



Puerto Rico Aqueduct and Sewer Authority
GOVERNMENT OF PUERTO RICO

FY 2018 BUDGET

Presentation to the FOMB

June 30, 2017



Disclaimer

The Puerto Rico Fiscal Agency and Financial Advisory Authority (“AAFAF”), the Puerto Rico Aqueduct and Sewer Authority (“PRASA”), the Government of Puerto Rico (the “Government”), and each of their respective officers, directors, employees, agents, attorneys, advisors, members, partners or affiliates (collectively, with AAFAF, PRASA and the Government instrumentalities, the “Parties”) make no representation or warranty, express or implied, to any third party with respect to the information contained herein and all Parties expressly disclaim any such representations or warranties. The Parties do not owe or accept any duty or responsibility to any reader or recipient of this presentation, whether in contract or tort, and shall not be liable for or in respect of any loss, damage (including without limitation consequential damages or lost profits) or expense of whatsoever nature of such third party that may be caused by, or alleged to be caused by, the use of this presentation or that is otherwise consequent upon the gaining of access to this document by such third party.

This document does not constitute an audit conducted in accordance with generally accepted auditing standards, an examination of internal controls or other attestation or review services in accordance with standards established by the American Institute of Certified Public Accountants or any other organization. The projections set forth in this presentation were not prepared with a view toward complying with the guidelines established by the American Institute of Certified Public Accountants with respect to prospective financial information, but, in the view of the officers of the Commonwealth or its agencies or instrumentalities responsible for the preparation of such information, were prepared on a reasonable basis, reflect the best currently available estimates and judgments, and present, to the best of such officers’ knowledge and belief, the expected course of action and the expected future financial performance of the Commonwealth and/or its agencies and instrumentalities, as applicable. However, this information should not be relied upon as being necessarily indicative of future results, and readers of this presentation are cautioned not to place undue reliance on the prospective financial information. Future events and actual results may differ materially from any estimates, projections, or statements contained herein. Nothing in this document should be considered as an express or implied commitment to do or take, or to refrain from taking, any action by AAFAF, the PRASA, the Government, or any government instrumentality in the Government or an admission of any fact or future event. Accordingly, the Parties do not express an opinion or any other form of assurance on the financial statements or any financial or other information or the internal controls of the Government and the information contained herein.

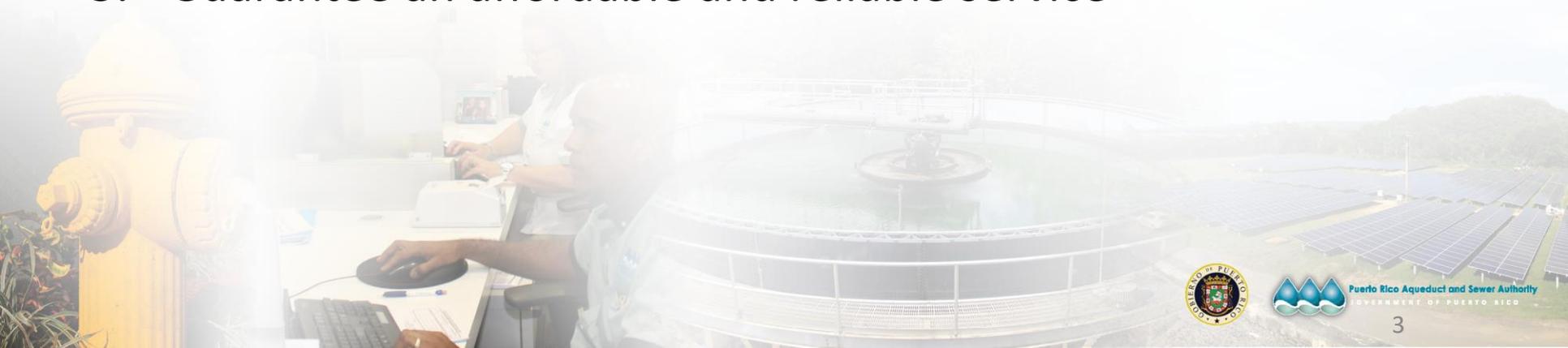
Any statements and assumptions contained in this document, whether forward-looking or historical, are not guarantees of future performance and involve certain risks, uncertainties, estimates and other assumptions made in this document. The information included in this presentation may contain certain “forward-looking” statements. These forward-looking statements may relate to the fiscal and economic condition, economic performance, plans and objectives of the Commonwealth of Puerto Rico (the “Commonwealth”) and/or its agencies and instrumentalities. All statements contained herein that are not clearly historical in nature are forward-looking, and the words “anticipates,” “believes,” “continues,” “expects,” “estimates,” “intends,” “aims,” “projects,” and similar expressions, and future or conditional verbs such as “will,” “would,” “should,” “could,” “might,” “can,” “may,” or similar expressions, are generally intended to identify forward-looking statements. These statements are not guarantees of future performance and involve certain risks, uncertainties, estimates, and assumptions by the Commonwealth and/or its agencies and instrumentalities that are difficult to predict. The economic and financial condition of the Commonwealth and its agencies and instrumentalities is affected by various financial, social, economic, environmental, and political factors. These factors can be very complex, may vary from one fiscal year to the next, and are frequently the result of actions taken or not taken, not only by the Commonwealth and/or its agencies and instrumentalities, but also by entities such as the government of the United States of America or other nations that are not under the control of the Commonwealth. Because of the uncertainty and unpredictability of these factors, their impact cannot, as a practical matter, be included in the assumptions underlying the Commonwealth’s or its agencies and instrumentalities’ projections.

This presentation does not constitute, nor does it form part of, an offer to sell or purchase, or the solicitation of an offer to sell or purchase, any securities or an offer or recommendation to enter into any transaction. This presentation has been prepared for informational purposes only. Nothing in this document shall be considered a solicitation, recommendation or advice to any person to participate, pursue or support a particular course of action or transaction, to purchase or sell any security, or to make any investment decision. By accepting this document, the recipient shall be deemed to have acknowledged and agreed to the terms of these limitations. This document may contain capitalized terms that are not defined herein, or may contain terms that are discussed in other documents or that are commonly understood. You should make no assumptions about the meaning of capitalized terms that are not defined, and you should consult with advisors of AAFAF should clarification be required.

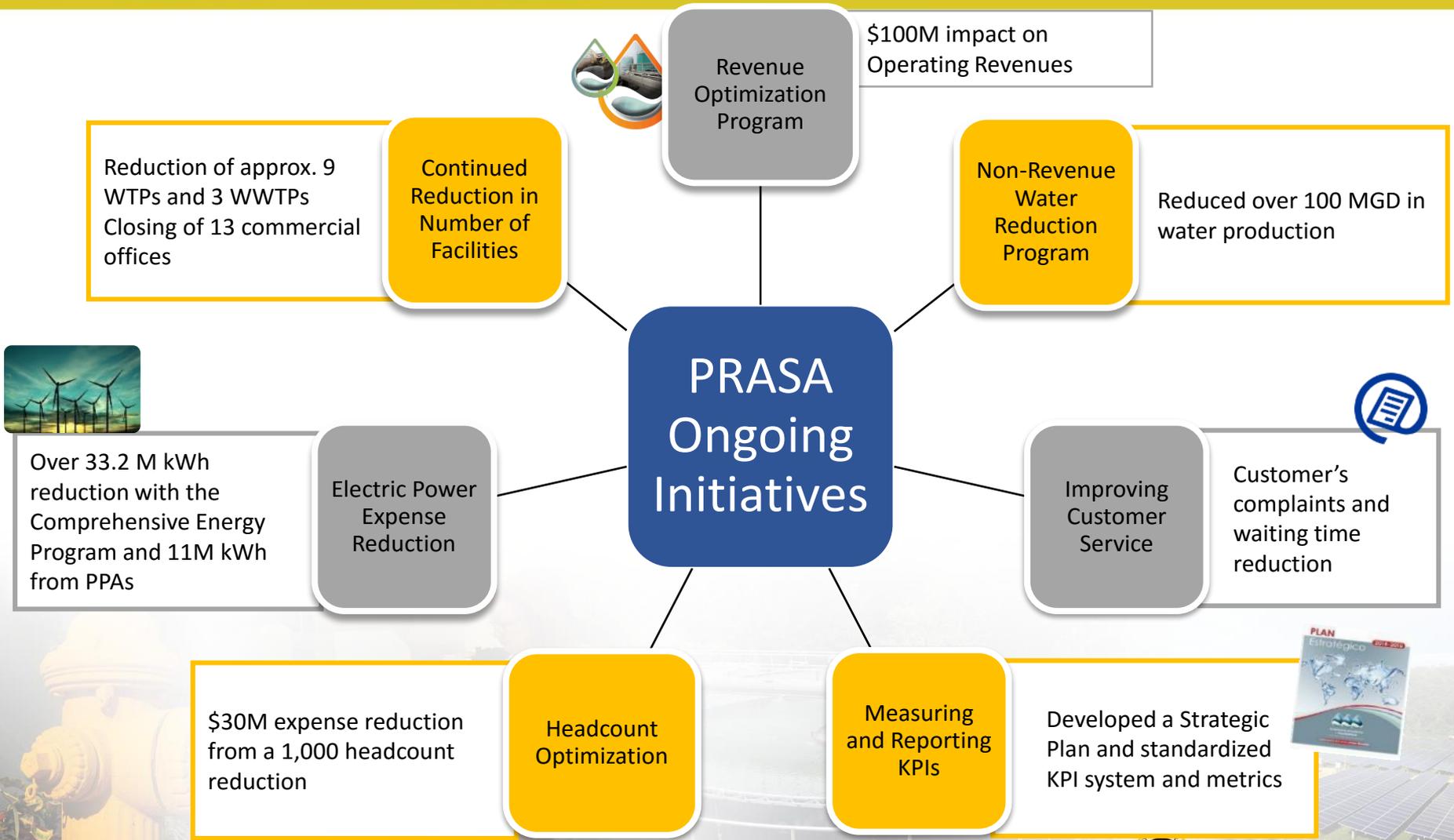


Budget Objectives

1. Recognize the essential service the utility provides to the citizens of Puerto Rico
2. Maintain compliance with environmental requirements
3. Ensure adequate renewal and replacement of infrastructure to maintain quality of service
4. Reflect continued efforts to reduce non-revenue water and improve collection efforts
5. Guarantee an affordable and reliable service

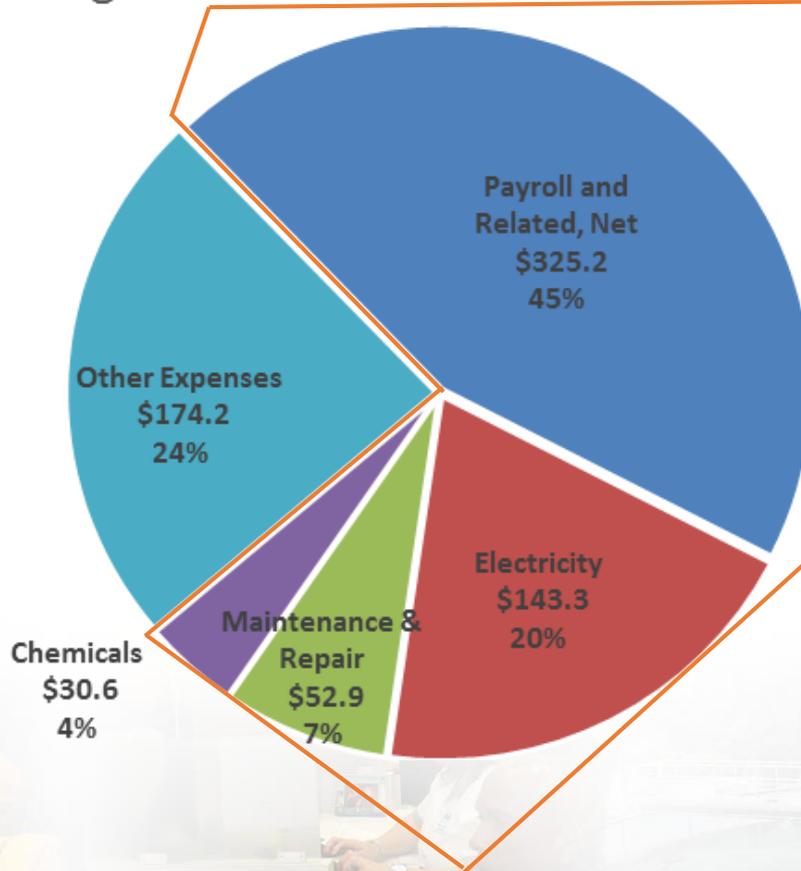


Ongoing initiatives



FY 2018 Operating Budget

FY2018 Budget



2/3 of the budget is for Payroll and Electricity Costs
When adding Maintenance and Chemicals, the four categories represent 76% of the total budget

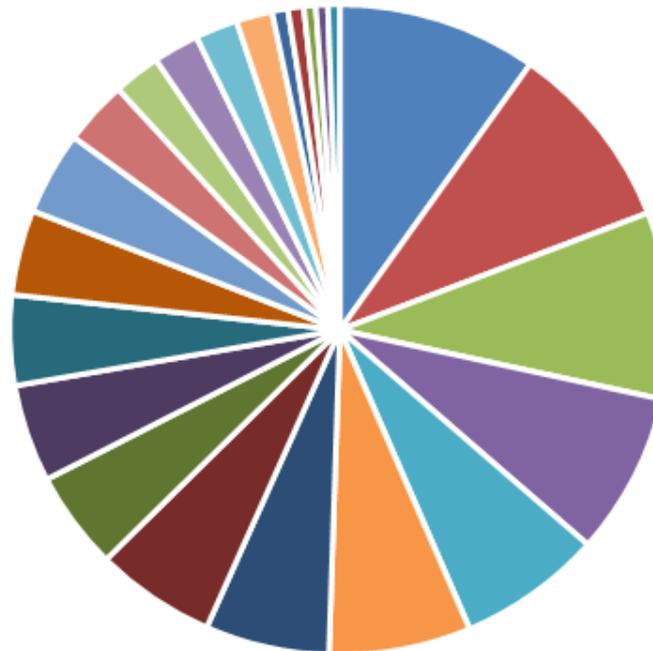
Total Operating Expenses of \$726M
Net of cost saving initiatives impact by \$12M
(mainly Physical Losses Reduction)



FY 2018 Operating Budget – Other Expenses

- Contracted Technical Assistance
- Materials & Supplies
- IT Services / Licenses
- Billings & Collections
- Water Purchase
- NRW Office
- Asphalt and Leaks Repairs
- Professional Services
- Security
- Insurance
- Fuels and Oils
- Third Party Services
- Rentals
- Treatment & Disposal of Residuals
- Legal Services
- Superaqueduct Operation
- Call Center Services
- Telephone and Network
- Water Transport
- Office Supplies
- Contingencies & Fines
- Chemical and Bacterial Analysis

Other Expenses Breakdown



Other Expenses = \$174M or 24% of total Operating Expenses



Assumption for Operating Expenses

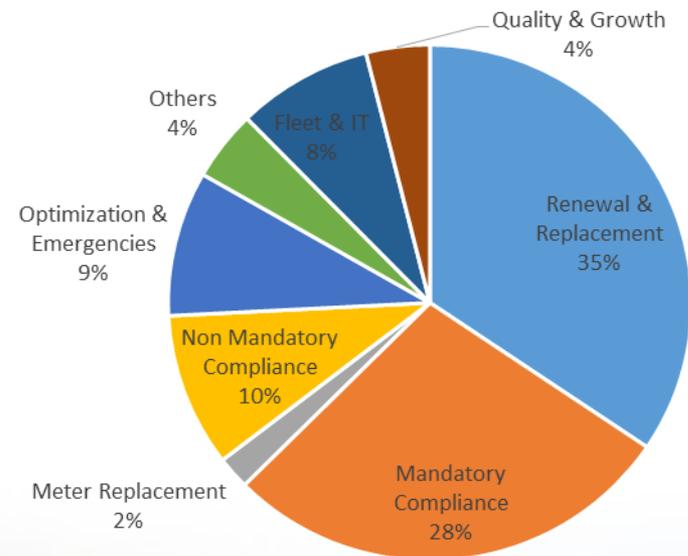
Assumptions

- Payroll cost:
 - 5,000 employees
 - Pension Cost Pay-Go, increasing the cost by around \$50M
 - Cost reduction reflecting Act 26-2017 dispositions, generating \$25 million in annual savings through:
 - Reduction of vacation days
 - Elimination of sick leave payment
 - Christmas Bonus Reduction
 - Maximum overtime factor of 1.5 times
- Electricity
 - 660 million kWh base consumption at a price of \$0.229 for energy purchased from PREPA and \$0.15 for solar energy (11 million kWh)
- Other Expenses: Based on the system needs and net of the cost saving initiatives impact
- Operating Expenses Reserve Fund of 1/5 of the total requirement (3-months of operating expenses)



Capital Improvement Program

Project Type	FY2018	
Renewal & Replacement	\$	84.2
Mandatory Compliance		68.6
Meter Replacement		5.0
Non Mandatory Compliance		23.5
Optimization & Emergencies		22.2
Others		10.7
Fleet & IT		20.5
Quality & Growth		9.6
Total FY 2018 CIP	\$	244.3
Payables to contractors	\$	60.0
Total FY 2018 CIP Needs	\$	304.3



Summary

1. PRASA proposed budget for FY 2018 amounts to \$726M for Operating Expenses and \$304M for the Capital Improvement Program
2. The total needs of PRASA will be covered by a combination of Operating Revenues and savings expected from a debt restructuring, currently under negotiation with both, senior and junior creditors

