Puerto Rico Commission for the Comprehensive Audit of the Public Credit

Pre-audit Survey Report
Executive Summary

Law 97 of 2015 created the Commission for the Comprehensive Audit of Puerto Rico’s Public Credit ("Commission"). The Commission is comprised of 17 members selected from civil society stakeholders including: elected officials, representatives of financial institutions, credit unions, academics, and organized labor. The Commission requested that volunteer staff conduct a series of pre-audit research reports to obtain a basic understanding of the debt and the legal norms applicable to Puerto Rico’s debt, starting with the most recent debt issuances, and working in reverse chronological order. In our first report, published in June 2016, we identified issues for further study arising from the two most recent full faith and credit debt issues of the Commonwealth; those being the 2014 $3.5 billion general obligation bond offering and the 2015 issue of tax and revenue anticipation notes. That report did not, nor was it meant to, comply with U.S. General Accounting Standards (“Yellow Book”) due to the fact that the Commission had not received funding to hire appropriate staff. As a result, it identified issues for further study, but did not, and could not, arrive at any definitive conclusions regarding the Commonwealth of Puerto Rico’s debt.

Similarly, in this second report, we reviewed the 2013 debt issuance of the Puerto Rico Electric Power Authority (“PREPA”). This report also does not comport to comply with Yellow Book standards due to lack of funding. As a result, the scope of the present report was limited to a review of the compendium of compliance and contractual documents associated with the 2013 PREPA bond offering. Commission research associates conducted limited informational interviews and inquiries of former and current representatives of the Government Development Bank as well as PREPA. Additionally, documents prepared by PREPA itself, its independent accountants and consulting engineers, among others, were taken into account.

In this report, we identified the following issues as potentially worthy of further review in the formal audit to be performed by the Commission:
1. Did PREPA incur in a violation as per its Trust Agreement by projecting an inflated debt coverage ratio? Despite having the legal authority to raise charges whenever PREPA deems it necessary, did PREPA lack the practical capacity to charge rates sufficient to cover its debt service?

PREPA covenanted in the Trust Agreement to collect rates so that net revenues would provide an amount of at least 120% of the aggregate principal and interest requirements for the next fiscal year. During certain years PREPA would include uncollected electricity charges in its net revenues. This, along with other practices, made PREPA’s net revenues appear higher relative to its debt service than if uncollected receivables had not been included. Practices such as this led to an increased debt coverage fraction, allowing the company to comply with the 120% requirement in the five years before and after the 2013 bond issuance. However, by excluding uncollected revenues, the requirement of at least 120% was reached only once in the same ten years. An auditor will have to determine whether PREPA properly included certain amounts in its debt revenue calculations.

2. Did PREPA, its advisors, and its underwriters take sufficient measures to protect the investing public?

(a) SEC Rule 15c2-12 bars underwriters from selling debt unless they have determined that the issuer will provide the Municipal Securities Rulemaking Board with annual financial statements in a timely manner. PREPA repeatedly published financial statements and other relevant information after the due date. Should the underwriters have known that PREPA would not have met its continuing disclosure obligations?

(b) The Sarbanes-Oxley Act (“SOX”) provides for a mandatory audit rotation at least every five years to protect the investing public. Although PREPA was not legally obligated to enforce this mandatory audit revision, many public utilities follow SOX standards for conducting their business. The long-lasting relationship with its auditors (of up to 65 years) raises the question of why PREPA did not consider such rotations suitable to protect their rate payers and bondholders, and guarantee the independence of its audits. An audit will have to determine whether the process for auditor selection was fair and done in a responsible manner.

(c) The Sarbanes-Oxley Act also provides that it is unlawful for auditors to provide services outside the scope of practice of auditors or non-audit services. The URS Corporation, PREPA’s performance auditors (“Consulting Engineers”), was involved in the commodification process of the Power Revenues Bonds. This created an environment in which the income earned by the URS Corporation may have been directly tied to the outcome of the sale of the financial instruments of the corporation (PREPA) that it was contracted to analyze. Did PREPA’s Governing Board or URS raise these potential conflicts when issuing these bonds?
3. Did PREPA’s Governing Board and the GDB’s Board of Directors fail to protect the corporation, its clients, and bondholders by not adequately scrutinizing the 2013 bond issuance? Is the governance structure of PREPA and the GDB suitable for the purpose of these institutions?
PREPA’s Governing Board has the authority to shape the management and finances of the corporation, making the Board also responsible for debt issuances. Similarly, the Board of Directors of the GDB, PREPA’s fiscal agent and financial advisor, is also responsible for PREPA’s bond issuances.
Do the Boards of Directors of PREPA and the GDB have sufficient independence from political influence? Did the GDB’s different roles as PREPA’s advisor as well as lender constitute a conflict of interests? Are the high turnover rates among PREPA’s executive personnel suitable for the purpose of the corporation? Are the interests of Puerto Rico’s residents sufficiently represented within PREPA’s Board?
Another concern is that within PREPA there are no such actors as shareholders who exercise certain powers within private companies. In state-owned PREPA, the Puerto Rican residents are comparable to the shareholders of private enterprises, only that the Puerto Rican residents do not exercise comparable powers. This allows diverse interest groups such as political parties, bondholders and unions to organize and extract benefits from PREPA at the burden of the rest of the Commonwealth’s residents.

4. Did PREPA get a proper interest rate commensurate with the investment grade bestowed upon this issuance?
The yields and terms of borrowing associated with PREPA’s August 2013 $673 million Revenue Bonds offering appeared to have far less favorable terms than would appear reasonable for similar investment-grade debentures offered at the time of sale. This data point suggests either (a) that the rating agency improperly conveyed an investment grade rating to PREPA, or (b) there was excessive credit rationing at PREPA’s expense by the municipal bond market. An audit would examine relevant documents and communications to determine which of these hypotheses is true.

5. Did PREPA use unduly optimistic and insufficiently documented assumptions?
In a climate of economic recession, fiscal instability, and population decline, PREPA projected sales increases for each of the following five consecutive years without describing the assumptions used to underpin such a forecast, as well as the method used to reach this conclusion. The economic recession, the financial difficulties, and the population reduction of Puerto Rico were factors that had also received ample global media coverage at the time.
The Official Statement accompanying PREPA’s 2013 Revenue Bond offering assumes that PREPA can raise an additional $1.1 billion to complete its five-year $1.6 billion capital improvement program and to repay the funds to be borrowed to accomplish said program completion, even though it was a significant debt at the time of issuance. The Official Statement did not include any details on how to raise these additional $1.1 billion. An audit will show whether the documents at this time gave reason for PREPA’s financial advisor and its consulting engineer to attest to the reasonableness
of PREPA’s multi-year business and capital improvement plans in conjunction with the offering being marketed.

6. Why did no one issue a “going concern” letter in PREPA’s financial statements for the fiscal year, which concluded on June 30, 2012?

These financial statements did not appear to reflect an adjustment to the carrying value of its $6.5 billion plant property and equipment to account for changes in environmental regulations, which were expected to necessitate an investment of approximately $1 billion in PREPA’s generation assets to attain conformity therewith. Additionally, the opinion rendered by the Utility’s independent auditors did not include a “going concern” matter of emphasis paragraph despite recurring severe liquidity stress that PREPA was encountering at the time the 2012 audit report was issued. A review of the underlying documents may shed light as to why this was not completed.
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Purpose of the Report

The Commission for the Comprehensive Audit of the Public Credit of Puerto Rico ("Commission") was formed pursuant to Law 97 of 2015 of the Commonwealth of the Government of Puerto Rico ("Commonwealth"). The Commission is comprised of 17 members selected from civil society stakeholders including elected officials, representatives of financial institutions and credit unions, academics, and organized labor. The members work in committees that are formed from time to time for specific purposes.

While the Commission has decided to conduct the audit in accordance with U.S. General Accounting Audit Standards, this pre-audit research report does not purport to nor is it intended to comply with those standards. Instead this report is prepared solely for the purpose of facilitating and expediting the planning efforts for a full audit of the use of bonded indentures to finance operations and capital improvements of the Commonwealth and its instrumentalities. In that way it should not be considered a conclusive document, but a planning document. Additionally, this report does not necessarily reflect the opinions of each of the Commission members.

The Commission is examining debt from the most recent offerings to the oldest offering covered by Law 97. To this end, this report analyzes the offering of the Puerto Rico Electric Power Authority’s ("PREPA") $673,145,000 Power Revenue Bonds, Series 2013A.

The scope of the present pre-audit research report was limited to a review of the compendium of compliance and contractual documents associated with the 2013 PREPA bond offering. Commission research associates also conducted limited informational interviews and inquiries of former and current representatives of the Government Development Bank as well as PREPA. Additionally, documents prepared by PREPA itself, its independent accountants, and consulting engineers, among others, were taken into account.

At times, in this report, we take into account the documents that had been published at the time of the 2013 bond issuance. This allows us to understand both the environment of August 2013 in which the bonds were issued. We also review conditions that developed after the August 2013 bond issuance in order to assess the degree of completeness and compliance with applicable statutes, standards, and policies which govern the use of debt by the Commonwealth and its instrumentalities.

The limited scope of this research effort was due to practical considerations of timing and budget. The Commission has yet to attain the funding necessary to initiate an audit that is comprehensive in scope; yet the Commission has a mandate to provide the legislature with periodic status reports. The present report aims to fulfill this mandate. In addition, Commission staff hopes and expects this second pre-audit research report, along with the first report, can serve to create a consensus amongst Commission members regarding the following project management issues:

- Audit scope and objectives
- Timing and budget
- Audit team organization and resource acquisition
This pre-audit research report consists of the following elements:

- A profile of PREPA’s debt currently outstanding as represented in PREPA’s bond offering and other documents;
- An itemization of concerns that have arisen during the pre-audit review of the 2013 PREPA bond issuance; and
- A series of recommendations to move forward on a comprehensive financial and compliance audit of the Commonwealth’s debt as prescribed in the Commission’s charter law.

**Timeline of Relevant Events**

1941  Act. No. 83 creates the Puerto Rico Electric Power Authority.

~1947  URS Corporation is retained as Consulting Engineer of PREPA for the first time.

1974  The Trust Agreement between PREPA and the U.S. Bank National Association in New York was adopted.

2001  Ernst & Young is retained as independent auditor of PREPA.

2005  Puerto Rico’s population and economy begin to decline.

2013  **August 21:** the $673,145,000 Power Revenue Bonds, Series 2013A, are issued.

2014  **July 1:** PREPA technically defaults on its payments.

     **August 14:** the first of a series of Forbearance and Restructuring Support Agreements is agreed upon.

     **September 12:** PREPA retains AlixPartners as Chief Restructuring Officer.

2015  **June 29:** Puerto Rico’s Governor declares Puerto Rico’s public debt “unpayable”.

     **July 1:** Law 97 creates the Commission for the Comprehensive Audit of Puerto Rico’s Public Credit.

     **July 31:** the $130.7 million Power Revenue Bonds, Series 2015A, are issued.¹

2016  **March 28:** PREPA notifies the Puerto Rico Energy Commission its intention to issue in March and April 2016 Power Revenue Bonds, Series 2016A and 2016B in the approximate amount of $111.3 million.

     **March 30:** PREPA issues a notice of failure to provide its audited financials for fiscal year 2015 by the March 31, 2016 filing deadline.

     **July 1:** PREPA narrowly avoids a default by issuing $264 million Power Revenue Bonds; Puerto Rico’s government defaults on general obligation bonds for the first time.

2043  **July 1:** Planned final repayment of the 2013A Power Revenue Bonds.

¹ These bonds as well as the 2016A and 2016B bonds seem not to constitute new debt, but to be relending tools through which creditors assisted PREPA on avoiding a default and maintaining liquidity to operate.
Part 1a: Trends and Elements of PREPA’s Debt

Act No. 83 of the Legislature of Puerto Rico, approved May 2, 1941, created the Puerto Rico Electric Power Authority (PREPA), “a body corporate and politic constituting a public
corporation and government instrumentality of the Commonwealth of Puerto Rico”\(^2\) for the purpose of “conserving, developing and utilizing the water and power resources of the Commonwealth in order to promote the general welfare of the Commonwealth.”\(^3\)

Today, PREPA supplies virtually all the electricity consumed in the archipelago of Puerto Rico. During fiscal year 2013, PREPA served on average 1,485,150 clients.\(^4\)

The nine-member Governing Board that manages PREPA has far-reaching powers in different areas:

- The Board appoints and advises the Executive Director who is the Chief Executive Officer (CEO) of PREPA and has general charge of PREPA’s activities, officers, agents, employees, and properties.\(^5\) The officers of PREPA are responsible to the Executive Director who establishes their duties.\(^6\) The officers, besides those appointed by the Board, are appointed and can be removed by the Executive Director with the approval of the Board. Any director can also be removed at the discretion of the Board.\(^7\) The Board prescribes the laws governing PREPA and it appoints the Vice Executive Director (who administratively supervises all functions of PREPA\(^8\)), the Secretary, and the Assistant Secretary.\(^9\) Thus, the Board can significantly shape PREPA’s activities, functions and governance structure.

- The Board appoints the Internal Audit Office Administrator and it periodically reviews the work plans and tasks of the Internal Audit Office as well as the audits performed by internal as well as external auditors.\(^10\) In this manner the Board can shape audits that, among others, also review its own performance.

- The budget has to be approved by the Board.\(^11\)

- At the moment, the Chief Restructuring Officer Lisa J. Donahue from AlixPartners has to report on her plans and achievements in the financial and operational restructuring of PREPA to the Governing Board, making the latter an important voice within the restructuring efforts.\(^12\)

**Finances**

As of June 30, 2013, PREPA was indebted by $8.8 billion or, as adjusted for the issuance of the 2013 Power Revenue Bonds and a payment of principal of $194.9 million on July 1, 2013, by $9.3 billion. Three broad categories of debt exist. These categories and the approximate amount outstanding as of June 30, 2013 are\(^13\):

<table>
<thead>
<tr>
<th>Outstanding as of June 30, 2013</th>
<th>As adjusted for the Issuance of the 2013A Bonds (in thousands)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lines of Credit (operational)(^14)</td>
<td>$ 744,379</td>
</tr>
</tbody>
</table>

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\(^2\) Fortieth Annual Report on the Electric Property of PREPA, URS, June 2013, p.1
\(^3\) PREPA (2013): Official Statement, issued in connection with the offering of $673,145,000 Power Revenue Bonds, Series 2013A, p. 27
\(^4\) The lines of credit do not cover all operations. They are only credits to purchase fuel and energy from the Integrated Resource Plans.
PREPA had the following total debt outstanding as of June 30, 2008 through 2014:

<table>
<thead>
<tr>
<th>Year</th>
<th>Power Revenue Bonds</th>
<th>Other Loans and Debt (subordinated)</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>5,3</td>
<td>16,543</td>
<td>$8,809,407</td>
</tr>
<tr>
<td>2007</td>
<td>6,1</td>
<td>16,543</td>
<td>$9,287,632</td>
</tr>
<tr>
<td>2008</td>
<td>7,1</td>
<td>16,543</td>
<td></td>
</tr>
<tr>
<td>2009</td>
<td>7,2</td>
<td>16,543</td>
<td></td>
</tr>
<tr>
<td>2010</td>
<td>7,6</td>
<td>16,543</td>
<td></td>
</tr>
<tr>
<td>2011</td>
<td>8,1</td>
<td>16,543</td>
<td></td>
</tr>
<tr>
<td>2012</td>
<td>8,9</td>
<td>16,543</td>
<td></td>
</tr>
<tr>
<td>2013</td>
<td>9,0</td>
<td>16,543</td>
<td></td>
</tr>
<tr>
<td>2014</td>
<td>9,4</td>
<td>16,543</td>
<td></td>
</tr>
</tbody>
</table>

In its most recent monthly report (interim, unaudited) for May 2016, PREPA indicated a total debt figure of $9.4 billion.

Past reports of the credit-rating agencies Fitch Ratings (“Fitch”), Moody’s Investors Service (“Moody’s”) and Standard & Poor’s Financial Services (“Standard & Poor’s”) indicated their

6 Ibid., Art. 14-15
7 Ibid., Art. 16
8 Ibid., Art. 13
9 Ibid., Art. 2
10 Ibid., Art. 2
11 Ibid., Art. 19
13 Official Statement, Power Revenue Bonds 2013A, p. 52
14 The lines of credit do not cover all operations. They are only credits to purchase fuel and energy from the Integrated Resource Plans.
concerns over PREPA’s ability to meet its debt service obligations. For instance, as of October 12, 2009, Fitch downgraded PREPA’s power revenue bonds’ credit rating from A- to BBB+, citing concerns over:

“a declining trend in the utility’s financial profile, reduced electric sales and economic pressures affecting customer delinquencies. As of fiscal year ended 2008 operating margins have declined to 4% from a historical average of 14%; debt service coverage … was 1.23 times (x) down from an average of 1.50x (2004-2007); and liquidity is down to eight days from an already low 19 days in 2007.”

As of March 27, 2012, Moody’s downgraded the approximately $7.6 billion of outstanding power revenue bonds from A3 to Baa1, citing “forecasted weakened credit metrics and liquidity, [and] continued weakness in the Commonwealth’s economy as evidenced by reduced electricity demand”18. The credit-rating agency also noted that the “financial metric deterioration in 2011 was more severe than the previous oil spike in 2008.”19

Sustainability of Debt

The debt service20 coverage (net revenue21 to debt requirement ratio) shows to what extent debt service payments are covered by net revenues – i.e. a 100% or 1.0 debt service coverage indicates that net revenues are just as high as debt service. This suggests that if debt service coverage was below 100%, the company would not be able to pay the full amount of its debt service. If debt service coverage is either constant or on an upward trend, debt is considered sustainable because of the constant or increasing capacity of the net revenues to cover debt service payments.

The debt service coverage chart below shows that there is no clear trend as to the sustainability of debt – it seems to be either constant or slightly downward, the latter meaning that each time debt service is covered by net revenues to a lesser extent.22

Chart 1: Excerpt from Fortieth Annual Report, URS, p. 79

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19 Ibid.
20 Debt service means “for any fiscal year the sum of all principal of, including Amortization Requirements for, and interest on, outstanding … Bonds which is payable on January 1 in such fiscal year and on July 1 in the following fiscal year”. (Official Statement, p. 55)
21 The amount of net revenues before discounting the debt service
22 Official Statement, Power Revenue Bonds 2013A, p. 58
Appendix V of the 2013 performance audit of PREPA, prepared by the URS Corporation that PREPA retained as Consulting Engineers\(^{23}\) suggests a downward trend. This 10-year overview, from 2002 through 2012, shows that debt service coverage declined over time. E.g. in 2002, the net revenues in the five years following the current year were expected to cover debt service by 180%. In 2012, this coverage was only expected to amount to 141%, meaning that the net revenues declined in relation to debt service payments.\(^{24}\) If this tendency remained, PREPA’s debt would have to be considered unsustainable because of the decreasing capacity of the net revenues to cover debt service payments.

In line with these findings, on July 1, 2016, PREPA narrowly avoided a default on $415 million debt service obligations by borrowing $264 million from the Ad Hoc Group of PREPA Bondholders and from “monoline” bond insurers that guarantee repayment on some of PREPA’s securities.\(^ {25} \) The previous debt service payments were financed through similar means.

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\(^{23}\) PREPA’s consulting engineers have the duty to annually prepare and file with PREPA and its trustee a report setting forth their recommendations as to any necessary or advisable revisions of rates and charges. PREPA covenanted that so long as any power revenue bond was outstanding, it would continue to retain consulting engineers for this duty. See also the discussion in Section “Other Issues”.

\(^{24}\) These numbers of 2002 and 2012 refer to the so-called “earnings test” that checks two conditions: first, the ratio of net revenues in 12 consecutive months preceding the date of issue to debt service payments; and second, the ratio of net revenues in 5 years following the current year to debt service payments.

Debt Restructuring

It is important to provide some context. Shortly after PREPA issues the 2013 bonds, PREPA ran into significant headwinds. It has been attempting to restructure its debt. The fact that restructuring occurred so quickly after the bond was issued raises questions about what various players involved with PREPA knew or should have known at the time the 2013 bonds were issued. The restructuring efforts included attempts to reach Forbearance Agreements, dated August 14, 2014, between PREPA with (1) Citibank, N.A.; (2) Scotiabank de Puerto Rico; (3) PREPA’s monoline bond insurers (National Public Finance Guarantee Corporation, Assured Guaranty Corp., Assured Guaranty Municipal Corp., Syncora Guarantee Inc.), and the Ad Hoc Group of PREPA Bondholders (the latter hold over 35% of PREPA’s outstanding power revenue bonds and power revenue refunding bonds); and (4) the GDB.

In September 2014, PREPA retained Mrs. Lisa J. Donahue, Managing Director at AlixPartners International Inc., as Chief Restructuring Officer (CRO), together with support staff from her firm. Mrs. Donahue was entrusted to “work alongside PREPA’s CEO (“the Executive Director”) to develop, organize, and manage a financial and operational restructuring of PREPA on terms to be approved by the Board.” The contract has already been extended four times – the last time in August 2016, engaging Lisa Donahue and her team for four additional months through December 15, 2016. As of today, the Restructuring Support Agreement also expires that same day.

Restructuring Support Agreements between PREPA, GDB, some of its key financial creditors (the Ad Hoc Group of PREPA Bondholders, Scotiabank de Puerto Rico and Solus L.P.) and PREPA’s monoline bond insurers, were concluded, amended, and extended between November 2015 and June 2016. On February 16, 2016, Act No. 4-2016, the “PREPA Revitalization Act”, became effective, creating the PREPA Revitalization Corporation that is tasked with the restructuring of PREPA’s existing debt to achieve debt reduction.

In July 2016, U.S. credit-rating agencies declined to give PREPA’s Restructuring Bonds an investment-grade credit rating, as was agreed to in a deal to restructure PREPA’s debt. This is expected to force PREPA to renegotiate the agreement. However, this information was refuted by PREPA in a statement issued on July 21, 2016.

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Part 1b: Overview of the 2013 Power Revenue Bond Offering

On August 21, 2013, pursuant to the Trust Agreement, dated January 1, 1974, between PREPA and the U.S. Bank National Association in New York, PREPA sold a total of $673,145,000 of debt. These $673,145,000 Power Revenue Bonds, Series 2013A, were sold as:

<table>
<thead>
<tr>
<th>July 1,</th>
<th>Type</th>
<th>Principal</th>
<th>Coupon</th>
<th>Yield</th>
<th>Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>2030</td>
<td>Serial Bond</td>
<td>35,000,000</td>
<td>7.25%</td>
<td>6.73%</td>
<td>103.691</td>
</tr>
<tr>
<td>2033</td>
<td>Term Bond</td>
<td>150,000,000</td>
<td>7.00%</td>
<td>7.00%</td>
<td>100.000</td>
</tr>
<tr>
<td>2036</td>
<td>Term Bond</td>
<td>307,500,000</td>
<td>6.75%</td>
<td>7.02%</td>
<td>96.936</td>
</tr>
<tr>
<td>2040</td>
<td>Term Bond</td>
<td>50,000,000</td>
<td>7.00%</td>
<td>7.07%</td>
<td>99.150</td>
</tr>
<tr>
<td>2043</td>
<td>Serial Bond</td>
<td>130,645,000</td>
<td>7.00%</td>
<td>7.12%</td>
<td>98.510</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>673,145,000</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Interest on the bonds would be payable on January 1, 2014, and on each January 1 and July 1 thereafter. The bonds may be subject to redemption, commencing on July 1, 2023.

The bonds are registered under the book-entry only system of the Depositary Trust Company, New York, (DTC) in the name of Cede & Co., DTC’s nominee. DTC is to act as securities depository for the bonds that can be purchased in denominations of $5,000 or any multiple thereof. Purchases of the bonds under the DTC system must be made by or through DTC’s direct participants to whose accounts the bonds are credited.

Morgan Stanley and Wells Fargo Securities, LLC acted as lead underwriters on the project, as well as Citigroup and JP Morgan. The underwriters jointly purchased the bonds at an aggregate discount of $4,305,117.34 from the initial public offering prices of the bonds.

The Director of Legal Affairs to PREPA and Sidley Austin LLP, New York, acted as bond counsel for PREPA. They approved the legality of the bonds and judged that under then existing law, the bonds were valid and exempt from taxation. Fiddler González & Rodríguez, P.S.C., San Juan, in their capacity as counsel for the underwriters, PREPA’s Director of Legal Affairs as well as Sidley Austin LLP all issued opinions.

Standard & Poor’s rated the bonds as BBB (stable outlook), Moody’s rated the offering as Baa3 (negative outlook), and Fitch rated the bonds BBB- (stable outlook). Thus, all three

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33 Closing Memorandum, p. 2
34 Official Statement, p. 16
35 Official Statement, p. 19
36 Official Statement, p. 16
37 Official Statement, pp. 17,18
38 Official Statement p. 95
39 Official Statement, p. IV-3
40 2013A Bond Offering documents, Section 21 ("
credit rating agencies rated the bonds as investment grade, assigning them a relatively low risk of default\textsuperscript{41}.

The sources and uses of the funds from the bonds are\textsuperscript{42}:

**Sources**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Principal Amount of the Bonds</td>
<td>$673,145,000.00</td>
</tr>
<tr>
<td>Net Original Issue Discount</td>
<td>(10,501,560.50)</td>
</tr>
<tr>
<td><strong>Total Sources</strong></td>
<td><strong>$662,643,439.50</strong></td>
</tr>
</tbody>
</table>

**Uses**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deposit to Construction Fund (Capital Improvement)</td>
<td>$500,000,000.00</td>
</tr>
<tr>
<td>Deposits to Reserve Account and Sinking Fund</td>
<td>46,438,900.00</td>
</tr>
<tr>
<td>Capitalized Interest on the Series 2013A Bonds</td>
<td>109,647,402.78</td>
</tr>
<tr>
<td>Underwriters’ Discount and Other Costs of Issuance</td>
<td>6,557,136.72</td>
</tr>
<tr>
<td><strong>Total Uses</strong></td>
<td><strong>$662,643,439.50</strong></td>
</tr>
</tbody>
</table>

Of the $673,145,000 issued, more than a quarter was designated to pay the costs of the issuance and interests on the bonds for the coming years. Only $500,000,000 (74\% of the principal amount of the bonds) were designated for capital improvement projects. The projected capital improvement program for the five fiscal years ending June 30, 2018 totals approximately $1.55 billion\textsuperscript{43}:

<table>
<thead>
<tr>
<th>Capital Improvements</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Production plant</td>
<td>$96,375</td>
<td>$115,850</td>
<td>$110,365</td>
<td>$128,502</td>
<td>$124,650</td>
<td>$575,742</td>
</tr>
<tr>
<td>Transmission facilities</td>
<td>66,347</td>
<td>61,262</td>
<td>66,859</td>
<td>62,613</td>
<td>72,391</td>
<td>329,472</td>
</tr>
<tr>
<td>Distribution facilities</td>
<td>99,884</td>
<td>87,532</td>
<td>88,836</td>
<td>96,112</td>
<td>92,774</td>
<td>465,138</td>
</tr>
<tr>
<td>Other\textsuperscript{44}</td>
<td>37,394</td>
<td>35,356</td>
<td>33,940</td>
<td>37,773</td>
<td>35,185</td>
<td>179,648</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$300,000</strong></td>
<td><strong>$300,000</strong></td>
<td><strong>$300,000</strong></td>
<td><strong>$325,000</strong></td>
<td><strong>$325,000</strong></td>
<td><strong>$1,550,000</strong></td>
</tr>
</tbody>
</table>

**Repayment of the Bonds**

The Bonds were secured by a “pledge from the Authority to the Trustee of the Revenues of the System and other moneys to the extent provided in the Trust Agreement as security for the payment of the Power Revenue Bonds and as security for the satisfaction of any other obligation assumed by it in connection with such Power Revenue Bonds”\textsuperscript{45}. The bonds would

\textsuperscript{41} Official Statement, p. 97
\textsuperscript{42} Official Statement, pp. 10-11; Closing Memorandum, p. 2
\textsuperscript{43} Official Statement, p. 46
\textsuperscript{44} Includes general land and buildings, general equipment, preliminary surveys and investigation.
\textsuperscript{45} Official Statement, p. I-7; see also Trust Agreement, Section 701
be payable solely from the net revenues of PREPA’s electric generation, transmission, and distribution systems. They were not to be deemed to constitute a debt or obligation of the Commonwealth or any of its other political subdivisions. In that regard, they are revenue bonds.

The bonds maturing on July 1, 2033, 2036 and 2040 would be redeemed from moneys in the Sinking Fund to which PREPA agreed to deposit a sufficient amount of revenues to pay the annually outstanding debt service:

<table>
<thead>
<tr>
<th>Year</th>
<th>2033</th>
<th>2036</th>
<th>2040</th>
</tr>
</thead>
<tbody>
<tr>
<td>2032</td>
<td>$16,790,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2033</td>
<td>133,210,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2034</td>
<td></td>
<td>$95,825,000</td>
<td></td>
</tr>
<tr>
<td>2035</td>
<td></td>
<td>102,525,000</td>
<td></td>
</tr>
<tr>
<td>2036</td>
<td></td>
<td>109,150,000</td>
<td></td>
</tr>
<tr>
<td>2037</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2038</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2039</td>
<td></td>
<td></td>
<td>$22,275,000</td>
</tr>
<tr>
<td>2040</td>
<td></td>
<td></td>
<td>27,725,000</td>
</tr>
</tbody>
</table>

PREPA had agreed in the Trust Agreement:

- “To fix, charge, and collect reasonable rates and charges so that revenues [would] be sufficient to pay [then and future] current expenses and to provide an amount of at least 120% of the aggregate principal and interest requirements for the [then] next fiscal year;”
- that, if the revenues should not be sufficient, to “satisfy the foregoing covenant as to rates, it … [would] revise the rates and charges for the services and facilities furnished by the System and, if necessary, it … [would] revise its regulations in relation to the collection of bills for such services and facilities … until such deficiency … [should] have been completely made up;”
- “to accumulate in a Reserve Account an amount equal to the interest payable on all outstanding Power Revenue Bonds within the [then] next 12 months;”
- to deposit, after required deposits into the Sinking Fund, monthly revenues into different funds that serve as additional reserves for debt service payment on the Bonds to the extent that moneys in the Sinking Fund are insufficient for such purpose. As of June 30, 2013, the balances of these additional funds totaled approximately $158,000.

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46 Official Statement, p. 11
47 Official Statement, p. 20
48 Official Statement, p. 13
49 Official Statement, p. I-12; see also Trust Agreement, Section 502
50 Official Statement, p. 14
51 the Reserve Maintenance Fund, the Self-Insurance Fund, and the Capital Improvement Fund
17 million. Deposits to the funds could be negatively impacted if PREPA incurred or issued obligations for any proper corporate purpose;

- to restrict sale, lease, and other disposal of parts of its system to certain activities that do not affect PREPA’s ability to pay back the bonds; and
- to always carry insurance covering its properties.

Additional Power Revenue Bonds may be issued under the Trust Agreement under certain conditions for the purpose of paying any proper corporate purpose of PREPA. These conditions (“earnings test”) require that net revenues of PREPA for 12 consecutive months out of the preceding 18 months should not be less than 120% of maximum aggregate annual principal and interest requirements for all power revenue bonds then outstanding; and the estimated average annual net revenues for the five fiscal years succeeding the bond issuance should not be less than 120% of the maximum aggregate annual principal and interest requirement.

PREPA claimed in the Official Statement that it met these conditions with percentages of 129% and 126%, respectively, at the time of the bond issuance. PREPA concluded that in fiscal year 2013 it was complying with the first condition with a percentage of 129% by using positively adjusted revenues of $783.9 million. These revenues reflect a positive adjustment of $53.2 million that takes into account the revenues that would have been collected if the rates had not been reduced due to the effect of the Rate Stabilization Account whose effect ended on November 30, 2012, five months after the start of fiscal year 2013. The real revenues for fiscal year 2013 were $730.7 million. When calculated with these real revenues, the debt coverage would have only been 119.9% - just below the required minimum of 120%.

Additionally, PREPA would regularly engage in practices that would make net revenues appear higher relative to debt service. This artificial inflation resulted from an inflation of the numerator (net revenues) by also including non-cash revenues from municipalities’

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52 Official Statement, p. 14
53 Official Statement, p. 16
54 Official Statement, p. I-13
55 Official Statement, p. I-14
56 Official Statement, p. 15
57 "Net Revenues' means for any particular period, the excess of the Revenues for such period over the Current Expenses for such period." (Official Statement, p. I-3)
58 Official Statement, p. 15
59 The rate stabilization program sought to fund the fuel adjustment revenues not billed to certain residential clients. In fiscal year ended June 30, 2012, $79.4 million in fuel adjustment revenues were not billed to residential clients but were financed by the Rate Stabilization Account. In fiscal year ended June 30, 2013, the amount financed by the Rate Stabilization Account was $53.2 million. The subsidy was provided out of PREPA’s own budget. PREPA did not receive any compensation from the government budget or other public enterprises (Official Statement, p. 3, 59).
60 Official Statement, p. 15, 47
Generally speaking, debt coverage ratios are calculated as follows:

\[
\text{Debt coverage ratio} = \frac{\text{net revenues}}{\text{debt service}}
\]

However, PREPA’s debt coverage ratio was calculated as follows:

\[
\text{Debt coverage ratio} = \frac{\text{net revenues + uncollected municipal revenue}}{\text{debt service – capitalized interests}}
\]

This method used by PREPA was not necessarily illegal, but it certainly constitutes a practice that lacks transparency and does not adequately meet the purpose of the debt coverage concept. Through this practice, PREPA artificially increased the debt coverage fraction, allowing the company to more easily comply with the 120% or 1.2 requirement. If one would calculate the debt coverage ratio without PREPA’s inflating method, PREPA’s debt coverage ratio would be reduced in some prior years to below 100% (~1.00), making PREPA lack the funds to cover the debt service.\(^63\) For instance, in 2013, the same year PREPA issued its 2013A Revenue Bonds, the debt coverage would have been 0.82 instead of 1.38, well below the 1.2 minimum legally required in the Trust Agreement:

<table>
<thead>
<tr>
<th>Fiscal Year Ended June 30,</th>
<th>Past Debt Coverage</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ratio of net revenues to principal and interest requirements</td>
<td>...............</td>
<td>1.45</td>
<td>1.85</td>
<td>1.47</td>
<td>1.95</td>
<td>1.38</td>
</tr>
<tr>
<td>Ratio of adjusted net revenues to principal and interest requirements, net of municipalities’ consumption and subsidies</td>
<td>.......................</td>
<td>0.92</td>
<td>1.25</td>
<td>0.95</td>
<td>1.07</td>
<td>0.82</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Ratio of net revenues to principal and interest requirements</td>
<td>...............</td>
<td>1.38</td>
<td>1.39</td>
<td>1.30</td>
<td>1.28</td>
<td>1.29</td>
</tr>
<tr>
<td>Ratio of adjusted net revenues to principal and interest requirements, net</td>
<td></td>
<td>1.04</td>
<td>1.06</td>
<td>0.99</td>
<td>0.98</td>
<td>1.00</td>
</tr>
</tbody>
</table>

\(^61\) These non-cash revenues from municipalities’ consumption refer to the „amounts billed to the Commonwealth’s municipalities for electric energy sales to the municipalities that the Authority is legally entitled to collect but historically has not collected” (Official Statement, p. 21). PREPA also includes in its net revenues energy charges against which PREPA credits “its legally mandated subsidy obligation for eligible residential and hotel clients” (ibid., p. 21). This means that PREPA includes among its net revenues energy charges it is not collecting.

\(^62\) Interest that was capitalized through prior issuances of Power Revenue Bonds (Official Statement, p. 55)

\(^63\) Cf. Official Statement, p. 21, 24
of municipalities’ consumption and subsidies …………………

The tables above show that, when not using PREPA’s inflated method, the requirement of at least 1.20 was only met once in the past five years (in 2010) – and the requirement is not expected to be met at all in the following five years.\textsuperscript{64} This suggests that in only one of the past five years and in none of the coming five years following the 2013 bond offering, PREPA would have complied with its covenant to charge rates sufficient to cover at least 120% of aggregate debt service payments. Thus, although PREPA has the power to raise charges whenever it deems necessary\textsuperscript{65}, it hardly obtained enough net revenues to cover debt service.

Why did this happen? Did PREPA make overly optimistic projections on energy sales, fuel prices, other expenses and the number of clients? Were higher rates answered by a reduction in the energy consumption or in the number of clients? Did political or other considerations play a role in preventing PREPA from raising rates? What was the consulting engineers’ role? Did the consulting engineers comply with their duty to recommend to PREPA “any necessary or advisable revision of rates and charges”?\textsuperscript{66} At this point the Commission cannot answer these questions.

\textbf{Outlook, challenges, and risks}

At the time, the most important challenges PREPA faced were:

- a reliance on high-cost fuel oil;
- the decline in electric energy sales;
- relatively high electric power rates;
- complying with then recently enacted environmental regulations;
- reducing operating costs;
- addressing past due accounts receivable; and
- improving liquidity\textsuperscript{67}.

The Authority sought to address these challenges through\textsuperscript{68}:

- a fuel diversification strategy that would consist in converting its generating facilities to dual fuel and in negotiating contracts and agreements with cogeneration facilities;
- a higher operational efficiency and stability;
- a safe integration of renewable energy;

\hspace{1cm}---

\textsuperscript{64} Official Statement, p. 58, 64
\textsuperscript{65} Law 57-2014 (“Ley de Transformación y ALIVIO Energético”) of May 27, 2014 created the Energy Commission and provided that PREPA needed the approval of this Commission before changing rates.
\textsuperscript{66} Section 706 of the Trust Agreement, dated as of January 1, 1974, as amended and supplemented; see also: Fortieth Annual Report, URS, p. 1
\textsuperscript{67} Official Statement, p. 7
\textsuperscript{68} Official Statement, p. 7-10, 34, 40
• compliance with environmental regulations; and
• long-term fiscal stability.\(^{69}\)

To achieve the aforementioned goals, PREPA stated that it would:

• seek to improve its transmission, distribution, and other facilities through a capital improvement program of $1.6 billion in fiscal years 2014 through 2018\(^{70}\).
• increase revenues by continuing its energy-theft recovery programs\(^{71}\).
• seek to adjust its total reserve capacity to cover instances of generating-unit outages\(^{72}\).
• collect $200 million in the fiscal years 2014 through 2018 by installing meters in municipal facilities to begin charging for the electricity consumed by for-profit businesses that operate there.\(^{73}\)

As the Fortieth Annual Report by URS in June 2013 highlighted, however, there were then and there still are several factors which could negatively impact the challenges PREPA sought to address, among others:

• The Economy of Puerto Rico: URS considered that the then unprecedented, depressed state of Puerto Rico’s economy made forecasting for the island difficult and more uncertain.\(^{74}\) The 2012 estimated population growth rate was negative 0.44%, the unemployment rate remained at 13.5% in July 2013. As measured by the GNP, the Puerto Rican economy was robust in the three fiscal years ending in 2005; subsequently the economy grew marginally in fiscal year 2006, and then began five years of decline with contractions of up to 3.8%, and finally positive growth of 0.9% in 2012. During the five fiscal years from 2007 to 2011 Puerto Rico’s economy receded by over 12%, “a magnitude not seen since the Great Depression.”\(^{75}\) For fiscal year 2013, a marginal growth rate of 0.3% was reported.

\(^{69}\) In connection with the first, third and fourth points on this list, PREPA speaks about its “goal of reducing the dependence on oil for energy generation from 51% for fiscal year 2013 to 10% by fiscal year 2018” (Official Statement, p. 26). At the time the Official Statement was published, fiscal year 2013 had already concluded and the approximate numbers regarding energy generation should have been known. Using the numbers from the website [www.indicadores.pr](http://www.indicadores.pr) where PREPA publishes monthly statistics, we cannot understand how PREPA concluded that in fiscal year 2013 51% of its energy was based on oil. The website suggests that from July 1, 2012, to June 30, 2013, on average each month 55% of total energy generation was based on oil.

\(^{70}\) Official Statement, p. 35
\(^{71}\) Official Statement, p. 38
\(^{72}\) Official Statement, p. 39
\(^{73}\) Several subsidies PREPA was and still is required to provide contribute to relatively higher charges for non-subsidized clients. These subsidies were taken advantage of by some municipalities which made their free electricity available to for-profit businesses (Official Statement, pp. 49, 51-52).

\(^{74}\) Fortieth Annual Report, URS, p. 51
\(^{75}\) Fortieth Annual Report, URS, p. 51
Chart 2: Excerpt from URS, June 2013 Annual Report, p. 52

- Energy Sales: During fiscal years 2011 and 2012, energy sales continued a previous negative trend with declines of 3.8% and 2.1%. The average electric consumption of the Authority’s clients in fiscal year 2013 experienced a decrease of 0.5% from the previous year. Nevertheless, sales for fiscal year 2013 showed an increase of 0.6% over the previous year because of an increase in the number of clients. In terms of the revenues collected by PREPA, total revenues booked for fiscal year 2013 were 4.0% less than the previous years’ actual results.76

- Generation of Energy: Except for fiscal year 2010, net generation had declined since fiscal year 2008, in total by 9.1% from fiscal year 2008 to fiscal year 2013.77

PREPA broadly discussed risk factors and investment considerations related to the bonds in the Official Statement, including:78

- its financial condition: As of June 30, 2013, PREPA’s total liabilities of $10.8 billion exceeded its total assets of $10.3 billion.79 PREPA had been experiencing severe liquidity constraints between 2011 and 2013 which, as the Official Statement states, created a “need to use lines of credit and Power Revenue Bonds to finance its operational expenses” instead of financing capital improvements, the supposed purpose of such bonds;

- its ability to comply with environmental laws and regulations;

- its ability to complete key projects on a timely basis which would affect its ability to meet its projected net revenues.80

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76 Fortieth Annual Report, URS, p. 77; see also p. 68
77 Fortieth Annual Report, URS, p. 54
78 Official Statement p. 20-27
79 Official Statement, p. 21
80 Official Statement, p. 22
81 Official Statement, p. 23
its ability to charge and collect sufficient rates to provide for its debt service and other expenses since these provide the only security for payment of the bonds. PREPA’s ability to increase its rates and/or collect additional revenues is affected by the high level of current fuel adjustment charges, the economic condition, and population trends in the Commonwealth;\textsuperscript{82} and

its ability to meet its projection of net revenues, the trend in electricity demand, the dependence on fuel oil, PREPA’s ability to access the capital markets, among others.\textsuperscript{83}

After sales declined by 3% from fiscal year 2009 through 2013,\textsuperscript{84} PREPA projected “increases in electric energy sales (in kWh) of 1.3%, 0.4%, 1.1%, 1.5% and 1.8% for fiscal years 2014, 2015, 2016, 2017 and 2018, respectively”. This projection, approved as reasonable by the consulting engineers\textsuperscript{85}, was based on “improved economic conditions in Puerto Rico and the stabilization of fuel prices through the fuel diversification strategies”.\textsuperscript{86} However, the text does not explain what led PREPA and its consulting engineers to expect that economic conditions in Puerto Rico would improve. It also remains unclear why they do not mention the population decline within this context given that energy sales and revenues, can also be significantly impacted by this phenomenon.

\textbf{Chart 3: Excerpt from URS, June 2013 Annual Report, p. 68}

\begin{figure}[h]
\centering
\includegraphics[scale=0.5]{chart3.png}
\caption{Total Energy Sales & Number of Clients}
\end{figure}

\textbf{Bond issuances after the 2013A Bonds}

“On July 31, 2015, pursuant to the Trust Agreement and as agreed with Forbearing Creditors, the Authority issued Power Revenue Bonds Series 2015A, in a par amount of $130.7 million

\begin{itemize}
\item \textsuperscript{82} Official Statement, p. 23
\item \textsuperscript{83} Official Statement, p. 24
\item \textsuperscript{84} Official Statement, p. 59
\item \textsuperscript{85} Official Statement, p. III-2
\item \textsuperscript{86} Official Statement, p. 25
\end{itemize}
On March 28, 2016, PREPA filed before the Puerto Rico Energy Commission an “Urgent Notification of PREPA’s Issuance of Bonds, notifying the Commission of PREPA’s intention to issue PREPA Power Revenue Bonds, Series 2016A and 2016B, in the approximate amount of $111.3 million”. The bonds were scheduled to be issued on March 29, 2016 and April 25, 2016, respectively. PREPA argued “that they are authorized to be issued pursuant to the Restructuring Support Agreement … and a certain Bond Purchase Agreement dated January 27, 2016 between PREPA and the ad hoc group of PREPA bondholders.”

No further information on this matter has been published.

On June 30, 2016, Reuters announced that “[c]ertain PREPA creditors … [would] purchase about $264 million of power revenue bonds to provide liquidity for capital improvement and other purposes”. That same day, several issues were published on behalf of PREPA on EMMA (Electronic Municipal Market Access), all with a maturity of two to six years from then and an interest rate of 10% (without offering further, more detailed information such as an Official Statement however). Interviews with GDB employees suggest that these bonds from June 30, 2016 were the 2016B bonds, mentioned in the preceding paragraph, that were initially scheduled to be issued on April 25, 2016; the 2016A bonds, scheduled for issuance on March 29, 2016, that are also mentioned in the preceding paragraph have apparently been issued already in March or April 2016.

Transparency and disclosure inconsistencies

Law 29-2013 of June 25, 2013, provides that the Executive Director of PREPA will publish on its website information, including the parties of the contracts, their cause and purpose, on all contracts made by the Authority. Accordingly, PREPA created a “Contracts” section on its website which is explicitly dedicated to complying with Law 29-2013. However, no contracts have been published on that section for almost two years now. For instance, one can find the first contract with AlixPartners from September 2014 there – but all the following

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contracts with AlixPartners are missing. This leads to a lack of transparency that makes it
difficult for Puerto Rico residents and others to find information on these important issues.

SEC Rule 15c2-12 bars underwriters from selling debt unless they have determined that the
issuer will provide to the Municipal Securities Rulemaking Board annual financial statement
or audited financials in a timely manner.

On March 30, 2016, PREPA issued a notice of failure to “provide its audited financial
statements and the Annual Financial Information and Operating Data Report for fiscal year
2015 by the March 31, 2016 filing deadline”\(^{92}\). The financial statement has not been made
available to date (August 9, 2016). The financial statement for fiscal year 2014 was made
available on EMMA almost one year late in February 2016\(^ {93}\).

PREPA has also failed to make information available on a forbearance agreement of August
2014 with EMMA without exceeding ten business days of the occurrence of the event\(^ {94}\). For
fiscal years 2012 and 2009, PREPA published its financial statements late. The same
happened with rating changes.\(^ {95}\) Do these events constitute a failure of PREPA to meet its
continuing disclosure requirements under SEC Rule 15c2-12? Did PREPA’s advisors and
underwriters fail to comply with this SEC disclosure rule since some of these non-disclosure
incidents had already occurred before the 2013 bonds issuance? Has the SEC taken actions to
safeguard the investing public with regards to municipal bonds issued in Puerto Rico? An
audit will have to examine the diligence provided to the underwriters of the 2013 bonds to
determine if the underwriters had reason to believe that PREPA would not comply with its
continuing disclosure obligation.

Part 2: Observations of Interest Emanating from the Pre-audit Report

2.1 The Role of PREPA’s Governing Board

As characteristic for such entities, PREPA’s Governing Board by law has the authority to
shape the governance, management, and budget of PREPA, a corporation that as the only
energy provider on the island is of critical importance for the Commonwealth and its
economy. As such, the Board can also shape PREPA’s financial activities and, thus, is,
together with other actors, responsible for PREPA’s financial activities such as debt
issuances.

But is the Board able to make decisions independent from the interest of stakeholders as
considered necessary for the integrity of the electricity system and of the governing bodies?\(^ {96}\)

\(^{93}\) PREPA 2016: Financial Statements, Required Supplementary Information and Supplemental Schedules,
\url{http://emma.msrb.org/EP1107056.pdf}.
\(^{95}\) Official Statement, p. 100
\(^{96}\) cf. OECD (2014): Membership of the governing body, in: The Governance of Regulators, pp. 72-78,
\url{http://dx.doi.org/10.1787/9789264209015-en}. 
PREPA’s Governing Board is composed by four members appointed by the Governor of Puerto Rico; three whom are elected among PREPA’s clients; and the Secretary of the Department of Transportation and Public Works as well as the Secretary of the Department of Economic Development and Commerce, both serving as ex officio members. Thus, six of the nine Board members tend to make decisions that are in line with the Executive’s interests. Since these constitute a clear majority within the Board, the administration, i.e. the Governor in office and his political party, have the ability, if they wish, to exercise influence on PREPA’s corporate governance. The Board’s independence from the Government has to be questioned. Decisions could be made based on electoral rather than business or industrial considerations. This will be an important part of reviewing the 2013 bond offering in accordance with Yellow Book standards.

In addition, the Board’s executive-led structure results in periodic changes of PREPA’s high officials, leading to discontinuity and the steady arrival of new officials whom would require some time to acquaint themselves with PREPA’s functioning and management.

Another concern is that within PREPA there are no such actors as shareholders who exercise certain powers within private companies. In state-owned PREPA, the Puerto Rican residents are comparable to the shareholders of private companies, only that the former do not exercise comparable powers. This allows diverse interest groups such as energy suppliers, political parties, subsidy beneficiaries, unions, bondholders, and bankers to organize and extract benefits from PREPA at the burden of the rest of the Commonwealth’s residents since the latter’s costs to organize and act collectively exceed their individual benefits.

Some recent legislation introduced changes in PREPA’s governance structures. For instance, Law 29-2013 of June, 2013 seeks to achieve a more representative, efficient, and transparent governance structure, e.g. by using the Internet more extensively to provide clients with information. This same Law also acknowledges weaknesses of the past governance structures by calling the PREPA Board neither representative nor balanced nor sufficiently knowledgeable to effectively understand and face the corporation’s challenges. Law 57-2014 (“Ley de Transformación y ALIVIO Energético”) of May 27, 2014 created the Energy Commission that, among others, with the authority to approve revisions to PREPA tariffs requested by the PREPA Board.

For its part, Law 4-2016 (“Ley para la Revitalización de la Autoridad de Energía Eléctrica”) of February 16, 2016 seeks to reform PREPA’s governance structure and to limit the current administration’s influence on PREPA. The law provides that PREPA has to retain a firm that

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97 Official Statement, p. 28; see also the “Puerto Rico Electric Power Authority Act”, as amended by Act No. 29-2013; Bond Bible Section 02, pp.1-2, that contains an in June 2007 revised versions of the By-Laws of PREPA however presents different information, stating that the Board is composed by six members appointed by the Governor; two members who are elected directly by PREPA’s clients; and the Secretaries of the Department of Transportation and Public Works participating as ex officio member. Since Act No. 29-2013 is more recent than the PREPA By-Laws version from 2007, this text relies on the former for its analysis.


99 Exposición de Motivos, Ley Núm. 29 de 25 de junio de 2013
suggests at least ten qualified candidates to serve on the Board of Directors. The Governor has the duty to choose six of the candidates suggested. If the Governor rejects some or all of the candidates, the firm has to submit a new proposal. Currently, PREPA retains Russell Reynolds Associates as the firm in charge of this duty.

2.2 The Role of the Government Development Bank

The GDB has the task to “safeguard the fiscal stability of Puerto Rico”\(^{100}\) and to “carry out its governmental responsibility to develop the economy of Puerto Rico”\(^{101}\). The Bank entered into a Fiscal Oversight Agreement with PREPA, dated July 1, 2009, and serves as PREPA’s fiscal agent and financial advisor as required by Act No. 272 of the Legislature of Puerto Rico, approved on May 15, 1945\(^{102}\). As fiscal agent, paying agent, and financial advisor to the Commonwealth of Puerto Rico and its public entities, the GDB coordinated all bond issues and lines of credit of PREPA and should act in the best interest of PREPA, the Commonwealth, and its residents.\(^{103}\)

The governing body within the GDB is the Board of Directors. The Board has far-reaching powers: It can adopt, amend, alter or repeal bylaws of the Bank and it establishes an Audit Committee, a Risk Management Committee, and any other committees:

- The Audit Committee helps the Board oversee the Bank’s management with regards to accounting and financial tasks as well as audit processes, including the evaluation of outside auditor’s qualifications, independence and performance.\(^{104}\) The Board selects public accountants for an annual examination and audit of the Bank.\(^{105}\)
- The Risk Management Committee assists the Board in the oversight of management’s exercise of its responsibility to assess and manage diverse types of risks.\(^{106}\)

The Board of Directors can appoint officers to these committees, but only the Board members themselves have a vote within the committees, making them the sole decision-makers within these important areas of responsibility of the committees.\(^{107}\) This provides the Board members with far-reaching fiscal and financial powers – including the revision and, if necessary, prevention of debt issuances of public corporations like PREPA. Like PREPA’s Governing Board, the GDB’s Board of Directors is also responsible for the issuance of PREPA’s debt.

As in the case of the Governing Board of PREPA, the independence of the GDB’s Board of Directors from external non-technical political considerations may also be questioned. The


\(^{101}\) Art. 25 (b), Section 1, Government Development Bank for Puerto Rico, Act No. 17 of September 23, 1948, as amended.

\(^{102}\) Official Statement, pp. 31, 97

\(^{103}\) Art. 25 (b), Section 2, “Third” (A), Government Development Bank for Puerto Rico, Act No. 17 of September 23, 1948, as amended; Fortieth Annual Report, URS, p. 83.

\(^{104}\) Art. 25 (b), Section 2, “Sixth”, Act No. 17 of September 23, 1948.

\(^{105}\) Art. 25 (b), Section 10, Act No. 17 of September 23, 1948.

\(^{106}\) Art. 25 (b), Section 2, “Sixth”, Act No. 17 of September 23, 1948.

\(^{107}\) Art. 25 (b), Section 2, “Sixth”, Act No. 17 of September 23, 1948.
members of the GDB Board are appointed by the Governor for terms of two to four years. Could this result in decisions based on political rather than technical considerations?

In general, can the GDB serve as a completely unbiased and independent fiscal advisor to PREPA while sometimes providing the Authority with lines of credit? Could the GDB have an incentive in ensuring that PREPA gets a good credit rating and access to the capital market since the proceeds from debt issuances could also benefit the GDB? In conducting the audit, the auditors should review the diligence materials provided by PREPA to the underwriters, and to the GDB, to determine if those parties acted reasonably in green-lighting PREPA’s sale of the 2013 bonds.

2.3 The Role of Consultants

Compliance with covenants in the Trust Agreement

PREPA retained the services of the URS Corporation in its capacity as consulting engineers which have the duty to annually prepare and file with PREPA and its trustee “a report setting forth their recommendations as to any necessary or advisable revisions of rates and charges”\(^\text{110}\). PREPA agreed that so long as any power revenue bond was outstanding, it would continue to retain a consulting engineer firm for this duty.\(^\text{111}\) Despite still having power revenue bonds outstanding, no annual reports prepared by Consulting Engineers have been published since URS’s Annual Report for fiscal year 2013. What does this mean for PREPA’s compliance with the covenants in the Trust Agreement?

Auditor rotations

PREPA covenants in the Trust Agreement to retain a professional service firm that provides independent expertise in engineering and related areas (“Consulting Engineers”) for duties that resemble the criteria that the Government Accountability Office sets forth as constituting a “performance audit” outlined in the Agency’s Yellow Book under Section 2.10\(^\text{112}\). As of 2013, PREPA had retained the services of URS Corporation for these duties\(^\text{113}\) for the last 65 years.\(^\text{114}\) Furthermore, as of the same year, PREPA had retained the services of Ernst & Young to produce its audited financial statements during the last 12 years.

To prevent such long-lasting relationships between companies and their auditors, the Sarbanes-Oxley Act provides in its Section 203 a mandatory audit rotation:

\(^{108}\) Art. 25 (b), Section 2, “Fifth”, Act No. 17 of September 23, 1948; after January 1, 2018, all new appointments made by the governor will require the consent of the Senate.

\(^{109}\) In 2009, PREPA and the GDB for instance entered into an agreement for a $150 million revolving line of credit. As of June 30, 2012 and 2011, there was no balance outstanding on the line of credit. (Official Statement, p. II-56)

\(^{110}\) Fortieth Annual Report, URS, p.1

\(^{111}\) Official Statement, p. 1-14; see also: Trust Agreement, Section 706+707

\(^{112}\) Government Accountability Office, Yellow Book, 2011, p. 17

\(^{113}\) URS June 2013 Annual Report, p.1

\(^{114}\) Ibid., p.1
“It shall be unlawful for a registered public accounting firm to provide audit services to an issuer if the lead (or coordinating) audit partner (having primary responsibility for the audit), or the audit partner responsible for reviewing the audit, has performed audit services for that issuer in each of the 5 previous fiscal years of that issuer.”\textsuperscript{115}

PREPA was not legally obligated to enforce this mandatory audit rotation. However, other energy companies based in the United States to which this legislation applies such as the Hawaiian Electric Company, Inc.,\textsuperscript{116} the American Electric Power Company\textsuperscript{117}, the Exelon Corporation\textsuperscript{118}, Consolidated Edison, Inc.\textsuperscript{119} and the Long Island Power Authority\textsuperscript{120}, successfully include audit rotations as a standard practice in their Audit Committee Charters to maintain auditor independence, thereby protecting the investing public. This issue raises the following question: Why did PREPA not consider such rotations suitable to protect their investors and to guarantee the independence of its audits? Although the URS Corporation is not a registered public accounting firm, should PREPA have considered a rotation to further safeguard the investing public and rate payers? Did PREPA conduct competitive tenures in the process through which it retained the services of the financial and performance auditors?

The scope of the practices of the URS Corporation

In the interest of further protecting investors, the Sarbanes-Oxley Act also provides that it is unlawful for auditors to provide “services outside the scope of practice of auditors”\textsuperscript{121} or non-audit consulting services. Among these services the following are included but not limited to:

- “appraisal or valuation services, fairness opinions, or contribution-in-kind reports”\textsuperscript{122};
- “broker or dealer, investment adviser, or investment banking services”\textsuperscript{123}; and,
- “expert services unrelated to the audit”\textsuperscript{124}.

By “[participating] in all regular bond issue financings undertaken by the Authority by assisting in the preparation of the Official Statements … and by participating in most bond rating agency presentations”\textsuperscript{125}, the URS Corporation would have exceeded these functions if it was covered by SOX. URS exceeded the functions of the performance audit by placing itself in a position wherein it involved itself with the commodification process of the Power Revenue Bonds that PREPA marketed to investors. Apart from this, URS also entered into an agreement with PREPA to provide to the Authority professional services in connection with the construction of the San Juan 5 and 6 combined cycle generating units completed during

\textsuperscript{115} Public Law 107-204, July 30, 2002
\textsuperscript{116} HAWAIIAN ELECTRIC COMPANY, INC. AUDIT COMMITTEE CHARTER Amended as of February 11, 2014, p.2
\textsuperscript{117} American Electric Power Company, Inc. Audit Committee of The Board of Directors Charter – 2015, p.5
\textsuperscript{118} Exelon Corporation Board Of Directors, Audit Committee Charter, p.2
\textsuperscript{119} Consolidated Edison, Inc. Board of Directors Charter of The Audit Committee, p.4
\textsuperscript{120} Finance and Audit Committee Charter, Long Island Power Authority, p. 5
\textsuperscript{121} Section 201, Sarbanes-Oxley Act
\textsuperscript{122} Section 201, (g), (3), Sarbanes-Oxley Act
\textsuperscript{123} Section 201, (g), (7), ibid.
\textsuperscript{124} Section 201, (g), (8), ibid.
\textsuperscript{125} URS June 2013 Annual Report, p.1
fiscal year 2009 and the restoration of the Palo Seco plant following the fires in December 2006.\textsuperscript{126}

This involvement created an environment in which the revenue obtained by the URS Corporation was directly tied to the outcome of the sale of the financial instruments of the corporation (PREPA) that it was employed to analyze. This stands in clear contrast to legislations such as the abovementioned Sarbanes-Oxley Act that seek to prevent such circumstances from taking place which could potentially have pernicious effects on investors, as shown above. While this context does not apply, legally speaking, it provides an important governance standard that energy companies should consider following, especially since Congress passed SOX in the wake of the meltdown of the Enron energy company.

\textbf{Selection of Bond Counsel and Underwriters’ Counsel}

It seems to be the case that throughout the history of PREPA’s bond issuances there were some instances in which a “tag-team” pattern evolved between Bond Counsel and Underwriters’ Counsel. For example, as the table indicates below, for the most part whenever the firm Sidley Austin Brown & Wood LLP participated as Bond Counsel, the firm Fiddler González & Rodriguez was retained. In general, the pool from which bond and underwriters’ counsel were selected was small. Is this solely due to the small amount of law firms experienced in matters relevant for PREPA’s bonds issues?

\begin{table}[h]
\centering
\begin{tabular}{|c|c|c|}
\hline
\textbf{Date of Bond Issue} & \textbf{Bond Counsel} & \textbf{Underwriters’ Counsel} \\
\hline
5/8/97 & Brown & Pietrantoni Méndez & Alvarez \\
12/13/01 & Sidley Austin Brown & Fiddler González & Rodriguez, LLP \\
6/13/02 & Sidley Austin Brown & Fiddler González & Rodriguez, LLP \\
9/20/02 & Sidley Austin Brown & Fiddler González & Rodriguez, LLP \\
8/8/03 & Sidley Austin Brown & O’Neill & Borges \\
8/12/04 & Squire, Sanders & O’Neill & Borges \\
3/24/05 & Squire, Sanders & O’Neill & Borges \\
4/19/07 & Squire, Sanders & Adsuar Muñiz Goyco Seda & Pérez-Ochoa, P.S.C. \\
5/16/07 & Squire, Sanders & Adsuar Muñiz Goyco Seda & Pérez-Ochoa, P.S.C. \\
6/18/08 & Squire, Sanders & Winston & Strawn LLP \\
3/26/10 & Nixon Peabody & Pietrantoni Méndez & Alvarez \\
4/22/10 & Nixon Peabody & O’Neill & Borges \\
4/22/10 & Nixon Peabody & Pietrantoni Méndez & Alvarez \\
5/20/10 & Nixon Peabody & O’Neill & Borges \\
5/20/10 & Nixon Peabody & Pietrantoni Méndez & Alvarez \\
9/29/10 & Nixon Peabody & Pietrantoni Méndez & Alvarez \\
12/24/10 & Nixon Peabody & O’Neill & Borges \\
4/12/12 & Nixon Peabody & Pietrantoni Méndez & Alvarez \\
8/15/13 & Sidley Austin Brown & Fiddler González & Rodriguez, LLP \\
\hline
\end{tabular}
\caption{Bond Issuance dates and counsel}
\end{table}

\textsuperscript{126} Official Statement, p. 96
2.4 Comparative analysis of the yields and terms of borrowing

The yields and terms of borrowing associated with PREPA’s August 2013 $673,145,000 revenue bonds offering appeared to have been on far less favorable terms than would appear reasonable for similar investment-grade bonds offered at the time of sale. This means that either: (a) the rating agencies gave PREPA a credit rating it did not deserve or (b) the municipal bond market saw through the rating and priced the debt at a much higher rate.

PREPA’s August 2013 bond offering of $673 million was rated as investment grade by three of America’s most prominent credit rating agencies: Moody’s (Baa3), Fitch (BBB-), and Standard & Poor’s (BBB).

If one were to accept the premise that investment-grade credit ratings issued by knowledgeable and uninvolved third parties are indicative of a bond issuer’s ability to honor its financial obligations as such obligations mature, then the yields on PREPA’s bonds and other terms of borrowing should have been roughly equivalent to those of comparable offers by municipal issuers at the time of sale.

However, an analysis of the trade data and a review of the terms of borrowing associated with PREPA’s revenue bonds strongly suggest that PREPA was subject to credit rationing that was much more severe than to other borrowers who were at the time deemed to be of equivalent creditworthiness.

As cases in point:

- Yields at the time of offering and in the 12 weeks subsequent thereto averaged 166 basis points, or 1.66%, higher on a pre-tax basis for Puerto Rico debt than for other issues which were of similar payment source, duration to maturity and credit rating resulting in a “risk-premium” paid by the utility of about $11.2 million annually.\(^{127}\)

- $173 million of the $673 million issue were withheld by lenders from the proceeds of the bonds issue to cover its financing costs and to ensure prompt repayment during the initial years the bonds were to be outstanding, similar to the 2014 Commonwealth General Obligation debt offering.\(^{128}\)

- The amount of credit of $0.5 billion extended by lenders to PREPA in 2013 represented only one third of PREPA’s capital financing requirements of $1.6 billion without any indication as to when or if additional credit would be available within PREPA’s five-year capital projects planning horizon.\(^{129}\)

The divergence in yields observed and other terms of borrowing would seem to have suggested one of two possibilities; those being either:

\(^{127}\) Comparative analysis of trade data compiled from the Electronic Municipal Marketplace Access (EMMA) portal
\(^{128}\) Official Statement, Schedule of uses of bond proceeds
\(^{129}\) Official Statement, Capital Improvement Plan
the market was unable to discern the true value of PREPA's bonds as suggested by the credit rating received; or conversely,
the market was much more prescient than were those engaged to assess PREPA's creditworthiness at the time of offering.

The downgrades of PREPA's credit rating and technical default in July 2014 (just 11 months after the sale of $673 million in 2013 Power Revenue bonds) would seem to lend support to the latter of the two aforementioned hypotheses. The fact that Moody’s, Standard & Poor’s, and Fitch downgraded PREPA further since July 2013 raises serious questions. For example, the downgrade notices cited as reasons for a degradation of PREPA’s credit rating ultimately to below investment grade status conditions which were already present and acute on June 30, 2012; one full year before the cascade of ratings downgrades.

Sufficient conditions to justify a speculative (non-investment grade rating) as of June 30, 2012 included:

- Operating losses for the 24 months ended June 30, 2012 averaging 7.5 of PREPA’s annual operating revenues;
- Available unrestricted cash on hand that represented less than two weeks of annual spending;
- Chronic patterns of past due account balances from major customers, including the Primary Government;
- A deficit position in unrestricted net assets; and
- Accumulated depreciation in long-lived assets that exceeded 50 percent of book value.

As such, it would appear as though credit rating agencies were too slow to take into account the severe strains on PREPA’s finances that were clearly evident to the larger investment community by way of publicly accessible information. However, further research into PREPA’s disclosures appears warranted before any cause and effect determination can be rendered. This research would have to be conducted during the course of the full audit.

2.5 Unduly optimistic and insufficiently documented assumptions

The Official Statement accompanying PREPA’s 2013 revenue bond offering is indicative of unduly optimistic and insufficiently documented assumptions with respect to PREPA’s ability to complete its five-year $1.6 billion capital improvement program and to repay the funds to be borrowed to accomplish said program completion. Nonetheless PREPA’s financial advisor and its consulting engineer attested to the reasonableness of PREPA’s multi-year business and capital improvement plans in conjunction with the offering being marketed.

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The Debt Audit Commission obtained and reviewed the Official Statement prepared in support of PREPA’s 2013 revenue bond offering as well as a host of compliance documents assembled by the GDB in the capacity of PREPA’s financial advisor. These documents were indicative of internal inconsistencies and unfounded assumptions which appear to have rendered as inherently unworkable the capital improvement program that was to be financed with bond proceeds. As such, the inherent unworkability of the capital improvement program and plan of financing thereof may have rendered PREPA’s debt issuance as unsuitable for sale. These apparent anomalies included:

- PREPA acknowledged that the plan to finance its capital improvement program entirely through external borrowing\(^{132}\) was *inconsistent* with that of the consulting engineer that PREPA retained to evaluate the technical and financial feasibility of the five-year $1.6 billion capital improvement program for which the 2013 revenue bonds were to provide partial financing. The consulting engineers had recommended the use of revenues to at least partially finance the program.

- PREPA assumed that a decline in fuel prices and operating expenses as well as a contemporaneous and a resultant surge in energy demand would more than offset any reduction in revenues resulting from a persistent economic recession and outward migration the island was experiencing.\(^{133}\) These projections have been approved as reasonable by the consulting engineers from the URS Corporation.\(^{134}\) However, no stochastic models or regression analysis was presented by PREPA to support its assumptions concerning fuel price trends and the response of consumers thereto. Moreover, projections rendered in the months subsequent to PREPA’s July 2014 default provided far more conservative estimates of energy demand and related revenues.\(^{135}\) The models would have to be tested in the course of an audit to ensure that they were reasonable. However, in the absence of such models the auditors retained by the Commission may have to review the financial assumptions used by URS and PREPA.

- PREPA’s forecasts of future and residual income available for debt service provided *no indication* that PREPA would be able to service an additional $1 billion bonded indebtedness that PREPA would have to incur in the absence of the injection of private equity or internal revenues after the receipt of the $500 million in August 2013 Power Revenue bond proceeds. Instead PREPA’s limited disclosure in regards to the timing, nature, and extent of future financing needs was reduced to a statement of intentions to re-enter the market when conditions became more favorable.

In the absence of records and information that would explain the anomalies described herein, the Debt Audit Commission should consider analyzing the gaps and inconsistencies observed here, as they could be indicative of a lack of professional skepticism by the professionals.

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\(^{132}\) Official Statement, p. 6, 21, 45-46
\(^{133}\) Official Statement, p. 62-63
\(^{134}\) Official Statement, p. 65
\(^{135}\) See PREPA’s updated cash flow and long range revenue projections
engaged to vet PREPA’s capital improvement plan and its financing plan.

2.6 Impairment: “going concern” matter of emphasis

PREPA’s financial statements for the fiscal year that ended on June 30, 2012 did not appear to reflect an adjustment to the carrying value of its $6.5 billion plant property and equipment to account for changes in environmental regulations, which were expected to necessitate an investment of approximately $1 billion in PREPA’s generation assets to attain conformity therewith. Additionally, the opinion rendered by the Utility’s independent auditors did not include a “going concern” matter of emphasis paragraph despite recurring severe liquidity stress that PREPA was encountering at the time that the 2012 Audited Financial Statement prepared by Ernst & Young136 was issued.

In reviewing PREPA’s audited financial statements for the fiscal year that ended on June 30, 2012 the Debt Audit Commission research associates observed no indication that PREPA had surveyed its plant property and equipment for impairment, as is apparently mandated by Government Accounting Standards Board Pronouncement 42 (GASB 42)137.

Additionally, in reviewing PREPA’s Official Statement rendered in conjunction with its August revenue bond offering, the staff observed a disclosure by PREPA that environmental regulations imposed by the U.S. Environmental Protection Agency would require an investment of as much as $924 million for fiscal year 2016 through 2021138 to retrofit PREPA’s power generation assets to burn natural gas and to construct offshore receiving facilities for the gas to be received and stored in liquid form139.

According to our reading of GASB 42, changes in regulations that require an investment by the asset’s owner to conform to new regulation meet the definition of an “asset impairment”, and should be accounted for. Furthermore, based upon the authoritative guidance available in the public domain, the financial statement impact of any impairment should have been recorded as a charge against current income and accumulated depreciation in the amount equivalent to the estimated cost of compliance with any regulatory change.

It is also our understanding that, in addition to adjustments in the carrying value of fixed assets and to current income, a footnote disclosure must be presented describing the nature

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137 http://www.gasb.org/st/summary/gstsm42.html


139 In reports from 2012, other numbers have been presented: $600 million to $1.2 billion in the 2012 URS Report (http://www.aeepr.com/INVESTORS/DOCS/Financial%20Information/Annual%20Reports/thirty%20nin%20AR%202012.pdf, p. 32) and $631.6 million to $1.26 billion in PREPA’s 2012 bond offering (http://www.aeepr.com/INVESTORS/DOCS/Financial%20Information/Official%20Statement/PREPA%20Revenue%20Bonds%20Series%202012A.pdf, p. 9). The number has disappeared in PREPA’s 2013 bond offering and in the 2013 URS Report, although the necessity of the investment was still mentioned.
and extent of the asset write-down. In the case of the PREPA’s 2012 financial statements, no such note of disclosure was observed.

Less than six months after its independent auditors issued its opinion on PREPA’s 2012 financial statements, PREPA was technically in default of its bond covenant. However, there was no “going concern” matter of emphasis in PREPA’s audited financial statements alerting investors to the prospect of impending insolvency in the independent auditor’s February 2014 audit report.

The staff obtained and reviewed the authoritative literature concerning whether or not, and if so, under what circumstances independent financial auditors should include as a matter of emphasis statements of concern about an enterprise’s ability to function as a going concern. The guidance available is indicative that this subject matter involves the application of considerable professional judgment based upon the auditor’s assessment of the financial facts at hand.

Based upon a comparative analysis of financial statements issued by other similarly situated public agencies that were the subject of a “going concern” matter of emphasis, we observed that liquidity and other financial pressures that were remarkably similar to those of PREPA in terms of acuity.

The observations described herein suggest a review of the sufficiency of management’s disclosures concerning fixed assets and of forward-looking financial projections as well as the sufficiency of the independent auditor’s testing thereupon to ascertain whether PREPA’s financial statements as of and for the year ended June 30, 2012 is in order.

140 See EMMA notice of material event, July 2014
142 See debt audit commission’s comparative risk rating analysis of financially at risk public agencies
Part 3: Recommendations Concerning Further Study

Placing this report in context of other studies, it is important to mention the Informe Final, R. de la C. 1049 published by the Comisión de Pequeños y Medianos Negocios, Comercio, Industria y Telecomunicaciones that drew many similar conclusions to this report. Researching PREPA’s debt independent from each other and with different foci, both the Informe Final (R.C. 1049) and this report stated similar concerns, e.g. regarding the repeated failure of the consulting engineers and the credit rating agencies to react appropriately to the weak situation of PREPA.

We would also like to draw attention to a report published by the Institute for Energy Economics and Financial Analysis (IEEFA) in August 2016. This study, titled “PREPA Debt Restructuring Deal Won’t Restore Agency to Financial Health”, projects that fundamental flaws in the PREPA Revitalization Act will burden the economy, lead to higher electricity rates, and prevent the development of renewable energy in Puerto Rico.

In view of what has been observed and reported in this pre-audit report, the authors of this text recommend the Debt Audit Commission resolve to include within the scope of its comprehensive audit of the Commonwealth debt the following audit steps:

- Compel PREPA to provide the Commission with documents related to PREPA’s financing that the Commission requested and did not receive in preparing this research report.

- Examine the working papers prepared by PREPA’s independent financial advisor, financial auditor, and independent consulting engineer that were assembled in support of representations and opinions rendered by said professionals in supporting the design, marketing, and sale of PREPA’s bonds. Assess whether the work papers provided by professionals are indicative of having exercised due professional care and skepticism in response to the representational and attest duties rendered.

- Obtain and examine the Underwriters’ communications with PREPA, the GDB, Bond Counsel, Disclosure Counsel, Tax Counsel and the representatives of the URS Corporation and the independent auditors involved with the audit reports abovementioned.

- Obtain and review all writings prepared by PREPA and its advisors, agents and representatives which individually or collectively constitute PREPA’s representations concerning its financial condition and financial prognosis to rating agencies during the 48 months ended as of June 30, 2014. Assess whether the representations made by PREPA and its agents concerning PREPA’s financial position and financial prospects were truthful in all substantive respects at the time of and time preceding the August 2013 revenue bond sale.

- Require documents that detail the activities by which PREPA’s and the GDB’s Board participated in the 2013 bond issuance. Conduct interviews with PREPA and GDB
Board members whom were active as of 2013 in order to examine their role within the 2013 bond issuance.

- Examine if the proceeds from Power Revenue Bonds were used for the purposes claimed.

- Require from PREPA any and all material and communications regarding the process by which it retained the services of its auditors and legal counsels. Evaluate whether PREPA’s controls over the use of consultants to provide financially sensitive and mission critical advisory and attest services ensure that said services are provided with prudence, independence and free from patronage or other conditions which inhibit PREPA to obtain competent unbiased advisory services at an acceptable cost.

The Commission should continue its work along the lines it started, by examining debt from the most recent offerings to the oldest offering covered by Law 97. The Commission should review the matters raised in this and the first pre-audit report in compliance with U.S. GAO audit standard. However, the Commission should also remember that the issues contained in this and the first report may not be the only issues that arise; these are simply the ones identified in the review of a limited portion of Puerto Rico’s total outstanding debt.
19 de agosto de 2016

VIA EMAIL RPAGAN@SPTSEIUPR.ORG

Sr. Roberto Pagán
Presidente
Comisión de Auditoría Integral del Crédito Público
Sindicato Puertorriqueño de Trabajadores
1018 Avenida Juan Ponce de León
San Juan, PR  00925

Estimado señor Presidente:

En enero de 2016 fui nombrada como miembro de la Comisión de Auditoría Integral del Crédito Público ("Comisión") creada por virtud de la Ley Núm. 97-2015. Esta Ley ordena la creación de la "Comision para la Auditoria Integral del Crédito Público" con el fin de transparentar toda gestión pública y la información generada a través de la auditoría y la acción fiscalizadora. Estas gestiones están dirigidas a examinar y evaluar el proceso de contratación, refinanciamiento o renegociación del endeudamiento público, el origen y destino de los recursos, y la ejecución de los programas y proyectos financiados con deuda interna o externa.

Se hace necesario recurrir hoy a usted como la autoridad escogida para presidir la Comisión. Respetuosamente le informo que de una evaluación de la Ley 97-2015 y el Reglamento Interno, la Comisión no está siguiendo a cabalidad sus funciones, deberes y responsabilidades. La misma está en pleno incumplimiento de su propio Reglamento.

La Ley 97-2015, en su Artículo 2, Sección 4, en forma clara y precisa indica que el término “Auditoría Integral” “significará, a menos que de su contexto claramente se desprenda otra definición, la acción fiscalizadora dirigida a examinar y evaluar el proceso de contratación, refinanciamiento o renegociación del endeudamiento público, el origen y destino de los recursos, y la ejecución de los programas y proyectos financiados con deuda interna o externa, considerando los aspectos legales y financieros, los
impactos económicos, sociales, de género, regionales, ecológicos, nacionales y municipales.” De manera enumerada, además, establece las guías para la auditoría en cada uno de los casos en su Sección 5(b). En la Sección 9(b) autoriza a “expedir los Reglamentos internos que considere pertinentes para su adecuado funcionamiento y el cumplimiento de sus objetivos.” Es por ello que el 27 de abril de 2016 se aprobó unánimemente el Reglamento de la Comisión de Auditoría Integral del Crédito Público. Este Reglamento, en su Artículo 3 expresa los deberes, obligaciones y responsabilidades de los miembros de dicha Comisión.

Lamentablemente le informamos que al momento, miembros de la Comisión no se rigen, mediante sus actos, desempeño u omisiones, por lo expresado en el Reglamento Interno de la Comisión, en su Artículo 3. Varias de las secciones de este Artículo que han estado en incumplimiento son la c, d, g, i, j. Estamos en la disposición de exponer detalladamente cómo han sido incumplidos cada uno de ellos.

Finalmente, pero no menos importante, se ha incumplido y se pretende incumplir nuevamente el Artículo 12 del mismo Reglamento antes mencionado, “Autoridad Ética”. Este Artículo dispone que “además de los deberes éticos dispuestos por el Artículo 2 de la Ley 97-2015, las leyes del Gobierno del Estado Libre Asociado de Puerto Rico, y las reglas incluidas en este Reglamento, los miembros de la Comisión y toda persona que trabaje para ella en el transcurso de sus funciones deberán cumplir con los principios éticos dispuestos en la revisión más reciente del Government Auditing Standards publicado por la United States Government Accountability Office”. Tanto el reporte “Puerto Rico Commission for the Comprehensive Audit of the Public Credit, Pre-Audit Survey”, presentado el 3 de junio de 2016, divulgado públicamente, en adición al intento de aprobar el “Puerto Rico Commission for the Comprehensive Audit of the Public Credit Pre-Audit Survey, Puerto Rico Electric Power Authority” (PREPA, por sus siglas en inglés) circulado a los miembros de la Comisión el 18 de agosto, son claros ejemplos del menosprecio a cumplir con la Ley Núm. 97-2015 y su Reglamento.

Por lo tanto, en el día de hoy respetuosamente le solicitamos que se tomen las medidas correctivas necesarias a estos efectos. Como miembro de la
Comisión, se solicita respetuosamente además, que se abstengan de aprobar y pasar juicio sobre cualquier documento, investigación, pre-auditoría y auditoría que no cumpla con lo ya aprobado por la propia Comisión.

Agradezco de antemano la atención que preste a nuestros planteamientos. Me reitero a su disposición.

Cordialmente,

Lcda. Zoimé Alvarez Rubio
Vicepresidenta Ejecutiva

ZAR/sro

c Miembros de la Comisión de Auditoría Integral del Crédito Público
23 de Agosto de 2016

Lcda. Zoiné Álvarez Rubio
Comisionada
Comisión para la Auditoría Integral
del Crédito Público

Estimada comisionada Álvarez Rubio:

Reciba un cordial saludo. Acuso recibo de su comunicación de 19 de agosto de 2016 recibido vía electrónica. Mediante la misma, usted alega de manera general que se están incumpliendo con varias disposiciones de Ley 97-2015 y el Reglamento de esta Comisión. Sin embargo, su comunicación carece de especificidad, lo cual nos impide contestarle en este momento. Estamos en la mejor disposición de responder sus inquietudes siempre y cuando las exponga de manera específica en su petición.

Por otra parte, sobre su solicitud para que la Comisión se abstenga de aprobar y pasar juicio sobre cualquier documento, investigación, pre-auditoría y auditoría que no cumpla con lo ya aprobado por la propia Comisión, entendemos que en este momento es improcedente toda vez que sus alegaciones carecen de especificidad y, por tanto, no se justifica detener los trabajos.

Demás está decir que estoy a su disposición de necesitar información adicional.

Cordialmente,

Roberto Pagán
Presidente
Comisión para la Auditoría Integral
del Crédito Público
JENNIFER A. GONZÁLEZ-COLÓN
PORTAVOZ DE LA DELEGACIÓN
DEL PARTIDO NUEVO PROGRESISTA

23 de agosto de 2016

VIA EMAIL - rpagan@sptseiupr.org

Sr. Roberto Pagán
Presidente
Comisión de Auditoría Integral del Crédito Público
Sindicato Puertorriqueño de Trabajadores
1018 Avenida Juan Ponce de León
San Juan, PR 00925

Señor Presidente:

La Comisión para la Auditoría Integral del Crédito Público, se creó en virtud de la Ley 97-2015, con el fin de adoptar medidas que propendan a manejar equitativamente nuestra situación económica y fiscal así como a hacer transparentes las finanzas y la gestión pública. De acuerdo con la Sección 7, del Artículo 2 de la antes referida ley, soy miembro de la Comisión como Portavoz de la Delegación del Partido Nuevo Progresista en la Cámara de Representantes.

En días recientes se circuló un informe pre-auditoría, el cual la Comisión pretende aprobar en la reunión citada para el miércoles 24 de agosto de 2016. Este informe, al igual que el anterior publicado el 3 de junio del 2016 se redacta en violación al Reglamento de la Comisión de Auditoría Integral del Crédito Público. El Reglamento de la Comisión establece en su Artículo 12 que:

“Además de los deberes éticos dispuestos por el Artículo 2 de la Ley 97-2015, las leyes del Gobierno del Estado Libre Asociado de Puerto Rico, y las reglas incluidas en este Reglamento, los miembros de la Comisión y toda persona que trabaje para ella en el transcurso de sus funciones deberán cumplir con los principios éticos dispuestos en la revisión más reciente del Government Auditing Standards publicado por la United States Government Accountability Office.” (énfasis suplido)
Este informe no fue preparado en cumplimiento con los estándares de auditoría gubernamental y mucho menos preparado por profesionales autorizados para hacerlo. Este informe fue preparado por estudiantes realizando su tesis en derecho internacional sin contar con la preparación necesaria en las áreas de contabilidad y auditoría. Este informe, que por su contenido es descrito como un trabajo en progreso o “work in progress” llega a unas conclusiones que no pueden ser validadas por la Comisión, pues la metodología utilizada para llegar a esas conclusiones carece de legitimidad al ser realizados por personas que carecen de la preparación y acreditación necesaria para realizarlos y por no ceñirse a los postulados establecidos por la Government Auditing Standards publicado por la United States Government Accountability Office y requeridos por la Comisión para sus auditorías.

Es imprescindible destacar que los señalamientos contenidos en el informe no representan las impresiones ni las conclusiones de todos los miembros de la Comisión, y en específico de esta servidora. La publicación de este informe deficiente, tendrá el efecto de minar aún más la ya debilitada credibilidad de Puerto Rico ante los mercados financieros.

Como miembro de la Comisión, exijo que se cumplan a cabalidad las disposiciones del reglamento interno en cuanto a la preparación de informes y sobre la rigurosidad de ceñirse a los postulados de una sana auditoría gubernamental al momento de escoger las personas que realizan los mismos y sobre el cumplimiento con los estándares generalmente aceptados de contabilidad. De igual manera, solicito que se retire el informe circulado para la aprobación, al incumplir con el Reglamento de la Comisión y los postulados establecidos por la Government Auditing Standards.

Espero no constituya uso y costumbre, el incumplimiento con el Reglamento de la Comisión. Esta es la segunda ocasión que me veo obligada a levantar mi voz sobre los procedimientos de la Comisión.

Esperando su pronta atención sobre el particular, quedo.

Atentamente,

[Signature]

Jennifer A. González Colón

Cc Hon. Jaime R. Perelló Borrás
Presidente - Cámara de Representantes
Hon. Eduardo Bhatia Gautier
Presidente - Senado de Puerto Rico

Hon. Larry Seilhamer Rodríguez
Portavoz PNP - Senado de Puerto Rico
2 de septiembre de 2016

VIA EMAIL – jgo@camaraderepresentantes.org

Hon. Jenniffer A. González Colón
Comisionada
Comisión de Auditoría Integral del Crédito Público
Apartado 9022228
San Juan, PR 00902-2228

Señora comisionada:

Reciba un cordial saludo. Acuso recibo de su comunicación con fecha 23 de agosto de 2016 enviada el mismo día vía correo electrónico. Entiendo es pertinente aclarar varios extremos sobre las preocupaciones planteadas en la misma.

En la comunicación mencionada anteriormente usted alega que "[e]ste informe, al igual que el anterior publicado el 3 de junio del 2016 se redacta en violación al Reglamento de la Comisión de Auditoría Integral del Crédito Público", y procede a citar el Artículo 12 del Reglamento como la disposición alegadamente infringida. Además, indica que “[e]l informe no fue preparado en cumplimiento con los estándares de auditoría gubernamental y mucho menos preparado por profesionales autorizados para hacerlo. Este informe fue preparado por estudiantes realizando su tesis en derecho internacional sin contar con la preparación necesaria en las áreas de contabilidad y auditoría". Entendemos, muy respetuosamente, que no le asiste la razón. Veamos.

El Artículo 12 del Reglamento de la Comisión reúne las autoridades éticas que servirán de referencia para la reglamentación e interpretación ética de la Comisión. Así quedó acordado en la reunión del 24 de febrero de 2016, en la que usted participó mediante representación del CPA Giovanni La Russa. (Ver minuta de reunión del 24 de febrero de 2016, punto #11). Es decir, el Artículo 12 lo que requiere es cumplimiento con los principios éticos dispuestos en las autoridades éticas mencionadas. Ninguna de dichas disposiciones han sido violadas.

Por otro lado, los principios éticos dispuestos en el Yellow Book de la U.S. Government Accountability Office son los enumerados desde la sección 1.10 hasta la 1.24 de los Government Auditing Standards más actualizados. Sin embargo, estos principios éticos no constituyen estándares de auditoría. La sección 1.10 del Yellow Book, en lo pertinente, nos explica: “This section sets forth fundamental principles rather than establishing specific standards or requirements.”
En la reunión del 24 de febrero, la Comisión acordó unánimemente delegar al Comité de Planificación y Metodología la responsabilidad de redactar un documento que sirviera de muestra del tipo de transacciones que serían auditadas por la Comisión una vez cuente con los recursos necesarios para comenzar sus auditorías. Es decir, los informes que recibiría la Comisión de parte del Comité de Planificación y Metodología no serían informes de auditoría sino de muestras informativas. Incluso antes de la aprobación del Reglamento, en la misma reunión del 24 de febrero, la Comisión acordó adoptar el *Yellow Book* como su manual de auditoría. Sin embargo, al igual que se explica al comienzo de cada informe, los documentos producidos por el Comité de Planificación y Metodología no son auditorías sino muestras. El nombre del informe, traducido incorrectamente en su carta como una "pre-auditoría", es un "*pre-audit survey*" o un "muestreo previo a una auditoría".

Por otra parte, la Comisión cuenta con autorización en ley para utilizar el personal y los recursos disponibles de agencias gubernamentales, asunto que se reitera desde la reunión constitutiva de la Comisión el 19 de enero de 2016 (Ver punto #9 de la Minuta de Reunión). No obstante, el presidente del Comité de Planificación y Metodología solicitó a la Comisión en la reunión del el 6 de abril de 2016 que se le autorizara a integrar a los estudiantes Katja Litz y Ricardo Puga y Vidal para que trabajaran voluntariamente con el Comité que preside. La moción presentada a esos efectos en dicha reunión, a la cual usted no asistió por sí ni a través de representación, no tuvo oposición. Igualmente conviene aclarar que ambos estudiantes fueron supervisados en todo momento por el doctor Mario Marazzi, también miembro de la Comisión, y contaron con el asesoramiento del experimentado auditor y CPA John Johns. En este sentido, conviene dejar meridianamente claro que aun cuando el informe al que usted alude no constituye un informe de auditoría o pre-auditoría, en ningún momento se han violentado los principios éticos adoptados por esta Comisión.

De igual forma usted alega en la comunicación que “[e]ste informe, que por su contenido es descrito como un trabajo en progreso o "work in progress" llega a unas conclusiones que no pueden ser validadas por la Comisión, pues la metodología utilizada para llegar a esas conclusiones carece de legitimidad al ser realizados por personas que carecen de la preparación y acreditación necesaria para realizarlos y por no ceñirse a los postulados establecidos por la *Government Auditing Standards* publicado por la *United States Government Accountability Office* y requeridos por la Comisión para sus auditorías". Igualmente entendemos, muy respetuosamente, que no le asiste la razón.

El informe sobre el muestreo previo a la auditoría, presentado en las semanas pasadas a la Comisión en pleno, no llega a conclusión alguna. El Comité de Planificación y Metodología no está facultado, a través de esta encomienda, para llegar a conclusiones sobre los muestreos que está realizando. Su encomienda es presentarle a la Comisión, de una manera que resulte accesible a sus miembros, los hechos según fueron representados por la gerencia y otros documentos oficiales.

Es por ello que es importante reiterar que el informe no constituye una auditoría. El Comité de Planificación y Metodología comenzó a trabajar la investigación y el análisis de este segundo
informe mientras la Comisión aún no contaba con los recursos necesarios para iniciar una auditoría. En la medida que se pueda constituir el equipo de trabajo de la Comisión, se iniciarán las auditorías de la deuda bajo estudio y jurisdicción de la Comisión para la Auditoría Integral del Crédito Público de Puerto Rico.

Por último, usted hace varias solicitudes que requieren consideración del pleno de la Comisión. Algunas de ellas ameritan reconsiderar decisiones tomadas por la Comisión en las reuniones anteriores. Si desea que se atiendan sus solicitudes, las podrá presentar como mociones en cualquiera de nuestras reuniones ordinarias.

Espero haber aclarado sus inquietudes y no dude en contactarme a su mejor conveniencia de necesitar otra información.

Cordialmente,

Roberto Pagán Rodríguez
Presidente
Comisión para la Auditoría Integral del Crédito Público
24 de agosto de 2016

Via Email: rpagan@sptseiupr.org

Roberto Pagán
Presidente
Comisión de Auditoría Integral del Crédito Público
Sindicato Puertorriqueño de Trabajadores
1018 Ave. Ponce de León
San Juan, Puerto Rico 00925

Saludos muy cordiales.

Durante los pasados días, he recibido comunicaciones que levantan serias preocupaciones sobre el modo en el cual la Comisión de Auditoría Integral del Crédito Público (en adelante, la Comisión) ha estado realizando la labor encomendada por la Ley Núm. 97-2015 y, particularmente, que no se está cumpliendo con el Reglamento Interno aprobado por la Comisión.

Uno de los propósitos principales que fundamentaron la creación de esta Comisión, fue alcanzar la transparencia de toda la gestión pública. Por tanto, nos corresponde como miembros de la Comisión defender y atender vehementemente este principio de transparencia en todas las gestiones que realiza esta Comisión.

Cabe enfatizar que desde el primer día que esta Comisión fue convocada, el ánimo de conducir los trabajos con la mayor transparencia y libre de cuestionamientos fue de tal magnitud que, la elección del Presidente de la Comisión fue realizada exclusivamente por los representantes del sector civil. Véase Inciso 5, Minuta Reunión 19 de febrero de 2016, pág. 2. Los miembros de la Comisión que representan el sector político, acordamos la abstención en dicha votación como demostración de nuestro interés genuino que los trabajos de la Comisión se realicen absolutamente diáfanos y libres de cualquier interferencia personal, incluyendo la política.
Por esta misma razón, no intervengo directamente en las reuniones que celebra la Comisión. Entiendo y, según fue manifestado desde el primer día, los trabajos de la Comisión deben gozar de la mayor transparencia, rectitud, legalidad y libres de cualquier apariencia que los mismos intentan adelantar un interés político particular. No obstante, estudio detenidamente cada minuta, documento, presentación o informe que se notifica.

Por ello, es mi deber y responsabilidad exigir que cualquier solicitud presentada pertinente a la rectitud y transparencia de las gestiones de la Comisión, deba ser atendida con la mayor premura y seriedad posible.

En lo aquí pertinente, es sumamente preocupante el reclamo presentado ante esta Comisión sobre que el borrador del informe pre auditoría circulado no cumple con los requisitos establecidos en el Reglamento de la Comisión, principalmente cuando los mismos indican que se está infringiendo los principios éticos dispuestos en la revisión más reciente del Government Auditing Standards publicado por la United States Government Accountability Office.

Este reclamo debe ser detalladamente explicado y atendido, principalmente por aquellos miembros de la Comisión que poseen un expertise en economía, finanzas y contabilidad. Igualmente, debe ser atendido por todos los miembros de la Comisión, en una determinación colegiada y avalada por la mayoría de éstos.

Destaco nuevamente que esta Comisión tiene una responsabilidad de alto interés público y los trabajos que la misma realice deben gozar del más alto grado de precisión y certeza posible. La Ley 97-2015, así como el mandato que el Pueblo de Puerto Rico nos ha encomendado, exigen que las ejecutorias de esta Comisión de Auditoría Integral del Crédito Público, sean totalmente confiables, transparentes y, sobre todos, conforme a la Ley que habilitó la Comisión.

Por tanto, espero que los reclamos presentados ante esta Comisión sean atendidos según expresado en esta comunicación.

Atentamente,

Larry Seilhamer Rodríguez

C. Miembros de la Comisión de Auditoría Integral del Crédito Público
Ricardo Puga y Vidals
E-Mail: rpyv@outlook.com

Curriculum Vitae

Education

Hertie School of Governance
Berlin, Germany
Master of International Affairs
Concentration: Finance and Trade
2015-2017

The City University of New York
New York, United States
Bachelor of Arts from the Baccalaureate for Unique and Individualized Studies
Study area: Natural Law.
Distinctions: Summa Cum Laude; CUNY BA/BS Dean’s List
2011-2014

Work Experience

Academia Norteamericana
New York, United States
de la Lengua Española
Investigador Academico
2013-2015

Mount Saint Michael Academy
New York, United States
Instructor
2011 - 2012
**Academic Activities**

1. New York City Bar; Single Continuing Education Program  
   Speaking to Win: The Art of Effective Speaking for Lawyers

2. New York City Bar; International Law Conference

   Seminar held in New York City focusing on the following topics:  
   - NAFTA  
   - Mexican Business Operations  
   - The Maquila Industry  
   - Taxes and Labor Law  
   - Import/Export Requirements  
   - Foreign Currency Exposure

4. Hofstra University; New York CLE Credit Program  
   Dimensions of Women’s Equal Citizenship

5. Deutsches Haus at New York University,  
   German Language and Culture Course

**Language Skills**

1. Spanish, native language.  
2. English, native language.  
3. Italian, modest competency  
4. French, modest competency.
Curriculum vitae Katja Litz
mail: katjalitz@outlook.com

EDUCATION

09/2015 – 08/2017  Master of International Affairs, Hertie School of Governance, Berlin, Germany
Concentration: Finance and Trade

10/2012 – 08/2015  B.A. in Political Science, Freie Universität Berlin, Germany
Bachelor thesis “Regions in the European Union”;
supervisor: Prof. Dr. Tanja A. Börzel
Final grade (German grading system): 1.5

PRACTICAL & ACADEMIC EXPERIENCE

- Report drafting for a competition of civil society projects in the area of
democracy and tolerance promotion

09/2015 – 10/2015  Student assistant at the Co-operation Centre for Applied Sciences at HTW - University of Applied Sciences, Berlin, Germany
- Input to scientific reports and documentations
- Content- and design-related remodeling of the German and English
HTW-Website for the “Research” area
- Administration and maintenance of databases with specific software

11/2014 – 09/2015  Franco-Moldovan-German encounter „Facing Antagonism in Europe“, Germany, Moldova, France, Belgium
- Trilateral academic exchange and dialogue in mixed working groups
- Analysis of geo- and sociopolitical facets of the European Union
- Discussions with representatives from the Foreign Ministries, the
Parliaments and the embassies of the three represented countries

04/2015 – 05/2015  Internship at the Bundestag (Parliament), Berlin, Germany
- Research, especially on nuclear policy and environmental issues
- Correspondence with the media and citizens
- Writing and editing of texts, e.g. for parliamentary and citizens’ inquiries
as well as parliament-related websites
01/2015 – 03/2015  Internship at the head office of the Bündnis für Demokratie und Toleranz, Federal Agency for Civic Education, Berlin, Germany
- Research on current issues in the areas of extremism and xenophobia
- Organization, implementation, and evaluation of civil society projects
- Advice to and networking with civil society actors

09/2014 – 12/2014  Internship in the European Department of the German Foreign Office, Berlin, Germany
- Participation in and evaluation of political events and conferences
- Research and proposals regarding EU policies
- Preparation and support of consultations in the Foreign Office

SOCIAL ENGAGEMENT

04/2014 – today  Active and legal member of the non-profit association ICYE (ICJA Freiwilligenaustausch weltweit e.V.), Berlin, Germany

11/2012 – today  Election helper for referenda and European elections, Berlin, Germany

10/2012 – today  Volunteer at the non-profit association ICYE, Berlin, Germany
- Deputy head and treasurer of the regional group of ICYE in Berlin
- Mentor of international volunteers before, during, and after their service

08/2011 – 08/2012  Voluntary service at a street children’s school in Quito, Ecuador
- Teaching of children aged between 6 and 15 in English

07/2008 – 10/2010  Volunteer at the Protestant parish Aalen-Fachsenfeld, Germany
- Organization and mentoring of children and youth groups

04/2007 – 06/2011  Volunteer at the Protestant Youth Foundation Aalen, Germany
- Organization and mentoring of children and youth groups

ADDITIONAL QUALIFICATIONS

Scholarships  Online-scholarship of e-fellows.net since 10/2012
Mentoring program of McKinsey (Capstone) since 07/2015
Merit-based tuition waiver of Hertie School of Governance since 09/2015

Language skills  German (mother tongue)
English (fluent)
Spanish (fluent)
French (basic)

IT skills  MS Office package: very good knowledge
Internet research: very good knowledge
SPSS (statistics software): basic knowledge
Stata (statistics software): good knowledge
TYPO3 (content management system): good knowledge