United States Government Accountability Office
Report to Congressional Committees

June 2021

U.S. TERRITORIES

Public Debt Outlook – 2021 Update

A Century of Non-Partisan Fact-Based Work

GAO-21-508

June 2021

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GAO@100 Highlights

Highlights of GAO-21-508, a report to congressional committees

Why GAO Did This Study

The five permanently inhabited U.S. territories–Puerto Rico, USVI, American Samoa, CNMI, and Guam–borrow through financial markets. Puerto Rico, in particular, has amassed large amounts of debt, and began to default on debt payments in 2015. In 2017, hurricanes caused widespread damage in Puerto Rico and USVI. Further, in 2018, American Samoa, CNMI, and Guam experienced typhoons and cyclones. The effects of the COVID-19 pandemic on the territories' economies is not yet fully known.

In June 2016, Congress passed and the President signed the Puerto Rico Oversight, Management, and Economic Stability Act. It contains a provision for GAO to review the public debt of the five territories every 2 years.

In this report, for each of the five territories, GAO updates (1) trends in public debt and its composition; (2) trends in revenue and its composition, and in overall financial condition; and (3) the fiscal risk factors that affect each territory's ability to repay public debt. GAO analyzed the territories' single audit reports for fiscal years 2017, 2018, and 2019, as available; reviewed relevant documentation and analyses; and interviewed officials from the territories' governments, federal agencies, and industry groups.

View GAO-21-508. For more information, contact Yvonne D. Jones at (202) 512-6806 or jonesy@gao.gov or David Gootnick at (202) 512-3149 or gootnickd@gao.gov

What GAO Found

Commonwealth of Puerto Rico (Puerto Rico): Puerto Rico remains in default. It has finalized three debt restructuring agreements or settlements to date, pursuant to three distinct legal approaches, and it is using one of these approaches to restructure additional debt. Puerto Rico's total public debt outstanding as a share of Gross National Product increased slightly from 93 to 95 percent between fiscal years 2016 and 2017, the most recent year for which audited financial data are available. Puerto Rico's total revenue remained consistent between fiscal years 2016 and 2017 at about $30.0 billion and the territory operated with a $3.1 billion deficit in fiscal year 2017. Puerto Rico's future capacity for debt repayment depends primarily on the outcomes of the ongoing debt restructuring process, its ability to generate sustained economic growth, and the disbursement of federal funding.

American Samoa: American Samoa's total public debt outstanding as a share of Gross Domestic Product (GDP) increased from 19 to 37 percent between fiscal years 2017 and 2019. This increase was partially due to a series of general revenue bonds issued in late 2018 to fund infrastructure projects. During this period, American Samoa's yearly total revenue fluctuated but was 24 percent higher in fiscal year 2019 compared to fiscal year 2017, and the territory had a surplus of $34.0 million in fiscal year 2019. Continued reliance on a single industry and significant pension liabilities remain fiscal risks in American Samoa.

Commonwealth of the Northern Mariana Islands (CNMI): CNMI's total public debt outstanding as a share of GDP remained constant at about 8 percent between fiscal years 2017 and 2019. During this period, CNMI's yearly total revenue fluctuated but was 27 percent higher in fiscal year 2019 compared to fiscal year 2017, and the territory had a deficit of $33.3 million in fiscal year 2019. Worsening economic conditions and significant pension liabilities may affect CNMI's future debt repayment capacity. COVID-19 has hurt tourism, CNMI's primary industry.

Guam: Guam's total public debt outstanding as a share of GDP decreased slightly from 44 to 42 percent between fiscal years 2017 and 2019. Guam's total revenue increased 7 percent during this period and the territory had a surplus of $112.6 million in fiscal year 2019. Guam faces fiscal risks such as COVID-19's negative impact on tourism, Guam's primary industry, and significant pension liabilities.

United States Virgin Islands (USVI): USVI's total public debt outstanding as a share of GDP increased slightly from 68 to 69 percent of GDP between fiscal years 2016 and 2018, the most recent year for which audited financial data are available. During this period, USVI's yearly total revenue fluctuated but was 36 percent higher in fiscal year 2018 compared to fiscal year 2016, and the territory had a deficit of $29.4 million in fiscal year 2018. USVI's capacity for future debt repayment may be affected by its ability to create economic growth and its ability to manage its pension liabilities and address the pending insolvency of its public pension system. USVI's ability to create economic growth may be hampered by the adverse impact of COVID-19 on tourism, USVI's primary industry.

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Abbreviations

BEA	Bureau of Economic Analysis
CNMI	Commonwealth of the Northern Mariana Islands
COFINA	Puerto Rico Sales Tax Financing Corporation
COVID-19	Coronavirus Disease 2019
FAC	Federal Audit Clearinghouse
FOMB	Financial Oversight and Management Board for Puerto Rico
GASB	Governmental Accounting Standards Board
GDB	Government Development Bank for Puerto Rico
GDP	Gross Domestic Product
GNP	Gross National Product
OIA	U.S. Department of Interior Office of Insular Affairs
OPEB	Other post-employment benefits
PROMESA	Puerto Rico Oversight, Management, and Economic Stability Act
USVI	United States Virgin Islands

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June 30, 2021

The Honorable Joe Manchin
Chairman
The Honorable John Barrasso
Ranking Member
Committee on Energy and Natural Resources
United States Senate

The Honorable Raúl Grijalva
Chairman
The Honorable Bruce Westerman
Ranking Member
Committee on Natural Resources
House of Representatives

The five permanently inhabited U.S. territories—the Commonwealth of Puerto Rico (Puerto Rico), American Samoa, the Commonwealth of the Northern Mariana Islands (CNMI), Guam, and the United States Virgin Islands (USVI)—like U.S. states in some cases, borrow through financial markets. Some of them have amassed large amounts of debt, including Puerto Rico, which has been in default since 2015.

A few of the territories are single industry economies and some rely heavily on tourism. All the territories are vulnerable to natural disasters such as hurricanes, typhoons, and earthquakes, which can cause long-term damage to infrastructure and the economy. In 2020, the Coronavirus Disease 2019 (COVID-19) pandemic placed additional financial pressures on the territories' already strained economies. A worsening fiscal condition in any of the territories can necessitate federal assistance, including through federal programs that support territory residents.

In June 2016, Congress passed and the President signed the Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA), which contains a provision for us to review the public debt of each U.S. territory every 2 years.[1] We issued our first report on the territories' public debt in October 2017 and our second report in June 2019, reporting on trends in

[1]Pub. L. No. 114-187, § 411, 130 Stat. 549, 594–595 (2016).

public debt between fiscal years 2005 and 2017.[2] For the five territories, this report updates information from our prior reports on (1) trends in public debt and its composition; (2) trends in revenue and its composition, and in overall financial condition; and (3) the fiscal risk factors that affect each territory's ability to repay public debt.

To describe trends in each territory's public debt, revenue, and composition, we reviewed the audited financial statements included within each territory's single audit reporting package for the most recent fiscal years available as of May 5, 2021.[3] For American Samoa, CNMI, and Guam, single audits were available for 2018 and 2019. For USVI, single audits were available for 2017 and 2018. Puerto Rico provided audited financial statements for 2017. The information we present on the debt, revenues, and expenses is limited because we were unable to obtain timely audited financial statements from all territories for fiscal years 2018 and 2019. We analyzed data on public debt—specifically, bonds, loans, and notes for both the primary government and component units—for those years.[4]

To determine the fiscal risk factors that affect each territory's ability to repay, we interviewed officials from each of the territorial governments, including departments of finance or treasury, and the agency responsible for issuing and marketing bonded debt. We also interviewed officials at the Department of the Interior's Office of Insular Affairs (OIA). OIA

[2]GAO, *U.S. Territories: Public Debt Outlook-2019 Update*, GAO-19-525 (Washington, D.C.: June 28, 2019); and *U.S. Territories: Public Debt Outlook*, GAO-18-160 (Washington, D.C.: Oct. 2, 2017).

[3]The Single Audit Act, as implemented by guidance issued by the Office of Management and Budget, requires nonfederal entities that expend above a dollar threshold in federal awards in a fiscal year to have a single audit or a program-specific audit. A single audit, at the option of the covered nonfederal entity, may include a series of audits that cover its component units that expended or administered federal awards. 31 U.S.C. § 7502(a)(1), (d)(2). Recipient organizations are required by the act to submit their single audit reports to the Federal Audit Clearinghouse (FAC). 31 U.S.C. § 7502(h). The single audit reporting package sent to the FAC includes (1) the auditor's reports; (2) the entity's audited financial statements and related notes; (3) the schedule of expenditures of federal awards, related notes, and the auditor's report on the schedule; (4) a schedule of findings and questioned costs; (5) reports on internal controls over financial reporting, and compliance with laws and regulations; and (6) a summary schedule of prior audit findings. 31 U.S.C. §§ 7501–7506; 31 C.F.R. §§ 200.500–200.521. Puerto Rico provides audited financial statements but does not submit single audit report packages to FAC. Component units are legally separate entities for which each government is financially accountable.

[4]Bonds and notes are debt instruments with a documented promise to pay interest and to repay the principal or maturity amount on specified future dates. Generally, bonds have longer maturities than notes.

provides grants and technical assistance and support to the territories. In addition, to determine the effects of COVID-19 on the territories' economies and related ability to repay, we interviewed industry groups, such as chambers of commerce and tourism associations. We also reviewed analyses, reports, and data provided to us by territory governments and industry groups. See appendix I.

We conducted this performance audit from March 2020 to June 2021 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

U.S. Territories

The five permanently inhabited U.S. territories have elected governors, territorial legislatures, and nonvoting members in the U.S. House of Representatives.

Puerto Rico. Puerto Rico, with an estimated population of 3,194,000 in 2019, is the largest U.S. territory. Puerto Rico consists of a main island and several smaller ones—a total of 3,425 square miles. The economy of Puerto Rico is mainly driven by manufacturing goods, such as pharmaceuticals, textiles, petrochemicals, and electronics. The service industry is also a key contributor to the economy, and includes finance, insurance, and the tourism sector.

The government of Puerto Rico began to default on its debt in August 2015. PROMESA, enacted on June 30, 2016, temporarily prevented creditors from suing Puerto Rico over missed debt payments.[5] PROMESA established a Financial Oversight and Management Board (FOMB) with broad powers of budgetary and financial control over Puerto Rico.[6] In addition, it created procedures for adjusting debts accumulated by the government of Puerto Rico and its component units.[7]

[5]Pub. L. No. 114-187, § 405, 130 Stat. at 587–592.

[6]Pub. L. No. 114-187, §§ 101, 104, 201–212, 130 Stat. at 553–557, 558–561, 563–577.

[7]Pub. L. No. 114-187, §§ 301–317, 601–602, 130 Stat. at 577–585, 603–609. Component units are legally separate entities for which a government is financially accountable.

American Samoa. American Samoa, with an estimated population of 56,900 in 2019, lies about 2,600 miles southwest of Hawaii and consists of seven islands covering a land area of 76 square miles. American Samoa's main island of Tutuila has little level land and is mostly rugged. Tourism is limited by the island's remote location and lack of tourist-related facilities. Most of American Samoa's economic activity—primarily tuna canning—and government operations take place on Tutuila in the Pago Pago Harbor area.

CNMI. CNMI, with an estimated population of 49,800 in 2019, lies in the western Pacific Ocean just north of Guam and about 5,500 miles from the U.S. mainland. Part of the Mariana Islands Archipelago, the territory is a chain of 14 islands with a total land area of 183 square miles. CNMI's population resides primarily on the island of Saipan, with additional residents on the islands of Rota and Tinian. CNMI's economy depends on tourism.

Guam. Guam, with an estimated population of 163,200 in 2019, is located about 50 miles south of the southernmost island of CNMI, 3,700 miles west of Hawaii, and has a total land area of 212 square miles. Guam has long been a strategic location for the U.S. military. Guam's economy depends largely on U.S. military spending and tourism.

USVI. USVI, with an estimated population of 104,200 in 2018, the most recent data available, is composed of three main islands—St. Croix, St. John, and St. Thomas—and many other surrounding islands, comprising 134 square miles. Most of the population of USVI resides on St. Thomas and St. Croix. Tourism remains the territory's leading industry. On the island of St. Croix, the Hovensa oil refinery was the island's largest private employer; however, it shut down in 2012 and approximately 2,000 jobs were lost. The Hovensa refinery facility was purchased by Limetree Bay. In 2018, the government entered into an agreement to restart refinery operations and expand storage operations at the facility. Limetree Bay announced resumption of operations in February 2021, however on May 14, the U.S. Environmental Protection Agency ordered Limetree Bay to pause all operations at the refinery due to improperly conducted operations that presented an imminent risk to public health.

Public Debt, Revenue, and Fiscal Risks

Territorial governments issue debt securities and receive loans for a variety of purposes, including to finance long-term investments, such as infrastructure projects, and to fund government operating costs. For the purposes of this report, total public debt outstanding refers to the sum of bonds and other debt held by and payable to the public, as reported in the territories' single audit reports and financial statements. Marketable debt securities, primarily bonds with long-term maturities, are the main vehicle by which the territories access capital markets. Other debt payable may include marketable notes issued by territorial governments, nonmarketable intragovernmental notes, notes held by local banks, federal loans, intragovernmental loans, and loans issued by local banks. Although pension liabilities and other postemployment benefits (OPEB) liabilities are similar to other kinds of debt because they constitute a promise to make a future payment or provide a benefit, they are not included in our definition of total public debt. OPEB are benefits (other than pensions) that governments provide to their retired employees. These benefits principally involve health care benefits, but also may include life insurance, disability, legal, and other services.

The primary government is generally comprised of governmental activities (generally financed with taxes, intergovernmental revenues, and other nonexchange revenues) and business-type activities (generally financed with charges for goods and services). Component units are legally separate entities for which a government is financially accountable, such as utilities and public universities.

Revenues are resources generated by the primary government and component units and include both general revenue and program revenue. While our analysis primarily focuses on trends in total revenue, or general revenues and program revenues combined, we also report general revenue separately from total revenue in our analysis.

General revenue includes all tax revenues as well as unrestricted aid and investment earnings. Tax revenues typically represent the largest component of general revenues. Generally, most general revenue is generated by the primary government and a much smaller portion is generated by the component units.

Program revenue is directly linked to functions or programs and includes charges for services, such as electricity fees, and program-specific grants and contributions. While program revenues are generated by the associated functions or programs, such revenues are not always restricted to use in those functions or programs. Program revenue is generated by both the primary government and component units.

Fiscal risks refer to responsibilities, programs, and activities that may legally commit or create the expectation for future government spending. Fiscal risks may be explicit in that the government is legally required to fund the commitment, or implicit in that an exposure arises not from a legal commitment, but from current policy, past practices, or other factors that may create the expectation for future spending. Pension benefits are typically an example of an explicit fiscal risk because the government has a legal commitment to pay pension benefits earned by current government employees who will receive benefits in the future and to pay retirees who currently receive benefits.

The COVID-19 Pandemic

The COVID-19 pandemic and related policies that limited certain economic activities have had a rapid and severe effect on the U.S. and global economies. To limit social contact and slow the spread of the pandemic, nearly all U.S. states and territories implemented policies that restricted certain economic activities—in particular closures of nonessential businesses. Widespread business closures led to immediate and substantial job losses, as well as growing losses in revenue for those businesses.

The pandemic has also led to a considerable degree of uncertainty about future economic activity. This uncertainty has caused businesses to delay plans for investment. Additionally, households have delayed large expenditures and shifted remaining spending toward essential needs. While these and other effects have been widespread across the U.S. economy, they have also disproportionately affected certain industries and households. Businesses that depend on interpersonal contact for providing goods and services—and others deemed nonessential under state orders—have been more severely impacted, including businesses in the leisure, tourism, and hospitality sector.

In response to the far-reaching public health and economic crisis, Congress and the administration have taken a series of actions. In March 2020, Congress passed and the President signed the CARES Act, which provides more than $2 trillion in emergency assistance and health care response for individuals, families, and businesses affected by COVID-19.[8] The Consolidated Appropriations Act, 2021, expanded or extended several CARES Act programs—including unemployment insurance programs, economic impact payments, and Paycheck Protection Program loans—and rescinded unobligated funds for certain programs.[9] The American Rescue Plan Act of 2021 provided additional relief to address

[8]Pub. L. No. 116-136, 134 Stat. 281 (2020).

[9]Pub. L. No. 116-260, 134 Stat. 1182 (2020).

the continued impact of COVID-19 on the economy, public health, and state and local governments—including territorial governments, individuals, and businesses.[10]

As of January 31, 2021, about $3.1 trillion had been appropriated to fund response and recovery efforts for—as well as to mitigate the public health, economic, and homeland security effects of—COVID-19.[11] As of January 31, 2021, the federal government had obligated a total of $2.2 trillion and expended $1.9 trillion of the COVID-19 relief funds as reported by federal agencies to the Department of the Treasury's (Treasury) Governmentwide Treasury Account Symbol Adjusted Trial Balance System (GTAS).[12]

Climate Change and Natural Disasters

Numerous studies have concluded that climate change threatens many environmental and economic systems and creates a significant fiscal risk for the U.S., including the territories. The rising number of natural disasters and increasing reliance on the federal government for assistance is a key source of federal fiscal exposure.

For example, in less than 4 years, natural disasters have hit all five U.S. territories. On September 6, 2017, Hurricane Irma struck St. John and St. Thomas, USVI. Less than 2 weeks later, Hurricane Maria struck St. Croix, USVI, and the main island of Puerto Rico. Hurricanes Irma and Maria severely damaged the territories' critical infrastructure and reduced their short-term economic activity. In addition, the southwestern part of Puerto Rico has been struck by a swarm of earthquakes that began on December 28, 2019, and continued into 2021. The Pacific territories have also experienced natural disasters that caused significant destruction. Tropical Cyclone Gita hit American Samoa in February 2018. Super Typhoon Mangkhut struck Guam and the island of Rota in CNMI in

[10]Pub. L. No. 117-2, 135 Stat. 4 (2021).

[11]An appropriation provides legal authority for federal agencies to incur obligations and make payments out of the U.S. Treasury for specified purposes.

[12]An obligation is a definite commitment that creates a legal liability of the U.S. government for the payment of goods and services ordered or received, or a legal duty on the part of the U.S. government that could mature into a legal liability by virtue of actions on the part of the other party beyond the control of the U.S. government. An expenditure is the actual spending of money, or an outlay. Expenditures include some estimates, such as estimated subsidy costs for direct loans and loan guarantees. Increased spending in Medicaid is not accounted for in the appropriations provided by the COVID-19 relief laws. Federal agencies use GTAS to report proprietary financial reporting and budgetary execution information to Treasury.

September 2018. Super Typhoon Yutu made landfall across the islands of Saipan and Tinian in CNMI in October 2018.

PUERTO RICO

LOCATION:
Caribbean Sea,1,000 miles from U.S. mainland

PHYSICAL SIZE
3,425 square miles

POPULATION SIZE IN 2019
3.2 million

GROSS NATIONAL PRODUCT (GNP) IN 2019
$70.8 billion

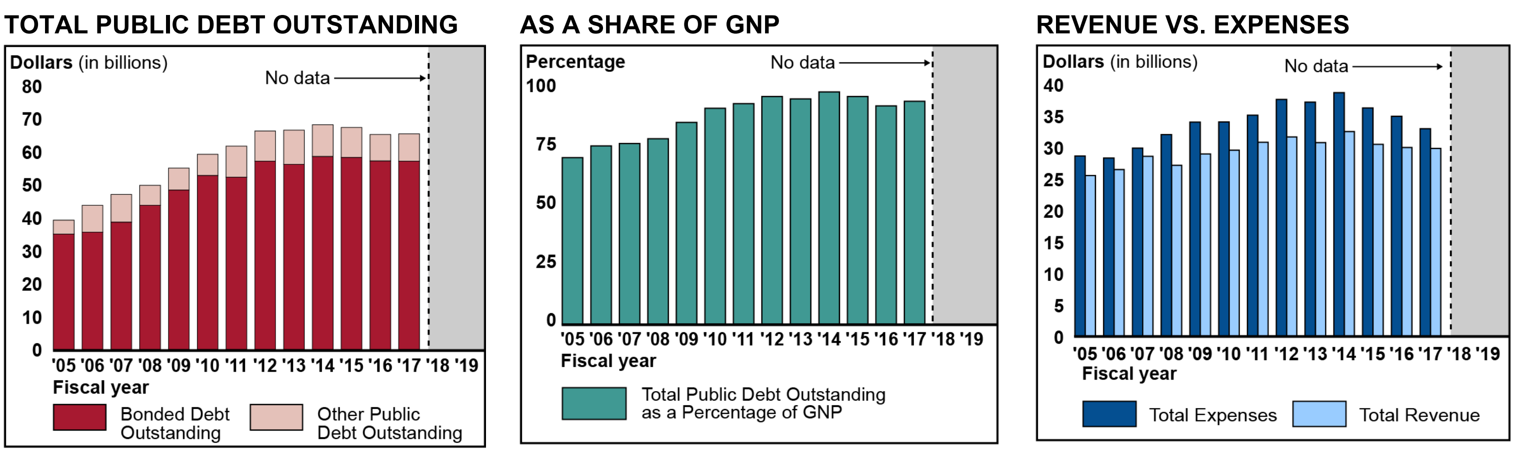
PRIMARY INDUSTRY
Manufacturing, Services

Source: GAO summary data. | GAO-21-508

KEY FINDINGS

- Puerto Rico Remains in Default and Debt Restructuring Agreements Were Finalized without Audited Financial Statements
- Puerto Rico's Total Revenue Remained Constant between Fiscal Years 2016 and 2017
- Puerto Rico's Debt Repayment Depends on the Outcomes of Debt Restructuring, its Capacity for Economic Growth, and the Disbursement of Federal Funding

PUERTO RICO PUBLIC DEBT AND REVENUE, FISCAL YEARS 2005-2017



Source: GAO analysis of Puerto Rico financial statements and Puerto Rico Planning Board data for fiscal years 2005 - 2017. | GAO-21-508

Note: Total public debt outstanding is the sum of bonded debt outstanding and other debt held by the primary government and component units.

Repayment of Public Debt

Two significant factors will determine Puerto Rico's future capacity for repaying its restructured debt: 1) the outcome of the ongoing debt restructuring process, and 2) Puerto Rico's ability to generate sustained economic growth. In addition, the disbursement of federal of federal funding will affect Puerto Rico's economic outlook.

Puerto Rico's future ability to repay its restructured debt will ultimately depend on the outcome of all outstanding debt restructuring agreements and on the terms of repayment established with creditors, including interest rates and debt repayment schedules. The impact of the pandemic on Puerto Rico's ability to generate sustained economic growth is uncertain. Puerto Rico's new fiscal plan projects a positive impact from federal funding equivalent to more than 100 percent of Puerto Rico's GNP. However, it is unclear when these additional federal funds will be disbursed. Further, Puerto Rico's ability to generate economic growth may be hampered by ongoing population loss and a reduction in tourism.

Puerto Rico's three main public pension systems are nearly insolvent and its primary government and component units reported a combined net pension liability of approximately $56.0 billion as of the end of fiscal year 2017, which was 81 percent of GNP in that year.

Commonwealth of Puerto Rico (Puerto Rico)

Puerto Rico Remains in Default and Debt Restructuring Agreements Were Finalized without Audited Financial Statements

Puerto Rico is restructuring its outstanding debt, which it began defaulting on in August 2015. On May 3, 2017, after the termination of the original stay preventing creditors from suing the territory, FOMB filed a petition under Title III of PROMESA beginning a broad-based debt restructuring process. PROMESA established two debt restructuring processes under Titles III and VI respectively. Title III is similar to municipal bankruptcy and Title VI provides a process by which the debtors and creditors can negotiate and vote on a debt restructuring agreement with a reduced role played by a court. In 2018, Puerto Rico reached its first debt restructuring agreement through the Title VI restructuring process established by PROMESA.

In November 2018, and pursuant to a debt modification under Title VI of PROMESA, the Government Development Bank for Puerto Rico issued restructured bonds. This reduced the amount originally owed to creditors by 45 percent.[13] In February 2019, a debt restructuring agreement was finalized under Title III of PROMESA for bonds issued by the Puerto Rico Sales Tax Financing Corporation (Spanish acronym COFINA).[14] This

[13]The Government Development Bank was a public corporation acting as the bond issuer, fiscal agent, intragovernmental bank, and financial advisor of the government of Puerto Rico. Under the terms of the settlement, claims of the Government Development Bank's bondholders, municipal and private depositors, and certain other contingent creditors have been resolved by exchanging such claims for new bonds. Each $1,000 of affected claims have been exchanged for new bonds having a face amount equal to $550. The new bonds will have a 7.5 percent annual coupon rate, payable each February 20 and August 20 with the final scheduled payment date expected August 20, 2040.

[14]In 2006, the Puerto Rico government created COFINA as a means to issue bonds backed by a new sales and use tax–imposed on the sale, use, consumption, and storage of taxable items such as personal property. The Puerto Rico government originally intended to use COFINA to repay debt, but by 2009 the government used it to finance operations.

reduced the total current amount owed to creditors.[15] In addition to COFINA, as of April 2021, FOMB has filed five additional petitions in the United States District Court for Puerto Rico initiating Title III cases for Puerto Rico, its Employees Retirement System, its Highways and Transportation Authority, its Electric Power Authority, and its Public Buildings Authority.

Puerto Rico has also restructured debts outside of the PROMESA Title III or Title VI processes. On July 26, 2019, the Puerto Rico Aqueduct and Sewer Authority (PRASA) entered into three agreements to restructure existing loans. The three agreements related to U.S. Department of Agriculture's Rural Utilities Service program, the U.S. Environmental Protection Agency's (EPA) Drinking Water State Revolving Fund program, and EPA's Water Pollution Control Revolving Fund program. According to PRASA officials, these agreements resulted in debt service relief of approximately $380 million over the first 10 years, renewed access to potential federal funding for infrastructure, and the elimination of approximately $1 billion in loan guarantees by Puerto Rico.[16]

On February 28, 2020, FOMB filed a Proposed Plan of Adjustment for additional categories of debt.[17] In March 2020, FOMB requested that the court delay proceedings on the February 2020 Plan of Adjustment to allow for an assessment of the effects of the COVID-19 pandemic on Puerto Rico's economy. On March 8, 2021, FOMB filed an amended Plan of Adjustment to restructure approximately $35 billion of debt and other

[15]The terms of repayment and structure of the COFINA bonds were changed as part of the debt restructuring agreement. Under the plan, holders of senior COFINA bond claims have received a 93.01 percent recovery on their bonds while holders of junior COFINA bond claims have received a 56.41 percent recovery. Senior bonds have priority over junior bonds, and must be repaid first. Under the plan, new COFINA bonds were issued with fixed interest rates. All COFINA bonds accrued interest as of August 1, 2018.

[16]Under the new agreements, the U.S. Department of Agriculture loan has a term of 40 years, an interest rate of 2 percent, and a principal amount of approximately $403 million. The EPA programs loans have terms of 30 years with an interest rate of zero for the first 10 years and 1 percent after that and principal amounts of approximately $193 million and $403 million, respectively.

[17]A Plan of Adjustment proposes to modify the territory's or instrumentality's debts and obligations. If that plan of adjustment satisfies various statutory requirements, the court may "confirm" it, which generally means that those modifications bind the debtor and its creditors. Among the statutory requirements is that each impacted class of creditor has accepted the plan. FOMB may modify the plan any time before the court confirms it, but any modification must be consistent with the FOMB's Fiscal Plan. Pub. L. No. 114-187, § 314, 130 Stat. at 583–584, *codified at* 48 U.S.C. § 2174.

claims against the Commonwealth of Puerto Rico, the Public Buildings Authority, the Employee Retirement System, and more than $50 billion of pension liabilities. These agreements are not finalized until they are approved and confirmed by the court.

As we have reported previously, the timely release of audited financial information has been a long-standing challenge for Puerto Rico.[18] Generally, municipal issuers are required to submit audited financial statements 9 months after the end of the fiscal year. Currently, Puerto Rico's fiscal year 2018 and fiscal year 2019 audited financial statements are outstanding, and all of the debt restructuring agreements were made absent timely audited financial statements. Audited financial statements provide useful and necessary insight into government operations and are critical to maintaining accountability.

Puerto Rico's total public debt outstanding remained relatively constant at $65.2 billion in fiscal year 2016 and $65.3 billion in fiscal year 2017—the most recent year for which audited financial data are available.[19] Total public debt outstanding as a share of Gross National Product (GNP) increased slightly from 93 percent in fiscal year 2016 to 95 percent in fiscal year 2017.[20] Total public debt outstanding per capita increased from $18,941 in fiscal year 2016 to $19,410 in fiscal year 2017. In fiscal year 2017, 63 percent of Puerto Rico's public debt was owed by the primary government and 37 percent was owed by component units.

Puerto Rico's Total Revenue Remained Constant between Fiscal Years 2016 and 2017

Total revenue for Puerto Rico remained constant between fiscal years 2016 and 2017, at about $30.0 billion. In fiscal year 2017, $21.2 billion in total revenue was generated by the primary government and $8.6 billion was generated by component units. Puerto Rico's general revenue was $12.3 billion in fiscal year 2016 and increased to $12.5 billion in fiscal

[18]GAO-19-525.

[19]Debt, revenue, expense, and net surplus/deficit amounts and calculations related to these amounts that are included in this report have been rounded. In some cases, totals and subtotals will not add up to the sum of their parts due to rounding.

[20]Gross Domestic Product (GDP) measures the value of goods and services produced inside a country, or for the purpose of this report, a territory. In contrast, GNP measures the value of goods and services produced by its residents. GNP includes production from residents abroad and excludes production by foreign companies in a country. In Puerto Rico, GDP has consistently been greater than GNP. This means that production by foreign companies in Puerto Rico is larger than production by Puerto Rican residents in the territory and abroad. For this reason, according to Treasury, GNP is generally a more representative measure of Puerto Rico's economic activity than GDP.

year 2017, an overall increase of 2 percent. In fiscal year 2017, program revenue comprised 58 percent of total revenue.

Puerto Rico's total expenses were $34.9 billion in fiscal year 2016 and declined to $33.0 billion in fiscal year 2017, a decrease of 6 percent. Of total expenses in fiscal year 2017, $21.6 billion were incurred by the primary government, while $11.3 billion were incurred by the government's various component units. Puerto Rico's longstanding deficits persisted in 2017, as expenses exceeded revenue by about $3.1 billion. In fiscal year 2016, Puerto Rico had a deficit of $5.0 billion.

Puerto Rico's Debt Repayment Depends on the Outcomes of Debt Restructuring, Its Capacity for Economic Growth, and the Disbursement of Federal Funding

As we reported previously, two significant factors will determine Puerto Rico's future capacity for repaying its restructured debt: (1) the outcome of the ongoing debt restructuring process, and (2) Puerto Rico's ability to generate sustained economic growth. In addition, the disbursement of federal funding will affect Puerto Rico's economic outlook.

Puerto Rico's future ability to repay its restructured debt will ultimately depend on the outcome of all outstanding debt restructuring agreements, including pending agreements, and on the terms of repayment established with creditors, including interest rates and debt repayment schedules. As noted previously, one Title III restructuring agreement, one Title VI restructuring agreement, and one non-PROMESA restructuring agreement have been finalized to date. In addition, a Plan of Adjustment related to the remaining Title III cases was filed on March 8, 2021.

The effect of the pandemic on Puerto Rico's ability to generate sustained economic growth is uncertain. The April 2021 version of the FOMB Fiscal Plan (new plan)—the most recent version of the plan—includes an updated macroeconomic forecast reflecting the abrupt effect of the COVID-induced recession at the end of fiscal year 2020, followed by a rebound and recovery in fiscal year 2021 that is expected to continue into fiscal year 2022. The new plan includes an estimate of $43.5 billion allocated to Puerto Rico for COVID-related federal funding. This is an additional source of federal funds to be added to the expected $84 billion in disaster relief funding from federal and private sources. Disaster relief funding for Puerto Rico includes about $49 billion from the Federal Emergency Management Agency, approximately $7 billion from private insurance, about $20 billion from Community Development Block Grants, and approximately $8 billion in other federal funding.

Portions of COVID-related funding for Puerto Rico have already been disbursed. For example, the new plan estimates that about 85 percent of households will receive a direct payment from the Economic Impact Payments which provides Puerto Rico with an additional $7.8 billion between the three payments that have taken place in fiscal year 2020 and fiscal year 2021. Other portions of funding include expanded unemployment benefits and changes in provisions of the Child Tax Credit and Earned Income Tax Credit, among others. The surpluses projected by the new plan are due to a projected positive impact from federal funding equivalent to more than 100 percent of Puerto Rico's GNP. However, as the new plan notes, it is unclear when these additional federal funds will be disbursed.

The new plan posits that, based on how disaster relief funds are spent, these funds will impact the economy in various ways, such as building the capital stock of the territory through constructing and repairing buildings or utilities, directly affecting the economy through spurring consumption of goods and services, or funding programs and services. As such, federal funding may have a stimulative effect on the economy that can generate economic growth, which increases tax revenue and the ability to repay debt.

The new plan also projects additional economic growth to be realized through the implementation of structural reforms and identifies many of the same proposed structural reforms as previous versions. However, the new plan does not elaborate on why some of the reforms that have been proposed for several years have yet to be implemented.

The new plan projects that after successfully implementing structural reforms and allocating portions of federal funding, there will be a balanced budget from fiscal year 2021 through fiscal year 2026. However, after fiscal year 2026 the budget will go from balanced to an increasing yearly deficit for the remainder of its 25-year forecast. These long-term fiscal projections are slightly more optimistic than the expectations in the previous plan.

Further, outmigration from Puerto Rico is continuing. The new plan projects that by fiscal year 2026, there will be almost 10 percent fewer people living in Puerto Rico than in fiscal year 2019. By fiscal year 2051, the decline will grow to 33 percent. This is consistent with Puerto Rico's average historic trend of a net decrease in population of 1.6 percent per year. Outmigration results in a diminished workforce and tax base, which strains a territory's economy and finances.

Tourism, which represented 8 percent of Puerto Rico's economy prior to the pandemic, has been hurt severely by the pandemic and has also contributed to a decline in government revenue, according to territory officials. Officials from a hotel and tourism association told us the tourism industry was beginning to recover after Hurricanes Irma and Maria and the subsequent earthquakes, but then the pandemic caused a significant shock to the industry.

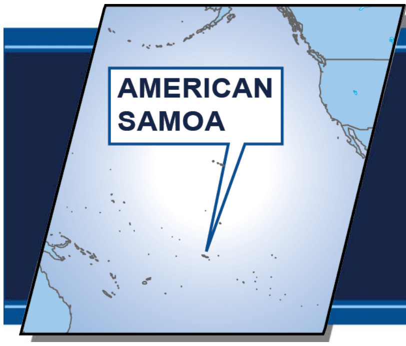
For example, according to data provided by the association, there were 402,960 air arrivals in Puerto Rico in August 2019 versus 141,413 in August 2020. Similarly, there were 172,447 cruise ship passenger arrivals in San Juan, Puerto Rico, in March 2019 versus 55,287 in March 2020. Association officials said the government has launched a tourism marketing campaign to assure potential tourists that Puerto Rico is taking COVID-19 precautions seriously and is a safe destination for travel. Nevertheless, they predict tourism in Puerto Rico will not recover to prepandemic levels until at least 2023.

Puerto Rico's three main public pension systems are nearly insolvent and its primary government and component units reported a combined net pension liability of approximately $56.0 billion as of the end of fiscal year 2017, which was 81 percent of GNP in that year.[21] [22] Puerto Rico's pension systems are currently funded through "pay as you go" pension payments.[23]

[21]Puerto Rico elected to use a June 30, 2016, actuarial valuation measurement date to determine its net pension liability as of June 30, 2017. This election is permissible under Governmental Accounting Standards Board (GASB) Statement No. 67, *Financial Reporting for Pension Plans.*

[22]GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, is effective for fiscal years beginning after June 15, 2017. This Statement requires state and local government employers who provide other postemployment benefits (OPEB) to recognize an OPEB liability on the government-wide Statement of Net Position and include certain note disclosures and required supplementary information related to OPEB. Fiscal year 2018 and 2019 audited financial statements were unavailable for Puerto Rico and the territory decided against early adoption of Statement No. 75 in fiscal years 2016 and 2017. Therefore, we did not include Puerto Rico's OPEB liability in our report.

[23]Pay as you go" is a pension system in which retirement benefits for current pensioners are paid on an ongoing basis by organizations rather than from a funded system in which benefits are financed by prior investments in a pension fund.



AMERICAN SAMOA

LOCATION : South Pacific, 2,600 miles from Hawaii

PHYSICAL SIZE
76 square miles (7 islands)

POPULATION SIZE IN 2019
56,900

GROSS DOMESTIC PRODUCT (GDP) IN 2019
$638.8 million

PRIMARY INDUSTRY
Tuna Canning

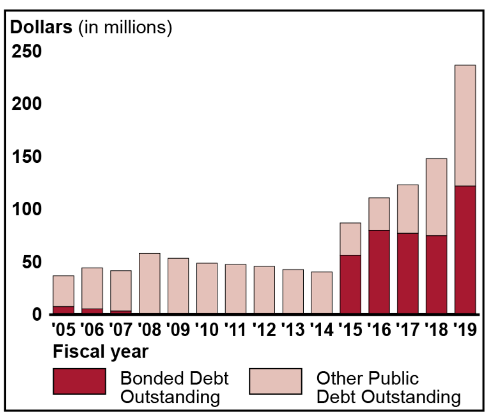
Source: GAO summary data. | GAO-21-508

KEY FINDINGS

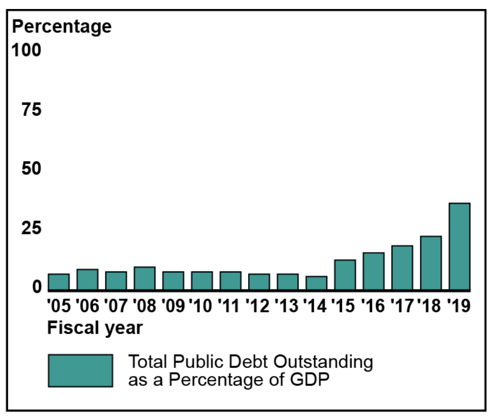
- American Samoa's Public Debt Increased Substantially between Fiscal Years 2017 and 2019
- American Samoa's Total Revenue Fluctuated between Fiscal Years 2017 and 2019
- Reliance on a Single Industry and Significant Pension Liabilities Remain Fiscal Risks in American Samoa

AMERICAN SAMOA PUBLIC DEBT AND REVENUE, FISCAL YEARS 2005-2019

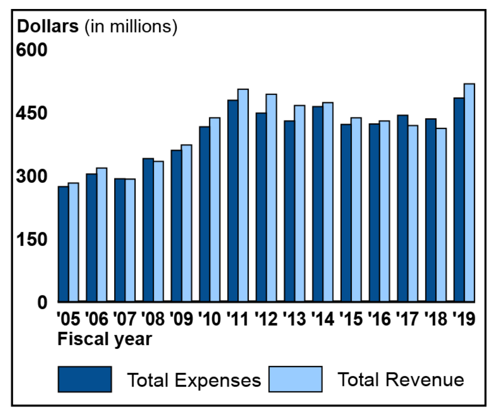
TOTAL PUBLIC DEBT OUTSTANDING



AS A SHARE OF GDP



REVENUES VS. EXPENSES



Source: GAO analysis of American Samoa's single audit reports and Bureau of Economic Analysis data for fiscal years 2005 - 2019. | GAO-21-508
Note: Total public debt outstanding is the sum of bonded debt outstanding and other debt held by the primary government and component units.

Repayment of Public Debt

American Samoa's public debt has grown and the territory continues to face fiscal risks, such as a reliance on a single industry and significant pension liabilities. American Samoa's economy continues to rely heavily on the tuna processing and canning industry and since the closure of a second cannery in late 2016, only one cannery is operating as of May 2021. While the industry has fared well during the Coronavirus Disease 2019 (COVID-19) pandemic, potential future disruptions could hurt American Samoa's fiscal condition, and thereby hamper its future ability to repay growing public debt.

The American Samoa government is continuing its efforts to diversify the economy by expanding the territory's broadband and telecommunications infrastructure, including a $30 million investment in an international high capacity underwater fiber optic cable. In fiscal year 2019, American Samoa reported a combined net pension liability for the primary government and components units of $140.5 million, which was 22 percent of GDP that year. Officials told us they plan to allocate a portion of any profits from telecommunications operations to the pension system.

American Samoa

American Samoa's Public Debt Increased Substantially between Fiscal Years 2017 and 2019

American Samoa's total public debt outstanding grew from $122.2 million in fiscal year 2017 to $235.6 million in fiscal year 2019, representing an increase of 93 percent.[24] In fiscal year 2019, 57 percent of American Samoa's public debt was owed by the primary government and 43 percent was owed by component units. In December 2018, a series of general revenue bonds was issued totaling about $50.3 million. The proceeds from these bonds were used to fund major infrastructure projects for the government that were in its long term plans, including construction of a new building for the territorial legislature and expanding broadband and telecommunications services in the territory. In May 2021, American Samoa refunded bonds issued in 2015 and 2016 at lower interest rates, yielding savings for the territory.

American Samoa's total public debt outstanding as a share of GDP increased from 19 percent in fiscal year 2017 to 37 percent in fiscal year 2019. Total public debt outstanding per capita also increased from $2,082 in fiscal year 2017 to $4,121 in fiscal year 2019.

American Samoa's Total Revenue Fluctuated between Fiscal Years 2017 and 2019

American Samoa's total revenue was $418.3 million in fiscal year 2017, declined to $411.4 million in fiscal year 2018, and increased to $517.3 million in fiscal year 2019. This represents an overall increase of 24 percent between fiscal years 2017 and 2019. In fiscal year 2019, $318.3 million in total revenue was generated by the primary government and $199.0 was generated by component units. American Samoa's general revenue was $116.6 million in fiscal year 2017 and declined to $105.1 in fiscal year 2019, an overall decrease of 10 percent. In fiscal year 2019, program revenue comprised 80 percent of total revenue. Program revenue increased by $110.5 million or 37 percent between fiscal years 2017 and 2019, which drove the increase in total revenue. Program revenue increased in fiscal year 2019 mainly due to charges for services from the primary government and component units and operation grants and contributions to the primary government.

American Samoa's total expenses were $442.4 million in fiscal year 2017 and increased to $483.3 million in fiscal year 2019, an increase of 9 percent. Of total expenses in fiscal year 2019, $316.3 million were incurred by the primary government, while $167.0 million were incurred

[24]Debt, revenue, expense, and net surplus/deficit amounts and calculations related to these amounts that are included in this report have been rounded. In some cases, totals and subtotals will not add up to the sum of their parts due to rounding.

by component units. In fiscal year 2019, American Samoa had a surplus of $34.0 million. In contrast, it had a deficit of $24.1 million in fiscal year 2017.

Reliance on a Single Industry and Significant Pension Liabilities Remain Fiscal Risks in American Samoa

American Samoa's public debt has grown and the territory continues to face fiscal risks, such as a reliance on a single industry and significant pension liabilities. American Samoa's economy continues to rely heavily on the tuna processing and canning industry. Since the closure of a second cannery in late 2016, only one cannery is operating as of May 2021.

The COVID-19 pandemic had a positive impact on the territory's tuna canning and processing industry—which comprised 14 percent of employment in American Samoa as of 2018—due to the increased demand for canned tuna during the early stages of the pandemic. The cannery in American Samoa reported a 10 percent production increase and a 5 percent employment increase, as of September 2020. According to territory officials, the cannery is considering expanding production in American Samoa, which could result in 200 to 300 new jobs.

While the industry has fared well during the COVID-19 pandemic, potential future disruptions could hurt American Samoa's fiscal condition, and thereby hamper its future ability to repay growing public debt. In June 2020, we reported that the closure of the remaining tuna cannery would result in a loss of 2,000 jobs in American Samoa.[25]

The American Samoa government is continuing its efforts to diversify the economy by expanding the territory's broadband and telecommunications infrastructure, including a $30 million investment in an international high-capacity underwater fiber optic cable.[26] The public debt that American Samoa issued in late 2018 was used in part to build its telecommunications and broadband industry. According to territory officials, American Samoa aspires to become a telecommunications hub through the sale of bandwidth to other countries in the region.

[25]GAO, *American Samoa: Economic Trends, Status of the Tuna Canning Industry, and Stakeholders' Views on Minimum Wage Increases*, GAO-20-467 (Washington, D.C.: June 11, 2020).

[26]The high-capacity underwater fiber optic cable is a 15,000 kilometer cable that connects Australia and New Zealand to the mainland United States, American Samoa, and Hawaii.

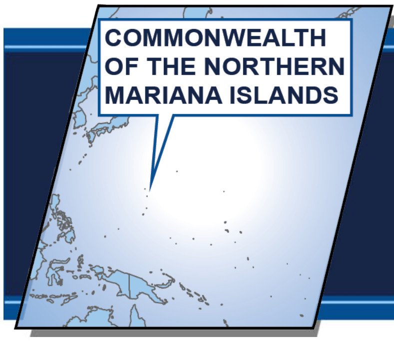
Territory officials also told us they are attempting to develop American Samoa's tourism industry. As part of this effort, a hotel in Pago Pago Harbor is being redeveloped and the international airport and various tourist sites are being upgraded.

In fiscal year 2019, American Samoa reported a combined net pension liability for the primary government and components units of $140.5 million, which was 22 percent of GDP that year.[27] Officials told us they plan to allocate a portion of any profits from telecommunications operations to the pension system.

In May 2021, Moody's Investors Service revised American Samoa's rating outlook to stable from negative, reflecting American Samoa's improved financial position resulting from governance improvements, the government's better financial discipline, and significant federal support received in response to the COVID-19 pandemic.[28]

[27]American Samoa implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, in fiscal year 2018; however, implementation of this Statement did not have a material effect on its financial statements and it did not recognize an OPEB liability on its Statement of Net Position in fiscal years 2018 or 2019.

[28]A Moody's rating outlook is an opinion regarding the likely rating direction over the medium term. Rating outlooks fall into four categories - positive, negative, stable, and developing. A stable outlook indicates a low likelihood of a rating change over the medium term. A negative, positive, or developing outlook indicates a higher likelihood of a rating change over the medium term.



COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS (CNMI)

LOCATION: Western Pacific, 5,500 miles from U.S. mainland

PHYSICAL SIZE
183 square miles (14 islands)

POPULATION SIZE IN 2019
49,800

GROSS DOMESTIC PRODUCT (GDP) IN 2019
$1.2 billion

PRIMARY INDUSTRY
Tourism

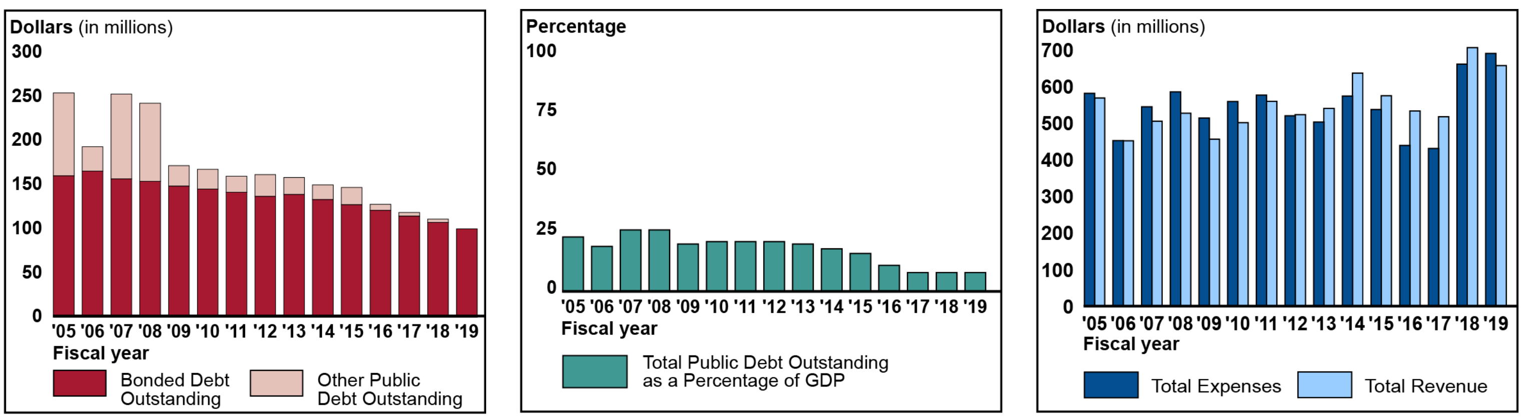
Source: GAO summary data. | GAO-21-508

KEY FINDINGS

- CNMI's Public Debt Decreased between Fiscal Years 2017 and 2019
- CNMI's Total Revenue Fluctuated between Fiscal Years 2017 to 2019
- CNMI Continues to Face Fiscal Risks, Including Worsening Economic Conditions and Significant Pension Liabilities

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS PUBLIC DEBT AND REVENUE, FISCAL YEARS 2005-2019

TOTAL PUBLIC DEBT OUTSTANDING | **AS A SHARE OF GDP** | **REVENUE VS. EXPENSES**



Source: GAO analysis of CNMI's single audit reports and Bureau of Economic Analysis data for fiscal years 2005 - 2019. | GAO-21-508
Note: Total public debt outstanding is the sum of bonded debt outstanding and other debt held by the primary government and component units.

Repayment of Public Debt

CNMI's total public debt has continued to decline, however, worsening economic conditions and significant pension liabilities present fiscal risks. The Coronavirus Disease 2019 (COVID-19) pandemic had a significant negative impact on tourism, CNMI's primary industry. Territory officials told us tourism from Asia declined significantly beginning in January 2020 at the onset of the pandemic, leading to a sharp reduction in anticipated general revenue. Territory officials told us they are taking steps to diversify the economy in areas such as digital technology, cannabinoid products, and fishing.

In addition, CNMI reported a net pension liability for the primary government of $529.3 million in fiscal year 2019, which was 44 percent of GDP in that year. Territory officials said they are attempting to issue a pension obligation bond.

Commonwealth of the Northern Mariana Islands (CNMI)

CNMI's Public Debt Decreased between Fiscal Years 2017 and 2019

CNMI has not issued any new bonded debt between fiscal years 2007 and 2019. Territory officials also told us they have not issued any bonded debt in fiscal year 2020. CNMI's total public debt outstanding declined from $116.3 million in fiscal year 2017 to $97.6 million in fiscal year 2019.[29] This decrease of 16 percent was mainly due to the repayment of outstanding debt. In fiscal year 2019, 68 percent of CNMI's public debt was owed by the primary government and 32 percent was owed by component units.

Total public debt outstanding as a share of GDP generally remained constant at about 8 percent between fiscal years 2017 and 2019. Total public debt outstanding per capita decreased from $2,308 in fiscal year 2017 to $1,958 in fiscal year 2019.

CNMI's Total Revenue Fluctuated between Fiscal Years 2017 to 2019

CNMI's total revenue was $516.6 million in fiscal year 2017, increased to $705.4 million in fiscal year 2018, and decreased to $656.5 million in fiscal year 2019. This represents an overall increase of 27 percent between fiscal years 2017 and 2019.[30] In fiscal year 2019, $475.3 million in total revenue was generated by the primary government and $181.2 million was generated by component units. CNMI's general revenue was

[29]Debt, revenue, expense, and net surplus/deficit amounts and calculations related to these amounts that are included in this report have been rounded. In some cases, totals and subtotals will not add up to the sum of their parts due to rounding.

[30]In fiscal year 2017, CNMI received a disclaimer of opinion on its aggregate discretely presented component units because its government-wide financial statements omitted component unit data for four component units and included a significant amount of component unit data that had not been audited. In fiscal year 2019, CNMI added two of the four previously omitted component units to the discretely presented component units on its government-wide financial statements—Northern Marianas College and Public School System. The addition of these two component units increased component unit program revenue and expenses in fiscal year 2019 by 55.3 million and 107.7 million, respectively. The increases from the inclusion of the additional component units comprise 40 percent of CNMI's total increases in revenue and 41 percent of CNMI's total increases in expenses in fiscal year 2019. CNMI received an adverse opinion on its aggregate discretely presented component units in fiscal years 2018 and 2019 because it continued to omit component unit data from its government-wide financial statements. Due to the departure from U.S. Generally Accepted Accounting Principles in fiscal years 2017, 2018, and 2019, assets, liabilities, revenues, expenses, and net position for CNMI's aggregately discretely presented components units could not be determined.

$334.4 million in fiscal year 2017 and decreased to $266.0 million in fiscal year 2019, an overall decrease of 20 percent. In fiscal year 2019, program revenue comprised 59 percent of total revenue. The increase in total revenue between fiscal years 2017 and 2019 was driven by an increase in program revenue, which rose by $208.3 million or 114 percent during this period. This significant increase in program revenue was primarily due to increases in grants and contributions to health, public safety and law enforcement, community and social service, and CNMI's Public School System component unit.

In fiscal year 2017, CNMI's total expenses were $430.1 million, and increased to $689.8 million in fiscal year 2019, an increase of 60 percent. This significant increase in total expenses was mainly due to increases in expenses for health, public safety and law enforcement, community and social services, and CNMI's Public School System component unit. Of total expenses in fiscal year 2019, $524.2 million were incurred by the primary government, while $165.6 million were incurred by component units. In fiscal year 2019, CNMI had a deficit of $33.3 million. In fiscal year 2017, it had a surplus of $86.5 million.

CNMI Continues to Face Fiscal Risks, Including Worsening Economic Conditions and Significant Pension Liabilites

While CNMI's total public debt has continued to decline, worsening economic conditions and significant pension liabilities present fiscal risks. COVID-19 hurt tourism, CNMI's primary industry. In 2017 CNMI's accommodations and amusement industry, which partially includes the tourism sector, accounted for 45 percent of GDP.[31]

Territory officials told us tourism from Asia declined significantly beginning in January 2020 at the onset of the pandemic. This led to a sharp reduction in anticipated general revenue. To offset the decline in revenue, officials said that the government adopted austerity measures in May 2020, such as furloughing government employees and reducing their hours.[32] According to tourism data provided by the government, tourism arrivals declined by about 85 percent in March 2020 relative to the prior year.

[31]GAO, *Commonwealth of the Northern Mariana Islands: Recent Economic and Workforce Trends*, GAO-20-305 (Washington, D.C.: February 2020).

[32]The governor of CNMI issued an Executive Directive on March 19, 2021, to cancel the reduction in force, recall furloughed employees, and return to an 80-hour workweek starting with the March 28, 2021, pay period. Exec. Dir. 2021-003 (Mar. 19, 2021).

CNMI's economy was facing challenges prior to the pandemic. It was also still recovering from the effects of Super Typhoon Yutu. The Bureau of Economic Analysis has estimated that GDP fell by 20 percent in fiscal year 2018 with a sharp decline in tourist spending and casino gambling revenue following the disaster. In addition, a 2020 report by the Governor's Fiscal Task Force noted that CNMI entered the pandemic period from a position of financial weakness due to a variety of factors, including rapid growth in expenses, a dated tax and revenue system that relied on volatile tourism and casino sources to support growing government services, and pension liabilities.

Territory officials told us they are taking steps to diversify the economy in areas such as digital technology, cannabinoid products, and fishing. For example, legislation enacted in 2018 legalized the possession, use, and sale of cannabis in CNMI.[33] Initial revenue is being generated from application fees for establishing farms and stores for growing and selling cannabis.

In fiscal year 2019, CNMI reported a net pension liability for the primary government of $529.3 million, which was 44 percent of GDP in that year.[34] [35] Territory officials told us that CNMI is required to remit millions annually to the CNMI Settlement Fund to pay 75 percent of retirees'

[33]2018 N. Mar. I. Pub. L. 20-66.

[34]CNMI received an adverse opinion on its governmental activities in fiscal years 2017 and 2018 because it did not record pension expense or the related net pension asset or liability, deferred inflows of resources, and deferred outflows of resources for the years ended September 30, 2017, and 2018. In fiscal year 2019, CNMI implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, for the first time and recorded pension expense and the related net pension liability, deferred inflows of resources, and deferred outflows of resources on its government-wide financial statements in accordance with this Statement. However, CNMI received an adverse opinion on its governmental activities in fiscal year 2019 for not adopting GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. The amounts by which the corresponding departures from U.S. Generally Accepted Accounting Principles would affect the reported assets, liabilities, revenues, expenses, and net position on CNMI's government-wide financial statements in fiscal year 2019 has not been determined.

[35]CNMI implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, in fiscal year 2018; however, implementation of this Statement did not have a material effect on its financial statements and it did not recognize an OPEB liability on its Statement of Net Position in fiscal years 2018 or 2019.

pensions. They said they are attempting to issue a pension obligation bond to finance additional payments to the pension settlement fund.[36]

[36]In 2013, a U.S. district court approved a settlement agreement with the territory's government pension plan, which applied for bankruptcy in 2012. As part of the settlement, CNMI agreed to make minimum annual payments to the fund to allow members to receive 75 percent of their full benefits. Johnson v. Inos, No. 09-00023 (D.N. Mar. I. Aug. 6, 2013) (final amended stipulation and agreement of settlement).

GUAM

LOCATION
Western Pacific, 3,700 miles from Hawaii

PHYSICAL SIZE
212 square miles

POPULATION SIZE IN 2019
163,200

GROSS DOMESTIC PRODUCT (GDP) IN 2019
$6.2 billion

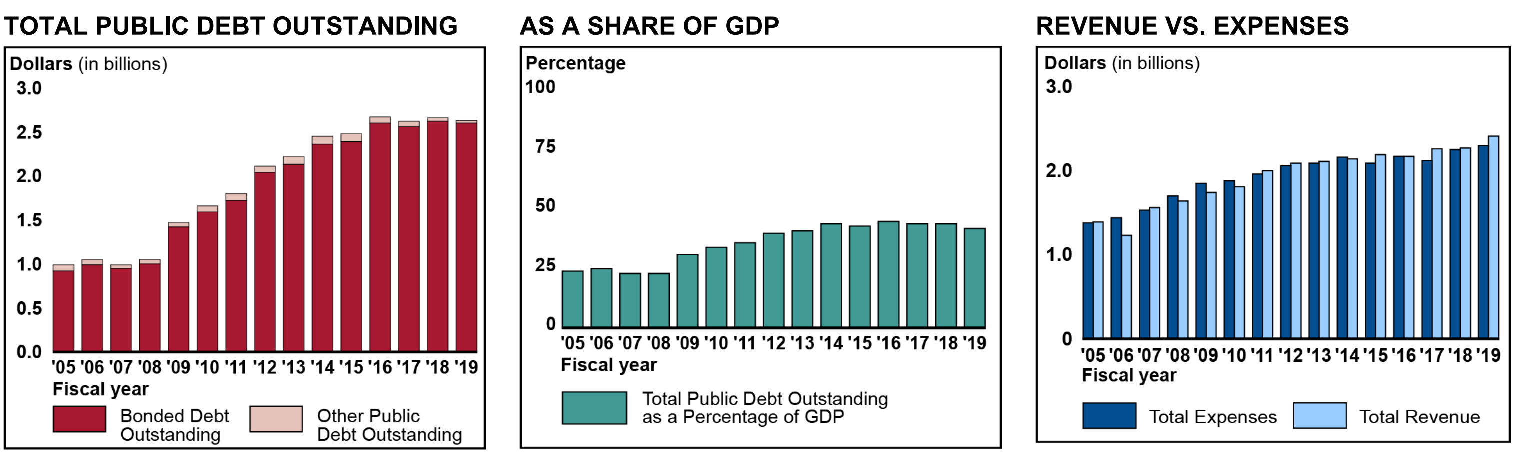
PRIMARY INDUSTRY
Tourism, Defense

Source: GAO summary data. | GAO-21-508

KEY FINDINGS

- Guam's Public Debt Remained Constant between Fiscal Years 2017 and 2019
- Guam's Total Revenue Increased Slightly between Fiscal Years 2017 and 2019
- Declining Tourism due to COVID-19 and Pension Liabilities Are Fiscal Risks in Guam

GUAM PUBLIC DEBT AND REVENUE, FISCAL YEARS 2005-2019



Source: GAO analysis of Guam's single audit reports and Bureau of Economic Analysis data for fiscal years 2005 - 2019. | GAO-21-508
Note: Total public debt outstanding is the sum of bonded debt outstanding and other debt held by the primary government and component units.

Repayment of Public Debt

While Guam's public debt has remained constant, a decrease in tourism and pension liabilities present fiscal risks. The Coronavirus Disease 2019 (COVID-19) pandemic has had a significant negative impact on tourism, Guam's largest industry. Guam officials said they are taking steps to diversify the economy beyond leisure-based tourism. For example, efforts are underway to develop the agriculture and aquaculture industries in order to ensure food security.

Guam's net pension liabilities were just over $1.5 billion in fiscal year 2019, which was about 24 percent of GDP in that year. Officials told us that the government is still on track to eliminate the pension funding deficit by 2033, as required by territory law. Additionally, Guam reported an other postemployment benefits (OPEB) liability of $1.9 billion in fiscal year 2019. Together, Guam's net pension and OPEB liabilities were 54 percent of GDP in that year.

Guam

Guam's Public Debt Remained Constant between Fiscal Years 2017 and 2019

Guam's total public debt outstanding remained constant at about $2.6 billion between fiscal years 2017 and 2019.[37] In fiscal year 2019, 44 percent of Guam's public debt was owed by the primary government and 56 percent was owed by component units. Territory officials told us they do not have any plans to issue any debt in the near future, although they said they may consider refinancing existing debt if rates are favorable.

Guam's total public debt outstanding as a share of GDP decreased slightly from 44 to 42 percent of GDP between fiscal years 2017 and 2019. Total public debt outstanding per capita decreased from $16,106 to $16,048 during that period.

Guam's Total Revenue Increased Slightly between Fiscal Years 2017 and 2019

Guam's total revenue was $2.2 billion in fiscal year 2017 and increased to $2.4 billion in fiscal year 2019, an overall increase of 7 percent. In fiscal year 2019, $1.4 billion in total revenue was generated by the primary government and $1.0 billion was generated by component units. Guam's general revenue was $970.2 million in fiscal year 2017, declined to $926.4 million in fiscal year 2018, and increased to $954.3 million in fiscal year 2019. This represents an overall decrease of 2 percent between fiscal years 2017 and 2019. In fiscal year 2019, program revenue comprised 60 percent of total revenue. The increase in total revenue between fiscal years 2017 and 2019 was driven by an increase in program revenue, which increased by $167.1 million or 13 percent.

In fiscal year 2017, Guam's expenses were $2.1 billion and increased slightly to $2.3 billion in fiscal year 2019, an overall increase of 8 percent. Of total expenses in fiscal year 2019, $1.3 billion were incurred by the primary government, while $976.7 million were incurred by the government's component units. In fiscal year 2019, Guam had a surplus of $112.6 million, while in fiscal year 2017 it had a surplus of $134.0 million.

Declining Tourism Due to COVID-19 and Pension Liabilities Are Fiscal Risks in Guam

While Guam's public debt has remained constant, a decrease in tourism and continuing pension liabilities present fiscal risks. Territory officials told us the COVID-19 pandemic has hampered tourism in the territory. Tourism is Guam's single largest industry and accounts for 34 percent of total employment. According to government officials, tourism generates

[37]Debt, revenue, expense, and net surplus/deficit amounts and calculations related to these amounts that are included in this report have been rounded. In some cases, totals and subtotals will not add up to the sum of their parts due to rounding.

nearly $2.5 billion annually and $260 million in tax revenue. Government tourism data showed that, with the onset of COVID-19, air and sea arrivals declined by 54 percent between fiscal years 2019 and 2020. Territory officials predicted 250,000 to 400,000 tourist arrivals in fiscal year 2021 compared to 1.6 million tourist arrivals in fiscal year 2019.

In addition, military realignment continues in Guam. Territory officials told us it has increased construction, which has somewhat offset the decline in tourism.[38] According to officials, there are more than $1 billion in active construction projects underway due to the military buildup.

Territory officials told us that they are taking steps to diversify the economy beyond leisure-based tourism. For example, the government is exploring the possibility of becoming a regional hub for Alternative Dispute Resolution.[39] According to a government report, rapid economic growth in Southeast Asian countries and the ongoing political unease between Hong Kong and mainland China may make it more likely that international corporations that conduct their Alternative Dispute Resolution in Hong Kong would be inclined to find other countries nearby with more stable and democratic institutions for these proceedings. Territory officials also told us efforts are underway to develop the agriculture and aquaculture industries to ensure food security.

Guam's net pension liabilities were just over $1.5 billion in fiscal year 2019, which was about 24 percent of GDP in that year. Officials told us that the government is still on track to eliminate the funding deficit by 2033, as required by territory law.[40] Additionally, Guam reported an OPEB liability of $1.9 billion in fiscal year 2019. Together, Guam's net pension and OPEB liabilities were 54 percent of GDP in that year.

[38]The Marine Corps has plans to consolidate bases in Okinawa, Japan, and relocate 4,100 Marines to Guam.

[39]Guam Visitors Bureau, *Developing and Marketing Guam as an Ideal Venue for International Alternative Dispute Resolution,* August 2020. Alternative Dispute Resolution refers to the use of methods such as mediation and arbitration to resolve a dispute instead of litigation.

[40]4 Guam Code. Ann. § 8137(b). We did not independently verify this estimate.

U.S. VIRGIN ISLANDS (USVI)

LOCATION: Caribbean Sea, 1,000 miles from U.S. mainland
PHYSICAL SIZE: 134 square miles (three main islands)
POPULATION SIZE IN 2019
104,275

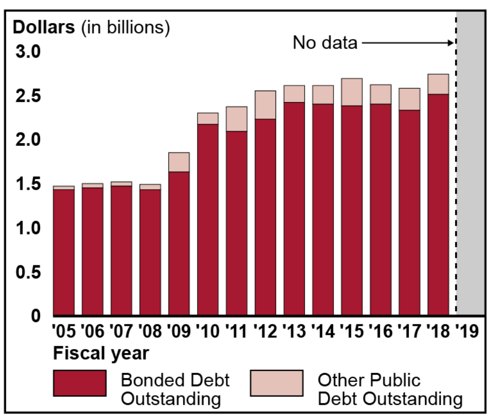
GROSS DOMESTIC PRODUCT (GDP) IN 2018
$4.0 billion
PRIMARY INDUSTRY
Tourism, Manufacturing, Rum Distilling
Source: GAO summary data. | GAO-21-508

KEY FINDINGS

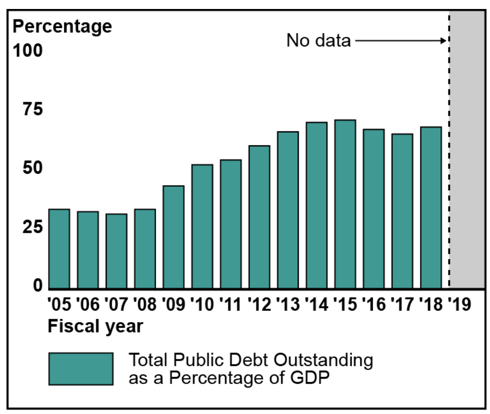
- USVI's Public Debt Increased Slightly between Fiscal Years 2016 and 2018
- USVI's Total Revenue Fluctuated between Fiscal Years 2016 and 2018
- USVI Continues to Face Several Significant Fiscal Risks, Including Significant Pension Liabilities

U.S. VIRGIN ISLANDS PUBLIC DEBT AND REVENUE, FISCAL YEARS 2005-2018

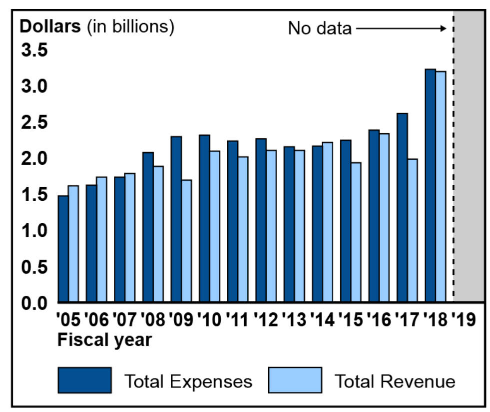
TOTAL PUBLIC DEBT OUTSTANDING



AS A SHARE OF GDP



REVENUE VS. EXPENSES



Source: GAO analysis of USVI's single audit reports and Bureau of Economic Analysis data for fiscal years 2005 - 2018. | GAO-21-508
Note: Total public debt outstanding is the sum of bonded debt outstanding and other debt held by the primary government and component units.

Repayment of Public Debt

As we reported previously, several factors may affect USVI's continued ability to repay public debt, including 1) USVI's ability to create sustained economic growth, 2) the integrity of USVI's lockbox provisions for repaying debt, 3) USVI's ability to access capital markets at favorable interest rates in the future, and 4) USVI's ability to address its pension liabilities. USVI's ability to create sustained economic growth may be hampered by the negative impact of the Coronavirus Disease 2019 (COVID-19) pandemic on its tourism industry.

Territory officials said the pandemic has underscored the need to diversify the economy beyond leisure-based tourism. As such, the government is developing plans to help grow and diversify the economy. For example, the government is formulating a 20-year economic development plan and target competitive industry analysis. The plan is intended to serve as a guide for future economic development in the territory.

USVI officials continue to project that the public pension system will reach insolvency by 2024 if there is no reduction in member benefits or infusion of cash into the system. In fiscal year 2018, USVI reported a total net pension liability for the primary government and component units of $4.3 billion, which was 110 percent of GDP in that year. Additionally, USVI reported an other post employment benefits (OPEB) liability of $884.4 million in fiscal year 2018. Together, USVI's net pension and OPEB liabilities were 132 percent of GDP in that year.

United States Virgin Islands (USVI)

USVI's Public Debt Increased Slightly between Fiscal Years 2016 and 2018

As we reported previously, USVI has experienced challenges accessing capital markets since 2017. Total public debt outstanding increased from $2.6 billion in fiscal year 2016 to $2.7 billion in fiscal year 2018, the most recent year for which audited financial data are available.[41] This represents an increase of 5 percent. In fiscal year 2018, 82 percent of USVI's public debt was owed by the primary government and 18 percent was owed by component units.

USVI's total public debt outstanding as a share of GDP increased slightly from 68 percent of GDP in fiscal year 2016 to 69 percent of GDP in fiscal year 2018. Similarly, total public debt outstanding per capita increased during this period, from $24,854 in fiscal year 2016 to $26,196 in fiscal year 2018.

USVI's Total Revenue Fluctuated between Fiscal Years 2016 and 2018

In fiscal year 2016, USVI's total revenue was $2.3 billion, declined to $2.0 billion in fiscal year 2017, and then increased to $3.2 billion in fiscal year 2018. Overall, total revenue in fiscal year 2018 increased 36 percent compared to total revenue in fiscal year 2016. In fiscal year 2018, $2.0 billion in total revenue was generated by the primary government and $1.2 billion was generated by component units. USVI's general revenue was $1.3 billion in fiscal year 2016 and decreased to $1.0 billion in fiscal year 2018, an overall decrease of 20 percent. In fiscal year 2018, program revenue comprised 68 percent of total revenue. The increase in total revenue between fiscal years 2016 and 2018 was driven by an increase in program revenue, which increased by 1.1 billion or 106 percent. This significant increase in program revenue was primarily due to grants and contributions to the primary government and component units.

In fiscal year 2016, USVI's expenses were $2.4 billion and increased to $3.2 billion in fiscal year 2018, an increase of 35 percent. Of total expenses in fiscal year 2018, $2.2 billion were incurred by the primary government while $999.4 million were incurred by the government's component units. In fiscal year 2018, USVI had a deficit of $29.4 million, which was less than its deficit of $45.0 million in fiscal year 2016.

[41]Debt, revenue, expense, and net surplus/deficit amounts and calculations related to these amounts that are included in this report have been rounded. In some cases, totals and subtotals will not add up to the sum of their parts due to rounding.

USVI Continues to Face Several Significant Fiscal Risks Including Significant Pension Liabilities

As we reported previously, several factors may affect USVI's ability to repay public debt, including (1) USVI's ability to create sustained economic growth, (2) the integrity of USVI's lockbox provisions for repaying debt,[42] (3) USVI's ability to access capital markets at favorable interest rates in the future, and (4) USVI's ability to address its pension liabilities.

USVI's ability to create sustained economic growth may be hampered by the negative effect of the COVID-19 pandemic on its tourism industry. Tourism is USVI's primary industry and has historically accounted for 30 percent of GDP and an average of 8,000 direct jobs. Territory officials said that tourism had begun to recover after Hurricanes Irma and Maria. However, the subsequent pandemic caused a significant shock to the industry. This resulted in a decrease in tourist arrivals and tourism expenditures, which also led to a decline in government revenue.

According to an April 2020 government report, USVI averaged 2.5 million visitors annually from 2010 through 2018. Any significant reduction in tourism spending threatens to create a recession because the economy is so dependent on revenue from that sector.[43] According to a study by Moody's Analytics, USVI's economy will again see steady growth when the shock of COVID-19 subsides. However, because of the magnitude of the shock to the tourism industry, it will take a full 5 years before leisure and hospitality employment regains 2019 levels.[44] An official from a hotel and tourism industry association we spoke with said that while the pandemic has been "devastating" to USVI's tourism industry, it is likely to recover faster than other destinations in the Caribbean given that it is part of the U.S.

Territory officials said the pandemic has underscored the need to diversify the economy beyond leisure-based tourism. The government is

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[42]USVI's bonds are backed by the tax collected from some individuals and entities doing business in USVI, and by excise taxes collected by the federal government and remitted to USVI as required by federal statute. 26 U.S.C. § 7652. As required by USVI law, these tax collections and excise taxes go directly to a lockbox, or to an escrow account in a private bank, and an escrow agent not affiliated with the territory's government makes debt service payments twice a year from the account. A year's worth of payments is held in reserve at all times in the escrow account. 2016 V.I. Sess. Laws 7951, § 1(D).

[43]USVI Office of Management and Budget, *Likely Economic Impacts of the COVID-19 Pandemic on the U.S. Virgin Islands* (Apr. 2, 2020, St. Thomas, USVI).

[44]Moody's Analytics, *U.S. Virgin Islands Five-Year Fiscal and Economic Outlook* (Moody's Analytics, 2020).

developing plans to help grow and diversify the economy. For example, the government is formulating a 20-year economic development plan and target competitive industry analysis. The plan is intended to serve as a guide for future economic development in the territory. Territory officials also told us they expect additional government revenue will be generated from resumed refining operations at Limetree Bay. However, the U.S. Environmental Protection Agency ordered refinery operations to be suspended in May 2021 due to improperly conducted operations that presented an imminent risk to public health.

According to USVI officials, lockbox provisions for repaying public debt remain secure. They said that they would make cuts in government operations before diverting funds from the lockbox for debt service. As we reported previously, territory officials said that there are no legal provisions that explicitly prevent the government from accessing the lockbox funds in a stress situation. However, they do not anticipate such a need arising.[45] Despite this, the Moody's Analytics report notes that the government's debt service burden holds too great a share of overall expenditures for long-term sustainability. Further, lack of access to capital markets raises near-term insolvency risks even higher should any additional liquidity shocks arise as a result of COVID-19.[46]

USVI officials continue to project that the public pension system will reach insolvency by 2024 if there is no reduction in member benefits or infusion of cash into the system. If the public pension system becomes insolvent, USVI will transition to a "pay-as-you-go" method for providing benefits. This will place additional pressures on the territory's already strained finances because the government will have to pay retiree benefits out of its revenue collections. In fiscal year 2018, USVI reported a total net pension liability for the primary government and component units of $4.3 billion, which was 110 percent of GDP in that year. Additionally, USVI reported an OPEB liability of $884.4 million in fiscal year 2018. Together, USVI's net pension and OPEB liabilities were 132 percent of GDP in that year.

[45]GAO-19-525.

[46]Moody's Analytics, U.S. Virgin Islands Five-Year Fiscal and Economic Outlook (Moody's Analytics, 2020).

Agency Comments, Third Party Views, and Our Evaluation

We provided a draft of this report to the Department of the Interior and to the governments of Puerto Rico, American Samoa, the Commonwealth of the Northern Mariana Islands, Guam, and the United States Virgin Islands. We received technical comments from Puerto Rico and American Samoa, which we incorporated as appropriate. We also received written comment letters from Puerto Rico, American Samoa, CNMI, and Guam. The comment letters from Puerto Rico, American Samoa, CNMI, and Guam are reprinted in appendixes II, III, IV, and V respectively. We did not receive any comments from USVI.

The letter from the government of Puerto Rico highlights progress made towards restructuring Puerto Rico's debt, efforts to ensure transparent and timely financial reporting, and areas of disagreement between the government and the FOMB in the certified fiscal plan. The government also identifies two additional factors it states will affect its ability to repay its restructured debt: congressional and executive actions to address critical challenges in Puerto Rico and resolution of Puerto Rico's territorial status. In addition, the government states that it objects to our assertion that the disbursement of federal funding will affect Puerto Rico's ability to repay debt. We do not intend to imply that federal funding such as COVID-related funding, disaster relief funding, and other federal funding, can or will be used to repay restructured debt. Rather, federal funding may have a stimulative effect on the economy, which increases tax revenue and the ability to repay debt. General economic health is important for repaying municipal bonds, and therefore we reiterate that economic growth is relevant. We have clarified the report to make this clearer.

The letter from the Governor of American Samoa states that the territory is working collaboratively with the tuna cannery to address challenges facing its operations. It also highlights the importance of funding provided to the territory by the American Rescue Plan Act and the territory's commitment to sound financial management.

The letter from the Governor of CNMI notes the government's commitment to timely and consistent repayment of public debt. It also highlights the impact of Super Typhoon Yutu and COVID-19 on the economy, and the importance of access to skilled construction labor as the territory upgrades its infrastructure.

The letter from the Governor of Guam notes the territory's commitment to fiscal discipline, as evidence by a recent reduction in the deficit, among other things. It also highlights issues related to the impact of the COVID-

19 pandemic on the territory's economy and the importance of federal funding for the territory's economic recovery.

We are sending copies of this report to the appropriate congressional committees, to the Governor of each territory, and to the Secretary of the Interior. In addition, the report will be available at no charge on the GAO website at http://www.gao.gov.

If you or your staffs have questions about this report, please contact Yvonne D. Jones at (202) 512-6806, or David Gootnick at (202) 512-3149. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made key contributions to this report are listed in appendix II.

Yvonne D. Jones
Director, Strategic Issues

David Gootnick
Director, International Affairs and Trade

Appendix I: Objectives, Scope, and Methodology

To describe trends in each territory's public debt, revenue, and composition, we reviewed the audited financial statements included within each territory's single audit reporting package for the most recent fiscal years available as of May 5, 2021. For American Samoa, the Commonwealth of the Northern Mariana Islands, and Guam, single audits were available for 2018 and 2019. For the United States Virgin Islands, single audits were available for 2017 and 2018. Puerto Rico provided audited financial statements for 2017. The information we present on the debt, revenues, and expenses for each territory is limited because we were unable to obtain timely audited financial statements from each territory for fiscal years 2018 and 2019.

For each territory, we obtained and reviewed the independent auditor's report corresponding to each single audit. We then noted the type of opinion that was expressed on the financial statements and accompanying note disclosures. We reviewed each of these opinions and determined that despite modified opinions, the data we obtained from each of the single audit reports were reliable for describing trends in debt and revenue and their composition for the fiscal years included in our analysis. Additionally, to determine each territory's total public debt outstanding, we reconciled Statement of Net Position line items containing debt amounts to details within the corresponding note disclosures. In some cases, the details within the corresponding note disclosures were not adequate to identify the portions of the line items representing debt. Thus, we exercised professional judgment to determine whether such line items should be included in our calculations of total public debt outstanding.

We obtained Gross Domestic Product (GDP) and population data from the U.S. Bureau of Economic Analysis (BEA) for all territories except for Puerto Rico. BEA does not currently provide annual economic activity for Puerto Rico. However, for the first time in 2020, a prototype estimate was available from BEA with GDP for Puerto Rico from 2013 through 2018. Gross National Product and population data for Puerto Rico used in this report come from Puerto Rico's Planning Board. BEA data are provided by calendar year. We converted GDP and population data to fiscal year by using 75 percent of the current calendar year and 25 percent of the previous year.

To determine the fiscal risk factors that affect each territory's ability to repay public debt, we interviewed officials from each of the territories' governments, including departments of finance or treasury, and the agency responsible for issuing and marketing bonded debt. We also interviewed officials at the Department of the Interior's Office of Insular Affairs (OIA). OIA provides grant aid, technical assistance, and support to the territories.[1] In addition, to determine the effects of the Coronavirus Disease 2019 pandemic on the territories' economies and related ability to repay, we also interviewed industry groups, such as chambers of commerce and tourism associations. We also reviewed analyses, reports, and data provided to us by territory governments and industry groups.

We conducted this performance audit from March 2020 to June 2021 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate, evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

[1]OIA does not exercise any responsibilities in relation to Puerto Rico.

Appendix II: Comments from the Government of Puerto Rico

GOVERNMENT OF PUERTO RICO
PUERTO RICO FISCAL AGENCY AND FINANCIAL ADVISORY AUTHORITY
Executive Director I Omar J. Marrero, Esq. I omar.marrero@aafaf.pr.gov

June 15, 2021

Hon. Gene Dodaro
Comptroller General of the United States
U.S. Government Accountability Office
44 1 G Street, N.W.
Washington, DC 20548

Dear Mr. Dodaro,

I am writing with regards to the U. S. Government Accountability Office ("**GAO**") report (the "**Report**"), GAO 21-508, U.S. Territories Public Debt Outlook - 2021 Update. I would like to thank you for the opportunity to review and provide feedback on the Report in its draft form.

Below are the official comments and feedback of the Government of Puerto Rico ("**Government**").

<u>Progress Toward Meaningful Change</u>

- **Successful Restructurings.** As noted in the Report, the Government achieved successful restructurings under Title III, Title VI and Section 207 of PROMESA for the Puerto Rico Sales Tax Financing Corporation ("**COFINA**"), Government Development Bank ("**GDB**"), and the Puerto Rico Aqueduct and Sewer Authority ("**PRASA**"), respectively. As a matter of clarification, the restructuring of GDB's financial obligations resulted in the issuance of new bonds by the GDB Debt Recovery Authority, a newly created statutory public trust and a governmental instrumentality of the Government, independent and separate from any other Government entity, including, without limitation, the GDB, pursuant to Act 109 of 2017, as amended. The Legislature of Puerto Rico enacted new legislation in connection with the Title III and Title VI restructurings in support of the new bond structures, demonstrating the support of the Government for debt restructurings that further the interests of both its creditors and the people of Puerto Rico. The PRASA restructuring under Section 207 of PROMESA did not require new legislation to be implemented.

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Furthermore, on May 5, 2021, the Financial Oversight and Management Board for Puerto Rico ("FOMB") announced it had reached a plan support agreement with, among others, Assured Guaranty Corp., Assured Guaranty Municipal Corp., and National Public Finance Guarantee Corporation (the "Settling Monoline Insurers"), that reflects the terms of an agreement in principle originally announced on April 12, 2021 to settle their asserted clawback claims against the Government (the "Clawback PSA"). The Clawback PSA also provides a framework to restructure the debts of the Puerto Rico Highway and Transportation Authority (HTA) and the Puerto Rico Convention Center District Authority (CCDA), and a template for treatment of other asserted clawback claims of similarly situated creditors at the Puerto Rico Infrastructure Financing Authority (PRIFA) and the Metropolitan Bus Authority (MBA).

In connection with the Clawback PSA, the Government acknowledges it contains positive economic terms for the benefit of Puerto Rico and recognizes that the efforts of the FOMB to reach an agreement with the Settling Monoline Insurers are constructive steps towards exiting bankruptcy and moving towards a future of fiscal stability and economic prosperity. The Government does reiterate, however, that the FOMB should modify its approach to restructure Puerto Rico's public debt to better protect the working class and retirees. Governor Pierluisi's Administration remains steadfast in its position that Puerto Rico's debt restructuring should not require additional cuts to pension benefits or impose additional economic burdens that disproportionately affect Puerto Rico's working class.

- Action by Current Administration to Achieve Transparency. Although the Government's audited financial statements have been delayed, Governor Pedro R. Pierluisi's administration is making every effort to be current and timely regarding the completion of the fiscal year 2018 and 2019 financial statements. Furthermore, in order to provide more transparency and timely information, the Puerto Rico Fiscal Agency and Financial Advisory Authority ("AAFAF", for its Spanish acronym) continues to publish monthly bank account balances for the Government and its instrumentalities, weekly cash flow of the Treasury Single Account of the Government, as well as quarterly budget to actual reports for the Government and principal public corporations. Moreover, the Puerto Rico Planning Board has continued to publish economic data annually.

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Official Government revenue data is released by the Puerto Rico Treasury Department on a monthly basis.

Additionally, through Puerto Rico's Recovery portal[1], the Government further reaffirmed its responsibility to ensure transparency with regards to federal pandemic funds (Coronavirus Relief Fund and Coronavirus State Fiscal Recovery Fund) as well as disaster recovery funds. The publication of information in a transparent and detailed manner reiterates the Government of Puerto Rico's commitment to accountability and compliance.

Comments Regarding Certain Assumptions in the Report

- Fiscal Plan Assumptions. The certification of the Government fiscal plans is an extensive process that includes several iterations of a plan that is first submitted by the Government to the FOMB. Ultimately, the FOMB has certified their own version of the Fiscal Plan; however, it is important to note there are several areas where the Government and the FOMB are not aligned. The main areas of disagreement include differences in baseline macroeconomic assumptions and population projections, assumed pass-through rate for most federal funding, pension reforms, among others.

Federal Actions that Impact Puerto Rico's Prospects for Repayment of Debt

The Report states that two significant factors will determine Puerto Rico's capacity for repaying its restructured debt: (1) the outcomes of the ongoing debt restructuring process, and (2) Puerto Rico's ability to generate sustained economic growth. In addition, the Report states that the disbursement of federal funding will affect Puerto Rico's capacity for repayment.

The Government objects to the GAO's statement related to the disbursement of federal funding as a factor influencing Puerto Rico's ability to repay its debt. Federal funding received by Puerto Rico is strictly used for the intended purposes and is never considered as a source of repayment for public debt.

[1] https://recovery.pr/en

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The GAO must also recognize the impact that the undemocratic, unequal and oftentimes arbitrary federal legal, regulatory and constitutional frameworks that apply to the island as a U.S territory have had on Puerto Rico's situation. The Government believes that certain federal actions are central to addressing Puerto Rico's economic and fiscal viability.

- Congressional & Executive Actions to Address Critical Challenges. The report issued by the Congressional Task Force on Economic Growth in Puerto Rico in December 2016 identified a variety of policy recommendations for Congress and the federal Executive that could help address critical challenges in Puerto Rico and support the restoration of economic growth on the island. Whether Congress and the Executive work with the Government to act on the challenges and opportunities identified by the Task Force could make a very big difference in improving the conditions for economic growth to take place in the territory. Some of these challenges are well known in Congress and in the Executive and both have an immense impact on Puerto Rico's economic and fiscal prospects for the future. Among the most notable is the unequal treatment of Puerto Rico in Federal Medicaid funding which periodically puts the stability of the island's entire healthcare system at risk and has contributed to a mass exodus of medical and health professionals which cannot be easily replaced. In this case Congress should work with Puerto Rico to establish a sustainable funding structure for our Medicaid program in a way that is tied to the levels of need, is means-tested and provides the same or better levels of care than the current unequal funding structure. Other examples of policies that Congress could change to significantly improve Puerto Rico's economy and therefore our fiscal and debt outlook would be the full extension of the Child Tax Credit and the Earned Income Tax Credit to families on the island.

- Resolution of Undemocratic & Unequal Territorial Status. The question of Puerto Rico's ultimate political status and relationship with the Federal Government is intimately linked to the island's prospects for economic growth, and therefore its capacity to repay its debts. By allowing Congress and the federal Executive Branch to treat Puerto Rico differently and in ways that discriminate against the island and its residents, the current territorial status inherently limits economic growth. It does this by allowing the propagation of federal laws and policies toward the territory

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that lack the coherence and consistency required to provide for the island's sustained economic development and growth. The democratic deficit generated by the lack of voting representation at the federal level results in an inability of the elected officials from Puerto Rico to exert sufficient influence in the federal policy and regulatory making process to be able to ensure that the island's needs, conditions and aspirations are duly considered and accounted for. Unfortunately, federal policy towards the island is oftentimes executed as an afterthought and without a proper understanding of the circumstances of the island and its residents. There are countless examples of federal policies and practices that harm or limit Puerto Rico's economic development potential. Among these are the disparate treatment and sometimes-outright exclusion of Puerto Rico from a variety of federal programs (Supplemental Social Security, permanent Medicaid funding and Medicaid Low Income Subsidy to name a few), the island's exclusion from a multitude of federal studies and statistics, the disproportionately low level of federal procurement from businesses in Puerto Rico, and unnecessary regulations that limit interstate commerce such as the Electronic Export Information requirement. Another factor that negatively impacts the island's economy is the significant levels of political and policy uncertainty and risk created by the territorial status at both the local and federal levels. For businesses making investment decisions, this political and policy risk decreases the desirability of making investments on the island and it also increases the borrowing cost for the Government and private businesses on the island. The current reform process happening in Puerto Rico under PROMESA, and the post disaster reconstruction, present an ideal opportunity to finally define the ultimate political future of Puerto Rico, and to begin a transition toward that end. Congress must act definitively to resolve Puerto Rico's future political status, because extending the failed 120-year-old territory status will only further delay the island's full economic, fiscal and demographic recovery as well as its reconstruction. Congress must resolve Puerto Rico's status to unleash its full potential, and should implement the democratically expressed will of voters who have expressed three times the last seven years a clear desire to end the current territory status and to achieve statehood for Puerto Rico. Indeed, for America and Puerto Rico both, statehood is the best possible answer and the best path forward out of this century old issue and into a new century of economic growth and prosperity.

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In closing, I want to thank GAO for its efforts in preparing the Report. I hope that the comments contained here are helpful.

Sincerely,

Omar J. Marrero Díaz, Esq.
Executive Director

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Appendix III: Comments from the Government of American Samoa

LEMANU P. S. MAUGA
GOVERNOR

OFFICE OF THE GOVERNOR
AMERICAN SAMOA GOVERNMENT
Telephone: (684) 633-4116 Fax: (684) 633-2289

TALAUEGA E. V. ALE
LIEUTENANT GOVERNOR

Serial: 322-21

June 3, 2021

Yvonne D. Jones
Director for Federal Budget Analysis- Strategic Issues
GAO US Government Accountability Office
441 G Street, N.W.
Washington DC 20548

Dear Ms. Jones:

On behalf of our people and territory, we extend our appreciation for your teams' efforts to fully understand the uniqueness of American Samoa. Today marks the fifth month benchmark of our Administration. We are keenly aware of the challenges we face as a local government and as a territory. We have embraced these challenges which have empowered us to seek solutions in a fiscally responsible manner that allows us to meet the challenges head-on for the good of our people. As in any progressive administration, opportunity is always available for growth and development.

Each state and territory impacted by the COVID 19 pandemic have been blessed with the assistance from the federal government through the various CARES and Coronavirus legislation providing much needed stimulus and pandemic funding. The territory is 1 of 14 locations across the globe that remains COVID free. Our first order of priority has been to bring our people home that have been stranded since the emergency declaration in March 2020, in a safe manner while protecting our island territory from the virus. The safe deployment of the vaccine to all eligible members of our community continues in a positive trend. Maintaining the strategy to minimize the threat of the coronavirus effectively and with accountability is a priority of the administration.

While the economy has been fortunate with the influx of stimulus and COVID funds, we continue to work collaboratively with Starkist to address the challenges facing their operations. The expansion will require additional workforce and the administration is working to help alleviate this through the guest worker visa program. Although 100% of product made in American Samoa is exported to the US, tuna production is a very volatile industry that depends on many external factors. Several factors are federal policies that have local ramifications, such as the minimum wage increase, expiration of federal 30A tax credit, and federal oversight of US fishing waters all have an impact on the industry. These challenges continue to erode the competitiveness of the American Samoa-made tuna product. We ask that our request to extend the 30A Tax that expired December 2020 is revisited for a positive outcome and extension.

The American Rescue Plan Act (ARPA) funding provides a once in a lifetime funding to significantly improve our dire healthcare and service capacity, construction sector which will have a profound improvement to key infrastructure developments supporting our education, economy, healthcare and transportation. The administration is mobilizing the territories priorities through its ARPA Implementation Plan to ensure compliance and accountability through reporting and adhering to

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Yvonne D. Jones
Page 2

guidelines set forth by our federal partners. We appreciate the help of the Army Corp of Engineers' assistance in planning for a new hospital to serve our people and the people of the Pacific and request the help of Congress to find additional means to support our plan to develop a world class health care system in the heart of the Pacific.

The territory through the American Samoa Economic Development Authority (ASEDA) has fulfilled its mandate to ensure 100% compliance of our bond covenants to investors. As noted in our FY 2020 audit, the reduction of findings reflects sound financial management, the positive fund balance has steadily improved over the years and we now stand at an \$18.14m fund balance. Increased general fund revenues from \$87.6 million in 2019 to \$97.5 million in 2020, an improvement of over 11.3%. Despite the border closure, commerce imports and exports are robust and have increased revenue collections.

Maintaining the integrity of the government is a key component in budgetary compliance. In the first month of the administration, we instituted a freeze and rollback to ensure improper obligations of the government were reviewed and properly corrected through established legal procedures. We confronted unprecedented local and global challenges: a deadly pandemic, a drug and suicide epidemic, the growing threat of climate change and fiscal uncertainty. We are confident that the structural and fiscal reforms in place will pave the way for a government that is more responsive, equitable and transparent.

We believe the opportunity to refund our bonds in 2021 is a testament of quality and worthiness that the American Samoa Government and by extension, it's people, have demonstrated its fiduciary responsibility and commitment to fulfilling its financial obligations. We believe the infrastructure of our debt-management policies and legislation allows our administration the flexibility and still maintain the controls to ensure sound financial stewardship of our government debt.

As reaffirmed in our Moody's updated credit analysis following revision outlook from a negative to a stable position is a result of *"....improving financial position resulting from governance improvements, including enhanced transparency and disclosure and budget management; and risks associated with operating a government-owned charter bank."*. Ensuring our debt is managed appropriately, will allow for proactive plans to combat the impacts of climate change, improved healthcare, continued development of our growing and educated workforce and expansion and diversification of our economic development engine, the fastest and only fiber network in the region.

Our administration is committed to the connection of our past and a drive to move our economy, our territory, our people forward toward a future with stronger families, a resilient and more diverse economy, and an outpost for the ideals of America in the vast Pacific.

LEMANU P. S. MAUGA
Governor

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Appendix IV: Comments from the Government of the Commonwealth of the Northern Mariana Islands

RALPH DLG. TORRES
Governor

ARNOLD I. PALACIOS
Lieutenant Governor

COMMONWEALTH of the NORTHERN MARIANA ISLANDS
OFFICE OF THE GOVERNOR

June 24, 2021 **GOV21-151**

Dr. David Gootnick
Director, International Affairs and Trade
United States Government Accountability Office
411 G Street, N.W.
Washington, DC 20548

Dear Dr. Gootnick:

Thank you for providing the Commonwealth of the Northern Mariana Islands (CNMI) opportunity to comment on the draft update to the U.S. Territories Public Debt Outlook for 2021 (GAO-21-508). This report is a valuable insight into the fiscal condition of the Commonwealth government in relation to overall public debt. We appreciate the opportunity to be included in the GAO's final report and hope that our contribution aids in showcasing an accurate understanding of the Commonwealth's current economic position.

The GAO findings, contained in the draft, showcase that the CNMI's total public debt outstanding has declined from $116.3 million in fiscal year 2017 to $97.6 million in fiscal year 2019. This 13 percent decrease in the CNMI's total public debt, and the years long commitment toward debt service obligations, showcase the importance the Commonwealth government places in ensuring timely, and consistent payments to our accumulated long-term debt. Through these efforts, and as noted in the draft report, the CNMI's public debt per capita of $1,958 in fiscal year 2019, is the lowest among the U.S. territories reviewed in this report.

The impact of Super Typhoon Yutu at the start of fiscal year 2019 on the economy and governmental finances of the Commonwealth government is apparent in this report. As showcased in the report, after more than five (5) years of operating with a surplus, the effects of Super Typhoon Yutu, the severity of the damage on residential and commercial property, and the limitations this destruction had on the CNMI's tourism industry required a dramatic increase in public expenditures on public safety, law enforcement, and our islands' school system and a significant decrease in total revenue.

As noted in the report, the challenges facing the CNMI have compounded with the outbreak of the COVID-19 pandemic, which has effectively crippled the CNMI's sole industry in tourism. However, as demonstrated in fiscal year 2019, and through a

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combination of government-wide cost cutting measures and federal assistance, the CNMI remains committed to continuing to make timely and adequate payments to its public debt obligations as we rebuild a more diversified and vibrant economy.

With the federal assistance provided to recover and rebuild from Super Typhoon Yutu, coupled with increased federal resources to respond to the COVID-19 pandemic, the CNMI has emerged from our austerity measures, and has committed itself toward a path of wide-ranging investments into public infrastructure and private sector support. The CNMI has further utilized this period of limited arrivals to transform its tourism accommodations and attractions, along with undertaking unprecedented advancements to our financial management systems and permitting processes. Together, these investments provide the framework for a position of incredible potential for economic growth and expansion in the post-COVID-19 economy.

As a large component of the planned investments in the CNMI involve the construction and rehabilitation of our islands' aged infrastructure, the persistent challenges the CNMI has faced with regard to access to skilled construction labor will present a bottleneck on the rate and extent of our development. As Congress, discusses President Biden's "Build Back Better" initiative, I reiterate my position presented before the U.S. House of Representatives Committee on Natural Resources that in order for the CNMI to make efficient use of federal funding for the national objective of infrastructure modernization, the unique position in the CNMI related to the present state of the islands' infrastructure and its access and availability of constructure workers is a necessary and urgent consideration.

Thank you again for providing an opportunity for these comments to be included in the final report and for the hard work and diligence you and your team have placed in preparing this report. I appreciate GAO's willingness to work collaboratively with the CNMI to produce accurate and detailed work in reporting the progress of the territories financial planning and management. The data contained in this report are critical to the CNMI's ongoing efforts to rebuild and modernize our financial management and economy and I anticipate that the final report will assist us in meeting this objective.

Sincerely,

RALPH DLG. TORRES
Governor

Appendix V: Comments from the Government of Guam

LOURDES A. LEON GUERRERO
GOVERNOR

JOSHUA F. TENORIO
LT. GOVERNOR

UFISINAN I MAGA'HÅGAN GUÅHAN
OFFICE OF THE GOVERNOR OF GUAM

June 16, 2021

Ms. Yvonne D. Jones
Director, Strategic Issues
United States Government Accountability Office
441 G. Street, N.W., Washington DC 20548

Re: Guam's Response to REVISED U.S. Territories Public Debt Outlook - 2021 Update (GAO-21-508)

Dear Director Jones,

Hafa Adai! Thank you for allowing us to further review and provide final comment to the Government Accountability Office (GAO) *U.S. Territories: Public Debt Outlook - 2021 Update (GAO-21-508)*. I appreciate that the revised report that included some updates and changes as recommended in my letter dated June 3, 2019. I would like to further assure you that the Government of Guam is working hard to manage its debt position to ensure the financial feasibility going forward. Below are recent developments since the first report was released.

Commitment to Fiscal Discipline

When I first came into office back in January 2019, achieving financial stability was one of my primary goals as I knew, as a former bank President, that this was key factor to moving the Government of Guam to a position of strength and stability. A lot of hard and unpopular decisions were made but the results show our focus and commitment.

Since June 2019, my Administration moved quickly to refinance existing debt to take advantage of the lower interest rate environment without extending the debt maturity. These actions resulted in reducing our overall debt position by $29.6 million and achieve net present value savings of $92 million.

Also of significance is the full reimbursement of the Earned Income Tax Credit (EITC) and the Child Care Tax Credit (CTC) under the American Rescue Plan Act (ARPA), an $80 million cost carried by the government of Guam for many years. These freed up funds can now be reallocated to other pressing demands of the government.

I am happy to report that in the Fiscal Year 2020 Government of Guam General Fund audit released June 1, 2021, the accumulated deficit has been reduced from $83 million in FY2018, to $47.8 million in FY 2019, to $1.5 million in FY 2020, a feat achieved in just two (2) years! A combination of increased federal funds and effective use of federal dollars and strict financial management by my Fiscal Team all contributed to the deficit reduction.

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To: Ms. Yvonne D. Jones
Fr: Governor of Guam
Date: June 16, 2021
Re: Guam's Response to REVISED U.S. Territories Public Debt Outlook – 2021 Update (GA)-21-508)

Impact of COVID-19 on the Government of Guam

The outbreak of COVID-19, a respiratory disease caused by a new strain of coronavirus, was first detected in China and has since spread globally, including to the United States mainland and Guam. The World Health Organization declared the COVID-19 outbreak to be a pandemic on March 11, 2020. Subsequently, former President Trump declared a national state of emergency on March 13, 2020, and then I declared a public health emergency under the laws of Guam on March 14, 2020. The public health emergency is still in effect and currently extends to June 30, 2021.

The spread of COVID-19 has had and is expected to continue to have a negative impact on Guam's economy. Economic activity in Guam has slowed from pre-COVID-19 levels, due in part to the closure of non-essential businesses for a period of time, the substantial reduction in visitors, and the delayed reopening of Guam's economy. Tourism is an important component of Guam's economy, and the decline of tourist arrivals since the outbreak of COVID-19 contributed to the decline in the business privilege tax collections. Calendar year 2020 total visitor arrivals came in at 328,173, as compared to 1,666,665 total visitor arrivals during calendar year 2019. Most hotels in Guam are closed due to the COVID-19 pandemic and will still require some time before pre-COVID numbers are restored once they are reopened.

In calendar year 2020, the Government and Guam businesses received approximately $1.5 billion in federal funding authorized by the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act"). The Government also estimates that Guam businesses and Government departments and agencies will receive approximately $287.5 million from the Coronavirus Response and Relief Supplemental Appropriations Act of 2021, signed into law on December 27, 2020. The Government also estimates that Guam businesses, residents and Government departments and agencies will receive approximately $1 billion in the form of direct payments, earned income tax credits and child tax credits from the American Rescue Plan Act of 2021, signed into law on March 11, 2021. All of these programs are key to the economic recovery of the island.

I hope that the updated report can include the many accomplishments the government has made over the past few years. I appreciate the collaboration your office has had with my fiscal team and look forward to the final report.

Senseremente,

LOURDES A. LEON GUERRERO
Maga'hågan Guåhan
Governor of Guam

cc: *Honorable* Joshua F. Tenorio, *Lt. Governor of Guam*
Melanie Mendiola, CEO/Administrator, Guam Economic Development Authority

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Appendix VI: GAO Contacts and Staff Acknowledgments

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