

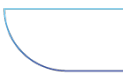


Annual Report 2024

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Abbreviations

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| BEA | Bureau of Economic Analysis |
| CAA | Consolidated Appropriations Act |
| CCDA | Puerto Rico Convention Center District Authority |
| CHIP | Children’s Health Insurance Program |
| CMS | Centers for Medicare & Medicaid Services |
| COFINA | Puerto Rico Sales Tax Financing Corporation |
| COGS | Census of Governments |
| Commonwealth | Commonwealth of Puerto Rico |
| COR3 | Central Office for Recovery, Reconstruction and Resiliency |
| COSSEC | Public Corporation for the Supervision and Insurance of Cooperatives of Puerto Rico |
| CTI | Child Tax Credit |
| CVI | Contingent Value Instruments |
| DOE | United States Department of Energy |
| EHP | Environmental and Historic Preservation |
| EITC | Earned Income Tax Credit |
| ERP | Enterprise Resource Planning System |
| ERS | Employee Retirement System |
| EPA | United States Environmental Protection Authority |
| FEMA | Federal Emergency Management Agency |
| FFCRA | Families First Coronavirus Response Act |
| FMAP | Federal Medical Assistance Percentage |
| GAAP | United States Generally Accepted Accounting Principles |
| GAO | United States Government Accountability Office |
| GDA | Government Development Bank |
| GDP | Gross Domestic Product |
| GFOA | Government Finance Officers Association |
| GILTI | Global Intangible Low-Taxed Income |

| | |
|-----------------|--|
| Hacienda | Department of Treasury |
| HTA | Puerto Rico Highway and Transportation Authority |
| LNG | Liquified Natural Gas |
| LOLE | Loss of Load Expectation |
| LOLH | Loss of Load Hours |
| LUMA | LUMA Energy |
| MACPAC | Medicaid and Children's Health Insurance Payment and Access Commission |
| MedPAC | Medicare Payment Advisory Commission |
| MNC | Multinational Companies |
| MW | Megawatt |
| NAP | Nutrition Assistance Program |
| OECD/G20 | Organisation of Economic Co-operation and Development Group of Twenty |
| OPAL | Legislative Assembly Budget Office |
| Oversight Board | Financial Oversight and Management Board for Puerto Rico |
| PRASA | Puerto Rico Aqueduct and Sewage Authority |
| PRDE | Puerto Rico Department of Education |
| PREB | Puerto Rico Energy Board |
| PREPA | Puerto Rico Electric Power Authority |
| PRIDCO | Puerto Rico Industrial Development Company |
| PRIFA | Puerto Rico Infrastructure Financing Authority |
| PROMESA | Puerto Rico Oversight, Management, and Economic Stability Act |
| PBA | Public Buildings Authority |
| SNAP | Supplemental Nutrition Assistance Program |
| SSI | Supplemental Security Income |
| T&D | Transmission & Distribution |
| USDA | United States Department of Agriculture |

Board Members



Arthur J. Gonzalez
Chair



Andrew G. Biggs
Board Member



Cameron McKenzie
Board Member



John E. Nixon
Board Member



Betty Rosa
Board Member



Juan Sabater
Board Member



Luis Ubiñas
Board Member

Executive Team



Robert F. Mujica Jr.
Executive Director

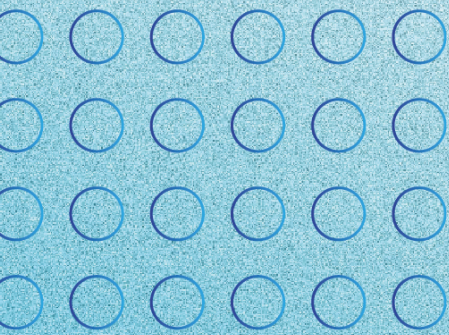


Jaime El Koury
General Counsel



José Ramón Pérez-Riera
Economic Growth and
Revitalization Coordinator

Fiscal Year 2024
8th Annual Report
January 22, 2025
San Juan, PR



Letter



Arthur J. Gonzalez
Chair

Members

Andrew G. Biggs
Cameron Mckenzie
John E. Nixon
Betty A. Rosa
Juan A. Sabater
Luis A. Ubiñas

Robert F. Mujica Jr.
Executive Director

January 22, 2025

The Honorable Donald J. Trump
President of the United States

The Honorable John Thune
Senate Majority Leader United States Senate

The Honorable Charles E. Schumer
Senate Minority Leader United States Senate

The Honorable Mike Johnson
Speaker of the United States House of Representatives

The Honorable Steve Scalise
House Majority Leader United States House of Representatives

The Honorable Hakeem S. Jeffries
House Minority Leader United States House of Representatives

The Honorable Mike S. Lee
Chairman of the Senate Committee on Energy and Natural Resources

The Honorable Martin T. Heinrich
Ranking Member of the Senate Committee on Energy and Natural Resources

The Honorable Bruce E. Westerman
Chairman of the House Committee on Natural Resources

The Honorable Jared W. Huffman
Ranking Member of the House Committee on Natural Resources

The Hon. Trump
The Hon. Thune
The Hon. Schumer
The Hon. Johnson
The Hon. Scalise
The Hon. Jeffries
The Hon. Lee
The Hon. Heinrich
The Hon. Westerman
The Hon. Huffman
The Hon. González Colón
The Hon. Rivera Schatz
The Hon. Méndez Núñez
January 22, 2025
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The Honorable Jenniffer González Colón
Governor of Puerto Rico

The Honorable Thomas Rivera Schatz
President of the Senate of Puerto Rico

The Honorable Carlos J. Méndez Núñez
Speaker of the House of Representatives of Puerto Rico

Dear President Trump, Senate Majority Leader Thune, Senate Minority Leader Schumer, Speaker Johnson, House Majority Leader Scalise, House Minority Leader Jeffries, Chairman Lee, Ranking Member Heinrich, Chairman Westerman, Ranking Member Huffman, Governor González Colón, President Rivera Schatz, and Speaker Méndez Núñez,

The Financial Oversight and Management Board for Puerto Rico is pleased to submit, pursuant to section 208 of the Puerto Rico Oversight, Management, and Economic Stability Act, its 2024 Annual Report.

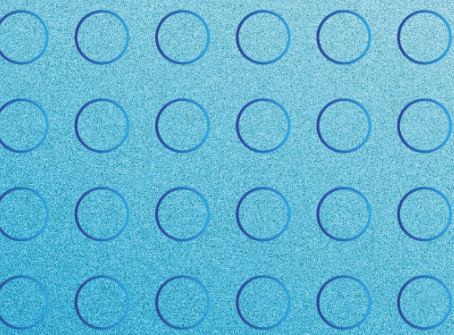
The Members of the Board are available to provide additional information upon request.

Sincerely,



A handwritten signature in blue ink, appearing to read "R. Mujica, Jr." with a stylized flourish.

Robert F. Mujica, Jr.
Executive Director



Executive Summary

Executive Summary

The 2024 Annual Report of the Financial Oversight and Management Board for Puerto Rico (Oversight Board) outlines key developments and fiscal challenges for the territory. The report highlights the certification of a \$33.3 billion All Funds budget for fiscal year 2025 for the Commonwealth of Puerto Rico, including a \$13 billion in General Funds reflecting a 3% increase in total spending, \$4.9 billion in Special Revenue Funds, and \$15.4 billion in Federal Funds.

Following the confirmation of several Plans of Adjustment under Title III or PROMESA, debt restructuring efforts continued with the Oversight Board working towards the best possible outcome for the ongoing Title III proceeding of the Puerto Rico Electric Power Authority (PREPA). The Oversight Board also prioritized energy transformation, working to identify and remove obstacles in deploying over \$17 billion in federal funds for grid stabilization. A major Budget concern is the "Medicaid cliff," with federal Medicaid funding set to decrease after 2027, which could jeopardize budget balance and healthcare stability for Puerto Rico's population.

The method to achieve fiscal responsibility requires permanent policies and defined practices. It requires discipline and continuity. Restructuring Puerto Rico's debt was the first step on the road to achieve fiscal responsibility. Restructuring the debt is insufficient to declare the recovery completed. Many of the financial management policies and practices that led to bankruptcy remain and permanent reforms are lacking.

The debt crisis was a symptom of a much larger problem: the systemic lack of fiscal responsibility, combined with decades of prolonged economic contraction.

Today, Puerto Rico is stable and the Commonwealth government solvent though PREPA has yet to emerge from the Title III court. Puerto Rico has come a long way. To complete the Oversight Board's mandate, sound fiscal management practices must be accepted and permanently implemented to last over the long term.

Progress towards effective financial management requires fiscal discipline, setting priorities, and long-term planning. These elements, consistent with practices accepted in local jurisdictions across the nation, are essential to continue Puerto Rico's path towards recovery, fiscal responsibility and, ultimately, sustainable economic growth.

Balanced budgets combined with discipline, priorities, and planning are key elements to fulfilling Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA)'s mandate so the Oversight Board can complete its work.



01

Financial Management and Accountability

1.0 Financial Management and Accountability

1.1 Strengthening Financial Management and Accountability: Progress, Challenges and the Path Forward

Since 2017, the Oversight Board has worked collaboratively with the Puerto Rico Government to certify fiscal plans and budgets based on core principles:

- **Revenue forecasts** tied to macroeconomic indicators.
- **Detailed spending estimates** incorporating stakeholder input.
- **Transparent expenses** to facilitate oversight.
- **Frequent reporting** of actual versus budgeted spending.

The Board developed a comprehensive process to evaluate mid-year budget changes, ensuring adequate funding for operational needs. Additionally, quarterly financial reports prepared by the Oversight Board now provide detailed fiscal analyses, including five-year projections under current laws and services being implemented.

Efforts to reform Puerto Rico's civil service remain crucial, focusing on deploying motivated, effective public servants in critical roles, particularly in financial management.

In fiscal year 2025, the Board certified a \$33.3 billion All Funds budget for fiscal year 2025 for the Commonwealth of Puerto Rico, including a \$13 billion in General Funds reflecting a 3% increase in total spending, \$4.9 billion in Special Revenue Funds, and \$15.4 billion in Federal Funds. It funds essential sectors such as education, healthcare, public safety, and economic development while promoting financial discipline and economic growth. However, notwithstanding the inflation level increase agreed to with the Executive, the Legislature attempted to increase spending by over 4 times the projected inflation rate. Continued compliance with the responsible Fiscal Plan requires consistent collaboration from the Governor and Legislature.

Challenges and Reforms Needed

Recent legislative actions, including bills proposing unfunded spending increases and revenue reductions, signal a return to past fiscal mismanagement. In the fiscal year 2025 alone such measures if left unchecked by the Oversight Board would have increased spending year over year by over 9% (or \$1 billion), with no multiyear financial plans and disrupting long term fiscal balance. To address this, the Board worked with the Legislature to introduce certification requirements for funding new spending bills, marking a step toward accountability.

Despite progress, significant gaps remain in fiscal control, such as:

- Absence of real-time spending visibility and cash management systems.
- Lack of a multi-year binding revenue forecasting process.
- Limited adherence to fiscal responsibility frameworks, including procurement, budgeting, and performance management.

Major initiatives are underway, including collaboration with the Office of Management and Budget to implement best and at a minimum standard local budgeting practices and Modified Accrual accounting standards.ⁱ

Successful implementation of this initiative along with the enterprise resource planning system is a requirement to build the financial management capacity to transition from bankruptcy to long term fiscal stability. Increased transparency and accountability in contracting and financial operations are still required to regain public trust and ensure taxpayer dollars are used efficiently.

The Commonwealth Fiscal Plan for 2024, certified on June 5, 2024, outlines priorities for economic development. The plan emphasizes that economic growth is key to Puerto Rico's future. Every reform, investment, and law must focus on fostering a resilient economy to ensure that the government has the resources to improve the quality of life for its people.

Path Forward

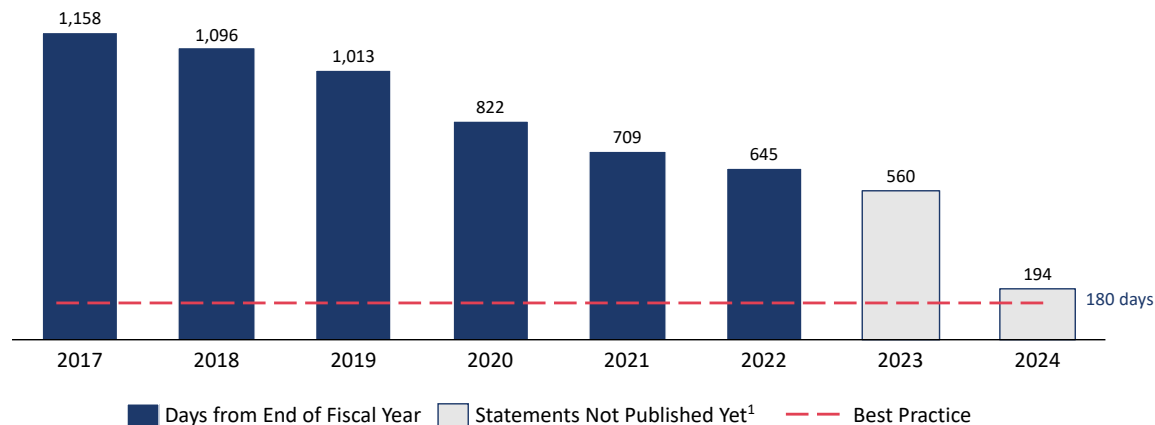
To regain access to capital markets and achieve fiscal independence, Puerto Rico must permanently embed financial management practices into governance. Achieving balanced budgets and responsible economic policies will close the chapter on its fiscal crisis and unlock sustainable growth.

1.2 Impact of Delayed FY2022 Commonwealth Financial Statements on Puerto Rico's Fiscal Health

Puerto Rico's FY2022 Audited Commonwealth Financial Statements were issued in April 2024, 21 months after the fiscal year-end, far exceeding the Government Finance Officers Association (GFOA) best practice guideline of publishing within 6 to 9 months (180-270 days).

Figure A: Commonwealth Financial Statements Publication Days

Financial Statements Publication: Number of days from the end of fiscal year
In days



(1) Days calculated as of 1-10-24

Key Issues from Delays

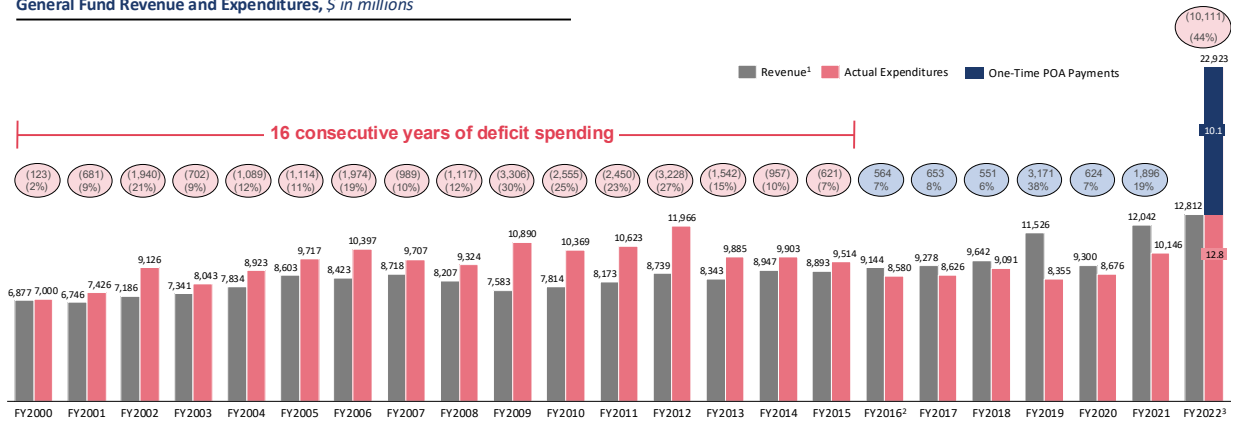
- 1. Impact on Financial Information:** The delayed release undermines the reliability and timeliness of financial data essential for revenue and expenditure forecasting, impeding efforts to maintain balanced budgets and sound fiscal management efforts.
- 2. Stakeholder Challenges:** The delay limits key stakeholders—government, bondholders, constituents, and investors—from making informed decisions about resource allocation, investments, and assessments of Puerto Rico’s creditworthiness.
- 3. General Fund Deficit:** The FY2022 statements revealed a \$3.3 billion deficit in the General Fund under United States Generally Accepted Accounting Principles (GAAP) accounting, with expenditures exceeding revenues. Such deficiency was mostly attributed to one-time payments made upon confirmation of the Commonwealth’s plan of adjustment for which prior years’ funds were used. Moreover, budgets did not reserve debt service between fiscal year 2016 through 2021, see **Figure B**. This highlights the ongoing financial challenges facing the Commonwealth.
- 4. Budgetary vs. GAAP Reconciliation:** The statements included a reconciliation of the General Fund from budgetary to GAAP basis, providing clarity on the fiscal deficit and differences in accounting treatments.

Figure B depicts Historical trends of General Fund revenue and expenses reported in the Audited Commonwealth Basic Financial Statements.

Figure B: Audited Commonwealth Basic Financial Statements General Fund Historical Revenue and Expense Trends

After PROMESA, surpluses generated funded the Commonwealth restructuring by managing spending to maintain fiscal balance

General Fund Revenue and Expenditures, \$ in millions



(1) General Fund revenue excludes financing sources.
 (2) FY2016 actual expenditures did not include the full debt service payment.
 (3) FY2022 actuals used cash accumulated from prior year surpluses to pay for settlements resulting from the Plan of Adjustment.

Source: Audited amounts from the Basic Financial Statements, Exhibit: "Statement of Revenue and Expenditures-Budget and Actual Budget Basis-General Fund".

Pre-Decisional | Privileged and Confidential Draft | Analysis Subject to Material Change

1

The significant delays in publishing financial statements hinder transparency, accountability, and effective financial management. Timely and accurate financial reporting is essential for evaluating Puerto Rico’s fiscal health, fostering investor confidence, and supporting informed decision-making to address ongoing financial challenges.

1.3 Strengthening Budget Reprogramming Funds: Policies, Practices, and Fiscal Oversight

Effective budget reprogramming relies on clear policies, transparency, and structured oversight. Key practices include establishing formal approval processes with thresholds for legislative or executive review, maintaining detailed documentation and audit trails, and setting limits on the timing and scale of reallocations. Transparency is enhanced through public disclosure, stakeholder engagement, and regular reporting of changes. Additionally, technology, such as budget management systems, can streamline workflows and improve oversight. Aligning reprogramming with long-term strategic goals ensures fiscal responsibility and supports the credibility of the budgeting process. Examples from city governments, federal agencies, and oversight frameworks like PROMESA illustrate successful implementation.



The Impact of PROMESA on Puerto Rico’s Reprogramming Authority

Before the enactment of PROMESA, Puerto Rico law (Act 230-1974), as amended, known as the “Puerto Rico Government Accounting Act” (“Act 230”) granted the Governor broad authority to reallocate unspent funds from previous fiscal years contributing to structural imbalance. However, under PROMESA’s certified fiscal plan and budget, the Governor is prohibited from invoking this power. Instead, the Governor may request that the Oversight Board reprogram funds allocated in the current year’s certified budget.ⁱⁱ Any such reprogramming must align with the fiscal plan and receive Oversight Board approval.ⁱⁱⁱ

Reprogramming Practices in Other Jurisdictions

- **States:** Most states operate within the confines of their enacted budgets but have varying degrees of flexibility in reallocating funds. Restrictions are typically stricter for transfers between departments than within programs or object classes. Budget offices are often responsible for approving transfers.^{iv}
- **Federal Government:** Reprogramming is tightly regulated to ensure compliance with guidance, including United States Office of Management and Budget Circular No. A-11^v and the Antideficiency Act.^{vi} These rules ensure funds are used within designated limits and timelines, with reprogramming often triggering accounting adjustments like reapportionments.

Summary of Reprogramming in Puerto Rico

Between fiscal years 2021 and 2024, Puerto Rico submitted an average of 500–700 reprogramming requests annually, reallocating approximately \$47.1 billion. This high volume underscores the need for enhanced budget planning tools and collaboration to ensure reprogramming aligns with long-term financial and operational goals, such as improving service delivery and addressing urgent needs.

Standard best practices include:

- **Enhancing Budgetary Controls:** Strengthen mechanisms to prevent overspending and uphold financial discipline.
- **Formalizing Approval Processes:** Establish uniform protocols across government entities to build trust in the reprogramming framework.
- **Improving Data Consistency:** Coordinate records between Department of Treasury (Hacienda, its Spanish acronym), Office of Management and Budget (OGP), and the Oversight Board to resolve discrepancies and enhance oversight.
- **Aligning with Strategic Objectives:** Ensure reprogramming supports long-term goals like service improvements and critical needs.

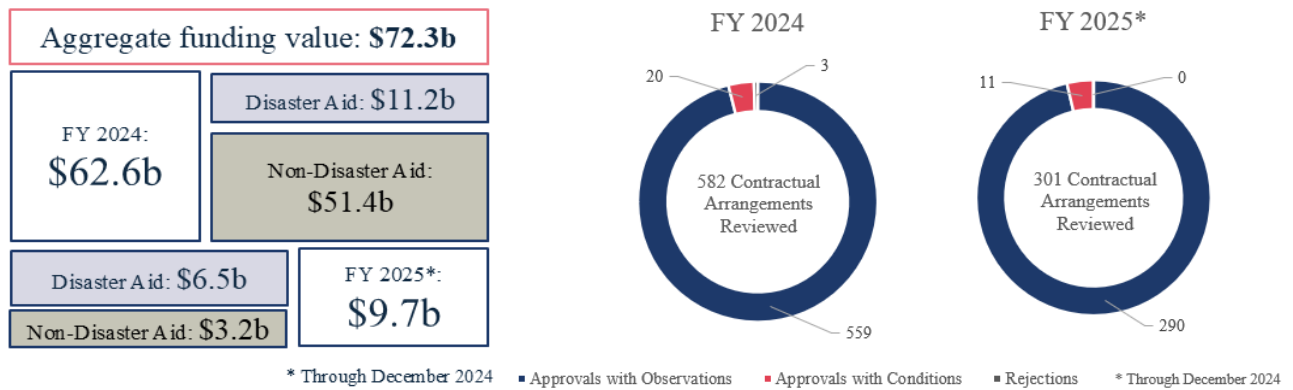
- Centralizing Tracking Systems:** Develop a unified system for monitoring reprogramming requests and approvals to streamline oversight.

These measures aim to balance flexibility with accountability, fostering effective fiscal management and trust in the budgeting process.

1.4 Enhancing Transparency and Oversight in Government Procurement Reform: Contract Review Initiatives

The Contract Review Office aims to ensure oversight, transparency, and competition in government procurement. This is achieved by advocating for policy reforms and reviewing proposed contracts to ensure compliance with PROMESA Section 204(b)(2), which requires prior approval of certain contracts to ensure they promote market competition and align with the approved fiscal plan. The Office focuses on promoting procurement best practices and mitigating risks such as, unreasonable costs, inefficiency, and future cash flow concerns. Nonetheless, because of deficiencies in local procurement laws contracts are routinely renewed by agencies with increased thresholds often larger than the original contract amount with no competitive process. The renewing of contracts without the requirement of competitive Requests for Proposals does not promote market competition. Moreover, technology procurements are often deemed professional services under local law and therefore may bypass competitive procurement requirements if they fall under any of the exceptions to the Executive Order, which requires competitive procurement processes for professional services with a value of \$250,000 or more. The current practices around procurement and lack of transparency create significant risks of favoritism, corruption, and inefficiency and stifle competition and innovation. See **Figure C** for FY2024 and FY2025 contracts reviewed through December 2024.

Figure C: Contractual Agreements Reviewed by the Oversight Board



Key Achievements:

- The Office has reviewed over 840 large contracts, including those related to the Puerto Rico Toll Roads, PREPA, and the Puerto Rico Department of Education (PRDE) for school repairs. The Office also advocates for increased public transparency of contracts, including public disclosure of non-competitive contracts prior to approval.
- It has rejected contracts that are inconsistent with competitive bidding processes and do not promote market competition.

Proposed Reforms:

- The Office advocates for comprehensive procurement reforms, including the establishment of clear standards for competitive bidding, better monitoring of exempt entities, public transparency of contracts and reforms in the procurement of professional services. The Office also advocates for increased public transparency of contracts, including public disclosure of non-competitive contracts prior to approval.
- It also calls for alignment of Puerto Rico's contract amendment process with mainland U.S. practices and full digital transformation within the Oversight Board contract review process to improve efficiency and accountability.

The overall goal is to promote cost savings, enhance transparency, and build public trust in government procurement.

1.5 Legislative Review: Ensuring Fiscal Accountability and Compliance with PROMESA

Section 204(a) of PROMESA mandates the Governor of Puerto Rico to submit new laws to the Oversight Board for review within seven business days, accompanied by a formal estimate of their fiscal impact and certification of alignment with the applicable Certified Fiscal Plan.

In addition, the Oversight Board is tasked with the review of bills presented by the Legislature and the rules, regulations, administrative orders, and executive orders proposed to be issued by the Governor (or the head of any department or agency).

Over the past fiscal year, the Oversight Board reviewed more than 150 bills with a combined fiscal impact exceeding \$5.7 billion, highlighting issues like piecemeal tax and healthcare reforms.

Several bills, such as House Bill 1839 and Senate Bill 1453, proposed significant fiscal impacts but failed to align with the Fiscal Plan. Despite collaborative efforts, the Government frequently failed to provide compliant fiscal estimates, leading to non-compliant acts

costing over \$338.8 million in FY2024. Notable violations include laws like Act 111-2023 and Act 99-2024, which undermined fiscal sustainability.

Finally, pursuant to Section 204(b)(4) of PROMESA, 60 regulatory measures were reviewed under Section 204(b)(2), with most receiving approval,^{vii} reflecting the Oversight Board's commitment to fiscal accountability and transparency.

Laws Enacted in Violation of the Certified Fiscal Plan

- Act 10-2024: amended Act 114-2007 to preclude the Puerto Rico Energy Bureau (PREB) from making any changes to the Commonwealth's current net metering and energy distribution policy until at least 2031 (inconsistent with the PREPA Fiscal Plan).
- Act 28-2024: Eliminated the need for referrals for patients with chronic illness (the Government estimated a fiscal impact of between \$152.8 million and \$725.7 million per year).
- Act 99-2024: amended Act 114-2001 to mitigate cooperatives' non-operational impairments incurred because of the default of Puerto Rico Government bonds (violates the Federal District Courts Plan of Adjustment (POA) agreed to by the Government in 2022 and both the Public Corporation for the Supervision and Insurance of Cooperatives of Puerto Rico (COSSEC) Fiscal Plan and the Certified Fiscal Plan for Puerto Rico, with an estimated impact of \$400 million, per the Government's analysis).
- Act 188-2024: exempted certain businesses from obtaining a certificate of compliance proving they meet the criteria to obtain a tax exemption decree under Act 60-2019 (estimated impact of ~\$61 million for FY25 with an incremental impact of \$324 million over the next five fiscal years).

Laws Enacted in Violation of the Plan of Adjustment

- Act 111-2023: added the Emergency Medical Technicians of the Puerto Rico Emergency Medical Corps Bureau to Act 447-1951's definition of "High-Risk Public Servants," thereby making them eligible for retirement benefits which they were not eligible for before (it is inconsistent with the Plan of Adjustment had an estimated impact of \$3.83 million over the next 20 years).

Major Legislation Violating the Certified Fiscal Plan

- House Bill 1839: would have reduced revenue collections by lowering tax rates for individuals and corporations (estimated impact of ~\$2.8 billion total through FY28; passed the legislature, however this bill was pocket-vetoed by the Governor after analysis by FOMB).

On January 18, 2022, the Title III Court issued the *Order and Judgement Confirming Modified Eighth Amended Title III Joint Plan of Adjustment of the Commonwealth of Puerto Rico, the Employees Retirement System of the Government of the Commonwealth of Puerto Rico, and the Puerto Rico Public Buildings Authority* (the "POA"). Since the POA arose from an underfunded pension system that could not pay retirees, reforms were enacted to ensure the solvency of the pension system and ensure that retirees could receive payments. As part of these reforms, Section 83.4 of the POA prohibited, among other things, the implementation of legislation "to create or increase any defined benefit pension payment or obligation to current or future retirees from or related to any defined benefit plans over the benefits provided by the Plan, regardless of funding source...". This prohibition extends until the 10th anniversary of the POA's Effective Date.

Crucially, the POA was supported by the Legislature via the enactment of Act 53-2021, known as the "Law to End the Bankruptcy of Puerto Rico." Despite this, the Legislature has continued to advance bills which enhance retirement benefits for certain groups of public employees, in clear violation of the POA.

- Senate Bill 1451: would have allowed government employees categorized as "essential employees" by the Government during the analysis for the partial implementation of Act 80-2020 to be able to retire and receive all benefits contained in Act 80-2020 when said employee turned 64 years old (Legislative Assembly Budget Office (OPAL) estimated an annual fiscal impact of \$60.5 million for FY25; after discussions with the Oversight Board on the fiscal impact it was not passed at the end of the Legislative Session).
- House Bill 2038: sought to establish a 10% increase in annuities of retirees from the Commonwealth Retirement System and an increase in pensions equal to the cost-of-living adjustment as determined by the Social Security Administrator (estimated cost of ~\$196 million per year and full impact over \$2 billion; this bill was passed by the Legislature and delivered to the Governor even though it violated POA. In the end the Governor pocket vetoed this bill).
- House Bill 2071: would have ordered the amendment of the Firefighters Bureau Billing and Collection Regulation to start charging short-term rentals for a fire prevention certification and create a firefighters trust to guarantee a pension of 50% of their salary upon retirement (it was inconsistent with the POA and had an estimated

impact of \$33.3 million to \$65.6 million over the next 5 years; this bill was passed by the Legislature and delivered to the Governor even though it violated the POA , in the end the Governor did not sign the bill which resulted in a pocket veto).

- Senate Bill 1308: would have added court marshals to the group of high-risk workers (estimated impact of ~\$4.5 million for FY24 and ~\$11.97 million over 20 years; after discussions with the Oversight Board on the fiscal impact it was not passed at the end of the Legislative Session).



02

Debt Restructuring

2.0 Debt Restructuring

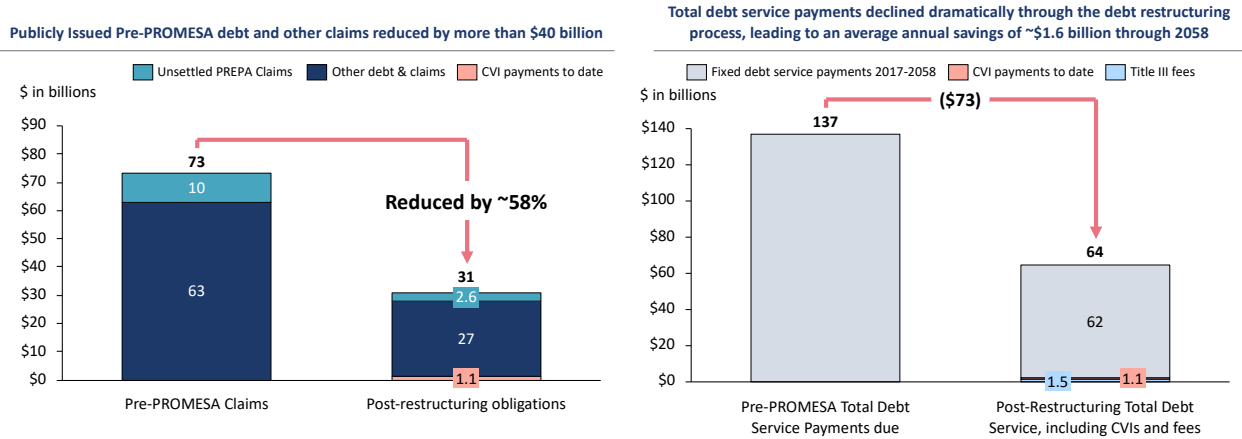
2.1 Debt Restructuring

Prior to the enactment of PROMESA, the Government of Puerto Rico accumulated a debt burden of \$73 billion (public debt and other claims), equivalent to a debt per capita more than double the U.S. state average^{viii} and greater than the nations most indebted state, which has a median household income more than triple Puerto Rico and a budget that is seven times larger.^{ix} Prior to debt restructuring, 25 cents of every tax dollar Puerto Rico raised was needed to pay debt service. Prior to PROMESA, the debt burden per household in Puerto Rico was \$57,000. As a result of PROMESA, this debt has been reduced by more than half to \$26,000 per household through the Oversight Board's efforts.

Since its inception, the Oversight Board's priority was the restructuring of the Commonwealth and related covered entities debt. Today, the vast majority of Puerto Rico's unsustainable debt has been successfully restructured (with notable exception of PREPA which remains under review of the court). This achievement addressed decades of fiscal crises and structural inefficiencies, significantly simplified Puerto Rico's debt profile and enabled the government to focus on long-term fiscal stability. Most importantly, the completed restructurings delivered significant benefits to the people of Puerto Rico, fostering opportunities for economic growth, improving fiscal governance, and creating a sustainable financial framework.

As outlined in **Figure D**, the completed debt restructuring process resulted in substantial financial savings. Total debt and other claims were reduced by \$42 billion, while debt service savings through maturity are estimated at \$73 billion. These efforts were largely consensual and utilized the powers granted by Congress under Title III and Title VI of PROMESA. Several Commonwealth entities, including Public Buildings Authority (PBA), Employee Retirement System (ERS), Puerto Rico Convention Center District Authority (CCDA), Puerto Rico Infrastructure Financing Authority (PRIFA), and later Puerto Rico Highway and Transportation Authority (HTA), have confirmed plans of adjustment that authorized the full elimination of their public debt, further streamlining the government's financial obligations. Combined with strict budgetary controls implemented by the Oversight Board, these restructurings have enabled surplus accumulation, enhanced local investments, and a resolution to multiple Title III cases.

Figure D: Pre and Post Restructured Debt and Debt Service

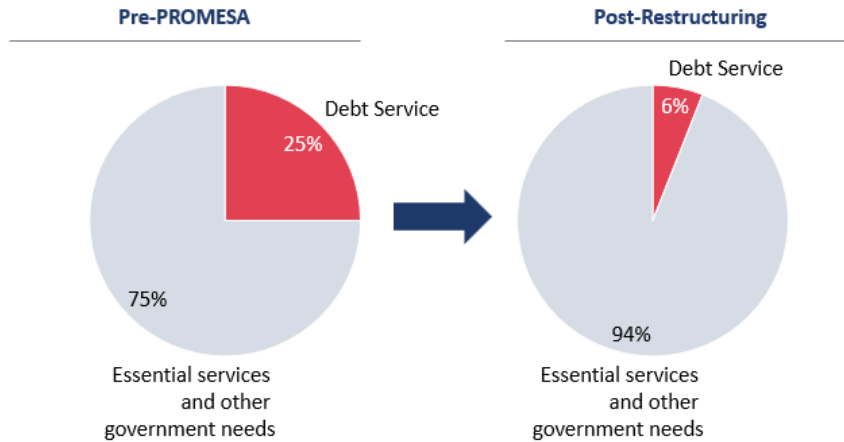


- Pre-PROMESA Claims include publicly issued debt, including General Obligation (GO), Public Building Authority (PBA), Employee Retirement System (ERS), Puerto Rico Infrastructure Financing Authority (PRIFA), Convention Center District Authority (CCDA), Metropolitan Bus Authority (MBA), Puerto Rico Sales Tax Financing Corporation (COFINA), Highway and Transportation Authority (HTA), Puerto Rico Electric Power Authority (PREPA), Puerto Rico Aqueducts and Sewers Authority (PRASA), Puerto Rico Industrial Development Company (PRIDCO), University of Puerto Rico (UPR), Puerto Rico Government Development Bank (GRD), Public Finance Corporation (PFC), Commonwealth General Unsecured Creditor (GUC), Eminent Domain, ACIC, Dairy Producers, 330 Health Centers, and other claims as of the Plan Effective Date (March 2022), as well as PREPA and HTA GUC and other claims.
- Post-restructuring obligations represent the amount of the comparable debt issuances after various pending and completed restructurings, SUT and Rum Tax contingent value instrument (CVI) actual payments through FY24. SUT and rum tax CVIs have a maximum cumulative payment of \$10 billion.
- Post-restructuring obligations does not include HTA debt, because it was extinguished from the proceeds of the HTA Toll Roads Concession Private Public Partnership (P3) transaction in December 2023. Remaining HTA debt service is not included as it was extinguished as a part of the P3 transaction.
- PREPA's Pre-PROMESA Claims include ~\$9 billion of bonded debt and ~\$1 billion estimated GUC claim as listed in PREPA Title III Amended Disclosure Statement approved on November 17, 2023.
- PREPA's Post-restructuring obligations of ~\$2.6 billion represents the recovery to creditors in the Corrected 4th amended Plan of Adjustment, dated December 29, 2023. PREPA restructuring subject to Plan of Adjustment confirmation.
- Title III Fees submitted to the fee examiner through October 31, 2024.

The newly restructured debt is also easier to manage by introducing level and predictable annual payments, allowing the government to better plan and meet its obligations. The total annual debt service burden also declined significantly. For example, the demand on own-source revenues for debt service dropped dramatically from 25% to about 6% (including Puerto Rico Sales Tax Financing Corporation (COFINA)). This improved structure, as shown in **Figure E**, aligns with the Commonwealth Plan of Adjustment, which enforces a strict debt management policy to control future debt issuance by limiting both its amount and purpose. In addition to the fixed debt service, there are also Contingent Value Instruments (CVI) payable on a narrow portion of Sales and Use Tax outperformance and rum cover-over performance. Since their issuance in FY2022, these CVI's have paid out \$1.1 billion through FY2024.

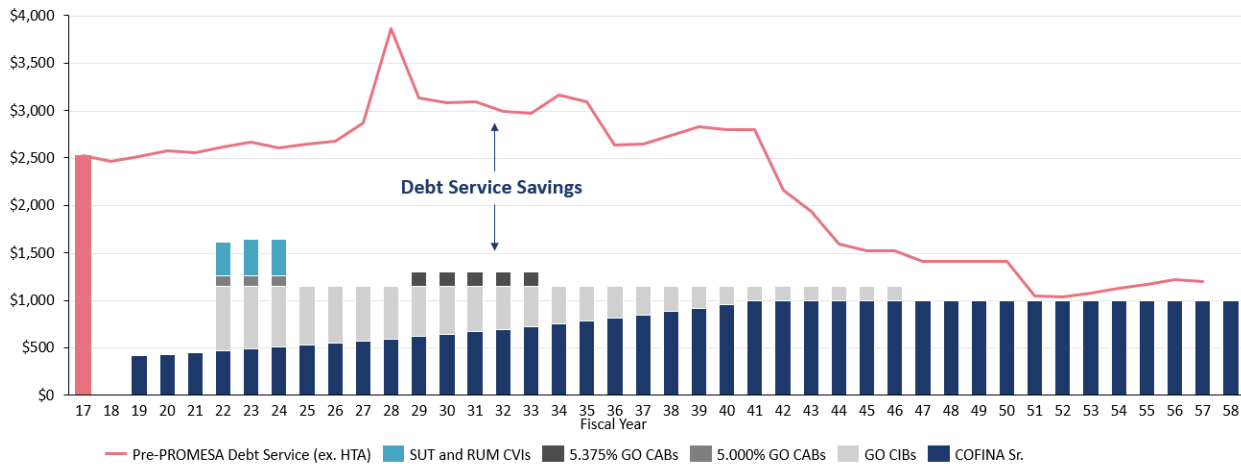
Figure E: Pre-PROMESA and Post-Debt Restructuring Commonwealth Tax Dollars

Before the Oversight Board, 25% of every Commonwealth tax dollar went toward debt service; Post-restructuring, only 6% of every dollar goes toward debt service



- Post-Restructuring Debt Service represents FY24 Commonwealth debt service, including COFINA, as a percent of Commonwealth own-source revenues, including COFINA related SUT revenues, per the Debt Management Policy that became effective March 9, 2022.
- https://docs.pr.gov/files/AAFAF/Financial_Documents/Debt%20Management%20Policy%20and%20Reports/Debt-Management-PolicyFINAL-1.pdf

Figure F: Pre-PROMESA Debt Service Versus Restructured Commonwealth and Puerto Rico Sales Tax Financing Debt Service



(1) Excludes HTA debt service, which was issued and structured per the HTA Plan of Adjustment
 (2) \$1.15 billion maximum annual tax-supported debt service excludes payments on account of (i) the 5.375% GO CABs and (ii) the 5.000% GO CABs. 5.375% GO CABs are expected to be repaid with funds released from the Commonwealth working capital fund for disaster relief advances in equal annual \$150mm installments in 2029-2033. 5.000% GO CABs are expected to be repaid with funds previously intended for the Debt Service Reserve Fund in equal annual \$106mm installments in 2022-2024.

The restructuring process also delivered significant protections and benefits for Puerto Rico’s residents and government employees. Notably, pensions were safeguarded through the creation of a pension reserve trust and provisions for Social Security coverage for

teachers and judges, ensuring long-term retirement security. This built on the Oversight Board's previous efforts to successfully get Police Officers access to Social Security benefits in 2019. Additionally, approximately \$1.5 billion was returned to active employees and retirees as reimbursement for previous retirement contributions. These measures not only honored commitments to retirees but also demonstrated a responsible approach to fiscal management.

In summary, Puerto Rico's new debt structure alleviates an unsustainable financial burden, providing a foundation for a stable and prosperous future. These restructurings represent more than financial adjustments; they are a comprehensive reset of Puerto Rico's fiscal trajectory. By reducing debt, implementing sustainable financial practices, and advancing structural reforms, Puerto Rico is better positioned for long-term resilience and economic growth.

Below is a summary of completed and ongoing restructuring efforts.

2.2 Ongoing Debt Restructuring

Puerto Rico Electric Power Authority

In March 2024, the Title III Court conducted a confirmation hearing for the then proposed PREPA Plan of Adjustment. The decision on confirmation was not issued in light of a First Circuit ruling issued on June 12, 2024, after the confirmation hearing concluded. The First Circuit's opinion addressed two main issues arising from an opinion issued by the Title III Court regarding the scope of the security interest securing PREPA's bond debt. The Title III Court had ruled that the bondholders' perfected security interest was restricted to the net revenues deposited by PREPA into certain bank accounts controlled by the bond trustee. The First Circuit ruled the bondholders' perfected security interest extended to all of PREPA's net revenues, although the First Circuit did not determine the value of such net revenues or the ruling's impact on the then-pending confirmation proceeding. The Title III Court had also ruled the bondholders held an unsecured deficiency claim beyond PREPA's property subject to the security interest, which the Title III Court estimated to be valued at approximately \$2.388 billion. The First Circuit, however, ruled the bondholders' bond claims are non-recourse, and therefore they have no unsecured deficiency claim. Under the First Circuit's ruling, the bondholders are only entitled to recover from, and only to the extent of, their collateral.

On June 26, 2024, the Oversight Board filed a petition for rehearing seeking reconsideration of the First Circuit's conclusion that the bondholders hold a perfected security interest in PREPA's net revenues. The First Circuit directed the parties to submit briefs, which were all submitted by August 9, 2024. On November 13, 2024, the First Circuit withdrew its June 12, 2024, opinion and issued a new opinion. The new opinion again concluded that the

bondholders' perfected security interest extends to PREPA's net revenues, but on different grounds. It also restated its conclusion that the bonds are non-recourse. The Oversight Board determined the First Circuit's new basis for concluding the bond trustee holds a perfected security interest in PREPA's net revenues is also erroneous and thus filed another petition for rehearing seeking reconsideration of this ruling on November 27, 2024. On December 31, 2024, the First Circuit issued a decision denying the Oversight Board's petition for rehearing without further discussion of the grounds for such denial. The Oversight Board is considering the impact of the First Circuit's latest decision on the Title III Case. In the meantime, PREPA maintains restructuring support agreements with several creditor groups, including the fuel line lenders, the unsecured creditors' committee, and two groups of bondholders.

2.3 Completed Debt Restructurings

Commonwealth, Employees Retirement System, and Public Buildings Authority

On January 18, 2022, the Title III Court confirmed the Plan of Adjustment for the Commonwealth of Puerto Rico, the Employees Retirement System, and the Public Buildings Authority. The Plan, which became effective on March 15, 2022, restructured \$55 billion in pension liabilities, reduced the Commonwealth's \$33 billion debt by 80%, and saved Puerto Rico more than \$50 billion in debt service payments on net tax-supported debt (including COFINA debt service).

Puerto Rico Highways and Transportation Authority

On October 12, 2022, the Title III Court confirmed the Plan of Adjustment for the HTA. The Plan, which became effective on December 6, 2022, reduced HTA's \$6.4 billion debt by more than 80% and saved Puerto Rico more than \$3 billion in debt service payments. As of today, HTA's debt has been redeemed and paid.

Puerto Rico Sales Tax Financing Corporation

On February 5, 2019, the Title III Court confirmed the Plan of Adjustment for the COFINA. The Plan, which became effective on February 12, 2019, reduced COFINA's \$18 billion legacy bond debt by \$6 billion and saved Puerto Rico more than \$17.5 billion in debt service payments. On October 30, 2024, the Title III Court entered an order closing the COFINA Title III case.

Puerto Rico Aqueduct and Sewage Authority

In August 2019, the Oversight Board negotiated a reduction in the coupon rate for certain debts the Puerto Rico Aqueduct and Sewage Authority (PRASA) had accumulated with the

United States Environmental Protection Authority (EPA) and the United States Department of Agriculture (USDA), which reduction saved PRASA nearly \$400 million in the first 10 years, among other things. In November 2020, the Oversight Board approved a refinancing of a portion of PRASA's indebtedness via a limited public offering priced and sold in December 2020. The refinancing generated gross savings of nearly \$350 million or approximately \$13 million per year. On a present value basis, savings were approximately \$210 million. Additionally, in the summer of 2021, the Oversight Board approved a refinancing of a portion of PRASA's outstanding indebtedness via a limited public offering priced and sold in August 2021. The refinancing generated gross savings of approximately \$570 million or approximately \$21.9 million per year. On a present value basis, the savings resulting from that transaction were approximately \$360 million.

Government Development Bank

In November 2018, the PROMESA Title VI debt restructuring process for the Government Development Bank (GDB) was completed. Pursuant to PROMESA's Title VI process, GDB resolved \$4 billion in legacy bond debt and approximately \$8 billion in liabilities with the issuance of \$2.6 billion in new bonds. The amount claimed to be owed to GDB creditors was reduced by more than 60%.

Puerto Rico Infrastructure Financing Authority

On January 18, 2022, the Title III Court confirmed the final terms of the PROMESA Title VI debt restructuring process for the PRIFA. PRIFA's \$1.9 billion debt was reduced by 90%, saving Puerto Rico over \$3 billion in principal and interest payments.

Puerto Rico Convention Center District Authority

On January 18, 2022, the Title III Court confirmed the final terms of the PROMESA Title VI debt restructuring process for the Puerto CCDA. CCDA's \$384 million debt was reduced by 70%, saving over \$500 million in principal and interest payments.

Public Finance Corporation

In 2023, through a PROMESA Title VI debt restructuring process, the Public Finance Corporation's \$1.5 billion debt was reduced to a \$13.8 million payment with the issuance of \$47 million in new bonds from the GDB Debt Recovery Authority.

Puerto Rico Industrial Development Company

In 2023, through a PROMESA Title VI debt restructuring process, the Puerto Rico Industrial Development Company (PRIDCO) reduced its \$190 million debt by pushing maturity out to

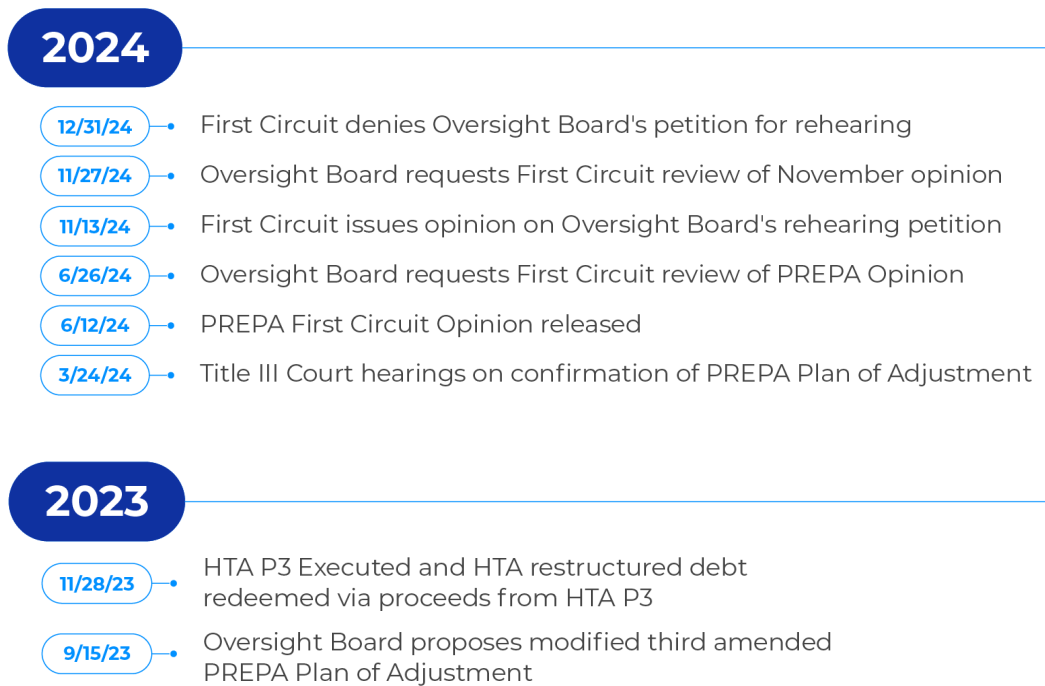
Fiscal Year 2054 and allowing PRIDCO favorable terms to exit out of the new debt at no pre-payment penalty and a favorable interest rate.

Tourism Development Fund

In 2023, through a PROMESA Title VI debt restructuring process, the Tourism Development Fund reduced its \$89 million debt to a \$10.5 million payment and the release of certain collateral.

The debt restructuring process has seen significant progress since inception, these milestones are documented in the following **Figure G**.

Figure G: Debt Restructuring Milestones



2022

- 12/16/22 • Oversight Board proposed initial PREPA Plan of Adjustment
- 12/6/22 • HTA Plan of Adjustment becomes effective
- 10/12/22 • Title III Court confirms HTA Plan of Adjustment
- 8/19/22 • Title III Court hearings on HTA Plan of Adjustment
- 5/2/22 • Oversight Board proposes HTA Plan of Adjustment
- 4/11/22 • PREPA mediation team appointed
- 3/15/22 • Exchange of old bonds for new and other Commonwealth Plan of Adjustment actions consummated
- 3/8/22 • AAFAF terminates PREPA Restructuring Support Agreement
- 1/18/22 • Title III Court confirms Commonwealth Plan of Adjustment for Commonwealth and related entities

2021

- 12/21/21 • Modified 8th Amended Commonwealth Plan of Adjustment filed
- 11/12/21 • COFINA Plan of Adjustment confirmed by Title III Court
- 11/7/21 • Title III Court hearings on confirmation of Plan of Adjustment for Commonwealth and related entities
- 11/1/21
- 8/2/21 • Commonwealth Plan Disclosure Statement approved
- 7/13/21 • Title III Court hearings on Commonwealth Plan Disclosure Statement
- 7/14/21
- 7/19/21
- 6/1/21 • LUMA commences operations, assuming control of PREPA's Transmission & Distribution System

2020

- 2/28/20 • Amended Title III Commonwealth Plan of Adjustment and Amended Disclosure Statement filed
- 2/9/20 • Amended Plan Support Agreement for Commonwealth, PBA, ERS, etc. filed

2019

- 11/17/19
11/16/19 • Title III Court hearings on COFINA Plan of Adjustment
- 9/27/19 • Oversight Board commences PBA Title III case
- 9/27/19 • Oversight Board proposes initial Plan of Adjustment for Commonwealth, ERS, etc.
- 5/31/19 • Plan Support Agreement for Commonwealth PBA, ERS, etc. filed
- 5/2/19 • COFINA Plan of Adjustment confirmed by Title III Court
- 2/12/19 • COFINA Plan of Adjustment becomes effective

2018

- 10/19/18 • Oversight Board proposes COFINA Plan of Adjustment
- 8/20/18 • Kobre & Kim issues report of the Government's debt

2017

- 7/2/17 • Oversight Board commences PREPA Title III case
- 5/21/17 • Oversight Board commences HTA Title III case
- 5/5/17 • Oversight Board commences COFINA Title III case
- 5/5/17 • Oversight Board commences ERS Title III case
- 5/3/17 • Oversight Board commences Commonwealth Title III case

Source: FOMB analysis as of December 31, 2024.



03

Area of Focus

3.0 Area of Focus

3.1 Financial Management Priorities from the 2024 Fiscal Plan

The 2024 Fiscal Plan identifies eight critical areas essential for long-term fiscal responsibility and compliance with PROMESA's mandates. These priorities target key challenges in financial management and aim to secure Puerto Rico's fiscal and economic stability:

- **Improved Economic and Revenue Forecasting:** Establish a unified process for accurate short- and long-term economic and revenue projections.
- **Budget Management Best Practices:** Implement a standardized framework for procurement, revenue administration, and performance management across all entities.
- **Comprehensive Capital Delivery Program:** Develop a multi-year capital investment plan with standardized criteria to align projects with strategic goals and private sector capabilities.
- **Improved Education Resource Management:** Promote equitable, high-quality, and fiscally sustainable education through transparent resource allocation for schools and higher education institutions.
- **Enhanced Government Service Delivery and Labor Relations:** Reform public service operations and address labor relations challenges to improve efficiency and service quality.
- **Controlled and Data-Driven Healthcare Spending:** Address regulatory and statutory barriers to improve health outcomes and ensure the healthcare system's financial sustainability.
- **Transparent Financial Reporting:** Strengthen fiscal management by implementing robust practices for tracking and reporting financial data, enhancing post-PROMESA accountability.
- **Optimized Municipal Fiscal Management:** Restructure grant programs to improve municipal services, foster intergovernmental coordination, and ensure performance accountability through measurable outcomes.

These reforms form the foundation for Puerto Rico's financial stability, emphasizing efficiency, transparency, and fiscal sustainability. By addressing systemic challenges, the plan supports a resilient path toward economic growth and responsible governance.

3.2 Building a Sustainable Future: Puerto Rico's Path to Economic Resilience and Growth

Puerto Rico has achieved notable progress in stabilizing its economy following the completion of debt restructurings. With a strengthened financial position and historically low unemployment rates, the island is poised for recovery. Federal disaster aid and recent legislation have provided approximately \$120 billion in funding, supporting critical recovery

efforts and enabling public-private partnerships to enhance utilities and services. However, as these funds are temporary, Puerto Rico faces an urgent need to establish sustainable revenue sources and implement structural reforms to drive long-term economic growth. Recognizing these challenges, the Oversight Board has prioritized the development and coordination of economic initiatives to foster resilience and prosperity. Over the past six months, the Board has collaborated extensively with public, private, and non-profit leaders to identify opportunities and craft an integrated economic development framework. This comprehensive plan targets key growth areas, including policy reforms, priority sectors, and essential enablers such as workforce development and infrastructure.

The framework focuses on creating a conducive environment for innovation, entrepreneurship, and investment while addressing structural challenges like inefficient tax systems, complex permitting processes, and high energy costs. Additionally, it emphasizes enhancing Puerto Rico's global competitiveness through strategic investments in human capital and infrastructure upgrades.

Collaboration remains a cornerstone of this initiative. The Oversight Board continues to work closely with the Government and other stakeholders to ensure alignment and foster a shared vision for sustainable growth. Designed to be dynamic and adaptable, the framework incorporates insights from previous strategies and is structured for regular updates to remain relevant and effective.

By bringing together public, private, and civil sectors, the Oversight Board is establishing a roadmap for economic prosperity that extends beyond political cycles and its tenure. This plan will serve as a cornerstone for future fiscal strategies, ensuring economic resilience and positioning Puerto Rico for enduring success.

3.3 Accelerating Infrastructure Development for Sustainable Growth

To accelerate growth and opportunity, increased investment in Puerto Rico's infrastructure remains a critical priority. Recognizing this necessity, Congress included Title V in PROMESA to facilitate infrastructure investment.^x While Title V provides valuable tools to advance infrastructure projects, further actions are needed to expedite the completion of critical initiatives.

Currently, local regulations established under Act 76-2000 create significant delays in implementing emergency projects. The administrative hurdles imposed by Act 76, including the involvement of multiple local agencies with gatekeeping roles, hinder the efficient execution of these projects. These delays reduce the effectiveness of the Title V Critical Project process and may discourage potential Project Sponsors from proposing critical infrastructure projects.

The work carried out in the coming years will be pivotal in ensuring Puerto Rico's recovery is both sustainable and transformative. Infrastructure development and investment are essential to achieving long-term fiscal responsibility and restoring the Commonwealth's access to credit markets, as mandated by PROMESA.

3.4 Leveraging Federal Funding to Strengthen Puerto Rico's Infrastructure

The Federal Emergency Management Agency (FEMA) and the U.S. Department of Energy (DOE) have been the primary federal agencies responsible for overseeing and providing funds for Puerto Rico's recovery efforts. In total, over \$17 billion has been allocated to address immediate energy needs, long-term grid resilience, and disaster preparedness. The purpose of these funds is to not only restore the power grid but also to modernize it, incorporating renewable energy sources, improving system reliability, and increasing resilience to future natural disasters.

The federal funds allocated for Puerto Rico's energy grid restoration and post-hurricane recovery have been substantial, with significant investments aimed at rebuilding, modernizing, and improving the island's energy infrastructure. With access to federal funding available to support infrastructure improvements, swift action is crucial to capitalize on this unique opportunity. While progress has been made, continued oversight and stronger management practices will be necessary to ensure that federal funds are used efficiently and that the energy grid is fully restored and strengthened to withstand future challenges.

3.5 Puerto Rico's Electrical Grid Recovery

In September 2017, Puerto Rico was impacted by two hurricanes Irma and Maria, causing significant damage to the island. Hurricane Irma passed close to Puerto Rico on September 5, 2017 as a Category 5 storm. The storm cut power to an estimated two-thirds of the main island, leaving communities disconnected and in a disarray. Just two weeks later, Hurricane Maria hit the island on September 20, 2017 as a Category 4 storm with winds of 155ph causing billions of dollars in damage to its infrastructure, housing, and economy. These hurricanes knocked out Puerto Rico's antiquated and poorly planned electricity grid and caused an 11-month blackout—the longest in U.S. history.^{xi} This was followed by another Category 4 hurricane (Fiona) in September 2022 and an earthquake, measuring 6.4 on the Richter Scale, shook the island in January 2020. The United States Government Accountability Office (GAO) has determined that “the recovery from Hurricanes Irma and Maria has been the largest and most complicated in our nation's history”.

Today, seven years later, Puerto Rico's electrical grid has not recovered.

Congress authorized over \$17 billion to rebuild the grid and only about \$2.9 billion of that has been disbursed so far. This is not acceptable by any measure. Recovery in Puerto Rico must overcome the overlapping and complex layers of bureaucracy that delay both the obligation and disbursement of critical funds, hindering timely recovery and resilience-building efforts.^{xii}

Several challenges continue to hinder progress on grid recovery efforts in Puerto Rico, including

- uncertainty about eligibility for federal funding sources
- Puerto Rico Electric Power Authority (PREPA) liquidity constraints;
- assessing grid damage;
- cost inflation;^{xiii} and
- a need for coordination.

Power outages and load shed events marked this past summer in Puerto Rico. The electric grid remains unstable, and residents lose power more often than any State in the nation. For example, in June 2024, more than 340,000 customers were without power which stemmed from failures in two transmission lines between San Juan and Aguas Buenas. The June 2024 event was a system mechanical failure. The limitation of generation capacity is further evidenced by the fact Puerto Ricans suffered 111 load shed events averaging 142 minutes from July 1, 2023 to June 30, 2024^{xiv}.

In August 2024 Hurricane Ernesto led to overgrown vegetation impacting transmission lines leaving over 700,000 households (nearly half of all customers) without power during an “excessive heat warning and heat advisory” issued by the National Weather Service. Persistent outages interrupt water service and imperil the lives of elderly and ill residents who rely on electrical equipment for respirators and to refrigerate insulin, for example.

As a result, the Oversight Board convened all stakeholders together—in the same room. This enabled increased collaboration and facilitated the identification and removal of locally controlled roadblocks. This effort continues today—on a weekly, if not daily basis.

The Oversight Board coordination meetings also surfaced barriers to progress that are beyond the control of the local actors, such as regulatory reviews and timelines.

There are critical projects for the stabilization of Puerto Rico’s energy grid that, require the administrative approval of a myriad of federal agencies. Many environmental reviews could take to 3 years for approval. The lack of government prioritization and ability to fast track these projects is a serious health and safety risk for people on the island and efforts to stabilize the grid. As hurricane season approaches each season without an urgent plan to clear transmission lines increases the danger of massive outages in the event of a storm.

Long lead times and procurement delays for major critical equipment needed to stabilize a grid that has not seen needed investment in decades contribute to the instability of the system.

Efforts need to be redoubled to find ways to expedite emergency needed projects while satisfying regulatory requirements.

The emergency status of the system improvement needs continues to impact residents, businesses and the economy.

While challenges remain, recent focused attention by all levels of government and the private sector have resulted in progress including:

- streamlined reimbursement processes;
- increased liquidity by the utilization of Working Capital Advances;
- reduction in processing and documentation time;
- increased real-time communication and coordination;
- created a clear, actionable process with stakeholders, focusing on prioritized tasks and deadlines;
- facilitated Central Office for Recovery, Reconstruction and Resiliency's (COR3) firm commitment to pre-review \$250M in Hurricane Fiona expenses, potentially accelerating reimbursement by 90 days or more once funding is obligated by FEMA.

While collaboration is improving, the pace of investment needed is still not enough. The impact of these challenges was most recently experienced in an “island-wide” December 31, 2024 outage where 90% of 1.47 million customers across Puerto Rico were affected by the blackout at its peak.

3.6 Puerto Rico's Energy Challenges: Loss of Load Expectation Increase, Fleet Struggles and Infrastructure Improvements

Although the aggregate “nameplate” capacity (5,749 MW) of the current Puerto Rico generation fleet is substantially higher than peak electricity demand (3,414 MW) achieved in June 2023, Puerto Rico does not have sufficient generating capacity. The section discusses Puerto Rico's continual energy challenges, specifically related to its electricity system's capacity and reliability.

- **Loss of Load Expectation (LOLE):** Puerto Rico's LOLE has significantly increased from 8.81 days in FY2023 to 36.2 days in FY2025, indicating a high probability of electricity generation shortfalls. This is much higher than the industry benchmark of 0.1 days per year or 1 day every 10 years. The variability of LOLE results in FY2025 is also concerning, with some simulations predicting up to 58 days of load shedding.

- **Loss of Load Hours (LOLH):** The estimated LOLH for FY2025 is 154.2 hours, much higher than the industry standard of 2.4 hours, with most deficiencies occurring in the evening hours. This is also 64 times higher than the utility industry standard.
- **Vegetation Capital Clearing Program:** Overgrown vegetation near power lines is a major threat to the system, causing widespread outages. A proposed vegetation clearance program aims to clear 16,000 miles of transmission lines, but progress is slow due to local challenges to execution and required federal approvals, which are projected to take 2 to 3 years from the date of project approval.
- **Fleet Challenges:** The management and maintenance of Puerto Rico's power generation fleet are hindered by financial constraints, damage from hurricanes, and a reduced generation capacity. Approximately 32% of operational units face regular disconnections, leading to service disruptions.

Act 10 was enacted by the Puerto Rico Government in January 2024. Act 10 amends Act 114-2007 (which established Puerto Rico's Net Metering Program) and prevents Puerto Rico's independent energy regulator, the Puerto Rico Energy Bureau, from preparing a study required to evaluate the impact of current net metering and energy distribution program until at least 2031. An independent regulator was established in 2014 to depoliticize the decision-making process in the energy sector. Decisions influenced by special interests resulted in a utility that was underfunded, lacked investment, underfunded pensions while failing to adequately supply power to its customers and eventually went bankrupt. Act 10 undermines the Energy Bureau's ability to regulate the Puerto Rico energy sector, because, once again, critically important rulemaking and regulatory authority is removed from the independent regulator, the Energy Bureau.

Overall, Puerto Rico's energy system faces significant operational challenges, and there are efforts underway to address these issues, but progress is slow and could be further delayed if the independence of the Energy Bureau is undermined.

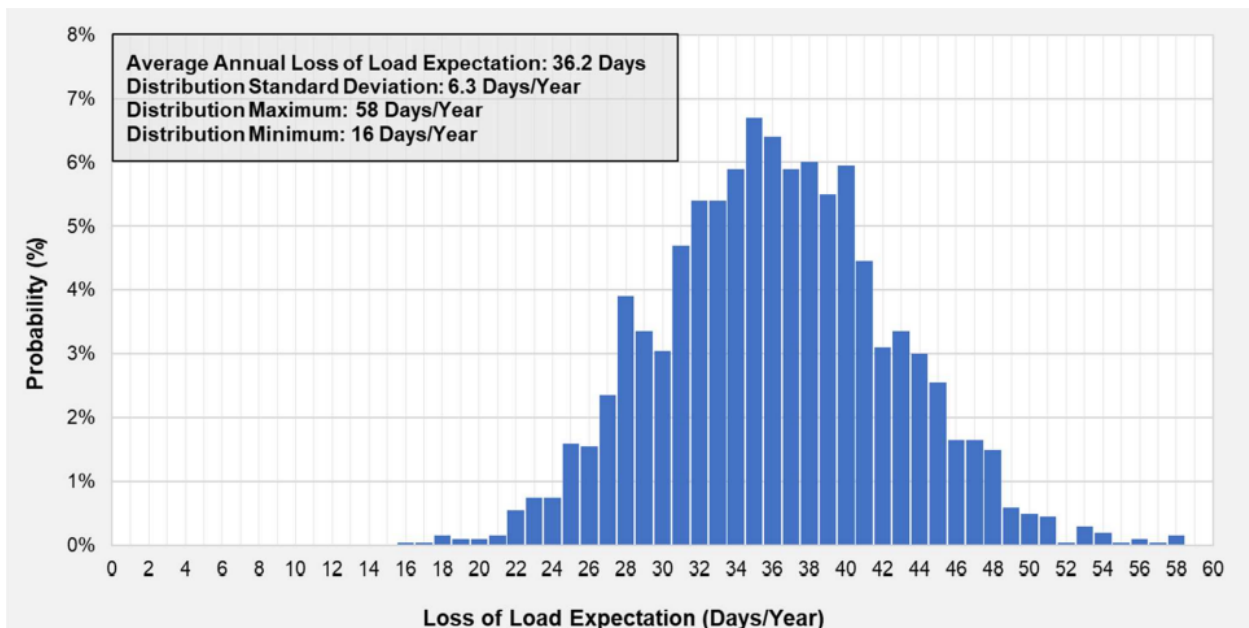
Loss of Load Expectation

Loss of Load Expectation ("LOLE") is a metric that estimates the number of days per year when electricity production will fall short of meeting demand. Puerto Rico's average LOLE has increased from 8.81 days per year for FY2023 (based on LUMA's 2022 resource adequacy analysis) to 36.2 days for FY2025, based on data available in LUMA's latest resource adequacy analysis. This indicates that on average a generation shortfall can be expected to occur on 36.2 days during FY2025.^{xv} This is 362 times higher than the industry benchmark of 0.1 days per year. Based on LUMA's 2022 resource adequacy analysis, the latest available data at the time of the June 2023 Fiscal Plan certification, Puerto Rico's average LOLE was 8.81 days per year for FY2023. Relative to this, Puerto Rico's LOLE for FY2025 has further deteriorated.

In response to the energy supply challenges following Hurricane Fiona, the Government of Puerto Rico, requested Direct Federal Assistance (DFA) from the Federal Emergency Management Agency (FEMA) to stabilize the island's electrical grid as a result of damage caused by Hurricane Fiona. Initially approval for 700MW were sought, however, PREPA indicated to the federal government that sufficient generation capacity through repairs and other measures would be available and as a result only 350MW was approved. Ultimately, these units, with a combined capacity of 350 MW, were installed at the Palo Seco Power Plant (150 MW) and the San Juan Power Plant (200 MW). On February 21, 2024, the Puerto Rico Energy Board (PREB) approved the initial Scope of Work for this acquisition, which was funded through FEMA to address emergency energy needs. Further amendments to the agreement, incorporating FEMA's requirements, were approved on March 15, 2024.^{xvi}

An equally important item is the high standard deviation in LOLE results. Among simulations conducted to calculate expected LOLE outcome for FY2025, in no instance was the estimated LOLE less than 16 days per year. Further, up to 58 days per year of load shedding events were found to be possible according to the study. **Figure H** summarizes these results.

Figure H: FY2025 Loss of Load Expectation Probability Distribution for Puerto Rico

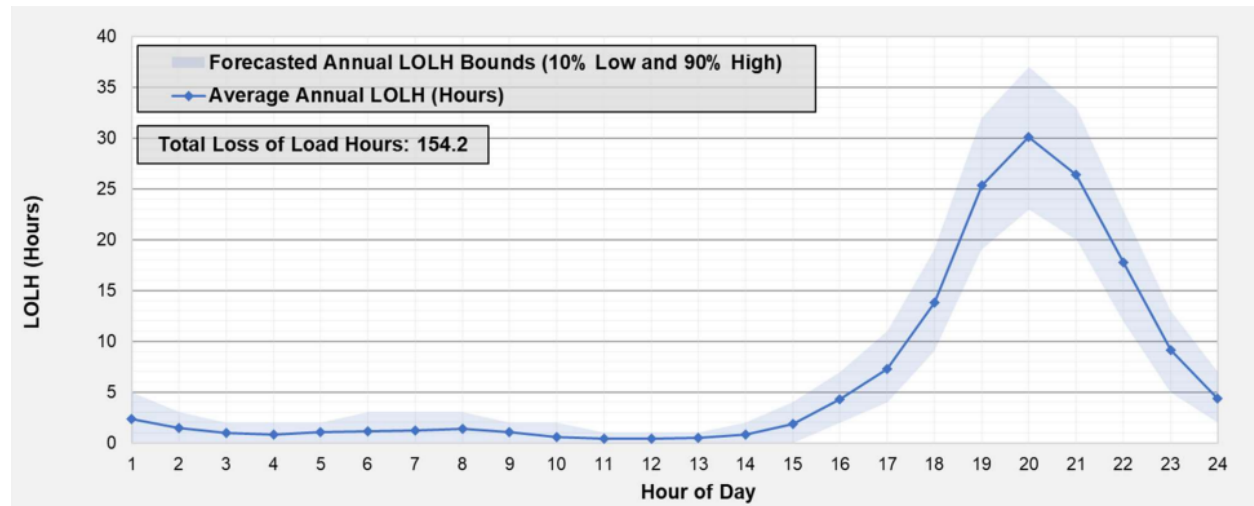


Source: Puerto Rico Electrical System Resource Adequacy Analysis Report, October 31, 2024

Additionally, Loss of Load Hours (“LOLH”) is a measure of how many hours it can be expected that generation resources will be inadequate to serve system load. The estimated LOLH for FY2025 in the LUMA resource adequacy analysis report for FY2025 is 154.2 hours, implying that, on average, in FY2025, there will be 154.2 hours in which generation resources will be deficient. By comparison, a utility achieving industry standard LOLE of 0.1 days per

year would be expected to experience a LOLH of ~2.4 hours (~2.4 hours of generation shortfall per year). Thus, Puerto Rico's estimated LOLH for FY2025 is 64 times higher than the industry standard. As shown in **Figure I** below and as found in the study, 74% of observed LOLH in the simulation was found to occur in the evening hours (between 6 and 11pm).^{xvii}

Figure I: Calculated Loss of Load Hours Broken Out by Hour of the Day for Puerto Rico



Source: Puerto Rico Electrical System Resource Adequacy Analysis Report, October 31, 2024

Vegetation Capital Clearing Program

One of the most significant threats to Puerto Rico’s electric system is overgrown vegetation in the right-of-way of overhead Transmission and Distribution (T&D) lines. According to LUMA’s analysis of factors impacting the electric system, unmanaged vegetation near grid assets is the leading cause of outages across the T&D system accounting for 45% or more of all transmission related outages. Vegetation-caused outages lead to extended service interruptions across large system areas, particularly when transmission lines are impacted. For these reasons, FEMA has determined this program to be an eligible hazard mitigation expense. LUMA has proposed a one-time, island-wide vegetation clearance program that will for example, clear vegetation on at least 16,000 miles of T&D lines on a line-by-line basis, removing overgrown vegetation accumulated over decades of underinvestment. While Luma maintaining the current lines vegetation that has encroached on power lines over decades requires massive undertaking. Required environmental reviews that will take two to three years from project submission. Unless these reviews are expedited the vegetation reset initiative will likely take four years or more.

Moreover, to date, not a single transmission line has been replaced. According to FEMA Environment and Historic Preservation (EHP) reviews are also required. Under this policy it will take between two and three years from when the scopes of work for each project are submitted to FEMA to initiate any line replacements. This means despite compliance with FEMA scope of work requirements, the work submitted to FEMA for approval--will not begin until 3 years after submission.

Challenges Faced by the Fleet

Genera is tasked with the management and maintenance of PREPA's Legacy Generation Assets (LGA). However, the current state of the fleet presents significant challenges, impacting both performance and reliability.

- **Financial Constraints:** PREPA's financial situation has strained its ability to maintain and upgrade the Legacy Generation Assets effectively.
- **Natural Disasters:** Hurricanes María and Fiona have wreaked havoc, causing damage and disruptions to the fleet.
- **Reduced Generation Capacity:** The fleet's capacity has dwindled to a mere 46% of its installed capacity.

3.7 Implementation of Puerto Rico's Enterprise Resource Planning System

In 2022, the Government of Puerto Rico began implementing an Enterprise Resource Planning (ERP) system to centralize finance, purchasing, and human capital management processes across central government entities. The ERP is a requirement for a modern financial management system and aims to enhance decision-making, fiscal governance, and transparency through a unified, integrated platform.

Key Objectives

- **Centralization of Financial Systems:** The ERP will consolidate fiscal and accounting systems, providing real-time financial data access across agencies, public corporations, and instrumentalities. This will enhance budget planning, execution, and monitoring with accurate and transparent information.
- **Efficiency and Transparency:** By streamlining processes, the ERP will enable the timely publication of audited financial statements, better tracking of assets and liabilities, and improved public sector accounting standards. These improvements are expected to enhance fiscal governance and optimize public fund investments.
- **Modular Implementation:** The project prioritizes critical modules, including financial management and supply chain management, to establish a functional foundation. The Human Capital Management/Payroll and Benefits module will be introduced once these core components are operational.

Challenges and Adjustments

The ERP implementation has faced a restart and delays due to unforeseen challenges in design, configuration, and deployment. To address these setbacks, the government revised

its approach, focusing on integrating the financial management and supply chain modules first to ensure that essential financial functions are prioritized.

The ERP system is a vital step toward modernizing Puerto Rico’s financial infrastructure, fostering transparency, and strengthening fiscal governance. Despite delays, the project’s phased approach, once implemented, ensures that core financial operations are prioritized, laying the groundwork for long-term improvements in public sector efficiency and accountability.

3.8 Financial Plan Risk: Medicaid Cliff

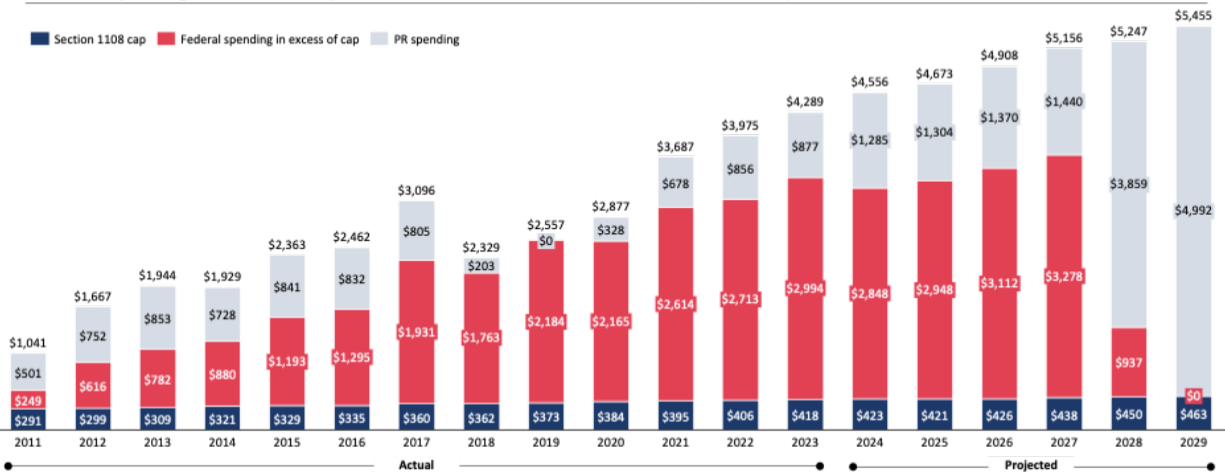
Medicaid financing for Puerto Rico differs significantly from states, with a fixed limit of federal funding provided annually and federal matching rates set at a level well below comparable percentages for states. This structure limits funding and requires Puerto Rico to cover excess costs or suspend services once the cap is reached. Currently, 43.5% (or 1.4 million beneficiaries) of Puerto Ricans rely on Medicaid, the highest proportion among the United States territories and states, highlighting its critical role.

Beginning with FY2028, the Commonwealth could face a “Medicaid Cliff” where it becomes responsible for a significantly higher share of Medicaid expenses—some of which have been covered by the federal government since 2011.^{xviii} The multi-year financial projections included in the Commonwealth Fiscal Plan assume fiscal discipline and identifies significant risks such as federal Medicaid funding, to the forward-looking Financial Plan.

Recent federal acts, such as the Families First Coronavirus Response Act (FFCRA) and the 2023 Consolidated Appropriations Act (CAA), temporarily raised funding and the federal medical assistance percentage (FMAP) to 76%, but these enhancements will revert to 55% after FY2027 without legislative action. As shown in **Figure J**, Puerto Rico is projected to experience a significant fiscal cliff at the end of FY2027 absent federal action.

Figure J: Medicaid Spending in Puerto Rico by Year and Sources of Funds, Fiscal Years 2011-2029 (\$ million)

Medicaid Spending in Puerto Rico by Year and Source of Funds, FYs 2011-2029 (\$ millions)



Source: Actuals up to FY2020 as reported by MBES/CBES; actuals FY2021-2023 informed by ASES; projections by June 2024 Certified Fiscal Plan

Note:

- Refers to Puerto Rico (PR) fiscal years. Includes prescription drug rebate amounts and EAP funding; excludes CHIP.
- The 2019 PR spending reports zero due to the federal Medicaid spending exceeds the total spending caused by negative prior period adjustments and the 100% FMAP that went into place in 2018. Because these prior period adjustments apply to periods before the 100% FMAP, these negative adjustments decrease the total spending to a greater extent than federal spending.
- The 2023 Consolidated Appropriations Act indicate that in October 2027, the federal Medicaid funding cap for PR will fall to about \$500 million annually. As a result, beginning in 2028, PR becomes responsible for higher share of Medicaid expenses in the absence of incremental federal legislation.

Section 1108 allotments reflect the annual federal allotments that Puerto Rico receives under Section 1108(g) of the Social Security Act. For FY2020 through FY2022, the caps reflected in **Figure J** exclude those provided by the Further Consolidated Appropriations Act 2020 and the 2022 CMS Interpretation.

Chronic underfunding, lower provider payment rates, and healthcare access disparities persist, with the territory experiencing a shortage of medical specialists^{xix} and underserved regions.^{xx}

The uncertainty surrounding federal Medicaid funding poses significant challenges for fiscal planning and could hinder Puerto Rico’s recovery from its debt and economic struggles. Sustainable, long-term solutions are essential to address these issues, as temporary fixes fail to provide lasting stability. If Congress extends funding or implements permanent measures, the risks associated with the “Medicaid Cliff” could be mitigated. Until such stability is secured, however, the financial plan remains vulnerable. The Oversight Board will continue to monitor the uncertainties related to long-term federal Medicaid funding levels.



04

Recommendations to the Administration and Congress

4.0 Recommendations to the Administration and Congress

4.1 Recommendations to the Administration and Congress

The recommendations outlined in this report seek to enhance Puerto Rico's economic and social stability by aligning local requirements for federal support with that of the mainland U.S. These efforts focus on improving Puerto Rico's economic data, infrastructure, and recovery strategies. Key initiatives include expanding the accuracy and frequency of economic data, reinstating Puerto Rico in the Census of Governments, addressing export data requirements, and supporting federal disaster recovery efforts. The report also highlights strategies to stimulate economic growth, such as enhancing the manufacturing sector, advocating for disaster aid, and addressing fiscal challenges through tax reforms and improved social programs. Furthermore, it emphasizes the importance of collaborative efforts between Puerto Rico and the federal government to ensure long-term prosperity and resilience, such as GAO's recommendation for a coordinated government wide approach (GAO-24-106574).

Enhancing Economic Data and Statistical Infrastructure

Efforts are underway to strengthen Puerto Rico's economic data and statistical capabilities, critical for strategic planning and policy development. Key initiatives include:

- **Expanding GDP Estimates:** Building on the Bureau of Economic Analysis (BEA) estimate of Puerto Rico's GDP to develop more detailed and frequent datasets. This will enable a better long-term understanding of the Island's economy and align Puerto Rico's data with comparable national and international standards.
- **Reinstating Puerto Rico in Census of Governments (COGS):** Supporting the U.S. Census Bureau's efforts to include Puerto Rico in COGS, which provides authoritative benchmarks on public finance and employment, essential for monitoring fiscal health and federal fund usage.
- **Reevaluating Export Data Requirements:** Addressing the Electronic Export Information (EEI) filing requirement for shipments between Puerto Rico and the mainland. The Census Bureau plans to explore alternative data sources that meet statistical standards, potentially paving the way for eliminating this reporting burden.

These steps aim to enhance the availability and quality of economic data for Puerto Rico, improving fiscal transparency and facilitating economic growth.

Economic Recovery

The 2024 Fiscal Plan for the Commonwealth presents a comprehensive strategy to restore economic growth and prosperity in Puerto Rico. It focuses on five key areas of structural reform—energy, infrastructure, workforce development, tax system modernization, and improving ease of doing business—to drive long-term, sustainable growth. These reforms aim to create opportunities for residents, strengthen workforce capabilities, build resilient infrastructure, diversify the economy, and promote innovation and competition.

Unprecedented federal funding provides a unique opportunity to support Puerto Rico's recovery, enhance resilience, and drive economic advancement. These investments prioritize critical sectors, including transportation, water systems, energy grids, broadband access, and climate resilience.

Manufacturing remains a cornerstone of Puerto Rico's economy, particularly in pharmaceuticals, biologicals, and medical devices. With most of the Island designated as an Opportunity Zone and parts classified as an Economic Development District, Puerto Rico is well-positioned to attract new manufacturing investments. Its robust infrastructure, skilled workforce, and specialized industry ecosystem offer a strong foundation for growth in this sector.

The Oversight Board advocates for collaborative initiatives between the federal government and Puerto Rico to support economic development. Key recommendations include:

- Establishing a manufacturing institute to position Puerto Rico as a global leader in pharmaceutical and biotech innovation.
- Implementing domestic-style tax incentives for manufacturing investments to enhance competitiveness with foreign markets.
- Assessing the Jones Act's impact on Puerto Rico's energy security, including the potential for a temporary waiver for liquefied natural gas (LNG) shipments to increase energy resource access.

These initiatives, combined with strong collaboration between federal and local governments, can bolster Puerto Rico's capacity for economic growth, foster innovation, and build long-term resilience.

Federal Disaster Aid

The scope and complexity of federal funding for Puerto Rico's recovery represents one of the largest and most intricate federal recovery programs in U.S. history. Despite the unprecedented scale, the disbursement of funds and execution of projects have faced

significant challenges due to the magnitude, timelines, and requirements as previously outlined in the certified Fiscal Plans.

To help Puerto Rico effectively utilize federal funds, the Oversight Board supports several measures:

- **Assisting subrecipients** in navigating complex federal rules and regulations, including procurement processes, environmental and historic preservation guidelines, and grant requirements.
- **Adjusting cost estimates** under the Stafford Disaster Relief and Emergency Assistance Act (Section 428) to reflect inflation and unexpected costs, reducing the financial burden on Puerto Rico's government.
- **Facilitating strategic coordination** across federal programs and agencies to streamline disaster recovery efforts and address overlapping challenges.
- Supporting the **transition to alternative energy sources** in alignment with federal programs to improve energy resilience and sustainability.
- Recognizing the continued emergency in the Energy sector to expedite the environmental reviews and approvals required to execute critical energy projects

These measures aim to ensure Puerto Rico maximizes the impact of federal disaster aid and other funding while fostering long-term recovery and resilience.

Global Minimum Tax Implications on Puerto Rico's Economic Competitiveness

The Oversight Board, in collaboration with Puerto Rico's government, is closely monitoring the OECD/G20 Inclusive Framework's global tax reform,^{xxi} specifically the implementation of the Pillar Two global minimum tax rules. These rules aim to set a 15% minimum tax rate on the modified book earnings of multinational companies (MNCs) operating in multiple jurisdictions. If a jurisdiction does not collect enough tax, other jurisdictions where the MNC operates may impose "top-up taxes" to meet the 15% threshold.

While the U.S. has not adopted these rules, over 40 jurisdictions, including major economies like the United Kingdom, Ireland, and Japan, have implemented or are planning to implement Pillar Two provisions. This could impact Puerto Rico, where MNCs potentially subject to Pillar Two generate substantial revenue—approximately \$114 billion as of 2020—and employ over 93,000 people.^{xxii} Puerto Rico's government is being urged to develop a response plan to avoid negative economic consequences, especially as these rules take effect in 2024-2025. The potential for top-up taxes could make Puerto Rico less attractive to multinational companies, particularly if U.S. legislation, like changes to the Global Intangible Low-Taxed Income (GILTI) provisions, worsens the situation.

The Oversight Board encourages U.S. policymakers to consider Puerto Rico's unique economic circumstances when addressing global tax reforms and potential legislative actions to protect jobs and economic stability on the island.

Modifying the Rum Tax Cover Over

Under permanent law, the U.S. Department of the Treasury collects a \$13.50 per proof gallon excise tax on rum produced in or imported into the United States. Until December 2021, \$13.25 of that amount was transferred back, or “covered over”, to Puerto Rico and the U.S. Virgin Islands.^{xxiii} This includes a \$10.50 base amount in permanent law and a \$2.75 supplemental amount periodically extended on a temporary basis by Congress, most recently as part of the Bipartisan Budget Act of 2018 (P.L. 115-123). After the expiration of the last supplemental authorization in 2021 the rate reverted to \$10.50 and cover over remittances to Puerto Rico declined by approximately \$131 million, from \$515 million in fiscal year 2021 to \$417 million in fiscal year 2024.

The government of Puerto Rico and multiple members of Congress have repeatedly called for the restoration of the expired supplemental amount and to make it permanent. Previous legislation amended Section 7652 of the Internal Revenue Code to restore the covered over amount to \$13.25 per proof gallon, eliminating the need for future congressional action on the supplemental amount and promoting long-term economic growth in Puerto Rico and the U.S. Virgin Islands. Although much of the incremental funding would be distributed to Puerto Rico's rum producers for promotion and production purposes and to certain bondholders, this action would still provide substantial benefits to the government and people of Puerto Rico.

The rum industry in Puerto Rico continues to have a significant economic impact locally and the rum cover over funding is vital to supporting critical services on the Island, including healthcare, education, and public safety. Additionally, a portion of the incremental \$2.75 amount provides annual funding for sustainability initiatives sponsored by the Conservation Trust of Puerto Rico, a nonprofit organization which conducts conservation, reforestation, historic preservation, and educational projects in Puerto Rico, in fiscal year 2024 would have received around \$18 million if the cover over was increased. Restoring the \$2.75 supplemental amount, and making it permanent, is vital to address the funding uncertainty Puerto Rico has experienced and to ensure adequate resources continue to reach Puerto Rico.

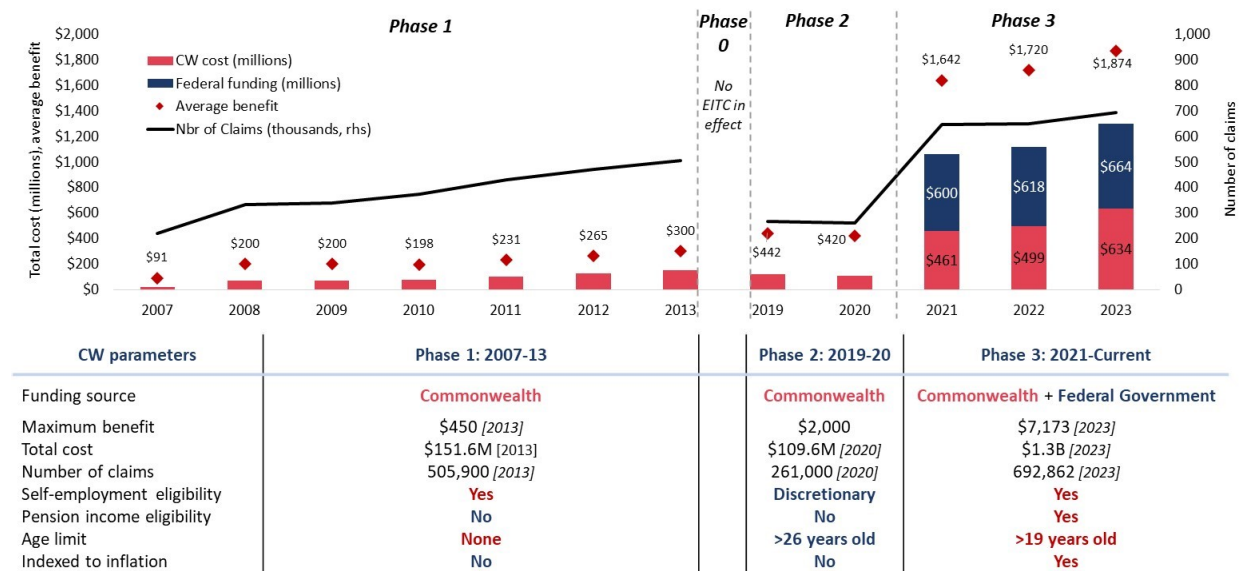
The Oversight Board supports congressional efforts to enact introduced legislation modifying the rum tax cover over. This legislation aims to restore the amount of money transferred to Puerto Rico and the U.S. Virgin Islands to historical levels. Similar to past congressional action, this change should be enacted retroactively, in this case to December 2021.

Earned Income Tax Credit

The Earned Income Tax Credit (EITC) is one of the most effective tools to increase formal sector labor force participation and to reduce poverty.

As shown in **Figure K**, Puerto Rico’s Government significantly expanded its EITC program starting in tax year 2021 after receiving permanent additional funds from the federal government under the American Rescue Plan Act. 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).

Figure K: Puerto Rico Earned Income Tax Credit Program



The additional funding enabled Puerto Rico’s government to significantly expand the maximum benefit for eligible households. Since its expansion, \$3.6 billion has been paid at least 693,000 taxpayers with approximately \$1.4 billion in total estimated cost for Tax Year 2023 alone. There were also 84,578 claims from new filers in 2023. While some of these claims represent taxpayers who changed their filing status (such as divorces going from joint to single filing status), others are new entrants into the formal economy.

As shown in **Figure L**, the total cost of the EITC in its first two years greatly exceeded the originally anticipated size of the program. The program cost also grew at a double-digit rate last year. Given the size of the program, in 2021 and 2022 the Commonwealth spent roughly \$450 million of local funds each year on the EITC program, significantly more than the \$200 million of local funds initially allocated for the credit. For 2023, this cost increased to more

than \$660 million in local funds, representing a 49% cost share and more than three times the initial estimate of \$200 million.

Figure L: Earned Income Tax Credit Spending Over Time, Tax Year 2021-2029

EITC spending over time, in millions of nominal dollars, TY 2021-2029



Growth in the EITC program cost is expected to slow in the future, however, at its current pace the annual increase is substantial growing by \$182 million for calendar year 2024, requiring additional general fund support of \$1.3 billion up from \$1.06 billion in 2022. These increases may crowd out the Government’s ability to fund other critical government initiatives and services.

As a result, the Oversight Board supports efforts by Congress to restore the originally intended three to one cost share intended by the American Rescue Plan by replacing the fixed \$600 million cap with a three to one pro-rata apportionment.

Child Care Tax Credit

Since its creation in 1997, the Child Tax Credit (CTC) has expanded to provide more benefits to families with children in the 50 U.S. states and the District of Columbia. The American Rescue Plan Act (ARPA), passed in 2021, further extended eligibility to Puerto Rican residents with one or more qualifying children, whereas previous laws only allowed families with three or more children to qualify.^{xxiv}

In 2021, the CTC was temporarily increased to \$3,600 for children under six and \$3,000 for older children, with full refundability. However, the maximum credit currently stands at \$2,000 per child, of which up to \$1,700 is refundable. Starting in 2026, the credit will decrease to \$1,000 per child, and it will be fully refundable but not adjusted for inflation.

Puerto Rican residents currently only have access to the refundable portion of the CTC, which is based on the amount of Social Security taxes withheld by the employer. The Oversight Board supports expanding the 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.

Nutrition Assistance Program to Supplemental Nutrition Assistance Program

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. Unlike NAP, which has fixed funding as a block grant, SNAP is an entitlement program that adjusts based on need, offering more responsive and flexible funding, especially during economic downturns or natural disasters. By participating in SNAP, Puerto Rico would ensure equitable assistance for its residents, aligning with the support provided to U.S. states.

Additionally, SNAP participation would grant Puerto Rico access to federal resources unavailable under NAP, such as a comprehensive eligibility structure and job training programs through SNAP's Employment and Training (E&T) initiative. This would help reduce unemployment and improve workforce participation, directly benefiting the island's economy by boosting local food retail sales and supporting vulnerable families.

To prepare for this transition, the Puerto Rican government has begun implementing a work requirement for NAP recipients, through the pilot "Cuna de Talentos" project. Full implementation is anticipated by FY2025. However, congressional action is required to enable Puerto Rico's move to SNAP, providing the necessary financial and administrative framework to ensure fairness and improve food security, ultimately supporting the island's economic resilience and long-term growth.

Supplemental Security Income

Supplemental Security Income (SSI) is an income assistance program targeted towards low income, elderly and disabled persons. Currently, residents of Puerto Rico are not eligible to receive SSI benefits that are available in the US mainland.^{xxv} The Government Accountability Office (GAO) estimated that if Puerto Ricans were eligible for the program it would result in an additional \$1.5 to \$1.8 billion of federal spending to Puerto Rico.^{xxvi}

The program provides a monthly benefit up to \$943 per individual and \$1,415 for a couple in 2024. The benefits are reduced if participants have earned income above \$20 per month and the program also has strict asset limitations (\$2,000 for individuals and \$3,000 for couples).^{xxvii} The program provides benefits to very low-income elderly and disabled persons, who generally do not have the ability to work. Congressional action granting Puerto Ricans eligibility for SSI would bring parity in the treatment of low-income elderly and disabled persons in Puerto Rico and the rest of the United States.

Medicaid

The Oversight Board recommends Congress establish a permanent solution to eliminate funding caps, align FMAP calculations with state formulas more aligned with the island's low-income population 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.

Medicaid and CHIP Payment and Access Commission

The Medicaid and CHIP Payment and Access Commission (MACPAC) is a non-partisan U.S. government agency that provides analysis and policy recommendations on Medicaid and CHIP (Children's Health Insurance Program) issues. It advises Congress, the U.S. Department of Health and Human Services, and states, focusing on improving access, payment systems, and program integrity. The Oversight Board supports amendments to federal law to include territorial representation on MACPAC's board and ensure that territories like Puerto Rico are included in the Commission's reports to Congress, which currently excludes Puerto Rico unless explicitly mandated.

Medicare Part B Automatic Enrollment

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.

Medicare Payment Advisory Commission

The Board also 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.

4.2 Support for Pending Legislation

The Oversight Board supports, in substance, the following non-exhaustive list of legislation introduced in the 118th Congress (2023-2024), see table. To assist Congress, FOMB categorized the legislation by topics. Topic areas include agriculture, benefits, data, disaster assistance, energy, economic development, education, food assistance, grants, health and tax.

Since our last update, we added six bills (H.R. 9744, H.R. 9670, H.R. 4593, H.R. 4026, H.R. 6567 and H.R. 5063) to the list. While several bills have been supported by the Oversight Board (and included in its annual reports) each year since 2020 including:

- Stafford Disaster Relief and Emergency Assistance Act
- To designate and certify all of Puerto Rico as a qualified Opportunity Zone
- Puerto Rico Air Cargo Industry Empowerment Act
- Puerto Rico Insurance Excise Tax Exemption of 2023
- Real Estate Exchange Fairness Act of 2023
- Puerto Rico Film, Television, and Theater Production Act of 2023
- Puerto Rico Data Collection Equity Act
- To amend the Internal Revenue Code of 1986 or modify the cover over certain distilled spirit taxes

Table 1: Legislation supported by the Oversight Board during the 118th Congress

| | Bill Number | Bill Title | Topic |
|---|------------------|--|----------------------|
| Six Bills added for FY2024 | H.R. 9744 | Data Improvement for Puerto Rico Recovery Act | Data |
| | H.R. 9670 | Emergency Electric Grid Stabilization Act | Energy |
| | H.R. 4593 | Agricultural Representation for the United States Territories Act | Agriculture |
| | H.R. 4026 | To amend the Internal Revenue Code of 1986 to allow certain credits and deductions to be taken as a refundable tax credit by Puerto Rico businesses or residents, and to extend such credits and deductions to possessions of the United States. | Tax |
| | H.R. 6567 | Strengthening Capacity for Disaster Resilient Territories Act | Disaster Assistance |
| | H.R. 5063 | Small Business Contracting Credit Act | Economic Development |
| Bills Supported annually Oversight Board | H.R.258 | Puerto Rico Data Collection Equality Act | Data |
| | H.R.1400 | Territories Statistics Collection Equity Act | Data |
| | H.R.949 | Insular Area Medicaid Parity Act | Health |
| | H.R. 379, S.1386 | Vieques Recovery and Redevelopment Act 2021 | Health |
| | H.R.254 | TRICARE Equality Act | Health |
| | H.R.1029 | Territories Health Equity Act of 2023 | Health |
| | H.R.256 | Supplemental Security Income Equality Act | Benefits |

| | | |
|----------------------|--|----------------------|
| H.R.253, S.949 | Puerto Rico Nutrition Assistance Fairness Act of 2023 | Food Assistance |
| H.R.2290 | Report on Grant Consolidation Authority for Puerto Rico Act | Grants |
| H.R.1031 | Insular Areas College Access Act | Education |
| H.R.1027 | Resiliency Enhancement Act of 2023 | Disaster Assistance |
| H.R.600* | Stafford Disaster Relief and Emergency Assistance Act | Disaster Assistance |
| H.R.259* | Post-Disaster Assistance Online Accountability Act | Disaster Assistance |
| H.R.447, S.33 | Medical Manufacturing, Economic Development, and Sustainability Act (MMEDS Act of 2023) | Economic Development |
| H.R.378 | To designate and certify all of Puerto Rico as a qualified Opportunity Zone | Economic Development |
| H.R.375 | Puerto Rico Air Cargo Industry Empowerment Act | Transportation |
| H.R.919 | To amend title 49, USC, to grant Puerto Rico eligibility to issue commercial driver's licenses for other purposes | Economic Development |
| H.R.462 | Real Estate Exchange Fairness Act of 2023 | Economic Development |
| H.R.376 | Puerto Rico Film, Television, and Theatre Production Act of 2023 | Economic Development |
| H.R.257 | Earned Income Tax Credit Equity for Puerto Rico Act of 2023 | Tax |
| H.R.377 | Puerto Rico Insurance Excise Tax Exemption of 2023 | Tax |
| H.R.601 | To modify certain requirements to encourage the recovery of Puerto Rico and the U.S. Virgin Islands | Disaster Assistance |
| H.R. 3146, S.1477 | To amend the Internal Revenue Code of 1986 or modify the cover over certain distilled spirit taxes | Tax |
| H.R.1494, S.764 | Hurricane Tax Relief Act | Tax |
| H.R.1034 | Territorial Tax Equity and Economic Growth Act of 2023 | Tax |
| H.R.7903 | To amend the Internal Revenue Code of 1986 to allow elective payment of applicable credits to bona fide residents of and entities organized by federal agencies as is done for the States. | Tax |

Source: FOMB analysis of Congress.Gov as of October 31, 2024.

*Notes: Reintroduced during the 119th Congress as H.R. 315 and H.R.153

4.3 Coordination with the Administration and Congress

During fiscal year 2024, the Oversight Board maintained active communication with Members of Congress and Administration officials to provide updates on its initiatives and address key concerns. This engagement focused on several critical areas:

- **Debt Restructuring and Fiscal Responsibility:** The Board shared updates on the progress toward completing the debt restructuring of the PREPA and institutionalizing

reforms to ensure long-term fiscal responsibility. Efforts included establishing legislative scoring capabilities, operationalizing the Puerto Rico Office of Management and Budget, and advancing civil service reforms.

- **Fiscal Plan Certification:** The Board collaborated with the Government of Puerto Rico to develop and certify the 2024 Fiscal Plans for the Commonwealth and its instrumentalities. These plans aim to stabilize government finances while balancing short- and long-term funding priorities for infrastructure and essential services.
- **Nutrition Assistance Transition:** The Board provided technical assistance to Congressional efforts to transition Puerto Rico from the NAP to the SNAP.
- **Energy Infrastructure:** The Board worked closely with the U.S. Department of Energy to accelerate federal support for rebuilding Puerto Rico's electric grid and deploying renewable energy sources, while addressing the ongoing energy crisis.
- **Economic Development:** The Board supported the U.S. Department of Commerce and Puerto Rico's economic development initiatives, facilitating federal spending and aiding U.S. Census Bureau efforts in Puerto Rico.
- **Education Reform:** Collaboration with the U.S. Department of Education and the Government of Puerto Rico focused on utilizing federal funds to reform the primary and secondary education systems.
- **Tax Policy Reform:** The Board assisted the U.S. Department of Treasury and the Government of Puerto Rico in aligning Puerto Rico's tax policy with the Global Minimum Tax under Pillar Two reforms.



05

Financial Oversight and Management Board for Puerto Rico

5.0 Financial Oversight and Management Board for Puerto Rico Operations

5.1 Financial Oversight and Management Board for Puerto Rico Operations

The Financial Oversight and Management Board for Puerto Rico (the “Oversight Board”) was established by the bipartisan Puerto Rico Oversight, Management, and Economic Stability Act (“PROMESA”) on June 30, 2016, to address the economic crisis in Puerto Rico and to provide a method for a covered territory (Puerto Rico) to achieve fiscal responsibility and to restore access to the capital markets.

- The Oversight Board is an entity within the Puerto Rico Government (PROMESA, §5 (19) (B) and §101 (C) (1)).
- The seven members of the Oversight Board serve without pay but may receive reimbursement from the Oversight Board for any reasonable and necessary expenses incurred by reason of service on the Oversight Board (PROMESA, §101((e) (g)).
- All seven members are appointed by the President of the United States. Six of the members are selected from lists provided to the President by the majority and the minority leaders in the U.S. Senate and House of Representatives. One member is appointed at the President’s sole discretion. The members are appointed for three-year terms and continue to serve until a successor has been appointed. (PROMESA, §101 ((e) (5)(A)(C)).
- The Governor of Puerto Rico, or the Governor’s designee, is an ex officio member of the Oversight Board without voting rights. (PROMESA, §101 (e) (3)).

The Oversight Board’s primary function is to provide fiscal oversight through the development and approval of fiscal plans and budgets, and to enforce compliance with those plans and budgets. The Oversight Board also has authority to review contracts to ensure compliance with the fiscal plan, to promote market competition, and to prevent the execution or enforcement of a contract, rule, executive order, or regulation to the extent that it adversely affects the approved fiscal plan.

- The purpose of the Oversight Board is to provide a method for a covered territory to achieve fiscal responsibility and access to capital markets (PROMESA, § 101 (a)).

The Oversight Board is tasked with working with the Government of Puerto Rico (the territorial government) to create the necessary foundation for economic growth and to restore opportunity to the people of Puerto Rico.

- The Oversight Board is an entity within the Puerto Rico Government and is not considered to be a department, agency, or instrumentality of the federal government (PROMESA, §101 (c)).
- Neither the Governor nor the Legislature may exercise any control, supervision, oversight, or review over the Oversight Board or its activities (PROMESA, §108).

Organizational Structure and Business Activities

For fiscal year 2023, the Oversight Board is comprised of full-time staff (including the Executive Director, Revitalization Coordinator and General Counsel). The Oversight Board's business activities are conducted in Puerto Rico and New York, with operations funded through transfers from the Puerto Rican government.

Fund Accounting

The Oversight Board's financial position and operations are annually reported using fund accounting, where each fund is treated as a separate accounting entity.

The basic financial statements of the Oversight Board are annually prepared in conformity with accounting principles generally accepted in the United States of America (US GAAP) as prescribed by the Governmental Accounting Standards Board (GASB).

These basic financial statements present the financial position, the results of operations of the Oversight Board and its various funds and fund types.

Budgetary Control

Section 107(a) of PROMESA establishes that the Oversight Board shall submit a budget for each fiscal year of operations to the President, the House of Representatives Committee on Natural Resources and the Senate Committee on Energy and Natural Resources, the Governor of Puerto Rico, and the Legislature.

For fiscal year 2024, the Oversight Board's budget amounts to approximately \$59.4 million, which was adopted on July 1, 2023. See appendix IV for the Oversight Board Fiscal Year 2024 Budget.

5.2 Governance, Transparency and Accountability: Oversight Board Initiatives in Fiscal Year 2024

During Fiscal Year 2024, the Oversight Board continued to enhance its financial reporting, disclosure, ethics, conflicts of interest (COI), and transparency initiatives. These efforts,

guided by the Board's Independent Ethics Advisor (IEA), align with federal ethics laws and the Board's Bylaws established in 2016 under PROMESA.^{xxviii} Key updates include leadership changes, expanded financial disclosure requirements, and strengthened ethics management.

Notable leadership changes included the resignation of Chair David A. Skeel, Jr., and the appointment of Arthur J. Gonzalez as Chair. Additionally, two Board members, Antonio L. Medina and Justin Peterson, completed their terms, with the U.S. President appointing Juan A. Sabater and Luis Ubinas as their successors.

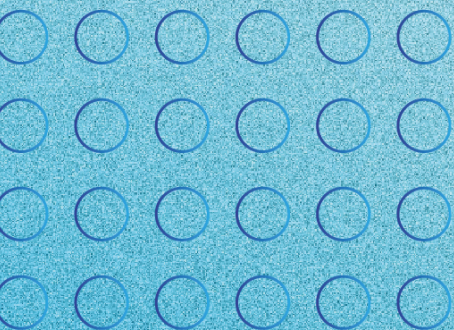
The Board's ethics program featured key components:

- **Financial Disclosure Management:** Annual and quarterly financial disclosure reports were prepared for all Board members and senior staff, with expanded requirements for the Revitalization Coordinator.
- **Conflict of Interest Management:** Policies and questionnaires were implemented to strengthen COI oversight, with issues addressed by legal counsel and the IEA.
- **Code of Conduct Training and Communications:** Virtual ethics training was conducted, and the Board launched a redesigned ethics and financial disclosure webpage.
- **Human Resources Collaboration:** The IEA supported onboarding, employee manual updates, and investigations related to ethics and transparency.
- **Ethics and Transparency Inquiries:** Concerns raised by staff, third parties, or the media were addressed by the IEA and legal counsel, with investigations coordinated as necessary.
- **Third-Party Contractor Management:** COI policies were applied proactively to third-party contractors, ensuring ethical compliance.

These initiatives reinforce the Oversight Board's commitment to ethical governance, transparency, and accountability in fulfilling its PROMESA mandate.



Appendices



Appendix I: Medicaid Legislative History

Below is a list of over 30 laws that has amended Medicaid financing for the territories.^{xxix} The amendments to the annual federal capped funding (including disregards), supplemental federal Medicaid funding, and changes to the Federal Medical Assistance Percentage rate.

- Social Security Amendments of 1965 (P.L. 98-97)
- Social Security Amendments of 1967 (P.L. 90-248)
- Social Security Amendments of 1972 (P.L. 92-603)
- Omnibus Budget Reconciliation Act of 1981 (P.L. 97-35)
- Tax Equity and Fiscal Responsibility Act of 1982 (P.L. 97-248)
- Deficit Reduction Act of 1984 (P.L. 98-369)
- Omnibus Budget Reconciliation Act of 1987 (P.L. 100-203)
- Omnibus Budget Reconciliation Act of 1993 (P.L. 103-66)
- Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (P.L. 104-193)
- Balanced Budget Act of 1997 (P.L. 105-33)
- Jobs and Growth Tax Relief Reconciliation Act of 2003 (P.L. 108-27)
- Deficit Reduction Act of 2005 (P.L. 109-171)
- Children’s Health Insurance Program Reauthorization Act of 2009 (P.L. 111-3)
- American Recovery and Reinvestment Act of 2009 (P.L. 111-5)
- Patient Protection and Affordable Care Act (P.L. 111-148, as amended by P.L. 111-152)
- Consolidated Appropriations Act, 2017 (P.L. 115-31)
- Bipartisan Budget Act of 2018 (P.L. 115-123)
- Additional Supplemental Appropriations for Disaster Relief Act, 2019 (P.L. 116-20)
- Continuing Appropriations Act, 2020, and Health Extenders Act of 2019 (P.L. 116-59)
- Further Continuing Appropriations Act, 2020, and Further Health Extenders Act of 2019 (P.L. 116-69)
- Further Consolidated Appropriations Act, 2020 (P.L. 116-94)
- Families First Coronavirus Response Act (P.L. 116-117)
- Consolidated Appropriations Act, 2021 (P.L. 116-260)
- American Rescue Plan Act of 2021 (P.L. 117-2)
- Extending Government Funding and Delivering Emergency Assistance Act (P.L. 117-43)
- Further Extending Government Funding Act (P.L. 117-70)
- Further Additional Extending Government Funding (P.L. 117-86)
- Further Additional Extending Government Funding Act (P.L. 117-86)
- Consolidated Appropriations Act, 2022 (P.L. 117-103)
- Continuing Appropriations and Ukraine Supplemental Appropriations Act, 2023 (P.L. 117-180)
- Further Continuing Appropriations and Extensions Act, 2023 (P.L. 117-229)
- Consolidated Appropriations Act, 2023 (P.L. 117-328)

Appendix II: Budgets by the Oversight Board

This appendix provides a summary of the certified budgets from fiscal year 2018 thru 2025 for the Commonwealth of Puerto Rico and its covered entities. The covered entities currently required to submit budgets are:

- Commonwealth of Puerto Rico (Commonwealth)
- Puerto Rico Electric Power Authority (PREPA)
- Puerto Rico Aqueduct and Sewer Authority (PRASA)
- Puerto University of Puerto Rico (UPR)
- Puerto Rico Highway and Transportation Authority (HTA)
- Puerto Rico Sales Tax Financing Corporation (COFINA)
- Public Corporation for the Supervision and Insurance of Cooperatives (COSSEC)
- Puerto Rico Industrial Development Company (PRIDCO)
- Municipal Revenue Collection Center (CRIM)

Table 2: Commonwealth Budget by Fiscal Year, by Date Certified

| Fiscal Year | Commonwealth Certified Budget by Date |
|--------------------|--|
| 2025 | June 30, 2024 FY25 Certified Budget |
| 2024 | June 30, 2023 FY24 Certified Budget |
| 2023 | June 30, 2022 FY23 Certified Budget |
| 2022 | June 30, 2021 FY22 Certified Budget |
| 2021 | June 30, 2020 FY21 Certified Budget |
| 2020 | June 30, 2019 FY20 Certified Budget |
| 2019 | June 30, 2018 FY19 Certified Budget |
| 2018 | June 30, 2017 FY18 Certified Budget |

Source: FOMB analysis of Oversight Board certified budgets.

Table 3: Puerto Rico Electric Power Authority Certified Budget by Fiscal Year, by Date Certified

| Fiscal Year | PREPA Certified Budget by Date Certified |
|--------------------|--|
| 2025 | June 28, 2024 FY25 Certified Budget |
| 2024 | June 30, 2023 FY24 Certified Budget |
| 2023 | June 30, 2022 FY23 Certified Budget |
| 2022 | July 1, 2021 FY22 Certified Budget |
| 2021 | June 30, 2020 FY21 Certified Budget |
| 2020 | June 30, 2019 FY20 Certified Budget |
| 2019 | June 30, 2018 FY19 Certified Budget |
| 2018 | June 30, 2017 FY18 Certified Budget |

Source: FOMB analysis of Oversight Board certified budgets.

Table 4: Puerto Rico Aqueduct and Sewer Authority Certified Budget by Fiscal year, by Date Certified

| Fiscal Year | PRASA Budget by Date Certified |
|--------------------|---|
| 2025 | June 18, 2024 FY25 Certified Budget |
| 2024 | June 30, 2023 FY24 Certified Budget |
| 2023 | April 14, 2023 FY23 Certified Budget |
| 2022 | July 1, 2021 FY22 Certified Budget |
| 2021 | June 30, 2020 FY21 Certified Budget |
| 2020 | June 30, 2019 FY20 Certified Budget |
| 2019 | June 30, 2018 FY19 Certified Budget |
| 2018 | June 30, 2017 FY18 Certified Budget |

Source: FOMB analysis of Oversight Board certified budgets.

Table 5: University of Puerto Rico Certified Budget by Fiscal Year, by Date Certified

| Fiscal Year | UPR budget by Date Certified |
|--------------------|--|
| 2025 | June 30, 2024 FY25 Certified Budget |
| 2024 | June 30, 2024 FY24 Certified Budget |
| 2023 | June 30, 2022 FY23 Certified Budget |
| 2022 | July 1, 2021 FY22 Certified Budget |
| 2021 | June 30, 2020 FY21 Certified Budget |
| 2020 | June 30, 2019 FY20 Certified Budget |
| 2019 | June 30, 2018 FY19 Certified Budget |

Source: FOMB analysis of Oversight Board certified budgets.

Table 6: Puerto Rico Highway and Transportation Authority Certified Budget by Fiscal Year, by Date Certified

| Fiscal Year | HTA Budget by Date Certified |
|--------------------|--|
| 2025 | June 21, 2024 FY25 Certified Budget |
| 2024 | June 30, 2023 FY24 Certified Budget |
| 2023 | June 30, 2022 FY23 Certified Budget |
| 2022 | July 1, 2021 FY22 Certified Budget |
| 2021 | June 30, 2020 FY21 Certified Budget |
| 2020 | June 30, 2019 FY20 Certified Budget |
| 2019 | June 30, 2018 FY19 Certified Budget |
| 2019 | June 30, 2017 FY18 Certified Budget |

Source: FOMB analysis of Oversight Board certified budgets.

Table 7: Public Sales Tax Financing Corporation Certified Budget, by Fiscal Year by Date Certified

| Fiscal Year | COFINA Budget by Date Certified |
|--------------------|--|
| 2025 | June 30, 2024 FY25 Certified Budget |
| 2024 | June 30, 2023 FY24 Certified Budget |
| 2023 | June 30, 2022 FY23 Certified Budget |
| 2022 | July 1, 2021 FY22 Certified Budget |
| 2021 | June 30, 2020 FY21 Certified Budget |
| 2020 | June 30, 2019 FY20 Certified Budget |
| 2019 | June 30, 2018 FY19 Certified Budget |

Source: FOMB analysis of Oversight Board certified budgets.

Table 8: Public Corporation for the Supervision and Insurance of Cooperatives Certified Budget by Fiscal Year, by Date Certified

| Fiscal Year | COSSEC Budget by Date Certified |
|--------------------|--|
| 2025 | June 28, 2024 FY25 Certified Budget |
| 2024 | June 30, 2023 FY24 Certified Budget |
| 2023 | June 30, 2022 FY23 Certified Budget |
| FY22 | July 1, 2021 FY22 Certified Budget |
| 2021 | June 30, 2020 FY21 Certified Budget |

Source: FOMB analysis of Oversight Board certified budgets.

Table 9: Puerto Rico Industrial Development Company Certified Budget by Fiscal Year, by Date Certified

| Fiscal Year | PRIDCO Budget by Date Certified |
|--------------------|--|
| 2025 | June 28, 2024 FY25 Certified Budget |
| 2024 | June 30, 2023 FY24 Certified Budget |
| 2023 | June 1, 2022 FY23 Certified Budget |
| 2022 | July 1, 2021 FY22 Certified Budget |
| 2021 | June 30, 2020 FY21 Certified Budget |

Source: FOMB analysis of Oversight Board certified budgets.

Table 10: Municipal Revenue Collection Center Certified Budget by Fiscal Year, by Date Certified

| Fiscal Year | CRIM Budgets by Date Certified |
|--------------------|--|
| 2025 | June 30, 2024 FY25 Certified Budget |
| 2024 | June 30, 2023 FY24 Certified Budget |
| 2023 | June 30, 2022 FY23 Certified Budget |
| 2022 | July 1, 2021 FY22 Certified Budget |
| 2021 | June 30, 2020 FY21 Certified Budget |

Source: FOMB analysis of Oversight Board certified budgets.

Appendix III: Certified Fiscal Plans by the Oversight Board

This appendix provides a summary of the certified fiscal plans from fiscal year 2018 thru 2024 for the Commonwealth of Puerto Rico and covered entities.^{xxx} The covered entities currently required to submit a Fiscal Plans and Budgets are^{xxxi}:

- Commonwealth of Puerto Rico (Commonwealth)
- Puerto Rico Electric Power Authority (PREPA)
- Puerto Rico Aqueduct and Sewer Authority (PRASA)
- University of Puerto Rico (UPR)
- Puerto Rico Highway and Transportation Authority (HTA)
- Puerto Rico Sales Tax Financing Corporation (COFINA)
- Public Corporation for the Supervision and Insurance of Cooperatives (COSSEC)
- Puerto Rico Industrial Development Company (PRIDCO)
- Municipal Revenue Collection Center (CRIM)
- Puerto Rico Government Developing Bank (GDB)

Table 11. Commonwealth Certified Fiscal Plans by Year, by Date Certified

| Year | Commonwealth Certified Fiscal Plans, by Date |
|-------------|--|
| 2024 | June 5, 2024 2024 Fiscal Plan |
| 2023 | April 3, 2023 Volume I 2023 Fiscal Plan Volume II 2023 Fiscal Plan Volume III 2023 Fiscal Plan |
| 2022 | January 27, 2022 2022 Fiscal Plan |
| 2021 | April 23, 2021 2021 Fiscal Plan |
| 2020 | May 27, 2020 2020 Fiscal Plan |
| 2019 | May 9, 2019 2019 Fiscal Plan |
| 2018 | October 23, 2018 October 2018 Fiscal Plan June 29, 2018 June 2018 Fiscal Plan April 19, 2018 April 2018 Fiscal Plan |
| 2017 | March 13, 2017 2017 Fiscal Plan |

Source: FOMB analysis of Oversight Board certified fiscal plans.

Table 12: Puerto Rico Electric Power Authority Certified Fiscal Plans by Year, by Date Certified

| Year | PREPA Certified Fiscal Plan, by Date |
|-------------|---|
| 2023 | June 23, 2023 2023 Fiscal Plan |
| 2022 | June 28, 2022 2022 Fiscal Plan |
| 2021 | May 27, 2021 2021 Fiscal Plan |
| 2020 | June 29, 2020 2020 Fiscal Plan |
| 2019 | June 27, 2019 2019 Fiscal Plan |
| 2018 | August 1, 2018 August 2018 Fiscal Plan April 19, 2018 April 2018 Fiscal Plan |
| 2017 | April 28, 2017 2017 Fiscal Plan |

Source: FOMB analysis of Oversight Board certified fiscal plans.

Table 13: Puerto Rico Aqueduct and Sewer Authority Certified Fiscal Plan by year, by Date Certified

| Year | PRASA Certified Fiscal Plans by fiscal year, by date certified |
|-------------|---|
| 2024 | June 11, 2024 FY24 Fiscal Plan |
| 2023 | May 26, 2023 FY23 Fiscal Plan |
| 2022 | May 20, 2022 FY22 Fiscal Plan |
| 2021 | May 27, 2021 FY21 Fiscal Plan |
| 2020 | June 29, 2020 FY20 Fiscal Plan |
| 2019 | June 25, 2019 FY19 Fiscal Plan |
| 2018 | August 1, 2018 FY18 Fiscal Plan |
| 2017 | May 28, 2017 |

[FY15 Fiscal Plan](#)

Source: FOMB analysis of Oversight Board certified budgets.

Table 14: University of Puerto Rico Certified Fiscal Plans by Year, by Date Certified

| Year | UPR Certified Fiscal Plan, by Date |
|------|---|
| 2021 | May 27, 2021 2021 Fiscal Plan |
| 2020 | June 12, 2020 2020 Fiscal Plan |
| 2019 | June 5, 2019 2019 Fiscal Plan |

Source: FOMB analysis of Oversight Board certified fiscal plans.

Table 15: Puerto Rico Highway and Transportation Authority Certified Fiscal Plans by year, by Date Certified

| Year | HTA Certified Fiscal Plan, by Date |
|------|--|
| 2023 | December 8, 2023 2023 Fiscal Plan |
| 2022 | October 14, 2022 2022 Fiscal Plan |
| 2021 | May 27, 2021 2021 Fiscal Plan |
| 2020 | June 26, 2020 2020 Fiscal Plan |
| 2019 | June 5, 2019 2019 Fiscal Plan |
| 2018 | June 29, 2018 June 2018 Fiscal Plan April 20, 2018 April 2018 Fiscal Plan |
| 2017 | April 28, 2017 2017 Fiscal Plan |

Source: FOMB analysis of Oversight Board certified fiscal plans.

Table 16: Puerto Rico Sales Tax Financing Corporation Certified Fiscal Plans by Year, by Date Certified

| Year | COFINA Certified Fiscal Plans by Date |
|-------------|--|
| 2024 | June 5, 2024 2024 Fiscal Plan |
| 2023 | April 20, 2023 2023 Fiscal Plan |
| 2022 | May 20, 2022 2022 Fiscal Plan |
| 2021 | May 27, 2021 2021 Fiscal Plan |
| 2020 | June 19, 2020 2020 Fiscal Plan |
| 2019 | October 30, 2019 2019 Fiscal Plan |
| 2018 | October 18, 2018 2018 Fiscal Plan |

Source: FOMB analysis of Oversight Board certified fiscal plans.

Table 17: Public Corporation for the Supervision and Insurance of Cooperatives Certified Fiscal plans by Year, by Date Certified

| Year | COSSEC Certified Fiscal Plan, by Date |
|-------------|--|
| 2024 | May 17, 2024 2024 Fiscal Plan |
| 2023 | May 22, 2023 2023 Fiscal Plan |
| 2022 | May 20, 2022 2022 Fiscal Plan |
| 2021 | May 27, 2021 2021 Fiscal Plan |
| 2020 | June 29, 2020 FY20 Fiscal Plan |
| 2017 | August 4, 2017 FY17 Fiscal Plan |

Source: FOMB analysis of Oversight Board certified fiscal plans.



Table 18: Puerto Rico Industrial Development Company Certified Fiscal Plans by Year, by Date Certified

| Year | PRIDCO Certified Fiscal Plans, by Date |
|-------------|---|
| 2024 | June 7, 2024 2024 Fiscal Plan |
| 2023 | May 26, 2023 2023 Fiscal Plan |
| 2022 | May 20, 2022 2022 Fiscal Plan |
| 2021 | May 27, 2021 2021 Fiscal Plan |
| 2020 | June 29, 2020 2020 Fiscal Plan |

Source: FOMB analysis of Oversight Board certified fiscal plans.

Table 19: Municipal Revenue Collection Center Certified Fiscal Plans, by Year, by Date Certified

| Year | CRIM Certified Fiscal Plan, by Date |
|-------------|--|
| 2024 | June 14, 2024 2024 Fiscal Plan |
| 2023 | May 22, 2023 2023 Fiscal Plan |
| 2022 | May 20, 2022 2022 Fiscal Plan |
| 2021 | April 23, 2021 2021 Fiscal Plan |
| 2020 | June 26, 2020 2020 Fiscal Plan |

Source: FOMB analysis of Oversight Board certified fiscal plans.

Table 20: Government Development Bank Certified Fiscal Plans by Year, by Date Certified

| Year | GDB Certified Fiscal Plan, by Date |
|-------------|--|
| 2018 | April 20, 2018 2018 Fiscal Plan |
| 2017 | April 28, 2017 2017 Fiscal Plan |

Source: FOMB analysis of Oversight Board certified fiscal plans.

Notes: Prior to April 2016, GDB performed the following roles for the Puerto Rico Government and its entities: (1) fiscal agent, paying agent, financial advisor, and reporting agent; (2) depository and trustee of funds; and (3) lender of money, with and without security, to the government, its entities, or to external parties including persons, firms, corporations or organizations.

In April 2016, these responsibilities were transferred to the Fiscal Agency and Financial Advisory Authority (FAFAA), which was created under the Puerto Rico Emergency Moratorium and Financial Rehabilitation Act. FAFAA's powers were further expanded in January 2017 by the then governor to include collaboration with the Oversight Board as well as responsibility for negotiations with creditors regarding the debt of Puerto Rico's government and its entities.

Appendix IV: Chronology of Milestones: Advancing Puerto Rico's Fiscal and Economic Transformation

This appendix highlights the significant achievements accomplished under the Financial Oversight and Management Board for Puerto Rico (FOMB) since its establishment in 2016. These milestones underscore the Board's dedication to fostering fiscal responsibility, transparency, and sustainable economic development for Puerto Rico.

The documented milestones span a wide range of critical areas, including fiscal planning, economic development, public sector reforms, infrastructure investments, and the enhancement of government operations. From the implementation of transformative policies to the execution of impactful initiatives, each entry reflects a focused commitment to addressing the island's fiscal challenges and ensuring long-term stability.

Organized by year, the appendix provides a chronological overview of milestones, demonstrating continuous progress toward achieving the goals set forth by PROMESA. The listed achievements are not only a testament to the collective efforts of stakeholders but also serve as a foundation for future advancements.

2024 Milestones

- ④ **Certified 2024 Fiscal Plans for the Commonwealth and its instrumentalities**, for a total of 62 certified fiscal plans for the Commonwealth and its instrumentalities since 2017, ensuring alignment with PROMESA's long-term fiscal sustainability goals.
- ④ **Started publishing quarterly financial reports on the Commonwealth's financial position**, further enhancing fiscal transparency and accountability across government operations.
- ④ **Began convening key energy stakeholders** to accelerate Puerto Rico's energy system transformation and increase the federal funding disbursement rate.
- ④ **Completed automation of time and attendance systems** for nearly 80% of Commonwealth government employees, improving accountability and operational efficiency.
- ④ **Finalized the San Juan Bay Cruise Terminal Public-private partnership transaction**, settling **\$600 million in legacy Government Development Bank debt** and unlocking significant infrastructure investment.

- ⊗ **Implemented Act 80-2020 Early Retirement Program** in a fiscally **responsible** manner, balancing workforce reductions with long-term financial sustainability.
- ⊗ **Authorized a \$250 million one-time tax rebate**, directly benefitting individual taxpayers and stimulating the local economy.
- ⊗ **Executed the third consecutive contribution to the Pension Reserve Trust**, bringing cumulative contributions to **\$3.4 billion** and protecting pensioners' future benefits.
- ⊗ **Multiple Collective Bargaining Agreements** were executed with unions representing over **10,000 public sector employees**, improving labor relations and job stability.
- ⊗ **Reduced the property registry backlog by nearly 50%**, from **419,000 outstanding registrations to 220,000** as of May 2023, with a plan to achieve **functional zero within two years**.
- ⊗ **Appropriated new intergovernmental funding streams** to address critical needs of Puerto Rico's municipalities, ensuring sustainable local government operations.
- ⊗ **Facilitated the launch of an expedited permit system**, dramatically reducing processing times for certain permit applications, spurring economic development.
- ⊗ **Initiated a comprehensive economic development strategy**, creating a **long-term growth plan** aimed at achieving sustained prosperity for Puerto Rico.
- ⊗ **Expanded strategic budgeting and fiscal reform initiatives**, enhancing the Commonwealth's fiscal governance and long-term financial planning capabilities.
- ⊗ **Collaborated with Puerto Rico Department of Economic Development and Commerce** to develop and approve **cash grant and other regulations**, ensuring economic incentives are effective and accountable.
- ⊗ **Convened key stakeholders from the University of Puerto Rico**, facilitated collaboration and higher education reforms.
- ⊗ **FY22 Audited Financial Statements issued by the government**, which reconciled the **General Fund deficit of \$3.3 billion** from a budgetary basis to a US GAAP basis, ensuring greater financial transparency.

2023 Milestones

- ⊗ **Concession agreement** between the Highways and Transportation Authority, Public-Private Partnerships Authority, and Puerto Rico Tollroads LLC enabled **the repayment of \$1.6 billion in outstanding debt**, including a **\$360 million loan from the Government of Puerto Rico**, and provided **\$1.1 billion in new funding** for infrastructure investments.
- ⊗ **Facilitated a comprehensive review** of the Puerto Rico Incentives Code (Act 60-2019) and subsequent regulations, administrative orders, and manuals. The Board provided extensive **technical assistance on return-on-investment methodologies** and illustrative analyses to strengthen economic incentives.
- ⊗ **Provided technical assistance to establish the Budget Office of the Legislative Assembly**, ensuring that the Legislature begins **scoring the cost of bills before enactment**, promoting fiscal responsibility in legislative processes.
- ⊗ **Expanded the time and attendance system** across additional government entities, further enhancing workforce accountability.
- ⊗ **Identified benefits of expansion of SURI** (Internal Revenue Unified System) to support Hacienda's continued roll-out of digital tools for tax administration, leading to inclusion of corporate taxpayers and incentive corporations into the SURI system in 2023 and 2024.

2022 Milestones

- ⊗ **Established an independent Pension Reserve Trust**, safeguarding pensions for public employees and ensuring long-term solvency.
- ⊗ **Made whole defined contribution accounts** for nearly **35,000 government employees and retirees**, reimbursing **\$1.5 billion** in contributions.
- ⊗ **Empowered the Puerto Rico Highway and Transportation Authority to execute an \$11.6 billion capital investment program from FY2022 – FY2051**, enhancing Puerto Rico's transportation infrastructure.
- ⊗ **Secured access to Social Security benefits** for teachers and judges through the Plan of Adjustment, ensuring more robust retirement security.
- ⊗ **Increased salaries for correctional officers**, recognizing their essential role in public safety.

- ⊙ **Enhanced retirement benefits for police officers**, providing **\$850 million** in additional support.
- ⊙ **Increased salaries for University of Puerto Rico medical residents** by 20% (or **\$2.5 million**) providing increases for the first time in over a decade.
- ⊙ **Supported the enactment of Act 52-2022**, laying the groundwork for companies to transition away from Act 154-2010's tax framework.
- ⊙ **Co-developed Municipal Revenue Collection Center's property tax amnesty program**, generating over **\$215 million** in additional collections from delinquent taxes due and reducing outstanding tax debts for property owners.
- ⊙ **Launched procurement reform initiatives** at the Department of Public Safety and the Department of Education, improving efficiency and accountability in public spending.
- ⊙ **Supported Puerto Rico Industrial Development Company's efforts to select a third-party manager** for industrial and commercial properties, optimizing the management of government owned and managed real estate and land holdings.

2021 Milestones

- ⊙ **Launched Civil Service Reform**, introducing new **organizational structures, revised salary scales, standardized recruitment processes**, and a **robust employee evaluation system** to enhance the efficiency and effectiveness of Puerto Rico's public sector workforce.
- ⊙ **Authorized salary increases for firefighters**, continuing the trend of improving compensation for essential public sector employees.
- ⊙ **Supported the enactment of Act 41-2021**, significantly expanding **local Earned Income Tax Credit benefits**, leveraging a **three-to-one federal funding match** provided by Congress.
- ⊙ **Issued multiple PROMESA Section 205 recommendation letters**, covering key areas such as **land and property registration reforms, transportation system improvements, capital budgeting processes, and enhanced fiscal transparency measures**.

- ⊗ **Established a \$750 million Disaster Revolving Fund**, ensuring immediate access to critical funds in the event of natural disasters and other emergency funding needs.
- ⊗ **Completed a planimetric mapping** to add missing properties and incorporate swimming pools, new properties and home improvements into the tax roll which enhances municipal revenue collection.

2020 Milestones

- ⊗ **Invested \$934 million in healthcare infrastructure and services**, strengthening Puerto Rico's healthcare system.
- ⊗ **Allocated \$787 million for public health preparedness**, ensuring the government is better equipped to handle future emergencies.
- ⊗ **Secured \$400 million for broadband infrastructure investments**, improving digital connectivity across underserved areas.
- ⊗ **Established a \$50 million 21st Century Technical and Business Education Fund**, promoting workforce development and education.
- ⊗ **Supported the enactment of the Puerto Rico Debt Responsibility Act (Act 101-2020)** to limit incremental debt issuance both in purpose and amount, promoting long-term fiscal discipline.
- ⊗ **Enabled the government to reduce individual tax burdens** through **Act 40-2020**, in a **fiscally neutral manner**.

2019 Milestones

- ⊗ **Authorized significant salary increases for teachers and police officers**, investing in public safety and education.
- ⊗ **Approved a \$213 million needs-based scholarship program** for University of Puerto Rico students, ensuring broader access to higher education.
- ⊗ **Allocated funds to address critical healthcare system needs**, including **nursing and physician shortages**, hospital upgrades, and **health information technology investments**.
- ⊗ **Cleared back pay debts owed to police officers**, allocating funds over a three-year period to cover **ten years' worth of outstanding obligations**.
- ⊗ **Established a \$1.3 billion Liquidity Emergency Reserve**, funded over time, to safeguard government operations during unforeseen fiscal challenges.
- ⊗ **Published a comprehensive Section 211 PROMESA report**, detailing the **history and conditions of Puerto Rico's pension systems**.
- ⊗ **Released a detailed investigative report on government bank and investment accounts**, identifying over **2,000 accounts totaling more than \$24 billion**, improving transparency.
- ⊗ **Secured Social Security access for police officers**, providing enhanced retirement security for law enforcement.
- ⊗ **Implemented additional budget controls** to improve transparency across **liquidity management, special revenue funds, and public corporations**.
- ⊗ **Supported the government's issuance of the first annual comprehensive Puerto Rico Tax Expenditure Report**, a requirement of PROMESA, providing visibility into more than \$20 billion in tax incentives and their impact on government revenues.

2018 Milestones

- ⊗ **Presented the Kobre & Kim report**, investigating the root causes of Puerto Rico's fiscal crisis, including the factors leading to its debt accumulation.
- ⊗ **Initiated Time & Attendance automation** at the **Department of Education**, improving accountability.

- ⊗ **Supported government efforts to build cash reserves**, ending decades of cash flow deficits.
- ⊗ **Established monthly financial reporting requirements**, promoting fiscal transparency.
- ⊗ **Implemented strict budget controls** to instill significant budget discipline and transparency through nearly 30 budget controls, including budget holdbacks and milestones, and, with limited exception, the elimination of multi-year appropriations, ensuring accountability in government spending.
- ⊗ **Supported the enactment of tax changes (Act 257-2018)**, creating a new tax regime for **self-employed individuals and businesses**, among other revisions to the internal revenue code, in a **cost-neutral manner**.
- ⊗ **Supported government efforts to operationalize Puerto Rico's Destination Marketing Organization (DMO) and Invest Puerto Rico**, both key economic development entities.

2017 Milestones

- ⊗ **Certified the first Fiscal Plan for the Commonwealth of Puerto Rico** as well as certified fiscal plans for key entities, including Puerto Rico Electric Power Authority, Puerto Rico Aqueduct and Sewers Authority, Puerto Rico Highway and Transportation Authority, and the Public Corporation for the Supervision and Insurance of Cooperatives of Puerto Rico, marking a significant milestone in the Commonwealth's fiscal recovery efforts to ensure that **forecasted expenses did not exceed revenues**.
- ⊗ **Certified the first Commonwealth budget** under the Oversight Board's supervision, establishing greater fiscal discipline.
- ⊗ **Instituted a contract review and approval policy**, enhancing oversight and reducing financial risks.
- ⊗ **Authorized the use of \$1.0 billion for emergency relief** following **Hurricanes Maria and Irma**, enabling the government to respond to immediate needs following the storms.
- ⊗ **Initiated the first Title III bankruptcy proceedings**, a critical step in addressing Puerto Rico's debt crisis.

- ⊗ **Implemented the Pension PayGo process**, ensuring that pensions remained funded despite fiscal challenges.

2016 Milestones

- ⊗ **Members of the Financial Oversight and Management Board for Puerto Rico** held their **first public board meeting**.
- ⊗ **Certified a list of covered entities** subject to the Board's supervision under PROMESA, establishing the scope of the entities that are subject to the provisions of PROMESA.
- ⊗ **Enforced enactment of an automatic stay on debt payments**, preserving Puerto Rico's **limited cash resources** for critical public services.

Appendix V: Oversight Board Engagement with the Puerto Rico Government, Constituents and Private Sector

This appendix provides an example of Oversight Board Engagement with outside entities and social media coverage.

Table 21: Oversight Board Engagement by Type and Organization

| Engagement Type | Organization |
|--|--|
| Site Visits | Puerto Rico Chamber of Commerce |
| | Foundation for Puerto Rico |
| | Leadership of the Financial Analysts' Society of Puerto Rico |
| | Association of Hematology and Medical Oncology of Puerto Rico |
| | Martex Farms |
| | Pattern Energy |
| | Collins Aerospace |
| | Puerto Rico Builder's Association |
| | Boys & Girls Club |
| | Puerto Rico Science, Technology and Research Trust |
| | Leap Steam +E Academy of San Juan |
| | J. Perez Melon Elderly Center |
| | Adrian Santos Tirado School of Fine Arts |
| | Vieques Municipality |
| | Vega Baja |
| | Salinas Municipality |
| | Quebradillas Municipality |
| Bayamon Municipality | |
| Juncos Municipality | |
| Mayors Summit 2023 | |
| XXIII Healthcare Industry Annual Forum – Puerto Rico Society of Certified Public Accountants | |
| 50 Years Leaving a Mark – Puerto Rico Society of Certified Public Accountants Convention | |
| Presentations | 2023 Puerto Rico Hospital Association Convention |
| | Cities, Innovation, and Future Summit – Puerto Rico Mayors Association |
| | SESA Annual Summit |
| | “Las Comunidades Hablan” – Sor Isolina Ferre Center |
| | Congress of Municipal Legislators |

| | |
|----------------------|--|
| | Innovation Expo 2024 – Puerto Rico Chamber of Commerce |
| | Pharmacy Forum |
| Public Board Meeting | 41 st Public Board Meeting & Press Conference |
| | 42 nd Public Board Meeting & Press Conference |
| | 43 rd Public Board Meeting & Press Conference |
| | 44 th Public Board Meeting & Press Conference |
| Media Interviews | Primera Hora interview with Executive Director Robert F. Mujica, Jr. |
| | El Nuevo Día interview with Executive Director Robert F. Mujica, Jr. |
| | Debtwire interview with Executive Director Robert F. Mujica, Jr. |
| | Pa'Lante Boricua interview with Executive Director Robert F. Mujica, Jr. |
| | WKAQ radio interviews with Executive Director Robert F. Mujica, Jr. |
| | Lo Sé Todo interviews with Press Secretary Sylvette Santiago |
| | Politico interview with Executive Director Robert F. Mujica, Jr. |
| | Primera Hora interview with Chairman David Skeel |

Social Media Engagement

In fiscal year 2024, the Oversight Board’s communications team expanded its digital presence across Meta (Facebook, Instagram, and Threads), X (formerly Twitter), YouTube, and LinkedIn, achieving growth while identifying areas for improvement.

On Meta, Facebook reached 19.5K users, with increased video views indicating strong engagement. Instagram experienced a significant growth rate of 510.1%, though overall reach remained modest.

On X, the Oversight Board generated 328K impressions with a consistent 4% engagement rate.

YouTube accumulated 12,680 views and 803.1 hours of watch time, with a 2.6% click-through rate (CTR). Public meetings and educational videos attracted high viewer interest.

LinkedIn demonstrated strong engagement, with 191,012 organic and 10,589 sponsored impressions. The highest-performing content was video-based, particularly leadership updates, which achieved a 5.26% CTR. The “Oversight Board Monthly Newsletter” articles had a combined CTR of 3.4%, resonating well with the professional audience.

Appendix VI: Oversight Board Fiscal Year 2024 Year End Budget

Oversight Board Fiscal Year 2024 Budget

| OPERATING ACTIVITIES | |
|---|------------------------|
| REVENUES: | |
| Government Contribution | \$59,466,000 |
| Interest Income | \$- |
| Other Income | \$- |
| Total operating revenues | \$59,466,000 |
| EXPENDITURES | |
| Payroll and other related costs | \$10,198,705.00 |
| Salary and Benefits | \$9,324,400 |
| Payroll Taxes | \$821,305 |
| Professional Development & Training | \$53,000 |
| Legal Services | \$4,178,000 |
| Legal Services | \$4,178,000 |
| Professional Services | \$39,593,235 |
| Investment Banking | \$3,130,000 |
| Professional Services PROMESA Responsibilities | \$36,463,235 |
| Purchased Administrative and Outreach Services | \$3,423,260 |
| Insurance Expenditures | \$339,500 |
| Security Services | \$844,000 |
| Information System Services | \$112,500 |
| Accounting, Tax Advisory and Audit | \$269,960 |
| Federal Legislation Support | \$1,093,000 |
| Human Resources, Training and Recruitment Services | \$312,500 |
| Other Administrative Services | \$451,800 |
| Transportation, Travel Costs and Reimbursable Expenses | \$1,010,100 |
| Board Travel Expenditures | \$100,000 |
| Employee Travel Expenditures | \$80,000 |
| Contractor Reimbursable Expenditures | \$717,600 |
| Vehicle Rental or Lease | \$95,000 |
| Fuel and Maintenance | \$17,500 |
| Rent and Other Office Costs | \$710,150 |
| Building Rent | \$499,000 |
| Utility - Telephone & Internet Services | \$75,800 |
| Office Recurrent Costs | \$88,000 |
| Office Materials and Supplies | \$41,200 |
| Postage & Delivery Costs | \$6,150 |

| | |
|--|---------------------|
| Equipment Purchases | \$95,000 |
| Office Furniture and Equipment | \$45,000 |
| Leasehold Repair & Improvements | \$15,000 |
| Computer Equipment | \$35,000 |
| Other Expenditures | \$257,550 |
| Meeting Expenditures | \$225,000 |
| Miscellaneous Expenditures | \$32,550 |
| Additional Contingencies | \$ - |
| Total expenditures - Operating Activities | \$59,466,000 |
| EXCESS (DEFICIENCY) OR REVENUES OVER EXPENDITURES FROM OPERATING ACTIVITIES | \$ - |

Appendix VII: Impact of the Electric Grid on Residents, Businesses, and the Economy of Puerto Rico

The state of Puerto Rico's electrical grid has profound implications for the daily lives of its residents, the operations of its businesses, and the overall economic stability of the island. Frequent power outages, inadequate infrastructure, and insufficient generation capacity have led to significant challenges across all sectors.

Impact on Residents

For the people of Puerto Rico, the reliability of the electrical grid is a matter of basic living conditions. Frequent and prolonged power outages disrupt everyday life and cause numerous hardships. The effects include:



Health and Safety Risks: Power outages can jeopardize public health and safety. Hospitals and medical facilities, particularly those reliant on electricity for life-supporting equipment, face heightened risks. Additionally, families and individuals relying on medical devices or refrigerated medications experience difficulties during outages. According to the GAO, the lack of reliable electricity for critical health needs remains a significant concern.^{xxxii}



Daily Inconvenience: Extended outages impact daily activities, such as cooking and using electronic devices. Residents in rural or less connected areas are often the hardest hit, with slower recovery times and limited access to alternative power sources.



Quality of Life: The unpredictability of power availability has diminished the overall quality of life for many Puerto Ricans. The lack of stable electricity impacts comfort, convenience, and access to modern amenities, which are essential to a functioning society. As highlighted in the U.S. Department of Energy's report, the lack of energy reliability has a lasting negative effect on daily life.^{xxxiii}

Impact on Businesses

Puerto Rico's economy is heavily dependent on its businesses, and the performance of these businesses is closely tied to a reliable energy supply. Power disruptions have severe consequences for businesses across all sectors:



Operational Downtime: Businesses, from small shops to large manufacturers, experience significant losses due to power interruptions. Downtime can result in lost revenue, increased operational costs, and delays in production, which undermine competitiveness.^{xxxiv}



Increased Operating Costs: Companies must rely on expensive backup generators to mitigate the risks of outages, adding a financial burden. These additional costs can be prohibitive for small businesses and startups, limiting their growth potential. The impact of power costs on small business has been extensively documented by FEMA.^{xxxv}



Investor Confidence: The persistent unreliability of the electrical grid affects investor confidence in Puerto Rico's economy. The island's ability to attract new investments, particularly in sectors like manufacturing, technology, and tourism, is hindered by concerns about infrastructure stability.



Supply Chain Disruptions: For businesses reliant on just-in-time inventory models, such as those in retail and manufacturing, power outages disrupt supply chains and delay deliveries, further affecting economic productivity. According to the GAO-24-10557 report, supply chain disruptions are exacerbated by energy infrastructure instability.^{xxxvi}

Impact on the Economy

The economic ramifications of Puerto Rico's power grid issues extend far beyond individual households and businesses. The electricity system is a key enabler of economic activity, and its instability has a far-reaching impact on the island's broader economic health:



Economic Growth: A reliable energy infrastructure is critical to fostering economic growth. As businesses face increased costs and lower productivity due to unreliable electricity, the broader economy suffers. The lack of reliable energy stifles innovation limits the growth of emerging industries and deters potential investors.^{xxxvii}



Job Creation and Investment: The energy challenges have hampered job creation, especially in energy-intensive sectors such as manufacturing and technology. Puerto Rico's ability to diversify its economy and build new industries is constrained by the inability to provide reliable, cost-effective energy. Federal and private investments in clean energy and infrastructure are also slowed down by grid instability, preventing the island from capitalizing on renewable energy opportunities.^{xxxviii}



Tourism: Tourism is one of Puerto Rico's most important industries, but frequent power outages and unreliable electricity systems undermine the appeal of the island for visitors. Hotels, restaurants, and other tourism-related businesses are negatively affected by power disruptions, which harm Puerto Rico's reputation as a tourist destination.

Addressing these challenges through grid modernization, improved infrastructure, and regulatory reforms is essential for securing a stable, resilient, and prosperous future for Puerto Rico. The state of Puerto Rico's electrical grid has profound implications for the daily lives of its residents, the operations of its businesses, and the overall economic stability of the island. Frequent power outages, inadequate infrastructure, and insufficient generation capacity have led to significant challenges across all sectors.

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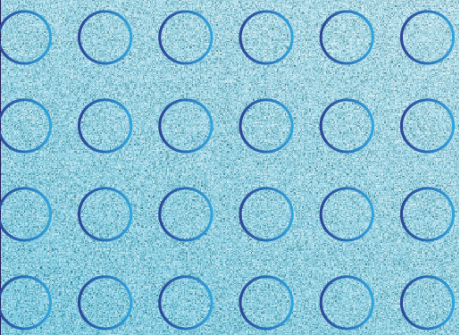


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Endnotes

Endnotes

ⁱ The audited financial statements for the fiscal year ending June 30, 2022, reveal a \$3.3 billion deficit in the General Fund under PROMESA's modified accrual basis. Persistent deficiencies in internal controls, highlighted by independent auditors, remain unaddressed, raising ongoing concerns about the Commonwealth's financial management practices.

ⁱⁱ 48 U.S.C. § 2144(c)(1).

ⁱⁱⁱ 48 U.S.C. § 2144(c)(2).

^{iv} National Association of State Budget Offices, "Budget Practices in the States", Spring 2021.

^v Office of Management and Budget (OMB), Circular No. A-11, "Preparation, Submission and Execution of the Budget," August 15, 2022, §22.3, pp. 106-107.

^{vi} The collection of statutes commonly referred to as the Antideficiency Act has been codified in multiple sections of Title 31 of the U.S. Code (31 U.S.C. §§1341-1342, 1349-1350, 1511-1519).

^{vii} Under Section 204(b)(2), the Oversight Board reviewed 60 regulatory and administrative measures, approving 53, approving 4 with conditions, partially approving 2, and denying 1.

^{viii} Urban Institute's State and Local Finance Data, Census – Annual Survey of State and Local Government Finance, 2021 and American Community Survey 2021.

^{ix} U.S. Census Bureau, American Community Survey, 5-Year Data 2021.

^x Title V of PROMESA overhauls the processes for review and permitting of certain infrastructure projects within the Commonwealth. It also created the position of "Revitalization Coordinator", granted the Revitalization Coordinator a role in reviewing and permitting "Critical Projects"; established an expedited review process for such projects; and added related provisions intended to ease the permitting process and increase the federal oversight role. Pub. L. No. 114-187, § 500, 130 Stat. 549, 587–592 (June 30, 2016).

^{xi} Further complicating its recovery from the 2017 hurricanes, Puerto Rico experienced a series of earthquakes in December 2019 and January 2020 that added millions of dollars in damages. Recovery from this set of disasters was again impacted by subsequent events including the COVID-19 pandemic starting in March 2020 and Hurricane Fiona in September 2022.

^{xii} For example, compliance with federal requirements prior to obligating funds and beginning construction work. Even though the collaboration with FEMA has been outstanding, and FEMA is committed to expedite the review process, the reality is complex projects (sensitive-scope vegetation or cross-island transmission centers) take months (or years), since the process mandate that federal partners such as Fish & Wildlife are consulted, and some of the projects most likely will require Environmental Assessments (EA) or more stringent Environmental Impact Statements (EIS).

<https://www.congress.gov/118/meeting/house/117665/witnesses/HHRG-118-II24-Wstate-LaboyRiveraM-20240926.pdf>

^{xiii} Section 428 of the Stafford Act, subrecipient awards are fixed, so increased expenses that result in a budget overrun can jeopardize successful project completion. This is very worrisome since all of the FEMA funding for the long-term reconstruction of the electrical system is tied to Section 428. As GAO, "cost increases are of concern because a subrecipient's award acts as a fixed budget to complete projects across its various facilities. Therefore, increased costs for one project could excessively reduce the established budget to complete later projects." U.S. Government Accountability Office, Puerto Rico Disasters: Progress Made, but the Recovery Continues to Face Challenges, GAO-24-105557 at 2 (Feb. 2024),

<https://www.gao.gov/assets/gao-24-105557.pdf>.

^{xiv} The PREB approval dates of February 21st and March 15th are correct per the March 15th order Docket NEPR-MI-2022-0003 ([20240315-AP20240001-Resolution-and-Order-1.pdf](https://www.premia.org/20240315-AP20240001-Resolution-and-Order-1.pdf))

^{xv} Puerto Rico Electrical System Resource Adequacy Analysis Report, October 31, 2024: https://ntc-prod-public-pdfs.s3.us-east-2.amazonaws.com/adag06Q5logcvsnY_eH3yDxTD8E.pdf; Resource Adequacy Study, August 30, 2022: <https://energia.pr.gov/wp-content/uploads/sites/7/2022/09/Motion-to-Submit-Lumas-Resource-Adequacy-Study-NEPR-MI-2022-0002.p>

^{xvi} PREB R&O March 15, 2024 Docket NEPR-MI-2024-0001 ([20240315-AP20240001-Resolution-and-Order-1.pdf](https://ntc-prod-public-pdfs.s3.us-east-2.amazonaws.com/adag06Q5logcvsnY_eH3yDxTD8E.pdf))

^{xvii} Puerto Rico Electrical System Resource Adequacy Analysis Report, October 31, 2024: https://ntc-prod-public-pdfs.s3.us-east-2.amazonaws.com/adag06Q5logcvsnY_eH3yDxTD8E.pdf

^{xviii} The Medicaid cliff refers to the potential sever reduction in federal funding for Puerto Rico’s Medicaid program due to the expiration of temporary increases in federal funding and enhanced Federal Medical Assistance Percentages (FMAP).

^{xix} Seventy-two of Puerto Rico’s 78 municipalities are deemed “medically underserved areas,” with 500 doctors leaving per year (pre-Hurricane Irma and Maria in 2017). Puerto Rico has half the rate of specialists (e.g., emergency physicians, neurosurgeons) as compared to the mainland in critical fields. This is especially notable for specialists’ providers who serve enrollees with chronic conditions, where needed specialists are scarce leading to severely underserved Puerto Rican’s in certain areas of the Island.

^{xx} The Medicaid and CHIP Payment and Access Commission (MACPAC) has found that the statutory financing structure for Puerto Rico’s Medicaid program results in chronic underfunding, which places significant constraints on the program compared to state Medicaid programs. Medicaid spending in Puerto Rico is more limited, with smaller benefit packages, lower eligibility thresholds, and reduced provider payment levels. This has led to significant challenges in ensuring comprehensive healthcare coverage for the population, particularly in the face of high poverty rates and economic difficulties. In its 2019 report, MACPAC emphasized that these constraints are exacerbated by Puerto Rico’s reliance on federal funds that are subject to an annual cap, with additional funding often only being provided in response to specific crises. Medicaid and CHIP Payment and Access Commission (MACPAC), *Mandated Report—Medicaid in Puerto Rico*, June 2019.

^{xxi} The acronym **OECD/G20** can be spelled out as:

- **OECD:** Organization for Economic Co-operation and Development
- **G20:** Group of Twenty (an international forum for governments and central bank governors from 19 countries and the European Union).

Together, the term refers to collaborative efforts between the Organization for Economic Co-operation and Development and the G20 to address global economic and policy challenges.

^{xxii} OECD, “Multinational Enterprises Report Low-Taxed Profit, Even in Jurisdictions with High Corporate Tax Rates, Underlining Need for Global Tax Reform.” OECD, November 2023, OECD, “Revenue Impact of International Tax Reform Better Than Expected,” OECD, January 2023 and OECD, “A Set of Matrices to Map the Location of Profit and Economic Activity of Multinational Enterprises,” OECD, December 2020.

^{xxiii} Congress initiated the principles behind the rum cover-over program for Puerto Rico under the Jones Act of 1917. The act stipulated, “providing that hereafter all taxes collected under the internal revenue laws of the United States on articles produced in Puerto Rico and transported to the United States, or consumed in the island shall be covered over in the treasury of Puerto Rico. The House and Senate report language accompanying the Jones Act of 1917 both stated “it is believed to be just and fair that it [Puerto Rico] should receive the internal-revenue taxes collected upon its products, whether those products are used in Puerto Rico or produced in Puerto Rico and transported to and used in the United States. Jones Act of 1917, §9, 39 Stat. 951; 1910-1917; U.S. Congress, Committee on Insular Affairs, Report to Accompany H.R. 9533, Civil Government for Porto Rico, Report no. 77, 64th Congress, 1st sess., January 16, 1916, p.2 and Congressional Research Service, *The Rum Excise Tax Cover-Over: Legislative History and Current Issues*, R41028, September 2012.

^{xxiv} The American Rescue Plan Act (ARPA), passed in 2021, significantly expanded eligibility for the Child Tax Credit (CTC) to include Puerto Rican residents with one or more qualifying children. Prior to this, Puerto Rican families were only eligible for the CTC if they had three or more qualifying children and had paid Social

Security or self-employment taxes. The ARPA removed this restriction, allowing families with just one qualifying child to benefit, and made the CTC fully refundable for the 2021 tax year. This expansion of eligibility was part of a broader effort to provide more equitable support to families in Puerto Rico, aligning them with the benefits available to families in the 50 states. Under the ARPA, the CTC increased to \$3,600 for children under six and \$3,000 for those ages 6-17, and it was paid out in monthly installments. Internal Revenue Service (IRS), "A Closer Look: Expanding Access in Puerto Rico," IRS, May 11, 2022, U.S. Department of the Treasury, "Child Tax Credit," U.S. Department of the Treasury, accessed November 24, 2024 and The White House, "Child Tax Credit," The White House, accessed November 24, 2024.

^{xxv} Puerto Rico residents could however move to a state and newly qualify for Supplemental Security Income (SSI). SSI, a federal program that provides monthly cash assistance to people who are disabled, blind, or age 65 or over and lack sufficient income and resources to maintain a standard of living at the established federal minimum income level. Currently, Puerto Rico residents are not eligible for SSI, although they are eligible for a similar program that provides much smaller monthly benefits. U.S. Government Accountability Office (GAO), Federal Contract Management: Improved Training, Communication, and Guidance Needed to Address Challenges in Implementing Best Practices (GAO-14-31).

^{xxvi} U.S. Government Accountability Office, Puerto Rico: Information on How Statehood Would Potentially Affect Selected Federal Programs and Revenue Sources. GAO-14-31. Retrieved from GAO

^{xxvii} <https://www.ssa.gov/ssi>

^{xxviii} PROMESA §109(a) mandates that all Oversight Board members and staff are subject to the Federal Government's Conflict of Interest requirements under the United States Code (§208 of Title 18). PROMESA §109(b) mandates disclosures of Oversight Board members' and Oversight Board designated executives' financial interests. The Oversight Board's disclosure and ethics policies are also governed by its Bylaws, Code of Conduct, Third-Party Anti-Lobbying/Anti-Influence Policy and Ethics Helpline/Whistleblower Reporting Policy.

^{xxix} Congressional Research Service, Legislative History of Medicaid Financing for the Territories (June 22, 2023).

^{xxx} A covered entity is any instrumentality designated by the Oversight Board to be subject to the requirements of PROMESA. (PROMESA, Sec. 5 (7)).

^{xxxi} The Oversight Board chooses which instrumentalities will be covered. PROMESA §101(d)(1). For a complete list of covered entities see FOMB, Fiscal Plan for the Commonwealth of Puerto Rico, Certified June 5, 2024, pages 155-156.

^{xxxii} GAO. Puerto Rico: Key Factors Affecting the Island's Energy System and Future Modernization Efforts, GAO-21-54. U.S. Government Accountability Office, January 2021. <https://www.gao.gov/products/gao-21-54>.

^{xxxiii} U.S. Department of Energy. Puerto Rico Energy Modernization: A Report on the State of the Island's Electrical Infrastructure. U.S. Department of Energy, 2024. <https://www.energy.gov/>.

^{xxxiv} GAO-21-54.

^{xxxv} FEMA. Puerto Rico Energy Grid Recovery and Resilience Report. Federal Emergency Management Agency, 2024. <https://www.fema.gov/>.

^{xxxvi} GAO. Puerto Rico: Challenges and Opportunities for Energy System Resilience and Recovery, GAO-24-10557. U.S. Government Accountability Office, December 2024. <https://www.gao.gov/products/gao-24-10557>.

^{xxxvii} U.S. Department of Energy. Puerto Rico Energy Modernization: A Report on the State of the Island's Electrical Infrastructure. U.S. Department of Energy, 2024. <https://www.energy.gov/>.

^{xxxviii} GAO-21-54.