

Why GAO Did This Study

The five 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 Irma and Maria caused widespread damage and destruction in Puerto Rico and USVI, placing additional financial pressures on their already strained economies.

In June 2016, Congress passed and the President signed the Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA). It contains a provision for GAO to review the public debt of each of the five territories every two years. GAO issued the first report on the territories' public debt in October 2017, reporting on trends in public debt between fiscal years 2005 and 2015.

In this report, for each U.S. territory, GAO updates (1) trends in public debt, its composition, and drivers; (2) trends in revenue and its composition, and overall financial condition; and (3) what is known about the ability to repay public debt.

GAO analyzed the territories' single audit reports for fiscal years 2016 and 2017, as available; reviewed relevant documentation and analyses; and interviewed officials from the territories' governments, federal agencies, credit rating agencies, and subject matter experts.

In commenting on a draft of this report, the governments of Puerto Rico and Guam raised concerns about some aspects of the analysis of their debt. GAO maintains its analysis is correct, as discussed in the report.

View [GAO-19-525](#). For more information, contact Tranchau (Kris) T. Nguyen at (202) 512-6806 or nguyentt@gao.gov, or David Gootnick at (202) 512-3149 or gootnickd@gao.gov.

U.S. TERRITORIES

Public Debt Outlook – 2019 Update

What GAO Found

Puerto Rico: Puerto Rico has finalized two out of six total debt restructuring agreements to date. Through this restructuring process, Puerto Rico's bonds are replaced by bonds with new repayment terms. Public debt was 93 percent of Gross National Product in fiscal year 2016, the most recent fiscal year for which audited financial statements were available. Puerto Rico's general revenue decreased by 11 percent and longstanding deficits persisted during this period. Puerto Rico's capacity for debt repayment depends primarily on the outcomes of the ongoing debt restructuring process and its ability to generate sustained economic growth. While federal hurricane recovery grants are likely to stimulate the economy in the short term, it is unclear whether the resulting economic benefits will be sustainable.

United States Virgin Islands (USVI): USVI has not been able to access capital markets at favorable interest rates since early 2017 and it has not issued any new bonds. It has, however, received federal loans for hurricane recovery, which may contribute to its overall debt burden if they are not forgiven. Public debt decreased from 72 to 68 percent of Gross Domestic Product (GDP) between fiscal years 2015 and 2016, the most recent year for which audited data were available. While general revenue increased by 40 percent during this time period, longstanding deficits persisted. USVI's continued ability to repay public debt depends primarily on whether it can access capital markets at favorable rates in the future, its ability to create economic growth, and its ability to address its pension liabilities and the pending insolvency of its public pension system.

American Samoa: American Samoa's public debt increased from 13 to 19 percent of GDP between fiscal years 2015 and 2017. This increase was due largely to a single bond issued in early 2016 to fund various infrastructure projects. General revenue fluctuated during this period and the territory had a deficit in 2017. The territory continues to face fiscal risks that may affect repayment of public debt, such as a reliance on the tuna canning and processing industry and significant pension liabilities.

Commonwealth of the Northern Mariana Islands (CNMI): CNMI has not issued any new debt since fiscal year 2007, and as such, public debt decreased from 16 to 8 percent of GDP between fiscal years 2015 and 2017. During this period, CNMI's general revenue increased by 48 percent and it operated with a surplus. CNMI's potential labor shortages due to federal restrictions on foreign workers have been mitigated. However, pension liabilities and future reductions in revenue from recent typhoons present fiscal risks that may affect repayment of public debt in the future.

Guam: Guam's public debt increased by 6 percent between fiscal years 2015 and 2017, growing from 44 to 45 percent of GDP. New debt has primarily been used to refinance existing debt and fund infrastructure projects. Guam's general revenue increased by 12 percent during this period and it operated with a surplus. Pension liabilities continue to present a fiscal risk that may affect repayment of public debt in the future.