

CONSULTING AGREEMENT

McKinsey & Company, Inc. Washington D.C. ("McKinsey") and **The Financial Oversight and Management Board for Puerto Rico, Washington D.C.** (the "Board" or the "Client") hereby agree to the following terms in connection with consulting services that McKinsey will provide to Client in support of the Strategic Consulting Firm project (the "Services").

1. SERVICES. The working arrangements, including scope of the Services, Deliverables (as defined below), team composition and workplan, will be described in the Scope of Work, attached hereto as Attachment 1, and cannot be materially amended without mutual agreement of the Parties. In order to be able to complete the Services within the agreed timeframe and budget and to fulfill its responsibilities on a timely basis, McKinsey will rely on the Client's timely cooperation, including the Client and the Government of Puerto Rico's making available relevant data, information and personnel, performing any tasks or responsibilities assigned to the Client or the Government of Puerto Rico and notifying McKinsey of any issues or concerns the Client may have relating to the Services. The Client is solely responsible for ensuring that the Government of Puerto Rico cooperates with responding to requests for purposes of the Services. The parties will meet at mutually agreed times to discuss the progress of the Services and to exchange feedback. During the course of the Services, priorities may shift or unexpected events may occur which may necessitate changes to the Services. In this event, the parties will jointly discuss the anticipated impact on the Services and agree on any appropriate adjustments, including to the scope of work, timeframe and budget.

2. COMPENSATION. The Client shall compensate McKinsey on a Firm Fixed Price basis in connection with the Services, as set forth in Attachment 1. The Firm Fixed Price, as set forth in the Milestone Payment Schedule in Attachment 1, is expressed net of any deductions or withholdings that may be applicable in respect of taxes, duties or levies, which taxes, duties, and/or levies are imposed by Puerto Rico and not the federal or state governments of the United States. The Client will pay to McKinsey, in cleared funds, amounts that are equal to the Firm Fixed Price, as set forth in the Milestone Payment Schedule in Attachment 1. The parties agree that McKinsey is solely responsible for any applicable withholding and payment of taxes with respect to McKinsey Personnel as required by law. Neither party undertakes, pursuant to his Agreement or otherwise, to perform or discharge any liability or obligation of the other party, whether regulatory or contractual, or to assume any responsibility whatsoever for the conduct of the business or operations of the other party. Consistent with the public purpose of the Client's mandate, this Agreement will be made publicly available subject to Section 5 below. McKinsey will invoice the Client for Deliverables in connection with the Services monthly or as otherwise set forth in the applicable Proposal. All invoices are due Net 30 from receipt.

3. CONFIDENTIALITY. Subject to applicable public disclosure laws and the disclosure procedures established by Client that do not otherwise conflict with terms in this agreement, each Party agrees to keep confidential any confidential information furnished by either Party in connection with the Services ("Confidential Information"); provided, however, that the Client may disclose Confidential Information from McKinsey as necessary or desirable to carry out its statutory duties. The Client agrees to provide McKinsey prior notice of its intent to disclose Confidential Information from McKinsey. Without the Client's explicit consent, McKinsey will disclose Confidential Information only to its employees, agents and contractors who have a need to know and are bound to keep it confidential and will use Confidential Information only for purposes of performing the Services. Confidential Information shall be all information other than information that is (i) or becomes publicly available other than as a result of a breach of this agreement, (ii) already known to the Receiving Party, (iii) independently acquired or developed by the Receiving Party without violating any of its obligations under this agreement, or (iv) is legally required to be disclosed. All documents supplied by the Receiving Party Client in connection with the services hereunder will, upon written request, be returned by the Receiving Party to the Disclosing Party or destroyed, provided that the Receiving Party may retain a copy for archival purposes and the Client may use such information at any time to carry out its statutory duties. In performing the Services, McKinsey will use and rely primarily on the Confidential Information and on information available from public sources without having independently verified the same and does not assume responsibility for the accuracy or completeness of the Confidential Information or such other publicly available information and Section 5 herein.

4. INTELLECTUAL PROPERTY. Upon payment in full of McKinsey's Firm Fixed Price, the Client will own all reports, financial models and other deliverables prepared for and furnished to the Client by McKinsey in connection with the Services (the "Deliverables"), save that McKinsey retains ownership of all concepts, know-how, tools, frameworks, models, and industry perspectives developed or enhanced outside of or in connection with the Services (the "McKinsey Tools"), it being understood that none of the McKinsey Tools will contain the Client's Confidential Information. To the extent the Deliverables include any McKinsey Tools, McKinsey hereby grants the Client a non-

exclusive, non-transferable, non-sublicenseable, worldwide, royalty-free license to use and copy the McKinsey Tools solely as part of the Deliverables and subject to the limitations herein on disclosure of McKinsey materials and publicity.

5. DISCLOSURE OF MCKINSEY MATERIALS; PUBLICITY. McKinsey's work for the Client is confidential and for the Client's internal use only; provided, however, the Client may disclose such work to the extent such disclosure is necessary or desirable to carry out the Client's statutory duties. The Client agrees that it will not disclose McKinsey's name in relation to any disclosure of work hereunder without McKinsey's consent. McKinsey will not disclose the Deliverables to any third parties (including any non-voting Board members) without the Client's prior written permission. McKinsey further agrees not to use the Client's name in any communication with any third party without the other party's prior written permission, including in press releases or other public announcements. If the Client receives a public records request for Deliverables or other documents containing McKinsey information, the Client will allow McKinsey the ability to review the documents prior to disclosure to advise if the documents contain information subject to an exception or exemption to the relevant public records law.

6. SERVING COMPETITORS. It is McKinsey's long-standing policy to serve competing clients and clients with potentially conflicting interests as well as counter-parties in merger, acquisition and alliance opportunities, and to do so without compromising McKinsey's professional responsibility to maintain the confidentiality of client information. Consistent with such practice and McKinsey's confidentiality obligations to its other clients, McKinsey is not able to advise or consult with the Client about McKinsey's serving the Client's competitors or other parties. To avoid situations of potential conflict, McKinsey will not, for a period of one year following an engagement for the Client, assign any consultant who receives Confidential Information in connection with such engagement to a competitively sensitive project, including a directly-conflicting engagement with the Government of Puerto Rico. Notwithstanding the foregoing, the Client understands and agrees that so long as McKinsey has appropriate procedures in place to mitigate any potential conflict, it may serve the Government of Puerto Rico on related matters.

7. INDEMNIFICATION.

(a) Deliverables produced hereunder are not intended as a substitute for financial, investment, legal, accounting or other professional advice, and McKinsey does not intend to supplant the Client or the Government of Puerto Rico's management or other decision-making bodies.

(b) The Client and the Government of Puerto Rico remain solely responsible for its decisions, actions, use of the Deliverables and compliance with applicable laws, rules and regulations. McKinsey agrees to indemnify and hold the Client harmless from and against all loss, liability, damage, cost, or expense (including reasonable attorney fees) ("Losses") to the extent those Losses are determined by a final, non-appealable order or arbitral award to have resulted from McKinsey's gross negligence or willful misconduct in the performance of the Services.

(c) The Client agrees to indemnify and hold McKinsey harmless from any Losses (including the costs of McKinsey's professional time) relating to the Services (including any Losses asserted by the Client, its agents or representatives, or third parties and any Losses sustained by McKinsey when participating in any legal, regulatory, or administrative proceeding relating to the Services), except to the extent those Losses are determined by a final, non-appealable order or arbitral award to have resulted from McKinsey's gross negligence or willful misconduct in the performance of the Services.

(d) The Client further indemnifies McKinsey, including any member, officer or employee thereof including but not limited to the Revitalization Coordination role, in any instance where it is a party, or is threatened to be made a party, to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative, against judgments, fines, amounts paid in settlement and expenses (including attorneys' fees) actually and reasonably incurred by him or her in connection with such action, suit or proceeding, unless it acted with bad faith or engaged in intentional misconduct and, with respect to any criminal action or proceeding, unless it knew or should have known the conduct was unlawful. The termination of any act, suit or proceeding by judgment, order, settlement, conviction, or upon a plea of nolo contendere or its equivalent, shall not, of itself, create a presumption that McKinsey (or any of its members, officers or employees) did not satisfy these standards.

Neither party will be liable for any lost profits or other indirect, consequential, incidental, punitive or special damages. In no event shall McKinsey's liability to the Client in connection with the Services relating to an engagement for the

Client exceed the amount paid to McKinsey by the Client in connection with such engagement. In no event shall the members, staff, employees, and advisors to the Client have any liability under any paragraph of this agreement.

8. AUTHORITY OF THE BOARD. The Client represents and warrants it has the authority to enter into this Agreement for the Services. In the event that it is determined that the Client did not have authority to authorize all or part of this agreement, McKinsey may make the sole determination as to whether to terminate the Agreement according to Section 10 herein, or continue with those parts of the Services for which the Client does have authority. The Client agrees to indemnify and hold McKinsey harmless from any Losses (including the costs of McKinsey's professional time) resulting from a breach of this Section 8 and/or a misrepresentation by the Client of authority to act (including any Losses asserted by the Client, its agents or representatives, or third parties and any Losses sustained by McKinsey when participating in any legal, regulatory, or administrative proceeding relating to the Services).

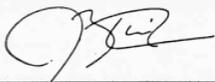
9. CONFLICTS OF INTEREST. The Client agrees that performance of Services hereunder shall not conflict McKinsey from serving the Government of Puerto Rico or any stakeholders to the work, subject to the restrictions in section 6 – "Serving Competitors."

10. TERM AND TERMINATION. This agreement takes effect on the date the Services commenced and shall continue until terminated in accordance with its terms. Either party may terminate the Services at any time effective upon 30 days written notice to the other. In the event of any termination, the Client will pay McKinsey for the work completed up to the effective date of termination.

11. MISCELLANEOUS. This agreement and the Proposals constitute the entire agreement between the parties, and there are no prior or contemporaneous oral or written representations, understandings or agreements relating to this subject matter that are not fully expressed herein or therein. This agreement and the Proposals shall be governed by and construed in accordance with the laws of the State of New York without regard to conflicts of law principles and shall inure to the benefit of and be binding on the successors and assigns of the Client and McKinsey. The following Sections shall survive the completion or any termination of the Services: 3 (Confidentiality), 4 (Intellectual Property), 5 (Disclosure of McKinsey Materials; Publicity), 6 (Serving Competitors), 7 (Indemnification), 8 (Term and Termination) and 9 (Miscellaneous) and any other provision which by law or by its nature should survive. Neither party may assign its rights or obligations under this agreement to any person or entity without the written consent of the other party, not to be unreasonably withheld, provided, however, that either party may assign its rights and obligations under this agreement to its affiliates upon reasonable written notice to the other party but without the written consent of the other party. Assignment shall not relieve either party of its obligations hereunder. McKinsey is an independent contractor and not the Client's agent or fiduciary. Notwithstanding any course of dealings of the parties at any time or any statement to the contrary contained therein, no purchase order, invoice or other similar document issued by a party shall be construed to modify the terms of this agreement. Rights and remedies provided in this agreement are cumulative and not exclusive of any right or remedy provided at law or in equity.

The Financial Oversight and Management Board for Puerto Rico

McKinsey & Company, Inc. - Washington D.C.



Name: José Carrión, III
Title: Chair



Name: Tyler Duvall
Title: Principal

Date: November 27, 2016

Date: November 27, 2016

ATTACHMENT 1
Scope of Work

Services:

McKinsey will support the Board in achieving the following objectives:

- 1. Standing up the Board for success (Objective 1):** McKinsey will establish the Board's organization and processes to enable it to operate and scale immediately.

Activities:

- Assisting the Board in **developing a comprehensive planning process for its own organization** in line with the requirements of PROMESA (e.g. fiscal plan assessment, expediting critical projects, achieving a debt solution) including:
 - Develop the operating model for the Board
 - Establish a project management office (“PMO”), including putting in place project management systems and processes (including potentially cash management capabilities to monitor Government finances)
 - Design detailed plans for implementing Board tasks and PROMESA requirements
 - Provide best practices and recommendations to promote transparency and public participation
- **Develop an actionable 120-day work plan**, including a core strategy and budget for implementation by the Board:
 - Determine a mission, core values and guiding principles
 - Develop Board strategy and targets
 - Establish success metrics for the Board
 - Create a budget and set overall financial goals
 - Create a realistic, actionable 120-day work plan
- **Design the Board's organizational and support structure**
 - Translate the strategic plan into the Board's organization
 - Design the organizational structure and staffing levels
 - Define role descriptions
 - Outline key organizational processes
 - Design and put in place administrative and essential services (e.g. admin, IT)

Timeline:

To deliver the above, McKinsey will put in place a PMO to provide broad-based interim capacity for the Board as it builds its team and internal capacity. McKinsey will complete these workstreams within the first 90 days of engagement and continue to refine and update through the full 180-day period.

2. **Establish the frameworks to support Board deliberation and decision-making (Objective 2):** McKinsey will develop the base knowledge, frameworks, analytical tools and processes that will enable the Board to effectively make decisions and fulfill its statutory responsibilities across the key focus areas, with an initial emphasis on assessing the Fiscal Plan.

Activities:

- **Aspirational Vision for Puerto Rico:** McKinsey will assist the Board, in consultation with the Government of Puerto Rico and other Puerto Rico stakeholders, to define key aspirational goals, benchmarks and metrics for a ten year vision for Puerto Rico. This aspirational vision should drive Puerto Rico to stabilize its current economic, social, demographic and financial situation, increase the economy’s resilience, shore up public finances, support long-term, durable growth, address basic needs and restore opportunity for the people of Puerto Rico. This shared aspirational vision should be incorporated in the central Government Fiscal Plan.
- **Fiscal Plan Framework and Stress Testing:** McKinsey will develop a framework and approach for the Board to evaluate and certify fiscal plans and annual budgets presented to the Board, stress test the revenue, expenditure and balance sheet of the Government public finances (including an initial assessment of the central Government, Aqueduct and Sewer Authority (PRASA) and Electric Power Authority (PREPA) fiscal plans). McKinsey will provide suggested adaptations to the Fiscal Plan framework for other PROMESA covered instrumentalities. To date, in addition to the central Government, the Client has required separate fiscal plans from: PRASA, PREPA, Government Development Bank, Highway and Transportation Authority, Public Corporation for the Supervision and Insurance of Cooperatives (COSSEC) and the University of Puerto Rico. McKinsey will help Client identify the interconnections between the fiscal plans of covered instrumentalities. McKinsey will conduct a deep-dive of the revenue, expenditure and balance sheet, positioning the findings for the Board in relation to proprietary benchmarks, focusing on the central Government fiscal plan. In conducting the stress test, McKinsey will:
 - Build a high level model (or use models developed by the Government of Puerto Rico’s advisors) to assess the budget against the Fiscal Plan, pressure testing across dynamic variables (e.g., cost of borrowing, macroeconomic forecast assumptions, population migration, government performance assumptions)
 - Build a debt sustainability model as required for the certification of the Fiscal Plan
 - Prioritize critical inputs that are non-negotiables to inform scenario testing and outline key assumptions (e.g., future utilities revenues, operating expenses, capital investment, maintenance, pensions and debt coverage)
 - Identify and assemble structural reforms, including reforms proposed or otherwise successfully executed in other jurisdictions, that could help improve the long-term growth potential of the Puerto Rican economy
 - Develop future scenarios to test in model, potentially including, but not limited to: multinational performance (e.g., company concentration analysis, potential for contraction in key sectors), analysis of potential impacts related to potential changes in tax policy (e.g., Act 154, transition to source income rule, other US and global tax proposals), potential risks related to federal education and health grants given “high risk” designations, spending reductions, revenue enhancements, potential changes to the

- educational funding model, potential consolidation of central government and municipal functions, improved processes and IT systems, and identify structural reforms, including reforms proposed or otherwise successfully executed in other jurisdictions
- Outline top risks and recommend ideas for initiatives to mitigate risks
 - **Litigation Framework and Strategy:** McKinsey will work with Board counsel to build a baseline assessment of legal proceedings and litigation, develop a framework and guidelines to enable the Board to develop a strategy for managing existing claims (e.g. Covina related claims and amounts due to contractors and taxpayers), and then put in place a robust framework for evaluation of potential litigation risk and trade-offs that will support the Board in developing its debt restructuring and stakeholder engagement strategy.
 - **Critical Projects Evaluation Framework:** Developing the processes to enable the Revitalization Coordinator to run a process with credibility that will catalyze the private sector investment and Public Private Partnerships (“PPPs”) and developing the framework for assessing which critical projects should be selected and fast-tracked by the Board drawing on sector specific key criteria and utilizing tools that allow for measurement of impact including:
 - Economic development benefits of the project (e.g. jobs for Puerto Rico, how lower cost of energy will impact households and industrial competitiveness)
 - Environmental impacts (e.g. compliance as well as environmental benefits)
 - Likelihood of project to reach completion in the near-term, including permitting
 - Project economics (e.g. cost to the Government of Puerto Rico, availability of private capital and project financial sustainability vs. default risks)
 - Alignment with strategic goals and plans, such as reducing reliance on oil and transitioning to sustainable power generation
 - Risks of not expediting the project, including interdependence with other infrastructure assets, unmet critical demand, or a continuing bottleneck to industrial growth
 - **Restructuring Framework and Process:** Design with the Board a bespoke restructuring process and strategy to restructure Puerto Rico’s public debt across all of its sovereign and sub-sovereign issuers, which will require innovative application of key principles of market restructuring practice and will include:
 - Establishing core principles for engagement and sharing of information following INSOL principles/London Rules, Chapter 9 and Paris Club practice
 - Developing a timeline for the restructuring process
 - Mapping and evaluation of creditor claims
 - Based on debt sustainability analysis from other workstreams, developing a creditor engagement strategy across all creditor groups
 - **Government of Puerto Rico Framework, Initial Assessment and Benchmark:** Provide the Board with the frameworks to evaluate the organizational structure of the Government of Puerto Rico and its agencies, instrumentalities, municipalities, and public corporations in order to identify specific areas of opportunity to improve the productivity, efficiency and performance of the Government, providing the basis for a fundamental redesign of the

Government organization (e.g. consolidation) to facilitate increased transparency and better governance, to enable government services to be delivered more efficiently at a higher quality, and determine what elements of the Government should be served or provided outside of the government. McKinsey will:

- Develop initial framework for assessing organizational performance and structure by leveraging proprietary methodologies, customized to the Government of Puerto Rico’s context, including efficiency and effectiveness performance metrics and government organization structure spans and layers benchmarks
- Establish a baseline view of all aspects of the operations, organizational structure, and staffing levels
- Assess productivity and efficiency of organizational structure, applying proprietary tools (e.g., evaluation of services offered by departments, OrgLab spans and layers analysis) to run diagnostic and using benchmarks of employee productivity from states and countries to help identify where Puerto Rico’s performance may be an outlier and using benchmarks of government organizational structure in other state or territory governments
- Identify structural options and opportunities for improvement and redesign
- **Pension Evaluation Framework, Initial Assessment and Benchmarks:** Provide the Board with the tools to evaluate the highly distressed Puerto Rico pension system to rapidly identify “quick wins” for stabilizing the pension system in addition to developing a long-term, sustainable strategy. Our framework would be grounded in the three key levers of the pension systems tailored to Puerto Rico’s context: employee benefits/contributions, employer contributions, investment performance and operating costs, and build a fact-base on each of the key levers. McKinsey will then define potential reforms and quantify their implications and suggest a set of quick-wins for the pension plans.
 - Use hypothesis-driven approach to identify the set of realistic and high-impact reform options (including options that have previously been tested) across comprehensive suite of levers
 - Analyze the feasibility and value of each reform option, including using scenario analysis to incorporate findings from fiscal planning workstream (e.g., evaluate feasibility of Government coverage of benefits in short term)
 - Assess the full set of implications for the options to improve pension system, including savings potential, member cost, changes in level of benefit, and investment management cost savings or improved investment performance
 - Outline risks and mitigation strategies for each option
 - Lay out recommended strategic initiatives and metrics required to achieve the desired future state model
 - Identify “quick wins” to begin stabilizing pension system and opportunities to pursue in longer-term strategy

Timeline:

McKinsey will complete all initial frameworks during the first 30 days of the engagement and proceed with data collection, processes and assessments for some frameworks for the remainder of the engagement or according to the timing requirements of the Board.

3. Prioritize a set of short-and long-term initiatives (Objective 3):

Activities:

Based on the strategic plan and frameworks established and drawing from the comprehensive review and assessment of the Fiscal Plan, Pensions, Critical Infrastructure etc., McKinsey will generate a set of potential options for actions the Board may take or recommend in each area to support economic growth and improve government services, including both quick wins and long-term transformation. McKinsey will then deep dive to determine the net benefits of potential initiatives will be prioritized using criteria developed jointly with the Board, and structured into a portfolio of actions that together maximize the Board's impact and balance competing objectives

Timeline:

This work will be completed during the last 60 days of the initial term to allow the Board and McKinsey to gather, test and model the most practical initiatives with the most potential impact based on a deep set of facts and insights.

4. Revitalization Coordinator services

McKinsey will provide the individual team member selected by the Governor of Puerto Rico to engage in Revitalization Coordinator activities as part of the Consulting Services, subject to the below parameters. The Revitalization Coordinator activities for the initial period up to February 28, 2017 will be focused on set up of the critical projects process and program and shall include development of the critical projects framework, processes to be put in place for critical project evaluation and approval and workplan for the revitalization coordinator and critical projects workstream all to be approved by the Board. The activities of the Revitalization Coordinator per PROMESA will include identifying critical projects for acceleration by the Board by (i) reviewing submissions by project sponsors for potential projects following a set of defined criteria, (ii) identifying Government of Puerto Rico agencies relevant to the project, (iii) requesting these agencies review project submissions and propose expedited permitting plans, (iv) drafting a critical project report for public comment, and (v) submitting the critical project report to the Board for approval.

The Revitalization Coordinator activities shall be performed by the McKinsey team member until such time as the Board employs a long-term Revitalization Coordinator. If the activities extend subsequent to February 28, 2017, any renewal of Revitalization Coordinator activities will be subject to renewal by mutual agreement and according to the terms herein.

The Revitalization Coordinator activities shall be included in the scope of consulting services under this contract and shall not be considered or be interpreted to be a member of the Board. The Revitalization Coordinator activities shall not include:

- Decision-making
- Fiduciary duties
- Negotiation responsibilities
- Signature authority
- Authority to hire or fire
- Direction of Board or Puerto Rico employees

- Making public statements

Milestone Payment Schedule

Deliverable	Date	Fee
Monthly Progress Report	December 15, 2016	\$937,500
Monthly Progress Report	January 15, 2017	\$937,500
Monthly Progress Report	February 15, 2017	\$937,500
Monthly Progress Report	March 15, 2017	\$312,500
Monthly Progress Report	April 15, 2017	\$312,500
Monthly Progress Report	May 15, 2017	\$312,500