



# INFORME ANUAL

2019/2020

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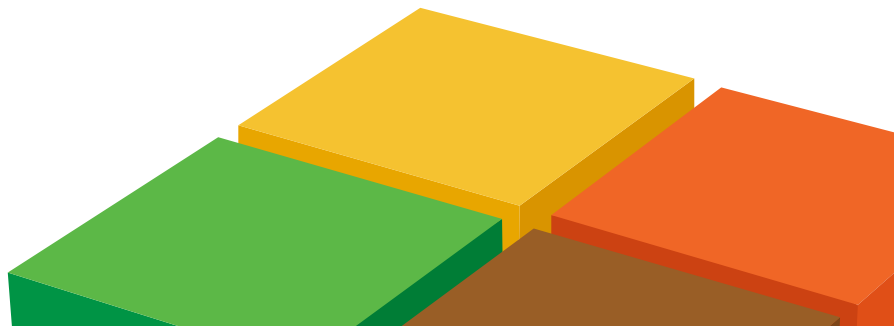
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CENTRO DE RECAUDACIÓN  
DE INGRESOS MUNICIPALES

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## **| TRASFONDO**

El Centro de Recaudación de Ingresos Municipales (“CRIM”), es una entidad municipal creada mediante la Ley Núm. 80 del 30 de agosto de 1991, según enmendada, conocida como “Ley de Contribuciones Municipales sobre la Propiedad,” como parte del conjunto de leyes que componen la Reforma Municipal. Esta Reforma amplía los poderes y facultades de los municipios y les concede por primera vez autonomía fiscal y rompe con la visión centralista que hasta entonces había caracterizado la administración pública del país.

Al amparo de la Ley 80, supra, se transfirieron al CRIM todos los poderes, facultades y funciones relacionadas con las contribuciones sobre la propiedad mueble e inmueble en Puerto Rico, que hasta el 1991 había tenido y ejercido el Secretario de Hacienda de Puerto Rico.

Las responsabilidades primarias del CRIM son segregar, tasar, notificar, recaudar y distribuir fondos públicos provenientes principalmente de la contribución mueble e inmueble.

La Junta de Gobierno y la administración del CRIM, están comprometidos con la aplicación de las leyes contributivas de forma equitativa, la implementación de sistemas digitalizados para agilizar el servicio a los contribuyentes y los servicios operacionales de la entidad, y aumentar los recaudos contributivos para el beneficio de los municipios.

## **| MISIÓN**

Contribuir al desarrollo de los fundamentos y principios de la Autonomía Fiscal de los municipios, según establecidos por ley.

## **| VISIÓN**

Hacer del CRIM una entidad eficiente y efectiva que sirva a los municipios y a los contribuyentes de forma justa y equitativa a la vez que provea a los empleados de un ambiente laboral del cual todos estén orgullosos y satisfechos y que permita su desarrollo profesional.

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El pasado año fiscal presentó grandes retos. Durante la primera mitad del año continuamos con reuniones informativas con el equipo designado por la Junta de Supervisión Fiscal. De igual forma comenzamos la implementación de mejoras en las aplicaciones tecnológicas. SKALA, la nueva aplicación para realizar las tasaciones de forma digital y remota se lanzó durante el mes de octubre 2019, permitiendo que el personal que realiza las valoraciones de propiedad inmueble ahora pueda completar el proceso de forma 100% digital.



## **MENSAJE DEL DIRECTOR EJECUTIVO**

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Ante una isla todavía golpeada por los Huracanes Irma y María. La segunda mitad del año comenzó con los terremotos en el sur de la Isla, situación que presentó grandes preocupaciones sobre el bienestar de nuestros contribuyentes. En marzo 2020, llegó la pandemia del COVID-19. El alto compromiso de los equipos de trabajo de CRIM se dejó sentir en los últimos meses del año. Adelantamos otro proyecto de tecnología en el plan de trabajo para lanzar el nuevo portal de servicio al contribuyente que nos facilitó el trabajo remoto. Todo el personal de la Agencia continuó sus labores de forma remota hasta el mes de junio cuando nos reincorporamos físicamente al servicio.

Felicito al gran equipo de servidores públicos que demuestran todos los días su gran sentido de urgencia para cumplir con la responsabilidad primaria del Centro de Recaudación de Ingresos Municipales, de tasar, notificar, recaudar y distribuir los fondos públicos provenientes de las contribuciones por propiedad.

Confío que este informe anual les brinde la información que así lo evidencia.

Honrado de servir a Puerto Rico.

**Reinaldo Paniagua Látimer**  
**Director Ejecutivo del CRIM**

A handwritten signature in black ink, consisting of stylized initials 'R' and 'L' followed by a period.

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DE INGRESOS MUNICIPALES





## MENSAJE DEL PRESIDENTE

En el 4to año Presidiendo la Junta de Gobierno del Centro de Recaudación de Ingresos Municipales experimentamos retos aun mayores de los que habíamos manejado en los pasados años.

Si grandes eran los retos que enfrentábamos a nivel municipal más aun con la llegada de los terremotos en el sur de la isla seguidos por la pandemia del COVID-19.

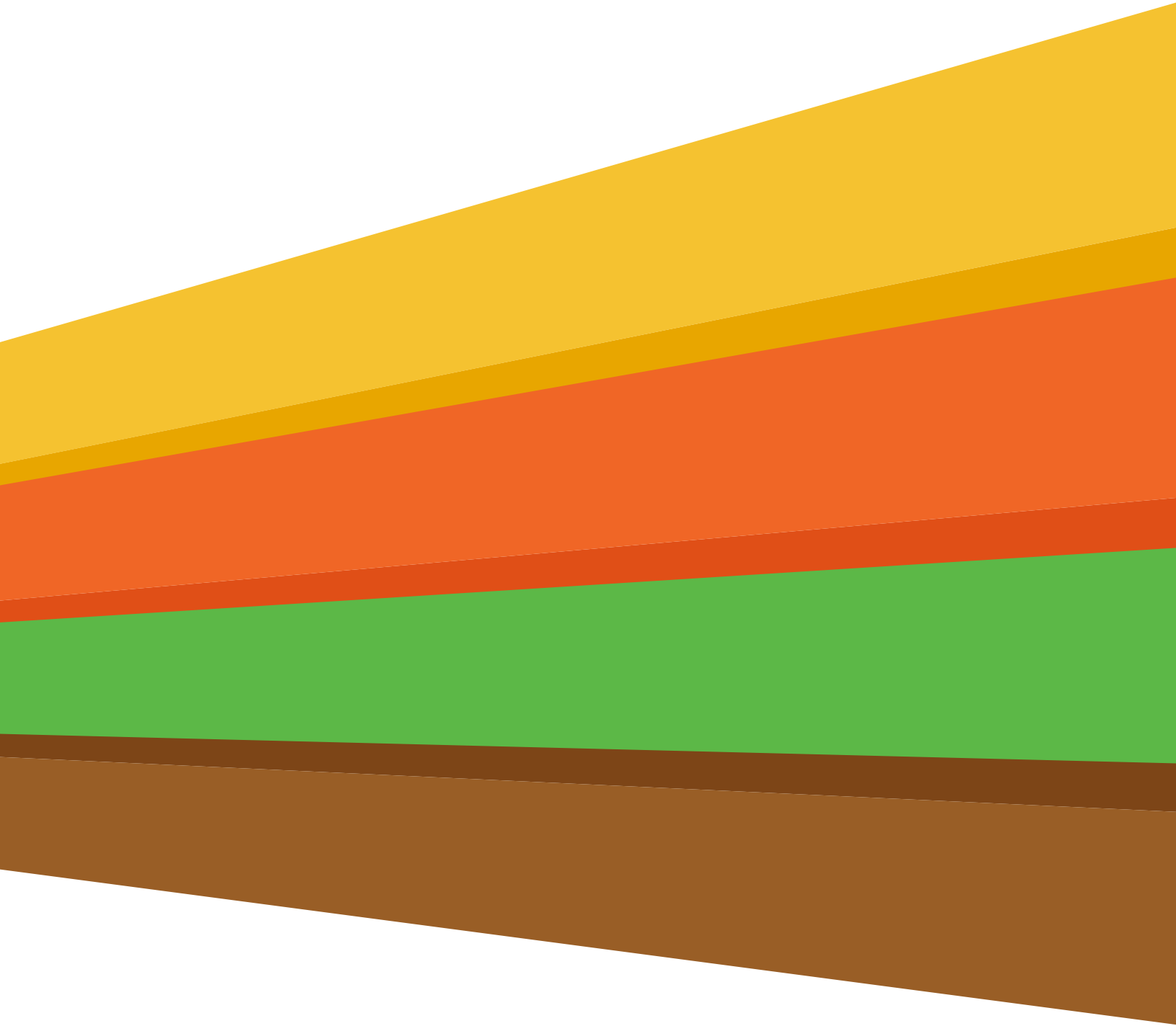
En adición a los compromisos administrativos que tiene la Junta de Gobierno, trabajamos intensamente en las negociaciones con la Junta de Supervisión Fiscal. A pesar de que todos queremos el bienestar de Puerto Rico, no siempre estuvimos de acuerdo, pero hago énfasis en que respetuosamente logramos encaminar nuestras diferencias y seguir adelante. Continuaremos luchando por el bienestar de nuestro pueblo, sirviendo a nuestra gente.

Agradecemos a cada contribuyente que a pesar de las situaciones fiscales individuales que atraviesan, cumplen con su deber del pago de la contribución sobre la propiedad, aportando al desarrollo de nuestro país.

En la Junta de Gobierno estamos comprometidos con los más altos estándares de servicio.

Desde el CRIM estamos para servirle.

**Hon. Javier Carrasquillo Cruz**  
**Presidente Junta de Gobierno CRIM**  
**Alcalde de Cidra**



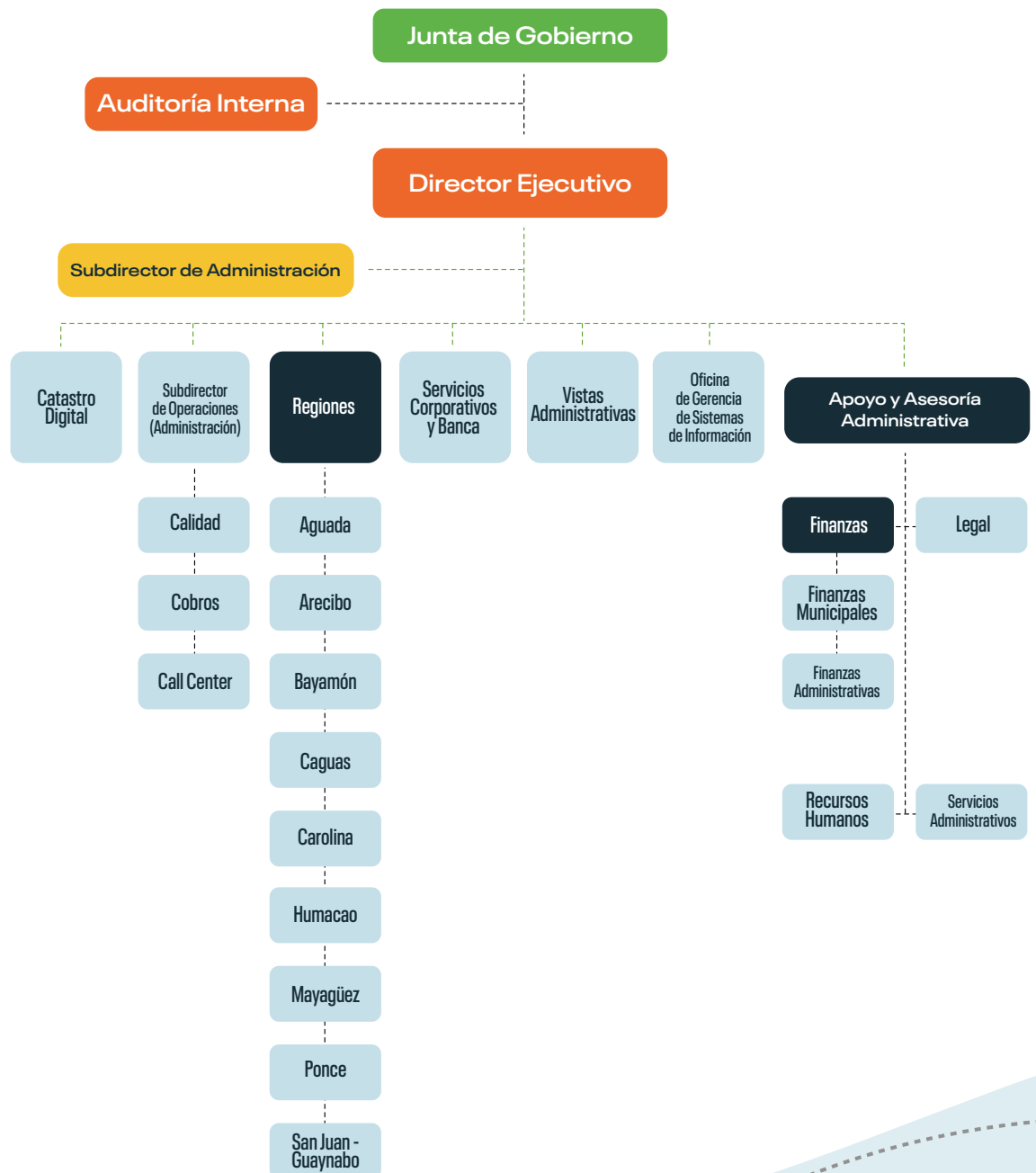


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# **ESTRUCTURA ORGANIZACIONAL**



# ORGANIGRAMA



## **JUNTA DE GOBIERNO**

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Hon. Javier Carrasquillo Cruz  
**Alcalde de Cidra, Presidente**

Hon. Enrique Questell Alvarado  
**Alcalde de Santa Isabel, Vice Presidente**

Hon. William Alicea Pérez  
**Alcalde de Aibonito, Secretario**

Hon. Jesús E. Colón Berlingeri  
**Alcalde de Orocóvis, Tesorero**

Hon. Ramón L. Rivera Cruz  
**Alcalde de Bayamón**

Hon. Alfredo Alejandro Carrión  
**Alcalde de Juncos**

Hon. Jorge L. Márquez Pérez  
**Alcalde de Maunabo**

Hon. Carmen Yulín Cruz  
**Alcaldesa de San Juan**

Hon. William Miranda Torres  
**Alcalde de Caguas**

Omar Marrero  
**Autoridad de Asesoría Financiera y Agencia Fiscal (AAFAP)**

Omar Negrón  
**Asesor de Asuntos Municipales en Fortaleza**

## **| DIRECTORES DE UNIDADES DE APOYO OPERACIONAL**

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Lcdo. Esdras Vélez Rodríguez  
**Subdirector Ejecutivo de Operaciones**

Ulises Feliciano Troche  
**Director Catastro Digital**

William Arroyo Rivera  
**Director de Oficina Gerencia de Sistemas de Información (OGSI)**

## **DIRECTORES DE UNIDADES ASESORÍA ADMINISTRATIVA**

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CPA Diana Claudio Sauri  
**Directora de Finanzas**

Pedro Ortiz Pagán  
**Director de Servicios Administrativos**

Alexis Acevedo Colón  
**Director de Asesoramiento Legal**

Omar Rivera Meléndez  
**Director Recursos Humanos**

CPA Carlos García Rosado  
**Director de Auditoría**





## **GRUPO EJECUTIVO**

---

Luis Torres Torres  
**Subdirector Ejecutivo de Administración**

Denise Segarra Hernansáiz  
**Ayudante Ejecutivo**

María París Marcano  
**Ayudante Ejecutivo**

Glendaly Russe Meléndez  
**Ayudante Ejecutivo**

Lcda. Laura Rechani Ydrach  
**Ayudante Ejecutivo**

Carmen Santos Otero  
**Secretaria Confidencial del Director**

Eliza Fontáñez Fontáñez  
**Ayudante Administrativo**

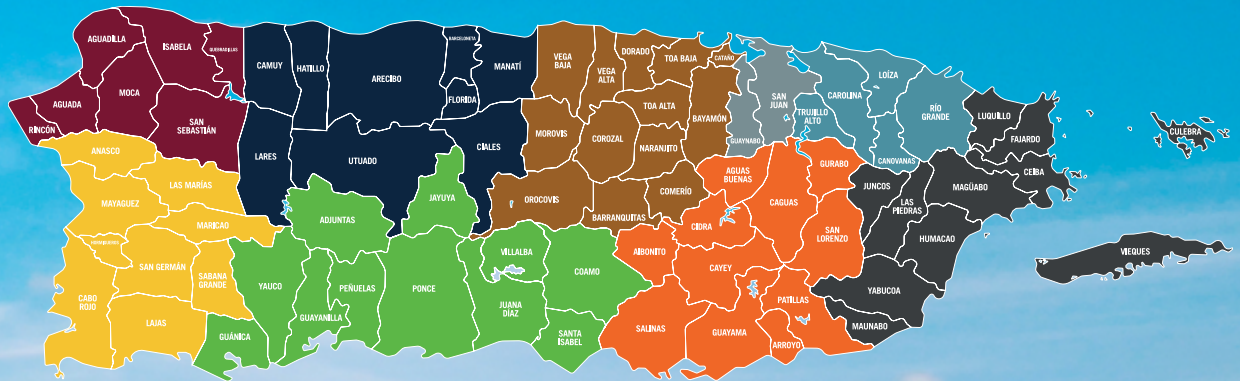
Arlene Duteil Bibiloni  
**Ayudante Administrativo**

Jailyn Rivera Meléndez  
**Secretaria de la Junta de Gobierno**



## OFICINAS REGIONALES

El CRIM cuenta con una (1) oficina Central y nueve (9) oficinas regionales, ubicadas a través de toda la isla. Estos centros son Aguadilla, Arecibo, Bayamón, Caguas, Carolina, Humacao, Mayagüez, Ponce y San Juan – Guaynabo. En adición de asistir a los contribuyentes en sus solicitudes de servicio las regiones llevan a cabo las siguientes funciones técnicas: tasaciones de propiedades inmuebles, valoración de propiedades mueble e investigaciones, entre otras. Las oficinas regionales están estructuradas en las siguientes áreas: Servicio y Cobro al Contribuyente, Propiedad Mueble y Propiedad Inmueble.



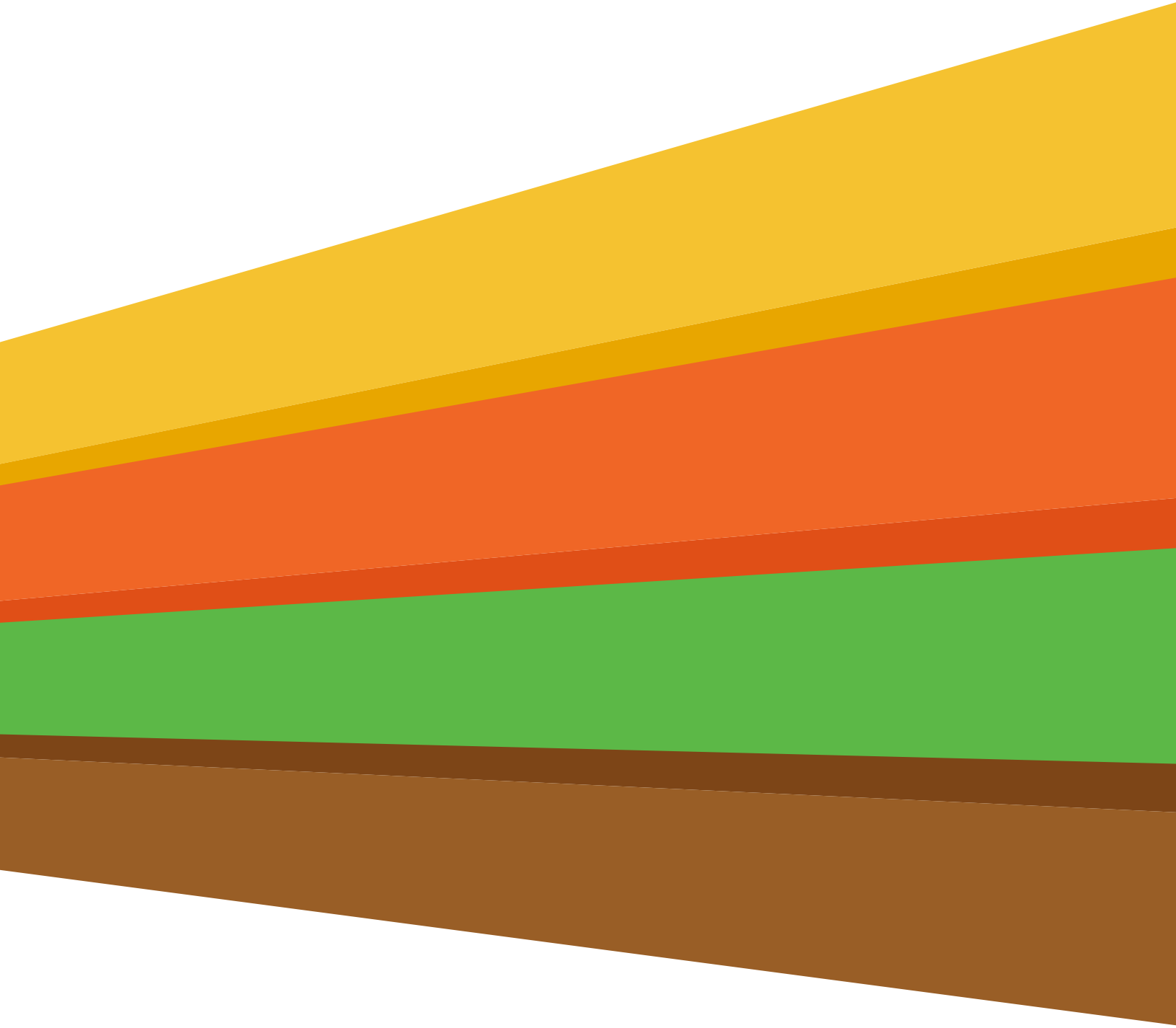
■ AGUADA  
 ■ ARECIBO  
 ■ BAYAMÓN  
 ■ CAGUAS  
 ■ CAROLINA  
 ■ HUMACAO  
 ■ MAYAGÜEZ  
 ■ PONCE  
 ■ SAN JUAN

### REGIÓN

**Aguada**  
**Arecibo**  
**Bayamón**  
**Caguas**  
**Carolina**  
**Humacao**  
**Mayagüez**  
**Ponce**  
**San Juan-Guaynabo**

### ADMINISTRADOR REGIONAL

Karina Ronda  
 Reynaldo Hernández  
 Ricardo Valero  
 Virginia Santiago  
 Norma Maldonado  
 Stephanie López  
 Michelle Oliver  
 Maria del C. Santiago  
 Angel López





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# SERVICIOS OPERACIONALES



**El CRIM continúa la transformación operativa que comenzó a finales del año 2018** centrada en la sustitución de aplicaciones y sistemas obsoletos; implementación de mejores prácticas administrativas; y descentralización y reingeniería de procesos para mejorar el servicio a los contribuyentes.

## PLAN ESTRATÉGICO A CINCO (5) AÑOS

En 30 de septiembre de 2016 la Junta de Supervisión Fiscal designó al CRIM como una de las entidades cubiertas bajo la Ley PROMESA (Puerto Rico Oversight, Management and Economic Stability Act). El 19 de mayo 2019, la Junta de Supervisión Fiscal le solicitó al CRIM el plan y presupuesto fiscal a cinco (5) años, con los siguientes requisitos:

- Incrementar la cantidad de propiedades registradas
- Corregir la clasificación de propiedades
- Incrementar el porcentaje de recaudos
- Reducir la cantidad de propiedades con exoneraciones o exenciones
- Aumentar la cantidad de tasadores contratados

Las medidas en este plan estratégico están enfocadas en mejorar las operaciones y aumentar los recaudos por concepto del pago de la contribución sobre la propiedad tomando en consideración que los municipios enfrentan una nueva realidad.

Las medidas toman en consideración:

- Búsqueda de eficiencias operacional – mediante la transformación operacional que incluye los cambios en aplicaciones o sistemas de información, cambios en equipos de tecnología, implementación de buenas prácticas, reingeniería y descentralización de procesos. Estas iniciativas sirven como la base que le permitirá al CRIM implementar nuevas estrategias que redunden en el incremento en recaudos.
- Mejoras en el cobro de contribuciones – el plan estratégico a cinco (5) años detalla las iniciativas que el CRIM ejecutará para capturar el recaudo de contribuciones de propiedades que no estaban registradas en la Agencia, propiedades sin tasar y propiedades con mejoras no reportadas.

Para el logro exitoso de estas iniciativas es importante el CRIM cuente con el apoyo de los Municipios y otras agencias gubernamentales.

Luego de varios meses de negociación entre la Junta de Supervisión Fiscal y el CRIM, en junio 2020 se publicó el plan fiscal a cinco (5) años.



## OFICINA DE SERVICIOS OPERACIONALES

El Área de Servicios Operacionales se compone de las siguientes oficinas: Unidad Servicios Técnicos y Cobros y Embargos y Procesos Centrales. Dentro de las funciones que se realizan se encuentran la facturación y cobro, anotaciones de embargos, aplicación de cobros por evidencias, autorización de reintegros y determinar balances de cuentas vendidas. También se supervisan las tasaciones para fines contributivos, las tasaciones de mercado, se desarrollan procedimientos operacionales, se aplican exenciones de distritos especiales y de agencias, se verifican los datos de las tasaciones entradas al sistema y se monitorea los reportes que se generan del sistema mecanizado.



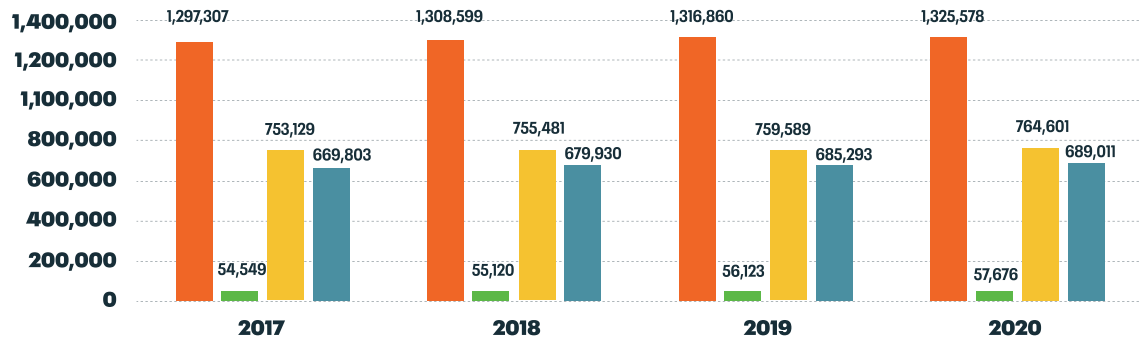


## PROPIEDAD INMUEBLE

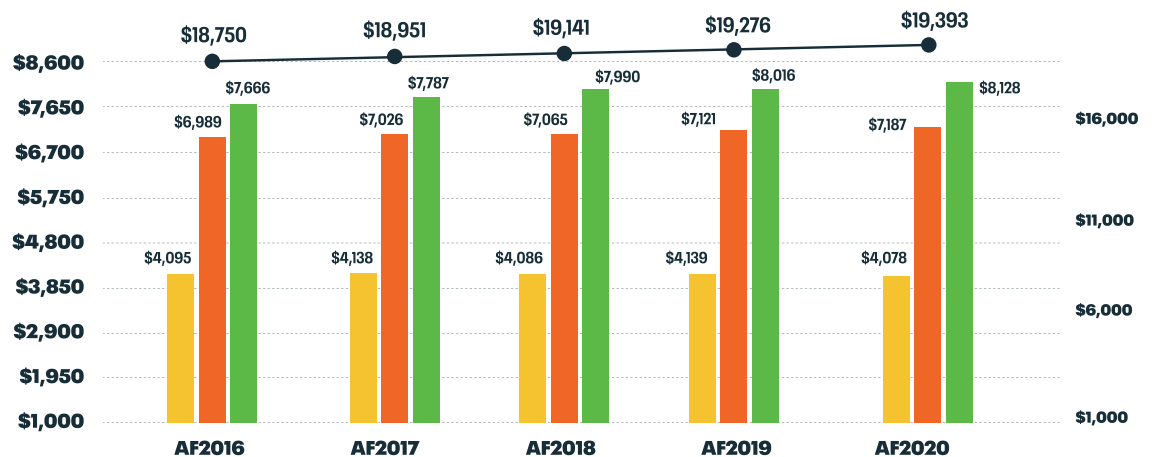
Las contribuciones sobre la propiedad inmueble se determinan de acuerdo con los valores tributables establecidos por el CRIM al 1 de enero de cada año, la cual se paga por adelantado en la fecha de vencimiento del 1ro de julio y 1ro de enero, con un período de gracia de noventa (90) días después de la fecha de vencimiento.

Al finalizar el año fiscal 2019-2020 contamos un registro de 1,325,578 propiedades inmuebles tasadas para fines contributivos. A continuación, se presenta una gráfica de la relación comparativa de base tributaria:

**RELACIÓN COMPARATIVA DE BASE TRIBUTARIA INMUEBLE, BASE TOTAL, EXONERADA, EXENTA Y NETA**



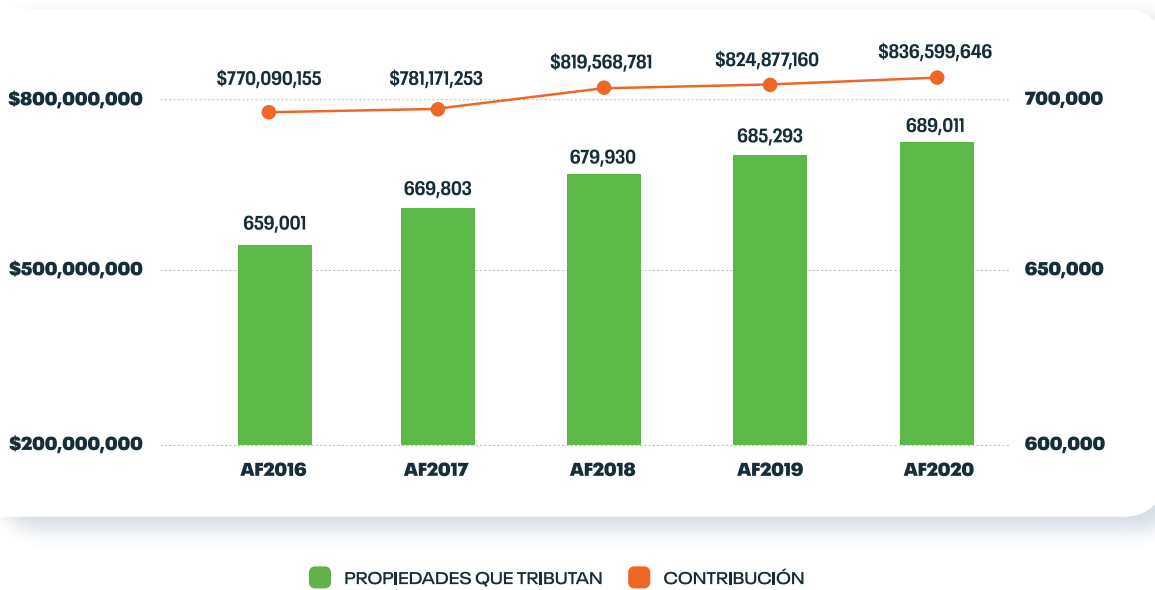
■ TOTAL PROPIEDADES TASADAS      ■ TOTAL PROPIEDADES EXENTAS  
■ TOTAL PROPIEDADES EXONERADAS      ■ TOTAL PROPIEDADES TRIBUTANDO



■ EXENTO      ■ EXONERADO      ■ TRIBUTABLE      ■ TOTAL VALORACIÓN

## INVENTARIO DE PROPIEDADES TASADAS

Al 30 de junio de 2020 continúa un aumento consistente en el registro de propiedades tasadas del CRIM, que tributan, aumentando el importe de facturación por concepto de contribución sobre propiedad inmueble, según se presenta en la próxima gráfica:



## PROPIEDAD MUEBLE

La contribución sobre la propiedad mueble se determina de acuerdo con los valores contributivos autoimpuestos por el contribuyente al 1ro de enero de cada año, informado en la planilla de contribución sobre la propiedad mueble. Dicha propiedad se informa en las planillas que se radican anualmente, el día 15 de mayo.

La propiedad mueble se define como propiedad tangible e intangible utilizada en la industria o negocio que no indiquen permanencia y se puede mover fácilmente de un lugar a otro. Es decir, maquinarias, vasijas, instrumentos o implementos no adheridos a un edificio o al suelo que indique permanencia.

Durante este año fiscal se continuaron las mejoras a la plataforma digital funcional lanzada en mayo 2018 para la radicación de la planilla mueble. Existen dos objetivos importantes que continuamos reforzando: (1) radicar electrónicamente de manera fácil; y (2) eliminar visitas físicas innecesarias a las oficinas, evitando filas y demoras en las ejecutorias.

Durante el año fiscal 2019-2020 se recibieron **91,950** planillas de contribución sobre la propiedad mueble. Debido a la pandemia del COVID-19 y el cierre total de las operaciones en el 16 de marzo de 2020, la fecha de radicación de la planilla mueble del año económico 2019 se extendió al 1 de agosto de 2020, provocando un retraso en la distribución a los municipios para el año fiscal 2019-2020.



## OFICINA DE SERVICIOS CORPORATIVOS Y BANCA

La oficina de Servicios Corporativos y Banca se creó en junio 2018 con el objetivo de ofrecer a las instituciones financieras, inversionistas, desarrolladores, aseguradoras de título de propiedad y bufetes especializados en la gestión hipotecaria, un servicio rápido, ágil y sobre todo personalizado, todo en un mismo lugar. Luego de dos (2) años operando, la unidad sirve sobre ciento cuarenta (140) clientes y sobre mil cien (1,100+) usuarios.

Durante los meses de agosto y septiembre 2019 se ofrecieron adiestramientos al personal que trabaja con las gestiones de retención de contribuciones a través de las instituciones financieras, aseguradoras, bufetes, cooperativas e inversionistas en la isla. El objetivo de estos adiestramientos fue presentar la nueva aplicación “web-base”, sin limitaciones de cantidad de usuarios, que ofrece una alternativa rápida y eficiente a las instituciones financieras para la gestión de cálculo, retención y pago de contribución de nuevas propiedades de nueva construcción sin tasar conocido como tasaciones preliminares, que ya cuentan con número de catastro.

Ahora hacemos este proceso más fácil ya que estos pudieron eliminar el papeleo, la mensajería y los procesos burocráticos que hasta el presente han dilatado los procesos de reconocimiento del pago. Mediante el acceso al sistema, los clientes de la oficina de Servicios Corporativos y Banca entran la información requerida para completar la transacción, pagan y remiten electrónicamente cada caso.

Aprovechamos la ocasión para repasar los servicios ofrecidos desde la nueva oficina de Servicios Corporativos y Banca. Algunos de

los temas discutidos fueron: el nuevo sistema para manejo de tasaciones preliminares, que casos cualifican, manejo de casos que no cualifican, mejoras al catastro digital y como estas pueden ayudar en el proceso de tramitar los préstamos hipotecarios, así como las mejores prácticas para procesar los casos en esta nueva oficina, entre otros. Los participantes nos dieron su opinión sobre los adiestramientos, un 98% catalogó la sesión de adiestramiento en los dos rangos más altos, Excelente y Muy Bueno.

Pero eso era solo el comienzo, en mayo 2020 se lanzó el nuevo portal de servicios corporativos y banca. Este nuevo portal es ahora el vehículo para que los clientes y usuarios del portal anterior de banca envíen todas sus solicitudes de servicio al CRIM. Este nuevo portal se hace más importante como resultado de la pandemia del COVID-19. El **NUEVO** portal ahora les permite: enviar sus solicitudes de servicio, tales como segregaciones, agrupaciones, rectificación de cabida, cambios de dueño, exoneraciones, exenciones, exoneraciones retroactivas, artículo 3.30, transferencias, tasaciones, tasaciones preliminares, entre otros. Todo esto eliminando el manejo de papel y presentándole ahorros en gasto de documentación, mensajería, gestoría, así como el tiempo para el manejo de todas las gestiones.

## OFICINA DEL PROYECTO ESPECIAL “CRIM AL DÍA”

“CRIM AL DÍA” forma parte de las iniciativas que tiene como objetivo agilizar el servicio al contribuyente y aumentar los recaudos municipales por concepto de la contribución sobre la propiedad. Esta iniciativa comenzó en septiembre de 2018 para brindar apoyo a las oficinas regionales, con el propósito de eliminar los trabajos en retraso para operar de una manera eficiente. Por otro lado, permite la oportunidad de maximizar los recursos disponibles para la fiscalización de las contribuciones sobre la propiedad.

Ante un nuevo resurgir de la industria de la construcción era vital tener un departamento dentro del CRIM con la experiencia necesaria que pueda fungir como un facilitador para atender las necesidades de este sector. Se añadieron nuevas funciones a CRIM AL DÍA entre las que se encuentran ser enlace entre el CRIM y la Asociación de Constructores. De esta manera se busca agilizar las solicitudes y dicho sector no se vea afectado debido algún atraso de los trabajos en las oficinas regionales.



## NUEVO CENTRO DE SERVICIOS AL CONTRIBUYENTE (CALL CENTER)

En julio 2019 se completó el proceso de centralizar todas las llamadas entrantes al CRIM redirigiendo estas al NUEVO CENTRO DE SERVICIOS AL CONTRIBUYENTE con el objetivo de solucionarle al contribuyente en una sola llamada. Se implementaron mejoras a los sistemas de tecnología telefónica para propósitos de calidad que le brindan al contribuyente transparencia en los servicios ofrecidos. Se implementó a su vez la opción en el sistema telefónico de grabar el 100% de las llamadas y monitorear las mismas para asegurar un servicio de calidad. En nuevo centro de servicios al contribuyente comenzó a operar a mediados del mes de septiembre 2019.

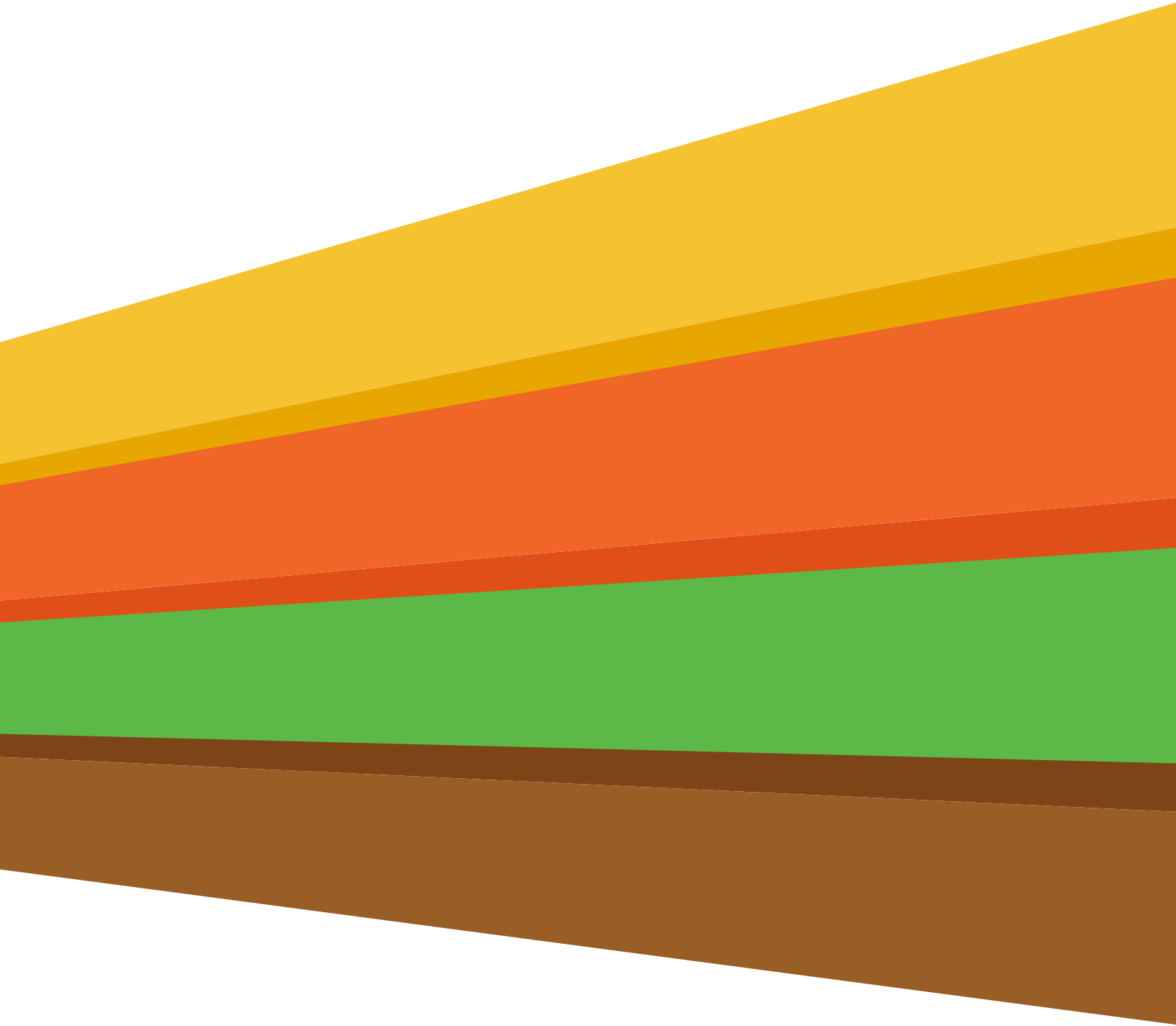
Ahora el número de teléfono (787) 625- CRIM responde las llamadas a tiempo incluyendo los días feriados y sábados en temporada alta. Como resultado de la Pandemia COVID -19 las oficinas de CRIM cerraron desde marzo 12 hasta junio 16, 2020.

Durante estos meses el Nuevo Centro de Servicios al Contribuyente permaneció ABIERTO, asistiendo y aclarando dudas de los contribuyentes y cobrando contribuciones sobre propiedad mueble e inmueble. Desde el pasado mes de Julio 2019 los volúmenes de llamadas entrantes han experimentado un incremento de sobre el 70%. Los resultados acumulados para el 2019-2020 presentan una reducción en la tasa de abandono de 72% a 10%. Al cierre del mes de junio 2020 se habían atendido sobre 96,400 llamadas y cobrado sobre \$12.4 millones desde su apertura en septiembre 2019.

**En resumen, durante el pasado año reforzamos los canales alternos de servicio, el Nuevo Centro de Servicios al Contribuyente y el Nuevo portal digital, los que contribuyen a la migración de servicios creando nuevas oportunidades para servir al contribuyente diligentemente en cualquiera de los canales que el contribuyente prefiera.**

Llama al  
**(787)  
625  
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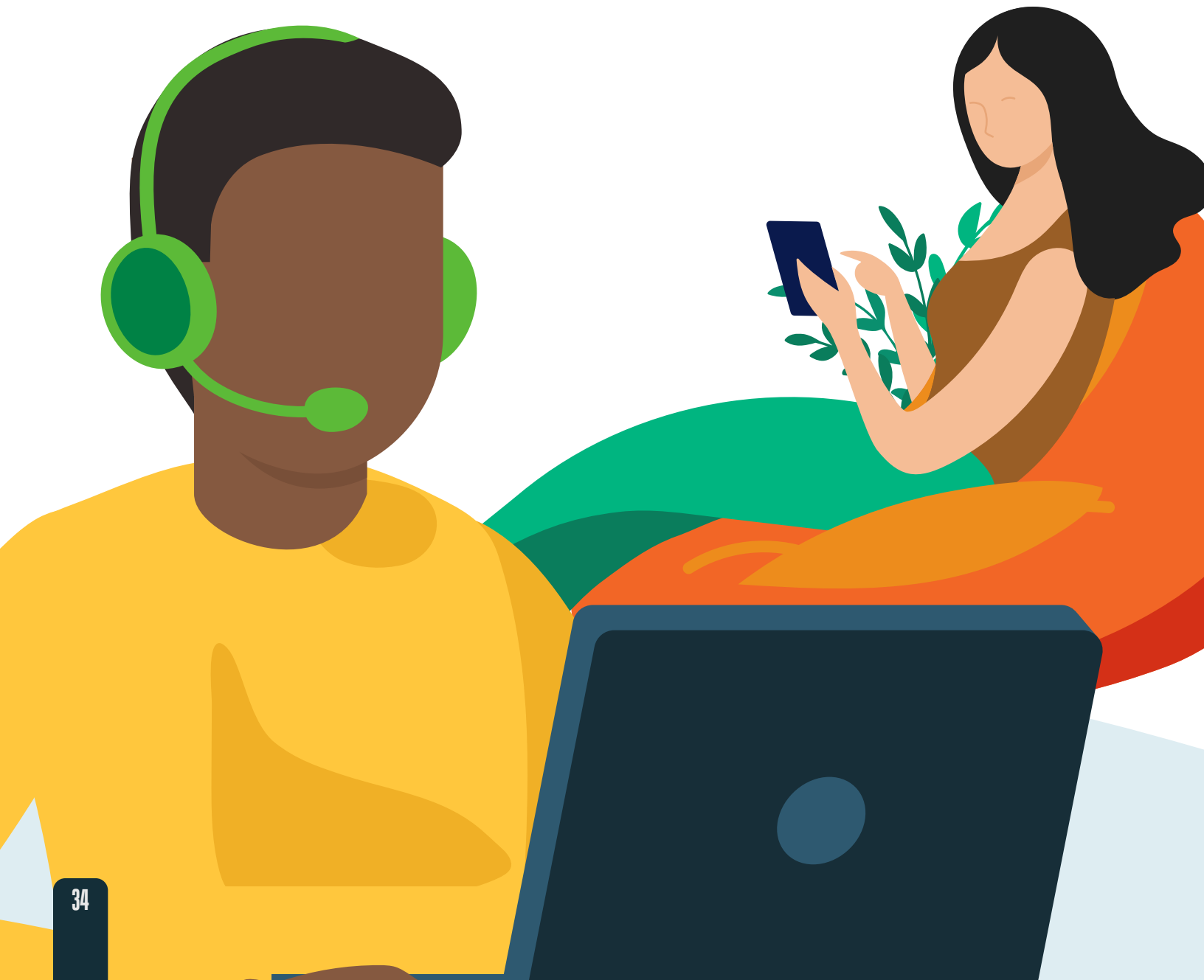






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# UNIDADES DE APOYO OPERACIONAL



## OFICINA DEL CATASTRO DIGITAL

El Catastro Digital de Puerto Rico es el inventario comprensivo de los bienes inmuebles del país a los fines de la imposición de contribuciones. La Oficina del Catastro Digital está compuesta por personal técnico a cargo del mantenimiento del mapa parcelario y la actualización de números de catastros en el sistema contributivo.

Durante los pasados años se llevó a cabo la adquisición de nueva infraestructura tecnológica y la actualización de programas y aplicaciones que viabilizaron la integración de sistemas incorporando los elementos cartográficos a las operaciones rutinarias del Centro y proveyendo los fundamentos para nuevas iniciativas y proyectos de gran impacto. A continuación, los proyectos sobresalientes del área:

### NUEVA INFRAESTRUCTURA TECNOLÓGICA

Se culminó la implementación de la nueva infraestructura tecnológica en un ambiente de alta disponibilidad. Esta infraestructura provee una base tecnológica robusta a través de la cual las dependencias municipales, usuarios autorizados y el público pueden tener acceso a mapas inteligentes, herramientas de análisis y aplicación de mapas para apoyar los procesos de toma de decisiones.

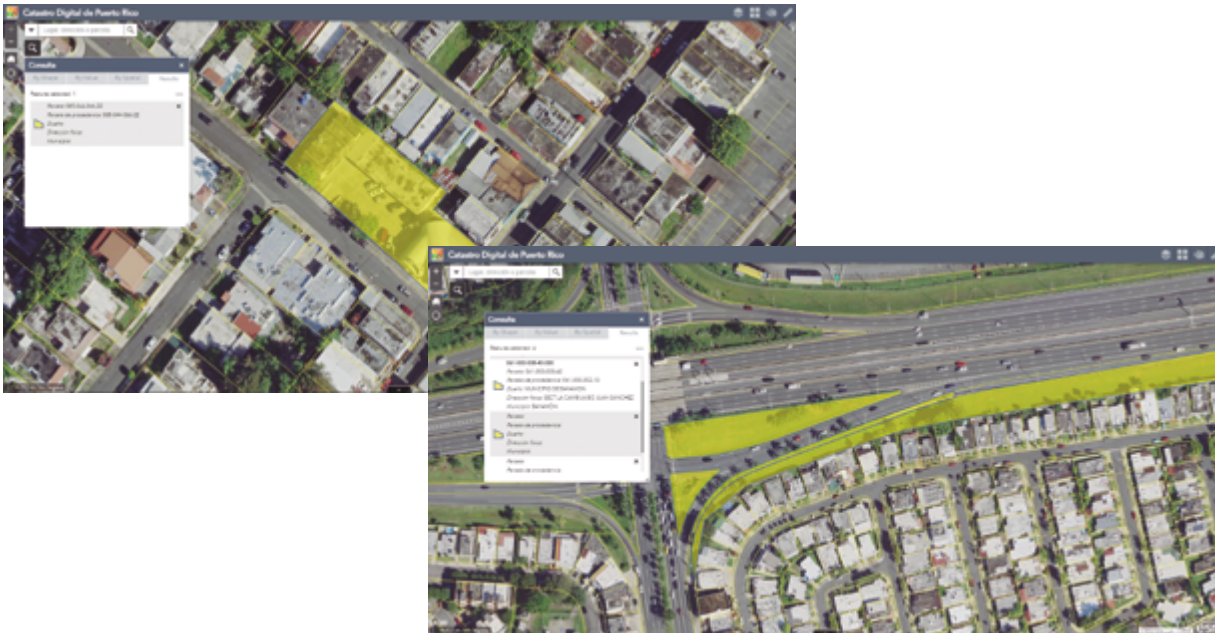
### MEJORAS AL PORTAL CATASTRO DIGITAL Y LA APLICACIÓN DE PRODUCTOS CARTOGRÁFICOS

La nueva versión del portal del Catastro Digital provee para el desarrollo de más y mejores herramientas para la consulta y análisis espacial y mejorando significativamente el desempeño y disponibilidad de aplicaciones. Las aplicaciones proveen herramientas de búsqueda y selección de parcelas, presenta imágenes aéreas de fondo y otros elementos como estructuras y piscinas. También permite nuevas metodologías de integración y análisis.



La aplicación del Catastro Digital en línea presenta nueva información integrada a otros datos provenientes del sistema contributivo como valores de tasación, dueños y fechas de venta. Entre las características más importantes están:

- a) Apoyo a diversos dispositivos sin necesidad de instalaciones adicionales (plugins).
- b) Campo de búsquedas por números de parcela, catastro, dueño y dirección.
- c) Acceso a mapas catastrales (pdf)
- d) Apoyo a sistema de referencia espacial NAD83



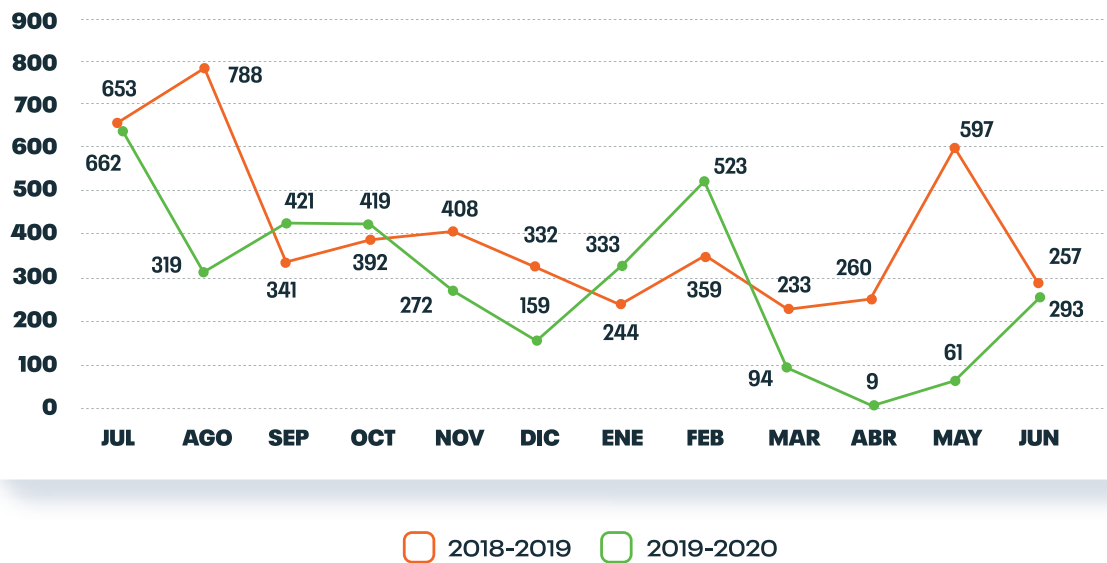
La aplicación de acceso público de Productos Cartográficos ha sido mejorada para proveer un mejor desempeño y seguridad. Esta provee una plataforma para la generación y compra de dichos productos. Esta aplicación extiende los servicios que ofrece el CRIM por internet al proveer un mecanismo que la ciudadanía pueda adquirir por internet los productos cartográficos sin mediar una vista física al Catastro Digital u oficinas regionales.

Próximamente se incorporarán nuevas aplicaciones para análisis de valores contributivo, comparación de fotos aéreas históricas, galerías de mapas para impresión y nuevas herramientas de apoyo a los usuarios.

## CASOS Y PARCELAS GENERADOS

Durante el año fiscal 2019-2020 se generaron 3,520 parcelas como resultado de 1,925 casos de segregaciones y agrupaciones trabajados en comparación a 4,909 parcelas de 2,167 casos en el año fiscal 2018-2019. Las figuras a continuación presentan el comparativo de estos años fiscales y el impacto del periodo afectado directamente por la pandemia del COVID-19.

**PARCELAS GENERADAS  
2018-2019 y 2019-2020**



## APOYO AL OTORGAMIENTO DE PRESTAMOS FEDERALES PARA MEJORAS (SBA)

Como parte del apoyo a los servicios brindados por el gobierno federal, el CRIM ha facilitado el proceso de aplicaciones para préstamos federales. Se le brindó información de los propietarios y las parcelas directamente a SBA para asegurar un trámite rápido en la otorgación de los préstamos para ayudar a nuestra población y a la economía. Durante el año fiscal 2019-2020 se procesaron 134 hojas de información para préstamos.

## **UNIDADES DE APOYO OPERACIONAL**

### **OFICINA DE GERENCIA DE SISTEMAS DE INFORMÁTICA (OGSI)**

En la Oficina de Gerencias de Sistemas de Informática (OGSI) hemos realizado cambios desde su infraestructura hasta su tecnología.

#### **MEJORAS EN LA ESTRUCTURA**

Durante los pasados meses se completó la implementación de Cortex "(Next Generation Antivirus)". Se instaló esta herramienta la cual está basada en el comportamiento de los equipos, creando una mayor seguridad al bloquear amenazas de primera intención.

#### **RELOCALIZACIÓN Y REDISEÑO DEL HARDWARE**

Se realizaron cambios al "data center" en cumplimiento con los estándares establecidos para los servidores, donde se separó el espacio físico del área común de Sistemas de Informática.

#### **NUEVA APLICACIÓN DE TASACIÓN (SKALA)**

En octubre 2019 se lanzó la nueva aplicación automatizada de tasación de valoración científica de propiedad inmueble. Por primera vez el personal que realiza tasación puede completar la misma sin necesidad de tener que referirse a las tablas de los libros del año 1957 para realizar los cálculos. Esta herramienta provee todas las fórmulas en la

nueva aplicación SKALA. La misma dispone de módulos y funciones de configuraciones y definiciones de valores y parámetros para realizar la tasación de una propiedad inmueble residencial, comercial o industrial. Adicional, permite acceso a toda información sometida por el contribuyente durante el proceso de tasación de la propiedad. Entre las varias funciones de SKALA se incluye los siguientes pasos: registro de los datos de los casos incluyendo interfase digital al Catastro Digital, distribución automática de casos, preparación de ruta del tasador, supervisión de casos, módulo de tasaciones, informes y estadísticas y administración.

En la nueva aplicación SKALA tenemos los datos de las sobre 200,000 propiedades tasadas que residían en los sistemas anteriores, haciendo el proceso de evaluación de comparables más rápido y eficaz sin tener que acceder varios sistemas.

#### **CREACIÓN DE ARCHIVO DIGITAL**

Se creó un archivo informativo tipo biblioteca virtual (DATAWAREHOUSE) que contiene datos actuales y almacena información histórica catastral, de valoración y recaudos, utilizada para generar diferentes reportes.

#### **ACUERDOS COLABORATIVOS**

**AAA** – se instaló fibra con el proveedor de servicios de PREPA y se hizo un túnel para el traslado de información de los archivos que contienen todas las direcciones de la AAA. Este esfuerzo va dirigido a mejorar la calidad de las

direcciones postales al compartir o comparar la información contenida en los archivos de la AAA y disminuir las facturas devueltas.

**Hacienda** – creamos un túnel virtual con seguridad para el intercambio de datos de las planillas informativas cuando se realizan compras de propiedades. Al momento se le está dando seguimiento al equipo del departamento de Hacienda para completar la conexión.

**NUEVO PORTAL CRIMPR.NET** – actualización de los portales de acuerdo con la visión de la Agencia y mejorar la integración entre los componentes y funcionalidades que son ofrecidas al público, contribuyentes, municipios e instituciones financieras. Con esta iniciativa: se rediseñó el portal ofreciendo un manejo más efectivo de los diferentes módulos, se provee más información y funciones al contribuyente con relación a su propiedad, se integraron los sub-portales (E-mueble, Catastro, SKALA y Finanzas Municipales), y se mejoró la integración de los municipios e instituciones financieras para un mayor acceso a la información, y procesos del CRIM.

## DISTRIBUCIÓN DE LAPTOPS (TELE-TRABAJO)

Debido a la pandemia del COVID-19 salvaguardamos el recurso humano para que no se vea afectado y a la vez poder dar continuidad a los trabajos. Se completó la distribución de laptops a empleados para trabajo remoto. Con una conexión segura a través de VPN, lo cual es una extensión de la seguridad implementada en el CRIM y debidamente monitoreada. Para esto se adiestró y se distribuyeron manuales a los empleados en cuanto al uso del VPN, Microsoft Teams y One Drive.

### MODELO INTEGRADO DEL PORTAL ELECTRÓNICO



## **OFICINA DE VISITAS ADMINISTRATIVAS**

La Oficina de Revisiones y Vistas Administrativas tiene la responsabilidad de atender las reclamaciones de contribuyentes que no están conformes con la notificación de la imposición contributiva sobre su propiedad inmueble, o de aquellas en que el contribuyente solicita reconsideración de una determinación de deficiencia sobre su propiedad mueble. Para todos estos casos, se emite una decisión que es suscrita por el Director Ejecutivo y dirigida a la oficina regional correspondiente para que se actúe acorde a la misma. Los contribuyentes cuentan con la disposición para acudir al tribunal de primera instancia si aún quedasen inconformes.

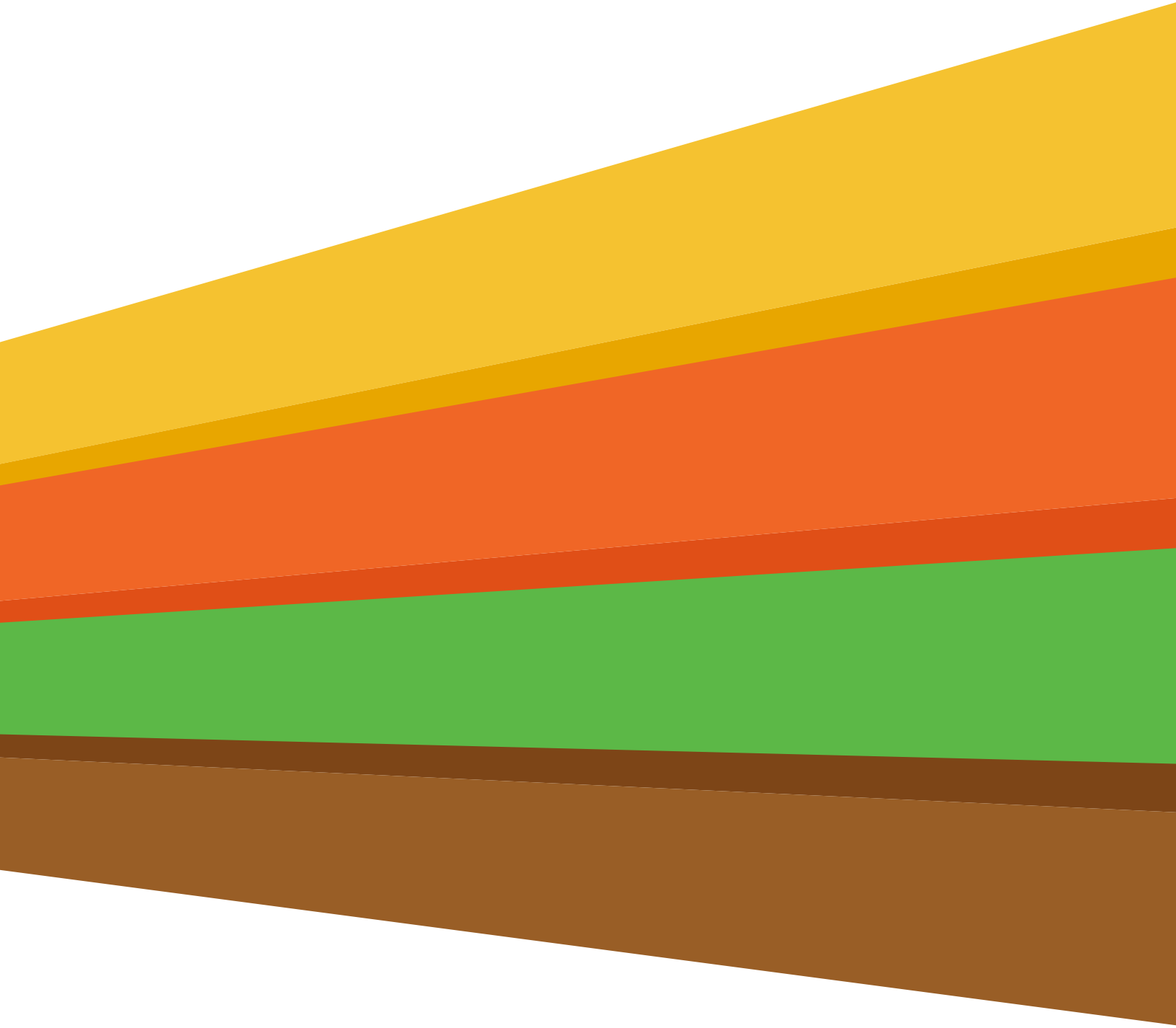
Además, aquellas decisiones emitidas por las oficinas regionales que, a tenor con el Reglamento 8710 sobre Procedimientos Adjudicativos, quedan sujetas a un proceso de evaluación. Estas incluyen cualquier tipo de determinación dirigida a un contribuyente mediante comunicación escrita. También se provee al contribuyente el derecho a acudir al tribunal.

Esta oficina comenzó operaciones en febrero de 2019 de manera separada e independiente de la Oficina de Asesoramiento Legal, donde estuvo adscrita desde los inicios del CRIM.<sup>(1)</sup>

<sup>(1)</sup> Resolución 2019-36 de la Junta de Gobierno del CRIM.









**CR**  
**IM** | **INFORME ANUAL** 2019/2020  
CENTRO DE RECAUDACIÓN DE INGRESOS MUNICIPALES

# UNIDADES DE ASESORÍA Y APOYO ADMINISTRATIVO



## OFICINA DE FINANZAS

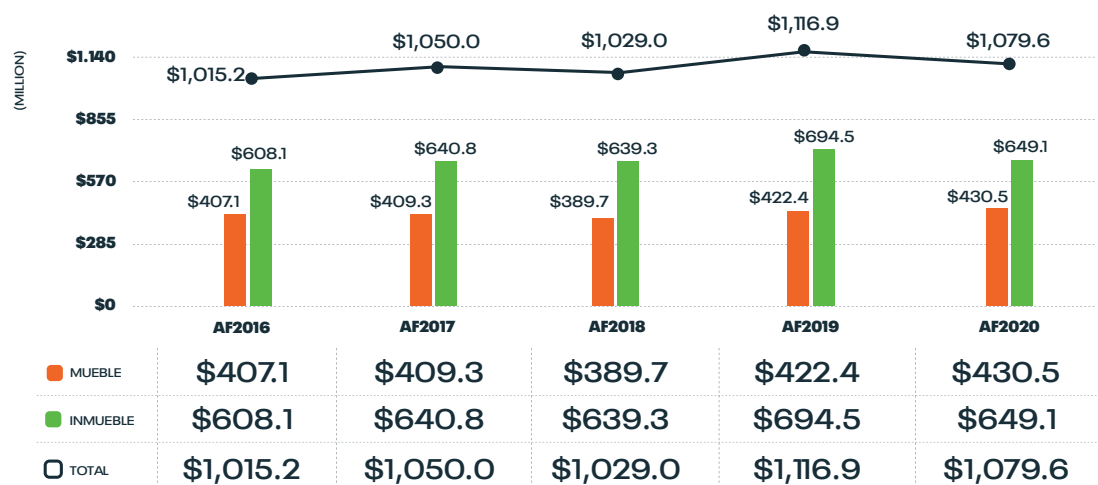
La Oficina de Finanzas ofrece colaboración y apoyo al Director Ejecutivo en la formulación e implementación de la política pública concerniente a las actividades de generación de ingresos, inversión y financiamiento. Asimismo, se ofrece apoyo a los diferentes departamentos operacionales y oficinas administrativas en los procesos de administración de presupuesto, desembolsos de fondos públicos y contabilidad del CRIM.

La Oficina está compuesta por tres áreas funcionales: (1) Gerencia y Presupuesto; (2) Finanzas Administrativas; y (3) Finanzas Municipales.

### FINANZAS MULTIPLES

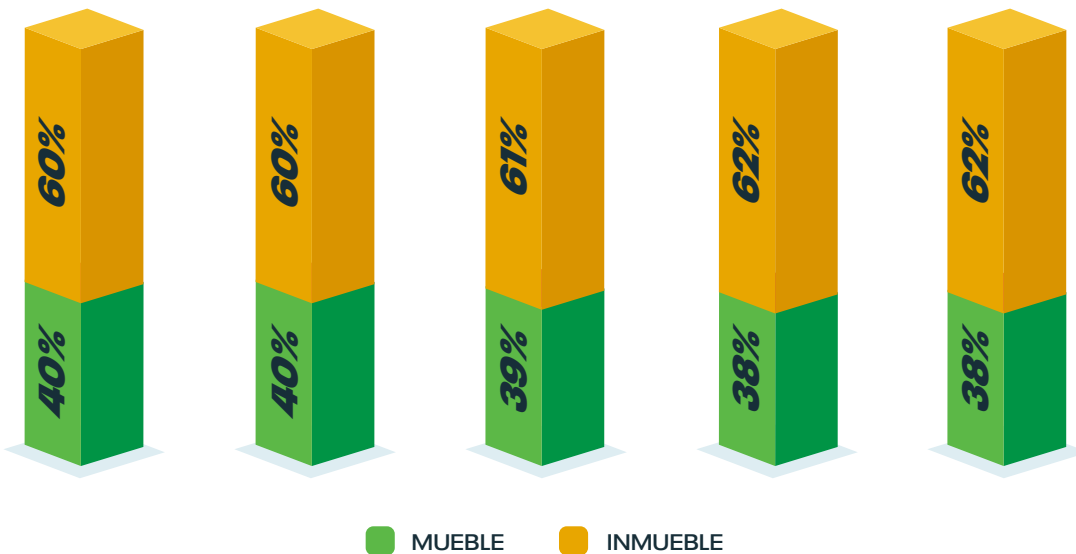
Hemos contabilizado la contribución sobre la propiedad mueble e inmueble recaudada en este año fiscal, por un total de \$1,079.6 millones, de los cuales \$649.1 millones corresponde a la contribución sobre la propiedad inmueble y \$430.5 millones provienen de la contribución sobre la propiedad mueble. En total, hubo una disminución temporera neta de \$37.3 millones en cobros de contribución en comparación con el año fiscal anterior.

La siguiente gráfica presenta un comparativo de los recaudos de la contribución sobre la propiedad mueble e inmueble en los pasados cinco (5) años:



En este año fiscal 2019-2020, es importante establecer que, aun con los acontecimientos imprevistos de los sismos (enero 2020) y la pandemia por COVID19, decretada desde marzo de 2020, se logró recaudar \$50 millones más que en el año 2018, año afectado por los huracanes Irma y María. Esto valida que las iniciativas del CRIM han logrado un aumento de propiedades que generan nuevas contribuciones.

En términos porcentuales, en este año fiscal el recaudo por concepto de contribución sobre la propiedad inmueble ha disminuido en relación con el total de recaudos de la contribución, según se muestra en la siguiente gráfica:



No obstante, esta disminución no se considera recurrente dado que es un efecto de la situación económica a causa de la pandemia COVID19 que atraviesa Puerto Rico. Para el próximo año fiscal, proyectamos que dicha situación debe estabilizarse.



## LIQUIDACIÓN ANUAL

Realizamos la liquidación anual, distribuyendo a los municipios \$599.4 millones, según se desglosa a continuación:

### CONTRIBUCIÓN MUNICIPAL SOBRE LA PROPIEDAD MUEBLE E INMUEBLE:

Contribución Básica .....	<b>\$341,249,178</b>
Contribución del 1% y 3% al Fondo de Equiparación .....	<b>\$241,573,592</b>

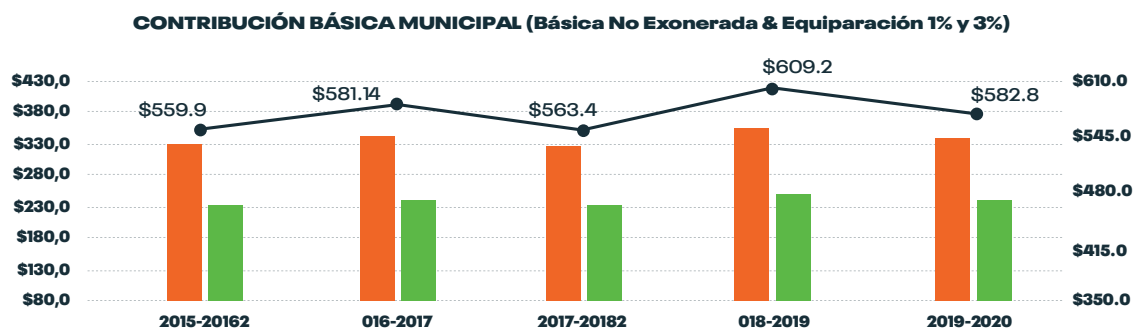
### ASIGNACIONES ESTATALES

35% de los Ingresos Netos de la Lotería Electrónica .....	<b>\$16,669,127</b>
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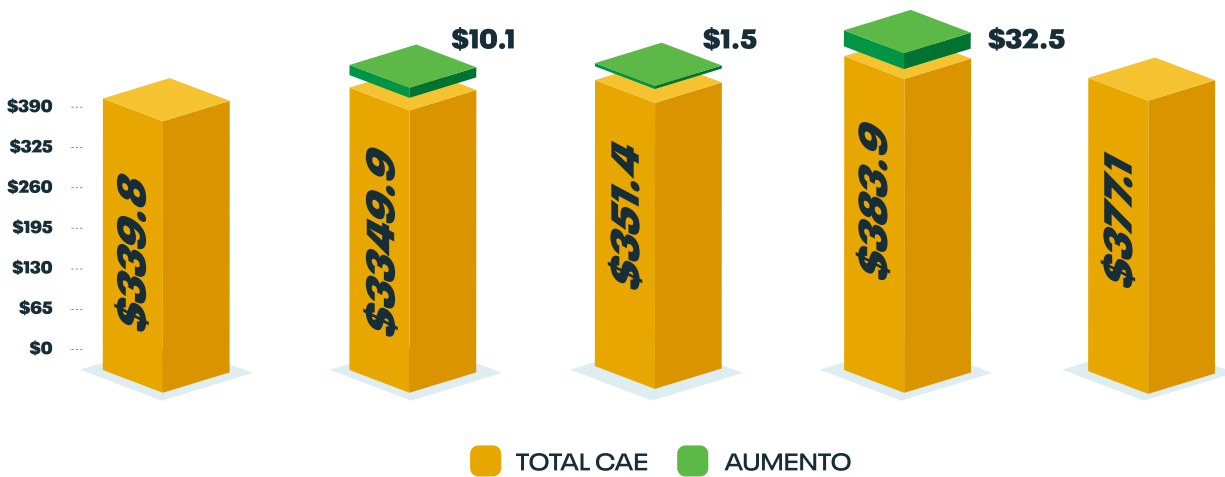
<b>TOTAL INGRESOS DISTRIBUIDOS .....</b>	<b>\$599,491,897</b>
--	----------------------

Los fondos de la Contribución Básica Municipal es la porción de la contribución que se distribuye a los municipios. Estos fondos provienen del 6% de la contribución sobre la propiedad inmueble y el 4% de la contribución sobre la propiedad mueble. Este porcentaje forma parte de la tasa contributiva de cada municipio.

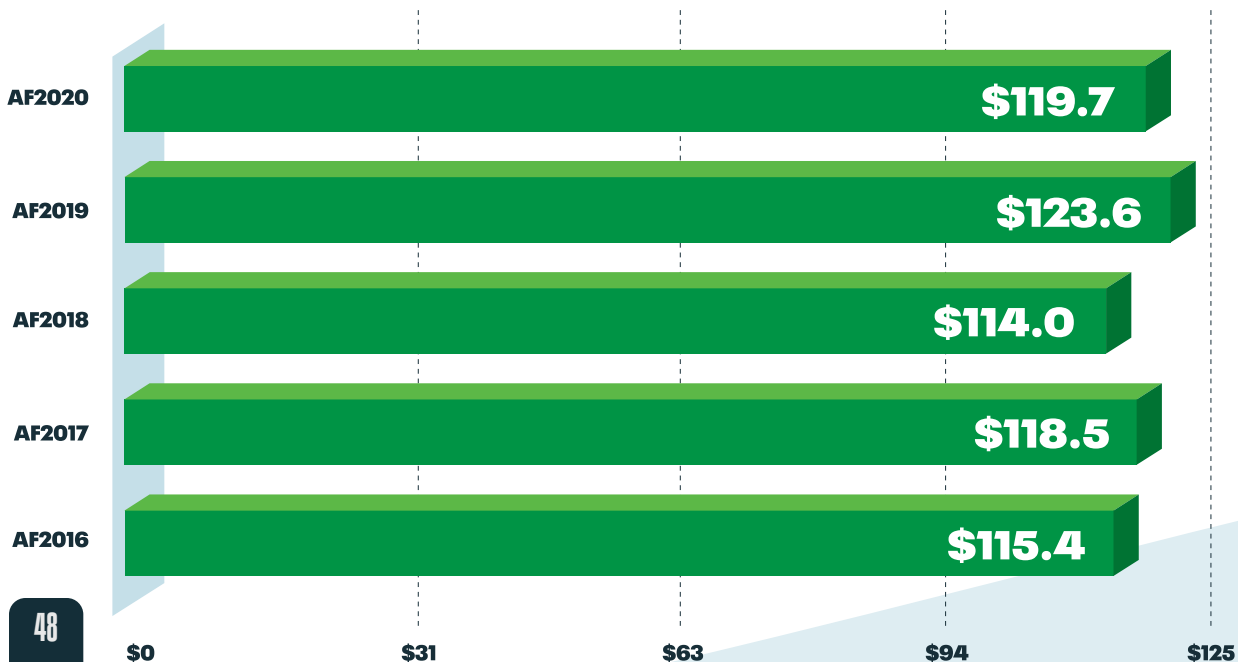
La Contribución Básica Municipal se compone de la porción Básica No Exonerada, que se distribuye directamente a los municipios; y Equiparación 1% y 3%, la cual representa el 3% de la contribución básica municipal de la propiedad inmueble y el 1% de la contribución básica municipal de la propiedad mueble. La porción de Equiparación 1% y 3% se distribuye a los municipios a través del Fondo de Equiparación. Presentamos la gráfica que muestra cómo ha ido en aumento los ingresos de la contribución que van directo a los municipios, en los pasados cinco (5) años:



Este año fiscal, la Contribución Básica Municipal disminuyó por \$26.6 millones en comparación con el año anterior, lo que representa una reducción 4.6% de los ingresos destinados para la operación de los municipios. La Contribución Adicional Especial (CAE) continúa siendo el recurso fundamental en los municipios para la realización de obras capitales, mejoras permanentes y proyectos esenciales para el mantenimiento de servicios esenciales. Durante el año 2019-2020 hubo una disminución neta por \$6.9 millones en comparación con el año anterior, para un recaudo total de \$377.0 millones; lo que representa una disminución de un 1.8% comparado con el recaudo del CAE en el año anterior, según se muestra en la siguiente gráfica:



El Fondo de Redención de la Deuda Estatal (FRDE) es la aportación municipal al gobierno central, equivalente al 1.03% de la tasa contributiva, según establecido en la Ley Núm. 80-1991. El recaudo de la contribución destinado para el FRDE disminuyó por \$3.9 millones, equivalente a un 3.3% en comparación con el año anterior.





A continuación, presentamos un resumen de las fuentes de ingresos que recibe el CRIM y el desglose de la distribución a municipios y fondos de redención:

### FUENTES DE INGRESO MUNICIPAL (\$ MILLONES)

<b>CONTRIBUCIÓN GOBIERNO ESTATAL</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>
Rentas Internas Netas / Asignación Estatal	\$227.58	\$227.58	\$219.73	\$175.78	- <sup>(a)</sup>
Propiedad Exonerada	\$86.10	\$86.10	-	-	-
CAE Exonerado	\$30.19	\$30.19	-	-	-
Veinte Centésimas	\$16.72	\$16.72	-	-	-
<b>SUBTOTAL</b>	<b>\$360.59</b>	<b>\$360.59</b>	<b>\$219.73</b>	<b>\$175.78</b>	<b>-</b>
35% de Ingresos Netos de la Lotería Electrónica	51.19	45.95	36.65	55.09	16.67
<b>SUBTOTAL</b>	<b>\$411.78</b>	<b>\$406.54</b>	<b>\$256.38</b>	<b>\$230.87</b>	<b>\$16.67</b>
<b>CONTRIBUCIÓN SOBRE LA PROPIEDAD</b>					
Contribución Mueble e Inmueble	\$1,015.25	\$1,050.01	\$1,029.08	\$1,116.99	\$1,079.63
<b>TOTAL DE INGRESOS</b>	<b>\$1,427.03</b>	<b>\$1,456.55</b>	<b>\$1,285.46</b>	<b>\$1,347.86</b>	<b>\$1,096.30</b>

### DISTRIBUCIÓN DE INGRESOS (\$ MILLONES)

<b>FONDOS DE REDENCIÓN DE LA DEUDA PÚBLICA ESTATAL Y MUNICIPAL</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>
Fondo de Redención Deuda Municipal [Contribución Adicional Especial (CAE)]	\$370.03	\$380.17	\$351.42	\$383.93	\$377.07
Fondo de Redención Deuda Estatal	115.45	118.56	114.03	123.61	119.73
Fondo General	0.02	0.02	0.02	0.02	0.01
<b>SUBTOTAL</b>	<b>\$485.50</b>	<b>\$498.75</b>	<b>\$465.47</b>	<b>\$507.56</b>	<b>\$496.81</b>
Liquidación a Municipios	\$941.53	\$957.80	\$819.99	\$840.30	\$599.49
<b>DISTRIBUCIÓN TOTAL</b>	<b>\$1,427.03</b>	<b>\$1,456.55</b>	<b>\$1,285.46</b>	<b>\$1,347.86</b>	<b>\$1,096.30</b>

<sup>(a)</sup> En el año fiscal 2019-2020 estuvo vigente la Ley Núm. 29-2019, la cual establece que los municipios aportaran al Fondo de Equiparación lo equivalente al 50% de la aportación a la ASES y el 90% de la aportación por concepto de "PayGo". Esta aportación municipal asciende a \$202.9 millones. La Junta de Supervisión Fiscal demanda al Gobierno de Puerto Rico, peticionando la nulidad de dicha Ley. El Tribunal Federal emite sentencia en abril de 2020, concluyendo que dicha Ley es nula. En acuerdo con la Junta de Supervisión Fiscal, considerando el efecto negativo de ajustar los presupuestos de los municipios retroactivamente y que estaban en medio de la emergencia decretada en marzo de 2020 por la pandemia del COVID19, se determina concluir el año con la asignación municipal de la Ley Núm. 29.

La asignación estatal para este año fiscal, por \$131.8 millones, se asignó para el pago de la deuda por concepto de la aportación municipal a la ASES y "PayGo" de los municipios, que se reconoce con la anulación de la Ley Núm. 29.

## **FINANZAS ADMINISTRATIVAS: PRESUPUESTO Y CONTABILIDAD**

La fuente principal de ingresos del CRIM proviene del cinco por ciento (5%) de la contribución Básica Municipal que se genera de los cobros de los setenta y ocho (78) municipios. En este año fiscal, esta fuente de ingresos representó el 94.1% de los ingresos operacionales. Adicional, el CRIM genera ingresos por el cobro de otras actividades, tales como: acceso a entidades bancarias y financieras dedicadas a la industria de bienes raíces a los datos de propiedades de contribuyentes; venta de certificaciones y mapas; e intereses bancarios.

Para el año fiscal 2019-2020 el presupuesto operacional del CRIM ascendió a \$30.2 millones; de los cuales \$21.5 millones se invirtieron en nómina, lo que representa el 71.3% del ingreso; y \$7.4 millones se utilizaron en gastos operacionales recurrentes, lo que representa el 24.5% del ingreso.





# OFICINA DE ASESORAMIENTO LEGAL

## I. PERFIL DE LA UNIDAD

La Oficina de Asesoramiento Legal brinda servicios especializados, asesorando a la Junta de Gobierno, al Director Ejecutivo sobre los asuntos legales internos y externos; vela, además, porque se cumpla con la legislación y reglamentación vigente. Evalúa proyectos de ley y asesora al Director Ejecutivo y a la Junta en cuanto a la posición a adoptar con relación a estos. Prepara proyectos de reglamentos a tenor con la legislación en vigor y procesa los mismos para que se registren según se provee en ley. En adición, trabaja los casos de Acuerdos Finales, según el Reglamento Núm. 9123 del 8 de noviembre de 2019, "Reglamento de Acuerdos Finales y Compromisos de Pago de la Contribución sobre la Propiedad Mueble e Inmueble. Asesora e interpone los remedios legales necesarios ante los tribunales tanto estatal como federal (Tribunal de Quiebra) y su comparecencia en representación de la agencia ante estos. Además, prepara, otorga y notifica a la Oficina del Contralor los contratos de servicios profesionales, técnicos y de servicios del Centro.

## II. RESUMEN DE CASOS DE ACUERDOS FINALES

### Inventario de Casos de Acuerdos Finales Firmados

La Oficina de Asesoramiento Legal comenzó a manejar en propiedad los Acuerdos finales y Compromisos de pago desde el 12 de septiembre de 2019. Por razón del aumento en solicitudes en tiempos recientes, se ha asignado personal adicional a tiempo completo para recibir, cotejar y analizar las solicitudes de acuerdos finales y compromisos de pago de manera que el proceso sea más rápido y efectivo. Durante este año se recibieron 396 solicitudes de acuerdo final, de las cuales 284

se encuentran en alguna de las distintas etapas del proceso luego de la evaluación del Comité de Acuerdos Finales. Específicamente desde enero 2020 se asignó personal para el análisis de las solicitudes presentadas y la redacción de informes con las recomendaciones del Comité. Ello representó que en sólo seis meses y (enero a junio 2020) el Comité evaluará un total de 193 de las solicitudes recibidas en 13 reuniones y se adelantará la redacción de 116 informes de recomendación, incluso a pesar del cierre decretado por la pandemia de COVID-19. Durante el año fiscal 2019-20 el Comité consideró un total de 387 solicitudes, un aumento de 26% en comparación con el año fiscal anterior, y se redactaron 219 informes, representando un aumento de 10% en comparación con el año fiscal anterior. De los casos evaluados por el Comité al cierre del año fiscal se completaron 156. Los trabajos del equipo de Acuerdos Finales representan un aumento en recaudos de deudas vencidas que ascienden a un total de \$6,791,187.57 para el año fiscal 2019-2020, una suma que, de otra manera, no hubiéramos podido cobrar o cuya gestión de cobro sería más compleja, costosa o tomaría más tiempo.

Los Acuerdos Finales como mecanismo de cobro bajo esta administración representan un recaudo que se estima en \$22. millones de dólares desde al año contributivo 2018-19 hasta el junio 30, 2020.

### III. LEYES, REGLAMENTOS, CARTAS CIRCULARES Y ÓRDENES ADMINISTRATIVAS

A continuación, se hace un desglose de las leyes, reglamentos, cartas circulares y ordenes administrativas aprobadas en el año fiscal:

#### LEYES

##### **Enmiendas a la Ley Núm. 80 de 30 de agosto de 1991, conocida como “Ley del Centro de Recaudación de Ingresos Municipales”.**

- **Ley Núm. 70-2019** (19 de julio de 2019) – Crea la Ley del Inspector General de Puerto Rico. Establece que dicha Oficina estará exenta del pago de contribuciones sobre la propiedad, aunque sea arrendador y no titular de la misma.
- **Ley Núm. 141-2019** (1ro de agosto de 2019) – Adopta la Ley de Transparencia y Procedimiento Expedido para el Acceso a la Información Pública. Aplica a la Rama Legislativa, Rama Judicial y Rama Ejecutiva, incluyendo en esta a todas las entidades gubernamentales, corporaciones públicas y los municipios. De igual forma aplica a terceros custodios de información o documentos públicos. Establece que cada todas las entidades gubernamentales deberán designar al menos tres (3) servidores públicos entre los empleados existentes, de los cuales dos (2) serán de carrera. como Oficiales de Información. Establece procesos para recibir y contestar solicitudes de información, registro, accesibilidad, entre otras.
- **Ley 163-2019** (9 de noviembre de 2019) – Enmienda la Ley Uniforme Sobre Filas de Servicio Expreso y Cesión de Turnos de Prioridad para incluir dentro de estos turnos en las oficinas públicas a los veteranos.
- **Ley Núm. 26-2020** (7 de marzo de 2020) – Enmienda la “Ley de Certificados y Comprobantes Electrónicos” para establecer una “Certificación Única de Deuda” que acredite el cumplimiento de una persona natural o jurídica con varias agencias, entre ellas, el CRIM. La Certificación Única de Deuda acreditará en un solo escrito el cumplimiento de una persona natural o jurídica con todas las agencias. Se prohíbe el cobro de cargos por concepto del trámite de expedición. No obstante, se proveerá un mecanismo para que el usuario pueda pagar cualquier sello, cargo o impuesto que sea necesario para emitir las certificaciones individuales que formarán parte de la Certificación Única de Deuda, a tenor con la reglamentación aplicable, y el pago de un cargo adicional por servicio de hasta cinco dólares (\$5.00), para el mantenimiento del programa. El Principal Ejecutivo de Información del Gobierno de Puerto Rico, en coordinación con las agencias, entre ellas, el CRIM, establecerán la reglamentación, requisitos y andamiaje técnico necesario para la expedición de la Certificación Única de Deuda.
- **Ley Núm. 40-2020** (16 de abril de 2020) – Enmienda varias leyes, entre otras, el artículo 6.03 de la Ley Núm. 83-1991. Establece que los contribuyentes que estén obligados a someter estados financieros auditados, con la planilla de contribución sobre ingresos, tendrán que someter la planilla de contribución sobre la propiedad mueble junto con estados financieros acompañados por un Informe de Auditor emitido por un Contador Público Autorizado con licencia vigente para ejercer en Puerto Rico. Establece los requisitos para dichos estados. No obstante, en el caso de grupos de entidades relacionadas, según dicho término se define en la Sección 1010.05 de “Código de Rentas Internas para un Nuevo Puerto Rico”, la determinación del volumen

de negocios para determinar el requisito aquí impuesto se hará siguiendo las disposiciones de dicho Código.<sup>(2)</sup>

Esta Ley también incorpora varias enmiendas al Código de Incentivos de Puerto Rico, disponiendo que entre otros que los Fondos de Capital Privado estarán completamente exentos de contribución sobre la propiedad.

• **Ley Núm. 55-2020** (1 de junio de 2020) – Adopta el Código Civil de Puerto Rico. Rige las relaciones civiles, de adquisición de propiedad y de familia. Se considera en términos generales para las operaciones del CRIM.

## REGLAMENTOS

**Núm. 9122** Reglamento para la Tasación de Anuncios, Rótulos y Tableros de Anuncios (Billboards Radicado el 8 de noviembre de 2019.

**Núm. 9123** Reglamento de Acuerdos Finales y Compromisos de Pago de la contribución sobre la Propiedad Mueble e Inmueble. Radicado el 8 de noviembre de 2019.

**Núm. 9129** Reglamento para las Tasaciones realizadas por un Evaluador Profesional Autorizado contratado por el Propietario. Radicado el 15 de noviembre de 2019.

**Núm. 9130** Reglamento para la aplicación del Artículo 3.30 de la Ley Núm. 83-1991, según enmendada, conocida como “Ley de Contribución Municipal sobre la Propiedad”. Radicado el 15 de noviembre de 2019.

## CARTAS CIRCULARES

**2019-01** Carta sobre E-Mueble al Colegio de CPA. Firmada el 12 de agosto de 2019.

**2020-01** El CRIM garantizará pago de Remesas Netas a los Municipios y pospone fecha de radicación de Planilla Mueble. Firmada el 26 de marzo de 2020.

## ÓRDENES ADMINISTRATIVAS

**2019-04** Consulta para extender la fecha de radicación de los estados financieros auditados de aquellos contribuyentes requeridos a someter dichos estados por razón de que su volumen de negocio excede los \$3,000,000.00. Firmada el 13 de agosto de 2019.

**2019-05** Extensión de término para la Radicación de la Planilla de contribución sobre Propiedad Mueble con Prórroga Automática del año contributivo 2018. Firmada el 15 de agosto de 2019.

**2020-01** Atención: A todos los Empleados y Contribuyentes. Asunto: Digitalización de Documentos y Eliminación de Papel. Firmada el 10 de febrero de 2020.

**2020-02** Atención: Contribuyentes obligados a realizar pagos de la contribución estimada sobre la propiedad mueble. Asunto: Fecha de vencimiento del pago de la contribución estimada de febrero 2020. Firmada el 12 de febrero de 2020.

**2020-03** Atención: A todo contribuyente obligado a rendir Planilla de Contribución sobre Propiedad Mueble. Asunto: Extensión de términos para la Radicación de la Planilla de Contribución sobre Propiedad Mueble del año económico 2019 ante el estado de emergencia decretado por Coronavirus (Covid-19). Firmada el 26 de marzo de 2020.

**2020-04** Atención: A todo contribuyente obligado a rendir pago de la contribución sobre la Propiedad Inmueble.

<sup>(2)</sup> La Ley Núm. 83-1991, según enmendada fue derogada en el año fiscal siguiente al que se refiere este informe, mediante la Ley Núm. 107-2020 (13 de agosto de 2020).

Asunto: Moratoria a pago de intereses, recargos y penalidades, de la contribución sobre la Propiedad Inmueble del 2do Semestre del año económico 2019-20 ante el Estado de Emergencia decretado por Coronavirus (COVID-19). Firmada el 30 de marzo de 2020.

**2020-05** Atención: A todo el Personal del Centro de Recaudación de Ingresos Municipales.

Asunto: Normas para el Trabajo a Distancia (Teletrabajo) durante el Estado de Emergencia causado por el COVID-19 en Puerto Rico. Firmada el 16 de junio de 2020.

**2020-06** Atención: A todo el Personal del Centro de Recaudación de Ingresos Municipales.

Asunto: Normas para la continuidad de Operaciones en el CRIM. Firmada el 16 de junio de 2020.

**2020-07** Atención: A todos los empleados del Centro de Recaudación de Ingresos Municipales.

Asunto: Licencia Especial COVID-19. Firmada el 24 de junio de 2020.

**2020-08** Atención: A todo contribuyente obligado a rendir pago de la contribución sobre la Propiedad Inmueble.

Asunto: Para enmendar Orden Administrativa 2020-04 a los fines de extender la Vigencia de la Moratoria establecida. Firmada el 25 de junio de 2020.





## OFICINA DE SERVICIOS ADMINISTRATIVOS

Esta unidad administrativa es responsable de la planificación, dirección, coordinación, supervisión y evaluación de las actividades relacionadas con el funcionamiento y administración en el CRIM. Su rol principal es identificar nuevos proyectos, estrategias y programas dirigidos a promover procesos administrativos efectivos y eficientes, así como mejorar todos los procesos administrativos. Para esto, está a cargo de los procesos de adquisición de bienes y servicios, control y custodia de activos fijos, flota vehicular, mensajería interna y externa, archivo inactivo y de la seguridad y mantenimiento de planta física. Adicional, se le ha delegado la identificación, evaluación, desarrollo y manejo de proyectos especiales.

### FUNCIONES

- Planificar, programar, organizar, dirigir y controlar las actividades administrativas de contratación de bienes y servicios de la Institución que permitan el óptimo funcionamiento de estos, con base en las políticas, objetivos, pautas y directrices internas del CRIM.
- Promover por el buen manejo y control de los activos fijos de la institución.
- Coordinar y supervisar el proceso de negociación con el exterior para la adquisición de bienes y servicios que necesite el CRIM.
- Ejecución de los Proyectos Institucionales
- Ejecución de proyectos de Planta Física
- Archivo y Gestión Documental

Con el propósito de fomentar un ambiente seguro y adecuado, que permita ser efectivos en la práctica del recaudo de la contribución, donde se cumpla con la visión del CRIM, completamos la relocalización de las regiones de Bayamón en octubre 2019 y Ponce en mayo 2020. Y comenzamos la relocalización de Carolina, Arecibo y Mayagüez.

Con estos proyectos obtendremos los siguientes resultados:

- Mas accesibilidad para los contribuyentes
- Ahorros por más de \$55,000 anuales en comparación al arrendamiento de las facilidades anteriores
- Relocalización de la región de Carolina presenta ahorros de \$144,000 anual en comparación a la facilidad donde ubica la Región actual; además de los beneficios de seguridad y accesibilidad
- Seguridad electrónica para el beneficio de los empleados y contribuyentes
- Facilidades disponibles sin costo adicional para horarios extendidos y fines de semana

## PROYECTOS COMPLETADOS DURANTE LOS PASADOS 12 MESES

- Implementación de métodos & equipo para prevención de COVID19
- Apoyo a oficina de Ponce durante terremotos: Implementación de oficinas temporeras
- Relocalización de Oficina Regional de Ponce – abril 2020
- Sistemas de Vigilancia Digital en Región de Bayamón & Ponce
- Planta Física Oficina Centrales: Remodelación de plazoleta
- Comienzo de la construcción de la nueva oficina regional de Carolina
- Comienzo de la construcción de la nueva oficina regional de Arecibo
- Alquiler y administración de 5,000 pies cuadrados en áreas no utilizadas del edificio central para un ingreso de 60,000.00 anuales.

Los contribuyentes serán atendidos en estas nuevas instalaciones con todas las herramientas tecnológicas y de conectividad necesarias para ofrecer un mejor servicio, en un lugar accesible, con cómodo estacionamiento y en unas facilidades amplias y modernas.



## OFICINA DE RECURSOS HUMANOS

En el CRIM servimos a una sociedad que enfrenta grandes cambios económicos, tecnológicos y sociales. Es por lo que consideramos al capital humano como el elemento esencial para mantener y mejorar la eficiencia de todos los procesos del CRIM. La Oficina de Recursos Humanos es una fundamental en llevar a cabo la responsabilidad de guiar a los empleados a optimizar su rendimiento y maximizar su aportación para el logro de nuestros objetivos.

### TRANSFORMACIÓN PROCESO EVALUACIONES DE DESEMPEÑO

Se completó la transformación del proceso de evaluaciones de desempeño a nuestros empleados. A continuación, los elementos que se tomaron en consideración:

1. Diseño de modelos de competencia para cada una de las categorías de empleados, a saber, Carrera, Carrera con rol de supervisión y Transitorios
2. Diseño y asignación de criterios de evaluación alineados con los requeridos por ley para los empleados públicos y añadiendo algunos específicos para la Agencia
3. Rediseño de los formularios de evaluación incluyendo competencias, descripción de competencias, descripción de comportamiento y escalas de medición. Como resultado, obtuvimos documentos de evaluación mucho más robustos, permitiendo evaluaciones más puntuales.
4. Los formularios de evaluación se crearon en un formato PDF editable, de modo que ahora los supervisores pueden completarlos directamente en sus computadoras, haciendo el proceso uno más manejable.

5. Ajuste en el ciclo de evaluación de modo que todos los empleados obtienen una evaluación final cada mes de octubre y no en su fecha de aniversario de empleo. Además, se efectúa una evaluación intermedia cada mes de abril.

La transformación del sistema de evaluaciones de desempeño ha facilitado el monitoreo del cumplimiento con el proceso de evaluación anual requerido por las agencias del gobierno. Se adiestró al respecto a todo el personal que tiene empleados bajo su supervisión.

### MODIFICACIÓN DE LA METODOLOGÍA DE ENTREVISTAS DE EMPLEO

Se implementó la metodología de entrevistas basada en comportamiento (Behavioral Interview) la cual busca obtener información de cómo han reaccionado los entrevistados a situaciones reales que han enfrentado en sus lugares de trabajo anteriores, en lugar de formular preguntas hipotéticas. Esto nos da la oportunidad de elaborar preguntas basadas en las competencias que hemos establecido para cada una de las categorías de los empleados.

Los entrevistados han dejado saber verbalmente y por escrito lo satisfechos que se han sentido con este tipo de entrevista, indicando que se han sentido que han podido expresar de manera más clara las competencias y talentos que tienen para ofrecer a la Agencia.

### ORIENTACIONES EXTERNAS

El 6 de noviembre de 2019, por invitación del Director Ejecutivo, recibimos la visita de la directora del área de Prevención y

Orientaciones Externas de la Oficina de la Contralora de Puerto Rico, Sra. Miriam Díaz y de la Ing. Glenda M. Díaz Márquez, Gerente de la Oficina de Prevención y Orientaciones Externas de dicha oficina. Nos facilitaron el adiestramiento titulado: Controles Internos en los Sistemas de Información. Participaron 17 líderes de la Agencia, entre ellos Supervisores, Gerentes y Directores de Departamento de la Oficina Central. Fue una sesión de orientación de un día de duración, tipo taller, donde los participantes pudieron adquirir nuevos conocimientos, aclarar dudas y aplicar lo aprendido.

Plan de Desarrollo Profesional para personal que no supervisa

Durante el primer trimestre del 2020 se tenía planificado lanzar la segunda fase del proyecto de desarrollo profesional. La intención era ofrecer un programa de aprendizaje, esta vez dirigido al personal de la agencia de no tiene puestos de supervisión. Debido a que se interrumpieron las funciones en la Agencia a raíz de la pandemia provocada por el COVID-19, no pudimos llevar a cabo la implementación de este proyecto. No obstante, se proyecta retomar a mediados del año calendario 2021. Consta de 8 módulos, cubriendo nuevos temas y algunos similares a los de la Academia de Supervisores, pero atemperados a la audiencia que no supervisa. El primer módulo se diseñó. Debido a que se detuvo el proyecto, el resto de los módulos están en proceso de diseño.

Los temas sugeridos son los siguientes:

1. Entendiendo lo que la Agencia espera de mí
2. Destrezas de Comunicación
3. Colaboración y Trabajo en Equipo
4. Entendiendo el Estrés Laboral
5. Relaciones Interpersonales
6. Retroalimentación (Feedback) saludable

## **ADIESTRAMIENTOS PROTOCOLO SOBRE COVID19 Y PROGRAMA DE TELETRABAJO**

El 6 de junio de 2020 se orientó a todos los supervisores y gerentes regionales y directores de la Oficina Principal sobre el Protocolo de Prevención Covid-19 de la Agencia. Se les orientó, además, sobre las licencias estatales y federales disponibles para los empleados ante la emergencia y cómo utilizarlas.

## **IMPLEMENTACIÓN PROGRAMA TELETRABAJO**

El 26 de junio de 2020 se presentó el Programa de Teletrabajo a los supervisores, gerentes y directores. Se diseñó y envió a cada participante el formulario para que éstos detallen la modalidad de trabajo de sus respectivos empleados (Totalmente Remoto, Híbrido o Presencial) y las tareas asignadas a cada uno de ellos durante el tiempo que estén bajo el programa, con el fin monitorear las tareas, reportarlas como constancia de trabajo al Departamento de Recursos Humanos y utilizar dichos documentos al momento de llevar a cabo las evaluaciones de desempeño.

## **PROGRAMA DE INTEGRACIÓN INTERDEPARTAMENTAL**

Para atener la desconexión y falta de comunicación entre las unidades que componen el CRIM, se diseñó un programa con el fin de fomentar la integración tanto entre los departamentos y oficinas regionales.

El objetivo que se persigue con este proyecto es que a través de las presentaciones de los diferentes departamentos cada líder comunique la composición de sus respectivas áreas, objetivos principales, cómo se relacionan con otras unidades y establecer comunicación y colaboración entre las unidades.

## OFICINA DE AUDITORÍA INTERNA

La Oficina de Revisiones y Vistas Administrativas tiene la responsabilidad de atender las reclamaciones de contribuyentes que no están conformes con la notificación de la imposición contributiva sobre su propiedad inmueble, o de aquellas en que el contribuyente solicita reconsideración de una determinación de deficiencia sobre su propiedad mueble. Para todos estos casos, se emite una decisión que es suscrita por el Director Ejecutivo y dirigida a la oficina regional correspondiente para que se actúe acorde a la misma. Los contribuyentes cuentan con la disposición para acudir al tribunal de primera instancia si aún quedasen inconformes.

Además, aquellas decisiones emitidas por las oficinas regionales que, a tenor con el Reglamento 8710 sobre Procedimientos Adjudicativos, quedan sujetas a un proceso de evaluación. Estas incluyen cualquier tipo de determinación dirigida a un contribuyente mediante comunicación escrita. También se provee al contribuyente el derecho a acudir al tribunal.

Esta oficina comenzó operaciones en febrero de 2019 de manera separada e independiente de la Oficina de Asesoramiento Legal, donde estuvo adscrita desde los inicios del CRIM.

La Oficina de Auditoría Interna (OAI) se rige por las normas establecidas en su carta constitutiva, aprobada por el Comité de Auditoría de la Junta de Gobierno del CRIM, y de conformidad con las disposiciones contenidas en la Ley Núm. 80-1991.

La OAI es responsable de fiscalizar las transacciones de los fondos públicos y la propiedad, con independencia y

objetividad, para determinar si se han realizado de acuerdo con la Ley y las reglamentaciones del CRIM. Esto se realiza a través de las auditorías regulares planificadas, investigaciones especiales, cumplimiento de las notificaciones de pérdida de propiedad y fondos públicos a la OCPR, asesoramiento a la Alta Gerencia y la Junta de Gobierno sobre procedimientos y reglamentación y los informes de planes de acciones de las auditorías internas y externas.

### VISIÓN

La visión de la OAI es ser agente de cambio en la gestión pública para lograr la eficiencia de las operaciones y el uso adecuado de los fondos y la propiedad del Gobierno.

Ser reconocida y caracterizada por un excelente equipo de trabajo que alcance niveles óptimos de calidad en el servicio.

### MISIÓN

La OAI tiene como misión fiscalizar las transacciones de los fondos públicos y la propiedad, con independencia y objetividad para determinar si han realizado de acuerdo con la Ley u las reglamentaciones del CRIM.

Asistir al CRIM en el cumplimiento de sus objetivos proporcionando un enfoque disciplinado y sistemático para evaluar y mejorar la efectividad de los procesos, gestión de riesgo, control y dirección.

## VALORES

### Objetividad

Comprometidos en emitir opiniones imparciales y libre de prejuicios

### Integridad

Trabajar con responsabilidad y de conformidad con el Código de Ética del Instituto de Auditores Internos

### Independencia

Libres de injerencias al momento de establecer el alcance de las auditorías

### Justicia

Velar por el cumplimiento de la ley y reglamentos aplicables

### Compromiso

Servir con dedicación y excelencia al CRIM y las unidades administrativas para asegurar que se mantengan controles internos adecuados y se tomen acciones correctivas.

Además, la OAI da apoyo a la Gerencia en el cumplimiento de sus objetivos proporcionando un enfoque disciplinado y sistemático para evaluar y mejorar la efectividad de los procesos, gestión de riesgo, control y dirección. En el año fiscal 2019-2020 la Oficina de Auditoría Interna realizó las siguientes intervenciones:

- Se realizaron dos (2) auditorías regulares y especiales
- Se investigaron dos (2) querellas relacionadas a propiedad y fondos públicos

- Consulta (1) a la gerencia

- Se atendieron cincuenta y cinco (55) requerimientos de las oficinas de Ética Gubernamental, Contralor de Puerto Rico, Área de Integridad Pública del Departamento de Justicia y el Departamento de Seguridad Pública

Durante el 2019-2020 los trabajos de la Oficina de Auditoría Interna se vieron severamente impactados a raíz de las emergencias que se suscitaron a partir de enero de 2020. No obstante, se realizaron, entre otros, los siguientes trabajos:

- Auditorías regulares y especiales.

- Investigaciones de querellas.

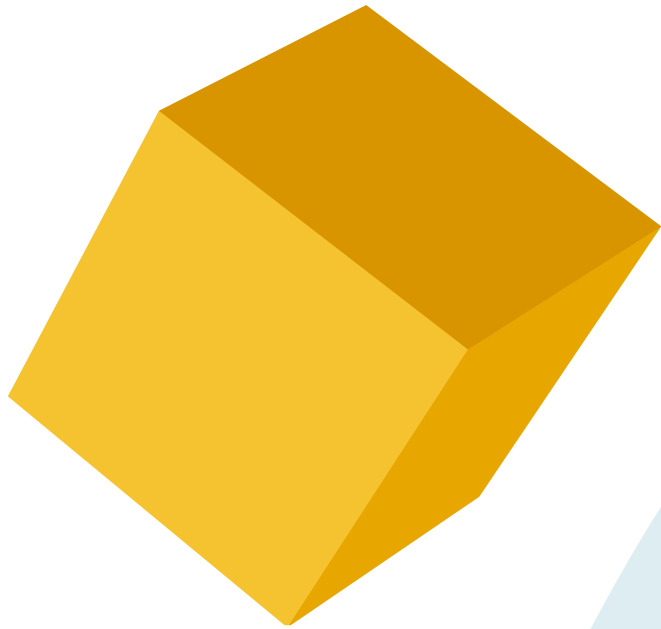
- Consultas de la Gerencia.

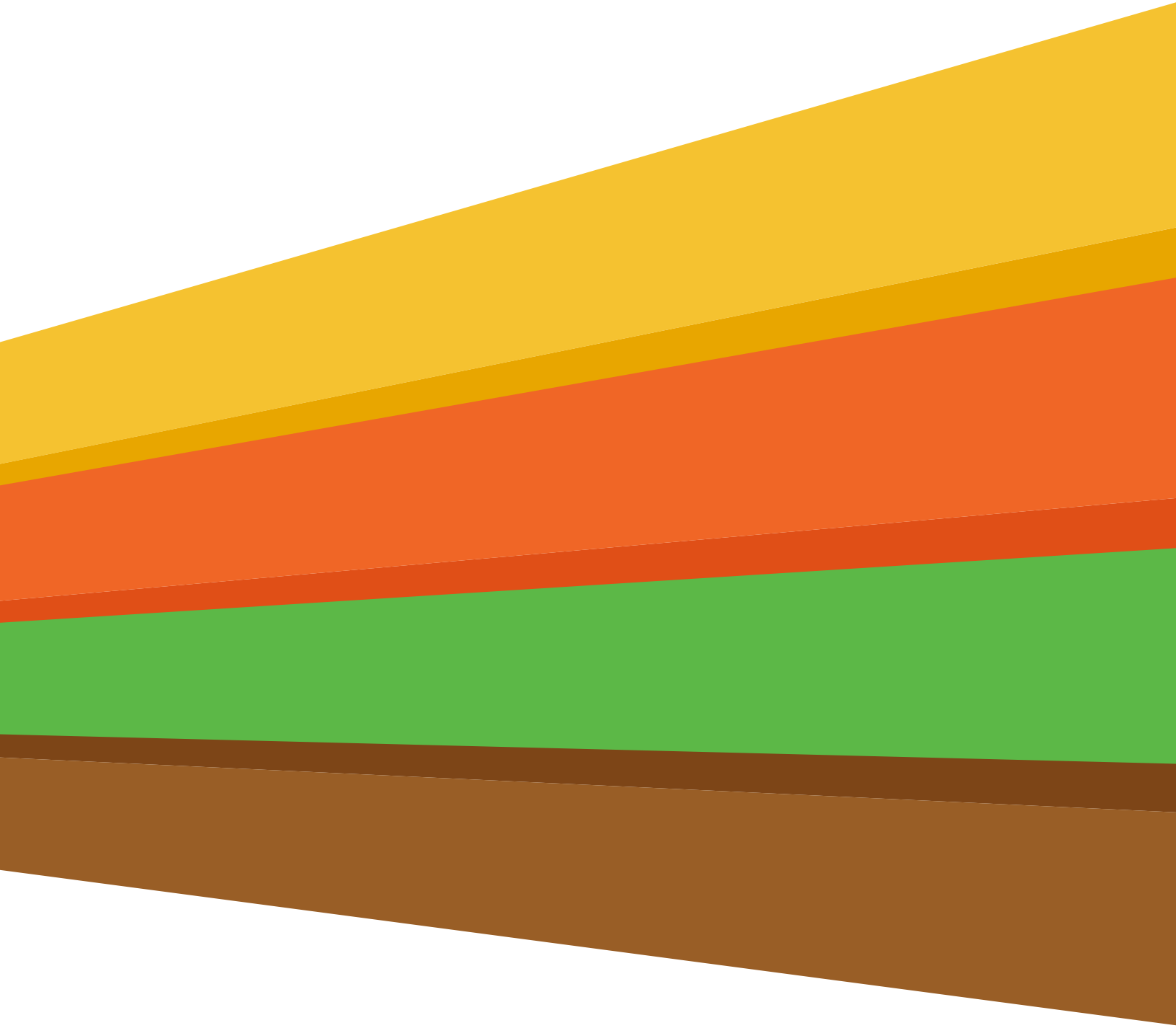
- Requerimientos de las oficinas de Ética Gubernamental, el Contralor de Puerto Rico, Área de Integridad Pública del Departamento de Justicia y el Departamento de Seguridad Pública.

- Cumplimentación proceso de reclamación a FEMA.

- Asistencia en la revisión de procedimientos COVID-19.

- Capacitación al personal de Auditoría Interna.



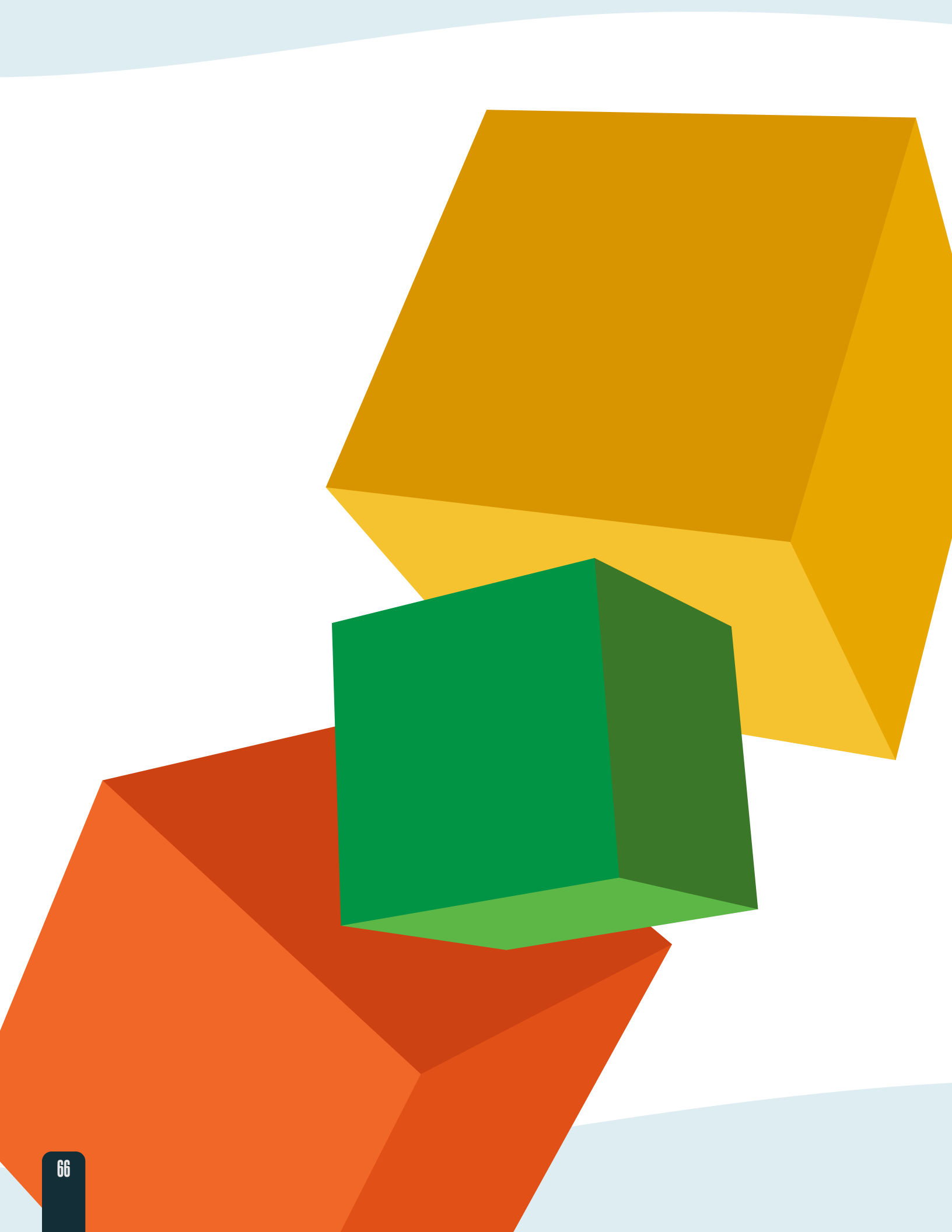






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CENTRO DE RECAUDACIÓN DE INGRESOS MUNICIPALES

# ESTADOS FINANCIEROS



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COMMONWEALTH OF PUERTO RICO  
MUNICIPAL REVENUE COLLECTION CENTER

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BASIC FINANCIAL STATEMENTS

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For The Fiscal Year Ended June 30, 2020  
(With The Additional Report Required By  
The *Government Auditing Standards*)

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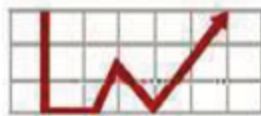


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*López-Vega, CPA, PSC*

Certified Public Accountants / Management Advisors

Member of:

- American Institute of Certified Public Accountants
- Puerto Rico Society of Certified Public Accountants

## **INDEPENDENT AUDITORS' REPORT**

### **To the Governing Board Municipal Revenue Collection Center San Juan, Puerto Rico**

We have audited the accompanying financial statements of the governmental activities and each major fund of the **Municipal Revenue Collection Center (the Center)** as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Center's basic financial statements as listed in the table of contents.

#### **Management's Responsibility for the Financial Statements**

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

#### **Auditors' Responsibility**

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

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

## INDEPENDENT AUDITORS' REPORT (CONTINUED)

### Summary of Opinions

<u>Opinion Unit</u>	<u>Type of Opinion</u>
Governmental Activities	Qualified
General Fund	Unmodified
Tax Amnesty Fund	Unmodified
Special Revenue Fund	Unmodified
Agency Fund	Unmodified

### Basis for Qualified Opinion on the Governmental Activities

Noncompliance with GASB Statement No. 73 "Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within The Scope of GASB Statement No.68" and GASB Statement No. 75 "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions"

The Retirement System Administration (ERS) has not provided the financial and technical information necessary for the proper recognition and reporting of its total pension liability as of June 30, 2020. As a result, management has not implemented the accounting and financial reporting requirements for pensions as set forth in the GASB Statement No. 73. Accounting principles generally accepted in the United States of America require that governmental employers whose employees are provided with defined benefit pensions recognize a liability and pension expense and report deferred outflows of resources and deferred inflows of resources related to pensions administered through a trust that do not meet the requirements of GASB Statement No. 68. The amount by which this departure would affect the assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position of the Center's governmental activities has not been determined. Also, the Center's financial statements do not disclose the descriptive information about the pension plans through which the pensions are provided required by the GASB Statement No. 73. In our opinion, disclosure of this information is required by accounting principles generally accepted in the United States of America.

In addition, the Center's pension plan administrator has not provided the Center with the audited schedules of employment allocations and OPEB amounts by employer as of June 30, 2019 (Center's measurement date), necessary to comply with the requirements of GASB No. 75 "Accounting and Financial Reporting for Postretirement Benefits Other Than Pensions", as of June 30, 2020. As a result, amounts to be reported as deferred outflows/inflows of resources related to OPEB, the net OPEB liability, applicable disclosures and required supplementary information have been omitted.

### Qualified Opinion on the Governmental Activities

In our opinion, except for the effects of the matter described in the "Basis for Qualified Opinion on Governmental Activities" paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of the Center, as of June 30, 2020, and the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.



## INDEPENDENT AUDITORS' REPORT (CONTINUED)

### **Unmodified Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund of the Center, as of June 30, 2020, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Emphasis of a Matter**

As described on **Note 17**, on August 14, 2020, the Commonwealth of Puerto Rico enacted to law the Act No. 107 (Act No. 107-2020), to create the Municipal Code of Puerto Rico in order to integrate, organize and update the laws related to the organization, administration and operation of Municipalities. This Act adds new procedural models for greater autonomy for the Municipalities and repeals several Acts that provide guidance and requirements for their operations. Accordingly, Act No. 80 of August 30, 1991, as amended (Known as the Municipal Revenue Collection Center (CRIM) Act" was repeal by Act No. 107-2020.

Also, on December 30, 2020, Act No. 170-2020 was enacted to amend and clarify several articles and provisions of Act No. 107-2020.

Our opinions are not modified with respect to this matter.

### **Other Matters**

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison schedule on pages **5-17** and **83**, respectively, be presented to supplement the basic financial statements. Such information, although is not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context.

We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted historical pension information and the applicable disclosures and required supplementary information, as stated in GASB Statement No. 73 and GASB Statement No. 75, that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.



*López-Vega, CPA, PSC*

Certified Public Accountants / Management Advisors

**INDEPENDENT AUDITORS' REPORT (CONTINUED)**

**Other Matters**

*Other Reporting Required by Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 18, 2021, on our consideration of the Center's internal control over financial reporting and our test of its compliance with certain provisions of laws, regulations, contracts and grants agreements and other matters.

The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Center's internal control over financial reporting and compliance.



**LOPEZ-VEGA, CPA, PSC**

San Juan, Puerto Rico  
March 18, 2021

Stamp No. 2772647 of the Puerto Rico  
Society of Certified Public Accountants  
was affixed to the record copy of this report.





## INTRODUCTION

The Management's Discussion and Analysis (MD&A) of the Municipal Revenue Collection Center (the Center) provides an overview of the Center's operational as well as financial activities for the fiscal year ended June 30, 2020. The intent of this discussion and analysis is to look at the Center's performance as a whole. Readers should also review the notes to the financial statements and the financial statements to enhance their understanding.

The MD&A is an element of the reporting model adapted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34 Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments issued in June 1999. Certain comparative information between the current year and the prior year is required to be presented in the MD&A and is included in this report.

## ORGANIZATION STRUCTURE

The Center is a municipal entity with legal personality, separate and independent from the Commonwealth of Puerto Rico, created in 1991 as part of the Municipal Reform. The Center is led by an Executive Director, who is appointed by the Governing Board. The Executive Director of the Center exercises the functions and powers provided by law, as well as those delegated to it by the Governing Board.

The Governing Board is comprised of eleven (11) members, from which nine (9) are mayors, the Commissioner of Municipal Affairs, and the President of the Government Development Bank for Puerto Rico ("GDB").

Act No. 109-2017, known as Law for the Restructuring of the Debt of the Government Development Bank for Puerto Rico, amended Act No. 80-1991 for define that GDB will act as a designated trustee until Fiscal Agency and Financial Advisory Authority (FAFAA) assume these functions or appoint a financial institution to assume these functions, which must occur on or before the closing date (as such term is defined in the Act). Effective on August 2017, the Executive Director of FAFAA assumed representation on CRIM's Governing Board

At the end of fiscal year 2017-2018, the Office of the Commissioner of Municipal Affairs culminates as an entity, transferring the main functions to the Office of Management and Budget. Effective as of July 1, 2018, the Governor of Puerto Rico delegates to Municipal Affairs Advisor as the representative on the CRIM Governing Board.

As described on **Note 17**, on August 14, 2020, the Commonwealth of Puerto Rico enacted to law the Act No. 107 (Act No. 107-2020), to create the Municipal Code of Puerto Rico in order to integrate, organize and update the laws related to the organization, administration and operation of Municipalities. This Act adds new procedural models for greater autonomy for the Municipalities and repeals several Acts that provide guidance and requirements for their operations. Accordingly, Act No. 80 of August 30, 1991, as amended (Known as "the Municipal Revenue Collection Center (CRIM) Act") was repealed by Act No. 107-2020.

Also, on December 30, 2020, Act No. 170-2020 was enacted to amend and clarify several articles and provisions of Act No. 107-2020.

### CENTER'S SERVICES

The Center has one (1) Central Office and nine (9) Regional Offices located throughout the Island. 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 estate appraisals, machinery and property valuation, among others.

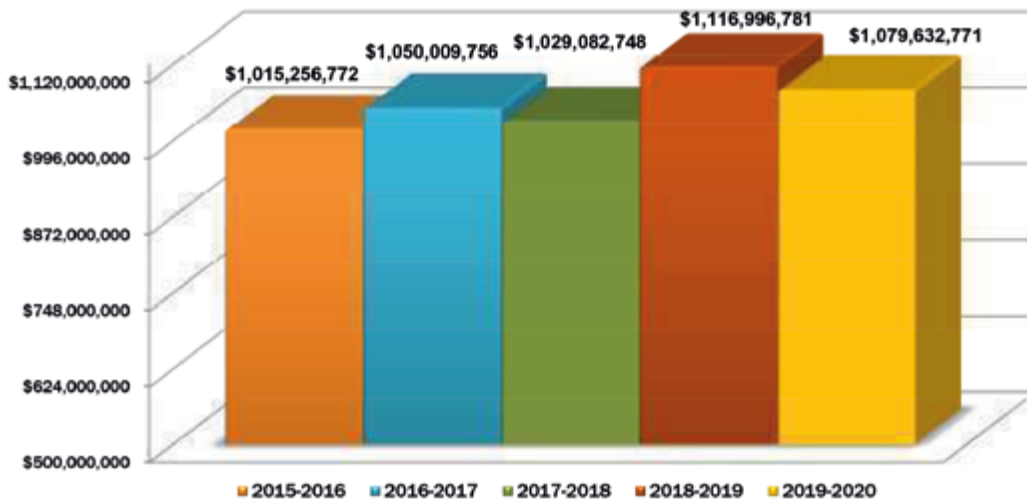
The Center provides fiscal services to all the municipalities including, but not limited to, notification, assessment and collection of both personal and real property taxes. To offer the service it renders, its principal source of revenue is derived from up to five percent (5%) of the municipal property tax collections.

### OPERATIONAL HIGHLIGHTS

The Center experienced a temporary reduction on its tax collections from \$1,116.9 million in fiscal year 2018-2019 to \$1,079.6 million in the current fiscal year, representing a decrease of \$37.3 million. This decrease in collections was the effect of COVID19 pandemic and the impact of the economic situation that taxpayers passed through the pandemic, delaying payment of the contribution until the country's economy will be stabilized.

The amounts do not include assignments from the Commonwealth of Puerto Rico and revenues awarded from the Puerto Rico Additional Lottery System.

The following chart show how the Center has increased revenue collections during the last five (5) years:



### OPERATIONAL HIGHLIGHTS (CONTINUED)

On June 30, 2016, President Barack Obama signed the Puerto Rico Oversight, Management and Economic Stability Act, known as PROMESA for its acronym, into law (as codified under 48 U.S.C. §§ 2101-2241). In general terms, PROMESA seeks to provide the Commonwealth and its instrumentalities with fiscal and economic discipline through, among other things, the establishment of the Oversight Board, whose responsibilities include the certification of fiscal plans and budgets for the Commonwealth and its instrumentalities.

On April 6, 2016, Governor Alejandro J. Garcia Padilla signed into law Act 21-2016, known as the "Puerto Rico Emergency Moratorium and Financial Rehabilitation Act" (as amended, "Act 21"). Act 21, among other things, created the Puerto Rico Fiscal Agency and Financial Advisory Authority (the "FAFAA"), as an independent public corporation to assume the extinguished Government Development Bank for Puerto Rico's role as fiscal agent, financial advisor and reporting agent for the Commonwealth, its instrumentalities, and municipalities (Act 2-2017 subsequently repealed and replaced the provisions of Act 21 regarding FAFAA). FAFAA has also been assigned with the task of ensuring compliance with fiscal plans and budgets approved by the Financial Oversight and Management Board for Puerto Rico (the "Oversight Board") pursuant to PROMESA's Title II.

In its First Public Meeting held on September 30, 2016, the Oversight Board designated CRIM as on the initial covered entities subject to oversight under PROMESA. Subsequently, on its May 9, 2019 Presentation to CRIM and Municipalities, the Oversight Board stated for the first time that it will require CRIM to submit a fiscal plan and budget. On June 14, 2019, CRIM submitted its initial fiscal plan and after addressing certain points of non-compliance identified by the Oversight Board, proceeded to submit its revised fiscal plan on July 16, 2019.

On June 4, 2020, nearly a year after CRIM's revised fiscal plan submission, the Oversight Board issued a Notice of Violation of the submitted Fiscal Plan and established that CRIM had to submit another revised fiscal plan by June 24, 2020. On June 25, 2020, CRIM submitted its revised fiscal plan and after indicating that such fiscal plan was non-compliant with the parameters established by the Oversight Board, proceeded to certify their own fiscal plan on June 26, 2020 (the "2020 Certified Fiscal Plan").

The driving factor guiding the 2020 Certified Fiscal Plan is to have CRIM become a more efficient entity in the collection of municipal revenues in an effort to partially offset the gradual reductions in transfers from the Central Government, as established in the 2020 Commonwealth Fiscal Plan, as well as assist municipalities overcome the financial difficulties that lie ahead. Understanding that CRIM plays an essential role in supporting the 78 municipalities, they established measures focused in two main areas: (i) operational efficiencies and (ii) tax revenues collection enhancements. In summary, by enhancing CRIM's technological capabilities, it will be able to capture unrealized tax revenues and better monitor ongoing efforts.

**OPERATIONAL HIGHLIGHTS (CONTINUED)**

Specifically, the 2020 Certified Fiscal Plan established 10 areas of focus which would result in short- and medium-term increases in tax revenue collections and savings for CRIM:

- 1) Appraisal of non-appraisal properties
- 2) Swimming pool new in tax roll
- 3) Correction of mailing address
- 4) Identification and appraisals of new properties
- 5) Improvements of real property tax collections rates
- 6) Home improvements new to tax roll
- 7) Sale of Accounts Receivables
- 8) FY2019 A/R – Collect in FY2020 and FY2021
- 9) Improve Personal property self-reporting compliance
- 10) Operational Improvements: a new Tax System

CRIM has been in the process of implementing the measures established in the 2020 Certified Fiscal Plan and continually discussing with the Oversight Board any hurdles that CRIM faces during the process. Major technological areas that CRIM has been undertaking, even before it was required in the 2020 Certified Fiscal Plan, was the improvement of the Digital Cadastre, the SKALA project, and the implementation of an enhanced ERP System called CRIM 360. With the implementation of these projects being completed in the upcoming FY2022, CRIM will have complied with the vast majority of the areas of focus established in the 2020 Certified Fiscal Plan, including the identification of properties which are not included in its tax roll and the reappraisal of all the properties throughout the 78 municipalities. We are certain that the completion of these measures will result in increased tax revenue collections and precise reporting for more efficient decision-making processes, all for the benefit of Puerto Rico's 78 municipalities and its constituents.

The following table shows a summary of transactions and the amount collected:

COLLECTIONS	TRANSACTIONS	AMOUNT
Website	286,807	\$398,521,116
IVR	12,401	6,671,405
Phone Line	11,990	12,618,348
Wire Transfers	77,294	160,236,483
<b>TOTAL</b>	<b>388,492</b>	<b>\$578,047,352</b>

During the fiscal year 2019-2020, the Center updated electronic filing program of the Personal Property Tax Return, requiring all taxpayer filled Tax Return through Personal Property Portal. In this fiscal year there were approximately eighty-one thousand nine hundred and forty-eight (89,948) returns electronically filed and the related collections amounted to \$430 million.

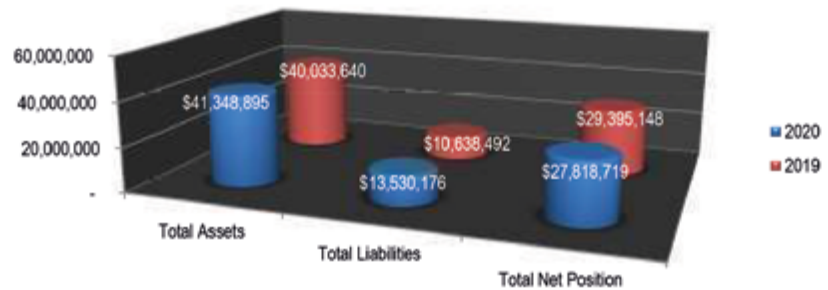
## FINANCIAL HIGHLIGHTS

### Government-wide highlights

**Net Position** – The total assets of the Center exceeded its total liabilities for fiscal year ended June 30, 2020 by \$27,818,719 as presented in “total net position”. Of this amount, the unrestricted portion amounted to \$10,274,825 and \$17,543,894 is related to the net investment in capital assets. The Center’s total net position decreased by \$1,576,429 in comparison with the prior fiscal year balance.

Condensed Statements of Net Position	2020	2019	Change	%
Current and other assets	\$ 23,805,001	\$ 22,673,217	\$ 1,131,784	4.99%
Capital assets	17,543,894	17,360,423	183,471	1.06%
<b>Total assets</b>	<b>41,348,895</b>	<b>40,033,640</b>	<b>1,315,255</b>	<b>3.29%</b>
Current and other liabilities	7,030,831	5,081,749	1,949,082	38.35%
Long-term liabilities	6,499,345	5,556,743	942,602	16.96%
<b>Total liabilities</b>	<b>13,530,176</b>	<b>10,638,492</b>	<b>2,891,684</b>	<b>27.18%</b>
<b>Total net position</b>	<b>\$ 27,818,719</b>	<b>\$ 29,395,148</b>	<b>\$ (1,576,429)</b>	<b>(5.36)%</b>

The following chart presents a comparison of total assets, total liabilities and total position of the Center for the fiscal years ended June 30, 2020 and 2019.



## FINANCIAL HIGHLIGHTS (CONTINUED)

### Governmental Fund highlights

**Government Funds – Fund Balances** - As of June 30, 2020, the Center's Governmental Funds reported a combined ending fund balance of \$17,006,499, representing a decrease of \$1,002,536 in comparison with the prior year balance. Of this total amount, \$6,624,639 represents unassigned fund balance; \$4,379,269 are committed to specific purposes as established by the Governing Board, such as relocation of Center's regional offices of the Municipalities of Arecibo, Bayamón, Carolina and Ponce and maintenance of the digital cadastre and \$6,002,591 are assigned for payment of contracts and obligations.

## OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Center's basic financial statements, which include three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the basic financial statements.

### Basic Financial Statements

The basic financial statements include two (2) kinds of financial statements that present different views of the Center: the government-wide financial statements and the fund financial statements. These financial statements also include the notes to the basic financial statements which provide more details about the information reported in the statements.

### Government-Wide Financial Statements

The Government-Wide Financial Statements provide a broad view of the Center's operations in a manner similar to a private sector business. The statements provide both short and long-term information about the Center's financial position, which assists the Center's in assessing the Center's economic condition at the end of the fiscal year. These are prepared using the flow of economic resources measurement focus and the accrual basis of accounting. They take into account all revenue and expenses connected with the fiscal year even if cash involved has not been received or paid. The Government-Wide Financial Statements include two (2) statements:

- **Statement of Net Position** – presents all the Center's assets and liabilities with the difference between the two reported as net position. Over time, increases or decreases in the Center's net position may serve as a useful indicator of whether the financial position of the Center is improving or deteriorating.
- **Statement of Activities** – presents information showing how the Center's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the time of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods (such as earned but unused vacation leave).

## OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

### Governmental Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Center, like other local governments, uses fund accounting to ensure and demonstrate compliance with finance and related legal requirements. The Fund Financial Statements focus on individual parts of the Center's governmental funds, reporting the Center's operations in more detail than the Government-Wide Statements. All of the funds of the Center can be divided into two (2) categories. It is important to note that these fund categories use different accounting approaches and will be interpreted differently. The two (2) categories of funds are the following:

- **Governmental Funds Financial Statements** – Governmental Funds are used to account for essentially the same activities reported in the Government-Wide Financial Statements. However, unlike the Government-Wide Financial Statements, the Governmental Fund Financial Statements focus on near-term inflows and outflows of expendable resources available at the end of the fiscal year. Such information may be useful in evaluating the government's near-term financing requirements. This approach is known as using the flow of current financial resources measurement focus and the modified-accrual basis of accounting.

These statements provide a detailed short-term view of the Center's finances that assists in determining whether there will be adequate resources available to meet the current needs of the Center. Because the focus of the Governmental Funds is narrower than that of the Government-Wide Financial Statements, it is useful to compare the information presented for Governmental Funds with similar information presented for Governmental Activities in the Government-Wide Financial Statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions.

Both, the Governmental Fund Balance Sheet and Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balances provide a reconciliation to facilitate this comparison between Governmental Funds and Governmental Activities. These reconciliations are presented on the page immediately following each Governmental Fund Financial Statement.

The Center has three (3) Governmental Funds: 1) the General Fund, 2) the Tax Amnesty Fund and 3) the Special Revenue Fund. The Basic Governmental Funds Financial Statements can be found immediately following the Government-Wide Financial Statements.

- **Agency Funds** – These funds are used to account for resources held for the benefit of the Municipalities. Agency Funds are not reflected in the Government-Wide Financial Statements because the resources of these funds are not available to support the Center's own activities. The accounting used for Agency Funds is much like that used for Proprietary Funds. They use the accrual basis of accounting. The Center's Agency Funds record the assets held for distribution by the Center as an agent for the Municipalities. The Statement of Fiduciary Net Position-Agency Fund can be found immediately following the Governmental Funds Financial Statements.

## OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

### Notes to the financial statements

The notes provide additional information that is essential to a full understanding of the data provided in the Government-Wide and the Fund Financial Statements. The notes to the financial statements can be found immediately following funds financial statements.

### GOVERNMENT-WIDE FINANCIAL ANALYSIS–VARIANCES

The following summarizes the main variances in the Government-Wide Financial Statements totals:

#### Statement of Net Position

Total assets increased by \$1,315,255 (3.29%) in comparison with the prior fiscal year. This increase was caused mainly by an increase of current and other assets amounting to \$1,131,784 and an increase in capital assets of \$183,471.

Total liabilities increased by \$2,891,684 (27.18%) in comparison with the prior fiscal year. This is the net effect of: (a) an increase in current liabilities of approximately \$1,949,082; and (b) an increase in long-term debt by \$942,602 during the year ended June 30, 2020.

Total net position decreased by \$1,576,429 (from \$29,395,148 in 2019 to \$27,818,719 in 2020), mainly as a result of the change in net position in the Statement of Activities. Below, we summarize the main reasons for such decrease.

#### Statement of Activities

Total revenues decreased by \$997,160 (3.06%) in comparison with prior fiscal year. This effect was caused by the decrease in revenues related to property tax administrative fees amounting to \$1,145,784 and a net increase in other revenues of \$148,624.

Total expenses increased by approximately \$1,490,497 (4.58%) in comparison with the prior fiscal year. The main reason for the increase in expenses was the increase salaries and fringe benefits of \$712,674, the increase in repairs and maintenance by \$677,830, and the net increase in other expenses of \$99,993.

Also, transfers from other funds decreased by \$737,607 compared with the prior year.

As a result of the variances discussed above, the total change in net position decreased by \$3,225,264 (from \$1,648,835 in 2019 to a deficiency of \$1,576,429 in 2020).



**GOVERNMENT-WIDE FINANCIAL ANALYSIS—VARIANCES (CONTINUED)**

**Statement of Activities (Continued)**

The following table shows the condensed statements of activities of the Center for the fiscal years ended June 30, 2020 and 2019.

Condensed Statements of Activities	2020	2019	Change	%
General revenues:				
Property tax administrative fees	\$ 28,430,586	\$ 29,576,370	\$ (1,145,784)	(3.87)%
Sales of certifications and maps	663,892	780,957	(97,065)	(12.76)%
Interest and miscellaneous income	94,681	209,881	(115,200)	(54.89)%
Service charges to banks	1,021,602	1,069,058	(47,456)	(4.44)%
Other income	1,365,457	1,000,000	365,457	36.55%
Federal grant	55,484	12,596	42,888	340.49%
<b>Total revenues</b>	<b>31,631,702</b>	<b>32,628,862</b>	<b>(997,160)</b>	<b>(3.06)%</b>
Expenses:				
Taxpayers' and technical services	16,917,217	17,588,912	(671,695)	(3.82)%
Administration	17,114,221	14,952,029	2,162,192	14.46%
<b>Total expenses</b>	<b>34,031,438</b>	<b>32,540,941</b>	<b>1,490,497</b>	<b>4.58%</b>
Transfers from other funds	823,307	1,560,914	(737,607)	(47.25)%
Change in net position	(1,576,429)	1,648,835	(3,225,264)	(195.61)%
Net position, beginning of year	29,395,148	27,746,313	1,648,835	5.94%
Net position, end of year	\$ 27,818,719	\$ 29,395,148	\$ (1,576,429)	(5.36)%

The following table shows the Center's expenses by type for the years ended June 30, 2020 and 2019.

Expenses by type	2020	2019	Change	%
Salaries and fringe benefits	\$ 23,084,169	\$ 22,371,495	\$ 712,674	3.19%
Professional and consulting services	4,038,830	3,992,473	46,357	1.16%
Travel and representation	251,126	382,413	(131,287)	(34.33)%
Depreciation	1,044,106	859,894	184,212	21.42%
Supplies	239,589	189,064	50,535	26.73%
Rent	1,474,562	1,454,159	20,403	1.40%
Repairs and maintenance	1,902,108	1,224,278	677,830	55.37%
Utilities	999,863	876,445	123,418	14.08%
Printed forms	220,017	212,954	7,063	3.32%
Postage	424,430	451,222	(26,792)	(5.94)%
Insurance	172,351	181,963	(9,612)	(5.28)%
Trainings	7,751	34,560	(26,809)	(77.57)%
Interest	130,379	128,894	1,485	1.15%
Loss on retirement of assets	-	137,002	(137,002)	(100.00)%
Other	42,147	44,125	(1,978)	(4.48)%
<b>Total expenses</b>	<b>\$ 34,031,438</b>	<b>\$ 32,540,941</b>	<b>\$ 1,490,497</b>	<b>4.58%</b>

## FINANCIAL ANALYSIS OF THE CENTER'S GOVERNMENTAL FUND

The focus of the Center's Governmental Funds is to provide information on near-term inflows, outflows, and balances of expendable resources. Such information is useful in assessing the Center's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. There is an amount of \$4,379,269 of fund balance committed to indicate that it is not available for new spending because it has already been committed to cover special projects according to the resolutions of the Governing Board, and there are \$6,002,591 assigned to liquidate contracts and purchase orders.

The General Fund is the operating fund of the Center. At the end of the current fiscal year, unassigned fund balance was \$6,052,106 while the total fund balance reached \$16,433,966. The Center's General Fund balance decreased by \$877,163 million during the fiscal year ended June 30, 2020.

### GENERAL FUND BUDGETARY HIGHLIGHTS

The Center's General Fund final budget amounted to \$30,484,972, an increase of \$930,070 when compared with the original budget. For the fiscal year 2020, the general fund actual expenditures amounted to \$28,947,318, which represents \$1,537,654 less than the final budget. Also, the general fund actual revenues amounted to \$31,029,917, which represents \$544,945 more than the final budget.

### CAPITAL ASSETS AND DEBT ADMINISTRATION

#### Capital assets

The Center's capital assets for its government activities as of June 30, 2020 amounted to \$37,789,409 with an accumulated depreciation of \$20,245,515, resulting in a book value of \$17,543,894. This investment in capital assets includes land, construction in progress, building, building improvements, leasehold improvements, office equipment, computer hardware and software and vehicles.

#### Debt administration

The Center's long-term debt obligations consist of accrued compensated absences and a capital lease. Information of these debts can be found in **Note 7** to the Basic Financial Statements.

### ADOPTION OF GASB STATEMENTS NO. 73 AND NO. 75

The GASB Statement No. 73, "Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement No. 68", requires that governmental employers whose employees are provided with defined benefit pensions recognize a liability and pension expense and report deferred outflows of resources and deferred inflows of resources related to pensions administered through a trust that do not meet the requirements of GASB Statement No. 73. The Center's pension plan is administered by the Employees Retirement System Administration (ESR). The ESR has not provided to the Center the financial and technical information necessary for the proper recognition and reporting of its net pension liability, deferred inflows of resources and deferred outflows of resources. Accordingly, the Center could not comply with the accounting and financial reporting requirements set forth in GASB Statement No. 73. Consequently, the Center's financial statements do not report or disclose the required information for its pension plan.

### ADOPTION OF GASB STATEMENTS NO. 73 AND NO. 75 (CONTINUED)

In addition, the Center's pension plan administrator has not provided the Center with the audited schedules of employment allocations and OPEB amounts by employer as of June 30, 2019 (Center's measurement date), necessary to comply with the requirements of GASB No. 75 "Accounting and Financial Reporting for Postretirement Benefits Other Than Pensions", as of June 30, 2020. As a result, amounts to be reported as deferred outflows/inflows of resources related to OPEB, the net OPEB liability, applicable disclosures and required supplementary information have been omitted.

### ECONOMIC FACTORS

The Commonwealth of Puerto Rico (the Commonwealth) and its instrumentalities are currently facing a severe fiscal and liquidity crisis. This is the culmination of many years of significant governmental deficits, a prolonged economic recession (which commenced in 2006), high unemployment, population decline, and high levels of debt and pension obligations.

Also, credit rating agencies have been downgrading their ratings on the Commonwealth debt obligations based on, among other problems, years of deficit financing, pension underfunding, budgetary imbalance, and as mentioned before, years of prolonged recession.

As more fully explained in **Note 14** to the financial statements, the Governments of the United States of America and the Commonwealth of Puerto Rico have approved and implemented certain laws to overcome this crisis. Following are some of the measures implemented to this end:

- ***Puerto Rico Fiscal Agency and Financial Advisory Authority – Act No. 2 of 2017***

On January 18, 2017, the Commonwealth of Puerto Rico approved Act No. 2, known as "*The Puerto Rico Fiscal Agency and Advisory Authority (FAFAA)*" in order to empower the Authority to oversee compliance with the certified budget and fiscal plan approved pursuant to the Puerto Rico Oversight, Management and Economic Stability Act of 2016 (PROMESA); to delegate to the Authority the power to revise matters including, but not limited to, agreements, transactions and regulations of the agencies and instrumentalities of the Government of Puerto Rico; to provide that it shall be the only entity authorized to enter into creditors' agreements, and/or renegotiate or restructure the public debt, in whole or in part, or any other debt issued by any Government body including, but not limited to, agencies, boards, commissions, instrumentalities, public corporations or applicable political subdivision; to provide that the Executive Director of the FAFAA shall be the legal successor of the President of the Government Development Bank of Puerto Rico (GDB) in every board, committee, commission or Council; to repeal Chapter 6 of Act No. 21-2016, as amended, and the Puerto Rico Fiscal Oversight and Recovery Organic Act, Act No. 208-2015; and for other related purposes.

On January 29, 2017, the Commonwealth of Puerto Rico approved Act No. 5, known as "*Puerto Rico Financial Emergency and Fiscal Responsibility Act*" to facilitate and encourage a voluntary negotiation process under PROMESA between the Governor and/or the FAFAA, on behalf of the Government of Puerto Rico, and the creditors of the Government of Puerto Rico and its instrumentalities.

## ECONOMIC FACTORS (CONTINUED)

- ***Puerto Rico Fiscal Agency and Financial Advisory Authority – Act No. 2 of 2017 (Continued)***

This Act Authorizes the Government of Puerto Rico, within the parameters established by PROMESA, to designate certain services necessary for the health, safety and welfare of the residents of Puerto Rico and provided by the Government of Puerto Rico and its instrumentalities as "essential services", in accordance with the Constitution of Puerto Rico.

- ***Fiscal Plan Submissions and Certifications – Commonwealth of Puerto Rico and Government Development Bank of Puerto Rico***

On a letter dated January 18, 2017, the Financial Oversight and Management Board of Puerto Rico ("the Board") provided the Governor the fiscal plan targets and guidelines, on a category-by-category basis, that the certified plan should satisfy. Also, the Board approved the Governor's request that it extend the PROMESA stay on litigation through May 1, 2017 on conditions agreed to by the Governor, including a commitment not to attempt to procure short-term liquidity loans that could restrict fiscal options. On February 28, 2017, the Governor submitted a proposed fiscal plan and, after the review, analysis and deliberation with the Board's members, economists, consultants, attorneys and Governor's representatives, the Board informed the Governor on March 9, 2017 that it had determined the proposed fiscal plan did not satisfy PROMESA's requirements. On March 11, 2017, the Governor submitted to the Board a revised fiscal plan. On March 13, 2017, the Board approved and certified this final plan.

- ***Filing of Title III of PROMESA for the District of Puerto Rico***

On May 3, 2017, the Financial Oversight and Management Board for Puerto Rico approved and certified the filing in the United States District Court for the District of Puerto Rico of a voluntary petition under Title III of PROMESA for the Commonwealth of Puerto Rico. This filing was necessary due to the expiration on May 1, 2017 of the stay against litigation provided by PROMESA, and thus making the government vulnerable to lawsuits by its creditors. The voluntary filing under Title III would preclude those lawsuits while allowing the possibility of consensual negotiations to continue. Also, on May 5, 2017, another voluntary petition under Title III of PROMESA was approved, certified and filed for the Puerto Rico Sales Tax Financing Corporation ("COFINA") and, on May 22, 2017, the Board approved, certified and filed similar voluntary petitions for the Puerto Rico Highway and Transportation Authority ("HTA") and the Government of Puerto Rico Employees Retirement System ("ERS").

- ***Restructuring Support Agreement ("RSA") under the provisions of Title VI of PROMESA – Government Development Bank of Puerto Rico***

On May 15, 2017, the FAFAA and the Government Development Bank of Puerto Rico announced a Restructuring Support Agreement ("RSA") with a significant portion of GDB's financial creditors, which became effective pursuant to its terms on May 17, 2017. The RSA contemplates dividing GDB's assets into two separate entities: one for the benefit of its financial creditors consisting of bondholders, municipal depositors and non-government entity depositors ("New Issuer"), and a Public Entity Trust ("PET") for the benefit of other depositors (government entity depositors).

### ECONOMIC FACTORS (CONTINUED)

- ***Restructuring Support Agreement ("RSA") under the provisions of Title VI of PROMESA – Government Development Bank of Puerto Rico (Continued)***

The RSA terms are to be consummated pursuant to a consensual restructuring of the GDB's liabilities using a Title VI Qualifying Modification. Once approved by the requisite financial creditors of the GDB, the Financial Oversight and Management Board and the U.S. District Court (Puerto Rico), the RSA will provide GDB's stakeholders a recovery based on the claim type.

On March 23, 2018, GDB ceased its operations and on November 29, 2018, GDB completed a restructuring of certain of its indebtedness pursuant a Qualifying Modification under Title VI of PROMESA (the Qualifying Modification).

On June 26, 2020, the Board certified a fiscal plan for the Center for fiscal years 2021 to 2025 (the Fiscal Plan). In accordance with "PROMESA", this Fiscal Plan projects a baseline forecast of Center's sources and uses of funds for the next five fiscal years based on historical trends and discussions with Center's management. In order to provide a greater revenue base for Municipalities and ensure greater fairness in property tax collections, certain measures have been developed to improve operations and increase tax collections at the Center. These measures are incremental to the baseline projections and must be adopted and successfully implemented to achieve the targets of the Fiscal Plan.

- **Impact of COVID-19 Pandemic**

On March 12, 2020, Governor Wanda 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. Center'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 7, 2020. Therefore, the Center delayed in collections for the months of May, June, and July. Similarly, the date for the payment of the first quarterly installment of personal property taxes for FY2021 was extended from August 15, 2020, to September 15, 2020.

### CONTACTING CRIM FINANCIAL MANAGEMENT

The Center's financial statements are designed to present users with a general overview of its finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Municipal Revenue Collection Center at PO Box 195387, San Juan, PR 00919-5387.

	<u>Governmental Activities</u>
<b>Assets</b>	
Current assets:	
Cash and cash equivalents	\$ 7,984,845
Accounts receivable	606,761
Due from other funds	15,213,395
Total current assets	<u>23,805,001</u>
Noncurrent assets:	
Nondepreciable assets	6,715,000
Depreciable assets	10,828,894
Capital assets, net of accumulated depreciation	<u>17,543,894</u>
<b>Total assets</b>	<b><u>\$ 41,348,895</u></b>
<b>Liabilities:</b>	
Current portion of:	
Capital lease obligations	\$ 98,231
Accrued compensated absences	134,098
Accounts payable and accrued expenses	6,798,502
Total current liabilities	<u>7,030,831</u>
Noncurrent liabilities:	
Capital lease obligations, net of current portion	265,193
Accrued compensated absences, net of current portion	6,146,652
Claims and judgments	87,500
Total noncurrent liabilities	<u>6,499,345</u>
<b>Total liabilities</b>	<b><u>13,530,176</u></b>
<b>Net position:</b>	
Net investment in capital assets	17,543,894
Unrestricted	<u>10,274,825</u>
<b>Total net position</b>	<b><u>27,818,719</u></b>
<b>Total liabilities and net position</b>	<b><u>\$ 41,348,895</u></b>

The notes to the financial statements are an integral part of this statements.

	Governmental Activities
<b>Expenses:</b>	
Taxpayers' and technical services	\$ 16,917,217
Administration	17,114,221
<b>Total expenses</b>	<u>34,031,438</u>
<b>General revenues:</b>	
Property taxes administrative fees	28,430,586
Sales of certifications and maps	663,892
Service charges to banks	1,021,602
Interest income	94,681
Other income	1,365,457
Federal grant	55,484
<b>Total general revenues</b>	<u>31,631,702</u>
<b>Excess of expenses over revenues</b>	(2,399,736)
<b>Other financing sources</b>	
Transfer from other funds	823,307
<b>Total other financing sources</b>	<u>823,307</u>
<b>Change in net position</b>	(1,576,429)
Net position, beginning of fiscal year	<u>29,395,148</u>
<b>Net position, ending of fiscal year</b>	<u>\$ 27,818,719</u>

The notes to the financial statements are an integral part of this statements.

	General Fund	Tax Amnesty Fund	Special Revenue Fund	Total Governmental Funds
<b>Assets</b>				
Cash and cash equivalents	\$ 7,412,865	\$ 571,980	\$ -	\$ 7,984,845
Accounts receivable	474,489	-	132,272	606,761
Due from other funds	15,349,667	553	-	15,350,220
<b>Total assets</b>	<b>\$ 23,237,021</b>	<b>\$ 572,533</b>	<b>\$ 132,272</b>	<b>\$ 23,941,826</b>
<b>Liabilities and fund balances</b>				
<b>Liabilities</b>				
Accounts payable and accrued liabilities	6,798,502	-	-	6,798,502
Due to other funds	4,553	-	132,272	136,825
<b>Total liabilities</b>	<b>6,803,055</b>	<b>-</b>	<b>132,272</b>	<b>6,935,327</b>
<b>Fund balances:</b>				
Committed	4,379,269	-	-	4,379,269
Assigned	6,002,591	-	-	6,002,591
Unassigned	6,052,106	572,533	-	6,624,639
<b>Total fund balances</b>	<b>16,433,966</b>	<b>572,533</b>	<b>-</b>	<b>17,006,499</b>
<b>Total liabilities and fund balances</b>	<b>\$ 23,237,021</b>	<b>\$ 572,533</b>	<b>\$ 132,272</b>	<b>\$ 23,941,826</b>



**Total Fund Balances-Governmental Funds** \$ 17,006,499

Amounts reported for governmental activities in the Statement of Net Position are different because:

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

Non-depreciable assets	\$ 6,715,000	
Depreciable capital assets	31,074,409	
Accumulated depreciation	<u>(20,245,515)</u>	
Total capital assets		17,543,894

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

Capital leases	363,424	
Reserve for claims and judgments	87,500	
Accrued compensated absences	<u>6,280,750</u>	
Total long-term liabilities		<u>(6,731,674)</u>

**Total Net Position of Governmental Activities** \$ 27,818,719

	General Fund	Tax Amnesty Fund	Special Revenue Fund	Total Governmental Funds
<b>Revenues:</b>				
Property taxes administrative fees	\$ 28,430,586	\$ -	\$ -	\$ 28,430,586
Sales of certifications and maps	663,892	-	-	663,892.00
Service charges to banks	1,021,602	-	-	1,021,602.00
Interest income	90,530	4,151	-	94,681.00
Other income	1,365,457	-	-	1,365,457.00
Federal grant	-	-	55,484	55,484.00
<b>Total revenues</b>	<b>31,572,067</b>	<b>4,151</b>	<b>55,484</b>	<b>31,631,702</b>
<b>Expenditures:</b>				
Taxpayers' and technical services	16,490,172	-	-	16,490,172.00
Administration	16,911,558	331	55,484	16,967,373.00
<b>Total expenditures</b>	<b>33,401,730</b>	<b>331</b>	<b>55,484</b>	<b>33,457,545</b>
Excess of expenditures over revenues	(1,829,663)	3,820	-	(1,825,843)
<b>Other financing sources (uses):</b>				
Transfers in	952,500	-	-	952,500
Transfers out	-	(129,193)	-	(129,193)
<b>Total other financing sources (uses)</b>	<b>952,500</b>	<b>(129,193)</b>	<b>-</b>	<b>823,307</b>
Net change in fund balances	(877,163)	(125,373)	-	(1,002,536)
<b>Fund balances, beginning</b>	<b>17,311,129</b>	<b>697,906</b>	<b>-</b>	<b>18,009,035</b>
<b>Fund balances, ending</b>	<b>\$ 16,433,966</b>	<b>\$ 572,533</b>	<b>\$ -</b>	<b>\$ 17,006,499</b>

<b>Net Change in Fund Balances - Total Governmental Funds</b>	<b>\$ (1,002,536)</b>
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the government-wide Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of capital assets additions recorded in the current period.	1,227,577
Depreciation expense on capital assets is reported in the government-wide Statement of Activities, but it does not require the use of current financial resources. Therefore, depreciation expense is not reported as an expenditure in the governmental funds.	(1,044,106)
Long-term accrued compensated absences are reported in the government-wide Statement of Activities, but they do not require the use of current financial resources. Therefore, long-term accrued compensated absences were amounts not reported as expenditures in the governmental funds. The following amount represents the net change in the long-term accrued compensated absences from prior year.	(837,040)
Repayment of the principal balance of the obligation under capital lease is recorded as expenditure in the governmental funds, but reduces long term-debt balance of the obligation under capital lease in the government-wide Statement of Net Position.	<u>79,676</u>
<b>Change in Net Position of Governmental Activities</b>	<b><u>\$ (1,576,429)</u></b>

	Citizen's Participation	Property Taxes	Municipal Redemption
<b>Assets</b>			
Cash and cash equivalents	\$ -	\$ 421,793,447	\$ 401,621,987
Due from:			
Taxpayers-real property, net of allowance for uncollectables of \$3,310,716,358	-	713,064,035	-
Taxpayers-personal property, net of allowance for uncollectables of \$395,478,912	-	102,511,512	-
Municipalities, net of allowance for uncollectables of \$41,088,095	-	172,370,931	-
Commonwealth, net of allowance for uncollectables of \$8,313,077	-	20,128,775	-
Others	4,000	-	-
<b>Total assets</b>	<b>\$ 4,000</b>	<b>\$ 1,429,868,700</b>	<b>\$ 401,621,987</b>
<b>Liabilities</b>			
Due to:			
Commonwealth Government	\$ -	\$ 523,474,805	\$ -
Municipalities-real property	-	713,064,035	-
Municipalities-personal property	-	102,511,512	-
Municipalities-restricted for debt service	-	-	401,621,987
Municipalities-other	4,000	75,600,953	-
Other funds	-	15,217,395	-
<b>Total liabilities</b>	<b>\$ 4,000</b>	<b>\$ 1,429,868,700</b>	<b>\$ 401,621,987</b>

The notes to the financial statements are an integral part of this statement.

## 1-ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### A. Reporting Entity

The Municipal Revenue Collection Center (the Center) was created by Act No. 80 of August 30, 1991, as amended, as part of the Municipal Reform Legislation. The Center was created for the purpose of establishing a separate and independent municipal entity from the Commonwealth of Puerto Rico (the Commonwealth), to collect, receive and distribute the property tax revenues of the Municipalities. Prior to the enactment of this Act, the Commonwealth, through the Department of Treasury, accounted for these revenues. The Center is exempt from the payment of taxes on its revenues and properties.

As described on **Note 17**, on August 14, 2020, the Commonwealth of Puerto Rico enacted to law the Act No. 107 (Act No. 107-2020), to create the Municipal Code of Puerto Rico in order to integrate, organize and update the laws related to the organization, administration and operation of Municipalities. This Act adds new procedural models for greater autonomy for the Municipalities and repeals several Acts that provide guidance and requirements for their operations. Accordingly, Act No. 80 of August 30, 1991, as amended (Known as "the Municipal Revenue Collection Center (CRIM) Act" was repealed by Act No. 107-2020.

Also, on December 30, 2020, Act No. 170-2020 was enacted to amend and clarify several articles and provisions of Act No. 107-2020.

Accounting principles generally accepted in the United States of America require that the reporting entity include (1) the primary government, (2) organizations for which the primary government is financially accountable and (3) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The criteria provided in Governmental Accounting Standards Board Codification Section 2100 has been considered and there are no agencies or entities which should be presented together with the Center's Financial Statements.

### B. Basis of Accounting

#### *Accounting estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue, expenses and/or expenditures during the reporting period. Actual results could differ from those estimates.

#### *Cash and cash equivalents*

The Center has defined cash and cash equivalents to include cash on hand, demand, deposits, and short-term investments with original maturities of three (3) months or less from the date of acquisition.

**1-ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

***Capital assets***

Capital assets include land, construction in progress, building, building improvements, leasehold improvements and equipment, and are reported in the government-wide financial statements.

The Center defines capital assets as assets, which have an initial individual cost of more than \$500 at date of acquisition and an estimated useful life of five (5) or more years. Capital assets are recorded at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are recorded at their acquisition value / entry price (the price that would be paid to acquire an asset with equivalent service potential in an orderly market transaction at the acquisition date).

Additions, improvements and other capital outlays that significantly extend the useful life of capital assets are capitalized. The costs of normal maintenance and repairs that do not add value to the assets or materially extend assets lives are not capitalized; instead, they are expensed as incurred.

Capital assets accounted for in the governmental funds are recorded as expenditures in the governmental fund financial statements. Depreciation expense is recorded in the government-wide financial statements. Also, capital assets are depreciated using the straight-line method over the assets estimated life. Equipment under capital leases is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included in the depreciation and amortization expense amounts reported in the financial statements. Land and construction in progress are non-depreciable assets. The estimated useful lives of capital assets are as follows:

<u>Types of Capital Assets</u>	<u>Years</u>
Building/Infrastructures	40
Building/Infrastructure improvements	40
Leasehold improvement	10
Office equipment	5
Computer hardware and software	5
Vehicles	5
Office equipment under capital lease	5

***Deferred outflows/inflows of resources***

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

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

## 1-ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### *Deferred outflows/inflows of resources (Continued)*

In the government-wide Statement of Net Position, the Center reports deferred outflows/inflows of resources that result from the following transactions:

1. **Government-mandated or voluntary non-exchange transactions received before the time requirements have been met** – Federal and state grants received before the beginning of the fiscal year to which they pertain are recognized as deferred inflows of resources. The amounts deferred would be recognized as an inflow of resources (revenue) in the period in which the time requirements are fulfilled.
2. **Implementation of GASB Statement No. 73 "Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within The Scope of GASB Statement No. 68" and GASB Statement No. 75 "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions"** – Amounts reported for changes in the calculation of the total pension liability that result from: a) differences between expected and actual experience; b) changes of assumptions; c) net difference between projected and actual earnings on pension plan investments; d) changes in proportion and difference between Center's contributions and proportionate share of contributions; and e) Center's contributions subsequent to the measurement date.

In the governmental funds Balance Sheet, the Center reports deferred inflows of resources that result from the following transactions:

1. **Government-mandated or voluntary non-exchange transactions received before the time requirements have been met** – Federal and state grants received before the beginning of the fiscal year to which they pertain are recognized as deferred inflows of resources. The amounts deferred would be recognized as an inflow of resources (revenue) in the period in which the time requirements are fulfilled.
2. **Unavailable revenue reported under the modified-basis of accounting** – Amounts are recognized as unavailable revenue from the following sources: property taxes, sales and use taxes and intergovernmental revenues collected or to be collected after the availability period. The amounts are deferred and recognized as an inflow of resources (revenue) in the period that the amounts become available. Since this deferred inflow of resources is the result of the modified-accrual basis of accounting, it is only reported in the Fund Financial Statement (FFS).

### ***Long-term obligations***

In the Government-Wide Financial Statements, special and other long-term obligations are reported as noncurrent liabilities in the Statement of Net Position. The liabilities reported in this statement include the Center's long-term liabilities for the acquisition of office equipment, and the long-term accrued compensated absences.

## 1-ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### ***Compensated absences***

Compensated absences are those absences for which employees will be paid, such as a vacation, sick leave, and sabbatical leave. A liability for compensated absences that are attributable to services already rendered and that are not contingent on a specific event that is outside the control of the Center and its employees is accrued as employees earn its rights to benefits. Until February 3, 2017, employees earned their right to annual vacation leave at the rate of thirty (30) working days per calendar year up to a maximum permissible accrual of sixty (60) working days for regular employees.

The excess was payable, if not used by the employee, by June 30 of the next fiscal year. Employees earned sick leave at the rate of eighteen (18) working days per calendar year. Sick leave is only payable if the regular employee resigns and has more than ten (10) years of employment, or retires. The maximum permissible accrual is ninety (90) working days for all employees and the excess is payable if not used by employee by March 31 of the next fiscal year.

On February 4, 2017, the Government enacted Law No. 8 for the Administration and Transformation of the Human Resources of the Government of Puerto Rico. This Law established and recognized that the government is a Single Employer. Under the provisions of this Law, annual vacation days were reduced from thirty (30) to fifteen (15) days. The vacation days may be accumulated to a maximum of sixty (60) days. Also, the employees hired before the effectiveness of this Law will be granted annually eighteen (18) days of sick leave. However, the employees hired after the effectiveness of this Law, will be granted annually twelve (12) days of sick leave. In both cases, the sick leave days may be accumulated to a maximum of ninety (90) days.

On July 10, 2018, the Law No. 125 was enacted in order to recognize the CRIM as a municipal entity. In accordance with this Law, the CRIM's employees are not subject to Law No. 8 described before. Based on the Law No. 125, the CRIM established that all employees will earn their right to annual vacation leave at the rate of thirty (30) working days per calendar year up to a maximum permissible accrual of sixty (60) working days for regular employees. The days in excess will not be paid, and will be lost if not used by the employees.

Also, employees will earn sick leave at the rate of eighteen (18) working days per calendar year. Sick leave is only payable if the regular employee resigns and has more than ten (10) years of employment, or retires. The maximum permissible accrual is ninety (90) working days for all employees and the days in excess will not be paid, and will be lost if not used by the employees.

The Center accrues accumulated unpaid vacation and sick leave and associated employee-related costs when earned (or estimated to be earned) by the employee. The noncurrent portion (the amount estimated to be used in subsequent fiscal years) for governmental funds is maintained separately and represents a reconciling item between the Government-Wide and the Governmental Funds' Financial Statement presentations.



## 1-ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### *Claims and judgments*

The estimated amount of the liability for claims and judgments, which is due on demand, such as from adjudicated or settled claims, is recorded in the general fund when the liability is incurred.

Those cases that, as a result of the settlement a property tax credit is awarded, such a credit is recorded by management as a contra-account in the property tax receivable balance.

### *Accounting for pension costs*

The Center's employees are covered by the retirement plans administered by the Employee's Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS). The Commonwealth of Puerto Rico is considered to be the sponsor of the ERS, a multi-employer defined contribution plan.

Effective on July 1, 2017, the Center and other participants of the ERS converted to a new PayGo model. Under the PayGo funding, the participant employers directly pay the pension benefits as they are due rather than attempt to build up assets to pre-fund future benefits. Paygo payments are recorded as expenditures/expenses in the financial statements. Accordingly, at that date, the Center shall implement the requirements set forth by GASB Statement No. 73 "Accounting for Financial Reporting for Pensions and Related Assets That Are Not Within The Scope of GASB No. 68"

GASB Statement No. 75 "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions" is effective for the Center starting on July 1, 2017. As required by the accounting pronouncement, OPEB transactions should be accounted based on its proportional share of the collective net OPEB liability, OPEB expense and deferred outflows/inflows of resources reported by the Plan. For purposes of measuring, OPEB costs should have all been determined on the same basis as they are reported by the Plan. The ERS has not issued its 2017 and 2018 basic financial statements, nor has it provided to the Center with the required information to implement the referred accounting pronouncement. The Center's contribution for OPEB is included as part of the Paygo charges billed on a monthly basis by the Puerto Rico Department of Treasury ("PRDT"). Paygo payments are recorded as expenditures/expenses in the financial statements.

### **C. Measurement Focus**

The Center's basic financial statements include both Government-Wide (Statement of Net Position and Statement of Activities) and Governmental Funds Financial Statements (Balance Sheet and Statement of Revenue, Expenditures and Changes in Fund Balances).

#### *Government-Wide Financial Statements*

The Government-Wide Financial Statements report information of all the non-fiduciary activities of the Center. For the most part, the effect of inter-fund activity has been removed from these Government-Wide Financial Statements.

## 1-ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### C. Measurement Focus (Continued)

#### *Government-Wide Financial Statements (Continued)*

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services or privileges provided by a given function and, 2) contributions that are restricted to meeting the operational or capital requirements of a specific function. Management fees and other items not properly included among program revenues are reported instead as general revenues. The Government-Wide Financial Statements are reported using the economic resources measurement focus and the accrual basis of accounting, as is the Fiduciary Fund Financial Statement. Agency funds have no measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

#### *Governmental Fund Financial Statements*

Governmental Fund Financial Statements are reported using the current financial resources measurement focus and the modified-accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available when it is collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Center considers revenue to be available if it is collected within sixty (60) days of the end of the current fiscal period. Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, debt services expenditures, as well as expenditures related to compensated absences, claims and judgments, are recorded only when payment is due. Separate Fund Financial Statements are provided for Governmental Funds and Fiduciary Funds, even though the latter are excluded from the Government-Wide Financial Statements. Major individual government funds are reported as separate columns in the fund financial statements.

### D. Basic Financial Statements Presentation

#### *Financial reporting presentation*

Financial information of the Center is presented in this report as follows:

1. Management's Discussion and Analysis introduces the basic financial statements and provides analytical overview of the Center's financial activities.
2. The Government-Wide Financial Statements report information of all of the non-fiduciary activities of the Center. The Statement of Net Position presents the Center's non-fiduciary assets and liabilities, with the difference reported as net position. Net position is reported in three categories:

## 1-ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### D. Basic Financial Statements Presentation (Continued)

#### *Financial reporting presentation (Continued)*

- a. **Net investment in capital assets** – Consists of capital assets, net of accumulated depreciation and amortization, reduced by the outstanding balances of bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt also should be included in this component of net position. The portion of the debt or deferred inflows of resources attributable to the unspent debt proceeds is not included in the calculation of net investment in capital assets. Instead, the portion of the debt or deferred inflows of resources is included in the same net position component (restricted or unrestricted) as the unspent amount.
- b. **Restricted net position** – The restricted component of net position consists of restricted assets (subject to restrictions beyond the Center's control) reduced by liabilities and deferred inflows of resources related to those assets. Generally, a liability relates to restricted assets if the asset results from a resource flow that also results in the recognition of a liability or if the liability will be liquidated with the restricted assets reported. Restrictions are externally imposed (by creditors, grantors, contributors, or laws and regulations of other governments) or imposed by the law through constitutional provisions or enabling legislation.
- c. **Unrestricted net position** – Unrestricted net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position. Unrestricted net position is often designated to indicate that management does not consider them to be available for general operations. These types of constraints are internal and management can remove or modify them.

The Government-Wide Statement of Activities was prepared following the option available for single-program governments using a single column reporting expenses (by functions) first followed by revenues (by major sources). The difference between these amounts is the change in net position and followed by beginning and ending net position.

#### **Net position flow assumption**

Sometimes, the Center will fund outlays for a particular purpose from both restricted and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Center's policy to consider restricted – net position to have been depleted before unrestricted – net position applied.

## 1-ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### D. Basic Financial Statements Presentation (Continued)

#### *Financial reporting presentation (Continued)*

3. Governmental Funds Financial Statements focus on information about the Center's General Fund, Tax Amnesty Fund and Special Revenue Fund.

- a. **General Fund:** The General Fund is the operating fund of the Center and it is used to account for all financial resources except those required to be accounted for in another fund.

- b. **Tax Amnesty Fund:** During the fiscal year ended June 30, 2014, the Legislature of the Commonwealth enacted Act No. 145 of December 9, 2013 (Act No.145), as amended, which established a Tax Incentive Plan, effective for 100 days. The Plan consisted of an exemption from payment of certain interest, penalties and surcharges accumulated over real property taxes imposed before the fiscal year 2013-2014, over personal property taxes imposed before 2013, and the requirement made to the Center of eliminating from its accounting books certain tax debts. Also, the Act No. 145 established that the Center will create a special fund in which the collections under the above mentioned plan will be deposited. Ninety five percent (95%) of such collections were assigned and distributed to the Municipalities during the fiscal years ended June 30, 2014, 2015 and 2016. Also, five percent (5%) of such collections were assigned to the Center during those years up to \$5,000,000. Since the fiscal year ended June 30, 2017, one hundred percent (100%) of the collections were assigned and distributed to the Municipalities. The transactions and balances of the five percent (5%) assigned to the Center are reported in the Tax Amnesty Fund.

On May 16, 2014, the Legislature of the Commonwealth enacted the Act No. 55 of 2014, as an amendment to the Act No. 145. This Act stated that the Center shall distribute collections under Tax Amnesty Act no later than ninety (90) days after the tax amnesty expiration date.

- c. **Special Revenue Fund:** This fund accounts for the proceeds of specific revenue source, such as federal and state grants, that are legally restricted to expenditures for specific purposes. This legal restriction may be imposed either by governments that provide funds, or by outside parties. This fund accounts for substantially all federal monies received by the Center.
4. The statements and notes are followed by the required supplementary information that contains the budgetary comparison schedule for the General Fund. The Schedule of the Center's Proportionate Share of the Net Pension Liability and the Schedule of Center's Contributions are also required supplementary information required by GASB, but are not presented as further explained in **Note 12** of the financial statements.

## 1-ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### D. Basic Financial Statements Presentation (Continued)

#### *Financial reporting presentation (Continued)*

5. The Statement of Fiduciary Net Position is reported using the economic measurement focus and the accrual basis of accounting, similar to the Government-Wide Financial Statements described above. The Center reports the following fiduciary funds:

- a. **Agency fund:** This fund reports resources held by the reporting government in a purely custodial capacity. There are three major agency funds reported by the Center as follows:
  - i. **Property Tax Fund:** Pursuant to Act No. 80 of August 30, 1991, as amended, the Center is empowered to bill and collect property taxes in order to distribute property tax collections to the Municipalities.
  - ii. **Municipal Redemption Fund:** This fund is used to service the debt of the Municipalities.
  - iii. **Citizens' Participation Fund:** The Center is responsible for receiving and distributing funds assigned by the Commonwealth for citizens' participation in the municipality development program, (the Program). The Program was established by Act No. 2 of July 9, 1973, as amended, and is funded through legislative appropriations. The funds of the Program are distributed to the Municipalities based on some specific criteria established by the Act.

6. Notes to the financial statements

The emphasis in the fund financial statements is on major funds. The model defined in GASB No. 34 establishes criteria for determination of a major fund. In summary, the Center reports as major funds, the General Fund, the Tax Amnesty Fund and the Special Revenue Fund.

### E. Fund Balances –Governmental Funds

The Governmental Funds Financial Statements present fund balances classifications that comprise a hierarchy that is based primarily on the extent to which the Center is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the Governmental Fund Financial Statements are as follows:

- **Non-spendable:** This classification includes amounts that cannot be spent because they are either: a) not in spendable form or b) are legally or contractually required to be maintained intact. The Center has currently no funds under this classification as there are no items that are not expected to be converted to cash within the next year.
- **Restricted:** This classification includes amounts for which constraints have been placed on the use of the resources either: (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.

## 1-ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### E. Fund Balances –Governmental Funds (Continued)

- **Committed:** This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the Center's Governing Board (the Board). These amounts cannot be used for any other purpose unless the Board removes or changes the specified use by taking the same type of action (resolution) that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements.
- **Assigned:** This classification includes amounts that are constrained by the Center's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the Board or through the Board delegating this responsibility to the Center's Executive Director through the budgetary process.
- **Unassigned:** This classification includes the residual fund balance for the General Fund. The unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting assigned fund balance amounts.

#### Fund balance flow assumptions

The Center would typically use restricted balance first, followed by committed resources, and the assigned resources, as appropriate opportunities arose, but reserves the right to selectively spend unassigned resources first to defer the use of these other classified funds.

### F. Financial Risk

The Center carries commercial insurance to cover casualty, theft, tort claims and other losses. The cost of insurance for the year ended June 30, 2020 amounted to \$172,351. The current insurance policies have not been cancelled or terminated.

### G. Reconciliation of Government-Wide and Fund Financial Statements

The basic financial statements of the governmental funds includes a reconciliation between the total fund balances of the governmental funds and the total net position of governmental activities as reported in the Government-Wide Statement of Net Position. The two (2) elements of the reconciliation are:

- long-term liabilities, including compensated absences, loans and notes payable, that are not due and payable in the current period, and therefore, are not reported in the governmental funds, and
- capital assets used in governmental activities that are not financial resources and, therefore, are not reported in the governmental funds.

**1-ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**G. Reconciliation of Government-Wide and Fund Financial Statements (Continued)**

Likewise, the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances of the governmental funds includes a reconciliation between the excess (deficiency) of revenues over (under) expenditures and the change in net position as reported in the Government-Wide Statement of Activities.

The reconciliation explains, among other things, that the governmental funds report capital outlays as expenditures, but are capitalized and their costs allocated over their estimated useful life in the Government-Wide Financial Statements.

**2-CASH AND CASH EQUIVALENTS**

**A. Deposits**

The Center is authorized to deposit only in bank institutions approved by the Department of Treasury of the Commonwealth. Such deposits should be kept in separate accounts in the name of the Center. It is the Center's policy to have all bank account openings approved by the Board. During the year ended June 30, 2020, the Center invested its funds in interest-bearing accounts.

**B. Custodial Credit Risk**

**Custodial credit risk – deposits:** is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Center maintains cash deposits in one (1) commercial bank located in Puerto Rico. Under Commonwealth of Puerto Rico statutes, public funds deposited in commercial banks must be fully collateralized for the amount deposited in excess of insurance provided (up to \$250,000) by the Federal Deposit Insurance Corporation (FDIC). All securities pledged as collateral by the Center are held by agents designated by the Puerto Rico Secretary of Treasury but not in the Center's name. Total deposits in this commercial bank, at June 30, 2020, amounted to \$699,844,121.

***Deposits in commercial banks***

The Center has the following depository accounts in one (1) commercial bank. All deposits are carried at cost plus accrued interest, if any.

<u>Depository Account</u>	<u>Bank Balance at June 30, 2020</u>
Deposits insured by the FDIC	\$ 250,000
Deposits subject to the collateral requirements	<u>699,594,121</u>
Total deposits	<u>\$ 699,844,121</u>

### 3-RECEIVABLES

The accounts receivable consist of an amount of \$474,489 due for services charged to financial institutions for access through the web to the Center's tax system and sale of maps. It also includes a portion of a claim submitted to the Federal Emergency Management Agency (FEMA) amounted to \$132,272 to mitigate the impact of the expenditures incurred due to the damages caused by the Hurricane Maria.

### 4-ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2020 are summarized as follows:

Description	General Fund	Total Governmental Funds
Accounts payable	\$ 6,682,466	\$ 6,682,466
Accrued liabilities	116,036	116,036
Total	<u>\$ 6,798,502</u>	<u>\$ 6,798,502</u>

### 5-INTERFUND TRANSACTIONS

#### A. Due from/to other funds

Receivable Fund	Payable Funds	Amount
General Fund	Special Revenue Fund	\$ 132,272
	Fiduciary Fund – Property Tax Fund	<u>15,217,395</u>
		<u>\$ 15,349,667</u>
Tax Amnesty Fund	General Fund	<u>\$ 553</u>
Fiduciary Fund: Citizens' Participation Fund	General Fund	<u>\$ 4,000</u>

#### B. Transfers-in (out)

Transfers among individual funds were made for operational purposes as follows:

Originating Fund	Receiving Fund	Purpose	Amount
Fiduciary Fund	General Fund	Transfer of cash balance	\$ 952,500
Tax Amnesty Fund	General Fund	Transfer of cash balance	<u>(129,193)</u>
Total			<u>\$ 823,307</u>



**6-CAPITAL ASSETS**

The Center's capital assets activity for the year ended June 30, 2020 is as follows:

<u>Governmental Activities:</u>	<u>Balance at July 1, 2019</u>	<u>Additions</u>	<u>Retirements</u>	<u>Reclassifications</u>	<u>Balance at June 30, 2020</u>
Capital assets, not being depreciated					
Land	\$ 6,715,000	\$ -	\$ -	\$ -	\$ 6,715,000
Construction in progress	225,980	-	-	(225,980)	-
<b>Total capital assets, not being depreciated</b>	<b>\$ 6,940,980</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (225,980)</b>	<b>\$ 6,715,000</b>
Capital assets, being depreciated:					
Building/infrastructure	9,785,000	-	-	-	9,785,000
Building/infrastructure improvements	4,242,347	137,819	-	-	4,380,166
Leasehold improvements	-	443,337	-	225,980	669,317
Office equipment	2,404,452	284,033	(77,079)	-	2,611,406
Capital lease	482,343	-	-	-	482,343
Computers hardware and software	5,480,058	362,388	(224,961)	-	5,617,485
Vehicles	208,144	-	-	-	208,144
Other equipment	7,320,548	-	-	-	7,320,548
<b>Total capital assets, being depreciated</b>	<b>29,922,892</b>	<b>1,227,577</b>	<b>(302,040)</b>	<b>225,980</b>	<b>31,074,409</b>
	36,863,872	1,227,577	(302,040)	-	37,789,409
Less accumulated depreciation for:					
Building/infrastructure	(3,914,000)	(244,825)	-	-	(4,158,825)
Building/infrastructure improvements	(1,320,058)	(103,341)	-	-	(1,423,399)
Leasehold improvements	-	(43,507)	-	-	(43,507)
Office equipment	(2,299,366)	(99,919)	77,079	-	(2,322,206)
Capital lease	(89,561)	(63,181)	-	-	(152,742)
Computers hardware and software	(4,411,285)	(468,510)	224,961	-	(4,654,834)
Vehicles	(148,631)	(21,023)	-	-	(169,654)
Other equipment	(7,320,548)	-	-	-	(7,320,548)
<b>Total accumulated depreciation</b>	<b>(19,503,449)</b>	<b>(1,044,106)</b>	<b>302,040</b>	<b>-</b>	<b>(20,245,515)</b>
<b>Total capital assets, being depreciated, net</b>	<b>10,419,443</b>	<b>183,471</b>	<b>-</b>	<b>225,980</b>	<b>10,828,894</b>
<b>Governmental activities capital assets, net</b>	<b>\$ 17,360,423</b>	<b>\$ 183,471</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 17,543,894</b>

The Center follows the provisions of GASB Statement No. 42, Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries, an amendment of GASB Statement No. 34. This Statement establishes guidance for accounting and reporting for impairment of capital assets and insurance recoveries. The Center did not recognize any impairment loss during the Fiscal Year Ended June 30, 2020.

## 7-LONG-TERM LIABILITIES

Long term liability activity for the year ended June 30, 2020, was as follows:

	<u>Beginning Balance</u>	<u>Net Change</u>	<u>Ending Balance</u>	<u>Due within One year</u>
Claims and judgments	\$ 87,500	\$ -	\$ 87,500	\$ -
Capital leases	443,100	(79,676)	363,424	98,231
Accrued compensated absences	<u>5,443,710</u>	<u>837,040</u>	<u>6,280,750</u>	<u>134,098</u>
Total long-term liabilities	<u>\$ 5,974,310</u>	<u>\$ 757,364</u>	<u>\$ 6,731,674</u>	<u>\$ 232,329</u>

The long-term liabilities are described as follows:

- 1. Claims and judgments** - Represents the estimated loss of legal cases to be paid subsequent to June 30, 2020. The awarded amount, if any, will be paid with unrestricted funds.
- 2. Accrued compensated absences** - The Government-Wide Statement of Net Position includes \$3,410,923 of accrued sick leave benefits, \$2,730,981 of accrued vacation benefits, and \$138,846 of accrued compensatory time, representing the Center's commitment to fund such costs from future operations.
- 3. Capital lease obligations** - The Center leases office equipment under a non-cancellable capital lease. The lease requires monthly payments of \$8,694 including interest at 4.60%.

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2020 for the next four (4) years are as follows:

<u>Year ending June 30,</u>	<u>Principal Amount</u>	<u>Interest Amount</u>	<u>Total</u>
2021	\$ 98,231	\$ 15,147	\$ 113,378
2022	94,770	9,887	104,657
2023	98,891	5,766	104,657
2024	<u>71,532</u>	<u>1,249</u>	<u>72,781</u>
Total	<u>\$ 363,424</u>	<u>\$ 32,049</u>	<u>\$ 395,473</u>

## 8-FUND BALANCES

Fund balances are classified as follow:

Fund Balance Classifications	General Fund	Tax Amnesty Fund	Total Governmental Funds
<b>Committed</b>			
Relocation of Ponce Office	\$ 384,359	\$ -	\$ 384,359
Relocation of Bayamón Office	278,089	-	278,089
Relocation of Carolina Office	538,750	-	538,750
Relocation of Arecibo Office	537,000	-	537,000
Call center services	3,925	-	3,925
Image actualization – digital cadaster	2,637,146	-	2,637,146
Total committed	4,379,269	-	4,379,269
<b>Assigned</b>			
General, administrative and operational Expenditures	6,002,591	-	6,002,591
<b>Unassigned</b>	6,052,106	572,533	6,624,639
Total fund balances	\$ 16,433,966	\$ 572,533	\$ 17,006,499

### General Fund

The General Fund has unassigned fund balance of \$6,052,106 at June 30, 2020. Also, it has assigned funds consisting of balances reserved for outstanding contracts of \$6,002,591. In addition, the General Fund has \$4,379,269 committed for special projects as determined by the Board's Resolutions.

## 9-AGENCY FIDUCIARY FUND

### A. Agency Funds

Agency funds report resources held by the Center in a purely custodial capacity. The Center received resources from grants or other legally sources that are transferred to the Municipalities. The Center serves only as a cash conduit, that is, it has not administrative or direct financial involvement in the program, therefore these resources were reported in an agency fund as required by GASB Statements No. 34, and neither revenue nor expenditures are recorded, and no fund balance is required.

## 9-AGENCY FIDUCIARY FUND (CONTINUED)

### A. Agency Funds (Continued)

The agency fiduciary fund is used to account for the: (a) citizens' participation fund, (b) municipal redemption fund and (c) property taxes fund, which are custodial in nature and do not involve measurement of results of operations. These agency funds are described below:

#### I. Citizens' Participation Fund

The Center is responsible for the receiving and distribution of funds assigned by the Commonwealth for Citizens' Participation in the Municipal Development Program (the Program). The Program was established by Act No. 81 of August 30, 1991, as amended by Act No. 84 of October 29, 1992 and is funded through legislative appropriations. Programs funds are distributed to the Municipalities based in certain specific criteria established by the Act.

#### II. Municipal Redemption Fund

The Municipal Redemption Fund is used to service the debt of the Municipalities. As described on **Note 11**, on November 29, 2018, the Center, FAFAA and GDB provided and amendment and full reformulation of the Center's deed of trust under the "Deed of Trust No. 58". Accordingly, the government enacted Law No. 109 of August 24, 2017, to amend Law No. 80, in order to appoint FAFAA as trust's designated trustee. Also, on November 29, 2018, the Center (as settlor), FAFAA (as trustee) and a commercial banking institution (as custody bank) made a second amendment and restatement to the "Trust Account Custody and Management Agreement" pursuant the provisions of the amended and restated "Deed of Trust No. 58". The FAFAA bank maintains records of outstanding municipal bonds and notes, makes principal and interest payments on their due dates, and notifies the Center of the amounts paid. The fund increases by the collections of the designated portions of real and personal property taxes. During the fiscal year 2019-2020, the Center collected for the Municipal Redemption Fund the amount of \$377,065,100. Total debt service payments amounted to \$253,911,785. Of such amount, principal and interest amounted to \$145,723,322 and \$108,188,463, respectively.

Outstanding notes and bonds of all Municipalities as of June 30, 2020 amounted to \$1,735,985,526. On July 1, 2020, the Center made a payment amounting to \$182,805,653, including principal of \$137,305,186 and interest of \$45,500,466.

#### III. Property Tax Fund

Real property taxes are assessed every July based on the taxable values as of January 1, using the estimated values of 1957. Assessed values of personal property are based on the book value at January 1 of each year. Property taxes are assessed for all properties located at the Commonwealth. Real property taxes are billed by the Center and are due in two (2) equal installments in July and January following the assessment date. Personal property taxes are self-assessed and are due in May 15, when the related property tax return is required to be filed. Personal property tax payers are required to make four (4) quarterly estimated payments to pay the self-assess contribution on or before May 15.

**9-AGENCY FIDUCIARY FUND (CONTINUED)**

**A. Agency Funds (Continued)**

The property tax rates per annum vary among Municipalities. For the fiscal year 2019-2020, the rates were comprised as follows:

	Personal Property		Real Property	
	Minimum	Maximum	Minimum	Maximum
Basic	3.72%	4.00%	5.72%	6.00%
Contribution to debt redemption funds:				
State	1.03%	1.03%	1.03%	1.03%
Municipal	1.00%	5.50%	1.20%	5.50%

Total property tax rates varied from 5.80% to 10.33% for personal property and 8.03% to 12.33% for real property.

The property tax fund includes a total of approximately \$4.52 billion in gross receivables. Of these, approximately \$4.02 billion and \$498 million are included in the accounts of real and personal property taxes, respectively. Management has performed an in-depth analysis of the aged receivables and has determined to establish an allowance for uncollectible accounts of 82%.

The following table summarizes the accounts receivable from real and property taxes of the Center's Agency Fiduciary Fund.

Account Type	Principal	Discounts	Interest	Penalties and Others	Total	Reserve
Governmental agencies	\$ 8,790,793	\$ -	\$ 14,045,507	\$ 873,081	\$ 23,709,381	\$ 23,709,381
Bankruptcy	98,650,017	(2,708)	57,067,598	13,435,074	169,149,981	164,208,544
Remaining accounts receivable balance	1,913,810,850	(226,599)	2,216,476,228	198,850,977	4,328,911,456	3,518,277,345
<b>Total</b>	<b>\$ 2,021,251,660</b>	<b>\$ (229,307)</b>	<b>\$ 2,287,589,333</b>	<b>\$ 213,159,132</b>	<b>\$4,521,770,818</b>	<b>\$3,706,195,270</b>

**B. Impact of the Certified Fiscal Plan of the Commonwealth of Puerto Rico**

One of the measures approved for the reduction of governmental expenditures included in the fiscal plan certified by the Financial Oversight and Management Board is the progressive reduction of the subsidies given to the Municipalities, mainly the ones that are paid through the monthly advances of property taxes made by the Municipal Revenues Collection Center (CRIM).

**9-AGENCY FIDUCIARY FUND (CONTINUED)**

**B. Impact of the Certified Fiscal Plan of the Commonwealth of Puerto Rico**

One of the measures approved for the reduction of governmental expenditures included in the fiscal plan certified by the Financial Oversight and Management Board is the progressive reduction of the transfers of funds provided by the Commonwealth of Puerto Rico (the Commonwealth) to the Municipalities, mainly the ones that are paid through the monthly advances of property taxes made by the Municipal Revenue Collection Center (CRIM).

Based on the approved budget of Commonwealth of Puerto Rico for fiscal year 2019-2020, the Center shall experience a reduction of revenues of **\$55,742,000**. This reduction represents a decrease of **25.90%** in revenues compared to the prior fiscal year, as presented below.

Revenue Source	2019-20 Budget	2018-19 Budget	Increase (Decrease)	Percentage
General Fund (Transfers)	\$ 131,838,000	\$ 175,730,000	\$ (43,892,000)	(24.98) %
35% of Puerto Rico Additional Lottery System	27,670,000	39,520,000	(11,850,000)	(29.98)%
Total	\$ 159,508,000	\$ 215,250,000	\$ (55,742,000)	(25.90)%

However, during the fiscal year 2019-2020, total actual transfer of funds from the Commonwealth's General Fund and the Lottery amounted to \$148,507,127, representing a reduction of \$82,364,140 or 35.68%, compared with prior year. Also, during fiscal year 2019-2020, basic property taxes decreased by \$12,922,156 or 5.08% compared to prior fiscal year. Accordingly, during fiscal year 2019-2020, total revenues experienced a reduction of \$95,286,296 or 19.63%, as shown in the following table:

Revenue Source	2019-20	2018-19	Increase (Decrease)	Percentage
35% of Puerto Rico Additional Lottery System	\$ 16,669,127	\$ 55,087,267	\$ (38,418,140)	(69.74)%
General Fund (Transfers)	131,838,000	175,784,000	(43,946,000)	(25.00)%
Sub-total	148,507,127	230,871,267	(82,364,140)	(35.68)%
1% and 3% basic property taxes	241,573,592	254,495,748	(12,922,156)	(5.08)%
Total	\$ 390,080,719	\$ 485,367,015	\$ (95,286,296)	(19.63)%

## 9-AGENCY FIDUCIARY FUND (CONTINUED)

### C. Equalization Process

Act No. 80 of August 30, 1991, as amended, established a special fund known as the Equalization Fund ("Fondo de Equiparación") 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 shall include the following:

- (a) All funds derived from basic property taxes assessed by the Commonwealth of Puerto Rico prior to the 1991 Municipal Reform corresponding to a tax rate of 1% for personal property tax and a tax rate of 3% over the assessed value of all real estate property in Puerto Rico, not otherwise exempt. For the fiscal year ended June 30, 2020, these funds amounted to \$241,573,592.
- (b) 2.50% for the fiscal years after 2002-2003 of the net internal revenue of the Commonwealth of Puerto Rico. However, during the last two (2) fiscal years this amount have been reduced under the provision of the Commonwealth's approved fiscal plan under PROMESA. For the fiscal year ended June 30, 2020, total transfers received from the Commonwealth amounted to \$131,838,000.
- (c) An amount equal to 35% of the Puerto Rico Additional Lottery System (the Lottery) net operational income. However, the financial statements of the Lottery are not available at the date of the issuance of this report. Accordingly, for the fiscal year ended June 30, 2020, the funds received by the Center, which are included in the schedule, amounted to \$16,669,127.
- (d) An amount equal to 2% of the state imposed penalties described under Sec. 5001 of Title 9, known as the Puerto Rico Vehicles and Transit Law ("Ley de Vehículos y Tránsito de Puerto Rico") to be distributed by Municipalities by the Center. Funds under this item shall be collected and distributed to the corresponding Municipalities directly by Puerto Rico Treasury Department; therefore such amounts are not part of the Schedule.

Funds received under items (a) above are distributed to the corresponding Municipalities. Funds received under items (b) and (c) above are distributed to the Municipalities up to the amounts required to make each Municipality's revenue equal its revenue from these sources for the prior fiscal year (i.e., equalize the Municipalities). Any excess funds received under items (b) and (c) above are distributed to the Municipalities using the four (4) factors provided by Act No. 80.

However, due to the deficiency of funds for the equalization process caused by the reductions of Commonwealth's transfers to the Center, during the fiscal year 2018-2019 certain provisions of Act No. 80 related to the distribution of funds to the Municipalities were amended. Accordingly, the Center's Governing Board has the authority to establish the formula to determine the bases for the equalization and distribution of funds.

## 9-AGENCY FIDUCIARY FUND (CONTINUED)

### C. Equalization Process (Continued)

On May 17, 2019, the Commonwealth of Puerto Rico enacted the Act No. 29 (Law for the Reduction of Administrative Burdens of Municipalities) in order to eliminate the obligation of Municipalities to contribute to the Government's health plan and the Pay as you Go retirement system. Instead, the Municipal Revenue Collection Center (the Center) will retain in the Equalization Fund, a fifty percent (50%) of the amount that the Municipalities should disburse to ASES, using as a basis the amount invoiced for the fiscal year 2015-2016. In addition, the Center will retain in the Equalization Fund, a ninety percent (90%) of the amount that the Municipalities should disburse to the "Pay as you Go", using as a basis the amount invoiced for the fiscal year 2017-2018. The amount retained in the Equalization Fund will be distributed to the Municipalities, according to the rules applicable to that fund. The remaining cash will be distributed among Municipalities, based on the proportion they contribute to monthly remittance advances. This Act reduces the impact of the fiscal plan approved by the Financial Oversight and Management Board (the Oversight Board) under PROMESA, which included the progressive reduction of transfers from the Commonwealth's General Fund to the Municipalities until their elimination by the fiscal year 2023.

According to the Act, from the fiscal year beginning July 1, 2019, Municipalities will not be required to pay the Pay as you Go, nor the Center the obligation to remit payments for this purpose. In addition, the Municipalities, will have no obligation, neither the Center, to make contributions to the health insurance plan (ASES), beginning October 1, 2019.

Based on the above, the Center withheld from the monthly remittance advances to the Municipalities, an amount of \$202,955,012 as a municipal contribution to the Equalization Fund for the fiscal year ended June 30, 2020. This amount was withheld from the non-exempt basic property taxes collections and was considered to be part of the equalization of revenues and distribution of funds to the Municipalities along with the municipal transfer of funds from the Commonwealth's General Fund and the Lottery appropriated in the Fiscal Year 2020 Certified Budget. As mentioned before, total actual transfers received from the Commonwealth's General Fund and the Lottery amounted to \$131,838,000 and \$16,669,127, respectively. Accordingly, total funds received from the Commonwealth's General Fund and the Lottery for the fiscal year ended June 30, 2020, experienced a reduction of \$82,364,140 compared with prior fiscal year.

On April 15, 2020, the United States District Court for the District of Puerto Rico (the Court), annulled the Act No. 29. The Court agreed with the Oversight Board, that Act No. 29 was inconsistent with the fiscal plans and budgets certified by the Oversight Board for the Commonwealth of Puerto Rico. The Court delayed the effective date of the order through May 6, 2020 to allow the Oversight Board, the Municipalities and the Puerto Rico Fiscal Agency and Advisory Authority (FAFAA) to work collaboratively to resolve the immediate fiscal implication of Act No. 29's nullification. The nullification of Act No. 29 required the Municipalities collectively to reimburse to the Commonwealth \$198 million: \$166 million related to Pay Go obligations and \$32 million related to health care costs. The Oversight Board proposed various methods by which Municipalities may allocate among themselves their reimbursement obligations. After the evaluation of the proposed alternatives, the Center agreed to accept to distribute \$131,838,000 municipal transfers from the Commonwealth's General Fund appropriated in FY 2020 Certified Budget as an offset for repaying the FY 2020 municipal PayGo charges and ASES contribution. Other alternatives for the repayment of the remaining balance of \$66 million were evaluated between the parties.



**9-AGENCY FIDUCIARY FUND (CONTINUED)**

**C. Equalization Process (Continued)**

As a result of the circumstances described before, the funds transferred from the Commonwealth's General Fund amounting to \$131,838,000 during fiscal year 2020, were not available for distribution to Municipalities as established in the Act 80 of August 30, 1991. Instead, the Center distributed to the Municipalities the amounts of \$241,573,592, \$202,955,012 and \$16,669,127 related to the funds derived from the basic property taxes of 1% for personal property tax and the 3% for real estate property tax, the municipal contribution according to the Act No. 29 and the funds received from the Lottery System, respectively. Therefore, the funds collected during the fiscal year were not sufficient to provide an equalization of revenues for all the Municipalities.

Accordingly, a deficiency of funds for the equalization of revenues resulted in the amount of \$54,726,434, as shown in the following table:

Funds required for the equalization of revenues	\$ 515,528,920
1% and 3% basic property taxes	(241,573,592)
Excess of revenues over the equalization requirements	<u>395,245</u>
Total funds required to be covered with municipal contributions (Act No. 29) and Lottery	274,350,573
Municipal contributions (Act No. 29)	(202,955,012)
Funds from the Puerto Rico Additional Lottery System	<u>(16,669,127)</u>
Deficiency of funds for equalization of revenues	<u>\$ 54,726,434</u>

Taking into consideration the deficiency of funds, the liquidation schedule for the fiscal year 2020 was prepared based on the following assumptions:

1. Computation of the equalization of funds for all Municipalities using the results obtained during fiscal year 2016-2017 as base year.

## 9-AGENCY FIDUCIARY FUND (CONTINUED)

### C. Equalization Process (Continued)

2. One (1) Municipality which resulted with an excess of revenues over the equalization requirements of \$395,245, will receive such excess and was excluded from the distribution of the deficiency of funds for equalization of revenues.
3. The requirement for equalization of revenues with municipal contributions-Act No. 29 and the Lottery for the remaining seventy seven (77) Municipalities amounted to \$274,350,573. Notwithstanding, funds available for distribution amounted to \$219,629,139, which were distributed based on the proportionate share of each Municipality of the total of funds amounted to \$274,350,573, resulting in a deficiency of funds of \$54,726,434.

The Center distributed to the Municipalities \$582,822,770 and, \$16,669,127 during the fiscal year 2020, related to the basic municipal property tax and to the Electronic Lottery System, respectively. As of June 30, 2020, the balance due from the Commonwealth of Puerto Rico related to the Electronic Lottery System and to the NIR General Fund amounted to \$20,036,376 and \$92,400, respectively. The balance due from the Lottery is related to the funds liquidation for fiscal year ended June 30, 2016, 2017, 2018 and 2020.

As described on **Note 17**, one of the measures approved for the reduction of governmental expenditures included in the fiscal plan certified by the Financial Oversight and Management Board is the progressive reduction of the Commonwealth's General Fund transfers of funds given to the Municipalities. Based on the approved budget of Commonwealth of Puerto Rico for fiscal year 2020-2021, the estimated reduction of revenues will be \$2,140,000. Accordingly, during fiscal year 2020-2021, the Municipality's income will experience a reduction of 1.34%

### D. **Debt service provided by the Property Tax Fund**

The property tax fund provides debt services to the municipal governments for the repayments of the following debts:

- **Line of credit agreements:** In accordance with Act No. 42 of January 29, 2000, the Board approved a line of credit with GDB amounting to \$166,449,961 to finance the accumulated debt due from Municipalities up to June 30, 2000 for the excess of remittances received by the Municipalities. The line of credit proceeds was used to pay off statutory and fiduciary obligations. This line of credit will be repaid from the increase of .48% of fixed subsidy of the net internal revenue of the Commonwealth granted to the Municipalities. In accordance with Act No. 146 of October 11, 2011, the Center approved a line of credit amounting \$105,000,000 to repurchase the tax liens sold to Puerto Rico Public Finance Corporation on June 30, 1998. The line of credit will be repaid from the increase of .48% of fixed subsidy of the net internal revenue of the Commonwealth granted to the Municipalities. The amount collected from the delinquent tax debt would be applied to principal. The Center cannot determine the amount to be collected from the delinquent tax debts. For these lines of credit, the Center has received the signed resolutions and notes payable from Municipalities. Once the Municipalities completed such documents, each individual note became part of the Municipal Redemption Fund.

## 9-AGENCY FIDUCIARY FUND (CONTINUED)

### D. Debt service provided by the Property Tax Fund (Continued)

- Insurance and other withholdings: As part of the monthly remittances distributed by the Center, the Municipalities authorize the Center to withhold funds for the payment of the following obligations:
  - (1) **Municipal insurance policies:** The Municipalities carry commercial liability insurance to cover casualty, theft, tort claims, and other losses. Insurance policies are negotiated by the Puerto Rico Treasury Department. Since 2012, the Municipalities were allowed to negotiate their insurance policies directly with the insurance providers. As of June 30, 2020, all the Municipalities negotiate their insurance policies with private insurance providers.
  - (2) **Loans:** The Center also withholds all amounts due by Municipalities on their loans payable to the GDB and commercial banks.
  - (3) **Payments due to governmental entities:** Certain amounts due to other governmental entities under payment plans subscribed by the Municipalities or by statutory acts.
  - (4) **Center's administrative expenses:** An amount equal to 5% of collections of the property taxes is set aside to cover for the Center's administrative expenses.

## 10-TAX ABATEMENTS

The government of the Commonwealth of Puerto Rico has enacted various laws in order to provide economic incentives to the industries performing business in the Island. Under these laws, the government promotes the creation of new employments, the investment in the acquisition of equipment, the investment in the modernization and improvement of existing facilities and the construction of new infrastructure. In order to assess the economic development expected, the government entered into agreements granting to eligible businesses and companies, tax exemptions on income taxes, property taxes (real and personal). Also, exemptions are granted on municipal licenses taxes, construction excise taxes and other municipal income taxes levied by municipal ordinances.

### Act 60-2019 on July 1, 2019 "Puerto Rico Incentive Code"

On July 1, 2019, Act 60 was enacted to adopt the "Puerto Rico Incentives Code" (the Code); consolidate the dozens of decrees, incentives, subsidies, refunds, or existing tax or financial benefits; promote the right environment, opportunities and tools to promote the sustainable economic development of Puerto Rico; establish the legal and administrative framework that will govern the request, evaluation, grant or denial of incentives by the Government of Puerto Rico; promote the effective and continuous measurement of the costs and benefits of the incentives granted to maximize the impact of the investment of public funds; give stability, certainty and credibility to the Government of Puerto Rico in everything related to private investment; improve the economic competitiveness of Puerto Rico. The following dispositions are included in the Code:

## 10-TAX ABATEMENTS (CONTINUED)

### Subtitle B – Chapter 6 and Subtitle C- Chapter 2 (previously ACT 73 of 2008 - “Economic Incentives Act for the Development of Puerto Rico”)

**Purpose:** Provide the adequate environment and opportunities to continue developing a local industry; to offer an attractive tax proposal to attract direct foreign investment and to promote economic development and social betterment in Puerto Rico.

#### **Tax Benefits (Exemptions):**

- The tax-exempt businesses that hold a decree under these subtitles shall be subject to a fixed income tax rate of four percent (4%) on their net industrial development income, with other provisions that would lower the tax rate. Also, 100% exemption on the income earned from eligible investments.
- A Special Deduction for Investment in Buildings, Structures, Machinery, and Equipment in the taxable year during which these were incurred, in lieu of any capitalization of expenses.
- A Tax Credit for purchasing products manufactured in Puerto Rico equal to twenty-five percent (25%) of the purchases of such products.
- A Tax Credit to reduce the cost of electric Power of up to 10% of the payments made to the Electric Power Authority for net electric power consumption.
- Sixty-percent (60%) exemption on municipal license fees, municipal construction excise taxes and other municipal taxes levied by any municipal ordinance.
- Ninety-percent (90%) exemption on municipal and Commonwealth taxes on real and personal property.

### Subtitle B- Chapter 5 and 11, Subtitle C- Chapter 1 and Subtitle E- Chapter 1 (previously ACT 74 of 2010 - “ Puerto Rico Tourism Development Act of 2010”)

#### **Purposes:**

- To make Puerto Rico a world-class tourist destination.
- To ensure adequate conditions for the continuous development and worldwide competitiveness of Puerto Rico's hotel industry.
- To provide the environment to continuously raise local and foreign capital for investment in tourism projects.
- To improve the incentives offered to the Puerto Rican tourist industry according to the evolution of the best tourist products offered, the challenges faced, and the opportunities offered by today's world.

## 10-TAX ABATEMENTS (CONTINUED)

### Subtitle B- Chapter 5 and 11, Subtitle C- Chapter 1 and Subtitle E- Chapter 1 (previously ACT 74 of 2010 - " Puerto Rico Tourism Development Act of 2010") (Continued)

- To reduce the high costs of construction and operation of tourism-related businesses in Puerto Rico.
- To take action to reduce energy costs through the various renewable source alternatives.

#### **Tax Benefits (Exemptions):**

- Tourism development income shall be exempt from income taxes pursuant to the following terms and conditions: (i) For all tourist activities not established in Vieques or Culebra, the exemption percentage on said income shall be of up to ninety percent (90%). (ii) For all tourist activities established in Vieques and Culebra, the exemption percentage on said income shall be of up to one hundred percent (100%).
- Any property devoted to a tourist activity shall enjoy up to a ninety percent (90%) exemption on all municipal and state taxes on real and personal property for a period of ten (10) years.
- A new business shall not be subject to the payment of license fees, construction excise taxes, and other municipal taxes. An existing business shall enjoy up to a ninety percent (90%) exemption.
- Shall enjoy up to a one hundred percent (100%) exemption from the payment of the taxes on Use and Consumption items.
- All exempt businesses and their contractors or subcontractors shall enjoy up to a one hundred percent (100%) exemption on any tax, levy, fee, license, excise tax, rate, or charge for the construction of works to be devoted to a tourist activity within a municipality, imposed by any ordinance of any municipality.

### Subtitle B- Chapter 5 (previously ACT 118 of 2010 - " Municipal Economic and Tourist Development Incentives Act")

**Purpose:** Foster the economic development of Municipalities.

#### **Tax Benefits:**

- A Gradual Tax Rate Schedule for the net income generated at a tourist facility from 8% to 25%, depending on the total amount of private capital investment of the Grantee.
- The income from the operation of games of chance at a tourist facility shall not be subject to any sales tax and that the Facility shall enjoy an exemption of ninety percent (90%) of the preferential tax on real and personal property used.

## 10-TAX ABATEMENTS (CONTINUED)

### **Subtitle B- Chapter 9, Subtitle C- Chapter 5 and Subtitle E- Chapter 1 (previously ACT 27 of 2011 - "Puerto Rico Film Industry Economic Incentives Act")**

**Purpose:** Provide an adequate framework for the continued development of our film industry and other related activities; providing tax incentives to attract foreign capital and foster the economic development and social wellbeing of Puerto Rico.

#### **Tax Benefits (Exemptions):**

- Tax Credit amounting to forty percent (40%) of those amounts certified by the Auditor as disbursed in connection with all Puerto Rico Production Expenditures, except for payments made to Nonresident Talent; and twenty percent (20%) of those amounts certified by the Auditor as disbursed in connection with Puerto Rico Production Expenditures consisting of payments to Nonresident Talent.
- In the case of infrastructure projects, the credit granted shall be equal to twenty-five percent (25%) of those amounts certified by the Auditor to have been disbursed in connection with the development and/or expansion of the infrastructure project.
- Grantee's net income directly derived from the exploitation of activities covered under a Grant shall be subject to a fixed income tax rate of four percent (4%), in lieu of any other tax, if any, provided in the Code or any other Puerto Rico law.
- The real or personal property devoted to activities covered by a Grant that is otherwise subject to taxation, shall be entitled to a ninety percent (90%) exemption from all municipal and Puerto Rico taxes on real or personal property.
- No Grantee shall be subject to municipal license taxes, construction excise taxes, and other municipal income taxes imposed by a municipal ordinance.
- A special tax shall be imposed, collected and paid in lieu of any other taxes and regardless of any exemption provided in the Code, of twenty percent (20%) on the total amount received by any Nonresident Talent.

### **Subtitle B- Chapter 3 and Subtitle E- Chapter 1 (previously ACT 20 of 2012 - "Act to Promote the Export of Services")**

**Purpose:** Provide the adequate environment and opportunities to develop Puerto Rico as an international service center, encourage local professionals to stay and return, and attract foreign capital.

## 10-TAX ABATEMENTS (CONTINUED)

### **Subtitle B- Chapter 3 and Subtitle E- Chapter 1 (previously ACT 20 of 2012 - "Act to Promote the Export of Services") (Continued)**

#### **Tax Benefits:**

- Eligible businesses shall be subject to a fixed income tax rate of four percent (4%) on income. However, the fixed income tax rate for a taxable year shall be reduced by one percent (1%) when certain conditions are met.
- Personal or real property used in the operation of the activity covered by a decree, shall enjoy ninety percent (90%) of the exemption on municipal and state taxes.

### **Subtitle B- Chapter 8 (previously ACT 225 of 1995, as amended - "Agricultural Tax Incentive Act")**

**Purpose:** To establish public policy in the agricultural sector and other related economic sectors. Also to establish the requirements to qualify "bona fide farmers" and to provide them with all kind of exemptions for the payment of income taxes, property taxes (real and personal), municipal licenses, construction excise taxes and any other state or municipal taxes or rights.

#### **Tax Benefits (Exemptions):**

- Exemption of ninety percent (90%) of income taxes for revenues earned from agricultural business.
- Tax Credit up to fifty percent (50%) of the total eligible investment.
- Exemption of a hundred percent (100%) for the payment of real and personal property over assets used intensively for agricultural businesses and purposes.
- Exemption of a hundred percent (100%) for the payment of state excise taxes over the acquisition of any equipment, machinery and effects used in the agricultural business.
- No "bona fide farmer" shall be subject to municipal license taxes, excise taxes and other municipal income taxes levied by a municipal ordinance.

### **Subtitle B- Chapter 7 and Subtitle E- Chapter 1 (previously ACT 83 of 2010 - "Green Energy Incentive Act")**

**Purpose:** To further renewable energy generation, in accordance with short, medium and long-term mandatory goals; to empower the Energy Affairs Administration to incentivize compliance with compulsory goals and development of sustainable renewable energy and alternative renewable energy; to establish measures aimed at fostering the development of sustainable energy systems that further energy use savings and efficiency through the establishment of a fund denominated "Green Energy Fund"; to organize and standardize the existing incentive and create new incentive that stimulate the proliferation of these energy sources, and to amend certain existing laws.

## 10-TAX ABATEMENTS (CONTINUED)

### Subtitle B- Chapter 7 and Subtitle E- Chapter 1 (previously ACT 83 of 2010 - "Green Energy Incentive Act") (Continued)

#### **Tax Benefits (Exemptions):**

- Fixed income tax rate of four percent (4%) on revenues derived from eligible businesses and companies.
- Exemption of ninety percent (90%) for the payment of real and personal property over assets used in eligible businesses or companies.
- Exemption of sixty percent (60%) on municipal license taxes, excise taxes and other municipal income taxes levied by a municipal ordinance.

The Incentive Code will allow the types of incentives that are now granted to be standardized, and those risky incentives that have historically resulted in losses or that have adversely impacted Puerto Rico's economy be minimized.

The Incentives Code recognizes that it is essential to promote the effective and continuous measurement of the costs and benefits of the incentives granted, in order to determine the cash that is invested *vis a vis* what the treasury receives. Therefore, the new Incentive Code will also incorporate provisions to measure the return on investment (ROI) and keep updated data on that return by economic sector.

The Incentives Code will facilitate the analysis of our incentives to determine the desirability of maintaining, modifying or discontinuing any incentive that proves to be obsolete, or consequently, that has resulted in negative performance. The analysis, in addition, will allow to determine which incentives can provide positive performance based on specific data, if government resources should be redirected to other industries to maximize performance and stimulate productivity, and even, will identify the need to create New incentive mechanisms. New incentives will be evaluated and approved through mechanisms and processes established in the regulation adopted by the DDEC, based on complete analyzes that allow informed decisions. This structure will allow processes to be improved, incentives based on ROI, and economic priorities to be analyzed, and the desirability of continuing to grant the incentive to be determined within a reasonable time.

In line with the above, an incentive evaluation model will also be created, in accordance with the needs of the Puerto Rican economy, to measure the effectiveness of the program based on the annual reports submitted by the beneficiaries. The analysis of the reports will allow stimulus programs to be improved, and will ensure that incentives are allocated and used to maximize the economic impact on the island. Likewise, the evaluation will facilitate compliance with the terms and conditions of the incentives granted, including the measurement of risk and return on investment of such stimuli, in line with the public policy of economic development.



## 10-TAX ABATEMENTS (CONTINUED)

### Subtitle B- Chapter 7 and Subtitle E- Chapter 1 (previously ACT 83 of 2010 - "Green Energy Incentive Act") (Continued)

As an important element to ensure rigor in the application of standards and transparency, a single office will be designated to monitor compliance aspects. For these purposes, the Tax Exemption Office, now the Incentive Office will become part of the DDEC and assume other responsibilities in accordance with the new Incentive Code.

Other significant laws enacted by the Commonwealth of Puerto Rico to assess economic development are:

#### ACT 362 of 1999 - Film Industry and other related activities.

**Purpose:** To promote the film industry and other related activities; to create incentives for private investments and to attract foreign capital; to create an adequate infrastructure for the maximum development of this industry; to define the areas and scope of this Act and to install the operational mechanisms that shall allow its maximum development in the shortest term possible for the benefit of Puerto Rico.

#### ACT 362 of 1999 - Film Industry and other related activities (Continued)

##### **Tax Benefits (Exemptions):**

- A tax credit equivalent to forty percent (40%) of those items of the Budget paid to Residents of Puerto Rico, as certified in writing by Company's accountant.
- A tax credit equal to the lesser amount of: forty percent (40%) of the amount of the investment in cash paid to the Film Entity engaged in an Infrastructure Project, in exchange for primary-issue stock or shares, or twenty percent (20%) of the Budget of the Infrastructure Project.
- Subject to a fixed income tax of seven percent (7%).
- The property devoted to a Film Project or Infrastructure Project that is otherwise subject to taxation, shall be entitled to a ninety percent (90%) exemption from all municipal and Commonwealth taxes on real or personal property, for a ten (10)-year period.
- No Film Entity shall be subject to municipal license taxes, construction excise taxes and other municipal income taxes levied by a municipal ordinance.

## 10-TAX ABATEMENTS (CONTINUED)

### **ACT 168 of 1968, as amended - "Act to Grant Tax Exemption to Hospitals"**

**Purpose:** To grant tax incentives to Hospitals and other applicable health provider's facilities in order to promote its development by providing the ability to raise funds to invest on its operations needs

#### **Tax Benefits (Exemptions):**

- Tax Credit up to fifteen percent (15%) of the total eligible payroll expense to be used to reduce up to fifty percent (50%) of income taxes over eligible health service revenues.
- Exemption of a hundred percent (100%) for the payment of real and personal property over assets used to provide health services.
- Exemption of a hundred percent (100%) for the payment of state excise taxes over the acquisition of any equipment, machinery and effects used to provide medical treatment or diagnostics.
- No Hospital or eligible health service facility shall be subject to municipal license taxes, excise taxes and other municipal income taxes levied by a municipal ordinance.

### **Other Acts Enacted by the Commonwealth of Puerto Rico**

The following are other Acts enacted by the Commonwealth of Puerto Rico, which may grant tax incentive and benefits to eligible participants.

- Act 148 – 1988 "Act for the Rehabilitation of Santurce"
- Act 75 – 1995 "Special Act for the Rehabilitation of Río Piedras"
- Act 14 – 1996 "Special Act for the Rehabilitation of Castañer"
- Act 178 – 2000 "Special Act for the Creation of the Theatrical District"

These enacted laws only applied to tax payers which businesses or companies are located in certain Municipalities or sectors of Puerto Rico.

### **Municipal Ordinances and Agreements**

#### **Purpose:**

In order to promote economic development behind the boundaries of the Municipality, most of the seventy eight (78) Municipal Legislatures has approved and issued ordinances in order to grant exemption to businesses and companies from the payment of property taxes (personal and real), municipal license taxes, construction excise taxes and other municipal income taxes levied by a municipal ordinance.

**10-TAX ABATEMENTS (CONTINUED)**

***Municipal Ordinances and Agreements (Continued)***

**Tax Benefits (Exemptions):**

The percentages of exemptions granted by each of the seventy eight (78) Municipalities for the payment of property taxes (personal and real), municipal license taxes, construction excise taxes and other municipal income taxes levied by a municipal ordinance may vary in accordance with the agreement established with each eligible business or company.

The following table shows the amount of real property tax abatement during the fiscal year ended June 30, 2020.

<u>Industry / Business</u>	<u>Real Property Tax Abatement</u>	<u>% of total Abatement</u>
Buildings used for warehouses	\$ 52,083,206	17.48%
Pharmaceutical companies	79,070,481	26.54%
Hotels and related businesses	17,944,725	6.02%
Industrial companies and businesses	102,066,709	34.26%
Other industries and businesses	46,722,877	15.68%
Total	<u>\$ 297,887,998</u>	<u>100.00%</u>

As derived from the previous table, the industries with the highest tax abatement of real property tax during the fiscal year ended June 30, 2020 are the industrial companies and businesses and the pharmaceutical companies, which represented 34.26% and 26.54% of total tax abatement, respectively.

The following table shows the amount of personal property tax abatement during the Fiscal Year Ended June 30, 2020.

<u>Industry / Business</u>	<u>Personal Property Tax Abatement</u>	<u>% of total Abatement</u>
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	<u>\$ 443,883,407</u>	<u>100.00%</u>

As derived from the previous table, the industries with the highest tax abatement of personal property tax during the fiscal year ended June 30, 2020 are the industrial companies and businesses and other industries and businesses, which represented 38.77% and 27.31% of total tax abatement, respectively.

## 11-DEED OF TRUST

On November 2, 2015, the Center (the Trustor) and the GDB (the Trustee) signed a deed of trust to create a Trust Fund pursuant the requirement and provisions of Article 4 of Act No. 80 of August 30 1991, as amended. The Trust shall receive: 1) all property taxes revenues collected by the Center pursuant the provisions of Articles 2.01 and 2.02 of Act No. 83 of August 30, 1991, as amended; 2) revenues derived from the "Additional Lottery System"; 3) and a percent of internal revenues corresponding to the Municipalities; and 4) any other revenue established by law corresponding to the Municipalities. The Trustee shall make payments to the beneficiaries (the Municipalities) of the Trust based on the criteria and priorities established by the Center pursuant the provisions of Article 17 of Act No. 80 of August 30, 1991, as amended. The Trust Fund's beginning capital balance amounted to \$291,103,470, based on the deposits held by the Trustee as October 31, 2015.

On January 18, 2017, the Commonwealth of Puerto Rico approved Act No. 2 "*The Puerto Rico Fiscal Agency and Advisory Authority (FAFAA)*" in order to empower the Authority to oversee compliance with the certified budget and fiscal plan approved pursuant to the Puerto Rico Oversight, Management and Economic Stability Act of 2016 (PROMESA) and to delegate to the Authority the power to revise matters including, but not limited to, agreements, transactions and regulations of the agencies and instrumentalities of the Government of Puerto Rico. Under the provisions of this Act, the FAFAA shall assume all fiscal agency, financial advisory and reporting functions of the GDB under Act No. 272 of May 15, 1945, as amended.

### ***Amendment and Restatement to Deed of Trust***

On November 29, 2018, the Center, FAFAA and GDB provided an amendment and full reformulation of the Center's deed of trust under the "Deed of Trust No. 58". Accordingly, the government enacted Law No. 109 of August 24, 2017, to amend Law No. 80, in order to appoint FAFAA as trust's designated trustee or one or more private banking institutions that FAFAA might designate, replacing GDB. The funds deposited on the trust fund amounting to \$363,617,079 at November 29, 2018 (excluding the funds deposited on the GDB which will be subject and used on the GDB restructuring transaction) represents the trust's available capital at that date. Under the provisions of the deed, the Trust shall receive: 1) All property taxes revenues collected by the Center pursuant the provisions of Article 2.01 (basic property tax) of Act No. 83 of August 30, 1991, as amended to be credited to the Equalization Fund; 2) All property taxes revenues collected by the Center pursuant the provisions of Article 2.02 (special property tax) of Act No. 83 of August 30, 1991, as amended to be credited to the State Fund; 3) All collections by the Center related to additional special municipal tax subject to the requirements of Law No. 64 and Law No. 83 to be credited to Public Debt Redemption Fund; 4) Any other future enacted tax that might be established by Law, to be credited under the provisions required by the Law.

Also, on November 29, 2018, the Center (as settlor), FAFAA (as trustee) and a commercial banking institution (as custody bank) made a second amendment and restatement to the "Trust Account Custody and Management Agreement" pursuant the provisions of the amended and restated "Deed of Trust No. 58". In addition, at that date, the GDB completed a restructuring of certain indebtedness pursuant to a Qualifying Modification under Title VI of PROMESA.

## 11-DEED OF TRUST (CONTINUED)

As established by the deed of trust and its composition amended on November 29, 2018, there are three (3) funds within the Trust:

**Municipal Redemption Fund** –These are funds to pay bonds and loans payable from the Special Additional Tax (CAE). There are three (3) main creditors: private banks, the Puerto Rico Municipal Financial Agency (MFA) and the FAFAA.

Once in January and once in July, the FAFAA, as Trustee will pay the creditors from this fund. However, the Municipalities have the right to request once a year any excess of funds. FAFAA determines the excess of each Municipality and disburse such amount in accordance with applicable law.

**Matching Fund** – These are the General Fund contributions to the Municipalities. These funds will be invested outside the GDB. There is no material impact on the GDB because these funds are deposited for a few days before being transferred to the Municipalities.

**State Redemption Fund** –This is comprised of the 1.03% of the property tax that is destined to the payment of the Commonwealth's General Obligations. Before the Trust was established, the Center transferred these funds directly to the Puerto Rico Department of Treasury. These funds shall be deposited in a bank account for the benefit of the State Redemption Fund.

## 12-PENSION PLAN

### Pension System – Prior to July 1, 2017

The Center is a participating employer in a retirement plan administered by the Employee's Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS). ERS covered all regular full-time public employees working for the executive and legislative branches of the Commonwealth and the Municipalities of Puerto Rico (including mayors); the firefighters and police of Puerto Rico and employees of certain public corporations not having their own retirement systems. Prior to July 1, 2017, the system operated under the following benefits structures:

- Act No. 447 of May 15, 1951 ("Act 447") effective on January 1, 1952 for members hired up to March 31, 1990,
- Act No. 1 of February 16, 1990 ("Act 1") for members hired on or after April 1, 1990 and ending on or before December 31, 1999,
- Act No. 305 of September 24, 1999 (which amended Act 447 and Act 1) for members hired from January 1, 2000 up to June 30, 2013.

## 12-PENSION PLAN (CONTINUED)

### Pension System – Prior to July 1, 2017 (Continued)

Employees under Act 447 and Act 1 were participants of a cost-sharing multiple employer defined benefit plan. Act 305 members were participants under a pension program known as System 2000, a defined contribution plan. Under System 2000 benefits at retirement age were not guaranteed by the Commonwealth and were subjected to the total accumulated balance of the savings account. Act No. 3 amends the provisions of the different benefits structures under the ERS moving all participants (employees) under the defined benefit pension plans (Act 447 and Act 1) and the defined contribution plan (System 2000) to a defined contribution hybrid plan. For Act 447 and Act 1 active participants, all retirement benefits accrued through June 30, 2013 were frozen, and thereafter, all future benefits accrue under Act 3 plan. Contributions are maintained by each participant in individual accounts. Credits to the individual accounts include (1) contributions by all members of ERS Act 447 and Act 1 defined benefit pension plans after June 30, 2013; (2) the retirement savings account as of June 30, 2013 of System 2000 participants and, (3) the investment yield for each semester of the fiscal year. The assets of the defined benefit program, System 2000 and the defined contribution hybrid plan were pooled and invested by ERS.

The Commonwealth has already taken critical steps towards a comprehensive reform of the ERS. On September 30, 2016, the ERS was designated by the Oversight Board as a "covered instrumentality" pursuant to the provisions of PROMESA. The Act requires covered instrumentalities to develop fiscal plans and accordingly, a pension fiscal reform was included as part of the Commonwealth's fiscal plan which was proposed and approved by the Oversight Board on March 13, 2017. As a result of the ERS's severe fiscal and liquidity crisis, on May 21, 2017 the Oversight Board filed a voluntary petition under Title III of PROMESA in the United States District Court for the District of Puerto Rico (the "District Court").

### Pension System – After July 1, 2017

Act No. 106 of August 23, 2017 ("Act 106") was enacted to reform the Commonwealth retirement systems and, among other dispositions, provide the necessary legal and operational structure of the determination and payment of accrued pension benefits as of June 30, 2017, the creation and transition to a new defined contribution plan and the reform of ERS's governance, effective on July 1, 2017. Those dispositions are summarized as follows:

Effective July 1, 2017 participants ceased to accrue new pension benefits and are no longer able to make direct credit payments or to make additional contributions to the ERS. The ERS created and will maintain, for each participant or actual beneficiary, an individual record as of June 30, 2017 which includes the accrued pension benefits, employment history and accumulated contributions made.

## 12-PENSION PLAN (CONTINUED)

### Pension System – After July 1, 2017 (Continued)

All benefits including retirement, disability, death, and other pensioner additional benefits were determined in accordance to the specific benefit structures under Act 447, Act 1, Act 305 and Act 3 and will be paid based on the information provided in the individual record. The accrued pension benefits will be funded through:

- The net proceeds of the sale of ERS's assets,
- A pay-as-you-go ("PayGo") charge to the participant employers determined by ERS and billed by the P.R. Department of Treasury ("PRDT"),
- Commonwealth's legislative expenditure appropriations,
- Donations by any public or private entity,
- 25% of first or periodic payments on public-private partnership contracts,
- Other funds determined by the Commonwealth's Legislature.

On June 27, 2017, the PRDT issued the Circular Letter No. 1300-46-17 to communicate to the Commonwealth, the Municipalities and other participants of the ERS the conversion procedures to a new PayGo model, effective on July 1, 2017. Under the PayGo funding, the participant employers directly pay the pension benefits as they are due rather than attempt to build up assets to pre-fund future benefits. This funding method allows the retirement systems to continue to pay benefits even after the plans' assets have been exhausted. In addition, as a result of the implementation of PayGo funding, employers' contributions related to special laws and additional uniform contributions are eliminated. Payments are made by the employers (the Center) through a government treasury single account (TSA) maintained on a separate trust under the custody of PRDT. TSA funds are deposited and maintained in a private commercial bank. It is expected that, as the ERS's assets become depleted, the PayGo charge will increase.

Act 106 includes penalties and specific procedures for collection of unpaid PayGo charges. For Municipalities, it authorized a legal lien of property tax to be collected by the CRIM through the monthly advances. During the fiscal year 2019-2020, the Center was billed and recognized as PayGo charges expenditures for \$5,059,624. As of June 30, 2020, the balance due by the Center to the ERS amounted to \$4,212,462.

## 12-PENSION PLAN (CONTINUED)

### Pension System – After July 1, 2017 (Continued)

**General** - Effective July 1, 2017, a new defined contribution plan ("DC Plan") is created and maintained in a separate trust. It covers all active participants of the ERS as of that date and participants enrolled in the public service after that date. The Retirement Board (as discussed later) is responsible for oversight of the DC Plan; the PRDT currently serves as the trustee and custodian of the DC Plan's assets, which are deposited in a private bank account.

The transition to the new DC Plan is currently in process. In accordance with Act 106 requirements, the Retirement Board is evaluating proposals to appoint a plan administrator which will perform recordkeeping and management functions for the DC Plan, including the development and adoption of a plan document, effective July 1, 2019. The transition includes the creation of a separate trust and the transfer of participant accounts.

**Participant accounts and contributions** - Funds are maintained in individual accounts for each participant which are credited with participant's pre-tax contributions and investment earnings. Participants are required to contribute at least 8.5% of gross salary. The Plan provides for voluntary additional pre-tax contributions as permitted by the Puerto Rico Internal Revenue Code of 2011 ("2011 PR Code"). After July 1, 2019, participants may direct the investment of their contributions into various investment options offered by the DC Plan. During the Fiscal Year Ended June 30, 2020, employees' contributions amounted to \$1,070,775.

**Payment of benefits** - Upon termination of service a participant or the participant beneficiaries may elect to receive an amount equal to the value of the participant's interest in his or her account in a lump-sum amount, maintain his or her account in the DC Plan, or roll-over their account to a qualified plan under the 2011 PR Code. Upon participant's death the account balance will be distributed to its designated beneficiaries. Distributions are subject to income tax in accordance with the provisions of the 2011 PR Code. For participants of the DC Plan with accrued pension benefits as of June 30, 2017, benefits will include amounts participant's interest in his or her account plus accrued pension benefits funded through the PayGo system.

**Reform of ERS's governance** - Act 106 creates a Retirement Board composed of thirteen (13) members (government officials, representatives of teachers, judicial system, public corporations and mayors) which replaces the Board of Trustees and perform overall governance of all retirement systems, including ERS, the Teachers and Judiciary Retirement Systems.



## 12-PENSION PLAN (CONTINUED)

### **Pension Liabilities, Pension Expense, and Deferred Outflows/Inflows of Resources Related to Pensions; and other required disclosures under GASB Statement No. 73**

As discussed above, pursuant to Act No. 106, participants ceased to accrue new pension benefits and are no longer able to make direct credit payments or to make additional contributions to the ERS. In addition benefit payments are made through a "PayGo" funding administered by the PRDT. As a result the plans operated by ERS, under various benefit structures prior to July 1, 2017, are administered through a trust that do not meet the requirements of GASB Statement No. 68. Instead, since that date, the employers are subject to the requirements of GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement No. 68*. However, the ERS have not provided the Center with the audited actuarial and financial information necessary to comply with the requirements of GASB Statement No. 73 as of June 30, 2020. As a result, amounts that shall be reported as deferred outflows \inflows of resources related to pensions and pension liability in the government-wide financial statements had not been accounted for by the Center.

In addition, applicable disclosures and required supplementary information under the provisions of GASB Statement No. 73 have been omitted.

## 13-OTHER POSTEMPLOYMENT BENEFITS (OPEB)

### **Plan description**

The Center is a participating employer in the Employee's Retirement System of the Government of Puerto Rico and its Instrumentalities Medical Insurance Plan Contribution ("ERS-MIPC"). ERS MIPC is an unfunded, cost sharing, multi-employer defined benefit plan sponsored by the Commonwealth. Substantially all fulltime employees of the Commonwealth's primary government, and certain Municipalities of Puerto Rico and certain component units of the Commonwealth not having their own postemployment benefit plan, are covered by the OPEB. Commonwealth employees became members upon their date of employment. Plan members were eligible for benefits upon reaching the pension benefits retirement ages.

### **Benefits provided**

ERS MIPC covers a payment of up to \$100 per month to the eligible medical insurance plan selected by the member provided the member retired prior to July 1, 2013 (Act No. 483, as amended by Act No. 3).

### **Contributions**

The contribution requirement of ERS MIPC is established by Act No. 95 approved on June 29, 1963. This OPEB plan is financed by the Commonwealth on a pay-as-you-go basis. The funding of the OPEB benefits is provided to the ERS through legislative appropriations each July 1 by the Commonwealth's General Fund for former government and certain public corporations without own treasuries employees, and by certain public corporations with own treasuries and Municipalities for their former employees.

## 13-OTHER POSTEMPLOYMENT BENEFITS (OPEB) (CONTINUED)

### **Contributions (Continued)**

The Center's contribution is financed through the monthly PayGo charge. There is no contribution requirement from the plan member during active employment. Retirees contribute the amount of the healthcare insurance premium not covered by the Commonwealth contribution. As a result, these OPEB are 100% unfunded. The legislative appropriations are considered estimates of the payments to be made by the ERS for the healthcare benefits throughout the year.

### **OPEB liabilities, OPEB expense, and deferred outflows of resources and deferred inflows of resources related to OPEB; other GASB Statement 75 required disclosures**

The ERS have not issued its audited financial statements as of and for the fiscal year ended June 30, 2019 nor has it provided the Center with the audited schedules of employment allocations and OPEB amounts by employer as of June 30, 2019 (Center's measurement date), necessary to comply with the requirements of GASB Statement No. 75 "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions", as of June 30, 2020.

As a result, amounts to be reported as deferred outflows \inflows of resources related to OPEB, the net OPEB liability, applicable disclosures and required supplementary information have been omitted.

## **14-CONTINGENCIES AND COMMITMENTS**

### **Claims and Lawsuits**

The Center is defendant in various lawsuits arising from its operations; management and legal counsels are of the opinion that a liability of \$87,500 should be accrued in the Government-Wide Financial Statements to cover awarded or anticipated unfavorable judgments. This amount was included in the financial statements and represents the amount estimated as a probable liability or a liability with a fixed or expected due date, which will require future available financial resources for its payment.

### **Operating Leases**

The Center is obligated under various lease agreements, which expire on September 30, 2030. Operating leases do not give rise to property rights or lease obligations, and accordingly, no long-term liability is reflected in the Center's financial statements for these lease agreements.

Therefore, installments of the operating leases are presented as rent expenditures. The rent expenditures for the fiscal year ended June 30, 2020 amounted to \$1,474,562.

**14-CONTINGENCIES AND COMMITMENTS (CONTINUED)**

**Operating Leases (Continued)**

The following is a schedule of minimum rent payments required under operating leases that have initial or remaining non-cancellable lease term in excess of one year as of June 30, 2020:

<u>Year ending June 30,</u>	<u>Amount</u>
2021	\$ 817,102
2022	817,102
2023	617,310
2024	517,414
2025	417,476
Thereafter	<u>1,536,970</u>
Total	<u>\$ 4,723,374</u>

As of June 30, 2020, the Center recognized and recorded a debt with the Puerto Rico Public Buildings Authority (PRBA) amounting to \$924,583. In addition, at that date, the Center has certain balances in dispute with the PRBA amounting to \$3,569,251 related to the lease of various office spaces located in the Municipalities of Aguadilla, Arecibo, Caguas, Carolina, Mayaguez and Ponce.

**Federal Award**

The Center participates in a federal assistance program funded by the Federal Government. Expenditures financed by this program are subject to financial and compliance audit by the appropriate grantor.

**Other Potential Liability – Additional Uniform Contribution (AUC)**

For fiscal year 2016-2017, the ERS sent to the Center a bill dated July 12, 2016 of \$2,457,864 related to the AUC. The Center alleged that the ERS do not comply with the terms of the Law No. 32 of 2013 related to the time established for the ERS to provide the amount to be paid during the fiscal year (120 days before the beginning of the fiscal year) Accordingly, it is the understanding of the Center, that the amount to be paid to the ERS related to the AUC during fiscal year 2017 is the same amount paid during the previous fiscal year (2016). Based on this understanding, on January 27, 2017, the Center paid \$455,678 to the ERS. The ERS disagree with the Center's position and is claiming the full payment of the amount billed.

The Center plans to defend its position vigorously. However, due to the uncertainty of the outcome of this claim by the ERS, as of June 30, 2017, the Center made an obligation of \$2,002,186. At that date, this amount is presented as assigned funds in the Center's General Fund.

#### 14-CONTINGENCIES AND COMMITMENTS (CONTINUED)

##### ***Puerto Rico Fiscal Agency and Financial Advisory Authority – Act No. 2 of 2017***

On January 18, 2017, the Commonwealth of Puerto Rico approved Act No. 2 *"The Puerto Rico Fiscal Agency and Advisory Authority (FAFAA)"* in order to empower the Authority to oversee compliance with the certified budget and fiscal plan approved pursuant to the Puerto Rico Oversight, Management and Economic Stability Act of 2016 (PROMESA); to delegate to the Authority the power to revise matters including, but not limited to, agreements, transactions and regulations of the agencies and instrumentalities of the Government of Puerto Rico; to provide that it shall be the only entity authorized to enter into creditors' agreement, and/or renegotiate or restructure the public debt, in whole or in part, or any other debt issued by any Government body including, but not limited to, agencies, boards, commissions, instrumentalities, public corporations or applicable political subdivision; to provide that the Executive Director of the Authority shall be the legal successor of the President of the Government Development Bank of Puerto Rico (GDB) in every Board, Committee, Commission or Council; to repeal Chapter 6 of Act No. 21-2016, as amended, and the Puerto Rico Fiscal Oversight and Recovery Organic Act, Act No. 208-2015; and for other related purposes.

The FAFAA will act as fiscal agent, financial advisor and reporting agent of all entities of the Government of Puerto Rico. It shall be the governmental entity responsible for the collaboration, communication and cooperation between the Government of Puerto Rico and the Fiscal Oversight Board created under PROMESA. To such effect, the FAFAA is empowered to collaborate in conjunction with the Governor of Puerto Rico and his representatives in the creation, execution, supervision and oversight of any Fiscal Plan and any Budget as defined by the terms of PROMESA. In addition, the Authority shall be the government entity charged with supervising, executing and administering the Fiscal Plan approved and certified in accordance with PROMESA and shall ensure that all the entities of the Government of Puerto Rico comply with the approved Fiscal Plan.

In addition, the FAFAA shall assume all fiscal agency, financial advisory and reporting functions of the GDB under Act No. 272 of May 15, 1945, as amended. It shall oversee all matters related to the restructuring, renegotiation or adjustment of any existing or future obligation, and the liability management transactions for any existing or future obligation of the Government of Puerto Rico.

The Authority shall be governed by Board of Directors composed of five (5) members, including the Executive Director of the FAFAA, appointed by the Governor, one (1) representative of the Senate of the Puerto Rico, and one (1) representative of the House of Representatives of Puerto Rico, who shall be designated by the Presiding Officer of each Legislative House. The remaining two members shall be appointed by the Governor.

As described on **Note 11**, on November 29, 2018, the Center, FAFAA and GDB provided and amendment and full reformulation of the Center's deed of trust under the "Deed of Trust No. 58". Accordingly, the government enacted Law No. 109 of August 24, 2017, to amend Law No. 80, in order to appoint FAFAA as trust's designated trustee or one or more private banking institutions that FAFAA might designate, replacing GDB. The funds deposited on the trust fund amounting to \$363,617,079 at November 29, 2018 (excluding the funds deposited on the GDB which will be subject and used on the GDB restructuring transaction) represents the trust's available capital at that date.

#### 14-CONTINGENCIES AND COMMITMENTS (CONTINUED)

##### ***Puerto Rico Financial Emergency and Fiscal Responsibility Act – Act No. 5 of 2017***

On January 29, 2017, the Commonwealth of Puerto Rico approved Act No. 5 "*Puerto Rico Financial Emergency and Fiscal Responsibility Act*" to facilitate and encourage a voluntary negotiation process under PROMESA between the Governor and/or the FAFAA, on behalf of the Government of Puerto Rico, and the creditors of the Government of Puerto Rico and its instrumentalities. This Act Authorizes the Government of Puerto Rico, within the parameters established by PROMESA, to designate certain services necessary for the health, safety and welfare of the residents of Puerto Rico and provided by the Government of Puerto Rico and its instrumentalities as "essential services", in accordance with the Constitution of Puerto Rico.

This Act amends and repeals portions of the Puerto Rico Emergency Moratorium and Financial Rehabilitation Act, Act No. 21-2016, as amended by Act No. 40-2016 and Act No. 68-2016 (the "Moratorium Act") and of certain Executive Orders issued by then Governor of Puerto Rico Hon. Alejandro García Padilla that provided for emergency periods and a temporary stay of litigation, thus negating the timely payment of the Government's obligations and the initiation of a voluntary negotiation process with the creditors of the Commonwealth and its instrumentalities. It also suspends or cancels, or both, all special appropriations not budgeted in the fiscal year 2016-17 that may have been multi-year authorizations from prior fiscal years. The Emergency Period will begin with the effective date of this Act and end in May 1, 2017, and may be extended by the Governor pursuant to an executive order for one additional period of three (3) months.

During the Emergency Period declared by this Act, the Governor has the power to designate services provided by the Commonwealth and its instrumentalities as essential services or services that are not essential services and utilize available resources to provide for the satisfaction of obligations of the Commonwealth and its instrumentalities, while also recognizing the need to provide for the services essential to the health, safety and welfare of the residents of Puerto Rico. The Governor shall pay debt service to the extent a) possible after all essential services of the Commonwealth have been provided for; or b) ordered to do so by the Oversight Board or any board created under federal law.

In addition, the Governor may issue executive orders requiring the use of available resources to be deposited in a lockbox account under the sole control of the FAFAA to pay for essential services as he deems necessary to protect the health, safety and welfare of the residents of Puerto Rico; and he may take all actions deemed reasonable and necessary to preserve the ability of the Commonwealth or an instrumentality of such to continue providing essential services.

To that end, the Governor may issue executive orders establishing priority rules for the disbursement of public funds when resources available for a fiscal year are insufficient to cover the appropriations made for the fiscal year. Notwithstanding Section 4(c) of Act No. 147 of June 18, 1980, as amended, the Governor may reprioritize services and expenses described in Section 4(c)(3) to a higher payment priority than as listed in Section 4(c).

#### 14-CONTINGENCIES AND COMMITMENTS (CONTINUED)

##### ***Puerto Rico Financial Emergency and Fiscal Responsibility Act – Act No. 5 of 2017 (Continued)***

Finally, the Governor may issue executive orders as he deems necessary or advisable to assure the payment of a debt obligation of the Commonwealth or an instrumentality of such. With regards to the emergency measures related to the Government Development Bank (GDB), the Governor may take any actions he deems reasonable and necessary to permit the GDB to continue carrying out its operations, including 1) prescribing such conditions or restrictions for the conduct of the business of the GDB, including dispensing with the compliance, in whole or in part, of any requirement prescribed by otherwise applicable law (i.e. the requirement of maintaining deposit reserves levels); 2) ordering the limitation, postponement or suspension of any payment, in whole or in part, of any obligation pursuant to terms the Governor prescribes to address the GDB's liquidity needs or facilitate its ability to carry out its operations; 3) suspending payments on any obligation guaranteed by the Bank, on any letter of credit and on any obligation or commitment to lend or extend money or credit; 4) taking any action with respect to the GDB as provided for in Act No. 17 of September 23, 1948, as amended, or Act No. 22 of July 24, 1985, as amended, as applicable; and 5) delegating to the Bank, its Board or its employees authority to take actions in furtherance of these emergency measures.

If any restriction is placed on disbursements made by the GDB regarding these measures, the Bank shall not, without the authorization of the Governor, 1) disburse any loans or credit facility; 2) honor requests to withdraw or transfer any deposit, including by check or other means, of an agency, public corporation or instrumentality of the Commonwealth (other than those listed in point three (3)); 3) subject to the availability of funds and the aggregate disbursements established by the Governor, honor any request to withdraw or transfer any deposit held by, or request to honor any check written by, the Legislative and Judicial Branches, the University of Puerto Rico, the Office of the Comptroller, the Office of the Electoral Comptroller, the State Elections Commission, the Government Ethics Office, the Independent Prosecutors Panel, or a Municipality of the Commonwealth, provided, however, than an authorized officer of the requesting entity certifies along with supporting documentation that such funds will be used for the payment of essential services. If any restriction is placed on disbursements from the GDB, then any value disbursed to a creditor after such restriction is imposed shall be subtracted from the value of any distribution that such creditor is entitled to receive, as of the first date of the restriction, if the GDB is subsequently liquidated or placed into a receivership.

##### ***Fiscal Plan Submissions and Certifications – Commonwealth of Puerto Rico and Government Development Bank of Puerto Rico***

On a letter dated January 18, 2017, the Financial Oversight and Management Board of Puerto Rico ("the Board") provided the Governor the fiscal plan targets and guidelines, on a category-by-category basis, that the certified plan should satisfy. Also, the Board approved the Governor's request that it extend the PROMESA stay on litigation through May 1, 2017 on conditions agreed to by the Governor, including a commitment not to attempt to procure short-term liquidity loans that could restrict fiscal options.

#### 14-CONTINGENCIES AND COMMITMENTS (CONTINUED)

##### ***Fiscal Plan Submissions and Certifications – Commonwealth of Puerto Rico and Government Development Bank of Puerto Rico (Continued)***

On February 28, 2017, the Governor submitted a proposed fiscal plan and, after the review, analysis and deliberation with the Board's members, economists, consultants, attorneys and Governor's representatives, the Board informed the Governor on March 9, 2017 that it had determined the proposed fiscal plan did not satisfy PROMESA's requirements and recommended that certain revisions be made. On March 11, 2017, the Governor submitted to the Board a revised proposed fiscal plan to address the identified violations in the prior proposed plan and, during the review process, further changes were incorporated into the Government's proposed plan. On March 13, 2017, the Governor's final proposed fiscal plan was presented to the Board and, after its review and discussion, the Board approved and certified this final proposed plan with the following two (2) amendments:

- Implementation of a furlough program and the removal of all Christmas bonuses to achieve necessary liquidity and budgetary savings – The determination to implement these measures, in whole or in part, would be made on July 1 and September 1, 2017 based on the achievements by the Commonwealth of certain levels of savings and cash reserves through the right-sizing measures to be implemented in the proposed budget for the fiscal year 2017-18.
- An overhaul of the public pension systems that would provide for progressively reduced total pension outlays by 10% by fiscal year 2020.

The fiscal measures detailed in the certified fiscal plan were implemented by the approval on April 29, 2017 of Act 29 "Compliance with the Fiscal Plan Act". These measures are focused on four (4) major areas:

- Increase revenues by \$1,380 million through tax and fees increases and better tax fiscalization procedures.
- Reduce expenditures by \$1,623 million through: 1) \$434 million in payroll expenditure savings through the implementation of the "Single Employer Program" (an employee mobility plan), "freezing" of job vacancies and the uniformity of fringe benefits throughout the agencies (these measures do not apply to the University of Puerto Rico nor the Municipalities); 2) \$439 million in efficiency savings through agencies consolidations, expenditure reductions and public-private alliances; 3) \$750 million in subsidies reductions to the University of Puerto Rico, Municipalities, and other entities.
- Adjustments of \$299 million in Health expenditures through the implementation of a new public healthcare model.
- An 80% reduction on debt service payments.

#### 14-CONTINGENCIES AND COMMITMENTS (CONTINUED)

##### *Fiscal Plan Submissions and Certifications – Commonwealth of Puerto Rico and Government Development Bank of Puerto Rico (Continued)*

On March 13, 2017, the Government Development Bank of Puerto Rico submitted its proposed fiscal plan to the Financial Oversight and Management Board and it was certified on April 28, 2017. This plan contemplates an orderly wind down of its operations within a three-to-four years' period (by fiscal year 2021). To efficiently effectuate this process, the GDB's management has created a Project Management Office ("PMO") for the smooth transition of the Bank's current operations. The main objectives of this fiscal plan are as follows:

- All fundamental new business banking and origination activities have ceased.
- Service the existing loan portfolio through maturity or refinancing by third party financial institutions.
- Coordinate and execute all possible collection efforts on loans held by the GDB and collateral supporting the loans, when applicable.
- Formalize the process for a transparent and orderly sale of real estate assets at fair market value.
- Restructure the GDB's workforce through the "Single Employer Program" and voluntary incentivized separation program.

The Plan assumes that Municipality Loans, select Revenue/Public Corporation Loans and the sale of real estate owned assets are the only sources of revenue to the GDB after June 30, 2017. Those loan assets deemed by the Bank to be "nonperforming" (i.e. Commonwealth's appropriation loans) will remain as such and, therefore, would not be a source of future inflows, although the GDB reserves the right to pursue collection efforts to maximize recovery values. In respect to municipal escrow deposit accounts (monies representing undisbursed loan proceeds that were trapped at GDB as a result of restricted disbursement procedures and Executive Order 2016-10), the Plan assumes that their balances will be off set against their applicable municipal loans. However, no mechanism by which the projected excess cash flows should be allocated to the GDB depositors and other creditors has been established.

This situation puts at risk the collection and accessibility of municipal funds deposited at the GDB, including certificates of deposit and investment funds, "CAE" and "IVU" Municipal Administration Fund ("FAM") deposits and federal programs funds. As described on **Note 2**, on March 23, 2018, GDB ceased its operations and on November 29, 2018, GDB completed a restructuring of certain of its indebtedness pursuant a Qualifying Modification under Title VI of PROMESA (the Qualifying Modification).



#### 14-CONTINGENCIES AND COMMITMENTS (CONTINUED)

##### *Fiscal Plan Submissions and Certifications – the Center and Municipalities*

During 2016, the Center was designated as a Covered Territorial Instrumentality pursuant to Section 101 of the Puerto Rico Oversight, Management and Economic Stability Act (PROMESA). In Accordance with Section 101 (d)(1)(E) of PROMESA and the resolution adopted by the Oversight Board at its May 9, 2019 meeting, the Oversight Board determined that the Governor must provide the Oversight Board with an Instrumentality Fiscal Plan and an Instrumentality Budget for the Center.

In addition, pursuant to Section 101 of PROMESA and the resolution adopted by the Oversight Board at its May 9, 2019 meeting, the Oversight Board designated all seventy eight (78) Municipalities as Covered Territorial Instrumentalities subject to the requirements of PROMESA. In terms of the submission of the Instrumentality Fiscal Plans and an Instrumentality Budgets required by Section 101 (d)(1)(E) of PROMESA, the Oversight Board determined in the resolution adopted at its May 9, 2019 meeting, to apply this provision to an initial group of ten (10) Municipalities as a pilot plan for assessing and enhancing municipal financial and budgetary practices, and for create new economic development strategies to address municipal fiscal challenges. As a part of the pilot plan, the ten (10) Municipalities will receive technical assistance from the Oversight Board. These initial actions should serve to begin achieving fiscally sustainable local units of government and to help pave the way for a broader municipal fiscal strengthening.

The ten (10) Municipalities selected were Aibonito, Barranquitas, Camuy, Cidra, Comerio, Isabela, Orocovis, Quebradillas, San Sebastian and Villalba. These Municipalities were selected considering a combination of factors such as fiscal challenges, impact of the reduction of transfers from the Central Government, and their experience implementing innovative and creative initiatives and collaborating with other Municipalities.

The Governor must provide to the Oversight Board must provide the Oversight Board with an Instrumentality Fiscal Plan (Municipal Fiscal Plan) and an Instrumentality Budget (Municipal Budget) for each of the selected Municipalities under the pilot plan.

On June 26, 2020, the Oversight Board certified a Fiscal Plan for the Center for fiscal years 2021 to 2025 (the fiscal plan). In accordance with "PROMESA", this Fiscal Plan projects a baseline forecast of the Center's sources and uses of funds for the next five fiscal years based on historical trends and discussions with the Center's management. In order to provide a greater revenue base for Municipalities and ensure greater fairness in property tax collections, certain measures have been developed to improve operations and increase tax collections at the Center. These measures are incremental to the baseline projections and must be adopted and successfully implemented to achieve the targets of the Fiscal Plan.

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

## 14-CONTINGENCIES AND COMMITMENTS (CONTINUED)

### *Fiscal Plan Submissions and Certifications – the Center and Municipalities (Continued)*

- **Operational efficiencies** – the Center is 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 the Center to implement strategies for the successful enhancement of tax revenue collections.
- **Tax revenue collection enhancement** - the Fiscal Plan outlines measures that the Center will undertake to better capture unrealized tax revenues by increasing tax compliance and improving overall collection rates. This will help reduce Puerto Rico's reliance on other undesirable taxes, which would improve its competitiveness and attractiveness for local and foreign investment.

Success of the implementation of the initiatives outlined in the Fiscal Plan will come from the Center's ability to effectively collaborate with Municipalities, other government agencies, and the Oversight Board.

### *Filing of Title III of PROMESA for the District of Puerto Rico*

On May 3, 2017, the Financial Oversight and Management Board for Puerto Rico approved and certified the filing in the United States District Court for the District of Puerto Rico of a voluntary petition under Title III of PROMESA for the Commonwealth of Puerto Rico. This filing was necessary due to the expiration on May 1, 2017 of the stay against litigation provided by PROMESA, and thus making the government vulnerable to lawsuits by its creditors. The voluntary filing under Title III would preclude those lawsuits while allowing the possibility of consensual negotiations to continue. Also, on May 5, 2017 another voluntary petition under Title III of PROMESA was approved, certified and filed for the Puerto Rico Sales Tax Financing Corporation ("COFINA"), and on May 22, 2017, the Board approved, certified and filed similar voluntary petitions for the Puerto Rico Highway and Transportation Authority ("HTA") and the Government of Puerto Rico Employees Retirement System ("ERS").

### *Impact of COVID-19 Pandemic*

On March 12, 2020, Governor Wanda 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. The Center'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.

#### 14-CONTINGENCIES AND COMMITMENTS (CONTINUED)

##### *Impact of COVID-19 Pandemic (Continued)*

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 7, 2020. Therefore, the Center experience delayed in collections for the months of May, June, and July. Similarly, the date for the payment of the first quarterly installment of personal property taxes for FY2021 was extended from August 15, 2020, to September 15, 2020.

Even after accounting for a decline in collections due to COVID-19, as of April 2020, the Center reported higher year-to-date collections compared to what was originally estimated. Nevertheless, collections for the remainder of FY2020 may continue to be affected by COVID-19, and as a result, the Center completed an analysis to identify any adjustments that must be made to the municipal remittances of May and June to account for the tax deferral. To the extent a municipality experiences lower collection than what was advanced by the Center, this would be adjusted as part of the year-end reconciliation process. The year-end reconciliation process is completed by the Center 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, the Center 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 the Center that is repaid from property tax advances from the subsequent fiscal year.

Similarly, as a result of COVID-19, the Center projects electronic lottery proceeds, which are distributed as part of the Equalization Fund, will be reduced by approximately \$27.7 million (from \$47.3 million to \$19.6 million). The Center completed an analysis to identify the adjustments needed to the municipal remittances for May and June to account for the lower Equalization Fund as a result of the projected decline in lottery proceeds. However, given that the year-to-date remittances were advanced at the beginning of the fiscal year based on the projected \$47.3 million of proceeds, a reconciliation process will be required. Any variance between actual and projected proceeds must be adjusted to achieve fiscal accountability and allow for the projection of accurate revenues for the fiscal year.

Additionally, as part of the COVID-19 Emergency Measures Support Package, Municipalities received approximately \$100 million from the Commonwealth in FY2020. Municipalities were distributed \$50 million per month for two months based on a 3-tier division of population by Municipality. Municipalities with a population of fewer than 25,000 people received \$1 million in total, those with a population greater than 25,000, but less than 50,000 received \$1.35 million, and those with a population greater than 50,000 received \$1.75 million. Similarly, an additional \$100 million is being distributed to Municipalities from the \$2,241 million appropriated to Puerto Rico under the Coronavirus Aid, Relief and Economic Relief Act (the "CARES Act"). These funds are to be used to reimburse costs related to COVID-19, which had not been previously budgeted for by the Municipalities. The Municipalities are responsible for tracking, reporting, and submitting these incremental expenses for reimbursements. It is important to note that these funds cannot be used to replace lost revenue as a result of the decline in business activities.

## 15-ADOPTION OF NEW ACCOUNTING PRONOUNCEMENTS

Effective July 1, 2019, the Center adopted the provisions of the following GASB Statements:

- **GASB Statement No. 83, "Certain Asset Retirement Obligations":** This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs. This Statement requires that recognition occur when the liability is both incurred and reasonably estimable. The determination of when the liability is incurred should be based on the occurrence of external laws, regulations, contracts, or court judgments, together with the occurrence of an internal event that obligates a government to perform asset retirement activities. The requirements of this Statement, which were postponed one year by GASB Statement No. 95, are effective for reporting periods beginning after June 15, 2019. Earlier application is encouraged.
- **GASB Statement No. 88, "Certain Disclosures Related to Debt, Including direct Borrowings and Direct Placements":** The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. This Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established.

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

The requirements of this Statement, which were postponed one year by GASB Statement No. 95, are effective for reporting periods beginning after June 15, 2019. Earlier application is encouraged.

## 16-FUTURE ADOPTION OF ACCOUNTING PRONOUNCEMENTS

- **GASB Statement No. 84, “Fiduciary Activities”:** The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. This Statement also provides for recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources. Events that compel a government to disburse fiduciary resources occur when a demand for the resources has been made or when no further action, approval, or condition is required to be taken or met by the beneficiary to release the assets.

The requirements of this Statement, which were postponed one year by GASB Statement No. 95, are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged.

- **GASB Statement No. 87, “Leases”:** The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments’ financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments’ leasing activities.

The requirements of this Statement, which were postponed 18 months by GASB Statement No. 95, are effective for reporting periods beginning after June 15, 2021 and all reporting periods thereafter.

- **GASB Statement No. 89, “Accounting for Interest Costs Incurred Before the End of a Construction Period”:** The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5–22 of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which are superseded by this Statement.

## 16-FUTURE ADOPTION OF ACCOUNTING PRONOUNCEMENTS (CONTINUED)

- **GASB Statement No. 89, "Accounting for Interest Costs Incurred Before the End of a Construction Period" (Continued):**

This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. This Statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles. The requirements of this Statement, which were postponed one year by GASB Statement No. 95, are effective for reporting periods beginning after December 15, 2020. Earlier application is encouraged.

- **GASB Statement No. 90, "Majority Equity Interest – An Amendment of GASB Statements No. 14 and 61":** The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value. For all other holdings of a majority equity interest in a legally separate organization, a government should report the legally separate organization as a component unit, and the government or fund that holds the equity interest should report an asset related to the majority equity interest using the equity method. This Statement establishes that ownership of a majority equity interest in a legally separate organization results in the government being financially accountable for the legally separate organization and, therefore, the government should report that organization as a component unit. This Statement also requires that a component unit in which a government has a 100 percent equity interest account for its assets, deferred outflows of resources, liabilities, and deferred inflows of resources at acquisition value at the date the government acquired a 100 percent equity interest in the component unit. Transactions presented in flows statements of the component unit in that circumstance should include only transactions that occurred subsequent to the acquisition.

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

## 16-FUTURE ADOPTION OF ACCOUNTING PRONOUNCEMENTS (CONTINUED)

- **GASB Statement No. 91, "Conduit Debt Obligations"** - The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. This Statement requires issuers to disclose general information about their conduit debt obligations, organized by type of commitment, including the aggregate outstanding principal amount of the issuers' conduit debt obligations and a description of each type of commitment. Issuers that recognize liabilities related to supporting the debt service of conduit debt obligations also should disclose information about the amount recognized and how the liabilities changed during the reporting period. The requirements of this Statement, which were postponed one year by GASB Statement No. 95, are effective for reporting periods beginning after December 15, 2021. Earlier application is encouraged.

- **GASB Statement No. 92, "Omnibus 2020"** - Effective Date: The requirements of this Statement, which were postponed one year by GASB Statement No. 95, are effective as follows:

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

The requirements related to intra-entity transfers of assets and those related to the applicability of Statements 73 and 74 are effective for fiscal years beginning after June 15, 2021.

The requirements related to application of Statement 84 to postemployment benefit arrangements and those related to nonrecurring fair value measurements of assets or liabilities are effective for reporting periods beginning after June 15, 2021.

The requirements related to the measurement of liabilities (and assets, if any) associated with asset retirement obligations in a government acquisition are effective for government acquisitions occurring in reporting periods beginning after June 15, 2021.

Earlier application is encouraged and is permitted by topic.

## 16-FUTURE ADOPTION OF ACCOUNTING PRONOUNCEMENTS (CONTINUED)

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

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

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

The requirements of this Statement were postponed by GASB Statement No. 95. The removal of LIBOR as an appropriate benchmark interest rate is effective for reporting periods ending after December 31, 2021. All other requirements of this Statement are effective for reporting periods beginning after June 15, 2020. Earlier application is encouraged.



## 16-FUTURE ADOPTION OF ACCOUNTING PRONOUNCEMENTS (CONTINUED)

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

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

The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged.

- **GASB Statement No. 95, "Postponement of the Effective Dates of Certain Authoritative Guidance"** - The primary objective of this Statement is to provide temporary relief to governments and other stakeholders in light of the COVID-19 pandemic.

That objective is accomplished by postponing the effective dates of certain provisions in Statements and Implementation Guides that first became effective or are scheduled to become effective for periods beginning after June 15, 2018, and later.

The effective dates of certain provisions contained in the following pronouncements are postponed by one year:

- Statement No. 83, Certain Asset Retirement Obligations.
- Statement No. 84, Fiduciary Activities.
- Statement No. 88, Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements.
- Statement No. 89, Accounting for Interest Cost Incurred before the End of a Construction Period.
- Statement No. 90, Majority Equity Interests.

## 16-FUTURE ADOPTION OF ACCOUNTING PRONOUNCEMENTS (CONTINUED)

- **GASB Statement No. 95, "Postponement of the Effective Dates of Certain Authoritative Guidance"** (Continued)

- Statement No. 91, Conduit Debt Obligations.
- Statement No. 92, Omnibus 2020.
- Statement No. 93, Replacement of Interbank Offered Rates.
- Implementation Guide No. 2017-3, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (and Certain Issues Related to OPEB Plan Reporting).
- Implementation Guide No. 2018-1, Implementation Guidance Update—2018.
- Implementation Guide No. 2019-1, Implementation Guidance Update—2019.
- Implementation Guide No. 2019-2, Fiduciary Activities.

The effective dates of the following pronouncements are postponed by 18 months:

- Statement No. 87, Leases.
- Implementation Guide No. 2019-3, Leases.

The requirements of this Statement are effective immediately. Earlier application of the provisions addressed in this Statement is encouraged and is permitted to the extent specified in each pronouncement as originally issued.

- **GASB Statement No. 96, "Subscription-Based Information Technology Arrangements"** - This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA.

To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, Leases, as amended. Under this Statement, a government generally should recognize a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability.

A government should recognize the subscription liability at the commencement of the subscription term, which is when the subscription asset is placed into service. The subscription liability should be initially measured at the present value of subscription payments expected to be made during the subscription term.

## 16-FUTURE ADOPTION OF ACCOUNTING PRONOUNCEMENTS (CONTINUED)

- **GASB Statement No. 96, “Subscription-Based Information Technology Arrangements” (Continued):**

Future subscription payments should be discounted using the interest rate the SBITA vendor charges the government, which may be implicit, or the government’s incremental borrowing rate if the interest rate is not readily determinable.

A government should recognize amortization of the discount on the subscription liability as an outflow of resources (for example, interest expense) in subsequent financial reporting periods.

This Statement requires a government to disclose descriptive information about its SBITAs other than short-term SBITAs, such as the amount of the subscription asset, accumulated amortization, other payments not included in the measurement of a subscription liability, principal and interest requirements for the subscription liability, and other essential information. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged. Assets and liabilities resulting from SBITAs should be recognized and measured using the facts and circumstances that existed at the beginning of the fiscal year in which this Statement is implemented.

Governments are permitted, but are not required, to include in the measurement of the subscription asset capitalizable outlays associated with the initial implementation stage and the operation and additional implementation stage incurred prior to the implementation of this Statement.

- **GASB Statement No. 97, “Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32” -** The primary objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans.

This Statement requires that for purposes of determining whether a primary government is financially accountable for a potential component unit, except for a potential component unit that is a defined contribution pension plan, a defined contribution OPEB plan, or another employee benefit plan (for example, certain Section 457 plans), the absence of a governing board should be treated the same as the appointment of a voting majority of a governing board if the primary government performs the duties that a governing board typically would perform.

## 16-FUTURE ADOPTION OF ACCOUNTING PRONOUNCEMENTS (CONTINUED)

- **GASB Statement No. 97, “Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32” (Continued)**

This Statement supersedes the remaining provisions of Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*, as amended, regarding investment valuation requirements for Section 457 plans. As a result, investments of all Section 457 plans should be measured as of the end of the plan’s reporting period in all circumstances. The requirements of this Statement that are related to the accounting and financial reporting for Section 457 plans are effective for fiscal years beginning after June 15, 2021. For purposes of determining whether a primary government is financially accountable for a potential component unit, the requirements of this Statement that provide that for all other arrangements, the absence of a governing board be treated the same as the appointment of a voting majority of a governing board if the primary government performs the duties that a governing board typically would perform, are effective for reporting periods beginning after June 15, 2021.

Earlier application of those requirements is encouraged and permitted by requirement as specified within this Statement. The Board considered the effective dates for the requirements of this Statement in light of the COVID-19 pandemic and in concert with Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*.

The impact of the implementation of these pronouncements on the Center’s financial statements, if any, has not been determined.

## 17-SUBSEQUENT EVENTS

Subsequent events were evaluated through March 18, 2021, the date financial statements were available to be issued. No significant events that should have been recorded or disclosed in the financial statements were noted, except as noted in the following paragraphs.

### ***Impact of the Certified Fiscal Plan of the Commonwealth of Puerto Rico on the Budget for Fiscal Year 2020-2021***

The Financial Oversight and Management Board approved a fiscal plan which included the progressive reduction of the Commonwealth’s General Fund’s transfers of funds given to the Municipalities, mainly the ones that are paid through the monthly advances of property taxes made by the Municipal Revenues Collection Center (CRIM).

**17-SUBSEQUENT EVENTS (CONTINUED)**

Based on the approved budget of Commonwealth of Puerto Rico for fiscal year 2020-2021, the estimated reduction of revenues will be \$2,140,000. Accordingly, during fiscal year 2020-2021, the revenues will experience a reduction of 1.34% distributed as follows:

Revenue Source	2020-21 Budget	2019-20 Budget	Increase (Decrease)	Percentage
2.5% NIR General Fund	\$ 131,838,000	\$ 131,838,000	\$ -	0.00%
35% of Puerto Rico Additional Lottery System	25,530,000	27,670,000	(2,140,000)	(7.73)%
Total	\$ 157,368,000	\$ 159,508,000	\$ (2,140,000)	(1.34)%

***Municipal Code of Puerto Rico***

On August 14, 2020, the Commonwealth of Puerto Rico enacted to law the Act No. 107, to create the Municipal Code of Puerto Rico in order to integrate, organize and update the laws related to the organization, administration and operation of Municipalities. This Act adds new procedural models for greater autonomy for the Municipalities and repeals the following laws:

- Law 81-1991, as amended, known as the "Law on Autonomous Municipalities of Puerto Rico";
- Law 83-1991, as amended, known as the "Municipal Property Contribution Act 1991";
- Law 80-1991, as amended, known as the "Municipal Revenue Collection Center (CRIM) Act";
- Law No. 113 of July 10, 1974, as amended, better known as the "Municipal Patents Act";
- Law 19-2014, as amended known as "Law of the Municipal Finance Corporation";
- Law No. 19 of May 12, 1977, as amended, known as the "Municipal Police Act";
- Law 31-2012, known as "Law to Make the Restoration of the Communities of Puerto Rico" feasible;
- Law 120-2001, as amended, known as "Law on municipalization of recreational and community sports facilities";
- Law No. 21 of May 20, 1987, as amended, known as the "Access Control Act 1987";
- Law 21-1997, as amended, known as the "Contributing Debt Sales Act";
- Law 137-2014, as amended, known as "Law for the Distribution of Federal Funds of the "Community Development Block Grant Program"(CDBG) among the Municipalities of Puerto Rico";
- Law No. 222 of May 15, 1938, as amended, known as "Law to Authorize Municipalities to Adopt Ordinances Related to the Repair and Elimination of Inadequate Housing";
- Law 118-2010, as amended, known as the "Incentives For Municipal Economic and Tourism Development Act";

## 17-SUBSEQUENT EVENTS (CONTINUED)

### *Municipal Code of Puerto Rico (Continued)*

- Law 18-2014, as amended, known as the "Law of the Municipal Management Fund";
- Law 64-1996, as amended, known as the "Puerto Rico Municipal Financing Act of 1996";
- Law No. 29 of June 30, 1972, as amended, known as the "Law of the Municipal Financing Agency of Puerto Rico";
- Law 114-2009 better known as "To empower Municipal Governments to Create Day Care Centers"; and for other purposes.

The new Municipal Code maintains the definition of "Autonomous Municipality" provided for in Law 81-1991, as amended. The Code is an advanced legislation, consisting of eight (8) books, which in turn are subdivided into chapters and articles. The table of contents of the Code is as follows:

- Book I - Municipal Government - Powers and Faculties of the Municipality, the Mayor and the Municipal Legislature
- Book II - Municipal Administration - Organization, Planning and Control of Available Goods and Human Resources
- Book III - Municipal Services
- Book IV - Municipal Processes and Community Management
- Book V - Economic Development
- Book VI - Planning and Territorial Planning
- Book VII - Municipal Treasury

One of the most important books for Municipalities and their Mayors is the Book VII entitled "Municipal Treasury". This book sets out the rules and laws related to income and financing necessary for the operation of Municipalities. This Book is divided into: "Municipal Tax Collection Center", "Municipal Tax Types" and "Municipal Financing".

The Municipal Code of Puerto Rico established the municipal legal order for Municipalities to renew and look for real alternatives to the new fiscal challenges they face.

Also, on December 30, 2020, Act No. 170-2020 was enacted to amend and clarify several articles and provisions of Act No. 107-2020.

COMMONWEALTH OF PUERTO RICO  
Municipal Revenue Collection Center

Budgetary Comparison Schedule  
(Non-GAAP)-General Fund  
For the Fiscal Year Ended June 30, 2020

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>OPERATING REVENUES:</b>				
Property taxes administrative fees	\$ 27,497,092	\$ 28,097,092	\$ 28,430,586	\$ 333,494
Service charges to banks	1,086,690	1,086,690	1,021,602	(65,088)
Sales of certifications and maps	763,140	763,140	663,892	(99,248)
Interest income	207,980	207,980	90,530	(117,450)
Municipalities transfer	-	330,070	823,307	493,237
<b>Total revenues</b>	<b>29,554,902</b>	<b>30,484,972</b>	<b>31,029,917</b>	<b>544,945</b>
<b>OPERATING EXPENDITURES:</b>				
Current:				
Salaries and fringe benefits	22,999,944	22,544,918	21,545,076	999,842
Professional and consulting services	1,586,453	1,805,285	1,725,919	79,366
Travel and representation	366,400	367,830	256,773	111,057
Capital outlays and supplies	83,500	932,361	732,616	199,745
Rent	1,420,949	1,531,982	1,470,432	61,550
Repairs and maintenance	911,666	977,623	955,033	22,590
Utilities	919,540	1,104,989	1,099,183	5,806
Printed forms	269,000	233,281	221,973	11,308
Postage	439,000	528,425	509,011	19,414
Interest and bank charges	170,000	210,480	210,480	-
Training	64,000	6,972	6,972	-
Insurance and premiums	195,000	183,000	172,351	10,649
Other	129,450	57,826	41,499	16,327
<b>Total expenditures and encumbrances</b>	<b>29,554,902</b>	<b>30,484,972</b>	<b>28,947,318</b>	<b>1,537,654</b>
<b>EXCESS OF REVENUES OVER EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING SOURCES</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 2,082,599</b>	<b>\$ 2,082,599</b>
<b>Explanation of Differences:</b>				
<b>Sources/inflows of resources:</b>				
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule				\$ 31,029,917
Differences-budget to GAAP:				
Non-budgeted transfer in				1,494,650
<b>Total revenues and other financing sources as reported on the statement of revenues, expenditures, and changes in fund balances</b>				<b>\$ 32,524,567</b>
<b>Uses/outflows of resources:</b>				
Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule				\$ 28,947,318
Differences-budget to GAAP:				
Prior year encumbrances recorded as current year expenditures for GAAP basis				1,832,932
Current year encumbrances recorded as expenditures for budgetary purposes				(1,635,239)
Expenditures considered for GAAP not for budget				4,256,719
<b>Total expenditures and other financing uses as reported on the statement of revenues, expenditures, and changes in fund balances</b>				<b>\$ 33,401,730</b>

The notes to the Budgetary Comparison Schedule are an integral part of this schedule.

## 1. BUDGET PROCESS AND BUDGETARY BASIS OF ACCOUNTING

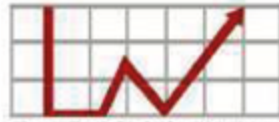
The Center's budget is prepared for the General Fund following the requirements of the Law No. 80 of 1991, as amended. It is developed utilizing elements of performance-based program budgeting and zero-based budgeting and includes estimates of revenues and other sources for ensuring fiscal year under laws existing at the time the budget is prepared.

Budget amendments are approved by the Governing Board. Certain budget transfers within the limitations and restrictions of the Governing Board can be approved by the Executive Director. The budget comparison schedule provides information about the original budget, the amended budget and the actual results, under the budgetary basis of accounting.

The budgetary basis of accounting is different from GAAP. Revenues are generally recorded when cash is received and expenditures are generally recorded when the related expenditure is incurred or encumbered. The encumbrances (that is, purchase orders, contracts) are considered expenditures when a commitment is made. On a GAAP basis, encumbrances outstanding at year-end are reported in the governmental funds statements as assigned fund balance since they do not constitute expenditures or liabilities while on a budgetary basis encumbrances are recorded as expenditures of the current year. Encumbrance appropriations lapse one year after the end of the fiscal year. Unencumbered appropriations are lapsed at year-end. The legal level of budgetary control (the level at which expenditures may not legally exceed appropriations) is at the function level.

The presentation of the budgetary data excludes other appropriations such as capital projects, debt service and special revenue funds because projects are funded on a multi-year nature, generally requiring several years to complete or effective budgetary control is alternatively achieved through general obligation bond indentures and legal and contractual grant agreement provisions.





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## INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Governing Board  
Municipal Revenue Collection Center  
San Juan Puerto Rico

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of the **Municipal Revenue Collection Center** ("the Center") as of and for the year ended June 30, 2020 and the related notes to the financial statements, which collectively comprise the Center's basic financial statements and have issued our report thereon dated March 18, 2021. The report on governmental activities was qualified because we were unable to obtain sufficient appropriate audit evidence about the deferred outflows/inflows, pension plan liability, pension expense, and related note disclosures required for the implementation of GASB Statement No. 73. Also, we were unable to obtain sufficient appropriate audit evidence about the amounts to be reported as deferred outflows/inflows of resources related to OPEB, the net OPEB liability, and related note disclosure required for the implementation of GASB Statement No. 75.

### Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Center's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Center's internal control. Accordingly, we do not express an opinion on the effectiveness of the Center's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency*, is a deficiency or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs, as item **2020-001** that we consider to be a significant deficiency.

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS (CONTINUED)**

**Compliance and other matters**

As part of obtaining reasonable assurance about whether the **Center's** financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item 2020-001.

**Center's Response to Findings**

**Center's** response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The **Center's** response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the **Center's** internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the **Center's** internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



LOPEZ VEGA, CPA, PSC

San Juan, Puerto Rico  
March 18, 2021

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Public Accountants was affixed to  
the record copy of this report.

**Section II – Financial Statements Findings**

**Finding Reference** 2020-001

**Requirement:** Implementation of Requirements Set Forth by GASB Statement No. 73 and GASB Statement No. 75

**Type of Finding:** Significant Deficiency in Internal Control (SD), Instance of Noncompliance (NC)

**This finding is similar to prior year finding 2019-001.**

**Statement of Condition** Management has not implemented the accounting and financial reporting requirements for pensions that are set forth in the GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement No. 68*. The amount by which this departure would affect the assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position of the Center's governmental activities has not been determined.

In addition, the Center's financial statements do not disclose the descriptive information about the pension plans through which the pensions are provided required by the GASB Statement No. 73 for single-employer pension plan. Also, management has omitted historical pension information that accounting principles generally accepted in the United States of America required to be presented to supplement the basic financial statements.

Also, Management has not implemented the accounting and financial reporting requirements for schedules of employment allocations and OPEB amounts by employer as of June 30, 2020 to comply with the requirements of GASB Statement No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The amount by which this departure would affect the assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position of the Center's governmental activities has not been determined. Applicable disclosures and required supplementary information that accounting principles generally accepted in the United States of America required to be presented to supplement the basic financial statements has been omitted.

**Criteria** GASB Statement No. 73 states the accounting and financial reporting requirements for employers and governmental non-employer contributing entities for pension plans that are not within the scope of GASB Statement No. 68 to comply with the criteria set forth in this Statement. This requires that the Center report in its financial statements its proportionate share of the collective net pension liability, pension expense and deferred outflows and inflows of resources related to pensions as of the measurement date. It also requires detailed disclosures related to the actuarial and financial information used in the calculation of the net pension liability and the reporting of historical pension data as Required Supplementary Information.

**Section II – Financial Statements Findings (Continued)**

**Finding Reference      2020-001 (Continued)**

<b>Criteria (continued)</b>	Also, GASB Statement No. 75 states standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. It also requires detailed disclosures related to the actuarial and financial information used in the calculation of the net OPEB liability and the reporting of historical data as Required Supplementary Information.
<b>Cause of Condition</b>	The Center's pension plan administrator has not provided the financial and technical information necessary for the proper implementation of the requirements set forth in the GASB Statement No. 73 and GASB Statement No. 75 as of June 30, 2020.
<b>Effect of Condition</b>	The Center's Government-Wide Financial Statements does not present fairly the financial position of the governmental activities, and the change in financial position of the Center for the fiscal year ended June 30, 2020. Also, the required supplementary information has been omitted.
<b>Recommendation</b>	We recommend the Center maintains a constant communication with the pension plan's administrator, the Commonwealth's Employees Retirement System Administration, in order to obtain the necessary financial and technical information necessary to implement the requirements of the GASB Statements No. 73 and 75.
<b>Questioned Cost</b>	None

Audit Report: Reports on Compliance and Internal Control in Accordance with Governmental Auditing Standards

Audit Period: July 1, 2019 – June 30, 2020

Fiscal Year: 2019-2020

Principal Executive: Mr. Reinaldo Paniagua Látimer

Contact Person: Mr. Reinaldo Paniagua Látimer, Executive Director

Phone: (787) 625-2746 (x 2160)

Original Finding Number	Statement of Concurrence or Non concurrence	Corrective Action
2020-001	We concur with the finding.	<p>We concur with the auditors' recommendations. The Center is closely monitoring the actions of the Commonwealth's Employees Retirement System Administration in order to make sure to obtain the audited information required by these standards.</p> <p>Implementation Date: During the 2020-2021 fiscal year</p> <p>Responsible Persons: CPA Diana M. Claudio Sauri Finance Director</p>

I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT

  
\_\_\_\_\_  
Mr. Reinaldo Paniagua Látimer

03/18/2021  
DATE

**Finding Reference:** 2019-01

**Finding Type:** Financial Reporting

**Statement of Condition:**

The Center's pension plan administrator has not provided the audited actuarial and financial information necessary for the proper recognition and reporting of its net pension liability as of June 30, 2019.

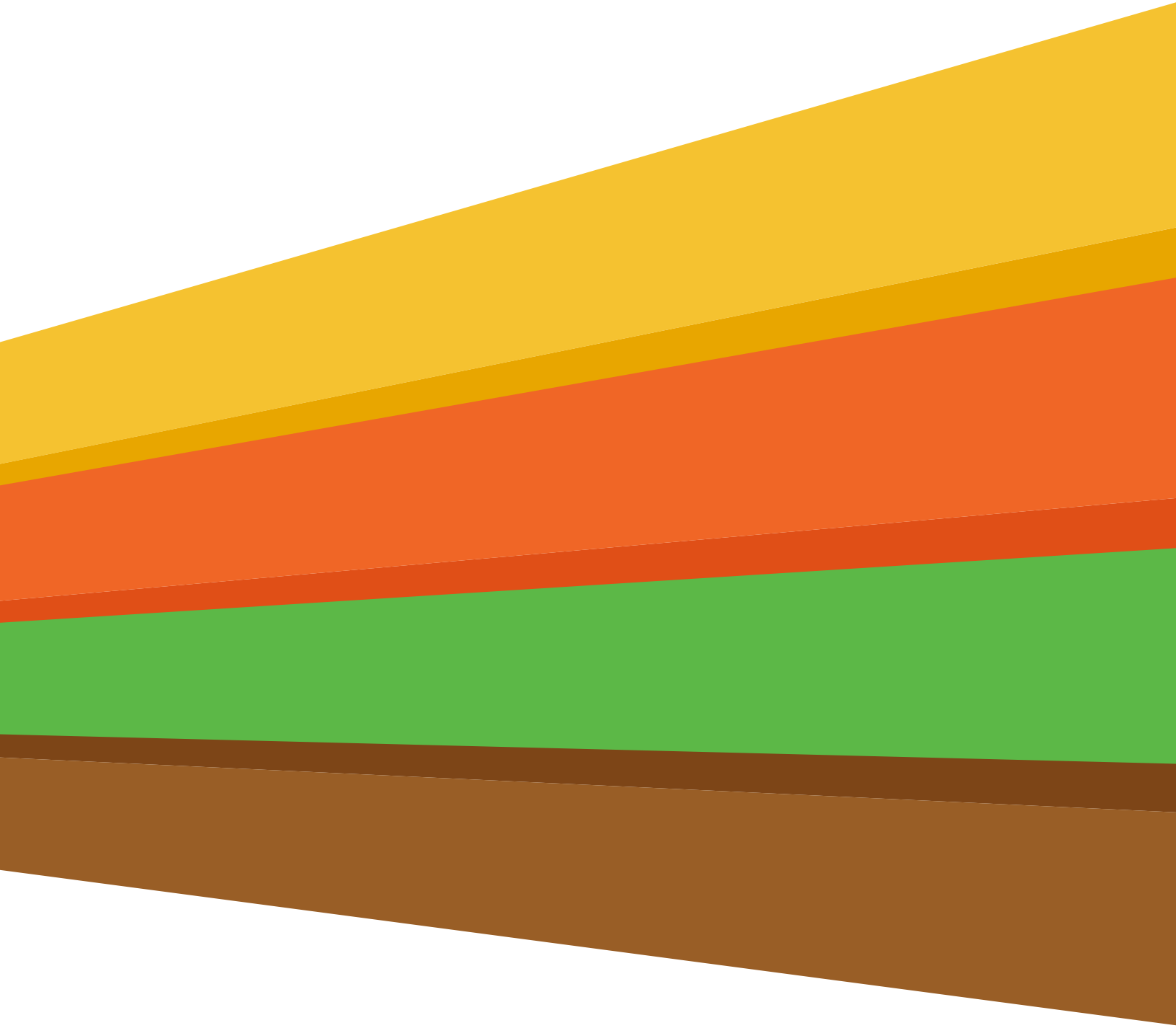
Accordingly, the Center has not been able to comply with the accounting and financial reporting requirements for pensions that are provided to the employees of state and local governmental employers through pension plans trusts that comply with the criteria set forth in the GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. The amount by which this departure would affect the assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position of the Center's governmental activities has not been determined.

In addition, the Center's financial statements do not disclose the descriptive information about the pension plans through which the pensions are provided required by the GASB Statement No. 68 for cost-sharing employers. Also, management has omitted historical pension information that accounting principles generally accepted in the United States of America required to be presented to supplement the basic financial statements.

**Status:**

Still prevails. A similar situation was identified during the audit of the fiscal year ended on June 30, 2020.









**CR**  
**IM** | **INFORME ANUAL** 2019/2020  
CENTRO DE RECAUDACIÓN DE INGRESOS MUNICIPALES

# SCHEDULE OF PROPERTY TAX FUND LIQUIDATION



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COMMONWEALTH OF PUERTO RICO  
MUNICIPAL REVENUE COLLECTION CENTER

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SCHEDULE OF PROPERTY TAX FUND  
LIQUIDATION (IN ACCORDANCE WITH ACT NO. 80  
OF AUGUST 30, 1991, AS AMENDED)

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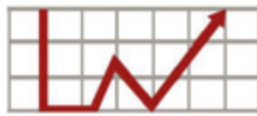
Year Ended June 30, 2020

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## **INDEPENDENT AUDITORS' REPORT**

To the Governing Board  
Municipal Revenue Collection Center  
San Juan, Puerto Rico

### **Report on the Schedule of Property Tax Fund Liquidation**

We have audited the accompanying Schedule of Property Tax Fund Liquidation (the Schedule) of the **Municipal Revenue Collection Center (the Center)** for the year ended June 30, 2020, and the related notes to the Schedule.

### **Management's Responsibility for the Schedule of Property Tax Fund Liquidation**

Management is responsible for the preparation and fair presentation of the Schedule in accordance with the provisions of Act No. 80 of August 30, 1991, as amended; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of schedules that are free from material misstatement, whether due to fraud or error.

### **Auditors' Responsibility**

Our responsibility is to express an opinion on this Schedule based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Schedule is free from material misstatement.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

## INDEPENDENT AUDITORS' REPORT (CONTINUED)

### **Basis for Qualified Opinion**

In accordance with the provisions of Act No. 80 of August 30, 1991, as amended, the Municipalities of Puerto Rico should receive 35% of the annual net income of the Puerto Rico Lottery (the Lottery) created under Act No. 10 of May 24, 1989, as amended. Those funds should be part of this Schedule for its distribution to the Municipalities. As of the date of issuance of the Schedule, the Puerto Rico Treasury Department (PRTD) does not have available audited financial information for its lottery operations. The amount of \$16,669,127 reported by the **Center** in the accompanying Schedule consisted of funds assigned and confirmed by the PRTD during the fiscal year ended June 30, 2020. The **Center's** management considers that the amount of funds of the Lottery operations received from the PRTD will be subject to change once the audited financial statements are issued and available. Since the audited financial statements of the Lottery operations are not available, we were unable to determine whether any adjustments to the amounts included in the Schedule are deemed necessary.

### **Qualified Opinion**

In our opinion, except for the possible effects of the matter described in the "Basis for Qualified Opinion" paragraph, the Schedule referred to above presents fairly, in all material respects, the Property Tax Fund Liquidation of the Center for the year ended June 30, 2020, in accordance with the provisions of Act No. 80 of August 30, 1991, as amended.

### **Emphasis of a Matter**

As described on **Note F**, on August 14, 2020, the Commonwealth of Puerto Rico enacted to law the Act No. 107 (Act No. 107-2020), to create the Municipal Code of Puerto Rico in order to integrate, organize and update the laws related to the organization, administration and operation of Municipalities. This Act adds new procedural models for greater autonomy for the Municipalities and repeals several Acts that provide guidance and requirements for their operations. Accordingly, Act No. 80 of August 30, 1991, as amended (Known as "the Municipal Revenue Collection Center (CRIM) Act" was repealed by Act No. 107-2020).

Also, on December 30, 2020, Act No. 170-2020 was enacted to amend and clarify several articles and provisions of Act No. 107-2020.

Our opinion are not modified with respect to this matter.

### **Other Matters**

Act No. 80 of August 30, 1991, as amended, provides for the distribution of the Municipal Public Works Fund, a fund that accounts for 2% of the collections from fines imposed under Act No. 22 of January 7, 2000, as amended, known as the Vehicle and Traffic Act of Puerto Rico. Such distribution is not included in the accompanying Schedule.



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**INDEPENDENT AUDITORS' REPORT (CONTINUED)**

**Other Matters (Continued)**

Act No. 162 of August 8, 2012 provides for certain additional funds to be distributed annually to the Municipalities of Puerto Rico commencing with the fiscal year ended June 30, 2014. The additional funds amounting to \$25,000,000 per annum or the amount determined as a result of an independent audit to be annually performed by the Government Development Bank for Puerto Rico shall be distributed before the end of each fiscal year commencing with the fiscal year ended June 30, 2014. On June 29, 2018 the Center filed a Proof of Claim in the sum of \$75 million in the PROMESA Title III Bankruptcy Case filed by the Commonwealth of Puerto Rico on May 3, 2017. Such distribution is not included in the accompanying Schedule.

**Use of this Report**

This report is intended solely for the information and use of the Governing Board and management of the Center and the mayors and management of the Municipalities of Puerto Rico, and is not intended to be and should not be, used by anyone other than these specified parties.



LÓPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico  
February 18, 2021

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Society of Certified Public Accountants  
was affixed to the record copy of this report.



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MUNICIPALITY	Revenues after the Approval of Act 80 of August 30, 1991, as amended	Advances to Municipalities	Funds Assigned to CRIM	Interest Charges	Other Deductions and Adjustments	Due to (from) Municipalities
TOTAL	\$ 599,491,895	\$ (536,547,470)	\$ (28,430,586)	\$ (4,034,765)	\$ (3,764,608)	\$ 26,714,466
Adjuntas	4,360,961	(4,280,537)	(43,841)	(29,351)	(4,801)	2,431
Aguada	5,605,527	(5,278,827)	(153,149)	(37,727)	(20,871)	114,953
Aguadilla	6,622,245	(5,803,245)	(398,227)	(44,570)	(4,434)	371,769
Aguas Buenas	5,253,044	(5,022,563)	(73,089)	(35,355)	(14,396)	107,641
Aibonito	5,092,434	(4,783,540)	(101,974)	(34,274)	(34,339)	138,307
Añasco	5,220,596	(4,948,070)	(137,764)	(35,136)	(12,504)	87,122
Arecibo	6,207,390	(5,073,058)	(453,176)	(41,778)	28,102	667,480
Arroyo	4,636,816	(4,704,125)	(60,850)	(31,207)	(49,746)	(209,112)
Barceloneta	7,300,910	(6,862,409)	(302,805)	(49,137)	22,071	108,630
Barranquitas	5,768,431	(5,598,267)	(80,645)	(38,823)	(7,415)	43,281
Bayamón	33,021,892	(29,462,196)	(2,025,252)	(222,247)	(134,741)	1,177,456
Cabo Rojo	6,673,820	(5,886,975)	(379,358)	(44,917)	(29,952)	332,618
Caguas	19,375,255	(16,569,337)	(1,359,977)	(130,401)	(37,155)	1,278,385
Camuy	5,359,922	(5,075,958)	(105,400)	(36,074)	(3,047)	139,443
Canóvanas	6,941,943	(6,149,108)	(272,667)	(46,721)	(42,371)	431,076
Carolina	32,444,400	(27,063,380)	(2,039,229)	(218,361)	(283,708)	2,839,722



MUNICIPALITY	Revenues after the Approval of Act 80 of August 30, 1991, as amended	Advances to Municipalities	Funds Assigned to CRIM	Interest Charges	Other Deductions and Adjustments	Due to (from) Municipalities
Cataño	14,700,956	(12,479,120)	(594,259)	(98,942)	(84,391)	1,444,244
Cayey	7,456,310	(6,529,375)	(407,320)	(50,183)	(44,806)	424,626
Ceiba	3,857,539	(3,736,415)	(68,007)	(25,962)	(6,998)	20,157
Ciales	3,925,980	(3,784,809)	(49,885)	(26,423)	(11,734)	53,129
Cidra	5,731,691	(5,234,923)	(243,815)	(38,576)	(42,791)	171,586
Coamo	5,175,525	(5,029,330)	(109,617)	(34,833)	(35,606)	(33,861)
Comerio	5,346,984	(5,450,326)	(39,554)	(35,987)	(21,378)	(200,261)
Corozal	5,891,705	(5,791,859)	(92,735)	(39,653)	(45,677)	(78,219)
Culebra	1,909,272	(1,838,904)	(29,883)	(12,850)	(4,972)	22,663
Dorado	9,134,078	(8,149,159)	(519,010)	(61,475)	(44,318)	360,116
Fajardo	7,577,295	(6,825,726)	(375,179)	(50,998)	(41,897)	283,495
Florida	4,285,652	(4,236,600)	(26,131)	(28,844)	(2,744)	(8,667)
Guánica	4,708,604	(4,565,206)	(58,773)	(31,690)	1,250	54,185
Guayama	7,123,114	(6,447,376)	(350,496)	(47,941)	(32,969)	244,332
Guayanilla	3,550,309	(3,776,706)	(45,608)	(23,895)	(103,726)	(399,626)
Guaynabo	30,107,650	(26,348,384)	(2,052,724)	(202,634)	(111,483)	1,392,425
Gurabo	6,926,796	(6,324,865)	(292,295)	(46,619)	(6,576)	256,441
Hatillo	7,152,775	(6,746,091)	(312,096)	(48,140)	(22,855)	23,593

MUNICIPALITY	Revenues after the Approval of Act 80 of August 30, 1991, as amended	Advances to Municipalities	Funds Assigned to CRIM	Interest Charges	Other Deductions and Adjustments	Due to (from) Municipalities
Hormigueros	3,853,952	(3,612,431)	(117,144)	(25,938)	(9,141)	89,298
Humacao	10,374,158	(9,110,339)	(625,184)	(69,821)	(47,004)	521,810
Isabela	6,579,041	(6,130,921)	(241,517)	(44,279)	(30,727)	131,597
Jayuya	4,087,586	(4,012,795)	(44,885)	(27,511)	(247)	2,148
Juana Díaz	5,193,962	(4,774,908)	(159,882)	(34,957)	(29,990)	194,225
Juncos	6,229,693	(5,417,585)	(228,125)	(41,928)	(30,719)	511,336
Lajas	4,306,524	(4,004,093)	(100,579)	(28,984)	(19,352)	153,516
Lares	5,202,557	(4,983,260)	(78,061)	(35,015)	(17,022)	89,199
Las Marías	3,648,354	(3,620,413)	(23,277)	(24,555)	(2,606)	(22,497)
Las Piedras	5,193,757	(4,697,647)	(179,920)	(34,956)	(26,546)	254,688
Loiza	5,878,940	(5,843,735)	(78,229)	(39,567)	(37,411)	(120,002)
Luquillo	4,679,496	(4,389,149)	(158,334)	(31,494)	(14,939)	85,580
Manatí	7,857,256	(7,118,280)	(333,128)	(52,882)	(203,316)	149,650
Maricao	2,883,665	(2,840,137)	(19,375)	(19,408)	6,323	11,068
Maunabo	4,163,724	(4,334,320)	(34,533)	(28,023)	(47,373)	(280,525)
Mayagüez	12,893,185	(10,919,721)	(801,360)	(86,775)	(112,487)	972,842
Moca	5,980,838	(5,636,804)	(126,579)	(40,253)	(18,096)	159,106
Morovis	5,274,445	(5,363,173)	(73,791)	(35,499)	(68,897)	(266,915)

MUNICIPALITY	Revenues after the Approval of Act 80 of August 30, 1991, as amended	Advances to Municipalities	Funds Assigned to CRIM	Interest Charges	Other Deductions and Adjustments	Due to (from) Municipalities
Naguabo	5,105,860	(4,875,311)	(103,061)	(34,364)	(20,320)	72,804
Naranjito	5,878,838	(5,606,990)	(88,878)	(39,566)	(5,927)	137,477
Orocovis	6,097,675	(5,975,377)	(65,673)	(41,039)	(6,066)	9,520
Patillas	4,007,320	(4,288,100)	(42,257)	(26,970)	(48,172)	(398,179)
Peñuelas	4,355,451	(4,401,214)	(138,693)	(29,314)	(126,147)	(339,917)
Ponce	15,720,318	(13,716,721)	(1,218,452)	(105,803)	(183,660)	495,682
Quebradillas	4,493,861	(4,280,493)	(83,114)	(30,245)	9,558	109,567
Rincón	4,701,738	(4,461,333)	(120,175)	(31,644)	(11,228)	77,358
Río Grande	6,088,399	(5,455,064)	(342,200)	(40,977)	(32,502)	217,656
Sabana Grande	4,248,106	(4,050,957)	(73,862)	(28,591)	81,957	176,653
Salinas	4,640,239	(4,343,599)	(88,883)	(31,230)	(8,095)	168,432
San Germán	4,613,092	(4,287,743)	(159,842)	(31,048)	46,942	181,401
San Juan	56,614,416	(39,496,805)	(6,296,651)	(381,032)	(1,011,456)	9,428,472
San Lorenzo	6,361,670	(5,942,316)	(151,630)	(42,816)	(64,013)	160,895
San Sebastián	5,694,434	(5,205,023)	(201,068)	(38,325)	(21,531)	228,487
Santa Isabel	4,223,028	(4,157,361)	(111,642)	(28,422)	(46,644)	(121,041)
Toa Alta	6,804,745	(6,354,393)	(238,155)	(45,798)	(36,852)	129,547

MUNICIPALITY	Revenues after the Approval of Act 80 of August 30, 1991, as amended	Advances to Municipalities	Funds Assigned to CRIM	Interest Charges	Other Deductions and Adjustments	Due to (from) Municipalities
Toa Baja	7,255,799	(5,829,693)	(510,001)	(48,834)	(107,932)	759,339
Trujillo Alto	7,749,960	(6,873,116)	(366,121)	(52,160)	(41,829)	416,734
Utuado	5,048,300	(4,882,529)	(76,165)	(33,977)	(11,655)	43,974
Vega Alta	6,410,624	(5,829,656)	(243,509)	(43,145)	(36,544)	257,770
Vega Baja	5,473,506	(5,024,526)	(266,238)	(36,838)	(15,206)	130,698
Vieques	3,022,329	(2,847,598)	(54,522)	(20,341)	39,226	139,094
Villalba	5,830,054	(5,689,256)	(57,854)	(39,238)	(59,721)	(16,015)
Yabucoa	5,170,873	(5,162,761)	(92,161)	(34,802)	(42,810)	(161,661)
Yauco	5,152,306	(4,843,055)	(161,086)	(34,677)	(1,453)	112,035

## A. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Municipal Revenue Collection Center (the Center) was created by Act No. 80 of August 30, 1991, as amended, (the Act) as part of the Municipal Reform Legislation. The Center was created for the purpose of establishing a separate and independent municipal entity from the Commonwealth of Puerto Rico (the Commonwealth) to collect, receive and distribute the property tax revenue of the Municipalities. Prior to the enactment of this Act, the Commonwealth, through the Department of Treasury, accounted for these revenues. The Center is exempt from the payment of taxes on its revenues and properties.

The Schedule of Property Tax Fund Liquidation (in accordance with the Act) has been prepared on the cash basis of accounting. Property tax revenues are recorded when collected and deducted when distributed to the Municipalities. Advances to the Municipalities are made on a monthly basis based on estimates of revenues in accordance with the Act.

As described on **Note F**, on August 14, 2020, the Commonwealth of Puerto Rico enacted to law the Act No. 107 (Act No. 107-2020), to create the Municipal Code of Puerto Rico in order to integrate, organize and update the laws related to the organization, administration and operation of Municipalities. This Act adds new procedural models for greater autonomy for the Municipalities and repeals several Acts that provide guidance and requirements for their operations. Accordingly, Act No. 80 of August 30, 1991, as amended (Known as "the Municipal Revenue Collection Center (CRIM) Act" was repealed by Act No. 107-2020.

Also, on December 30, 2020, Act No. 170-2020 was enacted to amend and clarify several articles and provisions of Act No. 107-2020.

## B. PROPERTY TAX FUND

Pursuant to the Act, the Center is empowered to bill and collect property taxes, and to distribute property tax collections to the Municipalities.

The Center must advance to the Municipalities, on a monthly basis, one-twelfth of the estimate of annual revenues. The Center is required to provide a preliminary certification on the liquidation on or before September 30 of each given year and to distribute such certification on or before three (3) business days once it is made.

A final liquidation of due to or from each municipality is required within the six-month period following the close of the fiscal year.

### Property Taxes

Real property taxes are assessed on July based on the taxable values as of January 1, using the estimated values of 1957. Assessed values of personal property are based on the book value at January 1 of each year. Property taxes are assessed for all properties located within the Commonwealth of Puerto Rico.

Real property taxes are billed by the Center and are due in two equal installments, in July and January following the assessment date. Personal property taxes are self-assessed and are due on May 15, when the related property tax return is required to be filed.

**B. PROPERTY TAX FUND (CONTINUED)**

**Property Taxes (Continued)**

The property tax rates per annum vary among Municipalities. For the fiscal year 2019-2020, the rates were comprised as follows:

	Personal Property		Real Property	
	Minimum	Maximum	Minimum	Maximum
Basic	3.72%	4.00%	5.72%	6.00%
Contribution to debt redemption funds:				
State	1.03%	1.03%	1.03%	1.03%
Municipal	1.00%	5.50%	1.20%	5.50%

Total property tax rates varied from 5.80% to 10.33% for personal property and 8.03% to 12.33% for real property.

**Impact of the Certified Fiscal Plan of the Commonwealth of Puerto Rico**

One of the measures approved for the reduction of governmental expenditures included in the fiscal plan certified by the Financial Oversight and Management Board is the progressive reduction of the transfers of funds provided by the Commonwealth of Puerto Rico (the Commonwealth) to the Municipalities, mainly the ones that are paid through the monthly advances of property taxes made by the Municipal Revenue Collection Center (CRIM).

Based on the approved budget of Commonwealth of Puerto Rico for fiscal year 2019-2020, the Center shall experience a reduction of revenues of **\$55,742,000**. This reduction represents a decrease of **25.90%** in revenues compared to the prior fiscal year, as presented below.

Revenue Source	2019-20 Budget	2018-19 Budget	Increase (Decrease)	Percentage
General Fund (Transfers)	\$ 131,838,000	\$ 175,730,000	\$ (43,892,000)	(24.98) %
35% of Puerto Rico Additional Lottery System	27,670,000	39,520,000	(11,850,000)	(29.98)%
Total	\$ 159,508,000	\$ 215,250,000	\$ (55,742,000)	(25.90)%

**B. PROPERTY TAX FUND (CONTINUED)**

**Impact of the Certified Fiscal Plan of the Commonwealth of Puerto Rico (Continued)**

However, during the fiscal year 2019-2020, total actual transfer of funds from the Commonwealth's General Fund and the Lottery amounted to \$148,507,127, representing a reduction of \$82,364,140 or 35.68%, compared with prior year. Also, during fiscal year 2019-2020, basic property taxes decreased by \$12,922,156 or 5.08% compared to prior fiscal year. Accordingly, during fiscal year 2019-2020, total revenues experienced a reduction of \$95,286,296 or 19.63%, as shown in the following table:

Revenue Source	2019-20	2018-19	Increase (Decrease)	Percentage
35% of Puerto Rico Additional Lottery System	\$ 16,669,127	\$ 55,087,267	\$ (38,418,140)	(69.74)%
General Fund (Transfers)	131,838,000	175,784,000	(43,946,000)	(25.00)%
Sub-total	148,507,127	230,871,267	(82,364,140)	(35.68)%
1% and 3% basic property taxes	241,573,592	254,495,748	(12,922,156)	(5.08)%
Total	\$ 390,080,719	\$ 485,367,015	\$ (95,286,296)	(19.63)%

**Equalization Fund**

Act No. 80 of August 30, 1991, as amended, established a special fund known as the Equalization Fund ("Fondo de Equiparación") 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 shall include the following:

- (a) All funds derived from basic property taxes assessed by the Commonwealth of Puerto Rico prior to the 1991 Municipal Reform corresponding to a tax rate of 1% for personal property tax and a tax rate of 3% over the assessed value of all real estate property in Puerto Rico, not otherwise exempt. For the fiscal year ended June 30, 2020, these funds amounted to \$241,573,592.
- (b) 2.50% for the fiscal years after 2002-2003 of the net internal revenue of the Commonwealth of Puerto Rico. However, during the last two (2) fiscal years this amount have been reduced under the provision of the Commonwealth's approved fiscal plan under PROMESA. For the fiscal year ended June 30, 2020, total transfers received from the Commonwealth amounted to \$131,838,000.
- (c) An amount equal to 35% of the Puerto Rico Additional Lottery System (the Lottery) net operational income. However, the financial statements of the Lottery are not available at the date of the issuance of this report. Accordingly, for the fiscal year ended June 30, 2020, the funds received by the Center, which are included in the schedule, amounted to \$16,669,127.

## B. PROPERTY TAX FUND (CONTINUED)

### Equalization Fund (Continued)

- (d) An amount equal to 2% of the state imposed penalties described under Sec. 5001 of Title 9, known as the Puerto Rico Vehicles and Transit Law ("Ley de Vehículos y Tránsito de Puerto Rico") to be distributed by Municipalities by the Center. Funds under this item shall be collected and distributed to the corresponding Municipalities directly by Puerto Rico Treasury Department; therefore such amounts are not part of the Schedule.

Funds received under items (a) above are distributed to the corresponding Municipalities. Funds received under items (b) and (c) above are distributed to the Municipalities up to the amounts required to make each municipality's revenue equal its revenue from these sources for the prior fiscal year (i.e., equalize the Municipalities). Any excess funds received under items (b) and (c) above are distributed to the Municipalities using the four (4) factors provided by Act No. 80.

However, due to the deficiency of funds for the equalization process caused by the reductions of Commonwealth's transfers to the Center, during the fiscal year 2018-2019 certain provisions of Act No. 80 related to the distribution of funds to the Municipalities were amended. Accordingly, the Center's Governing Board has the authority to establish the formula to determine the bases for the equalization and distribution of funds.

On May 17, 2019, the Commonwealth of Puerto Rico enacted the Act 29 (Law for the Reduction of Administrative Burdens of Municipalities) in order to eliminate the obligation of Municipalities to contribute to the Government's health plan and the Pay as you Go retirement system. Instead, the Municipal Revenue Collection Center (the Center) will retain in the Equalization Fund, a fifty percent (50%) of the amount that the Municipalities should disburse to ASES, using as a basis the amount invoiced for the fiscal year 2015-2016. In addition, the Center will retain in the Equalization Fund, a ninety percent (90%) of the amount that the Municipalities should disburse to the "Pay as you Go", using as a basis the amount invoiced for the fiscal year 2017-2018. The amount retained in the Equalization Fund will be distributed to the Municipalities, according to the rules applicable to that fund. The remaining cash will be distributed among Municipalities, based on the proportion they contribute to monthly remittance advances. This Act reduces the impact of the fiscal plan approved by the Financial Oversight and Management Board (the Oversight Board) under PROMESA, which included the progressive reduction of transfers from the Commonwealth's General Fund to the Municipalities until their elimination by the fiscal year 2023.

According to the Act, from the fiscal year beginning July 1, 2019, Municipalities will not be required to pay the Pay as you Go, nor the Center the obligation to remit payments for this purpose. In addition, the Municipalities, will have no obligation, neither the Center, to make contributions to the health insurance plan (ASES), beginning October 1, 2019.



## B. PROPERTY TAX FUND (CONTINUED)

### Equalization Fund (Continued)

Based on the above, the Center withheld from the monthly remittance advances to the Municipalities, an amount of \$202,955,012 as a municipal contribution to the Equalization Fund for the fiscal year ended June 30, 2020. This amount was withheld from the non-exempt basic property taxes collections and was considered to be part of the equalization of revenues and distribution of funds to the Municipalities along with the municipal transfer of funds from the Commonwealth's General Fund and the Lottery appropriated in the Fiscal Year 2020 Certified Budget. As mentioned before, total actual transfers received from the Commonwealth's General Fund and the Lottery amounted to \$131,838,000 and \$16,669,127, respectively. Accordingly, total funds received from the Commonwealth's General Fund and the Lottery for the fiscal year ended June 30, 2020, experienced a reduction of \$82,364,140 compared with prior fiscal year.

On April 15, 2020, the United States District Court for the District of Puerto Rico (the Court), annulled the Act No. 29. The Court agreed with the Oversight Board, that Act No. 29 was inconsistent with the fiscal plans and budgets certified by the Oversight Board for the Commonwealth of Puerto Rico. The Court delayed the effective date of the order through May 6, 2020 to allow the Oversight Board, the Municipalities and the Puerto Rico Fiscal Agency and Advisory Authority (FAFAA) to work collaboratively to resolve the immediate fiscal implication of Act No. 29's nullification. The nullification of Act No. 29 required the Municipalities collectively to reimburse to the Commonwealth \$198 million: \$166 million related to Pay Go obligations and \$32 million related to health care costs. The Oversight Board proposed various methods by which Municipalities may allocate among themselves their reimbursement obligations. After the evaluation of the proposed alternatives, the Center agreed to accept to distribute \$131,838,000 municipal transfers from the Commonwealth's General Fund appropriated in FY 2020 Certified Budget as an offset for repaying the FY 2020 municipal PayGo charges and ASES contribution. Other alternatives for the repayment of the remaining balance of \$66 million were evaluated between the parties.

As a result of the circumstances described before, the funds transferred from the Commonwealth's General Fund amounting to \$131,838,000 during fiscal year 2020, were not available for distribution to Municipalities as established in the Act 80 of August 30, 1991. Instead, the Center distributed to the Municipalities the amounts of \$241,573,592, \$202,955,012 and \$16,669,127 related to the funds derived from the basic property taxes of 1% for personal property tax and the 3% for real estate property tax, the municipal contribution according to the Act No. 29 and the funds received from the Lottery System, respectively. Therefore, the funds collected during the fiscal year were not sufficient to provide an equalization of revenues for all the Municipalities.

**B. PROPERTY TAX FUND (CONTINUED)**

**Equalization Fund (Continued)**

Accordingly, a deficiency of funds for the equalization of revenues resulted in the amount of \$54,726,434, as shown in the following table:

Funds required for the equalization of revenues	\$ 515,528,920
1% and 3% basic property taxes	(241,573,592)
Excess of revenues over the equalization requirements	<u>395,245</u>
Total funds required to be covered with municipal contributions (Act No. 29) and Lottery	274,350,573
Municipal contributions (Act No. 29)	(202,955,012)
Funds from the Puerto Rico Additional Lottery System	<u>(16,669,127)</u>
Deficiency of funds for equalization of revenues	<u>\$ 54,726,434</u>

Taking into consideration the deficiency of funds, the liquidation schedule for the fiscal year 2020 was prepared based on the following assumptions:

1. Computation of the equalization of funds for all Municipalities using the results obtained during fiscal year 2016-2017 as base year.
2. One (1) Municipality which resulted with an excess of revenues over the equalization requirements of \$395,245, will receive such excess and was excluded from the distribution of the deficiency of funds for equalization of revenues.
3. The requirement for equalization of revenues with municipal contributions-Act No. 29 and the Lottery for the remaining seventy seven (77) Municipalities amounted to \$274,350,573. Notwithstanding, funds available for distribution amounted to \$219,629,139, which were distributed based on the proportionate share of each Municipality of the total of funds amounted to \$274,350,573, resulting in a deficiency of funds of \$54,726,434.

## B. PROPERTY TAX FUND (CONTINUED)

### Insurance and Other Withholdings

As part of the Municipalities' monthly remittance advances distributed by the Center, withholdings are made in order to cover certain Municipalities' obligations and payment plans, that include the following:

- **Municipal insurance policies:** The Municipalities carry commercial insurance to cover casualty, theft, tort claims, and other losses. Originally, insurance policies were negotiated by the Puerto Rico Treasury Department. Since 2012, the Municipalities were allowed to negotiate their insurance policies directly with insurance providers. As of June 30, 2020, all the municipalities of Puerto Rico negotiated their insurance policies with private insurance providers. All costs associated with the insurances are withheld from the property tax collections.
- **Loans:** The Center also withholds all amounts due by municipalities on their loans payable to commercial banks.
- **Payments due to governmental entities:** Certain amounts due to other governmental entities under payment plans subscribed by the municipalities or by statutory acts.
- **Center's administrative expenses:** In addition, the Center withholds from property tax monthly advances up to 5% of the collections of the property tax to cover for the Center's administrative expenses.

### Advances and Final Liquidation

On December 17, 2020, the Center's Governing Board approved the Preliminary Liquidation and the advance of the estimated funds to be distributed to the Municipalities. This Preliminary Liquidation shows Municipalities with superavits of \$27,532,973 and Municipalities with deficit of funds of \$3,149,157. The total funds distributed to those Municipalities with a superavit amounted to \$19,273,081, which represents an advance of 70% of total funds to be distributed.

On February 18, 2021, the Center's Governing Board approved the Final Liquidation. The Final Liquidation shows municipalities with superavits of \$29,370,968 (\$10,097,887 net of the funds advances with the Preliminary Liquidation mentioned before) and municipalities with deficit of funds of \$2,656,502.

## C. LIQUIDATION AND CLAIMS

### Collection of Fines under Act No. 22

Act No. 80 of August 30, 1991, as amended, provides for the distribution of the Municipal Public Works Fund, a fund that accounts for 2% of the collections from fines imposed under Act No. 22 of January 7, 2000, as amended, known as the Vehicle and Traffic Act of Puerto Rico. The Department of the Treasury has not established a mechanism to identify those funds in order to be distributed to the municipalities. Accordingly, such distribution is not included in the accompanying Schedule.

### C. LIQUIDATION AND CLAIMS (CONTINUED)

#### Other Funds for Municipalities

Act No. 162 of August 8, 2012 provides for certain additional funds to be distributed annually to the municipalities of Puerto Rico commencing with the fiscal year ended June 30, 2014. The additional funds amounting to \$25,000,000 per annum or the amount determined as a result of an independent audit to be annually performed by the Government Development Bank for Puerto Rico shall be distributed before the end of each fiscal year commencing with the fiscal year ended June 30, 2014. Such distribution is not included in the accompanying Schedule.

On June 29, 2018, the Center filed a Proof of Claim (Claim 77843) in the sum of \$75 million in the PROMESA Title III Bankruptcy Case filed by the Commonwealth of Puerto Rico on May 3, 2017. This Proof of Claim was filed pursuant to the provisions of Act No. 162 of August 8, 2012, involving government mandated appropriations to the Center in the yearly sums of \$25 million. Claim 77843 involves the unpaid appropriations for the three (3) years preceding the filing of the Title III Case. Any distribution on said claim, which is a general unsecured claim will be made after confirmation of the Plan of adjustment filed by the Commonwealth of Puerto Rico and will be subject to the prorated distribution provisions to general unsecured creditor.

### D. CERTIFIED FISCAL PLAN

On September 30, 2016 at its meeting, the Fiscal Oversight and Management Board ("the Oversight Board) designated the Center as a "Covered Entity" under the provisions of the Puerto Rico Oversight, Management and Economic Stability Act (PROMESA).

On June 26, 2020, the Oversight Board certified a fiscal plan for the Center for fiscal years 2021 to 2025 (the Fiscal Plan). In accordance with "PROMESA", this Fiscal Plan projects a baseline forecast of the Center's sources and uses of funds for the next five fiscal years based on historical trends and discussions with the Center's management. In order to provide a greater revenue base for municipalities and ensure greater fairness in property tax collections, certain measures have been developed to improve operations and increase tax collections at the Center. These measures are incremental to the baseline projections and must be adopted and successfully implemented to achieve the targets of the Fiscal Plan.

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

- **Operational efficiencies** – the Center is 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 the Center to implement strategies for the successful enhancement of tax revenue collections.

#### D. CERTIFIED FISCAL PLAN (CONTINUED)

- **Tax revenue collection enhancement** - the Fiscal Plan outlines measures that the Center will undertake to better capture unrealized tax revenues by increasing tax compliance and improving overall collection rates. This will help reduce Puerto Rico's reliance on other undesirable taxes, which would improve its competitiveness and attractiveness for local and foreign investment.

Success of the implementation of the initiatives outlined in the Fiscal Plan will come from the Center's ability to effectively collaborate with Municipalities, other government agencies, and the Oversight Board.

#### E. IMPACT OF COVID-19 PANDEMIC

On March 12, 2020, Governor Wanda 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. The Center'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 7, 2020. Therefore, the Center experience delayed in collections for the months of May, June, and July. Similarly, the date for the payment of the first quarterly installment of personal property taxes for FY2021 was extended from August 15, 2020, to September 15, 2020.

Even after accounting for a decline in collections due to COVID-19, as of April 2020, the Center reported higher year-to-date collections compared to what was originally estimated. Nevertheless, collections for the remainder of FY2020 may continue to be affected by COVID-19, and as a result, the Center completed an analysis to identify any adjustments that must be made to the municipal remittances of May and June to account for the tax deferral. To the extent a municipality experiences lower collection than what was advanced by the Center, this would be adjusted as part of the year-end reconciliation process. The year-end reconciliation process is completed by the Center 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, the Center 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 the Center that is repaid from property tax advances from the subsequent fiscal year.

#### E. IMPACT OF COVID-19 PANDEMIC (CONTINUED)

Similarly, as a result of COVID-19, the Center projects electronic lottery proceeds, which are distributed as part of the Equalization Fund, will be reduced by approximately \$27.7 million (from \$47.3 million to \$19.6 million). The Center completed an analysis to identify the adjustments needed to the municipal remittances for May and June to account for the lower Equalization Fund as a result of the projected decline in lottery proceeds. However, given that the year-to-date remittances were advanced at the beginning of the fiscal year based on the projected \$47.3 million of proceeds, a reconciliation process will be required. Any variance between actual and projected proceeds must be adjusted to achieve fiscal accountability and allow for the projection of accurate revenues for the fiscal year.

Additionally, as part of the COVID-19 Emergency Measures Support Package, Municipalities received approximately \$100 million from the Commonwealth in FY2020. Municipalities were distributed \$50 million per month for two months based on a 3-tier division of population by Municipality. Municipalities with a population of fewer than 25,000 people received \$1 million in total, those with a population greater than 25,000, but less than 50,000 received \$1.35 million, and those with a population greater than 50,000 received \$1.75 million. Similarly, an additional \$100 million is being distributed to municipalities from the \$2,241 million appropriated to Puerto Rico under the Coronavirus Aid, Relief and Economic Relief Act (the "CARES Act"). These funds are to be used to reimburse costs related to COVID-19, which had not been previously budgeted for by the Municipalities. The Municipalities are responsible for tracking, reporting, and submitting these incremental expenses for reimbursements. It is important to note that these funds cannot be used to replace lost revenue as a result of the decline in business activities.

#### F. SUBSEQUENT EVENTS

Subsequent events were evaluated through February 18, 2021, the date the Schedule of Property Tax Fund Liquidation (the Schedule) of the Municipal Revenue Collection Center (the Center) for the year ended June 30, 2020 was available to be issued. No significant events that should have been recorded or disclosed were noted, except for the matters mentioned in the next paragraphs.

##### *Impact of the Certified Budget for Fiscal Year 2020-2021*

The Financial Oversight and Management Board approved a fiscal plan which included the progressive reduction of the transfers of funds provided by the Commonwealth to the Municipalities, mainly the ones that are paid through the monthly advances of property taxes made by the Municipal Revenue Collection Center (CRIM).

**F. SUBSEQUENT EVENTS (CONTINUED)**

***Impact of the Certified Budget for Fiscal Year 2020-2021 (Continued)***

Based on the approved budget of Commonwealth of Puerto Rico for fiscal year 2020-2021, the estimated reduction of revenues will be \$2,140,000. Accordingly, during fiscal year 2020-21, the revenues will experience a reduction of 1.34% distributed as follows:

Revenue Source	2020-21 Budget	2019-20 Budget	Increase (Decrease)	Percentage
2.5% NIR General Fund	\$ 131,838,000	\$ 131,838,000	\$ -	0.00%
35% of Puerto Rico Additional Lottery System	25,530,000	27,670,000	(2,140,000)	(7.73)%
Total	\$ 157,368,000	\$ 159,508,000	\$ (2,140,000)	(1.34)%

***Municipal Code of Puerto Rico***

On August 14, 2020, the Commonwealth of Puerto Rico enacted to law the Act No. 107, to create the Municipal Code of Puerto Rico in order to integrate, organize and update the laws related to the organization, administration and operation of municipalities. This Act adds new procedural models for greater autonomy for the municipalities and repeals the following laws:

- Law 81-1991, as amended, known as the "Law on Autonomous Municipalities of Puerto Rico";
- Law 83-1991, as amended, known as the "Municipal Property Contribution Act 1991";
- Law 80-1991, as amended, known as the "Municipal Revenue Collection Center (CRIM) Act";
- Law No. 113 of July 10, 1974, as amended, better known as the "Municipal Patents Act";
- Law 19-2014, as amended known as "Law of the Municipal Finance Corporation";
- Law No. 19 of May 12, 1977, as amended, known as the "Municipal Police Act";
- Law 31-2012, known as "Law to Make the Restoration of the Communities of Puerto Rico" feasible;
- Law 120-2001, as amended, known as "Law on municipalization of recreational and community sports facilities";
- Law No. 21 of May 20, 1987, as amended, known as the "Access Control Act 1987";
- Law 21-1997, as amended, known as the "Contributing Debt Sales Act";
- Law 137-2014, as amended, known as "Law for the Distribution of Federal Funds of the "Community Development Block Grant Program"(CDBG) among the Municipalities of Puerto Rico";

## F. SUBSEQUENT EVENTS (CONTINUED)

### *Municipal Code of Puerto Rico (Continued)*

- Law No. 222 of May 15, 1938, as amended, known as "Law to Authorize Municipalities to Adopt Ordinances Related to the Repair and Elimination of Inadequate Housing";
- Law 118-2010, as amended, known as the "Incentives For Municipal Economic and Tourism Development Act";
- Law 18-2014, as amended, known as the "Law of the Municipal Management Fund";
- Law 64-1996, as amended, known as the "Puerto Rico Municipal Financing Act of 1996";
- Law No. 29 of June 30, 1972, as amended, known as the "Law of the Municipal Financing Agency of Puerto Rico";
- Law 114-2009 better known as "To empower Municipal Governments to Create Day Care Centers"; and for other purposes.

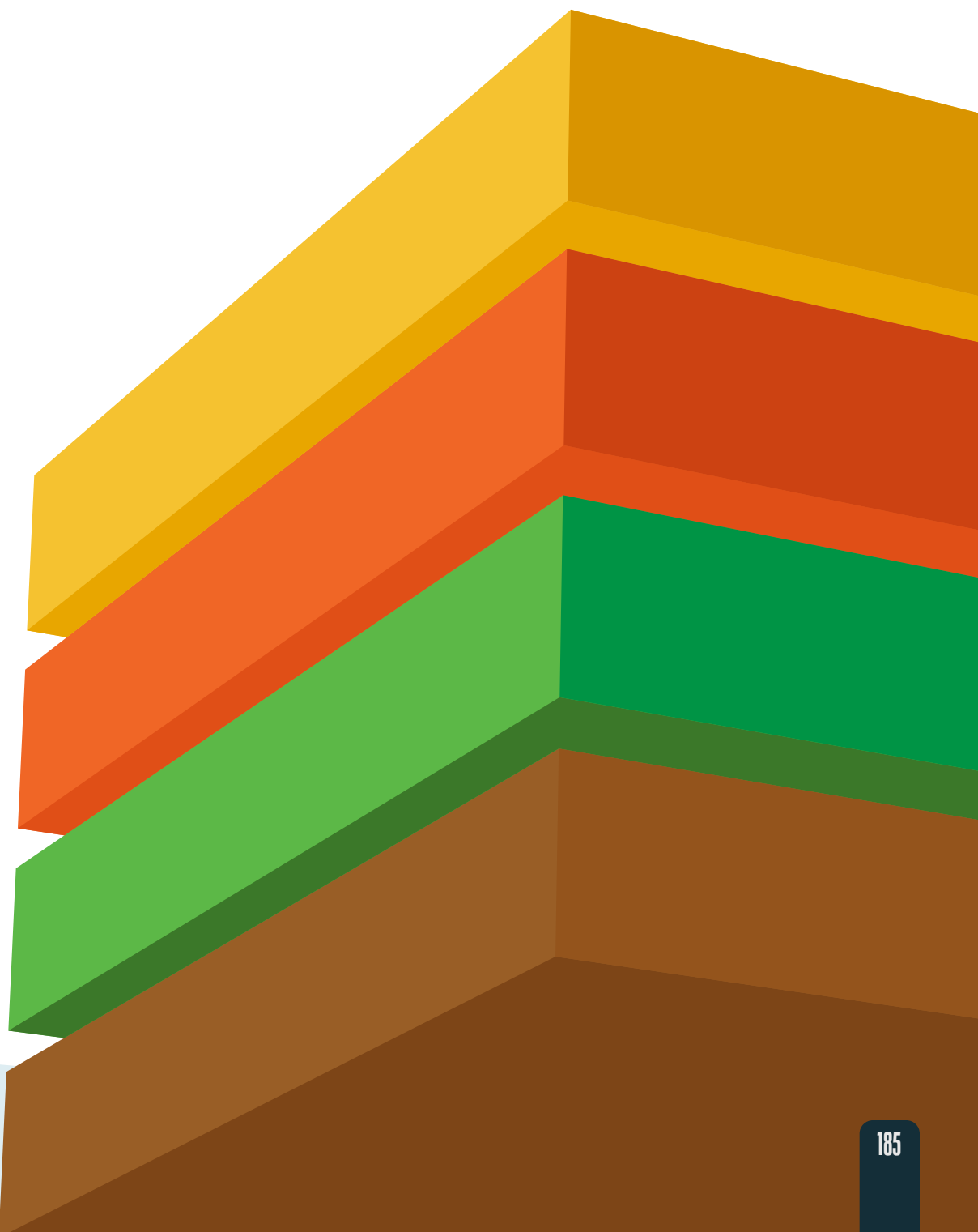
The new Municipal Code maintains the definition of "Autonomous Municipality" provided for in Law 81-1991, as amended. The Code is an advanced legislation, consisting of eight (8) books, which in turn are subdivided into chapters and articles. The table of contents of the Code is as follows:

- Book I - Municipal Government - Powers and Faculties of the Municipality, the Mayor and the Municipal Legislature.
- Book II - Municipal Administration - Organization, Planning and Control of Available Goods and Human Resources.
- Book III - Municipal Services.
- Book IV - Municipal Processes and Community Management.
- Book V - Economic Development.
- Book VI - Planning and Territorial Planning.
- Book VII - Municipal Treasury.

One of the most important books for Municipalities and their Mayors is the Book VII entitled "Municipal Treasury". This book sets out the rules and laws related to income and financing necessary for the operation of Municipalities. This Book is divided into: "Municipal Tax Collection Center", "Municipal Tax Types" and "Municipal Financing". The Municipal Code of Puerto Rico established the municipal legal order for Municipalities to renew and look for real alternatives to the new fiscal challenges they face.

Also, on December 30, 2020, Act No. 170-2020 was enacted to amend and clarify several articles and provisions of Act No. 107-2020.





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