



U.S. GOVERNMENT ACCOUNTABILITY OFFICE

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August 4, 2025

The Honorable Jeff Hurd
Chairman
Subcommittee on Indian and Insular Affairs
Committee on Natural Resources
House of Representatives

Subject: Responses to Questions for the Record; Hearing Titled "*Puerto Rico's Fiscal Recovery Under PROMESA and the Road Ahead.*"

This letter responds to your July 21, 2025 request that I address questions for the record related to the Subcommittee's July 16 hearing. My responses to the questions are based on GAO's previous work and knowledge on the subjects raised by the questions.

If you have any questions about the responses to your questions or need additional information, please contact me at SagerM@gao.gov.

Michelle Sager
Managing Director, Strategic Issues

Enclosure

Committee on Natural Resources
Subcommittee on Indian and Insular Affairs
Oversight Hearing
1324 Longworth House Office Building
July 16, 2025
10:00 AM

“Puerto Rico’s Fiscal Recovery Under PROMESA and the Road Ahead”

Questions from Rep. Westerman for Ms. Michelle Sager, Managing Director, Strategic Issues, U.S. Government Accountability Office (GAO), Washington, D.C.

1. Based on GAO’s evaluations, has PROMESA achieved its statutory fiscal objectives?

a. Elaborate on what specific benchmarks have been met and where the Financial Oversight and Management Board (FOMB) has fallen short.

Although our work on debt in the U.S. territories examines Puerto Rico’s fiscal status, we have not directly evaluated the Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA) nor the Financial Oversight and Management Board (FOMB).¹ We can make the following observations about Puerto Rico’s debt and fiscal status in recent years:

- As both FOMB and the Puerto Rican government have acknowledged, the certification of the balanced budget for fiscal year 2026 is an important milestone marking enhanced self-directed fiscal discipline within Puerto Rico. FOMB will monitor to determine whether the budget remains balanced by the end of the fiscal year, which would mark the first balanced budget since PROMESA was passed. Four consecutive years of balanced budgets is one of PROMESA’s requirements for termination of FOMB.
- PROMESA also created a legal framework for Puerto Rico to restructure its debt. Under that framework, FOMB has the authority to petition U.S. courts on Puerto Rico’s behalf. The board has used this mechanism to complete a number of significant debt restructurings.
- Beyond reducing the overall debt burden and debt service costs, Puerto Rico’s debt restructurings have also contained reforms that will help enhance fiscal sustainability into the future such as pension benefit reforms and establishing a debt management policy.

¹ GAO, *U.S. Territories: Public Debt Outlook*, [GAO-18-160](#) (Washington, D.C.: Oct 2, 2017); *U.S. Territories: Public Debt Outlook – 2019 Update*, [GAO-19-525](#) (Washington, D.C.: Jun 28, 2019); *U.S. Territories: Public Debt Outlook – 2021 Update*, [GAO-21-508](#) (Washington, D.C.: Jun 30, 2021); *U.S. Territories: Public Debt Outlook – 2023 Update*, [GAO-23-106045](#) (Washington, D.C.: Jun 29, 2023); *U.S. Territories: Public Debt and Economic Outlook – 2025 Update*, [GAO-25-107560](#) (Washington, D.C.: Jun 30, 2025).

- While Puerto Rico has restructured most of its debt, negotiations and litigation over the debt of its electric utility have been ongoing for many years.

2. The last major debt hurdle in Puerto Rico is restructuring the Puerto Rico Electric Power Authority's (PREPA) debt. If a fair and affordable agreement cannot be reached in the PREPA debt restructuring, what risks would the people of Puerto Rico face? What risks does Puerto Rico face if an affordable deal is not reached?

- Our work has emphasized that improving the reliability and cost of Puerto Rico's electricity is critical to attract and retain business and to support sustained economic growth.²
- If a restructuring agreement cannot be met to reduce the Puerto Rico Electric Power Authority's debt burden, electricity rates may need to be raised, investment into the power grid may be further delayed, or both.
- We have also reported that Puerto Rico's residents lose power more often than residents in any state, while the average price of their electricity was about 80 percent higher than the average price in the mainland United States, according to the U.S. Energy Information Administration. GAO has ongoing work on the status of Puerto Rico's electric grid modernization and recovery and what support federal agencies have provided in this effort.

3. How is the FOMB ensuring transparency and accountability in the use of federal funds?

a. Does the GAO believe this data is accurate and up to date?

- We have not evaluated the quality of FOMB's data but note that the board publishes information and analyses of the territory's use of federal funds in various products, including its financial reports (published on a quarterly, mid-year, and full-year basis); the annual Fiscal Plan; and Puerto Rico's annual budget, which FOMB certifies. These are generally up to date – with the most recent versions published or updated since at least June 2024.
- Because they have been reviewed by an independent auditor, we consider the territory's annual audited financial statements to be the most reliable source of information on the territory's finances. The production of these audited financial statements is primarily the responsibility of the Puerto Rico Department of Treasury, other departments and component units, and its independent auditor. The territory's fiscal year 2022 audited financial statements are the most recent available.
- As we emphasized in both our June report and July testimony statement, transparency and the availability of reliable and timely information are key parts of financial accountability. Financial reporting by state and local governments is used for economic, social, and political

² GAO, *Puerto Rico: Fiscal Conditions Have Improved but Risks Remain*, [GAO-25-108629](#) (Washington, D.C.: July 16, 2025)

decisions. Reliable and timely financial statements also provide valuable information to government creditors and investors considering investing in municipal bonds.³

- To examine Puerto Rico’s management of federal awards for our June 2025 report, we reviewed the latest available single audit reports from three Puerto Rico government departments. At the time, current single audit reports, which would have been fiscal year 2024, were not available for two of the three departments. Additionally, all departments received qualified audit opinions on a significant portion of their major federal award programs in prior audits, meaning auditors found serious compliance issues that had a direct and material effect on those programs. Several of these federal award audit findings had remained unresolved for at least two years. Further, the total expenditures questioned by the auditor— known as questioned costs—associated with the most current federal award findings, was close to \$1 million for the three departments we reviewed. While this is a small amount in the context of the territory’s annual budget, these three departments make up a relatively small portion of Puerto Rico’s primary government. If other departments are experiencing federal award management issues, the territory’s total questioned costs could potentially be much higher.

4. What policy levers are available to the Puerto Rican government to improve their own fiscal conditions?

- Our work on the nation’s fiscal health offers some relevant policy options for Puerto Rico. In this work we have discussed the need to develop a strategy to place the federal government on a sustainable fiscal path, with government spending and revenue balanced so that there is a stable or declining ratio of debt held by the public to GDP. Several of the elements of such a strategy could also be employed by Puerto Rico, including establishing fiscal rules and targets to ensure balanced spending and revenue and addressing improper payments and improving fraud risk management. More details on these options are included in our most recent fiscal health report.⁴
- The Puerto Rico government has already taken some steps to improve its fiscal condition. Notably, it adopted a debt management policy in 2022 to help guard against unsustainable borrowing. This policy generally (1) requires that new long-term issuances of tax-supported debt must be for capital improvements or refinancing for savings and (2) specifies that maximum annual tax-supported debt service cost cannot exceed 7.94 percent of the average debt policy revenues from the preceding two fiscal years.
- Additionally, in 2023 the Puerto Rican legislature created the Oficina de Presupuesto de la Asamblea Legislativa (OPAL). This office provides estimates of the fiscal effect of legislative proposals. While this marks an elevated focus on fiscal responsibility, the use of OPAL’s estimates is at the discretion of the legislature. For example, OPAL officials told us that in

³ [GAO-25-107560](#) and [GAO-25-108629](#)

⁴GAO, *The Nation’s Fiscal Health: Strategy Needed as Debt Levels Accelerate*, [GAO-25-107714](#) (Washington, D.C.: Feb. 5, 2025)

fiscal year 2024, 180 laws were enacted without estimates. Greater use of OPAL's analysis could increase fiscal responsibility in the territory.

- Finally, improving its financial management processes and systems will strengthen Puerto Rico's ability to manage its fiscal conditions. The territory continues to be delayed in issuing its audited financial statements and has issues obtaining clean audit opinions. As we have reported in the past, timely and reliable financial reporting is important to ensure territories can make informed debt management decisions and access capital markets if needed. Puerto Rico's independent auditors told us that they expect the territory's implementation of an enterprise resource planning system, an ongoing process, to resolve a significant portion of its issues with financial reporting and internal controls.

5. Based on GAO's work with territories, states and localities, what are your expectations for the effects on Puerto Rico's budget after federal COVID-19 and disaster assistance funding ends?

- In recent years Puerto Rico has received billions of dollars in federal COVID-19 and disaster assistance funding. We reported in June 2025 that government officials attributed the territory's economic growth in recent years in part to this influx of federal funds. The 2024 Fiscal Plan noted that the territory's economic growth over the next several years is highly dependent on the government's ability to fully deploy disaster relief and COVID-19 funding.
- As these funds wind down, the territory will need to focus on supporting economic growth through its own resources.
- Additionally, as the federal disaster and COVID-19 relief funds are expended, Puerto Rico officials will face increased uncertainty in managing and forecasting its budget, as past patterns of spending and revenue may no longer be a good predictor of future cash flows.⁵
- The degree to which the territory's future budgets are affected by the wind down of federal funding will depend in part on the types of projects and programs the funding is supporting. The territory is at a greater risk of a budget imbalance if the funds are used for recurring costs, such as paying for personnel expenses or ongoing programs. We reported in 2023 that according to its Coronavirus State and Local Fiscal Recovery Funds (CSLFRF) Recovery Plan, the Puerto Rico government planned to use the largest share of its CSLFRF allocations to address the budget shortfalls caused by the reduction in government revenue due to the COVID-19 pandemic.⁶

⁵ International Monetary Fund, *Government Cash Management Under Fiscal Stress*, Special Series on Fiscal Policies to Respond to COVID-19 (Apr. 29, 2020).

⁶ GAO, *COVID-19: U.S. Territory Experiences Could Inform Future Federal Relief*, [GAO-23-106050](#) (Washington, D.C.: Sept. 19, 2023).