



June 2019

U.S. TERRITORIES

Public Debt Outlook – 2019 Update

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.

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Abbreviations

CDL	Community Disaster Loan
COFINA	Puerto Rico Sales Tax Financing Corporation
CNMI	Commonwealth of the Northern Mariana Islands
FEMA	Federal Emergency Management Agency
GASB	Governmental Accounting Standards Board
GDB	Government Development Bank for Puerto Rico
GDP	Gross Domestic Product
GNP	Gross National Product
Interior	U.S. Department of the Interior
PPACA	Patient Protection and Affordable Care Act
PROMESA	Puerto Rico Oversight, Management, and Economic Stability Act
USVI	United States Virgin Islands
Treasury	U.S. Department of the Treasury

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June 28, 2019

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

The Honorable Raúl Grijalva
Chairman
The Honorable Rob Bishop
Ranking Member
Committee on Natural Resources
House of Representatives

The United States has five permanently inhabited territories: Puerto Rico, the United States Virgin Islands (USVI), American Samoa, the Commonwealth of the Northern Mariana Islands (CNMI), and Guam. The territories, like U.S. states in some cases, borrow through financial markets. Puerto Rico, in particular, has amassed large amounts of debt, and began to default on debt payments in 2015. 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 two years.¹ We issued our first report on the territories' public debt in October 2017, reporting on trends in public debt between fiscal years 2005 and 2015.² Since our first report, Puerto Rico and USVI continue to face significant financial challenges and vulnerability to natural disasters. In September 2017, Hurricanes Irma and Maria, two back-to-back hurricanes, significantly impacted USVI and Puerto Rico, causing widespread damage to and destruction of critical infrastructure, livelihoods, and property, which placed additional financial pressures on their already strained economies. American Samoa, CNMI, and Guam are also vulnerable to natural disasters.

¹Pub. L. No. 114-187, § 411, 130 Stat. 549, 594–595 (June 30, 2016).

²GAO, *U.S. Territories: Public Debt Outlook*, [GAO-18-160](#) (Washington, D.C.: Oct 2, 2017).

For Puerto Rico, USVI, American Samoa, CNMI, and Guam, this report updates (1) trends in public debt, its composition, and drivers; (2) trends in revenue and its composition, and in overall financial condition; and (3) what is known about the ability to repay public debt.

To describe trends and composition of each territory's public debt, revenue, and composition, we reviewed the audited financial statements included within each territory's single audit reporting packages, hereinafter referred to as the single audit report, for the most recent fiscal years available as of early May, 2019—fiscal years 2016 and 2017 for American Samoa, Guam, and CNMI, and fiscal year 2016 for USVI.³ For Puerto Rico, audited financial statements were not available for fiscal year 2017, but we included information for fiscal year 2015, which was not available when we issued our last report in 2017, in addition to fiscal year 2016. We analyzed data on public debt—specifically, bonds, loans, and notes for both the primary government and component units⁴—for those years.⁵ In addition, for each territory, we obtained and reviewed the independent auditor's report corresponding to each single audit report, when available, and noted the type of opinion expressed by the independent auditor on the financial statements and accompanying note disclosures.

³The Single Audit Act, as implemented by guidance issued by the Office of Management and Budget (OMB), requires nonfederal entities that expend above a dollar threshold in federal awards in a fiscal year to have a single audit. Recipient organizations are required by the act to submit their single audits reports to the Federal Audit Clearinghouse (FAC). 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. Puerto Rico provides audited financial statements but does not submit single audit report packages to FAC. Puerto Rico's and USVI's audited financial statements for fiscal year 2017 were not available as of May 2019.

⁴Component units are legally separate entities for which a government is financially accountable.

⁵Bonds are the written evidence of debt, which upon presentation entitles the bondholder or owner to a fixed sum of money plus interest. Bonds generally have maturities greater than the short-term range. Notes differ from bonds in that they are short-term obligations of an issuer to repay a specified principal amount on a certain date, together with interest at a stated rate, usually payable from a defined source of anticipated revenue. Notes usually mature in 1 year or less, although notes of longer maturities are also issued.

To determine the drivers of public debt and what is known about the territories' ability to repay, we interviewed officials from each of the territories' governments. In addition, we interviewed representatives of the three major credit rating agencies and officials at the U.S. Department of the Treasury and Department of the Interior's Office of Insular Affairs (OIA). We also obtained and reviewed relevant documentation, reports, and analyses from the territorial governments and ratings agencies. To determine the effects of Hurricanes Irma and Maria on the economies and public debt of Puerto Rico and USVI, we interviewed officials from government agencies, including departments of finance or treasury, the agencies responsible for issuing and marketing bonded debt, the agencies responsible for economic development, the Offices of Management and Budget, and the Offices of the Inspectors General. We also conducted interviews with experts on Puerto Rico and USVI's economies, municipal securities markets, and select industry groups. We selected the experts we interviewed based on their professional knowledge closely aligning with our engagement objectives, as demonstrated through published articles and referrals from other experts. We also analyzed a non-generalizable sample of Bloomberg data on secondary market trading prices of USVI and Puerto Rico bonds to illustrate the possible effects of market events, such as the 2017 hurricanes, on bond prices.

We conducted this performance audit from April 2018 to June 2019 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 territories are permanently inhabited and have elected governors, territorial legislatures, and non-voting members in the U.S. House of Representatives.⁶

⁶For the purpose of this report we present the Caribbean territories first and the remaining territories in alphabetical order.

Puerto Rico. Puerto Rico, with a population of 3.3 million as of 2017, 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 and has been operating with austerity measures in place, such as hiring freezes and budget cuts. PROMESA, enacted on June 30, 2016, temporarily prevented creditors from suing Puerto Rico over missed debt payments.⁷ PROMESA established a Financial Oversight and Management Board (FOMB) with broad powers of budgetary and financial control over Puerto Rico. In addition, it created procedures for adjusting debts accumulated by the government of Puerto Rico and its component units. On May 3, 2017, after the termination of the original stay preventing creditors from suing the territory, the FOMB filed a petition under Title III of PROMESA beginning a broad-based debt restructuring process. PROMESA provides two mechanisms for restructuring debt of a territory or territorial instrumentality. First, Title III, which follows a bankruptcy-like procedure, and second, Title VI, a mechanism to formalize agreements negotiated between the territory and its creditors.

USVI. USVI, with a population estimated at 104,500 in 2017, 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, and in 2018 the government entered into an agreement to restart refinery operations and expand storage operations at the facility. According to territory officials, the refinery is expected to resume operations in late 2019.

American Samoa. American Samoa, with a population estimated at 58,700 in 2017, 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.

⁷Pub. L. No. 114-187, § 405, 130 Stat. 549, 587–592 (June 30, 2016).

Tourism is limited by the island's remote location and lack of tourist-rated facilities. Most of American Samoa's economic activity—primarily tuna canning—and government operations take place on Tutuila in the Pago Pago harbor area. American Samoa admits foreign workers to the territory, many of whom are employed by the tuna cannery.

CNMI. CNMI, with a population estimated at 50,300 in 2017, 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. The United States admits foreign workers to CNMI under a special work program, which affects the territory's access to labor.⁸

Guam. Guam, with a population estimated at 162,500 in 2017, 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. As of 2017, Department of Defense bases cover about 30 percent of the island. Most of the military service members and their dependents are attached to one of the two major military installations on the island—U.S. Naval Base Guam and Andersen Air Force Base.

2017 and 2018 Natural Disasters

On September 6, 2017, Hurricane Irma struck St. John and St. Thomas, USVI, and 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 response to the hurricanes, the federal government provided disaster assistance grant funding to both territories.

- According to the most recent publically available data from the Federal Emergency Management Agency (FEMA), it had obligated

⁸GAO, *Commonwealth of the Northern Mariana Islands: Implementation of Federal Minimum Wage and Immigration Laws*, [GAO-17-437](#) (Washington, D.C.: May 18, 2017).

\$5.6 billion in Public Assistance grants to Puerto Rico.⁹ As of March 31, 2019, it had obligated \$1.69 billion in Public Assistance grants to USVI.¹⁰ FEMA's Public Assistance Program provides grant funding to state, territorial, local, and tribal governments to assist with responding to and recovering from major disaster or emergencies.

- As of February 2019, the U.S. Department of Housing and Urban Development awarded \$19.9 billion in Community Development Block Grant Disaster Recovery funding to Puerto Rico and \$1.9 billion to USVI.¹¹ These flexible grants are intended to help cities, counties, states, and territories recover from presidentially declared disasters, especially in low-income areas.

In addition to hurricane-related grant funding, the governments of Puerto Rico and USVI have also received federal loans for disaster recovery. FEMA manages the Community Disaster Loan (CDL) program, the purpose of which is to provide financial assistance to local and territorial governments that are having difficulty providing government services because of a loss in tax or other revenue following a disaster. While both Puerto Rico's and USVI's central governments were approved for CDLs after the hurricanes, Puerto Rico's government will not be permitted to access this funding unless its cash levels fall below a set amount that would make it eligible to receive the approved funding.¹²

The Pacific territories have also recently 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 September 2018, and Super Typhoon Yutu made landfall across the islands of Saipan and Tinian in CNMI in October

⁹Also see GAO, *Puerto Rico Hurricanes: Status of FEMA Funding, Oversight, and Recovery Challenges*, [GAO-19-256](#) (Washington, D.C.: Mar 14, 2019).

¹⁰Also see GAO, *U.S. Virgin Islands Recovery: Status of FEMA Public Assistance Funding and Implementation*, [GAO-19-253](#) (Washington, D.C.: Feb 25, 2019).

¹¹GAO, *Disaster Recovery: Better Monitoring of Block Grant Funds is Needed*, [GAO-19-232](#) (Washington, D.C.: Mar. 25, 2019).

¹²According to officials from the U.S. Department of the Treasury, if Puerto Rico's cash balance drops below \$1.1 billion, a loan disbursement would be available to the central government. Although the central government of Puerto Rico has not used CDLs, some Puerto Rican municipalities have been approved for and received CDL funding. Municipalities are the highest level of local government under the central level government and each municipality has the legal authority over all matters of a municipal nature.

2018. FEMA has obligated funding for Public Assistance grants for both Typhoon Mangkhut and Typhoon Yutu.

Medicaid in the Territories

All five territories receive federal funding through Medicaid — a joint federal-state health financing program for low-income and medically needy individuals. There are notable differences in the funding and operation of this program between the territories as compared to the states. For example, federal Medicaid spending in the territories is subject to an annual cap that does not apply to the states.¹³

In recent years, the territories have been provided temporary increases of up to \$10.6 billion in Medicaid funding. Specifically, the Patient Protection and Affordable Care Act (PPACA) appropriated \$7.3 billion for the territories in additional Medicaid funding, the majority of which is available only through fiscal year 2019.¹⁴ The Consolidated Appropriations Act, 2017, provided an additional \$296 million in Medicaid funding for Puerto Rico ending September 30, 2019.¹⁵ Additionally, the Bipartisan Budget Act of 2018 authorized increases in Medicaid funding for Puerto Rico of \$3.6 billion and for USVI of \$106.9 million through September 30, 2019; Puerto Rico and USVI can also receive another \$1.2 billion and \$35.6 million, respectively, if they meet certain conditions related to data reporting and program integrity.¹⁶

We previously reported that territory officials cited positive effects of the additional funding, such as the ability to enroll more providers and cover more services; however, some officials also expressed concerns about the temporary nature of the funding, noting that they may have to make program cuts once the funding is exhausted at the end of fiscal year 2019.¹⁷

¹³42 U.S.C. § 1396d(b).

¹⁴Pub. L. No. 111-148, §§ 1323, 2005(a), 124 Stat. 119, 283 (Mar. 23, 2010), as amended by the Health Care and Education Reconciliation Act of 2010, Pub. L. No. 111-152, § 1204(a)-(b), 124 Stat. 1029, 1055 (Mar. 30, 2010).

¹⁵Pub. L. No. 115-31, div. M, § 202, 131 Stat. 135, 805 (May 5, 2017).

¹⁶Pub. L. No. 115-123, § 20301(a), 132 Stat. 64, 118–119 (Feb. 9, 2018).

¹⁷GAO, *Medicaid and CHIP: Increased Funding in U.S. Territories Merits Improved Program Integrity Efforts*. [GAO-16-324](#) (Washington, D.C.: April 8, 2016).

Previous GAO Findings

In 2017 we reported that:¹⁸

Gross National Product

Gross National Product (GNP) measures the values of goods and services produced by a territory's residents. GNP includes production from residents abroad and excludes production by foreign companies in a territory.

Source: [GAO-18-160](#) | [GAO-19-525](#)

Gross Domestic Product

Gross Domestic Product (GDP) measures the value of goods and services produced inside a country, or for the purposes of this report, a territory.

Source: [GAO-18-16](#) | [GAO-19-525](#)

- Puerto Rico's debt grew from 71 to 99 percent of **Gross National Product (GNP)** between fiscal years 2005 and 2014.¹⁹ When we issued our report, 2015 financial statements had not yet been released, the territory was in default, and its financial future was unclear, pending debt restructuring.
- USVI's debt grew from 34 to 72 percent of **Gross Domestic Product (GDP)** between fiscal years 2005 and 2015, and USVI was unable to issue new debt at favorable rates, essentially barring the territory from the financial markets through which it traditionally raised capital. In 2017, USVI was beginning to undergo fiscal reform and we reported that its outcome was uncertain.
- American Samoa's debt remained small relative to the size of its economy between fiscal years 2005 and 2015, increasing from 5 to 11 percent of GDP. We reported that disruptions in the tuna processing and canning industry could affect its ability to repay debt.
- CNMI's debt decreased from 23 to 16 percent of GDP between fiscal years 2005 and 2015. We reported that labor shortages, if unaddressed, may impede repayment.
- Guam's debt increased from 24 to 44 percent of GDP between fiscal years 2005 and 2015. We reported that large pension liabilities, if unaddressed, may hamper repayment.

¹⁸[GAO-18-160](#)

¹⁹GNP is generally a more representative measure of Puerto Rico's economic activity than GDP. In Puerto Rico, GDP has consistently been greater than GNP, which means that income from foreign companies and residents in Puerto Rico is higher than income from Puerto Rican companies and residents abroad. We do not present information on debt as a share of GNP for the other four territories.



PUERTO RICO

LOCATION

Southeast of Florida in the Caribbean Sea

PHYSICAL SIZE

3,425 square miles

POPULATION SIZE IN 2017

3.3 million

GROSS NATIONAL PRODUCT (GNP) IN 2017

\$70.6 billion

PRIMARY INDUSTRY

Manufacturing, Services

Source: GAO Map Resources and analysis of U.S. Census Bureau and Bureau of Economic Analysis data. | GAO-19-525

KEY FINDINGS

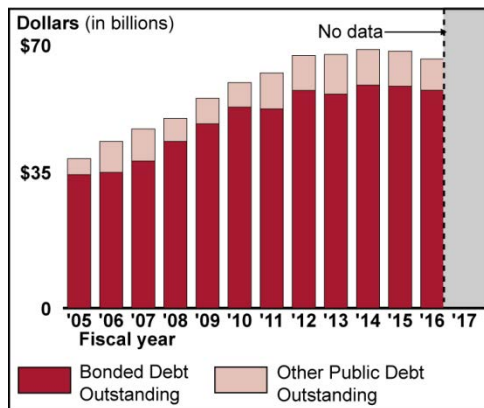
Puerto Rico's first two debt restructuring agreements were finalized without audited fiscal year 2016 and 2017 financial statements.

Puerto Rico's general revenue declined by 11 percent between 2014 and 2016 and longstanding deficits persisted.

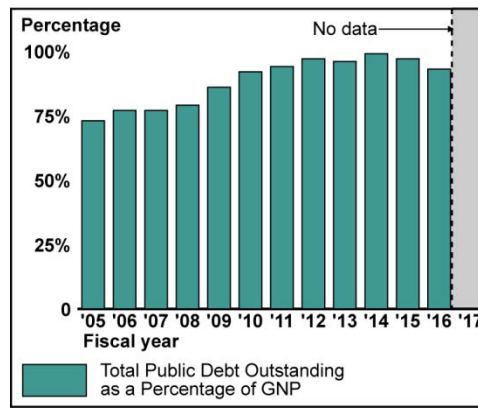
Puerto Rico's prospects for debt repayment depend on several factors, including outcomes of the current debt restructuring process.

PUERTO RICO PUBLIC DEBT AND REVENUE, FISCAL YEARS 2005-2016

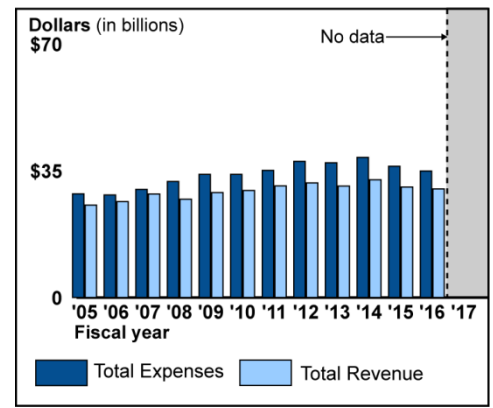
TOTAL PUBLIC DEBT OUTSTANDING



AS A SHARE OF GNP



REVENUE VS. EXPENSES



Source: GAO analysis of Puerto Rico single audit reports and Puerto Rico Planning Board data for fiscal years 2005 – 2016. | GAO-19-525

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

Puerto Rico is in the process of restructuring its outstanding debt, which it began defaulting on in August 2015. In June 2016, PROMESA was enacted, establishing a process for adjusting debts accumulated by the government of Puerto Rico and its component units. Through this debt restructuring process, Puerto Rico's bonds are retired and replaced by bonds with new repayment terms. As of May 3, 2019, two agreements have been reached to date out of six total cases involving petitions for debt restructuring, reducing the total amount in debt payments owed by Puerto Rico to creditors.

Puerto Rico's capacity for future debt repayment primarily depends 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 going forward. In addition, territory officials identified other fiscal risks—which commit or create the expectation for future government spending—such as pension liabilities and healthcare funding shortages that may affect future repayment of restructured debt.

Puerto Rico

Puerto Rico's First Two Debt Restructuring Agreements Finalized without Audited Fiscal Year 2016 and 2017 Financial Statements

Puerto Rico is in the process of restructuring its outstanding debt, which it began defaulting on in August 2015. 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 an agreement with less of a role played by a court. In 2018, Puerto Rico reached its first debt restructuring agreement through the Title VI restructuring process established by PROMESA, and replacement bonds were issued according to the terms of the agreement, which have reduced the total amount in debt payments owed by Puerto Rico to creditors as of May 3, 2019.

In November 2018, the first case was settled, which restructured bonds issued by the Government Development Bank for Puerto Rico (GDB), reducing the amount originally owed to creditors by 45 percent.²⁰ In February 2019, a second debt restructuring agreement was finalized under Title III of PROMESA for bonds issued by the Puerto Rico Sales Tax Financing Corporation (Spanish acronym COFINA)²¹ resulting in an overall reduction of the total current amount owed to creditors.²² As of

²⁰The Government Development Bank (GDB) 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 GDB'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.

²¹In 2006, the Puerto Rico government created the Puerto Rico Sales Tax Financing Corporation (known by its Spanish acronym 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—that originally was intended to repay debt, but by 2009 was used to finance operations.

²²The 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 are to be issued with fixed interest rates. All COFINA bonds accrue interest beginning as of August 1, 2018.

May 3, 2019, four cases involving petitions under Title III for debt restructuring had not yet been settled. According to Puerto Rico government officials, there is no predetermined order in which the remaining restructuring agreements will be negotiated.

There is no current audited information on Puerto Rico's public debt and revenue. Prior to initiating a restructuring under Title III of PROMESA, the Financial Oversight and Management Board for Puerto Rico (FOMB) is required, at its sole discretion, to make certain determinations.²³ These include determining the entity whose debt is to be restructured "has adopted procedures necessary to deliver timely audited financial statements and made public draft financial statements and other information sufficient for any interested person to make an informed decision with respect to a possible restructuring."²⁴ With respect to the five Title III cases, the FOMB made these determinations in 2017. At the time, Puerto Rico did not have audited financial statements and had not made public draft financial statements for fiscal year 2016, and it continues not to have audited financial statements and has not made public draft financial statements for fiscal year 2017.

The timely release of audited financial information has been a long-standing problem for Puerto Rico. On May 3, 2019, Puerto Rico's government released its financial statements for fiscal years 2016, marking 1,037 days past the end of that fiscal year. Puerto Rico's 2015 financial statements were released 1,095 days after the end of that fiscal year. As of May 3, 2019, the Puerto Rico government had not yet released its financial statements for fiscal year 2017, marking 670 days after the end of that fiscal year. According to a 2017 Municipal Securities Rulemaking Board report, between 2010 and 2016, municipal issuers issued their audited financial statements an average of 200 days after the end of their fiscal years.²⁵ According to Puerto Rico Treasury officials, challenges in complying with new accounting standards, decentralized accounting systems, as well as the loss of time and evidence that

²³The FOMB was established by PROMESA and has broad powers of budgetary and financial control over Puerto Rico.

²⁴48 U.S.C. § 2146(a)(2).

²⁵Municipal Securities Rulemaking Board, *Timing of Annual Disclosures by Issuers of Municipal Securities* (Washington, D.C.: February 2017). The Municipal Securities Rulemaking Board is a regulating body that creates rules and policies for investment firms and banks in the issuing and sale of municipal bonds, notes, and other municipal securities.

Total Public Debt Outstanding

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. 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 shorter term marketable notes and bills issued by territorial governments, non-marketable intragovernmental notes, notes held by local banks, federal loans, intragovernmental loans, and loans issued by local banks.

Source: GAO-18-160 | GAO-19-525

Primary Government

The primary government is generally comprised of governmental activities (generally financed with taxes and intergovernmental aid) and business-type activities (generally financed with charges for goods and services).

Source: The Governmental Accounting Standards Board | GAO-19-525

Component Units

Component units are legally separate entities for which a government is financially accountable.

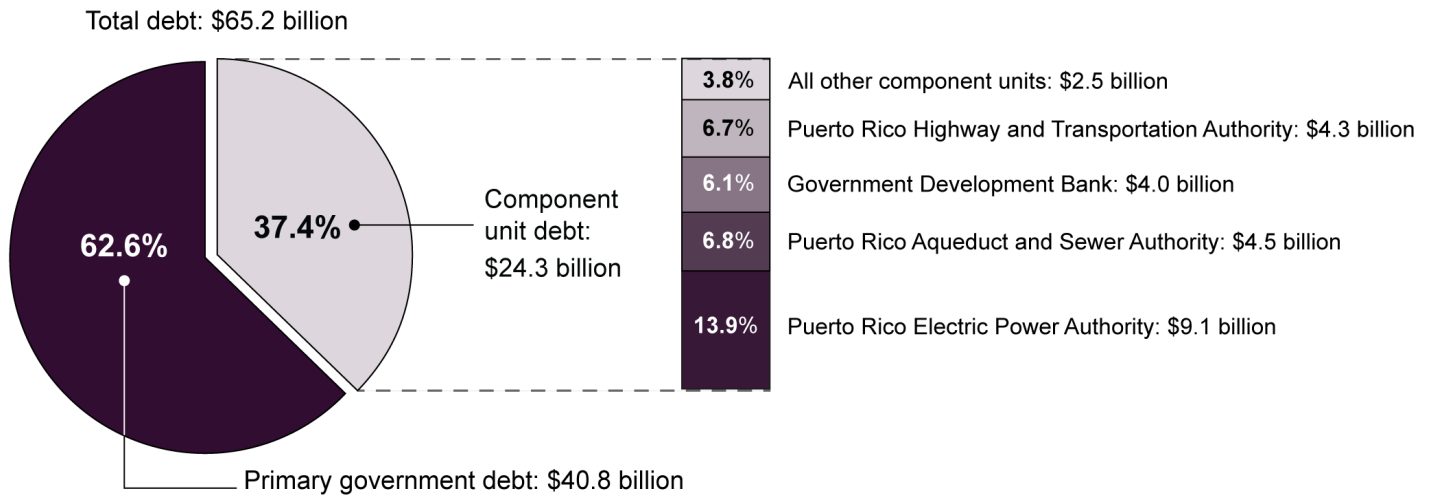
Source: The Governmental Accounting Standards Board | GAO-19-525

resulted from Hurricane Maria have contributed to delays in the timely release of these financial statements. Officials told us that efforts are underway to consolidate the various government accounting systems, which will make the compilation of audited financial statements easier in the future. Officials said that financial statements for fiscal year 2017 will be released sometime in calendar year 2019.

As we reported previously, Puerto Rico's **total public debt outstanding** increased continuously between fiscal years 2005 and 2014, prior to the default in 2015.²⁶ In fiscal year 2016, the last year for which audited financial statements are available, total public debt outstanding decreased by more than four percent, from \$68.1 billion in fiscal year 2014 to \$65.2 billion at the end of fiscal year 2016. This decrease was due to a reduction in component unit debt. Of the total amount of public debt outstanding, Puerto Rico's **primary government** owes \$40.8 billion, while **component units** owe \$24.3 billion. (See figure 1.)

²⁶GAO-18-160.

Figure 1: Composition of Puerto Rico’s Public Debt, Fiscal Year 2016



Source: GAO analysis of Puerto Rico’s fiscal year 2016 audited financial statements. | GAO-19-525

Note: Totals may not equal the sum of their parts due to rounding.

General Revenue

General revenue includes all tax revenues as well as unrestricted aid from other governments and investment earnings. Tax revenues typically represent the largest component of general revenues and include both derived tax revenues (resulting from assessments imposed on exchange transactions, such as income taxes and sales taxes) and imposed revenues (resulting from assessments imposed on non-exchange transactions, such as property taxes and fines).

Source: The Governmental Accounting Standards Board | GAO-19-525

Between fiscal years 2014 and 2016, both total public debt outstanding and bonded debt outstanding as a share of GNP decreased slightly, from 99 and 85 percent, respectively, to 93 and 81 percent of GNP. Per capita, this was a decrease of close to one percent, from \$19,356.7 in fiscal year 2014 to \$19,224.7 in fiscal year 2016.

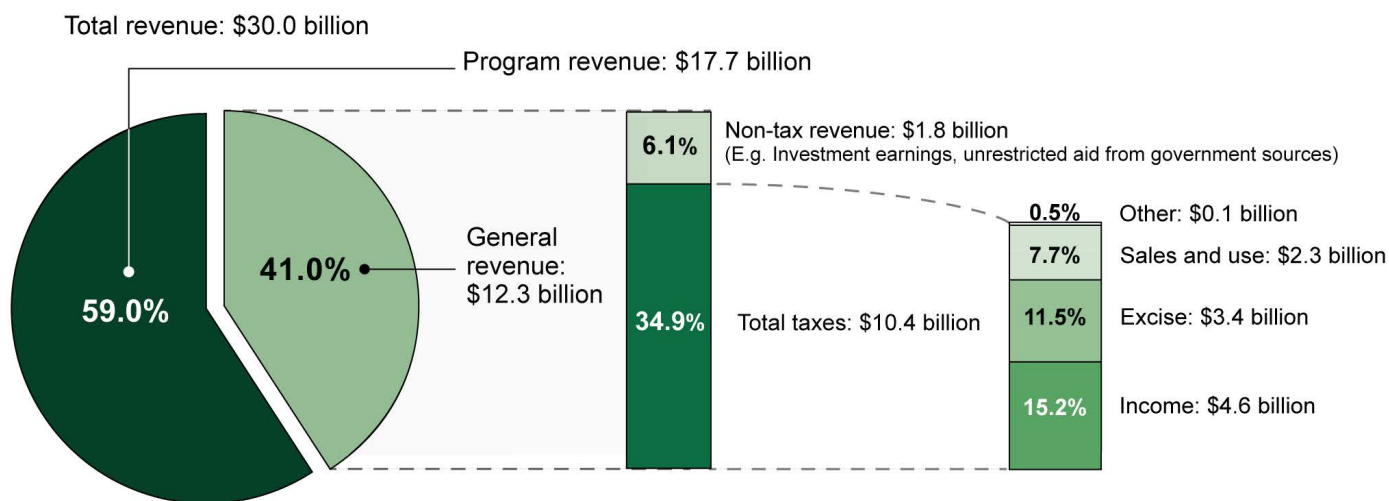
Puerto Rico first defaulted on its debt in August of 2015. Prior to defaulting, Puerto Rico used public debt as a means to finance general government operations—a major driver of its public debt.

Puerto Rico’s General Revenue Decreased between Fiscal Years 2014 and 2016, and Longstanding Deficits Persisted

In fiscal year 2016—the latest year for which audited financial data are available—Puerto Rico collected \$30.0 billion in total revenue, a decrease of almost 8 percent since fiscal year 2014. Puerto Rico’s total revenue includes both **general revenue** and **program revenue**. (See figure 2.) Puerto Rico’s general revenue decreased from \$13.8 billion to \$12.3 billion between fiscal years 2014 and 2016, a decrease of about 11 percent. General revenue is the primary source of funds for the repayment of debt issued by Puerto Rico’s primary government. The decrease in general revenue was mainly due to reductions in non-tax revenue and income tax collections between fiscal years 2014 and 2016.

Tax revenue represented 85 percent of fiscal year 2016 general revenue, with income and excise taxes representing 77 percent of all taxes collected. Program revenue for Puerto Rico’s primary government and component units are generated from grants and contributions to fund governmental activities and from charges for services. From fiscal years 2014 to 2016, Puerto Rico’s program revenue decreased by \$1.1 billion, or close to 6 percent.

Figure 2: Composition of Puerto Rico’s Revenue, Fiscal Year 2016



Source: GAO analysis of Puerto Rico’s fiscal year 2016 audited financial statements. | GAO-19-525

Note: Totals may not equal the sum of their parts due to rounding.

Program Revenue

Program revenue is revenue that is directly linked to functions or programs and includes charges for services, such as electricity fees, and grants. While program revenues are generated by the associated functions or programs, such revenues are not always restricted to use in those functions or programs.

Source: The Governmental Accounting Standards Board | GAO-19-525

Puerto Rico’s government has operated with a deficit—where expenses exceed revenue—in each fiscal year since 2002. Puerto Rico’s longstanding deficits persisted in 2016, as expenses exceeded revenue by \$5 billion. That year Puerto Rico’s government spent \$34.9 billion, of which \$24.2 billion was spent directly by the primary government and \$10.8 billion was spent by the government’s various component units. Education and general government expenses were the largest expense categories for the primary government.

Puerto Rico's Prospects for Debt Repayment Depend on Several Factors, Including Outcomes of the Current Debt Restructuring Process

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. Territory officials also identified other **fiscal risks** that could hamper Puerto Rico's fiscal health and jeopardize prospects for debt repayment in the future, such as shortfalls in federal healthcare funding.

Debt restructuring process

Fiscal Risks

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.

Source: GAO. | GAO-19-525

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. As noted previously, as of May 3, 2019, two debt restructuring agreements have been reached to date out of six total cases that have been initiated.²⁷

Although the two debt restructuring agreements finalized as of May 3, 2019 reduce the total amount of principal owed by Puerto Rico to creditors, two of the experts we interviewed on Puerto Rico's economy expressed concern that they do not reflect Puerto Rico's limited capacity for repayment and were based on estimated economic growth that seems unlikely over the next 5 years. If the agreements were based on economic growth estimates that were overly optimistic, Puerto Rico may again face difficulty meeting its financial obligations as restructured debt payments become due. A recent study found that Puerto Rico will need to reduce debt by more than what has been negotiated as of May 3, 2019 to ensure it can fully repay restructured debt moving forward.²⁸ Puerto Rico government officials agreed with experts that the economic growth and revenue estimates in the FOMB's version of fiscal plan that was certified in October 2018 and in place until May 2019 were overly optimistic. This

²⁷On June 16, 2019, the FOMB announced that it reached an agreement with certain bondholders on the framework for a plan of adjustment to resolve \$35 billion worth of debt and non-debt claims. This debt includes general obligation and Public Building Authority bonds.

²⁸National Bureau of Economic Research, *An Analysis of Puerto Rico's Debt Relief Needs to Restore Debt Sustainability*. (Cambridge, MA: November, 2018). The authors of this study state that, if all public debt of Puerto Rico's debt is considered, then a cancellation of all interest payments and up to 80 percent of the total face value of debt included in the fiscal plan may be necessary. The study does not take funding for hurricane recovery into account.

fiscal plan was a revision of a September 2018 fiscal plan developed by the government of Puerto Rico. In the FOMB's October 2018 fiscal plan, the FOMB revised the government's proposed plan according to its projections for economic growth and analyses of the outcomes of structural reform. However, there is no public documentation available to explain why the FOMB's economic growth estimates in that plan were higher than those provided in the government of Puerto Rico's September 2018 version of the fiscal plan. The debt restructuring agreements as of May 3, 2019 were based on the more optimistic growth estimates in the October 2018 plan. The growth estimates contained in the May 2019 version of the FOMB's certified fiscal plan are considerably more conservative—half of what was projected in the prior plan by 2019—and will inform future debt restructuring agreements going forward.

Puerto Rico officials and experts on Puerto Rico's economy that we interviewed said they do not have information about the methodology and assumptions used by the FOMB in the 2018 version of the fiscal plan to develop forecasts of revenue and economic growth.²⁹ Without this information, external parties cannot verify the sustainability of repayment terms established under the recently finalized debt restructuring agreements. According to officials involved in the development of the Puerto Rico government's fiscal plan, ongoing legal proceedings related to Puerto Rico's debt restructuring process restrict the FOMB's ability to publically release information about economic growth and revenue estimates in its version of the fiscal plan. They told us parties involved in the debt restructuring process, however, such as creditors, have access to this information. While the FOMB did provide us with some information on other matters for this report, the FOMB did not respond to our requests for information on the 2018 version of the fiscal plan. We have previously reported that transparency is a key element of economic analysis.³⁰ An important benefit of transparency is that the public can assess the structure of an analysis and, in particular, how much of an analytic result hinges on the specific choices made by those who developed the analysis. This transparency allows the implication of choices, related risks, and any uncertainties factored into economic analyses to be readily assessed.

²⁹While the FOMB provides some information on the methodology of its fiscal plan, it does not include enough detail for an external party to assess or verify its revenue and economic growth forecasts.

³⁰GAO, *Assessment Methodology for Economic Analysis*, [GAO-18-151SP](#) (Washington, D.C.: April 10, 2018).

Economic growth

Puerto Rico's economy is in a prolonged period of contraction. According to data from Puerto Rico's government, Puerto Rico's economy grew in the 1990s and early 2000s. However, between 2005 and 2018, Puerto Rico's economy experienced year-over-year declines in real output in all but 4 years, as measured by real GNP.³¹ Between 2015 and 2018, Puerto Rico's economy contracted by 9 percent, as measured by real GNP.

Federal officials, current and former Puerto Rico officials, and other experts on Puerto Rico's economy previously told us that Puerto Rico's continued economic decline contributed to its recurring deficit and the resulting debt crisis. Going forward, Puerto Rico's ability to create sustained economic growth is essential to its fiscal health and ability to repay debt. Puerto Rico's economic growth depends largely on the following factors – the extent to which it implements structural reforms and fiscal measures, the effects of federal hurricane recovery funding, its ability to attract and retain industry, outmigration, and investor confidence.

Structural reforms and fiscal measures. In the FOMB's prior and current fiscal plans, it outlines a series of structural reforms and fiscal measures that it describes as key for restoring growth in Puerto Rico, as detailed in Table 1 below.

³¹GNP data obtained from Puerto Rico Planning Board.

Table 1: Strategies for restoring economic growth in Puerto Rico, Financial Oversight and Management Board (FOMB)

Structural Reform
<i>Measures proposed in the recent fiscal plan to “improve the trajectory of Puerto Rico’s economy and drive growth.”</i>
Human capital and welfare: Increase labor force participation through a Puerto Rico version of the Earned Income Tax Credit (EITC) ^a benefits and reforms to Nutritional Assistance Program (NAP) ^b as well as providing other workforce development opportunities.
Ease of doing business: Promoting economic activity and reducing the obstacles to starting and sustaining a business in Puerto Rico through comprehensive reform to improve ease of paying taxes, registering property, and obtaining permits.
Power sector: Providing low-cost and reliable energy through the transformation of the Puerto Rico Electric Power Authority and the establishment of an independent, expert, and well-funded energy regulator.
Infrastructure: Prioritizing economically transformative capital investments with federal funds.
Fiscal Measures
<i>A set of measures proposed in the fiscal plan that the Government of Puerto Rico “must take to increase Government revenues and reduce Government expenditures.”</i>
Creation of Office of the Chief Financial Officer: Instituting fiscal controls and accountability, reducing special revenue fund deficits, and improving governance, accountability, and transparency.
Agency efficiencies: Consolidating agencies and deploying new management tools and practices to deliver better governmental services for substantially lower cost.
Healthcare reform: Reducing healthcare cost inflation through a comprehensive new health care model that prioritizes high quality, cost-effective care.
Enhanced tax compliance and optimized taxes and fees: Employing new technology and other innovative and now commonly used practices in other jurisdictions to broaden the tax base, reduce fraud, and improve fairness to boost overall tax revenues; adjusting existing taxes and fees to capture revenues from under-leveraged sources.
Reduction of appropriations: Lowering the fiscal burden on the Commonwealth and encouraging sound fiscal self-management by reducing appropriations to municipalities and the University of Puerto Rico, while instituting an independent scholarship fund for low-income students.
Comprehensive pension reform: Improving the financial stability of public employees’ retirement funds and ensuring payment of pensions.

Source: FOMB data from October 2018 and May 2019 Fiscal Plans. | GAO-19-525

^aThe Earned Income Tax credit is a benefit for working people with low to moderate incomes. It is a refundable tax credit, which means that the taxpayer receives the full amount of the credit regardless of whether or not they have a tax liability.

^b Puerto Rico does not have access to the federal Supplemental Nutrition Assistance Program (SNAP) but has received funding for its Nutrition Assistance Program (NAP) since 1982 in the form of a block grant. Like SNAP, NAP provides nutrition assistance to households that meet certain eligibility criteria, such as income and resources, though Puerto Rico households receive fewer benefits than SNAP eligible households. A family of four in Puerto Rico receives a maximum monthly benefit of \$410 compared to around \$668 for a family of four living in the continental United States.

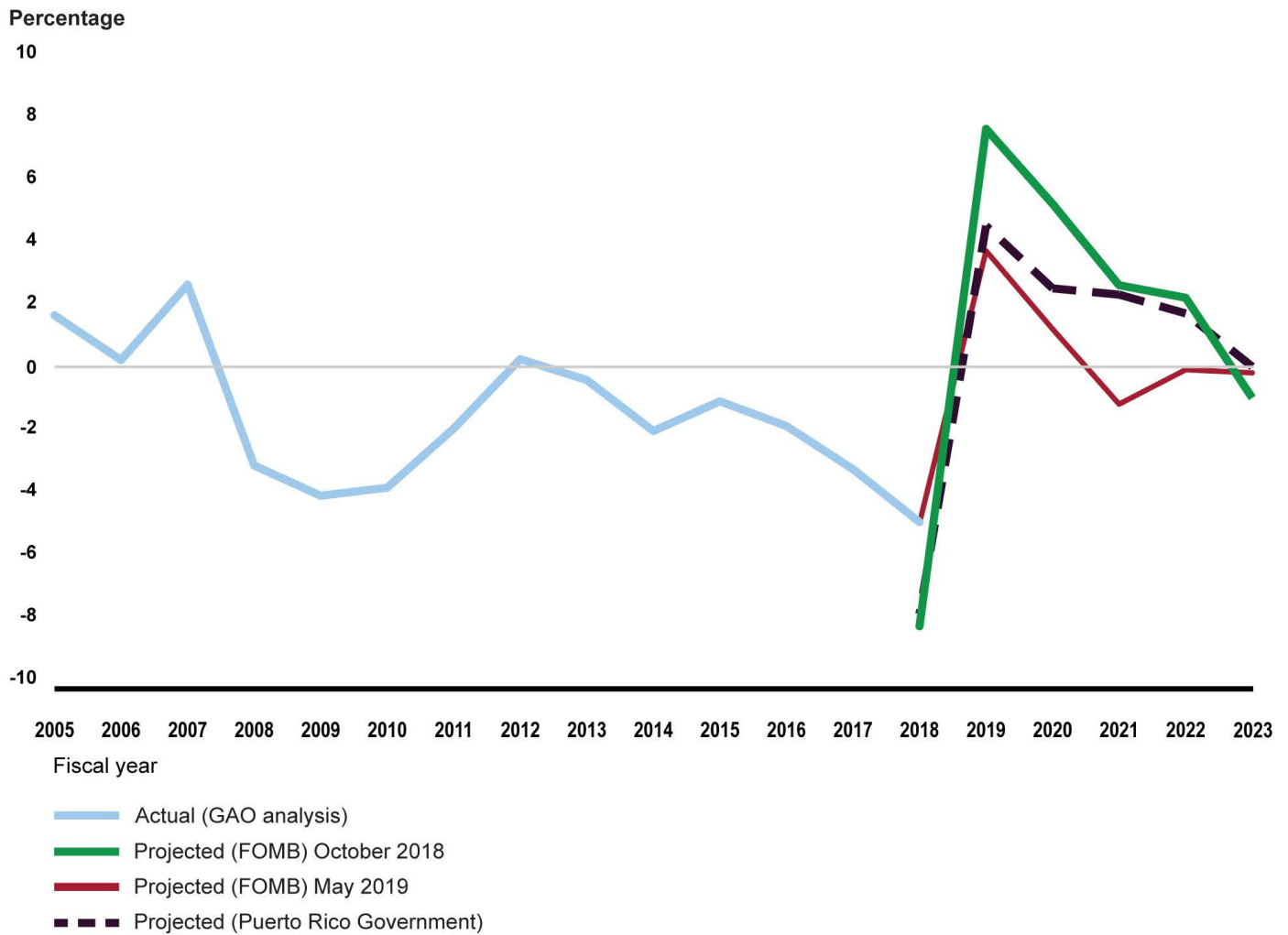
Through implementation of these reforms, the FOMB initially projected savings and increased revenue, resulting in real GNP growth of almost 8 percent in 2019 followed by three years of GNP increases, growth that was built into the FOMB’s projections of Puerto Rico’s prospects for debt repayment under the first two debt restructuring agreements. According to the FOMB, these structural reforms are integral to Puerto Rico’s

economic recovery. However, municipal market analysts, Puerto Rico government officials, and experts on Puerto Rico's economy expressed doubt about the feasibility of the reforms proposed by the FOMB in the 2018 version of the fiscal plan and the extent to which they will yield projected economic benefits. In May 2019, the FOMB certified a new fiscal plan, which replaced the October 2018 plan, and includes the same structural reforms with more conservative estimates of their financial impact. The current version of the fiscal plan also includes significantly more conservative GNP growth rates, of 4 percent in 2019, followed by less growth in 2020, and negative growth by 2021. According to the FOMB, relative to the prior fiscal plan, the current plan includes a revised macroeconomic forecast in light of slower disaster recovery funding rollout.

The FOMB aims to promote workforce participation by instituting work requirements for food assistance programs and by establishing a local version of the federal Earned Income Tax Credit for working people with low to moderate incomes. It is a refundable tax credit, which means that the taxpayer receives the full amount of the credit regardless of whether they have a tax liability.

The volume of growth projected by the FOMB in the October 2018 version of the fiscal plan, which was used to inform the first two debt restructuring agreements, represented a significant departure from economic trends seen in Puerto Rico in recent years, as shown in figure 3. In its September 2018 version of the fiscal plan, the government of Puerto Rico projected slightly less optimistic growth figures, particularly from 2019 to 2020. As noted previously, the current version of the FOMB's fiscal plan includes economic growth rates that are considerably more conservative, and predict less growth by 2023 than the Puerto Rico government in its version of the fiscal plan.

Figure 3: Actual vs. Projected Growth in Puerto Rico Gross National Product (GNP), 2005-2023



Source: GAO analysis of Puerto Rico Planning Board for actual data, 2005 to 2018 and Financial Management and Oversight projected data, 2018 to 2023. | GAO-19-525

Federal hurricane recovery funding. According to Puerto Rico government officials, though hurricane recovery is likely to stimulate the economy in the short term, it is not yet clear whether the economic benefits resulting from federal hurricane recovery funding will be sustainable in the longer term. Generally, federal hurricane recovery funding cannot be used to pay debt service directly. It may, however, stimulate the economy and thereby indirectly make funding available for other government spending. This stimulus, which Puerto Rico officials

attributed in part to construction contracts and related economic activity, will in turn increase tax revenue.

Two of the experts on Puerto Rico's economy we interviewed told us that they felt that the FOMB overestimated the volume and timeliness of federal hurricane recovery funding in its October 2018 version of the fiscal plan. Since economic growth estimates are based, in part, on revenue generated through recovery activity, delayed or incomplete funding may make the achievement of projected economic growth rates more challenging.

The Puerto Rico government and the FOMB differ in their estimates of pass through rates, or the portion of funding for recovery projects that will remain in the territory rather than benefiting multinational or U.S. mainland corporations. The economic stimulus Puerto Rico is likely to experience as a result of this funding depends on the volume of funds received for recovery and the pass through rate of these funds. In the October 2018 version of its fiscal plan, the FOMB predicted pass through rates ranging from 15.5 percent to 100 percent depending on the type of funding. Two of the experts on Puerto Rico's economy that we interviewed estimated a pass through rate closer to 13 percent. In its current version of the fiscal plan, the FOMB did not adjust its prediction of pass through rates.

Attraction and retention of industry. Puerto Rico's ability to attract and retain companies that plan to remain in the territory long-term is important for sustained economic growth. According to Puerto Rico Treasury officials, 24 large multinational companies generate one-third of Puerto Rico's corporate tax revenue. Officials noted the importance of these companies to Puerto Rico's economic health, and told us that the government will continue to offer these companies tax incentives to encourage them to stay in the territory. Officials from associations representing the private sector in Puerto Rico also said that, in addition to tax incentives, it is important that Puerto Rico improve its energy infrastructure and decrease energy costs in order to attract and retain business in the long term. Puerto Rico is taking steps to overhaul the structure and management of the Puerto Rico Electric Power Authority, which operates the territory's electricity generation and distribution infrastructure. According to officials, this includes retaining a private sector entity to operate the transmission and distribution system by the end of 2019, with further plans to privatize generation by 2020.

Outmigration. Outmigration results in a diminished workforce and tax base, which strains a territory's economy and finances. As we reported previously, outmigration in Puerto Rico increased between 2005 and 2016. Since then, the territory has continued to lose residents. Between July 2009 and July 2016, Puerto Rico's population decreased by 14 percent.³² In the same year as the 2017 hurricanes, Puerto Rico experienced an accelerated outmigration, losing 4 percent of its total population between July 2017 and July 2018, according to Census Bureau estimates. Puerto Rico government officials, municipal market analysts, and recent studies have noted that reversing outmigration is essential to Puerto Rico's economic future.³³

Investor confidence. According to municipal market analysts, a rebound in Puerto Rico's bond prices since the hurricanes may indicate that certain investors have increased confidence in Puerto Rico's short-term economic outlook. Based on our analysis of a non-representative sample of 24 bonds issued by the Puerto Rico government since 2010, 22 bonds experienced a price drop of between 41 and 68 percent from the end of August 2017 to the end of December 2017, and the prices of all 22 had rebounded higher than pre-hurricane levels by September 2018.

Other fiscal risks

Pension liabilities. Puerto Rico's three main public pension systems are nearly insolvent and Puerto Rico reported a net pension liability of approximately \$44.9 billion as of the end of fiscal year 2016, the most recent year for which data were available. Pension liabilities are similar to other kinds of debt because they constitute a promise to make a future payment or provide a benefit. Puerto Rico's pension systems are currently funded through "pay as you go" pension payments, at a rate of close to \$2 billion a year payable from the general fund.³⁴ Although reforms proposed by the FOMB are intended to stabilize Puerto Rico's pension system in the long term, officials and experts said that Puerto Rico government agencies' payments to cover pension amounts due to

³²[GAO-18-160](#)

³³Estudios Tecnicos, Inc. *Balance of the Economy Post Hurricane Maria*, (San Juan, Puerto Rico: Sept. 19, 2018) and Federal Reserve Bank of New York, *The Causes and Consequences of Puerto Rico's Declining Population*, Current Issues in Economics and Finance, Volume 20, Number 4, (New York, New York: 2014)

³⁴"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.

current retirees have already begun crowding out spending for other government services.

Healthcare funding. In recent years, Puerto Rico has been provided temporary increases of up to \$10.2 billion in Medicaid funding. Given its current fiscal condition and inability to access capital markets, the Puerto Rico government may not be able to cover future funding gaps when expanded federal funding for the Medicaid program expires. As a result, according to a recent statement by the Governor, some of Puerto Rico's projected 1.3 million Medicaid enrollees are at risk of losing benefits in fiscal year 2020.



U.S. VIRGIN ISLANDS

U.S. VIRGIN ISLANDS

LOCATION: Caribbean Sea, 1,000 miles from U.S. mainland
PHYSICAL SIZE: 134 square miles (3 main islands)
POPULATION SIZE IN 2017
 104,550

GROSS DOMESTIC PRODUCT (GDP) IN 2017
 \$3.9 billion

PRIMARY INDUSTRY
 Tourism, manufacturing, rum distilling

Source: GAO Map Resources and analysis of U.S. Census Bureau and Bureau of Economic Analysis data. | GAO-19-525

KEY FINDINGS

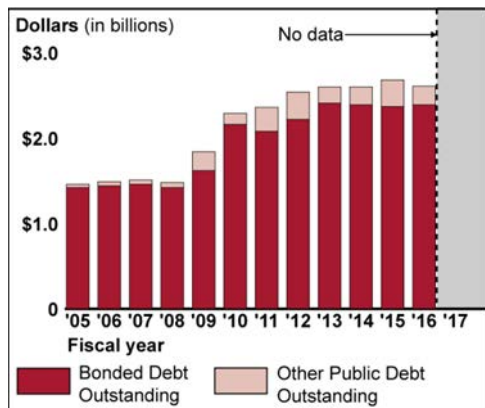
USVI has been unable to access capital markets at favorable rates since 2017, and has not issued any new debt.

USVI's general revenue increased between fiscal years 2015 and 2016 and longstanding deficits persisted.

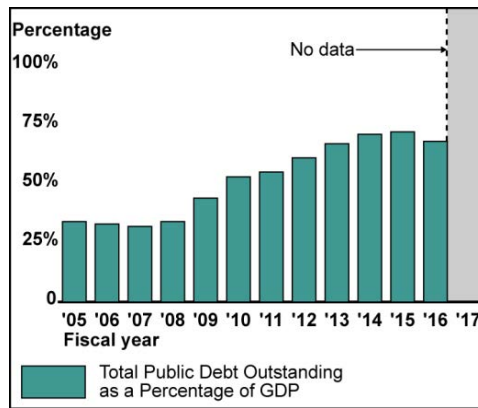
USVI's continued ability to repay its outstanding debt depends on several factors, including its ability to access capital markets in the future to rollover debt.

U.S. VIRGIN ISLANDS PUBLIC DEBT AND REVENUE, FISCAL YEARS 2005-2016

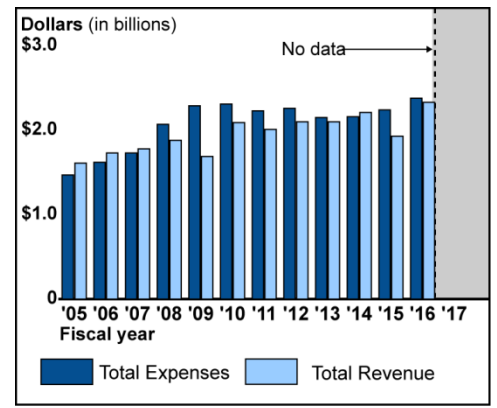
TOTAL PUBLIC DEBT OUTSTANDING



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 - 2016. | GAO-19-525

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

Six factors may affect USVI's continued ability to repay public debt moving forward: 1) the integrity of USVI's "lockbox" provisions for repaying debt, 2) USVI's ability to access capital markets at favorable interest rates in the future, 3) USVI's ability to create sustained economic growth, 4) USVI's ability to address its pension liabilities, 5) USVI's ability to address potential reductions in tax revenue due to recently enacted federal tax changes, and 6) USVI's ability to mitigate shortfalls in Medicaid funding. USVI has "lockbox" provisions in place for repayment of debt, whereby tax revenue goes directly to an escrow account in a private bank from which debt service payments are made twice a year. While USVI officials expressed confidence that these provisions protect against default, municipal market analysts we spoke to had differing views. In 2017 USVI announced it would no longer provide financial information to the credit rating agencies due to repeated downgrades, and the rating agencies subsequently withdrew their ratings. While territory officials expressed confidence that USVI will be able to re-access capital markets at favorable rates in the future, if it is unable to do so, its susceptibility to rollover risk may be high. In addition, according to municipal market analysts, USVI needs to engage in long-term economic planning to ensure growth.

U.S. Virgin Islands (USVI)

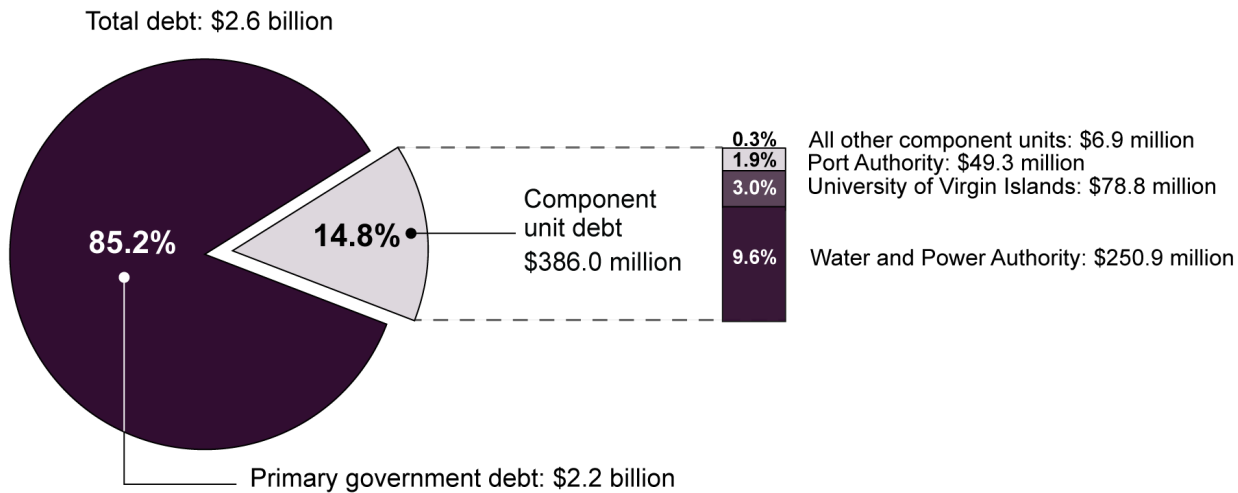
USVI Has Been Unable to Access Capital Markets at Favorable Rates Since 2017, and Has Not Issued Any New Debt

USVI has not been able to access capital markets at favorable interest rates since January 2017, when investors began to demand higher rates to compensate for what they perceived as increased risks.³⁵ As such, USVI has not issued any new bonds since before 2017. Territory officials told us USVI has not attempted to access capital markets since January 2017, and does not plan to do so in the near future.

USVI's total public debt outstanding increased between fiscal years 2005 and 2015 from \$1.4 billion to \$2.7 billion, and subsequently declined to \$2.6 billion in fiscal year 2016—the most recent year for which data were available—due to the repayment of existing debt. The majority of USVI's public debt is owed by the primary government. (See figure 4.) Total public debt outstanding as a share of GDP declined from 72 percent of GDP in fiscal year 2015 to 68 percent of GDP in fiscal year 2016. Similarly, total public debt outstanding per capita decreased during this period, from \$25,468.8 in fiscal year 2015 to \$24,853.7 in fiscal year 2016.

³⁵In late January 2017, USVI cancelled a new bond issuance because the offer was not adequately subscribed. The new bond would have provided financing for government operations. USVI subsequently lost market access to new debt.

Figure 4: Composition of United States Virgin Islands' Public Debt, Fiscal Year 2016



Source: GAO analysis of United States Virgin Islands' fiscal year 2016 audited financial statements. | GAO-19-525

Note: Totals may not equal the sum of their parts due to rounding.

While USVI has not issued any new bonds since before 2017, it has received federal loans for hurricane recovery, which may contribute to its total debt burden if they are not forgiven.³⁶ In 2018, the territory was approved for \$309.5 million in Community Disaster Loans (CDL) from the federal government to bridge the loss in revenue from the hurricanes and provide funding for essential operations of the primary government and its component units. According to territory officials, as of March 2019, the primary government had drawn down \$145 million in CDL funding and the two major hospitals in the territory and the USVI Water and Power Authority had also drawn down funding. According to territory officials, USVI was able to access CDL funding until the end of March 2019.

USVI officials told us they are treating the CDLs as if they will need to be repaid. However, according to officials from Treasury and FEMA,³⁷ CDLs become eligible for cancellation in full or part 3 fiscal years after a disaster if the government's revenue is insufficient to meet operating

³⁶As we reported previously, USVI's bonded debt has primarily been used for general government operations since 2010 – the major driver of its public debt. [GAO-18-160](#).

³⁷While the CDL program is typically administered by FEMA, Treasury and FEMA officials told us they are jointly managing the loans for USVI.

expenses, including disaster related expenses.³⁸ According to Treasury officials, historically 40 to 50 percent of these loans have been forgiven. USVI is scheduled to begin repaying the CDLs in October 2019. These loans are not included in USVI's single audit reports that we analyzed, since the fiscal year 2018 report has not yet been issued.

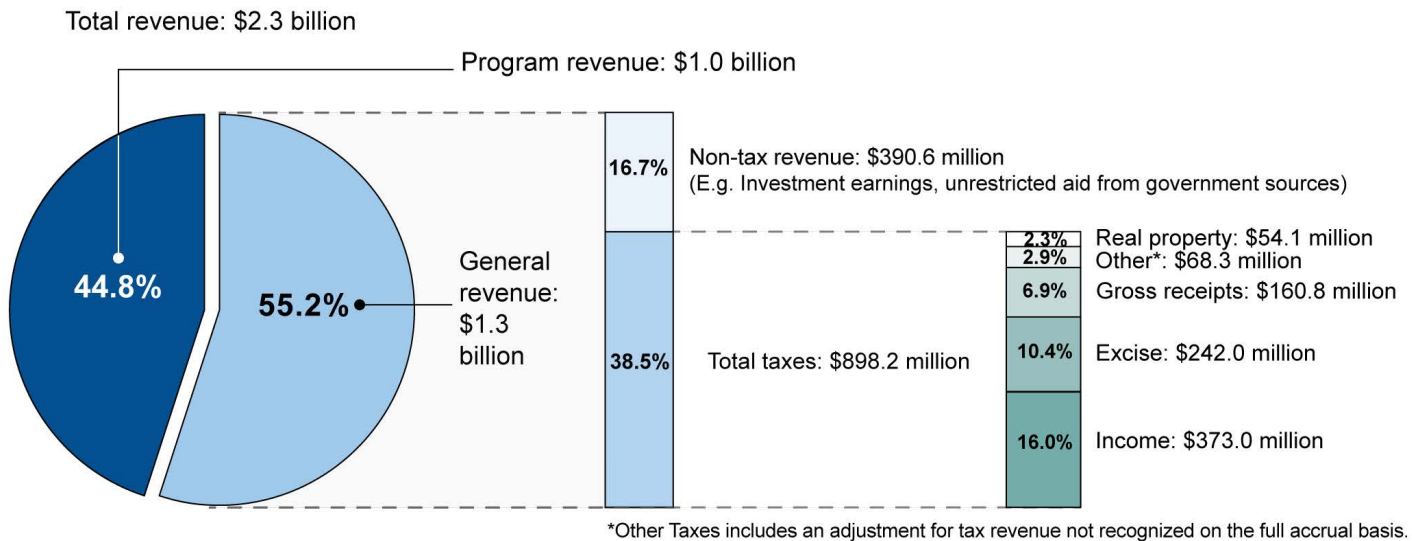
As of May 3, 2019, USVI had not released its single audit report for fiscal year 2017. According to officials from the U.S. Department of the Interior, USVI has received an extension for completion of the fiscal year 2017 single audit report due to the hurricanes. It is due on June 30, 2019. Territory officials told us they expect to release the fiscal year 2017 single audit report by the June 30, 2019 deadline and the fiscal year 2018 single audit report by December 2019.

USVI's General Revenue Increased between Fiscal Years 2015 and 2016 and Longstanding Deficits Persisted

In fiscal year 2016—the latest year for which audited financial data are available—USVI collected \$2.3 billion in total revenue, an increase of 21 percent from \$1.9 billion in 2015. USVI's total revenue includes both general revenue and program revenue. (See figure 5.) USVI's general revenue increased by 40 percent during the same period, from \$919.4 million to \$1.3 billion. This growth was due to a one-time payment for refinery operations in lieu of taxes totaling \$283.8 million, and increased tax collections. Tax revenue represented almost 70 percent of fiscal year 2016 general revenue. Program revenue for USVI's primary government and component units is generated from grants and contributions to fund governmental activities, and from charges for services. From fiscal years 2015 to 2016, USVI's program revenue generally remained constant, increasing by \$37.3 million, or almost 4 percent.

³⁸42 U.S.C. § 5184(c)(1); 44 C.F.R. § 206.376.

Figure 5: Composition of United States Virgin Islands' Revenue, Fiscal Year 2016



Source: GAO analysis of United States Virgin Islands' fiscal year 2016 audited financial statements. | GAO-19-525

Note: Totals may not equal the sum of their parts due to rounding.

USVI operated with a deficit in 8 of the last 12 years, including in fiscal year 2016. In fiscal year 2015, USVI's expenses exceeded its revenues by \$310.7 million. In fiscal year 2016, increases in revenue reduced the deficit to approximately \$45.0 million. In fiscal year 2016, USVI's government spent \$2.4 billion, of which \$1.6 billion was spent by the primary government and the remainder by the government's various component units, such as the Water and Power Authority.

USVI's Continued Ability to Repay Its Outstanding Debt Depends on Several Factors, Including its Ability to Access Capital Markets in the Future to Rollover Debt

Six factors may contribute to USVI's continued ability to repay public debt moving forward: 1) the integrity of USVI's "lockbox" provisions for repaying debt, 2) USVI's ability to access capital markets at favorable interest rates in the future, 3) USVI's ability to create sustained economic growth, 4) USVI's ability to address its pension liabilities and the pending insolvency of its public pension system, 5) USVI's ability to address potential reductions in tax revenue due to recently enacted federal tax changes, and 6) USVI's ability to mitigate shortfalls in Medicaid funding.

Lockbox provisions. While territory officials expressed confidence that USVI's "lockbox" provisions prevent the territory from defaulting on its public debt, municipal market analysts we spoke with had differing opinions about the security of the lockbox structure and its ability to

protect against default. 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.³⁹ As required by USVI law, these tax collections and excise taxes go directly 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.⁴⁰

Territory officials told us that the lockbox structure is still in place, is secure, and continues to protect investors against the possibility of default. Two municipal market analysts we spoke with confirmed that having the receipts designated for debt service payment bypass the USVI government, with payments made through an intermediary, adds security and provides investors additional confidence. Others told us that such a lockbox structure does not offer significant additional protection since there are no legal provisions preventing the government from recalling the funds if needed for essential government operations. Territory officials confirmed 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. Officials also noted that the lockbox has not been breached to date.

Repayment of the federal CDLs may also test the security of the lockbox structure. CDLs are backed by the same revenue streams as previously issued bonds and have senior lien status, according to an agreement between the government of USVI and FEMA. As noted previously, CDLs become eligible for cancellation 3 years after a disaster and, moreover, federal officials told us some of these loans have been forgiven in the past. However, if cash flow is limited, the senior status of the CDLs could provide the federal government access to revenue already dedicated for bond repayment, which could jeopardize the repayment of bonded debt.

Market access and rollover risk. In August 2017, USVI announced it would no longer provide financial information to the three major credit

³⁹26 U.S.C. § 7652.

⁴⁰2016 V.I. Sess. Laws 7951, § 1(D) (Nov. 7, 2016).

rating agencies.⁴¹ Officials said they felt the rating agencies were treating USVI unfairly by instituting downgrades and comparing it with Puerto Rico, despite USVI never having missed a debt service payment. The rating agencies subsequently withdrew their ratings of USVI's debt due to a lack of information. This came on the heels of the failed attempt to bring a new bond to market in January of 2017. After ceasing to provide information to the rating agencies, the government launched a website through an investor relations platform in October 2017 to provide information to investors. Although market analysts noted that certain investors—such as investors looking to invest in bonds with noninvestment grade ratings for the potential of a high yield—may rely on their own internal analyses to determine the credit-worthiness of bond issuances, large retail investors rely heavily on credit ratings. Officials from the current gubernatorial administration in USVI told us the government intends to reinstate relationships with the credit rating agencies to increase fiscal transparency and eventually regain access to the larger, traditional municipal bond market.⁴²

Territory officials expressed confidence that USVI will be able to re-access capital markets at favorable rates in the future. However, if it is unable to do so, its susceptibility to rollover risk may be high. Specifically, if USVI cannot pay the principal on outstanding bonds as they mature, it must refinance, or rollover the bonds into new debt, using the proceeds to repay the maturing debt. The inability to do this could lead to default.

Economic growth. While federal hurricane recovery funding and restarting refinery operations may bolster USVI's economy in the short term, some municipal market analysts we spoke with told us that it is critical for USVI to engage in longer-term economic planning in the wake of the hurricanes to sustain any economic growth.

In September 2016, under the prior administration, USVI released a 5-year economic plan to reduce government expenditures and generate additional revenues.⁴³ The government began implementing the

⁴¹Credit rating agencies are independent companies that evaluate the financial condition of issuers of debt securities and then assign ratings that reflect their assessment of the issuers' ability to repay debt. The three major rating agencies are Moody's, Standard & Poor's, and Fitch.

⁴²USVI held gubernatorial elections in November 2018. A new governor was elected and took office in January 2019.

⁴³[GAO-18-160](#)

measures included in that plan prior to the hurricanes, although officials stated that full implementation of the plan was effectively interrupted by the hurricanes and its effect on revenue was unclear. Officials from the current administration told us they are in the process of developing a new long-term economic plan that will likely include provisions for sustaining growth beyond the hurricane recovery period, addressing deficits, achieving economic diversification, and addressing high energy costs. However, it is not yet clear when the plan will be released or when its provisions may be implemented.

According to a post-hurricane recovery report published by the government of USVI, the total estimated negative economic impact of the hurricanes was \$1.5 billion, and about 11 percent of jobs on the islands were lost.⁴⁴ The tourism industry, in particular, was hard hit by the hurricanes, with 5 of USVI's largest hotels closing in the wake of the disaster. According to the report, there was a 78 percent drop in hotel reservations in December 2017 compared to the year before. A representative from a tourism association told us that in the long term, tourism to the islands may increase if the major hotels update and enhance their facilities as they rebuild. Similarly, territory officials said additional investment in the territory's hotels and other tourist infrastructure could help strengthen the industry and make USVI a more attractive tourist destination relative to its neighbors.

Municipal market analysts and subject matter experts we spoke with told us that the federal funding USVI received in the wake of the hurricanes has improved the territory's liquidity, or available cash, in the short term and has also had a stimulative effect on the economy. In a recent statement, the Governor stated that USVI would not have been able to meet its day to day expenses in the prior 12 months without the CDLs. While generally federal hurricane recovery funding cannot be used to pay debt service directly, USVI's improved liquidity may stimulate the economy in the short term and thereby generate some additional revenue for other government spending.

The longer-term impact of federal funding on USVI's economy, however, is not yet clear. Territory officials and municipal market analysts mentioned various factors that could contribute to long-term economic

⁴⁴United States Virgin Islands, First-Year Progress Report – Hurricanes Irma and Maria, (October, 2018)

growth in USVI, including the territory practicing good financial management and transparency, reducing energy costs to attract and retain business, and implementing structural economic reforms and achieving economic diversification.

In 2018, the government entered into an agreement to restart refinery operations and expand storage facilities at the former Hovensa facility. In 2012, when it shut down operations, Hovensa was the largest private employer on St. Croix. Territory officials told us refining operations are expected to resume in late 2019 at the facility under new ownership. While the new facility represents an opportunity to generate revenue and create jobs, the extent of the refinery's contributions to the economy is not yet clear.

Municipal market analysts noted USVI's bond prices have rebounded since the hurricanes, which may signal increased investor confidence in the territory's short-term ability to repay its outstanding debt. Based on our analysis of a non-representative sample of five bonds issued by the USVI government since 2010, four bonds experienced a price drop of between 22 and 41 percent from the end of August 2017 to the end of December 2017, and the prices of all four had rebounded higher than pre-hurricane levels by September 2018.

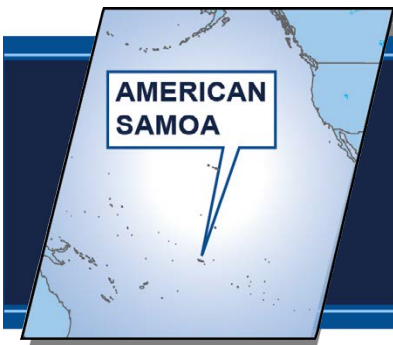
Pension liabilities. At the end of fiscal year 2016, the most recent year for which data were available, USVI's public pension system had a net pension liability for the primary government and component units of \$4.0 billion, which was 105 percent of GDP in that year. The USVI government has projected that the pension system will reach insolvency by 2024 or 2025. Officials from the previous gubernatorial administration told us they were planning to propose earmarking revenues from operations at the Limetree Bay refinery for the pension system and were also considering other measures to prolong the solvency of the fund, such as increasing employer contributions and reducing benefits. Officials from the current administration said they are reviewing the prior administration's plans and evaluating the best way to restructure the pension system going forward.

Federal Tax Reform. USVI's territorial income tax is required to mirror the federal income tax code.⁴⁵ In other words, USVI taxpayers must comply with federal income tax law but the proceeds are paid into the treasury of USVI rather than the U.S. Treasury. As such, any changes to the U.S. Internal Revenue Code have a direct impact on USVI's income tax revenue. As a result of changes to the federal tax code, officials anticipate that USVI's individual and corporate tax revenue will fall by 24 percent in fiscal year 2019.⁴⁶ Territory officials told us they are in the process of assessing how to mitigate the effect of these changes on revenue going forward.

Healthcare funding. According to a recent statement by the Governor, up to 30,000 USVI residents, or 30 percent of the total population, could lose access to Medicaid after certain expanded PPACA and other federal funding for the program expires on September 30, 2019. Given USVI's current fiscal condition and inability to access capital markets, it is unclear how this funding shortfall will be addressed in order to make up these healthcare benefits. According to territory officials, the government is currently assessing how it will mitigate the effect of this loss of federal Medicaid funding on the population.

⁴⁵48 U.S.C. § 1397. U.S. law restricts the territories' authority to impose certain territorial taxes. Three territories—Guam, CNMI, and USVI—are required by U.S. law to have a mirror tax code. 48 U.S.C. §§ 1397 (USVI), 1421i (Guam), 1801 note (CNMI). In general this means that these territories must use the U.S. Internal Revenue Code (IRC) as their territorial income tax law. In contrast, American Samoa and Puerto Rico, which are not bound by a mirror tax code, have established and promulgated their own income tax regulations.

⁴⁶Enacted in December 2017, Public Law 115-97—commonly referred to by the President and many administrative documents as the Tax Cuts and Jobs Act—included significant changes to corporate and individual tax law. In particular, for individual taxpayers, for tax years 2018 through 2025, tax rates were lowered for nearly all income levels, some deductions from taxable income were changed (personal exemptions set to zero, while the standard deduction was increased), and certain credits, such as the child tax credit, were expanded.



AMERICAN SAMOA

LOCATION: South Pacific, 2,600 miles from Hawaii

PHYSICAL SIZE: 76 square miles (7 islands)

POPULATION SIZE IN 2017
58,700

GROSS DOMESTIC PRODUCT (GDP) IN 2017
\$638.8 million

PRIMARY INDUSTRY
Tuna canning.

Source: GAO Map Resources and analysis of U.S. Census Bureau and Bureau of Economic Analysis data. | GAO-19-525

KEY FINDINGS

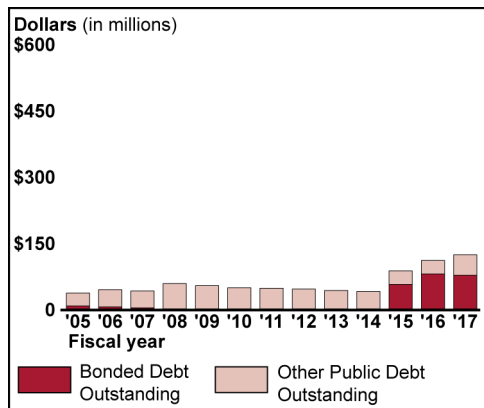
American Samoa's public debt increased by 42 percent between fiscal years 2015 and 2017, and infrastructure remains the primary driver of public debt.

American Samoa's general revenue fluctuated between fiscal years 2015 and 2017 and it operated with a deficit in 2017.

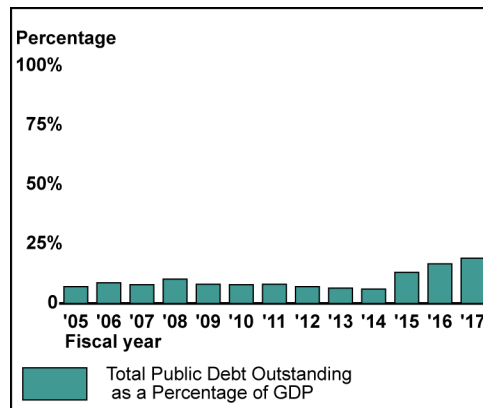
American Samoa continues to face fiscal risks, including significant pension liabilities.

AMERICAN SAMOA PUBLIC DEBT AND REVENUE, FISCAL YEARS 2005-2017

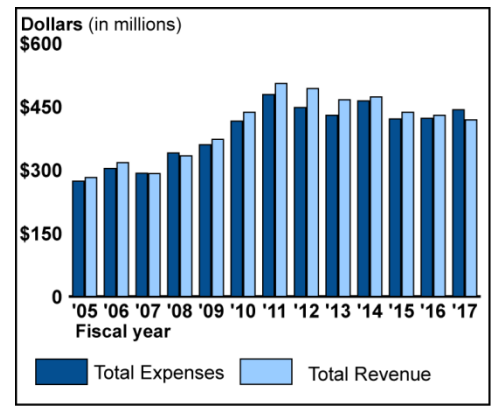
TOTAL PUBLIC DEBT OUTSTANDING



AS A SHARE OF GDP



REVENUE VS. EXPENSES



Source: GAO analysis of American Samoa's single audit reports and Bureau of Economic Analysis data for fiscal years 2005 - 2017. | GAO-19-525
 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

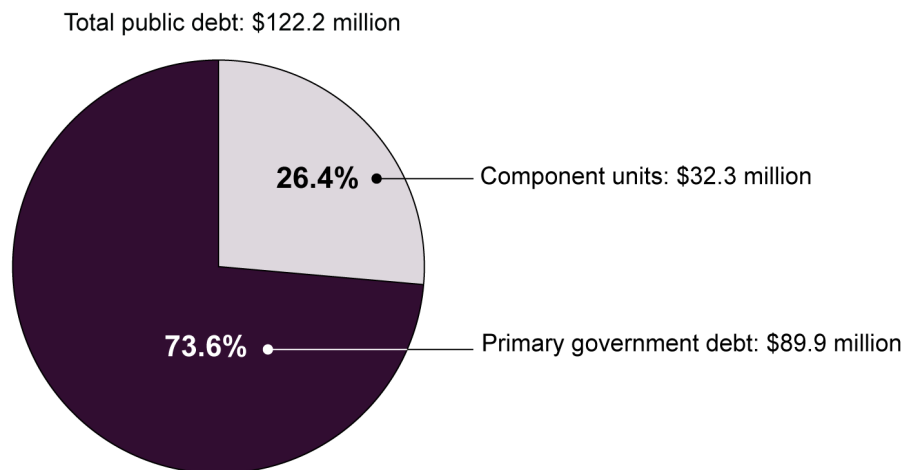
American Samoa's public debt grew by 42 percent between fiscal years 2015 and 2017, and the territory continues to face significant economic vulnerabilities that may affect repayment. American Samoa's economy relies heavily on the tuna processing and canning industry and currently only one cannery is in operation. Further disruptions in this industry could reduce revenue available for repayment. Also in fiscal year 2017, American Samoa reported a combined net pension liability for the primary government and components units of \$213.1 million, which was 33 percent of GDP in that year. The territory has not yet determined how it will reduce the pension liability.

American Samoa

American Samoa's Public Debt Increased by 42 Percent between Fiscal Years 2015 and 2017, and Infrastructure Projects Remain the Primary Driver

American Samoa's total public debt outstanding grew from \$85.9 million in fiscal year 2015 to \$122.2 million in fiscal year 2017, an increase of 42 percent. In fiscal year 2017, the majority of American Samoa's public debt was owed by the primary government. (See figure 6.) Total public debt outstanding as a share of GDP increased from 13 percent in fiscal year 2015 to 19 percent in fiscal year 2017. Total public debt outstanding per capita increased from \$1,482.2 in fiscal year 2015 to \$2,081.9 in fiscal year 2017. The increase in debt was due largely to a single bond issued in January 2016 for \$23.0 million to fund various infrastructure projects, which remains the major driver of American Samoa's public debt.

Figure 6: Composition of American Samoa's Public Debt, Fiscal Year 2017



Source: GAO analysis of American Samoa's fiscal year 2017 audited financial statements. | GAO-19-525

American Samoa also issued a series of general revenue bonds in December 2018 totaling another \$50.3 million, which will be reflected in future single audit reports. The proceeds from these new bonds will be used to fund infrastructure projects, including constructing a new legislature building and expanding broadband and telecommunications services in the territory. Territory government officials told us the intent of this expansion is to diversify American Samoa's economy by making the territory a regional telecommunications hub.

In November 2018, Moody's affirmed American Samoa's noninvestment grade rating and assigned the same rating to its 2018 bond series, citing the territory's reliance on substantial assistance from the federal government, low income levels, and financial management challenges. Moody's also assigned a negative outlook to the 2018 bond series, noting the territory's stagnant revenues, underfunded retirement system, and need to service an increasing debt burden.⁴⁷ Moody's also noted that American Samoa's financial position is weak but improving, and stated that its rating incorporated the territory's recent positive financial trends and enhanced fiscal discipline. According to government officials, there are no plans to issue any additional bonds for the next 3 to 5 years.

In addition to bonded debt, American Samoa carries loans from the U.S. government, including 1993 and 1994 CDLs from FEMA for disaster recovery.⁴⁸ These balances remained relatively constant between fiscal years 2015 and 2017, decreasing slightly from \$14.3 million to \$13.8 million.

American Samoa's General Revenue Fluctuated between Fiscal Years 2015 and 2017, and it Operated with a Deficit in 2017

American Samoa's total revenue (i.e. general revenue and program revenue combined) decreased slightly from \$436.4 million in fiscal year 2015 to \$418.3 million in fiscal year 2017, a decrease of 4 percent. American Samoa's general revenue increased 14 percent from \$116.5 million in fiscal year 2015 to \$132.8 million in fiscal year 2016 and subsequently decreased to \$116.6 million in fiscal year 2017, a total increase of less than 1 percent during this time period. Between fiscal years 2015 and 2017, income and excise taxes combined represented an average of 56 percent of general revenue. Income and excise tax collection decreased by 9.6 percent, or \$6.8 million, between fiscal years 2015 and 2017. This decrease was mainly driven by income tax collection, which declined by 23 percent, or \$10.5 million, within the same period.

⁴⁷A noninvestment grade rating is any credit rating "BB" or lower on a scale that runs from AAA to either C or D, depending on the rating agency. Noninvestment grade ratings deem the likelihood that the debt will be repaid as "speculative". 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.

⁴⁸In May 2000, FEMA cancelled \$8,638,009 of principal and \$3,227,779 of interest on these loans and the government of American Samoa expects the remaining amounts of these loans plus interest to be cancelled in the future.

American Samoa operated with a deficit of \$24.1 million in fiscal year 2017, the third deficit since fiscal year 2005. While total revenue declined, government expenses increased by 5 percent, or from \$420.7 million to \$442.4 million between fiscal years 2015 and 2017. Of total government expenses in fiscal year 2017, \$281.0 million was spent by the primary government, while \$161.4 million was spent by the government's various component units. Education was one of largest categories of primary government spending.

American Samoa Continues to Face Fiscal Risks, Such as Significant Pension Liabilities

American Samoa's public debt has grown and the territory continues to face fiscal risks that may affect repayment, such as a reliance on a single industry and significant pension liabilities. American Samoa's economy relies heavily on the tuna processing and canning industry, and since one of the two companies with cannery operations in American Samoa closed in December 2016, only one cannery is now in operation. Six hundred jobs were lost as a result of the cannery closure, and hundreds of more jobs were lost in related and support industries.⁴⁹ Officials told us that federal laws, such as the Clean Water Act and a minimum wage increase, may hamper the long-term sustainability of the industry. The closure of the remaining cannery, without economic growth elsewhere in the economy, may further reduce revenues available for repaying outstanding debt.

In fiscal year 2017, American Samoa reported a net pension liability for the primary government and components units of \$213.1 million, which was 33 percent of GDP in that year.⁵⁰ If the territory is unable to make annual contributions to the pension fund, then the fund's condition may continue to deteriorate. According to territory officials, the government is exploring options to reduce the unfunded pension liability, including increasing the employee and employer contribution rates over a period of 3 years.

⁴⁹According to territory officials, the cannery currently in operation leased the space previously occupied by the closed cannery. Of the workers who lost their jobs as a result of the cannery closure, 333 individuals received government assistance such as paid work experience. The remaining 211 individuals either returned to their home countries, were employed by the remaining cannery, obtained other employment on their own, and/or enrolled in higher education.

⁵⁰According to territory officials, the unfunded pension liability has decreased since reaching a low in 2016. When a pension is unfunded, it does not have enough assets to cover its liabilities.

In addition, territory officials told us that while they do not plan to issue to debt to cover the shortfall in federal Medicaid funding after certain expanded PPACA funding for the program expires on September 30, 2019, the effect of this loss in funding on the territory will be significant.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

COMMONWEALTH OF THE NORTHERN MARIANA

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

PHYSICAL SIZE
183 square miles (14 islands)

POPULATION SIZE IN 2017
50,300

GROSS DOMESTIC PRODUCT (GDP) IN 2017
\$1.5 billion

PRIMARY INDUSTRY
Tourism

Source: GAO Map Resources and analysis of U.S. Census Bureau and Bureau of Economic Analysis data. | GAO-19-525

KEY FINDINGS

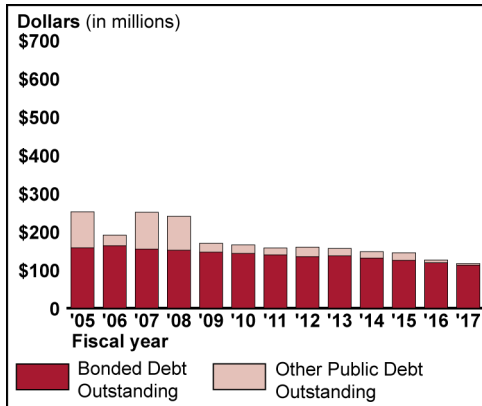
CNMI's public debt decreased by 20 percent between fiscal years 2015 and 2017.

While program revenue declined, CNMI's general revenue increased significantly between fiscal years 2015 and 2017 and it operated with a surplus.

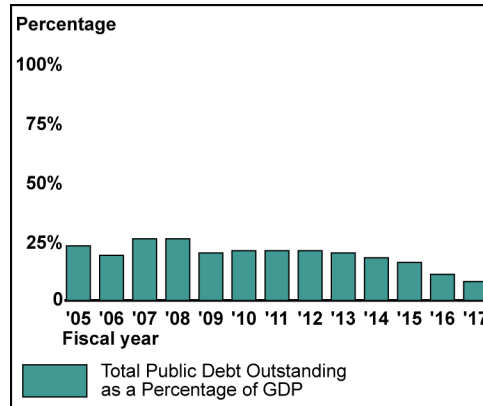
CNMI's labor shortages have been mitigated, however pension liabilities and reductions in revenue due to natural disasters present fiscal risks.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS PUBLIC DEBT AND REVENUE, FISCAL YEARS 2005-2017

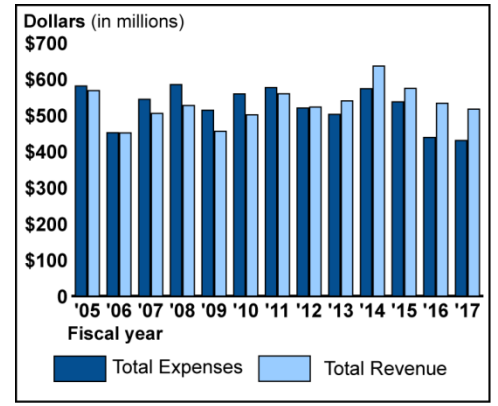
TOTAL PUBLIC DEBT OUTSTANDING



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 - 2017. | GAO-19-525

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 public debt declined from 16 to 8 percent of GDP between fiscal years 2015 and 2017. For the time being, potential labor shortages have been addressed, but pension liabilities and reductions in revenue due to natural disasters present fiscal risks that may affect the repayment of public debt. CNMI has significant pension liabilities, which are not included in the territory's fiscal year 2016 and 2017 single audit reports because the government continues not to comply with accounting standards that require it to do so. Recent typhoons have resulted in reductions in revenue, and the government is planning to implement reductions in spending to help offset the shortfall.

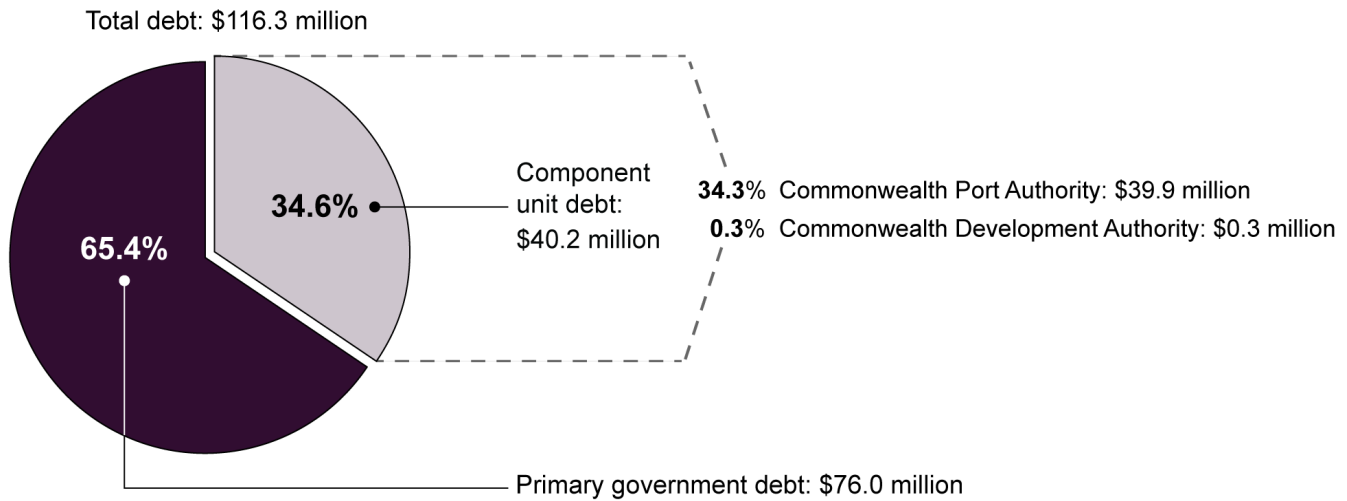
Commonwealth of the Northern Mariana Islands (CNMI)

CNMI's Public Debt Decreased by 20 Percent between Fiscal Years 2015 and 2017

CNMI has not issued any new bonded debt since fiscal year 2007, and its total public debt outstanding declined from \$144.7 million in fiscal year 2015 to \$116.3 million in fiscal year 2017, a decrease of nearly 20 percent, due to repayment of existing debt.⁵¹ In fiscal year 2017, the majority of CNMI's debt was owed by the primary government. (See figure 7) Total public debt outstanding as a share of GDP declined from 16 percent in fiscal year 2015 to 8 percent in fiscal year 2017. Total public debt outstanding per capita declined from \$2,844.7 in fiscal year 2015 to \$2,307.8 in fiscal year 2017.

⁵¹In 2007, the primary government of CNMI issued one general obligation bond to refinance two bonds originally issued in 2000 and 2003. Both the 2000 and 2003 bonds were issued to finance various infrastructure improvement projects. The 2003 issuance was also used for a onetime payment to settle land claims for the appropriation of private lands for public use.

Figure 7: Composition of CNMI's Public Debt, Fiscal Year 2017



Source: GAO analysis of Commonwealth of the Northern Mariana Island's fiscal year 2017 audited financial statements. | GAO-19-525

Note: Totals may not equal the sum of their parts due to rounding.

Since CNMI has not issued any new debt, the major drivers of its public debt have not changed. As we reported previously, CNMI's constitution prohibits the government from using debt to pay for government operations, and bonds issued prior to fiscal year 2015 were used to refinance existing debt, fund various infrastructure improvements projects, and settle legal claims.⁵²

While Program Revenue Decreased, CNMI's General Revenue Increased Significantly between Fiscal Years 2015 and 2017 and it Operated with a Surplus

CNMI's total revenue (i.e. general revenue and program revenue combined) decreased from \$573.8 million in fiscal year 2015 to \$516.6 million in fiscal year 2017, a decrease of 10 percent. CNMI's general revenue, however, increased from \$226.3 million in fiscal year 2015 to \$334.4 million in fiscal year 2017, an increase of 48 percent. Territory officials attributed the growth in general revenue to fees generated from casino operations and related businesses, growth in tourism driven from the construction of new hotels, and increased tax collections. A decrease in program revenue—from \$347.5 million to around \$182.2 million between fiscal years 2015 and 2017—was the main driver of the decline in total revenue, and was mainly due to a drop in charges for services

⁵²CNMI Const., art. X, §§ 3, 4.

generated by component units. On average, taxes comprised 75 percent of total revenue from fiscal years 2015 to 2017. Business taxes were a key contributor to tax revenue growth, with increases in this category of around \$82.7 million between fiscal years 2015 and 2017.

CNMI has operated with a surplus—where revenue exceeds expenses—for each of the last 6 fiscal years.⁵³ In fiscal year 2017 CNMI reported a surplus of \$86.5 million, a decline from \$94.4 million the prior year. While total revenue declined in CNMI between fiscal years 2015 and 2017, expenses also declined by 20 percent during the same period, from \$536.6 million to \$430.1 million, driven mainly by declines in component unit expenses. Of the total government expenses in fiscal year 2017, \$374.9 million was spent by CNMI's primary government and the remainder, \$55.3 million, by component units.

CNMI's Labor Shortages Have Been Mitigated, however Pension Liabilities and Reductions in Revenue Due to Natural Disasters Present Fiscal Risks

CNMI's public debt has declined and, for the time being, potential labor shortages have been addressed. However, pension liabilities continue to present a fiscal risk that may affect the repayment of public debt. In addition, Typhoons Yutu and Mangkhut may have an adverse effect on CNMI's future revenue, which may affect funds available for repaying public debt. As we previously reported, CNMI's economy relies heavily on a foreign workforce. The temporary work permit program established by the Department of Homeland Security pursuant to the Consolidated National Resources Act of 2008 was scheduled to phase out temporary work permits for foreign workers by 2019, and we previously reported that with no permitted workers, CNMI's GDP in 2015 would have declined.⁵⁴ Congress passed and in July of 2018, the President signed, the Northern Mariana Islands U.S. Workforce Act of 2018, which extended the

⁵³CNMI received an adverse opinion on its governmental activities in fiscal years 2016 and 2017. CNMI has not recorded pension expense or the related net pension asset or liability, deferred inflows of resources and deferred outflows of resources as of and for the years ended September 30, 2016 and 2017. Additionally, CNMI received an adverse opinion and a disclaimer of opinion on its aggregate discretely presented component units in fiscal years 2016 and 2017, respectively. In fiscal year 2016, CNMI did not include significant component unit data in the discretely presented component units column of its government-wide financial statements. In fiscal year 2017, significant component unit data included on CNMI's government-wide financial statements had not been audited. 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 the government-wide financial statements has not been determined.

⁵⁴[GAO-17-437](#)

temporary work permit program by 10 years and increased the number of permits for foreign workers from 4,999 in fiscal year 2019 to 13,000 beginning on October 1, 2018.⁵⁵ The number of permits allowed will subsequently decrease each year from 13,000 to 5,000 in fiscal year 2029 and to 1,000 in the first quarter of 2030.

CNMI also has pension liabilities, which are not included in the territory's fiscal year 2016 and 2017 single audit reports because the government continues not to comply with accounting standards that require it to do so. As such, CNMI's total net pension liability remains unclear. CNMI has received adverse opinions on its fiscal years 2016 and 2017 single audit reports as a result of its continued noncompliance with accounting standards requiring it to report pension liabilities. CNMI continues to make annual payments to its pension settlement fund. In fiscal years 2016 and 2017 payments of \$30 million and \$33 million, respectively, were made to the fund.⁵⁶ Officials told us that, as of March 2019, they were considering whether to issue a bond to finance additional payments to the settlement fund.

Typhoons Yutu and Mangkhut caused considerable damage to homes, businesses, and infrastructure in CNMI. They also adversely impacted the tourist industry, which CNMI's economy is dependent upon. As a result of the typhoons, the government is projecting a 5 percent reduction in revenue in fiscal year 2019, and is planning to implement reductions in spending to help offset the shortfall. Territory officials told us that, as of January 2019, CNMI has expended \$62 million for typhoon recovery, most of which is expected to be reimbursed by the federal government.

In addition, territory officials told us CNMI has already run out of certain expanded PPACA funding for the Medicaid program, which is set to expire on September 30, 2019. Officials said that while they do not plan to issue debt to cover this shortfall in federal Medicaid funding, they may have to either cut benefits for current enrollees or incur budget deficits to fund the program going forward.

⁵⁵Pub. L. No. 115-218, § 3, 132 Stat. 1547, 1547, 1550 (July 24, 2018), *codified at* 48 U.S.C. § 1806(a)(2), (d)(3)(B).

⁵⁶In 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 2017

162,500

GROSS DOMESTIC PRODUCT (GDP) IN 2017

\$5.8 billion

PRIMARY INDUSTRY

Tourism, defense.

Source: GAO Map Resources and analysis of U.S. Census Bureau and Bureau of Economic Analysis data. | GAO-19-525

KEY FINDINGS

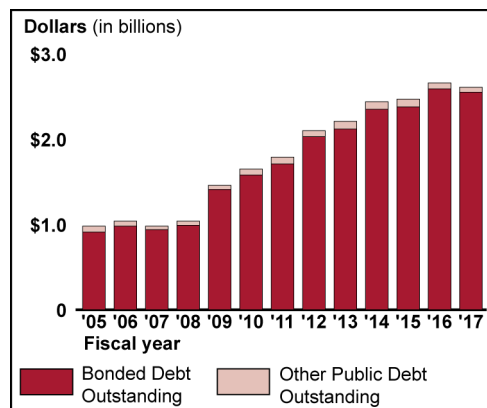
Guam's public debt increased by 6 percent between fiscal years 2015 and 2017, due to refinancing and infrastructure projects.

Guam's general revenue increased between fiscal years 2015 and 2017, and it operated with a surplus.

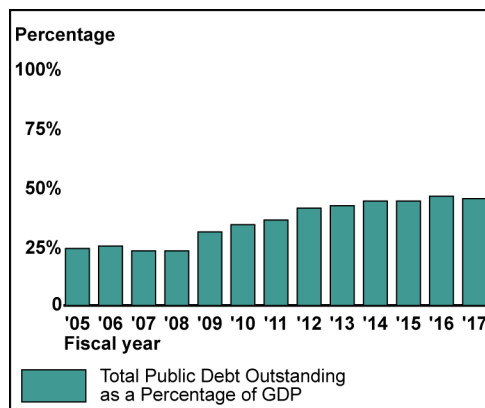
Guam continues to face fiscal risks, including significant pension liabilities.

GUAM PUBLIC DEBT AND REVENUE, FISCAL YEARS 2005-2017

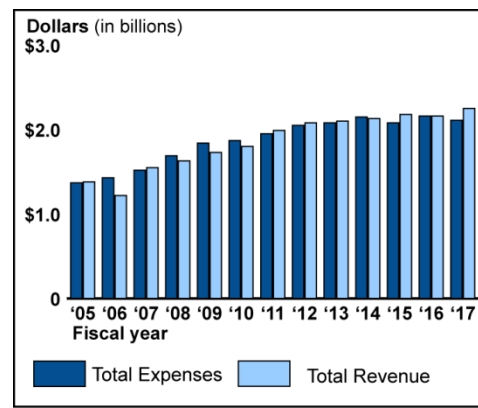
TOTAL PUBLIC DEBT OUTSTANDING



AS A SHARE OF GDP



REVENUE VS. EXPENSES



Source: GAO analysis of Guam single audit reports for fiscal years 2005 – 2017. | GAO-19-525

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

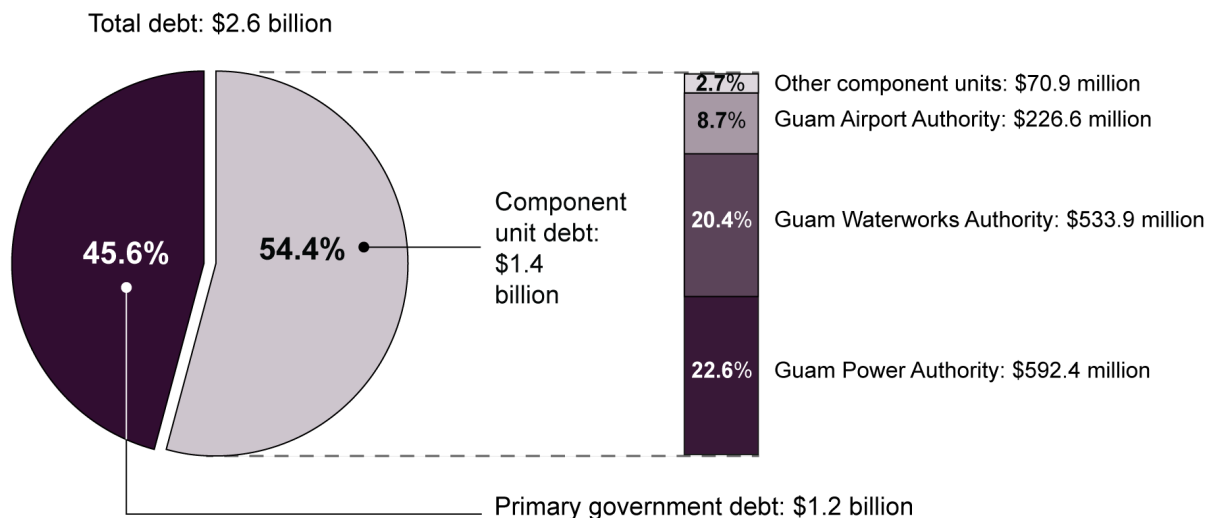
Guam's public debt increased slightly, from 44 to 45 percent of GDP between fiscal years 2015 and 2017, its general revenue increased, and it operated with a surplus during the entire period. At the end of fiscal year 2017, Guam's pension liabilities were \$1.6 billion, or 28 percent of GDP, and continue to pose a fiscal risk. Territory officials said the government is still on track to eliminate the funding deficit by 2033, as required by territory law.

Guam

Guam's Public Debt Increased by Six Percent between Fiscal Years 2015 and 2017, Due to Refinancing and Infrastructure Projects

Guam's total public debt outstanding increased slightly from \$2.5 billion in fiscal year 2015 to \$2.6 billion in fiscal year 2017, an increase of 6 percent. In fiscal year 2017, the majority of Guam's public debt was owed by component units. (See figure 8.) Total public debt outstanding as a share of GDP remained fairly constant, increasing slightly from 44 to 45 percent between fiscal years 2015 and 2017. Total public debt outstanding per capita increased from \$15,334.9 in fiscal year 2015 to \$16,106.2 in fiscal year 2017.

Figure 8: Composition of Guam's Public Debt, Fiscal Year 2017



Source: GAO analysis of Guam's fiscal year 2017 audited financial statements. | GAO-19-525

Note: Totals may not equal the sum of their parts due to rounding.

Since fiscal year 2015, the major drivers of new public debt issued by Guam's primary government and its component units have been refinancing existing debt—originally issued to comply with federal

requirements and court orders⁵⁷—and funding infrastructure projects. Since fiscal year 2015, the government of Guam and its component units have issued five bonds and entered into two federal loan agreements with the U.S. Department of Agriculture (USDA). Proceeds from the USDA loans were used to finance the construction and renovation of Guam Community College and University of Guam buildings. Collectively, the amount of new bonds issued since fiscal year 2015 is about \$190 million and the amount of refinanced debt is approximately \$844 million. Two of the refinanced bonds were issued in November and December of 2017 totaling about \$260 million, which will be reflected in the fiscal year 2018 single audit report, which will be released in June 2019. According to officials, the government does not plan to issue debt for government operations moving forward, although it may continue to do so to refinance existing debt or fund infrastructure projects as needed.

Guam's General Revenue Increased between Fiscal Years 2015 and 2017, and It Operated with a Surplus

Guam's total revenue (i.e. general revenue and program revenue combined), remained relatively constant between fiscal years 2015 and 2017 at approximately \$2.2 billion. Guam's general revenue increased from \$862.7 million in fiscal year 2015 to \$970.2 million in fiscal year 2017, an increase of 12 percent. On average, taxes comprised 83 percent of general revenue over this period. Income taxes were a key contributor to tax revenue growth, with increases of around \$46.0 million dollars for income tax collection between fiscal year 2015 and 2017.

Guam operated with a surplus of \$134.0 million in fiscal year 2017 and \$3.8 million in fiscal year 2016. The surplus in fiscal year 2017 was due to revenue growth in that year, as well as spending reductions in some areas like healthcare and other general government expenses. Guam last experienced a deficit in fiscal year 2014. Guam's expenses remained relatively constant between fiscal years 2015 and 2017, increasing by only \$31.2 million over this period. In fiscal year 2017, Guam's

⁵⁷In 2006, the Superior Court of Guam held that a territorial statutory provision required the retirement fund for government employees to pay past due annual lump sum Cost of Living (COLA) payments plus interest to eligible retirees and survivors. In February 2004 the U.S. Environmental Protection Agency (EPA) and the Department of Justice filed a consent decree in the U.S. District Court of Guam. The consent decree set forth the settlement terms agreed to by the federal government and Guam settling a lawsuit alleging Guam violated the Clean Water Act. The consent decree included deadlines for opening a new landfill and adopting a dump closure plan. In response to a 2009 District Court order that Guam comply with the terms of the consent order, the territory chose to issue a \$202.4 million limited obligation bond to fund closing the Ordot dump and constructing a new landfill to meet the terms of the settlement agreement.

government expenses totaled about \$2.1 billion, of which 58 percent was spent by the primary government and the remainder by the component units.

Guam Continues to Face Fiscal Risks, Including Significant Pension Liabilities

Guam's fiscal risks for repaying public debt remain largely unchanged since our prior report, and pension liabilities continue to pose a fiscal risk that may affect repayment of public debt. Guam's net pension liability for the primary government and components units was \$1.2 billion, or 22 percent of GDP, in fiscal year 2015. In fiscal year 2017, Guam reported a net pension liability for the primary government and component units of more than \$1.6 billion, or 28 percent of GDP in that year. Territory officials told us they made several changes to the government retirement system that took effect January 1, 2018, including increasing the contribution rate and creating a new defined benefit plan for existing employees.⁵⁸ Officials said the government is still on track to eliminate the funding deficit by 2033, as required by territory law.⁵⁹

Guam's territorial income tax code is generally required to mirror the federal income tax code.⁶⁰ In other words, Guam taxpayers must comply with federal income tax law but the proceeds are paid into the treasury of Guam rather than the U.S. Treasury. As such, any changes to the U.S. Internal Revenue Code can have a direct effect on Guam's income tax revenue. Officials expressed concern that federal tax reform would decrease Guam's individual and corporate tax collections. However, Guam officials told us that steps have been taken to address revenue shortfalls, such as increasing certain taxes and decreasing expenditures, and that these measures will offset the effect of changes to the tax code on revenues in fiscal years 2018 and 2019. While Standard and Poor's placed Guam under a credit watch and Moody's changed its outlook from stable to negative in March 2018 as a result of the potential effect of changes in federal tax law on Guam's revenue, Standard and Poor's

⁵⁸Guam Pub. L. 33-186 (Sept. 14, 2016).

⁵⁹4 Guam Code. Ann. § 8137(b). We did not independently verify this estimate.

⁶⁰48 U.S.C. § 1421i. Although Guam is mirror-code jurisdictions, it is authorized under the Tax Reform Act of 1986 to delink from the Internal Revenue Code if certain conditions are met. Pub. L. No. 99-514, § 1271, 100 Stat. 2085, 2591–2592 (Oct. 22, 1986).

subsequently lifted the credit watch in light of Guam's improved cash flow and success in balancing its fiscal year 2019 budget.⁶¹

In addition, according to a recent statement by the Governor, 50 percent of current Medicaid enrollees are at risk of losing benefits after certain expanded PPACA funding for the program expires on September 30, 2019. Territory officials told us that while they do not plan to issue debt to cover this shortfall in federal Medicaid funding, it will cost Guam approximately \$39 million to fund the program in fiscal year 2020.

Agency Comments, Third Party Views, and Our Evaluation

We provided a draft of this report to the Department of the Interior and the Department of the Treasury for review and comment. We also provided, to the governments of Puerto Rico, the United States Virgin Islands (USVI), American Samoa, the Commonwealth of the Northern Mariana Islands (CNMI), and Guam, and to the Financial Oversight and Management Board for Puerto Rico (FOMB), portions of the draft that were relevant to them for review and comment. We received technical comments from the Department of the Interior, Puerto Rico, USVI, American Samoa, and Guam, which we incorporated as appropriate. We did not receive any comments from the Department of the Treasury or the FOMB. We also received written comment letters from each of the five territories' governments, some of which expressed their viewpoints and concerns on broader federal actions, programs, or policies that might affect their territory's financial condition. The comment letters from Puerto Rico, USVI, American Samoa, CNMI, and Guam are reprinted in appendixes II, III, IV, V, and VI, respectively. The letters from the governments of Puerto Rico and Guam raised some issues to which we respond below.

The letter from the government of Puerto Rico notes that the government has concerns about our statement that the first two debt restructuring agreements (i.e., the GDB and COFINA agreements) were based on optimistic economic growth estimates in the prior October 2018 version of the certified FOMB Fiscal Plan. The letter also notes that those agreements were based on separate fiscal plans specific to those entities. The economy-wide growth estimates, as measured by real GNP growth,

⁶¹A credit watch is a notice from a credit rating agency to a bond issuer that a negative factor has arisen in the agency's review of the issuer's credit rating. If the issuer does not take steps to explain or alleviate the factor, the credit watch may be the first step toward a reduction in the issuer's rating.

included in the COFINA fiscal plan are nearly identical to those included in the prior version of the FOMB's fiscal plan. While we acknowledge the inclusion of the other financial projections specific to COFINA contained in its fiscal plan, we maintain that the economy-wide growth projections included in both the FOMB and COFINA fiscal plans are important, as Puerto Rico's ability to generate sustained economic growth will be a key determinant for repaying restructured debt.

In addition, pursuant to the Title VI Qualifying Modification, we recognize that GDB's restructured debt will be repaid using GDB's liquidated assets that have been placed into a statutory public trust. However, general economic health is important for repaying municipal bonds, and therefore we reiterate that economic growth is relevant and that the pertinent economic growth estimates at the time the Qualifying Modification was made were those estimates in the prior version of FOMB's fiscal plan.

The letter also states that information pertaining to the prior version of the FOMB's fiscal plan in our draft is "academic" because the FOMB certified a new fiscal plan in May 2019. However, we reiterate here that information from the prior version of the fiscal plan is relevant because that plan was in place when the first two debt restructuring agreements were made and at the time we conducted our audit work.

The letter from the Governor of Guam states that tax-supported debt (i.e., primary government debt) reflects the core of Guam's outstanding debt obligations, and takes issue with our inclusion of public enterprise or revenue bonds (i.e., component unit debt) in our calculation of Guam's total public debt outstanding. We believe that by including component unit debt, we provide the most comprehensive metric of Guam's total public debt, and therefore it would be incorrect for us to exclude public enterprise and revenue bond debt (i.e., component unit debt) in our report.

While it is our objective to provide the most comprehensive metric of Guam's public debt, we do, however, show how much debt is owed by Guam's primary government versus component units. In addition, we include both primary government and component unit revenue in our calculations of general revenue and total revenue; as such, an equivalent comparison can be made to our total public debt figure, which includes primary government and component unit debt.

Further, consistent with our prior work, including our 1994 report, which is mentioned in Guam's letter, we do not compare Guam's public debt with

any other territory, state, county, or locality. Moreover, our calculations are consistent with this prior work in that our calculation of total public debt includes debt related to functions carried out by different levels of government.

We are sending copies of this report to the appropriate congressional committees, the Governor of each territory, the Secretary of the Interior, and the Secretary of the Treasury. 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 Tranchau (Kris) T. Nguyen 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.



Tranchau (Kris) T. Nguyen
Acting 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 report for the most recent fiscal years— fiscal years 2016 and 2017, if available, as of early May, 2019.¹ We analyzed data on public debt—bonds, loans, and notes for both the primary government and component units—for each of those years. 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. 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, non-marketable intragovernmental notes, notes held by local banks, federal loans, intragovernmental loans, and loans issued by local banks. Although pension liabilities and other post-employment benefits 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.

In addition, we obtained and reviewed data on each of the territories' revenue from single audit reports for each fiscal year for both the primary governments and component units.² Revenues are amounts that result from governments' exercise of their sovereign power to tax or otherwise compel payment. Revenues also include income generated by the territories' component units. The primary government is generally

¹The Single Audit Act, as implemented by guidance issued by the Office of Management and Budget (OMB), requires nonfederal entities that expend above a dollar threshold in federal awards in a fiscal year to have a single audit. Recipient organizations are required by the act to submit their single audits reports to the Federal Audit Clearinghouse (FAC). 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. Puerto Rico provides audited financial statements but does not submit single audit report packages to FAC. Puerto Rico's and USVI's audited financial statements for fiscal year 2017 were not available as of May 2019.

²In addition to revenue levels, another measure of fiscal health is net position. Net position represents the difference between the primary government's assets (including the deferred outflow of resources) and the primary government's liabilities (including the deferred inflow of resources.) In other words, the net position for primary government activities reflects what the primary government would have left after satisfying its liabilities. Since it is difficult to draw conclusions about trends in net position over the short period covered by this update, we did not include net position in our analysis.

comprised of governmental activities (generally financed with taxes and intergovernmental aid) 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. For the purposes of this report, any reference to total government activity and balances includes both the primary government and component units.

For each territory, we obtained and reviewed the independent auditor's report corresponding to each single audit and 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 the modified opinions, the data we obtained from each of the single audit reports was reliable for the purpose of describing trends in debt and revenue and their composition for the fiscal years included in our analysis.³ Where appropriate, we included cautionary language in our report for instances in which a modified opinion could affect the reliability of data included in our report.

To determine the drivers of public debt and what is known about the territories' ability to repay public debt, we interviewed officials from each of the territories' governments. In addition, we interviewed representatives of the three major credit rating agencies—Fitch, Moody's and Standard and Poor's—that provide ratings for the territories' securities. We also interviewed officials at the U.S. Department of the Treasury and Department of the Interior's Office of Insular Affairs, which provides grant aid and technical assistance and support to the territories.⁴ In addition, we obtained and reviewed relevant documentation, reports, and analyses from the territorial governments and ratings agencies. We also obtained and reviewed information on territorial bond issuances for debt issued since fiscal year 2015 from the Electronic Municipal Market Access database of the Municipal Securities Rulemaking Board, the primary regulator of the municipal securities market.

To determine the effects of Hurricanes Irma and Maria on the economies and public debt of Puerto Rico and USVI, we interviewed officials from

³Auditors express modified opinions when (1) the auditors conclude that, based on the audit evidence obtained, the financial statements as a whole are materially misstated or (2) the auditors are unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement.

⁴The Office of Insular Affairs does not exercise any responsibilities in relation to Puerto Rico.

government agencies, including departments of finance or treasury, the agencies responsible for issuing and marketing bonded debt, the agencies responsible for economic development, the Offices of Management and Budget, and the Offices of the Inspectors General. We also conducted interviews with experts on Puerto Rico and USVI's economies, municipal securities markets, and select industry groups. We selected the experts we interviewed based on their professional knowledge closely aligning with our engagement objectives, as demonstrated through published articles and referrals from other experts. In addition, we analyzed a non-generalizable sample of Bloomberg data on secondary market trading prices of USVI and Puerto Rico bonds to illustrate the possible impact of market events, such as the 2017 hurricanes, on bond prices.

We conducted this performance audit from April 2018 to June 2019 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.

Appendix II: Comments from the Government of Puerto Rico



GOVERNMENT OF PUERTO RICO

Puerto Rico Fiscal Agency and Financial
Advisory Authority

June 10, 2019

Hon. Gene L. Dodaro
Comptroller General of the United States
U.S. Government Accountability Office
441 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 19-525, *U.S. Territories Public Debt Outlook*. I would like to thank you for the opportunity to review and provide feedback on the Report in its draft form. This report will inform the public policy debate surrounding critical issues to Puerto Rico and other U.S. Territories.

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

Progress Toward Meaningful Change

- **Successful Restructurings.** As noted in the Report, the Government has achieved successful restructurings of \$6.96 billion of debt of two government entities: the Government Development Bank (“**GDB**”) and Puerto Rico Sales Tax Financing Corporation (“**COFINA**”). These restructurings were achieved through agreements with creditors and created new municipal bonds for Puerto Rico intended to promote Puerto Rico’s ongoing market access. The Legislature of Puerto Rico enacted new legislation in connection with both 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.
- **Action by Current Administration to Achieve Transparency.** Although the Government’s audited financial statement have been delayed, Governor Ricardo Rosselló’s administration is making every effort to be current and timely regarding the completion of the fiscal year 2017 and 2018 financial statements. Furthermore, in order to provide more transparency and timely information, the Puerto Rico

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Fiscal Agency and Financial Advisory Authority (“AAFAF”, for its Spanish acronym) continues to publish monthly bank account balances for the Government and its instrumentalities and weekly cash flow of the Treasury Single Account of the Government. Moreover, the Puerto Rico Planning Board has continued to publish economic data annually. Official Government revenue data is released by the Puerto Rico Treasury Department on a monthly basis. It is also important not to conflate any lack of transparency in the Financial Oversight and Management Board for Puerto Rico’s (“FOMB”) Fiscal Plan with a lack of transparency by the Government. The Government has been fully transparent regarding the assumptions and sources for its fiscal plan submissions. Detailed letters explaining methodology submitted alongside the Fiscal Plans and Supplemental Economic Information showing the economic model and assumptions are available publicly on AAFAF’s website (<http://aafaf.pr.gov/other-documents.html#fiscalplanspin>).

Comments Regarding Certain Assumptions in the Report

- **Fiscal Plan Assumptions.** The certification of the Commonwealth 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 where the Government and the FOMB are not aligned. The most recent Government Fiscal Plan submission has an assumed pass-through rate of 18% for most federal funding. The aggregate pass-through rate used by FOMB is higher and is at times arbitrarily assigned to certain categories of uses of the funds. We feel it is important to clarify that during the Report’s draft process and in our comments to the GAO, we indicated that certain information found therein was academic as a result of the certification by the FOMB of a new Fiscal Plan on May 9, 2019.
- **Debt Restructurings.** In multiple places the Report assumes that the GDB and COFINA restructuring agreements were based on, or informed by, “more optimistic growth estimates” in the previously certified (October 2018) Fiscal Plan for the Commonwealth. While we respect the GAO’s methodology, we have concerns that these statements are based on an incorrect premise. The Title VI qualifying modification for GDB was premised on a separate fiscal plan for GDB, and the payment of the GDB bonds is based only on a fixed set of collateral and was not otherwise based on the Commonwealth Fiscal Plan and the estimates contained therein. The GDB creditors do not have recourse to the Commonwealth and bear the risk of the economics on the Title VI qualifying modification. Further, the Title III restructuring agreement for COFINA is a securitized plan and was based on the projections set forth in the certified fiscal plan for COFINA.

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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. 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.

- **Triple Tax Exempt Status.** The Government of Puerto Rico is strongly opposed to the possible modification of the triple tax-exempt status for Puerto Rico's municipal debt. Indeed, obtaining tax-exempt treatment for the COFINA bonds is a key element to the success of that restructuring. Given all the improvements in fiscal and budgetary controls, transparency and economic structural balance that are currently being implemented, the Government is confident that the triple tax-exempt bonding capacity can and will be used responsibly in the future when Puerto Rico is eventually able to return to the capital markets. Finally, although the triple tax-exempt status can be considered a benefit that the federal government grants the territories, its existence is attributable to some extent to the understanding by federal policymakers that the territory is subject to an unfair legal framework, particularly in terms of reduced levels of funding and various other areas of disadvantageous federal treatment. For this reason, until the federal government provides for Puerto Rico full equality under federal laws and programs, it should not remove one of the most important economic development tools and advantages that they have granted us.
- **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 of Puerto Rico 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

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same or better levels of care than the current unequal funding structure. Another notable challenge is the imposition of the Global Intangible Low-Taxed Income Tax (GILTI) on Puerto Rico as if we were foreign jurisdiction, whose impact on the manufacturing sector is projected to cause a very substantial reduction in local tax revenues. Congress should treat Puerto Rico as a domestic jurisdiction for purposes of GILTI in any upcoming legislative vehicle with tax provisions or technical fixes before the end of this year, and should work to improve upon Opportunity Zones to attract new private sector investment to the island. 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 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, 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


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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 twice in the last six 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.

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

Sincerely,



Christian Sobrino Vega
CEO and President

Appendix III: Comments from the Government of the United States Virgin Islands



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Ms. Tara Carter
Assistant Director for Federal Budget Analysis – Strategic Issues
U.S. Government Accountability Office
441 G Street, NW
Washington, DC 20548

Dear Ms. Carter:

The Government of the Virgin Islands would like to express our sincere appreciation to you and your team, led by Senior Analyst Divya Bali, for the opportunity to comment on the draft report entitled U.S. Territories: Public Debt Outlook – 2019 Update (GAO-19-525), as required by the Puerto Rico Oversight Management and Economic Stability Act (PROMESA).

We were able to provide some technical comments to Ms. Bali and her team, however, our overarching comment is that the information appears to be presented negatively in the report. In addition to presenting negative information, the report also fails to look at the underlying circumstances or provide any assistance (either technical or financial) to improve the Territories public debt outlook.

For instance, in our comments on last year's report, we discussed at length how the unequal treatment of the Territories in most federal programs, including Medicaid and other federal healthcare funding, has contributed to our budget deficits, which, in turn, resulted in borrowing to fund government operations. We also commented on how other mandatory federal programs, such as the Earned Income Tax Credit and the Child Tax Credit, impose additional burdens on the finances of the Territory.

Yet, to our knowledge, there has been no discussions in Congress on how changes to these programs can help to reduce budget deficits and the debt burden of the Territory. We believe that the reason these reports are required by PROMESA is so that Congress can look at ways to assist the Territory **before** getting into a situation like Puerto Rico.

The current report lists six factors that may contribute to USVI's continued ability to repay public debt moving forward: 1) the integrity of USVI's "lockbox" provisions for repaying

**Appendix III: Comments from the Government
of the United States Virgin Islands**

debt, 2) USVI's ability to access capital markets at favorable interest rates in the future, 3) USVI's ability to create sustained economic growth, 4) USVI's ability to address its pension liabilities and the pending insolvency of its public pension system, 5) reduced tax revenue due to recently enacted federal tax changes, and 6) shortfalls in Medicaid funding.

Items 5 and 6 were discussed above, and I highlight our continued concerns over the unequal treatment of the Territory in federal funding. We continue to hope that these reports will establish how to assist the Territory in reducing its debt burden.

Moreover, the USVI has made multiple efforts on its own accord to reduce the debt burden, through the implementation of the following:

- 1) Lockbox Provisions. We maintain that the "lockbox" provision is secure and provides investors confidence that the loans will be repaid. This has been in place for many years and has now been codified in Virgin Islands law.
- 2) Market Access. The USVI has not attempted any bond financings since January 2017 when a proposed sale was withdrawn. For my first Executive Budget, I submitted a balanced Fiscal Year 2020 Budget to the Legislature based on increased revenue without any debt financing or tax increases to include \$5 million in reserves to the Budget Stabilization Fund.
- 3) Economic Growth. The economy continues its recovery, fueled by the rebuilding after the storms and federal funding for hurricane recovery activities. Additionally, tourism is expected to increase as the larger hotels come back online and additional flights are added to the Territory.
- 4) Pension Liabilities. My administration will work tirelessly with GERS and other stakeholders on a strategic plan to address the unfunded liability of the pension system. Recent legislation increased the additional contribution to the GERS from \$7 million to \$10 million annually.

Once again, with your assistance the USVI can continue to reduce its debt, and we thank you and your team for your ongoing cooperation and assistance to facilitate this process.

Sincerely,



Albert Bryan, Jr.
Governor

Appendix IV: Comments from the Government of American Samoa



LOLO M. MOLIGA
GOVERNOR

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AMERICAN SAMOA GOVERNMENT
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LEMANU P. MAUGA
LIEUTENANT GOVERNOR

June 3, 2019

Serial: 441

Thomas Melito
Managing Director
U.S. Government Accountability Office
Internal Affairs and Trade (IAT)
441 G St. N.W.
Washington, DC 20548

Dear Mr. Melito:

Aligned with the previous engagement in 2017 facilitating the issuance of the subsequent report that year, the collaboration between my staff and the GAO Team headed by Ms. Divya Bali Senior Analyst and her staff was seamless and effective thus enabling the compilation of this comprehensive final report on the public debt status of the American Samoa Government. Our staff's review of the 2019 report generated the following responses relative to the important issues highlighted in the report.

Increase in Public Debt

The American Samoa Government has a duty to provide public goods and services to our people so the private sector can flourish with reciprocal improvement in the quality of their lives. This responsibility requires that we continually maintain, repair and upgrade public infrastructure such as roads, public utilities, port and airport facilities, education facilities, and all other physical infrastructure, not only to meet the needs of the people, but also to forge the creation and sustainment of a conducive economic climate for continual bolstering of the territory's economy. While we are grateful for the US Department of the Interior for providing \$10 million annually toward these capital projects, this funding is woefully insufficient to pay for all required capital needs.

Our government has embarked on a strategic financial plan inclusive of the use of publicly issued debt to not only supplement but also maximize the use of local funds to advantageously and broadly address our capital project needs. Our finance plan also includes public-private partnerships propelled by new Federal Incentive Schemes such as New Market Tax Credit, Opportunity Zones, and other operating strategies such power purchase agreements. We will continue to vigilantly balance the needs of the Territory with the financial constraints and finance tools available. Our commitment to be fiscally responsible cannot be overstated or

Thomas Molito
June 3, 2019
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underscored. We will never issue new debt without identifying the long-term repayment source to fully liquidate any debt to its maturity.

Fiscal and Economic Risks

The economy of American Samoa is narrow and fragile consequential to its sole dependence on one major industry (fishing) and the American Samoa Government which also heavily depends on this one economic pillar. Our administration has determined to use public debt to create additional opportunities to expand and to diversify our economy. This has included bolstering the local banking sector by investing in the establishment of a Territorial Bank with the long-term goal to transition this bank back to the private sector. The Territory has also issued bonds to invest in building high-speed broadband capacity to the island. This investment significantly shores up the territory's economic environment which not only improves local business operations but it is also attracting the attention of mainland business who want to do business in the Pacific under US Law. The Territory of American Samoa's pathway to social and economic self-reliance and self-sufficiency is embedded its steadfast and unwavering commitment to continual and steady economic development progress.

Our administration is committed to fiscal responsibility and it neither unafraid nor will it side step making difficult decisions. In 2018, due to projected revenue shortfalls, a reduction in working hours for the American Samoa Government was implemented for months to align expenses with actual revenues collected. We are also very mindful and concerned with the rising level of the unfunded liability of our pension plan; actions are being taken with the introduction of legislation to increase employee contribution along with others, which are being considered. While these measures are socially and economically painful decisions, they had to be made.

US Government Policies

The American Samoa Government, since transfer of administrative responsibilities from the Department of the Navy to the Department of the Interior in 1951, has had its efforts to develop its economy stymied and stifled by prohibitive federal policies that do not match the facts on the ground. These federal impediments are documented herein.

The Territory of American Samoa's economy is defined by just one industry engaged in the production of can tuna fish and other fish related products destined for the US Market. Withdrawal of federal incentives, automatic imposition of federal minimum wage hikes, prohibition of fishing in the high seas by NOAA, reduction of fishing grounds by Presidential Ocean Monuments expansion, grossly insensitive enforcement of United States Coast Guard rules and regulations, and stiff competition from foreign low wage can tuna fish producing foreign countries severely threaten the continued viability of this industry. StarKist Samoa is the only remaining company in the Territory. Two others, Van Camp Samoa Packing and Tri-Marine's Samoa Tuna Processing both terminated their can packing operations and departed the Territory because of impractical federal economic policies.

Thomas Molito
June 3, 2019
Page 3

American Samoa's economy is still going through recovery and the potential eminent loss of StarKist Samoa attributed to the above enumerated factors, will cause the Territory of American Samoa to emulate the financial crisis being experienced by the Territory of Puerto Rico and the Territory of the Virgin Islands. American Samoa will be at the Federal Government's doorstep requesting a bailout if our remaining fish cannery StarKist is forced to relocate its facilities to a low wage can tuna fish producing country.

The above discourse highlights American Samoa's total vulnerability due to its dependence on one industry (one company) and emphasizes the absolute need for economic diversification. Many of the island microstates in the Pacific are aggressively pushing the development of their tourism industries. American Samoa has struggled for a very long time to diversify its economy by developing its tourism industry. These efforts have been exercises in futility because the basic component of the tourism infrastructural system is air transportation. Regrettably, the federal "Cabotage Policy" created a monopolistic air transportation environment and placed American Samoa in a hostage situation subjecting visitors and residents alike to the payment of exorbitant airfares with only two flights a week except for the Summer and Christmas holidays.

Conclusion

The American Samoa Government will continue to provide a conducive business climate to foster private sector success so our people can access opportunities to improve their quality of lives by lifting themselves and their families out of poverty. We are committed and resolved to continually pursue this pathway in a fiscally responsible manner. We will continue to refine our economic development and capital deployment plans to ensure that the proper balance is continuously struck between fiscal discipline and economic expansion. It is abundantly clear that the future of American Samoa is directly affected by policy declarations issued by the Congress of the United States and enforced by the Federal Government. It is also with clarity that we recognize that our needs are dwarfed and overshadowed by the needs of the 50 States, thus we are aggressively and feverishly struggling to assume responsibility for the needs of our people through the exploration of other financing options. Notwithstanding, we will continually reach out to the US Government to straighten and to affectively affirm partnership dedicated to establishing a pathway aided by federal incentives, proactive federal policies, and financial investment which will finally fulfill the United States' political vision for American Samoa articulated by the United States Department of the Interior of full self-reliance and economic self-sufficiency.

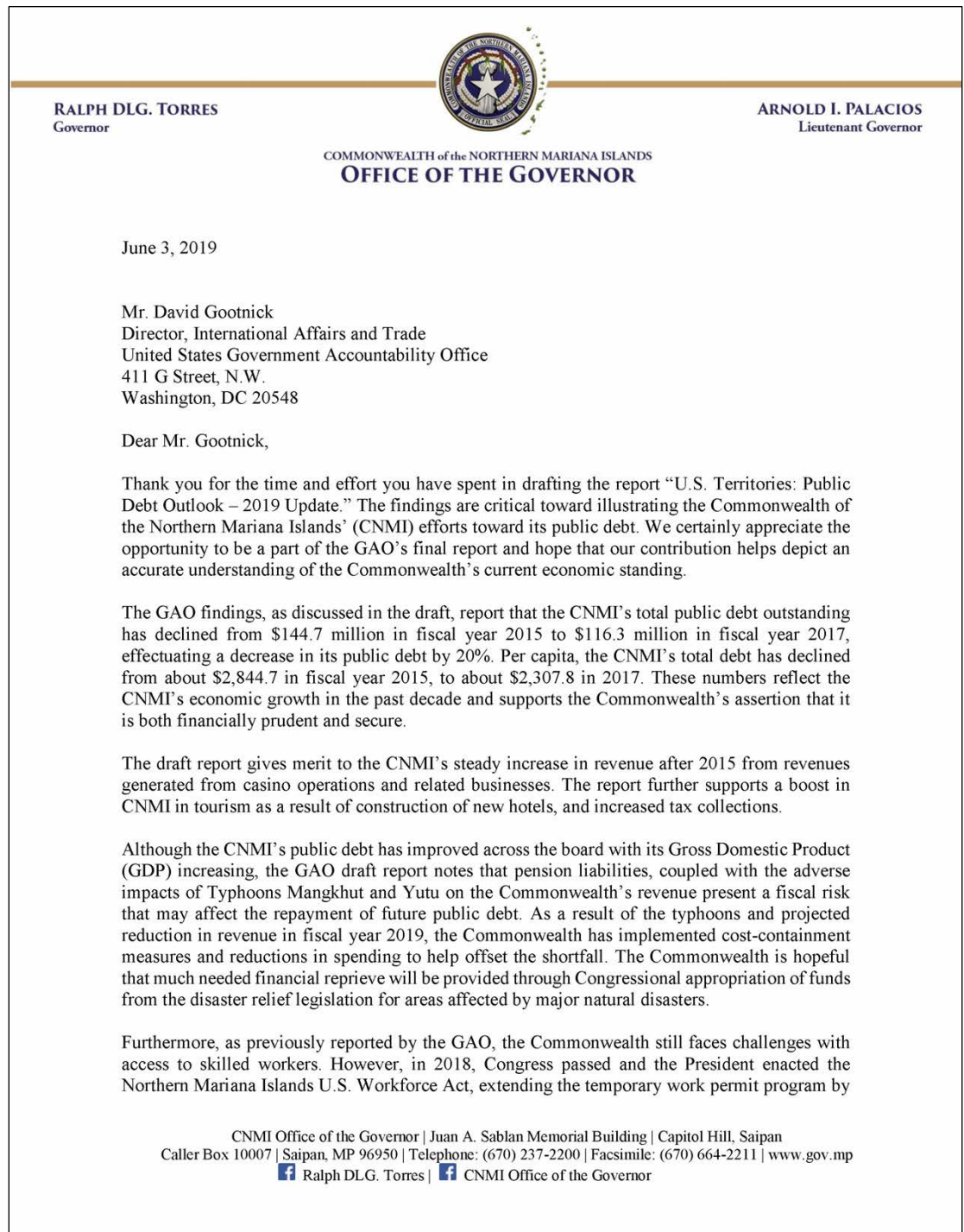
Sincerely,



LEMANU P. MAUGA
Acting Governor of American Samoa

cc: Honorable Aumua Amata Radewagen, Member of Congress
Honorable David Bernhardt, Secretary, US Department of the Interior
Honorable Douglas W. Domenech, Assistant Secretary, Insular and International Affairs
Honorable Nikolao Pula, Director, Office for Insular and International Affairs

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



**Appendix V: Comments from the Government
of the Commonwealth of the Northern Mariana
Islands**

ten years and increasing the number of work permits from 4,999 in fiscal year 2019 to 13,000 beginning on October 1, 2018, along with required decreases annually to 5,000 permits in fiscal year 2029, and then 1,000 permits in the first quarter of 2030. The enactment of the NMI U.S. Workforce Act provides the Commonwealth with a greater opportunity to exert efforts to build upon its workforce capacity over the ten-year period.

Thank you again for your hard work and diligence in putting this report together. I appreciate GAO's willingness to work collaboratively with the CNMI to produce a precise and detailed work product for implementation in the territories' financial planning processes. The discussed data is essential to the CNMI's self-assessments as well as our goal of enhancing the Commonwealth's financial standing in the coming years. I anticipate that the final report will assist us in meeting this objective.

I am hopeful that this report will shed light on the CNMI's dire need for Congressional action in our efforts to sustain and continue to grow our islands' economy.

Sincerely,



RALPH DLG. TORRES
GOVERNOR

Appendix VI: Comments from the Government of Guam

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OFFICE OF THE GOVERNOR

LOURDES A. LEON GUERRERO
MAGA'HAGA • GOVERNOR



JOSHUA F. TENORIO
SIGUNDO MAGA'LÁHI • LIEUTENANT GOVERNOR

June 3, 2019

Tranchau Kris Nguyen
Acting Director, Strategic Issues
United States Government Accountability Office
441 G. Street, N.W., Washington DC 20548

Re: Guam's Response to U.S. Territories: Public Debt Outlook – 2019 Update (GAO-19-525)

Dear Acting Director Nguyen,

Hafa Adai! Thank you for allowing the government of Guam the opportunity to review and respond to the Government Accountability Office (GAO) *U.S. Territories: Public Debt Outlook – 2019 (GAO-19-525)*. We appreciate the collaborative approach the GAO has taken to ensure the accuracy from which Guam is represented in its report. The government of Guam's comments below have been prepared by my Fiscal Discipline Team and it is my hope that the GAO considers the suggestions, recommendations, and explanations provided toward continuing to enhance these reports for the general public.

Public Debt Outstanding, Public Debt per Capita, & Public Debt as a Share of GDP

The government of Guam recommends that the methodology utilized by the GAO in determining public debt be revisited and reconsidered. In the draft GAO-19-525 Report and the prior U.S. Territories Public Debt Outlook (GAO-18-160), the GAO identified public debt to include both the primary government and component unit debt.

As was previously stated in the government of Guam's comments to the GAO-18-160 Report and as is the practice in the Municipal Finance Market, tax-supported debt (or the primary government debt) truly reflects the core of Guam's outstanding debt obligations. The inclusion of public enterprise or revenue bonds issued by the Guam Waterworks Authority (GWA), the Guam Power Authority (GPA), the A.B. Won Pat Guam International Airport Authority (GIAA), and the Jose D. Leon Guerrero Commercial Port (Port) does not take into consideration the unique differences the government of Guam as well as the U.S. territories have in relation to states, which may include school districts, cities, counties, and transportation districts.

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The GAO previously understood the uniqueness of a jurisdiction that has similar circumstances as those in the U.S. Territories in its November 1994 GAO/AIMD-95-19, District of Columbia Information on the District’s Debt Report. In the GAO/AIMD-95-19 Report, the GAO calculated the District of Columbia’s public debt per capita and stated the following:

The District of Columbia’s overall net debt per capita was \$6,315, and the ratio of net debt to taxable real property was 8.1 percent. Although both ratios are high when compared with other cities, counties, or states, **comparing the District’s debt limitations and amount of debt with other jurisdictions is problematic because of the unique nature of the District.** For example, **debt limits for state, counties, and cities would only affect the debts incurred to finance the functions carried out by the specific jurisdiction. In contrast, the District has a single debt limit applicable to carry out all its governmental functions, whether these functions are representative of those carried out by states, counties, or cities. Thus, comparing the District’s ratios to state, county, or city debt ratios may not be a meaningful comparison to the extent the District’s debt is used to finance functions that may overlap functions financed by state, county and city debt.** For example, the District’s debt would include debt related to typical city functions (for example, police and fire protection) as well as debt associated with typical state and county functions (for example, motor vehicle and driver licensing). District officials also pointed out that other unique factors make comparing the District to other jurisdictions difficult. They noted that unlike most cities and counties, sales and income tax provide a substantial portion of the District’s tax revenue. Therefore, the debt/taxable real property ratio is not meaningful to compare the District to other jurisdictions¹. *Emphasis added*

Further to the discussion of the calculation of debt per capita, in the GAO/AMID-95-19 Report, the GAO relied upon Moody’s Investors Service’s calculation of “Overall net debt per capita².” The government of Guam highlights that the “Overall net debt per capita” noted:

Amount of debt for a jurisdiction used in this calculation refers only to debt of that jurisdiction. For example, the debt per capita for a city would not include any debt of the state. In contrast, calculations of debt per capita of the District include debt that covers both city and state functions³.

The GAO was keenly aware of the differing levels of governments found in states and local jurisdictions that may provide sufficient justification for the government of Guam’s recommendation of calculating debt per capital less component unit debt or, a variation of calculating public debt per capita and public debt to nominal Gross Domestic Product (GDP) as discussed below.

¹ See GAO/AIMD-95-19 *District of Columbia Information on the District’s Debt* published in November 1994: pages 10 – 11.

² See GAO/AIMD-95-19 *District of Columbia Information on the District’s Debt* published in November 1994: Table 3 page 10.

³ See GAO/AIMD-95-19 *District of Columbia Information on the District’s Debt* published in November 1994: Footnote (a) on Table 3 page 10.

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The government of Guam understands that the report does not intend to compare or rank the U.S. Territories⁴ as it relates to its total public debt, its public debt per capita, or public debt as a percent of GDP nor does it attempt to compare such ratios to other U.S. states or jurisdictions. Given the lack of such comparisons and the apparent flexibility in the GAO’s ability to represent such data and ratios, the government of Guam recommends that the report differentiate between primary government and component unit debt and the two separate “types” of public debt per capita and public debt to GDP as found in Tables 1 and 2.

Table 1.
Primary Government Debt, Primary Government Debt Per Capita, & Primary Government Debt to GDP FYs 2015 - 2017

	Primary Government	FY 2015	FY 2016	FY 2017
(a)	Total Primary Government Debt⁵	1,075,112,614	1,115,052,231	1,096,752,318
(b)	Population ⁶	161,500	162,000	162,500
(a)/(b)	Primary Government Debt Per Capita	6,657	6,883	6,749
(c)	GDP ⁶	5,710,000,000	5,793,000,000	5,859,000,000
(a)/(c)	Primary Government Debt to GDP	18.8%	19.2%	18.7%

Based on the government of Guam’s calculations specific to tax-supported or primary government debt at the end of FY 2017, the debt per capita was **\$6,749** and the Debt to GDP is **18.7%**.

Table 2.
Component Unit Debt, Component Unit Debt Per Capita, & Component Unit Debt to GDP FYs 2015 - 2017

	Component Units	FY 2015	FY 2016	FY 2017
(a)	Total Component Units Debt⁵	1,321,848,825	1,408,949,539	1,387,701,636
(b)	Population ⁶	161,500	162,000	162,500
(a)/(b)	Component Unit Debt Per Capita	8,185	8,697	8,540
(c)	GDP ⁶	5,710,000,000	5,793,000,000	5,859,000,000
(a)/(c)	Component Unit Debt to GDP	23.1%	24.3%	23.7%

Based on the government of Guam’s calculations specific to public enterprise or component unit debt at the end of FY 2017, the debt per capita was **\$8,540** and the Debt to GDP is **23.7%**.

⁴ See GAO-18-160 *U.S. Territories Public Debt Outlook* published in October 2017; GAO Comment # 8 to Guam, page 77.
⁵ Data taken from the *Schedule of Outstanding Debt* found in the FYs 2015 through 2017 Government-Wide Audited Financial Statements; pages 206 (FY15), 211 (FY16), and 217 (FY17). Amounts do not include premiums and discounts on bonds payable.
⁶ Data taken from the U.S. Department of Commerce, Bureau of Economic Analysis.

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The government of Guam believes that presenting these two calculations of public debt per capita and public debt as a share of GDP will enhance the overall report and provide clarity as to the uniqueness of the U.S. Territories as was identified in the aforementioned previous GAO report on the District of Columbia.

Net Pension Liability Explanation

The draft GAO-19-525 Report notes that the government of Guam’s Net Pension Liability (NPL) increased from \$1.2 billion to \$1.6 billion and references several changes having been made to the government of Guam’s retirement system that took effect January 1, 2018, including increasing the contribution rate and creating a new defined benefit plan for existing employees. It appears to represent that such an increase in the NPL was due to this new retirement plan that will have took effect three months after FY 2017 ended. The government of Guam would like to provide clarity on this issue.

Pursuant to the requirements of Government Accounting Standards Board (GASB) Statement No. 73⁷, such standard was implemented as of the FY 2017 Government-Wide Audited Financial Statements⁸. Although this prospectively added an Ad Hoc Cost of Living Allowances (COLA) and Supplemental Annuity Benefits for Defined Benefit Plan (DBP) Retirees and Ad Hoc COLA Plan for Defined Contribution Retirement System Retirees (DCRS), if such implementation was retroactively applied or implemented in FYs 2015 and 2016, the NPL may not have represented a material change in FY 2017. But, prospectively adding these two additional items to the NPL adjusted the NPL by approximately \$163 million and \$41.07 million, respectively⁹, totaling \$204.07 million. Additionally, the Ad Hoc COLA Plan and Supplemental Annuity Benefits for DBP Retirees and the Ad Hoc COLA Plan for DCRS Retirees do represent contractual pension commitments, rather they are an annual consideration in the budgetary process.

Additionally, the Discount Rate utilized to calculate the NPL in the FY 2015 Government-Wide Audited Financial Statements was 7.0%¹⁰ whereas the FY 2017 Discount Rate used was 6.70%. Due to a lower Discount Rate used in FY 2017, the NPL increased as compared to FY 2015.

These two factors; (1) the implementation of GASB Statement No. 73 and (2) the use of a lower Discount Rate in FY 2017 as compared to FY 2015, explain much of the increase in the NPL from \$1.2 billion in FY 2015 to \$1.6 billion in FY 2017. Once again, the creation of a new DB pension plan¹¹ as cited in the draft GAO-19-525 Report will have an impact on the FY 2018 Government-Wide Audited Financial Statements but does not have an impact as of the period scope of the draft GAO-19-525 Report.

Pension Liabilities a Minimal Fiscal Risk: Elimination of the Unfunded Actuarial Accrued Liability by May 1, 2033

⁷ GASB Statement No. 73 is Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements No. 67 and No. 68

⁸ See FY 2017 Government-Wide Audited Financial Statements: Note 1(X).

⁹ See FY 2017 Government-Wide Audited Financial Statements: Note 11(A).

¹⁰ See FY 2015 Government-Wide Audited Financial Statements: Note 11(A).

¹¹ See Guam Public Law 33-186.

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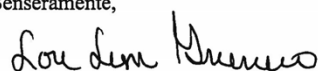
The government of Guam’s Unfunded Actuarial Accrued Liability (UAAL) is required to be fully funded by May 1, 2033 in accordance with Guam law¹². Such Guam law requires that the UAAL be amortized over a period of eighty-two (82) years following May 1, 1951 pursuant to an amendment extending such amortization period by two (2) years. The government of Guam has continued to rely upon the annual Actuarial Valuation conducted and provided by the Government of Guam Retirement Fund (GGRF) to ensure the Contribution Rate to be paid as a percent of total salaries of all members of the GGRF (all government of Guam employees) meet the actuarially determined rate.

An amortization period of fifteen (15) to twenty (20) years has been found to be the preferred range for UAAL amortization periods by the Government Finance Officers Association Best Practice, the Conference of Consulting Actuaries Public Plans Community, and the Academy of Actuaries.

Although the draft GAO-19-525 Report states “Pension liabilities present a fiscal risk” as a Key Finding, the government of Guam suggests that given an amortization period as of the end of FY 2017 of fifteen (15) years and eight (8) months and a statutorily required funded period of May 1, 2033, the draft GAO-19-525 Report could identify the pension liabilities as not, or minimally posing, a fiscal risk given the aforementioned preferred range for UAAL amortization periods.

It is my hope that the GAO fully considers the recommendations and explanations provided by my Fiscal Discipline Team toward further enhancing the GAO’s report on U.S. Territories’ Debt. Once again, thank you for the opportunity to provide an official response to the draft GAO-19-525 Report. If you have any further questions or concerns, please do not hesitate to contact my Fiscal Discipline Team.

Senseramente,



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

¹² See § 8137(b), Chapter 8, Title 4 of the Guam Code Annotated.

Appendix VII: GAO Contacts and Staff Acknowledgments

GAO Contacts

Tranchau (Kris) T. Nguyen at (202) 512-6806 or nguyentt@gao.gov or David Gootnick at (202) 512-3149 or gootnickd@gao.gov

Staff Acknowledgments

In addition to the contacts named above, Tara Carter (Assistant Director), Emil Friberg (Assistant Director), Divya Bali (Analyst-in-Charge), Pedro Almoguera, Nicole Burkart, Karen Cassidy, Gioia Chaouch, Gita DeVaney, Colleen Heywood, Dawn Simpson, Andrew J. Stephens, Eddie Uyekawa, and J. Mark Yoder made significant contributions to this report. Ann Czapiewski, John Hussey, and Christopher Keblitis also contributed to this report.

Related GAO Products

2017 Hurricane Season: Federal Support for Electricity Grid Restoration in the U.S. Virgin Islands and Puerto Rico. [GAO-19-296](#). Washington D.C.: April 18, 2019.

Disaster Recovery: Better Monitoring of Block Grant Funds Is Needed. [GAO-19-232](#). Washington D.C.: March 25, 2019

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