

**FINANCIAL OVERSIGHT AND MANAGEMENT BOARD FOR PUERTO RICO**  
**Testimony Before the Subcommittee on Indian and Insular Affairs,**  
**Committee on Natural Resources, House of Representatives,**  
**Statement of Robert F. Mujica, Jr., Executive Director**

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**INTRODUCTION**

Chair Hurd, Ranking Member Leger Fernández, and members of the Subcommittee:

I am pleased to be here today to discuss the Financial Oversight and Management Board for Puerto Rico (Oversight Board), our work, and the road ahead to complete the mandate Congress gave the Oversight Board under the Puerto Rico Oversight, Management, and Economic Stability Act of 2016 (PROMESA) to ensure Puerto Rico restructures its debt, restores fiscally responsible governance, and never again enters bankruptcy.

In January 2023, I joined the Oversight Board after serving as the State of New York’s budget director for seven years under the administrations of two governors. Previously, I worked for the leadership of the New York State Legislature on fiscal and budget issues. Over the course of my 25-year tenure, I worked for and collaborated with members of both parties, gaining a comprehensive understanding of the issues at stake. I firmly believe that budgets should be responsible, reflective of government priorities that serve the public interest, balanced, transparent, and timely regardless of the political party in power.

Those are the convictions and experiences I took with me to San Juan. But there is something else that guided me in my work for the people of Puerto Rico: my heritage.

My parents’ families left Puerto Rico at a time in Puerto Rico’s history known as the great migration. Puerto Ricans left to find good work and education for their children in New York and elsewhere in the U.S. My Puerto Rican grandfather built a small business in New York, a neighborhood grocery store, and my grandfather’s bodega, as it is called in the Bronx, is where I first learned to count money: I was occasionally allowed to work behind the cash register. That was a great honor, and a big responsibility for a young boy. I did not forget what he taught me then about the challenges of running a business. My parents, who have dedicated their careers to public service and served in the post-bankruptcy New York City Office of Management and Budget, taught me the value of good government.

The discipline and responsibility I learned, in New York, from my Puerto Rican parents and grandparents guided my work in Albany and is now guiding my work in San Juan. I returned to Puerto Rico to help create an environment where there is opportunity, where people want to stay in thriving communities and raise a family, where businesses can grow, where government works for the people, and where finances are managed responsibly. Success in

fulfilling Congress' mandate for Puerto Rico is what I owe you, members of Congress; it is what I owe the people of Puerto Rico, and it is what I owe my family. This is personal to me.

PROMESA is working. The Puerto Rico you see today is a dramatically different and improved Puerto Rico than in 2016, when Congress debated how to resolve the fiscal crisis. The Oversight Board's focus now is to complete the Puerto Rico Electric Power Authority's (PREPA) debt restructuring and continue to work with the Government of Puerto Rico to establish and institutionalize comprehensive budget and governmental reforms to ensure a solid foundation for economic growth. Puerto Rico must not fall back into fiscal instability. The fiscal crisis took a generational toll on its people, its communities, and its businesses. It is the Oversight Board's responsibility to complete Congress' mandate.

I will first cover PROMESA and the start of the Oversight Board, then address the Oversight Board's achievements, followed by completion of the PROMESA mandate.

## PROMESA

Puerto Rico, like U.S. states, does not have access to the municipal bankruptcy proceedings under the U.S. Bankruptcy Code. PROMESA was passed with a substantial bi-partisan majority and signed into law on June 30, 2016, to allow Puerto Rico to restructure its massive debt under terms similar to those available to municipalities under the Bankruptcy Code, and to create a process to get its fiscal house in order. Its mandate is to provide the means to achieve fiscal responsibility and access to the capital markets at reasonable interest rates.

PROMESA established the bi-partisan Oversight Board to represent Puerto Rico, and its instrumentalities, in those bankruptcy-like procedures and to assist them in managing their public finances. The seven unpaid Oversight Board members are appointed by the President of the United States. Six of the members are recommended by the congressional leadership representing the majority and minority, and the seventh member is appointed at the discretion of the President. The Puerto Rico governor, or the governor's representative, is an ex-officio member of the Oversight Board.

Congress did not create a control board. The Oversight Board does not manage day-to-day operations of Puerto Rico's elected government or any government entity and has no authority over government personnel decisions. The Oversight Board's authority derives from the powers PROMESA grants it to certify fiscal plans and budgets.

Under PROMESA, the Oversight Board has the responsibility to certify fiscal plans and budgets for the Government and covered instrumentalities. To the extent possible, the Oversight Board has worked and continues to work in consultation with Puerto Rico's elected leaders to develop the fiscal plans, and to develop budgets that are consistent with the fiscal plans. This ensures government spending does not exceed revenues. The Oversight Board also 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 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. At the start of each fiscal year, the Oversight Board certifies the budgets for the Commonwealth and the covered instrumentalities. As accounting data become available, the Oversight Board reviews government spending to confirm it complies with the fiscal plans. Under PROMESA, the government must have balanced budgets for at least four consecutive years before the Oversight Board can terminate.

In addition, 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'S START IN 2016

The Oversight Board has been working on Puerto Rico's recovery longer than anyone planned. The reasons are not difficult to explain.

Before PROMESA, Puerto Rico faced an unsustainable burden of more than \$73 billion in debt and more than \$55 billion in unfunded pension liabilities with no legal means to restructure the liabilities or reduce debt payments. In 2015, Puerto Rico Governor Alejandro García Padilla declared the debt could not be paid.

To put it in context, the monumental size of Puerto Rico's liabilities – over \$130 billion – was comparable to a sovereign debt crisis. Argentina, for example, defaulted in 2001 on around \$100 billion of bond debt, and Greece's debt was \$265 billion. Puerto Rico's bonds were issued by more than a dozen public entities, ranging from the central government to the public pension system and public utilities.

Prior to PROMESA, the Puerto Rico Government faced debt service costs of up to \$3.9 billion a year; the Oversight Board managed to 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, severely compromising its ability to fund basic services; today the amount going to debt service is closer to 6 cents of every dollar.

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.

In addition to deficit spending, Puerto Rico's long economic recession further contributed to the financial crisis. It ended only after the U.S. Government's disaster recovery funds stimulated economic growth in the aftermath of Hurricane Maria in 2017. Between 2006 and 2016 more than 300,000 people – 10% of the population – left the island in search of opportunity elsewhere. By June 2017, the unemployment rate reached 10% and the labor

force participation rate was 40%. Even today, the median household income in Puerto Rico is, at around \$25,000, less than half of the lowest state median (Mississippi).

## INTERVENING NATURAL DISASTERS AND COVID

Compounding the fiscal and economic challenges confronting Puerto Rico, an unprecedented string of natural disasters, hitting almost immediately after the Oversight Board was constituted, complicated its early work. The COVID public health crisis followed.

On March 13, 2017, the Oversight Board certified its first fiscal plan, working with Governor Ricardo Rosselló Nevares. On May 3, 2017, after hiring an executive director and general counsel, the Oversight Board began the debt restructuring process under Title III of PROMESA. Four months later, on September 6, 2017, Hurricane Irma made landfall in Puerto Rico, and on September 20, 2017, Hurricane Maria hit. Maria, the strongest storm to hit Puerto Rico in a century, claimed the lives of more than 3,000 people, and Puerto Rico's antiquated and poorly managed public electric utility, PREPA, experienced blackouts that lasted in some areas for as long as 11 months, the longest in U.S. history. The U.S. Government Accountability Office (GAO) noted that “the recovery from Hurricanes Irma and Maria has been the largest and most complicated in our nation’s history.”

The Oversight Board continued its work in the hurricanes’ aftermath through early 2020, when a series of earthquakes, the most severe one measuring 6.4 on the Richter Scale, shook the island. Shortly thereafter, Puerto Rico experienced the onset of COVID-19, and the world economy came to a virtual standstill. The Oversight Board halted the debt restructuring process and worked on a detailed reassessment of Puerto Rico’s future revenue potential and debt repayment plan in the wake of the severe economic and financial impact of COVID. Shortly after the COVID crisis subsided in Puerto Rico, the Oversight Board faced another unexpected catastrophe when category 4 Hurricane Fiona hit in September 2022, compounding the damage to the electric grid and other infrastructure that had resulted from prior natural disasters.

Throughout the four natural disasters and COVID, the Oversight Board worked closely with the government to address these challenges and stay on the path to recovery mandated by PROMESA. Nonetheless, political instability and government mismanagement has complicated the Oversight Board’s work and contributed to the challenges to reforming government. The Oversight Board has worked with five governors. Governor Rosselló Nevares’ tumultuous resignation in July 2019 was disruptive to the ongoing work of the government, and the subsequent governor recently pled guilty to felony charges of accepting campaign contributions from foreign nationals. In the past five years, at least seven Puerto Rico mayors have been criminally charged for procurement-related misconduct, including offenses involving kickbacks, corruption, and fraud.

## BOARD ACHIEVEMENTS

Despite these significant challenges, the Oversight Board made substantial progress in implementing its congressional mandate to achieve fiscal responsibility. The Oversight Board estimates that it has saved Puerto Rico more than \$72 billion dollars in debt payments

and reduced spending through right-sizing government spending to align expenses with revenues and other reforms.

The Oversight Board has completed 12 debt restructurings, reducing \$63 billion in financial debt by almost 60%, to \$27 billion, and eliminating more than \$55 billion in payments to creditors over 40 years. We are working now on resolving the last case, the restructuring of about \$10 billion in debt and other financial claims against PREPA through a Plan of Adjustment, which, if is approved by the court, would save the people of Puerto Rico more than \$15 billion in additional debt service payments over 40 years.

Puerto Rico's bankruptcy is not only the largest public sector bankruptcy in U.S. history, it is also the most complex. Puerto Rico's \$73 billion-dollar debt was issued by more than a dozen public entities, including the central government of Puerto Rico and numerous quasi-governmental entities, as well as essential service utilities whose service functions are vital to the lives of Puerto Rico's residents and to Puerto Rico's economic recovery and competitiveness. In each restructuring, the entity was different. The credit was different. The legacy bondholders' asserted rights and remedies and liens were different, as were the revenues potentially available to address creditor claims.

The largest debt restructuring was that of the Commonwealth. In January 2022, U.S. District Judge Laura Taylor Swain confirmed the Oversight Board's proposed Commonwealth Plan of Adjustment, reducing its \$34 billion outstanding debt by almost 80%, to \$7.4 billion. The other debt restructurings completed so far were the Employee Retirement System (ERS), the Public Building Authority (PBA), the Government Development Bank (GDB), the Puerto Rico Sale Tax Financing Corporation (COFINA), the Puerto Rico Aqueduct and Sewer Authority (PRASA), the Puerto Rico Highway and Transportation Authority (HTA), the Puerto Rico Infrastructure Financing Authority (PRIFA), the Puerto Rico Convention Center District Authority (PRCCDA), the Puerto Rico Industrial Development Company (PRIDCO), the Tourism Development Fund (TDF), and the Public Finance Corporation (PFC).

Certain groups of creditors mounted aggressive challenges in each restructuring, although holders of a majority of debt supported each restructuring. In every legal case, the Oversight Board completely or substantially prevailed.

In some cases, debt restructuring was only one element of a broader transformation process. In the case of HTA, the Oversight Board's Plan of Adjustment not only reduced HTA's debt by 80% but enabled the agency to generate new funding for investments in Puerto Rico's ailing infrastructure. The Plan of Adjustment for HTA, which became effective in December 2022, required HTA to move forward with transferring its toll roads to private operators. Subsequently, a highly competitive bidding process for the toll roads not already privately managed resulted in a concession fee of about \$2.85 billion, enabling HTA to pay off the remaining debt and providing an additional \$1.1 billion for investments in road maintenance and other long-term transportation projects.

## Pension Protection

The Oversight Board, together with the government, restructured the Commonwealth's public employee pension systems. 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.

In addition, the Commonwealth Plan of Adjustment froze benefits and eliminated the future cost-of-living adjustment. These reforms, despite not including any cuts to accrued benefits, managed to save the government approximately \$5.6 billion.

Through the Oversight Board's efforts, over 100,000 Defined Contribution accounts were created to facilitate employee retirement savings. Social Security is also available to all teachers under 45 years of age for the first time, and those over 45 can join if they choose. The Oversight Board also successfully advocated for Puerto Rico's police officers' access to Social Security.

Notwithstanding these successes, the government has repeatedly challenged these reforms to Puerto Rico's public pension systems by advancing multi-billion dollar spending bills and laws to reinstate defined benefit plans and expand costly benefits without corresponding savings or new offsetting revenue. In many instances, the Oversight Board was forced to sue to invalidate those increases to protect future pension payments and stop deficit spending. The Oversight Board prevailed in the U.S. District Court in each case and has since been working with the government to avoid repeat controversy.

## Ending Chronic Deficit Spending

The Oversight Board ended 16 consecutive years of budget deficits by taking several steps in cooperation with the government. Together, we froze salaries of government employees until the budget was stabilized, reducing growth in government expenses by \$393 million. Salaries for government employees are now guided in accordance with a comprehensive civil service reform process developed by the Oversight Board and the government establishing job classification, compensation benchmarks, employee evaluations, and training to institute a capable and motivated workforce system.

The Oversight Board and the government reduced government headcount by 41%, from 177,242 to 104,854. The headcount of public corporations fell by 51%, from 52,270 to 25,609. Altogether, payroll optimization measures saved \$3.9 billion over seven years. These savings were achieved without layoffs, rather through natural attrition and early retirement programs designed and carried out by the government. No teacher, no healthcare worker, and no police officer lost their job.

As one notable achievement, in September 2020, the Oversight Board learned that due to a dysfunctional time and attendance system at least \$80 million had been paid over 13 years by the Puerto Rico Department of Education (PRDE) to employees who had resigned, retired, were not working, or deceased. The Oversight Board worked with the government to fix the system, saving \$171 million.

Rightsizing measures also included non-personnel cost reductions, agency rightsizing, centralizing purchasing, and a major overhaul of government practices in purchasing goods and services, including instituting a competitive procurement process, saving \$2.6 billion over seven years.

Another major success of the Oversight Board has been improvements in government transparency resulting in better financial management. The government is now tracking and consolidating balances from more than 2,000 bank accounts in a centralized manner – the result of a forensic analysis commissioned by the Oversight Board. Identifying, locating, and examining the bank accounts, almost all of which were controlled by different government agencies, took the Oversight Board and forensic accountants nearly three years. The government now provides monthly reporting of budget-to-actuals for select agencies.

By maintaining a minimum cash balance, the government is able to pay its expenses when due. This and other Oversight Board actions enabled the government to fund a \$1.3 billion Emergency Reserve, which has been accessed multiple times to rapidly respond to natural disasters both large and small. The government was able to replenish the emergency reserve within a reasonable time after accessing it, thanks to the financial management practices instilled by the Oversight Board. This May, the emergency reserve was used to swiftly respond to damage caused by flash floods. When Hurricane Maria hit, no such reserve was available.

### Legislative Review and Scoring

In addition to the foregoing government reform, a critical advance has been putting an end to the past Puerto Rico Legislature's practice of considering and passing legislation without any estimate and regard as to its cost and budgetary impact.

When the Oversight Board started, the Legislature did not score legislation. Consequently, when the Oversight Board began analyzing the fiscal impact of enacted legislation, it often had to disapprove of laws that undermined the balanced budget, its fiscal plans, and PROMESA's mandate of achieving fiscal responsibility. The Oversight Board 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. It expressed concerns about many bills that have not, or not yet, become law.

For example, the Oversight Board prevented implementation of a 2021 law which would have increased pension benefits by an estimated \$17 billion. The prior year, absent the Oversight Board's intervention, the government would have implemented three early retirement laws that the Oversight Board estimated would have cost around \$8 billion over 30 years.

In late 2023, the legislature passed one of the largest personal and corporate income tax cuts in Puerto Rico's recent history, which would have reduced government revenues by about \$750 million in fiscal year 2023 alone and by almost \$3 billion over five years, only a year after emerging from bankruptcy and without assessing the out year budgetary impact. The significant revenue cut did not include any offsetting reduction in expenses and would have resulted in a significant deficit, erasing the progress made in recent years to stabilize Puerto Rico's finances. The Oversight Board reached a compromise with the governor and the legislative assembly on 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 a major step forward toward curbing this practice, in 2023 the legislature created the Budget Office of the Legislative Assembly (OPAL), a requirement of the Oversight Board-certified fiscal plan. 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, but not all bills with a potential fiscal impact. 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 and other matters before the Legislature. The Oversight Board is closely monitoring the implementation of OPAL.

#### Contract Review

The Oversight Board's review of government contracts with a value of \$10 million or more supports transparency and competition in government procurement. (The Oversight Board, at its sole discretion, may lower the threshold.) Examples include the contracts for fuel that power PREPA's generation plants. In the past, the Oversight Board worked closely with PREPA to ensure a transparent and competitive bidding process that achieved significantly lower prices for the residents and businesses of Puerto Rico. The contracts show that prudent procurement practices achieve the best results.

The Oversight Board continues to advocate for government development and implementation of procurement best practices. The Puerto Rico Government's current practices in procurement still lack transparency and create significant risks of favoritism, corruption, and inefficiency, as well as stifle competition and innovation.

#### Energy

The Oversight Board has been working with the Government of Puerto Rico, PREPA, the Puerto Rico Energy Bureau (PREB), federal authorities, and other stakeholders to execute a comprehensive transformation of Puerto Rico's energy system as defined by Puerto Rico law and the Fiscal Plan for PREPA to establish a more reliable and sustainable energy system. This transformation includes strengthening the energy regulator to ensure decision making driven by efficiency and Puerto Rico's energy requirements rather than political



considerations. It also includes the separation of the ailing grid from power generation and transferring both to private management.

Many elements of the transformation have been completed. There is also progress toward the transition from bunker fuel and diesel to cleaner and cheaper energy sources, although substantial progress is still needed.

The Oversight Board continues to review energy contracts between the government and private providers to ensure that they promote market competition and are not inconsistent with the fiscal plan. In addition, the Oversight Board is working closely with the government to expedite federal disbursement and government use of appropriated FEMA funds for investment in the electric grid.

The most pressing energy issue before the Oversight Board is the debt restructuring of PREPA. It has been the most difficult restructuring for the Oversight Board to complete, for three reasons. The recovery to creditors directly affects the families and businesses in Puerto Rico more than any other debt restructurings due to its impact on the already high cost of power for unreliable service. Second, the poor condition of PREPA and the Puerto Rico energy system (both the dilapidated grid and the aged and outdated power plants) require substantial expenditure for maintenance and repair well beyond funds made available by the federal government for disaster recovery.

Third, a specific group of bondholders is demanding full 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. Those bondholders’ demand would equate to a surcharge of 8 cents per kWh for 50 years for the principle alone, effectively saddling families and businesses with rates that stifle the economy and limit the ability to repair and maintain a Puerto Rico electric grid already in severe need of investment.

Puerto Rico has among the highest electricity rates in the U.S. and the worst records of performance, the result of decades of rampant mismanagement and neglect. In 2023, Puerto Ricans faced 7.8 times more service interruptions than the average U.S. customer, and 6.6 times more interruptions in 2022. Its outages in 2022 were 13.2 times longer than the average mainland U.S. customer, and 12.5 times longer in 2022.

Further, as previously mentioned, Puerto Rico’s median household income is low compared to the rest of the nation. In the last Census, Puerto Rico’s median income was less than half of the median income in Mississippi, the lowest among U.S. states. Yet, Puerto Rico residents pay among the highest electricity rates for the least reliable electricity service.

These economic facts are the basis for the Oversight Board’s parameters for any responsible settlement with PREPA’s creditors. On March 28, 2025, the Oversight Board filed PREPA’s Fifth Amended Plan of Adjustment to reduce payment to creditors by more than \$10 billion, excluding claims of pension holders. The Plan would cut PREPA’s debt by almost 80%, to \$2.6 billion, excluding pension liabilities. Holders of approximately 44% of the debt have agreed to the proposal.

The Oversight Board will be working with the government to identify the source of funds to support the recovery for creditors proposed in the plan to avoid additional electric rate increases. Together with the government, the Oversight Board will have to make the difficult decision to identify the funds, but the Oversight Board firmly believes that it is critical to Puerto Rico and its economic recovery to end PREPA's Title III case as soon as reasonably possible.

The First Circuit Court of Appeals has ruled that by virtue of the terms of their bond documents, the non-consenting bondholders have limited recourse bonds payable only from their lien against PREPA's "Net Revenues." The Oversight Board believes PREPA's infrastructure is severely deteriorated. It is plagued by island-wide power outages and delays in the deployment of federal disaster funding needed to restore the grid and power plants. Consequently, its costs of maintenance and operation needs leave little or no revenues in excess of expenses to satisfy the bondholders' claim. Puerto Rico's electric system is still in a state of emergency.

U.S. District Court Judge Swain has stayed much of the Oversight Board's litigation with the non-consenting bondholders. In the Oversight Board's view, the non-consenting bondholders are engaged in delay tactics designed to stall progress in the PREPA restructuring proceeding. The U.S. District Court has ordered the parties to mediate and that process is ongoing. While the Oversight Board is committed to concluding this final bankruptcy, its overarching objective remains to ensure that the Commonwealth of Puerto Rico and its instrumentalities exit their restructuring processes as viable, fiscally responsible entities.

#### COMPLETING PROMESA'S MANDATE

The Oversight Board is not a permanent institution. Congress defined when it terminates. PROMESA requires that before the Oversight Board terminates, the government must balance its budget for at least four consecutive fiscal years in accordance with modified accrual standards, and Puerto Rico must have adequate access to short term and long-term credit markets at reasonable interest rates.

The Oversight Board has worked diligently toward those goals, and, together with the government, has recently reached an important milestone: on June 27, 2025, the Oversight Board certified the fiscal year 2026 budget for the Commonwealth that is consistent with the fiscal plan. It had been developed jointly with the administration of Governor Jenniffer González Colón and the Legislative Assembly.

This budget could qualify as the first of four consecutive balanced budgets for the Commonwealth under PROMESA and represents major progress from the prior years. For the previous fiscal year 2025, the Legislature and the government, with the support of the Oversight Board, passed a budget that the Oversight Board certified as compliant with the fiscal plan. However, legislators enacted a bill that would have added, per the government's own estimates, \$500 million in costs to the budget if implemented, without identifying resources to pay for it.

For fiscal year 2023, the legislature did not submit a timely and compliant budget to the Oversight Board for certification. As a result, the Oversight Board was required to exercise its authority to certify a budget for the Commonwealth on its own.

Further, the government has continued its practice of passing laws reducing revenues and increasing expenditures outside the budget process and without identifying ways to pay for that cost. At present, 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 enact and maintain a balanced budget throughout the fiscal year. Otherwise, Puerto Rico will end up with deficits and the kind of painful adjustments so difficult to implement by any government.

PROMESA's requirement that the government develop a balanced budget in accordance with modified accrual standards for at least four consecutive fiscal years provides the critical assurance that in the absence of the Oversight Board, the government, in practice, will be capable of passing and maintaining balanced budgets and avoid the deficit spending that led to its financial crisis. To achieve this, the government must establish long-term, multiyear financial and capital plans, implement modified accrual accounting standards, and deliver timely audited financial statements. Its last completed audited financial statements were for fiscal year 2022.

Critical structural changes are underway to establish a sound financial management system. For example, the Government and the Oversight Board are working together on the implementation of an enterprise resource planning system (ERP) to centralize all financial management functions for the Commonwealth to provide a uniform and coordinated system for fiscal governance and transparency. Prior to the establishment of the Oversight Board, Puerto Rico was plagued by inadequate access to necessary financial data, systems, and oversight practices. These challenges will persist until this new financial management system is completed.

While the government, with the help of the Oversight Board, has made substantial progress in stabilizing the budget and improving financial controls, more progress is clearly needed to institutionalize and operationalize budget process reforms so the government has stable and fiscally responsible financial management practices and is never again at risk of bankruptcy. With the recent progress of the fiscal year 2026 budget and improvements underway and in place, the government is in a position to move toward assuming financial responsibility in the Oversight Board's absence. The Oversight Board is committed to helping it do so.

#### Market Access

The second mandate of PROMESA for the departure of the Oversight Board is for the government to have adequate access to short-term and long-term credit markets at reasonable interest rates.

Regaining market access requires the Commonwealth and its covered instrumentalities to establish a sustained record of specific levels of fiscal performance and transparency

consistent with municipal regulatory and market standards. For example, in addition to bringing delinquent audited financial statements up to date, the government needs to demonstrate to the credit markets its capacity to consistently deliver timely audited financials, typically within 180 days from the end of the fiscal year.

The government will, moreover, need to demonstrate that its debt, both restructured and new, is actively trading in the municipal market at reasonable levels relative to market indices and produce evidence that investors, including municipal bond buyers, are ready to invest in Puerto Rico again and deem Puerto Rico creditworthy.

The Oversight Board's mandate is clear: Help Puerto Rico achieve fiscal responsibility and regain access to capital markets. Then it must leave. We have made substantial progress, but we have some ways to go to ensure that Puerto Rico can maintain its course of fiscal stability and never again risk bankruptcy.

Chairman Hurd, Ranking Member Leger Fernández, and members of the Subcommittee, this completes my prepared statement. I would be pleased to respond to any questions that you may have at this time.