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August 4, 2025

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

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

Dear Chairman Hurd,

This letter responds to your July 21, 2025, request that I address questions for the record related to the Subcommittee's July 16th hearing. My responses to the questions are based on the Financial Oversight and Management Board for Puerto Rico work and knowledge on the subjects raised by the questions.

If you have any questions about the responses or need additional information, please contact me at (787) 679-0536 or robert.mujica@promesa.gov.

Sincerely,

Robert F. Mujica, Jr.
Executive Director

Enclosure

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

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

**Questions from Rep. Westerman for Mr. Robert F. Mujica Jr., Executive Director,
Financial Oversight and Management Board for Puerto Rico, San Juan, Puerto Rico**

- 1. Since the Financial Oversight and Management Board’s (FOMB) inception in 2016, its goal has been to alleviate debt in Puerto Rico, reopen the island’s access to capital markets, and assist the island in achieving long-term fiscal responsibility. What does the FOMB consider its most significant accomplishment since 2016?**

Puerto Rico today is dramatically different and improved from 2016 when Congress passed and the President signed the Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA)¹ in response to the Puerto Rico debt and fiscal crisis. The Financial Oversight and Management Board for Puerto Rico (Oversight Board) has stabilized the Commonwealth of Puerto Rico’s (Commonwealth) finances and the debt restructuring process under Title III of PROMESA has been the most significant success.

The Oversight Board estimates that it has saved Puerto Rico more than \$72 billion dollars through reduced debt payments in addition to reduced spending by aligning expenses with actual revenues and other cost saving measures and reforms while making fair and affordable payments to creditors.

Puerto Rico’s bankruptcy is the largest and most complex public sector bankruptcy in U.S. history and, when combined with the \$55 billion in unfunded pension liabilities, compares to the largest sovereign bankruptcies in the world. Puerto Rico’s \$73 billion-dollar financial debt was issued by the central government of Puerto Rico and more than a dozen other public and quasi-governmental entities, including Government-controlled essential service utilities whose functions are vital to the lives of Puerto Rico’s residents and to Puerto Rico’s economic recovery and competitiveness.

The Oversight Board completed 12 debt restructurings, reducing \$63 billion in financial debt by almost 60%, to \$27 billion, and eliminating more than \$55 billion in principal and interest payments to creditors over 40 years.

Prior to PROMESA, the unaffordable debt burden compromised Puerto Rico’s ability to provide basic government services. The Commonwealth faced debt service costs of up to \$3.9 billion a year; the Oversight Board cut that to a stable and predictable \$1.15 billion a year. In 2016, the Government needed to dedicate an average of 28 cents of every tax dollar to service debt; while today the amount going to debt service is closer to 6 cents of every dollar.

¹ Pub. L. No. 114-187, 130 Stat. 549 (June 30, 2016).

In addition to its debt obligations, Puerto Rico faced an overwhelmingly large financial burden from its pension obligations for public employees.² The Oversight Board, together with the Government, restructured the Commonwealth's public employee pension systems. When the Oversight Board started in 2016, the Employee Retirement System, Teachers' Retirement System, and Judiciary Retirement System were nearly out of money. The reforms, implemented primarily through the Commonwealth Plan of Adjustment, saved the Government approximately \$5.6 billion without cuts to benefits accrued as of the times of each restructuring.

2. **If the Puerto Rico Electric Power Authority's (PREPA) debt isn't restructured fairly and affordably, what risks would Puerto Rico face?**
 - a. **What would occur if the Board agreed to pay non-consenting bondholders' full demand?**

Puerto Rico has among the highest electricity rates for residential, commercial and industrial consumers in the U.S. and the worst record of electricity service, which is the result of decades of rampant mismanagement, neglect and lack of maintenance and investment by the Puerto Rico Electric Power Authority (PREPA), the government-operated utility. In 2022, Puerto Rico faced 6.6 times more service interruptions than the average U.S. customer, and 7.8 times more interruptions in 2023. Its outages in 2022 were 13.2 times longer than the average mainland U.S. customer, and 12.5 times longer in 2023. Within the past year alone, residents of Puerto Rico have experienced four Island-wide blackouts and countless service interruptions.

A specific group of bondholders (the non-consenting bondholders) is demanding payment in the amount of \$8.5 billion of principal plus years of accrued interest, a total of about \$12 billion – a recovery level grossly above and beyond what PREPA's customers can afford and what is legally defensible. The non-consenting bondholders' demand would require a surcharge of 8 cents per kWh for 50 years on top of the more than 26 cents per kWh Puerto Rico's families and business currently pay for their electricity. Furthermore, PREPA's pension system is insolvent, and pension liabilities total more than \$4 billion. Paying pensions will add another approximately 2 cents per kWh to electricity bills³.

The resulting increases from the payment sought by the non-consenting bondholders would severely overburden PREPA's residential and business customers, likely resulting in customers finding alternatives to the system, including relocating outside of Puerto Rico, and the ultimate collapse of PREPA.

Puerto Rico's families and businesses already pay among the highest electricity rates in the nation for the least reliable electricity service. Sky-high electricity rates would exacerbate outmigration and push more customers off PREPA's grid, reducing revenue even further. A study by the Puerto Rico retailer's association, Centro Unido de Detallistas, notes that current energy costs already present a significant challenge for the private sector in Puerto Rico and economic growth.

² Unfunded pension liabilities are similar to other kinds of debt because they constitute a promise to make a future payment or provide a benefit.

³ <https://energia.pr.gov/wp-content/uploads/sites/7/2025/07/20250731-AP20230003-Resolution-and-Order.pdf>

3. After PREPA's debt restructuring is completed, what are the FOMB's remaining tasks before it can sunset?

Congress defined when the Oversight Board terminates. PROMESA requires that before the Oversight Board ends, the Government and the covered instrumentalities must balance their budgets for at least four consecutive fiscal years in accordance with modified accrual accounting standards⁴, and Puerto Rico must have adequate access to short-term and long-term credit markets at reasonable interest rates.

The Oversight Board's role and responsibility is to assist the Government and the covered instrumentalities to determine what needs to get done to achieve fiscal responsibility, and how to do it. The Oversight Board helps provide the means and methods and works with the Government on its development and implementation, but it is the Government that must execute. That is why fulfilling the conditions for the Oversight Board's termination under Section 209 of PROMESA is, in large part, in the hands of the Puerto Rico Government.

Permanent, institutionalized budget reforms are essential to ensure balanced budgets, as required under PROMESA, and to assist the Government to gain "adequate access to short-term and long-term credit markets at reasonable rates to meet its borrowing needs".

PROMESA's requirement that the Government develop balanced budgets in accordance with modified accrual accounting standards for at least four consecutive fiscal years and that expenditures not exceed revenues provides the critical assurance that, in the absence of the Oversight Board, the Government will pass and maintain balanced budgets and avoid the deficit spending that led to its fiscal crisis.

There has been no systematic move across the Government yet to budget under modified accrual accounting standards. To achieve that, the Government must develop and adhere to uniform timelines for reporting reliable and comprehensive budget and financial planning information. The Government has committed to addressing these deficiencies, as evidenced by the recent issuance of Executive Order (OE-2025-011) to develop responsible budgets and promote the fiscal sustainability of Puerto Rico. This is an important step towards establishing long-term, multiyear financial and capital plans, implementing modified accrual accounting standards, and delivering timely audited financial statements. Its most recent audited government-wide financial statements were from fiscal year 2022.

To meet the requirements of PROMESA, the Government must have "adequate access to short-term and long-term credit markets at reasonable interest rates". Clear, strong, and well executed policies and practices adhering to constitutional debt limits will be required by underwriters, rating agencies and investors in the municipal bond credit markets for Puerto Rico to regain access, particularly for general obligation debt.

In addition to bringing delinquent audited financial statements up to date, accessing credit markets will require the Government to deliver future audited financials on a timely basis, typically within 180 days from the end of the prior fiscal year consistent with industry and Government Finance Officer Association (GFOA) "best practices" guidelines.

⁴ The term "modified accrual accounting standards" means recognizing revenues as they become available and measurable and recognizing expenditures when liabilities are incurred, in each case as defined by the Governmental Accounting Standards Board, in accordance with generally accepted accounting principles.

It is also essential to regaining the credit market access required by PROMESA that the Government demonstrate it can comply with standard municipal securities law requirements, such as filing Continuing Disclosure Agreements (CDA) with dealers and obtaining standard market legal and audit opinions, and that it demonstrate how its outstanding debt, both restructured and new, is actively trading in the municipal market at reasonable levels relative to market indices.

The need to provide clean audit opinions continues to be a challenge for the Government. The Government's fiscal year 2023 and 2024 financial statements are still not available. Additionally, several departments of the Commonwealth's primary government are experiencing recurring audit issues such as findings related to financial reporting and federal awards. Furthermore, timely and reliable financial reporting is critical to the Government making informed debt management decisions.

4. How much (in USD) unfunded legislation has the FOMB blocked?

- a. What are examples of blocked laws?**
- b. What consequences would have occurred if these laws were passed?**

The Government continues its practice of passing laws during the fiscal year that reduce revenues or increase expenditures without identifying ways to pay for that incremental cost.

The Oversight Board disapproved and stopped laws from implementation that would have added at least \$30 billion in increased cost to the Government's budget over the long term. In the absence of the Oversight Board doing so, this legislation would have undermined the fiscally responsible budgets certified by the Oversight Board and led to structural budget deficits, while compromising its fiscal plans and, ultimately, PROMESA's mandate of achieving fiscal responsibility.

In some cases, as described below, after the Oversight Board reviewed and scored proposed legislation, it was able to work with the Government to identify funding to offset the costs of these laws within the certified budget. Nonetheless, for now, only the Oversight Board's presence prevents Puerto Rico from falling back into budget deficits since the fiscal impact of legislation is an afterthought.

Among the laws the Oversight Board had nullified is Act 7 of 2021, which would have reversed the Commonwealth's Title III restructuring's conversion of defined benefit pension plans into defined contribution plans and increased benefits even before Puerto Rico completed restructuring the Commonwealth's debt, under Title III of PROMESA, increasing the Commonwealth pension liabilities by an estimated \$17 billion.

Act 29-2019 would have substantially eliminated the obligation of Puerto Rico's municipalities to reimburse the Commonwealth for hundreds of millions of dollars in pension and health care costs for their own retirees and transferred those costs permanently to the Commonwealth. By nullifying Act 29, the Oversight Board saved the Commonwealth—by the Government's own estimates—well over \$932 million over five years. The law had no sunset provision; so, it would have continued to cost the Commonwealth hundreds of millions of dollars each year while requiring no offsetting savings measures.

Another example of a law blocked by the Oversight Board through court action is Act 41-2022, which would have reversed critical labor market reforms the Government implemented only a few years earlier. This law would have undermined Puerto Rico's labor market and its overall economic competitiveness, leading to fewer jobs, less new investments, higher outmigration, declining economic growth, and lower tax revenues.

In each of these instances, the Oversight Board was forced to file suit against the Government to enforce consistency with its fiscal plans and to block legislation impairing or defeating PROMESA's purposes. The Oversight Board prevailed in each case.

As another example: in 2020, the Government was ready to implement three early retirement laws that the Oversight Board estimated would have cost nearly \$8.3 billion. After initiating litigation, the Oversight Board and Government reached a settlement which, among other things, including a process by which the Oversight Board and the Government reached an agreement permitting the implementation of Act 80-2020 to achieve savings rather than incurring costs.

More recently, Act 10-2024 would have reversed a critical pillar of the energy transformation: a politically independent energy regulator. It was advanced and lobbied heavily by special interests, including a solar finance company that is now in bankruptcy. The U.S. District Court has not yet ruled on the Oversight Board's objection to the law's implementation.

The Oversight Board has also stopped implementation of unfunded legislation by working with the Government. In some instances, after the Oversight Board cited fiscal impact and budget concerns to the Legislature, the Legislature chose not to advance the legislation. In other cases, the Oversight Board's communication of concerns resulted in the Executive to avoid litigation electing not to sign or implement legislation.

For example, in late 2023, only 18 months after emerging from Title III, the Puerto Rico Legislative Assembly passed legislation which would have implemented one of the largest tax cuts in Puerto Rico's recent history without offsetting the revenue loss to the Government budget. Had the bill become law, it would have reduced fiscal year 2024 tax revenue year by approximately \$750 million and approximately \$500 million or more every year thereafter. The Oversight Board worked with then Governor Pedro R. Pierluisi and the Legislature on responsible tax relief within the parameters of the Government's already established spending priorities, in the form of a one-time cash transfer to residents with a taxable income of \$250,000 or less a year.

In the area of procurement, the Oversight Board worked to stop the implementation of legislation that would loosen requirements for competitive bidding for municipalities. The law would reverse some of the progress made to improve government procurement in Puerto Rico. It would reduce the number of contracts subject to competitive bidding, raise the thresholds for municipal no-bid purchases, eliminate oversight by municipal legislatures for most contracts, and grant mayors discretion to permit contracts that violate the law to remain in effect.

This law would raise the threshold that would require a competitive procurement to levels higher than the federal government and the majority of U.S. states. This legislation would create less market competition and allow for direct awards with no required competitive process.

The legislation was passed by the legislature and signed into law. After the Oversight Board raised concerns and explained that this was inconsistent with the PROMESA objective to promote market competition and was also inconsistent with procurement practices across the nation, the

Government agreed to not implement the law. Unless this law is repealed, there is still a risk of it being implemented at some future date.

5. Puerto Rico had a long history of structural deficits before PROMESA. What specific budget reforms has the FOMB suggested to prevent future deficits?

a. How can these reforms be made permanent before the FOMB sunsets?

Before the enactment of PROMESA, Puerto Rico's central Government faced unsustainable debt service costs of up to \$3.9 billion annually. In 2016, nearly 28 cents of every tax dollar was allocated to servicing debt, severely limiting the Government's ability to fund essential services.

A key driver of Puerto Rico's financial crisis was chronic overspending, with the Government consistently spending more than it collected in revenue for over 16 consecutive years. Persistent structural deficits were due to deficient and outdated information systems, operational processes and governance controls coupled with unsound policy decisions. These deficiencies resulted in unreliable financial information and lack of transparency for the financial markets and the people of Puerto Rico.

Between 2004 and 2014, the general fund deficit reached as high as 30% of revenues and by June 2016, the Government's cash reserves had declined to only \$244 million. Compounding this fiscal mismanagement, Puerto Rico endured a long economic recession, with more than 300,000 residents leaving the Island between 2006 and 2016 in search of better opportunities. By 2017, the Island's unemployment rate had surged to 10%, and its labor force participation had dropped to just 40%.

To address this crisis, PROMESA established the Oversight Board to oversee fiscal plans and budgets, ensuring Government spending aligns with available revenues. Together with Puerto Rico's Government, the Oversight Board works towards PROMESA's mandate to balance budgets, eliminate structural deficits, and ensure funding for essential services, including public pensions. Since its inception in 2016, the Oversight Board has been instrumental in managing over \$130 billion in financial debt and unfunded pension liabilities while stabilizing debt service costs and restoring fiscal order. As part of its long-term recovery strategy, the Oversight Board in recent years has recommended a series of reforms to prevent future deficits, including:

- Developing detailed multi-year forecasts, including projections of outyear gaps between revenues and expenditures, available reserves, and performing an assessment of risks
- Establishing a consensus-based economic and revenue forecasting process, led by the Government, to underpin annual budget and planning
- Creating an independent, permanent budget entity responsible for reviewing, analyzing, and reporting on proposed and adopted budgets, quarterly updates, and budget modifications.
- Implementing a clearly defined budget execution and reporting process, with structured analysis, stakeholder participation, and decision-making protocols.
- Investing in capacity building within budget agencies, ensuring staff are well-trained, focused on risk-limiting tasks, and aligned with broader fiscal objectives.

In addition, the Oversight Board believes that completing the implementation of a Government Enterprise Resource Planning (ERP) system will address several identified deficiencies. The Government has attempted to implement this ERP system for the past five years. It is of utmost importance for the Government to prioritize and operationalize ERP for all agencies, instrumentalities and public corporations, as this will:

- Centralize, improve, and standardize processes that support and contribute to the accuracy and timeliness of financial information
- Support informed, better decision making
- Orchestrate integration across agencies, and
- Assist the Commonwealth in completing audited financial statements in a timely manner.

To ensure these budget reforms are sustained after the Oversight Board's mandate ends, the Government must institutionalize those changes through legal and operational mechanisms. For example, the Oversight Board stands ready to support the Government of Puerto Rico to reform the budgeting process by developing and enacting legislation that embeds best practices followed in other states such as budget and forecasting timelines, requirements for the Governor's budget submission and financial plan, and an effective itemized appropriation structure with detailed specified dollar amount of budget authority for all the items within the account and by all funds.

The Puerto Rico legislative process also needs reform. The Government must end its practice of considering and passing legislation without any estimate and regard as to its cost and budgetary impact. In a major step forward toward curbing this practice, the Legislature created the Budget Office of the Legislative Assembly (OPAL) in 2023, a requirement of the Fiscal Plan for Puerto Rico. This non-partisan office within the Legislative Assembly is tasked with producing fiscal analyses and scoring legislative measures, similar to the function of the Congressional Budget Office. OPAL scores many bills with a potential fiscal impact but not all. The Oversight Board is encouraging the Puerto Rico House and Senate Leadership to ensure OPAL is fully utilized and provides the legislators and the public with informative, objective, and comprehensive analyses of pending legislation before the Legislature. The Oversight Board is closely monitoring the integration of OPAL into the legislative process.

6. How, if at all, can Congress help the Board meet its statutory obligations?

The Oversight Board urges Congress and the Administration to maintain and expedite expenditure of the emergency disaster aid for Puerto Rico, which has already been authorized and appropriated by Congress. The disaster aid funds are needed to make progress towards repairing the power grid and provide desperately needed stability to the electric power in Puerto Rico. Reliable electricity is foundational for a healthy economy and economic development.

Additionally, the Oversight Board continues to advocate for a long-term statutory Medicaid program solution to mitigate the uncertainty in federal funding for healthcare in Puerto Rico. Previous legislative actions to avoid the "Medicaid cliff" have increased funding. However, they have not provided a long-term or sustainable solution for Puerto Rico. A sustainable solution is important to enable responsible long-term fiscal planning and a predictable budget process.

Current Medicaid temporary funding authorization for Medicaid creates significant uncertainty and budget risk.

The Oversight Board also recommends Congress support a Jones Act waiver to ease the shipment of goods from the U.S. mainland to the island of Puerto Rico, specifically a Jones Act waiver for the shipment of Liquefied Natural Gas (LNG) within the U.S., allowing for the use of foreign-flag and crewed vessels while American Jones Act-qualified carriers are built. Puerto Rico is currently forced to buy much of their LNG from foreign suppliers to meet its energy needs. Thus, this waiver would promote market competition by giving Puerto Rico more access to competitively priced LNG from U.S. sources.

In its Annual Report to the Administration and Congress, the Oversight Board continues to outline federal policy recommendations that the Oversight Board believes will enhance Puerto Rico's economic and social stability by aligning local requirements for federal support with that of the mainland and advance collaboration between Puerto Rico and the federal government. The Annual Report also identifies legislation proposed by Congress for which the Oversight Board has expressed support.

The Oversight Board will also continue to provide data and analysis in response to requests by Members of Congress, Congressional Committees and the Administration to assist with their efforts to make informed decisions on pending policy matters impacting Puerto Rico and the work of the Oversight Board.

The Oversight Board will continue to ensure Congress is informed about the Oversight Board's work and progress. The Oversight Board should not terminate prematurely without completion of the work Congress started in PROMESA and expects to be concluded to ensure Puerto Rico never faces again the risk of bankruptcy.

7. **According to recent media and watchdog reports, the FOMB has spent more than \$2 billion on legal fees and consulting services since 2016. These figures do not include full-time staff salaries. These costs, which are paid by Puerto Rico's taxpayers, have been called into question by various stakeholders. What is the FOMB doing to control operating costs including consultants and legal fees?**
- a. **What are the current costs for third-party consultants and legal services?**
 - b. **How much has been spent since 2016?**
 - c. **What are current staff costs?**
 - d. **How many full-time and part-time staff does the Board currently employ?**

When, PROMESA was enacted, Puerto Rico faced an unsustainable burden of more than \$73 billion in debt and more than \$55 billion in unfunded pension liabilities. The Government needed to dedicate an average of 28 cents of every tax dollar to service debt, severely compromising its ability to fund basic services. The Government had spent more than it collected in revenues every year for at least 16 consecutive years. Between 2004 and 2014, Government spending exceeded general fund revenues by double digits and peaked at a 30% general fund deficit. In June 2016, when Congress passed PROMESA, the Government held only \$244 million in its central cash accounts, less than two weeks of general fund expenses. There was no ability for Puerto Rico to pay its debts while continuing to fund essential services and virtually no responsible financial management structure.

The financial costs of Puerto Rico's bankruptcy-like process and path to fiscal responsibility have been considerable but ultimately a fraction of the savings achieved by the Oversight Board through the restructuring of billions of dollars of debt and right sizing Government expenditures.

The Oversight Board estimates that, so far, it has saved Puerto Rico more than \$72 billion dollars in debt payments in addition to reduced spending.

The Oversight Board completed 12 debt restructurings, reducing \$63 billion in financial debt by almost 60% and eliminating more than \$55 billion in payments to creditors due over 40 years. The Government now dedicates around 6 cents of every tax dollar to service debt, allowing for significant investments in services and infrastructure. In addition, the Oversight Board estimates that it has saved Puerto Rico billions of dollars by aligning expenses with revenues.

Financial Oversight and Management Board of Puerto Rico Operations

The Oversight Board is an independent entity within the Puerto Rico Government, not an agency, department, establishment or instrumentality of the federal Government.⁵

- The Oversight Board's expenses are monitored by the Oversight Board's own independent fee examiner, who reviews non-Title III expenses and post-effective date work, such as third-party professional and legal support for budget and fiscal plans. This independent review is guided by the standards set forth by PROMESA §316, which mirror, for the most part, standards under sections 330 and 331 of Title 11 of the United States Code (the "Bankruptcy Code").
- In addition, the Oversight Board reviews its advisor contracts and operations expenses annually to reduce costs and ensure alignment with the mandate of PROMESA.
- **Operating Budget.** The Oversight Board's operating budget has remained virtually unchanged since its inception. For fiscal year 2025, the Oversight Board's budget amounts to approximately \$59.4 million. This amount has been budgeted consistently over the past nine years; in most years the Oversight Board has underspent. Current staffing is comprised of 98 full-time employees, virtually all residents of Puerto Rico. The operating budget includes \$10.1 million in payroll and employee benefit costs. Of the total, \$49 million is allocated to legal services (~\$2.8million), professional services (~\$35 million), and other administrative expenses (\$2.7 million), with a surplus of \$8.8 million. The Oversight Board's independent auditors are in the process of completing the financial statements for fiscal year 2025, which ended on June 30, 2025. Pursuant to PROMESA § 107(a), the Oversight Board submits a budget for each fiscal year of operations to the President, the House of Representatives Committee on Natural Resources and the

⁵ PROMESA § 101(c).

Senate Committee on Energy and Natural Resources, the Governor of Puerto Rico, and the Puerto Rico Legislature.

Government and Government Entities -- PROMESA Related Expenditures

During the period of July 2016 to June 2025 the Government of Puerto Rico and its instrumentalities spent \$300 billion in combined general funds, special revenue funds, and federal funds. Spending related to PROMESA represents less than 1% of expenditures by the Government and covered instrumentalities during this period, and less than the debt service for one year of the Commonwealth alone before PROMESA. Over 40% of these costs were incurred by the Government of Puerto Rico or other non-Oversight Board entities.

The actions of the Oversight Board have resulted in over \$72 billion in savings to Puerto Rico taxpayers.

- **Title III Expenditures.** The total Oversight Board fees related to support Title III debt restructuring expenses is about \$850 million since 2016. In addition, the Government of Puerto Rico and other entities not subject to Oversight Board approval or oversight spent about \$600 million on advisors and consultants during this period. These entities include the Committee of Retired Employees, the Official Committee of Unsecured Creditors, and the court appointed mediators.

In total fees approved by the court examiner are \$1.5 billion as of July 2025, less than 1% of the \$300 billion in combined spending by the Government and the covered instrumentalities over the same period.

- **Title III Expenditure Accountability.** An examiner appointed by the U.S. District Court reviews each expense claim filed by consultants and vendors related to the restructuring and reform process within the scope of PROMESA, including the cost incurred by the Oversight Board's legal and financial advisors, the Government of Puerto Rico's legal and financial advisors, the Committee of Retired Employees' advisors and legal cost, for the Official Committee of Unsecured Creditors' advisors and legal cost and the expenses of the court appointed mediators and their advisors.

Government and Oversight Board - Expenditures Post Completion of the Commonwealth Plan of Adjustment

- A significant portion of both the Oversight Board's and the Government's costs are the result of avoidable litigation necessitated by previous Governments' enactment of legislation (e.g., Act 80-2020, Act 82-2020, Act 7-2021) that the U.S. District Court ruled were contrary to PROMESA.
- The Oversight Board's overall annual expenses declined substantially since the completion of the 12 debt restructurings, from around \$250 million at the peak in fiscal year 2021 to around \$85 million in fiscal year 2024 across all budgets. For the Government's annual expenses, it is difficult to obtain a similar accounting due to the disbursed nature of related expenditures across multiple budgets.

8. What does the Government of Puerto Rico need to do to continue the momentum to secure-long-lasting, sound financial management?

a. Is Puerto Rico's Government embedding fiscal controls into its governance structure, or are they relying on the FOMB?

Successful implementation of PROMESA's mandate requires the Oversight Board and the Government of Puerto Rico to work together. While the Oversight Board has played a central and critical role in promoting fiscal discipline through oversight, enforcement of fiscal plans and the development of budgets, it lacks direct enforcement mechanisms and cannot carry out reforms independently.

For instance, in 2020 the Oversight Board started working together with the Government to improve the process of recording and compensating Government employees for their time worked. The Oversight Board and the Government collaboratively implemented automated Time and Attendance (T&A) systems connected to payroll in many Government entities to ensure only employees who work are paid. This initiative served as a critical mechanism for fiscal accountability and responsibility.

The Government must continue to collaborate closely with the Oversight Board to implement permanent fiscal controls and sound financial management. Such cooperation and commitment of Government leadership, particularly in areas outside the Oversight Board's direct control, such as the timely preparation of audited financial statements, is key to continued progress. It is critical that the current administration recognize the urgency of partnering with the Oversight Board to institutionalize transparent, accountable fiscal practices. This includes building on initiatives like budget reform which will enhance fiscal responsibility in key areas such as:

- Fiscal Planning and Risk Management— developing and adhering to long-term financial plans including risk management strategies.
- Transparency – preparing consistent quarterly reports and ensuring accountability through regular updates on financial performance

To ensure these budget reforms are sustained after the Oversight Board's mandate ends, the Government must institutionalize them through legal and operational mechanisms. In addition, the Oversight Board is encouraging the Puerto Rico House and Senate Leadership to ensure OPAL is fully utilized and provides legislators and the public with informative, objective, and comprehensive analyses of pending legislation and other matters before the Legislature.

By the time the Oversight Board terminates, the Puerto Rico Government must be able to enact and maintain a balanced budget throughout the fiscal year. The Oversight Board has identified several key constraints that continue to hinder the Government's ability to produce and manage a structurally balanced budget:

9. On June 25, 2025, the Gonzalez-Colon administration signed the first FOMB certified balanced budget into Puerto Rico. What, if anything, stands in the way of continued balanced budgets for Puerto Rico?

Transitioning the territorial government's budget process to a modified accrual basis is required to comply with PROMESA Section 209. The Government's historical approach—cash

accounting—enabled Puerto Rico to overspend and accumulate unsustainable levels of debt which led to the crisis. While the Government has made some progress, it continues to have financial management and reporting issues.

The fiscal year 2026 consolidated budget for the Commonwealth was developed jointly by the Oversight Board, the administration of Governor Jenniffer González Colón, and the Legislative Assembly under cash accounting. This budget could qualify as the first of four consecutive balanced budgets for the Commonwealth under PROMESA, if the Commonwealth's auditors determine it is balanced at the end of the fiscal year under modified accrual accounting standards.

Notwithstanding that Puerto Rico started the fiscal year with a certified budget compliant with the Fiscal Plan, for now only the Oversight Board's presence prevents Puerto Rico from falling back into budget deficits. By the time the Oversight Board terminates, the Government must be able to pass and maintain a balanced budget—throughout the entire budget year through close out of the timely audited financial statements.

The Commonwealth government bears the responsibility for completing the work necessary to meet balanced budget requirements. The Government will have to adopt and institutionalize financial practices and fiscal management reforms such as, economic and revenue forecast modeling, consolidated and enforceable budget development calendar, accurate tracking of receipts and agency spending, among other things.

Furthermore, PROMESA Section 209 requires the Government “has developed its budget in accordance with modified accrual accounting standards”. This has not occurred to date. Permanent financial discipline is required by the Government.

10. What challenges has Puerto Rico faced in its attempts to secure a long-term gas supply contract via a public and competitive process?

The Puerto Rico Energy Bureau (PREB) is currently evaluating site conversions (commonly referred to as ‘fuel swaps’) to determine the number of units that can reliably operate on natural gas. The private operator of Puerto Rico's power plants, Genera PR, formally presented those potential fuel swaps to PREB, but until these proposals are fully approved and operational, it remains difficult to determine liquid natural gas (LNG) volumes with confidence. Planning for long-term LNG volumes under these conditions would be essentially speculative.

In parallel, the Integrated Resource Plan (IRP) review process at PREB is ongoing. The IRP is a long-term strategic roadmap that utilities use to plan for future energy needs. Without a finalized plan, Puerto Rico's long-term fuel mix and capacity requirements remain uncertain, making it difficult to attract serious competition to a large LNG procurement.

Furthermore, the Jones Act requires that only U.S. built, crewed, and registered ships are allowed to unload cargo from U.S. ports in Puerto Rico. Until recently there were virtually no operational LNG tankers compliant with the Jones Act, making the bulk transport of U.S. LNG (the largest exporter of LNG in the world) to Puerto Rico very limited and expensive.⁶ This means that a significant portion of the LNG that might come from U.S. LNG exporters is not available to Puerto Rico and thus Puerto Rico must resort to more expensive foreign exports.

⁶ In 2025 an exception allows for foreign-built tankers constructed before October 1996 to transport LNG if they U.S. flagged, crewed, and owned. This allowed one 31-year-old vessel to operate.

Additionally, logistical challenges hinder procurement efforts:

- A single fuel supplier has exclusive access to the San Juan port, limiting competition.
- LNG storage and regasification capacity on the Island are insufficient; and, without new port facilities including large-scale regasification infrastructure and storage deliveries will require significant trucking and handling times.

Questions from Rep. Nydia M. Velazquez for Mr. Robert F. Mujica Jr., Executive Director, Financial Oversight and Management Board for Puerto Rico, San Juan, Puerto Rico

- 1. Analyses carried out by the Citizen Commission for the Comprehensive Audit of Public Credit indicate that, although the bankruptcy judicial process is soon to be completed, the Board does not plan to leave voluntarily, at least in the next 6 years or until 2030. It is a fact that the Board has interpreted section 209 in an expansive manner, which can perpetuate its functions for many years, as can be seen from the 2024 Fiscal Plan.**

As a mechanism of transparency and accountability, can you confirm that the Board will develop a separate document that clearly outlines all the requirements that must be met for the Board to cease its operations in Puerto Rico? Can the Board guarantee that it will inform the public of the progress of covered entities against these criteria through a digital dashboard that remains available until the Board's exit?

The Oversight Board has, in its annual report and public communication, outlined generally and in some detail the parameters for its termination, but it is committed to developing a separate, public report that outlines in greater detail all requirements for termination.

To provide Congress, the public and other stakeholders the ability to view details and track its work and progress, the Oversight Board is committed to public transparency carefully balanced with effective means to provide accurate and periodic updates on progress.

- 2. On July 9, 2025, the FOMB notified its decision to not approve the proposed contract between Genera PR and NF Energía, a subsidiary of New Fortress Energy (NFE), for the provision of liquefied natural gas due to various concerns. In such a notification, the FOMB stressed that it did not review or approve the 2018 contract which granted NFE exclusive rights over gas supply and critical delivery infrastructure. Yet the FOMB's records show that it reviewed and approved the previous gas supply contract with NFE for \$1.5 billion for a 5-year period on March 4, 2019 and the purchase of temporary generators from NFE for over \$300 million on March 15, 2024. Even more concerning, on December 28, 2022, the FOMB ignored many red flags to approve the contract which handed over the administration of Puerto Rico's power plants, including the procurement of fuel and the creation of a Fuel Optimization Plan, to Genera PR, another subsidiary of NFE. Can the Board confirm that should an updated contract with NFE be submitted to it for review, it will not again favor a seemingly rogue and monopolistic corporation?**

The Oversight Board issued letters on July 9, 2025, and July 22, 2025, to Puerto Rico's Energy Czar setting forth its concerns with the proposed contract between Genera PR, LLC as agent to PREPA and NF Energía, LLC, including inconsistencies with the Request for Proposal (RFP), concerns regarding market competition, and noncompliance with the PREPA Fiscal Plan.

The Oversight Board conducted a comprehensive review of the proposed contract and requested information and documentation from the relevant parties. The Third-Party Procurement Office recently informed the Oversight Board that the proposed contract is no longer being advanced by the Government for the Board's review and consideration.

Notwithstanding, the Oversight Board continues to meet with the relevant parties to assist the Government in reaching an agreement that benefits the people and businesses of Puerto Rico. Should a newly proposed contract be submitted for review and approval, the Oversight Board will continue to ensure that the contract promotes market competition and is not inconsistent with the applicable Fiscal Plan, as mandated by PROMESA.

Previously, the Oversight Board approved the 2019 contract between PREPA and New Fortress Energy (NFE) after it concluded that fuel pricing terms were fair and consistent with the PREPA Fiscal Plan. The Oversight Board estimated that the contract had the potential to generate between \$180 million and \$280 million in savings during the initial 5-year period. Lowering generation costs and transitioning towards cheaper and more environmentally friendly generation resources (including natural gas and renewables) was then, and continues to be, a key objective of PREPA's Fiscal Plan. The 2019 contract is consistent with these objectives.

The Oversight Board approved the March 15, 2024, contract between Genera as agent to PREPA, and NFE as consistent with the Fiscal Plan and promoting market competition.

3. On June 5, 2025, Fitch Ratings downgraded NFE's Long-Term Issuer Default Rating (IDR) to 'CCC' from 'B-'. Can you explain how you plan to ensure that the Puerto Rico Electric Power Authority (PREPA) does not enter into a broad and expensive contract with a company that is facing serious liquidity problems?

Under the Oversight Board's Contract Review Policy established pursuant to PROMESA Section 204(b)(2), government agencies are required to submit information and documentation regarding procurement of certain proposed contract. The Oversight Board expects any procurement documentation to contain sound financial benchmarks and assurances and considers such information as part of its review of proposed contracts. During its review, the Oversight Board may require further information in connection with any such financial safeguards or any liquidity concerns identified.

For instance, in its letters to the Government regarding the proposed contract between Genera and the NFE, the Oversight Board highlighted that despite initially disqualifying NFE for failing to submit a bid bond, such decision was reversed days later, citing the urgent need to secure LNG supply considering an energy emergency declaration issued by the Governor. Further, the Oversight Board highlighted that the amended RFP for the proposed contract reduced the performance bond to \$10 million from \$100 million and eliminated the payment bond requirement.

4. This is not the first time that Puerto Rico has signed multimillion-dollar agreements with companies facing precarious financial situations. More broadly, do you

currently have any mechanism in place to certify that bidders have the financial capacity necessary to carry out the projects or services they propose?

Please see answer 3 above.

- 5. Based on the letter sent by the Board on July 9 to the Energy Czar, Josué Colón, the third-party procurement office (3PPO) allowed NFE to rejoin the procurement process despite the fact that the company did not provide a required bid bond because it was urgent to guarantee the availability of natural gas according to an “emergency declaration” issued by the governor. Organizations such as Sembrando Sentido (2022) have stressed how emergency situations enable important deficiencies in procurement, such as the one mentioned above. Puerto Rico has faced multiple emergencies and still manages billions of dollars that were allocated after such events. Has the Board collaborated, or does it have plans to collaborate with the Puerto Rican Government, on a policy for the revision of contracts that are awarded as a result of, or during, emergency situations?**

The Oversight Board is evaluating with the Government several potential reforms to Government procurement policy to improve transparency, competition, and fiscal responsibility in both emergency and non-emergency contracting. These reforms aim to help the Government strengthen professional services, goods, works, and non-professional services procurement, consistent with well-structured and fiscally responsible practices.

In 2020, the Oversight Board worked closely with the Government to improve practices in purchasing goods and services to prevent the irregularities and inefficiencies that have plagued Puerto Rico’s procurement system for too long.

The Uniform Regulation for Purchases and Bids of Goods, Works, and Nonprofessional Services of the Puerto Rico General Services Administration, required by Act 73-2019, centralized all purchases by Government entities and was proposed by the Government and revised by the Oversight Board to align with best practices and comply with the Certified Fiscal Plan and the fiscal responsibility mandated under PROMESA. The approved regulation establishes a single, robust, and sound procedure for all procurement, including exceptional purchases in emergencies or other situations during which the Government must act quickly. The regulation promotes market competition, transparency and accountability, and necessary controls in the acquisition of goods and services.

The process and specific exceptions for emergency purchases established by Act 73-2019, including those during a declared state of emergency (See GSA Regulations, Art. 6.3.5–6.3.6), requires exceptional or emergency contracts valued at \$10 million or to be submitted to the Oversight Board for review and approval prior to execution; all others must be submitted to the Oversight Board upon execution (See Id., Art. 6.5.15). The Board agrees that the emergency declarations should not be used to bypass procurement safeguards.

The Oversight Board’s Contract Review Policy requires approval of contracts to ensure that they promote market competition and are not inconsistent with the applicable Fiscal Plan. Pursuant to the Policy, the Oversight Board reviews all contracts or series of related contracts, inclusive of any amendments, modifications, or extensions, with an aggregate expected value of \$10 million or more, including any contracts resulting from or arising during emergency situations.

As it relates to the proposed contract between Genera and NFE, the Third-Party Procurement Office recently informed the Oversight Board that the proposed contract is no longer being advanced for the Oversight Board's review and consideration. However, the Oversight Board continues to meet with the relevant parties to attempt to reach an agreement that benefits the people and businesses of Puerto Rico. Should a new proposed contract be submitted to the Oversight Board for its review and approval, the Oversight Board will continue to ensure that the contract promotes market competition and is not inconsistent with the applicable Fiscal Plan, as mandated by PROMESA.

- 6. Based on the letter mentioned above, the 3PPO made "multiple amendments that shifted requirements, deadlines, and financial safeguards ... [that] were only shared with ... two bidders," raising concerns about open competition and the undue influence of lobbyists. Can the Board confirm that it will work to develop a policy that enhances transparency on whether contracting parties have hired lobbyists in support of their contract?**

The Oversight Board confirms it is developing amendments to the Contract Review Policy, established pursuant to PROMESA §204(b)(2), to require disclosure of lobbying activities by contracting parties as part of the contract submission and review process.

- 7. The Department of Education (ED) represents one of the biggest investments of Puerto Rican public funds and, as such, has been one of the main targets for reforms in all the Fiscal Plans developed by the FOMB since 2018. The FOMB has also approved several budgets, most unilaterally or without the approval of the legislature or the governor, in which state funds assigned to the DE were reduced. Yes, in recent months, the FOMB has been demanding that the DE presents a plan to deal with federal funding cuts and accusing it for using emergency funds to pay for recurring expenses.**

How can the DE realistically deal with cuts in its allocation of federal funds if the allocation of state funds does not grow accordingly? Within the PROMESA framework, who is charged and who should be charged with guaranteeing the children's access to quality education first and foremost?

The recurring federal funds allocation (e.g., Title I) has remained aligned to enrollment and has not experienced cuts to date; however, the Puerto Rico Department of Education (PRDE) received a significant injection of non-recurring federal funds due to emergencies that will soon expire.

Furthermore, the allocation of local funds by the Puerto Rico Government has grown 18% in the past 5 years, even though PRDE has experienced a significant decline in enrollment.

- Student enrollment at PRDE has fallen steadily, dropping from 365,000 in fiscal year 2017 to 236,000 in fiscal year 2025 (35%) and is projected to decline a further 5% to 224,000 in fiscal year 2026.
- Over the same time span (fiscal years 2017 to 2026), the Commonwealth of Puerto Rico has increased PRDE's General Fund appropriation from \$1.6 billion to \$2.0 billion (+18%).

A key issue is that PRDE used non-recurring federal funds to cover recurring expenses.

- Since fiscal year 2021, PRDE received approximately \$4.6 billion in non-recurring COVID relief stimulus packages (e.g. CARES, CRRSA, and ARPA), portions of which were used for recurring activities such as maintenance, security, transportation, special education, and payroll.
- Because the COVID federal grants expired in fiscal year 2025 while the related obligations continue, the Central Government of Puerto Rico is working with PRDE to shift these recurring costs back to recurring funding sources in the General Fund.
- Most recently, the Government's fiscal year 2026 budget jointly developed with the Oversight Board included additional local funding to PRDE to address the termination of non-recurring federal funds which were supporting key services.

Within the PROMESA framework, the Fiscal Plan intends to provide a means for the Government to ensure funding of essential services, including student access to quality education.

The Oversight Board will also continue working collaboratively with PRDE to bolster its budget management capabilities and reduce its reliance on non-recurring federal funds.

- 8. Since 2019, the DE has been under a costly federally imposed receivership, which is now going on 6 years with no end in sight, due to its lack of compliance with the requirements of federal grants. The contract for Alvarez & Marsal, the Third-Party Fiduciary agent selected by the local agency and approved by the U.S Department of Education and the FOMB in 2021, which was originally set for two years, has been renewed several times and now represents an expense of over \$155 million since 2021.**

Is the FOMB aware that, in 2010, this firm was hired by the Government of Guam for similar duties, that it contested the result of a new competitive procurement process it lost in 2016, and that it finally stayed until 2023? What accountability measures has the FOMB applied to guarantee that Alvarez & Marsal is delivering the results it was hired to obtain when it may not be in the interest of the contractor to reach the end of its lucrative appointment?

The Oversight Board is not familiar with the Government of Guam's experience with Alvarez & Marsal. In the Commonwealth of Puerto Rico, since 2019, the U.S. Department of Education (USDE) has imposed a series of "Specific Conditions" on the PRDE for the federal fund's grants access. These "Specific Conditions" are imposed to ensure that grant funds awarded to the PRDE are expended in accordance with applicable legal requirements, including entering a contract with a third-party fiduciary agent (TPFA) to perform the financial management duties required of PRDE relating to USDE federal funds. After issuing a competitive Request for Proposal, PRDE signed a contract with Alvarez and Marsal (A&M) to serve as its TPFA.

In accordance with the 'Specific Conditions', PRDE is responsible for managing the contract with the TPFA to ensure TPFA is implementing all aspects of the contract, which incorporates the requirements included in the "Specific Conditions".

The Oversight Board is committed to supporting PRDE with its management and administration of federal education funds and successful implementation of the CCAP. The CCAP status report for Q2-2025 reflects progress in the implementation areas.

- 9. Has the Board established a formal and explicit definition of “essential services” that need to be protected for the People of Puerto Rico? If so, could you provide that definition? Further, do the services supported by the “Essential Services Fund for Municipalities” constitute the Board’s de facto definition of these essential services that need to be maintained and protected for the welfare of municipalities? If so, has funding been secured to cover those services in all 78 municipalities? Can you confirm that the current “Essential Services Fund for Municipalities” is accessible and sufficient to cover the community and essential needs in all 78 municipalities?**

PROMESA requires that the Fiscal Plan ensures the funding of essential public services. PROMESA does not define essential services, nor has the Oversight Board attempted to do so. Generally, essential services are services required for health, public safety, and public welfare. The budgets the Oversight Board certified for the Government have prioritized funding for services related to health, public safety and public welfare, and all comply with the requirements of PROMESA.

The Oversight Board is committed to supporting municipalities and the Commonwealth’s efforts to provide the services their residents need and deserve while maintaining sustainable budgets not just today but for years to come. The Oversight Board is committed to help finding fiscally responsible ways to overcome the challenges municipalities have been facing for some time.

The decision to phase out Commonwealth financial transfers to municipalities predates the enactment of PROMESA. The Fiscal Economic and Growth Plan, published by the Commonwealth in September 2015, called for the elimination of all General Fund-based municipal financial transfers, including direct budgetary subsidies, the property tax exoneration fund (included in Act 83-1991) and the municipal equalization fund (included in Act 80-1991).

To offset the phase out, the Commonwealth emphasized that Puerto Rico’s municipalities had the opportunity to implement revenue generation and expense reduction initiatives, including, among other things, changes to municipal license fees, modernization of the property tax regime, and municipal consolidations.

The Oversight Board adopted the Government’s proposal to reduce these financial transfers in the Fiscal Plans and proposed several reforms pursuant to the PROMESA Section 205 recommendation process to help stabilize municipal finances.

Even with the phase out of the General Fund transfers, municipalities will continue to receive hundreds of millions of dollars in support annually from other central Government resources. This includes funding allocated to the exoneration fund from Puerto Rico’s lottery system as well as significant funding from Sales and Use Tax collections sent directly to municipalities and additional amounts transferred through the Municipal Improvement Fund.

Property taxes are one of the most important revenue sources for the municipalities. Historically, collection rates for real property taxes have been significantly lower in Puerto Rico than comparable jurisdictions in the mainland. To address that, the Fiscal Plan defines ways for municipalities to achieve operational efficiencies and improve compliance to ensure all property owners pay their property taxes that are due.

10. **The Board's austerity measures, including the elimination of the equalization fund for municipalities, have been widely reported to have rendered 43 units of municipal Governments fiscally unviable, consequently leaving approximately one-third of Puerto Rico's population without a functional local Government to provide essential**

Given this critical situation, what is the Fiscal Control Board's concrete and actionable plan to prevent or cover the impending "essential services gap" that will inevitably materialize in these communities? Specifically, how does the Board intent to ensure that the affected population continues to receive vital public services such as emergency response, waste management, and basic infrastructure maintenance, in the absence of adequately funding and operational municipal structures?

A major cause of Puerto Rico's cumulative debt was the Government spending more than it collected in revenues every year for at least 16 consecutive years. Between 2004 and 2014, Government spending exceeded general fund revenues by double digits and peaked at a 30% general fund deficit in fiscal year 2009. In June 2016, when Congress passed PROMESA, the Government only held \$244 million in its central cash accounts, less than enough to cover two weeks of general expenses.

The Oversight Board ended budget deficits and Government spending now remains within Puerto Rico's fiscal means. The Oversight Board cut the unaffordable debt that required nearly 30 cents of every dollar Puerto Rico collected in taxes and implemented several measures that reduced Government spending to eliminate Puerto Rico's nearly two decades long chronic budget deficits. These actions now allow the Government to invest in healthcare, education, public safety, and other essential services.

Concurrently, given the massive deficit and debt, the Oversight Board had to implement careful and responsible budget actions to optimize Government spending and ensure priorities were adequately funded while it brought the budget in line with Puerto Rico's tax revenues.

PROMESA mandates that the certified Fiscal Plan funds essential public services, and the Oversight Board has ensured that essential services for public health and safety are adequately funded.

Questions from Rep. Hernandez for Robert F. Mujica Jr., Executive Director, Financial Oversight and Management Board for Puerto Rico.

1. **What legislative measures has the FOMB proposed to Congress to promote long-term continuity of Medicaid funding for Puerto Rico, particularly in light of the expiration of the current block grant in 2027?**

The Oversight Board recommends Congress establish a permanent solution to eliminate funding caps, align FMAP calculations with state formulas, and provide sustainable funding. These changes would stabilize Medicaid in Puerto Rico, support its healthcare system, and reduce fiscal strain on its budget, aligning the territory's needs with U.S. mainland standards.⁷

⁷ Financial Oversight and Management Board for Puerto Rico, *2024 Annual Report to Congress* (San Juan, PR: FOMB, 2024).

2. What is the Board's projected Medicaid funding requirement for Puerto Rico beyond FY2027, accounting for inflation and market trends?

The Fiscal Plan model assumes an average annual increase of 5.2% in Per Member Per Month (PMPM) expenditures. Taking that into account, beginning in October 2027 (Puerto Rico fiscal year 2028), Puerto Rico will be responsible for higher Medicaid costs—and recognizing that fiscal year 2029, unless otherwise amended by Congress, will be the first full fiscal year under the reduced \$500 million federal funding cap and 55% FMAP—the current Medicaid Program is projected to require around \$6.2 billion in total funding (\$5.6 billion in Puerto Rico funds and \$569 million in federal funds).

3. Intentionally blank since the number was missing in the sequence of questions provided to the Oversight Board.

4. If federal Medicaid funding is not renewed in 2027, how many residents of Puerto Rico does the Board estimate would lose coverage?

If the Medicaid program is not maintained at the current authorized levels and is allowed to revert to the statutory level, the Government of Puerto Rico would have to either finance the \$4.5 billion in loss federal Medicaid support through local funds or reduce the level of spending to fit within available resources.

However, this does not mean currently covered individuals will automatically lose eligibility, or that the Government will cease funding the program. Rather, it means that Puerto Rico will become responsible for a greater share of Medicaid costs.

Currently, 1.4 million beneficiaries rely on Medicaid in Puerto Rico. The Government will have to make difficult decisions to reduce benefits, limit eligibility, or reduce spending in other areas. This cost shift would require a 35% increase in spending within the currently \$13 billion General Fund budget. If the Medicaid cliff is fully realized, it would drive a multibillion deficit under the current Fiscal Plan model and compromise budget balance unless significant spending cuts are made or new sources of revenue are identified.

5. How does the Board assess the combined fiscal impact of the 40% Medicare Advantage disparity and uncertainty surrounding Medicaid funding in Puerto Rico's overall financial health?

The Oversight Board incorporates federal healthcare funding scenarios into its long-term fiscal planning models and calls for Congressional action in its reports and budget certifications. It also advocates for permanent and equitable federal funding for both Medicaid and Medicare Advantage in Puerto Rico.

Further, the Oversight Board supports amendments to the Medicare Payment Advisory Commission (MedPAC) to ensure territories are represented and included in MedPAC's reports to Congress, thus addressing disparities in federal healthcare policy for Puerto Rico.

The Oversight Board recommends amendments to Medicare that would automatically enroll Puerto Rican beneficiaries in Medicare Part B, in line with practices in other U.S. states and territories, while still allowing the option to opt out.

6. What coordination has the Board engaged in with the Puerto Rico Government to ensure that Medicaid funds allocated under the 2022 agreement are fully used in compliance with federal integrity requirements?

The Oversight Board closely monitors past projections, actual expenditures, and allocated federal Medicaid funding, and has identified discrepancies requiring further analysis. The Oversight Board has worked with the Government to review proposed changes to the program to better align spending with population needs including increases in rates and eligibility.

7. Intentionally blank since the number was missing in the sequence of questions provided to the Oversight Board.

8. Please explain the Board's current position on Puerto Rico's transition from the Nutrition Assistance Program (NAP) to the Supplemental Nutrition Assistance Program (SNAP). What challenges has the Board identified, and what federal or local actions would help facilitate the transition?

The Oversight Board recognizes that transitioning Puerto Rico from the Nutrition Assistance Program (NAP) to the Supplemental Nutrition Assistance Program (SNAP) would address long-standing disparities and improve food security for the Island's residents. By participating in SNAP, Puerto Rico would ensure equitable assistance for its residents, consistent with the support provided to states.

Several challenges have been identified with the implementation of the NAP work requirement, which is intended as preparation for the eventual transition to SNAP. These challenges include incomplete or inaccurate participant applications, outdated contact information, and other external factors that have delayed the referral process and service delivery. These delays highlight the need for greater adaptability and strategic planning to ensure the program's successful implementation and long-term sustainability.

Congressional action is required to enable Puerto Rico's move to SNAP, by providing the necessary financial and administrative framework, such as access to federal resources unavailable under NAP and supporting for the Island's economic resilience and long-term growth. The U.S. Department of Agriculture (USDA) supports a successful transition once Congress opens the pathway. The total estimated cost of implementing the work requirement is over \$340 million.⁸ The board will work with the Government to identify funding for non-recurring transition costs. Continued delays could jeopardize future funding for this initiative and negatively affect Puerto Rico's chances of receiving federal approval to transition from NAP to SNAP.

⁸ U.S. Department of Agriculture, Food and Nutrition Service, "Update to Feasibility Study of Implementing USDA's SNAP in Puerto Rico (Washington, D.C.: USDA, March 6, 2025).

9. What estimates does the Board have regarding the annual fiscal impact on the Puerto Rico Government of transitioning from NAP to SNAP?

Please see answer to question 8.

10. What fiscal or administrative reforms does the Board believe are necessary to position Puerto Rico to receive and manage SNAP funds effectively?

Please see answer to question 8.

11. Given that the PREPA Fiscal Plan addresses multiple critical areas—from system stabilization and renewable transition to debt restructuring—what oversight mechanisms will the Board implement to ensure these projects are completed on time and within budget? Will the Board consider forming a dedicated subcommittee to monitor progress?

Central to the oversight framework is the active regulatory role of the Puerto Rico Energy Bureau (PREB). The Oversight Board and the Government have taken significant steps to transform the energy system and the system's independent oversight. Act 57-2014 as amended by Act 17-2019, and the PREPA Fiscal Plan structured PREB an independent regulator with statutory public funding to oversee the power system.

PREB evaluates and approves rate structures, performance metrics, and infrastructure plans. PREB has reopened the rate review process and directed operators to implement two-year stabilization plans following major outages in 2024. This regulatory oversight provides a critical layer of accountability, ensuring that operators such as LUMA and Genera comply with performance standards and achieve key project milestones.

The PREPA Fiscal Plan also introduces post-certification reporting requirements. Operators are required to provide weekly, monthly, and quarterly updates on operational performance, financial, and federal funding progress. Monthly progress reports are also provided to the Oversight Board on key progress and issues faced by renewable energy proponents.

Within the Oversight Board, a dedicated energy and infrastructure team attend to key issues as well as coordinate monthly stakeholder meetings to align priorities, budgets, and timelines, fostering collaboration among PREPA, LUMA, Genera, and federal agencies.

More recently, an executive order of Governor Jenniffer A. González Colón, was issued to establish the Office of the Energy Czar. The Energy Czar's main responsibilities include leading the efforts for the reconstruction and modernization of the electric system and serving as liaison between federal and local agencies. Together, the Energy Czar, PREB's regulatory authority, reporting, and performance tracking, and the Oversight Board's internal coordination provide robust monitoring.

PREPA's Fiscal Plan continues to prioritize the Oversight Board's commitment to transform Puerto Rico's energy sector to more reliable and cleaner electricity to residents and businesses. Completing the transformation of Puerto Rico's energy. The Oversight Board will consider forming a dedicated subcommittee with the Government to monitor progress and, if necessary, bringing in additional resources.

The Oversight Board tried to take a very active role years ago. A previous Government blocked our proposal to appoint the Oversight Board's Revitalization Coordinator as PREPA's Chief Transformation Officer in 2017 in the immediate aftermath of Hurricane Maria. The Oversight Board instead focused on implementing the PREPA Fiscal Plan. Electricity is not yet reliable. But Act 17-2019 and the Fiscal Plan created a system that can and will improve over time, rather than being stuck with PREPA, a failed utility that would never improve and never change.

12. Although Title V of PROMESA was originally promised as a tool for economic development, its use has been limited. What steps is the Board taking to strengthen or streamline Title V implementation, and how does it plan to increase the impact on development?

Under PROMESA, Title V provides a narrow legal mandate: expedited permitting for private investment critical infrastructure projects related to address emergencies. Many federally funded projects bypass the need for Title V. Title V is limited in that it does not bypass local permitting requirements. Title V can spur infrastructure-led economic development by expediting local permitting for projects designated as critical.

To improve Title V's effectiveness, the Oversight Board has supported efforts to streamline local permitting requirements, including reforms such as Act 118-2024, which streamlines reviews for high-priority projects, incorporates licensed professionals to assist in expediting local permitting processes and reduces bureaucratic duplication. Executive Orders EO-2025-002 and EO-2025-003, which further target persistent permitting bottlenecks, were developed in collaboration with the Oversight Board. Notwithstanding Title V, fast tracking critical infrastructure projects in the energy sector still requires approvals and cooperation from PREPA, PREB, the P3 Authority, and the Energy Czar, among others.

Beyond legislative and regulatory changes, the Oversight Board is working to raise awareness of Title V's advantages, better align it with fiscal goals, and refine how projects are evaluated and supported. These efforts—complemented by broader structural reforms in education, energy, healthcare and workforce development—are part of a broader push to modernize Puerto Rico's investment and lay foundation for sustained economic growth.

13. Under Section 209 of PROMESA, Puerto Rico must prepare and manage balanced budgets using modified accrual accounting standards. Do the Puerto Rico Office of Management and Budget and the Department of Treasury currently have the internal capacity to meet these requirements? If not, what resources are lacking and what is the estimated timeline to achieve compliance?

While the Government, with the help of the Oversight Board, has made progress in stabilizing the budget and improving financial controls, more progress is clearly needed to institutionalize and operationalize budget reforms, so the Government has stable and fiscally responsible financial management practices and is never again at risk of bankruptcy. To achieve compliance, the Government needs people, process and technology improvements.

- **People.** The Office of Management and Budget ("OGP") is critically under-resourced. It urgently requires additional staff and training, particularly in budget development, financial planning and federal funds management. The Oversight Board is working with OGP to

develop and implement a workforce reform plan modeled on best practices from cities that have emerged from financial distress.

- **Process.** The actual budget responsibilities within the Government are very decentralized, across many agencies, with often conflicting authority, with limited cooperation, and siloed both among agencies and within agencies. In addition, the entire process is often confusing, even to the participants. The Oversight Board is working with the Government to make near-term administrative adjustments to improve the execution and coordination of budget and financial planning functions, such as economic and revenue forecasting and developing a comprehensive and transparent budget development and negotiation process.
- **Technology.** The Government lacks a unified financial management system. An Enterprise Resource Planning (ERP) system—currently under development, implementation and expected to be completed by January 2027—will modernize and integrate fiscal operations. The ERP will improve transparency, enable real-time access to financial data, and support timely publication of audited financial statements, all while strengthening accountability and planning across government entities.

Reforms are critical to modernizing the Government's financial infrastructure, improving public sector transparency, and building a resilient, fiscally sound future.

14. What are the primary constraints the Board has identified that continue to prevent the Puerto Rico Government from producing and managing a truly balanced budget?

For now, only the Oversight Board's presence prevents Puerto Rico from falling back into budget deficits. The Government has continued its practice of passing laws reducing revenues and increasing expenditures outside the budget process without identifying ways to pay for that cost.

In a major step forward toward curbing this practice, the Legislature created the Budget Office of the Legislative Assembly (OPAL), a requirement of the Oversight Board certified fiscal plan. OPAL scores many, but not all, bills with a potential fiscal impact. Meanwhile the Legislature continues to pass bills that have not been scored. The Oversight Board is encouraging the Puerto Rico House and Senate Leadership to ensure OPAL is fully utilized and provides legislators and the public with informative, objective, and comprehensive analyses of pending legislation and other matters before the Legislature.

By the time the Oversight Board terminates, the Government must be able to enact and maintain a balanced budget throughout the fiscal year. The Oversight Board has identified several key constraints that continue to hinder Puerto Rico Government's ability to produce and manage a structurally balanced budget:

- **Lack of institutional capacity and outdated systems:** Many Government entities still rely on manual, fragmented, or outdated processes for budget development, execution, and reporting. The slow implementation of modern systems, such as the ERP, limits transparency and real-time decision-making.
- **Inconsistent budgeting practices and weak internal controls:** The absence of uniform policies across agencies results in budgeting inconsistencies, limited accountability, and challenges in managing expenditures and forecasting effectively.

- Limited integration of financial planning and long-term forecasting: Budget development is not always aligned with multi-year fiscal planning, making it difficult to ensure sustainability beyond a single fiscal year.
- Dependence on non-recurring revenues and federal funds: The Government has historically relied on one-time revenues or external funding sources, which creates risks in out-year projections.
- Slow implementation of fiscal and structural reforms: Delays in executing key reforms (e.g., healthcare, education, workforce) limit the ability to reduce expenditures and generate long-term efficiencies.
- Inadequate data for decision-making: Timely, reliable financial and programmatic data is still lacking across many areas, making it difficult to manage and monitor budget execution effectively.
- Limited cross-agency collaboration and leadership continuity: Institutional fragmentation and weak coordination between agencies often impede implementation of necessary budgetary controls and reforms.

15. Does the Board currently oversee the hiring process for Government employees conducted through the Puerto Rico Government's job portal? If so, what are its main findings regarding efficiency and fairness?

The Oversight Board and the Government are working together to strengthen and modernize a civil service that is better equipped to serve the people of Puerto Rico.

However, recruiting, including through the Government's job portal, remains the responsibility of each Government agency. The portal aims to address the Government's key recruiting challenges, including process inefficiencies, lack of technology, candidate experience, and workforce planning with the goal to digitize, standardize, and streamline the recruitment process in collaboration with the Human Resources Administration and Transformation Office (OATRH) and the Governor's Office.

The Oversight Board did assess the Commonwealth's recruitment and selection process and highlighted hurdles with the existing legal and regulatory framework such as lack of a robust strategic workforce plan, lack of data-driven human resource planning capabilities to adequately determine human capital needs and outdated, and uncompetitive salaries. The Oversight Board is not, however, involved in evaluating and selecting individual candidates for open positions.

16. In 2024, the Board announced a pilot program to reform public service recruitment across nine agencies. What were the results of this initiative, how many new public servants were hired under it, and what are the Board's plans to expand it?

Between March and October 2024, 339 public servants were hired under the pilot program. The Government recently issued regulations that incorporate the skill-based recruitment methodology and plans to expand to additional agencies.⁹

⁹ Governor of Puerto Rico, Office of Administration and Human Resource Transformation (OATRH), (San Juan, PR: OARTH, July 16, 2025).

17. What oversight role does the Board play in reviewing contracts, regulations, and executive orders issued by the Puerto Rico Government? Please explain the process and provide a list of any measures the Board has blocked due to inconsistencies with the Fiscal Plan.

The Oversight Board reviews laws, rules, regulations, administrative and executive orders issued by the Commonwealth of Puerto Rico, and Government contracts pursuant to PROMESA section 204.

The Oversight Board reviews proposed legislation that might effectively unbalance budgets or otherwise undermine PROMESA's purposes. If needed, the Oversight Board exercises its authority to disapprove and takes steps to invalidate any such legislation.

The Oversight Board reviewed and scored legislation with a total fiscal impact of \$67 billion and stopped laws from implementation that would have added at least \$30 billion in cost to the Government's budget over the long term. In many cases, the Oversight Board worked with the Government to identify funding so the costs of these laws were offset within the certified budget.

Under the standard policy, the Oversight Board reviews government contracts with a value of \$10 million or more to ensure they promote market competition and are consistent with the fiscal plans. The Oversight Board may review contracts below that threshold if warranted.

The Oversight Board has rejected proposed contracts for both inconsistency with the fiscal plan and lack of market competition. The most frequent reason for rejection is failure to promote market competition in addition to noncompliance with the Fiscal Plan.

Selected Examples of Oversight Board Contract or Legislation Action Inconsistent with Fiscal Plan or Lack of Market Competition				
Government Agency (Counterpart)		Sector	Description	Oversight Board Action
Redevelopment of Roosevelt Roads (Loopland Development, LLC)		Real Estate	The \$53 million lease agreement and amendments, which provide for a lease of over 1,100 acres for up to 100 years (with an option to purchase), without conducting a competitive procurement process.	Rejected
State Insurance Corporation (MCS Insurance Company)	Fund Life	Medical Insurance	The proposed contract value of \$24 million does not meet the requirement amount of \$100 per employee per month for uniform healthcare as mandated by the Commonwealth Fiscal Plan.	Rejected
Department of Health (Xuvo Technologies, LLC)		Technology	The Department of Health awarded a contract without a competitive RFP and to implement a software program with a per transaction cost between \$5 and \$20 in exchange for user licenses and services. The aggregated expected value of the	Under Review

		contract is considerably higher than the \$5 the Department reported to the Comptroller's Office.	
Senate Bill 615	Municipal Procurement	The Legislative Assembly passed a SB615 to modify municipal procurement processes by more than doubling the \$200,000 threshold for construction and public improvements that must be awarded through the Sealed Request for Proposal process to, \$500,000. For context, SB 615's proposed threshold is double that of Colorado, the state with the highest no-bid threshold for works procurement, and larger than by an even greater magnitude when compared to states that are significantly larger than Puerto Rico's municipalities. For example, SB 615's proposed threshold is 20 times that of California's.	Opposed

Source: Oversight Board analysis of government documents.

Notes: Details are publicly available on the Oversight Board's website.

The process for submission and review begins with the Government submitting to the Oversight Board an explanation of how the request is compliant with the applicable Certified Fiscal Plan and/or promotes market competition. The Oversight Board response will either be approved, rejected or further information and/or modifications are needed. The Oversight Board might provide a conditional approval, requiring specific changes or subsequent actions. Additional details on the process and determination are publicly available on the Oversight Board's website.

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19. Please provide a list of current FOMB employees, including position, salary, and job description. Additionally, please provide the same information for all contractors currently retained by the Board?

The Oversight Board currently has a total of 98 employees. Almost all employees are Puerto Rican and work in San Juan. The roles of staff position levels (e.g., associate, mid, upper, etc) range from policy, legal, finance, communications, research, and other support functions. Job descriptions align with what titles generally imply (e.g., legal support, fiscal analysis, administrative assistant).

Position Level	Salary Range
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Associate-Level	\$35,000 - \$90,000
Mid-Level	\$80,000 - \$130,000
Upper Mid-Level/Management	\$120,000-\$160,000
Senior Management Level	\$180,000- 325,000
Executive Director	\$625,000

The Oversight Board's website discloses executed agreements with contractors retained by the Oversight Board.

20. Please list the U.S. law firms contracted by the Board since its establishment and the total legal expenses incurred under PROMESA to date.

All law firms, who have or are supporting the Oversight Board and the Commonwealth of Puerto Rico in the Title III litigation are U.S. law firms--either from a U.S. mainland state, or the U.S. territory of Puerto Rico.

Professional	Client
A&S Legal Gierbolini & Carroll Luskin, Stern & Eisler Nixon Peabody Munger Tolles & Olson O'Neill & Borges Proskauer Rose	Oversight Board
DLA Piper Law Offices of Andres W. Lopez Marini Pietrantonio Muniz O'Melveny & Myers	Puerto Rico Fiscal Agency and Financial Advisory Authority (AAFAF)
Cancio, Nadal, Rivera & Diaz Greenburg Traurig Norton Rose Fulbright	AAFAF as fiscal agent for Puerto Rico Electric Power Authority (PREPA)
King & Spalding	PREPA
Bennazar, Garcia & Millian Jenner & Block	Official Committee of Retirees
Kobre & Kim Brown Rudnick Estrella LLC Ilena C. Cardone Fernandez, Esq.	Oversight Board Investigation Committee Oversight Board Special Claims Committee
Klee, Tuchin, Bogdanoff & Stern Navarro-Cabrer Law Offices Willkie Farr & Gallagher	Puerto Rico Sales Tax Financing Corporation (COFINA) Agent

21. How does the Board evaluate the impact of its administrative costs on public perception and trust, particularly in light of the recently approved \$59 million operating budget?

Please see answer to Chairman Hurd, question 7.

22. Intentionally blank since the number was missing in the sequence of questions provided to the Oversight Board.

23. What percentage of the Commonwealth's general fund budget is currently allocated to municipalities, and has the Board fully eliminated all intergovernmental transfers?

The fiscal year 2026 certified budget allocates approximately \$371 million directly to Puerto Rico's municipalities, through direct appropriations, reduced healthcare contributions, and rollover funds. In addition, the Government allocates hundreds of millions of dollars annually to local programs that impact municipalities. The Government data is not available to readily determine an all-funds percentage of transfers to municipalities.

The decision to phase out Commonwealth financial transfers to municipalities predates the enactment of PROMESA. It was initiated by the Government of Puerto Rico in its 2015 Fiscal and Economic Growth Plan, which cited the unsustainable burden of large appropriations and recommended reforms to modernize revenue collection and promote self-sufficiency. (For more details, see the answer to Congresswoman Velazquez question 10, and question 26.)

Nevertheless, municipalities will continue to receive hundreds of millions of dollars in support annually from central government resources. This includes targeted support for emergency services, elderly care, waste management, and an essential services fund for fiscally distressed municipalities. These funding sources did not exist prior to PROMESA, but now approximate pre-PROMESA levels of municipal support.

Municipalities also benefit from access to other sources of new funding the Oversight Board approved, such as a \$750 million revolving fund for FEMA-related infrastructure projects. Municipalities now rely on a mix of dedicated funds, sales tax transfers, lottery proceeds, and federal resources. The Oversight Board remains committed to supporting reforms that strengthen local finances and ensure essential services for residents.

24. For each municipality, please provide an inventory of central government regional or field offices, including staffing levels and annual operating costs.

The Government of Puerto Rico does not currently maintain a centralized inventory of all regional or field offices by municipality, nor does it track associated staffing levels or operating costs at that level. While individual agencies such as the Departments of Education, Health, and Family maintain local offices, there is no uniform reporting or budgeting system that consolidates this information across all entities.

Recognizing the value of such data for improving service delivery and reducing duplication, the Oversight Board has repeatedly encouraged the Government to modernize administrative systems to have centralized visibility into such costs, where appropriate. The Fiscal Plan recommends centralizing support functions like finance and human resources to improve efficiency and reduce costs. The Oversight Board continues to advocate for a uniform asset and personnel inventory system to enable more data-driven decisions and would welcome collaboration with the Government to develop this capability.

25. For services such as road maintenance, school transportation, and in-home caregiver programs, what cost-per-service data supports continued delivery by central agencies rather than transferring responsibilities to municipalities?

The Oversight Board recognizes the need for efficient and equitable delivery of public services but notes that the Government of Puerto Rico currently lacks standardized cost-per-service data to justify either retaining or transferring all responsibilities for road maintenance, school transportation, and in-home caregiver programs to municipalities.

Where appropriate, the Oversight Board is supportive of a shift in responsibilities. However, shifting services to municipalities without clear cost-benefit analysis risks administrative and compliance challenges, particularly given that many municipalities lack appropriate financial controls.

Certain services also remain centrally managed due to economies of scale, technical complexity, or funding requirements. For example, most road maintenance is centrally coordinated through the Puerto Rico Department of Transportation and Public Works to standardize procurement and quality control, while school transportation and certain in-home caregiver programs rely on centralized oversight to manage federal compliance, eligibility systems, and cost efficiency.

Municipalities do, however, participate in specific agreements for these services with the Puerto Rico Department of Education for school transportation and school maintenance. Any broader transfer of responsibilities must be preceded by robust financial data, regional collaboration frameworks, and accountability mechanisms to ensure service quality and equitable access are maintained.

26. Please provide the cost-benefit analysis that justified reallocating resources from the Municipal Equalization Fund to central agencies. How has this shift improved service delivery, particularly outside the San Juan metro area?

The decision to phase out the Municipal Equalization Fund and other broad municipal subsidies originated with the Puerto Rico Government's 2015 Fiscal and Economic Growth Plan (FEGP), which acknowledged that the Commonwealth's fiscal crisis was worsened by large, unsustainable appropriations to public corporations and municipalities.

The FEGP proposed a multi-year phaseout to incentivize fiscal reforms, such as modernizing property tax systems, consolidating services, and improving revenue collection. This shift aligns Puerto Rico more closely with U.S. mainland practices, where municipalities are typically more self-sufficient.

Since PROMESA's enactment, the Oversight Board has continued this policy while replacing unrestricted transfers with targeted funding tied to essential services, including 9-1-1 emergency management, waste collection under Act 53-2021, relief related to Medicaid costs, and elderly social services.

In collaboration with the Government, the Oversight Board also created a new Essential Services Fund in fiscal year 2024, which provides \$30 million annually to the most vulnerable municipalities through a needs-based formula.

The Oversight Board has complemented this approach with significant support for municipal recovery and reform, including a \$750 million FEMA revolving fund for reconstruction and \$66 million initially for shared services initiatives and repurposed as an Inventory Tax Hold-Harmless fund to protect municipalities from revenue losses due to potential inventory tax reform.

These measures focus on modernizing local government operations and improving service delivery—especially in rural and underserved areas—through accountable, targeted funding rather than blanket subsidies, while encouraging municipalities to build sustainable fiscal capacity over time.

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28. Given that municipalities were current on their debt service obligations prior to PROMESA, what legal or economic rationale supports requiring them to bear a disproportionate share of fiscal adjustments?

Municipalities continue to receive hundreds of millions of dollars in support annually from central Government resources. These funding sources now approximate pre-PROMESA levels of municipal support.

Puerto Rico's fiscal crisis prior to PROMESA was driven by deep structural imbalances across the entire public sector, including municipalities. While municipalities may have remained current on debt service owed to third-party financial institutions, they were often delinquent on key intergovernmental obligations such as pension contributions, retiree benefits, and healthcare costs. In some cases, municipalities even withheld funds from employee paychecks yet did not remit those funds for their intended purposes.

Many municipalities depended on short-term municipal loans from the Government Development Bank (GDB) to cover operating expenses. These loans, funded by Government deposits, enabled unsustainable borrowing practices that exacerbated both municipal and Commonwealth-level fiscal distress.

In collaboration with the central Government, the Oversight Board worked with municipalities to resolve their delinquent intergovernmental payables to Commonwealth entities. This involved significant negotiations that led to extended repayment terms and annual withholdings versus lump sum repayments, including successfully restructuring GDB's obligations. These adjustments, part of a broader restructuring affecting all sectors, will promote fiscal autonomy, accountability, and service delivery sustainability at the local level, ultimately strengthening municipalities for the long term.

29. Why does the Board consider it reasonable for municipalities to continue covering portions of the central government's debt service instead of shifting the burden to the primary debtor?

Municipalities are not covering any portion of the central government's debt service. The debt restructuring process under PROMESA reduced financial pressures on municipalities and the Oversight Board ensured that municipalities directly shared some of the restructuring benefits.

Historically, a 1.03% Special Additional Tax on real and personal property, established by Act 83-1991, was collected by the Municipal Revenue Collection Center (CRIM) and deposited into the Commonwealth's Redemption Fund to service general obligation (GO) debt. Because GO debt financed infrastructure and services that benefited all residents—including municipal projects—this tax was designed to distribute costs broadly across property owners rather than directly burden municipal budgets. Under the 2022 Commonwealth Plan of Adjustment, the tax was retained to service restructured GO bonds, but the Oversight Board implemented a mechanism redirecting 42% of its proceeds—matching the 42% debt service reduction from restructuring—into the Act 53-2021 Extraordinary Waste Fund to support municipal waste and recycling programs.

In addition, the Oversight Board supported the cancellation of more than \$371 million in FEMA Community Disaster Loans to municipalities.

30. What duplicative services are provided by both central agencies and municipalities? Please provide a unit-cost comparison for each function.

Central Government agencies and municipalities provide overlapping services only in limited areas. Municipalities services focus mostly on waste management, local road maintenance, certain public safety and emergency response functions, and social programs such as senior support and recreation. Unlike in many U.S. states, the central Government retains responsibility for most major services, such as K-12 education. The degree of overlap varies by region and often reflects historical arrangements, capacity differences, or municipalities stepping in to fill service gaps left by the Central Government.

The Oversight Board has been encouraging functional service consolidation and improved intergovernmental coordination to eliminate redundancies and optimize public resources. However, the lack of standardized cost reporting, inconsistent accounting practices, and fragmented data systems has prevented a comprehensive unit-cost comparison.

The elimination of the Office of the Commissioner of Municipal Affairs under Act 81-2017 further complicated municipal coordination, with responsibilities split between the Puerto Rico Office of Management and Budget and the Governor's office.

The Oversight Board continues to advocate for modernized financial management systems—including centralized service registries, activity-based costing, and improved municipal reporting to enable better data-driven decisions on service consolidation and resource allocation.

31. What milestones has the Board adopted to eliminate any of these overlapping functions between the central government and municipalities or delegate services to local governments permanently?

The Oversight Board has long recognized that potential overlapping functions between the Central Government and municipalities reduce efficiency and fragment service delivery.

The Fiscal Plan for Puerto Rico, including the first one developed by then Governors Alejandro García Padilla and Ricardo Rosselló Nevares with the Oversight Board and certified in March 2017 supported, along with all revised Fiscal Plans since, efforts to clarify roles, eliminate redundancies, and delegate appropriate functions.

These efforts will ensure a more equitable division of labor, strengthen municipal self-sufficiency, and align service delivery responsibilities with capacity and accountability. While the implementation of milestones is the Government's responsibility, the Oversight Board monitors progress through fiscal plan reporting and has emphasized strategies for consolidating municipal service delivery, improving local revenue collection, and Commonwealth funding.

32. What were the baseline service quality and socio-economic indicators for each municipality before Equalization Fund cuts, and how is the Board measuring impacts postcut?

By moving toward need- or service-based appropriations, the Oversight Board and the Government are better able to evaluate impact and ensure resources are directed where they are most necessary.

The Oversight Board tracks a variety of indicators—such as poverty rates, unemployment levels, population trends, financial reporting compliance, and liquidity metrics—to monitor the fiscal and economic health of Puerto Rico's municipalities. Additionally, many municipalities continue to receive support through targeted funding mechanisms approved by the Oversight Board, such as the Essential Services Fund for 43 of the most fiscally vulnerable municipalities, funding for social programs like the Ama de Llaves social wellbeing initiative, and the Waste Fund created under Act 53-2021 to support basic sanitation.

As part of this approach, the Oversight Board has also encouraged the Government of Puerto Rico to improve data collection and develop standardized performance metrics across municipalities, which would allow for more robust comparisons and service delivery evaluations in the future.

33. Has the Board commissioned independent audits comparing service efficiency between central agencies and municipalities since 2017? If so, what were the results? If not, why not?

Since its inception, the Oversight Board has prioritized transparency and efficiency across both central agencies and municipalities and supported independent evaluations and data-collection efforts that provide insights.

At the Commonwealth level, the Oversight Board reviews detailed fiscal and performance data that reveal fragmented and duplicative functions, informing its broader understanding of service

delivery. While these are not direct efficiency audits, they have helped identify areas for improvement.

The Oversight Board also encourages the Government of Puerto Rico to implement systematic assessments with standardized benchmarks and cost comparisons to optimize service delivery between central agencies and municipalities, aiming to enhance cost-effectiveness, accountability, and outcomes for residents.

34. What fiscal multiplier does the Board use to compare one dollar spent by a municipality versus one spent by a central agency, and how did this affect the decision to reduce municipal transfers?

Budget decisions—including municipal transfers—are guided by a framework focused on fiscal sustainability, service efficiency, and alignment with long-term structural reforms outlined in the Fiscal Plan.

The Oversight Board prioritizes need-based, performance-driven, and service-specific funding for municipalities to ensure resources generate the greatest impact while promoting transparency and accountability. This approach supports the transition toward more self-sufficient and resilient local governments, balancing fiscal discipline with the continuation of essential municipal services, especially in vulnerable communities.

35. What contingency plans has the Board developed to maintain essential services in municipalities where revenues continue to decline?

Municipalities continue to receive hundreds of millions of dollars in support annually from other central Government resources. These funding sources now approximate pre-PROMESA levels of municipal support.

The Oversight Board has implemented a balanced approach to ensure municipalities maintain essential services and prioritizes need-based, performance-driven, and service-specific funding. This includes the approval of multiple targeted appropriations such as the Essential Services Fund (\$30M annually for vulnerable municipalities), the Extraordinary Waste Fund (\$52M), FMAP relief (\$77M) for healthcare costs, and \$15M for the expansion of the Ama de Llaves social wellbeing initiative.

Additionally, municipalities have benefited from federal pandemic relief exceeding \$300 million, and \$1.55 billion from the American Rescue Plan (ARPA) along with FEMA funding and cost-share support to aid recovery and infrastructure investment. Congress also authorized the cancellation of more than \$371M in FEMA Community Disaster Loans for Puerto Rico's municipalities, reducing local debt burdens.

Further, the Oversight Board has advanced reforms to strengthen municipal finances, including modernizing property tax administration, which could generate an estimated \$330 million annually by updating cadaster values, improving compliance, and reassessing exemptions.

36. PROMESA Section 201(b)(1)(B) requires that fiscal plans provide adequate funding for essential services. How does the Fiscal Plan fulfill this requirement

without adopting a decentralized model?

PROMESA requires that fiscal plans meet multiple, interrelated objectives, including adequate funding for essential services, the elimination of structural deficits, the funding of pensions, the promotion of sustainable economic growth, the improvement of fiscal governance, and the restoration of capital market access, among other requirements. The Fiscal Plans certified by the Oversight Board ensure these requirements are met.

37. How does the Board justify maintaining fragmented regional structures across central agencies, despite evidence that this impairs access and efficiency?

The Oversight Board advocates for service delivery improvements, reduced duplication, and enhanced efficiency. This includes consolidating regional offices, streamlining functions, and investing in digital platforms such as the Single Business Portal and digital government initiatives. These reforms are outlined in Fiscal Plans as steps toward modernizing government operations and addressing operational inefficiencies caused by fragmentation.

Progress has been slow but the Oversight Board continues working with authorities to overcome these challenges.

38. What role has the Board played in advancing labor force participation in Puerto Rico and what recommendations does it have for addressing persistent labor shortages?

The Oversight Board has consistently identified low labor force participation as a structural barrier to Puerto Rico's long-term economic growth. At just 45%, participation lags the U.S. average, driven by barriers like chronic health issues and underperforming education and workforce systems.

The Oversight Board has advocated for policies to improve work incentives, including securing permanent federal funding for an expanded Earned Income Tax Credit (EITC) to make formal employment more attractive. It has also supported labor law reforms to reduce hiring risk and litigation, opposed efforts like Act 41-2022 that conflicted with fiscal policy, and prevailed in court to uphold the 2017 labor reforms.

Further, the Oversight Board has recommended changes to public assistance to eliminate 'benefits cliffs' and supported childcare expansion, recognizing the outsized impact on single mothers. The Oversight Board also promotes skills training aligned with high-growth sectors like healthcare and construction and encourages collaboration among schools, employers, and workforce agencies. Its comprehensive strategy aims to create a more competitive labor market, address labor shortages, and support broader goals of economic growth, demographic stability, and fiscal sustainability.

39. How is the board assessing the long-term impacts of school closures and population decline on municipal finance and economic development?

Throughout the last decade, the Department of Education has faced significant challenges. Student enrollment at PRDE has fallen steadily, dropping 35% between fiscal years 2017 and 2025, from 365,000 to 236,000 students.

In 2018, the Government of Puerto Rico proposed to close 307 schools by fiscal year 2020. PRDE closed 255 of the 307 schools. The Fiscal Plan for Puerto Rico did not require additional school closures. The Oversight Board was not involved in PRDE's decision about which schools were closed. According to PRDE, the decision was based on capacity, geographic and cultural characteristics, distance to neighboring schools, transportation costs, and facility quality, etc.

40. What steps is the Board taking to modernize tax administration and enhance collections without placing undue burden on low-and-moderate income residents?

The Commonwealth of Puerto Rico is responsible for tax administration and collections. Policymakers in Puerto Rico must fully evaluate the budget implications of current and proposed tax expenditures and manage the size of tax incentives by setting limits on their annual cost and eliminating, to the extent possible, tax expenditures with negative returns.

Any tax modernization considered by the Government must aim to be predicated on statutorily based benefits that promote transparency and equity. Consistent with certified fiscal plans, tax policy changes must be made in a manner that is revenue neutral or otherwise fiscally responsible over the long-term as determined by the Oversight Board.

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42. How is the Board evaluating the economic effects of outmigration on the island's tax base, labor force, and long-term fiscal outlook?

The Oversight Board incorporates demographic shifts, including outmigration and aging, into its macroeconomic modeling and fiscal planning. Puerto Rico has seen an 8% population decline since 2015, with births now far outpaced by deaths and 32% of the current population aged 60 or older. This aging trend is shrinking the labor force, while increasing demand for healthcare and social services. The Oversight Board's analysis highlights how these trends undermine economic growth, strain public services, and weaken the Island's tax base by reducing income and consumption tax revenues.

43. Does the Board have projections for Puerto Rico's population over the next decade, and how are these demographic trends factored into the Fiscal Plan?

The Fiscal Plan for Puerto Rico includes estimates of Puerto Rico's current and future population trends based on U.S. Census data. Puerto Rico's current population is estimated to be approximately 3.1 million people. Forward-looking Fiscal Plan projections incorporate a negative

natural population change in Puerto Rico, meaning a higher annual number of deaths than births, which has been happening since 2016 and is projected to continue. The Fiscal Plan for Puerto Rico, which, like all Fiscal Plans is available on the Oversight Board's website, includes a detailed population discussion.¹⁰

44. How is the Board incorporating climate risk and resilience into the Fiscal Plan, particularly regarding infrastructure investment and federal recovery funds?

Factors affecting the Commonwealth's financial condition are numerous and complex, which present the potential for future challenges, including the ongoing implications of climate change and resilience.

As part of the next Fiscal Plan and accompanying forward-looking statements, the Oversight Board will identify ongoing economic risks, including climate change and natural disasters. Furthermore, to achieve long-term fiscal responsibility, the Government must develop and adopt a multi-year capital plan for all its agencies and instrumentalities addressing such risks to infrastructure and related investments.

45. What role has the Board played in overseeing the disbursement and tracking of federal disaster and recovery funds, and what systems are in place to ensure transparency?

The Oversight Board's role in overseeing the disbursement and tracking of federal disaster and recovery funds has evolved since its inception. Initially, the Oversight Board took a more passive approach, based on its statutory understanding that it should not intervene in the use of federal funds. However, since Puerto Rico's economy is highly dependent on federal funds, the perspective has shifted, although it is still constrained by PROMESA section 204(d). This reliance is largely due to the scale of multiple non-recurring disaster assistance and pandemic relief funds provided to states and territories by the federal government in response to recent public health and economic conditions.

In fiscal year 2025, federal funds made up nearly 46% of the Commonwealth's total budget, putting Puerto Rico at the top of the U.S. states and territories with the highest share of federal funding and up from 34% in fiscal year 2017. Moreover, Federal funds contribute to up to 20% of Puerto Rico's GNP. This increase is primarily attributable to non-recurring federal aid, including disaster assistance and COVID-19 relief funds.

In recent years, the Oversight Board has made efforts to oversee the disbursement and tracking of federal disaster and recovery funds; however, this remains a challenge due to limited and often inconsistent information available across agencies. The Oversight Board is currently working with the Government to establish a federal funds management office within the government's budget office to improve tracking and management of federal funds.

The Government does not have a centralized financial management framework in place for reporting federal funds. The lack of adequate tracking of federal fund usage across Puerto Rico

¹⁰ FOMB, 2024 Fiscal Plan for Puerto Rico, Restoring Growth and Prosperity (San Juan, PR: FOMB, June 5, 2024).

government entities may contribute to inefficiencies such as potential duplication of benefits or disbursements that are difficult to fully account for.

46. How is the Board ensuring that public-private partnerships (P3s) provide long-term value and accountability to Puerto Rico residents?

The Oversight Board views public-private partnerships (P3) as an important tool for improving infrastructure and services in Puerto Rico. P3s have already helped mobilize over \$9 billion in private investment across sectors such as airports, highways, ports, and energy.

When well-structured, P3s can enhance efficiency, unlock financing, and improve service quality. To ensure these partnerships deliver long-term value, the Oversight Board reviews major P3 agreements for fiscal alignment, performance benchmarks, and public benefit, applying its Contract Review Policy to promote transparency. The Oversight Board also advocates for strong governance, risk management, and accountability mechanisms to ensure private operators meet their obligations.

47. How does the Board evaluate the fiscal and social impact of tax expenditures such as special incentives, exemptions and decrees?

Puerto Rico's heavy reliance on tax expenditures—such as incentives, exemptions, and decrees—has significantly impacted its tax base, limiting the Government's ability to fund essential services and undermining goals of equity and transparency. The Oversight Board recognizes that some incentives can support valid policy objectives, but many lack evidence of effectiveness, clear eligibility criteria, or measurable outcomes. In response, the Oversight Board partnered with the Government to produce the first comprehensive Tax Expenditures Report in 2019, in accordance with Section 208(b) of PROMESA. This report has since been expanded and refined annually to improve fiscal transparency and accountability.

Moreover, through its Certified Fiscal Plan, the Oversight Board has consistently advocated for a robust framework to assess the cost-effectiveness of tax expenditures using a return-on-investment approach. It supports reforms such as establishing sunset provisions, setting clear performance metrics, and conducting periodic evaluations of all incentives, exemptions, and decrees. The Oversight Board also worked with the Government to consolidate over 50 legacy incentive programs creating a unified and modernized incentives code to foster private investment while promoting fiscal responsibility. It continues to recommend phasing out ineffective or opaque incentives—such as discretionary tax decrees and certain film tax credits—in favor of transparent, rules-based policies aligned with Puerto Rico's long-term economic and fiscal goals.

48. What is the Board's position on expanding Earned Income Tax Credit and other work-related incentives to strengthen labor force participation and reduce poverty?

The Earned Income Tax Credit (EITC) is one of the most effective tools to increase formal sector participation and reduce poverty. The Fiscal Plan for Puerto Rico included significant investments in expanded EITC starting in 2021 after receiving permanent additional funds from the federal government under the American Rescue Plan Act (ARPA). This expansion included an expanded

earned income definition to include wages, salaries, tips, pension income, and self-employment income.

At present, the Federal Government permanently provides an annual grant to Puerto Rico of up to three times local EITC spending, capped at \$600 million (indexed to U.S. inflation starting in 2021). Growth in the EITC, at its current pace, may require additional funding and crowd out the Government's ability to fund other critical government initiatives and services. The Oversight Board supports efforts by Congress to restore the originally intended three to one cost share intended by the American Rescue Plan.

Similarly, the Oversight Board supports expanding the Child Tax Credit (CTC) in Puerto Rico by increasing the maximum benefit and making it fully refundable, akin to the provisions in the ARPA that extended this benefit to all U.S. families with children, including those in Puerto Rico.

49. What reforms or efficiencies has the Board identified within the University of Puerto Rico system, and how does it evaluate UPR's role in driving economic development?

The University of Puerto Rico (UPR) plays an essential role in Puerto Rico's recovery and its future. It is crucial for the university and its students that UPR continue to offer the same quality education as it has in the past century.

The UPR Fiscal Plan directly addresses the challenges confronting UPR today: falling enrollments; a pension system that is at serious risk of insolvency; an aging infrastructure; a bloated bureaucracy; and an overreliance on the Government for funding. The Fiscal Plan prioritizes learning and acknowledges potential savings from a more efficient bureaucracy; savings that should be used to improve student experience as a whole.

50. What role does the Board believe cooperatives can play in Puerto Rico's financial system and local development, and how is this reflected in the Fiscal Plan?

The Cooperative system is an important part of the financial infrastructure of Puerto Rico, which serves one-third of the Island's population and is a critical component of the Island's economy, with 1.2 million members. The Fiscal Plan for the Public Corporation for the Supervision and Insurance of Cooperatives of Puerto Rico outlines key measures including transition to Generally Accepted Accounting Principles, strengthening governance and establishing an independent board.

51. What steps has the Board taken to support access to capital for small and medium sized businesses, particularly in rural and underserved areas?

Small and medium-sized enterprises (SMEs) are vital to Puerto Rico's economic recovery, representing a significant share of local employment and acting as engines of innovation and inclusive growth. The Oversight Board has prioritized reforms in the Fiscal Plan for Puerto Rico to streamline permitting and licensing, modernize tax compliance systems, and simplify business registration. These efforts include supporting the development of the government's Single Business Portal and improving interagency coordination to eliminate duplicative requirements—

critical steps to reducing barriers and improving access to financing. The Oversight Board is also working to modernize Treasury processes to ease tax compliance for small businesses and create a more investment-friendly climate.

The Oversight Board is also supporting improvements to federal financing programs, such as the \$109 million in State Small Business Credit Initiative (SSBCI) funds awarded to the Economic Development Bank and CDBG-funded initiatives, to ensure they effectively serve SMEs. It is also exploring the potential use of credit enhancements and state-backed financing vehicles to support early-stage companies.

The Fiscal Plan for the Public Corporation for the Supervision and Insurance of Cooperatives of Puerto Rico strengthens the financial health and oversight of cooperatives, which many small businesses and residents in communities across Puerto Rico rely for access to financial services.

Collectively, these efforts reflect the Oversight Board's commitment to an integrated strategy that removes systemic barriers, enhances institutional capacity, and supports a more equitable and sustainable ecosystem for small business growth.

52. How is the Board measuring progress toward reducing child poverty, and what recommendations does it have for aligning fiscal policy with social outcomes?

The Government of Puerto Rico is better suited to answer this question.

53. What is the Board's view on implementing a comprehensive housing strategy that addresses affordability, blight reduction, and homeownership support?

The Oversight Board is supportive of the Government developing a fiscally responsible, comprehensive housing strategy that addresses affordability.

54. How is the Board tracking migration trends among professionals such as doctors, teachers, and engineers, and what policy recommendations does it have to retain local talent?

The Oversight Board analyzes migration trends as part of the annual economic forecast for the Certified Fiscal Plan.

55. Intentionally blank since the number was missing in the sequence of questions provided to the Oversight Board.

56. How does the Board assess whether the Fiscal Plan complies with PROMESA's requirement to provide adequate funding for essential public services?

PROMESA requires that the Fiscal Plan ensures the funding of essential public services. PROMESA does not define essential services, nor has the Oversight Board attempted to do so. Generally, essential services relate to services required for health, public safety and public welfare. The budgets the Oversight Board has certified for the Government have prioritized

funding for services related to health, public safety and public welfare, and all comply with the requirements of PROMESA.

The Oversight Board, in partnership with the Government, has achieved several critical milestones to stabilize the finances of the Commonwealth. Successful debt restructurings for the Commonwealth and associate entities, yielding billions in savings and approximately reducing from 28% to 6% the share of local revenues required to service the debt, thereby freeing up resources to fund other essential services.

The fiscal plans provide estimates of revenues and expenditures over five or more years, ensure the funding of essential public services, provide adequate funding for public pension systems, eliminate structural deficits through efficiency measures, and define the necessary reforms to promote effective government and investments to promote economic growth.

More than 60% of total government funding is allocated to essential services like health, education, public safety, housing, and retirees.

For several decades, successive Governments failed to fund their three retirement plans adequately. When the Oversight Board started in 2016, the Employee Retirement System, Teachers' Retirement System, and Judiciary Retirement System were nearly insolvent, with more than \$55 billion in unfunded pension liabilities.

Preserving and protecting the ability to make pension payments in the future has always been an Oversight Board top priority. To ensure those payments, the Oversight Board authorized nearly \$2.5 billion in annual pay-as-you-go pension payments, funding retiree benefits directly through the annual budget.

57. What lessons has the Board learned from the Title III restructuring process that could inform any future municipal-level debt adjustment processes?

Congress has aided municipalities in fiscal crisis by using a variety of approaches on a case-by-case basis, for example New York City, the District of Columbia and Puerto Rico.¹¹ In each instance, policymakers made design decisions in establishing either a control board or an oversight board. Such decisions come with tradeoffs and compromise. An oversight board not fully embraced by the local government may result in increased costs due to litigation by the government contesting the powers of the board. For example, a significant part of the costs to implement PROMESA result from litigation expenses initiated by the government. This in turn delays implementation of debt restructuring and efforts to restore fiscal responsibility.

Municipal bankruptcies under Chapter 9 of the federal code are relatively rare; the process can be costly and time-consuming. The same is true for the Commonwealth's debt crisis implemented under PROMESA Title III. The key difference between Bankruptcy Code chapter 9 and PROMESA Title III is the success of Title III depends on the buy in from the Government of Puerto Rico. PROMESA struck a balance between the broad authority of a control board as seen in other jurisdictions and the desire to maintain a certain level of government sovereignty. This balance can impact the time to complete and the overall cost to support government-contracted entities.

¹¹New York City Seasonable Financing Act of 1976, Pub. L. No. 94-143, 89 Stat. 797 (Dec. 9, 1975) and Pub. L. No. 104-8, 109 Stat. 97 (Apr. 17, 1995).

Unlike oversight laws adopted for other insolvent governments (e.g., New York City, Detroit), PROMESA does not contain a “sunrise” provision that compels (or empowers) the Oversight Board to resume oversight if the Government again gets into financial trouble. When the Oversight Board terminates based on PROMESA’s Section 209 requirements, the decision is final. If the Government’s “readiness” to maintain sustained fiscal responsibility and balanced budgets without borrowing turns out to be incomplete, the long-term effectiveness of the statute would be called into question.

58. What steps is the Board taking to improve transparency and accountability of its own operations and decision-making processes?

The Oversight Board takes transparency seriously. On its website, the Oversight Board not only posts the fiscal plans and budgets its members certify, media releases and statements, and reports the Oversight Board produced or commissioned, but also:

- Financial Disclosures of the board members and executive staff
- Oversight Board contracts with consultants and advisors
- Minutes of board meetings
- Letters to the Government and instrumentalities