



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

Additional / Voluntary Event-Based Disclosure

THIS FILING RELATES TO A SINGLE BOND ISSUE:

Issuer's Name: _____

Name of bond issue: _____

Nine-digit CUSIP number(s): _____

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 Industrial Development Company (PRIDCO)

Other Obligated Person's Name (if any): _____

Nine-digit CUSIP number(s): 745211LA8, 745211LG5, 745211LH3, 745211LJ9, 745211LL4

TYPE OF INFORMATION PROVIDED:

- A. Amendment to Continuing Disclosure Undertaking
- B. Change in Obligated Person
- C. Notice to Investor Pursuant to Bond Documents
- D. Communication from the Internal Revenue Service
- E. Bid for Auction Rate and Other Securities
- F. Capital or Other Financing Plan
- G. Litigation / Enforcement Action
- H. Change of Tender Agent, Remarketing Agent or Other On-going Party
- I. Derivative or Other Similar Transaction
- J. Other Event-Based Disclosures: PRIDCO Solicitation Statement

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

/s/ Luis R. Rivera Cruz

Luis R. Rivera Cruz
Puerto Rico Fiscal Agency and Financial Advisory Authority,
as Fiscal Agent for PRIDCO

Dated: October 26, 2023

SOLICITATION STATEMENT
SOLICITATION OF QUALIFYING MODIFICATION IN RESPECT OF
GENERAL PURPOSE REVENUE BONDS, SERIES 2003,
REFUNDING REVENUE BONDS, SERIES 2003,
GENERAL PURPOSE REVENUE BONDS, SERIES 1997 A,
AND
REFUNDING REVENUE BONDS, SERIES 1997 A

IN EACH CASE, OF

PUERTO RICO INDUSTRIAL DEVELOPMENT COMPANY (HEREIN, “PRIDCO” OR THE “ISSUER”)

THIS SOLICITATION STATEMENT IS IMPORTANT AND NEEDS YOUR IMMEDIATE ATTENTION.

This Solicitation will expire at 5:00 P.M., Eastern Standard Time, on November 24, 2023, unless such time or date is extended by PRIDCO (such time and date, as the same may be extended, the “Voting Deadline”). Votes may be withdrawn at any time prior to the Voting Deadline.

Upon the terms and subject to the conditions set forth in this Solicitation Statement (as defined herein), PRIDCO is soliciting votes (the “Solicitation”) from Eligible Voters (as defined herein) to approve the qualifying modification described in “The Qualifying Modification” in this Solicitation Statement (such qualifying modification as so certified by the Financial Oversight and Management Board for Puerto Rico (the “Oversight Board”) as the Title VI Administrative Supervisor (the “Administrative Supervisor”) under Section 601(g)(2) of PROMESA (as defined herein), the “Qualifying Modification”) pursuant to Title VI of PROMESA. Capitalized terms used but not otherwise defined herein have the meaning ascribed to them in the attached Qualifying Modification.

Only Eligible Voters (as defined herein) as of the Voting Deadline are entitled to vote in this Solicitation to approve or reject the Qualifying Modification. Eligible Voters must use the Automated Tender Offer Program (“ATOP”) at The Depository Trust Company (“DTC”) to submit their votes related to their Participating Bond Claims (as defined herein). The ATOP system requires that any holder that seeks to vote must instruct their Nominee to tender the holder’s Participating Bonds (as defined herein) through the ATOP system. This mechanism obviates the need for a voting record date through ATOP, as only current holders of the Participating Bonds can cause them to be tendered for voting or election purposes on or before the Voting Deadline. All beneficial owners of Participating Bond Claims as of the time of tender into ATOP (each, an “Eligible Voter” and, collectively, the “Eligible Voters” or “you”) are entitled to vote in this Solicitation to approve or reject the Qualifying Modification. Your vote is important regardless of the amount of Participating Bond Claims that you hold. For additional information on the qualifications to be an Eligible Voter, see “Principal Terms of this Solicitation—Eligible Voters” in this Solicitation Statement.

This Solicitation is being conducted to utilize the provisions of Title VI of PROMESA to effectuate the cancellation of the Participating Bonds and all rights in respect thereof and distribute to holders of Participating Bonds their pro rata share of (i) \$30,000,000.00 of cash (the “PRIDCO Cash Portion”), and (ii) the New Bonds (as defined herein) in the face amount of \$159,628,000.00* (collectively (i) and (ii), the “PRIDCO Distribution”).

If the Qualifying Modification is approved pursuant to this Solicitation and the other conditions to its consummation are satisfied (such date, the “PRIDCO Effective Date”), the consummation of the Qualifying Modification will result in all Participating Bond Claims, whether or not the holders thereof have voted in this Solicitation to approve the Qualifying Modification, being cancelled and the holders thereof being entitled to the PRIDCO Distribution. For additional information on the Qualifying Modification, including the consideration to be distributed in the Qualifying Modification, see “The Qualifying Modification” in this Solicitation Statement. This Solicitation Statement is only applicable to, and votes to approve or reject the Qualifying Modification are only being solicited from, Eligible Voters. This Solicitation Statement is subject in all respects to the terms of the Qualifying Modification and PROMESA. The views expressed in this Solicitation Statement are not necessarily shared by the Eligible Voters and may not be attributed to such Eligible Voters, including those who have voted to approve the Qualifying Modification.

Eligible Voters entitled to vote over two-thirds (2/3) of the Participating Bond Claims have already agreed to vote to approve the Qualifying Modification, subject to certain terms and conditions contained in the Restructuring Support Agreement (as defined herein). For additional information on the Restructuring Support Agreement, see “Principal Terms of this Solicitation—The Restructuring Support Agreement” in this Solicitation Statement.

This Solicitation, the Qualifying Modification, and the issuance of the New Bonds involve risks. Prior to voting to approve or reject the Qualifying Modification, you should carefully read the entire Solicitation Statement, and all exhibits, appendices and attachments to each and consult with your legal, financial and tax advisors to analyze the terms and risks of this Solicitation and the Qualifying Modification. For additional information on certain of the risks relating to this Solicitation, see “Risk Factors” in this Solicitation Statement.

The date of this Solicitation Statement is October 25, 2023.

* Projected through December 31, 2023 and subject to change pending final reconciliation.

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IMPORTANT INFORMATION

This Solicitation Statement describes the specific terms of this Solicitation, the form of Qualifying Modification attached hereto as Exhibit A and other matters relating thereto. You should read this Solicitation Statement and all exhibits, appendices and attachments hereto, including the Qualifying Modification, in full before making any decision with respect to this Solicitation and/or voting on the Qualifying Modification. Unless otherwise indicated, references to the “Solicitation Statement” in this document refer collectively to this Solicitation Statement and all exhibits, appendices and attachments to each, in each case as may be supplemented or amended from time to time.

You are solely responsible for making your own independent appraisal of all matters that you deem appropriate in evaluating this Solicitation and determining whether to vote to approve or reject the Qualifying Modification. You should not construe the contents of this Solicitation Statement as investment, legal or tax advice. You should consult your own legal, financial and tax advisors regarding the effect of this Solicitation and the Qualifying Modification on you.

None of the Commonwealth of Puerto Rico (the “Commonwealth”), PRIDCO, AAFAF, the Administrative Supervisor, the Calculation Agent, the Information Agent, the Existing Trustee, the New Bonds Trustee or their agents or affiliates, or any holder of Participating Bond Claims makes any recommendation as to whether or not you should tender a vote into ATOP pursuant to this Solicitation or vote to approve or reject the Qualifying Modification.

To the best of PRIDCO’s knowledge, the information contained in this Solicitation Statement is accurate and complete as of the date hereof. The information contained or incorporated by reference in this Solicitation Statement may only be accurate as of the date hereof or the dates of the documents incorporated by reference herein. The financial information with respect to PRIDCO in this Solicitation Statement has not been audited unless such financial information is specifically noted as having been audited and is based solely on analysis of data available to PRIDCO at the time of the preparation of this Solicitation Statement.

The delivery of this Solicitation Statement will not, under any circumstances, create any implication that the information contained in this Solicitation Statement is current as of any time subsequent to the date of such information or that there has been no change in the information set out in it or in the affairs of PRIDCO since the date of this Solicitation Statement; provided that up to and

including the Voting Deadline, PRIDCO will supplement this Solicitation Statement only if necessary so that the information contained herein, considered as a whole, does not contain an untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made herein, in light of the circumstances under which they were made, not misleading. In particular, the most recent audited financial statements prepared by PRIDCO are for FY2022 and the PRIDCO Fiscal Plan (as defined below) was certified as of May 26, 2023. As a result, this Solicitation Statement does not include more recent audited financial information related to PRIDCO and the information contained in such financial statements and the PRIDCO Fiscal Plan should not be viewed as current. Further, the New Bonds Indenture (as defined below) attached hereto as Exhibit D is a form only and as such and pursuant to the Restructuring Support Agreement, is subject to change between the date of this Solicitation Statement and the PRIDCO Effective Date upon the agreement of the parties to the Restructuring Support Agreement on the terms set forth therein, including the definition and list of Trusteed Properties contained in the New Bonds Indenture. Such revision or amendment shall not require the approval of any other party. See “*Risk Factors—Risks Relating to the Issuance of the New Bonds—The terms of the New Bonds (including the definition of Trusteed Properties contained within the New Bonds Indenture) are subject to change.*”

WHERE YOU CAN FIND MORE INFORMATION

Certain statements contained in this Solicitation Statement are modified by the documents attached as exhibits hereto, which exhibits refer to certain documents that are deemed to be incorporated by reference therein. The information that PRIDCO incorporates by reference is considered to be part of this Solicitation Statement. Any statement contained in this Solicitation Statement or in a document (or part thereof) incorporated or considered to be incorporated by reference into this Solicitation Statement will be considered to be modified or superseded for purposes of this Solicitation Statement to the extent that a statement contained in this Solicitation Statement or in any other subsequently filed document (or part thereof) that is or is considered to be incorporated by reference in this Solicitation Statement modifies or supersedes that statement. The modifying or superseding statement need not state that it has modified or superseded a prior statement or include any other information set forth in the document that it modifies or supersedes. Any statement so modified or superseded will not be considered, except as so modified or superseded, to constitute part of this Solicitation Statement. Unless expressly stated herein, the information contained on each of PRIDCO’s, the Commonwealth’s, AAFAF’s and the Oversight Board’s websites is not incorporated by reference into this Solicitation Statement, and you should not consider such information to be part of this Solicitation Statement. Along with this Solicitation Statement, you are being sent, or will be sent, in electronic or physical form, the remainder of the documents in the Solicitation package. Copies of each of the documents referenced herein or incorporated by reference into this Solicitation Statement may be obtained at no cost by contacting the Information Agent, whose address and telephone numbers are listed on the back cover of this Solicitation Statement.

CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING STATEMENTS

Certain statements contained in this Solicitation Statement and the documents incorporated by reference herein are not descriptions of historical facts but instead are forecasts, hypotheticals and “forward-looking statements.” These statements are based upon a number of assumptions and estimates that are subject to significant uncertainties, many of which are beyond the control of PRIDCO, including those risks identified in “*Risk Factors*” in this Solicitation Statement. In this respect, the words “may,” “will,” “could,” “continue,” “estimates,” “projects,” “anticipates,” “expects,” “intends,” “believes” and similar expressions are intended to identify forward-looking statements. All projections, forecasts, assumptions, expressions of opinions, estimates and other forward-looking statements are expressly qualified in their entirety by this cautionary statement: actual results may differ materially from those expressed or implied by forward-looking statements. PRIDCO cannot assure you that any forward-looking statements will prove to be correct. PRIDCO is under no obligation to (and expressly disclaims any obligation to) update or alter any forward-looking statements whether as a result of new information, future events or otherwise, except as required by law.

DISCLAIMERS

This Solicitation Statement does not constitute an offer or an invitation to participate in this Solicitation in any jurisdiction in or from which, or to or from any person to or from whom, it is unlawful to make such offer or invitation under applicable securities laws. The distribution of this Solicitation Statement in certain jurisdictions may be restricted by law. Persons into whose possession this Solicitation Statement comes are required to inform themselves about, and to observe, any such restrictions.

If the Requisite Approvals are received to approve the Qualifying Modification and certain other conditions precedent described herein are satisfied, all Participating Bond Claims, whether or not the holders thereof have voted in this Solicitation to approve the Qualifying Modification, will be cancelled and the holders thereof will be entitled only to the PRIDCO Distribution.

No dealer, broker, salesperson or other person has been authorized to give any information or to make any representation, other than the information and representations contained in this Solicitation Statement, and, if given or made, such information or representations must not be relied upon as having been authorized. **No federal or state securities commission or regulatory authority (including the Oversight Board) has confirmed the accuracy or determined the adequacy of this Solicitation Statement. Any representation to the contrary is a criminal offense.**

APPLICABILITY OF CERTAIN FEDERAL AND STATE SECURITIES LAWS

Registration of Securities

The New Bonds are exempt from the registration requirements of the Securities Act of 1933, as amended (the “Securities Act”), under section 3(a)(2) of the Securities Act.

Like the exemption from registration provided under section 3(a)(2) of the Securities Act, generally applicable securities laws provide an exemption from qualification for certain trust indentures entered into by governmental entities. Therefore, each trust indenture, ordinance, resolution and other written actions of PRIDCO relating to the New Bonds will be exempt from qualification under section 304(a)(4) of the TIA.

State securities laws generally provide registration exemptions for subsequent transfers by a bona fide owner for the owner's own account and subsequent transfers to institutional or accredited investors. Such exemptions generally are expected to be available for subsequent transfers of the New Bonds.

Market Disclosure

Although exempt from registration, securities issued by PRIDCO are subject to the anti-fraud provisions of federal securities laws. Sections 10(b) and 17(a) of the Securities Exchange Act of 1934 (the “Exchange Act”) and Rule 10b-5 promulgated by the SEC under the Exchange Act generally prohibit fraud in the purchase and sale of securities. Therefore, each publicly offered sale of a public entity's obligations typically is accompanied by an offering document that is referred to as an “Offering Memorandum” and contains disclosure of material information regarding the issuer and the securities being sold so that investors may make an informed investment decision as to whether to purchase the securities being offered. This Solicitation Statement is deemed to be such an “Offering Memorandum.”

Publicly offered securities of PRIDCO generally are subject to the requirements of Rule 15c2-12 under the Exchange Act (the “Rule”), unless such securities meet certain exemptions provided for in the Rule. Among other requirements, the Rule requires underwriters participating in an offering to obtain an agreement imposing ongoing market disclosure requirements upon an issue of municipal securities, such as PRIDCO. The delivery of the New Bonds pursuant to the Qualifying Modification is not covered by the Rule because the New Bonds are proposed to be issued in exchange for a claimholder's Participating Bond Claim without the involvement of an underwriter as defined in the Rule. Nonetheless, PRIDCO has agreed to make customary market disclosures pursuant to the Reporting Agreement (as defined herein).

SUMMARY

The summary below contains selected information from this Solicitation Statement. It does not contain all of the information that may be important to you before tendering a vote into ATOP. For a more complete understanding of this Solicitation and the Qualifying Modification, we urge you to read the entire Solicitation Statement carefully.

Overview

The purpose of this Solicitation is to seek votes from certain of PRIDCO's creditors to approve the Qualifying Modification. The Puerto Rico Fiscal Agency and Financial Advisory Authority ("AAFAF"), as Fiscal Agent, and the Oversight Board, in its capacity as Administrative Supervisor under Title VI of PROMESA, negotiated with certain creditors the terms of the restructuring that are embodied in the Qualifying Modification to provide for recoveries for holders of Participating Bond Claims, subject to the court approval of the Qualifying Modification. Under Title VI of PROMESA, PRIDCO is required to solicit votes from all Eligible Voters whose Participating Bond Claims will be impacted by the Qualifying Modification.

If the Qualifying Modification is approved pursuant to this Solicitation and the other conditions to its consummation are satisfied, including court approval of the Qualifying Modification, all Participating Bond Claims, whether or not the holders thereof have voted in this Solicitation to approve the Qualifying Modification, will be cancelled and the holders thereof will be entitled only to the PRIDCO Distribution. In addition, upon the tender of your Participating Bonds into DTC's ATOP (and without a valid withdrawal), such Participating Bonds will be restricted from trading through the Voting Deadline, or as soon as practicable thereafter.

The following summary is intended to provide an overview of certain information and does not contain all of the information that may be important to you before tendering a vote into ATOP.

PRIDCO, THE ISSUES LEADING TO THIS SOLICITATION, AND THE QUALIFYING MODIFICATION

Overview of PRIDCO

PRIDCO, a public corporation under the Puerto Rico Department of Economic Development and Commerce ("DDEC"), was created pursuant to Act No. 188 of the Legislature of Puerto Rico, approved May 11, 1942, as amended ("Act No. 188"), to foster economic development in Puerto Rico by attracting investment and job creation in a variety of industries, including manufacturing, information technology, and life sciences, through a portfolio of buildings, facilities, and properties.

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

PRIDCO's real estate activity complements the incentives DDEC offers to attract companies to base operations in Puerto Rico by providing access to a large inventory of industrial properties at affordable rental rates, as well as providing assistance with property planning and permitting. PRIDCO also provides build-to-suit properties for strategic projects.

PRIDCO's powers are vested in and exercised by a board of directors. Pursuant to Act No. 188, PRIDCO's board of directors shall consist of seven members. The Secretary of DDEC, the Secretary of the Treasury, the Executive Director of AAFAF, and the President of the Planning Board are each ex-officio members. The remaining three members are appointed by the Governor of Puerto Rico and confirmed by the Senate of Puerto Rico for terms of four years.

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

As of April 30, 2023, PRIDCO had \$95.3 million in total cash reported, of which \$76.0 million is deemed to be unrestricted and available for PRIDCO operations. Certain funds are classified as restricted, including FEMA funds, tenant deposits, and incentive funds (unrelated to PRIDCO operations).

PRIDCO Real Estate Portfolio

PRIDCO owns the largest inventory of industrial properties in Puerto Rico, with approximately 1,495 units and 713 lots as of April 2023. PRIDCO also owns the common areas located at industrial parks, such as street and utilities infrastructure, and is responsible for their maintenance. It is estimated that approximately 136 units (across 84 buildings) are not able to be occupied without remediation.

As of April 2023, PRIDCO's real estate portfolio includes 22.7 million square feet of buildings, of which 15.6 million is occupied and 7.0 million is vacant. The PRIDCO portfolio is considered diverse, with over 575 tenants with rental agreements ranging from \$0 to \$96,755 per month (excluding PRIICO Properties (as defined below)). Rental rates within PRIDCO's portfolio are principally determined by the industrial zone in which a property's respective municipality lies. There are 5 zones in total (ranked based on the rental rate per square foot, with Zone 1 having the highest demand and Zone 5 the lowest).

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

The portion of PRIDCO's portfolio that is currently under lease agreements (approximately 76% of units and 69% of square footage (SF)) is subject to a variety of terms and conditions resulting from different arrangements with tenants. Terms and conditions vary from full-service to triple net rent arrangements. The most common lease contract used in PRIDCO's portfolio makes tenants responsible for most maintenance expenses and makes PRIDCO responsible for major repairs and maintenance such as roofing, electrical, plumbing, and underground pest control.

PRIDCO's assets fall into three broad categories: Trusteed Properties, Non-Trusteed Properties, and Puerto Rico Industrial Investment Company ("PRIICO") Properties (each as defined below):

- **Trusteed Properties:** The "Trusteed Properties" are those properties owned by PRIDCO whose revenues are pledged to the holders of the Participating Bonds pursuant to the Existing Trust Indenture (as defined below). As of April 2023, the Trusteed Properties are believed to represent 1,336 units with over 18 million SF of space (of which, approximately 76% of units and 68% of SF were occupied, respectively). Before the costs of maintenance and capital expenditure ("CapEx") to ensure the properties remain inhabitable, the Trusteed Properties are anticipated to generate approximately \$41 million of gross revenue in FY2024.
- **Non-Trusteed Properties:** The "Non-Trusteed Properties" are those properties owned by PRIDCO that are neither Trusteed Properties nor PRIICO Properties. As of April 2023, the Non-Trusteed Properties are believed to represent approximately 149 units and 3.9 million SF of space (of which, approximately 72% of units and 70% of SF were occupied, respectively). Before the costs of maintenance and CapEx to ensure the properties remain inhabitable, the Non-Trusteed Properties are anticipated to generate approximately \$14.6 million of gross revenue in FY2024. The proceeds of 27 specified Non-Trusteed Properties (which comprise over 8.0 million square meters of industrial and public lands), if and when sold, are purportedly collateral under a \$25.0 million (excluding accrued, unpaid interest) note payable to the GDB Debt Recovery Authority (the "DRA"). The DRA loan is not secured by mortgages over such Non-Trusteed Properties.
- **PRIICO Properties:** On several occasions, PRIDCO constructed highly customized facilities that required significant capital investment to attract high-caliber tenants to Puerto Rico. PRIDCO established PRIICO, a separate entity, as a conduit used to borrow construction funds to develop these facilities. PRIICO borrowed funds from a commercial bank to construct four special facilities and lent the funds to PRIDCO to build the facilities. These four facilities (the "PRIICO Properties"), totaling approximately 0.7 million square feet, are leased to the tenants by PRIDCO with the rent therefrom assigned to the lender as security for the loan to PRIICO, together with a mortgage over the facility. These mortgages remain current, as the properties are fully occupied with rent collected directly by the lender through a lock-box arrangement. These leases will expire simultaneously with the associated mortgage loans, and the tenants

are expected to renegotiate new leases with PRIDCO, purchase the property, or terminate the relationship. If units are not sold upon maturity of the mortgages, rental revenue is reported in the Non-Trusteed Properties rent. There are currently eight PRIICO units with two tenants. The lease agreements with the two PRIICO tenants will expire in 2031 and 2045, although the mortgages for the PRIICO tenants both mature in 2031. Despite constituting only 3% of PRIDCO's portfolio by total rentable square footage, the PRIICO properties are anticipated to generate revenue of approximately \$4.4 million during FY2023, or 8% of PRIDCO's total annual rental revenue and will cover mortgage payments of the same amount.

Events Leading to PRIDCO Title VI Restructuring

A. *Moratorium on PRIDCO's Debt*

On April 6, 2016, the then-Governor signed into law the Puerto Rico Emergency Moratorium and Financial Rehabilitation Act (the "Moratorium Act"), authorizing the Governor to declare a temporary hold on debt service payments, stay creditor remedies resulting from the hold, and order the suspension or modification of statutory or other obligations to transfer funds to pay or secure any covered obligation.

To that end, the then-Governor issued a series of executive orders under the Moratorium Act, including EO 2016-031, which declared a state of emergency for PRIDCO and designated the Participating Bonds as covered obligations, thus suspending principal and interest payments on them. As a result, except as described below, PRIDCO has not made any payments on any of the Participating Bonds since PRIDCO's last payments made on June 2, 2018 from reserve funds held by the Trustee and has not made principal and interest payments on the Participating Bonds into the Sinking Fund since August 1, 2016.

B. *Enactment of PROMESA*

As a result of the Commonwealth's financial situation, on June 30, 2016, the United States Congress ("Congress") enacted PROMESA, which provides a framework for the Commonwealth and its covered instrumentalities to restructure their indebtedness. The goal of PROMESA is to meet Puerto Rico's immediate need to provide its citizens effective services, to formulate a debt restructuring, and to implement fiscal reform leading to a sustainable economy, fiscal responsibility, and market access. PROMESA provides for the establishment of the Oversight Board, an in-court restructuring process under Title III of PROMESA, and an out-of-court restructuring process under Title VI of PROMESA.

Title VI of PROMESA creates a streamlined process for achieving negotiated modifications of certain indebtedness of the Commonwealth or a covered territorial instrumentality with the consent of a supermajority of those voting in any affected class—or "Pool"—provided that such supermajority of those voting also constitutes a majority of the claims outstanding in such Pool. Importantly, if the voting thresholds are met, the terms of such a restructuring will apply to all other creditors within the same Pool, including those who did not cast a vote and those who voted against the proposed modification. For additional information on PROMESA, see "*Exhibit C: Description of PROMESA*" in this Solicitation Statement.

C. *Commencement of Title III Proceedings*

The Commonwealth and other governmental entities, including the Puerto Rico Sales Tax Financing Corporation ("COFINA"), the Employees Retirement System of the Government of the Commonwealth of Puerto Rico ("ERS"), the Puerto Rico Highways and Transportation Authority ("HTA"), the Puerto Rico Electric Power Authority ("PREPA"), and the Puerto Rico Public Buildings Authority ("PBA") commenced proceedings under Title III.

On November 3, 2021, the Oversight Board filed its *Eighth Amended Title III Joint Plan of Adjustment of the Commonwealth of Puerto Rico, et al.* [ECF No. 19053] (the "Commonwealth Plan"). The hearing to consider confirmation of the Commonwealth Plan commenced on November 8, 2021 and concluded on November 23, 2021. The final modified version of the Commonwealth Plan was filed on January 14, 2022 [ECF No. 19784].

On January 18, 2022, the Title III Court entered its findings of fact and conclusions of law in connection with the Commonwealth Plan [ECF No. 19812] (the "Findings of Fact") and an order confirming the Commonwealth Plan [ECF No. 19813] (the "Commonwealth Confirmation Order").

On March 15, 2022 (the "POA Effective Date"), the conditions precedent to the POA Effective Date of the Commonwealth Plan were satisfied and/or waived by the Oversight Board, and the Commonwealth Plan became effective. Accordingly, the Commonwealth Plan has been confirmed and is currently effective as of the date hereof.

The Commonwealth Plan reduced the Commonwealth's total funded debt obligations from approximately \$34.3 billion of prepetition debt to only approximately \$7.4 billion, representing a total debt reduction of 78%. This debt reduction also reduced the Commonwealth's maximum annual debt service (inclusive of COFINA debt service) from approximately \$4.2 billion to \$1.15 billion, representing a total debt service reduction of 73%. As of the POA 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.

D. The 2019 Restructuring Support Agreement

In the spring of 2019, AAFAF, on PRIDCO's behalf, opened discussions with GoldenTree Asset Management ("GoldenTree"), holder of over two-thirds of the Participating Bonds, regarding a consensual restructuring. After several months of negotiations, on June 13, 2019, AAFAF, GoldenTree, and First Ballantyne, another holder of the Participating Bonds, executed a Restructuring Support Agreement (the "2019 RSA"), which contemplated a consensual bond restructuring of the Participating Bonds under Title VI of PROMESA. The 2019 RSA was amended as of August 15, 2019 to extend the date for completion of the Qualifying Modification.

The 2019 RSA contemplated an exchange of the Participating Bonds for new bonds at a 94% upfront exchange ratio, with an interest rate of 7.25% if taxable and 5.75% if tax exempt. The new bonds would be callable at any time beginning with a premium of 105%, declining by 0.5% per year until callable at par after year 10. A consent fee equal to 2% of the outstanding Participating Bonds held by the Supporting Bondholders would also be paid to the Supporting Bondholders at closing.

The 2019 RSA required PRIDCO to establish a new, bankruptcy remote subsidiary with an independent board of directors and transfer into this subsidiary all legal and equitable right, title, and interest in the Trusteed Properties.

After the execution of the 2019 RSA, the Oversight Board advised AAFAF that it would not certify the 2019 RSA until PRIDCO completed certain feasibility studies to determine the appropriate capital expenditures, property divestments, and managerial reforms necessary to ensure PRIDCO's optimal future operation.

In 2022, the Oversight Board certified a PRIDCO fiscal plan that incorporated the results of certain strategic studies, estimating recoveries to holders of the Participating Bonds in the 40% range based upon surplus forecast.

E. Commencement of Litigation

On April 16, 2021, GoldenTree terminated the 2019 RSA and sued PRIDCO in the United States District Court for the District of Puerto Rico. *See Crown Managed Accounts SPC – Crown/GT Segregated Portfolio, et al. v. Puerto Rico Industrial Development Corporation*, Case No. 21-cv-01178-GAG (D.P.R. Apr. 21, 2021). Through their complaint for damages and declaratory and injunctive relief, the GoldenTree plaintiffs sought:

- Payment of all accrued and unpaid principal and interest on the Participating Bonds as well as any other amounts due and owing, as provided for in the Existing Trust Indenture, and all additional amounts that become due and owing until the Court's entry of judgment;
- Declaratory relief finding that PRIDCO is required to make all overdue payments on the Participating Bonds and to remain current on its payment obligations under the Participating Bonds;
- Injunctive relief requiring PRIDCO to make all future payments on the Participating Bonds as they come due, consistent with the terms of the Existing Trust Indenture;
- Declaratory relief finding that PRIDCO must comply with the certification requirements of the Existing Trust Indenture prior to selling any Trusteed Property;
- Injunctive relief forbidding PRIDCO from selling any Trusteed Property until it complied with all applicable requirements under the Existing Trust Indenture;
- Declaratory relief finding that, as applied to PRIDCO, the Moratorium Act § 201 and EO 2016-31 are preempted by PROMESA;

- A declaration that PRIDCO must (a) reimburse the Existing Trustee’s (as defined below) fees and costs, including attorneys’ fees previously paid out of the Existing Trustee’s Account, and (b) pay directly all ongoing Existing Trustee fees and costs, including attorneys’ fees as provided under the Existing Trust Indenture including any fees and costs incurred in connection with the current action; and
- An award of the fees and costs, including attorney’s fees, that the GoldenTree plaintiffs incurred in initiating and prosecuting the action and that they alleged are due to them pursuant to the 2019 RSA.

F. Entry into the Standstill Agreements

On October 21, 2021, GoldenTree, AAFAF, and PRIDCO entered into that certain standstill agreement (the “Standstill Agreement”), pursuant to which PRIDCO agreed to make monthly interest payments on the Participating Bonds and, in exchange, GoldenTree eventually dismissed their pending action without prejudice so the parties could negotiate a consensual restructuring. To comply with the monthly interest payments, the Oversight Board approved a series of budgetary reprogramming requests from PRIDCO. The Standstill Agreement was extended on multiple occasions and terminated on October 31, 2022.

G. Resumption of Litigation

On January 19, 2023, GoldenTree recommenced litigation in the United States District Court for the District of Puerto Rico in the case styled *Crown Managed Accounts SPC – Crown/GT Segregated Portfolio v. Puerto Rico Industrial Development Corporation*, Case No. 23-1017-RAM (D.P.R.) (the “Pending Litigation”). The renewed complaint included the Oversight Board as defendant, which had not been included in the original complaint. The complaint seeks the following relief against PRIDCO:

- Declaratory and injunctive relief requiring PRIDCO to pay all accrued and unpaid principal and interest on the Participating Bonds, including all overdue payments and future payments as they come due (First, Second, Third, and Seventh Claims for Relief);
- Declaratory relief that the Moratorium Act and EO 2016-31 violate the Takings Clause, Due Process Clause, and Contracts Clause of the United States Constitution (Fifth and Sixth Claims for Relief);
- Declaratory relief that the Moratorium Act and EO 2016-31 are preempted by PROMESA (Twelfth Claim for Relief);
- Appointment of a receiver to collect Trustee Property revenues (Eighth Claim for Relief);
- Declaratory and injunctive relief requiring PRIDCO to comply with the certification requirements under the Existing Trust Indenture and forbidding PRIDCO from selling any Trustee Properties until it complies with those requirements (Tenth and Eleventh Claims for Relief);
- Declaratory relief that assigning PREPA employees to PRIDCO and ongoing management fee payments to DDEC violate PROMESA section 407 (Ninth Claim for Relief); and
- Payment of all fees and costs, including the Existing Trustee’s fees and attorney’s fees purportedly due under the terminated 2019 RSA (Thirteenth and Fourteenth Claims for Relief).

The parties subsequently entered into a series of stipulations effectively staying the Pending Litigation while negotiations of the Restructuring Support Agreement and implementation of the Qualifying Modification are ongoing.

H. The 2023 Restructuring Support Agreement

After extensive negotiations, the Oversight Board and GoldenTree agreed on the terms of a new Restructuring Support Agreement, dated August 3, 2023 (as amended, the “2023 RSA” or the “Restructuring Support Agreement”), which contemplates a financial restructuring pursuant to Title VI of PROMESA, on the terms set forth in the term sheet attached as Exhibit D to the 2023 RSA. On August 31, 2023, PRIDCO and AAFAF executed the Restructuring Support Agreement as parties thereto.

Under the 2023 RSA, the creditors party thereto are committed, subject to the terms thereof, to support and vote in this Solicitation to approve the Qualifying Modification, provided that the Qualifying Modification, among other things, provides for the

distribution of the PRIDCO Distribution and otherwise complies with the terms of the 2023 RSA. Consistent with the 2023 RSA and PROMESA, PRIDCO is soliciting votes to approve the Qualifying Modification.

Eligible Voters entitled to vote over two-thirds (2/3) of the Participating Bond Claims are parties to the 2023 RSA and have thus agreed to vote to approve the Qualifying Modification, subject to the terms and conditions contained in the 2023 RSA. If each such holder votes, as agreed, to approve the Qualifying Modification, the voting requirements of Title VI will be satisfied. The 2023 RSA may be terminated in certain circumstances specified in the 2023 RSA.

I. 2023 Certified Fiscal Plan

On May 26, 2023, the Oversight Board certified a new fiscal plan for PRIDCO (the “PRIDCO Fiscal Plan”) that incorporated a series of adjustments to the previously certified 2022 fiscal plan, which adjustments resulted in an increase to PRIDCO’s projected surplus.

The adjustments to the previously certified 2022 fiscal plan include, among others: (i) reduction to CapEx spending to account for (a) cash already set aside in a demolition reserve (\$15 million), (b) the divestment of properties in tiers 1-5 identified in a 2022 Divestment Study (as defined below), and (c) accounting for overlap related to funds available to PRIDCO from FEMA (\$90-\$140 million); (ii) reduction in a CapEx reserve by 50% from prior fiscal plan levels (from \$20.2 million to \$10.1 million) to align with the average range of levels identified within the industrial warehouse operators in the US; (iii) delay in hiring and onboarding of the third party manager (which such hiring is forecasted to increase revenues due to improvements in occupancy and strategic planning, but will also increase variable costs associated with property management of increased occupancy); and (iv) reduction in the management fee charged by DDEC to PRIDCO.

As of April 30, 2023, PRIDCO had \$95.3 million in total cash reported (excluding rum producer incentive bank accounts, which were transferred to DDEC’s control as part of Act 60-2019), of which \$76.0 million is deemed to be unrestricted and available for PRIDCO operations and distributions under the Qualifying Modification. Certain funds are classified as restricted, including FEMA funds, tenant deposits, and incentive funds (unrelated to PRIDCO operations). Although many restricted account balances have been transferred to the proper account owner in accordance with Act 60-2019, a few incentive funds that do not belong to PRIDCO but are still reported as being in PRIDCO’s possession (as of the date of the certification of the PRIDCO Fiscal Plan).

Under the PRIDCO Fiscal Plan, PRIDCO is forecasted to have a cumulative post-measures surplus before debt service of \$474.8 million from FY2024 through FY2053. The average annual surplus for this period is \$15.8 million. The projected annual debt service for the New Bonds, based on the terms of the 2023 RSA is approximately \$11.2 million in the first five years of interest only payments and, thereafter, approximately \$15.9 million in principal and interest payments (assuming a PRIDCO Effective Date of December 31, 2023).

The PRIDCO Fiscal Plan includes several additional strategic initiatives to further reinvigorate PRIDCO’s sustainability. While many of these solutions were described in previous fiscal plans, the implementation of these measures was delayed largely due to the COVID-19 pandemic. These include (i) needs assessment of real estate information systems, (ii) update rental rate card (PRIDCO has not updated its rental rate card since 2003) and (iii) inter-government real estate representation.

The foregoing is a brief description and overview of the PRIDCO Fiscal Plan, and you should not rely on the statements described herein for a complete and accurate description of the PRIDCO Fiscal Plan. A copy of the PRIDCO Fiscal Plan is attached hereto as Exhibit E.

Fiscal Plan Mandated Studies

Between 2020 and 2023, the Oversight Board certified PRIDCO fiscal plans that mandated guidance and/or incorporated the results of certain studies. These studies were completed to determine the appropriate capital expenditures, property divestments, and managerial reforms necessary to ensure PRIDCO’s optimal future operation.

A. 2022 Feasibility Study

In particular, the PRIDCO Feasibility Study of Alternative Operating Models was completed on July 31, 2022 (the “2022 Feasibility Study”). The study evaluated the viability for outsourcing asset management via the hiring of a third-party manager to institutionalize PRIDCO’s management and leasing processes and improve its operational and financial performance. The 2022 Feasibility Study was also designed to meet the requirements of a desirability and convenience study consistent with the provisions of Article 7 of the Public-Private Partnership Act of Puerto Rico 2009 (Act 29-2009).

Overall, the 2022 Feasibility Study makes it clear that procuring a third-party manager to augment the current operational structure of PRIDCO would introduce private sector experience and expertise, relationships, and innovation. Additionally, implementing a third-party management approach within PRIDCO's current operations will enable the portfolio to become more efficiently managed and better positioned to serve the needs of PRIDCO's current tenants and community. Specifically, detailed reviews of the historical and projected financial performance of the portfolio, estimated improvement to PRIDCO's annual surplus within the first year due to the potential enhanced efficiencies. Further, the economic and social impact studies included within the 2022 Feasibility Study analysis point towards strong potential for growth in jobs, community value generation, and improvement to the overall economic health of the Commonwealth of Puerto Rico. The 2022 Feasibility Study also identifies ways PRIDCO can enhance revenues and improve strategic planning by delegating responsibilities to a third-party manager. On the expense side, hiring a third-party manager in a manner consistent with the 2022 Feasibility Study would enable PRIDCO to significantly reduce other overhead costs.

The PRIDCO Fiscal Plan requires PRIDCO to complete the process of delegating certain responsibilities to a third-party manager to augment PRIDCO's current operations in a manner consistent with the conclusions in the 2022 Feasibility Study. The PRIDCO Fiscal Plan incorporates the savings estimates included in the 2022 Feasibility Study, particularly data showing the implications on revenue and expenses once implemented.

The foregoing is a brief description and overview of the 2022 Feasibility Study, and you should not rely on the statements described herein for a complete and accurate description of the 2022 Feasibility Study. A copy of the 2022 Feasibility Study is attached hereto as Exhibit F.

B. Divestment Study of Non-Rentable Properties

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

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

The Divestment Study's key findings include:

- At the time of the Divestment Study, PRIDCO had 915 properties (including 760 buildings and 155 vacant lots) within its portfolio, 116 of which were determined to be non-rentable.
- Non-rentable properties identified to have divestment potential in the study include 80 buildings and 36 lots, including 40.8 million SF non-rentable land and 3.2 million SF non-rentable building. These properties are heavily concentrated in the East and West of Puerto Rico.
- Properties were allocated into five buckets of varying divestment potential, with Tier 1 properties and lots assumed to have the highest absorption in the market.
 - 25 buildings and 3 lots are assumed within Tier 1 of the Divestment Study.
 - At the time of the study, Tier 1 properties were estimated to require a combined \$17.5 million in CapEx and demolition costs. Divestment of these assets would result in a total estimated CapEx and demolition cost reduction of 4% compared to the \$445 million backlog need (\$392 million in CapEx and \$53 million demolition) identified in the Expanded CapEx Study (as defined below).

- Tier 1 properties have estimated proceeds from divestment of \$8.5 million - \$21.5 million, excluding CapEx and demolition costs.

The foregoing is a brief description and overview of the Divestment Study, and you should not rely on the statements described herein for a complete and accurate description of the Divestment Study. A copy of the Divestment Study is attached hereto as Exhibit G.

C. Expanded CapEx Study

PRIDCO has historically underinvested in its capital assets, leading to a significant accrual of deferred CapEx and the physical deterioration of PRIDCO's properties. Consequently, PRIDCO faces numerous funding challenges related to past, current, and future CapEx projects, including: (i) urgent backlogged projects, (ii) restoration of earthquake-affected building damage, (iii) reserve funding for future maintenance, repairs of damages due to natural catastrophes and greenfield/brownfield developments, and (iv) demolition and environmental remediation.

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

To understand the magnitude of PRIDCO's capital needs and assess the reasonable level of capital spending required to maintain and restore PRIDCO's facilities, previous fiscal plans required the completion of an expanded CapEx study (the "Expanded CapEx Study"), which was completed on February 28, 2022.

The Expanded CapEx Study concluded that there is a critical and time sensitive need to invest in CapEx due to some level of necessary repairs for 94% of the buildings within PRIDCO's portfolio. Some key observations of the study are listed below:

- The total estimated CapEx requirement across the 200 PRIDCO properties visited, projected over 10 years, was approximately \$72 million. The report then extrapolated the projected CapEx cost of the 200 sites across the full PRIDCO portfolio, resulting in an estimated \$392 million in total CapEx needs over the next 10 years, exclusive of the cost of properties that have been earmarked for full demolition, which cost was estimated at an additional \$53 million.
- Accordingly, the Expanded CapEx Study concluded that \$392 million in CapEx were required in total to rehabilitate PRIDCO's portfolio over the next ten years. As noted in the Expanded CapEx Study, existing building condition assessment reports commissioned by PRIDCO during 2020 and 2021 from locally based certified structural engineering firms cited a capital need of \$360 million, indicating a low variation from the conclusions in the Expanded CapEx Study.
- An outsized portion of the identified CapEx requirements was forecasted within the 12-month immediate term window for assets in the most critical condition.
- The most critical repairs required in the first year will cost an estimated \$216 million. Roofing components represent 60% of the total.
- The East and West regions require ~60% of the critical estimated CapEx due to backlogged rehabilitation in the aftermath of recent hurricanes and seismic events.
- In addition to the \$392 million, \$53 million was estimated to be needed to address 88 properties, at least 33 of which were deemed structurally unsafe to enter, meaning that these buildings represented a potential life-safety hazard.
- As of the completion of the Expanded CapEx Study, \$200 million in project worksheets had been submitted to FEMA for damages resulting from Hurricane Maria. An estimated \$90 to \$140 million of these reimbursements may potentially offset certain CapEx and repair requirements identified in the Expanded CapEx Study.

PRIDCO must take action to address the results of the Expanded CapEx Study, including the above-listed observations, and implement the necessary CapEx. Further discussion on such action and associated milestones can be found in the PRIDCO Fiscal Plan.

The foregoing is a brief description and overview of the Expanded CapEx Study, and you should not rely on the statements described herein for a complete and accurate description of the Expanded CapEx Study. A copy of the Expanded CapEx Study is attached hereto as Exhibit H.

PRIDCO Financial Statements

The most recent audited financial statements prepared by PRIDCO are for FY2022, which are attached hereto as Exhibit I. Such financial statements include a description of PRIDCO’s economic and financial circumstances and a description of PRIDCO’s existing debts. The financial statements for FY2022 were audited by CPA Diaz-Martinez, CSP. These financial statements were filed by PRIDCO with the MSRB through EMMA on October 4, 2023. There are no subsequent audited financial statements for PRIDCO and no assumption can be made as to the availability of future audited financial statements or PRIDCO’s ability to provide financial reporting on a timely basis.

The Participating Bonds

The Participating Bond Claims consist of all claims with respect to PRIDCO’s indebtedness listed in Exhibit B hereto, in the aggregate amount of approximately \$189,618,063.02 (which includes only the outstanding principal amount of such Participating Bond Claims).

The Qualifying Modification

If the Qualifying Modification is approved and implemented, the Participating Bonds will be exchanged for (i) a \$30,000,000.00 cash payment and (ii) the New Bonds in the face amount of \$159,628,000.00*.

The New Bonds will have the following characteristics:

Interest Rate	Years 0-3: 7.00% taxable (~4.90% tax-exempt equivalent**) Thereafter: 8.75% taxable (~6.13% tax-exempt equivalent**)
Maturity	2054
Amortization	Years 0-5: Interest only Thereafter: Level debt service, including interest and principal amortization
Call Provisions	Years 0-3: Callable at par Thereafter, callable at 104% for the next three years, and subsequently declining by 0.5% per year until par call

* Projected through December 31, 2023 and subject to change pending final reconciliation.

** For illustrative purposes, assumes 30% investor tax rate.

As part of the Qualifying Modification, the New Bonds Indenture will also grant to the holders of the Participating Bond Claims a lien on and a collateral assignment of the gross revenues of the Trusteed Properties, which security interest and collateral assignment shall attach to such revenues whether or not deposited with the New Bonds Trustee (as defined below) or into the Sinking Fund (as defined in the New Bonds Indenture), and whether now existing or hereafter acquired, to the fullest extent permitted by applicable law.

The foregoing is a summary of certain material terms of the New Bonds, which summary is not complete and is subject, and qualified in its entirety by reference, to all the provisions of the New Bonds Indenture, the form of which is attached hereto as Exhibit D and is subject to change between the date of this Solicitation Statement and the PRIDCO Effective Date upon the agreement of the

parties to the Restructuring Support Agreement on the terms set forth therein. For additional information on the New Bonds Indenture, see “*Description of the New Bonds*” in this Solicitation Statement.

If the Qualifying Modification is approved pursuant to this Solicitation and the other conditions to its consummation are satisfied, the consummation of the Qualifying Modification will result in all Participating Bond Claims, whether or not the holders thereof have voted in this Solicitation to approve the Qualifying Modification, being cancelled and the holders thereof would be entitled only to the PRIDCO Distribution.

Upon the consummation of the Qualifying Modification, holders of such Participating Bond Claims will immediately and forever cease to have any rights, interests or claims against PRIDCO or any of its assets or any successors or assigns thereof in respect of such Participating Bond Claims and all property of PRIDCO will vest in PRIDCO free and clear of all Participating Bond Claims, subject only to the security interests granted under the New Bond Indenture. Upon consummation, the Qualifying Modification will be full, final, complete, binding, and conclusive as to PRIDCO, the Commonwealth, other Commonwealth territorial instrumentalities, and any creditors of such entities, and will not be subject to any collateral attack or other challenge by any such entities in any court or other forum.

For additional information on the Qualifying Modification, including the consideration to be distributed in the Qualifying Modification, see “*The Qualifying Modification*” in this Solicitation Statement. For additional information on PRIDCO, see “*Summary—PRIDCO, the Issues Leading to this Solicitation, and the Qualifying Modification*” in this Solicitation Statement. Such description of PRIDCO and its indebtedness is limited to the information required to be disclosed by Section 601(f) of PROMESA and may not include all information that may be important to you.

Risk Factors

This Solicitation and the Qualifying Modification involve risks. Prior to making any decision with respect to this Solicitation and/or voting to approve or reject the Qualifying Modification, you should carefully read the entire Solicitation Statement, including all exhibits, appendices and attachments hereto and consult with your legal, financial and tax advisors to analyze the terms and risks of this Solicitation and the Qualifying Modification. See “*Risk Factors*” in this Solicitation Statement and the related disclosure herein for a discussion of factors that you should consider. In addition, each Eligible Voter is deemed to have conducted its own diligence with respect to PRIDCO and remedies available under the Participating Bonds, and, by voting to approve the Qualifying Modification, is deemed to have acknowledged that it has received sufficient information to vote in the Solicitation.

SUMMARY OF THE TERMS OF THIS SOLICITATION AND THE QUALIFYING MODIFICATION

The summary below highlights selected information from this Solicitation Statement. Certain of the terms and conditions described below are subject to important limitations and exceptions. To understand all of the terms of this Solicitation and the Qualifying Modification, you should carefully read the entire Solicitation Statement and any other documents incorporated by reference herein or therein and consult with your legal, financial and tax advisors before making any decision with respect to this Solicitation and/or voting on the Qualifying Modification.

THE SOLICITATION

Eligible Voters

Eligible Voters are entitled to vote in this Solicitation to approve or reject the Qualifying Modification.

An “Eligible Voter” is the beneficial owner of a Participating Bond Claim.

For additional information on your eligibility to be an Eligible Voter, see “*Principal Terms of this Solicitation—Eligible Voters*” in this Solicitation Statement.

Participating Bond Claims

“Participating Bond Claims” are all rights to payment and related rights to equitable remedies in respect of the Participating Bonds, which consist of (i) General Purpose Revenue Bonds, Series 2003, (ii) Refunding Revenue Bonds, Series 2003, (iii) General Purpose Revenue Bonds, Series 1997 A and (iv) Refunding Revenue Bonds, Series 1997 A, in each case of the foregoing, issued in accordance with that certain Trust Indenture, dated as of July 1, 1964 (as amended, the “Existing Trust Indenture”), between PRIDCO and U.S. Bank Trust National Association, as successor Trustee (the “Existing Trustee”). For more detail on the Participating Bond Claims and the corresponding Participating Bonds, see Exhibit B hereto.

Voting Deadline; Revocation

5:00 P.M., Eastern Standard Time, on November 24, 2023, unless such date or time is extended by PRIDCO.

An Eligible Voter may withdraw its tender via ATOP at any time prior to the Voting Deadline. For additional information on withdrawal of ATOP tenders, see “*Voting Procedures and Requirements—Withdrawal of ATOP Tenders*” in this Solicitation Statement.

Upon the tender of your Participating Bonds into DTC’s ATOP (and without a valid withdrawal), such Participating Bonds will be restricted from trading and remain non-transferable through the Voting Deadline, or as soon as practicable thereafter.

Requisite Approvals

Pursuant to PROMESA, for this Solicitation to approve the Qualifying Modification, Eligible Voters holding both (i) not less than a majority of the aggregate amount of Participating Bond Claims (which includes only Participating Bond Claims for the Outstanding principal amount of Outstanding Participating Bonds) (the “Majority Vote Requirement”) and (ii) not less than 66 $\frac{2}{3}$ % of the aggregate amount of Participating Bond Claims (which includes only Participating Bond Claims for the Outstanding principal amount of Outstanding Participating Bonds) for which votes are validly tendered into ATOP and not validly withdrawn (the “Supermajority Vote Requirement” and, together with the Majority Vote Requirement, the “Requisite Approvals”) must vote to approve the Qualifying Modification. For additional information on the approvals required for the Qualifying Modification, see “*Principal Terms of this Solicitation—Requisite Approvals*” and “*Exhibit C: Description of PROMESA—Title VI of PROMESA*” in this Solicitation Statement. Section 601(b) of PROMESA sets forth the standard for determining if a Participating Bond is “Outstanding” for purposes of voting in the Solicitation. For additional information on this standard, see “*Exhibit C: Description of PROMESA—Title VI of PROMESA—Determining Outstanding Bonds Entitled to Vote.*”

THE QUALIFYING MODIFICATION

PRIDCO Distribution

Upon the consummation of the Qualifying Modification, holders of Participating Bond Claims will receive the PRIDCO Distribution, which will consist of such holder's pro rata share of (i) \$30,000,000.00 of cash and (ii) the New Bonds (as defined below) in the face amount of \$159,628,000.00*, (collectively, the "PRIDCO Distribution").

Existing holders of Participating Bond Claims own outstanding bonds with differing maturities. However, such holders' Participating Bond Claims as treated in the Qualifying Modification are not distinguished based upon existing maturity. Thus, each existing holder will receive a pro-rata portion of the New Bonds to be issued.

Fees and expenses of the Existing Trustee shall be paid from funds held on hand by the Existing Trustee, as provided in the Qualifying Modification.

For additional information, see "*The Qualifying Modification—The PRIDCO Distribution*" below.

Suspension of Trade Settlements

To facilitate the consummation of the Qualifying Modification, the settlement of trades in Participating Bond Claims are expected to be suspended by DTC just prior to the consummation of the Qualifying Modification, in accordance with DTC's customary procedures. Holders of Participating Bond Claims who have not voted and wish to settle trades of Participating Bond Claims during such period of suspension should consult their advisors to prevent a failed settlement. For the avoidance of doubt, Participating Bonds that are tendered into ATOP as part of the vote (and not validly withdrawn) will be restricted from trading and remain non-transferable through the Voting Deadline, or as soon as practicable thereafter. For the further avoidance of doubt, a distribution record date will not apply for holders of Participating Bond Claims.

Releases

The Qualifying Modification contains important releases, including the release of claims of the holders of the Participating Bonds Claims against PRIDCO, the Existing Trustee, the PRIDCO RSA Parties and certain other entities, including the Oversight Board and AAFAF, and all of the foregoing's advisors and other Related Persons.

Prior to making any decision with respect to this Solicitation and/or voting on the Qualifying Modification, you should carefully read "The Releases" and consult with your legal and other advisors to ensure that you understand such provisions and their impact on you.

Effect of District Court Order Approving the Qualifying Modification

Upon entry of the District Court's order approving the Qualifying Modification, the Qualifying Modification shall be valid and binding on any person or entity asserting claims or other rights, including a beneficial interest (directly or indirectly, as principal, agent, counterpart, subrogee, insurer or otherwise) in respect of the Participating Bonds, as well as any trustee, any collateral agent, any indenture trustee, any fiscal agent and any bank that receives or holds funds related to such Participating Bonds. The Qualifying Modification will also be full, final, complete, binding and conclusive as to the Commonwealth and its instrumentalities, and any creditors of the Commonwealth or its instrumentalities, and should not be subject to any collateral attack or other challenge by any such entities in any court or other forum. The Qualifying Modification may have broad implications for holders of Participating Bond Claims. Holders should consult with their legal and other advisors in respect of any such claims that may be affected thereby, including by operation of Section 601(m)(2) of PROMESA.

*Projected through December 31, 2023 and subject to change pending final reconciliation

RISK FACTORS

In addition to the other information set forth and incorporated by reference in this Solicitation Statement, you should carefully consider the following risk factors prior to making any decision with respect to this Solicitation and/or voting on the Qualifying Modification. The risks described below are not the only risks related to this Solicitation and the Qualifying Modification. Additional risks and uncertainties not currently known to PRIDCO or that PRIDCO currently deems to be immaterial may also have a materially adverse effect on PRIDCO, this Solicitation, the Qualifying Modification and the performance of the New Bonds. Before making a decision whether to vote to approve or to reject the Qualifying Modification and vote pursuant to this Solicitation, you should carefully consider all of the information in this Solicitation Statement. Each Eligible Voter is responsible for undertaking an analysis of the implications of this Solicitation and the Qualifying Modification on it and should consult its own legal, financial and tax advisors regarding the suitability to it of the consequences of casting a vote in this Solicitation. Each Eligible Voter will be deemed to have conducted its own diligence with respect to PRIDCO and remedies available under the Participating Bonds, and, by voting to approve the Qualifying Modification, will be deemed to have acknowledged that it has received sufficient information to vote in the Solicitation.

Risks Relating to the Solicitation and the Qualifying Modification.

This Solicitation and the Qualifying Modification involve risks. Prior to voting to approve or reject the Qualifying Modification, you should carefully read the entire Solicitation Statement, including the Risk Factors herein, and all exhibits, appendices and attachments hereto and consult with your legal, financial and tax advisors to analyze the terms and risks of this Solicitation and the Qualifying Modification.

This Solicitation and the Qualifying Modification involve risks. There is substantial uncertainty regarding the value of the Participating Bond Claims if the Requisite Approvals are not obtained or the Qualifying Modification is otherwise not consummated.

Prior to voting to approve or reject the Qualifying Modification, you should carefully read the entire Solicitation Statement, including the Risk Factors herein, and all exhibits, appendices and attachments hereto and consult with your legal, financial and tax advisors to analyze the terms and risks of this Solicitation and the Qualifying Modification. Each Eligible Voter is deemed to have conducted its own diligence with respect to PRIDCO and, by voting to approve the Qualifying Modification, is deemed to have acknowledged that it has received sufficient information to vote in the Solicitation.

Neither the Oversight Board nor any federal or state securities commission, court or regulatory authority has passed on the adequacy or accuracy of this Solicitation Statement.

Neither the Oversight Board nor any federal or state securities commission or regulatory authority has passed upon the adequacy or accuracy of this Solicitation Statement. The Oversight Board has certified the Qualifying Modification as a “Qualifying Modification” pursuant to Section 601(g)(2)(A) of PROMESA. Such certification of the Qualifying Modification by the Oversight Board relates solely to compliance with the requirements of PROMESA as set forth in Section 601(g)(2).

The creditor collective action provisions of Title VI of PROMESA have only been used in a limited number of instances for financial restructurings, and substantial uncertainties related to their effectiveness exist, including uncertainties due to the lack of judicial decisions interpreting Title VI of PROMESA.

The Qualifying Modification is to be effected pursuant to the creditor collective action provisions of Title VI of PROMESA. Only a limited number of qualifying modifications pursuant to Title VI have been consummated to date. As a result, there remain uncertainties relating to the successful consummation of a qualifying modification. For example, it is uncertain to what extent the final order of the District Court can be appealed or its effectiveness delayed. Furthermore, further judicial or regulatory review or modification of the Qualifying Modification could exacerbate these uncertainties.

In addition, there is uncertainty associated with the consummation of a qualifying modification pursuant to Title VI because there is limited judicial experience interpreting the provisions of Title VI of PROMESA. For additional information, see “*Exhibit C: Description of PROMESA*” and “*PRIDCO Title VI Proceedings*” in this Solicitation Statement.

If the Requisite Approvals are received and the other conditions to the consummation of the Qualifying Modification are satisfied and/or waived, all holders of Participating Bond Claims will be bound by the Qualifying Modification, including the cancellation of Participating Bond Claims, regardless of whether holders of such Participating Bond Claims voted in this Solicitation to approve or reject the Qualifying Modification or did not vote.

Pursuant to PROMESA, if the Requisite Approvals are received and the other conditions to the consummation of the Qualifying Modification are satisfied and/or waived, all Participating Bond Claims will be cancelled. This means that each holder of Participating Bond Claims will be bound by the Qualifying Modification, **regardless of whether such holder voted in this Solicitation to approve or reject the Qualifying Modification or did not vote.** In addition, after this Solicitation is complete and the Requisite Approvals have been received, holders of Participating Bond Claims will not be given another opportunity to vote to approve or reject the Qualifying Modification unless PRIDCO elects, in its sole discretion, to reopen voting on this Solicitation.

If the Requisite Approvals are not received, or if the Qualifying Modification is otherwise not consummated, the value of the Participating Bond Claims may decrease, resulting in losses to holders of Participating Bond Claims.

If the Requisite Approvals are not received, any of the other conditions to the consummation of the Qualifying Modification are not satisfied or the Qualifying Modification is otherwise not consummated, the value of the Participating Bond Claims may decrease, resulting in losses to holders of Participating Bond Claims. For example, market participants may view any such failure to consummate the Qualifying Modification as increasing the risk that recoveries on the Participating Bond Claims will be adversely affected. As a result, many prospective purchasers may be unwilling or unable to purchase Participating Bond Claims. Accordingly, a holder of Participating Bond Claims may not be able to sell its Participating Bond Claims when it wants to do so or it may be unable to obtain the price that it wishes to receive for such Participating Bond Claims and consequently may suffer significant losses. Each Eligible Voter is deemed to have conducted its own diligence with respect to PRIDCO and, by voting to approve or reject the Qualifying Modification, is deemed to have acknowledged that it has received sufficient information to vote in the Solicitation. The release and distribution of the PRIDCO Distribution is conditioned upon the cancellation of the Participating Bonds.

There can be no assurance that the Qualifying Modification will be consummated. If the Administrative Supervisor is unable to certify pursuant to Title VI of PROMESA, among other things, receipt of the Requisite Approvals in this Solicitation or if the District Court does not enter an order approving the Qualifying Modification, then the Qualifying Modification will not be consummated.

There can be no assurance that the Qualifying Modification will be consummated, even if the Requisite Approvals are received in this Solicitation. If the Administrative Supervisor is unable to certify pursuant to Title VI of PROMESA, among other things, receipt of the Requisite Approvals in this Solicitation or if the District Court does not enter an order approving the Qualifying Modification, then the Qualifying Modification will not be consummated. In addition, a variety of events outside of PRIDCO's control may prevent or delay the consummation of the Qualifying Modification. For example, the Administrative Supervisor may conclude that the Requisite Approvals were not received in this Solicitation or the District Court may determine that the Qualifying Modification does not comply with PROMESA, either of which could require PRIDCO to renegotiate the terms of the Qualifying Modification with its creditors and/or resolicit votes from the holders of the Participating Bond Claims. In addition, the Administrative Supervisor or the District Court may impose additional conditions or requirements on PRIDCO or the Qualifying Modification that may be difficult or impossible to satisfy, thereby delaying or preventing the consummation of the Qualifying Modification. For additional information, see "Exhibit C: Description of PROMESA," "PRIDCO Title VI Proceedings" and "The Qualifying Modification" in this Solicitation Statement.

If the Qualifying Modification is not consummated, PRIDCO may pursue an alternative restructuring of its indebtedness and obligations to creditors, including under Title III of PROMESA. In addition, holders of Participating Bond Claims may seek to prosecute the Pending Litigation or commence new litigation against PRIDCO with respect to breaches under the Existing Trust Indenture or other claims.

If it is determined that the Qualifying Modification will not or cannot be consummated under Title VI of PROMESA, PRIDCO may pursue an alternative restructuring of its obligations to its creditors, which alternative may include a plan of adjustment under Title III of PROMESA.

Any such option could involve additional delays and/or expenses, and there can be no assurance that the terms of any such alternative restructuring would be similar to or as favorable to holders of Participating Bond Claims as those proposed in the Qualifying Modification. If a protracted alternative restructuring were to occur, the distributions to holders of Participating Bond Claims are likely to be materially reduced and delayed. For instance, administrative expenses of a protracted restructuring could reduce distributions available for holders of Participating Bond Claims and substantial additional claims could arise in connection with such restructuring, thereby increasing the number of financial claims against PRIDCO and its assets. For additional information, see "Exhibit C: Description of PROMESA" in this Solicitation Statement.

In addition, holders of PRIDCO Bond Claims may seek to prosecute the Pending Litigation or commence new litigation against PRIDCO with respect to breaches under the Existing Trust Indenture or other claims. Any such litigation could result in additional delays and expenses in seeking to restructure the Participating Bonds.

The date on which the Qualifying Modification will be consummated, if at all, is subject to substantial uncertainty, which may adversely affect the value of the Participating Bond Claims.

The timing of the consummation of the Qualifying Modification is uncertain. Many factors that may affect the timing, such as requirements for certification by the Administrative Supervisor of the receipt of the Requisite Approvals and entry of a District Court order approving the Qualifying Modification, are outside of the control of the PRIDCO and AAFAF. PRIDCO may not receive the Requisite Approvals, which could result in PRIDCO extending this Solicitation or resoliciting votes. In addition, judicial action as a result of pending or future lawsuits could delay the completion of this Solicitation and/or the consummation of the Qualifying Modification.

As a result of these and other uncertainties, including any potential delays, the market value of the Participating Bond Claims may be adversely affected.

This Solicitation and the consummation of the Qualifying Modification may be cancelled or delayed.

Subject to applicable law and the Restructuring Support Agreement, PRIDCO may terminate or withdraw this Solicitation at its sole discretion at any time and for any reason. Even if this Solicitation is completed and the Qualifying Modification is consummated, they may not be completed or consummated, as applicable, on the schedule described in this Solicitation Statement. For instance, it may take longer than anticipated for PRIDCO to receive the Requisite Approvals, for the Administrative Supervisor to certify receipt of the Requisite Approvals or for the District Court to enter an order approving the Qualifying Modification. In any such event, the consummation of the Qualifying Modification would be delayed and, accordingly, holders of Participating Bond Claims would be subject to increased risks. During any such delay, unexpected events could occur that would have a material adverse effect on the Qualifying Modification.

Unexpected events outside of PRIDCO's control may occur during this Solicitation and prior to the consummation of the Qualifying Modification.

During this Solicitation and prior to the consummation of the Qualifying Modification, it is possible that unexpected events outside of PRIDCO's control will occur. Such events may have a material adverse impact on this Solicitation or the Qualifying Modification and include, but are not limited to, legal challenges to PROMESA, the Restructuring Support Agreement, this Solicitation, the Qualifying Modification and other matters related thereto, changes in the conditions or circumstances relating to PRIDCO and the Commonwealth, changes to the terms of this Solicitation or the Qualifying Modification, further deterioration of the financial condition of PRIDCO or the economy of the Commonwealth, public announcements made by federal or Government officials or third parties and developments in other new or ongoing litigation against or involving PRIDCO or the Commonwealth.

If the Restructuring Support Agreement is terminated, the ability of PRIDCO to consummate the Qualifying Modification will be materially and adversely affected.

The Restructuring Support Agreement contains a number of termination events, upon the occurrence of which certain parties to the Restructuring Support Agreement may terminate or withdraw from such agreement. If the Restructuring Support Agreement is terminated, each of the parties thereto will be released from their obligations in accordance with the terms of the Restructuring Support Agreement. In addition, upon the occurrence of certain events, individual parties to the Restructuring Support Agreement may withdraw from such agreement and be released from their obligations under such agreement. For instance, the creditors party to the Restructuring Support Agreement may terminate the Restructuring Support Agreement under certain circumstances described herein. The withdrawal of support by creditors from, or the termination of, the Restructuring Support Agreement will have a material adverse effect on PRIDCO's ability to consummate any Qualifying Modification. For additional information on the termination rights of various parties under the Restructuring Support Agreement, see "*Principal Terms of this Solicitation—The Restructuring Support Agreement*" in this Solicitation Statement.

No liquidation analysis of PRIDCO has been conducted, which may affect your ability to make an informed decision about the Qualifying Modification. Furthermore, there is no assurance that the Qualifying Modification will provide the best outcome for holders of Participating Bond Claims. In addition, voting to approve the Qualifying Modification entails granting the Releases (as defined herein).

No liquidation analysis of PRIDCO has been conducted. Further, if the Oversight Board were to commence a debt restructuring proceeding for PRIDCO under Title III of PROMESA, there may be limited scenarios in which the Participating Bonds could argue that they have recourse to other assets of PRIDCO. Therefore, in the absence of such an analysis, there is limited ability to predict alternative outcomes to the Qualifying Modification and make a comparable analysis when deciding whether to vote to approve or reject the Qualifying Modification. There is no assurance that the Qualifying Modification will provide the best outcome for holders of Participating Bond Claims. In addition, voting to approve the Qualifying Modification entails granting the Releases (as defined herein), which could result in the release of valuable claims that could ultimately provide a better outcome for the holders of Participating Bond Claims. For additional information on the Mutual Releases, see “*The Releases*” in this Solicitation Statement.

The financial information contained herein, including the information related to PRIDCO, is based upon PRIDCO’s books and records, other governmental sources, and publicly available information as of the date hereof or the date to which such information relates, as applicable, and in many cases is multiple years old; except as specifically noted, no audit or independent examination of such information was performed.

The financial information contained herein, including the information related to PRIDCO, has not been, and will not be, audited or reviewed by any independent accounting firm or third party and is limited in scope, except as expressly stated herein. PRIDCO’s last available audited financials are for FY2022. As a result, this Solicitation Statement does not include more recent audited financial information related to PRIDCO. Even if PRIDCO had completed a more recent financial audit, certain information about PRIDCO would not be available. In preparing this Solicitation Statement, PRIDCO relied upon financial information derived from its books and records, other governmental sources, and certain publicly available information as of the date hereof or the date to which such information relates, as applicable, which involve uncertainties. Some of the financial information included herein is inherently stale as it is multiple years old or will be inherently imprecise and stale by the time of the consummation of the Qualifying Modification due to the inherent unpredictability of future events related to PRIDCO. Although PRIDCO believes that it has used its reasonable business judgment to assure the accuracy of the financial information provided herein, and while PRIDCO believes that such financial information fairly represents the financial condition of the items described as of the date of such financial information, there can be no assurance that the financial information contained herein is without material inaccuracies or inconsistencies, or that an independent accounting firm would not have material disagreements with the presentation of such information. As a result, you are cautioned not to place undue reliance on any of the financial information contained herein.

PRIDCO has no duty to update the statements contained in this Solicitation Statement.

The statements contained in this Solicitation Statement are made by PRIDCO as of the date hereof, unless otherwise specified herein, and the delivery of this Solicitation Statement after that date does not imply that there has been no change in the information set forth herein since that date. PRIDCO has no duty to update this Solicitation Statement unless otherwise ordered to do so by the Title VI Court.

Financial reporting going forward may not be completed on a timely basis.

The most recent audited financial statements prepared by PRIDCO are for FY2022. No guaranty can be made as to the availability of future audited financial statements or PRIDCO’s ability to provide financial reporting on a timely basis.

Future events and actual results may differ materially from any estimates, projections, or statements contained herein.

Any statements and assumptions contained herein, whether forward-looking or historical, are not guarantees of future performance and involve certain risks, uncertainties, estimates, and other assumptions made in this document. The economic and financial condition of PRIDCO is affected by various legal, financial, social, economic, environmental, governmental and political factors. These factors can be very complex, may vary from one fiscal year to the next, and are frequently the result of actions taken or not taken, not only by AAFAF, PRIDCO, and the Oversight Board, but also by other third-party entities such as the government of the United States. Nothing in this document should be considered as an express or implied warranty of facts or future events.

Risks Relating to the Issuance of the New Bonds.

The New Bonds are payable from the gross revenues of the Trusteed Properties (as defined in the New Bonds Indenture).

The New Bonds are payable from the gross revenues of the Trusteed Properties (which list of Trusteed Properties identified in the New Bonds Indenture is subject to change between the date of this Solicitation Statement and the PRIDCO Effective Date upon the agreement of the parties to the Restructuring Support Agreement on the terms set forth therein). To the extent the gross revenues of the Trusteed Properties are insufficient to make required payments on the New Bonds, Section 405 of the New Bonds Indenture provides that PRIDCO “shall deposit with the Trustee such amounts as are necessary to meet such requirements.” However, there is no assurance that PRIDCO will have sufficient funds to make up any such shortfall. The New Bonds are not indebtedness or liabilities of the Commonwealth or any of the Commonwealth’s other public instrumentalities or political subdivisions. The New Bonds are not backed by the good faith, credit and taxing power of the Commonwealth nor are they payable or secured by any of the Commonwealth’s other public instrumentalities or political subdivisions. The New Bonds will not be insured or guaranteed by the New Bonds Trustee, any other service provider engaged pursuant to the New Bonds Indenture or any of their respective affiliates, or any other person.

The rights of the holders of the New Bonds are limited in nature and may be adversely affected by issues generally associated with the enforcement of liens on collateral in any future insolvency proceeding of PRIDCO.

The security interests in the gross revenues of the Trusteed Properties may be subject to challenge in any potential future bankruptcy or insolvency proceeding of PRIDCO, including a case under Title III of PROMESA for PRIDCO. Moreover, in such Title III proceeding, any other right of the Bondholders or Trustee arising under the Indenture, including, among other things, on account of Section 405 of the New Bonds Indenture requiring PRIDCO to deposit amounts with the Trustee sufficient to make required payments on the New Bonds, may also be subject to challenge.

The Trusteed Properties may not generate sufficient revenue to make all payments of interest and principal on the New Bonds.

The New Bonds are payable from the gross revenues of the Trusteed Properties. The future revenue generated by the Trusteed Properties is highly dependent on the realization of rental income, occupancy rates, the terms and conditions of varying lease arrangements with tenants, the management of such Trusteed Properties, and the state of the Commonwealth’s economy. Further, such revenue will depend on the continued leasing of the Trusteed Properties. There is no assurance that PRIDCO will continue to lease the Trusteed Properties in accordance with their current standards.

The projections described in the PRIDCO Fiscal Plan may differ from actual performance and are dependent on assumptions concerning the future economic and financial condition of PRIDCO and the Trusteed Properties, which are affected by various legal, financial, social, economic, environmental, governmental and political factors. These factors can be very complex, may vary from one fiscal year to the next and are frequently the result of actions taken or not taken, not only by the Government, the Oversight Board, and other third-party entities such as the government of the United States.

The Trusteed Properties may also be vulnerable to a force majeure event (e.g. hurricanes and other natural disasters, fires, pandemics, epidemics, man-made disasters, war, riots) and other unforeseen circumstances and incidents, and the damage caused by such an event may adversely affect the revenue-generating performance of such properties until such damage has been remedied.

The occurrence of any of the abovementioned events may materially adversely affect the total gross revenues of the Trusteed Properties. No assurance can be made that the gross revenues of the Trusteed Properties or other cash made available for payment of the New Bonds pursuant to Section 405 of the New Bonds Indenture will be sufficient to pay interest on and principal of the New Bonds.

There are no appraisals of the Trusteed Properties and PRIDCO may not generate sufficient cash flow to maintain and/or repair the Trusteed Properties.

There are no appraisals of the Trusteed Properties and PRIDCO may not generate sufficient cash flow to maintain and/or repair the Trusteed Properties. While the strategic studies and the Fiscal Plan provide useful information about the expected performance of the Trusteed Properties and other assets of PRIDCO, there can be no assurance that the results or projected outcomes set forth therein can be obtained or that if obtained for a period of time, can be maintained in a manner and for a duration sufficient to satisfy the payments required to be made on the New Bonds. Furthermore, no appraisal or company-wide review of the value or commercial viability has been made of all of PRIDCO’s properties. If the revenues from the Trusteed Properties, and any other assets that may be pledged in the future for the benefit of the New Bonds are insufficient or if the revenues and cash flow derived from any

other assets of PRIDCO are otherwise insufficient to maintain PRIDCO's business operations, there are no other assets, guarantees, sureties or other credit enhancement available for the benefit of the New Bonds and holders of the New Bonds may suffer a shortfall in payments or a loss on their investment.

Future weather related events or natural disasters may have a material adverse effect on the Commonwealth and its economy, the collections of revenues from the Trusteed Properties, and PRIDCO's ability to make payments on the New Bonds.

Puerto Rico is located in a region that experiences frequent hurricanes, tropical storms and other weather events and that is seismically active. Such weather events and other natural disasters, such as earthquakes, have caused significant damage to facilities and infrastructure in Puerto Rico, including the Trusteed Properties, discouraged tourism and industrial activities, encouraged outmigration, and severely adversely affected the functioning of the Government and the Puerto Rican economy. Certain of PRIDCO's facilities and buildings were significantly damaged by Hurricanes Irma and Maria in 2017. The earthquakes that struck Puerto Rico in 2019 and 2020 also damaged an estimated 200 PRIDCO buildings and, in a few instances, displaced PRIDCO tenants. While federal funding, from FEMA or otherwise, may be available to remediate damaged properties and offset or reduce PRIDCO's costs associated with remediation of any damaged properties, there is no assurance that such funding will be sufficient to remediate the damaged properties.

Puerto Rico's relatively small size, and the concentrated location of many of its businesses and governmental activity, means that it is possible that a natural disaster could adversely affect numerous businesses and Government operations at the same time, including the Trusteed Properties. Future weather events and other natural disasters, such as earthquakes, mudslides, or rising sea levels, could adversely affect the Commonwealth's economy and cause damage to the Trusteed Properties, disrupting the ability to collect revenues from the Trusteed Properties and adversely affecting PRIDCO's ability to make payments on the New Bonds.

The amount of revenues from the Trusteed Properties depends on the collection and enforcement efforts undertaken by PRIDCO and could be materially adversely affected if PRIDCO does not dedicate sufficient resources to such collection and enforcement measures.

PRIDCO's ability to pay debt service on the New Bonds is dependent on a number of factors, including collections on the Trusteed Properties, portfolio optimization, and cost reduction. PRIDCO is in the process of putting in place a third-party asset manager to augment the current operational structure of PRIDCO and introduce private sector experience and expertise, relationships, and innovation. This may result in reduced cost exposure, increased revenue, and enhanced operational capabilities. The PRIDCO Fiscal Plan estimates that the engagement of a third-party asset manager could result in improvements to PRIDCO's annual surplus within the first year due to the potential enhanced efficiencies. However, there is no guarantee that the engagement of a third-party manager will achieve the expected results. If PRIDCO is not able to maintain or improve its collection and enforcement efforts or if the engagement of a third-party manager is delayed or does not achieve the expected results, PRIDCO may not receive sufficient revenues from the Trusteed Properties to pay debt service on the New Bonds.

Future legislative action by the Commonwealth could adversely affect the value of the New Bonds and result in a loss or delay in recovery of an investment in the New Bonds.

PRIDCO's financial performance and the projections included in the Fiscal Plan are driven, in part, by legislative policies in the United States and the Puerto Rico political climate. Many of the financial projections are closely tied to federal funding availability and local political commitment. The projections do not take into account future changes in the political environment – such as those from the Puerto Rican administration, Puerto Rican legislative and regulatory direction, organization and structure of service delivery across governmental entities at the Commonwealth and municipal levels, federal appropriations and funding policies, federal tax exemptions, or Puerto Rico's relationship with the federal government. Changes in the political climate for Puerto Rico may have an adverse effect on PRIDCO and the value of the New Bonds and the Trusteed Properties.

Furthermore, in the past, the Commonwealth has enacted legislation that affects the rights and remedies of bondholders with respect to the majority of the public sector debt (including the Participating Bonds), including legislation authorizing the Governor to impose a moratorium on debt service payments and a stay on creditor remedies. If the Commonwealth were to take similar actions in

the future, such actions, and the litigation that may ensue, could adversely affect the value or the repayment of the PRIDCO Bonds and may result in a loss or delay in recovery of an investment in the PRIDCO Bonds.

PRIDCO was not in compliance with its prior continuing disclosure obligations. PRIDCO's failure to comply in the future may also limit its access to the capital markets.

PRIDCO did not comply with its previous continuing disclosure obligations, including by failing to file its audited financial statements and annual financial information and operating data report for Fiscal Years 2018 to 2022 before the deadline of 305 days from the end of each Fiscal Year. As noted, PRIDCO filed its annual financial information and operating data report for Fiscal Year 2022 on October 4, 2023. The Reporting Agreement to be executed by PRIDCO in connection with the issuance of the New Bonds provides that PRIDCO's audited financial statements for Fiscal Year 2023 shall be provided when available, not by a specific deadline, and that its audited financial statements for each subsequent Fiscal Year must be provided within 305 days from the end of the Fiscal Year.

If PRIDCO shall fail to comply with its obligations under the Reporting Agreement, bondholders would be entitled to enforce such obligations against PRIDCO by mandamus or other suit or proceeding in law or in equity. However, such failure would not result in an event of default under the New Bonds Indenture. Moreover, PRIDCO's failure to comply with its reporting obligations on a timely basis could limit its access to the capital markets, because underwriters for municipal bonds must be able to reasonably determine that PRIDCO will comply with its reporting obligations before underwriting any future offerings of PRIDCO's debts.

The New Bonds may not trade at par and limited liquidity may make the New Bonds less attractive to investors.

Holders of the New Bonds may encounter limited market acceptance upon any attempt to sell the New Bonds, making sales at or near par potentially difficult. Holders of the New Bonds after the PRIDCO Effective Date may not be able to sell such bonds for any price for some time. Alternatively, potential purchasers may demand discounts to the par amount of such bonds before a potential purchaser would be willing to purchase the New Bonds. There can be no assurance that a secondary market will exist for any New Bonds. The absence of a secondary market for the New Bonds or a lack of liquidity in the secondary markets could limit bondholders' ability to resell any New Bonds or adversely affect the market value of the New Bonds.

The New Bonds and transactions described herein will be made on the basis of exemptions from registration provided in the Securities Act. The New Bonds have not been approved or disapproved by the United States Securities and Exchange Commission, any state or Commonwealth securities commission or any other regulatory authority, nor have any of the forgoing passed upon the accuracy or adequacy of this Solicitation Statement. Any representation to the contrary is a criminal offense. Therefore, the secondary market for the New Bonds may be limited, and bondholders may not be able to sell the New Bonds when they want to do so or obtain the price that they wish to receive for the New Bonds, and, as a result, could suffer significant losses.

Given the unique nature of the Qualifying Modification, certain closing conditions and closing deliverables, including legal opinions, with respect to the Qualifying Modification may differ in type and scope from those typically required in municipal debt offering transactions that occur outside of a court-supervised restructuring process. In making their investment decision, investors should consider that certain actions, procedures or requirements of legal advisors and other third parties in connection with the Qualifying Modification will differ materially from and be more limited than those typical requirements.

Major disruptions in the global financial markets in recent years have caused a significant reduction in liquidity in the secondary market for securities. While conditions in the financial markets and the secondary markets have improved, periods of illiquidity could occur again and affect the secondary market, thereby materially adversely affecting the value of the New Bonds and limiting bondholders' ability to sell the New Bonds. Concerns with PRIDCO's financial outlook may also adversely affect the market value and liquidity of the New Bonds.

Limited Nature of Ratings; Reductions, Suspension, or Withdrawal of a Rating.

PRIDCO acting in its sole and absolute discretion may determine to apply for ratings on the New Bonds, provided that the New Bonds Indenture will not include a covenant by PRIDCO to obtain such a rating or, if obtained, to maintain a specific rating with respect to outstanding New Bonds.

Any future rating assigned to the New Bonds by a rating agency will reflect such rating agency's assessment of the likelihood of the payment of principal and interest when due. Any rating of the New Bonds is not a recommendation to purchase, hold or sell such New Bonds and such rating will not address the marketability of such New Bonds, their market price, or suitability for a particular investor. There is no assurance that any rating will remain for any given period of time or that any rating will not be

lowered, suspended, or withdrawn entirely by a rating agency if, in such rating agency's judgment, circumstances so warrant based on factors prevailing at the time, including, but not limited to, the evaluation by such rating agency of the financial outlook for PRIDCO, the Trusteed Properties, and payments on the New Bonds. Any such reduction, suspension or withdrawal of a rating, if any, if it were to occur, could adversely affect the availability of a market or the market prices for the New Bonds.

An adverse rating of the New Bonds could adversely affect the market price of the New Bonds.

Notwithstanding that PRIDCO may not initially solicit a rating, a rating agency may issue an unsolicited rating on the New Bonds, employing quantitative and qualitative factors, including PRIDCO's actual or perceived financial strength, the prospects for payment of principal and interest on the New Bonds, the impact of PRIDCO's financial outlook, and other macroeconomic conditions in the Commonwealth. Ratings also reflect various methodologies and assumptions used by the rating agencies, which are subject to change without notice. Actions taken by the rating agencies can include initiating, maintaining, upgrading, downgrading or withdrawing a current rating of PRIDCO's indebtedness or placing PRIDCO on negative outlook for possible future downgrading. Such action may be taken at any time and is beyond PRIDCO's control. The downgrade or withdrawal of any credit rating of PRIDCO's indebtedness, including the New Bonds, or placing PRIDCO on negative outlook for possible future downgrading may have a negative effect on the value of the New Bonds.

The New Bonds will not be subject to the Trust Indenture Act.

The New Bonds will not be required to be, and will not be issued under, an indenture qualified under the Trust Indenture Act of 1939, as amended (the "TIA"). Accordingly, holders of the New Bonds will not have the benefit of the protections of the TIA with respect to their investment in the New Bonds.

Early redemption of the New Bonds may materially adversely affect the return on the New Bonds.

The New Bonds are redeemable in whole or in part, prior to their scheduled redemption or maturity dates, as applicable, at the option of PRIDCO. See "*Description of the New Bonds—Redemption Provisions.*" PRIDCO may choose to redeem the New Bonds at times when prevailing interest rates are lower than the interest rate paid on the New Bonds. In this circumstance, holders of such New Bonds may not be able to reinvest the redemption proceeds in a comparable security at an effective interest rate as high as that of the New Bonds being redeemed.

The terms of the New Bonds (including the definition of Trusteed Properties contained within the New Bonds Indenture) are subject to change.

The New Bonds Indenture attached hereto as Exhibit D is a form only and as such and pursuant to the Restructuring Support Agreement, is subject to change between the date of this Solicitation Statement and the PRIDCO Effective Date upon the agreement of the parties to the Restructuring Support Agreement on the terms set forth therein. Accordingly, it is possible that the terms of the New Bonds may change, including the definition and list of Trusteed Properties contained in the New Bonds Indenture.

PRIDCO may be subject to future claims and legal actions.

PRIDCO may be subject to various claims and legal actions arising in the ordinary course of its activities that arise after the PRIDCO Effective Date. PRIDCO is not able to predict the nature and extent of any such claims and actions and cannot guarantee that the ultimate resolution of such claims and actions will not have a material adverse effect on PRIDCO after the effective date of the Qualifying Modification.

Potential underestimation of necessary capital expenditures and operating expenses could impact the New Bonds.

If necessary capital expenditures or operating expenses are incorrect, incomplete, or materially higher than currently projected, the increased costs to PRIDCO could impact the revenues generated by the Trusteed Properties and payment of the New Bonds.

The enforcement of rights under the New Bonds and the New Bonds Indenture may be limited to the extent PRIDCO is subject to a future case under Title III of PROMESA.

The holders of New Bonds may be unable to enforce rights under the New Bonds and the New Bonds Indenture to the extent PRIDCO is subject to a future case under Title III of PROMESA as a result of the application of the automatic stay on enforcement of remedies that would become effective upon the filing of the Title III petition.

Risks Relating to the PRIDCO Fiscal Plan.

The PRIDCO Fiscal Plan and its underlying financial projections are the result of several years of working sessions, dialogue, stakeholder engagement, research and in-depth analysis, as well as Oversight Board and the Commonwealth collaboration, that created a fact base to underpin the presented macroeconomic trends and revenue forecasts. However, the aforementioned have been built upon a set of assumptions and factors that are subject to external and internal risks that could materially impact the expected outcomes.

Further, any statements and assumptions contained in the PRIDCO Fiscal Plan, whether forward-looking or historical, are not guarantees of future performance and involve certain risks, uncertainties, estimates, and other assumptions made therein. The economic and financial condition of the Government and its instrumentalities is affected by various legal, financial, social, economic, environmental, governmental, and political factors. The aforementioned financial projections contain forward looking statements. Certain of these statements relate to anticipated future events, future results of operations or future financial performance. In some cases, the words “may,” “might,” “will,” “should,” “intends,” “expects,” “plans,” “goals,” “projects,” “forecasts,” “anticipates,” “believes,” “estimates,” “predicts,” “potential,” or “continue” or the negative of these terms or other comparable terminology are generally intended to identify forward-looking statements. These factors can be very complex, may vary from one fiscal year to the next, and are frequently the result of actions taken or not taken, not only by the Government and the Oversight Board, but also by other third-party entities such as the government of the United States. Examples of these factors include, but are not limited to:

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

Because of the uncertainty and unpredictability of these factors, their impact could not be reasonably included in the assumptions contained in the PRIDCO Fiscal Plan. There can be no guaranty as to future results, levels of activity or performance. Undue reliance should not be placed on these forward-looking statements, which speak only as of the date that they were made. There is no intention to update any of these illustrative, forward-looking, statements to conform these statements to reflect actual results, later events or circumstances or to reflect the occurrence of unanticipated events. The assumptions underlying this financial information are necessarily subjective. There can be no assurance that these assumptions are currently correct or that they will remain correct or accurate in the future. Accordingly, there can be no guaranty that this information fully or correctly demonstrates the relationships among the economic factors comprised by this financial information. There are no representations or warranties that the projections are without flaws in logic or mechanics, although best efforts to design and build the financial information to demonstrate forecasted financial operations and financial performance based on the stated assumptions were undertaken. In addition to the typical limitations of any forecast, the projections also are subject to the additional uncertainties associated with preparing projections regarding the impact of the COVID-19 pandemic and in the context of the evolving public health response.

The PRIDCO Fiscal Plan assumes effective and timely implementation of revenue and expense measures.

The PRIDCO Fiscal Plan projections rely on the effective and timely implementation of various revenue and expense measures. This assumes that any subsequent policy changes or departures from the PRIDCO Fiscal Plan targets and objectives will adhere to the revenue-neutrality and overall spending limits contemplated by the PRIDCO Fiscal Plan and related certified Budgets. In order to assure effective implementation and credibility to the Fiscal Plan objective and projections, the Oversight Board requires the Government to provide periodic reports on financial performance and implementation progress. Delays or departures from the revenue

and expense measure targets, milestones, and reporting specified in the Fiscal Plan could materially alter the PRIDCO Fiscal Plan projections.

The PRIDCO Fiscal Plan does not assume major changes in the current political climate in Puerto Rico or the United States subsequent to its certification.

The PRIDCO Fiscal Plan policies and financial projections are driven by the executive commitment and legislative policies in the United States and Puerto Rico political climate which existed at the time of the certification of the PRIDCO Fiscal Plan. Much of the financial projections are closely tied to federal funding availability and local political commitment. The PRIDCO Fiscal Plan does not take into account future changes in the political environment – such as those from the Puerto Rican administration, Puerto Rican legislative and regulatory direction, federal appropriations and funding policies, federal tax exemptions, or Puerto Rico’s statehood or relationship with the federal government.

Risks Relating to the Tax Treatment of the New Bonds.

The Exchange of Participating Bond Claims for the PRIDCO Cash Portion and the New Bonds will be a taxable event to U.S. Holders.

The exchange of Participating Bond Claims for the PRIDCO Cash Portion and the New Bonds generally will constitute a taxable exchange of the Participating Bond Claims for U.S. federal income tax purposes. Therefore, a U.S. Holder (as defined in “Certain U.S. Federal Income Tax Considerations”) will recognize gain or loss equal to the difference between the amount realized on the exchange (except to the extent attributable to accrued and unpaid interest) and the U.S. Holder’s adjusted tax basis in the Participating Bond Claims on the date of the exchange. The Qualifying Modification provides that, to the extent applicable, distributions to a holder of a Participating Bond Claim will be allocated first to the principal amount of the Participating Bond Claim (as determined for federal income tax purposes), second, to any applicable accrued but unpaid interest as of the date immediately preceding the PRIDCO Effective Date and then, to the extent the consideration exceeds the principal amount of the Claim, to such other amounts (such as any accrued but unpaid interest other than described in the preceding clauses). To the extent that any portion of the aggregate consideration received by a U.S. Holder pursuant to the exchange is attributable to accrued and unpaid interest on a Claim, such portion generally will be includable in gross income as ordinary interest income if such accrued interest has not been included previously in gross income for U.S. federal income tax purposes. No assurance can be provided that the IRS will not challenge the allocation with respect to payments on the Participating Bonds. See “*Certain U.S. Federal Income Tax Considerations—Tax Consequences to U.S. Holders—Tax Treatment of the Qualifying Modification.*”

U.S. Holders may be required to report interest income in certain years in excess of the amount of interest actually paid to such holders in those years, resulting in “phantom income” for U.S. federal income tax purposes.

U.S. Holders will be required to include interest on New Bonds in gross income for U.S. federal income tax purposes as it accrues over the term of New Bonds under original issue discount principles, regardless of such U.S. Holder’s method of accounting. If interest accruals exceed the cash payments on a New Bond in any year, a U.S. Holder will have “phantom income” in that year, which may be substantial. See “*Certain U.S. Federal Income Tax Considerations—Tax Consequences to U.S. Holders—Taxation of the New Bonds—Interest Accruals and Adjustments to Accruals on the New Bonds.*”

All holders should read the discussion of the United States federal income tax consequences of the purchase, ownership, and the disposition of the New Bonds that is contained herein under the heading “Certain U.S. Federal Income Tax Considerations.”

PRIDCO TITLE VI PROCEEDINGS

Certification of the Qualifying Modification and Establishment of a Pool

On October 25, 2023, the Oversight Board issued a resolution (the “Certification Resolution”):

- authorizing PRIDCO, pursuant to Section 601(e) of PROMESA, to avail itself of Title VI of PROMESA;
- certifying the *Qualifying Modification Pursuant to PROMESA Title VI for the Puerto Rico Industrial Development Company* as a Voluntary Agreement under Section 104(i)(1) of PROMESA;
- certifying the *Qualifying Modification Pursuant to PROMESA Title VI for the Puerto Rico Industrial Development Company* as a Qualifying Modification pursuant to Section 601(g)(2) of PROMESA; and
- certifying the Participating Bond Claims as the only Pool pursuant to Section 601(d) of PROMESA.

Satisfaction of the Information Delivery Requirement

On October 25, 2023, the Oversight Board acknowledged receipt of the Information Delivery Requirement pursuant to Section 601(f) of PROMESA. The Oversight Board has not confirmed the accuracy or determined the adequacy of such information.

THE QUALIFYING MODIFICATION

The following is a summary of certain terms of the form of Qualifying Modification attached hereto as Exhibit A. This summary is not complete and is subject to, and qualified in its entirety by reference to, all the provisions of the Qualifying Modification.

Summary

If the Qualifying Modification is consummated, all Participating Bond Claims will be extinguished and the holders thereof will be entitled only to their pro rata share of the PRIDCO Distribution. See “—*The PRIDCO Distribution*” below.

Upon the consummation of the Qualifying Modification, holders of such Participating Bond Claims will immediately and forever cease to have any rights, interests or claims against PRIDCO or any of its assets or any successors or assigns thereof in respect of such Participating Bond Claims other than the right to receive their pro rata share of the PRIDCO Distribution.

The effectiveness of the Qualifying Modification is subject to certain conditions precedent, including the successful completion of this Solicitation, certification by the Oversight Board of, among other things, receipt of the Requisite Approvals and entry of an order by the District Court approving the Qualifying Modification. See “—*Conditions to the Consummation of the Qualifying Modification*” below.

The PRIDCO Distribution

If the Qualifying Modification is consummated, all Participating Bond Claims will be extinguished and the holders thereof will be entitled only to their pro rata share of the PRIDCO Distribution described below. Existing holders of Participating Bond Claims own outstanding bonds with differing maturities. However, such holders’ Participating Bond Claims as treated in the Qualifying Modification are not distinguished based upon existing maturity. Thus, each existing holder will receive a pro-rata portion of the New Bonds to be issued.

Cash

The PRIDCO Distribution will include thirty million dollars (\$30,000,000.00) of cash.

New Bonds

The PRIDCO Distribution will also include \$159,628,000.00* aggregate principal amount of General Purpose Revenue Bonds, Series 2023 (the “New Bonds”), to be issued by PRIDCO pursuant to an Amended and Restated Trust Indenture, by and between PRIDCO and U.S. Bank Trust Company, National Association, as trustee (the “New Bonds Trustee”), the form of which is attached hereto as Exhibit D (the “New Bonds Indenture”). The form of New Bonds Indenture is subject to change between the date of this Solicitation Statement and the PRIDCO Effective Date upon the agreement of the parties to the Restructuring Support Agreement on the terms set forth therein. No additional consent or agreement of any other party is required. For additional information on the New Bonds Indenture, see “*Description of the New Bonds*” in this Solicitation Statement.

The Releases

The Qualifying Modification provides for the Releases that are part of the overall settlement of claims by and among PRIDCO, the Commonwealth, the Oversight Board, and the holders of the Participating Bond Claims. Voting to approve the Qualifying Modification entails granting the Releases, which could result in the release of valuable claims that could ultimately provide a better outcome for the holders of Participating Bond Claims.

For additional information on the releases, see “*The Releases*” in this Solicitation Statement.

* Projected through December 31, 2023 and subject to change pending final reconciliation.

Conditions to the Consummation of the Qualifying Modification

The consummation of the Qualifying Modification is subject to, among other things:

- PRIDCO receiving votes approving the Qualifying Modification from Eligible Voters holding, as of the time of tender into ATOP, (i) not less than a majority of the aggregate amount of Participating Bond Claims (which includes only Participating Bond Claims for the Outstanding principal amount of Outstanding Participating Bonds) and (ii) not less than 66 $\frac{2}{3}$ % of the aggregate amount of Participating Bond Claims (which includes only Participating Bond Claims for the Outstanding principal amount of Outstanding Participating Bonds) for which votes are validly tendered and not withdrawn in this Solicitation;
- the Oversight Board certifying that PRIDCO received the Requisite Approvals; and
- the District Court entering an order approving the Qualifying Modification as satisfying the requirements of Section 601 of PROMESA.

For additional information on the conditions to the consummation of the Qualifying Modification, see “*Exhibit C: Description of PROMESA—Title VI of PROMESA—Binding Effect Requirements*” in this Solicitation Statement.

For additional information on the Qualifying Modification, see “*The Qualifying Modification*” in this Solicitation Statement.

DESCRIPTION OF THE NEW BONDS

The following is a summary of certain terms of the New Bonds, to be issued by PRIDCO pursuant to the New Bonds Indenture, the form of which is attached hereto as Exhibit D and which is subject to change between the date of this Solicitation Statement and the PRIDCO Effective Date upon the agreement of the parties to the Restructuring Support Agreement on the terms set forth therein. This summary is not complete and is subject, and qualified in its entirety by reference, to all the provisions of the New Bonds Indenture. Unless otherwise indicated herein, all references to a "Section" are references to a Section of the New Bonds Indenture.

General

The New Bonds will be issued pursuant to the New Bonds Indenture, the form of which is attached hereto as Exhibit D, and will be dated the date of their delivery.

The New Bonds are issuable as registered bonds without coupons in denominations of \$1,000 and multiples thereof and will bear interest at such rates, be payable and/or redeemable at such times, and will mature on the date and in the principal amount set forth on the inside cover of this Solicitation Statement.

Payments on the New Bonds

The following information concerning DTC and DTC's book entry system has been obtained from DTC and none of PRIDCO, the Commonwealth, nor AAFAF take any responsibility for the accuracy thereof.

DTC will act as securities depository for the New Bonds. The New Bonds will be issued as fully registered bonds registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered certificate will be issued for each maturity of the New Bonds, each in the aggregate principal amount of such maturity, and will be deposited with or for the benefit of DTC.

DTC, the world's largest depository, is a limited purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Exchange Act. DTC holds and provides asset servicing for over two million (2,000,000) issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over eighty five (85) countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. Securities brokers and dealers, banks, trust companies clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Bonds Clearing Corporation, Government Bonds Clearing Corporation, NBS Clearing Corporation, and Emerging Markets Clearing Corporation, (NSCC, GSCC, MBSCC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. Securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com

Purchases of the New Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the New Bonds on DTC's records. The ownership interest of each actual purchaser of each New Bond ("Beneficial Owner") will in turn be recorded on the Direct Participants' and Indirect Participants' records. Beneficial Owners will not receive any confirmation from DTC of their purchases. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the New Bonds are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interest in the New Bonds, except in the event that use of the book-entry system for the New Bonds is discontinued.

To facilitate subsequent transfers, all New Bonds deposited by Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. The deposit of New Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee does not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the New Bonds; DTC's records reflect only the identity

of the Direct Participants to whose accounts such New Bonds are credited, which may or may not be the Beneficial Owners. The Direct Participants and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements, as may be in effect from time to time. Beneficial Owners may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the New Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners may wish to ascertain that the nominee holding the New Bonds for their benefits has agreed to obtain and transmit notices to Beneficial Owners.

Redemption notices shall be sent to DTC. If less than all of the New Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. will consent or vote with respect to the New Bonds unless authorized by a Direct Participant in accordance with DTC's procedures. Under its usual procedures, DTC mails an Omnibus Proxy to PRIDCO as soon as possible after the applicable voting deadline. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the New Bonds are credited as of the applicable voting deadline (identified in a listing attached to the Omnibus Proxy).

Principal, redemption premium, if any, and interest payments on the New Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from PRIDCO, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with New Bonds held for the accounts of customers registered in "street name," and will be the responsibility of such Participant and not of DTC, its nominee, or PRIDCO, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, redemption premium, if any, and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of PRIDCO, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Participants Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the New Bonds at any time by giving reasonable notice to PRIDCO or the New Bonds Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, definitive bond certificates will be printed and delivered.

PRIDCO may decide to discontinue use of the system of book-entry transfers through DTC (or a successor depository). In that event, bond certificates will be printed and delivered.

In the event that such book-entry only system is discontinued, the following provisions will apply: principal of the New Bonds and redemption premium, if any, thereon will be payable in lawful money of the United States of America at the Corporate Trust Office (as defined in the New Bonds Indenture) of the New Bonds Trustee in New York, New York. The transfer of New Bonds will be registrable and they may be exchanged at the Corporate Trust Office of the New Bonds Trustee upon the payment of any taxes or other governmental charges required to be paid with respect to such transfer or exchange.

Principal and Interest

Principal and interest (and premium, if any) will be paid on the New Bonds to the registered owner as of the applicable record date, maturity date or date of redemption, as applicable. Interest on the New Bonds will be paid on each Interest Payment Date (as defined below). Interest shall be paid based on the then applicable interest rate thereon, as set forth below, and the Outstanding Principal Amount as of the immediately preceding Interest Payment Date (after giving effect to the payment of any principal on the New Bonds on such Interest Payment Date) or as of the original issuance date of the New Bonds in the case of the first Interest Payment Date. The applicable interest rate on the New Bonds shall be as follows:

- 7.00% per annum from and including the original date of issuance through the sixth semi-annual Interest Payment Date, and
- Thereafter, 8.75% per annum beginning immediately following the sixth semi-annual Interest Payment Date and including such Interest Payment Date until the New Bonds have been paid in full.

Interest on the New Bonds shall be payable semi-annually on the 1st days of January and July each year, beginning on July 1,

2024 (each such date, an “Interest Payment Date”) and at maturity. Both the principal of and the interest on the New Bonds are payable in any coin or currency of the United States of America which, at the respective dates of payment thereof, is legal tender for the payment of public and private debts. Interest on all of the New Bonds will be computed on the basis of a 360-day year consisting of twelve 30-day months.

Redemption Provisions

Optional Redemption. The New Bonds may be redeemed at the option of PRIDCO prior to maturity, in the manner provided for in the New Bonds Indenture, upon thirty days’ prior notice, from any moneys available therefor other than moneys deposited in the Sinking Fund in respect of an amortization requirement, in whole or from time to time in part, either (i) prior to December 31, 2026 at the face amount of the Outstanding Principal Amount thereof, plus accrued and unpaid interest thereon, if any, to but not including such date of redemption or (ii) thereafter, at the following prices expressed as percentages of the Outstanding Principal Amount to be redeemed plus accrued and unpaid interest thereon, if any, to but not including such redemption date, if redeemed during the twelve-month period beginning on January 1 of the years indicated below:

<u>Redemption Period</u>	<u>Redemption Price</u>
2027-2029	104.0%
2030	103.5%
2031	103.0%
2032	102.5%
2033	102.0%
2034	101.5%
2035	101.0%
2036	100.5%
2037 and thereafter	100.0%

Conditional redemption. Any redemption notice may, at PRIDCO’s discretion, be subject to one or more conditions precedent. The redemption date of any redemption that is subject to the satisfaction of one or more conditions precedent may, at PRIDCO’s discretion, be extended, modified or delayed until such time as any or all such conditions shall be satisfied (or waived by PRIDCO in its discretion), or such redemption may not occur and any notice with respect to such redemption may be modified or rescinded in the event that any or all such conditions shall not have been satisfied (or waived by PRIDCO in its discretion) by the redemption date, or by the redemption date so extended, modified or delayed. In addition, such notice of redemption may be extended, if such conditions shall not have been satisfied (or waived by PRIDCO in its discretion) by providing notice to the holders of the bonds (with a copy to the New Bonds Trustee).

Amortization Requirements. The New Bonds are not subject to any amortization requirements for the first five (5) years after issuance, but thereafter are subject to redemption, on each semi-annual Interest Payment Date, in accordance with the Amortization Requirement from moneys in the Sinking Fund at par plus accrued and unpaid interest thereon, if any, to but not including to the date fixed for redemption. The Amortization Requirement shall be the amount necessary, at a level determined by PRIDCO to, as nearly as practicable, evenly reduce the principal amount of the New Bonds as of the original issuance date thereof, as the same may be decreased from time to time as a result of redemption, amortization or similar retirement of all or a portion of the New Bonds, as set forth more fully in the New Bonds Indenture (the “Outstanding Principal Amount”) to zero at and including the stated maturity; provided that in any case, the final payment on the New Bonds shall be in an amount, greater or less than such even payments, to reduce the principal amount of all outstanding New Bonds to zero and provided further that any reduction in the Outstanding Principal Amount of the New Bonds after the beginning of such amortization schedule, by redemption, repurchase or otherwise, shall not result in a recalculation of the amortization schedule as contemplated hereby.

SUMMARY OF CERTAIN PROVISIONS OF THE NEW BONDS INDENTURE

The following statements are brief summaries of certain provisions of the New Bonds Indenture that apply generally to bonds (“bonds”), including the New Bonds, to be issued under the New Bonds Indenture. Such statements do not purport to be complete and reference is made to the New Bonds Indenture attached hereto as Exhibit D, which is a form only and as such and pursuant to the Restructuring Support Agreement, is subject to change between the date of this Solicitation Statement and the PRIDCO Effective Date upon the agreement of the parties to the Restructuring Support Agreement on the terms set forth therein, including the definition and list of Trusteed Properties contained in the New Bonds Indenture. The form, as so revised or amended, as of any date hereafter, will be made available for examination at the office of PRIDCO.

Definitions of Certain Terms

The following are definitions of certain of the terms used in the New Bonds Indenture and used in this Description of the New Bonds:

“Amortization Requirement” for each six months’ period between semi-annual Interest Payment Dates shall mean the principal amount fixed or computed for such six months’ period as set forth for the retirement of term bonds, including the New Bonds, by purchase or redemption, and as set forth more fully above, with respect to the New Bonds, shall be the amount necessary, at a level determined by PRIDCO to, as nearly as practicable, evenly reduce the Outstanding Principal Amount to zero at and including the stated maturity; provided that in any case, the final payment on the New Bonds shall be in an amount, greater or less than such even payments, to reduce the principal amount of all outstanding New Bonds to zero and provided further that any reduction in the Outstanding Principal Amount of the New Bonds after the beginning of such amortization schedule, by redemption, repurchase or otherwise, shall not result in a recalculation of the amortization schedule as contemplated thereby.

The Amortization Requirements for the term bonds of each series shall be initially the respective principal amounts (each of which shall be in a multiple of \$1,000) for each such six months’ period as fixed in the resolution of PRIDCO authorizing the issuance of the bonds of such series. The aggregate amount of such Amortization Requirements for the term bonds of each series shall be equal to the principal amount of the term bonds of such series and such Amortization Requirements shall begin in the six months’ period of the fiscal year determined by PRIDCO and shall end not later than the six months’ period immediately preceding the maturity of such bonds.

If PRIDCO delivers written notice to the New Bonds Trustee that, in any fiscal year, the total principal amount of the term bonds of any series retired by purchase or redemption shall be in excess of the total amount of the Amortization Requirements for the term bonds of such series to and including such fiscal year, then the remaining Amortization Requirements for the term bonds of such series shall be eliminated or reduced accordingly in the inverse order of the remaining six months’ periods. If PRIDCO delivers written notice to the New Bonds Trustee that the total principal amount of the term bonds of any series retired by purchase or redemption prior to the close of such fiscal year, shall be less than the amount of the Amortization Requirements for the term bonds of such series to and including such fiscal year, the amount of such deficiency shall be added to the amount of the Amortization Requirement for the term bonds of such series for the six months’ period next succeeding for the purpose of determining the amounts to be deposited to the credit of the Redemption Account as described below under “Collection and Disposition of Revenues - Sinking Fund.”

The New Bonds Trustee shall, on the 1st day of June in each fiscal year, compute the Amortization Requirements for each six months’ period of the next succeeding and all subsequent fiscal years for the term bonds of each series then outstanding and file a copy of such computation with the Secretary of PRIDCO. The Amortization Requirement for each six months’ period of the then current fiscal year shall continue to be applicable during the balance of such current fiscal year and no adjustment shall be made therein by reason of term bonds purchased or redeemed or called for redemption during such current fiscal year.

“Government Obligations” means (i) direct obligations of, or obligations the principal of and the interest on which are unconditionally guaranteed by, the United States Government, including securities evidencing ownership interests in such obligations or in specified portions thereof (which may consist of specified portions of the principal of or interest in such obligations), which obligations are held by a bank (including the New Bonds Trustee) or trust company as custodian, under which the Owner of said interests is the real party in interest and has the right to proceed directly or individually against the issuer of such obligations and which obligations are not available to satisfy any claim of the custodian or any persons claiming through the custodians or to whom the custodian may be obligated and (ii) bonds, debentures, notes or participation certificates issued or guaranteed by any instrumentality or agency or person controlled or supervised by and acting as an instrumentality of the United States of America pursuant to authority granted by Congress, including but not limited to: Banks for Cooperatives, Federal

Intermediate Credit Banks, Federal Home Loan Banks, Export- Import Bank of the United States, Government National Mortgage Association, Federal Land Banks, or the Federal National Mortgage Association.

“gross revenues of the Trusteed Properties” means all of the cash income received by PRIDCO, without deduction for any expenses or charges, on account of its ownership or operation of the Trusteed Properties, including the portion of any payments received by PRIDCO on account of use and occupancy insurance covering loss of revenues of any of such Properties and any interest or other income received by PRIDCO from any mortgages or mortgage bonds included as a part of the Trusteed Properties.

“Investment Obligations” means (i) Government Obligations, (ii) obligations issued by the Commonwealth of Puerto Rico or any state or territory of the United States or political subdivision thereof rated in one of the three highest rating categories (without regard to any gradation within such categories) by both Standard & Poor’s Corporation and Moody’s Investors Service, Inc. or their respective successors, or if both such corporations shall be dissolved or liquidated or shall no longer perform the functions of a securities rating service, by a nationally recognized securities rating service, (iii) repurchase agreements with commercial banks fully secured by Government Obligations and (iv) any other investment obligations permitted for governmental instrumentalities such as PRIDCO under the laws of the Commonwealth of Puerto Rico which are rated in any of the three highest rating categories (without regard to any gradation within such categories) by both Standard & Poor’s Corporation and Moody’s Investors Service, Inc. or their respective successors, or if both such corporations shall be dissolved or liquidated or shall no longer perform the functions of a securities rating service, by a nationally recognized securities rating service, or which are collateralized by any of the other Investment Obligations described herein.

“Prerefunded Municipals” means any bonds or other obligations of the Commonwealth of Puerto Rico or any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state or Puerto Rico (a) which are not callable prior to maturity or as to which irrevocable instructions have been given to the trustee of such bonds or other obligations by the obliger to give due notice of redemption and to call such bonds for redemption on the date or dates specified in such instructions, (b) which are secured as to principal, redemption premium, if any, and interest by a fund consisting only of cash or Government Obligations or Time Deposits, which fund may be applied only to the payment of such principal of and interest and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, and (c) as to which the principal of and interest on the Government Obligations or such Time Deposits which have been deposited in such fund along with any cash on deposit in such fund, are sufficient to pay the principal of and interest and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or on the redemption date or dates specified in the irrevocable instructions referred to in subclause (a) above.

“Principal and Interest Requirements” means for any fiscal year, as applied to the bonds of any series, the sum of:

- (a) the amount required to pay the interest on all serial bonds of such series then outstanding which is payable on January 1 in such fiscal year and on July 1 in the following fiscal year,
- (b) the amount required to pay the principal of all serial bonds of such series then outstanding which is payable on January 1 in such fiscal year and on July 1 in the following fiscal year,
- (c) the amount required to pay the interest on all term bonds of such series then outstanding which is payable on January 1 in such fiscal year and on July 1 in the following fiscal year, and
- (d) the Amortization Requirements for the term bonds of such series for the fiscal year.

Provided, however, that for the purpose of determining the maximum Principal and Interest Requirements under the provisions of Sections 209, 608, 609 and subparagraph (c) of Section 402 of the New Bonds Indenture there shall be deducted from the Principal and Interest Requirements computed for any fiscal year the amount of any Redemption Fund income to be paid to the New Bonds Trustee under the New Bonds Indenture for such fiscal year. The Principal and Interest Requirements shall be determined, as required from time to time, by the New Bonds Trustee. In computing the Principal and Interest Requirements for any fiscal year for the bonds of any series, the New Bonds Trustee shall assume that an amount of the term bonds of such series equal to the Amortization Requirements for the term bonds of such series for each six months’ period of such fiscal year will be retired by purchase or redemption on the next succeeding interest payment date.

“Time Deposits” means time deposits, certificates of deposit or similar arrangements with the New Bonds Trustee, Government Development Bank for Puerto Rico or any bank or trust company which is a member of the Federal Deposit Insurance Corporation having a combined capital and surplus aggregating not less than \$100,000,000.

“Trusted Properties” means such of the following properties as shall not have been disposed of as permitted by the New Bonds Indenture: (i) those properties of PRIDCO which are attached as a schedule to the New Bonds Indenture, the form of which is attached as Exhibit D hereto, including all machinery and other equipment owned by PRIDCO and located on or used in or in connection with such properties; (ii) any other properties of PRIDCO, including any such machinery and other equipment owned by PRIDCO and any first mortgages on real property held by PRIDCO as mortgagee, or first mortgage bonds, which become “Trusted Properties” by the terms of the New Bonds Indenture; and (iii) all improvements of and additions to the properties referred to in clauses (i) and (ii) of this paragraph which are acquired or constructed by or on behalf of PRIDCO.

Collection and Disposition of Revenues

Covenant as to Rental of Trusted Properties (Sec. 401). PRIDCO covenants that it will use its commercially reasonable efforts to keep the buildings and the machinery and equipment owned by the Company included in the Trusted Properties rented at all times and that the rentals fixed will be at amounts which PRIDCO determines to be the maximum obtainable in the circumstances. Leases of the Trusted Properties may be renegotiated, canceled or replaced by PRIDCO when it determines such action to be in the best interests of PRIDCO and the bondholders.

PRIDCO further covenants that it will take all reasonable action necessary to collect all rents and other income from the Trusted Properties.

Within fifteen (15) days after January 1 and July 1 of each year the Executive Director shall file with the New Bonds Trustee and shall mail to each bondholder who shall have filed his name and address with the Secretary of PRIDCO for such purpose, a report in respect of the preceding six (6) months’ period setting forth in sufficient detail any change in the rental status of any of the Trusted Properties and listing any of the Trusted Properties which were disposed of by PRIDCO and any properties which were added to the Trusted Properties during such period and the rental received or to be received therefrom.

Notwithstanding anything to the contrary, each of the properties listed in Schedule 2 thereof (each, a “Demolished Trusted Property,” and collectively, the “Demolished Trusted Properties”) shall not be deemed a Trusted Property, and shall not be subject to any covenant or provision therein that is applicable to a Trusted Property, including Sections 401, 602 and 604 of the New Bonds Indenture, other than is set forth in the following proviso; provided, however, the conditions for the sale, transfer, or other disposition of Trusted Properties under Section 608 of the New Bonds Indenture shall continue to apply to any proposed sale, transfer, or other disposition of Demolished Trusted Properties; provided, further, if any Demolished Trusted Property generates any rental income or other revenues, then upon the receipt of any rental income or other revenue with respect to any Demolished Trusted Property, such Demolished Trusted Property shall automatically cease being a Demolished Trusted Property and shall automatically be deemed a Trusted Property, whether or not Schedule 1 to the New Bonds Indenture is updated to list such formerly Demolished Trusted Property. Upon any commencement or completion of any development or renovation of any Demolished Trusted Property, PRIDCO shall promptly notify the New Bonds Trustee of each such event and PRIDCO shall promptly notify the New Bonds Trustee upon the receipt of any initial rental income or other revenue with respect to any property that had been a Demolished Trusted Property immediately prior to the receipt of such rental income or other revenue by PRIDCO. *Sinking Fund (Sec. 402).* A special fund is created by the New Bonds Indenture and designated “Puerto Rico Industrial Development Company Interest and Sinking Fund” (the “Sinking Fund”). Three separate accounts are created in the Sinking Fund designated “Bond Service Account,” “Redemption Account” and “Reserve Account,” respectively. The moneys in each of said Accounts shall be held in trust and, pending application shall be subject to a lien and charge in favor of the holders of the bonds.

PRIDCO covenants that all of the gross revenues of the Trusted Properties collected by PRIDCO will be deposited as received with the New Bonds Trustee without deduction for any expenses or charges. The New Bonds Trustee is required, from such gross revenues received by it during any six (6) months’ period of July 1 to December 31 or January 1 to June 30 of each fiscal year, to promptly make deposits to the credit of the following accounts in the amounts specified and in the following order:

a) to the credit of the Bond Service Account, such amount as may be required, along with the amount of the Redemption Fund income, if any, to be deposited to the credit of said Account on the January 1 or the July 1, as the case may be, following such six (6) months’ period, to make the amount then to credit of the Bond Service Account equal to the total of (i) the interest which will become payable during such six (6) months’ period or within thirty (30) days thereafter on all bonds of each series then outstanding; (ii) the principal of all serial bonds of each series which mature in semi-annual installments, if any, which will become payable within the next ensuing six (6) months; and (iii) an amount in the case of a six (6) months’ period of July 1 to December 31, equal to fifty percent (50%) and, in the case of a six (6) months’ period of January 1 to June 30 equal to one hundred percent (100%) of the principal of all serial bonds of each series which mature in annual installments, if any, which will become payable within the next ensuing twelve (12) months; provided that in the case of variable rate bonds, to the extent the actual interest rate is not known the actual amount deposited will be based on estimates provided to the New Bonds Trustee by PRIDCO in good faith;

b) to the credit of the Redemption Account, such amount as may be required to make the amount deposited during the then current six (6) months' period of July 1 to December 31 or January 1 to June 30 in each fiscal year to the credit of the Redemption Account equal to the Amortization Requirement of such six (6) months' period for the term bonds of each series then outstanding, plus the premium, if any, which would be payable in the next ensuing six (6) months' period on a like principal amount of bonds if such principal amounts of bonds should be redeemed prior to their maturity from moneys in the Sinking Fund; provided, however, that if the amounts so deposited to the credit of said Account or to the credit of the Bond Service Account in any such six (6) months' period shall be less than the required amounts, the requirements therefor shall nevertheless be cumulative and the amounts of any deficiencies in any such six (6) months' period shall be added to the amounts otherwise required to be deposited in each such six (6) months' period in each fiscal year thereafter until such time as such deficiencies shall have been made up; and provided, further, that the requirements of this clause (b) shall be in addition to any other requirements of the New Bonds Indenture for deposits to the credit of the Redemption Account; and

c) to the credit of the Reserve Account, the following amounts (i) on or before January 1, 2024, \$5,586,630.00;(ii) on or before January 1, 2025, \$2,793,315.00; (iii) on or before January 1, 2026, \$2,793,315.00; (iv) on or before January 1, 2027, \$1,583,122.00; (v) on or before January 1, 2028 \$1,583,122.00; (vi) on or before January 1 2029, 1,583,122.00 ; and (v) on or before January 1, 2030 and thereafter, such amount as may be required to make the amount then to the credit of the Reserve Account equal to the maximum amount of the Principal and Interest Requirements for the then current or any fiscal year thereafter on account of all bonds then outstanding; *provided that* the payments to the Reserve Account in clauses (i) through (vi) above are subject to a pro rata reduction to the extent of a refinancing or redemption of the bonds.

Any balance of such gross revenues and Redemption Account income remaining after making the full deposits under clauses (a), (b) and (c) above may be used by PRIDCO for any proper corporate purpose.

Application of moneys in Bond Service Account (Sec. 403). The New Bonds Trustee is required, from time to time, to withdraw from the Bond Service Account and (1) deposit in trust with the Paying Agents sufficient moneys for paying interest on the bonds as such interest becomes due; following such deposit, the Paying Agent shall remit to each registered owner of bonds the amounts required for paying interest upon such bonds as such interest becomes due and (2) deposit in trust with the Paying Agents sufficient moneys for paying the principal of bonds as such principal becomes due.

Application of moneys in Redemption Account (Sec. 404). Moneys held for the credit of the Redemption Account shall be applied to the retirement of bonds issued under the provisions of the New Bonds Indenture as follows:

a) Subject to the direction of PRIDCO and to the provisions of Section 404 of the New Bonds Indenture, the Company shall endeavor to purchase bonds, secured thereby and then outstanding, whether or not such bonds shall then be subject to redemption, at the most advantageous price obtainable with reasonable diligence, having regard to interest rate and price, such price not to exceed the principal of such bonds plus the amount of the premium, if any, which would be payable on the next redemption date to the holders of such bonds if such bonds should be called for redemption on such date from moneys in the Sinking Fund. The New Bonds Trustee shall, at the written direction of the Company, pay the interest accrued on such bonds to the date of delivery thereof from the Bond Service Account and the purchase price from the Redemption Account but no such purchase shall be contracted for within a period of forty-five (45) days next preceding any interest payment date on which bonds are subject to call for redemption under the provisions of the New Bonds Indenture. PRIDCO shall pay from its own funds all expenses in connection with such purchase.

b) Subject to the terms and provisions of the applicable bonds as set forth in Section 208 or 209, as applicable, Article III of the New Bonds Indenture and paragraph (c) of Section 404 of the New Bonds Indenture, the New Bonds Trustee shall call for redemption on each date on which bonds are subject to redemption from moneys in the Sinking Fund such amounts of bonds as have been called for redemption or subject to amortization; provided, however, that, if at any time any proceeds of insurance on, or of the sale of, any Trusteed Properties shall be on deposit to the credit of the Redemption Account, the Company, shall, for such period as it deems to be practicable, endeavor to apply the same to the purchase of bonds under the provisions of paragraph (a) above, without regard to the limitations on the time of purchase contained in said paragraph (a) and shall direct the New Bonds Trustee to remit the purchase price from the Redemption Account; provided, further, that if such proceeds of insurance on or of the sale of, any Trusteed Properties shall be on deposit to the credit of the Redemption Account is less than Fifty Thousand Dollars (\$50,000), then no such repurchase shall be necessary.

c) Moneys held for the credit of the Redemption Account shall be applied to the purchase or redemption of bonds in the following order:

first, the New Bonds issued under the provisions of Section 208 of the New Bonds Indenture (including any bonds issued under the provisions of the first paragraph of Section 210 of the New Bonds Indenture and deemed to be part of the term bonds of such series),

to the extent of the Amortization Requirement, if any, of the then current fiscal year for such term bonds and any deficiency in preceding fiscal years in the purchase or redemption of such term bonds;

second, term bonds of each series, if any, issued under the provisions of Section 209 of the New Bonds Indenture (including any bonds issued under the provisions of the first paragraph of Section 210 of the New Bonds Indenture and deemed to be part of the term bonds of such series) and term bonds of each series, if any, issued under the provisions of the second paragraph of Section 210 of the New Bonds Indenture, in the order of their issuance, to the extent of the Amortization Requirement, if any, of the then current fiscal year for such term bonds and any deficiency in preceding fiscal years in the purchase or redemption of such term bonds;

third, any balance then remaining shall be applied to the purchase or redemption of term bonds of each such series in proportion (as nearly as practicable) to the aggregate principal amount of term bonds of each such series originally issued; and

fourth, after the retirement of all outstanding term bonds, serial bonds issued under the provisions of the New Bonds Indenture in the inverse order of their maturities, and to the extent that serial bonds of different series mature on the same date, in proportion (as nearly as practicable) to the principal amount of bonds of each series maturing on said date.

Application of moneys in Reserve Account (Sec. 405). Moneys held for the credit of the Reserve Account shall first be used for the purpose of paying interest on the bonds and maturing principal of serial bonds whenever and to the extent that the moneys held for the credit of the Bond Service Account shall be insufficient for such purpose, and thereafter for the purpose of making the deposits to the credit of the Redemption Account pursuant to the requirements of clause (b) of Section 402 of the New Bonds Indenture at the end of each of the six (6) months' period specified therein whenever and to the extent that the gross revenues of the Trusteed Properties collected by PRIDCO are insufficient for such purpose. If at any time the moneys held for the credit of the Reserve Account, shall exceed the maximum requirement of the Reserve Account under the provisions of clause (c) of Section 402 of the New Bonds Indenture, such excess shall be applied by the New Bonds Trustee to the credit of the Bond Service Account. Any moneys on deposit in the Reserve Account in substitution for which a reserve account insurance policy or reserve account letter of credit is deposited into the Reserve Account shall, to the extent not required to fund any deficiencies in the amount then required to be on deposit in the Reserve Account, upon written request by the Company, be released and promptly paid over to the Company to be used by the Company for any of its proper corporate purposes.

In the event that at any time the gross revenues of the Trusteed Properties together with the amount on deposit to the credit of the Reserve Account, including amounts available under any reserve account insurance policy or reserve account letter of credit, are not sufficient to permit the withdrawals and application of moneys in the Bond Service Account in the full amounts required by the provisions of Section 403 of the New Bonds Indenture or to make the full deposits to the credit of the Redemption Account pursuant to the requirements of clause (b) of Section 402 of the New Bonds Indenture by the end of any of the six (6) months' periods specified in said clause (b), PRIDCO shall deposit with the New Bonds Trustee such amounts as are necessary to meet such requirements.

Issuance of Additional Bonds

Additional Bonds (Sec. 209). Additional bonds may be issued under Section 209 for any proper corporate purpose of PRIDCO, and Refunding Bonds may be issued by PRIDCO under the provisions of Section 210 of the New Bonds Indenture, in each case secured by the Trusteed Properties pursuant to the New Bonds Indenture, provided that the conditions set forth in the New Bonds Indenture are satisfied.

Particular Covenants and Provisions

No Prior Lien or Charge upon Trusteed Properties or gross revenues (Sec. 603). PRIDCO covenants that it will not create or suffer to be created any lien or charge (other than the lien or charge of the New Bonds Indenture) upon the Trusteed Properties or any part thereof or upon the gross revenues of the Trusteed Properties and that it will pay or cause to be discharged, or will make adequate provisions to satisfy and discharge, within sixty (60) days after the same shall accrue, all lawful claims and demands for labor, materials, supplies or other objects which, if unpaid, might by law become a lien upon such Trusteed Properties or upon such gross revenues.

Nothing contained in the previous paragraph shall require PRIDCO to pay or cause to be discharged, or provide for, any such lien or charge so long as the validity thereof shall be contested in good faith and by appropriate legal proceedings.

Insurance of Trusteed Properties (Sec. 604). PRIDCO covenants that it will, to the extent reasonably obtainable, at all times carry or cause to be carried by a responsible insurance company or companies:

- (i) All risk insurance covering all buildings and machinery and equipment included in the Trusteed Properties, including fire insurance in an amount not less than eighty percent (80%) of the insurable value of such buildings, machinery and equipment and hurricane and earthquake insurance in an amount not less than fifty percent (50%) of such insurable value; and
- (ii) Use and occupancy insurance covering loss of revenues to PRIDCO from any unit of real property hereafter included in the Trusteed Properties from which PRIDCO derived gross income of at least one million dollars (\$1,000,000) in the preceding twelve (12) months' period or from which PRIDCO derived an income of at least two hundred-fifty thousand dollars (\$250,000) in the preceding twelve (12) months' period from contingent rentals, in an aggregate amount of not less than the actual amount of such gross income or contingent rental income, as the case may be, received by PRIDCO in such period.

Provided, however, that if at any time PRIDCO shall be unable to obtain such insurance to the extent above required, either as to amount of such insurance or as to the risks covered thereby, it will not constitute an event of default under the provisions of the New Bonds Indenture if PRIDCO shall carry such insurance to the extent reasonably obtainable; and provided, further, that as to any of the Trusteed Properties which have been leased by PRIDCO under agreements entered into prior to December 31, 2023 and which agreements require the lessee to carry insurance covering the risks referred to in clause (i) above, whether or not in the amounts specified in said clause (i), PRIDCO shall not be required to carry or cause to be carried any insurance referred to in said clause (i) other than as is required by such agreements until the termination of such agreements.

The proceeds of use and occupancy insurance shall be applied as other gross revenues of the Trusteed Properties as provided in Section 402 of the New Bonds Indenture. Except as provided in Section 604 of the New Bonds Indenture, the proceeds of all other insurance shall be deposited with the New Bonds Trustee in a special account to be applied to the repair, replacement or reconstruction of the damaged or destroyed property and shall be disbursed by the New Bonds Trustee upon requisitions signed by the Executive Director and by the Controller of PRIDCO specifying the payee and the amount and purpose of each payment. If such proceeds are more than sufficient for such purposes the balance thereof remaining shall be applied in the same manner as the gross revenues of the Trusteed Properties under said Section 402. If such proceeds shall be insufficient for such purpose, PRIDCO shall supply the deficiency from its own funds. At PRIDCO's option the proceeds of such insurance (other than use and occupancy insurance) may be:

- (iii) deposited to the credit of the Redemption Account, or
- (iv) used by PRIDCO for the acquisition or construction of (i) any real property for revenue producing purposes, (ii) any machinery or other equipment owned by PRIDCO, and located in buildings constituting a part of the Trusteed Properties, from which PRIDCO will derive revenues, and (iii) any first mortgages on real property or any first mortgage bonds; any such properties so acquired or constructed will constitute a part of the Trusteed Properties.

All insurance policies shall be open to the inspection of the New Bonds Trustee and the bondholders and their representatives at all reasonable times.

Separate and Accurate Records of Trusteed Properties (Sec. 607). PRIDCO covenants that it will keep separate and accurate records and accounts of the Trusteed Properties and of the gross revenues of the Trusteed Properties.

PRIDCO further covenants that in the first ninety (90) days of each fiscal year it will cause an audit covering the preceding fiscal year to be made of its books and accounts pertaining to all of the properties of PRIDCO, including the Trusteed Properties with the gross revenues therefrom separately stated, by an independent and nationally recognized firm of certified public accountants. Promptly after the completion of such audit, reports thereof shall be filed with PRIDCO and the New Bonds Trustee and mailed to each bondholder who shall have filed his name and address with the Secretary of PRIDCO for such purpose.

PRIDCO further covenants that it will cause any additional reports or audits relating to its properties to be made as required by law, and that it will furnish to the New Bonds Trustee and the holders of any bonds issued hereunder such other information concerning the Trusteed Properties or their operation as they may reasonably request, with no duty imposed on the New Bonds Trustee to make any such request.

Conditions under which Trusteed Properties may be sold; disposition of bonds (Sec. 608). PRIDCO covenants that, except as permitted in the New Bonds Indenture, it will not sell or otherwise dispose of or encumber (other than leasing as provided in Section 401 of the New Bonds Indenture) the Trusteed Properties or any part thereof.

PRIDCO may sell any of the Trusteed Properties at any time upon the filing with the New Bonds Trustee of a certificate signed by the Executive Director and by the Controller of PRIDCO setting forth:

- i) the gross revenues of the Trusteed Properties received by PRIDCO during the twelve (12) months immediately preceding the month in which such certificate is signed, excluding therefrom revenues received from that portion of the Trusteed Properties which PRIDCO proposes to sell and excluding any other gross revenues which have ceased to accrue to PRIDCO, but including any revenues (other than contingent rentals) which would have been received by PRIDCO from any Trusteed Properties under new or renewal lease agreements entered into by PRIDCO during such twelve (12) months' period if such lease agreements had been in effect throughout such twelve (12) months' period;
- ii) the amount of the maximum Principal and Interest Requirements for any fiscal year thereafter on account of all bonds theretofore issued under the New Bonds Indenture and then outstanding less such principal amount of outstanding bonds as can be retired at the then current redemption price from such part of the proceeds of the sale of such portion of the Trusteed Properties which is to be deposited with the New Bonds Trustee to the credit of the Redemption Account as required or permitted in Section 608 of the New Bonds Indenture; and
- iii) the gross revenues received by PRIDCO during the twelve (12) months immediately preceding the month in which such certificate is signed on account of that portion of the Trusteed Properties which PRIDCO proposes to sell;

if it appears from such certificate that the percentage derived by dividing the amount shown in item (i) of such certificate by the amount shown in item (ii) thereof is at least one hundred twenty-five percent (125%); provided, however, that if the amount shown in item (iii) of such certificate is more than twenty percent (20%) of all the gross revenues of the Trusteed Properties received by PRIDCO during such preceding twelve (12) months, such certificate shall have been approved by an independent and nationally recognized firm of certified public accountants, and PRIDCO shall have agreed with the New Bonds Trustee to deposit to the credit of the Redemption Account a sum in cash at least equal to that percentage of the total sales price of such Trusteed Properties which the sum set forth in said item (iii) of such certificate bears to all of the gross revenues of the Trusteed Properties received by PRIDCO during such preceding twelve (12) months; and provided, further, that PRIDCO may, at its option, without restriction, deposit with the New Bonds Trustee a sum in cash equal to any portion of the sales price of any such Trusteed Properties to the credit of the Redemption Account. The sale of any Trusteed Properties under the above provisions must be consummated by PRIDCO not later than sixty (60) days after the date on which such certificate is signed.

PRIDCO may also sell any of the Trusteed Properties at any time if the consideration to be received by PRIDCO for such Trusteed Properties is cash or property of the type included in the definition of Trusteed Properties and if PRIDCO shall have agreed with the New Bonds Trustee to deposit to the credit of the Redemption Account the total amount of any cash so received and shall have filed with the New Bonds Trustee a certificate signed by the Executive Director of PRIDCO designating such property to be so received as "Trusteed Properties" under the New Bonds Indenture and shall deliver to the New Bonds Trustee a written opinion of the General Counsel of PRIDCO in the form required by Section 208 of the New Bonds Indenture as to the title of such property and the validity of the pledge of the revenues therefrom.

PRIDCO covenants that any amounts which it receives on account of the payment of principal of any mortgages or mortgage bonds included in the Trusteed Properties, other than from the sale thereof, will be deposited with the New Bonds Trustee to the credit of the Redemption Account to the extent, if any, necessary to reduce the principal amount of outstanding bonds so that the gross revenues of the Trusteed Properties received by PRIDCO during the twelve (12) months immediately preceding the month in which such payment is received will be at least equal to one hundred twenty-five per centum (125%) of the maximum Principal and Interest Requirements for any fiscal year thereafter on account of all bonds then outstanding less such principal amount of outstanding bonds which can be retired at the then current redemption price from the amount of such payments so deposited to the credit of the Redemption Account.

PRIDCO may, to the extent permitted by law, mortgage or otherwise encumber the Trusteed Properties or any part thereof for the sole benefit and security of the holders of all bonds issued and to be issued under the provisions of the New Bonds Indenture.

Disposition of Moneys Received for Principal of Mortgages or Mortgage Bonds (Sec. 608). Any amounts received by PRIDCO on account of the payment of principal of any mortgages or mortgage bonds included in the Trusteed Properties, other than from the sale thereof, shall be deposited to the credit of the Redemption Account to the extent, if any, necessary to reduce the principal amount of outstanding bonds so that the gross revenues of the Trusteed Properties received by PRIDCO during the twelve (12) months immediately preceding the month in which such payment is received will be at least equal to one hundred twenty-five percent (125%) of the maximum Principal and Interest Requirements for any fiscal year thereafter on account of all bonds then outstanding less such principal amount of outstanding bonds which can be retired at the then current redemption price from the amount of such payments so deposited to the credit of the Redemption Account.

Control of Other Properties and Revenues of PRIDCO (Sec. 609(a)). Except as provided in subdivision (b) of Section 609 of the New Bonds Indenture (referred to below under the heading “Limitations on Pledging Other Properties and Revenues for Borrowed Money”) any properties, other than the Trusteed Properties, which are owned or are hereafter acquired or constructed by PRIDCO and any and all revenues derived by PRIDCO therefrom, shall remain the property of PRIDCO subject to operation, control and disposition by it and shall not be subject to the lien of the New Bonds Indenture.

Additions to Trusteed Properties at PRIDCO’s Option (Sec. 609(a)). PRIDCO may at any time, at its option, add to the Trusteed Properties (i) any of its real property which it has acquired or constructed for revenue-producing purposes; (ii) any machinery or other equipment owned by PRIDCO and located in buildings constituting a part of the Trusteed Properties from which PRIDCO is deriving revenues; and (iii) any first mortgages on real property which PRIDCO holds as mortgagee or any first mortgage bonds, whereupon such property, including such mortgages and mortgage bonds, will become a part of the Trusteed Properties and be subject to the provisions of the New Bonds Indenture. Such additions to the Trusteed Properties will become effective upon the filing of a certificate signed by the Executive Director describing such property and certifying to its qualifications under Section 609 of the New Bonds Indenture, or delivering the mortgage documents or mortgage bond to the New Bonds Trustee, and designating such property as “Trusteed Properties” and the delivery to the New Bonds Trustee of the written opinion of the General Counsel of PRIDCO as provided in Section 609(a) of the New Bonds Indenture. The Trustee is authorized to open one or more accounts under the New Bonds Indenture to hold any such mortgage documents or mortgage bond.

Limitations on Pledging Other Properties and Revenues for Borrowed Money (Sec. 609(b)). [PRIDCO shall not incur, assume or suffer to be outstanding or otherwise become liable, directly or indirectly, for any indebtedness for borrowed money other than the bonds under the New Bonds Indenture, obligations to the provider of a credit or liquidity facility securing bonds and bank loans made in the ordinary course for its current operations, unless it is expressly provided in the documents evidencing such indebtedness that if at any time PRIDCO is required to deposit any of its funds with the New Bonds Trustee to make up deficiencies in the Bond Service Account or the Redemption Account pursuant to the second paragraph of Section 405 of the New Bonds Indenture, PRIDCO will first apply its available funds to making the deposits in the full amount required by said paragraph to make up such deficiencies before making any further payments on account of the principal of or interest on such indebtedness.]*

Monthly Report of Gross Revenues of Trusteed Properties (Sec. 609(c)). On or before the tenth (10th) day of each month, PRIDCO shall file with the New Bonds Trustee and shall mail to each bondholder who shall have filed his name and address with the Secretary of PRIDCO for such purpose, a certificate signed by the Executive Director and by the Controller of PRIDCO setting forth (i) the gross revenues of the Trusteed Properties received by PRIDCO during the twelve (12) months immediately preceding the month in which such certificate is signed; and (ii) the amount of the maximum Principal and Interest Requirements for any fiscal year thereafter on account of all bonds then outstanding. If a principal underwriter or other representative of the holders of bonds of a series issued under Section 209 or 210 of the New Bonds Indenture is designated, such certificate shall be mailed to such principal underwriter or representative and not to any individual holders of bonds of such series.

If it shall appear that the percentage derived by dividing the amount shown in item (i) of such certificate by the amount shown in item (ii) thereof is less than one hundred fifty percent (150%), PRIDCO shall immediately designate as Trusteed Properties such other of its revenue-producing real properties, machinery or other equipment, or first mortgages or first mortgage bonds, which have not been encumbered by PRIDCO, as may be necessary in order that the gross revenues of the Trusteed Properties to be derived in the next succeeding twelve (12) months’ shall be at least one hundred twenty-five percent (125%) of such maximum Principal and Interest Requirements.

Defeasance

Release of New Bonds Indenture (Sec. 1101). If, when all bonds have become due and payable in accordance with their terms or otherwise as provided in the New Bonds Indenture or shall have been duly called for redemption or irrevocable instructions to call the bonds for redemption or payment shall have been given by PRIDCO to the New Bonds Trustee, the whole amount of the principal and the interest and the premium, if any, so due and payable upon all of the bonds then outstanding shall be paid or sufficient moneys, or Government Obligations, Prerefunded Municipals or Time Deposits, which shall not contain provisions permitting the redemption thereof other than at the option of the holder, the principal of and the interest on which when due, and without reinvestment thereof, will provide sufficient moneys, shall be held by the New Bonds Trustee or the Paying Agents for such purpose, and provision shall also have been made for paying all other sums payable by PRIDCO under the New Bonds Indenture, then the right, title and interest of the New Bonds Trustee shall cease, terminate and become void and the New Bonds Indenture shall be released. The New Bonds Trustee shall, at PRIDCO’s cost and expense, execute such documents to evidence such release as PRIDCO may reasonably require, and shall turn over to PRIDCO or to such officer, board or body as may then be entitled by law to receive the same any surplus in any account in the

* Subject to further discussions.

Sinking Fund; otherwise the New Bonds Indenture shall be, continue and remain in full force and effect; provided, however, that in the event Government Obligations or Prerefunded Municipals or Time Deposits shall be held by the New Bonds Trustee as hereinabove provided, (i) in the event said bonds do not mature and are not to be redeemed within the next succeeding sixty (60) days, in addition to the requirements set forth in Article III of the New Bonds Indenture, PRIDCO shall within thirty (30) days after such obligations shall have been deposited with the New Bonds Trustee cause a notice by PRIDCO to be distributed to the registered owners of bonds and posted on the Electronic Municipal Market Access (EMMA) website setting forth (a) the date designated for the redemption of the bonds, (b) a description of the Government Obligations, Prerefunded Municipals or Time Deposits so held by the New Bonds Trustee and (c) that the New Bonds Indenture has been released in accordance with the provisions of this Section, and (ii) the New Bonds Trustee shall nevertheless retain such rights, powers and privileges under the New Bonds Indenture, as may be necessary and convenient in respect of the bonds for the payment of the principal, interest and any premium for which such Government Obligations or Prerefunded Municipals have been deposited or such Time Deposits have been made. At PRIDCO's request, the New Bonds Trustee shall distribute such notice and/or post such notice on EMMA.

THE RELEASES

Summary of Releases

THE FOLLOWING IS A SUMMARY OF THE QUALIFYING MODIFICATION'S RELEASE PROVISIONS. THIS SUMMARY IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO THE OPERATIVE RELEASE PROVISIONS THAT FOLLOW.

THE QUALIFYING MODIFICATION CONTAINS RELEASES THAT ARE PART OF THE OVERALL SETTLEMENT OF CLAIMS BY AND AMONG PRIDCO, THE COMMONWEALTH, THE OVERSIGHT BOARD AND THE HOLDERS OF PARTICIPATING BOND CLAIMS.

THIS RELEASE IS IN ADDITION TO ANY CLAIMS BARRED BY OPERATION OF LAW UNDER SECTION 601(m) OF PROMESA, WHICH PROVIDES THAT, UPON ENTRY OF A DISTRICT COURT ORDER APPROVING THE QUALIFYING MODIFICATION, THE QUALIFYING MODIFICATION SHALL BE VALID AND BINDING ON ANY PERSON OR ENTITY ASSERTING CLAIMS OR OTHER RIGHTS IN RESPECT OF PARTICIPATING BOND CLAIMS SUBJECT TO THE QUALIFYING MODIFICATION. THE QUALIFYING MODIFICATION MAY HAVE BROAD IMPLICATIONS FOR CLAIMS IN RESPECT OF HOLDERS' PARTICIPATING BOND CLAIMS. HOLDERS SHOULD CONSULT WITH THEIR LEGAL AND OTHER ADVISORS IN RESPECT OF ANY SUCH CLAIMS THAT MAY BE AFFECTED THEREBY, INCLUDING BY OPERATION OF SECTION 601(m) OF PROMESA.

IN THAT RESPECT, PARTIES SHOULD BE AWARE THAT, IF THE QUALIFYING MODIFICATION IS APPROVED AND IF THE PRIDCO EFFECTIVE DATE OCCURS, CERTAIN PARTIES WILL BOTH RECEIVE A RELEASE AND GRANT A RELEASE, AS DESCRIBED BELOW.

EXCEPT AS OTHERWISE PROVIDED IN SECTION 601(m) OF PROMESA, YOU WILL ONLY GRANT THE RELEASE IF YOU ARE A HOLDER OF A PARTICIPATING BOND CLAIM THAT:

1. VOTES TO **APPROVE** THE QUALIFYING MODIFICATION;
2. **DOES NOT VOTE** ON THE QUALIFYING MODIFICATION AND **DOES NOT "OPT OUT"** OF THE RELEASE BY ELECTING INTO THE APPROPRIATE OPTION ON DTC'S ATOP PLATFORM; OR
3. **REJECTS** THE QUALIFYING MODIFICATION AND **DOES NOT "OPT OUT"** OF THE RELEASE BY ELECTING INTO THE APPROPRIATE OPTION ON DTC'S ATOP PLATFORM.

PLEASE TAKE NOTICE THAT IT IS ANTICIPATED THAT YOU WILL BE RESTRICTED FROM TRANSFERRING YOUR BONDS THROUGH THE VOTING DEADLINE, OR AS SOON AS PRACTICABLE THEREAFTER IN ACCORDANCE WITH DTC'S CUSTOMARY PROCEDURES.

THUS, YOU ARE ADVISED TO REVIEW AND CONSIDER THE RELEASE CAREFULLY BECAUSE YOUR RIGHTS MIGHT BE AFFECTED BY IT.

THE RELEASE IS SUBJECT TO APPLICABLE LAW IN ALL RESPECTS. THE RELEASE THAT IS ULTIMATELY APPROVED BY THE DISTRICT COURT IN CONNECTION WITH APPROVAL OF THE QUALIFYING MODIFICATION (IF ANY) MAY DIFFER FROM THE RELEASES REFLECTED HEREIN.

Operative Release, Discharge, and Injunction Provisions

In addition to any claims barred by operation of law under section 601(m) of PROMESA, the following will, upon approval by the District Court, be legally operative to you:

Discharge and Release of Claims and Causes of Action

(a) Except as expressly provided in the Qualifying Modification or the Approval Order, all distributions and rights afforded under the Qualifying Modification shall be, and shall be deemed to be, in exchange for, and in complete satisfaction, settlement, discharge and release of, all Claims or Causes of Action against the Released Parties that arose, in whole or in part, prior to the PRIDCO Effective Date, relating to the PRIDCO Bonds, including, without limitation, any and all Claims arising from or relating to the PRIDCO Litigation, Bond Documents, the Title VI Case, the Issuer or any of its Assets, property, or interests of any nature

whatsoever, including any interest accrued on such Claims, and regardless of whether any property will have been distributed or retained pursuant to the Qualifying Modification on account of such Claims or Causes of Action, solely arising from or relating to the PRIDCO Bonds. Upon the PRIDCO Effective Date, the Issuer shall be deemed discharged and released from any and all Released Claims, including any and all PRIDCO Bond Claims, that arose, in whole or in part, prior to the PRIDCO Effective Date, and all Government Parties and their Related Persons shall be deemed discharged and released from any and all Released Claims, including PRIDCO Litigation Claims, that arose or could have arisen, in whole or in part, prior to the PRIDCO Effective Date.

(b) Except as expressly provided in the Qualifying Modification or the Approval Order, all Entities shall be precluded from asserting any and all Released Claims, including any and all PRIDCO Bond Claims and PRIDCO Litigation Claims, against the Government Parties, their Related Persons, and their Assets, property and rights, remedies, Claims or Causes of Action or liabilities of any nature whatsoever, relating to this Title VI Case, the Issuer or its Assets and property, and regardless of whether any property will have been distributed or retained pursuant to the Qualifying Modification on account of such Claims.

(c) In accordance with the foregoing, except as expressly provided in the Qualifying Modification or the Approval Order, the Approval Order shall constitute a judicial determination, as of the PRIDCO Effective Date, of the discharge and release of all such Released Claims, including PRIDCO Bond Claims and PRIDCO Litigation Claims, and related Causes of Action, and such discharge shall void and extinguish any judgment obtained against the Issuer, any other Released Party, and/or its Assets and property at any time, to the extent such judgment is related to a discharged Claim, debt or liability. As of the PRIDCO Effective Date, and in consideration for the value provided under the Qualifying Modification, each Releasing Party shall be and hereby is deemed to release and forever waive and discharge such Released Claim, including PRIDCO Bond Claim and PRIDCO Litigation Claim, as against the Government Parties, and their respective Assets and property.

Injunction on Claims: Except as otherwise expressly provided in the Qualifying Modification, the Approval Order or such other Final Order of the Title VI Court that may be applicable, all Entities who have held, hold or may hold any Released Claims, including any PRIDCO Bond Claims, PRIDCO Litigation Claims, or any other debt or liability that is discharged or released pursuant to this Qualifying Modification or who have held, hold or may hold Claims or any other debt or liability that is discharged or released pursuant to this Qualifying Modification are permanently enjoined, from and after the PRIDCO Effective Date, from (a) commencing or continuing, directly or indirectly, in any manner, any action or other proceeding (including, without limitation, any judicial, arbitral, administrative or other proceeding) of any kind on any such Claim or other debt or liability that is discharged pursuant to the Qualifying Modification against any of the Released Parties or any of their respective assets or property, (b) the enforcement, attachment, collection or recovery by any manner or means of any judgment, award, decree or order against any of the Released Parties or any of their respective assets or property on account of any Claim or other debt or liability that is discharged pursuant to the Qualifying Modification, (c) creating, perfecting, or enforcing any encumbrance of any kind against any of the Released Parties or any of their respective assets or property on account of any Claim or other debt or liability that is discharged pursuant to the Qualifying Modification, and (d) except to the extent provided, permitted or preserved pursuant to the common law right of recoupment, asserting any right of setoff, subrogation or recoupment of any kind against any obligation due from any of the Released Parties or any of their respective assets or property, with respect to any such Claim or other debt or liability that is discharged pursuant to the Qualifying Modification. Such injunction shall extend to all successors and assigns of the Released Parties and their respective assets and property.

Integral to Qualifying Modification: Each of the discharge, injunction, exculpation and release provisions provided in Article 15.3 of the Qualifying Modification is an integral part of the Qualifying Modification and is essential to its implementation. Each of the Released Parties shall have the right to independently seek the enforcement of the discharge, injunction and release provisions set forth in Article 15.3 of the Qualifying Modification.

Releases by the Government Parties: Except as otherwise expressly provided in the Qualifying Modification or the Approval Order, on the PRIDCO Effective Date, and for good and valuable consideration, each of the Government Parties, the Disbursing Agent and each of the Government Parties' Related Persons shall be deemed to have and hereby does irrevocably and unconditionally, fully, finally and forever waive, release, acquit, and discharge the Released Parties from any and all Claims or Causes of Action that the Government Parties, and the Disbursing Agent, or any of them, or anyone claiming through them, on their behalf or for their benefit, have or may have or claim to have, now or in the future, against any Released Party that are Released Claims or otherwise are based upon, relate to, or arise out of or in connection with, in whole or in part, any act, omission, transaction, event or other circumstance relating to the PRIDCO Bonds, including, without limitation, any and all Claims arising from or relating to the PRIDCO Litigation, Bond Documents, the Title VI Case or the Issuer, or this Qualifying Modification taking place or existing on or prior to the PRIDCO Effective Date, and/or any Claim, act, fact, transaction, occurrence, statement, or omission in connection therewith or alleged or that could have been alleged, including, without limitation, any such Claim, demand, right, liability, or cause of action for indemnification, contribution, or any other basis in law or equity for damages, costs or fees.

Injunction Related to Releases: As of the PRIDCO Effective Date, all Entities that hold, have held, or may hold a Released Claim that is released pursuant to Article XV of the Qualifying Modification, are, and shall be, permanently, forever and completely stayed, restrained, prohibited, barred and enjoined from taking any of the following actions, whether directly or indirectly, derivatively or otherwise, on account of or based on the subject matter of such discharged Released Claims: (a) commencing, conducting or continuing in any manner, directly or indirectly, any suit, action or other proceeding (including, without limitation, any judicial, arbitral, administrative or other proceeding) in any forum; (b) enforcing, attaching (including, without limitation any prejudgment attachment), collecting, or in any way seeking to recover any judgment, award, decree, or other order; (c) creating, perfecting or in any way enforcing in any matter, directly or indirectly, any Lien; (d) setting off, seeking reimbursement or contributions from, or subrogation against, or otherwise recouping in any manner, directly or indirectly, any amount against any liability or obligation owed to any Entity released under Article XV of the Qualifying Modification; and (e) commencing or continuing in any manner, in any place or any judicial, arbitration or administrative proceeding in any forum, that does not comply with or is inconsistent with the provisions of the Qualifying Modification or the Approval Order.

Exculpation

(a) **Government Parties:** The Oversight Board, AAFAF, the Issuer, and each of their respective Related Persons, solely acting in its capacity as such at any time up to and including the PRIDCO Effective Date, shall not have or incur any liability to any Entity for any act taken or omitted to be taken in connection with the Title VI Case, the PRIDCO Restructuring Support Agreement, the formulation, preparation, dissemination, implementation, confirmation or approval of the Qualifying Modification or any compromises or settlements contained therein, or any contract, instrument, release or other agreement or document provided for or contemplated in connection with the consummation of the transactions set forth in the Qualifying Modification; provided, however, that the foregoing provisions of this Section shall not affect the liability of any Entity that otherwise would result from any such act or omission to the extent that such act or omission is determined in a Final Order to have constituted intentional fraud or willful misconduct; provided, further, that nothing in this Section or elsewhere in the Qualifying Modification or Approval Order shall affect or impair the Oversight Board's and its Related Persons' exemption from liability as provided in Section 105 of PROMESA. Nothing in the foregoing provisions of this Section shall prejudice the right of any of the Government Parties, and the Government Parties' officers and directors serving at any time up to and including the PRIDCO Effective Date, and each of their respective professionals to assert reliance upon advice of counsel as a defense with respect to their duties and responsibilities under the Qualifying Modification.

(b) **PRIDCO RSA Parties and the PRIDCO Bond Trustee:** The PRIDCO RSA Parties, the PRIDCO Bond Trustee, and their respective Related Persons shall not have or incur any liability to any Entity for any act taken or omitted to be taken consistent with the Qualifying Modification or in connection with the formulation, preparation, dissemination, implementation, acceptance, confirmation or approval of the Qualifying Modification or any compromises or settlements contained in either, or any contract, instrument, release or other agreement or document provided for or contemplated in connection with the consummation of the transactions set forth in the Qualifying Modification, including the PRIDCO Restructuring Support Agreement; provided, however, that the foregoing provisions of this Section shall not affect the liability of any Entity that otherwise would result from any such act or omission to the extent that such act or omission is determined in a Final Order to have constituted intentional fraud or willful misconduct.

(c) **Bar Order:** Except to the limited extent otherwise provided in the Qualifying Modification, each and every Entity is permanently enjoined, barred and restrained from instituting, prosecuting, pursuing or litigating in any manner any and all Claims, demands, rights, liabilities, or causes of action of any and every kind, character or nature whatsoever, in law or in equity, known or unknown, direct or derivative, whether asserted or unasserted, against any of the Released Parties, based upon, related to, or arising out of or in connection with (i) any of the Released Claims (including, without limitation, Claims and Causes of Action based upon, related to, or arising out of or in connection with the PRIDCO Bonds and the Bond Documents), (ii) approval and consummation of the Qualifying Modification, (iii) the negotiation and consummation of the PRIDCO Restructuring Support Agreement, or (iv) any claim, act, fact, transaction, occurrence, statement or omission in connection with or alleged or that could have been alleged in the Title VI Case, including in each case, without limitation, any such claim, demand, right, liability or cause of action for indemnification, contribution, or any other basis in law or equity for damages, costs or fees incurred arising directly or indirectly from or otherwise relating to the Title VI Case, either directly or indirectly by any Person arising from or related to the claims, acts, facts, transactions, occurrences, statements or omissions that are, could have been or may be alleged in the related actions or any other action brought or that might be brought by, through, on behalf of, or for the benefit of any of the Released Parties (whether arising under federal, state or foreign law, and regardless of where asserted).

No Waiver: Notwithstanding anything to the contrary contained in the Qualifying Modification, the releases and injunctions set forth in such sections shall not, and shall not be deemed to, limit, abridge or otherwise affect the rights of the Oversight Board, PRIDCO, or AAFAF to enforce, sue on, settle or compromise the rights, claims and other matters expressly retained by any of them; provided, however, the foregoing does not limit the rights of the PRIDCO Bond Trustee regarding the obligations arising from or relating to the PRIDCO Trust Agreement.

Supplemental Injunction: Notwithstanding anything contained herein to the contrary, except to the limited extent provided otherwise in the Qualifying Modification, all Entities, including Entities acting on their behalf, who currently hold or assert, have held or asserted, or may hold or assert, any Released Claims against any of the Released Parties based upon, attributable to, arising out of or relating to the PRIDCO Bonds, the PRIDCO Trust Agreement, the PRIDCO Litigation, the PRIDCO Restructuring Support Agreement, the Qualifying Modification, or the Title VI Case, whenever and wherever arising or asserted, whether in the United States or anywhere else in the world, whether sounding in tort, contract, warranty, statute, or any other theory of law, equity or otherwise, shall be, and shall be deemed to be, permanently stayed, restrained and enjoined from taking any action against any of the Released Parties for the purpose of directly or indirectly collecting, recovering or receiving any payment or recovery with respect to any Released Claims arising prior to the PRIDCO Effective Date (including prior to the PRIDCO Filing Date), including, but not limited to:

- (a) Commencing or continuing in any manner any action or other proceeding of any kind with respect to any such Released Claim against any of the Released Parties or the assets or property of any Released Party;
- (b) Enforcing, attaching, collecting or recovering, by any manner or means, any judgment, award, decree or order against any of the Released Parties or the assets or property of any Released Party with respect to any such Released Claim;
- (c) Creating, perfecting or enforcing any Lien of any kind against any of the Released Parties or the assets or property of any Released Party with respect to any such Released Claim;
- (d) Except as otherwise expressly provided in the Qualifying Modification or the Approval Order, asserting, implementing or effectuating any setoff, right of subrogation, indemnity, contribution or recoupment of any kind against any obligation due to any of the Released Parties or against the property of any Released Party with respect to any such Released Claim; and
- (e) Taking any act, in any manner, in any place whatsoever, that does not conform to, or comply with, the provisions of the Qualifying Modification or the Approval Order.

Defined Terms

As used in this section titled “*The Releases*,” certain capitalized terms have the meanings set forth below (such meanings applicable to the singular and plural):

“AAFAF” means the Puerto Rico Fiscal Agency and Financial Advisory Authority, a public corporation and instrumentality of the Commonwealth.

“Affiliate” means with respect to any specified Entity, any other Entity that directly, or indirectly through one or more intermediaries, controls, is controlled by, or is under common control with, such Entity.

“Approval Order” means the order of the Title VI Court approving the Qualifying Modification pursuant to Section 601(m)(1)(D) of PROMESA.

“Assets” means with respect to the Issuer, (a) all “property” of the Issuer, including, without limitation, such property as it may be reflected on the Issuer’s books and records, and (b) all Causes of Action, and any subsequent proceeds thereof, that have been or may be commenced by the Issuer or other authorized representative for the benefit of the Issuer and its Creditors, unless modified or released pursuant to the Qualifying Modification or a Final Order.

“Bond Documents” mean the PRIDCO Trust Agreement and such other agreements, supplements, amendments, and documents executed or delivered in connection with the issuance or maintenance of the PRIDCO Bonds.

“Causes of Action” means all claims, actions, causes of action, rights to payment, choses in action, suits, debts, dues, sums of money, accounts, reckonings, bonds, bills, specialties, covenants, contracts, controversies, agreements, promises, variances, trespasses, damages, judgments, remedies, rights of set-off, third-party claims, subrogation claims, contribution claims, reimbursement claims, indemnity claims, counterclaims, and cross claims (including, but not limited to, all claims for breach of fiduciary duty, negligence, malpractice, breach of contract, aiding and abetting, fraud, inducement, avoidance, recovery, and subordination) that are pending or may be asserted against any Entity whether arising on or before the PRIDCO Effective Date, based in law or equity, whether known, unknown, reduced to judgment, not reduced to judgment, liquidated, unliquidated, fixed, contingent, matured, unmatured, disputed, undisputed, secured or unsecured and whether asserted or assertable directly or derivatively, in law, equity or otherwise and whether asserted or unasserted as of the PRIDCO Effective Date.

“Claim” means any right to payment or performance, whether or not such right is reduced to judgment, liquidated, unliquidated, fixed, contingent, matured, unmatured, disputed, undisputed, legal, equitable, secured, or unsecured, known or unknown or asserted or unasserted; or any right to an equitable remedy for breach or enforcement of performance, whether or not such right to an equitable remedy is reduced to judgment, fixed, contingent, matured, unmatured, disputed, undisputed, secured, or unsecured, and all debts, suits, damages, rights, remedies, losses, liabilities, obligations, judgments, actions, Causes of Action, demands, or claims of every kind or nature whatsoever, in law, at equity, or otherwise.

“Commonwealth” means the Commonwealth of Puerto Rico.

“Disbursing Agent” means such Entity or Entities designated by the Administrative Supervisor, after consultation with AAFAF, on or prior to the PRIDCO Effective Date to make or to facilitate distributions in accordance with the provisions of the Qualifying Modification.

“Entity” means a Person, a corporation, a general partnership, a limited partnership, a limited liability company, a limited liability partnership, an association, a joint stock company, a joint venture, an estate, a trust, an unincorporated organization, a governmental unit or any subdivision thereof, including, without limitation, the office of the United States Trustee, or any other entity.

“Final Order” means an order or judgment of a court of competent jurisdiction that has been entered on the docket maintained by the clerk of such court and has not been reversed, vacated, or stayed and as to which (a) the time to appeal, petition for certiorari, or move for a new trial, re-argument, or rehearing has expired and as to which no appeal, petition for certiorari, remand proceeding, or other proceedings for a new trial, re-argument, or rehearing shall then be pending or (b) if an appeal, writ of certiorari, new trial, re-argument, or rehearing thereof has been sought, (i) such order or judgment shall have been affirmed, reversed or remanded in part or in full, with no further proceedings on remand, by the highest court to which such order was appealed, certiorari shall have been denied, or a new trial, re-argument, or rehearing shall have been denied or resulted in no modification of such order and (ii) the time to take any further appeal, petition for certiorari, or move for a new trial, re-argument, or rehearing shall have expired; provided, however, that the possibility that a motion pursuant to Rule 60 of the Federal Rules of Civil Procedure, or any analogous rule, may be filed relating to such order shall not prevent such order from being a Final Order, except as provided in the Federal Rules of Appellate Procedure or any other analogous rules.

“Government Parties” means, collectively, (a) the Oversight Board, (b) committees and subcommittees of the Oversight Board, including, without limitation, the Special Claims Committee of the Oversight Board, (c) the Commonwealth of Puerto Rico, including, without limitation, any of its agencies, (d) Puerto Rico Public Buildings Authority, (e) the Issuer, and (f) AAFAF.

“Issuer” means PRIDCO.

“Lien” means any charge against or interest in property to secure payment of a debt or performance on an obligation.

“Oversight Board” means the Financial Oversight and Management Board for Puerto Rico established pursuant to Section 101 of PROMESA.

“Person” means an individual, general partnership, limited partnership, corporation, limited liability company, limited liability partnership, cooperative, trust, unincorporated organization, association, joint stock company, joint venture, estate, government, or agency or political subdivision thereof, or any other form of legal entity.

“PRIDCO Bonds” means, collectively, the following bonds issued by PRIDCO in accordance with the terms of the PRIDCO Trust Agreement: (a) General Purpose Revenue Bonds, Series 2003, issued in the original principal amount of One Hundred Thirty-Five Million Seven Hundred Sixty-Five Thousand One Hundred Fifty-Nine Dollars and Twenty Cents (\$135,765,159.20); (b) Refunding Revenue Bonds, Series 2003, issued in the original principal amount of Twenty-Five Million Nine Hundred Fifteen Thousand Dollars (\$25,915,000.00); (c) General Purpose Revenue Bonds, Series 1997 A, issued in the original principal amount of Fifty-One Million One Hundred Ninety-Five Thousand Three Hundred Forty Dollars (\$51,195,340.00); and (d) Refunding Revenue Bonds, Series 1997 A, issued in the original principal amount of Eighty-One Million Eight Hundred Eighteen Thousand Five Hundred Eighty-Four Dollars and Forty Cents (\$81,818,584.40).

“PRIDCO Bond Claims” means, collectively, all Claims against PRIDCO or the Commonwealth arising from or relating to the PRIDCO Bonds, including, without limitation, the PRIDCO Litigation Claims.

“PRIDCO Bond Trustee” means U.S. Bank Trust National Association, solely in its capacities as trustee, paying agent, and registrar with respect to the PRIDCO Bonds.

“PRIDCO Effective Date” means the first (1st) Business Day on which all the conditions precedent to the substantial consummation of the Qualifying Modification and occurrence of the PRIDCO Effective Date specified in Section 10.1 thereof shall have been satisfied or waived, as provided in Section 10.3 thereof.

“PRIDCO Filing Date” means the date of the commencement of the Title VI Case in the Title VI Court.

“PRIDCO Litigation” means the litigation styled (a) *Crown Managed Accounts SPC – Crown/GT Segregated Portfolio, et al. v. Puerto Rico Industrial Development Corp., et al.*, Case No. 23-CV-01017-RAM, currently pending in the United States District Court for the District of Puerto Rico, and (b) such other litigation as may be currently pending or as may be commenced during the period up to and including the PRIDCO Effective Date wherein claims or causes of action consistent with or similar to those asserted or that could have been asserted in the above-referenced litigation have been asserted.

“PRIDCO Litigation Claims” means, collectively, all Claims and Causes of Action that arise in, are related to or have been or could have been asserted against the Government Parties and each of their Related Persons in or in connection with the PRIDCO Litigation.

“PRIDCO Restructuring Support Agreement” means that certain PRIDCO Restructuring Support Agreement, dated as August 3, 2023, by and among the Oversight Board, AAFAF, PRIDCO, and the PRIDCO RSA Parties, as it may be amended, modified, or supplemented in accordance with the terms thereof.

“PRIDCO RSA Parties” means, collectively, the parties to the PRIDCO Restructuring Support Agreement, other than the Oversight Board, AAFAF, and PRIDCO.

“PRIDCO Trust Agreement” means that certain Trust Agreement, dated as of July 1, 1964, between PRIDCO and First City National Bank, together with all amendments, exhibits, schedules, resolutions, and other documents attached thereto or executed in connection therewith.

“PROMESA” means The Puerto Rico Oversight, Management, and Economic Stability Act, Pub. L. No. 114-187, 130 Stat. 549 (2016), 48 U.S.C. § 2101, et. seq., as it may be amended or modified.

“Qualifying Modification” means the *Qualifying Modification Pursuant to PROMESA Title VI for the Puerto Rico Industrial Development Company*, including, without limitation, the exhibits and schedules hereto, as the same is amended, supplemented, or modified from time to time in accordance with the provisions of PROMESA and the terms thereof.

“Related Persons” means with respect to any Entity (including for the avoidance of doubt, the Government Parties), its predecessors, successors and assigns (whether by operation of law or otherwise) and their respective current and former employees, managers, elected or appointed officials, directors, officers, board members, principals, members, equity holders (whether such interests are held directly or indirectly), partners, financial advisors, attorneys, accountants, consultants, agents and professionals (including, without limitation, any and all Professionals retained by the Issuer, the Administrative Supervisor and AAFAF), or other representatives, nominees or investment managers, each acting in such capacity, and any Entity claiming by or through any of them (including their respective officers, directors, managers, shareholders, partners, employees, members and professionals), each in its respective capacity as such.

“Released Claims” means, collectively, (a) with respect to those Entities party to the PRIDCO Restructuring Support Agreement, PRIDCO Bond Claims and related Causes of Action released hereunder and in accordance with the PRIDCO Restructuring Support Agreement, (b) PRIDCO Litigation Claims, (c) PRIDCO Bond Claims and related Claims and Causes of Action that arise in, are related to or have been or could have been asserted against the Issuer or its respective Assets in the Title VI Case, (d) Claims and Causes of Action arising from or relating to the PRIDCO Bonds, including, without limitation, any all Claims arising from or relating to the PRIDCO Trust Agreement, and (e) Claims that otherwise arise from or relate to the Title VI Case, the Qualifying Modification, or the PRIDCO Restructuring Support Agreement, and the compromises set forth herein, including, without limitation, in connection with or related to any of the Government Parties, and their respective subsidiaries, assets, liabilities, operations, or property; provided, however, that, “Released Claims” is not intended to include, nor shall it have the effect of including, (i) Claims or Causes of Action unrelated to the Issuer, the PRIDCO Bonds, the PRIDCO Litigation, or the PRIDCO Trust Agreement, or (ii) except to the extent dismissed with prejudice in the PRIDCO Litigation, Claims that result from an act or omission to the extent that such act or omission is determined in a Final Order to have constituted gross negligence, intentional fraud or willful misconduct; and, provided, further, that “Released Claims” is not intended to release, nor shall it have the effect of releasing, (i) any party from the performance of its obligations in accordance with the Approval Order, the PRIDCO Restructuring Support Agreement, or the Qualifying Modification, or (ii)

indemnities, directions or other contractual undertakings by the PRIDCO RSA Parties or other holders of PRIDCO Bond Claims in favor of the PRIDCO Bond Trustee; and, provided, further, that “Released Claims” shall not include claims against any party other than the Released Parties.

“Released Parties” means, collectively, solely to the extent provided in the Qualifying Modification, (a) the Government Parties, (b) the PRIDCO RSA Parties, (c) the PRIDCO Bond Trustee, and (d) with respect to the foregoing clauses (a) through (c), each of their respective Related Persons.

“Releasing Parties” means, collectively, solely to the extent provided in the Qualifying Modification, a) all holders of PRIDCO Bond Claims against the Issuer or its Assets, (b) such holders’ current and former Affiliates, (c) all holders of PRIDCO Litigation Claims, (d) such holders’ current and former Affiliates, and (e) with respect to the foregoing clauses (a), (b), (c), and (d), each such Entity’s current and former Related Persons; provided, however, that except to the extent permitted pursuant to PROMESA Section 601(m), Releasing Parties shall not include any holder of a PRIDCO Bond Claim that “opts out” of the releases by electing the appropriate option on The Depository Trust Company’s Automated Tender Offer Program platform.

“Title VI Case” means the Title VI case to be commenced for PRIDCO for the approval of this Qualifying Modification pursuant to Section 601(m)(1)(D) of PROMESA and District of Puerto Rico Local Civil Rule 3.1.

“Title VI Court” means the United States District Court of the District of Puerto Rico or such other court having jurisdiction over the Title VI Case.

PRINCIPAL TERMS OF THIS SOLICITATION

This section summarizes the terms of this Solicitation. Although PRIDCO believes that this description covers the material terms of this Solicitation, this summary may not contain all the information that is important to you. You should carefully read the entire Solicitation Statement and the other documents PRIDCO refers to or incorporates by reference for a more complete understanding of this Solicitation.

General

PRIDCO is soliciting votes from Eligible Voters to approve the Qualifying Modification. For additional information on the Qualifying Modification, see “*The Qualifying Modification*” in this Solicitation Statement.

If the Qualifying Modification is approved pursuant to this Solicitation and the other conditions to its consummation are satisfied, the consummation of the Qualifying Modification will result in a financial restructuring of certain of PRIDCO’s indebtedness, pursuant to which all Participating Bond Claims, whether or not the holders thereof have voted in this Solicitation to approve the Qualifying Modification, will be cancelled and the holders thereof will be entitled only to the PRIDCO Distribution.

Important Dates

Voting Deadline. This Solicitation expires at **5:00 P.M., Eastern Standard Time, on November 24, 2023**, unless such date or time is extended by PRIDCO in its sole discretion, subject to applicable law and the Restructuring Support Agreement.

Eligible Voters

Eligible Voters are entitled to vote in this Solicitation to approve or reject the Qualifying Modification.

An “Eligible Voter” is the beneficial owner of a Participating Bond Claim.

Requisite Approvals

Each of the voting requirements below must be satisfied for this Solicitation to approve the Qualifying Modification.

The Majority Vote Requirement. Pursuant to PROMESA, for this Solicitation to approve the Qualifying Modification, Eligible Voters of not less than a majority of the aggregate amount of Participating Bond Claims (which includes only Participating Bond Claims for the Outstanding principal amount of Outstanding Participating Bonds) must vote to approve the Qualifying Modification.

The Supermajority Vote Requirement. Pursuant to PROMESA, for this Solicitation to approve the Qualifying Modification, Eligible Voters of not less than 66 ⅔% of the aggregate amount of Participating Bond Claims (which includes only Participating Bond Claims for the Outstanding principal amount of Outstanding Participating Bonds) for which votes are validly tendered and not validly withdrawn must vote to approve the Qualifying Modification.

The Restructuring Support Agreement

On August 3, 2023, the Oversight Board and certain holders of the Participating Bonds entered into the Restructuring Support Agreement. On August 31, 2023, AAFAF and PRIDCO executed the Restructuring Support Agreement. In general, the Restructuring Support Agreement sets forth the agreement of the parties to support the terms of the Qualifying Modification.

Under the Restructuring Support Agreement, in exchange for supporting the Qualifying Modification, and subject to the approval of the Qualifying Modification, the creditor parties are entitled to the PRIDCO Distribution.

A creditor party to the Restructuring Support Agreement may terminate the Restructuring Support Agreement solely as to itself, at its sole option and discretion and upon written notice to the other parties to the Restructuring Support Agreement if (i) the Oversight Board fails to comply with any of its respective covenants or undertakings under the Restructuring Support Agreement and if such failure to comply has or would have an adverse economic or legal impact on a holder of Participating Bonds, including an adverse economic impact in the treatment afforded to such holder of Participating Bonds under the Qualifying Modification (including any applicable settlement under the Qualifying Modification or changes to the legal protections set forth in the Restructuring Support Agreement), (ii) the Oversight Board files any motion or pleading with the United States District Court of the District of Puerto Rico or such other court having jurisdiction over the Commonwealth of Puerto Rico's Title III case (the "Title VI Court"), in each case, that is inconsistent with the Restructuring Support Agreement, including the Qualifying Modification, in any adverse economic or legal respect (including treatment under the Qualifying Modification or any applicable settlement under the Qualifying Modification or the terms and structure of the PRIDCO bonds issued pursuant to the Qualifying Modification, set forth in the Qualifying Modification) and such motion or pleading has not been withdrawn before the earlier to occur of (y) five Business Days after the Oversight Board receives written notice from another party to the Restructuring Support Agreement (in accordance with the notice provisions set forth in same) that such motion or pleading is inconsistent with the Restructuring Support Agreement in such adverse economic or legal respect and (z) entry of an order of the Title VI Court approving such motion or pleading, (iii) the entry of a Final Order in the Title VI case to be commenced for PRIDCO for the approval of the Qualifying Modification pursuant to Section 601(m)(1)(D) of PROMESA and District for Puerto Rico Local Civil Rule 3.1, denying approval of the Qualifying Modification, (iv) PRIDCO fails to make the distribution provided for in the Restructuring Support Agreement, or (v) the PRIDCO Effective Date has not occurred by December 31, 2023. Notwithstanding the foregoing, no holder of Participating Bonds shall be entitled to terminate the Restructuring Support Agreement based on the Oversight Board's (y) alteration, amendment or modification of the Qualifying Modification at any time prior to the PRIDCO Effective Date in a manner that otherwise does not have an adverse economic or legal impact on such holding of Participating Bonds or (z) entry into any agreement in connection with the restructuring or payment of any claim of the GDB Debt Recovery Authority against PRIDCO in a manner that otherwise does not have an adverse economic or legal impact on any holder of Participating Bonds. Likewise, the Restructuring Support Agreement may be terminated as to all parties by the Oversight Board if (i) any other party fails to comply with its covenants or undertakings under the Restructuring Support Agreement, and such non-compliance has a material adverse effect on the approval of the Qualifying Modification (as determined jointly by the Government Parties, after consultation with holders of Participating Bonds), (ii) a court order is entered, and such order is not reversed or otherwise consensually resolved in a manner satisfactory to the Government Parties, and such order in the light of the totality of the circumstances, has a material adverse effect on the approval of the Qualifying Modification or renders consummation of the Qualifying Modification impracticable, (iii) the Title VI Court or such other court of competent jurisdiction enters a Final Order denying approval of the Qualifying Modification, or (vi) a court of competent jurisdiction issues a ruling, judgment, or order making illegal or otherwise preventing or prohibiting the consummation of the Qualifying Modification, which ruling, judgment, or order has not been reversed or vacated within sixty (60) calendar days after such issuance and is not subject to a stay. That said, the creditors party to the Restructuring Support Agreement are committed to support and vote in this Solicitation to approve the Qualifying Modification, on the terms set forth in the Restructuring Support Agreement.

The Oversight Board, AAFAF, and PRIDCO are committed to propose and take steps necessary to achieve consummation of the Qualifying Modification, and the parties to the Restructuring Support Agreement are committed to support and vote (as applicable) in this Solicitation to approve the Qualifying Modification, on the terms set forth in the Restructuring Support Agreement. Consistent with the Restructuring Support Agreement, PRIDCO is soliciting votes to approve the Qualifying Modification.

Eligible Voters entitled to vote over two-thirds (2/3) of the Participating Bond Claims have already agreed to vote to approve the Qualifying Modification, subject to certain terms and conditions contained in the Restructuring Support Agreement. If each such holder votes as agreed to approve the Qualifying Modification, the Majority Vote Requirement and the Supermajority Vote Requirement

(as each term is defined herein) will be satisfied. The Restructuring Support Agreement may be terminated in certain circumstances specified in the Restructuring Support Agreement.

Amendment of this Solicitation; Extension of the Voting Deadline

Subject to applicable law, the Restructuring Support Agreement, and re-certification by the Oversight Board of satisfaction of the Information Delivery Requirement pursuant to Section 601(f) of PROMESA, PRIDCO may, in its sole discretion, (i) amend the terms of this Solicitation (including extending the Voting Deadline) or (ii) amend the terms of this Solicitation and reopen voting on this Solicitation after the Voting Deadline.

PRIDCO reserves the right, subject to applicable law and the terms of the Restructuring Support Agreement, to waive any or all of the conditions of this Solicitation.

Any amendment to the terms of this Solicitation may be given by oral (to be confirmed in writing) or written notice to the Calculation Agent and by making public disclosure by press release or other appropriate means. For additional information on how PRIDCO intends to announce developments in this Solicitation, see “—*Announcements*” below.

Subject to the re-certification by the Oversight Board of satisfaction of the Information Delivery Requirement pursuant to Section 601(f) of PROMESA, any waiver, amendment or modification of this Solicitation will apply to all votes tendered pursuant to this Solicitation. If PRIDCO makes a change that it determines to be material to any of the terms of this Solicitation, PRIDCO will give oral (to be confirmed in writing) or written notice to the Calculation Agent of such amendment or such waiver, and will disseminate additional documents and extend the Voting Deadline as it determines necessary and to the extent required by law.

There can be no assurance that PRIDCO will exercise its right to extend or amend this Solicitation.

Termination of this Solicitation

Subject to applicable law and the Restructuring Support Agreement, PRIDCO may, in its sole discretion, terminate this Solicitation at any time prior to the Voting Deadline. Except as otherwise provided herein, in the event that this Solicitation is terminated prior to the Voting Deadline, all votes tendered will be deemed voided.

Announcements

Any amendment, extension or termination of this Solicitation will be followed as promptly as practicable by announcement thereof, such announcement in the case of an extension to be issued no later than 9:00 A.M., Eastern Standard Time, on the next business day following the previously scheduled Voting Deadline. Without limiting the manner in which PRIDCO may choose to make such announcement, PRIDCO will not, unless otherwise required by law, have any obligation to publish, advertise or otherwise communicate any such announcement other than by making a release to an appropriate news agency or other means of announcement that PRIDCO considers appropriate.

AT THIS TIME, PRIDCO IS NOT REQUESTING THE DELIVERY OF, AND NEITHER PRIDCO NOR THE CALCULATION AGENT WILL ACCEPT, CERTIFICATES REPRESENTING ANY PARTICIPATING BOND CLAIMS.

VOTING PROCEDURES AND REQUIREMENTS

General

In order to participate in this Solicitation, you must instruct your Nominee to tender your Participating Bonds into DTC's ATOP platform on or before the Voting Deadline. PRIDCO has the right to waive any defects in the procedures below; however, PRIDCO is not required to waive defects and is not required to notify you of defects in your (or your Nominee's) tender into ATOP.

If you have any questions or need help in tendering your Participating Bonds into ATOP for voting purposes, please contact your Nominee or the Information Agent (which is also the Calculation Agent), whose address and telephone numbers are listed on the back cover of this Solicitation Statement.

Voting Procedures

After carefully reviewing this Solicitation Statement and its attachments, please indicate your approval or rejection of the Qualifying Modification by submitting a vote in accordance with these procedures. To vote, you must instruct your Nominee to tender your Participating Bonds into DTC's ATOP.

Beneficial holders will not be permitted to transfer their Participating Bonds once tendered into DTC's ATOP. Holders of Participating Bond Claims that vote through ATOP to either accept or reject the Qualifying Modification will be restricted from transferring their bonds through the Voting Deadline, or as soon as practicable thereafter.

To validly vote pursuant to this Solicitation, the Eligible Voter must successfully instruct such Voter's Nominee to tender the Voter's Participating Bonds into DTC's ATOP before the Voting Deadline.

Voting of Participating Bond Claims Held by Eligible Voters Through DTC's ATOP

Eligible Voters should instruct their Nominee to tender such Eligible Voters' Participating Bonds into DTC's ATOP on or before the Voting Deadline. Eligible Voters should allot sufficient time for their Nominees to process such tenders and are encouraged to coordinate with their Nominees as soon as possible. When holders of Participating Bonds instruct their Nominee to tender their Participating Bonds via ATOP to vote, the holders will be restricted from transferring their bonds unless such holders revoke their vote and withdraw any tendered bonds from ATOP at any time before the Voting Deadline. If Eligible Voters revoke their vote before the Voting Deadline, then they will be entitled to trade or transfer their Participating Bonds again. After the Voting Deadline, holders of Participating Bonds that have voted by tendering into ATOP will be restricted from transferring their Participating Bonds through the Voting Deadline, or as soon as practicable thereafter.

The Information Agent is authorized, but not required, to distribute the Solicitation Packages in electronic format (flash drive).

Procedures for Vote Tabulation

The following voting procedures and standard assumptions will be used by the Calculation Agent in tabulating votes tendered through ATOP:

1. Any tenders into DTC's ATOP after the Voting Deadline by Nominees for Eligible Voters will not be counted unless the Calculation Agent is expressly instructed to honor such tender by PRIDCO, in which case waiver of the Voting Deadline with respect to such tender will be noted in the final voting report.
2. Whenever an Eligible Voter submits a vote in any other manner except through DTC's ATOP, such vote will not be counted because such Eligible Voters are required to vote through DTC's ATOP.
3. Votes through DTC's ATOP will be accepted in denominations of \$1 by \$1.
4. An Eligible Voter must vote all of its Participating Bond Claims either to approve or reject the Qualifying Modification and may not split its vote. Accordingly, an ATOP tender(s) that partially reject(s) and partially approve(s) the Qualifying Modification, or that do(es) not indicate an approval or a rejection of the Qualifying Modification, or that indicate(s) both approval and rejection of the Qualifying Modification will not be counted. If an Eligible Voter submits ATOP tenders for multiple Participating Bond Claims, then such ATOP tenders, as applicable, must indicate the same vote and/or release election, or else that holder's vote and/or release election will not be counted. In addition, votes to approve or reject the Qualifying

Modification must be unequivocal and not conditional or qualified in any way. Votes that are not unequivocal or are conditional or qualified in any way will not be counted.

5. Unless waived by the Calculation Agent, any defects or irregularities in connection with ATOP tenders must be cured within such time as the Calculation Agent determines. None of PRIDCO, the Calculation Agent, or any other person or entity will be under any duty to provide notification of defects or irregularities with respect to ATOP tenders, nor will any of them incur any liability for failure to provide such notification. Delivery of ATOP tenders will not be deemed to have been made until such irregularities have been cured or waived. ATOP tenders previously furnished (and as to which any irregularities have not theretofore been cured or waived) will not be counted. In these instances, the delivery through ATOP will be revoked and the corresponding tenders will be returned to the target security.

Acceptance of ATOP tenders; Binding Effect

All validly executed and delivered ATOP tenders, including any ATOP tenders with one or more defects that have been waived by the Calculation Agent, submitted in connection with this Solicitation will be tabulated by the Calculation Agent after the Voting Deadline and included in the final voting report prepared by the Calculation Agent.

Subject to Administrative Supervisor certification of the Requisite Approvals and District Court approval of this Solicitation, the Qualifying Modification will be valid, conclusive and binding on all holders of Participating Bond Claims, whether or not they have voted to approve the Qualifying Modification, as set forth in Section 601(m) of PROMESA. For additional information on the requirements for the Qualifying Modification to be binding under PROMESA, see “*Exhibit C: Description of PROMESA—Title VI of PROMESA—Binding Effect Requirements*” in this Solicitation Statement.

Determination of Validity of Tenders into ATOP

All questions as to the validity, form, eligibility (including time of receipt) and tenders into DTC’s ATOP pursuant to any of the procedures described above, and the form and validity (including time of receipt of notices of revocation) of all documents, if applicable, will be determined by the Calculation Agent, in its sole discretion, which determination will be final and binding. Delivery of an ATOP tender will not be deemed to have been validly made until all defects or irregularities in such delivery have been cured or waived. None of PRIDCO, the Calculation Agent, the Information Agent or any other person or entity is under any duty to give notification of any defects or irregularities in any ATOP tenders or in the completion of ATOP tenders, or will incur any liability for failure to give such notice.

Withdrawal of ATOP Tenders

An Eligible Voter voting via ATOP may withdraw its tender (i.e., vote) prior to the Voting Deadline by instructing the Nominee to revoke such holder’s election and withdraw any Bonds that have been tendered with respect to a vote, in sufficient time for the Nominee to receive and effectuate the Eligible Voter’s revocation through ATOP in accordance with the procedures of DTC on or before the Voting Deadline. All bonds that have been tendered with respect to a vote through DTC’s ATOP will be restricted from further trading or transfer through the Voting Deadline, or as soon as practicable thereafter.

If, for any reason whatsoever, this Solicitation is extended or delayed, then all ATOP tenders previously delivered and not validly revoked will remain in effect unless revoked prior to the extended deadline.

The Calculation Agent has the right, at its sole discretion, to reject any defective revocation of ATOP tenders.

CALCULATION AGENT AND INFORMATION AGENT

Calculation Agent

Kroll Restructuring Administration LLC (“Kroll”)* has been appointed the Calculation Agent for this Solicitation for the purpose of calculating the principal amount of the Participating Bonds eligible to vote in the Solicitation and tabulating such votes or consents. All correspondence in connection with this Solicitation should be sent or delivered by each Eligible Voter to the Calculation Agent at the address and telephone numbers set forth on the back cover of this Solicitation Statement. PRIDCO will pay the Calculation Agent reasonable compensation for its services and will reimburse it for certain reasonable expenses in connection therewith.

Information Agent

Kroll has also been appointed as the Information Agent for this Solicitation for the purpose of administering the vote of holders of Participating Bonds, and will receive reasonable compensation for its services. Questions concerning voting procedures and requests for additional copies of this Solicitation Statement should be directed to the Information Agent at the address and telephone numbers set forth on the back cover of this Solicitation Statement.

* On March 29, 2022, Prime Clerk LLC changed its name to Kroll Restructuring Administration LLC.

ERISA CONSIDERATIONS

Participating Bonds may in some instances be held by pension, profit sharing or other employee benefit plans, as defined in Section 3(3) of the Employee Retirement Income Security Act of 1974, as amended (“ERISA”), that are subject to ERISA, or by an entity such as a collective investment fund or separate account whose underlying assets include the assets of such plans that are subject to ERISA (any such plan or entity, a “Plan”). Each fiduciary of a Plan holding Participating Bonds should consider the fiduciary standards of ERISA in the context of the Plan’s particular circumstances before determining the Plan’s vote on whether to approve or reject the Qualifying Modification. Accordingly, among other factors, the fiduciary should consider the description of “Risk Factors” in this Solicitation Statement when considering the Plan’s vote on whether to approve or reject the Qualifying Modification.

In addition, Section 406 of ERISA and Section 4975(c) of the IRC generally prohibit transactions between a Plan (including for this purpose many individual retirement accounts and plans established by self-employed individuals or Keogh plans (each, also a “Plan”)) and a “party in interest” within the meaning of Section 3(14) of ERISA (“Party In Interest”), or a “disqualified person” within the meaning of Section 4975(e)(2) of the IRC. If a non-exempt prohibited transaction does occur, it could result in the transaction being voided or rescinded, as well as excise tax or other monetary penalties and liabilities under ERISA and/or Section 4975 of the IRC. Governmental, church and foreign plans to which ERISA does not apply may be subject to similar rules under federal, state, local or foreign law. Under ERISA and various prohibited transaction class exemptions (“PTCEs”) issued by the U.S. Department of Labor, exemptive relief may be available for a potential direct or indirect prohibited transaction that may occur from a purchase, holding or disposition of Participating Bonds or New Bonds. Those exemptions include PTCE 96-23 (for certain transactions determined by in house asset managers), PTCE 95-60 (for certain transactions involving insurance company general accounts), PTCE 91-38 (for certain transactions involving bank collective investment funds), PTCE 90-1 (for certain transactions involving insurance company separate accounts), PTCE 84-14 (for certain transactions determined by independent qualified asset managers), and the exemption under Section 408(b)(17) of ERISA and Section 4975(d)(20) of the IRC, for certain arm’s-length transactions with a person that is a party in interest solely by reason of providing services to Plans or being an affiliate of such a service provider. Under ERISA, assets of a Plan may include assets held in the general account of an insurance company that has issued an insurance policy to such Plan or assets of an entity in which the Plan has invested. Accordingly, insurance company general accounts that include assets of a Plan must ensure that one of the foregoing exemptions is available.

Due to the complexity of the prohibited transaction rules and the penalties that may be imposed upon persons involved in non-exempt prohibited transactions, it is particularly important that fiduciaries of Plans consult with their counsel regarding the prohibited transaction rules as they may relate to the Qualifying Modification, including the potential acquisition and holding of New Bonds.

Holders of Participating Bonds have exclusive responsibility for ensuring that their actions with respect to the Qualifying Modification, including the potential acquisition and holding of New Bonds, do not violate the prohibited transaction rules of ERISA or the IRC or any similar law or regulations applicable to governmental, church or foreign plans, as described above.

Section 3(42) of ERISA and the U.S. Department of Labor regulation located at 29 C.F.R. Section 2510.3-101 (the “Plan Asset Regulation”) describe what constitutes the assets of a Plan with respect to the Plan’s investment in an entity for purposes of certain provisions of ERISA and the IRC, including the fiduciary responsibility provisions of Title I of ERISA and Section 4975 of the IRC. Under Section 3(42) of ERISA and the Plan Asset Regulation, if a Plan invests in an “equity interest” of an entity that is neither a “publicly-offered security” nor a security issued by an investment company registered under the Investment Company Act of 1940, the Plan’s assets include both the equity interest and an undivided interest in each of the entity’s underlying assets, unless it is established that the entity is an “operating company” or that, immediately after the most recent acquisition of any equity interest in the entity, Plans hold less than 25% of the total value of each class of “equity interest” in the entity. Under the Plan Asset Regulation, an “equity interest” means any interest in an entity other than an instrument that is treated as indebtedness under applicable local law and that has no substantial equity features.

The New Bonds will not constitute “publicly-offered securities” for purposes of the Plan Asset Regulation. In addition, PRIDCO will not be registered under the Investment Company Act of 1940, and it is not likely that PRIDCO will qualify as an “operating company” for purposes of the Plan Asset Regulation. Therefore, if the New Bonds are deemed to constitute equity interests for purposes of the Plan Asset Regulation, and Plans hold 25% or more of the New Bonds, those interests could be considered to be the assets of any Plans that hold New Bonds. If for any reason New Bonds are deemed to be “plan assets,” certain transactions involving the New Bonds might constitute non-exempt “prohibited transactions” under Section 406 of ERISA or Section 4975 of the IRC and might have to be rescinded at significant cost to PRIDCO. In addition, PRIDCO might be deemed a fiduciary of the investing Plans and could be subject to other significant penalties and liabilities. In such circumstances, in addition to considering the applicability of ERISA and Section 4975 of the IRC to the New Bonds, a fiduciary considering the Qualifying Modification should consider, among other things, the applicability of ERISA and Section 4975 of the IRC to transactions involving the New Bonds, including whether such transactions might

constitute a direct or indirect prohibited transaction under ERISA or Section 4975 of the IRC or otherwise may result in a breach of fiduciary duty under ERISA.

Neither PRIDCO, nor any of its affiliates, agents or employees, will act as a fiduciary to any Plan with respect to a Plan's decision with respect to the Qualifying Modification, or with respect to a Plan's acquisition and holding of New Bonds. Each fiduciary or other person with investment responsibilities over the assets of a Plan considering the Qualifying Modification must carefully consider the above factors before making a decision. Fiduciaries of Plans considering the Qualifying Modification should consult their legal advisors regarding whether the New Bonds would be considered "plan assets," the possibility of exemptive relief from the prohibited transaction rules and other issues and their potential consequences.

CERTAIN U.S. FEDERAL INCOME TAX CONSIDERATIONS

A. General

A general description of certain material U.S. federal income tax consequences of the Qualifying Modification to holders of certain Participating Bond Claims is provided below. This description is based on the U.S. Internal Revenue Code of 1986, as amended (the “IRC”), regulations (including temporary and proposed regulations) promulgated under the IRC (the “Treasury Regulations”), judicial decisions and administrative determinations, all as in effect on the date of this Solicitation Statement and all of which are subject to change, possibly with retroactive effect. Changes in any of these authorities or in their interpretation could cause some, or all, of the U.S. federal income tax consequences of the Qualifying Modification to differ materially from the consequences described below and we assume no responsibility to amend or supplement this disclosure if such changes were to occur.

The U.S. federal income tax consequences of the Qualifying Modification are complex and may vary depending on the holder’s particular tax circumstances. As of the date of this Solicitation Statement, no ruling has been requested from the Internal Revenue Service (the “IRS”) as to any aspect of the Qualifying Modification; no opinion has been requested from the issuers’ counsel concerning any tax consequence of the Qualifying Modification except as specifically set forth therein; and no tax opinion is given by this Solicitation Statement. No assurance can be given that the IRS would not assert, or that a court would not sustain, a different position than any position discussed herein.

The description that follows does not cover all aspects of U.S. federal income taxation that may be relevant to holders of Participating Bond Claims. For example, the description does not address issues of special concern to certain types of taxpayers (e.g., including, but not limited to, regulated investment companies, real estate investment trusts, banks and certain other financial institutions, insurance companies, tax-exempt organizations, retirement plans, individual retirement and other tax-deferred accounts, holders that are, or hold their Participating Bond Claims through, S corporations, partnerships or other pass-through entities for U.S. federal income tax purposes, persons whose functional currency for tax purposes is not the U.S. dollar, dealers in securities or foreign currency, traders that mark-to-market their securities, persons subject to the alternative minimum tax, individuals receiving Social Security or Railroad Retirement benefits, and persons whose claims are part of a straddle, hedging, constructive sale, or conversion transaction). In addition, the description does not address U.S. federal taxes other than income taxes. Furthermore, the description does not discuss state, territorial (including Puerto Rico), local or non-U.S. income or other tax consequences (including estate or gift tax consequences).

For these reasons, the description that follows is not a substitute for careful tax planning and professional tax advice based upon the individual circumstances of each holder of a Participating Bond Claim. Holders of Participating Bond Claims are urged to consult with their own tax advisors regarding the U.S. federal, state, territorial (including Puerto Rico), local and non-U.S. tax consequences of the Qualifying Modification.

The Puerto Rico tax consequences of the Qualifying Modification to holders that are bona fide residents of the Commonwealth, and others who may be subject to tax on a gross or net basis by the Commonwealth are not discussed in this section. Such holders should review the section “Certain Material Puerto Rico Income Tax Considerations” below.

THIS SUMMARY IS FOR GENERAL INFORMATION PURPOSES ONLY, AND IS NOT INTENDED TO BE, AND SHOULD NOT BE CONSTRUED TO BE, LEGAL OR TAX ADVICE TO ANY PARTICULAR HOLDER. YOU ARE URGED TO CONSULT YOUR OWN TAX ADVISOR WITH REGARD TO THE APPLICATION OF THE U.S. FEDERAL INCOME TAX LAWS, AS WELL AS THE APPLICATION OF NON-INCOME TAX LAWS AND THE LAWS OF ANY U.S. STATE, LOCAL OR NON-U.S. TAXING JURISDICTION, TO YOUR PARTICULAR SITUATION.

B. Tax Consequences to U.S. Holders

1. Definition of U.S. Holder

The discussion below applies only to U.S. Holders. As used herein, the term “U.S. Holder” means a beneficial owner of a Participating Bond for U.S. federal income tax purposes:

- an individual who is a citizen or resident of the United States;
- a corporation, or other entity taxable as a corporation for U.S. federal income tax purposes, created or organized in or under the laws of the United States, any state thereof or the District of Columbia;

- an estate, the income of which is subject to U.S. federal income taxation regardless of its source; or
- a trust, if a court within the United States is able to exercise primary jurisdiction over its administration and one or more U.S. persons have authority to control all of its substantial decisions, or if the trust has a valid election in effect under applicable U.S. Treasury regulations to be treated as a U.S. person.

If a partnership or other entity or arrangement taxable as a partnership for U.S. federal income tax purposes directly or indirectly holds the Participating Bond, the U.S. federal income tax treatment of a partner in such partnership generally will depend upon the status of the partner and the activities of the partnership. Partners in such a partnership holding the Participating Bonds are urged to consult their tax advisors.

The term “U.S. Holder” does not include a Puerto Rico Individual or a Puerto Rico Corporation, each as defined below under “— *Puerto Rico Individuals and Puerto Rico Corporations.*” Puerto Rico Individuals and Puerto Rico Corporations should review the certain U.S. federal income tax consequences of the Qualifying Modification discussed under “— *Puerto Rico Individuals and Puerto Rico Corporations.*”

Certain U.S. Holders that use the accrual method of accounting for U.S. federal income tax purposes generally will be required to include certain amounts in income with respect to the Participating Bonds no later than the time that such amounts are reflected on certain financial statements of such U.S. Holders. Such U.S. Holders should consult their own tax advisors regarding the U.S. federal income tax consequences of the Qualifying Modification in their individual circumstances.

2. Tax Treatment of the Qualifying Modification

It is expected that, pursuant to the Qualifying Modification, each U.S. Holder of the Participating Bond Claims will be treated as exchanging such U.S. Holder’s Participating Bonds Claims for the PRIDCO Cash Portion and the New Bonds for U.S. federal income tax purposes. The issuer intends to report the transaction consistently with this treatment to the IRS, and the remainder of this discussion assumes the expected treatment will be followed by each U.S. Holder. U.S. Holders that receive the New Bonds should consult their own tax advisors regarding the U.S. federal income tax consequences of the Qualifying Modification to their particular circumstances.

(i) *Taxable Exchange Treatment*

The tender of the Participating Bond Claims for the PRIDCO Cash Portion and the New Bonds pursuant to the Qualifying Modification will be considered an exchange under Section 1001 of the IRC. A U.S. Holder of a Participating Bond Claim generally will recognize gain or loss in an amount equal to the difference, if any, between (i) amount of PRIDCO Cash Portion received plus the “issue price” for U.S. federal income tax purposes (determined in the manner described below under “— Taxation of the New Bonds”) for any New Bonds received and (ii) the U.S. Holder’s adjusted tax basis in the Participating Bonds tendered in exchange therefore, generally determined based on the price such U.S. Holder paid for such Participating Bonds, increased by any original issue discount (“OID”) previously accrued by the U.S. Holder, and decreased by any original issue premium accrued by the U.S. Holder and any previous cash payments on the Participating Bonds (other than payments of qualified stated interest) by the U.S. Holder with respect to the Participating Bonds. The Qualifying Modification provides that, to the extent applicable, the consideration received by a holder of a Participating Bond Claim (i.e., the PRIDCO Cash Portion and the New Bonds) will be allocated first to any applicable accrued but unpaid interest on the Participating Bond Claim as of the date immediately preceding the Closing Date, second, to the principal amount of the Participating Bond Claim (as determined for U.S. federal income tax purposes) and then, to the extent the consideration exceeds the principal amount of the Claim, to such other amounts (such as any accrued but unpaid interest other than described in the preceding clauses). The extent to which such consideration will be considered attributable to accrued interest by the IRS is uncertain. U.S. Holders should consult their tax advisors to determine the appropriate characterization of payments received. See the discussion under “— *Accrued and Unpaid Interest*” below for the tax treatment of distributions under the Qualifying Modification and the deductibility of any accrued but unpaid interest for U.S. federal income tax purposes. Subject to the discussion under “— *Accrued and Unpaid Interest*” and “— *Market Discount*” below, any gain or loss that a U.S. Holder recognizes upon the exchange of the Participating Bonds for the PRIDCO Cash Portion and the New Bonds pursuant to the exchange will generally be capital gain or loss and, if the U.S. Holder’s holding period of the Participating Bonds surrendered is more than one year, long-term capital gain or loss. Long-term capital gain is generally taxable at preferential rates to non-corporate U.S. Holders. The deductibility of capital losses is subject to limitations.

A U.S. Holder who receives consideration in the Qualifying Modification with a fair market value less than the U.S. Holder’s tax basis in the Participating Bonds may be entitled to a bad debt deduction or a worthless securities deduction in the year of receipt (or in an earlier or later year). The rules governing the character, timing and amount of bad debt or worthless securities deductions place considerable

emphasis on the facts and circumstances of the U.S. Holder, the obligor and the instrument with respect to which a deduction is claimed. U.S. Holders of Participating Bonds should consult their tax advisors with respect to their ability to take such a deduction and as to what taxable year such deduction may be allowed.

A U.S. Holder's holding period for any New Bonds received will begin the day after the exchange. A U.S. Holder's tax basis in the New Bonds received in the exchange will generally be equal to the fair market value of the New Bonds, generally equal to the trading price of the New Bonds on the exchange date, or if not traded, on the price at which a third party acting in arm's length would purchase the New Bonds as of the exchange date.

The tax consequences of the Qualifying Modification to the U.S. Holders are complex. U.S. Holders should consult their tax advisors regarding the particular tax consequences to them of the transactions contemplated by the Qualifying Modification.

(ii) Accrued and Unpaid Interest

The Qualifying Modification provides that, to the extent applicable, the consideration received by a holder of a Participating Bond Claim (i.e., PRIDCO Cash Portion and the New Bonds) will be allocated first to the principal amount of the Participating Bond Claim (as determined for U.S. federal income tax purposes), second, any applicable accrued but unpaid interest on the Participating Bond Claim as of the date immediately preceding the Closing Date and then, to the extent the consideration exceeds the principal amount of the Claim, to such other amounts (such as any accrued but unpaid interest other than described in the preceding clauses). Legislative history of the Bankruptcy Tax Act of 1980 indicates that Congress intended for an allocation of consideration between principal and interest provided in certain reorganizations under the United States Bankruptcy Code to be binding for U.S. federal income tax purposes. Although the Treasury Regulations generally treat payments on indebtedness as allocated first to accrued but unpaid interest, we believe that the reporting of distributions to a U.S. Holder in accordance with the Qualifying Modification is consistent with applicable law and congressional intent. However, there can be no assurance that the IRS will respect those allocations with respect to payments on the Participating Bonds. U.S. Holders should consult their tax advisors to determine the appropriate characterization of payments received.

Subject to the discussion in the previous paragraph, any of the consideration received that is attributable to accrued but unpaid interest on the Participating Bonds should be recognized by the U.S. Holder as ordinary interest income (if not previously included in the U.S. Holder's gross income). Conversely, a U.S. Holder may be entitled to recognize a deductible loss to the extent any accrued interest or amortized OID was previously included in its gross income but the consideration is less than such accrued interest or amortized income. Holders are urged to consult their tax advisors regarding the allocation of consideration received under the Qualifying Modification, as well as the deductibility of accrued but unpaid interest (including OID) and the character of any loss claimed with respect to accrued but unpaid interest (including OID) previously included in income for U.S. federal income tax purposes.

(iii) Market Discount

If a U.S. Holder acquired the Participating Bonds for an amount less than the "adjusted issue price" of the Participating Bonds and the difference between the U.S. Holder's cost and the "adjusted issue price" exceeded a de minimis threshold (equal to 0.25 percent of the sum of all remaining payments to be made on the debt instrument, excluding qualified stated interest, multiplied by the number of remaining complete years to maturity), such difference will generally be treated as "market discount."

Any gain recognized on the exchange will generally be treated as ordinary income to the extent of any accrued market discount not previously included in ordinary income with respect to the Participating Bonds. To the extent gain is recognized pursuant to the exchange of Participating Bonds for the New Bonds (if any), a U.S. Holder must include as ordinary income any gain that would have otherwise been treated as capital gain to the extent of the accrued market discount on the Participating Bonds, unless the U.S. Holder previously elected to include the market discount in income as it accrued. See below "*Taxation of the New Bonds*" for a further discussion regarding the election to include market discount in income as it accrues. U.S. Holders should consult their own tax advisors regarding the tax treatment of market discount pursuant to the exchange, including the interaction of the market discount, OID and acquisition premium rules.

3. Taxation of the New Bonds

(i) Interest Accruals and Adjustments to Accruals on the New Bonds

In general, payments of stated interest on the New Bonds should be taxable to a U.S. Holder as ordinary interest income at the time such payments are accrued or are received, in accordance with the holder's regular method of tax accounting. In addition, depending on the issue price, some or all of the New Bonds may be treated as issued with OID. A debt instrument generally has OID if its "stated redemption price at maturity" exceeds its issue price by more than a statutorily defined de minimis amount. The "stated redemption price at maturity" of

each series of New Bonds would include all principal and interest payable over the term of such New Bonds, other than qualified stated interest (i.e., other than stated interest that is unconditionally payable at least annually at a constant rate in cash or property other than debt of the issuer). The stated interest payable on the New Bonds should be considered qualified stated interest for this purpose.

The “issue price” of any series of the New Bonds will depend on whether such notes, or a substantial portion of the Participating Bond Claims exchanged for such series of the New Bonds, are traded on an established market. A debt instrument is considered traded on an established market for U.S. federal income tax purposes only if such debt is traded on an established market during the 31-day period ending 15 days after the PRIDCO Effective Date. Pursuant to applicable Treasury regulations, an “established market” need not be a formal market. It is sufficient if there is a readily available sales price for an executed purchase or sale, or if there is one or more “firm quotes” or “indicative quotes” for the debt instrument, in each case as such terms are defined in applicable Treasury Regulations. PRIDCO’s determination of whether the New Bonds or a substantial portion of the Participating Bond Claims exchanged for such New Bonds is traded on an established market will be binding on a U.S. Holder unless such holder discloses, on a timely-filed U.S. federal income tax return for the taxable year that includes the PRIDCO Effective Date, that such holder’s determination is different, the reasons for such holder’s different determination and, if applicable, how such holder determined the fair market value.

If, the New Bonds are treated for U.S. federal income tax purposes as traded on an established market, the issue price of the New Bonds will equal their fair market value on the PRIDCO Effective Date, determined based on the trading price of the New Bonds on such date. If the New Bonds are not considered traded on an established market, but a substantial portion of the Participating Bonds Claims exchanged for such New Bonds is traded on an established market, the issue price of the New Bonds will be based on the fair market value of such Participating Bonds (with appropriate adjustments), as determined by PRIDCO. Such determination will be binding on a U.S. Holder unless such holder discloses, on a timely-filed U.S. federal income tax return for the taxable year that includes the PRIDCO Effective Date, that its determination differs from PRIDCO’s determination. If neither the New Bonds nor a substantial portion of the Participating Bond Claims exchanged for such New Bonds is considered traded on an established market, the issue price for the New Bonds should be the stated principal amount of the New Bonds.

In general, a U.S. Holder must include OID in gross income as it accrues over the term of the New Bonds using the “constant yield method” without regard to its regular method of accounting for U.S. federal income tax purposes, and regardless of when the holder receives cash payments attributable to that income. The amount of OID includible in income for a taxable year by a U.S. Holder generally equals the sum of the daily portions of OID that accrue on its interest in the New Bonds for each day during the taxable year on which such holder holds such interest, whether reporting on the cash or accrual basis of accounting for U.S. federal income tax purposes. The daily portion is determined by allocating to each day of an accrual period (generally, the period between interest payments or compounding dates) a pro rata portion of the OID allocable to such accrual period. The amount of OID that will accrue during an accrual period is the product of the “adjusted issue price” of the U.S. Holder’s interest in the New Bonds at the beginning of the accrual period multiplied by the yield to maturity of the New Bonds less the amount of any qualified stated interest allocable to such accrual period. The “adjusted issue price” of an interest in the New Bonds at the beginning of an accrual period will equal its issue price, increased by the aggregate amount of OID that has accrued on such interest in all prior accrual periods, and decreased by any payments made during all prior accrual periods on such interest other than qualified stated interest. Interest income accrued on the New Bonds will be foreign source income for U.S. federal income tax purposes.

Any OID that a holder includes in income will increase the holder’s adjusted tax basis in its interest in the New Bonds. A U.S. Holder generally will not be required to include separately in income cash payments (other than in respect of qualified stated interest) received on its New Bonds; instead, such payments will reduce the holder’s adjusted tax basis in such interest by the amount of the payment.

The rules regarding the determination of issue price and OID are complex, and the OID rules described above may not apply in all cases. Accordingly, each holder of New Bonds is urged to consult its tax advisor regarding the possible application of the OID rules to the New Bonds.

(ii) Sale, Exchange or Retirement of the New Bonds

Upon a sale, exchange or retirement of a New Bond, a U.S. Holder will generally recognize taxable gain or loss in an amount equal to the difference between (i) the amount of cash and the fair market value of any property received, reduced by any net negative adjustment carried forward, and (ii) such U.S. Holder’s adjusted tax basis in the New Bond. A U.S. Holder’s adjusted tax basis in a New Bond will generally be equal to the U.S. Holder’s initial tax basis for the New Bond (which will be equal to the issue price of the New Bonds for U.S. Holders receiving the New Bonds in exchange for Participating Bond Claims), increased by any interest income previously accrued by the U.S. Holder (determined without regard to any positive or negative adjustments to interest accruals described above) and decreased by the projected amounts of any payments scheduled to have been previously made on the New Bonds to the U.S. Holder (without regard to actual amounts paid). A U.S. Holder generally will treat any gain as ordinary interest income, and any loss as ordinary loss to the extent of the excess of previous interest inclusions over the total net negative adjustments previously taken into account as ordinary loss, and the balance as capital loss. The deductibility of capital losses is subject to limitations. A U.S. Holder that sells the New Bonds at a loss that meets certain

thresholds may be required to file a disclosure statement with the IRS.

4. Medicare Tax

If the New Bonds are issued to holders of Participating Bond Claims, a U.S. Holder of the New Bonds that is an individual, estate or trust that does not fall into a special class of trusts that is exempt from such tax, is subject to a 3.8% Medicare surtax on the lesser of (1) the U.S. Holder's "net investment income" (or "undistributed net investment income" in the case of an estate or trust) for the relevant taxable year, which includes, among other items, interest on debt and capital gains from the sale or other taxable disposition of debt, and (2) the excess of the U.S. Holder's modified adjusted gross income (or adjusted gross income in the case of an estate or trust) for the taxable year over a certain threshold (which in the case of individuals is between \$125,000 and \$250,000, depending on the individual's circumstances). A U.S. Holder that is an individual, estate or trust should consult its own tax advisors regarding the applicability of the Medicare surtax to its income and gains in respect of its exchanges and ownership of the New Bonds.

5. Information Reporting and Backup Withholding

Information reporting will generally apply to (i) payments in respect of the exchange; (ii) payments from the New Bonds (if issued to holders of Participating Bonds) and (iii) payments of proceeds of the sale or other disposition of the New Bonds (to the extent issued in whole or in part).

Additionally, backup withholding may apply to any payments if such U.S. Holder (a) fails to provide an accurate taxpayer identification number, (b) furnishes an incorrect taxpayer identification number, (c) is notified by the IRS that it has failed to report all interest and dividends required to be shown on its U.S. federal income tax returns, or (d) fails to certify under penalties of perjury that the U.S. Holder has furnished a correct taxpayer identification number and that the IRS has not notified the U.S. Holder that the U.S. Holder is subject to backup withholding. The application for exemption is available by providing a properly completed IRS Form W-9 (or suitable substitute).

Backup withholding is not an additional tax. A U.S. Holder generally may obtain a refund of any amounts withheld under the backup withholding rules that exceed its U.S. federal income tax liability by timely filing a refund claim with the IRS.

Certain U.S. Holders are not subject to information reporting and backup withholding in some cases, provided they properly identify themselves as exempt. U.S. Holders should consult their own tax advisors regarding their qualification for an exemption from backup withholding and the procedures for obtaining such an exemption.

C. Non-U.S. Holders

1. Definition of Non-U.S. Holder

Unless otherwise noted, the discussion below applies only to Non-U.S. Holders. As used herein, the term "Non-U.S. Holder" means a beneficial owner of Participating Bond Claims that is not (i) a U.S. Holder or (ii) a partnership or other entity treated as a partnership or other pass-through entity for U.S. federal income tax purposes. For the avoidance of doubt, a P.R. Holder is considered a Non-U.S. Holder.

The following discussion includes only certain U.S. federal income tax consequences of the Qualifying Modification to Non-U.S. Holders. The discussion does not include any non-U.S. tax considerations. The rules governing the U.S. federal income tax consequences to Non-U.S. Holders are complex. Non-U.S. Holders should consult their own tax advisors regarding the U.S. federal, state and local, and the foreign tax consequences of the Qualifying Modification in their individual circumstances.

2. Treatment of Exchange

(i) Exchange of Participating Bond Claims for the New Bonds

Gain recognized by a Non-U.S. Holder on the exchange of Participating Bond Claims for the New Bonds, if any, will generally not be subject to U.S. federal income tax unless the gain is effectively connected with its conduct of a trade or business in the United States (and, if required by an applicable income tax treaty, is attributable to a permanent establishment that such Non-U.S. Holder is treated as maintaining in the United States), in which case the gain will be subject to tax in the same manner as effectively connected interest income as described below under "*—Ownership of the New Bonds*"; or such Non-U.S. Holder is an individual who is present in the United States for 183 days or more in the taxable year of the exchange and such gain is derived from sources within the United States. Certain other exceptions may be applicable, and a Non-U.S. Holder should consult its tax advisor regarding the

applicability of any such exception. Any New Bonds received by a Non-U.S. Holder that are attributable to accrued and unpaid interest on a Participating Bond Claim generally will be taxable in the same manner as described below under “—*Ownership of the New Bonds.*”

(ii) Ownership of the New Bonds

Subject to the discussion below concerning backup withholding, payments of interest on the New Bonds (including OID) to a Non-U.S. Holder, which will be foreign source income for U.S. federal income tax purposes, and gain recognized upon a sale, exchange or retirement of the New Bonds by a Non-U.S. Holder generally will not be subject to U.S. federal income tax or withholding tax if the Non-U.S. Holder is not deemed to conduct a trade or business in the United States. If a Non-U.S. Holder is treated as engaged in a trade or business in the United States and interest (including original issue discount and gain recognized upon the sale, exchange or retirement of the New Bonds, as discussed above under “—*Tax Consequences to U.S. Holders—Ownership of the New Bonds—Sale, Exchange or Retirement of the New Bonds*”) on the New Bonds is “effectively connected” with the conduct of that trade or business, then the Non-U.S. Holder will be subject to U.S. federal income tax on that interest (including original issue discount and gain recognized upon a sale, exchange or retirement of the New Bonds) on a net income basis generally in the same manner as if it were a U.S. Holder unless an applicable income tax treaty provides otherwise. In addition, if the Non-U.S. Holder is a corporation, it may be treated as engaged in a trade or business in the United States and thus subject to a branch profits tax with respect to such effectively connected income at a rate of 30% unless an applicable income tax treaty applies to reduce such rate.

D. FATCA

Pursuant to the Foreign Account Tax Compliance Act (“FATCA”), foreign financial institutions (which term includes most foreign hedge funds, private equity funds, mutual funds, securitization vehicles and other investment vehicles) and certain other foreign entities generally must comply with certain information reporting rules with respect to their U.S. account holders and investors or confront a new withholding tax on U.S.-source payments made to them (whether received as a beneficial owner or as an intermediary for another party). A foreign financial institution or such other foreign entity that does not comply with the FATCA reporting requirements generally would be subject to withholding tax with respect to any “withholdable payments.” For this purpose, “withholdable payments” are any U.S.-source payments of fixed or determinable, annual or periodic income, profits and income and certain “foreign passthrough payments.” Withholding under FATCA generally should not apply to payments from the New Bonds because such payments generally should be foreign source income. Foreign financial institutions located in jurisdictions that have an intergovernmental agreement with the United States governing FATCA may be subject to different rules. Holders should consult with their tax advisors as to the application of FATCA in their individual circumstances.

CERTAIN PUERTO RICO INCOME TAX CONSIDERATIONS

A. General

A general description of certain material Puerto Rico income tax consequences of the Qualifying Modification to holders of Participating Bond Claims is provided below. This description is based on the Puerto Rico Internal Revenue Code of 2011, as amended (the “P.R. Code”), regulations promulgated under the P.R. Code, administrative pronouncements and judicial decisions (collectively, together with the P.R. Code, the “P.R. Tax Provisions”), all as in effect on the date of this Solicitation Statement and all of which are subject to change, possibly with retroactive effect. Changes in any of these authorities or in their interpretation could cause some of or all the Puerto Rico income tax consequences of the Qualifying Modification to differ materially from the consequences described below.

As of the date of this Solicitation Statement, no ruling has been requested from the Puerto Rico Treasury Department (the “P.R. Treasury”) as to any aspect of the Qualifying Modification; no opinion has been requested from the Commonwealth’s counsel concerning any tax consequence of the Qualifying Modification except as specifically set forth therein; and no tax opinion is given by this Solicitation Statement.

The description that follows does not cover all aspects of Puerto Rico income taxation that may be relevant to Holders of Participating Bond Claims. For example, the description does not address issues of special concern to certain types of taxpayers (e.g., regulated investment companies, real estate investment trusts, banks and certain other financial institutions, insurance companies, tax-exempt organizations, retirement plans, individual retirement and other tax-deferred accounts, holders that are, or hold their Participating Bond Claims through, corporations of individuals, partnerships or other pass-through entities for Puerto Rico income tax purposes, dealers in securities, and persons whose Participating Bond Claims are part of a straddle, hedging, constructive sale, or conversion transaction). In addition, the description assumes that a holder holds the Participating Bond Claim and the New Bonds only as a “capital asset” within the meaning of Section 1034.01(a)(1) of the P.R. Code. This description does not address Puerto Rico taxes other than Puerto Rico income taxes, nor does it apply to any person that acquires the New Bonds in the secondary market.

For these reasons, the description that follows is not a substitute for careful tax planning and professional tax advice based upon the individual circumstances of each Holder of a Participating Bond Claim. Holders of Participating Bond Claims are urged to consult with their own tax advisors regarding the Puerto Rico tax consequences of the Qualifying Modification.

B. Tax Consequences to P.R. Holders

1. Definition of P.R. Holder

Unless otherwise noted, the discussion below applies only to P.R. Holders. As used herein, the term “P.R. Holder” means a beneficial owner of Participating Bond Claims or the New Bonds on the Closing Date that is, for P.R. income tax purposes:

- an individual who for the entire taxable year is a bona fide resident of Puerto Rico for purposes of Section 933 of the IRC, as determined under Section 937(a) of the IRC, and a resident of Puerto Rico for purposes of the P.R. Code;
- a corporation or other entity organized under the laws of Puerto Rico that is treated as a corporation for Puerto Rico income tax purposes, excluding a corporation or any other type of entity subject to pass through tax treatment or any other special tax regime under the P.R. Code; or
- an estate or a trust (other than a business trust), the income of which is subject to Puerto Rico income taxation regardless of its source where all the heirs or beneficiaries are individuals residents of Puerto Rico or Puerto Rico corporations, as described above.

If a partnership or other entity or arrangement taxable as a partnership for Puerto Rico income tax purposes holds Participating Bond Claims or New Bonds, the Puerto Rico income tax treatment of a partner in such partnership generally will depend upon the status of the partner and the activities of the partnership. Partners in such a partnership holding Participating Bond Claims or New Bonds are urged to consult their tax advisors.

2. Tax Treatment of the Qualifying Modification

It is expected that, pursuant to the Qualifying Modification, each P.R. Holder of the Participating Bond Claims will be treated as exchanging such P.R. Holder’s Participating Bond Claims for the PRIDCO Cash Portion and the New Bonds for Puerto Rico income

tax purposes. The remainder of this discussion assumes the expected treatment will be followed by each P.R. Holder. P.R. Holders that receive the New Bonds should consult their own tax advisors regarding the P.R. income tax consequences of the Qualifying Modification to their particular circumstances.

(i) Partial Taxable Exchange Treatment

The tender of the Participating Bonds Claims for the PRIDCO Cash Portion and the New Bonds pursuant to the Qualifying Modification will be considered a partial taxable exchange under Section 1034.03 of the P.R. Code up to the amount of the PRIDCO Cash Portion received for the Participating Bonds, if any. A P.R. Holder will recognize a gain in an amount equal to the difference between (i) the amount of the PRIDCO Cash Portion received plus the fair market value of any New Bonds received (other than the amount of such consideration that is attributable to accrued but unpaid interest on the Participating Bonds as of the Closing Date) and (ii) the P.R. Holder's adjusted tax basis in the Participating Bonds tendered in exchange therefore, up to the amount of the PRIDCO Cash Portion received (not attributed to accrued and unpaid interest on the Participating Bond as of the Closing Date) .

Gain on the exchange of Participating Bonds Claims for the PRIDCO Cash Portion will be a capital gain and may be a long-term capital gain or loss if the P.R. Holder's holding period for the Participating Bonds is longer than one year. Long-term capital gains recognized by P.R. Holders that are individuals, estate and trusts may be subject to a maximum Puerto Rico income tax rate of 15% (or a maximum of 24% if the alternate basic tax applies). The long-term capital gains of P.R. Holders that are taxable as corporations may be subject to a maximum Puerto Rico income tax rate of 20%.

A P.R. Holder's holding period for any New Bonds received will include the holding period of the Participating Bonds. A P.R. Holder's tax basis in the New Bonds received in the exchange will generally be equal to the P.R. Holder's tax basis of the Participating bonds, reduced by the PRIDCO Cash Portion received (not attributed to accrued and unpaid interest on the Participating Bond as of the Closing Date) and increased by the amount of any gain recognized as part of the exchange.

(ii) Accrued and Unpaid Interest

To the extent that any consideration (*i.e.* the New Bonds plus any PRIDCO Cash Portion) received by a P.R. Holder in exchange for Participating Bonds is attributable to accrued and unpaid interest on the Participating Bonds, that amount of consideration will be considered exempt interest income for Puerto Rico income tax purposes. In that event, the portion allocated to accrued and unpaid interest will reduce the amount realized by the P.R. Holder to compute gain or loss on the exchange.

The Qualifying Modification provides that, to the extent applicable, the consideration received by a holder of a Participating Bonds Claim (*i.e.*, the PRIDCO Cash Portion and the New Bonds) will be allocated first to any applicable accrued but unpaid interest on the Participating Bond Claim as of the date immediately preceding the Closing Date.

3. Taxation of the New Bonds

The New Bonds, including, but not limited to, any payments or income with respect to the New Bonds shall, at all times, be totally exempt from all kinds of taxes levied by the Government of Puerto Rico and from any and all withholdings in connection therewith.

C. Tax Consequences to Non-P.R. Holders

1. Definition of Non-P.R. Holders

Unless otherwise noted, the discussion below applies only to Non-P.R. Holders. As used herein, the term "Non-P.R. Holder" means a beneficial owner of Participating Bond Claims or the New Bonds that is not (i) a P.R. Holder or (ii) a partnership or other entity treated as a partnership or other pass-through entity for Puerto Rico income tax purposes.

If a partnership or other entity or arrangement taxable as a partnership for Puerto Rico income tax purposes holds Participating Bond Claims or the New Bonds, the Puerto Rico income tax treatment of a partner in such partnership generally will depend upon the status of the partner and the activities of the partnership. Partners in such a partnership are urged to consult their tax advisors.

The following discussion includes only certain Puerto Rico income tax consequences of the Qualifying Modification to Non-P.R. Holders. The discussion does not include any non-Puerto Rico tax considerations. Non-P.R. Holders should consult their own tax advisors regarding the Puerto Rico and foreign tax consequences of the Qualifying Modification under their circumstances.

2. Tax Treatment of the Qualifying Modification

As in the case of P.R. Holders, it is expected that, pursuant to the Qualifying Modification, each Non-P.R. Holder of the Participating Bond Claims will be treated, for Puerto Rico income tax purposes, as exchanging such P.R. Holder's Participating Bond Claims for the PRIDCO Cash Portion and the New Bonds (other than the amount of such consideration that is attributable to accrued but unpaid interest on the Participating Bonds as of the Closing Date). The remainder of this discussion assumes the expected treatment will be followed by each Non-P.R. Holder.

(i) Partial Taxable Exchange Treatment

A Non-P.R. Holder that is not engaged in trade or business in Puerto Rico would not be subject to Puerto Rico income tax with respect to any gain realized on the exchange of the Participating Bonds Claims for the PRIDCO Cash Portion pursuant to the Qualifying Modification. On the other hand, Non-P.R. Holders that are corporations (or taxable as corporations under the P.R. Code) and nonresident aliens that are engaged in trade or business in Puerto Rico for income tax purposes will be subject to Puerto Rico income tax as a P.R. Holder on any such gain if it is effectively connected with their Puerto Rico trade or business.

To the extent that any consideration (*i.e.*, the New Bonds plus any PRIDCO Cash Portion) received by a Non-P.R. Holder in exchange for Participating Bonds is attributable to accrued and unpaid interest on the Participating Bonds, that amount of consideration will be considered exempt interest income for Puerto Rico income tax purposes. In that event, the portion allocated to accrued and unpaid interest will reduce the amount realized by the P.R. Holder to compute gain or loss on the exchange.

(ii) Taxation of the New Bonds

Any payments or income with respect to the New Bonds shall be totally exempt from all kinds of taxes levied by the Government of Puerto Rico, and from any and all withholdings in connection therewith.

A Non-P.R. Holder that is not engaged in trade or business in Puerto Rico would not be subject to Puerto Rico income tax with respect to any gain realized on the sale or exchange of the New Bonds. Non-P.R. Holders that are corporations (or taxable as corporations under the P.R. Code) and nonresident aliens that are engaged in trade or business in Puerto Rico for income tax purposes and which will, otherwise, be subject to Puerto Rico income tax on any such gain if it is effectively connected with their Puerto Rico trade or business, shall be subject to Puerto Rico income tax on any such gains.

EXHIBIT A: QUALIFYING MODIFICATION

(Attached)

**UNITED STATES DISTRICT COURT
DISTRICT OF PUERTO RICO**

In re:

PUERTO RICO INDUSTRIAL DEVELOPMENT
COMPANY,

Applicant.

PROMESA
Title VI

No. _____

**QUALIFYING MODIFICATION PURSUANT TO PROMESA TITLE VI
FOR THE PUERTO RICO INDUSTRIAL DEVELOPMENT COMPANY**

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The Financial Oversight and Management Board for Puerto Rico, as Administrative Supervisor, the Puerto Rico Industrial Development Company, as Issuer, and the Puerto Rico Fiscal Agency and Financial Advisory Authority, as Fiscal Agent for the Issuer, hereby propose the following Qualifying Modification for the Puerto Rico Industrial Development Company pursuant to Title VI of the *Puerto Rico Oversight, Management and Economic Stability Act*.

ARTICLE I

DEFINITIONS

As used in the Qualifying Modification, the following terms have the respective meanings set forth below and are equally applicable to the singular and plural of the terms defined:

1.1 **AAFAF**: The Puerto Rico Fiscal Agency and Financial Advisory Authority, a public corporation and instrumentality of the Commonwealth.

1.2 **Administrative Supervisor**: The Oversight Board, as Administrative Supervisor pursuant to Section 601(a)(1) of PROMESA.

1.3 **Affiliate**: With respect to any specified Entity, any other Entity that directly, or indirectly through one or more intermediaries, controls, is controlled by, or is under common control with, such Entity.

1.4 **Approval Date**: The date on which the Clerk of the Title VI Court enters the Approval Order on the docket.

1.5 **Approval Order**: The order of the Title VI Court approving the Qualifying Modification pursuant to Section 601(m)(1)(D) of PROMESA, which order shall include, among other things, the legal and other protections set forth in section 4.5(b) of the PRIDCO Restructuring Support Agreement.

1.6 **Assets**: With respect to the Issuer, (a) all “property” of the Issuer, including, without limitation, such property as it may be reflected on the Issuer’s books and records, and (b) all Causes of Action, and any subsequent proceeds thereof, that have been or may be commenced by the Issuer or other authorized representative for the benefit of the Issuer and its Creditors, unless modified or released pursuant to the Qualifying Modification or a Final Order.

1.7 **Bankruptcy Code**: Title 11 of the United States Code, as amended, §§101, et seq.

1.8 **Bond Documents**: The PRIDCO Trust Agreement and such other agreements, supplements, amendments, and documents executed or delivered in connection with the issuance or maintenance of the PRIDCO Bonds.

1.9 **Business Day**: A day other than a Saturday, Sunday, or any other day on which commercial banking institutions in New York, New York and San Juan, Puerto Rico are required to close by law or executive order.

1.10 **Calculation Agent**: Kroll Restructuring Administration LLC.

1.11 **Cash:** Lawful currency of the United States, including, but not limited to, bank deposits, checks representing good funds that are not subject to a stop order, and legal equivalents thereof.

1.12 **Causes of Action:** All claims, actions, causes of action, rights to payment, choses in action, suits, debts, dues, sums of money, accounts, reckonings, bonds, bills, specialties, covenants, contracts, controversies, agreements, promises, variances, trespasses, damages, judgments, remedies, rights of set-off, third-party claims, subrogation claims, contribution claims, reimbursement claims, indemnity claims, counterclaims, and cross claims (including, but not limited to, all claims for breach of fiduciary duty, negligence, malpractice, breach of contract, aiding and abetting, fraud, inducement, avoidance, recovery, and subordination) that are pending or may be asserted against any Entity whether arising on or before the PRIDCO Effective Date, based in law or equity, whether known, unknown, reduced to judgment, not reduced to judgment, liquidated, unliquidated, fixed, contingent, matured, unmatured, disputed, undisputed, secured or unsecured and whether asserted or assertable directly or derivatively, in law, equity or otherwise and whether asserted or unasserted as of the PRIDCO Effective Date.

1.13 **Claim:** Any right to payment or performance, whether or not such right is reduced to judgment, liquidated, unliquidated, fixed, contingent, matured, unmatured, disputed, undisputed, legal, equitable, secured, or unsecured, known or unknown or asserted or unasserted; or any right to an equitable remedy for breach or enforcement of performance, whether or not such right to an equitable remedy is reduced to judgment, fixed, contingent, matured, unmatured, disputed, undisputed, secured, or unsecured, and all debts, suits, damages, rights, remedies, losses, liabilities, obligations, judgments, actions, Causes of Action, demands, or claims of every kind or nature whatsoever, in law, at equity, or otherwise.

1.14 **Commonwealth:** The Commonwealth of Puerto Rico.

1.15 **Creditor:** Any Entity holding a Claim against the Issuer or any Issuer's Assets, in each case, solely in such Entity's capacity as such.

1.16 **CUSIP:** The Committee on Uniform Securities Identification Procedures nine-digit numeric or nine-digit character alphanumeric code.

1.17 **Disbursing Agent:** Such Entity or Entities designated by the Administrative Supervisor, after consultation with AAFAF, on or prior to the PRIDCO Effective Date to make or to facilitate distributions in accordance with the provisions of the Qualifying Modification.

1.18 **Entity:** A Person, a corporation, a general partnership, a limited partnership, a limited liability company, a limited liability partnership, an association, a joint stock company, a joint venture, an estate, a trust, an unincorporated organization, a governmental unit or any subdivision thereof, including, without limitation, the office of the United States Trustee, or any other entity.

1.19 **Final Order:** An order or judgment of a court of competent jurisdiction that has been entered on the docket maintained by the clerk of such court and has not been reversed, vacated, or stayed and as to which (a) the time to appeal, petition for certiorari, or move for a new trial, re-argument, or rehearing has expired and as to which no appeal, petition for certiorari, remand proceeding, or other proceedings for a new trial, re-argument, or rehearing shall then be pending or

(b) if an appeal, writ of certiorari, new trial, re-argument, or rehearing thereof has been sought, (i) such order or judgment shall have been affirmed, reversed or remanded in part or in full, with no further proceedings on remand, by the highest court to which such order was appealed, certiorari shall have been denied, or a new trial, re-argument, or rehearing shall have been denied or resulted in no modification of such order and (ii) the time to take any further appeal, petition for certiorari, or move for a new trial, re-argument, or rehearing shall have expired; provided, however, that the possibility that a motion pursuant to Rule 60 of the Federal Rules of Civil Procedure, or any analogous rule, may be filed relating to such order shall not prevent such order from being a Final Order, except as provided in the Federal Rules of Appellate Procedure or any other analogous rules.

1.20 **Fiscal Year**: A fiscal year of PRIDCO, commencing on July 1st and concluding on June 30th of the following calendar year.

1.21 **Government Parties**: Collectively, (a) the Oversight Board, (b) committees and subcommittees of the Oversight Board, including, without limitation, the Special Claims Committee of the Oversight Board, (c) the Commonwealth of Puerto Rico, including, without limitation, any of its agencies, (d) Puerto Rico Public Buildings Authority, (e) the Issuer, and (f) AAFAF.

1.22 **Information Agent**: Kroll Restructuring Administration LLC.

1.23 **Issuer**: PRIDCO.

1.24 **Lien**: Any charge against or interest in property to secure payment of a debt or performance on an obligation.

1.25 **Oversight Board**: The Financial Oversight and Management Board for Puerto Rico established pursuant to Section 101 of PROMESA.

1.26 **Person**: An individual, general partnership, limited partnership, corporation, limited liability company, limited liability partnership, cooperative, trust, unincorporated organization, association, joint stock company, joint venture, estate, government, or agency or political subdivision thereof, or any other form of legal entity.

1.27 **Pool**: A category of holders of Claims set forth in Article IV of the Qualifying Modification.

1.28 **PRIDCO**: Puerto Rico Industrial Development Company.

1.29 **PRIDCO Bonds**: Collectively, the following bonds issued by PRIDCO in accordance with the terms of the PRIDCO Trust Agreement: (a) General Purpose Revenue Bonds, Series 2003, issued in the original principal amount of One Hundred Thirty-Five Million Seven Hundred Sixty-Five Thousand One Hundred Fifty-Nine Dollars and Twenty Cents (\$135,765,159.20); (b) Refunding Revenue Bonds, Series 2003, issued in the original principal amount of Twenty-Five Million Nine Hundred Fifteen Thousand Dollars (\$25,915,000.00); (c) General Purpose Revenue Bonds, Series 1997 A, issued in the original principal amount of Fifty-One Million One Hundred Ninety-Five Thousand Three Hundred Forty Dollars (\$51,195,340.00); and (d) Refunding Revenue Bonds, Series 1997 A, issued in the original principal amount of Eighty-One Million Eight Hundred Eighteen Thousand Five Hundred Eighty-Four Dollars and Forty Cents (\$81,818,584.40).

1.30 **PRIDCO Bond Trustee:** U.S. Bank Trust National Association, solely in its capacities as trustee, paying agent, and registrar with respect to the PRIDCO Bonds.

1.31 **PRIDCO Bond Trustee Fees:** All reasonable fees, charges, disbursements, and out-of-pocket expenses incurred by the PRIDCO Bond Trustee in connection with the PRIDCO Trust Agreement, including, without limitation, the fees, and out-of-pocket expenses of the PRIDCO Bond Trustees' outside counsel (collectively, "**Fees and Costs**"), including, but not limited to, (a) all unpaid Fees and Costs incurred up to and including the PRIDCO Effective Date, (b) all Fees and Costs incurred in connection with negotiating, documenting, and implementing this Qualifying Modification, and (c) all Fees and Costs incurred in effectuating or complying with this Qualifying Modification.

1.32 **PRIDCO Bond Claims:** Collectively, all Claims against PRIDCO or the Commonwealth arising from or relating to the PRIDCO Bonds, including, without limitation, the PRIDCO Litigation Claims.

1.33 **PRIDCO Distribution:** Collectively, (a) the PRIDCO QM Bonds plus (b) cash in the amount of Thirty Million Dollars (\$30,000,000.00).

1.34 **PRIDCO Effective Date:** The first (1st) Business Day on which all the conditions precedent to the substantial consummation of the Qualifying Modification and occurrence of the PRIDCO Effective Date specified in Section 10.1 hereof shall have been satisfied or waived, as provided in Section 10.3 hereof.

1.35 **PRIDCO Filing Date:** The date of the commencement of the Title VI Case in the Title VI Court.

1.36 **PRIDCO Litigation:** The litigation styled (a) *Crown Managed Accounts SPC – Crown/GT Segregated Portfolio, et al. v. Puerto Rico Industrial Development Corp., et al.*, Case No. 23-CV-01017-RAM, currently pending in the United States District Court for the District of Puerto Rico, and (b) such other litigation as may be currently pending or as may be commenced during the period up to and including the PRIDCO Effective Date wherein claims or causes of action consistent with or similar to those asserted or that could have been asserted in the above-referenced litigation have been asserted.

1.37 **PRIDCO Litigation Claims:** Collectively, all Claims and Causes of Action that arise in, are related to or have been or could have been asserted against the Government Parties and each of their Related Persons in or in connection with the PRIDCO Litigation.

1.38 **PRIDCO QM Bonds:** Collectively, the series of revenue bonds to be issued and distributed pursuant to the Qualifying Modification on the PRIDCO Effective Date by PRIDCO in the principal amount of One Hundred Fifty-Nine Million Six Hundred Twenty-Eight Thousand Dollars (\$159,628,000) (assuming a December 31, 2023 PRIDCO Effective Date), issued in accordance with the terms and conditions of the Qualifying Modification, the Approval Order, and the PRIDCO QM Bond Indenture.

1.39 **PRIDCO QM Bond Indenture:** The indenture to be executed and delivered on or prior to the PRIDCO Effective Date pursuant to which PRIDCO shall issue the PRIDCO QM

Bonds, and including all of the terms and provisions in connection therewith, as it may be amended, supplemented or modified from time to time in accordance with its terms and conditions.

1.40 **PRIDCO QM Bond Trustee:** U.S. Bank Trust Company, National Association, solely in its capacities as trustee, paying agent, and registrar with respect to the PRIDCO QM Bonds.

1.41 **PRIDCO Restructuring Support Agreement:** That certain PRIDCO Restructuring Support Agreement, dated as August 3, 2023, by and among the Oversight Board, AAFAF, PRIDCO, and the PRIDCO RSA Parties, as it may be amended, modified, or supplemented in accordance with the terms thereof.

1.42 **PRIDCO RSA Parties:** Collectively, the parties to the PRIDCO Restructuring Support Agreement, other than the Oversight Board, AAFAF, and PRIDCO.

1.43 **PRIDCO Trust Agreement:** That certain Trust Agreement, dated as of July 1, 1964, between PRIDCO and First City National Bank, together with all amendments, exhibits, schedules, resolutions, and other documents attached thereto or executed in connection therewith.

1.44 **Professional:** An Entity employed in the Title VI Case by the Government Parties (in the Government Parties' sole and absolute discretion) and to be compensated for services rendered prior to or on the PRIDCO Effective Date.

1.45 **PROMESA:** The Puerto Rico Oversight, Management, and Economic Stability Act, Pub. L. No. 114-187, 130 Stat. 549 (2016), 48 U.S.C. § 2101, et. seq., as it may be amended or modified.

1.46 **Pro Rata Share:** With respect to PRIDCO Bond Claims, the proportion that a PRIDCO Bond Claim bears to the sum of all PRIDCO Bond Claims within the Pool.

1.47 **Qualifying Modification:** This *Qualifying Modification Pursuant to PROMESA Title VI for the Puerto Rico Industrial Development Company*, including, without limitation, the exhibits and schedules hereto, as the same is amended, supplemented, or modified from time to time in accordance with the provisions of PROMESA and the terms hereof.

1.48 **Qualifying Modification Supplement:** A separate volume of documents containing drafts of the PRIDCO QM Bond Indenture, any supplemental indentures to be issued thereunder, and any other ancillary documents necessary to consummate the transactions contemplated by the Qualifying Modification, if any, to be filed by the Administrative Supervisor with the Clerk of the Title VI Court as soon as practicable (but in no event later than seven (7) days) prior to the Voting Deadline, or on such other date as the Title VI Court establishes, and which shall be deemed incorporated into and part of the Qualifying Modification as if set forth herein in full.

1.49 **Related Persons:** With respect to any Entity (including for the avoidance of doubt, the Government Parties), its predecessors, successors and assigns (whether by operation of law or otherwise) and their respective current and former employees, managers, elected or appointed officials, directors, officers, board members, principals, members, equity holders (whether such interests are held directly or indirectly), partners, financial advisors, attorneys, accountants, consultants, agents and professionals (including, without limitation, any and all Professionals retained by the Issuer, the Administrative Supervisor and AAFAF), or other representatives,

nominees or investment managers, each acting in such capacity, and any Entity claiming by or through any of them (including their respective officers, directors, managers, shareholders, partners, employees, members and professionals), each in its respective capacity as such.

1.50 **Released Claims:** Collectively, (a) with respect to those Entities party to the PRIDCO Restructuring Support Agreement, PRIDCO Bond Claims and related Causes of Action released hereunder and in accordance with the PRIDCO Restructuring Support Agreement, (b) PRIDCO Litigation Claims, (c) PRIDCO Bond Claims and related Claims and Causes of Action that arise in, are related to or have been or could have been asserted against the Issuer or its respective Assets in the Title VI Case, (d) Claims and Causes of Action arising from or relating to the PRIDCO Bonds, including, without limitation, any all Claims arising from or relating to the PRIDCO Trust Agreement, and (e) Claims that otherwise arise from or relate to the Title VI Case, the Qualifying Modification, or the PRIDCO Restructuring Support Agreement, and the compromises set forth herein, including, without limitation, in connection with or related to any of the Government Parties, and their respective subsidiaries, assets, liabilities, operations, or property; provided, however, that, “Released Claims” is not intended to include, nor shall it have the effect of including, (i) Claims or Causes of Action unrelated to the Issuer, the PRIDCO Bonds, the PRIDCO Litigation, or the PRIDCO Trust Agreement, or (ii) except to the extent dismissed with prejudice in the PRIDCO Litigation, Claims that result from an act or omission to the extent that such act or omission is determined in a Final Order to have constituted gross negligence, intentional fraud or willful misconduct; and, provided, further, that “Released Claims” is not intended to release, nor shall it have the effect of releasing, (i) any party from the performance of its obligations in accordance with the Approval Order, the PRIDCO Restructuring Support Agreement, or the Qualifying Modification, or (ii) indemnities, directions or other contractual undertakings by the PRIDCO RSA Parties or other holders of PRIDCO Bond Claims in favor of the PRIDCO Bond Trustee; and, provided, further, that “Released Claims” shall not include claims against any party other than the Released Parties.

1.51 **Released Parties:** Collectively, solely to the extent provided in the Qualifying Modification, (a) the Government Parties, (b) the PRIDCO RSA Parties, (c) the PRIDCO Bond Trustee, and (d) with respect to the foregoing clauses (a) through (c), each of their respective Related Persons.

1.52 **Releasing Parties:** Collectively, solely to the extent provided in the Qualifying Modification, (a) all holders of PRIDCO Bond Claims against the Issuer or its Assets, (b) such holders’ current and former Affiliates, (c) all holders of PRIDCO Litigation Claims, (d) such holders’ current and former Affiliates, and (e) with respect to the foregoing clauses (a), (b), (c), and (d), each such Entity’s current and former Related Persons; provided, however, that except to the extent permitted pursuant to PROMESA Section 601(m), Releasing Parties shall not include any holder of a PRIDCO Bond Claim that “opts out” of the releases by electing the appropriate option on The Depository Trust Company’s Automated Tender Offer Program platform.

1.53 **Securities Act:** The Securities Act of 1933, 15 U.S.C. §§ 77a–77aa, as amended, or any similar federal, state or local law.

1.54 **Title VI:** Title VI of PROMESA.

1.55 **Title VI Case:** The Title VI case to be commenced for PRIDCO for the approval of this Qualifying Modification pursuant to Section 601(m)(1)(D) of PROMESA and District of Puerto Rico Local Civil Rule 3.1.

1.56 **Title VI Court:** The United States District Court for the District of Puerto Rico or such other court having jurisdiction over the Title VI Case.

1.57 **Trustees:** Collectively, the PRIDCO Bonds Trustee and the PRIDCO QM Bond Trustee.

1.58 **Voting Deadline:** November 24, 2023 at 5:00 P.M. Eastern Standard Time.

1.59 **Other Definitions:** Unless the context otherwise requires, any capitalized term used and not defined herein or elsewhere in the Qualifying Modification that is defined in PROMESA shall have the meaning assigned to that term in PROMESA. Unless otherwise specified, (a) all section, schedule, or exhibit references in the Qualifying Modification are to the respective section in, article of, or schedule or exhibit to, the Qualifying Modification, as the same may be amended, waived, or modified from time to time and (b) all references to dollars are to the lawful currency of the United States of America. The words, “herein,” “hereof,” “hereto,” “hereunder,” and other words of similar import refer to the Qualifying Modification as a whole and not to any particular section, subsection, or clause contained in the Qualifying Modification.

1.60 **Rules of Interpretation:** For purposes of the Qualifying Modification, (a) unless otherwise specified, any reference herein to a contract, lease, instrument, release, indenture, or other agreement or document being in a particular form or on particular terms and conditions means that such document shall be substantially in such form or substantially on such terms and conditions; (b) unless otherwise specified, any reference herein to a definition, an existing document, schedule, or exhibit, shall mean such document, schedule, or exhibit, as it was, or is amended, modified, or supplemented; (c) unless otherwise specified, all references herein to “Articles” and “Sections” are references to Articles and Sections, respectively, hereof or hereto; (d) captions and headings to Articles and Sections are inserted for convenience of reference only and are not intended to be a part of or to affect the interpretation of the Qualifying Modification; (e) unless otherwise specified, references to docket numbers of documents filed in the Title VI Case are references to the docket numbers under the Title VI Court’s CM/ECF system, as applicable; (f) the words “include” and “including,” and variations thereof, shall not be deemed to be terms of limitation, and shall be deemed to be followed by the words “without limitation”; and (g) any immaterial effectuating provisions may be interpreted by the Administrative Supervisor in such a manner consistent with the overall purpose and intent of the Qualifying Modification all without further notice to or action, order, or approval of the Title VI Court or any other Entity.

ARTICLE II

COMPROMISE AND SETTLEMENT OF DISPUTES

2.1 **Compromise of Controversies:** This Qualifying Modification sets forth the terms and conditions for a global compromise and integrated settlement of, among other issues, asserted and unasserted disputes concerning the rights of holders of PRIDCO Bond Claims or PRIDCO Litigation Claims against the Government Parties and each of their current and former Related Persons, including, without limitation, with respect to the PRIDCO Litigation.

2.2 **PRIDCO Bond Claims/Voting:** For purposes of voting on this Qualifying Modification, PRIDCO Bond Claims shall be calculated as provided in Sections 601(b) and (j) of PROMESA; provided, however, that, on the PRIDCO Effective Date and for purposes of

distributions pursuant to the terms and conditions of this Qualifying Modification, the PRIDCO Bond Claims shall be deemed to be in the aggregate amount of the principal and accrued and unpaid interest on the PRIDCO Bonds, including accreted interest on capital appreciation bonds, through the PRIDCO Effective Date, subject to reconciliation by the Oversight Board, AAFAF, PRIDCO, and the PRIDCO RSA Parties. As of December 31, 2023, the PRIDCO Bond Claims shall be treated as claims in the amount of One Hundred Eighty-Nine Million Six Hundred Eighteen Thousand Sixty-Three Dollars and Two Cents (\$189,618,063.02), accruing and accreting interest, as applicable, in the amount of Twenty-Two Thousand Four Hundred Eleven Dollars and Eighty-One Cents (\$22,411.81) per diem.

2.3 **Releases, Injunctions and Exculpation:** The releases, injunctions and exculpation provided in Article XV hereof are integral to obtaining the value provided hereunder and constitute an essential component of the compromises reached and are not severable from the other provisions of this Qualifying Modification.

ARTICLE III

PROVISION RELATING TO TRUSTEES

3.1 **Actions of the Trustees:** Except as may be provided otherwise hereunder, the Trustees shall be empowered to (a) take all steps and execute all instruments and documents necessary to effectuate the Qualifying Modification, (b) make distributions as contemplated by the Qualifying Modification, (c) comply with the Qualifying Modification and the obligations thereunder, and (d) exercise such other powers as may be vested in the Trustees pursuant to order of the Title VI Court, pursuant to the Qualifying Modification, pursuant to the PRIDCO Trust Agreement, PRIDCO QM Bond Indenture, or as deemed by the Trustees to be necessary and proper to implement the provisions of the Qualifying Modification. In order to compensate the PRIDCO Bond Trustee for all Fees and Costs incurred in connection with the PRIDCO Trust Agreement or otherwise in connection with this Qualifying Modification (including without limitation, in implementing, effectuating or complying with this Qualifying Modification), the PRIDCO Bond Trustee shall be entitled to receive the PRIDCO Bond Trustee Fees, payable from funds held by the PRIDCO Bond Trustee. PRIDCO shall not have any obligation to pay, nor shall any portion of the PRIDCO Distribution be used to pay, in whole or part, the PRIDCO Bond Trustee Fees.

ARTICLE IV

ESTABLISHMENT OF POOLS

4.1 **Establishment of Pools:** Pursuant to Section 601(d) of PROMESA, the following Pool has been established and certified by the Administrative Supervisor:

- (a) **Pool 1:** PRIDCO Bond Claims

ARTICLE V

PROVISIONS FOR TREATMENT OF PRIDCO BOND CLAIMS (POOL 1)

5.1 **Treatment of PRIDCO Bond Claims:** On the PRIDCO Effective Date, each holder of a PRIDCO Bond Claim shall be entitled to receive in full consideration, satisfaction,

release and exchange of such PRIDCO Bond Claim, such holder's Pro Rata Share of the PRIDCO Distribution based on such holder's PRIDCO Bond Claim held at the close of business on the date distributions are made pursuant to Article VII hereof.

5.2 **Dismissal of PRIDCO Litigation:** On the PRIDCO Effective Date, the PRIDCO Litigation shall be dismissed, with prejudice, as soon thereafter as is reasonably practicable, and the parties to the PRIDCO Litigation (on their own account or on behalf of affiliates or related funds or accounts managed by affiliates) shall take any and all action as may be reasonably necessary, including, without limitation, filing such notices or other pleadings, to effectuate such dismissal of the PRIDCO Litigation.

ARTICLE VI

PROVISIONS REGARDING PRIDCO QM BONDS

6.1 **Issuance of the PRIDCO QM Bonds:** On the PRIDCO Effective Date, PRIDCO shall issue the PRIDCO QM Bonds pursuant to the PRIDCO QM Bond Indenture and otherwise consistent with the maturity, interest rate and amortization schedule and additional terms for the PRIDCO QM Bonds annexed hereto as Exhibit "A."

ARTICLE VII

PROVISIONS GOVERNING DISTRIBUTIONS

7.1 **Time and Manner of Distribution:** Except as otherwise provided herein, as soon as reasonably practicable within ten (10) Business Days following the PRIDCO Effective Date, the Disbursing Agent shall distribute, or cause to be distributed to the holders of PRIDCO Bond Claims, the PRIDCO Distribution in accordance with the terms and provisions of Section 5.1 hereof.

7.2 **Timeliness of Payments:** Any payment or distribution to be made pursuant to the Qualifying Modification shall be deemed to be timely made if made as soon as reasonably practicable within ten (10) Business Days after the date specified in the Qualifying Modification. Whenever any distribution to be made under this Qualifying Modification shall be due on a day other than a Business Day, such distribution shall instead be made, without interest, on the immediately succeeding Business Day, but shall be deemed to have been made on the date due.

7.3 **Distributions by the Disbursing Agent:** Except as otherwise provided herein, all distributions under the Qualifying Modification shall be made by the Disbursing Agent. The Disbursing Agent shall be deemed to hold all property to be distributed hereunder in trust for the Entities entitled to receive the same. The Disbursing Agent shall not hold an economic or beneficial interest in such property.

7.4 **Manner of Payment Pursuant to this Qualifying Modification:** Unless the Entity receiving a payment agrees otherwise, any payment in Cash to be made by the Disbursing Agent shall be made, at the election of the payor, by check drawn on a domestic bank or by wire transfer from a domestic bank.

7.5 **Delivery of Distributions:** Except as provided in the Approval Order or herein, distributions and deliveries to holders of PRIDCO Bond Claims shall be made through The

Depository Trust Company or, to the extent a distribution cannot be made through The Depository Trust Company, such distributions and deliveries shall be made at the address of the holder of the PRIDCO Bond Claim. The Issuer, its agents and servicers, and the Disbursing Agent shall have no obligation to recognize any transfer of PRIDCO Bond Claims after the date distributions are made pursuant to the terms and provisions of Section 7.1 hereof.

7.6 Cancellation of Notes, Instruments, Certificates, and Other Documents:

Except (a) as provided in any contract, instrument or other agreement or document entered into or delivered in connection with the Qualifying Modification, (b) for purposes of evidencing, implementing and effectuating a right to distribution under the Qualifying Modification (including in connection with a review or appeal process), or (c) as specifically provided otherwise in the Qualifying Modification, on the PRIDCO Effective Date, the PRIDCO Trust Agreement, the PRIDCO Bonds and all instruments and documents related thereto will be deemed automatically cancelled, terminated and of no further force or effect against the Issuer or the PRIDCO Bond Trustee without any further act or action under any applicable agreement, law, regulation, order or rule, with the Issuer and the PRIDCO Bond Trustee having no continuing obligations or duties and responsibilities thereunder, and the obligations of the parties to the Issuer, as applicable, under the PRIDCO Trust Agreement or the PRIDCO Bonds and all instruments and documents related thereto shall be discharged; provided, however, that, notwithstanding anything contained herein to the contrary, the PRIDCO Trust Agreement, the PRIDCO Bonds and such other instruments and documents shall continue in effect solely (i) to allow the Disbursing Agent to make any distributions as set forth in the Qualifying Modification and to perform such other necessary administrative or other functions with respect thereto, (ii) to allow holders of PRIDCO Bond Claims to receive distributions in accordance with the terms and provisions of the Qualifying Modification, (iii) for any trustee, agent, contract administrator or similar entity under all instruments and documents related thereto, to perform necessary functions, including making distributions, in accordance with the Qualifying Modification and to have the benefit of all the rights and protections and other provisions of such instruments and documents, as applicable, and all other related agreements, or (iv) to set forth the terms and conditions applicable to parties to such documents and instruments other than the Issuer. Notwithstanding the foregoing, and except as otherwise expressly provided in the Qualifying Modification, such bonds or bond documents that remain outstanding shall not form the basis for the assertion of any Claim against the Issuer.

7.7 Withholding and Reporting Requirements: Any party issuing any instrument or making any distribution under the Qualifying Modification shall comply with all applicable withholding and reporting requirements imposed by any United States federal, state or local tax law or tax authority, and all distributions under the Qualifying Modification shall be subject to any such withholding or reporting requirements. Notwithstanding the above, each holder of a PRIDCO Bond Claim that is to receive a distribution pursuant to the Qualifying Modification shall have the sole and exclusive responsibility for the satisfaction and payment of any taxes imposed on such holder by any governmental unit, including income, withholding and other tax obligations, on account of such distribution. Any party issuing any instrument or making any distribution pursuant to the Qualifying Modification has the right, but not the obligation, to not make a distribution until such holder has made arrangements satisfactory to such issuing or disbursing party for payment of any such withholding tax obligations and, if any party issuing any instrument or making any distribution pursuant to the Qualifying Modification fails to withhold with respect to any such holder's distribution, and is later held liable for the amount of such withholding, the holder shall reimburse such party. The Disbursing Agent may require, as a condition to the receipt of a distribution, that

the holder complete the appropriate Form W-8 or Form W-9, as applicable to each holder of a PRIDCO Bond Claim.

7.8 **Allocation of Distributions Between Principal and Interest:** To the extent that any PRIDCO Bond Claim entitled to a distribution pursuant to the Qualifying Modification consists of indebtedness and other amounts (such as accrued but unpaid interest thereon), for purposes of the Issuer, any distribution shall be deemed allocated first, to the principal amount of the Claim (as determined for federal income tax purposes), second, to interest accrued and unpaid as of the date immediately preceding the PRIDCO Effective Date and then, to the extent the consideration exceeds the principal amount of the Claim, to such other amounts; provided, however, that the Issuer's treatment of any distributions for its tax purposes will not be binding on any Creditor or holder of a PRIDCO Bond as to the treatment of such distributions for any regulatory, tax or other purposes.

7.9 **Undeliverable/Reserved Distributions:**

(a) **Holding of Undeliverable Distributions by the Disbursing Agent:** If any distribution to any holder of a PRIDCO Bond Claim is returned to the Disbursing Agent as undeliverable, no further distribution shall be made to such holder unless and until the Disbursing Agent is notified, in writing, of such holder's then-current address. Subject to the terms and provision of Section 7.9(b) hereof, undeliverable distributions shall remain in the possession of the Disbursing Agent until such time as a distribution becomes deliverable. All Entities ultimately receiving previously undeliverable Cash shall not be entitled to any interest or other accruals thereon of any kind. Nothing contained in the Qualifying Modification shall require the Disbursing Agent to attempt to locate any holder of a PRIDCO Bond Claim.

(b) **Failure to Claim Undeliverable Distributions:** If (i) a check is sent, by the Disbursing Agent to a holder of a PRIDCO Bond Claim in respect of distributions and such check is not negotiated within one hundred twenty (120) days following the date on which such check was issued, or (ii) any other form of distribution to a holder of a PRIDCO Bond Claim is otherwise undeliverable, the Disbursing Agent (or its duly authorized agent) shall, on or prior to the date that is one hundred eighty (180) days from the PRIDCO Effective Date, file a list with the Title VI Court setting forth the names of those Entities for which distributions have been made hereunder that have not been negotiated or have been returned as undeliverable as of the date thereof. Any holder of a PRIDCO Bond Claim on such list that does not identify itself and assert its rights pursuant to the Qualifying Modification to receive a distribution within three (3) months from the date so listed shall have its entitlement to such undeliverable distribution discharged and shall be forever barred from asserting any entitlement pursuant to the Qualifying Modification, against Issuer, the Commonwealth, or their respective professionals, agents, or property, and any Cash in the possession of the Disbursing Agent or the trustee with respect to existing securities, as the case may be, shall be released to Issuer or Commonwealth, as applicable, for use to discharge operating expenses of Issuer or Commonwealth, as applicable.

ARTICLE VIII

ACCEPTANCE OR REJECTION OF THE QUALIFYING MODIFICATION

8.1 **Acceptance by Pool of Creditors:** Each holder of a PRIDCO Bond Claim shall be entitled to vote separately to accept or reject the Qualifying Modification. The Pool of holders

entitled to vote shall have accepted the Qualifying Modification if the Qualifying Modification is accepted by at least two-thirds (2/3) in Outstanding Principal amount of the PRIDCO Bond Claims in that Pool that have timely voted to approve or reject the Qualifying Modification; provided, however, that not less than a majority of the aggregate Outstanding Principal of the PRIDCO Bonds in the Pool have voted to approve the Qualifying Modification.

ARTICLE IX

RIGHTS AND POWERS OF DISBURSING AGENT

9.1 **Exculpation:** From and after the PRIDCO Effective Date, the Disbursing Agent shall be exculpated by all Entities, including, without limitation, holders of Claims and other parties in interest, from any and all claims, Causes of Action, and other assertions of liability arising out of the discharge of the powers and duties conferred upon such Disbursing Agent by the Qualifying Modification or any order of the Title VI Court entered pursuant to or in furtherance of the Qualifying Modification, or applicable law, except for actions or omissions to act arising out of the gross negligence or willful misconduct of such Disbursing Agent. No holder of a Claim or other party in interest shall have or pursue any claim or cause of action against the Disbursing Agent for making payments in accordance with the Qualifying Modification or for implementing the provisions of the Qualifying Modification.

9.2 **Powers of the Disbursing Agent:** Except as may be provided otherwise hereunder, the Disbursing Agent shall be empowered to (a) take all steps and execute all instruments and documents necessary to effectuate the Qualifying Modification, (b) make distributions contemplated by the Qualifying Modification, (c) comply with the Qualifying Modification and the obligations thereunder, and (d) exercise such other powers as may be vested in the Disbursing Agent pursuant to order of the Title VI Court, pursuant to the Qualifying Modification, or as deemed by the Disbursing Agent to be necessary and proper to implement the provisions of the Qualifying Modification.

9.3 **Fees and Expenses Incurred From and After the PRIDCO Effective Date:** Except as otherwise ordered by the Title VI Court, the amount of any reasonable fees and expenses incurred by the Disbursing Agent in its capacity as Disbursing Agent from and after the PRIDCO Effective Date and any reasonable compensation and expense reimbursement claims, including, without limitation, reasonable fees and expenses of counsel, incurred by the Disbursing Agent, shall be paid in Cash by the Issuer or Commonwealth, as applicable, without further order of the Title VI Court.

ARTICLE X

CONDITIONS PRECEDENT TO THE PRIDCO EFFECTIVE DATE

10.1 **Conditions Precedent to the Effective Date:** The occurrence of the PRIDCO Effective Date is subject to satisfaction of the following conditions precedent:

(a) **Entry of the Approval Order:** The Clerk of the Title VI Court shall have entered the Approval Order approving the Qualifying Modification, which shall be acceptable to the

Administrative Supervisor in its sole discretion and reasonably acceptable to the PRIDCO RSA Parties, AAFAF, the PRIDCO Bond Trustee, and the Issuer, and which shall, among other things:

(i) Authorize Issuer to take all actions necessary to enter into, implement, and consummate the contracts, instruments, releases, trust agreements, and other agreements or documents created in connection with the Qualifying Modification;

(ii) Authorize Issuer to (1) make all distributions and issuances as required in accordance with the Qualifying Modification, and (2) enter into any agreements and transactions necessary to make such distributions or otherwise implement the Qualifying Modification, including as set forth in the Qualifying Modification Supplement;

(iii) Authorize the implementation of the Qualifying Modification in accordance with its terms;

(iv) Approve the releases, discharge, exculpation, and injunction provisions set forth in Article XV hereof;

(v) Determine the Approval Order is full, final, complete, conclusive and binding upon and shall not be subject to collateral attack or other challenge in any court or other forum by any Entity or any Entity's Related Persons;

(vi) Provide that no person or entity shall enact, adopt, or implement any law, rule, regulation, or policy that impedes, financially or otherwise, consummation and implementation of the transactions contemplated by the Qualifying Modification; and

(vii) Provide that the Issuer and/or the Trustees shall take any and all actions necessary to consummate the transactions contemplated by the Qualifying Modification.

(b) **No Injunction:** The Approval Order shall not be stayed in any respect.

(c) **Authorizations:** All authorizations, consents, regulatory approvals, rulings, or documents, if any, that are necessary to implement and effectuate the Qualifying Modification have been obtained or entered and not revoked or reversed.

(d) **Execution of Documents; Other Actions:** All actions and all contracts, instruments, settlements, releases and other agreements or documents necessary to implement the terms and provisions of the Qualifying Modification are effected or executed and delivered, as applicable, and are in full force and effect.

10.2 **Waiver of Conditions Precedent:** Subject to the provisions of the PRIDCO Restructuring Support Agreement, the Administrative Supervisor, after consultation with AAFAF, and the PRIDCO RSA Parties, may waive any of the conditions to the PRIDCO Effective Date set forth in Section 10.1 hereof at any time, without any further notice to or action, order, or approval of the Title VI Court; provided, however, that any such waiver shall not (i) have an adverse economic or legal impact on any of the PRIDCO RSA Parties, (ii) waive approval of any the releases, discharge, exculpation, and injunction provisions set forth in Article XV hereof, or (iii) except as provided in any order of the Title VI Court, waive the provisions set forth in Article III hereof.

10.3 **Effect of Non-Occurrence of Conditions to PRIDCO Effective Date:** If prior to the PRIDCO Effective Date, the Approval Order is vacated pursuant to a Final Order, then, except as provided in any order of the Title VI Court vacating the Approval Order, as applicable, the Qualifying Modification will be null and void in all respects, and nothing contained in the Qualifying Modification shall: (a) constitute a waiver or release of any Claims, or Causes of Action; (b) prejudice in any manner the rights of the Issuer, AAFAF, the Administrative Supervisor, or any other Entity; or (c) constitute an admission, acknowledgment, offer, or undertaking of any sort by the Issuer, AAFAF, the Administrative Supervisor, or any other Entity.

ARTICLE XI

MODIFICATION, REVOCATION, OR WITHDRAWAL OF THE QUALIFYING MODIFICATION

11.1 **Modification of Qualifying Modification:** Subject to the terms and provisions of the PRIDCO Restructuring Support Agreement, the Administrative Supervisor, after consultation with AAFAF and the PRIDCO RSA Parties may alter, amend or modify the Qualifying Modification, any exhibits attached hereto, or the documents contained in the Qualifying Modification Supplement in a manner that otherwise does not have an adverse economic or legal impact on any of the PRIDCO RSA Parties at any time prior to or after the Approval Date but prior to the PRIDCO Effective Date. A holder of a Claim that has accepted the Qualifying Modification shall be deemed to have accepted the Qualifying Modification as altered, amended or modified so long as the proposed alteration, amendment or modification does not materially and adversely change the treatment of the Claim of such holder.

11.2 **Revocation or Withdrawal:**

(a) Subject to the terms and provisions of the PRIDCO Restructuring Support Agreement, the Qualifying Modification may be revoked or withdrawn prior to the Approval Date by the Administrative Supervisor.

(b) If the Qualifying Modification is revoked or withdrawn prior to the Approval Date, or if the Qualifying Modification does not become effective for any reason whatsoever, then the Qualifying Modification shall be deemed null and void. In such event, nothing contained herein shall be deemed to constitute a waiver or release of any claim by the Issuer or any other Entity, or to prejudice in any manner the rights of the Issuer or any other Entity in any further proceeding.

11.3 **No Admission of Liability:**

(a) The submission of this Qualifying Modification is not intended to be, nor shall it be construed as, an admission or evidence in any pending or subsequent suit, action, proceeding or dispute of any liability, wrongdoing, or obligation whatsoever (including as to the merits of any claim or defense) by any Entity with respect to any of the matters addressed in this Qualifying Modification.

(b) None of this Qualifying Modification (including, without limitation, the exhibits hereto and the documents contained in the Qualifying Modification Supplement), or any settlement entered, act performed or document executed in connection with this Qualifying

Modification: (i) is or may be deemed to be or may be used as an admission or evidence of the validity of any claim, or any allegation made in any related actions or of any wrongdoing or liability of any Entity; (ii) is or may be deemed to be or may be used as an admission or evidence of any liability, fault or omission of any Entity in any civil, criminal or administrative proceeding in any court, administrative agency or other tribunal; or (iii) is or may be deemed to be or used as an admission or evidence against the Issuer or any other Entity with respect to the validity of any Claim. None of this Qualifying Modification or any settlement entered, act performed or document executed in connection with this Qualifying Modification shall be admissible in any proceeding for any purposes, except to carry out the terms of this Qualifying Modification, and except that, once confirmed, any Entity may file this Qualifying Modification in any action for any purpose, including, but not limited to, in order to support a defense or counterclaim based on the principles of *res judicata*, collateral estoppel, release, good-faith settlement, judgment bar or reduction or any other theory of claim preclusion or issue preclusion or similar defense or counterclaim.

ARTICLE XII

CORPORATE GOVERNANCE AND MANAGEMENT OF ISSUER

12.1 **Corporate Action:** On the PRIDCO Effective Date, all matters provided for under the Qualifying Modification that would otherwise require approval of the directors of the Issuer, including, without limitation, to the extent applicable, the authorization to enter into any of the documents contained in the Qualifying Modification Supplement, shall be authorized and approved in all respects and without further action by any Entity under any other applicable law, regulation, order, or rule. Other matters provided under the Qualifying Modification involving the corporate structure of Issuer or corporate action by Issuer, as applicable, shall be deemed to have occurred, be authorized, and shall be in effect without requiring further action by any Entity under any other applicable law, regulation, order, or rule. Without limiting the foregoing, from and after the Approval Date, the Issuer shall take any and all actions deemed appropriate in order to consummate the transactions contemplated herein.

ARTICLE XIII

PROVISIONS REGARDING OVERSIGHT BOARD AND COMPLIANCE WITH PROMESA

13.1 **Effect of Approval:** Nothing in this Qualifying Modification or the Approval Order shall discharge, substitute, alter or otherwise modify the powers and responsibilities of the Oversight Board pursuant to PROMESA or the obligations of the Issuer under PROMESA. From and after the PRIDCO Effective Date, the Issuer shall continue to have all of its obligations pursuant to PROMESA, including, without limitation, the terms and conditions of Titles I and II thereof.

13.2 **Ongoing Role of the Oversight Board:** Nothing in the Qualifying Modification or the Approval Order shall discharge any or all obligations of PRIDCO under PROMESA and, from and after the PRIDCO Effective Date, the Oversight Board's powers and responsibilities under PROMESA shall continue, and PRIDCO's duties and obligations under PROMESA shall continue and be unaffected by the Qualifying Modification and the consummation thereof.

ARTICLE XIV

RETENTION OF JURISDICTION

14.1 **Retention of Jurisdiction**: The Title VI Court shall retain and have exclusive jurisdiction over any matter arising under PROMESA, arising in or related to, this Title VI Case and the Qualifying Modification, or that relates to the following:

(a) to ensure that distributions to holders of PRIDCO Bond Claims are accomplished pursuant to the provisions of the Qualifying Modification and adjudicate any and all disputes arising from or relating to distributions under the Qualifying Modification;

(b) to adjudicate, decide, or resolve any motions, contested or litigated matters, and any other matters, and grant or deny any applications involving the Issuer that may be pending on the PRIDCO Effective Date or brought thereafter;

(c) to enter and implement such orders as may be necessary or appropriate to execute, implement, consummate or enforce the provisions of (a) contracts, instruments, releases, indentures, and other agreements or documents approved by Final Order in this Title VI Case and (b) the Qualifying Modification, the Approval Order, and any other contracts, instruments, securities, releases, indentures, and other agreements or documents created in connection with the Qualifying Modification,

(d) to resolve any cases, controversies, suits, disputes or other challenges of any kind that may arise in connection with the consummation, interpretation or enforcement of the Qualifying Modification, the Approval Order, or any other contract, instrument, security, release or other agreement or document that is entered into or delivered pursuant to the Qualifying Modification or any Entity's rights arising from or obligations incurred in connection with the Qualifying Modification or such documents;

(e) to approve any modification of the Qualifying Modification or approve any modification of the Approval Order or any contract, instrument, security, release or other agreement or document created in connection with the Qualifying Modification or the Approval Order, or remedy any defect or omission or reconcile any inconsistency in any order, the Qualifying Modification, the Approval Order or any contract, instrument, security, release or other agreement or document created in connection with the Qualifying Modification or the Approval Order, in such manner as may be necessary or appropriate to consummate the Qualifying Modification, and in a manner consistent with the PRIDCO Restructuring Support Agreement;

(f) to adjudicate, decide or resolve any matters relating to PRIDCO's compliance with the Qualifying Modification and the Approval Order;

(g) to determine any other matters that may arise in connection with or relate to the Qualifying Modification, the Approval Order, or any contract, instrument, security, release or other agreement or document created, entered into or delivered in connection with the Qualifying Modification or the Approval Order, in each case, solely to the extent that any such document does not provide for another court or courts to have exclusive jurisdiction;

(h) to enter and implement other orders, or take such other actions as may be necessary or appropriate to enforce or restrain interference by any Entity with consummation or enforcement of the Qualifying Modification or the Approval Order;

(i) to adjudicate any and all controversies, suits or issues that may arise regarding the validity of any actions taken by any Entity pursuant to or in furtherance of the Qualifying Modification or Approval Order and enter any necessary or appropriate orders or relief in connection with such adjudication;

(j) to enter and implement such orders as are necessary or appropriate if the Approval Order is for any reason modified, stayed, reversed, revoked, or vacated;

(k) to enter an order or final decree concluding or closing this Title VI Case;

(l) to enforce and clarify any orders previously entered by the Title VI Court in this Title VI Case; and

(m) to hear any other matter over which the Title VI Court has jurisdiction.

ARTICLE XV

MISCELLANEOUS PROVISIONS

15.1 **Title to Assets:** Except as provided in the Approval Order, on the PRIDCO Effective Date, title to all Assets of the Issuer shall vest in the Issuer, free and clear of all Liens, Claims or other interests supporting the PRIDCO Bonds or the PRIDO Bond Claims, including, without limitation, any Liens, Claims or other interests possessed by the PRIDCO Bond Trustee and the holders and beneficial owners of the PRIDCO Bonds relating to PRIDCO. The Approval Order approving this Qualifying Modification shall constitute a judicial determination, as of the PRIDCO Effective Date, of the discharge and release of all such Liens, Claims, Causes of Action or other interests supporting the PRIDCO Bonds, and shall be conclusive evidence of the cancellation, discharge, and release of all such Liens, Claims, Causes of Action and other interests supporting the PRIDCO Bonds. Notwithstanding the foregoing, from and after the PRIDCO Effective Date, the Assets of the Issuer shall be subject to the Liens, Claims, and other interests to the extent set forth in the Approval Order and the PRIDCO QM Bond Indenture.

15.2 **Scope of Discharge:** Notwithstanding anything else contained in this Qualifying Modification, this Qualifying Modification provides for the treatment and discharge of only the PRIDCO Bond Claims pursuant to Section 601(m) of PROMESA. No other obligations of or Claims against PRIDCO shall be deemed to have been adjusted, impaired, discharged, or otherwise affected by this Qualifying Modification.

15.3 **Discharge and Release of Claims and Causes of Action:**

(a) Except as expressly provided in the Qualifying Modification or the Approval Order, all distributions and rights afforded under the Qualifying Modification shall be, and shall be deemed to be, in exchange for, and in complete satisfaction, settlement, discharge and release of, all Claims or Causes of Action against the Released Parties that arose, in whole or in part, prior to the PRIDCO Effective Date, relating to the PRIDCO Bonds, including, without limitation,

any and all Claims arising from or relating to the PRIDCO Litigation, Bond Documents, the Title VI Case, the Issuer or any of its Assets, property, or interests of any nature whatsoever, including any interest accrued on such Claims, and regardless of whether any property will have been distributed or retained pursuant to the Qualifying Modification on account of such Claims or Causes of Action, solely arising from or relating to the PRIDCO Bonds. Upon the PRIDCO Effective Date, the Issuer shall be deemed discharged and released from any and all Released Claims, including any and all PRIDCO Bond Claims, that arose, in whole or in part, prior to the PRIDCO Effective Date, and all Government Parties and their Related Persons shall be deemed discharged and released from any and all Released Claims, including PRIDCO Litigation Claims, that arose or could have arisen, in whole or in part, prior to the PRIDCO Effective Date.

(b) Except as expressly provided in the Qualifying Modification or the Approval Order, all Entities shall be precluded from asserting any and all Released Claims, including any and all PRIDCO Bond Claims and PRIDCO Litigation Claims, against the Government Parties, their Related Persons, and their Assets, property and rights, remedies, Claims or Causes of Action or liabilities of any nature whatsoever, relating to this Title VI Case, the Issuer or its Assets and property, and regardless of whether any property will have been distributed or retained pursuant to the Qualifying Modification on account of such Claims.

(c) In accordance with the foregoing, except as expressly provided in the Qualifying Modification or the Approval Order, the Approval Order shall constitute a judicial determination, as of the PRIDCO Effective Date, of the discharge and release of all such Released Claims, including PRIDCO Bond Claims and PRIDCO Litigation Claims, and related Causes of Action, and such discharge shall void and extinguish any judgment obtained against the Issuer, any other Released Party, and/or its Assets and property at any time, to the extent such judgment is related to a discharged Claim, debt or liability. As of the PRIDCO Effective Date, and in consideration for the value provided under the Qualifying Modification, each Releasing Party shall be and hereby is deemed to release and forever waive and discharge such Released Claim, including PRIDCO Bond Claim and PRIDCO Litigation Claim, as against the Government Parties, and their respective Assets and property.

15.4 **Injunction on Claims:** Except as otherwise expressly provided in the Qualifying Modification, the Approval Order or such other Final Order of the Title VI Court that may be applicable, all Entities who have held, hold or may hold any Released Claims, including any PRIDCO Bond Claims, PRIDCO Litigation Claims, or any other debt or liability that is discharged or released pursuant to this Qualifying Modification or who have held, hold or may hold Claims or any other debt or liability that is discharged or released pursuant to this Qualifying Modification are permanently enjoined, from and after the PRIDCO Effective Date, from (a) commencing or continuing, directly or indirectly, in any manner, any action or other proceeding (including, without limitation, any judicial, arbitral, administrative or other proceeding) of any kind on any such Claim or other debt or liability that is discharged pursuant to the Qualifying Modification against any of the Released Parties or any of their respective assets or property, (b) the enforcement, attachment, collection or recovery by any manner or means of any judgment, award, decree or order against any of the Released Parties or any of their respective assets or property on account of any Claim or other debt or liability that is discharged pursuant to the Qualifying Modification, (c) creating, perfecting, or enforcing any encumbrance of any kind against any of the Released Parties or any of their respective assets or property on account of any Claim or other debt or liability that is discharged pursuant to the Qualifying Modification, and (d) except to the extent provided, permitted or

preserved pursuant to the common law right of recoupment, asserting any right of setoff, subrogation or recoupment of any kind against any obligation due from any of the Released Parties or any of their respective assets or property, with respect to any such Claim or other debt or liability that is discharged pursuant to the Qualifying Modification. Such injunction shall extend to all successors and assigns of the Released Parties and their respective assets and property.

15.5 **Integral to Qualifying Modification:** Each of the discharge, injunction, exculpation and release provisions provided in this Article is an integral part of the Qualifying Modification and is essential to its implementation. Each of the Released Parties shall have the right to independently seek the enforcement of the discharge, injunction and release provisions set forth in this Article.

15.6 **Releases by the Government Parties:** Except as otherwise expressly provided in the Qualifying Modification or the Approval Order, on the PRIDCO Effective Date, and for good and valuable consideration, each of the Government Parties, the Disbursing Agent and each of the Government Parties' Related Persons shall be deemed to have and hereby does irrevocably and unconditionally, fully, finally and forever waive, release, acquit, and discharge the Released Parties from any and all Claims or Causes of Action that the Government Parties, and the Disbursing Agent, or any of them, or anyone claiming through them, on their behalf or for their benefit, have or may have or claim to have, now or in the future, against any Released Party that are Released Claims or otherwise are based upon, relate to, or arise out of or in connection with, in whole or in part, any act, omission, transaction, event or other circumstance relating to the PRIDCO Bonds, including, without limitation, any and all Claims arising from or relating to the PRIDCO Litigation, Bond Documents, the Title VI Case or the Issuer, or this Qualifying Modification taking place or existing on or prior to the PRIDCO Effective Date, and/or any Claim, act, fact, transaction, occurrence, statement, or omission in connection therewith or alleged or that could have been alleged, including, without limitation, any such Claim, demand, right, liability, or cause of action for indemnification, contribution, or any other basis in law or equity for damages, costs or fees.

15.7 **Injunction Related to Releases:** As of the PRIDCO Effective Date, all Entities that hold, have held, or may hold a Released Claim that is released pursuant to Article XV of the Qualifying Modification, are, and shall be, permanently, forever and completely stayed, restrained, prohibited, barred and enjoined from taking any of the following actions, whether directly or indirectly, derivatively or otherwise, on account of or based on the subject matter of such discharged Released Claims: (a) commencing, conducting or continuing in any manner, directly or indirectly, any suit, action or other proceeding (including, without limitation, any judicial, arbitral, administrative or other proceeding) in any forum; (b) enforcing, attaching (including, without limitation any prejudgment attachment), collecting, or in any way seeking to recover any judgment, award, decree, or other order; (c) creating, perfecting or in any way enforcing in any matter, directly or indirectly, any Lien; (d) setting off, seeking reimbursement or contributions from, or subrogation against, or otherwise recouping in any manner, directly or indirectly, any amount against any liability or obligation owed to any Entity released under Article XV hereof; and (e) commencing or continuing in any manner, in any place or any judicial, arbitration or administrative proceeding in any forum, that does not comply with or is inconsistent with the provisions of the Qualifying Modification or the Approval Order.

15.8 **Exculpation:**

(a) **Government Parties:** The Oversight Board, AAFAF, the Issuer, and each of their respective Related Persons, solely acting in its capacity as such at any time up to and including the PRIDCO Effective Date, shall not have or incur any liability to any Entity for any act taken or omitted to be taken in connection with the Title VI Case, the PRIDCO Restructuring Support Agreement, the formulation, preparation, dissemination, implementation, confirmation or approval of the Qualifying Modification or any compromises or settlements contained therein, or any contract, instrument, release or other agreement or document provided for or contemplated in connection with the consummation of the transactions set forth in the Qualifying Modification; provided, however, that the foregoing provisions of this Section shall not affect the liability of any Entity that otherwise would result from any such act or omission to the extent that such act or omission is determined in a Final Order to have constituted intentional fraud or willful misconduct; provided, further, that nothing in this Section or elsewhere in the Qualifying Modification or Approval Order shall affect or impair the Oversight Board's and its Related Persons' exemption from liability as provided in Section 105 of PROMESA. Nothing in the foregoing provisions of this Section shall prejudice the right of any of the Government Parties, and the Government Parties' officers and directors serving at any time up to and including the PRIDCO Effective Date, and each of their respective professionals to assert reliance upon advice of counsel as a defense with respect to their duties and responsibilities under the Qualifying Modification.

(b) **PRIDCO RSA Parties and PRIDCO Bond Trustee:** The PRIDCO RSA Parties, the PRIDCO Bond Trustee, and their respective Related Persons shall not have or incur any liability to any Entity for any act taken or omitted to be taken consistent with the Qualifying Modification or in connection with the formulation, preparation, dissemination, implementation, acceptance, confirmation or approval of the Qualifying Modification or any compromises or settlements contained in either, or any contract, instrument, release or other agreement or document provided for or contemplated in connection with the consummation of the transactions set forth in the Qualifying Modification, including the PRIDCO Restructuring Support Agreement; provided, however, that the foregoing provisions of this Section shall not affect the liability of any Entity that otherwise would result from any such act or omission to the extent that such act or omission is determined in a Final Order to have constituted intentional fraud or willful misconduct.

15.9 **Bar Order:** Except to the limited extent otherwise provided in the Qualifying Modification, each and every Entity is permanently enjoined, barred and restrained from instituting, prosecuting, pursuing or litigating in any manner any and all Claims, demands, rights, liabilities, or causes of action of any and every kind, character or nature whatsoever, in law or in equity, known or unknown, direct or derivative, whether asserted or unasserted, against any of the Released Parties, based upon, related to, or arising out of or in connection with (i) any of the Released Claims (including, without limitation, Claims and Causes of Action based upon, related to, or arising out of or in connection with the PRIDCO Bonds and the Bond Documents), (ii) approval and consummation of the Qualifying Modification, (iii) the negotiation and consummation of the PRIDCO Restructuring Support Agreement, or (iv) any claim, act, fact, transaction, occurrence, statement or omission in connection with or alleged or that could have been alleged in the Title VI Case, including in each case, without limitation, any such claim, demand, right, liability or cause of action for indemnification, contribution, or any other basis in law or equity for damages, costs or fees incurred arising directly or indirectly from or otherwise relating to the Title VI Case, either directly or indirectly by any Person arising from or related to the claims, acts, facts, transactions,

occurrences, statements or omissions that are, could have been or may be alleged in the related actions or any other action brought or that might be brought by, through, on behalf of, or for the benefit of any of the Released Parties (whether arising under federal, state or foreign law, and regardless of where asserted).

15.10 **No Waiver:** Notwithstanding anything to the contrary contained in this Qualifying Modification, the releases and injunctions set forth in such sections shall not, and shall not be deemed to, limit, abridge or otherwise affect the rights of the Oversight Board, PRIDCO, or AAFAF to enforce, sue on, settle or compromise the rights, claims and other matters expressly retained by any of them; provided, however, the foregoing does not limit the rights of the PRIDCO Bond Trustee regarding the obligations arising from or relating to the PRIDCO Trust Agreement.

15.11 **Supplemental Injunction:** Notwithstanding anything contained herein to the contrary, except to the limited extent provided otherwise in the Qualifying Modification, all Entities, including Entities acting on their behalf, who currently hold or assert, have held or asserted, or may hold or assert, any Released Claims against any of the Released Parties based upon, attributable to, arising out of or relating to the PRIDCO Bonds, the PRIDCO Trust Agreement, the PRIDCO Litigation, the PRIDCO Restructuring Support Agreement, the Qualifying Modification, or the Title VI Case, whenever and wherever arising or asserted, whether in the United States or anywhere else in the world, whether sounding in tort, contract, warranty, statute, or any other theory of law, equity or otherwise, shall be, and shall be deemed to be, permanently stayed, restrained and enjoined from taking any action against any of the Released Parties for the purpose of directly or indirectly collecting, recovering or receiving any payment or recovery with respect to any Released Claims arising prior to the PRIDCO Effective Date (including prior to the PRIDCO Filing Date), including, but not limited to:

(a) Commencing or continuing in any manner any action or other proceeding of any kind with respect to any such Released Claim against any of the Released Parties or the assets or property of any Released Party;

(b) Enforcing, attaching, collecting or recovering, by any manner or means, any judgment, award, decree or order against any of the Released Parties or the assets or property of any Released Party with respect to any such Released Claim;

(c) Creating, perfecting or enforcing any Lien of any kind against any of the Released Parties or the assets or property of any Released Party with respect to any such Released Claim;

(d) Except as otherwise expressly provided in the Qualifying Modification or the Approval Order, asserting, implementing or effectuating any setoff, right of subrogation, indemnity, contribution or recoupment of any kind against any obligation due to any of the Released Parties or against the property of any Released Party with respect to any such Released Claim; and

(e) Taking any act, in any manner, in any place whatsoever, that does not conform to, or comply with, the provisions of the Qualifying Modification or the Approval Order.

15.12 **Severability:** Subject to the terms and provisions of the PRIDCO Restructuring Support Agreement, if, prior to the Approval Date, (a) any term or provision of the Qualifying Modification shall be held by the Title VI Court to be invalid, void or unenforceable, the Title VI

Court shall have the power to alter and interpret such term or provision to make it valid or enforceable to the maximum extent practicable, consistent with the original purpose of the term or provision held to be invalid, void or unenforceable, and such term or provision shall then be applicable as altered or interpreted or (b) subject to the terms and provisions of the PRIDCO Restructuring Support Agreement, the Oversight Board determines to modify or amend the Qualifying Modification, the Qualifying Modification provisions applicable thereto shall be deemed severed and to be of no force or effect.

15.13 **Governing Law:** Except to the extent that other federal law is applicable, or to the extent that an exhibit hereto or any document to be entered into in connection herewith provides otherwise, or to the extent applicable to and provided in the Bond Documents with respect to any rights, duties or obligations of the PRIDCO Bond Trustee, the rights, duties, and obligations arising under this Qualifying Modification shall be governed by, and construed and enforced in accordance with, PROMESA and, to the extent not inconsistent therewith, the laws of the Commonwealth giving effect to principles of conflicts of laws.

15.14 **Section Headings:** The section headings contained in this Qualifying Modification are for reference purposes only and shall not affect in any way the meaning or interpretation of the Qualifying Modification.

15.15 **Inconsistencies:** To the extent of any inconsistency between the terms and provisions of the Qualifying Modification and the terms and provisions of the Approval Order, the terms and provisions of the Approval Order shall govern and be deemed a modification of the Qualifying Modification; provided, however, that under no circumstances shall the Approval Order modify the economic terms set forth herein absent consent of the Oversight Board, subject to the terms and provisions of the PRIDCO Restructuring Support Agreement.

15.16 **Document Retention:** From and after the PRIDCO Effective Date, the Issuer may maintain documents in accordance with its standard document retention policy, as may be altered, amended, modified, or supplemented by the Issuer.

15.17 **Immediate Binding Effect:** Upon the occurrence of the PRIDCO Effective Date, the terms of the Qualifying Modification and the Qualifying Modification Supplement shall be immediately effective and enforceable and deemed binding on any and all Releasing Parties and their respective successors and assigns, whether or not the Claim of any such Releasing Party is impaired under the Qualifying Modification and whether or not such Releasing Party has accepted the Qualifying Modification. The releases, exculpations, and settlements effected under the Qualifying Modification shall be operative, and subject to enforcement by the Title VI Court, from and after the PRIDCO Effective Date, including pursuant to the injunctive provisions of the Qualifying Modification. Once approved, the compromises and settlements embodied in the Qualifying Modification, along with the treatment of any associated Claims, shall not be subject to collateral attack or other challenge by any Entity in any court or other forum. As such, any Entity that opposes the terms of any compromise and settlement set forth in the Qualifying Modification must (a) challenge such compromise and settlement prior to confirmation of the Qualifying Modification and (b) demonstrate appropriate standing to object and that the subject compromise and settlement does not meet the standards governing settlements under applicable law.

15.18 **Additional Documents:** On or before the PRIDCO Effective Date, (a) the Administrative Supervisor or (b) AAFAF or the Issuer, with the consent of the Administrative

Supervisor, may file with Clerk of the Title VI Court such agreements and other documents as may be necessary or appropriate to effectuate and further evidence the terms and conditions of the Qualifying Modification. The Issuer and all holders of PRIDCO Bond Claims receiving distributions pursuant to the Qualifying Modification and all other parties in interest, from time to time, may prepare, execute, and deliver any agreements or documents and take any other actions as may be necessary or advisable to effectuate the provisions and intent of the Qualifying Modification.

15.19 **Reservation of Rights:** Except as expressly set forth herein, the Qualifying Modification shall have no force or effect unless the Title VI Court shall enter the Approval Order. None of the filing of the Qualifying Modification, any statement or provision contained in the Qualifying Modification, or the taking of any action by any of the Government Parties with respect to the Qualifying Modification or the Qualifying Modification Supplement shall be or shall be deemed to be an admission or waiver of any rights of any of the Government Parties with respect to the holders of Claims prior to the PRIDCO Effective Date.

15.20 **Successors and Assigns:** Except as expressly provided otherwise in the Qualifying Modification, the rights, benefits, and obligations of any Entity named or referred to in the Qualifying Modification or the Approval Order shall be binding on, and shall inure to the benefit of any heir, executor, administrator, successor or assign, Affiliate, officer, director, agent, representative, attorney, beneficiaries, or guardian, if any, of each Entity.

15.21 **Notices:** All notices, requests to, demands or other document(s) required by the Qualifying Modification or the Approval Order to be served on or delivered to the Oversight Board, the Issuer, AAFAF, the PRIDCO Bond Trustee, or the PRIDCO RSA Parties to be effective shall be in writing including by facsimile transmission and unless otherwise expressly provided herein, shall be deemed to have been duly given or made when actually delivered or, in the case of notice by facsimile transmission, when received and telephonically confirmed, addressed as follows:

If to the Oversight Board, to: Financial Oversight and Management Board for Puerto Rico
268 Muñoz Rivera Avenue, Suite 1107
San Juan, PR 00918-1813
Attn: David A. Skeel, Jr., Chairman of the Board

– with a copy to –

PROSKAUER ROSE LLP
Eleven Times Square
New York, NY 10036
Attn: Martin J. Bienenstock, Esq.
 Brian S. Rosen, Esq.
Tel: (212) 969-3000
Fax: (212) 969-2900

– and –

O'NEILL & BORGES LLC
250 Muñoz Rivera Avenue, Suite 800
San Juan, PR 00918-1813
Attn: Hermann Bauer, Esq.
Tel: (787) 764-8181
Fax: (212) 753-8944

If to the Issuer, to:

Puerto Rico Industrial Development Company
355 Av. Franklin Delano Roosevelt, Fomento Building
San Juan, PR 00918

– with a copy to –

O'MELVENY & MYERS LLP
Seven Times Square
New York, NY 10036
Attn: John Rapisardi, Esq.
Peter Friedman, Esq.
Maria J. DiConza, Esq.
Matthew P. Kremer, Esq.
Tel: (212) 326-2000
Fax: (212) 326-2061

– and –

PIETRANTONI MENDEZ & ALVAREZ LLC
Popular Center 19th Floor
208 Ponce de Leon Avenue
San Juan, PR 00918
Attn: María D. Trelles Hernández, Esq.
Oreste Ramos, Esq.
Tel: (787) 274-1212
Fax: (787) 274-1470

If to AAFAF, to:

Fiscal Agency and Financial Advisory Authority
Roberto Sánchez Vilella (Minillas) Government Center
De Diego Avenue, Stop 22
San Juan, Puerto Rico 00907

– with a copy to –

O'MELVENY & MYERS LLP
Seven Times Square
New York, NY 10036
Attn: John Rapisardi, Esq.
Peter Friedman, Esq.
Maria J. DiConza, Esq.
Matthew P. Kremer, Esq
Tel: (212) 326-2000
Fax: (212) 326-2061

– and –

PIETRANTONI MENDEZ & ALVAREZ LLC
Popular Center 19th Floor
208 Ponce de Leon Avenue
San Juan, PR 00918
Attn: María D. Trelles Hernández, Esq.
Oreste Ramos, Esq.
Tel: (787) 274-1212
Fax: (787) 274-1470

If to GoldenTree Asset
Management LP or PRIDCO
RSA Parties, to:

QUINN EMANUEL URQUHART & SULLIVAN, LLP
51 Madison Avenue, 22nd Floor
New York, NY 10010
Attn:
Susheel Kirpalani, Esq.
Eric M. Kay, Esq.
Tel: (212)- 849-7000
Fax: (212)- 849-7100

If to the PRIDCO Bond
Trustee, to:

U.S. Bank Trust National Association
U.S. Bank Corporate Trust Services
1 Federal St.
Boston, MA 02110
Attn: Kevin Mathieu
Tel: (617) 603-6465

– with a copy to –

HOGAN LOVELS US LLP
390 Madison Avenue
New York, NY 10017
Attn:
Ronald J. Silverman
Sara M. Posner
Tel: (212) 918-3000
Fax: (212) 918-3100

15.22 **Term of Injunctions or Stays:** All injunctions or stays contained in the Qualifying Modification or the Approval Order shall remain in full force and effect in accordance with their terms.


15.23 **Entire Agreement:** Except as otherwise indicated, the Qualifying Modification supersedes all previous and contemporaneous negotiations, promises, covenants, agreements, understandings, and representations on such subjects, all of which have become merged and integrated into the Qualifying Modification.

15.24 **Qualifying Modification Supplement:** All documents included in the Qualifying Modification Supplement, if any, are incorporated into and are a part of the Qualifying Modification as if set forth in full in the Qualifying Modification. Upon the filing of the Qualifying Modification Supplement with the Clerk of the Title VI Court, copies of the documents contained therein shall be made available upon written request to the Oversight Board's counsel at the address above or by downloading such documents from <https://cases.ra.kroll.com/puertorico/> or the Title VI Court's website, available via PACER. Unless otherwise ordered by the Title VI Court, to the extent any document in the Qualifying Modification Supplement is inconsistent with the terms of any part of the Qualifying Modification that does not constitute the Qualifying Modification Supplement, such part of the Qualifying Modification that does not constitute the Qualifying Modification Supplement shall control.

[Signature Page Follows]

Dated: San Juan, Puerto Rico
October 25, 2023

THE FINANCIAL OVERSIGHT AND
MANAGEMENT BOARD FOR PUERTO RICO,
as Administrative Supervisor

By: /s/ 
Name: Robert F. Mujica Jr.
Title: Executive Director

THE PUERTO RICO FISCAL AGENCY AND
FINANCIAL ADVISORY AUTHORITY, on
behalf of THE PUERTO RICO PUBLIC
INDUSTRIAL COMPANY, as Issuer

By: /s/ _____
Name: Omar J. Marrero
Title: Executive Director

THE PUERTO RICO FISCAL AGENCY AND
FINANCIAL ADVISORY AUTHORITY, as fiscal
agent

By: /s/ _____
Name: Omar J. Marrero
Title: Executive Director

Dated: San Juan, Puerto Rico
October 25, 2023

THE FINANCIAL OVERSIGHT AND
MANAGEMENT BOARD FOR PUERTO RICO,
as Administrative Supervisor

By: /s/
Name: Robert F. Mujica Jr.
Title: Executive Director

THE PUERTO RICO FISCAL AGENCY AND
FINANCIAL ADVISORY AUTHORITY, on
behalf of THE PUERTO RICO INDUSTRIAL
DEVELOPMENT COMPANY, as Issuer



By: /s/
Name: Omar J. Marrero
Title: Executive Director

THE PUERTO RICO FISCAL AGENCY AND
FINANCIAL ADVISORY AUTHORITY, as fiscal
agent



By: /s/
Name: Omar J. Marrero
Title: Executive Director

EXHIBIT A

MATURITY, INTEREST RATE AND AMORTIZATION SCHEDULE AND ADDITIONAL
TERMS FOR THE PRIDCO QM BONDS

Detail on PRIDCO QM Bonds

Detailed Summary of PRIDCO QM Bonds (continued on following page)

Fiscal Year	Date	Interest	Amortization	Total Debt Service	Coupon	Call Price
FY2025	7/1/2024	\$5,586,630.00	–	\$5,586,630.00	7.000%	100.00
FY2025	1/1/2025	5,586,630.00	–	5,586,630.00	7.000%	100.00
FY2026	7/1/2025	5,586,630.00	–	5,586,630.00	7.000%	100.00
FY2026	1/1/2026	5,586,630.00	–	5,586,630.00	7.000%	100.00
FY2027	7/1/2026	5,586,630.00	–	5,586,630.00	7.000%	100.00
FY2027	1/1/2027	5,586,630.00	–	5,586,630.00	7.000%	104.00
FY2028	7/1/2027	6,983,288.00	–	6,983,288.00	8.750%	104.00
FY2028	1/1/2028	6,983,288.00	–	6,983,288.00	8.750%	104.00
FY2029	7/1/2028	6,983,288.00	–	6,983,288.00	8.750%	104.00
FY2029	1/1/2029	6,983,288.00	–	6,983,288.00	8.750%	104.00
FY2030	7/1/2029	6,983,288.00	–	6,983,288.00	8.750%	104.00
FY2030	1/1/2030	6,983,288.00	1,956,000.00	8,939,288.00	8.750%	103.50
FY2031	7/1/2030	6,897,713.00	–	6,897,713.00	8.750%	103.50
FY2031	1/1/2031	6,897,713.00	2,127,000.00	9,024,713.00	8.750%	103.00
FY2032	7/1/2031	6,804,656.00	–	6,804,656.00	8.750%	103.00
FY2032	1/1/2032	6,804,656.00	2,313,000.00	9,117,656.00	8.750%	102.50
FY2033	7/1/2032	6,703,463.00	–	6,703,463.00	8.750%	102.50
FY2033	1/1/2033	6,703,463.00	2,515,000.00	9,218,463.00	8.750%	102.00
FY2034	7/1/2033	6,593,431.00	–	6,593,431.00	8.750%	102.00
FY2034	1/1/2034	6,593,431.00	2,735,000.00	9,328,431.00	8.750%	101.50
FY2035	7/1/2034	6,473,775.00	–	6,473,775.00	8.750%	101.50
FY2035	1/1/2035	6,473,775.00	2,975,000.00	9,448,775.00	8.750%	101.00
FY2036	7/1/2035	6,343,619.00	–	6,343,619.00	8.750%	101.00
FY2036	1/1/2036	6,343,619.00	3,235,000.00	9,578,619.00	8.750%	100.50
FY2037	7/1/2036	6,202,088.00	–	6,202,088.00	8.750%	100.50
FY2037	1/1/2037	6,202,088.00	3,518,000.00	9,720,088.00	8.750%	100.00
FY2038	7/1/2037	6,048,175.00	–	6,048,175.00	8.750%	100.00
FY2038	1/1/2038	6,048,175.00	3,826,000.00	9,874,175.00	8.750%	100.00
FY2039	7/1/2038	5,880,788.00	–	5,880,788.00	8.750%	100.00
FY2039	1/1/2039	5,880,788.00	4,161,000.00	10,041,788.00	8.750%	100.00

Detailed Summary of PRIDCO QM Bonds (continued from previous page)

Fiscal Year	Date	Interest	Amortization	Total Debt Service	Coupon	Call Price
FY2040	7/1/2039	\$5,698,744.00	–	\$5,698,744.00	8.750%	100.00
FY2040	1/1/2040	5,698,744.00	4,525,000.00	10,223,744.00	8.750%	100.00
FY2041	7/1/2040	5,500,775.00	–	5,500,775.00	8.750%	100.00
FY2041	1/1/2041	5,500,775.00	4,921,000.00	10,421,775.00	8.750%	100.00
FY2042	7/1/2041	5,285,481.00	–	5,285,481.00	8.750%	100.00
FY2042	1/1/2042	5,285,481.00	5,351,000.00	10,636,481.00	8.750%	100.00
FY2043	7/1/2042	5,051,375.00	–	5,051,375.00	8.750%	100.00
FY2043	1/1/2043	5,051,375.00	5,819,000.00	10,870,375.00	8.750%	100.00
FY2044	7/1/2043	4,796,794.00	–	4,796,794.00	8.750%	100.00
FY2044	1/1/2044	4,796,794.00	6,329,000.00	11,125,794.00	8.750%	100.00
FY2045	7/1/2044	4,519,900.00	–	4,519,900.00	8.750%	100.00
FY2045	1/1/2045	4,519,900.00	6,882,000.00	11,401,900.00	8.750%	100.00
FY2046	7/1/2045	4,218,813.00	–	4,218,813.00	8.750%	100.00
FY2046	1/1/2046	4,218,813.00	7,485,000.00	11,703,813.00	8.750%	100.00
FY2047	7/1/2046	3,891,344.00	–	3,891,344.00	8.750%	100.00
FY2047	1/1/2047	3,891,344.00	8,139,000.00	12,030,344.00	8.750%	100.00
FY2048	7/1/2047	3,535,263.00	–	3,535,263.00	8.750%	100.00
FY2048	1/1/2048	3,535,263.00	8,852,000.00	12,387,263.00	8.750%	100.00
FY2049	7/1/2048	3,147,988.00	–	3,147,988.00	8.750%	100.00
FY2049	1/1/2049	3,147,988.00	9,626,000.00	12,773,988.00	8.750%	100.00
FY2050	7/1/2049	2,726,850.00	–	2,726,850.00	8.750%	100.00
FY2050	1/1/2050	2,726,850.00	10,468,000.00	13,194,850.00	8.750%	100.00
FY2051	7/1/2050	2,268,875.00	–	2,268,875.00	8.750%	100.00
FY2051	1/1/2051	2,268,875.00	11,384,000.00	13,652,875.00	8.750%	100.00
FY2052	7/1/2051	1,770,825.00	–	1,770,825.00	8.750%	100.00
FY2052	1/1/2052	1,770,825.00	12,380,000.00	14,150,825.00	8.750%	100.00
FY2053	7/1/2052	1,229,200.00	–	1,229,200.00	8.750%	100.00
FY2053	1/1/2053	1,229,200.00	13,464,000.00	14,693,200.00	8.750%	100.00
FY2054	7/1/2053	640,150.00	–	640,150.00	8.750%	100.00
FY2054	1/1/2054	640,150.00	14,642,000.00	15,282,150.00	8.750%	100.00

EXHIBIT B: PARTICIPATING BONDS AND PARTICIPATING BOND CLAIMS, AS OF DECEMBER 31, 2023

The Participating Bond Claims consist of all claims with respect to PRIDCO’s indebtedness (the “Participating Bonds”) described below.

Title	Maturity Date	Voting Amount * (\$)	Participating Bond Claim ** (\$)	Rate (%)	CUSIP ***
Capital Appreciation Bonds	7/1/2018	5,780,000.00	7,249,582.53	5.200%	745211LL4
Serial Bond Issued 2003	7/1/2021	1,225,000.00	1,533,708.32	5.150%	745211LG5
Series 1997A Revenue Bonds	7/1/2018	15,190,000.00	20,278,650.00	6.700%	745211LA8
General Purpose Bonds due 2023	7/1/2023	48,925,000.00	61,374,134.63	5.200%	745211LH3
General Purpose Bonds due 2028	7/1/2028	78,910,000.00	99,181,987.54	5.250%	745211LJ9
Total		150,030,000.00	189,618,063.02		

* Shows Outstanding principal amount (excluding accrued but unpaid interest), including missed principal payments up to and including 12/31/2023.

** Shows outstanding principal amount, including missed principal payments, plus unpaid interest accrued up to and including 12/31/2023.

*** CUSIP® is a registered trademark of the American Bankers Association. CUSIP Global Services (CGS) is managed on behalf of the American Bankers Association by S&P Capital IQ. Copyright© 2017 CUSIP Global Services. All rights reserved. CUSIP® data herein is provided by CUSIP Global Services. This data is not intended to create a database and does not serve in any way as a substitute for the CGS database. CUSIP® numbers are provided for convenience of reference only. None of PFC, AAFAF, the Oversight Board or their respective agents or counsel assume responsibility for the use or accuracy of such numbers.

EXHIBIT C: DESCRIPTION OF PROMESA*

This section summarizes certain provisions of PROMESA. Although PRIDCO believes that this description covers the material provisions of PROMESA, this summary may not contain all the information that is important to you. This summary does not purport to be complete and is subject to, and is qualified in its entirety by reference to, PROMESA.

On June 30, 2016, President Barack Obama signed PROMESA into law (as codified under 48 U.S.C. §§ 2101-2241). In general terms, PROMESA seeks to provide the Commonwealth and its covered instrumentalities 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, which expired on May 1, 2017; 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 Title III of PROMESA, which establishes an in-court debt restructuring process substantially based upon incorporated provisions of the U.S. Bankruptcy Code (11 U.S.C. §§ 101, et seq.). Relevant elements of PROMESA are 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). 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." PROMESA § 101(a). On August 31, 2016, President Obama 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." PROMESA § 101(f)(1). The Oversight Board was "created as an entity within the territorial government for which it was established" and is expressly not an entity of the federal government, *see* PROMESA § 101(c), but it was also established to act independently from the Commonwealth government, such that neither the Governor nor the Legislative Assembly of Puerto Rico (the Legislative Assembly) 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." PROMESA § 108(a). Please refer to the language of PROMESA for a complete description of the Oversight Board and its powers.

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." H.R. Rep. 114-602(1), 2016 WL 3124840, at *45 (2016); PROMESA § 201(b)(1).

Only after the Oversight Board has certified a fiscal plan may the Governor submit a fiscal year Commonwealth budget and fiscal year budgets for certain Commonwealth instrumentalities (as determined by the Oversight Board) to the Legislature. *See* PROMESA § 201(c)(1). PROMESA section 202 sets forth the specific procedures and requirements for approval of each fiscal year Commonwealth budget and Commonwealth instrumentality budgets.

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.

* For purposes of this section only, defined terms have the meaning ascribed to them in PROMESA and do not have the meanings ascribed to them elsewhere in this Solicitation Statement.

Title III - In-Court Restructuring Process

Title III of PROMESA 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.

In order to be a debtor under Title III, the territory and/or its instrumentalities must: (i) have an Oversight Board established for it or be designated a “covered entity”; (ii) have the Oversight Board issue a restructuring certification under PROMESA section 206(b); and (iii) “desire to effect a plan to adjust its debt.” PROMESA § 302. The Oversight Board has sole authority to file a voluntary petition seeking protection under Title III of PROMESA. *See* PROMESA § 304(a). As of the date hereof, the Oversight Board has commenced Title III cases for the Commonwealth, the Puerto Rico Sales Tax Financing Corporation (COFINA), the Employee Retirement System of the Government of the Commonwealth of Puerto Rico (ERS), the Puerto Rico Electric Power Authority (PREPA), the Highway and Transportation Authority (HTA), and the Public Buildings Authority (PBA).

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. *See* PROMESA § 315. 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. *See* PROMESA § 312. In order to be confirmed, a proposed plan of adjustment must meet the requirements set forth under PROMESA section 314. Title III plans of adjustment have been confirmed and are currently effective for the Commonwealth, ERS, PBA, COFINA, and HTA.

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 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 expansion of the federal government’s small business HUBZone 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 29, 2023, the GAO published its latest biannual report on the public debt of the U.S. territories.

Title V – Infrastructure Revitalization

Title V of PROMESA establishes the position of 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 establishes 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 under a voluntary agreement, process or consultation process that must be certified by the Oversight Board. See “—*Title VI of PROMESA—Certification of a Modification as a Qualifying Modification*” below.

Finally, in order for a qualifying Modification to become effective, 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.

The Title VI process was successfully implemented to restructure the debts of GDB, PRCCDA, PRIFA and TDF.

For additional information on PROMESA, see “*Title VI of PROMESA*” below.

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 territories of the United States and the rest of the United States.”

PROMESA Restructuring Alternatives

As indicated above, PROMESA establishes two alternative procedures for the restructuring of the indebtedness of the Commonwealth and other designated instrumentalities—proceedings under Title III and Title VI. Title III creates a court-supervised debt-adjustment mechanism, which imports heavily from chapter 9 of the U.S. Bankruptcy Code (including its provisions regarding the ability to bind non-consenting classes of creditors if certain requirements are satisfied). Title VI creates a streamlined process for achieving negotiated modifications of certain indebtedness of the Commonwealth or a covered territorial instrumentality with the consent of a supermajority of those voting in any affected class—or “Pool”—provided that such supermajority of those voting also constitutes a majority of the claims outstanding in such Pool. Importantly, if the voting thresholds are met, the terms of such a restructuring will apply to all other creditors within the same Pool, including those who did not cast a vote and those who voted against the proposed modification.

PRIDCO is currently proceeding under Title VI of PROMESA, the terms of which are described in further detail below.

Title VI of PROMESA

General Overview of Title VI

The collective creditor action provisions of Title VI of PROMESA provide a method for the Commonwealth and certain designated agencies and instrumentalities to effectuate a modification of their bond financings and other indebtedness (referred to in Title VI as “Bonds”) based on the consent of a supermajority of those voting in any affected class (referred to in Title VI as “Pools”), *provided that* such supermajority of those voting also constitutes a majority of the Bonds outstanding in such Pool. If the dual-pronged voting threshold is satisfied, the terms of the debt modification will apply to all holders of claims within the same Pool.

Under Section 5(2) of PROMESA, “Bonds” that are eligible for modification under Title VI include:

“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, in any case, related to such a bond, loan, letter of credit, other borrowing title, obligation of insurance, or other financial indebtedness in physical or dematerialized form of which the issuer, obligor, or guarantor is the territorial government.”

Accordingly, for purposes of Title VI, the term Bonds encompasses not just financial instruments issued pursuant to a credit agreement or indenture but expands to include other financial indebtedness held by creditors of a designated instrumentality. In turn, Section 5(3) of PROMESA defines “Bond Claims” to mean, as it relates to a Bond:

“(A) right to payment, whether or not such right is reduced to judgment, liquidated, unliquidated, fixed, contingent, matured, unmatured, disputed, undisputed, legal, equitable, secured, or unsecured; or

(B) right to an equitable remedy for breach of performance if such breach gives rise to a right to payment, whether or not such right to an equitable remedy is reduced to judgment, fixed, contingent, matured, unmatured, disputed, undisputed, secured, or unsecured.”

A “Modification” of a Bond that can be effectuated pursuant to Title VI of PROMESA includes “any modification, amendment, supplement, or waiver affecting any one or more series of Bonds, including those effected by way of exchange, conversion, or substitution.”

Eligibility for Title VI

Under Section 601(e) of PROMESA, a territorial instrumentality, such as PRIDCO, is eligible to restructure its indebtedness under Title VI of PROMESA if the Administrative Supervisor has specifically authorized such covered territorial instrumentality (each an “Authorized Territorial Instrumentality”) to avail itself of Title VI of PROMESA. The “Administrative Supervisor” for purposes of Title VI is the Oversight Board.

Who Can Propose a Modification

Pursuant to Section 601(i) of PROMESA, Modifications can be proposed by the “issuer” or by one or more holders of the right to vote the issuer’s outstanding Bonds. Section 601(a)(8) of PROMESA defines the Issuer as the “Territory Government issuer or an Authorized Territorial Instrumentality that has issued or guaranteed at least one Bond that is Outstanding.” The term “Territory Government Issuer” means the government of the Commonwealth or such covered territory for which an Oversight Board has been established pursuant to Section 101 of PROMESA. As noted above, an Authorized Territorial Instrumentality is an entity specifically authorized by the Oversight Board to avail itself of Title VI of PROMESA.

The Oversight Board may also accept a bondholder-proposed Modification that complies with the requirements of PROMESA on behalf of the issuer and instruct the issuer to provide the information required for solicitation of the Modification.

Pooling Requirements

For purposes of voting on a Modification, Section 601(d) of PROMESA directs the Oversight Board (as the Administrative Supervisor) to establish, in consultation with PRIDCO (as the issuer of the applicable Bonds), separate Pools of Bonds distinguished by specific provisions governing priority or security arrangements. Specifically, Section 601(d) of PROMESA sets forth the following requirements for the composition of any Pool:

- Not less than one Pool shall be established for each issuer.
- “Secured Pools” shall be established for claims secured by a lien on property. A “Secured Pool” is defined in Section 601(a)(14) of PROMESA to mean a Pool “consisting only of Bonds that are secured by a lien on property, *provided that* the inclusion of a Bond Claim in such Pool shall not in any way limit or prejudice the right of the issuer, the Administrative Supervisor, or any creditor to recharacterize or challenge such Bond Claim, or any purported lien securing such Bond Claim, in any other manner in any subsequent proceeding in the event a proposed Qualifying Modification is not consummated.”

- For each issuer with multiple Bonds that are distinguished by specific provisions governing priority or security arrangement (including Bonds that have been issued as general obligations of the Commonwealth), separate Pools shall be established corresponding to the relative priority or security arrangements of each holder.
- For each issuer that has issued senior and subordinated Bonds, separate Pools shall be established for the senior and subordinated Bonds corresponding to the relative priority or security arrangements.
- For each issuer that has issued multiple Bonds, for at least some of which a guarantee of repayment has been provided by the Commonwealth, separate Pools shall be established for such guaranteed and non-guaranteed Bonds.
- For each issuer that has issued multiple Bonds, for at least some of which a dedicated revenue stream has been pledged for repayment, separate Pools shall be established “(i) for each dedicated revenue stream that has been pledged for repayment, not less than one Secured Pool for Bonds for which such revenue stream has been pledged, and separate Secured Pools shall be established for Bonds of different priority; and (ii) not less than one Pool for all other Bonds issued by the issuer for which a dedicated revenue stream has not been pledged for repayment.”

Section 601(d) of PROMESA also prohibits the Administrative Supervisor from placing into separate Pools Bonds of the same issuer that have identical rights in security or priority.

Certification of a Modification as a Qualifying Modification

Prior to solicitation of a Modification for approval by the Eligible Voters, the Oversight Board, as the Administrative Supervisor, must certify that the Modification is a “Qualifying Modification.” To be eligible for certification as a Qualifying Modification, the Modification must satisfy the requirements of either the Voluntary Agreement Process, as set forth in Section 601(g)(2)(A)–(B) of PROMESA (the “Voluntary Agreement Process”), or the Consultation Process, as set forth in Section 601(g)(1)(A)–(C) of PROMESA (the “Consultation Process”).

1. Voluntary Agreement Process

a. Certification of a Voluntary Agreement

If an issuer or entity authorized to propose a Modification under Title VI of PROMESA intends to seek certification of a Qualifying Modification pursuant to the Voluntary Agreement Process, the Oversight Board must certify that such issuer has entered into a voluntary agreement (a “Voluntary Agreement”) with holders of Bond Claims to restructure such Bond Claims. Under Section 104(i) of PROMESA, the Oversight Board will certify a Voluntary Agreement if the Oversight Board determines, in its sole discretion, that the Voluntary Agreement meets one of the following three requirements (the “Voluntary Agreement Requirements”):

- *Conformity with Certified Fiscal Plan.* If a fiscal plan has been certified by the Oversight Board, the Voluntary Agreement conforms to such fiscal plan and provides for a sustainable level of debt for such covered territory or covered territorial instrumentality.
- *No Certified Fiscal Plan.* If a fiscal plan has not yet been certified by the Oversight Board, the Voluntary Agreement, in the Oversight Board’s sole discretion, provides for a sustainable level of debt for such covered territory or covered territorial instrumentality.
- *One Year Holiday/No Certified Fiscal Plan.* If a fiscal plan has not yet been certified by the Oversight Board and the Voluntary Agreement is “limited solely to an extension of applicable principal maturities and interest on Bonds issued by such covered territory or covered territorial instrumentality, as applicable, for a period of up to one year during which time no interest will be paid on the Bond Claims affected by the voluntary agreement.”

b. Effectiveness of a Voluntary Agreement

A Voluntary Agreement becomes “effective” pursuant to Section 104(i)(2) of PROMESA if (i) the Voluntary Agreement satisfies the Voluntary Agreement Requirements and has been certified as a Voluntary Agreement by the Oversight Board and (ii) a majority in amount of the Bond Claims of such issuer that are to be affected by the Voluntary Agreement have entered into it (an “Effective Voluntary Agreement”).

The effectiveness of a Voluntary Agreement is solely for purposes of serving as a Qualifying Modification under the Voluntary Agreement Process and, as set forth in Section 104(i)(2) of PROMESA, the effectiveness of the Voluntary Agreement does not alter the “existing legal rights of holders of Bond Claims . . . that have not assented to such agreement” until the District Court enters an order approving the Qualifying Modification.

c. Certification as a Qualifying Modification Under the Voluntary Agreement Process

Under the Voluntary Agreement Process, for a Modification to be certified as a Qualifying Modification, allowing solicitation of votes on such Modification to move forward, the Oversight Board, as the Administrative Supervisor, must determine that the following two requirements have been satisfied:

- the Voluntary Agreement has been certified as a Voluntary Agreement and the Voluntary Agreement constitutes an Effective Voluntary Agreement (see “—*Certification of a Voluntary Agreement*” and “—*Effectiveness of a Voluntary Agreement*” above); and
- each holder in a Pool affected by that Modification is offered the same consideration on a pro rata basis (the “Same Consideration Requirement”).

The Same Consideration Requirement is set forth in Section 601(g)(1)(B) of PROMESA, which provides that:

“each exchanging, repurchasing, converting, or substituting holder of Bonds of any series in a Pool affected by that Modification is offered the same amount of consideration per amount of principal, the same amount of consideration per amount of interest accrued but unpaid and the same amount of consideration per amount of past due interest, respectively, as that offered to each other exchanging, repurchasing, converting, or substituting holder of Bonds of any series in a Pool affected by that Modification . . .”

The Oversight Board is thus required to determine that each holder in a given Pool is being offered the same consideration on account of such holder’s Bond Claim, on a pro rata basis, as all other holders in such Pool.

If the Oversight Board determines that an Effective Voluntary Agreement has been reached and the Same Consideration Requirement is satisfied, a Modification will be eligible for certification as a Qualifying Modification in accordance with the Voluntary Agreement Process.

2. Consultation Process

Another mechanism pursuant to which a Modification can be certified as a Qualifying Modification is through the Consultation Process. In order for the Oversight Board to certify a Modification as a Qualifying Modification under the Consultation Process, the following three requirements set forth in Section 601(g)(1) of PROMESA must be satisfied:

- the issuer proposing the Modification has consulted with holders of Bonds in each Pool prior to soliciting votes on such Modification;
- the Same Consideration Requirement is satisfied (see “—*Certification as a Qualifying Modification Under the Voluntary Agreement Process*” above); and
- the Modification is (x) certified by the Oversight Board as being consistent with the Voluntary Agreement Requirements (see “—*Certification of a Voluntary Agreement*” above), (y) is in the best interests of creditors and (z) is feasible.

Accordingly, under the Consultation Process, an issuer has a higher evidentiary burden to obtain certification of a proposed Modification as a Qualifying Modification because it must satisfy the best interest of creditors test and the feasibility test.

If the Oversight Board determines that all of the foregoing requirements have been satisfied, a Modification will be eligible for certification as a Qualifying Modification in accordance with the Consultation Process.

Information Delivery Requirement

Prior to solicitation of votes on a Qualifying Modification, the issuer must provide the Calculation Agent, the Information Agent and the Oversight Board, as Administrative Supervisor, with the following information, as set forth in Section 601(f) of PROMESA (collectively, the “Information Delivery Requirement”):

- a description of (i) the issuer’s economic and financial circumstances, (ii) existing debts and (iii) the impact of the proposed Qualifying Modification on the territory’s or its territorial instrumentalities’ public debt;
- a description of any other Modifications being sought by the issuer affecting any other Pools;
- if a fiscal plan with respect to such issuer has been certified, the applicable fiscal plan; and
- such other information as may be required under applicable securities laws.

For additional information, see “*PRIDCO Title VI Process—Satisfaction of the Information Delivery Requirement*” in this Solicitation Statement.

Solicitation of a Qualifying Modification

Following certification of a Modification as a Qualifying Modification and satisfaction of the Information Delivery Requirement, a Qualifying Modification may be solicited for approval or rejection by the holders of the Bond Claims eligible to vote on such Qualifying Modification.

1. Calculation Agent

For the purpose of calculating the principal amount of Bonds eligible to participate in a vote on the Qualifying Modification and tabulating such votes, the Commonwealth may appoint a calculation agent for each Pool (the “Calculation Agent”). In accordance with Section 601(k) of PROMESA, the Calculation Agent must be reasonably acceptable to the Oversight Board.

For additional information, see “*PRIDCO Title VI Process—Approval of Calculation Agent and Information Agent*” in this Solicitation Statement.

2. Information Agent

For the purpose of administering a vote on the Qualifying Modification, the Commonwealth may also appoint an information agent for each Pool (the “Information Agent”). In accordance with Section 601(l) of PROMESA, the Information Agent must be reasonably acceptable to the Oversight Board.

For additional information, see “*PRIDCO Title VI Process—Approval of Calculation Agent and Information Agent*” in this Solicitation Statement.

3. Determining Outstanding Bonds Entitled to Vote

In order to solicit the vote of Eligible Voters, the Information Agent submits to the holders of any “Outstanding Bonds” of the issuer (including holders of the right to vote such Outstanding Bonds) a package of solicitation materials, which must include the materials required by the Information Delivery Requirement.

PROMESA sets forth certain guidelines regarding what qualifies as an “Outstanding Bond” for purposes of soliciting votes on a Qualifying Modification. Specifically, under Section 601(b) of PROMESA, a Bond will be deemed *not* to be outstanding, and may *not* be counted in a vote on the Qualifying Modification, if as of the record date for the proposed Qualifying Modification:

- the Bond has previously been cancelled or delivered for cancellation or is held for reissuance but has not been reissued;
- the Bond has previously been called for redemption or previously become due and payable at maturity and the issuer has previously satisfied its obligation to make, or provide for, all payments due in respect of the Bond;

- the Bond has been substituted with a security of another series; or
- the Bond is held by the issuer or by an Authorized Territorial Instrumentality of the Territory Government Issuer or by a corporation, trust or other legal entity that is controlled by the issuer or an Authorized Territorial Instrumentality, as applicable.

For purposes of determining whether a Bond is an Outstanding Bond, Section 601(b) of PROMESA further provides that a legal entity is “controlled” by the issuer or by an Authorized Territorial Instrumentality if “the issuer or an Authorized Territorial Instrumentality of the Territory Government Issuer, as applicable, has the power, directly or indirectly, through the ownership of voting securities or other ownership interests, by contract or otherwise, to direct the management of or elect or appoint a majority of the board of directors or other persons performing similar functions in lieu of, or in addition to, the board of directors of that legal entity.”

Section 601(c) of PROMESA provides that prior to soliciting votes on a Qualifying Modification, the issuer must deliver to the Calculation Agent a certificate, signed by an authorized representative of the issuer, specifying any Bonds that are deemed *not* to be Outstanding Bonds for purposes of soliciting votes on the Qualifying Modification.

4. Manner of Solicitation

PROMESA sets forth certain guidelines regarding the manner of solicitation if the Information Agent is unable to identify an address for an Eligible Voter. Specifically, if the address of an Eligible Voter is unavailable, Section 601(h)(2) of PROMESA authorizes the Information Agent to solicit the vote or consent of such holders by:

- delivering the solicitation to the paying agent or The Depository Trust Corporation (if it serves as the clearing system for any of the issuer’s Outstanding Bonds); or
- delivering or publishing the solicitation by whatever means the Information Agent, after consultation with the issuer, “deems necessary and appropriate in order to make a reasonable effort to inform holders of any Outstanding Bonds of the issuer.”

Section 601(h)(2)(B) of PROMESA confirms that “necessary and appropriate” notice may include notice by mail, publication in electronic media, publication on a website of the issuer or publication in newspapers of national circulation in the United States.

Voting Requirements

In order for a Qualifying Modification to be approved, Section 601(j) of PROMESA requires that the Qualifying Modification satisfy the Majority Vote Requirement and the Supermajority Vote Requirement:

- *The Majority Vote Requirement.* Eligible Voters holding not less than a majority of the “Outstanding Principal” amount of Outstanding Bonds in each Pool must vote in this Solicitation to approve the Qualifying Modification.
- *The Supermajority Vote Requirement.* Eligible Voters holding at least 66 ⅔% of the “Outstanding Principal” amount of Outstanding Bonds in each Pool that have voted in this Solicitation to approve or reject the Qualifying Modification must vote to approve the Qualifying Modification.

The term “Outstanding Principal” is defined under Section 601(a)(11) of PROMESA to include:

- for a Bond that is not a Capital Appreciation Bond or a Convertible Capital Appreciation Bond, the Outstanding Principal amount of such Bond; and
- for a Bond that is a Capital Appreciation Bond or a Convertible Capital Appreciation Bond, the current accreted value of such Capital Appreciation Bond or a Convertible Capital Appreciation Bond, as applicable.

The term “Capital Appreciation Bond” is defined in Section 601(a)(4) of PROMESA as a “Bond that does not pay interest on a current basis, but for which interest amounts are added to principal over time as specified in the relevant offering materials for such Bond, including that the accreted interest amount added to principal increases daily.” The term “Convertible Capital Appreciation Bond” is defined in Section 601(a)(5) of PROMESA as a “Bond that does not pay interest on a current basis, but for which interest amounts are added to principal over time as specified in the relevant offering materials and which converts to a current pay bond on a future date.”

PROMESA also provides that insurers may vote “Insured Bonds” for the purposes of a Qualifying Modification. The term “Insured Bond” is defined in Section 601(a)(7) of PROMESA as a “Bond subject to a financial guarantee or similar insurance contract, policy or surety issued by a monoline insurer.” With respect to voting Insured Bonds, Section 601(j) of PROMESA specifically provides that the holder of the right to vote the Outstanding Bonds shall be the applicable monoline insurer “to the extent such insurer is granted the right to vote Insured Bonds for purposes of directing remedies or consenting to proposed amendments or modifications as provided in the applicable documents pursuant to which such Insured Bond was issued and insured.”

As stated above, the issuer may appoint a Calculation Agent to tabulate votes for each Pool.

Binding Effect Requirements

In order for a Qualifying Modification to become conclusive and binding on all holders of Bonds that are subject to the Qualifying Modification, the following requirements set forth in Section 601(m) of PROMESA must be satisfied (collectively, the “Binding Effect Requirements”):

- the Requisite Approvals have been obtained (see “—*Voting Requirements*” above);
- the Oversight Board, as Administrative Supervisor, certifies that (i) the Requisite Approvals have been obtained, (ii) the Qualifying Modification complies with the Voluntary Agreement Requirements or the Consultation Process and (iii) any conditions on the effectiveness of the Qualifying Modification have been satisfied or, in the Oversight Board’s sole discretion, satisfaction of such conditions has been waived (except for such conditions that have been identified in the Qualifying Modification as non-waivable);
- with respect to a Bond Claim that is secured by a lien on property and with respect to which the holder of such Bond Claim has rejected or not consented to the Qualifying Modification, the holder of such Bond (i) retains the lien securing such Bond Claims or (ii) receives on account of such Bond Claim through deferred cash payments, substitute collateral or otherwise at least the equivalent value of the lesser of the amount of the Bond Claim or of the collateral securing such Bond Claim; and
- the District Court has entered an order approving the Qualifying Modification as satisfying the requirements of Section 601 of PROMESA.

With respect to the District Court order, the applicable issuer must file an application with the District Court for an order approving the Qualifying Modification. In determining whether to enter an order approving the Qualifying Modification, the District Court must determine whether the requirements of Section 601 of PROMESA have been satisfied.

Upon the entry of an order by the District Court approving the Qualifying Modification, Section 601(m)(2) of PROMESA provides that the Qualifying Modification shall be valid and binding “on any person or entity asserting claims or other rights, including a beneficial interest (directly or indirectly, as principal, agent, counterpart, subrogee, insurer or otherwise) in respect of Bonds subject to the Qualifying Modification, any trustee, any collateral agent, any indenture trustee, any fiscal agent, and any bank that receives or holds funds related to such Bonds.”

In addition, following entry of the District Court’s order approving the Qualifying Modification, Section 601(m)(2) of PROMESA provides that property of the issuer subject to such Qualifying Modification “shall vest in the issuer free and clear of all claims in respect of any Bonds of any other issuer.” Section 601(m)(2) of PROMESA further provides that upon entry of the District Court order, such Qualifying Modification “will be full, final, complete, binding, and conclusive as to the territorial government issuer, other territorial instrumentalities of the territorial government issuer, and any creditors of such entities, and should not be subject to any collateral attack or other challenge by any such entities in any court or other forum.” The Qualifying Modification may have broad implications for claims in respect of holders’ Participating Bond Claims. Holders should consult with their legal and other advisors in respect of any such claims that may be affected thereby, including by operation of Section 601(m)(2) of PROMESA.

Except as otherwise provided under PROMESA, (i) Section 601(m)(2) of PROMESA does not prejudice the rights and claims of any party that insured the Bonds, including the right to assert claims under the Bonds as modified following any payment under the insurance policy, and (ii) no claim or right that may be asserted by any party in a capacity other than holder of a Bond affected by the Qualifying Modification will be satisfied, released, discharged or enjoined by Section 601(m)(2) of PROMESA.

EXHIBIT D: FORM OF NEW BONDS INDENTURE

(Attached)

CERTIFICATE OF ACTING SECRETARY
AS TO AMENDED AND RESTATED TRUST INDENTURE

I, [], Secretary of Puerto Rico Industrial Development Company (the “Company”), DO HEREBY CERTIFY that attached hereto is a true and correct copy of the Trust Indenture, dated as of [], 2023, by and between the Company and U.S. Bank Trust Company, National Association, as successor trustee.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed the corporate seal of the Company this [] day of [], 2023.

/s/ _____
Secretary
Puerto Rico Industrial
Development Company

PUERTO RICO INDUSTRIAL DEVELOPMENT COMPANY

to

U.S. BANK TRUST COMPANY, NATIONAL ASSOCIATION
Trustee

Amended and Restated Trust Indenture
(“Indenture”)

Dated as of [], 2023

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This Amended and Restated Trust Indenture (“the Indenture”), dated for convenience of reference as of the [] day of [], 2023, by and between

PUERTO RICO INDUSTRIAL DEVELOPMENT COMPANY,

a body corporate and politic constituting a public corporation and governmental instrumentality of the Commonwealth of Puerto Rico (hereinafter sometimes called the “Company”), and

U.S. BANK TRUST COMPANY, NATIONAL ASSOCIATION,

a national banking association duly organized and existing under the laws of the United States of America and having its Corporate Trust Office in the Borough of Manhattan, City and State of New York, which is authorized under such laws to exercise corporate trust powers and is subject to examination by federal authority, as trustee (said banking association and any bank or trust company becoming successor trustee under this Indenture being hereinafter sometimes called the “Trustee”), WITNESSETH :

WHEREAS, by Act No. 188 of the Legislature of Puerto Rico, approved May 11, 1942, as amended (hereinafter sometimes called the “Enabling Act”), a body corporate and politic constituting a public corporation and governmental instrumentality of the Commonwealth of Puerto Rico was created, by the name of Puerto Rico Industrial Development Company, for the purpose of benefiting the inhabitants of Puerto Rico by discovering and developing to the fullest possible extent the human and economic resources of the Commonwealth of Puerto Rico; and

WHEREAS, by virtue of the Enabling Act, the Company has, among others, the power

- (i) to have perpetual existence as a company,
- (ii) to sue and be sued,
- (iii) to make contracts and to execute all instruments necessary or convenient in the exercise of any of its powers,
- (iv) to borrow money and make and issue bonds and other obligations of the Company for any of its corporate purposes or for the purpose of funding, refunding, paying or discharging any of its outstanding or assumed bonds or obligations and to secure payment of its bonds and of any and all obligations by a pledge, or any other lien upon, all or any of its contracts, gross or net revenues, income or property, and
- (v) to do all acts and things necessary or convenient to carry out the powers granted to it by the Enabling Act; and

WHEREAS, the Company has issued bonds under the Indenture prior to the date hereof and the amendment and restatement as contemplated hereby, including the General Purpose Revenue Bonds, Series 2003 (the “2003 Revenue Bonds”), the Refunding Revenue Bonds, Series 2003 (the “2003”

Refunding Bonds”), the General Purpose Revenue Bonds, Series 1997 A (the “1997 A Revenue Bonds”), and the Refunding Revenue Bonds, Series 1997 A (the “1997 A Refunding Bonds,” and together with the 2003 Revenue Bonds, the 2003 Refunding Bonds and the 1997 A Revenue Bonds, the “Existing Bonds”); and

WHEREAS, pursuant to the Qualifying Modification Order issued by the U.S. District Court for the District of Puerto Rico (the “U.S. District Court”), on [], 2023 (the “Qualifying Modification”), the Existing Bonds are to be cancelled in exchange for the issuance of certain cash and the General Purpose Revenue Bonds, Series 2023 (the “2023 Revenue Bonds”) to be issued under this Indenture; and

WHEREAS, the Company has determined that it is in the best interest to amend and restate the Indenture governing the Existing Bonds to govern the 2023 Revenue Bonds; and

WHEREAS, the Company has determined that it is in its best interest to provide for the issuance at this time of the 2023 Revenue Bonds, and for such purpose the Company has by resolution duly authorized the issuance of such bonds of the Company in the aggregate principal amount of One Hundred Eighty-nine Million, Six Hundred and Eighteen Thousand, Sixty-three Dollars and Two Cents (\$189,618,063.02), bearing interest and maturing as herein set forth, upon the cancellation of and in exchange for the Existing Bonds, in accordance with the terms of the Qualifying Modification;

WHEREAS, simultaneous with the execution of this Indenture and the issuance of the 2023 Revenue Bonds, all outstanding Existing Bonds will be cancelled and U.S. Bank Trust National Association, as trustee under the Indenture prior to its being amended and restated has resigned as Trustee simultaneous with the cancellation of the Existing Bonds, to be replaced by U.S. Bank Trust Company, National Association; and

WHEREAS, by virtue of the Enabling Act, the Company is authorized to issue its bonds as hereinafter provided, to enter into this Indenture and to do or cause to be done all acts and things herein provided or required to be done, and the execution and delivery of this Indenture have been duly authorized by resolution of the Company; and

WHEREAS, all acts, conditions and things required by the Puerto Rican Federal Relations Act and by the Constitution and laws of the Commonwealth of Puerto Rico and the resolutions of the Company to happen, exist and be performed precedent to and in the execution and delivery of this Indenture, have happened, exist and have been performed as so required in order to make this Indenture a valid and binding trust indenture for the security of the bonds in accordance with its terms; and

WHEREAS, the Trustee has accepted the trusts created by this Indenture and in evidence thereof has joined in the execution hereof;

Now, THEREFORE, THIS INDENTURE WITNESSETH, that in consideration of the premises, of the acceptance by the Trustee of the trusts hereby created, and of the purchase and acceptance of the bonds by the holders thereof, and also for and in consideration of the sum of One Dollar to the Company in hand paid by the Trustee at or before the execution and delivery of this Indenture, the receipt of which is hereby acknowledged, and for the purpose of fixing and declaring the terms and conditions upon which the bonds are to be issued, authenticated, delivered, secured and accepted by all persons who shall from time to time be or become holders thereof, and in order to secure the payment of all bonds at any time issued and outstanding hereunder, and the interest thereon, according to their tenor, purport and effect, and in order to secure the performance and observance of all of the covenants, agreements and conditions therein and herein contained, the Company has executed and delivered this Indenture and granted the security interest detailed in Section 601 of this Indenture as security for the payment of the bonds and the interest and any premium thereon and as security for the satisfaction of any other obligation assumed by it in connection with such bonds, and it is mutually agreed and covenanted by and between the parties hereto, for the equal and proportionate benefit and security of all and singular the present and future holders of the bonds issued and to be issued under this Indenture, without preference, priority or distinction as to lien or otherwise, except as otherwise hereinafter provided, of any one bond over any other bond, by reason of priority in the issuance sale or negotiation thereof, or otherwise, as follows:

ARTICLE I.

DEFINITIONS.

SECTION 101. Meaning of the terms. In addition to words and terms elsewhere defined in this Indenture, the following words and terms as used in this Indenture shall have the following meanings, unless some other meaning is plainly intended:

The term "Amortization Requirement" for each six months' period of July 1 to December 31 and January 1 to June 30 of any fiscal year means the principal amount fixed or computed for such six months' period as hereinafter set forth for the retirement of term bonds by purchase or redemption.

The Amortization Requirements for the term bonds of each Series shall be initially the respective principal amounts (each of which shall be in a multiple of \$1,000) for each such six months' period as fixed in the resolution of the Company authorizing the issuance of the bonds of such Series. The aggregate amount of such Amortization Requirements for the term bonds of each Series shall be equal to the principal amount of the term bonds of such Series and such Amortization Requirements shall begin in the six months' period of the fiscal year determined by

the Authority and shall end not later than the six months' period immediately preceding the maturity of such bonds.

If by May 15th in any year the Company delivers written notice to Trustee that, in any fiscal year, the total principal amount of the term bonds of any Series theretofore retired by purchase or redemption or theretofore called for redemption under the provisions of Section 404 of this Indenture shall be in excess of the total amount of the Amortization Requirements for the term bonds of such Series to and including such fiscal year, then the Amortization Requirements for the term bonds of such Series for the remaining six months' periods shall be eliminated or reduced accordingly in the inverse order of such six months' periods. If the Company delivers written notice to the Trustee that the total principal amount of the term bonds of any Series retired by purchase or redemption, or called for redemption under the provisions of said Section 404 prior to the close of such fiscal year, shall be less than the total amount of the Amortization Requirements for the term bonds of such Series to and including such fiscal year, the amount of such deficiency shall, as provided in Section 402(b) of this Indenture, be added to the amount of the Amortization Requirement for the term bonds of such Series for the six months' period next succeeding for the purpose of determining the amounts to be deposited to the credit of the Redemption Account under said Section 402(b).

It shall be the duty of the Trustee, on the 1st day of June in each fiscal year, to compute the Amortization Requirements for each six months' period of the next succeeding and all subsequent fiscal years for the term bonds of each Series then outstanding and to file a copy of such computation with the Secretary of the Company. The Amortization Requirement for each six months' period of the then current fiscal year shall continue to be applicable during the balance of such current fiscal year and no adjustment shall be made therein by reason of term bonds purchased or redeemed or called for redemption during such current fiscal year.

The term "bonds" means the 2023 Revenue Bonds and all additional bonds, if any, issued at any time and from time to time by the Company pursuant to the terms and conditions of this Indenture.

The term "Bond Registrar" has the meaning given to it in Section 207.

The term "Company Counsel" shall mean the Company's General Counsel or other counsel to the Company satisfactory to the Trustee.

The term "Corporate Trust Office" means, with respect to the Trustee, the office of the Trustee at which at any time its corporate trust business relating to this Indenture shall be administered, which such office on the date hereof shall be the address of the Trustee specified below or such other address as to which the Trustee may give notice to the Company, or the principle corporate trust office of any successor trustee (or such address as such successor trustee may designate by notice to the Company).

Address: 100 Wall Street
6th Floor
New York, New York 10005

The term “Demolished Trusteed Properties” has the meaning given to it in Section 401.

The term “Executive Director” means the Executive Director of the Company for the time being, or if there is no Executive Director, then any person designated by the Board of Directors or other governing body of the Company, or authorized by the Enabling Act or the bylaws of the Company to perform the functions of Executive Director.

The term “fiscal year” means the period commencing on the first day of July of any year and ending on the last day of June of the following year.

The term “fixed base rentals” means those rentals which are payable in a specified amount regardless of earnings or other contingencies and the term “contingent rentals” shall mean all other rentals.

The term “Government Obligations” means (i) direct obligations of, or obligations the principal of and the interest on which are unconditionally guaranteed by, the United States Government, including securities evidencing ownership interests in such obligations or in specified portions thereof (which may consist of specified portions of the principal of or interest in such obligations), which obligations are held by a bank (including the Trustee) or trust company as custodian, under which the owner of said interests is the real party in interest and has the right to proceed directly or individually against the issuer of such obligations and which obligations are not available to satisfy any claim of the custodian or any persons claiming through the custodians or to whom the custodian may be obligated; (ii) bonds, debentures, notes or participation certificates issued or guaranteed by any instrumentality or agency or person controlled or supervised by and acting as an instrumentality of the United States of America pursuant to authority granted by the Congress, including but not limited to: Banks for Cooperatives, Federal Intermediate Credit Banks, Federal Home Loan Banks, Export-Import Bank of the United States, Governmental National Mortgage Association, Federal Land Banks, or the Federal National Mortgage Association.

The term “gross revenues of the Trusteed Properties” means all of the cash income received by the Company, without deduction for any expenses or charges, on account of its ownership or operation of the Trusteed Properties, including the portion of any payments received by the Company on account of use and occupancy insurance covering loss of revenues of any of such Properties and any interest or other income received by the Company from any mortgages or mortgage bonds included as a part of the Trusteed Properties.

The term “Investment Obligations” means (i) Government Obligations; (ii) obligations issued by the Commonwealth of Puerto Rico or any state or territory of the United States or political subdivision thereof rated in one of the three highest rating categories (without regard to any gradation within such categories) by both Standard & Poor’s Corporation and Moody’s Investors Service, Inc. or their respective successors, or if both such corporations shall be dissolved or liquidated or shall no longer perform the functions of a securities rating service, by a nationally recognized securities rating service; (iii) repurchase agreements with commercial banks fully secured by Government Obligations and (iv) any other investment obligations permitted for governmental instrumentalities such as the Company under the laws of the Commonwealth of Puerto Rico which are rated in any of the three highest rating categories (without regard to any gradation within such categories) by both Standard & Poor’s Corporation and Moody’s Investors Service, Inc. or their respective successors, or if both such corporations shall be dissolved or liquidated or shall no longer perform the functions of a securities rating service, by a nationally recognized securities rating service, or which are collateralized by any of the other Investment Obligations described herein.

The term “Officer’s Certificate” means a certificate signed by an officer of the Company or a direct or indirect parent of the Company.

The term “Opinion of Counsel” means a written opinion from legal counsel. The counsel may be an employee of or counsel to the Company.

The term “Paying Agents” has the meaning given to it in Section 207.

The term “Prerefunded Municipals” means any bonds or other obligations of the Commonwealth of Puerto Rico or any state of the United States of America or of any agency, instrumentality or local government unit of (a) which are not callable prior to maturity or as to which irrevocable instructions have been given to the trustee of such bonds or other obligations by the obligor to give due notice of redemption and to call such bonds for redemption on the date or dates specified in such instructions, (b) which are secured as to principal, redemption premium, if any, and interest by a fund consisting only of cash or Government Obligations or Time Deposits, which fund may be applied only to the payment of such principal of and interest and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, and (c) as to which the principal of and interest on the Government Obligations or such Time Deposits which have been deposited in such fund along with any cash on deposit in such fund, are sufficient to pay the principal of and interest and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or on the redemption date or date specified in the irrevocable instructions referred to in subclause (a) above.

The term “Principal and Interest Requirements” for any fiscal year, as applied to the bonds of any Series, means the sum of:

(a) the amount required to pay the interest on all serial bonds of such Series then outstanding which is payable on January 1 in such fiscal year and on July 1 in the following fiscal year,

(b) the amount required to pay the principal of all serial bonds of such Series then outstanding which is payable on January 1 in such fiscal year and on July 1 in the following fiscal year,

(c) the amount required to pay the interest on all term bonds of such Series then outstanding which is payable on January 1 in such fiscal year and on July 1 in the following fiscal year, and

(d) the Amortization Requirements for the term bonds of such Series for such fiscal year,

Provided, however, that for the purpose of determining the maximum Principal and Interest Requirements under the provisions of Sections 209, 608, 609 and subparagraph (c) of Section 402 of this Indenture there shall be deducted from the Principal and Interest Requirements computed for any fiscal year the amount of any Redemption Fund income to be paid to the Trustee under this Indenture for such fiscal year. The Principal and Interest Requirements shall be determined, as required from time to time, by the Trustee. In computing the Principal and Interest Requirements for any fiscal year for the bonds of any Series, the Trustee shall assume that an amount of the term bonds of such Series equal to the Amortization Requirements for the term bonds of such Series for each six months' period of such fiscal year will be retired by purchase or redemption on the next succeeding interest payment date.

The term “Qualifying Modification Order” shall mean the Order of the U.S. District Court approving the Qualified Modification, including the validity of the 2023 Revenue Bonds issued under this Indenture.

The term “Redemption Fund income” shall mean the interest derived from the deposit or investment of the moneys to the credit of each redemption fund created pursuant to the provisions of Section 210 of this Indenture.

The term “Responsible Officer” means an executive officer of the Company responsible for the administration of obligations under this Indenture.

The term “Responsible Officer” shall mean, with respect to the Trustee, any officer within the Corporate Trust Office, including any Assistant Vice President, Vice President, any Secretary or Assistant Secretary or any other officer of the Trustee customarily performing functions similar to those performed by any person who at the time shall be an above-designated officer and having direct responsibility for administration of this Indenture and also any particular officer to whom any corporate trust matter is referred

because of such officer's knowledge of, and familiarity with, the particular subject.

The term "serial bonds", as applied to the bonds of a Series issued under the provisions of this Indenture, means bonds of such Series which shall be stated to mature in semi-annual or annual installments or bonds which are otherwise designated serial bonds in a resolution of the Company adopted prior to the issuance of such bonds.

The word "Series" as applied to the bonds issued under this Indenture means either (a) the bonds issued under the provisions of Section 208 of this Indenture (including any bonds issued under the provisions of the first paragraph of Section 210 of this Indenture to refund any serial bonds of such Series) or (b) the bonds delivered at any one time under the provisions of Section 209 of this Indenture (including any bonds issued under the provisions of the first paragraph of said Section 210 to refund any serial bonds of such Series) or (c) the refunding bonds delivered at any one time under the provisions of the second paragraph of said Section 210.

The term "term bonds," as applied to the bonds of a Series issued under the provisions of this Indenture, means bonds of such Series all of which shall be stated to mature on one date which date shall not be earlier than one (1) year after the latest stated maturity of any serial bonds of such Series which are stated to mature prior thereto.

The term "Time Deposits" shall mean time deposits, certificates of deposit or similar arrangements with the Trustee or any bank or trust company which is a member of the Federal Deposit Insurance Corporation having a combined capital and surplus aggregating not less than \$100,000,000.

The word "Trustee" means the Trustee for the time being, whether original or successor.

The term "Trusteed Properties" means the properties as listed in Schedule 1 and any other property that ceases to be a Demolished Trusteed Property pursuant to Section 401.

SECTION 102. Miscellaneous definitions. The words of the masculine gender shall be deemed and construed to include correlative words of the feminine and neutral genders. The words "bond", "owner", "holder" and "person" shall include the plural as well as the singular number unless the context shall otherwise indicate. The word "person" shall include corporations, associations and other entities, including public bodies, as well as natural persons, unless the context shall otherwise indicate. The word "bond" or "bonds" shall mean any bond or bonds or all of the bonds, as the case may be, issued under the provisions of this Indenture. The word "holder" or "bondholder" when used herein with respect to bonds issued hereunder shall mean, unless the context otherwise indicates, the registered owner, of bonds at the time issued and outstanding hereunder. The word

“including” shall mean “including, without limitation.” The word “Indenture” shall include this Indenture and each indenture supplemental hereto,

ARTICLE II.

FORM, EXECUTION, AUTHENTICATION, DELIVERY AND REGISTRATION OF BONDS.

SECTION 201. Limitation on issuance of bonds. No bonds may be issued under the provisions of this Indenture except in accordance with the provisions of this Article.

SECTION 202. Form of bonds. The bonds issued under the provisions of Section 208 shall be substantially in the form set forth in Exhibit A, with such appropriate variations, omissions or insertions as are permitted or required by this Indenture, and may have endorsed thereon such legends or text as may be necessary or appropriate to conform to the rules and regulations of any governmental authority or any usage or requirement of law with respect thereto. The bonds issued under the provisions of any other Section of this Article shall be substantially in the form set forth in Exhibit A, with such additional changes as may be necessary or appropriate to conform to the provisions of the resolution or resolutions authorizing the issuance of such bonds, and may be printed or typewritten.

SECTION 203. Details of bonds. The definitive bonds of each Series issued under the provisions of this Indenture shall be in the minimum denomination of One Thousand Dollars (\$1,000) and integral multiples in excess thereof, shall be numbered consecutively from 1 upwards, shall be dated, shall be stated to mature, shall bear interest from their date until their payment, such interest to the maturity thereof being payable semi-annually on the 1st days of January and July in each year, and shall be subject to the right of prior redemption, all as hereinafter provided.

The bonds shall bear the facsimile signature of the Executive Director and shall be signed by the Secretary of the Company, and a facsimile of the official seal of the Company shall be imprinted on the bonds. In case any officer whose signature or a facsimile of whose signature shall appear on any bonds shall cease to be such officer before the delivery of such bonds, such signature or such facsimile shall nevertheless be valid and sufficient for all purposes the same as if he had remained in office until such delivery, and also any bond may bear the facsimile signature of, or may be signed by, such persons as at the actual time of the execution of such bond shall be the proper officers to sign such bond although at the date of such bond such persons may not have been such officers.

Both the principal of and the interest on the bonds shall be payable in the currency of the United States of America which, at the respective dates of payment thereof, is legal tender for the payment of public and private

debts. Payment of principal and interest shall be made to the person appearing on the bond registration books of the Company hereinafter provided for as the registered owner thereof, such principal and interest to be paid by check or draft mailed to the registered owner at his address as it appears on such registration books or by wire transfer in immediately available funds to the registered owner's account within the United States. The final payment of principal of any bond shall be payable as the same falls due upon the presentation and surrender thereof at the Corporate Trust Office of the Trustee or at the office of any Paying Agent.

SECTION 204. Authentication of bonds. Only those bonds endorsed with a certificate of authentication substantially in the form as set forth in the form of bond attached hereto as Exhibit A, duly executed by the Trustee, shall be entitled to any right or benefit under this Indenture. No bond shall be valid for any purpose unless and until such certificate of authentication has been duly executed by the Trustee, and such certificate of the Trustee upon any such bond shall be conclusive evidence that such bond has been duly authenticated and delivered under this Indenture. The Trustee's certificate of authentication on any bond shall be deemed to have been duly executed if manually or electronically signed by an authorized officer of the Trustee, but it shall not be necessary that the same officer sign the certificate of authentication on all of the bonds that may be issued hereunder at any one time.

SECTION 205. [Reserved]

SECTION 206. Ownership of bonds. The person in whose name a bond shall be registered shall be deemed and regarded as the absolute owner thereof for all purposes, and payment of or on account of the principal of any such bond shall be made only to the registered owner thereof or his legal representative, but such registration may be changed. All such payments shall be valid and effectual to satisfy and discharge the liability upon such bond to the extent of the sum or sums so paid. The Company, the Trustee, the Bond Registrar and the Paying Agents may deem and treat the registered owner of a bond as the absolute owner of such bond, whether such bond shall be overdue or not, for the purpose of receiving payment thereof and for all other purposes whatsoever, and neither the Company, the Trustee, the Bond Registrar nor the Paying Agents shall be affected by any notice to the contrary.

SECTION 207. Bond Registrar and Paying Agent. The Company will maintain one or more paying agents (each, a "Paying Agent") who will facilitate payments on the bonds. U.S. Bank Trust Company, National Association, at its Corporate Trust Office, will initially act as Paying Agent. The Company will also maintain a bond registrar to maintain the bond registration books of the Company (the "Bond Registrar"). The initial Registrar for the bonds will be U.S. Bank Trust Company, National Association at its Corporate Trust Office. Each of the Paying Agents and the Registrar in such respective capacities shall have the same protections,

immunities and benefits given to the Trustee in this Indenture, *mutatis mutandis*.

SECTION 208. Authorization of 2023 Revenue Bonds. There shall be initially issued under and secured by this Indenture, bonds of the Company in the aggregate principal amount of One Hundred Fifty-nine Million, Six Hundred and Twenty-eight Thousand Dollars (\$159,628,000.00) in exchange for the Existing Bonds in accordance with the terms of the Qualifying Modification. Said bonds shall be designated “Revenue Bonds, Series 2023,” shall be dated as of the [●] day of [●], 2023, and shall have the terms as follows:

1. Interest shall accrue on the outstanding principal amount of the 2023 Revenue Bonds, initially from and including the original date of issuance at a per annum rate of seven per cent (7.0%) until January 1, 2027 and thereafter at a per annum rate of eight and three-quarters per cent (8.75%), until paid in full, in each case subject to prior redemption as set forth herein;
2. Stated maturity of the 2023 Revenue Bonds shall be January 1, 2054;
3. The 2023 Revenue Bonds shall not be subject to any sinking fund or amortization until January 1, 2030; provided that interest shall be subject to the Sinking Fund prior to such date, and thereafter shall be subject to annual amortization on the January 1 of each year thereafter at a level determined by the Company to, as nearly as practicable, evenly reduce the outstanding principal amount until the stated maturity; provided that the final payment on the 2023 Revenue Bonds shall reduce the principal amount of all outstanding 2023 Revenue Bonds to zero; provided, further, that proceeds of insurance on, or of the sale of, any Trusteed Properties shall, subject to prior repurchase pursuant to Section 404, be used to redeem such amounts of bonds as shall be practicable in accordance with Section 404; and provided further that any reduction in the outstanding principal amount of the 2023 Revenue Bonds after the beginning of such amortization schedule, by redemption, repurchase or otherwise, shall not result in a recalculation of the amortization schedule as contemplated hereby; and
4. The 2023 Revenue Bonds shall be redeemable at the option of the Company, at any time prior to December 31, 2026, in whole or, from time to time, in part, at a redemption price equal to 100.0% of the aggregate principal amount thereof, plus accrued and unpaid interest, if any, to, but excluding the applicable redemption date, and on and after such date, the Company may, at its option, redeem all or, from time to time, a part of the 2023 Revenue Bonds at the following redemption prices (expressed as a percentage of principal amount of the 2023 Revenue Bonds

to be redeemed) set forth below, plus accrued and unpaid interest on the 2023 Revenue Bonds, if any, to, but excluding, the applicable redemption date:

If redeemed during the twelve-month period beginning on January 1 of the years indicated below:

2027-2029	104%
2030	103.5%
2031	103.0%
2032	102.5%
2033	102.0%
2034	101.5%
2035	101.0%
2036	100.5%
2037 and thereafter	100.0%

Each of said bonds shall be executed substantially in the form and manner set forth in Exhibit A and delivered to the Trustee for authentication, and said bonds shall be authenticated and delivered by the Trustee upon the filing with it of the following:

(a) a copy, certified by the Secretary of the Company, of the resolution of the Company authorizing the issuance of the bonds and the execution and delivery of this Indenture and awarding such bonds, specifying the interest rate of each such bond and directing the authentication and delivery of such bonds to or upon the order of the persons therein named or their representatives;

(b) a written Opinion of Counsel stating that in his opinion the Company has good and marketable title to all of the Trusteed Properties, subject to no lien, charge or encumbrance thereon or affecting the title thereto, and there are no liens, charges or encumbrances on the gross revenues derived or to be derived by the Company from such Trusteed Properties other than the liens, charges and encumbrances provided herein; and

(c) a written Opinion of Counsel stating that in his opinion the issuance of the bonds and the execution of this Indenture have been duly authorized by the Company and by all governmental authorities the consent of which is required, that all conditions precedent to the issuance of the bonds under the provisions of this Indenture have been fulfilled, that upon the issuance thereof the bonds will be valid and binding obligations of the Company, enforceable in accordance with

their terms, entitled to the benefits and security of this Indenture, that the requirements of any tax law applicable to the execution of the Indenture or the issuance of the bonds have been complied with or to the effect that there are no such requirements, that the gross revenues of the Trusteed Properties and the Redemption Fund Income have been validly pledged, subject to no prior liens, as security for the bonds, that the Indenture and any other instruments specified in said opinion constitute the only instruments necessary for the creation of such pledge, that all instruments required by law to be recorded or filed in order to make such pledge effective have been duly recorded or filed and that each of the Trusteed Properties is subject to a validly executed and legally effective lease;

When the documents mentioned in clauses (a) through (c) of this Section shall have been filed with the Trustee and when said 2023 Revenue Bonds, shall have been executed and authenticated as required by this Indenture, the Trustee shall deliver said bonds to the persons named in the resolution mentioned in said clause (a) or their representatives. The Trustee shall be entitled to rely upon such resolution as to the names of the persons to whom the bonds are to be delivered.

SECTION 209. Issuance of additional bonds. In addition to the bonds issued under the provisions of Section 208 and refunding bonds issued under the provisions of Section 210, bonds of the Company may be issued under and secured by this Indenture, subject to the conditions hereinafter provided in this Section, at any time or times, for any proper corporate purpose of the Company. Before any bonds shall be issued under the provisions of this Section, the Company shall adopt a resolution authorizing the issuance of such bonds, and fixing the amount and the details thereof. The bonds of each Series issued under the provisions of this Section shall be designated “General Purpose Revenue Bonds, Series 20....”, shall be dated, shall be stated to mature on January 1 or July 1 as to term bonds or on July 1 as to serial bonds maturing in annual installments and on January 1 and July 1 as to serial bonds maturing in semi-annual installments, at such time or times, not later than thirty (30) years from their date, and may be made redeemable at such times and prices (subject to the provisions of Article III of this Indenture), all as may be provided by the resolution authorizing the issuance of such bonds. Such resolution shall also fix the Amortization Requirements for any term bonds of such Series.

Such bonds shall be executed substantially in the form, and manner set forth in Exhibit A, with such changes as may be necessary or appropriate to conform to the provisions of the resolution authorizing the issuance of such bonds, and shall be delivered to the Trustee for authentication, and such bonds shall be authenticated and delivered by the Trustee upon the filing with it of the following:

- (a) a copy, certified by the Secretary of the Company, of the resolution mentioned above;

- (b) a copy, certified by the Secretary of the Company, of the resolution of the Company awarding such bonds, specifying the interest rate of each such bond and directing the authentication and delivery of such bonds to or upon the order of the purchasers therein named or their representatives upon payment of the purchase price therein set forth;
- (c) a certificate, signed by the Executive Director and by the Controller of the Company not earlier than sixty (60) days prior to the delivery date of such bonds, and approved by an independent and nationally recognized firm of certified public accountants, setting forth:
 - (i) the lesser of the amount of one-third (1/3) of the contingent rentals received by the Company in the thirty-six (36) months immediately preceding the month in which such certificate is signed from the properties which then constitute the Trusteed Properties (whether or not such properties constituted Trusteed Properties for the entire thirty-six (36) months), or the amount of the contingent rentals received from such properties in the twelve (12) months immediately preceding the month in which such certificate is signed, but excluding from both such amounts any contingent rentals received by the Company under lease agreements which are not in effect on the date on which such certificate is signed,
 - (ii) the amount of the fixed base rentals received by the Company from the Trusteed Properties in the twelve (12) months immediately preceding the month in which such certificate is signed, excluding any rentals received under lease agreements which were not in effect on the date on which such certificate is signed or which were renewed at a different rate, but including any such fixed base rentals which would have been received under new lease agreements of Trusteed Properties, including any agreements which were renewed at different rates, entered into during such twelve (12) months' period if they had been in effect throughout such twelve (12) months' period,
 - (iii) the amount of any interest received by the Company in cash in the twelve (12) months immediately preceding the month in which such certificate is signed from any mortgages or mortgage bonds included in the Trusteed Properties, excluding therefrom any such income which has ceased to accrue to the Company prior to the date on which such certificate is signed, but including any income which would have been received by the

Company from mortgages or mortgage bonds included in the Trusteed Properties acquired by the Company during such twelve (12) months' period if they had been owned by the Company throughout such twelve (12) months' period,

- (iv) the amount (but not to exceed twenty per cent (20%) of the sum of the amounts shown in items (i), (ii) and (iii)) of all the proceeds received by the Company in the twelve (12) months immediately preceding the month in which such certificate is signed (A) from the sale or other disposition of Trusteed Properties pursuant to Section 608 of this Indenture and (B) from the sale of land and any other industrial properties not otherwise included in the sale or disposition pursuant to Section 608,
 - (v) the amount of all income from investments of moneys in the Reserve Account in the twelve (12) months immediately preceding the month in which such certificate is signed,
 - (vi) its estimate of the average annual gross revenues of the Trusteed Properties and average annual income from investments of moneys in the Reserve Account to be received during the three (3) complete fiscal years immediately succeeding the fiscal year in which the issuance of such bonds occurs, and
 - (vii) the amount of the maximum Principal and Interest Requirements for any fiscal year thereafter on account of all bonds theretofore issued under the provisions of this Indenture and then outstanding and the bonds then requested to be authenticated and delivered;
- (d) a certificate, signed by the Executive Director on the date of delivery of the bonds of such Series, stating that the Company is not then and upon the issuance of the bonds then requested to be authenticated and delivered will not be in default in the performance of any of the covenants, conditions, agreements or provisions contained in this Indenture and that all conditions precedent to the issuance of the bonds under the Indenture, including the conditions set forth in this Section 209, have been met; and
- (e) a written Opinion of Counsel stating that in his opinion the issuance of such bonds has been duly authorized by the Company and by all governmental authorities the consent of which is required, that all conditions precedent to the issuance of the bonds under the provisions of this Indenture have been fulfilled, that upon the issuance thereof the bonds will be valid

and binding obligations of the Company, enforceable in accordance with their terms, entitled to the benefits and security of this Indenture, that the requirements of any tax law applicable to the issuance of the bonds have been complied with or to the effect that there are no such requirements, that the gross revenues of the Trusteed Properties have been validly pledged, subject to no prior liens, as security for the bonds and the Indenture and any other instruments specified in said opinion constitute the only instruments necessary for the creation of such pledge, that all instruments required by law to be recorded or filed in order to make such pledge effective have been duly recorded or filed and that each of the properties which then constitute the Trusteed Properties and the rentals of which are counted in the certificate delivered pursuant to clause (c) of this Section 209 is subject to a validly executed and legally effective lease, and an opinion in the form required by clause (b) of Section 208 of this Indenture as to the title in the Company of the Trusteed Properties including those acquired or constructed by the Company since the date of the opinion furnished by the Company Counsel pursuant to said clause (b) of Section 208.

When the documents mentioned above in clauses (a) to (e), inclusive, of this Section shall have been filed with the Trustee and when the bonds described in the resolutions mentioned in clauses (a) and (b) of this Section shall have been executed and authenticated as required by this Indenture, the Trustee shall deliver such bonds at one time to or upon the order of the purchasers named in the resolution mentioned in said clause (b) or to their representatives, but only upon payment of the purchase price of such bonds. The Trustee shall be entitled to rely upon such resolution as to the names of the purchasers or their representatives and the amount of such purchase price. But the Trustee shall not authenticate and deliver such bonds unless (A) the percentage derived by dividing the sum of the amounts shown in items (i), (ii), (iii), (iv) and (v) of the certificate mentioned in said clause (c) by the amount shown in item (vii) of such certificate shall be not less than one hundred twenty-five per cent (125%) and (B) the amount shown in item (vi) of the certificate mentioned in said clause (c) by the amount shown in item (vii) of such certificate shall not be less than one hundred ten per cent (110%). The Trustee may conclusively rely on a certificate from the Executive Director that all conditions precedent to the issuance of the bonds under the Indenture, including the conditions set forth in this paragraph, have been met.

The proceeds (excluding accrued interest) of all bonds of each Series issued under the provisions of this Section shall be applied as follows:

- (1) If, under the provisions of the resolution mentioned in clause (a) of this Section, any amount of the proceeds of the bonds is to be applied to the payment of any outstanding bonds or notes of the Company, the Company shall direct such payment to the Trustee, which

shall make such application in accordance with the provisions of such resolution.

(2) The balance of such proceeds shall be paid to the Company. The Company may use such moneys for any proper corporate purpose.

SECTION 210. Issuance of refunding bonds. Refunding bonds of the Company may be issued under and secured by this Indenture, subject to the conditions provided in this Section, for the purpose of providing funds for refunding at their maturity all or part of the serial bonds of any Series which will mature within three (3) months thereafter. Before any bonds are issued under the provisions of this paragraph, the Company shall adopt a resolution authorizing the issuance of such bonds, fixing the amount and the details thereof, and describing the bonds to be refunded. Such refunding bonds shall be deemed to constitute a part of the term bonds of such Series, shall mature at the same time and shall be subject to redemption at the same times and prices as such term bonds or, in case all outstanding bonds of such Series shall be serial bonds, such refunding bonds shall be stated to mature on July 1 not earlier than one year after the last maturing installment of such serial bonds and not later than thirty (30) years from their date. Such refunding bonds shall be dated and designated and may be made redeemable at such times and prices (subject to the provisions of Article III of this Indenture), all as may be provided by the resolution authorizing the issuance of such bonds. Such resolution shall also fix the Amortization Requirement for such term bonds.

Refunding bonds of the Company may be issued under and secured by this Indenture, subject to the conditions of this Section, at any time, for the purpose of providing funds for refunding at or prior to their maturity or maturities all of the outstanding serial bonds of any Series, or all of the outstanding term bonds of any Series or all of such serial bonds and term bonds of any Series, including the payment of any redemption premium thereon and interest which will accrue on such bonds to their earliest redemption date or maturity date or dates occurring prior thereto. Before any bonds shall be issued under the provisions of this paragraph, the Company shall adopt a resolution authorizing the issuance of such bonds, fixing the amount and the details thereof, and describing the bonds to be refunded. Such refunding bonds shall be designated, shall be dated, shall be stated to mature on January 1 or July 1 as to term bonds or on July 1 as to serial bonds maturing in annual installments and on January 1 and July 1 as to serial bonds maturing in semi-annual installments, at such time or times, not later than thirty (30) years from their date, and may be made redeemable at such times and prices (subject to the provisions of Article III of this Indenture), all as may be provided by the resolution authorizing the issuance of such bonds. Such resolution shall also fix the Amortization Requirements for any term bonds of such Series.

Such refunding bonds shall be executed substantially in the form and manner set forth in Exhibit A, with such changes as may be necessary to

conform to the resolution authorizing the issuance of such bonds, and shall be delivered to the Trustee for authentication, and such bonds shall be authenticated and delivered by the Trustee, upon the filing with it of the following:

(a) a copy, certified by the Secretary of the Company, of the resolution authorizing the issuance of such bonds;

(b) a copy, certified by the Secretary of the Company, of the resolution adopted by the Company awarding such bonds, specifying the interest rate of each such bond and directing the authentication and delivery of such bonds to or upon the order of the purchasers therein named upon payment of the purchase price therein set forth;

(c) a written Opinion of Counsel stating that in his opinion the issuance of such bonds has been duly authorized by the Company and by all governmental authorities the consent of which is required, that all conditions precedent to the issuance of the bonds under the provisions of this Indenture have been fulfilled, that upon the issuance thereof the bonds will be valid and binding obligations of the Company, enforceable in accordance with their terms, entitled to the benefits and security of this Indenture, that the requirements of any tax law applicable to the issuance of the bonds have been complied with or to the effect that there are no such requirements and that the gross revenues of the Trusteed Properties have been validly pledged, subject to no prior liens, as security for the bonds and the Indenture and any other instruments specified in said opinion constitute the only instruments necessary for the creation of such pledge, that all instruments required by law to be recorded or filed in order to make such pledge effective have been duly recorded or filed and that each of the properties which then constitute the Trusteed Properties is subject to a validly executed and legally effective lease;

(d) in case such bonds are to be issued for the purpose of refunding bonds of any Series at or prior to their stated maturity or maturities pursuant to the second paragraph of this Section, such documents as shall be necessary to show that provision has been duly made in accordance with the provisions of this Indenture for the redemption of all of the bonds to be refunded prior to their stated maturity or maturities; and

(e) a certificate, signed by the Executive Director on the date of delivery of the bonds of such Series, stating that the Company is not then and upon the issuance of the bonds then requested to be authenticated and delivered will not be in default in the performance of any of the covenants, conditions, agreements or provisions contained in this Indenture and that all conditions precedent to the

issuance of the bonds under the Indenture, including the conditions set forth in this Section 210, have been met.

When the documents mentioned above shall have been filed with the Trustee and when the bonds described in the resolutions mentioned in clauses (a) and (b) of this Section shall have been executed and authenticated, the Trustee shall deliver such bonds at one time to or upon the order of the purchasers named in the resolution mentioned in said clause (b) or their representatives, but only upon payment of the purchase price of such bonds. The Trustee shall be entitled to rely upon such resolution as to the names of the purchasers or their representatives and the amount of such purchase price. But the Trustee shall not authenticate and deliver such bonds unless:

(i) the proceeds (excluding accrued interest but including any premium) of such refunding bonds plus any moneys to be withdrawn from the Sinking Fund, as defined in Section 402 of this Indenture, by the Trustee and any other moneys which have been made available to the Trustee for such purpose as hereinafter provided, or the principal of and the interest on the investment of such proceeds or any such moneys, shall be not less than an amount sufficient to pay the principal of and the redemption premium, if any, on the bonds to be refunded and the interest which will accrue thereon to the redemption date or maturity dates occurring prior thereto, and

(ii) in case such bonds are to be issued for the purpose of redeeming the bonds of any Series at or prior to their stated maturity or maturities pursuant to the second paragraph of this Section, the maximum amount of the Principal and Interest Requirements for any fiscal year thereafter on account of all bonds to be outstanding after the issuance of such refunding bonds and the redemption of the bonds to be refunded, shall be less than the maximum amount of the Principal and Interest Requirements for any fiscal year thereafter on account of all the bonds outstanding prior to the issuance of such refunding bonds and the redemption of the bonds to be refunded.

The Trustee may conclusively rely on a certificate from the Executive Director that all conditions precedent to the issuance of the bonds under the Indenture, including the conditions set forth in this Section 210, have been met.

Simultaneously with the delivery of such refunding bonds the Trustee shall withdraw from the Sinking Fund, as defined in Section 402 of this Indenture, an amount sufficient, together with any excess of the proceeds (excluding accrued interest but including any premium) of such refunding bonds over the amount required for paying the principal of and the redemption premium, if any, on the bonds to be refunded, to pay the interest on the bonds to be refunded which will become payable on or prior to their maturity or the date of their redemption. The amount so withdrawn and the proceeds of such refunding bonds (excluding accrued interest but including

any premium) and any other moneys which have been made available to the Trustee for such purpose shall be held by the Trustee for the credit of a special redemption fund appropriately designated to be held in trust for the sole and exclusive purpose of paying such principal, redemption premium and interest. Moneys held for the credit of such redemption fund shall, as nearly as may be practicable and reasonable, be invested and reinvested as directed in writing by the Company in direct obligations of, or obligations the principal of and the interest on which are unconditionally guaranteed by, the United States Government which shall mature, or which shall be subject to redemption by the holder thereof at the option of such holder, not later than the respective dates when the moneys held for the credit of such redemption fund will be required for the purposes intended. In lieu of such investments, interest bearing time deposits or other similar arrangements, if then permitted by law, may be directed by the Company with respect to any moneys held for the credit of such redemption fund; provided, however, that each such time deposit or other similar arrangement shall permit the moneys so placed to be available for use not later than the respective dates when the moneys held for the credit of such redemption fund will be required for the purposes intended.

SECTION 211. Deposit of accrued interest. All moneys received as accrued interest on bonds issued under the provisions of this Indenture shall be deposited with the Trustee to the credit of the special account hereinafter created in the Sinking Fund, as defined in Section 402 of this Indenture, and designated “Bond Service Account”.

SECTION 212. Temporary bonds. Until the definitive bonds of any Series are ready for delivery, there may be executed, and upon request of the Executive Director, the Trustee shall authenticate and deliver, in lieu of definitive bonds and subject to the same limitations and conditions except as to identifying numbers, temporary bonds in the minimum denomination of One Thousand Dollars (\$1,000) and any integral multiple thereof, substantially in the form set forth in Exhibit A as the Company may provide, and with appropriate omissions, insertions and variations as may be required. The Company shall cause the definitive bonds to be prepared, executed and delivered to the Trustee, and the Trustee, upon presentation to it of any temporary bond, shall cancel the same and authenticate and deliver, in exchange therefor, at its Corporate Trust Office, without expense to the holder, a definitive bond or bonds of the same Series and in the same aggregate principal amount, maturing on the same date and bearing interest at the same rate as the temporary bond surrendered. Until so exchanged, the temporary bonds shall in all respects, including the privilege of registration, be entitled to the same benefit of this Indenture as the definitive bonds to be issued and authenticated hereunder, and interest on such temporary bonds, when payable, if the definitive bonds shall not be ready for exchange, shall be paid on presentation of such temporary bonds.

SECTION 213. Mutilated, destroyed or lost bonds. In case any bond issued hereunder shall become mutilated or be destroyed or lost, the

Company shall cause to be executed, and the Trustee shall authenticate and deliver, a new bond of like date, maturity and tenor in exchange and substitution for and upon the cancellation of such mutilated bond, or in lieu of and in substitution for such bond, destroyed or lost, upon the holder's paying the reasonable expenses and charges of the Company and the Trustee in connection therewith and, in the case of a bond destroyed or lost, his filing with the Trustee evidence satisfactory to it and to the Company that such bond was destroyed or lost, and of his ownership thereof, and furnishing the Company and the Trustee with indemnity satisfactory to them.

SECTION 214. Puerto Rico payment office. The Company may, by resolution adopted prior to the issuance of any Series of bonds, designate an office in Puerto Rico of any bank or trust company as the place where bonds of such Series may be presented and surrendered for payment of principal upon maturity, redemption or otherwise, for exchange or for registration of transfer.

ARTICLE III.

REDEMPTION OF BONDS.

SECTION 301. Redemption of bonds issued under Section 208. The bonds issued under the provisions of Section 208 of this Indenture at the time outstanding may be redeemed in whole or from time to time in part, prior to their respective maturities, at the option of the Company, on any date after the initial issuance date, from any moneys that may be made available for such purpose, at the principal amount of the bonds to be redeemed, plus any applicable premium, together with the interest accrued thereon to the date fixed for redemption, as set forth in Section 208.

Any redemption notice may, at the Company's discretion, be subject to one or more conditions precedent. The redemption date of any redemption that is subject to the satisfaction of one or more conditions precedent may, at the Company's discretion, be extended, modified or delayed until such time as any or all such conditions shall be satisfied (or waived by the Company in its discretion), or such redemption may not occur and any notice with respect to such redemption may be modified or rescinded in the event that any or all such conditions shall not have been satisfied (or waived by the Company in its discretion) by the redemption date, or by the redemption date so extended, modified or delayed. In addition, such notice of redemption may be extended, if such conditions shall not have been satisfied (or waived by the Company in its discretion) by providing notice to the holders of the bonds (with a copy to the Trustee).

The bonds of any Series issued under the provisions of Sections 209 or 210 of this Indenture may be made subject to redemption, either in whole or in part and at such times and prices, as may be provided in the resolution authorizing the issuance of such bonds; provided, however, that any premium to be paid on the redemption of any such bonds shall not exceed

five per cent (5%) of the principal amount of the bonds to be redeemed, and provided further, that any redemption in part shall be made only on an interest payment date, except as to bonds to be redeemed from the proceeds of any insurance on, or the sale of, any Trusteed Properties.

A redemption of any part of the bonds issued under the provisions of this Indenture and then outstanding less than the whole thereof shall be (i) a redemption from the proceeds of refunding bonds issued under the provisions of Section 210 of this Indenture or from any moneys otherwise made available for the purpose or (ii) a redemption subject to the conditions set forth in paragraph (b) of Section 404 of this Indenture.

If less than all of the serial bonds of a Series of any one maturity or less than all of the term bonds of a Series shall be called for redemption, the particular bonds to be redeemed shall be redeemed pro rata, or if directed by the Company, selected by lot by the Trustee, or, for any bond registered in the name of DTC or its nominee, in accordance with DTC's applicable procedures; provided, however, that the portion of any bond to be redeemed shall be in the principal amount equal to the lowest denomination authorized for bonds of the same Series or some multiple thereof.

SECTION 302. Redemption notice. At least thirty (30) days before the redemption date, the Company shall cause a notice of any such redemption, either in whole or in part, (a) to be filed with the Paying Agents and the Trustee and (b) to be delivered to all registered owners of bonds to be redeemed at their addresses as they appear on the registration books hereinabove provided for, but failure so to mail any such notice shall not affect the validity of the proceedings for such redemption and posted on the Electronic Municipal Market Access system ("EMMA"). Each such notice shall set forth the date fixed for redemption (including, if applicable, that such date is subject to a specified contingency in accordance with Section 301), the place or places at which payment will be made, the redemption price to be paid and, if less than all of the bonds of a Series then outstanding shall be called for redemption, sufficient information to identify the bonds subject to such redemption. At the Company's written request, delivered at least forty (40) days before the redemption date, the Trustee shall distribute such notice and/or post such notice on EMMA.

SECTION 303. Effect of calling for redemption. On the date so designated for redemption, notice having been given and filed in the manner and under the conditions hereinabove provided and moneys for payment of the redemption price being held by the Trustee or by the Paying Agents in trust for the holders of the bonds or portions of bonds to be redeemed, all as provided in this Indenture, the bonds or portions of bonds so called for redemption shall become and be due and payable at the redemption price provided for redemption of such bonds or such portions thereof on such date, interest on the bonds or portions of bonds so called for redemption shall cease to accrue and the registered owners of such bonds shall have no rights in respect thereof except to receive payment of the redemption price

thereof and to the extent provided in Section 307 hereof, to receive bonds for any unredeemed portion of bonds.

SECTION 304. [Reserved].

SECTION 305. Cancellation of bonds redeemed. Bonds so called for redemption shall be cancelled upon the surrender thereof.

SECTION 306. Bonds called for redemption not deemed outstanding. In the event that sufficient moneys and Government Obligations, Prerefunded Municipals or Time Deposits, the principal of and the interest on which when due will provide sufficient moneys, are held by the Trustee or by the Paying Agents in trust for the payment of (i) the principal, any redemption premium and interest to accrue to the redemption date of all bonds or portions of bonds of any Series which have been duly called for redemption under the provisions of this Article or with respect to which irrevocable instructions to call for redemption have been given to the Trustee in form satisfactory to it, and (ii) the principal of all bonds of a Series to be paid at maturity refunded under this Indenture and the interest to accrue on such bonds to the maturity date or, dates thereof, such bonds or portions of bonds so called or to be called for redemption and any such bonds to be paid at maturity shall not thereafter be deemed to be outstanding under the provisions of this Indenture and shall cease to be entitled to any lien, benefit or security under this Indenture, other than the right to receive payment from such moneys, Government Obligations, Prerefunded Municipals or Time Deposits.

SECTION 307. Partial bond redemption. In case part but not all of an outstanding bond shall be called for redemption, the registered owner thereof or his attorney or legal representative shall present and surrender such bond to the Trustee for payment of the principal amount thereof so called for redemption, and the Company shall execute and the Trustee shall authenticate and deliver to or upon the order of such registered owner or his attorney or legal representative, without charge therefor, for the unredeemed portion of the principal amount of the bond so surrendered, a new bond or bonds of the same series and maturity, bearing interest at the same rate and any denomination or denominations authorized by this Indenture.

ARTICLE IV.

INCOME AND FUNDS.

SECTION 401. Covenant as to rental of Trusteed Properties. The Company covenants that it will use commercially reasonable efforts to keep the buildings and the machinery and equipment owned by the Company included in the Trusteed Properties rented at all times and that, subject to the terms of the leases of such Properties in effect on the date of execution of this Indenture, the rent to be charged for each property included in the Trusteed Properties will be fixed at such amount as the Company

determines to be the maximum obtainable in the circumstances. Nothing contained in this Indenture shall be deemed to prevent the Company from renegotiating the terms of or cancelling or replacing any leases of Trusteed Properties when it determines such action to be in the best interests of the Company and the bondholders.

The Company further covenants that it will take all reasonable action which may be necessary to collect all rent and other income which it is entitled to receive from the Trusteed Properties.

Within fifteen (15) days after January 1 and July 1 of each year the Executive Director shall file with the Trustee and shall mail to each bondholder who shall have filed his name and address with the Secretary of the Company for such purpose, a report in respect of the preceding six (6) months' period setting forth in sufficient detail any change in the rental status of any of the Trusteed Properties and listing any of the Trusteed Properties which were disposed of by the Company and any properties which were added to the Trusteed Properties during such period and the rental received or to be received therefrom.

Notwithstanding anything to the contrary, each of the properties listed in Schedule 2 hereof (each, a "Demolished Trusteed Property," and collectively, the "Demolished Trusteed Properties") shall not be deemed a Trusteed Property, and shall not be subject to any covenant or provision herein that is applicable to a Trusteed Property, including Sections 401, 602 and 604, other than is set forth in the following proviso; provided, however, the conditions for the sale, transfer, or other disposition of Trusteed Properties under Section 608 shall continue to apply to any proposed sale, transfer, or other disposition of Demolished Trusteed Properties; provided, further, if any Demolished Trusteed Property generates any rental income or other revenues, then upon the receipt of any rental income or other revenue with respect to any Demolished Trusteed Property, such Demolished Trusteed Property shall automatically cease being a Demolished Trusteed Property and shall automatically be deemed a Trusteed Property, whether or not Schedule 1 is updated to list such formerly Demolished Trusteed Property. Upon any commencement or completion of any development or renovation of any Demolished Trusteed Property, the Company shall promptly notify the Trustee of each such event and the Company shall promptly notify the Trustee upon the receipt of any initial rental income or other revenue with respect to any property that had been a Demolished Trusteed Property immediately prior to the receipt of such rental income or other revenue by the Company.

SECTION 402. Sinking Fund. A special fund is hereby created and designated "Puerto Rico Industrial Development Company Interest and Sinking Fund" (herein sometimes called the "Sinking Fund"). There are hereby created three separate accounts in the Sinking Fund designated "Bond Service Account", "Redemption Account", and "Reserve Account", respectively. The moneys in each of said accounts shall be held in trust and

applied as hereinafter provided and, pending such application, shall be subject to a lien and charge in favor of the holders of the bonds issued and outstanding under this Indenture and for the further security of such holders until paid or transferred, solely to the extent provided in this Indenture.

The Company covenants that all of the gross revenues of the Truited Properties collected by the Company on and after the date of delivery of the bonds under the provisions of Section 208 of this Indenture will be deposited promptly as received, but in no case, in more than five (5) business days after receipt with the Trustee without deduction for any expenses or charges. The Trustee shall, from such gross revenues received by it during any six (6) months' period of July 1 to December 31 or January 1 to June 30 of each fiscal year, promptly make deposits to the credit of the following Accounts in the amounts specified and in the following order:

(a) to the credit of the Bond Service Account such amount as may be required, along with the amount of the Redemption Fund income, if any, to be deposited to the credit of said Account on the January 1 or the July 1, as the case may be, following such six (6) months' period, to make the amount then to the credit of the Bond Service Account equal to the total of (i) the interest which will become payable on the next interest payment date on all bonds of each Series then outstanding, (ii) the principal of all serial bonds of each Series which mature in semi-annual installments, if any, which will become payable within the next ensuing six (6) months, and (iii) an amount in the case of a six (6) months' period of July 1 to December 31, equal to fifty per cent (50%) and, in the case of a six (6) months' period of January 1 to June 30 equal to one hundred per cent (100%) of the principal of all serial bonds of each Series which mature in annual installments, if any, which will become payable within the next ensuing twelve (12) months; provided that in the case of variable rate bonds, to the extent the actual interest rate is not known, the actual amount deposited will be based on estimates provided in writing to the Trustee by the Company in good faith;

(b) to the credit of the Redemption Account such amount as may be required to make the amount deposited during the then current six (6) months' period of July 1 to December 31 or January 1 to June 30 in each fiscal year to the credit of the Redemption Account equal to the Amortization Requirement of such six (6) months' period for the term bonds of each Series then outstanding, plus the premium, if any, which would be payable in the next ensuing six (6) months' period on a like principal amount of bonds if, such principal amounts of bonds should be redeemed prior to their maturity from moneys in the Sinking Fund; provided, however, that if the amounts so deposited to the credit of said Account or to the credit of the Bond Service Account in any such six (6) months' period shall be less than the required amounts, the requirements therefor shall nevertheless be cumulative and the amounts of any deficiencies in any such six (6) months' period shall be added to the

amounts otherwise required to be deposited in each such six (6) months' period in each fiscal year thereafter until such time as such deficiencies shall have been made up; and provided, further, that the requirements of this clause (b) shall be in addition to any other requirements of this Indenture for deposits to the credit of the Redemption Account; and (c) to the credit of the Reserve Account, the following amounts (i) on or before January 1, 2024, \$5,586,630.00; (ii) on or before January 1, 2025, \$2,793,315.00; (iii) on or before January 1, 2026, \$2,793,315.00; (iv) on or before January 1, 2027, \$1,583,122.00; (v) on or before January 1, 2028 \$1,583,122.00; (vi) on or before January 1 2029, \$1,583,122.00; and (v) on or before January 1, 2030 and thereafter, such amount as may be required to make the amount then to the credit of the Reserve Account equal to the maximum amount of the Principal and Interest Requirements for the then current or any fiscal year thereafter on account of all bonds then outstanding; *provided that* the payments to the Reserve Account in clauses (i) through (vi) above are subject to a pro rata reduction to the extent of a refinancing or redemption of the bonds.

Any balance, of such gross revenues and Redemption Fund income remaining after making the full deposits under clauses (a), (b) and (c) above shall be transferred to an account specified by the Company to the Trustee in writing. The Company may use such balance for any proper corporate purpose of the Company.

SECTION 403. Application of moneys in Bond Service Account.

The Trustee is required, from time to time, to withdraw from the Bond Service Account and (1) deposit in trust with the Paying Agents sufficient moneys for paying interest on the bonds as such interest becomes due; following such deposit, the Paying Agent shall remit to each registered owner of bonds the amounts required for paying interest upon such bonds as such interest becomes due and (2) deposit in trust with the Paying Agents sufficient moneys for paying the principal on the remaining bonds as such principal becomes due.

SECTION 404. Application of moneys in Redemption Account.

At any time prior to giving notice of any redemption, the Company shall apply amounts in the applicable Redemption Account of the Sinking Fund to the purchase of 2023 Revenue Bonds at public or private sale, as and when and at such prices (including brokerage and other charges and accrued interest) as may be directed by the Company. Moneys held for the credit of the Redemption Account shall be applied to the retirement of bonds issuance under the provisions of this Indenture as follows:

- (a) Subject to the direction of the Company as set forth in the immediately preceding clause and to the paragraphs below of this Section 404, the Company shall endeavor to purchase bonds secured hereby and then outstanding, whether or not such bonds shall then be subject to redemption, at the most advantageous price obtainable with reasonable diligence,

having regard to interest rate and price, such price not to exceed the principal of such bonds plus the amount of the premium, if any, which would be payable on the next redemption date to the holders of such bonds if such bonds should be called for redemption on such date from moneys in the Sinking Fund. The Trustee shall pay, at the written direction of the Company, the principal purchase price of the bonds so purchased, plus the interest accrued on such bonds to the date of delivery thereof, in each case from the Bond Service Account but no such purchase shall be contracted for within a period of forty-five (45) days next preceding any interest payment date on which bonds are subject to call for redemption under the provisions of this Indenture. The Company shall pay from its own funds all expenses in connection with such purchase.

(b) Subject to the terms and provisions of the applicable bonds as set forth in Section 208 or 209, as applicable, Article III of this Indenture and paragraph (c) of this Section, the Trustee shall call for redemption on each date on which bonds are subject to redemption from moneys in the Sinking Fund such amount of bonds as have been called for redemption or subject to amortization; provided, however, that, if at any time any proceeds of insurance on, or of the sale of, any Trusteed Properties shall be on deposit to the credit of the Redemption Account, the Company shall, for such period as it deems to be practicable, endeavor to apply the same to the purchase of bonds under the provisions of paragraph (a) above, without regard to the limitations on the time of purchase contained in said paragraph (a) and shall direct the Trustee to remit the purchase price from the Redemption Account; provided, further, that if such proceeds of insurance on, or of the sale of, any Trusteed Properties shall be on deposit to the credit of the Redemption Account is less than Fifty Thousand Dollars (\$50,000), then no such repurchase shall be necessary.

(c) Moneys in the Redemption Account shall be applied to the purchase or redemption of bonds in the following order:

first, term bonds issued under the provisions of Section 208 of this Indenture (including any bonds issued under the provisions of the first paragraph of Section 210 of this Indenture and deemed to be a part of the term bonds of such Series), to the extent of the Amortization Requirement, if any, of the then current fiscal year and any deficiency in preceding fiscal years in the purchase or redemption of such term bonds under the provisions of this subdivision;

second, term bonds of each Series, if any, issued under the provisions of Section 209 of this Indenture (including any bonds issued under the provisions of the first paragraph of Section 210 and deemed to be a part of the term bonds of such Series) and term bonds of each Series, if any, issued under the provisions of the second paragraph of Section 210 of this Indenture, in the order of their issuance, to the extent of the Amortization Requirement, if any, of the then current fiscal year for such term bonds and any deficiency in preceding fiscal years in the purchase or redemption of such term bonds under the provisions of this subdivision;

third, any balance then remaining shall be applied to the purchase or redemption of term bonds of each such Series in proportion (as nearly as practicable) to the aggregate principal amount of the term bonds of each such Series originally issued; and

fourth, after the retirement of all outstanding term bonds, serial bonds issued under any provisions of this Indenture in the inverse order of their maturities, and to the extent that serial bonds of different Series mature on the same date, in proportion (as nearly as practicable) to the principal amount of bonds of each Series maturing on said date.

SECTION 405. Application of moneys in Reserve Account. Moneys held for the credit of the Reserve Account shall first be used for the purpose of paying interest on the bonds and maturing principal of serial bonds whenever and to the extent that the moneys held for the credit of the Bond Service Account shall be insufficient for such purpose, and thereafter for the purpose of making the deposits to the credit of the Redemption Account pursuant to the requirements of clause (b) of Section 402 at the end of each of the six (6) months' periods specified therein whenever and to the extent that the gross revenues of the Trusteed Properties collected by the Company and the Redemption Fund are insufficient for such purpose. If at any time the moneys held for the credit of the Reserve Account shall exceed the maximum requirement for the Reserve Account under the provisions of clause (c) of Section 402, such excess shall be applied by the Trustee to the credit of the Bond Service Account. Any moneys on deposit in the Reserve Account in substitution for which a reserve account insurance policy or reserve account letter of credit is deposited into the Reserve Account shall, to the extent not required to fund any deficiencies in the amount then required to be on deposit in the Reserve Account, upon written request by the Company, be released and promptly paid over to the Company to be used by the Company for any of its proper corporate purposes.

In the event that at any time the gross revenues of the Trusteed Properties and the Redemption Fund income together with the amount on deposit to the credit of the Reserve Account are not sufficient to permit the withdrawals and application of moneys in the Bond Service Account in the full amounts required by the provisions of Section 403 or to make the full

deposits to the credit of the Redemption Account pursuant to the requirements of clause (b) of Section 402 by the end of any of the six (6) months' periods specified in said clause (b), the Company shall deposit with the Trustee such amounts as are necessary to meet such requirements.

SECTION 406. Application and pledge of moneys in Sinking Fund. Subject to the terms and conditions set forth in this Indenture, including Section 807, moneys to the credit of the Bond Service Account, the Reserve Account and the Redemption Account shall be held in trust and disbursed by the Trustee for (a) the payment of the interest upon the bonds issued hereunder as such interest falls due or (b) the payment of the principal of such bonds at their respective maturities or (c) the payment of the purchase or redemption price of such bonds before maturity, and such moneys are hereby pledged to and charged with the payments mentioned in this Section.

SECTION 407. Moneys withdrawn from the Sinking Fund held in trust. All moneys which the Trustee shall have withdrawn from the Sinking Fund or shall have received from any other source and deposited with the Paying Agents for the purpose of paying any of the bonds hereby secured, either at the maturity thereof or upon call for redemption, or for the purpose of paying the interest thereon or paying any interest on the bonds hereby secured, shall be held in trust for the respective holders of such bonds, subject to Section 807.

SECTION 408. Cancellation of bonds upon payment. All bonds paid, redeemed or purchased, either at or before maturity, shall be delivered to the Trustee when such payment, redemption or purchase is made for cancellation. All cancelled bonds shall be destroyed by the Trustee in accordance with its standard procedures.

ARTICLE V.

SECURITY FOR DEPOSITS AND INVESTMENT OF FUNDS.

SECTION 501. Security for deposits. All moneys held hereunder by the Trustee shall be continuously and fully secured, for the benefit of the holders of the bonds, and solely to the extent as may then be required by applicable federal laws and regulations regarding security, by Investment Obligations of a market value at least equal at all times to the amount of the moneys so held by the Trustee. The Trustee shall have no obligation for the payment of interest on moneys properly held by it that are uninvested hereunder.

SECTION 502. Investment of moneys. Moneys held for the credit of the Bond Service Account and the Redemption Account in the Sinking Fund shall, as nearly as may be practicable and reasonable, be invested and reinvested by the Trustee, as directed in writing by the Company pursuant to an order signed by the Executive Director stating the amount to be invested and directing such investment, in Government

Obligations which shall mature, or which shall be subject to redemption by the holder thereof at the option of such holder, not later than the respective dates when the moneys held for the credit of said accounts will be required for the purposes intended. Moneys held for the credit of the Reserve Account in the Sinking Fund shall be invested by the Trustee, as directed in writing by the Company pursuant to an order signed by the Executive Director stating the amount to be invested and directing such investment, in Investment Obligations having such maturities as are specified in such order. Such Obligations shall be sold by the Trustee upon receipt of an order signed by the Executive Director directing the sale thereof. In lieu of the investments above provided to be made, Time Deposits, if then permitted by law, may be made by the Company with the Trustee with respect to moneys held for the credit of any or all of said Accounts; provided, however, that each such Time Deposit shall permit the moneys so placed to be available for use at the times provided above with respect to the investment of such moneys.

Obligations so purchased as an investment of moneys in the Bond Service Account and the Redemption Account, and any Time Deposits made with respect to such moneys, shall be deemed at all times to be a part of such respective Accounts. The interest received on Obligations so purchased as an investment of moneys in either of such Accounts, or on such Time Deposits, and any profit realized from such investment, shall be credited to the Reserve Account in the Sinking Fund and any loss resulting from such investment shall be charged to the Reserve Account in the Sinking Fund. Obligations so purchased as an investment of moneys in the Reserve Account, and any Time Deposits made with respect to any such moneys, shall be deemed at all times to be a part of said Account and the interest accruing thereon and any profit realized from such investment shall be credited to said Account and any loss resulting from such investment shall be charged to said Account; provided, however, that if the total market value of any such Obligations and the total amount of any such Time Deposits shall on the first day of any month be less than the total purchase price paid therefor, the Company shall deposit such amount of its own funds with the Trustee to the credit of said Account as is necessary to make up any such loss in the market value of such Obligations. The Trustee shall sell any Obligations so purchased whenever it shall be necessary to do so in order to provide moneys to meet any payment or transfer from any such Account, all as directed in writing by the Company pursuant to an order signed by the Executive Director. The Trustee shall not be liable or responsible for any loss in any such Account resulting from any such investment.

ARTICLE VI.

PARTICULAR COVENANTS AND PROVISIONS.

SECTION 601. Payment of principal, interest and premium. The Company covenants that it will promptly pay the principal of and the

interest on every bond issued under the provisions of this Indenture at the places, on the dates and in the manner provided herein and in said bonds and any premium required for the retirement of said bonds, according to the true intent and meaning thereof. The Company hereby grants to the Trustee a security interest and collateral assignment in the gross revenues of the Trusteed Properties and the Redemption Fund income, which security interest and collateral assignment shall attach to such revenues, whether or not deposited with the Trustee or into the Sinking Fund, and whether now existing or hereafter acquired, to the fullest extent permitted by applicable law. The bonds and the interest thereon will not constitute a debt of the Commonwealth of Puerto Rico or of any of its municipalities or other political subdivisions, and neither the Commonwealth of Puerto Rico nor any such municipalities or other political subdivisions will be liable thereon and such bonds and interest are not payable out of any funds other than those of the Company.

SECTION 602. Covenants as to title to Trusteed Properties. The Company covenants that it has good and marketable title to the Trusteed Properties, subject to no lien, charge or encumbrance thereon or affecting the title thereto except (i) the agreements pursuant to which any of such Properties are leased by the Company, and (ii) liens, charges, encumbrances or other defects of title which do not have a materially adverse effect upon the Company's right to use or to lease such Properties for the purposes for which such Properties are used or are intended to be used and that there are no liens, charges or encumbrances on the gross revenues derived or to be derived by the Company from such Properties, that it is duly authorized to pledge the gross revenues of the Trusteed Properties and the Redemption Fund income as security for the bonds as herein provided, and that it will do all things necessary to maintain and preserve the lien of this Indenture on the gross revenues of the Trusteed Properties and the Redemption Fund income pledged hereunder.

The Company further covenants that it will at all times maintain or cause to be maintained the Trusteed Properties in good repair and in sound operating condition and will make or cause to be made all necessary repairs, renewals and replacements, and that it will comply with all valid acts, rules, regulations, orders and directions of any legislative, executive, administrative or judicial body applicable to the Trusteed Properties. The Company will at all times maintain or cause to be maintained the Demolished Trusteed Properties in the manner that may be required under applicable law.

SECTION 603. No prior lien or charge upon Trusteed Properties or gross revenues. The Company covenants that it will not create or suffer to be created any lien or charge (other than the lien or charge of this Indenture) upon the Trusteed Properties or any part thereof or upon the gross revenues of the Trusteed Properties or the Redemption Fund income and that it will pay or cause to be discharged, or will make adequate provision to satisfy and discharge, within sixty (60) days after the same shall

accrue, all lawful claims and demands for labor, materials, supplies or other objects which, if unpaid, might by law become a lien upon such Trusteed Properties or any part thereof or upon such gross revenues or Redemption Fund income; provided, however, that nothing in this Section contained shall require the Company to pay or cause to be discharged, or make provision for, any such lien or charge so long as the validity thereof shall be contested in good faith and by appropriate legal proceedings.

SECTION 604. Insurance of Trusteed Properties. The Company covenants that it will at all times carry or cause to be carried in a responsible insurance company:

(i) all risk insurance covering all buildings and machinery and equipment included in the Trusteed Properties, including fire insurance in an amount not less than eighty per cent (80%) of the insurable value of such buildings, machinery and equipment and hurricane and earthquake insurance in an amount not less than fifty per cent (50%) of such insurable value; and

(ii) use and occupancy insurance covering loss of revenues to the Company from any unit of real property hereafter included in the Trusteed Properties from which the Company had derived gross income of at least One Million Dollars (\$1,000,000) in the preceding twelve (12) months' period or from which the Company had derived an income of at least Two Hundred Fifty Thousand Dollars (\$250,000) in the preceding twelve (12) months' period from contingent rentals, in an aggregate amount of not less than the actual amount of such gross income or contingent rental income, as the case may be, received by the Company in such period;

provided, however, that if at any time the Company shall be unable to obtain such insurance to the extent above required, either as to amount of such insurance or as to the risks covered thereby, it will not constitute an event of default under the provisions of this Indenture if the Company shall carry such insurance to the extent reasonably obtainable; and provided, further, that as to any of the Trusteed Properties which have been leased by the Company under agreements entered into prior to [December 31, 2023] and which agreements require the lessee to carry insurance covering the risks referred to in clause (i) above, whether or not in the amounts specified in said clause (i), the Company shall not be required to carry or cause to be carried any insurance referred to in said clause (i) other than as is required by such agreements until the termination of such agreements.

The proceeds of use and occupancy insurance shall be applied as other gross revenues of the Trusteed Properties as provided in Section 402 of this Indenture. Except as hereinafter provided in this Section, the proceeds of all other insurance shall be deposited with the Trustee in a special account to be applied to the repair, replacement or reconstruction of the damaged or destroyed property and shall be disbursed by the Trustee upon requisitions signed by the Executive Director and by the Controller of the Company

specifying the payee and the amount and purpose of each payment. If such proceeds are more than sufficient for such purposes the balance thereof remaining shall be applied in the same manner as the gross revenues of the Trusteed Properties under said Section 402. If such proceeds shall be insufficient for such purpose, the deficiency shall be supplied by the Company from its own funds. At the option of the Company the proceeds of such insurance (other than use and occupancy insurance) may be

(a) deposited to the credit of the Redemption Account, or

(b) used by the Company for the acquisition or construction of (i) any real property for revenue producing purposes, (ii) any machinery or other equipment owned by the Company, and located in buildings constituting a part of the Trusteed Properties, from which the Company will derive revenues, and (iii) any first mortgages on real property or any first mortgage bonds; any such properties so acquired or constructed will constitute a part of the Trusteed Properties.

All insurance policies shall be open to the inspection of the Trustee and the bondholders and their representatives at all reasonable times.

SECTION 605. Rights of Trustee or bondholders not to be impaired. The Company covenants and agrees that none of the gross revenues of or the proceeds of insurance on any of the Trusteed Properties or Redemption Fund income will be used for any purpose other than as provided in this Indenture and no contract or contracts will be entered into or any action taken by which the rights of the Trustee or of the bondholders might be impaired or diminished. The Company further covenants that it will fulfill all of the obligations imposed upon it by any of the lease agreements covering any of the Trusteed Properties.

SECTION 606. Further instruments and action. The Company covenants that it will, from time to time, execute and deliver such further instruments and take such further action as may be required to carry out the purposes of this Indenture.

SECTION 607. Separate and accurate records of Trusteed Properties. The Company covenants that it will keep separate and accurate records and accounts of the Trusteed Properties and of the gross revenues of the Trusteed Properties.

All records and files of the Company shall be open at all reasonable times to the inspection of the Trustee and its agents and representatives, with no duty imposed on the Trustee to make any inspections.

SECTION 608. Conditions under which Trusteed Properties may be sold; disposition of bonds. The Company covenants that, except as in this Indenture otherwise permitted, it will not sell or otherwise dispose of or encumber (other than leasing as provided for in Section 401 of this Indenture) the Trusteed Properties or any part thereof.

The Company may sell any of the Trusteed Properties at any time:

(a) upon the filing with the Trustee of a certificate signed by the Executive Director and by the Controller of the Company, setting forth

(i) the gross revenues of the Trusteed Properties received by the Company during the twelve (12) months immediately preceding the month in which such certificate is signed, excluding therefrom the revenues received from that portion of the Trusteed Properties which the Company proposes to sell and excluding any other of such gross revenues which have ceased to accrue to the Company prior to the date on which such certificate is signed, but including any revenues (other than contingent rentals) which would have been received by the Company from any Trusteed Properties under new or renewal lease agreements entered into by the Company during such twelve (12) months' period if such lease agreements had been in effect throughout such twelve (12) months' period,

(ii) the amount of the maximum Principal and Interest Requirements for any fiscal year thereafter on account of all bonds theretofore issued under the provisions of this Indenture and then outstanding less such principal amount of outstanding bonds as can be retired at the then current redemption price from such part of the proceeds of the sale of such portion of the Trusteed Properties which is to be deposited with the Trustee to the credit of the Redemption Account as hereinafter in this Section required or permitted, and

(iii) the gross revenues received by the Company during the twelve (12) months immediately preceding the month in which such certificate is signed on account of that portion of the Trusteed Properties which the Company proposes to sell,

and it appearing that the percentage derived by dividing the amount shown in item (i) of such certificate by the amount shown in item (ii) thereof is at least one hundred twenty-five per cent (125%); provided, however, that if the amount shown in item (iii) of such certificate is more than twenty per cent (20%) of all of the gross revenues of the Trusteed Properties received by the Company during such preceding twelve (12) months the certificate referred to in this clause (a) shall have been approved by an independent and nationally recognized firm of certified public accountants, and the Company shall have agreed, to deposit with the Trustee to the credit of the Redemption Account a sum in cash at least equal to that percentage of the total sales price of such Properties which the sum set forth in said item (iii) of such certificate bears to all of the gross revenues of the Trusteed Properties received by the Company during such preceding twelve (12) months; and provided, further, that the Company may at its option, without restriction, deposit a sum in cash equal to any portion of the sales price of any of such Properties with the Trustee to the credit of the Redemption Account; or

(b) if the consideration to be received by the Company for such Trusteed Properties is cash or property of the type included in the definition of Trusteed Properties and if the Company shall have agreed with the Trustee to deposit with the Trustee to the credit of the Redemption Account the total amount of any cash so received and shall have filed with the Trustee a certificate signed by the Executive Director designating such property to be so received as “Trusteed Properties” under this Indenture and shall deliver to the Trustee a written Opinion of Counsel in the form required by Section 208 of this Indenture as to the title in the Company of such property and the validity of the pledge of the revenues therefrom.

The sale of any Trusteed Properties under the provisions of clause (a) of this Section shall be consummated by the Company not later than sixty (60) days after the date on which the certificate referred to in said clause is signed.

The Company may, to the extent permitted by law, mortgage or otherwise encumber the Trusteed Properties or any part thereof for the sole benefit and security of the holders of all bonds issued and to be issued under the provisions of this Indenture.

The Company covenants that any amounts which it receives on account of the payment of principal of any mortgages or mortgage bonds included in the Trusteed Properties, other than from the sale thereof, will be deposited with the Trustee to the credit of the Redemption Account to the extent, if any, necessary to reduce the principal amount of outstanding bonds so that the gross revenues of the Trusteed Properties received by the Company during the twelve (12) months immediately preceding the month in which such payment is received will be at least equal to one hundred twenty-five per cent (125%) of the maximum Principal and Interest Requirements for any fiscal year thereafter on account of all bonds then outstanding less such principal amount of outstanding bonds which can be retired at the then current redemption price from the amount of such payments so deposited to the credit of the Redemption Account.

Except as otherwise provided in this Section the proceeds derived from the sale of any of the Trusteed Properties and payments received on account of principal of any mortgages or mortgage bonds, shall be retained by the Company for use for any proper corporate purpose.

SECTION 609. Control of other properties and revenues of the Company. (a) Except as provided in subdivision (b) of this Section any properties, other than the Trusteed Properties, which are now owned or are hereafter acquired or constructed by the Company and any and all revenues derived by the Company therefrom, shall remain the property of the Company subject to operation, control and disposition by it and shall not be subject to the lien of this Indenture; provided, however, that the Company may at any time at its option add to the Trusteed Properties (i) any of its real property which it has acquired or constructed for revenue producing purposes, (ii) any machinery or other equipment owned by the Company,

and located in buildings constituting a part of the Trusteed Properties, from which the Company is deriving revenues, and (iii) any first mortgages on real property which the Company holds as mortgagee or any first mortgage bonds, whereupon such property, including such mortgages and mortgage bonds, will become a part of the Trusteed Properties and be subject to the provisions of this Indenture. The addition of any such property to the Trusteed Properties shall become effective upon the filing of a certificate signed by the Executive Director with the Trustee describing such property and certifying to its qualifications under this Section, or delivering the mortgage documents or mortgage bonds to the Trustee, and designating such property as “Trusteed Properties” under this Indenture and the delivery to the Trustee of a written Opinion of Counsel in the form required by Section 208 of this Indenture as to the title in the Company of such property and the validity of the pledge of the revenues therefrom. The Trustee is authorized to open one or more accounts under this Indenture to hold any such mortgage document or mortgage bond.

(b) [The Company shall not hereafter incur, assume, or suffer to be outstanding or otherwise become liable, directly or indirectly, for any indebtedness for borrowed money other than the bonds issued under the provisions of this Indenture and bank loans made in the ordinary course for its current operations, unless it is expressly provided in the documents evidencing such indebtedness that if at any time the Company is required to deposit any of its funds with the Trustee pursuant to the provisions of the second paragraph of Section 405 of this Indenture, the Company will first apply its available funds to making the deposits in the full amount required by said paragraph before making any further payments on account of the principal of or the interest on such indebtedness.]¹

(c) On or before the tenth (10th) day of the twelfth (12th) month after the delivery of the bonds authorized by Section 208 of this Indenture, and on or before the tenth (10th) day of each month thereafter, the Company shall file with the Trustee, and shall make available to each bondholder through EMMA, a certificate signed by the Executive Director and by the Controller of the Company setting forth (i) the gross revenues of the Trusteed Properties received by the Company during the twelve (12) months immediately preceding the month in which such certificate is signed, and (ii) the amount of the maximum Principal and Interest Requirements for any fiscal year thereafter on account of all bonds theretofore issued under the provisions of this Indenture and then outstanding; provided, however, that as to any Series of bonds issued under the provisions of Sections 209 or 210 of this Indenture, if the proceedings authorizing the issuance of such bonds provide for the designation of a principal underwriter or other representative of the holders of the bonds of such Series, the Company shall mail such certificate to such principal underwriter or representative and shall not be obligated to mail such certificate to any individual holder of the bonds of such Series. If it shall

¹ Subject to further discussions

appear that the percentage derived by dividing the amount shown in item (i) of such certificate by the amount shown in item (ii) thereof is less than one hundred fifty per cent (150%), the Company shall immediately designate as Trusteed Properties such other of its revenue-producing real properties, machinery or other equipment or first mortgages on real property which it holds as mortgagee or first mortgage bonds, which have not been encumbered by the Company, as may be necessary in order that the gross revenues of the Trusteed Properties to be derived in the next succeeding twelve (12) months' period shall be at least equal to one hundred twenty-five per cent (125%) of such maximum Principal and Interest Requirements.

ARTICLE VII.

REMEDIES.

SECTION 701. Extended Interest. In case the time for the payment of any interest on any bond shall be extended, whether or not such extension be by or with the consent of the Company, such interest so extended shall not be entitled in case of default hereunder to the benefit or security of this Indenture except subject to the prior payment in full of the principal of all bonds then outstanding and of all interest the time for the payment of which shall not have been extended.

SECTION 702. Events of default. Each of the following events is hereby declared an "event of default":

(a) payment of the principal and premium, if any, of any of the bonds is not made when the same shall become due and payable, either at maturity or by proceedings for redemption or otherwise; or

(b) the Company fails to make any deposits with the Trustee which are required by the provisions of the second paragraph of Section 405 of this Indenture at the times and in the amounts so required by said paragraph; or

(c) payment of any installment of interest is not made within thirty (30) days after the same shall become due and payable; or

(d) the Company fails to deposit any of the gross revenues of the Trusteed Properties with the Trustee within thirty (30) days after they have been collected by the Company; or

(e) the Company is for any reason rendered incapable of fulfilling its obligations hereunder; or

(f) except as otherwise provided by Section 604 of this Indenture, any part of the Trusteed Properties is destroyed or damaged to the extent of impairing the obligation of the lessees to pay full rent and is not promptly repaired, replaced or reconstructed unless the destruction or damage occurred as a result of a natural disaster, in which case the

Company shall be required to make all commercially reasonable efforts to promptly repair the damage and/or rebuild the property; or

(g) final judgment for the payment of money is rendered against the Company as a result of the ownership or operation of the Trusteed Properties and any such judgment is not discharged within sixty (60) days from the entry thereof or an appeal is not taken therefrom or from the order, decree or process upon which or pursuant to which such judgment shall have been granted or entered, in such manner as to conclusively set aside or stay the execution of or levy under such judgment, order, decree or process or the enforcement thereof; or

(h) an order or decree is entered, with the consent or acquiescence of the Company, appointing a receiver or receivers of the Company or of any of the Trusteed Properties or of any of the revenues of the Company, or if such order or decree, having been entered without the consent or acquiescence of the Company, is not vacated or discharged or stayed on appeal within sixty (60) days after the entry thereof; or

(i) any proceeding is instituted, with the consent or acquiescence of the Company, for the purpose of effecting a composition between the Company and its creditors or for the purpose of adjusting the claims of such creditors, pursuant to any federal or Commonwealth of Puerto Rico statute now or hereafter enacted, if the claims of such creditors are under any circumstances payable from the revenues of the Trusteed Properties;

(j) the Company defaults in the due performance of any other of the covenants, conditions, agreements and provisions contained in the bonds or in this Indenture, and such default continues for thirty (30) days after written notice specifying such default and requiring same to be remedied is given to the Company by the Trustee, or to the Company and the Trustee by the holders of not less than twenty per cent (20%) in principal amount of the bonds then outstanding; or

(k) notice is received by the Trustee and the Company from the bank or other financial or lending institution providing a credit or liquidity facility or other entity insuring, guaranteeing or providing for payment of principal or interest in respect of any bonds that an event of default has occurred under the agreement underlying said facility, or a failure by said bank or other financial or lending institution or other entity to make said facility available or to reinstate the interest component of said facility, in accordance with the terms of said facility, to the extent said notice or failure is established as an event of default under the terms of the resolution authorizing the issuance of said bonds.

SECTION 703. Acceleration of maturities. Upon the happening and continuance of any event of default specified in Section 702, then and in every such case the Trustee may, and upon the written request of the holders of not less than twenty per cent (20%) in principal amount of the

bonds then outstanding shall, by a notice in writing to the Company, declare the principal of all of the bonds then outstanding (if not then due and payable) to be due and payable immediately, and upon such declaration the same shall become and be immediately due and payable, anything contained in the bonds or in this Indenture to the contrary notwithstanding; provided, however, that if at any time after the principal of the bonds shall have been so declared to be due and payable, and before the entry of final judgment or decree in any suit, action or proceeding instituted on account of such default, or before the completion of the enforcement of any other remedy under this Indenture, moneys shall have accumulated in the Sinking Fund sufficient to pay the principal of all matured bonds and all arrears of interest, if any, upon all the bonds then outstanding (except the principal of any bonds not then due by their terms and the interest accrued on such bonds since the last interest payment date), and the charges, compensation, expenses, disbursements, advances and liabilities of the Trustee, and all other amounts then payable by the Company hereunder shall have been paid or a sum sufficient to pay the same shall have been deposited with the Trustee, and every other default known to the Trustee in the observance or performance of any covenant, condition or agreement contained in the bonds or in this Indenture (other than a default in the payment of the principal of such bonds then due only because of a declaration under this Section) shall have been remedied, then and in every such case the Trustee may, and upon the written request of the holders of not less than twenty per cent (20%) in principal amount of the bonds not then due by their terms and then outstanding shall, by written notice to the Company, rescind and annul such declaration and its consequences, but no such rescission or annulment shall extend to or affect any subsequent default or impair any right consequent thereon.

SECTION 704. Enforcement of remedies. Upon the happening and continuance of any event of default as provided in Section 702, then and in every such case the Trustee may proceed, and upon the written request of the holders of twenty per cent (20%) in principal amount of the bonds then outstanding hereunder shall proceed, subject to the provisions of Section 802 of this Indenture, to protect and enforce its rights and the rights of the bondholders under this Indenture by a suit, action or special proceeding in equity or at law, or by a proceeding in the office of any board or officer having jurisdiction, either for the appointment of a receiver of the Trusteed Properties as authorized by the Enabling Act, or for the specific performance of any covenant or agreement contained herein or in aid or execution of any power herein granted or for the enforcement of any proper legal or equitable remedy as the Trustee, shall deem most effectual to protect and enforce the rights aforesaid.

In the enforcement of any remedy under this Indenture the Trustee shall be entitled to sue for, enforce payment of and receive any and all amounts then or during any default becoming, and at any time remaining, due from the Company for principal, interest or otherwise under any of the provisions of this Indenture or of the bonds and unpaid, together with any and all costs

and expenses of collection and of all proceedings hereunder and under such bonds, without prejudice to any other right or remedy of the Trustee or of the bondholders. The Trustee shall also be entitled to recover and enforce judgment or decree against the Company, but solely as provided herein and in such bonds, for any portion of such amounts remaining unpaid, with interest, costs and expenses, and to collect in any manner provided by law, the moneys adjudged or decreed to be payable.

SECTION 705. Pro rata application of funds. Anything in this Indenture to the contrary notwithstanding, if at any time the moneys in the Sinking Fund shall not be sufficient to pay the principal of and the interest on the bonds as the same become due and payable (either by their terms or by acceleration of maturities under the provisions of Section 703), such moneys, together with any moneys then available or thereafter becoming available for such purpose, but solely as provided herein and in such bonds, whether through the exercise of the remedies in this Article provided for or otherwise, shall be applied, following application of funds pursuant to Section 807 as follows:

(a) Unless the principal of all of the bonds shall have become or shall have been declared due and payable, all such moneys shall be applied, subject to Section 701:

- i. *first:* to the payment to the persons entitled to all installments of interest then due, in the order of the maturity of the installments of such interest and, if the amount available shall not be sufficient to pay in full any particular installment, then to the payment ratably, according to the amounts due on such installment, to the persons entitled thereto, without any discrimination or preference except as to any difference in the respective rates of interest specified in the bonds;
- ii. *second:* to the payment to the persons entitled to the unpaid principal of any of the bonds which shall have become due (other than bonds called for redemption for the payment of which moneys are held pursuant to the provisions of this Indenture), in the order of their due dates, with interest upon such bonds from the respective dates upon which they became due, and, if the amount available shall not be sufficient to pay in full the bonds due on any particular date, together with such interest, then to the payment ratably, according to the amount of principal due on such date, to the persons entitled thereto without any discrimination or preference; and
- iii. *third:* to the payment of the interest on and the principal of the bonds, to the purchase and retirement of bonds and to the redemption of bonds, all in accordance with the provisions of Article IV of this Indenture.

(b) If the principal of all of the bonds shall become due or is declared due and payable, all such moneys shall be applied to the payment of the principal and interest then due and unpaid upon the bonds, with interest thereon, without preference or priority, ratably, according to the amounts due respectively for principal and interest, to the persons entitled thereto without any discrimination or preference except as to any difference in the respective rates of interest specified in the bonds.

(c) If the principal of all of the bonds shall have been declared due and payable and if such declaration shall thereafter have been rescinded and annulled under the provisions of Section 703, then, subject to the provisions of paragraph (b) of this Section in the event that the principal of all the bonds shall later become due or be declared due and payable, the moneys then remaining in and thereafter accruing to the Sinking Fund shall be applied in accordance with the provisions of paragraph (a) of this Section.

The provisions of this Section are in all respects subject to the provisions of Section 701.

Whenever moneys are to be applied by the Trustee pursuant to the provisions of this Section, the Trustee in its sole discretion shall determine, having due regard to the amount of such moneys available for application and the likelihood of additional moneys becoming available for such application in the future; the deposit of such moneys with the Paying Agents, or otherwise setting aside such moneys, in trust for the proper purpose shall constitute proper application by the Trustee; and the Trustee shall incur no liability whatsoever to the Company, to any bondholder or to any other person for any delay in applying any such moneys, so long as the Trustee acts with reasonable diligence, having due regard to the circumstances, and ultimately applies the same in accordance with such provisions of this Indenture as may be applicable at the time of application by the Trustee. Whenever the Trustee shall exercise such discretion, it shall fix the date (which shall be an interest payment date unless the Trustee deems another date more suitable) upon which such application is to be made and upon such date interest on the amounts of principal to be paid on such date shall cease to accrue. The Trustee shall give such notice as it may deem appropriate of the fixing of any such date, and shall not be required to make payment to the holder of any unpaid bond until such bond shall be presented to the Trustee for appropriate endorsement or for cancellation if fully paid.

SECTION 706. Effect of discontinuance of proceedings. In case any proceeding taken by the Trustee on account of any default is discontinued or abandoned for any reason or is determined adversely to the Trustee, then and in every such case the Company, the Trustee and the bondholders shall be restored to their former positions and rights hereunder,

and all rights, remedies, powers and duties of the Trustee shall continue as though no such proceeding had been taken.

SECTION 707. Majority of bondholders may control proceedings. Anything in this Indenture to the contrary notwithstanding, the holders of a majority in principal amount of the bonds then outstanding hereunder shall have the right, subject to the provisions of Section 802, by written direction given to the Trustee, to direct the time, method and place of conducting all remedial proceedings to be taken by the Trustee hereunder, provided that such direction shall be in accordance with law and this Indenture, and that the Trustee shall have the right to decline to follow any such direction which, in the opinion of the Trustee, would be unduly prejudicial to bondholders not party to such direction or which might expose the Trustee to liability. The Trustee may take any other action deemed proper by the Trustee that is not inconsistent with such direction.

SECTION 708. Restrictions upon action by individual bondholders. Other than with respect to unpaid principal or interest, no holder of any of the bonds shall have any right to institute any suit, action or proceeding in equity or at law for the execution of any trust hereunder or for any other remedy hereunder, unless such holder previously shall have given to the Trustee written notice of the event of default or breach of trust or duty on account of which such suit, action or proceeding is to be taken, and unless the holders of not less than twenty per cent (20%) in principal amount of the bonds then outstanding shall have made written request of the Trustee after the right to exercise such powers or right of action, as the case may be, shall have accrued, and shall have afforded the Trustee a reasonable opportunity either to proceed to exercise the powers hereinabove granted or granted by the laws of Puerto Rico, or to institute such action, suit or proceeding in its or their name, and unless, also, there shall have been offered to the Trustee reasonable security and indemnity against the costs, expenses and liabilities to be incurred therein or thereby, and the Trustee shall have refused or neglected to comply with such request within a reasonable time, which shall be no longer than thirty (30) days, and such notification, request and offer of indemnity are hereby declared in every such case, at the option of the Trustee, to be conditions precedent to the execution of the powers and trusts of this Indenture or for any other remedy hereunder. It is understood and intended that no one or more holders of the bonds hereby secured shall have any right in any manner to affect, disturb or prejudice the security of this Indenture, or to enforce any right hereunder except in the manner herein provided and that all proceedings at law or in equity hereunder shall be instituted, had and maintained in the manner herein provided and for the benefit of all holders of the outstanding bonds.

Notwithstanding any other provisions in this Indenture, the holder of any bond has the right, which is absolute and unconditional, to receive payment of the principal of and interest on such bond (including interest on any of the foregoing that is overdue at the rate specified in such bond) on the date such payment is due as set forth in such bond, including by

acceleration, and to institute suit for the enforcement of any such payment, and such right will not be impaired without the consent of such holder.

SECTION 709. Actions by Trustee. All rights of action under this Indenture or under any of the bonds secured hereby, may be enforced by the Trustee without the possession of any of the bonds or the production thereof on the trial or other proceeding relative thereto, and any such suit, action or proceeding instituted by the Trustee shall be brought in its name for the benefit of all the holders of such bonds, subject to the provisions of this Indenture.

SECTION 710. No remedy exclusive. No remedy herein conferred upon or reserved to the Trustee or to the holders of the bonds is intended to be exclusive of any other remedy, and each and every such remedy shall be cumulative and be in addition to every other remedy given hereunder.

SECTION 711. No delay or omission construed to be a waiver. No delay or omission of the Trustee or of any holder of the bonds to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed as a waiver of any such default; and every power and remedy given by this Indenture to the Trustee and the holders of the bonds, respectively, may be exercised from time to time and as often as may be deemed expedient.

The holders of not less than twenty per cent (20%) in principal amount of the bonds then outstanding may waive any default which in their opinion shall have been remedied before the entry of final judgment or decree in any suit, action or proceeding instituted by it under the provisions of this Indenture or before the completion of the enforcement of any other remedy under this Indenture, but no such waiver shall extend to or affect any other existing or any subsequent default or defaults or impair any rights or remedies consequent thereon.

SECTION 712. Notice of default. The Trustee shall transmit to all registered owners of bonds written notice of the occurrence of any event of default set forth in Section 702 within thirty (30) days after the Trustee receives notice that any such event of default has occurred; *provided*, that the Trustee may withhold such notice, other than with respect to any payment default, for up to sixty (60) days, if and so long as a committee of its Responsible Officers in good faith determines that withholding the notice is in the interest of the holders. The Trustee shall not be subject to any liability to any bondholder by reason of its failure to mail the notice required by this Section.

SECTION 713. Undertaking for costs. All parties to the Indenture agree, and each holder of any bond by such holder's acceptance thereof shall be deemed to have agreed, that any court may in its discretion require, in any suit for the enforcement of any right or remedy under the Indenture or in any suit against the Trustee for any action taken, suffered or

omitted by it as the Trustee, the filing by any party litigant in such proceeding of an undertaking to pay the costs of such proceeding, and that such court may in its discretion assess reasonable costs, including reasonable attorneys' fees, against any party litigant in such proceeding, having due regard to the merits and good faith of the claims or defenses made by such party litigant; *provided, however*, that the provisions of this Section 713 shall not apply to (a) any suit instituted by the Trustee, (b) any suit instituted by any holder or group of holders, in each case, holding in the aggregate more than twenty percent (20%) of any series of bonds or (c) any suit instituted by any holder for the enforcement of the payment of principal of or interest on any bond on or after the respective due dates expressed in such bond.

ARTICLE VIII.

CONCERNING THE TRUSTEE.

SECTION 801. Acceptance of trusts. The Trustee accepts and agrees to execute the trusts imposed upon it by this Indenture upon the terms and conditions set forth in this Article and subject to the provisions of this Indenture, to all of which the parties hereto and the respective bondholders agree.

SECTION 802. Duties and Liabilities of Trustee. (a) Except during the continuance of an event of default, the Trustee undertakes to perform such duties and only such duties as are specifically set forth in this Indenture and no implied covenants or obligations shall be read into this Indenture against the Trustee.

(b) In case any event of default has occurred and is continuing, the Trustee shall exercise such of the rights and powers vested in it by this Indenture, and use the same degree of care and skill in their exercise, as a reasonably prudent person would exercise or use under the circumstances in the conduct of their own affairs

(c) No provision of this Indenture shall be construed to relieve the Trustee from liability for its own grossly negligent action, its own grossly negligent failure to act, or its own willful misconduct, except, that:

(i) this subsection shall not be construed to limit the effect of subsection (a) of this Section;

(ii) the Trustee shall not be liable for any error of judgment made in good faith by a Responsible Officer, unless it shall be proved that the Trustee was grossly negligent in ascertaining the pertinent facts;

- (iii) the Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the holders of not less than a majority in principal amount of bonds then outstanding relating to the time, method, and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee, under this Indenture;
 - (iv) no provision of this Indenture shall require the Trustee to expend or risk its funds or otherwise incur any liability in the performance of any of its duties hereunder or in the exercise of any of its rights or powers; and
 - (v) in the absence of bad faith on its part, the Trustee may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon any certificates or opinions furnished to the Trustee by or on behalf of the Company and conforming to the requirements of this Indenture.
- (d) Whether or not therein expressly so provided, every provision of this Indenture relating to the conduct or affecting the liability of or affording protection to the Trustee shall be subject to the provisions of this Section.

SECTION 803. Certain Rights of the Trustee. Except as otherwise provided in Section 7.01:

- (a) The Trustee may rely and shall be protected in acting or refraining from acting upon any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, approval, bond, debenture or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties and shall, acting in good faith, not be required to verify the accuracy of any information or calculations required to be included therein or attached thereto;
- (b) Whenever in the administration of this Indenture the Trustee shall deem it desirable that a matter be proved or established prior to taking, suffering, or omitting any action hereunder, the Trustee (unless other evidence be herein specifically prescribed) may rely upon an Officer's Certificate and such Officer's Certificate shall be full warrant to the Trustee for any action taken or omitted by it under the provisions of this Indenture;
- (c) The Trustee may consult with counsel of its selection and the written advice of such counsel or any Opinion of Counsel (either of which may be by email transmission) shall be full and

complete authorization and protection in respect of any action taken, suffered or omitted by it hereunder in good faith and in reliance thereon;

- (d) The Trustee shall be under no obligation to exercise any of the rights or powers vested in it by this Indenture at the request or direction of any of the holders of bonds pursuant to the provisions of this Indenture, unless such holders shall have provided to the Trustee security or indemnity satisfactory to it against the costs, expenses, and liabilities which might be incurred by it in connection with such request or direction;
- (e) The Trustee shall have no duty or obligation to advance its own funds;
- (f) The Trustee shall not be bound to make any investigation into the facts or matters stated in any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, approval, bond, debenture or other paper or document but the Trustee, in its discretion, may make such further inquiry or investigation into such facts or matters as it may see fit, and, if the Trustee shall determine to make such further inquiry or investigation, it shall be entitled to examine the books, records, and premises of the Company, personally or by agent or attorney, at the expense of the Company and shall incur no liability of any kind by reason of such inquiry or investigation;
- (g) The Trustee may execute any of the trusts or powers hereunder or perform any duties hereunder either directly or by or through agents or attorneys and the Trustee shall not be responsible for any misconduct or negligence on the part of any agent or attorney appointed with due care hereunder;
- (h) The Trustee shall not be deemed to have knowledge of any default or event of default hereunder unless a Responsible Officer has actually received notice of such default or event of default in writing from the Company or the holders of not less than twenty percent (20%) in principal amount of bonds then outstanding provide such notice, referencing the bonds and describing such default and stating that such writing is a Notice of default;
- (i) The permissive right of the Trustee to do things enumerated in this Indenture or in any other documentation related hereto shall not be construed as a duty. It shall not be the duty of the Trustee to see that any duties or obligations herein imposed upon the Company or any other person are performed, and the Trustee shall not be liable or responsible for the failure of the Company

or any other person to perform any act required of it or them by this Indenture;

- (j) The Trustee is not required to give any bond or surety with respect to the performance of its duties or the exercise of its powers under this Indenture;
- (k) In the event the Trustee receives inconsistent or conflicting requests and indemnity from two or more groups of holders of bonds, each representing less than a majority in aggregate principal amount of the bonds outstanding, the Trustee, in its sole discretion, may determine what action, if any, shall be taken and shall not incur any liability for its failure to act until such inconsistency or conflict is, in its good faith opinion, resolved;
- (l) The Trustee's immunities and protections from liability in connection with the performance of its duties under this Indenture shall extend to the Trustee's officers, directors, agents and employees. Such immunities and protections, together with the Trustee's right to compensation, reimbursement of expenses and indemnification, shall survive the Trustee's resignation or removal and final payment of the bonds;
- (m) The Trustee shall have no responsibility for any information in any offering memorandum, official statement or other disclosure material distributed with respect to the bonds, and the Trustee shall have no responsibility for compliance with any commonwealth, state or federal securities laws in connection with the bonds;
- (n) Notwithstanding anything contained herein to the contrary, upon the occurrence and continuance of an event of default, before taking any foreclosure action or any action which may subject the Trustee to liability under any environmental law, statute, regulation or similar requirement relating to the environment, the Trustee may require that an environmental survey be provided and a satisfactory indemnity bond, indemnity or environmental impairment insurance be furnished for the payment or reimbursement of all expenses to which it may be put and to protect it against all liability resulting from any claims, judgments, damages, losses, penalties, fines, liabilities (including strict liability) and expenses which may result from such foreclosure or other action and the Trustee shall not be required to take such foreclosure or similar action if it reasonably determines that the approval of a governmental regulator that cannot be timely obtained is necessary for such foreclosure or similar action;
- (o) The Trustee shall not be responsible or liable for any failure or delay in the performance of its obligations under this Indenture

arising out of or caused, directly or indirectly, by circumstances beyond its reasonable control, including, without limitation, acts of God; earthquakes; fire; flood; hurricanes or other storms; wars; terrorism; similar military disturbances; sabotage; epidemics; pandemics; riots; interruptions, loss or malfunctions of utilities, computer (hardware or software) or communications services; accidents; labor disputes; acts of civil or military Company or governmental action; it being understood that the Trustee shall use commercially reasonable efforts which are consistent with accepted practices in the banking industry to resume performance as soon as reasonably practicable under the circumstances;

- (p) The Trustee shall not have any responsibility for the validity, perfection, priority, continuation or enforceability of any lien or security interest and shall have no obligations to take any action to procure or maintain the validity, perfection, priority, continuation or enforceability of any lien or security interest on any of the Trusteed Properties, for the validity of the title of any pledgor to the Trusteed Properties, for insuring the Trusteed Properties, or for the payment of taxes, charges, assessments or liens upon the Trusteed Properties or otherwise as to the maintenance of the Trusteed Properties and shall not be responsible for the validity or enforceability of any lease or other agreement pertaining to the Trusteed Properties or from which the gross revenues of the Trusteed Properties are derived and the Trustee makes no representation with respect to the security afforded by any thereof or by this Indenture. The Trustee shall be under no duty to make any presentment or demand, or give any notice or take any other action to preserve unimpaired or to enforce the obligation of any party primarily or secondarily liable under any of such leases or agreements or to ascertain or inquire as to the performance by the Company or any such party of any of the covenants or agreements contained therein;
- (q) In no event shall the Trustee be responsible or liable for special, indirect, punitive or consequential loss or damage of any kind whatsoever (including, but not limited to, loss of profit) irrespective of whether the Trustee has been advised of the likelihood of such loss or damage and regardless of the form of action; and
- (r) Delivery of reports, information and documents to the Trustee is for informational purposes only and the Trustee's receipt of such shall not constitute actual or constructive notice of any information contained therein or determinable from information contained therein, including the Company's compliance with any of covenants (as to which the Trustee is entitled to

conclusively rely exclusively on certificates executed by the Company).

SECTION 804. Not Responsible for Recitals or Issuance of bonds. The recitals contained herein and in the bonds (other than the certificate of authentication on such bonds) shall be taken as the statements of the Company, and the Trustee assumes no responsibility for their correctness. The Trustee makes no representations as to the validity or sufficiency of this Indenture or of the bonds. The Trustee shall not be accountable for the use or application by the Company of any of the bonds, of the proceeds of such bonds, or of any moneys paid out under this Indenture. The Trustee is not a party to, and is not responsible for, and makes no representation with respect to matters set forth in any preliminary official statement, official statement, solicitation statement or similar document prepared and distributed in connection with the transactions contemplated in this Indenture.

SECTION 805. Trustee May Own Bonds. The Trustee, in its individual or any other capacity, may become the owner or pledgee of bonds and may otherwise deal with the Company with the same rights it would have if it were not Trustee hereunder.

SECTION 806. Money Held in Trust. Any money held in trust need not be segregated from other funds except to the extent required by law. The Trustee shall be under no liability for interest on any money received by it hereunder.

SECTION 807. Compensation and Expenses of Trustee. (i) The Company shall:

- (a) pay to the Trustee from time-to-time agreed upon compensation for all services rendered by it hereunder, which compensation shall not be limited by any provision of law in regard to the compensation of a trustee of an express trust;
- (b) reimburse the Trustee, in its capacity as such, upon its request for all reasonable out-of-pocket expenses, disbursements and advances incurred or made by the Trustee in connection with this Indenture (including the reasonable compensation and the expenses and disbursements, of its agents and counsel);
- (c) pay, in the event that it should become necessary for the Trustee to perform extraordinary services, to the Trustee additional reasonable compensation therefor and reimbursement for reasonable out-of-pocket extraordinary expenses in connection therewith;
- (d) indemnify the Trustee for, and hold it harmless against, any loss, liability or expense incurred by the Trustee without gross negligence on its part, arising out of or in connection with the

acceptance or administration of this trust and this Indenture, any supplemental indenture and any bonds, including the administration of this Indenture and any supplemental indenture and all related agreements and documentation, including the reasonable out-of-pocket costs and expenses of enforcing this Indenture and defending itself against any claim or liability in connection with the exercise or performance of any of its powers or duties hereunder.

To secure the Company's payment and indemnification obligations under this Indenture, the Trustee shall have a lien prior to the holders on all, or any right to payment of, money or other property held, collected or distributed by or on behalf of the Trustee, \

When the Trustee incurs expenses or renders services after an event of default relating to an insolvency, moratorium or similar event, the expenses and the compensation for the services (including the fees and expenses of its agents and counsel) are intended to constitute expenses of administration under any bankruptcy law.

The obligations of the Company under this Section 807 shall survive the resignation or removal of the Trustee, and the satisfaction and discharge of this Indenture, or rejection or termination under (a) Title eleven (11) of the U.S. Code (as may be amended from time to time), (b) any other law of the United States (or any political subdivision thereof) or Puerto Rico (or any political subdivision thereof), or (c) the laws of any other relevant jurisdiction or any political subdivision thereof relating to bankruptcy, insolvency, receivership, winding up, liquidation, reorganization or relief of debtors, including, without limitation, the Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA).

For the avoidance of doubt, the rights, privileges, protections immunities and benefits given to the Trustee in this Section 807, including the right to be indemnified, are extended to and shall be enforceable by US Bank Trust Company, National Association, in each of its capacities hereunder.

SECTION 808. Corporate Trustee Required; Eligibility. There shall at all times be a Trustee hereunder which shall be a banking corporation, bank or trust company organized and doing business under the laws of the United States of America or of any state, authorized under such laws to exercise corporate trust powers, having a combined capital and surplus of at least Fifty Million Dollars (\$50,000,000), subject to supervision or examination by Federal or State banking Company. If such entity publishes reports of condition at least annually, pursuant to law or to the requirements of the aforesaid supervising or examining Company, then for the purposes of this Section, the combined capital and surplus of such entity shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published.

SECTION 809. Resignation and Removal; Appointment of a Successor. (a) No resignation or removal of the Trustee and no appointment of a successor Trustee pursuant to this Article shall become effective until the acceptance of appointment by the successor Trustee under this Section 809.

(b) The Trustee may resign at any time by giving written notice thereof to the Company. If an instrument of acceptance by a successor Trustee shall not have been delivered to the Trustee within 30 days after the giving of such notice of resignation, the resigning Trustee may petition any court of competent jurisdiction for the appointment of a successor Trustee.

(c) The Trustee may be removed at any time by act of the holders of a majority in principal amount of the outstanding bonds delivered to the Trustee and to the Company.

(d) If at any time:

(i) the Trustee shall cease to be eligible under Section 806 and shall fail to resign after written request therefor by the Company or by any holder of bonds who has been a bona fide holder of a bond for at least six (6) months, or

(ii) the Trustee shall become incapable of acting or shall be adjudged a bankrupt or insolvent or receiver of the Trustee or of its property shall be appointed or any public officer shall take charge or control of the Trustee or of its property or affairs for the purpose of rehabilitation, conservation or liquidation, then, in any such case, (A) the Company by written request may remove the Trustee, or (B) any holder of bonds who has been a bona fide holder of a bond for at least six (6) months may, on behalf of itself and all others similarly situated, petition any court of competent jurisdiction for the removal of the Trustee and the appointment of successor Trustee.

(e) If the Trustee shall resign, be removed or become incapable of acting, or if a vacancy shall occur in the office of Trustee for any cause, the Company shall promptly appoint a successor Trustee; provided, however, that if the Trustee has been removed by the holders of not less than a majority in principal amount of the bonds, the holders of not less than a majority in principal amount of the bonds may appoint a successor Trustee upon notice to the Company, and such appointment shall be binding on the Company and all holders. If, within one year after such resignation, removal or incapability, or the occurrence of such vacancy, a successor Trustee shall be appointed by the vote of the holders of a majority in principal amount of the outstanding bonds delivered to the Company and the retiring Trustee, the

successor Trustee so appointed shall, forthwith upon its acceptance of such appointment, become the successor Trustee and supersede the successor Trustee appointed by the Company. If no successor Trustee shall have been so appointed by the Company or the holders of bonds and accepted appointment in the manner hereinafter provided, any holder of bonds who has been bona fide holder of a bond for at least six (6) months may, on behalf of itself and all others similarly situated, petition any court of competent jurisdiction for the appointment of a successor Trustee.

- (f) The Company shall give notice of each resignation and each removal of the Trustee and each appointment of a successor Trustee by transmitting written notice of such event by first class mail, postage prepaid, to the registered holders of bonds at their addresses as shown in the bond register maintained by the Trustee, in its capacity as bond registrar or, in the case of bonds registered in the name of The Depository Trust Company (“DTC”) or its nominee, in accordance with the procedures of DTC. Each notice shall include the name and address of the designated corporate trust office of the successor Trustee.

SECTION 810. Acceptance of Appointment by Successor. Every successor Trustee appointed hereunder shall execute, acknowledge and deliver to the Company and to the retiring Trustee an instrument accepting such appointment, and thereupon the resignation or removal of the retiring Trustee shall become effective and such successor Trustee, without any further act, deed, or conveyance, shall become vested with all the rights, powers, trusts, and duties of the retiring Trustee; but, on request of the Company or the successor Trustee, such retiring Trustee shall, upon payment of its charges and the amounts due to it hereunder, execute and deliver an instrument transferring to such successor Trustee all the rights, powers, and trusts of the retiring Trustee, and shall duly assign, transfer, and deliver to the successor Trustee all property and money held by such retiring Trustee hereunder. Upon request of any such successor Trustee, the Company shall execute any and all instruments for more fully and certainly vesting in and confirming to such successor Trustee all such rights, powers, and trusts..

No successor Trustee shall accept its appointment unless at the time of such acceptance such successor Trustee shall be qualified and eligible under this Article VIII. The indemnity provided for in Section 807 herein shall continue to be binding upon the Company for the benefit of the retiring or removed Trustee.

SECTION 811. Merger or Consolidation. Any entity into which the Trustee may be merged or with which it may be consolidated, or any entity resulting from any merger or consolidation to which the Trustee shall be a party, or any entity succeeding to all or substantially all of the corporate

trust business of the Trustee, shall be the successor Trustee hereunder, without the execution or filing of any paper or any further act on the part of any of the parties hereto. In case any bonds shall have been authenticated, but not delivered, by the Trustee then in office, any successor by merger or consolidation to such authenticating Trustee may adopt such authentication and deliver the bonds so authenticated with the same effect as if such successor Trustee had itself authenticated such bonds.

ARTICLE IX.

EXECUTION OF INSTRUMENTS BY BONDHOLDERS AND PROOF OF OWNERSHIP OF BONDS.

SECTION 901. Execution of instruments by bondholders. Any request, direction, consent or other instrument in writing required or permitted by this Indenture to be signed or executed by bondholders may be in any number of concurrent instruments of similar tenor and may be signed or executed by such bondholders in person or by agent appointed by an instrument in writing. Proof of the execution of any such instrument and of the ownership of bonds shall be sufficient for any purpose of this Indenture, and shall be conclusive in favor of the Trustee with regard to any action taken by it under such instrument, if made in the following manner:

- (a) The fact and date of the execution by any person of any such instrument may be proved by the verification of any officer in any jurisdiction who, by the laws thereof, has power to take affidavits within such jurisdiction, to the effect that such instrument was subscribed and sworn to before him, or by an affidavit of a witness to such execution, or in any other manner that the Trustee reasonably deems sufficient.
- (b) The fact of the holding of bonds hereunder by any beneficial owner of bonds and the amount and the numbers of such bonds and the date of such beneficial owner's holding the same (unless such bonds be registered in the name of such beneficial owner) may be proved by the affidavit of the person claiming to be such beneficial owner, if such affidavit shall be deemed by the Trustee to be satisfactory, or by a certificate executed by any trust company, bank, banker or any other depository, wherever situated, if such certificate shall be deemed by the Trustee to be satisfactory, showing that at the date therein mentioned such person or such person's broker, on such person's behalf, had on deposit with or exhibited to such trust company, bank, banker or other depository the bonds described in such certificate. The Trustee may conclusively assume that such ownership continues until written notice to the contrary is served upon the Trustee.
- (c) The ownership of bonds shall be proved by the bond registration books of the Company maintained by the Bond Registrar.

Any request or consent of the holder of any bond shall bind every future holder of the same bond in respect of anything done by the Trustee in pursuance of such request or consent.

A holder, including a depository that is the holder of a global note, may make, give or take, by a proxy or proxies duly appointed in writing, any request, demand, authorization, direction, notice, consent, waiver or other action provided by this Indenture to be made, given or taken by holders of any Series, and a depository that is the holder of a global note of any Series may provide its proxy or proxies to the beneficial owners of interests in or security entitlements to any such global note through such depository's standing instructions and customary practices.

ARTICLE X.

SUPPLEMENTAL INDENTURES.

SECTION 1001. Supplemental indentures or agreements by Company and Trustee. The Company and the Trustee may, from time to time and at any time, enter into such indentures or agreements supplemental hereto as shall not be inconsistent with the terms and provisions hereof (which supplemental indentures or agreements shall thereafter form a part hereof),

- (a) to cure any ambiguity or formal defect or omission in this Indenture or in any supplemental indenture, or
- (b) to grant to or confer upon the Trustee for the benefit of the bondholders any additional rights, remedies, powers, authority or security that may lawfully be granted to or conferred upon the bondholders or the Trustee.

SECTION 1002. Modification of Indenture with consent of holders of 2/3rds of bonds. Subject to the terms and provisions contained in this Section, and not otherwise, the holders of not less than two-thirds (2/3) in aggregate principal amount of the bonds then outstanding shall have the right, from time to time, anything contained in this Indenture to the contrary notwithstanding, to consent to and approve the execution by the Company and the Trustee of such supplemental indenture as shall be deemed necessary or desirable by the Company for the purpose of modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained in this Indenture or in any supplemental indenture; provided, however, that nothing herein contained shall permit, or be construed as permitting, (a) an extension of the maturity of the principal of or the interest on any bond issued hereunder, or (b) a reduction in the principal amount of any bond or the redemption premium or the rate of interest thereon, or (c) the creation of a lien upon or a pledge of gross revenues of Trusteed Properties other than any lien and pledge created by or permitted by this Indenture, or (d) a preference or priority of any bond or bonds over any other bond or bonds, or (e) a reduction in the

aggregate principal amount of the bonds required for consent to such supplemental indenture. Nothing herein contained, however, shall be construed as making necessary the approval by bondholders of the execution of any supplemental indenture or agreement as authorized in Section 1001.

If the holders of at least two-thirds (2/3) in aggregate principal amount of the bonds outstanding at the time of the execution of such supplemental indenture shall have consented to and approved the execution thereof, no holder of any bond shall have any right to object to the execution of such supplemental indenture, or to object to any of the terms and provisions contained therein or the operation thereof, or in any manner to question the propriety of the execution thereof, or to enjoin or restrain the Trustee or the Company from executing the same or from taking any action pursuant to the provisions thereof.

Upon the execution of any supplemental indenture pursuant to the provisions of this Section, this Indenture shall be and be deemed modified and amended in accordance therewith, and the respective rights, duties and obligations under this Indenture of the Company, the Trustee and all holders of bonds then outstanding shall thereafter be determined, exercised and enforced hereunder, subject in all respects to such modifications and amendments.

SECTION 1003. Trustee joining in supplemental indenture. The Trustee is authorized to join with the Company in the execution of any such supplemental indenture and to make the further agreements and stipulations which may be contained therein, but the Trustee shall not be obligated to enter into any such supplemental indenture which affects its rights, duties or immunities under this Indenture. Any supplemental indenture executed in accordance with the provisions of this Article shall thereafter form a part of this Indenture; and all the terms and conditions contained in any such supplemental indenture as to any provision authorized to be contained therein shall be and shall be deemed to be part of the terms and conditions of this Indenture for any and all purposes. In case of the execution and delivery of any supplemental indenture, express reference may be made thereto in the text of any bonds issued thereafter, if deemed necessary or desirable by the Trustee.

SECTION 1004. Effect of Supplemental Indenture. Any supplemental indenture executed in accordance with the provisions of this Article shall thereafter form a part of this Indenture; and all the terms and conditions contained in any such supplemental indenture as to any provision authorized to be contained therein shall be and shall be deemed to be part of the terms and conditions of this Indenture for any and all purposes. In case of the execution and delivery of any supplemental indenture, express reference may be made thereto in the text of any bonds issued thereafter, if deemed necessary or desirable by the Company or the Trustee.

After any supplemental indenture becomes effective, the Company shall deliver to the holders a notice briefly describing such supplemental indenture. However, the failure to give such notice to all the holders, or any defect in the notice, will not impair or affect the validity of the supplemental indenture.

SECTION 1005. Supplemental indentures. The Company and the Trustee may, from time to time, without the necessity of obtaining bondholder consent, enter into a supplemental indenture for the purpose of integrating into a single instrument all of the provisions of the Indenture and of any supplemental indentures which are then in effect and operative as a result of having theretofore been approved in accordance with the applicable sections of this Article.

ARTICLE XI.

DEFEASANCE.

SECTION 1101. Release of Indenture. If, when the bonds secured hereby shall have become due and payable in accordance with their terms or otherwise provided in this Indenture or shall have been duly called for redemption or irrevocable instructions to call the bonds for redemption or payment shall have been given by the Company to the Trustee, the whole amount of the principal and the interest and the premium, if any, so due and payable upon all of, the bonds then outstanding shall be paid or sufficient moneys, or Government Obligations or Prerefunded Municipals or Time Deposits, which shall not contain provisions permitting the redemption thereof other than at the option of the holder, the principal of and the interest on which when due, and without any reinvestment thereof, will provide sufficient moneys to pay the bonds in full, shall be held by the Trustee or the Paying Agents for such purpose, and provision shall also be made for paying all other sums payable hereunder by the Company, then and in that case the right, title and interest of the Trustee hereunder shall thereupon cease, determine and become void, and the Trustee in such case, on demand of the Company, shall release this Indenture and shall, at the Company's cost and expense, execute such documents to evidence such release as may be reasonably required by the Company, and shall turn over to the Company or to such officer, board or body as may then be entitled by law to receive the same any surplus in any account in the Sinking Fund; otherwise this Indenture shall be, continue and remain in full force and effect; provided, however, that in the event Government Obligations or Prerefunded Municipals or Time Deposits shall be held by the Trustee as hereinabove provided, (i) in the event said bonds do not mature and are not to be redeemed, within the next succeeding sixty (60) days, in addition to the requirements set forth in Article 3 of this Indenture, the Company shall within thirty (30) days after such obligations shall have been deposited with the Trustee cause a notice by the Company to be distributed to the registered owners of bonds and posted on the EMMA website, (b) a description of the Government Obligations, Prerefunded Municipals or Time Deposits so held

by the Trustee and (c) that this Indenture has been released in accordance with the provisions of this Section and (ii) the Trustee shall nevertheless maintain such rights, power and privileges under this Indenture, as may be necessary and convenient in respect of the bonds for the payment of the principal, interest and any premium for which such Government Obligations or Prerefunded Municipals have been deposited or such Time Deposits have been made. At the Company's request, the Trustee shall distribute such notice and/or post such notice on EMMA.

ARTICLE XII.

MISCELLANEOUS PROVISIONS.

SECTION 1201. Successorship of Company and Paying Agents. In the event of the dissolution of the Company, all of the covenants, stipulations, obligations and agreements contained in this Indenture by or on behalf of or for the benefit of the Company shall bind or inure to the benefit of the successor or successors of the Company from time to time and any officer, board, commission, authority, agency or instrumentality to whom or to which any power or duty affecting such covenants, stipulations, obligations and agreements shall be transferred by or in accordance with law, and the word "Company" as used in this Indenture shall include such successor or successors.

Any bank or trust company with or into which any Paying Agent may be merged or consolidated, or to which all or substantially all of the corporate trust business of such Paying Agent may be sold, shall be deemed the successor of such Paying Agent for the purposes of this Indenture. If the position of any Paying Agent shall become vacant for any reason, the Company shall, within thirty (30) days thereafter, appoint a bank or trust company located in the United States of America or its territories to fill such vacancy; provided, however, that if the Company shall fail to appoint such Paying Agent within said period, the Trustee may, without liability, make such appointment.

SECTION 1202. Disability of officers of Company; designation of new officers to sign documents. In the event that any of the officers of the Company designated by this Indenture to sign bonds, certificates or other instruments are at any time unable to do so by reason of absence or disability, such bonds, certificates or other instruments shall be signed by such other officer or officers of the Company as are designated in writing for such purpose by the Economic Development Administrator.

SECTION 1203. Evidence of compliance with conditions precedent; certificates and opinions of counsel to be given to Trustee. Upon any application or demand by the Company to the Trustee to take any action under any of the provisions of this Indenture, the Trustee shall be entitled to receive: (a) a certificate from the Executive Director in form reasonably satisfactory to the Trustee stating that, in the opinion of the signer, all conditions precedent (including any covenants, compliance with which

constitutes a condition precedent), if any, provided for in this Indenture relating to the proposed action have been complied with; and (b) an Opinion of Counsel in form reasonably satisfactory to the Trustee stating that, in the opinion of such counsel, all such conditions precedent (including any covenants, compliance with which constitutes a condition precedent), if any, have been complied with.

Each certificate of the Executive Director and Opinion of Counsel provided for, by or on behalf of the Company in this Indenture and delivered to the Trustee with respect to compliance with this Indenture shall include (a) a statement that the person signing such certificate or opinion is familiar with the requested action and this Indenture; (b) a brief statement as to the nature and scope of the examination or investigation upon which the statement contained in such certificate or opinion is based; (c) a statement that, in the judgment of such person, he or she has made such examination or investigation as is necessary to enable him or her to express an informed judgment as to whether or not such action is permitted by this Indenture and as to whether all conditions precedent (including any covenants, compliance with which constitutes a condition precedent), if any, provided for in this Indenture relating to the proposed action have been complied with; and (d) a statement as to whether or not, in the judgment of such person, such action is permitted by this Indenture and all such conditions precedent (including any covenants, compliance with which constitutes a condition precedent), if any, have been complied with.

SECTION 1205. Manner of giving notice, etc. Any notice, demand, communication, direction, request or other instrument authorized or required by this Indenture to be given to or filed with the Company or the Trustee shall be deemed to have been sufficiently given or filed for all purposes of this Indenture if and when sent by registered mail, return receipt requested:

- a) to the Company, if addressed to Puerto Rico Industrial Development Company, San Juan, Puerto Rico; and
- b) to the Trustee or to any successor Trustee, if addressed to it at its Corporate Trust Office.

In any case where the Indenture provides for notice or communication to the bondholders, such notice or communication shall be sufficiently given (unless otherwise herein expressly provided) if sent in writing and mailed, first-class postage prepaid or by nationally recognized courier, to each bondholder affected by such event at its address as it appears in the bond registration books of the Company maintained by the Bond Registrar, not later than the latest date, and not earlier than the earliest date, prescribed (if any) for the giving of such notice or communication. In any case where notice or communication to any bondholder is given by mail, neither the failure to mail such notice or communication, nor any defect in any notice or communication so mailed, to any particular bondholder shall affect the sufficiency of such notice or communication with respect to other

bondholders, and any notice or communication which is mailed in the manner herein provided shall be conclusively presumed to have been duly given. In any case where the Indenture provides for notice in any manner, such notice may be waived in writing by any person entitled to receive such notice, either before or after the event, and such waiver shall be the equivalent of such notice. Waivers of notice by the bondholders shall be filed with the Trustee, but such filing shall not be a condition precedent to the validity of any action taken in reliance upon such waiver. Notwithstanding anything herein to the contrary, while the bonds are registered in the name of DTC or its nominee, all notices shall be furnished to DTC in accordance with its applicable procedures.

All notices, demands, communications, directions, requests or other instruments shall be in writing, in the English language.

SECTION 1206. Parties and bondholders alone have rights under Indenture. Except as herein otherwise expressly provided, nothing in this Indenture expressed or implied is intended or shall be construed to confer upon any person, firm or corporation other than the parties hereto and the holders of the bonds issued under and secured by this Indenture any right, remedy or claim, legal or equitable, under or by reason of this Indenture or any provision hereof, this Indenture and all its provisions being intended to be and being for the sole and exclusive benefit of the parties hereto and the holders from time to time of the bonds issued hereunder.

SECTION 1207. Effect of partial invalidity. In case any one or more of the provisions of this Indenture or of the bonds issued hereunder shall for any reason be held to be illegal or invalid, such illegality or invalidity shall not affect any other provision of this Indenture or of said bonds, but this Indenture and said bonds shall be construed and enforced as if such illegal or invalid provision had not been contained therein. In case any covenant, stipulation, obligation or agreement contained in the bonds or in this Indenture shall for any reason be held to be in violation of law, then such covenant, stipulation, obligation or agreement shall be deemed to be the covenant, stipulation, obligation or agreement of the Company to the full extent permitted by law.

SECTION 1208. Effect of covenants, etc. All covenants, stipulations, obligations and agreements of the Company contained in this Indenture shall be deemed to be covenants, stipulations, obligations and agreements of the Company to the full extent authorized by the Enabling Act and permitted by the Constitution and laws of Puerto Rico. No covenant, stipulation, obligation or agreement contained herein shall be deemed to be a covenant, stipulation, obligation or agreement of any present or future member, officer, agent or employee of the Company in his individual capacity, and neither the members of the Company nor any official executing the bonds shall be liable personally on the bonds or be subject to any personal liability or accountability by reason of the issuance

thereof. This Indenture is executed with the intent that the laws of the Commonwealth of Puerto Rico shall govern its construction.

SECTION 1209. Multiple counterparts; electronic signatures. This Indenture may be executed in multiple counterparts, each of which shall be regarded for all counterparts purposes as an original; and such counterparts shall constitute but one and the same instrument. The words “execution,” “signed,” “signature,” and words of like import in the Indenture or in any certificate, agreement or document related to the Indenture shall include electronic signatures (including, without limitation, DocuSign and Adobe Acrobat Sign). The use of electronic signatures and electronic records (including, without limitation, any contract or other record created, generated, sent, communicated, received, or stored by electronic means) shall be of the same legal effect, validity and enforceability as a manually executed signature or use of a paper-based record-keeping system to the fullest extent permitted by applicable law, including the U.S. Federal Electronic Signatures in Global and National Commerce Act, and any other applicable law, including, without limitation, any state or Commonwealth of Puerto Rico law based on the Uniform Electronic Transactions Act or the Uniform Commercial Code.

SECTION 1210. Regulatory Compliance. The Company acknowledges that in accordance with the U.S.A. PATRIOT Act, the Trustee, like all financial institutions and in order to help fight the funding of terrorism and money laundering, is required to obtain, verify and record information that identifies each person or legal entity that establishes a relationship or opens an account with the Trustee. The parties to this Indenture agree that they will provide the Trustee with such information as it may request in order for the Trustee to satisfy the requirements of the U.S.A. PATRIOT Act, as amended from time to time. The parties to this Indenture further agree to provide the Trustee with such documentation and information as it may request in order for the Trustee to comply with the Bank Secrecy Act, as amended from time to time.

SECTION 1211. Headings, etc. not part of Indenture. Any headings preceding the texts of the several articles hereof, and any table of contents or marginal notes herein contained, shall be solely for convenience of reference and shall not constitute a part of this Indenture, nor shall they affect its meaning, construction or effect.

IN WITNESS WHEREOF, the Puerto Rico Industrial Development Company has caused this Indenture to be executed by its Executive Director and its official seal to be impressed hereon and attested by its Secretary, and U.S. Bank Trust Company, National Association has caused this Indenture to be executed in its behalf by one of its [Vice Presidents], all as of the day and year first above written.

PUERTO RICO INDUSTRIAL DEVELOPMENT
COMPANY

By /s/ _____
Executive Director

Attest:

/s/ _____
Secretary

U.S. BANK TRUST COMPANY, NATIONAL
ASSOCIATION

By /s/ _____
[Vice President]

STATE OF NEW YORK

ss.:

COUNTY OF NEW YORK

On the [] day of [] in the year 2023, before me personally came [], to me known, who, being by me duly sworn, did depose and say that [s]/he resides at [], [San Juan, Puerto Rico]; that he is the Executive Director of the Puerto Rico Industrial Development Company, the body corporate and politic described in and which executed the above instrument; that he knows the seal thereof; that the seal affixed to said instrument is the corporate seal of the Puerto Rico Industrial Development Company; that it was so affixed by order of said Company; and that he signed his name thereto by like order.

Notary Public

STATE OF NEW YORK

ss.:

COUNTY OF NEW YORK

On this [] day of [], in the year 2023, before me personally came [], to me known, who, being by me duly sworn, did depose and say that he resides at [] that s/he is [a Vice President] of U.S. Bank Trust Company, National Association, the banking corporation described in and which executed the above instrument; and that s/he has signed his/her name thereto by authority of the Board of Directors of said entity.

(SEAL)

/s/

Schedule 1

List of Trusteed Properties

PRIDCO

Trusted Properties

Proj Num	Lot Num	Location
T146609002	L413086010	Morovis
T146609001	L413086010	Morovis
T146509000	L374078130	Sabana Grande
T146309000	L087168110	Salinas
T146209000	L087168060	Salinas
T146109000	L418087020	Lajas
T146009000	L418087030	Lajas
T145809000	L141381030	Guanica
T145709000	L243377180	Naguabo
T145209000	L238061030	Aibonito
T144308900	L141381070	Guanica
T143908901	L306066240	Ponce
T143808900	L306066190	Ponce
T143408800	L214060100	Mayaguez
T142708800	L242162080	Yabucoa
T142208800	L221169071	Arroyo
T142008800	L279272470	Aguadilla
T141808700	L314067020	Maricao
T141508700	L076166120	Santa Isabel
T141408701	L140578230	Humacao
T141308700	L140578210	Humacao
T140708700	L164063290	Canovanas
T140608700	L065169430	Arecibo
T139408602	L357074090	Trujillo Alto
T139508600	L350072160	Arecibo
T139408601	L357074090	Trujillo Alto
T139308600	L147273070	Loiza
T138708600	L306172260	Ponce
T138608600	L164063200	Canovanas
T138508600	L307066200	Caguas
T137608500	L374078120	Sabana Grande
T137508500	L076166060	Santa Isabel
T136018800	L262063010	Villalba
T136008400	L262063010	Villalba
T135508300	L164063250	Canovanas
T135008301	L147273040	Loiza
T134708302	L318067010	Vieques
T134708301	L318067010	Vieques
T134608300	L020366200	Rio Grande

Proj Num	Lot Num	Location
T134508300	L306066210	Ponce
T132808100	L303066050	Juncos
T132308000	L065169340	Arecibo
T132208000	L107264110	Dorado
T132018600	L356074010	Manati
T132008000	L356074010	Manati
T131908000	L307066230	Caguas
T131808000	L308066050	Ceiba
T131608000	L076166140	Santa Isabel
T131508000	L076166100	Santa Isabel
T131408000	L356074020	Manati
T131108000	L087168100	Salinas
T130808000	L375078010	Patillas
T130708000	L242061070	Yabucoa
T130408000	L102267130	Isabela
T130308000	L154369190	Anasco
T129708000	L209165080	Lajas
T129308000	L154369180	Anasco
T129108000	L087168070	Salinas
T128908000	L085261160	Luquillo
T128718100	L102267110	Isabela
T128708000	L102267110	Isabela
T128608000	L122164080	Cabo Rojo
T128508000	L279272390	Aguadilla
T128408000	L221060030	Arroyo
T127908000	L065169320	Arecibo
T127808000	L154369060	Anasco
T126707900	L076166160	Santa Isabel
T126607900	L306066010	Ponce
T126418000	L311067010	Moca
T126407900	L311067010	Moca
T126107900	L169059010	Camuy
T126007900	L147273050	Loiza
T125518300	L065169440	Arecibo
T125507900	L065169440	Arecibo
T125048800	L154369010	Anasco
T125038700	L154369010	Anasco
T125018200	L154369010	Anasco
T125007900	L154369010	Anasco
T123807800	L279272410	Aguadilla
T123707800	L350072070	Arecibo
T122407700	L076166080	Santa Isabel
T122218000	L167059050	Coamo

Proj Num	Lot Num	Location
T122207800	L167059050	Coamo
T114907400	L223168030	Florida
T114817900	L167059020	Coamo
T114807400	L167059020	Coamo
T114518000	L065169400	Arecibo
T114507400	L065169400	Arecibo
T112607400	L085261070	Luquillo
T112517900	L107264150	Dorado
T112507300	L107264150	Dorado
T112407300	L130161740	Mayaguez
T112307300	L191059040	Canovanas
T112007300	L130161520	Mayaguez
T111307300	L085261130	Luquillo
T111017500	L141266070	Guanica
T111007300	L141266070	Guanica
T110817900	L221169080	Arroyo
T110807300	L221169080	Arroyo
T110707300	L265167040	San Sebastian
T110618900	L265167020	San Sebastian
T110607300	L265167020	San Sebastian
T110207900	L221169090	Arroyo
T110117900	L065169410	Arecibo
T110107300	L065169410	Arecibo
T110017400	L164063130	Canovanas
T109617700	L238061010	Aibonito
T109607300	L238061010	Aibonito
T109517700	L159161100	Fajardo
T109507300	L159161100	Fajardo
T109307300	L096268220	Vega Baja
T109207300	L108057040	Catano
T109117500	L243270100	Naguabo
T109107300	L243270100	Naguabo
T108607300	L065169350	Arecibo
T108507300	L065169310	Arecibo
T108207300	L076166070	Santa Isabel
T108107300	L076166090	Santa Isabel
T107707300	L130161760	Mayaguez
T107617300	L335070090	San Lorenzo
T107607000	L335070090	San Lorenzo
T107507200	L297065040	Camuy
T106807000	L279064080	Aguadilla
T106707000	L279064060	Aguadilla
T105407400	L249062060	Lares

Proj Num	Lot Num	Location
T105307300	L107264080	Dorado
T104407300	L165058040	Guayama
T104307000	L159058062	Fajardo
T103507000	L020366130	Rio Grande
T102907000	L276064030	Quebradillas
T102618000	L284165030	Orocovis
T102607000	L284165030	Orocovis
T102307100	L130161690	Mayaguez
T102007000	L167059030	Coamo
T101917200	L297065010	Camuy
T101907000	L297065010	Camuy
T101418800	L253164060	Aguada
T101407000	L253164060	Aguada
T101018800	L075162090	Juana Diaz
T101007000	L075162090	Juana Diaz
T100917200	L080057220	Ponce
T100907000	L080057220	Ponce
T100407000	L130161730	Mayaguez
T100307000	L130161700	Mayaguez
T099717900	L167059060	Coamo
T099707000	L167059060	Coamo
T099607000	L297065050	Camuy
T099407000	L154262080	Anasco
T098817700	L262063030	Villalba
T098807000	L262063030	Villalba
T098517300	L209165070	Lajas
T098507000	L209165070	Lajas
T098218000	L253277080	Aguada
T098207000	L253277080	Aguada
T098007000	L065056230	Arecibo
T095607000	L308066030	Ceiba
T095407000	L276064020	Quebradillas
T095307000	L024161120	Gurabo
T094617700	L198163040	Sabana Grande
T094606900	L198163040	Sabana Grande
T094117300	L130161710	Mayaguez
T094106800	L130161710	Mayaguez
T093906800	L130161600	Mayaguez
T093606800	L065056250	Arecibo
T093506800	L242162100	Yabucoa
T093406800	L076166040	Santa Isabel
T093206800	L279064140	Aguadilla
T093106800	L075162080	Juana Diaz

Proj Num	Lot Num	Location
T092606700	L003157980	Bayamon
T091106700	L306066010	Ponce
T091006700	L306066010	Ponce
T090918000	L194060090	Ponce
T090906700	L194060090	Ponce
T090606800	L320068010	Comerio
T089906700	L009053081	Cayey
T089706800	L297065020	Camuy
T089506700	L203162060	Utuaado
T089406700	L203162070	Utuaado
T088906700	L165058060	Guayama
T088306700	L204162050	Hatillo
T088206700	L065056020	Arecibo
T087606700	L090057020	Salinas
T086606700	L049157072	San German
T086506700	L283064010	Maunabo
T086406900	L130058330	Mayaguez
T086306900	L191059080	Canovanas
T086117200	L297065010	Camuy
T085906700	L065056200	Arecibo
T085806700	L279064040	Aguadilla
T085506700	L276064040	Quebradillas
T085117300	L009053090	Cayey
T085106700	L009053090	Cayey
T085006800	L065056300	Arecibo
T084906800	L318067070	Vieques
T084806700	L314067010	Maricao
T084718000	L084057081	Manati
T084706700	L084057081	Manati
T084006700	L124058060	Comerio
T082617700	L148058020	Villalba
T082606700	L148058020	Villalba
T082517100	L065056240	Arecibo
T082506700	L065056240	Arecibo
T082118400	L167059040	Coamo
T082106800	L167059040	Coamo
T082017300	L167059050	Coamo
T082006900	L167059050	Coamo
T081706700	L198163020	Sabana Grande
T081406700	L275064010	Jayuya
T081306700	L284165020	Orocovis
T081206800	L080057150	Ponce
T081106700	L218163060	Morovis

Proj Num	Lot Num	Location
T081006800	L154262070	Anasco
T080906700	L259063010	Adjuntas
T080706900	L130161530	Mayaguez
T079806600	L140265180	Humacao
T079716900	L204162040	Hatillo
T079706700	L204162040	Hatillo
T079616700	L253062020	Aguada
T079606700	L253062020	Aguada
T079116800	L140265170	Humacao
T079106600	L140265170	Humacao
T078906600	L153058010	Corozal
T078816700	L209060030	Lajas
T078806600	L209060030	Lajas
T078617200	L130058410	Mayaguez
T078606600	L130058410	Mayaguez
T078316900	L087057050	Salinas
T078306600	L087057050	Salinas
T078206600	L024054070	Gurabo
T077906600	L027054090	Ponce
T077806600	L049157081	San German
T077638900	L154262090	Anasco
T077627400	L154262090	Anasco
T077616900	L154262090	Anasco
T077606600	L154262090	Anasco
T077506600	L075162050	Juana Diaz
T077216700	L216060050	Aguadilla
T077206600	L216060050	Aguadilla
T076916700	L252062010	Moca
T076906700	L252062010	Moca
T076706600	L037054020	Santa Isabel
T076618700	L169059030	Camuy
T076606600	L169059030	Camuy
T076406600	L003157750	Bayamon
T076106700	L215163090	Las Piedras
T075017402	L279064030	Aguadilla
T074906600	L102162070	Isabela
T074706600	L130058510	Mayaguez
T072806701	L223060020	Florida
T070606500	L211060020	Hormigueros
T070428900	L263063010	Aguas Buenas
T070417400	L263063010	Aguas Buenas
T070406500	L263063010	Aguas Buenas
T068717500	L154058050	Anasco

Proj Num	Lot Num	Location
T068706400	L154058050	Anasco
T067606400	L243061030	Naguabo
T067306400	L247061010	Maricao
T066516600	L253062010	Aguada
T066506400	L253062010	Aguada
T066417100	L065056040	Arecibo
T066406400	L065056040	Arecibo
T066106600	L211060040	Hormigueros
T065216700	L224162050	Barranquitas
T065206400	L224162050	Barranquitas
T064106400	L028054300	Carolina
T063816700	L107161030	Dorado
T063806600	L107161030	Dorado
T063516600	L206060030	Vega Alta
T063506400	L206060030	Vega Alta
T063406000	L130058430	Mayaguez
T063306400	L165058050	Guayama
T061728700	L220060060	Barceloneta
T061716600	L220060060	Barceloneta
T061706300	L220060060	Barceloneta
T060906300	L165058030	Guayama
T060806300	L224060070	Barranquitas
T060616900	L274063020	Cidra
T060606600	L274063020	Cidra
T058706200	L027054070	Ponce
T058206200	L080057060	Ponce
T058028100	L252062020	Moca
T058017800	L252062020	Moca
T058006400	L252062020	Moca
T057817900	L010159070	Juncos
T057806300	L010159070	Juncos
T057706200	L241061010	Jayuya
T057626700	L102057010	Isabela
T057616400	L102057010	Isabela
T057606200	L102057010	Isabela
T052506000	L144058020	Ceiba
T052306000	L102057020	Isabela
T050916900	L231061030	Mayaguez
T050906100	L231061030	Mayaguez
T050718800	L148058010	Villalba
T050705800	L148058010	Villalba
T050516400	L206060010	Vega Alta
T050506100	L206060010	Vega Alta

Proj Num	Lot Num	Location
T050305800	L082057040	Toa Alta
T050205800	L076056020	Santa Isabel
T049015800	L080057110	Ponce
T049005800	L080057110	Ponce
T048706200	L213060020	Penuelas
T048626800	L209060010	Lajas
T048616800	L209060010	Lajas
T048605800	L209060010	Lajas
T048405800	L162058010	Naguabo
T048316400	L218163030	Morovis
T048305800	L218163030	Morovis
T048216300	L140058070	Humacao
T048205800	L140058070	Humacao
T047905800	L130058350	Mayaguez
T047216600	L223060010	Florida
T047205800	L223060010	Florida
T046827700	L204060030	Hatillo
T046816800	L204060030	Hatillo
T046805800	L204060030	Hatillo
T046518400	L145058021	Adjuntas
T046506100	L145058021	Adjuntas
T046205800	L165058020	Guayama
T045505800	L124058010	Comerio
T045416700	L163058010	Cidra
T045406100	L163058010	Cidra
T045326500	L198060050	Sabana Grande
T045316200	L198060050	Sabana Grande
T045305800	L198060050	Sabana Grande
T045005802	L066056010	Carolina
T045005801	L066056010	Carolina
T044805800	L169059010	Camuy
T044616200	L017155210	Caguas
T044605800	L017155210	Caguas
T044116500	L224060070	Barranquitas
T044105800	L224060070	Barranquitas
T044026600	L114057010	Barceloneta
T043605800	L140058020	Humacao
T041905700	L027054040	Ponce
T040105700	L130058310	Mayaguez
T037106100	L080057020	Ponce
T036905600	L042054010	Yabucoa
T036716000	L934056010	Naranjito
T036705600	L934056010	Naranjito

Proj Num	Lot Num	Location
T036117900	L958055010	Arroyo
T036105600	L958055010	Arroyo
T035816500	L102057030	Isabela
T035805600	L102057030	Isabela
T035306300	L233061010	Trujillo Alto
T034305600	L049055030	San German
T033505600	L031052011	Mayaguez
T033405600	L031052021	Mayaguez
T033016900	L147058010	Loiza
T033005600	L147058010	Loiza
T032805600	L075058010	Juana Diaz
T032505600	L024054030	Gurabo
T030737600	L017054080	Caguas
T030727300	L017054080	Caguas
T030716300	L017054080	Caguas
T030705600	L017054080	Caguas
T030336400	L065056150	Arecibo
T030326100	L065056150	Arecibo
T030315800	L065056150	Arecibo
T030305600	L065056150	Arecibo
T030205600	L065056140	Arecibo
T030117300	L065056090	Arecibo
T030105600	L065056090	Arecibo
T026105400	L049055020	San German
T022105400	L076056010	Santa Isabel
T021805400	L020054020	Rio Grande
T021536300	L111057010	Quebradillas
T021526200	L111057010	Quebradillas
T021515700	L111057010	Quebradillas
T021505400	L111057010	Quebradillas
T021305400	L213060010	Penuelas
T021036400	L218163020	Morovis
T021026100	L218163020	Morovis
T021016100	L218163020	Morovis
T021005400	L218163020	Morovis
T020805400	L304066010	Maunabo
T020305400	L924057010	Las Marias
T019905400	L241061010	Jayuya
T019705400	L919054010	Hatillo
T019005400	L144058010	Ceiba
T018505400	L958157020	Arroyo
T018405400	L065056010	Arecibo
T018305400	L904054010	Anasco

Proj Num	Lot Num	Location
T018116900	L145058010	Adjuntas
T018105400	L145058010	Adjuntas
T017205300	L317053010	Coamo
T017116800	L317053020	Coamo
T017105200	L317053020	Coamo
T013316600	L153058040	Corozal
T013305200	L153058040	Corozal
T013005200	L024054080	Gurabo
T012605200	L297153010	Camuy
T012205200	L114057030	Barceloneta
T009705200	L248062010	Yauco
T009615800	L096057020	Vega Baja
T008216100	L140058010	Humacao
T008205300	L140058010	Humacao
T007705200	L112057010	Caguas
T006605100	L096057010	Vega Baja
T006305100	L226152011	Salinas
T005818800	L317053050	Coamo
T005805100	L317053050	Coamo
S147109100	L279064100	Aguadilla
S143708800	L214060021	Mayaguez
S143308800	L224469010	Barranquitas
S140408700	L049252130	San German
S138308600	L175059040	Vieques
S137218800	L154483200	Anasco
S137208500	L154483200	Anasco
S137108500	L206172190	Vega Alta
S136908500	L307066020	Caguas
S136808500	L154369080	Anasco
S134408300	L130058070	Mayaguez
S133508100	L206060020	Vega Alta
S133408100	L307066210	Caguas
S133308100	L335070100	San Lorenzo
S133208200	L082160110	Toa Alta
S131208000	L159277150	Fajardo
S130108000	L198163030	Sabana Grande
S129918600	L374078160	Sabana Grande
S129908000	L374078160	Sabana Grande
S129608000	L096268320	Vega Baja
S128808000	L009053080	Cayey
S125607900	L279064120	Aguadilla
S125107900	L238061021	Aibonito
S124907900	L243270090	Naguabo

Proj Num	Lot Num	Location
S124707900	L076166130	Santa Isabel
S124307900	L020366102	Rio Grande
S123528800	L154369010	Anasco
S123518700	L154369010	Anasco
S123507800	L154369010	Anasco
S121228500	L154369110	Anasco
S117607500	L241171020	Jayuya
S116618000	L107264120	Dorado
S116607400	L107264120	Dorado
S114207400	L217371120	Toa Baja
S113207400	L209060020	Lajas
S111607300	L080164300	Ponce
S108707400	L349072010	Maricao
S108007300	L241061010	Jayuya
S105607000	L130058060	Mayaguez
S105507000	L130058050	Mayaguez
S103928900	L028054270	Carolina
S103917900	L028054270	Carolina
S103907100	L028054270	Carolina
S101218000	L080057230	Ponce
S101207000	L080057230	Ponce
S097506900	L233061030	Trujillo Alto
S096917900	L102267200	Isabela
S096906800	L102267200	Isabela
S096306800	L020366101	Rio Grande
S092206700	L279064020	Aguadilla
S092106800	L096057080	Vega Baja
S091817000	L028054290	Carolina
S091806800	L028054290	Carolina
S084106700	L102162050	Isabela
S083606700	L130058440	Mayaguez
S083406700	L140161110	Humacao
S083237700	L072159020	Aibonito
S083226800	L072159020	Aibonito
S083216700	L072159020	Aibonito
S083206700	L072159020	Aibonito
S082906600	L140161130	Humacao
S082706600	L224365060	Barranquitas
S079406700	L020258090	Rio Grande
S079306600	L140265160	Humacao
S077306601	L021054600	San Juan
S075606600	L124058020	Comerio
S074106600	L295065030	Arroyo

Proj Num	Lot Num	Location
S074006600	L295065030	Arroyo
S073906500	L295065030	Arroyo
S073806600	L298065010	Cabo Rojo
S073617300	L130058400	Mayaguez
S073606600	L130058400	Mayaguez
S073306600	L019162080	San Lorenzo
S073206600	L112057070	Caguas
S073106500	L295065030	Arroyo
S072906500	L050055080	Ponce
S072716900	L284064010	Orocovis
S072706500	L284064010	Orocovis
S071717300	L019162100	San Lorenzo
S071706500	L019162100	San Lorenzo
S071406500	L282064011	Las Marias
S069916500	L065056070	Arecibo
S069906400	L065056070	Arecibo
S069806400	L282064010	Las Marias
S069217000	L215060030	Las Piedras
S069206400	L215060030	Las Piedras
S068906400	L242061060	Yabucoa
S064718000	L147058020	Loiza
S064706400	L147058020	Loiza
S064606400	L028054260	Carolina
S062806300	L163058030	Cidra
S060216600	L231061010	Mayaguez
S060206300	L231061010	Mayaguez
S059906202	L124058080	Comerio
S059906201	L124058080	Comerio
S056906200	L249062090	Lares
S056806204	L080057040	Ponce
S056806203	L080057040	Ponce
S056806202	L080057040	Ponce
S056806201	L080057040	Ponce
S056506204	L231061020	Mayaguez
S056506203	L231061020	Mayaguez
S056506202	L231061020	Mayaguez
S056506201	L231061020	Mayaguez
S055806100	L080057090	Ponce
S055206000	L144160030	Ceiba
S054106000	L212060010	Ciales
S053527600	L167059010	Coamo
S053516600	L167059010	Coamo
S053506000	L167059010	Coamo

Proj Num	Lot Num	Location
S041505700	L094057010	Aguas Buenas
S041005700	L297153020	Camuy
S037726600	L153058030	Corozal
S037716200	L153058030	Corozal
S037705600	L153058030	Corozal
S037605600	L090057010	Salinas
S033705600	L130058340	Mayaguez
S026516400	L017054060	Caguas
S026505500	L017054060	Caguas
S024116200	L037054010	Santa Isabel
S024105400	L037054010	Santa Isabel
S022826300	L935055010	Orocovis
S022815900	L935055010	Orocovis
S022805400	L935055010	Orocovis
S017405300	L292065030	Vega Alta
S017005300	L248062020	Yauco
S016817100	L317053030	Coamo
S016805300	L317053030	Coamo
S016205300	L226152010	Salinas
S016105300	L140058050	Humacao
S011305200	L049055120	San German
S004005000	L913051010	Ciales
S003826300	L285064020	Villalba
S003516200	L900050011	Aguadilla
S003505000	L900050011	Aguadilla
S000954600	L051055060	Ponce
S000914602	L051055050	Ponce
S000914601	L051055050	Ponce
M146709001	L357074150	Trujillo Alto
M145509001	L164063360	Canovanas
M144808904	L306066180	Ponce
M144808903	L306066180	Ponce
M144808902	L306066180	Ponce
M144808901	L306066180	Ponce
M144608901	L003157780	Bayamon
M144008901	L140578260	Humacao
M141208704	L331068170	Guaynabo
M141208703	L331068170	Guaynabo
M141208702	L331068170	Guaynabo
M141208701	L331068170	Guaynabo
M138408604	L307066240	Caguas
M138408603	L307066240	Caguas
M138408602	L307066240	Caguas

Proj Num	Lot Num	Location
M138408601	L307066240	Caguas
M138108600	L406086010	Penuelas
M138008604	L306066070	Ponce
M138008603	L306066070	Ponce
M138008602	L306066070	Ponce
M138008601	L306066070	Ponce
M137908601	L357074110	Trujillo Alto
M137708601	L374078140	Sabana Grande
M130608004	L080164260	Ponce
M130608003	L080164260	Ponce
M130608002	L080164260	Ponce
M130608001	L080164260	Ponce
M125207901	L003157800	Bayamon
M124807901	L164063270	Canovanas
M124207901	L308066040	Ceiba
M121607704	L306066060	Ponce
M121607703	L306066060	Ponce
M121607702	L306066060	Ponce
M121607701	L306066060	Ponce
M120607704	L075162060	Juana Diaz
M120607703	L075162060	Juana Diaz
M120607702	L075162060	Juana Diaz
M120607701	L075162060	Juana Diaz
M119707701	L279170300	Aguadilla
M118907701	L003157790	Bayamon
M118307708	L335070050	San Lorenzo
M118307707	L335070050	San Lorenzo
M118307706	L335070050	San Lorenzo
M118307705	L335070050	San Lorenzo
M118307704	L335070050	San Lorenzo
M118307702	L335070050	San Lorenzo
M118307701	L335070050	San Lorenzo
M115707404	L096268330	Vega Baja
M115707403	L096268330	Vega Baja
M115707402	L096268330	Vega Baja
M115707401	L096268330	Vega Baja
M113907403	L003157480	Bayamon
M113907402	L003157480	Bayamon
M113907401	L003157480	Bayamon
M113907404	L003157480	Bayamon
M111807301	L108057140	Catano
M111707301	L307066400	Caguas
M109907301	L108057180	Catano

Proj Num	Lot Num	Location
M109707301	L003157104	Bayamon
M109007301	L164063090	Canovanas
M108807301	L003157990	Bayamon
M106607006	L108057190	Catano
M104707104	L021054590	San Juan
M104707103	L021054590	San Juan
M104707102	L021054590	San Juan
M104707101	L021054590	San Juan
M102507001	L130161750	Mayaguez
M096007001	L003157830	Bayamon
M095907001	L003157820	Bayamon
M094506801	L233061040	Trujillo Alto
M094407001	L191059020	Canovanas
M092807001	L003157840	Bayamon
M090206804	L302065020	San Lorenzo
M090206803	L302065020	San Lorenzo
M082406702	L066056070	Carolina
M082406701	L066056070	Carolina
M082406704	L066056070	Carolina
M080406703	L017155182	Caguas
M080406702	L017155182	Caguas
M080406701	L017155182	Caguas
M080206704	L130058470	Mayaguez
M080206703	L130058470	Mayaguez
M080206702	L130058470	Mayaguez
M080206701	L130058470	Mayaguez
M080106701	L003157740	Bayamon
M079506601	L066056080	Carolina
M079006601	L003157710	Bayamon
M076306602	L066056050	Carolina
M076306601	L066056050	Carolina
M076306604	L066056050	Carolina
M075506503	L003157530	Bayamon
M075506602	L003157530	Bayamon
M075506601	L003157530	Bayamon
M075506504	L003157530	Bayamon
M075406604	L028054360	Carolina
M075406602	L028054360	Carolina
M072106503	L066056060	Carolina
M072106502	L066056060	Carolina
M068306421	L021054460	San Juan
M068306401	L021054460	San Juan
M068217101	L019162090	San Lorenzo

Proj Num	Lot Num	Location
M068206403	L019162090	San Lorenzo
M068206402	L019162090	San Lorenzo
M068206401	L019162090	San Lorenzo
M065506403	L003157520	Bayamon
M065506402	L003157520	Bayamon
M065506401	L003157520	Bayamon
M065306403	L017155172	Caguas
M065306402	L017155172	Caguas
M064806401	L003157760	Bayamon
M062406303	L028054190	Carolina
M062406302	L028054190	Carolina
M062406301	L028054190	Carolina
M060306303	L065056050	Arecibo
M060306302	L065056050	Arecibo
M060306301	L065056050	Arecibo
M006205104	L050055100	Ponce
M006205102	L050055100	Ponce
M006205101	L050055100	Ponce
T052516800	L144058020	Ceiba
T095618800	L308066030	Ceiba
S069816400	L282064010	Las Marias
S091606800	L215163040	Las Piedras
S091616800	L215163040	Las Piedras
T057716700	L241061010	Jayuya
S108017500	L241061010	Jayuya
S055216800	L144160030	Ceiba
T067317200	L247061010	Maricao
T048716700	L213060020	Penuelas
T048727400	L213060020	Penuelas
T125058800	L154369010	Anasco
T125028400	L154369010	Anasco
S053346800	L065056170	Arecibo
M119707702	L279170300	Aguadilla
M119707703	L279170300	Aguadilla
M119707704	L279170300	Aguadilla
M119707705	L279170300	Aguadilla
T108617400	L065169350	Arecibo
T044016302	L114057010	Barceloneta
S073816600	L298065010	Cabo Rojo
T007716600	L112057010	Caguas
T007737300	L112057010	Caguas
M114007401	L307066370	Caguas
M114007403	L307066370	Caguas

Proj Num	Lot Num	Location
M114007404	L307066370	Caguas
M114007405	L307066370	Caguas
M139808602	L307066390	Caguas
M139808603	L307066390	Caguas
M139808604	L307066390	Caguas
M111707302	L307066400	Caguas
M111707303	L307066400	Caguas
M111707304	L307066400	Caguas
T044816400	L169059010	Camuy
T044826600	L169059010	Camuy
T099617300	L297065050	Camuy
M109007304	L164063090	Canovanas
M144708903	L164063260	Canovanas
M144708904	L164063260	Canovanas
M124807902	L164063270	Canovanas
M124807903	L164063270	Canovanas
M124807904	L164063270	Canovanas
M145509003	L164063360	Canovanas
M145509004	L164063360	Canovanas
T087307002	L191059010	Canovanas
M094407003	L191059020	Canovanas
M094407004	L191059020	Canovanas
M080006701	L003051170	Bayamon
M080006702	L003051170	Bayamon
M080006703	L003051170	Bayamon
M080006704	L003051170	Bayamon
M080006705	L003051170	Bayamon
M079006602	L003157710	Bayamon
M079006603	L003157710	Bayamon
M079006604	L003157710	Bayamon
M080106702	L003157740	Bayamon
M080106703	L003157740	Bayamon
M080106704	L003157740	Bayamon
M080106705	L003157740	Bayamon
M080106706	L003157740	Bayamon
M064806402	L003157760	Bayamon
M064816900	L003157760	Bayamon
M144608904	L003157780	Bayamon
M118907702	L003157790	Bayamon
M118907703	L003157790	Bayamon
M118907704	L003157790	Bayamon
M125207902	L003157800	Bayamon
M125207903	L003157800	Bayamon

Proj Num	Lot Num	Location
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M125207904	L003157800	Bayamon
M095907003	L003157820	Bayamon
M095907005	L003157820	Bayamon
M096007002	L003157830	Bayamon
M096007003	L003157830	Bayamon
M096007004	L003157830	Bayamon
M096007005	L003157830	Bayamon
M092807002	L003157840	Bayamon
M092807003	L003157840	Bayamon
M092807004	L003157840	Bayamon
M092807005	L003157840	Bayamon
M092506801	L003157100	Bayamon
M092506802	L003157100	Bayamon
M092506803	L003157100	Bayamon
M092506804	L003157100	Bayamon
M092506805	L003157100	Bayamon
M103407303	L003157101	Bayamon
M103407304	L003157101	Bayamon
M103407305	L003157101	Bayamon
M109707302	L003157104	Bayamon
M109707303	L003157104	Bayamon
M109707304	L003157104	Bayamon
M124207902	L308066040	Ceiba
M124207903	L308066040	Ceiba
M124207904	L308066040	Ceiba
M124207905	L308066040	Ceiba
T109218800	L108057040	Catano
M114107401	L108057100	Catano
M114107402	L108057100	Catano
M114107403	L108057100	Catano
M114107404	L108057100	Catano
M114107405	L108057100	Catano
M114107406	L108057100	Catano
M111807302	L108057140	Catano
M111807303	L108057140	Catano
M111807304	L108057140	Catano
M111807305	L108057140	Catano
M111807306	L108057140	Catano
M111807307	L108057140	Catano
M111807308	L108057140	Catano
M109907302	L108057180	Catano
M109907303	L108057180	Catano
M109907304	L108057180	Catano

Proj Num	Lot Num	Location
M109907305	L108057180	Catano
M109907306	L108057180	Catano
M108907302	L108057200	Catano
M108907303	L108057200	Catano
M108907304	L108057200	Catano
M108907305	L108057200	Catano
M108907306	L108057200	Catano
M106607001	L108057190	Catano
M106607002	L108057190	Catano
M106607003	L108057190	Catano
M106607004	L108057190	Catano
M106607005	L108057190	Catano
M106617207	L108057190	Catano
M106617208	L108057190	Catano
M106617210	L108057190	Catano
M106617211	L108057190	Catano
M106617212	L108057190	Catano
M076306605	L066056050	Carolina
M082406705	L066056070	Carolina
M079506602	L066056080	Carolina
M079506603	L066056080	Carolina
M079506604	L066056080	Carolina
M129808004	L372078020	Carolina
M139008602	L411086010	Carolina
M139008603	L411086010	Carolina
M139008604	L411086010	Carolina
T032516700	L024054030	Gurabo
T078217700	L024054070	Gurabo
S016117300	L140058050	Humacao
M144008902	L140578260	Humacao
S056916600	L249062090	Lares
T123607800	L311067020	Moca
T123618200	L311067060	Moca
T021046800	L218163020	Morovis
M102507002	L130161750	Mayaguez
M102507003	L130161750	Mayaguez
M102507004	L130161750	Mayaguez
S056506205	L231061020	Mayaguez
T048416400	L162058010	Naguabo
T048426600	L162058010	Naguabo
S000944600	L051055060	Ponce
S056806205	L080057040	Ponce
M130608005	L080164260	Ponce

Proj Num	Lot Num	Location
T091018400	L306066010	Ponce
T143908902	L306066240	Ponce
T021546600	L111057010	Quebradillas
T021556700	L111057010	Quebradillas
T021566800	L111057010	Quebradillas
T095417400	L276064020	Quebradillas
T021816200	L020054020	Rio Grande
S079417400	L020258090	Rio Grande
T081717300	L198163020	Sabana Grande
M137708602	L374078140	Sabana Grande
M137708603	L374078140	Sabana Grande
M137708604	L374078140	Sabana Grande
T026116200	L049055020	San German
T026127200	L049055020	San German
T034316000	L049055030	San German
M068306451	L021054460	San Juan
M068306452	L021054460	San Juan
M068306406	L021054460	San Juan
M068317300	L021054460	San Juan
M068328400	L021054460	San Juan
M104717105	L021054590	San Juan
M104717106	L021054590	San Juan
S077306602	L021054600	San Juan
S077306603	L021054600	San Juan
S077306605	L021054600	San Juan
T067806400	L019162110	San Lorenzo
T067816500	L019162110	San Lorenzo
T067826700	L019162110	San Lorenzo
M090206805	L302065020	San Lorenzo
T050217400	L076056020	Santa Isabel
S084206700	L217163070	Toa Baja
M094506802	L233061040	Trujillo Alto
M094506804	L233061040	Trujillo Alto
M137908602	L357074110	Trujillo Alto
M137908603	L357074110	Trujillo Alto
M146709002	L357074150	Trujillo Alto
M146709003	L357074150	Trujillo Alto
M146709004	L357074150	Trujillo Alto
T109317700	L096268220	Vega Baja
S117707500	L096268350	Vega Baja
T084916900	L318067070	Vieques
S003836300	L285064020	Villalba
T009715800	L248062010	Yauco

Proj Num	Lot Num	Location
T009726200	L248062010	Yauco
S017016500	L248062020	Yauco
M108807302	L003157990	Bayamon
M108807303	L003157990	Bayamon
M108807304	L003157990	Bayamon
T067106400	L209060040	Lajas
T067116400	L209060040	Lajas
M103417305	L003157101	Bayamon
T141608701	L306066080	Ponce
T141608702	L306066080	Ponce
T135008302	L147273040	Loiza
T140508701	L279272490	Aguadilla
T140508702	L279272490	Aguadilla
T088106701	L049157082	San German
T088106702	L049157082	San German
T137408501	L243377170	Naguabo
T025705500	L130058490	Mayaguez
T087706800	L233061020	Trujillo Alto
T046717000	L024054050	Gurabo
T031716100	L009053050	Cayey
T031705700	L009053050	Cayey
S062917200	L163058020	Cidra
S062906300	L163058020	Cidra
S011615900	L096057030	Vega Baja
S011605200	L096057030	Vega Baja
T071806500	L142055020	San Sebastian
T121307700	L065169360	Arecibo
T088006700	L221060050	Arroyo
T047716300	L125058040	Manati
T008905200	L050055090	Ponce
T008915700	L050055090	Ponce
S074506600	L107161020	Dorado
S037427000	L125058030	Manati
S037415600	L125058030	Manati
S037405600	L125058030	Manati
M118607703	L085261150	Luquillo
M118607702	L085261150	Luquillo
M118607701	L085261150	Luquillo
M118607704	L085261150	Luquillo
M118307703	L335070050	San Lorenzo
M109807301	L164063150	Canovanas
M144608903	L003157780	Bayamon
M118607705	L085261150	Luquillo

Proj Num	Lot Num	Location
T141008702	L283064050	Maunabo
T141008701	L283064050	Maunabo
T126307900	L279170280	Aguadilla
T123007700	L153165040	Corozal
T121907700	L291065050	Hormigueros
T112707300	L096268260	Vega Baja
T111907300	L164063140	Canovanas
T110007300	L164063130	Canovanas
T108318900	L303066010	Juncos
T108307300	L303066010	Juncos
T095118800	L017155181	Caguas
T095106800	L017155181	Caguas
T092706800	L003157102	Bayamon
T092417100	L294065010	Naranjito
T092406800	L294065010	Naranjito
T090516800	L153165020	Corozal
T090506800	L153165020	Corozal
T090417402	L153165010	Corozal
T090417401	L153165010	Corozal
T090407000	L153165010	Corozal
T090306800	L153165030	Corozal
T089618600	L204162060	Hatillo
T089606700	L204162060	Hatillo
T087307001	L191059010	Canovanas
T080617100	L102267180	Isabela
T080606900	L102267180	Isabela
T079906700	L209165060	Lajas
T075127200	L279064010	Aguadilla
T075116700	L279064010	Aguadilla
T075106600	L279064010	Aguadilla
T070806500	L140161100	Humacao
T067006400	L140161080	Humacao
T066206400	L144262040	Ceiba
T059437000	L075058030	Juana Diaz
T059426500	L075058030	Juana Diaz
T059416400	L075058030	Juana Diaz
T059406200	L075058030	Juana Diaz
T050405800	L217060020	Toa Baja
T046106100	L165058070	Guayama
T044716400	L017155200	Caguas
T044705800	L017155200	Caguas
T044005800	L114057010	Barceloneta
T043427100	L227060010	Aguas Buenas

Proj Num	Lot Num	Location
T043406200	L227060010	Aguas Buenas
T009605200	L096057020	Vega Baja
S139708600	L080164310	Ponce
S117107400	L264063060	San German
S096828600	L080164320	Ponce
S096817900	L080164320	Ponce
S096806800	L080164320	Ponce
S056106100	L130058500	Mayaguez
S028316200	L063056010	Yauco
S028305600	L063056010	Yauco
S024205500	L003051340	Bayamon
S010628900	L125058020	Manati
S010617000	L125058020	Manati
S010605200	L125058020	Manati
M144708901	L164063260	Canovanas
M139808601	L307066390	Caguas
M139008601	L411086010	Carolina
M090206802	L302065020	San Lorenzo
M090206801	L302065020	San Lorenzo
M082406703	L066056070	Carolina
M080206705	L130058470	Mayaguez
M075406603	L028054360	Carolina
M075406601	L028054360	Carolina
M072106501	L066056060	Carolina
M072106504	L066056060	Carolina
M068306404	L021054460	San Juan
M068306403	L021054460	San Juan
M065306401	L017155172	Caguas
T044016301	L114057010	Barceloneta
M080406704	L017155182	Caguas
M114007402	L307066370	Caguas
M109007302	L164063090	Canovanas
M109007303	L164063090	Canovanas
M109807302	L164063150	Canovanas
M109807303	L164063150	Canovanas
M109807304	L164063150	Canovanas
M144708902	L164063260	Canovanas
M094407005	L191059020	Canovanas
M144608902	L003157780	Bayamon
M118907705	L003157790	Bayamon
M095907002	L003157820	Bayamon
M103407301	L003157101	Bayamon
M103407302	L003157101	Bayamon

Proj Num	Lot Num	Location
S011515300	L004052170	Bayamon
S011525400	L004052170	Bayamon
M106617209	L108057190	Catano
M072106505	L066056060	Carolina
M079506605	L066056080	Carolina
M144008903	L140578260	Humacao
T048005800	L130058360	Mayaguez
M068306422	L021054460	San Juan
M094506803	L233061040	Trujillo Alto
M137908604	L357074110	Trujillo Alto
T137408502	L243377170	Naguabo
T141408702	L140578230	Humacao
T112207300	L307066380	Caguas
T070906500	L102162040	Isabela
T062706300	L191059070	Canovanas
M094307001	L003051241	Bayamon
T062717000	L191059070	Canovanas
M094307002	L003051241	Bayamon
M094307003	L003051241	Bayamon
M094307004	L003051241	Bayamon
T030926800	L017054090	Caguas
T030915600	L017054090	Caguas
T030905600	L017054090	Caguas
T086106800	L297065010	Camuy
S133808200	L122164050	Cabo Rojo
S124407900	L271063010	Yauco
S113407500	L354073020	Arroyo
S113417500	L354073020	Arroyo
T100317400	L130161700	Mayaguez
T143608800	L310067030	Ciales
T141708700	L253277100	Aguada
T140808700	L221169060	Arroyo
T135318700	L221169110	Arroyo
T135308300	L221169110	Arroyo
T126519000	L020366160	Rio Grande
T126507900	L020366160	Rio Grande
T123918100	L159277200	Fajardo
T123907900	L159277200	Fajardo
T122907700	L303066100	Juncos
T099317900	L253164070	Aguada
T099307000	L253164070	Aguada
T096217800	L122164070	Cabo Rojo
T096207000	L122164070	Cabo Rojo

Proj Num	Lot Num	Location
T095206900	L308066010	Ceiba
T092006700	L309066010	Lares
T088606700	L084057082	Manati
T087406700	L130058170	Mayaguez
T087017600	L253062030	Aguada
T087006800	L253062030	Aguada
T085306900	L085362200	Luquillo
T081906900	L122164060	Cabo Rojo
T075206600	L159058070	Fajardo
T075006601	L279064030	Aguadilla
T067416400	L130058420	Mayaguez
T067406400	L130058420	Mayaguez
T061206300	L212060030	Ciales
T049718500	L049157090	San German
T049705800	L049157090	San German
T048127300	L130058380	Mayaguez
T048116300	L130058380	Mayaguez
T048105800	L130058380	Mayaguez
T048036700	L130058360	Mayaguez
T048026600	L130058360	Mayaguez
T047516800	L242061020	Yabucoa
T047506200	L242061020	Yabucoa
T046327200	L170059010	Ciales
T046316800	L170059010	Ciales
T046305800	L170059010	Ciales
T040018100	L130058390	Mayaguez
T040005700	L130058390	Mayaguez
T036506100	L304066020	Maunabo
T036405600	L312157010	Humacao
T031547800	L232061010	Ciales
T031537600	L232061010	Ciales
T031516700	L232061010	Ciales
T031506100	L232061010	Ciales
T015005200	L042154020	Yabucoa
S133608200	L140161150	Humacao
S130908000	L253164090	Aguada
S116707400	L122164090	Cabo Rojo
S096117900	L122058030	Cabo Rojo
S096106800	L122058030	Cabo Rojo
S091506700	L310067010	Ciales
S072606500	L236165020	Patillas
S071106300	L249062020	Lares
S062606300	L249062010	Lares

Proj Num	Lot Num	Location
S056716800	L242061010	Yabucoa
S056706200	L242061010	Yabucoa
S055016500	L226060020	Salinas
S055006000	L226060020	Salinas
S041227200	L085057030	Luquillo
S041216500	L085057030	Luquillo
S041205700	L085057030	Luquillo
S038005700	L913051020	Ciales
S003338700	L278051030	Humacao
S003328100	L278051020	Humacao
S003317100	L278051010	Humacao
S003305000	L278051010	Humacao
T095217100	L308066010	Ceiba
T095227300	L308066010	Ceiba
T087028700	L253062030	Aguada
S072616800	L236165020	Patillas
T036516600	L304066020	Maunabo
S051817200	L085159040	Luquillo
T126218405	L085261080	Luquillo
T085406700	L130058160	Mayaguez
T048016300	L130058360	Mayaguez
T048047200	L130058360	Mayaguez
T048057900	L130058360	Mayaguez
S083006700	L130161540	Mayaguez
S083106700	L130161540	Mayaguez
T015017300	L042154020	Yabucoa
M129808001	L372078020	Carolina
M129808002	L372078020	Carolina
M129808003	L372078020	Carolina
M129808005	L372078020	Carolina
T101607000	L003157850	Bayamon
T099218800	L253164040	Aguada
T099207000	L253164040	Aguada
T083306700	L003157860	Bayamon
S037305600	L049157010	San German
S055106000	L049055040	San German
S055116300	L049055040	San German
S037315800	L049157010	San German
T138908600	L279170290	Aguadilla
T138808600	L242061040	Yabucoa
T115317500	L243270130	Naguabo
T115307400	L243270130	Naguabo
T114607400	L164063180	Canovanas

Proj Num	Lot Num	Location
T114407400	L279170210	Aguadilla
T100207000	L191059050	Canovanas
T098117600	L242162090	Yabucoa
T098107000	L242162090	Yabucoa
T095016900	L020366110	Rio Grande
T095006800	L020366110	Rio Grande
T094206800	L080057140	Ponce
T089106700	L283064020	Maunabo
T087506800	L080057070	Ponce
T086737700	L096268140	Vega Baja
T086727200	L096268140	Vega Baja
T086717100	L096268140	Vega Baja
T086707000	L096268140	Vega Baja
T085617100	L217163100	Toa Baja
T085606800	L217163100	Toa Baja
T079217200	L242061030	Yabucoa
T079206700	L242061030	Yabucoa
T078506600	L096161110	Vega Baja
T078106600	L144262050	Ceiba
T078037700	L085362180	Luquillo
T078027300	L085362180	Luquillo
T078016600	L085362180	Luquillo
T078006600	L085362180	Luquillo
T077117500	L218163050	Morovis
T077106700	L218163050	Morovis
T075318900	L049055110	San German
T075306600	L049055110	San German
S068506400	L231061040	Mayaguez
T067217000	L215163050	Las Piedras
T067206600	L215163050	Las Piedras
T063728700	L218061010	Morovis
T063717000	L218061010	Morovis
T063706300	L218061010	Morovis
T060017900	L037054030	Santa Isabel
T060006200	L037054030	Santa Isabel
T058416900	L130058250	Mayaguez
T058406200	L130058250	Mayaguez
T050806100	L063056030	Yauco
T046905800	L140058040	Humacao
T046705800	L024054050	Gurabo
T036616600	L218163040	Morovis
T036605600	L218163040	Morovis
T036217000	L114057020	Barceloneta

Proj Num	Lot Num	Location
T036205600	L114057020	Barceloneta
T035718200	L941052010	Sabana Grande
T035705600	L941052010	Sabana Grande
T033636600	L270063010	Mayaguez
T033626100	L270063010	Mayaguez
T033616900	L270063010	Mayaguez
T033605600	L270063010	Mayaguez
T032705600	L140058030	Humacao
T026205500	L220060071	Barceloneta
T022505400	L250062010	Vieques
S120307700	L279170240	Aguadilla
S116307400	L279170240	Aguadilla
S113718000	L217371130	Toa Baja
S113707400	L217371130	Toa Baja
S103617500	L220060040	Barceloneta
S103607000	L220060040	Barceloneta
S097416900	L264063060	San German
S096617300	L130058270	Mayaguez
S096606800	L130058270	Mayaguez
S068806400	L242061050	Yabucoa
S062316700	L900050012	Aguadilla
S062306200	L900050012	Aguadilla
S057216700	L130058040	Mayaguez
S057206200	L130058040	Mayaguez
S052917800	L196060011	Juana Diaz
S052906000	L196060011	Juana Diaz
S002004800	L937045010	Ponce
M006205103	L050055100	Ponce
T088406700	L221060040	Arroyo
T107307700	L224469020	Barranquitas
T114617800	L164063180	Canovanas
M094407002	L191059020	Canovanas
T032716100	L140058030	Humacao
T046916400	L140058040	Humacao
T067506400	L130058190	Mayaguez
T067516700	L130058190	Mayaguez
S097406900	L264063060	San German
S121218201	L154369110	Anasco
T071206501	L080057030	Ponce
T071206502	L080057030	Ponce
T044516600	L122058010	Cabo Rojo
T044505800	L122058010	Cabo Rojo
T043616200	L140058020	Humacao

Proj Num	Lot Num	Location
T005915600	L196060022	Juana Diaz
T005905100	L196060022	Juana Diaz
S140108700	L414086010	Guayama
T087806700	L141160010	Guanica
T085717000	L080057160	Ponce
T085706700	L080057160	Ponce
T071306500	L080057080	Ponce
T070506500	L141160030	Guanica
T061006400	L080057050	Ponce
T057506200	L141160020	Guanica
T049105800	L080057120	Ponce
T046005800	L141058050	Guanica
T035617200	L063056020	Yauco
T035605600	L063056020	Yauco
T013605200	L029155010	Guanica
S098317200	L080164330	Ponce
S098307000	L080164330	Ponce
S097318300	L080164270	Ponce
S097306900	L080164290	Ponce
S084317202	L080164340	Ponce
S084306701	L080164340	Ponce
M097807004	L080057200	Ponce
M097807003	L080057200	Ponce
M097807002	L080057200	Ponce
M097807001	L080057200	Ponce
M097807005	L080057200	Ponce
T072816702	L223060020	Florida
T107107300	L085261050	Luquillo
T080506700	L243162060	Naguabo
T069727100	L281064010	Culebra
T069716400	L281064010	Culebra
T069706400	L281064010	Culebra
T050605800	L096057070	Vega Baja
T019605400	L024054010	Gurabo
S124507900	L303066080	Juncos
S120107600	L085362220	Luquillo
S110507300	L122164100	Cabo Rojo
M064806403	L003157760	Bayamon
T019615900	L024054010	Gurabo
T019626000	L024054010	Gurabo
T019637100	L024054010	Gurabo
T142908800	L357074010	Trujillo Alto
T100507000	L264063130	San German

Proj Num	Lot Num	Location
T097717000	L264063110	San German
T097707000	L264063110	San German
T094028400	L264063100	San German
T094017000	L264063100	San German
T094007000	L264063100	San German
T093806900	L191059060	Canovanas
T086928400	L087057040	Salinas
T086917900	L087057040	Salinas
T086906700	L087057040	Salinas
T058806200	L140058060	Humacao
T049506100	L087057030	Salinas
T047006000	L075058020	Juana Diaz
S134218600	L264063140	San German
S134208300	L264063140	San German
S133108100	L396081011	Utua
S132908100	L396081010	Utua
S132408100	L311067030	Moca
S125807900	L264063120	San German
S123407800	L085261140	Luquillo
S097106800	L140058061	Humacao
S000736700	L229060010	Cabo Rojo
S000725500	L229060010	Cabo Rojo
S000714600	L229060010	Cabo Rojo
M108907301	L108057200	Catano
M076306603	L066056050	Carolina
M145509002	L164063360	Canovanas
T093817200	L191059060	Canovanas
M125207905	L003157800	Bayamon
M095907004	L003157820	Bayamon
M121607705	L306066060	Ponce
T049516600	L087057030	Salinas
T100517000	L264063130	San German
T103007000	L020366120	Rio Grande
T100017100	L275064030	Jayuya
T100007000	L275064030	Jayuya
T095727200	L107264100	Dorado
T095717100	L107264100	Dorado
T095706800	L107264100	Dorado
T094737700	L206060060	Vega Alta
T094727700	L206060060	Vega Alta
T094717300	L206060060	Vega Alta
T094706800	L206060060	Vega Alta
T089216900	L096161120	Vega Baja

Proj Num	Lot Num	Location
T089206700	L096161120	Vega Baja
T067727000	L136058020	Rincon
T067716800	L136058020	Rincon
T067706400	L136058020	Rincon
T064416600	L206060050	Vega Alta
T064406400	L206060050	Vega Alta
T014905200	L082057020	Toa Alta
S124007800	L265167090	San Sebastian
S123107700	L082264140	Toa Alta
S011505201	L004052170	Bayamon
S003004800	L082057010	Toa Alta
S000615600	L940047010	Rio Grande
S000604600	L940047010	Rio Grande
S011505202	L004052170	Bayamon

Schedule 2

List of Demolished Trusteed Properties

PRIDCO

Demolished Trusteed Properties

Proj Num	Lot Num	Location
T099507000	L122164110	Cabo Rojo
T089817200	L096268430	Vega Baja
T089806700	L096268430	Vega Baja
T084728800	L084057081	Manati
T078406600	L111057040	Quebradillas
T063626700	L122058040	Cabo Rojo
T063616600	L122058040	Cabo Rojo
T063606300	L122058040	Cabo Rojo
T059718600	L243061020	Naguabo
T059706200	L243061020	Naguabo
T058306200	L237061010	Orocovis
T049205800	L111057020	Quebradillas
T043805800	L151058010	Arecibo
T031938800	L089057010	Coamo
T031926500	L089057010	Coamo
T031916100	L089057010	Coamo
T031905600	L089057010	Coamo
T020905400	L219060010	Moca
S129408000	L096377420	Vega Baja
S096706900	L102267080	Isabela
S083906700	L111057030	Quebradillas
S001304700	L952047010	San Juan
T058316800	L237061010	Orocovis
T043816900	L151058010	Arecibo
S053336300	L065056120	Arecibo
T063636800	L122058040	Cabo Rojo
T049216400	L111057020	Quebradillas
S083917100	L111057030	Quebradillas
T078416800	L111057040	Quebradillas
T078426900	L111057040	Quebradillas
S117007400		
S117017600	L141266080	Guanica
S117028100		
S121207700		
S121218202	L154369110	Añasco
T034206200	L076056030	Santa Isabel
T106507000		
T106517300	L141266060	Guanica
T106527300		

Proj Num	Lot Num	Location
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T108407300	L303066020	Juncos
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Exhibit A

Form of Note

No.

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CUSIP:

UNITED STATES OF AMERICA
COMMONWEALTH OF PUERTO RICO

PUERTO RICO INDUSTRIAL
DEVELOPMENT COMPANY

REVENUE BOND, SERIES 2023

UNLESS THIS CERTIFICATE IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY, A NEW YORK CORPORATION (“DTC”), TO THE COMPANY OR ITS AGENT FOR REGISTRATION OF TRANSFER, EXCHANGE, OR PAYMENT, AND ANY CERTIFICATE ISSUED IS REGISTERED IN THE NAME OF CEDE & CO. OR IN SUCH OTHER NAME AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC (AND ANY PAYMENT IS MADE TO CEDE & CO. OR TO SUCH OTHER ENTITY AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC), ANY TRANSFER, PLEDGE, OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL INASMUCH AS THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN.

The Puerto Rico Industrial Development Company (herein sometimes called the “Company”), a body corporate and politic constituting a public corporation and governmental instrumentality of the Commonwealth of Puerto Rico, for value received, hereby promises to pay to the registered owner hereof [], on the [] day of , 20 . . . (or earlier as hereinafter referred to), the then-Outstanding Principal Amount and to pay interest on the Outstanding Principal Amount that may be outstanding from time to time in accordance with the terms hereof, from the date hereof at the per annum rate or rates set forth below:

[]

until payment of such Outstanding Principal Amount and such interest to the maturity of this bond have been paid in full. Interest on this bond shall be payable semi-annually on the [] day of [] and [] in each year, beginning on [] (each such date, an “Interest Payment Date”) and shall be paid to the holder in whose name this bond is registered on the 15th calendar day immediately preceding the relevant Interest Payment Date, whether or not such day is a business day (each, a “record date”) and such interest shall be paid based on the then applicable interest rate hereon, as set forth above, and the Outstanding Principal Amount as of the immediately preceding Interest Payment Date (after giving effect to the payment of any principal on this bond on such Interest Payment Date) or as of the original issuance date of this bond in the case of the first Interest Payment Date. Both the principal of and the interest on this bond are payable in any coin or currency of the United States of America which, at the respective dates of payment thereof, is legal tender for the payment of public and private debts. The principal of this bond and the interest herein, shall be payable in accordance with the terms of the Indenture. Payment of the interest on this bond to the maturity hereof will be made to the person appearing on the bond registration books of the Company as the registered owner hereof on the relevant record date, such interest to be paid to the registered owner at its address as it appears on such registration books. The final instalment of principal of this bond is payable as the same falls due upon the presentation and surrender hereof at the Corporate Trust Office of the Trustee (hereinafter mentioned).

This bond shall not be deemed to constitute a debt of the Commonwealth of Puerto Rico or of any of its municipalities or other political subdivisions, and neither the Commonwealth of Puerto Rico nor any such municipalities or other political subdivisions are liable thereon and this bond is not payable out of any funds other than those of the Company.

This bond is one of a duly authorized series of bonds of the Company designated “[]” issued under and pursuant to an amended and restated trust indenture (said indenture, together with all indentures supplemental thereto as therein permitted, being herein called the “Indenture”),

dated as of [], 2023, by and between the Company and U.S. Bank Trust Company, National Association, as Trustee (said banking association and any bank or trust company becoming successor trustee under the Indenture being herein called the “Trustee”), an executed counterpart of which Indenture is on file at the office of the Trustee. Reference is hereby made to the Indenture for the provisions, among others, with respect to the collection and disposition of revenues, the fund charged with and pledged to the payment of the interest on and the principal of the bonds, the nature and extent of the security, the terms and conditions on which bonds of each series are or may be issued thereunder, the rights, duties and obligations of the Company and of the Trustee and the rights of the holders of the bonds, and, by the acceptance of this bond, the holder hereof assents to all of the provisions of the Indenture.

The bonds of this series aggregate [_____] in principal amount and consist of bonds maturing in semi-annual instalments beginning on [], 20__ and ending on [], 20__, are issued for the purpose of providing funds for (i) _____ and for other proper corporate purposes of the Company. The Indenture provides for the issuance, from time to time, under the conditions, limitations and restrictions therein set forth, of additional bonds to provide funds for any proper corporate purpose of the Company and to refund any bonds issued by the Company under the provisions of the Indenture.

The “Outstanding Principal Amount” of this bond, as of any date of determination, shall be the principal amount of this bond as of the original issuance date of this bond, as the same may be decreased from time to time as a result of redemption, amortization or similar retirement of all or a portion of this bond, as set forth more fully in this bond or the Indenture. The Outstanding Principal Amount of this bond shall be paid in accordance with the Bond Amortization Schedule provided attached hereto. The Bond Amortization Schedule attached hereto as Schedule I, shows the bond amortization and is provided only for illustrative purposes.

This bond is issued and the Indenture was made and entered into under and pursuant to the [Puerto Rican Federal Relations Act and the Constitution and laws of the Commonwealth of Puerto Rico, particularly Act No. 188 of the Legislature of Puerto Rico, approved May 11, 1942, as

amended, and under and pursuant to resolutions duly adopted by the Company]². The Indenture provides for the creation of a special fund designated “Puerto Rico Industrial Development Company Interest and Sinking Fund” (hereinafter called the “Sinking Fund”), which special fund is pledged to and charged with the payment of the principal of and the interest on all bonds issued under the Indenture, and also provides for the deposit to the credit of said special fund of a sufficient amount of the gross revenues derived by the Company from certain properties of the Company (such properties being therein and herein called the “Trusteed Properties”) and certain other specified income to pay the principal of and the interest on all bonds issued under the provisions of the Indenture and then outstanding as the same shall become due and to create and maintain a reserve therefor.

The Indenture also provides that, in the event that at any time the amount in said special fund (including such reserve) is not sufficient to make any required payments for interest on or principal of the bonds, the Company shall deposit with the Trustee such amounts as are necessary to meet such requirements. Except as provided therein with respect to the Trusteed Properties and the gross revenues therefrom and certain other specified income the Company’s right to deal with and dispose of its properties and other funds is not restricted by the Indenture.

The United States District Court for the District of Puerto Rico has determined that the bonds issued under the Indenture are valid, legally binding and enforceable pursuant to the Order approving a qualifying modification under Title VI of the Puerto Rico Oversight, Management, and Economic Security Act.

The holder of this bond shall have no right to enforce the provisions of the Indenture or to institute action to enforce the covenants therein, or to take any action with respect to any event of default under the Indenture; or to institute, appear in or defend any suit or other proceeding with respect thereto, except as provided in the Indenture.

In certain events, on the conditions, in the manner and with the effect set forth in the Indenture, the principal of all the bonds then outstanding may become or may be declared

² NTD: To be confirmed and conformed to the indenture.

due and payable before the stated maturities thereof, together with the interest accrued thereon.

Modifications or alterations of the Indenture or of any indenture supplemental thereto may be made by the Company and the Trustee only to the extent and in the circumstances permitted by the Indenture.

[The bonds of this series at the time outstanding may be redeemed prior to their respective maturities at any time prior to [], in whole or, from time to time, in part, at a redemption price equal to the following:

Any such redemption, either in whole or in part, shall be made upon at least thirty (30) days' prior notice as provided in the Indenture, and shall be made in the manner and under the terms and conditions provided in the Indenture. Bonds which have been duly called for redemption, or with respect to which irrevocable instructions to call for redemption at the earliest redemption date have been given to the Trustee, notice having been given and moneys for payment of the redemption price being held by the Trustee or by the paying agents, all as provided in the Indenture, shall become and be due and payable at the redemption price provided for redemption of such bonds on the date designated for redemption, interest on such bonds so called for redemption shall thereafter cease to accrue, and the holders or registered owners thereof shall have no rights in respect of such bonds so called for redemption except to receive payment of the redemption price thereof so held by the Trustee or by the paying agents.]

This bond is issued with the intent that the laws of the Commonwealth of Puerto Rico shall govern its construction.

All acts, conditions and things required by the Puerto Rican Federal Relations Act and the Constitution and laws of the Commonwealth of Puerto Rico and the resolutions of the Company to happen, exist and be performed precedent to and in the issuance of this bond have happened, exist and have been performed as so required.

This bond shall not be valid or become obligatory for any purpose or be entitled to any security or benefit under the

Indenture until the certificate of authentication hereon shall have been signed by the Trustee.

IN WITNESS WHEREOF, the Puerto Rico Industrial Development Company has caused this bond to be signed with the facsimile signature of the Executive Director of the Company and to be signed by the Secretary of the Company, and a facsimile of the official seal of the Company to be imprinted hereon, to be executed with the facsimile signature of said Executive Director, all as of the [] day of [], 2023.

.....
Executive Director

.....
Secretary

(ENDORSEMENTS UPON BONDS)

TRUSTEE’S CERTIFICATE OF AUTHENTICATION

This bond is one of the bonds, of the series designated therein, described in the within mentioned Indenture.

U.S. BANK TRUST COMPANY,
NATIONAL ASSOCIATION,
As Trustee

By
Authorized Officer

Schedule I

Bond Amortization Schedule

See attached

Detailed Summary of PRIDCO QM Bonds (continued on following page)

Fiscal Year	Date	Interest	Amortization	Total Debt Service	Coupon	Call Price
FY2025	7/1/2024	\$5,586,630.00	–	\$5,586,630.00	7.000%	100.00
FY2025	1/1/2025	5,586,630.00	–	5,586,630.00	7.000%	100.00
FY2026	7/1/2025	5,586,630.00	–	5,586,630.00	7.000%	100.00
FY2026	1/1/2026	5,586,630.00	–	5,586,630.00	7.000%	100.00
FY2027	7/1/2026	5,586,630.00	–	5,586,630.00	7.000%	100.00
FY2027	1/1/2027	5,586,630.00	–	5,586,630.00	7.000%	104.00
FY2028	7/1/2027	6,983,288.00	–	6,983,288.00	8.750%	104.00
FY2028	1/1/2028	6,983,288.00	–	6,983,288.00	8.750%	104.00
FY2029	7/1/2028	6,983,288.00	–	6,983,288.00	8.750%	104.00
FY2029	1/1/2029	6,983,288.00	–	6,983,288.00	8.750%	104.00
FY2030	7/1/2029	6,983,288.00	–	6,983,288.00	8.750%	104.00
FY2030	1/1/2030	6,983,288.00	1,956,000.00	8,939,288.00	8.750%	103.50
FY2031	7/1/2030	6,897,713.00	–	6,897,713.00	8.750%	103.50
FY2031	1/1/2031	6,897,713.00	2,127,000.00	9,024,713.00	8.750%	103.00
FY2032	7/1/2031	6,804,656.00	–	6,804,656.00	8.750%	103.00
FY2032	1/1/2032	6,804,656.00	2,313,000.00	9,117,656.00	8.750%	102.50
FY2033	7/1/2032	6,703,463.00	–	6,703,463.00	8.750%	102.50
FY2033	1/1/2033	6,703,463.00	2,515,000.00	9,218,463.00	8.750%	102.00
FY2034	7/1/2033	6,593,431.00	–	6,593,431.00	8.750%	102.00
FY2034	1/1/2034	6,593,431.00	2,735,000.00	9,328,431.00	8.750%	101.50
FY2035	7/1/2034	6,473,775.00	–	6,473,775.00	8.750%	101.50
FY2035	1/1/2035	6,473,775.00	2,975,000.00	9,448,775.00	8.750%	101.00
FY2036	7/1/2035	6,343,619.00	–	6,343,619.00	8.750%	101.00
FY2036	1/1/2036	6,343,619.00	3,235,000.00	9,578,619.00	8.750%	100.50
FY2037	7/1/2036	6,202,088.00	–	6,202,088.00	8.750%	100.50
FY2037	1/1/2037	6,202,088.00	3,518,000.00	9,720,088.00	8.750%	100.00
FY2038	7/1/2037	6,048,175.00	–	6,048,175.00	8.750%	100.00
FY2038	1/1/2038	6,048,175.00	3,826,000.00	9,874,175.00	8.750%	100.00
FY2039	7/1/2038	5,880,788.00	–	5,880,788.00	8.750%	100.00
FY2039	1/1/2039	5,880,788.00	4,161,000.00	10,041,788.00	8.750%	100.00

Detailed Summary of PRIDCO QM Bonds (continued from previous page)

Fiscal Year	Date	Interest	Amortization	Total Debt Service	Coupon	Call Price
FY2040	7/1/2039	\$5,698,744.00	–	\$5,698,744.00	8.750%	100.00
FY2040	1/1/2040	5,698,744.00	4,525,000.00	10,223,744.00	8.750%	100.00
FY2041	7/1/2040	5,500,775.00	–	5,500,775.00	8.750%	100.00
FY2041	1/1/2041	5,500,775.00	4,921,000.00	10,421,775.00	8.750%	100.00
FY2042	7/1/2041	5,285,481.00	–	5,285,481.00	8.750%	100.00
FY2042	1/1/2042	5,285,481.00	5,351,000.00	10,636,481.00	8.750%	100.00
FY2043	7/1/2042	5,051,375.00	–	5,051,375.00	8.750%	100.00
FY2043	1/1/2043	5,051,375.00	5,819,000.00	10,870,375.00	8.750%	100.00
FY2044	7/1/2043	4,796,794.00	–	4,796,794.00	8.750%	100.00
FY2044	1/1/2044	4,796,794.00	6,329,000.00	11,125,794.00	8.750%	100.00
FY2045	7/1/2044	4,519,900.00	–	4,519,900.00	8.750%	100.00
FY2045	1/1/2045	4,519,900.00	6,882,000.00	11,401,900.00	8.750%	100.00
FY2046	7/1/2045	4,218,813.00	–	4,218,813.00	8.750%	100.00
FY2046	1/1/2046	4,218,813.00	7,485,000.00	11,703,813.00	8.750%	100.00
FY2047	7/1/2046	3,891,344.00	–	3,891,344.00	8.750%	100.00
FY2047	1/1/2047	3,891,344.00	8,139,000.00	12,030,344.00	8.750%	100.00
FY2048	7/1/2047	3,535,263.00	–	3,535,263.00	8.750%	100.00
FY2048	1/1/2048	3,535,263.00	8,852,000.00	12,387,263.00	8.750%	100.00
FY2049	7/1/2048	3,147,988.00	–	3,147,988.00	8.750%	100.00
FY2049	1/1/2049	3,147,988.00	9,626,000.00	12,773,988.00	8.750%	100.00
FY2050	7/1/2049	2,726,850.00	–	2,726,850.00	8.750%	100.00
FY2050	1/1/2050	2,726,850.00	10,468,000.00	13,194,850.00	8.750%	100.00
FY2051	7/1/2050	2,268,875.00	–	2,268,875.00	8.750%	100.00
FY2051	1/1/2051	2,268,875.00	11,384,000.00	13,652,875.00	8.750%	100.00
FY2052	7/1/2051	1,770,825.00	–	1,770,825.00	8.750%	100.00
FY2052	1/1/2052	1,770,825.00	12,380,000.00	14,150,825.00	8.750%	100.00
FY2053	7/1/2052	1,229,200.00	–	1,229,200.00	8.750%	100.00
FY2053	1/1/2053	1,229,200.00	13,464,000.00	14,693,200.00	8.750%	100.00
FY2054	7/1/2053	640,150.00	–	640,150.00	8.750%	100.00
FY2054	1/1/2054	640,150.00	14,642,000.00	15,282,150.00	8.750%	100.00

EXHIBIT E: PRIDCO FISCAL PLAN

(Attached)

2023 Fiscal Plan for the Puerto Rico Industrial Development Company

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

May 26, 2023



DISCLAIMER

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

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

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

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

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

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

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

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

By receiving this document, the recipient is deemed to have acknowledged the terms of these limitations. This document may contain capitalized terms that are not defined herein or may contain terms that are discussed in other documents or that are commonly understood. You should make no assumptions about the meaning of capitalized terms that are not defined, and you should refer questions to PRIDCO, Puerto Rico Fiscal Agency and Financial Advisory Authority (“AAFAF”) or its respective advisors, or the Oversight Board at comments@oversightboard.pr.gov should clarification be required.

List of Acronyms and Key Terms

AAFAF	Puerto Rico Fiscal Agency and Financial Advisory Authority (Spanish acronym)
ACH	Automated Clearing House
A/R	Accounts Receivables
COVID-19	Coronavirus Disease 2019
Commonwealth or Government	Commonwealth of Puerto Rico
CW POA	Commonwealth Plan of Adjustment confirmed January 18, 2022
DDEC	Puerto Rico Department of Economic Development Commerce (Spanish acronym)
EDA	Economic Development Administration
EPA	United States Environmental Protection Agency
FAS	Financial Accounting System
Federal Government	The U.S. Federal Government
FEMA	Federal Emergency Management Agency
FOMB or Oversight Board	Financial Oversight and Management Board for Puerto Rico
GDB	Government Development Bank for Puerto Rico
GDB-DRA	GDB Debt Recovery Authority
Governor	Governor Pedro Rafael Pierluisi Urrutia
Hurricanes	Hurricane Irma and Hurricane Maria
Island	Puerto Rico
KPIs	Key Performance Indicators
MOU	Memorandum of Understanding
Parties	PRIDCO, the Commonwealth, and the Oversight Board
PayGo	New pensions program by which agencies and instrumentalities are responsible for paying their pension obligations on an annual basis via a “Pay as you go charge”
PREPA	Puerto Rico Electric Power Authority
PRIDCO or Company	Puerto Rico Industrial Development Company
PRIICO	Puerto Rico Industrial Investment Corporation
PROMESA	Puerto Rico Oversight, Management and Economic Stability Act
RFP	Request for Proposal
SF	Square feet
2021 CW Fiscal Plan	2021 Fiscal Plan for Puerto Rico as certified by the Financial Oversight and Management Board on April 23, 2021
2022 CW Fiscal Plan	2022 Fiscal Plan for Puerto Rico as certified by the Financial Oversight and Management Board on January 27, 2022
2023 CW Fiscal Plan	2023 Fiscal Plan for Puerto Rico as certified by the Financial Oversight and Management Board on April 3, 2023
2020 PRIDCO Fiscal Plan	PRIDCO Fiscal Plan certified by the Financial Oversight and Management Board on June 29, 2020
2021 PRIDCO Fiscal Plan	PRIDCO Fiscal Plan certified by the Financial Oversight and Management Board on May 27, 2021
2022 PRIDCO Fiscal Plan	PRIDCO Fiscal Plan certified by the Financial Oversight and Management Board on May 20, 2022
2023 PRIDCO Fiscal Plan or Fiscal Plan	PRIDCO Fiscal Plan certified by the Financial Oversight and Management Board on May 26, 2023

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EXECUTIVE SUMMARY

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

PRIDCO is the beneficial owner of industrial and commercial-use buildings and lots that companies may rent or, in limited cases, purchase. The PRIDCO portfolio comprises one of the largest inventories of industrial properties, with 1,495 units and 713 lots located throughout Puerto Rico.

Not all of the portfolio, however, is occupied or able to be rented without significant investment. Of PRIDCO’s 22.7 million square feet (“SF”) of buildings, 15.6 million is currently occupied, and 7.0 million is vacant.¹ It is also estimated that approximately 136 units (across 84 buildings)² are not able to be occupied and must be demolished or remediated. Based on the Expanded CapEx Study completed in accordance with Section 4.7 of this Fiscal Plan, at least 33 of the 84 buildings were deemed structurally unsafe to enter. As the Oversight Board communicated to PRIDCO, at a minimum, these 33 properties must be closed to the public, and PRIDCO must have a demolition plan in place for each property (e.g., timeline for demolition).³

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

The relationship between DDEC and PRIDCO is regulated by a memorandum of understanding (“MOU”) that outlines services provided, and provides for reimbursement by PRIDCO to DDEC for such services (discussed in Section 3.4). Although economic development priorities now sit at DDEC with the passage of Act 141-2018 and Act 60-2019, PRIDCO must take several actions to enhance the marketability of the properties to potential tenants.

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

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

³ See Oversight Board letter to PRIDCO, dated December 20, 2021, and March 2, 2022, available on the Oversight Board’s website.

Similar to previously certified fiscal plans, this Fiscal Plan requires the enactment of certain strategic initiatives for PRIDCO to improve its operations and enhance revenue generation. These requirements include improving PRIDCO's capital expenditures ("CapEx") funding and prioritization, the hiring of a third-party manager ("Third-Party Manager") and transition of PRIDCO's operating model, pursuing increased occupancy, conducting a needs assessment relating to information systems, and divestment of non-rentable properties, which are discussed further in Chapters 4 and 6. AAFAF and PRIDCO have been working, and continue to work, closely with the Oversight Board and its advisors to complete the various studies. PRIDCO, AAFAF, and the Oversight Board have successfully completed the majority of the aforementioned studies, with only one study pending (close to completion).

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

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

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

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

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

Management Agency (“FEMA”) funding.

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

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

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

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

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

Volume 1, Chapter 4: “Economic Trends and Financial Projections” and Volume 2, Chapter 2: “Economic Trends in Puerto Rico” of the 2023 Commonwealth Fiscal Plan For Puerto Rico as certified by the Financial Oversight and Management Board for Puerto Rico on April 3, 2023 (“2023 CW Fiscal Plan”) are hereby incorporated by reference.

PART I: PRIDCO OVERVIEW

Chapter 1. BACKGROUND

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

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

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

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

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

As of April 30, 2023, PRIDCO had \$95.3 million⁴ in total cash reported, of which \$76.0 million is deemed to be unrestricted and available for PRIDCO operations. Certain funds classified as restricted include, for example, FEMA funds, tenant deposits, and incentive funds (unrelated

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

to PRIDCO operations).⁵ Although many restricted account balances have been transferred to the proper account owner in accordance with Act 60-2019, a few incentive funds that do not belong to PRIDCO are still reported as being in PRIDCO's possession (as of the date of the certification of this Fiscal Plan). To the extent needed, for years in which deficits are projected in this Fiscal Plan, available unrestricted cash and prior year surpluses must be used as the funding source for CapEx and certain other operating costs, subject to the approval of the Oversight Board.

⁵ PRIICO is a separate public corporation, and its debt will be paid from its own resources. Any surplus cash, however, could potentially be "dividended" up to PRIDCO after PRIICO's debt is paid in full.

Chapter 2. REAL ESTATE PORTFOLIO

PRIDCO owns the largest inventory of industrial properties in Puerto Rico, with approximately 1,495 units and 713 lots. PRIDCO also owns the common areas located at industrial parks, such as street and utilities infrastructure, and is responsible for their maintenance. It is estimated that approximately 136 units (across 84 buildings) are not able to be occupied without remediation and the majority should be demolished.⁶

EXHIBIT 1: PRIDCO PROPERTY PORTFOLIO

Real Estate	Unit Count	Sq. Ft.	Land	Count	Sq. Meters
Single Tenant Building	1,159	21,107,065	Lots	713	17,851,474
Multi-Tenant Building	336	1,577,929			

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

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

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

EXHIBIT 2: MAP OF PRIDCO RENTAL ZONES



⁶ Portfolio statistics as of April 2023, provided in PRIDCO's May 12, 2023, NOV response.

⁷ Portfolio statistics as of April 2023, provided in PRIDCO's May 12, 2023, NOV response.

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

The portion of PRIDCO's portfolio that is currently under lease agreements (approximately 76% of units and 69% of SF) is subject to a variety of terms and conditions resulting from different arrangements with tenants. Terms and conditions vary from full-service to triple net rent arrangements. The most common lease contract used in PRIDCO's portfolio makes tenants responsible for most maintenance expenses and makes PRIDCO responsible for major repairs and maintenance such as roofing, electrical, plumbing, and underground pest control.

PRIDCO's assets fall into three broad categories: Trusteed Properties, Non-Trusteed Properties, and Puerto Rico Industrial Investment Company ("PRIICO") Properties.

Trusteed Properties: The Trusteed Properties are those properties owned by PRIDCO whose revenues are claimed to be pledged to the holders of certain General Purpose Revenue Bonds, Series A and B (collectively, the "Revenue Bonds"), issued under a Trust Indenture, dated as of July 1, 1964, as amended (the "Trust Indenture").⁸ At this time, the Trusteed Properties are believed to represent 1,336 units with over 18 million SF of space (of which, approximately 76% of units and 68% of SF occupied, respectively). Before the costs of maintenance and CapEx to ensure the properties remain inhabitable, the Trusteed Properties are anticipated to generate over ~\$40.4 million of gross revenue in FY2023.

Non-Trusteed Properties: The Non-Trusteed Properties are those properties owned by PRIDCO that are neither Trusteed Properties nor PRIICO Properties. At this time, the Non-Trusteed Properties are believed to represent approximately 149 units and 3.9 million SF of space (of which, approximately 72% of units and 70% of SF occupied, respectively). Before the costs of maintenance and CapEx to ensure the properties remain inhabitable, the Non-Trusteed Properties are anticipated to generate ~\$14.4 million of gross revenue in FY2023. The proceeds of 27 specified Non-Trusteed Properties (which comprise over 8.0 million square meters of industrial and public lands), if and when sold, are purportedly collateral under a \$25.0 million (excluding accrued, unpaid interest) note payable to the Government Development Bank – Debt Recovery Authority (the "GDB-DRA"). The GDB-DRA loan is not secured by mortgages over such Non-Trusteed Properties.

⁸ Pursuant to the Trust Indenture, the term "Trusteed Properties" means: (i) those PRIDCO properties that constituted the Trusteed Properties under the 1958 Trust Indenture on the date of its release, including all machinery and other equipment owned by the Company and located on or used in connection with such properties, (ii) any other properties of the Company, including any such machinery and other equipment owned by the Company and any first mortgages on real property held by the Company as mortgagee or first mortgage bonds, which become "Trusteed Properties" by the terms of the 1964 Trust Indenture, and (iii) all improvements of and additions to the properties referred to in clauses (i) and (ii) of this paragraph which are acquired or constructed by or on behalf of the Company.

PRIICO Properties: On several occasions, PRIDCO constructed highly customized facilities that required significant capital investment to attract high-caliber tenants to Puerto Rico. PRIDCO established the PRIICO, a separate entity, as a conduit used to borrow construction funds to develop these facilities. PRIICO borrowed funds from a commercial bank to construct four special facilities⁹ and lent the funds to PRIDCO to build the facilities. These four facilities, totaling approximately 0.7 million SF, are leased to the tenants by PRIDCO with the rent therefrom assigned to the lender as security for the loan to PRIICO, together with a mortgage over the facility. These mortgages remain current, as the properties are fully occupied with rent collected directly by the lender through a lock-box arrangement. These leases will expire simultaneously with the associated mortgage loans, and the tenants are expected to renegotiate new leases with PRIDCO, purchase the property, or terminate the relationship. If units are not sold upon maturity of the mortgages, rental revenue is reported in the Non-Trusteed Properties rent.

There are currently eight PRIICO units with two tenants. The lease agreements with the two PRIICO tenants will expire in 2031 and 2045, although the mortgages for the PRIICO tenants both mature in 2031¹⁰.

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

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

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

PART II: 2022 PRIDCO FISCAL PLAN

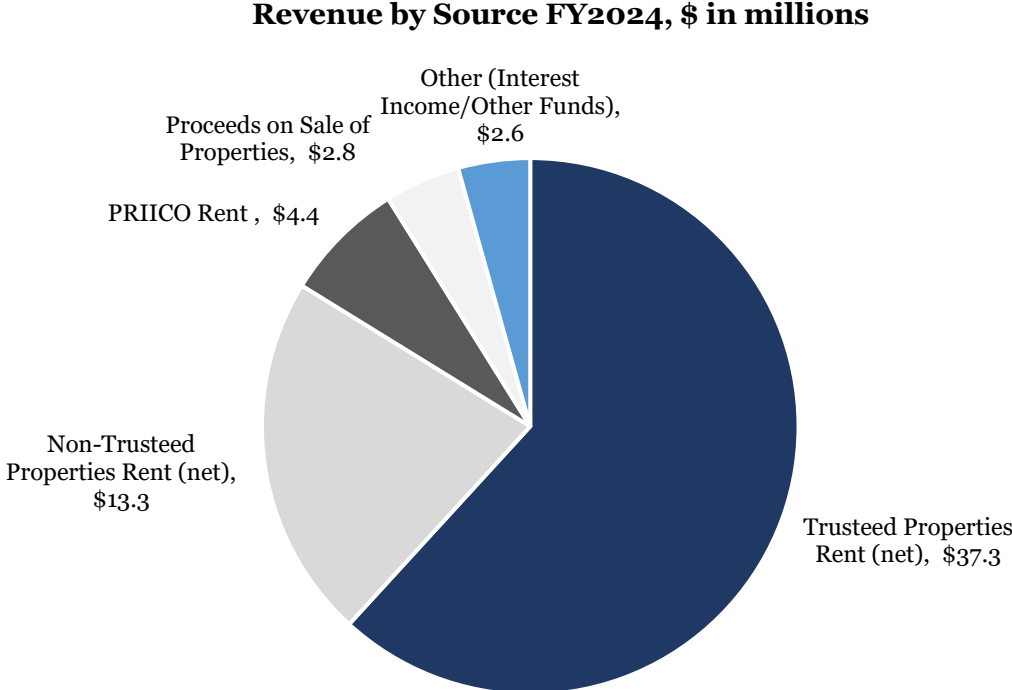
Chapter 3. BASELINE PROJECTIONS

A 30-year financial forecast was developed for PRIDCO to estimate operating cash flows and support long-term financial planning. These estimates were used to determine the viability of PRIDCO’s operational measures and to estimate operating cash flows. PRIDCO’s baseline revenues and expenditures are associated with real estate management and forecasted using the proposed FY2024 budget as the starting point. This Fiscal Plan, outlined herein, also incorporates the macroeconomic forecasts utilized in the 2023 CW Fiscal Plan.

3.1 Baseline Projections Overview

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

EXHIBIT 3: FY2024 REVENUE BY SOURCE – BASELINE PROJECTIONS



PRIDCO’s baseline surplus expectation is outlined in Exhibit 5, below. The net revenue forecast is based on active leases within PRIDCO’s property portfolio, net of anticipated uncollectible accounts. As illustrated in Exhibit 4, total projected revenue declines from FY2024 through FY2028 because asset sales are forecasted to return to the lower historical levels, rental revenues decline once properties are sold throughout the projection period, and delinquency rates return to a rolling historical average (including this year’s lower than historical average delinquency rate).

EXHIBIT 4: BASELINE TOTAL REVENUES PROJECTION

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

The total operating expenses for FY24 are expected to be \$48.4M¹¹ of which employee payroll and related expenses are projected to be approximately \$5.8 million for PRIDCO's 60 budgeted employees.¹² Consistent with the 2023 CW Fiscal Plan, expenses grow annually by inflation. Non-operating expenses also include an environmental liability payment estimated at \$2.1 million per year from FY2024 through FY2030 (see Section 3.6 for a description). For more detailed estimates of the long-term baseline forecast, please see Appendix 1.

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

In June 2022, the mortgages of two PRIICO units were paid in full. As such, the underlying leases associated with these mortgages expired. In FY2023, this tenant renewed its lease. The new rental rate is considerably higher than the average PRIDCO rate of ~\$3.4 per SF¹³. The new lease is now considered a part of Non-Trusteed revenue and PRIDCO owns the units in full.

EXHIBIT 5: BASELINE SURPLUS PROJECTION (EXCLUDING DEBT SERVICE)

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

3.2 Personnel

PRIDCO's forecasted payroll consists of positions approved by the government human resources department at the current payroll ranges for the positions. Per the 2022 PRIDCO Fiscal Plan, PRIDCO's payroll includes mobilized employees¹⁴ transferred to PRIDCO from PREPA. For further information on the PREPA employees, please see Section 3.2 in the 2022 PRIDCO Fiscal Plan. This Fiscal Plan assumes PRIDCO covers payroll costs for currently

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

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

¹³ Estimated rental rate excluding PRIICO leases.

¹⁴ These 13 active employees were transferred pursuant to the provisions of Act 8-2017, as amended, known as the "Puerto Rico Human Resources Management and Transformation in Government Act." The employees were mobilized to PRIDCO from PREPA in connection with the transfer of responsibilities to operate and maintain PREPA's Transmission & Distribution System to LUMA.

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

3.3 Pay As You Go Pensions

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

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

3.4 Shared Services Memorandum of Understanding

DDEC and its subsidiary organizations have customarily relied on MOUs to facilitate the transfer to DDEC of services and costs related to business development activities and back-office staff functions. Under an MOU, DDEC is paid by the transferor, which is benefiting from the services but not directly incurring the costs. In the case of the PRIDCO MOU with DDEC, the amount transferred is referred to by DDEC and PRIDCO as the “DDEC Management Fee.” The DDEC Management Fee compensates DDEC for the costs incurred with back-office services provided to PRIDCO. Throughout FY2023, PRIDCO and DDEC management teams made progress to implement best practices and reduce the DDEC Management Fee to improve fiscal performance. The result of these efforts are reflected in the post-measures forecast of the DDEC Management Fee as an incremental reduction in cost (see Exhibit 13). Those actions and further improvements to the MOU structure shall include minimizing unnecessary overlap of incurred expenses, aligning the DDEC Management Fee with the services provided, and setting expectations for the further reduction of the DDEC Management Fee over time.

In November 2020, PRIDCO and DDEC entered into a five-year MOU that regulates reimbursement by PRIDCO of back-office personnel and non-personnel costs incurred by DDEC to provide services to PRIDCO. For further information on the history of the DDEC MOU, please refer to Section 3.4 in the 2022 PRIDCO Fiscal Plan.

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

3.5 Enhancing Property Investment

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

¹⁵ These payroll costs incorporate salaries, as well as adjustments for healthcare, social security, and other benefits for these mobilized employees. As stated in Section 3.2.11 in Volume 2 of the 2023 CW Fiscal Plan, PRIDCO must also set aside 15% of the former PREPA employee salaries to provide the employer contribution to the PREPA employee retirement system.

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

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

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

EXHIBIT 6: BASELINE MAINTENANCE AND CAPEX FORECAST

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

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

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

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

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

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

3.6 EPA Litigation

Recent environmental litigation (initiated in 2015) related to the Maunabo Area Groundwater Contamination Superfund Site (the “Site”) has concluded that four of PRIDCO’s Trusteed Properties located on the Site contain elevated levels of hazardous substances in the groundwater. PRIDCO has been found liable to the United States government for response costs related to the Site that were previously estimated in the range of \$11 to \$12 million. PRIDCO is pursuing litigation against the tenants who occupied the property at that time (sites are now vacant); however, this litigation is in early stages.

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

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

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

Estimates of the amount and timing of future costs of environmental remediation are by their nature imprecise because of the continuing evolution of environmental laws and regulatory

requirements, the availability and application of technology, the indemnification of presently unknown remediation sites and the allocation of costs among the potential responsible parties. Per PRIDCO, based upon information presently available, such future costs are not expected to have a material effect on PRIDCO's financial position. However, this is subject to change, and such costs could be material to results of operations in a particular future year.

Chapter 4. 2023 PRIDCO FISCAL PLAN MEASURES

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

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

4.1 Payroll Measures

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

4.2 Pay as You Go Pension Measures

PayGo pension projections in this Fiscal Plan rely on demographic and actuarial estimations consistent with the 2023 CW Fiscal Plan. The forecast for FY2023 includes payments for approximately 630 pensioners that have retired from PRIDCO. Aligned with Section 4.2 of the 2022 PRIDCO Fiscal Plan, this Fiscal Plan reflects the benefits as provided for in the Commonwealth's Plan of Adjustment, which became effective on March 15, 2022.

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

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

4.3 Delinquency Rate Improvement Measure

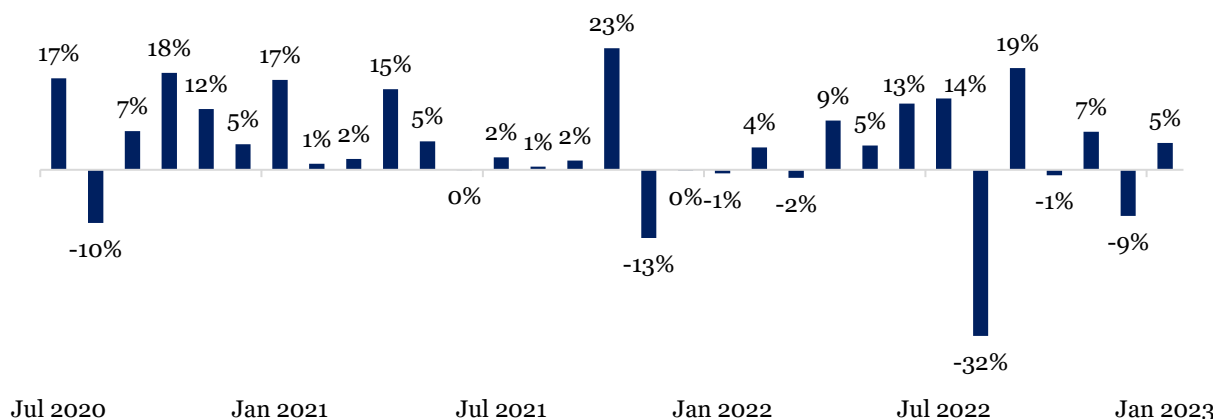
Delinquency rates at PRIDCO have historically been high, resulting in negative impacts on rental revenues. The average delinquency rate at PRIDCO from FY2020 to FY2022 was ~7.6%, resulting in considerable lost rental revenues.¹⁶

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

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

to ~0.6% year-to-date January 2023.¹⁷ Some of this improvement is related to the proactive collection of past-due rents, which is expected to abate and would increase the delinquency rate to more normalized levels. PRIDCO anticipates that future delinquency rates can and should improve from past performance. Accordingly, this Fiscal Plan requires PRIDCO to reduce long-term delinquencies to 4.3% of gross rental revenue on a monthly basis. The delinquency rate improvement in the post-measures forecast is reflected as a 0.5% annual improvement until PRIDCO meets the 4.3% target level by FY2029.

EXHIBIT 7: HISTORICAL DELINQUENCIES AS PERCENT OF GROSS REVENUE¹⁸



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

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

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

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

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

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

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

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

EXHIBIT 8: DELIQUENCY RATE IMPROVEMENT MEASURE

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

4.4 Expired Lease Measure

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

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

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

PRIDCO must continue to re-sign expired and soon-to-be expired leases at rates no less than the existing rental rate card, although updating the rate card itself, as described in Section 6.2, must also be accomplished as a way to further increase rent collections. Re-signing leases provides additional certainty on future revenues, as compared to the month-to-month structure currently in place upon lease expiry under the same terms and conditions, pursuant to Puerto Rico law.

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

This Fiscal Plan uses a ~\$883K target requirement for the increase in revenues as a result of this measure and extends the implementation through FY2026. To incentivize the implementation of this milestone, the Fiscal Plan permits access to a payroll allocation equal to the realized targeted revenue increase. Specifically, the payroll allocation can be used to hire up to two additional personnel. A schedule of the targeted increase is shown below. The Oversight Board will evaluate requests for additional payroll once sufficient documentation is provided for each of the expired leases that were re-signed up to a maximum of the annual target. To the extent benefits generated from the Expired Lease Measure exceed the salaries of the two additional personnel mentioned herein, the incremental residual amount can be allocated to discretionary Operating Expense items, subject to the approval of the Oversight Board.

EXHIBIT 9: EXPIRED LEASE MEASURE TARGETS

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

EXHIBIT 10: EXPIRED LEASE MEASURE

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

²² Excludes baseline revenues achieved from 32 renewed leases with a realized increase in revenue.

²³ Represents incremental payroll benefit from achieving target renewals.

4.5 Third-Party Manager Measure

In conformance with the 2021 PRIDCO Fiscal Plan requirements, the Feasibility Study was completed on July 31, 2022. The study evaluated the viability for outsourcing asset management via the hiring of a Third-Party Manager to institutionalize PRIDCO's management and leasing processes and improve its operational and financial performance. The Feasibility Study was also designed to meet the requirements of a desirability and convenience study consistent with the provisions of Article 7 of the Public-Private Partnership Act of Puerto Rico 2009 (Act 29-2009).

The 2022 PRIDCO Fiscal Plan included the conclusions of an initial draft of the Feasibility Study, which was released after the certification of the 2022 PRIDCO Fiscal Plan. This Fiscal Plan includes the final conclusions from the Feasibility Study, which are aligned with the same assumptions used in the 2022 PRIDCO Fiscal Plan.

The Feasibility Study makes it clear that procuring a Third-Party Manager to augment the current operational structure of PRIDCO would introduce private sector experience and expertise, relationships, and innovation. Additionally, implementing a third-party management approach within PRIDCO's current operations will enable the portfolio to become more efficiently managed and better positioned to serve the needs of PRIDCO's current tenants and community.

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

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

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

On the revenue side, the preliminary study shows hiring a Third-Party Manager will enhance revenues by (1) improving occupancy, and (2) improving strategic planning. There are three occupancy measures discussed in the study which are required by this Fiscal Plan. These three

required measures are: (i) a revenue increase from leasing (0.33%), (ii) a revenue increase from improved maintenance (0.33%), and (iii) a revenue increase from improved CapEx (0.33%). On a combined basis, the occupancy measures are expected to increase PRIDCO's tenant occupancy rate by an incremental 1% per year. The improvements in revenue are mainly due to establishing systems and processes that are known to improve the leasing operations and rent collections as well as automation, high-quality systems, and tested processes to execute all necessary maintenance on a routine and scheduled basis. It is worth noting that the measures are intertwined, and it is highly unlikely that the occupancy measures forecast in this Fiscal Plan, and the resulting increase in revenues, can be achieved without implementing other measures in this Fiscal Plan, including, but not limited to, the CapEx Improvement Measure described in Section 4.7.

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

On the expense side, hiring a Third-Party Manager in a manner consistent with the Feasibility Study would enable PRIDCO to significantly reduce other overhead costs. For example, there are several professional service costs that PRIDCO incurs due to the lack of in-house engineers, appraisers, and inspectors. The Third-Party Manager would provide these services at a lower overall cost as part of its monthly fees. Furthermore, there are several back-office functions provided by DDEC including finance, legal, and IT that would be covered by the Third-Party Manager. As such, this Fiscal Plan, aligned with the 2022 PRIDCO Fiscal Plan, requires PRIDCO to reduce (1) the fee paid to DDEC (see Exhibit 13), and (2) professional services fees paid by PRIDCO, by at least 60% within each category, through the hiring of a Third-Party Manager.

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

- The property management fee is related to the day-to-day activities of managing the properties including rent collections, arrangement of site tours, scheduling maintenance and repairs, direct communications with tenants, etc.
- The asset management fee is related to the overall portfolio level management requiring the allocation of resources through acquiring, developing, maintaining, and disposing of portfolio assets in the most cost-effective manner.
- The leasing fee covers an additional leasing commission that will be required by a Third-Party Manager to support improvements in the leasing process.
- The construction management fee supports management and oversight of the planning and implementation of all CapEx. The fee is required to help support the material increase in CapEx required in this Fiscal Plan.

This Fiscal Plan includes the estimated costs associated with the hiring of a Third-Party

Manager. Specifically, this Fiscal Plan includes an asset management fee of 3% of operating revenues²⁴, a property management fee of 3% of operating revenues, a construction management fee of 6% of CapEx,²⁵ and a leasing fee of 6% of new revenue generated from newly occupied SF each year. These percentages are consistent with estimates identified in the Feasibility Study.

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

EXHIBIT 11: THIRD-PARTY MANAGER TARGET IMPROVEMENTS

Item (\$ thousands)	FY24	FY25	FY26	FY27	FY28	FY24-FY28
Occupancy Measures	594	1,389	2,192	2,994	3,795	\$291,249
Better Strategic Planning	275	553	552	551	550	\$16,449
Revenue Improvement Target	\$869	\$1,942	\$2,744	\$3,545	\$4,345	\$307,698
Prof. Service reduction	964	1,303	1,321	1,338	1,357	\$48,847
DDEC Fee reduction	5,339	4,806	4,335	4,392	4,453	\$163,031
Management Fee	(4,318)	(4,446)	(4,510)	(4,563)	(4,617)	\$(155,525)
Leasing Fee	(684)	(925)	(927)	(925)	(924)	\$(22,519)
Expense Improvement Target	\$1,301	\$738	\$219	\$243	\$269	\$33,834
Estimated Net Effect²⁶	\$2,170	\$2,680	\$2,963	\$3,788	\$4,614	\$341,532

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

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

- This Fiscal Plan assumes \$2.5 million will be used for an emergency FEMA project in Coamo, as requested by PRIDCO.
- The remaining \$400K will be used to build out a business opportunities platform (\$300K; further discussed in Section 6.1) and other professional services needed (\$100K).
- To the extent PRIDCO would like to use these funds for another purpose, this must be addressed through the FY2024 budget process. The amount specified is all that is

²⁴ Excluding non-collections / delinquencies.

²⁵ Excluding FEMA-related CapEx.

²⁶ Does not include revenue improvement from Delinquency Rate Improvement Measure.

available for discretionary use at this time.

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

EXHIBIT 12: THIRD-PARTY MANAGER

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

4.6 Shared Services Measures on the MOU

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

As part of the Feasibility Study described in Section 4.5, the DDEC Management Fee was reviewed for the value of services provided. Given the overlap with the finance, legal, and IT services expected to be provided by a Third-Party Manager, the Feasibility Study clearly states an additional reduction in the DDEC Management Fee of no less than 60% and as much as 80% is warranted, so this Fiscal Plan (like the 2022 PRIDCO Fiscal Plan) assumes and requires a 60% reduction. PRIDCO shall implement this Third-Party Management reduction in the DDEC Management Fee.

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

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

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

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

4.7 Capital Expenditure Improvement Measure

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

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

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

- Maintenance CapEx
- Growth CapEx
- Demolition and Remediation Spending

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

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

Demolition and Remediation Spending. This includes investments to properties that require redevelopment or preparations for a potential sale. A number of PRIDCO's buildings are beyond repair or are in a state of disrepair such that rehabilitation is not viable or fiscally prudent. Based on available information, that group of properties includes approximately 136 units (across 84 buildings) that are potentially subject to demolition. Collectively, these buildings could expose PRIDCO to additional risk in various forms of liability (e.g., crime or injury).

A \$15 million demolition reserve was set aside to demolish 33 uninhabitable properties due to life-safety concerns.²⁷ PRIDCO shall utilize these funds subject to a detailed spending plan currently being developed by PRIDCO management and subject to Oversight Board review and approval. The proposed timeline to complete the demolition work for several of these properties has been prepared and submitted to the Oversight Board. Detailed spending plans must be developed once demolition costs are confirmed through an open RFP process.

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

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

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

To understand the magnitude of PRIDCO's capital needs and assess the reasonable level of capital spending required to maintain and restore PRIDCO's facilities, previous fiscal plans required the completion of an Expanded CapEx Study. This study was completed on February 28, 2022. For further information on the Expanded CapEx Study analysis process, please refer to Section 4.7 of the 2022 PRIDCO Fiscal Plan.

The Expanded CapEx Study concluded there is a critical and time sensitive need to invest in CapEx due to some level of necessary repairs for 94% of the buildings within the portfolio. Some key observations are included below²⁸:

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

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

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

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

- Accordingly, the Expanded CapEx Study concluded that \$392 million in CapEx were required in total to rehabilitate PRIDCO's portfolio over the next ten years. As noted in the Expanded CapEx Study, existing building condition assessment reports commissioned by PRIDCO during 2020 and 2021 from locally based certified structural engineering firms cited a capital need of \$360 million, indicating a low variation from the conclusions in the Expanded CapEx Study.
- The Expanded CapEx Study further stated that an outsized portion of the identified CapEx requirements was forecasted within the 12-month immediate term window for assets in the most critical condition.
- According to the study, the most critical repairs required in the first year will cost an estimated \$216 million (see Exhibit 14). Roofing components represent 60% of the total.
- The East and West regions require ~60% of the critical estimated CapEx due to backlogged rehabilitation in the aftermath of recent hurricanes and seismic events.
- In addition to the \$392 million, \$53 million was estimated to be needed to address 88 properties²⁹, at least 33 of which were deemed structurally unsafe to enter, meaning that these buildings represented a potential life-safety hazard.
- When the study was completed, \$200 million in project worksheets had been submitted to FEMA for damages resulting from Hurricane Maria. An estimated \$90 to \$140 million of these reimbursements may potentially offset certain CapEx and repair requirements identified in the Expanded CapEx Study.

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

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

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

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

EXHIBIT 14: CAPITAL EXPENDITURE CRITICAL NEEDS TIMELINE³⁰

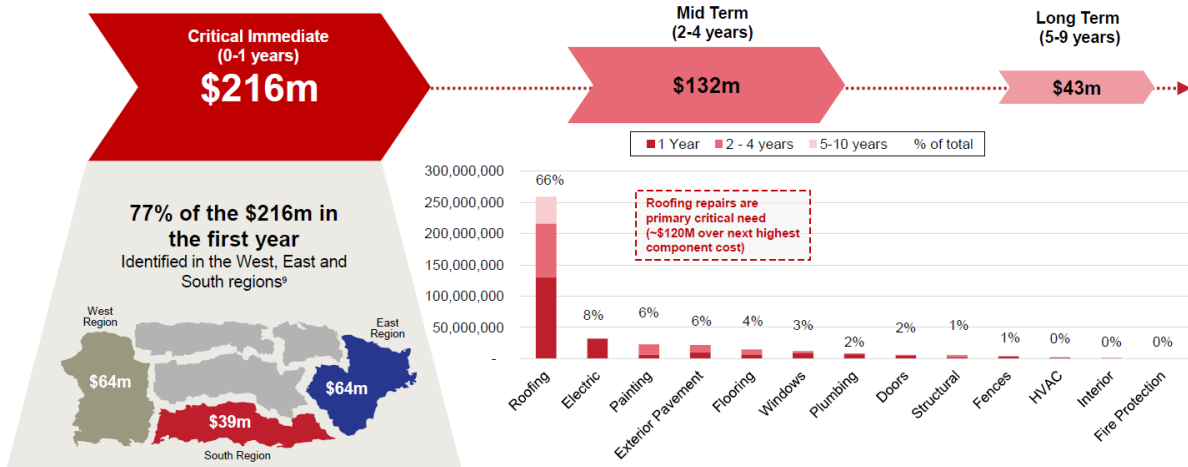


EXHIBIT 15: VARIABLE CONDITIONS OF THE PRIDCO PORTFOLIO



EXHIBIT 16: CAPEX SPENDING

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

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

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

CapEx Prioritization. The final determination on how to prioritize CapEx must take into consideration each property's revenue-generating potential, market need and demand, potential return on investment, and best-use analysis, among other considerations. This analysis includes consideration of the cost versus benefit of each investment and a sequencing proposal for the investment of proposed expenditures. This analysis will complement the existing Expanded CapEx Study findings. This Prioritization Study has been worked on throughout FY2023 in close collaboration between PRIDCO and the Oversight Board. The Prioritization Study will result in a comprehensive analytical tool for PRIDCO to utilize to make future CapEx prioritization decisions. As of the date of the certification of this plan, the study has been sustainably completed, and the prioritization tool has been shared with PRIDCO for finalization.

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

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

The magnitude of a properly funded CapEx reserve is determined by forecasting the remaining useful life of all building components and estimating their costs for each property. The 2022 PRIDCO Fiscal Plan included a CapEx reserve fund totaling \$20.2 million. The reserve was reduced by 50% in this Fiscal Plan to \$10.1 million, resulting in a minimum reserve level that is aligned with the average range of levels identified within the industrial warehouse operators in the United States.

To the extent additional surplus is generated beyond the forecast in this Fiscal Plan, a portion of that incremental surplus must be allocated to adequately fund the CapEx reserve fund faster than currently projected.

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

- Demonstrable tenant satisfaction and tenant experience (e.g. through higher tenant retention and greater realization of gross rents)

- Lower repair costs by preparing a schedule to repair and replace depreciated components in each of the properties
- In the case of demolition projects, that the demolition is warranted according to documented inspection

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

EXHIBIT 17: CAPEX PRIORITIZATION, RESERVE FUND AND MAINTENANCE SCHEDULING

Action Items	Owner	Timing/Deadline
Establish a dedicated bank account for CapEx Reserve Fund	PRIDCO	Completed
Submit an assessment of strategic prioritization of capital investment across the portfolio	PRIDCO	September 30, 2023
Submit a building-by-building schedule of the remaining useful life of all building components to support planning and funding for these expenditures	PRIDCO	February 29, 2024
Submit a policy document to define how the reserve will be utilized and funded	PRIDCO	April 30, 2024

4.8 Rent Escalation Measure

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

4.9 Occupancy Process Optimization

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

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

As initially discussed in Section 4.3, a review of PRIDCO’s leasing process from prospect to closing by measuring cycle time, identifying inefficiencies, and comparing results to benchmarks was completed on July 31, 2021, in a report entitled the Systems Assessment and Occupancy Process Optimization Report. This report identified that PRIDCO’s biggest

occupancy challenges are (1) the pursuit of new business/tenants; (2) getting new tenants to start the leasing process; and (3) identifying and pursuing opportunities to sell properties that no longer fit PRIDCO's mission or objectives.

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

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

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

Throughout FY2023, PRIDCO undertook several initiatives related to marketing efforts to improve occupancy, indicated below³¹:

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

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

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

Manager is hired, and it is also predicated on the successful and timely CapEx investments being completed as described in Section 4.7 of this Fiscal Plan. Accordingly, PRIDCO must achieve the milestones as set forth in Exhibit 18.

EXHIBIT 18: OCCUPANCY PROCESS OPTIMIZATION

<u>Action Items</u>	<u>Owner</u>	<u>Timing/Deadline</u>
Submit an evaluation of outsourcing the leasing process to a broker or group of brokers	PRIDCO	January 31, 2024
Appoint a head of leasing	PRIDCO	March 31, 2024

4.10 Divestment of non-rentable properties

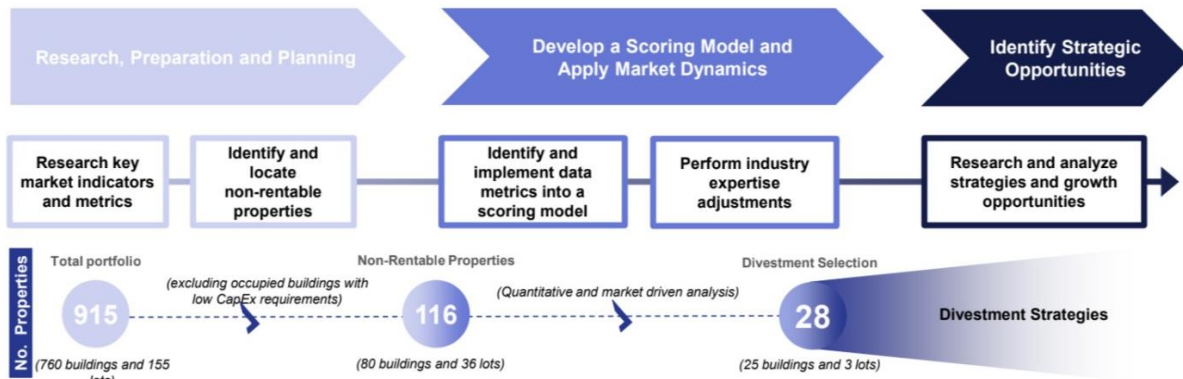
A Divestment Study was developed to provide PRIDCO with a plan to divest non-rentable properties that require either significant investment to restore them to rentable condition or ongoing expense to protect the property or the public. The study was completed and released on September 9, 2022. The study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

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

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

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

EXHIBIT 19: DIVESTMENT STUDY APPROACH³²

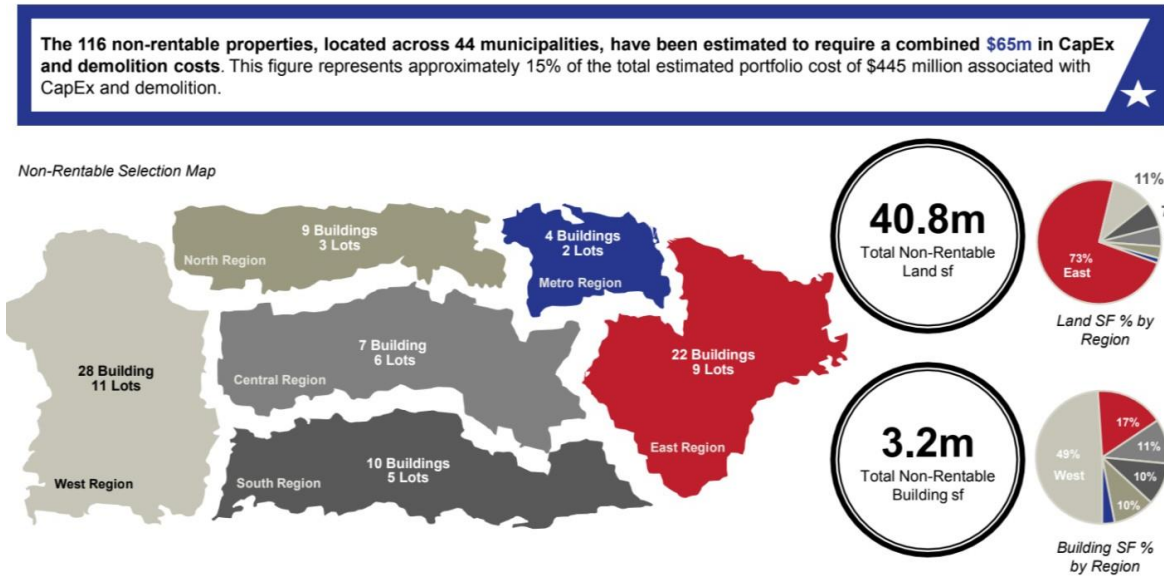


Key findings include:

- At the time of the Divestment Study, PRIDCO had 915 properties within its portfolio, 116 of which were determined to be non-rentable.
- Non-rentable properties identified to have divestment potential in the study include 80 buildings and 36 lots, including 40.8 million non-rentable land SF and 3.2 million non-rentable building SF. These properties are heavily concentrated in the East and West of Puerto Rico.
- Properties were allocated into five buckets of varying divestment potential, with Tier 1 properties and lots assumed to have the highest absorption in the market.
 - 25 buildings and 3 lots are assumed within Tier 1 of Divestment Study.
 - At the time of the Study, Tier 1 properties were estimated to require a combined \$17.5 million in CapEx and demolition costs. Divestment of these assets would result in a total estimated CapEx and demolition cost reduction of 4% compared to the \$445 million backlog need identified in the Expanded CapEx Study (\$392 million in CapEx and \$53 million demolition).
 - Tier 1 properties have estimated proceeds from divestment of \$8.5 million - \$21.5 million, excluding CapEx and demolition costs.

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

EXHIBIT 20: GEOGRAPHIC OVERVIEW OF NON-RENTABLE SELECTION



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

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

Given the lack of visibility into the realizable value and timing of strategic divestitures, these cash flows are presently excluded from the projections in this Fiscal Plan. However, proceeds from the sale of these properties may potentially result in a higher projected surplus.

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

EXHIBIT 21: DIVESTMENT OF NON-RENTABLE PROPERTIES

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

Submit detailed action items to implement the conclusions of the divestment of non-rentable properties study, as well as a monthly reporting template to monitor implementation	PRIDCO	September 30, 2023
Submit a monthly status update on sales process (pipeline and non-rentable condition report)	PRIDCO	October 31, 2023, <i>monthly thereafter</i>

Chapter 5. PROJECTIONS POST-MEASURES

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

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

- Implementation of the Third-Party Management Measure improving revenue through higher occupancy and better strategic planning as well as a reduction in expenses for DDEC and professional services fees (offset by a new Third-Party Manager Fee)
- Delinquency Rate Improvement Measure
- Capital Expenditure Improvement Measure
- Expired Lease Measure and the associated payroll incentive
- Payroll measures including Uniform Healthcare and the payroll freeze until FY2023
- Increase in operating expenses driven by rental revenue growth
- Additional adjustments to reflect latest portfolio data and incremental DDEC Management Fee reduction shared by PRIDCO

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

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

\$ in thousands

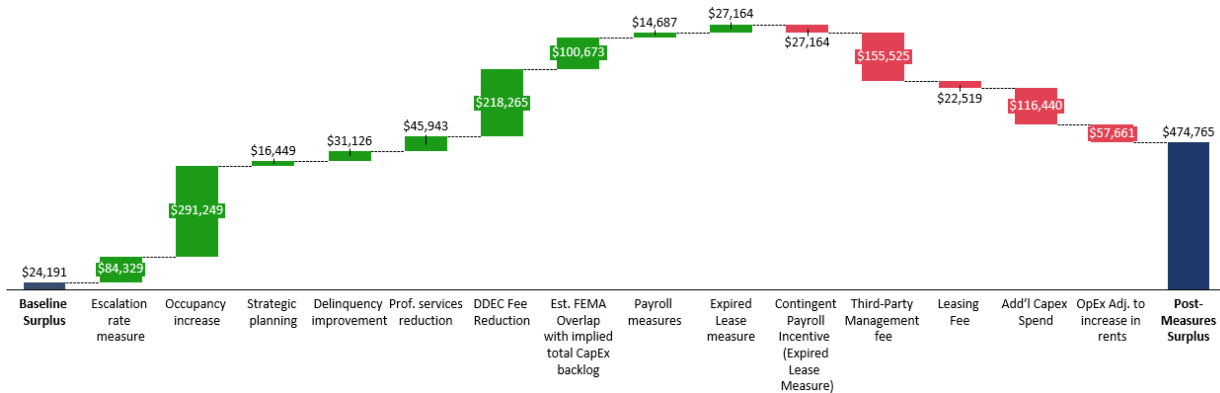


Exhibit 23 bridges the 30-year \$133.3 million post-measures surplus projected in the 2022 PRIDCO Fiscal Plan to this Fiscal Plan’s projected surplus. The main drivers for the significant increase in the projected surplus are adjustments to CapEx savings and incremental reduction in the DDEC Management Fee. Another factor that drives the surplus increase is PRIDCO’s better-than-expected revenue performance in FY2023³³, which is reflected incrementally across the forecasted period.

³³ As provided in PRIDCO’s May 12, 2023, NOV response.

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

\$ in thousands

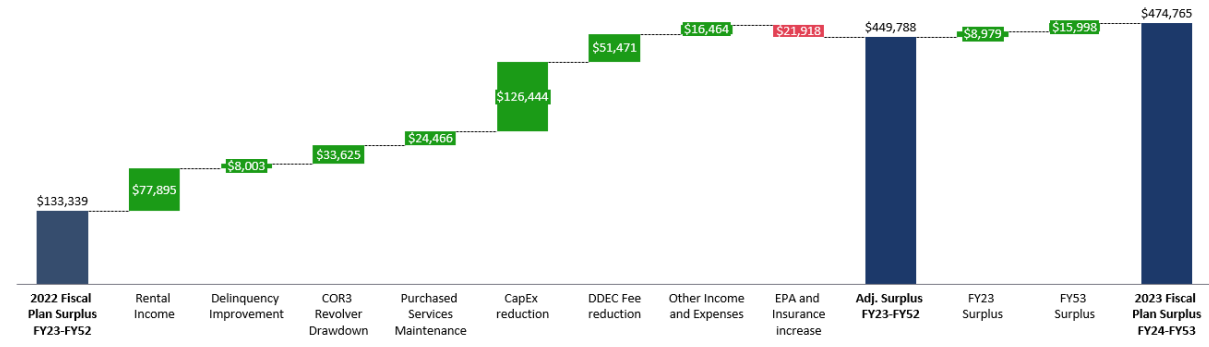


Exhibit 24 illustrates PRIDCO’s financial projections after fiscal measures. The post-measures projections estimate a 30-year surplus of ~\$474.8 million before debt service. For more detailed estimates of the long-term post-measures forecast, see Appendix 2.

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

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

³⁴ For years in which deficits are projected in this Fiscal Plan, available unrestricted cash and prior year surpluses will be used as the funding source for CapEx and certain other operating costs

Chapter 6. STRATEGIC INITIATIVES

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

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

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

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

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

6.1 Needs Assessment of Real Estate Information Systems

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

market.

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

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

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

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

- FAS is inadequate for PRIDCO's ongoing and future requirements.
- PRIDCO must evaluate the cost-benefit of substituting FAS with a system tailored for real estate operations.
- PRIDCO must conduct a competitive process to select a software platform that combines integrated commercial/industrial property software with finance, leasing, and property management modules (subject to input from the Third-Party Manager).
- While the Third-Party Manager RFP process is being finalized and the onboarding process of the selected manager is being launched, PRIDCO must:
 - Improve communications and coordination between the Finance, Real Estate-property management, and Legal departments.
 - Develop and implement a process for timely input of data to FAS, including assigning a dedicated resource with adequate senior management support as

owner of FAS coordination and communication.

- Begin the conversion of all property management paper files to digital files.
- Continue to aggressively track and collect past-due A/R and enforce terms of lease agreements.
- Develop monthly reports on status of real estate portfolio, A/R, CapEx projects, leasing activities, etc. that will provide management with adequate information to proactively manage real estate operations.

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

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

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

The Systems Assessment and Occupancy Process Optimization Report concluded it is in PRIDCO’s best interest to transition from FAS to a real estate industry-specific software program. This Fiscal Plan requires the implementation of the recommendations in the Systems Assessment and Occupancy Process Optimization Report and, accordingly, PRIDCO must achieve the milestones set forth in Exhibit 25.

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

EXHIBIT 25: REAL ESTATE INFORMATION SYSTEM

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

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

6.2 Update Rental Rate Card

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

As per PRIDCO, it is currently developing an RFP to receive proposals from real estate appraisal firms to assist in the review of market rates and evaluate the potential economic impact of an increase in rental rates. Updating the 2003 rate card would provide several benefits to PRIDCO's real estate portfolio. It would, for example, establish a basis for all negotiations with future companies that are considering establishing a presence in Puerto Rico; currently, rates are set on a case-by-case basis. Furthermore, the updated rent cards would support negotiations for near-term expiring leases. Finally, a market rate analysis would support increases in revenue to accommodate PRIDCO's high cost to operate.

Accordingly, PRIDCO must achieve the milestones set forth in Exhibit 26.

EXHIBIT 26: UPDATE RENTAL RATE CARD

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

6.3 Inter-Government Real Estate Representation

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

Each participating entity must be granted access to relevant property information and availability under specific parameters to be established by PRIDCO and in a manner consistent with DDEC’s reorganization processes under Act 141-2018. Further, PRIDCO has indicated it will explore and implement strategies available to incentivize participating entities to present leasing or sales opportunities to prospective economic development targets or investors to facilitate a transaction.

PRIDCO has a dedicated employee who acts as a liaison with municipalities on a day-to-day basis. In addition, PRIDCO’s executive director participates in periodic regional meetings and briefs municipal leaders on opportunities within PRIDCO’s portfolio.³⁵ If a municipality identifies a potential tenant, it contacts the liaison to start the leasing process. The liaison must also proactively schedule separate meetings with municipalities on an opportunistic basis.

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

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

EXHIBIT 27: INTER-GOVERNMENT REAL ESTATE REPRESENTATION

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

³⁵ Data provided in PRIDCO’s May 12, 2023, NOV response.

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

7.1 Implementation of Fiscal Controls

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

- Pursuant to Sections 104 and 203 of PROMESA, not later than 15 days after the last day of each quarter of a fiscal year (beginning with the fiscal year determined by the Oversight Board), PRIDCO shall submit to the Oversight Board a report, in such form as the Oversight Board may require, describing (1) the actual cash revenues, cash expenditures, and cash flows for the preceding quarter, as compared to the projected revenues, expenditures, and cash flows contained in the certified Budget for such preceding quarter; and (2) any other information requested by the Oversight Board.
- In conjunction with the reports that PRIDCO must submit to the Oversight Board, no later than 15 days after the last day of each quarter of FY2024, pursuant to Sections 104 and 203 of PROMESA, PRIDCO shall produce monthly performance reports, which shall be submitted to the Oversight Board on the 15th day of each month, demonstrating the progress made on all key initiatives. Implementation reports must explicitly explain how budget-to-actuals reports tie to agency actions and reforms, and what is driving major discrepancies. These monthly reports shall include but not be limited to: (1) headcount by regular and transitory with more details in specific agency cases, (2) budget to actuals by cost category and concept, (3) milestones progress, (4) KPIs/leading indicators, and (5) achieved savings to date.
- The Oversight Board must approve in writing, in advance, any reprogramming requests for any appropriations approved in PRIDCO’s budget. For the avoidance of doubt, this prohibition includes any reprogramming of any amount, line item, or expenditure provided in this budget, regardless of whether it is an intra-agency reprogramming.
- The Executive Director of PRIDCO is responsible for not spending or encumbering during FY2024 any amount that exceeds the appropriations authorized for FY2024. This prohibition applies to every appropriation set forth in a budget certified by the Oversight Board, including appropriations for payroll and related costs.
- The Executive Director of PRIDCO shall also certify to the Oversight Board by September 30, 2023, that no amount was spent or encumbered that exceeded the appropriations and authorized spending in the certified budget for FY2023.

- In addition, PRIDCO shall submit to the Oversight Board a monthly reporting package detailing CapEx spending by project including details for expenditures that have RFPs issued, which contracts have been awarded, and which are in process of execution.
- The reports required pursuant to this section are in addition to the reports that PRIDCO must submit to the Oversight Board in accordance with Section 203 of PROMESA.
- On or before July 31, 2023, PRIDCO shall provide to the Oversight Board budget projections of revenues and expenditures for each quarter of FY2024, which must be consistent with the corresponding budget certified by the Oversight Board (the “Quarterly Budget”). The Quarterly Budget shall be provided to the Oversight Board in Excel format and include detailed allocations by concept of spend. Together with the report that PRIDCO must provide under Sections 104 and 203 of PROMESA not later than 15 days after the last day of each quarter, PRIDCO shall provide a quarterly variance analysis.
- If during the fiscal year PRIDCO fails to comply with the liquidity and budgetary savings measures required by this Fiscal Plan, the Oversight Board may take all necessary corrective action, including, but not limited to, the measures provided in Sections 203 of PROMESA.
- Pursuant to Section 204(b)(2) of PROMESA, the Oversight Board has maintained since November 6, 2017, a Contract Review Policy to require prior Oversight Board approval of certain contracts to assure that they “promote market competition” and “are not inconsistent with the approved fiscal plan.” The Policy applies to any contract or series of related contracts, inclusive of any amendments, modifications, or extensions, with an aggregate expected value of \$10 million or more, that is proposed to be entered into by the Commonwealth (which includes the Executive, Legislative, and Judicial branches of government) or any covered instrumentality, including PRIDCO. In addition, the Oversight Board may select to review contracts below the \$10 million threshold for these purposes, on a random basis or at its own discretion. Finally, in order to further ensure certain contracts promote market competition, the Oversight Board may require, at its own discretion, the Commonwealth, or any covered instrumentality, to give it access to ongoing procurement processes for the execution of new contracts. PRIDCO must comply with this policy, including when entering into any and all contracts involving the transfer of properties.

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

The above implementation and fiscal controls requirements are important tools to ensure the Government can make meaningful progress towards achieving the goals of this Fiscal Plan.

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

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

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

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

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

Chapter 8. DEBT SUSTAINABILITY ANALYSIS

The consolidated financial debt at PRIDCO, as of March 2023, totals approximately \$230.7 million, including³⁶:

- \$150.0 million (excluding accrued, unpaid interest) of the Revenue Bonds
- \$53.0 million (excluding accrued, unpaid interest) in loans owed to the GDB-DRA³⁷
- \$27.7 million in mortgages for PRIICO, a not-for-profit corporation whose only member is PRIDCO.^{38, 39}

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

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

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

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

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

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

³⁶ The Debt Sustainability Analysis does not account for potential infirmities with the debt, including whether the debt is merely an "appropriation debt" that will only be paid if the Commonwealth appropriates moneys for such use as well as other issues.

³⁷ GDB-DRA holds a \$25M loan payable from PRIDCO operating revenues and proceeds from the sale of select properties (the "PRIDCO-DRA Loan"); three loans totaling \$28M are payable from legislative appropriations.

³⁸ Data as of April 2023; per data provided in PRIDCO's May 12, 2023, NOV response.

³⁹ Revenues generated post-expiration of these mortgages could potentially be "dividended" up to PRIDCO, that is after PRIICO's debt is paid in full.

EXHIBIT 28: IMPLIED DEBT CAPACITY (\$ IN MILLIONS)

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

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

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

Appendix 1. Detailed 30-year baseline model⁴⁰

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

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

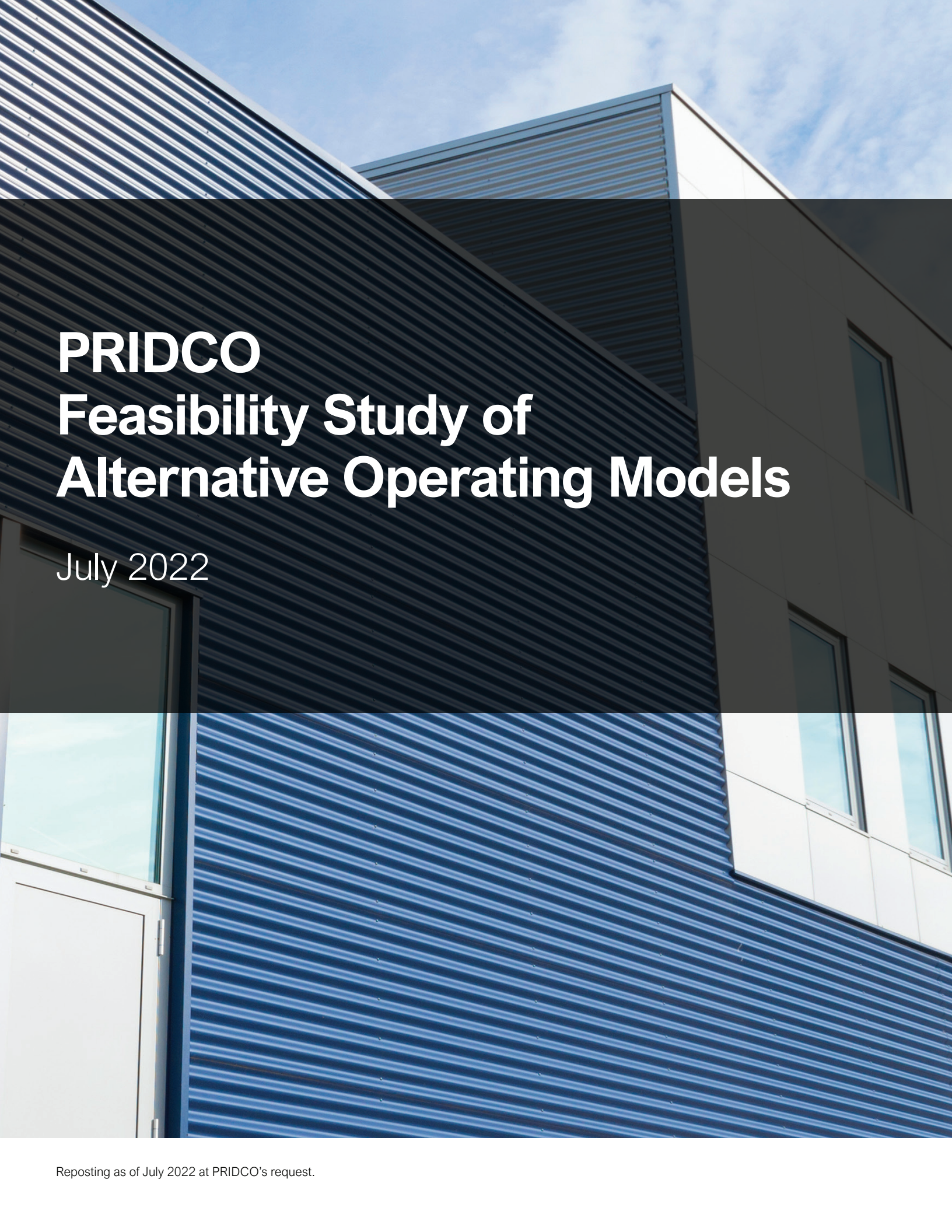
Appendix 2. Detailed 30-year post-measures model⁴¹

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

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

EXHIBIT F: 2022 FEASIBILITY STUDY

(Attached)

A photograph of a modern building facade. The building features a mix of materials: a prominent section of blue corrugated metal siding, a section of grey panels, and a white door with a glass window. The sky is blue with light clouds. The text is overlaid on the image.

PRIDCO Feasibility Study of Alternative Operating Models

July 2022

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General disclosure

- The PRIDCO Feasibility Study of Alternative Operating Models (the Study) has been prepared pursuant to the requirements of Act No. 29-2009, as amended, also known as the Puerto Rico Public-Private Partnership Act (Act), and the Regulation for the Procurement, Evaluation, Selection, Negotiation and Award of Participatory Public-Private Partnership Contracts under Act No. 29-2009, as amended (Regulation). This Study seeks to determine whether it is advisable and convenient for the Government of Puerto Rico (Government) to procure a public-private partnership (P3 or PPP) that consists of the management and maintenance of the real estate assets currently owned and operated by the Puerto Rico Industrial Development Company (PRIDCO) located in various municipalities across the Commonwealth of Puerto Rico, and consisting of properties occupied and unoccupied by either PRIDCO and its constituents, or through right-of-use agreements to the private sector including leased space within these properties.
- The Study was formulated in accordance with Section 7(b) of the Act and the different sections of the Regulation regarding the Desirability and Convenience Study of the Puerto Rico Public-Private Partnerships Authority (Authority). This Study was commissioned under the supervision of the Financial Oversight and Management Board (FOMB). This Study is based on information provided by PRIDCO, and market information obtained from sources believed to be reliable, including estimates and assumptions made by the FOMB and its advisors (the Advisors). Actual results may vary from those anticipated in this Study. Changes in local, state and federal laws, or shifts in the overall economic condition of Puerto Rico, may occur that can alter the assumptions and conclusions presented in this Study. It is recommended that further analysis and due diligence be conducted in subsequent phases of the Study.
- The estimates of the economic contribution of the construction and real estate industries presented in this Study are based on an input-output model of the Puerto Rican economy and the data and assumptions described elsewhere in the Study. Readers should be aware of the following limitations of the modeling approach and limitations specific to this analysis.
 - **The results show a snapshot of economic contributions in 2022.** The input-output modeling approach used in this analysis shows the 2022 economic contribution of the industry based on its relationships with other industries and households in the Puerto Rican economy. The analysis is at a single point in time (2022). The results do not reflect or attempt to estimate an expansion, contraction, any other changes or related impacts of the sector, including COVID-19.
 - **The opportunity cost presented in the economic impact analysis may not be comprehensive.** The estimated opportunity cost incorporates the private sector crowding-out effect (33%) resulting from an increase in government investment. The analysis does not fully capture other types of counterfactual scenarios related to the commercial rental, construction, labor and local capital market's response to increased supply and demand. Also, the Congressional Budget Office (CBO) estimate of a 33 cent reduction in private sector investment for each dollar spent by a government may vary significantly for an island economy or its real estate market.
 - **IMPLAN model is not based on computable general equilibrium (CGE) model and is entirely based on average multipliers rather than marginal effects.** IMPLAN multipliers reflect industry linkages in a local economy at a specific point in time but does not consider price elasticities or changes in consumer or industry behavior. The model only captures the demand side and assumes there are no capacity constraints.
 - **The economic effects presented do not truly compare traditional business to a third-party management approach.** The economic and social impact estimates in this report do not compare the change from PRIDCO's current level of operations to outsourcing to a private management agency. The economic impacts presented in this section should be viewed as an impact of every additional \$10 million spent in repairs and maintenance of PRIDCO properties regardless of who manages the capital expenditures.

- **Modeling the economic contribution of the construction and real estate industries relies on government industry classifications.** This Study relates the activities of the construction (NAICS 23) and real estate (NAICS 531) industries as defined by the North American Industry Classification System (NAICS) to most effectively estimate the industries' economic contributions. Workers in the construction and real estate industries are assumed to receive the average wages and benefits of workers in their respective industry. They are also assumed to require the level of operating input purchases characteristic of the industries into which they have been categorized. This analysis relies on estimates of the domestically purchased inputs from the IMPLAN economic model, which are estimated using aggregate trade flow data and may vary by industry.
- **Economic and social impacts estimated in this report are impacts of PRIDCO's capital expenditures on the Commonwealth's economy and population and not on PRIDCO's operations.** The impacts outlined in Section 5 of the report represent the benefits the Island will incur due to additional PRIDCO's capital spending towards maintaining and improving its properties. These economic and social impacts are not estimated to affect PRIDCO's finances."
- **Estimates are limited by available public information.** The analysis relies on information reported by the US Bureau of Labor Statistics (BLS) and IMPLAN. Since per-work labor incomes in the IMPLAN database were too large, average wages from the BLS Quarterly Census of Employment and Wages (QCEW) plus legally required fringe benefits were used instead. The analysis did not attempt to verify or validate this information using sources other than those described in the Study.
- **Economic output reported in this Study includes double counting.** Input-output modeling can include double counting in its indirect and induced estimates, especially while estimating gross economic output. Economic output should not be interpreted as gross domestic product or value-added.
- **Social impact benefits assume property managers and asset managers are able to increase the level of capital expenditure (CapEx) and demolition.** The social impact benefits are predicated on increased levels of CapEx. The basis of the social impact benefits was mainly academic studies conducted in the context of US cities, and the effects in rural areas in Puerto Rico could potentially be different. Additionally, underlying economic conditions within these cities could be substantially different than neighborhoods where PRIDCO properties are located.

Executive summary

Background and Key Findings

- The Financial Oversight Management Board (FOMB) has commissioned a study to evaluate alternative third-party management operating models for the Portfolio (as defined in Section 1.1) as compared to the current “business as usual” approach.
- Internal management interviews, market research, and tenant surveys indicate there are many opportunities for operational improvements to reduce bottlenecks and optimize PRIDCO’s goal of economic development.
- Detailed reviews of the historical and projected financial performance of the portfolio estimate significant improvement of between \$6-\$11 million to PRIDCO’s annual surplus within the first year due to the potential enhanced efficiencies.
- The Economic and Social impact studies (as defined in Section 5) included within the analysis point towards strong potential for growth in jobs, community value generation, and improvement to the overall health of the Commonwealth of Puerto Rico.

It has been determined that by implementing the third party management approach within the current PRIDCO operations the portfolio will become more efficiently managed, innovative and better positioned to serve the needs of the current tenants and community.

***Note:** All analysis and findings are subject to the terms and conditions within third party contracts, external factors, and future economic activity.

Introduction

For PRIDCO to maintain the portfolio to high quality standards, certain strategic initiatives were outlined within the 2021 Fiscal plan including: “improving its capital expenditure funding plans, pursuing measures to drive increased occupancy, conducting a needs assessment relating to information systems, and evaluating the feasibility of alternative operating models.” To achieve the desired objective of evaluating alternative operating models, the FOMB has commissioned this study to evaluate the impacts of implementing third party asset and property managers

within the current operational structure (as defined in Section 4.1.2) the (“third party management”) approach.

This Study aims to determine the feasibility of the third party management approach by comparing the traditional business as usual (as defined in Section 4.1.1) (“Business as usual”) method with a market-oriented, third party management approach. The Advisors have facilitated the development of this Study at the request of the FOMB, acting on behalf of PRIDCO to support the needs and objectives of the Portfolio.

Qualitative assessment

This Study evaluates the two operating methods that may be available to PRIDCO as options for the analysis. These include both the traditional Business as usual management model that PRIDCO currently employs to operate the portfolio, as well as the third party management approach. Under the third party management approach, the private party shall be responsible for augmenting the operations, maintenance, improvements, and management of the Portfolio, with PRIDCO retaining ownership of the Portfolio.

There are potential drawbacks associated with the third party management approach revolving around the potential outcomes of transferring certain responsibilities and control to a private party. Therefore, following qualitative analysis of the various management models, a partnership agreement may be negotiated and agreed upon to utilize current PRIDCO employees with the enhanced functionality of an experienced third party manager to enhance standards set within PRIDCO.

Quantitative assessment

The overall results of the analysis demonstrate that the third party management approach is estimated to provide the greatest increase in net cashflows of the Portfolio and social/economic impacts to the community. The third party management approach is estimated to increase the net cashflows of the property by \$20 – \$50 million over a five-year period depending upon the terms and conditions of the newly initiated operating agreement. All analysis and findings are subject to the terms and conditions within third party contracts, external factors, and future economic activity. The estimated surplus has been incorporated within the commissioned 2022 PRIDCO Fiscal Plan.

Economic and social impact

In order to understand the potential effects of the third-party management approach, the economic impacts of the potential increment in capital expenditures are analyzed. The analysis studied the impact of every \$10 million in capital improvement expenditures assuming the incentives related to construction fees under the property manager model would encourage accelerated spending and fast-track the economic effects of outstanding FEMA funding.

For every \$10 million accelerated FEMA spending, the economy gains a net impact of 64 jobs, \$2.4 million in labor income, \$3.9 million in value-added, and \$9 million in economic output. The net impact presented here accounts for the crowding-out effect where every dollar of FEMA fund spending reduces private sector investments by 33 cents. If the \$10 million of direct spending is financed through PRIDCO's own-source revenue rather than the FEMA fund, then the net gain of \$9 million in economic output would overstate the actual impact on the Island. This is due to a larger opportunity cost than crowding-out effects of 33% due to potential transfers of resources between sectors rather than a true new injection in the economy.

Whether or not the third-party management approach is implemented, there could still be an impact from additional PRIDCO's capital expenditures. Therefore, the total economic impacts presented in this Study should be viewed as an impact of every additional \$10 million spent in repairs and maintenance of PRIDCO properties regardless of who manages the capital expenditures. Nevertheless, it is important to note that PRIDCO has not been able to spend the money it has allocated for capital expenditures in recent years, and continued delays in spending the money impose a cost to the Puerto Rican economy. An argument can be made that there is an additional economic benefit of spending the allocated amount immediately due to the time value of money, which can be encouraged through outsourcing the asset and property management functions of PRIDCO to a private entity.

A review of external literature suggests that if property and asset managers can successfully increase occupancy rates and rehabilitating buildings, then there could also be some social effects from increased property values and public safety benefits. However, the estimated potential economic and social benefits are predicated on the property and asset managers increasing occupancy rates, accelerating capital improvement expenditures above current levels, and demolishing buildings in states of disrepair while still being able to meet the underlying policy objectives of PRIDCO. If the property and asset manager is unable to achieve these goals, or otherwise pursues its own objectives that are not aligned with PRIDCO's objectives, then these benefits outlined will not come to fruition, and the outsourcing can instead lead to a waste of resources rather than efficiency gain. To mitigate the risk of this happening, it is important that the contract between PRIDCO and the management firm be structured in a manner that properly aligns the contractor's incentives with PRIDCO's underlying policy objectives. PRIDCO should actively monitor the contractor's performance, including surveying tenants to understand their perspective on contractor performance. PRIDCO should have the ability to promptly dismiss any contractor that fails to fulfill its obligations.

Third party management will lead to

- Improved efficiency
 - Enhanced innovation
 - Best positioning to serve the needs of the tenants and communities
-

Conclusion

Although the business as usual option offers familiarity, it does little to fulfill many of the Board's and PRIDCO's strategic objectives such as improving collections, portfolio optimization, and cost reduction, with the resources that are currently available. Alternatively, procuring a third party manager to augment the current operational structure of PRIDCO introduces private sector experience and expertise, relationships, and innovation. This could result in reduced cost exposure, increased revenue, and enhanced operational capabilities. In addition to this direct monetary benefit, utilizing third party management appears to better position the Portfolio to serve the needs of the current/future tenants, and thus the needs of Puerto Rico's economic development.

1

Study background

1.1 PRIDCO overview

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

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.

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

1.2 Asset and property management

Asset management is the process of maximizing investment value by acquiring, developing, maintaining and disposing of assets in the most cost-effective manner. Asset management commonly refers to a service performed by asset management professionals, such as portfolio managers or financial advisors, who manage investments and make decisions on behalf of their clients. In the real estate industry, the asset management process generally involves cross-functional collaboration from departments such as leasing, information technology, maintenance and finance.

While an asset manager is concerned with the high-level functions of a portfolio, a property manager is often utilized to handle the routine day-to-day activities of managing the properties. These responsibilities may include rent collections, arrangement of site tours, scheduling of maintenance and repairs, direct communications with tenants and more. Property managers play an important role in supporting asset management with achieving their goals of increasing revenue, creating value-add opportunities and optimizing the portfolio for the long-term. Depending on the operating structure and specific responsibility, the duties of an asset manager and a property manager may overlap. Some responsibilities within these two parties can still serve the same goal and from a property owner perspective, it is fair to say that they both work to increase overall efficiency in business operations in order to generate better investment returns. Therefore, the role of asset managers shall penetrate almost all management functions and departments within a successful organization. Key departments involved in the asset management process include IT, leasing, maintenance and finance.

Key functions in real estate management

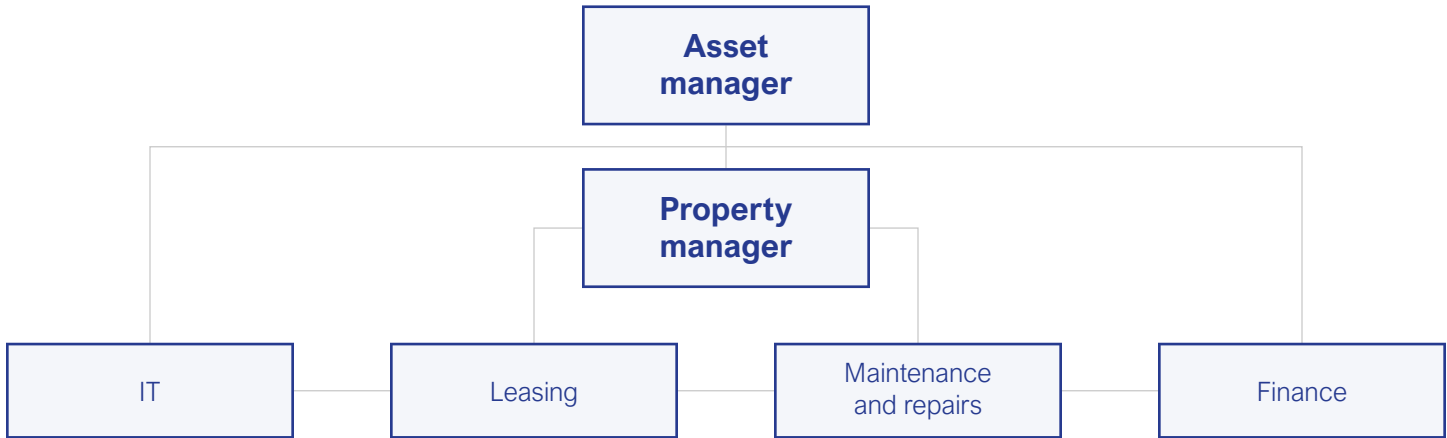


Figure 1: Asset management hierarchy and key functions.

1.2.1 Leasing

The leasing department is responsible for the entire leasing process, from handling property turnovers to lease execution. During the marketing phase and the process of signing a lease, the leasing department usually prepares marketing flyers, arranges site tours for prospective tenants, negotiates lease terms and finalizes all relevant leasing documents. Before the lease term ends, the leasing department proactively engages the existing tenant and initiates conversations regarding renewals, lease amendments and/or terminations based on agreed-upon terms. If a lease is terminated, the leasing team is generally responsible for coordinating with licensed inspectors to perform inspections at the space before releasing the space to the market. The primary objectives of the leasing department are to reduce marketing time and vacancy, secure reliable tenants according to the strategic business plan and ensure that all agreements are signed properly. It is important for this team to always focus on efficiency throughout the leasing process and actively communicate with prospective and existing tenants. Functions that the leasing department serve, can be greatly augmented by third party asset management and/or real estate leasing brokers who specialize in the given market and asset types and are often paid commissions which aligns them to the success of a business strategy.

As mentioned above and shown in Figure 2, one key objective within the leasing department is to establish and maintain important relationships. These relationships can be with existing or prospective tenants as well as contractors or engineers who work on the properties. A Customer Relationship Management (CRM) system is essential for leasing managers to maintain a healthy portfolio and pipeline of prospective tenants. CRM is within the category of integrated data-driven software solutions that allow leasing managers to cultivate prospective or existing tenant relationships, track marketing times and pipelines, and ultimately support leasing managers as they make data-driven decisions.

Leasing Process Timeline

Efficient leasing teams follow standardized operating procedures in the event of tenant turnovers that generally follow these steps:

1. Tenant terminates lease and vacates the property
2. Leasing agent coordinates with engineering team to conduct all necessary property inspections
3. The property is marketed to prospective tenants
4. Any necessary repairs as determined by the inspections are budgeted, planned, and implemented throughout the marketing phase
5. New tenant is identified and term negotiations begin
6. Any specific renovations required by the tenant are completed
7. New lease is commenced and tenant moves in

Relationship management

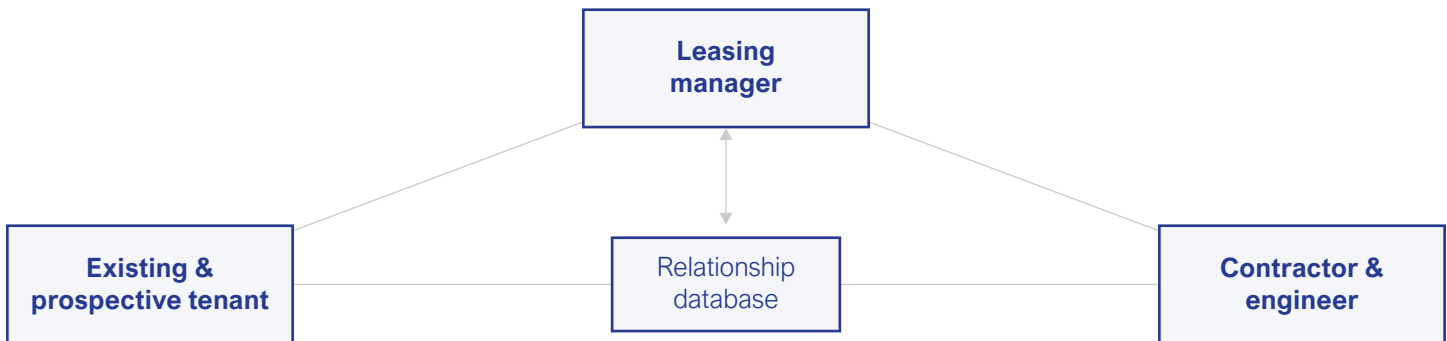


Figure 2: Relationship management

IT primary functions

- Governance
 - Infrastructure
 - Functionality
-

1.2.2 IT

The IT department manages all technology that the business uses, such as network management, technical support, software development and data storage. The three major functions of IT are governance, infrastructure, and functionality.

The IT department is involved in governing the use of the network and operating systems, providing the infrastructure for automation, and assisting with providing the operational units the functionality they need. As part of the asset management process, the IT department is responsible for storing tenant and leasing information in the software database. A high-quality database generally includes lease agreements, a history of receivables for each property, legal documents, amendments and more.

A key driver of successful asset management is efficiency. Functional IT software can increase the IT department's ability to automate routine tasks, which would increase the overall efficiency of the business and ultimately support management in data-driven decision-making. It is common practice for major Real Estate portfolio IT teams to purchase third party software systems that can be implemented and operated by the internal IT team of the given portfolio.

1.2.3 Maintenance and repairs

The maintenance department is responsible for day-to-day maintenance of the property. Key responsibilities and activities commonly handled by property managers are receiving and assessing maintenance and repair requests from tenants, inspecting, and determining needs of capital expenditures, preparing budgets for general repairs or capital expenditures, coordinating and arranging all required engineering inspections, and tracking any repairs and construction progress. The maintenance department serves an important role in facilitating all day-to-day service related communications between the tenants, the property owner, and any other relevant departments. The ultimate goals of the maintenance department are to keep the properties in quality condition and enhance the functionality of spaces to align with business operations.

1.2.4 Finance

The finance department is responsible for managing funds and planning for expenditures within the organization. Key responsibilities include recording accounts and customers; managing payments, billings and invoices; reviewing and approving construction plans and budgets; and keeping track of financial documents.

Many companies use IT software to manage day-to-day activities that also serve the accounting functions, such as booking and recording rents and expenses, or automating routine tasks that can decrease accountants' and bookkeepers' needs. These software systems can drive the daily workflow and overall efficiency in the business.

The finance department also actively communicates with other internal departments to approve and process all payments to employees and vendors or other third parties.

The finance department is also responsible for regularly reviewing the business's financial performance and forecasting for the future. A high-functioning finance team should have a strong understanding of the business outlook and investment goals to perform these reviews.

Based on the business's current financial performance, the finance team will forecast and directly report to management with the strengths and weaknesses of the business moving forward. Although the finance department is considered a back-office role, the activities and functions it serves are essential to a proper business operation.

1.3 Overview of current asset management functions

PRIDCO's current management structure is split between two overarching groups: front office and back office. Front-office roles within a real estate company generally deal with the direct obligations of placing tenants and maintaining the properties, while back-office roles generally focus on supporting the underlying development of the portfolio. As detailed within Act 141-2018, the back-office roles that historically sat underneath the PRIDCO umbrella have since been shifted to DDEC and depending on the group, now serve all 11 of the DDEC entities. PRIDCO's operational structure is outlined within Figure 3 below and further defined within Section 3.1.

PRIDCO Portfolio Operating Structure

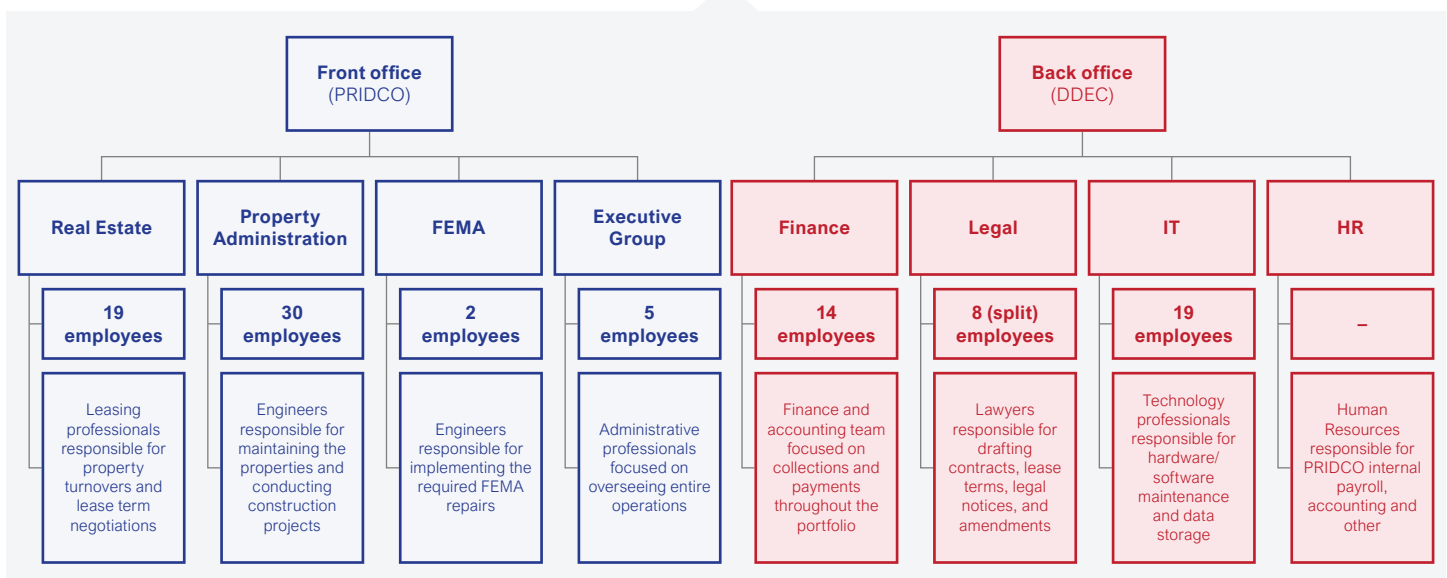


Figure 3: The organizational structure of PRIDCO.

2 Analysis and approach

The approach used in this analysis focuses on understanding the current state of operations at PRIDCO and determining the most efficient go-forward actions. It is important to consider both qualitative and quantitative factors within the analysis. Methodologies used as part of this analysis are centered around commonly accepted principles used by private sector real estate portfolios as well as state and federal governments when determining the most efficient plan of action for real estate asset management of public sector entities. The following major actions listed throughout this section were completed as part of this scope.

Economic and social impact analysis

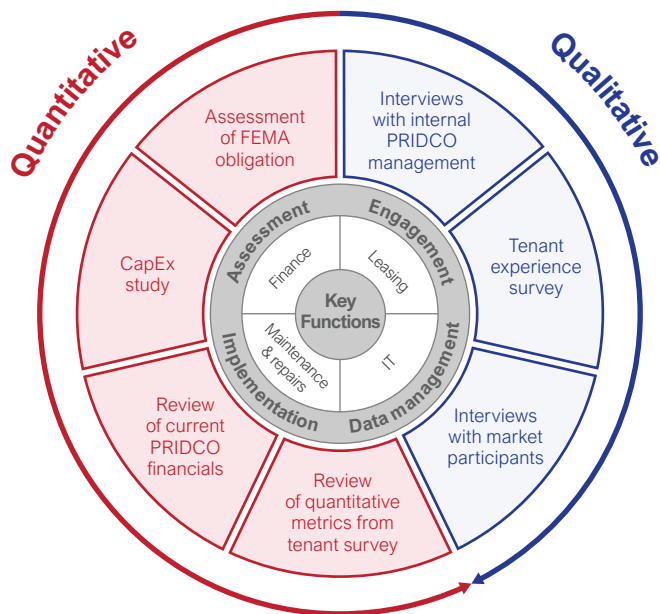


Figure 4: Integrated view of the analysis and approach of this study

2.1 Qualitative

2.1.1 Interviews with internal PRIDCO management

Nine PRIDCO employees across seven departments were chosen for interviews based on their direct responsibilities within the management of the portfolio properties. These interviews were conducted to gain a detailed understanding of the internal operations of PRIDCO and the day-to-day functions involved with maintaining the Portfolio. These discussions guided the analysis to ensure that the Study's goals were relevant to PRIDCO's current state and the Fiscal plan objectives.

2.1.2 Tenant experience survey

An electronic survey was distributed to the entire list of PRIDCO's current tenants (n=~500) to gain an understanding of the Portfolio from the customers' perspectives. There was approximately a 20% response rate. The survey's questions provided background as to the tenant satisfaction levels with the properties and current management.

2.1.3 Interviews with market participants

More than 10 experienced market participants were interviewed throughout the process to gain third party knowledge. These representatives from reputable institutions have strong real estate backgrounds, networks and qualifications throughout Puerto Rico and the US. The information gathered from these sources is vital as a supplement to the findings from the internal PRIDCO personnel.

2.2 Quantitative

2.2.1 Review of current PRIDCO financials

A detailed review of the current PRIDCO financials was performed, utilizing the most up-to-date data used in developing the 2021 Fiscal Plan model.

2.2.2 Tenant Experience Survey

Along with the qualitative findings from the tenant survey, there were many quantitative metrics gathered and tracked from the tenants. Figures such as lease status, building use types and required maintenance metrics were gathered from the respondents and were then extrapolated across the remaining Portfolio.

2.2.3 Capital expenditure study

Per the 2021 PRIDCO Fiscal Plan strategic initiative, Section 6.3 Capex Reserve Fund – Expanded Study, it was required to complete a study as defined as “a Capital Expenditure (CapEx) analysis of the Portfolio consisting of 764 buildings and 23 million sq. ft.” Within the study, interior site visits were completed to study the property conditions and develop an estimated CapEx plan over the next 10 years. The data from these detailed site visits was aggregated and synthesized to determine portfolio deficiencies and identify opportunities for capital investment.

2.2.4 Assessment of Federal Emergency Management Agency (FEMA)

During the CapEx study, it became apparent that PRIDCO is currently in the process of a major project to submit, collect and implement major renovations across the portfolio in accordance with the FEMA natural disaster recovery program. As of December 2021, PRIDCO has submitted claims and received FEMA obligations of \$181 million for necessary repairs related to the damages caused by Hurricane Maria in 2017. These claims have been reviewed and consolidated to determine the impact on the portfolio and any potential crossover to the findings of the CapEx plan.

2.3 Economic impact and social impact analysis approach

The economic impacts of the potential increase in capital expenditures on PRIDCO properties were estimated using economic models based on an input-output matrix. This matrix is produced by IMPLAN LLC and represents the industry supply chain connections within the Puerto Rican economy. The IMPLAN database is widely used throughout the United States for impact analyses by state and local economic development agencies, private-sector companies and trade associations. However, IMPLAN models have significant limitations, which are outlined in the General Disclosure and subsequent sections. There are several economic measures presented in this study.

These include:

- Employment: Full-time and part-time jobs across Puerto Rico (on a full-time equivalent basis).
- Labor income: Salaries, wages, and benefits.
- Value added: Labor income plus indirect business taxes, consumption of fixed capital (depreciation), and mixed income.
- Gross economic output: Sum of value-added and intermediate input (supplier) purchases. This is usually equivalent to an industry’s revenue and is considered the broadest measure of economic activity and includes double counting.



The components of total economic impact are described below.

1. Direct economic contributions are related to PRIDCO's payments for required capital expenditures. They are the employment, labor income, value-added and economic output related to planned capital improvement expenditures made by PRIDCO.
2. Indirect economic contributions of employment, labor income, value added and economic output stem from local suppliers. This includes purchases made from suppliers during the improvement and management of PRIDCO's properties. Examples of these purchases include construction materials, safety equipment, vehicle rentals and software.
3. Induced economic contributions of employment, labor income, value added and economic output result from spending by the PRIDCO-supported suppliers. These are jobs at restaurants or grocery stores where certain employees spend their paychecks. Such employees are from construction and real estate firms responsible for the capital expenditures and property management and their suppliers

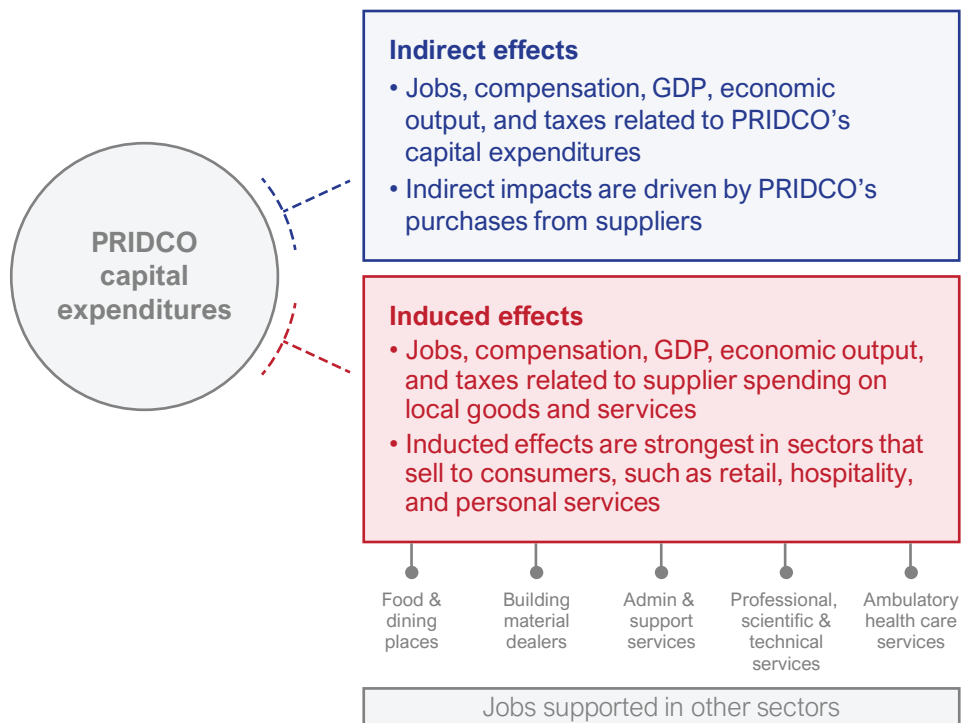


Figure 12: Economic impact methodology – capital expenditures

A thorough literature review was conducted to identify the social impacts of rehabilitating PRIDCO's properties. The review collected findings on the outcomes associated with the existence of vacant and/or dilapidated properties in a neighborhood, including lower property values and other public safety concerns.

A series of risks were identified from various studies and academic publications that highlight conditions that have caused public-private partnerships and outsourcing to fail in the past. Due to the limited scope of this proposed partnership, risks factors are mostly focused on proper alignment of the monetary incentives of the private entity with the strategic objectives of PRIDCO, and communication between the two entities. The risks section also identifies strategies to mitigate the possibility of failure of the proposed partnership.

3 Historical processes overview and rationale for demand

764
buildings

23.1 million
square feet

15 million
total leased square feet

1,520
rentable units

5
property officers
handling direct tenant
communications
throughout the island

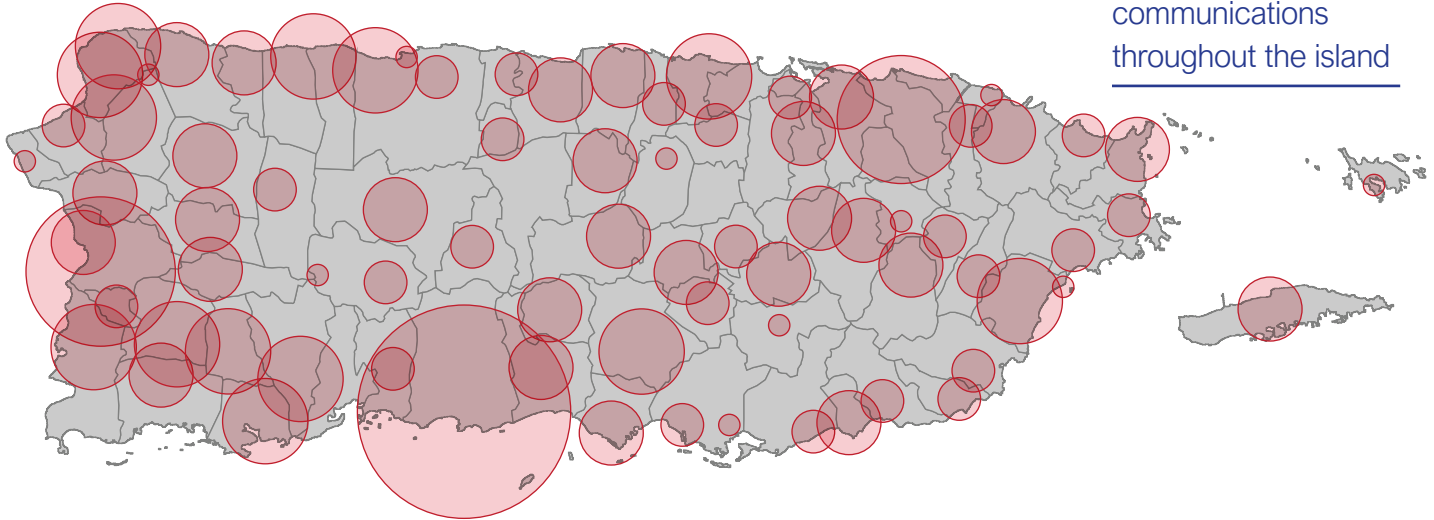


Figure 5: The Portfolio property heat map

3.1 Current state

3.1.1 Leasing

The primary functions of the leasing process are currently being conducted by the Real Estate group within PRIDCO. This group consists of one person within statistics and analytics, four administrative assistants responsible for any general tenant calls to be directed to the necessary departments, and two subcontracted lawyers for negotiations.

There have not been any properties purchased by PRIDCO since 2016, so all recent property turnovers have been caused by different types of lease terminations. Terminations are conducted in accordance with the terms of the standard lease contracts that have been agreed upon at the commencement of the leases. Based on conversations with the management team, all leases are drafted using a uniform template with standardized agreement language. These lease agreements, any necessary amendments and termination/renewal files are all stored within the Financial Accounting System (FAS) software system.

When a lease has been terminated and the property is vacated, the Real Estate team is responsible for coordinating with the Property Management group to ensure that all necessary property inspections are performed.

Environmental, structural, design and other inspections are performed by either in-house PRIDCO engineers or third party subcontractors. Based on their findings, a tenant can be responsible for any necessary repairs or maintenance on the building as pursuant to the lease agreement. Necessary repair costs are calculated by the property administration team and relayed to the finance team for collections.

Once the necessary repairs are performed, the internal statistics and analytics representatives determine the appropriate market rent of the property and the real estate officers coordinate the tenant negotiations to reach new lease terms.

3.1.2 IT

The IT team sits under the DDEC management umbrella, serving all 11 entities within the entity, including PRIDCO. The team has three primary functions: technicians focus on hardware, an Infrastructure team is dedicated to cybersecurity, and the Software group is primarily responsible for the FAS finance system and the MIT (Municipal Investment Trust) federal accounts system.

The technicians are responsible for tracking and maintaining all hardware within PRIDCO's operations, including desktops, laptops, printers, hard drives and more. Based on conversations with the internal management team, PRIDCO employees are generally satisfied with the hardware and equipment that is available to PRIDCO employees.

There is a new initiative within the group to improve cybersecurity. They are generally focusing on email and spamming/phishing scams in collaboration with the Puerto Rico IT office. Since the initiative began, issues and attempts have significantly decreased.

The software team focuses on creating a centralized portal to manage communications between tenants and DDEC entities (including PRIDCO). The portal could be leveraged to track tenant maintenance requests, lease amendments, collections notices and more. This would involve a major system overhaul and a significant workload. The current FAS system is used for storing lease agreements and legal notices, and receiving/tracking rental payments. The IT department oversees all back-end functionality with this system so that it operates properly.

3.1.3 Maintenance and repairs

Maintenance, repairs and capital expenditure programs are primarily managed through the property administration group solely within PRIDCO. This group currently consists of 30 individuals generally educated/trained with engineering backgrounds and functions. PRIDCO currently does not have all of the necessary types of engineers within their organization and requires the use of subcontractors for certain engineering inspections. Outside of the inspections performed within the leasing process as described previously, the property administration group handles all necessary repairs and CapEx projects at the properties.

When maintenance requests are generated or capital expenditure programs are developed, the group receives the request, and an engineer evaluates the situation and prepares preliminary plans. The project must then undergo the bid approval process. In accordance with GSA (the Spanish acronym for Puerto Rico's General Services Administration) Act 73-2019 Article 24, the auction board approval process is required for all government entities:

"The Administration of General Services will be the only entity authorized to carry out and negotiate the acquisition of goods, works, and nonprofessional services. All non-exempt government entities, regardless of the source of funds for the acquisition (state or federal), will acquire all goods, works, and nonprofessional services through the GSA."

IT Team

- Technicians
 - Software
 - Cybersecurity
-

“The GSA will be the only entity authorized to carry out and negotiate the acquisition of goods, works, and nonprofessional services.”⁴

The approval process requires engineers to prepare multiple bid specifications and analyses to be considered by the auction board. After the bids are developed, the finance and legal teams are engaged to help create budgets and contracts for each proposal to be approved by the GSA Board. Only after the GSA Board's approval can a project start.

3.1.4 Finance

The primary function of the finance department is to manage, budget, track, and collect/distribute all rental payments and expenditures for the Portfolio. The Finance group sits underneath the DDEC umbrella with 11 treasury department individuals specifically dedicated to PRIDCO and four credit collectors.

The department utilizes the FAS system to budget, track and manage their operations. The FAS system can store contracts such as lease agreements, amendments and legal notices on a property-by-property basis. When rental payments are received or expenditures are spent for a property, the activity is manually logged into the FAS.

The accounts receivable team provides bills to tenants through the FAS system monthly. If a tenant is late on a rental payment, two reminders are sent, and a credit collector will follow up by phone or in person if there is still no response. After a client is in delinquency for 120 days, the legal team gets involved, taking legal action in the forms of letters and litigation.

3.2 Current challenges and bottlenecks

3.2.1 Leasing

3.2.1.1 Data management and lease agreement tracking

According to the property data provided⁶, there are approximately 214 non-revenue-generating units within the Portfolio. Of these non-revenue-generating units, 46 have been deemed either unsafe or to be demolished, or currently have issues that prevent tenant occupancy. There are 168 that currently do not have tenants paying rent for a variety of reasons, including complete vacancy, occupation without contracts and ongoing rental negotiations. This correlates to an approximate credit loss of 15% or more. The standard credit loss an efficiently operating industrial portfolio generally achieves within the market is between 2% – 8%.

FAS System

The department utilizes the system to budget, track, and manage their operations with capabilities such as:

- Storing contracts, lease agreements, amendments, and legal notices
- Tracking accounts payable and receivable
- Managing maintenance and capital expenditures

Non-revenue-generating buildings

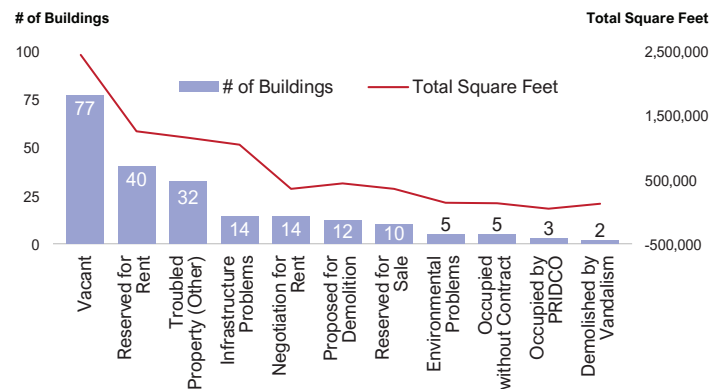


Figure 6: Magnitude of non-revenue-generating buildings within the Portfolio

PRIDCO lease expirations

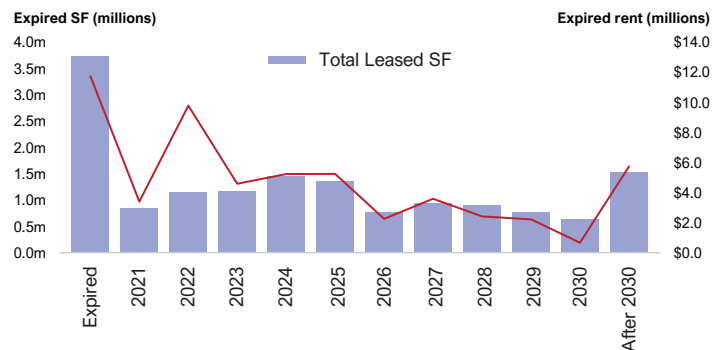


Figure 7: Magnitude of currently expired leases and projected expirations by year within the PRIDCO Portfolio⁵

3.2.1.2 Missing leases

After an extensive review of the FAS system to extract all available lease agreement files of the Portfolio properties, there appears to be a significant number of missing leases within the digitized database. Not having up-to-date digitized leases in a central database makes tracking current leases and negotiating future leases extremely difficult. Based on extensive review of the PRIDCO FAS data management system there appears to be approximately 417 missing lease agreements within the PRIDCO database.

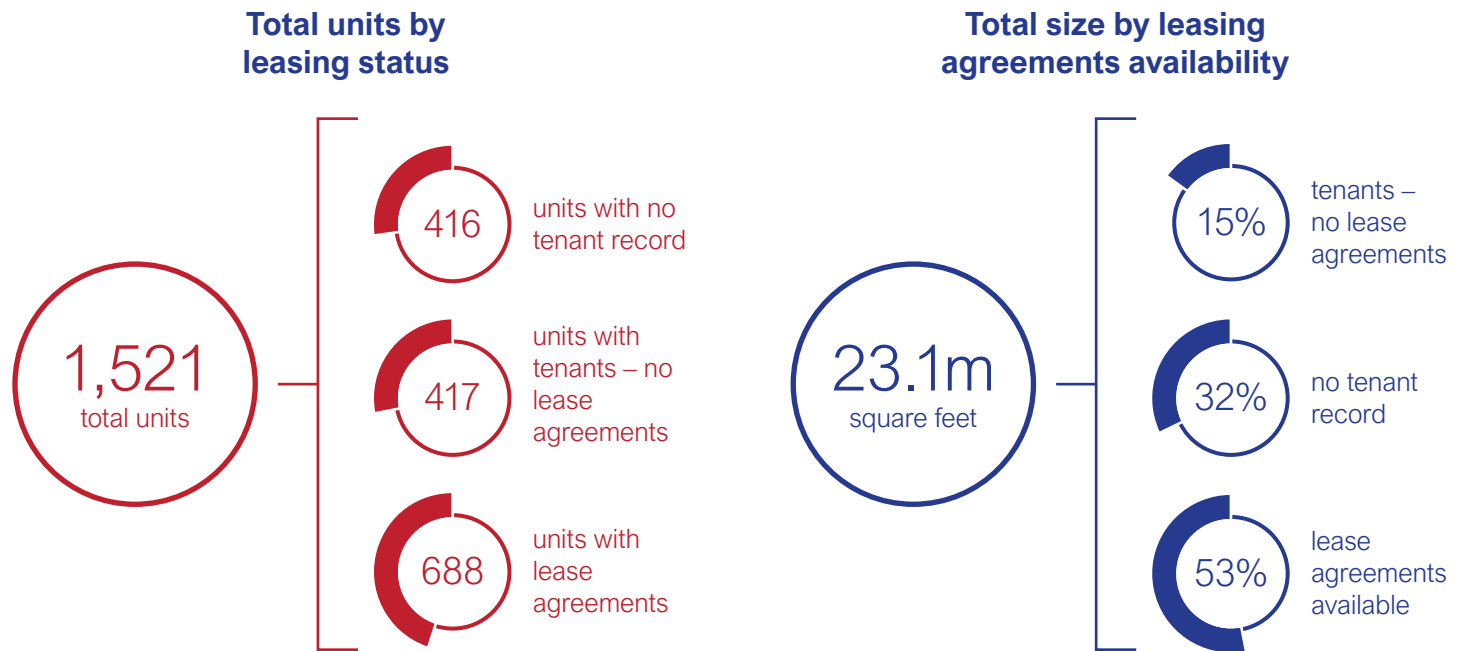


Figure 8: Findings from extensive data extraction procedures within the PRIDCO FAS database

3.2.1.3 Lease terminations and turnovers

As per discussions with management, the turnover process can quickly become time-consuming under the current process. As of now, the real estate, property administration, legal, and finance teams often hold large, in-person meetings to deliberate over the required inspections, maintenance issues, and lease negotiations for each property turnover. In-person meetings and communications tend to be less efficient, compared with standardized systems and automation processes that can be put in place to manage repetitive situations such as lease turnovers.

3.2.2 Maintenance

3.2.2.1 Bid proposals

As mentioned earlier, all projects performed by PRIDCO on the portfolio properties must undergo the bid approval process in accordance with GSA Act 73-2019 Article 24. Based on conversations with management, there are 13 outstanding bids that have been submitted by PRIDCO since July that have still not been approved by GSA. This is corroborated by the Tenant Experience Survey where 49% of respondents stated their units are in need of significant repair.

3.2.2.2 CapEx needed

Prior to the execution of the feasibility analysis, a major capital expenditure study was conducted to analyze the Portfolio and provide a forecasted plan for CapEx moving forward. Through extensive data analysis, site visit inspections and tenant surveys, a significant amount of CapEx was determined to be required for the portfolio. According to the findings of the study the Portfolio has a required \$392 million worth of CapEx spending over the next 10 years.

The current annual budget for CapEx of the Portfolio properties is approximately \$4 million, compared to the \$216 million worth of CapEx repairs that are deemed to be “critical” and are required immediately. Implementing this amount of capital would represent 52 times more capital than the current PRIDCO management team is used to deploying and 4x the annual revenue.

Projected timeline of required CapEx

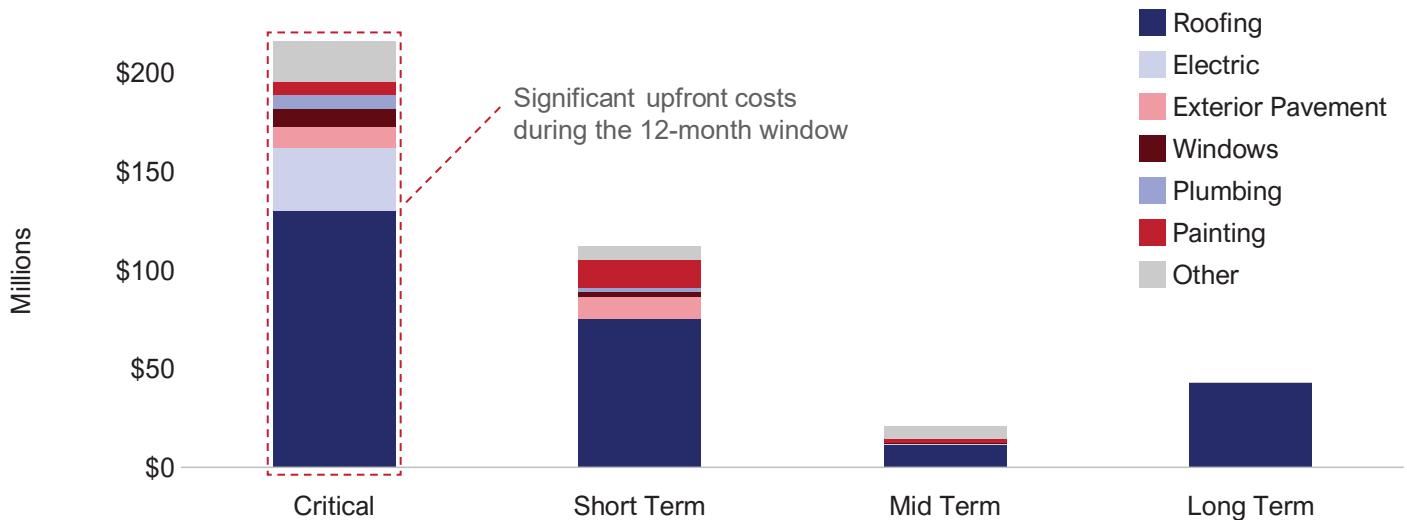


Figure 9: Projected timeline of Required CapEx by repair component

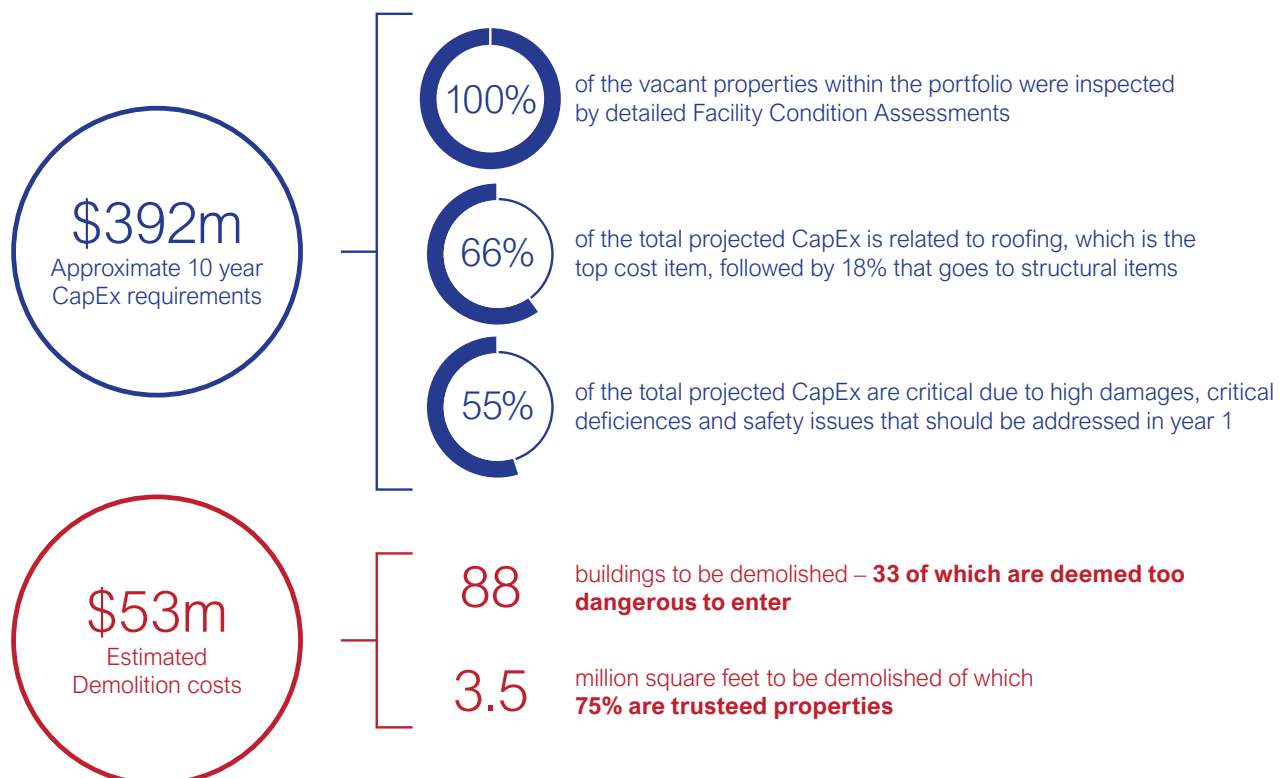


Figure 10: PRIDCO CapEx study key overview and strategic findings

3.2.2.3 FEMA project management

In 2017, Hurricane Maria devastated the island of Puerto Rico, damaging the infrastructure, economy and community. The Portfolio was significantly affected throughout every region of the island. Since the disasters occurred and recovery efforts began, there has been a massive effort to conduct inspections and submit insurance claims through FEMA to secure relief funding. \$200 million in project worksheets have been submitted to FEMA for damages resulting from Hurricane maria, of which \$181 million have been approved as of 12/6/2021.

The FEMA funding obligations work on a reimbursement basis, where the entity must follow a multiphase process. The first phase consists of initially inspecting a property, creating a plan and budget for repairs, and submitting a project claim sheet to FEMA for approval. After FEMA has approved the repair proposal, PRIDCO must execute the repairs through the same process stated earlier, with the Property Administration group using funding that they secure on their own. Only after all work has been completed will FEMA release the reimbursement funds.

\$200 million
in submitted FEMA project
worksheets according to
PRIDCO management³

2 PRIDCO

employees dedicated to
implementing all of the FEMA-
related efforts throughout
the portfolio according to
PRIDCO management³

The FEMA reimbursement process has worked for many entities in need throughout the years. Yet, the procedures require significant amounts of planning, budgeting, and regulatory criteria to ensure successful fund distribution.

There are two PRIDCO employees dedicated to implementing all of the FEMA-related efforts throughout the portfolio. Based on conversations with market participants conducting a project to this scale would typically require additional employees or third party contracting for successful implementation.

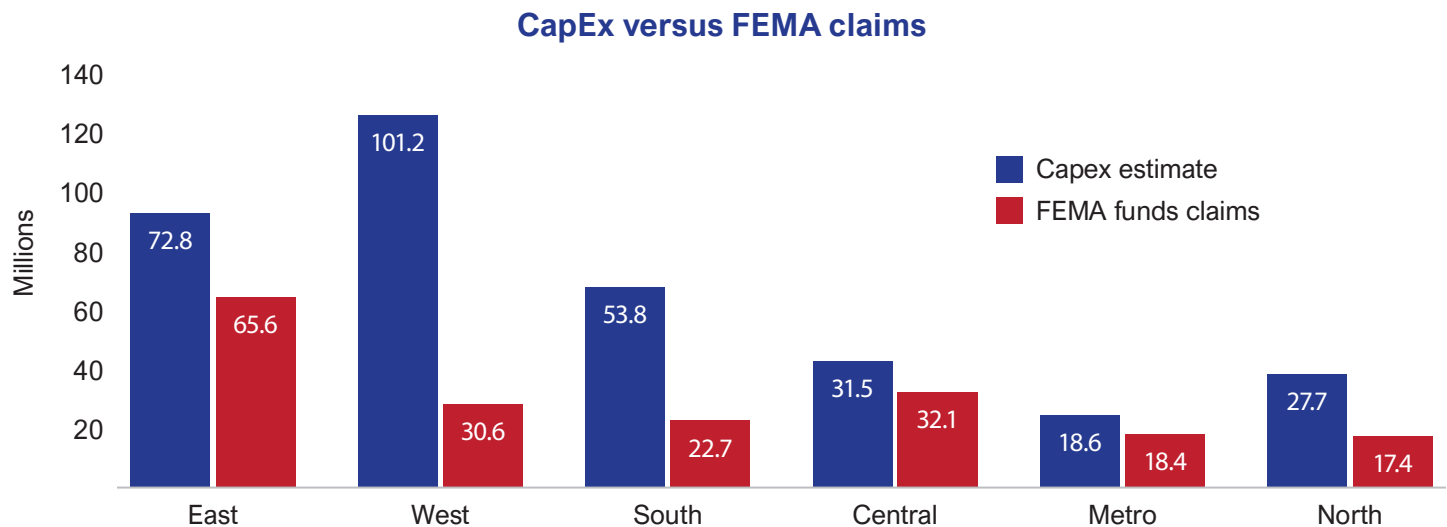


Figure 11: The estimated CapEx requirement by region as compared to the FEMA funds claims by region

3.2.3 Finance

3.2.3.1 Collections

As mentioned in Section 3.1.4 approximately 75% of PRIDCO tenants pay via physical check. Based on conversations with a market participant the standard percentage of payments that are collected via physical check within a stabilized portfolio should range between only 10% to zero. This inefficient form of payment, the extreme complications that have been caused by the recent natural disasters throughout the island and the COVID-19 pandemic have made rent collections a massive issue. As of June 30, 2020, the end of fiscal year 2020, there was approximately \$32 million in delinquent collections. This represents a 55% delinquency rate out of an annual rent collection of \$58 million.

3.2.3.2 FAS portfolio KPI tracking

The FAS software system currently being utilized by PRIDCO can accept payments, track lease agreements and perform various functions on a property-by-property basis that help management with the day-to-day operations. Where the FAS system is lacking is portfolio-wide analytics, visualizations, summaries and the ability to segment the portfolio to view key KPIs. There are no functions within the system that enable a user to see the revenue that was collected across the portfolio for a given month, the number of maintenance requests that were submitted within a given region annually or the total square footage of vacant space within the portfolio at a given time for certain types of properties.

These technological shortcomings put the PRIDCO management teams at a significant disadvantage when it comes to strategically planning, budgeting and forecasting. Accurately planning and executing a portfolio optimization strategy requires a deep understanding of the assets from many different perspectives.

75% of PRIDCO
tenants **pay via
physical check**³

Portfolio wide KPI
tracking methods
are imperative for
strategic decision
making for real estate
portfolio managers

4 Study delivery approach – viability of the third party management approach

4.1 Approach

This section describes the two operational models available for PRIDCO moving forward and includes their respective benefits and considerations. After the outcome of the qualitative assessment, both models are advanced for further quantitative analysis.

The following section of the Study provides a high-level summary of the qualitative operational model analysis that was performed to determine which model is best suited for PRIDCO's optimal performance. The business as usual approach was analyzed in comparison to the third party management approach within this Study.

4.1.1 Business as usual

The business as usual approach is for PRIDCO and DDEC employees to continue monitoring portfolio operations, with no change to the current structure. The business as usual case assumes that PRIDCO takes on all risks associated with the portfolio, including operating, maintenance, funding/financing, property purchases and other risks. This has been the traditional approach for PRIDCO and the operation of the portfolio.

To continue to operate the portfolio using the same approach, PRIDCO would have to fund the hiring of new employees if they expect to improve operations. If additional employees were not hired and the business as usual approach were to be continued it is expected that the portfolio would continue the current negative performance trends. The next three subsections cover some key characteristics of this operating approach:

4.1.1.1 Familiarity and acceptance

The business as usual approach is familiar to PRIDCO as the current operational standard for the portfolio. As operations move forward with strategically improving the portfolio, continuing to operate in this fashion is relatively straightforward yet challenging. The challenges of continuing current operations are outlined within Section 3.2.

4.1.1.2 Value

While value, as a product of the economic development produced by the tenants, may be created because of the familiarity with the business as usual operating method, there have been multiple inefficiencies with the current model that have been referenced throughout this Study. If these inefficiencies continue with the current model, the long-term value of the assets within the portfolio will be negatively impacted.

4.1.2 Third party management approach

Under a third party management approach, PRIDCO's operations would be supplemented by an experienced asset and property management team responsible for enhancing operations, maintenance, improvements, leasing, finance and overall optimization of the portfolio. The next four subsections cover some key characteristics of this operational approach:

4.1.2.1 Responsibility transfer to the private sector

Under this type of operational model, responsibilities associated with the operation, management, improvement and maintenance of the Portfolio are partially transferred to the third party manager. This approach transfers portfolio requirements to the an experienced third party who is more capable of managing them.

4.1.2.2 Revenue maximization

The third party management approach creates an incentive for the manager to earn a return as the manager's compensation is based off a percentage of gross revenue achieved by the portfolio. Therefore, maximization of revenue throughout the portfolio is a strong incentive for the third party management team to boost performance.

4.1.2.3 Innovation

An experienced third party management company will apply their own proprietary tools and systems to the Portfolio, leading to enhanced operational performance. This may lead to significant value and efficiency improvements; can help to avoid future Portfolio issues; and may potentially help reduce costs for PRIDCO in the long run.

4.1.2.3 Manager selection risks

Thorough due diligence should be performed on all potential third party managers to understand and compare their services and pricing models. It is important that third party managers align with the current PRIDCO investment criteria and management expectations. Additionally, by handing over certain management functions to third party managers, PRIDCO faces the risk of losing portions of control over assets. Activities such as vetting new tenants, procuring contractors for maintenance projects, and managing rental collections can be executed by new third party operators. Yet third party managers' right to control can be determined in the service agreement and monitored by PRIDCO management throughout the term of the service.

Third party management strengths

- Expert market knowledge
- Enhanced management technology
- Experienced engineers
- Established key relationships
- Ability to leverage economy of scales efficiencies

Functions	Study objective considerations	Business as usual	Third party management approach	
			Property management	Asset management
Leasing	Reduce marketing time and improve occupancy			n/a
	Improve efficiency in leasing negotiation and finalization			
IT	Govern the use of the network and operating systems		n/a	
	Implement technology infrastructure for automation		n/a	
	Maximize functionality in each operating unit		n/a	
Maintenance	Facilitate tenant communications and address tenant requests in a timely manner			n/a
	Keep property in a good condition, and track repair and construction progress			n/a
Finance	Delegate accounting and finance functions properly and efficiently		n/a	
	Perform realistic financial analysis and improve accuracy in forecasting and budgeting			
All	Enhance portfolio positioning and support informed decision-making			

Meets objective Partially meets objective Does not meet objective

Table 1: This table compares the objectives within each function throughout the property and asset management processes, and assesses the technical and functional viability for each delivery option.

5 Economic and social impact of PRIDCO capital expenditures

5.1 Introduction

This section summarizes the projected economic impacts of PRIDCO's capital expenditures to make its properties rentable. To understand these impacts, we estimated the gross and net impact of every \$10 million spending towards maintenance and improvement of PRIDCO's properties. PRIDCO properties have yet to return to normalcy since Hurricane Maria in 2017 and the earthquakes in 2020, creating a backlog in repair and maintenance. Whether or not an asset and property management firm is engaged, there would be an economic impact from PRIDCO's capital expenditures. Therefore, the economic impacts presented in this section should be viewed as an impact of every additional \$10 million spent in repairs and maintenance of PRIDCO properties regardless of who manages the capital expenditures. These economic impacts include total employment, total labor income, gross value added and gross economic output. It is important to note that there is currently a significant backlog of outstanding capital expenditures and FEMA spending within the portfolio due to limitations of current operational capabilities.

In addition to projections of the economic impacts, potential social impacts were summarized from a thorough literature review. This review focused on the effects of vacant and/or dilapidated properties in a neighborhood, which include lower property values and other public safety concerns. Both economic and social impacts are supplemented by including various risk factors, particularly negative impacts that can result from outsourcing if incentives for vendors to increase capital improvement spending are not properly aligned with PRIDCO's objectives as a public sector entity. Economic and social impacts estimated in this report are impacts of PRIDCO's capital expenditures on the Commonwealth's economy and population and not on PRIDCO's operations. The impacts outlined in this section of the report represent the benefits the Island will incur due to additional PRIDCO's capital spending towards maintaining and improving its properties. These economic and social impacts are not estimated to affect PRIDCO's finances.

5.2 Economic impact of PRIDCO capital expenditures

For the past three fiscal years, PRIDCO has budgeted approximately \$4 million for capital expenditures annually. Within that time frame, PRIDCO has never fully executed the total budgeted amount. Additionally, it is important to note that PRIDCO has submitted a \$200 million relief funding request to FEMA related to damages resulting from Hurricane Maria, of which, \$181 million had been approved as of December 6, 2021.

The economic impact analysis presented here assumes that significant delays continue in PRIDCO's ability to commit these funds while the incentives related to construction fees would encourage accelerated spending under the property manager model. Accelerating capital improvements beyond the current PRIDCO level of spending will fast-track the economic impact to the current year rather than delaying the disbursement into future years. Based on this assumption, the analysis uses a three-step approach to estimate the impact of construction activities that could occur due to asset and property management outsourcing or any other alternative model that results in a similar acceleration in repair, maintenance and capital spending.

First, the analysis estimates the total gross economic impact should the property and asset managers be able to accelerate the spending by \$10 million a year above the current PRIDCO's level of spending. Second, it estimates the net impact accounting for any crowding-out effects, i.e., a potential reduction in private sector spending within the industry due to an increase in government spending via the infusion of new money into the economy through FEMA grants. Finally, the analysis incorporates net present value calculations to quantify the time value of money, which shows current spending provides greater economic impact than future spending.

5.2.1 Gross economic impact without opportunity cost

To project the economic impact of the capital expenditures necessary to bring the PRIDCO properties up to a rentable state, the analysis modeled the effects of \$10 million in direct output from the construction industry through repair and maintenance activities. Based on the data in IMPLAN's database, the construction industry (NAICS 23) in Puerto Rico in 2019 employed nearly 26,800 workers and had an annual output of \$4.54 billion. On average, each worker earned \$39,242 per year, including salaries, wages and benefits.¹ The construction industry in 2019 made up 2.5% of total employment in Puerto Rico.

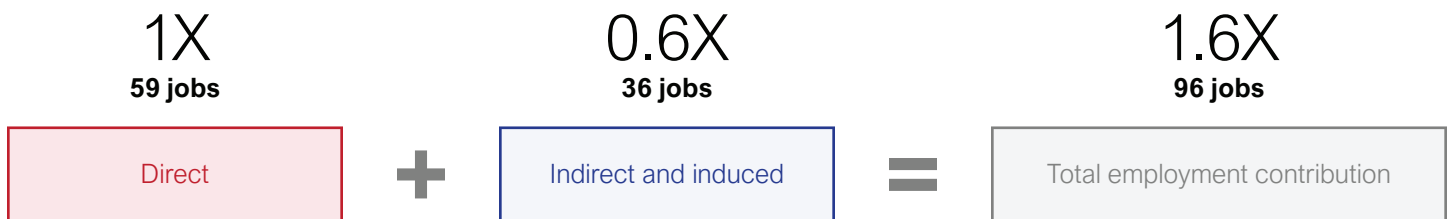
In terms of gross impact, every \$10 million in capital expenditures used for improving PRIDCO properties supports 96 jobs in Puerto Rico earning a total gross labor income of \$3.6 million. The detailed projected economic impacts of every \$10 million PRIDCO's direct spending on capital improvement activities are shown in Table 2.

The total gross employment impact (96 jobs) consists of 59 direct construction employees and 36 supported through indirect and induced contributions. These jobs earn a total of \$3.6 million (\$37,574 per worker, on average) in total gross labor income, including wages, salaries and benefits. Of that, \$2.3 million is earned by direct employees (\$39,242 per worker, on average) and \$1.3 million is earned by indirect and induced employees (\$35,881 per worker, on average). In terms of value-added and economic output, every \$10 million increase in spending leads to a total gross value added of \$5.9 million and a total gross economic output of \$13.4 million.

Impact	Total employment	Total labor income (USD \$000s)	Value added (USD \$000s)	Economic output (USD \$000s)
Direct	59	\$2,315	\$3,495	\$10,000
Indirect/induced	36	\$1,292	\$2,386	\$3,434
Total	96	\$3,607	\$5,881	\$13,434

Table 2: Gross impact of \$10 million in additional capital improvement expenditures⁷

In 2019 the construction industry made up 2.5% of total employment in Puerto Rico based on data from IMPLAN's database



5.2.2 Opportunity cost due to crowding-out effect and net economic impact

The economic impact analysis presented above should be considered as the total gross impact, rather than net impact, supported by every \$10 million of capital improvement spending on PRIDCO properties. Spending derived from FEMA funding will likely have a higher economic impact than spending from PRIDCO's self-financed resources as it represents new funding to the Commonwealth rather than a transfer of existing island resources. Nevertheless, the new funds entering the Commonwealth have the potential to crowd-out private sector investment in commercial real estate properties, which should be considered a loss to the economy.²

The Congressional Budget Office (CBO) estimates that for each dollar spent in deficit financing government investment, private sector investment is reduced by 33 cents³. Assuming the same level of crowding-out effect in Puerto Rico's non-residential real estate market, it is estimated that every \$10 million in PRIDCO's spending crowds out \$3.3 million in private sector investment. Using the same methodology as the previous economic impact estimates, the total economic loss due to this crowding-out effect would be \$4.4 million as shown in Table 3 below.

Crowding-out effect	Total employment	Total labor income (USD \$000s)	Value added (USD \$000s)	Economic output (USD \$000s)
Direct loss	19	\$764	\$1,153	\$3,300
Indirect/induced loss	12	\$426	\$787	\$1,133
Opportunity cost	32	\$1,190	\$1,941	\$4,433

Table 3: Opportunity cost associated with crowding-out effects⁸

The difference between the gross impact (\$13.4 million) and the opportunity cost (\$4.4 million) is the potential net effect of every \$10 million of capital expenditure financed through FEMA funding. As shown in Table 4 below, 32 of those 96 workers would have been employed in the economy without additional spending by PRIDCO, thus resulting in a net impact of 64 new jobs and \$2.4 million in labor income. Similarly, \$1.9 million of the gross value added and \$4.4 million of the gross economic output would have occurred without the additional government spending. As a result, for every \$10 million accelerated FEMA spending, the economy gains a net impact of \$3.9 million in value-added and \$9 million in economic output.

Impact	Total employment	Total labor income	Value added (USD \$000s)	Economic output (USD \$000s)
Gross impact	96	\$3,607	\$5,881	\$13,434
Opportunity cost	32	\$1,190	\$1,941	\$4,433
Net impact	64	\$2,417	\$3,940	\$9,001

Table 4: Net economic impact of additional \$10 million capital improvement expenditures⁹

If the \$10 million of direct spending is financed through PRIDCO's own resource revenue rather than FEMA funding, then the \$9 million of net impact presented above will overstate the total impact on the Island. If PRIDCO's rent collection revenue funds the spending, such expenditures would be considered a transfer of existing island resources. This is likely to have a larger opportunity cost than a new injection into the economy. If we assume that the \$10 million of direct spending is funded by PRIDCO's own source revenue and account for workers that would likely be already employed at their next best alternative activities, the total net economic impact of \$9.0 million would be reduced by 75%, resulting to the net impact of only \$2.3 million.

An additional consideration is that the Puerto Rican economy experiences a significant amount of "leakage." This means that many of the supplies and equipment that will be used in the capital expenditure projects will be sourced from outside of Puerto Rico, and some of the economic gains will also accrue to these foreign suppliers. The 2022 Fiscal Plan for Puerto Rico assumes a 23.5% pass-through rate for all funding associated with construction and repair for non-utility-related infrastructure, given the limited ability to rely on local labor and materials. If we assume the 23.5% pass-through rate instead of 39% (= \$3.9 million / \$10 million) as shown in Table 5, the net value-added to the economy due to every \$10 million of FEMA funding will be reduced from \$3.9 million to \$2.35 million.

5.2.3 Economic impact in present value terms

Over at least the past three fiscal years PRIDCO has not been able to spend the money it has been allocated for capital expenditures. It seems plausible that they will have trouble spending in the future. Delays in spending the money impose a cost to the Puerto Rican economy. One way to illustrate the cost is using a net present value calculation. Suppose the property and asset manager were able to spend \$10 million immediately, but PRIDCO only spends \$2 million a year and takes 5 years to spend the total \$10 million. Under such scenarios, an argument can be made that there is an economic benefit due to the time value of money to spend the money immediately. An illustrative example of the economic impact of spending \$10 million under the two scenarios can be seen in Table 5, which assumes a 4% discount rate to reflect the time value of money. A larger discount rate (or a larger return on investment for PRIDCO) would increase the magnitude of the loss under the PRIDCO management scenario.

	Accelerating spending through asset & Property managers	Spending under PRIDCO management	Net loss under PRIDCO management
Year 1	\$9,001	\$1,800	--
Year 2	--	\$1,731	--
Year 3	--	\$1,664	--
Year 4	--	\$1,600	--
Year 5	--	\$1,539	--
Total	\$9,001	\$8,335	\$666

Table 5: Net present value of the economic impact for every \$10 million direct spending, (USD \$000s)

The estimated potential impacts provided above are predicated on the property and asset managers being able to increase occupancy rates, increase capital improvement expenditures above current levels, and demolish buildings in states of disrepair, while still being able to meet the underlying objectives of PRIDCO. If the property and asset manager deviates from any of the above assumptions, these benefits outlined above will not occur. The outsourcing contract should be structured in a manner that properly aligns incentives and allows PRIDCO the ability to promptly dismiss the contractor if they are not fulfilling their obligations. Otherwise, property and asset management outsourcing can lead to a waste of resources rather than efficiency gain. Please refer to Section 5.4 for additional details on special considerations and risks associated with outsourcing.

5.3 Social impact of PRIDCO capital expenditure and asset and property management function outsourcing

The privatization described in this study is outsourcing a function that to some extent is already being done by PRIDCO to a private sector property and asset manager. The limited scope of the services provided by the property manager and the fact that some of these services are already provided by PRIDCO, will likely result in a relatively limited social impact. If there is sufficient demand for these buildings and the property manager can effectively bring vacant buildings back online, there is a potential for modest social benefits for the neighborhoods where the buildings exist, compared to the current state. Roughly 18% of PRIDCO properties are currently vacant, and 11% of PRIDCO properties are in a state of repair warranting demolition. Given the proposed revenue-sharing agreement, property and asset managers will be incentivized to bring as many of these properties to occupied status as possible. The property managers will also be charged with overseeing the demolition of buildings when rehabilitation to an occupiable status is not feasible.

If property and asset managers are successful in increasing occupancy rates and rehabilitating buildings, external literature suggests that there will be some modest positive social effects, in addition to the economic impacts discussed above. The following is a list of potential social benefits to the privatization of the property and asset management functions of PRIDCO's properties.

- **Findings from surveys conducted on PRIDCO properties found that thirty-three buildings in PRIDCO's portfolio have been deemed unsafe to enter. This is based upon a significant level of structural damage. Persons, authorized or not, entering these buildings face potential safety hazards.** The property managers will be charged and incentivized to demolish these properties, thus reducing the risk of potential harm to those that enter. Based on discussions with PRIDCO management there is currently unauthorized activity happening within some of the vacant properties.

- **Increasing levels of occupancy has been shown to be correlated with increased sales price in directly surrounding areas. It is not immediately clear, however, if the neighborhood characteristics are driving the price change or the reduction in vacancy levels.**⁴ Researchers suggest that having an additional property within 500 feet that is vacant has been shown to reduce the sales price by 1.1% to 2.1%. A property that is both vacant and tax-delinquent reduces the sales price by 0.9% to 2.7%.⁵ According to the authors, this would mean that if the property and asset managers are able to increase occupancy rates, it may have beneficial effects for other commercial properties in Puerto Rico. These effects would of course depend on the degree of vacancy within the area. For example, an entirely vacant commercial area might see little property value increase if one property becomes occupied.
- **Likely related to the above study, vacant buildings, especially those that are unsecured, pose fire hazards to the surrounding area.** A 2018 study for the National Fire Protection Association found that 50% of vacant building fires were intentionally set, compared with 10% of all structure fires.⁶ Vacant buildings make up slightly less than a third (30%) of intentionally set structure fires. Fires are more likely to be intentional in vacant properties that are unsecured. In addition, 61% of fires in unsecured vacant properties were intentional, compared with 35% of fires in secured vacant properties. A fire spreading also poses a threat to both PRIDCO properties and the surrounding area. Fires are three times more likely to spread in unsecured vacant properties compared to overall structure fires.

5.4 Additional considerations and risks associated with outsourcing

While an effective property and asset manager can positively impact the neighborhoods and communities within PRIDCO's portfolio, there is also the potential for negative impacts if incentives are not properly aligned. For a private partnership to be effective, the incentives faced by the private company must align with that of the Commonwealth. Investment decisions, while carried out by the asset and property managers, should ultimately reside with PRIDCO.

The private entity should consistently report both past and planned expenditures to make sure they fit within PRIDCO's long-term fiscal plan. Additionally, the contract language for outsourcing, bidding process, and duration should be set so that the long-term success of asset management benefits both PRIDCO and the Commonwealth.

To lower the possibility of an ineffective outsourcing and avoid failure of the third-party management, PRIDCO should ensure the following:^{10,11}

1. Objectives and expected performance for third party management should be clearly specified in writing prior to outsourcing through targeted procurement parameters to be outlined within the specific public procurement process (RFI/RFQ/RFP).
2. Key institutional authorities including budget officers, procuring authorities, and auditors should be involved in the procurement process of outsourcing to third party management, including direct input into the aforementioned performance parameters included within.
3. PRIDCO should ensure a competitive market through a competitive tender process, including multiple rounds of procurement in order to identify and source high-level respondents to be judged by a proprietary decision matrix system included within the process.
4. There should be clear rules established in the contract for resolving potential disputes between parties prior to outsourcing to third party management. These rules should be outlined within official procurement documents.
5. If there are any perceived risks associated with functions to be outsourced to third party management, those risks should be transferred to whichever party, PRIDCO or third-party management, for whom it costs the least to prevent the risk from being realized or for whom the realized risk costs the least.

6. Capital investment projects should be implemented by PRIDCO based on benchmarking that identifies which project will yield the highest return and without bias for or against the third-party management, as outlined within the procurement process.
7. To the greatest extent possible, PRIDCO should consult and engage key stakeholders including tenants when setting objectives and expected performance outcomes of third-party management during the procurement process. Key stakeholders should be made aware of costs, benefits, and risks of outsourcing to third party management ahead of initiating such a procurement.
8. Budget authorities in Puerto Rico should ensure the outsourcing and subsequent investments are in-line with the Fiscal Plan.
9. Third party management should avoid the tendency to increase profits at the expense of transparency of both performance data and deliberations regarding service priorities for PRIDCO properties and contract terms should guard against this possibility.
10. The outsourcing to third party management should be treated openly in the budget process with documentation disclosing all costs and contingent liabilities
11. PRIDCO should be prepared to monitor the performance of third-party management as soon as any contract becomes effective and PRIDCO's right to monitor performance should be included as a requirement within the procurement process.
12. Third-party management performance should be routinely monitored against expectations and desired outcomes, with key performance indicators outlined within the procurement process and all changes to these indicators negotiated ahead of contract execution.

PRIDCO should take every step possible to ensure that its and contractors' goals remain aligned, and the procurement process includes a thorough review process and multiple rounds of solicitations. There is also an additional risk that the private company performs poorly and/or inefficiently. This could reduce both the current and projected revenue of the Portfolio. Among other things, PRIDCO staff needs an ongoing understanding of both the tenant's perspective on the asset manager and the asset manager's financial statements. PRIDCO should reserve the right to terminate third-party managers due to poor performance. All checks and balances within this relationship must be clearly outlined from the initial outset of the procurement process.



6 Affordability analysis

6.1 Introduction

The affordability assessment discussed in this section involves a detailed, quantitative analysis that compares the third party manager approach with the business as usual approach. A financial model based on the 2021 Fiscal Plan was developed considering the estimated increase in occupancy, revenue and costs associated with strategically operating the portfolio. Operating activities studied within this analysis include leasing unoccupied space, deploying necessary maintenance or capital expenditure projects and improving the overall strategic management of the PRIDCO properties. The inputs utilized to develop the model used in the business as usual and third party management portions of this analysis discussed below were derived from JLL, IREM, CoStar, AGRT, historical/forecasted PRIDCO financial data, market precedent, publicly available data sources and local market experts insight. The inputs are preliminary estimates and should continually be refined as the Study progresses.

The analysis herein considers the costs and revenues associated with each segment in nominal year of input values. Nominal dollar estimates are helpful when looking at cash flows over a long period of time, as the values consider the effects of inflation. To derive nominal values, the inputs (presented in real U.S. dollars) were indexed to a long-term variable inflation rate that stabilizes at 1.5% as utilized in developing the 2021 PRIDCO Fiscal Plan. The inputs utilized for the development of the model used to identify the affordability of the Study are discussed below.

6.2 Revenue inputs

The third party management approach seeks to maximize the operating efficiency of the Portfolio. This is done with measures that both increase revenues and lower costs, lowering major capital expenditure but consistently maintaining high-quality properties to meet the needs of the tenant population. As in any high-functioning business, it is vital to understand the top-line revenue impacts when strategic initiatives are being put in place.

6.2.1 Improving occupancy

PRIDCO's current real estate portfolio includes 23.1 million square feet of buildings, of which 15.5 million is occupied and 6.0 million is vacant, correlating to a 66% occupancy rate according to the 2021 PRIDCO Fiscal Plan. Improving the overall occupancy of the portfolio is a key strategic initiative of this Study to drive revenue.

Based on market data, PRIDCO's leasing history, and conversations with PRIDCO's Real Estate group (as defined in Figure 3) and local market participants, it appears that an annual increase in occupancy between 1% and 3% is reasonable. The affordability analysis considered the following three activities that would improve occupancy.

- Improving leasing operations
- Improving maintenance
- Reducing delinquencies

6.2.1.1 Improving leasing operations

With the business as usual approach, there are five real estate officers and only two subcontracted lawyers within the real estate group to service all 742 buildings and 500+ tenants. Managing a portfolio of this size with the current resources presents many challenges. Based on conversations with management, multiple in-person meetings take place during tenant turnover situations, where the real estate group collaborates with the property administration, finance and legal teams (all groups as defined in Figure 3) to determine the best plan of action.

An efficient leasing team within a third party management system knows how to create systems and processes that can eliminate the need for multiple in-person meetings, ultimately decreasing tenant turnover time. Having third party finance and legal resources that provide deeper experience throughout the broader market will allow for better tenant negotiations, producing more favorable terms for PRIDCO.

With an improved leasing operations function as part of the third party management solution that can reduce tenant turnover time, improve tenant communications, and automate contract handling procedures, it is expected that the Portfolio's occupancy could increase by 0.3%–1.0% annually. This increase correlates to an increase in gross revenue of between \$1.3 million and \$4.3 million over a five-year period.

6.2.1.2 Improving regular maintenance/repairs and capital expenditures

Based on the Tenant Experience Survey that was distributed among PRIDCO's portfolio, 23.76% of tenants responded that they are undecided about whether they will renew their current lease at the end of their terms. Of the respondents, 49% also stated that their property was currently in need of significant repairs, indicating that strategic investments would likely lead to an increase in tenant retention.

Considering the relative age of the portfolio and the significant natural disasters that have occurred within Puerto Rico in recent years, from Hurricane Maria in 2017 to the earthquakes in 2020, there has been a significant increase in incomplete maintenance requests. Based on this backlog in requests it appears that PRIDCO internal operations can not keep up with the maintenance requirements of the Portfolio and the GSA bid procurement process increases complexities further due to PRIDCO's lack of in-house employees to complete the work.

According to a property management market participant in Puerto Rico, it is common practice to hire one engineer for every 85,000-100,000 square feet of real estate. Considering PRIDCO's footprint of 23 million square feet, this correlates to between 205 and 246 employees solely dedicated to maintenance, construction and CapEx projects.

One engineer required for every 85,000 – 100,000 square feet of real estate owned based on market best practices

These employees operating within an efficient third party management team would utilize automation, high-quality systems and tested processes to take in and execute all necessary maintenance projects. It is estimated that improvements in regular maintenance and capital expenditure projects would account for between 0.6% - 2.0% of the estimated annual occupancy increases (as outlined in Section 6.2.1). This increase correlates to an increase in gross revenue of between \$2.6 million and \$8.6 million over a five-year period.

Based on conversations with an active market participant – an efficient property manager would incorporate 205-246 estimated engineers solely dedicated to the Portfolio maintenance

6.2.2 Decreasing delinquencies

As part of the 2021 Fiscal Plan projected cash flows for the Portfolio, there is a 9% delinquency assumption applied in year 1 that improves in accordance with the Fiscal Plan measures by 50 bps annually. Based on conversations with management, the collection delinquencies have been a major issue for PRIDCO. The challenges have been caused by a combination of the damages that occurred during Hurricane Maria and the outdated collections system.

As mentioned in Section 3.2.3.1, 75% of PRIDCO's tenants still pay rent by mailing physical checks. Also mentioned earlier, when a tenant is late on their rental payment, it is common practice that a member of the finance collections team is required to physically drive to the tenant's location to notify them and try collecting the payment.

Based on market research, an efficient third party management team would initiate a complete overhaul of the collections process as soon as possible. The overhaul would begin with moving all tenants to ACH payments through a centralized collections database and issuing legal notices to any tenants still in delinquency through automated processes.

It is estimated that a third party management team could improve the delinquency rate by between 0.5% and 1.0% annually (in addition to the improvements applied by the post-measures initiatives) with the implementation of technology, systems and automation to PRIDCO's collections process. These improvements would correlate to an increase in gross revenue of between \$1.3 million and \$2.5 million over a five-year period.

6.2.3 Better strategic planning

As mentioned within Section 3.2.3.2, there are serious drawbacks with the current FAS system when it comes to summarizing and tracking KPIs within the Portfolio data. By not having the ability to quickly track KPIs, or summarize specific Portfolio characteristics, management is not equipped with the proper tools for strategic decision-making.

With an efficient third party management team in place, an updated software system could be implemented within 1 to 4 quarters to gather, track and summarize all necessary Portfolio data. Common real estate portfolio software systems enable managers to track many KPIs on portfolio, segmented and individual property levels.

It is estimated that with better strategic planning capabilities in place, PRIDCO could increase their gross revenue by between 1.0% and 3.0% on an annual basis. This increase correlates to an increase in gross revenue of between \$2.7 million and \$8.6 million over five years.

Gross Rental Revenue							
Fiscal year ended June 30:	2021	2022	2023	2024	2025	2026	FY22–FY26
Current PRIDCO Gross Revenue	62,425	60,444	56,486	56,621	56,747	56,877	287,175
EY Low	62,425	62,000	58,000	58,200	58,300	58,400	294,900
Variance	0%	3%	3%	3%	3%	3%	3%
EY High	62,425	64,800	61,100	61,200	61,400	61,600	310,100
Variance	0%	7%	8%	8%	8%	8%	8%

Table 6: Gross revenue projections (USD \$000s)

6.3 Expense inputs

6.3.1 Management fees

With the business as usual scenario, all management and operating functions are performed by teams within either the PRIDCO front office or the DDEC back-office groups. With the third party management solution, new property management and asset management teams would supplement many of these tasks from internal employees, leading to various expense changes within the organization. The Study recommends that both third party property management and asset management services are utilized. For although they specifically oversee separate functions (front office and back office) having both management functions operating under a centralized umbrella creates the maximum amount of operational efficiencies.

6.3.1.1 Property management

With the third party management solution, new resources would be utilized to support PRIDCO's Property Administration group with maintenance and general

upkeep projects that are required within the portfolio. Based on conversations with active market participants, it is general practice for a new property manager to keep all current employees within PRIDCO, train them on the new systems/processes and then supplement the team with additional resources as necessary.

Based on this model, the current payroll for the Property Administration group would not change. It is estimated that an additional property management fee would be applied to gross revenue – between 1.5% and 3.5% to be paid to the third party manager. This expense increase would be between \$4.6 million and \$10.2 million in additional expenses over a five-year period.

6.3.1.2 Asset management

With the third party management solution, new resources would be utilized to support PRIDCO's back-office groups, such as finance, IT and legal. Based on conversations with active market participants, it is general practice for an asset manager to replace a portion of current employees with well-organized automated systems, processes and technology.

Based on this model, the current DDEC fee, which includes payroll for the finance, IT and legal teams, would be reduced, as will be discussed in Section 6.3.3. Otherwise, it is estimated that an additional asset management fee would be applied to gross revenue – between 1.0% and 3.5% to be paid to the third party manager. This expense increase would correlate to between \$3.1 million and \$10.2 million in additional expenses over a five-year period.

6.3.1.3 Construction management

Not modeled within this Study's affordability analysis calculations, yet worth mentioning, is the potential that PRIDCO may have to incur a substantial construction management fee over the next 10 years. This fee would be associated with the potential for a significant investment in CapEx across the Portfolio over the next 10 years, as detailed in the previous CapEx study performed. It is estimated that the portfolio requires approximately \$445 million in CapEx repairs over the next 10 years.

To implement this significant investment, PRIDCO would have two primary choices in how to manage the funds. PRIDCO could handle the CapEx investment, planning and implementation in-house by hiring additional resources who are dedicated to CapEx projects. Alternatively, PRIDCO could utilize a third party construction manager with experience in the industry and strong market knowledge to complete the required expenditures.

Based on the first scenario, it is estimated that PRIDCO would need to make a significant investment for their Property Administration group of engineers, construction managers and support personnel. Based on the current payroll within the 2021 Fiscal Plan, an increase of between \$28 million and \$56 million can be expected over a 10-year period. Conversely, based on current market research, a standard construction management fee of 5% would correlate to approximately \$22 million over a 10-year period with a third party manager solution.

As of the time of this Study, it is unknown how much and when the CapEx investments will be made; therefore, this cannot be included within the analysis calculations.

6.3.2 Leasing fee

With the third party management solution, new resources would support PRIDCO's Real Estate group with new leasing activities that are required within the portfolio. Based on conversations with active market participants, it is general

practice for leasing teams to keep all current employees within an organization, train them on the new systems/processes and then supplement the team with additional labor as necessary.

Based on this model, the current payroll for the Real Estate group would not change. It is estimated that an additional leasing commission fee would be incurred based on the gross rental revenue brought in by new leases – between 5.0% and 6.0% of total new lease revenue. The range of new gross revenue achieved by increased occupancy was calculated using a range of 1.1 – 3.7 million SF of new leased area over a five year period at terms of between 10 to 20 years with an average market rental rate of \$5.13. This expense increase would correlate to between \$3.0 million and \$17.0 million in additional expenses over a five-year period.

6.3.3 Professional services fees

Within the current business as usual scenario, there are many additional fees incurred by the Property Administration group due to the lack of certain in-house professional engineers, appraisers and inspectors. These fees are captured and classified as Professional Services within the Fiscal Plan profit-and-loss statements, equating to \$2.3 million in 2022. With the third party management approach, these specific roles would be filled by the new resources brought in to supplement the team and captured within the property management fee.

It is estimated that these professional services fees would be reduced by between 60% and 90%. This fee reduction would correlate to between \$7.1 million and \$10.8 million over a five-year period.

6.3.4 DDEC fee

As mentioned in Section 1.1 in accordance with Act 141-2018 it was mandated for PRIDCO to consolidate all related business development activities and back-office staff functions within DDEC. As outlined within the 2021 PRIDCO Fiscal Plan the fee paid to DDEC for this transfer in activities equates to the second largest expense within the current operating statements on a go forward basis. The expense equates to 15.4% of the annual gross revenue of the portfolio or \$9.8 million in 2022.

As mentioned earlier, in Section 6.3.1.2, with a third party management system, many of the back-office functions that are currently being performed for PRIDCO by teams sitting underneath the DDEC umbrella would be transferred to

the new property and asset management teams. The teams that would no longer need to have as large of a commitment to PRIDCO would be finance, legal and IT, as detailed within Section 4d of the MOU Appendix E between DDEC and FOMB.¹⁵

Based on the information available to date, it is not possible to calculate an exact number as to how much the DDEC fee can be reduced. Therefore, after reviewing the MOU and having extensive interviews with PRIDCO and DDEC employees, it is estimated that the DDEC fee should be reduced by between 60% and 80% based on the proposed transfer of responsibilities to the third party manager. This fee reduction would correlate to between \$15.5 million and \$35.7 million as compared to the current \$41 million being paid over a five-year period.

In a direct comparison to the new estimated management fees that would be incurred with the third party management approach compared to the estimated reduction of the DDEC fee please refer to Tables 8 and 9. As shown in Tables 8 and 9 the current DDEC fee is compared to the estimated low and high scenarios that would result from implementing the third party management approach as outlined throughout Section 6. The low scenario management fee estimates take into consideration what the maximum property management and asset management fees would be. The low scenario DDEC fee considers the maximum DDEC fee remaining with the third party management approach. The high scenario management estimates take into consideration what the minimum property management and asset management fees would be. The high scenario DDEC fee considers the minimum DDEC fee remaining with the third party management approach.

Direct comparison of third party management fee to DDEC

Fiscal year ended June 30:	2021	2022	2023	2024	2025	2026	FY22-FY26
Current DDEC fee	(2,900)	(9,785)	(8,898)	(8,010)	(7,118)	(7,226)	(41,037)
Low scenario management fee	-	(4,000)	(3,800)	(3,800)	(3,800)	(3,800)	(19,300)
Low scenario DDEC fee	(2,900)	(3,900)	(3,600)	(3,200)	(2,800)	(2,900)	(16,400)
Low scenario subtotal	(2,900)	(7,900)	(7,400)	(7,000)	(6,600)	(6,700)	(35,700)
Net change low scenario	-	1,885	1,498	1,010	518	526	5,337

Table 7: Direct comparison of third party management fee to DDEC (USD \$000s)

Direct comparison of third party management fee to DDEC

Fiscal year ended June 30:	2021	2022	2023	2024	2025	2026	FY22-FY26
Current DDEC fee	(2,900)	(9,785)	(8,898)	(8,010)	(7,118)	(7,226)	(41,037)
High scenario management fee	-	(1,500)	(1,400)	(1,400)	(1,400)	(1,544)	(7,300)
High scenario DDEC fee	(2,900)	(2,000)	(1,800)	(1,600)	(1,400)	(1,445)	(8,200)
High scenario subtotal	(2,900)	(3,500)	(3,200)	(3,000)	(2,800)	(2,990)	(15,500)
Net change high scenario	-	6,285	5,698	5,010	4,318	4,237	25,537

Table 8: Direct comparison of third party management fee to DDEC (USD \$000s)

Table 10 summarizes the total estimated expense changes that have been highlighted throughout this section. The OpEx calculations take into consideration all expenses to be incurred by PRIDCO as outlined within the Fiscal Plan in addition to the new expected expenses with the implementation of the third party management approach including the DDEC fees. The low estimates take into consideration the maximum expenses incurred within the third party management approach while the high estimated take into consideration the minimum expenses incurred within the third party management approach.

Operating expenses

Fiscal year ended June 30:	2021	2022	2023	2024	2025	2026	FY22-FY26
Current PRIDCO	(44,181)	(46,384)	(44,879)	(44,161)	(43,392)	(43,585)	(222,400)
EY OpEx Low	(44,181)	(43,900)	(42,600)	(42,500)	(42,200)	(42,400)	(213,500)
Variance	0%	-5%	-5%	-4%	-3%	-3%	-4%
EY OpEx High	(44,181)	(41,500)	(40,700)	(40,800)	(40,900)	(41,000)	(205,000)
Variance	0%	-11%	-9%	-8%	-6%	-6%	-8%

Table 9: Projected expense differences (USD \$000s)

It is important to note that by implementing the third party management system there are strong positive impacts to PRIDCO's revenue growth projections in tandem with the direct impacts to the expenses. These revenue growth projections as outlined in section 6.2 are not being achieved by the current business as usual approach with the DDEC operations support.

6.4 Results of the affordability analysis

The financial model developed for the Study considers the aforementioned inputs surrounding the portfolio's occupancy, revenue, and the costs associated with operating the properties, such as maintenance, re-leasing, and other investment costs. Utilizing the inputs, the financial model was developed to depict a cash flow scenario that analyzes the affordability of the future operational standards of the portfolio under both the business as usual and third party manager approaches.

As summarized in Table 11 the third party asset management approach estimates improvements to PRIDCO's currently projected deficit/surplus as outlined within the Fiscal plan. The low estimates take into account the minimum revenue and maximum expense projections that PRIDCO would incur with a third party asset management solution. While the high estimates take into account the maximum revenue and minimum expense projections that PRIDCO would incur with a third party asset management solution. Based on the various inputs referenced in this section, it is estimated that over a five-year period, PRIDCO could increase the net income of the portfolio by between \$28.4 million and \$53.2 million.

Deficit/surplus

Fiscal year ended June 30:	2021	2022	2023	2024	2025	2026	FY22–FY26
Current PRIDCO	(3,360)	(293)	(467)	442	1,361	3,831	4,874
EY Low	(3,060)	5,300	6,100	6,700	7,300	9,000	34,500
Net change	0	5,593	6,567	6,258	5,939	5,169	28,426
EY High	(3,600)	10,400	11,100	11,400	11,800	13,400	58,100
Net change	0	10,693	11,567	10,958	10,439	9,569	53,226

Table 10: Deficit/surplus projections (USD \$000s)

It is important to note the significant impact the DDEC reduction has on the affordability portion of the Study. As shown in Table 12 if the DDEC fee reduction was not included the net surplus created by using a third-party asset manager would decrease to between \$5-\$20 million over a 5 year period. An additional study outside the scope of this study is required to evaluate the full implications and feasibility of reducing the DDEC fee would be to the entire commonwealth.

Deficit/surplus

Fiscal year ended June 30:	2021	2022	2023	2024	2025	2026	FY22–FY26
Current PRIDCO	(3,360)	(293)	(467)	442	1,361	3,831	4,874
EY Low	(3,360)	(600)	800	1,900	3,100	4,700	9,900
Net change	0	(307)	1,267	1,458	1,739	869	5,026
EY High	(3,360)	2,600	4,000	5,000	6,100	7,600	25,300
Net change	0	2,893	4,467	4,558	4,739	3,769	20,426

Table 11: Deficit/surplus projections (USD \$000s)

7 Conclusions

PRIDCO faces the ongoing challenge of operating the existing Portfolio to a high quality standard and providing consistent and reliable service, despite the current challenging economic conditions in Puerto Rico. Capital investment is needed to improve the current property conditions and strategically enhance future performance, yet there is little certainty in the current ability of PRIDCO resources to make meaningful improvements. Falling revenue in a rising cost environment has resulted in deferred maintenance, CapEx initiative backlogs and reduced property reliability. In the face of these issues, augmented management procedures are critical for future property development and successful fulfillment of the needs of the Portfolio tenants.

Business as usual

The business as usual option represents the sustained management of the portfolio solely by PRIDCO and DDEC employees. All control and responsibilities are borne by internal management, including operations and maintenance, collections, leasing and more (as outlined in Section 4). While this management model is familiar to all current PRIDCO employees and Portfolio tenants, it appears to fall short in meeting many of the strategic initiative objectives as outlined by the FOMB within the 2021 PRIDCO Fiscal Plan.

By continuing to manage the portfolio internally, PRIDCO is not set up for success to achieve the strategic initiatives for improvement of the properties moving forward. In effect, the business as usual option maintains the status quo, which historically has not resulted in the desired economic development improvements. Major maintenance backlogs and collection delinquencies are likely to continue, given the current execution procedures. As the business as usual approach represents an internally operated structure, there is no opportunity to leverage private sector market expertise to create operational efficiencies. Completion of all operational requirements would be the sole responsibility of the current internal employees. In effect, the business

as usual option would leave the current managers of the portfolio lacking the necessary resources to fully achieve the strategic initiatives laid out within the 2021 Fiscal Plan.

Third party management

By augmenting its current management structure with selective use of expert third-party management resources, PRIDCO will be better suited to satisfy many of the strategic initiatives within the 2021 Fiscal Plan. Notably, expert third party managers who are already exposed to other portfolios throughout the market will be highly adaptive to Puerto Rico's current economic and fiscal environment. Hiring them decreases the operational workloads placed on PRIDCO and DDEC employees and potentially increases the operational efficiencies while promoting strong economic development. This is achieved in part by allocating operations and responsibilities to parties best able to manage them.

Properly handled, third-party management encourages the manager to maximize revenue to earn a strong return based on the direct payment structure based on gross revenue of the portfolio (as outlined in Section 6). Under the third-party management approach, revenue is anticipated to increase through improved leasing practices, strategic optimization, and technology improvements. When compared to the business-as-usual model, total revenue is expected to be \$28 million higher over the Study's term, compared to the business as a usual method.

Leveraging private sector expertise will allow for the introduction of operational efficiencies. Such efficiencies will help increase property quality and reliability, improve the implementation of maintenance projects, and streamline major CapEx initiatives. Such operational changes can lead to cost reductions within the DDEC fee and professional service fees among others (as outlined in Section 6.3). Total costs savings included as a result of implementing the third-party management approach are estimated to be between \$6.3 million and \$28.0 million over a 5-year timeframe.

Additionally, the capital expenditures needed to bring PRIDCO's properties to a rentable state can provide an economic benefit to Puerto Rico. PRIDCO has submitted a \$200 million relief funding request to FEMA related to damages resulting from Hurricane Maria, of which, \$181 million had been approved as of December 6, 2021 and is available to Puerto Rico. While PRIDCO has access to significant FEMA CAPEX funding, it has not fully executed the total annual budget of \$4 million in CAPEX for the past three fiscal years. The economic impact presented here assumes that incentives related to construction fees under the property manager model would encourage accelerated spending and fast-track the economic effects of outstanding FEMA funding.

For every \$10 million accelerated FEMA spending, the economy gains a net impact of 64 jobs, \$2.4 million in labor income, \$3.9 million in value-added, and \$9 million in economic output. The net impact presented here accounts for the crowding-out effect of 33 cents in private sector investment for every dollar of FEMA fund spending. If the \$10 million of direct spending is financed through PRIDCO's own-source revenue rather than FEMA funding, then the \$9 million of net impact presented above overstates the total impact on the Island. Under the self-financing scenario, the total net economic impact for every \$10 million in direct spending would be reduced by 75%, resulting in a net economic output gain of only \$2.3 million.

A review of external literature suggests that if property and asset managers can successfully increase occupancy rates and rehabilitate buildings, then there could also be some social effects from increased property values and public safety benefits. However, the estimated potential economic and social benefits are predicated on the property and asset managers increasing occupancy rates, accelerating capital improvement expenditures above current levels, and demolishing buildings in states of disrepair while still being able to meet the underlying policy objectives of PRIDCO. If the property and asset manager is unable to achieve these goals, or otherwise pursues its own objectives that are not aligned with PRIDCO's objectives, then these benefits outlined will not come to fruition, and the outsourcing can instead lead to a waste of resources rather than efficiency gain. To mitigate the risk of this happening, it is important that the contract between PRIDCO and the management firm be structured in a manner that properly aligns the contractor's incentives with PRIDCO's underlying policy objectives. PRIDCO should actively monitor the contractor's performance, including surveying tenants to understand their perspective on contractor performance. PRIDCO should have the ability to promptly dismiss any contractor that fails to fulfill its obligations.

Timeline

Given the need for significant CapEx and active restructuring – the timeline for this change in management structure is fast approaching. Based on the findings of this Study it is recommended that PRIDCO, through the assistance of the FOMB, begin conducting procurement procedures for acquiring a third party manager immediately to verify the cost estimates outlined within this Study.



8 Appendix

Affordability Build-up

Low Scenario

Fiscal Year Ended June 30:	2021	2022
Current PRIDCO Gross Revenue	\$62,425	\$60,444
Estimated Revenue Impacts		
Occupancy Increase	-	691
Delinquency Improvement	-	249
Improved Strategic Planning	-	279
Estimated Improved Revenue (rounded)	62,400	62,000
Other Income	7,978	3,282
Current PRIDCO Operating Expenses	(44,181)	(46,384)
Estimated Opex Impacts		
Property Management Fee	-	(2,021)
Asset Management Fee	-	(2,021)
Leasing Expense	-	(721)
DDEC Fee reductions	-	5,871
Professional Services fees reduction	-	1,395
Estimated Opex Improvement (rounded)	(44,200)	(43,900)
Non Operating Expenses	(29,210)	(16,079)
Net Surpluse / Deficit (rounded)	(3,000)	5,300

High Scenario

Fiscal Year Ended June 30:	2021	2022
Current PRIDCO Gross Revenue	\$62,425	\$60,444
Estimated Revenue Impacts		
Occupancy Increase	-	2,072
Delinquency Improvement	-	498
Improved Strategic Planning	-	1,737
Estimated Improved Revenue (rounded)	62,400	64,800
Other Income	7,978	3,282
Current PRIDCO Operating Expenses	(44,181)	(46,384)
Estimated Opex Impacts		
Property Management Fee	-	(908)
Asset Management Fee	-	(605)
Leasing Expense	-	(3,562)
DDEC Fee reductions	-	7,828
Professional Services fees reduction	-	2,092
Estimated Opex Improvement (rounded)	(44,181)	(41,500)
Non Operating Expenses	(29,210)	(16,079)
Net Surpluse / Deficit (rounded)	(3,000)	10,500

Endnotes

1 Labor income in IMPLAN is adjusted to be aligned to data from the Quarterly Census of Employment and Wages (QCEW)

2 This analysis assumes additional spending improving the PRIDCO properties to make them rentable would displace similar private sector activities, and these additional PRIDCO's rentable units would likely displace the private sector rentable units.

3 Huntley, Jonathan. Congressional Budget Office, 2014.

4 Stephan Whitaker and Thomas Fitzpatrick, "Deconstructing Distressed Property Spillovers: The effects of vacant, tax-delinquent and foreclosed properties in housing submarkets," 2013. The social and economic factors that result in disinvestment are not modified or offset significantly by limited rehabilitation investments in individual parcels, neighborhood effects are controlling.

5 Tax-delinquent properties are those with property tax delinquent amounts in the county-wide tax-delinquency system. The data is updated semiannually.

6 M. Ahrens, "Fires in Vacant Buildings," 2018.

7 **Source:** Analysis using economic multipliers from the 2019 IMPLAN model for Puerto Rico

Notes: Gross impact represents the effect of the economic impact without considering the opportunity costs. Numbers may not sum due to rounding.

8 **Source:** Analysis using economic multipliers from the 2019 IMPLAN model for Puerto Rico

Note: Numbers may not sum due to rounding

9 **Source:** Analysis using economic multipliers from the 2019 IMPLAN model for Puerto Rico

Note: Numbers may not sum due to rounding

10 OECD, "Recommendation of the Council on Principles for Public Governance of Public-Private Partnerships," 2012.

11 D Mullins and CK Zorn, "Is Activity-Based Costing Up to the Challenge When It Comes to Privatization of Local Government Services?" 1999

EXHIBIT G: DIVESTMENT STUDY

(Attached)

Puerto Rico Industrial Development Company Divestment Study of Non-Rentable Properties

August 2022



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1

Executive Summary



Recap | Capital Expenditure and Feasibility Studies

The findings of the CapEx and feasibility studies directly impacted the process of this analysis

1 PRIDCO Expanded Capital Expenditure Study

- **Objective:** Assess the estimated immediate and future capital expenditure needs for the PRIDCO Portfolio with as high a degree of confidence as possible.
 - This exercise required extensive coordination and collaboration with PRIDCO, including the manual extraction of building data, leases, reports, and insurance claim information. All analysis from the CapEx Study was subsequently deposited in a central repository for PRIDCO's future benefit and use.
 - 200 detailed building inspections were performed across a representative selection of the PRIDCO Portfolio to assess the estimated Capital Expenditure requirements.
- **Outcome:** The total Capital Expenditure inclusive of demolition costs was estimated to be **\$445 million**.

Key Outputs

\$392
million

Identified CapEx requirement,
exclusive of demolition and
abatement costs

\$53
million

Total estimated costs for
properties to be demolished
(3.58m sq ft)

2 Feasibility Study of Alternative Operating Models

- **Objective:** Evaluate alternative third-party management operating models for the PRIDCO Portfolio as compared to the current "business as usual" approach.
 - The Study entailed of internal management interviews, market research, PRIDCO tenant surveys and detailed reviews of the historical and projected financial performance of the Portfolio.
 - The Economic and Social impacts of a potential third-party operating model were studied in order to determine what the potential changes in employment opportunities and value generation to the overall health of the Commonwealth of Puerto Rico.
- **Outcome:** The analysis demonstrated that by implementing a third-party management approach within current PRIDCO operations, the Portfolio could become more efficiently managed and better positioned to serve the needs of the current and prospective tenants.

Key Operational Changes

Supplement Current
Operations

Asset Management

Property Management

Reduce

DDEC Fee

Professional Service Fees

Divestment Study Objectives and Key Findings

This Study was conducted to identify divestment potential within the PRIDCO Portfolio and strategies for divestment

Divestment Study Objectives and Potential Impact

- Identify divestment strategies for unlocking opportunities within the PRIDCO Portfolio
- Lower the necessary CapEx required throughout the PRIDCO Portfolio
- Optimize the utilization of current PRIDCO resources
- Shield PRIDCO from property liability and damage concerns
- Enhance relationships with the private sector
- Increase visibility of PRIDCO properties to the real estate market

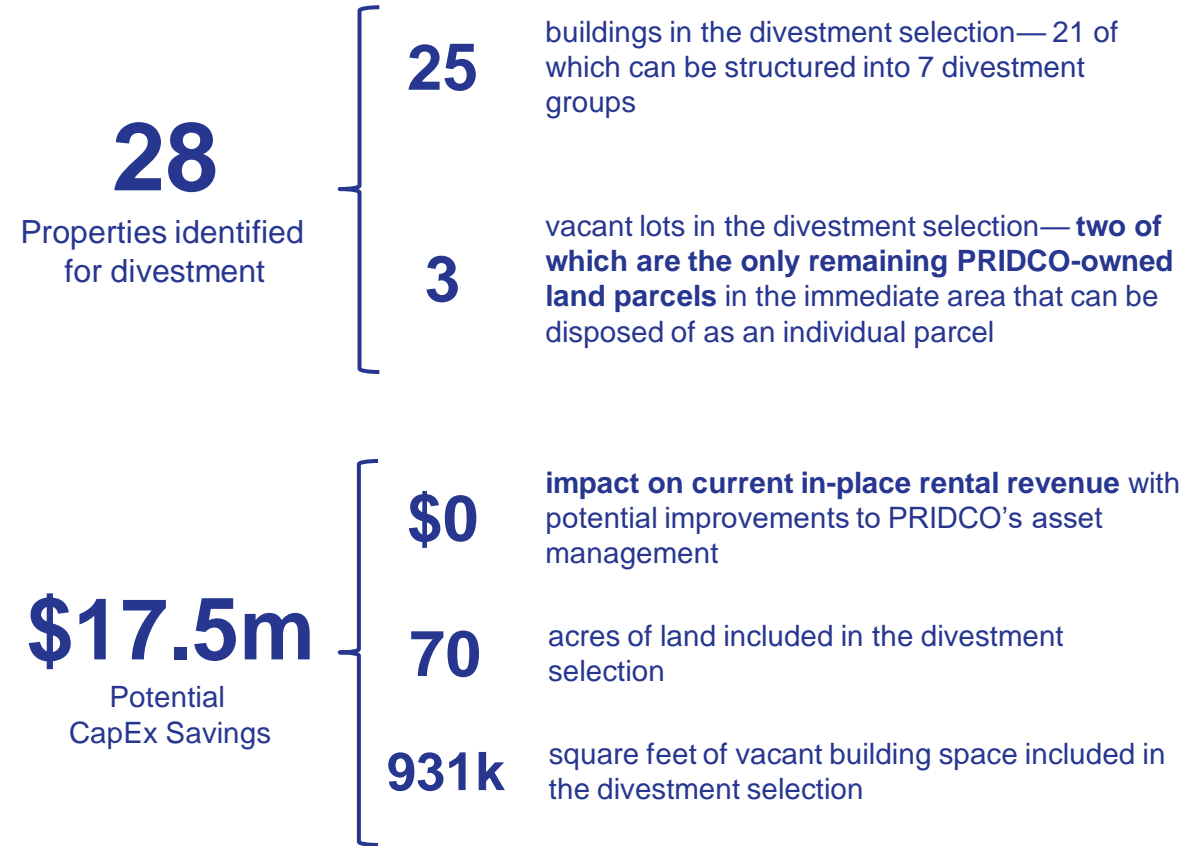
Divestment Key Findings and Strategies

Key Findings

- **28 PRIDCO properties were identified for potential divestment**
 - 22 of which can be structured into 7 groups
 - 6 of which can be marketed as individual properties
- While industrial is still recommended as a potential use for the majority of the selected properties, **certain properties can be marketed for other uses such as retail, office and residential**
 - 12 out of the 28 properties can be repurposed to more than one use

Divestment Strategies and Alternatives to Divestment

- Hire a portfolio broker
- Spin off a separate entity dedicated to the divestment of non-rentable properties
- Engage in strategic sales
- Engage in public private partnership (P3)
- Invest CapEx, repurpose use and then divest



Disclaimer

- This Study relied heavily on PRIDCO's data availability and accuracy
- Specific property-level pricing analyses or models (e.g., discounted cash flow) to assess the potential values of each property were not performed

Summary of Activities for the Divestment Study of Non-Rentable Properties

Site visits, primary market interviews, and secondary market research were conducted to analyze divestment potential

Project Scope

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

Project Approach

- **Identify non-rentable properties** within the PRIDCO Portfolio
- **Engage in research discussions with market experts**, perform site visits, and analyze market research reports
- **Develop metrics for key market indicators and integrate market data into PowerBI dashboard** to allow for mapping and scoring
- **Score the divestment potential of each non-rentable property** using a proprietary scoring formula driven by econometric and geographic data
- **Create an interactive PowerBI dashboard** that allows users to dynamically access the non-rentable selection for location, key statistical insights, and property-scoring
- **Present project methodology, key findings, and recommendations** for property divestment in project deliverable

Research Performed

Previous PRIDCO Projects	Date
• Collateralized Land Pricing Analysis	Q2 2021–Q3 2021
• Capital Expenditures Study	Q2 2021–Q4 2021
• Feasibility Study of Alternative Operating Models	Q3 2021–Q1 2022
Previous Site Visits	Date Visited
• 200 Building Inspections	Q2 2021–Q3 2021
• 19 Lots	Q2 2021–Q3 2021
Divestment Study Site Visits	Date Visited
• 42 Buildings	Q1 2021–Q2 2022

Primary Market Research Interviews (n=6)

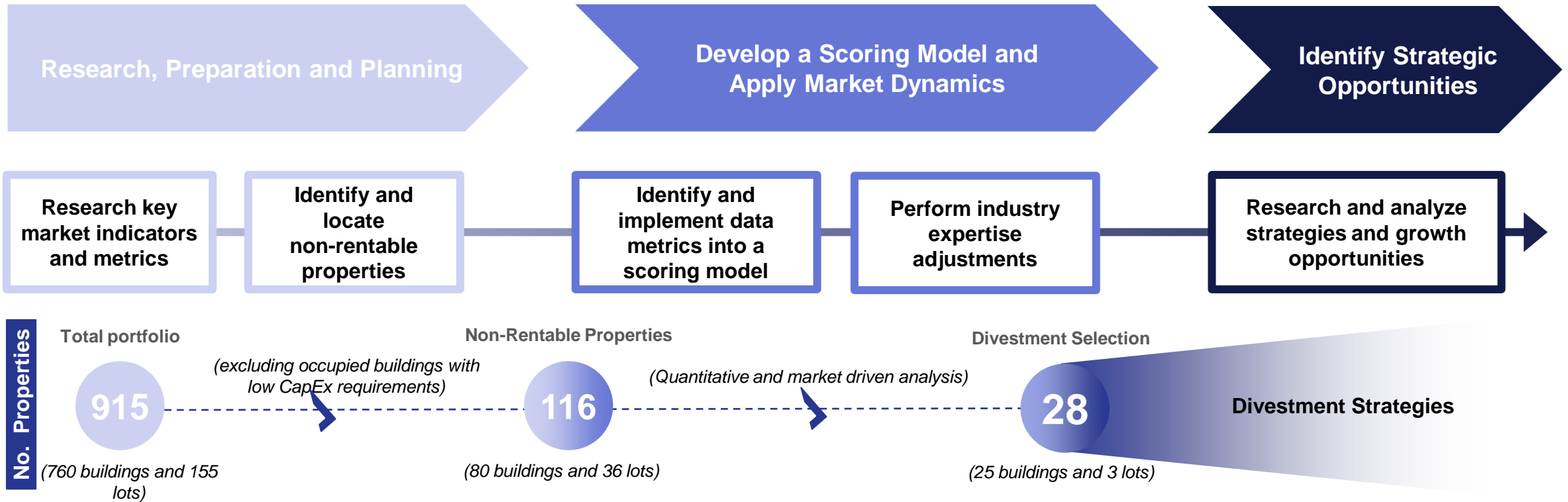
- | | |
|--|---------------------------------------|
| • JLL, Senior Vice President | • REDAtlas, Chief Executive Officer |
| • Invest Puerto Rico, Director | • REDAtlas, Data Coordinator |
| • Invest Puerto Rico, Economic Developer | • Estudios Tecnicos, Data Coordinator |

Select Secondary Market Research Sources

- Bureau of Labor Statistics Database
- Bureau of Transportation Statistics Database
- Estudios Tecnicos Market Reports, 2020
- EY Quantitative Economics and Statistics – Employment Forecast
- Federal Aviation Administration Database
- JLL Market Reports, 2021 – 2022
- REDAtlas Transaction Data
- US Census Database

Divestment Study Approach

The analysis compares each property's divestment potential relative to other non-rentable properties in the PRIDCO Portfolio



Divestment Selection

- The selected 28 properties have been identified as having high divestment potential after receiving direct feedback from PRIDCO on current transactional negotiations and other special circumstances across the portfolio
- This Study did not analyze each property's potential relative to other assets in the marketplace
- As these properties have been estimated to require significant investment, they may be less attractive to buyers and tenants than competing properties in the marketplace
- Going forward, this selection of properties will be referred to as the "Divestment Selection"

Non-Rentable Property Selection

Out of the 915 properties in PRIDCO's Portfolio, 116 have been determined to be non-rentable

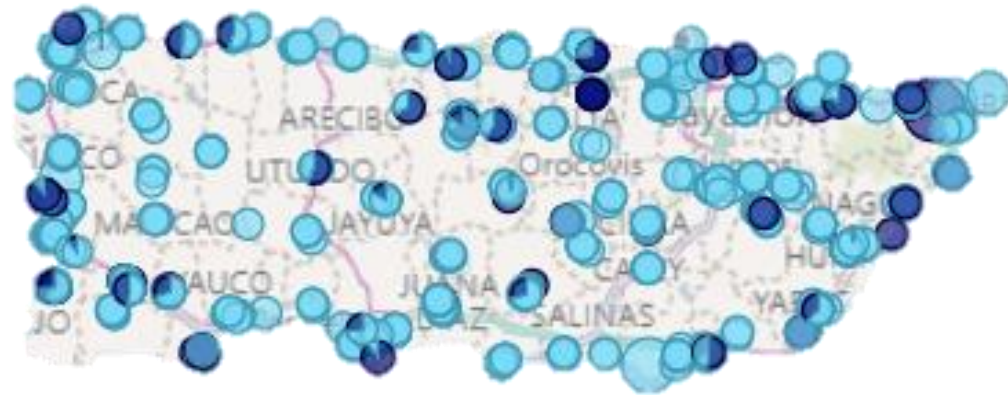
PRIDCO Portfolio Overview

Total Properties

Buildings	Lots	Building SF	Land SF
760	155	22.6m	4,421 ac

Performance

Occupancy	Total Portfolio Annual Rent	Average Annual Rent/SF
68%	\$57.9m	\$3.76



Rentable Asset
n=1,536

Non-Rentable Asset
n=116

Non-Rentable Selection Overview

Using a series of property characteristic filters, 116 of these properties have been identified as non-rentable properties. **These non-rentable properties are all vacant and generate no revenue to PRIDCO.**

Buildings	Lots	Building SF	Land AC
80	36	3.2m	937 ac

Performance

Occupancy	Total Portfolio Annual Rent	Average Annual Rent/SF
0%	\$0	\$0

Estimated CapEx Costs

for the 24 buildings not recommended for demolition in the non-rentable selection in the previous CapEx Study

\$28m

Estimated Demolition Costs

for the 56 buildings in the non-rentable selection proposed for demolition in the previous CapEx Study

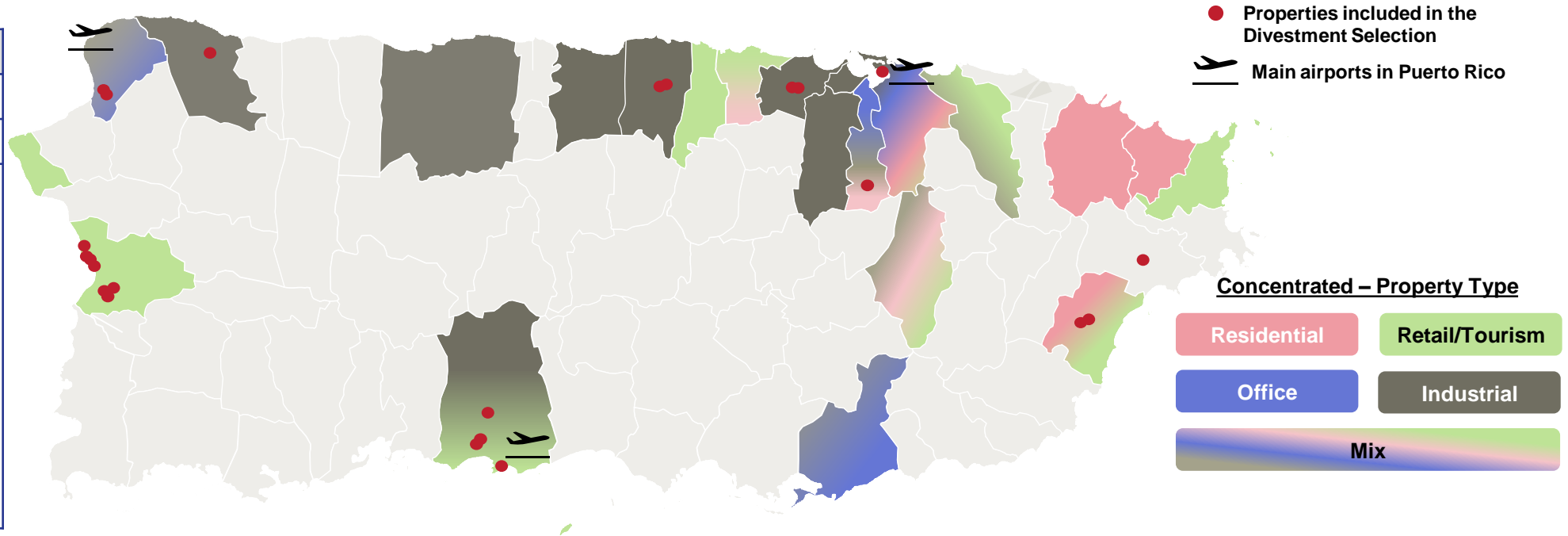
\$37m

Divestment Selection Location Summary

The properties are primarily located within real estate markets poised for growth and economic development

Metro	5 properties	11.6 acres	The San Juan Metro is the top market for commerce and tourism, properties in this region appear to be particularly attractive within the marketplace.
North	3 properties	11.5 acres	The Northern region has growing areas of commerce, various residential and retail developments, and substantial potential for greater industrial development due to its proximity to both SJU and BQN airports.

West
7 properties
21.9 acres
Conversations with market experts indicate that the West region is a growing area of commerce due to its proximity to BQN airport. As the Port of San Juan and SJU airport experience distribution bottlenecks, BQN has become an emerging node in Puerto Rico's distribution chain.



South	7 properties	14.0 acres	Ponce is the second-most populated municipality in Puerto Rico outside of the San Juan metro area and has a diversity of economic development including retail, residential, and industrial real estate. Properties in Ponce currently hold potential due to their location in a larger market and proximity to PSE airport. Seven PRIDCO properties located in Ponce have been identified, including six properties in the Ponce West Industrial Park.
East	6 properties	10.6 acres	Market conversations indicate that Humacao has been experiencing market interest for development given its proximity to the coast and cluster of economic activity driven by the presence of industrial facilities, raising the prospects for commercial land.

Note: The Divestment Selection from this Study is subject to material change based on further due diligence such as legal, zoning, ongoing FEMA obligations or litigations, divestment policies and so on.

Summary of the Divestment Selection

28 properties were included in the final selection to be considered for detailed divestment scenario analysis

Divestment Selection Statistics

Properties identified for divestment

28

Buildings

25

Vacant Lots

3

Revenue Impact of Divestment

\$0

Reduction in Estimated Portfolio CapEx + Demo

\$17.5m

Reduction in Portfolio Size (Land)

70 ac

ID	Building/Lot IDs	Municipality	Region	Land Size (acres)	Estimated CapEx	Nearby Demand Generators	Nearby Major Corporations	Proposed Uses
Group 1	Building 491, Building 610, Building 843, Building 857, Building 973, Building 983	Ponce	South	14.10	\$2,868,824	Ponce Town Center	Molex Caribe	Industrial, Retail
Group 2	Building 82, Building 793	Humacao	East	3.58	\$2,122,600	Medtronic Facility	Bard Shannon	Industrial
1	Building 1016	Bayamón	Metro	2.11	\$1,170,356	Inter American UPR Bayamón	Pan Pepin	Industrial
Group 3	Building 327, Building 469, Building 1336	Humacao	East	5.14	\$2,574,307	Medtronic Facility	Bard Shannon	Industrial
Group 4	Building 1163, Building 1203	Aguadilla	West	13.31	\$1,424,287	Montana Industrial Park	CCL Label	Industrial, Retail
Group 5	Building 892, Building 898, Building 1294	Vega Baja	North	11.54	\$2,363,021	Morovis Industrial Park	Harvey Hubbell Caribe	Industrial, Office
2	Building 13	San Juan	Metro	0.34	\$64,162	Polytechnic University PR	TK Puerto Rico	Retail
Group 6	Building 400, Building 481, Building 572	Mayagüez	West	6.07	\$2,269,617	Plaza Sultana	Hormigonera Mayagüezana	Industrial
3	Lot 50	Ponce	South	0.34	No Inspection	San Ignacio Plaza	Empresas Stewart-Cementarios	Retail
4	Building 967	Isabela	West	2.12	\$1,231,815	Mora Guerrero Industrial Park	Infotech Aerospace Services	Industrial
5	Lot 5	Mayagüez	West	0.39	No Inspection	Port of Mayagüez	Oriental Bank	Retail, Residential
Group 7	Building 856, Building 1137, Lot 217	Toa Baja	Metro	9.10	\$1,021,044	Plaza Dorado	Nextgen Pharma	Industrial
6	Building 597	Naguabo	East	1.91	\$344,768	El Duque Industrial Park	Combe Products	Industrial

Total: 70.0 acres \$17,454,801

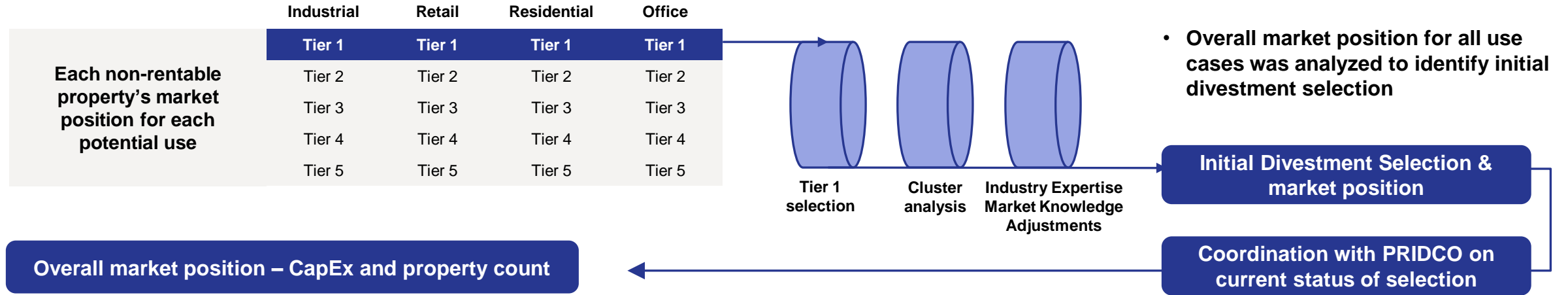
Disclaimer: The Proposed Uses mentioned in this study are subject to material change based on further due diligence such as legal, zoning, ongoing FEMA obligations or litigations, divestment policies and more

Sources: PRIDCO Property Data as of May 2022, PRIDCO Expanded CapEx Study as of February 2022

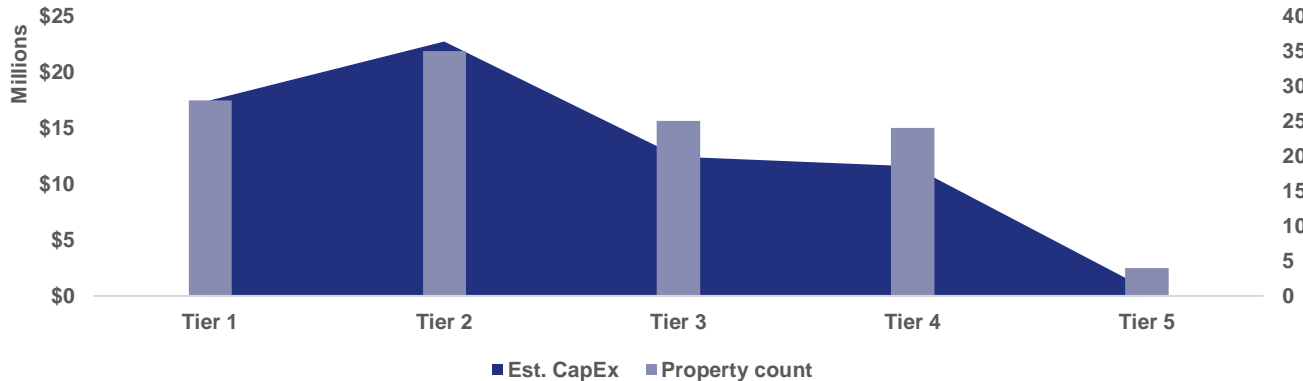
Divestment selection process and additional considerations

The following methodology was used to develop the initial Divestment Selection

Initial divestment selection process



Overall market position – CapEx and property count



Market position for all uses	Tier 1	Tier 2	Tier 3	Tier 4	Tier 5
Estimated CapEx	\$17,454,801	\$22,723,152	\$12,439,811	\$11,596,536	\$605,610
Property count (116 in total)	28	35	25	24	4
Avg. CapEx per property	\$623,386	\$649,233	\$497,592	\$483,189	\$151,403

Initial Divestment Selection (Tier 1)

- The 28 properties within this tier are the initial divestment selection due to their overall market position and PRIDCO-provided property information, indicating high marketability for various uses and existing PRIDCO resources. The Divestment Selection are analyzed throughout this Study.

Strategies for other non-rentable properties (Tier 2 – 5)

- CapEx:** Consideration of properties with higher CapEx in order to increase potential savings
- Cluster analysis:** assemble closely-located properties into one for divestment or alternative divestment strategies
 - Example 1 – Yabucoa Building 1388, 792 and 475 (Tier 2 & 3)
 - Example 2 – Cabo Rojo, Building 636, 995, 445 and Lot 122 (Tier 2)
 - Example 3 – Luquillo, Building 518, 780, 853, 1201, 1234 (Tier 3 & 4)
- Other PRIDCO priorities:** such as municipality economic development, presence in industrial parks, employment or revenue-driven, such metrics can be found in the supporting workpaper of this Study

Estimated Proceeds from Divestment

CapEx costs were deducted from comparable land sales and listing prices resulting in potential proceeds up to \$4.0m

Pricing indicated by recent comparable land sales and active listings

Divestment Selection – 28 properties

\$8.5m to \$21.5m

Less CapEx/Demolition Costs: \$17.5m

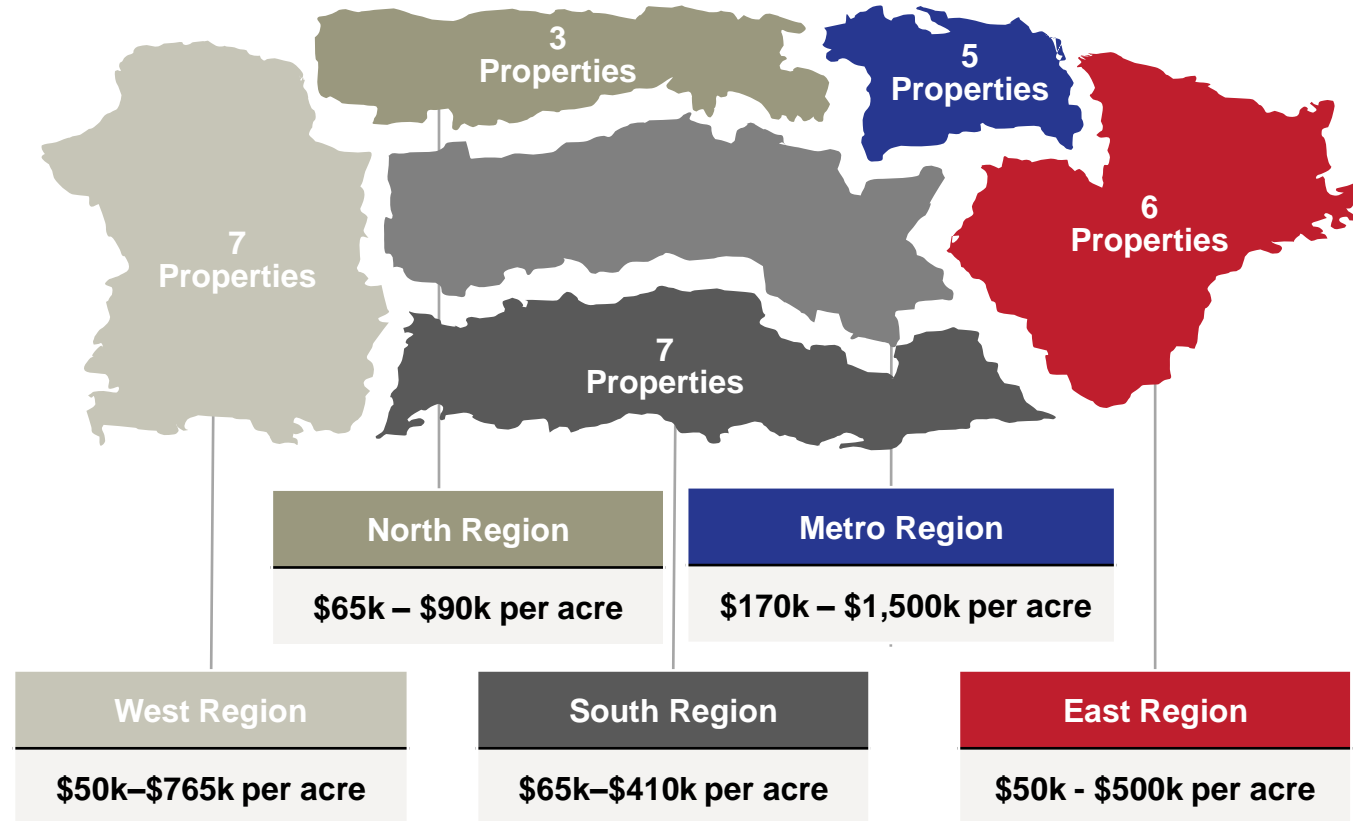
Estimated Proceeds from Divestment Selection

\$0 - \$4.0m

Pricing Methodology

- Recent comparable sales and listings throughout the Commonwealth were identified for each region.
- These comparables were extrapolated to the Divestment Selection based upon the price per acre ranges.
- The \$4.0m is the aggregate for the Divestment Selection.
- Comparable sales and listings appear to be vacant land with no building improvements.
- As such, the **estimated CapEx/demolition costs of the selection were deducted** to estimate the potential proceeds generated by the divestment.
- PRIDCO identified 4 properties in the initial selection that were already in-process for either divestment or had significant FEMA obligations, representing upside for the portfolio. **These properties were removed from the final selection as a result.**

Divestment Selection Location



Impact of PRIDCO Policies and Guidelines on Proceeds

- PRIDCO Policies and Guidelines grant PRIDCO the opportunity to buy a property back at the purchase price less accumulated depreciation. This significantly reduces the financial feasibility of a PRIDCO property on the marketplace and may negatively impact the sale prices due to a cap on property appreciation.

Transaction Strategies for Consideration

PRIDCO can utilize traditional divestment strategies alongside other transaction structures to unlock value within the Portfolio

Portfolio Level Traditional Divestment Strategies



Hire a Portfolio Broker	✓	✓	✓
Use an online property marketing platform		✓	✓
Spin off a Separate Entity Dedicated to the Divestment of Non-Rentable Properties	✓	✓	✓
Engage in Strategic Sales	✓	✓	✓
Control supply by strategically limiting the number of properties on the market at one time	✓		
Assemble non-rentable properties that are located within close proximity to each other	✓	✓	✓
Transfer properties to other government agencies		✓	✓
Prioritize the divestment of properties with relatively lesser estimated CapEx/demolition costs	✓	✓	✓
Prioritize the divestment of vacant lots	✓		✓
Prioritize the divestment of properties close to actively operating businesses		✓	✓
Market properties to current network of tenants and prospects		✓	✓

Goals of Divestment Strategies:



Maximize Capital Generated



Minimize PRIDCO Expenditure



Maximize Economic Output of Property

Alternatives to Traditional Divestment Strategies

- Engage in Public-Private Partnerships (P3)
 - Structure ground leases
 - Provide seller financing to prospective buyers
 - Provide lease-to-own options for prospective tenants
- Invest CapEx and Repurpose Use

PRIDCO Divestment Policy and Guidelines Observations

- Supplement the current Sales Committee with a local commercial broker that can offer strong market expertise and relationships
- Formalize the information that is required by potential buyers during the divestment to streamline the process
- Allow for buyers to negotiate the selling condition that grants PRIDCO the preferential right to reacquire the sold property at the same Sale Price

Project Obstacles

The below obstacles were encountered throughout the analysis and overcome through various solutions



Obstacle	Explanation	Strategy
Data Availability	<ul style="list-style-type: none">• There is limited available commercial data for Puerto Rican real estate markets.• There are no online commercial real estate resources that currently present a complete, interactive database of commercial properties for Puerto Rico.	<ul style="list-style-type: none">• Thus, the analysis was constrained in attaining and analyzing market-level real estate statistics, particularly for smaller Puerto Rican markets.
Data Accuracy	<ul style="list-style-type: none">• Commercial real estate data in Puerto Rico is unreliable, especially in smaller real estate markets.• Errors in PRIDCO property-level data have been identified, corrected and/or discarded from the analysis.	<ul style="list-style-type: none">• PRIDCO provided data relied upon for the analysis was vetted thoroughly; however, absolute accuracy of all data points referenced in the analysis cannot be guaranteed.
Lot Identification	<ul style="list-style-type: none">• PRIDCO did not provide addresses or coordinates for all lots and provided only limited insight on the status of each lot.• The analysis indicates that many lots do not appear to be eligible for divestment, as they are natural reserves, irregularly shaped, or contain rights of way.	<ul style="list-style-type: none">• The selection of non-rentable lots is subject to further site inspections for status verification.



2

Identification and Analysis of Non-Rentable Selection

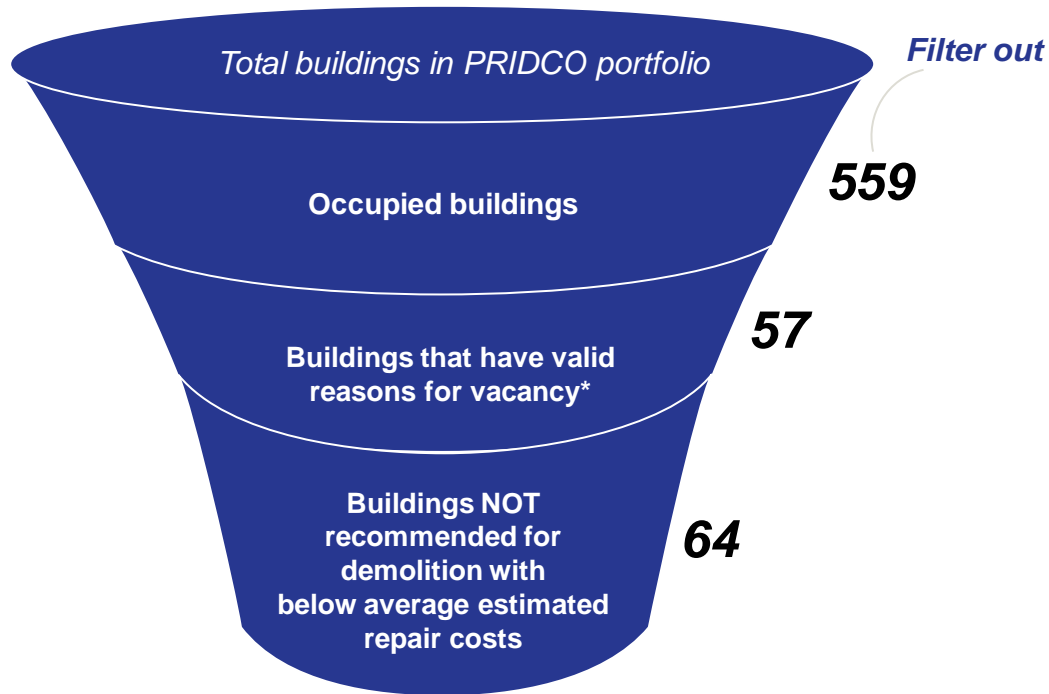


Methodology for Identification of Non-Rentable Selection

To determine the property set for potential divestment, the Portfolio was refined using specific criteria

Buildings

760



80

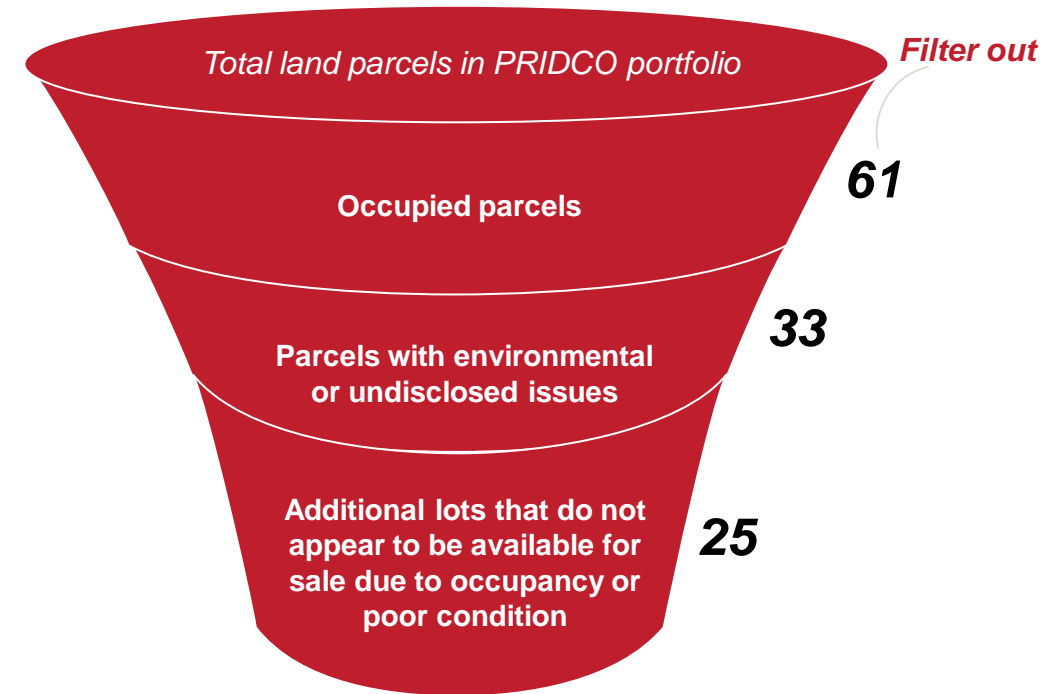
Non-rentable buildings included in the selection

*Valid reasons for vacancy include:

- Reserved for Rent
- Under Negotiation for Rent
- Under Construction

Lots

155



36

Non-rentable lots included in the selection

915

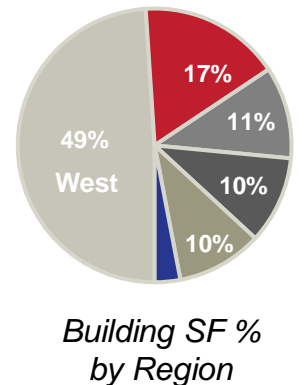
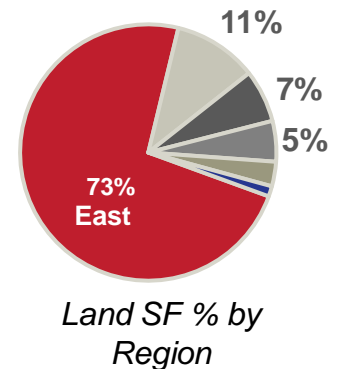
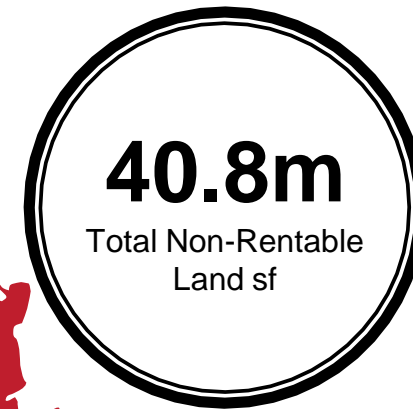
116

Geographic Overview of Non-Rentable Selection

The 80 non-rentable buildings and 36 non-rentable lots comprise 40.8m land sf and are concentrated in the East and West




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

Non-Rentable Selection Map



Scoring Metrics Utilized

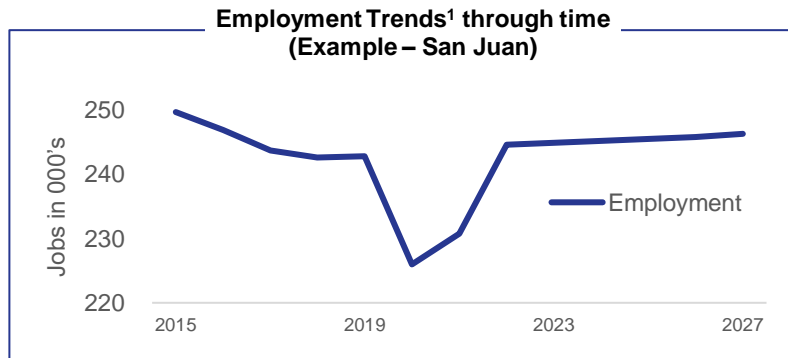
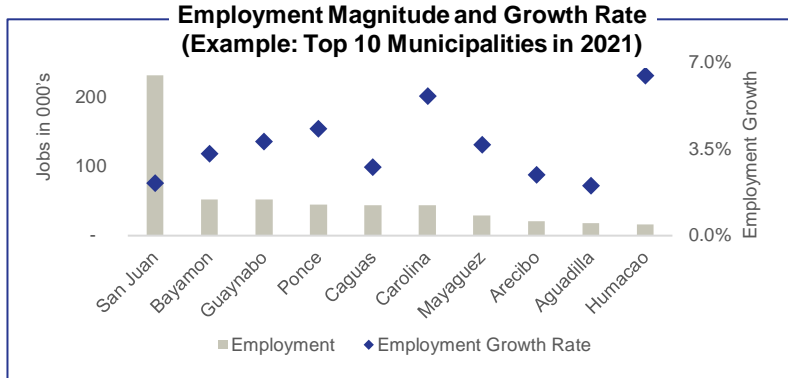
Market dynamics were considered as scoring metrics, allowing economic and real estate demand to drive divestment conclusions

Scoring Category		Reason for Consideration	Metrics Studied
	Economic Conditions	<ul style="list-style-type: none"> Local economic conditions such as population demographics, concentrations of business and the associated forecasted changes in the future are strong indications of business growth. 	<ul style="list-style-type: none"> Forecasted employment growth as indicated by the population growth of specific markets The forecast was conducted using a proprietary multi-step econometric analysis that considered: the estimated population change, geographic characteristics (land size and location), time trends and industry concentrations.
	Demand Generators	<ul style="list-style-type: none"> Locations with established demand generators typically attract more travelers and consumers that generate high traffic, and eventually create or increase demand for real estate properties. 	<p>Specific property-type related:</p> <ul style="list-style-type: none"> Distance to San Juan (office, industrial) Distance to Aguadilla (industrial) <p>Traffic level and commerce:</p> <ul style="list-style-type: none"> Number of demand generators within 5-minute drive Distance to the closest demand generator The type of demand generators <p>Transaction and market interests:</p> <ul style="list-style-type: none"> Transaction activity by municipality Construction permits by municipality
	Major Corporations	<ul style="list-style-type: none"> The major corporations considered are largely subsidiaries of foreign enterprises, and their presence indicates proof of commerce occurring in a region. The presence of a notable corporation presents the “low-hanging fruit” potential at this location. 	<ul style="list-style-type: none"> Number of major corporations within 5-minute drive Distance to the closest major corporation The number of employees at the major corporation The annual revenue generated from the closest major corporation

Examples of key metrics utilized throughout the study

Market-driven metrics underscore the variability of divestment potential across geographic locations

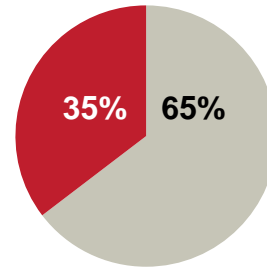
Economic Condition



Demand Drivers

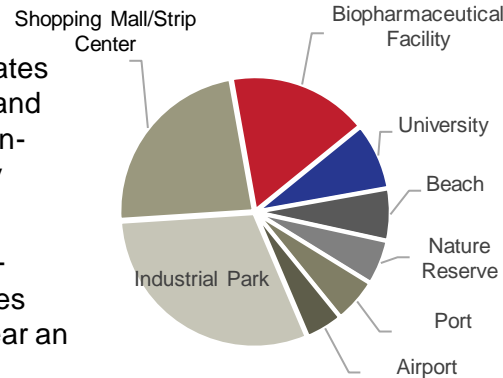
475 demand drivers were identified throughout the Commonwealth

35% located within a **5-minute** drive from at least one PRIDCO property



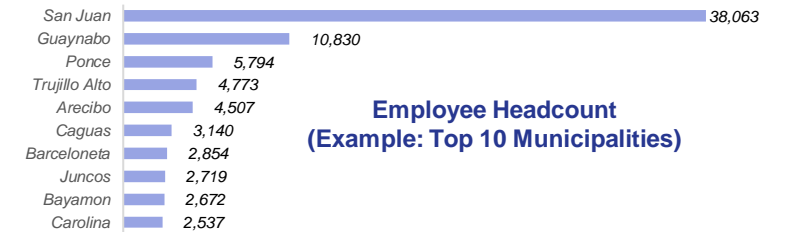
The Study evaluates the nearest demand driver to each non-rentable property

31% of the non-rentable properties were within or near an industrial park



Major Corporations

1,208 major corporations with over **\$41** billion of annual revenue and more than **131,000** employees were identified and factored into the Study²



Average outputs for:	Employment Change 2021-2023 (000's) ³	Employment Change 2021-2027 (000's) ³	Demand Drivers ⁴	2021 Construction Permits ³	Transaction Activity (2016 – Feb 2021) ³	Major Corporations ⁴	Major Corporations Employee Headcount ⁴	Annual Revenue of major corporations ⁴	Distance to the nearest Major Corporation (miles)
28 selected properties	1,824	1,836	2	206	505	2	117	\$129m	0.8
88 remaining properties ⁵	329	526	1	93	176	1	75	\$16m	1.6

¹Data from 2022 onwards are forecasts.

²Major corporation data are estimates from S&P CapitalIQ and D&B Hoovers. Revenue is reported as the total for the last 12 months and employees are the latest annual average as submitted to the databases.

³By municipality

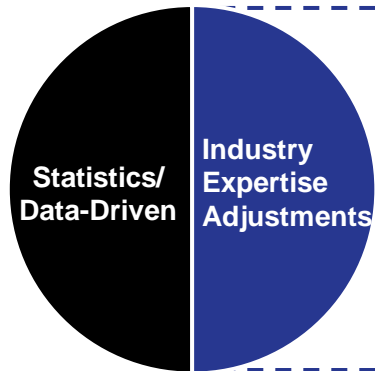
⁴These metrics are measured within a 5-min drive radius from each non-rentable property

⁵The remaining non rentable properties there were not selected

Industry Expertise and Market Knowledge Adjustments

Industry expertise was also considered as an adjustment metric to highlight divestment potential from private investor’s perspective

After an initial assessment of divestment potential was performed through data analysis, the divestment selection was analyzed through industry and market expertise.



The application of industry expertise adds qualitative perspective to the quantitative scoring formula. This multi-layered analysis took into consideration several qualitative factors to best reflect what market participants value in the marketplace.

Industry Expertise Adjustment Impacts				
Qualitative Factors	Retail	Office	Industrial	Residential
Frontage/Visibility	☑			☑
Highway Access	☑	☑	☑	☑
Parcel Shape	☑	☑	☑	☑
Neighborhood Strategic Location	☑	☑	☑	☑
Market Conversations	☑	☑	☑	☑
Recent PRIDCO Leasing Activity	☑	☑	☑	☑

☑ Indicates the factor can have direct impact on the respective use

Frontage/Visibility

Frontage on streets provides visibility for ongoing traffic and easy access to the property. Properties with greater frontage are thus more favorable to investors, as retail, office, and industrial tenants are often looking for locations experience high traffic.

Highway Access

Efficient access to major interstates allows businesses to receive materials and ship inventory in the shortest amount of time. This particularly benefits manufacturers and distributors, who are consistently aiming to improve their distribution networks.

Parcel Shape

Physical shape is a critical factor when considering potential development sites. Irregular shaped parcels typically have lower **physical utility** (and therefore lower **potential sales proceeds**) than square or rectangular-shaped parcels. Many big-box retailers have specific width and depth requirements for standard prototypical buildings.

Surrounding Neighborhood and Strategic Location

Surrounding neighborhood is important for marketability and development potential. Close proximity to a district with diverse development types (a combination of residential, retail, and office) may offer **mixed use potential** and induce the “**placemaking**” concept. Additionally, unique locations may be attractive to investors; for instance, a waterfront location.

Market Conversations

Perceptions from various market participants are necessary to supplement quantitative analysis to **uncover how the property is influenced by current and emerging market trends.**

3

Current State Market Analysis



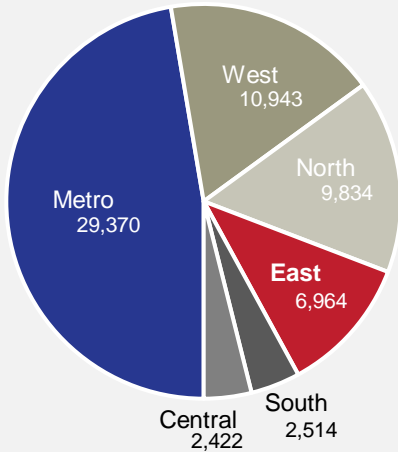
Economic Conditions Findings

Employment forecasts and transaction activity indicate that the strongest economic regions are the Metro, West and North

Employment

5.5% Forecasted total employment growth in Puerto Rico from 2022 to 2027, representing **62,048 new jobs**.

Forecast Employment Growth by Region (2022–2027)



47%

of these jobs are expected to come from the Metro region

West and North

regions are also expected to see substantial economic growth

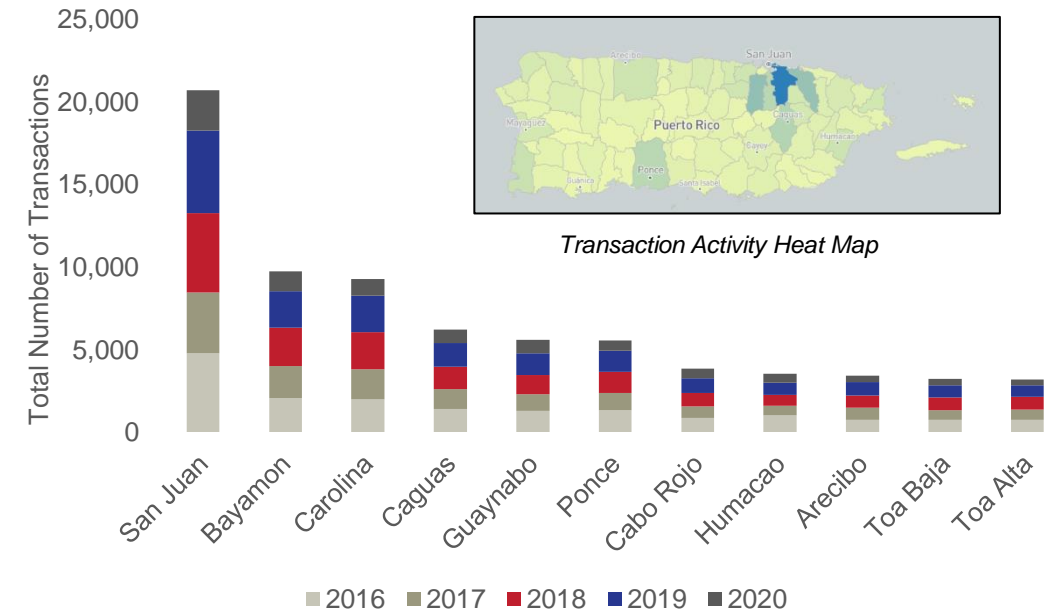
Notable Forecasted Employment Gains by Municipality (2022–2027)

San Juan: 15,587	Guaynabo: 4,094	Mayagüez: 2,701	Arecibo: 2,213	Aguadilla: 1,770
Rank: 1	Rank: 2	Rank: 5	Rank: 7	Rank: 8

Transaction Activity

36% of all real estate transactions from 2016 to 2020 in Puerto Rico occurred in San Juan. Humacao, Arecibo and Toa Baja are smaller areas that also saw high volume.

Real Estate Transaction Activity by Municipality (2016–2020)



Construction permit volume by municipality in 2021 largely mirrored the above transaction volume data. **Aguadilla and Isabela, however, respectively ranked 6th and 10th in 2021 construction permit volume, illustrating growing activity in the West region.**

Demand Generators and Major Corporations Findings

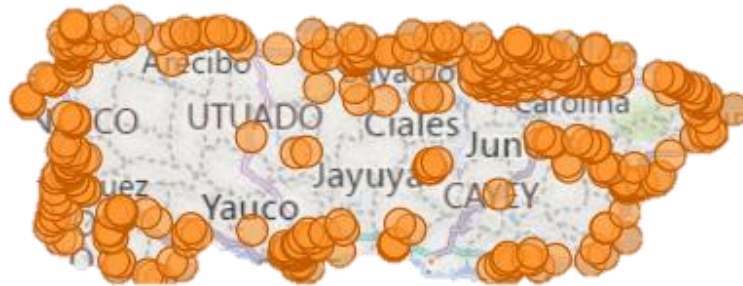
Major demand generators are primarily in the Metro, North, and West regions while large corporations are primarily in San Juan Metro

Demand Generators

4.94m

combined passengers flew through SJU and BQN in 2021, surpassing the previous annual passenger record. These two airports largely drive demand for the metro, north and west regions.

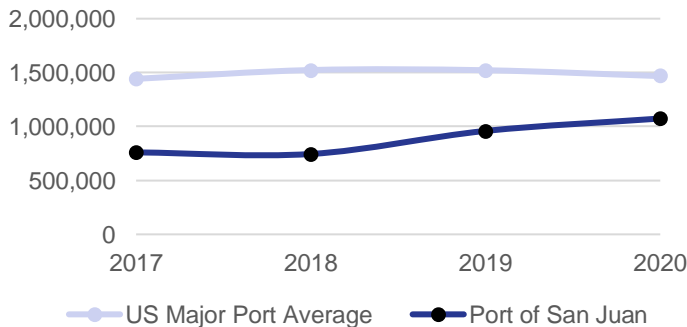
Demand Generators Map



San Juan's airports and Ports

are the most substantial of the 475 demand generators identified.

Total Container TEU Volume – US Major Ports



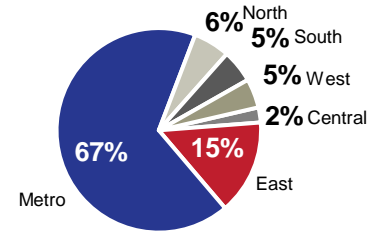
While the Port of San Juan is currently behind the US port average for container twenty-foot equivalent units (TEUs), **its container volume has been rising steadily as compared to the US avg.** The Port currently ranks 11th for container TEU volume in the US.

Major Corporations

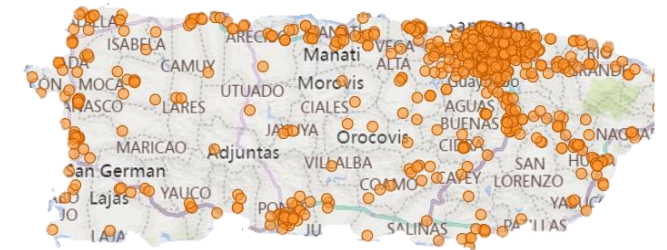
\$41b

in annual revenue is estimated to be generated by Major Corporations. About two-thirds of this revenue is generated in the Metro region.

Major Corporation Annual Revenue by Region

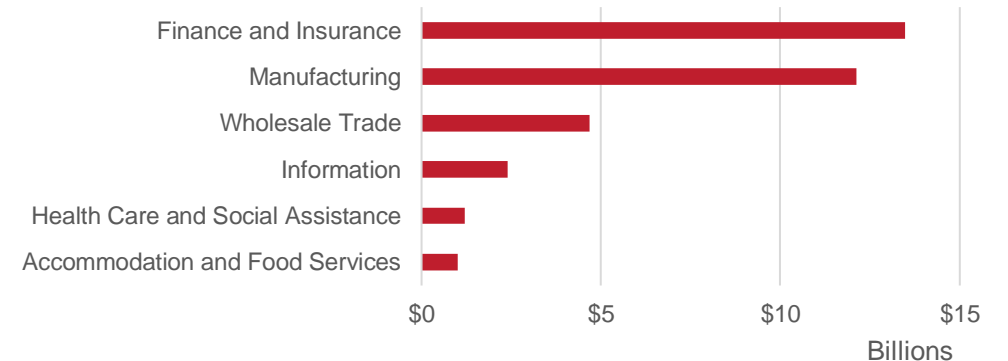


Major Corporations Map



The Finance and Insurance sector generates 35% of total Major Corporation Revenue, the most of any sector. Manufacturing generates the second most at 32%.

Major Corporation Annual Revenue by Sector



Industrial Market Analysis

The rise of e-commerce has resulted in increased industrial values and rents for Class A buildings throughout the Commonwealth

Industrial

- Puerto Rico's manufacturing index has maintained strong performance throughout the COVID-19 pandemic, remaining above the historical average index in 16 out of the 17 months since from Jan 2021–May 2022.
- Puerto Rico's e-commerce sales increased by approximately 30% in Q3 2021 from Q3 2019.
- E-commerce has stabilized at around 13% of total sales post-COVID, up from the previous 11% rate prior to COVID.
- In addition to manufacturing and distribution centers, warehouses and storage facilities appear to have significant demand, some trading at prices of \$200+ psf.
- In ten of Puerto Rico's major industrial markets, excluding a major outlier, Class A industrial values increased year-over-year by an average of 21.7% in 2021.
- In ten of Puerto Rico's major industrial markets, Class A rents have seen 3% to 12% year-over-year increases in 2021, with an average rent increase of 9.6%.

Q2 2020–Q2 2022 Market Activity

Bo Guanajibo

Price: \$716k
Price PBSF: \$47

Bo Magas Guayanilla

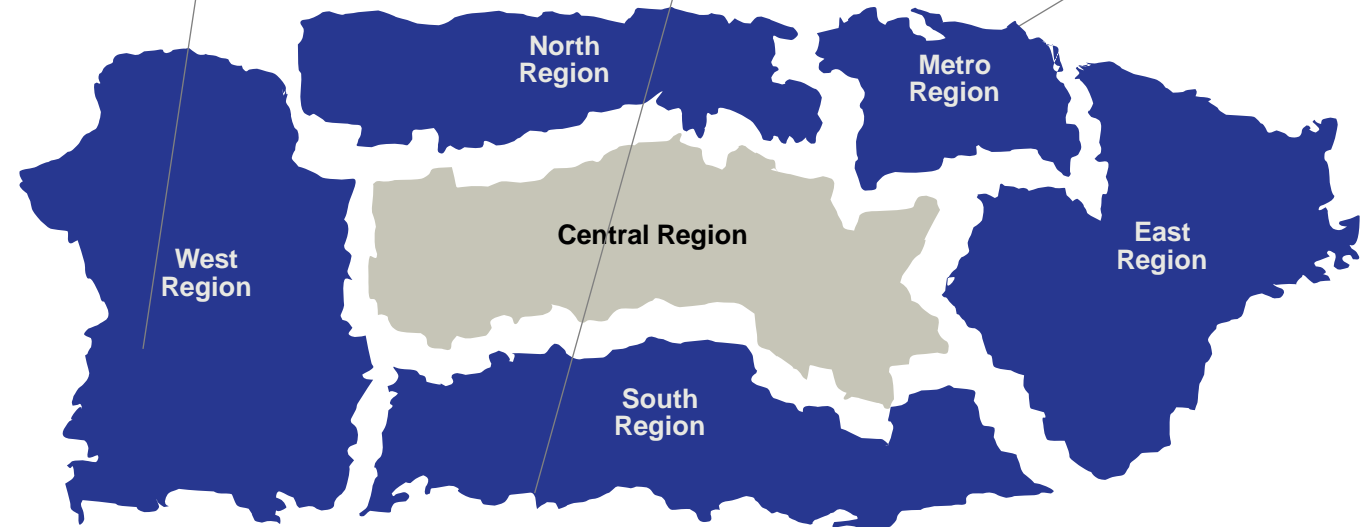
Price: \$10.7m
Price PBSF: \$35

RexCo Industrial Park

Price: \$2.1m
Price PBSF: \$76

Industrial Transaction Price Per Building Square Foot

\$20–\$76



Industrial Regions of Interest: Metro, North, West, South, East

Impact on the Divestment Selection

- Since Q2 2020, 69 industrial assets have transacted for less than \$500k in PR, indicating interest in lower quality assets that require capital investment.
- 22 of the 28 properties in the Divestment Selection have proposed uses of industrial — aligning with market demand for industrial space.

Land Market Analysis

There is increasing demand for Class A land throughout the Commonwealth, largely driven by demand for solar development

Land

- **Solar development has become an increasingly popular land use in Puerto Rico, in part due tax exemption on the sale and use of panels.**
- Hemp farms are also a popular use, spurred by the legalization of its manufacturing, distribution, and sale contingent upon specific licensing.
- Class A land value has increased throughout the Commonwealth. In ten major land markets in Puerto Rico, **the value of Class A land increased year-over-year by an average of 4.5% in 2021.**
- Class B land value has stagnated throughout the Commonwealth. **In ten major land markets in Puerto Rico, the value of Class B land decreased by 5.6% in 2021.**

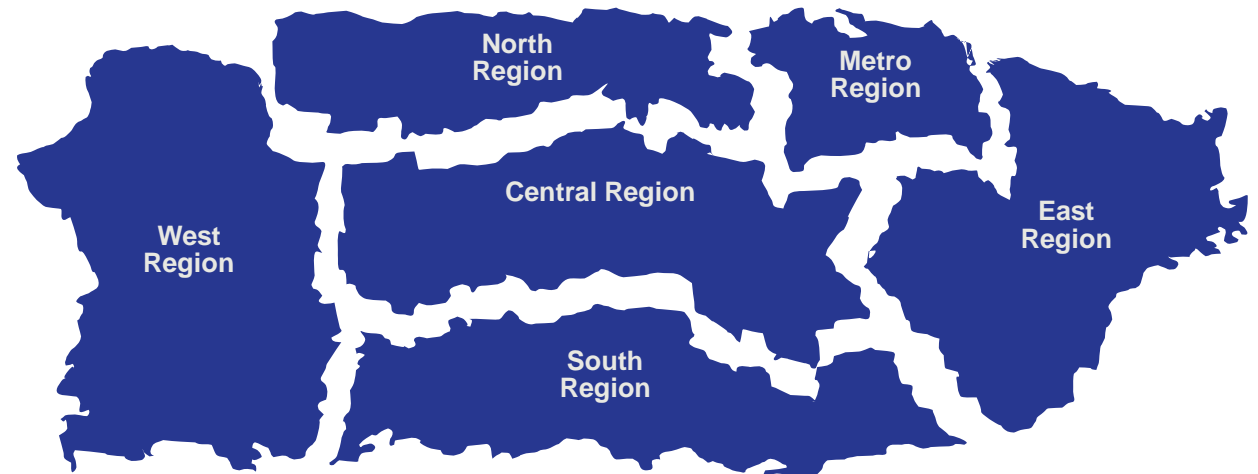
Impact on the Divestment Selection

- **Most of the non-rentable properties divested will likely transact for land value, as the buildings do not hold significant value due to their current dilapidated condition.** Thus, the above pricing ranges provide a general indication of potential proceeds generated if PRIDCO maintains price integrity throughout divestment.

Q2 2020–Q2 2022 Market Activity

Raw Land Transaction Price Per Acre		
Class A	Class B	Class C
\$900k–\$1,700k	\$400k–\$900k	\$5k–\$200k

The average price per acre for land sale throughout the island is approximately \$300k.



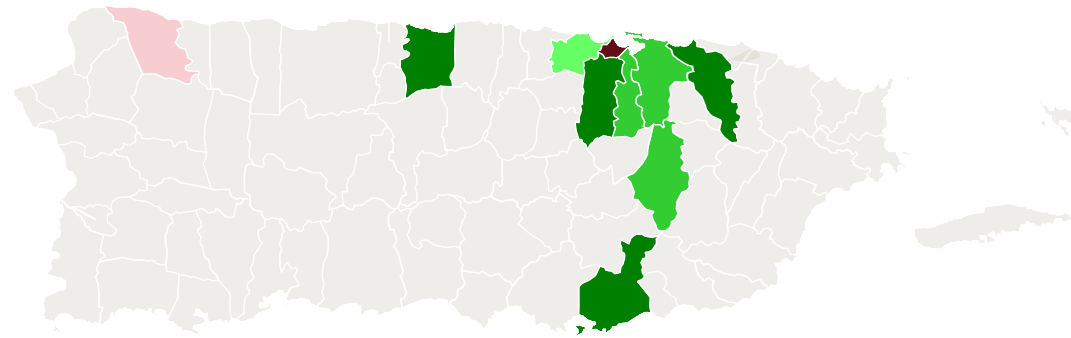
Land Regions of Interest: Island Wide

Industrial and Land Real Estate Investment Performance

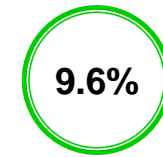
Both the industrial and land sectors experienced strong investment performance across select municipalities in H1 2021

Industrial Performance	San Juan	Carolina	Guayama	Guaynabo	Bayamón	Isabela	Manatí	Cataño	Caguas	Toa Baja
Industrial YoY Value Change (H1 2021, Class A)	12%	34%	36%	20%	30%	-2%	30%	-59%	25%	10%
Industrial Annual Rent YoY Change (H1 2021, Class A)	9%	11%	12%	9%	11%	9%	10%	3%	10%	12%

Value YoY Change Average (Excluding Cataño):

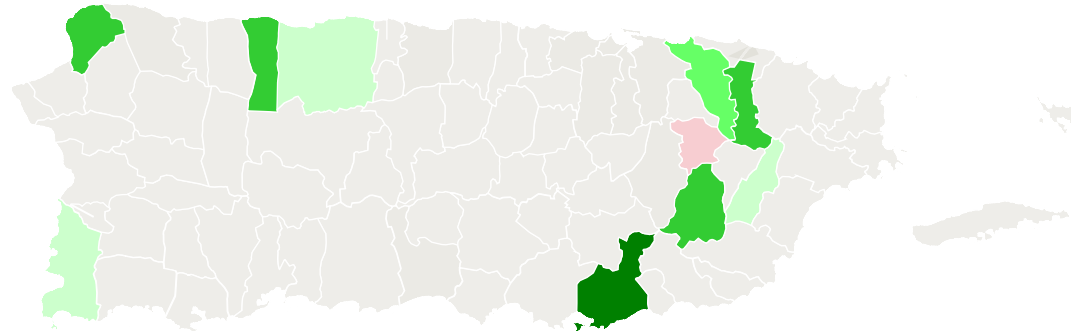


Rent Change YoY Average (Excluding Cataño):



Land Performance	Carolina	Loíza	Las Piedras	Juana Díaz	Aguadilla	Gurabo	Hatillo	Arecibo	San Lorenzo	Cabo Rojo
Land YoY Value Change (H1 2021, Class A)	2%	7%	.2%	13%	9%	-3%	7%	1%	9%	.2%

Value YoY Change Average (Excluding Cataño):



Residential Asset Class Analysis

There is an affordable housing shortage throughout the Commonwealth, as home prices have climbed significantly since Hurricane Maria

Residential

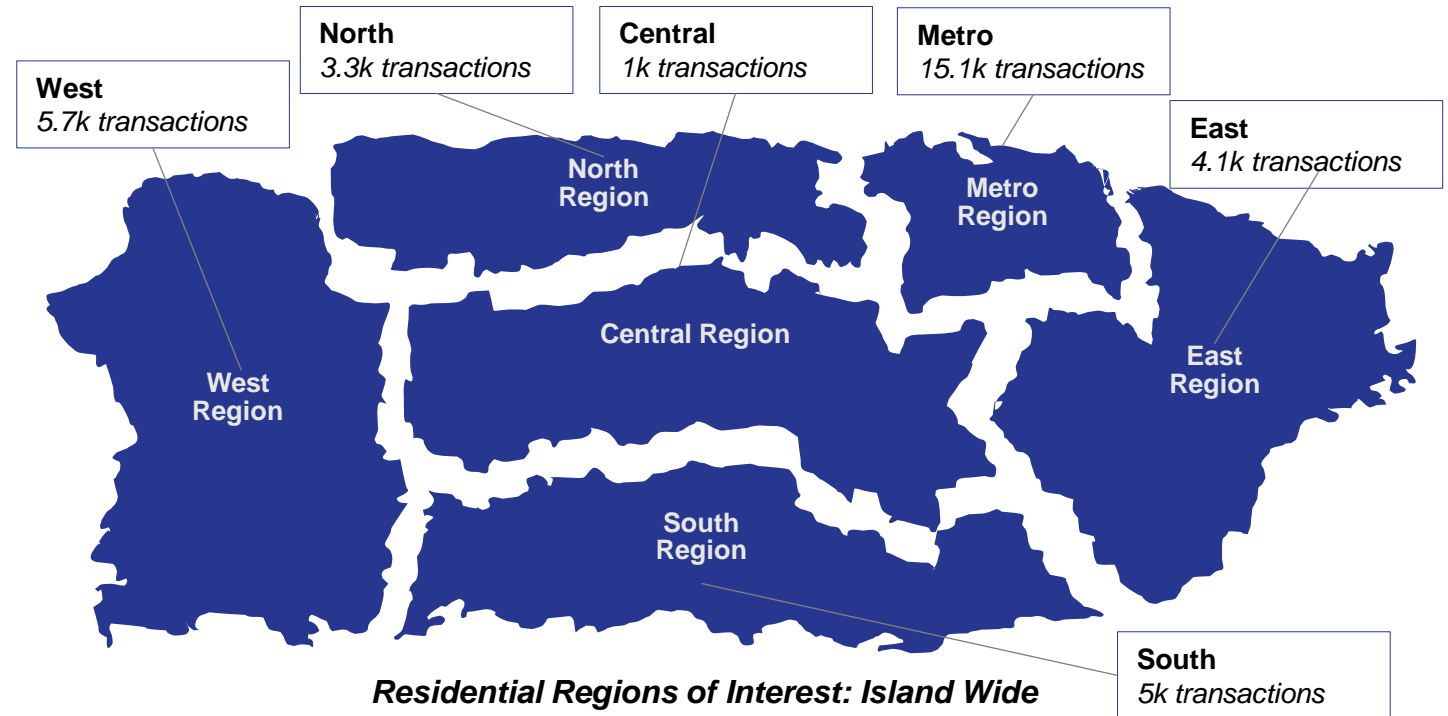
- **Approximately 56% of all home renters and 26% of all homeowners in Puerto Rico spend more than 30% of their income on housing costs.** Housing is a significant financial burden to these homeowners.
- Impacts of Hurricane Maria have led to construction delays exacerbated by construction supply chain issues and labor shortages onset by COVID-19.
- New construction sales have steadily declined over the past decade. **These sales topped 6,000 in 2012 but were only around 1,600 in 2019.**
- Supply shortage and increased housing demand due to tax incentives have caused **home prices to climb by over 16% since 2017.**
- Additionally, popularity of short-term rental platforms have driven home prices up due to their augmented investment potential, further impacting affordability issues.
- **These conditions indicate an affordable housing shortage in Puerto Rico.**

Q2 2020–Q2 2022 Market Activity

Residential Class C Transaction Price Per Unit Range

\$70k–\$150k

Approximate Transaction Activity per Region



Impact on the Divestment Selection

- **PRIDCO has the opportunity to help relieve the affordable housing shortage by divesting from non-rentable properties to buyers with residential use proposals.** PRIDCO can also transfer properties to the PRPHA to facilitate P3s between this housing authority and private affordable housing developers.

Disclaimer: The Proposed Uses mentioned in this study are subject to material change based on further due diligence such as legal, zoning, ongoing FEMA obligations or litigations, divestment policies and more

Retail Asset Class Analysis

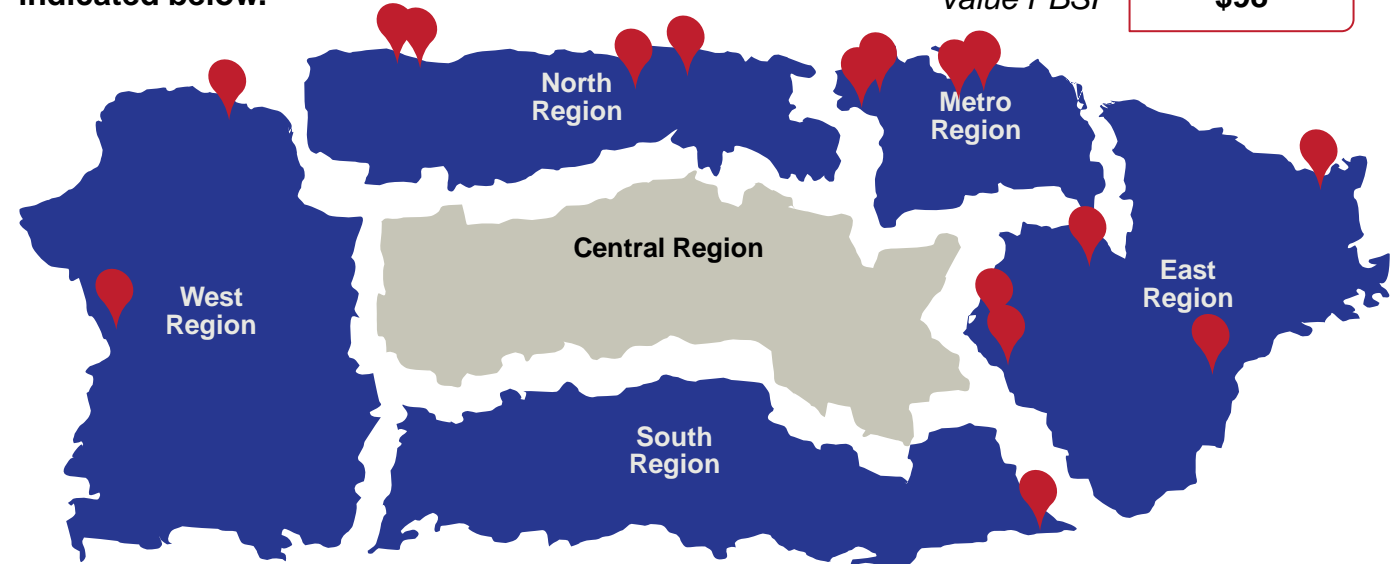
Retail properties have rebounded very strongly since the COVID downturn, facilitating a robust retail transaction market

Retail

- Retail is more entrenched in the Puerto Rican economy as compared to the rest of the United States. **22% of all Puerto Rican real estate is classified as retail, as opposed to just 14% in the contiguous US.**
- Puerto Rican consumers' e-commerce purchases comprise 13% of total retail sales since Q2 2020, notably less than the contiguous US rate of 15%.
- As a result of the COVID-19 Pandemic the Puerto Rican Retail market experienced a net absorption of -27m SF in 2020. **Subsequently, leasing activity saw a massive rebound in 2021, achieving historic record net absorption of 76m square feet.**
- Retail sales surged to historic highs in 2021 and **are expected to surpass historic highs again in 2022.**

Q2 2020–Q2 2022 Market Activity

16 Class A shopping centers in Puerto Rico have transacted since 2021, as indicated below.



Retail Regions of Interest: Metro, North, West, South, East

Average Transaction Price Per Building Square Foot Range

\$15–\$30

Combined Transaction Value

\$705m

Value PPSF

\$98

Impact on the Divestment Selection

- Aligning with the market demand, **11 of the 28 identified properties in the Divestment Selection have proposed uses including retail.**
- PRIDCO can pursue use plans for mixed-use assets that include ground-floor retail and residential units above to maximize economic use and benefit of the asset.

Disclaimer: The Proposed Uses mentioned in this study are subject to material change based on further due diligence such as legal, zoning, ongoing FEMA obligations or litigations, divestment policies and more

Office Asset Class Analysis

Office demand almost exclusively exists in San Juan and the demand for these spaces is causing market vacancy to drop

Office

- More than 80% of all Puerto Rican office space is located in the San Juan Metro area, concentrated in Hato Rey, Guaynabo, and Caparra.
- San Juan's office vacancy rate of 13.1% as of Q2 2022 is well below the US average 18.9%. San Juan's Class A vacancy rate is 9.0%; greater demand for high quality space is a common trend throughout the office sector.
- San Juan's office vacancy rate has fallen by 10% year-over-year in San Juan, trending favorably relative to US vacancy which has increased by 30% year-over-year. San Juan's vacancy rate is returning to pre-COVID levels, which typically hovered around 10%.
- San Juan's average asking rent for office space is \$19.99. This is cheaper as compared to the US average of \$38.65 but is higher than pre-COVID levels.
- According to market participants, office demand in regions outside of the Metro is very limited. However, there appears to be shallow demand for Class B office space in the Northern and Southern regions.

Current Market Activity

Class A Office Transaction Price Per Building Square Foot

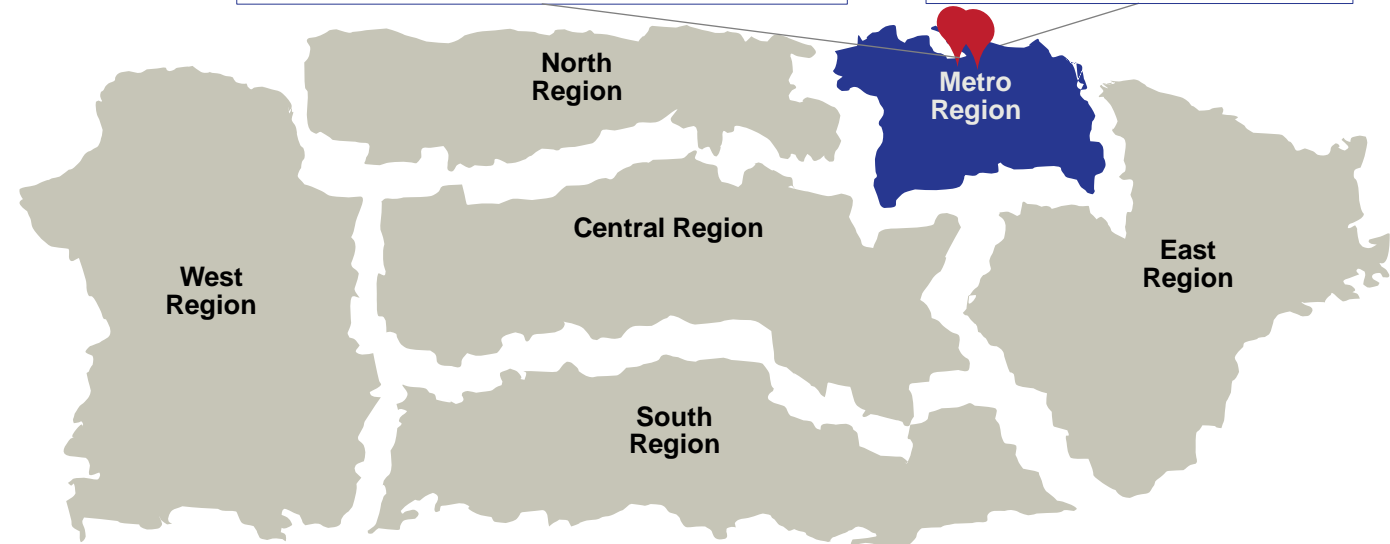
\$140 - \$230

Banco Popular Complex Development

Estimated Completion Date: 2026
Projected Investment: \$300m
Components: Office, Retail, Hotel

Toyota Office Expansion

Completion Date: Oct 2021
Investment: \$26.6m
Size: 30,329 sf



Office Regions of Interest: Metro

Impact on the Divestment Selection

- It is evident that substantial office demand only exists in the Metro region of San Juan. **PRIDCO has only six non-rentable properties located in the Metro region, and as 23 of the 28 properties in the Divestment Selection are not in the Metro region, office is not a frequently proposed use in the analysis.**

Disclaimer: The Proposed Uses mentioned in this study are subject to material change based on further due diligence such as legal, zoning, ongoing FEMA obligations or litigations, divestment policies and more

4

Key Findings



Divestment Selection Statistical Overview

The 25 non-rentable buildings and 3 lots comprise 70 acres with substantial concentration in all regions besides Central

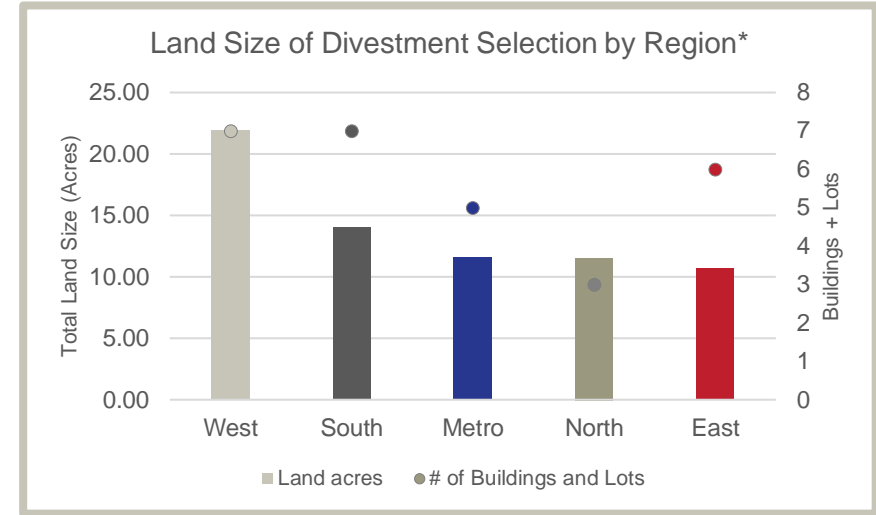
Divestment Selection Map



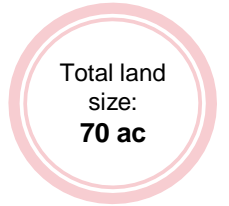
Divestment Selection Attributes

- 24** are in municipalities that rank in the top 10 for current employment magnitude
- 19** are within a 45-minute drive of SJU, BQN, or PSE
- 22** are within a 5-minute drive of at least one major corporation
- 19** have two or more demand generators within a 5-minute drive

The 28 non-rentable properties are estimated to require a combined **\$17.5m in CapEx and demolition costs**. Divestment of these assets would result in a total estimated **CapEx and demolition cost reduction of 4%**.

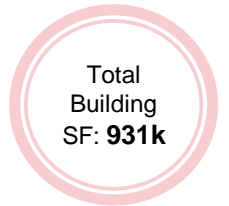
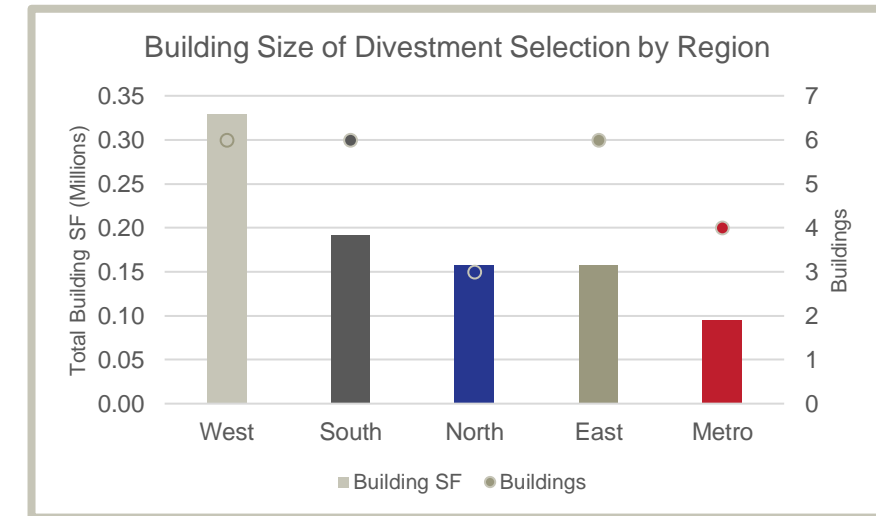
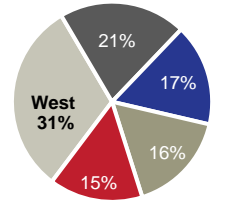


*Land square footage includes the land size of both building and lot properties.



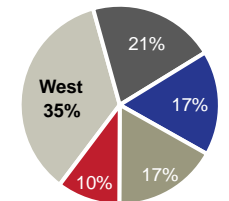
Total land size:
70 ac

Land SF % by Region



Total Building SF:
931k

Building SF % by Region



Property Scoring Results

The table below demonstrates each property's analyzed scoring potential by asset class and the corresponding proposed use

Final selection	Building / Lot ID	Count	Land size (acres)	Municipality	Region	Analyzed Potential (Scoring results)				Proposed Uses (Adjusted by industry expertise)
						Retail*	Office	Industrial	Residential	
Group 1	Building 491, Building 610, Building 843, Building 857, Building 973, Building 983	6	14.10	Ponce	South	Very High	Very High	Very High	Very High	Industrial, Retail
Group 2	Building 82, Building 793	2	3.58	Humacao	East	Very High	Very High	Very High	Very High	Industrial
1	Building 1016	1	2.11	Bayamón	Metro	Very High	Very High	Very High	Very High	Industrial
Group 3	Building 327, Building 469, Building 1336	3	5.14	Humacao	East	Very High	Very High	Very High	Very High	Industrial
Group 4	Building 1163, Building 1203	2	13.31	Aguadilla	West	Very High	Very High	Very High	Medium	Industrial, Retail
Group 5	Building 892, Building 898, Building 1294	3	11.54	Vega Baja	North	Medium	Very High	Very High	Medium	Industrial, Office
2	Building 13	1	0.34	San Juan	Metro	Very High	Very High	Low	Very High	Retail
Group 6	Building 400, Building 481, Building 572	3	6.07	Mayagüez	West	Medium	Very High	Very High	Medium	Industrial
3	Lot 50	1	0.34	Ponce	South	Very High	Medium	Low	Very High	Retail
4	Building 967	1	2.12	Isabela	West	Low	Very High	Very High	Very High	Industrial
5	Lot 5	1	0.39	Mayagüez	West	Very High	Medium	Low	Very High	Retail, Residential
Group 7	Building 856, Building 1137, Lot 217	3	9.10	Toa Baja	Metro	Very High	Medium	Very High	Very High	Industrial
6	Building 597	1	1.91	Naguabo	East	Low	Very High	Very High	Low	Industrial

Total: **28** **70.0 acres**

*Includes Restaurants/QSRs

Potential Category Key³:

Very High	High	Medium	Low	Very Low
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5

Case Studies



Divestment Case Study 1 | Ponce West Industrial Park

Group 1: Building 491, Building 610, Building 843, Building 857, Building 973, Building 983

Group Description

This group includes three adjacent lots (building 843, 983 and 973) and 3 separate buildings that are located in the Ponce West industrial park, next to several manufacturing/industrial facilities and a Department of Motor Vehicles. All six buildings are considered one group as they are part of the same industrial park.

Ponce

Location

191,255 SF

Building

13.7 AC

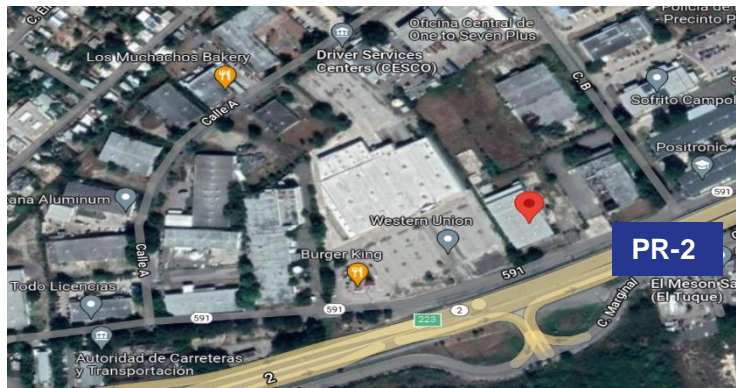
Land

\$2.87m

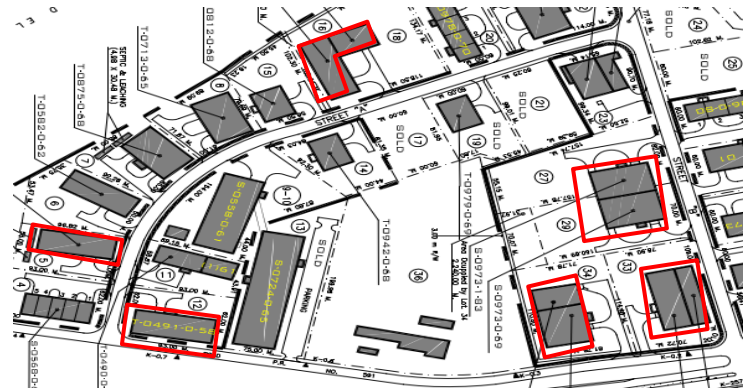
Est. Demolition Costs

Demo / Critical

CapEx Inspection condition



Satellite View; Source: Google Maps



Site Plan; Source: PRIDCO



Property Location; Source: Google Maps



Site; Source: Site Visit



Site; Source: Site Visit



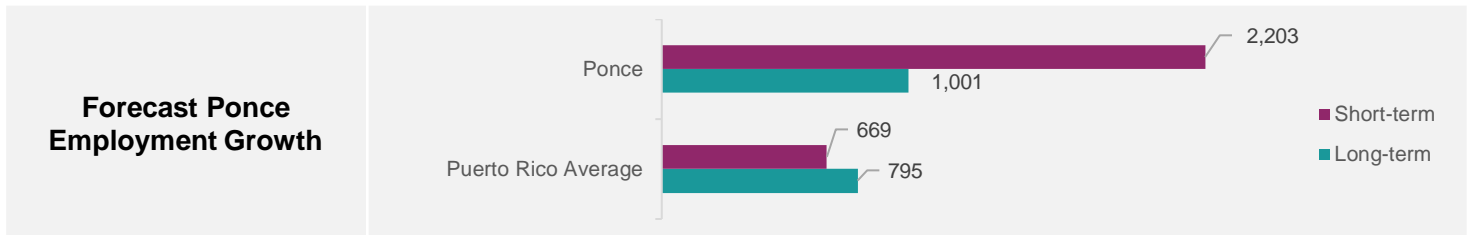
Surrounding commerce; Source: Google Maps

Divestment Case Study 1 | Ponce West Industrial Park

Group 1: Building 491, Building 610, Building 843, Building 857, Building 973, Building 983

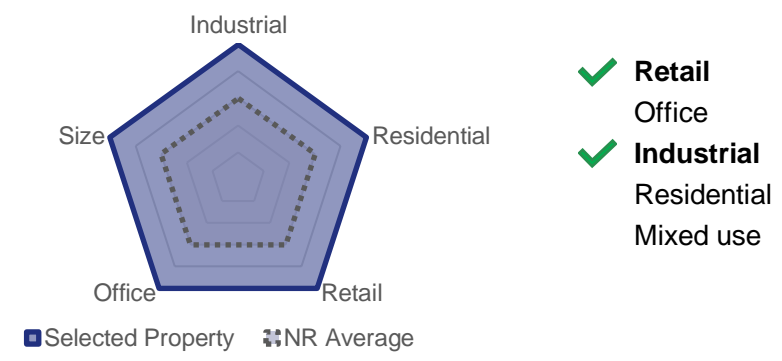
Ponce	191,255 SF	13.7 AC	\$2.87m	Demo / Critical
Location	Building	Land	Est. Demolition Costs	CapEx Inspection condition

Distance to Major Airports <i>(drive time in minutes)</i>		Nearby Demand Generators	Nearby Major Corporations
Luis Munoz Marin International Airport	113	Roche Operations Pharmaceutical/Medical Device Facility	Molex Caribe Inc. Manufacturing
Mercedita International Airport	18	Reina del Sur Shopping Center Shopping mall	Firstbank Puerto Rico Banking
Rafael Hernandez Marin International Airport	116	Ponce Towne Center Community Center	Hospital Damas, Inc. Health Care



Value Creation Strategies	
1	Divestment <ul style="list-style-type: none"> Market for sale as a multi-property industrial campus for a large tenant that requires multiple sites. Engage other PRIDCO tenants within the industrial park to gauge interest in purchasing the buildings they currently occupy along with expanding to any of the selected properties within this group.
	Lease <ul style="list-style-type: none"> Structure a ground lease with a tenant looking to redevelop buildings for enhanced use. Engage the other PRIDCO tenants within the industrial park to gauge interest in expanding their leases to use the selected properties within this group.

Redevelopment Factors



- ✓ Retail
- Office
- ✓ Industrial
- Residential
- Mixed use

Scoring Formula Category Results		
Economic Conditions Score	Demand Generators Score	Major Corporations Score
Very High	High to Very High	High

Risks and Considerations

- Proposed Demolition**
- The proposed demolition status will impact potential divestment proceeds and should be considered in negotiations with potential buyers.
- Limited Activity through the Port of Ponce**
- Once thought to be a potential major port with significant activity has not held up to expectations. Therefore, the majority of industrial distribution activity in Ponce will still come from San Juan.

Divestment Case Study 2 | Catano Industrial Park

Group 3: Building 327, Building 469, Building 1336

Group Description

The group is comprised of three buildings (327, 469, and 1336) within a high traffic area with nearby industrial, retail, and residential real estate. Building 327 is recommended to be demolished while the other two buildings are in critical condition.

Humacao

Location

83,707 SF

Building

5.1 AC

Land

\$2.57m

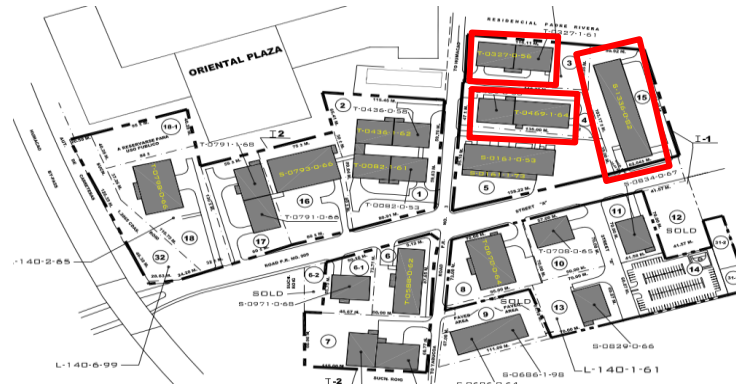
Est. Demolition Costs

Demo / Critical

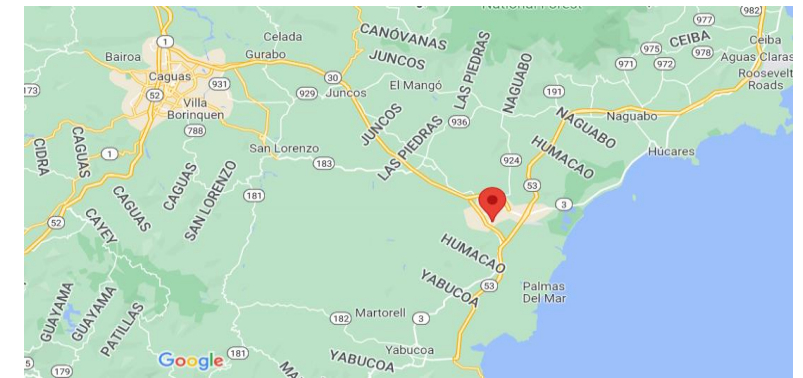
CapEx Inspection condition



Satellite View; Source: Google Maps



Site Plan; Source: PRIDCO



Property Location; Source: Google Maps



Site; Source: Site Visit



Site; Source: Site Visit



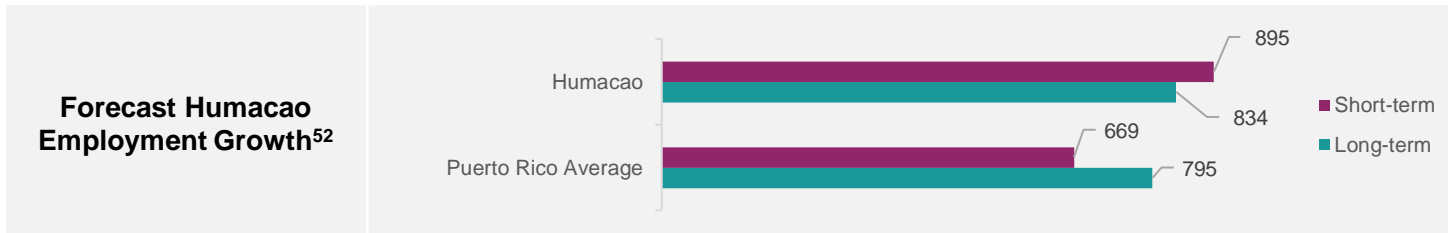
Surrounding commerce; Source: Google Maps

Divestment Case Study 2 | Catano Industrial Park

Group 3: Building 327, Building 469, Building 1336

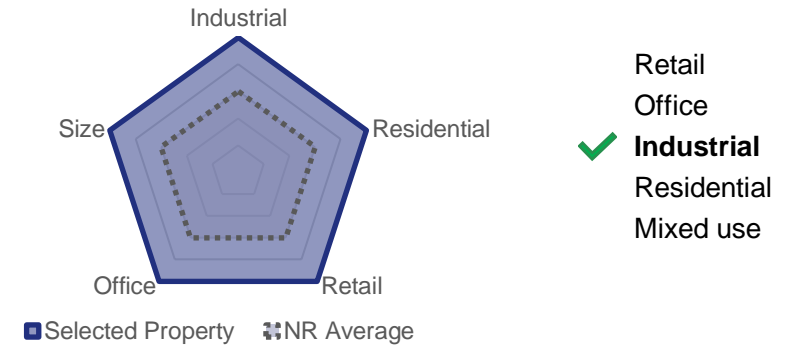
Humacao	83,707 SF	5.1 AC	\$2.57m	Demo / Critical
Location	Building	Land	Est. Demolition Costs	CapEx Inspection condition

Distance to Major Airports <i>(drive time in minutes)</i>		Nearby Demand Generators		Nearby Major Corporations	
Luis Munoz Marin International Airport	58	Medtronic	Biopharmaceutical / Medical Device Facility	Hospital Oriente	Health Care
Mercedita International Airport	99	Plaza Palma Real	Shopping Center	Bristol Myers Squibb	Manufacturing
Rafael Hernandez Marin International Airport	167				



Value Creation Strategies	
1	Divestment <ul style="list-style-type: none"> Market for sale as multi-property industrial campus for a large tenant that requires multiple sites. Engage the other PRIDCO tenants within the Industrial park to gauge if there is interest in purchasing the buildings that they are currently in along with expanding to any of the selected properties within this group.
	Lease <ul style="list-style-type: none"> Structure a ground lease with a tenant looking to redevelop buildings for an enhanced use. Engage the other PRIDCO tenants within the Industrial park to gage if there is interest in expanding their current footprint from the buildings they are occupying to the selected properties within this group.
2	

Redevelopment Factors



Scoring Formula Category Results

Economic Conditions Score	Demand Generators Score	Major Corporations Score
High	Very High	High

Risks and Considerations

- Proposed Demolition / Critical Condition of Properties**
- The proposed demolition and critical condition statuses will impact potential divestment proceeds and should be considered in negotiations with potential buyers.
- Departure of Microsoft Facility from Humacao**
- Microsoft has recently decided to vacate their operations that employed 1,200 Puerto Ricans in the Humacao area.
 - This will occur over the span of the next four years and may lead to negative workforce immigration to the municipality.

Divestment Case Study 4 | Montana Industrial Park

Group 4: Building 1163, Building 1203

Group Description

This group consists of two large properties located in the Montana Industrial Park in Aguadilla. The two properties are located in an area with moderate industrial and residential development, less than 15 minutes from BQN airport. Both properties are recommended for demolition but have potential for industrial redevelopment.

Aguadilla

Location

95k SF

Building

6.7 AC

Land

\$1.42m

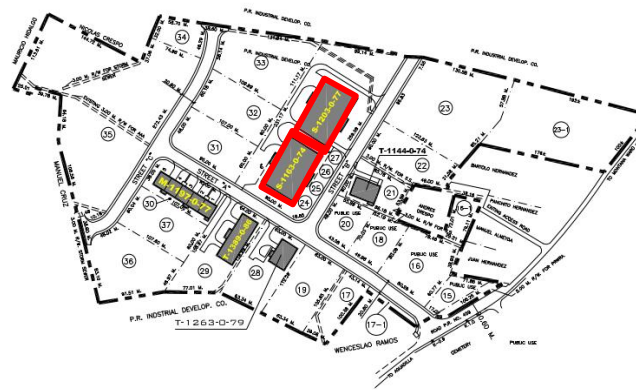
Est. Demolition Costs

Demo / Critical

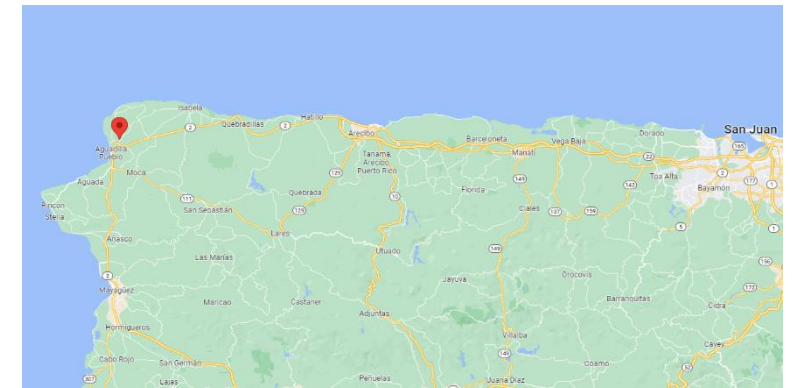
CapEx Inspection condition



Satellite View; Source: Google Maps



Site Plan; Source: PRIDCO



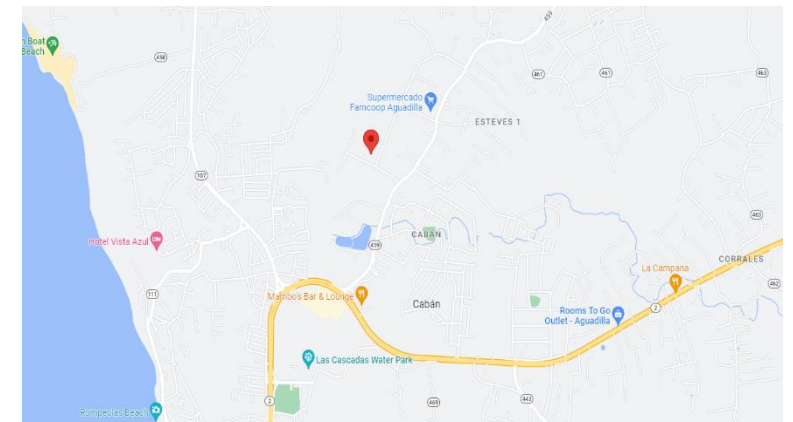
Property Location; Source: Google Maps



Building 1203; Source: Site Visit



Building 1163; Source: Site Visit



Surrounding commerce; Source: Google Maps

Divestment Case Study 4 | Montana Industrial Park

Group 4: Building 1163, Building 1203

Aguadilla

Location

95k SF

Building

6.7 AC

Land

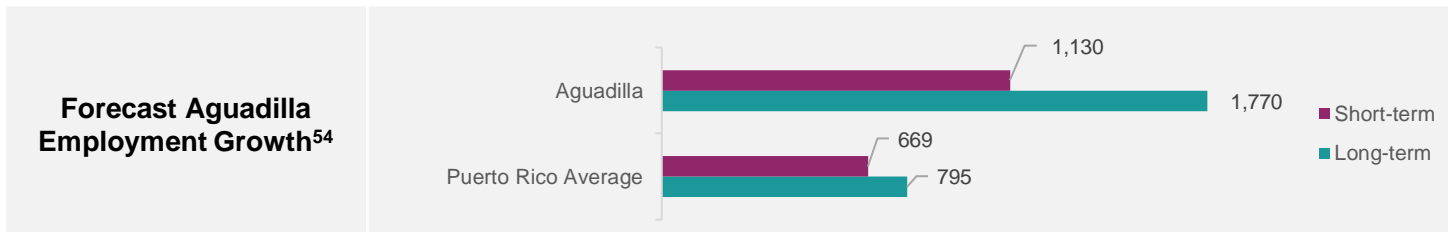
\$1.42m

Est. Demolition Costs

Demo / Critical

CapEx Inspection condition

Distance to Major Airports <i>(drive time in minutes)</i>		Nearby Demand Generators		Nearby Major Corporations	
Luis Munoz Marin International Airport	122	Montana Industrial Park	Cluster of Industrial Lots	CCL Industries	Label Manufacturer
Mercedita International Airport	95	Bambi Aguadilla Mall	Shopping Mall	Encanto Restaurants	Foodservice
Rafael Hernandez Marin International Airport	12	Borinquen Industrial Park	Cluster of Industrial Lots	Lockheed Martin	Arms & Defense



Value Creation Strategies

1

Divestment

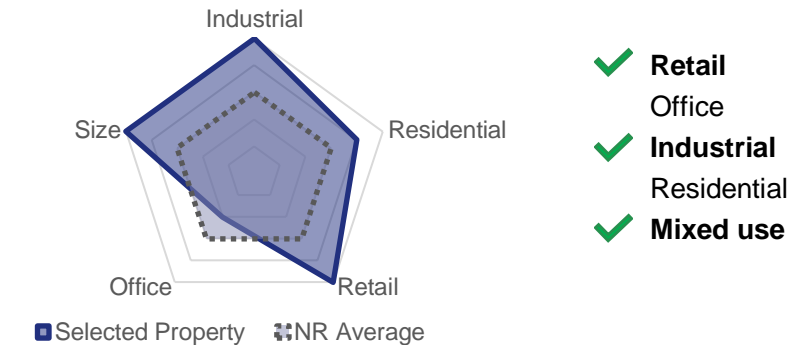
- ▶ Market for sale as a large industrial campus for a significant tenant seeking proximity to BQN airport.
- ▶ Market for sale as a potential large-scale residential development supported by growing commerce in the area.
- ▶ Engage one of the several nearby major corporations to gauge their interest in acquiring the property to expand operations.

2

Lease

- ▶ Structure a ground lease with an industrial developer looking to redevelop the space into a large industrial campus
- ▶ Structure a ground lease with a residential developer looking to build a substantial residential community.

Redevelopment Factors



Scoring Formula Category Results

Economic Conditions Score	Demand Generators Score	Major Corporations Score
Very High	Very High	Medium

Risks and Considerations

Proposed Demolition

- High demolition cost at this site will prolong the development timeline and affect potential development proceeds.
- The required demolition of the properties may soften interest in the market as tenants looking to operate as quickly as possible may not be interested in a redevelopment project.

Industrial Park Activity

- Montana Industrial Park does not appear to have other substantial operations, which may reduce the attractiveness of the properties on the market.

Divestment Case Study 5 | Media Luna Industrial Park

Group 7: Building 856, Lot 217, Building 1137

Group Description

This group consists of two properties in an industrial cluster in Toa Baja, in the west of the Metro region. The properties are neighbored by operating industrial facilities and are proximate to major demand generators in the Metro region. The properties are recommended for demolition but have potential for industrial redevelopment.

Toa Baja

Location

68k SF

Building

9.1 AC

Land

\$1.02m

Est. Demolition Costs

Demo / Critical

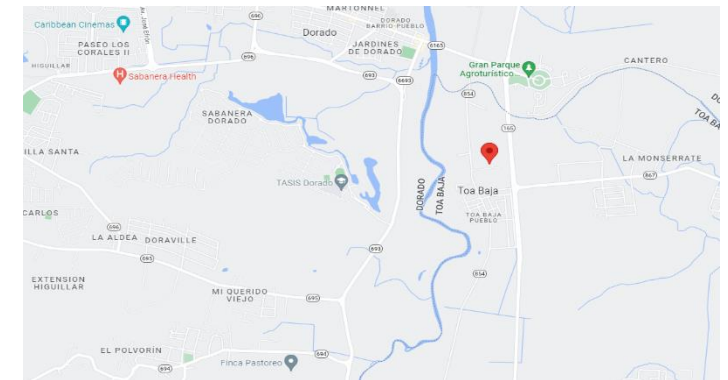
CapEx Inspection condition



Satellite View; Source: Google Maps



Site Plan; Source: PRIDCO



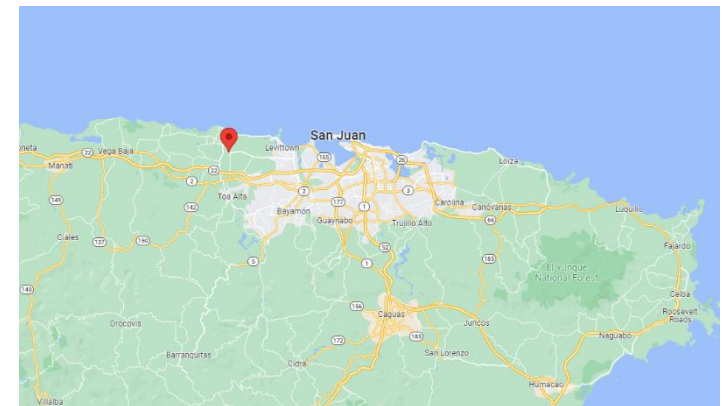
Property Location; Source: Google Maps



Site; Source: Site Visit



Site; Source: Site Visit



Surrounding commerce; Source: Google Maps

Divestment Case Study 5 | Media Luna Industrial Park

Group 7: Building 856, Building 1137, Lot 217

Toa Baja

Location

68k SF

Building

9.1 AC

Land

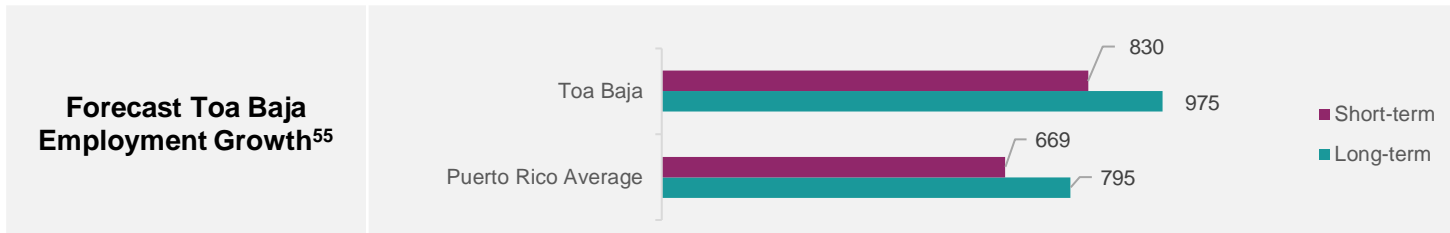
\$1.02m

Est. Demolition Costs

Demo / Critical

CapEx Inspection condition

Distance to Major Airports <i>(drive time in minutes)</i>		Nearby Demand Generators		Nearby Major Corporations	
Luis Munoz Marin International Airport	30	Toa Baja Industrial Park	Cluster of Industrial Lots	Nextgen Pharma	Cannabis
Mercedita International Airport	97	Plaza Dorado	Shopping Mall	Pharma-Bio Serv	Consulting
Rafael Hernandez Marin International Airport	102	Higuillar Industrial Park	Cluster of Industrial Lots	Scienza Labs	Life Sciences



Value Creation Strategies

1

Divestment

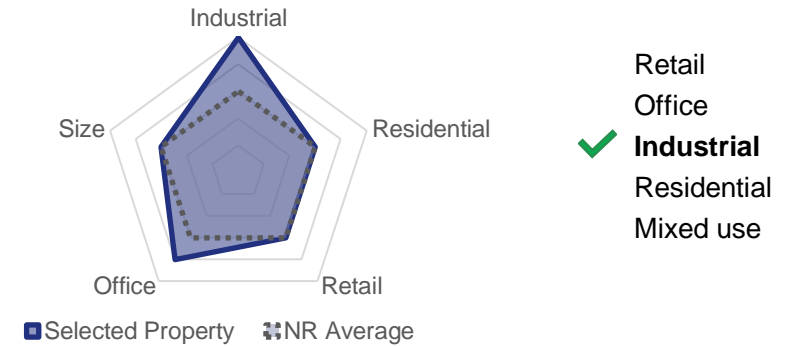
- ▶ Market for sale as a warehouse/distribution center with proximity to major demand generators in the Metro region as well as SJU airport.
- ▶ Engage one of the several nearby major corporations, including the adjacent Nextgen Pharma, to gauge their interest in acquiring the property to expand operations.

2

Lease

- ▶ Structure a ground lease with an industrial developer or user looking to redevelop the property.
- ▶ Structure a ground lease with one of the neighboring major corporations to allow them to use the space for storage or parking.

Redevelopment Factors



Scoring Formula Category Results

Economic Conditions Score	Demand Generators Score	Major Corporations Score
High	Medium	Medium

Risks and Considerations

Proposed Demolition

- High demolition cost at this site will prolong the development timeline and affect potential development proceeds
- The required demolition of the properties may soften interest in the market as buyers looking to operate as quickly as possible may not be interested in a redevelopment project.




6

Divestment Strategies and Growth Opportunities



Key Considerations for Traditional Divestment Strategies




The below divestment strategies can help maximize capital generated, optimize portfolio size, and maximize divestment efficiency

Divestment Strategies	Goals to Achieve		
Hire a Portfolio Broker			
<p>Background: PRIDCO has historically struggled with direct sales, which indicates that divestment of the non-rentable properties could be particularly challenging. Furthermore, selling through RFPs can be a time-consuming process and RFPs are likely not suitable for non-rentable assets due to their lesser market demand. A portfolio broker can help PRIDCO dispose of assets more efficiently due to its expanded sales network.</p>			
<ul style="list-style-type: none"> • A broker can help negotiate to maximize price, increase marketing and sales bandwidth, and expedite the sales process • A broker typically has in-depth knowledge of the interested buyers and their respective industries, or can perform due diligence on the credibility of buyers to help ensure stable revenue in the long term. • A broker typically provides an online property marketing platform which would increase the visibility of the PRIDCO properties in the market. 	✓	✓	✓
Spin off a Separate Entity Dedicated to the Divestment of Non-Rentable Properties			
<p>Background: Forming a separate entity such as a special purpose vehicle (SPV) or a Limited Liability Company (LLC) as a holding company for PRIDCO’s real estate properties allows PRIDCO to manage the process efficiently. This team should work with a broker to focus on the sale of these properties.</p>			
<ul style="list-style-type: none"> • A team dedicated to properties identified for divestment can expedite the divestment process of these assets. • PRIDCO can be shielded from liability for certain acts of the LLC and its other members, such as any debts owed to the interested parties or unpaid fees. • A separate entity provides an independent structure for operating real estate related business. • A separate entity may improve efficiency throughout the asset management process by requiring dedicated team members for different responsibilities such as property management, financial, legal and others matters. 			✓

Goals of Divestment Strategies  Maximize Capital Generated  Minimize PRIDCO Expenditure  Maximize Economic Output of Property

Key Considerations for Traditional Divestment Strategies

The below divestment strategies can help maximize capital generated, optimize portfolio size, and maximize divestment efficiency

Divestment Strategies	Goals to Achieve		
			
Engage in sales strategies			
Control supply and limit the number of properties on the market at one time			
<ul style="list-style-type: none"> Less supply in the market can result in higher sales prices. 	✓		
Assemble non-rentable properties that are located proximate to one another			
<ul style="list-style-type: none"> More capital can be generated from portfolio sales than single-property sales. More properties can be disposed through portfolio sales. 	✓	✓	
Transfer to other government agencies			
<ul style="list-style-type: none"> Other government agencies may have lower standards for acquisition and be able to transact quickly due to the existing relationship with PRIDCO. 		✓	✓
Prioritize the divestment of properties with lesser estimated CapEx/demolition costs			
<ul style="list-style-type: none"> Properties that require lesser CapEx/Demolition costs may sell for higher prices on psf basis, be more attractive in the marketplace, and sell quicker than properties with greater costs. 	✓	✓	✓
Prioritize the divestment of vacant lots			
<ul style="list-style-type: none"> Vacant lots may attract more capital as they are not associated with rising demolition costs and sell faster due to the lack of building diligence required. 	✓		✓
Prioritize the divestment of properties near actively operating businesses			
<ul style="list-style-type: none"> These businesses may be willing to take on properties to expand and may transact quickly if the businesses are pursuing expansion. 		✓	✓
Market properties to current network of tenants or prospects			
<ul style="list-style-type: none"> The current network may be willing to occupy new space and transact quickly due to the existing relationship with PRIDCO. 		✓	✓

Goals of Divestment Strategies



Maximize Capital Generated






Minimize PRIDCO Expenditure



Maximize Economic Output of Property

Strategic Alternatives to Traditional Divestment

The below alternatives can help maximize capital generated, minimize PRIDCO expenditure and maximize economic output

Alternatives to Divestment Strategies	Goals to Achieve		
Engage in Public Private Partnership			
Structure Ground Leases			
<p>Description: A ground lease is an agreement in which a tenant pays a property owner rent in exchange for the ability to use, improve and retain the proceeds generated by the property. After the termination of the lease term, improvements are returned to the owner of the property.</p>			
<ul style="list-style-type: none"> • Ground leases can provide PRIDCO with stable, long-term income. • Ground leases are typically structured so that the property owner contributes minimal capital to operate the property. • Ground leases can allow PRIDCO to be selective in choosing lessees whose uses will provide substantial economic value, such as affordable housing or solar energy generation. 	✓	✓	✓
Provide Seller Financing			
<p>Description: Seller financing includes the sale of a property without the use of a third-party lender. The seller acts as the lender itself and receives a down payment and periodic debt service proceeds instead of the lump sum purchase price.</p>			
<ul style="list-style-type: none"> • Seller financing may serve as a sweetener to tentative buyers and allow PRIDCO to dispose of a greater number of properties associated with substantial expenses. • Seller financing may allow PRIDCO to dispose of properties to buyers with strong use plans, but lesser cash on hand. 		✓	✓
Provide Lease-to-Own Opportunities for Prospective Tenants			
<p>Description: While terms can vary, a lease-to-own opportunity generally allows a tenant to rent a property for a certain number of years with the option to purchase the property at the end of the lease term.</p>			
<ul style="list-style-type: none"> • Lease-to-own opportunities can provide PRIDCO with immediate cash flow. • Lease-to-own opportunities may expand the tenant market and allow PRIDCO to dispose of more properties. • Through expanding the tenant market, PRIDCO may be able to find users with use plans that benefit the economy. 	✓	✓	✓
Invest CapEx, Repurpose Use, and then Divest			
<ul style="list-style-type: none"> • While this strategy would allow PRIDCO to retain ownership of the properties and closely control their use for economic benefit, PRIDCO currently faces an estimated total CapEx and demolition cost of \$445m. Available capital may be better served to update rentable properties rather than non-rentable properties. 			✓

Goals of Divestment Strategies



Maximize Capital Generated



Minimize PRIDCO Expenditure



Maximize Economic Output of Property

Divestment Obstacles

The condition of non-rentable assets alongside economic headwinds may pose a challenge to PRIDCO's divestment process

Internal Obstacles	External Obstacles
<p data-bbox="122 254 968 285">Restrictive PRIDCO Divestment Policies and Guidelines</p> <ul data-bbox="122 299 1261 614" style="list-style-type: none">• PRIDCO's internal divestment policies and guidelines require a prospective buyer to perform an economic impact study in addition to their use proposal, which is burdensome and costly for buyers.• If the buyer relists the property for sale, PRIDCO's internal divestment policies grant PRIDCO the right of first refusal at the price of PRIDCO's original transaction less accumulated depreciation. This reduces the attractiveness of acquiring a property from PRIDCO, as investment return for buyers is significantly limited.	<p data-bbox="1319 254 1668 285">Lack of Market Interest</p> <ul data-bbox="1319 299 2458 664" style="list-style-type: none">• The 28 properties in the Divestment Selection potential appear to have greater potential as compared to the rest of the identified non-rentable properties. Nevertheless, many of these properties would require significant capital investment to make them usable assets, making them inferior to much of the existing stock in the current real estate marketplace.• The average CapEx/demolition cost per building in the Divestment selection is \$784k.• As such, buyers may be interested in pursuing properties in better condition that would require less rehabilitation.
<p data-bbox="122 714 751 745">Lack of Property Marketing Infrastructure</p> <ul data-bbox="122 759 1223 963" style="list-style-type: none">• Market participants have noted that information regarding PRIDCO's Portfolio is not easily available, which makes purchase and lease of PRIDCO's assets difficult for prospective buyers and tenants.• To increase awareness and visibility of PRIDCO assets, PRIDCO can consider the use of an online property marketing application.	<p data-bbox="1319 714 1643 745">Economic Conditions</p> <ul data-bbox="1319 759 2458 1342" style="list-style-type: none">• Inflation has significantly increased construction costs<ul data-bbox="1375 806 2458 921" style="list-style-type: none">• Residential construction input prices have rose by 40.4% from January 2020 to May 2022. This makes development projects less attractive on the marketplace.• There is a construction sector labor shortage<ul data-bbox="1375 978 2458 1135" style="list-style-type: none">• This labor shortage, illustrated by a 25% construction job availability rate, has caused construction wages to increase by 20% in attempts to recruit workers. This creates labor and expense challenges for new developments.• Interest rates are climbing<ul data-bbox="1375 1192 2458 1342" style="list-style-type: none">• Average US mortgage rates increased by +182 bps from Jan 2020 to July 2022 due to the rising Federal Funds Rate. This causes new real estate acquisitions and development projects to be more expensive and less attractive.

7

PRIDCO Disposition Policies and Guidelines



PRIDCO Disposition Policies and Guidelines

Current policies present multiple obstacles for potential investors pursuing PRIDCO properties

Policy	Overview	Observation
Key Guideline	<ul style="list-style-type: none"> PRIDCO is to retain ownership of its real estate property and only to dispose of properties if it is determined that the disposition will benefit the purposes for which PRIDCO was created. PRIDCO's purpose: <i>to promote the industrial and economic development of Puerto Rico, by offering an attractive real estate portfolio that facilitates the establishment and expansion of local and foreign multi-sector companies in a variety of industries.</i> 	<ul style="list-style-type: none"> This guideline requires PRIDCO to apply a more proactive approach in actively analyzing properties for divestment potential which currently it's a primary initiative within internal operations.
Sales Committee	<ul style="list-style-type: none"> The committee is composed of five members appointed by the Director. At least three of the five members shall represent the Real Estate, Finance and Legal groups. Purpose: to assess the proposals, requests for direct sales, and qualifying documents. 	<ul style="list-style-type: none"> There could be a strong benefit in having an active commercial broker that has expert market knowledge of parties interested in the PRIDCO portfolio.
Basic Requirements for acquisition	<ul style="list-style-type: none"> A detailed plan of use or business to which the Immovable Property will be dedicated, including the amount of investment in the business to be carried out. Economic impact projections in the area where the Real Property is located, especially the number of direct and indirect jobs generated by the activity to be developed. 	<ul style="list-style-type: none"> In order to expedite and formalize this process a standard template or questionnaire could be prepared for prospective buyers to complete when entering the acquisition process.
Key Terms and Conditions	<ul style="list-style-type: none"> All Property whose Disposition is going to be carried out must be appraised by an independent appraiser licensed in Puerto Rico, contracted by PRIDCO. The appraisal of the Real Property may be shared with the successful Bidder for its Study once an agreement is signed for the acquisition. As a rule, the selling price shall not be less than the book value of the PRIDCO's property. <i>When the buyer is interested in selling the Property, or if the buyer will violate any term of the deed of sale within the term of 10 years from the Granting, PRIDCO will have a preferential right to reacquire the Real Estate at the same Sale Price, less the accumulated depreciation of the original buildings.</i> 	<ul style="list-style-type: none"> The condition pertaining to PRIDCO's preferential right to reacquire the property at the original sales price significantly reduces the attractiveness of the properties to a large portion of investors who may be interested in redevelopment.

8

Appendix



Disclaimer

The Financial Management and Oversight Board for Puerto Rico (the “Board”) and Ernst & Young Puerto Rico LLC (“EY”) have prepared this report (the “Report”) based upon information and material supplied by the Board, Board advisors, the Government of Puerto Rico (the “Government”), and other publicly-available sources. The Board engaged EY to review the PRIDCO’s real property inventory and as contained in the Report. EY’s sole responsibility was to aid the Board in analyzing potential capital expenditure needs at PRIDCO.

The nature and scope of EY’s services were determined by the Board and are reflected in agreements between EY and the Board dated June 1, 2021, and July 1, 2021 (the “Agreements”). EY’s procedures were limited to the procedures requested by the Board and which are described in the Agreements. EY’s work was performed only for the use and benefit of the Board and should not be used or relied on by anyone else. Other persons who read this Report who are not a party to the Agreements do so at their own risk and are not entitled to rely on it for any purpose. EY does not assume any duty, obligation or responsibility whatsoever to any other parties that may obtain access to the Report.

EY’s services were advisory in nature. While EY’s work in connection with this Report was performed under the standards of the American Institute of Certified Public Accountants (the “AICPA”), EY did not render an assurance report or opinion under the Agreement, nor did EY’s services constitute an audit, review, examination, forecast, projection or any other form of attestation as those terms are defined by the AICPA. None of the services EY provided constituted any legal opinion or advice. This Report is not being issued in connection with any issuance of debt or other financing transaction.

The Board has the knowledge, experience and ability to form its own conclusions. Any assumptions, forecasts, projections, recommendations, conclusions or opinions contained in this Report are solely those of the Board.

In assisting in the preparation of this Report, EY relied on information and underlying data provided by the Board, Board advisors, the Government, and other publicly-available sources, and such information was presumed to be current, accurate and complete. EY has not conducted an independent assessment or verification of the completeness, accuracy or validity of the information obtained. Consequently, EY provides no assurance of any kind with respect to, or on, the information presented.

There will usually be differences between projected and actual results because events and circumstances frequently do not occur as expected and those differences may be material. As a result, no assurance regarding the achievement of forecasted results is provided, and reliance should not be placed on any forecasted results or projects contained herein as such information is subject to material change and may not reflect actual results. EY takes no responsibility for the achievement of projected results.

It is EY’s understanding that the estimated pricing and potential rent figures provided in this report will not be used for any valuation purposes. Neither the indicated potential proceeds nor potential rent figures within may be referred to or quoted in any registration statement, prospectus, offering memorandum, loan agreement, or other agreement or document given to third parties. Additionally, this analysis should not be construed as investment advice and should not be used as a basis to set a transaction price.

The Proposed Uses mentioned in this study are subject to material change based on further due diligence such as legal, zoning, ongoing FEMA obligations or litigations, divestment policies and more.

Although this study was shared with PRIDCO and AAFAF prior to publication, due to time constraints, only partial feedback has been provided. All rights are reserved with respect to the study, including to update it if further feedback is provided by PRIDCO and/or AAFAF.

Glossary

Terminology definitions and sources used throughout the report

1. Major corporations and their geolocations are used and applied as a scoring metric throughout this Study. Major corporation data are from S&P CapitalIQ and D&B Hoovers. Latitude and longitude information was gathered using a proprietary geocoding algorithm.
 - a. Caveats and limitations: The list of companies includes those that are denoted as "operating subsidiaries" in the CapitalIQ database or "subsidiaries" in the D&B Hoovers database. NAICS, Employees and Revenue are also from those sources. In some instances, D&B Hoovers models revenue and employees where actual data is not available; thus, the data presented here should be considered as estimates and not actuals. Revenue is reported as the total for the last 12 months and employees are the latest annual average as submitted to the databases. It is possible that some companies in the databases do not remain active in Puerto Rico to date.
2. Employment growth and forecasted employment growth are used and applied as a scoring metric throughout this Study. Employment growth data is from the US Bureau of Labor Statistics, data from 2022 onward are forecasts conducted using a proprietary multi-step econometric analysis that takes into account for each municipality: the estimated population change, geographic characteristics, (land size, whether the municipality is in a metro region, central, west, north, south, or east of the island), time trends, the number of establishments and industry concentrations.
3. The indicated potential categories of "Very High", "High", "Medium", "Low", and "Very Low" are identified scoring tiers driven by the outputs of the property scoring formula. The outputs of the scoring formula for each property type were tiered into fifths, it was determined using industry expertise that drop-off in property quality and potential from an investor's perspective occurred around the threshold between the top fifth and the second highest fifth of the scoring outputs. The top fifth was titled "Very High" for analyzed potential, with the subsequent category titles corresponding to each output fifth in descending potential order. In total, 28 of the 116 non-rentable properties (the Divestment Selection) received at least one property type scoring output that was in the top fifth relative to the entire Portfolio. In Slide 30, the analyzed potential categories for each property type are shown for each property in the Divestment Selection. A graphic illustration of the potential categories and their corresponding output fifths is shown below:

Indicated Potential	Corresponding Scoring Tiers
Tier 1 – Very High	Top Fifth of Outputs
Tier 2 – High	Second Highest Fifth of Outputs
Tier 3 – Medium	Third Highest Fifth of Outputs
Tier 4 – Low	Second Lowest Fifth of Outputs
Tier 5 – Very Low	Lowest Fifth of Outputs

Non-Rentable Selection: Buildings

The 80 identified non-rentable buildings in the PRIDCO Portfolio are listed below

Building Code	Municipality	Region	Est. CapEx/Demo	Est. Potential Rent	Building Code	Municipality	Region	Est. CapEx/Demo	Est. Potential Rent
Building 13	San Juan	Metro	\$64,162	\$25,665 - \$36,145	Building 792	Yabucoa	East	\$1,540,440	\$62,093 - \$96,245
Building 30	Toa Alta	North	\$211,356	\$59,884 - \$85,951	Building 793	Humacao	East	\$1,757,568	\$112,658 - \$161,698
Building 59	Juana Díaz	South	\$921,370	\$71,316 - \$105,785	Building 839	Quebradillas	West	\$643,920	\$128,784 - \$191,030
Building 82	Humacao	East	\$365,032	\$103,426 - \$148,446	Building 843	Ponce	South	\$498,037	\$116,209 - \$169,333
Building 136	Guánica	West	\$177,040	\$35,408 - \$52,522	Building 853	Luquillo	East	\$1,178,836	\$78,535 - \$114,436
Building 149	Toa Alta	North	\$304,627	\$86,311 - \$123,881	Building 856	Toa Baja	Metro	\$670,943	\$190,100 - \$272,850
Building 225	Vieques	East	\$172,068	\$22,942 - \$35,561	Building 857	Ponce	South	\$505,005	\$117,835 - \$171,702
Building 319	Coamo	South	\$689,993	\$137,999 - \$204,698	Building 874	Mayagüez	West	\$347,267	\$81,029 - \$118,071
Building 327	Humacao	East	\$341,934	\$96,881 - \$139,053	Building 884	Arroyo	South	\$355,695	\$47,426 - \$73,510
Building 357	Sabana Grande	West	\$342,990	\$68,598 - \$101,754	Building 886	Manatí	North	\$761,430	\$84,874 - \$123,673
Building 364	Humacao	East	\$177,152	\$50,193 - \$72,042	Building 891	Maunabo	East	\$1,358,098	\$45,152 - \$69,986
Building 365	Maunabo	East	\$2,141,000	\$71,181 - \$110,330	Building 892	Vega Baja	North	\$336,485	\$95,337 - \$136,837
Building 373	San Germán	West	\$523,803	\$104,761 - \$155,395	Building 898	Vega Baja	North	\$671,565	\$190,277 - \$273,103
Building 400	Mayagüez	West	\$429,694	\$100,262 - \$146,096	Building 947	Vega Alta	North	\$855,478	\$242,385 - \$347,894
Building 445	Cabo Rojo	West	\$256,132	\$51,226 - \$75,986	Building 950	Río Grande	East	\$677,532	\$95,638 - \$137,269
Building 460	Guánica	West	\$172,870	\$34,574 - \$51,285	Building 966	Mayagüez	West	\$597,651	\$139,452 - \$203,201
Building 463	Ciales	Central	\$1,245,842	\$94,128 - \$145,899	Building 967	Isabela	West	\$1,231,815	\$246,363 - \$365,438
Building 469	Humacao	East	\$1,118,476	\$114,734 - \$164,677	Building 973	Ponce	South	\$668,375	\$155,954 - \$227,247
Building 475	Yabucoa	East	\$794,908	\$59,476 - \$92,188	Building 974	San Germán	West	\$1,767,994	\$353,599 - \$524,505
Building 481	Mayagüez	West	\$629,283	\$146,833 - \$213,956	Building 983	Ponce	South	\$518,654	\$121,019 - \$176,342
Building 491	Ponce	South	\$337,715	\$78,800 - \$114,823	Building 993	Aguada	West	\$597,224	\$45,013 - \$69,770
Building 492	Quebradillas	West	\$340,821	\$68,164 - \$101,110	Building 995	Cabo Rojo	West	\$338,094	\$67,619 - \$100,301
Building 518	Luquillo	East	\$1,190,868	\$79,336 - \$115,604	Building 1016	Bayamón	Metro	\$1,170,356	\$135,714 - \$191,131
Building 529	Juana Díaz	South	\$1,310,212	\$122,208 - \$181,275	Building 1073	Barranquitas	Central	\$672,851	\$89,714 - \$139,056
Building 551	San Germán	West	\$568,377	\$113,675 - \$168,618	Building 1137	Toa Baja	Metro	\$350,101	\$99,195 - \$142,374
Building 572	Mayagüez	West	\$1,210,640	\$112,681 - \$164,192	Building 1153	Naguabo	East	\$349,908	\$46,654 - \$72,314
Building 575	Guánica	West	\$172,561	\$34,512 - \$51,193	Building 1163	Aguadilla	West	\$672,851	\$331,041 - \$482,373
Building 583	Orocovis	Central	\$348,003	\$46,400 - \$71,921	Building 1201	Luquillo	East	\$1,186,119	\$79,020 - \$115,143
Building 597	Naguabo	East	\$344,768	\$45,969 - \$71,252	Building 1203	Aguadilla	West	\$751,436	\$175,335 - \$255,488
Building 610	Ponce	South	\$341,038	\$79,576 - \$115,953	Building 1231	Toa Alta	North	\$338,411	\$95,883 - \$137,621
Building 636	Cabo Rojo	West	\$542,550	\$108,510 - \$160,957	Building 1234	Luquillo	East	\$599,623	\$39,947 - \$58,209
Building 644	Vega Alta	North	\$342,032	\$96,909 - \$139,093	Building 1294	Vega Baja	North	\$1,354,971	\$383,908 - \$551,021
Building 705	Guánica	West	\$175,811	\$35,162 - \$52,157	Building 1331	Utua	Central	\$1,658,879	\$221,184 - \$342,835
Building 753	San Germán	West	\$374,712	\$74,942 - \$111,164	Building 1336	Humacao	East	\$1,113,897	\$144,138 - \$206,880
Building 757	Cidra	Central	\$1,347,155	\$211,742 - \$303,912	Building 1383	Vieques	East	\$605,610	\$45,312 - \$70,234
Building 770	Guánica	West	\$173,917	\$34,783 - \$51,595	Building 1388	Yabucoa	East	\$1,274,383	\$45,886 - \$71,123
Building 771	Morovis	Central	\$598,507	\$79,801 - \$123,691	Building 1469	Barranquitas	Central	\$401,851	\$53,580 - \$83,049
Building 780	Luquillo	East	\$2,277,592	\$151,735 - \$221,099	Building 1470	Aguadilla	West	\$127,500	\$29,750 - \$43,350
Building 781	Ceiba	East	\$305,740	\$22,876 - \$35,457	Building 1494	Mayagüez	West	\$467,155	\$320,957 - \$467,155
Building 784	Quebradillas	West	\$1,008,951	\$201,790 - \$299,322	Building 1533	Mayagüez	West	\$2,906,108	\$1,994,388 - \$2,906,108

Note: Each building code is the first four numbers of the provided project number from the PRIDCO-provided portfolio data file (Appendix F - Park Summary Property List). Estimated potential rent calculated by applying PRIDCO zone rent rates to property building square footage.

Non-Rentable Selection: Lots

The 36 identified non-rentable lots in the PRIDCO Portfolio are listed below

Property #	Municipality	Region
Lot 5	Mayagüez	West
Lot 15	Luquillo	East
Lot 20	Río Grande	East
Lot 49	San Germán	West
Lot 50	Ponce	South
Lot 111	Quebradillas	West
Lot 122	Cabo Rojo	West
Lot 167	Coamo	South
Lot 172	Fajardo	East
Lot 194	Mayaguez	West
Lot 198	Sabana Grande	West
Lot 207	Guánica	West
Lot 212	Ciales	Central
Lot 214	Ponce	South
Lot 217	Toa Baja	Metro
Lot 220	Barceloneta	North
Lot 221	Arroyo	South
Lot 223	Florida	North
Lot 229	Cabo Rojo	West
Lot 241	Jayuya	Central
Lot 242	Yabucoa	East
Lot 278	Humacao	East
Lot 291	Hormigueros	West
Lot 297	Camuy	North
Lot 312	Humacao	East
Lot 342	Carolina	Metro
Lot 354	Arroyo	South
Lot 367	Canóvanas	East
Lot 396	Utua	Central
Lot 398	San Lorenzo	East
Lot 412	San Germán	West
Lot 413	Morovis	Central
Lot 430	Canóvanas	East
Lot 445	Moca	West
Lot 913	Ciales	Central
Lot 935	Orocovis	Central

EXHIBIT H: EXPANDED CAPEX STUDY

(Attached)

Commonwealth of Puerto Rico PRIDCO Expanded CapEx Study

February 28, 2022



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1

Executive Summary



Executive Summary

PRIDCO Capital Expenditure Study Overview

Consistent with the requirement in Section 6.3 of PRIDCO's certified Fiscal Plan, this Report represents the **conclusions from a detailed capital expenditure¹ study on PRIDCO's real estate portfolio.**

Portfolio Overview²

764 total buildings³

1,520 rentable units⁴

23 million total SF

15 million leased SF



PRIDCO assets in Las Piedras, Cataño, and Cabo Rojo

Average occupancy⁵

66.0%

Total portfolio annual rent

\$57.1m

Average annual rent/SF⁶

\$3.74

Key Outputs of 200 Detailed Facility Conditions Assessments

\$72
million

Identified CapEx requirement, exclusive of demolition and abatement costs

\$24
million

Total estimated costs for properties to be demolished (1.57m sq ft)⁷

Project Objective

Assess the estimated immediate and future capital expenditure for PRIDCO's entire portfolio with as high degree of confidence as possible. **This exercise required extensive coordination and collaboration with PRIDCO, including the manual extraction of building data, leases, reports, and insurance claim information.** All analysis from this Report was subsequently deposited in a central repository for PRIDCO's future benefit and use.

◆ Site Visits

In addition to the 200 detailed site visits the engagement team conducted exterior observations of each building to assess the general condition covering 100% of PRIDCO's 764 buildings, offices, and industrial parks.

◆ Facility Condition Assessments

The engagement team conducted 200 multi-point facility condition assessments, each including highly detailed assessments of the interior and exterior of each building. These assessments document the cost category, size, remaining expected useful life, critical issues and recommendations which ultimately informed the action time frame, priority level and cost estimates. These reports were made available to PRIDCO and the data is included as an appendix to this Report.

1. Vacant Buildings

The engagement team visited 100% of the vacant properties that were safe to visit as part of the detailed facility condition assessments

◆ Sampling and Extrapolation

The data collected from the detailed facility condition assessments was used as a basis to estimate the remaining capital expenditure needs for PRIDCO's remaining properties. These 200 properties were sampled in order to be the most representative of the portfolio in totality.

◆ Review of Leases

Assessments of leases were conducted across the portfolio to identify either PRIDCO, as landlord, or the tenants are responsible for funding capital expenditures at individual properties. Where costs were identified as tenant liabilities, those costs were deducted from the outputs of this study

◆ Data Incorporation

Extensive analysis to incorporate other datapoints into the study, including existing building assessment reports prepared by PRIDCO, 325 FEMA Project Worksheets, and 35 interviews with PRIDCO management and personnel. Overlap between FEMA data and projected capital expenditures is reflected in the final estimates included within this report

Executive Summary

The total 10-year CapEx is estimated to be approximately \$392 million exclusive of demolition

CapEx Study Key Findings

The total estimated CapEx requirement across the portfolio, projected over 10 years, is approximately **\$392 million**, exclusive of the cost of properties earmarked for full demolition

Total projection indicated by site visits

\$72m

Extrapolated total across full portfolio

\$445m

Less projected demolition costs

(\$53m)

\$392m

across total portfolio

Noteworthy secondary metrics identified throughout site visits

\$53
million

Total estimated **costs for properties** to be demolished within the current portfolio (3.58m sq ft)

\$19.24
PSF

Average CapEx requirement per SF across entire PRIDCO portfolio, exclusive of demolition and abatement costs

\$360
million

Total improvement cost from existing building condition assessment data, **indicating low variation from this study**



- There is a **critical and time sensitive need to invest CapEx** due to some level of necessary repairs within **94% of the buildings within the portfolio**
- 33 properties were **deemed structurally unsafe to enter**, meaning that these buildings represent a significant life-safety hazard
 - It is noted that PRIDCO has provided detailed plans for the handling of the indicated properties



- Roofing components represent 60% of the total immediate critical required repairs, **a proportional estimation that could also be applied to the outstanding FEMA obligated funds**



- The **East and West regions require ~60% of the critical estimated CapEx investment** due to backlogged rehabilitation in the aftermath of recent hurricanes and seismic events



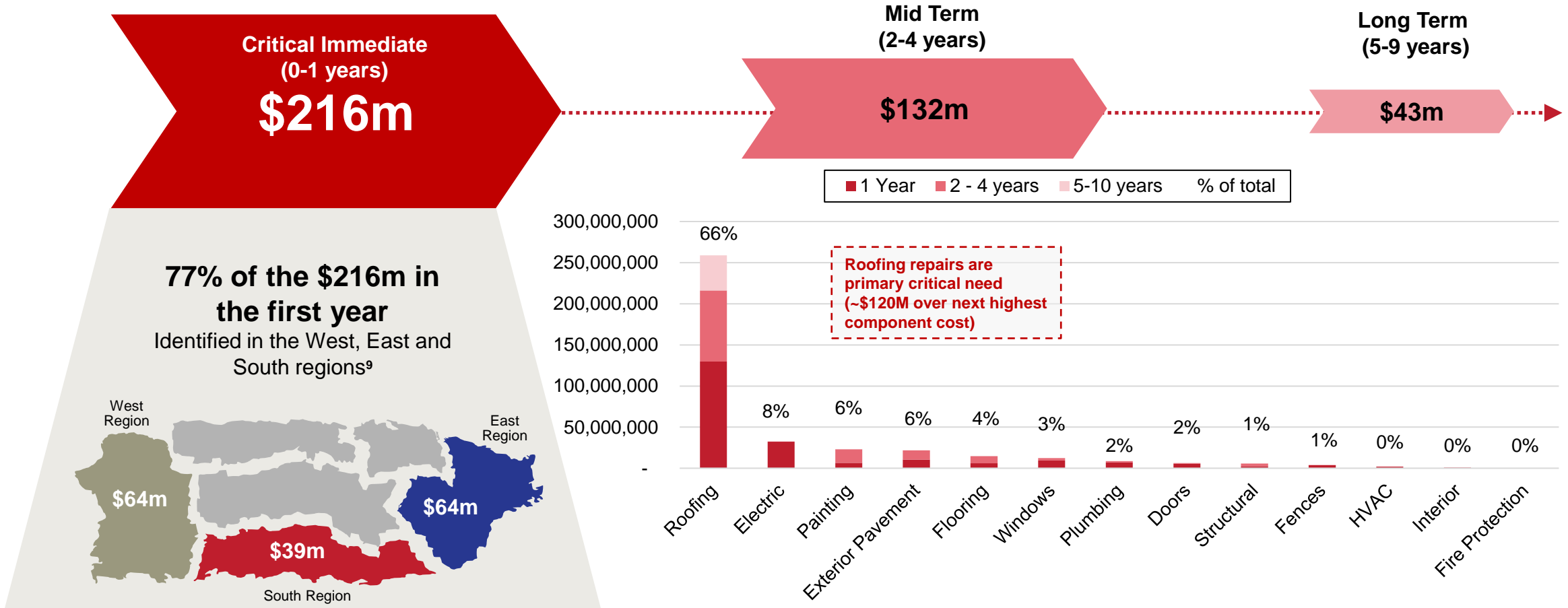
- **\$200 million in project worksheets have been submitted to FEMA** for damages resulting from Hurricane Maria.⁸
 - It appears that between **\$90 and \$140 million of these reimbursements may potentially offset certain CapEx repair requirements** identified within this report

Executive Summary

The CapEx requirements are heavily weighted towards the immediate term in non-metro locations

Overview

- An outsized portion of the indicative CapEx requirements are **forecasted within the 12-month immediate term window and represent assets in the most critical condition**, reinforcing the importance of decisive action on expenditure investment to capture positive ROI portfolio-wide.
- Indicative CapEx requirements level off for each respective repair discipline over the mid to long term (longer than 24 months). **Aggressive action on the immediate needs within the portfolio will improve forecasting efficiency in the future as expenses become more predictable.**

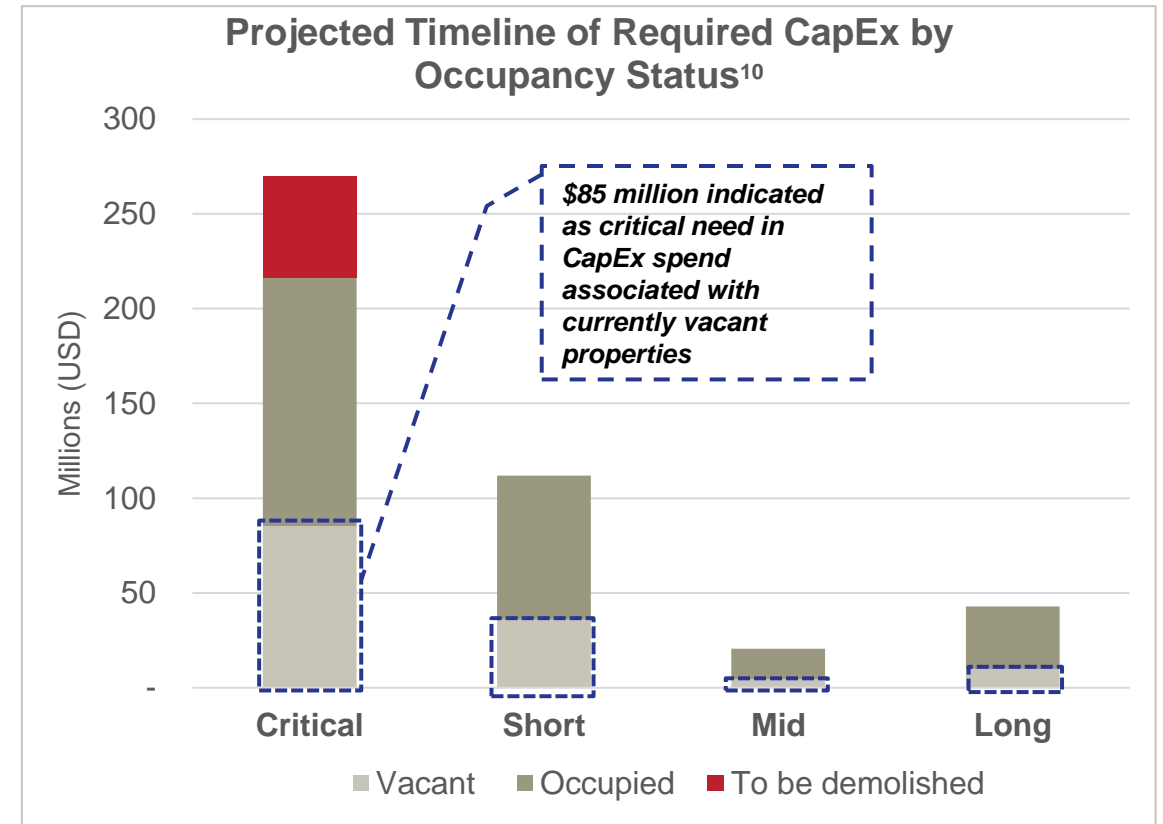
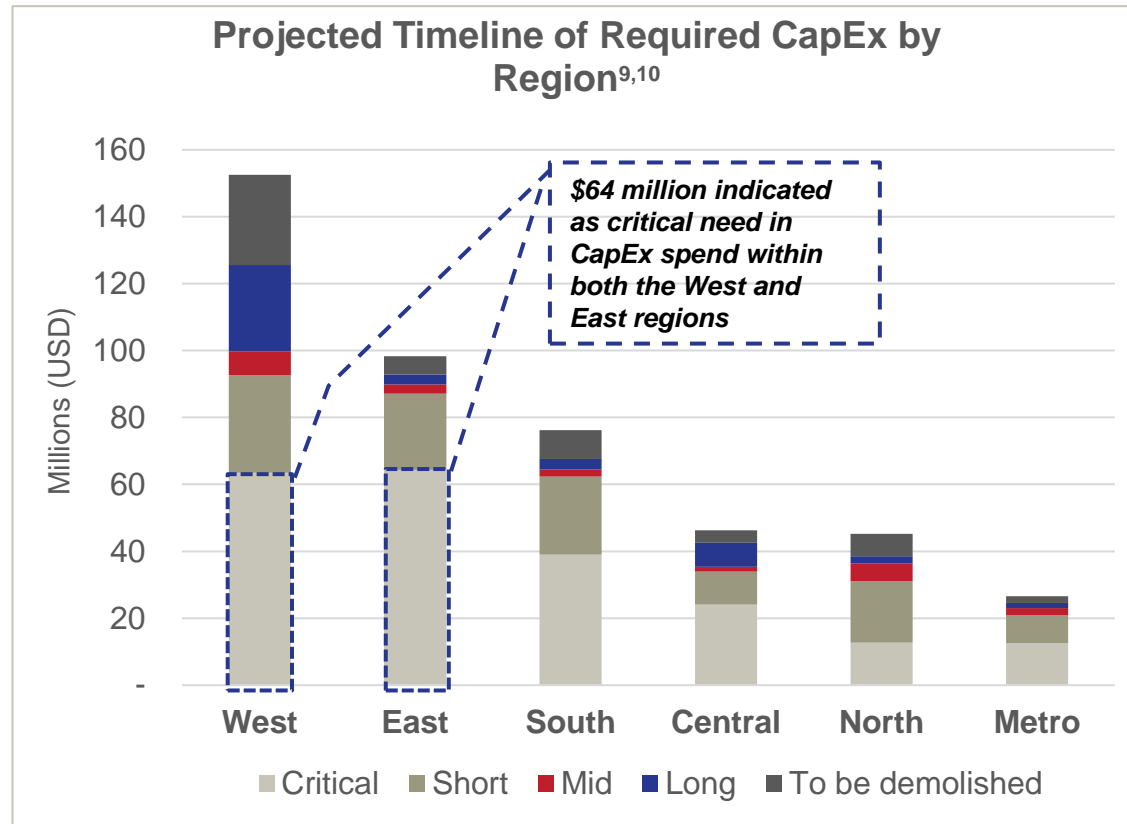


Prioritization of CapEx

A strategic implementation plan is required to allocate the required CapEx across the portfolio

Prioritization considerations

- Strategic prioritization steps are necessary for proper execution of the large portion of CapEx identified as in need of critical attention within 12 months
- Segmentation of the portfolio requirements based on regions and occupancy levels can allow for more effective distributions of capital



Executive Summary

Ancillary data and management inefficiencies were identified throughout the analysis

Overview



- During the data discovery phase of the study, **multiple items were identified as core inefficiencies related to PRIDCO's portfolio management** during the past, present, and foreseeable future. The gaps in data efficiency directly impact the portfolio's ability to maximize cash flow, efficiently manage existing and prospective tenants, and complete accurate budgeting and forecasting procedures at scale.

Key Findings

**417
Leases**

currently expired, on month to month contracts, pending renewal, or missing with in the FAS system

**3.7m
SF**

in currently expired leases on either month to month or pending renewal

\$200m

Worth of FEMA project worksheets submitted by PRIDCO

68%

Tenant survey respondents seeking to renew current lease at expiration

Portfolio Impact

Property Management and Lease Administration

- The lack of clarity across the portfolio results in **difficulties within asset and property management**
- Without a detailed viewpoint management is not fully aware of the current state of the leased portfolio, or the status of individual tenants and building rent rolls
- Inactive leases represent unrealized rental revenue for PRIDCO, creating **budgetary and expense projection inaccuracies** on a quarterly and annual basis
- Long-pending renewals are indicative of **inactive or non-existent lease administration**

Finance and Accounting

- FEMA claims represent opportunities for reimbursements for core CapEx projects at specific properties damaged by Hurricane Maria
- **Based on the current available data, the potential overlap** for ongoing CapEx efforts across the PRIDCO portfolio is between \$90 million and \$140 million
- There is an unknown amount of reallocation potential between FEMA Section 428 and Section 406 categorized allocations for the PRIDCO portfolio

Marketing and Sales

- **PRIDCO does not proactively reach out to prospective renewal candidates** to gauge interest and/or sign extension agreements in timely fashions
- **There is a lack of revenue pipeline** to hedge against tenant dissatisfaction and rollover

Executive Summary

Survey responses stress the immediacy of CapEx, yet identify an opportunity for tenant retention

Tenant Survey Results

500 recipients within PRIDCO portfolio

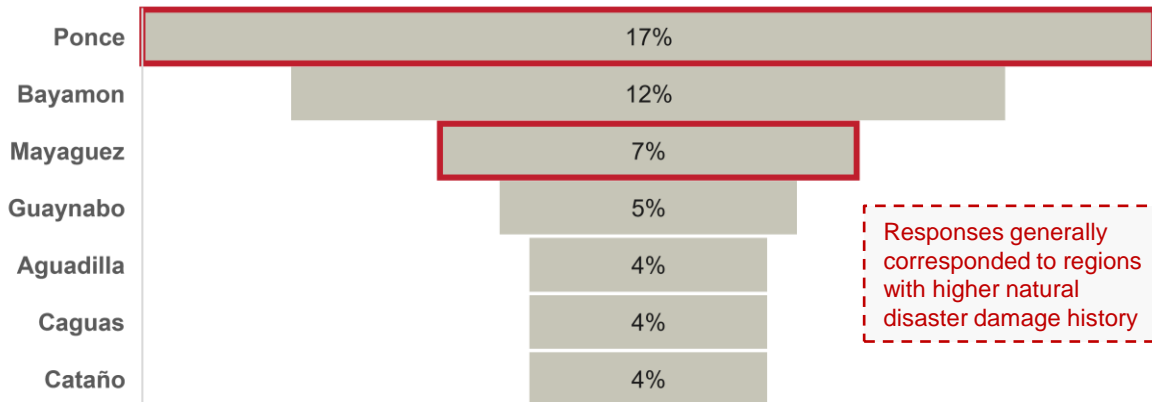


68% of respondents Plan to stay in their leases.

49% of respondents Stated their properties are in need of significant repairs.

- 104 (~20%) respondents completed the tenant survey, **indicating desire to voice opinions and concerns to PRIDCO management** around the tenant experience
- The 68% of respondents that plan to stay in their leases are indicative of a lack of urgency to leave and an opportunity to create greater incentives for renewals by **focusing CapEx investments in properties with strong rent rolls to secure future revenue**

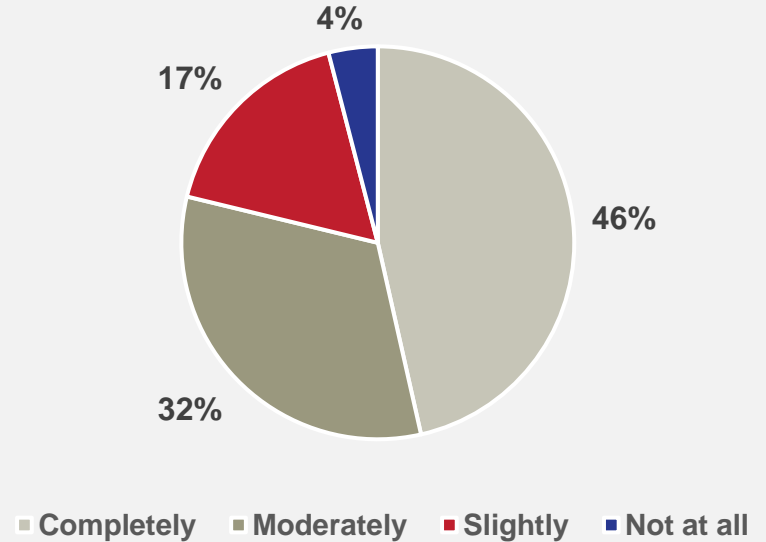
Common Respondent Locations



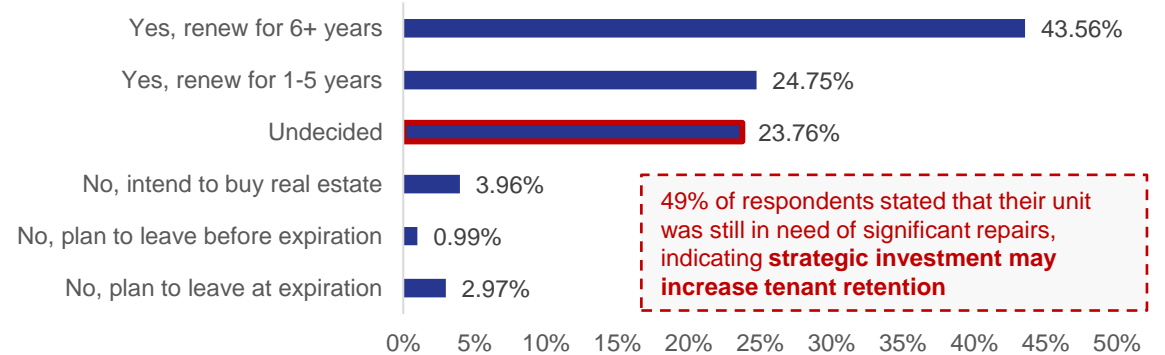
Responses generally corresponded to regions with higher natural disaster damage history

Response Highlights

Extent of Business Needs Satisfied



What tenants plan on doing at the end of current lease term



49% of respondents stated that their unit was still in need of significant repairs, indicating **strategic investment may increase tenant retention**

Executive Summary

Properties within the PRIDCO portfolio range in quality from “critically unsafe” to excellent

Critical Condition

1.1 million SF



Fair Condition

5.8 million SF



Good Condition

14.2 million SF



- Note not all properties are included within these quality categories and therefore the total does not add up to the portfolio total square footage

2

Capital Expenditure Analysis



Capital Expenditure Analysis

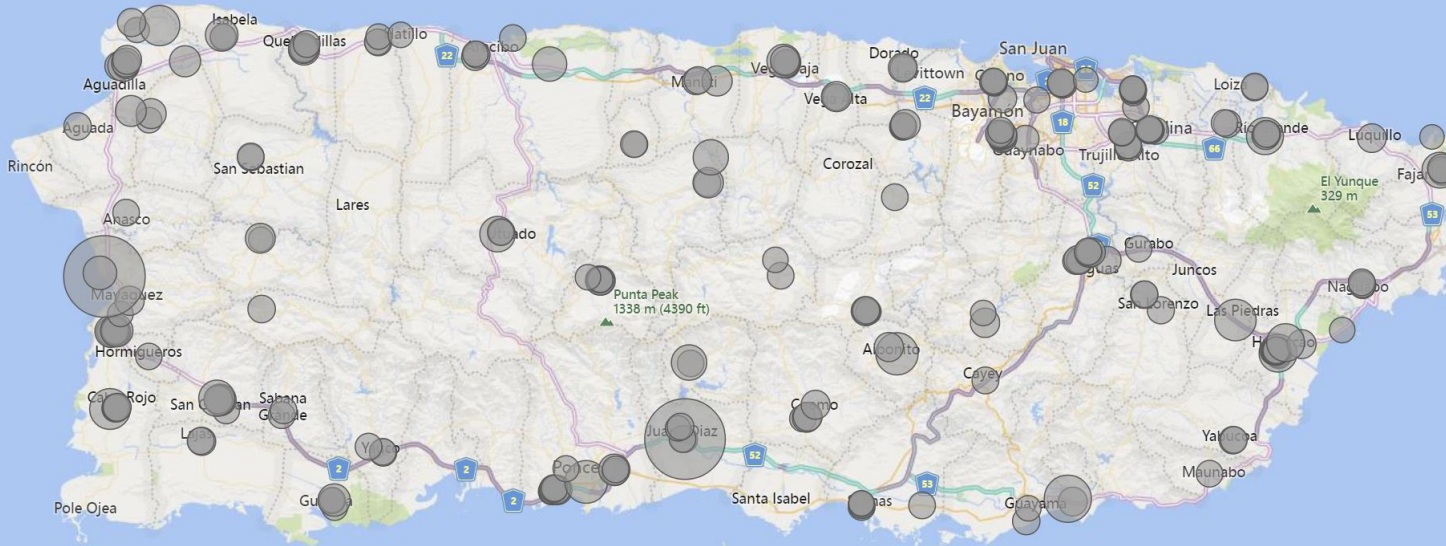
A representative site visit sample was selected and inspected for CapEx estimates

100%

of vacant properties that were determined as safe to visit by PRIDCO were detail inspected

13

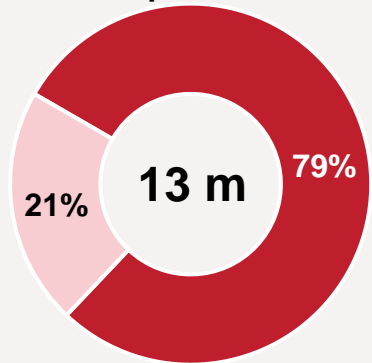
Damage component types identified



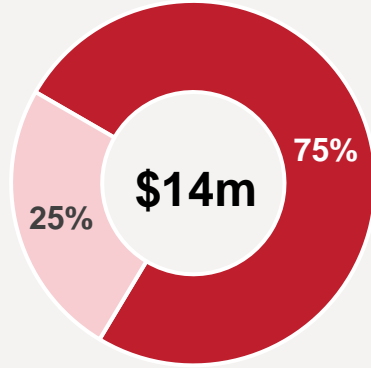
Overview

- Site visits were conducted across the Commonwealth to account for geographic variability as well as differing impact from natural disasters such as seismic activity, which is more prevalent in the west and south
- Vacant properties were largely identified as industrial as indicated by the lower annual rent volume

Detailed Inspections Square Feet

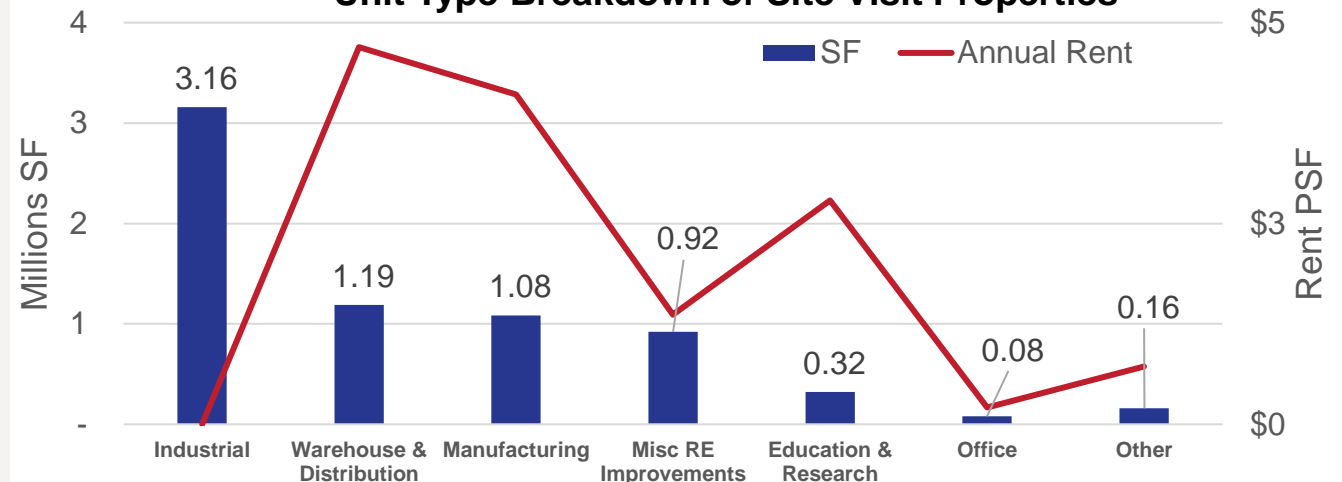


Detailed Inspections Annual Rent



■ Trustee* ■ Non-Trustee

Unit Type Breakdown of Site Visit Properties



* characterization of properties as "Trusted" or "Non-Trusted" in this document does not reflect an official determination by the Oversight Board of their status, and no party should rely on the accuracy of these characterizations

Capital Expenditure Analysis

Existing conditions across the portfolio influenced site visit sequencing to determine CapEx

Overview

- Emphasis was placed on buildings that were deemed to be **100% vacant, highly damaged, or being held for demolition** to be visited
- **40 industrial parks, representing approximately 13 million SF** were inspected with detail by inspectors
- Industrial parks were identified for site visits by relative variation between similar properties, any industrial park without a detailed site visit was determined to be repetitive based on the existing site visit sampling as well as **key features including location, occupancy, age, and tenant base**
- **33 buildings were labeled as “structurally unsafe to enter”**

Variable conditions within PRIDCO portfolio

Critical Condition



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

Fair Condition



View of the front of building 0951 from road access

Good Condition



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

Capital Expenditure Analysis

Sample selection and extrapolation was performed using the most applicable metrics to the full portfolio

Site Visit Selection

- The selection process for determining the detailed site visit sample was informed by compiling data provided by **PRIDCO, building assessment reports, FEMA project worksheets, discussions held with PRIDCO Management, and detailed market analyses.**
- Ultimately, all buildings were categorized by the prioritized metrics below and a sample was selected that was **proportionately representative of the entire portfolio**



Data Extrapolation

- **Site visit findings statistical analysis –**
 - After all detailed site visit findings were collected an analysis was performed to determine which building characteristics produced the most consistent results on an estimated repair costs per square foot basis
 - In order to extrapolate the detailed sample selection findings appropriately it was important **to use the characteristics that produced the most similar estimated repair costs**
- **Extrapolation metric selection and application**
 - It was determined that characteristics such as occupancy status, cashflow status, and primary use type were not strong indicators as to the repair requirements of a building
 - For example – during the site visits there were buildings that were 100% occupied that required little to no repair spending versus other 100% occupied buildings that required significant repair costs
 - Ultimately, it was determined that the property characteristics with the most consistent estimated repair cost findings were location and the level of damage (as shown within the building assessment reports)

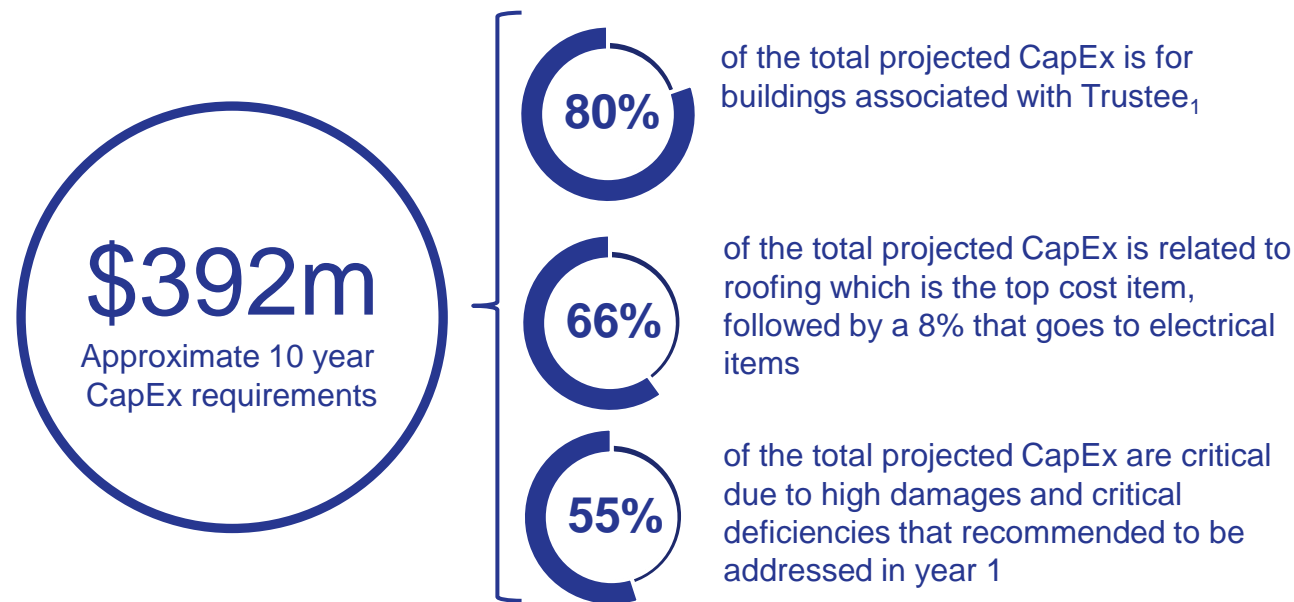
Therefore, the estimated repair cost figures of the detailed sample selection were extrapolated across the remaining portfolio based on the relative building location (based on the reported industrial park) and the level of damage at the building

Capital Expenditure Analysis

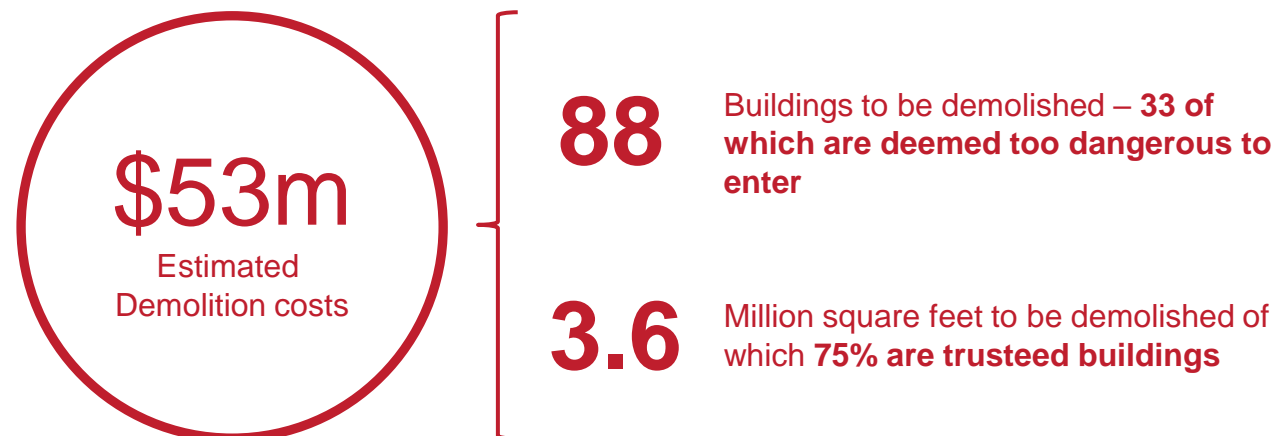
55% of the CapEx requirements are “critical” and trustee buildings account for 80% of the total

Overview

- A total of **\$392 million of CapEx** is projected for the entire portfolio **excluding \$53 million that are recommended for demolition**
- **The West and East are the top two regions** that are in need of CapEx
- **Industrial, Manufacturing, Warehouse and Distribution** covers **75%** of the total estimated CapEx
- During the site visits, **deficiencies were identified among 13 key building components with roofing being the most significant cost item**



Action time frame	Sample	Portfolio	% of total
Critical (0-1 Years)	\$48,328,359	\$216,200,524	55%
Short (2 Years)	\$17,983,704	\$111,972,117	29%
Mid Term (3-4 years)	\$3,674,795	\$20,543,943	5%
Long (5-9 years)	\$5,641,617	\$42,846,249	11%
Estimated total	\$75,628,475	\$391,562,833	100%



1. The characterization of properties as “Trusteed” or “Non-Trusteed” in this document is preliminary, does not reflect an official determination by PRIDCO or the Oversight Board of their status, and no party should rely on the accuracy of these characterizations

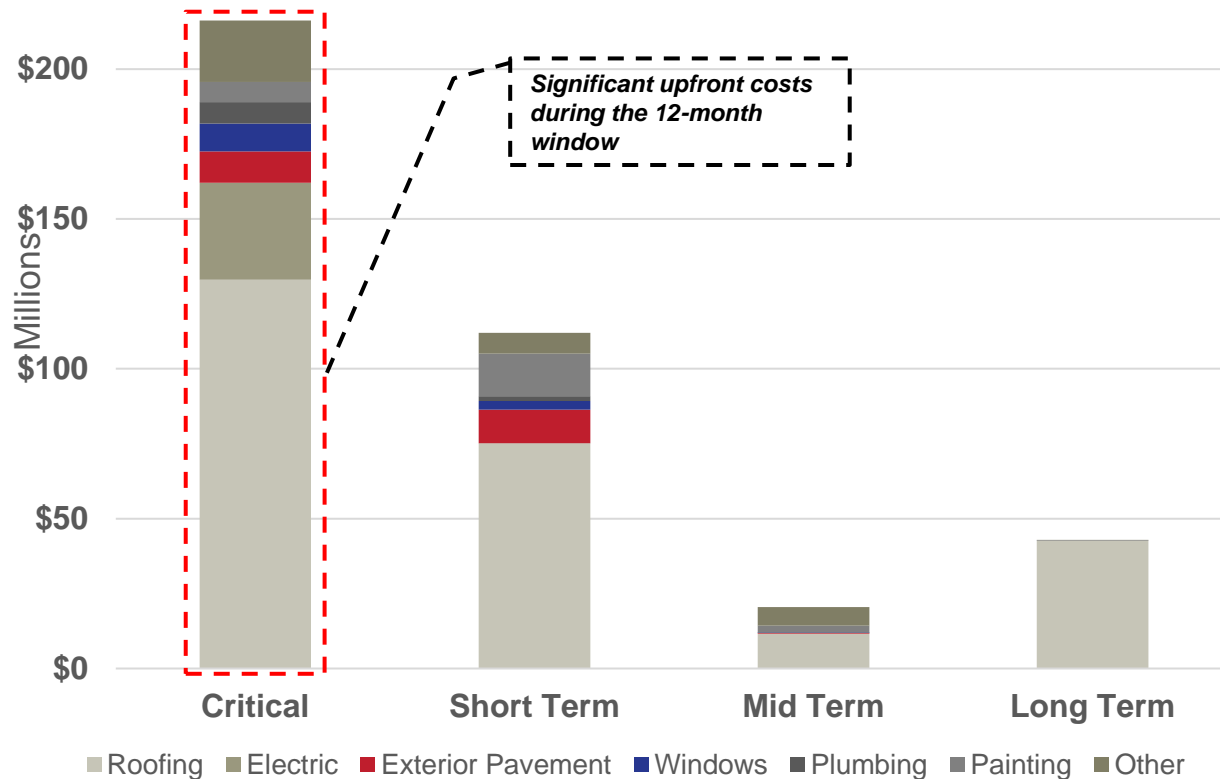
Capital Expenditure Analysis

CapEx needs are heavily weighted to the near-term before normalizing into typical timelines



- **Projected CapEx is heavily front-weighted** to the established “Critical” timeframe, emphasizing the importance of near-term investment versus delayed planning
- In the longer-term many repair categories shift from CapEx **to more generalized repairs and maintenance and capital budgetary items** related to roofing and structures

Projected Timeline¹⁰ of Required CapEx



Projected CapEx by Timeframe¹⁰

Critical	\$216 million	Total CapEx spend recommended within critical 12-month window is 93% greater than next highest timeframe
Short-term	\$112 million	Roofing and structural needs represent 70% of 24-month requirements , despite a significant decrease in total needs over the critical timeframe
Mid-term	\$21 million	A steep decrease in the mid-term 3-5 year window, continued to be largely comprised of roofing and structural costs
Long-term	\$43 million	Roof lifespans come into play in the longer term, as significant CapEx is required for standard R&M work

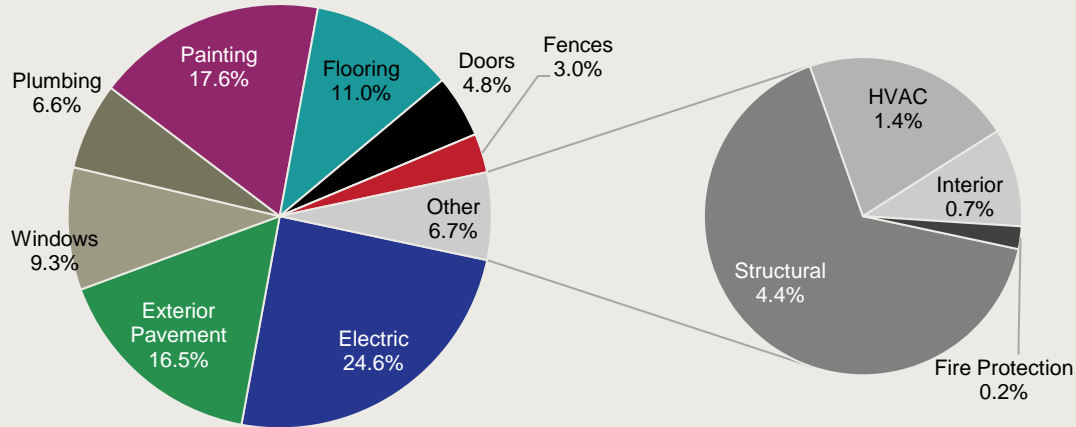
Capital Expenditure Analysis

The most significant required capital expenditures revolve around roofing repairs

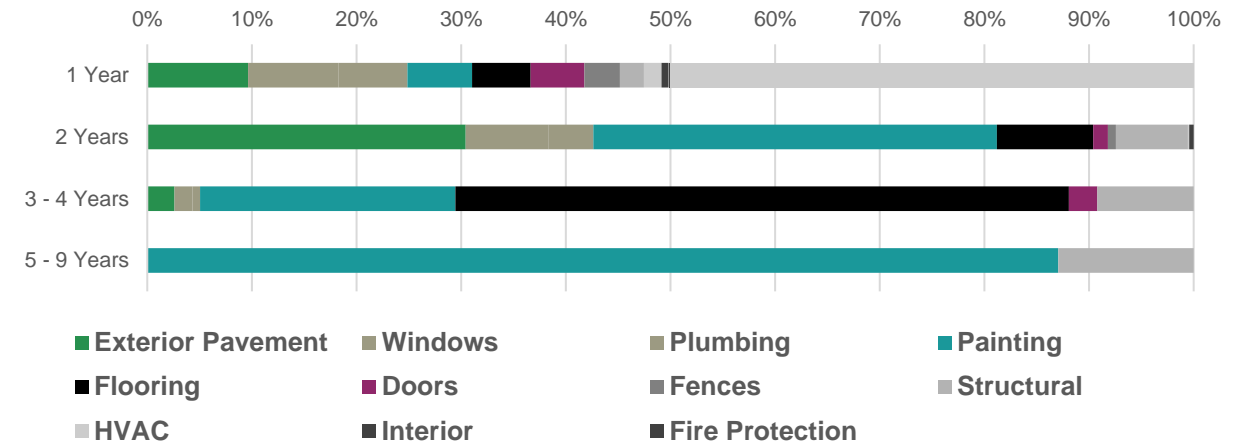
Overview

- Roofing repairs represent a **approximately 66% of the portfolio's required capital expenditures**.
- Analyzing the estimated CapEx figures by cost item allows for a realistic approach to future planning as the **sample selection was representative of the entire portfolio in consideration of building class, age, use and regional labor costs** it is reasonable to assume the most significant repair needs throughout the entire portfolio follow similar proportions to those of the sample selection.
- However, given the current economic dynamics surrounding construction costs, and supply chain constraints; **these cost figures can change greatly depending on the execution timing and the current construction code which can ultimately impact the 10-year CapEx projection.**

Estimated Capex by building component (excl. Roofing)



Estimated 10-year Capex by building component excluding roofing and electrical



Key Findings

- **Only roofing, painting and structural components have anticipated CapEx during years 5-9** as these components tend to have regular maintenance requirements over long life spans.
- Short vs. long term impacts need to be considered for other component timeframes based on the effect that each has on the current use and remaining life expectancy of the building. For example, **electric components of a building are critical to immediate safety and functionality of a building** and therefore are recommended to be addressed in the **short term**. In comparison, flooring and doors are comparatively less impactful to the functionality of a building so can be addressed in the longer term.

Capital Expenditure Analysis

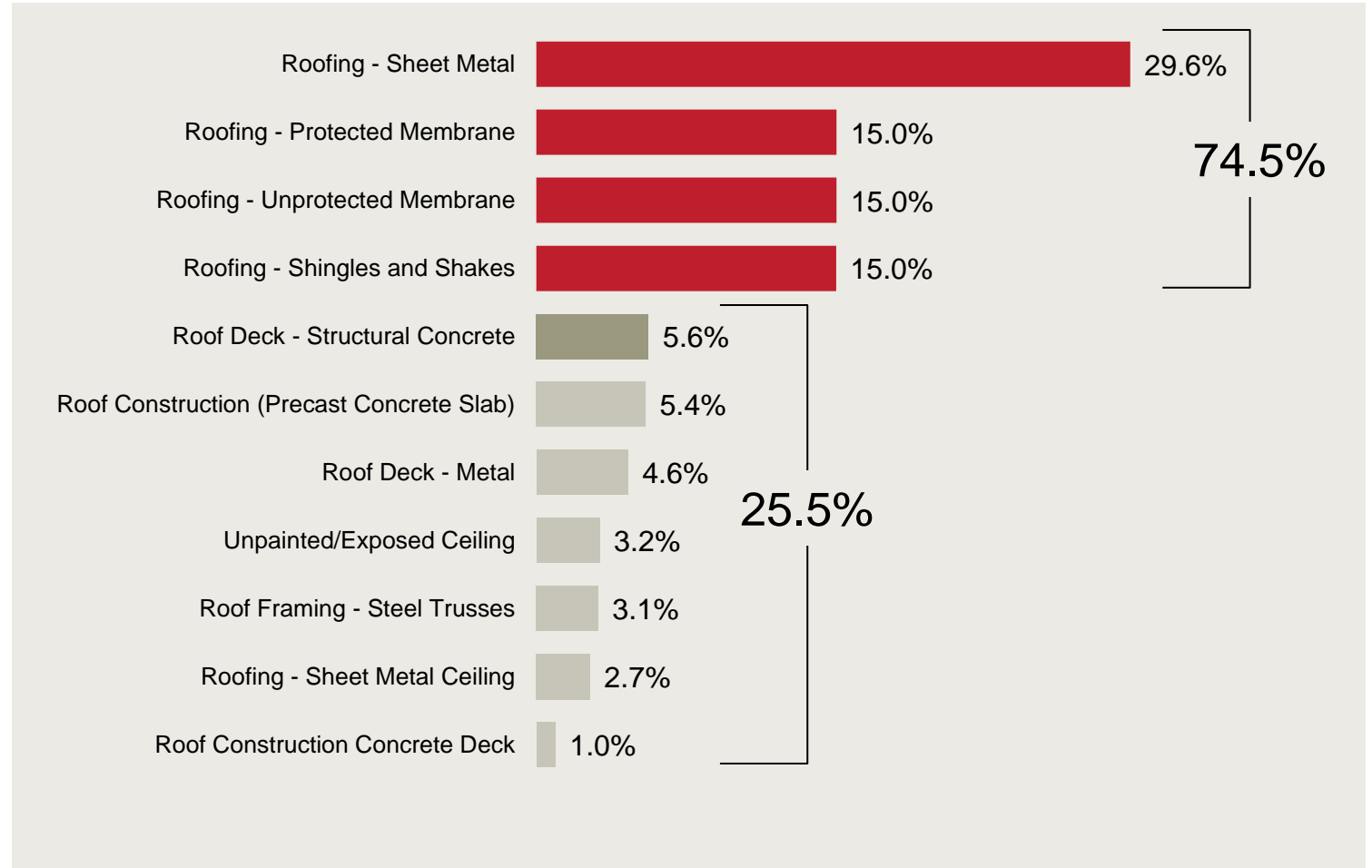
Roofing repair estimates are broken up into multiple categories

Overview

- Roofing repairs identified throughout the site visits schedule were logged based on **12 different discipline categories embodying the full breadth of potential degradation of the roofing structure** and corresponding applications
- Sheet metal, membranes, and cladding elements** such as shingling represented the largest proportion of the total cost projection at 76.4%

Roofing Categories by Unit Cost PSF

Roofing - Sheet Metal	\$16
Roofing - Protected Membrane	\$11
Roofing - Unprotected Membrane	\$11
Roofing - Shingles and Shakes	\$1
Roof Deck - Structural Concrete	\$25
Roof Construction (Precast Concrete Slab)	\$21
Roof Deck - Metal	\$11
Unpainted/Exposed Ceiling	\$2
Roof Framing - Steel Trusses	\$21
Roofing - Sheet Metal Ceiling	\$1
Roof Construction Concrete Deck	\$20



Capital Expenditure Analysis

There is potential for an overlap of FEMA funds from insurance claims and CapEx estimates

Overview⁸

- 356 project worksheets have been submitted to FEMA with detailed estimated repair cost figures in order for PRIDCO to receive FEMA funding for repairs related to past natural disasters
- Additional diligence is being pursued to understand the extent of FEMA funds against total CapEx

Programs Identified

Potential Opportunity

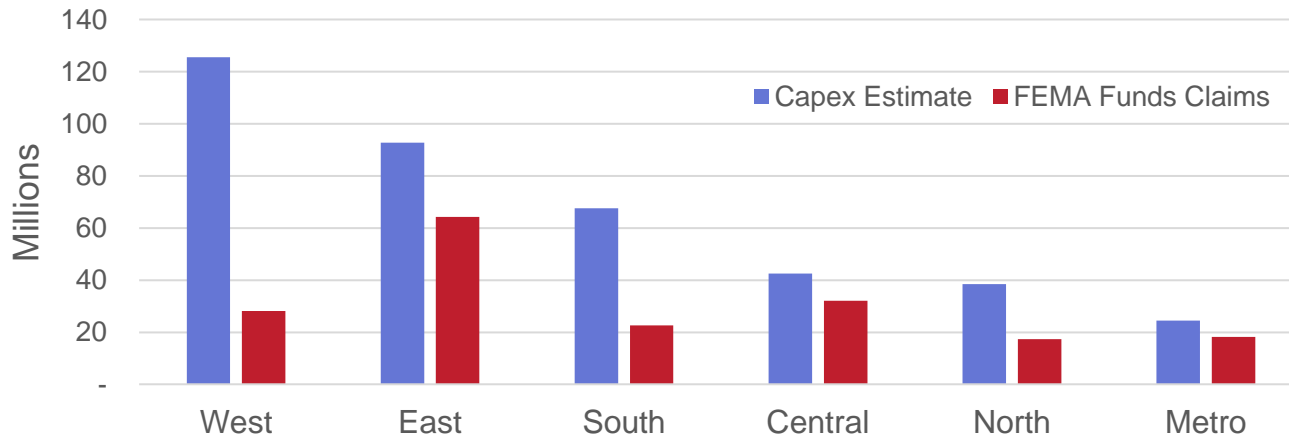
Claims were processed and filed in accordance with two FEMA programs

406 - Hazard Mitigation Grants

428 - Public Assistance Alternative Procedures (PAAP)

- In accordance with section 428 - funds that have been obligated through FEMA for specific projects may be **reallocated and applied to new projects within the given building if the original damages have been repaired since the initial claim.**
- The original inspections for the FEMA claims were performed between 2018 to present day. **Therefore, there is a potential that repairs for which the \$124 million dollars was originally allocated for have since been completed.**

CapEx versus FEMA claims



FEMA Funding with potential CapEx Overlap



3

Portfolio Overview



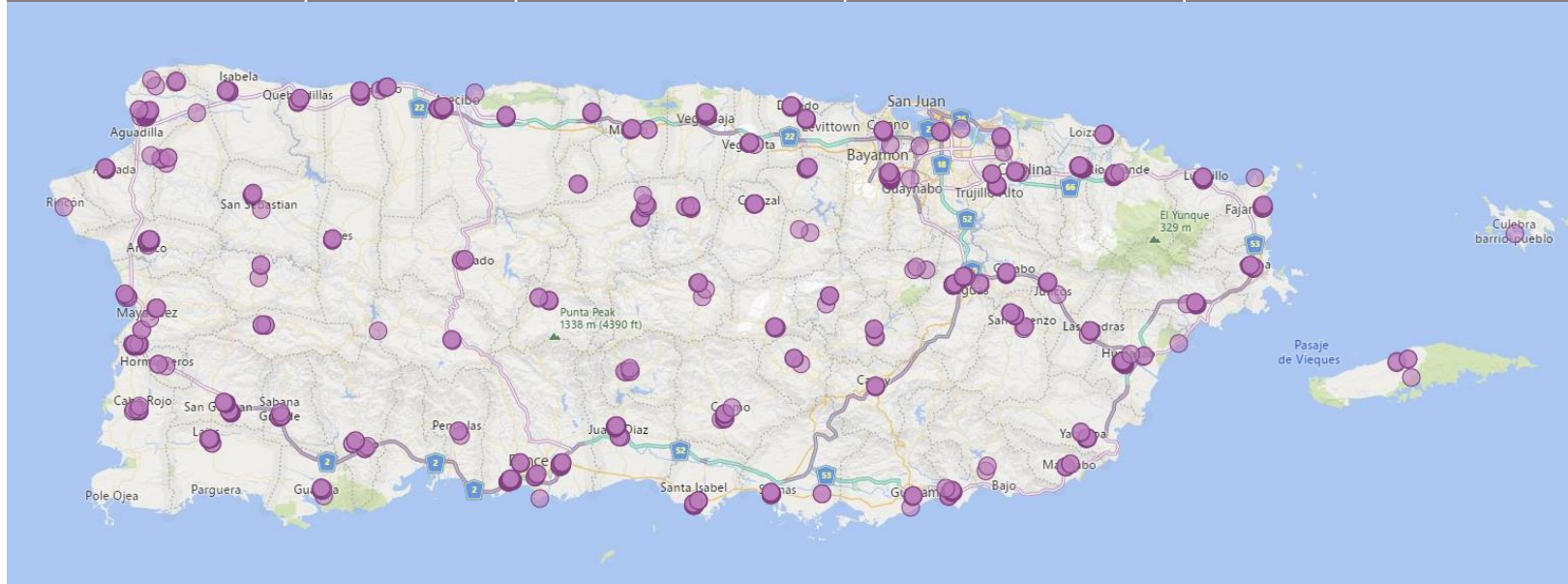
Portfolio Overview

The PRIDCO portfolio is primarily made up of industrial buildings distributed throughout the island

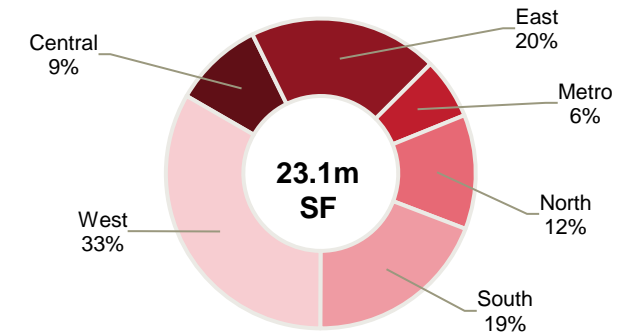
Overview²

- The PRIDCO portfolio represents a large inventory of Industrial buildings in Puerto Rico, strategically distributed throughout the island for the purposes of **promoting economic development through the creation of jobs for local residents.**
- The portfolio has a large physical footprint across the western and southern regions with the vast majority of rentable units falling between **10k – 50k SF**
- The portfolio includes both single and multi-tenant buildings and is almost **66% leased** to various occupants with primary uses of manufacturing or warehouse and distribution

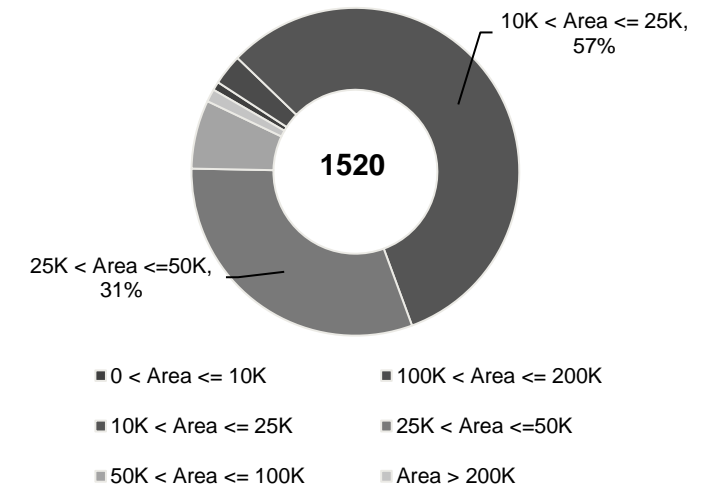
# of Buildings	Total SF	Total Leased SF	Total Land SF	# of Rentable Units
764	23.1m	15m	75m	1,520



Size by region



Count of rentable units by size



Portfolio Overview

Trustee buildings comprise the majority of the portfolio yet have similar occupancy rates to non-trustee

Overview²



- 89% of the buildings within the PRIDCO portfolio may be considered Trustee¹¹ buildings which are owned by PRIDCO and whose revenues are purportedly pledged to the bondholders of certain General Purpose Revenue Bonds, Series A and B, issued under a Trust Indenture, dated as of July 1, 1964. This high proportion is representative of PRIDCO's importance to the bondholders, as well as the Commonwealth overall, as measures are devised to maximize the portfolio's value overall.

Key Findings

- In-place rent across the trustee building portfolio is **20% lower than non-trustee assets**
- Trustee assets make up 89% of the total PRIDCO portfolio, **but only 66% of the in-place annual rent**
- Occupancy is consistent across both categories**, but remains proportionally low compared to stabilized market levels
- CapEx investment is a potential tool for balancing the rentability of the trustee subsection of the portfolio**, as underutilized or underperforming assets are brought closer to market minimum conditions, attracting premiums to competing industrial spaces on the island
- CapEx investment **will help preserve the value of the Trustee assets** and allow for increased rental revenue in the future

Asset Type	# Rentable Units	Total SF	Leased SF	Occupancy	Annual Rent	Avg. Rent PSF
Trustee	1,353	18,245,187	11,987,005	66%	\$36,871,634	\$3.08
Non-Trustee	149	3,868,976	2,626,864	68%	\$10,100,426	\$3.85
PRIICO	10	766,696	662,856	86%	\$10,151,433	\$15.31

Note nine units with no Trustee distinction have been excluded from the Asset Type table above

Portfolio Overview

The portfolio is primarily comprised of manufacturing, warehousing, and industrial spaces

Overview²

- As seen through the comparison of **Industrial square footage compared to Industrial annual rent units that classified as this type have low occupancy and appear to be primarily vacant**
- There appears to be a significant portion of units that are paying low to no rent on a per square foot basis according to the PRIDCO database. **These provide immediate opportunities for increasing revenues**
- The Government has leveraged PRIDCO's portfolio to attract quality businesses to the Island by **offering below market rates**

25th percentile

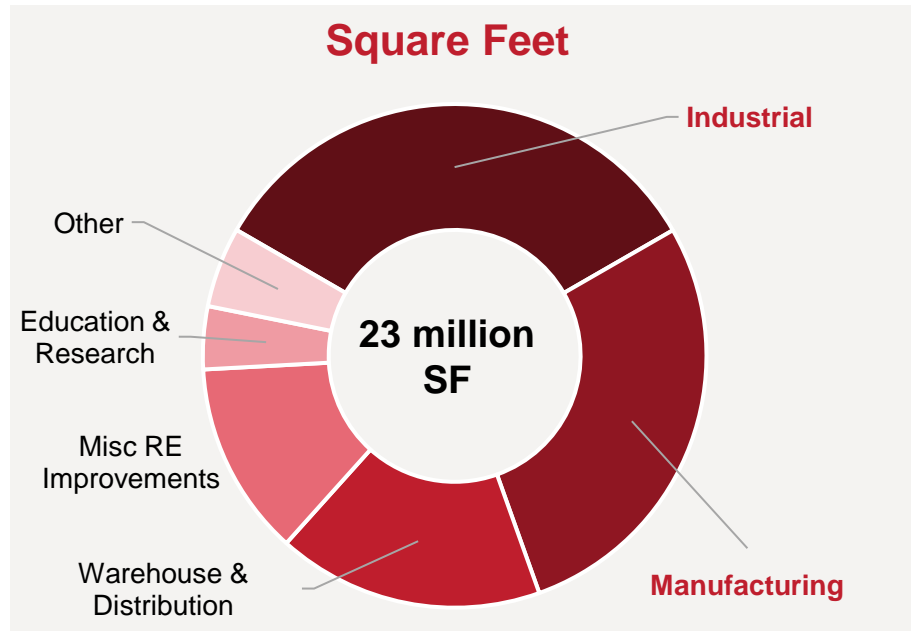
Average

75th percentile

5,746

15,227

17,663



25th percentile

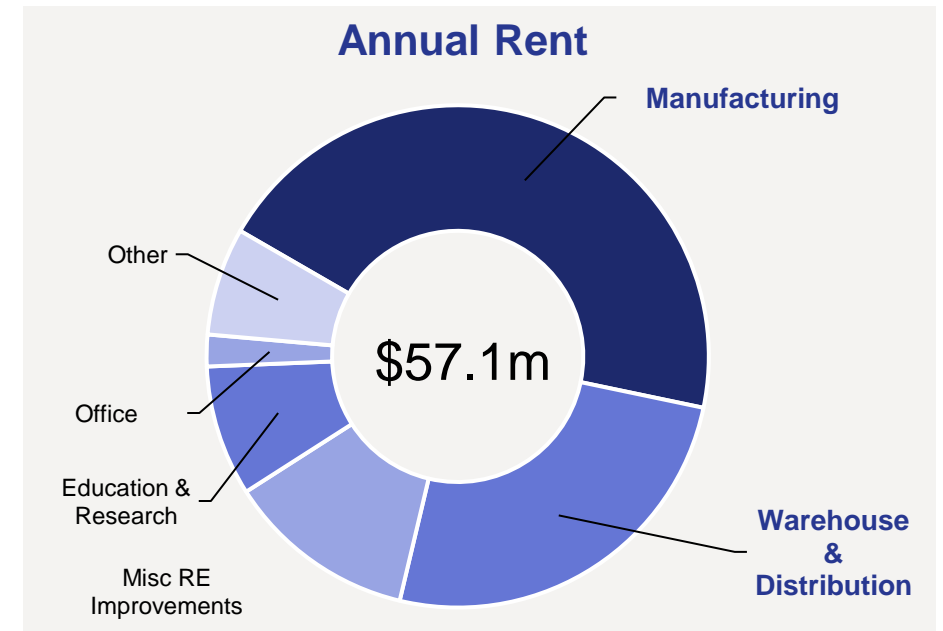
Average Rent

75th percentile

\$0 PSF

\$2.74

\$3.95



Portfolio Overview

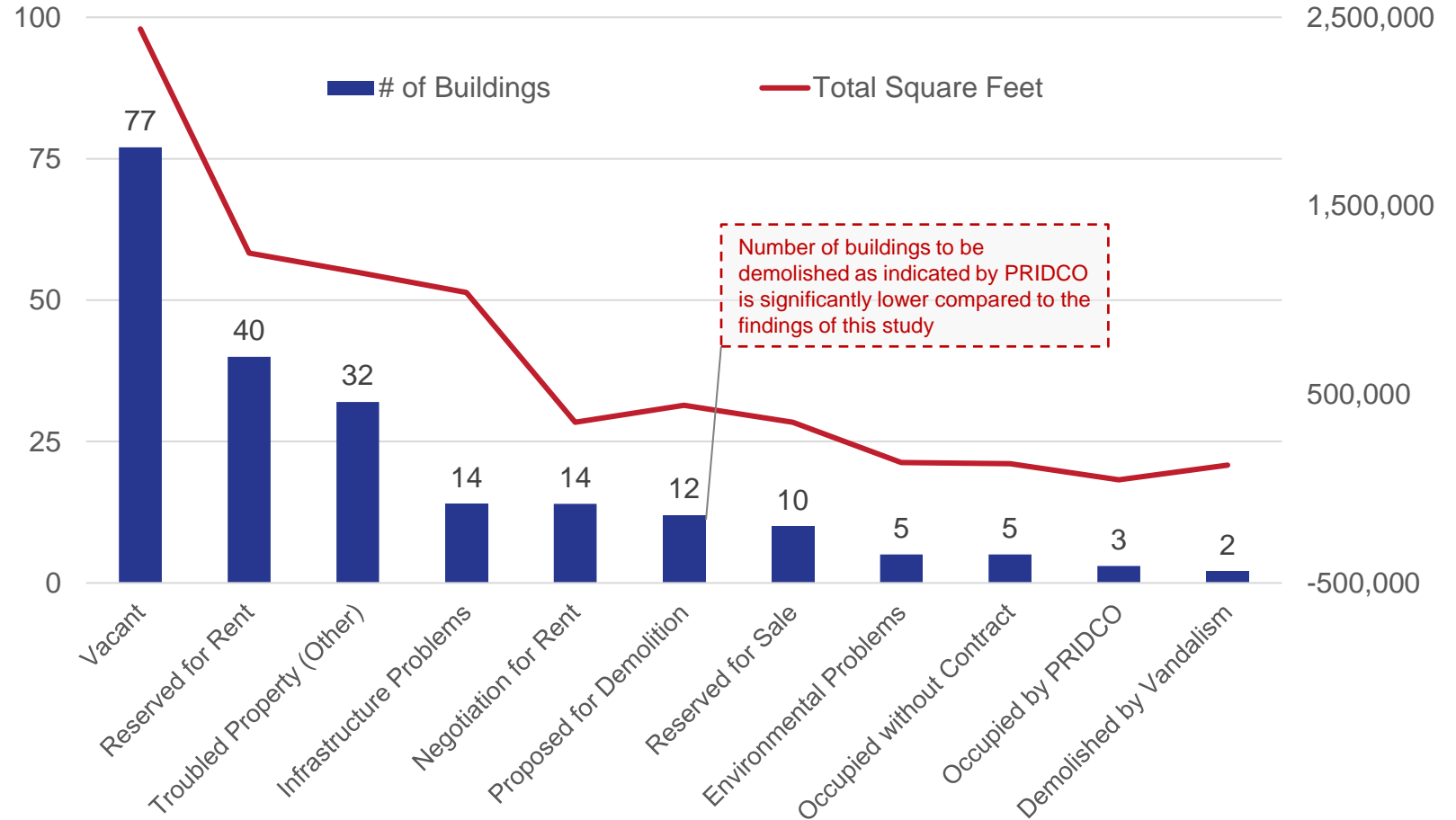
The current state as identified by PRIDCO was analyzed to inform how the portfolio was stratified

Overview

- The majority of buildings within the portfolio are reported to include **minor damages and are operating with active tenants**
- To the extent the Government has no need for the real estate going forward, there are **opportunities for revenue growth** by releasing 3.6 million SF of properties that are currently vacant or being held for demolition
- **Similarly, approximately 2 million SF of the portfolio is currently vacant** and could be considered for disposition to the extent the Government has no need for the properties moving forward
- **Similar data analysis** across the PRIDCO portfolio has been utilized throughout the CapEx Study

Revenue Generating	Non-Revenue Generating
550	214

Non-revenue generating buildings



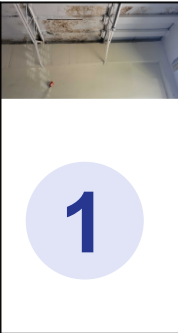
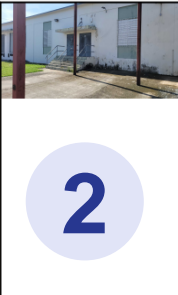
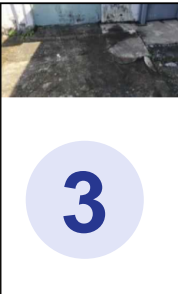
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Appendix



Site inspection report legend

Facility condition report for unit # M082406701

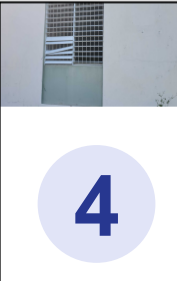


PRIDCO M082406701		Action Item List		Oct 26, 2021
PRIORITY 1		FOCUS ID#: 917520		
		Uniformat Name: B1020 Roof Construction Concrete Deck	Observed Remaining Life: 45 year(s)	
		Category: Deferred Maintenance - Repairs Required	Act By: 2022	
		Location: Entire Building	Actiontime Frame: 1 year(s)	
		Area Served:	Reference Life (BOMA): 99 years	
		Description: Concrete roof deck.		
		Critical Issues: We observed several areas of cracked and spalling concrete roof deck creating hazards due to falling debris.		
		Recommendations: We recommend repairing all damaged roof deck as soon as possible to restore the integrity of the roof and eliminate the safety hazards.		
		Pricing Unit: 21,941 BGSF Cost: \$46,515		
PRIORITY 2		FOCUS ID#: 917515		
		Uniformat Name: B2010 Exterior Wall Painting	Observed Remaining Life: 3 year(s)	
		Category: Deferred Maintenance - Repairs Required	Act By: 2023	
		Location: Entire Building	Actiontime Frame: 2 year(s)	
		Area Served:	Reference Life (BOMA): 10 years	
		Description: Exterior wall finishes.		
		Critical Issues: We observed surfaces cracks, peeling paint and mildew on the exterior wall finishes.		
		Recommendations: We recommend a thorough cleaning, surface repairs and repainting the exterior of the facility.		
		Pricing Unit: 10,350 BGSF Cost: \$10,350		
PRIORITY 2		FOCUS ID#: 927714		
		Uniformat Name: G2030 Rigid (concrete) Pedestrian Pavement	Observed Remaining Life: 3 year(s)	
		Category: Building Integrity - Beyond Rated Life	Act By: 2023	
		Location: Entire Building	Actiontime Frame: 2 year(s)	
		Area Served:	Reference Life (BOMA): 20 years	
		Description: Reinforced cast-in-place concrete pedestrian pavement.		
		Critical Issues: The pedestrian pavement is cracked and has settled unevenly resulting in potential tripping hazards and impediments.		
		Recommendations: Replace the uneven pedestrian pavement to restore even travel surfaces.		
		Pricing Unit: 600 SF Cost: \$7,020		



Building M082406701 has 6 building components with various levels of deficiencies that should be addressed throughout different time frames.

- The report points out each **cost category, the size, remaining expected useful life, critical issues and recommendations** which ultimately informs the **action time frame, priority level and cost.**

- Further, the detailed site visit included thoroughly inspecting different materials of the same component.
 - For example – the priority 1 item and the priority 4 item **both point to the roofing of this building but have different systems that serve each functions.** The concrete roof deck is more critical due to the safety risks as compared to the protected membrane.

PRIDCO M082406701		Action Item List		Oct 26, 2021
PRIORITY 3		FOCUS ID#: 917519		
		Uniformat Name: B2020 Aluminum Windows (operable)	Observed Remaining Life: 4 year(s)	
		Category: Replace -	Act By: 2024	
		Location: Entire Building	Actiontime Frame: 3 year(s)	
		Area Served:	Reference Life (BOMA): 30 years	
		Description: Aluminum windows.		
		Critical Issues: We observed several damaged windows.		
		Recommendations: We recommend replacing the damaged windows at the prescribed timeframe.		
		Pricing Unit: 200 SF Cost: \$763		
PRIORITY 3		FOCUS ID#: 917521		
		Uniformat Name: H2020 Concrete Roadway Pavement	Observed Remaining Life: 4 year(s)	
		Category: Deferred Maintenance - Repairs Required	Act By: 2024	
		Location: Entire Building	Actiontime Frame: 3 year(s)	
		Area Served:	Reference Life (BOMA): 10 years	
		Description: Concrete driveway.		
		Critical Issues: We observed several areas of cracked and damaged concrete pavement.		
		Recommendations: We recommend replacing all damaged areas of concrete pavement at the prescribed timeframe.		
		Pricing Unit: 21,941 SF Cost: \$64,123		
PRIORITY 4		FOCUS ID#: 922773		
		Uniformat Name: B3010 Roofing - Protected Membrane	Observed Remaining Life: 10 year(s)	
		Category: Building Integrity - Reliability	Act By: 2030	
		Location: Entire Building	Actiontime Frame: 9 year(s)	
		Area Served:	Reference Life (BOMA): 20 years	
		Description: Protected membrane roofing consists of a modified bitumen system.		
		Critical Issues: Minor deficiencies were observed and include the following: Evidence of suspect roof leaks due to prior repairs.		
		Recommendations: We recommend replacing the roof at the prescribed timeframe due to end of useful life.		
		Pricing Unit: 21,941 SF Cost: \$236,963		

Detailed Site Inspections

List of properties that underwent detailed inspections with their estimated CapEx costs by component

USD (000's)

Property Code	Roofing	Doors	Structural	Exterior Pavement	Fire Protection	Plumbing	Windows	Fences	Electric	Interior	Painting	HVAC	Flooring	Total
T021536300	\$2,281	\$16	\$0	\$0	\$0	\$30	\$90	\$0	\$505	\$0	\$0	\$0	\$0	\$2,923
T123918100	1,498	-	-	136	-	50	6	-	-	-	53	-	564	2,306
S150609900	1,933	28	-	2	-	60	26	-	-	-	-	-	43	2,091
S003305000	1,455	-	-	388	-	-	3	41	-	-	202	-	-	2,090
S149409500	1,420	21	56	139	-	60	34	-	-	-	49	77	76	1,930
T150009700	1,767	-	12	-	-	-	-	-	-	-	49	-	-	1,828
T048005800	933	41	54	-	1	20	61	-	513	-	42	-	34	1,698
T078006600	836	21	-	24	2	60	170	7	379	-	65	39	-	1,603
T058006400	690	-	-	-	-	40	-	10	485	-	84	-	-	1,309
T101407000	474	19	14	-	2	97	75	-	271	-	-	-	341	1,291
T115307400	-	25	-	-	-	40	60	40	197	-	58	-	865	1,286
T040005700	333	101	-	249	2	40	42	-	251	43	72	-	142	1,273
S079306600	353	28	-	107	-	126	262	-	232	90	40	-	-	1,237
S096606800	753	-	61	-	-	40	-	-	257	-	60	-	-	1,171
S083006700	38	-	-	213	4	50	37	-	665	-	114	17	-	1,139
T079206700	491	46	-	64	1	20	112	15	272	18	47	-	-	1,084
T089106700	470	35	-	99	1	40	51	13	191	-	56	-	-	956
S075706600	663	26	-	-	1	40	24	21	174	-	-	-	-	948
T134508300	771	-	14	-	-	60	-	-	-	-	102	-	-	947
S055806100	423	-	-	92	-	-	-	14	343	-	59	-	-	931
T138808600	362	40	-	105	1	40	94	25	194	-	34	-	-	897
S147109100	769	-	-	-	-	-	-	-	6	-	107	-	-	882
S134208300	782	-	-	-	-	-	-	-	-	-	82	-	-	864
S057206200	468	-	-	-	0	40	-	-	282	-	48	13	-	851
S154101400	723	-	-	-	-	-	3	-	-	-	100	-	-	826
S125807900	668	-	-	-	-	-	-	-	-	-	155	-	-	823
T101607000	250	118	8	125	-	72	51	-	198	-	-	-	-	823
T101607000	250	118	8	125	-	72	51	-	198	-	-	-	-	823
S083106700	605	-	-	-	-	-	72	-	-	-	74	43	-	793
T046905800	427	18	-	-	-	40	74	-	228	-	-	-	-	787
S133608200	441	-	-	196	-	20	75	-	-	-	51	-	-	783
T030705600	692	-	-	-	-	-	37	6	-	-	-	34	-	770
S016105300	461	-	16	76	-	-	-	-	-	-	48	-	162	763
S077406600	703	-	-	8	-	20	7	-	-	-	13	-	-	752
T094007000	660	-	5	-	-	-	-	-	-	-	61	-	-	726
T131408000	620	2	-	8	-	-	-	-	-	-	86	-	-	716
S098407000	595	33	-	-	23	20	17	-	-	-	-	-	-	688
T032705600	360	-	57	-	-	20	-	-	193	-	57	-	-	687
M119707701	236	72	-	-	3	40	64	16	191	-	33	-	-	653
T005905100	286	-	150	-	-	56	-	-	153	-	-	-	-	646
T048105800	542	-	8	-	-	-	17	23	-	-	-	-	-	590
M075406603	235	-	-	117	1	8	11	1	25	-	26	-	-	424
S077306603	401	-	12	-	-	-	-	7	-	-	-	-	-	420
T097707000	365	-	5	-	-	-	-	-	-	-	34	-	-	404
T081906900	330	-	-	23	-	-	-	-	-	25	15	-	-	393
T035306300	304	14	25	47	-	-	4	-	-	-	-	-	-	393
T146400300	249	-	117	25	-	-	-	-	-	-	-	-	-	392
M082406701	283	-	-	71	-	-	1	-	-	-	33	-	-	389
M106617209	319	-	-	-	-	-	2	-	-	-	38	17	-	377
T088206700	254	-	-	100	-	-	-	12	-	-	-	-	-	366

Detailed Site Inspections

List of properties that underwent detailed inspections with their estimated CapEx costs by component

USD (000's)														
Property Code	Roofing	Doors	Structural	Exterior Pavement	Fire Protection	Plumbing	Windows	Fences	Electric	Interior	Painting	HVAC	Flooring	Total
T126507900	\$115	\$0	\$0	\$0	\$0	\$40	\$0	\$25	\$0	\$0	\$53	\$0	\$131	\$364
M144008901	213	-	-	63	-	1	56	-	-	-	30	-	-	362
T095407000	307	-	-	-	-	-	-	11	-	-	35	-	-	352
M114107401	158	-	-	92	-	79	-	-	-	-	22	-	-	351
T007705200	342	-	-	-	-	-	-	-	-	-	-	-	-	342
S092106800	300	-	-	-	-	-	-	-	-	-	34	-	-	334
M075506503	142	11	22	-	-	40	-	-	15	-	-	-	93	324
T112407300	278	-	-	-	-	-	6	-	-	-	34	-	-	318
T075017402	248	-	-	-	-	20	13	-	-	-	34	-	-	316
T145609000	245	-	-	-	-	-	-	31	-	-	-	39	-	315
T100507000	245	-	22	-	-	-	-	-	-	-	34	13	-	314
S110507300	263	-	9	-	-	-	5	-	-	-	36	-	-	313
T045005801	271	-	-	-	-	-	-	7	-	-	34	-	-	312
M072106504	274	-	11	-	-	-	23	-	-	-	-	-	-	308
S150209700	268	-	38	1	-	-	1	-	-	-	-	-	-	308
T030305600	305	-	-	-	-	-	-	-	-	-	-	-	-	305
S124907900	338	3	-	-	-	-	-	11	-	-	38	-	-	303
T068706400	248	-	-	54	-	-	-	-	-	-	-	-	-	302
T067006400	301	-	-	-	-	-	-	-	-	-	-	-	-	301
S131208000	296	-	-	-	-	-	-	3	-	-	-	-	-	299
S114207400	244	-	-	18	-	1	-	-	-	-	34	-	-	297
S154401601	249	-	8	-	-	3	26	10	-	-	-	-	-	296
T043605800	64	-	-	49	-	20	84	10	-	-	64	-	-	291
S028305600	248	-	35	-	-	-	-	-	-	-	-	-	-	283
T132008000	246	-	-	-	-	-	-	-	-	-	34	-	-	280
T109307300	244	-	-	-	-	-	-	-	-	-	34	-	-	278
T093106800	268	-	4	-	-	-	-	-	-	-	-	-	-	272
T032505600	241	-	-	-	-	-	-	-	-	-	30	-	-	271
M139008602	249	-	-	-	-	18	-	-	-	-	-	-	-	267
M141208701	266	-	-	-	-	-	-	-	-	-	-	-	-	266
M104707104	85	-	-	169	-	-	9	-	-	-	-	-	-	263
T064106400	257	-	-	-	-	-	-	-	-	-	-	-	-	257
M146709002	249	-	-	-	-	5	-	-	-	-	-	-	-	254
M129808001	253	-	-	-	-	-	-	-	-	-	-	-	-	253
T096207000	94	7	-	-	1	40	22	-	2	-	84	-	-	250
T139308600	245	-	-	-	-	-	-	-	-	-	-	-	-	245
T075206600	195	-	-	-	-	-	-	7	-	-	17	-	-	220
M094307001	189	-	-	-	-	-	-	-	-	-	26	-	-	215
T071206501	50	-	11	-	-	8	-	-	145	-	-	-	-	215
M079006601	190	-	-	-	-	-	-	6	-	-	-	-	-	196
T134608300	-	-	-	-	-	-	-	-	-	-	190	-	-	190
T032805600	167	-	-	-	-	-	-	-	-	-	17	4	-	188
S016205300	135	-	-	-	-	-	2	31	-	-	18	-	-	185
M065306401	163	-	-	-	-	-	2	10	1	-	-	-	-	176
S062806300	140	-	-	-	-	-	-	-	-	-	29	4	-	173
M065506401	149	-	6	-	-	3	-	-	-	-	-	-	-	158
T033405600	125	-	-	-	-	-	-	11	-	-	17	-	3	156
M060306301	143	-	-	-	-	-	-	-	-	-	-	-	-	143
T076406600	57	-	-	53	-	-	-	-	-	-	21	-	-	131
T052306000	124	-	-	-	-	-	1	-	-	-	-	-	-	125
M138008601	-	-	36	5	-	-	-	-	-	-	-	4	77	123

Detailed Site Inspections

List of properties that underwent detailed inspections with their estimated CapEx costs by component

USD (000's)														
Property Code	Roofing	Doors	Structural	Exterior Pavement	Fire Protection	Plumbing	Windows	Fences	Electric	Interior	Painting	HVAC	Flooring	Total
S037605600	\$3	\$0	\$0	\$95	\$0	\$0	\$0	\$14	\$0	\$0	\$11	\$0	\$0	\$122
T085706700	-	13	19	-	-	-	7	32	-	-	51	-	-	121
S133208200	-	-	5	105	-	4	-	-	-	-	-	-	-	114
M138408601	23	-	-	24	-	12	-	7	-	-	35	-	-	101
T143908901	-	-	6	49	-	-	10	-	-	-	34	-	-	99
T133008101	4	-	-	-	-	-	-	25	-	-	69	-	-	98
M121607703	-	-	16	-	-	2	4	-	-	-	-	-	72	95
M076306603	55	-	-	-	-	-	-	-	-	-	33	-	-	88
T121907700	22	-	-	-	-	-	60	-	-	-	-	-	-	82
S133308100	-	-	-	-	-	-	23	-	-	-	42	-	-	65
T050506100	17	-	-	10	-	-	-	-	-	-	34	-	-	62
S097506900	30	-	-	1	1	1	-	-	-	-	28	-	-	61
T123807800	38	-	-	-	-	-	-	-	-	-	20	-	-	59
M094506801	38	-	-	-	-	15	-	-	-	-	-	-	-	53
T146209000	-	-	-	-	-	-	1	-	-	-	-	9	42	52
T012605200	-	-	-	36	-	-	-	-	-	-	15	-	-	51
T006305100	-	-	9	33	-	-	-	-	-	-	-	-	-	42
T131908000	-	-	7	-	-	-	16	16	-	-	-	-	-	39
M137708602	-	-	-	-	-	-	-	-	36	-	-	-	-	36
T019705400	-	-	-	-	-	-	-	36	-	-	-	-	-	36
M094407005	2	-	-	-	-	-	-	-	-	-	33	-	-	35
T035805600	16	-	-	-	-	-	-	-	-	-	13	-	-	29
T135008302	-	-	-	-	-	-	-	12	-	-	-	9	-	20
M108807301	6	-	-	-	-	3	-	-	-	-	-	10	-	19
M096007001	5	-	-	-	-	-	4	6	-	-	-	-	-	15
M079506602	11	-	-	-	-	-	-	-	-	-	-	-	-	11
T076606600	-	-	-	-	-	-	-	10	-	-	-	-	-	10
M109907303	8	-	-	-	-	-	1	-	-	-	-	-	-	10
M108907305	-	-	-	-	-	4	-	-	4	-	-	-	-	8
S096306800	-	-	-	4	-	-	-	-	-	-	-	-	-	4
M080206705	-	-	-	-	-	-	3	-	-	-	-	-	-	3
T086917900	-	-	-	-	-	-	-	2	-	-	-	-	-	2
T129108000	-	1	-	-	-	-	-	-	-	-	-	-	-	1
Total	\$46,790	\$951	\$1,076	\$4,119	\$42	\$1,814	\$2,473	\$802	\$6,920	\$175	\$4,081	\$388	\$2,719	\$72,262

Endnotes and Glossary

Terminology definitions and sources used throughout the report

Endnotes and Sources -

1. Capital expenditures are defined and used throughout this study as was previously defined within the PRIDCO 2021 Fiscal Plan. Capital expenditure estimates are inclusive of maintenance capex that are investments in currently occupied or temporarily vacant buildings or units to maintain portfolio occupancy and extend useful life. They are also inclusive of growth capex which are investments to develop new sites (green field) or restore existing sites (brownfield) prior to the identification of anchor tenants.
2. Data provided within Appendix A – 1 (a) (b) Park Summary PRIDCO – FOMB Final 2.23.21
3. Buildings as identified by using the first four digits within the Property Code as indicated within the data provided within Appendix A – 1 (a) (b) Park Summary PRIDCO – FOMB Final 2.23.21 representing a physical structure that may contain multiple rentable units
4. Rentable units defined as the smallest unique identifier used within PRIDCO's portfolio summary indicated by the Property Code as indicated within the data provided within Appendix A – 1 (a) (b) Park Summary PRIDCO – FOMB Final 2.23.21
5. Occupancy has been calculated based on the total leased square feet divided by the total building square feet of the portfolio in accordance with data provided within Appendix A – 1 (a) (b) Park Summary PRIDCO – FOMB Final 2.23.21
6. Average Rent has been calculated based on the total annual rent divided by the total leased square feet of the portfolio in accordance with data provided within Appendix A – 1 (a) (b) Park Summary PRIDCO – FOMB Final 2.23.21
7. Demolition costs were developed and estimated based on how they were defined within the PRIDCO 2021 Fiscal Plan as investments to set properties up for redevelopment or sale. Based on internal conversations with active market participants the demolition cost estimates within the study are inclusive of all remediation, inspection, environmental, and miscellaneous costs associated with demolishing a building within Puerto Rico.
8. \$181 million in FEMA funds have been approved as of 12/6/2021 based on data provided by PRIDCO Management within the file titled - PRIDCO - Cat E - Obligations - 12-6-21
9. Regions as defined by the standard market segmentations within the Commonwealth of Puerto Rico
10. Estimate Repair Cost timeframes defined as: Critical (within year 1) ; Short Term (year 2) ; Mid (years 3-4) ; Long (years 5-9)
11. The characterization of properties as “Trusteed” or “Non-Trusteed” in this document is preliminary, does not reflect an official determination by PRIDCO or the Oversight Board of their status, and no party should rely on the accuracy of these characterizations

Disclaimer

The Financial Management and Oversight Board for Puerto Rico (the “Board”) and Ernst & Young Puerto Rico LLC (“EY”) have prepared this report (the “Report”) based upon information and material supplied by the Board, Board advisors, the Government of Puerto Rico (the “Government”), and other publicly-available sources. The Board engaged EY to review the PRIDCO’s real property inventory and as contained in the Report. EY’s sole responsibility was to aid the Board in analyzing potential capital expenditure needs at PRIDCO.

The nature and scope of EY’s services were determined by the Board and are reflected in agreements between EY and the Board dated June 1, 2021 and July 1, 2021 (the “Agreements”). EY’s procedures were limited to the procedures requested by the Board and which are described in the Agreements. EY’s work was performed only for the use and benefit of the Board and should not be used or relied on by anyone else. Other persons who read this Report who are not a party to the Agreements do so at their own risk and are not entitled to rely on it for any purpose. EY does not assume any duty, obligation or responsibility whatsoever to any other parties that may obtain access to the Report.

EY’s services were advisory in nature. While EY’s work in connection with this Report was performed under the standards of the American Institute of Certified Public Accountants (the “AICPA”), EY did not render an assurance report or opinion under the Agreement, nor did EY’s services constitute an audit, review, examination, forecast, projection or any other form of attestation as those terms are defined by the AICPA. None of the services EY provided constituted any legal opinion or advice. This Report is not being issued in connection with any issuance of debt or other financing transaction.

The Board has the knowledge, experience and ability to form its own conclusions. Any assumptions, forecasts, projections, recommendations, conclusions or opinions contained in this Report are solely those of the Board.

In assisting in the preparation of this Report, EY relied on information and underlying data provided by the Board, Board advisors, the Government, and other publicly-available sources, and such information was presumed to be current, accurate and complete. EY has not conducted an independent assessment or verification of the completeness, accuracy or validity of the information obtained. Consequently, EY provides no assurance of any kind with respect to, or on, the information presented.

There will usually be differences between projected and actual results because events and circumstances frequently do not occur as expected and those differences may be material. As a result, no assurance regarding the achievement of forecasted results is provided, and reliance should not be placed on any forecasted results or projects contained herein as such information is subject to material change and may not reflect actual results. EY takes no responsibility for the achievement of projected results.

EXHIBIT I: MOST RECENT AUDITED PRIDCO FINANCIAL STATEMENTS

(Attached)



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

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:

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 Industrial Development Company ("PRIDCO")

Other Obligated Person's Name (if any): _____

Six-digit CUSIP* number(s): 745211

TYPE OF INFORMATION PROVIDED:

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

Fiscal Period Covered: _____

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

Fiscal Period Covered: 2021-22

C. Notice of Failure to Provide Annual Financial Information as Required: _____

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

/s/ Luis R. Rivera Cruz

Luis R. Rivera Cruz

Puerto Rico Fiscal Agency and Financial Advisory Authority,
as Fiscal Agent for PRIDCO

Dated: October 4, 2023

COMMONWEALTH OF PUERTO RICO
PUERTO RICO INDUSTRIAL DEVELOPMENT COMPANY
(A COMPONENT UNIT OF THE COMMONWEALTH OF PUERTO RICO)

**BASIC FINANCIAL STATEMENTS AUDIT, REQUIRED
SUPPLEMENTARY INFORMATION, OTHER SUPPLEMENTARY
INFORMATION AND SINGLE AUDIT**

FOR THE FISCAL YEAR ENDED JUNE 30, 2022

**(WITH THE ADDITIONAL REPORTS REQUIRED BY
THE GOVERNMENT AUDITING STANDARDS AND UNIFORM GUIDANCE)**

CONTACT PERSON:

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CPA DIAZ-MARTINEZ, CSP
CONTADORES PUBLICOS AUTORIZADOS Y CONSULTORES



AICPA & CIMA
Together as the Association of International
Certified Professional Accountants

Member of:

Governmental Audit Quality Center
Puerto Rico Society of Certified Public Accountants
Register in the Peer Review Program of the AICPA Since 1988

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PART I
FINANCIAL

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“ENHANCING THE QUALITY OF ACCOUNTING, AUDITING AND ATTESTATION SERVICES”

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Puerto Rico Industrial Development Company
(A Component Unit of the Commonwealth of Puerto Rico)
San Juan, Puerto Rico

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the **Puerto Rico Industrial Development Company (A Component Unit of the Commonwealth of Puerto Rico) (PRIDCO)**, as of and for the fiscal year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the **PRIDCO's** basic financial statements as listed in the Table of Contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **PRIDCO** as of June 30, 2022, and the changes in its financial position and cash flows for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements Section of our report. We are required to be independent of **PRIDCO**, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Emphasis of Matters

Restatement of Prior Year Financial Statements

As discussed in Note 5 to the basic financial statements, the 2021 basic financial statements have been restated to correct misstatements. Our opinions are not modified with respect to this matter.

INDEPENDENT AUDITOR'S REPORT
To the Board of Directors of
Puerto Rico Industrial Development Company
(A Component Unit of the Commonwealth of Puerto Rico)
Page 2

Uncertainty about Ability to Continue as a Going Concern

The accompanying financial statements have been prepared assuming that **PRIDCO** will continue as a going concern. As discussed in Note 4 to the financial statements, **PRIDCO** has incurred in recurring losses and is currently negotiating a restructuring of its debts under Title VI of the U.S. Congress Puerto Rico Oversight, Management and Economic Stability Act ("PROMESA"). Management's evaluation of the events and conditions and plans regarding these matters are also described in Note 4. The basic financial statements do not include any adjustments that might result from the outcome of these uncertainties. Our opinion on the basic financial statements is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the **PRIDCO's** ability to continue as a going concern for twelve months beyond the financial statements date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether do to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the **PRIDCO's** internal control. Accordingly, no such opinion is expressed.



INDEPENDENT AUDITOR'S REPORT
To the Board of Directors of
Puerto Rico Industrial Development Company
(A Component Unit of the Commonwealth of Puerto Rico)
Page 3

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the **PRIDCO's** ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, on pages 6-13, employees' retirement systems information and employees' other postemployment benefits information, on pages 67 through 69 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information related to Management's Discussion and Analysis in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise **PRIDCO's** basic financial statements. The accompanying Schedule of Expenditures of Federal Awards, as required by *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Costs Principles, and Audit Requirements for Federal Award*, on pages 71-73, is presented for purposes of additional analysis and is not required part of the basic financial statements. The Schedule of Expenditures of Federal Awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.



INDEPENDENT AUDITOR'S REPORT
To the Board of Directors of
Puerto Rico Industrial Development Company
(A Component Unit of the Commonwealth of Puerto Rico)
Page 4

Other Reporting Required by Governmental Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 29, 2023 on our consideration of **PRIDCO's** internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of this report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering **PRIDCO's** internal control over financial reporting and compliance.



CPA DIAZ-MARTINEZ, CSP
Certified Public Accountants & Consultants
License Number 12, expires on December 1, 2025

Caguas, Puerto Rico
September 29, 2023

Stamp No. E539388 of the Puerto Rico Society of Certified
Public Accountants were affixed to the original report.



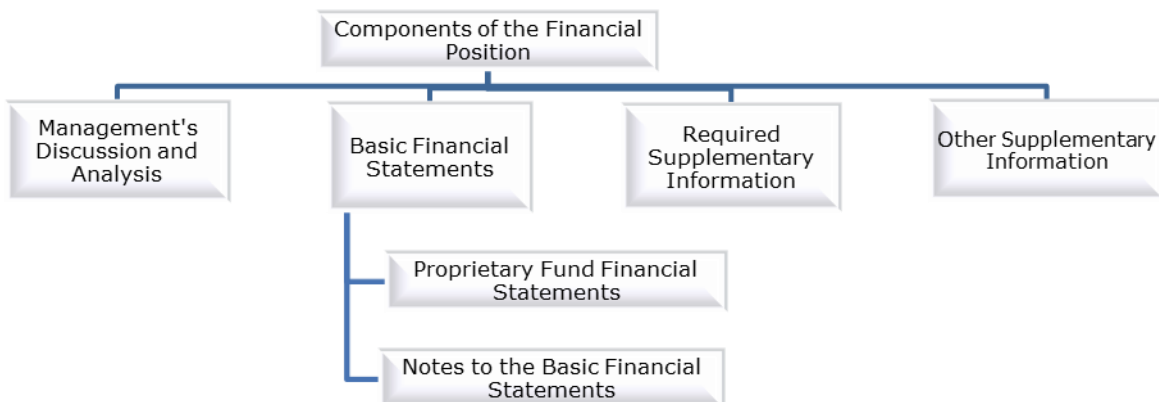
This management’s discussion and analysis section (MD&A) provides a narrative overview and analysis of the financial activities of the Puerto Rico Industrial Development Company (PRIDCO) for the fiscal year ended June 30, 2022. The MD&A is intended to serve an introduction to PRIDCO’s basic financial statements, which have the following components: (1) proprietary fund financial statements, (2) notes to the basic financial statements (3) required supplementary information, and (4) other supplementary information. The MD&A is designed to (a) assist the reader in focusing on significant matters, and (b) provide an overview of PRIDCO’s financial activities. The following presentation is by necessity highly summarized, and to gain a thorough understanding of PRIDCO’s financial condition, the financial statements, and notes to the financial statements should be reviewed in their entirety.

Financial Highlights

- During 2022, PRIDCO implemented Government Accounting Standards Board Statement No. 87, *Leases* (GASB No. 87). The adoption of GASB No. 87 resulted in PRIDCO recording its lease arrangements as financing agreements for the third party (lessee’s) right to use PRIDCO’s capital assets. This resulted in an increase in lease receivables and deferred inflows of resources of \$441.9 million and \$426.1 million, respectively. In addition, GASB No. 87 resulted in recognition of interest income from properties lease agreements amounting to approximately \$20 million.
- Since FY2021, PRIDCO has entered into six forbearance agreements with creditors pertaining to those certain revenue bonds issued under the Trust Indenture, dated as of July 1, 1964, as amended (the “Trust Indenture”), between PRIDCO and U.S. Bank Trust National Association, as successor Trustee, with an outstanding principal balance of \$150 million (the “Revenue Bonds” or the “Bonds”). During FY 2022, interest payments to creditors under these agreements amounted to approximately \$8 million.
- Total revenues increased by \$24.2 million because of GASB No. 87 implementation, and total operating expenses decreased by \$12.1 million or 18%, when compared with fiscal year 2021. The change in net position increased \$28.9 million with respect to the prior fiscal year.

Overview of the Basic Financial Statements

This discussion is intended to serve as an introduction to PRIDCO’s basic financial statements. This report includes the MD&A, the basic financial statements, the notes that explain in more detail the information contained in the financial statements, required supplementary information and other supplementary information.



continue

Proprietary Fund Financial Statements

Proprietary fund reporting focuses on the determination of operating income, changes in net position (or cost recovery), financial position, and cash flows. Proprietary Fund Statements of Net Position and Revenues, Expenses, and Changes in Net Position are presented using the economic resources measurement focus and the accrual basis of accounting.

The Proprietary Fund Financial Statements can be found on pages 14 through 18 of this report.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the proprietary financial statements. The Notes to the Basic Financial Statements can be found on pages 19 through 65 of this report.

Required Supplementary Information

The financial statements and notes are followed by the required supplementary information that includes the schedules related to pension plan as required by GASB No. 73 and GASB No. 75 and can be found on pages 67-69 of this report.

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Financial Analysis

The following is an analysis of the Statement of Net Position of PRIDCO's activities for fiscal year 2022:

Net Position

Condensed financial information from the Statement of Net Position as of June 30, 2022, and 2021 is as follows (expressed in thousands):

	June 30,		Change	
	2022	2021	In Dollars	Percent
Assets:				
Current Assets	\$ 121,609	\$ 88,557	\$ 33,052	37%
Capital Assets, Net	522,199	539,173	(16,974)	-3%
Other Noncurrent Assets	407,973	7,458	400,515	5370%
Total Assets	1,051,781	635,188	416,593	66%
Deferred Outflows of Resources:				
Deferred Loss on Refundings	335	373	(38)	-10%
Other Post-Employment Benefits Related	462	438	24	5%
Pension Related	49,793	60,967	(11,174)	-18%
Total Deferred Outflows of Resources	50,590	61,778	(11,188)	-18%
Total Assets and Deferred Outflows of Resources	\$ 1,102,371	\$ 696,966	\$ 405,405	58%
LIABILITIES:				
Current Liabilities	152,572	136,920	15,652	11%
Noncurrent Liabilities	526,755	561,456	(34,701)	-6%
TOTAL LIABILITIES	679,327	698,376	(19,049)	-3%
DEFERRED INFLOWS OF RESOURCES:				
Pension Related	16,685	15,790	895	6%
Leases Related	426,129	-	426,129	0%
TOTAL DEFERRED INFLOWS OF RESOURCES	442,814	15,790	427,024	2704%
NET POSITION (DEFICIT):				
Net Investment in Capital Assets	342,520	350,459	(7,939)	-2%
Restricted for Debt Service	3,463	3,641	(178)	-5%
Unrestricted (Deficit)	(365,753)	(371,300)	5,547	-1%
TOTAL NET POSITION (DEFICIT), As Restated	(19,770)	(17,200)	(2,570)	15%
Total Liabilities, Deferred Inflows of Resources and Net Position (Deficit)	\$ 1,102,371	\$ 696,966	\$ 405,405	58%

Total assets and deferred outflows of resources increased during fiscal year 2022 when compared with fiscal year 2021, by \$405.4 million. The increase is related primarily to the effect of the adoption of the GASB No. 87 amounting to \$441.9 million, an increase in current assets amounting to \$33 million, a decrease in capital assets amounting to \$17 million and a decrease in total deferred outflows of resources amounting to \$11.2 million.

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Current assets increased by \$33.1 million as a net result of: (i) a decrease in cash amounting to \$6.6 million, (ii) a decrease in net rent and accounts receivable amounting to \$6.9 million, (iii) an increase in lease receivable amounting to \$40.7 million, (iv) an increase in prepaid expenses amounting to \$3.3 million and (v) an increase in due from Commonwealth of Puerto Rico of \$2.6 million.

Capital assets decreased by \$17 million primarily due to \$4 million assets sold, current year depreciation amounting to \$15.5 million, and a current year impairment adjustment amounting to \$1.1 million offset by current year additions amounting to \$3.6 million.

Other noncurrent assets increase by lease receivable increased by \$401.2 million as a result of the adoption of GASB No. 87. Also a decrease of approximately \$655 thousand primarily due to a decrease in other receivables of \$477 thousand and a decrease in the Sinking Fund Reserve of \$178 thousand.

Total deferred outflows of resources decreased by \$11.2 million or 18% during fiscal year 2022 when compared to the prior fiscal year, related primarily to the increase in Pension related outflows of resources.

Current liabilities increased by \$15.7 million primarily due to an increase in accrued interest of \$9.3 million and an increase in the current portion of Bonds payables amounting to \$13.1 million. This was partially offset by a decrease in the current portion of notes payables amounting to \$6 million and a net decrease in other current liabilities of \$700 thousand.

Non-current liabilities decreased by \$34.7 million or 6% during fiscal year 2022 when compared to the prior fiscal year due to a decrease in Bonds payable amounting to \$13.1 million, a decrease on loans and notes payable to commercial banks amounting to \$2.8 million, an increase in due to Commonwealth amounting to \$1.7 million, a decrease in pension liability of \$12.5 million, a decrease in terminations benefits accrual of \$1.1 million, a decrease in long term environmental liabilities of \$15.3 million, an increase in amount due to EPA amounting to \$10.3 million, a decrease in legal liabilities amounting to \$675 thousand and a net decrease in other long term liabilities of \$1.2 million.

Deferred inflows of resources increased by \$427 million due to increase in the portion of lease receivable that will be recognized as revenue in future periods, over the lease term amounting to \$426.1 million and increase in pension related deferred inflows amounting to \$895 thousand.

As of June 30, 2022, the net position (deficit) of (\$19.8) million is composed of \$342.5 million of net investment in capital assets, \$3.5 million Restricted for Debt Service, and a deficit of (\$365.8) million. Total net position changed from \$17.2 million (deficit) in fiscal year 2021, to (\$19.8) million (deficit) in fiscal year 2022, an increase in deficit of approximately \$2.6 million.

Restricted net position is mainly composed of an investment in certificate of deposits amounting to \$1.8 million and amounts deposited in the sinking fund reserve for payments of Bonds payable and related interest amounting to \$1.8 million. Restricted net position decreased approximately \$178 thousand. There were no Bonds payments or issuance during the fiscal year ended June 30, 2022.

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Revenues, Expenses, and Changes in Net Position

Condensed financial information of the Statement of Revenues, Expenses and Changes in Net Position for the years ended on June 30, 2022 and 2021 is as follows (expressed in thousands):

	June 30,		Change	
	2022	2021	In Dollars	Percent
Revenues:				
Rental Income, Net	\$ 68,486	\$ 53,324	\$ 15,162	28%
Total Non-Operating Revenues (Loss)	<u>1,847</u>	<u>(7,199)</u>	<u>9,046</u>	-126%
Total Revenues	<u>70,333</u>	<u>46,125</u>	<u>24,208</u>	52%
Operating Expenses:				
Salaries and Wages	3,245	5,407	(2,162)	-40%
Pension Expense	13,852	16,745	(2,893)	-17%
Other Post-Employment Benefits	22	720	(698)	-97%
Administrative, General and Other Expenses	19,593	23,031	(3,438)	-15%
Impairment Loss in Capital Assets	1,137	3,313	(2,176)	-66%
Custodial Credit Loss on Deposits with the Economic Development Bank	-	14	(14)	-100%
Depreciation and Amortization	<u>15,460</u>	<u>16,165</u>	<u>(705)</u>	-4%
Total Operating Expenses	<u>53,309</u>	<u>65,395</u>	<u>(12,086)</u>	-18%
Total Non-Operating Expenses	<u>19,594</u>	<u>12,162</u>	<u>7,432</u>	61%
Total Expenses	<u>72,903</u>	<u>77,557</u>	<u>(4,654)</u>	-6%
Change in Net Position	<u>(2,570)</u>	<u>(31,432)</u>	<u>28,862</u>	-92%
Net Position (Deficit), Beginning of Fiscal Year, As Restated	<u>(17,200)</u>	<u>14,232</u>	<u>(31,432)</u>	-221%
Net Position (Deficit), End of Fiscal Year	<u><u>\$ (19,770)</u></u>	<u><u>\$ (17,200)</u></u>	<u><u>\$ (2,570)</u></u>	15%

PRIDCO reported a change in net position for fiscal year 2022 of approximately (\$2.6) million (deficit), an increase amounting to \$28.9 million when compared to fiscal year 2021's change in net position. This increase is due to an increase in total revenues amounting to \$24.2 million, a decrease of total operating expenses amounting to \$12.1 million or 18%, and an increase in non-operating expenses of \$7.4 million or 61%, when compared with fiscal year 2021.

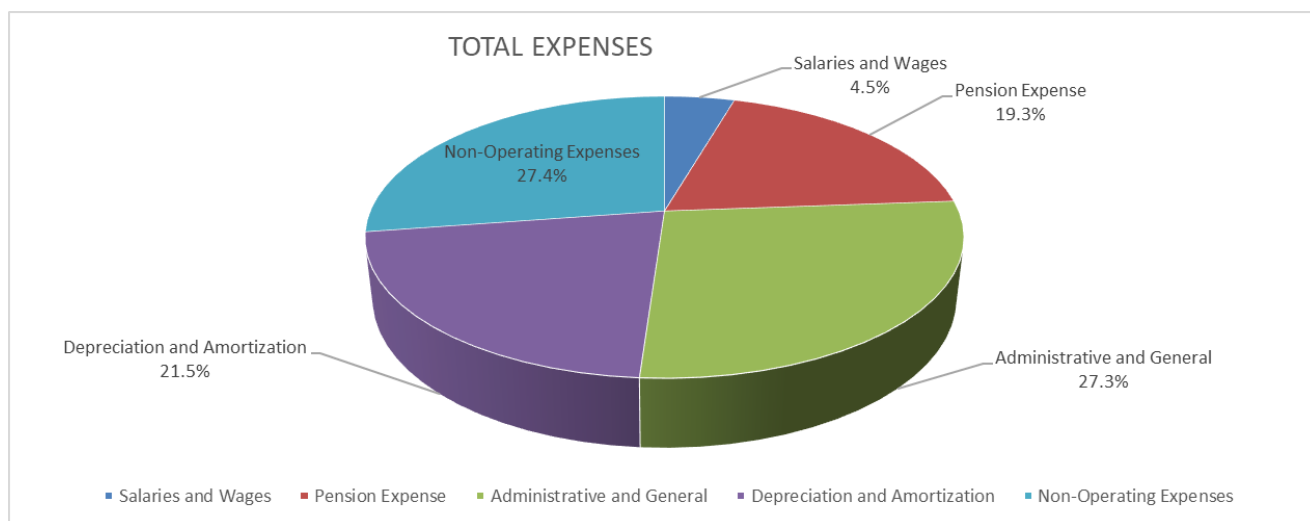
Total revenues increased during fiscal year 2022 by \$24.2 million when compared to fiscal year 2021 primarily related to an increase in interest from properties lease agreements recognized under GASB 87 amounting to \$20 million or 100%, and a decrease in rental income of \$4.8 million and an increase in non-operating revenues amounting to \$9.0 million. Rental income includes the amortization of deferred inflows of resources related to lease receivables recognized under GASB 87.

Operating expenses decreased by approximately \$12.1 million or 18%, during fiscal year 2022 as compared to fiscal year 2021 due to a decrease in salaries and wages amounting to \$2.2 million, a decrease in pension and other post-employment benefits expense of \$3.6 million, decrease in impairment loss in capital assets amounting to \$2.2 million, a decrease in depreciation expense amounting to \$708 thousand, and a decrease in administrative and maintenance and repairs expenses amounting to \$3.4 million.

Non-operating expenses increased by approximately \$7.4 million or 61%, driven by an increase in Bonds interest expenses.

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PRIDCO's expense distribution for the year ended on June 30, 2022 is as follows:



Capital Assets

At the end of the fiscal year, PRIDCO has invested \$342.5 million, net of accumulated depreciation, in a broad range of capital assets, including land held for improvements, land on leased projects, building and improvements, machinery and equipment, among others.

Long-Term Debts

At the end of fiscal year 2022, PRIDCO reported \$232.5 million in Revenue Bonds and loans and notes payable. This represented a reduction of \$8.8 million, compared to the prior fiscal year.

PRIDCO failed to make payments of principal and interest on the Revenue Bonds when due starting August 1, 2016. Payments of principal and interest due were paid out of debt sinking reserve funds held by the Trustee until June 1, 2018.

Additional information on PRIDCO's capital assets and long-term liabilities, including (i) payments made on the Revenue Bonds under a Standstill Agreement (as defined below), and (ii) entry into the PRIDCO Restructuring Support Agreement, can be found in Notes 14 and 16 of the basic financial statements.

Current Known Facts

On June 13, 2019, the Puerto Rico Fiscal Agency and Financial Advisory Authority ("AAFAF"), on behalf of PRIDCO, entered into a restructuring support agreement (the "2019 RSA") with GoldenTree Asset Management ("Golden Tree"), holder of over two-thirds of the outstanding Revenue Bonds. The RSA contemplated a financial restructuring of the Revenue Bonds through a Qualifying Modification under Title VI of PROMESA.

continue

On April 16, 2021, PRIDCO received a Notice of Termination of the RSA from Golden Tree, and the RSA is no longer effective. On May 6, 2021, Golden Tree commenced a legal action in United States District Court for the District of Puerto Rico. This legal action sought to remedy PRIDCO’s purported failure to abide by its obligation to holders of the Revenue Bonds by, among other things, not paying principal and interest on the Bonds. On February 23, 2022, GoldenTree and PRIDCO entered a standstill agreement (the “Standstill Agreement”) that resulted in dismissal of the lawsuit. Under the Standstill Agreement, Golden Tree agreed to forbear from exercising any rights or remedies available with respect to the Bonds, including any further prosecution of the legal action. In exchange, PRIDCO committed to paying to the Trustee monthly interest payments on the Bonds. The Standstill Agreement was extended multiple times and expired on October 31, 2022.

As of the date of the report, payments were made as established by the Standstill Agreement prior to its termination.

On January 19, 2023, GoldenTree recommenced the litigation in the United States District Court. The renewed complaint seeks, among other things, payment of all accrued and unpaid principal and interest on the Bonds, including all overdue Bond payments and future Bond payments as they come due.

In July 2023, after extensive negotiations, the Financial Oversight and Management Board for Puerto Rico (the Oversight Board”) and GoldenTree agreed on the terms of a Restructuring Support Agreement (the “2023 RSA” or the “Restructuring Support Agreement”), which contemplates a financial restructuring pursuant to a Qualifying Modification under Title VI of PROMESA (the “Qualifying Modification”), on the terms set forth in the term sheet attached as Exhibit A to the 2023 RSA (the “Settlement Summary”).

The 2023 RSA (including the Settlement Summary) contemplate that the current Bonds will be exchanged for new bonds with the following characteristics (the “New Bonds”):

Accrued Claim	~\$158.3 million ⁽¹⁾ (net of \$30MM paydown), projected as of October 31, 2023. Actual accrued claim will vary as interest will accrue until the effective date of the Title VI Qualifying Modification.
Recovery	100% of accrued claim
Interest Rate	Years 0-3: 7.00% taxable (~4.90% tax-exempt equivalent ⁽²⁾) Years 4-30: 8.75% taxable (~6.13% tax-exempt equivalent ⁽²⁾)
Maturity	30 years
Amortization	Years 0-5: Interest only Years 6-30: P+I Level debt amortization
Call Provisions	Years 0-3: Callable at par Callable at 104%, declining by 0.5% per year until par call

(1) Projected through October 31, 2023 and subject to change pending final reconciliation.

(2) For illustrative purposes, assumes 30% investor tax rate.

On May 26, 2023, the Oversight Board also certified a new fiscal plan for PRIDCO (the “2023 CFP”) that incorporated a series of adjustments to previously certified fiscal plans that would allow for PRIDCO to generate surpluses to, among other things, support debt service under the terms negotiated under the 2023 RSA.

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The adjustments to previously certified fiscal plans include: (i) reduction to capital expenditure (“Capex”) spending to account for cash already set aside in a demolition reserve (\$15 million) and accounting for overlap related to funds available to PRIDCO from FEMA (\$90-\$140 million); (ii) reduction in a Capex reserve by 50% from prior fiscal plan levels (from \$20.2 million to \$10.1 million) to align with the average range of levels identified within the industrial warehouse operators in the US; (iii) delay in hiring and onboarding of the third party manager; and (iv) reduction in the DDEC Management Fee.

The 2023 CFP is built upon a set of assumptions and factors that are subject to external and internal risks that could materially impact the expected outcomes. There is no certainty that the 2023 CFP (as currently certified or as subsequently amended and recertified) will be fully implemented, or if implemented will ultimately provide the intended results.

Under the 2023 CFP, PRIDCO is forecasted to have a cumulative post-measures surplus before debt service of \$474.8 million from FY2024 through FY2053. The average annual surplus for this period is \$15.8 million. The projected debt service for the New Bonds, based on the terms of the 2023 RSA is approximately \$455.6 million.

On July 17, 2023, the Oversight Board approved a settlement agreement between the EDB and various government entities over certain deposits at the EDB (the “Proposed Transaction”). Pursuant to the Proposed Transaction, EDB shall make a one-time cash payment of \$9.7 million in full settlement and satisfaction of \$110.4 million in unsecured deposit claims across 17 government entities, including PRIDCO. PRIDCO’s unsecured deposits in EDB amounted to approximately \$2.1 million on June 30, 2022.

Contacting PRIDCO’s Financial Management

This financial report is designed to provide our customers and creditors with a general overview of PRIDCO’s finances and to demonstrate PRIDCO’s accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Puerto Rico Industrial Development Company, P.O. Box 362530, San Juan, Puerto Rico, 00936-2530.

COMMONWEALTH OF PUERTO RICO
PUERTO RICO INDUSTRIAL DEVELOPMENT COMPANY
(A COMPONENT UNIT OF THE COMMONWEALTH OF PUERTO RICO)

STATEMENT OF NET POSITION
JUNE 30, 2022

(In Thousands)

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 66,214
Rent, Loans and Accounts Receivable, Net	4,319
Lease Receivable	40,708
Due from the Commonwealth of Puerto Rico	5,898
Notes Receivable	735
Other Receivable	477
Prepaid Expenses and Other Assets	<u>3,258</u>
Total Current Assets	<u>121,609</u>

Noncurrent Assets:

Sinking Fund Reserve Account, at Accreted Cost, Restricted	1,663
Investment in Certificate of Deposit, Restricted	1,800
Lease Receivable	401,170
Other Receivable	3,340
Capital Assets, Net	<u>522,199</u>
Total Noncurrent Assets	<u>930,172</u>
Total Assets	<u>1,051,781</u>

DEFERRED OUTFLOWS OF RESOURCES

Deferred Loss on Refundings	335
Other Postemployment Benefits Related	462
Pension Related	<u>49,793</u>
Total Deferred Outflows of Resources	<u>50,590</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 1,102,371</u>

continue

COMMONWEALTH OF PUERTO RICO
PUERTO RICO INDUSTRIAL DEVELOPMENT COMPANY
(A COMPONENT UNIT OF THE COMMONWEALTH OF PUERTO RICO)

STATEMENT OF NET POSITION
JUNE 30, 2022

(In Thousands)

LIABILITIES

Current Liabilities:

Accounts Payable and Other Accrued Liabilities	\$ 6,982
Bonds Payable	64,333
Loans and Notes Payable to Commercial Banks	2,809
Compensated Absences	173
Environmental Liabilities	195
Due to U.S. Environmental Protection Agency	743
Accrued Interest	61,382
Total Pension Liability	14,407
Total Other Postemployment Benefits Liability	440
Termination Benefits Accrual	1,108
	<hr/>
Total Current Liabilities	152,572

Noncurrent Liabilities:

Bonds Payable	85,543
Notes Payable to Debt Restructuring Authority	52,860
Loans and Notes Payable to Commercial Banks	26,994
Due to Southern Industrial Development Company	450
Due to the Commonwealth of Puerto Rico	28,639
Compensated Absences	265
Total Pension Liability	281,695
Total Other Postemployment Benefits Liability	4,895
Termination Benefits Accrual	3,914
Rent and Other Deposits	8,836
Legal Liabilities	175
Contract Retention	1,124
Environmental Liabilities	8,905
Due to U.S. Environmental Protection Agency	10,257
Unearned Rent Revenues	7,440
Unearned Revenues	3,817
Undistributed Proceeds from Sale	946
	<hr/>
Total Noncurrent Liabilities	526,755
	<hr/>
Total Liabilities	679,327

DEFERRED INFLOWS OF RESOURCES

Pension Related	16,685
Leases Related	426,129
	<hr/>
Total Deferred Inflows of Resources	442,814

NET POSITION (DEFICIT)

Net Investment in Capital Assets	342,520
Restricted for Debt Service	3,463
Unrestricted (Deficit)	(365,753)
	<hr/>
Total Net Position (Deficit)	(19,770)
	<hr/>
Total Liabilities, Deferred Inflows of Resources, and Net Position (Deficit)	\$ 1,102,371

The accompanying *Notes to the Basic Financial Statement* are an integral part of this Statement.

COMMONWEALTH OF PUERTO RICO
PUERTO RICO INDUSTRIAL DEVELOPMENT COMPANY
(A COMPONENT UNIT OF THE COMMONWEALTH OF PUERTO RICO)

**STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN NET POSITION**
FOR THE FISCAL YEAR ENDED JUNE 30, 2022

(In Thousands)

OPERATING REVENUES:

Rental Income, Substantially from Industrial Properties, Net	\$ 48,501
Interest Income from Property Lease Agreements	<u>19,985</u>
Total Operating Revenues	<u>68,486</u>

OPERATING EXPENSES:

Salaries and Wages (Including Voluntary Termination Benefits)	3,245
Pension Expenses	13,852
Other Postemployment Benefits	22
Administrative and General	14,830
Depreciation and Amortization	15,460
Impairment Loss in Capital Assets	1,137
Maintenance and Repairs, Net	<u>4,763</u>
Total Operating Expenses	<u>53,309</u>
Operating Income	<u>15,177</u>

NONOPERATING REVENUES (EXPENSES):

Net Loss on Sales of Properties	(2,048)
Net Investment Income	40
Interest Income on Loans	161
Other Income	1,900
Grants and Contributions	1,794
Interest Expenses	<u>(19,594)</u>
Total Non-Operating Revenues (Expenses), Net	<u>(17,747)</u>
Changes in Net Position	(2,570)

NET POSITION (DEFICIT), BEGINNING OF FISCAL YEAR, AS RESTATED (17,200)

NET POSITION (DEFICIT), END OF FISCAL YEAR **\$ (19,770)**

The accompanying *Notes to the Basic Financial Statement* are an integral part of this Statement.

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COMMONWEALTH OF PUERTO RICO
PUERTO RICO INDUSTRIAL DEVELOPMENT COMPANY
(A COMPONENT UNIT OF THE COMMONWEALTH OF PUERTO RICO)

STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2022

(In Thousands)

CASH FLOWS FROM OPERATING ACTIVITIES:

Cash Collected from Rental Income	\$ 59,001
Cash Paid for Salaries and Benefits	(22,577)
Cash Paid for Suppliers and Services	<u>(26,392)</u>
Net Cash Provided by Operating Activities	<u>10,032</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:

Proceeds from Sales of Capital Assets	2,014
Payment for Acquisition of Capital Assets	(3,685)
Payments of Notes and Loans Payable to Commercial Banks	(8,843)
Interest Paid	<u>(10,226)</u>
Net Cash Used in Capital and Related Financing Activities	<u>(20,740)</u>

CASH FLOWS FROM NON-CAPITAL AND RELATED FINANCING ACTIVITIES:

Contributions from Federal Grants	1,794
Collections from Other Non-Operating Revenues	<u>1,900</u>
Net Cash Provided by Non-Capital and Related Financing Activities	<u>3,694</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Net Change in Sinking Fund-Redemption, and Bond Service Accounts	201
Interest Collected on Investments and Loans	<u>178</u>
Net Cash Provided by Investing Activities	<u>379</u>
Net Change in Cash and Cash Equivalents	(6,635)

Cash and Cash Equivalents, Beginning of Fiscal Year	<u>72,849</u>
Cash and Cash Equivalents, End of Fiscal Year	<u>\$ 66,214</u>

continue

COMMONWEALTH OF PUERTO RICO
PUERTO RICO INDUSTRIAL DEVELOPMENT COMPANY
(A COMPONENT UNIT OF THE COMMONWEALTH OF PUERTO RICO)

STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2022

(In Thousands)

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:

Operating Income	\$ 15,177
Adjustment to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation and Amortization Expense	15,460
Provision for Doubtfull Accounts	4,685
Impairment Loss in Capital Assets	1,137
(Increase) Decrease in Assets and Deferred Outflows of Resources:	
Accounts Receivable and Deposits	2,245
Leases Receivable	(441,878)
Other Receivable	466
Prepaid Expenses and Other Assets	(3,257)
Due from Commonwealth of Puerto Rico	(2,641)
Pension Related Deferred Outflows of Resources	11,174
OPEB Related Deferred Outflows of Resources	(24)
Increase (Decrease) in Liabilities and Deferred Inflows of Resources:	
Accounts Payable and Accrued Liabilities	(632)
Termination Benefits Accrual	(1,503)
Compensated Absences	(73)
Unearned Rent Revenues	(666)
Unearned Revenues	(466)
Contract Retention	25
Pension Liability	(12,243)
Other Postemployment Benefits Liability	(415)
Rent and Other Deposits	332
Undistributed Proceeds from Sale	174
Legal Liabilities	(675)
Environmental Liabilities	(16,135)
Due to U.S. Environmental Protection Agency	11,000
Due to Commonwealth of Puerto Rico	1,741
Pension Related Deferred Inflows of Resources	895
Leases Related Deferred Inflows of Resources	426,129
Total Adjustments	(5,145)
Net Cash Provided by Operating Activities	\$ 10,032

SUPPLEMENTAL INFORMATION ON NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

Amortization of Bond Discount	\$ 20
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The accompanying *Notes to the Basic Financial Statement* are an integral part of this Statement.

1. REPORTING ENTITY

The Puerto Rico Industrial Development Company (PRIDCO) is a component unit of the Commonwealth of Puerto Rico (the Commonwealth), created in 1942 by Act No. 188, as amended. PRIDCO is engaged in promoting the development of new local enterprises and encouraging U.S. and foreign investors to establish and expand their business operations in Puerto Rico. To accomplish its mission, PRIDCO, among its many programs, constructs industrial facilities for lease or sale to qualified enterprises.

- a. Component Units – The basic financial statements of the component units discussed below have been included in the financial reporting entity either as blended component units or as discretely presented component units in accordance with GASB Statements No. 14, *The Financial Reporting Entity*, as amended by GASB Statements No. 39, *Determining Whether Certain Organizations Are Component Units—an amendment of GASB Statement No. 14* and No. 61, *The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34*.

Based on the above criteria the following component units are presented blended in the financial statements:

- i. Puerto Rico Industrial Investment Corp. (PRIICO), which owns a building in San Juan, where PRIDCO offices are located. These premises are leased to PRIDCO and other entities.
- ii. Puerto Rico Industrial Incentives Fund, Inc. (PRIIF), which was created in March 1997 to provide financial assistance to business enterprises, facilitate the promotion of new employment, and the retention of employment in the industrial and service sectors of the Puerto Rico economy. Since 2014 it has no operational activities and the amount presented corresponds to a receivable due in 2023. The information presented was not subject to audit.

The financial statements of PRIICO and PRIIF, even though they are legally separate component units, are reported as if they are part of PRIDCO because PRIDCO's governing body is in substance the same as the component units and PRIDCO's management has operational responsibility for both PRIICO and PRIIF.

Condensed financial information as of June 30, 2022, and for the fiscal year then ended of the component units is as follows:

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1. REPORTING ENTITY – continuation

	<u>PRIICO</u>	<u>(Unaudited) PRIIF</u>
Statements of Net Position as of June 30, 2022 (In Thousands):		
Current Assets	\$ 6,350	\$ 172
Due from PRIDCO	103,711	-
Capital Assets, Net	<u>8,745</u>	<u>-</u>
Total Assets	118,806	172
Deferred Outflows of Resources	<u>335</u>	<u>-</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 119,141</u>	<u>\$ 172</u>
Current Liabilities	\$ 3,591	\$ -
Due to PRIDCO	194,148	-
Noncurrent Liabilities	<u>27,136</u>	<u>-</u>
Total Liabilities	<u>224,875</u>	<u>-</u>
Net Position (Deficit):		
Net Investment in Capital Assets	8,745	-
Net Position (Deficit)	<u>(114,479)</u>	<u>172</u>
Total Net Position (Deficit)	<u>(105,734)</u>	<u>172</u>
Total Liabilities and Net Position (Deficit)	<u>\$ 119,141</u>	<u>\$ 172</u>
Statements of Revenues, Expenses and Changes in Net Position for the Fiscal Year Ended June 30, 2022 (In Thousands):		
Operating Revenues	\$ 2,110	\$ -
Operating Expenses	<u>(2,979)</u>	<u>-</u>
Operating Loss	(869)	-
Non-Operating Expense:		
Interest Expense	<u>(1,523)</u>	<u>-</u>
Changes in Net Position	(2,392)	-
Net Position (Deficit), Beginning of Fiscal Year	<u>(103,342)</u>	<u>172</u>
Net Position (Deficit), End of Fiscal Year	<u>\$ (105,734)</u>	<u>\$ 172</u>
Statements of Cash Flows for the Fiscal Year Ended June 30, 2022 (In Thousands):		
Net Cash Provided (Used) in Operating Activities	\$ (646)	\$ -
Net Cash Used In Capital and Related Financing Activities	(10,385)	-
Net Cash Provided by Non-Capital and Related Financing Activities	<u>10,841</u>	<u>-</u>
Net Change in Cash	(190)	-
Cash, Beginning of Fiscal Year	<u>4,850</u>	<u>172</u>
Cash, End of Fiscal Year	<u>\$ 4,660</u>	<u>\$ 172</u>

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of PRIDCO conform to U.S. GAAP, as applicable to governmental entities. PRIDCO follows Governmental Accounting Standards Board (GASB) statements under the hierarchy established by Statement No. 76, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments, in the preparation of its basic financial statements.

The preparation of basic financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses/expenditures during the reported period. Actual results could differ from those estimates. Significant items subject to such estimates and assumptions include the allowance for rent and loan losses, custodial credit loss on deposits with Economic Development Bank for Puerto Rico (EDB), useful lives of fixed capital assets, capital assets and contingencies (environmental and legal).

- a. Measurement Focus, Basis of Accounting and Financial Statement Presentation – The accompanying basic financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Accordingly, revenues are recognized when earned and expenses when incurred, regardless of when cash is received or paid.
- b. Concentration of Credit Risk – PRIDCO maintains cash on deposits with high rated financial institutions, the Economic Development Bank for Puerto Rico (EDB), a component unit of the Commonwealth. The laws of the Commonwealth require commercial banks to fully collateralize all public funds deposited with them more than the amount insured by the Federal Government. The securities pledged by the banks as collateral for those deposits are under the custody of the Secretary of the Treasury in the name of the Commonwealth. Deposits with EDB are exempt from the collateralization requirement and represent a custodial credit risk, since in case of bankruptcy of the banks, PRIDCO would not recover its deposits. (Refer to Note 6).
- c. Cash Equivalents – PRIDCO considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.
- d. Investments – Governmental Accounting Standard Board Statement No. 72, *Fair Value Measurement and Application* defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statement establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. Inputs are used in applying the various valuation techniques and considering the assumptions that market participants use to make valuation decisions. Inputs may include price information, credit data, interest and yield curve data, and other factors specific to the financial instrument. Observable inputs reflect market data obtained from independent sources. In contrast, unobservable inputs reflect the entity's assumptions about how market participants would value the financial instrument. A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used for financial instruments measured at fair value on a recurring basis:

Level 1 Investments whose values are based on quoted prices (unadjusted) for identical assets or liabilities in active markets that a government can access at the measurement date.

Level 2 Investments with inputs other than quoted prices included within Level 1 that are observable for an asset or liability, either directly or indirectly.

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

Level 3 Investments have unobservable inputs for an asset or liability and may require a degree of professional judgment.

Realized gains and losses from the sale of investments and unrealized changes in fair values are recorded as investment income.

- e. Rent, Notes, and Accounts Receivable and Allowance for Doubtful Accounts – PRIDCO's lease receivable arises from the leasing of industrial facilities to its customers. The allowance for doubtful accounts is established through provisions recorded as an offset of rental income. Write-offs are recorded against the allowance when management believes that the collectability of the principal is unlikely. Recoveries of amounts previously written-off are credited to the allowance. Notwithstanding, the allowance is subject to and may be adjusted in the future because of changes in the economic or market conditions. Refer to Note 10 for additional information for Leases in accordance with GASB No. 87.

Notes and loans receivable are presented at the outstanding unpaid principal balance reduced by the allowances for losses. The allowance for doubtful accounts on notes receivable and loans receivable is established upon an evaluation of the risk's characteristics of those accounts, loss experience, economic conditions, and other pertinent factors. Notes and loans receivable are measured for impairment when it is probable that all amounts, including principal and interest, will not be collected in accordance with the contractual terms of the loan agreement.

- f. Assets Restricted for Payments of Bonds – Restricted assets for payment of Revenue Bonds as of June 30, 2022, consist of the following (in thousands):

Restricted Assets:	
Sinking Fund Required by Trustee	\$ 18,150
Unfunded Balance	<u>(16,487)</u>
Sinking Fund Balance as of June 30, 2022	<u>1,663</u>
Liabilities Payable from Restricted Assets consists of the following:	
Bonds and Discount Payable within One Year	64,333
Interest Payable as of June 30, 2022	<u>34,310</u>
Total Liabilities Payable from Restricted Assets	<u>98,643</u>
Deficit	<u>\$ (96,980)</u>

- g. Capital Assets – Capital assets are stated at cost, net of accumulated depreciation and amortization. Cost of construction includes, among other things, interest costs, and indirect costs consisting of payroll taxes and other fringe benefits. Depreciation and amortization are computed on the straight-line method at rates considered adequate to allocate the cost of the various types of property over their estimated useful lives. Expenditures for maintenance and repair costs that do not improve or extend the life of the respective assets are charged to operations as incurred. Additions, renewals, and betterments, unless of relatively minor amounts, are capitalized. Estimated useful lives and capitalization thresholds are as follows:

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

	Useful Life (Years)	Capitalization Threshold (In Thousands)
Buidings and Improvements	50	\$1
Machinery and Equipment	15	\$1
Furnitures and Vehicles	5-15	\$1

An asset is considered impaired when its service utility has declined significantly and unexpectedly, and the event or change in circumstances is outside the normal life cycle of the asset. Impaired capital assets that will no longer be used by PRIDCO should be reported at the lower of their carrying value or fair value. Impairment losses on capital assets that will continue to be used by PRIDCO should be measured using the method that best reflects the diminished service utility of the capital asset. Impairment of capital assets with physical damage should be measured using a restoration cost approach, an approach that uses the estimated cost to restore the capital asset to identify the portion of the historical cost of the capital asset that should be written off.

- h. Operating Revenue and Expenses – PRIDCO distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses result from providing services in connection with the principal ongoing operations. Revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.
- i. Revenue Recognition – Revenue from rental activities related to industrial properties under short term agreements, which are those with a maximum possible term of 12 months or less, is reported as revenue on the accrual basis over the term of the lease based on the monthly rental fees established by each lease agreement. Revenue from rental activities related to industrial properties under lease arrangements with a non-cancellable period longer than 12 months, include the amortization of the deferred inflows of resources recognized on a straight-line basis over the remaining term of the leases. Revenue from non-exchange transactions consists of intergovernmental grants, including contributions in aid for construction, mainly from two funds of the Commonwealth. These are recorded as revenue as soon as all eligibility requirements are met.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

- j. **Compensated Absences** – The vacation policy of PRIDCO provides for the accumulation of 1.25 days per month up to an annual amount of 15 days. Vacation time accumulated is fully vested by the employees from the first day of work up to a maximum of 60 days. Employees generally accumulate sick leave at a rate of 1.5 days per month up to an annual maximum of 18 days and a maximum accumulation of 90 days. Act No. 26-2017 was enacted to modify the existent legal framework to be able to comply with the Fiscal Plan approved by the Oversight Board. In addition to accrual modifications, Act No. 26-2017 also altered the liquidation terms. After the enactment of Act No. 26-2017, only compensation of accrued vacation leaves, up to 60 days, is paid upon employment termination. In order to be eligible to receive compensation, an employee must have been employed for at least three months. Accumulated unpaid sickness days are no longer liquidated upon employment termination. The liability for compensated absences reported in the government-wide and proprietary fund financial statements has been calculated using the vesting method, in which leave amount for an employee who currently is eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination, are included. The liability has been calculated based on the employees' current salary level and includes payroll related costs (e.g., social security and Medicare tax).
- k. **Voluntary Termination Benefits** – PRIDCO accounts for termination benefits in accordance with GASB Statement No. 47, Accounting for Termination Benefits. Pursuant to the provisions of GASB Statement No. 47, in financial statements prepared on the accrual basis of accounting, employers should recognize a liability and expense for voluntary termination benefits (for example, early retirement incentives) when the offer is accepted, and the amount can be estimated. A liability and expense for involuntary termination benefits (for example, severance benefits) should be recognized in the government-wide financial statements when: (i) a plan of termination has been approved by those with the authority to commit the government to the plan, (ii) the plan has been communicated to the employees, and (iii) the amount can be estimated. In financial statements prepared on the modified accrual basis of accounting, liabilities and expenditures for termination benefits should be recognized to the extent the liabilities are normally expected to be liquidated with expendable available financial resources. Therefore, since the enactment of Act No. 106-2017, the Commonwealth's General Fund makes direct payments to the pensioners and is then reimbursed for those payments by the participating employers.
- l. **Accounting for Pension Costs** – As further disclosed in Note 18, effective July 1, 2017, a new "Pay-As-You-Go" (PayGo) system was enacted into law by Act No. 106 of 2017 (Act No. 106-2017), significantly reforming the defined benefit plan (the Plan) of the Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (ERS). Under the PayGo system, employers' contributions and other contributions ordered by special laws were all eliminated and substantially all the assets of the ERS were liquidated, and its proceeds transferred to the Commonwealth's General Fund for payment of pension benefits. Therefore, since the enactment of Act No. 106-2017, the Commonwealth's General Fund makes direct payments to the pensioners and is then reimbursed for those payments by the participating employers.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

As a result of the implementation of the PayGo system, the Plan no longer met the criteria of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions-an amendment of GASB Statement No. 27* (GASB Statement No. 68) to be considered a plan that is administered through a trust or equivalent arrangement, and therefore, it was necessary to apply the guidance of GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB Statement No 68, an amendments of Certain Provisions of GASB Statements Nos. 67 and 68* (GASB Statement No. 73). GASB Statement No. 73 maintains the “accrual basis” model under Statement No. 68, where the Total Pension Liability is actuarially determined. GASB Statement No. 73 requires a liability for pension obligations, known as the Total Pension Liability, to be recognized on the balance sheets of participating employers. Changes in Total Pension Liability are immediately recognized as pension expenses. As Act No. 106-2017 eliminated all contribution requirements for the Plan and converted it into a PayGo system, the corresponding actuarial calculation of the total pension liability and related accounts changed to one based on benefit payments rather than contributions. As a result, PRIDCO recognized a Total Pension Liability (replacing the previously recognized Net Pension Liability and related accounts under the previous method) and pension expenses, accordingly. As the change to the PayGo system was caused by the impact of legislation not under PRIDCO’s management control and the actuarial calculation changed from one based on contributions to a new one based on benefit payments under the new PayGo system, the impact on all corresponding pension related accounts was accounted for prospectively. Further details on the accounting for pension costs and the impact of its adoption are disclosed in Note 22.

The Central Government and its component units are considered to be one employer, and are classified for financial reporting purposes as a single employer defined benefit pension plan. Other employers also participate in the Plan. Because certain employers that are component units of the Commonwealth, such as PRIDCO, prepare individual financial statements, a proportionate share of pension related amounts is determined for these employers. GASB Statement No. 73 requires that such a proportionate share should be consistent with the manner in which amounts that are paid as benefits come due are determined. The proportionate share as of each measurement date is based on the ratio of each agency and component unit’s actual benefit payments to the total actual benefit payments paid during the year ending on the measurement date.

ERS elected to use July 1 of each fiscal year as the measurement date for financial information. Based on this election, the June 30, 2019 actuarial measurement data was used for the pension benefits financial reporting recognition as of and for the fiscal year ended June 30, 2022 (see Note 22).

- m. Other Postemployment Benefits Obligation – PRIDCO accounts for postemployment benefit costs other than pensions (OPEB) under the provisions of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, as amended by GASB Statement No. 85, *Omnibus 2017*, which also requires additional reporting and disclosures for OPEB benefits provided through the ERS sponsored Medical Insurance Plan Contribution (ERS MIPC). GASB Statement No. 75 requires a liability for OPEB obligations, known as the Net OPEB Liability (Total OPEB Liability for unfunded plans), to be recognized on the balance sheets of participating employers. Changes in the Net OPEB Liability (Total OPEB Liability for unfunded plans) are immediately recognized as OPEB expenses.

GASB Statement No. 75 employs an “accrual basis” model, where the total OPEB obligation (actuarially determined) is compared to the plan net position and the difference represents the Net OPEB Liability (Total OPEB Liability for unfunded plans). Further details on the accounting for OPEB costs are disclosed in Note 23.

The Central Government and its component units are considered to be one employer. Other employers also participate in the ERS OPEB Plan.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

Because certain employers that are component units of the Commonwealth, such as PRIDCO, prepare individual financial statements, a proportionate share or OPEB expense is determined for these employers. GASB Statement No. 75 requires that such a proportionate share should be consistent with the manner in which amounts that are paid as benefits come due are determined. The proportionate share as of each measurement date is based on the ratio of each agency and component unit's actual benefit payments to the total actual benefit payments paid during the year ending on the measurement date.

Because all participants in the ERS OPEB plan are inactive, there are no deferred inflows and outflows as any changes due to changes in actuarial assumptions or economic or demographic gains and losses are recognized immediately during the measurement year. However, a deferred outflow has been recognized only for the amount of the benefit payments made by the Commonwealth on behalf of PRIDCO subsequent to the measurement date, of approximately \$444 thousand.

ERS elected to use July 1 of each fiscal year as the measurement date for financial information. Based on this election, the June 30, 2020 actuarial measurement data was used for the OPEB financial reporting recognition as of and for the fiscal year ended June 30, 2022 (see Note 23).

GASB Statement No. 75 requires certain disclosures if an actuarially determined contribution has been calculated.

- n. Deferred Outflows/Inflows of Resources – In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. In the statement of net position deferred outflows/inflows of resources arise as result of the transactions recorded as part of the GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and related assets that are not within the scope of GASB Statement No. 68, and amendments to certain provisions of GASB Statement Nos. 67 and 68, and GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions and GASB 87, Leases.*
- o. In FY2022, PRIDCO adopted GASB Statement No. 87, *Leases* (GASB No. 87). The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. GASB No. 87 increases the usefulness of government's financial statements by requiring recognition of certain lease assets and liabilities for leases that were previously classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. This single model for lease accounting is based on the foundational principle that leases are financing for the right to use an underlying asset and eliminates the distinction between operating and capital leases. The effective date of financial reporting for leases under GASB No. 87, and Implementation Guide No. 2019-3, *Leases* was fiscal years beginning after December 15, 2019. However, it was superseded by GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, until the years beginning after June 15, 2021. GASB No. 87 instructs that leases be recognized and measured using the facts and circumstances that exist at the beginning of the period of implementation or of the earliest period restated.

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

As discussed in Note 1, PRIDCO engages in the lease of commercial and industrial properties to private parties. These lease arrangements consist of non-cancellable leases of land, buildings, building improvements, and parking. Management evaluated and concluded that many of these agreements are considered leases within the scope of GASB No. 87, and the adoption of the statement resulted in PRIDCO classifying lease arrangements as financing arrangements. Under GASB 87, a lessor is required to recognize a lease receivable and a deferred inflow of resources. Receivables related to lease arrangements are measured at the present value of fixed lease payments expected to be received during the lease term. For leases that were in place at adoption (January 1, 2021), fixed lease payments were measured over the remaining lease term. The discount rates utilized in the valuation of lease arrangements subject to GASB 87 are based on PRIDCO's incremental cost of borrowing at the time of valuation. Deferred inflows of resources related to leases are amortized on a straight-line basis over the remaining lease term. PRIDCO continually monitors changes in the circumstances that would require remeasurement of a lease receivable. When certain changes occur that are expected to significantly affect the value of the lease receivable, the lease receivable is remeasured and adjusted.

PRIDCO, as lessee, enters lease arrangements for office space and equipment. Under GASB No. 87, a lessee is required to recognize a lease liability and an intangible right-to-use asset. Liabilities related to the office equipment are measured at the present value of fixed payments expected to be made during the lease term. These leases were in place at adoption (January 1, 2021), and fixed lease payments were measured over the remaining lease term. Leased assets are amortized into amortization on a straight-line basis over the lease term.

The lease arrangement for office space is for a maximum of 12 months and is cancelable by PRIDCO or PRIICO (as lessor) at any given moment (both parties do not have to agree), therefore not considered a lease within the scope of GASB 87. Rent expense is recognized based on the provisions of the lease arrangement.

Key estimates and judgments include how PRIDCO determines (1) the discount rate it uses to discount the expected lease receipts to present value, (2) lease term, and (3) lease receipts:

- PRIDCO uses its incremental borrowing rate as the discount rate for leases, unless specifically identified in the lease.
- The lease term includes the non-cancelable periods of the lease arrangements, plus any additional periods covered by an option to extend for which is reasonably certain to be exercised. Periods in which both the lessee and PRIDCO have a unilateral option to terminate (or both parties must agree to extend) are excluded from the lease term.
- Lease receipts included in the measurement of the lease receivables are composed of fixed payments PRIDCO will receive over the lease term.

The adoption of this standard result in a recognition of a lease receivable and a deferred inflow of resources of \$475 million and recognized an operating interest income of \$20 million and an offsetting decrease in operating revenue of \$9 million. For additional information on lease accounting see Note 10, Leases.

p. New Accounting Pronouncements:

- GASB Statement No. 91, *Conduit Debt Obligations*. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures.

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

This Statement requires issuers to disclose general information about their conduit debt obligations, organized by type of commitment, including the aggregate outstanding principal amount of the issuers' conduit debt obligations and a description of each type of commitment. Issuers that recognize liabilities related to supporting the debt service of conduit debt obligations also should disclose information about the amount recognized and how the liabilities changed during the reporting period. The requirements of this Statement are effective for reporting periods beginning after December 15, 2021, as amended by GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, which allowed for a one-year postponement of its effective date. Earlier application is encouraged and is permitted to the extent specified in each pronouncement, as originally issued.

- GASB Statement No. 94, *Public-Private and Public-Public Partnership and Availability Payment Arrangement*. The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). A PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction.

Some PPPs meet the definition of a service concession arrangement (SCA): (1) the operator collects and is compensated by fees from third parties; (2) the transferor determines or has the ability to modify or approve which services the operator is required to provide, to whom the operator is required to provide the services, and the prices or rates that can be charged for the services; and (3) the transferor is entitled to significant residual interest in the service utility of the underlying PPP asset at the end of the arrangement. This Statement also provides guidance for accounting and financial reporting for availability payment arrangements (APAs). An APA is an arrangement in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction.

The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged.

- GASB Statement No. 96, *Subscription-Based Information Technology Arrangements (SBITA)*. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, *Leases*, as amended.

The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged.

- GASB Statement No. 99, *Omnibus 2022*, this Statement enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing (1) practice issues that have been identified during implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees. The requirements of this Statement are effective as follows:

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

- The requirements related to extension of the use of LIBOR, accounting for SNAP distributions, disclosures of nonmonetary transactions, pledges of future revenues by pledging governments, clarification of certain provisions in Statement No. 34, as amended, and terminology updates related to Statement No. 53 and Statement No. 63 are effective upon issuance (April 2022).
 - The requirements related to leases, PPPs, and SBITAs are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter.
 - The requirements related to financial guarantees and the classification and reporting of derivative instruments within the scope of Statement No. 53 are effective for fiscal years beginning after June 15, 2023, and all reporting periods thereafter.
 - Earlier application is encouraged and is permitted by topic.
- GASB Statement No. 100, *Accounting Changes and Error Corrections—an amendment of GASB Statements No. 62*. The primary objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability.

This Statement defines accounting changes as changes in accounting principles, changes in accounting estimates, and changes to or within the financial reporting entity and describes the transactions or other events that constitute those changes. As part of those descriptions, for (1) certain changes in accounting principles and (2) certain changes in accounting estimates that result from a change in measurement methodology, a new principle or methodology should be justified on the basis that it is preferable to the principle or methodology used before the change. That preferability should be based on the qualitative characteristics of financial reporting—understandability, reliability, relevance, timeliness, consistency, and comparability. This Statement also addresses corrections of errors in previously issued financial statements.

The requirements of this Statement are effective for accounting changes and error corrections made in fiscal years beginning after June 15, 2023 (FY 2023-2024), and all reporting periods thereafter. Earlier application is encouraged.

- GASB Statement No. 101, *Compensated Absences*. The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures.

This Statement also establishes guidance for measuring a liability for leave that has not been used, generally using an employee’s pay rate as of the date of the financial statements. A liability for leave that has been used but not yet paid or settled should be measured at the amount of the cash payment or noncash settlement to be made. Certain salary-related payments that are directly and incrementally associated with payments for leave also should be included in the measurement of the liabilities.

With respect to financial statements prepared using the current financial resources measurement focus, this Statement requires that expenditures be recognized for the amount that normally would be liquidated with expendable available financial resources.

This Statement requires that liability for certain types of compensated absences—including parental leave, military leave, and jury duty leave—not be recognized until the leave commences. This Statement also requires that liability for specific types of compensated absences not be recognized until the leave is used.

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

The requirements of this Statement are effective for fiscal years beginning after December 15, 2023 (FY 2024-2025), and all reporting periods thereafter. Earlier application is encouraged.

Management is evaluating the impact that these Statements will have on PRIDCO's basic financial statements.

q. Reclassifications:

Certain reclassifications were made to the previous year's figures in order to conform with this year's presentation.

3. PUERTO RICO OVERSIGHT, MANAGEMENT, AND ECONOMIC STABILITY ACT (PROMESA)

On June 30, 2016, the Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA) was signed into law. PROMESA created a structure for exercising federal oversight over the fiscal affairs of territorial governments and their agencies and public corporations. More specifically, PROMESA did the following: (a) it established the Oversight Board) with broad powers of budgetary and financial control over Puerto Rico; and (b) it created procedures for adjusting debts accumulated by the Puerto Rico government and its instrumentalities and potentially for adjusting debts of other territories as well. During the fiscal years subsequent to June 30, 2016, the Commonwealth and eight other governmental entities in Puerto Rico have initiated proceedings at the request of the Governor under either Title III or Title VI of PROMESA to restructure or adjust their existing debt. On March 15, 2022, the Commonwealth Plan of Adjustment became effective, thereby significantly reducing the Commonwealth's debt levels.

PROMESA

In general terms, PROMESA seeks to provide the Commonwealth and its instrumentalities 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 other instrumentalities 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 Title III of PROMESA, which establishes an in-court debt restructuring process substantially based upon incorporated provisions of Title 11 of the United States Code (the U.S. Bankruptcy Code). Each of these elements are divided among PROMESA's seven titles, as briefly discussed below.

(a) *Title I – Establishment of Oversight Board and Administrative Matters*

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 initial group of Oversight Board members, several of whom have been replaced with new members after their three-year terms expired.

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".

continue

3. PUERTO RICO OVERSIGHT, MANAGEMENT, AND ECONOMIC STABILITY ACT (PROMESA) – continuation

The Oversight Board was “created as an entity within the territorial government for which it was established” and is expressly not an entity of the federal government, but it was also established to act independently from the Commonwealth government, such that neither the Governor nor the Legislature may “(1) exercise any control, supervision, oversight, or review over the Oversight Board or its activities; or (2) 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”.

(b) *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 a fiscal year Commonwealth budget and fiscal year budgets for 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. In addition, the United States Court of Appeals for the First Circuit has issued certain rulings regarding the interpretation of the Oversight Board’s powers under PROMESA sections 204(a) and 108(a) that apply administrative law principles to statutes passed by the Commonwealth and certified as not significantly inconsistent with a Board-certified fiscal plan.

(c) *Title III – In-Court Restructuring Process*

Title III of PROMESA 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, subject to the prerequisites therein.

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 III plans of adjustment have been confirmed and are currently effective for the Commonwealth, ERS, PBA, COFINA, and HTA.

3. PUERTO RICO OVERSIGHT, MANAGEMENT, AND ECONOMIC STABILITY ACT (PROMESA) – continuation

(d) *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 expansion of the federal government’s small business HUBZone 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-days extension by the Oversight Board or a one-time 60-days 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 requires 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.

(e) *Title V – Infrastructure Revitalization*

Title V of PROMESA establishes the position of 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.

continue

3. PUERTO RICO OVERSIGHT, MANAGEMENT, AND ECONOMIC STABILITY ACT (PROMESA) – continuation

(f) *Title VI – Consensual, Out-of-Court Debt Modification Process*

Title VI of PROMESA establishes 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.

The Title VI process was successfully implemented to restructure the debts of GDB, PRIDCO, and PRCCDA.

(g) *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 territories of the United States and the rest of the United States”.

PRIDCO Fiscal Plan

On May 30, 2023, the Oversight Board certified its most recent fiscal plan for PRIDCO, *i.e.*, the 2023 CFP. which seek to support cost reductions and improve property management resulting in a more efficient and effective government structure including the following:

- (i) Payroll Measures
- (ii) PayGo Measures
- (iii) Delinquency Rate Improvement Measure
- (iv) Expired Lease Measures
- (v) Third-Party Manager Measures
- (vi) Shared Services Measures on the MOU
- (vii) Capital Expenditures Improvement Measures
- (viii) Rent Escalation Measure
- (ix) Occupancy Process Optimization
- (x) Needs Assessment of Real Estate Information Systems
- (xi) Divestment of non-rentable properties
- (xii) Update Rental Rate Card
- (xiii) Inter-Government Real Estate Representation
- (xiv) Implementation of Fiscal Controls
- (xv) Skills and Knowhow Transfer from Consultants to Public Sector Personnel

The adjustments to previously certified fiscal plans include: (i) reduction to Capex spending to account for cash already set aside in a demolition reserve (\$15 million) and accounting for overlap related to funds available to PRIDCO from FEMA (\$90-\$140 million); (ii) reduction in a Capex reserve by 50% from prior fiscal plan levels (from \$20.2 million to \$10.1 million) to align with the average range of levels identified within the industrial warehouse operators in the US; (iii) delay in hiring and onboarding of the third party manager; and (iv) reduction in the DDEC Management Fee.

continue

3. PUERTO RICO OVERSIGHT, MANAGEMENT, AND ECONOMIC STABILITY ACT (PROMESA) – continuation

The 2023 CFP is built upon a set of assumptions and factors that are subject to external and internal risks that could materially impact the expected outcomes. There is no certainty that the 2023 CFP (as currently certified or as subsequently amended and recertified) will be fully implemented, or if implemented will ultimately provide the intended results.

Standstill Agreement

On May 6, 2021, Golden Tree commenced a legal action United States District Court for the District of Puerto Rico. This legal action sought to remedy PRIDCO's purported failure to abide by its obligation to holders of the Revenue Bonds by, among other things, not paying principal and interest on the Bonds. GoldenTree and PRIDCO entered the Standstill Agreement in September 2021, which resulted in dismissal of the lawsuit. Under the Standstill Agreement, Golden Tree agreed to forbear from exercising any rights or remedies available with respect to the Bonds, including any further prosecution of the legal action. In exchange, PRIDCO committed to pay to the Trustee monthly interest payments on the Bonds, totaling \$672,354.38 per month. The Standstill Agreement was extended on numerous occasions until it expired on October 31, 2022. Refer to Note 28 for additional information on the proposed restructuring of the Revenue Bonds under Title VI of PROMESA.

4. GOING CONCERN AND UNCERTAINTIES

The discussion in the following paragraphs regarding PRIDCO's financial and liquidity risks provide the necessary background and support for management's evaluation as to whether there is substantial doubt about PRIDCO's ability to continue as a going concern for 12 months beyond the date of the financial statements or for an extended period if there is currently known information that may raise substantial doubt shortly thereafter.

GASB Statement No. 56, Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards, establishes that the continuation of a legally separate governmental entity as a going concern is assumed in financial reporting in the absence of significant information to the contrary. Information that may significantly contradict the going concern assumption would relate to a governmental entity's inability to continue to meet its obligations as they become due without substantial disposition of assets outside the ordinary course of governmental operations, restructuring of debt, submission to the oversight of a separate fiscal assistance authority or financial review board, or similar actions. Indicators such as negative trends in operating losses and negative cash flows in prior years, possible financial difficulties such as nonpayment or default of debt and/or restructurings or noncompliance with capital or reserve requirements, and internal or external matters impacting obligations as they become due, are factors that are considered in this evaluation.

As of June 30, 2022, management believes there is substantial doubt about PRIDCO's ability to continue as a going concern because of the following factors:

- PRIDCO has experienced recurring losses from operations.
- PRIDCO has been unable to fund all its outstanding obligations. And, pursuant to Act No. 2 of 2017, AAFAF, on behalf of PRIDCO, is currently negotiating a restructuring of PRIDCO's obligations under mechanisms available under PROMESA.
- PRIDCO extended a forbearance agreement in September 2022, which expired on October 31, 2022. In July 2023, the Restructuring Support Agreement was entered, which contemplates a financial restructuring pursuant to Title VI of PROMESA, please refer to Note 28 for further information.

continue

4. GOING CONCERN AND UNCERTAINTIES – continuation

- The Oversight Board has approved three fiscal plans for PRIDCO. On May 26, 2023, the Oversight Board certified the currently operative fiscal plan, *i.e.*, the 2023 CFP. The 2023 CFP incorporates a series of adjustments to previously certified fiscal plans that would allow for PRIDCO to generate surpluses to, among other things, support debt service under the terms negotiated under the Restructuring Support Agreement.

There is no certainty that the Oversight Board Fiscal Plan (as currently certified or as subsequently amended and recertified) will be fully implemented, or if implemented will ultimately provide the intended results.

- In November 2022, PRIDCO announced that it is requesting proposals for the management of industrial and commercial properties currently owned and managed by PRIDCO.

PRIDCO’s management is working with some of the initiatives included in the Oversight Board Fiscal Plan. This plan will include a series of initiatives for increasing revenues through the renewal of existing leases contracts and sale of properties, and reducing administrative costs, including payroll costs, by the transfer of employees to the Department of Economic Development and Commerce. Refer to the subsequent events Note 28 for further details.

5. RESTATEMENT OF NET POSITION AND CORRECTION OF AN ERROR

The following table disclosed the net change in the net position at the beginning of year as previously reported in the financial statements. The beginning balance has been restated or corrected as follows (in thousands):

Net Position (Deficit), as Previously Reported, At June 30, 2021	\$ (17,935)
Unrecorded Accounts Receivables	735
Unrecorded Other Receivables	4,283
Unrecorded Unearned Revenues	<u>(4,283)</u>
Beginning Net Position (Deficit), as Restated, At July 1, 2021	<u>\$ (17,200)</u>

The understatement of notes receivable amounting to \$735 thousand is related to an intergovernmental agreement with the Land Authority of the Commonwealth of Puerto Rico related to purchases of agricultural machinery and equipment which was not accounted for by PRIDCO in prior years. Subsequently, during the fiscal year 2023, the note receivable balance was satisfied in exchange for a land lot with the same value, and as a result management restates the beginning net position.

The understatement of other receivable and unearned revenues is related to a contract agreement signed in prior years between PRIDCO and a tenant in which the tenant will pay PRIDCO for the investment in building improvements made and to be completed. Such transactions were not accounted for in the prior fiscal years and as a result management decided to correct such errors during the fiscal year 2022.

continue

6. CASH AND CASH EQUIVALENTS

PRIDCO's cash and cash equivalents as of June 30, 2022 consist of the following (in thousands):

	Book Balance	Accumulated Custodial Credit Risk Loss	Book Balance After Accumulated Custodial Credit Risk Loss	Depository Bank Balance	Amount Uninsured and Uncollateralized
Cash Deposit in Commercial Banks	\$ 66,214	\$ -	\$ 66,214	\$ 63,196	\$ -
Cash Equivalents:					
Deposits Accounts With:					
Economic Development Bank	2,107	(2,107)	-	2,107	2,107
Total Cash and Cash Equivalent, Net	<u>\$ 68,321</u>	<u>\$ (2,107)</u>	<u>\$ 66,214</u>	<u>\$ 65,303</u>	<u>\$ 2,107</u>

Custodial Credit Risk Loss on Deposits with Economic Development Bank for Puerto Rico

The Commonwealth's credit rating downgrade in 2014 led private entities to retire their businesses from EDB and prevented the Government Development Bank (GDB) from receiving capital. GDB crisis made many public agencies and corporations move their deposits from EDB to GDB, leading EDB to the point of liquidating its entire investment portfolio.

Even though EDB took several measures to control the decline in its operations, they were not enough. On October 23, 2018, the Oversight Board certified a fiscal plan for the Commonwealth, which included the closure of the EDB. However, that provision was not implemented and EDB continued its operations. Nevertheless, EDB faces significant risk and uncertainties and currently does not have or is not expected to have enough liquid financial resources to meet its obligations as they become due in the ordinary course of its operations, without restructuring its debt or other initiative to restructure its obligations. See note 28 for information related to EDB settlement agreement.

7. SINKING FUND RESERVE ACCOUNT, AT ACCRETED COST, RESTRICTED

The Trust Indenture requires three separate accounts in the Sinking Fund designated "Bond Service Account", "Redemption Account", and "Reserve Account", respectively.

The Trust Indenture provides that funds deposited in such accounts shall be held in trust and applied as provided therein and shall be subject to a lien and charge in favor of the holders of the Bonds issued and outstanding under the Trust Indenture and for the further security of such holders until paid out or transferred, to the extent set forth in the Trust Indenture.

Due to the Moratorium Act, PRIDCO has no legal obligation to transfer, and has not transferred, funds into the Sinking Fund.

As of August 1, 2016, PRIDCO did not transfer payment of principal and interest on the Revenue Bonds to the Sinking Fund. As result, payments of principal and interest due were paid out of reserve funds held by the Trustee until June 2, 2018.

continue

7. SINKING FUND RESERVE ACCOUNT, AT ACCRETED COST, RESTRICTED – continuation

Due to the Moratorium Act, PRIDCO no longer makes deposits into the Sinking Fund in accordance with the Standstill Agreement, as discussed in the subsequent event note below.

Expected maturities may differ from contractual maturities because borrowers may have the right to call or repay obligations with or without call or prepayment penalties.

For additional information regarding payment of Bonds, including the impact of the proposed Qualifying Modification, refer to the Subsequent Events disclosures in Note 28.

8. INVESTMENTS

As of June 30, 2022, PRIDCO holds a certificate of deposits in a private bank amounting to \$1.8 million. This certificate bears monthly interest at 1.40% and renews automatically every three years since its opening in November 2014. The certificate principal balance is restricted for debt service purposes.

9. RENT AND ACCOUNTS RECEIVABLE

Rent related to short term agreements and other accounts receivable as of June 30, 2022 consist of the following (in thousands):

Rent Receivable	\$ 31,466
Other	<u>6,708</u>
Total Receivables	38,174
Less: Allowance for Doubtful Accounts	<u>(33,855)</u>
Rent, Loans and Accounts Receivable, Net	<u>\$ 4,319</u>

Changes in the allowance for doubtful accounts during the year ended June 30, 2022 are as follows (in thousands):

Allowance for Doubtful Accounts, Beginning of Fiscal Year	\$ 32,151
Plus: Provision for Doubtful Accounts	<u>4,685</u>
Less: Accounts Written-Off	<u>(2,981)</u>
Allowance for Doubtful Accounts, End of Fiscal Year	<u>\$ 33,855</u>

In September 2017, Puerto Rico was impacted by Hurricanes Irma and María, major category 4 hurricanes, causing a level of widespread destruction in many areas including infrastructure, housing, environment, public and private property, and disrupting the Commonwealth and Company's operations. Hurricanes Irma and María severely damaged 9% and 74% of PRIDCO's property, respectively. PRIDCO performed significant mitigation and recovery efforts financed by operating funds.

PRIDCO estimated that all damage suffered was about \$187 million. At present, management has submitted claims to PRIDCO's and tenants' insurance companies, and evidence of recovery related costs to the Federal Emergency Management Agency (FEMA) for reimbursement through public assistance grants. Currently, PRIDCO continues negotiations with FEMA and the insurance company, but amounts to be collected from these entities cannot be determined at this time.

PRIDCO receives FEMA reimbursement funds from the Central Recovery and Reconstruction Office of Puerto Rico (COR3), a division within the Puerto Rico Public Private Partnership Authority authorized to receive all disaster recovery grants of FEMA.

continue

10. LEASE RECEIVABLE

Under GASB No. 87, a lessor is required to recognize a lease receivable and a deferred inflow of resources at the commencement of the lease term, with certain exceptions for excluded leases. The lease receivable is measured at the present value of “fixed” lease payments, including escalations that are fixed in substance and expected to be received during the lease term. There were no variable payments, residual value guarantees, or termination penalties reported for the fiscal year. PRIDCO leases arrangements generally have an initial term of 5 to 10 years, and can contain automatic renewal options, generally of 5 to 10 years. Renewal options are included in the lease term if the option is reasonably certain of being exercised, and termination options are included if the option is reasonably certain of not being exercised. An amendment to the lease contract is considered a lease modification, unless the lessee’s right to use the underlying asset decreases, in which case it is considered a partial or full lease termination. Discount rates applied to expected fixed lease payments are based on PRIDCO’s incremental cost of borrowing at the commencement of the lease term. The discount rate applied to expected fixed lease payments valuations is 5%. Receipts from the lessees are recorded as a reduction in the receivable (principal) and interest income. PRIDCO also recognized a deferred inflow of resources at the amount the lease receivable, including any lease payments received at or before commencement of the lease term that related to future periods and less incentives, if any. The deferred inflows of resources are amortized on a straight-line basis over the lease term.

As of June 30, 2022, PRIDCO had minimum principal and interest lease receivable payments for its leasing activities, with a remaining term more than one year as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2023	\$ 40,708	\$ 21,019	\$ 61,727
2024	34,978	19,249	54,227
2025	34,106	17,531	51,637
2026	34,427	15,817	50,244
2027	32,669	14,132	46,801
2028-2032	122,467	49,754	172,221
2033-2037	79,046	25,358	104,404
2038-2042	48,049	9,037	57,086
2043-2047	14,377	1,501	15,878
2048-2052	940	115	1,055
2053-2055	111	8	119
Total	<u>\$ 441,878</u>	<u>\$ 173,521</u>	<u>\$ 615,399</u>

11. OTHER RECEIVABLE

During June 2019, PRIDCO entered into an Economic Development Incentives Agreement with a tenant for the expansion and improvements of a building. The agreement states that in addition to the basic rent, tenants shall pay PRIDCO monthly payments amounting to \$46,718 for ten years. Monthly payments include an administration fee of 2.32%. As of June 30, 2022, other receivable and unearned revenues balance amounted to \$3.8M.

11. OTHER RECEIVABLE – continuation

Principal future maturities are as follows:

<u>Fiscal Year</u> <u>Ending June 30,</u>		
2023	\$	477
2024		488
2025		500
2026		512
2027		524
2028-2030		<u>1,316</u>
Total	\$	<u><u>3,817</u></u>

12. RELATED PARTIES TRANSACTIONS

PRIDCO is a party to various transactions with other governmental entities and related parties.

Amounts due from (to) these entities as of June 30, 2022, consist of the following (in thousands):

<u>Entity</u>	<u>Purpose</u>	<u>Due From</u>	<u>Due To</u>
Commonwealth of Puerto Rico	Rent	\$ 5,898	\$ -
Southern Industrial Development Company	Cash Advances	-	450
Commonwealth of Puerto Rico	"Pay-Go" Charge	-	7,134
Commonwealth of Puerto Rico	Management and Others	-	<u>21,505</u>
		<u>\$ 5,898</u>	<u>\$ 29,089</u>

Due From the Commonwealth

The Due from the Commonwealth is mainly composed of rent charges amounting to \$5.6 million owed by the Department of Economic Development and Commerce (DDEC) and \$298 thousand owed by governmental agencies.

Due to Puerto Rico Southern Industrial Development Company (SIDCO)

SIDCO is a related organization engaged in promoting the development of the economy of Puerto Rico, with its sole facility in Guayama, Puerto Rico that is currently leased to a pharmaceutical company.

The rental agreement calls for the payment of annual rent equal to the amounts due and payable by SIDCO under various notes payable and any other expenses incurred by SIDCO related to the facility's construction. During the term of the lease, the pharmaceutical company may exercise, at any time, an option to purchase the plant at a price equal to the outstanding amount of the notes and other plant-related obligations plus \$750,000.

Pursuant to the terms of the agreement, the pharmaceutical company exercised the right to extend the initial term of the lease for two successive renewal periods; the first renewal for a period of 20 year after the date of commencement of operations or the pharmaceutical company's tax-exemption grant, whichever date is later, and the second renewal for an additional period of 7 years commencing upon the expiration of the first renewal period. The first renewal period of the lease expired on October 31, 2018. The second renewal period was extended until October 31, 2025.

continue

12. RELATED PARTIES TRANSACTIONS – continuation

SIDCO's only activity is the leasing of this facility. During 2001, SIDCO acquired a land facility by entering into a promissory note in the amount of \$1.6 million. Pursuant to the terms of the promissory note, the parties agreed upon the following:

- SIDCO shall not be obligated to pay the unpaid balance of principal thereunder, and this obligation shall become null and void, in the event the pharmaceutical company terminates early the lease and option agreement entered within.
- In the event the pharmaceutical company or the successor lessor under the lease exercises the option to purchase the plant pursuant to the lease, then the unpaid principal balance due on the promissory note shall be automatically accelerated and become due and payable in accordance with the lease agreement.

It is management's opinion that the pharmaceutical company will exercise its purchase option in the future. Accordingly, the assets of SIDCO have not been blended within PRIDCO's financial statements.

Due to SIDCO amounts to \$450,000.

Due to the Commonwealth

Due to the Commonwealth is composed of balance owed by PRIDCO to the DDEC and its programs and the Department of Treasury as of June 30, 2022. Balance due to DDEC includes administrative fees and debt collateral amounting to \$21.5 million. The balance due to the Department of Treasury amounting to \$7.1 is related to pension payments made on behalf of PRIDCO under the PayGo system.

Due From (To) Other Governmental Entities

In addition, as part of its regular operations, PRIDCO has transactions with other governmental entities for different types of services such as electric power, water and sewer. Most significant related party transactions for the year ended June 30, 2022, are described below.

<u>Entity</u>	<u>Type of Service</u>	<u>Service Fee</u>	<u>Due From</u>	<u>Due To</u>
Puerto Rico Aqueduct and Sewer Authority	Water and Sewer	\$ 162	\$ 271	\$ 53
Puerto Rico Electric Power Authority	Electric Power	1,023	17	240
Governmental Agencies	Rent	N/A	-	102
			<u>\$ 288</u>	<u>\$ 395</u>

The balances due as of June 30, 2022, from these related parties are included in rent, loans and accounts receivable balance, while the balance due to these related parties are included in accounts payable and other accrued liabilities.

13. NOTES RECEIVABLE

Notes receivable mostly represent the principal amount of various non-revolving promissory notes issued by PRIDCO to qualified exempt businesses for the purpose of partially financing the acquisition of machinery and land premises and working capital needs. The notes agreements provide that the outstanding principal may be prepaid without penalty. Notes receivable as of June 30, 2022 consist of the following (in thousands):

continue

13. NOTES RECEIVABLE – continuation

Non-revolving note receivable to qualified exempt business for the purpose of partially financing the acquisition of machinery and working capital needs, bearing annual interest at 4.25% during the term of the loan. This note is due in monthly installments of \$5 thousand commencing on March 1, 2010 to September 1, 2023 and a final payment of \$4 thousand due on October 1, 2023 and is collateralized by a lien on machinery and equipment and insurance policies covering the replacement value of equipment and machinery.	\$ 439
Non-revolving note receivable to qualified exempt business for the purpose of partially financing the acquisition of machinery and working capital needs, bearing annual interest at 8% during the term of the loan. This note is due in monthly installments of \$2 thousand commencing on December 1, 2004 over a 20-year period and is collateralized by a lien on machinery and equipment and insurance policies covering the replacement value of equipment and machinery.	452
Non-interest bearing intergovernmental note receivable with the Land Authority of the Commonwealth of Puerto Rico	<u>735</u>
Subtotal	1,626
Less: Allowance for Doubtful Accounts	<u>(891)</u>
Notes Receivable, Net	<u><u>\$ 735</u></u>

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14. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2022 consists of the following (in thousands):

Governmental Activities	Balance at June 30, 2021	Additions	Reclassification	Retirements	Balance at June 30, 2022
Capital Assets, Not Being Depreciated:					
Land Held for Improvement	\$ 138,265	\$ -	\$ -	\$ (3,750)	\$ 134,515
Land on Leased Projects	78,269	-	-	(39)	78,230
Construction in Progress	1,333	3,575	(2,781)	-	2,127
Total Capital Assets, Not Being Depreciated	217,867	3,575	(2,781)	(3,789)	214,872
Capital Assets, Being Depreciated:					
Buildings and Improvements	781,022	97	2,781	(1,471)	782,429
Machinery and Equipment	67,575	-	-	-	67,575
Furnitures and Vehicles	18,829	13	-	(546)	18,296
Total Capital Assets, Being Depreciated	867,426	110	2,781	(2,017)	868,300
Less: Accumulated Depreciation:					
Buildings and Improvements	(462,113)	(14,734)	-	143	(476,704)
Machinery and Equipment	(65,478)	(538)	-	-	(66,016)
Furnitures and Vehicles	(18,529)	(188)	-	464	(18,253)
Total Accumulated Depreciation	(546,120)	(15,460)	-	607	(560,973)
Total Capital Assets, Being Depreciated, Net	321,306	(15,350)	2,781	(1,410)	307,327
TOTAL CAPITAL ASSETS, NET	\$ 539,173	\$ (11,775)	\$ -	\$ (5,199)	\$ 522,199

PRIDCO evaluated its capital assets for impairment and recorded a charge of \$1.1million during the fiscal year ended June 30, 2022.

On December 5, 2014, the Puerto Rico Ports Authority (Ports), another component unit of the Commonwealth, entered into an \$8 million financing agreement with GDB and used the proceeds for the development of certain repair, maintenance, and overhaul aerospace facilities, at Rafael Hernandez Airport, in Aguadilla, Puerto Rico, a property of Ports. In addition, the Special Development Economic Fund agreed to provide a \$6.4 million incentive for the creation of new employment at that project, and the Special Incentives Fund, agreed to provide \$40 million to supplement the construction of the facilities at the Airport. Both funds are funds of the Commonwealth.

To secure the \$8 million financing provided by GDB to Ports, on that same date, PRIDCO entered into a voluntary mortgage agreement with GDB, and mortgaged certain non-bonded properties, with a carrying value of \$4.2 million, as collateral for this financing, for an amount not to exceed \$10 million. The agreement established that PRIDCO is not a debtor or co-debtor for the Ports financing, and does not have any other responsibility, other than to provide these properties as collateral in case of default or non-compliance by Ports, up to \$10 million. The mortgage note is due and payable on December 5, 2044.

As part of the GDB Qualify Modification effective as of November 29, 2018, the financing agreement and mortgage agreement were transferred to the GDB Debt Recovery Authority ("DRA").

continue

15. ACCOUNTS PAYABLE AND OTHER ACCRUED LIABILITIES

Accounts payable and other accrued liabilities as of June 30, 2022 consist of the following (in thousands):

Accounts Payable	\$ 4,243
Accrued Payroll Related Expenses	245
Other Accrued Liabilities	<u>2,494</u>
	<u>\$ 6,982</u>

16. LONG-TERM DEBT ACTIVITY

Long-term debt activity for the fiscal year ended June 30, 2022, is as follows (in thousands):

Bonds Payable

As required by the Trust Indenture, PRIDCO has purported to pledge and assign to the Trustee the gross revenue from certain properties (known as the "Trusteed Properties") to the extent set forth in the Trust Indenture for the payment of the Revenue Refunding Bonds and General-Purpose Revenue Bonds, Series 1991 to 1997.

During fiscal year 1998, PRIDCO issued approximately \$150 million in revenue refunding and general-purpose Revenue Bonds.

Revenue Refunding Bonds and General-Purpose Revenue Bonds outstanding as of June 30, 2022, are as follows (in thousands):

Series A 1997, Term Bonds, 6.70%, Due on July 1, 2021	\$ 15,190
Series 2003 General Purpose Revenue Bonds:	
Series Bonds, 5.15%, Due on July 1, 2018	1,225
Capital Appreciation Bonds, Implicit Annual Interest Rates of 5.15% to 5.20%, Due on July 1, 2017 and 2018	5,626
Term Bonds, 5.20%, Due on July 1, 2023	48,925
Term Bonds, 5.25%, Due on July 1, 2028	<u>78,910</u>
	149,876
Less: Current Maturities	<u>(64,333)</u>
Bonds Payable, Noncurrent	<u>\$ 85,543</u>

Series 2003 of the capital appreciation bonds will accrete to a maximum of \$11.6 million, through their corresponding maturity dates.

Bonds payable activity for the fiscal year 2022 is as follows (in thousands):

	<u>Balance at June 30, 2021</u>	<u>Addition</u>	<u>Accretions</u>	<u>Reductions</u>	<u>Balance at June 30, 2022</u>	<u>Current Portion</u>	<u>Long-Term Portion</u>
Bonds Payable	\$ 146,937	\$ -	\$ -	\$ -	\$ 146,937	\$ 61,262	\$ 85,675
Plus: Accreted Discount	3,091	-	-	-	3,091	3,091	-
Less: Bonds Discount	<u>(172)</u>	-	-	<u>20</u>	<u>(152)</u>	<u>(20)</u>	<u>(132)</u>
Bonds Payable, Net	<u>\$ 149,856</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 20</u>	<u>\$ 149,876</u>	<u>\$ 64,333</u>	<u>\$ 85,543</u>

continue

16. LONG-TERM DEBT ACTIVITY – continuation

The annual debt service requirements to maturity, including principal and interest, for Revenue Bonds payable as of June 30, 2022 are as follows (in thousands):

Fiscal Year Ending June 30,	Principal	Interest	Total
2023	\$ 64,333	\$ 4,865	\$ 69,198
2024	13,825	3,958	17,783
2025	14,570	3,203	17,773
2026	15,340	2,408	17,748
2027	16,155	1,571	17,726
2028-2029	25,805	689	26,494
	<u>\$ 150,028</u>	<u>\$ 16,694</u>	<u>\$ 166,722</u>
Less: Unamortized Bond Discount	<u>(152)</u>		
Bonds Payable, Net	<u>\$ 149,876</u>		

PRIDCO failed to make payments of principal and interest when due on the referenced Revenue Bonds starting August 1, 2016. Payments of principal and interest due were paid out of the Sinking Fund held by the Trustee until June 1, 2018. The current portion of Bonds payable amounting to approximately \$64.3 million includes \$51.2 million of principal due. In addition, interest payable amounting to approximately \$61.4 million includes \$34.3 million of accrued Bond interest that is due.

For further information on the proposed restructuring of the Revenue Bonds under Title VI of PROMESA refer to the Subsequent Events Disclosures Note 28.

Line of Credit Owed to Debt Recovery Authority (DRA)

On November 29, 2018, 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 exchanged their claims for bonds issued by a newly created public instrumentality, the DRA, and GDB transferred to such entity its municipal loan portfolio, a portion of its public entity loan portfolio, its real estate assets, and its unencumbered cash. In addition, pursuant to Act No. 109 of 2017, also known as the Government Development Bank for Puerto Rico Debt Restructuring Act (the “GDB Restructuring Act”), the balance of liabilities owed between the Commonwealth and its agents, instrumentalities and affiliates, including PRIDCO (each a “Non-Municipal Government Entity”) and GDB were determined by applying the outstanding balance of any deposits held at GDB in a Non-Municipal Government Entity's name against the outstanding balance of any loan of such Non-Municipal Government Entity owed to GDB or of any bond or note of such Non-municipal Government Entity held by GDB as of such date. As a result, total deposits of PRIDCO at GDB were eliminated and the amount owed by PRIDCO to GDB related to line of credits were reduced and transferred to the DRA.

16. LONG-TERM DEBT ACTIVITY – continuation

After the foregoing adjustments pursuant to the GDB Restructuring Act, the line of credit and notes payable to DRA as of June 30, 2022, are comprised as follows (in thousands):

Non-revolving line of credit up to \$75 million (restructured as of November 24, 2014) to provide for the payment of expenses related to the voluntary separation and early retirement plans, bearing interest at 90 days LIBOR plus 1.25%, with a floor of 5% and a ceiling of 12% due November 24, 2024. PRIDCO identified several non-trusted properties to be disposed of for the repayment of this debt and placed them as collateral.	\$ 24,550
Lines of credit facilities that were used to grant industrial incentives under the Special Incentives Fund, a fund of the Commonwealth, which is administered by PRIDCO. The lines are due on June 30, 2040, and bear interest at prime plus 1.25%, with a floor of 5% and a ceiling of 12% due on June 30, 2040.	28,310
Line of Credit, and Notes Payable to DRA	<u>\$ 52,860</u>

Line of credit, and notes payable to DRA activity for the fiscal year 2022 is as follows (in thousands):

Beginning Balance	Additions	Payments	Ending Balance
\$ 52,860	\$ -	\$ -	\$ 52,860

For the year ended June 30, 2022, PRIDCO did not receive appropriations from the Commonwealth for the payment of interest accrued under line of credit and did not receive appropriations for the payment of the note's principal. Accrued interest payable as of June 30, 2022, amounts to \$27.1 million.

Loans and Notes Payable to Commercial Banks

Loans and Notes Payable to Commercial Banks consist of the following (in thousands):

Promissory note payable in 180 monthly payments of \$229 thousands including interests, and due in December 2030. The note bears annual interest at 6.25% .	\$ 18,052
Note payable in monthly installments of \$139 thousand including interest, and due in December 2030. The note bears annual interest at 4.65% .	11,751
	29,803
Less Current Maturities	<u>(2,809)</u>
Loans and Notes Payable to Commercial Banks, Noncurrent Portion	<u>\$ 26,994</u>

16. LONG-TERM DEBT ACTIVITY – continuation

Loans and notes payable to commercial banks activity for the fiscal year 2022 is as follows (in thousands):

Beginning Balance	Additions	Payments	Ending Balance	Current Portion	Long-Term Portion
<u>\$ 38,646</u>	<u>\$ -</u>	<u>\$ (8,843)</u>	<u>\$ 29,803</u>	<u>\$ 2,809</u>	<u>\$ 26,994</u>

Debt service requirements for the loans and notes payable to commercial banks are as follows (in thousands):

Fiscal Year Ending June 30,	Due to Commercial Banks		
	Principal	Interest	Total
2023	\$ 2,809	\$ 1,605	\$ 4,414
2024	2,980	1,443	4,423
2025	3,151	1,272	4,423
2026	3,333	1,090	4,423
2027	3,525	897	4,422
2028-2031	14,005	1,460	15,465
Total	<u>\$ 29,803</u>	<u>\$ 7,767</u>	<u>\$ 37,570</u>

PRIDCO is subject to compliance with certain covenants on its lines of credit, loans and notes payable with two commercial banks. Two term loans payable to FirstBank of Puerto Rico are collateralized with real property located in the Municipality of Humacao, Puerto Rico.

The loans contain a provision that in an event of default the unpaid principal and accrued interest will become immediately due and payable at an interest rate of two hundred (200) basis points above the applicable rate, until such time as the event of default is cured or waived, and the bank may exercise any and all rights it has under the loans.

Two promissory notes payable to FirstBank of Puerto Rico are collateralized with real property located in the Municipalities of Juana Díaz and Moca, Puerto Rico. The notes contain a provision that in the event of default the unpaid principal and accrued interest will become immediately due and payable, and the bank may exercise any and all rights it has under the notes.

17. DUE TO THE ENVIRONMENTAL PROTECTION AGENCY

On January 17, 2023, the United States District Court for the District of Puerto Rico ordered PRIDCO to settle an environmental claim with the Environmental Protection Agency (EPA) and make payments to resolve its alleged civil liability. PRIDCO shall pay \$11 million in 28 quarterly installments of approximately \$445,000 each, plus interest at 3.5%. The first payment is due on March 1, 2023 and shall include an additional amount of interest accrued on \$11 million at 3.5% from May 3, 2022 to December 31, 2022.

Due to the EPA activity for the fiscal year 2022 is as follows (in thousands):

Beginning Balance	Additions	Payments	Ending Balance	Current Portion	Long-Term Portion
<u>\$ -</u>	<u>\$ 11,000</u>	<u>\$ -</u>	<u>\$ 11,000</u>	<u>\$ 743</u>	<u>\$ 10,257</u>

continue

17. DUE TO THE ENVIRONMENTAL PROTECTION AGENCY – continuation

Debt service requirements for the claim payable to the EPA are as follows (in thousands):

Fiscal Year Ending June 30,	Due to EPA		
	Principal	Interest	Total
2023	743	372	1,115
2024	1,438	340	1,778
2025	1,489	289	1,778
2026	1,542	236	1,778
2027	1,597	182	1,779
2028-2031	4,191	253	4,444
Total	<u>\$ 11,000</u>	<u>\$ 1,672</u>	<u>\$ 12,672</u>

18. UNEARNED REVENUES

During June 2019, a tenant made an upfront payment amounting to \$10 million which is being amortized over the rental contract terms. As of June 30, 2022 \$7.4 million are presented as unearned revenues.

19. COMPENSATED ABSENCES

Compensated absences as of June 30, 2022 are as follows:

	Balance at June 30, 2021	Addition	Reductions	Balance at June 30, 2022	Current Portion	Long-Term Portion
Vacation Accrual	<u>\$ 511</u>	<u>\$ -</u>	<u>\$ (73)</u>	<u>\$ 438</u>	<u>\$ 173</u>	<u>\$ 265</u>

20. DEFERRED OUTFLOWS/INFLOWS OF RESOURCES

This amount is the deferred loss on refunding reported in the Statement of Net Position, deferred amounts related to pension and OPEB, and deferred amounts related to GASB No. 87, *Leases*. The deferred loss on refunding resulted from the difference between the carrying value of refunded debt and its reacquisition price.

21. VOLUNTARY TERMINATION BENEFITS

The Legislature of the Commonwealth of Puerto Rico approved two retirement incentive plans for all regular employees of the central government agencies and certain public corporations under Act No. 70 of July 2, 2010, and Act No. 211 of December 8, 2015, as amended by Act No. 170 of August 9, 2016.

Act No. 70 included early retirement incentives for employees not eligible for retirement and retirement incentives for employees who are eligible. Under this plan, employees could select one of three options as follows:

Article 4(a) provides economic incentives based on the following parameters:

Years of Service in Public Sector	Incentive Gross Amount
Up to 1 Year	1 Month of Salary
From 1 Year and 1 Day Up to 3 Years	3 Months of Salary
From 3 Years and 1 Day and Up	6 Months of Salary

continue

21. VOLUNTARY TERMINATION BENEFITS – continuation

Article 4(b) provides early retirement, for employees meeting certain number of years of service criteria (between 15 and 29 years) and will receive a higher pension benefit rate than they would otherwise be entitled to receive based on their current years of service, but lower than what they would have been entitled to under full vesting requirements. Annuity pension payment is based on the following parameters:

Credited Years of Service	Pension Payment (As a % of Salary)
15	37.50%
16	40.00%
17	42.50%
18	45.00%
19	47.50%
20 to 29	50.00%

PRIDCO will be responsible for making the applicable employer contributions to the Employees Retirement System, as well as making the payments to cover the annuity payments to the employees opting for the early retirement, until both the years of service and age requirements for full vesting would have occurred, at which time the applicable Retirement System will continue making the annuity payments.

Employees selecting options 4(a) or 4(b) will be entitled to receive full payment of healthcare plan benefits for a period of up to 12 months or the date that the employee is eligible for a healthcare plan benefit offered by another employer, whichever occurs first. Article 4(c) provides eligible employees that have 30 years of credited services contributing to the Commonwealth of Puerto Rico Retirement System and request to start receiving their pension benefits, will be entitled to receive the economic incentive awarded on article 4(a) but not entitled to the incentives awarded on article 4(b).

Employees who have the required retirement age but have not achieved the years of credited services contributing to the Commonwealth of Puerto Rico Retirement System will be entitled to an economic incentive of up to 6 months of salary to cover for the years of service not credited. On June 30, 2022, voluntary termination benefits granted under Act No. 70 were discounted at present value.

Act No. 211, as amended, and commonly known as Voluntary Pre-Retirement Program, aims to provide incentives for employees of the Commonwealth of Puerto Rico, who have begun to quote for the Puerto Rico Retirement System before April 1, 1990 or who having begun to quote after that date have paid services accrued prior to April 1, 1990 without having received a refund of their contributions and have a minimum of twenty years of service quoted under the structure of benefits of the Act No. 447, supra.

Incentives under Act No. 211, as amended, include employee’s compensation equivalent to sixty percent of their average remuneration as of December 31, 2015, while participating in the program; the settlement of payment of licenses of vacation and sick leave, exempt of contributions and limited to a maximum established by Law. It also provides for the payment of the employer contribution to Social Security and Medicare, to either maintain the coverage of the health plan or to keep on receiving the employer contribution to health plans under same terms and conditions as if employed for up to a term of two years. Even more, PRIDCO should continue making both employee and employer contributions to the Retirement System, which will ensure an increase in employee’s future retirement annuity to at least fifty percent of its average remuneration on June 30, 2015.

continue

21. VOLUNTARY TERMINATION BENEFITS – continuation

Voluntary termination benefits, as detailed below, are discounted at a rate of 1.09%, which is the average of the prevailing annual interest rate over outstanding certificates of deposits as of June 30, 2022:

	<u>Beginning Balance</u>	<u>Net Change</u>	<u>Ending Balance</u>	<u>Current Portion</u>	<u>Long-Term Portion</u>
Act No. 70	\$ 2,787	\$ (410)	\$ 2,377	\$ 765	\$ 1,612
Act No. 211	<u>3,738</u>	<u>(1,093)</u>	<u>2,645</u>	<u>343</u>	<u>2,302</u>
Total	<u>\$ 6,525</u>	<u>\$ (1,503)</u>	<u>\$ 5,022</u>	<u>\$ 1,108</u>	<u>\$ 3,914</u>

22. EMPLOYEE’S RETIREMENT SYSTEM OF THE COMMONWEALTH OF PUERTO RICO

(1) Description of the Plan and Basis of Presentation

The Employees’ Retirement System of the Government of the Commonwealth of Puerto Rico (ERS) was a trust created by the Legislature under Act No. 447 of May 15, 1951, as amended (Act No. 447) to provide pension and other benefits to retired employees of the Commonwealth, its public corporations (including the Authority) and municipalities. Effective July 1, 2017, Act No. 106 of August 23, 2017 (Act No. 106-2017) implemented a substantial pension reform for all of the Commonwealth’s retirement systems, including ERS.

This reform modified most of ERS’s activities, eliminated the employer contributions, created the legal framework to implement a pay-as-you-go (PayGo) system, and required the Commonwealth’s retirement systems to liquidate substantially all of their assets and to transfer the proceeds from such liquidation to the Commonwealth for the payment of pension benefits. Under the PayGo system, the Commonwealth’s General Fund makes direct pension payments to the pensioners and then gets reimbursed for those payments by the participating employers.

Before July 1, 2017, ERS administered different benefit structures pursuant to Act No. 447, as amended, including a cost-sharing, multi-employer, defined benefit program, a defined contribution program (System 2000 program) and a contributory hybrid program.

Benefit provisions vary depending on a member’s date of hire. Substantially all full-time employees of the Commonwealth and its instrumentalities (73 Commonwealth agencies, 78 municipalities, and 55 public corporations, including the PRIDCO) were covered by ERS, including PRIDCO.

Effective July 1, 2017, the Commonwealth’s General Fund makes direct pension payments to the pensioners and then gets reimbursed for those payment by the applicable employers (including PRIDCO). As of July 1, 2017, ERS stopped making pension payments to retirees. However, all government employers (including PRIDCO) were required to reimburse the Commonwealth for benefits paid on account of their employees through the PayGo fee. Since July 1, 2017, ERS continues to help manage the administrative matters of the pension benefits that were being paid by the Commonwealth. The aforementioned defined benefits had been paid by ERS until June 30, 2017.

Before August 23, 2017, membership was mandatory for all regular, appointed, and temporary employees of the Commonwealth at the date of employment in ERS’s prior programs. After that date, membership continues to be mandatory in the New Defined Contribution Program created by Act 106-2017.

22. EMPLOYEE'S RETIREMENT SYSTEM OF THE COMMONWEALTH OF PUERTO RICO – continuation

As a result of the implementation of the PayGo system, the Plan does not meet the criteria in paragraph 4 of GASB No. 68, *Accounting and Financial Reporting for Pension*, to be considered a plan that is administered through a trust or equivalent arrangement and, therefore, is required to apply the guidance in GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements Nos. 67 and 68*. Under the guidance of GASB Statement No. 73, the Commonwealth and its component units are considered to be one employer, and are classified for financial reporting purposes as a single-employer defined benefit pension plan. Therefore, the accompanying schedule of employer allocations and the schedule of pension amounts by the employer (collectively, the Schedules) present the pension amounts attributable to the Commonwealth reporting entity (i.e., the Commonwealth and its component units).

(2) Pension Benefits

The benefits provided to members of ERS were established by Commonwealth law and may be amended only by law. Act No. 3, in conjunction with other recent funding and design changes, provided for a comprehensive reform of ERS.

This summary of ERS's pension plan provisions is intended to describe the essential features of the plan before the enactment of Act 106-2017. Please note that all eligibility requirements and benefit amounts shall be determined in strict accordance with the applicable law and regulations, these benefits were not changed or amended with the enactment of Act 106-2017. In addition, all accrued pension benefits under ERS's pension plans for active and retired public employees were preserved under the Commonwealth Plan of Adjustment, which was confirmed on January 18, 2022, and became effective on March 15, 2022.

Certain provisions are different for the three groups of members who entered the ERS prior to July 1, 2013, as described below:

- Members of Act No. 447-1951 were generally those members hired before April 1, 1990.
- Members of Act No. 1 were generally those members hired on or after April 1, 1990 (Act No. 1-1990) and on or before December 31, 1999 (together with Act No. 447 participants, the Defined Benefit Program).
- Members of Act No. 305 (or System 2000) were generally those members hired on or after January 1, 2000, and on or before June 30, 2013 (the System 2000 program).

All regular employees hired for the first time on or after July 1, 2013, and former employees who participated in the Defined Benefit Program and the System 2000 Program, and were rehired on or after July 1, 2013, became members of a newly established defined contribution program similar to the System 2000 Program (the Contributory Hybrid Program) as a condition to their employment. In addition, employees who as of June 30, 2013, were participants of previous programs became part of the Contributory Hybrid Program on July 1, 2013.

Before July 1, 2017, the assets of the Defined benefit Program, the System 2000 Program, and the Contributory Hybrid Program were pooled and invested by ERS. Each member has a nonforfeitable right to the value of his/her account. Members have three options to invest their contributions. Investment income is credited to the member's account semiannually. The Commonwealth does not guarantee benefits at retirement age.

continue

22. EMPLOYEE'S RETIREMENT SYSTEM OF THE COMMONWEALTH OF PUERTO RICO – continuation

After July 1, 2017, future benefit payments will be made by the Commonwealth and the New Defined Contribution Program is being administered by a private third party.

On January 18, 2022, the Title III Court entered an order confirming the Commonwealth Plan of Adjustment for the Commonwealth, ERS, and PBA. The Commonwealth Plan of Adjustment preserves all accrued pension benefits for current retirees and employees at ERS. Under the Commonwealth Plan of Adjustment certain cost-of-living adjustments (COLAs) and other features of the ERS pension plans have been eliminated from and after the Effective Date (i.e., on or after March 15, 2022). For further information on the Commonwealth Plan of Adjustment's impact on pension benefits, refer to the final version of the Commonwealth Plan of Adjustment, which is available at <https://cases.ra.kroll.com/puertorico/Home-DocketInfo>.

(a) Service Retirement Eligibility Requirements

- 1) *Eligibility for Act No. 447-1951 Members:* Act No. 447-1951 members who were eligible to retire as of June 30, 2013, continue to be eligible to retire at any time. Prior to July 1, 2013, Act No. 447-1951 members could retire upon (1) attainment of age 55 with 25 years of Credited Service, (2) attainment of age 58 with 10 years of Credited Service, (3) any age with 30 years of Credited Service, (4) for Public Officers in High Risk Positions (the Commonwealth Police and Firefighter Corps, the Municipal Police and Firefighter Corps and the Custody Office Corps), attainment of age 50 with 25 years of Credited Service, and (5), for Mayors of municipalities, attainment of age 50 with 8 years of Credited Service as a Mayor.

In addition, Act No. 447-1951 members who attained 30 years of Credited Service by December 31, 2013, are eligible to retire at any time.

Act No. 447-1951 members who were not eligible to retire as of June 30, 2013, and did not attain 30 years of Credited Service by December 31, 2013, are eligible to retire upon attainment of the retirement eligibility age shown in the table below with 10 years of Credited Service.

Date of Birth	Attained Age as of June 30, 2013	Retirement Eligibility Age
July 1, 1957 or later	55 or less	61
July 1, 1956 to June 30, 1957	56	60
Before July 1, 1956	57 and up	59

In addition to the requirements in the table above, Act No. 447-1951 Public Officers in High Risk Positions who were not eligible to retire as of June 30, 2013 and did not attain 30 years of Credited Service by December 31, 2013 are eligible to retire directly from active service upon the attainment of age 55 with 30 years of Credited Service.

- 2) *Eligibility for Act No. 1-1990 Members:* Act No. 1-1990 members who were eligible to retire as of June 30, 2013, continue to be eligible to retire at any time. Prior to July 1, 2013, Act No. 1-1990 members could retire upon (1) attainment of age 55 with 25 years of Credited Service, (2) attainment of age 65 with 10 years of Credited Service, (3) for Public Officers in High Risk Positions, any age with 30 years of Credited Service, and (4) for Mayors, attainment of age 50 with 8 years of Credited Service as a Mayor.

Act No. 1-1990 members who were not eligible to retire as of June 30, 2013, are eligible to retire upon attainment of age 65 with 10 years of Credited Service. In addition, Act No. 1-1990 Public Officers in High-Risk Positions who were not eligible to retire as of June 30, 2013, are eligible to retire directly from active service upon the attainment of age 55 with 30 years of Credited Service.

continue

22. EMPLOYEE'S RETIREMENT SYSTEM OF THE COMMONWEALTH OF PUERTO RICO – continuation

- 3) *Eligibility for System 2000 Members:* System 2000 members who were eligible to retire as of June 30, 2013, continue to be eligible to retire at any time. Prior to July 1, 2013, System 2000 members could retire upon attainment of age 55 for Public Officers in High-Risk Positions and attainment of age 60 otherwise. System 2000 members who were not eligible to retire as of June 30, 2013, are eligible to retire upon attainment of age 55 for Public Officers in High-Risk Positions and upon attainment of the retirement eligibility age shown in the table below otherwise.

Date of Birth	Attained Age as of June 30, 2013	Retirement Eligibility Age
July 1, 1957, or later	55 or less	65
July 1, 1956, to June 30, 1957	56	64
July 1, 1955, to June 30, 1956	57	63
July 1, 1954, to June 30, 1955	58	62
Before July 1, 1954	59 and up	61

- 4) *Eligibility for Members Hired after June 30, 2013:* Attainment of age 58 if a Public Officer in a High-Risk Position and attainment of age 67 otherwise.

(b) Compulsory Retirement

All Act No. 447-1951 and Act No. 1-1990 Public Officers in High-Risk Positions must retire upon attainment of age 58 and 30 years of Credited Service. A two-year extension may be requested by the member from the Superintendent of the Puerto Rico Police, the Chief of the Firefighter Corps, or supervising authority as applicable.

(c) Service Retirement Annuity Benefits

An annuity payable for the lifetime of the member equal to the annuitized value of the balance in the hybrid contribution account at the time of retirement, plus, for Act No. 447-1951 and Act No. 1-1990 members, the accrued benefit determined as of June 30, 2013. If the balance in the hybrid contribution account is \$10,000 or less, it shall be paid as a lump sum instead of as an annuity. For System 2000 participants this service retirement annuity benefit is not available.

- 1) *Accrued Benefit as of June 30, 2013, for Act No. 447-1951 Members –* The accrued benefit as of June 30, 2013, shall be determined based on the average compensation, as defined, for Act No. 447-1951 members, the years of Credited Service, and the attained age of the member all as of June 30, 2013. For Act No. 447-1951 Mayors, the highest compensation, as defined, as a mayor is determined as of June 30, 2013.

If the Act No. 447-1951 member had at least 30 years of Credited Service as of June 30, 2013, the accrued benefit equals 65% of average compensation if the member was under age 55 as of June 30, 2013, or 75% of average compensation if the member was at least age 55 as of June 30, 2013. For participants selecting to coordinate with social security (the Coordination Plan), the benefit is re-calculated at the Social Security Retirement Age (SSRA), as defined, as 1.5% of average compensation up to \$6,600 multiplied by years of Credited Service, up to 30 years, plus 65% (75% if member was at least age 55 as of June 30, 2013) of average compensation in excess of \$6,600.

continue

22. EMPLOYEE'S RETIREMENT SYSTEM OF THE COMMONWEALTH OF PUERTO RICO – continuation

If the Act No. 447-1951 member had less than 30 years of Credited Service as of June 30, 2013, and attains 30 years of Credited Service by December 31, 2013, the accrued benefit equals 55% of average compensation if the member was under age 55 as of June 30, 2013 or 60% of average compensation if the member was at least age 55 as of June 30, 2013. For participants selecting the Coordination Plan, the benefit is re-calculated at SSRA as 1.5% of average compensation up to \$6,600 multiplied by years of Credited Service, up to 30 years, plus 55% (60% if member was at least age 55 as of June 30, 2013) of average compensation in excess of \$6,600. Member contributions received from Act No. 447-1951 members eligible for this transitory benefit during the period beginning July 1, 2013, and ending upon the attainment of 30 years of Credited Service are considered pre-July 1, 2013, contributions; the contributions to the hybrid contribution account begin after the member attains 30 years of Credited Service.

If the Act No. 447-1951 member had less than 30 years of Credited Service as of December 31, 2013, the accrued benefit equals 1.5% of average compensation multiplied by years of Credited Service up to 20 years, plus 2% of average compensation multiplied by years of Credited Service in excess of 20 years. The maximum benefit is 75% of the average compensation. Except for Commonwealth Police and Commonwealth Firefighters, the benefit is actuarially reduced for each year payment commences prior to age 58. For participants selecting the Coordination Plan, the basic benefit is re-calculated at SSRA as 1% of average compensation up to \$6,600 multiplied by years of Credited Service up to 20 years, plus 1.5% of average compensation in excess of \$6,600 multiplied by years of Credited Service up to 20 years, plus 2.0% of average compensation in excess of \$6,600 multiplied by years of Credited Service in excess of 20 years.

Except for Police and Firefighters, the benefit is actuarially reduced for each year payment commences prior to age 58.

For Act No. 447-1951 Mayors with at least 8 years of Credited Service as a mayor, the accrued benefit will not be less than 5% of highest compensation, as defined, as a Mayor for each year of Credited Service as a Mayor up to 10 years, plus 1.5% of highest compensation as Mayor for each year of non-Mayor Credited Service up to 20 years, plus 2.0% of highest compensation as Mayor for each year of non-Mayor Credited Service in excess of 20 years. Non-Mayor Credited Service includes service earned as a mayor in excess of 10 years. Maximum benefit is 90% of highest compensation as a Mayor.

- 2) *Accrued Benefit as of June 30, 2013, for Act No. 1-1990 Members:* The accrued benefit as of June 30, 2013, shall be determine based on the average compensation for Act No. 1 member, the years of Credited Service, and the attained age of the member all as of June 30, 2013.

For Act No. 1-1990 Mayors, the highest compensation as a Mayor is determined as of June 30, 2013.

If the Act No. 1-1990 member is a police officer or firefighter with at least 30 years of Credited Service as of June 30, 2013, the accrued benefit equals 65% of average compensation if the member was under age 55 as of June 30, 2013, or 75% of average compensation if the member was at least age 55 as of June 30, 2013.

For all other Act No. 1-1990 members, the accrued benefits equal 1.5% of Average Compensation multiplied by years of Creditable Service. The benefit is actuarially reduced for each year payment commences prior to age 65.

22. EMPLOYEE'S RETIREMENT SYSTEM OF THE COMMONWEALTH OF PUERTO RICO – continuation

For Act No. 1-1990 Mayors with at least 8 years of Credited Service as a mayor, the accrued benefit will not be less than 5% of highest compensation as a Mayor for each year of Credited Service as a Mayor up to 10 years, plus 1.5% of highest compensation as Mayor for each year of non-Mayoral Credited Service up to 20 years, plus 2.0% of highest compensation as Mayor for each year of non-Mayoral Credited Service in excess of 20 years. Non-Mayoral Credited Service includes service earned as a Mayor in excess of 10 years. Maximum benefit is 90% of highest compensation as a Mayor.

(d) Special Benefits

1) *Minimum Benefits*

- *Past Ad hoc Increases:* The Legislature, from time to time, increases pensions for certain retirees as described in Act No. 124-1973 and Act No. 23-1983.
- *Minimum Benefit for Members who Retired before July 1, 2013:* The minimum monthly lifetime income for members who retired or become disabled before July 1, 2013, is \$500 per month effective July 1, 2013 (\$400 per month effective July 1, 2007, and \$300 per month up to June 30, 2007). (Act No. 156-2003, Act No. 35-2007, and Act No. 3-2013).
- *Coordination Plan Minimum Benefit:* A minimum monthly benefit is payable upon attainment of SSRA such that the benefit, when added to the Social Security Benefit, is not less than the benefit payable prior to SSRA.

2) *Cost-of-Living Adjustments (COLA) to Pension Benefits*

Under the Commonwealth Plan of Adjustment, all COLAs have been eliminated from and after the Effective Date (i.e., on or after March 15, 2022). For further information on the Commonwealth Plan of Adjustment's impact on pension benefits, refer to the final version of the Commonwealth Plan of Adjustment, which is available at <https://cases.ra.kroll.com/puertorico/Home-DocketInfo>.

3) *Special "Bonus" Benefits*

- *Christmas Bonus:* An annual bonus of \$200 for each retiree, beneficiary, and disabled member paid in December provided the member retired prior to July 1, 2013. (Act No. 144-2005, as Amended by Act No. 3-2013)
- *Medication Bonus:* An annual bonus of \$100 for each retiree, beneficiary, and disabled member to cover health costs paid in July provided the member retired prior to July 1, 2013.

Evidence of coverage is not required. The amount is prorated if there are multiple beneficiaries. (Act No. 155-2003, as Amended by Act No. 3-2013)

(e) Changes in Plan Provisions since Prior Valuation

Act No. 106-2017 closed participation in ERS to new members effective July 1, 2017, and moved prospective accruals for all current active members to a separate defined contribution plan outside of ERS. The following contributions were eliminated July 1, 2017 by Act No. 106-2017:

22. EMPLOYEE'S RETIREMENT SYSTEM OF THE COMMONWEALTH OF PUERTO RICO – continuation

- Act No. 116-2011 Employer Contributions
- Act No. 32-2013 Additional Uniform Contribution
- Act No. 3-2013 Supplemental Contributions
- Member Contributions

Effective July 1, 2017, contributions by members consists of 8.5% of compensation and are being directly deposited by the Department of the Treasury of the Commonwealth in the individual member accounts under the new Defined Contributions Plan. Also, as of that date, the ERS participants shall make no individual contributions or payments to the accumulated pension benefits payment accounts or additional contributions to the ERS.

(3) Allocation Methodology

GASB Statement No. 73 requires that the primary government and the component units that provide pensions through the same defined benefits pension plan of its primary government, recognize their proportionate share of the total pension liability, deferred outflows of resources, deferred inflows of resources, and pension expense (benefit). The employer allocation percentage presented in the schedule of employer allocations and applied to amounts presented in the schedule of pension amounts by employer are based on the ration of each participating entity's actual benefit payments for allocation to the aggregate total of benefit payments for allocation paid by all participating entities during the year ending on the measurement date. Employer allocation percentages have been rounded for presentation purposes; therefore, amounts presented in the schedule of pension amounts by employer may result in immaterial differences.

The difference between the actual benefits payments' column and the benefits payments for allocation in the schedule of employer allocations represents lump-sum distributions of accumulated benefits that were not considered for allocation purposes.

(4) Total Pension Liabilities and Actuarial Information

After the approval of Act No. 106-2017, the ERS assets are liquidated and GASB Statement No. 73 is now implemented in substitution of GASB Statement No. 68. PRIDCO's Total Pension Liability was measured as of June 30, 2022 based on the audited financial information of January 27, 2023 and actuarial valuation as January 17, 2023.

1. Actuarial Methods and Assumptions

The actuarial valuation used the following actuarial assumptions applied to all periods in the measurement period.

Discount Rate

The discount rate for June 30, 2022, was 2.16%. This represents the municipal bond return rate as chosen by the Commonwealth. The source is the bond Buyer general Obligation (GO) 20-Bond Municipal Bond Index, which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher.

22. EMPLOYEE'S RETIREMENT SYSTEM OF THE COMMONWEALTH OF PUERTO RICO – continuation

Mortality

The mortality tables used in the June 30, 2021; actuarial valuation was as follows:

– *Pre-retirement Mortality*

For general employees not covered under Act No. 127-1958, the PubG-2010 employee rates, adjusted by 100% for males and 110% for females, projected using MP-2021 on a generational basis. For members covered under Act No. 127-1958, the PubS-2010 employee rates for males and females, projected using MP-2021 on a generational basis. As generational table, they reflect mortality improvements both before and after the measurement date.

100% of deaths while in active service are assumed to be occupational for members covered under Act No. 127-1958.

– *Post-retirement Retiree Mortality*

Rates which vary by gender are assumed for healthy retirees and beneficiaries based on a study of the Plan's experience from 2013 to 2018 and updated expectations regarding future mortality improvement. The PubG-2010 healthy retiree rates, adjusted by 100% for males and 110% for females, projected using MP-2021 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date. This assumption is also used for beneficiaries prior to the member's death.

– *Post-retirement Disabled Mortality*

Rates which vary by gender are assumed for disabled retirees based on a study of the Plan' experience from 2013 to 2018 and updated expectations regarding future mortality improvement. The PubG-2010 disabled retiree rates, adjusted by 80% for males and 100% for females, projected using Mortality Improvement Scale MP-2021 on a generational basis. As generational table, it reflects mortality improvements both before and after the measurement date.

– *Post-retirement Beneficiary Mortality*

Prior to the retiree's death, beneficiary mortality is assumed to be the same as the post-retirement retiree mortality. For periods after the retiree's death, the PubG-2010(B) contingent survivor rates, adjusted by 110% for males and 120% for females, projected using MP-2021 on a generational basis. As generational table, it reflects mortality improvements both before and after the measurement date.

Other Assumptions as of June 30, 2021

Actuarial Cost Method	Entry age normal
Inflation Rate	Not Applicable
Salaries Increases	3.00% per year. No compensation increases are assumed until July 1, 2021 as result of Act No. 3-2017, four-year extension of Act No. 66-2014, and the current general economy.

continue

22. EMPLOYEE'S RETIREMENT SYSTEM OF THE COMMONWEALTH OF PUERTO RICO – continuation

2. Total Pension Liability

Effective July 1, 2014, PRIDCO implemented the provisions of GASB Statement No. 68, Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27, and GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date-an amendment of GASB Statement No. 68, which significantly changed the PRIDCO's accounting for pension amounts. The information disclosed below is presented in accordance with GASB No 73, after the implementation of Act No. 106-2017. PRIDCO's Total Pension Liability was measured as of June 30, 2022. The measurement Date is June 30, 2021, date as of which the Total Pension Liability is determined. The Reporting Date is for periods ending July 1, 2021, through June 30, 2022.

As June 30, 2022, PRIDCO's proportional share of the Total Pension Liability used was as follows:

The corresponding PRIDCO's proportion of the Total Pension Liability	1.08924%
The corresponding PRIDCO's Proportionate Share of the Total Pension Liability	\$ 296,102

(a) Pension Expense

For the fiscal year ended June 30, 2022, PRIDCO recognized a pension expense of \$13,852 million of total pension payments to the PayGo system.

(b) Deferred Outflows/Inflow of Resources

As of June 30, 2022, PRIDCO reported Deferred Outflows of Resources and Deferred Inflows of Resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between actual and expected experience	\$ 473	\$ 8,822
Changes in assumptions	30,311	3,498
Change in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions	4,984	4,365
Employer pension payments made subsequent to the measurement date	14,025	-
Total	<u>\$ 49,793</u>	<u>\$ 16,685</u>

Deferred outflows of resources and deferred inflows of resources above represent the unamortized portion of changes to Total Pension Liability to be recognized in future periods in a systematic and rational manner.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

continue

22. EMPLOYEE'S RETIREMENT SYSTEM OF THE COMMONWEALTH OF PUERTO RICO – continuation

Year Ended June. 30,	Amount
2023	\$ 6,361
2024	6,361
2025	6,361
Total	<u>\$ 19,083</u>

Discount Rate

After June 30, 2017, the Commonwealth enacted legislation that changed the structure of pension administration managed by ERS. For further information regarding such pension legislation. The discount rate was based on the Bond Buyer General Obligation 20-Bond Municipal Index.

The discount rate on June 30, 2022, was as follow:

	June 30, 2022
Discount Rate	2.16%
20 Year Tax-Exempt Municipal Bond Yield	2.16%

(c) *Sensitivity of the Proportionate Share of the Total Pension Liability to Changes in the Discount Rate*

The following presents PRIDCO's proportionate share of the Total Pension Liability (in thousands) calculated using the discount rate, as well as what PRIDCO's proportionate share of the Total Pension Liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate:

	1% Decrease	Current Discount Rate	1% Increase
	1.16%	2.16%	3.16%
Total Pension Liability	\$ 338,309	\$ 296,102	\$ 261,901

ERS provides additional information about the Defined Benefit Program and Hybrid Program. They issue a publicly available financial report that includes financial statements and required supplementary information for ERS, as a component unit of the Commonwealth. That report may be obtained by writing to the Administration at PO Box 42003, Minillas Station, San Juan, PR 00940-2003.

23. OTHER POSTEMPLOYMENT BENEFITS (OPEB)

In addition to the pension benefits described in Note 18, the Commonwealth provides other retirement benefits, such as Christmas Bonus, and healthcare benefits for its retired employees in accordance with local laws. Substantially, all of the employees may become eligible for these benefits if they reach normal retirement age while working for the Commonwealth.

23. OTHER POSTEMPLOYMENT BENEFITS (OPEB) – continuation

(1) *Plan Description*

PRIDCO is a participating employer in the Other Postemployment Benefit Plan of the Commonwealth of Puerto Rico (the Commonwealth) for Retired Participants of the Employees' Retirement System (the OPEB Plan).

The OPEB Plan is an unfunded, cost sharing multi-employer defined benefit other postemployment healthcare benefit plan sponsored by the Commonwealth. The Plan is administered on a PayGo basis as required by Article 2.1 of Act No. 106 of 2017. Accordingly, no assets are accumulated in a qualifying trust that meets the criteria in paragraph 4 of GASB Statement No. 75, *Accounting and Financial Reporting for the Postemployment Benefits Other than Pensions* (GASB Statement No. 75).

GASB Statement No. 75 governs the specifics of accounting for public OPEB plan obligation for participating employers and is required to be implemented for employer fiscal years beginning after June 15, 2017 (Fiscal Year 2017-2018). GASB Statement No. 75 requires a liability for OPEB obligations, known as the Net OPEB Liability (Total OPEB Liability for unfunded plans), to be recognized on the balance sheets of participating employers. Changes in the Total OPEB Liability will be immediately recognized as OPEB Expense on the income statement or reported as deferred inflows/outflows of resources depending on the nature of the change.

As PRGERS is a multiple employer plan and the benefits are not funded by an OPEB trust, GASB Statement No. 75 applies to the OPEB provided to each participating employer's own employees. The Central Government and its component units are considered to be one employer. Other employers also participate in PRGERS. Because certain employers that are component units of the Central Government prepare individual financial statements, a proportionate share or OPEB expense is determined for these employers, like PRIDCO.

Benefits Provided

The OPEB Plan provides a payment of up to \$100 per month to the eligible medical insurance plan selected by retired participants of the employees' retirement system—provided that the participants retired prior to July 1, 2013 (Act No. 483, as amended by Act No. 3).

These actual benefits payments are made by the Puerto Rico Department of Treasury to retirees and beneficiaries through RHUM Payroll Processing System on behalf of all covered entities. The "PayGo Charge" requirement in the future years will increase in accordance with Act No. 106-2017, as liquid retirement funds become depleted.

The funding of the OPEB Plan is provided through legislative appropriations each July 1 by the Commonwealth's General Fund for primary government and certain public corporations without their own treasuries' employees, and by certain public corporations with their own treasuries and municipalities. The legislative appropriations are considered estimates of the payments to be made for—healthcare benefits throughout the year. However, the Commonwealth claims reimbursement from each employer, on a monthly basis, for the corresponding amount of the OPEB payments made by the Commonwealth in relation to the retirees associated with each employer.

Employees Covered

Commonwealth's employees became members upon their date of employment. Plan members were eligible for benefits upon reaching the pension benefits retirement ages. Act No. 3 of 2013 eliminated this healthcare benefit to Commonwealth's employees that retired after June 30, 2013.

On July 1, 2020, the Commonwealth's OPEB Plan members covered by the benefit terms consisted of 68,885 retired members of which 390 were from PRIDCO.

continue

23. OTHER POSTEMPLOYMENT BENEFITS (OPEB) – continuation

Contributions

The contribution requirement of the OPEB Plan is established by Act No. 95 approved on June 29, 1963.

There is no contribution requirement from the plan members during their active employment. Retirees contribute the amount of the healthcare insurance premium not covered by the Commonwealth contribution.

(2) Allocation Methodology

GASB Statement No. 75 requires that the primary government and the component units that provide OPEB benefits through the same defined benefits OPEB plan, recognize their proportionate share of the total OPEB liability, deferred outflows of resources, deferred inflows of resources, and OPEB expense (benefit). The employer allocation percentage presented in the schedule of employer allocations and applied to amounts presented in the schedule of OPEB amounts by employer are based on the ratio of each participating entity's actual benefit payments for allocation to the aggregate total of benefit payments for allocation paid by all participating entities during the year ending on the measurement date. Employer allocation percentages have been rounded for presentation purposes; therefore, amounts presented in the schedule of OPEB amounts by employer may result in immaterial differences.

(3) Total OPEB Liabilities and Actuarial Information

On June 30, 2022, PRIDCO reported a liability of \$5.3 million for its proportionate share of total collective OPEB liability. Total OPEB liability was measured as of June 30, 2021, and was determined by an actuarial valuation as of July 1, 2020, which was rolled forward to June 30, 2021.

Total OPEB Liability	June 30, 2021	
	Total	Proportionate Share (0.66838%)
Total OPEB Liability	\$ 798,118	\$ 5,335

PRIDCO's proportion of total OPEB liability was based on the ratio of each agency's actual benefit payments to the total actual benefit payments paid during the year ending on the measurement date, which is consistent with the manner in which the amounts that are paid as benefits come due are determined. The discount rate to measure total OPEB liability as of June 30, 2022, was 2.16%.

PRIDCO's annual OPEB expense for the year ended June 30, 2022 amounted to approximately \$22 thousand.

Actuarial Methods and Assumptions

The actuarial valuation used the following actuarial assumptions applied to all periods in the measurement period.

Discount Rate

The discount rate on June 30, 2022 was as follows:

	June 30, 2022
Discount Rate	2.16%
20 Year Tax-Exempt Municipal Bond Yield	2.16%

23. OTHER POSTEMPLOYMENT BENEFITS (OPEB) – continuation

Mortality

– *Pre-retirement Mortality*

For general employees not covered under Act No. 127-1958, the PubG-2010 employee rates, adjusted by 100% for males and 110% for females, projected using MP-2021 on a generational basis. For members covered under Act No. 127-1958, the PubS-2010 employee rates for males and females, projected using Mortality Improvement Scale MP-2021 on a generational basis. As generational table, they reflect mortality improvements both before and after the measurement date.

100% of deaths while in active service are assumed to be occupational for members covered under Act No. 127-1958.

– *Post-retirement Mortality*

Rates which vary by gender are assumed for healthy retirees and beneficiaries based on a study of the Plan's experience from 2013 to 2018 and updated expectations regarding future mortality improvement. The PubG-2010 healthy retiree rates, adjusted by 100% for males and 110% for females, projected using MP-2021 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

– *Post-retirement Disabled Mortality*

Rates which vary by gender are assumed for disabled retirees based on a study of the Plan's experience from 2013 to 2018 and updated expectations regarding future mortality improvement. The PubG-2010 disabled retiree rates, adjusted by 80% for males and 100% for females, projected using Mortality Improvement Scale MP-2021 on a generational basis. As generational table, it reflects mortality improvements both before and after the measurement date.

– *Post-retirement Beneficiary Mortality*

Prior to the retiree's death, beneficiary mortality is assumed to be the same as the post-retirement retiree mortality. For periods after the retiree's death, the PubG-2010(B) contingent survivor rates, adjusted by 110% for males and 120% for females, projected using MP-2021 on a generational basis. As generational table, it reflects mortality improvements both before and after the measurement date.

Sensitivity of PRIDCO's Proportionate Share of Total OPEB Liability to changes in the Discount Rate

The following presents PRIDCO's proportionate share of total OPEB liability as well as what PRIDCO's proportionate share of total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (1.16%) or 1-percentage-point higher (3.16%) than the current discount rate (in thousands).

	1%	Current	1%
	decrease	Discount Rate	Increase
	1.16%	2.16%	3.16%
Total OPEB Liability	\$ 5,856	\$ 5,335	\$ 489

continue

23. OTHER POSTEMPLOYMENT BENEFITS (OPEB) – continuation

The Other Postemployment Benefit Plan of the Commonwealth of Puerto Rico for retired participants of the Puerto Rico Government Employees Retirement System provides additional information of the Medical Insurance Plan Contribution Benefit. They issue a publicly available financial report that includes a Schedule of Employer Allocations and Schedule of OPEB Amounts by Employer. That report may be obtained by writing to the Administration at PO Box 42003, Minillas Station, San Juan, PR 00940-2003.

24. COMMITMENTS

PRIDCO maintains a joint agreement with the University of Puerto Rico for the administration of the Bioprocess Development and Training Complex (BDTC) in Mayagüez, Puerto Rico. Under this agreement, PRIDCO constructed a modern building with state-of-the-art facilities for rental to pharmaceutical and high-end technological industries with research and development projects. PRIDCO is therefore renting the building to BDTC.

PRIDCO maintains a joint interagency agreement with the Puerto Rico Tourism Company (PRTC). Both entities agreed to provide \$1 million each for the Office of Land Use Planning. PRIDCO is responsible for the purchase of office equipment as well as professional services necessary for the operations of said office. In prior years, PRIDCO received \$1 million from PRTC, and total expenditures amounted to \$672,000.

25. CONTINGENCIES

A. Federal Awards

PRIDCO is a grantee in Federal financial assistance programs. Entitlement to the resources is generally based on compliance with the terms and conditions of the grant agreements and applicable federal regulations, including the expenditures of the resources for eligible purposes. Based on this, PRIDCO is required to comply with the audit requirements established by the Uniform Guidance.

B. Litigation

PRIDCO is a defendant in a number of legal proceedings arising in the normal course of business, including but not limited to labor, torts, and breach of contract. Management believes that it has a reasonable possibility of prevailing in these cases. Contingency reserves as of June 30, 2022, amounted to \$175 thousand separately disclosed as legal liabilities.

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26. POLLUTION REMEDIATION OBLIGATIONS

The nature of PRIDCO tenants' manufacturing operations is highly susceptible to the incurrence of pollution obligations. PRIDCO, as owner, has the financial responsibility for cleanup costs and pollution remediation process in case of tenants' default.

Pollution remediation obligations are obligations incurred to address the current or potential detrimental effects of existing pollution by participating in remediation activities such as site assessments and cleanups but excludes pollution prevention or control obligations with respect to current operations, and future pollution remediation activities that are required upon retirement of an asset. On June 30, 2022, PRIDCO's liability for pollution remediation amounted to \$9.1 million.

Pollution remediation is a process that can last several years and involves different stages. PRIDCO has called upon former or current tenants to make them accountable for cleanup or pollution remediation costs; otherwise PRIDCO has assumed the responsibility. Notwithstanding, PRIDCO has been considered a responsible party in a lawsuit, at the initial stage, and in several claims, at the regulating agencies level, related to pollution remediation obligations. The Federal Environmental Protection Agency (EPA), the Puerto Rico Department of Environment and Natural Resources (DENR) and the Puerto Rico Environmental Quality Board (EQB) have the oversight and the enforcement responsibility in cases of pollution.

Federal claims are covered pursuant the Comprehensive Environmental Response, Compensation and Liability Act of 1980 (CERCLA, or commonly known as Superfund), which provides broad Federal authority to respond directly to releases or threatened releases of hazardous substances that may endanger public health or the environment, and the Resource Conservation Recovery Act (RCRA) of 1976, which provides for proper disposal of solid waste and hazardous waste.

Agencies are authorized by law to identify parties responsible for the pollution of sites and compel the parties to remediate it.

Experience has shown that uncertainties associated with environmental remediation contingencies are pervasive and often result in wide ranges of outcomes. Estimates developed in the early stages of remediation can vary significantly. A definite estimate of costs does not normally become fixed and determinable at a specific time. Rather, the costs associated with environmental remediation become estimable over a series of events and activities that help to frame and define a liability.

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

27. RISK MANAGEMENT

The Treasury Department of PRIDCO is responsible for assuring that PRIDCO's property is properly insured. Annually, the Treasury Department in conjunction with other departments of PRIDCO compiles the information of all property owned and its respective market value. After evaluating this information, such information is submitted to the Area of Public Insurance at the Department of the Treasury of the Commonwealth, which is responsible for purchasing all property and casualty insurance policies of all governmental instrumentalities. Settled claims have not exceeded commercial coverage in any of the past three fiscal years.

continue

28. SUBSEQUENT EVENTS

Management believes that the following subsequent events should be disclosed:

On July 21, 2022, the Oversight Board issued a statement to accept a proposal from the Governor of the Commonwealth to partially implementing the early retirement program under Law 80-2020 and limit implementation of the law to certain non-essential governmental employees.

On September 17, 2022, Puerto Rico was directly impacted by Hurricane Fiona leaving in its path the destruction of homes, knocking out power across the entire island and flooding many streets and roads. The Governor of Puerto Rico submitted to the United States Government a request of a declaration of major disaster and the activation of funds from the Public Assistance program of Federal Emergency Management Agency.

On September 18, 2022, Puerto Rico was declared a major disaster area under the Stafford Act. Consistent with this declaration and the complications created by Hurricane Fiona, OMB has granted a six-month extension for all single audits that cover recipients in Puerto Rico with due dates between September 18, 2022, and December 31, 2022. This extension covers this single audit.

On January 19, 2023, GoldenTree recommenced the litigation in the United States District Court. The complaint seeks several forms of relief against PRIDCO, including a relief requiring PRIDCO to pay all accrued and unpaid principal and interest on the Revenue Bonds, including all overdue Bond payments and future Bond payments as they come due, among others.

In July 2023, after several rounds of negotiations, the Oversight Board and GoldenTree agreed on the terms of the 2023 RSA, which contemplates a financial restructuring of the Revenue Bonds pursuant to Title VI of PROMESA, on the terms set forth in the term sheet attached as Exhibit A to the 2023 RSA (the "Settlement Summary").

The 2023 RSA (including the Settlement Summary) contemplate that the current Bonds will be exchanged for new bonds with the following characteristics (the "New Bonds"):

Accrued Claim	~\$158.3 million ⁽¹⁾ (net of \$30MM paydown), projected as of October 31, 2023. Actual accrued claim will vary as interest will accrue until the effective date of the Title VI Qualifying Modification.
Recovery	100% of accrued claim
Interest Rate	Years 0-3: 7.00% taxable (~4.90% tax-exempt equivalent ⁽²⁾) Years 4-30: 8.75% taxable (~6.13% tax-exempt equivalent ⁽²⁾)
Maturity	30 years
Amortization	Years 0-5: Interest only Years 6-30: P+I Level debt amortization
Call Provisions	Years 0-3: Callable at par Callable at 104%, declining by 0.5% per year until par call

⁽¹⁾ Projected through October 31, 2023 and subject to change pending final reconciliation.

⁽²⁾ For illustrative purposes, assumes 30% investor tax rate.

On May 26, 2023, the Oversight Board also certified a new fiscal plan for PRIDCO (the "2023 CFP") that incorporated a series of adjustments to previously certified fiscal plans that would allow for PRIDCO to generate surpluses to, among other things, support debt service under the terms negotiated under the 2023 RSA.

continue

28. SUBSEQUENT EVENTS – continuation

The adjustments to previously certified fiscal plans include: (i) reduction to Capex spending to account for cash already set aside in a demolition reserve (\$15 million) and accounting for overlap related to funds available to PRIDCO from FEMA (\$90-\$140 million); (ii) reduction in a Capex reserve by 50% from prior fiscal plan levels (from \$20.2 million to \$10.1 million) to align with the average range of levels identified within the industrial warehouse operators in the US; (iii) delay in hiring and onboarding of the third party manager; and (iv) reduction in the DDEC Management Fee.

Under the 2023 CFP, PRIDCO is forecasted to have a cumulative post-measures surplus before debt service of \$474.8 million from FY2024 through FY2053. The average annual surplus for this period is \$15.8 million. The projected debt service for the New Bonds, based on the terms of the 2023 RSA is approximately \$455.6 million.

Consummation of the Title VI restructuring of the Revenue Bonds remains subject to creditor approval and court confirmation and there is no guarantee that such contingencies will be satisfied and the deal will be implemented. The 2023 CFP is built upon a set of assumptions and factors that are subject to external and internal risks that could materially impact the expected outcomes. There is no certainty that the 2023 CFP (as currently certified or as subsequently amended and recertified) will be fully implemented, or if implemented will ultimately provide the intended results.

On July 17, 2023, the Fiscal Oversight Management Board approved a settlement agreement between the EDB and various government entities over certain deposits at the EDB (the “Proposed Transaction”). Pursuant to the Proposed Debt Transaction, EDB shall make a one-time cash payment of \$9.7 million in full settlement and satisfaction of \$110.4 million in unsecured deposit claims across 17 government entities, including PRIDCO. PRIDCO’s unsecured deposits in EDB amounted to approximately \$2.1 million on June 30, 2022. The transaction must be approved by all entities in order to be executed.

PRIDCO has evaluated subsequent events through September 29 2023, the date which the financial statement was available to be issued. No additional subsequent events were identified that should be disclosed or adjusted in the financial statement or its notes.

END OF NOTES

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Required Supplementary Information

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COMMONWEALTH OF PUERTO RICO
PUERTO RICO INDUSTRIAL DEVELOPMENT COMPANY
(A COMPONENT UNIT OF THE COMMONWEALTH OF PUERTO RICO)

SCHEDULE OF PROPORTIONATE SHARE OF THE
TOTAL PENSION LIABILITY (IN THOUSANDS)
FOR THE FISCAL YEAR ENDED JUNE 30, 2022

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>
Proportion of the Total Pension Liability *	1.08924%	1.09849%	1.11127%	1.11733%
Proportionate Share of the Collective Total Pension Liability	\$ 296,102	\$ 308,345	\$ 276,154	\$ 273,629
Covered - Employee Payroll	N/A	N/A	N/A	N/A
Proportionate Share of the Collective Total Pension Liability as Percentage of Covered-Employee Payroll	N/A	N/A	N/A	N/A

Notes to Schedule:

* The amounts presented have a measurement date of the previous year end.

* Covered payroll is no longer applicable since contributions are not longer based on payroll and were eliminated pursuant to Act No. 106-2017.

* There are no assets accumulated in a trust that meets the criteria in GASBS No. 73, paragraph 4, to pay related benefits.

Note: Fiscal year 2019 was the first year that PRIDCO transitioned from GASB Statement No. 68 to GASB Statement No. 73 as a result of the PayGo implementation. This schedule is required to illustrate 10 years of information. However, until a 10-year trend has been completed, information is presented only for the years for which the required supplementary information is available.

The notes to the Required Supplementary Information are an integral part of this Schedule.

COMMONWEALTH OF PUERTO RICO
PUERTO RICO INDUSTRIAL DEVELOPMENT COMPANY
(A COMPONENT UNIT OF THE COMMONWEALTH OF PUERTO RICO)

**SCHEDULE OF PROPORTIONATE SHARE OF THE
TOTAL OTHER POSTEMPLOYMENT
BENEFITS LIABILITY (IN THOUSANDS)
FOR THE FISCAL YEAR ENDED JUNE 30, 2022**

	2022	2021	2020	2019	2018
Proportion of Total Other Post-Employment Benefit Liability *	\$ 5,335	\$ 5,750	\$ 5,474	\$ 5,526	\$ 5,729
Proportionate Share of Total Other Post-Employment Benefit	N/A	N/A	N/A	N/A	N/A
Covered - Employee Payroll	N/A	N/A	N/A	N/A	N/A
Proportionate Share of Total Other Post-Employment Benefit Liability as Percentage of Covered-Employee Payroll	N/A	N/A	N/A	N/A	N/A

Notes to Schedule:

* The amounts presented have a measurement date of the previous year end.

* Covered payroll is no longer applicable since contributions are not longer based on payroll and were eliminated pursuant to Act No. 106-2017.

* There are no assets accumulated in a trust that meet the criteria in GASBS No. 75 paragraph 4, to pay related benefits.

Note: Fiscal year 2019 was the first year that the new requirements of GASB Statement No. 75 were implemented by PRIDCO. This schedule is required to illustrate 10 years of information. However, until a 10-year trend has been completed, information is presented only for the years for which the required supplementary information is available.

The notes to the Required Supplementary Information are an integral part of this Schedule.

COMMONWEALTH OF PUERTO RICO
PUERTO RICO INDUSTRIAL DEVELOPMENT COMPANY
(A COMPONENT UNIT OF THE COMMONWEALTH OF PUERTO RICO)

**NOTES TO THE REQUIRED SUPPLEMENTARY
INFORMATION – SCHEDULES OF PROPORTIONATE
SHARE OF TOTAL PENSION LIABILITY AND TOTAL
OTHER POSTEMPLOYMENT BENEFITS LIABILITY
FOR THE FISCAL YEAR ENDED JUNE 30, 2022**

1. The schedules are intended to show information for ten years. Additional years will be displayed as they become available. The information presented relates solely to PRIDCO and not the Employee's Retirement System of the Government of the Government of Puerto Rico as a whole.
2. The data provided in the schedule is based as of the measurement date of the total pension liability and total other postemployment benefits liabilities, which is as of the prior fiscal year ended June 30th.
3. On August 23, 2017, was enacted the Act No. 106, known as the "Act to Guarantee Payment to Our Retirees and establish a New Plan for Defined Contributions for Public Employees". This Act determined and declared that the ERS, JRS and TRS are in a financial emergency. Also, by this Act is hereby created the Account for the Payment of Accumulated Pensions, a trust account, separated from the general assets and accounts of the Government, designated to pay the Accumulated Pensions by the ERS, JRS and TRS under the "pay as you go" scheme, as established in Chapter 2 of this Act. Once Retirement Systems exhaust their assets, the Accumulated Pension Payment Account, which will be largely nourished by the General Fund, as provided in this Act, will assume and guarantee the payment of the Accumulated Pensions as established in this Act. However, the Municipalities, the Legislative Branch, the Public Corporations, the Government and the Administration of the Courts will be obliged to pay the PayGo Charge as appropriate to each one to nurture the Account for the Payment of the Accumulated Pensions.

END OF NOTES

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PART II

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
AND REPORTS REQUIRED BY
GOVERNMENT AUDITING STANDARDS AND UNIFORM GUIDANCE**

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COMMONWEALTH OF PUERTO RICO
PUERTO RICO INDUSTRIAL DEVELOPMENT COMPANY
 (A COMPONENT UNIT OF THE COMMONWEALTH OF PUERTO RICO)

SCHEDULE OF EXPENDITURES
 OF FEDERAL AWARDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2022

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Asisting Listing Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Passed-Through to Subrecipients</u>	<u>Total Federal Expenditures</u>
U.S. Department of Housing and Urban Development Program:				
Puerto Rico Department of Housing – Community Development Block Grant/State's Program and Non-Entitlement Grants in Hawaii – Disaster Recovery	14.228	PRDOH-2022-DR0129	\$ -	\$ 96,244
Total U.S. Department of Housing and Urban Development Program			-	96,244
U.S. Department of Treasury Program:				
Puerto Rico Treasury Department – Coronavirus State and Local Fiscal Recovery Funds	21.027	OE-2021-034	\$ -	\$ 15,188
Total U.S. Department of Treasury Program			-	15,188
U.S. Department of Homeland Security Program:				
Puerto Rico Central Recovery and Reconstruction Office: Disaster Grants – Public Assistance (Presidentially Declared Disasters)	97.036	N/A	\$ -	\$ 881,110
Total U.S. Department of Homeland Security Program			-	881,110
Total Expenditures of Federal Awards			\$ -	\$ 992,542

The accompanying Notes to Schedule of Expenditures of Federal Awards are an integral part of this Schedule.

1. BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (“the Schedule”) includes the Federal grant activities of the Puerto Rico Industrial Development Company of the Commonwealth of Puerto Rico (PRIDCO) for the year ended June 30, 2022. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of, the financial statements. PRIDCO reporting entity is defined in Note (1) (A) to the financial statements. All Federal financial awards received directly from Federal agency as well as Federal financial awards passed-through other government agencies, if any, are included on the Schedule.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- A. Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized when the liability is incurred, following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Expenditures for the public assistance disaster grant program are recognized in the period when: (1) the Federal Emergency Management Agency (FEMA) has approved the Project Worksheet (PW), and (2) eligible expenditures are incurred. It is drawn primarily from the PRIDCO’s internal accounting records, which are the basis for the PRIDCO’s Statement of Revenues, Expenses, and Changes in Net Position (the “Statement”).
- B. Negative amounts, if any, shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.
- C. Pass-through entity identifying numbers are presented where available and applicable.
- D. PRIDCO has not elected to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

3. SCHEDULE NOT IN AGREEMENT WITH OTHER FEDERAL AWARD REPORTING

The information included in the Schedule may not fully agree with other Federal award reports submitted directly to Federal granting agencies.

4. ASSISTANCE LISTING NUMBER

The Assistance Listing Number, formerly known as the Catalog of Federal Domestic Assistance (CFDA) Number, is a five-digit number assigned in the awarding document for all Federal assistance award mechanisms, including Federal grants and cooperative agreements.

5. RECONCILIATION OF EXPENDITURES PRESENTED IN THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS TO THE EXPENDITURES PRESENTED IN THE BASIC FINANCIAL STATEMENTS

After a presidentially declared disaster, FEMA provides Disaster Grants – Public Assistance (Presidentially Declared Disasters) (CFDA 97.036) to reimburse eligible costs associated with repair, replacement or restoration of disaster-damaged facilities. The Federal government makes reimbursements in the form of cost-shared grants that commonly require state matching funds. PRIDCO receives FEMA reimbursement funds from the Central Recovery and Reconstruction Office of Puerto Rico (COR3). COR3 is a division of the Puerto Rico Public Private Authority created through Executive Order 2017-65 to manage all efforts for the recovery of the Commonwealth of Puerto Rico (Commonwealth) after the passage of Hurricanes Irma and María.

continue

5. RECONCILIATION OF EXPENDITURES PRESENTED IN THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS TO THE EXPENDITURES PRESENTED IN THE BASIC FINANCIAL STATEMENTS – continuation

In addition, during the incident period of 12/28/2019 through 7/3/2020, Puerto Rico M6.5 Earthquake created an immediate threat to the health and safety of the general public requiring emergency response and protective measures. PRIDCO was granted, through COR3, different disaster recovery grants of FEMA related to these events of earthquakes.

COR3 was authorized by the Governor to receive all disaster recovery grants of FEMA. In Fiscal Year (FY) 2022, FEMA approved \$679 thousand for eligible expenditures that were incurred during the fiscal year 2022.

During the month of October 2022, COR3 issued a first Request for Information (RFI) that required PRIDCO to submit some clarification regarding descriptions included under PW1035. The PW requests funding for Direct Administrative Costs (DAC) that PRIDCO incurred performing damages assessment from 2017 to 2019. On March 8, 2023, COR3 issued a second RFI on which they notified that the amount of the claim was adjusted for \$159,649.84 because PRIDCO management decided not to resubmit the RFR. In addition, the claim was reduced by \$33,470.88 considering the adjustment for the state cost share.

6. LATE ISSUANCE OF SINGLE AUDIT REPORTING PACKAGE

The Single Audit reporting package, as defined and required in 2 CFR 200 for fiscal year ended June 30, 2022, could not be submitted in a timely manner.

END OF NOTES

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“ENHANCING THE QUALITY OF ACCOUNTING, AUDITING AND ATTESTATION SERVICES”

INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors of
Puerto Rico Industrial Development Company
(A Component Unit of the Commonwealth of Puerto Rico)
San Juan, Puerto Rico

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*), the financial statements of the **Puerto Rico Industrial Development Company of the Commonwealth of Puerto Rico (PRIDCO)** as of and for the fiscal year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise **PRIDCO’s** basic financial statements, and have issued our report thereon dated September 29, 2023.

Going Concern

Our report on the financial statements includes an emphasis-of-matter paragraph describing conditions, discussed in Note 4 to the financial statements, that raised substantial doubt about **PRIDCO’s** ability to continue as a going concern.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered **PRIDCO’s** internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of **PRIDCO’s** internal control. Accordingly, we do not express an opinion on the effectiveness of **PRIDCO’s** internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weakness or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control that we consider to be material weakness and significant deficiency.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of **PRIDCO’s** financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 2022-001 to be material weakness.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors of
Puerto Rico Industrial Development Company
(A Component Unit of the Commonwealth of Puerto Rico)

Page 2

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 2022-002 to be a significant deficiency.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether **PRIDCO's** financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

PRIDCO's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the **PRIDCO's** response to the findings identified in our audit and described in the accompanying Schedule of Findings and Questioned Costs. The **PRIDCO's** response was not subject to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of **PRIDCO's** internal control or on compliance. This report is an integral part of an audit reformed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



CPA DIAZ-MARTINEZ, CSP
Certified Public Accountants & Consultants
License Number 12, expires on December 1, 2025

Caguas, Puerto Rico
September 29, 2023

Stamp No. E539389 of the Puerto Rico Society of Certified
Public Accountants were affixed to the original report.



“ENHANCING THE QUALITY OF ACCOUNTING, AUDITING AND ATTESTATION SERVICES”

**INDEPENDENT AUDITOR’S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON
 INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

To the Board of Directors of
 Puerto Rico Industrial Development Company
 (A Component Unit of the Commonwealth of Puerto Rico)
 San Juan, Puerto Rico

Report on Compliance for Each Major Federal Program

Qualified Opinion

We have audited **Puerto Rico Industrial Development Company of the Commonwealth of Puerto Rico (PRIDCO)**’s compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on each of **PRIDCO**’s major Federal programs for the fiscal year ended June 30, 2022. **PRIDCO**’s major Federal programs are identified in the Summary of Auditors’ Result Section of the accompanying Schedule of Findings and Questioned Costs.

Qualified Opinion on Disaster Grants – Public Assistance (Presidentially Declared Disaster) Program

In our opinion, except for the noncompliance described in the *“Basis for Qualified Opinion* section of our report, **PRIDCO** complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on Disaster Grants – Public Assistance (Presidentially Declared Disaster) Program for the fiscal year ended June 30, 2022.

Basis for Qualified Opinion

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*); and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and Uniform Guidance are further described in the Auditor’s Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of **PRIDCO** and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified and unmodified opinions on compliance for each major Federal program. Our audit does not provide a legal determination of **PRIDCO**’s compliance with the compliance requirements referred to above.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Board of Directors of
Puerto Rico Industrial Development Company
(A Component Unit of the Commonwealth of Puerto Rico)

Page 2

Matter Giving Rise to Qualified Opinion on Disaster Grants – Public Assistance (Presidentially Declared Disaster) Program

As described in the accompanying Schedule of Findings and Questioned Costs, **PRIDCO** did not comply with requirement regarding Assistance Listing No. 97.036 Disaster Grants – Public Assistance (Presidentially Declared Disaster) as described in Finding Number 2022-003 for Reporting.

Compliance with such requirement is necessary, in our opinion, for **PRIDCO** to comply with the requirements applicable to this program.

Going Concern

Our report on the financial statements includes an emphasis-of-matter paragraph describing conditions, discussed in Note 4 to the financial statements, that raised substantial doubt about **PRIDCO**'s ability to continue as a going concern.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, status, regulations, rules, and provisions of contracts or grant agreements applicable to the **PRIDCO**'s Federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the **PRIDCO**'s compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the **PRIDCO**'s compliance with the requirements of each major Federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether do to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the **PRIDCO**'s compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Board of Directors of
Puerto Rico Industrial Development Company
(A Component Unit of the Commonwealth of Puerto Rico)

Page 3

- Obtain an understanding of the **PRIDCO's** internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the **PRIDCO's** internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses internal control over compliance that we identified during the audit.

Other Matters

Government Auditing Standards requires the auditor to perform limited procedures on **PRIDCO's** response to the noncompliance finding identified in our compliance audit described in the accompanying Schedule of Findings and Questioned Costs. **PRIDCO's** response was not subject to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the *Auditor's Responsibilities for the Audit of Compliance* section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we did identify a certain deficiency in internal control over compliance that we consider to be a material weakness.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a Federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a Federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 2022-003 to be material weakness.

A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a Federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

**To the Board of Directors of
Puerto Rico Industrial Development Company
(A Component Unit of the Commonwealth of Puerto Rico)**

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Government Auditing Standards requires the auditor to perform limited procedures on **PRIDCO's** response to the internal control over compliance finding identified in our compliance audit are described in the accompanying Schedule of Findings and Questioned Costs. **PRIDCO's** response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



CPA DIAZ-MARTINEZ, CSP
Certified Public Accountants & Consultants
License Number 12, expires on December 1, 2025

Caguas, Puerto Rico
September 29, 2023

Stamp No. E539390 of the Puerto Rico Society of Certified
Public Accountants were affixed to the original report.

PART III
FINDINGS AND QUESTIONED COSTS

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Section I – Summary of Auditor Results

Financial Statements

Type of auditor's report on whether the Financial Statements Audited were prepared in accordance with special reporting

- Unmodified Opinion
 Modified: Qualify Opinion
 Adverse Opinion
 Disclaimer Opinion

Internal control over financial reporting:

- Significant deficiency (ies) identified? Yes No
- Material weakness (es) identified? Yes No
- Noncompliance material to financial statements noted? Yes No

Federal Awards

Any audit finding disclosed that are required to be reported in accordance with 2 CRF 200.516(a)?

- Yes No

Type of auditor's report issued on compliance for each Major Federal Programs:

- Unmodified Opinion
 Qualify Opinion
 • Disaster Grants – Public Assistance (Presidentially Declared Disasters)
 Adverse Opinion Disclaimer Opinion

Internal control over Major Federal Programs::

- Significant deficiency (ies) identified? Yes No
- Material weakness (es) identified? Yes No
- Known Questioned Costs Greater than \$25,000 for a Compliance Requirement on a Major Program? Yes \$ - None Reported
- Known Questioned Costs Greater than \$25,000 on an Nonmajor Program? Yes \$ - None Reported
- Known or Likely Fraud Affecting a Federal Award? Yes \$ - None Reported

Questioned Costs

Identification of Major Federal Programs:

Federal Assistance Listing Number	Name of Federal Program or Cluster
97.036	Disaster Grants – Public Assistance (Presidentially Declared Disasters)

Dollar threshold used to distinguish between T type A and T type B Programs:

\$ 750,000

- Auditee qualified as low-risk auditee? Yes No

SECTION II – FINANCIAL STATEMENT FINDINGS

FINDING REFERENCE NUMBER	2022-001
TYPE OF FINDING	MATERIAL WEAKNESS IN PREPARED BANK RECONCILIATIONS
CRITERIA	Financial policy NO-FIN-001, establishes the standard and process for the preparation of bank reconciliations for PRIDCO and its subsidiaries. Section II states the standards for the preparation of bank reconciliations, establishing that payments issued over six (6) months need to be reviewed and moved to unclaimed payments accounts and will be eliminated from the list of outstanding items. Section III states the responsibilities for the preparer and for the reviewer, establishing that outstanding items over two (2) months need to be raised as part of the reviewer process.
CONDITION	<p>During fiscal year 2022 PRIDCO presented bank reconciliations with unreconciled differences of approximately \$2,659,595. Bank reconciliations do not present unreconciled balances in the face of the reconciliations.</p> <p>In addition, aged items dated from fiscal years 2016 to 2021 were still outstanding and not recorded in books.</p>
EFFECT	PRIDCO's cash accounting records did not provide updated and complete financial information that presents the correct cash balance in their accounts at the time of the authorization of payments and for financial reporting.
CAUSE	PRIDCO did not maintain effective internal control over the transactions recorded in its accounting records and the preparation of bank reconciliations.
IDENTIFICATION AS A REPEAT FINDING	Not previously reported.
RECOMMENDATION	We recommend that PRIDCO improve its established internal control and procedures to maintain an accounting system that contains information pertaining to bank reconciliations. Bank reconciliations should be performed monthly, signed by preparer and reviewer and aged items should be considered and adjusted during the review process.
VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTION	<p>Management is responsible for designing and maintaining internal controls over treasury (bank) accounts that are sufficient to provide reasonable assurance that cash balances are fairly stated in the financial statements and in conformity with US GAAP. Management will improve its treasury and cash financial reporting process policies and procedures to implement the following:</p> <ul style="list-style-type: none"> • The finance department will investigate reconciling items and discuss and resolve with the treasury department and/or the bank; and proceed to record the items in the general ledger. • Confirm with vendors for checks that have long being outstanding, the checks written to vendors who do not respond will be reclassified to unclaimed property.
IMPLEMENTATION DATE	November 30, 2023
RESPONSIBLE PERSON	Jamille Muriente, CFO, Julio López, Finance Director, Angel Acevedo, Accounting Manager, Nelson Barragán, Treasurer

continue

SECTION II – FINANCIAL STATEMENT FINDINGS

FINDING REFERENCE NUMBER	2022-002
TYPE OF FINDING	SIGNIFICANT DEFICIENCY
CRITERIA	Codification of Governmental Accounting and Financial Reporting Standards, Section 1100, Accounting and Reporting Capabilities, in Section .101, states that a governmental accounting system must make it possible both: (a) to present fairly and with full disclosure the funds and activities of the governmental unit in conformity with generally accepted accounting principles, and (b) to determine and demonstrate compliance with finance-related legal and contractual provisions.
CONDITION	As part of our audit procedures for financial reporting, we noted that significant adjustments were made after the initial trial balances and financial statements were made available to audit. Restatements to prior period balances in the amount of \$4.2M were made to record receivables and deferred revenues not recorded at the beginning of the fiscal year under audit. Also, restatement to prior period in the amount of \$735 thousand was made to record accounts receivable not recorded at the beginning of the fiscal audit year. In addition, uncollectible accounts receivables amounting to \$1.9M were identified after the initial trial balances.
EFFECT	Failure to properly present and accounts receivables and other transactions may affect Management decision making and incorrect assumptions of the users of the financial statements.
CAUSE	Internal controls of PRIDCO , failed to assure that accounting records reconciled with the related schedules on a timely basis.
IDENTIFICATION AS A REPEAT FINDING	This is a repeat finding (Finding Reference Number 2021-001).
RECOMMENDATION	We recommend Management to monitor the reconciliation of accounting records with subsidiaries periodically, in order to identify and correct any material misstatement timely.
VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTION	<p>Management is responsible for designing and maintaining internal controls over financial reporting that are sufficient to provide reasonable assurance that management can prepare financial statements in conformity with US GAAP. Management will improve accounting and financial reporting policies and procedures to implement the following:</p> <ul style="list-style-type: none"> • Prepare a detailed schedule of tasks with deadlines that includes specific procedures in the year end closing to ensure the general ledger is substantially final before the preparation and completion of the financial statements. Schedule tasks will include the completion of specific year-end journal entries, such as those related to open transactions listed in bank reconciliations, capital assets purchases and capitalizations, accounts payable accruals. • To meet the required deadlines, all parties involved will review and agree to the proposed deadlines. The financial reporting team will do the oversight and maintain the schedule to ensure deadlines are met. • Review current cutoff procedures and the methods to uncover unrecorded liabilities and capital assets at the end of the fiscal period.
IMPLEMENTATION DATE	November 30, 2023
RESPONSIBLE PERSON	Jamille Muriente, CFO, Julio López, Finance Director, Angel Acevedo, Accounting Manager

continue

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER	2022-003
FEDERAL PROGRAM	ALL FEDERAL PROGRAMS ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
AWARD NUMBER	ALL AWARDS
COMPLIANCE REQUIREMENT	REPORTING
TYPE OF FINDING	MATERIAL NONCOMPLIANCE AND MATERIAL WEAKNESS
CRITERIA OR SPECIFIC REQUIREMENT	2 CFR § 200.512 Report Submission, (a) (1) The audit must be completed and the data collection form described in paragraph (b) of this section and reporting package described in paragraph (c) of this section must be submitted within the earlier of 30 calendar days after receipt of the auditor's report(s), or nine months after the end of the audit period. If the due date falls on a Saturday, Sunday, or Federal holiday, the reporting package is due the next business day.
CONDITION	PRIDCO did not submit the Data Collection Form and Reporting Package to the Federal Audit Clearinghouse of fiscal year ending June 30, 2022 during the required period.
QUESTIONED COSTS	None
CONTEXT	PRIDCO was unable to provide timely the financial statements and related supporting documentation in order to apply required audit procedures.
EFFECT	PRIDCO did not comply with the submission date required for the Data Collection Form and Reporting Package, this could affect the continuance and new approvals of Federal funds. In addition, for the next two (2) fiscal years PRIDCO cannot be considered by the auditor as a low risk auditee.
CAUSE	PRIDCO did not have an effective accounting system and procedures to assure that the required financial statements and supporting documentation was made available for audit purposes within the required period established to comply with the Federal regulations.
IDENTIFICATION AS A REPEAT FINDING	Not previously reported.
RECOMMENDATION	We recommend PRIDCO maintain adequate accounting records related to the non-Federal and Federal funds in order to properly prepare the financial statements accurately and in a timely manner. In addition, PRIDCO needs to implement adequate internal controls procedures in order to ensure that the supporting documentation is available in a timely manner.

continue

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER **2022-003– continuation**

**VIEWS OF RESPONSIBLE
OFFICIALS AND PLANNED
CORRECTIVE ACTION**

Management is responsible for designing and maintaining internal controls over financial reporting that is sufficient to provide reasonable assurance that management can prepare the financial statement and the Uniform Guidance Audit Report in conformity with US GAAP and federal regulations. Management will improve accounting and financial reporting policies and procedures to include the timely issuance of the financial statement and the uniform guidance report.

IMPLEMENTATION DATE March 31, 2024

RESPONSIBLE PERSON Jamielle Muriante, CFO, Marjuli David Mateo, Contract Coordinator Officer

END OF SCHEDULE

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(1) **AUDIT FINDINGS THAT HAVE BEEN FULLY CORRECTED:**

NONE

(2) **AUDIT FINDINGS NOT CORRECTED OR PARTIALLY CORRECTED:**

FISCAL YEAR 2021

Findings Related to the Financial Statements:

Finding Reference Number	2021-001	Significant Deficiencies in Prepared Financial Statements
Statement of Condition		As part of our audit procedures for financial reporting, we noted that significant adjustments were made after the initial trial balances and financial statements were made available to audit. Restatements to prior period balances in the amount of \$2.3 million were made to correct misstated amounts at the beginning of the fiscal year under audit.
Recommendation		We recommend Management to monitor the reconciliation of accounting records with subsidiaries periodically, in order to identify and correct any material misstatement timely.
Current Status		Pending of final action of PRIDCO's Management.

Finding Reference Number	2021-002	Material Weakness and Noncompliance – Reporting (See Finding Reference Number 2021-003)
Statement of Condition		During our audit procedures of the Schedule of Expenditures of Federal Awards (SEFA) prepared by PRIDCO we identified material misstatements related to the program and expenditures reported in the Schedule. The Federal program expenditures were not correctly stated. Adjustments were proposed and posted by PRIDCO in order to reconcile the correct amounts included in the SEFA with the audited financial statements.

Findings Related to the Federal Programs:

Finding Reference Number	2021-003	Material Weakness and Noncompliance – Reporting (See Finding Reference Number 2021-002)
Assistance Listing Number	97.036	Disaster Grants – Public Assistance (Presidentially Declared Disasters)
Statement of Condition		During our audit procedures of the Schedule of Expenditures of Federal Awards (SEFA) prepared by PRIDCO we identified material misstatements related to the program and expenditures reported in the Schedule. The Federal program expenditures were not correctly stated. Adjustments were proposed and posted by PRIDCO in order to reconcile the correct amounts included in the SEFA with the audited financial statements.
Questioned Cost		None

(2) **AUDIT FINDINGS NOT CORRECTED OR PARTIALLY CORRECTED:** – continuation

Recommendation We recommend **PRIDCO** to maintain adequate records related to the Federal programs in order to properly identify the Federal programs/transactions when the SEFA is prepared. In addition, **PRIDCO** must perform a regular fiscal monitoring over the Federal programs transactions in order to provide reasonable assurance that all Federal programs/transactions are properly recorded and included in the SEFA.

Current Status No final determination has been received from the Federal Awarding Agency.

FISCAL YEAR 2020

Findings Related to the Federal Programs:

Finding Reference Number 2020-001 **Material Weakness and Noncompliance – Reporting**

Assistance Listing Number All Awards

Statement of Condition **PRIDCO** did not submit the Data Collection Form and Reporting Package to the Federal Audit Clearinghouse of fiscal year ending June 30, 2020 during the required period.

Questioned Cost None

Recommendation We recommend **PRIDCO** to maintain adequate accounting records related to the non-Federal and Federal funds in order to properly prepare the financial statements accurately and in a timely manner. In addition, **PRIDCO** need to implement adequate internal controls procedures in order to assure that the supporting documentation is available on a timely manner.

Current Status No final determination has been received from the Federal Awarding Agency.

FISCAL YEAR 2019

Findings Related to the Financial Statements:

Finding Reference Number 2019-001 **Significant Deficiencies in Prepared Financial Statements**

Statement of Condition As part of our audit procedures over financial reporting, we noted that significant adjustments were made after the initial trial balances and financial statements were made available to audit. Adjustments were needed in order to reconcile the financial statements amounts to the supporting documentation, such as capital assets schedule detail, long-term debts and related transactions with other entities of the Commonwealth. In addition, restatements to prior period balances in the amount of \$43.7 million were made to correct misstated amounts at the beginning of the fiscal year under audit.

Recommendation We recommend Management to monitor the reconciliation of accounting records with subsidiaries periodically, in order to identify and correct any material misstatement timely.

(2) AUDIT FINDINGS NOT CORRECTED OR PARTIALLY CORRECTED: – continuation

Recommendation

We recommend **PRIDCO** to maintain adequate accounting records related to the non-Federal and Federal funds in order to properly prepare the financial statements accurately and in a timely manner. In addition, **PRIDCO** needs to implement adequate internal controls procedures in order to ensure that the supporting documentation is available in a timely manner.

Current Status

No final determination has been received from the Federal Awarding Agency.

(3) CORRECTIVE ACTION TAKEN IS SIGNIFICANTLY DIFFERENT FROM CORRECTIVE ACTION PREVIOUSLY REPORTED:

NONE

(4) AUDIT FINDINGS IS NO LONGER VALID:

NONE

END OF SCHEDULE

SOLICITATION STATEMENT

THE PUERTO RICO INDUSTRIAL DEVELOPMENT COMPANY

Any questions or requests for assistance or for additional copies of this Solicitation Statement or related documents may be directed to the Information Agent at its telephone numbers and e-mail address set forth below.

The Calculation Agent and the Information Agent for this Solicitation is:

PRIDCO Qualifying Modification

c/o Kroll Restructuring Administration LLC (f/k/a Prime Clerk LLC)

850 Third Avenue

Suite 412

Brooklyn, NY 11232

International Telephone: +1 (646) 486-7944

U.S. and Puerto Rico Toll Free: (844) 822-9231

**Questions– may be sent by e-mail to:
puertoricoballots@ra.kroll.com (please reference “PRIDCO” in the subject line)**