Commonwealth of Puerto Rico

Conway MacKenzie

Liquidity Update

August 25, 2015

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Background & Process

Engagement Background and Scope

- On January 20, 2015, CM was retained as an advisor to the Government Development Bank for Puerto Rico. CM's scope of services included evaluating the short-term liquidity of the Commonwealth's General Fund ("GF") and projecting the anticipated budget deficit and resulting impact on the Commonwealth's liquidity for FY2015 and FY2016.
- As part of its engagement, CM provided the GDB with a preliminary draft report dated April 1, 2015 titled *Commonwealth of Puerto Rico Liquidity Update* (the "Preliminary Report"), detailing its findings and observations including GF liquidity projections through June 30, 2016. The Preliminary Report was subject to update with available FY2015 final data and other information. This Preliminary Report was referenced in the Commonwealth's May 2015 Quarterly Report.
- The information and projections contained herein serve to update the Preliminary Report for new information that affected the findings detailed in the Preliminary Report.
- The Commonwealth Department of Treasury ("Treasury") manages cash pooling with a Treasury Single Account ("TSA") in which it deposits and disburses amounts related to the GF, certain federal funds, government agencies, general obligation debt issuances ("GOs") and payments, net pension benefits, and other items.
- CM's initial findings in the Preliminary Report were focused primarily on activities relating to the GF in the TSA with high-level analyses of the Commonwealth's Component Units ("CUs").
- CM has since performed additional analyses for the following CUs: Administración de Seguros de Salud de Puerto Rico ("ASES"), Administración de Servicios Médicos de Puerto Rico ("ASEM"), Public Buildings Authority ("PBA"), Puerto Rico Integrated Transit Authority ("PRITA"), and the University of Puerto Rico ("UPR"). The results are incorporated herein.

Process Overview

- In preparing the information contained within this report, CM participated in meetings with certain governmental agencies, performed various analyses, and reviewed relevant information including, but not limited to:
  - Meetings with management of the Office of Management and Budget ("OMB"), Treasury, and GDB regarding their assessment of GF revenues, expenditures, cash flow, and liquidity;
  - Review and analysis of the FY2016 approved budget ("FY2016 Budget");
  - Review and analysis of Treasury's TSA Cash Flow projections;
  - Review and analysis of certain estimated balance sheet items; and
  - Review and analysis of historical cash flow, revenue, and expenditure trends.

Summary of Key Terms

Key Term	Definition
Additional Uniform Contribution	Retirement system contributions made to the Central Government Retirement System under Act 32 of 2013 and Judicial Retirement System Act 162-2013.
Bank Cash	Actual cash on hand unadjusted for outstanding checks, restricted cash and deposits in transit.
Book Cash	Bank Cash adjusted for outstanding checks, restricted cash, and deposits in transit. See page 40.
CM TSA Adjusted Cash Flow	CM TSA Baseline Cash Flow adjusted for Risk Adjustments detailed on page 12.
CM TSA Baseline Cash Flow	Treasury TSA Cash Flow including Normalization Adjustments detailed on page 23.
Component Unit (“CU”)	Legally separate units within the Commonwealth, where the Commonwealth is either financially accountable for them or has a relationship of material significance.
Economic Development and Obligations Payment Fund	A special fund in the FY2016 Budget created by section 12 of Joint Resolution 748 of 2015 for the payment of expenditures related to the Commonwealth's economic development or for the payment of Commonwealth obligations.
FY2016 Budget	Appropriated expenditures in Joint Resolution 748 and Joint Resolution 747 approved by law and effective July 1, 2015.
General Fund (“GF”)	Covers all Commonwealth appropriations, expenditures, receipts and transactions except those for which special constitutional or statutory requirements demand separate fund accounting.
Liquidity Enhancement Measures	Revenue enhancement and/or expenditure reduction initiatives, identified and/or implemented by the Commonwealth, to improve FY2016 GF cash flow.
Preliminary Report	The *Commonwealth of Puerto Rico Liquidity Update* report produced by CM dated April 5, 2015.
Normalization Adjustments	CM adjustments to the Treasury TSA Cash Flow in order to compare, on a direct basis with the FY2016 Budget.
Public Enterprise (“PE”)	Government enterprises which provide goods and services primarily to the public on a charge basis.
Restricted Funds	Collections originated from amounts set aside from the budget and/or special assignment laws unavailable for use other than that which is legally specified.
Risk Adjustment	Adjustments to the CM TSA Baseline Cash for expenditure and revenue risks identified on page 12.
Treasury Single Account (“TSA”)	See page 21 for details.
Treasury TSA Cash Flow	Treasury's Treasury Single Account (i.e., concentration account) forecast for FY2016 prepared June 15, 2015.

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Section I:

EXECUTIVE SUMMARY

Executive Summary

- The Commonwealth has been operating with limited liquidity. Liquidity has been managed by extraordinary measures such as tax amnesty programs to increase revenue, intergovernmental loans, and deferred payments to vendors, tax payers, and government agencies.
- Despite these actions, the Commonwealth ended FY2015 with a bank balance of approximately $13.8 million in the TSA account, and a Book Cash overdraft of $428.8 million. This bank balance is very low, as the TSA represents the primary concentration account of the Treasury, including certain federal funds and other cash activity that exceeds $18.0 billion of inflows and outflows.
- The Legislative Assembly approved a balanced budget for FY2016. However, the projected cash balance is negative throughout a majority of the year, prior to Liquidity Enhancement Measures, due to the timing of revenue collections. The Commonwealth has implemented certain measures and budgetary reserves to improve liquidity throughout the year.
- After certain risk adjustments are taken into consideration, CM estimates that cash is projected to be negative in the month of November 2015. Although the Commonwealth will likely manage this liquidity constraint, the projected cash deficit starting in June 2016 will be more challenging to overcome.
- Key CM assumptions in this report include: (1) paying debt obligations approved within the FY2016 Budget as they become due, (2) payment of vendor obligations on a similar run-rate as FY2015 (i.e., not further stretching payables) and (3) making payments to the GDB based on negotiated debt schedules with OMB, so as not to jeopardize GDB's liquidity position. CM has also identified potential risk in revenue that will affect cash flow primarily during May 2016 and June 2016.
- Under these assumptions, CM projects a negative Bank Cash balance of $511.6 million as of June 2016. Additionally, CM estimates that there are other risks, net of opportunities, in the Commonwealth ranging from $100.4 million to $1.3 billion that could affect liquidity during FY2016, or in later years as depicted in Table A (page 9).
- Traditional measures that have been utilized by the Commonwealth to delay the payment of obligations are not sustainable over the long-term. The deferrals, if significant enough, may unfavorably affect the economy. Structural changes, longer-term cash management, and financing measures are needed as part of a long-term plan, potentially including changes to revenue, expenditures, debt obligations, and other liabilities of the Commonwealth.

Executive Summary – Perimeter of Liquidity Analysis

This FY2016 Liquidity Update incorporates the following:

1. TSA FY2016 projection

- FY2016 GF budget
  - Treasury's revenue budget for FY2016
    - Sales tax, net of debt payments to Puerto Rico Sales Tax Financing Corporation ("COFINA"), the Municipal Administration Fund ("FAM") and others.
  - Approved expenditures budget for FY2016
- Federal funds
- Net pension benefits
- Non-GF revenue/expenses through the TSA
- CM Risk Adjustments to the TSA (debt, working capital, etc.)
- Commonwealth's Liquidity Enhancement Measures

2. FY2016 select CU projections (produced by CM in collaboration with CU management and GDB)

- ASES, PRITA, UPR, PBA, ASEM

CM's analysis does not include cash flow projections for the following:

1. CUs, aside from the five noted above

2. Non-GF governmental funds

- Special revenue funds
- Special debt funds
- Capital project funds
- Non-major proprietary funds
- Other non-governmental and fiduciary funds

3. Municipalities and the Municipal Property Tax Collection Center ("CRIM")

The Krueger Report, *Puerto Rico - A Way Forward*, originally issued on June 29, 2015, measured a deficit under an approach that is different than CM's approach in the following areas: the Krueger Report used an accrual accounting method as compared to cash; Krueger's methodology included GDB debt owed to third parties versus CM's approach that included debt obligations owed to GDB; and finally, the Krueger report's scope included the broader Commonwealth financial position and CM's approach only includes inflows and outflows of the TSA account as noted above.

Executive Summary – CM's Analytical Approach

CM's approach to produce this Liquidity Update is described below:

Treasury's TSA Cash Flow Forecast

+

Normalization Adjustments to compare with FY2016 approved budget (Table K)

=

CM TSA Baseline Cash Flow

+

Adjustments for identified risks and opportunities (Table D)

=

CM TSA Adjusted Cash Flow

+

Other potential risks and opportunities (Table H)

=

FY2016 Liquidity Update

Executive Summary – Liquidity Outlook

TABLE A – Liquidity Outlook Summary

($'s in millions)		Proj. Jul - 15	Proj. Aug - 15	Proj. Sep - 15	Proj. Oct - 15	Proj. Nov - 15	Proj. Dec - 15	Proj. Jan - 16	Proj. Feb - 16	Proj. Mar - 16	Proj. Apr - 16	Proj. May - 16	Proj. Jun - 16	Proj. FY 2016 Low	Proj. FY 2016 High
CM TSA Baseline Cash Flow *(Table B)*	Cash Inflows	$ 1,810	$ 1,036	$ 1,222	$ 1,381	$ 1,045	$ 1,587	$ 1,523	$ 1,488	$ 1,367	$ 1,850	$ 1,392	$ 1,655	$ 17,356	$ 17,356
	Cash Outflows	(1,764)	(1,359)	(1,391)	(1,403)	(1,387)	(1,525)	(1,359)	(1,358)	(1,373)	(1,359)	(1,363)	(1,677)	(17,319)	(17,319)
	CM TSA Baseline Cash Flow	**$ 46**	**$ (323)**	**$ (169)**	**$ (22)**	**$ (341)**	**$ 62**	**$ 163**	**$ 129**	**$ (7)**	**$ 490**	**$ 29**	**$ (22)**	**$ 37**	**$ 37**
	Beginning Bank Cash Balance	**14**	**59**	**(264)**	**(433)**	**(454)**	**(795)**	**(733)**	**(570)**	**(441)**	**(447)**	**43**	**72**	**14**	**14**
	Ending Bank Cash Balance	**59**	**(264)**	**(433)**	**(454)**	**(795)**	**(733)**	**(570)**	**(441)**	**(447)**	**43**	**72**	**51**	**51**	**51**
Risk Adjustments *(Table D)*	Budget Adjustments														
	Revenue	27	0	1	1	1	4	(24)	1	(30)	(4)	(69)	(215)	(306)	(306)
	Litigation Settlement	(5)	-	-	-	-	-	-	-	-	-	-	-	(5)	(5)
	Debt Risk Adjustments	(158)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(5)	(2)	(227)	(402)	(402)
	Economic Development Fund	158	1	1	1	1	1	1	1	1	5	2	100	275	275
	Total Budget Adjustments	$ 22	$ 0	$ 1	$ 1	$ 1	$ 4	$ (24)	$ 1	$ (30)	$ (4)	$ (69)	$ (342)	$ (439)	$ (439)
	Deferred Appropriations	(72)	(52)	-	-	-	-	-	-	-	-	-	-	(124)	(124)
	Total Risks	**$ (50)**	**$ (51)**	**$ 1**	**$ 1**	**$ 1**	**$ 4**	**$ (24)**	**$ 1**	**$ (30)**	**$ (4)**	**$ (69)**	**$ (342)**	**$ (562)**	**$ (562)**
Measures *(Table E)*	**Liquidity Enhancement Measures**	**$ 93**	**$ 493**	**$ 93**	**$ 93**	**$ 93**	**$ (241)**	**$ 93**	**$ 93**	**$ 93**	**$ 93**	**$ (107)**	**$ (890)**	**$ (0)**	**$ (0)**
CM TSA Adjusted Cash Flow *(Table F)*	**Beginning Bank Cash**	**14**	**103**	**221**	**146**	**218**	**(30)**	**(205)**	**28**	**252**	**308**	**888**	**741**	**$ 14**	**$ 14**
	Adjusted Ending Bank Cash	**103**	**221**	**146**	**218**	**(30)**	**(205)**	**28**	**252**	**308**	**888**	**741**	**(512)**	**(512)**	**(512)**
Additional Risks and Opportunities *(Table H)*	Electronic Lottery													$ 100	$ 50
	Video Lottery													100	50
	Tax Compliance													50	50
	Total Other Opportunities													$ 250	$ 150
	Select Component Units													$ -	$ (193)
	Incremental Debt Service													(150)	(150)
	Pension													-	(183)
	Due to Intergovernmental													-	(500)
	Cash Disbursements for AP from Prior Years													(200)	(400)
	Total Other Risks													$ (350)	$ (1,426)
	Total Additional Risks and Opportunities													**$ (100)**	**$ (1,276)**
FY 2016 Liquidity Update	**Beginning Bank Cash**													**$ 14**	**$ 14**
	CM Adjusted TSA Ending Bank Cash													**(612)**	**(1,788)**

Section II:

LIQUIDITY DETAIL

Liquidity Detail – CM TSA Baseline Cash Flow

- The CM TSA Baseline Cash Flow (Table B) is based on Treasury's TSA Cash Flow as of June 15, 2015, normalized by CM (Table K).
- The CM TSA Baseline Cash Flow projects net cash flows of $36.9 million for FY2016 prior to any Risk Adjustments or Commonwealth Liquidity Enhancement Measures.
- Due to the timing of cash flows, there is a Bank Cash deficit projected to begin in August 2015 of $263.9 million with a peak Bank Cash deficit of $795.5 million occurring in November 2015.
- Bank Cash is projected to return and remain positive through the end of FY2016 beginning in April 2016. The FY2016 year-end Bank Cash balance is projected to have a surplus of $50.7 million.

TABLE B – CM TSA Baseline Cash Flow

($'s in millions)	Proj. Jul-15	Proj. Aug-15	Proj. Sep-15	Proj. Oct-15	Proj. Nov-15	Proj. Dec-15	Proj. Jan-16	Proj. Feb-16	Proj. Mar-16	Proj. Apr-16	Proj. May-16	Proj. Jun-16	Proj. FY2016
Beg. Bank Cash Bal.	$ 13.8	$ 59.5	$ (263.9)	$ (432.6)	$ (454.4)	$ (795.5)	$ (733.3)	$ (570.2)	$ (440.8)	$ (447.5)	$ 43.0	$ 72.2	$ 13.8
Cash Inflows [1]	1,809.6	1,036.1	1,222.3	1,380.9	1,045.5	1,587.3	1,522.5	1,487.7	1,366.7	1,849.9	1,392.1	1,655.3	17,355.8
Cash Outflows	(1,763.9)	(1,359.4)	(1,391.1)	(1,402.6)	(1,386.6)	(1,525.1)	(1,359.4)	(1,358.4)	(1,373.4)	(1,359.4)	(1,362.9)	(1,676.8)	(16,492.2)
CM TSA Baseline Cash Flow	45.7	(323.3)	(168.8)	(21.7)	(341.1)	62.2	163.1	129.4	(6.7)	490.5	29.2	(21.6)	36.9
Ending Bank Cash Bal.	**$ 59.5**	**$ (263.9)**	**$ (432.6)**	**$ (454.4)**	**$ (795.5)**	**$ (733.3)**	**$ (570.2)**	**$ (440.8)**	**$ (447.5)**	**$ 43.0**	**$ 72.2**	**$ 50.7**	**$ 50.7**
Memo:													
Bank to Book Cash Difference (Table T)	*(442.6)*	*(442.6)*	*(442.6)*	*(442.6)*	*(442.6)*	*(442.6)*	*(442.6)*	*(442.6)*	*(442.6)*	*(442.6)*	*(442.6)*	*(442.6)*	*(442.6)*
Ending Book Cash Bal.	*$ (383.1)*	*$ (706.5)*	*$ (875.2)*	*$ (897.0)*	*$ (1,238.1)*	*$ (1,175.9)*	*$ (1,012.8)*	*$ (883.4)*	*$ (890.1)*	*$ (399.6)*	*$ (370.4)*	*$ (391.9)*	*$ (391.9)*

Footnotes:

[1] Cash inflows include accelerated pension receipts included in the Commonwealth Liquidity Measures.

Source: Treasury's TSA Cash Flow dated June 15, 2015 with Normalized Adjustments (Table K) and updated to reflect actual Bank Cash as of end of day June 30, 2015 as reported by Treasury.

Liquidity Detail – Risk Adjustments

Risk Adjustments to the CM TSA Baseline Cash Flow totaling $562.3 million, as follows:

- Budget adjustments: $438.5 million
  - Revenue risk shortfall of $306.4 million calculated using a similar methodology as Treasury to estimate FY2016 revenue. Treasury's $9.8 billion revenue budget was estimated using preliminary data through April 2015. The revenue risk noted is primarily attributable to unfavorable revenue variances for May and June of 2015.
  - Expenditure and debt risks total $132.1 million:
    - Expenditure risk relates to a $5.1 million litigation settlement not included in the FY2016 Budget.
    - Debt risk of $402.0 million is primarily related to debt obligations owed to GDB, for bonds held in the GDB portfolio, and debt service payments related to the Puerto Rico Public Finance Corporation ("PFC"), as follows:
      - $308.3 million – contractually obligated debt payments for FY2016 related to obligations owed to GDB. These debt service payments were not approved by the Legislative Assembly in the FY2016 Budget. Although a cash savings for the TSA, payment of this debt on terms other than the contractual terms could have a negative impact on GDB's liquidity and its ability to pay obligations as they become due.
      - $93.7 million – the Legislative Assembly may appropriate for PFC debt service in FY2016.
    - A proposed Economic Development and Obligations Payment Fund totaling $275.0 million has been created to be used for economic development initiatives and/or (as assumed in the CM TSA Adjusted Cash Flows) the payment of obligations pending legislative approval.
- TSA adjustments: $123.8 million
  - Working capital adjustments for deferred appropriations due to certain GF agencies and CUs related to FY2015. See Table D for further details.
- There are other risks not included in the adjustments above as noted on page 17.

TABLE C – Risk Adjustments to CM TSA Baseline Cash Flow

($'s in millions)		FY2016
Budget Adjustments:		
Revenue (Table L)		(306.4)
Litigation settlement		(5.1)
Debt (Table O)		(402.0)
Economic Development and Obligations Payment Fund		275.0
Budget Adjustments	**$**	**(438.5)**
TSA Adjustments (additional to Budget Adjustments):		
Working Capital (Deferred Appropriations) [1]		(123.8)
TSA Adjustments	**$**	**(123.8)**
Total Risk Adjustments	**$**	**(562.3)**

Footnotes:

[1] Relates to prior years' budget appropriations projected to be paid in FY2016 (Table D).

- Budget adjustment risk – CM continues to diligence certain reductions in appropriations from FY2015 to FY2016 to understand the reason for variances. As of this publication, those items represent a risk between $0 and $65.0 million.

Liquidity Detail – Risk Adjustments (cont'd)

- Table D illustrates the budget adjustments and TSA adjustments on a monthly basis for FY2016.
- Detail on FY2016 revenue risk adjustments is shown on page 25 (Table L).
- Detail on FY2016 expenditure risk adjustments is shown on pages 30-31 (Tables N and O).

TABLE D – Monthly Risk Adjustments to CM TSA Baseline Cash Flow

($'s in millions)	Proj. Jul-15	Proj. Aug-15	Proj. Sep-15	Proj. Oct-15	Proj. Nov-15	Proj. Dec-15	Proj. Jan-16	Proj. Feb-16	Proj. Mar-16	Proj. Apr-16	Proj. May-16	Proj. Jun-16	Proj. FY2016
Budget Adjustments:													
Revenue:													
Increase for additional S&U Tax	$ 0.0	$ 0.5	$ 0.6	$ 0.5	$ 0.6	$ 0.6	$ 1.4	$ 1.3	$ 1.2	$ 1.5	$ 1.4	$ 1.5	$ 11.0
Increase for Corp. Income Tax	-	-	-	-	-	3.6	-	-	-	5.8	-	5.6	15.0
Ventanas 2 - received in July not budgeted	27.0	-	-	-	-	-	-	-	-	-	-	-	27.0
Reduce for May actual results	-	-	-	-	-	-	-	-	-	-	(64.9)	-	(64.9)
Reduce for prelim. June results	-	-	-	-	-	-	-	-	-	-	-	(163.4)	(163.4)
Reduce for lower FY2015 closings	-	-	-	-	-	-	-	-	-	-	-	(46.5)	(46.5)
Reduction for HTA fees	-	-	-	-	-	-	-	-	(30.8)	(6.4)	(5.4)	(12.0)	(54.6)
Reduce for one-time lottery	-	-	-	-	-	-	(25.0)	-	-	(5.0)	-	-	(30.0)
Total Revenue Risk Adjustments	$ 27.0	$ 0.5	$ 0.6	$ 0.5	$ 0.6	$ 4.1	$ (23.6)	$ 1.3	$ (29.6)	$ (4.1)	$ (68.9)	$ (214.7)	$ (306.4)
Expenditures:													
Litigation Settlement	(5.1)	-	-	-	-	-	-	-	-	-	-	-	(5.1)
Debt Risk Adjustments [1]	(157.8)	(1.3)	(1.3)	(1.3)	(1.3)	(1.3)	(1.3)	(1.3)	(1.3)	(4.7)	(1.6)	(227.3)	(402.0)
Econ. Dev./Debt Fund ($275 million) [2]	157.8	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	4.7	1.6	100.3	275.0
Total Expenditure Risk Adjustments, net	$ (5.1)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ (127.0)	$ (132.1)
Total Budget Adjustments	**$ 21.9**	**$ 0.5**	**$ 0.6**	**$ 0.5**	**$ 0.6**	**$ 4.1**	**$ (23.6)**	**$ 1.3**	**$ (29.6)**	**$ (4.1)**	**$ (68.9)**	**$ (341.7)**	**$ (438.5)**
TSA Adjustments: [3]													
FY2015 deferred UPR approp.	$ (20.0)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ (20.0)
FY2015 deferred PBA approp.	(21.4)	(21.4)	-	-	-	-	-	-	-	-	-	-	(42.8)
FY2015 deferred CRIM approp., net	(30.5)	(30.5)	-	-	-	-	-	-	-	-	-	-	(61.0)
Total TSA Adjustments	**$ (71.9)**	**$ (51.9)**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ (123.8)**
Total Risk Adjustments	**$ (50.0)**	**$ (51.4)**	**$ 0.6**	**$ 0.5**	**$ 0.6**	**$ 4.1**	**$ (23.6)**	**$ 1.3**	**$ (29.6)**	**$ (4.1)**	**$ (68.9)**	**$ (341.7)**	**$ (562.3)**

Footnotes:

[1] Debt Risk Adjustment:	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15	Dec-15	Jan-16	Feb-16	Mar-16	Apr-16	May-16	Jun-16	FY2016
PFC Debt Service	$ 93.7	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 93.7
FY2015 Debt Service	25.9	-	-	-	-	-	-	-	-	-	-	-	25.9
FY2016 Internal TRANs Interest	-	-	-	-	-	-	-	-	-	(0.9)	(0.1)	(0.0)	(1.0)
Debt Service not included in FY2016 Budget	38.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	5.5	1.7	227.4	283.4
Debt Risk Adjustments	**$ 157.8**	**$ 1.3**	**$ 1.3**	**$ 1.3**	**$ 1.3**	**$ 1.3**	**$ 1.3**	**$ 1.3**	**$ 1.3**	**$ 4.7**	**$ 1.6**	**$ 227.3**	**402.0**

[2] The Econ Dev./Debt Fund is assumed to offset the first $275.0 million of debt risk adjustments.

[3] TSA adjustments relate to catch up payments for deferred budgeted appropriations in previous fiscal periods. These were paid in July and August 2015.

Liquidity Detail – Commonwealth Liquidity Enhancement Measures

- The Commonwealth has identified and put in place the following Liquidity Enhancement Measures:
  - Intergovernmental TRANs financing totaling $400.0 million, which were collected in August 2015 and are assumed to repaid in two equal installments in May 2016 and June 2016.
  - Suspending GO sinking fund payment totaling $93.1 million per month. Semi-annual debt service payments are projected for December 2015 and June 2016.(1) The peak cash benefit is approximately $465.5 million, prior to the months when payments are scheduled. This Liquidity Enhancement Measure has been approved by the Legislative Assembly. Note that the semi-annual debt service payments are due on January 1, 2016 and July 1, 2016. In order to account for the disbursement within the CM TSA Adjusted Cash Flow during FY2016, these disbursements were included in the month prior to each respective payment date.
  - Net pension reimbursement advances provided improved cash flow of approximately $295.0 million in July 2015 and will provide $141.0 million in each of October 2015, December 2015 and February 2016. This benefit decreases over time as the total receipts from ERS/TRS do not change for FY2016. This Liquidity Enhancement Measure has been included in the Treasury TSA Cash Flow and is <u>not depicted separately</u> in the table below. This Liquidity Enhancement Measure was approved by the Board of both ERS and TRS.
  - $300.0 million refinancing of the 2015 C-Series TRANs through an internal line of credit (GDB TRANs) in July 2015. This Liquidity Enhancement Measure has been included in the Treasury TSA Cash Flow and is <u>not depicted separately</u> in the table below.
  - Income tax refunds that remain outstanding for the 2014 tax year total approximately $291.0 million as of June 30, 2015. In the FY2016 CM TSA Cash Flow, these refunds will not be paid in full until February 2016, at the earliest. This Liquidity Enhancement Measure has been included in the Treasury TSA Cash Flow and is <u>not depicted separately</u> in the table below. Interest will accrue on these returns at 6% per annum beginning after July 31, 2015. The interest total may exceed $4.1 million.
- Table E illustrates the Commonwealth Liquidity Enhancement Measures not captured in the Treasury TSA Cash Flow on a monthly basis.

TABLE E – Normalized Cash Flow with Liquidity Enhancement Measures

($'s in millions)	Proj. Jul-15	Proj. Aug-15	Proj. Sep-15	Proj. Oct-15	Proj. Nov-15	Proj. Dec-15	Proj. Jan-16	Proj. Feb-16	Proj. Mar-16	Proj. Apr-16	Proj. May-16	Proj. Jun-16	Proj. FY2016
Commonwealth Liquidity Enhancement Measures:													
Intergovernmental TRAN [1]	$ -	$ 400.0	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ (200.0)	$ (200.0)	$ -
Suspend GO set-asides	93.1	93.1	93.1	93.1	93.1	(241.4)	93.1	93.1	93.1	93.1	93.1	(689.7)	(0.0)
Total Commonwealth Initiatives	**$ 93.1**	**$ 493.1**	**$ 93.1**	**$ 93.1**	**$ 93.1**	**$ (241.4)**	**$ 93.1**	**$ 93.1**	**$ 93.1**	**$ 93.1**	**$ (106.9)**	**$ (889.7)**	**$ (0.0)**

<u>Footnotes:</u>

[1] Payments in May 2016 and June 2016 exclude unbudgeted interest payments. Unbudgeted interest payments are captured in the Risk Adjustments.

Source: Liquidity Enhancement Measures provided by the Commonwealth.

Liquidity Detail – CM TSA Adjusted Cash Flow

- The CM TSA Adjusted Cash Flow for FY2016 (Table F) projects a Bank Cash deficit of $29.8 million in November 2015 and a peak Bank Cash deficit of $511.6 million in June 2016.
- The projected ending Bank and Book Cash balance includes risks identified by CM and Liquidity Enhancement Measures identified by the Commonwealth.
- The TSA had approximately $442.6 million in reconciling items between its Bank and Book Cash balances as of June 30, 2015. CM assumes that this variance will remain through FY2016, and, as a result, the TSA Book Cash projection is negative through most of FY2016.

TABLE F – Summary of CM TSA Adjusted Cash Flow

($'s in millions)	Proj. Jul-15	Proj. Aug-15	Proj. Sep-15	Proj. Oct-15	Proj. Nov-15	Proj. Dec-15	Proj. Jan-16	Proj. Feb-16	Proj. Mar-16	Proj. Apr-16	Proj. May-16	Proj. Jun-16	Proj. FY2016
Beg. Bank Cash Bal.	$ 13.8	$ 102.6	$ 220.9	$ 145.8	$ 217.7	$ (29.8)	$ (204.8)	$ 27.8	$ 251.6	$ 308.4	$ 887.9	$ 741.3	$ 13.8
CM TSA Baseline Cash Flow (Table B)	45.7	(323.3)	(168.8)	(21.7)	(341.1)	62.2	163.1	129.4	(6.7)	490.5	29.2	(21.6)	36.9
Risk Adjustments (Table C)	(50.0)	(51.4)	0.6	0.5	0.6	4.1	(23.6)	1.3	(29.6)	(4.1)	(68.9)	(341.7)	(562.3)
Commonwealth Liquidity Enhancement Measures (Table E)	93.1	493.1	93.1	93.1	93.1	(241.4)	93.1	93.1	93.1	93.1	(106.9)	(889.7)	(0.0)
CM TSA Adjusted Cash Flow	$ 88.8	$ 118.3	$ (75.1)	$ 71.9	$ (247.5)	$ (175.1)	$ 232.6	$ 223.8	$ 56.8	$ 579.5	$ (146.6)	$ (1,253.0)	$ (525.4)
Ending Bank Cash Bal.	**$ 102.6**	**$ 220.9**	**$ 145.8**	**$ 217.7**	**$ (29.8)**	**$ (204.8)**	**$ 27.8**	**$ 251.6**	**$ 308.4**	**$ 887.9**	**$ 741.3**	**$ (511.6)**	**$ (511.6)**
Memo:													
Bank to Book Cash Difference (Table Y)	*(442.6)*	*(442.6)*	*(442.6)*	*(442.6)*	*(442.6)*	*(442.6)*	*(442.6)*	*(442.6)*	*(442.6)*	*(442.6)*	*(442.6)*	*(442.6)*	*(442.6)*
Ending Book Cash Bal.	*$ (340.0)*	*$ (221.7)*	*$ (296.8)*	*$ (224.9)*	*$ (472.4)*	*$ (647.4)*	*$ (414.8)*	*$ (191.0)*	*$ (134.2)*	*$ 445.3*	*$ 298.7*	*$ (954.2)*	*$ (954.2)*

Liquidity Detail – FY2016 Select Component Units Risk

Additional Risks Excluded from CM TSA Adjusted Cash Flow

- CM analyzed five select CUs and worked with each management team to develop five-year cash flow projections. While the GF budget provides appropriations for these organizations, cash deficiencies from these CUs may represent additional risk to the TSA. A summary of the analyses is described below:
  - ASES – net cash flow for FY2016 is projected to be negative $47.2 million. ASES is seeking a credit facility of $150.0 million and deferrals of 50% of third-party administrator claims.
  - ASEM – net cash flow for FY2016 is projected to be negative $33.8 million.
  - PBA – net cash flow for FY2016 is projected to be negative $53.4 million.
  - PRITA – net cash flow for FY2016 is projected to be negative $25.0 million.
  - UPR – net cash flow for FY2016 is projected to be positive $109.2 million with an ending cash balance of $193.1 million.
    - Since UPR is projected to have positive cash flow, it is not included in Table G below.
- Aggregated financing gap (peak cash need) of $192.8 million is projected outside of the $9.8 billion budget.
- Additional risk (and opportunity) related to other CUs is not quantified and beyond the scope of this report.

TABLE G – Select Component Units Risks

($'s in millions)	Proj. Jul-15	Proj. Aug-15	Proj. Sep-15	Proj. Oct-15	Proj. Nov-15	Proj. Dec-15	Proj. Jan-16	Proj. Feb-16	Proj. Mar-16	Proj. Apr-16	Proj. May-16	Proj. Jun-16	Proj. FY2016
ASES [1]	$ (101.1)	$ 19.9	$ (10.3)	$ 13.0	$ 24.4	$ (7.3)	$ (7.8)	$ 23.6	$ (8.1)	$ (8.2)	$ 23.2	$ (8.5)	$ (47.2)
ASEM	(2.3)	(1.3)	(3.0)	(5.9)	(2.4)	(4.2)	(2.4)	(2.6)	(2.1)	(2.6)	(2.6)	(2.4)	(33.8)
PBA	(1.2)	(1.8)	(7.0)	(1.5)	(3.6)	(5.2)	(1.4)	(4.4)	(4.6)	0.0	(4.4)	(18.3)	(53.4)
PRITA	(2.3)	(2.0)	(2.0)	(3.2)	(2.4)	(3.8)	(1.3)	(1.5)	(1.7)	(2.7)	(1.5)	(0.5)	(25.0)
CU Net Cash Flow	**$ (106.9)**	**$ 14.7**	**$ (22.4)**	**$ 2.4**	**$ 15.9**	**$ (20.5)**	**$ (12.9)**	**$ 15.1**	**$ (16.5)**	**$ (13.5)**	**$ 14.7**	**$ (29.7)**	**$ (159.5)**
Beg. CU Bank Cash Bal.	$ 63.4	$ (43.5)	$ (28.8)	$ (51.1)	$ (48.8)	$ (32.8)	$ (53.4)	$ (66.3)	$ (51.2)	$ (67.7)	$ (81.2)	$ (66.4)	$ 63.4
CU Net Cash Flow	(106.9)	14.7	(22.4)	2.4	15.9	(20.5)	(12.9)	15.1	(16.5)	(13.5)	14.7	(29.7)	(159.5)
Ending CU Bank Cash Bal.	**$ (43.5)**	**$ (28.8)**	**$ (51.1)**	**$ (48.8)**	**$ (32.8)**	**$ (53.4)**	**$ (66.3)**	**$ (51.2)**	**$ (67.7)**	**$ (81.2)**	**$ (66.4)**	**$ (96.1)**	**$ (96.1)**
Peak Cash Need [2]	*$ (53.0)*	*$ (136.0)*	*$ (149.6)*	*$ (144.0)*	*$ (128.2)*	*$ (148.8)*	*$ (162.3)*	*$ (147.3)*	*$ (163.9)*	*$ (177.6)*	*$ (162.9)*	*$ (192.8)*	*$ (192.8)*

Footnotes:

[1] ASES is seeking a $150.0 million credit facility, which if completed, will reduce ASES' cash deficiency and peak cash need. The projections do not assume a 50% deferral of third-party administrator claims.

[2] ASES working capital needs during the month fluctuate significantly creating a peak need that is not identified when looking at the month-end balance.

Source: Five-year projections prepared by CU Management in conjunction with CM.

Liquidity Detail – FY2016 Other Risks

Additional Risks Excluded from CM TSA Adjusted Cash Flow (cont'd)

- Other risks not included within Table F that may impact the Commonwealth:
  - Pension risk – TRS and ERS are expected to run out of assets, and thus, contributions from the GF budget may be required to support these plans. Current law requires the GF budget to maintain minimum asset values for ERS and TRS of $1 billion and $300 million, respectively. Historically, the GF budget has not made all Additional Uniform Contributions to ERS, which, among other factors, has resulted in an increase in the Additional Uniform Contribution required payment for future years. This risk will continue to increase if future payments are deferred. See Appendix G.
  - Litigation risk – the booked litigation liability is $1.9 billion as of June 30, 2014, and an additional $8.2 billion in claims exist. While the Commonwealth believes these additional claims are without merit or unlikely of successful prosecution, to the extent this risk materializes, including the related costs of defense, it will increase the cash shortfall. See Appendix G.
  - Budget adjustment risk – CM continues to diligence certain reductions in appropriations from FY2015 to FY2016 to understand the reason for the variance. As of this publication, those items represent a risk between $0 and $65.0 million.
  - Contraction of Accounts payable / Due-to-component units – permanent reduction in accounts payable through cash payments.
  - Spending in excess of appropriations – a trend of prior years' accumulation of accounts payable indicates there may be a risk of overspending at the agency level. This is difficult to identify as invoices from suppliers are not recorded in the systems until year-end. This risk is not included in the CM TSA Adjusted Cash Flow.
  - Federal funding risk – the Commonwealth is dependent on federal funding. A significant portion of the federal funding is received under reimbursement basis, so any change in the increase of time on the reimbursement period from federal funding programs will affect the liquidity of the Commonwealth.
  - Unfavorable economic factors.
  - Extraordinary expenses associated with any restructuring activities.

Liquidity Detail – FY2016 Liquidity Outlook

- The CM TSA Adjusted Cash Flow's Bank Cash deficit is projected to be $511.6 million as of June 30, 2016.
- In addition to the risks associated with the CM TSA Adjusted Cash Flow, Table H identifies other risks and opportunities with potential cash impacts on the TSA:
  - Treasury has proposed three measures to reduce the estimated revenue risk that have potential for Treasury to generate $300.0 million, as follows:
    - $100.0 million expected upfront payment for the contract renewal for electronic lottery (CM estimates $50.0 to $100.0 million);
    - $100.0 million expected upfront payment from new contract for video lottery (CM estimates $50.0 to $100.0 million); and
    - $100.0 million related to improved compliance efforts related to individual and corporate income taxes (CM estimates $50.0 million).
  - Select CU risks are identified in Table G. This risk already exists with ASES and has been managed by withholding payments to vendors. This issue will remain without third-party financing.
  - Incremental debt service is based on amounts contractually due beyond the budget appropriation requested by GDB.
  - Pension represents the General Fund's portion of the Additional Uniform Contribution for ERS and TRS during FY2016 less the amount included within the FY2016 Budget.
  - The FY2015 GF budget deficit estimated by the Commonwealth (as per the June 30, 2015 Supplement to the May 7, 2015 Quarterly Report) will be $705 million to $740 million.
  - Treasury's TSA Cash Flow for FY2015 indicates a cash burn of only $167.3 million despite the FY2015 GF budget deficit. The FY2015 GF budget deficit effect on the TSA account was partially offset by:
    - A $100 million loan from the State Insurance Fund to the General Fund.
    - CM estimates that at least the remaining $437.7 million of deficit will contribute to build up of accounts payable / Due-to intergovernmental agencies to levels not sustainable in the future.
  - "Due to Component Units" represents accounts payable from prior and current years related to associated expenditures incurred and pending payments.

TABLE H – FY2016 Liquidity Outlook

($'s in millions)	Proj. FY2016	Low [5] Est.	High [5] Est.
TSA Beginning Bank Cash Balance (Jul. 1, 2015) [1]	$ 13.8		
CM TSA Baseline Projection (Table B)	36.9		
Risk Adjustments (Table C)	(562.3)		
Commonwealth Liquidity Enhancement Measures (Table E)	(0.0)		
CM TSA Adjusted Cash Flow	**$ (525.4)**		
CM TSA Adjusted Ending Bank Cash Balance	**$ (511.6)**		
Other Opportunities:			
Electronic Lottery	-	100.0	50.0
Video Lottery	-	100.0	50.0
Tax Compliance	-	50.0	50.0
Sub-Total Other Opportunities	**$ -**	**$ 250.0**	**$ 150.0**
Other Risks:			
Select Component Units [2]	-	-	(192.8)
Incremental Debt Service [3]	-	(150.4)	(150.4)
Pension - Additional Uniform Contribution [4]	-	-	(183.3)
Due to Component Units	-	-	(500.0)
Cash Disbursements Related To AP/Due to from Prior Years	-	(200.0)	(400.0)
Sub-Total Other Risks	**$ -**	**$ (350.4)**	**$ (1,426.4)**
Total Other Opportunities and (Risks)	**$ -**	**$ (100.4)**	**$ (1,276.4)**
Pro-Forma TSA Ending Bank Cash Balance (Jun. 30, 2016)	**$ (511.6)**	**$ (612.1)**	**$ (1,788.1)**
Outstanding Checks	(428.9)	(428.9)	(428.9)
Restricted Funds	(77.8)	(77.8)	(77.8)
Deposits in Transit	64.1	64.1	64.1
Pro-Forma TSA Ending Book Cash Balance (Jun. 30, 2016)	**$ (954.2)**	**$ (1,054.7)**	**$ (2,230.7)**

Footnotes:

[1] Source: Treasury.
[2] Low scenario assumes that CUs manage liquidity constraints through internal measures or third-party financing.
[3] Incremental debt service that is contractually due beyond the recommended budget appropriation requested by GDB.
[4] Reflects the GF portion of ERS Additional Uniform Contributions (Act 32-2013) and JRS Additional Uniform Contributions (Act 162-2013) for FY2016 less amount included in FY2016 Budget. Acts 32 and 162 are intended to maintain gross assets of at least $1.0 billion for ERS and $20.0 million for JRS.
[5] The risks and opportunities identified in the "Low" column represents the low range of risk and the high range of opportunities and the "High" column represents the high range of risk and the low range of opportunities.

Section III:

APPENDICES

Appendix A:

TREASURY SINGLE ACCOUNT

Treasury Single Account – Background

- Treasury manages cash pooling with the TSA, in which it deposits and disburses amounts related to several funds, including:
  - Receipts from taxes and fees;
  - Receipts from government agencies collected through Treasury;
  - Receipts of certain federal funds;
  - Net proceeds from new debt issuances;
  - Net pension benefits; and
  - Others.
- As of June 30, 2014, the government agencies of the Commonwealth had over 6,900 accounts at commercial banks and 96 accounts at GDB.
  - From these accounts, 110 are reconciled at Treasury and the others are reconciled at each agency (reconciliations are provided to Treasury for review). The majority of these banks accounts represent accounts related to third-party funds in which the Commonwealth acts as fiduciary and custodial agent. Those funds are not available to the Commonwealth.
- There are bank accounts from special payers and there are other accounts related to third-parties, associated to funds held in custody of the courts, which are beyond the scope and management of Treasury (i.e., child support, 3rd party legal claims settlements, and others.)
- Table I lists Treasury's zero bank accounts, which are funded through the TSA. Funds are transferred from the TSA daily as checks are presented for payment.
- Treasury manages several specific funds to cover certain defined needs or to meet fiduciary, financial, legal or other obligations. However, the actual cash is commingled within the TSA.
- Based on the above, some funds reflected in the Book Cash balance might not be available depending on the total actual balance in the TSA.
- For daily cash management purposes, Treasury receives a daily cash position report (Posicion de la cuenta general de gastos – Departamento de Hacienda).
- Treasury uses this report to monitor the Bank Cash balance of the TSA and to determine which checks will be issued.

TABLE I – Treasury's Zero Bank Accounts

Account name	Bank
Nomina (*Payroll*)	GDB
Reintegro (*Tax Reimbursements*)	GDB
Nomina pensionado (*Pensions*)	GDB
Salud – sistemas financieros "People Soft" (DOH)	GDB
ASSMCA	GDB
Junta de Calidad Ambiental – nomina (*Environmental Quality Board, Payroll*)	GDB
Junta de Calidad Ambiental – suplidores (*Environmental Quality Board, Suppliers*)	GDB
Suplidores PRIFAS 8.4 – Finanzas (*GF Suppliers*)	GDB
Efectivo y valores RHUM 8.4 - Finanzas	GDB
Efectivo pago suplidores agencias 8.9 - Educacion (*DOE, Suppliers*)	GDB

Treasury Single Account – Cash Flow Segregation

- CM analyzed cash flow forecasts produced by Treasury between May 29, 2015 and July 7, 2015, and used Treasury’s June 15, 2015 cash flow (Treasury TSA Cash Flow) as the basis for analyzing the TSA Cash Flow.
- CM segregated the Treasury TSA Cash Flow into the key funds that are affected through the TSA.
- GF includes the FY2016 Budget for revenues and expenditures of $9.8 billion and grossed-up by $480.0 million to account for estimated tax refunds that are included within cash outflows.
- Working capital are appropriations from FY2015 GF budget that were not fully paid.
- Federal funds forecast excludes approximately $2.0 billion of inflows/outflows related to federal grants provided to the Department of Family.
- The Other column includes receipts/disbursements related to:
  - Motor license fees;
  - Motor vehicle fines;
  - Highways & Transportation Authority oil taxes;
  - Cigarette taxes;
  - Compulsory vehicle insurance;
  - Traditional lottery;
  - Act 66;
  - Act 73/2014;
  - CAPEX lines of credit; and
  - Other non-GF budget revenue.

TABLE J – Treasury TSA Cash Flow Segregation

($'s in millions)	FY2016	General Fund	Working Capital	Federal Funds	Other	Debt	Pension	Total
Beginning Bank Cash Balance	**$ 13.8**							**$ 13.8**
Cash Inflows:								
Collections, General	$ 9,924.4	$ 7,936.0	$ -	$ -	1,988.4	$ -	$ -	$ 9,924.4
Sales/Use Tax	1,738.3	1,738.0	-	-	0.3	-	-	1,738.3
Excise Tax (Foreign Company)	330.0	330.0	-	-	-	-	-	330.0
ERS, JRS	984.0	-	-	-	-	-	984.0	984.0
TRS	329.0	-	-	-	-	-	329.0	329.0
Lottery, Electronic	120.0	90.0	-	-	30.0	-	-	120.0
CRIM	114.0	-	-	-	-	114.0	-	114.0
Excise Tax (Rum)	178.0	186.0	-	-	(8.0)	-	-	178.0
Federal Funds	3,000.0	-	-	3,000.0	-	-	-	3,000.0
Other Revenue or Line of Credit	300.0	-	-	-	300.0	-	-	300.0
Tax Credit (Fed Reimbursement Higher Education)	14.0	-	-	14.0	-	-	-	14.0
Line of Credit 2015	300.0	-	-	-	-	300.0	-	300.0
Debt Payment 2014	24.1	-	-	-	-	24.1	-	24.1
Total Cash Inflows	**$ 17,355.8**	**$ 10,280.0**	**$ -**	**$ 3,014.0**	**$ 2,310.7**	**$ 438.1**	**$ 1,313.0**	**$ 17,355.8**
Cash Outflows:								
Payroll	$ 1,941.0	$ 1,663.5	$ -	$ 277.5	$ -	$ -	$ -	$ 1,941.0
Payroll Police	692.0	682.0	-	-	10.0	-	-	692.0
Payroll Pension	2,037.0	652.2	-	-	71.8	-	1,313.0	2,037.0
Payroll UPR	853.9	833.9	20.0	-	-	-	-	853.9
Other Payroll (Social Security, Medicare, etc.)	1,020.0	874.2	-	145.8	-	-	-	1,020.0
GDB Transactions	531.9	414.8	-	-	-	117.1	-	531.9
GDB Line of Credit TRANS - FY2016	320.0	23.0	-	-	-	297.0	-	320.0
Line of Credit TRANS - FY2015	320.0	23.0	-	-	-	297.0	-	320.0
Debt Service - FY2016	1,129.7	1,011.2	-	-	-	118.5	-	1,129.7
Debt Service - FY2015	24.1	-	-	-	-	24.1	-	24.1
ASES (Health Card)	2,160.0	887.0	-	1,273.0	-	-	-	2,160.0
ACAA (Vehicle Insurance)	78.0	-	-	-	78.0	-	-	78.0
Highway Transportation	720.0	-	-	-	720.0	-	-	720.0
Bus System	69.6	30.0	-	-	39.6	-	-	69.6
Lottery	222.0	-	-	-	222.0	-	-	222.0
Compulsory Insurance	120.0	-	-	-	120.0	-	-	120.0
CRIM	380.6	360.6	20.0	-	-	-	-	380.6
Accounts Payable and Other	2,820.0	1,096.2	-	1,234.5	489.2	-	-	2,820.0
Stipends, Budgetary Assignments, etc.	720.0	750.5	-	-	(30.5)	-	-	720.0
Tax Refunds	600.0	580.0	-	14.0	6.0	-	-	600.0
Public Building Rent	396.0	364.0	32.0	-	-	-	-	396.0
Industrial Development and Conservation Trust	60.0	-	-	-	60.0	-	-	60.0
Medical Center	96.0	26.9	-	69.1	-	-	-	96.0
Other	7.1	7.1	-	-	-	-	-	7.1
Total Cash Outflows	**$ 17,319.0**	**$ 10,280.0**	**$ 72.0**	**$ 3,014.0**	**$ 1,786.2**	**$ 853.7**	**$ 1,313.0**	**$ 17,319.0**
Net Cash Flow	**36.9**	**-**	**(72.0)**	**-**	**524.5**	**(415.6)**	**-**	**36.9**
Ending Bank Cash Balance	**$ 50.7**							**$ 50.7**

Treasury Single Account – Normalization Adjustments

- Treasury's TSA Cash Flow, including identified Normalization Adjustments, constitutes CM's TSA Baseline Cash Flow. See Table K below for detailed adjustments. Note that adjustments were made within the categories below and therefore do not change the overall TSA cash flow.
- Normalization Adjustments include:
  - A reduction in cash outflows of $411.3 million from debt, primarily related to:
    - GDB TRANs payment of $297.0 million projected for June 2016 in Treasury's TSA Cash Flow will be paid in July 2016.
    - PFC Debt payment of $93.7 million projected for July 2015 in Treasury's TSA Cash Flow has not been appropriated in FY2016 Budget.
  - A reduction of $72.0 million related to working capital disbursements:
    - CM has received from Treasury more recent estimates of working capital disbursements which are noted in CM's Risk Adjustments.
  - Vendor payment increase of $483.3 million:
    - Cash payments to vendors in FY2015 totaled $3.2 billion, excluding outstanding checks. Treasury's TSA Cash Flow assumes $2.8 billion of supplier payments in FY2016. CM has adjusted to reflect prior year's run rate of payments, as there is no substantial reduction expected in supplier expenditures.

TABLE K – Normalization Adjustments to the Treasury TSA Cash Flow

($'s in millions)	Proj. Jul-15	Proj. Aug-15	Proj. Sep-15	Proj. Oct-15	Proj. Nov-15	Proj. Dec-15	Proj. Jan-16	Proj. Feb-16	Proj. Mar-16	Proj. Apr-16	Proj. May-16	Proj. Jun-16	Proj. FY2016
Vendor Payment Normalization Adjustments:													
Total Other Supplier Normalization Adjustments	**$ (40.3)**	**$ (40.3)**	**$ (40.3)**	**$ (40.3)**	**$ (40.3)**	**$ (40.3)**	**$ (40.3)**	**$ (40.3)**	**$ (40.3)**	**$ (40.3)**	**$ (40.3)**	**$ (40.3)**	**$ (483.3)**
Debt Normalization Adjustments:													
GDB Internal Line of Credit (TRAN)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 297.0	$ 297.0
PFC Debt	93.7	-	-	-	-	-	-	-	-	-	-	-	93.7
Bond Variable Debt	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	14.8
Other Debt	-	-	-	-	-	-	-	-	-	-	-	5.8	5.8
Total Debt Normalization Adjustments	**$ 94.9**	**$ 1.2**	**$ 1.2**	**$ 1.2**	**$ 1.2**	**$ 1.2**	**$ 1.2**	**$ 1.2**	**$ 1.2**	**$ 1.2**	**$ 1.2**	**$ 304.1**	**$ 411.3**
Working Capital Normalization Adjustments:													
UPR	$ 20.0	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 20.0
CRIM	20.0	-	-	-	-	-	-	-	-	-	-	-	20.0
PBA	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	32.0
Total W/C Normalization Adjustments	**$ 42.7**	**$ 2.7**	**$ 2.7**	**$ 2.7**	**$ 2.7**	**$ 2.7**	**$ 2.7**	**$ 2.7**	**$ 2.7**	**$ 2.7**	**$ 2.7**	**$ 2.7**	**$ 72.0**
Total Normalization Adjustments	**$ 97.3**	**$ (36.4)**	**$ (36.4)**	**$ (36.4)**	**$ (36.4)**	**$ (36.4)**	**$ (36.4)**	**$ (36.4)**	**$ (36.4)**	**$ (36.4)**	**$ (36.4)**	**$ 266.4**	**$ -**

Appendix B:

REVENUE

Revenue – FY2016 GF Revenue

- Treasury's FY2016 revenue estimate of $9.8 billion comprises recurring revenue totaling $8.6 billion in addition to tax reform legislation and corporate tax changes totaling $1.1 billion and $0.1 billion, respectively.
  - Treasury's revenue estimate was developed with preliminary results from July 2014 through April 2015 and did not have the benefit of May 2015 and June 2015 preliminary actual results.
- CM was provided preliminary results for May 2015 and June 2015. Utilizing this data, revenue is estimated to be approximately $9.5 billion or $306.4 million lower than Treasury's FY2016 revenue estimate.
  - $359.4 million – unfavorable adjustment for differences in adjusted FY2015 baseline revenue including preliminary May 2015 and June 2015 results less non-recurring revenue collected during FY2015.
  - $26.0 million – favorable adjustment related to estimates provided by Treasury related to Sales Tax/Value Added Tax ("VAT") and Corporate income taxes.
  - $27.0 million – favorable July collections related FY2015 tax amnesty programs.
- Treasury measures totaling $300.0 million to reduce this gap are described in more detail on the following page.
- CM did not quantify the benefit or risk related to economic factors that may affect revenue. These factors include, but are not limited to, population changes, changes to purchases related to higher sales tax, employment rate, and income levels of individuals and corporations.
- There is at least $20.0 million in costs related to systems implementation for VAT. This is not included in the proposed FY2016 budget from OMB. Treasury has indicated that the payments on this will likely extend into future years, thus an adjustment has not been included during FY2016.

TABLE L – FY2016 Revenue Bridge

($'s in millions)	Treasury [1]	CM [2]
Prelim. July 2014 - April 2015	$ 7,335.0	$ 7,335.3
May/June Est./Prelim. Act.	1,730.0	1,500.8
Ventanas 2	10.0	96.3
Closings	75.0	28.5
State Insurance Fund	100.0	-
Prelim. July 2014 - June 2015	**$ 9,250.0**	**$ 8,960.8**
Non-recurring Revenue:		
Ventanas 1	(221.0)	(221.3)
Ventanas 2	(160.0)	(246.3)
Other	(1.0)	-
State Insurance Fund	(100.0)	-
Patente Nacional	(168.0)	(168.0)
Lottery	-	(30.0)
HTA	-	(54.6)
Non-recurring Revenue	**$ (650.0)**	**$ (720.2)**
Adjusted FY2015 Baseline	**$ 8,600.0**	**$ 8,240.6**
FY2016 Adjustments		
Change in IVU	1,100.0	1,111.0
Corporate Tax Changes	100.0	115.0
FY2015 Ventanas 2 received in FY2016	-	27.0
New tax initiatives	**$ 1,200.0**	**$ 1,253.0**
	$ 9,800.0	**$ 9,493.6**
Estimated Risk in FY2016 Revenue [3]		**$ (306.4)**

Footnotes:

[1] Source: Ponencia sobre el Estimado de Ingresos Netos al Fondo General Ano Fiscal 2015-2016 (June 1, 2015) and Treasury.

[2] Adjustments were made based on data provided by Treasury, including preliminary actuals through June.

[3] Variance excludes measures from Treasury totaling $300.0 million related to electronic lottery, video lottery and compliance.

Revenue – Treasury's Ongoing Measures

Treasury has been working on three measures to increase revenue in FY2016, which have potential opportunity for Treasury to generate $300.0 million, as follows:

- $100.0 million expected upfront payment for the contract renewal for electronic lottery;
- $100.0 million expected upfront payment for a new contract for video lottery; and
- $100.0 million related to improved compliance efforts related to individual and corporate income taxes.

Electronic Lottery

- The contract renewal for the electronic lottery occurs on June 30, 2016. The request for proposals will require the selected vendor to pay $100.0 million up front for licensure. During FY2016, it is anticipated this will increase the total electronic lottery revenue to $190.0 million, and Treasury anticipates receipt of $100.0 million during the calendar year fourth quarter of 2015. It is estimated that this $100.0 million pre-payment will reduce future revenue and be amortized over a ten-year period.

Video Lottery

- A regulation filed by the Treasury Department in May 2015 makes government-regulated, non-casino gaming machines widely available across the island. The regulation approves the installation of up to 15 video lottery machines in any location that currently sells electronic lotto tickets such as Loto, Pega 3 and Powerball. Treasury is planning to issue a request for proposal to vendors and require an up-front payment from the operator totaling $100.0 million and expects to receive this during Q4 FY2016. It is estimated that this $100.0 million pre-payment will reduce future revenues and be amortized over a 10-year period. As a result, revenue in future years will decrease by $10.0 million annually.

Income Tax Compliance Improvements

- Treasury, in an effort to increase tax collections, is improving internal processes and procedures related to sales tax and collection of delinquent amounts as outlined below.
  - Sales tax process and procedure improvements are in the process of being implemented to close certain "loopholes." The efforts are focused on four points of the process including port, payment, credits and point of service.
  - Individual and corporate income tax compliance efforts are in the process of being updated and these changes will be institutionalized throughout Treasury. Management reporting tools are going to be implemented to monitor and track delinquent tax payers and third parties may be used for the management and collection of delinquent receivables.

Revenue – GF FY2016 Monthly Revenues

- Total GF net revenue for FY2016 was estimated by Treasury on a monthly basis.
- Revenue risk and opportunities adjustments were applied to the same month for which the one-time revenue or unfavorable variance occurred during FY2015.

TABLE M – FY2016 Monthly Revenue Summary

($'s in millions)	Proj. Jul - 15	Proj. Aug - 15	Proj. Sep - 15	Proj. Oct - 15	Proj. Nov - 15	Proj. Dec - 15	Proj. Jan - 16	Proj. Feb - 16	Proj. Mar - 16	Proj. Apr - 16	Proj. May - 16	Proj. Jun - 16	Proj. FY2016
Individual Income Tax	$ 196.3	$ 176.5	$ 195.7	$ 211.5	$ 183.2	$ 229.0	$ 229.2	$ 176.9	$ 242.1	$ 385.8	$ 183.1	$ 205.8	$ 2,615.0
Corporate Income Tax	95.0	25.6	218.4	101.8	28.3	250.0	86.6	32.0	75.0	409.8	74.3	396.1	1,793.0
Non-Resident Withholdings	28.0	32.2	52.1	70.3	64.7	82.3	158.9	127.1	54.2	53.7	45.1	53.4	822.0
Sales and Use Tax	9.5	72.2	85.9	86.8	88.7	92.5	218.1	199.9	192.2	233.1	221.9	237.2	1,738.0
Alcoholic Beverages	18.4	18.1	23.8	18.3	18.4	33.3	30.9	19.0	21.3	22.8	19.1	26.7	270.0
Foreign (Act. 154)	254.3	157.9	150.9	120.1	89.9	77.0	76.1	202.3	213.9	197.9	187.5	177.2	1,905.0
Motor Vehicles	4.1	20.7	22.7	31.7	18.2	31.7	28.5	26.5	31.7	25.5	30.1	33.5	305.0
Tobacco Products	10.7	10.9	6.9	10.8	7.8	16.8	11.6	11.6	8.9	14.8	11.6	10.8	133.0
Excise Tax on Shipments of Rum	-	34.1	15.7	18.7	20.9	27.5	-	-	-	20.0	22.8	26.3	186.0
Other General Fund	29.1	26.6	44.5	24.2	24.0	42.1	33.4	24.4	91.9	42.2	27.9	102.6	513.0
Total General Fund, Gross	**$ 645.4**	**$ 574.8**	**$ 816.7**	**$ 694.0**	**$ 544.0**	**$ 882.3**	**$ 873.2**	**$ 819.8**	**$ 931.2**	**$ 1,405.7**	**$ 823.4**	**$ 1,269.5**	**$ 10,280.0**
Income Tax Refunds	(40.0)	(40.0)	(40.0)	(40.0)	(40.0)	(40.0)	(40.0)	(40.0)	(40.0)	(40.0)	(40.0)	(40.0)	(480.0)
Total General Fund, Net	**$ 605.4**	**$ 534.8**	**$ 776.7**	**$ 654.0**	**$ 504.0**	**$ 842.3**	**$ 833.2**	**$ 779.8**	**$ 891.2**	**$ 1,365.7**	**$ 783.4**	**$ 1,229.5**	**$ 9,800.0**
Revenue Risk Adjustments:													
Increase for additional Sales and Use Tax	0.0	0.5	0.6	0.5	0.6	0.6	1.4	1.3	1.2	1.5	1.4	1.5	11.0
Increase for Corporate Income Tax	-	-	-	-	-	3.6	-	-	-	5.8	-	5.6	15.0
Ventanas 2 - received in July not budgeted	27.0	-	-	-	-	-	-	-	-	-	-	-	27.0
Reduce for May actual results	-	-	-	-	-	-	-	-	-	-	(64.9)	-	(64.9)
Reduce for preliminary June results	-	-	-	-	-	-	-	-	-	-	-	(163.4)	(163.4)
Reduction for HTA Fees	-	-	-	-	-	-	-	-	(30.8)	(6.4)	(5.4)	(12.0)	(54.6)
Reduce for one-time lottery	-	-	-	-	-	-	(25.0)	-	-	(5.0)	-	-	(30.0)
Reduce for unfavorable closings	-	-	-	-	-	-	-	-	-	-	-	(46.5)	(46.5)
Revenue Risk Adjustments	**$ 27.0**	**$ 0.5**	**$ 0.6**	**$ 0.5**	**$ 0.6**	**$ 4.1**	**$ (23.6)**	**$ 1.3**	**$ (29.6)**	**$ (4.1)**	**$ (68.9)**	**$ (214.7)**	**$ (306.4)**
Total Risk Adjusted General Fund, Net	**$ 632.5**	**$ 535.3**	**$ 777.3**	**$ 654.6**	**$ 504.5**	**$ 846.5**	**$ 809.6**	**$ 781.1**	**$ 861.6**	**$ 1,361.6**	**$ 714.5**	**$ 1,014.8**	**$ 9,493.6**

Appendix C:

EXPENDITURES

Expenditures - FY2016 GF Expenditures

- The CM TSA Adjusted Cash Flow projects GF disbursements of $10.1 billion comprised of the FY2016 Budget appropriations, budget adjustments and TSA adjustments.
  - FY2016 Budget
    - The FY2016 Budget authorized appropriations of $9,525.0 million for governmental and public agency expenditures, debt service, pension contributions plus other expenditures and $275.0 million for the establishment of the Economic Development and Obligations Payment Fund to promote economic development initiatives and/or pay debt service.
  - Budget adjustments
    - CM's adjustments to the CM TSA Baseline Cash Flow include incremental expenditures of $407.1 million or $132.1 million net of the Economic Development and Obligations Payment Fund, as follows:
      - Unappropriated litigation - $5.1 million of unappropriated expenditures for a litigation settlement;
      - Debt adjustments - $402.0 million to account for differences in estimated debt service payable in FY2016 and the amounts appropriated; and
      - The adjustments identified above total $407.1 million and could partially be offset by $275.0 million in the Economic Development and Obligations Payment Fund (as assumed in the CM TSA Adjusted Cash Flows).
  - TSA adjustments
    - $123.8 million of working capital adjustments for deferred appropriations due to certain governmental agencies.
- Based on CM's analysis of the FY2016 GF Budget, CM has estimated a range of additional risk between $0 to $65.0 million. This risk relates to CM's analysis between FY2015 and FY2016 GF Budgets for which CM hasn't identified specific measures to quantify certain reductions in year-over-year appropriations.
- The following page (Table N) presents a summary of the FY2016 projected GF disbursements in the CM TSA Adjusted Cash Flow compared to the FY2016 Budget.

Expenditures – FY2016 Expenditure Bridge

TABLE N – FY2016 Expenditure Bridge

Adjustment Narrative ($'s in millions)	Approved Budget	Working Capital	Litigation	Debt	Reserves	Total Adjusts.	Adjusted Expenses	Notes
FY2016 Appropriated Expenditures	9,800.0					-	9,800.0	**Per Joint Resolution 747 and Joint Resolution 748 of 2015.**
Working Capital Adjustment: $123.8 million								
Payment of Deferred UPR Appropriations		20.0				**20.0**	20.0	**Working Capital Adjustments:** Per discussions with Treasury, it deferred approximately $123.8 million in FY2015 appropriations due to UPR, PBA and CRIM. The amounts owed were paid during July 2015 and August 2015.
Payment of Deferred PBA Appropriations		42.8				**42.8**	42.8	
Payment of Deferred CRIM Appropriations		61.0				**61.0**	61.0	
Unappropriated Litigation Settlement: $5.1 million								
Unappropriated litigation settlements			5.1			**5.1**	5.1	In July 2015, Treasury paid approximately $5.1 million for unappropriated litigation settlement.
Debt Adjustments: $402.0 million								
Variances in budgeted and actual interest related to the FY2015 C-Series TRAN.				18.7		**18.7**	18.7	Variance to budget related to 2015 TRANs debt due and paid in FY2016.
Variances in projected and budgeted interest related to FY2016 GDB TRAN.				5.1		**5.1**	5.1	The projection assumes the line of credit bears interest at 9.35% and is fully drawn in mid-July 2015 through FY2016. Accrued interest in FY2016 is due April 30, 2015, May 30, 2015 and June 30, 2015, and principal is due in FY2017.
Variances in projected and budgeted interest related to GO variable-rate interest debt.				14.8		**14.8**	14.8	Per Treasury.
Payment of FY2015 debt service appropriations in FY2016.				25.9		**25.9**	25.9	Treasury paid $25.9 million related to FY2015 appropriated debt in July 2015.
Favorable variance in budgeted interest and estimated interest related to the FY2016 Intergovernmental TRAN.				(1.0)		**(1.0)**	(1.0)	The note was issued in July 2015 and bears interest at 6.00%. Accrued interest in FY2016 is due April 30, 2016, May 30, 2016 and June 30, 2016 and principal due in May 2016 ($200.0 million) and June 2016 ($200.0 million).
Unappropriated payment of interest due to the Puerto Rico State Insurance Fund.				1.0		**1.0**	1.0	Per the GDB, in FY2015 the Puerto Rico State Insurance Fund provided $100.0 million in notes to the General Fund. The notes are interest-only in FY2016 and bear interest at 1.0% annually.
Payments to service debt held by the Puerto Rico Public Finance Corporation ("PFC")				93.7		**93.7**	93.7	Unappropriated debt service due in FY2016 .
$243.9 million in debt service due to the GDB.				243.9		**243.9**	243.9	See following page for further detail.
Budget Reserves: -$275.0 million								
Economic Development/Debt Fund					(275.0)	**(275.0)**	(275.0)	
Total	**$ 9,800.0**	**$ 123.8**	**$ 5.1**	**$ 402.0**	**$ (275.0)**	**$ 255.9**	**$ 10,055.9**	

Expenditures – FY2016 Debt Bridge (Debt Payable From GF Legislative Appropriations)

TABLE O – FY2016 Debt Bridge

Column Reference:		A	B	C	D	E
($'s in millions)	Balance 12/31/14 [1]	Contractual Debt Service [2]	Est. Debt Service Payable [1] [3]	Debt [4] Appropriations	Variance D = A - C	Variance E = B - C
GDB Loan Portfolio - Outstanding Lines of Credit (A) [4]						
Agency						
Public Improvements Fund	$ 1,188.7	$ 102.0	$ 38.9	$ -	$ 102.0	$ 38.9
General Fund (Debts from Previous Years)	692.0	59.4	59.4	-	59.4	59.4
Health Insurance Administration (ASES)	183.3	13.0	13.0	-	13.0	13.0
Administration of Medical Services (ASEM)	281.8	18.7	18.7	-	18.7	18.7
Comprehensive Cancer Center	24.2	5.0	3.9	-	5.0	3.9
Comprehensive Cancer Center	30.0	15.8	3.3	-	15.8	3.3
Treasury	145.5	10.7	10.7	-	10.7	10.7
Treasury	5.1	4.6	4.6	-	4.6	4.6
Treasury	12.7	1.2	1.2	-	1.2	1.2
Treasury	15.1	1.5	1.5	-	1.5	1.5
Treasury	63.1	4.6	4.6	-	4.6	4.6
Treasury	50.4	3.7	3.7	-	3.7	3.7
Department of Housing	8.1	0.6	0.6	-	0.6	0.6
Catastrophic Emergency Fund	3.3	0.3	0.3	-	0.3	0.3
Office of Management & Budget	150.0	27.2	11.5	11.5	15.7	-
Office of Management & Budget	106.6	6.0	6.0	6.0	-	-
Administration of Agricultural Services	41.4	3.0	3.0	-	3.0	3.0
Superintendence of the Capital	8.9	3.0	3.0	-	3.0	3.0
Superintendence of the Capital	0.0	2.4	-	-	2.4	-
Port of the Americas Authority (APLA)	1.7	2.0	1.8	-	2.0	1.8
Port Authority of Ponce	17.9	6.0	3.0	-	6.0	3.0
Office of Public Advocate for Veterans [6]	0.3	0.2	0.2	0.2	0.1	0.1
Subtotal (A)	**$ 3,030.1**	**$ 291.0**	**$ 192.8**	**$ 17.7**	**$ 273.3**	**$ 175.1**

Column Reference:		A	B	C	D	E
($'s in millions)	Balance 12/31/14 [1]	Contractual Debt Service [2]	Adj. Debt Service Payable [1] [3]	Debt [4] Appropriations	Variance D = A - C	Variance E = B - C
GDB Loan Portfolio - Bonds & Other Loans (B) [4]						
Agency						
Public Finance Authority	$ 1,090.7	$ 93.7	$ 93.7	$ -	$ 93.7	$ 93.7
Property Related Loans	74.1	7.0	7.0	-	7.0	7.0
Municipal Revenue Collection Center - Ponce	23.3	3.0	3.0	-	3.0	3.0
Police Overdraft	15.8	3.2	-	-	3.2	-
Tourism Development Fund	254.2	19.3	19.3	-	19.3	19.3
Authority for House Financing	49.6	32.4	3.0	-	32.4	3.0
Port of the Americas Authority (APLA)	111.6	37.8	18.2	-	37.8	18.2
Port of the Americas Authority (APLA)	227.0	18.3	18.3	-	18.3	18.3
Infrastructure Financing Authority	n/a	117	117.0	117.0	-	-
General Service Administration - Helicopter Financing	28.5	5.6	5.6	5.6	(0.0)	(0.0)
Subtotal (B)	**$ 1,874.9**	**$ 337.2**	**$ 285.0**	**$ 122.6**	**$ 214.7**	**$ 162.4**
Tax & Revenue Anticipation Notes (C) [4]						
2015 C-Series TRAN [7]	n/a	$ 18.7	$ 18.7	$ -	$ 18.7	$ 18.7
2016 GDB TRAN [8]	n/a	28.1	28.1	23.0	5.0	5.0
2016 Intergovernmental TRAN [9]	n/a	22.0	22.0	23.0	(1.0)	(1.0)
Subtotal (C)	**n/a**	**$ 68.7**	**$ 68.7**	**$ 46.0**	**$ 22.7**	**$ 22.7**
Other Debt Service (D) [4]						
General Obligation [10]	$ 12,877.5	$ 1,026.0	$ 1,026.0	$ 1,011.2	$ 14.8	$ 14.8
Infrastructure Financing Authority - ASSMCA	37.1	3.0	3.0	3.0	(0.0)	(0.0)
FY2015 Appropriated Debt Service Paid in FY2016 [11]	n/a	25.9	25.9	-	25.9	25.9
Puerto Rico State Insurance Fund Loan (GF Contribution) [12]	n/a	1.0	1.0	-	1.0	1.0
Subtotal (D)	**$ 12,914.6**	**$ 1,055.9**	**$ 1,055.9**	**$ 1,014.2**	**$ 41.7**	**$ 41.7**
Summary						
GDB Outstanding Lines of Credit (A)	$ 3,030.1	$ 291.0	$ 192.8	$ 17.7	$ 273.3	$ 175.1
GDB Loan Portfolio - Bonds & Other Loans (B)	1,874.9	337.2	285.0	122.6	214.7	162.4
Tax & Revenue Anticipation Notes (C)	n/a	68.7	68.7	46.0	22.7	22.7
Other Debt Service (D)	12,914.6	1,055.9	1,055.9	1,014.2	41.7	41.7
Total (A,B,C,D)	**$ 17,819.5**	**$ 1,752.8**	**$ 1,602.4**	**$ 1,200.4**	**$ 552.4**	**$ 402.0**

TOTAL CM DEBT ADJUSTMENTS, GROSS	$ 402.0
ECONOMIC DEVELOPMENT/DEBT FUND [13]	(275.0)
TOTAL CM DEBT ADJUSTMENTS, NET	**$ 127.0**
VARIANCE BETWEEN CONTRACTUAL DEBT SERVICE & DEBT APPROPRIATIONS	$ 552.4
TOTAL CM DEBT ADJUSTMENTS, GROSS	402.0
LIQUIDITY OUTLOOK DEBT SERVICE ADJUSTMENT	**$ 150.4**

Footnotes:

[1] Per Government Development Bank for Puerto Rico.

[2] Represents GDB estimated debt service due from General Fund legislative payable in FY2016 based on contractual terms and conditions.

[3] Unless otherwise noted, represents GDB estimated debt service due from General Fund legislative appropriations payable in FY2016 based on the negotiated terms and conditions as presented to legislature in formulating the FY2016 budget. Line of credit debt service estimates assume principal balances consistent with the outstanding amounts as of July 1, 2015 through June 30, 2016 and interest paid on June 30, 2016.

[4] Per Joint Resolution 748 of FY2016.

[5] Payable through General Fund legislative appropriations.

[6] Payable through agency budget.

[7] Based on actual debt service paid in July 2015 (FY2016).

[8] CM estimated debt service based on 2016 GDB TRAN loan agreement. Assumes $300.0 million line of credit remains fully drawn through FY2016 and bears interest at 9.35% annually.

[9] Relates to $400.0 million TRAN ($335.0 million - State Insurance Fund, $50.0 million - ACA, $15.0 million - FINOT), CM estimated debt service based on 2016 Intergovernmental TRAN loan agreement. Assumes note is issued mid-July 2015 and bears interest at 6.00%. Accrued interest in FY2016 is due April 30, 2016, May 30, 2016 and June 30, 2016 and principal due in May 2016 ($200.0 million) and June 2016 ($200.0 million).

[10] Per Treasury, variance related to variable rate G.O. debt.

[11] Treasury issued approximately $25.9 million in checks dated June 30, 2015 for debt service due to GDB for property-related loan payments and credit lines owed by Treasury and the Comprehensive Cancer Center. The checks presented in July 2015. Since the CM TSA Adjusted Cash Flow begins with actual June 30, 2015 cash balance, these disbursements were added to the adjustments to reflect the effect of the presentments on cash.

[12] On June 5, 2015, the Puerto Rico State Insurance Fund provided a $100.0 million loan to the General Fund. This amount relates to payment of interest related to this loan not included in the FY2016 Budget.

[13] A special fund in the FY2016 Budget created by section 12 of resolution 748 for the payment of expenditures related to the Commonwealth's economic development or for the payment of obligations.

Appendix D:

ACCOUNTS PAYABLE/OTHER LIABILITIES

Accounts Payable/Other Liabilities

- The Commonwealth uses a cash basis for the accounting of payables. Preliminary accounts payable ("AP") ledgers are not maintained during the year, and there is only an annual process to identify/process for the preparation of the CAFR.
- **Importantly, CM has not met with the Commonwealth's auditor. This is a material limitation to CM's analysis, as we have not been able to confirm the auditing protocol over the Commonwealth's financials, especially regarding the process of identification, vetting, and adjusting the AP and the review of working papers supporting such processes, or obtained the auditor's views on the Commonwealth's system of internal accounting controls.**
- There appear to be insufficient controls over the daily fluctuations of working capital. In addition, the Enterprise Resource Planning ("ERP") system in Treasury has serious limitations to perform basic queries such as open obligations or open purchase orders. In a number of instances, queries and reports requested by CM collapsed Treasury's system, and it took several days to process information.
  - The ERP system in Treasury provides a field to input the invoice date; however, it is not used. Invoices are recorded in the system only when they are processed for payment. Using this field would be a mechanism to track accounts payable even if only used when invoices are processed for payment.
  - Additional limitations of the ERP of the Commonwealth are as follows:

    - Account receivables ledgers are not maintained and updated on a periodic basis.

    - Capital assets ledgers are not maintained and updated during the fiscal year.

    - Others.

Accounts Payable/Other Liabilities (cont'd)

- Estimated AP and accrued liabilities as of June 30, 2014 are presented in Table P. These figures are preliminary, as the FY2014 CAFR is not finalized.
- Deferred inflows (as it relates to "Other liabilities" identified in Table P) represents an acquisition of resources that applies to a future period(s), and thus, will *not* be recognized as an inflow of resources (revenue) until that time. The Commonwealth has unearned revenues, which arise from the analysis and recording of income tax receivables.

TABLE P – FY2014 AP Summary

($'s in millions)	Actuals June 30, 2013	Preliminary June 30, 2014
Accounts payable and accrued liabilities:		
Trade and related	$ 913.1	$ 1,079.5
Non-current [1]	459.3	469.3
Sub-total trade and accrued liabilities	**$ 1,372.4**	**$ 1,548.8**
Book cash overdraft	206.1	7.0
Total trade and accrued liabilities	**$ 1,578.5**	**$ 1,555.8**
Tax refunds payable [2]	**1,205.5**	**948.3**
Due to:		
Other funds [3]	81.5	152.9
Component Units [4]	378.1	451.4
Other liabilities [5]	1,537.8	1,839.0
TOTAL	**$ 4,781.4**	**$ 4,947.4**

Footnotes:

[1] Includes $469.3 million of an estimate of claims related to the Police Department, which is subject to final legal determination. The amount includes significant assumptions and projections. These items are not expected to affect liquidity in the short term.

[2] Includes $551.5 million of refunds claims paid, $397.8 million of current year refunds that are estimates of long term liabilities. Doral Claim of $229.9 million was eliminated, based on court ruling.

[3] As per Treasury, "Other funds" represent non-cash transactions recorded for accounting purposes.

[4] As per Treasury, amounts do not have a repayment schedule.

[5] As per Treasury, other liabilities are comprised of the following: $313 million of Notes Payables (of which $200 million are Tax Revenue Anticipations Notes due and paid on July 2014 and the remaining $113 are Notes Payable with GDB without a defined repayment schedule), Interest payable of $7.7 million and other liabilities of $165 million without a defined repayment schedule. It also includes $1,353 million of deferred inflows. Deferred inflows are recorded only as required by accounting standards; therefore, deferred inflows do not represent actual collections and are offset by the accounts receivable recorded by the Commonwealth.

Source: Treasury

Accounts Payable/Other Liabilities – Due to CU Overview (as of March 31, 2015)

- The purpose of this analysis is to provide indications of the amounts owed to key CUs by various governmental entities and the changes in these figures over time.
- If a CU providing crucial services is not able to make its payment obligations to another CU or meet its debt service obligations, there are potential GF and GDB implications.
- The analysis is limited by the information and data available. CM utilized data provided via quarterly financial reports ("FOAs"), audited and unaudited financial statements and information and data received directly from the CUs themselves, using accounts receivable ("AR") reports as the primary source of data.
- The analysis is illustrative and not comprehensive. Additionally, AR data is not available for key Commonwealth agencies (i.e., Department of Health, Department of Education, and Department of the Family).
- In each instance, CM utilized the latest available information (12/31/14 in all cases, except 1/31/15 for PREPA); and then the available data closest to one year previous for the comparative prior period (12/31/13, except 9/30/13 for PREPA and 6/30/13 for PRHTA and PRIFA).

Accounts Payable/Other Liabilities – Due to CU Key Observations (as of March 31, 2015)

- Table Q, together with Table R and Table S in the next two pages, indicates the amount that GF entities owe to other entities increased by approximately $47.3 million, or 21% from December 2013 to December 2014.
  - This is driven primarily by increases in amounts owing to PBA by various agencies, offset by modest declines at other agencies.
- The aggregate amounts owing from government entities (including PEs) to key CUs has increased by approximately $230.2 million in the most recent period over the prior year, from approximately $1,349.9 million to $1,580.1 million.
- The amount due from PEs declined by $63.6 million.
  - Driven primarily by declines in amounts due to PRPA and PRIFA.
- The amount due from municipal, federal and other increased by approximately $246.4 million from December 2013 to December 2014.
  - This change is driven by a $119.1 million increase in federal obligations at ASES, potentially reflecting timing differences in large part, as well as a $97.0 million increase in Contributions in Lieu of Taxes obligation from municipalities to PREPA.

TABLE Q – Governmental Obligations Summary by Agency

	DUE TO:			PUBLIC ENTERPRISES					Subtotal
($'s in millions)	PREPA[1]	PRHTA	PRASA	PBA	PRPA	ASES [2][3]	ASEM	PRIFA	Pub. Enter.
DUE FROM:									
Public Enterprises	$ 211.0	$ 35.4	$ 33.0	$ 30.0	$ 45.5	$ –	$ 20.4	$ 23.3	$ 398.5
General Fund									
General Fund	58.4	1.6	27.4	90.0	–	51.9	42.6	2.7	274.6
Other Categories	428.8	18.5	54.0	10.9	1.0	388.0	2.0	3.7	906.9
Total DT	**$ 698.2**	**$ 55.5**	**$ 114.4**	**$ 130.9**	**$ 46.5**	**$ 439.9**	**$ 65.0**	**$ 29.7**	**$ 1,580.1**

Prior Period:

	DUE TO:			PUBLIC ENTERPRISES					Subtotal
($'s in millions)	PREPA[1]	PRHTA	PRASA	PBA	PRPA	ASES [2][3]	ASEM	PRIFA	Pub. Enter.
DUE FROM:									
Public Enterprises	$ 218.6	$ 29.2	$ 34.4	$ 23.9	$ 59.1	$ –	$ 27.5	$ 69.4	$ 462.1
General Fund	64.4	1.6	27.6	17.6	6.1	62.9	41.6	5.5	227.3
Other Categories	335.5	17.5	44.3	9.3	0.3	243.7	0.6	9.4	660.5
Total DT	**$ 618.5**	**$ 48.2**	**$ 106.3**	**$ 50.8**	**$ 65.6**	**$ 306.6**	**$ 69.6**	**$ 84.2**	**$ 1,349.9**

Footnotes:

[1] The AR from municipal entities for PREPA's current period and prior period reflect $421 million and $324 million, respectively, for cumulative amounts owed by municipalities in excess of the allowed offset for CILT payments received. This is a significant component of the increase in "Other Categories."

[2] While Federal ASES obligations are technically due from the Department of Health, the Department is legally required to remit to ASES without delay thus the olibgations are in substance Federal obligations and reflected as such here.

[3] The ASES "due to" reflects a significant increase. Per ASES officials, this reflects both an increase in the estimated Federal Funds reimbursement for IBNR, as well as timing differences given that payments are on a bi-weekly schedule and where payments are made near a month-end and reimbursed after, the AR can spike. The increase in the IBNR is $50.0 million; the change potentially due to timing differences is $69.1 million. The IBNR will roll off gradually when the new insurance program takes effect.

Accounts Payable/Other Liabilities – Due to CU Current Period Detail

TABLE R – Dec. 31, 2014 (except as otherwise noted) Due to/Due from Government Agencies

DUE TO:	PUBLIC CORPORATIONS								Subtotal	Debt Owed
($'s in millions)	PREPA[1]	PRHTA	PRASA	PBA	PRPA	ASES [2][3]	ASEM	PRIFA	Pub. Corps	to GDB
DUE FROM:										
Public Corps										
PREPA		1.4	3.6	0.0					5.1	35.5
PRHTA	38.6		1.1	7.3	6.1			1.9	54.9	1,813.0
PRASA	37.1			0.3					37.4	125.2
PBA	4.2		1.9					–	6.2	176.8
PRPA	34.7	1.8	11.5						48.1	266.9
ASES									–	283.2
ASEM	21.1		4.0					1.2	26.3	281.8
PRIFA	0.5			1.2					1.7	49.1
GDB	(0.0)			1.3				0.0	1.3	–
UPR	9.4		1.1				17.1		27.6	85.4
ATM	1.9	32.2	1.6		37.8				73.4	–
Other	63.6	n/a	8.1	19.9	1.5	n/a	3.3	20.2	116.6	891.0
Subtotal	211.0	35.4	33.0	30.0	45.5	–	20.4	23.3	398.5	4,007.8
General Fund									–	–
Hacienda	0.2	1.6	0.0	2.6				–	4.4	2,111.7
DOE	35.7		10.0	24.2				0.7	70.6	106.3
DOH	6.4		1.5	–			42.0	1.1	51.0	40.7
Corrections			9.7	5.7					15.4	–
Other	16.1	n/a	6.1	57.5	n/a	51.9	0.6	1.0	133.2	596.7
Subtotal	58.4	1.6	27.4	90.0	–	51.9	42.6	2.7	274.6	2,855.5
Other Categories									–	–
Federal	7.8		1.9	0.0	1.0	241.0	1.2		253.0	–
Municipal	421.0		52.1	6.6		87.7	0.8	3.7	571.9	–
Uncategorized		18.5		4.2		59.3	–		82.0	682.3
Subtotal	428.8	18.5	54.0	10.9	1.0	388.0	2.0	3.7	906.9	682.3
Total DT	**$ 698.2**	**$ 55.5**	**$ 114.4**	**$ 130.9**	**$ 46.5**	**$ 439.9**	**$ 65.0**	**$ 29.7**	**$ 1,580.1**	**$ 7,545.6**

Footnotes:

[1] The AR from municipal entities for PREPA's current period and prior period reflect $421 million and $324 million, respectively, for cumulative amounts owed by municipalities in excess of the allowed offset for CILT payments received. This is a significant component of the increase in "Other Categories."

[2] While Federal ASES obligations are technically due from the Department of Health, it is legally required to remit to ASES without delay, and thus, the obligations are in substance Federal obligations and reflected as such here.

[3] The ASES "due to" reflects a significant increase. Per ASES officials, this reflects both an increase in the estimated Federal Funds reimbursement for IBNR, as well as timing differences given that payments are on a bi-weekly schedule and where payments are made near a month-end and reimbursed after, the AR can spike. The increase in the IBNR is $50.0 million; the change potentially due to timing differences is $69.1 million. The IBNR will roll off gradually when the new insurance program takes effect.

Source: CUs quarterly financial reports and meetings with CU management teams

Accounts Payable/Other Liabilities – Due to CU Prior Period Detail

TABLE S – Dec. 31, 2013 (except as otherwise noted) Due to/Due from Government Agencies

($'s in millions)	DUE TO: PREPA[1]	PRHTA	PRASA	PUBLIC CORPORATIONS PBA	PRPA	ASES [2][3]	ASEM	PRIFA	Subtotal Pub. Corps
DUE FROM:									
Public Corps									
PREPA		1.4	2.8	–	0.6				4.8
PRHTA	21.4		0.8	5.4	6.2			2.9	36.7
PRASA	62.5			0.4	0.1				63.0
PBA			1.2					11.1	12.4
PRPA	37.0	1.8	6.2						45.0
ASES									–
ASEM	13.6		9.0					1.7	24.3
PRIFA				0.7					0.7
GDB				0.9					0.9
UPR			1.1				16.2		17.3
ATM		25.9	1.5		51.5				78.9
Other	84.1	n/a	11.8	16.5	0.8	n/a	11.3	53.5	178.0
Subtotal	218.6	29.2	34.4	23.9	59.1	–	27.5	69.4	462.1
General Fund									
Hacienda		1.6		1.8				0.1	3.5
DOE	33.9		10.6	–				–	44.5
DOH	7.9		1.9	–			41.6	1.7	53.0
Corrections	4.0		9.3	2.7					16.0
Other	18.7	n/a	5.8	13.1	6.1	62.9	–	3.7	110.3
Subtotal	64.4	1.6	27.6	17.6	6.1	62.9	41.6	5.5	227.3
Other Categories									
Federal	11.2		2.2	0.0		121.9	0.6		135.9
Municipal	324.0		42.1	5.8	0.1	82.9	–	9.4	464.2
Uncategorized	0.3	17.5		3.5	0.2	38.9	–	0.0	60.4
Subtotal	335.5	17.5	44.3	9.3	0.3	243.7	0.6	9.4	660.5
Total DT	**$ 618.5**	**$ 48.2**	**$ 106.3**	**$ 50.8**	**$ 65.6**	**$ 306.6**	**$ 69.6**	**$ 84.2**	**$ 1,349.9**

Footnotes:

[1] The AR from municipal entities for PREPA's current period and prior period reflect $421 million and $324 million, respectively, for cumulative amounts owed by municipalities in excess of the allowed offset for CILT payments received. This is a significant component of the increase in "Other Categories."

[2] While Federal ASES obligations are technically due from the Department of Health, it is legally required to remit to ASES without delay, and thus, the obligations are in substance Federal obligations and reflected as such here.

[3] The ASES "due to" reflects a significant increase. Per ASES officials, this reflects both an increase in the estimated Federal Funds reimbursement for IBNR, as well as timing differences given that payments are on a bi-weekly schedule and where payments are made near a month-end and reimbursed after, the AR can spike. The increase in the IBNR is $50.0 million; the change potentially due to timing differences is $69.1 million. The IBNR will roll off gradually when the new insurance program takes effect.

Source: CUs quarterly financial reports and meetings with CU management teams

Appendix E:

Bank to Book Cash Reconciliation

Bank to Book Cash Reconciliation

- Table T details a Bank to Book Cash reconciliation as of January 31, 2015 and February 12, 2015 and subsequent monthly data provided by Treasury in April 2015, May 2015, and June 2015.
- Outstanding checks of $428.9 million as of June 2015 are approximately $100.0 million above the average of $316.1 million from prior months.
  - CM estimates there is risk of approximately $100.0 million of cash disbursements to adjust outstanding checks to a normalized level.
- As of June 30, 2015, the TSA included $77.8 million of restricted funds mainly related to pledged taxes from Acts 30-2013, 31-2013, and 1-2015, which should be available to PRHTA for repayments of lines of credit with GDB upon request.
- CM has noted in Table T that Book Cash, net of restricted funds and deposits in transit, was negative $428.8 million as of June 30, 2015.

TABLE T – Bank to Book Cash Reconciliation

	Produced by CM		Produced by Treasury		
($ in millions)	1/31/2015	2/12/2015	4/30/2015	5/31/2015	6/30/2015
TSA Bank Cash Balance	**$ 195.8**	**$ 126.8**	**$ 96.3**	**$ 20.0**	**$ 13.8**
Outstanding Checks	(355.5)	(437.1)	(210.9)	(260.9)	(428.9)
Deposits in Transit	51.1	14.4	111.1	34.4	64.1
Restricted Funds	(161.3)	-	(69.8)	(64.8)	(77.8)
Subtotal - Bank to Book Cash Difference	**$ (465.8)**	**$ (422.7)**	**$ (169.6)**	**$ (291.4)**	**$ (442.6)**
TSA Book Cash Balance	**$ (269.9)**	**$ (295.9)**	**$ (73.3)**	**$ (271.3)**	**$ (428.8)**

Bank to Book Cash Reconciliation – Detailed Description

- CM's Bank to Book Reconciliation assessment is based on information provided by Treasury as follows:
  - CM has had access to information from Treasury related to outstanding checks for different points in time, depending on each of the different "zero balance" accounts from which checks are issued. Segregation of checks held and checks in transit is not available regularly.
  - Deposits in transit are a measurement of funds on the test date being transferred from other government accounts to the TSA.
  - Restricted funds, mainly related to pledged taxes from Acts 30-2013, 31-2013, and 1-2015, collected through the TSA totaled $77.8 million as of June 30, 2015.
  - As of June 30, 2015, the Book Cash deficiency was negative $428.8 million.

TABLE U– Bank to Book Reconciliation

($'s in millions)	Accounts								
Month	Concentration	Payroll	Multiple payments	Tax Returns	PRDT - Suppliers	DOE	Health	ASSMCA	TOTAL
June 30, 3014	$ 123.7	$ 9.4	$ 9.1	$ 11.9	$ -	$ -	$ -	$ -	$ 154.2
July 31, 2014	102.0	8.6	10.3	142.8	4.5	149.6	-	1.6	$ 419.5
August 31, 2014	121.3	7.4	9.6	27.0	4.9	172.4	-	1.8	$ 344.4
September 30, 2014	97.3	9.3	9.3	19.7	4.5	246.3	-	-	$ 386.4
October 31, 2014	76.1	6.6	-	22.5	3.7	194.8	-	-	$ 303.7
November 30, 2014	79.3	5.5	-	13.9	3.4	203.0	-	-	$ 305.0
December 31, 2014	107.7	3.4	-	21.0	3.8	232.5	-	-	$ 368.4
January 31, 2015	138.1	6.3	-	-	3.7	207.4	-	-	$ 355.5
April 30, 2015	62.1	5.4	-	11.2	0.7	105.3	25.0	1.1	$ 210.9
May 31, 2015	77.5	9.5	-	11.2	1.3	133.0	26.6	1.7	$ 260.9
June 30, 2015	129.5	7.6	-	4.2	1.5	252.8	32.5	0.7	428.9
Checks Outstanding	**$ 129.5**	**$ 7.6**	**$ -**	**$ 4.2**	**$ 1.5**	**$ 252.8**	**$ 32.5**	**$ 0.7**	**$ 428.9**
Average	**$ 98.5**	**$ 7.2**	**$ 3.8**	**$ 28.1**	**$ 3.1**	**$ 164.4**	**$ 5.2**	**$ 0.6**	**$ 310.9**

Estimated outstanding checks at 6/30/2015 [1]	$ (428.9)
Bank balances at 1/31/2015:	
TSA (Concentration) account	13.8
Deposits in Transit - Colectores	60.8
Deposits in Transit - Recaudadores	3.3
Total Bank Balances	**77.8**
Restricted Funds	(77.8)
Operational cash book deficiency as of 6/30/2015	**$ (428.8)**

Footnotes:

[1] For those accounts for which no information was available, the latest outstanding amount was used.

Source: Treasury

Bank to Book Cash Reconciliation – Restricted Cash

- As of June 30, 2015, the TSA includes $77.8 million of Restricted Cash that shall be immediately available at any point in time when each agency or organization entitled to these special assignments requests the transfer of those monies.
- Depending the nature of the item, Treasury transfers these funds (on a monthly basis, or as requested) to the respective agency or organization.

TABLE V – Book Cash, Net of Restricted Funds

($'s in millions)		As of June 30, 2015
Restricted cash deposited in operational account:		
Act 1, 2015	$	21.4
Act 30, 2013		23.4
Act 31, 2013		32.9
Total Restricted cash [1]	**$**	**77.8**

Footnotes:

[1] The above restricted cash does not include amounts belonging to special funds that are deemed as discretionary (non-restricted) by the Treasury. Examples include: Fund 265 Special Education, Fund 276 Legal Responsibility, and Fund 294 Employment and Economic Development.

Source: Treasury as of June 2015.

Appendix F:

PENSION ANALYSIS

Pensions Analysis – Employee Retirement System

- Based on a meeting with members of the ERS management team on February 11, 2015, the current annual cash flow deficit for the ERS is estimated to be approximately $800.0 million at current funding levels. This cash flow deficit is due to benefit payments, administrative benefits, and debt service exceeding member and employer contributions.
  - Therefore, CM estimates a $400.0 million cash burn for the six-month period ending June 30, 2015, based on a pro-rata share of the estimated $800.0 million annual cash burn.
  - FY2016 estimated cash burn of $634.0 million, prior to Additional Uniform Contributions, is less than estimated burn of $800.0 million in FY2015 partly due to the assumption of higher employer contribution in FY2016 per Law 116.
  - Estimated liquid assets of the ERS contain approximately $1.7 billion of equities/fixed income at December 31, 2014, and $150.0 million of cash at November 30, 2014. It should be noted that a significant amount of ERS's cash is restricted for obligations such as pension obligation bond deposits, security trading collateral and bank reserves. The non-liquid assets were excluded from Table W on the following page.
- Estimated net supplemental contributions related to Act 3 – $2,000 per pensioner is paid by employers, of which healthcare, Christmas bonus and medical are paid, leaving $500 per pensioner in the ERS.
- Additional Uniform Contributions per Act 32 – given the underfunding of the Additional Uniform Contributions to date, they have been increased from $120.0 million to $369.0 million per Milliman's analysis dated February 27, 2015. The Additional Uniform Contributions amount created in Act 32 is intended to maintain gross system assets of at least $1,000.0 million. At present, ERS has not yet collected the Commonwealth's GF Additional Uniform contribution for fiscal year 2014 and 2015. The fiscal year 2014 contribution was reduced to zero ($0) through the Executive Order 29-2014 of June 27, 2014. The Commonwealth TSA does not include the payment of the Additional Uniform Contribution in Fiscal Year 2016. The timeframe in which ERS will exhaust its assets depends on many factors. Below are a select population of these factors:
  - The level of Additional Uniform Contributions received by ERS – as previously noted, the Additional Uniform Contributions are intended to maintain at least $1,000.0 million of assets in the system.
  - Investment return on assets – the ERS is currently using investment income as operating cash. Table W on the following page does not assume investment income. For the six months ended December 31, 2014, ERS had earned approximately $41.0 million of interest income.
- As of December 31, 2014, the ERS held approximately $600.0 million in employee loans ($432.0 million in personal/cultural loans and $170.0 million in mortgages). The ERS has been successful in selling a portion of these loans in the past (March 2014) and believes the balance of non-mortgage loans can be sold if necessary to generate cash.

Pensions Analysis – Employee Retirement System (cont'd)

- Table W below presents the estimated net cash flows for the ERS based on estimated cash inflows (employer/employee contributions, net supplemental contributions) and cash outflows (benefit and administrative payments, pension obligation bonds debt service) as well as the estimated plan asset levels given the estimated annual cash flow amounts.
  - Net cash flow amounts noted below, with the exception of the six-month amount for period ending June 30, 2015, represent amounts presented in Milliman's June 30, 2013 Actuarial Valuation Report. CM has assumed these calculations are still valid.
  - The calculation below excludes the Additional Uniform Contribution of $369.0 million based on a report from Milliman dated February 27, 2015.

TABLE W – ERS Pension Plan Assets Projection

($'s in millions) Fiscal Year	Estimated Payroll	Estimated Member & Employer Payroll Contributions	Estimated Net Supplemental Contributions	Estimated Benefit Payments and Admin Expenses	POB Debt Service	Net Cash Flow	Estimated Liquid Plan Assets Available	Estimated Liquid Plan Assets Incl Employee Loans
12/31/2014							1,822.0	2,424.0
Est. 1/1/15 - 6/30/15						(400.0)	1,422.0	2,024.0
6/30/2016	3,665.0	922.0	106.0	1,495.0	167.0	(634.0)	788.0	1,390.0
6/30/2017	3,757.0	992.0	110.0	1,499.0	167.0	(564.0)	224.0	826.0
6/30/2018	3,851.0	1,064.0	114.0	1,503.0	167.0	(492.0)	(268.0)	334.0
6/30/2019	3,947.0	1,139.0	117.0	1,507.0	167.0	(418.0)	(686.0)	(84.0)
6/30/2020	4,046.0	1,216.0	121.0	1,517.0	167.0	(347.0)	(1,033.0)	(431.0)

Notes:

1. Beginning estimated liquid assets at 12/31/14 per information received from ERS and includes equities, fixed income and unrestricted cash accounts.
2. Estimated cash burn for 1/1/15 - 6/30/15 based on comment from ERS that expected FY 2015 cash burn will be $800 million which assumed $35 million of Additional Contributions.
3. Payroll contributions based on 10% employer contributions and employer contributions of 14.3%, 15.5%, 16.8%, 18.0% and 19.3% for FY2016 - FY2020, respectively.
4. Liquid asset balance does not reflect investment earnings.
5. Additional Contributions assumed totaling $369.0 million per year are not included in the analysis above. Amount is determined by Milliman actuarial valuation.
6. The ERS has sold employee loans in the past and believes majority of current balance could be sold to provide liquidity.

Pensions Analysis – Teachers Retirement System

- Table X below presents a similar analysis as Table W for the TRS, indicating TRS is out of available liquid assets (absent selling all employee loans) by June 30, 2018.
  - Net cash flow amounts noted below represent amounts per the Milliman's June 30, 2014 Actuarial Valuation Report. CM has assumed these calculations are valid.
  - The calculation below assumes the Teachers Justice Uniform Contribution is funded beginning in FY2017 and increases to $60.0 million in FY2019.
  - Annual additional contributions per Article 1.1 of Act 160-2013 are estimated to be $450.0 million and are not assumed in the analysis below. These payments would begin during FY2019.

TABLE X – TRS Pension Plan Assets Projection

($'s in millions) Fiscal Year	Estimated Payroll	Estimated Member & Employer Payroll Contributions	Estimated Net Supplemental Contributions	Estimated Teachers Justice Uniform Contributions	Estimated Benefit Payments and Admin Expenses	Estimated Investment Income	Net Cash Flow	Estimated Liquid Plan Assets Available	Estimated Liquid Plan Assets Incl Employee Loans
12/31/2014								1,080.0	1,501.0
Est. 1/1/15 - 6/30/15							(153.5)	926.5	1,528.5
6/30/2016	1,091.0	248.0	20.0	-	682.0	79.0	(335.0)	591.5	1,193.5
6/30/2017	1,071.0	256.0	22.0	30.0	693.0	57.0	(328.0)	263.5	865.5
6/30/2018	1,086.0	270.0	24.0	30.0	709.0	33.0	(352.0)	(88.5)	513.5
6/30/2019	1,101.0	285.0	26.0	60.0	726.0	8.0	(347.0)	(435.5)	166.5
6/30/2020	1,113.0	299.0	28.0	60.0	747.0	-	(360.0)	(795.5)	(193.5)

Notes:

1. Beginning estimated liquid assets at 12/31/14 per information received from TRS and includes equities, fixed income and unrestricted cash accounts.
2. Estimated cash burn for 1/1/15 - 6/30/15 based on 50% of estimated FY 2015 reduction in assets per Milliman 6/30/2014 valuation report.
3. Payroll contributions based on 9%/10% employee contributions and employer contributions of 13.5%, 14.75%, 16.0% and 17.25% for FY2016 - FY2019, respectively.
4. Liquid asset balance reflects estimated investment earnings per Milliman 6/30/2014 valuation report.
5. Teachers Justice Uniform Contributions assumed to begin in FY2017 and increase to $60 million in FY2019. Annual Additional Contributions, which per Article 1.1 of Act 160-2013 begin in FY2019 are
6. The TRS has not sold employee loans in the past and but believes majority of current balance could be sold to provide liquidity.

Appendix G:

LITIGATION RISK

Litigation Risk

General Points

- There were approximately 6,264 pending or threatened litigation cases as of June 30, 2015.
- The Commonwealth reported in its financial statements that as of June 30, 2013 accrued liabilities of approximately $1.7 billion for awarded and anticipated unfavorable judgments.
- The total amount claimed as of February 28, 2015 is approximately $10.1 billion. The Commonwealth believes that most of the claims are excessive, frivolous, or both and that its ultimate liability should not significantly exceed what is set forth in the financial statements.

Summary of Select Cases Noted in Financials

- Special Education Students:
  - Class action case from 1980.
  - At June 30, 2014, the legal contingency had an estimated exposure of $650.0 million.
  - On November 13, 2014, the court increased daily fines for failure to comply with the court's prior order to $10,000 per day. The court also established a special fine of $300,000 to be used for the benefit of the members of its class.
  - Potential annual impact: N/A.
- Police Institutional Reform:
  - On July 17, 2013, parties entered into a settlement agreement that requires significant institutional reform.
  - Based on recent expert opinions, the reform will require an investment of between $200.0 million and $600.0 million.
  - The Commonwealth budgeted $20.0 million for this purpose in the FY2015 budget.
  - Potential annual impact: N/A.
- Wage Claims:
  - Commonwealth is a defendant in two lawsuits instituted in 2007 and 2009. On August 7, 2014 the trial court dismissed one of the two suits. The Plaintiffs have appealed the decision.
  - At June 30, 2014, the legal contingency has an estimated exposure of $215.0 million plus an undetermined amount for interest.
  - Potential annual impact: N/A.

Source: October 2014 Financial Information and Operating Data Report, pages 174-177; May 7, 2015 Commonwealth Quarterly Report pages 65-67.