

PUBLIC BUILDINGS AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)

INDEPENDENT AUDITOR'S REPORT
AND
BASIC FINANCIAL STATEMENTS AND
REQUIRED SUPPLEMENTARY INFORMATION

For the fiscal year ended June 30, 2023

PUBLIC BUILDINGS AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
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FOR THE YEAR ENDED JUNE 30, 2023

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INDEPENDENT AUDITOR'S REPORT

To: The Board of Directors and Management of the
Public Buildings Authority
San Juna Puerto Rico

Opinion

We have audited the accompanying financial statements of the Public Buildings Authority (the Authority), a component unit of the Commonwealth of Puerto Rico as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2023, and the changes in financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Authority, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, Schedule of Changes in the Authority's Total Pension Liability and Related Ratios and Schedule of Changes in the Authority's Total OPEB Liability and Related Ratios information be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Aquino, De Córdova, LLC
Carolina, Puerto Rico
June 11, 2024

Aquino, De Córdova, LLC
by Edward González-Green
Lic. # 3171

Stamp number E567337
of Puerto Rico CPA Society
has been affixed to the original report



Aquino, De Córdova, LLC

CERTIFIED PUBLIC ACCOUNTANTS & BUSINESS ADVISORS

PUBLIC BUILDINGS AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2023

Introduction

The following management's discussion and analysis (MD&A) of the financial performance of the Public Buildings Authority (the Authority) provides an overview of the Authority's activities for the fiscal years ended June 30, 2023. Its purpose is to provide explanations and insights into the information provided in the basic financial statements and required supplementary information. This MD&A is intended to be read in conjunction with the Authority's basic financial statements for the fiscal year ended June 30, 2023 taken as a whole.

Financial Highlights

- The Authority's net position as of June 30, 2023 was \$2.66 billion which represents an increase of \$86.3 million or 3%, as compared with the prior fiscal year of \$2.6 billion.
- For the year ended June 30, 2023, the Authority reported a decrease in rental and lease income of \$68.7 million as compared to the prior fiscal year. All rent and lease receivable other than those amount subsequently collected after June 30, 2023 are reserved as uncollectible.
- The Authority's operating loss decreased from approximately \$51.1 million for the fiscal year ended June 30, 2022 to an operating loss of \$84.8 million for the year ended June 30, 2023.
- The Authority's non-operating revenues (expenses) increased from (\$136.2) million for the fiscal year ended June 30, 2022 to \$171 million for the fiscal year ended June 30, 2023.
- On January 18, 2022, the Title III Court confirmed the Commonwealth Plan of Adjustment. On March 15, 2022 (the Effective Date), the Commonwealth and the Authority each emerged from their Title III cases. On the Effective Date, the Commonwealth Plan of Adjustment was consummated and became effective. As of the Effective Date, the Commonwealth Plan of Adjustment eliminated PBA's bonds and reduced the Commonwealth's total funded debt obligations from \$5,317,703,106 to zero, representing a total debt reduction of 100%. This debt reduction will also reduce the Commonwealth's maximum annual debt service (inclusive of COFINA debt service), representing a total debt service reduction of 100%. This significant reduction in total debt and annual debt service payments provides a path for the Commonwealth's future economic growth and alleviates the historical budgetary constraints that caused doubt as to whether the Oversight Board would approve the future financing needs of the Authority.
- Notwithstanding the budgetary constraints and historical liquidity risks faced by the Commonwealth and the Authority, and other circumstances existing on June 30, 2023, based on subsequent events that remedied the Commonwealth's financial condition and addressed its liabilities, management does not believe there is substantial doubt about the Authority's ability to continue as a going concern as of the date of these basic financial statements.

PUBLIC BUILDINGS AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2023

Overview of the Basic Financial Statements

The Authority's basic financial statements consist of: MD&A, Basic Financial Statements, Notes to Basic Financial Statements, Required Supplementary Information and Other Supplementary Information.

Management's Discussion and Analysis

This MD&A provides an analysis to assist the reader in focusing on significant financial issues and activities and to identify any significant changes in financial position. It is intended to serve as an introduction to the Authority's basic financial statements.

Basic Financial Statements

Statement of Net Position - This statement presents financial information on the Authority's assets, deferred outflows of resources, liabilities, and deferred inflows of resources with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating. Net position increases when revenues exceed expenses. Increases in assets, without a corresponding increase to liabilities, result in a net position increase, which also indicates an improved financial position.

Statement of Revenues, Expenses and Changes in Net Positions - This statement presents information showing how the Authority's net position changed during the reporting period. All changes in net position are reported as soon as the underlying event occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Statement of Cash Flows - This statement reports cash receipts, cash payments, and net changes in cash resulting from operations, non-capital financing activities, capital, and related financing activities, investing activities, and non-cash items.

Notes to the Basic Financial Statements - The notes provide additional information that is essential for a full understanding of the data provided in the basic financial statements.

Other Supplementary Information - In addition to the basic financial statements, accompanying notes, and the required supplementary information, various schedules present certain information concerning changes in bond sinking funds accounts and detail of operating rental revenues.

Overall Financial Analysis - As noted above, net position over time may serve as a useful indicator of a government's financial position. In this case we can observe a change in net position as of June 30, 2022 of \$2,572.9 million to a net position of \$2,659.2 million as of June 30, 2023 representing an improvement in the net position by \$86.3 million.

PUBLIC BUILDINGS AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2023

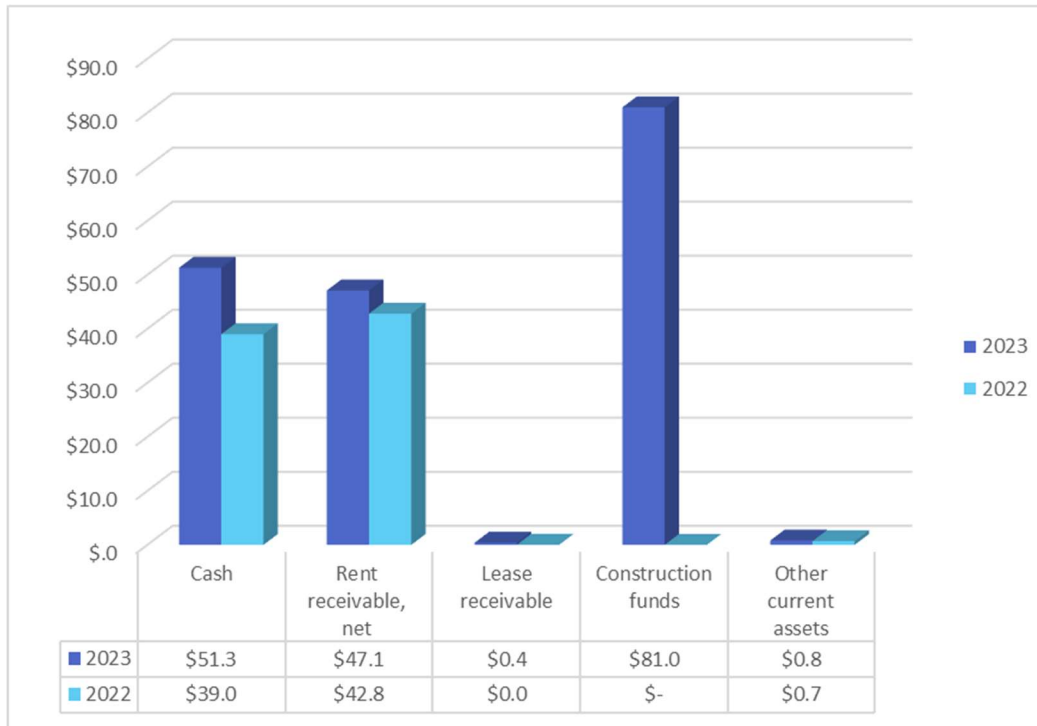
Statement of Net Position

	June 30,			
	2023	2022	Change in amount	Change %
Assets				
Current assets	\$ 180,783,937	\$ 82,411,566	\$ 98,372,371	119%
Capital assets	2,796,016,014	2,910,913,389	(114,897,375)	-4%
Other non-current assets	138,035,832	64,118,062	73,917,770	115%
Total assets	3,114,835,783	3,057,443,017	57,392,766	2%
Deferred outflows of resources	61,905,252	79,820,320	(17,915,068)	-22%
Total assets and deferred outflows of resources	3,176,741,035	3,137,263,337	39,477,698	1%
Liabilities				
Current liabilities	\$ 61,583,200	\$ 53,500,641	\$ 8,082,559	15%
Non current liabilities	403,500,032	482,385,935	(78,885,903)	-16%
Total liabilities	465,083,232	535,886,576	(70,803,344)	-13%
Deferred inflows of resources	52,459,595	28,449,039	24,010,556	84%
Total liabilities and deferred inflows of resources	517,542,828	564,335,615	(46,792,787)	-8%
Net Position:				
Net investment in capital assets	2,796,016,014	2,910,913,389	(114,897,375)	-4%
Restricted for other purpose	117,630,985	54,515,573	63,115,412	116%
Unrestricted (deficit)	(254,448,791)	(392,501,240)	138,052,449	-35%
Total net position	\$ 2,659,198,208	\$ 2,572,927,722	\$ 86,270,486	3%

In fiscal year 2022, the Authority adopted GASB Statement No. 87, Leases which establishes a uniform approach for lease accounting based on the principle that leases are financings of the right to use an underlying asset. As of June 30, 2023, the Authority has recognized the following lease activities: the Authority recorded a lease receivable of \$ 1.8 million and a deferred inflow of resources of \$ 1.8 million.

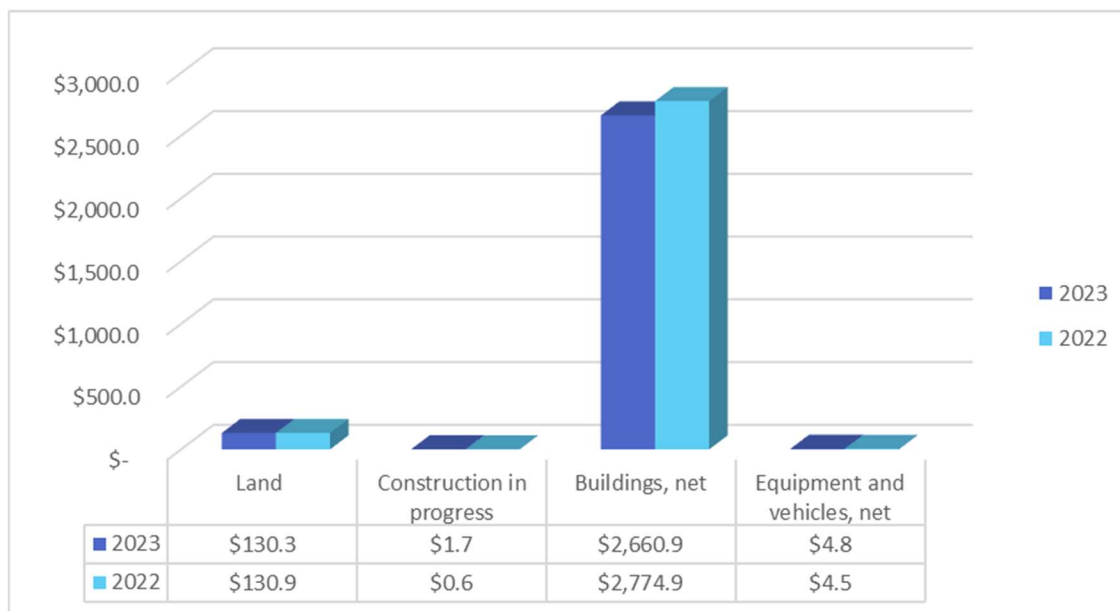
PUBLIC BUILDINGS AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
MANAGEMENT’S DISCUSSION AND ANALYSIS - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2023

Following is condensed financial information of the Authority’s statements of net position:



Current assets (in million)

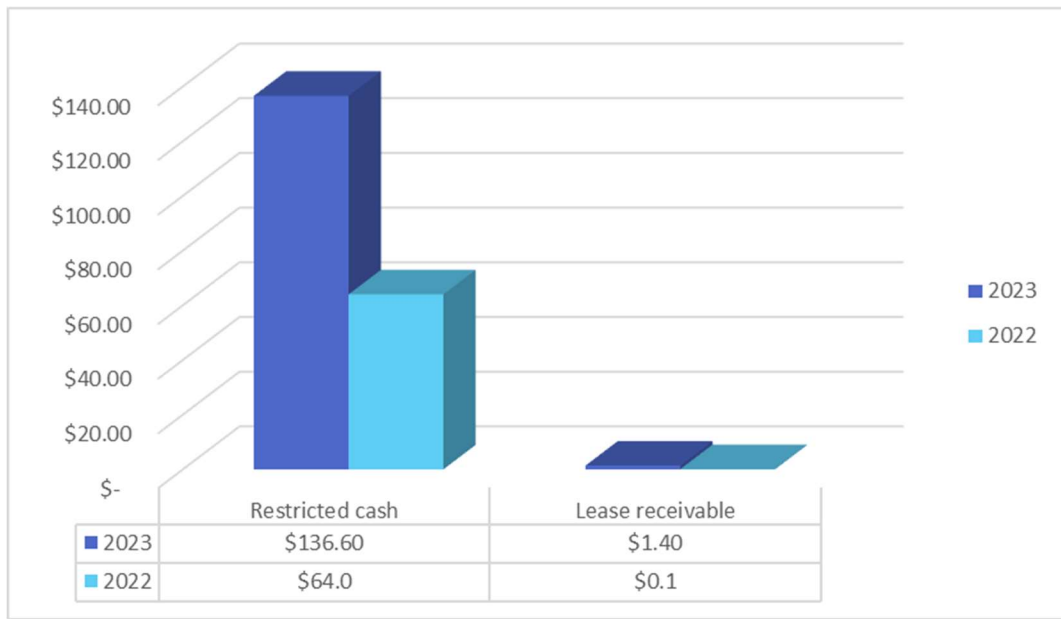
During the fiscal year ended June 30, 2023, current assets increased by \$98.0 million or 119% as compared to the prior fiscal year ended June 30, 2022. Within current assets, (i) cash as of June 30, 2023, was \$51.3 million or 32% more than as of June 30, 2022, (ii) net rent receivable was \$47.1 million or 10% more than as of June 30, 2022 and (iii) lease receivable is .4 million as of June 30, 2023, (iv) construction funds is 80.1 million as of June 30, 2023, (v) net other current assets is \$.8 or 14% more than as of June 30, 2022.



Capital assets (in million)

Building decreased by \$114.0 million as of June 30, 2023, compared to prior fiscal year, due mostly to Cardiovascular Building retirement of \$24.5 million.

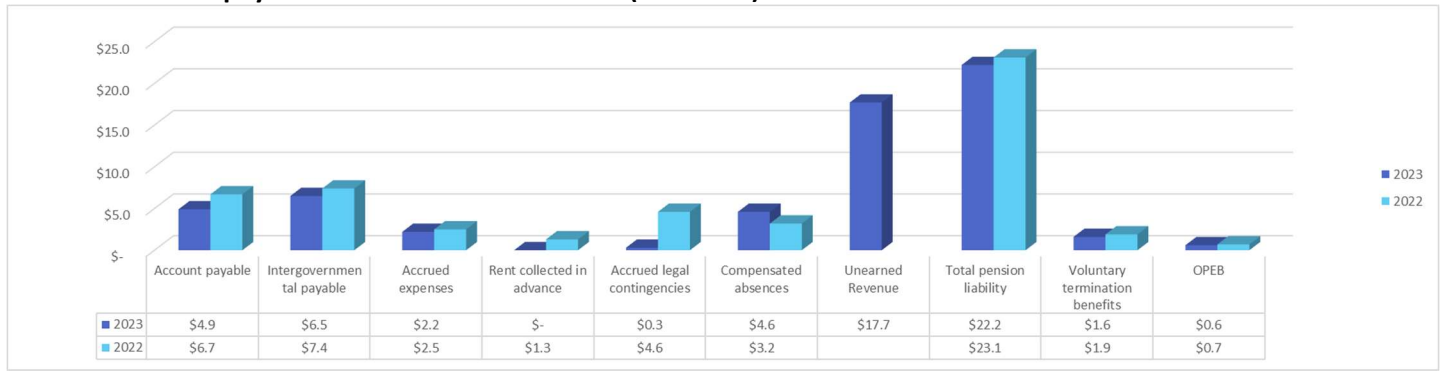
PUBLIC BUILDINGS AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2023



Non-current assets (in million)

During the fiscal year ended June 30, 2023, non-current assets increased by approximately \$73.2 million or 115.4%, as compared to the prior fiscal year ended June 30, 2022.

Current liabilities payable from unrestricted assets (in million)



During the fiscal year ended June 30, 2023, total current liabilities payable from unrestricted assets increased by approximately \$9.2 million or 18% as compared to the prior fiscal year.

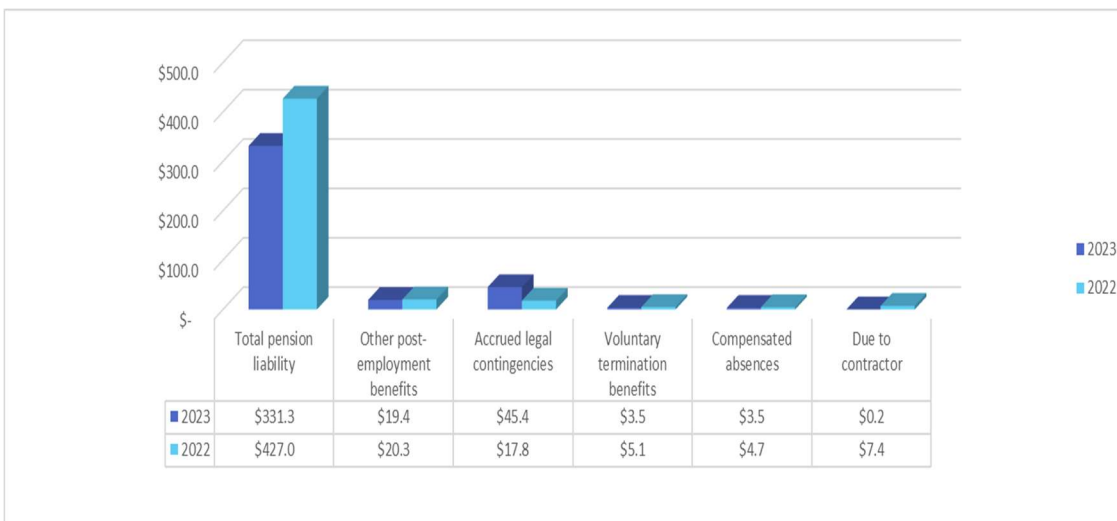
- Accounts payable as of June 30, 2023 decreased by approximately \$1.8 million when compared with June 30, 2022.
- Intergovernmental payables decreased by approximately \$.9 million and June 30, 2023 with respect to the prior year.
- Voluntary termination benefits as of June 30, 2023 increased by approximately \$14.4 million when compared with June 30, 2022.
- Compensated absences increased by approximately \$1.4 million during the year ended June 30, 2023.

PUBLIC BUILDINGS AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
MANAGEMENT’S DISCUSSION AND ANALYSIS - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2023



Current liabilities payable from restricted assets (in million)

Current total liabilities due from restricted assets decreased by approximately \$1.2 million in the year ended June 30, 2023.



Non-current liabilities (in million)

Non-current liabilities as of June 30, 2023 decreased by approximately \$79.0 million, Non currents liabilities consist mainly of the Other post-employment benefits, Total Pension Liability and accrued legal contingencies.

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PUBLIC BUILDINGS AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2023

Statement of Revenues, Expenses and Changes in Net Position

Following is condensed financial information of the Authority's statement of revenues, expenses and changes in net position:

	Year Ended June 30,			
	2023	2022	Change in amount	Change %
Revenues:				
Operating	\$ 123,936,383	\$ 122,377,835	\$ 1,558,548	1%
Non-Operating	195,908,354	224,397,674	(28,489,320)	-13%
Total Revenues	319,844,737	346,775,509	(26,930,772)	-8%
Expenses and losses:				
Operating	208,702,016	258,305,656	(49,603,640)	-19%
Non-Operating	24,872,235	360,676,374	(335,804,139)	-93%
Total Expenses and losses	233,574,251	618,982,030	(385,407,779)	-62%
Change in net position	86,270,486	(272,206,521)	358,477,007	-132%
Extraordinary Gain	-	5,317,703,106	(5,317,703,106)	-100%
Net Position:				
Beginning of year	2,572,927,722	(2,472,568,863)	5,045,496,585	-204%
End of year	\$ 2,659,198,208	\$ 2,572,927,722	\$ 86,270,486	3%

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PUBLIC BUILDINGS AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
MANAGEMENT’S DISCUSSION AND ANALYSIS - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2023

Operating revenues

Operating revenues consist of rent charges to Commonwealth agencies, public corporations, and municipalities. Operating revenue decreased approximately \$1.6 million during the year ended June 30, 2023, as compared to the prior year.



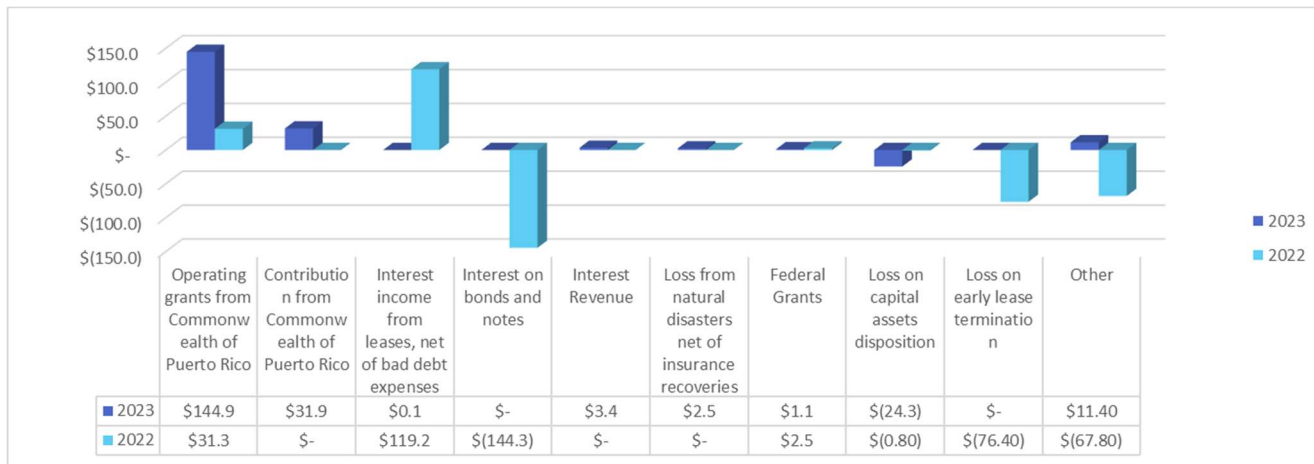
Expenses (in million)

The following chart discloses the major components of operating expenses for the fiscal years ended June 30, 2023, and June 30, 2022.

During the fiscal year ended June 30, 2023, operating expenses decreased by approximately \$49.6 million, or 19.9%, as compared to the prior fiscal year ended June 30, 2022.

Notable changes in expenses during the year ended June 30, 2023, include:

- Salaries and benefits decreased by approximately \$54.8 million, or 57.6%.
- Utility expenses increased by approximately \$.7 million, or 4.1%.
- The repairs and maintenance expenses decreased by approximately \$15.2 million, or 50.8%.
- Insurance decreased by approximately \$1 million, or 7%.
- Other expenses increased by approximately \$3 million, or 28%.



Non-operating Revenues and/or Expenses

Non-operating revenue and expenses consist mostly of Operating grants from Commonwealth of Puerto Rico and Contribution from Commonwealth of Puerto Rico. Net non-operating revenues/expenses increased approximately \$307.2 million or 225% during the fiscal year ended June 30, 2023.

PUBLIC BUILDINGS AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2023

Other facts and conditions

On October 31, 2022, By Joint Resolution number 55-2022, the Public Buildings Authority was ordered to carry out a lease debt reconciliation procedure, as well as to transfer the full ownership of the Buildings that serve as headquarters and parking lot to the Puerto Rico and Caribbean Cardiovascular Center Corporation in order to proceed with the corresponding granting of public deeds and the corresponding registry transactions for such purpose and for other related purposes. The retirement of the Cardiovascular Building was \$24.5 million.

During fiscal year 2022-2023, the Eugenio Maria de Hostos School in Trujillo Alto was sold for \$.6 million, a land in the Pajaros Sector of Bayamon was sold for \$.3 million and a land in Hato Rey was expropriated by the Department of Transportation and Public Works for \$1.4 million

	June 30,		
	2023	2022	Change in amount
Capital assets not being depreciated			
Land	128,539,963	130,911,907	(2,371,944)
Construction in progress	1,724,108	565,418	1,158,690
Total	\$ 130,264,071	\$ 131,477,325	\$ (1,213,254)
Capital assets being depreciated			
Buldings	2,660,959,355	2,774,908,788	(113,949,433)
Equipment and vehicles	4,792,588	4,527,276	265,312
Total	2,665,751,943	2,779,436,064	(113,684,121)
Total capital assets	\$ 2,796,016,014	\$ 2,910,913,389	(114,897,375)

Contacting the Authority's Financial Management

This financial report is designed to provide a general overview of the Authority's finances. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to the Comptroller's Office, Public Building Authority, PO Box 41029, San Juan, PR 00940-1029.

PUBLIC BUILDINGS AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
STATEMENT OF NET POSITION
AS OF JUNE 30, 2023

ASSETS

Current assets:	
Cash and cash equivalents	\$ 132,312,114
Rent receivables, net	47,191,002
Lease receivable	405,629
Interest receivable	2,501
Other assets	861,740
Prepaid Insurance	10,951
Total current assets	<u>180,783,937</u>
Non-current assets:	
Restricted cash and cash equivalents:	
Construction funds	136,620,811
Lease receivable	<u>1,415,021</u>
Subtotal	138,035,832
Capital assets:	
Non depreciable	130,264,071
Depreciable, net	<u>2,665,751,943</u>
Subtotal	<u>2,796,016,014</u>
Total non-current assets	<u>2,934,051,846</u>
Total assets	<u>3,114,835,783</u>
Deferred Outflows of Resources:	
Related to pension plans	58,453,849
Related to post employment benefits	<u>3,451,403</u>
Total deferred outflows of resources	<u>61,905,252</u>
Total assets and deferred outflows of resources	\$ <u>3,176,741,035</u>

The accompanying notes are an integral part of these basic financial statements.

PUBLIC BUILDINGS AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
STATEMENT OF NET POSITION – CONTINUED
AS OF JUNE 30, 2023

Continued

LIABILITIES AND NET POSITION

Current liabilities:	
Accounts payable	\$ 4,906,890
Intergovernmental	6,467,110
Accrued expenses	2,250,173
Accrued legal contingencies	280,392
Compensated absences	4,637,116
Unearned revenue	17,793,242
Total pension liability	22,026,030
Total other postemployment benefits	650,000
Voluntary termination benefits	1,630,872
Current liabilities payable from restricted assets:	
Due to contractors	941,375
Total current liabilities	<u>61,583,200</u>
Non-current liabilities:	
Due to contractors	255,208
Accrued legal contingencies	45,462,312
Compensated absences	3,499,131
Total pension liability	331,357,838
Total other postemployment benefits	19,456,661
Voluntary termination benefits	3,468,882
Total non-current liabilities	<u>403,500,032</u>
Total Liabilities	<u>465,083,232</u>
Deferred Inflows of Resources:	
Related to leases	1,812,414
Related to pension plan	43,203,569
Related to other postemployment benefits	7,443,612
Total deferred Inflows of Resources:	<u>52,459,595</u>
Total liabilities and deferred inflows of resources	<u>517,542,827</u>
Net position	
Investment in capital assets	2,796,016,014
Restricted for other purposes	117,630,985
Unrestricted (deficit)	<u>(254,448,791)</u>
Net position	<u>\$ 2,659,198,208</u>

The accompanying notes are an integral part of these basic financial statements.

PUBLIC BUILDINGS AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
STATEMENT OF REVENUES, EXPENSES AND CHANGE IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2023

Operating revenues:	
Lease revenues from governmental agencies	\$ 125,173,457
Less: uncollectible amounts expense	<u>(1,237,074)</u>
Lease revenues from governmental agencies, net	<u>123,936,383</u>
Operating expenses:	
Salaries and employees benefits, net of pension expense of (\$34,587,062)	40,345,417
Depreciation	92,353,803
Utilities	16,283,553
Repairs and maintenance	14,712,327
Security services	1,825,808
Insurance	13,383,247
Legal claims	24,085,045
Other expenses	<u>5,712,816</u>
Total operating expenses	<u>208,702,016</u>
Operating loss	<u>(84,765,633)</u>
Non-operating revenue (expense):	
Operating grants from Commonwealth of Puerto Rico	95,889,414
Subsidy from federal government	81,001,799
Interest income from leases	85,557
Federal Grants	1,136,980
Interest Revenue	3,463,986
Proceeds from insurance for natural disaster claims	2,584,179
Other income	11,472,001
Loss on capital assets disposition	<u>(24,597,797)</u>
Total non-operating revenues, net	<u>171,036,119</u>
Change in net position	86,270,486
At beginning of year	<u>2,572,927,722</u>
At end of year	<u>\$ 2,659,198,208</u>

The accompanying notes are an integral part of these basic financial statements.

PUBLIC BUILDINGS AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2023

Operating activities:	
Receipts from tenants	\$ 118,145,910
Payment to employees and related benefits	(99,613,266)
Payment for goods and services	<u>(52,558,307)</u>
Net cash used in operating activities	(34,025,663)
Noncapital related financing activities:	
Grant from Commonwealth of Puerto Rico	95,889,414
Subsidy from federal government	81,001,799
Federal Grants	18,930,222
Interest received on leases	85,557
Other	<u>58,634</u>
Net cash provided by noncapital financing activities	<u>195,965,626</u>
Capital and related financing activities:	
Proceeds from insurance for natural disaster claims	2,584,179
Proceeds from capital assets sales	2,398,713
Purchases of capital assets	<u>(4,452,936)</u>
Net cash provided in capital assets and related financing	<u>529,956</u>
Investing activities:	
Collections from interest earned	<u>3,463,986</u>
Net cash provided by investing activities	<u>3,463,986</u>
Net increase in cash and cash equivalents	165,933,905
Cash and cash equivalents:	
At beginning of year	<u>102,999,020</u>
At end of year (see page 23)	<u>\$ 268,932,925</u>

Continues

The accompanying notes are an integral part of these basic financial statements.

PUBLIC BUILDINGS AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
STATEMENT OF CASH FLOWS CONTINUED
FOR THE YEAR ENDED JUNE 30, 2023

Continued

Reconciliation of operating loss to net cash used in operating activities:

Operating loss	\$ (84,765,633)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation	92,353,803
Allowance for doubtful accounts	1,237,074
Change in operating assets and liabilities:	
Increase in other current assets	(198,017)
Increase in prepaid	(10,951)
Increase in lease interest receivable	(1,976)
Increase in lease receivable	(1,710,614)
Increase in rent receivable	(5,671,757)
Decrease in deferred outflows related to pension plans	17,786,288
Decrease in deferred outflows related to post employment benefits	128,783
Decrease in amount due to contractors	941,375
Decrease in accounts payable and accrued expenses	(901,021)
Increase in accrued legal contingencies	23,359,532
Increase in compensated absences	168,512
Decrease in rent collected in advance	(1,348,166)
Decrease in other post-employment benefits	(855,738)
Decrease in total pension liability	(96,717,488)
Decrease in voluntary termination benefits	(1,830,225)
Increase in deferred inflows related to leases	1,704,962
Increase in deferred inflows related to pension plans	<u>22,305,594</u>
Net cash used in operating activities	<u>\$ (34,025,663)</u>

Supplemental schedule of noncash investing, capital and financing activities:

Loss on capital assets disposition	\$ <u>24,597,797</u>
Accounts payable write off	\$ <u>11,413,367</u>

The accompanying notes are an integral part of these basic financial statement.

PUBLIC BUILDINGS AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
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FOR THE YEAR ENDED JUNE 30, 2023

1. ORGANIZATION

The Authority is a component unit of the Commonwealth, created by Legislature of the Commonwealth pursuant to Act No. 56 of June 19, 1958, as amended (the Enabling Act). The Authority designs, constructs, administers, and provides maintenance to office buildings, courts, warehouses, schools, health-care facilities, welfare facilities, shops and related facilities, the majority of which are leased to the Commonwealth's departments, agencies, public corporations and instrumentalities and municipalities. The annual rent for each leased building has historically been based on the amounts necessary to cover the Authority's payment of:

- i. Operating and maintenance expenses of the buildings, including a reasonable proportional share of administrative expenses, excluding depreciation; and
- ii. Cost of equipment replacement and extraordinary repairs.

Components (i) and (ii) are subject to periodic increases so that the Authority can recover the costs incurred. Amounts due from Commonwealth departments and governmental agencies may be subject to periodic adjustments based on the availability of funds at the Commonwealth level and the pending Commonwealth Title III case.

The Enabling Act provides that the full faith and credit of the Commonwealth is pledged for the payment of rent under any lease agreement executed pursuant to the Enabling Act with any department of the Commonwealth. The Enabling Act also provides that the Department of Treasury of the Commonwealth of Puerto Rico (Treasury Department) will make advances to the Authority for any unpaid portion of rent payable to the Authority by any agency or instrumentality of the Commonwealth that has entered into lease agreements with the Authority. Such advances are recorded as a reduction to account receivables because the reimbursement obligation belongs to the agency in accordance to the Enabling Act. This obligation was suspended pursuant the Puerto Rico Emergency Moratorium and Rehabilitation Act (Act No. 21 of 2016) and the Commonwealth's subsequent Title III case.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- a. **Basis of Accounting** – The basic financial statements of the Authority have been prepared in conformity with accounting principles generally accepted in the United States of America as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The activities of the Authority are accounted for using the flow of economic resources measurement focus and the accrual basis of accounting. All assets, deferred outflows, liabilities, net position, revenues, and expenses are accounted for through a single enterprise fund with revenues recorded when earned and expenses recorded as incurred.

- b. **Use of Estimates** – The preparation of basic financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the basic financial statements and the reported amounts of revenues and expenses during the reported period. Actual results may differ from those estimates.

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- c. Fair Value of Financial Instruments** – The carrying amounts reported in the statements of net position for cash and cash equivalents and receivables approximate fair value due to their short-term duration. Amounts deposited in bond sinking funds and construction funds are carried at fair value. The carrying amount of bonds payable approximates fair value since interest rates on such debt approximates the rates currently available in the market for other debt with similar terms and remaining maturities.
- d. Cash and Cash Equivalents** – Cash and cash equivalents include all highly liquid instruments with maturities of three months or less at the time of acquisition. If such instruments are included in restricted assets, they are considered cash equivalents for purposes of the statements of cash flows.
- e. Accounts Receivable Allowance for Uncollectible Accounts** – The allowance for uncollectible accounts is an amount that management believes will be adequate to absorb possible losses on existing receivables, including debt service rentals and maintenance charges that may become uncollectible based on evaluations of the collectability of each balance. Because of uncertainties inherent in the estimation process, management’s estimate of losses in the receivables outstanding and the related allowance may change in the near term.
- f. Other Assets** – These represent tools, supplies, security deposits and building material on hand.
- g. Restricted Cash and Cash Equivalents** – Restricted assets represent the amounts deposited by the Authority to provide cash available in the related construction fund. When both restricted and unrestricted resources are available for specific use, it is the authority’s policy to use restricted resources first, then unrestricted resources as they are needed.
- h. Capital Assets** – Capital assets are recorded at cost and segregated between non-depreciable, such as land and construction in progress, and depreciable assets, such as building and equipment. The construction cost includes indirect administrative costs and interest costs allocated during the construction period. Capital assets are assets with an individual cost of more than \$100 and a useful life of five (5) years or more.

Interest cost is capitalized as part of the historical cost of acquiring certain assets while the assets are readied for their intended use. Interest earned on unspent tax-exempt borrowings restricted for acquisition of qualifying assets is offset against interest costs to determine the net amount to be capitalized.

Expenditures for major renewals and betterments that extend the useful life of the assets are capitalized and normal repairs and maintenance are expensed when incurred. Depreciation is determined using the straight-line method, over the estimated useful lives of the assets, as follows:

Buildings	50 Years
Equipment and automobiles	5-10 years

A capital asset is considered impaired when its service utility has declined significantly and unexpectedly. The Authority evaluates prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. Such events or changes in circumstances that may be indicative of impairments include evidence of physical damage, enactment or approval of Acts or regulations or other changes in environmental factors, technological changes or evidence of obsolescence, changes in the manner or duration of use of capital asset, and construction stoppage, among others.

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- i. **Current Liabilities** - These are short-term financial obligations that are due within one year or within a normal operating cycle of one year and typically settled using current assets, which are assets that are used up within one year. Examples of current liabilities include accounts payable, accrued expenses, rent collected in advance, compensated absences, voluntary termination benefits and debt service payments due within the next 12 months. The Authority also included in current liabilities the bond principal and interest payments in default.
- j. **Non-current Liabilities** – Non-current liabilities are referred to as the long-term debts or financial obligations that are not due within twelve months. Examples of non-current liabilities include bonds payable, compensated absences, accrued legal contingencies, net pension liability, other post-employment benefits and voluntary termination benefits.
- k. **Compensated Absences** – In response to a Fiscal Plan certified by the Oversight Board, Act 8-2017, Act for the Administration and Transformation of Human Resources of the Commonwealth of Puerto Rico, was enacted and extends its application to the employees of public corporations. Under this Act, employees begin to accrue vacation and sick leave at the rate of one-and-a-quarter days and one-and-a-half days per month, respectively, after working for three months, and the Act is retroactive to the start date of employment. Employees may accumulate and carry forward up to a maximum of 60 days vacations and 18 days sick leave. Upon termination of work, the accumulated amount of vacation days up to the maximum permissible by the Act is paid.
- l. **Due to Contractors** – The Authority withholds from contractors a retainage until all construction issues have been settled satisfactorily. Such issues may take years to resolve. The Authority lists as non-current liabilities amounts due to contractors where there is uncertainty about when construction issues will be resolved and settled.
- m. **Claims and Judgments** – The Authority accrues an estimate amount of the liability for claims and judgments on the accompanying statements of net position based on the Authority’s evaluation of the probability of an unfavorable outcome in the litigation of such claims and judgments. The Authority consults with legal counsel upon determining whether an unfavorable outcome is expected. Because of uncertainties inherent in the estimation process, management’s estimate of the liability for claims and judgments may change in the future.
- n. **Pension Benefits** –On August 23, 2017, the Governor of Puerto Rico signed into law Act No. 106 of 2017, known as the *Law to Guarantee the Payment of Our Pensioners and Establish a New Plan of Defined Contributions for Public Servants* (Act 106-2017), which completely transformed ERS and the Commonwealth’s other retirement systems effective as of July 1, 2017, by, among other things, (i) implementing a pay-as-you-go (PayGo) system in which direct payments to pension beneficiaries are made by the Commonwealth and reimbursed by individual government employers (including the Authority) through an applicable PayGo fee, and (ii) mandating the transfer of all of ERS’s existing retirement plans and benefits to a new defined contribution plan (the New Defined Contribution Plan) for existing active members and new employees hired after July 1, 2017. The New Defined Contribution Plan and the individual beneficiary accounts established thereunder were officially launched on June 22, 2021.

Funding Policy. The contribution requirements of plan members and Commonwealth direct payment amounts to beneficiaries are established and may be amended by the Commonwealth legislature under the

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review of the Oversight Board. The required contribution is based on projected pay-as-you-go financing requirements. The PayGo fee to be paid by government employers (including the Authority) to reimburse the Commonwealth for direct beneficiary payments is established and imposed by the Puerto Rico Fiscal Agency and Financial Advisory Authority (AAFAF) under Act 106-2017.

Annual Pension Benefit Cost and Total Pension Liability. The Commonwealth's annual other pension benefit expense and liability are calculated based on the annual required contribution of the participating employers (ARC); an amount actuarially determined in accordance with the parameters of GASB Statement No. 73. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess).

o. Other Post-employment Benefits (OPEB)

Plan Description. The Authority provides healthcare benefits to its retirees under two plans: one covered by the Authority and considered a single-employer plan, and the other through the post-employment benefit plan of the Commonwealth of Puerto Rico for retired participants of ERS, a multi-employer plan. Since July 1, 2017, both plans have operated under the PayGo system established under Act 106-2017.

Prior to the fiscal year ended June 30, 2019, the Authority recognized post-employment benefit liability for the Authority's plan. Beginning with the fiscal year ended June 30, 2019, the Authority began including the prorated estimated liability for the New Defined Contribution Plan established under Act 106-2017, which was treated as a change in estimate of immaterial consequence as permitted by GASB Statement No. 75 and other accounting guidance.

Funding Policy. The contribution requirements of plan members and Commonwealth direct payment amounts to beneficiaries are established and may be amended by the Commonwealth legislature under the review of the Oversight Board. The required contribution is based on projected pay-as-you-go financing requirements. The PayGo fee to be paid by government employers (including the Authority) to reimburse the Commonwealth for direct beneficiary payments is established and imposed by AAFAF under Act 106-2017.

Annual OPEB Cost and Net OPEB Obligation. The Commonwealth's annual other post-employment benefit (OPEB) expense and liability are calculated based on the annual required contribution of the participating employers (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 75. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess).

p. Termination Benefits

The Authority accounts for termination benefits in accordance with GASB Statement No. 47, *Accounting for Termination Benefits*. Pursuant to provisions of GASB Statement No. 47, in financial statements prepared on the accrual basis of accounting, employers should recognize a liability and expense for voluntary termination benefits (for example, early retirement incentives) when the offer is accepted, and the amount can be estimated. A liability and expense for involuntary termination benefits (for example, severance benefits) should be recognized in the basic financial statements when: (i) a plan of termination has been approved by those with the authority to commit the government to the plan, (ii) the plan has been communicated to the employees, and (iii) the amount can be estimated.

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- q. Deferred Outflows/Inflows of Resources** – In addition to assets and liabilities, the Authority reports in separate sections deferred outflows/inflows of resources. This separate financial statement element—deferred outflows/inflows of resources—represents a consumption of net position that applies to a future period(s) and thus is recognized as an outflow of resources (expense) until then. Similarly, the PBA reports deferred inflows of resources in the Statement of Net Position in a separate section following Liabilities. This separate financial statement element, deferred inflows of resources, represents a reduction of net position and resources (an acquisition of assets) applicable to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. Deferred outflows and inflows of resources mainly affect the unrestricted (deficit) net position.
- r. Net Position** – The difference between assets and liabilities is presented as Net Position. Components of net position are the following:
- 1) *Net investment in capital assets* – Consists of Capital Assets, net of accumulated depreciation reduced by the outstanding balance of any bonds, mortgage notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
 - 2) *Restricted for other purposes* – This restriction is imposed by the grantors and contributors. Given the Authority’s net deficit, no net position was reported as restricted for other purposes.
 - 3) *Unrestricted* – This component of net position consists of net position that does not meet the definition of “restricted” or “net investment in capital assets”.
- s. Operating Revenues and Expenses** – The Authority distinguishes operating revenues and expenses from non-operating items.
- t. Non-operating Revenues** include Federal grants and other grants from the Commonwealth of Puerto Rico, which are subject to appropriations contingent on the availability of funds from the Commonwealth and legislative approval.
- u. Risk Financing** – The Authority carries commercial insurance to cover casualty, theft, claim and other loss. The current insurance policies have not been cancelled or terminated. Coverage is from July 1st to June 30th of each fiscal year. The Authority has not settled any claims in excess of its insurance coverage during the past three years. The Authority also pays premiums for workers compensation insurance to another component unit of the Commonwealth.

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v. GASB Statement No. 87, Leases

Lease Revenue and Receivable

The Authority rental revenues are recognized as earned over the appropriate time period under GASB 87 provisions. At the commencement of a lease, the Authority initially measures the lease receivable at the present value of payments expected to be received during the lease term. Subsequently, the lease receivables are reduced by the principal portion of lease payments received. The deferred inflow of resources for deferred lease receipts is initially measured as the initial amount of the lease receivable.

w. Contributions – The Commonwealth, from time to time, makes non-operating contributions to the Authority. Capital grants are restricted to financing investment in capital assets.

x. New Accounting Standard Adopted

- **GASB Statement No. 96, Subscription-Based Information Technology Arrangements 96** - On July 1, 2022, the Authority adopted the provisions of GASB Statement No. 96, Subscription-Based Information Technology Arrangements. The adoption of GASB Statement No. 96 did not have an impact on the accompanying financial statements of the Authority.

y. Future Adoption of Accounting Standards

GASB Statement No. 100, Accounting Changes and Error Corrections, establishes accounting and financial reporting requirements for (a) accounting changes and (b) the correction of an error in previously issued financial statements (error correction). The requirements of this Statement do not apply to the initial application of U.S. generally accepted accounting principles (GAAP) established by the GASB as a financial reporting framework in circumstances in which a government is asserting for the first time that its financial statements are prepared in accordance with U.S. GAAP established by the GASB. The requirements of this Statement apply to the financial statements of all state and local governments. The requirements of this Statement are effective for accounting changes and error corrections made in fiscal years beginning after June 15, 2023, and all reporting periods thereafter. Earlier application is encouraged.

GASB Statement No. 101, Compensated Absences. The objective of this statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. The requirements of this statement are effective for the fiscal year beginning after December 15, 2023, and all reporting periods thereafter. Earlier applications are encouraged.

GASB Statement No. 102, Certain Risk Disclosure. This Statement defines a *concentration* as a lack of diversity related to an aspect of a significant inflow of resources or outflow of resources. A *constraint* is a limitation imposed on a government by an external party or by formal action of the government's highest level of decision-making authority. Concentrations and constraints may limit a government's ability to acquire resources or control spending. The requirements of this Statement are effective for fiscal years beginning after June 15, 2024, and all reporting periods thereafter. Earlier application is encouraged.

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GASB Statement No. 103, Financial Reporting Model Improvements. The objective of this Statement is to improve key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing a government’s accountability. This Statement also addresses certain application issues. The requirements of this Statement are effective for fiscal years beginning after June 15, 2025, and all reporting periods thereafter. Earlier application is encouraged

The Authority is evaluating the impact that these standards may have on its future financial statements.

3. CASH AND CASH EQUIVALENTS

The Commonwealth requires that public funds deposited in commercial banks in Puerto Rico must be fully collateralized for the amount deposited in excess of federal depository insurance. Cash and cash equivalents on June 30, 2023, consisted of the following:

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
Cash:			
Commercial bank in Puerto Rico	\$ 130,765,765	\$ 136,620,811	\$ 267,386,576
Cash equivalent:			
Certificates of deposits	<u>1,546,349</u>	<u>-</u>	<u>1,546,349</u>
Total cash and equivalents deposited in comercial banks	<u>\$ 132,312,114</u>	<u>\$ 136,620,811</u>	<u>\$ 268,932,925</u>
Current portion	\$ 132,312,114	\$ -	\$ 132,312,114
Noncurrent portion		<u>136,620,811</u>	<u>136,620,811</u>
Total	<u>\$ 132,312,114</u>	<u>\$ 136,620,811</u>	<u>\$ 268,932,925</u>

Unrestricted cash and cash equivalents are deposited in two local banks. Restricted cash and cash equivalents deposited with local bank consist of:

- a. **Construction Funds** – These funds are used for the payment of all or any part of the remaining cost of the initial facilities, or for payment of all or any part of the cost to the Authority of any additional facilities or improvements, in accordance with the Bonds resolutions, insurances proceeds and state or federal grants.

Construction funds on June 30, 2023, consist of the following:

<u>DESCRIPTION</u>	<u>Amount</u>
AEP HURRICANE IRMA EM 3384	\$ 80,979
AEP HURRICANE IRMA DR 4336	342,349
AEP HURRICANE MARIA DR 4339	17,910,044
AEP HURRICANE MARIA INSURANCE	48,339,829
AEP-EARTHQUAKE INSURANCE	3,124,801
CONSTRUCTION FUND RC	1,103,270
SPECIAL FUNDS	<u>65,719,539</u>
TOTAL	<u>\$ 136,620,811</u>

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b. **Custodial Credit Risk** - Custodial credit risk related to deposits is the risk that in the event of a financial institution’s failure, the Authority’s deposits might not be recovered. The Authority are authorized to deposit only in institutions approved by the Department of the Treasury of the Commonwealth of Puerto Rico (“Treasury”), and such deposits are maintained in separate bank accounts in the name of the Authority. Such authorized depositories collateralize the amount deposited in excess of the federal depository insurance of \$250,000 with securities that are pledged with the Department of the Treasury. There is no formal policy for custodial credit risk for cash accounts opened with commercial banks outside of Puerto Rico.

As of June 30, 2023, the Authority’s cash deposited in the banks amounted to approximately \$268.9 million.

4. RENT RECEIVABLE

This balance represents the amount due primarily from Commonwealth agencies and public corporations in accordance with the corresponding lease agreements and adjusted for the estimate of uncollectible amounts due to the current financial condition of the Commonwealth.

Total rent receivable amount \$224 million which includes approximately \$47.2 million collected near after June 30, 2023. All other receivables have been reserved as uncollectible.

Although the Authority implemented GASB 87 during the fiscal year, as a result of the implementation of the bankruptcy Plan of Adjustment on March 15, 2022, almost all lease agreements were cancelled, and new short-term agreements were prepared. For this reason, the rent receivable is mostly related to short-term leases.

As of June 30, 2023, the minimum future principal and interest lease payments on contracts are as follows:

Years Ending June 30,	Principal	Interest
2024	\$ 405,629	\$ 100,436
2025	421,902	73,424
2026	426,784	47,717
2027	437,549	22,078
2028	128,786	1,537
Total	<u>\$ 1,820,650</u>	<u>\$ 245,192</u>

For the year ended June 30, 2023, lease revenues and interest income from leases amounted to \$272,542 and \$85,557, respectively.

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5. CAPITAL ASSETS

Capital assets activity for the years ended June 30, 2023, was as follows:

	Beginning Balance June 30, 2022	Increase	Decrease	Ending Balance June 30, 2023
Capital assets not being depreciated:				
Land	\$ 130,911,907	\$ -	\$ (2,371,944)	\$ 128,539,963
Construction in progress	565,418	3,156,429	(1,997,739)	1,724,108
Total capital assets not being depreciated	<u>131,477,325</u>	<u>3,156,429</u>	<u>(4,369,683)</u>	<u>130,264,071</u>
Capital assets being depreciated:				
Buildings	4,738,368,456	-	(64,925,038)	4,673,443,418
Equipment and vehicles	15,435,613	1,296,507	(199,711)	16,532,409
Total capital assets being depreciated	<u>4,753,804,069</u>	<u>1,296,507</u>	<u>(65,124,749)</u>	<u>4,689,975,827</u>
Less accumulated depreciation:				
Buildings	(1,963,459,668)	(91,396,128)	42,314,602	(2,012,541,194)
Equipment and vehicles	(10,908,337)	(957,675)	183,322	(11,682,690)
Total accumulated depreciation	<u>(1,974,368,005)</u>	<u>(92,353,803)</u>	<u>42,497,924</u>	<u>(2,024,223,884)</u>
Capital assets being depreciated, net	<u>2,779,436,064</u>	<u>(91,057,296)</u>	<u>(22,626,825)</u>	<u>2,665,751,943</u>
Capital assets, net	<u>\$ 2,910,913,389</u>	<u>(87,900,867)</u>	<u>\$ (26,996,509)</u>	<u>\$ 2,796,016,014</u>

6. INTERGOVERNMENTAL PAYABLES

Intergovernmental payables as of June 30, 2023, consist of the following:

Amount payable from unrestricted assets	
Puerto Rico Electric Power Authority	\$ 90
Puerto Rico Aqueduct And Sewer Authority	195,114
Commonwealth of Puerto Rico	4,562,413
Employee's Retirement System	252,241
Puerto Rico Land Authority	5,000
Luma Energy LLC	755,492
Puerto Rico Telephone Co.	22,537
Other agencies projects	674,223
Total payable from unrestricted assets	<u>\$ 6,467,110</u>

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7. LONG-TERM LIABILITIES

Long-term liabilities as of June 30, 2023 consist of:

	Balance			Balance	
	June 30, 2022	Increase	Decrease	June 30, 2023	Current Portion
Due to Contractors	\$ 9,522,362	\$ -	\$ (8,325,780)	\$ 1,196,583	\$ 941,375
Accrued legal contingencies	22,383,172	24,136,676	(777,144)	45,742,704	280,392
Compensated absences	7,967,734	168,513	-	8,136,247	4,637,116
Total pension liability	450,101,356	9,654,578	(106,372,066)	353,383,868	22,026,030
Total other postemployment benefits	20,962,399	1,526,420	(2,382,158)	20,106,661	650,000
Voluntary termination benefits	6,929,979	-	(1,830,226)	5,099,753	1,630,872
Total	\$ 517,867,003	\$ 35,486,187	\$ (119,687,373)	\$ 433,665,817	\$ 30,165,785

- a. **Compensated absences** – Employees earn annual vacation leave at the rate of 15 days per year up to a maximum permissible accumulation of 30 days for union employees and 75 days for management personnel. Employees accumulate sick leave at the rate of 18 days per year. The Authority records as a liability and as expense the vested accumulated vacation benefits accrued to employees. The cost of vacation expected to be paid in the next twelve months is classified as current and accrued liabilities, while amounts expected to be paid after twelve months are classified as non-current liabilities.
- b. **Accrued Legal Contingencies** – This amount represents the Authority’s estimates of possible legal and contractual settlements arising from normal litigation procedures. The estimated amount was based on the corresponding number of legal cases currently underway and based on the advice and consent of the Authority’s legal division and external legal advisors. The actual amounts required to settle such cases may be materially different from the amount accrued.
- c. **Other Post-Employment Benefits** – The Authority records a liability for its retirement health care benefits following GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits other than Pensions*. It includes the Authority’s proportionate share of the Commonwealth Healthcare Benefit Plan to Retirees, considered a multi-employer plan, and the Authority’s plans covered by collective bargaining agreements (CBA) and considered a single-employer plan. Both plans operate on a pay-as-you-go basis as further described in Note 10 to the basic financial statements.
- d. **Voluntary Termination Benefits** – This amount represents the Authority’s liability related to a program that provides benefits for early retirement or economic incentives for voluntary employment termination to certain eligible employees as further explained in Note 11 to the basic financial statements.
- e. **Total Pension Liability** – This amount represents the proportionate share of the difference between the total amount due to retirees and the actual amount of money in the Puerto Rico Employees Retirement System to make those payments.

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8. DUE TO CONTRACTORS

This amount represents the remaining balance due to contractors for projects under construction. Normally, the contractors submit progress billings for projects in progress and the Authority pays these invoices, except for the retainage portion. This withholding is used as a guarantee that the contractor will complete the project in accordance with contract requirements. The retainage is typically paid upon completion and acceptance of the projects, as determined by the Authority's engineers.

9. RETIREMENT PLANS

1. Employee's Retirement System of the Government of Puerto Rico and its Instrumentalities

A. Plan Description

The Summary of Principal Plan Provisions is based on our understanding of the benefits as described by the Authority. It is intended only to describe the essential features of the Plan for valuation purposes. Eligibility for benefits and benefit amounts are determined by the Plan Administrator and are based on the full and complete plan provisions, not on this summary.

- Type of Plan Covered: Medical benefits are covered by this valuation. All benefits are paid for by the Puerto Rico Public Buildings Authority.
- Eligibility for Membership: Eligible members include employees that are members in the Puerto Rico Government Employees Retirement System plus employees covered by the governmental defined contribution plan.

Benefits:

- a) Eligibility: Satisfaction of the following eligibility requirements while actively employed:
 - (1) Completion of 10 years of service with the Authority and
 - (2) Retirement from active service in the Puerto Rico Government Employees Retirement System or the governmental defined contribution plan.
- b) Medical Benefits: A monthly reimbursement of medical expenses for the retiree only. Managers can receive up to \$200 per month payable for the one year after retirement. Union Independent members can receive up to \$250 per month (\$200 per month for retirements prior to May 2013) payable for the retiree's life. Union of Professionals and Office members can receive up to \$250 per month (\$200 per month for retirements prior to June 2013) payable for the retiree's life.
- Puerto Rico Government Employees Retirement System retirement eligibility for general employees:
 - a) Eligibility for Act 447 members (generally hired before April 1, 1990): Act 447 members who were eligible to retire as of June 30, 2013 would continue to be eligible to retire at any time. Prior to July 1, 2013, Act 447 members could retire upon (1) attainment of age 55 with 25 years of service, (2) attainment of age 58 with 10 years of service, or (3) any age with 30 years of service. In addition, Act 447 members who would attain 30 years of service by December 31, 2013 would be eligible to retire at any time.

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Act 447 members who were not eligible to retire as of June 30, 2013 and did not attain 30 years of service by December 31, 2013 would be eligible to retire upon attainment of the retirement eligibility age shown in the following table with 10 years of service.

Date of Birth	Attained Age as of June 30, 2013	Retirement Eligibility Age
July 1, 1957 or later	55 or less	61
July 1, 1956 to June 30, 1957	56	60
Before July 1, 1956	57 and up	59

- b) Eligibility for Act 1 members (generally hired on or after April 1, 1990 and on or before December 31, 1999): Act 1 members who were eligible to retire as of June 30, 2013 would continue to be eligible to retire at any time. Prior to July 1, 2013, Act 1 members could retire upon (1) attainment of age 55 with 25 years of service or (2) attainment of age 65 with 10 years of service. Act 1 members who were not eligible to retire as of June 30, 2013 would be eligible to retire upon attainment of age 65 with 10 years of service.

- c) Eligibility for System 2000 members (generally hired on or after January 1, 2000 and on or before June 30, 2013):

System 2000 members who were eligible to retire as of June 30, 2013 would continue to be eligible to retire at any time. Prior to July 1, 2013, System 2000 members could retire upon attainment of age 60.

System 2000 members who were not eligible to retire as of June 30, 2013 would be eligible to retire upon attainment of the retirement eligibility age shown in the following table.

Date of Birth	Attained Age as of June 30, 2013	Retirement Eligibility Age
July 1, 1957 or later	55 or less	65
July 1, 1956 to June 30, 1957	56	64
July 1, 1955 to June 30, 1956	57	63
July 1, 1954 to June 30, 1955	58	62
Before July 1, 1954	59 and up	61

- d) Eligibility for Act 3 members (generally hired on or after July 1, 2013 and on or before June 30, 2017): Attainment of age 67.

- e) Eligibility for Act 106 members (generally hired on after July 1, 2017 and covered by the governmental defined contribution plan): Attainment of age 67.

- Changes in Plan Provisions since Prior Valuation:

None.

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2. Service Retirement Annuity Benefits

An annuity payable for the lifetime of the member equal to the annuitized value of the balance in the hybrid contribution account at the time of retirement, plus, for Act No. 447-1951 and Act No. 1-1990 members, the accrued benefit determined as of June 30, 2013. If the balance in the hybrid contribution account was \$10,000 or less, it would have been paid as a lump sum instead of as an annuity.

- a) **Accrued Benefit as of June 30, 2013, for Act No. 447-1951 Members:** The accrued benefit as of June 30, 2013, was determined based on the average compensation, as defined, for Act No. 447-1951 members, the years of credited service, and the attained age of the member all as of June 30, 2013. For Mayors, the highest compensation, as defined, for Act No. 447-1951 members, determined as of June 30, 2013. If the Act No. 447-1951 member had at least 30 years of credited service as of June 30, 2013, the accrued benefit equals 65% of average compensation if the member was under age 55 as of June 30, 2013, or 75% of average compensation if the member was at least age 55 as of June 30, 2013. For participants selecting the Coordination Plan, the benefit was recalculated at the Social Security Retirement Age (SSRA), as defined, as 1.5% of average compensation up to \$6,600 multiplied by years of credited service, up to 30 years, plus 65% (75% if member was at least age 55 as of June 30, 2013) of average compensation in excess of \$6,600.

If the Act No. 447-1951 member had less than 30 years of credited service as of June 30, 2013, and attained 30 years of credited service by December 31, 2013, the accrued benefit equaled 55% of average compensation if the member was under age 55 as of June 30, 2013, or 60% of average compensation if the member was at least age 55 as of June 30, 2013. For participants selecting the Coordination Plan, the benefit was recalculated at SSRA as 1.5% of average compensation up to \$6,600 multiplied by years of credited service, up to 30 years, plus 55% (60% if member was at least age 55 as of June 30, 2013) of average compensation in excess of \$6,600. Member contributions received from Act No. 447-1951 members eligible for this transitory benefit during the period beginning July 1, 2013 and ending upon the attainment of 30 years of credited service were considered pre- July 1, 2013, contributions; the contributions to the hybrid contribution account begin after the member attains 30 years of credited service.

If the Act No. 447-1951 member had less than 30 years of credited service as of December 31, 2013, the accrued benefit equaled 1.5% of average compensation multiplied by years of credited service up to 20 years, plus 2% of average compensation multiplied by years of credited service in excess of 20 years. Maximum benefit is 75% of average compensation. Except for the Commonwealth Police and Firefighters, the benefit was actuarially reduced for each year payment commences prior to age 58. For participants selecting the Coordination Plan, the basic benefit is recalculated at SSRA as 1% of average compensation up to \$6,600 multiplied by years of credited service up to 20 years, plus 1.5% of average compensation up to \$6,600 multiplied by years of credited service in excess of 20 years, plus 1.5% of average compensation in excess of \$6,600 multiplied by years of credited service up to 20 years, plus 2.0% of average compensation in excess of \$6,600 multiplied by years of credited service in excess of 20 years. Except for police and firefighters, the benefit was actuarially reduced for each year payment commences prior to age 58.

For Act No. 447-1951, Mayors with at least 8 years of credited service as a Mayor, the accrued benefit was not to be less than 5% of highest compensation, as defined, as a Mayor for each year of credited

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service as a Mayor up to 10 years, plus 1.5% of highest compensation as Mayor for each year of non-Mayoral credited service up to 20 years, plus 2.0% of highest compensation as Mayor for each year of non-Mayoral credited service in excess of 20 years. Non-Mayoral credited service included service earned as a Mayor in excess of 10 years. Maximum benefit was 90% of highest compensation as a Mayor.

- b) **Accrued Benefit as of June 30, 2013, for Act No. 1-1990 Members:** The accrued benefit as of June 30, 2013, is determined based on the average compensation for Act No. 1-1990 members, the years of credited service, and the attained age of the member all as of June 30, 2013. For Act No. 1-1990 Mayors, the highest compensation as a Mayor was determined as of June 30, 2013.

If the Act No. 1-1990 member is a police officer or firefighter member that had at least 30 years of credited service as of June 30, 2013, the accrued benefit equaled 65% of average compensation if the member was under age 55 as of June 30, 2013, or 75% of average compensation if the member was at least age 55 as of June 30, 2013.

For all other Act No. 1-1990 members, the accrued benefit equaled 1.5% of average compensation multiplied by years of credited service. The benefit was actuarially reduced for each year payment commences prior to age 65.

For Act No. 1-1990 Mayors with at least 8 years of credited service as a Mayor, the accrued benefit was not to be less than 5% of highest compensation as a Mayor for each year of credited service as a Mayor up to 10 years, plus 1.5% of highest compensation as Mayor for each year of non-Mayoral credited service up to 20 years, plus 2.0% of highest compensation as Mayor for each year of non-Mayoral credited service in excess of 20 years. Non-Mayoral credited service included service earned as a Mayor in excess of 10 years. Maximum benefit is 90% of highest compensation as a Mayor.

Compulsory Retirement

All Act No. 447-1951 and Act No. 1-1990 Public Officers in High-Risk Positions were required to retire upon attainment of age 58 and 30 years of credited service. A two-year- extension may be requested by the member from the Superintendent of the Commonwealth Police, the Chief of the Firefighter Corps, or supervising authority as applicable.

3. Termination Benefits

- a) **Lump Sum Withdrawal**

Eligibility: A Member was eligible upon termination of service prior to 5 years of service or if the balance in the hybrid contribution account is \$10,000 or less.

Benefit: The benefit equaled a lump sum payment of the balance in the hybrid contribution account as of the date of the permanent separation of service.

- b) **Deferred Retirement**

Eligibility: A Member was eligible upon termination of service with 5 or more years of service (10 years of credited service for Act No. 447-1951 and Act No. 1-1990 members) prior to the applicable retirement eligibility, provided the member had not taken a lump sum withdrawal of the accumulated contributions from the hybrid contribution account.

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Benefit:

An annuity payable for the lifetime of the member commencing at the applicable retirement eligibility age equal to the annuitized value of the balance in the hybrid contribution account at the time of retirement, plus, for Act No. 447-1951 and Act No. 1-1990 members, the accrued benefit determined as of June 30, 2013.

4. Death Benefits

a) Pre-retirement Death Benefit

Eligibility: Any current nonretired member was eligible.

Benefit: A refund of the hybrid contribution account, plus the accumulated contributions for Act No. 447-1951 and Act No. 1-1990 members.

b) Postretirement Death Benefit for Members Who Retired prior to July 1, 2013

Eligibility: Any retiree or disabled member receiving a monthly benefit who had not elected a reversionary annuity and whose benefits commenced prior to July 1, 2013.

Benefit: The benefit is as follows (Act No. 105, as amended by Act No. 4):

- i. For those married or with dependent children at the time of death, the annual income to a widow, or widower or dependent children is equal to 60% (50% if in the Coordination Plan – 30%, prior to January 1, 2004) of the retirement benefit payable for life for a surviving spouse and/or disabled children and payable until age 18 (age 25 if pursuing studies) for nondisabled children. If in the Coordination Plan, the benefit to the surviving spouse does not begin until the spouse's attainment of age 60 and the surviving spouse must have been married to the member for at least 10 years to be eligible for this benefit. The increase in the percentage from 30% to 50% if in the Coordination Plan is paid by the Commonwealth for former government employees or by the public enterprise or municipality for their former employees. See Act No. 105 of 1969, as amended by Act No. 158 of 2003.
- ii. The benefit, when there is no relation as stated above, is equal to the remaining balance of accumulated contributions at the time of retirement after the deduction of lifetime annual income paid and is payable to a beneficiary or to the Member's estate. In no case may the benefit be less than \$1,000. Either the Commonwealth for former government employees or the public enterprise or municipality for their former employees pays the difference, up to \$250, between (1) the accumulated contributions less the lifetime annual income paid and (2) \$1,000. ERS pays for the rest. See Article 2-113 of Act No. 447- 1951, as amended by Act No. 524-2004.

c) Postretirement Death Benefit for Members Who Retired after June 30, 2013

Eligibility: Any retiree or disabled member who began receiving a monthly benefit after June 30, 2013.

Benefit: If the member elected at the time of retirement to transfer a portion of the annuity to a beneficiary by selecting an actuarially equivalent optional form of payment, the applicable survivor benefit.

For all members, the excess, if any, of the hybrid contribution account, plus the accumulated contributions for Act No. 447-1951 and Act No. 1-1990 members, at the time of retirement over the total

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annuity payments paid to the member and any beneficiary per the terms of the optional form of payment must be payable to a beneficiary or the member's estate.

- d) Beneficiaries receiving occupational death benefits as of June 30, 2013, continue to be eligible to receive such benefits.

5. Disability Benefits

a) **Disability**

Eligibility: All members are eligible upon the occurrence of disability.

Benefit: The balance of the hybrid contribution account payable as lump sum distribution, an immediate annuity, or a deferred annuity at the election of the participant. Act No. 447-1951 and Act No. 1-1990 members remain eligible to receive the accrued benefit as of June 30, 2013, commencing at the applicable retirement eligibility age.

b) **High Risk Disability under Act No. 127-1958**

Eligibility: Police, firefighters, and other employees in specified high-risk positions who are disabled in the line of work due to reasons specified in Act No. 127-1958 (as amended).

Benefit: 80% (100% for Act No. 447-1951 members) of compensation as of date of disability, payable as an annuity. If the member died while still disabled, this annuity benefit continued to his beneficiaries. Beneficiaries include the surviving spouse and/or disabled children (for life), nondisabled children until age 18 (age 25 if pursuing studies), and the parents if no other beneficiaries. Effective July 1, 1996, and subsequently every three-years, the disability benefit was increased by 3% provided that the member (or beneficiary) had been receiving payments for at least three-years (Act No. 127-1958, as amended). The cost of these benefits was paid by the Commonwealth.

- c) Members who qualified for occupational or nonoccupational disability benefits as of June 30, 2013, continue to be eligible to receive such benefits.

6. Special Benefits

a) **Minimum Benefits**

- i. **Minimum Benefit for Members Who Retired before July 1, 2013 (Act No. 156- 2003, Act No. 35-2007, and Act No. 3-2013):** The minimum monthly lifetime income for members who retired or become disabled before July 1, 2013, is \$500 per month effective July 1, 2013 (\$400 per month effective July 1, 2007, and \$300 per month up to June 30, 2007). The increase in the minimum monthly benefit from \$200 per month to \$300 per month was paid by the Commonwealth for former government and certain public corporations without their own treasuries' employees or by certain public corporations with their own treasuries or municipalities for their former employees. The increase in the minimum monthly benefit from \$300 per month to \$400 per month was to be paid by ERS for former government and certain public corporations without their own treasuries' employees or by certain public corporations with their own treasuries or municipalities for their former employees.
- ii. **Coordination Plan Minimum Benefit:** A minimum monthly benefit was payable upon attainment of SSRA such that the benefit, when added to the Social Security Benefit, was not less than the benefit payable prior to SSRA.

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- b) Cost of Living Adjustments (COLA) to Pension Benefits: The Legislature, from time to time, increased pensions by 3% for retired and disabled members. Beneficiaries were not entitled to COLAs granted after the retiree’s death. Under the Eight Amended POA, upon its effective date of March 15, 2022, these COLA benefits will be eliminated.
- c) Special “Bonus” Benefits
 - i. Christmas Bonus (Act No. 144-2005, as Amended by Act No. 3-2013): An annual bonus of \$200 for each retiree, beneficiary, and disabled member has historically been paid in December provided the member retired prior to July 1, 2013.
 - ii. Medication Bonus (Act No. 155-2003, as Amended by Act No. 3-2013): An annual bonus of \$100 for each retiree, beneficiary, and disabled member to cover health costs paid in July provided the member retired prior to July 1, 2013. Evidence of coverage is not required. The amount is prorated if there are multiple beneficiaries.

Before July 1, 2017, the Commonwealth made contributions to the ERS for the special benefits granted by special laws. Special benefits to eligible Act 447-1951 participants are being paid by each employer as they become due since July 1, 2017.

Employees covered by benefit terms - identification of employees included in the actuarial valuation (measurement date June 30, 2023) by categories:

<u>Category</u>	<u>Total members</u>	<u>Total members, PBA</u>
Active members	37,439	894
Inactive members in pay status (retirees, disabled members, beneficiaries)	<u>122,253</u>	<u>1,126</u>

Pension reform, termination of Trust and implementation of GASB Statement No. 73 - On August 23, 2017 the Commonwealth enacted Act No. 106 (Act 106-2017) to reform the Commonwealth retirement systems and, among other dispositions, provide the necessary legal and operational structure of the determination and payment of accrued pension benefits as of June 30, 2017, the reform of ERS’s governance and administration and the creation and transition to a new defined contribution plan:

- 1) Act 106 created a Retirement Board composed of thirteen (13) members (government officials, representatives of teachers, judicial system, public corporations, and mayors) which replaces the Board of Trustees and perform overall governance of all retirement systems, including ERS, the Teachers and Judiciary Retirement Systems.
- 2) Effective July 1, 2017, the Trust is terminated as a pension trust fund, participants ceased to accrue new pension benefits and are no longer able to make direct credit payments or to make additional contributions to the ERS. All benefits including retirement, disability, death, and other pensioner additional benefits will

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be determined in accordance with the specific benefit structures under Act 447, Act 1, Act 305 and Act 3, as discussed above. After that date, retirement benefits for retirees of the Commonwealth, the Municipalities and other participants of the ERS are guaranteed through a PayGo funding system. Under the PayGo funding, the participant employers directly pay the pension benefits as they are due rather than attempt to build up assets to pre-fund future benefits. Payments are made by the Commonwealth and reimbursed by the employers (PBA) through a PayGo fee. During the fiscal year 2022-2023 PBA recorded as PayGo expenditures the amount of \$22,865,896 of which \$3,751,556 was recorded as intergovernmental payable to Commonwealth Government as of June 30, 2023 and subsequently paid.

- 3) The reform included the creation and procedures for transition to a new defined contribution plan. Act 106-2017 terminated the previous pension programs as of June 30, 2017. The members of the prior programs and the new system members hired on or after July 1, 2017 will be enrolled in the new program. (Discussed later in section 2 of this Note).

As disclosed above, pursuant to Act 106-2017, the previous ERS's pension programs were terminated as of June 30, 2017 and effective July 1, 2017 the benefit payments are made through a PayGo funding system. The Trust was terminated as a pension trust fund and was required by Act 106-2017 to liquidate its assets and transfer the net proceeds to the PRDT. Paragraph 4 of GASB Statement No. 68 establishes requirements for pensions that are provided through pension plans that are administered through trusts or equivalent arrangements (hereafter jointly referred to as trusts) in which the following criteria are met:

- a. Contributions from employers and non-employer contributing entities to the pension plan and earnings on those contributions are irrevocable.
- b. Pension plan assets are dedicated to providing pensions to plan members in accordance with the benefit terms.
- c. Pension plan assets are legally protected from the creditors of employers, nonemployer contributing entities, and the pension plan administrator. If the plan is a defined benefit pension plan, plan assets also are legally protected from creditors of the plan members.

Since no assets are accumulated in a Trust that meet the above GASB 68 criteria, the Authority follows the guidance of GASB Statement No. 73, "Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68".

The Authority's GASB Statement 73 information for reporting period ending on June 30, 2023, is based on an actuarial valuation report dated February 17, 2024, prepared for ERS by Milliman, Inc.

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B. Significant assumptions

Other assumptions as of June 30, 2022:

July 1, 2021, projected forward to June 30, 2022

June 30, 2023

Entry age normal method

3.0% per year, no compensation increases are assumed until July 1, 2021 as a result of the Act 3-2017 four year extension of the Act 66-2014 salary freeze and the current general economy. Based on professional judgment and System input.

3.54%

3.54% based on Bond General Obligation 20-Bond Municipal Bond Index

Pre-retirement mortality:

For general employees not covered under Act 127-1958, the PubG-2010 employee rates, adjusted by 100% for males and 110% for females, projected using MP-2021 on a generational basis. For members covered under Act 127-1958, the PubS-2010 employee rates for males and females, projected using MP-2021 on a generational basis. As generational tables, they reflect mortality improvements both before and after the measurement date. 100% of deaths while in active service are assumed to be occupational for members covered under Act 127-1958.

Post-retirement retiree mortality:

The PubG-2010 healthy retiree rates, adjusted by 100% for males and 110% for females, projected using MP-2021 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date. This assumption is also used for beneficiaries prior to the member's death.

Post-retirement disabled mortality:

The PubG-2010 disabled retiree rates, adjusted by 80% for males and 100% for females, projected using MP-2021 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

Post-retirement beneficiary mortality:

Prior to the retiree's death, beneficiary mortality is assumed to be the same as the post-retirement retiree mortality. For periods after the retiree's death, the PubG-2010(B) contingent survivor rates, adjusted by 110% for males and 120% for females, projected using MP-2021 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

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C. Changes in total pension liability

Changes in total pension liability as of June 30, 2023 (measurement date June 30, 2022) was as follows:

	<u>Amount</u>
Balance at July 1, 2021	\$ 450,101,356
Change for the measurement year:	
Service cost	758,280
Interest on total pension liability	5,169,728
Effect on plan changes	(16,056,744)
Effect of economic/demographic gains and losses	3,726,570
Effect of assumptions changes or inputs	(67,259,044)
Benefit payments at June 30, 2022	<u>(23,056,278)</u>
Net changes	<u>(96,717,488)</u>
Balance at June 30, 2022 (measurement date)	\$ <u><u>353,383,868</u></u>

D. Sensitivity analysis

The following presents the total pension liability calculated using the discount rate of 3.54 %, as well as what the total pension liability would be if it was calculated using a discount rate that is 1 percentage point lower (2.54 %) or 1 percentage point higher (4.54%) than the current rate:

	<u>1% Decrease (2.54%)</u>	<u>Current Discount Rate (3.54%)</u>	<u>1% Increase (4.54%)</u>
The Authority's proportionate share of total pension liability	<u>\$ 395,447,566</u>	<u>\$ 353,383,868</u>	<u>\$ 318,416,824</u>

E. Changes in assumptions

Following is a description of changes in assumptions that affected measurement of the total pension liability since the prior measurement date:

- 1) The index rate and resulting discount rate increase from 2.16% as of June 30, 2021 to 3.54 % as of June 30, 2022 (measurement date)
- 2) The postretirement mortality assumptions were revised based on an experience study covering the period from July 1, 2013 through June 30, 2018. The base mortality rates reflect the Society of Actuaries Pub-2010 mortality tables, which were published in January 2019 and are based on public plan experience. For healthy retirees and beneficiaries prior to the member's death, the postretirement mortality base rates were revised

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to 100% and 110% of the Pub-2010 general healthy retiree mortality table for males and females, respectively. For disabled retirees, the postretirement mortality base rates were revised to 80% and 100% of the Pub-2010 general disabled retiree mortality table for males and females, respectively. For beneficiaries after the retiree’s death, the postretirement mortality base rates were revised to 110% and 120% of the Pub-2010 general below median contingent survivor mortality table for males and females, respectively.

- 3) The preretirement mortality assumption was also revised. For general employees not covered under Act 127-1958, the preretirement mortality base rates were revised to 100% and 110% of the Pub-2010 general employee mortality table for males and females, respectively. For members covered under Act 127-1958, the preretirement mortality base rates were revised to the Pub-2010 public safety employee rates.
- 4) The projected mortality improvement scale was updated from Scale MP-2020 to Scale MP-2021.

F. Pension expense

Following are the components of the Authority’s pension expense recognized in the accompanying statement of activities for the year ended June 30, 2023 (measurement period ending June 30, 2022):

	<u>Amount</u>
Service cost	\$ 1,667,331
Interest on total pension liability	10,713,184
Effect on plan changes	(31,597,872)
Recognition (amortization) of deferred inflows/outflows of resourcer	
Effect of economic/demographic gains and losses	(1,430,304)
Effect of assumptions chages or inputs	<u>(13,939,402)</u>
Pension expense	\$ <u><u>(34,587,063)</u></u>

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G. Deferred Outflows of Resources and Deferred Inflows of Resources from Pension Activities

Deferred outflows and deferred inflows of resources from pension activities by source reported by the Authority in the statement of net position as of June 30, 2023 (measurement date as of June 30, 2022) follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between actual and expected experience	\$ 4,433,234	\$ 7,492,988
Changes in assumptions	28,522,055	27,800,398
Change in employer's proportion and difference between the employee's contributions and the employer's proportionate share of contribution	3,472,530	7,910,183
Net differences between projected and actual earning on plan investments benefit pay subsequent the measurement date	<u>22,026,030</u>	
Total	<u>\$ 58,453,849</u>	<u>\$ 43,203,569</u>

Deferred outflows of resources related to pensions resulting from the payment of benefits subsequent to the measurement date of June 30, 2022 (year ended June 30, 2023) were approximately \$22,026,030 and will be recognized as a reduction of the total pension liability in the year ended June 30, 2023. Other amounts reported as deferred outflows/inflows of resources from pension activities are scheduled to be recognized in pension expense as follows:

Year ended		Amount
June 30,		
2023	\$	<u>(18,139,573)</u>
2024		<u>11,363,823</u>
Total	\$	<u><u>(6,775,750)</u></u>

10. OTHER POSTEMPLOYMENT BENEFITS (OPEB)

Employee's Retirement System of the Government of Puerto Rico and its Instrumentalities Medical Insurance Plan Contribution

1. Plan description

General - PBA The Authority provides healthcare benefits to its retirees under two plans: one covered by Collective Bargaining Agreements (CBA) and considered a single-employer plan, and the other through the postemployment benefit plan of the Commonwealth of Puerto Rico for retired participants of ERS, a multi-employer plan. Both plans operate on a pay-as-you-go basis. The Plan administered by the Authority Benefits consists of a maximum monthly payment (annuity) to cover medical expenses. Based on the Plan's features and its functions, and for the purpose of the actuarial valuation, it has been identified as a single-employer defined benefit healthcare plan. Participant groups covered are (i) employees under a Collective Labor Agreement with "Union Independiente de Empleados de la Autoridad de Edificios Públicos" (UIEAEP), and (2) the Authority's management employees.

Benefits provided – The Authority's contribution is limited to \$200 monthly per single retired employee up to a period of thirty-six months (twelve months for managerial employees). This benefit is included in the collective bargaining agreement and will be re-evaluated when the collective bargain agreements are up for renewal. Milliman, an international actuarial and consulting firm (Milliman) provide actuarial estimates for active employees and those employees who retired early. Milliman used a measurement date of June 30, 2023.

Once the postemployment benefits covered by collective bargain agreements expire, the Authority's retirees commence participation in the plan administered by the Commonwealth. Milliman provided actuarial estimates for retirees participating in the plan administered by the Commonwealth. Milliman used a measurement date of June 30, 2022. This group of retirees was not included in prior years' liability for post-employment benefits.

The postemployment benefit plan of the Commonwealth of Puerto Rico covers a payment of up to \$100 per month to the eligible medical insurance plan selected by each member, provided that the member retired prior to July 1, 2013 (Act No. 483, as amended by Act No. 3). The Plan is financed by the Commonwealth through legislative appropriations. However, the Commonwealth claims reimbursements from each employer on a monthly basis for the corresponding amount of the OPEB payments made by the Commonwealth in relation to the retirees associated with each employer. There is no contribution requirement from the plan members during active employment. The retirees contribute the amount of the healthcare insurance premium not covered by the Commonwealth contribution.

Under the leveled benefits provided in each plan, the medical cost increases reside with the retiree and, therefore, result in a lower OPEB liability for the Authority.

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GASB 75 requires participating employers to recognize their proportionate share of the collective total OPEB liability, collective deferred outflows of resources, collective deferred inflows of resources and collective OPEB expense.

Employees covered:

Active members	962
Retirees	<u>93</u>
Total	<u>1,055</u>

OPEB of Commonwealth

Funding - This OPEB Plan is financed by the Commonwealth on a pay-as-you-go basis. The funding of the OPEB benefits is provided to the ERS through legislative appropriations each July 1 by the Commonwealth. The legislative appropriations are considered estimates of the payments to be made by the ERS for the healthcare benefits throughout the year. After benefits are funded, the Commonwealth claims reimbursement from each employer. The Authority's contribution is financed through the monthly PayGo charge. There is no contribution requirement from the plan member during active employment. Retirees contribute the amount of the healthcare insurance premium not covered by the Commonwealth contribution. As a result, these OPEB are 100% unfunded.

The Authority's GASB Statement 75 information for reporting period ending on June 30, 2023, is based on an actuarial valuation report dated February 13, 2024, prepared for ERS by Milliman, Inc.

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2. Significant assumptions

The actuarial valuation was determined using the following actuarial methods and assumptions:

Post-retirement disabled mortality:

The PubG-2010 disabled retiree rates, adjusted by 80% for males and 100% for females, projected using MP-2021 on a generational basis. As a generational table, it reflects mortality improvements both before and after measurement date.

Post-retirement beneficiary mortality:

Prior to the retiree's death, beneficiary mortality is assumed to be the same as the post-retirement retiree mortality. For periods after the retiree's death, the PubG-2010(B) contingent survivor rates, adjusted by 110% for males and 120% for females, projected using MP-2021 on a generational table, it reflects mortality improvements both before and after the measurement date.

3. Changes in Total OPEB liability of OPEB Plan

Changes in total OPEB liability as of June 30, 2023 (measurement date June 30, 2022) was as follows:

SCHEDULE OF CHANGES IN THE TOTAL OPEB LIABILITY

	<u>Amount</u>
Service Cost	\$ -
Interest on total pension liability	274,436
Effect on plan changes	-
Effect on economic/demographic gains or losses	474,519
Effect of assumptions changes or inputs	(1,430,439)
Benefit payments	<u>(684,670)</u>
Net changes in total pension liability	\$ (1,366,154)
Total OPEB-beginning	<u>8,542,590</u>
Total OPEB -ending	<u>\$ 7,176,436</u>

PUBLIC BUILDINGS AUTHORITY
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Sensitivity analysis

The following presents the total OPEB liability calculated using the discount rate of 3.54%, as well as what the total OPEB liability would be if it was calculated using a discount rate that is 1 percentage point lower (2.54%) or 1 percentage point higher (4.54%) than the current rate:

	<u>2.54%</u>	<u>3.54%</u>	<u>4.54%</u>
The Authority's proportionate share of OPEB liability	\$ <u>7,811,267</u>	\$ <u>7,176,436</u>	\$ <u>6,630,755</u>

4. OPEB expense

Following are the components of the Authority's OPEB expense recognized in the accompanying statement of activities for the year ended June 30, 2023 (measurement period ending July 1, 2023):

	<u>Amount</u>
Service cost	\$ -
Interest on total OPEB liability	274,436
Recognition of deferred inflows/outflows of resources	-
Effect of economic/demographic gains and losses	474,519
Effect of assumptions changes or inputs	<u>(1,430,439)</u>
OPEB expense	\$ <u>(681,484)</u>

5. Deferred Outflow of Resources related to OPEB

Deferred outflow resources related to OPEB pension activities reported by the Authority in the statement of net position as of June 30, 2023 (measurement date as of June 30, 2022) follows:

	<u>Deferred Outflows of Resources</u>
Benefits payments subsequent to measurement date (approximately)	<u>\$ 650,000</u>

Deferred outflows of resources related to pensions resulting from the payment of benefits subsequent to the measurement date of June 30, 2022 (year ended June 30, 2023) were \$684,669 and will be recognized as a reduction of the total OPEB liability in the year ended June 30, 2023. Because all participants of ERS-OPEB are inactive, there are no deferred outflows or inflows of resources for changes in actuarial assumptions, economic or demographic gains and losses, and changes in proportionate share since these factors are recognized immediately during the measurement year.

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Actuarial assumptions (CBA)

Discount rate – The discount rate for June 30, 2023, was 3.54%. This represents the municipal bond return rate as chosen by the Commonwealth. The source is the Bond Buyer GO 20-Bond Municipal Bond Index, which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher.

Salary increases – 3% per year. No compensation increases were assumed until June 30, 2022 as a result of the Act 3-2017 four year extension of the Act 66-2014 salary freeze and the current general economy.

Monthly reimbursement benefit - All eligible future retirees are assumed to receive the maximum monthly reimbursement. The monthly reimbursement for current retirees was assumed to remain at the current level.

Termination – Withdrawal rates vary by employment category, age and service.

Retirement – Rates of retirement vary by employment category, age, and service, and whether the member was eligible to retire as of June 30, 2013 for Act 447, Act 1, and System 2000 members.

Disability – Rates are 75% of the six-month elimination period rates in the 1987 Commissioners Group Disability Table. Rate cease upon eligibility for retirement.

Mortality – All mortality rates are projected on generational basis using the mortality improvement scale MP-2021. As a generational table, it reflects mortality improvements both before and after the measurement date.

Preretirement – PubG.H-2010 Employee Mortality Rates for males and females.

Postretirement Healthy Lives – PubG.H-2010 Retiree Mortality Rates for males and females.

Basis for salary increase and demographic assumptions – Except for the mortality assumptions, the assumptions described earlier are those utilized in the actuarial valuation of the Puerto Rico Government Employees Retirement System for Act 447, Act 1, System 2000 and Act 3 members. The Act 3 members' assumptions were also used for Act 106 members (who participant in the governmental defined contribution plan). As Authority employees hired before July 1, 2017 participate in the Puerto Rico Government Employees Retirement System, we believe that using those assumptions provides a reasonable estimate of the Authority's Total OPEB liability. The mortality assumption reflects the Pub-2010 headcount-weighted general mortality tables from the Society of Actuaries study of public plan experience that published in 2020. The mortality improvement scale MP-2021 was published by the Society of Actuaries in the fall of 2011. We believe that using these Pub-2010 mortality tables provide a reasonable estimate of the Authority's Total OPEB liability.

Special Data Adjustments – Service is based on the elapsed time from data of hire to the valuation date. All employees were assumed to be general employees. All retirees were assumed to be eligible for lifetime benefits.

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Sensitivity of Total OPEB Liability to Changes in the Discount Rate

The following presents the collective total allocated OPEB liability of CBA Plan at June 30, 2023, were calculated using the discount rate of 3.65%, respectively, as well as the Plan's total allocated OPEB liability if it were calculated using the discount rate of one percentage point lower (2.65%) or 1 percentage point higher (4.65%), than current rate:

	1% Decrease 2.65%	Discount rate 3.65%	1% Increase 4.65%
Total OPEB liability as of June 30, 2022 (measurement date)	\$ 14,918,575	\$ 12,930,225	\$ 11,278,817

Deferred outflows of resources and deferred inflows of resources

Because all participants of the ERS Plan are inactive, there are no deferred outflows or inflows of resources as changes in actuarial assumptions, economic or demographic gains and losses, and changes in proportionate share are recognized immediately during the measurement year.

	Deferred outflows of resources	Deferred inflows of resources
Differences between actual and expected experience	\$ 866,660	\$ 4,448,264
Changes in assumptions	1,934,743	2,995,348
Total	<u>\$ 2,801,403</u>	<u>\$ 7,443,612</u>

Amounts reported as deferred outflows/inflows of resources from pension activities as of June 30, 2023 will be recognized in the pension expense as follows:

Year ended June 30	Amount
2024	\$ (604,524)
2025	(604,524)
2026	(604,524)
2027	(604,524)
2028	(604,524)
Thereafter	<u>(1,619,589)</u>
Total	<u>\$ (4,642,209)</u>

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OPEB Obligation

The net OPEB obligation change for the years ended June 30, 2023, is as following:

Service cost	\$	331,763
Interest on total OPEB liability		445,703
Effect of economic/demographic gains or losses		258,909
Effect of assumptions changes or inputs		(200,959)
Benefits payment		<u>(325,000)</u>
Net change in total OPEB liability		510,416
Total OPEB liability, beginning		<u>12,419,809</u>
Total OPEB liability, ending	\$	<u><u>12,930,225</u></u>

11. VOLUNTARY TERMINATION BENEFITS

On December 08, 2015, the Commonwealth enacted Act No. 211 to establish a program to eligible employees, as defined of the Commonwealth of Puerto Rico voluntary retire of their employment in an incentivized program until they comply with the requirements to retire.

Act 211 early retirement benefits to eligible employees, as defined, consist of a compensation equivalent to sixty percent (60%) of each employee salary, the liquidation of vacations and sick leave accrued balances, considering the top limit established by Act. No. 66 of 2014. In addition, employees maintain health plan coverage and employer contribution for a maximum term of two (2) years.

On August 23, 2017, the Commonwealth enacted Act No. 106 that repealed Act. No. 211, however, articles 7.1 (a), (b), (c) and (d) of Act No. 106 guarantee all the rights and obligations created under Act No. 211.

At June 30, 2023 the financial impact resulting was the recognition of a liability of approximately \$6.9 million in the balance sheet.

At June 30, 2023, unpaid long-term benefits granted through this program were discounted at 2.73%, depending on the employee voluntary termination benefits selected.

12. CONTINGENT LIABILITIES

- a. Litigation – The Authority is a defendant or co-defendant in various lawsuits for alleged breach of contract and torts in cases related to construction projects. In addition, the Authority is a defendant or co-defendant in other cases related to public liability and labor related matters. Some of the cases related to public liability are covered by insurance.

The Authority, based on legal advice, recorded an adequate provision to cover probable losses on the claims not fully covered by insurance. In the opinion of legal counsel, any liability in excess of insurance coverage and/or the recorded provision that may arise from such claims would not affect the Authority’s financial position or operations.

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Grants - In the normal course of operations, the Authority receives grants from different Federal Agencies. The grant program is subject to audit, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. The expenditures financed by grants are subject to program compliance audits by the grantor and passed-through agencies authority in accordance with the requirements of the U.S. Office of Management and Budget Uniform Guidance 2 CFR Part 200, in order to assure compliance with grant requirements. If expenditures are disallowed due to noncompliance with grant program requirements, the Authority may be required to reimburse the grantor or pass-through agencies. Any liability for reimbursement which may arise as the result of these audits is not believed to be material.

13. CAPITAL AND OTHER COMMITMENTS

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrances outstanding at year end do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year or years.

At June 30, 2023, the Authority's outstanding encumbrances totaled \$5.5 million principally for capital expenditures (\$ 3.1 million) and maintenance and repairs activities (\$2.4 million).

14. SUBSEQUENTS EVENTS

The Authority has evaluated subsequent events through June 11, 2024, which is the date the financial statements were available to be issued. The Public Building Authority is not aware of any subsequent events that require adjustment or disclosure in the financial statements or its related notes.

REQUIRED SUPPLEMENTARY INFORMATION

PUBLIC BUILDINGS AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
SCHEDULE OF CHANGES IN TOTAL PENSION LIABILITY AND RELATED RATIOS
FOR THE YEAR ENDED JUNE 30, 2023

	2022	2021	2020	2019	2018
Proportion of the Collective Total Pension Liability	<u>1.59523%</u>	<u>1.65574%</u>	<u>1.64705%</u>	<u>1.64722%</u>	<u>1.66054%</u>
Proportinate Share of the Collective Total Pension Liability	<u>\$ 353,383,868</u>	<u>\$ 450,101,356</u>	<u>\$ 462,323,819</u>	<u>\$ 409,341,038</u>	<u>\$ 406,659,098</u>

Notes:

1. On August 23, 2017, the Governor of the Commonwealth signed into law the Act to Guarantee the Payment to Our Pensioners and Establish New Plan Defined Contributions for Public Servants (Act No. 106-2017). Act No 106-2017 established the pay as you go mechanism effective July 1, 2017 for all the Commonwealth's pension plans. Accordingly, no assets are accumulated in a qualifying trust.

In the revised June 30, 2023 actuarial valuation, there was an increase relating to the discount rate from 2.16 % in 2022 to 3.54% in 2023.

2. The amounts presented in the Schedules were prepared in accordance with U.S. generally accepted accounting principles. The numbers were derived from valuation and actuarial reports. The full reports are available by the Employees' Retirement System. Such preparation requires management of ERS to make a number of estimates and assumptions relating to the reported amounts. Due to the inherent nature of these estimates, actual results could differ from those estimates.

3. The total pension liability as of June 30, 2023 was measured as of June 30, 2022 and was determined by an actuarial valuation with beginning-of-year census data as of July 1, 2020 that was updated to roll forward the total pension liability to June 30, 2022 and assuming no gains or losses.

4. The information presented relates solely to the Authority and not to the Employee's Retirement System of the Government of the Commonwealth of Puerto Rico as a whole.

5. This information is intended to help users assess the Authority's pension plan's status on a going-concern basis, assess progress made in accumulating assets to pay benefits when due, and make comparisons with other public employers.

This schedule is required to illustrate 10-years of information. However, until a 10-years trend has been completed, information is presented only for the years for which the required supplementary information is available.

PUBLIC BUILDINGS AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
SCHEDULE OF CHANGES IN TOTAL OTHER POST EMPLOYMENT BENEFIT (OPEB) LIABILITY AND RELATED RATIOS
FOR THE YEAR ENDED JUNE 30, 2023

	2022	2021	2020	2019	2018
Proportion of the Collective Total Pension Liability	<u>1.03169%</u>	<u>1.07034%</u>	<u>1.03501%</u>	<u>1.03440%</u>	<u>1.05174%</u>
Proportinate Share of the Collective Total Pension Liability	<u>7,176,476</u>	<u>\$8,542,590</u>	<u>\$9,052,527</u>	<u>\$8,608,602</u>	<u>\$8,857,277</u>

Notes:

1. On August 23, 2017, the Governor of the Commonwealth signed into law the Act to Guarantee the Payment to Our Pensioners and Establish New Plan Defined Contributions for Public Servants (Act No. 106-2017). Act No 106-2017 established the pay as you go mechanism effective July 1, 2017 for all the Commonwealth's pension plans. Accordingly, no assets are accumulated in a qualifying trust.

In the revised June 30, 2022 actuarial valuation, there was an increase relating to the discount rate from 2.16 % in 2021 to 3.54 % in 2022.

2. The amounts presented in the Schedules were prepared in accordance with U.S. generally accepted accounting principles. The numbers were derived from valuation and actuarial reports. The full reports are available by the Employees' Retirement System. Such preparation requires management of ERS to make a number of estimates and assumptions relating to the reported amounts. Due to the inherent nature of these estimates, actual results could differ from those estimates.

3. The OPEB liability as of June 30, 2023 was measured as of June 30, 2022 and was determined by an actuarial valuation with beginning-of-year census data as of July 1, 2021 that was updated to roll forward the total pension liability to June 30, 2022 and assuming no gains or losses.

4. The information presented relates solely to the Authority and not to the Employee's Retirement System of the Government of the Commonwealth of Puerto Rico as a whole.

5. This information is intended to help users assess the Authority's OPEB plan's status on a going-concern basis, assess progress made in accumulating assets to pay benefits when due, and make comparisons with other public employers.

This schedule is required to illustrate 10-years of information. However, until 10-year trend has been completed, information is presented only for the years for which the required supplementary information is available.

PUBLIC BUILDINGS AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
SCHEDULE OF CHANGES IN TOTAL OTHER POST EMPLOYMENT BENEFIT (OPEB) LIABILITY AND RELATED RATIOS
FOR THE YEAR ENDED JUNE 30, 2023

	2023	2022	2021	2020	2019	2018	2017
Total OPEB Liability							
Service cost	\$ 331,763	\$ 467,741	\$ 482,727	\$ 344,231	\$ 310,819	\$ 709,728	\$ 895,113
Interest on total OPEB liability	445,703	324,965	300,956	373,652	659,520	610,136	520,844
Effect of plan changes	-	-	-	-	-	-	-
Effect of economic/demographic gains or (losses)	258,909	-	871,257	-	7,625,578	(17)	(4,633,911)
Effect of assumption changes or inputs	(200,959)	(2,790,460)	65,616	2,319,550	583,986	(821,223)	448,893
Benefit payments	<u>(325,000)</u>	<u>(314,000)</u>	<u>(241,000)</u>	<u>(226,000)</u>	<u>(168,600)</u>	<u>(106,448)</u>	<u>(153,054)</u>
Net change in total OPEB liability	510,416	(2,311,754)	1,479,556	2,811,433	9,011,303	392,176	(2,922,115)
Total OPEB liability, beginning	<u>12,419,809</u>	<u>14,734,563</u>	<u>12,355,007</u>	<u>10,443,574</u>	<u>16,683,427</u>	<u>16,291,251</u>	<u>19,213,366</u>
Total OPEB liability, ending (a)	<u>12,930,225</u>	<u>12,419,809</u>	<u>14,734,563</u>	<u>12,355,007</u>	<u>10,443,574</u>	<u>16,683,427</u>	<u>16,291,251</u>
Covered payroll	\$ 32,883,519	\$ 34,644,369	\$ 34,644,369	\$ 34,924,579	\$ 34,924,579	\$ 26,997,294	\$ 26,997,294
Total OPEB liability as a % of covered payroll	39.32%	35.85%	42.53%	37.95%	29.90%	61.80%	60.34%

Notes:

1. The above information represents the Authority's Collectively Bargaining Agreements OPEB liabilities. The OPEB plan is a single employer OPEB plan. The amounts presented in the Schedules were prepared in accordance with U.S. generally accepted accounting principles. The numbers were derived from valuation and actuarial reports. Due to the inherent nature of these estimates, actual results could differ from those estimates.
2. The OPEB liability as of June 30, 2023 was measured as of July 1, 2023 and was determined by an actuarial valuation with beginning-of-year census data as of July 1, 2022 that was updated to roll forward the total pension liability to June 30, 2023 and assuming no gains or losses.
3. This schedule is required to illustrate 10 years of information. However, until 10-years trend has been completed, information is presented only for the years for which the required supplementary information is available.