



FISCAL PLAN

For the Municipal Revenue Collection Center

Fiscal Years 2022-2026

AS SUBMITTED TO THE FINANCIAL OVERSIGHT AND
MANAGEMENT BOARD FOR PUERTO RICO ON APRIL 12, 2021



Disclaimer

The Municipal Revenue Collection Center (“CRIM”, as it is known for its Spanish acronym) and the Puerto Rico Fiscal Agency and Financial Advisory Authority (“AAFAF”), and each of their respective officers, directors, employees, agents, attorneys, advisors, members, partners or affiliates (collectively, with CRIM and AAFAF, the “Parties”) make no representation or warranty, express or implied, to any third party with respect to the information contained herein and all Parties expressly disclaim any such representations or warranties.

The Parties do not owe or accept any duty or responsibility to any reader or recipient of this presentation, whether in contract or tort, and shall not be liable for or in respect of any loss, damage (including without limitation consequential damages or lost profits) or expense of whatsoever nature of such third party that may be caused by, or alleged to be caused by, the use of this presentation or that is otherwise consequent upon the gaining of access to this document by such third party.

This Fiscal Plan for the period covering FY2022 to FY2026 (the “FY2022 Fiscal Plan”) has been formulated on, among other things, information obtained from AAFAF and CRIM’s own internal information during the Emergency Period caused by the COVID-19 Pandemic. CRIM believes this FY2022 Fiscal Plan contains the best information currently available to it. To the extent the CRIM becomes aware of additional information after it submits this FY2022 Fiscal Plan that CRIM determines warrants a revision of this FY 2022 Fiscal Plan, CRIM will so revise it.

This document does not constitute an audit conducted in accordance with generally accepted auditing standards, an examination of internal controls or other attestation or review services in accordance with standards established by the American Institute of Certified Public Accountants or any other organization. Accordingly, the Parties do not express an opinion or any other form of assurance on the financial statements or any financial or other information or the internal controls of the Government and the information contained herein.

This New Fiscal Plan is not a Title III plan of adjustment, nor any other financial indebtedness restructuring plan. It does not specify classes of claims and treatments. It neither discharges debts nor extinguishes liens.

Any statements and assumptions contained in this document, whether forward-looking or historical, are not guarantees of future performance and involve certain risks, uncertainties, estimates and other assumptions made in this document. The economic and financial condition of the Government and its instrumentalities is affected by various legal, financial, social, economic, environmental, governmental and political factors. These factors can be very complex, may vary from one fiscal year to the next and are frequently the result of actions taken or not taken, not only by the Government, but also by Financial Oversight Board and other third-party entities such as the government of the United States. Because of the uncertainty and unpredictability of these factors, their impact cannot be included in the assumptions contained in this document.

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

Nothing in this document should be considered as an express or implied commitment to do or take, or to refrain from taking, any action by the Parties or an admission of any fact or future event.

Nothing in this document shall be considered a solicitation, recommendation or advice to any person to participate, pursue or support a particular course of action or transaction, to purchase or sell any security, or to make any investment decision.

By receiving this document, the recipient is deemed to have acknowledged the terms of these limitations. This document may contain capitalized terms that are not defined herein or may contain terms that are discussed in other documents or that are commonly understood. You should make no assumptions about the meaning of capitalized terms that are not defined.

Executive Summary

The Municipal Revenue Collection Center ("CRIM" for its Spanish acronym, or "Agency"), plays an important role in supporting Puerto Rico's 78 Municipalities ("Municipalities") in their economic and social development by ensuring an efficient process to collect and distribute municipal tax revenues. CRIM acknowledges its role within this crucial moment for municipalities and undertakes this task with determination. It is essential that CRIM seize all opportunities to maximize property tax collections and ensure the effective distribution of these funds to Municipalities or on their behalf. We submit this FY2022 Fiscal Plan as an update and continuation of the requirements set forth in the FY2021 Certified Fiscal Plan, highlighting what was accomplished during the fiscal year and mapping what lies ahead.

In accordance with Puerto Rico Oversight, Management, and Economic Stability Act ("PROMESA"), this Fiscal Plan projects a forecast of CRIM's sources and uses of funds for the next five fiscal years based on historical trends and analysis made by CRIM personnel. As described above, CRIM is maintaining the measures set forth in the FY2021 Certified Fiscal Plan, as much work still needs to be completed to improve operations, provide a greater revenue base for municipalities, and ensure greater fairness in property tax collections, all of which will result in increased tax collections for the municipalities. These measures are incremental to the baseline projections and must successfully implemented to achieve the targets of this Fiscal Plan.

The measures outlined in this Fiscal Plan center around improving the competitiveness of Puerto Rico's property tax regime and the enhancement of collections to reduce reliance on Central Government transfers and less optimal taxes, such as the inventory tax charged to businesses. The measures focus on:

- **Continued operational efficiencies** – CRIM is continually undergoing an operational transformation centered around the replacement of outdated and inefficient applications and hardware; implementation of best practices for business continuity; decentralization of services and re-engineering of processes to improve services to Municipalities and taxpayers; along with the establishment of a data-driven culture. These initiatives should serve as the foundation that will enable CRIM to implement strategies for the successful enhancement of tax revenue collections.
- **Tax revenue collection enhancement** – This Fiscal Plan will update the measures and projects performed by CRIM during the fiscal year to better capture unrealized tax revenues by increasing tax compliance and improving overall collection rates.

Success will come from CRIM's ability to effectively collaborate with Municipalities, other government agencies, and the Financial Oversight and Management Board for Puerto Rico ("Oversight Board") in completing the implementation of the initiatives outlined in this Fiscal Plan.

Part I. Context

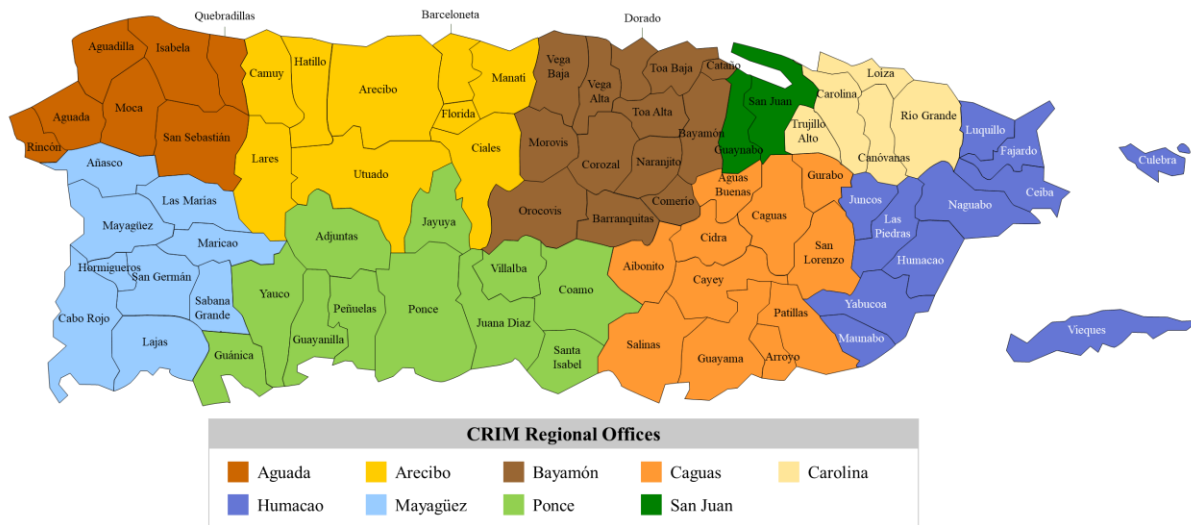
Chapter 1. History of CRIM

CRIM was created as part of the municipal reform process through Act No. 80 of August 30, 1991 (as amended, "Act 80-1991") as a municipal entity, independent and separate from any other agency and instrumentality of the Commonwealth of Puerto Rico. Act 80-1991's Statement of Motives stated that the very intention of the Act was to amplify municipal autonomy. In elaborating this point, the Legislative Assembly explained that even though the municipal finances were largely funded by property taxes and transfers from the Central Government, control over these funds was retained by the Puerto Rico Treasury Department, leaving municipal governments aloof from the management of these revenue streams which were vital to the funding of operations and services provided. The Legislative Assembly also stated that the existing system did not provide for collection efforts by municipal governments, creating inefficiencies in the collection of property taxes. Through this Act, the administration of the Municipal Property Tax Law was delegated to CRIM. Furthermore, pursuant to Act No. 83 of August 30, 1991 (as amended, "Act 83-1991"), all powers, faculties, and functions related to tax collections on real and personal property were transferred from the Department of Treasury of Puerto Rico ("Hacienda") to CRIM.

CRIM is a municipal entity established for providing fiscal services to all municipalities, and whose primary responsibility is to appraise, assess, notify, collect, receive and allocate the public funds arising from the property tax, the state subsidy, funds from the Additional State Lottery and other funds that are determined by law for the benefit of the municipalities. It is also responsible for the Registry of Real Property existing in each Municipality of Puerto Rico (known as the Digital Cadaster of Puerto Rico) and maintaining it updated.

CRIM has a governing board composed of nine (9) Mayors, representing the Municipalities, and two (2) members of the Central Government: the executive director of the Fiscal Agency and Financial Advisory Authority ("AAFAF" for its Spanish acronym) and a public official with experience in municipal affairs appointed by the Governor. The agency is headed by an executive director, who is appointed by the governing board. The composition of the 9 mayors assigned to the governing board is dictated by a series of laws, where the 5 members that comprise the majority belong to the political party, and entity which represents mayors from such political party, that obtained the most votes in the immediately preceding general elections. As a result, frequent changes in CRIM's leadership, including its executive director, have occurred over the agency's 30-year history.

CRIM has one (1) central office and nine (9) regional offices, as shown in **Exhibit 1** below. The offices are located in Aguada, Arecibo, Bayamón, Caguas, Carolina, Humacao, Mayagüez, Ponce, and San Juan. These offices serve taxpayers, in addition to carrying out technical functions, such as real and personal property appraisals. CRIM provides fiscal services to all the municipalities, including notification, assessment, and collection of personal and real property taxes.



In its efforts to increase efficiency and improve customer service, CRIM established a call center to provide a faster and more reliable service to taxpayers and to facilitate access to certain services. With this new call center, taxpayers have been able to complete certain transactions, including paying property taxes, without having to visit one of the regional offices.

CRIM also delegates services to Municipalities via collaborative agreements. As of FY2021, 73 municipalities have been delegated functions such as appraisals, collections, verifications, and investigations. Furthermore, 55 municipalities can issue map certifications, and 18 municipalities can process foreclosures.

Before delegating these services, CRIM must review and approve applications completed by Municipalities. CRIM evaluates the working conditions, infrastructure, and knowledge and experience of each Municipality to determine if the applications should be accepted. These responsibilities may be dissolved at the request of the Municipality or by CRIM if, through quality control and audits, irregularities are found.

Most recently, on June 18, 2019, Regulation Number 9094 ("Regulation 9094") was approved to provide the framework through which Municipalities and CRIM will coordinate the collection of property taxes. On October 31, 2019, the Oversight Board amended its policy¹ on the review of rules, regulations, and orders, pursuant to Section 204(b)(4) of PROMESA, with the goal of increasing transparency and ensuring compliance with any applicable fiscal plan, including the certified Commonwealth Fiscal Plan and the certified CRIM Fiscal Plan. As required by the

¹ FOMB POLICY: REVIEW OF RULES, REGULATIONS, AND ORDERS, as amended on October 31, 2019.

Oversight Board, CRIM will continue to provide applicable proposed regulation amendments to the Oversight Board for review and approval as part of the regulatory amendment process.

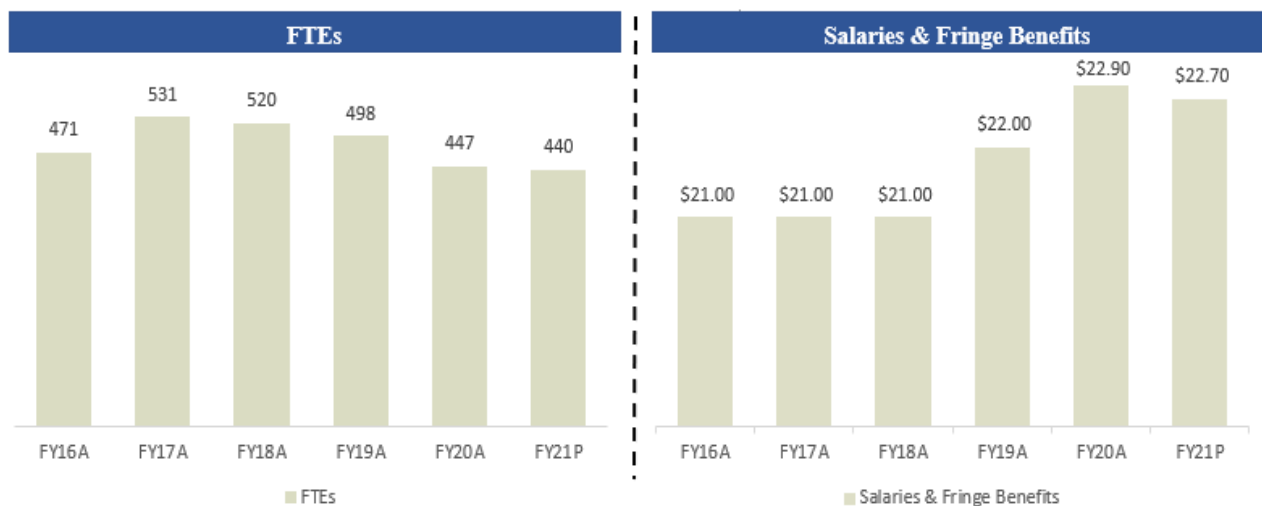
Chapter 2. CRIM Operations

CRIM's staff primarily facilitate the valuation, billing, and collection of real property taxes and personal property taxes, which are then distributed, along with other funds, to the Municipalities.

As depicted in **Exhibit 2** below, CRIM had 447 total full-time employees ("FTEs") and \$22.9 million in payroll expenses in FY2020², which has remained fairly consistent over the last five years. Apart from regular salary expense, the largest single salary-related expense in payments made to the PayGo system, which accounts for approximately 22% of total payroll expense per year.

Exhibit 2: CRIM FTEs and Payroll

(Dollars in millions)



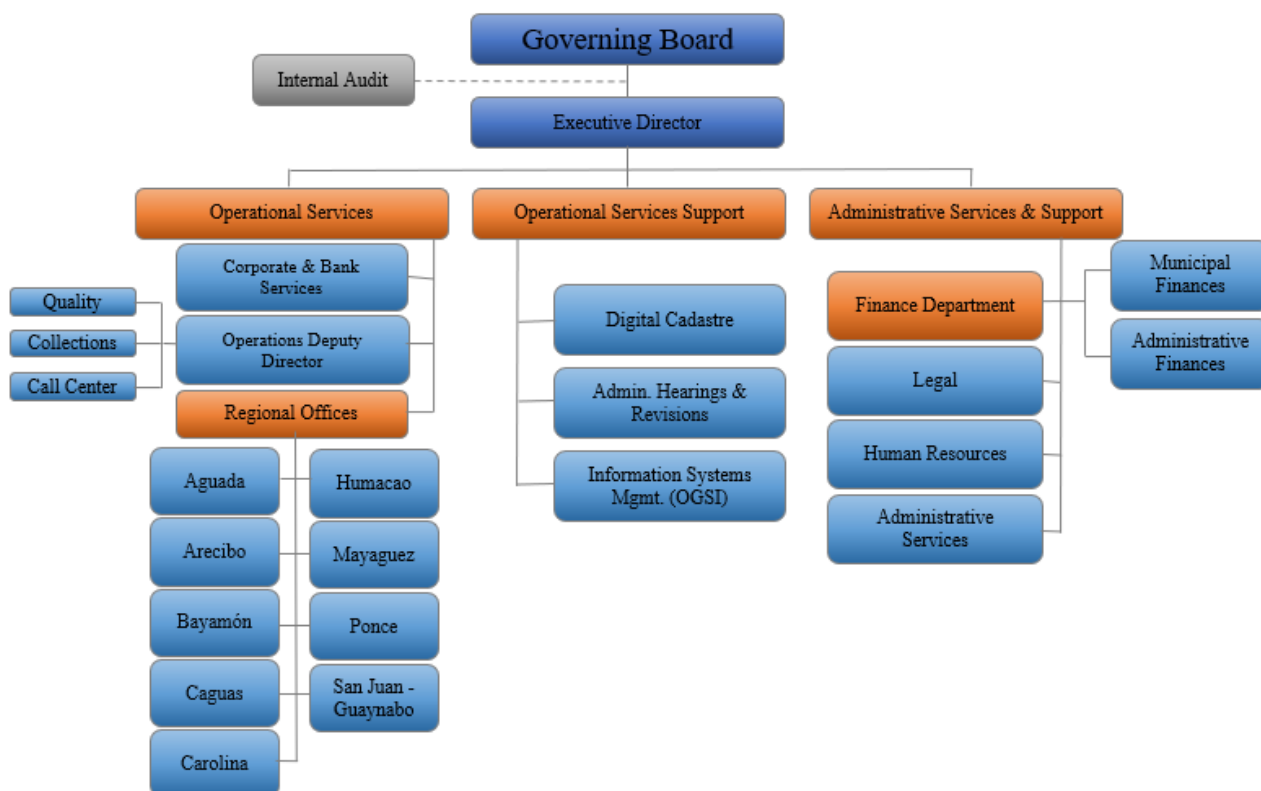
During the past years, CRIM has been continually restructuring its organization to deliver better services and improve collections. Functions are currently grouped into three main areas, as shown in **Exhibit 3** and detailed below:

- **Operational Services** – delivers direct services to taxpayers, municipalities, financial institutions, and corporations to collect real and personal property taxes. Much of the personnel performing these functions are located throughout the regional offices to provide localized support.

² Includes payments for the following concepts: (i) vacation liquidations for retired personnel, (ii) vacation liquidations for "at-will" personnel, (iii) differentials, and (iv) reserve for vacant positions reserved for employees with reinstatement rights or under a absence without leave license.

- **Operational Services Support** – maintains systems and applications that support operational services.
- **Administrative Services and Support** – advises the Executive Director and supports operational areas. Administrative units include Municipal and Administrative Finance, Legal, Human Resources, and Administrative Services.

Exhibit 3: CRIM Organization Structure



Within Operational Services, many of CRIM's employees work in the Regional Offices performing appraisal-type work. For instance, in fiscal year end 2020, CRIM had 118 employees tasked with appraisal type work, of which 91 were valuation technicians, 18 were research specialists, and 9 were licensed appraisers. These employees were responsible for approximately 1.3 million parcels of property.

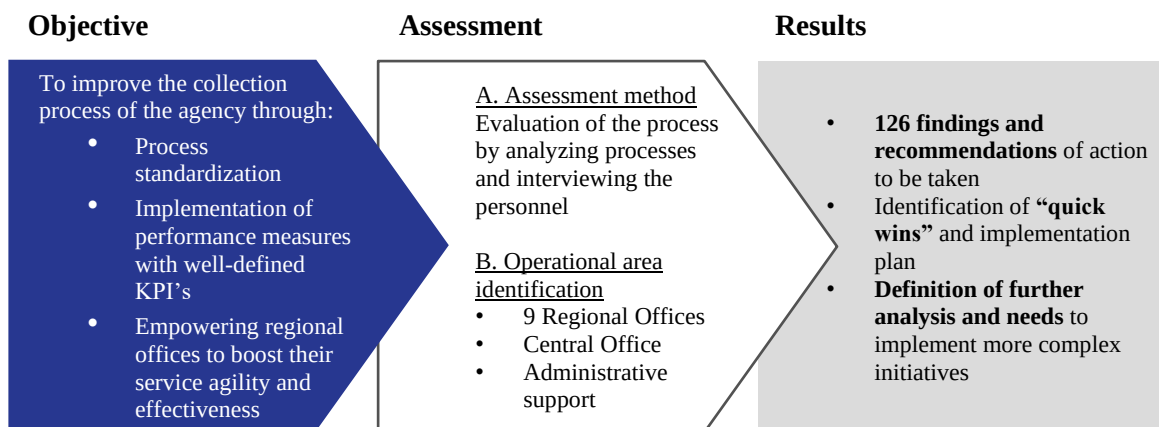
As part of Operational Services Support, CRIM's staff also maintains a digital cadaster, which is an inventory of all properties in Puerto Rico (parcels and structures) used for all purposes: tax, legal, economic, and administrative. CRIM is responsible, by law, for the creation and preservation of the digital cadaster, which organizes the valuation data and appraisals of properties and is critical for the imposition of respective taxes. In 2016, CRIM engaged a third-party company to complete

a Planimetric Project³ to digitally map all properties in the Commonwealth, which allowed CRIM to update the cadaster registry. The project used high-resolution digital imaging to create maps of Puerto Rico from which updated property information was extracted to identify new construction and home improvements, such as newly added swimming pools and property expansions.

Certain other Commonwealth agencies, such as the Department of Justice, maintain comparable databases; however, information sharing has not historically taken place, and the data in each database for properties is not always aligned. On June 5, 2020, the Oversight Board submitted, pursuant to Section 205(a) of PROMESA, a letter with broad recommendations on the ways the Government of Puerto Rico can improve the framework for Land and Property Registration/Recordation, for improvements in its Tax Registry, and for establishing and confirming legal ownership and title to lands and property in the Commonwealth of Puerto Rico. The Oversight Board recommended incorporating both land registration and property tax registry to develop a uniform parcel ownership registry and GIS database. The Government of Puerto Rico has indicated its agreement with many, but not all, of the recommendations provided by the Oversight Board. The projects outlined in that letter, as well as other property tax related recommendations made by the Oversight Board, are expected to continue throughout FY2022 onwards. CRIM will continue to collaborate in the improvement and maximization of the Commonwealth's land parcel systems.

In February 2018, CRIM commissioned an operational assessment to identify potential areas to begin enhancing property tax collections. During June and July 2018, an external company completed the commissioned operational assessment. **Exhibit 4** gives an overview of this assessment. Of the initiatives developed from the assessment findings, some have been completed while some remain ongoing. These initiatives were incorporated as measures in CRIM's FY2021 Fiscal Plan, as Certified by the Oversight Board, and will continue to be implemented and monitored, pursuant to this updated Fiscal Plan.

Exhibit 4: 2018 Operational Assessment



³ A Planimetric Project involves the creation of maps through the process of recording, measuring, and interpreting photographic images to identify roads, buildings, and other physical objects in an area.

Part II. Collections for Municipalities – CRIM’s Source of Funds

CRIM’s main source of funding derives from a 5% administrative fee charged on property tax collections, specifically, basic tax collections. Property collections for municipalities are from revenue sources established by Act 80-1991 and Act 82-1991, as repealed and reinstated under Act 107-2020, known as the Puerto Rico’s Municipal Code . The four main revenues are real property taxes, personal property taxes, Central Government transfers, and other operating revenues. An overview can be found in **Exhibit 5**.

Exhibit 5: Overview of CRIM Revenues

Source		Details	FY2020 (Actual)	FY2021 (Projected)
Real Property Tax		• Immovable property • 6% basic rate • 1.03% State Redemption Fund Tax • 1.2% - 5.5% Special Additional Tax (“CAE”) (varies by Municipality) • (0.2%) discount from state	\$649 million	\$677 million
Personal Property Tax		• Movable property, including inventory • 4% Basic rate • 1.03% State Redemption Fund Tax • 1.0% - 5.5% CAE (varies by Municipality) • (0.2%) discount from state	\$431 million	\$424 million
Central Government Transfers	Commonwealth Transfer	• 2.5% of net internal revenue from the Central Government's General Fund ("Commonwealth transfer") • In FY2018, this amount was capped at \$219.7 million, and has been gradually reduced to \$132 million until in FY202. The certified Commonwealth Fiscal Plan gradually reduces the transfer until it is fully eliminated in FY2025	\$132 million	\$132 million
	Electronic Lottery	• 35% of the net annual income derived from the operations of the Additional Lottery System ("Electronic Lottery")	\$17 million	\$38 million
	Exoneration Fund	• Exonerated CAE reimbursement • Exonerated property reimbursement	\$0 million <i>eliminated in FY2018</i>	\$0 million

		0.20% subsidy reimbursement		
Other CRIM Operating Revenue		- Sales of certifications and maps - Service charges to banks - Interest and miscellaneous income - Federal grants	\$2 million	\$2 million

Note: CRIM is supposed to collect 2% of collections from Act 22-2000 fines/infractions; however, Hacienda collects and sends these funds directly to the Municipalities. According to the CRIM management team, this is a de minimis amount of funds.

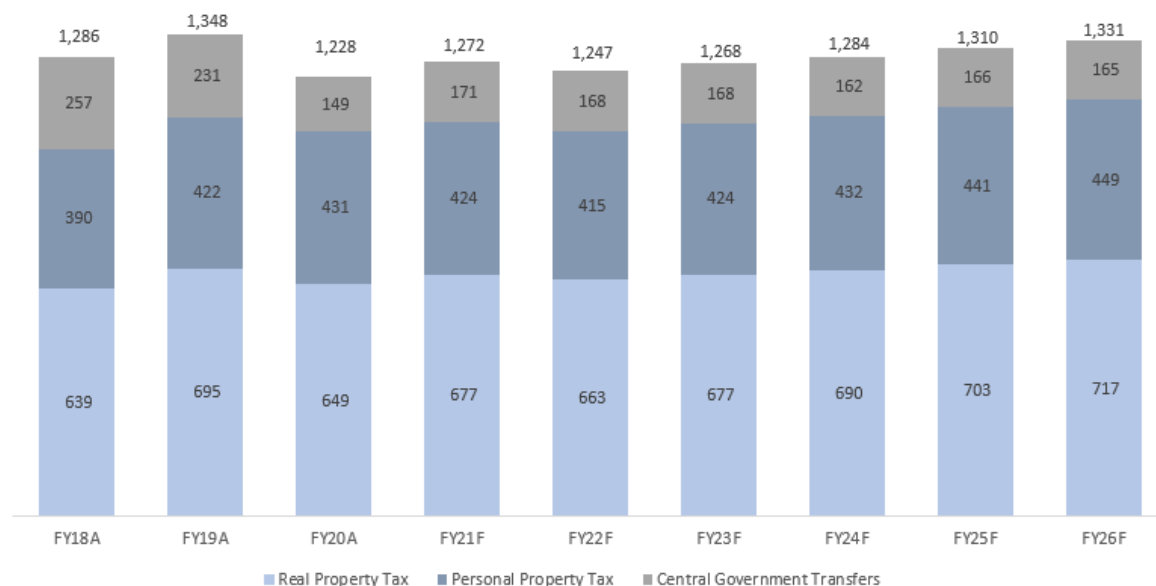
Total revenue collection at CRIM, excluding Central Government transfers and other sources, was \$1,083 million in FY2020, which is approximately 2.98% lower than in FY2019. This decrease was primarily driven by the impact the COVID-19 pandemic had on the months of March 2020 through June 2020. During the 8 months prior to the March 2020 Government-mandated shutdown, CRIM collections had increased by \$12.8 million when compared to the same 8 months in FY2019.

In accordance with the current Commonwealth Fiscal Plan certified by the Oversight Board, the Commonwealth transfer will be gradually phased out by FY2025. However, on March 26, 2021, the Commonwealth submitted its revised fiscal plan for FY2022, wherein the \$131.8 million central government transfer to the Municipalities remains unchanged throughout their projections, thus halting the gradual phase out of the central government transfer. This determination by the Commonwealth will help maintain the much needed funds that feed the Equalization Fund, which will have a positive effect on the most vulnerable municipalities. On the other hand, if the Oversight Board rejects the aforementioned determination from the Commonwealth⁴, continuing with the gradual step down of the Commonwealth transfer over several years will have a detrimental effect on all municipalities, especially those municipalities with a low taxable base. **Exhibit 6** presents CRIM's historical and projected property tax collections (excluding measures) and Central Government transfers over time.

⁴ On March 15, 2020, the Oversight Board issued its Notice of Violation of the Fiscal Plan submitted by the Commonwealth. Among the measures classified as violations were the continued transfer of \$131.8 million to the municipalities and the reinstalment of the municipal contribution towards ASES, pending possible federal legislation. The revised Commonwealth Fiscal Plan maintained the \$131.8 million Central Government Transfer.

Exhibit 6: Baseline Property Tax Collections and Central Government Transfers

(Dollars in millions)



As part of the measures included in the 2021 CRIM Certified Fiscal Plan, which are also described herein, CRIM will continue to work with the municipalities to increase tax collections, which will provide additional funds for essential services.

Impact of Natural Disasters

In the fall of 2017 (FY2018), Hurricanes Maria and Irma inflicted unprecedented damage on the physical infrastructure of Puerto Rico, leaving large segments of the population without power for weeks and in many cases months. Thousands died, many of them due not to the direct effects of the storm but rather its aftereffects. There was widespread economic dislocation in the aftermath as the scale of the damage became evident. Impact on the housing stock, power, and water infrastructure, and inland transportation infrastructure, created extremely challenging conditions for residents, while the small business sector was badly damaged as inventories were destroyed and the economy suffered an abrupt negative shock. As a result, property tax collections were lower by approximately 2% or \$21 million (\$19.6 million in personal property taxes and \$1.5 million in real property taxes) in FY2018 compared to FY2017. However, in FY2019, property tax collections leveled to pre-hurricanes levels, increasing by 7.7%, or \$80 million when compared to FY2018.

Beginning on December 28, 2019, the first of many earthquakes struck Puerto Rico and caused significant damage to real and personal properties, mostly located in the west and southwest part of the island. On January 6, 2020, Puerto Rico experienced a 5.8 magnitude earthquake on the Richter scale, followed by a magnitude 6.4 earthquake on January 7, 2020.

Historically, property taxes have been resilient to natural disasters. For example, as mentioned above, property taxes in FY2018 after Hurricanes Irma and Maria were lower by only approximately 2% compared to FY2017 and reached pre-hurricanes levels in the succeeding year. Although natural disasters could have an impact in the timing of property tax collections, CRIM does not foresee any long-term material deterioration in property tax receipts resulting from natural disasters.

Impact of COVID-19 Pandemic

On March 12, 2020, Governor Vázquez declared a state of emergency across the island due to the COVID-19 global pandemic. Furthermore, on March 15, 2020, the Governor signed an executive order (EO 2020-023), which established the closure of all private and government operations, except for those related to essential services. This order was extended through June 30, 2020, by the signing of a new executive order (EO 2020-44). Executive Order 2020-44 eased the COVID-19 lockdown restrictions, reduced the curfew hours, allowed some businesses to operate at 50% capacity, and authorized the opening of the majority of businesses and activities (except nightclubs, game rooms, and casinos) including on Sundays. The new order also called on government management employees to return to work on June 16. CRIM's central and regional offices remained closed during the lockdown period, and, as a result, tax collections for the month of March, April, May, and June were significantly lower than originally projected. Even though property taxes can still be paid through the website, many taxpayers still pay their taxes at the regional offices but have not been able to do so because of the office closures. In addition, the personal property tax filing date for FY2020 was extended from May 15, 2020, to August 1, 2020. Therefore, CRIM received the bulk of personal property tax filings and payments in the following fiscal year, mainly during the last weeks of July 2020 and the first weeks of August 2020.

Even after accounting for a decline in collections due to COVID-19, CRIM reported a 1.3%, or approximately \$14 million, increase in property tax collections for FY2020 compared to the original estimate of \$1,069 million. However, as a result of COVID-19, electronic lottery proceeds, which are distributed as part of the Equalization Fund, were reduced by approximately \$30.7 million (from \$47.3 million to \$16.6 million). This reduction in lottery proceeds was a key factor in the FY2020 year-end liquidation, negatively impacting 15 municipalities.

Year-end Liquidations

To the extent a municipality experiences lower collection than what was advanced by CRIM, this would be adjusted as part of the year-end reconciliation process. The year-end reconciliation process is completed by CRIM after the end of the fiscal year to reconcile property tax advances to municipalities, which are based on projections, with actual collections. To the extent a municipality has higher collections than what has been advanced, CRIM transfers the excess amount to the corresponding municipality. On the other hand, if collections are lower than what has been advanced, municipalities would have an account payable to CRIM that is repaid from property tax advances from the subsequent fiscal year.

Short-term Liquidity Facility

As indicated in CRIM's FY2021 Certified Fiscal Plan, the Oversight Board made available a short-term liquidity facility in response to the cash flow challenge that was created when the personal property tax return due date was deferred due to COVID-19. The proposal was a short-term delayed-draw liquidity facility of \$185 million, so CRIM could continue advancing monthly tax remittances to municipalities. The proposal contemplated monthly draws of \$50 million each for May, June, and July 2020, plus an initial deemed advance of \$34 million on account of net remittances from CRIM to the Municipalities from funds that were to be returned to the Commonwealth as a result of the Law 29 ruling (described below).

Repayment of the proposed loan would be collateralized by the basic property tax revenues received from CRIM with receipts expected in August, September, and October 2020. Under the proposal, the liquidity facility would be repaid in full on or before November 30, 2020. The creation of a lockbox account would have been required to protect the Commonwealth's collateral.

After several weeks of negotiations, CRIM opted to continue operating without the short-term liquidity facility, as the personal property tax filings were approaching, rendering the need for the facility moot.

Chapter 3. Real Property

3.1. Values and Exemptions

In Puerto Rico, real (immovable) property consists of land, buildings, and any property that is adhered to the ground and cannot be moved. CRIM maintains a digital cadaster of approximately 1.3 million immovable properties with a total value, as of June 30, 2020, of approximately \$19.3 billion and a net taxable value of \$8.0 billion. Recent census data indicates CRIM tax rolls may be missing approximately 215,000 properties; taxation of these properties to improve revenue is discussed further in **Part V: Measures**.

Exhibit 7 provides a breakdown of the 1.3 million parcels on CRIM's tax rolls in FY2018 by land use and further depicts the implied exemption rates by category as identified in a recently published report by the U.S. Treasury.⁵

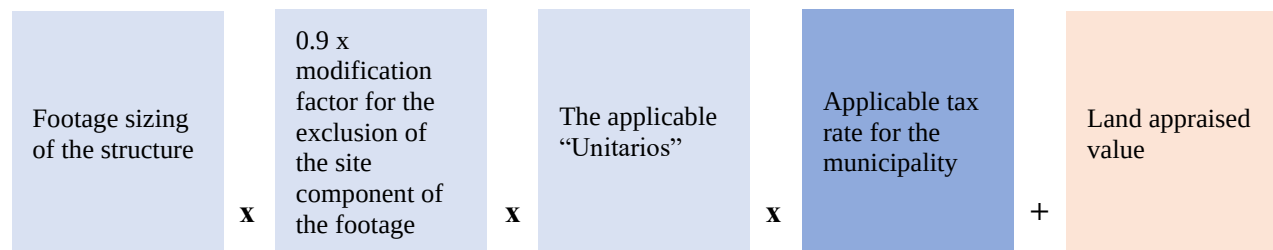
⁵ Property Taxes in Puerto Rico: Assessment and Recommendations, March 2019.

Exhibit 7: Real Property Tax Exemptions by Land Use Categories (FY2018)⁵

Land Use Category	Total Properties	% of Total Properties	% of Total Value	% of Value Exempted	Average Exemption Rate
Residential	1,065,375	81.4%	59.4%	64.4%	94.0%
Commercial	38,689	3.0%	15.2%	15.8%	77.7%
Industrial	3,098	0.2%	17.2%	77.7%	88.6%
Vacant	190,527	14.6%	5.0%	49.8%	97.1%
Other	10,364	0.8%	3.2%	na	na
Total	1,308,053	100.0%	100.0%		

Real property valuations for tax assessments are based on the replacement cost value of the property as if it were constructed in 1957, which was the last time a valuation assessment was performed on the real property in Puerto Rico. Structures built after 1957 are assessed for tax purposes as if they were built in 1957. This adjustment is made through construction estimates per square foot of a similar property built in 1957. This basic unit valuation is known as "Unitarios." The "Unitarios" were established for 150 sub-classes of different types of structures and became the basic unit value to assess all real property, and are still used by CRIM.

A typical real property tax assessment imposition is computed as shown:



Land is valued by January 1st of each year based on land area, land characteristics, and prices that existed in 1957. The value calculation is agnostic to the property location. According to the World Bank, area-based assessments are often used when the absence of developed property markets makes it difficult to determine market value, such as in Eastern Europe during the transition from the Soviet Union.

As indicated by the CRIM's FY2021 Certified Fiscal Plan, the majority of the U.S states value land and structures separately. However, no states use an area-based system for valuing land (with some exceptions for agricultural properties).⁶ In the mainland U.S., residential properties are commonly valued using a comparable sales approach, whereby recent sales of similar properties determine the taxable value of residential properties. In the case of industrial properties, most U.S. states use the cost or replacement value approach. The income approach (based on net annual income generated by the property) is most commonly used for commercial property valuation.

⁶ Some states use a graded (banded system) for agricultural properties, assessing these lands based on assumed relative differences in productivity in their current use (rather than their best market use).

Puerto Rico also differs from other U.S. jurisdictions in that it offers considerably more tax breaks both in terms of number and notional value. These tax exemptions and exonerations reduce taxable values. Exemptions are granted by a State Law or Municipal Ordinance, while exonerations are granted under Act 83-1991. Per Article 2.02 of Act 83-1991, residential property taxpayers are granted a tax exoneration on real property for the first \$15,000 of the 1957 assessed value on one residence. By comparison, only 23 U.S. states (including the District of Columbia) provide a broad-based homestead exemption, and an additional 22 states provide homestead exemptions for specific categories of homeowners.⁷ **Exhibit 8** provides an overview of U.S. homestead exemptions.

Exhibit 8: Property Tax Exemptions by Type⁷

Type	Number of states	Puerto Rico Exemptions
General	23	✓
Senior	18	✓
Disability-related	21	✓
<i>Disabled</i>	17	✓
<i>Blind</i>	10	
<i>Deaf</i>	1	
Military service related	36	✓
<i>Veteran</i>	14	✓
<i>Veteran widow</i>	8	✓
<i>Disabled veteran</i>	26	✓
<i>Active-duty Military</i>	4	
Other	14	✓
None	5	

Note: Disability-related and military service-related exemptions do not equal the sum of their respective subcategories because of overlap.

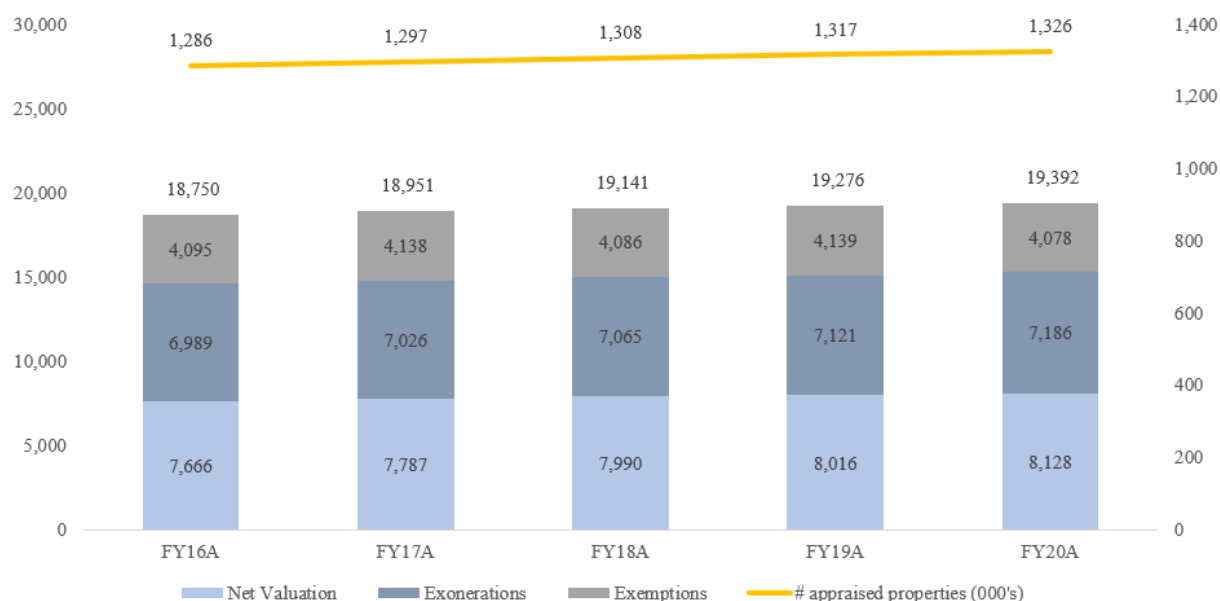
Additionally, under Puerto Rico law, special tax exemptions may be granted to veterans, agricultural properties, cooperatives, non-profit entities, hospitals, government properties, properties within historic areas/free trade zones, and properties leased to elders, and on an ad hoc basis. To be granted these additional exemptions, taxpayers must file an application and meet the established requirements for each category.

As shown in **Exhibit 9**, the number of appraised properties, total real property values, as well as tax breaks have remained relatively flat over the last five years (less than 1.0% annual growth). However, given the methods used to value real property, this pattern does not reflect the real change in the economic value of property over the period. Net taxable values have remained steady at approximately 40% of the total appraised value because of significant exemptions and exonerations.

⁷ Derived from <https://www.lincolnst.edu/research-data/data-toolkits/significant-features-property-tax/topics/residential-property-tax-relief-programs>.

Exhibit 9: Real Property Tax Exemptions, Exonerations, and Net Valuations

(Dollars in millions)



Total tax exonerations and exemptions equated to \$7.2 billion and \$4.1 billion, respectively, of real property value in FY2020, which is primarily the result of exonerations on residential properties. As of FY2019, economic incentive laws accounted for approximately \$376 million reduction of taxable values, primarily driven by industrial companies and businesses. **Exhibit 10** presents these tax abatements by industry.

Exhibit 10: Foregone Real Property Tax Base from Industrial Tax Exemptions in FY2019⁸

(Dollars in thousands)

Industry / Business	Real Property Tax Abatement
Buildings used for warehouses	\$ 52,083,206
Pharmaceutical companies	79,070,481
Hotels and related businesses	17,944,725
Industrial companies and businesses	102,066,709
Other industries and businesses	46,722,877
Total	\$ 297,887,998

⁸ CRIM FY2020 Financial Statements

3.2. Real Property Tax Rates

There are four components to the real property tax rate, which is applied to the net taxable values discussed above. They are:

- (1) The Basic Municipal Contribution tax rate for real property of up to 6%.
- (2) The State Redemption Fund Tax adds 1.03%.
- (3) CAE tax rates varying by Municipality, ranging from 1.2% to 5.5%.
- (4) Act No. 16 of May 1960 ("Act 16-1960") authorizes Hacienda to grant a discount of 0.20% on the basic tax rate.

For example, the calculation for the real property tax rate in San Juan for FY2021, which has a CAE rate of 3.5%, is as follows:

<u>Basic</u> 6.00%	+	<u>State Redemption Fund Tax</u> 1.03%	+	<u>CAE</u> 3.50%	-	<u>Discount</u> 0.20%	=	<u>Total</u> 10.33%
-----------------------	---	---	---	---------------------	---	--------------------------	---	------------------------

In total, as shown in **Exhibit 11**, the combined real property tax rates range from 8.0% to 12.3% of net taxable value for all municipalities.

Exhibit 11: Real Property Nominal Rates for FY2022 (Post-discount)

Real Property (post-discount)	
Rate Range	Number of Municipalities
8.0% - 8.99%	11
9.0% - 9.99%	19
10.0% - 10.99%	38
11.0% - 11.99%	7
12.0% - 12.99%	3

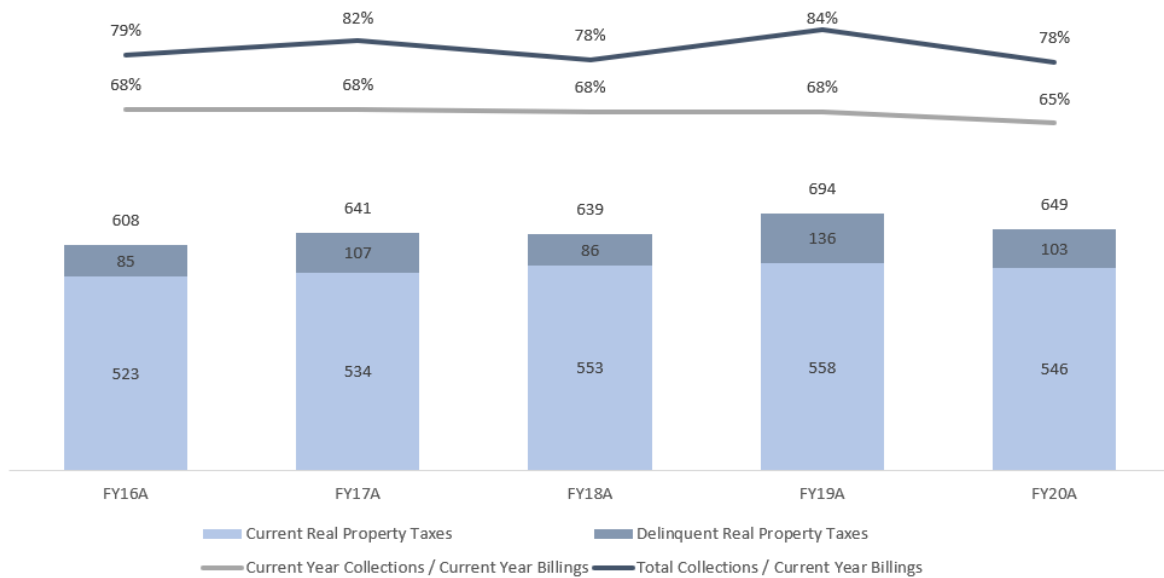
3.3. Collection Rates

Current year real property tax collections have remained relatively flat over the last five years, with a minimal decline in FY2018 as the result of Hurricanes Irma and Maria. Tax payments are due on July 1 and January 1, with a 90-day grace period. There is a discount matrix for real property tax payments within the 90-day grace period.⁹ Collections fall into two categories, current and delinquent, depending on the year of collection, as shown in **Exhibit 12**.

⁹ Up to 30 days: -10%, 31 to 60 days: -5% and 60 to 90 days: no discount is granted, 90 days < implies fees, charges and interests. This matrix applies for the two payments datelines of the tax year.

Exhibit 12: Real Property Tax Baseline Collections

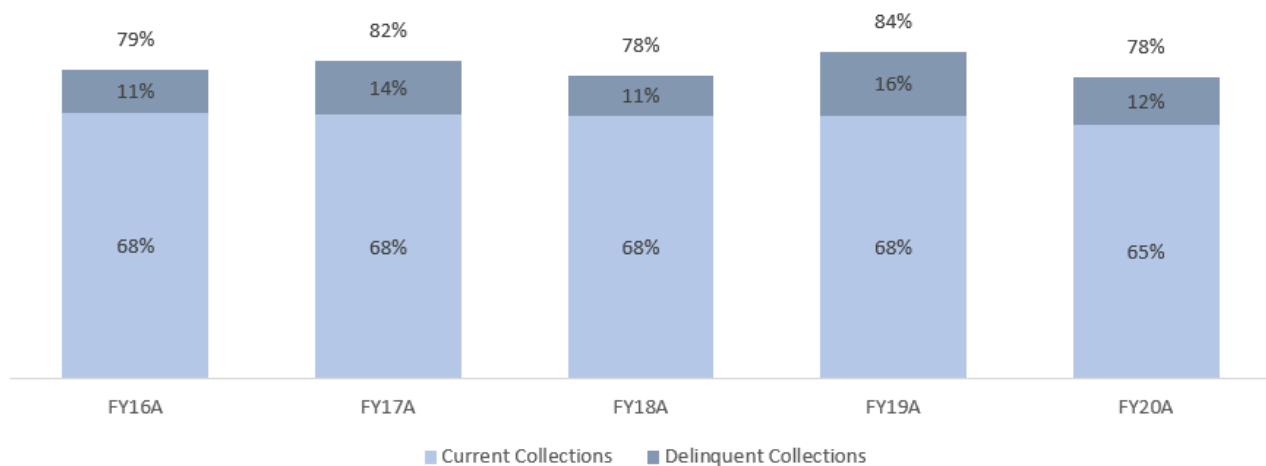
(Dollars in millions)



Current year collections have averaged approximately 68% in recent years, which is well below comparable U.S. jurisdictions. For example, the current year collection rates for the City of Detroit, MI is approximately 82%, Cleveland, OH is approximately 90%, St Louis, MO is approximately 93%, and Philadelphia, PA is approximately 91%. Low collection rates are primarily caused by outdated technology (i.e., siloed systems) and lack of enforcement (i.e., inefficient procedures and limited annual foreclosures).

Exhibit 13 depicts the historical collection rates as a percentage of current year billings. **Part V: Measures** further discuss opportunities for Puerto Rico to improve its subpar collection rates.

Exhibit 8: Historical Real Property Tax Billings and Collection Rates



Municipalities vary greatly in their collection rates. While nearly all municipalities have a current year collection rate that is below comparable U.S. jurisdictions, significant variances exist within Puerto Rico. As **Exhibit 14** below shows, in FY2020, Municipal current year collection rates for Real Property range from 78% for Guaynabo to only 39% for Guanica.

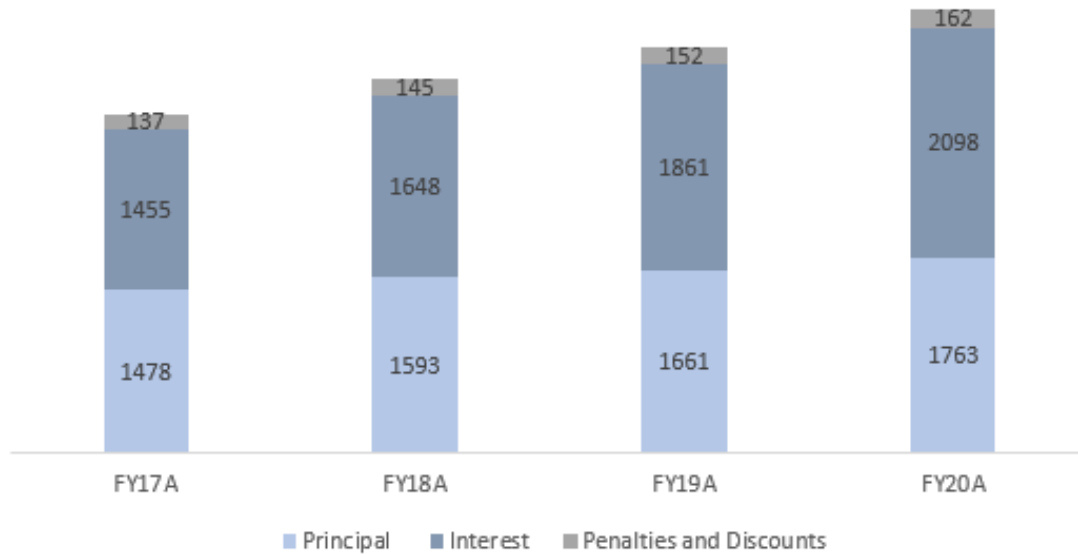
Exhibit 94: Highest and Lowest Current Year Collection Rates by Municipalities (FY2020)

10 Highest Collection Rates		10 Lowest Collection Rates	
GUAYNABO	78%	PATILLAS	50%
CATAÑO	77%	GUAYANILLA	49%
SAN JUAN	71%	LAS MARIAS	49%
CAYEY	71%	YABUCOA	48%
PEÑUELAS	70%	CIALES	47%
HUMACAO	70%	SALINAS	46%
CAROLINA	70%	JAYUYA	45%
GURABO	70%	MARICAO	44%
DORADO	70%	LAS PIEDRAS	43%
HORMIGUEROS	70%	GUANICA	39%

Exhibit 15 below suggests that low real property collection rates have generated a large gross accounts receivable balance amounting to \$1.7 billion in principal and \$1.9 billion in interest and penalties (net of discounts) at the end of FY2019. By the end of FY2019, after applying a reserve against the \$3.7 billion gross accounts receivable balance, the net figure falls to approximately \$660 million. A transaction for the sale of accounts receivables is being considered and a Request for Proposals (“RFP”) was published during the first quarter of FY2021. CRIM and AAFAF are in the process of engaging the third party, which was selected through the competitive RFP process, for the valuation of the A/R portfolio. Additional discussion of CRIM's accounts receivable opportunities can be found in **Part V: Measures**.

Exhibit 105: Historical Real Property Tax Account Receivable Balance (FY2020)

(Dollars in millions)

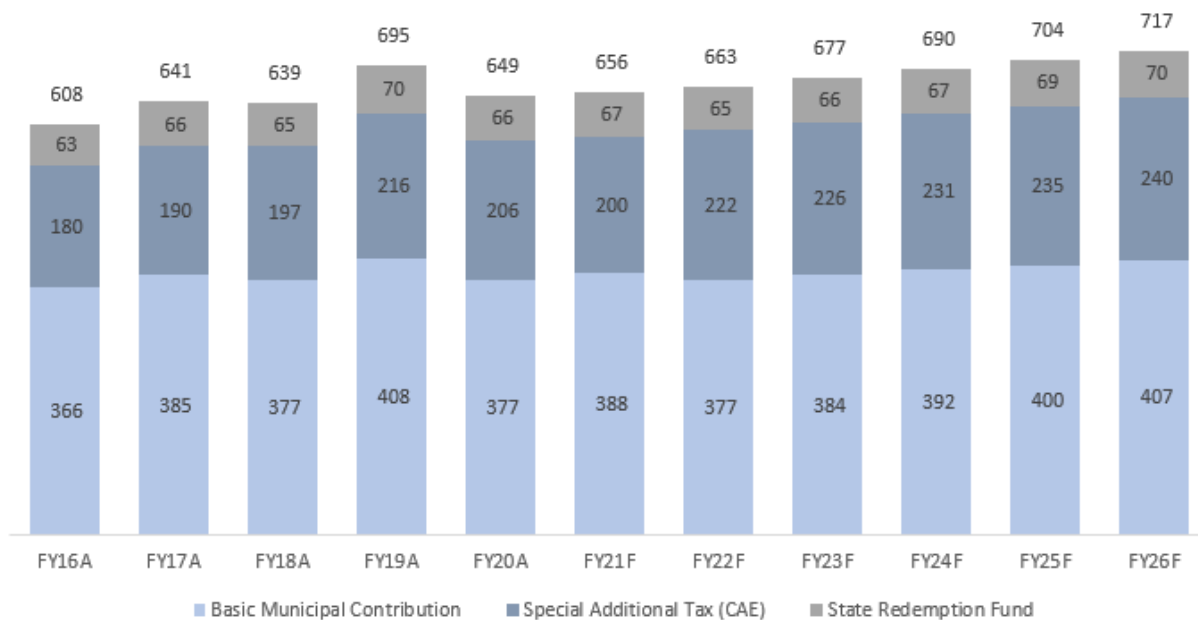


3.4. Real Property Tax Revenues Over Time

Exhibit 16 presents these baseline revenues over a 10-year period, broken into three categories corresponding to the types of tax rates: Basic Municipal Contribution, CAE, and State Redemption Fund.

Exhibit 16: Historical and Projected Baseline Real Property Tax Revenues

(Dollars in millions)



Chapter 4. Personal Property

4.1. Values and Exemptions

The personal (moveable) property consists of tangible and intangible property in industrial or business applications that can be moved from one place to another, including inventory, machinery and equipment, and other moveable assets.

In FY2020, personal property filings totaled 91,950, with a total valuation of approximately \$12.2 billion and a net taxable value of \$5.3 billion. Unlike real property tax revenues, CRIM does not rely on a registry for personal property taxes. Personal property is self-assessed by taxpayers annually, making compliance the key area of focus for improved revenues; this opportunity is discussed further in **Part V: Measures**.

Inventory taxable value, excluding finished goods, is based on the lesser of book value or fair market value on January 1st of each year. Finished goods inventory taxable value, on the other hand, is assessed on the monthly average balance for the year preceding January 1st. These amounts are calculated by individual taxpayers and reported on their tax return filings on May 15th.

A typical personal property tax assessment imposition is computed as shown:

- For equipment:

$$\left[\begin{array}{c} \text{Acquisition} \\ \text{cost} \end{array} + \begin{array}{c} \text{Any cost} \\ \text{associated with} \\ \text{the acquisition} \\ \text{of the} \\ \text{equipment} \end{array} - \begin{array}{c} \text{Applicable} \\ \text{depreciation up} \\ \text{until 25\% of} \\ \text{the salvage} \\ \text{value amount} \end{array} \right] \times \begin{array}{c} \text{Applicable tax} \\ \text{rate for the} \\ \text{municipality} \end{array}$$

- For inventories (excluding finished goods):

$$\begin{array}{c} \text{Average balance of inventory values at} \\ \text{acquisition costs at the end of the year} \end{array} \times \begin{array}{c} \text{Applicable tax rate for} \\ \text{the municipality} \end{array}$$

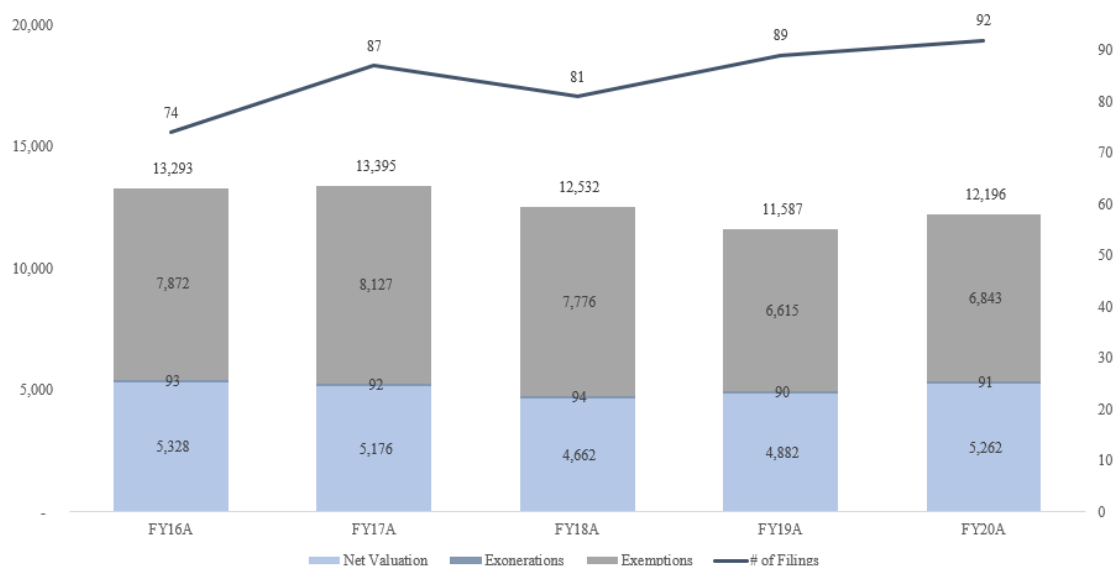
The cost approach is in-line with the approach of most other US jurisdictions. As a result, the valuation of personal property is much closer to the current market value than that of real property. This fundamental mismatch between the valuation methods used in personal property and real property may cause tax burden inequities among taxpayers in Puerto Rico. Presently business machinery and equipment are valued at acquisition cost (minus depreciation) with a residual value not less than 10% – 20% of its purchase price (depending on property class).

A significant portion of the personal property tax is made up of the tax on inventories held by businesses. In FY2019, inventory represented approximately 55% of the total billable personal property taxes. For Cataño, Hatillo, and Bayamon, inventory represented 82%, 71%, and 68% of the total billable personal property taxes, respectively, which is the highest for any municipality.

As shown in **Exhibit 17**, the number of filings in FY2020 increased to more than 92,000 total filings, and the net taxable value of the personal property increased to \$5.2 billion. In FY2020, \$6.8 billion of the total personal property taxable value (roughly 56% of the total) was exempted or exonerated from paying taxes.

Exhibit 17: Personal Property Tax Exemptions, Exonerations, and Net Valuations

(Dollars in millions)



In May 2018, CRIM performed a study of tax returns and identified 3,887 different exemptions, of which 3,751 (97%) were granted by the Central Government. Approximately 63% of the total exemptions were granted under i) Act 225-1995 (for agriculture), ii) Economic Incentives Act of 2008, iii) Economic Incentives Act of 1997, and iv) Article 5.01(e) of Act 83-1991 (for non-profit organizations). For additional context, a recently published report by the U.S. Treasury¹⁰ found that "two-thirds of firms required to complete the filing process reported total personal property value for their firm at less than \$5,000. At the other extreme, 50 percent of the revenue billed came from just 178 companies, and 80 percent came from fewer than 1,000 companies."

CRIM also reports total industrial tax value exemptions of approximately \$444 million, as identified in **Exhibit 18**.

¹⁰ Property Taxes in Puerto Rico: Assessment and Recommendations, March 2019.

Exhibit 18: Foregone Personal Property Tax Base from Industrial Tax Exemptions in FY2020¹¹

(Dollars in thousands)

Industry / Business	Personal Property Tax Abatement	% of total Abatement
Pharmaceutical companies	\$ 56,615,891	12.75%
Industrial companies and businesses	172,080,914	38.77%
Professional services	72,428,429	16.32%
Commercial companies and businesses	21,519,283	4.85%
Other industries and businesses	121,238,890	27.31%
Total	\$ 443,883,407	100.00%

Puerto Rico's personal property tax collections as a percentage of total property tax collections (approximately 40%) are a substantially larger portion than in the 50 states and the District of Columbia. For example, the personal property comprised only 3.3% of the county taxable property base in Maryland.¹² This disparity partially results from personal property exemptions widespread throughout the largest metropolitan areas in each of the 50 states and the District of Columbia, which are summarized in **Exhibit 19**. Perhaps most notable is inventory exemptions: 45 states provide preferential treatment, including 41 that provide a full exemption.

Exhibit 19: Personal Property Tax Exemption and Preferential Treatment in the US

	Number of States
Machinery & Equipment	
Full Exemption	20
Preferential Treatment	30
Manufacturer's Inventories	
Full Exemption	41
Preferential Treatment	45
Fixtures	
Full Exemption	14
Preferential Treatment	22

4.2. Personal Property Tax Rates

There are four components to the personal property tax rate applied to the net taxable values. These elements are:

- (1) The Basic Municipal Contribution tax rate for real property of up to 4%.
- (2) The State Redemption Fund Tax adds 1.03%.

¹¹ CRIM FY2020 Financial Statements

¹² Maryland Department of Assessment, *Seventy-Fourth Annual Report, FY2018*.

(3) CAE tax rates varying by Municipality, ranging from 1.0% to 5.5%.

(4) Act 16-1960 authorizes Hacienda to grant a discount of 0.20% on the basic tax rate.

For example, the calculation for San Juan's personal property tax rate for FY2020, which has a CAE rate of 3.5%, is as follows:

<u>Basic</u> 4.00%	+	<u>State Redemption Fund Tax</u> 1.03%	+	<u>CAE</u> 3.50%	-	<u>Discount</u> 0.20%	=	<u>Total</u> 8.33%
-----------------------	---	---	---	---------------------	---	--------------------------	---	-----------------------

In total, as shown in **Exhibit 20**, the combined personal property tax rates range from 5.8% to 10.3% of net taxable value for all municipalities. See **Appendix 12** for detailed calculations by Municipality. Inventory tax rates are significantly higher than any state in the U.S., and they are estimated to be 20 times the effective tax rate on residential properties.

Exhibit 20: Personal Property Nominal Rates for FY2022 (Post-discount)

<u>Personal Property (post-discount)</u>	
<u>Rate Range</u>	<u>Number of Municipalities</u>
5.0% - 5.99%	2
6.0% - 6.99%	21
7.0% - 7.99%	15
8.0% - 8.99%	34
9.0% - 9.99%	4
10.0% - 10.99%	2

4.3. Collection Rates

As mentioned above, taxes for personal property values are self-assessed by taxpayers on their personal property tax returns filed annually on May 15, with an automatic extension up to August 1, if the taxpayer chooses. In FY2020, however, as a response to the COVID-19 pandemic, the personal property tax filing date was extended to August 1, 2020. If the personal property tax liability exceeds \$1,000, the taxpayer pays estimated amounts in four equal quarterly installments due on or before the 15th day of the months of August, November, February, and March of every year. Estimated personal property tax payments are the lesser of 90% of the current year's tax or 100% of the prior year's tax. Any tax not covered by the estimated tax payments needs to be paid by May 15th. For FY2021, CRIM delayed the first quarterly installment from August 15th to September 15th as a result of COVID-19.

Not paying the tax on the due date can result in a penalty of 5% of the unpaid amount for a delay in payment in excess of 30 days, but not more than 60 days; 10% of the unpaid amount for a delay in payment in excess of 60 days, but not more than 90 days; and 15% of the unpaid amount for a delay in payment in excess of 90 days.

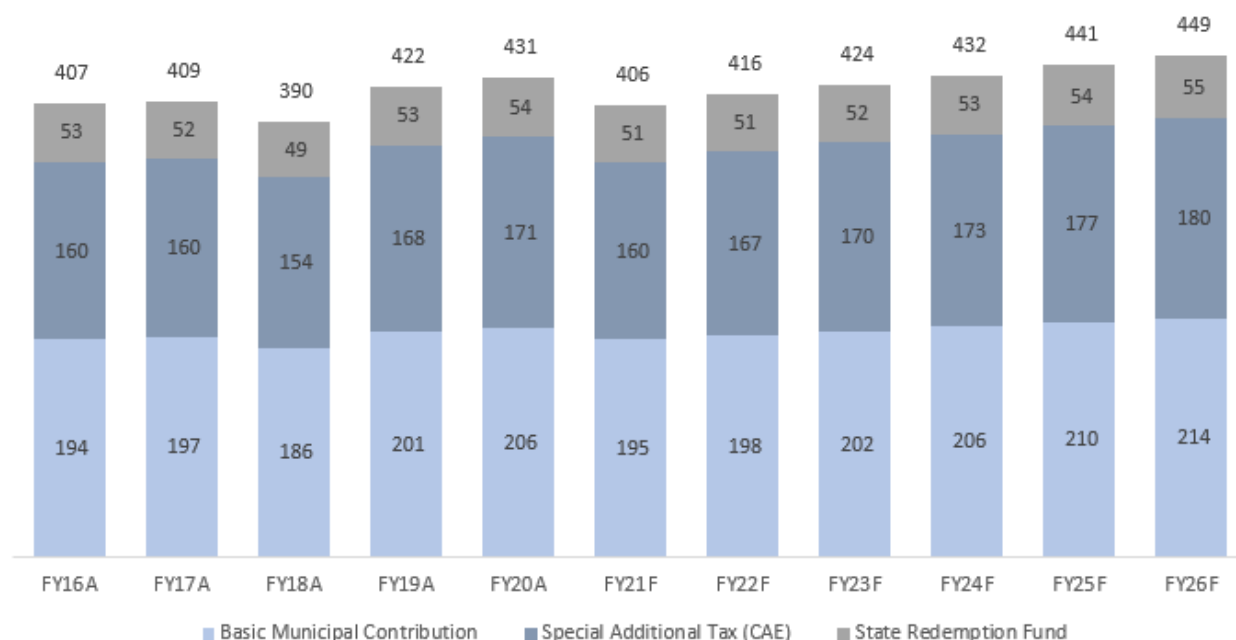
As one may expect with self-assessed taxes, total collection rates are close to 100%. CRIM's operational efforts to date have focused on improving the electronic filing system to streamline and simplify the process for taxpayers, eliminate payment delays, and address other issues resulting from outdated technology. Starting in FY2018, CRIM required personal property filings to be submitted electronically through the Personal Property Portal. Future opportunities for personal property tax improvement rely primarily on increased compliance (i.e., ensuring appropriate valuation, application of exemptions, and filings).

4.4. Personal Property Tax Revenues Over Time

Exhibit 21 presents baseline revenues over a 10-year period, broken into three groups corresponding to the three types of tax rates.

Exhibit 21: Historical and Projected Baseline Personal Property Tax Revenues

(Dollars in millions)



Chapter 5. Central Government Transfers

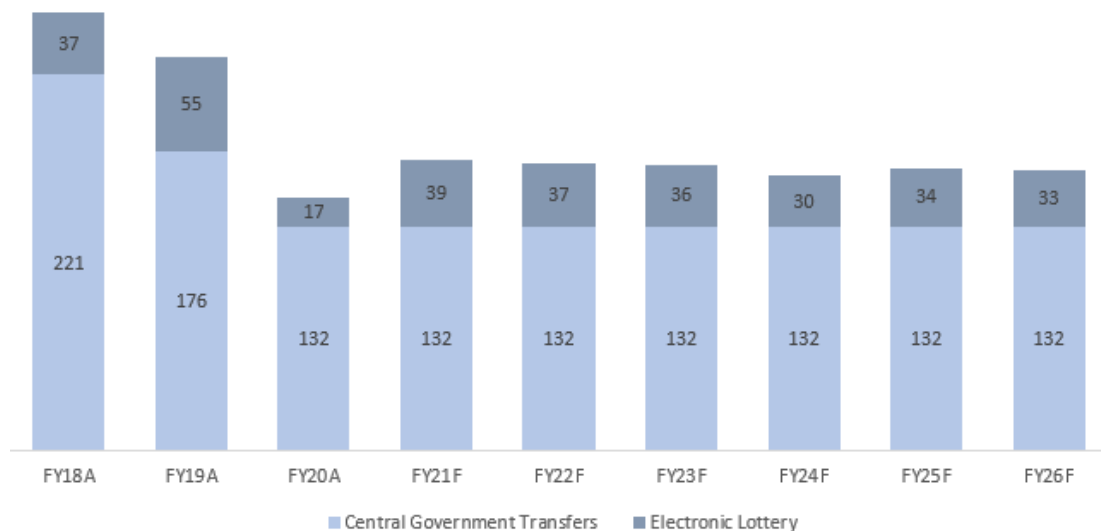
Historically, the Central Government transferred funds to CRIM through General Fund appropriations, which were then distributed to Municipalities. These include a) Equalization Funds per Article 16 of Act 80-1991, and b) Exoneration Funds of Article 2.06 of Act 83-1991.

Act No. 80 of August 30, 1991, as amended, established a special fund known as the Equalization Fund for the purpose of ensuring that all municipalities receive at least the same amount of revenues as they received on the prior year from these sources. The Equalization Fund currently includes Commonwealth transfer and 35% of Electronic Lottery net annual income.

Exhibit 22 depicts both historical and projected total Central Government transfers. As part of the certified Commonwealth Fiscal Plan, most of the Central Government transfers will be eliminated and by FY2025, only the Electronic Lottery funds will remain. However, the Commonwealth submitted its revised fiscal plan for FY2022, wherein the \$131.8 million central government transfer to the Municipalities remains unchanged throughout their projections, thus halting the gradual phase out of the central government transfer. We are including the projections under the assumption the fiscal plan submitted by the Commonwealth is approved.

Exhibit 22: Central Government Transfers

(Dollars in millions)



5.1. Commonwealth transfer

Commonwealth transfer represents 2.5% of the net internal revenue of the Commonwealth's General Fund. In FY2018, this amount was capped at \$219.7 million, and the 2020 Commonwealth Fiscal Plan gradually eliminates this transfer by FY2025. The Commonwealth transfer was \$175.8 million in FY2019 (a 20% reduction from FY2018), and \$131.8 million in FY2020 (a 40% reduction from FY2018).

For FY2021, the Commonwealth transfer was originally projected to be \$87.9 million (a 60% reduction from FY2018) per the 2019 certified Commonwealth Fiscal Plan. However, due to the COVID-19 pandemic, the transfer remained at \$131.8 million, in accordance with the updated certified Commonwealth Fiscal Plan. These additional funds will further support the municipalities during this crisis. According to the certified Commonwealth Fiscal Plan, the phase-out elimination will resume in FY2022 and will be fully eliminated by FY2025. However, as explained above,

the Commonwealth submitted its revised fiscal plan for FY2022, wherein the \$131.8 million central government transfer to the Municipalities remains unchanged throughout their projections, thus halting the gradual phase out of the central government transfer.

5.2. Electronic Lottery Funds

Electronic Lottery funding equals 35% of the net annual income derived from the operations of the Electronic Lottery. For FY2020, CRIM estimated electronic lottery proceeds at approximately \$47.3 million. However, due to the earthquakes and COVID-19 pandemic during the second half of the fiscal year, electronic lottery proceeds were reduced by approximately \$30.7 million (from \$47.3 million to \$16.6 million). In elaborating its projections, CRIM took under consideration the year over year fluctuations Electronic Lottery Proceeds have had, which in turn impact municipal cash flows. As such, CRIM is utilizing a three (3) previous years moving average to calculate its projections. Although this results in more conservative figures vs. Electronic Lottery projections, CRIM is ensuring that municipal budgets are prepared with figures that are more likely to be achieved, rather than having to amend budgets due to the lower than projected Electronic Lottery figures.

5.3. Exoneration Funds

Each primary residence is exonerated from paying the tax burden for the first \$15,000 appraisal value, as established by Act 83-1991. Prior to FY2018, the Commonwealth reimbursed the municipalities for the exonerated portion of the property tax, including \$86 million for the exonerated basic tax and \$30 million for the exonerated CAE.

In addition, Act 16-1960 authorizes Hacienda to grant a discount of 0.2% of the annual basic tax over the assessed value of all real and personal property not exempt from taxes. Until FY2018, Hacienda reimbursed the discount to the municipalities. For the fiscal year ended June 30, 2017, the discount totaled approximately \$17 million. The Exoneration Fund was eliminated in FY2018 in accordance with the certified Commonwealth Fiscal Plan.

Chapter 6: Other Revenues

In addition to property taxes, CRIM records other de minimis operating revenues, including:

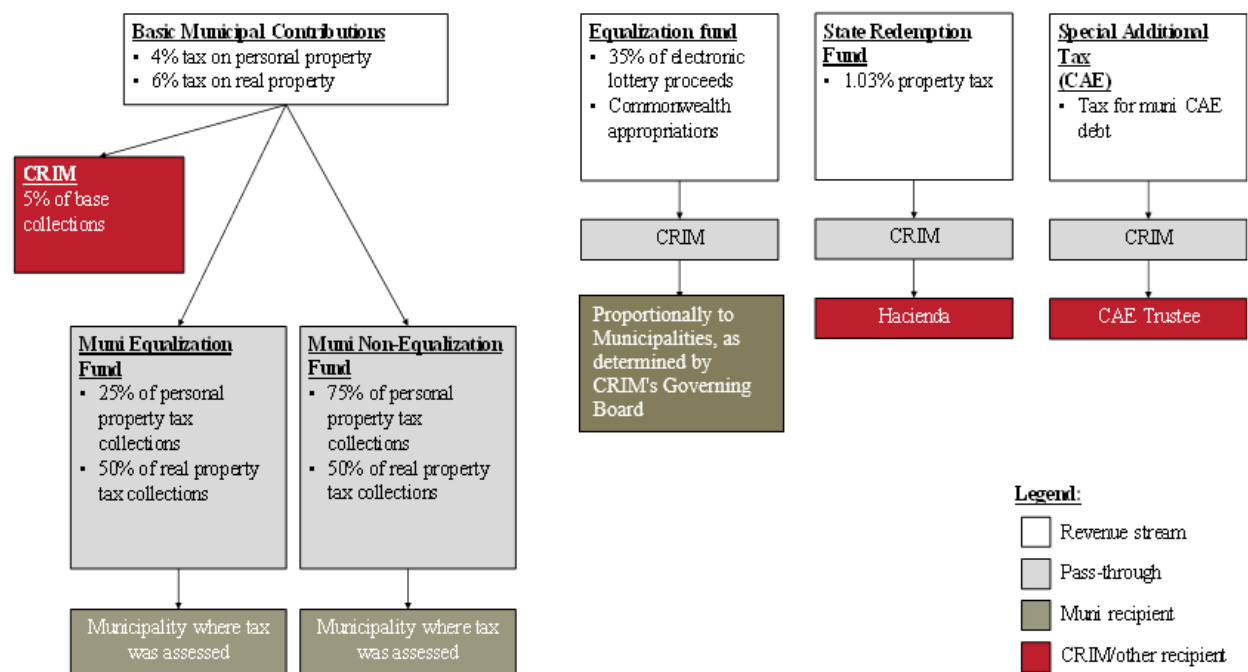
- Sales and certifications of maps, which amounted to \$0.66 million in FY2020; both the Office of Digital Cadaster and the nine (9) regional offices offer a variety of mapping products available to the taxpayer or agency at a set cost.
- Service charges to banks, which amounted to \$1.02 million in FY2020.
- Interest and miscellaneous income, which amounted to \$0.09 million in FY2020.
- Rental Income, which amounted to \$0.2 million in FY2020

CRIM is supposed to collect 2% of collections from Act 22-2000 fines/infractions; however, Hacienda collects and sends these funds directly to the Municipalities.

Part III. Uses of Funds

In addition to overseeing the collection of property taxes from citizens and businesses, CRIM manages the redistribution of such funds in three major categories: advances to municipalities, transfers of the State Redemption Funds to the Central Government;¹³ and transfer of the CAE to the trustee to pay the municipal CAE debt service. In order to support CRIM operating expenses, CRIM retains 5% of the total basic municipal tax ("CRIM Admin Fee"). **Exhibit 23** presents the uses of funds in greater detail.

Exhibit 23: CRIM Uses of Funds Overview



¹³ The taxes deposited in the State Redemption Fund have been used in the past for GO Bond debt service. Some holders of GO bond claims and Commonwealth-guaranteed bond claims have asserted their bonds are secured by the 1.03% tax on real and personal property collected in the State Redemption Fund. The Commonwealth and the Oversight Board disagree with that position and assert the GO bonds and Commonwealth-guaranteed bonds are unsecured obligations of the Commonwealth. Nevertheless, since money is fungible, the joint plan of adjustment filed on March 8, 2021 provides the 1.03% tax on real and personal property collected in the State Redemption Fund would be used to pay GO bond claims recovery.

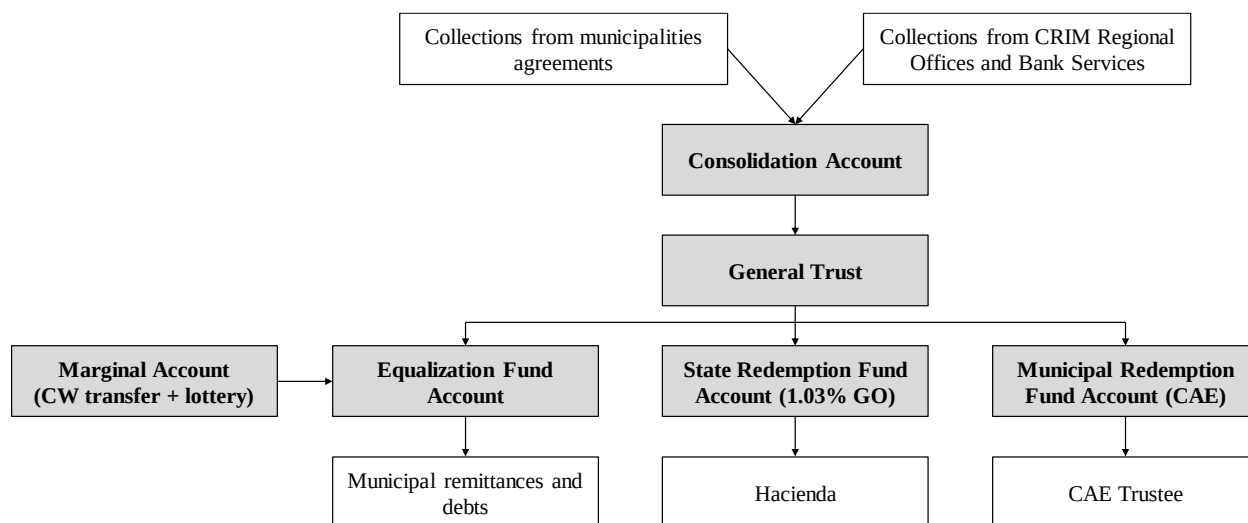
CRIM Flow of Funds

Property taxes are collected from CRIM regional offices, bank services (including mailbox, call centers, and online payments), and from municipalities that have collaborative agreements with the agency. These tax collections are deposited in two bank accounts at a local banking institution in Puerto Rico. The Bank consolidates the funds from the two accounts in an intermediary pass-through account and transfers the full amount to a General Trust account. The General Trust account is an account under the trust established by AAFAF, as trustee and CRIM, as settlor pursuant to the terms of Deed No. 58 of Amendment and Restatement of Trust executed on November 29, 2018.

The General Trust account holds CAE, State Redemption Fund, and basic tax collection. Prior to the beginning of the Fiscal Year, CRIM, as settlor, and AAFAF, the trustee of the General Fund, inform the Bank, the custodian of the account, how the funds will be distributed (i.e., 52% basic tax, 11% State Redemption tax, 37% CAE). The Bank then distributes the funds according to the calculated distribution percentages into the corresponding account. CAE funds are distributed into the CAE subaccount at the end of the month, and State Redemption funds are deposited into the State Redemption Fund Subaccount, as instructed. As per the Deed of Trust, CRIM requires trustee authorization for transactions from funds in the Trust, which ensures that tax collections are not diverted from their original statutory use.

Basic tax collections are transferred from the General Trust account to the "Equalization Fund" account daily. The Equalization Fund account also receives funds from Hacienda from a marginal account, including Commonwealth transfer and Electronic Lottery proceeds. **Exhibit 24** illustrates the current flow of funds.

Exhibit 24: CRIM Flow of Funds



Remittances to Municipalities

CRIM controls the Equalization Fund account, and it is used to advance monthly municipal remittances and to pay the statutory and contractual debt on behalf of the municipalities.

Statutory debts are recognized as an expense by the municipalities and are paid by CRIM on their behalf. These debts include, but are not limited to:

- CRIM Admin Fee, which equals 5% of basic tax collections and it is used to fund the daily operations of the agency
- Government Development Bank ("GDB") line of credit agreements
 - GDB granted two loans to CRIM totaling \$271.5 million in principal: (i) loan dated June 28, 2001 ("2001 CRIM Loan"), pursuant to Act No. 42-2000, as amended; and (ii) loan dated March 18, 2002 ("2002 CRIM loan"), pursuant to Act No. 146-2001, as amended.
 - The 2001 CRIM Loan amounted to \$166.5 million and was used to cover distributions made by CRIM to municipalities based on projected tax collections that later resulted to be greater than the actual tax collections. Municipalities are indebted to CRIM for the excess remittances received, and CRIM withholds funds from the municipalities' remittances for the payment of the loan. The loan is payable on January 1 and July 1 of each year and matures on July 1, 2032.
 - The 2002 CRIM Loan amounted to \$105 million and was used to repurchase the tax liens sold to Puerto Rico Public Finance Corporation on June 30, 1998. Interest on the loan is payable on March 31 and September 30 of each year, and the principal is payable on March 31 of each year. CRIM withholds funds from the municipalities' remittances for the payment of the loan.
- Other operating loans that municipalities have with commercial banks. AAFAF informs CRIM of the amount that must be retained for each municipality from their remittances to repay these loans.

Similarly, contractual debts are obligations that municipalities have with private or public entities, including waste management services, municipal insurance policies, and amounts due to other governmental entities under payment plans subscribed by the municipalities such as the Puerto Rico Aqueduct and Sewer Authority ("PRASA"), and the Puerto Rico Electric Power Authority ("PREPA"). These contractual debts are also recognized as an expense by the municipalities and paid by CRIM on their behalf.

The remaining funds, net of statutory and contractual debt, are advanced to municipalities, which are used to fund other municipal operations.

Chapter 7. Advances to Municipalities

Municipalities are funded by the Basic Municipal Contribution and the Equalization Fund, as shown in **Exhibit 24**.

Basic Municipal Contribution

Municipalities are funded by the Basic Municipal Contribution consisting of the 6% tax on real property and the 4% tax on the personal property per Article 2.01 of Act 83-1991, as repealed and reinstated by Act 107-2020. While these Basic Municipal Contributions are divided into the Municipal Non-Equalization Fund and the Municipal Equalization Fund, currently, all collections are remitted to the municipality that assessed the tax.

- The Municipal Non-Equalization Fund distributes the basic non-exempt portion, which consists of approximately 75% of personal property tax collections and approximately 50% of real property tax collections, directly to the respective municipalities that assessed the property taxes.
- The Municipal Equalization Fund distributes the remaining 25% of personal property tax collections and 50% of real property tax collections to the relevant municipalities that assessed the property taxes.

Equalization Fund

Because of substantial disparities in municipalities' capacities to raise revenue, an Equalization Fund was established by Article 15 of Act 80-1991 to provide additional funds to municipalities with insufficient tax base to ensure a comparable level of funding year-over-year. For FY2017, aggregate funding was approximately 23%¹⁴ of municipal general fund revenue and ranged from more than 75% of the revenue for some jurisdictions to less than 10% for others (including San Juan). Additionally, spending levels vary significantly across municipalities, all of which provide key services to their citizens. For FY2017, the average per capita general fund budgets for municipalities was \$554, with significant variability as indicated by a high of \$2,638 per person in Culebra to a low of \$249 in Toa Alta.

Act 107-2020, grants CRIM's Board of Governance the faculty to establish a formula for the distribution of Equalization Fund monies, **as the circumstances may merit each year**. The Act indicates that CRIM's Board of Governance may use certain specific criteria in the establishment of the formula, such as the municipalities' population, but is ultimately granted the faculty to establish any other objective criteria it deems necessary to maintain the proportionality in the distribution of said funds. This faculty was enacted due to the elimination by the Oversight Board of Central Government transfers to the municipalities, as the monies to equalize all the municipalities to prior year amounts became insufficient.

¹⁴ In FY2018 this was reduced to 12%.

Law 29 nullification

The Puerto Rico Legislature enacted Law 29-2019 ("Law 29"), which transferred the primary obligation of municipal pension pay-as-you-go ("PayGo") and Health Insurance Administration ("ASES") payments from the 78 municipalities to the Commonwealth. Law 29 exempted the municipalities from making healthcare payments to ASES and required that CRIM retain up to 50% of such amount in the Equalization Fund and remit the remaining 50% directly to the municipalities. Law 29 also exempted municipalities from paying their PayGo obligations. Law 29 required that CRIM retain in the Equalization Fund up to 90% of the PayGo amount municipalities would otherwise have to pay and transfer the remaining 10% directly to the municipalities. Through FY2020, CRIM operated under the mandates of Act 29, and retained the amounts required by Law 29 to fund the Equalization Fund. The Oversight Board determined that Law 29 would undermine the government's ability to pay pensions to all municipal retirees whenever Puerto Rico's government faces fiscal distress. In its compliance certification regarding Law 29 submitted to the Oversight Board pursuant to Section 204(a) of PROMESA, the Governor provided only a partial formal estimate of the financial impact of Law 29. The Oversight Board determined Law 29 impaired and/or defeated the purposes of PROMESA, unlawfully reprogrammed funds without consent from the Oversight Board, and unlawfully modified the municipalities' debt and the Commonwealth's debt without prior approval of the Oversight Board as required by PROMESA. The Oversight Board filed an adversary proceeding in the Title III court seeking, among other things, a court order declaring Law 29 unenforceable and of no effect.

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. The court issued a mandatory permanent injunction precluding the enforcement of Law 29 and declared Law 29 a nullity because it violated various provisions of PROMESA. The Title III court's order became effective on May 7, 2020. The effect of this nullification requires municipalities to reimburse the Commonwealth for monies received under Law 29 to which the municipalities were not entitled pursuant to PROMESA and to cover their own employees' health care and PayGo costs going forward. For FY2020, the PayGo and health care obligations are approximately \$166 million and \$32 million, respectively.

During FY2021, the municipalities repaid the bulk of the outstanding debt with ERS and ASES, pursuant to the repayment waterfall in **Exhibit 25**. Currently, the municipalities have completed the initial 3 steps, as well made payments with other sources of revenues identified which did not impact monthly municipal remittances. The outstanding debt related to Law 29 as of February 2021 was approximately \$24.8 million.

Exhibit 25: Repayment Waterfall

Repayment waterfall	Description
Step 1 – Offset outstanding obligation against electronic lottery funds true-up	• CRIM identified \$17.6 million of Electronic Lottery proceeds from FY2016 & FY2017 previously not remitted to CRIM as required by Law • Use these funds to offset a portion of the remaining obligation of \$66 million
Step 2 – Offset outstanding obligation against excess CAE rebate	• If tax collections exceed the amount needed to cover annual debt service on CAE loans, municipalities receive this excess at the end of the year • Use these funds to further offset remaining obligations after Step 1
Step 3 – Offset outstanding obligation against the final FY20 liquidation	• CRIM projects annual municipal advances at the beginning of each fiscal year and remits funds based on projections monthly • After the fiscal year ends, CRIM reconciles actual collections to remittances and liquidates any excess to the corresponding municipality • Use these funds to further offset remaining obligations after Steps 1 and 2
Step 4 – Offset outstanding obligation against the collection of aged Accounts Receivable	• CRIM will value and plan to monetize its portfolio of accounts receivable by the end of FY2021. This is projected to result in up to \$400 million in proceeds • Proceeds from the sale of this portfolio shall be paid to the Commonwealth to further offset remaining obligations after Steps 1, 2 and 3
Step 5 – Offset outstanding obligation against municipal advances	• If FY2020 PayGo and health care obligations are not fully repaid after Steps 1, 2, 3 and 4, CRIM must offset the municipality's monthly advances until the remaining obligation is repaid in full • To minimize the impact of offsets, CRIM must undertake revenue-enhancing measures to secure additional revenues that could then offset the remaining liability due • If CRIM does not achieve its revenue-enhancing measures by the end of FY2022, a series of collection measures will be enacted. These measures include the establishment of a lockbox mechanism to control all cash receipts and disbursements and an immediate offset of 25% of the outstanding obligation from property tax advances • These offsets will continue in varying amounts until the obligation is fully repaid • If the balance of the FY2020 health care and PayGo obligations is not paid down by the end of FY2022, the budgeted monthly Commonwealth transfer will be placed on hold until such time as the requirement is met

PayGo Pension Offset

Municipalities are responsible for budgeting and paying their annual PayGo fee invoiced as determined by ERS. However, historically, many municipalities have not paid their annual PayGo, which is inconsistent with this Fiscal Plan and the certified Commonwealth Fiscal Plan. Many municipalities have established payment plans with ERS to ensure timely repayment of these outstanding obligations. CRIM can also offset PayGo obligations from each municipalities' property tax distributions and remit these funds directly to ERS. Pursuant to Article 3.5(2)(a)(iii) of Act 106-2017, CRIM must "remit within seven (7) days after [receiving] the written notice, to the New Defined Contribution Plan and/or Accumulated Pension Benefits Payment Account, the amounts of the Contributions Owed by the Municipal employer, of the unencumbered balance of the property tax and other revenues the Municipalities are entitled to receive in accordance with Act No. 80-1991." Accordingly, for those municipalities that have not established a payment plan with ERS, and to ensure the adequate funding of public pension systems, CRIM must offset each municipality's PayGo obligations from their corresponding revenues and withhold and remit such funds to the Commonwealth in accordance with Act 106-2017, this Fiscal Plan, the certified Commonwealth Fiscal Plan, and the certified Commonwealth budget.

ASES Payment Offset

CRIM is responsible for remitting the Municipalities' payment to the Health Insurance Administration ("ASES" for its Spanish acronym), in accordance with Act 72-1993 ("Act 72"). CRIM must collect and remit these funds to ASES in accordance with this Fiscal Plan and the certified Commonwealth Fiscal Plan, no later than 30 days after they become due, to ensure that ASES is adequately funded.

Following the nullification of Law 29, have been paying FY2020 ASES obligation, pursuant to the repayment waterfall agreed to with the Oversight Board. The existing Certified Commonwealth Fiscal Plan assumes that municipalities fund their respective ASES obligations going forward, yet includes a temporary relief for municipal ASES contributions, given the additional federal funding made available through the 2020 Further Consolidated Appropriations Act and the Families First Coronavirus Response Act. However, as the Commonwealth reaches its "Medicaid Fiscal Cliff", the existing certified Commonwealth Fiscal Plan assumes that contributions from municipalities will return to statutory levels under Act 72-1993. However, on March 8, 2021, the Commonwealth submitted its FY2022 Proposed Fiscal Plan¹⁵, wherein it establishes that municipalities will not have to pay their ASES contributions from FY2022 onwards, as federal funding is expected to completely cover these expenses.

As the Oversight Board has agreed to provide relief to municipalities for any incremental FMAP funding above the base level of 55% going forward, we are including the existing formula,

¹⁵ On March 15, 2020, the Oversight Board issued its Notice of Violation of the Fiscal Plan submitted by the Commonwealth. Among the measures classified as violations was the reinstallment of the municipal contribution towards ASES, pending possible federal legislation.

pursuant to the existing certified Commonwealth Fiscal Plan, which will be continued to be utilized to incorporate the relief, subject to final agreement between the Commonwealth and the Oversight Board, as well as federally legislated relief, and calculate the adjusted municipal obligation:

- $\text{Statutory ASES obligation} / ((1 - 55\% \text{ FMAP}) / (1 - \text{current Fiscal Year FMAP}))$

The following figures are the expected ASES withholdings during FY2022, assuming no Federal legislation is in place to ensure additional relief for the municipalities:

Municipality	FY2022 Municipal Obligation (Annual post-relief)
TOTAL	\$139,147,235
Adjuntas	\$248,162
Aguada	418,481
Aguadilla	1,083,551
Aguas Buenas	281,845
Aibonito	305,056
Añasco	254,667
Arecibo	1,821,253
Arroyo	311,724
Barceloneta	975,278
Barranquitas	290,059
Bayamon	9,055,947
Cabo Rojo	679,526
Caguas	6,616,365
Camuy	340,995
Canovanas	582,278
Carolina	6,696,903
Cataño	1,845,236
Cayey	706,237
Ceiba	280,704
Ciales	289,403
Cidra	759,955
Coamo	423,865
Comerio	334,807
Corozal	389,072
Culebra	92,712
Dorado	796,292
Fajardo	866,893

Municipality	FY2022 Municipal Obligation (Annual post-relief)
Guanica	272,038
Guayama	944,072
Guayanilla	337,101
Guaynabo	11,606,804
Gurabo	685,608
Hatillo	570,885
Hormigueros	301,803
Humacao	1,455,934
Isabela	287,393
Jayuya	243,089
Juana Diaz	608,214
Juncos	910,978
Lajas	305,152
Lares	407,467
Las Marias	228,574
Las Piedras	-
Loiza	338,012
Luquillo	-
Manati	783,639
Maricao	211,894
Maunabo	174,079
Mayaguez	2,689,648
Moca	396,172
Morovis	341,756
Naguabo	217,259
Naranjito	323,357
Orocovis	304,762
Patillas	250,479
Peñuelas	424,381
Ponce	11,624,730
Quebradillas	299,545
Rincon	271,956
Rio Grande	708,751
Sabana Grande	176,316

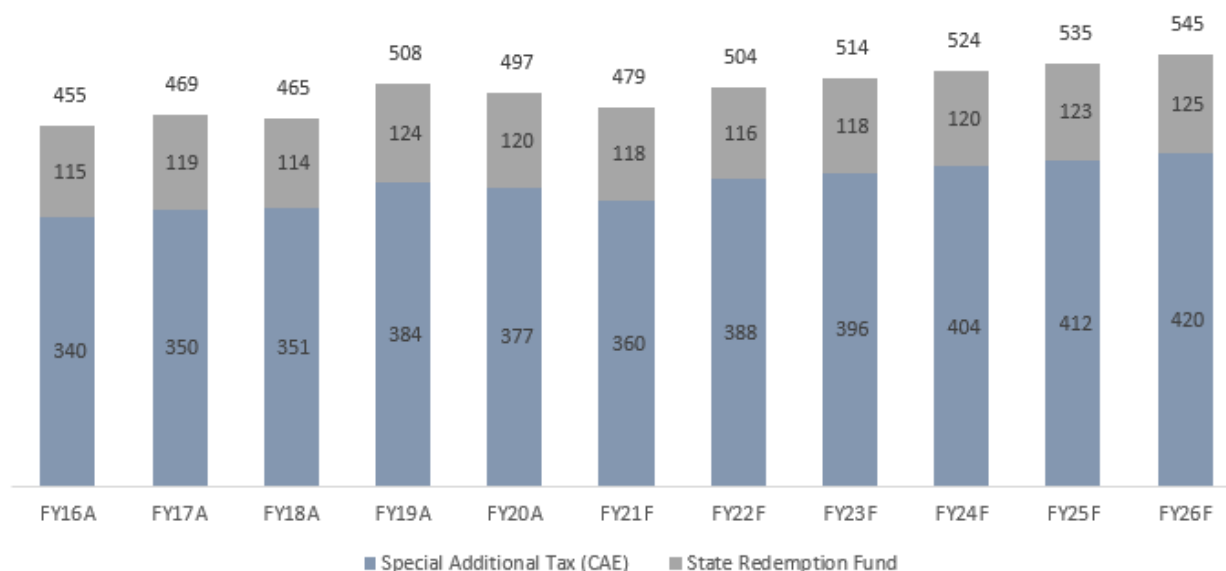
Municipality	FY2022 Municipal Obligation (Annual post-relief)
Salinas	399,374
San German	667,875
San Juan	54,698,304
San Lorenzo	529,739
San Sebastian	601,126
Santa Isabel	252,831
Toa Alta	670,925
Toa Baja	1,600,871
Trujillo Alto	725,622
Utua	311,948
Vega Alta	612,145
Vega Baja	679,240
Vieques	336,432
Villalba	353,193
Yabucoa	363,675
Yauco	670,681

Chapter 8. Other Transfers

Along with the Basic Municipal Contributions, CRIM collects taxes related to CAE and the State Redemption Fund, which are transferred to the CAE trustee and Hacienda, respectively.

Exhibit 26: CRIM Debt Transfers

(Dollars in millions)



Special Additional Tax (CAE)

CRIM collects CAE, which, as provided by Act 83-1991, may be imposed by a municipality without limitation as to rate or amount on all taxable real and personal property.

Under Act 64-1996, each municipality is required to levy the CAE in such amounts as will be required for the payment of all its outstanding CAE Loans.

CAE rates vary between 1.0% and 5.5% on personal property and 1.2% to 5.5% on real property. In 57 out of the 78 municipalities, the CAE rate is the same for both real and personal property. In 18 jurisdictions, the CAE rate is lower on personal property than on real property. In the remaining three municipalities, the CAE rate is higher on personal property than on real property.

CAE collections are required by law to be deposited in the CAE Redemption Fund and used for the payment of CAE Loans. To the extent a municipality's funds in the CAE Redemption Fund exceed the amount needed to cover 12 months debt service on CAE Loans, as determined by AAFAF, and such municipality's debts, Act 64-1996 (as amended pursuant to the GDB Restructuring Act and the Municipal Code of Puerto Rico) requires the disbursement of such excess to the municipality, at its request, once during each fiscal year. Such excess is generally referred to as "Excess CAE." AAFAF requires municipalities to obtain certifications demonstrating that they have no outstanding obligations with other government agencies. If municipalities have outstanding obligations (i.e., PayGo), AAFAF requires that excess CAE be used to repay these obligations. To the extent municipalities have outstanding obligations with different agencies and the excess CAE is not sufficient to repay all of them in full, the municipalities can choose which obligation(s) to pay with these funds. Municipalities will not receive any excess CAE until all outstanding obligations are paid.

In November 2015, CRIM and GDB executed a deed of trust with respect to the CAE Redemption Fund, pursuant to which the CAE Redemption Fund was divided into two separate sub-funds, one of which would be invested in deposits at GDB and used for the payment of CAE Loans held by GDB; the other would be invested in certain qualified instruments and used for the payment of CAE Loans held by private banks and the Municipal Finance Authority (“MFA”) (the “Private Sub-Fund”). The Private Sub-Fund is invested in deposits at BPPR.

In April 2016, upon the imposition of restrictions on the withdrawal of funds on deposit at GDB, no additional CAE revenues were transferred to GDB. Thereafter, all CAE revenues have been deposited by CRIM at BPPR and kept in two accounts: (i) in the Private Sub-Fund, an amount based on the debt service on the CAE Loans held by private banks and MFA and (ii) in a separate account at BPPR, an amount based on the debt service payable on CAE Loans held by GDB.

At the GDB restructuring approval, GDB (i) adjusted loan balances by undisbursed deposits consisting of municipal loan proceeds applied against corresponding loans, (ii) adjusted municipal loan balances by all remaining municipal deposits applied against corresponding loan types, and (iii) provided the accelerated application of non-municipal public entity deposits to non-performing loans of such entities where applicable and pursuant to the GDB Restructuring Act.

Pursuant to the GDB Restructuring Act and the GDB restructuring, GDB paid, in cash, on or before the closing of the GDB restructuring, to each municipality that had deposit claims against GDB for Excess CAE prior to January 2017 corresponding to fiscal years 2015, 2016, and 2017 (such Excess CAE, “2015-17 Excess CAE”), an amount equal to 55% of such municipality’s undisbursed 2015-17 Excess CAE. Any remainder Excess CAE deposited at GDB was deemed fully discharged. For the avoidance of any doubt, 2015-17 Excess CAE does not include, and the GDB Restructuring Act does not address, those proceeds of the special additional tax which AAFAF has certified as surplus from the Municipal Debt Redemption Fund (as defined in the Municipal Financing Act) after January 1, 2017, pursuant to Article 20(e) of the Municipal Financing Act, corresponding to fiscal years 2017 and beyond and which are deposited in the Municipal Financing Act accounts created in financial institutions outside of GDB in the name or for the benefit of each municipality.

As shown in **Exhibit 26** above, transfers to the CAE trust account totaled \$377 million in FY2020.

State Redemption Fund

In accordance with Section 2.02 of Act 83-1991, CRIM collects the State Redemption Fund on behalf of the Central Government alongside the other property taxes. The State Redemption Fund holds a 1.03% tax that is instituted on both real and personal property. The proceeds are collected by CRIM and transferred to Hacienda.¹⁶ As shown in **Exhibit 28** above, this amount totaled approximately \$120 million in FY2020.

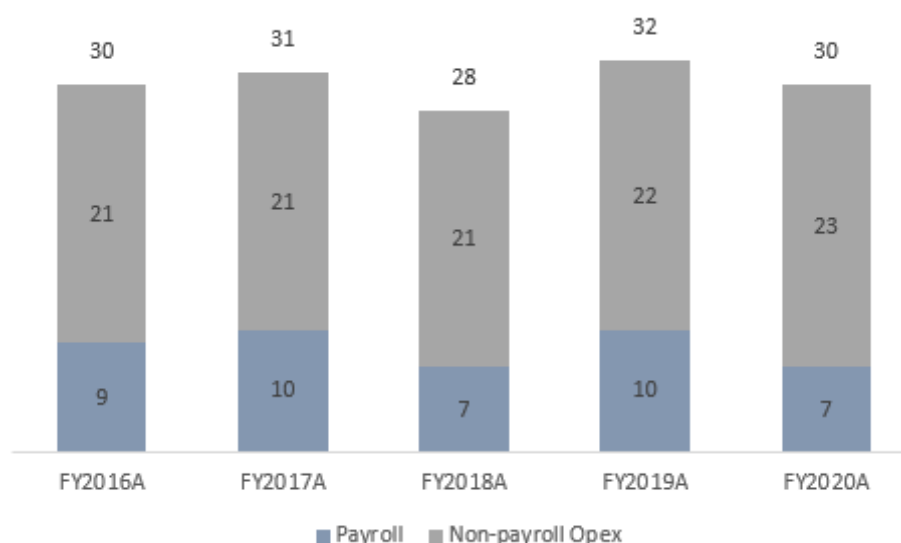
¹⁶ As noted above, some holders of GO bond claims and Commonwealth-guaranteed bond claims have asserted their bonds are secured by the 1.03% tax on real and personal property collected in the State Redemption Fund. The Commonwealth and the

Chapter 9. CRIM Operating Expenses

CRIM's operations are funded from its 5% withholding from the Basic Municipal Tax. CRIM's operating expenses have remained stable in recent years. In FY2020, salaries and fringe benefits represent approximately 67% of total operating expenses. Other non-payroll operating expenses consist primarily of rent, professional and consulting services, utilities, and repairs and maintenance, as represented in **Exhibit 27**. Note that CRIM does not have any outstanding debt, nor does it have a separate capital expenditure budget.

Exhibit 27: CRIM Historical Operating Expenses

(Dollars in millions)



Part IV. 2020 Fiscal Plan Baseline Forecast

Chapter 10. Demographics Macro Assumptions

CRIM firmly believes the real property taxes are not significantly correlated with the underlying economic trends of the Commonwealth, mainly due to two factors: (1) the taxable base for real property is agnostic to variances in market values and; (2) property taxes is levied upon the immovable property. Therefore, either the current titleholder is liable or the the eventual titleholder will assume the tax burden on the property, thus having a neutral or small effect on collections. Because real property can be assessed physically, it is difficult to evade and in the event of non-payment, Puerto Rico law grants a preferential lien to CRIM and municipalities for the collection of property taxes. While events such as the 2017 hurricanes and the COVID-19 pandemic can

Oversight Board disagree with that position and assert the GO bonds and Commonwealth-guaranteed bonds are unsecured obligations of the Commonwealth. Nevertheless, since money is fungible, the joint plan of adjustment filed on February 28, 2020 [ECF No. 11946] provides the 1.03% tax on real and personal property collected in the State Redemption Fund would be used to pay GO bond claims recovery.

cause timing cash flow issues for the municipalities, we expect no material impact on fiscal year collections. Therefore, no Macroeconomic assumptions included in the Commonwealth Fiscal Plan were included in elaborating projected real property tax figures. In the case of personal property tax, the Commonwealth Fiscal Plan assumes certain industries were materially impacted due to the COVID-19 pandemic. While we are yet unable to quantify the impact of the COVID-19 pandemic throughout FY2020, as the personal property tax filing is not due until May 2021, we were able to make the following assumption. The personal property tax is mainly composed of two concepts; (i) materials and equipment and (ii) inventory. With regards to materials and equipment, CRIM assumes that no material change occurred during the COVID-19 curfew. Therefore, the main impact that the government imposed curfew could have on the personal property tax would be on inventory, which roughly composes 55% of the personal property tax and approximately 21% of the total property tax. In the event that inventory tax collections were negatively affected by a margin of up to 15%, it would have an estimated impact on total collections of roughly 3.15%, or \$34 million utilizing the FY2022 total collections estimate of \$1.078 billion. CRIM firmly believes that the collection estimate for FY2022 is conservative and actual collections, barring another major natural event, will provide enough cushion to offset any fiscal effects of the COVID-19 pandemic.

Chapter 11. Methodologies and Assumptions

Property tax revenues methodology

As in the past, CRIM has analyzed historic taxpayer behavior to arrive at their revenue forecasts. For FY 2022, CRIM analyzed FY's 2017-18, 2018-19 and 2019-20. These fiscal years are of great importance, as they include impacts due to Hurricanes Irma and Maria, the increase in collections immediately after the hurricanes, and the COVID-19 Government shutdown. Having taken into account these three significant events, CRIM believes that its revenue forecasts are conservative in nature and allow for any predictable future event that may cause collection timing issues to occur. CRIM also analyzes these collections by revenue source (i.e. real and personal property tax) by municipality and ascertains no material deviation is occurring. Finally, in elaborating its 5 year revenue forecast, CRIM utilized the average normalized increased per year of approximately \$20 million. For purposes of these forecasts, any revenue deriving from the measures included in this fiscal plan are incremental.

Additional assumptions relied upon in the Fiscal Plan are further detailed in **Exhibits 28 and 29**. The resulting forecasts are presented in **Exhibits 30 and 31**. The Fiscal Plan targets include measures that are incremental to these baseline projections. These measures are further discussed in **Part V: Measures**.

Exhibit 28: Municipal Collections Detailed Assumptions Excluding CRIM Operations

Line Item	Assumption
Sources	
Central Government Transfers	- Commonwealth transfer – base of \$131.8m per year in perpetuity, as included in the new CW fiscal plan. - Electronic Lottery - \$36 million in FY2022 based on average past receipts.
Uses	
Advances to Municipalities	Residual revenues once all other expenses have been disbursed
State Redemption Fund	Pass through a portion of property tax collections based on State Redemption Fund tax rate
Special Additional Tax	Pass through part of property tax collections based on CAE tax
Net Interest Expense	Forecasted at \$4 million per year based on a historical run rate. Interest is paid by CRIM on behalf of the Municipalities and is netted from the advances to Municipalities.
Adjustments	Forecasted based upon current CRIM projected liquidation analysis for FY2020 and historical averages for FY2021-FY2025
CRIM Property Tax Admin Fee	5% of basic municipal contributions

Exhibit 29: CRIM Operations Detailed Assumptions

Line Item	Assumption
Inflows	
CRIM Property Tax Admin Fee	5% of basic municipal contributions
Sales of Certifications and Maps	Static, based on FY2020
Service Charges to Banks	Static, based on FY2020
Interest and Miscellaneous Income Rental Income	- Static, based on FY2020 results - Rental Income based on actual existing contracts
Federal Grants	No federal grants are assumed during the forecast period

Exhibit 30: CRIM Forecast Excluding CRIM Operations

<i>Dollars in thousands</i>	Forecast				
	FY2022	FY2023	FY2024	FY2025	FY2026
Base Case					
Revenues:					
Property Taxes					
Real Property	663,087	676,521	689,955	703,389	716,823
Personal Property	415,459	423,876	432,293	440,710	449,128
Total Property Taxes	1,078,545	1,100,396	1,122,248	1,144,099	1,165,951
Central Government Transfers	168,439	167,957	161,634	166,010	165,201
Total Revenues:	\$ 1,246,984	\$ 1,268,354	\$ 1,283,882	\$ 1,310,109	\$ 1,331,151
Expenses:					
Advances to Municipalities:	(701,838)	(712,468)	(717,258)	(732,745)	(743,048)
Distribution of Debt Funds:	-	-	-	-	-
State Redemption Fund:	(116,387)	(118,745)	(121,103)	(123,461)	(125,819)
Special Additional Tax:	(384,819)	(392,616)	(400,412)	(408,209)	(416,005)
Net Interest Expense:	(4,000)	(4,000)	(4,000)	(4,000)	(4,000)
Adjustments:	(11,073)	(11,073)	(11,073)	(11,073)	(11,073)
CRIM Administrative Fee:	(28,867)	(29,452)	(30,037)	(30,621)	(31,206)
Total Expenses:	\$ (1,246,984)	\$ (1,268,354)	\$ (1,283,882)	\$ (1,310,109)	\$ (1,331,151)

Exhibit 31: CRIM Operations Forecast

<i>Dollars in thousands</i>	Forecast				
	FY2022	FY2023	FY2024	FY2025	FY2026
Consolidated CRIM					
Revenues:					
Property Tax Administrative Fee	28,867	29,452	30,037	30,621	31,206
Service Charge to Banks	924	915	915	915	915
Sales of Certifications and Maps	650	650	650	650	650
Interest and Miscellaneous Income	65	65	65	65	65
Rental Income	203	0	0	0	0
Federal Grants	-	-	-	-	-
Total Revenues	30,709	31,082	31,667	32,251	32,836
Expenses:					
Healthcare Benefits	(1,300)	(1,300)	(1,300)	(1,300)	(1,300)
Christmas Bonus	(278)	(278)	(278)	(278)	(278)
PayGo	(5,230)	(5,230)	(5,230)	(5,230)	(5,230)
Other Payroll and Non-Payroll	(23,901)	(24,274)	(24,858)	(25,443)	(26,028)
Total Expenses:	\$ (30,709)	\$ (31,082)	\$ (31,667)	\$ (32,251)	\$ (32,836)

Part V. Measures

In June 2019, CRIM performed an assessment of its current operations in order to identify improvement initiatives to maximize collection rates and compliance. During FY2021, CRIM has been in the process of implementing these measures and expect to observe results in the upcoming FY2022, which are all incremental to the baseline forecast.

Collections are a function of the size of the tax base and the subsequent collection rate. The measures CRIM identified focus primarily on increasing the size of the tax base either by reappraising properties or adding new properties to the tax rolls. Additionally, a key challenge will be the improvement of collection rates, as described in more detail below. Finally, data sharing with municipalities and the Oversight Board through the development of a data warehouse should help provide additional information on each municipality's year-to-date tax collections and forecasts.

Chapter 12. CRIM Measures

The goal of CRIM is to increase the collection of real property and personal property taxes in order to maximize the Municipalities' revenues and increase its own administrative fees. CRIM has been working diligently to implement these measures. With this Fiscal Plan, we are maintaining such measures and updating their respective projected implementation schedule.

1. Sale of accounts receivable

CRIM previously received an offer from a third party to purchase the portfolio for \$400 million in 2017. This sale was not consummated. In 2019, CRIM entered into an agreement with another third-party vendor to evaluate the accounts receivable portfolio and provide a final valuation report by January 2020. However, this contract was canceled, and no valuation report was received.

CRIM and AAFAF published an RFP for the valuation and structuring of the accounts receivable portfolio and has selected the proponent. We are currently in the process of identifying the necessary funding to formally engage the valuation services. We expect to have the valuation report by the end of 1st quarter of FY2022.

2. Incorrect mailing address

Project Impact to CRIM's Fiscal Plan	Increase of revenue stream Increase of compliance levels
Milestones accomplished:	● Identification of 197,782 undeliverable CRIM addresses by result of the Data Warehouse and Puerto Rico Aqueducts and Sewers Authority's data implementation ● Replacement of 45,371 incorrect addresses and delivery of bill notifications in July 2020

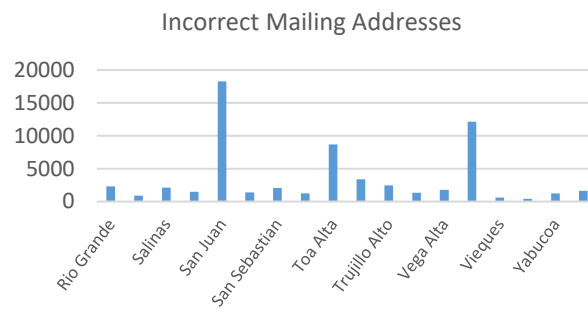
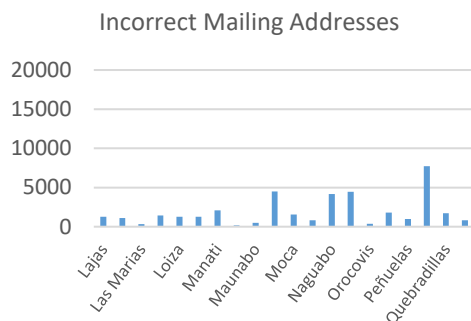
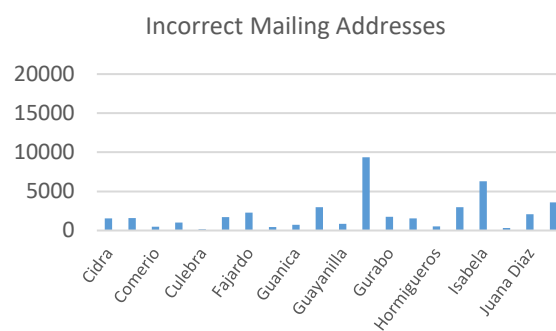
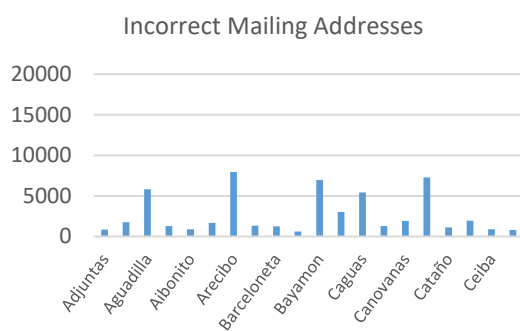
Planned Milestones:	● Identification of unknown postal addresses by Municipalities
---------------------	--

Timeline

Incorrect Mailing Addresses	2021				2022				2023		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Address cumulative 75% of addresses			▲ 07/2021								
Address cumulative 100% of addresses							▲ 07/2022				

Process Description

Tax roll contact update
Send and receipt of property tax bills
Property tax payment processing



3. Identification and appraisal of new properties

Project Impact to CRIM's Fiscal Plan	New revenue stream Registration and valuation of properties not currently on the tax roll Increase of compliance levels
--------------------------------------	--

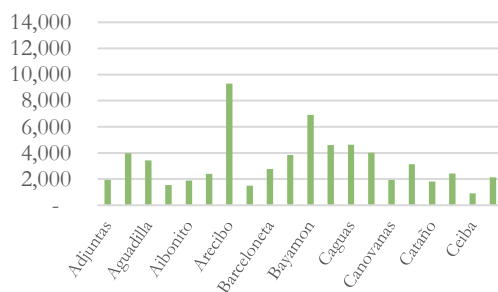
Milestones accomplished:	- Valuation of 239,338 new properties outside the tax roll - Identification of unknown parcel owners and contact information as result from the data exchange efforts between CRIM with PRASA - Development of standardized claims procedures - Development of a dedicated claims processing group - Estimation of potential revenue of \$107M at an 80% collection rate
Planned Milestones:	- To increase Call Center capacity to aim the claims management and outbound collections - To send initial 25% of property tax valuation notifications and bills

Timeline

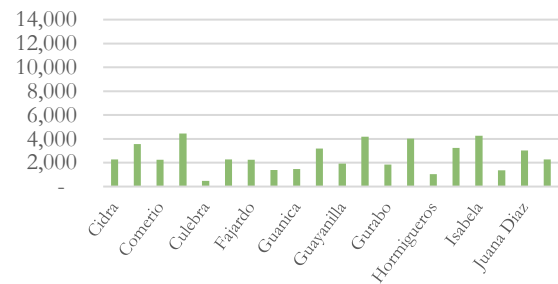
Identification and Appraisal of New Properties	2021				2022				2023		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Bill 25% of cases			▲ 08/2021								
Bill cumulative 50% of cases				▲ 10/2021							
Bill cumulative 75% of cases					▲ 03/2022						
Bill cumulative 100% of cases							▲ 08/2022				

Property scenario models identified	Type	Appraised Land	Appraised Structures
	Model 1	Land	No
	Model 2	Land & 1 Structure	No
	Model 3	Land & 1 Structure	Yes
	Model 4	Land & 1 Structure	No
	Model 5	Land & 2+ Structures	Yes
	Model 6	Land & 2+ Structures	No

Properties Not Currently on Tax Roll



Properties Not Currently on Tax Roll





4. Improvement in current year real property tax collection rates

Historically, CRIM only collects approximately 68% of current year real property tax billings. The Oversight Board set forth a target improvement of 840 basis points (8.40%) within the upcoming five years, equal to the average of the noted five-year improvement in **Exhibit 32**.

Exhibit 32: Benchmark Collection Rate Improvement

Jurisdiction	Collection Rates		5 Year Improvement
	Recent Minimum	5 Years Later	
Detroit	68.3%	82.0%	13.7%
Cleveland	76.9%	90.2%	13.4%
St Louis	88.2%	92.1%	3.9%
Harrisburg	83.5%	85.9%	2.5%
Toledo	86.4%	87.4%	1.0%
Philadelphia	79.5%	93.5%	14.0%
Washington DC	83.7%	98.5%	14.8%
Flint	65.4%	69.2%	3.8%
Average	79.0%	87.4%	8.4%
Median	81.5%	88.8%	8.6%

Operational and technological initiatives are underway. Coupled with an updated tax roll and integrated billing system, these initiatives will improve collection rates.

Exhibit 33: Targeted Puerto Rico Collection Rate Improvement

(Dollars in millions)

Targeted Puerto Rico Collection Rate Improvement	
FY2019 Billings	\$824.9
FY2019 Current Collections	558.3
Puerto Rico Collection Rate*	67.7%
5 Year Comparable Improvements	8.4%
Adjusted Puerto Rico Collection Rate	76.1%
Adjusted Collections	627.3
Incremental Improvement	\$69.0

*FY2015 to FY2018 collections ranged from 66.4% to 68.4%

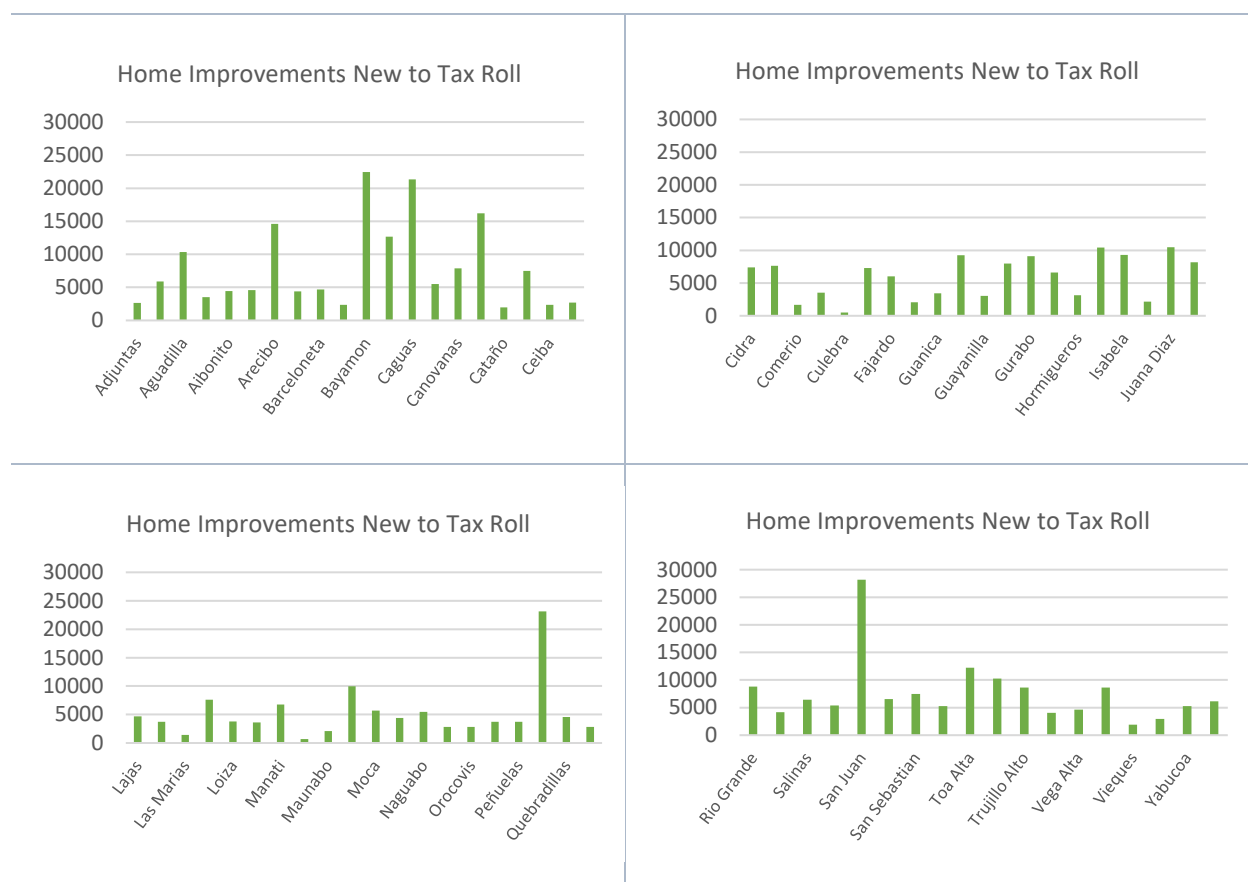
5. Home improvements new to the tax roll

Project Impact to CRIM's Fiscal Plan	- Increase of revenue stream - Increase of compliance levels
Milestones accomplished:	- Valuation of 517,505 home improvements not included in the tax roll - Development of standardized claims procedures - Development of a dedicated claims processing group - Estimation of potential revenue of \$56M at an 80% collection rate
Planned Milestones:	- To increase Call Center capacity to aim the claims management and outbound collections - To send initial 25% of property tax valuation notifications and bills

Timeline

Home Improvements Not Included on Tax Roll & Swimming Pools	2021				2022				2023		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Bill 25% of cases			▲ 08/2021		▲ 02/2022						
Bill cumulative 50% of cases							▲ 08/2022				
Bill cumulative 75% of cases											
Bill cumulative 100% of cases										08/2023 ▲	

Property scenario models identified		Type	Appraised Home Improvements
	Model 7	Land & 1 Structure	No
	Model 8	Land & 2+ Structures	No



6. FY2019 accounts receivables collection

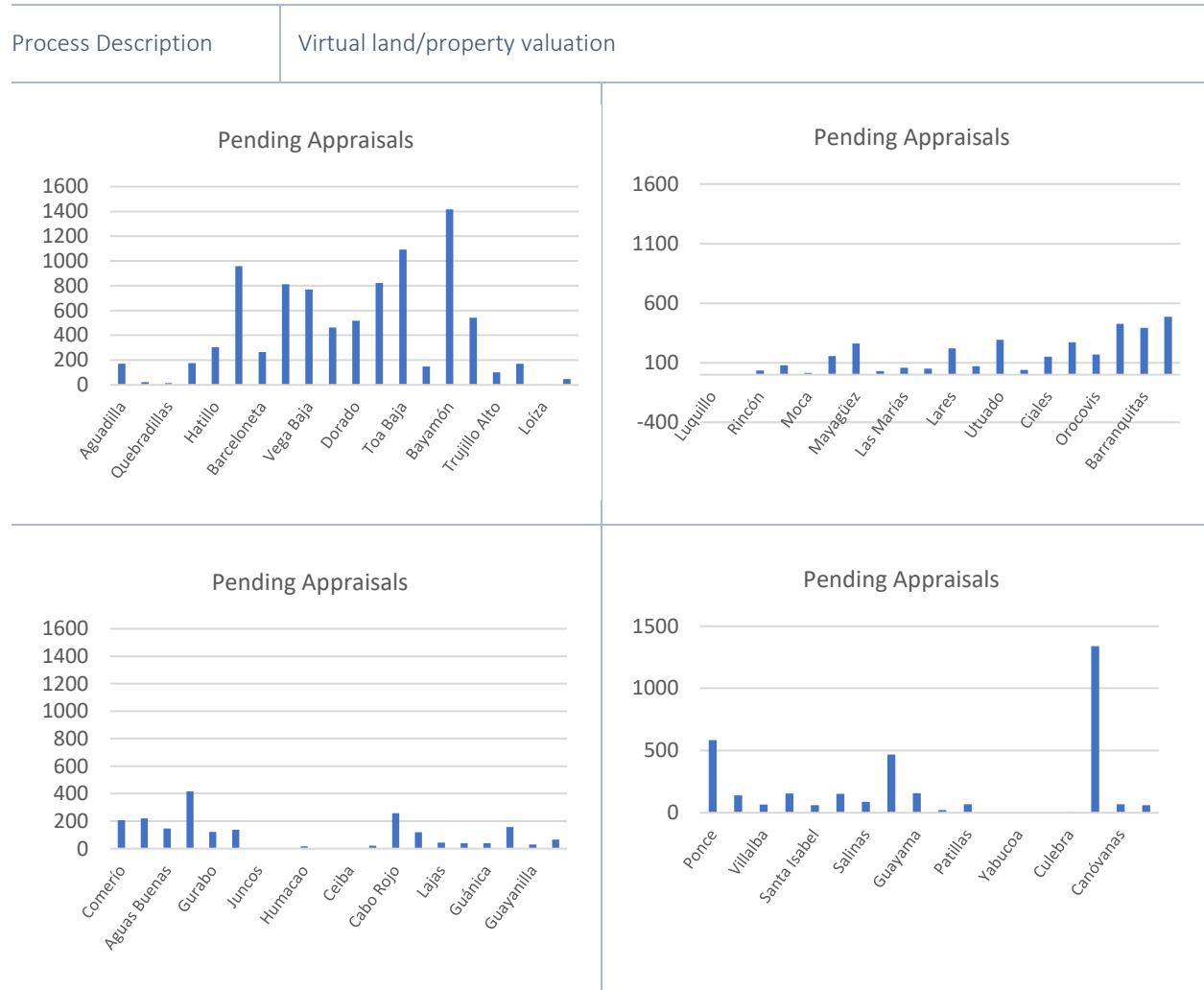
CRIM expects to have collected the expected amounts of Accounts Receivable from FY2019, as set forth in the 2021 certified Fiscal Plan, within the target dates established.

7. Appraisal of non-appraised properties

Project Impact to CRIM's Fiscal Plan	Increase of revenue stream Increase of compliance levels
Milestones accomplished:	Deployment of mobile Tablets to Appraisers to improve efficiency while working on the field
Planned Milestones:	Continue working on the completion of the appraisal's backlog list

Timeline

Appraisal of Non-Appraised Properties	2021				2022				2023		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Appraise 25% of backlog		▲ 05/2021									
Appraise cumulative 50% of backlog				▲ 11/2021							
Appraise cumulative 75% of backlog						▲ 06/2022					
Appraise cumulative 100% of backlog										▲ 04/2023	



8. Swimming pools new to the tax roll

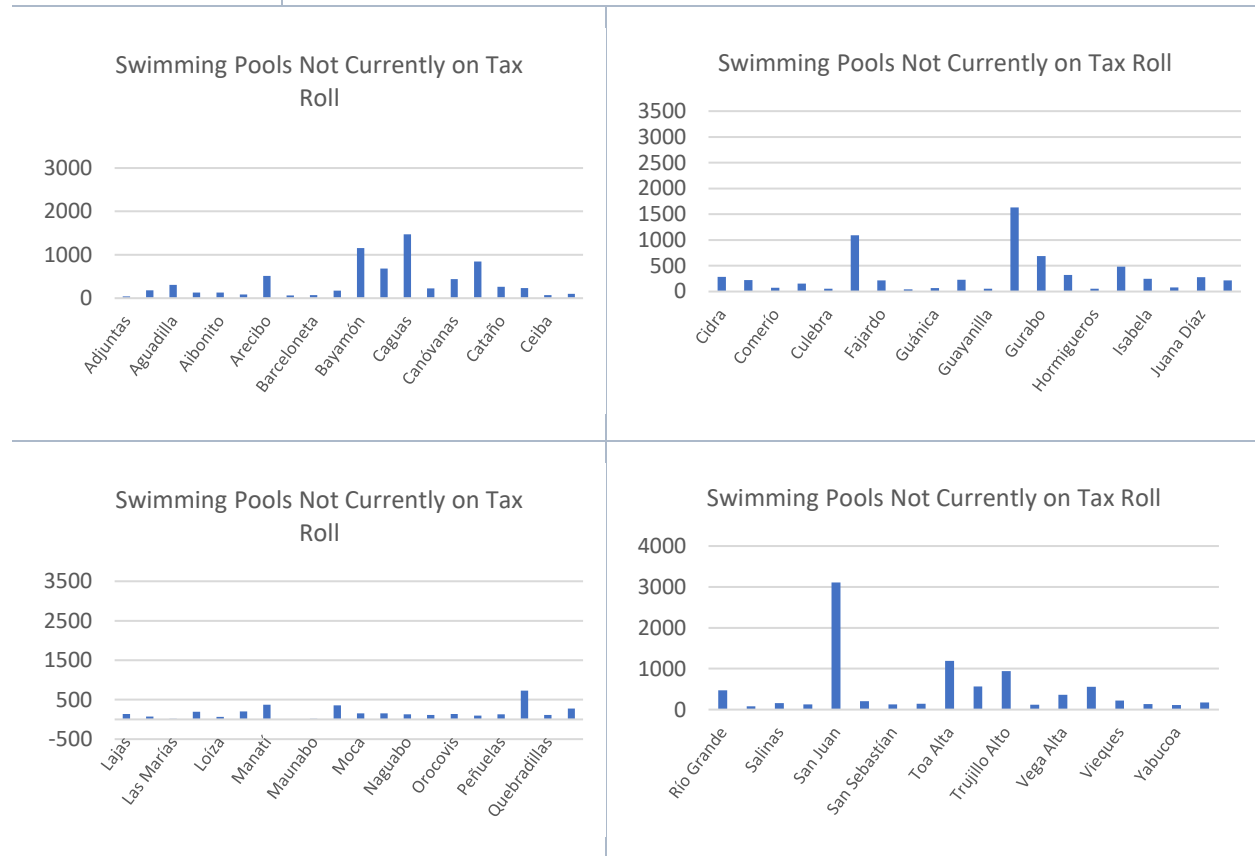
Project Impact to CRIM's Fiscal Plan	Increase of revenue stream Increase of compliance levels
Milestones accomplished:	- Valuation of 25,951 swimming pools not included in the tax roll - Estimation of potential revenue of \$2.1M at an 80% collection rate

Planned Milestones:	- To adjust Call Center capacity to increase the claims management and outbound collections efforts - To send initial 25% of property tax valuation notifications and bills
---------------------	--

Timeline

Home Improvements Not Included on Tax Roll & Swimming Pools	2021				2022				2023		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Bill 25% of cases			▲ 08/2021		▲ 02/2022		▲ 08/2022				
Bill cumulative 50% of cases											
Bill cumulative 75% of cases											
Bill cumulative 100% of cases										08/2023 ▲	

Process Description	Taxpayer Request for Information: Confirm property relationship to taxpayer Claims Management: Adjustments and corrections
---------------------	---



9. Personal property self-reporting compliance

Personal property is self-assessed by taxpayers annually, making compliance the key area of focus for improving revenue collection.

CRIM is in the process of working with Hacienda to implement reforms to meaningfully simplify paying taxes through digitalization and increase revenue collections using data and analytics to address non-compliance.

10. Operational and organizational development initiatives

Following the 2018 assessment, CRIM operational areas have also been working and integrating new systems and processes throughout multiple initiatives that impact CRIM's efficiency in collecting real and personal property tax revenues. These fall into operational and organizational development initiatives.

10a. Operational improvements

Some of the most critical areas negatively affecting CRIM operations included obsolete hardware, outdated applications, and insufficient data bandwidth to support communications. Specific CRIM services are impacted by outdated applications including customer service, billing and collections, appraisals, digitalization, and workflow systems, resulting in both inefficiencies and duplication of services. The most critical systems improvements that CRIM must implement to improve fiscal accountability and transparency are detailed below:

Data warehouse

A new data warehouse has greatly assisted CRIM in streamlining data sharing and access. It serves as a central repository of information that was previously spread throughout several systems. This portal allows for increased data sharing with several entities, including each of the 78 municipalities, the Oversight Board, PRASA, and other governmental agencies. Through this portal, municipalities will have access to important historical data on tax payments, delinquencies, and forecasts. Furthermore, data collaboration with other governmental entities and agencies will allow CRIM to address data deficiencies that previously hindered its tax appraisal, billing, and collection efforts.

Billing system update

Project Impact to CRIM's Fiscal Plan	Increase of revenue stream Accelerate and streamline processes Resource utilization maximization
Milestones accomplished:	● Completion of Real and Personal Tax Modules ● Implementation of Financial and Human Resources Modules
Planned Milestones:	● Integration of Web Platforms to complete unified system interoperability ● Development of Business Intelligence reporting dashboards

Timeline

	2021				2022				2023		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
ERP system											
Finance and HR systems	▲ 04/2021										
Real & Personal tax system			▲ 07/2021								
Fully integrated system				▲ 09/2021							

Process Description	Development of all CRIM services workflows Integration of the ERP system to CRIM's Web Platforms Data Migration Testing and Validation Go live
---------------------	--

CRIM's previous billing system, known as HANSEN, is over 20 years old and has not been updated since 2007. CRIM is in the process of implementing a unified system known as "CRIM 360", which will represent a technological upgrade from the current HANSEN system. CRIM 360's ability to be updated and will likely result in a more robust and efficient billing system that reduces errors and omissions currently experienced with the HANSEN system.

Appraisal system

CRIM's appraisal system was outdated and was replaced by SKALA I in October 2019, with phase two (SKALA II) scheduled to roll out in June 2020. Through technological improvements, SKALA will allow for virtual appraisals, reducing the time it takes for new appraisals from days to hours. It will also allow for more efficient allocation of appraisal staff and will likely be used by third-party appraisers given CRIM's current understaffing of its appraisal department. SKALA's main limitation at this point is that it is limited to residential properties only. CRIM must continue to roll out and use SKALA II.

10b. Organizational development

Addressing employee performance is the key to improving CRIM's performance. CRIM is working to implement three main initiatives to change CRIM's culture towards one that is more data and performance-driven, which will better align with the organization's strategy. **Exhibit 34** presents an overview of these organizational initiatives. CRIM must continue to implement these measures.

Exhibit 34: Organizational Development Initiatives

Areas	Initiatives	Timeframe
Human Capital Management	A. Transforming HR from a transactional approach to a strategic and people approach, where the department becomes a business partner and its efforts are focused on our employees B. Implementing a new competency-based performance evaluation method C. Synchronizing all employee evaluation cycles during the month of October	June 30, 2022 (Completed)
Management Development	Implementing a Supervisory and Leadership Academy for all employees with supervisory roles comprised of 8 modules with varied topics	April through August 2019 (Completed)
Quality Unit	Create a department of Quality Unit with the responsibility of detecting and measuring service deficiencies, streamlining processes, and monitoring of oversight adherence to processes	TBD in planning stage

11. Commonwealth agency efficiencies

While CRIM understands the agency efficiencies measures implemented at the Commonwealth level, it has been in disagreement with implementing such measures at CRIM. CRIM, as previously described, is an independent, municipal entity with its own revenue sources which fully fund CRIM day to day operations. Unlike other public corporations which have not implemented agency efficiency measures, CRIM does not receive funding from the General Fund, except for the Digital Cadaster function, which service CRIM provides for free due to this funding. On the other hand, these agency efficiency measures will have an adverse effect on CRIM operations and its personnel, risking CRIM not being able to offer its most basic services.

CRIM will continue conversations with the Oversight Board regarding all of the efficiency measures required under the FY2021 Certified Fiscal Plan and will respectfully request that those measures not be applicable to CRIM. As such, CRIM has not complied with FY2021 agency efficiencies measures requirements.

Chapter 13. Measure Timeline and Reporting

Below is a proposed summary that details a timeline and certain assumptions as it relates to the implementation of the proposed CRIM measures, along with the estimated incremental tax revenues generated by these measures:

Exhibit 35: Description, Action Items, and Timing of CRIM Measures

Area of Focus	Description	Deadline
1. Sale of A/R	- Identify experts for the evaluation of the portfolio - Collect \$400 million in receivables by FY2021	- April 30, 2021 - FYE 2022

Area of Focus	Description	Deadline
2. Incorrect Mailing Addresses	- Address cumulative 75% of incorrect addresses (for FY2022 collections) - Address cumulative 100% of incorrect addresses (for FY2023 collections)	- July 30, 2021 - July 30, 2022
3. Identification and appraisal of new properties	- Utilize bulk appraisal method to appraise all properties - Bill initial 25% of the backlog (for FY2021 collections) - Bill cumulative 75% of the backlog (for FY2022 collections) - Bill cumulative 100% of the backlog (for FY2023 collections)	- December 31, 2020 - August 2021 - March 2022 - August 2022
4. Improvement in Real Property Tax Collection Rates	Hire additional collections staff to assist with compliance efforts by January 2021 in order to increase collection rates by 170 basis points (1.7%) per year, resulting in an annual incremental revenue of \$13.8 million in FY2021, gradually increasing to \$69.0 million by FY2025	FYE 2025
5. Home Improvements New to Tax Rolls	- Address initial 25% of home improvements - Address cumulative 50% of home improvements - Address cumulative 75% of home improvements - Address cumulative 100% of home improvements	- August 2021 - February 2022 - August 2022 - August 2023
6. FY 2019 A/R Collection	Collect \$22.4 million of outstanding balances in FY2021 and FY2022	Completed
7. Appraisal of non-appraised properties	- Hire 23 staff, and train in time to begin sending out invoices in April 2021 - Hire an additional 38 appraisal staff to continue work on backlog and new appraisals - Appraise initial 25% of the backlog (for FY2022 collections) - Appraise 100% of the backlog (for FY2023 collections)	- Pending analysis - Pending analysis - May 2021 - April 2023
8. Swimming Pools New to Tax Rolls	- Address initial 25% of new pools (for FY2021 collections) - Address cumulative 50% of pools (for FY2022 collections) - Address cumulative 75% of pools (for FY2023 collections) - Address cumulative 100% of pools (for FY2024 collections)	- August 2021 - February 2022 - August 2022 - August 2023

Area of Focus	Description	Deadline
9. Improve personal property self-reporting compliance	Establish an MOU between CRIM and Hacienda	September 30, 2021
10. Operational improvements	Implement systems hardware upgrades	September 2021
11. Commonwealth agency initiatives	- Eliminate 13th payment or identify alternative savings - Align employer healthcare contributions with certified Commonwealth Fiscal Plan - Implement payroll freeze	N/A

Monitoring and Reporting

The fiscal and structural measures described in the Fiscal Plan represent a significant and transformative effort for CRIM and the Municipalities. As such, there are strict reporting requirements the Oversight Board has required to ensure these measures are being achieved on time and to identify any risks to address them at an early stage.

CRIM must produce monthly performance reports, which shall be submitted to the Oversight Board on the 21st of each month, demonstrating the progress made on all key measures. Progress realized must be displayed against the projections as set forth herein. **Exhibit 36** provides additional details for the reporting requirements.

Exhibit 36: Reporting Requirements

Reporting requirements		Cadence for FOMB reporting	Reporting requirement source
Actuals reporting	Monthly reports of actual cash revenues, actual cash expenses, and cash flow	Monthly	Fiscal Plan
	Headcount and payroll - including fringe benefits expenses	Monthly	Fiscal Plan
	Monthly and quarterly reports detailing actual versus projected budget	Monthly, quarterly	Fiscal Plan
Measures progress reports	Sale of A/R	Monthly	Fiscal Plan
	Incorrect mailing addresses	Monthly	Fiscal Plan
	Identification and appraisal of new properties	Monthly	Fiscal Plan
	Improvement in real property tax collection rates	Monthly	Fiscal Plan
	Home improvement new to tax rolls	Monthly	Fiscal Plan
	FY2019 A/R collection	Monthly	Fiscal Plan
	Appraisal of non-appraised properties	Monthly	Fiscal Plan

Reporting requirements		Cadence for FOMB reporting	Reporting requirement source
	Swimming pool new to tax rolls	Monthly	Fiscal Plan
	Personal Property Self-Reporting Compliance	Monthly	Fiscal Plan
	Operational improvement efforts	Monthly	Fiscal Plan
	Commonwealth agency initiatives	Monthly	Fiscal Plan

Measures Progress reports must include: (a) Monthly monitoring by each key performance indicators for each of the measures; (b) Monthly self-reported realized savings achieved year to date for each the measures; and (c) Implementation dashboard/tracker that provides the status of each measure. If, after any fiscal quarter, the projected progress for any measure is not realized, the Oversight Board may use any of its powers to correct the corresponding shortfall.