or instrumentality of the Federal Government. It is statutorily charged with restoring fiscal responsibility and market access to the Commonwealth. Titles I, II, IV and V provide its powers and duties, and govern its review and certification of multi-year fiscal plans, annual budgets, major contracts and strategic infrastructure projects. Second, Titles III and VI of PROMESA provide for debt restructurings, similar to bankruptcy cases and out-of-court restructurings, respectively, for Puerto Rico and its instrumentalities. By incorporating many provisions of Title 11 of the United States Code (the "Bankruptcy Code"), Title III of PROMESA provides for restructurings similar to restructurings under chapters 9 and 11 of the Bankruptcy Code. Title III also protects the debtors from creditor debt-enforcement actions through an automatic stay on debt enforcement actions and other remedies that was triggered once PROMESA was signed into law. The Oversight Board is the sole representative of any debtor entity in a Title III case, with the exclusive authority to propose a Plan of Adjustment. PROMESA Title VI establishes a largely consensual, out of court process for modifying bond debt (or other financial debt) through a collective action mechanism that binds dissenting creditors to an agreement reached with a super-majority of creditors.

2.2 Fiscal Plans and budgets

PROMESA Title II sets forth the requirements for proposing and certifying fiscal plans and budgets for the Commonwealth and its instrumentalities. Under Title II, the Oversight Board can require covered territorial instrumentalities/entities to prepare and submit annual fiscal plans, which the Oversight Board then reviews and either rejects or certifies. The Oversight Board's mandate is to certify fiscal plans and budgets that achieve PROMESA's goals of fiscal responsibility and access to the capital markets. The Oversight Board then tracks Government implementation of the fiscal plans to ensure compliance.

Among other things, the certified fiscal plans and budgets estimate revenues and expenditures conforming with agreed accounting standards; provide funding for essential public services and adequate funding for public pension systems; eliminate structural deficits; improve fiscal governance, accountability, and internal controls; and provide for capital expenditures and investments necessary to promote economic growth.
In furtherance of the Oversight Board's duties, PROMESA contains a provision that grants the Oversight Board powers to monitor compliance with certified fiscal plans and budgets and undertake certain actions, including the submission of recommended actions to the Governor that promote budgetary compliance.

2.3 Conditions for termination of the Oversight Board

PROMESA designed the Oversight Board to have a finite life, defined objectives, and defined tools and authority to achieve PROMESA's objectives. PROMESA is specific in terms of how and when the Oversight Board can be terminated. Two provisions in Section 209 of PROMESA define when the Oversight Board can be dissolved. PROMESA incorporates these provisions to ensure the board terminates once Puerto Rico's financial outlook stabilizes and better financial management processes have been adopted throughout the territorial government.

Section 209 of PROMESA (Termination of the Oversight Board) states the following:

An Oversight Board shall terminate upon certification by the Oversight Board that:

1) *the applicable territorial government has adequate access to short-term and long-term credit markets at reasonable interest rates to meet the borrowing needs of the territorial government; and*
2) *for at least 4 consecutive fiscal years--*
    A. *the territorial government has developed its Budgets in accordance with modified accrual accounting standards; and*
    B. *the expenditures made by the territorial government during each fiscal year did not exceed the revenues of the territorial government during that year, as determined in accordance with modified accrual accounting standards.*

This fiscal plan introduces the "Financial Management Agenda," an action plan designed to implement and institutionalize reforms necessary for the Oversight Board's termination and Puerto Rico's fiscal sustainability and economic renewal.

The Financial Management Agenda includes 12 initiatives. Two initiatives, Office of the Chief Financial Officer and CSR, lay the foundation for sound, sustained financial management. Four initiatives are central for Oversight Board termination: Timely Audited Financial Statements, Debt Management Policy, Budgeting Best Practices, and Federal Funds Management. The remaining six initiatives support other aspects of financial management improvement. Among them are procurement reform and cash and bank account management.

1.2.3.1 Progress on requirement #1: Adequate access to credit markets at reasonable interest rates

Sustainable debt restructuring

The Oversight Board has followed and is following a "once and done" approach to the restructurings to ensure Puerto Rico will not be insolvent again. Together with the Government of Puerto Rico, the Oversight Board has made substantial progress in adjusting Puerto Rico's debt, in what has been the largest debt restructuring in the history of the municipal bond market. The confirmed Plan of Adjustment reduces the outstanding Commonwealths debt and other claims by almost 80%, from $33 billion of existing claims to $7.4 billion in new debt. In addition, the Commonwealth's total debt service payments (including COFINA senior bonds) have been reduced by more than 60% to date, from $90 billion to $34 billion, saving Puerto Rico almost $60 billion in debt service payments.

On November 29, 2018, the Government Development Bank (GDB) completed a restructuring of certain of its indebtedness pursuant to a Qualifying Modification under Title VI of PROMESA (the GDB Qualifying Modification). Under the GDB Qualifying Modification, holders of certain bond and deposit claims against GDB exchanged their claims for bonds issued by a newly created public instrumentality—the GDB Debt Recovery Authority (the GDB DRA)—and GDB transferred to such entity its municipal loan portfolio, a portion of its public entity loan portfolio, its real estate owned assets and its unencumbered cash. The GDB Qualifying Modification reduced GDB's approximately $5 billion of debt to roughly $3 billion, reducing the face value of claims by 45%. The debt payments are secured by GDB cash flow from certain legacy assets without recourse to the Commonwealth. This restructuring benefited Commonwealth municipalities by providing them a recovery from GDB and offsetting the loans they owed to the GDB by the full amount of their deposits at GDB.

In February 2019, the U.S. District Court approved the Plan of Adjustment for the Puerto Rico Sales Tax Financing Corporation (COFINA), the first debt restructuring completed under PROMESA's Title III. It reduced COFINA debt by $6 billion, from $18 billion to $12 billion. Furthermore, it reduced debt service payments by 32%, saving the people of Puerto Rico approximately $17.5 billion that will now be available to support the financial needs of the Commonwealth.

In August 2019, the Puerto Rico Aqueduct and Sewer Authority (PRASA) and the Government of Puerto Rico reached an agreement with the U.S. Environmental Protection Agency (EPA) and U.S. Department of Agriculture (USDA) to consensually modify about $1 billion in outstanding loans, approved under PROMESA's Section 207. This agreement lowered PRASA's debt service payments on the U.S. Government program loans by about $380 million over the next 10 years and eliminated approximately $1 billion in guaranty claims against the Puerto Rico Government. Additionally, it provided PRASA with access to $400 million in new federal funding through various clean water programs over the next five years to support PRASA's ongoing effort to improve water quality and safety for the people of Puerto Rico.

On January 18, 2022, the Title III Court entered its findings of fact and conclusions of law in connection with the Plan of Adjustment [ECF No. 19812] (the Commonwealth Findings of Fact) and an order confirming the Plan of Adjustment [ECF No. 19813] (the Commonwealth Confirmation Order). On March 15, 2022 (the Commonwealth Effective Date), the conditions precedent to the Effective Date of the Commonwealth Plan of Adjustment were satisfied and/or waived by the Oversight Board, and the plan became effective. Accordingly, the Commonwealth Plan of Adjustment has been confirmed and is currently effective as of the date hereof.

As of the Commonwealth Effective Date, the Commonwealth Plan of Adjustment reduced the Commonwealth's total funded debt obligations from approximately $34.3 billion of prepetition debt to approximately $7.4 billion, representing a total debt reduction of 78%. This debt reduction will also reduce the Commonwealth's maximum annual debt service (inclusive of COFINA) from approximately $4.2 billion to $1.15 billion, representing a total debt service reduction of 73%. Also as of the Commonwealth Effective Date, all of the legacy Commonwealth general obligation bonds, ERS bonds, and PBA bonds were discharged, and all of the Commonwealth, ERS, and PBA obligations and guarantees related thereto were discharged. In addition, all Commonwealth laws that required the transfer of funds from the Commonwealth to other entities have been deemed preempted, and the Commonwealth has no obligation to transfer additional amounts pursuant to those laws.

A critical component of the Commonwealth Plan of Adjustment is the post-Commonwealth Effective Date issuance of new general obligation bonds (the New GO Bonds) and contingent value instruments (CVIs) that provide recoveries to GO and PBA bondholders, as well as holders of clawback claims against the Commonwealth and certain of its component units and instrumentalities.

The New GO Bonds were issued with an aggregate original principal amount of approximately $7.4 billion, consisting of approximately (i) $6.6 billion of New GO CIBs, (ii) $442.5 million of New GO CABs with a 5.375% interest rate, and (iii) $288.2 million of New GO CABs with a 5.0% interest rate. They have 11 different maturity dates and are secured by (a) a statutory first lien, (b) a pledge of the amounts on deposit in the Debt Service Fund, and (c) a pledge of the Commonwealth's full faith, credit, and taxing power in accordance with Article VI, Section 2 of the Commonwealth Constitution, and applicable Puerto Rico law. The New GO Bonds are be dated as of, and will accrue or accrete interest from, July 1, 2021.

The Commonwealth Plan of Adjustment also contemplates the issuance of CVIs, an instrument that gives a holder the right to receive payments in the event that certain triggers are met. The Commonwealth Plan of Adjustment establishes revenue-based performance benchmarks and permits the holders of CVIs to receive payments on account of the CVIs only if the benchmarks are exceeded. The CVIs issued under the Commonwealth Plan of Adjustment will be based on over-performance collections of the Commonwealth's 5.5% sales and use tax (SUT), with some CVIs also being subject to over-performance collections of rum tax. The CVIs represent a conditional promise by the Commonwealth to pay CVI holders only if the SUT or rum tax baselines are exceeded in a given fiscal year. The outperformance metric will be measured as of the end of each fiscal year (i.e., June 30) beginning in fiscal year 2022 and is based on a SUT and rum tax collections baselines for fiscal years 2022 to 2043 as established in the Board-certified fiscal plan for the Commonwealth, dated May 27, 2020. As with the New GO Bonds, the Commonwealth pledged its full faith, credit and taxing power under the Puerto Rico Constitution and applicable Puerto Rico law for payment of the CVIs. The CVIs are deemed issued on July 1, 2021.

The CVIs are also divided into two categories: (i) general obligation debt CVIs (GO CVIs), which will be allocated to various holders of GO bondholder claims; and (ii) clawback debt CVIs (the Clawback CVIs), which will be allocated to claims related to HTA, PRCCDA, PRIFA, and MBA bonds. The GO CVIs have a 22-year term. The Clawback CVIs have a 30-year term. The GO CVIs are subject to a lifetime cap of $3.5 billion, with maximum annual payments of $200 million plus any unused amounts from previous years subject to cumulative annual payments not exceeding $400 million. Similarly, the Clawback CVIs are subject to a $5.2 billion aggregate lifetime cap, allocated across the different types of bond claims, with maximum annual payments of (i) $175 million plus any unused amounts from previous years, not to exceed cumulative annual payments of $350 million, for fiscal years 1-22 of the 30-year term; and (ii) $375 million plus any unused amounts from previous years, not to exceed cumulative annual payments of $750 million, for fiscal years 23-30 of the 30-year term. The CVIs also apply an annual payment waterfall in which the first $100 million will be paid to GO CVIs and the next $11,111,111 will be paid to Clawback CVIs.

The Commonwealth Plan of Adjustment classifies claims into 69 classes, which will receive the following aggregate recoveries as follows:

- Various categories of Commonwealth Bond Claims (Classes 15-50): 73% recovery consisting of cash, New GO Bonds, and GO CVIs.
- Various categories of PBA Bond Claims (Classes 1-12, 14): 79% recovery in cash in addition to the New GO Bonds and GO CVIs that PBA bondholders will receive on account of their CW Guarantee Claims.
- Various categories of clawback creditor claims (Classes 59-63): 23% recovery consisting of the Clawback CVIs.
- ERS Bond Claims (Class 65): 16% recovery consisting of cash and interests in the ERS Private Equity Portfolio.
- Various categories of General Unsecured Claims (Classes 13, 58, and 66): 21% recovery in cash.
- Other miscellaneous claims (Classes 52-57, 64, 67-69): 26% recovery in cash.

For general unsecured claims, the Commonwealth Plan of Adjustment provides for separate levels of creditor cash recoveries at each debtor, as applicable. All general unsecured claims against the Commonwealth, ERS, and PBA are discharged, except certain Eminent Domain/Inverse Condemnation Claims (as defined in the Commonwealth Plan of Adjustment) that are not discharged until they receive payment in full, subject to an appeal of the Title III Court's ruling on such claims. The First Circuit has affirmed the takings appeal, but if the issue is appealed to the United States Supreme Court and reversed, then the Eminent Domain/Inverse Condemnation Claims could be dischargeable and impaired. All other general unsecured creditors at the Commonwealth will receive a pro rata share of the general unsecured creditor reserve fund (the GUC Reserve), plus amounts received by the Avoidance Actions Trust (as defined in and established under the Commonwealth Plan of Adjustment) up to 40% of the value of their claim. The GUC Reserve was funded with $200 million on the Commonwealth Effective Date and will be replenished with an additional aggregate total amount of $375 million funded in incremental amounts annually through December 31, 2025. Depending on the outcome of the appeal regarding Eminent Domain/Inverse Condemnation Claims, the GUC Reserve amount could be reduced by up to $30 million. ERS's general unsecured creditors will receive pro rata cash distributions from a fund established for ERS general unsecured creditors, which consists of $500,000 plus any net recoveries by the Avoidance Actions Trust allocable to ERS. PBA's general unsecured creditors will be entitled to a cash payment equal to 10% of their claim upon allowance.

Importantly, the Commonwealth Plan of Adjustment preserves all accrued pension benefits for active and retired public employees under Class 51. However, participants of the Retirement System for the Judiciary of the Commonwealth of Puerto Rico (JRS) and Teachers Retirement System of Puerto Rico (TRS) will be subject to a benefits freeze and the elimination of any cost-of-living adjustments (or COLAs) previously authorized under the JRS and TRS pension plans.

In addition, on January 20, 2022, the District entered an order approving the qualifying modification (the PRIFA Qualifying Modification) for the Special Tax Revenue Bonds, Section 2005A, Special Tax Revenue Bonds, Series 2005B, Special Tax Revenue Refunding Bonds, Series 2005C, and Special Tax Revenue Bonds (collectively, the PRIFA Rum Bonds). On March 15, 2022, the Plan of Adjustment became effective together with the PRIFA Qualifying Modification. On the effective date of the PRIFA Qualifying Modification, all claims related to PRIFA's Rum Bonds, including extensive litigation related thereto, were resolved in exchange for the following distributions made under the Commonwealth Plan of Adjustment and the PRIFA Qualifying Modification: (o_ $193.5 million in cash from the Commonwealth and CVIs triggered by both (i) outperformance of general fund rum tax collections relative to the projections contained in the Oversight Board's Fiscal Plan for the Commonwealth, and (ii) a 27% allocation of outperformance of the SUT relative to the Oversight Board's projections contained in its May 27, 2020, certified fiscal plan for the Commonwealth. The total distributions to PRIFA creditors on account of the PRIFA-related CVIs are subject to a lifetime aggregate cap of approximately $1.3 billion.

Finally, on January 20, 2022, the District Court also entered an order approving the qualifying modification (the PRCCDA Qualifying Modification) for the Series 2006 PRCCDA Bonds (the PRCCDA Bonds). On March 15, 2022, the PRCCDA Qualifying Modification went effective which resolved all claims related to the PRCCDA Bonds, including extensive litigation related thereto, in exchange for (i) a 4% allocation of the Clawback CVIs issued pursuant to the Plan of Adjustment (premised on outperformance of the SUT relative to the Oversight Board's projections contained in its May 27, 2020 certified fiscal plan for the Commonwealth), and (ii) holders' pro rata share of $97 million of cash in deposit accounts held by the Tourism Company at FirstBank. PRCCDA-related portion of the CVIs is subject to a lifetime aggregate cap of approximately $217 million.

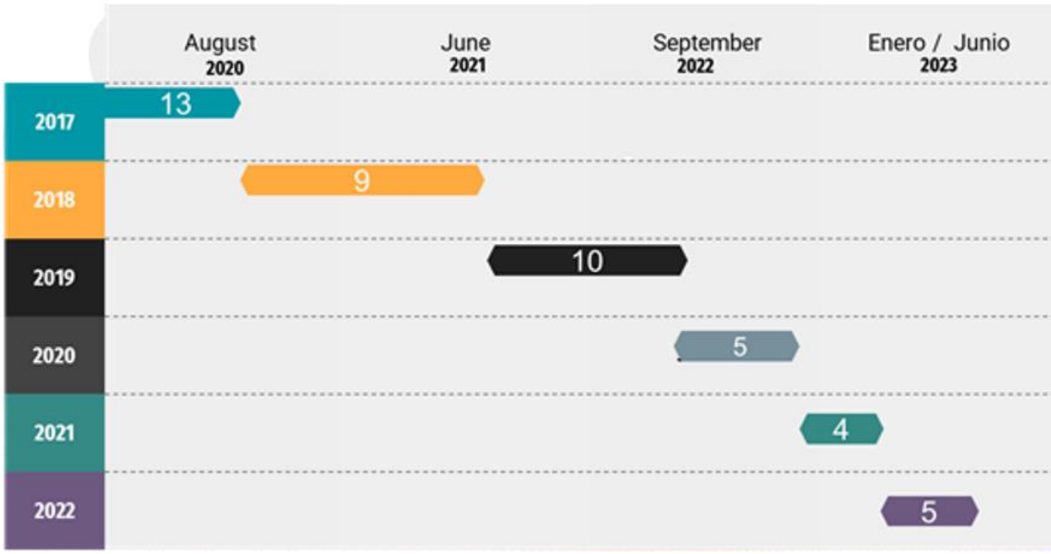
Puerto Rico economy growth is the key to the sustainability of any debt restructuring. The Oversight Board has stressed for the past five years that returning to economic growth requires structural reforms to enhance the reliability of power; improve educational outcomes, labor market participation and labor productivity; enhance the ease of doing business on the Island; and generate more effective returns on capital investments and infrastructure. All of this aims to strengthen Puerto Rico's competitiveness in the global marketplace, attract new private capital, create jobs, and ultimately improve life for residents of the Island.

Timely financial reporting

The requirement related to timely financial reporting includes expectations that the Government publish audited financials in a timely manner and maintain audited financial statements issuance on a best practice basis (e.g., issue audited financial statements within a period of six to nine months after the fiscal year ends).

As seen below (Exhibit 7), since the August 2020, the Government of Puerto Rico has produced Basic Financial Statements for Fiscal Years 2017 thru 2020; the latest (FY 2020) being produced and issued in a record timeframe of approximately 5 months.

Exhibit 7: HISTORICAL BASIC FINANCIAL STATEMENTS PUBLICATION TIMELINES



The Government has shown substantial progress in this regard and has adequately prioritized Basic Financial Statements issuance in recent years. However, there still opportunity to improve and achieve the ideal timeframe for audited financial statements issuance of six to nine months after the fiscal year ends. Best practice calls for annual comprehensive financial reports (ACFRs) to be made public approximately 180 days or 6 months after the close of the fiscal year.

To such ends, the Government has, among other things, provided detailed timelines and implementation plans, as well as deferring to Hacienda to lead and play more active role to ensure projected dates are met. The Basic Financial Statements for Fiscal Year 2021 and Fiscal Year 2022 are projected to be issued during the third quarter of fiscal year 2023 and first quarter of fiscal year 2024, respectively.

1.2.3.2 Progress on requirement #2: Four years of budgets developed with modified accrual accounting principles and expenditures which have not exceeded revenues

Four years of developing budgets in line with modified accrual accounting standards

The territorial Government, which includes all covered instrumentalities, is expected to develop and implement budgets in accordance with modified accrual accounting standards for four consecutive years, according to accounting practices recommended by the GASB for municipal financial statements, including by publishing audited financial statements. There are numerous benefits of transitioning from cash accounting to modified accrual accounting. A modified accrual accounting method is more conservative since it requires recognition of revenues when measurable and promised payments when liabilities are incurred. Consequently, the books and records will present a more realistic picture of spending, help Puerto Rico avoid overspending, and present an accurate financial picture to Government managers, taxpayers and other stakeholders. Furthermore, it would eliminate many one-time maneuvers and lead to genuinely balanced budgets once all the debt restructurings are consummated. The transition to modified accrual budgeting was one element that led to New York City's financial recovery in the 1970's, helping to establish stricter budgetary discipline on the city.

Four years of balanced budgets according to accrual-based accounting method

Before PROMESA, Puerto Rico had a history of overstating revenues and understating, misstating, or not stating all of its expenditures in a given year. This lack of budgetary control enabled budgets which appeared to be balanced consistent with the Puerto Rico Constitution's requirements, to cause deficits and force borrowing, and resulted in the situation the Government faces today. The key principles that will need to be met for the territorial Government to achieve this requirement are the formulation of an accrual-based budget, better monitoring of revenue and expenses, integration of the payroll systems, maintenance of an accounts payable ledger, and registration of purchase orders and budgeting for all other funds, not just the General Fund. In accordance with the definition of territorial government in law, these principles will need to be met for all covered instrumentalities, unless the Oversight Board exempts a covered instrumentality from coverage under the requirement.

To fully implement modified accrual budgeting, the Government will need to adopt policies and train employees to record expenses, confirm that entry adjustments are communicated and coordinated across agencies, and shift to having accruals and interagency reconciliations automated. Furthermore, revenues and expenditures must be periodically reviewed against the forecast to respond to changes and there must be detailed resolution certifications and expense system registration. In addition, payroll must be adequately tracked, controlled, and integrated. Accounts payable must be automated and follow clear procedures. Purchase orders and other encumbrances must be booked for the entire year, at the beginning of the year, and as many special revenue funds as possible must be eliminated.

The Financial Management Agenda provides direction for the Government adopt best practices that will help ensure balanced budgets, such as consensus revenue forecasting and regular budget monitoring.

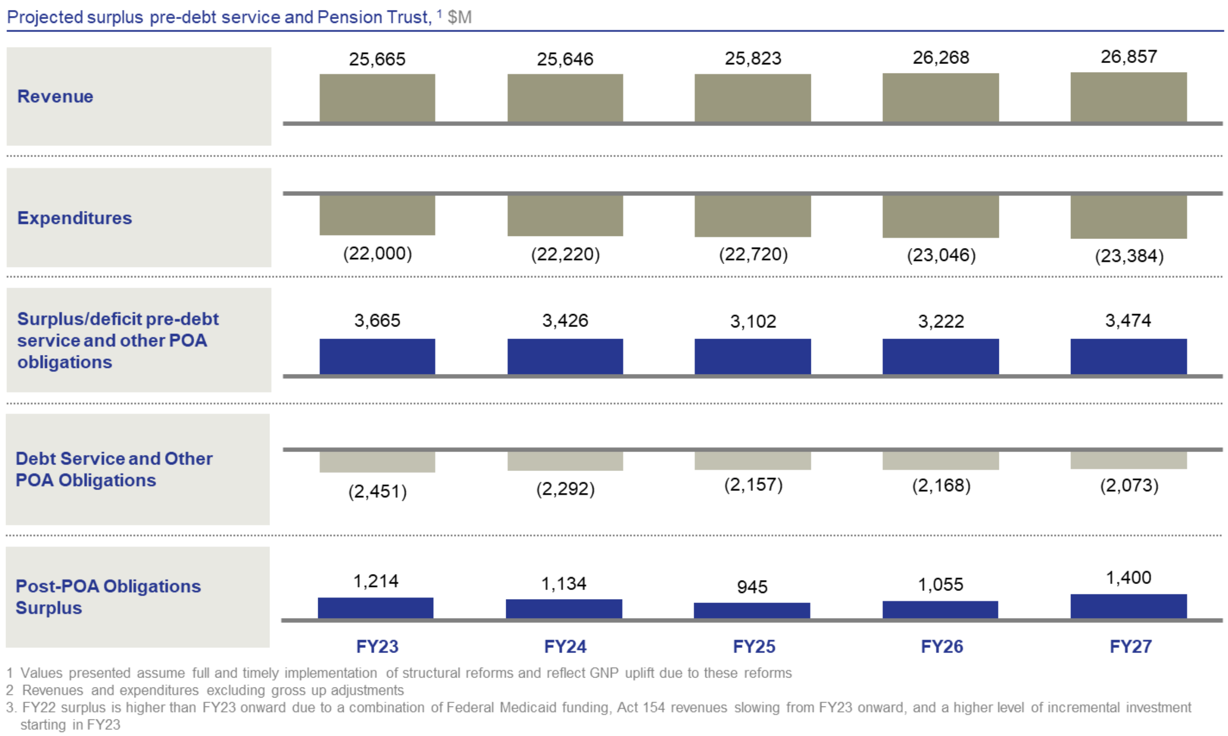
The central Government and the other covered instrumentalities have demonstrated meaningful progress in many of the key requirements for the termination of the Oversight Board though further progress will be needed across several dimensions to meet the key requirements under PROMESA.

Chapter 3. Fiscal Plan financial projections (FY2023-FY2027)

In the past several years, Puerto Rico has endured a tumultuous economic climate due to natural disasters such as Hurricane Fiona and the COVID-19 pandemic. More broadly, the entire US has experienced high inflation and many expect the high likelihood of recession. In addition, the war in Ukraine has disrupted global food and energy supplies. All of these factors have had a direct impact on economic growth and, ultimately, on Government revenues. The impact to Puerto Rico has been a real GNP decline in FY2020 followed by a rebound in FY2021 and FY2022 as the full effects of federal economic support takes hold.

The Fiscal Plan projects a post debt service and POA obligations surplus between FY2023 and FY2027.

Exhibit 8: PROJECTED SURPLUS PRE-DEBT SERVICE AND PENSION TRUST,



3.1 Baseline revenue forecast

Major revenue streams include non-export sector General Fund revenues (including individual, corporate, and sales and use taxes) and export sector revenues (including a phasing out of Act 154 excise taxes, effects of the introduction of Act 52 and Non-Resident Withholdings), as well as Federal funding. The 2023 Fiscal Plan also includes certain Commonwealth revenues that prior to PROMESA the Commonwealth appropriated to certain instrumentalities pursuant to statutes enacted by prior legislatures; the inclusion of these revenues in the 2023 Fiscal Plan is based on the Oversight Board's legal conclusions that (i) such monies are property of the Commonwealth, (ii) each pre-PROMESA statute appropriating or transferring such monies to instrumentalities of the Commonwealth is preempted by PROMESA, (iii) such statutes were enacted by prior legislatures that cannot bind the current legislature, and (iv) under the Commonwealth Plan of Adjustment (PoA) which states that the General Obligation debt is discharged, such monies could be transferred to the instrumentalities, though some revenues (e.g., HTA) that used to be allocated to General Fund revenues are no longer transferred to the instrumentalities.

There is expected to be significant near-term uncertainty in the level of revenue collections, as the macroeconomic environment is constantly changing in regard to the Federal Open Market Committee (FOMC)'s actions to control the high inflation and in regard to a potential upcoming recession and as the U.S. federal government considers legislation that may provide additional federal funding. Since the April 2021 Fiscal plan, there has been new data reflecting a strong economic recovery related to resumption of economic activity post COVID-19 and federal stimulus funding. Correspondingly, the total General Fund revenue increased by 13% in FY2021 compared to FY2020. FY2022 revenue exceeded Fiscal Plan expectations by 9%, with the most significant over execution occurring in personal income tax, corporate income tax, other general fund revenues, and sales and use tax. The year-to-date FY2023 total General Fund revenue also exceeds the Fiscal Plan expectation by 8% and remains at a similar level to the same period in FY2022.

Exhibit 9: MAJOR REVENUE STREAMS POST-MEASURES

Key general fund revenue drivers, post-measures, $M

	FY23	FY24	FY25	FY26	FY27
Personal income tax[1]	3,000	2,687	2,479	2,516	2,493
Corporate income tax	3,384	3,972	4,018	4,078	4,177
Sales and use tax[2]	2,603	2,643	2,658	2,685	2,741
Act 154	1,631	1,447	1,199	1,199	1,199
Non-resident withholdings	440	369	369	370	372
Other general fund revenues[3]	2,328	2,189	2,107	2,091	2,084
FAM portion of SUT	140	144	144	145	147
Incremental excise taxes on off-shore rum	194	166	167	168	169
Petroleum, gasoline, diesel taxes	528	605	599	595	592
Vehicle license fees	140	141	139	138	137
CRIM property tax inflows	138	145	150	154	155
Miscellaneous other	209	191	190	192	193
Total	**13,581**	**13,673**	**13,592**	**13,762**	**13,987**

1 Includes expense related to EITC
2 Sales and use tax (SUT) reflects collections after payout of the COFINA settlement
3 'Other' general fund revenues include cigarette, rum, motor vehicles, alcoholic beverages, and other GF taxes; exclude adjustments for revenue gross up

Additional details on the 2023 Fiscal Plan revenue streams are provided below, with details on the financial projections included in the Appendix. The following sections describe the approach to estimating revenues for key revenue streams.

1.3.1.1 Non-export sector General Fund revenue projections

Individual income taxes: Individual income taxes are highly concentrated, with 78.2% of revenues coming from the 8.7% of tax returns reporting income above $60,000 in FY2018.[5] Since FY2020, the individual income tax collection has increased significantly. Relative to FY2020, the individual income tax (net of EITC payments) is 4.7% higher in FY2021 and 24.8% higher in FY2022. The high performance for personal income tax continues in FY2023 to date. The year-to-date receipts for FY2023 show even higher collection than the same period in FY2022 by 12%. The 2023 Fiscal Plan incorporates the expected incremental individual income tax collections associated with disaster relief spending. The 2023 Fiscal Plan projects that disaster relief spending will continue to contribute to the income tax base, either through mainland workers temporarily

5 Hacienda historical reports as of April 2018

working in Puerto Rico or from Puerto Rican residents entering the formal economy as a result of disaster relief projects.

Corporate income taxes: There is also concentration in tax receipts among the largest corporations operating in Puerto Rico (e.g., ~29% of the FY2018 corporate income taxes are paid by 20 corporate taxpayers).[6] Historical aggregated data from Hacienda show that in the aftermath of the 2017 hurricanes, there was an influx of corporate activity spurred by reconstruction funding and mainland-based firms entering the Island's economy. This had led to higher corporate income taxes relative to GNP in FY2018 and FY2019, and this trend was continuing in FY2020 prior to the onset of COVID-19. Corporate income tax declined in FY2021 but recovered and even reached its historic high at $2.6 billion in FY2022. Similar to individual income tax, the year-to-date receipts for FY23 corporate income tax show even higher collection (by 3%) than the same period in FY2022. The 2023 Fiscal Plan incorporates the contribution of disaster relief spending to the corporate tax base into future years. Further, the 2023 Fiscal Plan reflects certain adjustments to corporate income tax revenues attributable to one-time M&A activity, which resulted in a non-recurring $488 million of revenues in FY2020 and ~$39 million in reduced corporate income taxes starting in FY2021, as projected by Hacienda.

Sales and use taxes (SUT): As with corporate and personal income taxes, SUT outperformed relative to GNP in FY2018 and FY2019, likely boosted by the increased economic activity resulting from the post-disaster reconstruction process. Since FY2020, the SUT collection has increased persistently along with post-COVID economy recovery and has reached peak in FY2022 at almost $2.7 billion. In FY2023, the SUT is affected by Hurricane Fiona during which prepared food was temporarily exempt from SUT. Correspondingly, the year-to-date SUT receipts for FY2023 show a decline of 5% compared to the same period in FY2022. The 2023 Fiscal Plan incorporates incremental tax collections as disaster relief continues in future years.

Partnership income taxes: Act 60-2019 extended an alternative tax election for taxpayers to pay income taxes at the Partnership level at preferential tax rates. This change in tax administration resulted in a new category of revenue collections of ~$439 million[7] for FY2021. These payments largely reflect payments that otherwise would have been made by the partners in these entities and therefore would have been reported as personal or corporate income tax. While there is still some uncertainty over the true size of the Partnerships tax base, FY2022 collections remained at a similar level to FY2021 and year-to-date receipts for FY2023 show a 8% growth compared to the same period in FY2022. The Plan treats 75% of the $430 million projected partnership revenues as recurring, and 25% as non-recurring revenues related to COVID-19, which unwind by FY2024.

Other excise taxes (including Motor Vehicles, Alcoholic Beverages, and Cigarettes): Motor vehicle receipts surged in FY2018 and this trend continued into FY2021, as residents continued to accelerate motor vehicles purchases in the aftermath of the 2017 hurricanes and during the COVID-19 pandemic as federal stimulus payments reached the Island. The FY2023 year-to-date motor vehicle receipts have declined compared to the same period in FY2022. The 2023 Fiscal Plan forecasted that elevated purchasing of motor vehicles would continue into FY2023 but purchases then return to historical trends over the following years. In addition, from FY2019 to FY2021 there had been a persistent increase in "other excise tax" collections, as these taxes were migrated to the new Internal Revenue Unified System (SURI by its Spanish acronym) platform. Hacienda had reported that it was challenging within the new platform to properly

6 Ibid.

7 Hacienda repot as of August 2021. Does not include deferred taxes from FY2020 collected during FY2021

classify a component of these revenues according to their appropriate excise tax classification (e.g., motor vehicles, alcoholic beverages). Accordingly, the agency had created a suspense account to recognize these collections until the corresponding return was received and reconciled. The Oversight Board had requested corrective action be taken to accurately and in a timely manner recognize revenues in their appropriate revenue accounts to reduce the accumulation of unclassified excise taxes, and better isolate how much of the elevated collections come from re-classified taxes versus improved compliance. According to Hacienda, the requested corrective action has been taken. As a result, the FY2023 year-to-date collections for "other excise tax" has declined by 48% compared to FY2022. The 2023 Fiscal Plan includes an updated forecast of other General Fund tax revenues to reflect the expected continued elevated collections relative to prior year forecasts. The 2023 Fiscal Plan has decomposed the "other" revenue category and projected revenues for each of the decomposed revenues. The 2023 Fiscal Plan then constructed the projection for "other excise taxes" through a bottom-up approach that aggregates the projections for the decomposed revenues.

Export sector revenue projections: Act 154 and Non-Resident Withholding (NRW) tax revenues are concentrated in a small number of multinational corporations. From FY2017 to FY2027, the 2023 Fiscal Plan estimates that Act 154 and NRW revenues will erode due to U.S. federal tax reform (reducing Puerto Rico's attractiveness as a low tax jurisdiction for multinationals), global supply chain diversification, patent expirations and Puerto Rico's introduction of an Act 154 alternative. During FY2021, the Government submitted comments for the U.S. Treasury's consideration in response to the IRS notice of proposed rulemaking REG-101657-20 publication. On December 29, 2021, the U.S. Treasury issued final guidance agreeing to delay for one year, until January 1, 2023, the application of new foreign tax credit regulations to the excise tax imposed by Act 154. Thus, the Act 154 excise tax paid by multinational corporations will continue to be creditable against the U.S. income tax liability through calendar year 2022. After this time, parent corporations of Controlled Foreign Corporations (CFCs) paying Act 154 would lose a significant tax advantage of locating CFCs in Puerto Rico. In response, Act 52 was enacted into law and signed by the Governor on June 30, 2022. The law builds a framework to voluntarily transition companies from the Act 154 excise tax to a regime that taxes industrial development income and royalties. The Act sets the tax rate at 10.5% but increases to 15% if the US enacts a 15% or higher minimum tax. While the Inflation Reduction Act imposed a 15% alternative minimum tax on adjusted financial statement income of certain corporations, Hacienda ruled in Informative Bulletin No. 22-22 that the US changes do not trigger the Act 52 increase.

1.3.1.2 Medicaid funding

Under Section 1108 of the Social Security Act, Puerto Rico can access federal funds for Medicaid but is subject to an annual funding ceiling for the federal Medicaid fund. Although Puerto Rico has a 55% statutory federal medical assistance percentage (FMAP) for most populations, the amount of annual federal funding for non-CHIP Medicaid expenditures received under Section 1108 is capped each year – meaning the Commonwealth is fully responsible for covering costs above this cap. Prior to the CMS guidance and the Consolidated Appropriations Act of 2023, this cap was set at around $400 million annually. While the cap grows each year according to the Medical Consumer Price Index for All Urban Consumers (CPI-U), this growth rate does not keep pace with the Island's projected healthcare expenditure growth.[8]

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8 According to §1108(g) of the Social Security Act., from 2011 to 2016, the cap grows by the medical component of CPI-U as reported by BLS each year. From FY2011 to FY2016, this growth averaged 2.9%. From FY2012 to FY2022, the growth averaged 2.8%. This inflation rate differs from the healthcare inflation index for Medicaid and Medicare used elsewhere in the 2022 Fiscal Plan (4.5% to 5.5% from FY2020-FY2022, decreasing to 4.75% in FY2051). Instead, the medical component of CPI-U includes

Historically, the actual cap applied to Puerto Rico's Medicaid program varied based on a series of one-time legislative actions to increase funding to the Island's Medicaid program. Under the Consolidated Appropriations Act of 2023 Puerto Rico is now guaranteed to receive a higher federal funding allotment cap through FY2027. These amounts are expected to range from approximately 3.3 billion in federal fiscal year 2023 to 3.8 billion in federal fiscal year 2027. In federal fiscal year 2028, the federal allotted amount is expected to be re-set to the 2019 allotment ($2.7 billion) increased by each subsequent year's urban medical care component of CPI.

Each year, ~$140 million of federal Section 1108 funds are allocated to the Department of Health to cover the eligible federal match on expenditures related to Federally Qualified Health Centers ("Centros 330" or "FQHC") and Medicaid Program operations. That portion of federal funding is, therefore, considered unavailable for use on other Medicaid expenditures.

- **Increases in available Medicaid funding from federal legislation:** Since 2011, Puerto Rico has received temporary relief from rising healthcare costs through increased levels of federal reimbursement made available through the passage of the Affordable Care Act, the Bipartisan Budget Act of 2018, the Further Consolidated Appropriations Act of 2019, and the Families First Coronavirus Response Act of 2020. These bills provided supplementary federal funding to Puerto Rico's Medicaid program through September 30, 2021 (i.e., the first quarter of FY2022) and generally relied on two levers to enhance Puerto Rico's federal Medicaid reimbursement: increasing the statutory funding cap and increasing the FMAP.

- Due to the short-term nature of the supplemental federal funding, Puerto Rico always faced the prospect of a Medicaid fiscal "cliff," whereby federal Medicaid funding would fall precipitously to roughly $400 million per year.
- Beginning October 1, 2021, the available federal funds were expected to fall to ~$406 million to be reimbursed at the statutory FMAP of 55%. However, in September 2021, CMS announced an interpretation of the Medicaid funding cap provision for Puerto Rico under Section 1108 that increased the allotted cap for FFY2022 to $2.943 billion. CMS further stipulated in this clarification that the cap should continue to grow by the medical care component of the CPI-U each federal fiscal year thereafter.[9]
- On December 20, 2022 the Consolidated Appropriations Act of 2023 was passed, providing heightened Medicaid funding solution for the Commonwealth. The 2023 Fiscal Plan allows the Commonwealth to maximize these available federal Medicaid. The FY2023 Fiscal Plan assumes the program will grow at a rate commensurate with projected PMPM inflation rates and Island population decline in the long-term forecast. This program growth rate slightly exceeds the growth rate of the federal cap and includes the reinvestment of savings from Medicaid reform measures.
- By making the Commonwealth's target total program expenditure dependent on maximizing federal funding available, the new program size estimates become very sensitive to potential changes in FMAP. In fact, Puerto Rico's FMAP has fluctuated dramatically in recent years. The 2022 Consolidated Appropriations Act increased Puerto Rico's FMAP from the 55% that is set in statute to 76%, but only temporarily through mid-December 2022. Further, the Consolidated Appropriations Act of 2023 provides for a 76% FMAP through 2027. In federal fiscal year 2028 and beyond, the Puerto Rico FMAP is

other factors that lower the inflation rate by approximately 3-5 percentage points, meaning the increase in the federal funding cap will not keep up with actual increases in expenditures

9 In November, the Government Accountability Office (an independent agency that works for Congress) issued an opinion which strongly disagreed with the CMS interpretation. After receiving the GAO opinion, CMS formally reiterated its intention to stick to its interpretation of the law. CMS has effectively implemented its interpretation of the law, with no indication of plans to change course. The Commonwealth and ASES continue to operate under the CMS interpretation

assumed to drop back down to the 55% that is set in statute for it's largest Medicaid population.

- **Enhanced Allotment Plan (EAP) funding:** The Enhanced Allotment Program (EAP) provides an additional source of federal funding to support low-income beneficiaries in their purchase of prescription drugs under Medicare Part D. This allotment can only be used for this purpose and is not countable against the Section 1108 funding cap. Estimates for this funding come from the Puerto Rico Health Insurance Administration (ASES, by its Spanish acronym).
- **Children's Health Insurance Program (CHIP) funding:** The Children's Health Insurance Program (CHIP) provides health coverage to eligible children, through both Medicaid and separate CHIP programs. CHIP is administered by the Commonwealth according to federal requirements. The program is funded jointly by Commonwealth and federal funds. This funding is incremental to Section 1108 capped funding and is not subject to a federal funding cap. Without additional legislation, the CHIP matching rate, also known as the Enhanced FMAP (or eFMAP), for Puerto Rico is statutorily set at a minimum of 68.5% under Title XXI of the Social Security Act.
- **Special Revenue Fund revenues from Commonwealth employers:** Additional revenue for the Medicaid program comes from intra-governmental transfers to cover retirement and health care expenses incurred by various Commonwealth entities on behalf of their employees.
- **Special Revenue Funds revenues from prescription drug rebates:** Currently, Puerto Rico operates its own drug rebate program whereby the Commonwealth negotiates or utilizes pre-negotiated agreements with drug manufacturers to return a portion of cost for prescription drugs.[10] These funds enter the Commonwealth budget as Special Revenue Funds and are applied directly against the costs of Medicaid premiums. Because CMS covers a portion of the prescription drugs, net federal funds are expected to decrease by the eligible amount "paid for" by CMS.[11]

Under CMS Rule 84 FR 64783, U.S. Territories were to be required to join the federal Medicaid Drug Rebate Program (MDRP) on April 1, 2022,[12] unless they applied for and received a waiver. However, according to the Federal Register,[13] on November 19, 2021, CMS issued a final rule to delay for nine months the April 1, 2022 effective date for inclusion of the U.S. Territories to January 1, 2023.

Puerto Rico's entry into MDRP is expected to yield higher gross rebates from drug manufacturers compared to those from the local drug rebate program the Commonwealth currently has in place. Partly to enable entry into the federal program, the Government has also indicated its intention to update its accounting systems and the methodology by which it reports prescription drug

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10 Based on ASES estimates as of January 18, 2022

11 For Medicaid non-CHIP and EAP rebates, the amount of rebates that would trigger a reduction in federal funds is reduced by the amount of corresponding expenditures *over* the amount needed to maximize the federal funds cap. Federal funds are reduced by the FMAP multiplied by the eligible amount that would trigger a reduction in federal funds. The Commonwealth would be expected to cover any shortfall in program funding with General Funds.

12 Federal Register, "Medicaid Program; Covered Outpatient Drug; Further Delay of Inclusion of Territories in Definitions of States and United States," 2019. (Accessed 16 April 2021)

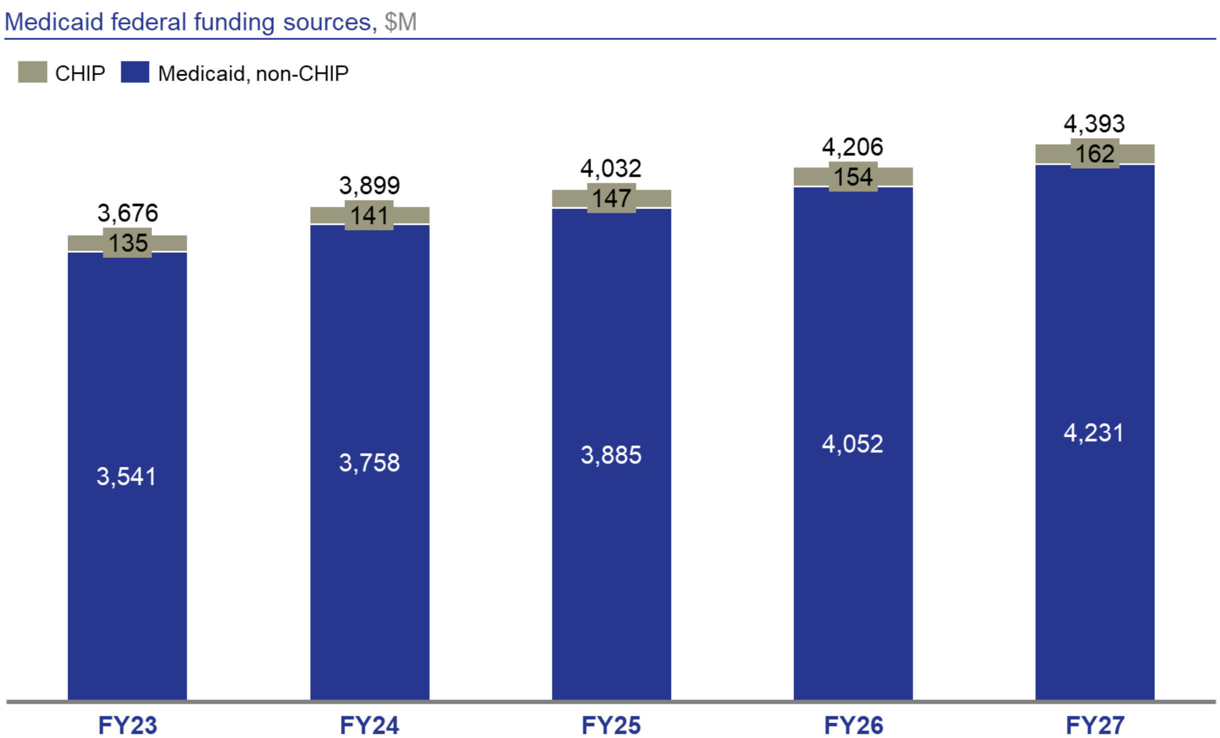
13 Federal Register, "Medicaid Program; Delay of Effective Date for Provision Relating to Manufacturer Reporting of Multiple Best Prices Connected to a Value Based Purchasing Arrangement; Delay of Inclusion of Territories in Definition of States and United States," 2021

utilization to the Centers for Medicare and Medicaid Services (CMS).[14] In doing so, Puerto Rico will also share a portion of the rebate revenue with the Federal Government to the extent it reduces the costs eligible for federal matching.

The 2023 Fiscal Plan ensures that the Commonwealth is appropriately funded to meet its matching obligations under current law. To provide healthcare for a substantial part of the population, the Commonwealth must be able to pay and manage these critical costs, which grow faster than inflation, regardless of the future federal legislative environment.

Exhibit 10 outlines expected Medicaid federal fund receipts, with funding aligned from federal fiscal years to Puerto Rican fiscal years.

Exhibit 10: BASELINE FEDERAL FUNDS RECEIPT PROJECTIONS



1.3.1.3 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 Hurricane Maria and earthquake reconstruction activity, or with COVID-19 response and relief funds, which are meant to cover incremental government spending to respond to the global pandemic. These funds cover both social benefits and operational expenditures. In the 2023 Fiscal Plan, these funds have been modeled based on what types of costs they cover (e.g., benefits or operations) as well as statutory formulas that define 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 projected to be 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).

[14] In December 2021, ASES announced a contract with Abarca Health as its pharmacy benefit manager (PBM) and Medicaid Drug Rebate Program (MDRP) manager.

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, and the Commonwealth may have to cover operational expenditures via the General Fund should they outpace reduced federal funding. 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, while the latter should only grow with inflation, regardless of population changes.

1.3.1.4 Special Revenue Funds

Commonwealth agency Special Revenue Fund (SRF) revenues: The Commonwealth collects a significant portion of its revenues through Special Revenue Funds, which are funded from, among other sources, tax revenues transferred by statutes, fees and charges for services by agencies, dividends from public corporations, and financing proceeds.

Independently Forecasted Component Unit (IFCU) revenues: The Commonwealth contains twelve Independently Forecasted Component Units, which range from public corporations (e.g., the State Insurance Fund Corporation) to public hospitals (e.g., the Cardio Center). These entities are mostly funded by Special Revenue Funds and may also receive General Fund appropriations. While most IFCU revenues are projected using GNP, given the unique nature of each IFCU, certain revenue streams are grown by other factors, such as inflation, population, or as governed by legislation.

Municipal contributions to PayGo and the Puerto Rico Health Insurance Administration (ASES, by its Spanish acronym): The 2023 Fiscal Plan includes receipts from municipalities to cover retirement and healthcare expenses incurred by the Commonwealth on their behalf. Since the passage of Act 72-1993, ASES has received funding from municipalities for the administration and delivery of the Government Health Plan on their behalf. Similarly, since the passage of Act 106-2017, municipalities that participate in ERS are financially responsible for PayGo expenditures covered by the Commonwealth.

Public Corporation PayGo receipts: The 2023 Fiscal Plan includes receipts from public corporations (e.g., PRASA) that participate in the Employee Retirement System (ERS) to cover PayGo expenditures on behalf of their retirees covered by the Commonwealth. The Commonwealth shall be reimbursed for these payments and will act if these contributions are not received (e.g., will withhold payments for utilities).

FAM: The Municipal Administration Fund (FAM) collects 0.5% of the SUT which is distributed into three funds: (1) 0.2% to the Municipal Development Fund; (2) 0.2% to the Municipal Redemption Fund; and (3) 0.1% to the Municipal Improvement Fund (referred to as the FMM). Pursuant to Section 4050.09 of Act 1-2011, the FMM are to be distributed through annual legislation and appropriated for select capital works and improvement projects for the municipalities (e.g., public housing, schools). The legislature passes resolutions each year to allocate the FMM.

1.3.1.5 Gross-up for tax credits

Gross-up of revenues to reflect potential revenues without payment of tax incentives: In addition to offering preferential tax rates, tax exemptions, tax abatements, and cash grants, the Government of Puerto Rico provides hundreds of millions of dollars in tax credits to corporations and individuals each year. Some of these tax credits function as entitlement programs: any business that meets the requirements set forth in law is entitled to the benefit. Other tax credits give government officials considerable discretion on which projects will receive incentives. Many of these tax credits are intended to pursue certain policy goals such as stimulating employment, stimulating economic activity and economic development, encouraging investment, and protecting local industries.

Policy makers in Puerto Rico must understand both the budget implications of current and proposed tax expenditures and should manage the size of tax incentives by setting limits on their annual cost and eliminating tax credits with negative returns. The issuance of reliable cost estimates, including a detailed analysis of the budget implications from each tax incentive and annual cost controls will help Puerto Rico avoid unexpected negative outcomes. Otherwise, the Government will remain powerless to manage the cost of these incentives and keep the incentives from growing uncontrollably.

Recognizing the importance of this question to the fiscal sustainability of Puerto Rico, the 2023 Fiscal Plan includes a forecast of gross revenues inclusive of the value of tax credits to show the foregone revenue associated with these credits. The 2023 Fiscal Plan includes a forecast of gross revenues based on the historical level of certain tax credits claimed on income tax filings for individual filers, regular corporation filers, and incentive tax filers, as provided by Hacienda. As shown in the period of the report, over nine tax years (2010-2018), tax credits claimed across all tax filers averaged $261 million annually.

Exhibit 11: TAX CREDITS BY TAX YEAR

Projection, $M	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18
Regular Corporations	94	48	89	89	140	66	75	82	18
Incentive Corporations	135	147	133	158	116	78	70	56	66
Individuals	59	37	90	69	65	66	61	89	157
Total Tax Credits Claimed	**288**	**232**	**312**	**316**	**321**	**210**	**206**	**227**	**241**
9-Year Average									**261**

SOURCE: Hacienda

The Government must also adopt a transparent limit to the amount of tax credits issued and claimed at an amount below $261 million by, for example, capping the notional amount, restricting the number of companies and individuals that can claim credits annually, including sunset provisions, or inserting time bound clauses upon which each tax credit will expire. This is similar to the approach that other states have taken to limit the use or issuance of tax expenditures, including Arizona, California, Florida, Illinois, Massachusetts, Minnesota, New York, Ohio, and Pennsylvania. This limit is separate and incremental to the cash grants that corporations and individuals also receive, which will be captured in Certified Budgets going forward. Future Fiscal Plans should also be expanded to include limitations on foregone revenues due to preferential tax rates and exemptions, including municipal exemptions.

These forecasts should be maintained and updated by leveraging the work that Hacienda has undertaken to produce and maintain a more comprehensive measurement of tax expenditures over time through the annual Tax Expenditures Report. The publication of the annual Tax Expenditures Report provides better visibility into the full scope of tax expenditures being offered, together with a description and approximate cost of each expenditure.

For tax expenditures reporting to maintain relevance and maximize its impact on the policy making process, regular reviews of each tax incentive should be completed to assess whether each incentive is meeting its policy objective (and an assessment of benefits along with costs). This was missing from the first and second reports and detracts from the ability of the report to provide proper context from which to inform budgetary decision-making.

The estimates in the tax expenditures report should also be systematically incorporated into the annual fiscal plan and budget review process. This means they need to be considered in conjunction with consideration of direct spending proposals at the executive review and legislative levels and the agencies responsible for programs.

To achieve the objectives above, the Tax Expenditures Report must be produced annually on a timely and efficient basis. Rationalizing the amount of tax expenditures offered by the Government is smart and prudent fiscal management. This can only be done in a comprehensive way through the production of the annual tax expenditure report on a timely basis.

The Government has also taken initial steps to provide transparency around and control these expenditures through its proposed reforms to the Incentives Code. By targeting a limit on the amount of tax expenditures that can be spent each year, the Government would retain control over the cost and enable public debate about the value of this type of spending in light of the various needs on the Island.

1.3.1.6 Gross-up for COFIM receipts

The Municipal Finance Corporation (COFIM, by its Spanish acronym) is the public corporation that collects the 1% Municipal SUT established by law for certain municipalities. The 2023 Fiscal Plan includes projections of this 1% revenue stream, along with exactly offsetting expenses. COFIM is not an entity that receives appropriations from the General Fund, but rather relies solely on municipal SUT.

3.2 Baseline expenditure forecast

The trend of **"baseline expenditures"** (i.e., the forecast of projected expenditures assuming no measures and structural reforms), is summarized in Exhibit 12.

Exhibit 12: MAJOR OPERATING EXPENDITURE CATEGORIES PRE-MEASURES

Key baseline expenditure drivers (pre-measures), $M

	FY23	FY24	FY25	FY26	FY27
Payroll (General Fund)	3,755	3,636	3,676	3,699	3,734
Operating expenditures (General Fund)	1,999	2,047	2,086	2,106	2,061
CW appropriations	1,170	1,143	1,150	1,172	1,178
Commonwealth Medicaid expenditures	652	742	811	857	852
Pension expenditures	2,285	2,283	2,277	2,272	2,265
IFCU & CW SRF Expenditures	2,367	2,392	2,420	2,446	2,491
Federally funded expenditures	8,229	8,074	8,273	8,507	8,802
Other[1]	349	311	270	221	225
Total CW funded operating expenditures[2]	**20,805**	**20,628**	**20,965**	**21,279**	**21,607**

1 Includes Disaster Recovery Cost Match, Restructuring / Title III costs, Social Programs CW funded, Reserve for emergency fund and Budget incentives
2 Does not include capital expenditures, enterprise funds, disbursements to entities outside the 2022 Fiscal Plan, and other non-recurring expenditures

1.3.2.1 General fund payroll and non-personnel operating expenses

Payroll expenditures: Consistent granular payroll data continues to be a challenge for the Government. FY2023 payroll numbers reflect the Certified Budget. During the FY2023 budget process, agencies were analyzed to develop detailed payroll estimates based on agency rosters, actual payroll run rates and anticipated changes to headcount and salaries. Beginning in FY2024, base payroll has been assumed to grow by Puerto Rico inflation. Any increase or reduction to baseline payroll expenditure projections from investment decisions, attrition, absenteeism, or workforce reductions is captured through fiscal measures.

Non-personnel operating expenditures: Non-personnel operating expenditures in FY2023 were also assumed to be equal to the Certified Budget. Thereafter, non-personnel operating expenditures are assumed to grow by Puerto Rico inflation, with select adjustments as necessary. For example, the 2023 Fiscal Plan accounts for the 10% reduction to FY2022 Special Fund for Economic Development (FEDE, by its Spanish acronym) and Economic Incentive Funds (FIE), Cruise Industry Incentives and Export Development expenditures in all future years. In FY2023, these select expenditures reductions are $10 million in total.

1.3.2.2 Special Revenue Funds

Commonwealth agency Special Revenue Fund (SRF) operational expenditures: The Commonwealth funds a significant portion of its expenses with Special Revenue Funds and previously did not report on these expenses transparently in a consistent manner. Starting with the FY2019 budget process, the Oversight Board has certified SRF expenditures with the objective of applying controls and reporting requirements to ensure transparency and accountability for these revenues and expenditures. With data made available by the Commonwealth, the baseline level of SRF expenses of Commonwealth agencies (excluding IFCUs) has been updated and allocated across agencies (by payroll and non-payroll expenditures). Given the mandate of the Office of the CFO to place controls on SRF expenditures, baseline SRF expenses are forecasted to be equal to the estimated revenues in each year before fiscal measures.

Independently Forecasted Component Unit (IFCU) operational expenditures: Most IFCU payroll and non-payroll expenses grow by inflation, with exceptions for certain expense categories (e.g., healthcare costs grow with medical inflation, variable costs that grow in line with revenues).

1.3.2.3 Other federal funding

Most federal funds received by the Commonwealth are passed through to residents directly in the form of social benefits (e.g., TANF, WIC), but federal funds are also used to cover operating expenditures in many agencies. Expenditures related to pass-through federal funds are set equal to the associated revenue stream. Baseline expenditures related to operating expenditures are set based on the FY2018 federal funds budget reported by the Government (updated in select cases for new information received FY2019-2023) and grow with inflation (and in some cases population). In the case of Community School Program (largely Title I funding), revenues will grow with inflation, but decline with decreasing population growth and, consequently, enrollment, which is the most salient determinant of Puerto Rico's annual allocation. The 2023 Fiscal Plan assumes that payroll and operating expenditures grow at the same rate, assuming that the General Fund budget for PRDE will be considered separately from federal funding levels. Accordingly, PRDE will spend federal funds based on the amount received.

1.3.2.4 Medicaid expenditures

As described in 1.3.1.2, it is assumed that the Commonwealth will use the full federal funding available in FY2022 onward, per the Consolidated Appropriations Act of 2023. In order to use all of the federal funds available, given the effective federal matching rates across different eligibility groups, total Medicaid program expenditures are expected to reach roughly $4.6 billion annually by FY2024. The significantly higher program size would provide the Commonwealth with the opportunity to increase coverage for additional benefits and/or higher enrollment.

The plan assumes the Puerto Rican Medicaid program's total expenditures will grow by population-adjusted health care inflation in the long run.[15] Total program expenditures include managed care premiums for all federally eligible enrollment groups, including wrap-around payments for those eligible for both Medicare and Medicaid and who enroll in Medicare Advantage programs (also known as Platinos). It also includes eligible direct health expenditures (e.g., Hepatitis C, HIV, and pulmonary programs) that do not flow through managed care. Further included in these expenditures are coverage for the wholly Commonwealth-funded enrollees whose expenses are not federally subsidized and non-premium administrative costs to ASES; however, program size excludes costs incurred by the Department of Health for FQHC and Medicaid Program administration, which are also eligible for federal matching funds. Exhibit 13 shows a breakdown of projected Medicaid expenditures.[16]

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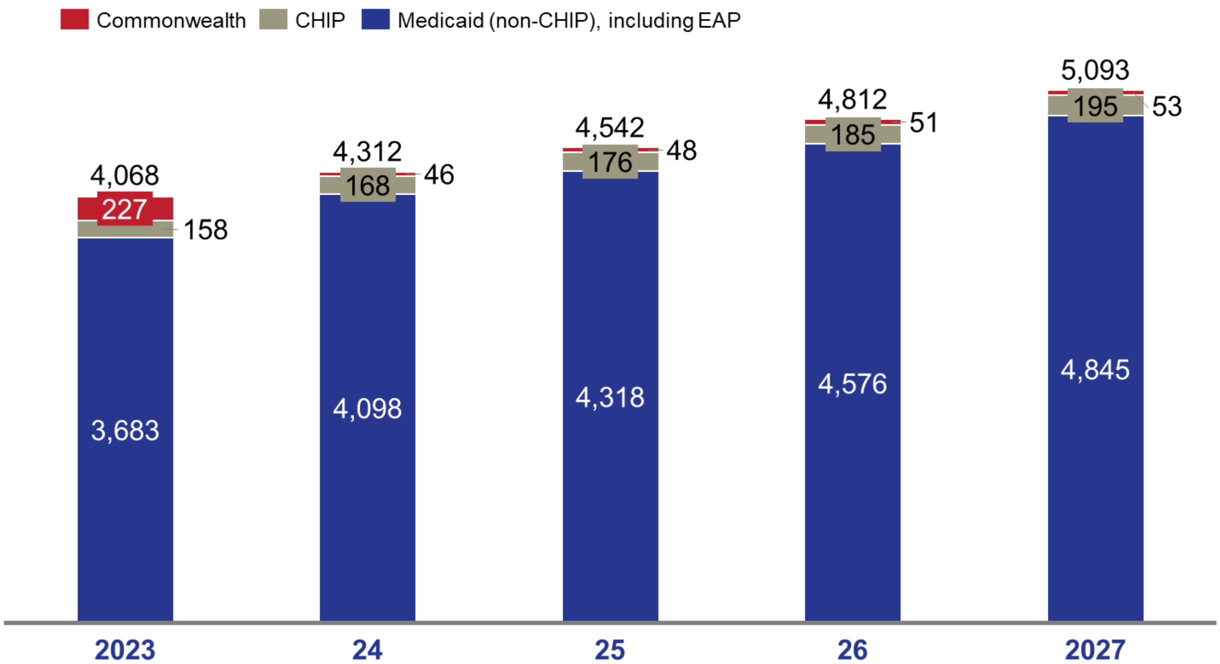
15 The growth rate of the total Medicaid program size is forecasted to be a combination of the PMPM growth rate and the rate of change of the Island's population.

16 Plan Vital for current and future police retirees is also include in these expenditures. See *Part IV* for more detail.

Exhibit 13: PROJECTIONS FOR MEDICAID AND CHIP EXPENDITURES

Medicaid projected expenditures, $M[1]



1 Does not include ASES payroll and general administrative expenditures

1.3.2.5 Commonwealth pension expenditures

Pension costs: Projections rely on demographic and actuarial estimations for Employees' Retirement System (ERS), Teachers' Retirement System (TRS), and Judiciary Retirement System (JRS) populations and benefit obligations. Since FY2018, pension benefits for all plans have been paid on a pay-as-you-go basis.

1.3.2.6 Appropriations

Municipalities: Baseline municipal appropriations are projected to remain constant at ~$220 million annually, which represents the FY2018 appropriation level exclusive of a $78 million *one-time* allotment to municipalities made in the aftermath of Hurricanes Irma and Maria.

University of Puerto Rico (UPR): The UPR total appropriation is $500 million from FY2024 to FY2027 as per Act 53-2021. Following this period, the appropriation will continue as previously envisioned in the 2021 Fiscal Plan.

Highways and Transportation Authority (HTA): HTA is currently funded through a combination of own revenues, federal funds, and Commonwealth funds (including both a capital appropriation and an operating appropriation). The 2023 Fiscal Plan sets the HTA operating transfer to cover the full cost of non-toll assets. The appropriation does not include funding for the HTA emergency reserve, nor does it draw down existing balances. It also assumes toll roads have access to federal funds until reorganization is complete (assumed FY2023), but not thereafter.

1.3.2.7 Other operating and capital expenditures

Utilities: The 2023 Fiscal Plan uses the estimated billings for electric and water costs provided by PREPA and PRASA, respectively on agency level. Estimated water billings from PRASA are projected to grow at the same rate as water rate increases over the period of FY2024-FY2025; thereafter, PRASA billings are projected to grow according to inflation.

Parametric insurance: The 2023 Fiscal Plan includes an investment of ~$33 million in FY2024 to cover the Commonwealth's portion of the annual cost of parametric insurance, which is projected to grow by inflation thereafter. The parametric insurance program is supplemental to the existing budgeted premiums for renewing current traditional insurance policies.

Insurance (PRIMAS): The Commonwealth bears costs related to insurance premiums (e.g., property insurance, liability insurance). Government reporting on these costs has not been transparent or consistent over time (e.g., not all agencies report these costs independently of other operating expenses, reporting is not consolidated across General Fund and Special Revenue Funds). The Government reported that insurance costs increased from FY2018 to FY2020 due to Hurricanes Maria and Irma. Adjustments were made based on agency reported needs for FY2021, FY2022 and FY2023 (e.g., costs for Department of *Housing have been reduced, costs for PRDE and Institute of Puerto Rican Culture have been increased*).

Capital expenditures: Centrally-funded General Fund maintenance and capital expenditures of the Commonwealth (excluding PREPA, PRASA, HTA self-funded capital expenditures and one-time transfers) are expected to grow by inflation from a baseline of $331 million in FY2024. The 2023 Fiscal Plan includes annual Special Revenue Fund capital expenditures for the Commonwealth agencies (and the Public Buildings Authority) of ~$22 million (based on historical agency needs) for FY2024 onwards.[17]

1.3.2.8 Expenditure gross-ups

For each of the gross-up revenue items, an equivalent expenditure is included in the baseline expense forecast.

1.3.2.9 Funds for parametric insurance

Funds to cover parametric insurance will be made available upon reaching specific milestones and after the approval and authorization from the Oversight Board.

Develop a comprehensive insurance plan to develop a program that considers the available markets, costs, meeting Obtain and Maintain ("O&M") requirements and levels of coverage.

- Conduct a risk analysis including hazards/perils covered
- Analyze expected O&M requirements on a building by building basis
- Identify the types and extent of insurance needed to protect against risk and meet O&M requirements
- Identify insurance gaps between O&M requirements and insurance that is reasonably available
- Identify the authority for developing, implementing, and enforcing the plan

[17] Of this amount, $2 million per year goes to Public Buildings Authority (an IFCU) for recurring needs

- Design, the financial arrangement structure for funding the plan and pay for losses, which includes a system for fixed contributions, a formalized plan to pay losses as they occur, and how funds will be distributed

Prioritize insurance and strategically consider options to supplement the existing insurance coverage:

- Identify how the Commonwealth will meet Flood Insurance requirements
- Consider broader / expanded limits on existing policies
- Consider a separate excess insurance policy that provides coverage above the current limits
- Consider a parametric policy and CAT Bond or a hybrid combination of the two to provide supplemental or excess coverage

Engage the Insurance Commissioner

- Establish the criteria for the Insurance Commissioner's certification of the insurance coverage that is reasonably available

3.3 Surplus potentially not available for the Commonwealth

The 2023 Fiscal Plan financial projections show the surplus generated by all entities covered by the Commonwealth Fiscal Plan. However, some of the surplus is generated by Commonwealth public corporations, and the Commonwealth's ability to access such surplus amounts could be problematic without further legislative action. As such, the 2023 Fiscal Plan also represents what the surplus, before debt service and Pension Reserve Trust contributions, would be if these funds were inaccessible. In FY2023 the surplus potentially not available for the Commonwealth totaled $124 million, or just 3.3% of surplus (pre-debt service and other POA obligations).

PART: 2 - Entrenching legacy of strong fiscal management

Chapter 4. The Financial Management Agenda

4.1 Introduction to the Financial Management Agenda

For the past two decades, Puerto Rico has been in a cycle of economic distress, whereby the phase-out of favorable federal tax policy was followed by a recession, population loss, underfunding of pensions, and over borrowing by prior administrations to maintain basic services as revenue precipitously declined. The cycle has been accelerated by devastating natural disasters, financial malfeasance, and the COVID-19 pandemic.

When the Government's debt burden became unsustainable, Congress passed PROMESA, establishing the Financial Oversight & Management Board for Puerto Rico ("Oversight Board") to provide a method to achieve fiscal responsibility and access to the capital markets, ensuring the funding of essential public services, and improving fiscal governance, accountability, and internal control.

On March 15th, 2022, Puerto Rico emerged from bankruptcy. The people of Puerto Rico have celebrated this milestone, but this is just the first step on a long road to economic recovery and renewal. The Government will keep moving forward, restore the Island's prosperity and fiscal responsibility, and ensure that Puerto Rico never returns to fiscal insolvency.

Achieving fiscal and economic health will require the kind of resolve the people of Puerto Rico have shown throughout their history. Even with the reduced debt load achieved with the Plan of Adjustment, Puerto Rico's finances will require further actions to be structurally sound. Success is dependent upon cooperation from all sectors of society and fundamental changes in the way Government does business.

Fiscal stability can be achieved while meeting the basic needs of the people of Puerto Rico and investing in a brighter future. The Government management improvements should be guided by the following principles:

- **Goal-oriented,** setting clear milestones for success
- **Innovative** in overcoming obstacles
- **Accountable** for results

There are many obstacles in the way of the change Puerto Rico needs. Government's technology is often outdated, its workers are underpaid and undertrained, and resistance to new policies and practices is real. That said, overcoming obstacles is a way of life for the people of Puerto Rico. The Financial Management Agenda ("Agenda"), which was introduced in the 2022 Fiscal Plan, is about focusing on urgent problems and solving them.

The Agenda contains an ambitious set of initiatives to improve financial management and deliver results that matter to the Puerto Rican people. Specifically, it:

- Requires the Government's commitment to achieve immediate, concrete, and measurable results
- Focuses on remedies to serious problems and commits to implement them fully

- Is being undertaken in advance of, not instead of other needed management improvements

Implementing the Agenda and improving financial management will have direct and positive impacts on the lives of the people of Puerto Rico. It will enable the Government to access capital markets and invest in Puerto Rico's future at affordable rates. It will ensure federal disaster aid is put to use to rebuild critical infrastructure and help families and businesses get back on their feet. And finally, it will prevent misuse of taxpayer dollars.

A coherent plan

The initiatives in the Agenda are carefully chosen to lay a foundation for success, build on progress that has already been made, and achieve milestones that are most critical for restoring Puerto Rico's financial responsibility.

The 12 initiatives are grouped into three categories: Foundational, Central, and Supporting.

The **Foundational initiatives** are *Office of the Chief Financial Officer* ("OCFO") and *CSR*. These initiatives will provide the Government the clear leadership structure, capable workforce, and modern technology essential to implementing the other initiatives.

Establishment of the OCFO, already underway, aligns financial management functions across Government under singular leadership, enabling consistent policies and procedures, accountability for timely financial reporting, efficient resource use, and sharing of expertise and best practices.

The OCFO initiative also includes completing deployment of an Enterprise Resource Planning ("ERP") system that will replace a patchwork of accounting, procurement, and Human Capital Management with one platform that streamlines financial reporting, prevents errors and fraud, protects data from hackers, and provides tools to enable smarter spending decisions. The 2023 Fiscal Plan projections include $10 million per year beginning in FY2023 for five years of capital expenditures to support the implementation of the ERP system.

CSR, which is being piloted in the Department of Treasury ("Treasury") and the Office of Management and Budget ("OMB"), and then scaled across Government, will result in more competitive compensation and better recruiting, training, and performance management for public service employees. A skilled, motivated workforce is essential to implementing the Agenda.

Section 209 of PROMESA (Termination of the Oversight Board) provides for termination of the Oversight Board upon certification that:

An Oversight Board shall terminate upon certification by the Oversight Board that:
1) the applicable territorial government has adequate access to short-term and long-term credit markets at reasonable interest rates to meet the borrowing needs of the territorial government; and
2) for at least 4 consecutive fiscal years
A. the territorial government has developed its Budgets in accordance with modified accrual accounting standards; and
B. the expenditures made by the territorial government during each fiscal year did not exceed the revenues of the territorial government during that year, as determined in accordance with modified accrual accounting standards.

The four **Central initiatives** are specifically designed to meet these conditions.

Timely Audited Financial Statements are a prerequisite for issuing bonds at reasonable interest rates, and *Debt Management Policy Implementation* is necessary to assure investors and safeguard against future over borrowing and ensure future market access.

Budget Best Practices and *Federal Funds Management* work together to help Government more accurately forecast available revenue, prepare, and adhere to responsible spending plans, and maximize the use of federal funding to supplement local revenue sources – all necessary components to enabling the certification of four years of balanced budgets of the territorial government under PROMESA.

The six **Supporting initiatives** represent actions needed to prevent waste, fraud, and abuse, make more effective use of the Island's assets, and professionalize the management of government resources.

- *Automated time and attendance* will ensure that only active employees who are working get paid.

- *Cash & bank account monitoring* will close idle government bank accounts and reduce erroneous bank account activity and inaccurate cash reporting.

- *Procurement best practices* will make government purchases transparent to the public, reduce non-competitive contract awards, and standardize procurement rules across departments.

- *Non-partisan legislative scoring* will ensure that the fiscal impact of legislative actions is accurately estimated and budgets are based on revenue forecasts prepared by well-trained experts.

- *Real estate best practices* will ensure that all government-owned property is accounted for, properly maintained, and delivers maximum value to the people of Puerto Rico.

- *Real property registry* will streamline the land registration process, verify ownership of all land on the Island, and assist with the enforcement of taxes and distribution of disaster relief funding.

Implementing the agenda

The Government has taken initial steps to ensure that the Agenda initiatives are implemented in a coordinated manner that delivers on promised results. These steps are summarized here and detailed in the initiative sections below:

- Establish a Governor's Management Council ("GMC") consisting of the chief operating officers (or equivalent senior officials) of major agencies and Government public corporations (Exhibit 15*)*. The GMC, headed by the Governor, with the CFO as deputy, will serve as a steering committee for the Agenda's implementation. Importantly, the GMC provides a way for leadership across agencies to support government-wide priorities and to build a community of management practice that identifies obstacles, solves problems, and innovates together
- Alternative based on current status: Expanded the role of the existing ERP Steering Committee to include monitoring implementation of the Agenda. The steering committee, which is led by Hacienda, includes representatives from all agencies with responsibility for Agenda initiatives.
- Created detailed implementation plans for several initiatives, with definitive timelines, milestones, action steps, budgets, and responsibilities.
- Implement an accountability structure that includes:
    - Public scorecards showing the status and progress of Agenda initiatives
    - A "FinanceStat" program that tracks government-wide and agency-level financial performance and results and quickly identifies and corrects problems
    - Recognition awards for individuals, teams and agencies that meet and beat performance targets

In addition to the steps taken to date, the Fiscal Plan recommends that the Government explore designating Financial Management Centers of Excellence. Implementing and maintaining modern financial management standards across more than 100 units of government risks uneven and inconsistent implementation, reliance on expensive consultants and contractors, and, ultimately, failure. To provide Puerto Rico the best chance for success and make the most of limited resources, the Governor should direct a small number of large agencies to meet standards of financial management excellence and provide financial services to smaller entities.

A shared responsibility

Realizing the goals of the Agenda will require a team effort, with cooperation from many partners. The Fiscal Plan recommends that the Government call on these partners to play key roles in the Agenda's success.

The legislature will be asked to support policy changes that institutionalize strong financial management, provide the resources needed to implement initiatives, and exercise oversight to hold agencies accountable for results.

Government employees will be asked to adapt to new ways of doing business, upgrade their skills, and approach the hard work of implementation with a can-do spirit. This Agenda is intended to give civil servants a greater role and stake in Puerto Rico's fiscal future.

The private sector will be asked to lend its expertise to help government leaders and front-line workers fix broken processes, deploy new technology, and manage change.

The public will be asked for its patience as the Government implements the Agenda. Although improving how the Government manages money may not capture the imagination, these initiatives will result in long-term benefits that impact everyone in a positive way.

The expected results

Exiting bankruptcy comes with both opportunities and obligations. Puerto Rico can move forward towards financial responsibility and economic renewal but must make major changes to how it manages public funds. The changes detailed in the Agenda will collectively bring about an array of benefits that residents of Puerto Rico will see and feel.

- Puerto Rico will be able to access financial markets for long-term investments in better schools, transportation, energy transmission, clean water, broadband, and other initiatives that benefit the people of Puerto Rico.

- Businesses will be attracted to the Island, sparking economic renewal and population growth, reversing decades of decline.

- Government budgets will be based on facts instead of fiction, and the combination of more complete and timely financial data and more efficient financial systems will enable leaders to make better use of available resources.

- Residents of Puerto Rico will know how their tax dollars are being spent and can be confident that the Government is no longer wasting millions of dollars due to mismanagement and fraud.

- The Government will be able to pay competitive salaries, lure back talent that has migrated off the Island, and deliver services that exceed customer expectations.

The people of Puerto Rico have persevered through challenges throughout their proud history. They know the meaning of hard work, sacrifice, and living within your means. They deserve a government that exhibits all of those qualities. The Agenda is a call to action and a compass pointing the way.

4.2 Foundational Initiatives (OCFO/ERP, CSR)

2.4.2.1 Office of the Chief Financial Officer

One of the key goals of PROMESA is for fiscal accountability to be quickly and permanently ensconced in the Government, which entails the creation of a strong Office of the Chief Financial Officer (OCFO). By centralizing key financial management functions (e.g., financial reporting, procurement, payroll) under a capable and well-resourced OCFO, the Government can address long-standing issues that have arisen under the Island's historically decentralized financial management regime. On March 9, 2021, the Governor issued Executive Order 18-2021, which repealed and replaced prior administrative orders to create the OCFO.

On March 9, 2021, the Governor issued Executive Order 18-2021, which repealed and replaced prior administrative orders to create the OCFO. The OCFO will centralize all financial management functions for the Government. The goal is to provide a uniform and coordinated structure to support fiscal governance and transparency. The OCFO will be instrumental in implementing the new comprehensive ERP system that will support financial data recording, reconciliations, and timely interim and year-end financial reporting as well as timely preparation and audit of its financial statements.

Over time, relevant responsibilities presently distributed across various Government agencies should be consolidated within a legislated OCFO. After this consolidation, the Government should consolidate or eliminate the following agencies:

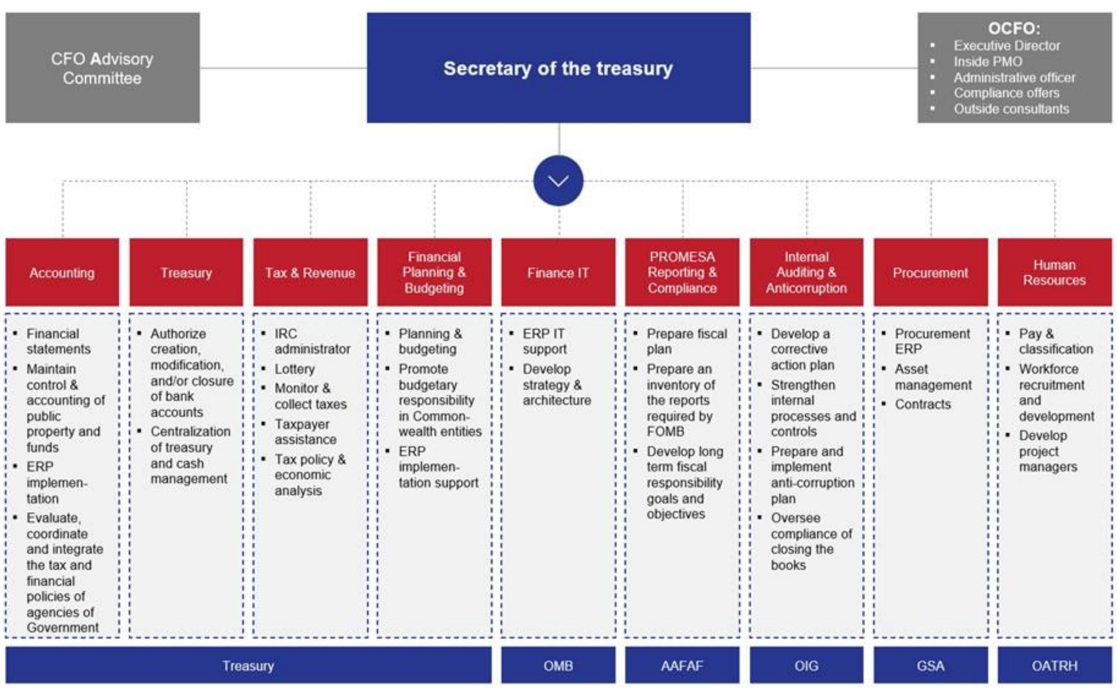
EXHIBIT 14: LIST OF COLLABORATING AGENCIES IN FUTURE STATE OCFO

1. Department of Treasury (Hacienda)
2. Office of Management and Budget
3. Office of Administration and Transformation of HR
4. Treasury (internal entity)
5. General Services Administration
6. Fiscal Agency and Financial Advisory Authority[1]

1 Current consolidation plan may leave agency as a separate entity

The agencies collaborating with OCFO and advisory committee are shown in the organizational chart below:

Exhibit 15: OCFO COLLABORING AGENCIES AND ADVISORY COMMITTEE



The Agenda calls for strengthening the OCFO in line with the following core objectives and responsibilities:

- Centralizing treasury and liquidity management to:

  - Enforce and manage a consolidated Treasury Single Account (TSA) for the Government that controls and offers visibility into all Government bank accounts (to the extent possible), including those of component units (CU) at private banks
  - Enable all other public entities to maintain zero balance sweep accounts
  - Empower the OCFO to serve as the sole authority for Government bank account creation and closure—facilitating liquidity reporting, monitoring, and analysis
  - Facilitate the rationalization of the Government's account portfolio to support maximization of earnings, cash pooling, daily cash sweeps and treasury operations, and implementation of uniform accounts payable and disbursement prioritization processes and reports
- Enhancing the budget development process by improving monitoring and performance tracking to:
  - Comply with the recently-issued Oversight Board budget guidelines to develop an auditable budget that is readily-traceable to the 2023 Certified Fiscal Plan and its priorities
  - Forecast and manage the seasonality of tax receipts
  - Forecast and report the fiscal cost of tax credits
  - Oversee all tax decrees and tax agreement issues
  - Operationalize the financial system budget to ensure consistency between accounts and facilitate their monitoring
  - Estimate, protect, and enhance tax collections and revenue streams
  - Establish budgetary priorities—namely, effective expenditure controls and Government-wide procurement reforms
  - Develop budgets using detailed and granular account level structures for expenditures and revenues accounting through standard guidelines followed by all Government agencies
  - Report revenues and expenditures' budget-to-actuals for the General Fund, Special Revenue Funds, and Federal Funds on a recurring monthly basis
- Driving the standardization and integration of the Government's financial information technology (IT) systems to:
  - Identify disparate systems being used for financial tracking and reporting
  - Establish a roadmap to standardize and integrate systems to the fewest possible
  - Orchestrate the integration across agencies, including defining new policies and procedures, coordinating data migration and validation, and training system users to effectively utilize new systems
  - Improve and standardize processes that support and contribute to the accuracy of financial information provided to the ERP
  - Evaluate current laws which exempt certain government entities from the Puerto Rico Government Accounting Act. While some entities are mandated by law to maintain fiscal independence, these entities could still leverage central financial IT systems to reduce costs and automate current processes

- Ensuring compliance with procurement, contract, pension, and human resource management policies across Government agencies to:
  - Certify all contracts, bills, invoices, payroll charges, and other evidence of claims, demand, or charge relating to the Government and entities reliant upon its taxing authority by prescribing receipts, vouchers, and claims for all agencies to leverage
  - Manage centralized health insurance procurement and policy management
  - Oversee human resources, Government payroll operations, and all Government-related financial transactions. Implement uniform time, attendance, and overtime processes, payroll controls, and reporting standards
- Strengthening oversight of Special Revenue Funds (SRF) through enhanced control mechanisms to:
  - Implement processes and guidelines that improve stewardship and centralization of all SRFs
  - Ensure all revenue streams attributable to SRF are deposited within the TSA
  - Improve centralization of revenues and expenditure budget-to-actual reporting and accounting of transactions in a centralized accounting system
- Improving the timeliness of the Government's annual audited report and financial reporting to:
  - Produce unqualified audited financial statements in accordance with GAAP standards and leverage new forecasting, e-settlement, and analytics capabilities for FY2019 onward within established regulatory timeframes
  - Issue the FY2021 and FY2022 audited Basic Financial Reports no later than September 2022
  - Implement long-lasting standard reporting processes and policies to ensure FY2022 and beyond audit issuances can occur within ten months of a fiscal year end
  - Support stronger implementation of measures required by the 2021 Certified Fiscal Plan and more robust reporting of actuals
  - Supervise property tax assessment reforms, prepare tax maps, and provide notice of taxes and special assessments
- Centralizing and validating the management of Government funds, debts, and other financial transactions to:
  - Maintain custody of all public funds, investments, and cash
  - Administer cash management programs to invest surplus cash
  - Facilitate short- and long-term borrowing programs
  - Establish accountability over all Government funds, property, and assets
  - Oversee all tax decrees and agreements issued
  - Publish an annual Tax Expenditure Report ("TER") that identifies and quantifies all tax expenditures (initial report published in September 2019 for tax year 2017, 2018 report published in May 2021)
- Overseeing the Implementation of the 2023 Certified Fiscal Plan to:

  - Enable all Government agencies to comply with efficiency measures agreed upon in light of the 2023 Certified Fiscal Plan
  - Facilitate timely and targeted interventions to address areas of underperformance relative to efficiency measures
- Ensuring robust management of new federal funds to maximize and optimize their usage to:
  - Assign leaders to spur accountability and improve transparency
  - Establish mechanisms to coordinate with federal counterparts
  - Plan for financial inflows
  - Provide appropriate resources for agencies to handle the influx of demand

The problem

- The financial management of the Government is divided among five independent offices making financial decisions regarding treasury/cash management, budgeting, fiscal planning, procurement, and human resources.

- Puerto Rico lacks a centralized and efficient ERP system that all Government entities can use for accounting and budgeting purposes. Multiple, fragmented financial systems make preparation and reconciliation of financial statements time consuming and difficult, increase error rates, and prevent coordinated planning.

- Puerto Rico's ERP implementation process has suffered many cost overruns and implementation delays.

- Policies and procedures for accounting and finance are inconsistent across the Government; for example, a monthly closing requirement for all entities does not exist and most entities rely on their own processes and timelines. Circular Letter No. 1300-05-22 was issued by Treasury on August 12, 2021 attempting to resolve the issue by requiring entities to provide a work plan to comply with the requirement of closing on or before the 20th of the following month. A collaboration was established with the Office of the Inspector General to oversee compliance with this requirement (See Circular Letter No. 1300-13-22).

- Reporting of financial information is not centralized; in particular, there is no consolidated budget-to-actual report, which hinders the management and control of resources. The General Service Administration ("GSA") lacks support and authority to implement system wide procurement across Government, meaning higher costs for goods and services, duplicative purchasing, and lost opportunities for innovation. Although centralized cash reporting and monitoring has been started by the Puerto Rico Fiscal Agency and Financial Advisory Authority ("AAFAF" for its Spanish acronym), the reporting excludes several entities. Additionally, control over the creation, modification and closing of bank accounts is not centralized. The OCFO is centralizing all cash reporting and monitoring, as well as evaluating current procedures and regulations related to the creation, modification and closing of bank accounts to centralizing the process and broaden the scope to include all public corporations, as part of the mandate set for in the Executive Order 18-2021.

- There is no ledger of all Government assets (including owned real estate). The decentralized management of these assets places them at risk of theft, misuse, and devaluation.

The OCFO lacks adequate staffing with appropriate skills and competencies to achieve the mandate set forth in the Executive Order 18-2021 and is working on the recruitment of new personnel to adders this challenge of lack of resources. For such purposes, the Department of the Treasury reorganized its accounting and financial operational areas to ensure the recruitment of new staff to perform the tasks necessary to implement the agenda.

The initiative

The OCFO, to the extent permitted by legislative authority, will invoke full authority and control over all accounting and financial management of the Government to support consistent and uniform policies and procedures. To the extent that there are legislative impediments to the exercise of full authority, these will be identified, and revisions will be requested.

The following are key areas of progress needed to realize the vision of the OCFO:

Enterprise Resource Planning ("ERP") System

The CFO will prioritize the implementation of the ERP, which formally kicked-off on November 2022, as a driver for change in organizational processes, procedures, and staffing requirements. During this implementation process, the Government will undergo a thorough documentation and standardization of all processes that lead up to recording transactions, leading to the identification and replacement of any processes that are redundant or inconsistent with those contained in the new ERP. As these processes change, so will the roles of the people executing them, providing an opportunity to consolidate functions.

During the process of implementing a new ERP system, the CFO will educate all individuals involved in the transaction flow on the importance of their role to the overall integrity of the new ERP. The Government should not be automating inefficiencies but rethinking the processes to take maximum advantage of the controls built into the new system and be constantly vigilant at pushing back on modifications allowing for old processes and procedures to continue. In this way, the implementation of ERP can be a key driver of efficiency and accuracy of financial functions.

The 2023 Fiscal Plan recommends the OCFO complete the required implementation items displayed below:

Exhibit 16: ERP IMPLEMENTATION ITEMS

	Required implementation actions	Responsible party	Deadline
To be completed in FY 22	▪ **Create an Executive Project Steering Committee,** chaired by the CFO and composed by other executive level officials to oversee the implementation.	▪ OCFO	▪ May 2021 *Completed*
	▪ **Designate project management team** (with 3+ FTEs) to monitor and evaluate the progress and completion of the Enterprise Resource Management implementation. This team should be dedicated to this project on a full-time basis.	▪ OCFO	▪ June 2021 *Completed*[1]
To be completed in FY 23	▪ **Agree on a project plan with milestones and budget** for completion of phases and projections of total project completion.	▪ OCFO	▪ August 2022 *Completed*
	▪ **Select ERP solution and implementer.**	▪ OCFO	▪ Auguste 2022 *Completed*
	▪ **Review and change accounting system cycles,** perform data clean up to ensure new system does not start with inaccurate data, change management strategy for staff involved in all accounting cycles.	▪ OCFO	▪ June 2023
To be completed in FY 24	▪ **Complete Annual Financial Report (ACFR) track**	▪ OCFO	▪ October 2023
	▪ **Complete finance, budget and sourcing track for all Central Government agencies**	▪ OCFO	▪ July 2024
	▪ **Complete Human capital management track for all Central Government agencies**	▪ OCFO	▪ July 2024

The Commonwealth will limit its reliance on contracted resources to assist with the implementation of the ERP. The ERP Steering Committee will ensure that the new ERP is fully functional for centralized Government entities by FY2024 and functional for component units by FY2027 and the system remains up to date and meets the evolving financial challenges of the future.

Financial controls

- Standardize accounting policies and procedures across Government. OCFO will prepare circular letters guiding all Commonwealth entities to close their books monthly and report monthly and annual results to OCFO. This will be achieved through a standard chart of accounts, automated journal entries, and automated reconciliations supported by the ERP system.

- Revise procurement procedures to increase transparency and lower costs.

  - OCFO will implement a transaction monitoring process for all entities, lower the threshold for competitive purchases, manage centralized insurance policy procurement, and build a searchable procurement portal within the ERP system that will make information on bid winners available to the public.

- Enforce and manage a consolidated TSA for the Government that controls and offers visibility into all Government bank accounts including those of component units at private banks. All other public entities will maintain zero balance sweep accounts.

    - The OCFO will serve as the sole authority for Government bank account creation and closure—facilitating liquidity reporting, monitoring, and analysis.
    - The OCFO will implement a monthly cash utilization report.
    - The OCFO will keep a record of all transactions at the time of occurrence.
- Account for all Government funds, property, and assets, and:
    - Produce, monitor, and manage the Central Government's capital plan in coordination with all relevant executive branch agencies
    - Oversee the preparation of a consolidated list of all real estate assets owned by the Commonwealth
    - Issue a monthly report with summary analysis of all Commonwealth investments
- Hire adequate staff to oversee all mandates established in the Executive Order 18-2021
    - A market assessment of available resources will be completed to develop strategies to attract talent.
    - CSR will assist in solving staffing and experience shortfalls.

Consolidation Savings

During 2021 the Government focused efforts on implementing the Procurement Reform Act by appointing required leadership positions, formalizing the Uniform Regulation for Purchases and Bids of Goods, Works and Nonprofessional service and finalizing the transfer of procurement employees from Central Government agencies as provided for in a circular letter published in January 2021.

Office of the Chief Financial Officer

Treasury reviewed the complete FMA initiatives included in the 2022 Certified Fiscal Plan and determined the scope of functions required for compliance with each. As a result of this assessment, Treasury identified the current functions and included any functions not currently under the scope of its operations to comply with the FMA initiatives. Considering the urgency of a centralized operation that assumes the responsibility for the oversight of all processes required to comply with the FMA expectations, Treasury has established the Public Finances Area, which consolidates the former Central Accounting Area and Treasury Area (both now Bureaus) while maintaining the proper segregation of duties required by best practices.

Future State Operational Functions

- Treasury will assume the implementation of the Fiscal Plan's FMA initiatives, thus enabling the Government to achieve optimal financial operations.
- Once this desired future state is achieved, Treasury will operate through the following:

- Standard accounting policies and procedures across Government, including a standard chart of accounts, automated journal entries, and automated reconciliations supported by the ERP system.

- Revised procurement procedures with increase transparency and lower costs bringing robust monitoring processes for all entities, lower threshold for competitive purchases, centralized insurance policy procurement, and a searchable procurement portal within the ERP system that will make information on bid winners available to the public.

- A consolidated TSA for the Government that controls and offers visibility into all Government bank accounts including those of component units at private banks while keeping record of all transactions at the time of occurrence.

- Accounting procedures for all Government funds, property and assets.

- Adequate staff to oversee all mandates established in the Executive Order 18-2021

Expected Results

- Upon completion of the ERP, all entities will be integrated and connected to a centralized accounting and financial information system to improve the accuracy and timeliness of financial reporting.

- Reporting of all financial information of the Government will be accurate, transparent, and consistent with public sector accounting standards.

- The Governor's executive team will have financial information to support decision making, including developing and executing budgets that deliver desired results within available resources.

- The Government will have centralized procurement of real estate, technology, and other mission-support assets and services across the Government.

- Consolidation of all public funds will support maximizing investments and improving cash management.

- Transactions will be recorded at the time of occurrence. Information on transactions and their flow through processes will be transparent and accessible by all interested parties.

- Central management of assets will ensure public funds are earning the most return possible to benefit the people of Puerto Rico.

- The centralized finance office will improve stakeholder confidence in Puerto Rico and support long term growth of the economy. Stronger internal control procedures will provide accountability and oversight of all Commonwealth resources.

2.4.2.2 Civil Service Reform

A capable, motivated civil service is essential for successfully implementing and institutionalizing the initiatives in the Agenda. Past attempts at Civil Service Reform in Puerto Rico have fallen short, which is why the Governor and the Oversight Board are collaborating to complete a pilot of human resource management leading practices in Puerto Rico's core financial agencies, Hacienda, and the

Oversight Board. Once the pilot of Civil Service Reform is complete, rollout implementation across the Government commenced in January 2023 using methodologies, principles and lessons learned from pilot efforts. For more information on this initiative please refer to PART: 4 -Chapter 14 of this document.

4.3 Central Initiatives (Timely Audited Financial Statements, Debt Management, Budget Best Practices, Federal Funds Management)

2.4.3.1 Timely Audited Financial Statements

Puerto Rico has had fiscal management challenges for years that created growing Government deficits. For the Government to adhere to structurally balanced budgets reflecting ongoing fiscal discipline, it must be able to return to the timely publication of audited financial statements and related disclosure information, which is a key issue for regaining access to markets, in accordance with PROMESA.

The problem

- The Government has been late in completing its Basic Financial Statements. The most recent Basic Financial Statements, for fiscal years 2019 and 2020, were published in April 2022 and September 2022, respectively; 34 and 27 months after the close of the fiscal years. Fiscal year 2020 was issued in September 2022, 27 months after the fiscal year ended. The main takeaway being that the Government is currently on a catch-up phase and has issued its 2019 and 2020 financial statements with 5 months between each issuance.

- Delayed audits negatively impact the reliability of financial information used to forecast revenues and expenditures and ensure balanced budgets that are a condition for Oversight Board termination. Government management, bondholders, constituents, and other stakeholders are unable to rely on audited information to understand the allocation of resources, make short-term and long-term investment decisions, and assess credit worthiness.
- The causes of delay in financial statement preparation are numerous. They include:

    - More than 26 different audit firms provide services to agencies and other organizations covered by the government-wide financial statements (also known as component units), causing complexities in coordination.
    - Outdated financial software leads to unposted accounting entries, unfinished cash reconciliations, and other problems.
    - Financial data presented by agencies contains unreliable information and statements that are not prepared on a timely manner.

- Control deficiencies identified by audits remain unresolved and corrective actions have not been implemented by agencies. Circular Letter No. 1300-03-22 was issued by Treasury on July 28, 2021 requiring entities to provide corrective action plans to resolve any deficiencies identified by auditors in the management letters. A collaboration was established with the Office of the Inspector General to oversee compliance with this requirement. Many government agencies lack appropriate staffing and technical capability to produce accurate and timely financial statements. Heavy reliance on contract accountants, with limited oversight from the CFO, has created gaps in financial management competence and accountability.

The initiative

- Audited financial statements will be issued no later than ten months after the end of the fiscal year, consistent with financial reporting best practices according to the Securities Exchange Commission (SEC) Continued Disclosure Requirements. To ensure this schedule is met, the Administration will direct that:

    - Component units audited financials statements are issued six months after the fiscal year
    - Multi-year contracts are established to audit the Basic Financial Statements and component units
    - Reporting formats are distribution are standardized
    - Component units audited financial statements are issued six months after the fiscal year.
    - Multi-year contracts are established to audit the Basic Financial Statements and component units.
    - Reporting formats and distribution are standardized.
    - Auditors identify control deficiencies to managers and suggest corrective actions prior to publishing an audit.

- Financial information will be consistently monitored and updated. Agencies and component units will:

    - Follow the policies and procedures that define and support a 'record to report' cycle, such as:
        - Prepare monthly, quarterly, and annual accounting closings and financial statements
        - Perform recurring monthly cash reconciliations to close accounting period
- Agencies and component units will improve their internal capacity and capability to prepare timely and accurate financial statements.
    - Personnel will be provided with job-specific training
    - Processing of data inputs for financial statements will be automated with the implementation of the ERP

Expected results

Consistency in financial reporting and informed policy decisions will build trust and increase stakeholder confidence allowing Puerto Rico to access the bond market at lower interest rates. Timely reporting will allow for more accurate and precise forecasting of Puerto Rico's revenue streams, account balances, and outstanding liabilities, enabling the Government to develop and execute balanced budgets. Policy makers will be able to make decisions using up to date financial information. Internal control deficiencies will be identified and addressed in a timely fashion, preventing waste, fraud, and abuse.

Exhibit 17: TIMELY AUDITED FINANCIAL STATEMENTS

	Required implementation actions	Responsible party	Deadline
To be completed in FY 23	▪ **Issue FY21 audited financial statement.**	▪ OCFO	▪ March 2022
	▪ **Issue FY22 audited financial statement.**	▪ OCFO	▪ September 2022
	▪ **Expedite actuarial reports** to complete CU financial a "record-to-report" cycle.	▪ OCFO	▪ Complete
	▪ **Develop policies and procedures** that define and support a "record-to-report" cycle.	▪ OCFO	▪ December 2023
	▪ **Establish a multi-year contract with prequalified contractors** for ACFR and Component Units.	▪ OCFO	▪ Complete
	▪ **Perform closing financial records** on a monthly, interim, and annual basis for agencies and Component Units.	▪ OCFO	▪ December 2023
	▪ **Publish a management letter for each audit** that includes management's comments and corrective actions for auditor-identified control deficiencies.	▪ OCFO	▪ Completed as part of each FY audit process

Progress Update:

- FY19 audited financial statements complete
- FY20 audited financial statements complete

2.4.3.2 Debt Management Policy

The problem

- Under PROMESA, a significant amount of Puerto Rico's debt has been restructured; however, such restructurings are not enough to ensure long-term fiscal sustainability without adequate guardrails against unsustainable borrowing practices. Standard & Poor's credit rating for Puerto Rico stands at D with a negative outlook. This is the lowest rating possible, reflecting a default status, and substantially impacts the Government's borrowing costs and severely limits access to credit markets.
- Structural budget shortfalls and financial management weaknesses create pressure to continue unsustainable borrowing practices.
- Puerto Rico lacks sound debt management policy and oversight for both General Obligation (GO) debt (backed by the full faith and credit and taxing power of the Commonwealth) and limited liability revenue debt (payable from specific revenue sources, whether issued by the Commonwealth or its public corporations).
- A decentralized system with multiple debt issuers and unconnected systems of accounting across Government entities makes effective debt monitoring nearly impossible.
- At the municipal level, several underlying challenges exist for the Commonwealth to actively monitor and support sub-borrowers, including the need for enhancing debt

management practices, a lack of debt governance, the need to enforce repayment compliance of intergovernmental payables, the need of recurring financial reporting (i.e., Fiscal budgets and B2A reports) and debt reporting to disclose financial capacity and condition of each municipality, as well as the need for a central repository that captures all municipal economic and financial data.

The initiative

- The Commonwealth has adopted a comprehensive written Debt Management Policy. AAFAF will use the obligations outlined in the Policy to set up additional guardrails, where needed, to limit unsustainable borrowings at the Commonwealth as well as sub borrower level.
- Any future policies and procedures will be prepared to clearly identify the roles, responsibility and objectives of various agencies involved in debt management and such roles will be publicly disclosed to increase transparency and accountability.
- AAFAF will conduct periodic reviews of the affordability of all Tax-Supported Debt Outstanding and publish an annual debt affordability report. The report should focus on the composition of Commonwealth and public corporations' debt and financial assets, including total debt, maturity schedules, and interest rate structure. The report may also include, among other things, details on the debt portfolio, a risk assessment, as well as debt affordability analysis for short- and long-term periods.
- Audits of the Commonwealth's debt management operations, debt manager's performance, and systems and control procedures will be conducted regularly on a predetermined schedule, but no less than annually.
- AAFAF and related entities will create a working committee to ensure that key factors used by credit rating entities are adequately addressed and incorporated into the action plan for the next several years to convey a positive debt position of the Commonwealth.
- At the municipal (sub-borrower) level, AAFAF and OCFO will improve and enforce debt disclosure, debt reporting and debt analysis.
- AAFAF will create a designated page on its website to disclose all adopted policies, including Debt Management Policy and its auxiliary policies, annual affordability report, audit reports, and any other supporting documents to increase transparency and accountability.

Expected results

- Implementation and enforcement of a strong debt management policy will restore Puerto Rico's capital markets access. A successful implementation of such a policy will serve as a symbol to rating agencies and capital markets that Puerto Rico manages debt effectively and will meet its debt obligations.
- A transparent and accountable system will demonstrate a strong commitment of the government to maintain a sustainable debt limit and the population of Puerto Rico and creditors.
- Effective debt management will assist in assuring resource availability, efficiency, and fiscal capacity to effectively meet the service needs of the population of Puerto Rico.

- Proposed reforms for sub borrowers will (i) enhance transparency and disclosure between municipalities and their residents, (ii) increase awareness and accessibility of information, and (iii) facilitate analysis and interaction with important financial entities such as rating agencies, regulatory agencies, and other governments.

The Government must document and standardize all processes that lead to recording transactions related to debt issuance, management, and debt service through the ERP system. While implementing a new ERP system, the OCFO will educate all parties involved in debt financing and management on the importance of their role to the overall integrity of the new ERP and transparency and accountability.

Exhibit 18: SUSTAINABLE DEBT MANAGEMENT INITIATIVES

	Action item	Responsible party	Original Deadline	Revised Deadline
To be completed in FY 22	Each Government Entity shall identify in a **report all of its capital leases and lease-purchase transactions**, including the term, annual payments, residual payments, and any other requested information to AAFAF.	AAFAF/Government Entities	N/A	December 2022 *(In progress)*
To be completed in FY 23	Develop a **separate policy** or amendment to Debt Management Policy to regulate and establish limitations **for capital leases and lease-purchase transactions**	AAFAF and OCFO	N/A	February 2022
	Publish an annual debt affordability report. The report should include the debt portfolio, risk assessment, and debt affordability.	AAFAF and all Commonwealth entities	October 2022, *annually thereafter*	December 2022, *annually thereafter*
	Develop policies and procedures to support debt management. Identify the roles, responsibility and objectives of various agencies involved in debt management and publicly disclose them.	AAFAF	August 2022	April 2023
	Create a credit rating working committee. The committee should ensure that key factors used by credit rating entities are adequately addressed and incorporated into the Policy.	AAFAF and OCFO	June 2022	May 2023
	Determine audit schedule and publish a request for proposal to procure a third party to audit debt management operations, debt manager's performance, and systems and control procedures.	AAFAF and OCFO	June 2023	June 2023
	Create a designated website to disclose all adopted policies, including Debt Management Policy and its auxiliary policies, annual affordability report, audit reports, and any other supporting documents	AAFAF	N/A	June 2023
	Audit, on a recurring basis, debt management operations, debt manager's performance, and systems and control procedures. On a predetermined schedule that is no less than on an annual basis.	AAFAF	June 2023, *annually thereafter*	June 2023, *annually thereafter*

Exhibit 19: IMPROVING DEBT MONITORING OF SUB-BORROWERS

	Action item	Responsible party	Original Deadline	Revised Deadline
To be completed in FY 23	▪ ***Reconcile and report debt balances.*** Certify each Municipality's outstanding intergovernmental payables and payment plans with government agencies and public corporations.	▪ AAFAF	▪ May 2022	▪ May 2023
	▪ ***Monitor pension and intergovernmental obligations.*** AAFAF and FOMB to monitor municipality intergovernmental obligations and payment plan compliance.	▪ AAFAF	▪ June 2022, *quarterly thereafter*	▪ June 2023, *quarterly thereafter*
	▪ ***Report Municipality debt levels.*** Annual reporting to Include legislative debt limits, debt repayment capacity, and upcoming debt maturities.	▪ AAFAF and OCFO	▪ June 30 2022, *annually thereafter*	▪ June 30 2023, *annually thereafter*
To be completed in FY 23	▪ ***Report intergovernmental data.*** Annual certification and public reporting of all intergovernmental payment plans with government agencies and public corporations.	▪ AAFAF and OCFO	▪ December 2022, *annually thereafter*	▪ December 2023, *annually thereafter*
	▪ ***Include debt analysis in the annual debt certification by OGP.*** OGP to validate all 78 municipalities have budgeted for required debt payments.	▪ OGP	▪ June 2022, *annually thereafter*	▪ June 2023, *annually thereafter*

Progress Update:

- Government of Puerto Rico has adopted a written Debt Management Policy
- 57% of all commonwealth agencies have identified their capital leases and lease-purchase transactions and submitted the information to AAFAF.
- Government of Puerto Rico has adopted a separate derivates policy to govern the use of derivatives and structured products by Government Entities.

2.4.3.3 Budget Best Practices

PROMESA's conditions for termination of the Oversight Board include that the Government budget is in accordance with modified accrual accounting standards and that its expenditures do not exceed its revenues for four consecutive fiscal years. Meeting these conditions requires the adoption and implementation of best practices for budget development and monitoring, revenue forecasting, and accounting.

The problem

- The monthly apportionment of estimated revenue is not accurate and when actual revenues are lower than forecasted, the Commonwealth is susceptible to overspending. Without regular and reliable budget-to-actuals reports, OMB and agencies' ability to adjust spending as needed to ensure balanced budgets is limited.

- The principle of revenue neutrality is not sufficiently used when preparing budgets. When revenue forecasts are too ambitious, and expenditures are inflexible, the Government is not able to fulfill its budgeted obligations nor maintain balance.

- Despite some progress in the area, entities that manage Special Revenue Funds (SRFs) have no way of monitoring when related revenues are received or identifying SRF account balances. Moreover, some SRFs are unnecessary and should be consolidated into the GF and allocated in the annual appropriation process.

- Spending of SRFs and Federal Funds is not formally appropriated by the Government, even though it is an integral part of the Commonwealth's spending. The lack of oversight of these funds provides opportunities for misspending.

- The Commonwealth cannot easily produce a consolidated report of all revenue and expenditures, and the budget reporting process is manual, time consuming, and ripe for error.

- Commonwealth entities don't have uniform regulations to close their books. Centralized reporting is inaccurate and contains a significant number of errors due to complex and outdated reporting systems. Reports are generally delayed by at least three months after the end of month, far longer than comparable governments.

- The Government still uses cash recognition for budgeting instead of modified accrual accounting as required by Section 209 of PROMESA.

Exhibit 20: BUDGET TO ACTUAL REPORT SHORTCOMINGS

Numerous Errors Outstanding	▪ Excludes Federal Funds (last reported January 31, 2020)
	▪ None of the reporting entities closed their books
	▪ Prolonged Processing of accounts payable and encumbrances
De-centralized financial systems	▪ Central gov't agencies operate in separate financial systems: PRDE, ASSMCA, Treasury, and Environmental
	▪ Centralized PRIFAS accounting system is not updated
	▪ 62 entities use completely separate financial systems
Out of 127 entities…	▪ 22 entities do not report any data on their financials for the Septemeber 2022 report
	▪ 12 entities have reporting limitations or consistency issues and are non-compliant with reporting
	▪ 10 entities receive a GF appropriation but don't report expenses

The initiative

- The OCFO will establish a revenue committee that reviews budget to actuals and provides guidance on the revenue forecast for the next twelve months. The revenue committee will be presented economic forecasts provided by the University of Puerto Rico and other experts to support a consensus view of macroeconomic trends. The recommendations of the revenue committee will provide parameters for the budget development and appropriations process.

- The OCFO will propose legislation requiring quarterly revenue analysis and budgetary adjustments as necessary. The proposed legislation will include language to ensure a revenue source is identified prior to any spending bill enactment.

- With the implementation of the ERP system, each quarter the OCFO will present the results of the revenue and expense budget-to-actuals variance report, informing the public of any required spending changes based on recommendations from the revenue committee. The OCFO will be able to explain all variances from the original forecasted revenues.

- The OCFO will propose legislation to amend Act 230-1974 to ensure OMB has authority to assign budgets for the entire Commonwealth.
  - OMB will prepare administrative orders (or propose legislation) ensuring that a consolidated budget is reviewed and certified annually. This will include all expenditures for all Commonwealth entities and will not be restricted to only the General Fund.
  - The OCFO will standardize accounting policies and procedures for month and year end financial close and develop documentation. This will standardize government-wide financial accounting processes to remove inconsistent adoption by agencies.
  - OMB will develop a standardized reporting template for all Government entities (irrespective of ERP implementation). Circular letters will be drafted to ensure all entities are reporting budget to actuals timely and accurately each month.
    - A report will be developed that includes (1) all sources of revenue (not just revenue that flows through the Treasury Single Account) and (2) all expenses for all entities utilizing the standard reporting template.
    - Government-wide performance reporting metrics will be developed to support financial decisions.
    - OMB will have full authority over all Government entities and report monthly consolidated budget-to-actuals for revenues and expenses.
    - Agencies and component units will report revenue in compliance with GASB standards to ensure consistent practices are used throughout the Government.
    - The budgetary basis for determining a revenue and/or expense forecast will align with the audited financial statements to ensure resources are utilized efficiently within each fiscal year.
- The OCFO will provide a summary of SRFs that can be consolidated into the GF and a list of SRFs that will maintain zero-balance sweep accounts.
- In collaboration with the University of Puerto Rico, OMB will develop training materials to ensure all entities are using best practices to prepare budgets. OMB will host training seminars every two months for financial staff members.
- The OMB will leverage OCFO staffing initiatives to increase the financial management capacity across government.
- To promote budgetary control processes, OMB will evaluate and issue recommendations regarding reapportionments requests for the Commonwealth entities that have a total Budget GF appropriation under $5,000,000.

Successes to Date

Due to the importance and impact on the operations of the rest of the government entities, the Government determined that the OMB's Budget Division was one of the essential areas that required attention. As part of the analysis, the OMB reviewed different organizational structures and researched best practices that could be implemented to this division, in compliance with all the emerging requirements. As results of these efforts, OMB developed a work plan to improve on three main areas, that can be summarized as follows:

Development and implementation of new structure:

- Budget Operations – this area is focused on the daily budget operations regarding government agencies.
- Strategic Planning – this area is focused on the planification of the budget process both long and short term.
- Quality and Compliance – this area is focused on monitoring compliance requirements and regulations as defined in the approved Budget, as well as the Fiscal Plan.

PROMB continues seeking and implementing best practices regarding access to information as well as complying with government management in accordance with Fiscal Transparency public policy for the Government of Puerto Rico. As a direct result of these efforts, new modules of Enterprise Resource Management (ERP) have been developed, such as Roster, CapEx and Spending Projections. These modules have the main objective of providing clear visibility in order to standardize and make our budget process one more agile and efficient.

Expected results

- Creating a revenue committee that meets regularly will result in more accurate revenue forecasting and help prevent mid-year budget shortfalls and overspending.
- Establishing budgetary control processes and regular budget-to-actuals reporting, and the implementation of the ERP system will ensure that spending is adjusted quickly in response to revenue shortfalls, avoiding painful budget cuts and budget deficits.
- Requiring spending appropriation bills to have a certified source of revenue, that does not conflict with any other expenses prior to enactment, will ensure that other government initiatives are not impacted. The GF will be protected and will not be used as a financing source unless there is revenue available.
- Annual certification of a consolidated budget for all revenues and expenditures will ensure that budgets are balanced, which is one of the conditions for the Oversight Board's exit. The establishment of the ERP system will significantly further this initiative.
- Increased staffing and training will enable timely, standardized budget reporting and financial analysis.
- The Government will have the timely, accurate financial data and professional skill to understand the multi-year implications of budget and policy proposals, all of which is critical for long-term fiscal planning and sustainability.

A critical component to the success of the initiative – similar to the other FMA initiatives - is the implementation of Government-wide ERP system, which is currently underway. The ERP system shall be utilized to centralize all cash and bank accounts information to easily generate various reports and monitor accounts. Specifically, the ERP systems will make the whole budgeting cycle work reliable by providing accurate, up-to-date input and feedback data to the process.

The ERP system will support reporting and feedback by introducing standardized processes, which through frequent data recording and reconciliations – instead of multiple, fragmented systems -, will improve the accuracy of financial reports and audits. The use of the ERP system will also make reporting and analysis less time consuming.

There has been delays in the completion of the items. This is mostly due to fact that the ERP implementation process has suffered cost overruns and implementation delays.

Progress Update:

- Bi-weekly meetings with Hacienda are in place to review budgets
- The principle of revenue neutrality is applied to some extent when preparing budgets, though not yet sufficiently institutionalized into budget development
- Some progress has been made in the issuance of circular letters detailing reporting requirements
- Some progress has been made in establishing a reporting process that includes the Judiciary and Legislative branches

2.4.3.4 Federal Funds Management

The problem

- Loss of opportunities by not being able to compete for available discretionary federal funds, as well as inconsistent participation in federally funded programs.
- Puerto Rico lacks a centralized financial management framework for revenue reporting, which can result in (i) misallocation of federal funds, (ii) failure to optimize available resources, (iii) information gaps regarding the availability of federal funds to agencies, (iv) underutilization of federal funds and loss of appropriated funds due to laps of time (period of performance), (v) ineffective cash management, and (vi) deficiencies in consolidated financial statements.
- Puerto Rico's history of not using all the funds allocated to the Island limits its ability to supplement local funds with federal funds wherever possible. Puerto Rico lacks a mature mechanism for tracking and reporting available Federal Funds.
- United States Office of the Inspector General and single-audit reports have cited the failure of multiple agencies to adequately track federal funds, which has contributed to duplication of benefits and improper procurement. For example, due to inadequate accounting records and reconciliation procedures found through the 2019 single audit of the Department of Labor and Human Resources, the federal government could not validate the net position of $72.2 million in the Treasury account. This lack of proper reporting on federal grants risks the loss of federal funding.
- Lack of planning and coordination between state and federal funding.

The initiative

- The Puerto Rico Office of Management and Budget (PROMB) has the responsibility of ensuring compliance and adequate management of federal funds by state government agencies. Currently, federal funds represent 40% of PR's FY2023 Consolidated Budget. The PROMB aims to mitigate the macroeconomic impact of changes in PR's demographics and expedite the path to recovery of the economy and infrastructure after significant disruptive events.
- To carry out these objectives, the PROMB established the Grants Management Office (GMO). This new area provides guidance and technical assistance to agencies and municipalities with the management of their federal funds and programs.
- The GMO seeks to develop best practices by identifying risks and assisting state entities in taking the steps to prevent noncompliance, possible losses of funding opportunities, as well as providing the necessary knowledge so federal programs in Puerto Rico are assured that none of the funds that are awarded remain unused or unspent.
- The main goal of the GMO is to design and implement a government-wide framework that ensures the maximization of grants by its recipients.
- This will be achieved by focusing on six main objectives: risk assessment, capacity building, policy making, fiscal guidance, data analysis, and serving as a facilitator between the local and federal government.

Risk Management:

- **Compliance -** Reducing possible noncompliance by providing technical assistance to state agencies and municipalities.
- **Unspent funds -** Equip local government entities with the information and tools needed to manage and use federal grants efficiently and in accordance with federal regulations.
- **Lost opportunities -** In collaboration with the federal government, provide the latest information on new federal funding opportunities and their eligibility requirements to state agencies.

Capacity Building:

- The GMO will provide capacity building activities to maximize the return of federal investment in PR.
- Training will be provided on topics such as federal regulations, sources of funding, reporting, best practices, and overall grant management.
- Supporting the development of local capacity ensures long term compliance with federal regulations and requirements.
- Implement change management within each agency to ensure continuation of federal funds.

Policy Making:

- Development of uniform models of Manuals and Standard Operating Procedures to establish the minimum requirements for agencies to follow when redacting their own.
- Development of educational material, guides, and communications in accordance with applicable laws and regulations.
- These models will ensure uniformity throughout the government-wide framework in the management of federal funds as well as improve visibility and accountability.
- The policy making process will include possible changes and amendments in current laws, circular letters, and local regulations to ensure they are in conformity with federal guidelines and regulations, such as 2 CFR Part 200.

Fiscal Guidance

- Coordinated budgets to complement state and federal funding sources, in compliance with applicable laws and regulations.
- Develop Corrective Action Plans to provide the technical assistance necessary to rectify any critical findings.
- Provide technical assistance to ensure compliance with matching funds and negotiated indirect cost rate agreement, when applicable.

Facilitator with State and Federal Government

- The GMO will serve as a liaison between the Government of Puerto Rico and Federal agencies to achieve continuity of efforts, as well as collaborate in the development of local capacity.
- With the GMO providing support between local agencies and their federal counterparts, a consistent exchange of information will further expand the knowledge in the local government improving compliance and streamlining disbursements.

Data Analysis

- Assess federal grant data, allowing for strategic decision making and reduction of missed opportunities.
- Collaborate with the ERP Steering Committee to ensure the system contemplates the requirements for federal programs.
- If necessary, analyze the implementation of grants management software to have visibility of all federally funded programs in Puerto Rico.

Expected results

- The ERP system will fully incorporate proper grants management accounting measures, making visible the single period and recurring revenues the Government receives from federal sources.
- Individual agencies and the Treasury will understand their federal allocations and the implications of formula funding, matching or maintenance of effort ("MOE") requirements of the grants. This will allow the Government to analyze whether the benefits, compliance, and requirements of the federal grant are worth the additional revenue.
- Tracking the flow of potential and actual resources and the availability of funds for reprogramming will allow for improved utilization of the resources available to agencies and the Commonwealth.
- Agencies will have accurate accounting records and reconciliation processes surrounding federal funds. Issues such as duplication of benefits will be less frequent or eliminated with proper reporting on federal revenue and expenditures for federal grants. Other issues, such as unaccounted for funds and improper procurement procedures identified in federal audits will be less likely to occur.
- Puerto Rico will fully utilize available federal funding, providing benefits to residents and businesses and reducing pressure on local revenues to meet the Island's needs.
- Agencies will have Standard Operating Procedures in place, based on guidance provided by the PROMB-GMO.
- Increased communication channels between the Government of PR and the US Government, including other states, facilitating access to best practices, and ensuring continuity of efforts.

Progress Update:

- The OMB has appointed a Director of the Grants Management Office (GMO), the GMO is to propose a suitable structure for the office.
- Creation of the Public Finance Are with oversight of both Government Central Accounting and Treasury Operations
- The Public Finance is overseen by the Chief Financial Officer (CFO), a role assumed by the Secretary of Treasury

4.4 Supporting Initiatives (Time & Attendance, Cash & Bank Accounts, Procurement, Legislative Scoring, Real Estate Best Practices, and Real Property Registry)

2.4.4.1 Automated Time & Attendance

The Certified Fiscal Plan requires the government-wide implementation of an integrated and automated time and attendance (T&A) system that ensures only active employees who are working get paid, and thus prevents incorrect payroll payments being disbursed to employees across Government agencies. The initiative seeks to automatically link time and attendance systems to payroll systems, which ensures both systems (attendance & payroll) have the same employee data, thus preventing errors in reporting and/or miscalculation of employee balances. Although most Government agencies and public corporations already have electronic systems for employee attendance registration in place, attendance registration systems are not integrated with payroll systems. The T&A initiative includes 86 Commonwealth agencies and impacts over 92,000 employees.

The Automated Time and Attendance initiative solves both fiscal and operational issues by ensuring the Government has proper payroll controls. The goal of this initiative is to enable agencies to validate personnel assigned to offices/areas and measure compliance with assigned work schedules.

To implement this project successfully, it must include appropriate T&A policies, procedures, and internal controls across all agencies. This includes establishing an Attendance Policy that details employee requirements towards attendance behavior and incorporates the new automated process and best practices, and a Manual of Procedures that establishes the internal and recurring processes to be followed under the new automated system. Also, plans are required to eliminate time not registered (TNR). This includes the achievement of 90% or more of attendance registered through biometric clocks and/or timestamp (when remote) as reported by the T&A system.

As part of the implementation of the new comprehensive ERP system, T&A systems must be able to send information to the ERP system and update data by receiving an ERP interface. The collaboration and ownership of the Government of Puerto Rico, led by the OCFO, including AAFAF, Hacienda, OATRH, PRITS, GSA and agency leads, is critical for the successful implementation and completion of the T&A project across the 86 agencies. The implementation of the T&A project has already resulted in multiple benefits and savings to the Government, including:

- Fully automated T&A infrastructure implemented.

- Employees have access to register, justify and monitor their attendance electronically (mobile, tablets, laptops, computers, biometric clocks).
- Trainings provided and documented to ensure continuity of processes.
- Bidirectional automated interfaces between attendance and payroll systems, which ensure salary discounts are made semimonthly or biweekly, and employee data is synchronized daily.
- Updated and automated leave balances.
- Updated Attendance Policy to reflect newly automated T&A processes and ensure continuity.
- Establishment of a Manual of Procedures documenting all T&A processes to ensure continuity.

Department of Education

- Increased school staffing levels, directly impacting the wellbeing of public-school students.
- Reduced by 77% the number of employees who have not registered their time and attendance between November 2020 (project initiation) and February 2021 (project launch).
- Identified 17,500 employees as inactive but still receiving payment and included in the roster, representing approximately $80 million in unlawful payroll payments made since 2007 to 2020.
- After implementing automated processes, the agency will process salary discounts and leave balance discounts in a timely manner.

The Government is working in conjunction with the FOMB in the implementation of the T&A project – the deadlines included in Exhibit 21 are subject to change upon joint agreement between AAFAF and the Oversight Board. Changes to the deadlines are also subject to the needs of the ERP project which shall have precedence over the T&A project. The timeline to complete the T&A implementation is from December 2021 until May 2024. Refer to Exhibit 21 for agency specific timelines.

Exhibit 21: AUTOMATED TIME & ATTENDANCE

	Agency/Public Corporation	Responsible party	Deadline
To be completed in FY 23	Department of Corrections and Rehabilitation	March 2022	January 2023
	Department of Family	May 2022	January 2023
	Department of Labor and Human Resources	May 2022	January 2023
	Mental Health and Drug Addiction Services Administration	November 2022	January 2023
	Department of Public Transportation and Public Works	November 2022	February 2023
	Public Building Authority	November 2022	February 2023
	Department of Public Safety (Excluding Police Bureau)	May 2023	March 2023
	Police Bureau	November 2022	March 2023
	Department of Natural and Environmental Resources	November 2022	March 2023
	State Elections Commission	May 2023	May 2023
	Cardiovascular Center Corporation	May 2023	May 2023
	Comprehensive Cancer Center	May 2023	May 2023
	Automobile Accidents Compensation Administration	May 2023	May 2023
	Department of Recreation and Sports	May 2023	May 2023
	Department of Economic Development and Commerce	May 2023	May 2023
	Vocational Rehabilitation Administration	May 2023	May 2023
	Ports Authority	May 2023	May 2023
	Department of Agricultural Enterprises Development Administration	May 2023	August 2023
	Planning Board	May 2023	August 2023
	Department of Housing	May 2023	August 2023
	Public Housing Administration	May 2023	August 2023
	Retirement Board of the Government	May 2023	August 2023
	Conservatory of Music Corporation	May 2023	August 2023
FY24	All Remaining Entities	May 2024	May 2024

Progress Update:

- *Project Completed with the Department of Justice*
- *Project Completed with the Department of Health*
- *Project Completed with the Department of Education*
- *Project Completed with Medical Services Administration*

2.4.4.2 Cash and Bank Accounts Oversight and Transparency

The cash and bank accounts oversight and transparency initiative addresses long-standing management and compliance issues to improve Government transparency and risk management, reduce fraudulent activity within Government, and institutionalize cash and bank account management processes. Currently, Government's cash and bank accounts compliance and procedures are mostly siloed and lack formal unified guidelines. Basic information such as bank account personnel roles and mapping of idle bank accounts is unclear or difficult to access due to lack of proper treasury controls and protocols. Furthermore, inefficient processes and dependency on outdated tools increase erroneous bank account activity and inaccurate cash reporting, as well as budget shortfalls and inability to properly monitor Government bank accounts.

The successful execution of the initiative will transform Government's cash and bank accounts processes and oversight, increase inter-agency and cross-government accountability, and unify institutionalized compliance standards. To successfully execute this initiative, the main action items addressed will be (i) establish a centralized, comprehensive database, (ii) align all agencies and corporations on unified treasury guidelines, and (iii) successfully reconcile quarterly bank account forensic reports. These actions will be undertaken with cross-agency cooperation and transparency.

A critical component to the success of the initiative is the implementation of Government-wide ERP system, which is currently underway. The ERP systems shall be utilized to centralize all cash and bank accounts information to easily generate various cash reports and monitor bank accounts activity. Specifically, the ERP systems will (i) enable processing and analyzing cash and bank account transactions arising from receipt and disbursements, (ii) provide insight on specific transactions based on certain criteria and investigate sources and uses of bank account activity, (iii) assist in the development of Government-wide cash and bank accounts compliance procedures to strengthen oversight and mitigate erroneous activity, and (iv) serve as a tool for the Government to link transaction data to a general ledger and easily generate output of bank account details such as payment authorizations, related parties, and signatory.

Progress Update:

- Development of initiative work plan
- Establishment of initiative's measure of success
- Significant progress made to establish a centralized database (Exhibit 90)

2.4.4.3 Procurement Best Practices

The Uniform Purchasing regulations issued pursuant to Act 73-2019 made significant progress centralizing and modernizing Puerto Rico's procurement processes. The Government's implementation of a digital procurement system has resulted in increased transparency of procurement processes and the use of strategic sourcing strategies have helped Government agencies. Purchase goods and services on the most economical basis. While the Government has made significant advances, updates to Act 73-2019 and it's Uniform Purchasing regulations still need to be addressed. The Fiscal Plan recommends several actions to further improve procurement policies and practices:

- The GSA has assumed supervisory authority over all entities exempt from centralized Procurement processes under Act 73-2019 and Regulation 9230 with the creation of a Specialized Investigations Unit. However, further reinforcements should be made to this unit to ensure that they have implemented effective guidelines for the purchase of goods, works, and nonprofessional services. Providing GSA with additional tools to supervise exempt entities will be crucial to ensure uniform procurement practices across all Government entities.
- Amendments should be incorporated to Act 73-2019 regulations surrounding the cases for emergency purchases, exceptional purchases, required documentation, informal/formal bidding, evaluation of awards and other technical changes. For example, Act 73-2019 allows for exceptional purchases when funds are set to expire. This is a highly unusual provision. Competitive processes should be the default, and exceptional purchases should be a rare exception.
- Apply a centralized, systematic procurement process for recurring municipal government services such as waste collection, sanitation, and road maintenance to promote efficient and cost-effective contracts. This transparent contracting process should be coupled with the establishment of robust and efficient oversight mechanisms by the Puerto Rico Central Government or any government entity tasked with oversight functions.

- GSA has used Strategic Sourcing strategies by leveraging agencies' collective buying power and acting as a single enterprise to negotiate with contractors. Strategic Sourcing has allowed the Government to realize savings through economies of scale. GSA performs a yearly analysis of the Government's spending across agencies and using that information to make improved decisions. For the Central Government, the greatest opportunities for the implementation of Strategic Sourcing will require expanding the scope of Act-73-2019 to include the procurement of professional services, particularly in the following areas: (1) Strategy Consulting, (2) Special Services, (3) Financial Services, and (4) Technology Services. From FY2017 through FY2021, professional services contracts corresponding to these four categories have represented a combined total cost of $2.4 billion. As such, considering an average annual cost of $600 million for these four categories and realistic savings derived from the use of Strategic Sourcing ranging from 1% to 5%, this initiative can represent estimated annual savings ranging between $6 million and $30 million.

- Amend Act 237-2004 to promote competitive procurement processes for professional services in accordance with best practices.

- GSA has initiated a digital transformation of the Government's procurement practices that will conclude with the implementation of the ERP's procurement modules. The Government should complete the implementation of its eProcurement portal to allow both taxpayers and bidders to have real-time access to information surrounding bids and awards. Such a portal will provide an additional level of oversight on procurement activities and build taxpayer trust in the purchasing system.

- Take affirmative steps upon conclusion of the procurement phase to ensure that awarded contracts are adequately managed and that accountability is promoted by all contracting parties. Specifically, assign intra-agency contract managers to oversee the implementation of contracts and keep detailed and accurate descriptions of rendered services or purchased goods, to ensure these are satisfactorily performed or delivered prior to the payment of invoices.

Implement a uniform contracting policy which shall apply to all government entities and encompass the following principles:

- Contracts (inclusive of Purchase Orders) should be drafted in such a way that the contracted services are described clearly and specifically so that both the agency and the contractor know exactly what is expected of them pursuant to the contract, and so that the agencies with oversight responsibilities can carry out their audits and revisions in a uniform manner. In that regard, template contract models for recurring purchases or services, such as, for example, employee health insurance, legal advisory services, or maintenance services, should be implemented across all government entities to ensure that all government entities adhere to the same contracting principles.
- To promote adequate transparency in the provision of recurring services, contracts should include a clause that specifically outlines recurring tasks and requires specific information regarding the actual tasks performed. This requirement may be complied with by providing any statistical data, or information certifying the performance of services, to allow confirmation of such performance by any overseeing persons or entities.
- Further, contracts should contain a clause stating that vague descriptions of provided goods or performed services that do not provide exact descriptions of such goods and

services will be deemed unacceptable and will not be subject to payment until a full description (as detailed in the specific contract) is provided in a manner which is satisfactory to the contracting government entity.

While substantial progress has been made through the implementation of current procurement systems, the eventual implementation of an ERP system should strengthen the Government's procurement practices. The Procurement Module of the Oracle Cloud provides a complete system supported process that will support every aspect of the Procurement Cycle from strategic sourcing to bill payment. It will also provide tracking of every transaction from state to resolution and interfaces with other modules to make sure that transactions have budget authorization, manger approval, and are from approved vendors. The system will allow for greater analytical information across the entire process and detailed analysis of items that are delayed due to process exceptions.

Self Service Procurement Cloud will help with the buying experience.

- Once an order is placed, confirmation will be given back to the employee that their requisition has been submitted.
- Managers will receive the requisition digitally for approval in the system.
- For receipts of goods, the employee will have to verify goods were received in good order. The workflow then sends documents to accounts payable where the invoice is automatically matched.
- With visibility into all parts of the transactions and reporting on process flow and time to approval and other metrics this system will provide a much more professional experience for both the government and vendors.

Progress Update:

- Substantial progress made in FY21 on Act 73-2019 regulations and subsequent guidance issued to agencies. This guidance laid out processes and procedures of issuing awards, competitive purchasing process, emergency purchases process, and other technical information to be used for public procurement.
- Circular Letter No. 013-2021 issued in the last month of FY21 includes guidance for procurement processes for professional services. This was an important step, though more detail on processes will be required to protect public resources.
- Milestone dates from FY22 were pushed back a year, in recognition of time needed to implement recently issued Act 73-2019 regulations.

2.4.4.4 Non-Partisan Legislative Scoring

In November 2022, the Legislatures passed Act-1-2023 creating the Budget Office of the Assembly (OPAL). As a nonpartisan legislative services agency, OPAL will provide services to both the Senate and House of Representatives without participating in their deliberative processes or decision-making. The Fiscal Impact Assessment and Certification Unit of the OPAL will be responsible for determining the fiscal impact of legislative proposals considered by the Legislature. The OPAL has quite expansive scope, roughly 13 primary functions most prominent of these are:

- Providing, at the request of the Legislative Assembly, support in the budgeting process including providing estimates, analyses, studies, reports, recommendations, and educational or informational material on public administration in Puerto Rico

- Analyzing the economic, budgetary, or financial reports issued by the Executive and Judicial Branches as well as fiscal plans and related documentation exchanged or notified under the provisions of the PROMESA Act
- Conduct independent studies at the request of the legislature, and provide projections on the economic situation of Puerto Rico, both in the public and private sectors.

> *Progress Update:*
> - The legislature passed bill H.B.1274 (Act-1-2023) creating the Budget Office of the Assembly (OPAL)

2.4.4.5 Real Estate Best Practices

The real estate asset management reform initiative will address long-standing revenue, budgeting, and capital forecasting issues across the Government's real estate holdings in order to improve efficiencies in the overall maintenance and value preservation of the portfolio.

The Government currently owns approximately 16,800 real properties and parcels of land (~4,100 buildings and ~ 12,700 land parcels). These holdings consist of more than 70 million square feet of office space and more than 340,000 acres of land. The Government does not currently have a standardized approach for accounting, tracking, managing, and disposing of its real estate assets. Associated primary issues include properties with expired leases paying on a month-to-month basis or no rent at all; reactive versus proactive management of required maintenance and repairs; properties achieving significantly below market rent levels; limited insight into projected future capital expenditure needs; lost opportunities for high value disposition of portfolio properties; and increased exposure to legal liability for mismanagement of hazardous structures and other life safety considerations.

A standardized real estate management process operated by dedicated asset management personnel, or a third-party real estate partner would address and solve many of the inefficiencies at hand, while maximizing the aforementioned financial factors broadly. These reforms would increase the overall value of the Government's real assets while maximizing the potential revenues associated with these properties over the long-term. Furthermore, the normalization of operations from a budget and forecasting standpoint will allow stakeholders to better plan for, and react to, the unforeseen major events that may occur over a decades-long time horizon while significantly impacting the portfolio.

2.4.4.6 Real Property Registry

The real property registry reform is an important supporting initiative for the Financial Management Agenda. Reforms will protect property rights and will make real estate transactions more efficient contributing to the right environment required for ease of doing business and attracting foreign and local investment. Establishing clear property rights via a complete and up to date property registry will also reduce fraud and allow for federal relief to reach those who need it most. This will protect these limited resources and will contribute to ensuring that recovery efforts do not go to waste. Finally, a complete and accurate property registry will contribute to completing the CRIM property tax cadaster which in turn will ensure that the municipalities will raise sufficient revenue to fund the much-needed local services.

For relevant milestones please see milestones in the Property Registry section of Chapter 9 – Ease of Doing Business. These milestones cover DOJ's property registry, and Vivienda's GeoFrame project which aims to create a uniform parcen registry layering geospatial data from CRIM, DOJ, and the PR Planning Board.

The milestones in this initiative will address the problems associated with the antiquated land court-based system of property registration currently in place, removing barriers from real estate transactions and reducing ambiguity of ownership.

The land registration process involves multiple steps and the potential for delay is substantial. The present state of property records does not provide a timely tool for confirming legal title to a large portion of properties on the Island and there is no mechanism for verification, particularly for parcels which have been informally developed. Further, legal proceedings are ponderous, the system is slow to resolve cases and is an impediment to efficient functioning of land markets.

Further, please refer to the CRIM fiscal plan for milestones specifically related to the CRIM digital cadaster.

Progress Update:

- Please see Chapter 9: Ease of Doing Business & the CRIM Fiscal Plan

Chapter 5. Revenue Administration and Tax/Revenue Structure

5.1 Revenue Administration and Tax/Revenue Structure

The government has made substantial progress in certain aspects of Puerto Rico's tax system. As discussed below, these include, broadening the tax base; changes in information reporting requirements; improved collection and organization of tax information and forms, including digitization; secured legislation to allow for entities subject to Act-154-2010 to transition to a new and permanent tax regime; expanded collection of sales tax on internet sales; and a large-scale consolidation and rationalization of tax incentives.

The government also has initiated and sequentially improved its understanding of the nature and scope of many of the myriad tax incentives that it offers. This started with the passage of Act 60 – 2019 (Puerto Rico's Tax Incentive Code) and publication in June of 2019 of its first Tax Expenditures Report, which catalogued numerous special tax provisions and estimated each provision's cost. The Tax Expenditure Report has since been revised and expanded twice and provides policymakers with the data necessary to review, assess, and adjust the use of tax expenditures to ensure that the revenues lost by tax expenditures lead to positive economic outcomes on the Island.

Additional effort should be taken to improve Puerto Rico's tax systems by reducing complexity, enhancing equity, increasing transparency, reducing tax administrative and compliance costs and maintaining, if not enhancing, revenue. Tax incentives should be regularly reviewed for compliance and effectiveness. Overall, sufficient resources should be devoted to administering and enforcing the tax systems so that anticipated and needed revenues are realized. Because revenue can be raised from a variety of different sources, it also is important that the mix of sources be carefully considered so that government programs are not excessively reliant on sources that may be uncertain or volatile. In all of this, it is important to keep in mind that the principal purpose of taxes is not to incentivize certain activities or taxpayers but rather to raise revenue needed to fund government programs.

The balance of this chapter focuses on continuing to improve the administration of the tax system and the need for evaluation of Puerto Rico's myriad tax incentives. However, before jumping into those specifics, it is useful to briefly summarize some of the basic principles of tax policy and touch on the extent to which several of Puerto Rico's major tax systems conform to those principles.

2.5.1.1 Tax Principals

Effective revenue systems are based on taxes that generate sufficient revenue to fund needed public expenditures, are simple and transparent, are perceived as fair and equitable, and encourage economic efficiency and growth.

Tax systems that have a broad base and low rates generally conform to these precepts. These tax systems avoid targeted tax incentives unless those incentives are supported by clearly demonstrated economic or social benefits. Of course, effective tax systems also generally incorporate several tax bases, such as income taxes, sales or consumption taxes, and property taxes. And taxes might be imposed by multiple layers of government. Nonetheless, effective tax systems are informed by the broad base-low-rate principle.[18] In addition, in looking at the system overall, it is important to consider the combined effect of taxes on different bases in raising the burden on taxpayers.

An important benefit of tax systems that follow these precepts is that they promote compliance, administration, and enforcement because the tax rules are simple and transparent and are perceived of as fair. Furthermore, a broad base combined with low tax rates reduces the potential gain from tax evasion or avoidance. Promoting compliance is a central feature of properly designed revenue systems. An overly complex and poorly designed tax structure cannot be implemented effectively and, therefore, compliance and enforcement will always fall short. Beyond simplicity, perceptions of fairness are an important factor for promoting compliance and enforcement.

2.5.1.2 Preliminary Report to Governor of the Advisory Group to Simplify and Improve the Tax System in Puerto Rico[19]

One approach to moving Puerto Rico's tax systems towards conformity with fundamental tax policy principles would be large scale comprehensive restructuring. However, a more modest approach would implement a number of changes that, taken as a group, push the tax system in the right directions. That is the approach taken by Advisory Group to Simplify and Improve the Tax System in Puerto Rico. Many of that group's proposals can be seen in the light of incremental reform and a number are in line with the Oversight Board's recommendations, as discussed below. In May of 2022, the Governor's Advisory Group offered a set of suggestions for revising Puerto Rico's tax system. The Group included representatives from government, industry, professional associations, the chamber of commerce and academia. The report was broken into five major

[18] An exception is taxes imposed to correct market problem, such as those associated with pollution or with other "social bads." Those taxes should be concentrated on the activity which is to be discouraged and the tax rate set at a level that is in line with the costs imposed by the activity, e.g., the marginal damage done by pollution.

[19] Executive Order 2021-072 created the Governor's Advisory Group to provide recommendations to improve Puerto Rico's tax system. The Advisory Group members included the Treasury Secretary, the Secretary of DDEC, the Director of OMB and many other public and private sector representatives. The Advisory Group published preliminary findings in May of 2022.

sections: Income taxes, consumption taxes, tax incentive, municipal taxes, and control measures & measures against tax evasion. Each of the above five sections was split into recommendations made by the private and public sector.
Exhibit 22 outlines some of the many areas of agreement between the recommendations presented by the committee and the Oversight Board.

Exhibit 22: SELECT AREAS OF AGREEMENT BETWEEN OVERSIGHT BOARD AND GOVERNORS ADVISORY GROUP

Topic	Recommendation
Personal income taxes	▪ Analyze the elimination of deductions in accordance with the public policy pursued
Tax incentives	▪ Incentives that need to be modified or discontinued should be evaluated
Control Measures	▪ Allocate more resources for collection to the Department of the Treasury to improve the collection efforts of debts
Simplification	▪ Streamline the tax system by reducing and simplifying tax forms and by broadening the base (reduce tax credits, deductions, and special rates) while broadly lowering tax rates

The rest of the chapter makes frequent reference to specific Advisory Group recommendations. Before moving on to that discussion, it is useful to provide some additional background on Puerto Rico's income and property taxes.

2.5.1.3 Puerto Rico's Current Income Tax Environment

Puerto Rico's existing income tax systems deviate dramatically from systems that are consistent with the tax precepts outlined above or many of the recommendations of the Advisory Group. Income taxes (individual and corporate) are complex and opaque. They include numerous targeted deductions, exemptions, credits, and special rates that benefit narrow groups of taxpayers while reducing revenue available to fund needed public expenditures. These special tax rules can produce results that are inequitable and inefficient and fail to provide demonstrable economic or social benefits, e.g., broadly higher incomes and economic growth for the island. The added complexity also raises compliance, administration and enforcement costs.

Individual Income Tax

Puerto Rico's individual income tax has a number of exclusions, deductions, special rates, and credits that potentially deviate from basic tax principles. Deviations from normal tax rules give rise to so-called tax expenditures. Of course not all tax expenditures represent bad policy. However, they all have a cost in the form of foregone tax revenue. Estimates of that cost can be compared against the benefits the policy might offer to assess whether the policy is worthwhile.

As discussed in more detail below, Puerto Rico's Tax Expenditure Report identifies and measures the foregone revenues from a number of individual income tax expenditures. These include Act 22-2012 (as incorporated into Act 60-2019), which exempts from tax the passive investment income of recent tax residents of Puerto Rico, preferential tax rates on dividends and capital gains, preferential tax rates for physicians, the home mortgage interest deduction, and an exemption of wage income for those under the age of 27. As shown in Exhibit 26 below, individual income tax expenditures summed to $2.9 billion in 2023.

Puerto Rico is not alone in offering individual income tax breaks for certain taxpayers and activities. However, it tends to offer more of these than do many US states. In 2021, individual income tax expenditures comprised 121% of Puerto Rico's individual income tax revenue, higher than Michigan, the next highest state in the sample set (77%), Oregon (66%), California and Massachusetts, both 56%.[20] In total, Puerto Rico has 115 individual income tax expenditures, as reported in Exhibit 26 below.

The breadth and depth of Puerto Rico's individual income tax expenditures suggest that there may be room for effectively modifying the individual income tax to streamline and simplify it while ensuring that remaining tax expenditures produce a social benefit in line with their cost in foregone tax revenue. The existing large set of special tax rules raises compliance, administrative and enforcement burdens, which could be reduced if not eliminated by reducing tax expenditures and moving to a simpler tax system. Tax expenditures also lower revenue, so repealing or restricting some of them would allow for tax rate reductions that would benefit all Puerto Ricans or perhaps allow for needed expenditure programs. This topic is considered in more detail in section 5.3.1 below.

In the process of reconsidering individual income tax expenditures, Puerto Rico might also consider using some of the revenue from eliminating unproductive tax breaks to fund tax reductions elsewhere or to fund needed government spending. Reducing individual income tax expenditures is one way to increase the share of revenue that comes from individual income taxes.

Corporate income taxes

The corporate income tax in Puerto Rico also contains numerous and costly tax expenditures. These include accelerated depreciation, preferential taxation of government bonds, and preferential taxation of long-term capital gains. According to the data shown in Exhibit 26 below, the government counts 86 regular corporate tax expenditures which sum to an annual revenue loss of about $371 million.[21] Repealing or reducing some of these that seem, upon reflection, to be unjustified also could help simplify the tax system and improve tax administration and compliance. It also would provide a source of funds which could be used for other purposes, e.g., general tax rate reduction.

While the corporate tax has numerous tax expenditures, it also has a high statutory tax rate. Local Puerto Rican firms that do not receive incentives face the highest corporate income rate in the U.S. by far, a 37.5% top marginal rate at incomes above $275,000. To put this into perspective, New Jersey, a state with one of the highest CIT rates has a top marginal rate of 11.8% for business income above $5 million. When combined with the Federal rate of 21%, this gives a 32.8% rate on profits earned in New Jersey. This rate is-roughly 5 percentage points lower than the rate in Puerto Rico~~,~~ and the New Jersey maximum rate is applied at a level of net income that is roughly 19 times higher, resulting in the Commonwealth maximum rate being applicable to firms with substantially

[20] Excludes tax expenditures related to personal exemption. With personal exemptions included, Michigan's tax expenditures would be 89% of revenue and Oregon's would be 73% or revenue.

[21] The government also counts 115 non-corporate business tax incentives which have an annual revenue cost of $439 million.

less net income. Puerto Rico's corporate tax is not consistent with a tax system that has a broad base and a low rate.

Corporations also benefit from tax preferences in the incentive acts. Indeed, these incentives dwarf in size those provided through the regular corporate income tax. These are discussed in more detail in Section 5.3.2 below. As shown in Exhibit 26, these total over $15.1 billion annually. They include provisions such as the R&D tax credit and a credit for purchases from Puerto Rico manufacturers. As noted above, not all tax expenditures are poor tax policy. The R&D tax credit is often seen as an example of a tax break that is justified. Because innovators often can't reap the full reward for their innovation (e.g., others can copy it by backward engineering) it is possible that on its own the market will undersupply research and innovation. The R&D tax credit may help to correct this market failure by raising the after-tax return earned on investments in R&D.

The largest of incentive code tax expenditure is the ability of subsidiaries of large multinational corporations to negotiate a low corporate income tax rate for large on-island subsidiaries of foreign multi-national corporations. Negotiated preferential tax rates are not common in U.S. states. These negotiated taxes are secret and are detailed in decrees that represent binding contracts between the government and the company. As such, they are inconsistent with general principles of tax transparency, simplicity, and fairness.

The tax expenditure estimate for the low rate negotiated for these companies can overstate the tax benefits that Puerto Rico gives to them. This is because Puerto Rico also imposes (via Act 154) an excise tax on the sales that these companies make to their foreign affiliates (e.g., to their US parent). Act 154 taxes have been among the largest revenue sources for Puerto Rico, historically accounting for up to 20% of General Fund revenues which has declined to 12% in FY2022. Nonetheless, when all the taxes are considered, these companies generally face a tax burden that is substantially lower than that faced by typical local Puerto Rican corporations, who are subject to a corporate tax rate of up to 37.5%.

To some extent, Act 154, and the attendant treatment of multinational subsidiaries, may be a thing of the past. Because the US will no longer allow a foreign tax credit against US corporate tax for the Act 154 excise tax, Puerto Rico recently changed its tax rules for these companies by offering them renegotiated decrees that tax income and royalty payments under Act 52. The Act 52 income tax will be creditable against the US corporate tax.

The amendments proposed by Act-52 fostered an **adequate and necessary** transition for large Act-154 tax payors. This enabled Puerto Rico to address the looming issue of loss of Act-154 creditability and retain significant revenue from previous Act-154 payors.

There might be supportable economic reasons to tax large subsidiaries of foreign multinational enterprises at favorably low rates. For example, the businesses might offer important employment or knowledge transfer benefits to Puerto Rico or those business might be especially mobile and so might move elsewhere without a tax break. Alternatively, low taxes might make up for other costs that are relatively high in Puerto Rico, such as utilities and those imposed by labor laws and other regulations. In the end, however, the extent to which these companies provide a net benefit to Puerto Rico that would be lost without the favorable tax rules is an empirical question. Answering that question convincingly one way or the other is an example of the type of analysis that is needed to assess the effectiveness of tax breaks in promoting broader economic benefits for the island.
Even if low tax rates are economically justified, there is little reason to impose low rates through private and generally opaque decrees. Doing so erodes confidence in the fairness of the tax system. There also is little reason to do so with "rifle shot" provisions that may create compliance

burdens for companies (as they seek to continue to qualify for special treatment that could be lost if their economic situation changes) and administration and enforcement burdens for Hacienda as it seeks to ensure that companies comply with the rules.

2.5.1.4 Business taxes in total

While some companies face low tax burdens, and the tax code has a myriad of special deductions, tax rates, credits and exemptions, for many companies, especially local companies, the overall burden of taxes can be quite high.

Puerto Rico has a higher subnational (state, or commonwealth, and local) business tax burden than any US state, with a total business burden of 12.1% of personal income-.[22] Puerto Rico has more than double the business tax burden of New York (5.17%), the state with the next highest business tax burden has over four times the U.S. average (3.37%) subnational tax burden. However, this does not account for the differences in overlapping business tax burdens faced in the state.

It is true that most US federal taxes do not apply to business activity in Puerto Rico, but federal taxes (e.g., the federal corporate and individual income taxes) apply in the states. Consequently, on an "all in basis", that is, including state, local and federal taxes, Puerto Rico drops from the highest ranked jurisdiction to the 19th highest, at 12.6% of personal income. Nonetheless, Puerto Rico's total (federal and subnational) tax burden is slightly above the U.S. weighted average (12.3%) when accounting for federal, state, and local taxes. Furthermore, the Commonwealth and its municipalities rely on the corporate business tax base to fund local service at a level 7 times that of the average across the states and 2.3 times that of the next highest state. Nearly 18% of Commonwealth own source revenue and 15% of Commonwealth and municipal own source revenue is derived from the taxation of corporations.[23]

The very heavy burden of and heavy reliance on taxes on businesses may suggest a realignment of revenue sources away from those that are especially burdensome on local businesses.[24] Adding additional targeted administered tax expenditures would contribute to, rather than remedy, the problems faced by the current tax system.

5.1 Permanent Cost of Living Adjustment in Puerto Rico Tax Code

Since the start of the COVID-19 pandemic, supply and distribution chains around the world have been affected. This, along with other global factors, have contributed to the increase in the cost of living for Puerto Ricans. At the federal level, and to mitigate increases in the cost of living, the IRS updates the tax brackets to recognize the impact of inflation.

In Puerto Rico, the tax lines of individuals have not been revised since 2013. Although a discount of 5% to the normal contribution of individuals was introduced through Law No. 257-2018, and 8% through Law No. 40-2020, this discount does not compensate for the inflation experienced on the island since 2013.

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[22] Personal income was used instead of GNP as there is not an equivalent series for the U.S. states. Personal income closely tracks both GDP in the U.S. states and GNP for Puerto Rico. Business tax shares of the property tax, sales tax, corporate income tax and individual income tax on business income are estimated. Corporate taxes also include Act 154, the business share of non-resident withholding and municipal patents & licenses in Puerto Rico and other taxes such as gross receipts and commercial activity taxes in US states.

[23] For this analysis, Puerto Rico's taxation of corporate includes corporate income tax only.

The 2023 Fiscal Plan includes a "Cost of Living Adjustment" ("COLA") into PR's Internal Revenue Code. The Cost of Living Adjustment is proposed both for current tax scales, as well as to increase the maximum limit that can be claimed on certain existing deductions and exemptions. The formula for COLA is as follows:

(CPI January to December 2021) – (CPI January to December 2020) = % Change

Cost of Living Adjustment will be the percentage (if any) by which the CPI of the previous calendar year exceeds the CPI for the calendar year preceding it. **Example:** To determine the Cost of Living Adjustment for the 2023 tax year, the percentage by which the CPI of the year 2022 exceeds the CPI of the year 2021 must be measured. The "General Consumer Price Index" is the one published by the Department of Labor and Human Resources of Puerto Rico in relation to the retail prices of goods and services consumed by families in Puerto Rico.

Based on current inflation rates, the cost of implementing the permanent COLA is estimated to be $67mm in year one and then grown at real GNP thereafter.

Puerto Rico is not generally in control of its inflation outcomes, as monetary policy is set by the U.S. Federal Reserve. It is in control of how it reacts to inflation and reacting to high inflation along the lines of the COLA is good policy for the following reasons:

- Neither the Government of Puerto Rico, its creditors, or any other stakeholder should benefit from higher inflation. In the absence of adjustments such as those proposed herein, the Government of Puerto Rico may over-tax the population from bracket creep (discussed below). As taxpayers face incomes that are higher in nominal terms but not in real terms (due to rising costs, the higher incomes buy the same or less than before), they begin falling into higher tax brackets and pay more taxes as a percentage of their incomes. These higher incomes result in higher tax rates being applied because they reflect rising prices. The cost of neglecting this effect falls on the poor and most vulnerable.

- While one may consider the risk of this legislation on previous Fiscal Plans from “anchoring inflation expectations” in Puerto Rico through this policy and contributing to a “wage-price spiral”. This approach would be deeply misguided. The anchoring of expectations by workers of their future wages and prices matters for wage and price dynamics and affects the appropriate actions policymakers should take after an inflationary shock.

    - However, it is the monetary authorities that have this responsibility, and for good reason – inflation is not generally within the control of the Government of Puerto Rico.

    - Puerto Rico’s economy exists within a monetary union (the United States) with high inflation driven by a confluence of factors external to the island. Attempting to “anchor expectations” on the island of inflation that it cannot control will only impose a cost on workers of a tax system that overtaxes them only leave the government with “revenue surprises” to spend elsewhere. The aggregate inflationary impulse remains and is driven by federal policies that significantly adjust to inflation.

5.2 Administration tax initiatives to increase revenue collections

Through implementation of administrative tax reform and realization of measures included in prior fiscal plans, the Government has captured incremental revenues through, among others, the implementation of SURI, which are now included in the baseline FY2023 General Fund revenue forecast. These efforts are laudatory and must be sustained into the future. They also can represent a foundation on which further measures may be effectively laid.

2.5.2.1 Improve compliance rate

Hacienda should continue to undertake the initiatives set forth immediately below. These initiatives can boost voluntary compliance and will allow Hacienda to continue collecting the total taxes as expected in the 2023 Fiscal Plan. The goal should be to reduce the cost of compliance and simultaneously raise the cost of non-compliance, through a combination of an increased likelihood of identifying non-compliant taxpayers and evaders, and more effective and enforceable penalties.[25] Therefore, the 2023 Fiscal Plan requires the Government to:

- **Continue to use new systems and processes to identify and remediate non-compliance.** Hacienda has taken steps to make it harder to abuse deductions and credits to avoid tax liability, for example by only allowing taxpayers to claim certain deductions and exemptions if their return is prepared by a certified public accountant following agreed upon procedures.
- **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. As detailed further in *Section 5.2.2 below*, improving the process of for filing and paying taxes is critical for improving ease of doing business, and helps boost voluntary compliance. Further, streamlining the tax system, by reducing the number of tax expenditures would help reduce complexity. Further details on tax expenditures are in *Section 5.3.1* below.
- **Improve use of data and analytics to address non-compliance.** 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 IRS audit costs an average of $2,278 per case, automated notices or letters can be executed for $52 to $274 per case.[26] Hacienda is receiving increasing filings of information returns that can be used to better identify risk and focus compliance resources. Hacienda should implement data-driven, tiered compliance approaches which, over time will enable Puerto Rico to reach a significantly larger share of nonpayers.
- **Improve collection of taxes on online purchases.** This has been implemented as part of Act 40-2020, which allowed the Government to reach agreements with remote sellers and marketplace facilitators. The results from this implementation have been also included as part of the forecasted SUT compliance gains in the 2023 Fiscal Plan. The Government should continue to enforce existing agreements and look to expand agreements with remote sellers on a regular basis.

The Governor's Tax Advisory Group to Simplify and Improve the Tax System in Puerto Rico (the Advisory Group), was commissioned in the fall of 2021, by Governor Pierluisi for the purpose of simplifying and improving the tax system. The Advisory Group consists of members from

[25] Xenia Velez presentation to the Oversight Board (Nov. 30, 2017), 3

[26] IRS Enforcement Results, TIGTA Filing Season Audit, IRS Taxpayer Advocate, GAO

Hacienda, AAFAF, DDEC, OMB, municipal government representatives, mayors, private sector individuals, associations, academia and many others. This Advisory Group issued a report of their findings and recommendations on May 6, 2022. The set of recommendations issued by the working group is extensive, covering income, sales, tax incentives, municipal taxes, and tax administration measures. A number of the tax administrative and enforcement measures the Advisor Group should be considered. These include those policies are shown in the exhibit below.

Exhibit 23: AREAS OF AGREEMENT WITH GOVERNOR'S ADVISORY GROUP – COLLECTIONS

Recommendation
• Allocate more resources for collection to the Department of the Treasury to improve the collection efforts of debts.
• Establish an Audit Case Manager to help with audit case selection
• Centralize tax intelligence through SURI.

2.5.2.2 Simplify paying taxes to spur economic activity

To spur economic activity, the Government must implement reforms to meaningfully simplify the process of paying taxes. The Oversight Board acknowledges Hacienda's progress in digitizing and increasing the number of tax filings made via the Internal Revenue Unified System (SURI, by its Spanish acronym). During FY2020 and FY2021 Hacienda automated corporate income tax filing and the submission of documents for audits and error correction. In addition, they established an appointment system on their webpage to eliminate the need for taxpayers to visit the taxpayer's services office and wait in line for post filing error resolution. Hacienda is also in the process of digitizing SUT payments in SURI. These efforts have drastically reduced the burden of tax filings and have helped filers reduce the time required to complete certain filings and payments (e.g., form 480, SUT, corporate income taxes) by digitizing and centralizing those processes in one place. However, municipal property tax, SUT and filings and payments remain time-consuming and complex. Post-filing audit procedures are still particularly time-consuming and challenging to resolve, often involving multiple in-person visits to Hacienda[27] or require filers to interface with multiple revenue agencies and mediums to comply with their tax obligation.

The Government should prioritize the reform of the tax administration process and should appoint a tax administration reform working group composed of public and private sector members including tax policy economists, officials from Hacienda, AAFAF, CPAs, CRIM, and the Municipalities.

A good first step builds upon the reforms proposed by the Governor's Advisory Group which are consistent with the objectives of the Oversight Board and are related to the simplification of paying taxes. The recommendations shown below generally serve to reduce administrative costs and errors by encouraging electronic submissions and documentation and increased education programs to reduce tax filing errors.

[27] Most technicians only have the authority to resolve (and frequently escalate to their superiors) errors worth $25,000 or less, with taxpayers needing multiple follow-up visits to speak to higher-level officials.

Exhibit 24: AREAS OF AGREEMENT WITH GOVERNOR'S ADVISORY GROUP – SIMPLIFICATION

Recommendation
• Require financial statements be submitted electronically and be interactive in addition to eliminating redundant and burdensome information collection efforts.
• Facilitate the payment of taxes at a time or in a way that is convenient for the taxpayer including withholding at source and periodic payments of estimated tax liability.
• Rules should be clarified for electronic transitions to both standardize their reporting and broaden the tax base.
• Improve publicity for people doing business in Puerto Rico. This can be achieved by publishing Merchant Registries through SURI.
• Introduce an equivalent to the federal forms W-8 and W-9 to facilitate the collection of data for the preparation of returns.
• Conduct orientation campaigns on common mistakes.
• Examination of the property tax exemptions provided by law, such as the main residence exemption and the retailer exemption should be expanded
• Centralize the government the process of registering the municipal license, the Annual Declaration of Business Volume, and the payment processing
• Offer a comprehensive orientation on the application of SUT to non-profits

Reform design parameters

The 2023 Fiscal Plan continues to require the Government to adhere to a set of objectives when implementing the required tax administration reforms. Specifically, the Government must:

Reduce the time required to pay taxes. The Government can continue to implement this reform by digitizing analog tax filings (e.g., municipal and property taxes), consolidating several tax filings (e.g., unemployment, workers' compensation, disability and driver's insurance), and improving post-filing error-resolution processes (e.g., by communicating to users the new capability for secure uploads for digital document) in SURI, as well as by exploring opportunities to reduce the number of required tax payments (e.g., less frequent payments for smaller amounts). To date, Hacienda has incorporated corporate tax filing through SURI, implemented a new capability for secure uploads for digital document into SURI, and established a new taskforce to work on tax reform – including tax administration, as noted above.

Exhibit 25: REQUIRED IMPLEMENTATION ACTIONS TO REDUCE TIME REQUIRED TO PAY TAXES

Action item	Owner	Deadline
• **Start implementation of Municipal Sale Tax Payments in SURI (Business Credit Manager)**	• Hacienda / AFFAF	• January 31, 2022 • In progress
• **Finalize update to SURI platform to include Municipal Sale Tax Payments (COFIM)**	• Hacienda	• June 30, 2022 • In progress
• **Finalize technical upgrades to Hacienda's digital platforms for reform implementation**	• Hacienda	• March 31, 2023
• **Finalize update to latest version of SURI platform to improve user experience with a communication program for users**	• Hacienda	• February 28, 2022

Accelerate the processing of tax filings and timeliness of audit completion. The Government can implement this reform by conducting an operational needs assessment to support the reallocation of underutilized personnel to critical functions (e.g., error-resolution, audits), and identifying and implementing operational efficiencies within the audit process (e.g., by identifying bottlenecks, duplicative work, and workload scheduling).

Create a working group which builds on the Governor's Advisory Group to identify and prioritize efficiency-minded regulatory changes that can be incorporated into future SURI releases and to develop a plan to reform the tax administration process.

Reform targets and indicators

Successful tax administration reforms will allow Puerto Rico (last ranked 163rd in the world in the previously published Doing Business Report "paying taxes" indicator) to compete with the top-ranked Latin American and Caribbean economies in this indicator (last ranked 99th) by reducing the time and number of filings that companies must complete to pay taxes by FY2023:

The Oversight Board will also track the following indicators to ensure that the Government implements tax administration reforms:

- Average number of mandatory tax payments for corporations, number of days for claims resolution

5.3 Implementation and enforcement of revenue measures

The following implementation plan details the continuation of the Commonwealth's efforts to improve tax administration.

2.5.3.1 Tax expenditure report: regular updates

In order to provide a critical element of fiscal responsibility and transparency, the Government will regularly produce a tax expenditure report, which includes a comprehensive list of revenue losses attributable to provisions of the Puerto Rican tax code that deviate from the tax structures benchmark law. It is essential to know how much revenue is foregone because of tax incentives and to periodically review such expenditures to ensure they continue to meet their strategic objective. Having a clear and accurate understanding of what the Government spends through tax expenditures is critical to ensuring the expenditures are continuing to contribute to economic growth and opportunity.[28]

The Government began reporting tax expenditures with a report issued in June of 2019. In March 2022, the Government published the third iteration of the report. The latest report included estimates of tax expenditures associated with tax years 2017 through 2023. The report gives taxpayers and the Government better visibility into the full scope of tax expenditures being offered, together with a description and approximate cost of each expenditure. The 2023 report included deviations from several major revenue sources, including individual income taxes, corporate income taxes, non-corporate income taxes, sales and gross receipts taxes and excise taxes. Relative to earlier iterations of the report, this report represents considerable effort, a high level of comprehensiveness (albeit with important omissions), and some significant improvements. The 2022 Tax Expenditures Report provided many key insights into Puerto Rico's use of tax expenditures as an economic development tool, including the fact Puerto Rico issues more than 400+ tax incentives with total foregone revenue projected to be in excess of $23 billion in 2023. While the analysis implies that Puerto Rico offers a far more generous tax incentive program than virtually every other jurisdiction in the U.S. as a share of the economy or total tax collections, elimination of the incentives acts would likely significantly reduce revenues. Foreign-owned

[28] Tax Policy Center, Urban Institute & Brookings Institution, "State Income Tax Expenditures"

corporations could otherwise relocate operations outside Puerto Rico resulting in lower central government revenue and significant dynamic reductions in economic activity.

Exhibit 26: SUMMARY OF TAX EXPENDITURES IN PUERTO RICO

Total tax expenditures by count

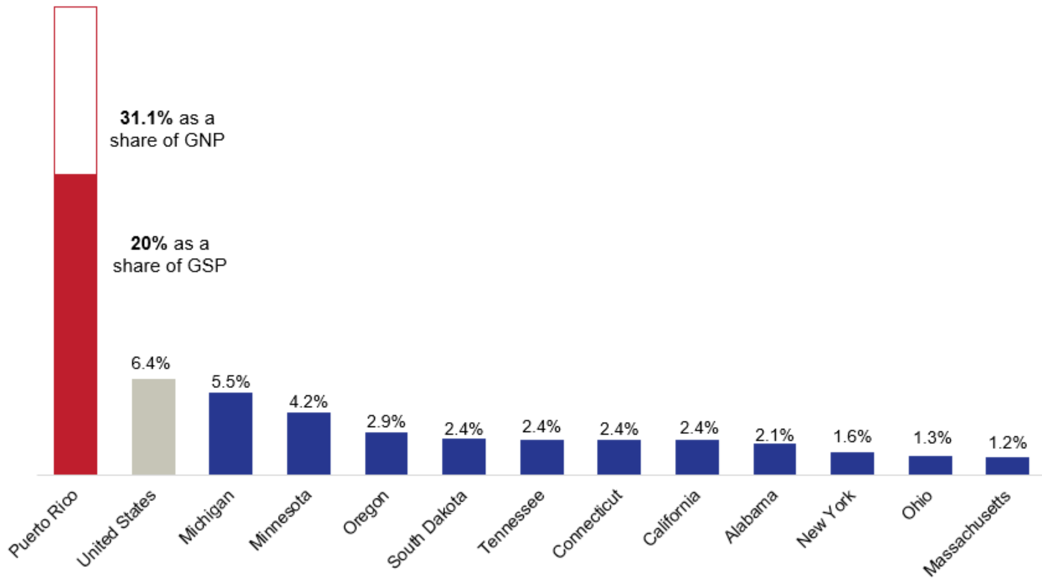
	Credits	Deductions	Exclusions	Exemptions	Preferential Rate	Deferrals	Total
Individual Income Tax	27	8	12	54	14	-	115
Business	88	18	16	76	44	21	263
Regular Corporate Income Tax	21	4	7	39	5	10	86
Incentives Acts	35	5	-	-	21	1	62
Non-corporate business	32	9	9	37	18	10	115
SUT	-	-	4	27	-	-	31
Excise Tax	1	-	16	12	-	-	29
Total	**116**	**26**	**48**	**169**	**58**	**21**	**438**

Total tax expenditures by dollar amount, $ millions

	Credits	Deductions	Exclusions	Exemptions	Preferential Rate	Deferrals	Total
Individual Income Tax	97	338	339	1,364	799	-	2,937
Business	170	20	93	195	15,208	270	15,957
Regular Corporate Income Tax	69	5	17	96	29	161	377
Incentives Acts	71	7	-	-	15,054	10	15,141
Non-corporate business	31	8	77	99	125	100	439
SUT	-	-	607	3,664	-	-	4,271
Excise Tax	15	-	494	12	-	-	521
Total	**282**	**358**	**1,533**	**5,235**	**16,007**	**270**	**23,685**

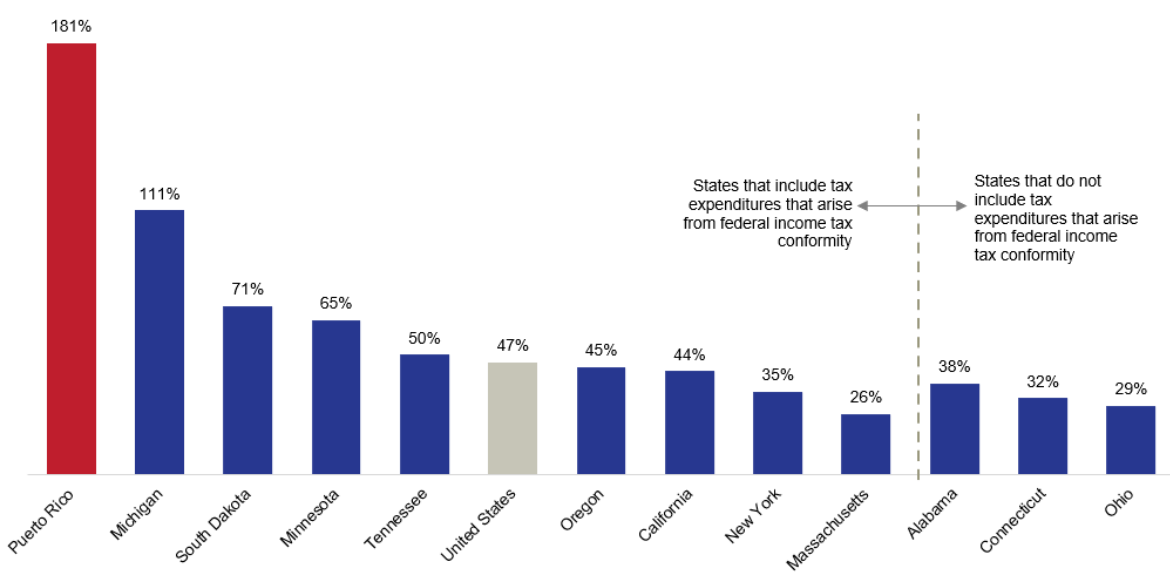
Note: Data for the tax expenditure report is estimated by Hacienda using tax return data where available and national accounts otherwise.
Source: 2022 Tax Expenditure Report

Exhibit 27: TOTAL ESTIMATED TAX EXPENDITURE AS SHARE OF GROSS STATE PRODUCT



Note: Gross States Product (GSP) data is gathered from the Bureau of Economic Analysis (BEA). We also calculate, for Puerto Rico, total tax expenditures as a share of Gross National Product (GNP) to be 31.1%. GNP includes net income from foreigners, GSP does not. Alabama, Connecticut and Ohio do not include tax expenditures that arise from federal income tax. No state produces an entirely comprehensive set of tax expenditure estimates. As a result, some of the variance between states is due to differences in levels of this comprehensiveness. South Dakota's tax expenditures are for 2020, Alabama and Michigan's expenditures are for 2019. The remainder of the tax expenditure estimates are for 2021. The US tax total is not reduced for the cost of the refundable portion of tax credits, including the EITC.
Source: 2022 Tax Expenditure Report and Bureau of Economic Analysis

Exhibit 28: TOTAL TAX EXPENDITURE AS A SHARE OF TOTAL TAXES



Note: Total tax expenditure includes tax expenditures associated with total individual income tax, corporate income tax, SUT, and excise tax as well as other taxes included in state tax expenditure reports (excluding property tax). Similarly, total taxes include all taxes other than property tax. Alabama, Connecticut and Ohio, do not include tax expenditures that arise from federal income tax, further no state produces an entirely comprehensive set of tax expenditure estimates. As a result, some of the variance between states is due to differences in levels of this comprehensiveness.

2.5.3.2 Tax Expenditure Recommendations

For tax expenditures reporting to maintain its relevance and maximize its impact on the policy making process, regular reviews of each tax incentive must be completed to assess whether each incentive is meeting its policy objective (including an assessment of benefits along with costs).

In considering incentives offered through the tax system, attention should be paid to the issue of the most appropriate way to offer the incentive. Not all incentives lend themselves to tax reductions. They should only be cleared through the tax system when there is some natural advantage to doing so, for example when the incentive relies on measures of income and can be easily administered by the tax authority or that does not require significant administration. If provided through the tax system, a tax credit generally is better for targeting and controlling revenue loss than is a deduction or special rate. Credits also clearly differentiate special tax rules from the basic revenue raising features of the tax system. Typically, special tax subsidies should be eliminated in favor of having the incentives compete for resources on the expenditure side of the budget, promoting transparency, and more frequent review of their effectiveness.

Of highest importance, the estimates in the Tax Expenditures Report should be systematically incorporated into the annual fiscal plan and budget review process. This means the estimates need to be considered in conjunction with direct spending proposals at the executive review and legislative levels and as a component of the budget envelope for agencies responsible for related direct spending programs. Ideally, for tax expenditures to be included in discussions about budgets and policies, the Tax Expenditure Report would be produced annually on a timely basis. The timing of the most recent report while not as early as desired to have maximum input to the executive budget proposal, is the first time that arrived early enough to inform legislative deliberations on the proposed budget. Completion of subsequent reports by December 31, including the historical years, budget year and out-year estimates will facilitate achievement of the full purpose of the Report.

Future tax expenditure reports should also expand the time horizon to aid fiscal planning with a minimum five-year outlook. The 2022 Report represents the first release that includes estimates for the previous year, current year and budget year. This is an important forward step and greatly improves relevance and utility for policy making. Expanding the time horizon further will be particularly advantageous as sunset provisions are incorporated into existing tax expenditures, allowing estimates to identify their implications in outyears.

The Department of the Treasury should update the data upon which future tax expenditure reports shall be based. As detailed in the Oversight Board's letter to the Secretary of the Treasury on April 27, 2022, the 2023 Tax Expenditure Report appears to be based on tax data from 2017 (or before) to calculate tax expenditures arising from tax incentives on corporate income taxes. The same concern applies to the use of 2019 tax returns to estimate individual income tax expenditures. Much has happened in Puerto Rico over the previous five years, calling into question the overall accuracy of the 2023 estimates for current decisions. Updating the data used in the tax expenditure reports so will make them even more useful for completing analysis that can be used to inform coming years' budget decisions.

Finally, future Tax Expenditure Reports should also broaden the universe of tax expenditures included in the reports. Notable progress has been achieved toward comprehensiveness with the incorporation of Act 257 and Act 60-2019 tax expenditures. However, Commonwealth grants of property tax, municipal patent tax, and other local tax incentives are not included. These should be incorporated, reflecting their full value of revenue lost to both the Commonwealth and municipalities. Furthermore, where no numerical estimates were made for specific expenditures due to a lack of data, it would be beneficial to provide further detail in the notes of the report as to why data are not available. Including an inventory of all tax expenditures where amounts allocated can materially impact the Commonwealth's financials will make the report more comprehensive. Rationalizing the amount of tax expenditures offered by the Government is smart and prudent fiscal management. This can only be done in a comprehensive way through the production of the annual tax expenditure report on a timely basis.[29]

2.5.3.3 Tax incentives code reform

The tax incentive code (enacted under Act 60-2019) while a noted improvement, continues an incentive structure which is very complex and has high fiscal costs – in excess of $400 million – but does not provide enough visibility to allow for clear tracking of these tax concessions and the returns they generate for Puerto Rico's economic growth. Past studies, based on limited available economic data, have indicated that while some tax incentives led to positive returns on investment, many others do not.

The Act 60-2019 incentive code amended previous tax incentives acts and adopted a new legal and administrative framework to normalize the way in which new incentives are created, approved, processed, and monitored. Not all laws compiled in Act 60-2019 were repealed and replaced, creating confusion as to whether the Treasury Department should follow guidelines imposed by these still-active statues or those imposed by the Incentives Code. To fully effectuate the goal of the Incentives Code, and to limit confusion, the Government should repeal the remaining statutes still in effect that were merged into the Incentives Code and complete work necessary to finalize regulation 9248.

To evaluate the fiscal benefit from each incentive, the Incentives Code uses a Return on Investment ("ROI") approach combined with an assessment of fiscal multipliers to prioritize high value-added incentives relative to those that do not generate sufficient economic return. The Incentives Code, however, does not include explicit caps on, reductions to, or the elimination of any specific incentives. Rather, the purpose of the Incentives Code is to measure the ROI of tax and economic incentives by grouping them under a transparent and uniform code. This information will help policymakers make informed choices about which programs to keep, which to expand, and which to scale back or drop.

Through the Incentives Code, the term, tax rate, and characteristics of incentives offered are harmonized across industries and credits. The Incentives Code also creates a centralized Incentives Office for Businesses in Puerto Rico at DDEC and establishes an Incentives Concession Portal to centralize, standardize, and streamline the processes related to the application and approval of decrees, cash grants, tax credits, subsidies, and other incentives.

Act 60-2019 also required the public disclosure of beneficiaries of certain tax expenditures. In accordance with that requirement, DDEC disclosed (on January 30, 2020) that 8,364 companies and individuals received certain tax incentives. The online database offers the name of the grantee, the type of benefit, and the decree's issue date. DDEC released the relevant information for recipients that receive benefits from the following Acts: Act 14-2017 (Physician Retention); Act 20-2012 (Exportation of Services); Act 22-2012 (Investor Relocation); Act 273-2012 (International Financial Center Regulatory Act); and Act 27-2011 (Film Production). DDEC subsequently released

[29] Ibid.

additional data on February 11, 2020, disclosing recipients of the following tax expenditures: Act 73-2008 (Economic Incentives for the Development of Puerto Rico Act); and Act 83-2010 (Puerto Rico Green Energy Incentives Act). During FY2021, DDEC had a milestone budgeting incentive to publish quarterly reports on the agency's website detailing all economic incentive donations and subsidies to private corporations from FY2017 to the present date. DDEC has accordingly published the quarterly reports on their website.

Many provisions of Act 60-2019, before they can be implemented, require the drafting and approval of supplements to the regulations (Administrative Orders, Manuals, and other executive communiques, see table below), including prior Oversight Board review and approval.[30] The promulgation of such regulations was included as part of the process during FY2021 and FY2022, and such supplements to the regulations must continue to be drafted and approved during FY2023. The goals and objectives of the regulatory process are discussed in more detail below.

In addition, provisions of Act 60-2019 related to Opportunity Zones cannot be implemented until the drafting and approval of regulations governing provisions, including prior Oversight Board review and approval. This along with the drafting and approval of supplements to the regulation are to be reviewed and approved by the Oversight Board. See table below for list of required supplements.

The lack of transparency and high cost of these tax concessions warrants further revisions to the Incentives Code such that tax incentives are structured in a way that is more likely to be beneficial to the Commonwealth. A multipronged approach is needed. This approach must include limiting the DDEC Secretary's discretion in awarding incentives, specifying in more detail the meaningful information to be submitted in the annual public reporting required by the statute, establishing a more robust audit process with meaningful penalties for firms that are found to be out of compliance or failing to provide the anticipated benefits, and establishing an ROI based standard of program evaluation that will meaningfully discriminate among projects so that incentives are concentrated on those projects most likely to provide net economic benefits to the commonwealth. Many of these objectives can be accomplished through the completion, approval and issuance of supplements to Regulation 9248 (Act 60- regulations) and Regulation 9222 (Opportunity Zones Regulations), as listed is above, including prior Oversight Board review and approval. Specifically, these regulations must, at minimum, include the following provisions:

Evaluation standards for tax incentive and grant award should be balanced. Act 60-2019 established a positive ROI as the primary standard for determining incentive awards. The standard as currently operationalized, however, lacks balance. Benefits are defined more comprehensively and extensively than are costs, resulting in an ROI standard that does not assure net benefit accrues to the Commonwealth.

Budgeting incentives. Cash grants require annual appropriation. All incentives, however, should be limited. Annual limits should be placed on the aggregate scale of incentives that can be offered each year. The estimated revenue loss calculated in the ROI should form the basis of determining annual revenue costs and the aggregate of these costs should be limited annually. Additional awards should be deferred to the following year once annual limits are reached. The accuracy of estimated revenue losses should be confirmed in subsequent program reports.

Consultation with affected agencies and municipalities. All affected agencies and jurisdictions should be consulted regarding the offering of tax incentives and the Commonwealth

[30] Pursuant to PROMESA section 204(b)(4) and the Oversight Board's policy with respect thereto, proposed rules, regulations, administrative orders and executive orders covered by said policy, including all regulations under Act 60-2019, must be submitted to the Oversight Board before being issued to ensure compliance with the certified 2021 Commonwealth Fiscal Plan

Government should not be permitted to commit the tax resources of a municipality toward a tax incentive without that municipality's active concurrence. Procedures should be established to minimize the risk that municipalities' tax resources are committed toward a tax incentive without a mutual agreement in place ensuring that the incentive is in both governments' best interests.

Public reporting of incentive recipient performance and audit. Regular reporting of incentive effectiveness is required through publication of an Annual Incentive Effectiveness Report. The Act 60-2019 regulations provide for meaningful guidance on how required project performance measures will be obtained or calculated and require further operationalization in a reporting administrative order. The annual report should include detail sufficient to maintain transparency and accountability. Similar to the DDEC transparency portal, it should publicly disclose recipients, type, and level of performance on incentives and expected public benefits. To assure that recipients comply with the terms of incentive decrees, audits should be periodically performed in the form of detailed desk reviews of compliance reports and on-site audits of books and facilities. Audit selection and review should be based on the decision of an audit committee, rather than at the discretion of a single official. An important feature to consider including are random audits incorporating a full onsite review of performance targets related to, for example, facilities, employment documentation, charitable contributions, investment, local purchases, and exports.

Some statutory changes should also be made. These include:

- **Budgeting incentives.** Cash grants require annual appropriation. All incentives, however, should be limited. Annual limits should be placed on the aggregate scale of incentives that can be offered each year. The estimated revenue loss calculated in the ROI should form the basis of determining annual revenue costs and the aggregate of these costs should be limited annually. Additional awards should be deferred to the following year once annual limits are reached. The accuracy of estimated revenue losses should be confirmed in subsequent program reports.
- **Consultation with affected agencies and municipalities.** All affected agencies and jurisdictions should be consulted regarding the offering of tax incentives and the Commonwealth Government should not be permitted to commit the tax resources of a municipality toward a tax incentive without that municipality's active concurrence. Procedures should be established to minimize the risk that municipalities' tax resources are committed toward a tax incentive without a mutual agreement in place ensuring that the incentive is in both governments' best interests.
- Many of the above recommendations align with those provided for in the Governor's Advisory Group, as shown in the table below.

Exhibit 29: AREA OF AGREEMENT WITH GOVERNOR'S ADVISORY GROUP – INCENTIVE ACTS

Recommendation
• Incentives that need to be modified or discontinued should be evaluated.
• Transparency in the formula for determining funds for the cash grants. The components for calculating the "ROI" must be provided in detail
• Formalize the budgeting process for tax credits in such a way that they clearly appear as government spending/investment in the annual budget.
• The incentives that are present in the code and that were established based on historical circumstances, should be rethought and/or eliminated if circumstances changed.
• Apply a 10-year sunset provision.

- Any program within the code that allocates a budget through the General Fund or a tax credit must be limited and/or eliminated.
- Remove the following programs that have never been implemented, had minimal impact, or are duplicative: Program for the elderly, My Future Account, Student Loan Repayment Program for health professionals, Programs for Youth, Student Internships, Entrepreneurship and First Employment Experiences for Youth, Qualified Promoter, Business Incubator Program.
- Coordinate between the central government and the municipalities for decree granting. Legislation must be passed so that there is a direct and real participation of the municipalities in the granting of tax decrees.
- Historic area: The benefits of Historic Zones in Puerto Rico should apply only if the zone has a poverty level above 50%, higher than the Island average (44%).
- Green Energy and highly efficient energy: A five-year "sunset provision" must be established or when Puerto Rico's renewable energy reaches 25% of total generation, whichever comes first.
- Creative Industries: The specific tax benefits of creative industries should be eliminated and that creative companies benefit from the items corresponding to companies that export services and/or professional services.
- Film Industries: Eliminate the credit of 15% of the certified amounts certified to Puerto Rico production incentives
- Annual Bonus for Agricultural Workers: Eliminate since the budget comes from the General Fund and not from the Economic Incentive Fund (FIE)
- Opportunity Zones. Opportunity Zone tax benefits in Puerto Rico should apply only if the area has a poverty level above 50%, The 18.5% income tax rate should be replaced with the regular rate. The exemption for real property should be eliminated. Municipalities should decide to establish the exemption.

The discussion of the incentives code, combined with that of tax expenditures and tax principles generally, suggests a few additional improvements, including:

- **Reduce taxes on local businesses**. If the tax base is broadened by reducing incentives, consider using the revenue to reduce business taxes generally, for example by lowering the corporate tax rate below 37.5% or funding a reduction in the property tax on inventories.

Other smaller administrative changes regarding tax incentives could follow from consensus areas within the Governor's Advisory Group. These are summarized in the table below.

Exhibit 30: AREAS OF AGREEMENT WITH GOVERNOR'S ADVISORY GROUP – INCENTIVE ACTS (summary)

Recommendation
• Establish a program for the control and monitoring of decrees to ensure that the public policy objectives pursued by each incentive are met
• Establish specific criteria to identify an exempt business as bona fide.
• Create a compliance division in the incentives office to allocate resources to the control of concessionaires under the different incentive laws
• Utilize a business credit manager for the registration and management of existing and future tax credits.
• Require annual reports to contain a certification issued by an attorney, CPA, or SME indicating if the provisions of the decree were complied with.

Chapter 6. Ensuring successful implementation and fiscal controls

The Office of the Chief Financial Officer (OCFO) has broad responsibility for improving fiscal management as outlined in the 2023 Fiscal Plan. Below are specific details regarding the necessary implementation steps and reporting required by the 2023 Fiscal Plan.

6.1 Implementation architecture

Developing a centrally run Project Management Office (PMO) is an important step toward ensuring the implementation and tracking of the core operational transformation and agency efficiency measures that will achieve savings targets under the 2023 Fiscal Plan. The Fiscal Agency and Financial Advisory Authority (AAFAF, by its Spanish acronym) has and should continue to serve as the central PMO with defined reporting to the Governor of all economic and transformation measures. The PMO should be run by AAFAF's senior leadership, regularly coordinate across the Office of Management and Budget (OMB) and the Office of the Administration and Transformation of Human Resources (OATRH, by its Spanish acronym), work directly and frequently with Agency PMOs, and report directly to the Governor's office.

Individual Agency PMOs should be established with direct reporting to the PMO. Each agency head shall be responsible for developing and implementing a PMO structure that best fits their respective agency groupings. They are expected to coordinate across all agencies in their grouping, lead reforms for the grouping, and be responsible for achieving their agency grouping savings targets. Through this PMO structure, the Government will be positioned to effectively manage and implement the 2023 Fiscal Plan. As such:

- Designated agency heads should lead the Agency PMOs and report directly to AAFAF.
- Agency PMOs should undertake the required work to implement initiatives.
- The daily activities of PMOs should be managed and undertaken by staff knowledgeable in the relevant subject matter areas and assigned members should meet regularly with PMO leadership to report on progress and facilitate necessary decision-making.
- Agency PMOs shall be responsible for assembling a taskforce to: complete validation and definition of full scope of projects and priorities, finalize reporting tools and tracking responsibilities, and perform ongoing weekly tracking and reporting.

The PMOs should ensure continued implementation progress through robust tracking and reporting tools that foster growth in transparency and ownership, including:

- **Project charters** that establish the goals and structures of measures, identify risks and obstacles, and establish metrics and KPIs.
- **Implementation plans** with detailed layouts of each activity required for accomplishing sub-measures, risks / mitigants for each activity, clear leaders and owners for each activity, and metrics and KPIs. These should include a "live" calendar of updates and status of each measure.
- **Implementation dashboard / tracker** that provides a single snapshot of the entire transformation plan; and allows management to know the status of each initiative in a distinct status: Complete; In Progress; Delays; Major Issues. This tracker will allow the Oversight Board to monitor progress and ensure enforcement of measures and reforms.

- **Sub-measure dashboards** that provide "zoomed in" views of a specific sub-measure, display progress with details / commentary on project status, include agreed upon milestones / dates to track progress, and provide mitigation plans.
- **Implementation monthly reports** that provide a more detailed perspective on progress, including several key reporting elements: a) headcount by regular and transitory with more details in specific agency cases, b) budget to actuals by cost category and concept, c) milestones progress, d) KPIs/leading indicators, e) achieved savings to date. These reports provide important codification of progress as well as context for monthly meetings where agencies, OCFO, and Oversight Board representatives can hold meaningful discussions on progress, items at risk and ongoing mitigating activities.

6.2 OCFO and Oversight Board implementation collaboration

The Oversight Board has played, and will continue to play, an active role in overseeing all aspects of Fiscal Plan implementation. The OCFO must provide the Oversight Board and its staff the information needed to effectively track the status of key initiatives included in the 2023 Fiscal Plan, which is necessary to measure overall progress against the fiscal and budget objectives outlined therein.
For example, the OCFO will provide Oversight Board staff with key management information on a timely basis, including:

- Implementation plans submitted by individual PMOs
- Progress reviews (including milestones and metrics) against key structural and fiscal measures
- Reviews of key implementation risks, including assessments of the likelihood of realization, potential impact, and potential mitigations
- Monthly progress reports submitted by individual PMOs

6.3 Reporting on Fiscal Plan Reforms

The fiscal and structural reforms described in the 2023 Fiscal Plan represent a significant and transformative effort across the Government. As such, there are strict reporting requirements needed to ensure savings and growth targets are being achieved on time, and to identify any major risks to reform to course correct at an early stage.

To date, however, the implementation of reforms by the Government has been a challenge. In some instances, progress has, as a result, been inconsistent and incomplete, and many agencies appear unprepared to meet savings targets. While some progress on measures has been made, some reforms are delayed or not occurring. In cases where certain reforms will not occur, the Government must achieve these savings through other means.

The Government shall produce monthly performance reports, which shall be submitted to the Oversight Board on the 15th of each month, demonstrating the progress made on all key reform areas. Agency efficiency savings that have been realized should be broken down by grouping and agency across payroll and non-payroll savings (as well as on an object level where needed). This will display the performance of the realized agency efficiency savings for each agency against the projections as set forth herein. Implementation reports should explicitly explain how budget-to-actuals reports tie to agency actions and reforms, and what is driving major discrepancies. Reporting shall also include detail on use of funds for professional services, as well as within the Other (or "englobadas") cost concept, such that these expenses can be appropriately managed.

Currently, less than 30% of agency groupings have consistently provided implementation reporting. The Government must improve reporting such that it and the Oversight Board can hold agencies accountable for achieving savings through the implementation of fiscal measures.

If, after any fiscal quarter, the projected agency efficiency savings for any grouping is not realized, the shortfall from that fiscal quarter will be added to the agency efficiency savings target for the corresponding grouping for the following quarter. As needed, the Oversight Board will also hold public hearings to review implementation progress. Should there be underperformance in agency efficiency savings for any grouping, the Oversight Board may rely on its powers and rights pursuant to PROMESA to take measures to enforce reductions in the amount of unrealized savings.

2.6.3.1 Skills and knowhow transfer from consultants to public sector personnel

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

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

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

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

PART: 3 - Establishing conditions for economic prosperity in the island

The fiscal and economic turnaround of Puerto Rico cannot be accomplished without the implementation of structural economic reforms that promote the transformation of the Island's economy and its workforce. Puerto Rico struggles from an uncompetitive labor market, unreliable energy and infrastructure, regulatory and other burdens that hinder business productivity, and low educational outcomes and workforce support – all of which prevent it from competing in a global economy and from attaining positive economic growth. Structural reforms—those that seek to strengthen the fundamental drivers of economic growth to encourage job creation, investment, and increased productivity—could transform Puerto Rico's future. Years of successive natural disasters and health crises further underscore the need for comprehensive Government action as outlined in this 2023 Fiscal Plan to reverse the economic challenges that have plagued the Island and its people for far too long. If implemented quickly and widely, structural reforms are projected to drive real economic growth, reversing decades-long economic challenges and enabling the Island's economy and its people to flourish.

Specifically, the Government must pursue the following structural economic reforms to achieve their forecasted economic impact:

- **Human capital and welfare reforms** that will improve the well-being and self-sufficiency of all Puerto Rico residents, increase the quality and competitiveness of the workforce, enable investment, and facilitate the economic modernization of the Island, resulting in a cumulative GNP impact of 0.15% by FY2025.
- **Ease of doing business reforms** that will improve conditions for economic activity and business vitality, attracting new investment and creating jobs, resulting in a cumulative GNP impact of 0.30% by FY2026.
- **Power sector reforms** that will improve the availability, reliability, and affordability of energy for families and businesses, resulting in 0.30% cumulative GNP impact by FY2026.
- **Infrastructure reform and capital investment** that will improve the flow of goods, services, information, and people across the Island.
- **Broadband and Technology**

Urgent and comprehensive Government action is needed to promote economic recovery and opportunity for all local residents. If implemented as specified in this 2023 Fiscal Plan, structural reforms are projected to collectively generate an invaluable 0.75% GNP uptick by FY2026, as well as 0.90% in total GNP growth and more than $30 billion in additional Commonwealth revenues by FY2051.

Chapter 7. Human capital and welfare reform

7.1 Basis for human capital and welfare reform

Increasing the productivity of Puerto Rico's labor force is essential to creating growth.
In 2021 Puerto Rico's formal labor force participation rate was on average 42.7%. As the Congressional Budget Office states, labor force participation is an important component of economic growth, since it allows firms to expand employment and increase production and has an

important impact on fiscal and budget trends.[31] Puerto Rico has an opportunity to increase this rate and must aspire to reach at least the rate of the lowest U.S. state (West Virginia, with 54.7%), to provide its economy with the dynamism it requires to foster growth.[32]

Implement a Nutritional Assistance Program (NAP) work/volunteer requirement by:

- ADSEF: Creating a work/volunteer requirement compliant with the 2022 Fiscal Plan parameters
- ADSEF: Completing all administrative requirements (e.g., obtaining Federal Government approval) necessary to implement a work/volunteer requirement
- ADSEF: Verifying the eligibility of all adult NAP recipients (including adults without dependent children) for the new work/volunteer requirement

Support high-quality workforce development programs by:

- Department of Economic Development and Commerce (DDEC, by its Spanish acronym): Creating partnerships with private and social sector organizations to strengthen worker training
- DDEC: Conducting regular analyses to understand private sector labor market needs
- DDEC: Integrate the results of the analyses into a holistic strategic plan that states how different workforce development efforts blend in a cohesive way across programs and the 15 local boards
- DDEC & Vivienda: Allocating resources in a data-driven manner
- DDEC: Removing structural barriers to employment (e.g., difficulty in securing transportation and childcare to go to work)

7.2 Expand and broadly publicize the Earned Income Tax Credit (EITC) by leveraging ARP Act federal funding

The ARP Act included permanent additional funds to incentivize Puerto Rico to expand the local EITC program put in place for tax year 2019. The ARP Act provides for up to $600 million to be delivered to Puerto Rico in the form of a reimbursable grant, equivalent to three times the local spending, and indexed for U.S. inflation after the first year. The Government was required to amend the current EITC program to qualify for the additional federal funding provided in the ARP Act.

The ARP Act establishes that, in order to qualify for this additional funding, Puerto Rico must:

- Increase the percentage of earned income which is allowed as a credit for each group of recipients, in a manner designed to substantially increase labor force participation
- Spend an amount of local funds greater than a statutorily-specified base amount of $200 million each year, adjusted for U.S. inflation
- Provide an annual report to the U.S. Department of the Treasury that includes an estimate of the EITC cost for that year and a statement of the actual costs in the preceding year

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31 Congressional Budget Office, Factors Affecting the Labor Force Participation of People Ages 25 to 54, 2018

32 U.S. Bureau of Labor Statistics, “Employment status of the civilian noninstitutional population 16 years of age and over by region, division, and state, 2019-2020 annual averages,” 2020

To fulfill these requirements, the 2021 Fiscal Plan included incremental funding needed to maximize the value of the federal grant. On August 29, 2021, the Governor signed legislation expanding EITC in Puerto Rico. The legislation includes a 2-step disbursement process to ensure all available federal funding is disbursed each fiscal year. The impact of this legislation is included in the 2023 Fiscal Plan.

On top of the funding for the tax credit expansion, the ARP Act includes an additional payment of $1.0 million per year to pay for EITC outreach and education through 2025. Previous Fiscal Plans established that to effectively enhance labor force participation and reduce poverty through increased EITC benefits, the Government must more comprehensively promote the program for tax year 2020 and beyond.

U.S. policymakers have implemented and promoted the EITC across mainland states and have seen meaningful gains in formal labor force participation as a result, especially among low-to moderate-income workers.[33] The credit is an effective anti-poverty tool, empowering beneficiaries to defray the cost of education, training, and childcare and support their own self-sufficiency.[34] Since its creation in 1996, the EITC has lifted 6.5 million people out of poverty (half of them children)—more than any other U.S.-based anti-poverty initiative. However, the value of the EITC is greatest when the targeted population is sufficiently knowledgeable of its value to a degree that influences daily decision-making around whether they will enter or stay in the formal economy and whether they will seek employment in Puerto Rico or elsewhere.

3.7.2.1 EITC design parameters

The Fiscal Plans required the Government to introduce an EITC, which adhered to the following parameters in tax year 2019:

- Individual benefit is dependent on a filer's marital status, number of dependents, and earned income verifiable through an employer-issued tax withholding statement
- Potential benefit increases as earned income rises to a cap, then plateaus, and then decreases at a phase-out income level until it reaches $0
- EITC is coupled with a robust promotional campaign to raise awareness of the benefit among potential claimants and encourage formal labor force participation

In addition to the 2023 Fiscal Plan and ARP Act parameters listed above, when amending the Puerto Rico's EITC legislation, the "EITC must increase the percentage of earned income which is allowed as a credit for each group of individuals with respect to which such percentage is separately stated or determined in a manner designed to substantially increase workforce participation."[35]

3.7.2.2 Current state and path forward

Although the Government has implemented an EITC for tax years 2019 and 2020 which is consistent with the design parameters laid out above and has passed legislation expanding the

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33 National Bureau of Economic Research, "Behavioral Responses to Taxes: Lessons from the and Labor Supply," 2006

34 To reward formal sector work, the credit reduces claimants' tax obligations and often generates a cash refund. For example, a $1,000 increase in EITC benefit has been tied to a 7.3% increase in employment; see Hoynes and Patel, "How Does EITC Affect Poor Families," 2015

35 American Rescue Plan Act of 2021

EITC program to qualify for additional funding provided by the ARP Act. In tax year 2021, the non-refundable and refundable portions of the EITC amounted to $1.05 billion, benefiting over 640,000 taxpayers.

A key element of the mechanism through which the EITC impacts growth is its ability to bring informal labor into the formal labor sector and, thus, increase labor force participation. For this to happen, the EITC should be supported by a labor regulatory environment that is supportive of hiring labor in the formal sector.

The Labor Transformation and Flexibility Act, or Act 4-2017, did not go nearly as far as needed to eliminate the most egregious elements of Act 80 of 1976, also known as the Unjust Dismissal Act. However, Act 4-2017 did, to some extent, ease some restrictions on labor hiring. While some stakeholders have called for the repeal of Act 4-2017, its elimination would likely reestablish onerous provisions related to probationary periods, overtime, and bonuses, which would all make the hiring environment more costly in the formal sector. Its repeal would discourage new hiring and reduce the labor market flexibility, thus limiting the effectiveness of the EITC expansion in promoting labor force participation, economic growth, and the revenues associated with that growth. Therefore, the Government must refrain from repealing Act 4-2017 or enacting new legislation that negatively impacts labor market flexibility.

7.3 Introduce a Nutritional Assistance Program (NAP) work/volunteer requirement

To further support labor force participation, the 2023 Fiscal Plan requires the Government to introduce a work/volunteer requirement for select adult NAP beneficiaries. NAP is Puerto Rico's largest Government assistance program and provides nutritional assistance. Unlike mainland Supplemental Nutritional Assistance Program (SNAP) benefits, NAP does not include a work/volunteer requirement. The Federal Government requires that all able-bodied adult beneficiaries without dependent children work, volunteer, or be enrolled in worker training classes for at least 20 hours per week to receive SNAP benefits.[36] When well-designed, including such requirements in similar programs has led to increases in labor force participation.[37] The implementation of a NAP work/volunteer requirement would contribute to increasing labor market participation and to achieve the potential growth anticipated from human capital and welfare reforms.

3.7.3.1 Specific initiatives and design parameters

The 2023 Fiscal Plan requires the Government to implement a NAP work/volunteer requirement using the following parameters. Specifically, the Government must:

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36 NAP also differs from SNAP in that the former is funded as a block grant and is administered separately from the latter; see Center on Budget and Policy Priorities, "How Does Household Food Assistance in Puerto Rico Compare to the Rest of the United States?" 2020

37 For example, when the Federal Government first introduced a work/volunteer requirement for recipients of Temporary Assistance for Needy Families (TANF) benefits in the 1990s, the labor force participation rates of single mothers rose while poverty rates among single mothers and children both fell substantially. See Gitis, "A Menu of Options to Grow the Labor Force," 2017, and Gitis and Arndt, "The 20th Anniversary of Welfare Reform," 2016

- Apply the requirement year-round to all able-bodied NAP beneficiaries aged 18-49 without dependent children in their household[38]
- Grant all eligible recipients up to a three-month transition period to secure employment, begin volunteering, or enroll in qualified education or training programs ("qualifying activities")
- Mandate that all eligible recipients complete 80 hours of qualifying activities per month
- Ensure NAP eligibility guidelines and benefit calculations effectively promote the labor force participation increase by avoiding drastic phase-out structures that could factually penalize eligible recipients for seeking formal sector work
- Redistribute savings realized through the work/volunteer requirement to boost working eligible recipients' take-home pay through an expansion of the Earned Income Disregard (EID)[39]

3.7.3.2 Current state and path forward

The 2020 Fiscal Plan provided design parameters and specific milestones for the implementation of a NAP work/volunteer requirement.

The Government has committed to a 2-year implementation timeline. Reaching full and timely implementation requires urgent and nimble action from the Government.

In August 2021, the Food and Nutrition Service at the U.S. Department of Agriculture announced an update to the Thrifty Food Plan, which is an important part of determining benefit amounts for NAP and other federal nutrition assistance programs. Due to this change, Puerto Rico is projected to receive an additional $464 million in annual funding for the program in FY2022, which is expected to increase with inflation in future years.[40] These additional funds could help further incentivize labor force participation if a work/volunteer requirement is successfully implemented.

7.4 Create high-quality workforce development programs

3.7.4.1 Current state and path forward

The Puerto Rico labor market is facing labor shortages in the public and private sectors due to an insufficient supply of workers with desired skills and the out-migration of skilled laborers. To facilitate increased labor force participation and close the workforce demand and supply gap, the 2023 Fiscal Plan requires that the Government take necessary steps to train residents more effectively on the knowledge and skills needed to contribute to the economy. This chapter of the fiscal plan lays out the current state and path forward.

3.7.4.2 Comprehensive workforce development strategic plan

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[38] As such, all NAP recipients who are under the age of 18, older than the age of 59, have children dependents in their household, or are medically certified as physically or mentally unfit for employment should be excluded from the work/volunteer requirement

[39] The EID allows Government assistance beneficiaries to exclude a portion of income earned through formal sector work from welfare benefit calculations. An increase in the EID can boost an aid recipient's take-home pay by allowing them to claim Government benefits that they otherwise would not be eligible for due to an increase in earned income

[40] USDA FNS, "USDA Thrifty Food Plan Increase Means More Nutrition Assistance Funding for Puerto Rico," 2021. (Accessed August 16, 2021)

Given the large need for workforce development reform, the Government should develop a comprehensive workforce development strategic plan to govern overall strategy. The plan should serve as a mechanism to coordinate interagency efforts to deeply analyze the barriers to employment and identify potential initiatives to overcome them. As the current coordinator of workforce initiatives, DDEC and the interagency working group is best positioned to develop and execute this strategic plan with input from relevant stakeholders and upon approval by the Office of Governor. The strategic plan should include, but not be limited to, the following:

1. **Identify context and background:** The workforce development strategic plan should identify structural barriers to employment and support efforts to eliminate them. The results of this section should be used as a mechanism to allocate resources in a data-driven manner and coordination between Commonwealth agencies and local partners should be identified.

2. **Identify vision and long-term objectives: Existing workforce development and education programs and funding should be unified and incorporated into a comprehensive strategy and** coordinated across public and private sector employers', and unify existing programs and funding into a comprehensive strategy. To do so, the plan should begin by defining high-level objectives that follow from the labor market analysis that DDEC is currently completing. Examples of high-level objectives that Puerto Rico could utilize include closing skills gaps, developing educational pipelines that serve a wide range of abilities, and attracting skilled workers to the island.

3. **Identify short-term and medium-term initiatives for human capital development to pursue to meet long term goals:** Within each objective, there should then be smaller achievable tasks, as well as metrics that can be used to define success.

4. **Identification of structural barriers to employment and formulation of support efforts to eliminate them.** Another important objective the Government must pursue is to ensure that new entrants into the formal economy can retain employment. Transportation, childcare, and mental health-related issues, for example, can temporarily inhibit an otherwise willing worker from pursuing employment in the formal economy. Mainland jurisdictions have used several solutions, including job counseling, paid transitional employment, and two-generation strategies that educate parents alongside their children, to tackle many of these same barriers.

5. **Include a detailed plan on how different workforce development efforts and funding programs will be utilized in a cohesive way to improve human capital development.** This includes WIOA, CDBG-DR, 21st Century Technical and Business Education fund.

6. **Tactical roadmap to ensure the offering of a robust consolidated training program:** Examples of sub-tasks include developing career mentorship programs in high schools, funding advanced technology programs, creating training programs tailored to employer needs, subsidize training programs to support lifelong learning, and creating a marketing campaign for the benefits of working in Puerto Rico.

7. **Set timeline for updates and evaluation:** The strategic plan should be revised every four years in rotation with required federal WOIA planning. In the interim years, DDEC could produce an annual progress report that includes the status of metrics defined in the plan.

3.7.4.3 Milestones

The Commonwealth and DDEC have already begun making progress on the labor market analysis that will be used to determine target industries.

3.7.4.4 Healthcare Workforce

High-quality primary care is the foundation of the health care system. It provides continuous, person-centered, relationship-based care that considers the needs and preferences of individuals, families, and communities. Creating economic opportunities, including job trainings and workforce development will address academic and social impacts. Evidence show that the Health sector in Puerto Rico is facing a shortage in medical personnel.

In Puerto Rico there is an estimated 9,800 active doctors as of 2020. This data might suggest that the ratio of inhabitants per doctor in Puerto Rico is somewhat lower than that of the United States. However, 47% of the existing population of physicians are over 60 years of age. It is evident that, to the extent that these older physicians have slowed down or retired, there is a shortage of medical professionals in Puerto Rico. Additionally, the percentage of the aging population is higher than average in the US (23% v. 17% over 65 years of age).

Hence, the FOMB in collaboration with the Department of Health (DOH) and AAFAF will conduct a healthcare workforce analysis to understand the current healthcare workforce environment in Puerto Rico. The goal is to particularly understand the healthcare workforce supply and demand imbalance of today and tomorrow, as well as understand the drivers of the supply and demand. The results gathered will be used to identify and help address the most acute healthcare workforce shortages in the Commonwealth. At present, an initial kick-off meeting was held between the participating project sponsors, a list of potential stakeholders has been identified and a draft survey has been prepared with the expectation to begin distribution of such survey by Q3 of FY2023.

As an immediate measure, the Government has made its efforts to re-establish the incentives under Act 14 of 2017, known as the "Incentives law for the Retention of Medical Professionals" which was created with the purpose of reducing and incentivizing the tax contribution of medical practitioners to retain and make their medical practice attractive in Puerto Rico. The incentive package being included on this fiscal plan is estimated at $80 million, which would provide all doctors in Puerto Rico a flat 4% income tax. The funding for this initiative would be financed by the recently approved 2023 Medicaid Package.

Chapter 8. Ease of doing business reform

8.1 Current state of business friendliness and regulation, investment promotion, and tourism attraction

The last issued World Bank report[41] in 2020 rated Puerto Rico the 65th most business-friendly economy. By comparison, the U.S. mainland ranked 6th in that same year. While future publications of the Doing Business report were suspended due to data irregularities, the metrics are still relevant to track business friendliness. Given heightened levels of competition in the global

41 The World Bank suspended the publication of future reports due to irregularities found in the data in the Doing Business 2018 and 2020 reports. Nevertheless, the data and benchmarking contained in the last published report continues to be a good resource to compare Puerto Rico's doing business regulatory environment to best-in-class economies and top reformers.

marketplace, the Island needs to further address the needs of the Puerto Rico business community and urgently improve its business friendliness through implementation of ease of doing business reforms to support economic growth.

Empirical studies have shown that, as a result of business environment reforms, countries have seen increases in firm creation, business activity, investment, and economic growth, after controlling for other relevant variables, such as overall governance and macroeconomic conditions. One study found that "on average, each business regulatory reform is associated with a 0.15% increase in growth rate of GDP."[42] Another concluded that "the overall ease of doing business has a positive and significant effect on business creation."[43] A study on the impact of the ease of doing business indicators on foreign direct investment (FDI) flows found that "on average across economies, a difference of 1 percentage point in regulatory quality as measured by Doing Business distance to frontier scores is associated with a difference in annual FDI inflows of $250–500 million."[44] In sum, there exists ample theoretical and empirical evidence that implementing comprehensive ease of doing business reforms has a positive effect on reducing barriers to new firm entry, new business creation, investment, and economic growth.

Instituting comprehensive reforms is particularly important considering the aftermath and recovery of Hurricanes Irma, Maria, and Fiona, earthquakes, and the COVID-19 pandemic. Companies may look to shift supply chains back to the U.S. Many are evaluating their business models from the experience of having to operate remotely, and many governments will likely quickly respond to these changing market forces by implementing rapid reforms to capture these opportunities. Therefore, Puerto Rico needs to urgently institute ease of doing business reforms to successfully attract new investment.

Puerto Rico's relatively low ranking in business is correlated with deficiencies in Government regulations and processes, including:

- **Getting reliable electricity:** The Island's energy supply is costly and unreliable. Residential electricity in late 2022 costs 1.8x what it does in the US mainland on average. These rates have almost doubled since 2020. Commercial is 2.28x more expensive and industrial is 3.27x more expensive. Puerto Ricans spend about 8% of their income on electricity while Americans in the mainland spend an average of just 2.4%. [45]
- **Obtaining construction permits and approvals:** Applicants spend significant time (165 days), effort (22 procedures), and money (6.7% of a project's future value) to obtain all required permits for construction, on average[46]
- **Registering property:** Businesses and residents invest significant amounts of time (60[47] days) and effort (8 procedures), on average, to register property[48]

[42] Haidar, J. I., The impact of business regulatory reforms on economic growth, 2012

[43] Canare, T, "The Effect of Ease of Doing Business on Firm Creation," 2018

[44] Anderson, J., & Gonzalez, A., Does Doing Business matter for foreign direct investment? Doing Business, 2013

[45] EIA.gov

[46] For comparison, businesses invest 81 days, complete 16 procedures, and pay 0.7% of a project's future value on the mainland according to the World Bank Doing 2020 Doing Business Survey

47 Estimate is based on sample data on waiting times received from DOJ-PR for the month of August 2022

[48] For comparison, businesses invest 15 days and complete 4 procedures on the mainland.

- **Paying taxes:** Firms report spending significant time (218 hours) completing filings and making payments (16 payments), on average[49]
- **Occupational licensing laws:** Excessive regulations hinder entry into the formal labor force. Puerto Rico licenses at least 129 professions, the majority with excessive requirements and significant cost[50]. With a formal labor participation rate of approximately 40%, many unnecessary requirements limit the growth of economic activity, incentivize participation in the shadow economy, and accelerate migration away from Puerto Rico.
- **Tourism attraction:** The Destination Marketing Organization's (DMO) efforts to transform Puerto Rico into a leading tourist destination are undermined by insufficient Government resourcing and the fact that key functions and responsibilities remain at the Puerto Rico Tourism Company.
- **Offshore investment attraction:** Inadequate Government resourcing and lack of progress on ease of doing business reforms have inhibited efforts to attract major investments, resulting in overreliance on tax incentives as a primary business promotion tool.

In 2021, the Government continued to implement ease of doing business reforms. Swift implementation of comprehensive reforms is particularly important to maintaining and improving Puerto Rico's ability to compete.

Compared to the May 2019 Fiscal Plan, delayed implementation of ease of doing business reforms has in turn affected forecasted Gross National Product (GNP) growth. Initiatives like permit intake, processing and automation of tax payments are expected to yield a positive effect equivalent to 0.10% of GNP in FY2023. The remaining initiatives are expected to have a 0.2% positive impact from FY2025 to FY2026, being delayed by one year. To achieve this GNP growth increase and avoid further delays, the Government should make every effort to prioritize implementing the reforms included in the 2023 Fiscal Plan and dedicate the necessary resources to achieve the implementation targets.

Specifically, to attain the GNP gain associated with ease of doing business (EODB) reforms, the Government must focus on achieving the following:

- **Improve the availability, cost, and reliability of electricity** by implementing actions in Chapter 11 of the 2023 Fiscal Plan and the PREPA Fiscal Plan to address necessary improvements to this system.
- **Streamline approvals and make permits more easily accessible to enable business activity and public safety** by improving the applicant experience, optimizing processes, eliminating procedural inefficiencies (such as duplicative paperwork requirements) across permitting and approval agencies ("lean transformations"), improving Commonwealth and municipal coordination, advancing municipal territorial plans, digitizing procedures required to start or renew a business permit and consolidating them into the Single Business Portal, continuing to develop and refine the Permitting Performance Dashboard, optimizing the permit fee structure, and re-launching the Red Tape Commission to support operational and technical transformations.

[49] For comparison, businesses make 11 payments and invest 175 hours on the mainland; the odds of an audit for a corporate income tax underpayment are also substantially lower on the mainland.

[50] See, A. Ruiz Torres, et al., Review of PR's Licensing Requirements in Comparison with US Benchmarks, University of Puerto Rico, Puerto Rico Occupational Licenses Analysis Project, Technical Report, Draft Version, August 28, 2022.

- **Overhaul property registration to facilitate financial transactions and promote disaster-preparedness** by continuing to implement changes to speed up processing times (e.g., consolidating sections, optimizing processes), eliminating the backlog of unregistered property, updating Karibe to improve both the front-end user interface and back-end functionality (e.g., streamline processes, transition to cloud-based system), improving cooperative information exchanges with CRIM and PRPB, merging the current land registration system with a faster land recordation system, merging the existing land registries into one uniform parcel registry, and launching a campaign to map ownership of all unregistered properties on the Island.
- **Simplify paying taxes to spur economic activity** by designing a tax administration reform that digitizes, consolidates, and eliminates select tax filings, conducting an operational needs assessment across Hacienda to reallocate personnel, and facilitating the coordination and reducing duplicate tax filings across municipalities as described in Chapter 5 Revenue Administration and Tax/Revenue Structure.
- **Reduce occupational licensing requirements to facilitate labor force participation** by designing legislative and regulatory reforms at relevant agencies to reduce licenses and excessive requirements**.**
- **Strengthen offshore investment attraction efforts** to compete with mainland states and other economies for investments as firms move to shift their supply chains to the U.S. and attract airline cargo companies through the promotion of Puerto Rico as a cold chain sensitive materials logistics center. Puerto Rico could also increase access to outside capital by increasing businesses' awareness of the many existing entrepreneurship support organizations that provide a robust support network of technical assistance, counseling, and financial support. Puerto Rico could also consider improving access to flexible funding mechanisms for SMEs and educating business owners how to grow their businesses.
- **Prime tourism attraction efforts for success** by transferring internal (on-Island), airline, and event marketing responsibilities and funding from the Puerto Rico Tourism Company (PRTC) to Discover Puerto Rico (DPR). Refer to Chapter 15.5 to understand updates on PRTC's role definition.

While all reforms will help foster economic growth and job creation, simplifying and digitizing permits (including business registrations), property registration, and paying taxes will have a particularly significant impact.

Puerto Rico's Department of Economic Development (DDEC or *Departamento de Desarrollo Económico* in Spanish) has recently released its economic development framework, PRopósito, which largely aligns with the goals and identified priorities in this Fiscal Plan and intends to identify priority sectors based on Puerto Rico's established competitive advantages. The Oversight Board encourages DDEC to take the necessary steps to operationalize this plan in order to improve business friendliness on the Island, especially efforts to improve the entrepreneurial environment for small businesses.

8.2 Streamline permits and approvals to promote business activity and public safety

To foster economic development and promote public safety, the Government must revamp the Island's permitting approach. The current permitting framework involves numerous stakeholders including the PRPB, OGPe (of DDEC), (including central and regional offices) autonomous municipalities, consortiums, contractors, developers, homeowners, business owners, Authorized Professionals, Authorized Inspectors and several additional Commonwealth government entities, such as the Fire Department (*Negociado del Cuerpo de Bomberos – NCBPR*), Department of Health (*Departamento de Salud – DS*), and Utilities (PRASA/PREPA). There are currently more than 65 different permits and other permit related requests involving both new requests and renewals of existing permits. These range simple and straightforward permits (ministerial) to more complex and time-consuming discretionary permits. Permit related requests include complaints and land use consultations overseen by PRPB, autonomous municipalities, and consortiums as defined in their role related to code enforcement and territorial plans.

3.8.2.1 Permitting reform design parameters

The 2023 Fiscal Plan recommends that the Government adhere to the corresponding set of parameters when implementing the required permitting reforms:

Improve efficiency while maintaining public safety by realigning permitting organizational structure and capacity. FEMA approved the use of funds from a Hazard Mitigation Grant, to hire additional resources to support the permitting and code enforcement operations on the Island. Progress has been made in hiring the staff supported by this grant, but additional work in streamlining the processes remains. For instance as of November 2022, 73% of additional personnel have been hired but only $30 million of the $144 million grant resources have been spent.

The goal of any permitting office is to balance the importance of safe construction, renovation and operations against the need for an efficient permitting system that expedites economic activity. PRPB and OGPe are engaging with experts to identify ways to reduce the required documentation and improve processing times while maintaining adequate safeguarding of the public interest. As part of the FEMA grant, PRPB is hiring 145 additional permit agents which will be responsible for performing audits or reviews of the existing and newly constructed building stock. As discussed with officials at OGPe and PRPB, these agencies are also in the process of contracting with a business analyst and chief architect to conduct a thorough review of the permitting system and code enforcement processes to identify opportunities for efficiency.

As discussed above, many entities and stakeholders are involved in the permitting framework. Coordinating the roles and responsibilities of each of these organizations is challenging given inherent suboptimization of interagency activity, variations in capacity and capability, and fluctuations in the volume and complexity of permit requests. In the current environment, the main permitting entity is OGPe, with certain responsibilities allocated to the municipalities at tiered responsibility levels. In addition, Authorized Professionals, who are not associated with OGPe or the municipalities, have been legislatively granted the authority to perform key activities across the permitting process, up to and including the approval of permits. Conversely, under current law, the permit agents in the autonomous municipalities and consortiums – while authorized to issue the initial fire prevention certificates and sanitary licenses - are not authorized to issue renewals of these fire prevention certificates and sanitary licenses, even though they often have the staff to do so.

In order to better navigate and streamline the current permitting framework, it is recommended to:

- Create a framework to foster collaboration, transparent communication, and training between permitting offices (OGPe, autonomous municipalities, consortiums) to optimize existing capacity, promote standard procedures and reduce subjectivity in the evaluation process;

- Determine the appropriate staffing level for OGPe and PRPB to support permitting, and code enforcement activities, as well as support the necessary territorial plan updates;
- Optimize and balance the allocation of responsibilities between OGPe, autonomous municipalities, consortiums, and the Authorized Professionals to delegate authority to the appropriate levels;
- Optimize and balance the allocation of responsibilities between OGPe, autonomous municipalities, consortiums, and the Authorized Professionals to delegate authority to the appropriate levels;
- Improve oversight of Authorized Professionals by OGPe, autonomous municipalities, and consortiums to ensure compliance with applicable permitting laws as well as existing territorial and building code standards

Territorial Plan Development. Territorial plans are master planning documents which provide a roadmap for current and future economic development in an area by assigning various acceptable activities for a given parcel of land, such as residential or commercial activities. Territorial plans must be updated by law every 8 years. The process of developing a territorial plan involves three phases. The first phase provides the socioeconomic data of the jurisdiction and establishes the jurisdictional map. The second phase involves the strategic plan of the municipality and a review of the underlying legal basis for the planning document, while the third phase involves the develop of the regulations which govern the implementation of the land use plan. The municipalities and the PRPB should collaborate to update their territorial plans or may contract with a third party to develop the plan. In either case, PRPB is responsible for approving all territorial plans.

Out of the 78 municipalities in Puerto Rico, 51 have outdated territorial plans. Another 14 municipalities are working with PRPB to develop their first ever territorial plans. The permitting process is significantly delayed when territorial plans are not up to date. For instance, in municipalities where such a plan is in effect, applicants are easily and quickly able to determine the appropriate land use for a parcel. In the case of municipalities without an updated territorial map, permit applicants must go through a land use consultation (*consulta de ubicación – CUB*) to seek approval for their intended land use. A land use consultation process involves review of the proposed land use by PRPB and/or OGPe, which is time consuming and may involve delays to the permitting process. In addition, land use consultations involve the approval of one parcel or set of parcels at a time. Such an approach can lead to a haphazard and inefficient arrangement of land organization over time. In addition, the land use consultation process does not involve the municipalities. That is, this land use approval is performed through the PRPB and may not be consistent with the priorities of the municipality in which the establishment is to be located. Lastly, a municipality that does not have an updated territorial plan is not eligible to be elevated to an autonomous municipality[51] nor enter into a new or existing municipal permitting consortium. Based on interviews with the permitting offices in several municipalities, the lack of an updated territorial plan has prevented them from forming or entering into consortiums with other municipalities and has caused delays and serious issues with the permitting process. It is recommended to:

- Update all territorial plans and work with municipalities to keep their plans current

51 An autonomous municipality is a municipality has been granted the powers of the PRPB and of OGPe to maintain their territorials plans and issue permits, respectively. Autonomous municipalities are categorized into three hierarchy levels (I, II, and III) accordingly to the level of authority granted. An autonomous municipality with hierarchy III holds the highest authority level.

Accelerate construction permitting. The Government can implement this reform by simplifying the overall permitting process, establishing thresholds for smaller, less complex projects with reduced application requirements, and improving the user interface and expanding the capabilities of the Single Business Portal (SBP). It is recommended to:

- Establish a simplified permit process for projects that establishes thresholds or criteria for smaller, less complex projects (i.e., reduce documentation requirements and/or levels of review)
- Improve the applicant experience within the SBP through clear, simple instructions to facilitate selection of the appropriate permit type and clarify the required documentation.

Expedite business permitting. The Government should extend additional authority to the permitting offices within the autonomous municipalities and consortiums to allow for issuance or renewal of business permits. For instance, businesses could benefit by granting autonomous municipalities and consortiums the authority to issue fire prevention certificates and sanitary licenses renewals in their own jurisdictions. Business permitting would also benefit by updating applicable territorial plans so that land use consultations are less prevalent and only necessary in cases of true land use variances.

3.8.2.2 Reform Targets and indicators

Successful permitting reforms will allow Puerto Rico to compete with the top-ranked Latin American and Caribbean countries by reducing the time, number of procedures, and cost required to obtain permits by FY2023.

- **Satisfy the requirements of the FEMA Hazard Mitigation Grant program**. This includes determining the appropriate staffing requirements for the efficient administration of the Permitting and Code Enforcement operations. Under the FEMA Hazard Mitigation grant program, funding for increased staffing, training, and technology has been provided. The agencies need to make progress on utilizing these resources to provide the proper level of support for these operations in the areas where they are most needed. In addition to personnel needed for permitting and code enforcement, PRPB faces a serious backlog of expired territorial plans.
- **Finalize the Joint Regulation.** The newest version of the Joint Regulation has been published in draft as of October 2022 and is currently undergoing a period of public comment. The PRPB anticipates finalizing these regulations in June 2023. Adoption of the joint regulation will resolve this uncertainty and provide a common set of rules by which to move forward.

- **Optimize and balance authority of permitting offices.** The roles and responsibilities of each permitting office should be revisited in a way that leads to a more efficient, standardized, and balanced permitting process with enhanced inspection processes and oversight on Authorized Professionals.

- **Create a framework to foster collaboration, transparent communication, and training between permitting offices.** To ensure standard procedures are implemented and followed throughout various permitting offices, the Government should implement training programs, enhanced processes for internal communications, and a tool for centralized knowledge sharing.

- **Update territorial plans to reduce land use consultations and/or use variations.** The PRPB should work with applicable municipalities to complete territorial planning, including updating existing plans to reduce the need for location consultations (e.g., revising zones that have organically changed use but have not been recognized in the zoning maps). These problems are reflected in the lengthy and costly approval process that needs to be followed for use variance and land use consults. The Hazard Mitigation Grant from FEMA provides funding to hire 11 additional planners to help the municipalities in developing and updating their Territorial Plans with reduced cost for the municipalities. Municipalities have to prioritize this effort. In addition, PRPB received funding from FEMA to develop territorial plans for those municipalities which have never had one. This initiative can be supported by incentivizing the municipalities to update and keep updated their territorial plans.

- **Next Generation of the Single Business Portal.** The initial iteration of the SBP created a standardized front-end intake mechanism and provided the ability to digitize certain aspects of the permitting process. However, there are certain aspects of the SBP design and functionality that have proven to be confusing to applicants and process participants. OGPe is currently engaging in an overhaul of the SBP system. The new system will be housed in OGPe, as opposed to a third-party vendor. In addition, the new system will have expanded capacity to handle more users and provide a better customer interface. The updated system is scheduled to be live in the early part of 2023.

- **Red Tape Commission** comprised of private and public sector experts to identify opportunities to streamline required documents while at the same time protecting the health and safety of the residents and the environment of the island. The commission should also map the objectives of all OGPe-issued permits to identify overlaps in scope, outdated use cases, permits that could be processed in parallel or leverage the same analyses, as well as recommend which permit inspections could be delegated to third-party inspectors and flag major SBP glitches and common-sense technical upgrades. This commission was appointed by DDEC and meets regularly to work on recommendations, assign responsibilities and track implementation of such recommendations.

8.3 Overhaul property registration to facilitate financial transactions and promote disaster-preparedness

To remove barriers to financial activity and promote disaster-preparedness, the Government must continue implementing property registration reforms. Since the certification of the 2020 Fiscal Plan, the Registry has been able to reduce backlogs from 400,000 to 258,000 documents, registrations average less than 60[52] days to process compared to 190 days according to the World Bank Report in 2020, and new registrations (excluding backlog cases) average 15 days. This reduction in backlog has been achieved through multiple efforts driven by Department of Justice Property Registry (DOJ-PR), including: consolidating different sections into one office, leveraging support from ~20-40 UPR students to support registrations via an internship program, and finally, through the creation of performance dashboards and establishing performance goals for all employees. Moving forward, systemic and procedural changes are needed to address the elimination of the backlog, which is estimated to take from 8-11 years therefore additional changes are necessary for long-term reform.

52 Sample data received from DOJ-PR analysis month of August 2022 waiting times

Accelerating property registration will ensure that all residents and businesses can quickly and reliably document property rights—crucial for day-to-day business operations, functioning of property markets and to promote system resiliency to natural disasters. As it stands, the Island's current set of disjointed registries does not comprehensively map all land ownership, complicating the Government's disaster relief efforts.[53,54,55] To empower residents and businesses to recover from future natural disasters and comply with U.S. Department of Housing and Urban Development (HUD) guidelines for unlocking $8.3 billion in Community Development Block Grant Mitigation (CDBG-MIT) funds, reforms should also demonstrate meaningful progress in the creation of a uniform parcel registry that can be used to verify the ownership of properties across the Island.

3.8.3.1 Reform design parameters

The 2023 Fiscal Plan continues to require the Government to implement the property registration reforms highlighted in bold, below. The 2023 Fiscal Plan recommends that the Government adhere to the corresponding set of parameters when implementing the required property registration reforms. Specifically, the Government must continue to:

- **Reduce the amount of time required to register a property.** In the past years, productivity by employees increased once performance targets were established, and new cases in sections[56] that are up to date in backlog elimination are now being registered in 15 days. DOJ-PR has also consolidated 29 sections into 12 offices as of Sep 2022 and is expected to consolidate down to 9 offices by the end of 2023. The digitization efforts for property registrations seem to also have boosted productivity at the DOJ-PR by ~2%, enabling the registry to process 4.5k more applications than it receives per month.[57] On the next phase, DOJ-PR will continue to reduce paper documentation by digitalizing the people and parcel indices and the digitalization of blueprints (leveraging assigned ARP funds).

- **Eliminate the backlog of outstanding property registrations.** In the April 2021 Fiscal Plan, it was recommended that the Government promote legislation such as Act 216-2010, the Act to Accelerate the Property Register. Subsequently, PS (Project of the Senate, in Spanish) 340 was introduced as both an evolution and a pairing for Act 216, to address gaps that excluded the processing of a broad range of transaction types that left certain parties uninsured. PS 340 was set to register documents in backlog up to 2020, however it was amended by the Senate to register documents in backlog until 2016. Currently, PS 340

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53 In the aftermath of the 2017 hurricanes, many individuals and families affected by the disasters struggled to document legal ownership of their properties, requiring FEMA to make an exception and allow claimants to self-certify ownership,

54 Unregistered properties, also known as informal housing stock, are generally self-built by lower-income households, often in flood zones and without rigid building code compliance. In 2007, Interviron Services, Inc. concluded that as much of 55% of the Puerto Rico's residential and commercial construction could have been done informally.

55 Puerto Rico has three property registration systems: (1) DOJ-PR's registry records transactions (e.g. acquisitions) relating to real properties and uses registrars to analyze the validity of property transactions; (2) Centro de Recaudacion de Ingresos Municipales (CRIM) maintains a digital registry of real property in each municipality (the Cadaster of Puerto Rico) for tax, legal, economic, and administrative purposes; (3) JP maintains an interactive database with location, environmental, and land use data across the Island. Neither the DOJ-PR registry nor the Cadaster accurately and comprehensively capture property ownership. Registration in the former is voluntary, time-consuming, expensive, and unnecessary in the absence of financial transactions. While registration in the latter is mandatory, the Cadaster does automatically record informal transactions.

56 The Property Registry currently has 29 operational sections that cover the 78 municipalities. For example, section San Juan I covers San Juan Antiguo, Puerta de Tierra, Santurce Norte and Santurce Sur.

57 Puerto Rico Department of Justice-Property Registry, performance data shared with Oversight Board, 2019; the World Bank Group, Doing Business 2020, 2019.

lies at the House of Representatives[58], with the potential to help eliminate roadblocks for registration of the roughly 85,000 documents in backlog since 2016. If the law passes, the roughly 85,000 documents in backlog could be cleared by December 2023. However, there would still be 173,000 remaining applications backlogged in Karibe (not covered by PS 340) that would need to be addressed. The Oversight Board still recommends that DOJ-PR define an implementation plan to register all backlog in two years. In an instance where the two-year timeline is not plausible, DOJ-PR should identify barriers and propose potential solutions when submitting plan to FOMB.

- **Modify Karibe,** which is the digital platform used by the DOJ-PR Registry. Focus groups with Registrars, Notaries and employees were performed to identify quick fixes to Karibe, however efforts to modify the platform are delayed. The updated front-end system should provide an improved user experience (e.g., reduce document notifications by implementing checklist and filters in case presentation to eliminate errors). It should also provide improved functionality on the back end to improve registration processes.

  During monthly meetings DOJ-PR shared a memo of ideal updates to KARIBE, including transfer to a cloud-based system, automated document review process, and the usage of relevant upcoming technologies. DOJ-PR has also started collecting input from its technicians on how to improve the back-end (so far identifying roughly 160 improvements to be made).The Oversight Board recommends that DOJ-PR continue to seek this input from Karibe internal and external users, and in addition prepare and share the implementation plan to improve efficiency and reduce down time.

- **Registration of informal properties:** The Oversight Board recommends that the originally created taskforce present progress on recommendations to simplify registration of informal properties outside of the judicial system and share an implementation plan for the different efforts to be made.

- **Create a uniform parcel registry that comprehensively records property ownership and rights across the Island and launch a geoportal that provides an interactive geospatial presentation of data populated within the uniform parcel registry** (funded by a $50 million CDBG-DR grant for this purpose). The Government can achieve this reform by completing the mapping of the entire Island to include basic information for each property, establishing an administrative and technical protocol for continuously updating the parcel registry to reflect legal changes (e.g., new ownership), and creating a legal protocol to incorporate informal housing stock lacking legally determined boundaries, deeds, or titles into the uniform parcel registry. The project must prioritize the overlay of parcel and ID, ownership, land use, and valuation data.[59]

These are all outcomes that Vivienda has included in the 2021 CDBG-DR Program Guidelines: Puerto Rico Geospatial Framework Program document.[60] According to the project plan in the document, the GeoFrame Program will aggregate, integrate, and actualize all cadastral data (addresses, roads, parcels, structures, ownership, occupancy, land use, etc.) in Puerto Rico

[58] Updated at the close of the Ordinary Session in November 2022

[59] After satisfying HUD requirements, the Government could populate additional data (e.g., utility, school population, crime) to meet the Island's legal and economic needs.

[60] Department of Housing, 2021, CDBG-DR Program Guidelines: Puerto Rico Geospatial Framework Program (GeoFrame Program) Link: https://cdbg-dr.pr.gov/en/download/puerto-rico-geospatial-framework-program-geoframe-program/?ind=1624905912749&filename=GEOFRAME%20GUIDELINES%20(V.2).pdf&wpdmdl=6364&refresh=639c7bef7454e1671199727

using a centralized regulated system. The program guidelines were reapproved in June 2021 and the program launched in March 2021.

The current term of the project is for five years (all outcomes of the project to be delivered by November of 2025), which covers Phases 1, 2, and 3 of the GeoFrame Program. By the end of Phase 2 (January 2024), as per program design, there should be an interim system that can be accessed by a digital portal and that should iterate into the final portal through a production phase that extends into Phase 3 of the program.

3.8.3.2 Reform targets and indicators

Successful property registration reforms will allow Puerto Rico to compete with states focused on attracting manufacturing and other the top-ranked Latin American and Caribbean countries by reducing the time and number of procedures required to register property by FY2024. It will also allow Puerto Rico to demonstrate to the U.S. Department of Housing and Urban Development (HUD) how ongoing efforts to develop a uniform parcel registry and GIS map will assist HUD in verifying legal and physical addresses associated with the use of CDBG-MIT funds.

The Oversight Board will also track the following indicators to ensure that the Government implements property registration reforms:

- Average number of days to register property
- Number of procedures required to register property
- Number of backlogged property registration applications
- Number of new unregistered properties processed

The Oversight Board will also continue to monitor progress on the GeoFrame project, specifically Vivienda's progress towards accomplishing milestones set forth in the 2021 GeoFrame Project Guidelines.

8.4 Reduce occupational licensing to facilitate labor force participation

Current occupational licensing requirements complicate certain workers' entry into the formal workforce and expose applicants to lengthy wait times and prohibitive costs. Occupational licensing is meant to ensure high-quality services while protecting public safety. To promote labor force participation and create incentives for skilled workers to relocate to and remain on-Island, the Government should, as appropriate, streamline, eliminate, or harmonize occupational licensing requirements with those on the U.S. mainland as a starting benchmarking exercise. Additionally, the Government should identify the different occupational licenses with highest number of workforce members in the informal economy in order to leverage and establish best practices for the creation of new licenses and to avoid the production of burdensome regulations and time-intensive legislative overhauls.

Workers must meet application requirements set by licensing boards.[61] Applications are then processed by their respective boards and issued by DOH, DOS, PRTC, and DRD. Processing times vary substantially and can range anywhere from 30 days to 3 years.[62]

Over the last year, a team composed of three UPR professors and a group of students, as well as other partners, finalized analysis that identifies all the occupational licenses required and compared their requirements and processes in Puerto Rico vs. other states. In September 2022, UPR published the final report, which highlights key differences and areas to further investigate (e.g., licenses unique to Puerto Rico). Further analysis should be done to assess the need for these licenses in Puerto Rico given the low extent of licensing in the mainland U.S. and to ensure adherence to requirements which provide consumer, health, and safety protections.[63] The relevant government agencies such as DOS, DOH, PRTC, and others could consider partnering with organizations such as UPR, among others to leverage deep knowledge, experience, and eagerness to drive change on this reform.[64]

3.8.4.1 Reform design parameters

The 2023 Fiscal Plan continues to recommend that the Government adhere to a set of parameters when implementing occupational licensing reforms. Each government agency should continue to review and collaborate with their peers to identify requirements that can be used to identify licenses in need of simplification, consolidation, or elimination, and assess the basis for legislating a mandated reduction in occupational licensing regulations, as is done in other U.S. jurisdictions.[65]

Additionally, the Government should create less burdensome occupational licenses in the future by employing less restrictive alternatives for occupations that pose low risks to public safety, closely tailoring license requirements to mitigate specific health and safety risks, conducting regular cost-benefit analyses, and reducing barriers to inter-state mobility through the enactment of legislation.[66]

3.8.4.2 Reform indicators

The Oversight Board will track the following indicators to ensure that the different Government agencies (e.g., DOS, DOH, PRTC) implement occupational licensing reforms:

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[61] See, A. Ruiz Torres, et al., Review of PR's Licensing Requirements in Comparison with US Benchmarks, University of Puerto Rico, Puerto Rico Occupational Licenses Analysis Project, Technical Report, Draft Version, August 28, 2022.

[62] In 2019, applicants for designer licenses waited approximately 33 business days to receive their license (18 days at the board and 15 at DOS), while barbers waited nearly 160 days (117 days at the board and 40 at DOS). Puerto Rico Department of State, performance data shared with Oversight Board, 2019

[63] It should be noted that the UPR study considered only state-level licenses. In most states, local government have a significant role in occupational licensing. It may be the case that licenses that do not appear at the state level appear at the local level. In Puerto Rico, occupational licensing is a Commonwealth function, so there is no local license collar as there is in the states.

[64] ILE is currently collaborating with multiple agencies and other entities. ILE is also coordinating a symposium event in February to share analysis

[65] Virginia, for example, created an inventory of all statewide regulations and mandated a 25% reduction in occupational licensing rules; see Broughel, "A Dark Day for Red Tape in the Buckeye State," 2019

[66] These include certification, registration, mandatory bonding, or more direct regulation of companies; with certifications, for example, the Government would limit the use of professional titles to licensed workers but allow workers to practice a trade. See The White House, "Occupational Licensing: A Framework for Policymakers," 2015

- Median number of days to obtain an occupational license after application is complete
- Median number of days to renew a license
- Number of occupational licenses eliminated or harmonized with interstate compacts
- Total number of licenses in the workforce by type of job
- Ratio of informal vs formal workforce members by occupation
- Total fees for acquiring a license and other related costs including required training to issue or renew a license

8.5 Strengthen offshore investment attraction efforts

To transform Puerto Rico into a more competitive destination for offshore investment, DDEC should work together with Invest Puerto Rico (IPR), the Island's Investment Promotion Agency (IPA), in developing an economic development plan and providing them the tools and the resources to execute the strategies that would bring new investment, jobs and opportunities for local businesses to grow. Jurisdictions across the globe have leveraged IPAs to attract offshore investments, fuel economic growth, and create jobs for their residents.

In FY2022, IPR exceeded its internal targets in new leads, new businesses, new investment committed, and average payroll. IPR has also identified areas of growth and targets for the FY2023 in the IPR Strategy and Workplan document, including 2,000 qualified prospect opportunities, $320M on new investment committed, and $45k on average payroll.

In addition, Invest Puerto Rico is continuing to lead a multi-sectoral Air Transshipment Committee that has developed a comprehensive strategic plan and is actively working towards implementing initiatives to support the global logistics industry. In FY2023 IPR has started shifting focus from the transshipment hub workstream to the cold-chain and sensitive materials logistics. Originally, with the enactment of the U.S. DOT transshipment waiver granted to Puerto Rico in April 2020, the expectation was that PR would become a transshipment hub similar to Alaska. Unfortunately, after going to market IPR and DDEC found that Puerto Rico and Alaska have different geographic advantages. Alaska's main value proposition is that it offers the only available stop on the trans-Pacific air cargo route between Asia and East Coast US for refueling. Due to its geographic location, Puerto Rico cannot offer the same value to cargo routes between the US and Latin America or Europe. Given this key difference from Alaska, focus has shifted to expanding air cargo capacity in general and more specifically capitalizing on Puerto Rico's position as a cold-chain sensitive materials logistics center, which it has developed over many years due to its historical strength as a pharmaceutical manufacturing hub. These efforts should stimulate new markets through Life Sciences company attraction and usage of the Foreign-Trade Zone (FTZ) status of the Island.

DDEC also plays an important role in promoting the Island's business environment and fostering growth and diversification. As highlighted in its economic development strategic framework PRopósito, DDEC is pursuing programs that support entrepreneurs and facilitate the creation and development of businesses, particularly small and medium enterprises (SMEs or PYMEs in Spanish). As a neutral public entity, DDEC can serve as a launchpad for SMEs to gain more information on financial support and technical assistance resources available around the Island. There is a robust and growing ecosystem of entrepreneurship support organizations across Puerto Rico, but entrepreneurs often struggle to access them due to information gaps, which DDEC can help resolve. DDEC could also consider exploring a new, more flexible funding mechanism to support SMEs, many of whom report difficulties in accessing financing through traditional lenders to fund business growth.

Stronger investment promotion will also help ensure that the Island can effectively compete with mainland states and other countries for critical investments aligned to the Island's competitive advantages (e.g., life sciences research and manufacturing, knowledge services, and hospitality and tourism) – increasingly important as companies look to shift their supply chains in the aftermath of the COVID-19 pandemic.[67]

3.8.5.1 IPR in comparison to other IPAs

Unlike other IPAs, Invest Puerto Rico only has one mandate: attract offshore investment (primarily from the mainland) to the Island. For this purpose, IPR has an annual budget of $5 million, $1.4 million of which is allocated to investment promotion.[68] However, according to an analysis by the OECD of IPAs in its member states, national IPAs commonly have about six mandates, including inward foreign investment promotion, export promotion, innovation promotion, regional development promotion, and granting financial incentives.[69] Sub-national IPAs (such as IPR) often have many of these same responsibilities, as well as domestic investment promotion, issuing relevant business permits, and operation of a business one-stop shop. IPR noted that success on its promotional campaigns was in part due to one-time budget allocation from Vivienda to help the Island recover from recent natural disasters.[70] DDEC could consider providing an increased budget for IPR's initiatives that demonstrate the ability to raise incremental new investment.

3.8.5.2 Access to existing small business funds and outside capital

To complement existing efforts from IPR to attract more outside capital to the island through initiatives like the investment deal platform Impeller and increased outreach in target regions, Puerto Rico should seek to diversify through enabling and investing in small and medium enterprises (SMEs or PYMEs in Spanish), which create local jobs and promote dense economic interconnections. The Department of Economic Development (DDEC) could serve as an information provider, facilitator, and connector of the many existing support organizations with complementary but disparate offerings. Specifically, DDEC could consider:

Increasing utilization of existing SME-support funds

Analysis of public Small Business Administration (SBA) datasets reveals that businesses in Puerto Rico have received roughly $500M less support through main SBA loan programs (7a and 504) and SBIR and STTR grant programs than mainland US states over a 5-year period, even when correcting for population size. Awareness and application barriers are the most likely reasons Puerto Rican SMEs are not utilizing these federal support programs. FOMB encourages DDEC to explore initiatives that could help bridge these barriers.

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67 Rapoza, "New Data Show U.S. Companies are Definitely Leaving China," 2020

68 For comparison, JobsOhio has an annual budget of $134 million, Invest Atlanta of $40 million, and Enterprise Florida of $37 million. The average national IPA, meanwhile, as a budget of $68 million ($12 million of which is allocated to investment promotion) and the median national IPA a budget of $12 million (with $5 million allocated to investment promotion). See Organization for Economic Cooperation and Development, "Mapping of Investment Promotion Agencies in OECD Countries," 2018

69 These include inward foreign investment promotion (100% of IPAs), export promotion (56%), innovation promotion (56%), promotion of regional development (50%), green investment promotion (44%), domestic investment promotion (41%), granting financial incentives (31%), outward investment promotion (28%), trade facilitation (25%), and screening and approving investors (25%); see Organization for Economic Cooperation and Development, "Mapping of Investment Promotion Agencies in OECD Countries," 2018

70 Vivienda allocated a onetime amount of $7 million in CDBG-DR funding for FY2021.

More specifically, DDEC could modify its website to include a section tailored for entrepreneurs that includes information on resources organized by growth stage as several other states do, including California and Maryland.[71] Currently, many SMEs are unaware of existing programs that provide educational, counseling, and financial resources. Calling attention to these resources on the DDEC website would reduce the awareness gap and direct more entrepreneurs to them, increasing utilization. DDEC could consider leveraging CDBG-DR funds to make these and other improvements to its website as they are anticipated to improve awareness of resource availability and thus foment economic revitalization. CDBG-DR funds can be used for economic development purposes, including job training and workforce development.[72]

Similarly, an active awareness campaign with both online marketing through social media and in-person events could call attention to the variety of resources available through entrepreneurial support organizations like Grupo Guayacan, Colmena66, Parallel18, SBDCs, UPR Innovation Centers, and others. This awareness campaign could also highlight available financial resources, particularly SBA loans and the SBIR/STTR grant programs. Together, this website overhaul and awareness campaign could increase Puerto Ricans' applications to these federal programs. FOMB and DDEC can continue to work together to identify impactful changes to existing informational outreach efforts to ensure that DDEC serves as a useful central source of information for entrepreneurs on the Island that serves as a connector to other support organizations.

SME-focused funding mechanism

SMEs in Puerto Rico lack funding options at early stages of growth.

There is currently a market gap in Puerto Rico that leaves many small, but potentially profitable loans to SMEs on the table. On one side, SMEs report challenges in approaching and interacting with traditional loan providers like banks. On the other side, the cost of gathering information on SMEs is too high for banks given the small loan sizes. A modified revolving loan fund managed by a non-profit or similar partner organization could pool public and private dollars, help resolve the information gap, and ensure that more of these loans are made and that small businesses can grow. Traditional RLFs require applicants to secure separate private funding in order to limit the public's exposure to default risk on any given loan. In an environment like Puerto Rico where these interactions are difficult and costly, this type of project-specific financing limit policy prevents deals from being made. Having private funds baked into the RLF in the capitalization phase means that any loan the RLF makes has already achieved this risk reduction goal. This modified capitalization strategy reduces or eliminates the need for external financing, depending on the leverage achieved. Targeting four or more private dollars for every public dollar in an RLF could potentially eliminate the need for SMEs to seek outside financing.

While many operational details need to be considered, including but not limited to those listed below, a new funding mechanism could be an important tool to support the entrepreneurial community, particularly when combined with the above initiatives.

- Funding sources: DDEC should consider contributing its own capital and pursue other matching government funds, like an EDA grant or CDBG-DR funds, before reaching out to potential private partners
- Leverage ratios: DDEC should consider pursuing a leverage ratio that magnifies the impact of each public dollar. For example, a minimum leverage ratio of 4:1 would mean that each dollar of government funds is complemented by four dollars of private funds, reducing or potentially eliminating the need for SMEs to secure private financing altogether

[71] California Office of the Small Business Advocate, Maryland Business Express
72 CDBG-DR Overview March 2020

- Project-specific financing limits: Depending on the leverage ratio achieved, implementing a project-specific financing limit could help reduce the risk to the public sector
- Management: DDEC should consider establishing or hiring an external entity like a non-profit or community development corporation to manage and operate the fund. A separate management party would be crucial to ensure independence and subject matter expertise
- Fund focus: The fund could focus on SMEs given their limited access to capital
- Performance metrics: Management team could track social impact metrics like jobs created or supported
- Interest rate: RLF should consider offering advantageous interest rates, which could be defined dynamically in relation to the WSJ prime rate, or be fixed

3.8.5.3 Development of Roosevelt Roads

The Naval Station Roosevelt Roads (NSRR), located in eastern Puerto Rico in the municipality of Ceiba, was closed on March 31, 2004 as part of the Base Realignment and Closure (BRAC) process. Like many other former military installations, there is a plan and opportunity to redevelop NSRR into a multi-purpose destination with housing, retail, educational institutions, and recreational opportunities. The Local Redevelopment Agency for Roosevelt Roads (LRA-RR) has already been allocated over $30 million in federal funds and budgeted an additional $2.9 million in FY2023 by the Commonwealth of Puerto Rico.

The US Navy transferred NSRR to Puerto Rico under an Economic Development Conveyance with a price of $16.5 million, payable from 2015 through 2044. In 2013, the US Navy completed the transfer of roughly 3,400 acres to LRA-RR along with 1,600[73] facilities which comprise more than 5.8 million square feet[74]. The property contains more than 800 residential buildings including single and small scall multi-family dwellings, apartment houses, and a hotel (~50% of all square footage). There are also facilities in use as commercial, retail, offices, and industrial facilities (~25% of all square footage). Educational, institutional, public amenity purpose buildings, and storage comprise most of the remainder of the structures. Some of the infrastructure related to the previous operations of NSRR is still present including the fuel pier, the airport (and its hangars), jet fuel tanks, and sewage treatment plants. Overall, the footprint of the area is 8,600 acres but due to the presence of wetlands areas, floodplains, and steep terrain, approximately 3,868 is available for development.[75]

Over the past decade, several projects have begun on Roosevelt Roads. These include a magnet secondary residential high school, a commercial beach and marina, several businesses related to eco-tourism, a multi-tenant shipyard facility and a ship dismantling and materials recovery operation. Additionally, PR Conservation Trust signed a contract to establish a visitor center at NSRR and a research and education center in the natural and social sciences which would also include archeological excursions, an information center, an incubator for community enterprises, and an archaeological repository. Most recently in 2020, the LoopLand Hotel broke ground at Roosevelt Roads, making it the first hotel on the property.

Although many projects have been initiated, the process could be more systematic and could be organized around a master plan. Given the size of the resource, this represents a unique opportunity for Puerto Rico. The Commonwealth should engage in the following to further the

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[73] https://documents.pub/document/appendix-ac-existing-building-eexisting-buildi-existing-building-assessment.html

[74] https://www.hud.gov/sites/documents/EASTERNPRSPOTLIGHT.PDF

[75] Naval State Roosevelt Roads Reuse Plan, 2004. Supporting Documents (pr.gov)

development of this property to its fullest potential and for the best interest of the people of Puerto Rico:

- Complete the inventory of facilities currently present on the Roosevelt Roads campus – a number of facilities and some basic infrastructure currently exists which may be leveraged in the development efforts
- Engage with the surrounding communities to understand the current development initiatives regarding this property
- Develop an overarching development plan to avoid a piecemeal approach to economic development
- Use the tools of the Invest Puerto Rico and the Tourism Office to promote this site for future eco-tourism developments

3.8.5.4 Reform design parameters

The 2023 Fiscal Plan recommends the Government adhere to a set of parameters to more effectively attract growth-generating and job-creating investments to the Island. Specifically, the Government should:

- **Ensure that IPR implements the strategic plan it developed to compete with U.S. mainland states and other economies** for investments that arise as companies move to shift their supply chains to the U.S. to minimize risk. It will also continue to partner with DDEC to implement a strategic plan to promote Puerto Rico as a cold-chain sensitive materials logistics center. Puerto Rico's historical strength in the pharmaceutical manufacturing industry and the established concentration of companies and accompanying infrastructure make it an ideal regional hub for products that require true end-to-end refrigeration. These advantages should be marketed and socialized as part of a strategic plan.

- **DDEC should provide IPR with the tools and capabilities to offer existing idle Government properties.**[76] PRIDCO is the beneficial owner of a large inventory of industrial properties, with 1,520 units and 766 undeveloped lots throughout Puerto Rico (the Portfolio). The Portfolio comprises industrial and commercial-use buildings and lots that companies may rent or, in limited cases, purchase. PRIDCO's current real estate portfolio includes 23.1 million square feet of buildings, of which 15.5 million is occupied, 6.0 million is vacant, and the remaining 1.6 million is unavailable for rent and needs structural repairs or remediation. Some of these properties, such as abandoned industrial parks, factories, and storage facilities could be used by potential investors as they explore the possibility of running their businesses on the Island. The Oversight Board encourages close coordination between the DDEC and IPR to allow IPR to present to investors a more compelling offer, as finding the right location to run operations in a new area is time consuming and challenging. To mitigate this, IPR has started a contractual relationship with RedAtlas (an analytics company that provides access to all public domain real estate and market data in Puerto Rican regions).

3.8.5.5 Reform targets

The 10-year collaboration agreement between DDEC and IPR establishes a set of multi-year performance targets. Despite the disruptions caused by the pandemic, the growing number of firms considering shifting their supply chains to the U.S. to minimize risk in the aftermath of the pandemic—if well targeted—will ensure that IPR can meet or exceed its obligations. As such, IPR should generate, according to their collaboration agreement, by the end of FY2023, at least:

[76] PRIDCO Feasibility Study of Alternative Operating Models, February 2022

- New businesses
- New jobs
- Million in capital investments
- Average payroll committed by each new business

8.6 Prime tourism attraction efforts for success

There are currently two agencies that drive tourism efforts in the Island: Puerto Rico Tourism Company (PRTC), which oversees tourism matters and regulations inside Puerto Rico, and Discover Puerto Rico (DPR) which serves as the Island's Destination Marketing Organization (DMO).

To continue Puerto Rico's transformation into a leading Caribbean tourism destination, the Government should continue to expand the mandate and resourcing of Discover Puerto Rico (DPR), the Island's Destination Marketing Organization (DMO). Despite its natural beauty and rich culture, Puerto Rico underperformed as a tourism destination even before the 2017 hurricanes. Destinations across the globe have leveraged DMOs to attract visitors, generate economic activity, and create jobs.[77] In Puerto Rico's case, DPR became fully operational in early 2019, when it launched its first promotional campaign and played an important role in driving record tourism performance in 2019.

As Puerto Rico looks forward, the Oversight Board is encouraged that, according to third-party travel data, Puerto Rico was moving the needle of growth in this sector before the onset of COVID-19 and that it is recovering from the pandemic. In FY 2021-2022, PR reached $1.02 billion in leisure travel revenues in 2022 YTD, a 36% YoY increase from 2021. Lodging tax collection figures for 2022 are unavailable, but FY2021 had a total of $99.2M, a 30% increase over 2019. Lastly, lodging revenues in 2021 were 37% higher than 2019 and visitor spending forecasts anticipate at least a 19% increase in spending in 2022 over 2021 levels.

Marketing influence tracking indicates that tourist familiarity, positive perception, and likelihood to visit metrics are all increasing for Puerto Rico in 2022 vs. previous years since 2018. However, with the recent passing of Hurricane Fiona, Puerto Rico may face challenges to tourism in the short term as unfavorable news coverage of the island could give the impression that the island is not ready for visits. Additionally, it will likely take time both due to negative perceptions driven by bad press surrounding the hurricane and damaged infrastructure required for the tourism industry to fully restore offerings to tourists, especially in the southern and western regions harder hit by the hurricane.

ARP funds have enabled DPR to strengthen its brand, emphasize in diversity, equity and inclusion, , accelerate growth, increase efficiency, expand outreach efforts to new customer segments in new geographies and market niches and grow traffic in the group/convention and leisure segments.

[77] For example, the Barbadian Tourism Product Authority (TPA), created in 2014, helped increase the travel and tourism sector's direct contribution to Barbados' GDP (5.4% contribution in 2015, 10.3% contribution in 2016) and employment (4.3% contribution in 2015, 9.8% contribution in 2016). The creation of a DMO in New Orleans, LA was linked to higher business activity in other nearby cities as higher tourism demand for flights to New Orleans facilitated economic development in surrounding areas. And, in Chicago, the creation of a DMO helped raise the city's business exposure, resulting in a partnership between the city's DMO and its World Business Chicago (WBC), the city's economic development agency, to promote the city as both a tourist and business destination. As a result, 70% of WBC marketing is conducted via Chicago's DMO; see Oxford Economics, "Destination Promotion: An Engine of Economic Development," 2014

3.8.6.1 DPR in comparison to other U.S. and Caribbean Destination Marketing Offices (DMOs)

DPR has a smaller mandate and lower budget in comparison to other DMOs. During FY2022 DPR received several federal grants including ~$12.5M from ARP and $8.3M from CBDG-DR. Besides the one-time federal funds received, DPR also received ~$25M from PRTC from collections of room tax revenues and ~$5m from matching funds. This is about 60% of the average budget of $42.1 million (or $1,485 per room) for Caribbean DMOs.[78] The typical DMO markets to six distinct segments: visiting individuals and families; groups (e.g., family reunions); meetings, incentives, conferences, and exhibitions (MICE); events (e.g., major sports tournaments); residents; and airlines (e.g., purchasing airline ads, subsidizing seats). DPR, however, is only responsible for marketing to individuals, groups, and MICE. PRTC continues to manage events, as well as internal and airline marketing.

3.8.6.2 Reform design parameters

The 2023 Fiscal Plan recommends the Government adhere to a set of parameters to enable DPR to capitalize on its early successes and continue leading the Island's emergence as a leading tourist destination. Specifically, DPR should:

- **Work in conjunction with the PRTC to define roles/responsibilities for each organization** in internal tourism, airline, and event marketing to ensure a uniform and consistent approach and to leverage DPR's expertise and knowledge on research and digital media. DPR participated with PRTC in the development of an airline and internal tourism marketing strategy.
- **Continue to implement passenger component of Air Transit Hub** strategy developed by DPR that capitalizes on the Federal DOT waiver. DPR has shared proposed next steps with DDEC but it is pending access to information on passenger profiles, from PRTC.
- **Execute plan to maximize promotional dollars from funds obtained from the CARES Act, American Rescue Plan (ARP) Act, CBDG-DR and other federal recovery programs.** In FY2023, DPR has a plan to optimize its ~$25M in core budget that comes as part of contract with PRTC to cover 25 destinations in the east of the U.S. and leveraging ARP funds to cover the Midwest and invest in 6-7 international destinations. DPR's American Rescue Plan (ARP)[79] Investment Strategy includes a description of how funds will be used to achieve strategic priorities.
- **Continue to strengthen the DPR brand** through all marketing and promotions by maintaining a consistent message on Puerto Rico strengths as a destination.
- **Implement destination visitor research program** to pivot marketing campaigns according to visitor's preference and to communicate to Government agencies areas of opportunities on infrastructure and services. In Q1 2022, DPR established holistic methodology using in-person intercepts surveys and data mining. Initial data shows record numbers for lodging tax collection, rental revenue, hospitality employment, visitor spending, and benchmarking against Florida and other destinations in the Caribbean

[78] DPR budget is the established amount on 10-year contract with PRTC, in 2020-21 DPR have not received contracted amount due to lower room tax collected by PTRC. Numbers for other Islands comes from Destinations International.

[79] American Rescue Plan Investment Strategy developed by DPR

3.8.6.3 Reform indicators

DPR's initial performance indicates that the organization can effectively compete with top-ranked Caribbean DMOs and destinations in attracting visitors and growing the Island's tourism sector.

- Percent of tourism sector's direct contribution to GNP
- Percent of direct contribution to employment
- Average travel receipts per visitor per year
- Percent change of tourist visitors per year
- Number of meetings and conventions attracted to the Island

Chapter 9. Medicaid Reform

9.1 Current State of Puerto Rico's Medicaid program

40% of Puerto Rico's population received their health coverage through the Commonwealth's state-run Medicaid program ("Plan Vital", formerly known as "Mi Salud"). The percent of residents receiving benefits via Plan Vital increases to 49% when considering the addition of dual-eligible enrollees who are also in one of the Island's Medicare Advantage programs (Platinos). This share of the population enrolled in Medicaid/CHIP-funded health insurance exceeds that of any U.S. state.[80]

Two separate agencies are responsible for the administration and provision of Plan Vital. The Department of Health is the state agency responsible for the administration of Medicaid, via the Puerto Rico Medicaid Program (PRMP). PRMP oversees enrollment and eligibility processes, and it also operates the Medicaid Management Information System (MMIS). Meanwhile, the Puerto Rico Health Insurance Administration (ASES, by its Spanish acronym) is responsible for negotiating, managing, and implementing the provisioning of Medicaid benefits, primarily through contracts with private managed care organizations (MCOs), pharmacy benefit managers (PBMs) and other health services organizations.

Plan Vital consists of four primary eligibility groups: federally-qualified Medicaid recipients; expanded federally-qualified Medicaid recipients; Children's Health Insurance Program (CHIP); and the Commonwealth's self-funded health insurance program, which covers (a) low-income adults who do not qualify for federal programs but qualify under the eligibility criteria established by the local government as well as (b) certain Commonwealth employees and retirees.[81] The first three programs are eligible for federal matching at varying rates, known as the Federal Medical Assistance Percentage (FMAP). The Vital program also covers dual-eligible enrollees, those who meet the eligibility standards for both federal Medicaid and Medicare. For dual-eligible who are enrolled in Medicare Advantage plans, the Commonwealth provides an additional "wrap-around" payment.

Because federal-matching funds for Medicaid in U.S. territories is subject to an annual allotment cap, the federal portion of the Vital program revenues functions more like a block grant than a traditional Medicaid reimbursement system.

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[80] Kaiser Family Foundation, "Medicaid State Fact Sheets: Percent of People Covered by Medicaid/CHIP, 2019"

[81] As it relates to (b) of the wholly Commonwealth-funded enrollees, Plan Vital coverage for currently retired police offices and active police officers upon their expected retirement is expected to be added beginning in FY2022 (see Section 14.5.1 for additional detail).

Given the CMS interpretation of Section 1108 of the Social Security Act, the 2023 Fiscal Plan projects that Puerto Rico will have $3.7 billion federal funds available during FY2023, including traditional Medicaid (non-CHIP), EAP, and CHIP funds. Even though PR has received an increase to the inflow of federal funds, due to the significant portion of the population reliant on Medicaid for health care, it is important that the Commonwealth always be prepared to fund these services in the event that federal legislators reduce the Commonwealth's appropriations of federal Medicaid funds in future years. It is therefore crucial for ASES to put in place required reforms to reduce the long-term growth rate of health care expenditures.

9.2 Medicaid investments

Puerto Rico's health care system has experienced significant strain stemming from hurricanes, earthquakes, and the COVID-19 pandemic. These events amplified provider shortages and created increases in demand for health services, particularly behavioral health care. Given these turbulent circumstances the FY2020 and FY2021 Fiscal Plan included incremental investments in the health system. Such investments were made possible through additional federal funding made available through legislation such as the 2020 Further Consolidated Appropriations Act and will be further supported by the most recent FFY2022 allotment of $2.9 billion announced by CMS and the Consolidated Appropriations Act of 2023. These investments included providing Hepatitis C drug coverage, increasing reimbursement rates to specialty and primary care providers and hospitals, and expanding coverage of the Medicaid Program to more than 200,000 local residents by increasing Puerto Rico's Poverty level which is the key determinant of Medicaid eligibility.

Increase provider reimbursement rates: Reimbursement rates for Government Health Plan (GHP) providers lag those of Medicaid programs in other states and territories. For example, from July 2016 to July 2017 primary care services were reimbursed at 19% of the Puerto Rico Medicare fee-for-service rate, while these services are reimbursed at 66% of the Medicare rate nationally. Also, maternity services were reimbursed at 50% of the Puerto Rico Medicare fee-for-service rate while these services are reimbursed at 81% of Medicare rate nationally. Low reimbursement rates place pressure on providers and may lead to shortages, lack of access to certain specialty services, and lengthy wait times. ASES will increase provider reimbursement rates as follows**:**

Establish a 70% of Medicare reimbursement floor for outpatient physician services: Pursuant to a provision in the 2020 Further Consolidated Appropriations Act, ASES will establish a reimbursement floor for physician services set at 70% of the Medicare fee-for-service rate. The costs associated with the investment 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.

Increase sub-capitation payment for primary care physician (PCP) services: Almost all primary care services are paid through sub-capitation arrangements, wherein MCOs pay Primary Medical Groups (PMGs) a fixed, monthly rate per member treated. To improve access to primary and preventive services, ASES included a 10% increase in the PMPM sub-capitation rate paid to PMGs.

Increase reimbursement rates for hospitals: According to the latest available CMS Hospital Cost Reports, over 50% of Puerto Rico hospitals reported net losses. Given the high portion of the population covered by Medicaid, Puerto Rico hospitals are disproportionately affected by reimbursement rates of the Medicaid program, which are lower than those of most other payers. These conditions jeopardize the ability for hospitals to operate and reinvest in their infrastructure. To support the ability of hospitals to meet the needs of Puerto Rico, ASES will increase reimbursement rates. Specifically, ASES will mandate that MCOs increase reimbursements for inpatient services through an episode-based payment schedule.

Provide Hepatitis C drug coverage: Puerto Rico's Medicaid plan did not previously provide coverage for drugs that cure the Hepatitis C virus. There are approximately 14,000 local residents that are eligible for treatment and could be cured by making these drugs available to them. Granting coverage for these drugs will significantly increase the quality of lives for affected individuals. Furthermore, 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. This coverage has been available to affected Medicaid recipients as early as March 2020.

Increase the Puerto Rico Poverty Level (PRPL): The PRPL is the key determinant of Medicaid eligibility – an enrollee's eligible income must be below this level to participate in the Federal Medicaid Program. In the past, the PRPL was set at about 46% of the Federal Poverty Level (FPL), however, during FY2021 the PRPL was increased to ~85% of the FPL, thus resulting in several thousand new enrollees as well as a portion of the Commonwealth-funded population now qualifying for Federal Medicaid. Expanded health insurance generally leads to healthier outcomes for the covered population. Due to the additional Section 1108 funding, the Government has indicated its intention to increase the PRPL to 100% of the FPL beginning this fiscal year.

9.3 Medicaid reform

The goal of the Puerto Rican public health insurance system is to fund high-quality healthcare services to all residents in need and, in doing so, cultivate a healthier population, especially as it relates to lowering the Island's disproportionally high rates of chronic conditions. To ensure the system can continue to support the vulnerable populations who rely on its services, Puerto Rico will need to improve the efficiency and effectiveness of its health insurance plan by "bending the health care cost curve" on premium inflation, which is reflective of escalating expenditures of health care delivery on the Island.

This section outlines several categories of actions the Government is suggested to execute to both curb the growth rate in per capita health care expenditure as well as shift the overall public health system toward higher-value care. In each of the below actions, the plan seeks to avoid reduction in service quality for beneficiaries and therefore assumes that any savings derived from the implementation of Medicaid reform measures will be reinvested into Puerto Rico's Medicaid Program. Such reforms include improving program integrity and quality relative to cost. Program integrity initiatives help to ensure that eligibility decisions are made correctly; prospective and enrolled providers meet federal and state participation requirements; services provided to enrollees are medically necessary and appropriate; and provider payments are made in the correct amount and for appropriate services.[82] Moreover, under value-based care, providers are reimbursed based on their ability to improve quality of care in a cost-effective manner or lower costs while maintaining standards of care, rather than the volume of care they provide.[83]

Enactment of these measures actions will require concentrated advancement of ASES and the Medicaid Program's capabilities, including IT systems.

3.9.3.1 Medicaid reforms to improve program integrity

Program integrity activities are meant to ensure that federal and state taxpayer dollars are spent appropriately on delivering quality, necessary care and preventing fraud, waste, and abuse from taking place.[84] Program integrity initiatives will help to ensure that the Government is performing accurate enrollment verifications and minimizing fraud, waste, and abuse.

In 2016, the U.S. Government Accountability Office (GAO) reported that Managed Care Organizations (MCOs) in U.S. territories have not consistently reported improper payments to providers billing to the system, and that many MCOs face conflicts of interest in finding and eliminating fraud.[85] In a report released in February 2021, GAO found that seven of the eight selected Puerto Rico procurements[86] did not include important steps to promote competition and mitigate the risk for fraud, waste, and abuse, underscoring the need for federal oversight.[87]

Typical fraud, waste, and abuse reduction programs in other state Medicaid programs and health insurers have been able to achieve 1-3% cost savings. These savings have been reached through pre-payment review (e.g., reviewing claims before payment to identify outliers/issues); auditing and enforcement units to investigate suspicious behavior; advanced analytics capabilities to identify inefficient or fraudulent activities in post-payment review, such as identification of "impossible" utilization (e.g., billing for over 24 hours of service in one day) or frequently repeated, high value procedures; and long-term policy or organizational transformation. Pursuant to federal

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82 "Program integrity : MACPAC", Accessed March 30, 2021

83 CMS Issues New Roadmap for States to Accelerate Adoption of Value-Based Care to Improve Quality of Care for Medicaid Beneficiaries | CMS

84 "Program integrity : MACPAC", Accessed March 30, 2021

85 "Medicaid and CHIP Increased Funding in U.S. Territories Merits Improved Program Integrity Efforts." GAO.gov, April 2016

86 According to the report, these eight procurements represent a non-generalizable sample of Puerto Rico Medicaid procurements that were in effect as of April 1, 2020. They represented approximately 97% of the total costs of Puerto Rico's Medicaid procurements in effect at that time

87 "Medicaid: CMS Needs to Implement Risk-Based Oversight of Puerto Rico's Procurement Process." GAO.gov, February 5, 2021. Accessed March 20, 2021

requirements, ASES and PRMP has established a contracting reform plan to improve procurement and contracting prices as well as combat fraudulent, wasteful, and abusive contracts. ASES should begin implementing fraud, waste, and abuse reduction programs, with a goal of achieving 3% cost savings from these programs by FY2025.

In addition, it is imperative for Medicaid programs to deploy robust enrollment verification in order to ensure that coverage is offered only to eligible individuals. In December 2020, the Office of Inspector General at the U.S. Department of Health and Human Services (HHS-OIG) performed a Risk Assessment of Puerto Rico's Medicaid Program and identified the beneficiary eligibility process as a high-risk area. Specifically, the HHS-OIG noted weaknesses related to Puerto Rico's post-eligibility determination process for validating beneficiary eligibility. Outdated, missing, or inaccurate beneficiary eligibility information may limit the effectiveness of the eligibility validation process and increase the risk that ineligible applicants will be enrolled in the Puerto Rico Medicaid program.[88] Full compliance with Medicaid Eligibility Quality Control (MEQC) requirements and establishment of an asset verification system that utilizes third-party data sources can strengthen enrollment verification.[89] The PRMP should begin establishment of a robust enrollment verification program in FY2022, with a target of identifying a large proportion of ineligible beneficiaries (estimated to be roughly 5% of total enrollees) by FY2025. As of January 2022, the PRMP is in the early stages of identifying a potential third-party service provider to assist in verifying enrollee assets and no further efforts have been reported.

Puerto Rico has taken meaningful steps towards improving program integrity. These include the integration of ASES data with the MMIS. During FY2021, CMS approved the certification of Phase 2 of Puerto Rico's MMIS, clearing the way for the PRMP to begin planning Phase 3 implementation. Other steps taken in prior years towards promoting program integrity can be found in the 2022 Fiscal Plan.

While Puerto Rico has taken steps towards improving its Medicaid Program integrity, opportunities for further improvement remain. Limited recoupments from MCO investigations suggest that more can be done to mitigate fraud, waste, and abuse. Furthermore, practices in other states support the development of additional program integrity tools in parallel to building MMIS capabilities, such as leveraging analytics vendors on a contingent bases to identify savings related to improper payments. While, in a report to Congress, ASES stated they face challenges with reporting data since data is limited to the provider level and, therefore, the eligibility systems and data sets cannot track fraudulent activity performed by beneficiaries, ASES has taken steps at the PRMP during FY2022 adding interfaces with other Government agencies to detect possible fraudulent activity of beneficiaries during eligibility and enrollment process. Issues with enrollment verification can be improved by instituting an Asset Verification System and partnering with key out-migration states to conduct enrollment checks. Pursuant to the 2020 Further Consolidated Appropriations Act, Puerto Rico must continue to make progress to meet CMS's Payment Error Rate Measurement (PERM) and MEQC requirements. As evidence of this progress, in June 2021 CMS approved Puerto Rico's reports submitted on PERM and MEQC compliance. Puerto Rico is currently conducting the pilot program where they are reviewing a sample of claims paid during FY2023 while the full PERM measurement will occur on a sample of claims paid during FY2026. In addition, per information provided by the PRMP, the MEQC review process will be coordinated with the PERM cycle for Puerto Rico, with the MEQC review beginning the year following the end of the PERM review year.

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88 Risk Assessment of Puerto Rico Medicaid Program, A-02-20-01011 (hhs.gov). December 11, 2020

89 GAO "Medicaid Eligibility: Accuracy of Determinations and Efforts to Recoup Federal Funds Due to Errors," January 2020

3.9.3.2 Medicaid reforms to improve quality relative to cost

Pursuing value-based improvement initiatives with demonstrated success are required to help the Commonwealth "bend the curve" on health care inflation without jeopardizing outcomes. There are several potential sources of value in Puerto Rico's health care system. These sources of value are opportunities to reduce wasteful health care spending and increase efficiency while improving quality of care and health outcomes. By implementing value-based reforms beginning in FY2023, ASES should aim to achieve 3% in annual cost savings from these reforms by FY2025.

Examples of best practice for value-based payment models include implementing a Diagnosis Related Group (DRG) based payment model where providers are reimbursed a fixed amount to fully treat a patient with a given medical condition. These models help control medical costs by incentivizing providers to deliver cost-effective care without sacrificing quality, while also improving the effectiveness of Medicaid service delivery by standardizing the measurement of patient acuity across providers and reducing the administrative burden associated with reimbursement. Another potential source of value lies in reducing emergency room (ER) visits. Successfully shifting unnecessary ER visits to lower-cost settings, such as primary care offices or urgent care, could save tens of millions of dollars annually.

Additional opportunity exists through reduction of both inpatient length of stay and hospital readmissions. Puerto Rico's inpatient length of stay was 1.5 times the U.S. average in 2014,[90] and 35 out of 41 Puerto Rico hospitals show readmission rates above the U.S. average of 15.3%.[91] Hospital readmissions occur when patients are discharged from hospitals but must return for additional treatment for the same condition. This can occur when patients are not adequately prepared to return home due to lack of education, lack of access to follow-up care, challenges with prescription drugs, among other factors. MCOs can incentivize both reduced hospital readmissions and shorter length of stay through improved discharge planning, as well as by increasing weekend staffing to manage discharges. Similar value-based programs piloted in mainland states have typically saved 2-10% of costs. In Puerto Rico, value-based reforms may result in lower-than-average savings due to the breadth of other simultaneous savings measures being implemented for Vital. Nevertheless, these structural changes to reimbursement and care delivery present the most viable path to long-term sustainability for the program.

Chapter 10. Power Sector Reform

10.1 Introduction and context for energy reform

Customer centric, affordable, reliable, sustainable, and resilient electric power service is essential for Puerto Rico's economic growth and development. It is a fundamental enabler of the people of Puerto Rico's livelihoods and remains a critical service that needs to be safeguarded, particularly in light of the outsized catastrophic events in 2020 and as recent as 2022 (e.g., January 2020 earthquakes, COVID-19 pandemic, and Hurricane Fiona on September 18, 2022). As an important element of household and business activity, electricity is also a critical factor for attracting and maintaining investment in the island. Since 1941, the Puerto Rico Electric Power Authority (PREPA), as the sole energy provider, has been responsible for providing electricity to Puerto Rico. PREPA is a public corporation, owned and operated by the Government of Puerto Rico.

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[90] As of 2014. JEL Consulting analysis (Dec 30, 2106) of ASES data and Puerto Rico Community Survey, Public Use Microdata, 2014. Estimates exclude Platino beneficiaries

[91] The disparity in hospital quality metrics between Puerto Rico and the U.S. - V2A (v2aconsulting.com), December 2, 2019

PREPA has been encumbered by numerous financial and operational issues. Over the years, PREPA has failed to update rates to cover base operating costs, neglected to invest in modernizing the system, avoided adequately funding the utility's pension system, and underinvested in maintenance and resiliency initiatives for its assets. Furthermore, prior to filing for PROMESA Title III protection, PREPA incurred significant legacy debt obligations, failed to implement a long-term capital improvement program, and made decisions based on short-term political gains (e.g., avoiding modest rate increases), all of which have culminated in consistently poor and unreliable service.

This operating model has created an untenable financial and operational situation for PREPA. Politicized management and volatile fuel prices – exacerbated by declining energy demand and an economic contraction – have resulted in PREPA's inability to service its debt, and ultimately resulted in PREPA seeking PROMESA Title III protection in July 2017.[92] For several years prior to filing for PROMESA Title III protection, PREPA lacked access to the capital markets to help fund grid and generation maintenance and modernization investments, further contributing to the poor quality of service experienced by the Island's residents and businesses.

Underinvestment and underdevelopment of the grid, poor maintenance practices, and workforce losses all contributed to an unsatisfactorily performing power sector. Puerto Rico has almost twice as many forced outages as the U.S. industry average.[93] In the immediate aftermath of Hurricane Fiona, the Puerto Rico electric grid is now operating in a condition of heightened risk of load shed which is expected to continue for several months.Prior to Hurricane Fiona, customers were 88 times more likely to have a load shed event, when compared to the average mainland electric customer. They are now approximately 500 times more likely to have a load shed event (compared to the average mainland electric customer). LUMA estimates that post-Hurricane Fiona the electric system likely resembles between one or two baseload units being out and a LOLE around 50 days/year.[94]PREPA also significantly underperformed against mainland utilities:

- **Puerto Rico's emissions from electricity generation remain relatively high** as compared to the rest of the U.S. due to a high reliance on fossil fuels and the continued use of older and inefficient facilities. This is due to a severe lack of investment into generation assets, low asset reliability, and maintenance of a very high reserve margin.
- **High reliance on fossil fuels:** Puerto Rico's generation fleet is highly dependent on fossil fuels. In FY2022, over 97% of the Island's electricity was generated using fossil fuels.95 As a comparison, the U.S. national average was approximately 60% for the same period. Fossil fuel generation makes Puerto Rico vulnerable to changes in fuel prices, which can substantially increase generation costs and thus increase electricity prices for its residents.
- **Lack of capital investments in new generation assets:** Minimal capital investments into generation assets have resulted in an aged and highly unreliable fleet; the average age of PREPA's generation fleet is 41 years compared to the U.S. average of only 18 years. [96,97]

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92 "Puerto Rico's Power Authority Effectively Files for Bankruptcy", New York Times, 2 July 2017

93 PREPA reported 417 forced outages during 2020; U.S. Energy Information Administration (EIA), Independent Statistic & Analysis, Major Disturbances and Unusual Occurrences, Year-to-Date 2020

94 PREB's docket: "LUMA's response to Hurricane Fiona". October 6th, 2022 letter – "Risk Assessment of the Puerto Rico Electric Grid Following Hurricane Fiona, NEPR-MI-2022-0003

95 "Puerto Rico: Profile Overview." U.S. Energy Information Administration, last modified November 21, 2020

96 PREPA, *2019 Fiscal Plan*, p 30

97 U.S. Congress, *Exploring Energy Challenges and Opportunities*, p 4

As a result, asset reliability has been poor, and PREPA is often forced to rely on its diesel generators that would otherwise be inactive or retired. [98]

- **Maintenance of a very high reserve margin:** PREPA has historically maintained a very high reserve margin, keeping more than double the capacity needed to serve demand. Albeit, most of this reserve margin is currently out of service, and reserve margins have been in a precarious state in recent years, consistently falling below best practices[99].

Previous Fiscal Plans of the Commonwealth and PREPA have outlined a comprehensive power sector transformation to address PREPA's financial and operational challenges, which have been caused by mismanagement, underinvestment and underdevelopment of the grid, as well as poor operations and maintenance practices. The first steps on PREPA's transformation journey, that started over the last 3 years, have already led to increased financial stability, as fully described in the PREPA Certified Fiscal Plan.

Chapter 11. Transportation reform

11.1 Current state of Puerto Rico's transportation system

The transportation sector is essential for both economic and social development in Puerto Rico, given its critical role in facilitating the movement of goods and people on the Island. A well-performing transportation system can increase access to jobs and business opportunity, unlocking the productive potential of residents and firms. In turn, a transportation system can increase economic output and invite further private investment.

Meanwhile, a poorly performing system can mire its residents in wasted time, inequitable access to jobs and opportunities, fractured communities and productivity losses. Puerto Rico is currently suffering from several of these factors.

Puerto Rico's transportation sector currently underperforms across a range of outcomes, including congestion, safety and road quality. In 2020, HTA reported to FHWA that 12% of Puerto Rico's lane miles are in "poor" condition; federal law mandates that no more than 5% of lane miles may be in a "poor" state for pavement conditions on the Interstate System.[100][101] As a result, for the second consecutive year, FHWA imposed a penalty and constraints on some portion of its federal allocated funds.[102]

The state of public transit infrastructure and management in Puerto Rico deserves special focus given its many challenges. Congestion is increasing in many metropolitan areas, creating additional delays for commuting and transportation of goods. High congestion is due in part to the minimal use of mass transit; the San Juan metro area has 37,000 more households commuting by

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98 "A review of PREPA's generation patterns reveals that PREPA, in fact, increased its reliance on the diesel generation fleet in FY2015 and FY2016, doubling its use of distributed generation turbines and tripling its use of the diesel Aguirre CC plant." Fisher and Horowitz, *Expert Report*, 31-32

99 See PREB Docket Number NEPR-MI-2022-0003.

100 As defined by 23 USC 103(c)

101 23 USC 119(f)(1) and 23 CFR 490.315

102 In a letter dated September 30, 2020, FHWA informed HTA the determination regarding pavement conditions in the Interstate System. After analyzing the 2019 Interstate System pavement condition data reported by HTA on the Highway Monitoring System, FHWA determined that (1) HTA did not meet the minimum level requirements for pavement condition on the Interstate System as required in 23 USC § 119(f)(1) and 23 CFR § 490.315 and (2) penalty under the provisions of the Interstate System Condition (23 USC § 119 (f)(1) must be invoked pursuant to 23 CFR § 490.317. As a result, HTA will have constraints on some portion of its allocated funds as per 23 CFR § 490.31(e).

private vehicle than would be expected if mass-transit usage matched the U.S. average.[103] As a result of the extra vehicle journeys, San Juan experiences two additional weeks of low air-quality days per year, compared to the U.S. average.[104] Worse yet, NOx and PM2.5 emissions from vehicles are statistically associated with higher mortality rates in the local population.[105] The current transit system suffers from limited efficiency, route coordination, operational cohesiveness and accessibility. These issues result in higher congestion and reduced mobility, particularly for low-income residents who experience long commutes or are forced to bear the costs of owning a private vehicle.

11.2 The future of Puerto Rico's transportation system

To address these issues, a comprehensive reform of the transportation sector on the island is required – please see the HTA Certified Fiscal Plan for the detailed reform initiatives required to transform Puerto Rico's transportation system.

Chapter 12. Strengthening Puerto Rico's technology sector

12.1 Broadband infrastructure

The 2012 Puerto Rico Broadband Strategic Plan (written by Connect Puerto Rico, in conjunction with the Puerto Rico Telecommunications Regulatory Board and the Puerto Rico Broadband Taskforce) established a vision of a Puerto Rico with fast, robust, redundant, and ubiquitous broadband access. Broadband provides numerous socio-economic benefits to communities and individuals, including improving labor market outcomes by enabling remote education and increasing business productivity through better connectivity, providing access to better health care through telemedicine for those in rural areas, and enhancing civic participation through better access to information.

During the COVID-19 pandemic, internet access has become even more important to residents' livelihoods. Across the U.S., telemedicine is becoming more widespread as a way to deliver health services safely. As public and private school systems alike move to distance learning models, students who do not have access to reliable, high-speed internet are unable to participate – and therefore fall farther behind. Finally, many employers have shifted to remote or hybrid working models, meaning participation in the formal sector requires stable broadband access.

Unfortunately, within Puerto Rico, while there was some growth in broadband deployment in 2011-2014 (driven by an aggressive capacity upgrade of cable networks, as well as the deployment of fiber by other broadband providers), critical broadband infrastructure gaps still exist, particularly across rural areas of the Island. As of 2014 (the most recent year for which data is available), while ~99% of urban households across Puerto Rico had access to speeds of at least 10 Mbps download and 1.5 Mbps upload, this was true for only ~66% of rural households (see Exhibit 31 below).[106] Broadband adoption figures across Puerto Rico also reveal a persistent gap among certain demographic groups. Broadband non-adopters in Puerto Rico are generally low-income groups, senior residents, people with disabilities, and/or individuals with less education, which mirrors demographic trends related to broadband adoption on the U.S. mainland. These gaps have

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[103] 22% of San Juan metro area residents commute via carpool, walking, bicycling, or public transit, compared to 27% for the U.S.

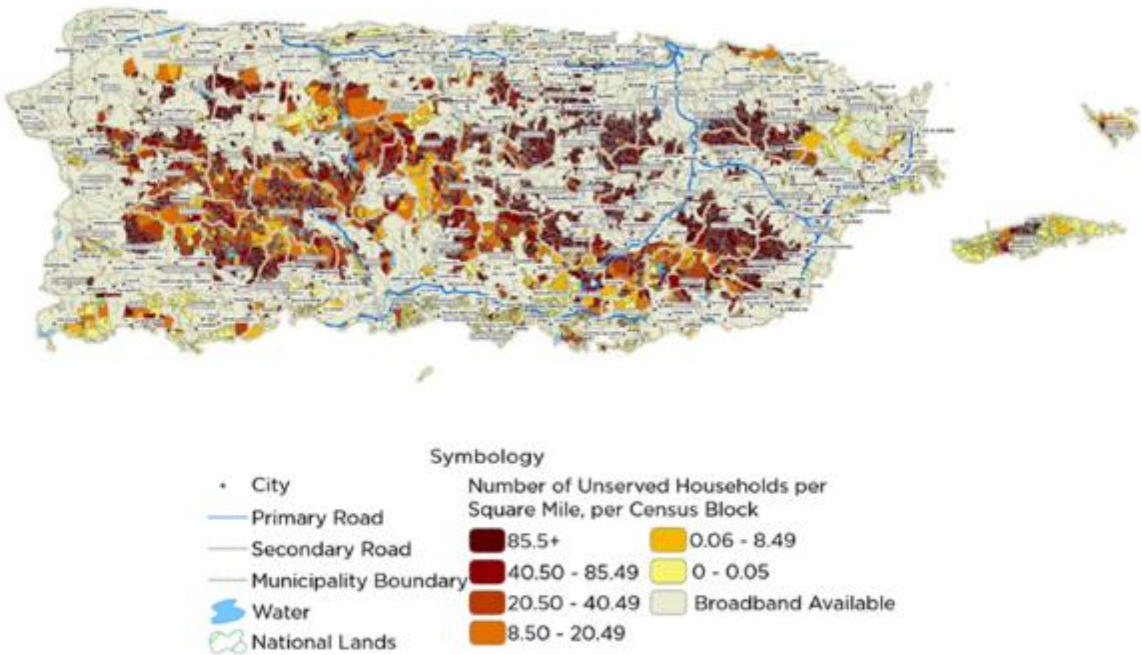
[104] Low air quality defined as AQI > 100; PR has 19 days per year to U.S. median of 4, as per the Department of Natural and Environmental Resources website

[105] EPA estimates excess deaths per ton of emissions at 0.002 for NOx and 0.1 for PM 2.5.

[106] Puerto Rico Broadband Strategic Assessment, 2015

possibly widened since Hurricanes Irma and María, particularly in the mountainous region of Puerto Rico, where topography has hindered replacement of damaged infrastructure.

Exhibit 31: PUERTO RICO BROADBAND STRATEGIC ASSESSMENT (2015) – UNSERVED HOUSEHOLDS



Addressing the digital divide is critical to ensuring that all residents of Puerto Rico can take advantage of the many well-documented socio-economic benefits afforded by Internet connections. These benefits are most evident when people have access to the Internet at speeds fast enough to be considered broadband since these speeds are required to facilitate full interaction with advanced online platforms.

Historically, the Federal Government has created a number of programs to expand and subsidize broadband access throughout the United States, including the Federal Communications Commission (FCC) Uniendo a Puerto Rico Fund, the FCC E-Rate and Rural Health Care programs, and the FCC Connect America Fund (CAF), amongst others. To date, these programs have yet to fully address the particular needs of Puerto Rico with regard to broadband availability, quality of service, and adoption, and significant gaps in service availability and take-up remain. For example, the *Uniendo a Puerto Rico Fund*, an FCC reverse auction program to help rebuild the fixed and mobile broadband infrastructure damaged during the 2017 hurricanes, awarded $385.9 million for a 10-year period totaling ($127.1 million and $258.8 million, for fixed and mobile infrastructure, respectively). Although wide in coverage, this program emphasized availability of service over affordability, adoption and usage and focused on deployment across residential locations, potentially overlooking public institutions.

Furthermore, Puerto Rico was recently awarded significant broadband eligible federal funding through the CARES Act, the CRRSA, and ARPA, but other eligible uses for immediate pandemic response were largely given priority. Finally, while significant new national funding is expected through the recently passed Infrastructure Investment and Jobs Act, funds for Puerto Rico are to be determined, and could be less than expected.

To truly address broadband affordability and accessibility, more investment is needed. As such, the 2023 Fiscal Plan complements federal programs with $400 million in FY2022 (to be used over three years) to accelerate growth in broadband access and expand resident adoption and use of online resources, develop necessary and reliable data through an assessment of broadband availability, incentivize private sector investments in broadband build-out, and to improve access to faster speed offerings in underserved areas (the "Broadband Infrastructure Fund"). This emulates the approach taken by several states such as Illinois, Minnesota, California, and Kentucky. While the overarching goal of all these sources of funding is aligned with that of federal programs, their focus, scope, granting and eligibility criteria, and disbursement timeline are different and complementary.

Meanwhile, in order to maximize the impact of these resources, an integrative, comprehensive, and well-coordinated broadband strategy is required. This coordinated strategy should help overcome barriers to broadband expansion, ensure that all residents, enterprises, and public institutions in Puerto Rico benefit from this capacity, and ensure that critical public institutions (e.g., schools, hospitals, libraries) can stay connected. The goal is that the Broadband Infrastructure Fund will support expansion efforts in unserved and underserved areas through a grant program (the "Broadband Infrastructure Grant Program") that will fund a portion of the cost of deployment in these communities.

The Broadband Infrastructure Fund and its associated grant program, stand to complement the existing federally funded programs by:

- Developing and implementing a purpose-built broadband program for the needs of Puerto Rico
- Updating the Puerto Rico Broadband Strategic Assessment, and establishing a system for continual updates, data analysis and maintenance
- Providing increased penetration and faster connectivity to users, at levels compatible with the 2015 Puerto Rico Strategic Assessment (100/50) and higher than minimum federal requirements (100/20)
- Driving up adoption and usage (~40% of Puerto Rico households do not have an internet subscription)
- Connecting critical public institutions, including schools, hospitals, libraries and public infrastructure that serves government facilities and agencies
- Enhancing resiliency of infrastructure by combining buried conduit aerial and fixed wireless infrastructure
- Encouraging the participation of local vendors (~69% of local residents live in areas where there is only one provider)
- Providing for roll out over a shorter timeframe (3-years as opposed to 10 years)
- Enabling up-to-date and reliable local data distribution supporting FCC monitoring and assessing the digital divide

A successful Broadband Infrastructure Grant Program will require strong leadership, accountability, continuity, and willingness to work with a broad range of entities, both within the Government and the private sector. There are a variety of ways U.S. mainland states structure their broadband programs (e.g., some states, including Minnesota and Colorado, have broadband offices established by statute or executive order, while others, including Tennessee, have staff within an agency dedicated to supporting broadband programs). In the case of Puerto Rico, the

Broadband Infrastructure Grant Program will be managed by a third-party administrator (the "Grant Administrator") who will develop and manage a transparent and user-friendly grant application process, including development of the grant application, and will monitor disbursements from the Broadband Infrastructure Fund, amongst other administrative services.

The previous Fiscal Plan required AAFAF to conduct a transparent, competitive procurement process, as reviewed and approved by the Oversight Board, to select the Grant Administrator. In May 2021 AAFAF had selected the Grant Administrator and started contractual labor in August 2022.

Over the next three years, in partnership with the Federal Government and public and private stakeholders, the PRBP and the Grant Administrator must collaborate to assess, evaluate, and map various opportunities for broadband expansion. Broadband inventory maps and technology assessment research will enable a better understanding of the Puerto Rico broadband market and help define infrastructure needs in underserved regions, as well as ensure that money is sent to the right places. The PRBP and the Grant Administrator, in collaboration with the broadband provider community, information and communication technology providers, K-12 education stakeholders, the higher-education community, healthcare professionals, local government, grassroots community groups working to address the digital divide in their communities, and private sector groups for whom broadband is an essential investment asset, will be responsible for:

- Monitoring, measuring, and assessing the impact of broadband across the Puerto Rico economy
- Measuring and publishing aggregate, industry-wide data regarding broadband investment trends
- Measuring and publishing aggregate broadband use patterns
- Adjusting Puerto Rico economic indicators to estimate and monitor the impact broadband has on the overall economy

Moreover, the PRPB and the Grant Administrator will set up the Broadband Infrastructure Grant Program and develop a solicited proposal mechanism with the goal of providing funding to telecommunications operators and other Internet Service Providers to support broadband deployment in unserved and underserved areas, as well as to improve and make more resilient the Government's telecommunication and technology infrastructure. The Grant Administrator will be overseen by the Puerto Rico Broadband Program Executive Committee which will provide guidance as it relates to the grant administration services and ultimately approve any grants awarded by the Grant Administrator. The Grant Committee will also have one (1) ex-officio and non-voting member from the Oversight Board.

Once funding has been approved and disbursed, the PRBP and the Grant Administrator must institute grant reporting, data collection, and other accountability measures to ensure that funded projects deliver the promised service and provide data necessary for the state to evaluate progress toward its goals. Additionally, and to speed up deployment, the Grant Administrator, in collaboration with relevant telecommunication stakeholders, and the government, must also work to streamline construction permitting and planning, and leverage existing public assets, such as poles, ducts, conduits, and rights-of-ways, to incentivize private broadband investments.

The Grant Administrator will also provide timely information and strategic planning support to grantees who can leverage FCC funding opportunities as part of the broadband build-out. Therefore, program grants will need to "plug in" some of the gaps inherent in the federal programs, like focusing on critical institutions (e.g., schools, hospitals, libraries), enhancing resiliency of infrastructure by favoring buried conduit, encouraging higher speed infrastructure (100/1000 fixed, 5G wireless), and making service more affordable by driving adoption and utilization of disadvantaged populations.

Due to the creation and availability of multiple federal funded broadband programs, and the multiple entities that provide the funding (FCC, NTIA, Treasury), Puerto Rico's Governor, Hon. Pedro Pierluisi enacted Executive Order 2021-040 which creates the Puerto Rico Broadband Program under the Puerto Rico Office of Management and Budget, and created and Executive and an Advisory Committee, to oversee and advice the execution of projects and disbursement of funds. Through the already concluded competitive process held by AAFAF in 2021, Tilson Technologies was selected and contracted to not only serve as Grant Manager and Grant Creator, but also to advise the Executive Committee on the rollout of a comprehensive 5 year broadband execution plan. The Smart Island Initiative (Official name of the 5 year plan) is being developed in conjunction between OMB, the office of the Governor and Tilson Technologies. This 5 year plan will serve as requisite for the different Federal Programs as well as serve as a detailed map for Puerto Rico's Broadband infrastructure and Digital Inclusion projects. Broadband infrastructure projects can not be implemented without a Digital Inclusion plan working along side it.

Although various Federal Funded programs have been made available to Puerto Rico, Capital Project Funds (ARPA/Treasury), BEAD (IIJA), Digital Equity (IIJA), Middle Mile Grant (IIJA), Advance Connectivity Program (FCC), it is imperative to secure the effective usage of local funds for them to serve as complement to these Federal Programs being made available to Puerto Rico. By ensuring the Government enhances measuring, monitoring and strategic oversight of telecoms and internet service providers, the 2023 Fiscal Plan expects to improve the overall infrastructure on the Island and to provide enhanced opportunities—through better and more equal access to education, healthcare, and information—for the people of Puerto Rico. The goals set forth by the 2023 Fiscal Plan, which require Puerto Rico Broadband Program to conduct a data assessment and develop a new strategic plan in consultation with local stakeholders, will ensure a holistic vision for the program, one that is distinct and complementary to other broadband funding streams.

Based on the reality of the different Federal Programs available, and the Creation of the Puerto Rico Broadband Program, the use of the Puerto Rico Broadband Fund should be focused on complementing the different Federal strategies put in place, ensure the agile implementation of specific strategic projects that will capitalize the Investment in Broadband infrastructure, and provide administrative funding for the Puerto Rico Broadband Program in order to effectively administer the 5 Year Smart Island Initiative.

Exhibit 32: ALLOCATION OF STRATEGIC INVESTMENT FUNDING FOR THE TELECOM BROADBAND INFRASTRUCTURE

Cost, $M	FY23	FY24	FY25	FY26	FY27	FY23-27
Continuous Assessment – Update Plan	1.5	1.5	1.5	1	1	6.5
Broadband Grant Program and FF match	0	110	120	110	0	340
Workforce Development	0	6.5	6.5	6.5	0	19.5
PR Broadband Office	2	6	6	6	4	24
Grant Administrator / Grant Program	2	2	2	2	2	10
Total	5.5	126	136	125.5	7	400

In order to achieve all these objectives in a timely manner and ensure access to this funding, the Government must accomplish the following actions by their respective deadlines:

Exhibit 33: REQUIRED IMPLEMENTATION ACTIONS FOR THE BROADBAND INFRASTRUCTURE GRANT PROGRAM

	Action item	Owner	Deadline
To be completed in FY2021	▪ Select Grant Administrator	▪ AAFAF	▪ Completed – May 2021
To be completed in FY2023 and beyond	▪ Perform Broadband assessment	▪ AAFAF	▪ In progress – September 2023
	▪ Setup Broadband Infrastructure Grant Program	▪ AAFAF	▪ In progress – March 2023
	▪ Complete execution of the Broadband infrastructure buildout projects supported by the program	▪ AAFAF	▪ June 2024

12.2 21st Century Technical and Business Education Fund

In addition to funding for telecom and broadband infrastructure, the 2023 Fiscal Plan recognizes the importance of investing to close core skill gaps and ensure the people of Puerto Rico are able to compete in a global economy. Creating an aligned, 21st century workforce that prepares residents of Puerto Rico to thrive is the central challenge to maintaining economic competitiveness over the next decade.

As the pace of technological change has accelerated, one core skill gap in Puerto Rico is around technical capabilities. To close the gap for people who are already in the workforce, Puerto Rico must take a learner-centric approach to make it easier to access targeted technical education.

Meanwhile, as businesses look for new skillsets, they are often willing to look beyond college graduates to fill open roles – especially for technical skills. According to a recent survey by Future Workforce, 90% of employers would hire candidates who validate their knowledge using a certification, digital badge, or coursework in lieu of a college degree.[107] In addition, 55% of employers often offer jobs to people who have not finished college. Today, the number of both traditional and non-degree credentials is rising. There are now 315,067 unique credential programs from non-academic organizations, with the largest categories being digital badges and online course completion certificates. Coding bootcamps, which have appeared recently, were responsible for over 1,000 unique credentials.

In Puerto Rico, there are initiatives such as Codetrotters Academy, which offers 10-week certification programs in web and mobile development, and the Holberton School, which recently opened a campus on the Island. However, these programs are limited and may not be affordable to many residents. In addition, they mostly focus on web development and programming, thereby leaving an array of important technical areas uncovered, such as cloud infrastructure, server administration, cyber security, business intelligence, artificial intelligence (AI), and machine learning (ML).

Addressing the need for additional short-duration technical and business education opportunities requires forceful and forward-thinking leadership. To spearhead this drive for Puerto Rico, the 2023 Fiscal Plan allocates $50 million for a 21st century Technical and Business Education Fund. The 2020 Fiscal Plan required AAFAF to conduct a transparent, competitive procurement process as reviewed and approved by the Oversight Board to select an organization to serve as the administrator of these funds (the "Education Fund Administrator"). The selected Education Fund Administrator must have a staff of experienced professionals and a dynamic network of collaborators that include a broad range of private and government organizations. However, given that the Department of Economic Development and Commerce (DDEC) has talent and workforce development as one of their priorities in their economic development framework, PRoposito, and they are the recipients of funds under the Workforce Innovation and opportunity Act (WIOA), FOMB has agreed to make DDEC the owner of this initiative.

DDEC decided to divide the task in two: (1) hire a consultant tasked with developing a plan for 21st century technical and business skills for the entire workforce pipeline in Puerto Rico. The plan will prioritize the technical and business areas/skills to focus on, and the program will partner with multiple stakeholders in catalyzing and evolving the skills ecosystem. (2) a fund administrator that will run the program of grants that is designed in the Skills Plan. Grants would be made available for programs that are certified by the Education Fund Administrator, which would do so in alignment with the skill development plan.

To support these efforts, the Education Fund Administrator must establish an engagement mechanism with stakeholders (e.g., a private sector taskforce), publish the results of its skills assessment report, create the supporting infrastructure for the scholarship program, and put in place a regular monitoring and evaluation process.

Furthermore, the plan will allow universities and private providers to develop and open programs in anticipation of fees from the scholars' enrollment. Given the importance of online learning, the plan should also encourage programs to be offered in multiple formats, be it online, on campus, or a hybrid of the two.

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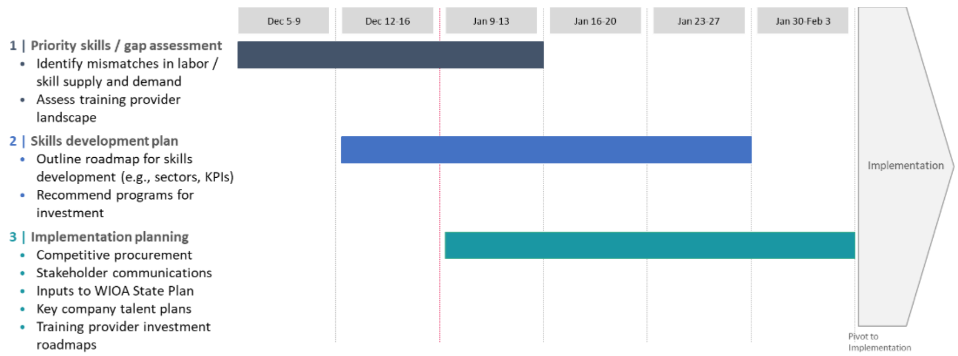
[107] Future Workplace and Wiley Education Services, "Closing the Skills Gap," 2019

To date, DDEC has hired the consultant tasked with the Skills Development Plan, which is expected to follow the following timeline (Exhibit 34):

Exhibit 34: BROADBAND INVESTMENT TIMELINE



Chapter 13. Tax Reform

While the 2023 Fiscal Plan does not include any tax reform, the Government is in the process of evaluating additional reforms which may be included in future Fiscal Plan submissions. The objective of the tax reform is to renew the economy by encouraging job creation, growth, and prosperity. Specifically, the Government is in the process of evaluating reductions in Personal Income Tax rates and Corporate income tax rates to understand the potential impact on:

- Central Government revenues,
- Competitiveness,
- Economic activity (real GNP), and
- Other factors

Upon completion of the economic and fiscal analysis of any potential future reductions in PIT and CIT, the Government will engage with the Oversight Board to discuss its findings, potential revised income tax structures and discuss implementing any proposed reform in the most fiscally responsible manner.

PART: 4 - Instilling a culture of public-sector excellence

Chapter 14. Cultivating a high-performing public workforce

14.1 Overview of the Civil Service Reform: Approaches, Methods, and Objectives

The Government of Puerto Rico and the Oversight Board have been working collaboratively to change the way government works and manages its human resources for generations to come, by co-designing and implementing a comprehensive and integrated Civil Service Reform, as initially established and outlined in Chapter 13 of the 2021 Fiscal Plan certified on April 23, 2021 and further developed in Chapter 12 of the 2022 Fiscal Plan. This 2023 Fiscal Plan delineates the strong progress achieved thus far, highlighting key milestones and objectives achieved in the journey towards the successful completion of the CSR pilot in Hacienda and OGP, planning for scaling and dissemination of the reform across government, and information on the funding and budgetary impact of the reform.

The ultimate objective of the reform is to build a more efficient, effective, and accountable government through the creation of an improved work experience and an enhanced employee value proposition for public sector employees. Civil servants are under increasing pressure to deliver important public services in an environment that demands more of them to build a high-performing government. The Government of Puerto Rico requires Civil Service Reform to equip civil servants with the appropriate skills, structure, and support to tackle on current and future needs effectively and to empower the workforce to carry on professional duties with competence and excellence.

The Civil Service Reform seeks to meet this objective by:

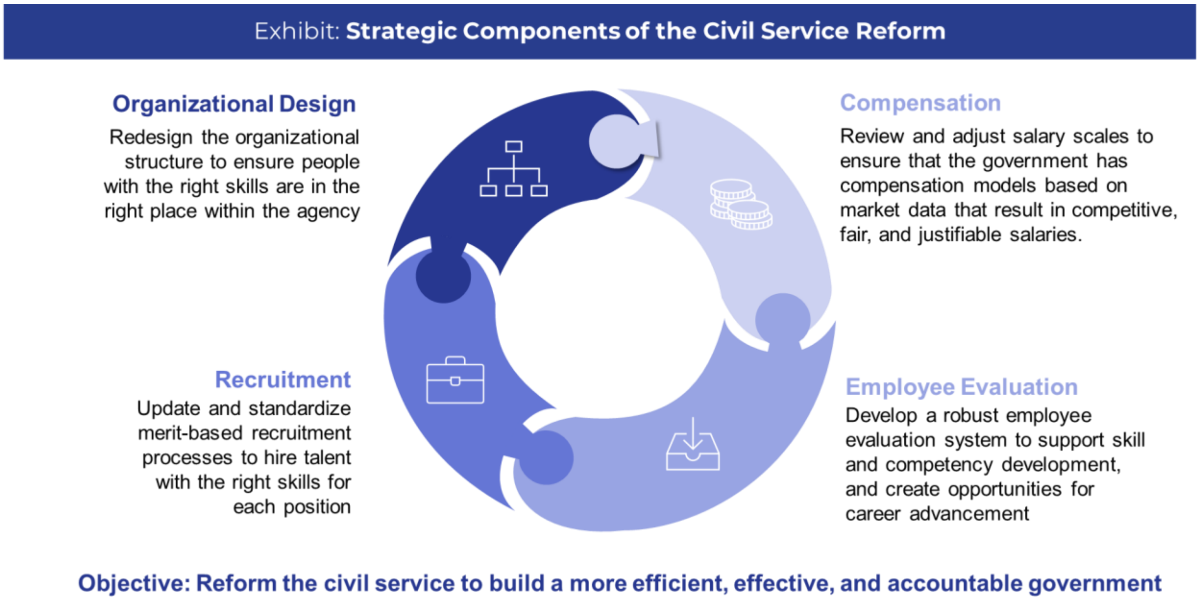
(1) revamping disjointed and outdated organizational structures across government, ensuring people with the right skills are at the right place within the organization and mission-critical functions are adequately staffed (Organizational Design),

(2) reviewing and adjusting compensation structures and ensuring the government has data-driven and market-based compensation models that lead to competitive, fair and justified salaries (Compensation),

(3) building a robust employee evaluation system to support the continuous development of core, technical, and leadership skills and developing clear paths to career advancement to promote greater motivation, engagement, and retention (Employee Evaluation and Development), and

(4) enabling tech-driven and streamlined recruitment processes to recruit the right talent for each role (Recruitment; see Exhibit 35 for the strategic components of the reform).

Exhibit 35: REQUIRED IMPLEMENTATION ACTIONS FOR THE BROADBAND INFRASTRUCTURE GRANT PROGRAM



The four strategic components that constitute the CSR, as seen in Exhibit 35 are intimately intertwined and connected and are essential to achieve lasting change in the management of human resources in the Government of Puerto Rico. Framing and addressing the perennial problems faced by the public workforce solely from a remunerative perspective will not result in the necessary transformation of human resources management in the government. While adopting a compensation system and philosophy that ensures competitive, equitable, and justifiable salaries in government is a crucial pillar of good human resource management, other important areas such as operating in an up-to-date organizational structure with clear lines of supervision and roles, having a transparent, merit-based recruitment process, and an employee-centric evaluation system centered around professional development, are also vitally important to transform the public service.

This reform was conceived and ultimately included initially in the 2021 fiscal plan after extensive research into the current state of human resource management in the Government of Puerto Rico, including an analysis of Act 8-2017, formally known as the "Human Resources Administration and Transformation Act,"[108] and its corresponding regulation, analyzing detailed statistical information of the roster of central government personnel, including information on salaries, years of service, academic preparation, age, and gender[109], and engaging and building relationships with key government leadership and stakeholders for strategic alignment. This led to the Government of Puerto Rico and the FOMB reaching an agreement to include the Civil Service Reform (CSR) in the Certified Fiscal Plan published on April 23, 2021, tied to the implementation of a new uniform compensation system for employees of the central government. For more on the origins, approaches, and methods of the reform, the urgent need for civil service reform and the revamping of HR policies and procedures, please refer to sections 13.1 and 13.2 of the 2022 Fiscal

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108 See "Designing an Effective Civil Service Reform in Puerto Rico" https://drive.google.com/file/d/1fgeeRkQKvDDgocrs2nV6evaUcJNaHLkH/view

109 See "Civil Service in Puerto Rico – Statistical Analysis" https://drive.google.com/file/d/1cbjIMnQWEOmHdXRKy-aAptop2dwQ5AFG/view

Plan and the first volume of a series of essays on the CSR Pilot and its strategic components titled "Planning and Implementation of the Civil Service Reform of the Government of Puerto Rico: Methods and Practices".[110]

14.2 Key Milestones Achieved in the Civil Service Reform Pilot by Strategic Component

Given the administrative challenge of implementing a reform as comprehensive and complex as the CSR, it was recommended to start with a pilot. A pilot-then-scale approach enables government leadership to see reforms in action and allow for policy changes and new programs to be adapted and modified as required prior to a larger-scale, government-wide (i.e., agencies that must adhere to Act 8-2017 and are under OATRH's jurisdiction)[111] implementation. The lessons learned from the Pilot will guide the design parameters of the broader reform implementation across central government agencies during calendar year 2023 and beyond.

The pilot program commenced in July 2021 in critical finance- and accounting areas in Hacienda and OGP given the financial management and reporting challenges faced by these agencies which are central to the effective operation of the government of Puerto Rico, and the overreliance on outside contractors in mission-critical, day-to-day functions (For more on why accounting and finance functions in Hacienda and OGP were chosen, see sections 12.3 and 12.4 of the 2022 Fiscal Plan).

One of the guiding principles regarding the development and implementation of the CSR Pilot was the inclusion and active participation of all employees, not just top agency leadership. Successful implementation of an ambitious and ongoing reform agenda as proposed by the CSR requires the buy-in and support of all employees impacted. Therefore, a participatory, bottom-up approach has been adopted throughout all stages of the Pilot. Qualitative data collection methods such as interviews, focus groups, and surveys with in-scope pilot employees and supervisors were utilized to understand the current landscape of both agencies. A total of 37 interviews with supervisors were conducted, 11 focus groups, and 230 employees participating in the pilot completed a self-assessment survey to capture data on the employee's current workload and level of expertise on the competencies required to perform their role. In this way, information was obtained directly from the employee about the needs and opportunities to improve their work areas. Employees experience the organizational and administrative reality of agencies every day and know first-hand the challenges faced by their respective areas of work. That is why it is imperative to incorporate the active participation of employees in any process of organizational change and of human resources.

Change management planning and implementation, that is, the process of helping employees understand and adopt an organizational change, be it of a new technology, work process, or objectives, was a central component within every workstream of the Civil Service Reform Pilot. To achieve success in this type of reform, employees must be well-informed of the project progress, understand the rationale behind the changes, the impacts on their work and functions, and benefits and value-added the changes bring. This often eases any initial apprehension or confusion

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110 See "Planning and Implementation of the Civil Service Reform of the Government of Puerto Rico: Methods and Practices" https://drive.google.com/file/d/1Lpi2amJGvD2CPV7Q5Jhg4pcU6Jmgbzj-/view

111 Government-wide, as used in this specific context, is defined as the central government agencies under the Office of the Administration and Transformation of Human Resources' (OATRH, for its Spanish acronym) jurisdiction as per Act 8-2017, formally known as the "Government of Puerto Rico Human Resources Administration and Transformation Act." Employees in these agencies will be part of the new Uniform Classification and Remuneration Plan ("URP"). These employees only represent approximately 25% of the public workforce given the large number of agencies excluded from Act 8-2017.

employees may have about the changes and increases the likelihood of employee buy-in and project success. Organizational reforms that introduce new processes, technologies, and changes in human resources frequently fail because they do not set aside time and resources to design a change management plan and communicate with all stakeholders. While change is a fundamental part of organizational evolution and maturity (technological changes, processes, or organizational structure), achieving change successfully must include a well-designed change management strategy. Beyond this reform, the Government of Puerto Rico should see change management as an essential part of public administration.

14.3 Organizational Design

The organizational design component of the CSR Pilot included an organizational review and restructuring of several critical areas within Hacienda and OGP, to provide a future state organizational design and workforce capabilities investment recommendations focused on enabling more effective financial management and reporting at the Commonwealth.

In the case of Hacienda, sections and divisions were consolidated to make work areas more efficient, with clearer lines of supervision in all areas of the organization, the Financial Statements Office was restructured and strengthened with new principal and senior accountant positions, a new Customer Service Center was created to consolidate administrative and transactional activities to streamline internal and external consultations, and an Operational Center of Excellence (CoE) was established focused on carrying out continuous improvement and optimization studies of operational areas within Hacienda through process reengineering, data analysis and visualization, and the development of digital solutions.

The organizational component of the pilot program also brought about important changes in OGP including a new Center for Management and Innovation replacing the Public Management Area, equipped with new resources to be able to lead the transformation of the government, and the development of more specialized work divisions in the Budget Directorate to achieve greater focus and effectiveness in budget management activities.

When the new organizational structures were established in Hacienda and OGP, the job Classification system was revised to ensure that the positions were aligned with the future-state structures. Furthermore, one of the top recommendations at the pilot agencies was the recruitment of new positions to close skills gaps in critical areas leveraging external talent pools. After the development of the new structures, the positions for new recruitment in each functional area of the pilot were identified. In total, the recruitment of 102 new positions was recommended in both agencies, 75 in Hacienda and 27 in OGP. Positions vary between areas of accounting, data science, project management, technology, and others.

14.4 Compensation

A compensation benchmarking analysis for in scope pilot job classes is a core component of the CSR Pilot to ensure their pay is closely aligned with market competitive rates of public- and private-sector peers. Pay or compensation benchmarking may be defined as “a process of collecting data on the compensation for comparable jobs in the public- and private-sectors to establish their market rate.” In other words, it is a gap analysis of what a current employee makes relative to the wider market.

Employee salaries were compared to market salaries for each job classification to determine the number of employees below the minimum of the market’s competitive range. The analysis revealed that the salary of most of the employees participating in the pilot were below the minimum of the competitive range. In the case of OGP, 80% of the employees were below the competitive range, while in the case of Hacienda, 73%. Pilot employees who were paid below the minimum of the competitive range (90% of the median) within their new job classification received a salary adjustment, while employees who were above the minimum of the competitive range did not receive an adjustment. With the application of this methodology, no employee who participated in the Pilot has a salary below the market-based competitive salary. (For more on the market-based compensation methodology, refer to the CSR Pilot Essay Vol. 1 titled "Planning and Implementation of the Civil Service Reform of the Government of Puerto Rico: Methods and Practices)

Act 8-2017 imposes on OATRH the responsibility of establishing a Uniform Remuneration Plan (URP) for central government employees. FOMB, in collaboration with OATRH, collected labor market data for the job classifications that were not part of the CSR Pilot, and developed a new URP. The 2022 Fiscal Plan establishes that the implementation of the Uniform Plan will occur in January 2023, pending compliance with the implementation parameters of the Civil Service Reform established in Chapter 12 of the 2022 Fiscal Plan. When the new URP comes into effect, all pilot employees will be placed on a corresponding pay scale. As a result, there could be a change in the salary established by the Pilot, but no employee of the Pilot will receive a salary lower than the one determined for the Pilot once the new URP comes into effect.

14.5 Recruitment

The recruitment process optimization portion of the reform was divided into two phases. In Phase 1, as part of the CSR Pilot, the government launched a centralized, updated, and modernized job posting registry. A new uniform application was also developed and integrated into the online platform. The new Job Registry available at www.empleos.pr.gov, whose development was led by OATRH in close collaboration with the Puerto Rico Innovation and Technology Service (PRITS), was launched in July 2022. The updated recruiting landing page showcases current vacant roles and features an easy way for candidates to navigate towards available job openings, easily upload their resumes and other relevant documentation, and apply to their selected role(s).

The launch of the job portal was complemented by an employer brand campaign which highlights the exciting new positions available in Hacienda and OGP and what the government has to offer more generally. These efforts to make applying to the government more streamlined, combined with an employer brand and recruitment campaign designed to attract and inspire top talent, proved fruitful. Close to 1,400 applications were received just for OMB and Treasury positions as a direct result of the CSR Pilot.

In Phase 2 of the recruitment process optimization efforts, which will occur as part of the governmentwide CSR implementation in 2023, remaining recruitment solutions will be implemented. These include strengthening strategic workforce planning and data-driven HR analytics capabilities to more accurately determine human capital needs, leveraging information and communications technologies to further enhance the candidate experience, improve the back-end processes for HR departments, and ensure compliance with rules and regulations, and revising antiquated recruitment policies and procedures which negatively impact time-to-hire metrics. At the core of these efforts is building a culture where data and metrics are regularly used to inform HR decision-making. For more on recruitment optimization efforts as part of the reform, refer to

Vol. 2 of the CSR Pilot Essays titled “Transforming Recruitment in the Government of Puerto Rico”.[112].

14.6 Employee Evaluation

The fourth strategic component of the CSR consists of developing and implementing an employee evaluation system focused on professional growth and development which follows leading practices. The new System for Employee Evaluation for Professional Development (SEE-PRO)[113], as the new competency-based employee evaluation system is called, permits employees to identify and communicate effectively their skill needs and desired areas of development.

The skills framework developed as part of the employee evaluation cycle piloted in Hacienda and OGP is aligned with the mission of the Government of Puerto Rico and consists of core competencies that all government employees must have, leadership competencies all government employees in supervisory positions must have, and technical competencies directly related to job position and functions. Performance-related, open questions were also included.

On June 16, 2022, a two-week window commenced allowing employees participating in the pilot in Hacienda and OGP to conduct their self-assessments, followed by the supervisors’ evaluation of each of their team members to identify skill gaps and areas of opportunity. In Hacienda, 97% of supervisors completed the evaluation of pilot employees, while in OGP 98%.

Once the employee evaluation data was collected, the information was analyzed and aggregated to create agency-level skill-gap dashboards. These were then utilized by senior management to set agency-level human capital development goals. Employees ultimately received their individualized report highlighting areas of opportunity. Employees and supervisors then had the opportunity to engage in a meaningful conversation to discuss the results and devise an individualized professional development plan to close the identified skill gaps.

Once meaningful conversations took place, with 100% of supervisors and employees that are part of the CSR Pilot completing this critical milestone, and employees were able to select three areas of opportunity to focus on, a data science exercise was conducted to match skill improvement areas with resources from an online learning platform. For every skill that was chosen during the meaningful conversations, relevant and applicable courses were selected from an online or e-learning platform. Curated learning paths for every competency were developed, providing the employee with several courses of differing lengths and complexity.

During the entire evaluation process, employees, supervisors, and top leadership were trained and supported through various change management activities, communications, and resources, including reference guides, a frequently asked questions document, videos, webinars, and open-door office hours. To gauge employee buy-in and optimism of the newly conceptualized employee evaluation, pulse surveys were administered. It was found that 75% of pilot employees believe the new employee assessment system will help them identify skills gaps and 77% believe that the new evaluation system will help them in the development of their career.

For more on the new skill development focused employee evaluation, see Vol. 3 of the CSR Pilot essays.[114].

112 https://drive.google.com/file/d/19TU27Xo_Lndkw7DLpXoM2ZvnPMn7ZDEu/view

113 Known in Spanish as the “Sistema de Evaluación para el Desarrollo Profesional (SED-PRO)”

114 https://drive.google.com/file/d/1ce5FQrdBVj3uog1taBd3SUj1kLnj4f6Z/view

14.7 CSR Pilot Audit Report and Governmentwide Scaling of the Reform

As established in the 2022 Fiscal Plan, one of the key components of the CSR is a new Uniform Classification and Remuneration Plan ("URP") to be implemented in January 2023 for central government entities ("government-wide") and corresponding employees under the jurisdiction of the OATRH, pending compliance of certain milestones and objectives by the Government by December 2022. One of the pivotal milestones for the release of new URP funds in January 2023 is to complete and successfully implement the CSR pilot, as per an FOMB audit.

To provide clarity and transparency regarding the guidelines and criteria to be used in the audit of the CSR Pilot, FOMB submitted to the government in June 2022 a document detailing the critical CSR milestones and objectives that must be achieved for the new Job Classification and Compensation Plan to come in effect in January 2023

Below is the checklist that the Oversight Board used to determine whether specific CSR Pilot milestones and objectives by strategic component (i.e., organizational design, compensation, recruitment, and employee evaluation) were completed.

Exhibit 36: CSR PILOT EVALUATION CHECKLIST

1. Organizational Design	**Completed or Not Completed**
1.1 New organizational structures and reclassifications were developed and approved by relevant parties	Completed
1.2 Communication and engagement activities (i.e., employee townhalls and OATRH letters) to share new organizational structures and reclassifications with employees were executed.	Completed
1.3 New positions required for new organizational structures were identified, (job) descriptions were developed, and associated salaries benchmarked.	Completed
2. Compensation	
2.1. All in scope pilot employees were assigned a new classification, the position benchmarked using new market-based compensation methodology, and salary was adjusted based on methodology.	Completed
3. Recruitment	
3.1 New digital, web-based recruitment landing page was developed and launched.	Completed
3.2 Critical new positions identified in new organizational structures were loaded and launched on the new digital, web-based recruitment platform developed by the government in close collaboration with OATRH.	Completed
3.3 Agency (Hacienda and OGP) HR ONLY usage of the new recruitment platform to evaluate and review candidates for new critical positions.	Completed
4. Employee Evaluation and Professional Development	
4.1 New digital platform for employee evaluations has been developed and finalized.	Completed

4.2 In scope employees (both supervisors and staff) received employee evaluation guidelines and training to ensure successful completion of employee evaluation cycle.	Completed
4.3 All in-scope employees in Hacienda and OGP completed the employee evaluation cycle using the new digital platform.	Completed

Thanks to the commitment of government leadership, and the productive and collaborative work with FOMB staff, all CSR pilot objectives were successfully met. Strong positive feedback has been received thus far from key stakeholders on the approach and practices employed in the CSR Pilot. Nevertheless, important lessons have been gathered throughout the pilot which will help inform and shape future scaling efforts. Continued collaboration and a renewed and ongoing commitment from all stakeholders is critical to scale and disseminate the reform across government.

In addition to the CSR Pilot audit report, FOMB carried out a post-mortem analysis to gauge employee sentiment around the Pilot to determine areas for improvement and lessons learned to prepare for the government-wide rollout of the reform. A survey was given to all pilot participants for this purpose. Interviews and focus groups with Hacienda and OGP leadership, supervisors, and employees were also conducted.

Employees in general had a positive view of the pilot program, and agency leaders saw it as a critical step for the government of Puerto Rico, with 67% of survey participants saying that the pilot at least somewhat improved their experience as a government employee. Most employees have felt involved in the reform and are eager to see it grow. With regards to compensation, 80% of participants who received a salary adjustment were at least somewhat satisfied with their salary adjustment. When employees were asked about their experience with the new employee evaluation system, most said that the ability to take online courses in an e-learning platform improved their experience as a government employee the most, even above compensation. Additionally, 96% of participants noted that the meaningful conversation with their supervisor was at least somewhat helpful. Overall, the CSR pilot has been viewed as a good start to important changes in government. However, most were in agreement that despite the strong progress, there is a lot of work to be done to instill transformative and lasting change.

14.8 CSR Government-wide Implementation Planning

Following the successes achieved by the CSR Pilot, the government of Puerto Rico was able to establish, in agreement with the FOMB, a new pay scale system for the civil service employees under the jurisdiction of Act 8-2017. Using the salary benchmarking process, the new pay scales aim to make the government a more attractive employer, as well as to be competitive with the private sector. As such, part of the compensation component of the CSR has been fulfilled across all Act 8 agencies.

However, the government must issue regulations pertaining to all other aspects of our public servants' compensation, in accordance with its new compensation philosophy, which entails the following:

- Base Salary: Pay market competitive salaries and set pay for new employees at 90% of the median
- Bonuses: Reward employees for stellar contributions with small rewards/bonuses
- Hot Jobs: Pay above market for mission-critical or "hot" jobs
- Internal vs External equity: Maintain fair and equitable salary levels by considering external competitiveness and internal equity across agencies

- Communication: Deliver regular, branded messaging that improves awareness and perception of the employee value proposition
- Transparency: Provide clarity and visibility into the compensation program
- Employee evaluation: Employee evaluation of competency and proficiency should be considered for promotions and upward mobility
- Individual performance: Develop a more collaborative culture that does not significantly link pay and individual performance
- Manager discretion: Allow low to moderate manager discretion when deciding salary increases
- Total rewards: Attract and retain top talent based on the employee value proposition.

Therefore, for the CSR to be successful and lasting, the government must frequently devise and review its compensation policies, so as not to stagnate as had happened prior to the approval of Act 8 and the CSR implementation. The FOMB firmly believes in the CSR and is committed to collaborating with the government to continually review and approve any budgetary measures needed to ensure its full realization, while also providing additional support and resources to OGP and OATRH, which are the agencies directly tasked with the government-wide implementation of the CSR.

Considering the abovementioned, the Oversight Board has been aiding OATRH with its internal reorganization, which aims to assign additional budgetary, human and technical resources to maximize efficiency with its processes. To wit, OATRH must increase its personnel and technological means in areas such as: benchmarking analysis; recruitment and management of empleos.pr.gov, and continuing education for public servants, among others to be determined as part of the reorganization. With this restructuring, as happened with OGP and the Pilot, OATRH will have the added capacity to fulfill the parameters set forth by the CSR.

In addition to maximizing OATRH's internal technical processes, the Oversight Board understands that the Human Capital Management (HCM) component of the ERP must be prioritized in terms of periodic deliverables that can be obtained prior to the complete launch of the system. As has been previously established, there is an imperative need for HCM tools government-wide, and their implementation will undoubtedly result in savings and efficiencies, particularly those related to payroll.

Furthermore, because of the implementation of the CSR for career positions, OATRH must elaborate a Uniform Remuneration Plan for trust positions in government agencies, as dictated by Act 8. Since trust positions are those in charge of formulating and ensuring compliance with public policy mandates, they must be assigned to a superior pay scale than career employees. The government will in turn ensure that the use of trust positions will not proliferate, and that the permanent services provided by agencies be undertaken by career employees.

Moreover, in furtherance of its commitment to the continuing development of the CSR principles, OATRH will conduct a thorough review of the government's recruitment policies and/or regulations, as well as its general human resources administration guidelines, and will issue the corresponding directives to facilitate and encourage the acquisition and retention of new talent, as well as promote inner mobility of employees as needed by the different entities of the executive branch.

Chapter 15. Reprioritizing agency spending to enable investments

In accordance with Section 201(b)(1) of PROMESA, the Fiscal Plans for Puerto Rico "provide a method to achieve fiscal responsibility and access to the capital markets." When the Fiscal Plan process began in 2017, the Government had approximately 16,500 employees across 123 Executive, Legislative, and Judicial branch government agencies, excluding large instrumentalities.[115,116,117]

To assure the delivery of essential services while achieving financial sustainability, the Government must focused on operational efficiencies to enable better service delivery in a cost-effective way. A leaner, more efficient, and transformed future Government of Puerto Rico should wherever possible reflect mainland U.S. benchmarks in terms of both number and size of agencies.

The 2023 Fiscal Plan outlines operational and process improvements that must be made to use resources more efficiently—including staff, equipment, services, and buildings—across agency groupings such as Education (PRDE), Corrections (DCR), Health (DOH), and Public Safety (DPS). The goal of such efficiency measures is to improve the quality of the underlying services for the population while also directing valuable resources toward priorities and achieving the cost savings needed to balance the Government budget.

The implementation of 2023 Fiscal Plan initiatives is required to achieve operational efficiency and improve government services. More than ever, given the significant influx of federal funding received as a result of natural disasters all agencies **must** ***develop a long-term financial plan to serve as a concrete working plan to allocate State and federal resources in order to meet short and long-term objectives. A comprehensive long-term financial plan*** **must** ***have clear milestones, deadlines and actions that account for agency needs (short and long-term), while also focusing on implementing crucial agency efficiencies detailed in this chapter.***

15.1 Department of Education (PRDE)

The Puerto Rico Department of Education (PRDE) is the largest government agency within the Commonwealth; its ~45 thousand employees are charged with providing high quality education for ~245 thousand K-12 students across the Island at 858 schools. PRDE is working to improve educational outcomes for students through education reforms. Additionally, PRDE and other public agencies are undergoing broader Civil Service Reform to build capacity among personnel (beginning with finance and accounting functions) in order to address challenges and opportunities. For these reforms to be operationally and financially sustainable, this chapter outlines measures for PRDE to develop its internal capacity and underlying systems that support delivery of a high-quality public education to the Island's students. Given the immeasurable effects of the COVID-19 pandemic and other natural disasters on student learning, as well the substantial amount of stimulus funds received, there has never been a greater opportunity to invest in operational process improvements that can equip PRDE with the capacity needed to provide better services to the children of Puerto Rico.

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[115] These include Puerto Rico Electric Power Authority (PREPA), Puerto Rico Aqueduct and Sewer Authority (PRASA), Highways and Transportation Authority (HTA), University of Puerto Rico (UPR), Public Corporation for the Supervision and Insurance of Cooperatives (COSSEC, by its Spanish acronym), and the Government Development Bank (GDB)

[116] Excludes transitory employees.

[117] Excludes agencies which currently have $0 operating budget and no employees.

Exhibit 37: PRDE AGENCY EFFICIENCY SECTIONS

Chapter 15.1 – PRDE Agency Efficiency section
15.1.1 Procure goods and services efficiently
15.1.2 Support classroom staffing by managing student-teacher ratio
15.1.3 Support attendance metrics
15.1.4 Support effective school leadership
15.1.5 Strategically manage finance functions
15.1.6 Support implementation of student-based budgeting
15.1.6 Manage PRDE's building portfolio and invest in infrastructure
15.1.8 Sustainably serve all eligible Special Education students
15.1.9 Provide transportation services for all eligible students

4.15.1.1 Procure goods and services efficiently

School systems must be able to provide classrooms the resources they need in a timely matter. PRDE has faced consistent challenges because of a high volume of low-dollar purchase orders that create inefficiencies, lengthy approval processes, and highly manual processes.

During FY2021, PRDE took some initial steps to implement new subcategories in the financial system (Financial Information System of the Department of Education or SIFDE by its Spanish acronym) to better classify and assess spend, as well as identify areas for vendor consolidation and/or other procurement efficiencies.

During FY2022, FOMB supported PRDE to engage in a procurement study to identify potential areas of improvement to help the Department provide timely, necessary resources to classrooms. The study identified several challenges:

- High volume of small dollar-value orders which require significant employee time to process
- Lack of strategic planning and sourcing vehicles which reduce potential economies of scale
- Manual processes and multiple approval which create bottlenecks

Milestones for FY2023 procurement would focus on reducing volume of transactions and improving PRDE's ability to make data-informed spending plans, focusing on areas like:

- Launch a P-Card program to streamline certain categories of purchases at the school level and reduce the quantity of purchase orders significantly
- Conduct a spend analysis to categorize purchases, identify efficiencies, and enable additional strategic recommendations
- Enhance procurement software to improve SIFDE's functionality to streamline processes and reduce quantity of purchase orders
- Enhance the procurement process to create a forward-looking annual plan[118]

This work is particularly critical considering the upwards of $4.6b PRDE has received in stimulus funding that must be spent before funding expires in September 2024.

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[118] Additionally, PRDE must comply with Act 73-2019, as amended, which requires the agency to prepare an Annual Procurement Plan based on the agency's annual estimate of probable needs and purchases

Exhibit 38: PRDE AGENCY EFFICIENCY SECTIONS

Chapter	Milestone description	Alignment to PRDE 2022-27 strategic plan
Chapter 15.1.1	**Procurement**	
15.1.1	a. Launch a P-Card program that streamlines low dollar value material purchases at the school level to reduce the number of purchase orders b. Classify and analyze spending data to identify trends and areas of time/spending efficiencies c. Enhance procurement software functionality to improve transparency and efficiency d. Support development of an annual procurement plan to improve strategic decision-making capabilities	a. Evaluate and improve administrative processes to increase operational efficiency and eliminate bureaucracy

4.15.1.2Support classroom staffing by managing student-teacher ratio

Managing to a student-teacher ratio target is a leading practice for school systems, including PRDE, to staff classrooms in a way that supports student achievement and is also financially sustainable. PRDE sets class size limits through its Organización Escolar policy, which guides how many classroom teachers a school should have to meet the needs of its students. The student-teacher ratio[119] is a measure of how efficiently PRDE implements this staffing policy. When students do not divide equally into the maximum class size, this causes "breakage" and decreases efficiency (adds more teachers). Student-teacher ratio targets were developed with a view toward school enrollment inefficiencies on the Island and the resulting teacher breakage that results; if PRDE staffs schools in line with its student-teacher ratio target, it will be able to allocate teachers in accordance with its own staffing policy and is operate at the expected number of teachers that match its budget.

PRDE currently has a student-teacher ratio that is less-efficient than its target of 18.5, in large part because it has used its staffing platform to approve exceptions outside of its Organización Escolar policy in FY22 (~2,000 exceptions approved in FY22). While there are a variety of valid reasons a district may choose to approve staffing exceptions for schools, districts must make these decisions with a clear understanding of budget implications and funding sources. In FY2023, PRDE has one-time funds available through ESSER that can serve as a funding source for staffing exceptions, however these will expire at varying points up to September 2024[120].

Because of ongoing declining enrollment, PRDE will continue to faithfully apply its staffing policy to meet its budget goals. Milestones in this chapter promote teacher staffing decisions that would align PRDE to a target student-teacher ratio that supports student achievement, appropriate class size and financial stability.

Exhibit 39: TEACHER HEADCOUNT AND STUDENT ENROLLMENT

119 The student-teacher ratio calculation is based on data from the Department and includes both general education students as well as Special Education students who spend most of the school day in inclusive classrooms with their general education peers (known as "salón recurso"). The teachers counted in the student-teacher ratio are those that teach core subjects and/or homeroom classrooms. The staffing of all other teachers (previously referred to as 'non-academic' teachers) is expected to be rightsized through attrition.

120 https://oese.ed.gov/offices/education-stabilization-fund/elementary-secondary-school-emergency-relief-fund/

PRDE historical and target teacher headcount

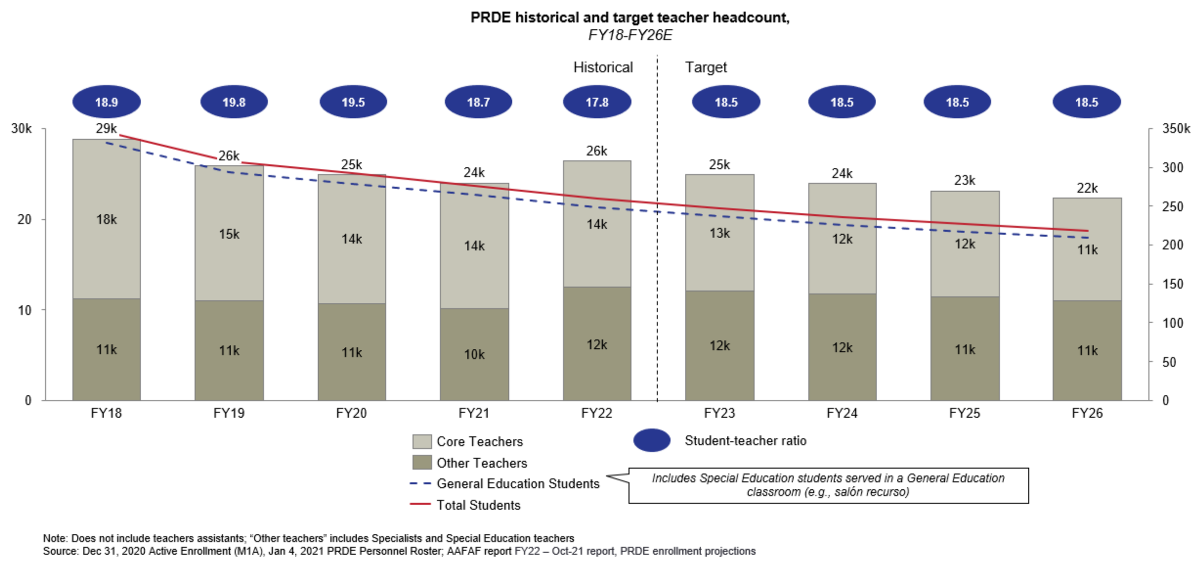

Exhibit 40: PRDE STUDENT-TEACHER RATIO

Chapter	Milestone description	Alignment to PRDE 2022-27 strategic plan
Chapter 15.1.2	**Student-teacher ratio**	
15.1.2	a. Outline a plan to streamline the process for data-based, transparent school staffing that will allow PRDE to continue to systematically manage its student-teacher ratio	a. Evaluate and improve administrative processes to increase operational efficiency and eliminate bureaucracy b. Recruit, develop, and retain effective resources to establish a community of excellence

4.15.1.3 Support attendance metrics

At its core, education happens when students and teachers are engaged in productive work in a positive learning environment. To this end, both the teacher's and student's attendance is critical, and thus it is important for districts to monitor attendance metrics including:

1) **Teacher attendance:** Education research shows teacher absences can adversely impact student achievement.[121] For example, a teacher that misses 10 days a year has been shown to lower students' math achievement equivalent to that of students being taught by a beginner teacher vs. a teacher with 3-5 years of experience
2) **Attendance-taking:** Daily student attendance tracking could allow for early and regular interventions to improve learning outcomes for chronically absent students (see Chapter 8). For example, in one study, an automatic absence notification to students' families reduced course failures by 38%

121 Source: "Chronic Absenteeism and Its Impact on Achievement", Center for Research in Education and Social Policy (CRESP) 2018.

Regularly tracking and reporting attendance rates is a leading practice among school districts for visibility, accountability, and progress monitoring. Milestones in this chapter aim to support PRDE to reach a teacher attendance rate of 90%. Additionally, this chapter re-emphasizes the goal of reaching a 90% student attendance-taking rate as described in Chapter 8, consistent with leading practices in other districts and education research.

Exhibit 41: PRDE ATTENDANCE EFFICIENCY METRICS

Chapter	Milestone description	Alignment to PRDE 2022-27 strategic plan
Chapter 15.1.3	**Attendance metrics**	
15.1.3	a. Report that teachers are present for ≥90% of workdays as registered in the automated T&A system *Note: additionally, continue to support student attendance-taking milestones in Chapter 8*	a. Recruit, develop, and retain effective resources to establish a community of excellence

4.15.1.4Support effective school leadership

A highly effective school leader can put a school on a trajectory towards success. Studies show students at schools where the leader performs in the 75th percentile of principals achieve an additional 2.9 months of math learning and 2.7 months of reading learning each year.[122] PRDE has taken measures to place an effective school leader at each of its 860 schools, including the creation of a director's evaluation rubric and partnerships with not-for-profit organizations to support the development of a principal pipeline (see Chapter 8 for more information on professional development).
While PRDE has made progress in hiring for these critical positions, it started the 2022-23 school year with 70 director vacancies (8% of schools).[123] Principal retention and new principal pipelines are critical to ensuring that PRDE has enough effective directors for each of its schools.

Create an assistant principal role

Over one-half of all schools in the U.S. currently have assistant principal positions, up from one-third three decades ago[124]. Over the past 25 years, the percentage of principals with experience as an assistant principal has also increased, indicating the assistant principal role is an increasingly important talent pipeline for future principals. Given the assistant principal position is not currently institutionalized at PRDE, very few schools currently have an assistant principal position to support directors, despite the nearly 6,000 PRDE educators that hold the required certification to be an assistant principal.

The assistant principal position distributes leadership responsibilities by sharing day-to-day management decisions. Most states use the same certification for principals and assistant principals, however, the division of labor between the two typically falls along the lines of instructional leadership and operational management. The principal's responsibilities are typically to be the primary instructional leader, hire and train staff, develop and administer the budget and

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[122] https://www.wallacefoundation.org/knowledge-center/Documents/How-Principals-Affect-Students-and-Schools.pdf

[123] https://www.noticel.com/educacion/ahora/top-stories/20220816/empiezan-las-clases-manana-con-70-vacantes-de-directores-escolares/

[124] https://www.wallacefoundation.org/knowledge-center/Documents/The-Role-of-Assistant-Principals-Evidence-Insights-for-Advancing-School-Leadership.pdf

lead professional development for teachers and support staff. The assistant principal typically supports the principal in instructional leadership, but has focused duties on student welfare and discipline, teacher coaching, attendance data monitoring, transportation, and extracurricular programming. One focused duty PRDE should consider for its assistant principals is to support student attendance-taking, which relates to milestones outlined in Chapter 8.

The FY2023 Fiscal Plan proposes that PRDE create an assistant principal position at each school with over 300 students (~460 schools). Assistant principals make on average ~85% of a director's salary. At PRDE, this would imply an annual salary of ~$47,000. Adding these positions would represent a total investment of ~$22m. As PRDE adds these new positions, it should additionally create clear guidelines for who is qualified to hold the position and define a rubric upon which to evaluate performance for assistant principals. As it develops new roles and responsibilities, PRDE should align to leading practices and principles of Civil Service Reform.

Define and implement a vision for regional support for schools

PRDE has also taken steps to develop support systems for effective school leadership from the central and regional level. In 2018, Law 85 established seven regional offices with the goal of decentralizing services and locating decision-making closer to students and families.

The FY2023 Fiscal Plan includes a milestone for PRDE to complete the design of a vision of regional support for schools that supports student outcomes. Equipped with this vision, PRDE can fill its critical vacancies in academic facilitator positions and implement strategies to increase the resources, trainings, and other supports regional offices provide for schools and school leaders.

Exhibit 42: PRDE SCHOOL LEADERSHIP AND SUPPORT

Chapter	Milestone description	Alignment to PRDE 2022-27 strategic plan
Chapter 15.1.4	**School leadership and support**	
15.1.4	a. Fill critical vacancies for school directors b. Create assistant principal positions at schools with more than 300 students c. Develop plan to increase regional support for school leaders through academic facilitator positions and other initiatives	a. Recruit, develop, and retain effective resources to establish a community of excellence

4.15.1.5 Strategically manage finance functions

Alignment between students' needs and a department's financial resources supports an equitable educational model.

PRDE is the largest government agency on the island with a ~$2b recurring budget. In recent years, it has received over triple that amount in one-time funds from the Federal government, roughly $7b from ESSER stimulus funding ($4.6b), FEMA funds ($2.3b), and other grants. In light of this influx of one-time funds, ***PRDE has an unprecedented opportunity to invest in its students and their outcomes. September 2022 data indicates PRDE had only spent ~16% of its ESSER allocation, most of which is set to expire in September 2024.***

Hiring of a CFO will support finance function reform at the Department. Currently, there should be an accurate and timely visibility of PRDE's financial performance to provide financial *transparency. The PRDE CFO position, developed in conjunction with Civil Service Reform as appropriate (Chapter 14), would give important guidance and support accountability measures to put these policies into practice on a consistent basis.*

Milestones in this chapter call for PRDE to thoughtfully and strategically consider its current and future financial state, including its recurring and one-time funds, and the ways in which funds support strategic priorities and student outcomes. To address its near-term opportunities and update a view of its long-term financial plan, PRDE can identify and hire a well-qualified chief financial officer (CFO) to lead the operational and strategic finance function at the department (see Chapter 14 for Civil Service Reform Commonwealth-wide strategy). Additionally, PRDE must consider its expenses in the context of its recurring annual revenue to maintain a balanced budget in the future as enrollment continues to decline and one-time funds expire.

Exhibit 43: PRDE STRATEGIC FINANCE

Chapter	Milestone description	Alignment to PRDE 2022-27 strategic plan
Chapter 15.1.5	**Strategic finance**	
15.1.5	a. Hire a well-qualified Chief Financial Officer (CFO) who will work with PRDE leadership to develop a long-term financial plan, in addition to other budgeting and planning responsibilities b. Prepare and share with FOMB a long-term financial plan that aligns one-time and recurring resources to the Department's strategic priorities c. Publish a plan to spend all one-time funds, including ESSER, FEMA, and Federal carryover that includes projected impact on future General Fund budgetary needs d. Comply with financial reporting requirements as stated by Hacienda	a. Recruit, develop, and retain effective resources to establish a community of excellence b. Evaluate and improve administrative processes to increase operational efficiency and eliminate bureaucracy

4.15.1.6 Support implementation of student-based budgeting

Allocating federal and state funds to schools is an important step in providing equitable access to limited resources. Currently, PRDE provides resources to schools largely through its teacher staffing model, Organización Escolar, and its centralized purchasing system for supplies and services. Its current process lacks transparency and creates potential challenges when allocating funds to Charter and Montessori schools, which are not subject to the same staffing guidelines.

Many mainland school districts have adopted a new approach to school funding often referred to as student-based budgeting. This funding method allocates resources to schools based on the number of students served by the school as well as measures of student need. The approach uses per-pupil formulas wherein students are assigned a certain weight or multiplier based on objective and measurable characteristics that warrant differentiated funding, such as grade level or special education status.

Shifting to student-based budgeting could provide several benefits to PRDE including: a more equitable distribution of funds to schools based on student need, increased accountability around teacher attendance and attendance-taking when included in the funding formula, increased transparency of how funds are allocated to schools, and more flexibility for school leaders to decide how to use their resources.

A shift to student-based budgeting at PRDE would require significant time and capacity over several years to plan, pilot, and implement (including the required change management steps). However, given the benefits described above, FOMB recommends that PRDE undertake this work. To do so, PRDE would need to engage in the following activities (some of which it has already started):

- Assess each school's student profile and level of need based on data
- Construct a specific student-based budgeting funding formula that meets the needs of its schools
- Develop an implementation plan (that likely includes a pilot and then formal roll-out) for the new budgeting approach that includes a transition plan for schools-especially for those which may receive fewer funds
- Train and empower directors and school leadership teams to deploy funding under the new approach as they will have greater autonomy around budget decisions that are currently made by the central office
- Message changes to school communities and support accordingly

In addition to PRDE's public schools, Charter and Montessori schools would also be impacted by the new methodology. A student-based budgeting formula that allocates resources based on student enrollment and needs would ensure that all public schools are funded transparently and based on the same budget methodology. This approach would further increase public visibility into student-facing expenditures for schools, including those with Charter and Montessori models, as consistent with requirements in the Puerto Rico Education Reform Act.

To initiate this work in FY23, this chapter sets the following three milestones:

- Develop a preliminary student-based budgeting approach
- Meet with key stakeholders (including FOMB, PRDE schools, and charter schools) to solicit feedback on the approach and revise accordingly
- Create an implementation plan to pilot the new budgeting approach in FY24 and officially roll-out the new budgeting approach in FY25

Given the importance and complexity of student-based budgeting, technical assistance might be required to successfully implement this approach.

Exhibit 44: PRDE STUDENT-BASED BUDGETING

Chapter	Milestone description	Alignment to PRDE 2022-27 strategic plan
Chapter 15.1.6	**Student-based budgeting**	
15.1.6	a. Develop a preliminary student-based budgeting approach b. Meet with key stakeholders (including FOMB, PRDE schools, and charter schools) to solicit feedback on the approach and revise accordingly c. Create an implementation plan to pilot the new budgeting approach in FY24 and officially roll-out the new budgeting approach in FY25	a. Educate about equity and respect for diversity to eliminate access and opportunity gaps and prevent discrimination b. Evaluate and improve administrative processes to increase operational efficiency and eliminate bureaucracy

4.15.1.7 Manage PRDE's building portfolio and invest in infrastructure

A transparent and comprehensive Facilities Master Plan[125] can help PRDE make important decisions related to its current and future building portfolio and support a plan to bring all students back to safe, in-person classes five days a week. Historically, PRDE has not had a consolidated view of its building portfolio, including active and closed schools and administrative buildings. In FY2022, PRDE began to develop its Facilities Master Plan by identifying its portfolio's current state and the extent of the required repairs through site assessments and stakeholder engagement. PRDE's plan will account for changing needs and demographics of schools on the Island by prioritizing investments in school buildings that have a long-term place in the school footprint and are equipped with 21st century features and resources as well as disaster-resilient infrastructure through the use of FEMA funds.

In FY2022, PRDE also made significant strides in reopening many of its school buildings. It increased the number of open buildings from 731 to 820 in school year 2021-2022 and 2022-2023 respectively, allowing ~244k students (~98%) to attend classes in-person, five days a week in FY2023. However, some schools, primarily in the South, remain closed due to infrastructural instability and, due to Hurricane Fiona in the first semester of FY2022, nearly 50% of PRDE schools closed for two weeks.

Milestones in this chapter support PRDE in developing a strategy for its current and future building portfolio and continue to work towards reopening schools for full-day, full-week, in-person instruction.

Exhibit 45: PRDE BUILDING PORTFOLIO AND INFRASTRUCTURE

Chapter	Milestone description	Alignment to PRDE 2022-27 strategic plan
Chapter 15.1.7	**Building portfolio and infrastructure**	
15.1.7	a. Publish a facilities master plan to guide decisions around PRDE's building and infrastructure investment priorities and long-term strategy b. Track and report on implementation progress towards recommendations from the facilities master plan; share with public and FOMB as appropriate at regular intervals c. Perform repairs to safely re-open schools and provide full-day, full-week, in-person learning option for all students	a. Promote physical, mental, and social-emotional development that guarantees student resources based on their needs b. Evaluate and improve administrative processes to increase operational efficiency and eliminate bureaucracy

4.15.1.8Sustainability serve all eligible Special Education students

Special Education services address varying student needs and promote equity for all students. Over 30% of PRDE students require special education services. For many years, PRDE has provided Special Education services through two parallel programs. Its primary program, known as Secretaría Asociada de Educación Especial (SAEE), provides educational and therapeutic services to students through the Department. A second program, *Remedio Provisional,* provides non-educational support services to students through third-party contractors. *Remedio Provisional* was created to provide therapeutic services to Special Education students for whom SAEE did not have capacity. Typically, if PRDE does not provide necessary services within 30 days

125 The Facilities Master Plan is part of the requirements for the FEMA Accelerated Award Strategy (FAASt) funding obligation

from the drafting of the Individualized Education Program (IEP), the family of the special education student can receive services through this alternate channel.

During FY2021, PRDE formed a committee to identify students that could be transitioned into its own Special Education program. In FY2022, PRDE formalized the transition process from *Remedio Provisional* to SAEE, transitioning ~6.6k students successfully. Milestones in this section support continued efforts to streamline the provision of services to all eligible special education students in a cost-effective way.

Exhibit 46: PRDE SPECIAL EDUCATION SERVICES

Chapter	Milestone description	Alignment to PRDE 2022-27 strategic plan
Chapter 15.1.8	**Special Education services**	
15.1.8	a. A small Central office team (max of 8) to implement the digitization of Special Education IEP records with supporting documentation, assigned resources and related service requirements, and provide a 12-month implementation plan to the Oversight Board. b. Revisit Remedio Provisonal's services pricing to ensure these are aligned to market rates as per Law-85-2018. c. Implement recommendations of PRDE's transition committee to enable students to receive services through PRDE's Special Education Program instead of Remedio Provisional. d. Define and implement a plan to increase the service offering capacity of PRDE's Special Education program in order to transition additional students from Remedio Provisional. e. Implement revised Remedio Provisional rates and analyze savings achieved by submitting a report to the Oversight Board.	a. Recruit, develop, and retain effective resources to establish a community of excellence b. Educate about equity and respect for diversity to eliminate access and opportunity gaps and prevent discrimination c. Promote physical, mental, and social-emotional development that guarantees students resources based on their needs d. Evaluate and improve administrative processes to increase operational efficiency and eliminate bureaucracy

4.15.1.9Provide transportation services for all eligible students

Transportation services enable students to access a free, public education. PRDE students are eligible for transportation services based on distance required to travel to school and any needs based on a student's individualized education plan (IEP) if that student qualifies for Special Education. In FY21, the U.S. Department of Education imposed restrictions on PRDE's use of Federal IDEA funds for transportation, due to non-compliance with the provisions of the Code of Federal Regulations and the IDEA Law (improper payments, limited visibility into transportation spending, lack of internal controls, non-compliance with its own policies, and lack of adequate monitoring). Since, PRDE has made progress in implementing the transportation system updates that would address USDE findings . In FY2022, PRDE proved compliance with transportation regulations and USDE removed special conditions on use of these Federal funds.

While PRDE can again access Federal funds for transportation, in the short-term, PRDE can use stimulus funds to cover additional transportation services; however, milestones in this section support a plan to provide transportation services within PRDE's recurring budget to achieve greater flexibility in funding sources for student transportation and validate that all eligible students have access to transportation services.

Exhibit 47: PRDE TRANSPORTATION SERVICES

Chapter	Milestone description	Alignment to PRDE 2022-27 strategic plan
Chapter 15.1.9	**Transportation services**	
15.1.9	a. Provide transportation services to all eligible students and comply with all USDE requirements for use of Federal transportation funds	a. Evaluate and improve administrative processes to increase operational efficiency and eliminate bureaucracy b. Promote physical, mental, and social-emotional development that guarantees students resources based on their needs

15.2 Department of Health (DOH)

As of 2021, the Government has several health-related agencies that are highly fragmented: five public corporations, and two agencies, with nine public hospitals in total. One of the agencies is the Department of Health with seven health regions and sixteen programs—each of them, with their own back-office support functions. Such fragmentation has driven up cost and inefficiency, as each agency is required to provide its own human capital management, procurement, and financial support.

As of September 30, 2022, there were 108 Health Professional Shortage Areas (HPSA)[126] and 72 Medically Underserved Areas[127] in Puerto Rico. Based on the number of additional physicians required to remove HPSA status, as of September 30, 2022, Puerto Rico meets 3.14% of demand for primary care (versus the 47.24% national average),[128] 14.10% of demand for dental care (versus the 31.75% national average),[129] and 15.8% of demand for mental health services (versus the 27.7% national average).[130] The FOMB in collaboration with the Department of Health (DOH) and AAFAF will conduct a healthcare workforce analysis to understand the current healthcare workforce environment in Puerto Rico.

Per recent news articles, the president of the House of Representatives of PR has demonstrated interest in placing ASES within the Puerto Rico Medicaid Program and expects to present the legislation in early 2023. Moreover, while ASEM has made initial progress on initiatives to improve supply chain management (e.g., procurement centralization), these initiatives must be expanded to other health agencies in order to achieve cost efficiencies. The revenue cycle management optimization initiative launched in March 2021, however, no significant progress has been noted to date. In addition, an Electronic Health Records (I) system has been deployed in the ASEM emergency room.

The DOH has moved to counter some of these issues by coordinating patient care with private hospitals.

126 "Designated Health Professional Shortage Areas Statistics, Fourth Quarter of Fiscal Year 2022." Health Resources and Services Administration

127 HRSA Tools, MUA Find. Accessed November 30, 2022

128 Primary Care Health Professional Shortage Areas (HPSAs) | KFF, Accessed November 30, 2022

129 Dental Care Health Professional Shortage Areas (HPSAs) | KFF, Accessed November 30, 2022

130 Mental Health Care Health Professional Shortage Areas (HPSAs) | KFF, Accessed November 30, 2022

To counter the pressures that the COVID-19 pandemic has placed on the public healthcare system, the Oversight Board and the Government made investments of ~$469million during FY2020, 2021 and 2022, dedicated to targeted initiatives, infrastructure expansion and improvements. These funds were invested to enable the Government's near-term response to COVID-19 and to position the healthcare system to meet the needs of Puerto Rico. Specifically, (1) to address critical infrastructure gaps in Hospital and Health Facilities, (2) to increase capacity by expanding Public Hospitals, (3) invest in specific CDTs and Medical Facilities and (4) to improve technology with Medicaid IT and Public Hospital IT system, among other items. The Oversight Board is monitoring the use of these funds to ensure they are spent effectively and in areas of true need.

4.15.2.1Investments to enhance healthcare services

Ensuring access to high quality, affordable healthcare for Puerto Rico continues to be a top priority of the Government and Oversight Board. In accordance with this priority and given the increased public health needs driven by the hurricanes, earthquakes, the COVID-19 pandemic, and the Monkeypox virus the previous Fiscal Plans and budgets recommended and included several strategic investments for the health system. Over the last few years, the Oversight Board has worked with DOH, ASSMCA, ASEM, University of Puerto Rico Comprehensive Cancer Center, Cardiovascular Center Corporation, and the University of Puerto Rico Medical Sciences Campus to ensure the funds are being spent effectively.

Capital expansions at public hospitals for hospital and health facility infrastructure

Funds were assigned to address critical, near-term infrastructure needs at public hospitals (e.g., renovation of facilities in major disrepair, installation of air conditioning and purification systems, purchase of power generators) and to complete major capital expansions. These investments are meant to ensure that the health system has the capacity and equipment needed to meet the long-term healthcare needs of Puerto Rico.

- The DOH has made noteworthy permanent structural improvements to CDTs, Hospitals and program facilities, along with, roof waterproofing, design and construction of electrical substations, replacement of medical equipment and renovation of the operating rooms.
- To date, ASEM has achieved significant progress in their project including acquisition of new equipment, elevator renovations, roof treatments, the exterior has been painted, and most designs for projects have been finalized.
- Given the limited parking space at the Cancer Center, in October 2022, the Center in collaboration with PRIFA started the construction of an additional parking lot which will have a capacity of 100 vehicles, and it's expected to be finished within 3 months. The Center is also working on the design of the Radiotherapy Center and Outpatient Clinics. Once this phase is completed, the construction is expected to span over 24 months.
- The PRIFA, on behalf of the CDPR is currently in the process of executing the design, construction, and remodeling of the old facility where the CDPR is located and the expansion of the same. The design and construction are estimated to be completed in 10 months. This phase is expected to begin once an official MOU is signed amongst the CDPR and the Medical Science Campus (MSC).
- Purchase of equipment and system improvements have been ongoing at the Cardiovascular Center. Technical backup system advancements for data protection have been completed, along with the replacement of communication systems and Wi-Fi upgrades. Nonetheless, the Center has also engaged endlessly to conclude the active projects such as the Hybrid

Catheterization Room Equipment, painting the main building and the construction of the Turnkey Hybrid Room.

- ASSMCA has reached significant development in its capital expenditures projects. Facility improvements such as roof treatments, door replacements, bathroom renovations have been completed in various facilities including Hospitals, Central Offices, Medication-Assisted Comprehensive Treatment Clinics (CTIAM) and Residential Programs, among others.

Public hospital IT and Implementation of Electronic Health Records

Funds were budgeted for public hospitals to modernize technology, particularly via implementation of EHR and digital tools for hospital management. EHR (or digital patient records) can be accessed by all clinicians involved in a patient's treatment in real-time, enabling integrated communication within and across provider facilities, and allowing clinicians to make informed decisions based on comprehensive patient treatment histories. Investing in EHR capabilities is expected to reduce clinical/prescription errors and will reduce administrative burden in public hospitals. Digital hospital management tools allow hospitals to collect and analyze data on patient flow, equipment use, etc. in real-time. Investing in these tools will enable operational improvement in public hospitals.

The Cancer Center was assigned ~$8 million out of this funding pool to complete the implementation of the EHR. The objective was to continue the development of the necessary infrastructure and implementation of the EHR's project in order to comply with the requirements stipulated by the Centers for Medicare and Medicaid Services (CMS) and the different health insurance providers. Thus far, the Cancer Center completed the EHR implementation of phase one during October 2021, and the second phase, which involves integrating the financial modules, went live on July 1, 2022. Full optimization of the platform is expected to be reached by December 2022. Moreover, during the previous fiscal year, the Cardiovascular Center was assigned $6.2 million in order to implement an updated EHR system. The EHR project kicked-off during August 2022 and the target completion date is September 2023. Completion of this project is of utmost importance given that it is necessary to be in compliance with regulatory agencies such as CMS. In addition, the Cardiovascular Center has hired a vendor to implement the Enterprise Resource Planning (ERP) Cloud Service. This project is expected to begin in January 2023 and finalize during the month of August 2023.

Telehealth infrastructure

Funds were budgeted at DOH to implement telehealth infrastructure to address the urgent need to improve access to care outside the San Juan municipal area. Advancements in telehealth infrastructure would allow patients to receive care more seamlessly from physicians regardless of patient location. This is particularly beneficial to people living in rural areas, and to all of Puerto Rico during periods of heightened physical distancing. The goal is for the funding to be invested in a telehealth platform and/or to develop access points in facilities (e.g., FQHCs) located in underserved areas.

To date, DOH has been offering workshops related to medical billing of telemedicine services to staff members at the selected entities and reviewing material developed by an advertising campaign in order to promote the benefits of telemedicine. Furthermore, on November 28th, 2022, GSA published the notice of formal auction for the acquisition of equipment and training for the staff of the Telemedicine program. Once the equipment is acquired, DOH expects to sign the

Memorandum of Understanding with the selected entities and perform the installation of the equipment.

Combating the opioid crisis

Approximately $30 million dollars were over Fiscal Years 2020, 2021 and 2022 to combat the opioid crisis, which remains a pressing concern for Puerto Rico. (The full extent of the tragedy remains unknown, as data quality from Puerto Rico has been contested). Funding should have been used to procure and distribute overdose reversal drugs, invest in community health events, and scale existing opioid treatment programs.

DOH and ASSMCA have been jointly undertaking efforts to support the implementation of improvements and expansion of Puerto Rico's Prescription Drug Monitoring Program (PDMP). DOH and ASSMCA agreed to invest in improvements to the PDMP as well as implement an Opioid Dashboard. Effective July 2021 healthcare providers were able to integrate PDMP data into approved EHR and pharmacy management systems. With this achievement they will integrate a module which automatically analyzes PDMP data and a patient's health history and provides patient risk scores and an interactive display of usage patterns to help identify potential risk factors. These improvements to the PDMP should result in the strengthening of monitoring capacities, use of data, and access to statistics on prescriptions of controlled substances; the provision of timely and reliable information on providers and patients; and the proactive identification of potentially problematic or illegal behaviors related to opioid prescription.

In addition, on December 9th, 2022 DOH published a RFP to implement public awareness campaigns and education on the prevention of, misuse and overdose of opioids across health regions.

Loan forgiveness program and endowment fund

The 2023 Fiscal Plan allocated a total of $30 million over two fiscal years to be used to establish a loan forgiveness program in order to incentivize doctors to practice in underserved areas in Puerto Rico. Under this program, each medical student would be eligible for up to $25,000 of loan forgiveness per year of service – of at least four years – in underserved areas in Puerto Rico.

On June 24, 2022, AAFAF officially published the request for proposal (RFP) to identify the third-party vendor for the Medical Student Loan Forgiveness Program (MSLFP) and provided the proponents with it until July 22nd, 2022, to submit the proposals. An amended RFP will be published by AAFAF by Q3 of FY2023.

The Government will continue to evaluate and implement innovative initiatives to retain healthcare professionals (doctors and nurses) in Puerto Rico.

Hospital Accreditation

ASSMCA's Dr. Ramón Fernández Marina Río Piedras Psychiatric Hospital lost its accreditation in 2009 and since then has been unable to bill for services rendered to their Medicaid and Medicare patient population. As such, additional funding was allocated to this hospital to enable the hospital to receive accreditation by the CMS. For further details regarding funding, please refer to previous Fiscal Plans.

The additional funds were intended to be used to increase care standards by making physical repairs to the hospital and improving staffing levels in order to comply with CMS regulations. In addition, ASSMCA was allocated $43.8 million in CAPEX funds during FY2020 (extended to be used until FY2023) to purchase anti-ligature beds, eliminate hanging points and to perform capital improvements to the hospital's structure and other facilities.

Achieving this certification is of utmost importance to ensure that the people of Puerto Rico have access to accredited mental and behavioral health inpatient services within the public healthcare system. Additionally, being able to bill for services rendered to the Medicaid and Medicare patient population will increase revenues, which can then be reinvested in hospital infrastructure and programs for further improvements. Thus far, ASSMCA has reviewed, updated and developed Policies and Procedures in compliance with CMS and the Joint Commission (TJC) standards, ordered and installed all non-ligature hardware required for the hospital's facility full compliance and submitted form 855-A to CMS. ASSMCA has already notified CMS its readiness for the unannounced audit visit. Therefore, ASSMCA aims to receive the Accreditation during FY2023 since the expectation is to receive the visit during December 2022 or January 2023. Once the hospital has received the letter of recommendation and accreditation from CMS and the Joint Commission, the hospital can start billing for the Medicaid and Medicare patient populations.

Moreover, ASEM has the only Trauma Hospital on the Island providing specialized care to adult and pediatric patients with multiple body trauma. This includes the Virgin Islands as well. Additionally, the Adult University Hospital is the only supra tertiary public hospital of Puerto Rico. Both institutions serve as an Academy Program for different health professionals where 24 Residency Programs are offered. During April 2021, the Accreditation Council for Graduate Medical Education (ACGME) withdrew the accreditation (e(effective July 1st, 2022) for the Neurosurgery Residency Program, which had been in probation for the past years. Some of the ACGME findings were related to deficiencies found in both academic and clinical staff–support required - not previously addressed by ASEM and UDH. As such, the 2023 Fiscal Plan allocated a $15.2 million budget to be used to hire additional House Staff and Clinical Staff (General Nurses, Licensed Practical Nurses, Direct Patient Care Clerks, etc.) in order to directly support the continuity of the 24 Residency Programs at the institutions. The $15.2 million appropriation is split among ASEM and UDH according to information presented by the agencies.

Per new regulations, the Medical Science Campus (MSC) must wait 2 years before reopening the Neurosurgery Program. Therefore, the expectation is to open the Program in July 2024. This means that by September 2023 MSC must submit the necessary paperwork in order to receive a visit from the ACGME in December 2023. Both ASEM and MSC believe they will be ready before September 2023 as they have achieved significant progress in the hiring of House Staff, hiring of neuro-intensivists, increasing bed capacity and recruitment of additional nurses. The MSC has been in constant communication with the ACGME and providing them with updates of the actions taken during the past year.

Funding for the Comprehensive Cancer Center

The 2022 Fiscal Plan allocated to the Cancer Center a $20 million investment over two years, contingent upon Cancer Center completing certain actions. During May 2021, the Cancer Center provided a Business Plan detailing specific actions the Center was going to take to become sustainable by FY2024. Due to the completion of this milestone, the Cancer Center had access to a $10 million appropriation for FY2022. In addition, the Center also had to focus on EHR implementation during FY2022. This implementation would allow the Center to properly and timely bill health insurance provides, increase their collections, and reduce margins of error in their billing process. The Center had access to the additional $10 million during FY2023 due to the successful implementation of the EHR Phase 1. Consequently, during the remainder of the fiscal year the Center must focus on the transition to be self-sufficient and rely on their own revenues starting in FY2024.

The 2022 Fiscal Plan also provided for $10 million in incremental funding for a period of 7 years starting in FY2023 to support cancer research initiatives that will allow the Comprehensive Cancer Center of Puerto Rico to obtain formal federal designation of Cancer Center, which will in turn provide access to additional federal funds. This funding is contingent upon the Cancer Center completing certain milestones*:*

- During FY2022 the Cancer Center developed and implemented an integrated campaign through advertising, digital media, and public relations to promote prevention, early detection and specialized treatment health services programs offered at the Hospital and received the additional $10M during FY2023.
- In order to receive the incentive of $10M in FY2024, the Cancer Center must implement the second phase of the Electronic Health Records, which involves integrating the Financial Modules, by December 31, 2022.
- The Cancer Center must participate in the 340B Drug Pricing Program by obtaining Certifications to purchase prescription drugs at lower cost by June 30, 2024.
- Once the respective milestones are achieved, the Cancer Center must provide a formal notice and submit supporting data corroborating such achievement for the Oversight Board's review.

Moreover, the oncology department of ASEM is going to be consolidated into the Comprehensive Cancer Center. The funding for said initiatives is to be provided through reapportionment of funds already identified by OMB.

Maintaining Direct Patient Care Staffing Levels

The 2021 Fiscal Plan included ~$9 million additional annual funding for direct patient care employees working at the Department of Health. The 2023 Fiscal Plan maintains this level of funding. Additionally, all personnel measures impacting the Intellectual Disability Program within the Department of Health have been eliminated, as such, the Program can comply with the minimum budget established by the court.

Fulfilling federal requirements

The 2023 Fiscal Plan allocates funding for fulfillment of two federal requirements:

- **Intellectual Disability Program:** The Puerto Rico Division of Services for People with Intellectual Disabilities is required to have certain standards for services, and state appropriations to the program must be fully utilized to meet those standards. A Federal Court found that Puerto Rico failed to use state funds allocated for this purpose from FY2015-FY2019. Accordingly, the 2021 Fiscal Plan allocated $20 million over four years (FY2021-FY2024) in order to reimburse the program. Additionally, as mentioned above, measures related to personnel have been eliminated.
- **Psychiatric hospital:** The 2021 Fiscal Plan ensured that the annual budget for the Psychiatric Hospital in Rio Piedras is a minimum of $23 million. To do this, the 2021 Fiscal Plan allocated an incremental $5 million in FY2022 and $5 million in FY2023 to enable the

facility to earn its Medicare certification. Certification will drive increased revenues, which can be reinvested in the hospital to maintain full compliance with the consent decree.

Consolidating administrative and support functions

Consolidation of health agencies will enable efficiencies in administrative and support areas.In addition, operational efficiencies are expected to be realized through elimination of duplicative programs/tasks across agencies. For example, labor-intensive and/or paper-based processes are expected to be streamlined through digitization and implementation of software solutions.
In addition, efforts must be undertaken to streamline internal management processes and enable identification of further efficiencies. This must also be done to identify duplicative roles and programs across health agencies that must be reduced or centralized. Currently, DOH is in the process of restructuring the organizational structure and presenting it to OMB. Consequently, planning and implementation of the first phase for the reorganization of the DOH should be completed by the end of FY2023.

Rightsizing of non-administrative health personnel

As the Puerto Rican population declines, spending on non-administrative payroll such as allied health professionals are expected to decline. There are several ways to decrease this spend without impacting health services. For example, wages should be aligned with fair market value to reduce turnover and the associated spend on temporary/overtime workers, and roles and responsibilities should be optimized to skill level and wage rate (e.g., nurses should practice at the "top of their license"). Furthermore, health agencies should also optimize staff placement wherever possible and best practice hospital management tools, such as shift management software, should be used to maximize efficiency. Simplification and streamlining of these processes will reduce administrative burden and improve operational efficiency. In addition, public hospitals must utilize IT investments to implement digital clinical management tools that can enable consistent data collection, reporting, and identification of opportunities for operational optimization.

Meanwhile, hospitals have yet to implement best-practice operational tools to manage personnel. Nevertheless, personnel and payroll records are in the process of being centralized. The FOMB and AAFAF are together implementing at several Health agencies an Automated Time and Attendance (T&A) system that is connected to payroll and will ensure that only employees who are working get paid and avoid distributing incorrect pay to employees. Most agencies already have attendance registration systems in place, but those systems are not connected to payroll. Details regarding the initiative can be found in *Section 4.4.1*.

The DOH started the project in August 2021, with agreed milestones mostly involving the integration of DOH's current platform with an on-premises attendance workforce management platform. DOH's outdated time-keeping system in certain non-hospital facilities posed challenges as employees were previously required to register attendance through cardboard punch cards. In addition, processing terminations and unpaid leave licenses were taking up to three months.The DOH successfully completed the implementation in November 2022. The T&A initiative will not only benefit the DOH, but it will also be implemented at the following agencies: ASEM, ASSMCA, Cardiovascular Center, and the Cancer Center with the goal to be completed by May 2023.

Consolidating regional Medicaid offices

At the end of FY2018, the Medicaid Program within DOH had 85 offices that provided face-to-face service to the public across the 78 municipalities. To date, the Medicaid program has successfully

reduced the number of offices to 63 across 78 municipalities. Additional office location consolidations are being considered with the expectation to reach $500,000 in savings.
Further details regarding the benefits of reducing the Medicaid office and regional hospital office footprint can be found in the 2022 Fiscal Plan.

Optimizing supply chain management and Transforming hospital management

Implementation of procurement best practices and leveraging economies of scale must also be extended to non-healthcare categories (e.g., office and general maintenance supplies, security services). Such initiatives are expected to be enabled by agency consolidation and operational streamlining. In addition, due to the level of spending and rising costs of medical supplies, services and equipment, there is a significant opportunity to improve procurement efficiency for hospitals and health systems by focusing on commodity standardization and sourcing, indirect spending (analyzing insourcing versus outsourcing opportunities), and physician preference item optimization.

ASEM was created to serve as a central procurement office for the member institutions of the Puerto Rico Medical Center to create economies of scale for medical supplies, devices, and services. Over time, procurement costs have increased at a higher rate than those of the broader healthcare industry, while procurement processes have become decentralized across the institutions that ASEM was created to serve.

During FY2021 – FY2022, ASEM made progress in achieving savings on medical supplies. UDH and ASEM have accomplished ~$3.5M in savings due to the centralization of the purchasing and bidding process. ASEM has also worked on the implementation of Pyxis, an automated medication dispensing system. These Pyxis have already been deployed across stations in the Emergency Room, Trauma and Endovascular centers reaching savings of ~$1M and are pending to be installed at the Radiology Center and external clinics.

Moreover, the DOH has successfully implemented a uniform regulation for procurement and bids of goods, works and non-professional services. This regulation was established for the purpose of creating the standards, procedures and uniform guidelines to be followed in order to process acquisitions, purchases, leases and award of goods, works and non-professional services for HOPU, UDH, HURRA, the Diagnosis and Treatment Centers (CDT) and the Intellectual Disability facilities of the Department of Health. It also establishes the guidelines for purchases without bids of materials, supplies, equipment, parts, as well as the contracting of non-professional services that are necessary for the operations of the aforementioned entities, in order to guarantee the best use, administration of funds and healthy competition in a framework of transparency, which will result in higher quality of services offered to Puerto Rico's citizens.

Restructuring ASEM and Revenue Cycle Management (RCM)

Optimized revenue cycle management allows hospitals to establish the most advanced, efficient, and effective clinical services registration, improve effective billing of services, timely collection on account receivables, as well as health care utilization and patient discharge management. By working with analytics experts, ASEM will increase the speed and accuracy of claims processing, improve collection rates with external payors, and maximize revenue. The Revenue Cycle Management contractor began providing service to ASEM and UDH in mid-March 2021. The RCM was implemented using a three-phase approach and became fully operational and in charge in June 2021.

After almost 2 years of reviewing and monitoring the provider's performance, no significant savings or increased revenue and collections have been achieved to date. As a result, ASEM has hired a third party who will perform an audit of the current provider in order to review compliance. Therefore, given the expiration of the contract with the current provider, by the third quarter of FY2023 ASEM is determined to issue a new RFP incorporating the key opportunities identified by ASEM.

15.3 Department of Public Safety (DPS)

The Department of Public Safety (DPS) is an agency grouping which was approved by Puerto Rico's Legislature in 2017 (Act 20) and includes seven bureaus responsible for **ensuring safety and security for all residents of the Island** (Exhibit 48). The DPS grouping includes the following agencies:[131]

Exhibit 48: LIST OF BUREAUS IN DEPARTMENT OF PUBLIC SAFETY GROUPING

1. Puerto Rico Police Bureau (PRPB)
2. Firefighters Corps
3. Emergency Medical Services Corps
4. Emergency Management and Disaster Administration Bureau
5. 9-1-1 Services Governing Board
6. Special Investigation Unit
7. Department of Public Safety

1 Bureau of Forensic Science Institute will remain separate of the Department of Public Safety grouping

Of all Commonwealth agencies, the second largest agency by spend and personnel is the Puerto Rico Police Bureau (PRPB), representing ~85% of total DPS spend. Based on reports as of July 2017, over 2,000 of the 13,000 sworn officers in the Police were fulfilling administrative roles. This situation has persisted since 2013, when a consent decree agreement with the U.S. Department of Justice on reform measures compelled PRPB to conduct a staffing allocation and resources study to assess the proper size of the police force. This study, completed in May 2018, found that PRPB needed to rebalance its workforce and move sworn officers to non-administrative roles to improve personnel resource allocation and maximize public safety. The 2023 Fiscal Plan adopted key recommendations from the study to outline necessary efficiency actions, including transitioning sworn officers to the field, adding civilians to backfill administrative roles, and increasing police salaries to bring to competitive levels as compared to the mainland by FY2022. DSP has outlined initiatives to transition sworn officers from administrative position to front office duties including the design of a database to maintain control of the officers and positions to be addressed. In addition, various mass recruitment campaigns have been held across the Island.

As of December 2022, PRPB reported that ~ 1,360 of 11,765 sworn officers were still performing administrative roles, with an additional 639 providing support as police escorts and task forces. A combination of high historic attrition rates and the agency's continued inability to hire additional civilian staff has led to a shortage of field officers and increased overtime spend. PRPB implemented two academies and recruited 525 cadets in FY2022 to address this shortage and are currently focused in the recruitment of 200 cadets from an additional academy. Despite these

[131] Forensics Sciences has been maintained as an independent agency per Act 135-2020. Fiscal Plan savings expectations for agencies do not change if they are determined to remain independent versus consolidating. As such, 2023 Fiscal Plan targets for Forensics will not change

efforts, PRPB continues to have difficulties hiring civilians to enable more cadets and sworn officers to move into field roles.

Recruitment difficulties, for front and administrative roles, continues to be a major hurdle amongst other DPS bureaus as well due to the lack of competitive compensation and working conditions. Furthermore, the lack of competitive personnel retention tools complicates the challenge of achieving optimial staffing levels.

The 2023 Fiscal Plan highlights the need to drive actual changes in processes and back-office efficiencies, as relying on retirement incentive programs to reduce frontline staff has the potential to negatively impact service levels.

For other DPS bureaus, the 2023 Fiscal Plan continues to require consolidation of back-office functions and optimization of non-personnel spend, while allocating funds for priorities such as consent decree compliance, materials and equipment, and salary increases for the Firefighters Corps. Specific investments and other funding are outlined below.

In FY2022, the Department of Public Safety made significant progress towards consolidating back-office roles through the creation of a shared services structure within DPS. In addition, it is currently implementing a time and attendance system for its shared services structure as well as 6 of its 6 bureaus, and digitized all forms (including the CAD system/incident reporting). As of December 2022 DPS has already transferred the majority of the back-office personnel from the six bureaus to the shared facilities at DPS. The table below reflects the progress made by DPS to consolidate back-office functions.

Exhibit 49: BACK OFFICE CONSOLIDATION PROGRESS TO DATE BY BUREAU

Back Office Consolidation Initiative – Progress to Date by Bureau	
Police Bureau	• 40% of Finance has been integrated as of October 31, 2022 • 100% of Budgeting has been integrated as of December 6, 2021 • Payroll Dept. requested letters dated 15 August 2022, move has not been finalized • Legal – Awaiting eight lawyers who work "querellas"(Complaints)
Firefighters Bureau	• All personnel has been integrated as of March 16, 2022
911 Governing Board	• 70% of Human Resources has been integrated as October 31, 2022 • 100% of Finance has been integrated as October 31, 2022 • 50% of Budgeting has been integrated as October 31, 2022
Medical Emergency Bureau	• All back office personnel has been integrated
Special Investigations Bureau	• All back office personnel has been integrated
Emergency & Disaster Management Bureau	• All back office personnel has been integrated

4.15.3.1 Investments in safeguarding public safety

The 2022 Fiscal Plan included continued investment in public safety for Puerto Rico. The 2023 Fiscal Plan maintains these investments. The below detailed investments were intended to enable the Bureaus to hire and retain frontline employees and work with proper and sufficient equipment. Investments included:

- **Sworn police officer salary increase (~$160 million per year):** The 2023 Fiscal Plan continued the provision of funds to support the 30% increase in salary relative to FY2019 levels. Please refer to previous versions of the Fiscal Plan for more details.
- **Plan Vital for current and future retired police officers:** The Government has indicated a need to provide continued health services to those who protect the Island's population in their years of retirement. As such, the 2023 Fiscal Plan continued to support the medical costs that will be endured by retired police officers. The average annual cost of this incremental spending initiative from FY2022 to FY2051 is ~$23 million. These costs are estimated to be $8 million in FY2023, $10 million in FY2024, and rise steadily thereafter before reaching a peak of $35 million in FY2038. Please refer to previous versions of the Fiscal Plan for more details.
- **Investments in the Police Bureau for Capital Expenditures ($20 million per year):** The 2022 Fiscal Plan provided additional funds for new vehicles and fleet replacement. The 2023 Fiscal Plan maintains this level of funding.
- **Investment in Firefighter salaries (~$10.1 million per year):** The 2023 Fiscal Plan continued to provide funds to support the $1,500 salary increase provided initially in FY2020 for all ranking officers and provides the funding required to preserve the FY2021 $1,500 salary increase for all Fire Bureau employees, which has an identified source of funds provided in Act 181-2019, as amended. Please refer to previous versions of the Fiscal Plan for more details.
- **Investments in personnel for Emergency Medical Corps (EMS):** The 2023 Fiscal Plan continues to provide an annual investment of $1.1 million towards the recruitment of paramedics and dispatchers. However, the current compensation and employment benefits are substantially lower than other jurisdiction, making the retention of personnel a significant challenge. Please refer to previous versions of the Fiscal Plan for more details.
- **PRPB reform:** $20 million annual investment in 212 areas of police improvement for three consecutive years since FY2020. The 2023 Fiscal Plan includes funding to meet the requirements of the agreement/consent decree.
- **Police overtime:** Previous Fiscal Plans included funding for overtime pay and implementation and maintenance of the Kronos electronic timekeeping and overtime management system. The 2023 Fiscal Plan maintains this level of funding.

4.15.3.2 Overview of efficiency actions

Transferring sworn officers out of administrative roles and into the field

The PRPB has made some progress transferring sworn officer out of administrative roles and into the field. However, in accordance with the 2023 Fiscal Plan, PRPB need to make significant progress on replacing sworn officers currently performing civilian duties—such as mechanics, radio operators, record and report keepers, area command statistics compilers, and maintenance workers—with civilian personnel, and transfer sworn officers out into communities. In doing so, PRPB will be able to provide better services by enabling more officers to work in the field with the community, while reducing overall expenditures for the Bureau.

Fiscal Plans require PRPB to transfer more than 1,000 sworn officers to non-administrative roles between FY2020 and FY2025 and hire an additional ~900 civilian personnel to perform the administrative functions, while also pursuing Bureau efficiency to reduce the overall need for administrative personnel. PRPB must accomplish this by pursuing process optimization, digitizing incident reporting, automating time and attendance systems, and consolidating statistical reporting. Furthermore, DPS must streamline vehicle maintenance processes through superior scheduling and procurement protocols, which can reduce the need for vehicle maintenance staff, as detailed in ***Error! Reference source not found.***.

PRPB has made good progress on these goals, including successfully deploying and fully implementing a time and attendance system for its entire personnel as of December 2022, and updating to the latest software version of its incident reporting system (TIBURON/CAD). However, PRPB is still behind on overall process improvements, as well as its goal of moving more sworn officers into the field. The 2023 Fiscal Plan specifies that there should be 11,842 active sworn officers and 1,413 active civilians/back-office personnel in FY2023. Currently, there are 11,765 and 694, respectively.

The Bureau has been able to effectively capture and report the savings achieved from back-office efficiencies. Furthermore, as of December 2022, DPS reported that no officers in administrative roles had been replaced by civilian employees. This is not in line with the partial back-fill targets required in the 2023 Fiscal Plan. Efforts to implement two academies and recruit 525 cadets in FY2022, along with a pending start date for an Academy with 200 cadets, have not solved current staffing shortages.

The Bureau has also struggled severely to recruit civilians for administrative roles, despite multiple attempts to recruit from civilian staff within government as well as external efforts. The Department claims the limited hiring is due to non-competitive salaries for the civilian roles, limited analyst from Human Resources for the evaluation of applications, additional requirements (such as thorough background checks), and academic/professional experience needed to qualify. DPS has implemented multiple recruitment drives, both within the Government as well as externally, to recruit for accounting and IT back-office roles, which they consider extremely difficult to recruit due to the non-competitive compensation and benefits conditions.

DPS is currently in the process of asserting the proper level of compensation required to attract front office personnel throughout all its bureaus in order to achieve the optimal staffing levels. DPS also intends to close the competitive gap with other jurisdictions, which presents the most significant challenge to retain its personnel.

Reducing overtime

Fiscal Plans have required PRPB to reduce paid overtime by 60% by FY2023, in part through the operational efficiencies noted above, as well as by moving more sworn officers into the field and deploying more effective staffing and personnel management models.

While PRPB reduced overtime spend in FY2019, FY2020 and FY2021 saw sharp increases driven by a shortage of field officers and failure to hire civilian staff. Projections for FY2023 overtime expenses maintain a continued increase from the previous two fiscal years. Additional statutory systemic factors, such as paying current pay rates for previously incurred overtime, also contributed to the increase in overtime pay. Based on the latest information from DPS, the Police Bureau had already spent ~$66 million on overtime as of December 2022, and the Police Bureau is projecting an approximate expenditure of ~$18 million for the remaining fiscal year.

Tracking and managing overtime in Puerto Rico are further complicated by the manual nature of the process and the lack of centralized reporting. As a result, DPS to have visibility into the quantity of overtime for a given period, has successfully adopted a system to track overtime hours (SITAS) in the Police Bureau as of June 2021; After adopting the Kronos/SITAS time & attendance tool, the Police Bureau is currently tracking its overtime. However, the Police Bureau has not reduced yearly expenses to the $20 million savings required in previous Fiscal Plans by outlining an implementation plan to reduce overtime expenses.

The Police Bureau should make significant progress to improve management of overtime to avoid unnecessary costs in future years, as detailed in ***Error! Reference source not found.***. Furthermore, the SITAS/Kronos tool must be used to identify specific areas and timeframes with patterns of unusually high overtime expenses. The data and experience gathered in the process will provide tools to better deploy and manage the personnel more efficiently.

Driving other DPS agency personnel efficiencies

The other DPS bureaus[132] were required to consolidate back-office functions into the centralized DPS administrative agency starting in FY2019, with a goal of 50% reduction in transitory workers (excluding PRPB, PRFB, and EMS).

Significant progress has been made at DPS in this consolidation. To date, approximately 598 employees have transferred to DPS from across the six Bureaus, including 352 administrative roles from the Police Bureau. DPS has also established direct reporting lines and process integration across the remaining six bureaus for Procurement, Legal, Communications, Human Resources and Finance, and has migrated all Bureaus onto standardized system software for key back-office functions (e.g., accounting, finance).

Although DPS now has a budget to fund centralized back-office roles, procedures and key performance indicators still need to be established. This is especially true for Recruitment and Procurement, where multiple duplicative manual processes are performed in both areas. The Oversight Board has yet to receive a proper staffing and capacity analysis of current personnel, including detailed information of year-to-date procurement activity. DPS must provide monthly implementation reports, as per reporting requirements, regarding recruitment and procurement activity and progress for all Bureaus, including Capital Expenditure reports and vacant positions filled, as detailed in ***Error! Reference source not found.***.

The Special Investigations Bureau, the Emergency and Disaster Management Bureau, the Government Board of the 911 Service, the Police Bureau and the DPS Shared Service structure have adopted the time and attendance system (Kronos) for front office and administrative roles during FY2022. However, DPS and its Bureaus are yet to fully implement the Time and Attendance project which requires all employees register attendance automatically. DPS confirmed such adoption was completed in the Emergency Medical Services Bureau in March 2022, while the Fire Bureau completion date is March 2023. The attendance must be linked automatically to payroll. DPS and

[132] Excluding 9-1-1

its Bureaus has suffered significant delays with this implementation due to a high number of hours in Time Not Register (TNR) of approximately 1,500 employees. The time and attendance tool is necessary to enable better transparency in personnel time allocation and payroll expenditures.

Optimizing all DPS agency non-personnel spending

DPS must achieve procurement savings of 30% in FY2023 spend base. To do so, DPS should centralize and consolidate purchasing for all DPS agencies, leverage the negotiating power of the federal General Services Administration, utilize e-auctions, and launch competitive Requests for Proposal (RFPs) for outsourcing responsibilities. Even though procurement has been centralized within the DPS Shared Services structure, they will have to coordinate directly with GSA as the Government's central procurement agency for all purchases of the Bureaus and re-engineer their processes as the Shared Services structure has become less effective due to multiple manual processes. DPS is committed and has made significant progress addressing these issues; however, DPS should continue to focus on eliminating all current manual procedures by June 30, 2023..

15.4 Department of Corrections and Rehabilitation (DCR)

The Department of Corrections grouping (Exhibit 50) consists of two agencies: the Department of Corrections (DCR), which manages the functions and policies of the Puerto Rican correctional system;[133] and the Correctional Health Department (CH), which provides healthcare to the incarcerated adults and juveniles under the custody of DCR.

Exhibit 50: LIST OF AGENCIES IN FUTURE STATE DEPARTMENT OF CORRECTIONS AND REHABILITATION GROUPING

1. Department of Corrections and Rehabilitation
2. Correctional Health Department

Department of Corrections (DCR)

DCR discharges its constitutional responsibility operating an aging prison system with outdated technology. Furthermore, the prison network is composed of relatively small facilities with significant geographical dispersion. This setting results in high staffing level to operate. The actual number of custody officers at DCR is substantially higher than comparable benchmarks. For example, DCR's FY2018 FTE-to-inmate ratio was 0.71, significantly higher than the 75th percentile for correctional staffing ratios in mainland U.S. states (0.54 FTEs per inmate).[134] Historical headcount has declined at an annual rate of –16% from FY18 to FY23, while inmate population has declined at a higher rate of –23%, with FY21 having the largest decline of –20% mainly due to COVID-19 and habeas corpus.

While most U.S. state prison systems are near 100% utilization, as of September 30, 2022, Puerto Rico facility utilization is 79%, which only considers habitable spaces.[135] This is up from the 73% facility utilization rate from 2021, due to a slowdown of the inmate population reduction rate compared to FY21, along with additional consolidation of facilities, but still far below the National prison system utilization rate.

[133] This includes all penal institutions and rehabilitation facilities for men, women, and juveniles
[134] NASBO, FBI, BJS databases
[135] Bureau of Justice Statistics, 2014

In addition to its inmate population, DCR also serves 7,197 community program participants. To serve this population, DCR employs approximately 4,668 direct FTEs. In order to achieve operational and fiscal efficiencies in this program, significant investment in technology and process improvement will be required

Correctional Health (CH)

To deliver healthcare services to incarcerated people, CH outsources the management of the program to a private healthcare program manager ("PM"). This model is the product of one of the stipulations reached to settle a class action suit brought against the Commonwealth of Puerto Rico in by DCR's inmates. The PM is responsible to provide the health care services following the Medical and Mental Health Care Plan, adopted by the Honorable US District Court for the District of Puerto Rico in October 23, 1990.

In order to provide the required services, the PM directly employs care providers, contracts independent personnel (physicians, nurses, etc.) and also utilizes direct employees of the CH roster staff. In contrast, most states in the U.S. have a direct-care model or use staff for administration and outsource healthcare. In FY2022, CH spent $7,260 per incarcerated person to provide healthcare services, while median spend across U.S. mainland states was $5,763.[136]

Juvenile Programs

In 1994, the United States filed a complaint against the Commonwealth of Puerto Rico and some named officials for subjecting juveniles confined in residential facilities to conditions that deprived them of their federal rights. The Commonwealth and the named Commonwealth officials agreed to settle the matter with the United States, culminating in the comprehensive 1997 Settlement Agreement. On December 12, 1997, the U.S. District Court for the District of Puerto Rico ("USDC") entered the Settlement Agreement as an Order. The USDC appointed a Monitor to ensure compliance with the provisions in the Settlement Agreement. In a report made for 2019, the Monitor concluded that the Department of Correction and Rehabilitation was non-compliant on three (3) provisions and partially compliant on twenty-one (21) of the remaining thirty (30) provisions in the court approved Settlement Agreement. The non and partial compliance provisions were related to inadequate staffing levels, which hinder the security of the juveniles, and to facility conditions. To address these issues, the Federal Monitor concluded in a report that an adequate staffing analysis and a separate budget for the Juvenile Program would be conducive towards good management.

In April 2022, the USDC ordered the establishment of a separate budget for the Juvenile Program in the amount of $23 million to ensure the Juvenile Program would have the necessary resources to operate and condition the juvenile facilities. Going forward, the Certified Budget will continue to segregate the Juvenile Program budget at a granular concept code level.

The 2023 Fiscal Plan includes explicit funding to enable DCR to measure and monitor federal consent decree requirements, including:

- **Corrections reform:** The 2023 Fiscal Plan ensures funding to achieve minimum confinement standards and inmate support at Puerto Rico Corrections facilities.

[136] Pew Trust "Prison Health Care: Costs and Quality" Report, 2017

- **Juvenile corrections:** The U.S. District Court required a $23million budget for the FY2023 Juvenile program following a joint recommendation from the Juvenile Program and the Federal Monitor. The 2023 Fiscal Plan includes funding to meet the requirements of the Court.
- **Correctional Health reform:** The Fiscal Plan provides funding to meet correctional health requirements based on the Carlos Morales Feliciano case.

Optimizing the FTEs-to-inmate ratio

Personnel savings must be captured by reducing DCR FTEs per inmate. The agency should strive to meet a target FTE-to-Inmate ratio of 0.63 by FY2023. This is a slight increase from the bottom-quartile U.S. states' benchmark of 0.54, which was the target ratio in Fiscal Plans prior to FY2022.[137] Currently, the FTE-to-Inmate ratio is at 0.42 when taking into consideration the FTEs associated directly with the Adult Inmate population.

DCR hired a vendor to aid the back-office redesign process with the automatization of the finance, human resource, and budget areas. The vendor identified key areas for improvements such as streamlining employee onboarding and human resources processes to make operations more efficient. This also includes estimates on software and hardware needs that were identified by vendor, with an expected completion in mid-FY23.

Consolidating adult facilities

To bring the system in line with the requirements of the population and to increase utilization across all prison facilities, DCR is undergoing efforts to consolidate its footprint to reach an overall system utilization of 93% (see Exhibit 51). This must be achieved while maintaining appropriate separation of different inmate risk profiles and populations, including men, women, and juveniles, as required.

DCR's facilities are technologically outdated with rapidly deteriorating infrastructure. Repairs are needed for plumbing, electric, roof sealings and gate repairs, among other concerns. In FY2022 DCR was required to conduct a facility footprint and consolidation assessment study with the objectives of: (1) diagnosing the current state of infrastructure across its facilities; (2) identifying capex investment needs; and (3) identifying opportunities for additional facility consolidation. This assessment was meant to serve as a guiding tool for DCR to implement the consolidation of facilities following an overarching and comprehensive approach.

DCR reported consolidating several facilities and continues efforts to close and consolidate prisons facilities. However, DCR has continued to operate some of the facilities that no longer house inmates, using them as storage, administrative offices, or program offices (e.g., community program, special arrests). As a result, savings from the closure of these facilities have not reached the projected fiscal efficiencies.

Meanwhile, despite the reported consolidation of facilities, system-wide utilization rates for facilities that house inmates continue to be low. DCR is now operating a total of 26 facilities with a total capacity of 10,560. With an incarcerated population of 7,187, this implies a utilization rate of just 56%. This indicates potential for DCR to further consolidate additional facilities.

[137] Census data, 2014; Bureau of Justice Statistics, 2014

Almost 23% of DCR's total capacity is reportedly 'uninhabitable'. Given the lower inmate population, DCR has consistently pointed to the uninhabitable spaces in large prisons. Making these spaces habitable is key to the further consolidation of DCR facilities.[138]

With over 33 facilities in 2019 and many of them deteriorating and in bad conditions, the agency has been able to consolidate or partially consolidate 8 facilities as well as use Capex funds to improve existing ones to create more habitable spaces with repairs and maintenance.

One of the main roadblocks has been the logistics of transferring inmates and FTE's from facilities that are set to be consolidated. However, DCR has been actively engaging employees in the facilities that are programmed for closing to present them with options that have made the transitions to the new assigned facilities as smooth as possible.

DCR will continue with consolidation efforts in FY23 with at least two more facility consolidations before 2023. The transfer of inmates and FTE's will continue, as well as Capex improvements for existing facilities.

Reducing procurement spend

For FY2023, DCR should continue procurement savings as the inmate population declines. Possible correctional facility consolidations in FY2023 will drive savings opportunities for the agency as long as they implement feasibility study recommendations to continue to eliminate its facility footprint.

DCR will use FY23 Capex budget to purchase ~2.7M in IT equipment for the back-office initiative which will result in process, efficiency and control Improvements.

Improving management of prisoner healthcare

In FY2022, the Government spent $7,895 per inmate for correctional healthcare. The 2022 Fiscal Plan required the Government to bring per-inmate spend in line with the 50th percentile of U.S. states and unlock savings by reconsidering level of services currently provided while assuring compliance with statutory requirements, renegotiating existing contracts, launching competitive RFPs for key contracts with terms more in-line with mainland spending practices, , and strategically evaluating insourcing options. As of FY2021 CH has implemented a generic medicine program across all facilities, with the goal of reducing medicine expenditure.

Furthermore, CH is expected to achieve personnel efficiencies of $8.2 million as per FY2018 baseline. In order to achieve savings, agency needs to reevaluate its staffing policies for administrative and support roles (such as paraprofessionals, pharmacists, etc.), and implement back-office process efficiencies and/or centralization/digitization of common tasks across facilities (see Exhibit 51 below).

Even as DCR has achieved procurement savings through renegotiating the correctional health HMO contract and food services contract, there are still opportunities to evaluate potential savings on other contracts in Correctional Health, including those for sub-contractors.

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[138] As of January 2021 data, 11 facilities with the lowest utilization rates had 925 inmates who could be transferred to the remaining facilities to increase system wide utilization rates to 91%

Under 2023 Fiscal Plan requirements, the Department of Corrections and Rehabilitation grouping was to complete key operational efficiencies as outlined in Exhibit 51.

Exhibit 51: DEPARTMENT OF CORRECTIONS REQUIRED IMPLEMENTATION ACTIONS

Areas of focus	Required implementation action	Deadline	Status	New Deadline
Consolidate agencies	• Provide outline for facility footprint and consolidations assessment study	July 2020	Completed	N/A
	• Publish facility footprint and consolidation assessment study listing facilities to be considered for consolidation or investment required to improve habitability of spaces	December 2020	Completed	May 2021
	• Implement plan to consolidate additional facilities and improve habitability of spaces to improve system level utilization of existing spaces and provide supporting documentation (e.g., RFP documents submitted to proceed with consolidation)	March 2021	Delayed	December 2022
Rightsizing personnel	• Implement back-office process redesign (e.g., digitization of record keeping) to achieve personnel efficiencies and reach FY2022 headcount targets	July 2020	Delayed	June 2022
	• Outline initiatives to reduce headcount in order to achieve target headcount in FY2022 and onward	March 2021	Delayed	December 2022
Optimize procurement spend	• Provide facility-level data on opex spend, list of procurement contracts and outline initiatives to achieve procurement efficiencies in FY2022	September 2020	Completed	N/A
Redesign correctional health program	• Provide updated roster of Correctional Health employees (direct, contracted) outlining key roles and responsibilities to validate current staffing levels	July 2020	Completed	N/A
	• Provide assessment of healthcare spend per inmate and identify initiatives to generate personnel or opex savings	December 2020	Completed	N/A

15.5 Department of Economic Development and Commerce (DDEC)

The DDEC is comprised of various offices and programs, including a consortium of ascribed agencies, critical to incentivize and support the revitalization and transformation of Puerto Rico's economy. To promote growth, DDEC must enable high-impact projects, energize existing industries, and facilitate the attraction of off-Island investments to strengthen and modernize the Island's economy. Additionally, the Department manages a variety of youth and workforce development programs meant to foster qualities (e.g., entrepreneurship, job-preparedness) crucial to a growing economy. Finally, DDEC and its component agencies are charged with the implementation of structural reforms (e.g., overhauling permitting) to transform Puerto Rico into a more competitive business, tourist, and investment destination.

Rethinking our economic development model based on global trends and a new reality after the macroeconomic effects of the pandemic, DDECs main responsibility is to establish the economic development strategic framework, including identifying priorities and get all the relevant stakeholders to commit to the execution of these priorities to bring stability and continuity to the economic development strategy of Puerto Rico.

Today's and tomorrow's DDEC shifted its focus to streamlining to increasing the skills and capabilities of current and new generations while successfully driving diverse economic development strategies and, at the same time, develop a strong organization, as a competitive foundation for all sectors to grow, to manage the significant amount of grants recently assigned to the entity., and the Foundations are essential for any jurisdiction to compete in the 21st Century digital economy.

PRopósito, as DDEC has named its new economic development model, defines 5 pillars that are essential for any economy to compete in the digital economy of the 21st century to ensure sustainable economic growth.

The pillars are ...

- Diversified Economy with local & global INTEGRATION
- Becoming an Enterprising Island - agile and competitive ecosystem
- With Globally competitive citizens - talented /workforce with the capacity and capabilities, knowledge, strong leadership, aligned to global trends and sectors needs
- Advance infrastructure sustainable, resilient, and innovative
- Social well-being - safety, health, diversity, equity and inclusion PRopósito defines the strategic framework from which DDEC's initiatives, projects and policies will result and be implemented.

To ensure streamlined economic development and realize efficiencies, five (5) previous independent agencies have been integrated into offices and programs, full front- and back-office consolidation, into DDEC. DDEC has successfully consolidated the following entities Puerto Rico Trade and Export Company, Office of Industrial Tax Exemption, State Office of Energy Policy, Commonwealth of Puerto Rico Regional Center Corporation and the Permits Management Office into current programs and offices.

4.15.5.1 Overview of efficiency actions

Consolidating operations and rightsizing personnel

The 2023 Fiscal Plan requires DDEC to merge Roosevelt Roads (RR) and Planning Board (PB) back-offices into one, which is expected to yield significant operational efficiencies. This consolidation and back-office merge requires DDEC to clearly define the agency's responsibilities, which will prevent overlapping duties. The agency's responsibilities must also be distinguished from those of Discover Puerto Rico (DPR), currently responsible for attracting off-Island tourists, groups, and conventions.

In line with the findings of a government analysis that identified a redundancy in service of back-office personnel across the Department, DDEC should also consolidate RR and PB back-office operations to reduce back-office headcount by FY2023. Further, DDEC should establish a set of key performance indicators, targets, and milestones for each of its subsidiaries to measure the performance of its subsidiaries and partners and act to address issues.

To date, DDEC has made substantial progress by operationally consolidating 7 of the 10 agencies. The seven agencies have moved to a centralized accounting and payroll systems.

Although DDEC has integrated seven of ten agencies and merged agencies' back-offices into one, DDEC has struggled to integrate PB's back-office due to the lack of cooperation from the agency. However, in October 2020, the Planning Board identified 36 employees that can be transferred to DDEC without affecting the agency's operations. This list was given to DDEC, DDEC executed per planed nonetheless PB did not act on it. As a result, PB's management sent an updated list in March 2021, with only '7 identified employees. Planning Board's consolidation into DDEC must be finalized in FY2023. Therefore, PB is pending public policy alignment.

Based on the strategic economic development framework "PRopósito" and the needs to compete in the digital economy of the 21st century, DDEC is identifying employees' skills and re-skilling needs required for the future state of the agency.

Achieving non-personnel efficiencies

DDEC has completed its procurement reform; the process has transferred this responsibility to General Services (ASG), which should aim to generate savings through contract renegotiations. In addition, DDEC has consolidated its physical footprint to accommodate all programmatic areas and back-office personnel, and managed all tax exemptions, grants, and credits under one centralized Department. One exception, due to its nature, are OGPe's regional facilities located in Humacao, Aguadilla and Ponce. Ponce's facility will be consolidated once the construction is completed. Previously it was intended that employees should be consolidated in two main buildings, but current management decided to consolidate all personnel in PRIDCO's Hato Rey building located in Roosevelt Avenue. To date, DDEC has consolidated all employees, except for the Planning Board and Tourism, into the Hato Rey building.

Due to increase in federal funding assignment from the U.S. Department of Energy, additional required personnel will be needed in the Hato Rey building.

4.15.5.2 Required implementation actions

DDEC has a set of required implementation actions which will dictate the operational efficiency of the grouping moving forward. In FY2023, DDEC must achieve the following:

- Finalize the physical and operational consolidation of the agencies (including RR and PB).
- As evidenced during the last few years, the consolidation the PB back-office integration is an executive government public policy decision.
- The operational needs assessment has been conducted and the findings and recommendations are in the process of implementation.
- Procurement contract renegotiations are completed.
- Continue publishing quarterly reports on the agency's website detailing all economic incentive donation/subsidy amounts given to private entities.

To achieve the 2023 Fiscal Plan requirements, the DDEC must complete key operational efficiencies as outlined in Exhibit 52.

Exhibit 52: DDEC REQUIRED IMPLEMENTATION ACTIONS

	Required implementation actions	Deadline	Status / New deadline
To be completed in FY2024	▪ Publish quarterly reports in the agency's website detailing all economic incentive donation/subsidy amounts given to private corporations	Quarterly - Ongoing ▪ Q1 – October 2023 ▪ Q2 – January 2023 ▪ Q3 – April 2024 ▪ Q4 – July 2024	▪ Completed ▪ On Track ▪ On Track ▪ On Track
	▪ Identify which procurement contracts have been renegotiated or are pending renegotiation or elimination (across all consolidated and ascribed DDEC entities) to the Oversight Board	▪ June 2020	▪ JP – Delayed – July 2023
	▪ Second phase of operational needs assessment across all consolidated entities to identify efficiency opportunities and re-skilling and capabilities needs of employees in support of the Economic Development Strategy (PRopósito), without inhibiting the performance of DDEC agencies as a response to Act 80	▪ February 2024	▪ DDEC – In process – February 2024 ▪ JP – Delayed – February 2024
	▪ Finalize the consolidation of the physical footprint of all consolidated DDEC agencies	▪ September 2020	▪ JP – Delayed – September 2023
	▪ Reduce excess front- and back-office headcount across all DDEC agencies (excluding PRTC and JP)	▪ March 2021	▪ Delayed – June 2023
	▪ Execute operational system integrations within DDECs back-office management.	▪ March 2021	▪ Delayed – March 2024
	▪ Finalize procurement contract renegotiations	▪ June 2021	▪ Completed
	▪ Consolidate PB's key back-office personnel into DDEC's back office	▪ June 2021	▪ Delayed – March 2024
	▪ Reduce excess front- and back-office headcount from PRTC and back-office personnel from JP in line with September 2021 operational needs assessment	▪ June 2021	▪ Delayed – June 2024

15.6 Puerto Rico Innovation Trust (PRITS)

4.15.6.1 Context and current technology landscape in the Government of Puerto Rico

The Puerto Rico Innovation and Technology Services (PRITS) was created to establish an administrative structure responsible for technology strategy across the Government of Puerto Rico. The 2017 Executive Order that established PRITS gave it the following responsibilities, among others:

- Integration of technology into government management
- Promotion of public, private, and academic projects in the technological field
- Creation of a digital platform to integrate the different components and government entities
- Generation of a system of tax payment and bank transfers under Hacienda
- Development of a public accountability system

In March 2019, an additional Executive Order reinforced the additional leadership roles and responsibilities of PRITS, including transferring the responsibilities of the Office of the Chief Information Officer (CIO) to PRITS and establishing the role of the Chief Information and Innovation Officer (CIIO). The CIIO is in charge of integrating and streamlining the Government's information and communication technology processes.

In July 2019, the Government enacted Act 75-2019, making PRITS the office of the Executive Branch responsible for implementing, developing, and coordinating the Government's public policy on innovation, and information technology ("IT"). However, PRITS's first few years were marked by delays in the development and adoption of key technological reforms, as well as insufficient oversight of the use of technological resources.

To better enable PRITS to carry out its responsibilities, the Oversight Board approved its FY2021 budget of $70 million. Please refer to previous versions of the Fiscal Plan for more details.

During FY2022, PRITS has improved oversight by establishing an exhaustive portfolio of digital initiatives, prioritized by impact, feasibility and relevance for central government agencies as required in the previous fiscal plans. Additionally, PRITS made progress in improving transparency and accountability of IT spend across Government. For example, PRITS created a protocol with OMB to evaluate innovation and technology budget proposals submitted by the government agencies to be implemented for the FY24 budget process. By conditioning approval of agencies' technology budget to a connection with the government's digital initiatives, PRITS has begun to ensure that all government agencies comply with the submission of their digital initiatives into PRITS' portfolio.

In addition to these accomplishments, PRITS still has room for improvement in integrating its IT infrastructure (e.g., on-premises data centers and cloud storage) and services (e.g., applications) across the Government. During FY2021, PRITS was granted $10 million for centralized data center strategy and operations, cloud services and new equipment. Such funding should have been utilized by PRITS for investments in centralized IT infrastructure and the migration of existing government services into such centralized IT infrastructure. These efforts would significantly reduce the need for infrastructure and cloud services at the agency level, which, in many instances, are being underutilized.

During FY2022 PRITS was able to provide a preliminary strategic detailed plan for the data center consolidation, which contemplated the retrofit of facilities in Roosevelt Roads and would result in potential benefits such as reducing operational costs, meeting energy efficiency standards, limit capital expenditures, increase utilization of equipment, and prevent security risks, among others. To enable PRITS to complete the conditioning of the proposed data center, the Oversight Board approved in its FY2023 budget under Capital Expenditures $5.3 million for broadband infrastructure required and the building remodeling design of the data center in Roosevelt Road. On November 2022, PRITS was able to identify better suited locations for centralized data center, and is in the process of developing a new plan for the data center consolidation. Also, PRITS has made progress with the integration of services and applications identified in its inventory by consolidating the cloud service contract to include some Government agencies. PRITS must continue to make progress in the implementation of centralized telecommunication services and cybersecurity strategy and operations.

Second, although PRITS was granted $3.6 million in FY2022 for full staffing (including specialized resources), which continues in FY2023, the agency suffered significant delays in formalizing a government-approved organizational structure. In fairness, these delays coincided with other bureaucratic obstacles in the recruitment process, such as outdated job classifications not reflective of agency staffing needs, which will be addressed through Civil Service Reform. PRITS was able to recruit key position such as Chief Technology Officer (CTO) and continue its efforts to recruit the Chief Information Security Officer (CISO) and personnel with expertise in solution development, operations, and technology architecture. However, the lack of a new approved organizational structure with the highly specialized positions required for PRITS to complete its hiring plan has resulted in a ~$1.3 million Payroll underspend in FY'2022 and FY2023 that continues to ultimately hinder the agency's ability to meet some implementation deadlines.

The Government and PRITS should continue to focus on the creation of centralized teams with the specialized skills needed to accelerate infrastructure consolidation and improve the Government's ability to deliver new technology solutions. Agencies continue to rely too heavily on external vendors rather than building the capabilities of PRITS to lead and manage these initiatives. Similarly, there continues to be unclear accountability for technologies developed at the agency level. As a result, pieces of infrastructure are developed and managed separately, with dispersed accountability, creating a complex web of oversight, incremental cost, and ineffective systems. Additionally, while it is apparent that certain agencies are taking advantage of the centralized cloud infrastructure by moving additional services into the cloud, the savings and existing budgets associated with the operational costs of on-premises data centers and other related expenses are not being transferred to PRITS.

As provided by the Act 75 of 2019, the Governor has the authority to transfer to PRITS personnel, funds, budgets, documents, records, equipment, materials, and files of any other IT operational area of any agency, for use in the purposes and purposes of the Act. The Government and PRITS should continue to work together to ensure that PRITS has the necessary resources to fulfill its mandate of centralizing and standardizing the management of the information technologies and innovation areas of government.

4.15.6.2 Importance of digital modernization

It is critical that the Government make effective use of its technology resources. The Government, via PRITS, must continue to improve its capabilities in digital delivery to achieve critical benefits, including:

- **Reducing expenses and improving reliability through data-center consolidation.** Since 2016, the Federal Government has closed 210-tiered data centers, and over 3,000 non-tiered data centers. To realize the full benefit of this action, PRITS must implement best practices at the state and federal level. These should include increasing use of virtualization, freezing new data centers unless compelling justification exists, and exploring the use of cross-agency shared services.
- **Rationalizing the application portfolio to ensure that Government-wide resources are directed to the highest priority initiatives.** Modern governments face substantially higher demand for technology services than can be fulfilled. In a resource-constrained environment, disciplined application portfolio management can ensure alignment between IT spend and government priorities. Accordingly, PRITS must continue to implement a government-wide application rationalization effort which prioritizes proven solutions. Please refer to previous versions of the Fiscal Plan for more details.
- **Enhancing cybersecurity to prevent costly data breaches.** As cyber threats continue to proliferate, government agencies globally have adopted cybersecurity-specific risk management practices. PRITS must continue to improve the Government's cyber defenses by developing a cybersecurity awareness program where users are continuously exposed to training materials and perform exercises to validate their knowledge, complementing the actual policy by adding processes and procedures which include specific technical requirements and standards such as penetration testing of "crown jewels", vulnerability assessments, phishing tests, anti-virus, Wi-Fi tests, controls reviews, monitoring, user credentials and enterprise risk management, use of Endpoint Detection and Response systems across all Government technological devices, network monitoring softwares, deployment of networking data logging (firewalls), IT Service Management asset

management, maturity level assessments, a security operatations center and coordinating delivery of specialized expertise across government where the need arises.

- **Improving transparency and accountability of IT spend across government and focusing on value for IT dollar spending**. PRITS will realize its greatest impact when stakeholders are given a clear line of sight into where IT spending is going, and what value is being delivered. Encouraging agencies spending government resources to provide this transparency should therefore be a core focus for PRITS, rather than pursuing a centralized effort that treats transparency as incremental to existing IT spending.

4.15.6.3 Required implementation actions

In line with the four key initiatives stated above, PRITS must achieve the following objectives and milestones *(*Exhibit 53*)*.

Exhibit 53: PUERTO RICO INNOVATION AND TECHNOLOGY SERVICES REQUIRED IMPLEMENTATION ACTIONS

	Required implementation actions	Deadline	Status / New deadline
To be completed in FY2021	▪ Establish process and protocols for IT contract review[1] of government agencies to create greater transparency on IT spend and needs of infrastructure or cloud services	▪ September 2020	▪ Completed
To be completed in FY2022	▪ Develop strategy to consolidate Cloud services and on premise data-centers with a detailed migration plan to drive consolidation of infrastructure during FY2021	▪ December 2020	▪ Completed
	▪ Provide a structured and exhaustive portfolio of digital initiatives, prioritizing by impact, feasibility and relevance for Central Government Agencies	▪ December 2020	▪ Completed
	▪ Ensure critical cybersecurity infrastructure, processes and control systems are set in place by PRITS and adopted by government agencies to minimize risks through clearly defined governance structures	▪ December 2020	▪ Completed
	▪ Create a protocol for PRITS to review all technology-related budget requests as part of the FY2022 Budget cycle	▪ December 2020	▪ Completed
	▪ Develop plan to consolidate current personnel spending and establish cross-functional teams by identifying personnel in government agencies with specialized technology skills to be centralized	▪ June 2021	▪ Completed

1 Does not apply for contracts that require a formal RFP process

15.7 All Other Agencies

To date, implementation progress and engagement has varied across the smaller Government agencies. Some agencies are developing meaningful tools and creative solutions to achieve savings. For example, the Department of Agriculture is planning digital solutions to reduce personnel, while the Department of Environment's green tourism initiative envisions creating job opportunities and tax revenues. Still, many agencies have not planned to implement their respective changes effectively, resulting in slow progress to reach their savings targets. The Government of Puerto Rico will continue looking for ways to reduce back-office expenditures, align staffing levels to the volume of services required, and upgrade those services needed to accommodate for current conditions.

Some success has been achieved to date in these areas. For instance, the Prosecutor Panel was able to reduce staffing levels during several months of the year to reflect the lower volume of work. The

Utility Commission was able to consolidate all back-office functions and move into one office/building. The Puerto Rico Education Council was able to consolidate State Departments in under 90 days and saved over $400 thousand by reducing office footprint. Finally, the Office of Women's Advocacy successfully provided its employees with the necessary equipment to process increased call volume after the COVID-19 emergency declaration.

4.15.7.1 Required implementation actions related to the Volkswagen Diesel Emissions Environmental Mitigation Trust

The 2023 Fiscal Plan also notes the existence of funding from the Volkswagen Diesel Emissions Environmental Mitigation Trust. This funding has been available since January 29, 2018 but has gone unused. On March 27, 2020, the Department of Natural and Environmental Resources was designated as Puerto Rico's lead agency for this project, and a high-level action plan has since been developed. Moreover, on September 30, 2020, an Administrative Order with guidelines to evaluate and select proposals was issued, and public notice was published in October 2020 through major newspapers to notify interested parties of the availability of funds under the Mitigation Action Project. Several proposals were submitted thereafter for evaluation. On March 30, 2021, a committee was established to evaluate proposals and the members appointed are being notified. The Department of Natural and Environmental Resources (DNER) expects the committee will evaluate and select approved proposals to then begin the disbursement of funds in the near term. Agency is currently reaching out to proponents that successfully met with the program requirements to commence contract documentation and funds disbursement by June 2022.

In summary, the implementation of agency efficiency measures is necessary to achieve a sustainable and effective Government for Puerto Rico. Fiscal measures should aim to reduce costs while improving the quality of important services.

The 2023 Fiscal Plan includes the continuation of rightsizing measures to further reduce operating budgets, while focusing valuable resources on improved government service delivery and prioritization of investments into rekey areas. Time is of the essence to implement the changes needed to bring Puerto Rico closer to fiscal sustainability paired with government efficiency.

Chapter 16. Appropriations to UPR

16.1 Current state and vision

The UPR, founded in 1903, is Puerto Rico's largest and main university system. Its mission is to serve the people of Puerto Rico, contribute to the development and enjoyment of the fundamental values of Puerto Rican culture, and uphold the ideals of a democratic society. To advance its mission, UPR strives to provide high-quality education and create new knowledge in the Arts, Sciences, and Technology. UPR has a history of academic excellence, with 694 degree-granting academic and professional certification programs, including six first-level professional degree programs and 34 PhD programs. The university system is also an important center of research; for example, the Río Piedras campus is classified as a high research activity university by the Carnegie Foundation (one of only 335 U.S. universities to receive such a designation) and there are 79 separate research centers across the university system. UPR plays a critical role in providing avenues for social and economic advancement, with 68% of students receiving Pell grants.[139]

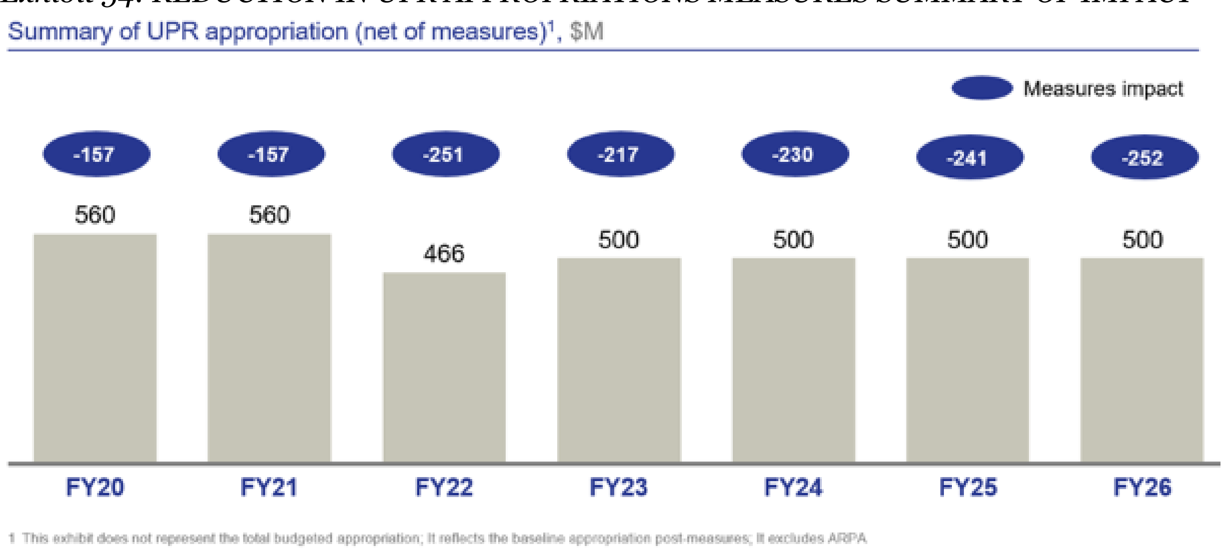
[139] UPR 2017-2022 Strategic Plan

The central Government provides a range of appropriations, including to the University of Puerto Rico (UPR). In FY2022, UPR was 52% subsidized (~$466 million in annual appropriations) by state and local funds, compared to an average 21% state and local subsidization for U.S. public universities.[140] In FY2018, UPR's undergraduate tuition was less than one-third of the U.S. average for public universities, even after adjusting for per-capita income, and more than 40% below the average tuition of private universities on the Island.[141] According to IPEDS data from 2020-2021, UPR has adjusted its undergraduate tuition to increase its operating revenue and has been able to reduce the gap to 33% below average tuition when compared to private institutions in Puerto Rico.142 Yet, during the past decade, UPR has seen a 24% enrollment decline (17% since FY2018) with an on-going increase of enrollment decline dropping to an expected 5.6 across both graduate and undergraduate populations. Moreover, UPR consists of 11 independent campuses with minimal shared services or administrative consolidation. UPR has reduced its exposures to subsidies from the Commonwealth, and has made some progress in various measures, such as increasing undergraduate tuition, increasing the contribution to pension plan, and slightly increasing graduate tuition. Some other areas require additional progress, including diversification of revenues, implementation of tuition and scholarship systems, renewal and maintenance of infrastructure, addressing operational inefficiencies, pension reform, and consolidation of the back-office.

16.2 Key initiatives to reduce appropriations

Previous Fiscal Plans planned a reduction in the Commonwealth appropriation to UPR to ~$442 million by FY2023 (growing with inflation starting FY2024); however, reflecting the approval of Act 53-2020, the 2022 Fiscal Plan increased the UPR appropriation to a constant at $500 million annually starting in FY2023 through FY2027.

Exhibit 54: REDUCTION IN UPR APPROPRIATIONS MEASURES SUMMARY OF IMPACT



140 UPR, IPEDs 2020, College Board

141 Represents the average reported in IPEDS across the Ana G. Mendez University system, Inter-American University, Sacred Heart University, and Polytechnic University for SY20-21

142 IPEDs, Student Financial Aid and Net Price, Tuition & Required Fees, 2020-2021 – Average across campuses, National Center for Education Statistics, Table 330.20, Public 4-year In-State Tuition & Required Fees for 2020-2021

A reduction in the appropriation for UPR was determined in 2017 through a collaborative process with the Government to identify reasonable, sustainable measures to bring UPR closer to U.S. mainland public university tuition and administrative cost benchmarks, while maintaining (and in many cases improving) the performance of the system, which serves as a primary economic growth engine of the Island. It reflects both the declining enrollment of the university as well as the sizeable opportunity to diversify revenue sources, transform operations through greater utilization of shared services and other administrative streamlining across its 11 campuses.

16.3 Establish a needs-based scholarship fund for UPR students

The UPR 2022 Fiscal Plan includes a measure to increase tuition, thereby bringing UPR more in line with other public U.S. universities in terms of own-source revenues and ensuring that those who can afford university pay for attending. At the same time, the Commonwealth has created a needs-based UPR scholarship fund, whose intent is to ensure the tuition-related measures do not impact the ability of students with demonstrated financial need to afford a UPR education.

The 2022 Fiscal Plan originally allocated funds to establish an independently managed needs-based scholarship fund to benefit the students of the university system. However, after an extensive and unfruitful RFP process directed by AAFAF, to select an entity to provide administrative and trust services with respect to the scholarship endowment trust fund, the Government approved Act 4 – 2022 providing UPR the responsibility to administrate the trust fund. Act No. 4 of January 18, 2022, also known as "Scholarship Fund to Mitigate the Increase in Tuition by the Fiscal Plan" was approved to derogate Act 148-2020 with the purpose of transferring the funds contributed to the UPR's newly established endowment fund and create the scholarship program, which will allow for the disbursement of $10 million annually to eligible undergraduate and graduate students. The Commonwealth therefore contributed $51 million in FY2023 to be managed by UPR. The fund was expected to award the first scholarships in the first half of FY2023.

As of November 2022, UPR has not reported disbursement of the scholarship fund. UPR has also not provided disbursement details, a student socioeconomic profile study, nor an implementation plan with a respective schedule. Through communication with the Oversight Board UPR expects to provide details on implementation during December 2022. The Oversight Board urges both the Government of Puerto Rico and UPR to quicken this implementation so students who cannot otherwise afford tuition in Puerto Rico are able to through this program. The need-based scholarship will guarantee that those who need the resources get them.

The 2023 Fiscal Plan includes an increase in the salaries of all Medical Residents who are part of the UPR residency programs. It includes an allocation of ~$2.5 million annually initially starting in FY23 to cover a 20% salary increase for the students whose salaries have not been revised since 2003. The increase is intended to enhance the retention of students on the Island to provide the much-needed health related services. In addition, $500 thousand will be allocated to fund the required accreditation fees of the medical and dental programs of the Medical Science Campus.

Chapter 17. Reforming and Strengthening Puerto Rico's municipal structure and services

17.1 Background

In recent years, Puerto Rico's municipalities have faced significant financial and economic challenges due to budgetary adjustments required under previous certified fiscal plans and budgets for the Government of Puerto Rico and the Municipal Revenue Collection Center ("CRIM"), as well as for extraordinary events, such as natural disasters and public health crisis they have been handling. As a result, municipal leaders continue to stress the need for ensuring proper funding to carry out their essential government functions to continue providing essential public services to Puerto Rico's residents.

In order to address the abovementioned challenges, the 2023 Fiscal Plan contemplates measures that will serve to strengthen Puerto Rico's municipal structure, achieving fiscal discipline, implementing reforms and boosting economic growth, at the same time the secure the provision of essential services to the people they server.

17.2 Towards a New Model of Decentralization of Services

On March 16, 2021, Governor Pedro Pierluisi enacted an Executive Order with the objective of improving the efficiency of the delivery of services currently provided by the Central Government. A pilar for the achievement of the foregoing is the implementation of measures to decentralize territorial government services to municipalities. For instance, one of the guiding principles of the referenced Executive Order, adopted by Governor Pierluisi as a policy principle of his administration, is that "municipalities are the entities that can most efficiently meet the needs of their residents" in Puerto Rico.

The Pierluisi administration aims to promote and achieve an orderly, structured, and sustainable transfer of services and competences from the central government to the municipalities, to make the provision of these services more cost-efficient. In fact, on February 18, 2021, a collaboration agreement was signed between both the Federation and the Association of Mayors of Puerto Rico, with the backing of the Governor, with the purpose of strengthening the municipalities through fiscal and structural reengineering measures, and to develop and implement a plan for the transfer of competence and services lo local governments.

As a measure to ensure the effective development of decentralization initiatives, the Assistant Chief-of-Staff for Municipal Affairs, was designated by the Governor as the lead official responsible for coordinating efforts among pertinent governmental entities and stakeholders. Among the main steps of this project, a Committee on Decentralization was created with the purpose of identifying all prospective competencies and services that could be transferred to the municipalities, including its financing source.

Composition of the Decentralization Committee:

- Assistant Secretary for Municipal Affairs
- Federation of Mayors
- Association of Mayors
- Other members appointed by the Governor
- Office of Management and Budget

On March 25, 2021, a meeting was held between the Federation and the Association of Mayors, with the participation of the director of the Office of Management and Budget to begin discussions regarding the development of this project. Within this meeting, a list of possible competencies and services that are candidates to transfer from the central government to the municipalities was presented. Among the competitions, twelve preliminaries were established which were of interest to the games involved. These competences are as follows:

- School maintenance

- School transportation
- Mentoring Programs
- Collection and disposal of solid waste in schools
- Health matters (municipal inspectors to inspect businesses and issue permits)
- Transfer of economic resources for real animal shelters
- Fumigation (spraying)
- Transfer the development of programs for sports massification with recreational and sports resources and facilities
- Maintenance of secondary and tertiary roads (green areas and asphalt roof)
- Housekeeping Services
- Cleaning Channels with Resources
- Expand the Integrated Service Centers program to all 78 municipalities

4.17.2.1Analysis of Programs and Services by the Central Government

To carry out the relevant analysis for this project, it is important to first establish the services or programs that are under the agencies to establish how the intended transfer could be made. The purpose of this is to be able to identify if there is indeed a specific program to serve the service, or if it is rather an interagency collaboration that achieves the provision of this. This analysis was done for some agencies, specifically those that have a significant role in the provision of the services that were put into the agreement.

4.17.2.2 Conclusion and Next Steps

After carrying out the preliminary analysis by the Office of Management and Budget, several recommendations were established that will allow this initiative to be carried out in the most complete and efficient way possible. These recommendations are intended to ensure that it is one that meets the expectations of all participants in the executive branch. In the same way, it seeks to identify and analyze all the parts that make up the provision of these services, and then give visibility to the municipalities on what is the correct model that must be followed to offer the identified services.

The initial recommendations are as follows:

1. Establishing a short and long-term work plan, this project not only involves identifying the services that could be delegated to the Municipalities, but also implies a change in structure, hiring of personnel and resources to be able to implement the project.
2. Configure the OGP budget module, to adapt it to the type of data or information that will be needed. Such programming will create a need to offer training to the staff of the respective agencies, as well as the Municipalities on how to make the required data entry. By having the data in system, you could have precise details for accurate decision making.
3. Establish a team or working committee during the process of analysis and development of the process. It is essential that the project has the participation of resources on behalf of the Municipalities and Agencies, which in addition to having first-hand knowledge, are the ones who will administer the services. By restructuring, a modification is intended based on which specific services will be those that are finally identified as the candidates to be transferred.

On the other hand, a restructuring of the way and new tools to manage and distribute the budget is proposed in the long term, as well as to have the profile of each municipality (capacities, needs, strengths, among others). This would facilitate access so that the Executive branch can know the needs and status of the Municipalities. Within this profile, the agency (office, entity, etc.) that would be responsible for assuming the role of providing the services already identified should also be identified.

17.3 New Municipal Essential Services Fund

Puerto Rico's municipalities have historically relied on the Government's financial allocations to ensure the delivery of accessible and affordable public services, including, and not limited to, policing, sanitation services, garbage collection, and emergency services. These are all essential public services required to be provided for under fiscal plans and budgets pursuant to PROMESA sections 201(b)(1)(B) and 201(c)(1). During the Government's fiscal crisis, liquidity constraints and an economic recession led the Government to reduce intergovernmental transfers to municipalities.

On January 18, 2022, the Title III Court confirmed the Modified Eighth Amended Title III Joint Plan of Adjustment of the Commonwealth of Puerto Rico, et al. (the "Commonwealth Plan of Adjustment"), which became effective on March 15, 2022. As a result of the plan's effectiveness, Puerto Rico is no longer facing the unsustainable debt burden that caused it to seek Title III relief in 2017. Similarly, improvement in Puerto Rico's economy has resulted in revenue collection outperformance, thus creating primary surpluses and providing unprecedented liquidity to the Government. As can be seen in the TSA FY2022 Cash Flow as of June 24, 2022, the year-to-date outperformance in the TSA relative to the revised liquidity plan was $3.2 billion. While some of this outperformance may be timing related and some has been distributed on account of the Commonwealth's New CVI Bonds and AFSCME bonuses, a considerable amount remains available.

These seismic changes to Puerto Rico's economic circumstances afford the Commonwealth the ability to provide municipalities with adequate financial support to allow them to reestablish or normalize the essential services they provide to their residents. Prior reduction to appropriations have exacerbated the municipalities financial distress, which continues to negatively impact their day-to-day functions and the delivery of essential services to Puerto Rico residents. The Government believes that, building on prior successes, now is the time to remedy this situation.
The 2023 Fiscal Plan contemplates the creation of a Municipal Essential Services Fund, to be funded from the Government's net annual surplus (after all payments mandated Commonwealth Plan of Adjustment) at an amount of approximately 25% of such surplus, with a cap of $150 million per year. This modest increase in municipal intergovernmental transfers is fair, reasonable and conservative, especially when considering the additional expenses that the municipalities have assumed over the past decade, including the assumption of the PayGo, healthcare costs (Vital), and the undertaking of the provision of the services at the local level, that a task of the Central Government (i.e. roads and infrastructure maintenance, transportation). In fact, it would only represent approximately 1% of the Government's current own-source revenues.

Since the Board started exercising its powers pursuant to Sections 201 and 202 of PROMESA, the Board has reduced municipal appropriations by approximately 73%, from $330 million in FY2017 to only $88 million in FY2022. This reduction is unprecedented when compared to the level of funding that U.S. states provide to their local governments. For example, the average share of own-source revenue sent to local governments among all U.S. mainland states is approximately 48%. If the proposed surplus amounts are contributed to this new Municipal Essential Services Fund, the Government would still only be allocating approximately 1% of its own-source revenue to municipal support, which is a mere fraction when compared to the U.S. average. The Government does not request funding to comparable levels to U.S. local governments as it is cognizant that mainland localities shoulder larger responsibilities to service their local residents, as compared to Puerto Rico's municipalities. Nevertheless, a 1% level of funding, subject to the availability of a surplus, is clearly reasonable.

The impact of this modest investment in our municipalities cannot be overstated: it will ensure that all municipalities can continue to provide essential services without the need to institute additional cuts or potentially seek future relief under Title III of PROMESA, a cost that ultimately will be borne by the Central Government. Additionally, there is the risk of losing hundreds of millions of dollars in federal funds if municipalities collapse or are forced to downsize to a level where they are unable to comply with federal requirements. The Government believes that given the different economic and fiscal realities of Puerto Rico, increased municipal appropriations are a goal that both the Government and the Board should share and work to achieve.

17.4 Economic Analysis Supporting Municipal Support

Puerto Rico's municipalities have historically received intergovernmental transfers, such as the Equalization Fund. This fund represents an additional revenue source for the municipal governments, allowing them to continuously offer essential services to their population. From a high of $278.8 million during the Fiscal Year 2015-2016, this fund is expected to be completely phased out by the year 2025.

The Municipal Essential Services Fund represents a fundamental change in paradigm from the Municipal Equalization Fund. While the thrust of the Equalization Fund was to help municipalities financially, the thrust of the Essential Services Fund is focused instead on ensuring that essential services are provided to all the resident population in each municipality.

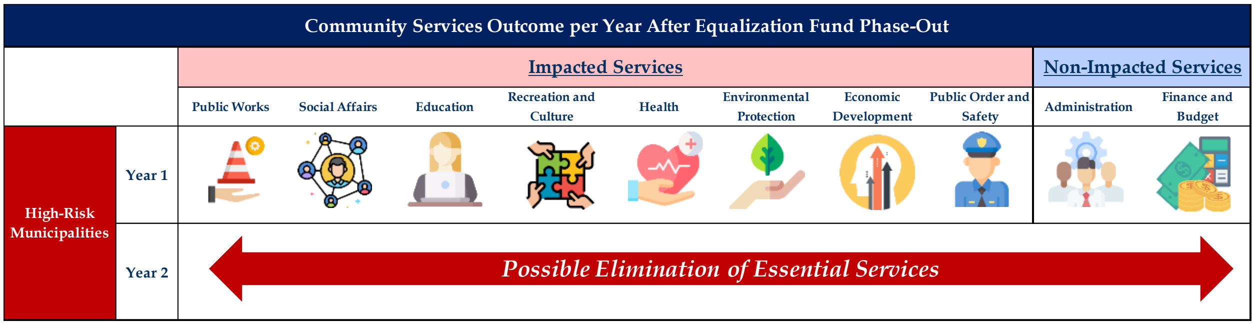
It must be stressed that the alternative faced by Puerto Rico's municipalities is not between the Equalization Fund and the Essential Services Fund. It is between zero funds and the Essential Services Fund because the Equalization Fund will otherwise be eliminated by virtue of the currently certified fiscal plan.
The need for the Essential Services Fund is highlighted by the following: Some municipalities have large vulnerable populations and a limited financial capacity to service these populations.

Essential services need to be provided. Refusing to transfer funds to municipalities that have a structural gap between service needs and financial capacity would not save money for the Central Government. The services would still need to be provided and providing these services from the Central Government adds bureaucracy and inefficiency.

The Organization for Economic Cooperation and Development (OECD, 2016), highlights that at the municipal level, governments harbor a wide range of responsibilities. They define these responsibilities as "Community Services." These services include: education, social affairs, urban planning, primary health, recreation and culture, and local economic development, among other services. This report considers ten main service categories, in accordance to an evaluation of all the available services provided within the municipalities.

When taking into consideration the expenditure and income structure and the degree of reliance to the Equalization Fund of the 78 municipalities, five risk groups can be identified. In terms of high-risk municipalities, which present a high degree of reliance on the Equalization Fund, in the first year after the phase-out, eight of the 10 community services provided by these municipalities are expected to suffer significant modifications that theoretically could ultimately lead to the services' elimination (see Exhibit 55).

Exhibit 55: MUNICIPAL SERVICES IMPACTED BY ELIMINATION OF EQUALIZATION FUND



Of course, the complete elimination of these services is not likely, considering their importance to the population in each municipal jurisdiction. To that effect, the Central Government would have to undertake these essential functions. Thus, there would be no financial savings but rather, the same services would be provided by the Central Government in a more inefficient and costly way. By the second year, the essential services offered by the municipalities would collapse and possibly be eliminated.

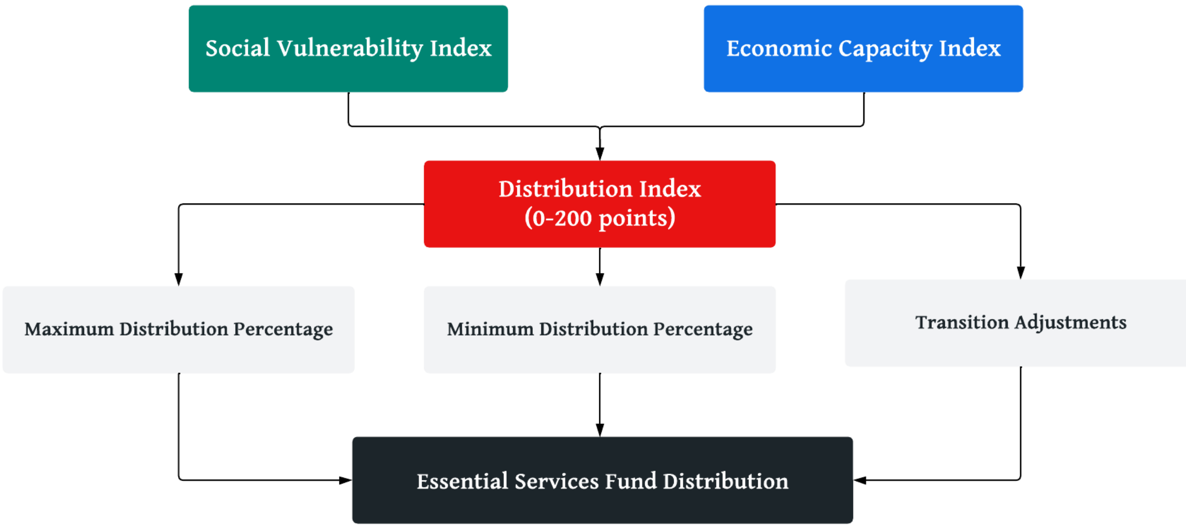
Puerto Rico's municipalities have a wide range of services that are offered to their communities. Daily life in these municipalities is dependent on these services being available. For example, in the event of a disaster, the community having ease of access to a robust network of services is necessary to mitigate damages. The impacts of events like hurricanes, the Covid-19 pandemic and earthquakes have highlighted the importance of municipal governments in dealing with different emergencies, with the services they provide being of great importance. The report from U.S. Homeland Security Operational Analysis Center (HSOAC) titled "Municipalities on the Front Lines of Puerto Rico's Recovery" offers a glimpse of the state of municipalities before and after Hurricane Maria in 2017 and at the municipal services they provide for their communities.
A significant number of federal transfers to Puerto Rico are channeled through municipal governments as grants and loans, among others. The bureaucratic requirements of these federal transfers have forced municipal governments to equip their workforce with highly qualified individuals that can manage and comply with the present federal framework, such as financial and other compliance reporting requirements.

After the examination of the current Equalization Fund and what it represents for the overall operations of the municipalities on the Island, its phase-out would result in many vulnerable populations not receiving the needed services.

To ensure the continuity and availability of essential services throughout communities, many of which present high levels of social vulnerability and are in municipalities with a low economic capacity to service those needs, the Central Government is proposing an Essential Services Fund. The Distribution Index presented throughout this analysis provides a robust and data driven framework for an effective distribution of this new Essential Services Fund, which is focused not on the finances of municipalities but on the vulnerable communities who reside in these municipalities.

Thus, the Municipal Essential Services Fund could potentially be distributed in a way that is data driven, not subjective, and based on two variables:

1. **Social vulnerability of residents living in the municipal jurisdictions and**
2. **Economic capacity of the municipal governments to service this population.**



The Social Vulnerability Index applied in this analysis comes from the U.S. Centers for Disease Control's Social Vulnerability Index (CDC SVI). The Social Vulnerability Index by municipality is published by the CDC. The SVI is calculated for the residents of all municipalities in the United States. This index uses data from the U.S. Census Bureau and is updated every two years. The SVI uses 16 variables that are organized into four groups:

Socioeconomic Status	Household Characteristics
Below 150% Poverty Level	Aged 65 & Older
Unemployed	Aged 17 & Younger
Housing Cost Burden	Civilian with a Disability
No High School Diploma	Single-Parent Households
No Health Insurance	English Language Proficiency

Racial & Ethnic Minority Report	Housing Type & Transportation
Hispanic or Latino (of any race); Black and African American, Not Hispanic or Latino; American Indian and Alaska Native, Not Hispanic or Latino; Asian, Not Hispanic or Latino; Native Hawaiian and Other Pacific Islander, Not Hispanic or Latino; Two or More Races, Not Hispanic or Latino; Other Races, Not Hispanic or Latino	Multi-Unit Structures Mobile Homes Crowding No Vehicle Group Quarters

The Economic Capacity Index, developed by the Governments independent consultant using various government sources, identifies the economic capacity of the municipal governments and ranks them from lower to higher. The index looks at four indicators: two related to general economics (income per capita and employment in the private sector) and two others related to municipal revenues (Sales and Use Tax contributions and total properties that can be taxed).

Income Per Capita (CY 2020)	Total Property Tax Contributions (FY 2023)
Def. It is derived by dividing the aggregate income of a particula group by the total population in that group. **Source:** U.S. Census Bureau, Puerto Rico Community Survey (PRCS), 5-year estimates	**Def.** Real and personal property contributions in Puerto Rico per municipality. **Source:** Center for Municipal Revenue Collection (CRIM)
SUT Contributions (FY 2020)	**Total Employment of Private Sector (CY 2020)**
Def. Estimated sales and use tax contributions collected by the municipalities. **Source:** Puerto Rico Office of Management and Budget	**Def.** Employment un businesses owned by individuals or groups of individuals. **Source:** U.S. Bureau of Labor Statistics

The distribution of the Municipal Essential Services Fund will be based on the Distribution Index that the Governments independent consultant developed, using the two variables that were previously explained: Social Vulnerability Index and the Economic Capacity Index. In essence, the Distribution Index will measure the gap between the social vulnerability of the municipality and the economic capacity of that municipality to provide the services needed by its population.

The Distribution Index shows the municipalities that are most in need of a higher proportion of the Municipal Essential Services Fund by prioritizing those with high social vulnerability and low economic capacity. The Distribution Index formula will remain constant while the Social Vulnerability Index and Economic Capacity Index will be periodically updated to contain the most current data.

In addition, a ceiling and a base would be determined each year by a consensus among mayors, including the Federation and Association of mayors. Determining a ceiling and base allows for the necessary leeway so that the Distribution Index does not produce some outlier results. At the same time, mayors would not be able to perform individual allocations arbitrarily. A municipality ranked 42 on the Distribution Index would never receive more funds than one ranked 32. In order to change the distribution, a variable or formula would need to be changed, impacting all the distribution to the 78 municipalities.

For illustration purposes, a ceiling of 1.8% ($2.7 million) was used. No base was used. However, this was made for illustration purposes and could be changed.

As a transition mechanism, during the first two years, a formula could be used to put a cap on some municipalities that would not exceed whatever they received from the Equalization Fund. For illustration purposes, the following formula was used:

Municipalities that have both of the following:

a. Income per capita > $15,000 yearly, and
b. Total Employment of Private Sector > 30,000

Under this scenario, a total of five municipalities would fall under this special transition consideration: Bayamón, Caguas, Carolina, Guaynabo, and San Juan. The municipalities of Bayamón, Guaynabo and San Juan would receive 0% of the Essential Services Fund, as they are currently not receiving funding from the Equalization Fund. The municipalities of Caguas and Carolina would receive only as much funding as to match the amount that they currently receive from the Equalization Fund for FY 2021. However, after the two-year transition period, it would be the distribution index which would determine the corresponding distribution of the Municipal Essential Services Fund. Using this index, no municipality would receive zero distribution.
The funds generated by the transition cap were distributed to the municipalities that had the largest declines when comparing the Equalization Fund of FY 2021-2022 and the proposed Essential Services Fund. This temporary transfer limits the decline from one system to the next to $417,801 of maximum loss between the two funds.

Exhibit 56 below summarizes the number of municipalities by how much they will be receiving from the proposed distribution by using the previous methodology:

Exhibit 56: DISTRIBUTION OF MUNICIPAL ESSENTIAL SERVICES FUNDS

Range of Municipal Essential Services Funds Distribution	Number of Municipalities in the Specified Range
$2.5M TO $3M	19
$2M TO $2.5M	21
$1.5M TO $2M	19
$1M TO $1.5M	9
$0.5M TO $1M	6
$0 TO $0.5M	4

It must be stressed that the alternatives faced by Puerto Rico's municipalities is not between the Equalization Fund and the Essential Services Fund. It is between zero funds and the Essential Services Fund because, as currently contemplated in the certified fiscal plan, the Equalization Fund will be eliminated by FY2027.

17.5 Municipal Services Consolidation Fund

Since the commencement of Puerto Rico's Title III cases, the Oversight Board has expressed concerns regarding the long-term strengthening of Puerto Rico's 78 municipalities and the development of administrative efficiencies to improve fiscal responsibility at the local level, without jeopardizing the provision of essential services at the municipal level. In prior fiscal year budgets, the Board provided for additional funding to municipalities through the Municipal Service Consolidation Fund upon the achievement of certain milestones designed to promote the consolidation and optimized administration of the municipalities. However, access to the

Municipal Service Consolidation Fund has been limited by the implementation of complex guidelines.

To facilitate the consolidation and implementation of administrative efficiencies at the municipal level, the Government proposes that the Office of Municipal Management (OMM) of OGP led the efforts for the promotion and creation of inter-municipal consortia or alliances for the integration of administrative services. In that role OMM would work with the municipalities to propose amendments to the Board's existing Municipal Service Consolidation Fund guidelines and discuss and develop implementation plans with the municipalities pertaining to the creation of inter-municipal consortia. We believe that OGP's centralized leadership and expertise in creating fiscal solutions will help accelerate the administrative and back-office services integration that the Board has sought over the last fiscal years. To further these efforts, the 2023 Fiscal Plan contemplates OMM will have access to the $66 million of prior funding for the Municipal Service Consolidation Fund, which would allow OMM to accomplish these administrative efficiency goals quickly and effectively, subject to the approval of new guidelines.

17.6 Central Government Assumption of the Municipal Contribution to ASES:

Currently, CRIM is responsible for remitting payments on behalf of the municipalities to fund the Puerto Rico Health Insurance Administration ("ASES") in accordance with Act-72-1993. The currently certified fiscal plan includes temporary relief for municipal ASES contributions to reflect any additional funds made available by the federal government using a Federal Municipal Adjustment Percentage ("FMAP") calculation. For FY2023, the Commonwealth and CRIM Fiscal Plans estimate the municipalities' ASES obligation to be approximately $164 million, before applying any adjustments based on an FMAP above 55%. Although previous fiscal plans also allow for additional offsets based on any incremental federal funds that become available during FY2023, the municipalities' ASES contributions continue to be a drain on their limited resources. The 2023 Fiscal Plan contemplates that the Central Government assumes the ASES contribution on behalf of all municipalities. The municipalities' ASES contribution, at the onset, was based on the Government's need for additional funds to provide Medicaid services to its citizens. Given this background and Puerto Rico's continued receipt of federal funds for Medicaid at elevated levels, as a matter of fairness, the municipalities should no longer pay to this program. The incremental cost associated with this amendment is estimated to be, at most, approximately $164 million per year or $820 million over the next 5 years from FY2023-FY2027.

Central Government support for the municipalities is long overdue and the 2023 Fiscal Plan would ensure that the essential services provided by our municipalities can continue without interruption.

Chapter 18. Pension Reform

18.1 Current status of pension benefits

The Government operates three public employee retirement systems in Puerto Rico: The Employees' Retirement System (ERS), the Teachers' Retirement System (TRS), and the Judiciary Retirement System (JRS). As of March 15, 2022, these pensions systems were reformed by the PoA through a series of pension initiatives. These initiatives include:

- Freezing the defined benefit accumulation for JRS and TRS;
- Enrolling employees in the Act 106 defined contribution;

- Enrolling all judges and teachers under the age of 45 in Social Security and allowing those age 45 or over to opt into Social Security on a voluntary basis;
- Segregating ~$1.5 billion in employee contributions under System 2000 and Act 3 to the Act 106 accounts;
- Providing $2,600 to ERS Act 1 and Act 447 active employees in Act 106 accounts; and
- Development of the pension reserve trust to strengthen the ability of the Commonwealth to fund future PayGo benefits regardless of the future economic or political situation in the Commonwealth.

As a result of these initiatives, the Commonwealth has strengthened its ability to pay for its future commitment to pensions. For more detail on the state of pensions prior to the PoA and for detail on the above measures, see the 2022 Certified Fiscal Plan.

18.2 Ongoing implementation and enforcement of pension reform measures

The PoA requires and the 2023 Fiscal Plan reflects full implementation of all pension initiatives required under the PoA. The Government, with the help of the Oversight Board, successfully implemented the key provisions of the PoA related to pensions in a timely fashion. However, the Oversight Board continues to monitor the implementation of key pension initiatives included in the PoA to ensure that processes that were put in place as of the PoA effective date are completed as soon as administratively possible and to ensure the retirement security required by the PoA is ultimately provided to Government Employees.

4.18.2.1Freeze implementation

Prior to the PoA, TRS members hired prior to August 1, 2014, and all JRS members were accruing benefits under the defined benefit components of their retirement plans. As of the PoA effective date, the Government implemented provisions of the PoA freezing accruals for JRS and TRS participants (described in detail in 2022 Certified Fiscal Plan). Central to the implementation was a significant effort by the Retirement Board to communicate directly with impacted employees to educate teachers and judges on the impacts the changes have on their benefits. The efforts took numerous forms, including but not limited to, providing detailed descriptions of PoA provisions on the Government websites and social media, coordination efforts with media, and hosting seminars customized for TRS and JRS participants on the changes in benefits contained in the PoA.

While the Government has completed the updates to its systems and processes needed to begin administering the freeze provisions effective March 15, 2022, as retirement calculations are performed, the Retirement Board is working towards implementing administrative procedures that improve the efficiency of plan administration prospectively. The updates are focused on (1) leveraging the freezing of plan benefits to improve administrative systems and include calculating accrued benefits for all participants not currently in payment as of the freeze date to be stored within the Retirement Board systems and (2) continuing effort to review census data stored in Retirement Board systems to resolve any inconsistencies identified within the data.

4.18.2.2 Social Security Implementation

The PoA expanded participation in Social Security to teachers and judges. Prior to the PoA, teachers and judges did not participate in Social Security. Expanding Social Security coverage to teachers and judges was accomplished without either an employee referendum or new federal legislation by freezing the TRS and JRS plans and reducing the DC account contributions to an amount lower than the 7.5% required by Section 218 to be considered as participating in a qualified retirement plan. This step triggered mandatory enrollment in Social Security. Concurrently, lowering the employee DC account contributions for those that are enrolled in Social Security will address the loss of take-home pay that they would experience by having to contribute the 6.2% Social Security payroll tax. The approach of lowering the DC contribution to 2.3% is consistent with the approach used to implement Social Security participation for police officers in FY2020.

Furthermore, federal law provides that Social Security retirement benefits are only provided for those who have ten years of covered earnings. Therefore, it would not be worthwhile for older workers, who may not meet the ten-year threshold and do not have other employment in which they were covered by Social Security, to be covered under Social Security. For this reason, the PoA provided for implementation of Social Security differently based on the age of the participants:

1) Teachers and judges under the age of 45 were automatically covered under Social Security and their DC contributions were adjusted effective March 15, 2022. The Government began remittance of employer and employee payroll taxes for payroll for pay periods beginning after the effective date.
2) The PoA provided for teachers and judges age 45 and older to begin having earnings covered under Social Security as soon as administratively possible, including allowing a period of time for teachers and judges to opt into coverage, if they make the determination that they will benefit from such coverage. Teachers and judges were provided until May 15, 2022, to opt into coverage. Those electing coverage by May 15, 2022, have had DC contributions adjusted and the Government has begun remittance of employer and employee payroll taxes for employees electing coverage.

Following May 15, 2022, it was identified that a significant number of teachers had missed the deadline to participate in Social Security. It was communicated to the Government and the Oversight Board that many teachers did not fully understand the election and requested additional time to opt into coverage. The Government and the Oversight Board ultimately agreed to extend this deadline to December 15, 2022. 388 additional teachers were able to elect to participate in Social Security and as a result less than 5,000 teachers opted to decline Social Security (including 4,000 who never made an election).

4.18.2.3 PayGo Compliance

Established by Act 106-2017, the Pay-as-you-go ("PayGo") system, under which pension benefits are paid out of the annual Commonwealth budget rather than via amounts previously set aside into pension trust funds, was implemented to ensure the continued payment of benefits to retirees given that the ERS, TRS, and JRS trust funds were effectively insolvent. Currently, PayGo obligations represent approximately 22% of General Fund expenditures.

Section 2.1(b) of Act 106-2017 establishes a PayGo Fee that is "equal to the amount paid to Retirees and Beneficiaries of each covered entity." The responsibility for entities to pay this Fee and the authority of the Office of Management and Budget to collect the fee is further outlined in the legislation. Section 2.1(f) authorizes the Office of Management and Budget to "withhold from the appropriations made to the agencies of the Government of Puerto Rico, the necessary amounts for the payment of the Pay-Go Fee, if it determines that such withholding is necessary to ensure that covered entities fulfill their obligation." Section 3.5(2) further subjects any entity who fails to remit the PayGo Fee to a series of corrective actions, including the following:

- A demand by the Retirement Board for the immediate transfer of the PayGo Fee or delinquent contribution
- The Secretary of Treasury may adjust the "accounts, obligations, and advances that the Department of Treasury must remit to the delinquent employer"
- The Municipal Revenue Collection Center, "CRIM", may remit the PayGo Fee or delinquent contribution from the "unencumbered balance of the property tax and other revenues that the Municipalities are entitled to receive."
- The Office of Management and Budget may withhold any form of appropriations to agencies necessary to meet the PayGo Fee obligation
- The Oversight Board continuously monitors the status of entity compliance with paying the PayGo Fee.

There has been an effort to have delinquent agencies and municipalities to enter into payment plans to resolve historic PayGo debt. As of November 15, 2022, 14 municipalities and public corporations have executed repayment plans, with one other active negotiation ongoing for the municipality of Guayanilla ($361,114 in outstanding debt). Signed payment plans account for ~$138 million of the $247 million in outstanding debt. The Oversight Board will continue to closely monitor the municipalities budget and compliance with current year PayGo debt and the execution of Payment Plans.

It is important to mention that after the Act 29-2019 per Title III Court ruling on April 15, 2020, the Oversight Board engaged with the Retirement Board, CRIM, and Municipalities concerning the implementation of a repayment waterfall that Municipalities received from Excess CAE (refer to CRIM 2021 Certified Fiscal Plan, Section 7.4 for further information). The Oversight Board reached out as well after becoming aware that FY2020 Payment Plans were being executed regardless of the repayment waterfall and notified Retirement Board of the inconsistency of this practice with the agreed upon implementation approach. However, the Oversight Board made clear that municipalities with prior period debt, FY2018, FY2019, and/or FY2020, must enter into payment plans for such periods in accordance with certified Commonwealth and CRIM Fiscal Plans and Article 2.1 of Law 106-2017, as amended.

The Oversight Board has further discussed with AAFAF possible remedies to further reduce the outstanding debt. AAFAF has the authority under Section 8(e) of Act 2 – 2017 to appoint a representative to oversee compliance with the execution of the 2022 Fiscal Plan, including compliance with the requirement that future and past due PayGo Fees be remitted in a timely fashion. Further, Section 8(b)(iv) of Act 2 – 2017 permits that when reports indicate an entity's cash flows are not consistent with the Certified Budget, AAFAF may "direct and perform banking transactions on behalf of the appropriate entities of the Government of Puerto Rico to make debt service payments, among others." The Oversight Board and AAFAF have discussed actions including, but not limited to, withholding general fund revenues and/or debiting existing cash accounts to satisfy PayGo Fee debt.

Proper long-term health of the PayGo system requires constant compliance with and monitoring of the PayGo Fees as set forth in Act 106-2017. To facilitate compliance, the Government will continue updating the future budget to ensure appropriate fees are collected. The Government will also review any issues raised by plan participants. Furthermore, to increase transparency of information related to the state of the PayGo system, the Oversight Board is working to establish a publicly available summary of the current PayGo debts by Public Corporation and Municipality.

4.18.2.4 *Pension Reserve Trust*

The PoA established a pension reserve trust that will be funded to ensure that future PayGo benefits can be supported regardless of the future economic or political situation in the Commonwealth. The trust is independently managed and overseen by a Pension Reserve Board and Pension Benefits Council whose members meet the independence, professionalism, experience, and qualification standards set forth in the Pension Reserve Deed of Trust.

Funding for the pension reserve trust is to be provided according to a formula based on the Commonwealth's annual surpluses with an initial deposit of ~$1.4 billion having been made on September 29, 2022. After FY2031, withdrawals can be made to fund PayGo pension payments under certain conditions. Current projections estimate the pension reserve trust to be fully funded by FY2039.

Prospectively, the Pension Reserve Board will independently manage the funds allocated from current surpluses for future year to reimburse the Commonwealth for pension PayGo costs. The Pension Benefits Council will have the right to review the records and processes related to the calculation of deposits of funds to the pension reserve trust by the Commonwealth as well as the review of the collection of PayGo fees. The Oversight Board continues to provide support to the Pension Reserve Board and Pension Benefits Council as they continue to establish their operational capabilities.

4.18.2.5 *System 2000 Segregation*

The PoA includes specific treatment for certain ERS plan participants known as System 2000 members who were generally ERS members hired on or after January 1, 2000. The hybrid cash balance accounts that had been funded through employee contributions were returned to these ERS participants. Additionally, ERS participants hired prior to January 1, 2000 with defined benefits under Act 1 and Act 447 who were actively employed as of the effective date each received $2,600. The details surrounding these payments are outlined further in the 2022 Fiscal Plan.

The implementation of this aspect of the PoA required that payments were separated into two categories:

1) Participants holding an active Act 106-2017 account received deposits into their individual accounts as of the PoA effective date.
2) Inactive participants who did not have an active Act 106-2017 account had their contributions deposited into a segregated trust at Banco Popular from which they can claim their funds.

On the PoA effective date, ~$1.178 billion was deposited into individual Act 106-2017 defined contribution accounts and ~$291 million was deposited into Banco Popular for those inactive participants.

Subsequently, the Government identified an additional $18M attributable to active System 2000 participants who had been inappropriately misclassified in the Retirement System historical database and funds were reappropriated to ensure these deposits were made to individual accounts.

Additionally, the Government identified ~$86M in additional inactive participants that was not included in the initial deposit into Banco Popular. In this case, however, the funds at Banco Popular have been monitored by the Government. Since the inactive participants are no longer employed by the Government, the Government relies on the individuals to claim the money they are owed from the segregated account. The Government has made multiple attempts to contact these individuals including sending letters to the last known addresses on file, taking out advertisements in Puerto Rico, Florida and New York news publications, and posting notices on how to claim funds on the Retirement Board website. To this date, the original allocation of $291 million has not been exhausted and the current escrow balance is ~$105 million. Withdrawals to date from the Banco Popular account have declined since the period immediately following the POA and in recent periods the reimbursements have been falling to ~$7 million and are expected to continue declining. Aa a result, the Government does not believe it is necessary to fund the additional amount at this time.

18.3 Ongoing Initiatives impaction pensions

4.18.3.1Enhanced police retirement

As noted in the 2022 Fiscal Plan, the Oversight Board acknowledges the increasingly difficult retirement situation for active Act 447 and Act 1 police officers due to the historical lack of pension funding, lack of prior Social Security enrollments, and a mandatory retirement age. Therefore, the 2022 Fiscal Plan segregated over $850 million to be spent over the next 15 years, including over $500 million by the end of FY2023, to allocate towards these police officers' Act 106 Defined Contribution accounts. Following the certification of the 2022 Fiscal Plan, the Government, with the help of the Oversight Board, worked to implement an enhanced Act 106-2017 contribution for police that varies based on the age and service of these officers (detailed in Exhibit 57), to recognize differences in how long they earned benefits through each retirement program, with the goal of bringing the average total retirement income from all sources (i.e., ERS, Act 106 Defined Contribution accounts, and Social Security) to 50% of the compensation received at the time of retirement. The Government successfully implemented the enhanced contributions and the first payments were made in June 2022.

Exhibit 57: DEFINED CONTRIBUTIONS FOR ELIGIBLE POLICE OFFICERS

Contribution details

- **Total Contribution = Base Contribution + Special Contribution**
- Special Contribution is $30,000 in FY2022 and FY2023[1]
- Applies to active Act 447 / Act 1 officers hired prior to January 1, 2000

Base Annual Contribution and total incremental contributions over officers' career to mandatory retirement age

Period when officer reaches later of age 58 or 30 years of service	# of base contributions	Base annual contribution	Total base + special contributions	Assuming officer retirement in
Before 6/30/22	3	$17,500	**$112,500**	FY ending 6/30/24
7/1/22 – 6/30/23	4	$17,500	**$130,000**	FY ending 6/30/25
7/1/23 – 6/30/24	4	$17,500	**$130,000**	FY ending 6/30/25
7/1/24 – 6/30/25	4	$17,500	**$130,000**	FY ending 6/30/25
7/1/25 – 6/30/26	5	$16,000	**$140,000**	FY ending 6/30/26
7/1/26 – 6/30/27	6	$14,500	**$147,000**	FY ending 6/30/27
7/1/27 – 6/30/28	7	$13,000	**$151,000**	FY ending 6/30/28
7/1/28 – 6/30/29	8	$11,500	**$152,000**	FY ending 6/30/29
7/1/29 – 6/30/30	9	$10,000	**$150,000**	FY ending 6/30/30
7/1/30 – 6/30/31	10	$9,000	**$150,000**	FY ending 6/30/31
7/1/31 – 6/30/32	11	$8,000	**$148,000**	FY ending 6/30/32
7/1/32 – 6/30/33	12	$7,000	**$144,000**	FY ending 6/30/33
7/1/33 – 6/30/34	13	$6,000	**$138,000**	FY ending 6/30/34
7/1/34 – 6/30/35	14	$5,000	**$130,000**	FY ending 6/30/35
7/1/35 – 6/30/36	15	$4,500	**$127,500**	FY ending 6/30/36
7/1/36 – 6/30/37	16	$4,000	**$124,000**	FY ending 6/30/37
After 6/30/37	17+	$3,500	**$119,500 or more**	6/30 of FY in which they reach age 58 and 30 years of service

Special provisions

- **Accelerated contributions for those near mandatory retirement:** Officers unable to work beyond 6/30/22 receive acceleration of $30,000 special contribution into FY2022
- **Current retirees:** Sworn officers who retired after Act 81 enactment in August 2020 who were forced to retire by mandatory retirement receive $77,500 in FY2022.

1 Subject to vesting requirement

The Government solution also provided the following additional considerations:

- **Accelerated contributions for those near mandatory retirement**: The 2022 Fiscal Plan included funding so that officers unable to work beyond June 30, 2022, either because they have applied for an extension and been denied or have exhausted the work extensions currently available, received acceleration of $30,000 special contribution into Fiscal Year 22, for a total of $77,500 each.
- **Current retirees**: The 2022 Fiscal Plan includes funding so that sworn officers who retired after Act 81 enactment in August 2020 who were forced to retire by mandatory retirement also received $77,500 in FY2022.

Following the initial payments, the Government identified individuals for which the initial data was incomplete or inaccurate. While the Government continues to resolve the remaining questions, the program remains consistent with the original budgeted estimates of the 2022 Fiscal Plan. The Government will continue to resolve any outstanding questions to ensure all eligible officers receive the proper payments and anticipates the next annual payment to be made as scheduled for June 2023.

4.18.3.2 Partial implementation of Act 80-2000

In August 2020, the Commonwealth enacted the following acts: (1) Act 80-2020 granting an incentivized retirement program for certain ERS participants, (2) Act 81-2020 granting enhanced benefits to members of the Puerto Rico Police Ranking System, Fire Fighters Corps Bureau, Puerto

Rico Custody Officers Corps, and medical emergency technicians of the Medical Emergency Corps Bureau and the Municipal Medical Emergency System, and (3) Act 82-2020 granting credit to retirement benefits arising from unused sick leave balances for participants under the Teachers Retirement System. After on-going discussions between the Oversight Board and the Government, an agreement was reached and an order was entered in the Title III court to effectively nullify Acts 80-2020, Act 81-2020, Act 82-2020, and Joint Resolution 33 (a resolution passed on December 16, 2021, which ordered the Executive Directors of OMB and the Retirement Systems Administration to begin at least partial implementation of Act 80-2020). In addition, it was ordered that the Oversight Board and the Governor would endeavor to reach agreements on incentivized retirement program for certain ERS participants while creating the necessary offsetting savings for the Government through a partial implementation of Act 80, providing enhanced retirement benefits to police officers, and providing possible alternatives for enhanced compensation packages for teachers. While agreements had been reached for providing enhanced benefits to police officers and providing alternative compensation packages to teachers, the Oversight Board and the Governor have been actively working to pursue agreements in the partial implementation of Act 80-2020 in a fiscally responsible way.

On February 15, 2022, the Oversight Board and the Government filed an informative motion requesting an additional 120 days to satisfy their respective obligations under Paragraph 3 of the December Order. Another informative motion was filed June 11, 2022 requesting a further extension to the deadline.

The Oversight Board and the Government have continued to meet and communicate regarding the partial implementation of Act 80-2020. Following the June 11, 2022 requested extension, the Oversight Board proposed only eliminating positions for non-essential employees. Later on, the Government and the Oversight Board agreed to explore the elimination of non-essential positions.

Due to outstanding obstacles, the Oversight Board and the Government filed two additional informative motions for extension to satisfy their respective obligations under Paragraph 3 of the December Order, one on July 21, 2022, and another on August 25, 2022.

The Oversight Board and the Government continued to hold meetings to establish agreements regarding the partial implementation of Act 80-2020. The Oversight Board and the Government expect to reach final agreement in the short term. This agreement is expected to result in the elimination of 1,279 non-essential positions. The agreement includes the following:

- The Government and the Oversight Board have agreed to set aside funds to ensure that the costs of the implementation of Act 80-2020 are fully funded
- Benefit payments for Act 80-2020 participants will be included in PayGo. Participants will separate from service on and agreed upon date and begin receiving payment.
- OMB has certified to the Oversight Board that the partial implementation of Act 80-2020 for all impacted entities will not adversely impact the delivery of essential services to Puerto Rico residents.
- By February 15, 2023, OMB and OATRH will prepare and submit a draft memorandum(s) detailing internal Act 80-2020 compliance procedures to ensure that the eliminated positions are not “restored, recreated or created within the affected agencies and corporations.”
- Act 80-2020 participants will not be eligible to return to work under the provisions of Act 53-2022 or any similarly enacted law.

4.18.3.3 Symphonic Orchestra Pension Plan

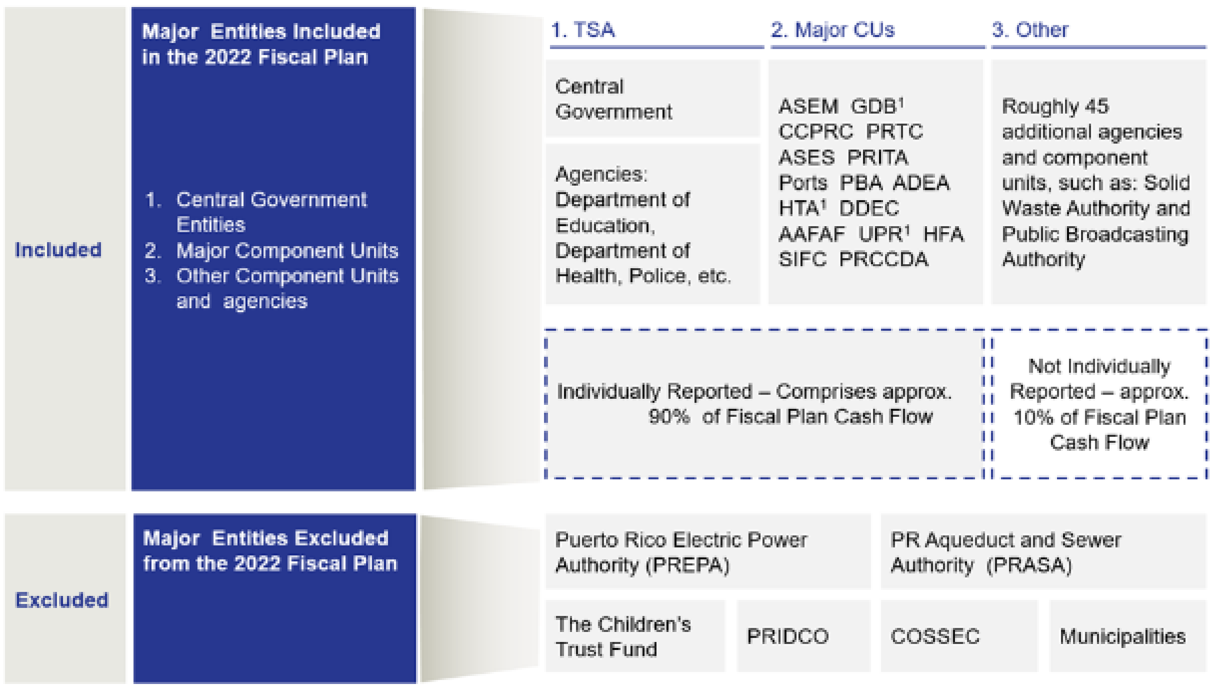
The Puerto Rico Symphonic Orchestra Corporation ("PRSOC") is a public corporation organized under Act No. 44 of May 12, 1980, as a subsidiary of the Musical Arts Corporation. The PRSOC sponsors a single employer defined benefit pension plan ("PRSOC Retirement Plan") funded through member and employer contributions that are not tied to the actuarially determined levels necessary to fully fund the plan. As a result of years of underfunding, as of August 15, 2019, the PRSOC Retirement Plan was $20 million underfunded with a funded percentage of 14.43% and is projected to no longer have sufficient funds to pay benefits by the end of FY 2025. As such, the 2022 Fiscal Plan provided ~$20 million in incremental funding ($2 million on an annual basis through FY 2032) aimed at supporting the fulfillment of existing promises to current and future retirees under the PRSOC Retirement Plan are met, while PRSOC continues to make its annual contributions. The incremental funding included in the 2022 Fiscal Plan is subject to implementation of a freeze of benefit accruals, closing of the plan and implementation of a defined contribution plan for its members, consistent with the treatment of all current Government employees provided through Act 106-2017.

The PRSOC is actively working with the Oversight Board on satisfying the requirements for additional funding as set forth in the 2022 Fiscal Plan. Among the requirements are the implementation of a freeze provisions consistent with the freeze provisions for JRS and TRS participants. The funded status of the pension plan will require annual monitoring with actuarial studies to ensure that the benefits promised can be fully funded.

Appendix
Chapter 19. Model Presentation

The 2022 Fiscal Plan addresses the finances of central government agencies, component units, and other agencies. Agencies for which an independent 2022 Fiscal Plan is being developed have not been consolidated into the 2022 Fiscal Plan and are only represented to the extent they impact the Commonwealth.

Exhibit 58: MAJOR ENTITIES INCLUDED IN AND EXCLUDE FROM THE 2022 FISCAL PLAN



1 GDB , HTA, and UPR have separate and apart fiscal plans from the Central Government; HTA and UPR receive General Fund appropriations
2. Major CUs include the following IFCUs: ASEM, ASES, PRITA, Ports, PBA, ADEA, AAFAF, HFA, SIFC, PRCCDA
Note: Housing Finance Authority, resources from the Cap Funds (money transferred by HUD for financing projects and repayment of bonds) are not contemplated in the 2022 Fiscal Plan.

Exhibit 59: LIST OF ENTITIES COVERED BY THE 2023 FISCAL

Entities included in Fiscal Plan

Agency Code	Agency
8	Office of the Comptroller
10	General Court of Justice
11	Traffic Safety Commission
14	Environmental Quality Board
15	Office of the Governor
16	Office of Management and Budget
18	Planning Board
21	Emergency Management and Disaster Admin Agency
22	Office of the Commissioner of Insurance
23	Department of State
24	Department of the Treasury
25	Hacienda
28	Commonwealth Election Commission
29	Federal Affairs Administration
30	Office of Admin and Transformation of HR
31	General Services Administration
34	Investigation, Prosecution and Appeals Commission
35	Industrial Tax Exemption Office
37	Civil Rights Commission
38	Department of Justice
40	Puerto Rico Police
42	Puerto Rico Firefighter Corps

Agency Code	Agency
43	Puerto Rico National Guard
45	Department of Public Safety
49	Department of Transportation and Public Works
50	Department of Natural and Environmental Resources
55	Department of Agriculture
60	Citizen's Advocate Office (Ombudsman)
62	Cooperative Development Commission
65	Public Services Commission
67	Department of Labor and Human Resources
68	Labor Relations Board
69	Department of Consumer Affairs
70	State Insurance Fund Corporation (SIFC)
71	Department of Health
75	Office of the Financial Institutions Commissioner
78	Department of Housing
79	Automobile Accident Compensation Admin (ACAA)
81	Department of Education
82	Institute of Puerto Rican Culture
87	Department of Sports and Recreation
89	Horse Racing Industry and Sport Administration
90	Medical Services Administration (ASEM)
95	Mental Health and Addiction Services Administration
96	Women's Advocate Office

100	Legislative Assembly
105	Industrial Commission
106	Public Housing Administration
109	School of Plastic Arts
119	Dept of Economic Development and Commerce
120	Veterans Advocate Office
121	9-1-1 Services Governing Board
122	Department of the Family
123	Families and Children Administration
124	Child Support Administration
126	Vocational Rehabilitation Administration
127	Admin for Socioeconomic Develop of the Family
133	Natural Resources Administration
137	Department of Correction and Rehabilitation
138	Institutional Trust of the National Guard of Puerto Rico
139	Parole Board
141	Telecommunication's Regulatory Board
152	Elderly and Retired People Advocate Office
153	Advocacy for Persons with Disabilities of the CW of PR
155	State Historic Preservation Office
161	Infrastructure Financing Authority
162	Public Buildings Authority (PBA)

165	Land Authority of Puerto Rico
167	Company for the Integral Development of Cantera's Peninsula
168	Ports Authority
177	Land Administration
180	Tourism Company
184	Solid Waste Authority
186	Culebra Conservation and Development Authority
187	Health Insurance Administration (ASES)
188	PR and the Caribbean Cardiovascular Center Corp
189	Institute of Forensic Sciences
191	Musical Arts and Stagecraft Corporation
192	Fine Arts Center Corporation
193	Office of Government Ethics
195	Economic Development Bank
196	Public Broadcasting Corporation
198	Farm Insurance Corporation
200	Special Independent Prosecutor Panel
208	Contributions to Municipalities (CRIM)`
211	AFICA
215	Conservatory of Music
220	Correctional Health

221	Emergency Medical Services Corps
231	Health Advocate Office
235	Housing Financing Authority (HFA)
238	Port of the Americas Authority
241	Administration for Integral Development of Childhood
258	Puerto Rico Trade and Export Company
264	Martín Peña Canal ENLACE Project Corporation
265	Roosevelt Roads Naval Station Redevelopment
268	Institute of Statistics
272	Office of the Inspector General
273	Permit Management Office
276	Public-Private Partnership Authority
277	Agricultural Enterprises Development Admin (ADEA)
278	Puerto Rico Education Council
279	Public Service Appeals Commission
281	Office of the Electoral Comptroller
285	Puerto Rico Integrated Transport Authority (PRITA)
286	Ponce Port Authority
288	UPR Comprehensive Cancer Center
289	Energy Commission
290	Energy Affairs Office
293	Center for Research, Education and Medical Services for Diabetes
294	Bosque Modelo de Puerto Rico
295	Fiscal Agency and Financial Advisory Authority (AAFAF)
303	Convention Center District Authority (PRCCDA)
329	Socio-Economic Development Office
928	Government Employee Retirement System (ERS)
928	Judicial Retirement System (JRS)
929	Teacher Retirement System (TRS)
	Additional (Electronic) Lottery
	Maritime Shipping Authority
	Special Communities Perpetual Trust
	Traditional Lottery
	Unemployment Insurance Fund
	Corp for the Industries of Blind, Mentally Retarded, and Other Disabled People of Puerto Rico
	Puerto Rico Municipal Finance Corporation

Entities issuing standalone Fiscal Plan
Development Bank for PR
Aqueduct and Sewer Authority
Municipal Revenues Collection Center (CRIM)
PR Electric Power Authority
PR Highways and Transportation Authority[1]
Puerto Rico Industrial Development Company
University of Puerto Rico[2]
Public Corporation for the Supervision and Deposit Insurance of Puerto Rico Cooperatives

Entities excluded from Fiscal Plan
Agency Fund (Special Deposit Fund)
Commonwealth of Puerto Rico Regional Center Corporation
Public Finance Corporation (PFC)
Puerto Rico Government Investment Trust Fund
Puerto Rico Municipal Finance Agency
Puerto Rico Water Pollution Control Revolving Fund
Puerto Rico Industrial Development Company
Safe Drinking Water Treatment Revolving Loan Fund
The Children's Trust Fund
Tourism Development Fund

1 Commonwealth Fiscal Plan includes HTA general fund appropriations
2 Commonwealth Fiscal Plan includes UPR general fund appropriations

19.1 Fiscal controls and transparency reports

Consistent with *Chapter 4*, the OCFO will improve fiscal governance, accountability, and internal controls over the Government's finances and budget. To ensure that there is transparency into the Government's progress toward meeting its savings targets, the Government will meet the following milestones (Exhibit 60).

Exhibit 60: FISCAL CONTROLS AND REPORTING KEY IMPLEMENTATION MILESTONES

	Reporting Requirement	Closing of the 1st Reporting Period	Cadence for FOMB Reporting [A]	Cadence for Public Reporting [B]	Reporting Requirement Source
I. Cash Reporting	A. Treasury Single Account (TSA) Liquidity (Actuals vs. Liquidity Plan)	10/26/2018	Weekly, Monthly	Weekly, Monthly	Fiscal Plan
	B. Consolidated TSA including Agency Detail (Actuals vs. Liquidity Plan)	10/31/2018	Monthly	Monthly	Fiscal Plan
	C. Independently Forecasted Component Units (IFCUs) (Actuals vs. Liquidity Plan)	10/31/2018	Monthly	Monthly	Fiscal Plan
	D. Liquidity - Office of the Comptroller, Senate, House of Representatives, Judiciary Branch, Civil Rights Commission, OMBUDSMAN (Actuals vs. Liquidity Plan)	10/31/2018	Monthly	Monthly (beginning 11/30/18)	Fiscal Plan
	E. Summary of Bank Account for the Government of Puerto Rico and its Instrumentalities	10/31/2018	Monthly	Monthly	Fiscal Plan
	F. General Fund (GF) Revenues Actual Reconciliation: Treasury Single Account (TSA) Liquidity 1 (A) Report by AAFAF vs. GF Net Revenues Report by Puerto Rico Department of the Treasury (PRDT)	11/30/2021	Monthly	Monthly	Fiscal Plan
II. Additional Actuals Reporting	A. Budget to Actual Report - Including Revenues (including gross revenues, tax credits collected, and net revenues)[1]				
	1. General Fund	10/31/2018	Monthly	Monthly	Fiscal Plan
	2. Non-General Fund Funds (including Special Revenue Funds) [2,3]	10/31/2018	Monthly	Monthly (beginning 1/31/19)	Fiscal Plan
	3. Federal Funds	10/31/2018	Weekly, Monthly	Weekly, Monthly	Fiscal Plan
	4. IFCUs	10/31/2018	Monthly	Monthly (beginning 1/31/19)	Fiscal Plan
	5. Comptroller, Senate, House of Representatives, Judiciary, Civil Rights Commission, OMBUDSMAN	10/31/2018	Monthly	Monthly (beginning 11/30/18)	Fiscal Plan
	B. Central Government Payroll and Headcount	10/31/2018	Monthly	Monthly	Fiscal Plan
	C. IFCU Payroll and Headcount [4]	10/31/2018	Monthly	Monthly	Fiscal Plan
	D. Central Government 3rd Party Accounts Payable	10/26/2018	Weekly, Monthly	Weekly, Monthly	Fiscal Plan
	E. Central Government Invoice Processing KPIs	10/31/2018	Monthly	Monthly (beginning 11/30/18)	Fiscal Plan
	F. Tax Credits		-		Fiscal Plan
	1. Liability	12/31/2018	Quarterly	Quarterly (beginning 1/31/19)	Fiscal Plan
	2. New credits granted	10/31/2018	Monthly	Monthly (beginning 1/31/19)	Fiscal Plan
	3. Credits used (direct impact on collections)	12/31/2018	Monthly	Monthly	Fiscal Plan
	4. Tax Expenditure Report	12/31/2018	Yearly	Yearly	Fiscal Plan
	G. OATRH Attendance for the Preceding 4-Week Period	12/31/2018	Monthly	Monthly	Fiscal Plan
	H. Emergency Reserve Fund Quarterly Reporting	5/15/2020	Weekly, Monthly	Weekly, Monthly	Fiscal Plan
	I. Budget to Actual CAPEX Report	11/15/2020	Monthly	Quarterly	Fiscal Plan
	J. Prior Year Fund Extensions and Releases	8/15/2021	Monthly	Monthly	Fiscal Plan
	K. Quarterly budget to actual revenues, expenditures, and cash flows, together with a variance analysis, of the territorial government during the preceding quarter	10/31/2018	Quarterly	Quarterly	Fiscal Plan
	L. Revised Year End Quarterly budget to actual revenues, expenditures, and cash flows, together with a variance analysis, of the territorial govt. during the preceding quarter (60 days after year end)	8/31/2019	Annual	Annual	Fiscal Plan
III. Measures and Reforms Reporting (Progress Reports)[5,6]	A. Structural Reforms (4)				
	1. Labor Reform	10/31/2018	Monthly	Quarterly	Fiscal Plan
	2. Ease of Doing Business Reform	10/31/2018	Monthly	Quarterly	Fiscal Plan
	3. Energy Reform	10/31/2018	Monthly	Quarterly	Fiscal Plan
	4. Infrastructure Reform	10/31/2018	Monthly	Quarterly	Fiscal Plan
	B. Fiscal Measures (4)				
	1. Office of the Chief Financial Officer	10/31/2018	Monthly	Quarterly	Fiscal Plan
	2. Revenue Measures	10/31/2018	Monthly	Quarterly	Fiscal Plan
	3. Pension Reform	10/31/2018	Monthly	Quarterly	Fiscal Plan
	4. Healthcare Reform	10/31/2018	Monthly	Quarterly	Fiscal Plan
	C. Agency Efficiencies				
	1. Agriculture	10/31/2018	Monthly	Quarterly	Fiscal Plan
	2. Corrections	10/31/2018	Monthly	Quarterly	Fiscal Plan
	3. Culture	10/31/2018	Monthly	Quarterly	Fiscal Plan
	4. Economic Development	10/31/2018	Monthly	Quarterly	Fiscal Plan
	5. Environmental	10/31/2018	Monthly	Quarterly	Fiscal Plan
	6. Executive Offices	10/31/2018	Monthly	Quarterly	Fiscal Plan
	7. Finance Commission	10/31/2018	Monthly	Quarterly	Fiscal Plan
	8. Office of the CFO	10/31/2018	Monthly	Quarterly	Fiscal Plan
	9. Healthcare	10/31/2018	Monthly	Quarterly	Fiscal Plan
	10. Justice	10/31/2018	Monthly	Quarterly	Fiscal Plan
	11. Labor	10/31/2018	Monthly	Quarterly	Fiscal Plan
	12. Land	10/31/2018	Monthly	Quarterly	Fiscal Plan
	13. Ombudsman	10/31/2018	Monthly	Quarterly	Fiscal Plan
	14. Public Safety	10/31/2018	Monthly	Quarterly	Fiscal Plan
	15. Public Works	10/31/2018	Monthly	Quarterly	Fiscal Plan
	16. Social Welfare	10/31/2018	Monthly	Quarterly	Fiscal Plan
	17. State	10/31/2018	Monthly	Quarterly	Fiscal Plan
	18. Universities	10/31/2018	Monthly	Quarterly	Fiscal Plan
	19. Utilities Commission	10/31/2018	Monthly	Quarterly	Fiscal Plan
	20. Education	10/31/2018	Monthly	Quarterly	Fiscal Plan
	21. Independent Agencies	10/31/2018	Monthly	Quarterly	Fiscal Plan

IV. Macro-economic Indicators	Macroeconomic Indicators	12/31/2018	Quarterly	Quarterly	Fiscal Plan
V. Recovery Funding Reporting	A. Uses/Disbursement Related to Hurricane Assistance (PWs)	10/31/2018	Monthly	n/a	Fiscal Plan
	B. Department of Housing	10/31/2018	Monthly	n/a	Fiscal Plan
	C. Highways and Transportation Authority	10/31/2018	Monthly	n/a	Fiscal Plan
	D. TSA Vendor Disbursements	10/31/2018	Monthly	n/a	Fiscal Plan
VI. PayGo Reporting	PayGo Receivables and Contributions Reporting	10/31/2018	Monthly	Monthly	Fiscal Plan
VII. Certifi-cations and Others	A. Quarterly revenue forecast update	10/31/2018	45 days after end of every quarter	n/a	Budget
	B. Certify that no appropriation of any previous fiscal year (except for appropriations covered by the exceptions authorized in the budget) has been used to cover any expense during the prior fiscal quarter	12/31/2018	15 days after end of every quarter	n/a	Budget
	C. Certify that no amount of the (i) Social Security Reserve or (ii) Emergency Reserve has been used to cover any expenses during the prior fiscal quarter	12/31/2018	15 days after end of every quarter	n/a	Budget
	D. Payroll transfers per Law 8-2017	12/31/2018	Monthly	n/a	Fiscal Plan
	E. Signed legislation Compliance Certificates	n/a	7 days after a bill is signed by the Governor	n/a	PROMESA
	F. Sabana file submission	n/a	n/a	n/a	Budget
	G. Quarterly budget submission	n/a	n/a	n/a	Budget
VIII. ASES Reporting	In order to increase transparency, going forward ASES must submit the following documentation to the FOMB: A. Detailed enrollment and PMPM projections for each Medicaid sub-population (Medicaid expansion, CHIP, Maternity, Dual-eligibles, etc.) B. FMAP breakdown for each sub-population (Medicaid expansion, CHIP, Maternity, Duals, etc.) C. Projected federal funds vs. local funds required for the program D. Detailed breakdowns of available federal funding and SRF funding (full amount allocated for the FY vs. funds still available) E. Amount of Section 1108 funding allocated to DOH for administrative expenses and 330 Centers/FQHC payments F. Detailed breakdown of non-premium expenditures including administrative and operating expenditures (e.g., PBM payments, hospital reimbursements, air ambulance, etc.) G. Progress reports on measures implementation H. Any previously completed data quality audits and assessments In addition, the FOMB may require the Puerto Rico Medicaid Program and ASES to submit detailed claims-based data, which, at a minimum, include membership and eligibility information (e.g., demographics, plan eligibility, attributions), provider information (e.g., provider demographics, network, and program participation), pharmacy information (e.g., dispensing information and amounts), and medical information (e.g., UB-04 and CMS1500 fields, including header and detail level amounts and type, granular diagnosis, and procedure codes). In addition, the Puerto Rico Medicaid Program and ASES should provide any additional materials and supporting datasets necessary to support data reconciliation, which may include data crosswalks and additional information on programs and products This information is essential to know the overall program size of the Medicaid Program. If ASES fails to comply with the reporting requirements stipulated here, the administrative funds assigned to ASES may be clawed back (in addition to other actions as determined by the Board)	n/a	Quarterly	n/a	Fiscal Plan

1 Revenues must include gross revenues received, less tax refunds; SRF revenues must be included.
2 The following fund types are included in non-GF reporting: (1) FEE (Fondos Especiales Estatales or Special State Funds) – This fund type should only include revenue designated by specific laws; (2) OI (Otros Ingresos or Other Income) - This fund type should only include non-recurring revenue with specific expenses tied to it. No recurring income should be included or recognized under this fund type OI; and (3) IP (Ingresos Propios or Own Income) – This fund type should only include revenue generated by the agencies or public corporation through their services.
3 The monthly deliverable must include: (1) All revenues and expenses for the current FY; (2) The cash balance for each fund type as of the beginning of the Fiscal Year; (3) The new cash earned during the current fiscal year; and (4) the net cash balance.
4 The report must include (1) the fund type; (2) overtime amounts; and (3) the breakdown of benefits.
5 Implementation plans must be provided for each agency under each agency grouping; the full list of the agencies is included in the Appendix of the Fiscal Plan.
6 Reporting must include: (a) Monthly monitoring by each government agency of key performance indicators for each of the fiscal reform measures. (b) Monthly self-reported realized savings achieved year to date by agency and agency groupings. (c) Implementation dashboard / tracker that provides status of each initiative in a distinct status. (d) Sub-measures dashboard.

A Unless otherwise specified, monthly reporting to the Oversight Board must be received 15 days after the end of a reporting period.
B Unless otherwise specified, public reporting must be published 30 days after the end of a reporting period.
C Report shall be structured in a way that allows for the confidentiality of the agreements to be maintained, but the overall (summarized) numbers and trends to be available to the public.

In addition to meeting the above milestones, the Government must proceed according to the following budgetary requirements:

- The Department of the Treasury ("Treasury") will remit to: the Legislative Branch and its components, the Judicial Branch, the University of Puerto Rico ("UPR"), and the non-profit entities that receive funds from the General Fund, monthly and in advance, the budgetary allotments corresponding to one-twelfth (1/12) of the budget allocation provided herein for such entities. The one-twelfth monthly allocation to each entity (except with respect to the Judicial Branch) shall be subject to the 2.5% withholding set forth in the section below during the first three quarters of FY2024.

- The Director of the Office of Management and Budget ("OMB") may authorize the encumbrance and disbursement of up to 97.5% of each appropriation intended for encumbrance and disbursement during the first three quarters of FY2024. The Director of the OMB shall withhold the remaining two and a half percent (2.5%) of each appropriation until after the end of the third quarter of FY2024. Such withheld percentage of each appropriation shall only be encumbered and disbursed during the fourth quarter of FY2024 if (1) the first eight months of actual General Fund revenues reported to the Oversight Board reach the revenue forecast in the 2023 Fiscal Plan for that period and (2) the encumbrance and disbursement is approved by the Oversight Board. If actual General Fund revenues for the first eight months of FY2024 fail to reach the revenue forecast for that period, the amount of the withheld percentage of each appropriation that may be encumbered and disbursed shall be reduced proportionally according to the negative budget variance between projected and actual General Fund revenues. Notwithstanding the foregoing, PayGo appropriations, Consent Decree amounts, Highway and Transportation Authority ("HTA") appropriations, economic incentive funds and distributions, cigarette and rum distributions, allocations of Sales and Use Tax ("SUT") to the Municipal Administration Fund ("FAM", by its Spanish acronym)," additional General Funds for the milestones and incentives detailed in the following sections, debt service payments under the custody of the Department of Treasury, contributions to the Pension Reserve Trust, Police retirement Act 106 Defined Contributions, and agencies in the Department of Public Safety and in the Health groupings, as defined in the 2023 Fiscal Plan, shall not be subject to the 2.5% withholding requirement.

- Notwithstanding any provision here to the contrary, each of the appropriations listed in the upcoming FY2024 General Fund Budget under the following sources of revenue is entirely dependent on the level of revenues collected therefrom: (1) Allocation of SUT to FAM (excluding Debt Portion); (2) Outflow of the Special Fund for Economic Development ("FEDE", by its Spanish acronym) portion of Corporate Income Taxes and Non-Resident Withholding as well as all Law 60 incentives; (3) cigarette and rum distributions; and (4) The Municipal Revenue Collection Center's ("CRIM", by its Spanish acronym) property tax of 1.03%. As such, the disbursements of those appropriations will be gradual and subject to the actual collections thereunder. No expenditure, disbursement, pledge, or any other encumbrance of any such funds may be made until such time as the revenues are actually collected and accounted for in the books.

- If and when the Government enacts new spending measures that do not provide for a dedicated, permanent source of revenue or rely on funding sources that fail to materialize, unless and until the Government (i) amends the law to eliminate the unfunded mandate, or (ii) specifically identifies alternate funding sources, the Oversight Board, in its discretion, may adopt a revised fiscal plan and budget to provide for a corresponding reduction in the appropriations to one or more governmental agencies to account for the shortfall and balance the budget.

- No later than 45 days after the closing of each quarter of FY2024, the Secretary of the Treasury shall revise the projected net revenues of the General Fund for FY2024 (the "Quarterly Revision") and shall notify the revision to the Director of the OMB, the Governor, and the Oversight Board, with a copy to the Legislative Assembly. The Quarterly Revision shall project future revenues based on actual General Fund revenues and include revisions to the assumptions used to generate the General Fund's net revenue projections.

- All appropriations authorized in any prior fiscal year, including appropriations without a specific fiscal year, are eliminated and no disbursement of public funds may be covered by such appropriations, except the following which the 2023 Fiscal Plan redeploys as current appropriations, subject to Oversight Board adjustment at any time: (1) appropriations authorized in the fiscal year to carry out permanent improvements that have been encumbered, accounted for, and kept on the books, but not exceeding two fiscal years on the books; (2) appropriations in the certified budget for equipment with procurement cycles that extend beyond the end of the fiscal year, which are encumbered on or before June 30, 2023; (3) the portion of the appropriations authorized for FY2023 that have been encumbered on or before June 30, 2023, which shall be kept in the books for 60 days after the termination of FY2023 and after those 60 days no amount shall be drawn against such portion for any reason; (4) the annual appropriation in the amount of $130 million for the emergency reserve required in the 2023 Fiscal Plan (the "Emergency Reserve"); (5) the unobligated portion of the Public Assistance Federal Fund Matching appropriation included in the FY2023 certified budget; (6) unused appropriations for use in audit services held at the Department of the Treasury; (7) FY2023 unused General Funds intended for Medicaid related expenditures; (8) unused Title III funds; (9) reported unused funds from Department of Health's Intellectual Disability program; (10) reported unused funds from Department of Correction and Rehabilitation's ("DCR") Juvenile program, as certified jointly by Hacienda and DCR; (11) unused appropriations for State unemployment insurance, disability insurance, and chauffeur's insurance, which are held under the custody of the Department of Labor and Human Resources; (12) unused appropriations for milestones and incentives held under the custody of OMB as approved by the Oversight Board; (13) unused appropriations for municipal voluntary cost sharing milestone; (14) FY2023 unused General Funds intended for Catastrophic Disease Fund related expenditures; (15) unused appropriations for the Broadband infrastructure expansion and 21st Century Technical and Business Education Fund; (16) unused appropriations for the rural area health professionals scholarship and loan forgiveness endowment; a working group between the Department of Treasury, Office of the CFO, AAFAF, and the Oversight Board must be established to develop metrics, compliance requirements, and financial monitoring around the eligibility and disbursement of the scholarship and loan forgiveness endowment funds; (17) unused funds from the Puerto Rico Police Bureau reform, as jointly certified with the Department of Treasury; (18) unused General Funds from Universal Health Care ("UHC") contributions; (19) Social Security payments for minors under the Commonwealth's custody in the Family and Children Administration; and (20) appropriations authorized in FY2023 for economic incentives held under the custody of the Department of Treasury that have yet to be transferred to the Department of Economic Development and Commerce ("DDEC", by its Spanish acronym) will be made available until December 31, 2024. In addition, this restriction on the use of appropriations of prior fiscal years shall not apply to: (i) programs financed in whole or in part with federal funds; (ii) orders by the United States district court with jurisdiction over all matters under Title III of PROMESA; or (iii) matters pertaining to any consent decree or injunction, or an administrative order or settlement entered into with a federal agency, with respect to federal programs.

- On or before July 31, 2023, the Secretary of the Treasury, Executive Director of the Fiscal Agency and Financial Advisory Authority ("AAFAF", by its Spanish acronym), and the Director of the OMB shall provide to the Oversight Board, with a copy to the Legislative Assembly, a certification indicating the amounts of unused FY2023 appropriations for all items enumerated in the previous section. If the Government fails to submit said certification, the amount of unused funds in certain items listed above, as stated in the upcoming certified joint resolution, will not carry over to the following fiscal year.

- In a similar manner as in the previous fiscal year, the FY2024 total budget allocated for the Department of Health's Intellectual Disability program will be detailed in the upcoming fiscal year's certified budget resolution.

- Each power of OMB, AAFAF, or the Department of the Treasury, including the authorities granted under Act 230-1974, as amended, known as the "Puerto Rico Government Accounting Act" ("Act 230"), to authorize the reprogramming or extension of appropriations of prior fiscal years is hereby suspended.

- The appropriations approved in this budget may only be reprogrammed with the prior approval of the Oversight Board. For the avoidance of doubt, this prohibition includes any reprogramming of any amount, line item or expenditure provided in this budget, regardless of whether it is an intra-agency reprogramming. Reprogramming, also known as reapportionments, may be made into spend concepts and/or objects not explicitly listed in the certified budget resolutions as long as such requests are submitted to and approved by the Oversight Board in advance. Reprogrammed funds authorized for the hire of personnel in specialized roles are restricted for that specific use only and may not be made available nor be used for any other budgetary needs.

- The Governor must submit to the Oversight Board all reporting requirements set forth on Exhibit 158 of the 2023 Fiscal Plan according to the reporting cadence described therein. In addition, if the Oversight Board approves a reprogramming pursuant to the sections above, the immediately subsequent report by the Governor must illustrate the specific implementation of such reprogramming, including the amount, the source of the reprogrammed amount identified by government entity and expenditure concept, the Government entity that received such amount, and the expenditure concept to which it was applied.

- In addition, the Governor shall submit to the Oversight Board a comprehensive reporting package in a similar format to that required in accordance with Section 203 of PROMESA for the following specified programs within different agencies: (1) Department of Education's ("PRDE") Special Education Program; (2) PRDE's Remedio Provisional Program (3) Department of Health's ("DOH") Adult Hospital Program; (4) DOH's Pediatric Hospital Program; (5) DOH's Hospital Universitario Dr. Ramón Ruiz Arnau ("HURRA") Bayamón Hospital Program; (6) DOH's 330 Centers Payments; (7) DOH's Intellectual Disability Program; (8) Mental Health and Anti-Addiction Services Administration's ("ASSMCA", by its Spanish acronym) Río Piedras Hospital Program; and (9) DCR's Juvenile Program. Program reporting must include and clearly detail budget to actuals on a concept level basis, any reprogramming of funds within the program, and any reprogramming of funds to/from other programs or agencies.

  - In addition, the Governor shall submit to the Oversight Board a monthly reporting package detailing capital expenditure spending by agency and by project including details for expenditures which have RFPs issued, which contracts have been awarded, and which are in process. To the extent that the Oversight Board requires additional reporting regarding federal funds, it shall notify the Governor.

  - Separately, the Governor shall submit to the Oversight Board a monthly reporting package detailing all of PRDE's salary and other payroll expenses within four categories: (1) Central Administrative Personnel; (2) Regional Administrative Personnel; (3) Regional School Support Personnel; and (4) School Personnel as established in the upcoming FY2024 certified budget resolution. In order to assess compliance and guarantee accountability, PRDE must submit such monthly reporting detailing salary and payroll expenses by the categories established herein along with a salaries and payroll reconciliation of funds disbursed and actual expenses recorded.

- In addition, on a quarterly basis, the Department of Treasury must submit a report certifying total income tax collected from exempt businesses and royalty income taxes withheld and deposited by exempt businesses under Act 60-2019 and prior tax incentives acts. This report must be accompanied by a variance analysis which compares collections to previous periods and explanations for said variances. As per Law 60-2019, all incentives are funded by 10% of the income tax paid by exempt businesses and royalty income taxes withheld and deposited by exempt businesses under Act 60-2019 and prior tax incentives acts. As such, disbursements related to the incentive appropriations covered by Law 60-2019 (Cruise Ships, Green Energy, Cine, FEDE, Export & Development fund incentives, rum program incentives, entrepreneurial incentives and promotion of employment and economic activity incentives, among others) will be gradual and subject to actual collections. The Department of Economic Development will determine the amount to be allocated to each incentive until reaching amount budgeted.

- Furthermore, in order to ensure maximum and proper use of federal funds, such as, but not limited to, (1) DRF, (2) CARES, (3) FFCRA, (4) CRRSAA, (5) and ARP, the Governor shall submit a work plan before any disbursement of funds. Improved reporting will help prevent and combat actual, and claims of, misuse, fraud, waste, and abuse. Therefore, the Governor shall also submit to the Oversight Board any report that the Commonwealth government (i) provides to the federal government or (ii) creates internally. Such reports shall be provided to the Oversight Board at the same time that they are provided to the federal government or circulated internally within the Commonwealth government. The Governor shall also provide, as requested, performance metrics with regards, but not limited to, time required to submit claims, time required to submit compliance reporting, and time required to collect reimbursement claims.

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

▪ In conjunction with the reports that the Governor must submit to the Oversight Board no later than 15 days after the last day of each quarter of FY2024, pursuant to Section 203 of PROMESA, the Secretary of the Treasury, Executive Director of AAFAF, and the Director of the OMB shall each certify to the Oversight Board: (1) that no appropriation of any previous fiscal year (except for the appropriations covered by the exceptions in the sections above) have been used to cover any expense; and (2) the Director of the OMB shall certify to the Oversight Board that no amount of (i) the Emergency Reserve and (ii) the unallocated capital expenditures under the custody of OMB has been obligated unless authorized in accordance with the section below.

▪ The Emergency Reserve, the unallocated capital expenditures, healthcare investments reserve, technology reserve, milestones reserve, utility reserve and the economic incentive fund under the custody accounts of OMB and the Department of the Treasury, as detailed in the certified budgets for FY2020, FY2021, FY2022 FY2023, and FY2024 may not be used to cover any allocation or expense whatsoever without the prior, written approval of the Oversight Board. If Federal Emergency Management Agency ("FEMA") funding is not available for capital expenditures, a transfer from unallocated capital expenditures may be requested. The economic incentive funds held under the custody of the Department of the Treasury will be released on a quarterly basis after a formal reapportionment is submitted by DDEC, reviewed and approved by OMB, and submitted to the Oversight Board for review, and the Oversight Board provides its authorization to release such funding. Exceptions to the economic incentive fund release may apply upon meeting all of the specified criteria, if any, listed in the upcoming FY2024 certified budget resolution.

- The Emergency Reserve is intended to expedite response activities and, upon request, provide the Commonwealth Agencies and affected local governments with capital in the event of an emergency of such severity and magnitude that effective response exceeds the capacity of current budget resources and federal disaster assistance is not available or not yet available to respond to the emergency. Moreover, the Emergency Reserve is only intended for extraordinary events like natural disasters or as otherwise agreed with the Oversight Board and that are generally outside of human control and unpreventable. The Emergency Fund is not intended to mitigate emergencies related to operational inefficiencies.

  – Accessing Emergency Reserve funds shall require: (1) a State of Emergency declaration, by the Governor of the Commonwealth, in accordance with Article 6.10 of Act 20-2017, as amended, known as the Puerto Rico Public Safety Department Act and in accordance with the above description of what constitutes an extraordinary event; (2) OMB request to the Oversight Board for access to the emergency reserve fund for a finite period, indicating the agency or local government that will receive the advance, the amount of the advance, usage of funds requested, and the PR Emergency Disaster Management ("PREMA") request number from WEBEOC platform as well as the projected re-payment date of the funds; (3) amounts approved by the Oversight Board and disbursed to the Government shall be replenished not later than the following fiscal year; and (4) agencies and municipalities, recipients of state emergency reserve funds, shall update OMB on a quarterly basis about the Public Assistance process with FEMA.

  – OMB shall request Emergency Reserve funds exclusively for the use of Government agencies and affected local governments. The agencies and affected local governments must be in an emergency declared area and the Emergency Reserve funds must be used for response activities related to the declared event. Non-profits, public corporations outside of the Commonwealth, and individuals are not eligible applicants for advances through the Emergency Reserve fund.

  – OMB shall submit quarterly reports to the Oversight Board detailing the status of Emergency Reserve funds, amounts provided to agencies and affected local governments, amount of funds expended, amount of funds remaining, and updated projected re-payment dates. Agencies and local governments that received funds from the Emergency Reserve are required to file with FEMA a Request for Public Assistance ("RPA") and Project Worksheet to ensure maximum federal fund reimbursements are replenished into the Emergency Reserve. As a rule, OMB shall offset late repayment by agencies and local governments with other Commonwealth funding to repay the Emergency Reserve on time.

- Cost share matching funds are restricted for use on approved projects/requirements under FEMA's Individual Assistance, Public Assistance, and Hazard Mitigation programs. Any unused cost share matching funds in a given fiscal year may be rolled over to the following fiscal year and are subject to the same restrictions. The use of these funds must be coordinated with CDBG-DR and CDBG-MIT in meeting cost share requirements.

- Additional General Funds may be made available to agencies upon reaching certain, specified milestones and after written approval and authorization from the Oversight Board. Once respective milestones are achieved, agencies must provide a formal notice and submit supporting data corroborating such achievement to the Oversight Board for its review. The subsections below detail the allowable milestones and incentives for each relevant agency.

- Funds to provide economic support for rising costs and economic uncertainty will be made available to CRIM to distribute to municipalities upon achieving the following condition and after the approval and authorization from the Oversight Board.
  - Develop and propose an equitable distribution methodology to deploy one-time economic support to municipalities to offset the impacts of inflation and other macroeconomic factors contributing to rising costs. Funds shall be held under Contributions to the Municipalities until CRIM submits a proposal of the selected methodology approved by the CRIM Governing Board on or before July 31, 2022 and the proposal is subsequently reviewed and approved by the Oversight Board.
- Consistent with the stated requirements in section 3.2.10 of the 2023 Fiscal Plan, funds to cover parametric insurance will also be made available upon reaching such stated milestones and after the approval and authorization from the Oversight Board.
- As a rule, necessary for the responsible disbursement of budgetary allocations for operating and other expenses, OMB shall withhold from any of the allocations to the agencies of the Executive Branch the amounts necessary to pay for the PayGo contribution, unemployment insurance, or taxes withheld from their employees, when OMB determines that such a withholding is necessary to ensure compliance with these obligations by the agencies concerned. Any such amounts withheld by OMB shall solely be reprogrammed to pay the corresponding outstanding obligations related to PayGo contributions, unemployment insurance, or taxes withheld from employees.
- OMB and the Department of the Treasury are authorized to establish the necessary mechanisms to ensure that when implementing the concept of mobility, pursuant to the provisions of Act 8-2017, as amended, known as the "Puerto Rico Human Resources Management and Transformation in the Government Act," the corresponding transfer of funds allocated to payroll and related costs of said employee are to be carried out simultaneously.
- The Secretary of the Treasury, the Director of the OMB, and the Finance Director and Executive Director of each agency or public corporation covered by the 2023 Fiscal Plan will be responsible for not spending or encumbering during FY2024 any amount that exceeds the appropriations authorized for FY2024. This prohibition applies to every appropriation set forth in a budget certified by the Oversight Board, including appropriations for payroll and related costs. The Executive Director of AAFAF and the Director of the OMB shall also certify to the Oversight Board, with a copy to the Legislative Assembly, by September 30, 2023 that no amount was spent or encumbered that exceeded the appropriations in the certified budget for FY2024.
- For the avoidance of doubt, any reference within the budget to AAFAF, the Department of the Treasury, or OMB, or any of their respective officers, applies to any successor thereof.
- On or before July 31, 2023, the Governor shall provide to the Oversight Board budget projections of General Fund revenues and expenditures for each quarter of FY2024, which must be consistent with the corresponding budget certified by the Oversight Board (the "Quarterly Budget"). The Quarterly Budget shall be provided to the Oversight Board in Excel format and include detailed allocations by agency, public corporation, fund type and concept of spend. Together with the report that the Governor must provide under Section

203 of PROMESA not later than 15 days after the last day of each quarter, the Governor shall provide a quarterly variance analysis that is consistent with modified accrual accounting.

- If during the fiscal year the Government fails to comply with the liquidity and budgetary savings measures required by the 2023 Fiscal Plan, the Oversight Board may take all necessary corrective action, including the measures provided in PROMESA Sections 203 and 204.
- The Unallocated PREPA Employees' Payroll funds held under the custody of the OMB are to be allocated by OMB to those government entities that received former PREPA employees and demonstrated that they are unable to cover those expenses with their current budget. However, those funds shall only be released after the OMB provides a detailed report to the Oversight Board of the employees transferred from the Puerto Rico Electric Power Authority ("PREPA") to such other government entities, together with an attendance report for every transferred employee. Government entities that may receive these funds are required to provide a full roster with all active employees to the Oversight Board. Such roster must identify any employee transferred from PREPA to the respective government entity.
- Consistent with the stated requirements in section 3.2.9 of the 2023 Fiscal Plan, the PREPA Employee Pension funds held under the custody of OMB shall only be released after AAFAF provides such documentation, to the satisfaction of the Oversight Board.
- The Police Retirement Funds held under the custody of OMB shall only be released upon approval from the Oversight Board.
- Pursuant to Section 204 (b)(2) of PROMESA, the Oversight Board has maintained since November 6, 2017 a Contract Review Policy to require prior Oversight Board approval of contracts with a value of $10 million or more to assure that they "promote market competition" and "are not inconsistent with the approved fiscal plan." The Policy applies to any contract or series of related contracts, inclusive of any amendments, modifications or extensions, with an aggregate expected value of $10 million or more, that is proposed to be entered into by the Commonwealth (which includes the Executive, Legislative, and Judicial branches of government) or any covered instrumentality. In addition, the Oversight Board may select to review contracts below the $10 million threshold for these purposes, on a random basis or at its own discretion. Specifically, in the case of the Puerto Rico Electric Power Authority ("PREPA") the contract review threshold has been reduced to $250,000 exclusively for contracts which are payable from PREPA's "Professional & Technical Outsourced Services" and "PREPA Restructuring and Title III" budget lines. Consequently, all proposed contracts (or series of related contracts) that meet such threshold and are classified as Consulting Services Contracts by the Office of the Comptroller of Puerto Rico (and any applicable sub-categories) must be submitted to the Oversight Board for review and approval prior to execution. For all other PREPA contracts, the Oversight Board maintains the current $10 million threshold. Similarly, in the case of the University of Puerto Rico, the Oversight Board lowered the UPR's contract review threshold to $2 million for all contracts. Finally, in order to further ensure certain contracts promote market competition, the Oversight Board may require, at its own discretion, the Commonwealth or any covered instrumentality, to give it access to ongoing procurement processes for the execution of new contracts.