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December 12, 2020

The Honorable Governor of Puerto Rico
Honorable Members of the House of Representatives
Citizens of Puerto Rico

The Comprehensive Annual Financial Report (CAFR) of the House of Representatives of the Commonwealth of Puerto Rico (hereinafter referred to as the “House of Representatives”) for the fiscal year ended June 30, 2020 is submitted herewith. The responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with management. To the best of our knowledge and belief, the presented data is accurate in all material respects and is reported in a manner that fairly represents the financial position, and the result of operations of the House of Representatives’ financial activities.

Puerto Rico law requires financial statements be presented in conformance with accounting principles generally accepted in the United States of America (GAAP), as applicable to governmental entities and audited in accordance with generally accepted auditing standards. This report serves to fulfill these requirements.

The CAFR is presented in three sections. The Introductory Section includes this transmittal letter, general information about the House of Representatives, an organizational chart, and a list of Representatives and standing and special committees. The Financial Section includes the independent auditors’ report, management’s discussion and analysis (MD&A), audited government-wide and fund financial statements and related notes thereto, and required supplementary information. The statistical section contains selected unaudited financial, economic and demographic data on a multiyear basis.

GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of MD&A. This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The House of Representatives’ MD&A can be found immediately following the report of the independent auditors.

PROFILE OF THE HOUSE OF REPRESENTATIVES

The House of Representatives is the oldest legislative body of Puerto Rico – a territory of the United States of America – whose residents are citizens of said Nation since 1917. To understand, from a fair standpoint, the origins of Puerto Rico’s parliamentary system, which begins with the establishment of the House of Representatives in 1898, it is necessary to present at least a synopsis
of the beginning and development of the people of Puerto Rico, generally, and the Legislative Power, specifically.

The Autonomic Charter of 1897 authorized the formation of an autonomous government for Puerto Rico where the governor was designated by the King of Spain and served as the lawful representative thereof. The Charter also provided for an Insular Parliament composed of 2 bodies with equal powers, to wit, a House of Representatives and an Administration Council, and an Autonomous Cabinet, designated on February 10, 1898 by Governor Manuel Macías. The House, which was composed of 32 members, was elected by the people of Puerto Rico, while the Council was divided into 8 members elected locally (by a convention of delegates) and 7 members appointed by the Governor on behalf of the King. The Island must also elect 16 Representatives and 5 Senators who shall represent it at the Spanish Courts.

For purposes of the House elections—the first legislative body whose members were elected by its peers—the island was divided into 8 electoral districts. One representative was elected for every 25,000 inhabitants. It must be noted that the first and only election under the Autonomic Charter was held on March 27, 1898, and subsequently, the members-elect of the House of Representatives were called for an inaugural session on July 17 of said year. The Parliament and the Cabinet were barely commencing their works when the Spanish-American War between the United States of America and Spain broke and brought about a crisis, which would bring about a dramatic political change in Puerto Rico.

On April 12, 1900, the President of the United States, William McKinley, signed the Foraker Act—named after Congressman Joseph B. Foraker, who introduced said bill—which allowed Puerto Rico to have a civilian government. From that moment on, the Island would be governed by a civilian designated by the President of the United States. A Legislative Assembly was also established to be composed of a House of Delegates with 35 members to be solely elected by the people of Puerto Rico, and an Executive Council with 11 members (of which, 5 must be Puerto Rico natives) to be designated by the President of the United States, and a Judiciary composed of the Supreme Court of Puerto Rico with 5 members, also appointed by the President of the United States, and a District Court for the District of Puerto Rico (the Federal Court).

As a result of this change in the legal system, general elections were to be held every 2 years (the first Tuesday after the first Monday of November) to elect the 35 members of the House of Delegates, in addition to a Commissioner to the United States, known as the Resident Commissioner of Puerto Rico, who would be entitled to be recognized as such by all the executive departments, and to have voice but no voting rights at the U.S. House of Representatives.

The Foraker Act was substituted in 1917 for the second organic act passed by Congress for Puerto Rico: the Jones Act. Said Act provided for a House of Representatives with 39 members elected by the people, and created a Senate of 19 members who would also be elected by the people of Puerto Rico. The elections, in which the people would continue to elect the Resident Commissioner of Puerto Rico in the United States, would be held every four years beginning in 1917 (the reason being that in 1916 no election was held for the congressional process to pass the new organic act was still pending).
To elect the members of the Legislative Assembly, the Island was divided into 7 Senate Districts (San Juan, Arecibo, Aguadilla, Mayagüez, Ponce, Guayama, and Humacao), and 2 Senators would be elected for each district, and 5 Senators-at-Large. In each Senate District there were 5 Representative Districts, and for each one of these, 1 Representative plus 4 Representatives-at-Large were elected.

The Constitution of Puerto Rico, approved in 1952, established the Legislative Power composed of the House of Representatives and the Senate, but it was modified as follows: today, the House of Representatives is composed of 51 Representatives (40 for each of the 40 Representative Districts and 11 Representatives-at-Large). Each Senate District must always include 5 Representative Districts. Moreover, the Resident Commissioner in the United States, who has voice but no voting rights in the Congress, continues to be elected.

The House of Representatives shall have exclusive power to initiate impeachment proceedings and, with the concurrence of two-thirds of the total number of members of which it is composed, to bring an indictment. The Senate shall have exclusive power to try and to decide impeachment cases. The grounds for impeachment shall be treason, bribery, other felonies, and misdemeanors involving moral turpitude. The Chief Justice of the Supreme Court shall preside at the impeachment trial of the Governor.

The Legislative Assembly is a continuous body during the term for which its members are elected, and currently, the Legislative Assembly—both the House of Representatives and the Senate—holds two regular sessions each year, to wit, first regular annual session of the Legislature shall commence on the second Monday of January of each year and adjourn on June 30 of the same year. The second session shall commence on the third Monday of August and adjourn on the Tuesday prior to the third Thursday of November. (However, in those years in which a general election is held, the Legislature shall not assemble to hold the Second Regular Session). During the 15 remaining weeks, the Committees shall continue working full time, and the prior approval of the President of the Senate and the Speaker of the House of Representatives shall be required to hold meetings outside of business days.

It must be noted that the Governor of Puerto Rico has the constitutional power to call the Legislative Assembly into special sessions which shall not continue for longer than 20 calendar days, when in his judgment, it is in the public interest. When calling a special session, the Governor must include and describe the specific and unique matters that must be address during said sessions.

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1 Let us clarify that the composition of 51 representatives and 27 senators will vary by increasing the representation of the minority parties, if in a general election more than two-thirds of the members of either house are elected from one political party or from a single ticket, according to the circumstances described in Section 7 of Article II of the Constitution of Puerto Rico. In such case, said Section provides that: “The measures necessary to implement these guarantees, the method of adjudicating fractions that may result from the application of the rules contained in this section, and the minimum number of votes that a minority party must cast in favor of its candidate for Governor in order to have the right to the representation provided herein shall be determined by the Legislative Assembly.”

2 The Constitution of Puerto Rico, Article III, Sec. 21.

3 Id., Article III, Sec. 10; and Act No. 9 of April 9, 1954, as amended, Sec. 1.

4 Id., Article III, Sec. 10.
All sessions of the House of Representatives—as well as of the Senate—shall be open and public.\(^5\) All bills for raising revenue shall originate in the House of Representatives.\(^6\)

Section 17 of Article II of the Constitution of Puerto Rico provides the basic legislative process to be followed to enact a bill into law. Said Act provides, in part, that: “No bill shall become a law unless it has been printed, read, referred to a committee and returned therefrom with a written report, but either house may discharge a committee from the study and report of any bill and proceed to the consideration thereof”. Moreover, Section 9 of said Article III, which establishes the powers of each of the houses that composed the Legislative Assembly of Puerto Rico, provides that: “Each house […] shall adopt rules for its own proceedings appropriate to legislative bodies”.

Act No. 140-2004 granted fiscal autonomy to the House of Representatives. Said Act amended Act No. 230 of July 23, 1974, as amended, known as the “Government of Puerto Rico Accounting Act”, in order to authorize the Legislative Assembly to exercise custody and control of its funds and public property; design and establish its own fiscal organization and accounting systems and procedures for conducting financial transactions; and authorize the regulations needed to attain the purpose of said Act. The foregoing, despite the long-standing tradition of centralizing the fiscal organization of the Legislative Assembly through a system created by and in the Executive Branch of the Government poses an issue, given the separation of power doctrine. The Constitution of Puerto Rico essentially adopted the traditional system of the separation of powers provided in the Federal Constitution, based on the belief that the best kind of government was necessarily one whose powers would be distributed among different bodies. In doing so, our system of Government has been characterized by a harmonious balance between the three independent branches (the Executive Branch, the Legislative Branch, and the Judicial Branch), a check and balances system, which seeks to establish an equilibrium in the exercise of the total powers of the Government over the people of Puerto Rico.\(^7\)

In accordance with a constitutional mandate and the Rules of the House of Representatives of Puerto Rico (H. R. 1 of January 2, 2017, as amended), said Legislative Body provided for the organization of its business through Standing and Special Committees, as well as for the designation of its members and their offices. Standing committees are created upon the approval of resolutions establishing their jurisdiction according to their area of expertise or scope of authority. Special committees, if any, have a fixed term (usually 1 year) and are created by the Speaker of the House or upon the approval of any resolution introduced by any of the Representatives providing for the composition and jurisdiction thereof to analyze or investigate certain specific matters.

2016 ELECTION

As a result of the November 2016 Puerto Rico general election, the New Progressive Party won a majority of seats in the House of Representatives. Since January 2017 to the present, Honorable Carlos J. Méndez Núñez has been the Speaker of the House of the Representatives.

\(^5\) Id., Article III, Sec. 11.
\(^6\) Id., Article III, Sec. 17.
\(^7\) See, the Statement of Motives of Act No. 140-2004.
INDEPENDENT AUDIT

An audit of the financial statements of the House of Representatives has been completed by independent auditors. The audit was performed to provide reasonable assurance that the financial statements are free of material misstatements. The audit included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditors concluded that there was a reasonable basis for issuing an unqualified opinion that the House of Representatives’ financial statements for the fiscal year ended June 30, 2018, are fairly presented in conformity with GAAP.

The independent auditors’ report is presented at the beginning of the Financial Section of this CAFR.

INTERNAL CONTROLS

Management is responsible for establishing and maintaining internal controls to provide reasonable assurance that assets are safeguarded against loss, theft or misuse and that financial records for preparing financial statements and maintaining accountability for assets, are reliable.

The internal control system is designed to provide reasonable, rather than absolute, assurance that these objectives are met and that the financial statements are free from material misstatement. The concept of reasonable assurance recognizes that the cost of control should not exceed the benefits likely to be derived from that control and the evaluation of costs and benefits require estimates and judgments by management. We believe that the House of Representatives’ internal control adequately safeguards assets and provides reasonable assurance that financial transactions are properly recorded.

The House of Representatives maintains extensive budgetary controls to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the Legislative Assembly, internal rules, and administrative orders. The general fund activities are included in the annual appropriated budget. Budgetary control for legislative functions rests at the level of the office of each representative. However, with regard to administrative offices, control is exercised at the administration level. The House of Representatives also maintains an encumbrance accounting system as a method of upholding budgetary control.

ECONOMIC CONDITIONS AND OUTLOOK

Puerto Rico’s economy is closely linked to the United States economy, as most of the external factors that affect the local economy are determined by the policies and performance of the mainland economy. These external factors include exports, direct investment, the amount of federal transfer payments, the level of interest rates, the rate of inflation, and tourist expenditures.

Subsequent to June 30, 2018, on March 11, 2020, the World Health Organization declared the new strain of the coronavirus (COVID-19) a global pandemic. Federal, state, and the Government of Puerto Rico have since implemented various restrictions, including travel restrictions, border
closings, restrictions on public gatherings, quarantining of people who may have been exposed to
the virus, shelter-in-place restrictions and limitations on business operations. In response to
government recommendations and for the health and safety of associates and guests, the
Government of Puerto Rico announced the Governor’s Executive Order Number OE-2020-023,
Implementation of the Necessary Closings of Private and Government Operations to Combat the
Effects and Spread of COVID-19 in the Island of Puerto Rico, issued on March 15, 2020

From fiscal year 2008 to fiscal year 2018, the manufacturing and service sectors generated the
largest portion of gross domestic product. Manufacturing is the largest sector of the Puerto Rico
economy in terms of gross domestic product. In the last three decades, industrial development in
Puerto Rico has been relatively capital intensive and dependent on skilled labor.

Puerto Rico has experienced mixed results in the service sector, which includes wholesale and
retail trade, utilities, transportation and warehousing, information, finance and insurance, real
estate and rental, and certain services such as professional, scientific, technical, management,
administrative, support, educational, health care, social, recreational, accommodation, food and
other services. Tourism also makes a significant contribution to economic activity.

Puerto Rico continues to suffer from the effects of a recession that started on fiscal year 2006.
Since that day, Puerto Rico’s Gross National Product (“GNP”) has decreased constantly every
fiscal year, except for fiscal year 2012, when it grew by 0.5% GPN for fiscal years 2009, 2010 and
2011, 2013, 2014, 2015, 2016, 2017 and 2018 decreased by 3.8%, 3.6%, 1.7%, 0.1%, 1.8%, 0.8%,
1.6%, 3.0% and 4.7% respectively.

The Commonwealth’s economic development team has embarked on a comprehensive outreach
strategy to diversify Puerto Rico’s economic base, pursue niche strategies such as
aerospace/aeronautics, and leverage its human capital and fiscal autonomy to attract new
investment opportunities. The Commonwealth’s goal is to protect its manufacturing core while it
transitions its economic ecosystem into a regional service and high-tech industrial activities hub.

FAFFA’s Economic Activity Index (the “EAI”) for June 2018 reflected a 4.9% reduction
compared to June 2017. The average cumulative value for the fiscal year 2018 showed a reduction
of 3.9% compared to fiscal year 2017. The EAI is a coincident indicator of ongoing economic
activity, but it does not measure the real GNP annual growth rates. Since the EAI is generated with
only four variables (total payroll employment, cement sales, gasoline consumption, and electric
power generation), it is more volatile than the real GNP figures. This means that both increments
and declines reflected in the EAI amplify the corresponding movements of the real GNP.

The most recent development with regards to Puerto Rico’s fiscal situation is the appointment of
a Fiscal Oversight Board, following the enactment of PROMESA (Puerto Rico Oversight,

BUDGET AND FISCAL POLICY

The fiscal year for the three branches of the Commonwealth of Puerto Rico, including the
Legislative Assembly, begins each July 1 and ends in June 30 of the next year. The House of
Representatives’ annual budget includes an estimate of operating expenditures for its legislative and administrative functions. The Legislative Assembly is then responsible for variations in its budgetary appropriations of each legislative body. Any unreserved balance is available for nonrecurring expenses for a three-year period, according to Act No. 230 of July 23, 1974, as amended.

ADMINISTRATIVE & LEGISLATIVE

Our jurisdiction is facing critical times as a result of poor management and the implementation of management decisions that lead to increasing government expenditures and requiring administrative entities to solve the liquidity issues by taking on loans under financial, legislative, and legal terms, known in the financial market as bond issues. In this case, the government’s financial instruments are backed by the revenues from the various taxes imposed on taxpayers. As a result of these unwise management decisions made by government leaders, the lack of financial guarantees, and the establishment of a pattern of default are the reasons why our government has lost access to financial markets.

The budget of the Legislative Assembly accounts for less than one percent (1%) of the Government’s consolidated budget. Both the House of Representatives and the Senate are able to operate in favor of the People. As part of our Republican form of government, the House is the legislative body closest to the people, given that its composition is based on the number of inhabitants. We reassert the provisions of the Constitution setting forth that all bills for raising revenue shall originate in the House of Representatives, but the Senate may propose or concur with amendments as on other bills.

On October 30, 2016, the Financial Oversight Board for Puerto Rico designated the Government of Puerto Rico as well as other governmental organizations and public corporations as covered territorial instrumentalities under Public Law 114-87 of June 30, 2016, known as the “Puerto Rico Oversight, Management, and Economic Stability Act”, or “PROMESA”. The Financial Oversight Board (FOB) created under said federal legislation entrusts certain duties and responsibilities to its members, as a federal entity, in order to make financial oversight feasible. Together with the Executive Branch, the FOB must devise a strategic plan focused on stressing the importance of public administration and establishing the priorities for the financial restructuring of the Government of Puerto Rico.

The Financial Oversight Board suggested a $15 million-cut for the Legislative Assembly for fiscal year 2019-2020. As a result of the suggested cut, the budget of the House of Representatives for said fiscal year had a $6 million upset.

Our Legislative Body continues evaluating internal rules and regulations, having already established various administrative orders for the functioning and efficiency in its operations. This shows the House of Representatives’ commitment in maintaining transparency and a sound administration, as well as strengthening the importance and effectiveness of regulations in the work environment which the Representatives, officials and employees of the House must observe. Thus, as part of the goals established for the July 2019 to June 2020 period, we implemented these administrative orders:
Regulations and Controls for the Administration and Use of the House of Representatives of Puerto Rico Computer Systems;

Contracts Office Regulations; Registry of Contractors; and the Contracting of Professional and Consulting Services of the House of Representatives of Puerto Rico;

Amendment to the Code of Standards and Security of the House of Representatives of Puerto Rico;

Regulations for the Drug Test Administration Program of the House of Representatives of Puerto Rico;

Covid-19 Safety Protocol

House of Representatives of Puerto Rico Telework Regulations due to the Puerto Rico Covid-19 State of Emergency

Regulations to Establish the Procedures of the Office of Budget and Finance due to the Covid-19 Emergency


On the other hand, the Speaker of the House is responsible for designating all the members of the Special and Standing Committees and determining the minority representation therein. Every political party, whether a majority or a minority party, shall be duly represented and actively involved in every Special and Standing Committee of this Legislative Body.

For the 2017-2020 Legislature, the House of Representatives of Puerto Rico organized its Standing Committees through H. R. 16, which were divided into 5 specific areas, to wit: I. Governmental Sector, II. Economic Sector, III. Social Sector; IV. Law and Order Sector; and V. House of Representative Proceedings. The current Standing Committee composition is the following:

I. GOVERNMENTAL SECTOR

a) Committee on Municipal Affairs, composed of 9 Representatives

It has jurisdiction over all that pertains to municipal finances and operations; every proposal to create municipalities and consolidate inter-municipal and regional services with the services provided by the Office of the Commissioner of Municipal Affairs, the Municipal Revenues Collection Center (CRIM), and other related instrumentalities that

Based on H.R. 16 of January 4, 2017, as amended.
render services to the municipalities; any municipal reform proposal and special laws that administer or affect the municipalities; government programs that affect the municipalities, and the formulation of proposals seeking the integral development of the municipalities for the purpose of addressing any needs related to economic, urban, and rural development, employment, the environment, recreation, transportation, and public protection. It also has jurisdiction over any agency, body, or instrumentality whose duties affect the development of the municipalities, provided, that the matter at issue is not essentially related to the creation, modification, division, consolidation, integration, or elimination of agencies, bodies, or instrumentalities of the Government of Puerto Rico; in which case the Committee on Government shall have primary jurisdiction. The Committee on Municipal Affairs also evaluates any proposal to invest municipalities with greater powers and increase their capacities by confirming autonomous regions, as well as any other matters delegated thereto by the House of Representatives of Puerto Rico or the Speaker.

b) Committee on Ways and Means, Budget, and Puerto Rico Oversight, Management, Economic Stability, composed of 15 Representatives

It has jurisdiction over all that pertains to the fiscal situation of the Government of Puerto Rico, the General Fund and special funds revenues; estimates of potential revenues and income, and financing by issuing debt, estimates of income and investments and disbursements of public corporations relating to legislation that eliminates or imposes any kind of taxes; the public debt of the Government and public corporations, as well as the repayment conditions of recommended debt issues; collection, revenues, custody, deposit, and accountability of public funds; pre-intervention and use of public funds in accordance with the purposes for which they were authorized; the study and evaluation of the General Budget; budget requests recommended by the Governor for the departments, public corporations, agencies, and other instrumentalities; and all agencies, instrumentalities and public corporations under the jurisdiction of the Department of Treasury, provided, that the matter at issue is not essentially related to the creation, modification, division, consolidation, integration, or elimination of agencies, bodies, or instrumentalities of the Government of Puerto Rico; in which case the Committee on Government shall have primary jurisdiction; and over any matters delegated thereto by the House of Representatives of Puerto Rico or the Speaker. In addition, i: is responsible for any legislative measure relating to fund appropriations and for the appropriations included in any legislative measure. Furthermore, it has jurisdiction over all matters related to the fiscal situation of the Government of Puerto Rico, the Fiscal Plan proposed by the Government, and over the quarterly reports on income and expenditures to be submitted by the Governor to the Financial Oversight Board which it shall analyze and review to determine if they are compliant with the approved budget projections. This Committee shall also review any bill that represents a financial commitment in the Government’s general budget, evaluating cost estimates and certifying compliance with the Fiscal Plan. Moreover, it shall review and oversee the restructuring process of any kind of public debt incurred by the departments, public corporations, agencies, and other government instrumentalities; and over any other matters delegated thereto by the House of Representatives of Puerto Rico or the Speaker.

c) Committee on Government, composed of 15 Representatives
This Committee has jurisdiction over any matter related to the creation, modification, division, consolidation, integration, or elimination of agencies, bodies, or instrumentalities of the Government of Puerto Rico; legislation affecting the Office of the Governor and government offices, departments and instrumentalities, except for tax legislation; legislation relating to personnel laws, the impeachment process, and the government in general; and legislation relating to the administration and holding of elections. In addition, this Committee shall work on legislation regarding any type of referendum, except for those proposing amendments to the Constitution; legislation of general character relating to the state government that is not assigned to other Committees; and any other matters delegated thereto by the House of Representatives of Puerto Rico or the Speaker.

d) Committee on Federal and International Relations and Status, composed of 9 Representatives

This Committee is responsible for all matters related to the relationship between the Government of Puerto Rico and the Federal Government, the governments of all other territories and states of the United States of America, and its political subdivisions; intergovernmental agreements and contracts; Puerto Rico and the House of Representatives' participation in public or private intergovernmental organizations; the study of plans, the organization and rendering of services directed under the "Federal Relations Administration Act" as well as for all offices and activities of the Government of Puerto Rico's instrumentalities developed outside of Puerto Rico; services and treatment provided by federal agencies that operate in Puerto Rico or have jurisdiction over the rendering of such services to the Island's residents; proposals to federal or international agencies or entities for the establishment of programs or projects on the Island; and legislation related to the political relationship between Puerto Rico and the continental U.S. and the holding of plebiscites and referendums on Puerto Rico's political status.

e) Committee on Retirement Systems and Veterans' Affairs, composed of 9 Representatives

This Committee has jurisdiction over all matters related to legislation and studies regarding the operation of the government retirement systems and the welfare of the beneficiaries thereof; legislation necessary and convenient to improve the administration of these systems, to render such systems more dynamic, robust, and preserve the solvency thereof, as well as all that pertains to the benefits such systems provide to participants and pensioners; proposals made by the Executive Branch, the Legislative Branch, the Retirement Systems and Retirement System participants, jointly or individually regarding public employees retirement and to oversee the operations and solvency of the public sector's retirement funds and the services and treatment provided by federal agencies that operate in Puerto Rico or have jurisdiction over the rendering of such services to the Island's residents.

This Committee is also responsible for evaluating every legislation concerning international and federal agencies or entities for the establishment of programs or projects for veterans on the Island; and on the legal rights of veterans including, but not limited to, employment, education, labor, health, and housing; on government or civic efforts aimed
at addressing the issues that affect veterans; the Veteran’s Advocate Office; and any other matters delegated thereto by the House of Representatives of Puerto Rico or the Speaker.

f) Committee on Women’s Affairs, composed of 9 Representatives.

This Committee is in charge of addressing all that pertains to the full development of women in society by promoting opportunities that provide women with access to education and training for their personal, occupational, and professional growth; exalting women’s role in society; promoting efforts aimed at transforming and improving women’s living conditions in communities; achieving true equality by promoting, implementing and disclosing the public policy on gender equality, and the legal and constitutional rights of women and the situation and status of women in society in legal, financial, political and social terms; preventing discriminatory acts against women or potential violations of their legal and constitutional rights; the needs of single mothers and their families; young women who, due to violence, teenage pregnancies or financial issues, among others, leave school; women who, due to abuse or divorce, chose to leave school or require a safe home; professional women who require government support to care for their children and access to job opportunities and business activities, and women who require adequate access to sexual and reproductive, prenatal, delivery and postpartum health care services; and any other matters delegated thereto by the House of Representatives of Puerto Rico or the Speaker.

II. ECONOMIC SECTOR

a) Committee on Agriculture, Natural Resources, and the Environment, composed of 9 Representatives

This Committee is in charge of all matters pertaining to proposed legislative measures and integral reforms that address the needs and foster the development of the agricultural industry in Puerto Rico for the purpose of defining, implementing, administering, overseeing, and establishing the appropriate public policy; the regulation, oversight and inspection of agricultural activities and products; agricultural mechanization, marketing and distribution of agricultural products; agricultural capital and credit; training on agricultural techniques to improve agricultural exploitation, conservation, rescue and use of agricultural lands, agricultural experimentation and research; and agriculture in general. In addition, this Committee has jurisdiction over all that pertains to legislative studies, research and recommendations for public policy on land preservation, use, and irrigation, flood control, the preservation and use of reservoirs; mangroves, forests, fisheries, wildlife, mineral deposits and the responsible exploitation thereof; the conservation of important or endangered animal and plant species; environmental pollution, solid waste disposal, including recycling and landfills; studies and research for the formulation of public policy on environmental quality, including land, water, and air cleanup to ensure the best quality of life, air pollution control, pollutant discharge in land and water waste management, and controlling the degradation of hazardous waste so that it does not harm animals and plants, among others. It is also responsible for everything related to specific determinations on capital improvements, and construction and land use permits that require an environmental
impact assessment pursuant to the existing regulations, maps or plans, forest resources, fishery and wildlife, mineral deposits and archeological sites, and the environmental quality in general; among others; and any other matters delegated thereto by the House of Representatives of Puerto Rico or the Speaker.

b) Committee on Economic Development, Planning, Telecommunications, Public-Private Partnerships, and Energy, composed of 9 Representatives

Its mission is to study all matters pertaining to economic priorities consistent with the economic development of the Island; planning; telecommunications; trade and business competition at local or interstate level, or with other jurisdictions outside of the United States of America; monopoly in its different forms; technology and biotechnology; knowledge economy; strategic infrastructure projects in the planning or construction phase that promote economic development and those matters and issues pertaining to industry, commerce, telecommunications, and the economy in general. Likewise, it also deals with federal matters on the economic development of Puerto Rico; the interaction between purposes, resources and the efforts of government agencies or between the public and the private sector in connection with economic development; studies and research in connection with the promotion of economic development, commerce, industry, and telecommunications; and any other matters delegated thereto by the House of Representatives of Puerto Rico or the Speaker.

c) Committee on Small- and Medium-Sized Businesses and Commerce, composed of 9 Representatives

It has jurisdiction over all matters pertaining to strategic programs, plans and projects consistent with the economic and financial development and promotion of small- and medium-sized businesses; conducting of studies and research and the making of recommendations for the approval of measures that allow for the promotion and growth of such businesses, including seeking technical assistance and training; trading; local marketing and its competition; incentives and financing; business and industrial priorities consistent with commercial development; trade and business competition whether local, interstate, or with other jurisdictions outside of the United States. Likewise, it has jurisdiction over matters of business and industry in general; shall conduct studies and research and recommend the approval of measures that encourage the promotion and development of commerce; commercial and industrial incentives and financing; and it has jurisdiction over the Commerce Code, and any other matters delegated thereto by the House of Representatives of Puerto Rico or the Speaker.

d) Committee on Tourism and Social Welfare, composed of 9 Representatives

This Committee has jurisdiction over all matters pertaining to the promotion and development of the tourism industry as an essential part of the economic growth of Puerto Rico; research and studies that allow us to define, implement, direct, and focus the government’s policy on tourism, technical assistance, incentives and related matters; the management, operations, and conservation of hotels, inns and other tourism facilities;
tourist services and attractions; hotel schools and employment in the tourist industry; games of chance, cruise ships, coastal zones and ports; food, luxury, sports, group tourism and ecotourism; governmental and private entities related to tourism and the strengthening and expansion of the tourism industry in general.

In addition, it has jurisdiction over all matters pertaining to the operations and oversight of social welfare services for individuals, families, and communities, specifically, special populations such as older adults and marginalized communities for the purpose of implementing a public policy that guarantees the services required by these populations; economic assistance benefits, physical, financial and emotional rehabilitation; food and nutrition assistance; housekeepers, care centers; care and rehabilitation institutions for children with social issues; measures to fight child abuse, as well as social security systems; services aimed at a better quality of life; and any other matters delegated thereto by the House of Representatives of Puerto Rico or the Speaker.

e) Committee on the Development of the Capital City and Youth Affairs, composed of 7 Representatives

This Committee is in charge of all matters pertaining to the socioeconomic development of San Juan, the Capital City, the metropolitan area surrounding it, and all that affects its population. For such purposes, the metropolitan region is composed of the following municipalities: Aguas Buenas, Bayamón, Canóvanas, Carolina, Cataño, Dorado, Guaynabo, Toa Alta, Toa Baja, Trujillo Alto, and San Juan. Likewise, it has jurisdiction over the government programs that affect the Municipality of San Juan; recommendations for legislation as necessary to find solutions and achieve the harmonious and integrated development of the Municipality and the services rendered by the municipal government; and over the Puerto Rico Conventions District Authority.

The Committee also has jurisdiction over all matters pertaining to the public policy that promote the entry of youth in the job market; vocational training; prioritizing the seeking of solutions to issues affecting youth at all stages; public and private institutions for the social treatment of minors; training, employment and vocational rehabilitation of minors by the Department of Labor and Human Resources; the Police Juvenile Matters Division; the Youths Affairs Office, cultural youth programs promoted by the Institute of Puerto Rican Culture; government and private institutions that address youth’s needs and concerns; and any other matters delegated thereto by the House of Representatives of Puerto Rico or the Speaker.

f) Committee on Cooperativism, composed of 9 Representatives

This Committee is in charge of all measures geared toward the promotion, organization, oversight, inspection, reorganization and dissolution of cooperatives; the cooperative movement in all of its modalities, such as consumption, savings, credit, financing, production, housing, and any other kind of modality, while always bearing in mind the cooperative philosophy, including, the study and evaluation of issues and situations that affect in one way or another the stability, development, progress and wellbeing of
cooperativism; and any other matters delegated thereto by the House of Representatives of Puerto Rico or the Speaker.

g) Committee on the Integrated Development of the North Central Region, composed of 7 Representatives

It has jurisdiction over all matters pertaining to the government programs that affect the municipalities of Adjuntas, Arecibo, Barceloneta, Camuy, Ciales, Comerío, Corozal, Florida, Hatillo, Isabela, Lares, Las Marías, Manatí, Maricao, Morovis, Naranjito, Quebradillas, San Sebastián, Utuado, Vega Alta, and Vega Baja; proposals that seek the integral development of these municipalities for the purpose of addressing their needs in the following areas: economic, urban, and rural development, employment, the environment, recreation, transportation, and public protection; any government agency, body and instrumentality whose functions affect the development of the North Central Region; and over any other matters delegated thereto by the House of Representatives of Puerto Rico or the Speaker.

h) Committee on the Integrated Development of the Northeast Region, composed of 7 Representatives

It has jurisdiction over all matters pertaining to the government programs that affect the municipalities of Canóvanas, Ceiba, Culebra, Vieques, Fajardo, Humacao, Loíza, Luquillo, Naguabo, and Río Grande; proposals that seek the integral development of these municipalities for the purpose of addressing their needs in the following areas: economic, urban, and rural development, employment, the environment, recreation, transportation, and public protection; any government agency, body and instrumentality whose functions affect the development of the Northeast Region; and over any other matters delegated thereto by the House of Representatives of Puerto Rico or the Speaker.

i) Committee on the Integrated Development of the Eastern Region, composed of 7 Representatives

It has jurisdiction over all matters pertaining to the government programs that affect the municipalities of Caguas, Gurabo, Juncos, Las Piedras, Maunabo, Patillas, San Lorenzo, and Yabucoa; proposals that seek the integral development of these municipalities for the purpose of addressing their needs in the following areas: economic, urban, and rural development, employment, the environment, recreation, transportation, and public protection; any government agency, body, and instrumentality whose functions affect the development of the Eastern Region; and over any other matters delegated thereto by the House of Representatives of Puerto Rico or the Speaker.

j) Committee on the Integrated Development of the Western Region, composed of 7 Representatives

It has jurisdiction over all matters pertaining to the government programs that affect the municipalities of Aguada, Aguadilla, Añasco, Cabo Rojo, Hormigueros, Mayagüez, Moca, Rincón, and San Germán, proposals that seek the integral development of these
municipalities for the purpose of addressing their needs in the following areas: economic, urban, and rural development, employment, the environment, recreation, transportation, and public protection; any government agency, body and instrumentality whose functions affect the development of the Western Region; and over any other matters delegated thereto by the House of Representatives of Puerto Rico or the Speaker.

k) Committee on the Integrated Development of the South-Central Region, composed of 7 Representatives

It has jurisdiction over all matters pertaining to the government programs that affect the municipalities of Aibonito, Arroyo, Barranquitas, Cayey, Cidra, Coamo, Guayama, Orocovis, Salinas, Santa Isabel, and Villalba; proposals that seek the integral development of these municipalities for the purpose of addressing their needs in the following areas: economic, urban, and rural development, employment, the environment, recreation, transportation, and public protection; any government agency, body and instrumentality whose functions affect the development of the South-Central Region; and over any other matters delegated thereto by the House of Representatives of Puerto Rico or the Speaker.

l) Committee on the Integrated Development of the Southern Region, composed of 7 Representatives

It has jurisdiction over all matters pertaining to the government programs that affect the municipalities of Guánica, Guayanilla, Jayuya, Juana Díaz, Lajas, Peñuelas, Ponce, Sabana Grande, and Yauco; proposals that seek the integral development of these municipalities for the purpose of addressing their needs in the following areas: economic, urban, and rural development, employment, the environment, recreation, transportation, and public protection; any government agency, body and instrumentality whose functions affect the development of the Southern Region; and over any other matters delegated thereto by the House of Representatives of Puerto Rico or the Speaker.

m) Committee on Labor, composed of 9 Representatives

This Committee has jurisdiction over working conditions, hours and wages, employer-employee relations; workers training and retraining, labor services and guidance; labor union training; unemployment and occupational safety in general; workplace accident prevention and compensation, and work injury rehabilitation; migrant workers; labor in general; and over any other matters delegated thereto by the House of Representatives of Puerto Rico or the Speaker.

n) Committee on Transportation and Infrastructure, composed of 9 Representatives

This Committee is in charge of all that pertains to the design, investigation, programming, construction, and use of highways and mass transit systems; parking facilities and transit or public highways; these systems’ safety; studies on new transport methods; state public works; public thoroughfares in general; the strengthening of the infrastructure through strategic projects for mass ground, rail, maritime and air transportation; airports, ports,
highways and roads, aqueduct, sewer, electric power, energy production and transmission projects, among others; and any other matters delegated thereto by the House of Representatives of Puerto Rico or the Speaker.

III. SOCIAL SECTOR

a) Committee on Consumer Affairs, Banking and Insurance, composed of 9 Representatives

This Committee is entrusted with all matters relative to the fixing of prices, rentals, rates, and product quality, including the sale of school text books and the enrollment in and monthly payments to private schools at all levels; to installment sales, financing and credit affecting consumers, including agencies, public corporations, and other government instrumentalities that render direct services to the people; to product warranties and services, weights and measures, deceptive practices, advertisements and publicity, consumer services and education; to the analysis and review of all legislation regarding consumer affairs, the banking industry, and the analysis of legislation regarding banking matters, local, federal and international investment and financial lending institutions, as well as all that pertains to insurance, including the Insurance Code, except for savings and credit unions (cooperatives); and any other matters delegated thereto by the House of Representatives of Puerto Rico or the Speaker.

b) Committee on Education, Arts and Culture, composed of 9 Representatives

This Committee has jurisdiction over all measures directed to guidance, objectives and methods of the public education system; the regulation, oversight and accreditation of the educational services provided by private institutions and schools; vocational education, guidance, and rehabilitation; the promotion of education and culture; student services, scholarships and other assistance; the regulation, accreditation, and creation of conditions that help teachers become better and more engaged; and the development of supplemental educational services for greater efficiency; university direction, administration, research and education, including facilities and equipment; nonprofit entities, including knowledge management organizations, such as universities and institutions that make private sector’s contributions feasible.

It has jurisdiction over all matters pertaining to the preservation and promotion of cultural values, the arts, and sciences; policies that foster the arts; the Institute of Puerto Rican Culture, and the dissemination of culture and the preservation of historic sites and areas; the Luis A. Ferré Fine Arts Center, the Puerto Rico Conservatory of Music, the School of Visual Arts, the Puerto Rico Art Museum, the Contemporary Art Museum, and fine arts; the promotion of the Film and Audiovisual Industry as a source of artistic and cultural reference; the Puerto Rico Public Broadcasting Corporation, as entities that promote arts and culture; artistic and cultural exchange between Puerto Rico, the United States and the world; public art and artistic and cultural events and activities; the Puerto Rico General Archives as a source of cultural reference; as well as all matters related to arts and culture in general; and any other matters delegated thereto by the House of Representatives of Puerto Rico or the Speaker.
c) Committee on Special Education and People with Disabilities, composed of 9 Representatives

This Committee has primary or exclusive jurisdiction over matters and legislative measures related to educational programs and services for the special education population and people with physical and mental disabilities. It also responsible for overseeing the implementation of public policy that guarantees the rendering of services specialized education, therapy and vocational rehabilitation as well as any necessary effort to help this population achieve independent living.

It also has primary or exclusive jurisdiction, without being subject to the jurisdiction that other standing or special committees, the laws, or the agencies of the Government of Puerto Rico may have, over all matters and legislative measures related to the formulation of public policy and education and training, employment, self-management, economic development, housing, health aspects, among others, as well as discrimination, oppression or marginalization of people with a physical, cognitive, mental or sensory impairment that substantially limits one or more major life activities; or are people who are regarded as having a physical, mental or sensory impairment under Act No. 238-2004, as amended, known as the “Bill of Rights of Persons with Disabilities”; or who have a mental, cognitive, sensory or physical impairment or any other disability covered under Public Law No. 106-402, known as the “Developmental Disabilities Assistance and Bill of Rights Act of 2000”, and Public Law No. 93-112, as amended, known as the “Rehabilitation Act of 1973”, or any other federal or state regulation created in the future by federal or state law, seeking to ensure this population’s full participation in social, political, economic, governmental and cultural aspects of life; and any other matters delegated thereto by the House of Representatives of Puerto Rico or the Speaker.

d) Committee on Sports and Recreation, composed of 9 Representatives

This Committee has jurisdiction over the formulation of public policy that promotes sports as an essential element of our lives and social development; the strengthening of physical education programs in public schools; physical and sports facilities; physical education and recreation and sports in general; and any other matters delegated thereto by the House of Representatives of Puerto Rico or the Speaker.

e) Committee on Health, composed of 9 Representatives.

This Committee has jurisdiction over the implementation of public policy on all public and private services that affect health; prevention, diagnosis and treatment of diseases; as well as the preservation of health; medical-hospital and outpatient services; research and vital statistics; physical, medical, and paramedical facilities and equipment; the administration, implementation, and management of any general health systems modification, such as the Health Reform; mental health; regulation and oversight of the manufacture, distribution, and sale of medical products; health professionals; alcoholism and drug dependence
treatment services; health in general; and any other matters delegated thereto by the House of Representatives of Puerto Rico or the Speaker.

f) Committee on Housing and Urban Development, composed of 9 Representatives

This Committee has jurisdiction over the formulation and adoption of measures directed at implementing the public policy on the provision of decent and sanitary housing in a suitable living environment for its residents, as well as the adequate planning and use of lands in the development and construction of housing and neighboring infrastructure facilities; rural and urban housing; horizontal property; marginalized communities, public and private housing developments; land invasions; housing programs; and any other matters delegated thereto by the House of Representatives of Puerto Rico or the Speaker.

IV. LAW AND ORDER SECTOR

a) Committee on the Judiciary, composed of 9 Representatives

This Committee has jurisdiction over all matters related to the Judicial System, including the quasi-judicial bodies of the Executive Branch, judges and courts, the practice of law, social services in court, legal services for the state and municipal governments, and indigent citizens, as well as the notary practice; the Department of Justice, the Attorney General of Puerto Rico, the Property Registry and registrars; the Constitution of Puerto Rico, and constitutional amendments, Congress and state legislation, federal and state court and lawsuits against the State; the body of laws that governs the civil system, such as the Civil Code, the Rules of Civil Procedure, the Mortgage Law and the regulations thereunder, and the Building Code, among others; the body of laws that governs the criminal system, such as the Penal Code and the Rules of Criminal Procedure; the Rules of Evidence; the Civil Rights Commission; the protection of civil rights, constitutional guarantees of citizens and the allocation of funds and resources to citizens’ rights programs; any legislation relating to the prevention of crime and the rehabilitation of offenders; and any other matters delegated thereto by the House of Representatives of Puerto Rico or the Speaker.

b) Committee on Public Safety, composed of 9 Representatives

This Committee has jurisdiction over security and law enforcement; the strengthening of government’s law enforcement efforts against violence; drug crimes and trafficking; the Department of Justice, the Puerto Rico Police, the Department of Corrections and Rehabilitation, the Institute of Forensic Sciences and its components; the Armed Forces of the United States of America; federal and state security agencies such as the U.S. Department of Homeland Security, FBI and NSA, as well as the different state police departments, among others; any legislation aimed at controlling and reducing delinquency and controlling and preventing crime; the allocation of funds and resources to public safety programs and others that may have a direct impact on crime prevention; the formulation of public policy by law to ensure the physical safety of the residents of urban and rural areas; the plans, programming, public work, organization and rendering of services directed by
law to the Puerto Rico National Guard, the Firefighters Corps, the Emergency Management and Disaster Administration State Agency, and the Traffic Safety Commission.

V. HOUSE OF REPRESENTATIVES PROCEEDINGS

a) Committee on Internal Affairs, composed of 9 Representatives

This Committee has jurisdiction over studies on the House of Representatives’ structure, procedures, administration and operations; measures on the relations between the House of Representatives and the Senate of Puerto Rico and other government branches as well as measures related to the Legislative Branch’s reform efforts; the consideration of resolutions introduced by the Speaker of the House of Representatives for conducting investigations, creating special committees, and making official statements of the House of Representatives; general advise to the Speaker on administrative matters; and any other matters delegated thereto by the House of Representatives of Puerto Rico or the Speaker.

b) Committee on Special Debate Rules and Calendars, composed of 9 Representatives

This Committee is responsible for selecting the measures to be listed in every Special Order of the Day Calendar. Likewise, it establishes the special rules that shall govern any debate, and which shall become effective at the time in which the measure and the report by the appropriate Committee are up for consideration, thus rendering ineffective the regulatory provisions on debates. This Committee shall have no ex officio members.

c) Committee on Ethics, composed of 7 Representatives

It has jurisdiction over all that pertains to regulating the conduct of the members, officials, and heads of the offices of the House of Representatives and their compliance with the ethical and legal standards that govern the House of Representatives specifically and the public service in general. It also has exclusive jurisdiction to become aware of, investigate, follow the appropriate process, report its findings and conclusions to the House of Representatives, recommend actions to be taken in the event that a member, official, or head of an office of the House of Representatives engages in any conduct constituting a violation of law or the Code of Ethics of the House of Representatives. This Committee shall not intervene or issue opinions within thirty (30) days prior to a general election and shall have no ex officio members.

Furthermore, the following Special Committees were established for a limited period of time:

- House of Representatives Special Committee on Puerto Rico’s Full Reconstruction and Emergency Preparedness, composed of 7 Representatives

The main duty of this Special Committee shall be to conduct an objective evaluation of the people of Puerto Rico’s needs after the January 2020 earthquakes, as well as of the

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resources available to address emergencies and natural disasters; all of the foregoing is geared to strengthening our public policy on Puerto Rico’s reconstruction.

In addition, this Special Committee shall have the following duties and functions:

a. To conduct a study on the resources (public and private) available to the Government of Puerto Rico to properly respond to an actual and potential threat of earthquakes and other natural disasters in Puerto Rico.

b. To evaluate the emergency plans of every agency, department, instrumentality and municipalities of the Government of Puerto Rico for facing earthquakes and other natural disasters in Puerto Rico.

c. To verify existing rules and administrative procedures for interagency coordination of emergency rapid, effective response in order to ensure the life, health, safety, and continuation of critical government services for the people.

d. To prepare and analyze legislation as is necessary for creating, modifying, or repealing the Government of Puerto Rico’s public policy on natural disasters, assuring a better preparedness for disaster response. The Special Committee shall determine the manner in which the foregoing tasks shall be fulfilled, whether by creating working groups under its supervision or by any other means as appropriate to achieve the purposes of this Resolution.

- House of Representatives Special Committee on Appointments\textsuperscript{10} composed of 7 Representatives

The main duty of this Special Committee shall be to evaluate and make recommendations to the House of Representatives on the confirmation or rejection of appointees requiring confirmation of the House of Representatives of Puerto Rico as provided in the Constitution or by law.

- House of Representatives Special Committee on Climate Change and Global Warming,\textsuperscript{11} composed of 7 Representatives

This Special Committee shall have jurisdiction over, and its main duty includes, all matters relating to proposed legislative measures and integral reforms that address the needs and seek to develop all aspects related to global warming and its effects, if any, on the archipelago of Puerto Rico, particularly on the coasts, infrastructure, ecosystems, economic development, tourist industry, and preparation of public safety elements given the new challenges posed by weather events; the proposals and the formulation of the energy public policy of our archipelago, especially that directed to reducing dependence on fossil fuels and promoting the creation and use of biofuels, the use of renewable energy technologies, energy self-sufficiency and recycling, among other aspects, including how to reduce global

\textsuperscript{10} H. R. 1518 of August 29, 2019.

\textsuperscript{11} H. R. 1300 of February 21, 2019.
warming. It shall also have jurisdiction over any matter delegated thereto by the House of Representatives of Puerto Rico or the Chair thereof on related matters.

- House of Representatives Special Committee on the Evaluation of the Adoption Process and Care of the Elderly in Puerto Rico,\textsuperscript{12} composed of 7 Representatives

The main duty of this Special Committee shall be to conduct an objective evaluation of the implementation of Act No. 61-2018 and adoption process in Puerto Rico as well as the study, evaluation, and management of the quality of life of the Elderly according to the needs of the People of Puerto Rico.

Specifically, this Special Committee shall have the following duties and functions:

a. To conduct a necessity and convenience study on the Elderly population in view of Puerto Rico’s current social and economic reality.

b. To prepare and analyze any resolution or bill as is necessary to create more efficient mechanisms for the child adoption process as well as to improve the quality of life of the Elderly. The Special Committee shall determine the manner in which the foregoing tasks shall be fulfilled, whether by creating working groups under its supervision or by any other means as appropriate to achieve the purposes of this Resolution.

- House of Representatives Special Committee on Puerto Rico’s Reconstruction and Reorganization after Hurricanes Irma and Maria,\textsuperscript{13} composed of 7 Representatives

The main duty of this Special Committee shall be to conduct an objective evaluation of the needs of the people of Puerto Rico after Hurricanes Irma y Maria and the formulation of public policy geared to reconstructing and reorganizing the Government of Puerto Rico.

Specifically, this Special Committee shall have the following duties and functions:

a. To conduct a necessity and convenience study on the people of Puerto Rico after Hurricanes Irma and Maria.

b. To prepare and analyze any resolution or bill as appropriate for the reconstruction and of the Government as an alternative to provide services in an efficient and economical manner for the inhabitants of Puerto Rico.

c. To determine the manner in which the foregoing tasks shall be fulfilled, whether by creating working groups under its supervision or by any other means as appropriate to achieve the purposes of this Resolution.

\textsuperscript{12} H. R. 1220 of January 11, 2019.

\textsuperscript{13} H. R. 1300 of February 21, 2019.
I would like to acknowledge all administrative employees and staff for maintaining the main principles of financial management and for their contribution to the preparation of the CAFR.

Respectfully submitted.

Carlos J. Méndez Núñez
Speaker of House of Representatives of Puerto Rico
## REPRESENTATIVES – BY DISTRICT

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<th>Name</th>
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<td>Angel N. Matos García</td>
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REPRESENTATIVES – AT LARGE

José E. Torres Zamora

Néstor A. Alonso Vega

José F. Aponte Hernández

María M. Carbonier Laureano

José E. Meléndez Ortiz

María de Lourdes Ramos Rivera

Brenda López de Arrarás

Denis Márquez Lebrón

Manuel Natal Albelo

Jesús Manuel Ortiz González

Luis R. Vega Ramos
ADMINISTRATIVE STAFF

Moisés D. Cortés Rosado – Chief Administrative Officer

Elizabeth Stuart Villanueva – Chief Clerk

Henry J. Taboada – Chief Sergeant of Arms

Doris Ellis – Director of Finance and Budget
PERMANENT COMMITTEES

Agriculture, Natural Resources and Environmental Affairs
Budget
Calendars and Special Rules of Debate
Capital City Development and Youth Affairs
Consumer Affairs, Banking and Insurance
Cooperativism
Development of the Central South Region
Economic Development, Planning, Telecommunications, Public Private Partnerships and Energy
Education, Art and Culture
Estate
Ethics
Federal, International and Status Relations
Government
Health
Housing and Urban Development
Integrated Development of the Central North Region
Integrated Development of the Eastern Region
Integrated Development of the Northeast Region
Integrated Development of the Southern Region
Integrated Development of the Western Region
Internal Affairs
Laboral things
Legal
Local Issues
Public Security
Recreation and Sports
Retirement Systems and Veteran Affairs
Small and Medium Businesses and Trade
Special Education and People with Disabilities
Supervision, Administration and Economical Stability of P.R. "PROMISE"
Tourism and Social Welfare
Transportation and Infrastructure
Women's Issues
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FINANCIAL SECTION
INDEPENDENT AUDITOR’S REPORT

To the Members of the House of Representatives
of the Commonwealth of Puerto Rico
San Juan, Puerto Rico

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the House of Representatives of the Commonwealth of Puerto Rico, as of and for the fiscal year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the House of Representatives’ basic financial statements as listed in the Table of Contents.

Management’s Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor’s Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that our audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.
INDEPENDENT AUDITOR’S REPORT
To the Members of the House of Representatives
of the Commonwealth of Puerto Rico

Basis for Qualified Opinion on Governmental Activities and Note Disclosure Regarding Pensions Plan and Other Post-Employment Benefits (OPEB) Plan

The deferred outflows/inflows of resources, and net pension liability in governmental activities of the government-wide Statement of Net Position, which represents the 100 percent, 100 percent, and 74 percent, respectively, of the deferred outflows/inflows of resources, and total liability as of June 30, 2019, ended were derived from the audited Schedules of Employer Allocations published by the Employees’ Retirement System of the Government of the Commonwealth of Puerto Rico, cost-sharing multiemployer pension plan for the fiscal year ended June 30, 2018. As further discussed in Note 2 to the House of Representatives’ financial statements, the PRGERS administrator has not issued audited financial statements as of and for the fiscal year ended June 30, 2019 nor has provided to the House of Representatives the required information to record transactions related to pension as of and for the fiscal year ended June 30, 2020. Consequently, we were unable to determine whether any adjustments to these amounts and disclosure were necessary.

GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, that replaces GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, should be implemented during fiscal year 2017-2018. This Statement changes are similar to those implemented on GASB No. 67, Financial Reporting for Pension Plans, and No. 68, Accounting and Financial Reporting for Pensions should be made. As of June 30, 2020, the PRGERS administrator has not issued, or made available information in order to properly adjust or disclose any deferred outflows/inflows of resources, or net OPEB obligation, if any, applicable to the House of Representatives.

Qualified Opinion on Governmental Activities and Note Disclosure Regarding Pensions Plan and OPEB Plan

In our opinion, except for the possible effects of the matter described above in the “Basis for Qualified Opinion on Governmental Activities and Note Disclosure Regarding Pensions Plan and Other Post-Employment Benefits OPEB Plan” paragraphs, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities of the House of Representatives as of June 30, 2020 and the respective changes in financial position thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major funds, and the aggregate remaining fund information of the House of Representatives, as of June 30, 2020, and the respected changes in the financial position and, where applicable, cash flows thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

The House of Representatives – Only Basic Financial Statements

As discussed in Note 2, the financial statements of House of Representatives are intended to present the financial position and the changes in financial position of only that portion of the governmental activities of the financial reporting entity of the Commonwealth of Puerto Rico that is attributable to the transactions of the House of Representatives. They do not purport to, and do not, present fairly the financial position of the Commonwealth of Puerto Rico as of June 30, 2020, the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.
INDEPENDENT AUDITOR'S REPORT

To the Members of the House of Representatives
of the Commonwealth of Puerto Rico

Uncertainty about Ability to Continue as a Going Concern – Commonwealth of Puerto Rico

The House of Representatives is part of the Commonwealth of Puerto Rico (Commonwealth). The accompanying financial statement of House of Representatives have been prepared assuming that the Commonwealth will continue as a going concern. As discussed in Note 19 on pages 89-91 to the financial statements, the Commonwealth's recurring deficits, negative financial position, further deterioration of its economic condition, and inability to access the credit markets raises substantial doubt about the Commonwealth's ability to continue as a going concern. Management's plans regarding these matters are also described in Note 19. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management’s Discussion and Analysis, on pages 37-47, Schedule of Revenues and Expenditures – Budget and Actual – General Fund information on pages 142-143, and employees’ retirement systems information, on pages 144-146 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information related to management’s discussion and analysis, and budgetary comparison information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements.

We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance. We were unable to apply certain limited procedures to the required supplementary information related to employees’ retirement systems information applicable to House of Representatives, in accordance with auditing standards generally accepted in the United States of America. We do not express an opinion or provide any assurance on the information.

Other Information

Our audit was conducted for the purpose of forming opinions of the financial statements that collectively comprise the House of Representatives’ basic financial statements. The Introductory Section, and Statistical Section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Introductory and Statistical Sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.
INDEPENDENT AUDITOR’S REPORT  
To the Members of the House of Representatives  
of the Commonwealth of Puerto Rico  

Other Reporting Required by Governmental Auditing Standards  

In accordance with Government Auditing Standards, we have also issued our report dated December 12, 2020 on our  
consideration of the House of Representatives’ internal control over financial reporting on our test of its compliance  
with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that  
report is to describe the scope of our testing of internal control over financial reporting and compliance and the results  
of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That  
report is an integral part of an audit performed in accordance with Government Auditing Standards in considered the  
House of Representatives’ internal control over financial reporting and compliance.  

CPA Díaz-Martínez, PSC  
Certified Public Accountants & Consultants  
License Number 12, expires on December 1, 2022  

Caguas, Puerto Rico  
December 12, 2020  

Stamp No. E438125 of the Puerto Rico Society of Certified  
Public Accountants was affixed to the original report.
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The House of Representatives of the Commonwealth of Puerto Rico (the “House of Representatives”) provides this Management Discussion and Analysis to the readers of these basic financial statements. This narrative overview and analysis of the financial activities of the House of Representatives is for the fiscal year ended June 30, 2020.

Since the Management’s Discussion and Analysis is designed to focus on the current year activities, resulting changes and currently known facts, it should be read in conjunction with the House of Representatives basic financial statements.

FINANCIAL HIGHLIGHTS

Government – Wide Financial Statements

- The House of Representatives net position(deficit) amounted to ($23,332,997) on June 30, 2020. Such net position (deficit) increased by $4,748,637 during the fiscal year ended June 30, 2020 when compared to the June 30, 2019 net position (deficit), amounting to ($18,584,360). This increase is mostly attributable to the decrease of $4,179,686 in legislative appropriation and an excess of expenses over revenues. Expenses reflected a net decrease of $4,753,497.
- The total assets of the House of Representatives amounted $3,772,837 on June 30, 2020. This represented a decrease of $4,025,478 during the fiscal year ended June 30, 2020 when compared to the June 30, 2019 total assets. It is mainly attributable to a decrease in cash balances by $3,608,550 at the end of the fiscal year.
- The total liabilities of the House of Representatives amounted to $21,604,095 include the accrual for vacations and sick leave in the amount of $4,822,744, $1,649,403 due to contractors and suppliers, payroll and other accruals for $577,938, Due to Governmental Units amounting $72,964, obligations under capital leases $781,331 and net pension liability $13,699,715 at the close of the fiscal year ended June 30, 2020. The House of Representatives has the resources to meet its ongoing obligations, including the liabilities for accrued vacations and sick leave.

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

This Management’s Discussion and Analysis is required supplementary information to the basic financial statements and is intended to serve as introduction to the basic financial statements of the House of Representatives. The basic financial statements are comprised of three components: (1) government-wide financial statements; (2) fund financial statements, and (3) notes to the basic financial statements. This report also contains required supplementary information (statement of revenues and expenditures – budget to actual – general fund) and additional supplementary information (Statistical Data) in addition to the basic financial statements themselves. These components are described below in Figure 1.
Government – Wide Financial Statements

The government- wide financial statements are designed to provide users of the basic financial statements with a broad overview of the House of Representatives finances in a manner similar to the private sector business. These are prepared using the flow of economic resources measurement focus and the accrual basis of accounting. These statements present short and long-term information about the House of Representatives financial position, which assists in assessing the House of Representatives economic condition at the end of the year. The House of Representatives functions are governmental activities as most Commonwealth of Puerto Rico government services.

The Statement of Net Position presents all of the House of Representatives assets and liabilities, and their difference reported as net position. Fluctuations in net position may serve as a useful indicator of whether the financial position of the House of Representatives is improving or deteriorating.
The Statements of Activities presents information showing how the House of Representatives net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in the Statement of Activities that will only result in cash flows in future fiscal periods.

The government-wide financial statements can be found on pages 49-51 of this report.

**Funds Financial Statements**

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The House of Representatives like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance related legal requirements. The funds of the House of Representatives belong to categories of governmental Funds.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government – wide financial statements. However, unlike the government – wide financial statements, governmental fund financial statements focus on near term inflows and outflows of expendable resources, as well as on balances of expendable House of Representatives resources available at the end of the fiscal year. Such information is useful in evaluating the House of Representatives near term financial requirements.

Because the focus of Governmental funds is narrower than that of the government – wide financial statements, it is useful to compare the information presented for governmental fund with similar information presented for governmental activities in the government – wide financial statements. By doing so, users of the basic financial statements may better understand the long-term impact of the House of Representatives near term financial decisions. The governmental Fund Balance Sheet and the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The House of Representatives maintains one individual governmental fund and adopts an annual appropriated budget for its General Fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with such budget.

The governmental fund financial statements can be found on pages 52-55 of this report.

**Notes to the Basic Financial Statements**

The notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided in the government -wide and fund financial statements and can be found immediately after the basic financial statements.

The notes to the basic financial statements can be found on pages 56-140 of this report.

**Required Supplementary Information**

The basic financial statements are followed by a section of required supplementary information. This section includes a budgetary comparison schedule, which includes reconciliation between the statutory fund balance for budgetary purposes and the fund balance for the General Fund as presented in the governmental fund financial statements.
Also, the required supplementary information reported are related to the GASB Statement No. 68 for pension liability reporting, and those required supplementary information are presented immediately following the notes to the financial statements and can be found on pages 142 through 146 of this report.

FINANCIAL ANALYSIS OF THE BASIC FINANCIAL STATEMENTS

Net Position

The Statement of Net Position serves over time as a useful indicator of the House of Representatives financial position at the end of the fiscal year. The House of Representatives net position (deficit) increased by $4,748,637 when compared to 2019. The House of Representatives net position (deficit) includes investment in capital assets, net of related debt, for $750,927 restricted net position for $1,404,882 and unrestricted net position (deficit) of ($25,488,086).

The following are the condensed statements of net position (deficit) for the fiscal years ended June 30, 2020 and 2019:

Condensed Statements of Net Position (Deficit)

<table>
<thead>
<tr>
<th></th>
<th>2020</th>
<th>2019</th>
<th>Change</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current Assets</td>
<td>$2,240,579</td>
<td>$5,849,129</td>
<td>$(3,608,550)</td>
<td>-61.69%</td>
</tr>
<tr>
<td>Capital Assets, Net</td>
<td>$1,532,258</td>
<td>$1,949,186</td>
<td>$(416,928)</td>
<td>-21.39%</td>
</tr>
<tr>
<td>Total Assets</td>
<td>$3,772,837</td>
<td>$7,798,315</td>
<td>$(4,025,478)</td>
<td>-51.62%</td>
</tr>
<tr>
<td>Deferred Outflows of Resources</td>
<td>$1,800,177</td>
<td>$1,800,177</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td>Current Liabilities</td>
<td>$2,759,128</td>
<td>$1,828,946</td>
<td>$930,182</td>
<td>50.86%</td>
</tr>
<tr>
<td>Noncurrent Liabilities</td>
<td>$18,844,967</td>
<td>$19,051,990</td>
<td>$(207,023)</td>
<td>-1.09%</td>
</tr>
<tr>
<td>Total Liabilities</td>
<td>$21,604,095</td>
<td>$20,880,936</td>
<td>$723,159</td>
<td>3.46%</td>
</tr>
<tr>
<td>Deferred Inflows of Resources</td>
<td>$7,301,916</td>
<td>$7,301,916</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td>Net Position (Deficit)</td>
<td>$750,927</td>
<td>$968,404</td>
<td>$(217,477)</td>
<td>-22.46%</td>
</tr>
<tr>
<td>Restricted</td>
<td>$1,404,882</td>
<td>$1,474,556</td>
<td>$(69,674)</td>
<td>-4.73%</td>
</tr>
<tr>
<td>Unrestricted</td>
<td>$(25,488,806)</td>
<td>$(21,027,320)</td>
<td>$(4,461,486)</td>
<td>21.22%</td>
</tr>
<tr>
<td>Total Net Position (Deficit)</td>
<td>$(23,332,997)</td>
<td>$(18,584,360)</td>
<td>$(4,748,637)</td>
<td>25.55%</td>
</tr>
</tbody>
</table>

Capital Assets

The House of Representatives investment in capital assets for its governmental activities amounted to $7,184,266, net of accumulated depreciation of $5,652,008, for a net book balance of $1,532,258, on June 30, 2020. These investments in capital assets include equipment, computer equipment, furniture, and vehicles. Capital assets also include equipment under capital lease agreements with a net book value of $739,545. Capital assets with an acquired value of $22,028 and net book value of $8,077 were disposed during the year. Depreciation and amortization charges totaled $511,765 for the year ended June 30, 2020.
Long-Term Liabilities

Total liabilities of the House of Representatives as of June 30, 2020, were $21,604,095 of which $2,759,128 are due within one year. Long term obligations increased by $723,159, or approximately 3.46% when compared with the prior fiscal year. The increase is mainly related to the accrued amount of compensated absences and capital lease. The net pension liability amounted $13,699,715 or 65.61% of the total liabilities of the House of Representatives. The net pension liability changed in 2019, the ERS issue a report on November 11, 2020 providing information regarding pensions.

Additional information of the House of Representatives’ capital assets and long-term liabilities can be found in Notes 8 and 10 to the basic financial statements on pages 74 and 75-76 of this report.

Changes in Net Position

The following condensed statements of activities reflects how the House of Representatives net position (deficit) changed during the fiscal years ended June 30, 2020 and 2019:

<table>
<thead>
<tr>
<th>Condensed Statements of Activities</th>
<th>2020</th>
<th>2019</th>
<th>Change</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Expenses</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Governmental Activities</td>
<td>$36,260,835</td>
<td>$41,014,332</td>
<td>$ (4,753,497)</td>
<td>-11.59%</td>
</tr>
<tr>
<td><strong>Revenues</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Legislative Appropriations</td>
<td>31,476,364</td>
<td>35,658,000</td>
<td>$ (4,181,636)</td>
<td>-11.73%</td>
</tr>
<tr>
<td>Other</td>
<td>35,834</td>
<td>33,884</td>
<td>1,950</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total Revenues</strong></td>
<td>31,512,198</td>
<td>35,691,884</td>
<td>$ (4,179,686)</td>
<td>-11.71%</td>
</tr>
<tr>
<td><strong>Change in Net Position</strong></td>
<td>(4,748,637)</td>
<td>(5,322,448)</td>
<td>573,811</td>
<td>-10.78%</td>
</tr>
<tr>
<td>Net Position (Deficit), Beginning of Year</td>
<td>(18,584,360)</td>
<td>(13,261,912)</td>
<td>(5,322,448)</td>
<td>40.13%</td>
</tr>
<tr>
<td>Net Position (Deficit), End of Year</td>
<td>$ (23,332,997)</td>
<td>$ (18,584,360)</td>
<td>$ (4,748,637)</td>
<td>25.55%</td>
</tr>
</tbody>
</table>

The House of Representatives has a cut in legislative appropriations of $4,181,636 or -11.73% when comparing with 2019.

The House of Representatives major expense is related to salaries, benefits that include accrued vacations and sick leave and payroll taxes, which represent approximately 81% and 74% of total expenses, before transfers, for the fiscal year ended June 30, 2020 and 2019, respectively. When compared to fiscal year ended June 30, 2020, such expense reflected a decrease of approximately 3.15%.

Follows is a detail expenses of the Condensed Statement of Activities for the years ended June 30, 2020 and 2019.
### Detail Expenses of the Condensed Statements of Activities

<table>
<thead>
<tr>
<th></th>
<th>2020</th>
<th>2019</th>
<th>Change</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries and Payroll Related Costs</td>
<td>$ 29,545,641</td>
<td>$ 30,508,084</td>
<td>($962,443)</td>
<td>-3.15%</td>
</tr>
<tr>
<td>Meals and Travel</td>
<td>$ 127,676</td>
<td>$ 316,130</td>
<td>($188,454)</td>
<td>-59.61%</td>
</tr>
<tr>
<td>Professional Services</td>
<td>$ 4,807,027</td>
<td>$ 7,412,441</td>
<td>($2,605,414)</td>
<td>-35.15%</td>
</tr>
<tr>
<td>Insurance</td>
<td>$ 19,104</td>
<td>$ 43,126</td>
<td>($24,022)</td>
<td>-55.70%</td>
</tr>
<tr>
<td>Rent</td>
<td>$ 399,664</td>
<td>$ 574,911</td>
<td>($175,247)</td>
<td>-30.48%</td>
</tr>
<tr>
<td>Non-Capitalized Equipment</td>
<td>$ 82,545</td>
<td>$ 193,475</td>
<td>($110,930)</td>
<td>-57.34%</td>
</tr>
<tr>
<td>Depreciation</td>
<td>$ 511,765</td>
<td>$ 578,809</td>
<td>($67,044)</td>
<td>-11.58%</td>
</tr>
<tr>
<td>Interest</td>
<td>$ 40,946</td>
<td>$ 32,294</td>
<td>$ 8,652</td>
<td>26.79%</td>
</tr>
<tr>
<td>Repairs and Maintenance</td>
<td>$ 53,119</td>
<td>$ 231,839</td>
<td>($178,720)</td>
<td>-77.09%</td>
</tr>
<tr>
<td>Utilities</td>
<td>$ 140,700</td>
<td>$ 194,455</td>
<td>($53,755)</td>
<td>-27.64%</td>
</tr>
<tr>
<td>Supplies</td>
<td>$ 217,293</td>
<td>$ 398,685</td>
<td>($181,392)</td>
<td>-45.50%</td>
</tr>
<tr>
<td>Announcements and Media Publica</td>
<td>$ 44,111</td>
<td>$ 71,258</td>
<td>($27,147)</td>
<td>-38.10%</td>
</tr>
<tr>
<td>Postage</td>
<td>$ 44,146</td>
<td>$ 66,000</td>
<td>($21,854)</td>
<td>-33.11%</td>
</tr>
<tr>
<td>Loss on Disposition of Assets</td>
<td>$ 8,077</td>
<td>$ 56,398</td>
<td>($48,321)</td>
<td>-85.68%</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>$ 219,021</td>
<td>$ 336,427</td>
<td>($117,406)</td>
<td>-34.90%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$ 36,260,835</strong></td>
<td><strong>$ 41,014,332</strong></td>
<td><strong>($4,753,497)</strong></td>
<td><strong>-11.59%</strong></td>
</tr>
</tbody>
</table>

*This space intentionally left blank.*
Following is a presentation of Chart 1 and Chart 2 based on the information presented above.

**Chart 1 - Detail Expenses of the Condensed Statements of Activities**

- Meals and travel
- Depreciation
- Supplies
- Miscellaneous
- Insurance
- Interest
- Repairs and maintenance
- Non-capitalized equipment
- Utilities
- Loss on disposition of assets

**Chart 2 - Detail Expenses of the Condensed Statements of Activities**

- Salaries and payroll related costs
- Professional services
Governmental Funds Highlights

The focus of the House of Representatives governmental funds is to provide information on near-terms inflows, outflows, and balances of spendable resources. Such information is useful in assessing the House of Representatives financing requirements. In addition, fund balance for the governmental funds provide classifications that comprise a hierarchy based primarily on the extent to which the House of Representatives is bound to honor constraints on the specific purposes for which amounts in those funds can be spent.

The following are the condensed balance sheets-governmental fund as of June 30, 2020 and 2019, respectively:

<table>
<thead>
<tr>
<th></th>
<th>2020</th>
<th>2019</th>
<th>Change</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Assets</td>
<td>$2,240,579</td>
<td>$5,849,129</td>
<td>($3,608,550)</td>
<td>-61.69%</td>
</tr>
<tr>
<td>Total Liabilities</td>
<td>$2,300,305</td>
<td>$1,531,042</td>
<td>$769,263</td>
<td>50.24%</td>
</tr>
</tbody>
</table>

Fund Balance

<table>
<thead>
<tr>
<th></th>
<th>2020</th>
<th>2019</th>
<th>Change</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nonspendable</td>
<td>118,756</td>
<td>146,532</td>
<td>(27,776)</td>
<td>-18.96%</td>
</tr>
<tr>
<td>Restricted</td>
<td>1,404,882</td>
<td>1,474,556</td>
<td>(69,674)</td>
<td>-4.73%</td>
</tr>
<tr>
<td>Unassigned</td>
<td>(1,583,364)</td>
<td>2,696,999</td>
<td>(4,280,363)</td>
<td>-158.71%</td>
</tr>
<tr>
<td>Total Fund Balance</td>
<td>(59,726)</td>
<td>4,318,087</td>
<td>(4,377,813)</td>
<td>-101.38%</td>
</tr>
<tr>
<td>Total Liabilities and Fund Balance</td>
<td>$2,240,579</td>
<td>$5,849,129</td>
<td>($3,608,550)</td>
<td>-61.69%</td>
</tr>
</tbody>
</table>

As of the end of the fiscal year 2020, the House of Representatives governmental funds reported a combined ending balance of ($59,726). The general fund is the chief operating fund of the House of Representatives. There are nonspendable fund balances amounting $118,756. Nonspendable fund balances reflect the portion of fund balance that cannot be spent with cash or are legally or contractually required not to be spent. There are also restricted fund balances amounting $1,404,882. Restricted fund balance reflects resources that are subject to externally enforceable legal restrictions to pay for specific program purposes. An unassigned fund balance of ($1,583,364) was reported in the governmental funds on June 30, 2020. The House of Representatives fund balance decreased by $4,377,813 or approximately 101.38% as a result of the current fiscal year’s net changes.

The general fund budget for the fiscal year ended June 30, 2020 was $31,476,364, a decrease of $4,181,636 when compared with 2019, and the actual expenditures were $33,352,436. The total expenditures represented approximately 105.96% of the total budget availability for the fiscal year 2020 and decreased by $1,763,694 when compared with fiscal year 2019. The House of Representatives operated a deficiency of $1,876,072 in its management of the general fund budget for the fiscal year ended June 30, 2020.
Governmental Funds Highlights – continued

The following table summarizes the budget, expenditures and unexpended balance for fiscal years ended June 30, 2020 and 2019:

<table>
<thead>
<tr>
<th></th>
<th>2020 Budget</th>
<th>2019 Budget</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Intergovernmental</td>
<td>$31,014,364</td>
<td>$35,228,000</td>
<td>$(4,213,636)</td>
</tr>
<tr>
<td>Special Appropriations</td>
<td>$462,000</td>
<td>$430,000</td>
<td>$32,000</td>
</tr>
<tr>
<td></td>
<td>$31,476,364</td>
<td>$35,658,000</td>
<td>$(4,181,636)</td>
</tr>
<tr>
<td>Expenditures</td>
<td>$33,352,436</td>
<td>$35,116,130</td>
<td>$(1,763,694)</td>
</tr>
<tr>
<td>Unexpended Balance</td>
<td>$(1,876,072)</td>
<td>$541,870</td>
<td>$(2,417,942)</td>
</tr>
<tr>
<td>Expenditure Rate</td>
<td>105.96%</td>
<td>98.48%</td>
<td>42.18%</td>
</tr>
</tbody>
</table>

**Economic Factors and Next Year Budget**

The economic factors of the House of Representatives must be analyzed as a component of the Commonwealth of Puerto Rico.

Puerto Rico’s economy entered a recession in the fourth quarter of the fiscal year 2006. The Commonwealth’s gross national product (GNP) contracted (in real terms) every fiscal year between 2007 and 2017, except for fiscal year 2012. The lower rate of GNP decline during fiscal year 2012 is due to the fund received by the commonwealth related to American Recovery and Reinvestment Act, local stimulus funded by bond proceeds and tax cuts.

According to the Puerto Rico Planning Board most recent report submitted to the Puerto Rico’s Governor in April 2020, Puerto Rico’s real gross national product decreased by .2% on fiscal year 2019 and increased by .8% on fiscal year 2018. The Puerto Rico Planning Board projected and decrease on the gross national product between of .4% for the fiscal year 2020 and 2021. The Planning Board’s forecast took into account the estimated effect of the projected growth of the United States gross domestic product, tourism activity, personal consumption expenditures, and federal transfers to individuals.

**Employment**

According to the Economic Report to the Governor issued by the Puerto Rico Planning Board (PRPB) in April 2020, the total of people employed during the fiscal year 2019 amounted to approximately 986,000 or an increase of 1.5% when compared to fiscal year 2018. During the first semester of the fiscal year 2019, total of people employed amounted to 986,000 or an increase of approximately 1.5%, when compared to the previous year. The reduction in total employment began in fiscal year 2007. When employment total was 1,263,000 and has continued consistently through fiscal year 2019.
Economic Factors and Next Year Budget – continued

The preliminary average unemployment rate for the fiscal year 2020 and determined by the Department of Work and Human Resources was 8.5% at July 2020. This represented an increase of 13.3% when compared to fiscal year 2019 (7.5%).

The House of Representatives adopted the 2019-2020 fiscal year budgets on July 1, 2019. The legislative appropriations for the fiscal year ending June 30, 2020 amount to $31,476,364, a decrease of $4,181,636, when compared with previous fiscal year, and following the public policy adopted by the government to reduce and control public expenditures. The budget for fiscal year 2020-2021 adopted by the House of Representative totaled $32,981,000, an increase of $1,504,636 when compared to the 2019-2020 budget.

REQUEST OF INFORMATION

This financial report is designed to provide a general overview of the House of Representatives’ finances for all the citizens, taxpayers, costumer and creditors. Also, this report serves to demonstrate the House of Representatives’ accountability for the money it receives from legislative appropriations. For questions regarding the information provided or additional information requests, please contact: Puerto Rico House of Representatives, Office of Finance, Budget and Contracts, PO Box 9022228, San Juan, PR 00902-2228.
COMPREHENSIVE ANNUAL FINANCIAL REPORT

Basic Financial Statements
## ASSETS:

<table>
<thead>
<tr>
<th>Current Assets:</th>
<th>GOVERNMENTAL ACTIVITIES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>$2,079,170</td>
</tr>
<tr>
<td>Receivables (Net):</td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>42,653</td>
</tr>
<tr>
<td>Office Supplies</td>
<td>118,756</td>
</tr>
<tr>
<td>Total Current Assets</td>
<td>2,240,579</td>
</tr>
</tbody>
</table>

| Non-Current Assets:     |                         |
| Capital Assets, Net     | 1,532,258               |
| TOTAL ASSETS            | 3,772,837               |

## DEFERRED OUTFLOWS OF RESOURCES:

| Contributions to Employees Retirement System | 1,800,177 |
| TOTAL DEFERRED OUTFLOWS OF RESOURCES        | 1,800,177 |
The accompanying notes to basic financial statements are an integral part of this statement.
The accompanying notes to basic financial statements are an integral part of this statement.
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The accompanying notes to basic financial statements are an integral part of this statement.
Total Fund Balances – Government Funds (Page 52) $ (59,726)

Amount reported for Governmental Activities in the Statement of Net Position (Page 50) are different because:

Capital Assets used in governmental activities are not financial resources and therefore are not reported in the funds. In the current period, these amounts are:

- Capital Assets $ 7,184,266
- Accumulated Depreciation (5,652,008)
- Total Capital Assets 1,532,258

Deferred Outflows of Resources in Governmental Activities are paid in the current available soon period and therefore are reported in the funds. 1,800,177

Deferred Inflows of Resources in Governmental Activities corresponded to future period and therefore are not reported in the funds. (7,301,916)

Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:

- Net Pension Liabilities (13,699,715)
- Capital Leases (781,331)
- Accrued Compensated Absences (4,822,744)
- Total Long-Term Liabilities (19,303,790)

Total Net Position of Governmental Activities (Page 50) $ (23,332,997)

The accompanying notes to basic financial statements are an integral part of this statement.
The accompanying notes to basic financial statements are an integral part of this statement.
Net Change in Fund Balances – Government Funds (Page 54) $ (4,377,814)

Amount reported for Governmental Activities in the Statement of Activities (Page 51) are different because:

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. In the current period, these amounts are:

- Depreciation Expense $ (511,765)
- Capital Outlays 102,914
- Excess of Depreciation Expense over Capital Outlays (408,851)

Governmental Funds only report the proceeds received in the disposal of assets. In the Statement of Activities, a gain or loss is reported for each disposal. Thus, the change in net assets differs from the change in fund balance by the cost of the disposed asset (8,077)

Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:

- Change in Compensated Absences (153,346)
- Capital Leases 199,451
- Total Additional Expenses 46,105

Change in Net Position of Governmental Activities (Page 51) $ (4,748,637)

The accompanying notes to basic financial statements are an integral part of this statement.
1. FINANCIAL REPORTING ENTITY

The accompanying financial statements present information on the financial activities of the House of Representatives of the Commonwealth of Puerto Rico over which the Speaker and Representatives, have direct or indirect governing and fiscal control. These financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP).

A. Organization

House of Representatives of the Commonwealth of Puerto Rico ("the House of Representatives") was organized by virtue of Article 3, Sections 1 to 3 of the Constitution of the Commonwealth of Puerto Rico ("the Constitution") enacted on July 25, 1952, as approved by the people of Puerto Rico and the United States Congress. The Commonwealth’s Constitution provides for separations of powers of the executive, legislative and judicial branches of the government. The Constitution establishes that the Commonwealth’s Legislative power will be exercised by a legislature composed of two bodies: a House of Representatives and a Senate, whose members will be elected through direct vote in each general election. This four-year term, The House of Representatives is composed of fifty-one representatives who are elected by the citizens. The majority and minority caucuses nominate candidates for the House of Representatives officer positions. The administration of the House of Representatives is autonomous and is under the direction of the Speaker of the House of Representatives.

The House of Representatives and the Senate enact and approve all legislation related to public safety, public health, public housing, public works and transportation, culture and recreation, welfare, urban development, education, and economic development; while the Executive Branch executes the legislation to provide such services to the citizens of the Commonwealth of Puerto Rico.

B. Reporting Entity

The House of Representatives is for financial reporting purposes a part of the Commonwealth of Puerto Rico. Its financial data is included as part of the general government section in the general fund of the Commonwealth of Puerto Rico financial statements.

Effective August 1, 2007, the House of Representatives became fiscally autonomous pursuant to the provisions of Act 230 of July 23, 1974, as amended on June 11, 2004, known as the “Commonwealth of Puerto Rico Accounting Law”. The funds of the House of Representatives are under the custody of the Secretary of Treasury of Puerto Rico until transferred to the House of Representatives. The accompanying basic financial statements are issued solely and for the information and use of the Secretary of Treasury, the President of the House of Representatives, the Senators, the Governor, and the citizens of the Commonwealth of Puerto Rico.

GASB Statement 61, The Financial Reporting Entity: Omnibus an Amendment of GASB Statements No. 14 and No. 34, as amended, provides additional criteria for classifying entities as component units to better assess the accountability of elected officials by ensuring that the financial reporting entity includes only organizations for which the elected officials are financially accountable or that are determined by the government to be misleading to exclude.

There are two methods of presentation of the component unit in the financial statements: blending – the financial data of the component unit’s balances and transactions in a manner similar to the presentation of the House of Representatives’ balances and transactions; and discrete – presentation of the component unit’s financial data in column separate from the House of Representatives’ balances and transactions. The relative importance of each criterion must be evaluated in light of specific circumstances in order to determine which components units are to be included as part of the reporting entity. Based on these criteria, there are no other organizations which should be included in these basic financial statements.
2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements present the financial position of the Governmental Activities, each major fund, and the aggregate remaining fund information of the House of Representatives, as of June 30, 2020, and the respective changes in financial position, and the cash flows, where applicable, thereof for the fiscal year then ended.

A. Financial Statement Presentation

The basic financial statements of the House of Representatives have been prepared in conformity with accounting principles generally accepted in the United States of America as applicable to state and local governmental units. The basic financial statements include both government-wide (based on the House of Representatives as a whole) and fund financial statements, which provide a more detailed level of financial information. Both the government-wide and fund financial statements (within the basic financial statements) categorize primary activities as Governmental Activities.

The financial information of the House of Representatives is presented in this report as follows:

Required Supplementary Information – Management's Discussion and Analysis

Management's discussion and analysis is required supplementary information that introduces the basic financial statements and provides an analytical overview of the House of Representatives’ financial activities.

Government-wide Financial Statements (GWFS)

While separate government-wide and fund financial statements are presented, they are interrelated. The GWFS (the Statement of Net Position and the Statement of Activities) report information of all the activities of the House of Representatives.

The focus of the Statement of Net Position is designed to be similar to bottom line results for the House of Representatives’ Governmental Activities. This statement combines and consolidates governmental fund’s current financial resources (short-term spendable resources) with capital assets and long-term obligations. The Statement of Net Position presents the reporting entities’ assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference reported as net position. Net positions are classified as net investment in capital assets, restricted when constraints are placed on them that are imposed by external parties or by laws or regulations, and unrestricted. Designations solely imposed by the House of Representatives' management are not presented as restricted net position.

The Statement of Activities presents a comparison between direct expenses and program revenues for the activities of the House of Representatives and for each function of the House of Representatives’ Governmental Activities. Direct expenses are those that are clearly identifiable with a specific function or segment.

Governmental Funds (GFFS)

The GFFS [the Balance Sheet, and the Statement of Revenues, Expenditures and Changes in Fund Balance] provide information about the House of Representatives' funds. The emphasis of fund financial statements is on major governmental, each displayed in a separate column.

Each fund is a separate accounting entity with a self-balancing set of accounts used to record the financial transactions and balances of that entity. Individual funds have been established as stipulated by legal provisions or by administrative discretion. The House of Representatives uses fund accounting, which is designed to demonstrate legal compliance and to segregate transactions related to certain government functions or activities.

continue
2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

By definition, the general fund is always considered a major fund. Governmental funds other than the general fund must be reported as major funds if they meet both the ten percent and five percent criterion, defined respectively, (1) an individual governmental fund reports at least ten percent of any of the following: a) total governmental fund assets, b) total governmental fund liabilities, c) total governmental fund revenues, or d) total governmental fund expenditures; (2) an individual governmental fund reports at least five percent of the aggregated total for both governmental funds and enterprise funds of any one of the items for which it met the ten percent criterion. In addition, a fund may be reported as major if it is believed to be of particular importance to financial statement users.

The House of Representatives reports the following major governmental funds:

General Fund – This is the general operating fund of the House of Representatives. It is used to account for all financial resources, except those required to be accounted for in another fund.

Special Fund – This is the fund used to account for all transactions with special assignment resolution.

The House of Representatives periodically undertakes a comprehensive evaluation of its fund structure to ensure that it complies with all aspects that are of importance to users of general purpose external financial reports. Consequently, all superfluous funds and some operational funds currently used by the House of Representatives in the day-to-day accounting procedures have not been reported as individual governmental funds in the accompanying fund financial statements. Accordingly, the accompanying fund financial statements include only the minimum number of funds consistent with legal and operating requirements.

The financial statements of the governmental funds are the following:

Balance Sheet – Reports information at June 30, 2020 about the current financial resources (assets, liabilities, deferred inflows of resources and fund balances) of each major governmental fund.

Statement of Revenues, Expenditures and Changes in Fund Balance – Reports information about the inflows, outflows and balances of current financial resources of each major governmental fund for the fiscal year ended June 30, 2020.

Since the GFFS are presented in different measurement focus and basis of accounting than the GWFS, reconciliation is presented and separate explanation for each difference.

During the course of operations, the House of Representatives has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the GWFS. Balances between the funds included in Governmental Activities (i.e., the governmental funds) are eliminated so that only the net amount is included as internal balances in the Governmental Activities column.

Further, certain activity occurs during the fiscal year involving transfers of resources between funds. In GFFS these amounts are reported at gross amounts as transfers in/out. While reported in GFFS, certain eliminations are made in the preparation of the GWFS. Transfers between the funds included in Governmental Activities are eliminated so that only the net amount is included as transfers in the Governmental Activities column.

The House of Representatives reports its financial position (Balance Sheet) and results of operations in funds (Statement of Revenues, Expenditures and Changes in Fund Balance), which are considered separate accounting entities. The operations of each fund are accounted for within a set of self-balancing accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with legal, financial, and contractual provisions.

continue
2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

Notes to the Basic Financial Statements

The notes to the basic financial statements provide information that is essential to a user’s full understanding of the data provided in the basic financial statements.

Required Supplementary Information – Budgetary Comparison Schedule

The Budgetary Comparison Schedule – General Fund, includes reconciliation between the statutory fund balance for budgetary purposes and the fund balance for the General Fund as presented in the GFFS.

Required Supplementary Information – Employees Retirement System

GASB Statement No. 68, Accounting and Financial Reporting for Pensions, that was effective for the House of Representatives’ fiscal year beginning July 1, 2014, revises existing standards for measuring and reporting pension liabilities for pension plans provided by the House of Representatives to its employees, and required supplementary information that include the Schedule of Proportionate Share of the Net Pension Liability and Schedule of House of Representatives’ Contributions to the Employees’ Retirement Systems.

Required Supplementary Information – Other Postemployment Benefits (OPEB)

The contribution requirement of ERS Medical Insurance Plan Contribution (MIPC) is established by Act No. 95 approved on June 29, 1963. There are no member or employer contributions on behalf of the MIPC. This benefit is financed on a pay-as-you-go basis from the General Fund of the Commonwealth of Puerto Rico. Since this benefit is not funded in advance, the Annual Required Contribution (ARC) for this benefit has been calculated based on an assumed investment return rate of 3.10% based on the asset allocation on the Commonwealth’s general assets that are used to pay this benefit.

In accordance with GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, that replaces GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, changes similar to those implemented on GASB No. 67, Financial Reporting for Pension Plans, and No. 68, Accounting and Financial Reporting for Pensions should be made. As of June 30, 2020, the PRGERS hasn’t issued, or made available information in order to properly adjust or disclose any deferred outflow/inflow of resources, or net OPEB obligation, if any, applicable to the House of Representatives.

B. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as current financial resources or economic resources. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

Government-wide Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. The statement of net position presents the assets and liabilities with the difference reported as net position. Net position is reported in three categories.
2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

**Net Invested in Capital Assets** – consists of capital assets, net of accumulated depreciation, that are attributed to the acquisition, construction or improvement of those assets, net of debts.

**Restricted Net Position** – consists of restricted net assets with constraints placed on the use of resources which either a) externally imposed by creditors or laws or regulations of other governments or; b) imposed by law through constitutional provisions or enabling legislation.

**Unrestricted Net Position** – consist of net assets that are neither restricted nor investment in capital assets. Unrestricted net assets often have constraints that are imposed by management, but that can be removed or modified.

**Governmental Funds Financial Statements**

The GFFS are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the House of Representatives considers revenues to be available if they are collected within the current period or soon enough thereafter. All other revenue items are considered to be measurable and available only when collected by the House of Representatives. On June 30, 2020, all revenues sources met this availability criterion.

Expenditures are recorded when the related fund liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Principal and interest debt are recorded when they matured (when payment is due). Proceeds of acquisitions under capital leases, if any, are reported as other financing sources.

The accompanying Balance Sheet – Governmental Funds generally reflects only assets that will not be converted into cash to satisfy current liabilities. Long-term assets and those assets that will not be converted into cash to satisfy current liabilities are generally not accounted for in the accompanying Balance Sheet – Governmental Funds.

The measurement focus of the GFFS is on decreases of net financial resources (expenditures) rather than expenses. Most expenditures are measurable and are recorded when the related governmental fund liability is incurred. Allocation of costs, such as depreciation and amortization, are recorded in the accompanying Statement of Activities, but are not recorded in the accompanying GFFS.

**C. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position/Fund Balance**

1) **Cash**

The House of Representatives held its cash balances in commercial banks. Under Commonwealth of Puerto Rico statutes, public funds deposited in commercial banks must be fully collateralized for the amount deposited in excess of Federal Depository Insurance Corporation. All securities pledged as collateral are held by the Secretary of the Treasury of Puerto Rico.
2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

2) Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to/from other funds”. Advance between funds, as reported in the fund financial statements, if any, are offset by a fund balance restricted account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

Receivables consist of all revenues earned but not collected on June 30, 2020. These account receivables are shown net of estimated allowances for uncollectible accounts, which are determined upon past collection experience, historical trends, and current economic conditions. Intergovernmental receivables represent amounts owed to the House of Representatives for reimbursement of expenditures incurred pursuant to state appropriations.

Accounts payable represent amounts, including salaries and wages, owed for goods and services received prior to year-end.

3) Inventories

Inventories consist primarily of material and supplies, furniture construction materials and vehicle spare parts and are valued at cost, using the first-in first-out method.

All inventories are reportable for financial statements purposes in the government-wide and governmental funds.

For governmental fund financial reporting, inventories balances are also recorded as a nonspendable fund balance indicating that they do not constitute “available spendable resources”.

4) Capital Assets

Capital assets, which include, equipment and equipment under capital lease agreements, computer equipment and software, furniture and vehicles, are reported in the government-wide financial statements. Capital assets, are defined by the House of Representatives as assets with an initial, individual cost of more than $500 (amount not rounded) and an estimated useful life of five years or more.

Capital outlay is recorded as expenditures of the General Fund and other governmental funds and as assets in the GFFS to the extent the House of Representatives capitalization threshold is met. Depreciation and amortization expense are recorded only in the GWFS. No depreciation is recorded for work of art and historical treasures. The other equipment and vehicles of the primary government are depreciated using the straight-line method over an estimated useful lives of five years.

Depreciation expense of capital assets is recorded as a direct expense of the function/program specifically identified with the asset.

The accounting policy for Works of Art is that they are capitalized at their historical cost or acquisition value at date of donation whether they are held as individual items or in a collection.
2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

Impaired capital assets that will no longer be used by the House of Representatives, if any, are reported at the lower of carrying value or fair value. Impairment losses on capital assets with physical damages that will continue to be used by the House of Representatives are measured using the restoration cost approach. Impairments of capital assets that are subject to a change in the manner or duration of use, or assets affected by enactment or approval of laws or regulations or other changes in environmental factors or assets that are subject to technological changes or obsolescence, if any, are measured using the service unit’s approach.

The House of Representatives is prevented legally from entering into obligations extending beyond one fiscal year, and most lease agreements entered by the House of Representatives contain fiscal funding clauses or cancellation clauses that make the continuation of the agreements subject to future appropriations.

5) Deferred Outflows/Inflows of Resources

Deferred outflows of resources and deferred inflows of resources are defined in GASB Concept Statement No. 4, *Elements of Financial Statements*, as the acquisitions and consumptions of net assets by the government that is applicable to future periods. Pursuant to GASB Statement No. 63, “Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position,” and GASB Statement No. 65, “Items Previously Reported as Assets and Liabilities”, the House of Representatives recognizes deferred outflows and inflows of resources.

In addition to assets, the *Statement of Net Position* will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expenses/expenditures) until then.

In addition to liabilities, the *Statement of Net Position* will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

Based on this concept, the House of Representatives reports the following as deferred outflows of resources and deferred inflows of resources.

- The deferred outflows of resources or deferred inflows of resources resulting from the implementation of GASB No. 68. Note 13 presents additional information about the composition of these items.

- Revenues earned but not available within 60 days of fiscal year end.

Notes 9 and 11 provide details on deferred outflows of resources and deferred inflows of resources.

The House of Representatives has items, which arise under accrual basis and modified accrual basis of accounting that qualify for reporting in deferred outflows/inflows of resources. Accordingly, the items, related to pension system are reported in the government-wide *Statement of Net Position*, and *unavailable revenue*, is reported only in the governmental funds *Balance Sheet*. The governmental funds report *unavailable revenues* from Federal Grants. This amount is deferred and recognized as an inflow of resources in the period that the amount become available.
6) **Long-Term Obligations**

The liabilities reported in the GWFS include long-term liabilities such as vacations and sick leave, reserves for contingencies and long term portion of obligations under capital lease agreements.

7) **Lease Obligations**

The House of Representatives leases various assets under both operating and capital lease agreements. In the government wide and proprietary funds financial statements, capital leases and the related lease obligations are reported as liabilities in the statement of net position.

8) **Compensated Absences**

The House of Representatives accrues accumulated unpaid vacation and sick leave and associated employee-related costs when earned (or estimated to be earned) by the employee. Compensated absences are accounted for under the provisions of GASB Accounting Standards Codification Section C60, *Compensated Absences*. Compensated absences include paid time off made available to employees in connection with vacation, sick leave and compensatory time. The liability for compensated absences recorded in the accompanying Statement of Net Position is limited to leave that: (1) is attributable to services already rendered on or before June 30, 2020 and (2) is not contingent on a specific event (such as illness) that is outside the control of the House of Representatives and the employee. The liability for compensated absences includes salary-related costs, which are directly and incrementally related to the amount of salary paid to the employee (such as employer’s share of social security taxes and Medicare taxes).

The employees of the House of Representatives do not apply by the Act. No. 26 of April 29, 2017 (Act No. 26-2017), the employees of the House of Representatives are granted thirty (30) days of vacation and eighteen (18) days of sick leave annually. The employee has the right to accumulate the excess of vacation up to sixty (60) days and sick leave up to ninety (90) days, until December 31st of each year.

Compensated absences are accrued when incurred using the pay or salary rates in effect at the date of the *Statement of Net Position*.

Upon termination of employment, an employee receives compensation for all accumulated unpaid vacation leave at the current rate up to the maximum of sixty (60) days. When the reason for the separation is to qualify for the retirement for years of services or disability, a deferred pension or after having worked for at least ten (10) years of services without being a participant in a retirement system sponsored by the government you will also be entitled to pay of the lump sum of sick leave accumulated and not use up to maximum of ninety (90) days. However, if the employee worked ten years in the services within which some years, he has port of some retirement system sponsored by the government and the other were not involved, he will not be entitled to the payment of the mentioned license, except if he withdraws the contributions made to the retirement systems, which would make him a non-participant with 10 years or service.

In accordance with the above criteria and requirements in conformance with GASB Accounting Standards Codification Section C60, *Compensated Absences*, the House of Representatives has accrued a liability for compensated absences, which has been earned but not taken by House of Representatives’ employees, including its share of social security and Medicare payments made on behalf of the employees in the accrual for vacation and sick leave pay using salary rates effective on June 30, 2020. All vacation pay is accrued when incurred in the GWFS. For the GWFS, the current portion is the amount estimated to be used in the following year.
2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

For the GFFS, all of the compensated absences are considered long-term and therefore, are not a fund liability and represents a reconciling item between the fund level and government-wide presentations. Also, GFFS record expenditures when employees are paid for leave or the balance due in accrued upon the employee’s separation from employment.

9) Reduction of Working Day

Act No. 8 of February 6, 2017 establishes that any employee will have the option of requesting a voluntary reduction of their working day by means of a prior agreement with their employer, for a reduction period equivalent to one day of work.

10) Claims and Judgments

The estimated amount of the liability for claims and judgments, if any, which is due on demand, such as from adjudicated or settled claims, is recorded in the General Fund when the liability is incurred. The Long-Term Obligations includes an amount estimated as a contingent liability or liabilities with a fixed or expected due date, which will require future available financial resources for its payment.

11) Accounting for Pension Costs

In June 2012, the Governmental Accounting Standards Board (GASB) issued two new pronouncements related to the accounting and financial reporting requirements for pension related expenses and liabilities. GASB Statement No. 67, Financial Reporting for Pension Plans an amendment of GASB Statement No. 25, replaces the requirements of GASB Statement Nos. 25 and 50 for plans administered by pension systems through trusts or equivalent arrangements, and was implemented by the Employees’ Retirement System of the Government of the Commonwealth of Puerto Rico (ERS) as of June 30, 2014.

In Addition, the GASB issued Statement No. 68, Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27 effective for the House of Representatives’ fiscal year beginning July 1, 2014. This Statement revises existing standards for measuring and reporting pension liabilities for pension plans provided by the House of Representatives to its employees. This Statement requires recognition of a liabilities equal to the Net Pension Liability, which is measured as the Total Pension Liability, less the amount of the pension plan’s Fiduciary Net Position. The Total Pension Liability is determined based upon discounting projected benefit payments based on the benefit terms and legal agreements existing at the pension plan’s fiscal year-end. Projected benefit payments are required to be discounted using a single rate that reflects the expected rate of return on investments, to the extent that plan assets are available to pay benefits, and a tax-exempt, high-quality municipal bond rate when plan assets are not available. This Statement requires that most changes in the Net Pension Liability be included in pension expense in the period of the change. To the extent practical, the financial statements presented for the periods affected should be restated. Also, GASB Statement No. 71, Pension transition for Contributions Made Subsequent to the Measurement Date, and Amendment to GASB No. 68, is required to be implemented simultaneously with the provisions of GASB No. 68.

The House of Representatives implemented both GASB Statements No. 68 and 71 for the fiscal year ending June 30, 2017 and the financial statements of the House of Representatives for the year ended June 30, 2016 were restated, with audited information available at the date of the House of Representatives’ reports. During the past years, the ERS was reconstructed the employees’ information and finally on November 2, 2018 issued the required Schedules of Employer Allocations and Pension Amounts by Employers as of June 30, 2016, necessary for final implementation of GASB No. 68 and the recognition of the values of the Net Pension Liability, Deferred Outflows / Inflows of Resources and Pension Expense items corresponding to the fiscal year 2017.
2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

At the date of issuance of the basic financial statements of the House of Representatives, the ERS has issued the corresponding audited financial statements as of June 30, 2018, but not the audited schedules required by GASB 68. However, the House of Representatives used the Audited Financial Statements and the Actuarial Valuation Report issued by the actuaries for the fiscal years 2014, 2015, 2016, 2017 and 2018 to update the note disclosure of Pension.

The House of Representatives accounts for pension costs from the standpoint of a participant in a multiple-employer cost-sharing plan. During the current fiscal year, the House of Representatives implemented the second pronouncement issued, GASB Statement No. 68, Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27. This statement establishes accounting and financial reporting for pensions provided to the employees of state and local government employers through pension plans that are administered through trusts that have the following characteristics:

- contributions from employers and nonemployer contributing entities to the pension plan and earnings on those contributions are irrevocable;
- pension plan assets are dedicated to providing pensions to plan members in accordance with the benefit terms;
- pension plan assets are legally protected from the creditors of employers, nonemployer contributing entities, and the pension plan administrator. If the plan is a defined benefit pension plan, plan assets also are legally protected from creditors of the plan members.

For the purpose of applying the requirements of GASB No. 68, as amended, the state government of the Commonwealth is considered to be the sponsor of the Employees’ Retirement System of the Government of the Commonwealth of Puerto Rico (ERS), a cost-sharing multi-employer Defined Benefit Pension Plan, and Defined Contribution Hybrid Program, in which the employees of the House of Representatives participate. The House of Representatives is considered a participant of these retirement systems since the majority of the participants in the aforementioned pension trust funds are employees of the Commonwealth and the basic financial statements of such retirement systems are part of the financial reporting entity of the Commonwealth. Act No. 3 was enacted on April 4, 2013, amended the Act No. 447 for the purpose of establishing a major reform of the ERS effective on July 1, 2013. After that, and based in the fiscal crisis of the Commonwealth, was enacted the Act No. 106 of 2017 to establish a New Define Contribution Plan and create the “pay-as-you-go” scheme for payment of pensioners of the ERS and other two retirement systems (see Note 13).

For purposes of measuring the Net Pension Liability and Deferred Outflows/Inflows of Resources related to pensions, and pension expense, information about the fiduciary net position of the ERS and additions to/deductions from the ERS’s fiduciary net position have been determined on the same basis as they are reported by Commonwealth of Puerto Rico. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

12) Other Postemployment Benefits

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

In addition to the pension benefits described in Note 13, the Commonwealth provides other retirement benefits, such as Christmas Bonus, and postemployment healthcare benefits (OPEB) for its retired employees in accordance with local law. Substantially, all of the employees may become eligible for these benefits if they reach normal retirement age while working for the Commonwealth. There are no member or employer contributions on behalf of the MIPC. This benefit is financed on a pay-as-you-go basis from the General Fund of the Commonwealth of Puerto Rico.

13) Net Position/Fund Balance

A) Net Position

Net position represents the difference between assets, deferred outflows of resources, liabilities, and deferred inflows of resources in the GWFS.

The GWFS utilize a net position presentation, which are categorized as follow:

- **Net Invested in Capital Assets** – These consists of capital assets, net of accumulated depreciation and amortization, reduced by the outstanding balances of bonds payable, notes payable and other debts that are attributed to the acquisition, construction or improvements of those assets. For the purposes of determining the outstanding debt attributed to capital assets, the total long-term debt related to the acquisition, construction or improvements of capital assets has been reduced by any related unspent debt proceeds. In addition, the outstanding debt attributed to capital assets does not include accrued interest payable, non-capital accrued liabilities, inter-fund loans and other financial assets.

Net Investment in Capital Assets is comprised of the following:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital Assets, Net of Accumulated Depreciation</td>
<td>$1,532,258</td>
</tr>
<tr>
<td>Outstanding Balance on Related Debt (Leases)</td>
<td>(781,331)</td>
</tr>
<tr>
<td><strong>Total Net Investment in Capital Assets</strong></td>
<td><strong>$ 750,927</strong></td>
</tr>
</tbody>
</table>

- **Restricted Net Position** – These results when constraints placed on net position use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation.

- **Unrestricted Net Position** – These consist of net position which do not meet the definition of the two preceding categories. Unrestricted net position often is designated, to indicate that management does not consider them to be available for general operations. Unrestricted Net Position often have constraints on resources that are imposed by management, but can be removed or modified.

**Net Position Flow Assumption**

Sometimes the House of Representatives will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the House of Representatives' policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.
2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

B) Fund Balance

Fund Balance Classification

Fund balances for the governmental funds are reported in classifications that comprise a hierarchy based on the extent to which the House of Representatives honors constraints on the specific purposes for which amounts in those funds can be spent.

- **Nonspendable** – amounts that cannot be spent because they are either (1) not spendable in form; or (2) legally or contractually required to be maintained intact.

- **Restricted** – amounts with constraints placed on their use that are either (1) externally imposed by creditors, grantors, contributors, or laws or regulation of other governments; or (2) imposed by law through constitutional provisions or enabling legislation.

- **Committed** – amounts that can only be used for specific purposes determined by formal action of the House of Representatives’ highest level of decision-making authority (Municipal Legislature) and that remain binding unless removed in the same manner. The underlying action that imposed the limitation needs to occur no later than the close of the reporting period.

- **Assigned** – amounts that are constrained by the House of Representatives’ intent to be used for specific purposes. The intent can be established at either the highest level of decision-making authority, or by a body or an official designated for that purpose.

- **Unassigned** – the residual classification for the House of Representatives’ General Fund that includes amounts not contained in the other classifications. In other funds, the unassigned classification is used only if expenditures incurred for specific purposes exceed the amounts restricted, committed, or assigned to those purposes.

Fund Balance Flow Assumption

Sometimes the House of Representatives will fund outlays for a particular purpose from both restricted and unrestricted resources (the total committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the GFFS a flow assumption must be made about the order in which the resources are considered to be applied. It is the House of Representatives’ policy to consider restricted fund balance to have been depleted before using any of the components or unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

Fund Balance Policy

The House of Representatives believes that sound financial management principles require that sufficient funds be retained by the House of Representatives to provide a stable financial base at all times. To retain this stable financial base, the House of Representatives needs to maintain a General Fund balance sufficient to fund all cash flows of the House of Representatives, to provide financial reserves for unanticipated expenditures and/or revenue shortfalls of an emergency nature, to provide funds for the disparity in timing between the collection of property taxes and other main income. The purpose of this policy is to specify the size and composition of the House of Representatives’ financial reserves and to identify certain requirements for replenishing any fund balance reserves utilized.
Restrictions of fund balance represent portions of fund balances that are legally segregated for a specific future use or are not approvable for expenditure. The House of Representatives has implemented the provisions of the GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* as of July 1, 2010, in which it is required to classify, and report amounts in the appropriate fund balance classification by applying their accounting policies that determine whether restricted, committed, assigned, and unassigned amounts are considered to have been spent.

**Policy on Committing Funds**

It is the policy of the House of Representatives that fund balance amounts will be reported as “Committed Fund Balance” only after formal action and approval by Legislative Assembly. The Legislative Assembly has the authority to separate funds for specific purposes. Any separate fund as Committed Fund Balance requires the adoption of a resolution by a simple majority of votes. The adoption of the resolution should be carried out before June 30 of the fiscal year to implement. If the actual amount of the commitment is not available through June 30, the resolution should establish the process or formula required to calculate the exact amount as soon as information is available in the following fiscal year.

**Restrictions of Fund Balance**

For example, the Legislative Assembly may approve a resolution prior to year-end financial statements, if available, up to a specified dollar amount as Committed Fund Balance for capital projects. The exact dollar amount to be reported as Committed Fund Balance for capital projects may not be known at the time of approval due to the annual financial audit not yet being completed. This amount can be determined at a later date when known and appropriately reported within the year-end financial statements due to the Legislative Assembly approving this resolution before year-end.

It is the policy of the House of Representatives that the Legislative Assembly may commit fund balance for any reason that is consistent with the definition of Committed Fund Balance. Examples of reasons to commit fund balance would be to display intentions to use portions of fund balance for future capital projects, stabilization funds, or to earmark special General Fund streams unspent at year-end that are intended to be used for specific purposes.

After approval by the Legislative Assembly, the amount reported as Committed Fund Balance cannot be reversed without utilizing the same process required to commit the funds. Therefore, it is the policy of the House of Representatives that funds can only be removed from the Committed Fund Balance category after resolution and approval by the Legislative Assembly.

**Policy on Assigning Funds**

Funds that are *intended* to be used for a specific purpose but have not received the formal approval action at the Legislative Assembly level may be recorded as Assigned Fund Balance. Likewise, redeploying assigned resources to an alternative use does not require formal action by the Municipal Legislature. Having reviewed the requirements for assigning fund balance, therefore, is the policy of the House of Representatives that the Speaker shall have the authority to assign fund balance of the House of Representatives based on the intentions of the use of funds by the Legislative Assembly. In addition, the Speaker can delegate to the Finance Director or other employee of the House of Representatives, the authority to assign the funds.
Policy on Unassigned General Fund Balance

It is the goal of the House of Representatives to achieve and maintain an Unassigned General Fund Balance equal to 15% of budgeted expenditures. The House of Representatives considers a balance of less than 10% to be a cause for concern, barring unusual or deliberate circumstances, and a balance of more than 20% as excessive. An amount in excess of 20% is to be considered for reservation to accumulate funding for the purchase of machinery and equipment, for capital projects, and/or reduces tax levy requirements, and shall be determined in conjunction with the annual budget process. In the event that the Unassigned General Fund Balance is less than the policy anticipates, the House of Representatives shall plan to adjust budget resources in the subsequent fiscal years to restore the balance. Appropriation from Unassigned General Fund Balance shall require the approval of the Legislative Assembly and shall be only for specific disbursements, such as one-time expenditures and capital asset purchases, and not for ongoing expenditures unless a viable plan designated to sustain the expenditures is simultaneously adopted. The House of Representatives has met its GASB 54 fund balance targets on June 30, 2020.

Prioritization of Fund Balance Use

In circumstances where expenditure is for a purpose that quantities are available in multiple fund balance classifications, the order in which the resources will be used shall be as follows: Restricted Fund Balance, followed by Committed Fund Balance, Assigned Fund Balance, and last but not least, Unassigned Fund Balance.

C. Interfund Transactions

Interfund transactions are reflected as loans, reimbursements, or transfers. Loans are reported as receivables and payables as appropriate and are subject to elimination upon consolidation. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide columnar presentation. The House of Representatives has the following types of transactions among funds:

Interfund Transfers – Legally required transfers that are reported when incurred as transfers-in by the recipient fund and as transfers-out by the disbursing fund, with receivables and payables presented as amounts due to and due from other funds. Advances between funds are also presented as amounts due to and due from other funds. However, these advances, transfers, and related amounts receivable and payable are considered internal balances and activities that have been eliminated in the government-wide financial statements.

Intra-Entity Transactions – There are two types of intra-entity transactions: First, the flow of resources between the primary government and its component units, and among the component units. This flow of resources and the related outstanding balances are reported as if they were external transactions. However, flow of resources between the primary government and blended component units are classified as interfund activity, as described above. Second, the intra-entity balances between the primary government and discretely presented component units that are tantamount to long-term debt financing. The primary government’s liability is reported in the Statement of Net Position, the proceeds in the primary government’s funds, and the asset in the discretely presented component units’ Statement of Net Position. For the fiscal year there are not intra-entity transactions.
2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

D. Risk Financing

The Commonwealth of Puerto Rico purchases commercial insurance covering casualty, theft, tort, claims, and other losses for the House of Representatives. The House of Representatives reimburses the Commonwealth for premium payments made on its behalf. The House of Representatives’ current insurance policies have not been canceled or terminated.

For workers’ compensation, the State Insurance Fund Corporation, a component unit of the Commonwealth of Puerto Rico, provides the workers’ compensation insurance to the House of Representatives’ employees.

The House of Representatives carries insurance coverage for death and bodily injuries caused by the motor vehicles accidents. The insurance is obtained through the Automobile Accidents Compensation Administration (AACA), a component unit of the Commonwealth of Puerto Rico. This insurance is compulsory for all licensed vehicles used on public roads and highways in Puerto Rico. The annual premium is $35 per licensed motor vehicle, which is paid directly to AACA.

The House of Representatives obtains workers compensation insurance though the State Insurance Fund Corporation (SIFC), a component unit of the Commonwealth of Puerto Rico. This insurance covers workers against injuries, disability or death because of work or employment-related accidents, or because of illness suffered as a consequence of their employment. Cost of insurance allocated to the House of Representatives for the year ended June 30, 2020 amounted to $45,322.

The House of Representatives obtains unemployment compensation, non-occupational disability, and drivers’ insurance coverage for its employees through various insurance programs administered by the Department of Labor and Human Resources of the Commonwealth of Puerto Rico (DOLHR). These insurance programs cover workers against unemployment and provide supplementary insurance coverage for temporary disability, or death because work or employment-related accidents or non-occupational disability and drivers’ insurance premiums are paid to DOLHR on a cost reimbursement basis.

E. Use of Estimates

The preparation of the basic financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the basic financial statements and the reported revenue and expenses during the reporting period. Actual result could differ from those estimates.

F. Reclassifications

Various reclassifications have been made in the accompanying basic financial statements which affect the comparability with the basic financial statements issued for previous fiscal years.
3. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information

The House of Representatives annually receive an appropriation from the general Budget Resolution of the Commonwealth of Puerto Rico. Budgetary control is legally maintained at the fund level. The budget is prepared using the modified accrual basis of accounting with encumbrance included as budgetary basis expenditures. Unexpended appropriations at the end of the fiscal year generally lapse. However, they may be re-appropriated for expenditures in the following fiscal year.

Expenditures are generally recorded when the related expenditure is incurred or encumbered. Available appropriations and encumbrances will lapse the year following the end of the fiscal year when the encumbrance was established, by means of Act No. 123 from August 17, 2001, which amended the existing appropriations and encumbrances lapsing provision of Act No. 230 from July 23, 1974.

Amounts required setting claims and judgments against the House of Representatives, and certain other liabilities are not recognized until they are encumbered or otherwise processed for payment. Under the statutory basis of accounting, the House of Representatives uses encumbrance accounting to record the full amount of purchase orders, contracts and other commitments of appropriated resources as deductions from the appropriation prior to actual expenditure. In the House of Representatives governmental funds, encumbrance is a significant aspect to budget control.

Budgetary Control

On January 2, 2017, the Governor of Puerto Rico signed the Executive Order No. 2017-005, which required that all departments, agencies, and instrumentalities of the Government of Puerto Rico and those expressly required by the Governor, are ordered to implement the Zero-Base Budget methodology for the preparation of the budget for fiscal year 2017-2018 and subsequent fiscal years, per the applicable techniques and approaches of Zero-Base Budget and should be in conformity with the Fiscal Plan approved by the Oversight Board for Puerto Rico, pursuant to the Federal Law Pub. L. 114-187, Puerto Rico Oversight, Management and Economic Stability Act (PROMESA).

For budgetary purposes, encumbrance accounting is utilized to the extent necessary to assure effective budgetary control and accountability and to facilitate effective cash planning and control. The encumbrances (i.e., purchase orders, contracts) are considered expenditures when incurred. For GAAP reporting purposes, encumbrances outstanding at year-end are reported as assigned fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year. In addition, under the budgetary basis of accounting, revenues are recorded when cash is received.

The unencumbered balance of any appropriation at the end of the year will lapse at the end of such fiscal year. Other appropriations, mainly capital project appropriations, are continuing accounts for which the Legislative Assembly has authorized that an unspent balance from the prior year be carried forward and made available for current spending.

Pursuant to Section 202(a) of PROMESA, the Oversight Board should certify the Consolidated Budget of the Commonwealth of Puerto Rico in accordance with a schedules for a period of six months ending June 30, for the process of developing, submitting, approving, and certifying the Fiscal Year Budget as follow:

- Along with the submission of the Fiscal Plan, Government provides complete inventory listing of all agencies that will be allocated budgets included in the Fiscal Plan, and will detail any consolidation of agencies or new agencies.
- Consistent with PROMESA 202(b), Oversight Board sends Governor and Legislature a forecast of revenues. The Oversight Board sends the Governor and Legislature agency budget targets on a personnel and non-personnel basis and a detailed data request.
3. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY – continuation

- Consistent with PROMESA 202(c)(1), the Governor submits a proposed Fiscal Year Budget based on the forecast of revenues and agency budget targets along with detailed support documentation for any variances. The Boards of Directors of Independently Forecasted Component Units submit proposed budget resolutions based on the forecast revenues and agency budget targets along with detailed support documentation for any variances.
- Pursuant to PROMESA 202(c)(1)(B), the Oversight Board sends the Governor a notice of violation, as needed.
- Pursuant to PROMESA 202(c)(2), the Oversight Board submits a revised compliant Fiscal Year Budget to the Governor and Legislature.
- Pursuant to PROMESA 202(d)(1), the Legislature submits a proposed Fiscal Year Budget to the Oversight Board.
- Pursuant to PROMESA 202(d)(1)(B), the Oversight Board sends the Legislature a notice of violation, as needed.
- Pursuant to PROMESA 202(d)(2), the Legislature submits a revised proposed Fiscal Year Budget.
- Pursuant to PROMESA 202(e), the Oversight Board expects to certify the Fiscal Year Budget.

4. CASH AND INVESTMENTS

Cash in Banks

Puerto Rico laws authorize governmental entities to invest in direct obligations or obligations guaranteed by the federal government or the Commonwealth. The House of Representatives is also allowed to invest in bank acceptances, other bank obligations, and certificates of deposit in financial institutions authorized to do business under the federal and Commonwealth laws. Under the laws and regulations of the Commonwealth, public funds deposited by the House of Representatives in commercial banks must be fully collateralized for the amounts deposited in excess of the Federal Deposit Insurance Corporation (FDIC) coverage. All securities pledged as collateral are held by agents designated by the Commonwealth's Secretary of the Treasury, but not in the House of Representatives' name. The House of Representatives cash balances in commercial banks were approximately $2,079,170 as of June 30, 2020.

Concentration of Credit Risk

This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. On June 30, 2020, the House of Representatives has invested only in cash equivalents of $2.1 million consisting of interest-bearing accounts in commercial banks, which are insured by the FDIC, generally up to a maximum of $250,000. As previously mentioned, public funds deposited by the House of Representatives in commercial banks must be fully collateralized for the amounts deposited in excess of the FDIC coverage. No investments in debt of equity securities were made during the Fiscal Year ended June 30, 2020. Therefore, the House of Representatives' management has concluded that the concentration of credit risk related to any possible loss related to defaults by commercial banks on the House of Representatives’ deposits is considered low on June 30, 2020.

Custodial Credit Risk

This is the risk that, in the event of the failure of a depository financial institution, the House of Representatives will not be able to recover its cash and investments or will not be able to recover collateral securities that are in the possession of an outside party. Pursuant to the Investment Guidelines for the Commonwealth adopted by GDB, the House of Representatives may invest in obligations of the Commonwealth, obligations of the United States, certificates of deposit, commercial paper, banker's acceptance, or in pools of obligations of the municipalities of Puerto Rico, which are managed by FAFAA. On June 30, 2020, the House of Representatives has balances deposited in commercial banks amounting to $2.1 million which are insured by the FDIC up to the established limit and the excess are fully collateralized as explained above.
4. CASH AND INVESTMENTS – continuation

*Interest Rate Risk*

This is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The House of Representatives manages its exposure to declines in fair values by: (1) not including debt or equity investments in its investments portfolio on June 30, 2020, (2) limiting the weighted average maturity of its investments in certificates of deposit to periods of four months or less, and (3) keeping most of its banks deposits and certificates of deposit in interest bearing accounts generating interest at prevailing market rates. Therefore, on June 30, 2020, the interest risk associated with the House of Representatives’ cash and cash equivalent is considered low.

*Foreign Exchange Risk*

This is the risk that changes in exchange rates will adversely affect the value of an investment or a deposit. According to the aforementioned investment guidelines, adopted by the House of Representatives, the House of Representatives is prevented from investing in foreign securities or any other types of investments for which foreign exchange risk exposure may be significant. Accordingly, management has concluded that the foreign exchange risk related to the House of Representatives’ deposits is considered low on June 30, 2020.

5. RECEIVABLES

GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, requires disclosure of significant receivable balances not expected to be collected within one year of the date of the financial statements. As of June 30, 2020, amounts are aggregated into account receivables line for certain funds and aggregated columns. Accounts receivable, net on June 30, 2020 includes the following:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Other Receivables</td>
<td>$119,450</td>
</tr>
<tr>
<td>Less Allowance for Doubtful Accounts</td>
<td>(76,797)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$42,653</strong></td>
</tr>
</tbody>
</table>

6. INVENTORIES

Inventories on June 30, 2020 include the following:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Office Materials</td>
<td>$26,103</td>
</tr>
<tr>
<td>Construction Materials</td>
<td>46,205</td>
</tr>
<tr>
<td>Vehicle Spare Parts</td>
<td>46,448</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$118,756</strong></td>
</tr>
</tbody>
</table>

7. DUE FROM / TO OTHER FUND

During the course of operations, numerous transactions occur between the House of Representatives’ funds for goods provided and services rendered and for the reimbursement of expenditures. Related interfund receivables and payables are classified as “Due from Other Funds” and “Due to Other Funds” on the *Balance Sheet* and *Statement of Net Position* and will be settled within one year.
8. CAPITAL ASSETS

Capital Assets activities for the fiscal year ended June 30, 2020 was as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>Balance at June 30, 2019</th>
<th>Additions</th>
<th>Retirements</th>
<th>Balance at June 30, 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Governmental Activities:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-Depreciable Capital Assets:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Works of Arts and Historic Treasures</td>
<td>$193,026</td>
<td></td>
<td></td>
<td>$193,026</td>
</tr>
<tr>
<td>Depreciable Capital Assets:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital Leases</td>
<td>1,432,711</td>
<td></td>
<td></td>
<td>1,432,711</td>
</tr>
<tr>
<td>Equipment</td>
<td>4,687,754</td>
<td>102,914</td>
<td></td>
<td>4,790,668</td>
</tr>
<tr>
<td>Vehicles</td>
<td>789,889</td>
<td></td>
<td>(22,028)</td>
<td>767,861</td>
</tr>
<tr>
<td>Intangibles</td>
<td>-</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total Depreciable Capital Assets</strong></td>
<td>6,910,354</td>
<td>102,914</td>
<td>(22,028)</td>
<td>6,991,240</td>
</tr>
<tr>
<td><strong>Less: accumulated depreciation</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital Leases</td>
<td>(471,416)</td>
<td>(221,750)</td>
<td></td>
<td>(693,166)</td>
</tr>
<tr>
<td>Equipment</td>
<td>(4,145,109)</td>
<td>(240,729)</td>
<td></td>
<td>(4,385,838)</td>
</tr>
<tr>
<td>Vehicles</td>
<td>(537,669)</td>
<td>(49,286)</td>
<td>13,951</td>
<td>(573,004)</td>
</tr>
<tr>
<td>Intangibles</td>
<td>-</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total Accumulated Depreciation</strong></td>
<td>(5,154,194)</td>
<td>(511,765)</td>
<td>13,951</td>
<td>(5,652,008)</td>
</tr>
<tr>
<td><strong>CAPITAL ASSETS, NET</strong></td>
<td>$1,949,186</td>
<td>$408,851</td>
<td>$(8,077)</td>
<td>$1,532,258</td>
</tr>
</tbody>
</table>

Depreciation expenses were charged to governmental functions/programs for the fiscal year ended June 30, 2020 as Administrative and Operating.

9. DEFERRED OUTFLOWS OF RESOURCES

Pursuant to GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position, and GASB Statement No. 65, Items Previously Reported as Assets and Liabilities, the House of Representatives recognized deferred outflows of resources in the government-wide statements. These items are a consumption of net position by the House of Representatives that is applicable to a future reporting period. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities.

At the end of the current fiscal year, the House of Representatives has an item that is reportable on the Government-wide Statement of Net Position that relates to outflows from changes in the Net Pension Liability (Note 13), as follows:

**Governmental Activities**
Deferred Outflows of Resources
Contributions to ERS $1,800,177
10. LONG-TERM LIABILITIES

Long term obligations on June 30, 2020 and changes for the year then ended was as follows:

<table>
<thead>
<tr>
<th></th>
<th>Balance at June 30, 2019</th>
<th>Increase</th>
<th>Decrease</th>
<th>Balance at June 30, 2020</th>
<th>Due within One (1) Year</th>
<th>Long-Term Portion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Compensated Absences</td>
<td>$ 4,669,397</td>
<td>$ 275,152</td>
<td>$(121,805)</td>
<td>$ 4,822,744</td>
<td>$ 250,002</td>
<td>$ 4,572,742</td>
</tr>
<tr>
<td>Obligations Under Capital Lease Agreements</td>
<td>980,782</td>
<td>-</td>
<td>$(199,451)</td>
<td>781,331</td>
<td>208,821</td>
<td>572,510</td>
</tr>
<tr>
<td>Net Pension Liability</td>
<td>13,699,715</td>
<td>-</td>
<td>-</td>
<td>13,699,715</td>
<td>-</td>
<td>13,699,715</td>
</tr>
<tr>
<td>TOTAL</td>
<td>$ 19,349,894</td>
<td>$ 275,152</td>
<td>$(321,256)</td>
<td>$ 19,303,790</td>
<td>$ 458,823</td>
<td>$ 18,844,967</td>
</tr>
</tbody>
</table>

**Compensated Absences**

The GWFS, *Statement of Net Position*, includes approximately $4.8 million in the governmental funds for the estimated accrued vacation benefits, accrued sick leave benefits and payroll related benefits, representing the House of Representatives’ commitment to fund such costs from future operations. The General Fund have been used to liquidate the liability for this concept.

**Obligations Under Capital Lease Agreements**

The House of Representatives is obligated under capital lease agreements with third parties that expire through 2024 for equipment. The present value of future minimum lease payments on June 30, 2020 reported in the accompanying Statement of Net Position is as follows:

<table>
<thead>
<tr>
<th>Year Ending June 30,</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>2021</td>
<td>$ 240,396</td>
</tr>
<tr>
<td>2022</td>
<td>240,396</td>
</tr>
<tr>
<td>2023</td>
<td>240,396</td>
</tr>
<tr>
<td>2024</td>
<td>126,440</td>
</tr>
<tr>
<td><strong>Total Future Minimum Lease Payments</strong></td>
<td>847,628</td>
</tr>
<tr>
<td><strong>Less: Amounts Representing Interest</strong></td>
<td>66,297</td>
</tr>
<tr>
<td><strong>Present Value of Minimum Lease Payments</strong></td>
<td>781,331</td>
</tr>
<tr>
<td><strong>Less: Current Portion</strong></td>
<td>(208,821)</td>
</tr>
<tr>
<td><strong>Obligations Under Capital Lease Agreements, Net of Current Portion</strong></td>
<td>$ 572,510</td>
</tr>
</tbody>
</table>

Leased equipment amounting $1,432,711 (less accumulated depreciation of $693,166) is included as part of the capital assets, being depreciated of the Statement of Net Position in the government-wide financial statements. Depreciation charge applicable to leased equipment amounted to $221,750.

**Net Pension Liability**

During 2018, a prior period adjustment of ($1,027,902) is recognized, as per audited reports of the ERS issued on November 11, 2020. As of June 30, 2018, the amount of net pension liability amounted to $13,699,715 for the proportional share in the cost-sharing multi-employers pension plan, same amount as of June 30, 2020 because the ERS did not issue the corresponding information (see Note 13).
11. DEFERRED INFLOWS OF RESOURCES

Pursuant to GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position, and GASB Statement No. 65, Items Previously Reported as Assets and Liabilities, the House of Representatives recognized deferred inflows of resources in the government-wide and fund statements. These items are an acquisition of net position by the House of Representatives that is applicable to a future reporting period. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities.

At the end of the current fiscal year, the various components of Deferred Inflows of Resources reported in the basic financial statements were as follows:

<table>
<thead>
<tr>
<th>Governmental Activities</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Deferred Inflows of Resources</td>
<td></td>
</tr>
<tr>
<td>Unamortized Investment in ERS</td>
<td>$ 7,301,916</td>
</tr>
</tbody>
</table>

12. INTERGOVERNMENTAL REVENUES

The House of Representatives principal source of revenue is legislative appropriations from the Commonwealth of Puerto Rico. Appropriations are general purpose revenues of the House of Representatives.

13. PENSION PLAN

As further described in Note 2 C 12), the House of Representatives implemented GASB Statement No. 68, Accounting and Financial Reporting for Pension, during fiscal year 2015, and a new Required Supplementary Information schedules are included herein. Also, GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date, an amendment to GASB No. 68, is implemented simultaneously with the provisions of GASB No. 68.

Plan description


The System's governance is vested in a Board of Trustees (the Board), which sets policy and oversees the operations consistent with applicable laws. There are eleven members of the Board, as follows: the Puerto Rico Secretary of the Treasury (or his appointee), the President of the Government Development Bank for Puerto Rico (or his appointee), the Commissioner of Municipal Affairs (or his appointee) and the Director of the Office of Human Resources of the Commonwealth (or his appointee), as ex officio members; three members appointed to three-year terms by the Governor of the Commonwealth (the Governor), two of whom must be members of the System and one member of the Retirement System for the Judiciary of the Commonwealth of Puerto Rico, with at least ten years of credited service; and two members who are pensioners of each system. The other two members are the President of the Federation of Mayors and the President of the Association of Mayors. The Board is also responsible for appointing the Administrator of the System.

The employees of the House of Representatives are eligible to participate in the pension plan. Participation is optional for employees hired before January 1, 2000 and less than 55 years of age at the date of employment. No benefits are payable if the participant receives a refund of their accumulated contributions.
On July 1, 2016, membership of the ERS consisted of the following:

<table>
<thead>
<tr>
<th>Category</th>
<th>Membership</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retirees and beneficiaries currently receiving benefits</td>
<td>108,035</td>
</tr>
<tr>
<td>Current participating employees</td>
<td>118,657</td>
</tr>
<tr>
<td>Disabled members, receiving benefits</td>
<td>14,722</td>
</tr>
<tr>
<td><strong>Total Membership</strong></td>
<td><strong>241,414</strong></td>
</tr>
</tbody>
</table>

Act 305 of September 24, 1999, an amendment to Act 447 of May 15, 1951, which created the ERS System, was enacted with purpose of establishing a new pension program (ERS System 2000). ERS System 2000 became effective on January 1, 2000. Employees participating in the current system as of December 31, 1999, may elect either to stay in the defined benefit plan or irrevocably transfer to the new program. Employees joining the government on or after January 1, 2000 will only be allowed to become members of the ERS System 2000.

ERS System 2000 is a hybrid defined contribution plan, also known as a cash balance plan. Under this new plan, there will be a pool of pension assets, which will be invested by the ERS System, together with those of the current defined-benefit plan. Benefits at retirement age will not be guaranteed by the Commonwealth of Puerto Rico.

The annuity will be based on a formula which assumes that each year the employees’ contribution (with a minimum of 8.275% of the employees’ salary up to a maximum of 10%) will be invested in an account which will either: (1) earn a fixed rate based on the two-year Constant Maturity Treasury Notes, or (2) earn a rate equal to 75% of the return of the ERS’s investment portfolio (net of management fees), or (3) earn a combination of both alternatives.

Participants receive periodic account statements similar to those of defined contribution plan showing their accrued balances. Disability pensions are not being grants under System 2000. The employer’s contribution (11.275% of the employees’ salary) will be used to fund the current plan.

ERS System 2000 reduces the retirement age from 65 years to 60 years for those employees who joined the current plan on or after April 1, 1990.

**Pension benefits**

Plan members, other than those joining the System after March 31, 1990, are eligible for the benefits described below:

a) **Retirement annuity** – Plan members are eligible for a retirement annuity based on years of service, final average compensation and retirement age. Plan members are eligible for monthly benefit payments determined by the application of stipulated benefit ratios to the plan member’s average compensation.

b) **Average compensation** – Is computed based on the highest 36 months of compensation recognized by the System. The annuity, for which a plan member is eligible, is limited to a minimum of $400 per month and a maximum of 75% of the average compensation.

c) **Merit Annuity** – Plan members are eligible for merit annuity with a minimum of 30 years or more of credited service. The annuity for which the plan member is eligible is limited to a minimum of 65% and a maximum of 75% of the average compensation.

d) **Deferred retirement annuity** – A participating employee who ceases to be an employee of the Commonwealth after having accumulated a minimum of 10 years of credited service qualifies for retirement benefits provided his/her contributions to the System are not withdrawn until attainment of 58 years of age.

e) **Coordinated plan** – On this plan, the participating employee contributes a 5.775% of the monthly salary for the first $550 and 8.275% for the excess over $550. By the time the employee reaches 65 years old and begins to receive social security benefits, the pension benefits are reduced.
13. PENSION PLAN – continuation

f) **Non-coordinated plan** – On this plan, the participant employee contributes an 8.275% of the monthly salary and does not have any change on the pension benefits upon receiving social security benefits.

g) **Reversionary annuity** – A plan member, upon retirement, could elect to receive a reduced retirement annuity giving one or more benefit payments to his/her dependents. The life annuity payments would start after the death of the retiree for an amount not less the $240 yearly or greater than the payments being received by the retiree.

h) **Occupational disability annuity** – A participating employee, who as a direct result of the performance of his/her occupation is totally and permanently disabled, is eligible for a disability annuity of 50% of the compensation received at the time of the disability.

i) **Non-occupational disability annuity** – A participating employee totally and permanently disabled for causes not related to his/her occupation, and with no less than 10 years of credited service, is eligible for an annuity of 1.5% of the average compensation of the first 20 years of credited services increased by 2% for every additional year of credited service in excess of 20 years.

j) **Death benefits-occupational** – The surviving spouse is eligible for an annuity equal to 50% of the participating employee’s salary at the date of the death. Children are eligible for an annuity of $10 per month for each child, minor or student, up to a maximum benefit per family of 100% of the participating employee’s salary at the date of the death. If no spouse survives, or dies while receiving the annuity payments, each child, age 18 or under, is eligible to receive an annuity of $20 per month up to the attainment of 18 years of age or the completion of his/her studies.

k) **Death benefits-non-occupational** – The beneficiary if eligible to receive the contributions and interest accumulated as of the date of the death plus an amount equal to the annual compensation at the time of the death. Beneficiary with surviving spouse age 60 or over and child, age 18 or under, up to 50% (60%, if not covered under the Title II of the Social Security Act) of retiree’s pension or otherwise the excess, if any, of the accumulated contributions at the time of retirement over the total annuity benefits received before death, limited to a minimum of $1,000.

Other benefits granted by the Commonwealth to the System’s retirees during fiscal years 2003 and 2007 included Christmas bonus, summer bonus, medication bonus and cost of living adjustment for pension benefits (COLA).

The Act 1 of 1990 made certain amendments applicable to new participants joining the pension plan effective April 1, 1990. These changes consist principally of the establishment of contributions at 8.275% of their monthly gross salary, an increase in the retirement age to 65, a decrease in the annuity benefit to 1.5% of the average salary, as defined, and death benefits annuities from 50% to 40% of average salary, as defined, and the elimination of the Merit Annuity for participant who have completed 30 years of creditable service.

**Adoption of Comprehensive Reform of Employees Retirement System**

On April 4, 2013, the Governor of Puerto Rico signed into law Act 3 of 2013 (“Act 3”), which adopted a comprehensive reform of the Employees Retirement System of the Commonwealth (ERS System).

Act 3, which is effective on July 1, 2013, provides the following:

a) It freezes and grandfathers the benefits that have accrued through June 30, 2013 of those participants who are covered by the ERS System’s defined benefit formula (those who joined the ERS System prior to January 1st, 2000, whose retirement benefits accrued at a rate of 1.5% or 2% per year of creditable service;
b) It provides that, beginning on July 1st, 2013, the retirement benefits accruing on and after the Effective Date for defined benefit employees will be calculated based on a defined contribution formula, similar to the ERS System 2000 formula currently applicable to employees who joined the ERS System on or after January 1st, 2000, with all such benefits being paid in the form of a lifetime annuity rather than a lump sum payment (upon retirement). The employee will receive the benefits accrued through June 30, 2013 based on the defined benefit formula plus the contributions made by the employee after June 30, 2013;

c) It provides that defined contribution benefits accrued pursuant to ERS System 2000 will also be paid in the form of a lifetime annuity rather than a lump sum payment;

d) It eliminates the so called “merit pension” that provided to participants who joined the ERS System prior to April 1, 1990, after attaining 30 years of service, a retirement benefit of 65% (if less than 55 years of age) or 75% (if age 55 or greater) of the average salary earned during the highest 36 months of employment;

e) It increases the retirement age for various groups as follows: (a) from 58 to age 61 for ACT 447 participants and: (b) from 60 to age 65 for active system 2000 participants;

f) It increases the employee contributions to the ERS System from 8.275% to 10%;

g) It eliminates or reduces various retirement benefits previously granted by special laws, including Christmas and summer bonus;

h) It increases the minimum pension from $400 to $500 per month for current retirees and;

i) It eliminates or modifies other benefits such as disability and survivor benefits

Contributions requirements, based on gross salary, are established by law and are as follows:

House of Representatives
Fiscal year ended June 30:

<table>
<thead>
<tr>
<th>Year</th>
<th>Contribution Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>15.525%</td>
</tr>
<tr>
<td>2018</td>
<td>16.775%</td>
</tr>
<tr>
<td>2019</td>
<td>18.025%</td>
</tr>
<tr>
<td>2020</td>
<td>19.275%</td>
</tr>
<tr>
<td>2021</td>
<td>20.525%</td>
</tr>
</tbody>
</table>

Participants:

- Hired on or before March 31, 1999: 5.775% of gross salary up to $6,600; 8.275% of gross salary over $6,600
- Hired on or after April 1, 1990: 8.275% of gross salary

Total employee contributions to the ERS Defined Benefit Pension Plan and the ERS Defined Contribution Pension Plan during the fiscal years ended June 30, 2017, 2016 and 2015 amounted to approximately $184,923, $232,824 and $210,791, respectively. The House of Representatives’ contributions during the fiscal years ended June 30, 2017, 2016 and 2015 amounted to approximately $287,186, $332,377 and $283,661, respectively. These amounts represented 100% of the required contribution for the corresponding year.
13. PENSION PLAN – continuation

**Liquidity Risk and Uncertainties**

ERS is a mature retirement system with a significant retiree population. Based on the statutory funding requirements, the annual benefit payments and administrative expenses paid by the ERS were significantly larger than the member and employer contributions made to the ERS. Thus, investment income must have had to be used to cover negative cash flow. If the increasing and additional contributions stipulated by law are not paid in full on an annual basis, the ERS will continue being rapidly defunded and gross assets will be exhausted. If measures are not taken to significantly increase the contributions, the ERS will become insolvent in fiscal year 2018. In addition, annual cash flow estimates for the foreseeable future are presently estimated to be insufficient to cover the ERS’s obligations unless other measures are taken.

If the ERS’s assets are exhausted it would be operating solely on a “pay-as-you-go” basis, which means that it would be unable to pay benefits that exceed the actual employer and employee contributions received (net of administrative and other expenses), unless the Government provides the funding required to meet the pay-as-you-go retirement benefits. Additionally, future employers’ contributions have been pledged for the payment of debt service, further depletion of the ERS’s assets could result in the inability to repay its bond obligations. Consequently, the ERS’s funding requirements, together with the funding requirements of JRS and the Puerto Rico System of Annuities and Pensions for Teachers, could have a direct negative effect on the Government’s General Funds, since the Government is the primary sponsor and is obligated to make contributions to fund each of the ERS.

The Government and the other participating employers have been facing several fiscal and economic challenges in recent years due, among other factors, to continued budget deficits, a prolonged economic recession, high unemployment, population decline, and high levels of debt and pension obligations. The widening of credit spreads for the Government’s public-sector debt, the continued downgrading of the Government’s credit ratings and those of many of its instrumentalities to noninvestment grade categories, and the lowered-than-projected revenues have put further stain on the Government liquidity and have affected its access to both the capital markets and private sources of financing, as well as the borrowing cost of any such funding.

If the Government’s financial condition does not improve as a result of fiscal and budgetary measures it is taking, its ability to repay its obligations, including its regular employer contributions to the ERS and its additional contributions as provided by Act No. 32 of June 25, 2013 (Act No. 32), for the upcoming years, may continue to be adversely affected, and could also affect the payment of benefits and the repayment of the ERS’s bond payable.

To improve the liquidity and solvency of the ERS, the Government enacted Act No. 32, as amended by Act No. 244 of 2014, which provides for incremental annual contributions (Additional Uniform Contribution) from the Government's General Fund, public corporations and municipalities beginning in fiscal year 2014 and up to the fiscal year 2033. The AUC determined for fiscal year 2014 was defined as $120.0 million and subsequent annual amounts will be determined annually based on actuarial studies to be performed by the ERS's actuaries as necessary for the ERS’s gross assets to remain above $1.0 billion.

An appropriation for such AUC of approximately $98 million was included in the Government’s budget for the fiscal year 2014. However, as a result of the Government’s General Fund revenue shortfall, compared to budget, the Government made certain adjustments to the fiscal year 2014 budgetary appropriations following the “priority norms” for the disbursement of public funds that apply during any fiscal year in which the resources available to the Government are insufficient to cover the appropriations approved for such year. These adjustments included the reduction in full of the portion of the Act No. 32 AUC by executive Order 29-2014.

For fiscal year 2015 and 2016, the certification of the AUC was not available at least 120 days before the commencement of the applicable fiscal year. ACT No. 32, as amended, provides that in this situation, the AUC for fiscal year will be the AUC applicable for the preceding year. Thus, the AUC determined for fiscal years 2015 and 2016 was $120 million.
Timely payment of the AUC is a critical component of the reform in order for the ERS to be able to make payments as they come due without depleting all its assets first. However, as a result of continued budget deficits in fiscal years 2014 and 2015, the Government and other participating employers have not been unable to make the AUC required in full for these fiscal years (other than $34.4 million paid by such municipalities and public corporations for fiscal year 2014 and $22.7 million paid by the Government and $37.1 million paid by public corporations and municipalities for fiscal year 2015). In February 2016, the ERS’s actuaries recalculated the AUC for fiscal year 2017 and subsequent years. Based on certain assumptions (which do not account for any fiscal adjustment that the Government may undertake to address its fiscal challenges), the projected AUC for fiscal year 2017 and subsequent years was approximately $596.0 million (of which approximately $370.0 million corresponds to the Government, to be funded from its General Fund, and the remaining portion corresponds to the participating public corporations and municipalities).

**Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions**

*(1) Net Pension Liability*

The House of Representative’s Net Pension Liability for each plan program is measured as the proportionate share of the Net Pension Liability. The Net Pension Liability of each of the plan program was measured as of June 30, 2017, and the Total Pension Liability for each plan program used to calculate the Net Pension Liability was determined by an actuarial valuation as of June 30, 2017. The House of Representative’s proportion of the Net Pension Liability was based on a projection of the House of Representative’s long-term share of contributions to the pension plans program relative to the projected contributions of all participating employers, actuarially determined. As June 30, 2018, the House of Representative’s used the proportional share of 0.04004%.

- Proportion - June 30, 2017: 0.4004%
- Proportion - June 30, 2016: 0.4971%
- Change - Increase (Decrease): -0.0967%

The House of Representative’s proportionate balance of the Net Pension Liability was as follows:

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>$</td>
<td>$13,699,715</td>
<td>$14,693,852</td>
<td>$11,604,027</td>
</tr>
</tbody>
</table>

As June 30, 2018, the House of Representative reported $18,741,934 as Net Pension Liability for its proportionate shares of the Net Pension Liability of ERS as follows:

<table>
<thead>
<tr>
<th>Net Pension Liability</th>
<th>June 30, 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Pension Liability</td>
<td>$32,109,294,000</td>
</tr>
<tr>
<td>Fiduciary Net Position (Deficit)</td>
<td>(2,108,880,000)</td>
</tr>
<tr>
<td>Net Pension Liability</td>
<td>$34,218,174,000</td>
</tr>
<tr>
<td>Plan’s Fiduciary Net Position (Deficit) of Total Pension Liability</td>
<td>-6.57%</td>
</tr>
<tr>
<td>Covered Payroll</td>
<td>$3,344,197,000</td>
</tr>
<tr>
<td>Net Pension Liability as % of Covered Payroll</td>
<td>1023.21%</td>
</tr>
</tbody>
</table>
13. PENSION PLAN – continuation

(2) Pension Expense

For the fiscal year ended June 30, 2019, the pension expense of the House of Representatives was recognized by the Commonwealth.

(3) Deferred Outflows/Inflows of Resources

As of June 30, 2018, the House of Representative reported Deferred Outflows of Resources and Deferred Inflows of Resources related to pensions from the following sources:

<table>
<thead>
<tr>
<th>Deferred Outflows of Resources</th>
<th>Deferred Inflows of Resources</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pension Contributions Subsequent to Measurement Date</td>
<td>$ - $</td>
</tr>
<tr>
<td>Difference Between Expected and Actual Experience in Measuring the Total Pension Liability</td>
<td>9,255 242,454</td>
</tr>
<tr>
<td>Changes in Assumptions</td>
<td>1,790,922 1,394,303</td>
</tr>
<tr>
<td>Change in Employer's Contributions and the Employer's Proportionate Share of Contributions</td>
<td>- 5,585,135</td>
</tr>
<tr>
<td>Net Differences Between Projected and Actual Earnings on Plan Investments</td>
<td>- 80,024</td>
</tr>
<tr>
<td>Total</td>
<td>$1,800,177 $7,301,916</td>
</tr>
</tbody>
</table>

Actuarial Methods and Assumptions

The census data collection date has changed from end-of-year to beginning-of-year. For this switchover year, the June 30, 2017 are based on projecting the System obligations determined as of the census data collection date of July 1, 2016 for one year, using roll-forward methods and assuming no liability gains or losses.
The actuarial valuation used the following actuarial assumptions:

- Inflation: N/A
- Municipal Bond Index: 3.56% per Bond Buyer General Obligation 20-Bond Municipal Bond Index
- Projected Salary Increase: 3.00% per year. No compensation increases are assumed until July 1, 2021 as a result of Act No. 3-2017 and the current general economy.
- Pre-retirement Mortality: Rates for males and females adjusted to reflect Mortality Improvement Scale MP-2017 from the 2006 base year and projected forward using MP-2017 on generational basis. For members covered under Act No. 127, RN-2014 Employee Mortality Rates are assumed with blue collar adjustments for males and females adjusted to reflect Mortality Improvement Scale MP-2017 from the 2006 base year and projected forward using MP-2017 on generational basis. As generational tables, they reflect mortality improvements both before and after the measurement date. 100% of deaths while in active service are assumed to be occupational for members covered under Act No. 127.

Most other demographic assumptions used in the June 30, 2017 valuation were based on the results of a 2009 actuarial experience study using data as of June 30, 2003, June 30, 2005 and June 30, 2007.

**Long-Term Expected Rate of Return**

The long-term expected rate of return on pension benefits investments was not applicable as of June 30, 2017. Net assets are negative as of June 30, 2017 and accordingly, it is not possible to determine a rate of return on net assets during the fiscal year. In addition, after June 30, 2017, due to the Pay-As-You-Go System by which the Government guarantees payment of pensions. The System assets were no longer necessary to generate investment returns to pay pension benefits. The approximate actual rate of return on gross assets was 8.74% as of June 30, 2017.

Before June 30, 2017, the pension plan’s policy for allocation of invested assets has been established and may be amended by the System’s Board of Trustees. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a positive impact on the System’s financial condition for the benefits provided through the pension programs. The following asset allocation policy as of June 30, 2017 was adopted by the System’s Board of Trustees:
In prior years, the long-term expected rate of return on pension benefits investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. This year, the long-term expected rate of return assumption is no longer applicable.

**Discount Rate**

The asset basis for the date of depletion projection is the ERS’s fiduciary net position (the gross assets plus deferred outflows of resources less the gross liabilities, including the senior pension funding bonds payable, plus deferred inflows of resources). On this basis, the ERS’s fiduciary net position was expected to be exhausted in the fiscal year 2015.

The ERS’s fiduciary net position was not projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the tax free municipal bond index (Bond Buyer General Obligation 20-Bond Municipal Bond Index) was applied to all periods of projected benefits payments to determine the total pension liability. The discount rate was 3.58% as of June 30, 2017.

The June 30, 2017, actuarial valuation reflects a decrease of $5,498 million in the net pension liability, rate as required by GASB Statement No. 67 from 2.85% in fiscal year 2016 to 3.58% in fiscal year 2017, and the effect of plan changes of approximately $2,017 million.

The discount rate on June 30, 2016 and 2017 was as follow:

<table>
<thead>
<tr>
<th></th>
<th>June 30, 2016</th>
<th>June 30, 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Discount Rate</td>
<td>2.85%</td>
<td>3.58%</td>
</tr>
<tr>
<td>Long-term expected rate of return net of investment expense</td>
<td>6.55%</td>
<td>N/A</td>
</tr>
<tr>
<td>Municipal bond rate *</td>
<td>2.85%</td>
<td>3.58%</td>
</tr>
</tbody>
</table>

* Bond Buyer General Obligation 20-Bond Municipal Bond Index

According to Paragraph 30 of Statement 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. Using this lower discount rate has resulted in a slightly higher Total Pension Liability and Net Pension Liability.
13. PENSION PLAN – continuation

**Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate**

The following presents the House of Representative’s proportionate share of the Net Pension Liability on June 30, 2017, calculated using the discount rate of 3.58%, as well as what the House of Representative’s proportionate share of the Net Pension Liability would be if it were calculated using a discount rate that is 1 – percentage point lower or 1 – percentage point higher than the current rate:

<table>
<thead>
<tr>
<th>Discount Rate</th>
<th>At 1% Decrease</th>
<th>At current Discount Rate</th>
<th>At 1% Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.58%</td>
<td>$15,534,868</td>
<td>$13,699,715</td>
<td>$12,222,178</td>
</tr>
<tr>
<td>3.58%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4.58%</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Net Pension Liability

Information for June 30, 2019 is not available at the date of the financial statements are ready to be issue.

**Medical Insurance Plan for Retired Employees**

There are no member or employer contributions on behalf of the Medical Insurance Plan Contribution. This benefit is financed on a pay-as-you-go basis from the General Fund of the Government of Puerto Rico. Since this benefit is not funded in advance, the Annual Required Contribution (ARC) for this benefit has been calculated based on an assumed investment return rate of 2.90% based on the asset allocation on the Government general assets that are used to pay this benefit.

As a cost-sharing multiple employer plan, ERS is not required to report a Net OPEB Liability. In accordance with paragraph 23 of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, the employers that participate in the plan should recognize annual OPEB expense equal to their contractually required contributions to the plan. The employers do not have an ARC or a Net OPEB Liability.

**Fiscal Plan for Puerto Rico**

The last Fiscal Plan for Puerto Rico was approved by the Oversight Board of PROMESA (see Note 21) on May 27, 2020. The approval was conditioned on the Puerto Rico government and the Board reaching an agreement to reduce benefit payments of the following systems by 8.5% for higher pensions in the aggregate:

- Puerto Rico Government Employees Retirement System
- Puerto Rico Judiciary Retirement System
- Puerto Rico Teachers Retirement System

The details of the reduction methodology, which will determine how the reductions impact each system, are not final at this time. A multi-year delay in implementation is also anticipated. These potential reductions are not reflected in the June 30, 2016 valuation. Also, note that the Fiscal Plan does not anticipate future payment of the Act 3-2013 AUC (shown earlier as $776 million for fiscal year 2016-2017 and $685 million per year for fiscal years 2017-2018 through 2032-2033) contained in current law. Rather, the Fiscal Plan anticipates that ERS will be funded on a pay-as-you-go basis once assets are exhausted.

continue
13. PENSION PLAN – continuation

**Pay-As-You-Go Funding**

On June 27, 2017, the Treasury Department issued Circular Letter No. 1300-46-17 in order to convey to the central government agencies, public corporations and municipalities the new implementation procedures to adopt, effective July 1, 2017, a new “pay-as-you-go” (Pay-Go) mechanism for the ERS.

Subsequently, on August 23, 2017, the Governor signed into law the “Act to Guarantee the Payment to Our Pensioners and Establish a New Plan for Defined Contributions for Public Servants” (Act No. 106), which reformed the Commonwealth Retirement Systems. Act. No. 106 terminated the previously existing pension programs for the ERS’s participants as of June 30, 2017.

The members of the prior programs and new system members hired on and after July 1, 2017 are now enrolled in a new defined contributions program. Act No. 106 also established by law the Pay-Go mechanism for the payment of accumulated pension benefits and eliminated employers’ contributions and other analogous contributions. Approximately $2 billion was allocated for the payment of Pay-Go benefits in each of the budgets for fiscal years 2018 and 2019.

Furthermore, Act No. 106 modified the ERS’s governance. Under Act No. 106, the ERS’ Board of Trustees was substituted with a new Retirement Board, which is currently responsible for governing all of the Commonwealth’s Retirement Systems.

Act No. 106 also ordered a suspension of the ERS’s loan programs and ordered a merger of the administrative structures of the retirement systems. At the Retirement Board’s discretion, the servicing of the ERS’s existing loan portfolio may be externalized. Pursuant to Act No. 106, the employees of the ERS that are not retained under the new administrative structure will be transferred to other public agencies in conformity with Act No. 8 of February 8, 2017.

At a basic level, ERS will need to hold some level of operating cash to account for any ongoing timing issues between receipt and disbursement of funds. The “pay-go” funding needed in a given year is the difference between actual contributions and actual disbursements:

- Contributions to ERS are primarily based on statutory percentage of payroll.

- Disbursements are comprised of benefit payments, administrative expenses, and Pension Obligation Bond debt service.

Contributions and disbursements will experience natural variation due to emerging demographic experience. Contributions and disbursements can also be greatly impacted by specific management decisions, such as an early retirement incentive program or other workforce reduction. A major issue that needs to be addressed by ERS and the Commonwealth is determining what the process of ERS budgeting for “pay-go” funding will be. While the ERS can set an expected “pay-go” amount at the time of budgeting for an upcoming fiscal year, both actual contributions and disbursements can vary from expectations during the fiscal year.

- If the budget is set based on expected contributions and disbursements, in the event of adverse experience during the fiscal year, should provide for additional funds from the sponsoring employers.

- If the ERS be permitted to develop a budget request of a “Pay-go” amount for the fiscal year that includes a margin to provide a buffer against adverse outcomes.

- And how the impacts of specific management decisions would be handled.
13. PENSION PLAN – continuation

There are certainly many more operational details to be considered. “Pay-go” operation is a complex issue that requires careful though and planning, constant monitoring, and the ability to respond to emerging events quickly.

**Pension Plan Fiduciary Net Position**

As per June 30, 2017 Actuarial Valuation Report issued on November 9, 2020, the Actuaries state: “PRGERS net assets became negative in the 2014-2015 fiscal year PRGERS gross assets as June 30, 2017 are less than one year of expected benefit payments.”

The Employee’s Retirement System of the Government of the Government of Puerto Rico provides additional information of the Defined Benefit Program and Hybrid Program. They issue a publicly available financial report that includes financial statements and required supplementary information for ERS, as a component unit of the Government. That report may be obtained by writing to the Administration at PO Box 42003, Minillas Station, San Juan, PR 00940-2003.

14. OTHER POSTEMPLOYMENT BENEFITS (OPEB)

In addition to the pension benefits described in Note 18 the Commonwealth provides other retirement benefits, such as Christmas Bonus, and healthcare benefits for its retired employees in accordance with local laws. Substantially, all of the employees may become eligible for these benefits if they reach normal retirement age while working for the Commonwealth.

**Healthcare Benefits**


This statement requires a systematic, accrual basis measurement and recognition of OPEB cost (expense) over a period that approximates employees’ years of service and provides information about actuarial accrued liabilities associated with OPEB and whether and to what extent progress is being made in funding that plan. Annual postemployment benefits cost should equal the annual required contribution to the plans, calculated in accordance with certain parameters. These benefits are recorded as expenditures when paid in the General Fund of the Commonwealth of Puerto Rico.

The contribution requirement of ERS Medical Insurance Plan Contribution (ERS MIPC) is established by Act No. 95 approved on June 29, 1963 (Act No. 95-1963). ERS MIPC is an unfunded cost sharing, multiple employer defined benefit other post-employment (OPEB) plan sponsored by the Commonwealth. Healthcare benefits are provided through insurance companies whose premiums are paid by the retiree with the Commonwealth providing a matching share. ERS MIPC covers substantially all full-time employees of (1) the Primary Government and (2) certain municipalities of Puerto Rico and certain component units of the Commonwealth not having their own post-employment benefit plans. Plan members were eligible for benefits upon reaching the applicable pension benefits retirement age. Act No. 3-2013 eliminated this healthcare benefit to ERS MIPC members retired after June 30, 2013.

Funding Policy – the contribution requirement of ERS MIP, are established by Act No. 95-1963. Its benefit consists of a maximum of $100 per month per retiree or disabled member. There are no member or employer contributions on behalf of the MIPC. This benefit is financed on a Pay-As-You-Go basis from the General Fund of the Commonwealth of Puerto Rico.
14. OTHER POSTEMPLOYMENT BENEFITS (OPEB) – continuation

As of June 30, 2020, The ERS have not issued its audited financial statements as of and for the fiscal year ended June 30, 2019 nor has it provided the House of Representatives with the audited schedules of employment allocations and OPEB amounts by employer as of June 30, 2017 (House of Representatives’ measurement date), necessary to comply with the requirements of GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, as of June 30, 2019. As a result, amounts to be reported as net OPEB liability, applicable disclosures and required supplementary information have been omitted.

During the year ended June 30, 2000 the Governor of the Commonwealth of Puerto Rico required to the municipalities of Puerto Rico an annual contribution to subsidy the cost of the implementation and administration of the Healthcare Reform. Such contributions are required to be disbursed from general fund operating budget.

15. LEASE COMMITMENTS

The House of Representatives leases some Representatives’ District office facilities through various operating leases agreements, with the latest expiring on December 31, 2020. Rent expenses under such leases agreements for the fiscal year ended June 30, 2020 and 2019 amounted to $258,591 and $298,923, respectively. Future minimum lease payments under these agreements are $109,023 for the fiscal years June 30, 2021.

16. CONTINGENCIES

The House of Representatives is also a defendant in several other lawsuits arising out of the normal course of business. It is managements’ opinion, based on the advice of legal counsel, that the maximum liabilities in the event of unfavorable judgments in the outstanding cases will not have a material adverse effect on the House of Representatives financial condition or changes in it. The House of Representatives is defendant in various lawsuits alleging political discrimination and others amounting to approximately $78.7 million. The House of Representatives plans to defend vigorously each individual case. The ultimate outcome of such legal proceedings cannot be determined at this time, based on our legal counsel advice. The House of Representatives is also subject to audits performed by the Office of the Comptroller of Puerto Rico.

17. UNCERTAINTY AND LIQUIDITY RISK

As discussed in Note 3 to the basic financial statements, the House of Representatives’ principal source of revenue is legislative appropriations from the Commonwealth of Puerto Rico (the Commonwealth). The funds of the House of Representatives are under the custody of the Secretary of Treasury of the Commonwealth until transferred to the House of Representatives during the year.

The Commonwealth’s liquidity was severely affected during fiscal year 2016 and remains extremely limited, primarily, as a result of the Commonwealth’s inability to access external sources of financing. The Commonwealth has not been able to fulfill its obligations on a timely manner.

Considering that the House of Representatives is financially dependent from Commonwealth, the limitations of the Commonwealth to meet its obligations on a timely manner may prevent the House of Representatives’ operations in the near future.
18. RELATED-PARTY TRANSACTIONS AND OTHER INTERGOVERNMENTAL TRANSACTIONS

During the year ended June 30, 2020, the House of Representatives entered into the following related party or intergovernmental transactions:

1. The Puerto Rico Electric Power Authority (PREPA) – electric power company and government-owned corporation of Puerto Rico responsible for electricity generation, power transmission, and power distribution in Puerto Rico. The House of Representatives incurred in expenditures regarding the services provided by the PREPA amounting $11,347.

2. The Puerto Rico Aqueducts and Sewers Authority (PRASA) – Water company and government-owned corporation of Puerto Rico responsible for water quality, water management, and water supply in Puerto Rico. The House of Representatives incurred in expenditures regarding the services provided by the PRASA amounting $1,512.

3. The Office of Legislative Services – The Office of Legislative Services is charged for maintenance expenditures amounting $121,950 and license renewal amounting $61,354.

19. GOING CONCERN – COMMONWEALTH OF PUERTO RICO

The Commonwealth of Puerto Rico (Commonwealth) is in a midst of a fiscal, economic and liquidity crisis, the culmination of many years of significant governmental deficits, an economic recession, high unemployment rate, a population decline, and high levels of debt and pension related obligations. As the Commonwealth’s tax base shrunk and its revenues were affected by the prevailing economic conditions, an increasing portion of the Commonwealth’s General Fund budget was allocated to health care and pension related costs, debt service requirements through fiscal year 2017, and funding for essential services has been reduced. The Commonwealth’s liquidity constraints, among other factors, affected its credit ratings and its ability to obtain financing at prevailing interest rates.

In response to the Commonwealth’s current fiscal crisis, the United States Congress enacted PROMESA establishing the Oversight Board. On May 1, 2017, the temporary stay under Title IV of PROMESA expire, permitting substantial litigation brought by bondholders and other creditors against the Commonwealth and its component units to resume and new suits to be initiated. As a result, on May 3, 2017, the Oversight Board, at the request of the Governor, commenced a Title III case for the Commonwealth by filling a petition for relief under Title III of PROMESA in the United States District Court for the District of Puerto Rico (the Title III Court). Title III of PROMESA incorporates the automatic stay provisions of Bankruptcy Code Sections 362 and 922, which are made applicable to Title III cases pursuant to PROMESA Section 301(a). Accordingly, upon the filing of the Commonwealth’s Title III case, an automatic stay immediately went into effect to stay creditor litigation.

Since June 30, 2014, the principal rating agencies lowered their rating on the general obligation bonds of the Commonwealth, which had already been placed in a default rating of “D”. they also lowered similarly to a default grade their ratings on the bonds of the PBA and GDB, while the ratings on the bonds of COFINA have been lowered multiple notches to a current noninvestment grade level of Ca, CC and D (depending on the particular rating agency), although certain COFINA bonds have been placed on positive outlook as the result of developments in the Title III cases.

The following activities, funds, and blended component units reflect a net position deficit/fund balance deficit as of June 30, 2017 (expressed in thousands), last audited financial statements: continue
The Commonwealth’s Governmental Activities show a net position deficit of approximately $71.1 billion as of June 30, 2017. The Commonwealth’s General Fund shows a fund balance deficit of approximately $100.6 million.

The fund balance deficit is attributable to operating expenses exceeding revenues. The risks and uncertainties facing the Commonwealth, together with other factors, have led management to conclude that there is substantial doubt as to the ability of the Commonwealth to continue as a going concern.

Another aspect of the Commonwealth’s operations contributing to the aforementioned deficits and liquidity constraints relates to the Commonwealth’s education costs, representing a very high percentage of its budgetary expenditures, and the Commonwealth’s challenges in controlling such costs. The budget appropriation for the Commonwealth’s Department of Education has historically represented a significant portion of the total General Fund budget.

The Commonwealth’s ability to reduce its General Fund deficit and to achieve a balanced budget in future fiscal years depends on a number of factors, some of which are not wholly within its control, including the performance of the Commonwealth’s economy, that actual collections of taxes meet the Treasury Department’s projections, and the government’s ability to reduce and control governmental expenditures, particularly in areas such as education, public safety and healthcare, which represents a significant portion of the budget appropriations of the Commonwealth. The Commonwealth will not be able to honor all of its obligations as they come due while at the same time providing essential government services. These factors create an uncertainty about the Primary Government’s ability to continue as a going concern.

As part of the original Fiscal Plan approved by the Oversight Board on March 13, 2017 presented by the Governor of Puerto Rico to attend the fiscal crisis, contemplates a reduction of $350.0 million of subsidies to the municipalities of Puerto Rico. Already in FY 2018, the total municipal appropriation was reduced by $150 million, bringing the new baseline appropriations to $220 million per year. Going forward from this baseline, with the New Fiscal Plan approved by the Oversight Board on April 19, 2018, there must be a reduction of 20% in each successive year, holding appropriations constant at 80% of current levels starting in FY 2022 before ultimately phasing out all subsidies in FY 2024. A new Fiscal Plan was approved by the Oversight Board on May 9, 2019 (see Note 21 for more details).

PUERTO RICO FILES FOR BANKRUPTCY UNDER PROMESA TITLE III

On May 3, 2017, the Commonwealth of Puerto Rico and the Oversight Board established by Congress filed for bankruptcy under Title III of PROMESA in what is poised to become one of the largest bankruptcies in the United States history.

Both the Oversight Board and the New Commonwealth Administration have expressed a strong preference for restructuring the Commonwealth’ debt through the use of Title VI. However, when it comes to the debt of the Commonwealth and those instrumentalities that rely on its taxing power for debt service, as opposed to the debt of certain of its instrumentalities, Title VI is unlikely to provide a realistic path to restructure such debt for the following reasons:

continue
19. GOING CONCERN – COMMONWEALTH OF PUERTO RICO – continuation

- Unlike Title III, Title VI contains no automatic stay of creditor litigation upon the commencement and during the continuation of the restructuring process. As the current stay is set to expire in May 2017, with limited options available for a further extension.

- Any attempt to restructure the Commonwealth debt through Title VI will likely be complicated when existing litigation resumes, and additional litigation is commenced.

- Although that is a critical dispute.

- In addition, creditors already have challenged the invocation of the clawback by the Commonwealth, asserted claims against the Commonwealth based on violations of statutory impairment provisions, alleged that various property interest have been taken in violation of constitutional protections, and claimed violations of PROMESA and other statutes, and

- Regardless of the validity of these claims, it is clear that they will not all be resolved in the likely time frame that a Title VI process will take, and the outcome of such litigation, as well as other litigation that surely will be commenced upon the expiration of the current stay, could alter or harden the positions of the affected parties and change their willingness to compromise their claims.

Remediation Plan

On March 13, 2017, the Oversight Board certified its own new Fiscal Plan for the Commonwealth. The Fiscal Plan has been subject to various revisions. On May 27, 2020, the Oversight Board certified its most recent Fiscal Plan for the Commonwealth, which included the following categories of structural reforms and fiscal measures:

(i) Human Capital & Welfare Reform
(ii) Ease of Doing Business Reform
(iii) Energy and Power Regulatory Reform
(iv) Infrastructure and Capital Investment Reform
(v) Establishment of the Office of the CFO
(vi) Agency Efficiencies Measures
(vii) Healthcare Reform
(viii) Tax Compliance and Fees Enhancement
(ix) Reduction in UPR and Municipality Appropriations
(x) Pension Reform
(xi) Fiscal Controls and Transparency

There is no certainty that the Oversight Board Fiscal Plan (as currently certified or as subsequently amended and recertified) will be fully implemented, or if implemented will ultimately provide the intended results. All these plans and measures, and the Commonwealth’s ability to reduce its deficit and to achieve a balanced budget in future years depends on a number of factors and risks, some of which are not wholly within its control.

On September 27, 2019, the Oversight Board filed a proposed plan of adjustment of Commonwealth debt that would reduce most of the Commonwealth’s debt obligations by approximately 70% and establishes a roadmap to exit bankruptcy. As of the date of these basic financial statements, the disclosure statement accompanying the proposed plan of adjustment has not yet been approved by the Title III Court and no solicitation of the proposed plan has been approved. It is uncertain that eligible creditors will vote in favor of or if the Title Court will ultimately confirm the Oversight Board proposed plan of adjustment.

continue
The Puerto Rico Oversight, Management, and Economic Stability Act, Pub. Law 114-187 (PROMESA” or the “Act”), was enacted into law on June 30, 2016. The Senate had passed PROMESA on June 29, 2016, and President Obama signed the Act into law on June 30, 2016, one day before the Commonwealth of Puerto Rico was expected to, and did, default on substantial payment obligations.

PROMESA Overview

Background

Prior to the enactment of PROMESA, Puerto Rico had been mired in an economic and demographic downward spiral for a decade. As of 2018, the economy was $18 billion smaller in real terms and the population was more than half a million smaller (largely due to outmigration) than it was in 2005 – trends that, even before recent natural disasters, were projected to continue. 1 Over 40% of the population (including ~58% of Puerto Rican children) lives below the poverty line, and ~47% are dependent on Medicaid for healthcare.

Meanwhile, before PROMESA, the consolidated Commonwealth’s outstanding debt and pension liabilities had grown to over $120 billion – with more than $70 billion in financial debt and more than $50 billion in pension liabilities – an amount almost twice the size of Puerto Rico’s economy.

Also, before PROMESA was enacted, Puerto Rico had passed the Puerto Rico Corporation Debt Enforcement and Recovery Act (the “PR Recovery Act”) in 2014. The PR Recovery Act would have enabled certain of Puerto Rico’s instrumentalities to adopt a recovery or restructuring plan for their debt. However, in Puerto Rico v. Franklin Cal. Tax-Free Trust, et al., 136 S. Ct. 1938 (2016), the United States Supreme Court held that the PR Recovery Act was invalid because it was preempted by the United States Bankruptcy Code, 11 U.S.C. §§ 101 et seq., as amended (the “Bankruptcy Code”). In sum, the Supreme Court found that the Bankruptcy Code applies to Puerto Rico by including the territory within the definition of a “State” (except in the case of Puerto Rico for purposes of determining whether a State’s municipalities may be debtors thereunder). The Court then concluded that the PR Recovery Act was preempted by a provision of the Bankruptcy Code prohibiting States from enacting their own bankruptcy legislation.

PROMESA

Unlike the PR Recovery Act, PROMESA is a federal legislative enactment. The Act is very extensive and the first of its kind in many respects. PROMESA includes a variety of provisions applicable to Puerto Rico, its instrumentalities and their liabilities and operations. The following is a summary of PROMESA, which is intended as a broad overview of primary provisions of PROMESA.

Oversight Board: The Act establishes a seven-member Oversight Board, the members of which will be designated by Congress and the President. The Oversight Board is provided with broad authority over Puerto Rico and instrumentalities of Puerto Rico which the Oversight Board designates as "covered" instrumentalities.

The Oversight Board is generally an autonomous body that has broad authority and discretion over Puerto Rico, including the ability to place Puerto Rico itself and a "covered" instrumentality into a debt restructuring proceeding established under the Act, require and approve a fiscal plan, require and approve a budget, oversee operations and implement changes that are necessary to comply with an approved fiscal plan or budget, approve the issuance of debt, hold hearings and issue subpoenas in furtherance of its functions, enter into its own contracts, analyze a territory's pensions and pension liability, approve voluntary settlements with creditors, and become a direct party in litigation against Puerto Rico or an instrumentality. The Oversight Board is, in effect, considered a division of the territory and can hire officers, professionals and legal counsel.
20. PUERTO RICO OVERSIGHT, MANAGEMENT, AND ECONOMIC STABILITY ACT (PROMESA) – continuation

The definition of "territorial instrumentality" in PROMESA provides that such definition includes an instrumentality" of a territory". In addition, by analogy, the definition of "municipality" in the Bankruptcy Code is similarly defined as an instrumentality "of a State". However, courts have held, and commentators have noted, that a municipality under the Bankruptcy Code includes not only an instrumentality of a State, but also an instrumentality of an instrumentality of a State.

FISCAL PLAN TARGETS AND GUIDELINES

At its November 18, 2016 public meeting here in Puerto Rico, the Oversight Board adopted and communicated publicly a set of five principles to evaluate the Government of Puerto Rico's proposed fiscal plan and to assess the degree to which the plan meets the 14 criteria established by PROMESA. This set of five principles adopted by the Oversight Board and the 14 criteria established by PROMESA regarding the elaboration of the fiscal plan are as follows:

**Principles:**

*Principle 1:* The long-term fiscal plan must cover at least the next 10 fiscal years with meaningful progress in the next five and meet the standards set forth in the law (the 14 criteria). The fiscal plan should aim to meet the statutory criteria for the Board to be terminated within 10 years, which includes having adequate market access at reasonable rates and having at least four consecutive years of balanced budgets in accordance with modified accrual accounting standards.

*Principle 2:* The fiscal plan must work to stabilize the current economic situation, increase the economy’s resilience, shore up public finances, support long-term, durable growth, meet basic needs of the citizenry, and restore opportunity for the people of Puerto Rico.

*Principle 3:* To properly establish an accurate assessment of the fiscal outlook, the base-case scenario within the fiscal plan must assume no additional federal support beyond that which is already established by law (e.g., no Affordable Care Act support extension) and no reliance on unsustainable Act 154 revenues in light of the expiration of said act. Initiatives included in the fiscal plan must be based on applicable laws or specific bills that require enactment in order to reasonably achieve the projections of the fiscal plan.

*Principle 4:* The plan must include an appropriate mix of structural reform, fiscal adjustment, and debt restructuring. It must be informed by the relevant analytical tools (e.g., a debt sustainability analysis and a detailed economic projection) that assure the Board that the GPR is pursuing a comprehensive approach to address acute economic, budgetary, and demographic challenges.

*Principle 5:* The fiscal plan must be accompanied by relevant operational plans that show how the GPR will achieve the changes and reforms it proposes.

**CRITERIA FOR FISCAL PLANS**

Section 201(b) of PROMESA identifies 14 specific components and objectives a fiscal plan should address. In particular, PROMESA stipulates that the fiscal plan must provide a method to achieve fiscal responsibility and access to the capital markets, in addition to the following:

1. Provide for estimates of revenues and expenditures in conformance with agreed accounting standards and be based on (i) applicable laws; or (ii) specific bills that require enactment in order to reasonably achieve the projections of the fiscal plan;

2. Ensure the funding of essential public services;
3. Provide adequate funding for public pension systems;
4. Provide for the elimination of structural deficits;
5. For fiscal years in which a stay is not effective, provide for a debt burden that is sustainable;
6. Improve fiscal governance, accountability, and internal controls;
7. Enable the achievement of fiscal targets;
8. Create independent forecasts of revenue for the period covered by the fiscal plan;
9. Include a debt sustainability analysis;
10. Provide for capital expenditures and investments necessary to promote economic growth;
11. Adopt appropriate recommendations submitted by the Oversight Board;
12. Include such additional information as the Oversight Board deems necessary;
13. Ensure that assets, funds, or resources of a territorial instrumentality are not loaned to, transferred to, or otherwise used for the benefit of a covered territory or another covered territorial instrumentality of a covered territory, unless permitted; and
14. Respect the relative lawful priorities or lawful liens in the constitution, other laws, or agreements of a covered territory or covered territorial instrumentality in effect prior to the enactment of PROMESA.

In light of the debt crisis and unsustainable path of the Government’s finances, when the Oversight Board was appointed in 2016, it set out to find long-term solutions, certifying Fiscal Plans that have established the following priorities:

- **Creating a leaner, more affordable government.** The Oversight Board has outlined necessary operational changes to streamline the Government and enable the reduction of unnecessary administrative expenses. Such reforms include improving management of the public education system, pursuing civilianization to enable more sworn police officers to move into the field, consolidating agencies to enable coordination and back-office efficiencies, reducing the correctional system footprint to enhance staffing practices, privatizing WIPR, incorporating best practices in digitization, and improving Elections Commission operations. As such, the Oversight Board has identified how to remove barriers to efficient and effective government service delivery.

- **Identifying specific actions needed to reform the structure of the economy and create the conditions for growth in Puerto Rico.** The Oversight Board has provided a comprehensive plan for as well as targeted investments to drive economic growth by improving participation in the formal labor market; spurring job creation; transforming the education system; improving access to reliable infrastructure and energy; and supporting the people of Puerto Rico through workforce development programs.

- **Increasing transparency of and controls over Government finances.** By instituting budgets designed at the cost concept level, regular reporting on cash and actual expenditures, formal processes for reapportionments and allocation of capital expenditures, and reviews of major contracts to ensure fiscal plan compliance, the Oversight Board has given stakeholders a common fact base around the Government’s fiscal situation and reduced superfluous and non-transparent spending.
20. PUERTO RICO OVERSIGHT, MANAGEMENT, AND ECONOMIC STABILITY ACT (PROMESA) – continuation

- **Directing resources to front line service delivery.** The Oversight Board has enhanced the impact of Government spending through priority investments in areas of demonstrated need such as public safety, health care, and education, and to enable response to natural disasters.

- **Maximizing the impact of federal investments in Puerto Rico.** The Oversight Board has placed particular emphasis on aligning federal funds towards investments that will accelerate progress as much as possible against the key reform areas, such as infrastructure, COVID-19 response, health system improvements, educational outcomes, and economic growth.

**Fiscal Plans and Budgets:** A critical component of PROMESA is the requirement of Puerto Rico and covered instrumentalities to develop and maintain a fiscal plan. A fiscal plan for the territory, or any instrumentality designated by the Oversight Board, generally must contain numerous provisions governing the operation of the territory or instrumentality including plans to pay debts, eliminate deficits, maintain essential public services and impose internal controls for fiscal governance and accountability. Each fiscal plan is also required to set forth methods for the territory or instrumentality to access the capital markets.

The fiscal plan must be developed by the governor, with oversight by the Oversight Board, and submitted to the Oversight Board for approval (the Oversight Board can submit its own fiscal plan if the governor's fiscal plan is not acceptable in the sole discretion of the Oversight Board). A fiscal plan is also required to comply with Puerto Rico law and to maintain valid liens.

The Act further specifies that no budget can be submitted by the territory's governor to its legislature unless the Oversight Board has approved a fiscal plan and the budget is consistent with the fiscal plan (and, similar to fiscal plans, the Oversight Board can submit its own budget if the governor's budget is not acceptable in the sole discretion of the Oversight Board). Annually, the Commonwealth submitted the Fiscal Plan, but the Oversight Board certifies his own Fiscal Plan.

**Fiscal Plan – 2019**

On January 18, 2019, the Oversight Board requested the Governor to submit another Fiscal Plan to the Commonwealth to replace the October Fiscal Plan. The New Fiscal Plan of the Oversight Board, instead of the Commonwealth, was approved on May 9, 2019.

Just as the Island was recovering from political disruption and embarking on reconstruction at the end of 2019, Puerto Rico suffered the most serious earthquakes in recent memory, resulting in structural damage to buildings across southwestern Puerto Rico. Residents of these communities were subjected to hundreds of aftershocks over several months, some approaching the strength of the first earthquakes. Communities faced concerns over public safety as infrastructure was affected, businesses suffered further disruption, and the Government saw damage to schools, prisons and other crucial infrastructure. The full extent of the damage is still unknown, and rebuilding efforts in some places have not yet begun.

Finally, only two months later, Puerto Rico – along with the rest of the world – was confronted with the COVID-19 global pandemic. Overnight, the economy shut down except for the most critical activities as the Government took prudent steps to mitigate the risk of a catastrophic public health crisis. Unemployment has skyrocketed as many businesses have been forced to shut down, and the local and federal governments have quickly mobilized to provide support. Many projections indicate that the economic shock due to COVID-19 will be worse than that of the Great Recession. The pathway to economic recovery remains highly dependent on the overall public health response and the federal government’s ability to provide economic support for those whose livelihoods are at risk.
Fiscal Plans have pressed for major structural reforms to restore competitiveness, enable growth, and spur a return to prosperity. These include human capital, welfare, and education reforms to advance successful participation in the formal labor market, reforms to streamline core business processes (e.g., paying taxes, registering property and obtaining permits) to improve the ease of doing business and enable job creation, and proposals to enable reliable power and stable infrastructure for businesses and households. In addition to these structural reforms, the Fiscal Plans have focused on improving the responsiveness and efficiency of the Government, while reducing unnecessary administrative expenses and mitigating the escalating growth of healthcare and pension costs, which could otherwise cripple future governments.

The Fiscal Plans have accompanied these reforms with targeted investments in and support for those on the front lines of service delivery. Over the years, the Fiscal Plans have provided for salary raises for teachers, principals, firefighters, and police officers to ensure salaries for these critical frontline roles are more competitive. Strategic capital investments have been made in hospitals, correctional institutions, public safety equipment, and other infrastructure. Moreover, the Fiscal Plans have included increased spending in areas that are important for the people of Puerto Rico: funds for an Earned Income Tax Credit to encourage more formal labor market participation, needs-based scholarships for UPR to ensure every student on the Island can access higher education, funds for the Puerto Rico Clean Water and Drinking Water State Revolving Fund, and an emergency reserve to enable immediate Government action in times of crisis, among others.

At the onset of the COVID-19 crisis, the Oversight Board mobilized in close partnership with the Government to deliver immediate support and relief. This included providing a $787 million package of measures to support front-line workers and small businesses. The Government also took executive actions that the Oversight Board supported to provide temporary relief on tax payment deadlines. Finally, the Oversight Board approved actions to provide a $400 million advance on federal funding for economic impact payments administered by Hacienda, as well as a liquidity facility of up to $185 million for municipalities suffering from revenue collection deferrals.

Since certifying the first Fiscal Plan in 2017, and notwithstanding the emergencies, the Oversight Board has been able to drive meaningful progress in creating a leaner, more affordable government. This has resulted in the ability of the Government to increase expenditures at a time of crisis, while ensuring total expenditure levels remain within total available revenues, rather than be forced to cut budgets that have not been carefully managed, as other states have been forced to do as COVID-19 has caused revenues to drop. There is a new level of transparency and control over Government spend, including the elimination of multi-year appropriations that permitted overspending; controls over the reapportionment of funding between concepts of spend to eliminate the defunding of accrued liabilities; and regular reporting on revenues and expenses.

Moreover, the 2020 and 2021 budgets were built at a granular “concept code” level (e.g., differentiating between spend on professional IT services versus advisory services). The Oversight Board has been able to reject contracts that could have led to overspending, such as the proposal to externalize Puerto Rican prisons, and the Government has been held accountable to its implementation requirements via public hearings, such as those held on education, public safety, corrections, and economic development.

**Fiscal Plan – 2020**

The 2020 Fiscal Plan financial forecasts suggest that the current financial trajectory is not sustainable in the long-term. Perhaps more importantly, the 2020 Fiscal Plan – even if implemented in full – will not raise Puerto Rico and its residents to a level of prosperity comparable to even the poorest states on the US mainland. There continues to be insufficient political appetite to drive the types of structural reforms that are needed to create sustainable economic growth and an inability to implement even reforms that have nominally been agreed-upon.
As the US and Puerto Rico begin to recover from the current economic and health crisis, and while there is national fiscal and monetary policy support, the Government must act with an exceptional level of determination. With so many residents suffering from the economic consequences of successive natural disasters, the need for change is even more urgent.

The 2020 Fiscal Plan includes dozens of practical actions that the Government must take to create a more accountable, affordable, and transparent government, with resources focused on improving the front-line services that matter. Given the global COVID-19 pandemic, the 2020 Fiscal Plan pauses most government right-sizing measures for a year, so that the full focus of Government may focus on recovery and implementation. To drive efficient and successful implementation of key reforms and outcomes, the 2020 Fiscal Plan also introduces milestone budgeting, which will provide for investments in certain areas once key milestones are achieved. Crucial milestones include: final establishment of the Defined Contribution accounts for public retirees and employees; the publication of the 2017 Comprehensive Audited Financial Report (and progress towards publication of subsequent year reports); implementation of time and attendance reporting; and meaningful consolidation of back-offices to create efficiencies, among others.

The 2020 Fiscal Plan also lays out discrete actions that must be taken to make structural reforms to the economy, improving labor force participation, the ease of doing business, and energy and infrastructure management. Finally, the 2020 Fiscal Plan includes strategic one-time investments to speed up Puerto Rico’s recovery in light of the natural disasters and COVID-19 by allocating funds to strengthen the Island’s public healthcare system, human capital, and telecommunications infrastructure.

Absent real reform, Puerto Rico may not ever fully recover from all its recent crises. The 2020 Fiscal Plan lays out the meaningful changes needed to lead to an effective, responsive government and growing economy.

**Restoring Growth to the Island**

The fiscal and economic turnaround of Puerto Rico cannot be accomplished without the implementation of structural economic reforms that promote the transformation of the Island’s economy and its workforce. Puerto Rico struggles from an uncompetitive labor market, unreliable energy and infrastructure, regulatory and other burdens that hinder business productivity, and low educational outcomes and workforce support — all of which prevent it from competing in a global economy and from attaining positive economic growth. Structural reforms — those that seek to strengthen the fundamental drivers of economic growth to encourage job creation, investment, and increased productivity — could transform Puerto Rico’s future.

Years of successive natural disasters and health crises further underscore the need for comprehensive Government action as outlined in this 2020 Fiscal Plan to reverse the economic challenges that have plagued the Island and its people for far too long. If implemented quickly and widely, structural reforms are projected to drive real economic growth, reversing decades-long economic challenges and enabling the Island’s economy and its people to flourish.

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

**Human Capital & Welfare Reform (Chapter 8)**

As of 2019, Puerto Rico’s formal labor force participation rate stood at 39%, the second-lowest in the world and far below US and Caribbean averages. 35 The youth unemployment rate is equally high — 24.7% — roughly double the world average (12.7%) and three times the US average (8.4%). 36 Bringing labor force participation rate in line with that of even the lowest US state (West Virginia, with 54%) would improve employers’ flexibility and create labor conditions closer to those on the mainland, driving economic growth and reducing poverty.
Puerto Rico’s low labor force participation is primarily a function of public policy, namely, suboptimal welfare requirements and underperforming human capital development systems. The Island’s low labor force participation predates the 2017 hurricanes, the 2019-20 earthquakes, the COVID-19 pandemic, and even the economic downturn that began in 2006. According to the World Bank, Puerto Rico’s labor force participation rate has ranked in the bottom-20 of more than 200 global economies since at least 1990.

**Suboptimal welfare requirements**: Current welfare eligibility programs may disincentivize some residents from pursuing work within the formal economy in order to ensure sufficient nutritional support, housing and healthcare. For instance, current welfare eligibility guidelines phase-out sharply as beneficiaries’ income rise, informally taxing workers for seeking work within the formal economy. This phenomenon is particularly pronounced in the case of recipients of public housing assistance: even securing a *part-time* minimum wage job can render a beneficiary ineligible for public housing, potentially forcing some beneficiaries to choose between formal sector work and keeping their homes. Revised eligibility guidelines and other policies that encourage residents to work could help resolve these issues.

**Underperforming human capital development systems**: 20% of working-age Puerto Ricans lack a high school diploma, nearly double the US average (12%), and only 45% of K-12 students have reached Spanish proficiency on META-PR exams (the Island’s standardized tests). Worker training programs, meanwhile, are rare and disjointedly managed by 15 local workforce boards. Strengthening the Island’s education system and introducing coordinated workforce development programs could mitigate these challenges and help ensure that all Puerto Ricans are able to participate in the current and future economy.

Unfortunately, the Government has delayed the implementation of many human capital and welfare reforms intended to address these structural challenges, reducing the potential economic uplift to the Island and delaying the opportunity for residents in need of this critical support. Continued Government inaction will further jeopardize the development of Puerto Rico’s human capital, the opportunities available to each resident of Puerto Rico for personal development and economic self-sufficiency, projected GNP uptick and its associated increases in tax revenues.

To realize the associated increases to GNP, the Government must begin implementing the following human capital and welfare reforms beginning in FY2021.

- **Broadly-publicize the new Earned Income Tax Credit (EITC) by**:
  - Hacienda: Transferring EITC promotional responsibilities to ADSEF
  - ADSEF: Designing a multifaceted EITC outreach strategy (including working with community organizations throughout the Island)

- **Introduce a Nutritional Assistance Program (NAP) Work/Volunteer Requirement by**:
  - ADSEF: Creating a work/volunteer requirement compliant with Certified Fiscal Plan parameters
  - ADSEF: Completing all administrative requirements (e.g. obtaining Federal Government approval) necessary to implement a work/volunteer requirement
  - ADSEF: Verifying the eligibility of all adult NAP recipients for the new work/volunteer requirement

- **Create High-Quality Workforce Development Programs by**:
  - DDEC: Creating partnerships with private and social sector organizations to strengthen worker training
  - DDEC: Conducting regular analyses to understand private sector labor market needs
  - DDEC & Vivienda: Allocating resources in a data-driven manner
  - DDEC: Removing structural barriers to employment (e.g. difficult in securing transportation and childcare to go to work)
K-12 Education Reform (Chapter 9)

A high-quality education is the linchpin for social mobility for the residents of Puerto Rico—especially after years of devastating natural disasters and the COVID-19 crisis. Comprehensive K-12 education reforms will empower every Puerto Rican to develop the skillsets needed to achieve economic self-sufficiency and join the formal workforce. Together with Section 13.3, which outlines the necessary management improvements and operational efficiencies that the Department of Education (PRDE) must pursue, this chapter provides a transformation roadmap that will truly change K-12 student outcomes on the Island, and therefore enable greater workforce participation and productivity.

Studies show that mainland workers that attain fluency in both English and Spanish earn $2,800 more per year than their monolingual peers, and that a one-quarter standard deviation in school quality across US states would produce an average 0.35% long-run growth rate uptick. In addition, Puerto Rican workers (ages 65 or below) with a high school diploma earn three times as much as residents who lack one. Indeed, improvements in education will bring prosperity and growth to individuals and the Island as a whole.

Meanwhile, more than 290,000 children rely on PRDE to serve as their primary vehicle for social mobility. Three years have passed since the certification of the first Fiscal Plan for Puerto Rico, yet PRDE continues to delay the comprehensive reforms necessary to meet the developmental needs of all children and prepare every student for success in higher education or the workforce. PRDE has allowed school underperformance to persist, with just 45% of students proficient in Spanish, 39% in English, and 30% in mathematics in 2019, and with particularly sharp drops in English between third and fourth grade and in mathematics and Spanish proficiency between fifth and sixth grade. PRDE has left 33% of third graders at-risk of not graduating high school and delayed the introduction of evidence-based practices that are important to properly serve Special Education students (who comprise a greater share of the student population—32%—than in any other US jurisdiction).

Although natural disasters and the COVID-19 pandemic have wrought substantial destruction, relief funds in response to these events offer PRDE an unprecedented opportunity to reshape Puerto Rico’s public schools for the better. In the aftermath of the 2017 hurricanes, PRDE was awarded $589 million in Immediate Aid to Restart School Operations (RESTART) funds to offset expenses associated with reopening schools. As discussed in Section 13.3, PRDE will now receive over $349 million under the CARES Act as well. Finally, the Oversight Board allocated $124 million in additional Commonwealth funds to purchase tablets, software, and training services necessary to support distance learning for all PRDE students and teachers as part of the Emergency Measures Support Package in response to the COVID-19 emergency.

Investing in Student Outcomes

The Oversight Board believes deeply in the importance of a high-quality public-school system for the children of Puerto Rico. While improving the quality of schools and student outcomes will take real transformation on the part of the Department of Education, the Fiscal Plan includes funds to cover particular programs that will enable the Department to improve student outcomes. These investments are outlined below.

- **Distance Learning (~$254 million)**: The Fiscal Plan includes emergency funding to enable the purchase of tablets, software, and training services necessary to support distance learning for all PRDE students and teachers as part of the Emergency Measures Support Package issued in response to the COVID-19 emergency. The Fiscal Plan expects PRDE to use these funds to provide online education offerings as quickly as possible...
20. **PUERTO RICO OVERSIGHT, MANAGEMENT, AND ECONOMIC STABILITY ACT (PROMESA) – continuation**

- **English Language Learning Teacher Development Program (~$1.5 million):** Beginning with the 2020-2021 school year, the Department of Education will partner with a national non-profit organization to identify, recruit, and train ELL teachers across Puerto Rico, at the recommendation of the Oversight Board. The Oversight Board suggested this partnership recognizing the important impact that bilingual education has on students, driving lower child and adult poverty while also expanding professional opportunities. In order to fund this project, PRDE and the non-profit organization will apply for a competitive federal grant. This grant will potentially cover the costs associated with the non-profit organization for the initial three years, after which the training program will be fully implemented and PRDE will have built the internal capacity and resources to scale the program over the long term. During the first three years alone, the program will train approximately 300 English teachers, with an expected impact on nearly 90,000 students.

- **Dedicated School Psychologist Program (~$50 million per year):** The 2020 Fiscal Plan provides the budget to fund the hiring of one in-house psychologist per PRDE school to help the Department better meet the social-emotional and developmental needs of all students, beginning with the 2020-2021 school year. Specifically, the Oversight Board will allocate $52 million to hire 856 school psychologists that will join the Department as full-time employees. Their objectives are two-fold: on the one hand, school psychologists will provide early interventions (e.g. behavioral screenings) to connect students with appropriate resources and ensure that children are not erroneously classified as Special Education students. Additionally, school psychologists will ensure that Special Education students receive adequate academic and behavioral support as required by their IEP—reducing the number of students who enter “Remedio Provisional”.

- **Innovation in Education (~$7 million):** To encourage schools to explore new ways of learning, the Fiscal Plan includes a potential $100,000 reward for 10 schools per region to implement an education innovation project during the second semester.

- **Incentives to Improve School Performance and Reporting (~$2 million):** Making real progress on reform in the Department of Education will start with being able to monitor, measure, and report data better. The Fiscal Plan thus includes $2 million in funds as an incentive (potential $1,500 one-time bonus) for school directors that perform well on scorecards based on data captured and approved methodology to measure outcomes.

To afford all Puerto Ricans an equal opportunity to develop the knowledge and skillsets needed to contribute to the Puerto Rican economy, PRDE must begin implementing education reforms in FY2021. As described in its State Plan, PRDE aims to achieve 73% student proficiency in mathematics, 77% proficiency in English, and 80% proficiency in Spanish across all grade levels by the 2021-22 school year. These targets are extremely ambitious given current student performance—in mathematics alone, reaching this target would require doubling the average student proficiency in only a matter of years (currently 30%). Nonetheless, the future of Puerto Rico relies on PRDE delivering this level of improvement. To achieve these targets—and ensure that PRDE makes a concerted effort to offer the children of Puerto Rico the high-quality education that they deserve—comprehensive reforms must begin immediately, particularly in areas such as English Language Learning (ELL), K-5 literacy, and STEM instruction.

To maximize the likelihood of success, education reforms should build on the improvement areas PRDE identified in 2017: increased student achievement (as measured by META-PR scores and graduation rates), stronger professional development for directors and teachers, and more efforts to support the developmental needs of the whole child. As such, the Government’s overhaul must:

- Define goals and design PRDE’s 2022-27 strategic plan to guide reforms
- Launch evidence-based curriculum reforms
- Create a post-COVID-19 back-to-school plan and stand up distance learning capabilities
- Improve professional development opportunities for directors and teachers
- Make targeted investments to boost family engagement
- Systematically collect, manage, and leverage data for better decision-making
These reforms must collectively aim to strengthen system-wide accountability among educators and administrators; facilitate data-driven leadership at the central, regional, and school level; and increase PRDE’s responsiveness to the needs of the whole child and the broader community on the Island. Moreover, the Oversight Board welcomes PRDE, its non-Government partners, and other Government agencies to design and propose further innovative reforms to strengthen PRDE schools.

**Ease of Doing Business Reform (Chapter 10)**

In 2020, *Doing Business*—an independent assessment of the ease of doing business in 190 economies—rated Puerto Rico the 65th most business-friendly economy. The Island’s ranking trails the mainland’s (ranked 6th in 2020) and has worsened since 2006, when Puerto Rico was ranked 18th. Bringing the Island’s business environment in line with Mexico—the top-ranked Latin American and Caribbean economy (49th)—will give Puerto Rico the edge that it needs to play in an increasingly competitive environment. The Island competes regionally for investments like tourism; internationally for pharmaceutical, knowledge services, hospitality and tourism investments; and, overall, with mainland states. The Island must improve its business-friendliness and consider ease of doing business reforms to support economic growth.

Instituting comprehensive reforms is particularly important in light of the COVID-19 pandemic. As economic activity slows, companies look to shift supply chains back to the US, and other economies implement rapid reforms to capture growth, instituting ease of doing business reforms is critical. In the aftermath of the pandemic, many firms—especially small businesses—will continue to face significant headwinds (e.g. falling demand for their goods and services), underscoring the need to generate economic activity and attract new investments across the Island. And, while delaying reforms will undermine Puerto Rico’s ability to recover from the pandemic, failure to institute them at all will enable mainland states and rapidly-reforming countries to out-compete Puerto Rico for key investments, such as pharmaceutical manufacturing facilities. For example, Costa Rica, a major competitor for knowledge services investments, improved from 121st in the 2010 *Doing Business* survey to 74th in the 2020 iteration, and has become a top player in the field.

Ease of doing business remains an area in which Puerto Rico has much room for improvement. The 2019 Fiscal Plan re-iterates the need for urgent action, particularly in light of no progress in Puerto Rico’s ranking in the categories of Ease of Doing Business that have proven most important to stimulating growth in other jurisdictions. For example, from 2018 to 2019, Puerto Rico fell 3 slots in construction permitting, from 138 to 141, in registering property, 6 slots from 153 to 159, and in starting a business 6 slots from 47 to 53.

The Oversight Board acknowledges recent initiatives announced by the Government to streamline the permitting process and expects committed actions to ensure that this results in meaningful change during the next fiscal year.

In the 2018 and 2019 Ease of Doing Business Report, Puerto Rico was ranked 64th. This represents a 9-point decline from 2017 and is 58 spots lower than the U.S., which ranks 6th overall. While the overall ranking did not change in 2019, the underlying trends on the most critical improvements needed to encourage growth in Puerto Rico were negative—such as getting electricity, construction permitting, and registering property. There are some areas of strength: Puerto Rico placed 6th for Getting Credit and 9th for Resolving Insolvencies. It has also made recent efforts to digitize government services to improve speed and accessibility, having launched the Single Business Portal (SBP) in July 2018, which currently includes online filing system for defined Acts (Acts 14, 20 and 22) but should ultimately consolidate permit requests, filing for incentives and annual reporting on these Acts.

Puerto Rico should achieve a best-in-class business environment by taking targeted steps to improve rankings in key identified Doing Business Index indicators by FY2023, with the goal of closing the gap with the mainland U.S. by at least 50% from its 2018 rankings:

**Continue**
Puerto Rico’s relatively low-ranked business-friendliness is attributable to deficiencies in Government regulations or processes (see Exhibit 59), including:

- **Getting Electricity:** The Island’s energy supply is costly and unreliable
- **Dealing with Construction Permits:** Firms spend significant time (165 days), effort (22 procedures), and money (6.7% of project’s future value) to obtain permits, on average
- **Registering Property:** Companies must invest significant amounts of time (190 days) and effort (eight procedures), on average, to register property
- **Paying taxes:** Firms spend significant time (218 hours) completing filings (16 payments), on average, and are much likelier to be audited than on the mainland
- **Occupational licensing laws:** Excessive regulations have restricted labor force participation and constrained economic activity
- **Freight regulations:** Inefficient regulations have inflated transportation costs for businesses across the Island
- **Offshore investment attraction:** Inadequate Government oversight and resourcing have inhibited efforts to attract investments
- **Tourism attraction:** Insufficient Government funding and a narrow mandate undermine the Destination Marketing Organization’s efforts to transform Puerto Rico into a leading tourist destination

The Governments’ efforts to implement ease of doing business reforms have been at best insufficient to compete with other destinations improving faster. At worst, ease of doing business reforms have been rare and not radical or thorough enough to warrant improvements in scoring or in investor attitudes. Notwithstanding the need to replace previous competitive advantages to attract investment and the creation of jobs, the implementation has been uneven and minimal.

As such, when compared to the May 2019 Fiscal Plan, delayed implementation of ease of doing business reforms has delayed the impact on forecasted GNP growth by two years to FY2025 and reduced the uptick (by 0.10%) to 0.30%. Continued Government inaction will further jeopardize projected growth.

**Power Sector Reform (Chapter 11)**

An affordable, reliable, safe, and resilient electric power service is essential for the island’s economic growth and development. Electricity is a fundamental enabler of the people of Puerto Rico’s livelihoods, and remains a critical service that needs to be safeguarded, particularly in light of the outsized catastrophic events in 2020 (e.g. January 2020 earthquakes, COVID-19 pandemic). And as an important element of household and business activity, electricity is also a critical factor for attracting and maintaining investment in Puerto Rico. The Puerto Rico Electric Power Authority (PREPA) has been responsible for providing electricity to Puerto Rico since 1941 and is a public corporation owned and operated by the government of Puerto Rico.

However, PREPA has been encumbered by numerous financial and operational issues. Over the years, PREPA has failed to update rates to cover base operating costs, neglected to invest in modernizing the system, avoided funding the pension system, and failed to provide customers with reliable services. Furthermore, PREPA incurred significant legacy debt obligations, failed to implement a long-term capital improvement program, and made decisions based on short-term political gains (e.g., avoiding modest rate increases), all of which have culminated in consistently poor and unreliable service.

This operating model has created an untenable financial situation for PREPA. Politicized management and volatile fuel prices – exacerbated by declining demand and an economic contraction – have resulted in PREPA’s inability to service its debt, and ultimately resulted in PREPA seeking PROMESA Title III bankruptcy protection in July 2017. For more than a year prior to filing for bankruptcy, PREPA lacked access to the capital markets to help fund grid and generation modernization investments, further contributing to the poor quality of service experienced by the island’s residents and businesses.
20. PUERTO RICO OVERSIGHT, MANAGEMENT, AND ECONOMIC STABILITY ACT (PROMESA) – continuation

Underinvestment and underdevelopment of the grid, poor maintenance practices, and workforce losses all contributed to a chronically poor performing power sector. Puerto Rico has twice as many forced outages as the US industry average. PREPA also significantly underperforms against mainland utilities on multiple operational, reliability, and customer service metrics:

- PREPA's 2018 reliability metrics lagged behind those of US utilities in every area: SAIFI and SAIDI metrics (frequency and system average interruption duration respectively) fall within the worst-performing 20 percent and 50 percent of US utilities, respectively, and CAIDI is the third-worst out of 1,116 peer US utilities.
- Safety incidents are high by utility standards: PREPA recorded 10.7 safety incidents per 200,000 hours of labor in 2018 versus the US average of 1.7
- Even though tree-trimming conditions caused 35 to 45 percent of service interruptions in 2016, PREPA lacks a comprehensive vegetation management strategy and has been slow to spend the allocated FY2020 budget for vegetation management. In contrast, vegetation management is typically the largest spend category in US mainland utility operating budgets.

Over the next five years, the power sector in Puerto Rico must continue its transformation and modernization to support the delivery of reliable and affordable power. The Commonwealth must continue to implement a comprehensive energy sector reform to enable a successful transformation and unlock the resulting growth from Fiscal Plan projects. The successful transformation of Puerto Rico's power sector depends on:

1. Implementing Regulatory Reform: A strong and independent energy sector regulator is essential for injecting certainty and stability into the energy market, promoting much needed investments, and enforcing compliance with the energy sector transformation's objectives. In recent years, the framework of regulatory reform has been approved and an independent regulator (i.e., PREB) has been established. The focus in coming years will be continuing to support the independence of the regulator and enabling the regulator to execute on its mandate. This will be accomplished by developing and strengthening the regulatory framework and promoting greater transparency and accountability.

2. Transitioning the Operation and Management of PREPA’s Electricity Grid and Generation Assets to Private Operators: Attracting a private operator to manage and operate Puerto Rico’s Transmission and Distribution (T&D) network will improve operational performance and customer service, support rigorous capital project execution to modernize the system, strengthen grid resilience, and ensure ongoing fiscal balance and control. In early 2019, Puerto Rico’s Public-Private Partnership Authority (P3), began an ongoing process to evaluate potential private operators to assume responsibility for managing and operating the T&D system. A similar process will be undertaken to select potential private operator(s) of PREPA’s generation assets.

3. Restructuring Legacy Debt Obligations: In order to fund the transformation of Puerto Rico’s power sector, PREPA will require access to capital markets. Given the utility’s significant legacy debt obligations, a sustainable restructuring plan is necessary for PREPA to exit bankruptcy and regain access to credit. Without restructuring, customers will experience higher rates, resulting from repayment of a higher debt burden and risk premiums associated with bankruptcy. Ultimately, successful restructuring of outstanding bonds and debt obligations will allow PREPA to achieve its transformation goals, thus modernizing Puerto Rico’s power grid, and passing on subsequent efficiencies and cost savings to end users.
PREPA’s Fiscal Plans and the government of Puerto Rico’s energy sector regulations lay out the transformation road map. If successfully implemented, a reformed energy system will lead to a modernized and reliable energy service across the island: a diversified fuel mix and reduced fuel costs, anchored on low-cost generating resources which reduce price volatility; increased operational efficiencies; and a well-funded, financially sustainably utility. These outcomes will benefit the customers and businesses of Puerto Rico in enabling a more affordable, reliable, and safe electricity service.

**Infrastructure Reform (Chapter 12)**

Relative to the mainland US, Puerto Rico’s infrastructure outcomes rank near the bottom in terms of quality. For example, the percentage of road pavement in good condition is 11% in major highways and 1% in smaller traffic arteries, significantly underperforming the average of the mainland US (81%). The poor state of transport infrastructure has contributed to congestion and thus impacted the ease of doing business on the Island. Improving the efficiency and effectiveness of infrastructure and capital investments is critical to improve mobility on the island, increase convenience for residents, and lower the costs for business. Improving these outcomes will enhance the island’s competitiveness and the ability to attract and retain population and investment.

**Current state of Infrastructure and Capital Investment**

Infrastructure investment as a percentage of GDP decreased from 3.3% in 2000 to 1.2% in 2018, indicating a lack of recent experience in large-scale building. The Government also has a history of failed large-scale projects. For example, Tren Urbano was scheduled to open on July 1, 2001 after beginning construction in 1996; it finally opened in 2005 and the budget for the project increased more than 60%, from $1.38 billion to $2.25 billion.

In addition to the challenges with infrastructure delivery and maintenance, the poor state of transport related infrastructure is a key constraint on mobility. Puerto Rico is ranked 51st out of 52 jurisdictions for quality of roads (percentage of roads in poor conditions), while urban congestion is particularly problematic in the San Juan metropolitan area and on major highways. San Juan is the 25th most congested city in the US according to the INRIX 2019 Traffic Scorecard Report with 46 hours yearly lost per driver in congestion during peak commute periods compared to free-flow conditions, resulting in ~$400 million of annual commuter cost.

Improving traffic on major highways, such as PR-52 and PR-18, is critical to enhancing growth. A 25% reduction in travel time for trips coming into and out of the central business district can reduce travel cost by over 6% (NCHRP Report 463). Investments to reduce congestion should prioritize the most economically important trips or provide alternative travel capacity to enable access despite congestion (Sweet, 2013). Targeted investments, such as “smart intersections”, dynamic tolls and reversible lanes using movable barriers will reduce delays on key routes and journeys and facilitate economic growth.

However, Puerto Rico still has a lot of work to do in order to transform its transportation delivery organizations, enabling them to meet the standards set by other states in the US mainland. Such a transformation effort would mainly revolve around the following key initiatives:

1. Prioritizing projects with the highest long-term benefit-cost ratios, taking into account a variety of monetizable and non-monetizable benefits

2. Systematically leveraging private sector capabilities to improve overall public outcomes, thereby supporting and growing the private sector as well

3. Promoting the creation of a unified transport system for the San Juan metropolitan area through an integration of public transit agencies and a closer collaboration with private network operators
Transforming Government to Better Serve the Island

In addition to structural reforms, the Government must also implement fiscal measures to create a sustainable fiscal future for Puerto Rico. Fiscal reforms should reduce costs while maintaining or improving the quality of important services. The wide range of government efficiency initiatives shall target an increase in revenues through new and more efficient collections activities, while decreasing government expenditures by ensuring reasonable usage of resources.

While the Government has successfully maintained balanced budgets established by the Fiscal Plans, it has been slow to make meaningful progress regarding the necessary measures to sustainably reduce the cost of operations by transforming its processes and organizational structures. This has created a precarious risk to government service delivery, especially given recent earthquakes and the COVID-19 crisis, when Puerto Rico’s population is more reliant on the Government to provide them the public services effectively and efficiently that enable life to proceed and the economy to recover. While the Oversight Board continues to believe that incremental government efficiency measures included in the 2020 Fiscal Plan are of the utmost importance for the Island to establish a solid foundation for the future, the Oversight Board also recognizes that given the complexity of the situation and lack of progress in implementation to date, pausing new measures for a year will provide time to focus all efforts on implementation of the changes that need to be effected. The Oversight Board urges the Government to re-commit to identifying and driving initiatives that will result in better processes, more efficient spending, and greater quality of service for the Island. The 2020 Fiscal Plan also introduces the concept of milestone budgeting, which provides incentives for achievement of longstanding key fiscal goals and efficiencies. For example, the Department of Corrections will receive additional budget allocations for FY2021 capital expenditures once it has provided an outline for its facility footprint and consolidation assessment study.

Agency Efficiencies (Chapter 13)

In accordance with Section 201(b)(1) of PROMESA, the Fiscal Plans for Puerto Rico “provide a method to achieve fiscal responsibility and access to the capital markets.” When the Fiscal Plan process began in 2017, the Government had approximately ~116,500 employees across 114 Executive Branch government agencies, as well as agencies within the Legislative and Judicial branches (excluding large instrumentalities, e.g., PREPA, PRASA, HTA UPR, COSSEC, GDB). These agencies were ineffective and inefficient in delivering the services needed by the people of Puerto Rico, while consuming resources that were outsized compared to the population served. Even now, compared with states serving similar populations, Puerto Rico remains an outlier in terms of sheer number of agencies. For example, as of 2018, Iowa only had 36 state agencies and Connecticut had 78. Staffing and managing an organization of this size is challenging even in a stable economic environment. With over 100 direct reports to the Governor, it has been a practically impossible management task. In addition, notwithstanding the amount of spending, there are countless examples of subpart service delivery across the Government. For instance, despite having six agencies primarily dedicated towards the financial stewardship of the Island, the Government has been unable to consistently issue consolidated audited financial statements on a timely basis. Further, Puerto Rico’s education system has a record of consistently delivering unsatisfactory student outcomes, including below-US mainland average graduation rates and standardized test scores that are far below basic proficiency levels.

To assure the delivery of essential services while achieving financial sustainability, the Government must focus on operational efficiencies to enable better service delivery in a cost-effective way. A leaner, more efficient, and transformed future Government of Puerto Rico should wherever possible reflect mainland US benchmarks in terms of both number and size of agencies.
20. PUERTO RICO OVERSIGHT, MANAGEMENT, AND ECONOMIC STABILITY ACT (PROMESA) – continuation

As part of the new Government model, the Government should consolidate the 125 agencies into no more than 44 agency groupings and independent agencies. In some cases, these consolidations should better focus the competing efforts of multiple agencies, such as the Economic Development grouping, which is consolidating ten agencies into one. In other cases, the consolidations should serve to move services closer to residents, such as the Healthcare grouping, which will consolidate access points to important services like Medicaid. Additionally, consolidations will enable agencies to streamline back-office processes, eliminate duplicative resources and benefit from procurement efficiencies.

In addition to agency consolidations, the Fiscal Plan outlines operational and process improvements that must be made to use resources more efficiently—including staff, equipment, services, and buildings—across agency groupings such as Education (PRDE), Corrections (DCR), Health (DOH), and Public Safety (DPS). The goal of such efficiency measures is to improve the quality of the underlying services for the population while also directing valuable resources toward priorities and achieving the cost savings needed to balance the Government budget.

These measures were developed through an iterative process with the Government and are designed to ensure compliance with necessary savings targets without compromising the quality of public service delivery on the Island—and actually improving it in many cases. These measures include various agency-specific efficiency (rightsizing) measures as well as certain government-wide savings measures:

- **Agency-Specific Personnel Measures**: Personnel efficiencies specific to each agency (such as back office consolidation, process re-engineering to enable headcount rightsizing and align resources with mainland US state benchmarks) that will enable the reduction of payroll expenditure levels

- **Agency-Specific Non-personnel Measures**: Operational efficiencies specific to each agency (such as procurement centralization and optimization of spend, consolidation of facilities) that will enable the reduction of non-payroll expenditure levels

- **Government-wide Compensation Measures**: Standardization of personnel policies throughout government (including institution of common healthcare benefits, a hiring freeze, and limited holiday pay, as well as elimination of the Christmas bonus and carryover of sick/vacation days beyond the statutory caps) to enable the reduction of payroll expenditures across agencies without reducing additional employees

- **Government-wide Non-Personnel Measures**: Energy efficiency improvements and conscious usage of electricity and water (e.g., PREPA and PRASA), resulting in savings on utility expenses. Further, reductions to professional services to enable the professionalization of the civil service and reduce reliance on outside consultants. Finally, elimination of ‘englobadas’ or less transparent spending, which impacts fiscal controls and accountability.

- **Investments and Other Funding**: Agency-specific one-time or recurring funding provided by the Fiscal Plan to ensure Government agencies can meet federal requirements, provide quality front-line service delivery, respond to COVID-19, and focus on implementation of efficiency measures.

To date, the Government has unfortunately not demonstrated meaningful progress in implementing agency consolidations or otherwise improving operational efficiency, though they have generally met budget targets.

To achieve personnel savings, the Government has primarily utilized broad-based early or incentivized retirement programs (e.g., the Voluntary Transition Program and Voluntary Pre-Retirement Program (Law 211-2015, as amended)) instead of driving optimization of back-office roles (e.g., through reduction of duplicate administrative roles in DCR or centralizing back-office operations in OCFO) or initiatives to align front-office roles with benchmarks from mainland US states (e.g., State Elections Commission personnel). The Government’s efforts through these untargeted retirement programs have led to large payouts with high retirement rates, major gaps in skills and capabilities, and a slower, less effective government, often encouraging needed personnel to retire early.
20. PUERTO RICO OVERSIGHT, MANAGEMENT, AND ECONOMIC STABILITY ACT (PROMESA) – continuation

To achieve non-personnel savings, the Government has made little to no changes in the procurement processes or the organization of operations. While the Government has reported its intent to centralize procurement (within GSA), consolidate the number of contracts across agencies, and consolidate physical locations of operations, inefficient spending often continues longer than necessary (e.g., utility expenses at closed schools have largely continued even though the school is unused, and officers continue to be staffed to guard closed correctional facilities).

While this approach enabled the Government to meet budget targets in FY2019, it has prevented meaningful progress towards more effective or sustainable agency operating models. Without changing the way services are delivered and/or determining which non-priority government activities will be discontinued, simply reducing headcount risks exacerbating already outdated government operations. Going into the next fiscal year (FY2021), this approach to personnel reductions would lead to a need for agencies to take drastic actions (e.g., decreasing the accessibility or quality of services offered, or slowing or altogether halting important services) given no rethinking of delivery has accompanied the reduction in staffing. This was not the intent or the requirement of the Fiscal Plan. Clearly, this creates a precarious risk for the population, especially given recent earthquakes and the COVID-19 crisis, which both mean that Puerto Rican residents are further reliant on the Government to provide them the public services effectively, efficiently, and promptly that enable life to recover and continue.

Thus, while the Oversight Board continues to believe that the fully outlined efficiencies are of the utmost importance for the Island to have a solid foundation for the future, the Oversight Board also is cognizant that, given the current circumstances, the Government will need to invest time and effort in achieving the measures previously required and not yet implemented, while supporting Puerto Rico residents. Therefore, the 2020 Fiscal Plan has paused incremental agency efficiency measures until FY2022. The expectation is that this one-year pause will enable the Government to redouble its focus on implementation of the efficiency measures not implemented to date.

The Oversight Board is also including implementation budget incentives in FY2021 to encourage accelerated implementation of reforms that would bring Puerto Rico a step closer to a sustainable government. There are six affected agencies: PRDE, DCR, DDEC, DOH, Hacienda, and AAFAF. In select priority areas in which agencies implement certain required actions -- including but not limited to meeting higher data quality and transparency standards, conducting operating model/capacity analyses, or building up essential infrastructure to facilitate process improvements -- incremental budgetary resources are available for the implementing agency. Detailed descriptions of these implementation budget incentives are included in the required implementation actions detailed for each agency later in this chapter.

Office of the Chief Financial Officer (OCFO) (Chapter 14)

One of the key goals of the Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA) is for fiscal accountability to be quickly and permanently enshrined in the Government. To fulfill this goal, the Government must create a strong Office of the Chief Financial Officer (OCFO). By centralizing key financial management functions (e.g. procurement, payroll) under a capable and well-resourced OCFO, the Government must address long-standing issues that have arisen under the Island’s historically decentralized financial management regime. These include persistent difficulties around understanding the financial needs and priorities across Government as a whole based on transparent data, timely and accurate consolidated reporting, preventing the misallocation of funds, preventing agencies from overspending their budgets, control over opening and managing bank accounts, and timely consolidated financial statement issuance. The creation of a centralized OCFO was a linchpin in the restoration of fiscal responsibility of several public entities, including the District of Columbia following its financial crisis in the mid-1990’s and the City of Detroit in its Chapter 9 bankruptcy. The Oversight Board strongly stands behind the need for a centralized OCFO to place the Island on a fiscally responsible economic trajectory and restore its access to the capital markets as required by PROMESA.
The Government’s efforts to create a highly-capable OCFO have been slow and disjointed. However, progress has been made in certain areas, including providing bank account transparency, weekly publication of emergency reserve reports, monthly reporting of budget-to-actuals for select Government agencies and publishing of the 2017 tax expenditure report published in September 2019. While the enhanced reporting yields some improvements in management and oversight capabilities, there is a need for more detailed reporting in several areas (e.g., payroll and attendance as well as consolidated reporting for PRDE, detailed monthly budget to actuals on component units, etc.). In essence, each relevant financial agency has improved operational capacity and accountability somewhat, but there has been little centralization and responsibilities remain unclear within the group. Operating without a strong legislative mandate, the OCFO has moved from Hacienda to AAFAF throughout FY2020. While OCFO has made recent efforts to produce more granular budgets and create detailed agency-level budget-to-actual spending reports, it has been substantially delayed in the issuance of the Government’s Comprehensive Annual Financial Reports (CAFRs) (as of May 2020, the FY2017-FY2019 CAFRs have not been issued). Key financial management and administrative functions remain distributed across a half-dozen Government agencies, and the Government has yet to legislate the OCFO’s organizational and governance structures or adequately staff the organization to fully execute its oversight responsibilities. Without comprehensive action, the Island’s financial management capabilities will continue to fall short of best practices, the expectations of the capital markets, and the needs of the Puerto Rican people. As such, the OCFO should assume all key financial management functions across the Government—necessary to place the Island on stronger financial footing.

The core objectives of the consolidated OCFO must be to:

A) Centralize treasury and liquidity management to:

- Enforce and manage a consolidated Treasury Single Account (TSA) for the Government that controls and offers visibility into all Government bank accounts (to the extent possible), including those of component units (CU) at private banks
- Enable all other public entities to maintain zero balance sweep accounts
- Empower OCFO to serve as the sole authority for Government bank account creation and closure—facilitating liquidity reporting, monitoring, and analysis
- Facilitate the rationalization of the Government’s account portfolio to support maximization of earnings, cash pooling, daily cash sweeps and treasury operations, and implementation of uniform accounts payable and disbursement prioritization processes and reports

B) Enhance budget development process by improving monitoring and performance tracking to:

- Comply with the recently-issued Oversight Board budget guidelines and timeline to develop an auditable budget that is readily-traceable to Certified Fiscal Plan
- Forecast and manage the seasonality of tax receipts
- Forecast and report the fiscal cost of tax credits
- Oversee all tax decrees and tax agreements issues
- Operationalize the financial system budget to ensure consistency between accounts and facilitate their monitoring
- Estimate, protect, and enhance tax collections and revenue streams
20. PUERTO RICO OVERSIGHT, MANAGEMENT, AND ECONOMIC STABILITY ACT (PROMESA) – continuation

- Establish budgetary priorities—namely, effective expenditure controls and Government-wide procurement reforms

C) Driving the standardization and integration of the Government’s financial IT systems to:

- Identify disparate systems being used for financial tracking and reporting
- Establish a roadmap to standardize and integrate systems to the fewest possible
- Orchestrate the integration across agencies, including defining new policies and procedures, coordinating data migration and validation, and training system users to effectively utilize new systems

The Oversight Board encourages the Government to evaluate current laws which exempt certain government entities from the Puerto Rico Government Accounting Act. Regardless, while some entities are mandated by law to maintain fiscal independence, these entities could still leverage central financial IT systems to reduce costs and automate current processes.

D) Ensure compliance with procurement, contracts, pensions, and human resources management policies across Government agencies to:

- Certify all contracts, bills, invoices, payroll charges, and other evidences of claim, demand, or charge relating to the Government and entities reliant upon its taxing authority by prescribing receipts, vouchers, and claims for all agencies to leverage
- Manage centralized health insurance procurement and policy management
- Oversee human resources, Government payroll operations, and all Government-related financial transactions
- Implement uniform time, attendance, and overtime processes, payroll controls, and reporting standards

- Strengthening oversight of Special Revenue Funds (SRF) through enhanced control mechanisms to:
  - Implement processes that improve stewardship of all SRF
  - Ensure all revenue streams attributable to SRF are deposited within the TSA

- Improving the timeliness of the Government's Comprehensive Annual Financial Reports (CAFR) and financial reporting to:
  - Produce high-quality CAFRs that follow the modified-accrual basis of accounting required by PROMESA and leverage new forecasting, e-settlement, and analytics capabilities for FY2018 onward within established regulatory timeframes
  - Publish the FY2017 CAFR and provide a draft of the FY2018 CAFR by November 2020

The 2020 Fiscal Plan provides for a one-time bonus of $1,500 to each Hacienda Central Accounting employee if Hacienda both (i) publishes and issues the FY2017 CAFR and (ii) provides a draft of the FY2018 CAFR by November 30, 2020.
20. PUERTO RICO OVERSIGHT, MANAGEMENT, AND ECONOMIC STABILITY ACT (PROMESA) – continuation

- Identify and resolve drivers of historic CAFR publication delays to ensure FY2020 and beyond publications can occur within six months of a fiscal year end
- Support stronger implementation forecasting of measures required by the Certified Fiscal Plan and more robust reporting of actuals
- Supervise property tax assessment reforms, prepare tax maps, and provide notice of taxes and special assessments

- **Centralizing and validating the management of Government funds, debts, and other financial transactions to:**
  - Maintain custody of all public funds, investments, and cash
  - Administer cash management programs to invest surplus cash
  - Facilitate short- and long-term borrowing programs
  - Establish accountability over all Government funds, property, and assets
  - Oversee all tax decrees and agreements issued
  - Publish an annual Tax Expenditure Report that identifies and quantifies all tax expenditures (initial report published in September 2019 for tax year 2017)

- **Overseeing the Implementation of the Certified Fiscal Plan to:**
  - Enable all Government agencies to comply with efficiency measures stipulated within the Certified Fiscal Plan
  - Facilitate timely and targeted interventions to address areas of underperformance relative to efficiency measures

**Medicaid Investments and Reform (Chapter 15)**

In 2019, ~37% of Puerto Ricans received their health coverage through the Commonwealth’s state-run Medicaid program; this was the highest share of Medicaid/CHIP-funded health insurance coverage of any US state. In addition to its large, covered population, Puerto Rico has lagged mainland states in both health outcomes and access. Puerto Ricans face higher rates of chronic conditions like hypertension (12.4% above national median), diabetes (4.5% above national median), and asthma (1.6% above national median) than national averages. Puerto Rico also has higher premature birth and infant mortality rates, and higher rates of adults reporting fair or poor health. At the same time, 72 of Puerto Rico’s 78 municipalities are deemed “medically underserved areas,” with 500 doctors leaving per year (pre-Maria). Puerto Rico has half the rate of specialists (e.g., emergency physicians, neurosurgeons) as compared to the mainland in critical fields.

Puerto Rico’s Government-funded health plan, Vital, covers individuals through three primary funding sources: federally-matched Medicaid funds, the Children’s Health Insurance Program (CHIP), and the Commonwealth’s self-funded insurance program for low-income adults who do not qualify for federally-matched Medicaid. An additional ~8% of the Puerto Rican population receives some benefits from the Government as part of the Platino program, which supports Medicare Advantage recipients who also qualify for Medicaid (also known as “dual-eligible”).
Because federal Medicaid funding for US territories is subject to an annual cap, Medicaid expenditures eligible for federal matching exceed available funding without supplemental legislated sources. This makes Puerto Rico’s Medicaid program very sensitive to rising healthcare costs. Since 2011, Puerto Rico has received temporary relief from rising healthcare costs through increased levels of federal reimbursement made available through the passage of the Affordable Care Act and the Bipartisan Budget Act of 2018. In December 2019, the Further Consolidated Appropriations Act was passed, which provided supplemental federal funding (up to $5.7B total) to Puerto Rico’s Medicaid program through September 30, 2021 (first quarter in FY2022). In addition, the law raised the FMAP—the portion of Medicaid expenditures that federal funds can cover—from the standard level of 55% to 76% for most populations. In response to the COVID-19 pandemic, the Families First Coronavirus Response Act was passed in March 2020, further increasing both the available federal funds (adding an additional $183M) and the FMAP (increased an additional 6.2% for most populations). The available supplemental federal funds and higher FMAP will both return to standard levels in October 2021 without new federal legislation. Accordingly, the Commonwealth will hit a “Medicaid fiscal cliff,” whereby it will be responsible for multi-billion-dollar annual healthcare expenditures that had been covered by federal funding since 2011. It is crucial, therefore, that ASES take advantage of the additional runway provided by recent federal legislation to put in place reforms that reduce the long-term growth rate of healthcare expenditures. Given the uncertainty as to future federal reimbursement levels, the 2020 Fiscal Plan assumes that no further supplemental funding will be provided beyond current programs, and thus, the Commonwealth must be prepared to cover growing Medicaid costs as if federal reimbursement rates revert to steady-state levels.

**Tax Compliance and Fees Enhancement (Chapter 16)**

Puerto Rico's current tax system suffers from its structural complexity, instability, internal inconsistency, inefficient administration, and inadequate enforcement. There have been at least 11 major revisions to Puerto Rico’s tax code since 1994, including at least six adjustments since 2013. This has allowed for persistent problems with non-compliance, worsened by a lack of an integrated approach to addressing non-compliance. Top marginal tax rates are high relative to US federal and state taxes. Much of the Government's revenue is highly concentrated in collections from a handful of multi-national corporations. The Government has also issued an assortment of credits, deductions, and incentives that add to the system's complexity and further erode the tax base. Furthermore, audit and enforcement activity in recent years has been limited, which creates risks of increased levels of non-compliance.

Due to its compliance and collections issues, the Commonwealth has not been able to collect as many revenues from taxes as it should each year.

In response to these challenges, the Government has taken actions to improve tax compliance. It has taken steps to improve information reporting to better detect under-reporting of income and over-usage of deductions and credits, notably through recent changes to information reporting requirements included in Act 257-2018. These changes create greater interdependencies among taxpayers and the information they are obligated to report, which is expected to enable greater oversight and verification of the information being reported to the Government. Enhanced usage of data can help Hacienda better isolate risk and focus its compliance and enforcement resources. It is driving improvements in its culture and organization to boost enforcement capabilities, and digitizing the process of filing taxes, to lighten the burden of compliance on taxpayers.

With the publication of the first Tax Expenditure Report in September 2019 (see Section 16.3.1), policymakers now have the data necessary to review, assess, and adjust the use of individual tax expenditures to ensure that these foregone revenues are leading to positive economic development on the Island.
20. PUERTO RICO OVERSIGHT, MANAGEMENT, AND ECONOMIC STABILITY ACT (PROMESA) – continuation

Improve Compliance Rate

The Government must continue its efforts to achieve a target 5% net uplift in annual revenues due to enhanced compliance by FY2023 across the major tax lines (personal income tax, corporate income tax, and SUT) – inclusive of implementation costs. Such an improvement would be in-line with improvements seen in other tax transformations. This improvement would be relative to a reduced baseline estimate of revenue collections due to the impacts of COVID-19, and expanded impact would not be expected to resume until FY2022.

Hacienda should continue to take a variety of initiatives that can boost voluntary compliance. The goal should be to reduce the cost of compliance while simultaneously raising the cost of non-compliance, through a combination of an increased likelihood of being caught while not paying taxes owed and more effective and enforceable penalties.

- Use new systems and processes to identify and remediate non-compliance. Hacienda has taken steps to make it harder to abuse deductions and credits to avoid tax liability, for example by only allowing taxpayers to claim certain deductions and exemptions if their return is prepared by a certified public accountant following agreed upon procedures.

- Reduce the complexity of the tax system and process of filing taxes to make it easier for individuals and businesses to pay their taxes correctly. As detailed further in Section 10.4, improving the process of for filing and paying taxes is critical for improving ease of doing business, but it also helps boost voluntary compliance.

- Improve use of data and analytics to address non-compliance. Small and medium taxpayers account for a significant share of the unpaid and underpaid taxes, but only a tiny fraction of these taxpayers receive full-scale audits due to the significant time and cost investment needed. While a traditional IRS audit costs an average of $2,278 per case, automated notices or letters can be executed for $52 to $274 per case. Hacienda is receiving increasing filings of information returns that can be used to better identify risk and focus compliance resources. Implementing data-driven, tiered compliance approaches over time will enable Puerto Rico to reach a significantly larger share of nonpayers.

- Collecting SUT on Internet sales. Nationally, the percentage of taxpayers voluntarily reporting and paying sales and use taxes on their income tax forms ranges from 0.2% to 10.2%, while nearly 80% of Americans shop online. Mainland states have taken steps to improve sales tax collections on online sales through legislation, as well as voluntary agreements with major online retailers. In its 2018 Wayfair decision, the US Supreme Court further provided mainland states with parameters under which sales taxes could be levied on out-of-state sellers. Given these trends, the Government should also be working to capture SUT on a much larger share of Internet sales. Hacienda has announced agreements with some online retailers to charge Puerto Rico SUT on Internet sales of goods. With Internet sales growing at ~15% annually, and growth expected to accelerate further as the COVID-19 pandemic makes the internet a critical component of consumer purchasing habits, Internet sales tax presents an even more important opportunity going forward.

The impact from these compliance related activities is projected to phase in over the course of four years. In light of the challenging economic climate anticipated in FY2021, the 2020 Fiscal Plan does not forecast incremental increases in revenue yield until FY2022, though Hacienda will continue to implement its compliance-related initiatives.

Right-rate Other Taxes and Fees

Prior to Hurricane Maria, the Government reported that it had already developed a plan to right-rate certain taxes and fees. These original plans, as well as any adjustments mutually agreed upon between the Government and the Oversight Board during implementation of the March 2017 Fiscal Plan, have been largely included in this 2020 Fiscal Plan, except where explicitly noted below.
Despite multiple pieces of enabling legislation, the Government’s approach to implementation lacks central accountability, with specific actions and timelines. Progress against these measures has been uneven and the Government must urgently make progress to close the gap.

**Gaming tax.** Legislation passed in 2017 increased licenses and fees on mechanical and electronic gaming machines to $3,000 from $100. This was originally estimated to generate ~$71 million in incremental revenues. Part of this calculation involved assumptions of improved enforcement, as the Government has previously estimated that it is losing approximately $170 million per year due to illegal machines that are not paying licensing fees. However, when factoring in the potential that a 2,900% increase in taxes on the machines could decrease total revenues from gaming, the Fiscal Plans adjust the required revenues to be approximately $46 million.

**Licenses and other fees.** 2017 legislation enabled fee increases in miscellaneous categories. Hacienda will determine which exact fees are to be increased to meet these minimum thresholds, achieving an overall revenue increase of ~$57 million per year. Categories are as follows: Charges for services; Fines; Insurance; Licenses; Permits; Rent; Royalties; Stamps; Other.

**Tobacco taxes.** Legislation was passed in 2017 to increase specific tobacco taxes, including taxes on cigarettes, cigars, rolling tobacco, cigarette paper and tubes, chewing tobacco, snuff, electronic cigarettes, nicotine cartridges, and vaporizers.Accounting for one-time declines in use due to price elasticities after the new law went into place, a ~$52 million per year increase by FY2024 in revenues due to the new taxes is required. In order to give the Government time to focus on a comprehensive implementation approach, the required revenues are delayed until FY2022.

**Medical marijuana tax.** Legislation has been enacted to tax medical marijuana. Based on an estimated 29,000 patients, the Government expected to collect approximately ~$13 million per year in additional revenue through this initiative.

**Airbnb Tax.** Legislation has been enacted to apply a 7% hotel room tax to Airbnb rentals, resulting in a projected annual revenue increase of ~$3.5 million. This revenue stream will be substantially impacted by the reduction in demand due to COVID-19, recovering only as the tourism sector rebounds.

**Reduction in Appropriations to UPR (Chapter 17)**

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

The University of Puerto Rico, founded in 1903, is Puerto Rico’s largest and main university system. Its mission is to serve the people of Puerto Rico, contribute to the development and enjoyment of the fundamental values of Puerto Rican culture, and uphold the ideals of a democratic society. To advance its mission, UPR strives to provide high-quality education and create new knowledge in the Arts, Sciences, and Technology. UPR has a history of academic excellence, with 694 degree-granting academic and professional certification programs, including six first level professional degree programs and 34 PhD programs. The university system is also an important center of research; for example, the Rio Piedras campus is classified as a high research activity university by the Carnegie Foundation (one of only 335 US universities to receive such a designation) and there are 79 separate research centers across the university system. UPR also plays a critical role in providing avenues for social and economic advancement, with 68% of students receiving Pell grants.
In FY2018, UPR was 67% subsidized (~$678 million in annual appropriations) by state and local funds, compared to an average 25% state and local subsidization for US public universities. In FY2018, UPR’s undergraduate tuition was less than one-third of the US average for public universities, even after adjusting for per-capita income, and more than 40% below the average tuition of private universities on the Island. Yet, during the past decade, UPR has seen a 24% enrollment decline (13% since FY2018) across both graduate and undergraduate populations. Moreover, UPR consists of 11 independent campuses with minimal shared services or administrative consolidation. As a result, UPR has grown reliant on the significant subsidies from the Commonwealth, and has made slow progress in addressing declining enrollment, diversifying its revenues, rationalizing its tuition and scholarship systems, renewing and maintaining its infrastructure, addressing operational inefficiencies, appropriately funding its pension system, and paying its contractually-obligated debt.

A reduction of the appropriation for UPR was determined in 2017 through a shared process with the Government to identify reasonable, sustainable measures to bring UPR closer to US mainland public university tuition and administrative cost benchmarks, while maintaining (and in many cases improving) the performance of the system, which serves as a primary economic growth engine of the Island. It reflects both the declining enrollment of the university as well as the sizeable opportunity to diversify revenue sources, transform operations through greater utilization of shared services and other administrative streamlining across its 11 campuses. In light of the COVID-19 pandemic, the Oversight Board has agreed to provide a one-year pause in the further reduction of UPR’s annual appropriation to enable UPR to focus all its efforts on implementing the efficiencies previously required and not completed. The 2020 Fiscal Plan therefore maintains the UPR subsidy level at 54% in FY2021. Thereafter, a gradual decrease in the UPR appropriation will continue as previously envisioned to ~$452 million by FY2025.

**Municipal Service Reform (Chapter 18)**

Puerto Rico’s 78 municipalities are also recipients of Commonwealth appropriations. To incentivize a new operating model between the territory and municipal governments, as well as municipal operational changes, prior Fiscal Plans reduced Commonwealth appropriations to municipalities. In FY2018, the total municipal appropriation was $220 million (a reduction of $150 million relative to the prior year). In FY2019, it was reduced to $176 million, and in FY2020, as stipulated in the 2019 Fiscal Plan, it was further reduced to $132 million. Over the past two years, however, there has been little meaningful progress on redefining the relationship between the territorial government and municipalities, almost no decentralization of responsibilities, and no expenditure-sharing. Moreover, municipalities have made little (if any) progress towards implementing the fiscal discipline required to reduce reliance on Commonwealth appropriations and better reflect a declining population in many areas. The lack of fiscal management is now being exacerbated by the COVID-19 pandemic, threatening the ability of municipalities to provide necessary services, such as health, sanitation, public safety, and emergency services, to their residents and forcing them to prioritize expenditures.

Over the last decade, Puerto Rico’s population has declined by ~18% and it is projected to continue declining going forward. Given that and absent any other structural reorganization of responsibilities, municipalities must pursue consolidation of services across multiple municipalities to enable better and more efficient services for Puerto Rico residents. Moreover, consolidation would significantly reduce costs by leveraging scale, especially in areas of services provided directly to residents, such as garbage disposal and maintenance of municipal buildings and roads.

In any given year, less than half of the fully-reporting municipalities often recorded a positive change in general fund balance due to budget shortfalls, and approximately 40% are dependent on Commonwealth appropriations to operate. From FY2010 to FY2018, these municipalities’ aggregate General Fund balances declined from $55 million to negative $118 million. These repeated budget shortfalls put further financial strain on the following years, driving negative fund balances that have required persistent Commonwealth support and/or increased borrowing. As currently operating, many of the municipalities are not fiscally sustainable.
20. PUERTO RICO OVERSIGHT, MANAGEMENT, AND ECONOMIC STABILITY ACT (PROMESA) – continuation

Given the lack of meaningful progress to date in achieving municipal government services reform and municipalities’ financial challenges, particularly in the context of the Hurricanes, earthquakes, and COVID-19, the Government will need to develop a solution to streamline and consolidate municipal services throughout Puerto Rico. Otherwise, the Government faces the prospect of expanding municipal operating deficits, further deteriorating infrastructure, and worsening service delivery.

Since municipalities provide services that are, in most cases, complementary to those of the Government, the Commonwealth should take this opportunity to rethink the entire governmental structure, not just that of municipal governments. This will allow the Government to deliver better services across agencies in coordination with municipalities, and to do so more cost-effectively. A centralized approach has proven, repeatedly, to be inadequate for the management of various government programs in Puerto Rico. A new decentralized model could remove the bottleneck of centralized Commonwealth agencies, dramatically increasing capacity to respond to a crisis and improving service delivery at a local level. Unfortunately, the vast majority of municipalities do not (individually) have the administrative or financial capacity to operate Commonwealth programs. Many also lack the economies of scale necessary to be efficient with programs such as ASUME, ADFAN, or Vivienda. However, a consolidated municipal service structure could enable the delegation of certain Commonwealth responsibilities to local governments. Such a model could yield municipal and Commonwealth savings, and a portion of those savings could be reinvested back into the municipalities where savings are realized.

In addition, a more integrated government structure could help implement locally-based economic development strategies, which are more viable at a regional level than on an individual municipality basis. On the revenue side, service consolidation could further enhance the coordination of property tax collection by standardizing and automating processes and integrating data and information systems.

Act 29-2019

On April 15, 2020, the Title III court issued a decision granting summary judgment to the Oversight Board on several of its claims against the Governor and AAFAF and nullifying Act 29-2019 as being in violation of PROMESA. The Title III court’s order became effective on May 7, 2020. The effect of this nullification requires municipalities to cover their own employees’ healthcare and PayGo costs. For FY2020, the PayGo and healthcare obligations are approximately $166 million and $32 million, respectively. The Oversight Board, the Government, and MRCC have agreed that the combined amount due, $198 million, will be partially offset by the FY2020 Commonwealth transfer of $132 million (that was transferred to MRCC in accordance with the 2019 Fiscal Plan and certified Budget). Under Act 29-2019, MRCC was retaining these funds, but remitted approximately $34 million to municipalities in lieu of property taxes as part of the monthly remittances. This was in violation of the 2019 Fiscal Plan and certified Budget, and the Commonwealth will recover these funds through the short-term liquidity facility described in Section 18.2.3. Therefore, MRCC must return the retained funds to the Commonwealth to be applied as a set-off against these obligations due. After accounting for the various transfers of funds, the nullification of Act 29-2019 results in the municipalities currently owing $66 million to the Commonwealth for their employees’ FY2020 PayGo and healthcare contributions. This amount equates to approximately 3% of the total municipality General Fund budgets in FY2020 (~$2 billion), although the impact varies on a municipality-by-municipality basis.

The Oversight Board accepted MRCC’s proposal to allocate the $132 million in equal proportion across municipalities. Under this option, every municipality will owe ~33% (representing $66 million of the $198 million total amount due) of its FY2020 PayGo and ASES obligations. These amounts will be repaid according to the repayment waterfall in Exhibit 118. This repayment waterfall focuses on incremental revenues that municipalities have not considered in their FY2020 budgets. Therefore, the financial impact on municipalities should be minimized.
Accelerating Post-Disaster Recovery at Municipalities

Puerto Rico has experienced historic and unprecedented disasters since 2017. The impact of Hurricanes Irma and Maria, as well as a magnitude 6.4 earthquake on January 7, 2020 (and the subsequent aftershocks), resulted in significant damage to the infrastructure and economy, and prompted material out-migration. The Federal Government has supported post-hurricane reconstruction in the municipalities primarily through FEMA’s Permanent Work (Categories C-G) Small Projects and Community Disaster Loans (CDLs). Small Projects are defined as those with total project costs of up to $123,100 for Permanent Work Categories C-G. As of May 18, 2020, 1,224 projects have been obligated to municipalities, totaling ~$48.9 million, of which ~$33.5 million has been disbursed. In addition, 3,285 Small Projects are currently in the project formulation stage, with a total approximate cost of $152 million. CDLs are provided to municipalities that have suffered a substantial loss of revenues as a result of a disaster and that can demonstrate a need for federal financial assistance to perform critical functions such as payroll, supplies, and maintenance materials related to disaster operations. 76 of the 78 municipalities have received nearly $300 million from the Federal Government to make up for lost revenues due to the Hurricanes in the form of CDLs. Municipalities and the people of Puerto Rico have also received disaster funding through Individual Assistance programs, Small Business Administration Loans, Department of Housing CDBG-DR programs, and Department of Transportation funding.

On December 7, 2019, the Oversight Board approved the Government’s request to establish a “State Recovery Fund” that would fund advances to eligible Small Projects under the FEMA Public Assistance program, which many municipalities required due to a lack of liquidity. The State Recovery Fund was financed solely from a reprogramming of the $100 million FY2020 certified budget appropriation under the custody of OMB designated as “Cost share of public assistance” and is to be used only for Small Projects (as defined above). The Oversight Board also included several requirements from the Government as a precondition to approval of this State Recovery Fund. Since the establishment of this State Recovery Fund, COR3 has informed the Oversight Board that $92.5 million would be returned to OMB given other mechanisms have been put in place to expedite Small Projects and the funds are no longer required by the municipalities.

The 2020 Fiscal Plan includes the use of $9 million requested for the first required steps of demolition and debris removal as a result of the earthquakes in Guayanilla, Guánica, and Peñuelas, which are a prerequisite for redevelopment of the southwest region. As a next step, the Oversight Board urged the Government to determine what incremental efforts of this type are necessary in other municipalities (e.g. Ponce and Yauco) that have suffered from the earthquakes, and that these incremental requests be submitted for Oversight Board approval as soon as possible.

Beyond the first steps of demolition and debris removal, the next step should be the development of an integrated and comprehensive plan for the long-term economic reconstruction of the southwest region, focusing on rebuilding with resiliency and taking into account the changes in the economy in a post-COVID world, the patterns of migration from the area, and the potentially-permanent risks to populations from the earthquakes and erosion after the hurricane, among other factors. This plan should be developed in coordination with FEMA and other relevant agencies.

COVID-19 Crisis

In response to the COVID-19 crisis, the 2020 Fiscal Plan provides for a one-year pause in the further reduction of Commonwealth appropriations to municipalities; accordingly, the FY2021 appropriation will remain at $132 million (i.e., the same as in FY2020) rather than decline by $44 million as defined in the 2019 Fiscal Plan. This additional financial support for municipalities should be used to effectively implement strategies that will allow municipalities to improve their financial sustainability by instituting critical changes in operating structure, sharing costs through consolidated services, and improving revenue collection.
In addition, the Governor signed an executive order that adopts the “Strategic Plan for Disbursement” of the $2.2 billion allocated to Puerto Rico by the Coronavirus Relief Fund created by the Federal Government through the CARES Act, which assigns $100 million to be transferred to the municipalities for eligible expenses related to COVID-19.

**Liquidity Facility**

The onset of the COVID-19 pandemic resulted in the deferral of the personal property tax return due date as an emergency measure enacted by the Government. This extension has created a short-term liquidity challenge for MRCC and the municipalities for the remainder of FY2020 (May and June) and the first month of FY2021 (July). The Oversight Board approved a short-term liquidity facility of up to $185 million, funded by the Commonwealth, to ensure that MRCC can continue to advance monthly tax remittances to municipalities, which are crucial for municipal operations. This authorization will be in effect through July 31, 2020. The use of the liquidity facility is dependent on an approved budget that incorporates monthly municipal net remittances, payment of certain statutory and contractual debts, and MRCC operations. Repayment of the loan will come from basic property tax revenues received by MRCC, with receipts expected in August, September, and October 2020. This liquidity facility shall be repaid in full on or before November 30, 2020. The creation of a lockbox account will be required to protect the Commonwealth’s collateral. In addition, MRCC will be required to provide both weekly and monthly financial reports regarding tax collection activity and financial statements, including income statements, balance sheets, and cash flow statements.

**Incentivizing Consolidation of Services**

To further incentivize service consolidation, the 2020 Fiscal Plan lays out a set of voluntary options for municipalities to consider. By consolidating services, municipalities will be able to significantly reduce costs. Under this approach, municipalities that voluntarily choose to consolidate services will be eligible to receive a one-time financial incentive upon certification of such action by the Oversight Board. To fund this initiative, the 2020 Fiscal Plan sets aside $22 million in each fiscal year through FY2025 for distribution among municipalities that complete service consolidations, as confirmed by the Oversight Board. The amount distributed will be determined in coordination between AAFAF and the Oversight Board and will depend on the size of the municipality and the scale of service consolidation. The 2020 Fiscal Plan otherwise maintains the overall approach of phasing-out the entirety of municipal appropriations, which will reach zero by FY2025.

*Exhibit 119 illustrates the reduction in municipal appropriations that would occur if voluntary consolidation of services is not pursued and the status quo is maintained.*
Oversight Board’s Municipalities Pilot Program

On May 9, 2019, the Oversight Board announced that all 78 municipalities would become covered instrumentalities under PROMESA, with the aim of securing their long-term fiscal viability. As part of the initiative, the Oversight Board selected 10 geographically-aligned municipalities for a pilot program to develop fiscal plans and budgets to be reviewed and certified by the Oversight Board.

The ten municipalities selected from the central and northern regions are Orocovis, Aibonito, Barranquitas, Cidra, Comerío, Villalba, Camuy, Isabela, Quebradillas, and San Sebastián. Each municipality is required to include spending reduction and efficiency measures in their fiscal plans. These measures may include inter-municipal shared services arrangements, programs to improve and optimize local revenue collection, economic development guidelines, and decentralization proposals, and the Oversight Board has offered technical assistance in this process. The pilot program will show the value of consolidating services in seeking to reduce expenses and achieve long-term fiscal viability.

Pension Reform (Chapter 19)

The Government operates three public employee retirement systems in Puerto Rico: The Employees’ Retirement System (ERS), the Teachers’ Retirement System (TRS), and the Judiciary Retirement System (JRS). The systems have different tiers of benefit formulas, some of which are traditional defined benefit pensions based upon years of service and final salary, while others are hybrid cash balance plans. Under the hybrid cash balance plans, employees have notional accounts credited with contributions and interest, and upon retirement, benefits are payable as an annuity. Different benefit tiers apply to employees based upon the year in which they were hired. Per the latest data available, each of the systems included the following liabilities:

- **ERS**: 242,000 total covered (119,000 active employees, 123,000 retirees and other beneficiaries); with $1.5 billion in annual benefits and $31 billion in total actuarial liability
- **TRS**: 79,000 total covered (35,000 active employees, 44,000 retirees and other beneficiaries); with $0.7 billion in annual benefits and $17 billion in total actuarial liability
- **JRS**: 878 total covered (364 active employees, 514 retirees and other beneficiaries); with $25 million in annual benefits and $0.7 billion in total actuarial liability

All employees have historically made contributions toward their benefits, albeit at different rates. Most regular government employees (including police officers as of January 1, 2020) also participate in Social Security, which includes both employer and employee contributions; most teachers and judges do not participate. Over many decades, successive governments have failed to adequately fund these retirement plans, and today the ERS, TRS, and JRS are nearly insolvent. In fact, Commonwealth PayGo expenditures to provide pension benefits are expected to continue constituting over 1/5 of General Fund expenditures without further action.

**Act 106-2017**

With Act 106-2017, the Commonwealth transitioned to a new PayGo pension system, liquidated assets to help fund benefits owed, and has moved the assets of recently hired TRS members (and future contributions of ERS members) into segregated accounts. Hybrid accounts of System 2000 members were not similarly moved into segregated accounts. The Commonwealth is still in the development stage of implementing true defined contribution (DC) retirement plans for these members who previously had hybrid cash balance accounts, but this process has experienced significant delays. There is a need for further action to ensure the long-term adequate funding of pension benefits; in addition, some of the current commitments have not yet been fulfilled (e.g., the transition to the new defined contribution system has not yet been completed).
20. PUERTO RICO OVERSIGHT, MANAGEMENT, AND ECONOMIC STABILITY ACT (PROMESA) – continuation

TRS members hired prior to August 1, 2014 and all JRS members are currently accruing benefits under the defined benefit components of their retirement plans. ERS members and TRS members hired after August 1, 2014 have already transitioned to hybrid cash balance plans. TRS members hired after August 1, 2014 have subsequently had their hybrid accounts segregated from the DB plan by Act 106-2017. These segregated balances, along with ERS contributions made after June 30, 2017, are being transitioned to DC accounts with a targeted completion date of July 2020. To avoid creating future pension liabilities and to adequately fund the pensions of both taxpayers and future retirees, the JRS and remaining TRS benefit accruals must be frozen by July 1, 2021. Members will retain the benefits they have accrued to date, subject to the benefit reduction discussed below. Future benefits must be based on contributions and earnings in new defined contribution retirement accounts. This will result in consistent and equitable treatment across ERS, TRS, and JRS, where all employees will contribute to segregated DC accounts. Going forward, employees should have certainty that their contributions and investment returns will be safeguarded for the future through managing their own segregated accounts.

8.5% Pension Benefit Reduction

Notwithstanding the reduction in expenditures throughout the Commonwealth’s budget, contractual debt service remains unaffordable. Retirement plan participants, like other unsecured claimholders, therefore, face a reduction of up to 8.5% in the amounts paid to them by the Commonwealth. A reduction in pensions (with protections for participants close to the poverty level) is appropriate and necessary for the Commonwealth to achieve long-term fiscal stability. The goal is a balanced approach to restore fiscal health to Puerto Rico while ensuring that cuts to retirement benefits occur in a manner that protects any retirees from falling into poverty. The proposed reduction, while significantly smaller as a percentage reduction than those faced by other unsecured claims, including GO bondholder claims and General Unsecured Claims, will still represent a significant reduction in retirement income for many retirees.

This treatment is similar to the level of reduction in pension benefits relative to reductions faced by other creditors that has been seen with other government systems facing pension funding crises. Although the benefit reduction will be 8.5%, this reduction will not apply to those with monthly pension benefits of less than $1,200 per month and will not reduce anyone’s monthly benefits below such level. Exhibit 124 illustrates the current distribution of participants by monthly benefit amount across the Commonwealth’s retirement systems.

**EXHIBIT 124: DISTRIBUTION OF BENEFIT AMOUNTS BY RETIREMENT SYSTEM**

<table>
<thead>
<tr>
<th>Monthly benefit amount</th>
<th>ERS</th>
<th>TRS</th>
<th>JRS</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Number of pensioners</td>
<td>% of total pensioners</td>
<td>Number of pensioners</td>
</tr>
<tr>
<td>Up to $1,000</td>
<td>71,065</td>
<td>59.6%</td>
<td>12,634</td>
</tr>
<tr>
<td>$1,000 - $1,200</td>
<td>9,539</td>
<td>8.0%</td>
<td>3,932</td>
</tr>
<tr>
<td>$1,200 - $1,500</td>
<td>12,545</td>
<td>10.5%</td>
<td>8,728</td>
</tr>
<tr>
<td>$1,500 - $2,000</td>
<td>12,815</td>
<td>10.7%</td>
<td>7,648</td>
</tr>
<tr>
<td>$2,000 - $3,000</td>
<td>9,509</td>
<td>8.0%</td>
<td>12,436</td>
</tr>
<tr>
<td>Over $3,000</td>
<td>3,778</td>
<td>3.2%</td>
<td>322</td>
</tr>
</tbody>
</table>

Covering More Government Workers in Social Security

Currently, teachers, police officers, and judges do not participate in Social Security. They do not pay into the program, nor does the Government make a Social Security contribution on their behalf. Unlike other ERS members, teachers, police officers, and judges are entirely reliant on their government pensions for income in retirement. This places them at risk when government retirement plans are poorly funded. Effective January 1, 2020, police officers, who were similarly situated previously, began actively participating in Social Security.
These groups are exempt from Social Security because of the “Section 218” agreement between the Commonwealth and the Social Security Administration, which stipulates that certain government employees have wages that are includable for Social Security and subject to FICA taxes while others may be exempt from Social Security if they participate in a “qualified replacement plan.” Section 218 of the Social Security law provides guidance as to what constitutes a “qualified retirement plan,” such as a defined benefit plan with a minimum benefit level or a defined contribution plan in which total employee and employer contributions equal to at least 7.5% of employee wages. Teachers and judges are both in job classifications that, under the Section 218 agreement, are exempted if such a “qualified replacement plan” exists. Under the current TRS and JRS retirement plans, this requirement is met and, therefore, such employees are exempted from Social Security.

Covering these workers under Social Security will provide them with diversified sources of income in retirement, and Social Security’s progressive benefit formula will provide a stronger safety net for lower-paid employees. Workers will typically earn greater retirement benefits under Social Security based on a 6.2% employee contribution and a 6.2% employer (government) match, than they would in a DC plan funded only with a 6.2% contribution. For example, a typical full-career government employee retiring with a salary of $35,000 will be entitled to a Social Security benefit of approximately $16,000, in addition to the benefit the employee builds in their defined contribution retirement account.

Social Security retirement benefits are only provided for those who have ten years of covered earnings. Therefore, it would not be worthwhile for older workers, who may not meet the ten-year threshold and do not have other employment in which they were covered by Social Security, to be covered under Social Security. For this reason, only teachers and judges under the age of 45 shall be covered under Social Security. This can be accomplished without either an employee referendum or new federal legislation by freezing the TRS and JRS plans and reducing the defined contributions for current teachers and judges under the age of 45 and all future teachers and judges hired to an amount lower than the 7.5% required by Section 218.

This step will trigger mandatory enrollment in Social Security. Concurrently, lowering the employee defined contribution for younger workers will address the loss of take-home pay they would suffer by having to contribute the 6.2% Social Security payroll tax. This approach is consistent with the approach used to implement Social Security participation for police officers in FY2020.

The 2020 Fiscal Plan includes the enrollment of teachers and judges under the age of 45 in Social Security as of July 1, 2021, coincident with the plan freeze. At a further date, the Commonwealth may wish to take the necessary steps to provide the option for teachers and judges over the age of 45 to be covered under Social Security.

**Ensuring Successful Implementation and Fiscal Controls (Chapter 20)**

Developing a centrally-run PMO is an important step toward ensuring the implementation and tracking of the core operational transformation and agency efficiency measures that will achieve savings targets under the 2020 Fiscal Plan. The OCFO should serve as the central PMO with defined reporting to the Governor of all economic and transformation measures. The PMO should be run by OCFO senior leadership, regularly coordinate across OMB and OARTH, work directly and frequently with Agency PMOs, and report directly into the Governor’s office.

Individual Agency PMOs should be established with direct reporting to the OCFO PMO. Each agency head shall be responsible for developing and implementing a PMO structure that best fits their respective agency groupings. They are expected to coordinate across all agencies in their grouping, lead reforms for the grouping and be responsible for achieving their agency grouping savings targets. Through this PMO structure, the Government will be positioned to effectively manage and implement the 2020 Fiscal Plan. As such:

- Designated agency heads should lead the Agency PMOs and report directly to the OCFO
- Agency PMOs should undertake the required work to implement initiatives

continue
The daily activities of PMOs should be managed and undertaken by staff knowledgeable in the relevant subject matter areas, and assigned members meet regularly with PMO leadership to report on progress and facilitate necessary decision-making.

Agency PMOs shall be responsible for assembling a taskforce to: complete validation and definition of full scope of projects and priorities; finalize reporting tools and tracking responsibilities; and perform ongoing weekly tracking and reporting.

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

- **Project charters** that establish the goals and structures of measures, identify risks and obstacles, and establish metrics and KPIs.

- **Implementation plans** with detailed layouts of each activity required for accomplishing sub-measures, risks / mitigants for each activity, clear leaders and owners for each activity, and metrics and KPIs. These should include a “live” calendar of updates and status of each measure. If an activity goes behind schedule, the workplan will reflect that the activity is still in progress.

- **Implementation dashboard / tracker** that provides a single snapshot of the entire transformation plan; and allows management to know the status of each initiative in a distinct status: Complete; In Progress; Delays; Major Issues. This tracker will allow the Oversight Board to monitor progress and ensure enforcement of measures and reforms.

- **Sub-measure dashboards** that provide “zoomed in” views of a specific sub-measure, display progress with details / commentary on project status, include agreed upon milestones / dates to track progress, and provide mitigation plans.

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

**Plan Adjustment (Chapter 21)**

On February 28, 2020, the Oversight Board filed an amended Plan of Adjustment for the Commonwealth, ERS, and PBA that proposed a comprehensive settlement between the Commonwealth and its creditors. This represented a significant advance in the ongoing efforts of Puerto Rico to exit bankruptcy, regain access to the capital markets, and begin the process of achieving a true economic recovery. In total, the Plan of Adjustment sought to achieve a nearly 70% reduction in the Commonwealth's total liabilities, a reduction in annual debt service to sustainable and affordable levels, and a substantial and reliable restoration of pensions. This plan followed extensive negotiations between the Oversight Board, Government, and various stakeholder groups, and sought to return the Commonwealth to a sustainable fiscal position, provide meaningful recoveries to creditors, and allow for the continued operation of Government services.
In light of the COVID-19 pandemic, the Oversight Board announced on March 21, 2020 that it would be seeking a motion to adjourn court proceedings on the Plan of Adjustment until further notice. Such action was taken so as to allow for the Government and Oversight Board to prioritize the health and safety of the people of Puerto Rico during this challenging time, and to better understand the economic and fiscal impact of the pandemic. The Oversight Board will continue to work collaboratively with the Government to find reasonable and meaningful financial and policy solutions that ensure the safety and well-being of the Island, while also still preserving prudent and sound fiscal policy.

Despite the adjournment in court proceedings, the Oversight Board remains committed to facilitating Puerto Rico's emergence from bankruptcy, while also recognizing the new realities facing the Island. It is a fact that certain Plan of Adjustment provisions, if enacted, would impact the primary annual surplus/deficit of the Commonwealth. The 2020 Fiscal Plan therefore incorporates all such provisions on the terms published in the February 28, 2020 Plan of Adjustment (as adjusted for the delay in any confirmation timing).

21. NEW ACCOUNTING STANDARDS

A. Implementation of Governmental Accounting Standards Board (GASB) Statements

The provisions of the following Governmental Accounting Standards Board (GASB) Statements are effective for financial statements for periods beginning after June 15, 2017 (FY 2017-2018) and have been implemented when applicable during the year ended June 30, 2020:

GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency.

This Statement replaces the requirements of Statements No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, as amended, and No. 57, OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans, for OPEB. Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, establishes new accounting and financial reporting requirements for OPEB plans.

The scope of this Statement addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed.
In addition, this Statement details the recognition and disclosure requirements for employers with payables to defined benefit OPEB plans that are administered through trusts that meet the specified criteria and for employers whose employees are provided with defined contribution OPEB. This Statement also addresses certain circumstances in which a nonemployer entity provides financial support for OPEB of employees of another entity. In this Statement, distinctions are made regarding the particular requirements depending upon whether the OPEB plans through which the benefits are provided are administered through trusts that meet the following criteria:

a. Contributions from employers and nonemployer contributing entities to the OPEB plan and earnings on those contributions are irrevocable.

b. OPEB plan assets are dedicated to providing OPEB to plan members in accordance with the benefit terms.

c. OPEB plan assets are legally protected from the creditors of employers, nonemployer contributing entities, the OPEB plan administrator, and the plan members.

As of June 30, 2020, the PRGERS hasn’t issued, or made available information in order to properly adjust or disclose any deferred outflow/inflow of resources, or net OPEB obligation, if any, applicable to the House of Representatives.

GASB Statement No. 81, Irrevocable Split-Interest Agreements. This Statement improves accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. Split-interest agreements are a type of giving agreement used by donors to provide resources to two or more beneficiaries, including governments. Split-interest agreements can be created through trusts, or other legally enforceable agreements with characteristics that are equivalent to split-interest agreements, in which a donor transfers resources to an intermediary to hold and administer for the benefit of a government and at least one other beneficiary.

Examples of these types of agreements include charitable lead trusts, charitable remainder trusts, and life-interests in real estate. This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period.

GASB No. 81 does not have any impact on the House of Representatives’ financial statements.

GASB Statement No. 82, Pension Issues- an Amendment of GASB Statements No 67, No. 68 and No. 73. This Statement addresses certain issues that have been raised with respect to GASB Statements No. 67, No. 68, and No. 73. The Statement is designed to improve consistency in the application of the pension standards by clarifying or amending related areas of existing guidance. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.
Prior to the issuance of this Statement, GASB Statements No. 67 and No. 68 required presentation of covered-employee payroll, which is the payroll of employees that are provided with pensions through the pension plan, and ratios that use that measure, in schedules of required supplementary information. This Statement amends GASB Statements No. 67 and No. 68 to instead require the presentation of covered payroll, defined as the payroll on which contributions to a pension plan are based, and ratios that use that measure.

This Statement clarifies that a deviation, as the term is used in Actuarial Standards of Practice issued by the Actuarial Standards Board, from the guidance in an Actuarial Standard of Practice is not considered to be in conformity with the requirements of GASB Statement No. 67, GASB Statement No. 68, or GASB Statement No. 73 for the selection of assumptions used in determining the total pension liability and related measures.

This Statement clarifies that payments that are made by an employer to satisfy contribution requirements that are identified by the pension plan terms as plan member contribution requirements should be classified as plan member contributions for purposes of GASB Statement No. 67 and as employee contributions for purposes of GASB Statement No. 68. It also requires that an employer’s expense and expenditures for those amounts be recognized in the period for which the contribution is assessed and classified in the same manner as the employer classifies similar compensation other than pensions (for example, as salaries and wages or as fringe benefits). The requirements of this Statement are effective for reporting periods beginning after June 15, 2016, except for the requirements of paragraph 7 in a circumstance in which an employer’s pension liability is measured as of a date other than the employer’s most recent fiscal year-end. In the circumstance, the requirements of paragraph 7 are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017 (FY 2017-2018).

GASB No. 84 does not have any impact on the House of Representatives’ financial statements.

GASB Statement No. 85, Omnibus 2017. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). Specifically, this Statement addresses the following topics:

- Blending a component unit in circumstances in which the primary government is a business-type activity that reports in a single column for financial statement presentation
- Reporting amounts previously reported as goodwill and “negative” goodwill
- Classifying real estate held by insurance entities
- Measuring certain money market investments and participating interest-earning investment contracts at amortized cost
- Timing of the measurement of pension or OPEB liabilities and expenditures recognized in financial statements prepared using the current financial resources measurement focus
- Recognizing on-behalf payments for pensions or OPEB in employer financial statements
- Presenting payroll-related measures in required supplementary information for purposes of reporting by OPEB plans and employers that provide OPEB
21. NEW ACCOUNTING STANDARDS – continuation

- Classifying employer-paid member contributions for OPEB
- Simplifying certain aspects of the alternative measurement method for OPEB
- Accounting and financial reporting for OPEB provided through certain multiple-employer defined benefit OPEB plans.

GASB Statement No. 86, Certain Debt Extinguishment Issues. The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance.

IN-SUBSTANCE DEFEASANCE OF DEBT USING ONLY EXISTING RESOURCES

Statement No. 7, Advance Refundings Resulting in Defeasance of Debt, requires that debt be considered defeased in substance when the debtor irrevocably places cash or other monetary assets acquired with refunding debt proceeds in a trust to be used solely for satisfying scheduled payments of both principal and interest of the defeased debt. The trust also is required to meet certain conditions for the transaction to qualify as an in-substance defeasance. This Statement establishes essentially the same requirements for when a government places cash and other monetary assets acquired with only existing resources in an irrevocable trust to extinguish the debt.

However, in financial statements using the economic resources measurement focus, governments should recognize any difference between the reacquisition price (the amount required to be placed in the trust) and the net carrying amount of the debt defeased in substance using only existing resources as a separately identified gain or loss in the period of the defeasance.

Governments that defease debt using only existing resources should provide a general description of the transaction in the notes to financial statements in the period of the defeasance. In all periods following an in-substance defeasance of debt using only existing resources, the amount of that debt that remains outstanding at period-end should be disclosed.

PREPAID INSURANCE RELATED TO EXTINGUISHED DEBT

For governments that extinguish debt, whether through a legal extinguishment or through an in-substance defeasance, this Statement requires that any remaining prepaid insurance related to the extinguished debt be included in the net carrying amount of that debt for the purpose of calculating the difference between the reacquisition price and the net carrying amount of the debt.

ADDITIONAL DISCLOSURE FOR ALL IN-SUBSTANCE DEFEASANCE TRANSACTIONS

One of the criteria for determining an in-substance defeasance is that the trust hold only monetary assets that are essentially risk-free. If the substitution of essentially risk-free monetary assets with monetary assets that are not essentially risk-free is not prohibited, governments should disclose that fact in the period in which the debt is defeased in substance. In subsequent periods, governments should disclose the amount of debt defeased in substance that remains outstanding for which that risk of substitution exists.

GASB No. 86 does not have any impact on the House of Representatives’ financial statements.

continue
21. NEW ACCOUNTING STANDARDS – continuation

B. Future Adoption of Governmental Accounting Standards Board (GASB) Statements

The Governmental Accounting Standards Board issued the following pronouncements that have effective dates after June 30, 2020. The House of Representatives is currently evaluating its accounting practices to determine the potential impact on the financial statements for the GASB Statements.

GASB Statement No. 83, Certain Asset Retirement Obligations. This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement.

This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs. This Statement requires that recognition occur when the liability is both incurred and reasonably estimable. The determination of when the liability is incurred should be based on the occurrence of external laws, regulations, contracts, or court judgments, together with the occurrence of an internal event that obligates a government to perform asset retirement activities. Laws and regulations may require governments to take specific actions to retire certain tangible capital assets at the end of the useful lives of those capital assets, such as decommissioning nuclear reactors and dismantling and removing sewage treatment plants. Other obligations to retire tangible capital assets may arise from contracts or court judgments. Internal obligating events include the occurrence of contamination, placing into operation a tangible capital asset that is required to be retired, abandoning a tangible capital asset before it is placed into operation, or acquiring a tangible capital asset that has an existing ARO.

This Statement requires the measurement of an ARO to be based on the best estimate of the current value of outlays expected to be incurred. The best estimate should include probability weighting of all potential outcomes, when such information is available or can be obtained at reasonable cost. If probability weighting is not feasible at reasonable cost, the most likely amount should be used. This Statement requires that a deferred outflow of resources associated with an ARO be measured at the amount of the corresponding liability upon initial measurement.

This Statement requires the current value of a government’s AROs to be adjusted for the effects of general inflation or deflation at least annually. In addition, it requires a government to evaluate all relevant factors at least annually to determine whether the effects of one or more of the factors are expected to significantly change the estimated asset retirement outlays. A government should remeasure an ARO only when the result of the evaluation indicates there is a significant change in the estimated outlays. The deferred outflows of resources should be reduced and recognized as outflows of resources (for example, as an expense) in a systematic and rational manner over the estimated useful life of the tangible capital asset.

A government may have a minority share (less than 50 percent) of ownership interest in a jointly owned tangible capital asset in which a nongovernmental entity is the majority owner and reports its ARO in accordance with the guidance of another recognized accounting standards setter. Additionally, a government may have a minority share of ownership interest in a jointly owned tangible capital asset in which no joint owner has a majority ownership, and a nongovernmental joint owner that has operational responsibility for the jointly owned tangible capital asset reports the associated ARO in accordance with the guidance of another recognized accounting standards setter. In both situations, the government’s minority share of an ARO should be reported using the measurement produced by the nongovernmental majority owner or the nongovernmental minority owner that has operational responsibility, without adjustment to conform to the liability measurement and recognition requirements of this Statement.
In some cases, governments are legally required to provide funding or other financial assurance for their performance of asset retirement activities. This Statement requires disclosure of how those funding and assurance requirements are being met by a government, as well as the amount of any assets restricted for payment of the government’s ARÖs, if not separately displayed in the financial statements.

This Statement also requires disclosure of information about the nature of a government’s ARÖs, the methods and assumptions used for the estimates of the liabilities, and the estimated remaining useful life of the associated tangible capital assets. If an ARO (or portions thereof) has been incurred by a government but is not yet recognized because it is not reasonably estimable, the government is required to disclose that fact and the reasons therefor. This Statement requires similar disclosures for a government’s minority shares of ARÖs.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2018 (FY 2018-2019). Earlier application is encouraged. As per GASB Statement No. 95 the effective date is postponed by additional one year.

GASB Statement No. 84, Fiduciary Activities. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.

This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities.

An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. Governments with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position. And exception to that requirement is provided for a business-type activity that normally expects to hold custodial assets for three months or less.

This Statement describes four fiduciary funds that should be reported, if applicable, (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally should report fiduciary activities that are not held in a trust or equivalent arrangement that meets specific criteria.

A fiduciary component unit, when reported in the fiduciary fund financial statements of a primary government, should combine its information with its component units that are fiduciary component units and aggregate that combined information with the primary government’s fiduciary funds.

This Statement also provides for recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources. Events that compel a government to disburse fiduciary resources occur when a demand for the resources has been made or when no further action, approval, or condition is required to be taken or met by the beneficiary to release the assets.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2016. Earlier application is encouraged. As per GASB Statement No. 95 the effective date is postponed by additional one year.
GASB Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments’ financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments’ leasing activities.

**DEFINITION OF A LEASE**

A lease is defined as a contract that conveys control of the right to use another entity’s nonfinancial asset (the underlying asset) as specified in the contract for a period of time in an exchange or exchange-like transaction. Examples of nonfinancial assets include buildings, land, vehicles, and equipment. Any contract that meets this definition should be accounted for under the lease’s guidance, unless specifically excluded in this Statement.

**LEASE TERM**

The lease term is defined as the period during which a lessee has a noncancelable right to use an underlying asset, plus the following periods, if applicable:

- a. Periods covered by a lessee’s option to extend the lease if it is reasonably certain, based on all relevant factors, that the lessee will exercise that option

- b. Periods covered by a lessee’s option to terminate the lease if it is reasonably certain, based on all relevant factors, that the lessee will exercise that option

- c. Periods covered by a lessor’s option to extend the lease if it is reasonably certain, based on all relevant factors, that the lessor will exercise that option

- d. Periods covered by a lessor’s option to terminate the lease if it is reasonably certain, based on all relevant factors, that the lessor will not exercise that option. A fiscal funding or cancellation clause should affect the lease term only when it is reasonably certain that the clause will be exercised.

Lessees and lessors should reassess the lease term only if one or more of the following occur:

- a. The lessee or lessor elects to exercise an option even though it was previously determined that it was reasonably certain that the lessee or lessor would not exercise that option.

- b. The lessee or lessor elects not to exercise an option even though it was previously determined that it was reasonably certain that the lessee or lessor would exercise that option.

- c. An event specified in the lease contract that requires an extension or termination of the lease takes place.
21. NEW ACCOUNTING STANDARDS – continuation

SHORT-TERM LEASES

A short-term lease is defined as a lease that, at the commencement of the lease term, has a maximum possible term under the lease contract of 12 months (or less), including any options to extend, regardless of their probability of being exercised. Lessees and lessors should recognize short-term lease payments as outflows of resources or inflows of resources, respectively, based on the payment provisions of the lease contract.

LESSEE ACCOUNTING

A lessee should recognize a lease liability and a lease asset at the commencement of the lease term, unless the lease is a short-term lease, or it transfers ownership of the underlying asset. The lease liability should be measured at the present value of payments expected to be made during the lease term (less any lease incentives), the lease liability, plus any payments made to the lessor at or before the commencement of the lease term and certain direct costs.

A lessee should reduce the lease liability as payments are made and recognize an outflow of resources (for example, expense) for interest on the liability. The lessee should amortize the lease asset in a systematic and rational manner over the shorter of the lease term or the useful life of the underlying asset. The notes to financial statements should include a description of leasing arrangements, the amount of lease assets recognized, and a schedule of future lease payments to be made.

LESSOR ACCOUNTING

A lessor should recognize a lease receivable and a deferred inflow of resources at the commencement of the lease term, with certain exceptions for leases of assets held as investments, certain regulated leases, short-term leases, and leases that transfer ownership of the underlying asset. A lessor should not derecognize the asset underlying the lease. The lease receivable should be measured at the present value of lease payments expected to be received during the lease term. The deferred inflow of resources should be measured at the value of the lease receivable plus any payments received at or before the commencement of the lease term that relate to future periods.

A lessor should recognize interest revenue on the lease receivable and an inflow of resources (for example, revenue) from the deferred inflows of resources in a systematic and rational manner over the term of the lease. The notes to financial statements should include a description of leasing arrangements and the total amount of inflows of resources recognized from leases.

CONTRACTS WITH MULTIPLE COMPONENTS AND CONTRACT COMBINATIONS

Generally, a government should account for the lease and non-lease components of a lease as separate contracts. If a lease involves multiple underlying assets, lessees and lessors in certain cases should account for each underlying asset as a separate lease contract. To allocate the contract price to different components, lessees and lessors should use contract prices for individual components as long as they do not appear to be unreasonable based on professional judgment, or use professional judgment to determine their best estimate if there are no stated prices or if stated prices appear to be unreasonable.

If determining a best estimate is not practicable, multiple components in a lease contract should be accounted for as a single lease unit. Contracts that are entered into at or near the same time with the same counterparty and that meet certain criteria should be considered part of the same lease contract and should be evaluated in accordance with the guidance for contracts with multiple components.
LEASE MODIFICATIONS AND TERMINATIONS

An amendment to a lease contract should be considered a lease modification, unless the lessee’s right to use the underlying asset decreases, in which case it would be a partial or full lease termination. A lease termination should be accounted for by reducing the carrying values of the lease liability and lease asset by a lessee, or the lease receivable and deferred inflows of resources by the lessor, with any difference being recognized as a gain or loss. A lease modification that does not qualify as a separate lease should be accounted for by remeasuring the lease liability and adjusting the related lease asset by a lessee and remeasuring the lease receivable and adjusting the related deferred inflows of resources by a lessor.

SUBLEASES AND LEASEBACK TRANSACTIONS

Subleases should be treated as transactions separate from the original lease. The original lessee that becomes the lessor in a sublease should account for the original lease and the sublease as separate transactions, as a lessee and lessor, respectively.

A transaction qualifies for sale-leaseback accounting only if it includes a sale. Otherwise, it is a borrowing. The sale and lease portions of a transaction should be accounted for as separate sale and lease transactions, except that any difference between the carrying value of the capital asset that was sold and the net proceeds from the sale should be reported as a deferred inflow of resources or a deferred outflow of resources and recognized over the term of the lease. A lease-leaseback transaction should be accounted for as a net transaction. The gross amounts of each portion of the transaction should be disclosed.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2019 (FY 2020-2021). Earlier application is encouraged. As per GASB Statement No. 95 the effective date is postponed by additional eighteen months.

GASB Statement No. 88, Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements. The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt.

This Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established.

This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses.

For notes to financial statements related to debt, this Statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debts.

The requirements of this Statement will improve financial reporting by providing users of financial statements with essential information that currently is not consistently provided. In addition, information about resources to liquidate debt and the risk associated with changes in terms associated with debt will be disclosed. As a result, users will have better information to understand the effects of debt on a government’s future resources flows.
21. NEW ACCOUNTING STANDARDS – continuation

The requirements of this Statement are effective for reporting periods beginning after June 15, 2018 (FY 2018-2019). Earlier application is encouraged. As per GASB Statement No. 95 the effective date is postponed by additional one year.

GASB Statement No. 89, Accounting for Interest Cost Incurred Before the End of a Construction. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period.

This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5-22 of Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements, which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund.

This Statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2019 (FY 2020-2021). Earlier application is encouraged. The requirement of this Statement should be applied prospectively. As per GASB Statement No. 95 the effective date is postponed by additional one year.

GASB Statement No. 90, Majority Equity Interest—An Amendment of GASB Statements No. 14 and No. 61. The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value.

For all other holdings of a majority equity interest in a legally separate organization, a government should report the legally separate organization as a component unit, and the government or fund that holds the equity interest should report an asset related to the majority equity interest using the equity method. This Statement establishes that ownership of a majority equity interest in a legally separate organization results in the government being financially accountable for the legally separate organization and, therefore, the government should report that organization as a component unit.

This Statement also requires that a component unit in which a government has a 100 percent equity interest account for its assets, deferred outflows of resources, liabilities, and deferred inflows or resources at acquisition value at the date the government acquired a 100 percent equity interest in the component unit. Transactions presented in flows statements of the component unit in that circumstance should include only transactions that occurred subsequent to the acquisition. continue
21. NEW ACCOUNTING STANDARDS – continuation

The requirements of this Statement are effective for reporting periods beginning after December 15, 2018 (FY 2019-2020). Earlier application is encouraged. The requirements should be applied retroactively, except for the provisions related to (1) reporting a majority equity interest in a component unit and (2) reporting a component unit if the government acquires a 100 percent equity interest. Those provisions should be applied on a prospective basis. As per GASB Statement No. 95 the effective date is postponed by an additional one year.

GASB Statement No. 91, Conduit Debt Obligations. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation establishing that a conduit debt obligation is not a liability of the issuer, establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations, and improving required note disclosures.

A conduit debt obligation is defined as a debt instrument having all of the following characteristics:

- There are at least three parties involved: (1) an issuer, (2) a third-party obligor, and (3) a debt holder or a debt trustee.
- The issuer and the third-party obligor are not within the same financial reporting entity.
- The debt obligation is not a parity bond of the issuer, nor is it cross-collateralized with other debt of the issuer.
- The third-party obligor or its agent, not the issuer, ultimately receives the proceeds from the debt issuance.
- The third-party obligor, not the issuer, is primarily obligated for the payment of all amounts associated with the debt obligation (debt service payments).

All conduit debt obligations involve the issuer making a limited commitment. Some issuers extend additional commitments or voluntary commitments to support debt service in the event the third party is, or will be, unable to do so.

An issuer should not recognize a conduit debt obligation as a liability. However, an issuer should recognize a liability associated with an additional commitment or a voluntary commitment to support debt service if certain recognition criteria are met. As long as a conduit debt obligation is outstanding, an issuer that has made an additional commitment should evaluate at least annually whether those criteria are met. An issuer that has made only a limited commitment should evaluate whether those criteria are met when an event occurs that causes the issuer to reevaluate its willingness or ability to support the obligor’s debt service through a voluntarily commitment.

This Statement also addresses arrangements—often characterized as leases—that are associated with conduit debt obligations. In those arrangements, capital assets are constructed or acquired with the proceeds of a conduit debt obligation and used by third-party obligors in the course of their activities. Payments from third-party obligors are intended to cover and coincide with debt service payments. During those arrangement, issuers retain the titles to the capital assets. Those titles may or may not pass to the obligors at the end of the arrangements.
Issuers should not report those arrangements as leases, not should they recognize a liability for the related conduit debt obligations or a receivable for the payments related to those arrangements. In addition, the following provisions apply:

- If the title passes to the third-party obligor at the end of the arrangement, an issuer should not recognize a capital asset.

- If the title does not pass to the third-party obligor and third party has exclusive use of the entire capital asset during the arrangement, the issuer should not recognize a capital asset until the arrangement ends.

- If the title does not pass to the third-party obligor and the third party has exclusive use of only portions of the capital asset during the arrangement, the issuer, at the inception of the arrangement, should recognize the entire capital asset and a deferred inflows of resources. The deferred inflow of resources should be reduced, and an inflow recognized, in a systematic and rational manner over the term of the arrangement.

This Statement requires issuers to disclose general information about their conduit debt obligations, organized by type of commitment, including the aggregate outstanding principal amount of the issuers’ conduit debt obligations and a description of each type of commitment. Issuers that recognize liabilities related to supporting the debt service of conduit debt obligations also should disclose information about the amount recognized and how the liabilities changed during the reporting period.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2020 (FY 2021-2022). Early application is encouraged. As per GASB Statement No. 95 the effective date is postponed by additional one year.

GASB Statement No. 92, *Omnibus 2020*. The objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics and includes specific provisions about the following:

- The requirements related to the effective date of Statement 87 and Implementation Guide 2019-3, reinsurance recoveries, and terminology used to refer to derivative instruments are effective upon issuance.

- Reporting of intra-entity transfers of assets between a primary government employer and a component unit defined benefit pension plan or defined benefit other postemployment benefit (OPEB) plan are effective for fiscal years beginning after June 15, 2020.

- The applicability of Statements No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68, as amended, and No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, as amended, to reporting assets accumulated for postemployment benefits are effective for fiscal years beginning after June 15, 2020.

- The applicability of certain requirements of Statement No. 84, Fiduciary Activities, to postemployment benefit arrangements and those related to nonrecurring fair value measurements of assets or liabilities are effective for reporting periods beginning after June 15, 2020.
21. NEW ACCOUNTING STANDARDS – continuation

- The requirements related to the measurement of liabilities (and assets, if any) associated with AROs in a government acquisition are effective for government acquisitions occurring in reporting periods beginning after June 15, 2020.
- Reporting by public entity risk pools for amounts that are recoverable from reinsurers or excess insurers are effective for reporting periods beginning after June 15, 2020.
- Reference to nonrecurring fair value measurements of assets or liabilities in authoritative literature are effective for reporting periods beginning after June 15, 2020.
- Terminology used to refer to derivative instruments are effective for reporting periods beginning after June 15, 2020.

As per GASB Statement No. 95 the effective date is postponed by additional one year.

GASB Statement No. 93, Replacement of Interbank Offered Rates. Some governments have entered into agreements in which variable payments made or received depend on an interbank offered rate (IBOR)—most notably, the London Interbank Offered Rate (LIBOR). As a result of global reference rate reform, LIBOR is expected to cease to exist in its current form at the end of 2021, prompting governments to amend or replace financial instruments for the purpose of replacing LIBOR with other reference rates, by either changing the reference rate or adding or changing fallback provisions related to the reference rate.

Statement No. 53, Accounting and Financial Reporting for Derivative Instruments, as amended, requires a government to terminate hedge accounting when it renegotiates or amends a critical term of a hedging derivative instrument, such as the reference rate of a hedging derivative instrument’s variable payment. In addition, in accordance with Statement No. 87, Leases, as amended, replacement of the rate on which variable payments depend in a lease contract would require a government to apply the provisions for lease modifications, including remeasurement of the lease liability or lease receivable.

The objective of this Statement is to address those and other accounting and financial reporting implications that result from the replacement of an IBOR. This Statement achieves that objective by:

- Providing exceptions for certain hedging derivative instruments to the hedge accounting termination provisions when an IBOR is replaced as the reference rate of the hedging derivative instrument’s variable payment
- Clarifying the hedge accounting termination provisions when a hedged item is amended to replace the reference rate
- Clarifying that the uncertainty related to the continued availability of IBORs does not, by itself, affect the assessment of whether the occurrence of a hedged expected transaction is probable
- Removing LIBOR as an appropriate benchmark interest rate for the qualitative evaluation of the effectiveness of an interest rate swap
- Identifying a Secured Overnight Financing Rate and the Effective Federal Funds Rate as appropriate benchmark interest rates for the qualitative evaluation of the effectiveness of an interest rate swap
- Clarifying the definition of reference rate, as it is used in Statement 53, as amended
- Providing an exception to the lease modifications guidance in Statement 87, as amended, for certain lease contracts that are amended solely to replace an IBOR as the rate upon which variable payments depend.

The removal of LIBOR as an appropriate benchmark interest rate is effective for reporting periods ending after December 31, 2021. All other requirements of this Statement are effective for reporting periods beginning after June 15, 2020. Earlier application is encouraged. (See GASB Statement No. 95)
21. NEW ACCOUNTING STANDARDS – continuation

GASB Statement No. 94, *Public-Private and Public -Public Partnerships and Availability Payment Arrangements*. The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). As used in this Statement, a PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. Some PPPs meet the definition of a service concession arrangement (SCA), which the Board defines in this Statement as a PPP in which (1) the operator collects and is compensated by fees from third parties; (2) the transferor determines or has the ability to modify or approve which services the operator is required to provide, to whom the operator is required to provide the services, and the prices or rates that can be charged for the services; and (3) the transferor is entitled to significant residual interest in the service utility of the underlying PPP asset at the end of the arrangement.

This Statement also provides guidance for accounting and financial reporting for availability payment arrangements (APAs). As defined in this Statement, an APA is an arrangement in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction.

PPPs

This Statement requires that PPPs that meet the definition of a lease apply the guidance in Statement No. 87, *Leases*, as amended, if existing assets of the transferor that are not required to be improved by the operator as part of the PPP arrangement are the only underlying PPP assets and the PPP does not meet the definition of an SCA. This Statement provides accounting and financial reporting requirements for all other PPPs: those that either (1) meet the definition of an SCA or (2) are not within the scope of Statement 87, as amended (as clarified by this Statement). The PPP term is defined as the period during which an operator has a noncancelable right to use an underlying PPP asset, plus, if applicable, certain periods if it is reasonably certain, based on all relevant factors, that the transferor or the operator either will exercise an option to extend the PPP or will not exercise an option to terminate the PPP.

A transferor generally should recognize an underlying PPP asset as an asset in financial statements prepared using the economic resources measurement focus. However, in the case of an underlying PPP asset that is not owned by the transferor or is not the underlying asset of an SCA, a transferor should recognize a receivable measured based on the operator’s estimated carrying value of the underlying PPP asset as of the expected date of the transfer in ownership. In addition, a transferor should recognize a receivable for installment payments, if any, to be received from the operator in relation to the PPP. Measurement of a receivable for installment payments should be at the present value of the payments expected to be received during the PPP term. A transferor also should recognize a deferred inflow of resources for the consideration received or to be received by the transferor as part of the PPP. Revenue should be recognized by a transferor in a systematic and rational manner over the PPP term.

This Statement requires a transferor to recognize a receivable for installment payments and a deferred inflow of resources to account for a PPP in financial statements prepared using the current financial resources measurement focus. Governmental fund revenue would be recognized in a systematic and rational manner over the PPP term.
This Statement also provides specific guidance in financial statements prepared using the economic resources measurement focus for a government that is an operator in a PPP that either (1) meets the definition of an SCA or (2) is not within the scope of Statement 87, as amended (as clarified in this Statement). An operator should report an intangible right-to-use asset related to an underlying PPP asset that either is owned by the transferor or is the underlying asset of an SCA. Measurement of the right-to-use asset should be the amount of consideration to be provided to the transferor, plus any payments made to the transferor at or before the commencement of the PPP term, and certain direct costs. For an underlying PPP asset that is not owned by the transferor and is not the underlying asset of an SCA, an operator should recognize a liability measured based on the estimated carrying value of the underlying PPP asset as of the expected date of the transfer in ownership. In addition, an operator should recognize a liability for installment payments, if any, to be made to the transferor in relation to the PPP. Measurement of a liability for installment payments should be at the present value of the payments expected to be made during the PPP term. An operator also should recognize a deferred outflow of resources for the consideration provided or to be provided to the transferor as part of the PPP. Expense should be recognized by an operator in a systematic and rational manner over the PPP term.

This Statement also requires a government to account for PPP and non-PPP components of a PPP as separate contracts. If a PPP involves multiple underlying assets, a transferor and an operator in certain cases should account for each underlying PPP asset as a separate PPP. To allocate the contract price to different components, a transferor and an operator should use contract prices for individual components as long as they do not appear to be unreasonable based on professional judgment or use professional judgment to determine their best estimate if there are no stated prices or if stated prices appear to be unreasonable. If determining the best estimate is not practicable, multiple components in a PPP should be accounted for as a single PPP.

This Statement also requires an amendment to a PPP to be considered a PPP modification, unless the operator’s right to use the underlying PPP asset decreases, in which case it should be considered a partial or full PPP termination. A PPP termination should be accounted for by a transferor by reducing, as applicable, any receivable for installment payments or any receivable related to the transfer of ownership of the underlying PPP asset and by reducing the related deferred inflow of resources. An operator should account for a termination by reducing the carrying value of the right-to-use asset and, as applicable, any liability for installment payments or liability to transfer ownership of the underlying PPP asset. A PPP modification that does not qualify as a separate PPP should be accounted for by remeasuring PPP assets and liabilities.

APAS

An APA that is related to designing, constructing, and financing a nonfinancial asset in which ownership of the asset transfers by the end of the contract should be accounted for by a government as a financed purchase of the underlying nonfinancial asset. This Statement requires a government that engaged in an APA that contains multiple components to recognize each component as a separate arrangement. An APA that is related to operating or maintaining a nonfinancial asset should be reported by a government as an outflow of resources in the period to which payments relate.

The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged. As per GASB Statement No. 95 the effective date is postponed by additional one year.

GASB Statement No. 95, Postponement of the Effective Dates of Certain Authoritative Guidance. The primary objective of this Statement is to provide temporary relief to governments and other stakeholders in light of the COVID-19 pandemic. That objective is accomplished by postponing the effective dates of certain provisions in Statements and Implementation Guides that first became effective or are scheduled to become effective for periods beginning after June 15, 2018, and later.
21. NEW ACCOUNTING STANDARDS – continuation

The effective dates of certain provisions contained in the following pronouncements are postponed by one year:

• Statement No. 83, Certain Asset Retirement Obligations
• Statement No. 84, Fiduciary Activities
• Statement No. 88, Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements
• Statement No. 89, Accounting for Interest Cost Incurred before the End of a Construction Period
• Statement No. 90, Majority Equity Interests
• Statement No. 91, Conduit Debt Obligations
• Statement No. 92, Omnibus 2020
• Statement No. 93, Replacement of Interbank Offered Rates
• Statement No. 94, Public-Private and Public-Private Partnerships and Availability Payment Arrangements
• Implementation Guide No. 2018-1, Implementation Guidance Update—2018
• Implementation guide No. 2019-2, Fiduciary Activities

The effective dates of the following pronouncements are postponed by 18 months:

• Statement No. 87, Leases

Earlier application of the provisions addressed in this Statement is encouraged and is permitted to the extent specified in each pronouncement as originally issued.

The requirements of this Statement are effective immediately.

GASB Statement No. 96, Subscription-Based Information Technology Arrangements. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, Leases, as amended.

A SBITA is defined as a contract that conveys control of the right to use another party’s (a SBITA vendor’s) information technology (IT) software, alone or in combination with tangible capital assets (the underlying IT assets), as specified in the contract for a period of time in an exchange or exchange-like transaction.

The subscription term includes the period during which a government has a noncancelable right to use the underlying IT assets. The subscription term also includes periods covered by an option to extend (if it is reasonably certain that the government or SBITA vendor will exercise that option) or to terminate (if it is reasonably certain that the government of SBITA vendor will not exercise that option).
21. NEW ACCOUNTING STANDARDS – continuation

Under this Statement, a government generally should recognize a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability. A government should recognize the subscription liability at the commencement of the subscription term, which is when the subscription asset is placed into service. The subscription liability should be initially measured at the present value of subscription payments expected to be made during the subscription term. Future subscription payments should be discounted using the interest rate the SBITA vendor charges the government, which may be implicit, or the government's incremental borrowing rate if the interest rate is not readily determinable. A government should recognize amortization of the discount on the subscription liability as an outflow of resources (for example, interest expense) in a subsequent financial reporting period.

The subscription asset should be initially measured as the sum of (1) the initial subscription liability amount, (2) payments made to the SBITA vendor before commencement of the subscription term, and (3) capitalizable implementation costs, less any incentives received from the SBITA vendor at or before commencement of the subscription term. A government should recognize amortization of the subscription asset as an outflow of resources over the subscription term.

Activities associated with a SBITA, other than making subscription payments, should be grouped into the following three stages, and their costs should be accounted for accordingly:

- Preliminary Project Stage, including activities such as evaluating alternatives, determining needed technology, and selecting a SBITA vendor. Outlays in this stage should be expensed as incurred.
- Initial Implementation Stage, including all ancillary charges necessary to place the subscription asset into service. Outlays in this stage generally should be capitalized as an addition to the subscription asset.
- Operation and Additional Implementation Stage, including activities such as subsequent implementation activities, maintenance, and other activities for a government’s ongoing operations related to a SBITA. Outlays in this stage should be expensed as incurred unless they meet specific capitalization criteria.

In classifying certain outlays into the appropriate stage, the nature of the activity should be the determining factor. Training costs should be expensed as incurred, regardless of the state in which they are incurred.

If a SBITA contract contains multiple components, a government should account for each component as a separate SBITA or no subscription component and allocate the contract price to the different components. If it is not practicable to determine a best estimate for price allocation for some or all components in the contract, a government should account for those components as a single SBITA.

This Statement provides an exception for short-term SBITAs. Short-term SBITAs have a maximum possible term under the SBITA contract if 12 months (or less), including any options to extend, regardless of their probability of being exercised. Subscription payments for short-term SBITAs should be recognized as outflows of resources.

This Statement requires a government to disclose descriptive information about its SBITAs other than short-term SBITAs, such as the amount of the subscription asset, accumulated amortization, other payments not included in the measurement of a subscription liability, principal and interest requirements for the subscription liability, and other essential information.
The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting period thereafter. Earlier application is encouraged. Assets and liabilities resulting from SBITAs should be recognized and measured using the facts and circumstance that existed at the beginning of the fiscal year in which this Statement is implemented. Governments are permitted, but are not required, to include in the measurement of the subscription asset capitalizable outlays associated with the initial implementation stage and the operation and additional implementation stage incurred prior to the implementation of this Statement.

GASB Statement No. 97, Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—and amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32. The primary objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans.

This Statement requires that for purposes of determining whether a primary government is financially accountable for a potential component unit, except for a potential component unit that is defined contribution pension plan, a defined contribution OPEB plan, or another employee benefit plan (for example, certain Section 457 plans), the absence of a governing board should be treated the same as the appointment of a voting majority of a governing board if the primary government performs the duties that a governing board typically would perform.

This Statement also requires that the financial burden criterion in paragraph 7 of Statement No. 84, Fiduciary Activities, be applicable to only defined benefit pension plans and defined benefit OPEB plans that are administered through trusts that meet the criteria in paragraph 3 of Statement No. a67, Financial Reporting for Pension Plans, or paragraph 3 of Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, respectively.

This Statement (1) requires that a Section 457 plan be classified as either a pension plan or another employee benefit plan depending on whether the plan meets the definition of a pension plan and (2) clarifies that Statement 84, as amended, should be applied to all arrangements organized under IRC Section 457 to determine whether those arrangements should be reported as fiduciary activities.

This Statement supersedes the remaining provisions of Statement No. 32, Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans, as amended, regarding investment valuation requirements for Section 457 plans. As a result, investments of all Section 457 plans should be measured as of the end of the plan’s reporting period in all circumstances.

The requirements of this Statement that (1) exempt primary governments that perform the duties that a governing board typically performs from treating the absence of a governing board the same as the appointment of a voting majority of a governing board in determining whether they are financially accountable for defined contribution pension plans, defined contribution OPEB plans, or other employee benefit plans and (2) limit the applicability of the financial burden criterion in paragraph 7 of Statement 84 to defined benefit pension plans and defined benefit OPEB plans that are administered through trusts that meet the criteria in paragraph 3 of Statement 67 or paragraph 3 of Statement 74, respectively, are effective immediately.
21. NEW ACCOUNTING STANDARDS – continuation

The requirements of this Statement that are related to the accounting and financial reporting for Section 457 plans are effective for fiscal years beginning after June 15, 2021. For purposes of determining whether a primary government is financially accountable for a potential component unit, the requirements of this Statement that provide that for all other arrangements, the absence of a governing board be treated the same as the appointment of a voting majority of a governing board if the primary government performs the duties that a governing board typically would perform, are effective for reporting periods beginning after June 15, 2021. Earlier application of those requirements is encouraged and permitted by requirement as specified within this Statement.

The Board considered the effective dates for the requirements of this Statement in light of the COVID-19 pandemic and in concert with Statement No. 95, Postponement of the Effective Dates of Certain Authoritative Guidance.

The House of Representatives has not yet determined the effect these statements will have on the basic financial statements.

22. SUBSEQUENT EVENTS

Management has evaluated subsequent events through December 12, 2020 which is the same date the financial statements were available to be issued.

Special Assignment

On September 28, 2020, the House of Representative received a special assignment in the amount of $2,500,000 to cover the deficiency of the expenses over revenues of the fiscal year ended June 30, 2020 (as prior year debts) and to cover the liquidation of accrued vacations.

END OF NOTES
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Required Supplementary Information
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## Schedule of Revenues and Expenditures –

**Budget and Actual – General Fund**

For the Fiscal Years Ended June 30, 2020

<table>
<thead>
<tr>
<th></th>
<th>Budget Amounts</th>
<th>Actual Amounts (Budgetary Basis)</th>
<th>Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Original</td>
<td>Final</td>
<td></td>
</tr>
<tr>
<td>REVENUES:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Intergovernmental</td>
<td>$31,014,364</td>
<td>$31,014,364</td>
<td></td>
</tr>
<tr>
<td>Special Appropriations</td>
<td>462,000</td>
<td>462,000</td>
<td></td>
</tr>
<tr>
<td>Total Revenues</td>
<td>$31,476,364</td>
<td>$31,476,364</td>
<td></td>
</tr>
</tbody>
</table>

| EXPENDITURES:      |                |                                  |          |
| Current:           |                |                                  |          |
| General Government - Administrative and Operating Activities | 31,438,301 | 31,438,301 | 33,314,373 | (1,876,072) |
| Capital Outlays    | 38,063         | 38,063                           | 38,063   |          |
| Total Expenditures | $31,476,364    | $31,476,364                      | $33,352,436 | (1,876,072) |

Excess (Deficiency) of Revenues Over (Under) Expenditures

|                                |                |                                  |          |
|                                | $               | $                                | (1,876,072) | $ (1,876,072) |

Note: During September 2020, The House of Representatives received special assignment to cover the deficiency of expenses over revenues from fiscal year June 30, 2020.
NOTE A – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Control

The House of Representatives budget is prepared on the budgetary basis of accounting, which is not in accordance with US GAAP, and represents departmental appropriations recommended by the Speaker and approved by the Legislature prior to the beginning of the fiscal year. Amendments to the budget require the approval of the Legislature. Transfers of certain appropriations within the budget do not require the approval of the Legislature in accordance with Administrative Order 07-10 of July 2007. The House of Representatives prepares its annual budget including the operations of the general fund. The annual appropriated budget for the fiscal year ended June 30, 2020 was $31,014,364. In addition, the amount of $462,000 were appropriated for Special Assignments.

For budgetary purposes, encumbrance accounting is used. The encumbrances (i.e., purchase orders contracts) are considered expenditures when incurred. For US GAAP reporting purposes, encumbrances outstanding at year-end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year.

The Commonwealth of Puerto Rico Accounting Law establishes that unreserved funds (excess of revenues over expenditures) at the end of the fiscal year from the Legislative Branch will be carried forward and made available for spending for the next three fiscal years. The Senate’s Administrative Order 2010-35 of January 2010 stipulates that such unreserved funds must be spent for non-recurrent expenditures. The remaining unexpended amounts after the three years have lapsed should be reverted to the Secretary of Treasury of Puerto Rico pursuant to Act 230.

Budget GAAP/Reconciliation

The following schedule presents comparisons of the legally adopted budget with actual data on a budget basis. Because accounting principles applied for purposes of developing data on a budget basis differ significantly from those used to present financial statements in conformity with GAAP, a reconciliation of differences in expenditures for the fiscal year ended June 30, 2020 is presented below:

Explanation of Differences Between Budgetary Inflows and Outflows and GAAP Revenues and Expenditures

| Sources/Inflows of Resources: |
|-------------------------------|-----------------|
| Actual Amounts (Budgetary Basis) "Available for Appropriation" from the Budgetary Comparison Schedule (See Page 142) | $ 31,476,364 |
| Difference — Budget to GAAP: | 35,834 |
| Non budgetary items – Other Revenues | |
| Total Revenues as Reported on the Statement of Governmental Funds Revenues, Expenditures and Changes in Fund Balance (See Page 54) | $ 31,512,198 |

| Uses/Outflows of Resources: |
|-----------------------------|-----------------|
| Actual Amounts (Budgetary Basis) "Total Charges to Appropriation" from the Budgetary Comparison Schedule (See Page 142) | $ 33,352,436 |
| Difference — Budget to GAAP: | 2,537,576 |
| Non budgetary items – Expenditures of Savings Fund | |
| Total Expenditures as Reported on the Statement of Governmental Funds Revenues, Expenditures and Changes in Fund Balance (See Page 54) | $ 35,890,012 |

Note: Non budgetary items - expenditures of savings funds are included as part of General Fund.

END OF NOTES
### Required Supplementary Information

**Schedule of Proportionate Share of the Net Pension Liability**

**For the Fiscal Years Ended June 30, 2020**

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proportion of the Net Pension Liability*</td>
<td>0.03850%</td>
<td>0.04408%</td>
<td>0.04971%</td>
<td>0.04004%</td>
</tr>
<tr>
<td>Proportionate Share of the Net Pension Liability</td>
<td>$11,604,027</td>
<td>$14,693,852</td>
<td>$18,741,934</td>
<td>$13,699,715</td>
</tr>
<tr>
<td>Covered - Employee Payroll</td>
<td>$1,343,368</td>
<td>$1,463,010</td>
<td>$1,662,659</td>
<td>$1,338,895</td>
</tr>
<tr>
<td>Proportionate Share of the Net Pension Liability as Percentage of Covered-Employee Payroll</td>
<td>863.80%</td>
<td>1004.36%</td>
<td>1127.23%</td>
<td>1023.21%</td>
</tr>
<tr>
<td>Plan's Fiduciary Net Position</td>
<td>$31,058</td>
<td>$(294,549)</td>
<td>$(629,335)</td>
<td>$(844,308)</td>
</tr>
<tr>
<td>Plan Fiduciary Net Position as Percentage of the Net Pension Liability</td>
<td>0.27%</td>
<td>-2.00%</td>
<td>-3.36%</td>
<td>-6.16%</td>
</tr>
</tbody>
</table>

**Notes to Schedule:**

**Benefit Changes:** In 2015, benefit terms were modified to base public safety employee pensions on a final three-year average salary instead of a final five-year average salary.

**Changes Assumptions:** In 2015, amounts reported as changes in assumptions resulted primarily from adjustments to expected retirement ages of general employees.

* Fiscal year 2015 was the first year of implementation, therefore only four years are shown.
  The amounts presented have a measurement date of June 30, 2017

**The Schedule of Proportionate Share for 2015 through 2018 are audited.
Method and Assumptions Used in Calculation of the ER'S Annual Required Contributions

Unless otherwise noted above the following actuarial methods and assumptions were used to determine contribution notes reported in the Pension Benefits Schedule of the Employee’s Contributions.

<table>
<thead>
<tr>
<th>Method/Assumption</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valuation Date</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Measurement Date</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Actuarial Cost Method</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Asset Valuation Method</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Remaining Amortization Period</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Actuarial Assumptions</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Inflation Rate</td>
<td>N/A</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Projected Salary Increase</td>
<td>N/A</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Salary Increase</td>
<td>3.00%</td>
<td>280,601</td>
<td>332,377</td>
<td>285,207</td>
</tr>
<tr>
<td>mortality</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pre-retirement Mortality</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pot-retirement Healthy Mortality</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Post-retirement Disabled Mortality</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Pre-retirement Mortality - For general employees not covered under Act No. 127, RP-2014 Employee Mortality Rates for males and females adjusted to reflect Mortality Improvement Scale MP-2017 from the 2006 base year and projected forward using MP-2017 on generational basis. For members covered under Act No. 127, RB-2014 Employee Mortality Rates are assumed with blue collar adjustments for males and females adjusted to reflect Mortality Improvement Scale MP-2017 from the 2006 base year and projected forward using MP-2017 on generational basis. As generational tables, they reflect mortality improvements both before and after the measurement date. 100% of deaths while in active service are assumed to be occupational for members covered under Act No. 127.

Pot-retirement Healthy Mortality - Rates which vary by gender are assumed for healthy retirees and beneficiaries based on study of the Plan’s experience from 2007 to 2012 and updated expectations regarding future mortality improvement. The 2010 base rates are equal to 92% of the rates from the UP-1994 mortality Tables for Males and 95% of the rates from UP-1994 Mortality Table for Females, both projected from 1994 to 2010 using Scale AA. The base rates are projected using Mortality Improvement Scale MP-2017 on a generational basis. As a Generational table, it reflects mortality improvements both before and after the measurement date.

2. This information is intended to help users assess the House of Representatives’ pension plan’s status on a going-concern basis, assess progress made in accumulating assets to pay benefits when due, and make comparisons with other public employers.

3. The information presented relates solely to the House of Representatives and not Employee’s Retirement System of the Government of the Commonwealth of Puerto Rico (ERS) as a whole.

4. As June 30, 2020, the schedules information for fiscal year 2018-2019 of the ERS are not available.

END OF NOTES
INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Members of the House of Representatives
of the Commonwealth of Puerto Rico
San Juan, Puerto Rico

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the House of Representatives of the Commonwealth of Puerto Rico (House of Representatives), as of and for the fiscal year ended June 30, 2020, and the related notes to basic financial statements, which collectively comprise the House of Representatives’ basic financial statements, and have issued our report thereon dated December 12, 2020.

Going Concern

The House of Representatives is part of the Commonwealth of Puerto Rico (Commonwealth). Our report on the basic financial statements includes an emphasis-of-matter paragraph describing conditions, discussed in Note 19 to the basic financial statements, that raised substantial doubt about the Commonwealth of Puerto Rico’s ability to continue as a going concern.

Internal Control Over Financial Reporting

In planning and performing our audit of the basic financial statements, we considered the House of Representatives’ internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the House of Representatives’ internal control. Accordingly, we do not express an opinion on the effectiveness of the House of Representatives’ internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the House of Representatives’ financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weakness or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weakness. We did identify certain deficiency in internal control, described in the accompanying Schedule of Findings and Responses as item 2020-001 that we consider to be significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the House of Representatives’ financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying Schedule of Findings and Responses as item 2020-001.

House of Representatives’ Response to Finding

House of Representatives’ response to the finding identified in our audit is described in the accompanying Schedule of Findings and Responses. House of Representatives’ response was not subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the House of Representatives’ internal control or on compliance. This report is an integral part of an audit reform in accordance with Government Auditing Standards in considering the entity’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.
SCHEDULE OF FINDINGS AND RESPONSES
<table>
<thead>
<tr>
<th>FINDING REFERENCE NUMBER</th>
<th>2020-001</th>
</tr>
</thead>
<tbody>
<tr>
<td>TYPE OF FINDING</td>
<td>MATERIAL WEAKNESS IN PREPARED FINANCIAL STATEMENTS</td>
</tr>
</tbody>
</table>
| CRITERIA                 | Codification of Statements on Auditing Standards, *Communicating Internal Control Related Matters Identified in an Audit* (AUC Section 265.11), states that the auditor should communicate in writing to those charged with governance on a timely basis significant deficiencies and material weaknesses identified during the audit, including those that were remediated during the audit. Paragraph 4.23 of the *Government Auditing Standards* (GAGAS) states the follows:  

**4.23** When performing GAGAS financial audits, auditors should communicate in the report on internal control over financial reporting and compliance, based upon the work performed, (1) significant deficiencies and material weaknesses in internal control; (2) instances of fraud and noncompliance with provisions of laws or regulations that have a material effect on the audit and any other instances that warrant the attention of those charged with governance; (3) noncompliance with provisions of contracts or grant agreements that has a material effect on the audit; and (4) abuse that has a material effect on the audit. |
| CONDITION                | During our audit of the Financial Statements of the House of Representatives we noted that in the Schedule of Revenues and Expenditures – Budget to Actual – General Fund an excess of expenditures was presented over the approved budget. |
| CAUSE                    | The House of Representative’s internal controls and budget and finance staff failed to monitor and maintain a balance budget for the fiscal year 2019-2020 appropriation under the general fund which was significantly reduced for the current fiscal year when compared to prior year’s appropriation. |
| EFFECT OR POSSIBLE EFFECT | The House of Representative incurred in expenditures and obligations to employees and vendors in excess of its available resources, this may cause claims by vendors and employees if the debts are no satisfied on a timely basis. |
| RECOMMENDATION           | We recommend that the House of Representative project on a monthly basis, the expenditures and obligations incurred against the authorized appropriation and take appropriate actions to maintain expenditures at or below the appropriations received. |
| RESPONSIBLE OFFICIAL’S RESPONSURE AND CORRECTIVE ACTION PLANNED | The necessary internal controls were established to evaluate monthly and projected expenses, so that we could comply with the assigned budget.  

This was an isolated situation caused by a reduction of $10 million in the budget assigned to the House of Representatives in relation to the budget of the previous year, affecting contractual commitments that the House of Representatives had. |
| IMPLEMENTATION DATE      | January 1, 2021 |
| RESPONSIBLE PERSON        | Director of Finance and Budget |

END OF SCHEDULE
INTRODUCTION

This part of the Comprehensive Annual Financial Report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the House of Representatives’ overall financial health. Unless otherwise noted, the information in the following schedules is derived from the comprehensive annual financial reports for the relevant year. The House of Representatives implemented Statement 34 in 2008, when it became fiscally autonomous, pursuant to the provisions of Act 230 of July 23, 1974 as amended.

The following are the categories of the various schedules that are included in this section:

**Financial Trends Information**

These schedules contain trend information to help the reader understand how the House of Representatives’ financial performance and well-being have change over time.  153-157

**Debt Capacity**

These schedules present information to help the reader understand the House of Representatives’ levels of debt.  158-159

**Revenue Capacity Information**

This schedule contains information to help the reader assess the House of Representatives’ most significant revenue source, legislative appropriations.  160

**Demographic and Economic Information**

This schedule offers demographic and economic indicators to help the reader understand the environment within the House of Representatives financial activities take place.  161

**Operating Information**

This schedule contains service data to help the reader understand how the information in the financial reports relates to the services the House of Representatives provides and the activities it performs.  162
<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Invested in Capital Assets</td>
<td>$ 750,927</td>
<td>$ 968,404</td>
<td>$ 1,301,629</td>
<td>$ 1,445,240</td>
<td>$ 1,727,370</td>
<td>$ 1,733,805</td>
<td>$ 1,845,125</td>
<td>$ 1,464,142</td>
<td>$ 1,499,657</td>
<td>$ 1,205,262</td>
</tr>
<tr>
<td>Restricted</td>
<td>1,404,882</td>
<td>1,474,556</td>
<td>1,830,374</td>
<td>2,203,040</td>
<td>2,269,623</td>
<td>2,213,323</td>
<td>2,418,023</td>
<td>2,286,159</td>
<td>3,491,286</td>
<td>935,602</td>
</tr>
<tr>
<td>Unrestricted</td>
<td>(25,488,806)</td>
<td>(21,027,320)</td>
<td>(16,383,915)</td>
<td>(16,238,186)</td>
<td>(19,664,583)</td>
<td>2,461,656</td>
<td>2,622,416</td>
<td>1,313,193</td>
<td>(909,130)</td>
<td>(3,379,560)</td>
</tr>
<tr>
<td>Total Net Position (Deficit)</td>
<td>$(23,332,997)</td>
<td>$(18,584,360)</td>
<td>$(13,261,912)</td>
<td>$(12,589,906)</td>
<td>$(15,667,590)</td>
<td>$6,408,784</td>
<td>$6,885,564</td>
<td>$5,063,484</td>
<td>$4,081,813</td>
<td>$(1,238,696)</td>
</tr>
<tr>
<td>--------------------------------</td>
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</tr>
<tr>
<td><strong>Revenues</strong></td>
<td></td>
<td></td>
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<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Legislative Appropriations</td>
<td>$31,476,364</td>
<td>$30,658,000</td>
<td>$45,470,000</td>
<td>$50,211,867</td>
<td>$47,545,795</td>
<td>$47,535,120</td>
<td>$51,744,800</td>
<td>$51,744,800</td>
<td>$52,744,270</td>
<td>$46,959,895</td>
</tr>
<tr>
<td>Special Legislative Assignments</td>
<td>-</td>
<td>-</td>
<td>479,000</td>
<td>150,000</td>
<td>161,786</td>
<td>669,652</td>
<td>706,000</td>
<td>1,885,192</td>
<td>5,030,530</td>
<td>3,326,560</td>
</tr>
<tr>
<td>Other Revenues</td>
<td>35,834</td>
<td>33,884</td>
<td>-</td>
<td>34,850</td>
<td>-</td>
<td>-</td>
<td>4,782</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total Revenues</strong></td>
<td>$31,512,198</td>
<td>$35,691,884</td>
<td>$45,949,000</td>
<td>$50,396,517</td>
<td>$47,707,581</td>
<td>$48,204,772</td>
<td>$52,455,582</td>
<td>$53,029,992</td>
<td>$57,774,800</td>
<td>$50,286,455</td>
</tr>
<tr>
<td><strong>Expenses</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Government Activities</td>
<td>$36,260,835</td>
<td>$41,014,332</td>
<td>$46,617,184</td>
<td>$47,504,466</td>
<td>$49,474,324</td>
<td>$48,681,552</td>
<td>$50,633,512</td>
<td>$52,648,311</td>
<td>$52,454,291</td>
<td>$49,602,539</td>
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<td>Special Items</td>
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<td>-</td>
<td>61,186</td>
<td>-</td>
<td>-</td>
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<tr>
<td><strong>Total Change in Net Position</strong></td>
<td>$(4,748,637)</td>
<td>$(5,322,448)</td>
<td>$(668,184)</td>
<td>$(2,953,237)</td>
<td>$(1,766,743)</td>
<td>$(476,780)</td>
<td>$1,822,070</td>
<td>$981,681</td>
<td>$5,320,509</td>
<td>$683,916</td>
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</table>
# Fund Balance for the Last Ten Fiscal Years

## Primary Government

### General Fund

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<tbody>
<tr>
<td><strong>Fund Balance</strong></td>
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<tr>
<td><strong>Reserved for:</strong></td>
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<tr>
<td>Nonspendable</td>
<td>$118,756</td>
<td>$148,532</td>
<td>$148,061</td>
<td>$114,851</td>
<td>$160,980</td>
<td>$154,962</td>
<td>$154,583</td>
<td>$164,029</td>
<td>$152,749</td>
<td>$116,744</td>
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<td>Restricted</td>
<td>1,404,882</td>
<td>1,474,556</td>
<td>1,830,374</td>
<td>2,203,040</td>
<td>2,269,623</td>
<td>2,213,323</td>
<td>2,418,023</td>
<td>2,286,159</td>
<td>3,491,286</td>
<td>935,602</td>
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<tr>
<td>Unassigned</td>
<td>(1,583,364)</td>
<td>2,696,999</td>
<td>7,293,995</td>
<td>8,539,807</td>
<td>6,673,087</td>
<td>7,934,253</td>
<td>7,688,371</td>
<td>6,194,915</td>
<td>4,397,258</td>
<td>1,550,163</td>
</tr>
<tr>
<td><strong>Total Fund Balance</strong></td>
<td>$ (59,726)</td>
<td>$ 4,318,087</td>
<td>$ 9,272,430</td>
<td>$ 10,857,686</td>
<td>$ 9,103,690</td>
<td>$ 10,302,538</td>
<td>$ 10,260,977</td>
<td>$ 8,645,103</td>
<td>$ 8,041,283</td>
<td>$ 2,602,509</td>
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* As restated
## Change In Fund Balance For The Last Ten Fiscal Years

**Primary Government**

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<td><strong>Revenues</strong></td>
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<tr>
<td>Legislature Appropriations</td>
<td>$31,014,364</td>
<td>$35,228,000</td>
<td>$45,470,000</td>
<td>$47,696,000</td>
<td>$47,545,795</td>
<td>$47,535,120</td>
<td>$51,744,800</td>
<td>$51,744,800</td>
<td>$52,744,270</td>
<td>$46,969,895</td>
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<tr>
<td>Special Legislative Assignment</td>
<td>462,000</td>
<td>430,000</td>
<td>479,000</td>
<td>2,665,667</td>
<td>150,062</td>
<td>669,652</td>
<td>706,000</td>
<td>1,885,192</td>
<td>5,030,530</td>
<td>3,326,500</td>
</tr>
<tr>
<td>Other</td>
<td>35,834</td>
<td>33,884</td>
<td>-</td>
<td>96,036</td>
<td>-</td>
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<td>-</td>
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<tr>
<td><strong>Total Revenues</strong></td>
<td>31,512,198</td>
<td>35,691,884</td>
<td>45,949,000</td>
<td>47,695,857</td>
<td>48,204,772</td>
<td>52,450,800</td>
<td>53,629,992</td>
<td>57,774,800</td>
<td>50,286,455</td>
<td></td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Expenditures</strong></th>
<th></th>
<th></th>
<th></th>
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<th></th>
<th></th>
<th></th>
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</thead>
<tbody>
<tr>
<td>Capital Leases</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>60,080</td>
<td>64,122</td>
<td>202,828</td>
<td>243,588</td>
<td>247,532</td>
<td>237,833</td>
<td></td>
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<tr>
<td>Interest</td>
<td>40,946</td>
<td>32,294</td>
<td>6,653</td>
<td>5,442</td>
<td>7,963</td>
<td>13,903</td>
<td>18,051</td>
<td>22,220</td>
<td>31,909</td>
<td>41,220</td>
</tr>
<tr>
<td><strong>Total Expenditures</strong></td>
<td>35,890,012</td>
<td>41,754,978</td>
<td>47,516,304</td>
<td>47,343,026</td>
<td>46,221,772</td>
<td>47,358,704</td>
<td>49,501,060</td>
<td>52,095,624</td>
<td>48,755,451</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Excess (Deficiency) of Revenues</strong></th>
<th></th>
<th></th>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Over Expenditures</td>
<td>(4,377,814)</td>
<td>(6,063,094)</td>
<td>(1,567,304)</td>
<td>1,736,044</td>
<td>352,831</td>
<td>1,983,000</td>
<td>5,092,096</td>
<td>4,128,932</td>
<td>5,679,176</td>
<td>1,531,004</td>
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</table>

<table>
<thead>
<tr>
<th><strong>Other Financing Sources (Uses)</strong></th>
<th></th>
<th></th>
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<th></th>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Transfer to Superintendence of the Capitol Building</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(1,537,517)</td>
<td>(2,976,442)</td>
<td>(3,790,903)</td>
<td>(3,525,122)</td>
<td>(240,392)</td>
<td>(430,582)</td>
</tr>
<tr>
<td>Other Transfers</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(14,162)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Capital Lease Agreement</td>
<td>-</td>
<td>1,108,751</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>314,771</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total Other Financing Sources (Uses)</strong></td>
<td>-</td>
<td>1,108,751</td>
<td>-</td>
<td>-</td>
<td>(1,551,679)</td>
<td>(2,976,442)</td>
<td>(3,476,222)</td>
<td>(3,525,122)</td>
<td>(240,392)</td>
<td>(430,582)</td>
</tr>
</tbody>
</table>

| **Net Change in Fund Balance** | (4,377,814) | (4,994,343) | (1,567,304) | 1,736,044 | (1,198,848) | (993,442) | 1,615,874 | 603,810 | 5,438,784 | 1,100,422 |

| **Debt Service as Percentage of Noncapital Expenditures** | 0.67% | 0.39% | 0.14% | 0.14% | 0.15% | 0.47% | 0.56% | 0.55% | 0.52% | 0.56% |
### Governmental Activities

#### Capital Assets

**Capital Assets, Not Being Depreciated:**

<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Works of Arts and Historic Treasures</td>
<td>$193,026</td>
<td>$193,026</td>
<td>$193,526</td>
<td>$193,526</td>
<td>$186,236</td>
<td>$178,826</td>
<td>$176,525</td>
<td>$175,526</td>
<td>$169,776</td>
<td>$144,776</td>
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</table>

**Capital Assets, Being Depreciated:**

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<tr>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Furniture and Equipment</td>
<td>4,790,668</td>
<td>4,687,755</td>
<td>5,356,650</td>
<td>5,196,188</td>
<td>5,419,255</td>
<td>5,026,810</td>
<td>4,983,635</td>
<td>5,272,738</td>
<td>5,234,328</td>
<td>4,886,169</td>
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<tr>
<td>Vehicles</td>
<td>767,980</td>
<td>789,888</td>
<td>789,888</td>
<td>831,804</td>
<td>902,274</td>
<td>1,015,174</td>
<td>1,148,274</td>
<td>1,198,806</td>
<td>1,450,729</td>
<td>1,163,755</td>
</tr>
<tr>
<td>Intangibles</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>334,451</td>
<td>335,076</td>
<td>243,924</td>
<td>229,748</td>
<td>207,644</td>
</tr>
<tr>
<td>Equipment Under Capital Lease</td>
<td>1,432,711</td>
<td>1,432,711</td>
<td>1,233,627</td>
<td>1,233,627</td>
<td>863,165</td>
<td>1,195,828</td>
<td>1,195,828</td>
<td>1,213,722</td>
<td>1,213,722</td>
<td>-</td>
</tr>
<tr>
<td>Total Capital Assets</td>
<td>7,184,266</td>
<td>7,103,380</td>
<td>7,573,691</td>
<td>7,455,145</td>
<td>7,705,379</td>
<td>7,751,714</td>
<td>7,750,186</td>
<td>8,090,540</td>
<td>8,298,303</td>
<td>6,412,344</td>
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</tbody>
</table>

**Less: Accumulated Depreciation**

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</thead>
<tbody>
<tr>
<td>Intangibles</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(267,387)</td>
<td>(241,849)</td>
<td>(215,332)</td>
<td>(202,750)</td>
<td>(171,401)</td>
</tr>
<tr>
<td>Equipment Under Capital Lease</td>
<td>(693,166)</td>
<td>(471,416)</td>
<td>(1,138,120)</td>
<td>(1,075,166)</td>
<td>(705,778)</td>
<td>(1,075,543)</td>
<td>(780,377)</td>
<td>(855,453)</td>
<td>(612,709)</td>
<td>-</td>
</tr>
<tr>
<td>Total Capital Assets, Net</td>
<td>$1,532,258</td>
<td>$1,949,186</td>
<td>$1,336,012</td>
<td>$1,565,866</td>
<td>$1,892,517</td>
<td>$1,960,653</td>
<td>$2,274,801</td>
<td>$1,846,938</td>
<td>$2,129,976</td>
<td>$1,229,654</td>
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</table>

* As restated
## Long-Term Liabilities for the Last Ten Fiscal Years

**Primary Government**

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<tr>
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</thead>
<tbody>
<tr>
<td>Accrued Compensated Absences</td>
<td>$4,572,742</td>
<td>$4,412,439</td>
<td>$4,634,517</td>
<td>$4,660,855</td>
<td>$5,829,019</td>
<td>$5,267,559</td>
<td>$4,860,538</td>
<td>$4,885,750</td>
<td>$5,089,136</td>
<td>$4,668,683</td>
</tr>
<tr>
<td>Accrued Claims and Judgments</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>360,000</td>
<td>360,000</td>
<td>360,000</td>
<td>360,000</td>
<td>360,000</td>
</tr>
<tr>
<td>Net Pension Liability</td>
<td>13,699,715</td>
<td>13,699,715</td>
<td>13,699,715</td>
<td>18,741,934</td>
<td>14,693,852</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total Obligations</strong></td>
<td>$18,844,967</td>
<td>$19,061,900</td>
<td>$18,368,615</td>
<td>$23,511,905</td>
<td>$21,048,108</td>
<td>$5,854,407</td>
<td>$5,650,215</td>
<td>$7,754,630</td>
<td>$7,807,816</td>
<td>$7,485,161</td>
</tr>
</tbody>
</table>

*As restated*
### Debt Capacity for the Last Ten Fiscal Years

#### Primary Government

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<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Capital Lease Obligations</td>
<td>$781,332</td>
<td>$980,782</td>
<td>$34,383</td>
<td>$101,116</td>
<td>$165,237</td>
<td>$226,848</td>
<td>$429,677</td>
<td>$382,797</td>
<td>$630,319</td>
<td>$868,152</td>
</tr>
<tr>
<td>Debt Service as Percentage of</td>
<td>1.12%</td>
<td>1.41%</td>
<td>0.06%</td>
<td>0.18%</td>
<td>0.26%</td>
<td>0.30%</td>
<td>0.68%</td>
<td>0.60%</td>
<td>1.01%</td>
<td>1.41%</td>
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<tr>
<td>Personal Income</td>
<td></td>
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<td></td>
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<tr>
<td>Amount of Debt per Capital</td>
<td>$0.24</td>
<td>$0.31</td>
<td>$0.01</td>
<td>$5.28</td>
<td>$9.72</td>
<td>$13.03</td>
<td>$24.68</td>
<td>$21.98</td>
<td>$37.22</td>
<td>$52.26</td>
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</table>

^ Based on 2013 information available

* As restated
### Governmental Activities

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<tr>
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<tbody>
<tr>
<td><strong>Legislature Appropriations</strong></td>
<td>$31,014,364</td>
<td>$35,228,000</td>
<td>$45,470,000</td>
<td>$50,211,667</td>
<td>$47,545,795</td>
<td>$47,535,120</td>
<td>$51,744,800</td>
<td>$51,744,800</td>
<td>$52,744,270</td>
<td>$46,959,895</td>
</tr>
<tr>
<td><strong>Special Legislative Assignment</strong></td>
<td>$462,000</td>
<td>$430,000</td>
<td>$479,000</td>
<td>$150,000</td>
<td>$150,062</td>
<td>$669,652</td>
<td>$706,000</td>
<td>$1,885,192</td>
<td>$5,030,530</td>
<td>$3,328,560</td>
</tr>
<tr>
<td><strong>Total Legislature Appropriations</strong></td>
<td>$31,476,364</td>
<td>$35,658,000</td>
<td>$45,949,000</td>
<td>$50,361,667</td>
<td>$48,204,772</td>
<td>$52,450,800</td>
<td>$53,629,992</td>
<td>$57,774,800</td>
<td>$50,286,455</td>
<td></td>
</tr>
</tbody>
</table>

*As restated*
### Demographic and Economic Indicators of the Commonwealth of Puerto Rico

**For the Last Ten Fiscal Years**

**Primary Government**

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Population (In Thousands)</th>
<th>Personal Income (In Thousands)</th>
<th>Per Capita</th>
<th>Inflation Rate</th>
<th>Employment (In Thousands)</th>
<th>Unemployment Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>2020p</td>
<td>3,386</td>
<td>69,730</td>
<td>12,805</td>
<td>2.1%</td>
<td>962</td>
<td>8.9%</td>
</tr>
<tr>
<td>2019P</td>
<td>3,386</td>
<td>69,730</td>
<td>12,805</td>
<td>2.1%</td>
<td>986</td>
<td>8.5%</td>
</tr>
<tr>
<td>2018r</td>
<td>3,195</td>
<td>58,170</td>
<td>21,100</td>
<td>1.9%</td>
<td>971</td>
<td>10.3%</td>
</tr>
<tr>
<td>2017r</td>
<td>3,325</td>
<td>53,738</td>
<td>19,140</td>
<td>0.60% r</td>
<td>982 r</td>
<td>11.5%</td>
</tr>
<tr>
<td>2016r</td>
<td>3,407 r</td>
<td>51,769</td>
<td>18,485</td>
<td>-0.20% r</td>
<td>989 r</td>
<td>11.8%</td>
</tr>
<tr>
<td>2015r</td>
<td>3,504</td>
<td>56,405</td>
<td>18,195</td>
<td>-0.30%</td>
<td>977 r</td>
<td>12.8%</td>
</tr>
<tr>
<td>2014r</td>
<td>3,564</td>
<td>54,899</td>
<td>17,709</td>
<td>0.90%</td>
<td>987 r</td>
<td>14.40%</td>
</tr>
<tr>
<td>2013</td>
<td>3,614</td>
<td>55,035</td>
<td>17,753</td>
<td>0.90%</td>
<td>1,012</td>
<td>14.00%</td>
</tr>
<tr>
<td>2012</td>
<td>3,657</td>
<td>52,749</td>
<td>17,016</td>
<td>2.60%</td>
<td>1,024</td>
<td>15.20%</td>
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<tr>
<td>2011</td>
<td>3,700</td>
<td>51,258</td>
<td>16,535</td>
<td>1.80%</td>
<td>1,043</td>
<td>16.20%</td>
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<tr>
<td>2010</td>
<td>3,731</td>
<td>51,446</td>
<td>16,077</td>
<td>2.00%</td>
<td>1,075</td>
<td>16.30%</td>
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</table>

**Note:** Fiscal Year "2020p" and "2019p" means that the numbers detailed are preliminary. Fiscal Years "2018r", "2017r", "2016r", "2015r" and "2014r" means that the numbers detailed are revised.

**Source Data:** Puerto Rico Economic Summary
- Report from the Puerto Rico Planning Board to the Governor of Puerto Rico
- Dated April 30, 2020
## Operating Indicators for the Last Ten Fiscal Years

### Primary Government

#### Legislators

<table>
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</thead>
<tbody>
<tr>
<td>Legislators</td>
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#### Number of Employees by Function:

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<tr>
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<td>593</td>
<td>324</td>
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<td>498</td>
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<td>466</td>
<td>530</td>
<td>541</td>
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<tr>
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<td>284</td>
<td>298</td>
<td>239</td>
<td>283</td>
<td>273</td>
<td>262</td>
<td>280</td>
<td>294</td>
<td>277</td>
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<tr>
<td>Total Employees</td>
<td>808</td>
<td>808</td>
<td>891</td>
<td>563</td>
<td>816</td>
<td>771</td>
<td>708</td>
<td>746</td>
<td>824</td>
<td>818</td>
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</table>

#### Legislative Sessions:

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<td>154</td>
<td>110</td>
<td>114</td>
<td>164</td>
<td>151</td>
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</tbody>
</table>

(a) Preliminary

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**END OF SECTION**
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