



## Municipal Secondary Market Disclosure Information Cover Sheet Municipal Securities Rulemaking Board (MSRB) Electronic Municipal Market Access System (EMMA)

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### THIS FILING RELATES TO A SINGLE BOND ISSUE:

Name of bond issue exactly as it appears on the cover of the Official Statement:

\_\_\_\_\_

\_\_\_\_\_

Nine-digit CUSIP\* numbers if available, to which the information relates:

\_\_\_\_\_

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### THIS FILING RELATES TO ALL OR SEVERAL SECURITIES ISSUED BY THE ISSUER, OR ALL OR SEVERAL SECURITIES OF A SPECIFIC CREDITOR:

Issuer's Name: Puerto Rico Highways and Transportation Authority ("PRHTA")

Other Obligated Person's Name (if any): \_\_\_\_\_

Six-digit CUSIP\* number(s): 745181, 745190, 745185 (Teodoro Moscoso Bridge)

### TYPE OF INFORMATION PROVIDED:

- A.  Annual Financial Information and Operating Data pursuant to Rule 15c2-12

Fiscal Period Covered: 2020-21

- B.  Audited Financial Statements or CAFR pursuant to Rule 15c2-12

Fiscal Period Covered: \_\_\_\_\_

- C.  Notice of Failure to Provide Annual Financial Information as Required: \_\_\_\_\_

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I represent that I am authorized by the issuer, obligor or its agent to distribute this information publicly.

/s/ Julian M. Bayne Hernández

Julian M. Bayne Hernández  
Puerto Rico Fiscal Agency and Financial Advisory Authority,  
as Fiscal Agent for PRHTA

Dated: April 26, 2022

# **PUERTO RICO HIGHWAYS AND TRANSPORTATION AUTHORITY**

## **ANNUAL FINANCIAL INFORMATION Fiscal Year 2021**

### Introduction

In compliance with Rule 15c2-12 (the “Rule”) of the Securities and Exchange Commission, as amended, and in connection with the issuance by the Puerto Rico Highways and Transportation Authority (the “Authority”) of its:

- Highway Revenue Bonds and Highway Revenue Refunding Bonds (Base CUSIP No. 745181)
- Transportation Revenue Bonds, Transportation Revenue Refunding Bonds and Subordinated Transportation Revenue Bonds (Base CUSIP No. 745190)
- Special Facility Revenue Refunding Bonds, 2003 Series A (Teodoro Moscoso Bridge) (Base CUSIP No. 745185)

the Authority has covenanted to file within 305 days after the end of each fiscal year, with the Municipal Securities Rulemaking Board (“MSRB”) through the Electronic Municipal Market Access System (“EMMA”), core financial information and operating data for the prior fiscal year, including:

- The Authority’s audited financial statements prepared in accordance with generally accepted accounting principles.
- Material historical quantitative data, including financial information and operating data on the Authority’s system and revenues, expenditures, financial operations, and indebtedness generally found in the respective Official Statements prepared in connection with the issuances described above.

### Appendix I

Included in Appendix I is the Authority’s Annual Financial Information and Operating Data Report for fiscal year ended June 30, 2021, as prepared by the Authority, consisting of material historical quantitative data, including financial information and operating data on the Authority’s system.

### Note

The Authority’s audited financial statements for the fiscal year ended June 30, 2021, were submitted to the MSRB on April 1, 2022 (Submission ID: P21189488).

**APPENDIX I**

**PUERTO RICO HIGHWAYS AND TRANSPORTATION AUTHORITY**

**ANNUAL FINANCIAL INFORMATION AND OPERATING DATA REPORT**

**THE PUERTO RICO HIGHWAYS AND TRANSPORTATION AUTHORITY**  
**("PRHTA" or the "AUTHORITY")**

**FISCAL YEAR ENDED JUNE 30, 2021**

**General Description**

The Authority is a public corporation and component unit of the Commonwealth of Puerto Rico (the Commonwealth) created by Act No. 74 of June 23, 1965, as amended ("Act No. 74-1965"), to design, construct and administer toll roads, highways, and other facilities for the mobility of individuals, vehicles, and vessels, and for the planning, promotion and feasibility of mass transportation systems. As a component unit, the Authority is included in the basic financial statements of the Commonwealth.

The Authority is exempt from the payment of taxes on its revenues and properties. The Authority is governed by a seven-member board of directors empowered to approve, amend, and revoke any regulations necessary to perform its duties and to control the Authority's capital and operational budget. With the enactment of PROMESA on June 30, 2016, certain corporate actions may also require approval by the Financial Oversight and Management Board for Puerto Rico (the Oversight Board). In addition, the enactment of Act No. 2-2017, the Puerto Rico Fiscal Agency and Financial Advisory Authority Act, expanded the powers and authority of the Puerto Rico Fiscal Agency and Financial Advisory Authority (AAFAF) so that AAFAF has the responsibility to negotiate, restructure, and reach agreements with creditors on all or part of the public debt or any other debt issued by any Commonwealth entity, including the Authority.

In addition, on May 21, 2017, the Oversight Board, at the request of the Governor, commenced a Title III case for the Authority by filing a petition for relief under PROMESA Title III in the United States District Court for the District of Puerto Rico. The PROMESA Title III cases are presiding before U.S. District Judge Laura Taylor Swain. The Authority currently operates as a debtor in such Title III case.

*Highways*

The Authority classifies its highways and roads within the following categories: (i) primary, (ii) primary urban, (iii) secondary, (iv) tertiary, and (v) roads. Puerto Rico's major cities are connected by a modern highway system, which totals approximately 4,647.20 miles of highways and 12,739.98 miles of local streets and adjacent roads. The highway system comprises 388.71 miles of primary system highways, which are the most important inter-regional traffic routes and include (i) PR-5, PR-20, PR-22, PR-52, PR-53, and PR-66 toll highways, (ii) 232.73 miles of primary urban system highways, (iii) 958.59 miles of secondary system highways serving the needs of intra-regional and inter-municipal traffic, (iv) 3,063.59 miles of tertiary highways, and (v) roads serving local as well as intra-municipal traffic. The Authority operates all of the above toll highways except PR-5 and PR-22, which are operated by Autopistas Metropolitanas de

Puerto Rico, LLC (“Metropistas”) under a concession agreement entered into in September 2011 as part of a Public-Private Partnership transaction (the “Metropistas PPP Transaction

### *TrenUrbano*

The Authority operates Tren Urbano. Tren Urbano consists of 10.7 miles of automated heavy-rail a dedicated guideway that serves the municipalities of San Juan, Bayamón, and Guaynabo. The composition of the guideway is 52% elevated; 40% at grade and 8% underground. The system is electrified by a third rail at 750 VDC and consists of 16 stations and an operations and administration building along a single line. Tren Urbano's fleet consists of 74 (37 married pairs) stainless steel-bodied vehicles, each 75 feet long. Each vehicle has the capacity to carry 72-seated passengers and 108 standing passengers. All vehicles operate as married pairs, with a maximum capacity of three pairs.

### *Organization*

The Authority is a component unit of the Government of Puerto Rico (the “Government”) and, accordingly, is included in the basic financial statements of the Government. The Authority’s powers are exercised by a Board of Directors composed of seven members. The Board has the authority to approve, amend, and revoke any regulations related to the performance of its duties and to control the capital and operational budget of the Authority. To carry out its responsibility of developing the Government’s transportation system, the Authority has organized itself into three offices: (i) the office of the Executive Director, which provides overall management of the Authority; (ii) the office of the Deputy Executive Director, which assists the Executive Director in the overall management of the Authority; and (iii) the offices of five Assistant Executive Directors, each of which reports to the Executive Director and the Deputy Executive Director.

The Assistant Executive Director for Infrastructure oversees (i) the Planning Area, which is responsible for the development of the Construction Improvement Program (“CIP”) as well as long-term planning; (ii) the Design Area, which is responsible for designing and supervising the design by consultants of Authority projects; (iii) the Property Acquisition Area, which acquires necessary easements and rights-of-way for Authority projects; and (iv) the Construction Area, which supervises and inspects the construction work performed by the Authority’s contractors. The Assistant Executive Director for Finance and Administration oversees (i) the Finance Area, which is responsible for the financial affairs of the Authority, including budgetary services; (ii) the Administration Area, which provides administrative support to the Authority; and (iii) the Information and Technologies Area, which oversees computer operations. The Assistant Executive Director for Traffic and Toll Operations oversees all aspects of the operation, maintenance, and repair of the toll highways. The Assistant Executive Director for Transportation directs, coordinates, supervises and administers transportation programs and their components within the Authority. The Assistant Executive Director for Human Resources and Industrial Safety is responsible for the planning, direction, and coordination of the Human Resources administration programs of the Authority.

## *Management*

The powers and duties of the Authority are currently exercised by the Executive Director, Doctor Edwin E. Gonzalez-Montalvo, who was appointed in January 2021 by the Honorable Governor Pedro R. Pierluisi-Urrutia.

A native of Moca, Puerto Rico, Dr. Gonzalez-Montalvo, is a professional engineer licensed in Puerto Rico with over ten (10) years of experience in infrastructure/real asset investment and finance decisions, infrastructure/real asset management, public sector procurement, and public-private partnerships (“P3s”). He has a bachelor’s and master’s degree in civil engineering from the University of Puerto Rico, Mayagüez Campus. His doctoral studies at Virginia Tech explored governance and risk management mechanisms, fiscal support mechanisms to make projects financially viable, and identification and assessment of innovation in infrastructure projects. Before joining the Authority, Dr. Gonzalez Montalvo worked as Senior Technical & Strategic Advisor at CPM where he led CPM’s strategic and P3s practice in Puerto Rico and the Caribbean and provided program and technical advisory services for cross-sector projects.

## *Employee Relations*

As of June 2021, the Authority employed 836 individuals, of whom 40 were high-level management officials, and 796 were professionals, office workers, technicians and laborers. In 1987, the Puerto Rico Supreme Court ruled that the Authority was a “private employer” for purposes of the Puerto Rico labor law provisions. Such status permits the Authority’s employees to engage in collective bargaining. Accordingly, an independent union representing approximately 345 permanent employees of the Authority has been certified for collective bargaining purposes. The collective bargaining agreement expired on July 13, 2013, but its terms renew monthly, with some exceptions as permitted under Act No. 66-2014.

## **The Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA) and Other Legislation Related to Debt Restructuring**

The Commonwealth and many of its component units, including the Authority, suffered an economic and fiscal crisis, which caused, among other things, the initiation of financial measures directed to reinstate fiscal and financial stability, including a number of Commonwealth and federal laws that have been passed in recent years. On June 30, 2016, the U.S. Congress enacted PROMESA to address these problems. Thereafter, the Commonwealth and other governmental entities including the Authority, the Puerto Rico Sales Tax Financing Corporation (COFINA), the Employee Retirement System (ERS), the Puerto Rico Electric Power Authority (PREPA), and the Public Building Authority (PBA) initiated proceedings under PROMESA Title III, and the Government Development Bank for Puerto Rico (GDB), Puerto Rico Infrastructure Financing Authority (PRIFA), and the Puerto Rico Convention Center District Authority (PRCCDA) initiated proceedings under Title VI of PROMESA, each at the request of the Governor, to restructure or adjust their existing debt. The most relevant Commonwealth and federal legislation enacted to address the fiscal crisis and to initiate the economic recovery is as follows:

## Fiscal Measures Before PROMESA

### (i) *Retention by the Government of Tax Revenues Conditionally Allocated to Certain Public Corporations and Priority of Payment Provisions*

On December 1, 2015, the Governor signed Executive Order No. 46 which ordered the Secretary of Department of Treasury (DOT) to retain certain available resources of the Commonwealth based on revised revenue estimates for fiscal year 2016 and the Commonwealth's deteriorating liquidity situation. Pursuant to such executive order, the Secretary of the DOT retained revenues conditionally allocated to the Authority, the Puerto Rico Infrastructure Financing Authority (PRIFA), the Puerto Rico Convention Center District Authority (PRCCDA), and Puerto Rico Metropolitan Bus Authority (PRMBA) for the payment of debt service on their bonds during fiscal year 2016. Since fiscal year 2016, such revenues are being retained by the Commonwealth pursuant to certain laws, including but not limited to (a) the Moratorium Act and Act No. 5 (discussed below), and (b) the automatic stay under PROMESA Title III. Litigation regarding the conditional allocation of gasoline, oil, diesel, and petroleum taxes to the Authority was settled pursuant to the terms of the Commonwealth Plan of Adjustment. Such allocations will no longer be made as the statutes that authorized such allocations have been preempted by the Commonwealth Plan of Adjustment and the allocations discharged.

### (ii) *Puerto Rico Emergency Moratorium and Financial Rehabilitation Act, Financial Emergency and Fiscal Responsibility of Puerto Rico Act and Related Executive Orders*

On April 6, 2016, the Commonwealth enacted Act No. 21 of 2016, known as the Puerto Rico Emergency Moratorium and Rehabilitation Act (as amended, the Moratorium Act). Pursuant to the Moratorium Act, the Governor issued a series of executive orders declaring an emergency period, a moratorium and various other measures with respect to certain obligations of the Commonwealth and several of its instrumentalities. Pursuant to these executive orders, certain Commonwealth entities have either: (i) not made debt service payments, (ii) made debt service payments with funds on deposit with the trustees of their bonds, and/or (iii) not received or transferred certain revenues. Such executive orders also placed significant restrictions on the disbursement of funds deposited at GDB and suspended the disbursement of loans by GDB.

The implementation of the Moratorium Act and its related executive orders is the subject of ongoing litigation. Upon the enactment of PROMESA on June 30, 2016, the Title IV Stay (discussed below) applied to stay this litigation until its expiration on May 1, 2017. Since the commencement of the Commonwealth's Title III case on May 3, 2017, the automatic stay under PROMESA Title III has applied to continue the stay of this litigation and prevent debt service payments to bondholders. This litigation has been resolved pursuant to the Commonwealth Plan of Adjustment, which became effective on March 15, 2022.

(iii) PROMESA

In general terms, PROMESA seeks to provide the Commonwealth with fiscal and economic discipline through, among other things: (i) the establishment of the Oversight Board, whose responsibilities include the certification of fiscal plans and budgets for the Commonwealth and its related entities; (ii) a temporary stay of all creditor lawsuits under Title IV of PROMESA; and (iii) two alternative methods to adjust unsustainable debt: (a) a voluntary debt modification process under Title VI of PROMESA, which establishes a largely out-of-court debt restructuring process through which modifications to financial debt can be accepted by a supermajority of creditors; and (b) a quasi-bankruptcy proceeding under PROMESA Title III, which establishes an in-court debt restructuring process substantially based upon incorporated provisions of Title 11 of the United States Code (U.S. Bankruptcy Code). Each of these elements are divided among PROMESA's seven titles, as briefly discussed below.

*Title I – Establishment of Oversight Board and Administrative Matters*

Upon PROMESA's enactment, the Oversight Board was established for the Commonwealth. See PROMESA § 101(b).

Upon PROMESA's enactment, the Oversight Board was established for Puerto Rico. As stated in PROMESA, "the purpose of the Oversight Board is to provide a method for a covered territory to achieve fiscal responsibility and access to the capital markets." On August 31, 2016, the President of the United States announced the appointment of the Oversight Board members. Each Oversight Board member is required to have "knowledge and expertise in finance, municipal bond markets, management, law, or the organization or operation of business or government." The Oversight Board was "created as an entity within the territorial government for which it was established." It is expressly not an entity of the federal government, but was established to be independent of the Commonwealth government, such that neither the Governor nor the Legislature may "(i) exercise any control, supervision, oversight, or review over the Oversight Board or its activities; or (ii) enact, implement, or enforce any statute, resolution, policy, or rule that would impair or defeat the purposes of PROMESA, as determined by the Oversight Board."

*Title II – Fiscal Plan and Budget Certification Process and Compliance*

Title II sets forth the requirements for proposing and certifying fiscal plans and budgets for the Commonwealth and its instrumentalities. "Each fiscal plan serves as the cornerstone for structural reforms the Oversight Board deems necessary to ensure the territory, or instrumentality, will be on a path towards fiscal responsibility and access to capital markets."

Only after the Oversight Board has certified a fiscal plan may the Governor submit fiscal year budgets for the Commonwealth budget and certain Commonwealth instrumentalities (as approved by the Oversight Board) to the Legislature. In furtherance of the foregoing 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 spending reductions and the submission of recommended actions to the Governor that promote budgetary

compliance. Please refer to the language of PROMESA for a complete description of the Oversight Board's powers related to fiscal plan and budgetary compliance.

### *Title III – In-Court Restructuring Process*

PROMESA Title III establishes an in-court process for restructuring the debts of Puerto Rico and other United States territories that is modeled after the process under Chapter 9 of the U.S. Bankruptcy Code. The Oversight Board has sole authority to file a voluntary petition seeking protection under Title III of PROMESA.

In a Title III case, the Oversight Board acts as the debtor's representative and is authorized to take any actions necessary to prosecute the Title III case. Immediately upon filing the Title III petition, Bankruptcy Code section 362 (which is incorporated into Title III cases under PROMESA) applies to automatically stay substantially all litigation against the debtor (the "Title III Stay"). A Title III case culminates in the confirmation of a plan of adjustment of the debts of the debtor. The Oversight Board has the exclusive authority to file and modify a plan of adjustment prior to confirmation.

### *Title IV – Temporary Stay of Litigation, Government Reporting, and Other Miscellaneous Provisions*

Title IV of PROMESA contains several miscellaneous provisions, including a temporary stay of litigation related to "Liability Claims," relief from certain wage and hour laws, the establishment of a Congressional Task Force on Economic Growth in Puerto Rico (the "Task Force"), the requirement that the Comptroller General of the United States submit two reports to Congress regarding the public debt levels of the U.S. territories, and the expansion of the federal government's small business HUB Zone program in Puerto Rico.

Pursuant to PROMESA section 405, the enactment of PROMESA immediately and automatically imposed a temporary stay (the "Title IV Stay") from June 30, 2016 (the date of PROMESA's enactment) through February 15, 2017, of all "Liability Claim" litigation commenced against the Commonwealth and its instrumentalities after December 18, 2015. A "Liability Claim" is defined as any right to payment or equitable remedy for breach of performance related to "a bond, loan, letter of credit, other borrowing title, obligation of insurance, or other financial indebtedness for borrowed money, including rights, entitlements, or obligations whether such rights entitlements, or obligations arise from contract, statute, or any other source of law related [thereto]" for which the Commonwealth or one of its instrumentalities was the issuer, obligor, or guarantor and such liabilities were incurred prior to June 30, 2016. The Title IV Stay was subject to a one-time 75-day extension by the Oversight Board or a one-time 60-day extension by the United States District Court. On January 28, 2017, the Oversight Board extended the Title IV Stay by 75 days to May 1, 2017, at which time the Title IV Stay expired.

Title IV of PROMESA also required several federal government reports. First, PROMESA established the Task Force within the legislative branch of the U.S. federal government. The Task Force submitted its report to Congress on December 20, 2016.

Second, PROMESA required the U.S. Comptroller General, through the Government Accountability Office (GAO), to submit a report to the House and Senate by December 30, 2017, regarding: (i) the conditions that led to Puerto Rico's current level of debt; (ii) how government actions improved or impaired its financial condition; and (iii) recommendations on new fiscal actions or policies that the Commonwealth could adopt. The GAO published this report on May 9, 2018.

Third, PROMESA required the U.S. Comptroller General, through the GAO, to submit to Congress by June 30, 2017, a report on public debt of the U.S. territories. In addition to its initial report, the GAO must submit to Congress updated reports on the public debt at least once every two-years. The GAO published its initial report on October 2, 2017. On June 30, 2021, the GAO published its latest biannual report on the public debt of the U.S. territories.

#### *Title V – Infrastructure Revitalization*

Title V of PROMESA established the position of the Revitalization Coordinator under the Oversight Board and provides a framework for infrastructure revitalization through an expedited permitting process for “critical projects”, as identified by the Revitalization Coordinator.

#### *Title VI – Consensual, Out-of-Court Debt Modification Process*

Title VI of PROMESA established an out-of-court process for modifying Puerto Rico's debts. Under PROMESA section 601(d), the Oversight Board is authorized to establish “pools” of bonds issued by each Puerto Rico government-related issuer based upon relative priorities. After establishing the pools, the government issuer or any bondholder or bondholder group may propose a modification to one or more series of the government issuer's bonds. If a voluntary agreement exists, the Oversight Board must issue a certification and execute a number of additional processes in order to qualify the modification.

Finally, the United States District Court for the District of Puerto Rico must enter an order approving the Qualifying Modification and vesting in the issuer all property free and clear of claims in respect of any bonds.

#### *Title VII – Sense of Congress*

Title VII of PROMESA sets forth the sense of Congress that “any durable solution for Puerto Rico's fiscal and economic crisis should include permanent, pro-growth fiscal reforms that feature, among other elements, a free flow of capital between possessions of the United States and the rest of the United States.”

## **PROMESA Title III Cases**

### **Commonwealth Title III Case**

On May 3, 2017, the Oversight Board, at the request of the Governor, commenced a Title III case for the Commonwealth by filing a petition for relief under PROMESA Title III in Title III Court.

On March 15, 2022, the Commonwealth Plan of Adjustment went effective. For further information on the Commonwealth Plan of Adjustment refer to the Subsequent Events below and the final versions of the Commonwealth Plan of Adjustment, Findings of Fact, and Commonwealth Confirmation Order, which are available at <https://cases.primeclerk.com/puertorico/Home-DocketInfo>.

### **The Authority's Title III Case**

On May 21, 2017, the Oversight Board, at the request of the Governor, commenced a Title III case for the Authority by filing a petition for relief under PROMESA Title III in the United States District Court for the District of Puerto Rico. The deadline by which all creditors were required to file their proofs of claim against the Authority was June 29, 2018. Approximately 2,290 claims were filed against the Authority in the total aggregate asserted amount of approximately \$83.1 billion. Of this amount, approximately 1,255 claims in the total aggregate asserted amount of approximately \$6.8 billion have been withdrawn or expunged by an omnibus objection order entered by the Title III Court. As a result, approximately 870 claims in the total aggregate asserted amount of approximately \$76.2 billion remain outstanding (excluding claims pending objection, marked for future objection, or transferred or waiting to be transferred into Administrative Claims Reconciliation). The validity of these remaining claims has not yet been determined and such claims remain subject to the claims reconciliation process.

After the commencement of the Authority's Title III case, numerous motions and adversary proceedings were filed both by and against the Authority regarding creditor rights to the Authority's assets. The outcome of these proceedings and their impact on any plan of adjustment for the Authority cannot be determined at this time.

### **Title III Litigation**

#### **1. Pending Key Litigation Filed Prior to Commencement of Title III Cases Related to the Authority**

The Authority is defendant or co-defendant in various lawsuits for alleged damages in cases principally related to construction projects. The contractors are required, under the terms of the construction agreements, to carry adequate public liability insurance and to hold harmless the Authority from lawsuits brought on account of damages relating to the construction of the projects.

2. *Ambac Assurance Corporation v. Puerto Rico Highways and Transportation Authority*, Case No. 16-cv-1893 (D.P.R.)

Ambac filed two claims against the Authority claiming (i) breaches in fiduciary duties, and (ii) breaches in contractual obligations. On May 16, 2016, plaintiff filed an amended complaint. On July 1, 2016, the Authority filed a motion to stay the proceeding, which the United States District Court for the District of Puerto Rico (the District Court) granted on August 23, 2016. On May 23, 2017, the Puerto Rico Department of Justice filed a notice of stay under PROMESA Title III. On May 24, 2017, the District Court entered an order confirming the stay. As of the date of issuance of the financial statements, there has been no further docket activity.

3. *Scotiabank de Puerto Rico, et al. v. Garcia-Padilla, et al.*, Case No. 16-cv-2736 (D.P.R.)

Plaintiffs filed suit against various government parties, including the Authority, claiming that the Moratorium Act and executive orders issued pursuant to the Moratorium Act violate PROMESA, the United States Constitution, and the Puerto Rico Constitution. On September 10, 2017, plaintiffs filed their amended complaint. On November 11, 2016, defendants filed a motion to stay the proceedings. On December 16, 2016, defendants filed a motion to dismiss. On January 31, 2017, plaintiffs filed an opposition to defendants' motion. That motion is pending. On May 16, 2017, the Puerto Rico Department of Justice filed a notice of stay under PROMESA Title III. On May 17, 2017, the District Court entered an order confirming the stay. As of the date of issuance of the financial statements, there has been no further docket activity.

4. *Peaje Investments LLC v. Puerto Rico Highways & Transportation Authority*, Case No. 17-cv-01612 (D.P.R. May 9, 2017)

On May 9, 2017, Peaje Investments LLC filed a complaint for declaratory judgment and injunctive relief challenging the Authority's use of total toll revenues. On May 22, 2017, the Oversight Board filed a notice of stay under PROMESA Title III, which the Court granted on May 23, 2017. As of the date of issuance of the financial statements, there has been no further docket activity.

**Key Civil Actions Filed Against, or Relating to, the Authority After the Commencement of the Title III Case**

1. The following civil actions were resolved pursuant to the Commonwealth Plan of Adjustment:
  - a. *Peaje Investments LLC v. Puerto Rico Highways & Transportation Authority, et. al.* Case Nos. 17-151-LTS
  - b. *The Authority Bondholder Lift Stay Motion*, Case No. 17-3283-LTS (D.P.R. Jan 16, 2020).

- c. *The Financial Oversight & Management Board for Puerto Rico, as representative of the Commonwealth of Puerto Rico v. Ambac Assurance Corp., et al.*, Adv. Pro. No. 20-00005-LTS (D.P.R. Jan. 16, 2020)
- d. *The Financial Oversight & Management Board for Puerto Rico, as Representative of Puerto Rico Highways and Transportation Authority, et al. v. Ambac Assurance Corp., et al.*, Adv. Pro. No. 20-00007-LTS (D.P.R. Jan. 16, 2020)
- e. *Monoline Insurers' Motion for Appointment as Co-Trustees to Pursue Avoidance Actions*, Case No. 17-3283-LTS (D.P.R. July 17, 2020)
- f. *Motion Pursuant to Bankruptcy Code Sections 105(a) and 362 for Order Directing Ambac Assurance Corporation to Withdraw Complaint*, Case No. 17-3283-LTS (D.P.R. Mar. 31, 2020)

## **Revenues**

### *Operating Revenues*

The Authority's revenues consist primarily of allocations appropriated from the Commonwealth and operating revenues generated from toll roads and train operations.

The Authority's toll receipts are generated from 21 toll plazas located on PR-20, PR-52, PR-53, and PR-66. Revenues from toll plazas in fiscal years 2020 and 2021 exclude revenues from Expressways PR-22 and PR-5, which are operated by Metropistas pursuant to the Metropistas PPP Transaction.

### *Operating Transfers from the Commonwealth of Puerto Rico*

Prior to Fiscal Year 2016, the Commonwealth had conditionally allocated to the Authority certain taxes and other revenues.

Beginning on November 30, 2015, the Governor issued a series of executive orders directing the Treasury Department of the Commonwealth of Puerto Rico to retain funds that were conditionally allocated to certain public corporations and agencies, including the Authority.

### *Capital and Operating Grants*

Capital and operating grants are funds assigned by other governmental entities such as: the Federal Highway Administration ("FHWA"), Federal Transit Administration ("FTA"), and the Commonwealth of Puerto Rico to the Authority for the construction of specific projects or infrastructure repairs and maintenance. Capital grants may only be used for the construction of capital assets, highway preservation, and safety measures while operating grants are used to finance preventive maintenance and other operating expenses related to mass transportation systems.

## **Concession Agreements**

The Authority has entered into service concession agreements under which it has transferred the administration and operation of certain infrastructure assets to private organizations in exchange for concession fees.

### *Toll Road Service Concession Agreement (PR-5 and PR-22)*

On September 22, 2011, the Authority entered into the Toll Road Service Concession Agreement with Metropistas, in which the Authority granted to Metropistas the right to operate PR-5 and PR-22 highways for a period of 40 years. During the 40-year term, Metropistas will have the right to charge and collect the tolls imposed on PR-5 and PR-22.

The Authority received an upfront concession fee payment of \$1,136 million, of which approximately \$873.1 million was used to redeem or defease certain bonds issued and outstanding associated with PR-5 and PR-22. This \$1,136 million is being amortized and recognized as revenue over the 40-year term of the agreement. On April 19, 2016, the Authority entered into an amendment to the Toll Road Service Concession Agreement, which extended the original term by 10 years and created five bidirectional tolling points on PR-5 and PR-22. The Authority received an upfront concession fee payment of \$100 million, \$18.2 million of which was used to pay the Authority's current debts, and \$79.8 million of which was transferred to the Commonwealth in fiscal year 2016. In June 2017, the Authority received an additional \$15 million payment concurrently with the commencement of the bidirectional system described above.

### *Bridge Service Concession Agreement*

On December 20, 1992, the Authority and Autopistas de Puerto Rico, LLC (“Autopistas”) entered into an agreement for the design, construction, operation and maintenance of the Teodoro Moscoso Bridge (the “Bridge”) (the “Bridge Service Concession Agreement”). The Bridge crosses the San José Lagoon between the municipalities of San Juan and Carolina. Autopistas designed and constructed the Bridge and commenced its operation on February 23, 1994. The initial term of the Bridge Service Concession Agreement was for 35 years, expiring on April 3, 2029. On September 9, 2009, the agreement was amended to extend its term to 50 years, until 2044.

The Bridge Service Concession Agreement, as amended, requires Autopistas to pay 5% of the annual toll revenues to the Authority until February 22, 2027, then 61.5% of such revenues from February 23, 2027 through the end of the agreement. During fiscal year 2021, Autopistas paid the Authority approximately \$0.8 million related to the toll revenues.

On October 22, 2003, the Authority issued term and capital appreciation bonds in the total aggregate amount of approximately \$153.2 million (the “2003 Bonds”). The proceeds of the 2003 Bonds were used to refund in advance bonds issued in 1992 to finance the construction of the Bridge.

Under the terms of the Bridge Service Concession Agreement, Autopistas is responsible for the debt service payment on the 2003 Bonds unless the Bridge Service Concession Agreement is terminated in accordance with its terms.

Under certain circumstances, including if minimum toll revenues are not achieved, the Bridge Service Concession Agreement may be terminated, and the Authority would then be obligated to assume all of Autopistas' obligations to pay the principal of, and interest on, the outstanding bonds, which would be paid from the net revenues of the use and operation of the Bridge.

### **What Happened in Fiscal Year 2021**

The Authority has experienced significant recurring losses from operations and faces many business challenges that have been exacerbated by the Commonwealth's fiscal crisis. The Authority's principal challenges, some of which are interrelated, are (i) reducing operating costs, (ii) maximizing revenues, and (iii) improving liquidity.

#### *Operating Revenues*

Operating revenues, which consist of toll and train fares, concession agreements, and other operating revenues, increased by 13.4% to \$200.4 million during the fiscal year ended June 30, 2021 as compared to the fiscal year ended June 30, 2020.

	<b><u>2021</u></b>	<b><u>2020</u></b>
<b>Operating revenues:</b>		
Toll fares	151.6	124.3
Other operating income	7.6	12.5
Concession agreement	41.2	39.9
<b>Total operating revenues</b>	<b>200.4</b>	<b>176.7</b>

This increase is due to the following:

- a. The increase in toll fares of \$27.2million which is mainly attributable to the reopening of governmental and business operations after the impact of the lockdown mandates as a result of the COVID-19 pandemic virus.
- b. The decrease in other operating income of approximately \$4.9 million during the current fiscal year is related with less train fares due to less traffic attributable to impact of COVID-19 restrictions in schools and universities and increase in remote work in private and government entities.

c. The increase in concession agreement revenue of approximately \$1.2 million during the current fiscal year is related to the increase of the Bridge Service Concession revenue for the amount of principal and interest on bonds made by Autopistas.

*Non-Operating Revenues*

During the fiscal year ended June 30, 2021, the Authority did not receive taxes amounting to approximately \$497.5 million. There is no indication that the conditional allocation of gasoline, oil, diesel, and petroleum taxes to the Authority will resume. The operating transfers and retained revenues for fiscal years 2020 and 2021 consisted of:

	<u>2021</u>	<u>2020</u>
Amount allocated to the Authority	\$ 703.6	\$ 439.7
Retained Revenues	(497.5)	(439.7)
Operating transfer from Commonwealth of PR	\$ 206.1	\$ -

*Investment Income*

Investment income decreased by approximately \$1.3 million during the fiscal year ended June 30, 2021 (\$3.8 million in fiscal year 2021 compared to \$5.1 million in fiscal year 2020) as a result of a decrease in the interest rate in cash balances.

*Capital and Operating Grants*

Capital and operating grants are funds assigned by other governmental entities such as the FHWA, the FTA, and the Commonwealth to the Authority for, among other things, the construction of specific projects, rehabilitation and/or preservation of infrastructure or roads and bridges, and for the operations and maintenance of the Tren Urbano. Capital and operating grants from the U.S. federal government amounted to approximately \$234.2 million during fiscal year 2021. Capital grants from the Commonwealth amounted to \$183.5 million for infrastructure repairs.

*Operating Expenses and Capital Expenditures*

The following table sets forth the annual operation and maintenance expenses paid by the Authority:

<b>HIGHWAY FACILITIES OPERATION AND MAINTENANCE EXPENSES (\$ in thousands)</b>				
<b>Fiscal Year Ended June 30</b>	<b>Contribution of the Authority to the Department</b>	<b>Toll Highway Operation &amp; Maintenance</b>	<b>Electronic Toll Collection</b>	<b>Total (1)</b>
2017	-	20,499	21,774	42,273
2018	-	18,562	17,741	36,303
2019	-	24,027	17,137	41,164
2020	-	11,211	14,101	25,312
2021	-	19,681	15,250	34,931

(1) Total does not include the contributions of the Authority to the Department.

*TrenUrbano*

TrenUrbano operates every day in the San Juan Metropolitan area from 5:30 AM to 11:30 PM, with extended services hours for special events at important venues, including, among others, the Coliseum of Puerto Rico, the Rubén Rodríguez Coliseum, and the Fiestas de la Calle de San Sebastian.

At the end of April 2010, the one-way fare for TrenUrbano was reduced from \$1.50 to \$0.75 as a consequence of the establishment of uniform fares for TrenUrbano and the Puerto Rico Metropolitan Bus Authority’s buses. The \$1.50 original fare was reinstated in October 2014.

TrenUrbano transported 7,162,807 passengers during its first operational year. TrenUrbano’s use decreased to 1,649,951 passengers in fiscal year 2021, as compared to 1,137,544 passengers in fiscal year 2020.

Effective July 1, 2017, the Authority entered into a new contract with ACI-Herzog for the purpose of operating and maintaining TrenUrbano. This contract expires on June 30, 2032, with an option to extend the term for an additional two periods of not less than 5 years. In no event shall the term exceed 25 years. Compensation for ACI-Herzog is based on a schedule included in this contract.

The Authority is part of the bus system in the San Juan metropolitan area, offering 8 of the 32 routes that currently comprise it. Those 8 routes are operated under a contract with the First Transit company and the remaining 24 are operated by the Metropolitan Bus Authority.

The routes operated by the Authority have, as their main objective, to complement and extend the coverage area of the TrenUrbano (“TU”) system. The eight routes are broken down into three systems:

The three components that serve as feeders to TrenUrbano include:

- Metrobus. Metrobus offers an extension of service to the TU with buses from the Sagrado Corazón station to old San Juan along two routes. Route T3 with a trajectory along Ponce de Leon Avenue and a travel itinerary in 7 days. The E10 route operates an express route with a travel offer Monday to Friday. This system has 13 Gillig vehicles from 2009 for its operation.
- Metro Urbano. Metro Urbano offers an extension with a Bus Rapid Transit services to the TU with two bus routes from The E20 route operates between Bayamón station to Toa Baja in an express route via PR22 with a travel offer Monday to Friday. And the E30 route operates between Cupey station to Caguas in an express route via PR 52 with a travel offer Monday to Sunday. This system has 10 NABI vehicles from 2012 for its operation.
- TU Conexión. TU Conexión offers a feeding service to the TU with four routes, three operated from the Sagrado Corazón station and one from the Piñero station. Those operated from the Sagrado Corazón include (i) route C22 that offers service to the Hiram Bithorn stadium, (ii) route C35 that runs through the Santurce area to the Convention Center, and (iii) route C36 that offers service to the northern area of Santurce up to the Luis Llorens Torres residential complex. These three routes offer trips Monday to Friday. The fourth route of this system is the E40 with a daily operation and an express route from the Piñero station to the Luis Muñoz Marín Airport. This system has 14 Ford / Glaval vehicles from 2012 for its operation. Under the current operating contract, the paratransit service is offered on Sundays. This service is a complementary service to the bus routes for disabled people and regulated by the federal government. From Monday to Saturday the paratransit service is operated by AMA.

The seven routes carry an average of 86,040 passengers per month.

The direct costs of operating TrenUrbano, Metrobus, Metro Urbano and TU Conexión are shown in the table below and do not include the Authority's estimated cost of insurance, electricity and oversight.

Fiscal Year	Actual & Projected Metrobus	Actual & Projected Tren Urbano Alternate Concept Inc.	Projected TU Conexión	Projected Metro Urbano	Estimated Annual Operating and Maintenance Expenses Metrobus, TU, TU Conexión & Metro Urbano
2016-2017	\$11,950	\$53,000	\$2,000	\$476	<b>\$67,426</b>
2017-2018	\$11,367	\$49,355	\$1,513	\$597	<b>\$62,832</b>
2018-2019	\$6,717	\$50,996	\$1,666	\$764	<b>\$60,143</b>
2019-2020	\$7,117	\$63,584	\$1,500	\$503	<b>\$72,704</b>
2020-2021	\$7,813	\$70,552	\$1,781	\$503	<b>\$80,649</b>
<b>Total</b>	<b>\$44,964</b>	<b>\$287,487</b>	<b>\$8,460</b>	<b>\$2,843</b>	<b>\$343,754</b>

### *Construction Improvement Program (“CIP”)*

The Authority has developed a master plan to serve as the basis for the long-range planning of Puerto Rico’s transportation systems, which it supplements, as necessary. To implement the plan, the Authority prepares a five-year CIP, which is updated periodically. The CIP includes the cost of repairs, rehabilitations, and replacements of the highways and roads, including bridges, plans for dealing with urban congestion and local improvements, and certain capitalized expenditures.

In the five-year period from fiscal year 2022 through fiscal year 2026 the Authority expects to expend approximately \$2.5 billion on construction projects included in the CIP. The CIP is designed to address the transportation needs of the people of Puerto Rico and to enhance economic development. Projects include new highway construction, a dynamic toll lane from Caguas to San Juan, bridge replacements, bicycle and scenic lanes, preservation projects, and construction improvements designed to alleviate the traffic congestion throughout Puerto Rico.

### **Debt**

As of the date the 2021 financial statements were issued, the Authority is still subject to a pending Title III case under PROMESA and debt service for its bond series continues to be stayed. However, on May 5, 2021, the Authority executed the HTA/CCDA Related Plan Support (the “HTA/CCDA PSA”), which contemplates a resolution of the Authority’s Title III case, as discussed below.

At present, the bonds are expected to begin amortization during fiscal year 2022-2023. Therefore, a current portion presentation is not required. As of the date these financial statements were issued, no amortization tables had been prepared. If the Authority is able to privatize the toll roads not previously privatized, the proceeds of the privatization will be used to defray these liabilities. In the event the Authority is not able to privatize the toll roads, based on the Authority’s approved Certified Fiscal Plan’s projections, the Authority

may lack sufficient resources to settle these bonds as they become due, without additional financial support of the Commonwealth. Therefore, the historic information of the bonds, as presented in this note is substantially stale, and should only be read for informative purposes only.

The Bond Resolutions historically authorized the Authority to issue revenue bonds to raise funds for the construction and related costs of transportation facilities. As of June 30, 2021, bonds outstanding under the Bond Resolutions, were as follows:

	<u>Balance at June 30, 2021</u>	<u>Balance at June 30, 2020</u>	<u>Balance at June 30, 2019</u>
<b>Serial bonds</b>			
Resolution 1968-18	\$ 396,389,997	\$ 396,389,997	\$ 396,389,997
Resolution 1998-06	<u>1,186,895,000</u>	<u>1,186,895,000</u>	<u>1,186,895,000</u>
Total	<u>1,583,284,997</u>	<u>1,583,284,997</u>	<u>1,583,284,997</u>
<b>Term bonds</b>			
Resolution 1968-18	393,095,000	393,095,000	393,095,000
Resolution 1998-06	<u>1,842,045,000</u>	<u>1,842,045,000</u>	<u>1,842,045,000</u>
Total	<u>2,235,140,000</u>	<u>2,235,140,000</u>	<u>2,235,140,000</u>
<b>Variable rate bonds</b>			
Resolution 1998-06	<u>200,000,000</u>	<u>200,000,000</u>	<u>200,000,000</u>
<b>CPI based interest-rate bonds</b>			
Resolution 1998-06	<u>57,965,000</u>	<u>57,965,000</u>	<u>57,965,000</u>
<b>LIBOR based interest-rate bonds</b>			
Resolution 1998-06	<u>700,000</u>	<u>700,000</u>	<u>700,000</u>
<b>Capital appreciation bonds</b>			
Resolution 1968-18	32,079,630	30,662,498	29,307,885
Resolution 1998-06	<u>81,264,404</u>	<u>81,264,404</u>	<u>80,354,986</u>
Total	<u>113,344,034</u>	<u>111,926,902</u>	<u>109,662,871</u>
Total before bond premium	4,190,434,031	4,189,016,899	4,186,752,868
Add net bond premium	<u>182,147,385</u>	<u>195,092,776</u>	<u>208,908,396</u>
Total bonds outstanding:	<u>\$ 4,372,581,416</u>	<u>\$ 4,384,109,675</u>	<u>\$ 4,395,661,264</u>

For variable interest-rate bonds included above, the debt service requirements were computed assuming current interest rates remain the same for their remaining term. As rates vary, variable-rate bond interest payments will vary.

The conditional allocation of gasoline, oil, diesel, and petroleum taxes to the Authority for repayment of the Bonds will no longer be made as the statutes that authorized such allocations have been preempted by the Commonwealth Plan of Adjustment and such conditional allocation discharged.

The variable rate bonds bear interest at an annual rate of interest (not to exceed the maximum legal rate) as determined by the remarking agent on and as of the rate determination

date. This rate will be, in the judgment of the remarking agent under existing current market conditions, the rate that would result in the sale of the outstanding variable interest bonds at a price equal to the purchase price as defined in the bond offering. The effective rate of these bonds was 12%, as of June 30, 2021.

The Series N LIBOR Bonds bear interest from their date of delivery at a per annum rate for each period equal to (a) 67% of the Three-Month LIBOR Rate for such period plus (b) a per annum spread equal to 0.53%. In each case the LIBOR based interest rate cannot exceed the maximum rate permitted under Puerto Rico law (currently 12%). The effective rate on these bonds was 1.64% as of June 30, 2021.

Interest on the Consumer Price Index (CPI) Bonds were to be paid on the first business day of each month commencing on July 2, 2007. The CPI Rate, which will be reset monthly, is an interest rate based on changes in the CPI and cannot exceed the maximum rate permitted under the Puerto Rico law (currently 12%). The effective rate on these bonds was 3.17% as of June 30, 2021.

The Authority's bonds payable are subject to arbitrage regulations issued by the Internal Revenue Service of the United States of America, which require the payment of a rebate to the United States federal government of excess investments earnings on tax-exempt debt proceeds if the yield on those earnings exceeds the effective yield on the related tax-exempt debt issued. Excess earnings must be rebated every five years or upon maturity of the debt, whichever is earlier. Arbitrage calculations resulted in no liability as of June 30, 2021.

### **Bonds defaults**

Upon the filing for relief under PROMESA Title III, through June 30, 2021, the Authority stayed all debt service, other than the Teodoro Moscoso bonds. However, payments under bonds covered by monoline insurance may have been paid by such insurers.

Fiscal Year Ended June 30,	Total defaults still outstanding	Subrogated monoline insurance company	Total defaults not subrogated by insurance
<b>2017</b>			
Principal	\$ 3,110,000	\$ 3,110,000	\$ -
Interest	2,509,625	245,125	2,264,500
<b>2018</b>			
Principal	122,885,000	107,805,000	15,080,000
Interest	247,524,261	112,581,380	134,942,881
<b>2019</b>			
Principal	128,035,000	112,235,000	15,800,000
Interest	242,089,354	119,320,846	122,768,508
<b>2020</b>			
Principal	127,101,793	72,745,000	54,356,793
Interest	241,459,632	113,186,409	128,273,223
<b>2021</b>			
Principal	130,568,151	58,260,000	72,308,151
Interest	220,195,928	90,567,163	129,628,765
<b>Total</b>	<u>\$ 1,465,478,744</u>	<u>\$ 790,055,923</u>	<u>\$ 675,422,821</u>

The debt service requirements not paid as referred to in the previous paragraph are insured by different insurance companies; Ambac Assurance Corporation ("Ambac"), Financial Guaranty Insurance Company ("FGIC"), Assured Guaranty Insurance ("Assured"), MBIA Inc. ("MBIA"), AAC Insurance Group ("AAC") and CDC IXIS Financial Guaranty North America, Inc. ("CIFG N/A"). Ambac, Assured, MBIA and AAC have been covering their share of the debt service requirements on the bonds series covered by their corresponding insurance policies. FGIC has been subject to a Rehabilitation Plan and has been paying their corresponding portions based on an established percentage of debt service that has ranged from 25% in fiscal year 2017 to 38.5% through October 13, 2019. Beginning on October 13, 2019, the debt service percentage coverage is 43.5%. However, the amount paid by FGIC is not fully disclosed to the Authority's trustee. Even though these insurance companies have been paying principal and interest on such bonds, such payments do not constitute a reduction in the Authority's debt. Upon insurance companies' payments, they become the owner of the surrendered Bond Obligations and are fully subrogated to all the Bondholder Rights to payments.

## SUBSEQUENT EVENTS

### Bond Payment Defaults

Without the taxes and other revenues conditionally allocated by the Commonwealth, the Authority has been unable to make the scheduled payments on its outstanding bonds as explained below:

<b>Fiscal Year Ended June 30,</b>	<b>Total defaults still outstanding</b>	<b>Subrogated monoline insurance company payments</b>	<b>Total defaults not subrogated by insurance</b>
<b>2022</b>			
Principal	\$ 145,493,895	\$ 50,820,000	\$ 94,673,895
Interest	181,882,019	86,707,190	95,174,829
<b>Total</b>	<b>\$ 327,375,914</b>	<b>\$ 137,527,190</b>	<b>\$ 189,848,724</b>

### Status of Federal Disaster Relief Funds

The Commonwealth continues to coordinate relief and funding efforts to address the natural disasters that have affected Puerto Rico in recent years, including the continued recovery following Hurricanes Irma and Maria and the earthquakes that impacted (and continue to impact) the southern and southwestern part of Puerto Rico. As of March 24, 2022, approximately \$78.5 billion has been appropriated by the United States Congress to Puerto Rico for disaster relief and recovery efforts. Of this amount, approximately \$65.7 billion has been committed by federal agencies for distribution and \$22.9 billion has been disbursed. Of the amounts obligated and disbursed, Federal Emergency Management Agency (FEMA) has approved approximately \$37.6 billion and disbursed approximately \$14.9 billion of the total amounts detailed above. The use of these funds is detailed by the Commonwealth on the COR3 website and can be accessed: <https://recovery.pr/en>.

### Federal Funds held in GDB

The Authority became aware upon the fact that some of the Authority's funds that became impaired due to the insolvency of the GDB were actually federal funds. The GDB's restructuring under Title VI was specifically structured to not impair federal funds. In addition, the Confirmation Order, as issued by the court, confirms that no such funds were impaired, so the offset should not have legally been deemed not to apply to these federal funds and as a result, they should be restored. The Authority, with the support of FHWA, is actively seeking restitution of these deposits from the Commonwealth. The amounts of federal funding to be restituted amount to approximately \$16 million. The recognition of this contingent gain will be recognized upon realization.

## **Confirmation of the Commonwealth Plan of Adjustment**

On July 30, 2021, the Oversight Board—as representative to the Commonwealth, ERS, and PBA in their respective Title III cases—filed its Seventh Amended Title III Joint Plan of Adjustment of the Commonwealth of Puerto Rico, et al. [ECF No. 17629] (the Seventh Amended Plan) and a corrected disclosure statement related thereto [ECF No. 17628] (the Seventh Amended Disclosure Statement).

On November 3, 2021, the Oversight Board filed its Modified Eighth Amended Title III Joint Plan of Adjustment of the Commonwealth of Puerto Rico, et al. [ECF No. 19053] (the Eighth Amended Plan), which further revised the Seventh Amended Plan to eliminate monthly pension cut provisions, among other things. The hearing to consider confirmation of the Eighth Amended Plan commenced on November 8, 2021 and concluded on November 23, 2021. The final modified version of the Eighth Amended Plan was filed on January 14, 2022 [ECF No. 19813-1] (the Commonwealth Plan of Adjustment).

On January 18, 2022, the Title III Court entered its findings of fact and conclusions of law in connection with the Commonwealth Plan of Adjustment [ECF No. 19812] (the Findings of Fact) and an order confirming the Commonwealth Plan of Adjustment [ECF No. 19813] (the Commonwealth Confirmation Order). On March 15, 2022 (the 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 Effective Date, the Commonwealth Plan of Adjustment reduced the Commonwealth's total debt from approximately \$34.3 billion of prepetition debt to only 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 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 are deemed preempted, and the Commonwealth has no obligation to transfer additional amounts pursuant to those laws. Importantly, executing the Commonwealth Plan of Adjustment provides an opportunity for Puerto Rico to access the credit markets and develop balanced annual budgets.

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

Municipal governments typically issue amortizing debt—i.e., debt with principal maturities due on a regularly scheduled basis over a duration that varies generally between 20 and 40 years. The Commonwealth’s New GO Bonds will mature over 25 years and will include both Capital Appreciation Bonds (CABs) and Current Interest Bonds (CIBs). All of the CABs and CIBs will have term bonds with mandatory sinking fund payments. This is intended to optimize cash available to pay debt service since the municipal market has a yield curve, and bonds are not priced to the average life as is the case in other markets, because specific investors may purchase bonds in differing parts of the maturity curve, including individual investors, corporations and mutual funds.

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 will be 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 dated as of, and will accrue or accrete interest from March 15, 2022, which is the Commonwealth Plan of Adjustment’s Effective Date.

The Commonwealth Plan of Adjustment also provides for 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 Eighth Amended Plan are 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 will be deemed issued on July 1, 2021.

The CVIs are also divided into two categories: (i) GO CVIs and (ii) Clawback CVIs. The GO CVIs will be allocated to various GO bondholder claims and the Clawback CVIs will be allocated to claims related to the Authority, CCDA, 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, with each receiving the following aggregate recoveries:

- 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 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.

The Commonwealth Plan of Adjustment preserves all accrued pension benefits for active and retired public employees under Class 51. However, JRS and TRS participants will be subject to benefits freeze and the elimination of any cost of living adjustments previously authorized under the JRS and TRS pension plans.

For further information, refer to the final versions of the Commonwealth Plan of Adjustment, Findings of Fact, and Confirmation Order, which are available at <https://cases.primeclerk.com/puertorico/Home-DocketInfo>.

### **The HTA/CCDA Plan Support Agreement and Proposed HTA Plan of Adjustment**

On May 5, 2021, the Oversight Board, as representative of the Commonwealth and the Authority in their Title III Cases, entered into the HTA/CCDA PSA with certain holders of in excess of \$2 billion of claims against the Authority, including more than 85% of HTA 1968 Bonds and nearly 50% of HTA 1998 Senior Bonds, which include traditional municipal

investors and monoline bond insurers Assured Guaranty Corp. and National Public Finance Guarantee Corporation, on the framework for the Commonwealth Plan of Adjustment and an HTA Plan of Adjustment to resolve, among other things, asserted “clawback claims” against the Commonwealth and the issuance of certain contingent value instruments based on potential outperformance of Puerto Rico’s 5.5% Sales and Use Tax relative to projections in the Commonwealth’s certified fiscal plan, as explained further in the HTA/CCDA PSA. As of the date these financial statements were issued, changes continued to be made to the PSA. The latest change is dated July 30, 2021.

The HTA/CCDA PSA and the Commonwealth Plan of Adjustment provide that, among other things, that within 10 business days after the satisfaction of certain “HTA Distribution Conditions,” including agreement on the terms of the HTA Plan of Adjustment, the Authority must make cash payments in the total aggregate amount of \$264 million to holders of HTA bonds, as follows: (i) \$184.8 million to holders of HTA 68 Bonds; and (ii) \$79.2 million to holders of HTA 98 Senior Bonds. In addition, the HTA/CCDA PSA requires the Authority to pay certain creditor parties an HTA Restriction Fee in exchange for their execution of the HTA/CCDA PSA in an amount not to exceed \$125 million, less any Consummation Costs (as defined in the HTA/CCDA PSA).

On February 22, 2022, the Oversight Board certified its fiscal plan for the Authority, which provides that the Commonwealth will provide the Authority with a one-time loan to the Authority for fiscal year 2022 in the amount of \$314 million to implement the Authority’s cash payment obligations under the Commonwealth Plan of Adjustment and additional payments under the HTA/CCDA PSA that will be implemented as part of the HTA Plan of Adjustment. The Authority will also use funds held by the trustee for those purposes, as required. The Oversight Board also certified a modified General Budget of Expenses of the Government of Puerto Rico for Fiscal Year 2022 on February 21, 2022 that, among other things, authorized the Secretary of Treasury to make one or more loans to the Authority to satisfy the Authority’s payment obligations under the Commonwealth Plan of Adjustment and Commonwealth Confirmation Order. As of the date hereof, the Oversight Board, Commonwealth, and the Authority are currently negotiating the terms of a \$314 million loan from the Commonwealth to the Authority for the cash payment obligations of the Authority under the Commonwealth Plan of Adjustment and the HTA Plan of Adjustment. In addition, the Board is currently negotiating and finalizing the terms of an HTA Plan of Adjustment that has not yet been filed with the Title III Court but is expected to be filed soon so that it can be confirmed before the end of calendar year 2022.