

**FINANCIAL OVERSIGHT AND MANAGEMENT BOARD
FOR PUERTO RICO**



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BY ELECTRONIC MAIL

August 27, 2018

Mr. Raul Maldonado
Chief Financial Officer
La Fortaleza
San Juan, PR 00902

Dear Mr. Maldonado:

In accordance with the contract review policy of the Financial Oversight and Management Board for Puerto Rico (“FOMB”) established pursuant to Section 204(b)(2) of PROMESA, we have reviewed the contracts for Advertisement, Representation or Artistic Services (the “Contracts”) between each of the Department of Treasury^[1], Authority for the Convention District^[2], the Economic Development Bank^[3] and the Commission for the Transit Security^[4] (collectively “the Agencies”) and KOI Americas, LLC (“KOI”).

After reviewing the Contracts, the FOMB concludes “Approved with Observations” because the FOMB has identified areas of risk that may require action from the Agencies. It is Agencies’ responsibility to take corrective action based on the observations provided and proceed with the Contracts as it sees fit. Observations related to the Contracts’ alignment with the Fiscal Plan are set forth in the Appendix A attached hereto.

Please note that our review is solely limited to the compliance of the Contracts with the applicable fiscal plan and no other matters. For the avoidance of doubt, the review performed by the FOMB does not cover a legal review of the contractual documentation or the contracting process, including without limitation: (i) compliance with contracting requirements under applicable laws, rules, and regulations, both federal and local and (ii) compliance with applicable laws, rules, and regulations governing procurement activities, both federal and local. In addition, the FOMB has not engaged in any due diligence or background check with respect to the contracting parties nor

^[1] Contracts 2019-000055, 2019-000090 and 2019-000091.

^[2] Contract 2019-000007.

^[3] Contract 2019-000034.

^[4] 2018-000048.

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whether the contracting parties comply with the requirements under the applicable contract. Any material change to the Contracts must be submitted beforehand to the FOMB for its review.

This letter is delivered as of the date hereof and we reserve the right to provide additional observations and modify this letter based on information not available when the review was conducted.

This letter is issued only to the Agencies and solely with respect to the Contracts.

Sincerely,

A handwritten signature in black ink, appearing to read "Jaime A. El Koury". The signature is stylized with a large initial "J" and a long, sweeping underline.

Jaime A. El Koury
General Counsel

CC: Christian Sobrino Vega
José Marrero Rosado
Claudia Pérez Rolón
Francisco Peña Montañez

Appendix A

Various – KOI LLC

Fiscal Plan Alignment

This review covers the following six contracts between KOI Americas LLC (“KOI”) and the four governmental entities listed below:

- Contract #2019-002055 – Department of Treasury - \$750,000 for active communication to taxpayers and stakeholders
- Contract #2019-002090 – Department of Treasury - \$2,250,000 for marketing related to the traditional lottery
- Contract #2019-002091 – Department of Treasury - \$7,705,000 for marketing related to the electronic lottery
- Contract #2019-000007 – Authority of the Convention District - \$150,000 for implementing advertising in different markets
- Contract #2019-000034 – Economic Development Bank - \$95,000 for advertising services
- Contract #2019-000048 – Commission for Transit Security - \$1,864,446 for road safety media campaigns

Although the contracts have been executed, we understand that the contracts have been put on hold pending this formal review from FOMB.

The submission from the Commission for Transit Security states that the funds for its contract will come from federal sources. The other contract submissions state that the contracts will be covered under items budgeted for the FY19.

The Fiscal Plan does not go into the level of detail of savings at the cost category level, however, there are operational expenditures (“OPEX”) savings associated with each entity in the FY19 budget, as listed below:

- Department of Treasury - \$9.4M
- Authority of the Convention District - \$1.7M
- Commission for Transit Security - \$0.1M

FOMB requires that these savings targets be met and if savings are not generated through these contracts, they will have to be generated in subsequent contracts and/or other OPEX savings. However, we observe that the OPEX savings measures grow year on year to the following levels:

Department of Treasury – yearly savings target grows on annual basis to: \$16.1M FY20, \$23M FY21, \$23.3M FY22, \$23.5M FY23

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Authority of the Convention District - yearly savings target grows on an annual basis to: \$3.5M FY20, \$5.4M FY21, \$5.5M FY22, \$5.6M FY23

Commission for Transit Security - yearly savings target grows on an annual basis to: \$0.3M FY20, \$0.4M FY21, \$0.4M FY22, \$0.4 FY23

While the listed contracts do not introduce material risk to the Government's ability to satisfy the Fiscal Plan commitments and requirements, the required savings as outlined above will have to be fulfilled.

This contract review was conducted on the basis of information submitted by the Government of the Commonwealth of Puerto Rico. The Financial Oversight and Management Board for Puerto Rico has not independently verified the information included in the submission. Should FOMB become aware of any inaccuracies or misrepresentations – whether intentional or not – it would re-evaluate its assessment.