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June 2023

# U.S. TERRITORIES

## Public Debt Outlook – 2023 Update

# GAO Highlights

Highlights of [GAO-23-106045](#), a report to congressional committees

## Why GAO Did This Study

The five permanently inhabited U.S. territories—Puerto Rico, Guam, USVI, CNMI, and American Samoa—historically borrowed through financial markets. Puerto Rico, in particular, amassed large amounts of debt and defaulted on debt payments in 2015.

The territories all face challenges to achieving sustained economic growth, which is critical to debt sustainability. Challenges include, for example, (1) the location of the islands that leads to the high cost of importing goods and energy; (2) vulnerability to increasing frequency and severity of extreme weather events; (3) concentrated economies relying on limited industries; and (4) outmigration and population loss.

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

In this report, for each of the five territories, GAO updates (1) trends in public debt and its composition; (2) trends in revenue and expenses; and (3) risk factors that may affect each territory's ability to repay public debt. GAO analyzed audited financial statements for fiscal years 2019, 2020, and 2021, as available; reviewed demographic and economic data for each territory; and interviewed credit rating agencies and officials from the territories' governments.

View [GAO-23-106045](#). For more information, contact Yvonne Jones at (202) 512-6806 or [JonesY@gao.gov](mailto:JonesY@gao.gov) or Latesha Love-Grayer at (202) 512-4409 or [LoveGrayerL@gao.gov](mailto:LoveGrayerL@gao.gov).

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## U.S. TERRITORIES

### Public Debt Outlook - 2023 Update

## What GAO Found

GAO identified the most significant factors—which vary by territory—affecting each territory's future capacity for economic growth and debt repayment.

**Commonwealth of Puerto Rico:** Puerto Rico's gross domestic product (GDP) was \$106.5 billion as of June 30, 2021. In March 2022, Puerto Rico finalized its largest debt restructuring: issuing \$7.4 billion in new bonds replacing \$34.3 billion in outstanding bonds (a 78 percent reduction). The restructuring also contained several initiatives to reform Puerto Rico's struggling pension system, including a new trust fund—financed by government surpluses—to support future pension payments. Finalizing the overhaul of electric and power operations and adhering to fiscal and financial management reforms are critical to sustained economic growth.

**Guam:** As of September 30, 2021, Guam's total public debt outstanding was almost \$2.6 billion, or about 43 percent of GDP (\$6.1 billion). Guam's inflation-adjusted GDP declined by almost 2 percent annually from fiscal year 2016 to 2021. The drop reflected the decline in tourism due to COVID-19. However, Guam's economy is showing signs of recovery. The recent opening of the third U.S. military base on the island is expected to stimulate economic growth.

**United States Virgin Islands (USVI):** USVI's GDP was \$4.2 billion in fiscal year 2020. As of September 30, 2019—the last year for which USVI reported data—public debt outstanding was more than \$2.6 billion, or about 65 percent of USVI's GDP in that year. In March 2022, USVI refinanced bonds. This created a dedicated source of revenue to fund its pension system, which in turn temporarily extended pension solvency. However, the USVI government's ability to access traditional capital markets is uncertain. This leaves it without financing flexibility as it faces serious economic, financial, and demographic challenges. These include a shrinking population, dependence on the volatile tourism industry, and weak financial management practices.

**Commonwealth of the Northern Mariana Islands (CNMI):** As of September 30, 2020, CNMI's total public debt outstanding was about \$114.1 million, or about 12 percent of GDP (\$938.8 million). This reflects CNMI's inability to borrow through capital markets in recent years. CNMI has struggled to finance its pension plan. CNMI officials told GAO they are uncertain how the government will meet its financial obligations. Moreover, its economy continues to decline with limited prospects for recovery as its tourism industry struggles and its largest casino is closed and unlikely to reopen soon. CNMI's financial management and reporting has also worsened. With CNMI's limited financial prospects and weak financial management practices persisting, CNMI is at risk of a severe fiscal crisis.

**American Samoa:** As of September 30, 2021, American Samoa's total debt outstanding was \$162.2 million, or about 23 percent of GDP (\$710.8 million). This reflects recent borrowing to invest in its infrastructure. The government's pension plan is underfunded and the government is increasing contributions to extend solvency. American Samoa's economy is stable but continues to depend almost entirely on activity generated by the Starkist Samoa Co. tuna cannery and government employment. Prospects for economic growth outside of these areas face challenges.

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### Abbreviations

BEA	U.S. Bureau of Economic Analysis
CNMI	Commonwealth of the Northern Mariana Islands
GDP	gross domestic product
GNP	gross national product
PREPA	Puerto Rico Electricity and Power Authority
PROMESA	Puerto Rico Oversight, Management, and Economic Stability Act
USVI	U.S. Virgin Islands

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June 29, 2023

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

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

As the five permanently-inhabited U.S. territories—the Commonwealth of Puerto Rico, American Samoa, the Commonwealth of Northern Mariana Islands (CNMI), Guam, and the U.S. Virgin Islands (USVI)—emerge from the challenging economic conditions resulting from the COVID-19 pandemic and recent severe weather events, they must also address concerns about debt sustainability, financial accountability, and economic growth.

The U.S. territories all face challenges to achieving sustained economic growth. These include (1) the high cost of importing goods and energy; (2) vulnerability to increasing frequency and severity of extreme weather events; (3) concentrated economies relying on limited industries; and (4) outmigration and population loss.

The Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA) included a provision for us to review the public debt of each U.S. territory every 2 years.<sup>1</sup> We issued reports on the territories' public debt in October 2017, June 2019, and June 2021.<sup>2</sup>

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<sup>1</sup>Pub. L. No. 114-187, § 411, 130 Stat. 549, 594–595 (2016).

<sup>2</sup>GAO, *U.S. Territories: Public Debt Outlook- 2021 Update*, [GAO-21-508](#) (Washington, D.C.: June 30, 2021); *U.S. Territories: Public Debt Outlook-2019 Update*, [GAO-19-525](#) (Washington, D.C.: June 28, 2019); and *U.S. Territories: Public Debt Outlook*, [GAO-18-160](#) (Washington, D.C.: Oct. 2, 2017).

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We analyze each territory as a distinct entity because of the wide variation among the territories, including differences in size, populations, geography, and economies. In this report, we present the territories by the size of their respective economies as measured by gross domestic product: Puerto Rico, Guam, USVI, CNMI, and American Samoa.

For each of the five territories, this report updates information from our prior reports on (1) trends in public debt and its composition, (2) trends in revenue and expenses, and (3) risk factors that may affect each territory's ability to repay public debt.

**The primary government** is any state or local government or special-purpose government with a separately elected governing body that is legally separate and fiscally independent of other state and local governments.

**Component units** are legally separate entities for which the primary government is financially accountable. A component unit may be a governmental organization, a nonprofit corporation, or a for-profit corporation.

Source: Government Accounting Standards Board. | GAO-23-106045

To provide updated financial information, we analyzed financial data reported in each territory's audited government-wide financial statements for the most recent fiscal years available as of June 15, 2023.<sup>3</sup> Since our prior report of June 2021, Puerto Rico issued fiscal years 2018, 2019, 2020, and 2021; Guam issued fiscal years 2020 and 2021; USVI issued fiscal year 2019; CNMI issued fiscal year 2020; and American Samoa issued fiscal years 2020 and 2021. Government-wide financial statements include separate financial information for the territories' primary government and component units (see sidebar).<sup>4</sup>

To describe the long-term obligations for each territory, we calculated public debt outstanding. For the purposes of this report, public debt outstanding is the sum of bonds and other debt held by and payable to the public. Marketable debt securities—primarily bonds with long-term maturities—are the main vehicle by which the territories access capital markets. Other debt payable may include marketable notes issued by territorial governments, nonmarketable intragovernmental notes, notes and loans held by local banks, federal loans, and intragovernmental loans. Liabilities related to postretirement benefits, for example pension

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<sup>3</sup>Government-wide financial statements include both the Statement of Net Position and Statement of Activities. We also reviewed related audited note disclosures.

<sup>4</sup>Component units can also be other organizations for which the nature and significance of their relationship with a primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. Some component units, despite being legally separate from the primary government, are so intertwined with the primary government that they are, in substance, the same as the primary government and are reported as part of the primary government in the government-wide financial statements. These component units are referred to as blended component units. In this report, when we mention component units we are referring to discretely presented component units, or those for which financial data are reported separately on the government-wide financial statements.

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payments to retirees, are not included in our definition of public debt, but are discussed separately in this report.

To describe information on the fiscal condition of each territory, we examined recent trends in revenue and expense data for primary governments and component units (in aggregate). When possible, we compare data for the most current fiscal year available with data from fiscal year 2019—which represents the territory’s fiscal condition prior to the COVID-19 pandemic. If total revenues exceeded total expenses, a territory will report a surplus for that fiscal year. On the other hand, if total expenses exceeded total revenues, a territory will report a deficit.<sup>5</sup>

To determine current risk factors that may affect each territory’s ability to repay its debt, we obtained and reviewed relevant documentation, reports, and analyses from the territorial governments and rating agencies. We also analyzed gross domestic product (GDP) estimates from the U.S. Bureau of Economic Analysis (BEA) and population estimates from the U.S. Census Bureau.<sup>6</sup> We reviewed economic research on the U.S. territories, including the credit rating frameworks for states and localities. To understand the financial management practices in each territory, we reviewed independent auditors’ reports on the territories’ annual financial statements and the types of opinions they expressed. We reviewed the auditor’s reports on internal control over financial reporting and any identified audit findings. We also assessed the timeliness of the territories’ audited financial statements.<sup>7</sup>

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<sup>5</sup>We reported the revenues and expense data in nominal terms, meaning that the values are not adjusted for inflation.

<sup>6</sup>BEA reports GDP on a calendar-year basis. We converted BEA’s GDP estimates to fiscal year to allow for comparison with financial indicators that are reported in fiscal year. When analyzing a territory’s GDP over time, we use real GDP, which has been adjusted for inflation. We also calculated a compound annual growth rate over periods of 5 fiscal years to describe recent trends in each territory’s economic condition.

<sup>7</sup>Guam, USVI, CNMI, and American Samoa provide audited financial statements and other financial-related reports in accordance with the Single Audit Act, 31 U.S.C. §7502(a)(1), (d)(2). Single audit reporting packages must be submitted to the Federal Audit Clearinghouse within the earlier of 30 calendar days after receipt of the auditor’s report(s), or 9 months after the end of the period under audit. 31 U.S.C. § 7502(h). For this report, we used the date 9 months after the end of the period under audit to determine timely submission. Puerto Rico provides audited financial statements but does not submit single audit report packages to the Federal Audit Clearinghouse. Therefore, we used the date of the auditor’s report to determine timeliness for Puerto Rico.



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We traveled to all five territories to conduct our audit work. We interviewed officials from each of the territorial governments, including departments of finance or treasury, and the agencies responsible for issuing and marketing bonds. We also interviewed officials from credit rating agencies, subject matter experts, and officials from the Department of the Interior's Office of Insular Affairs.

We conducted this performance audit from June 2022 to June 2023 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.

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## Background

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### Demographics and Economic Activity in U.S. Territories

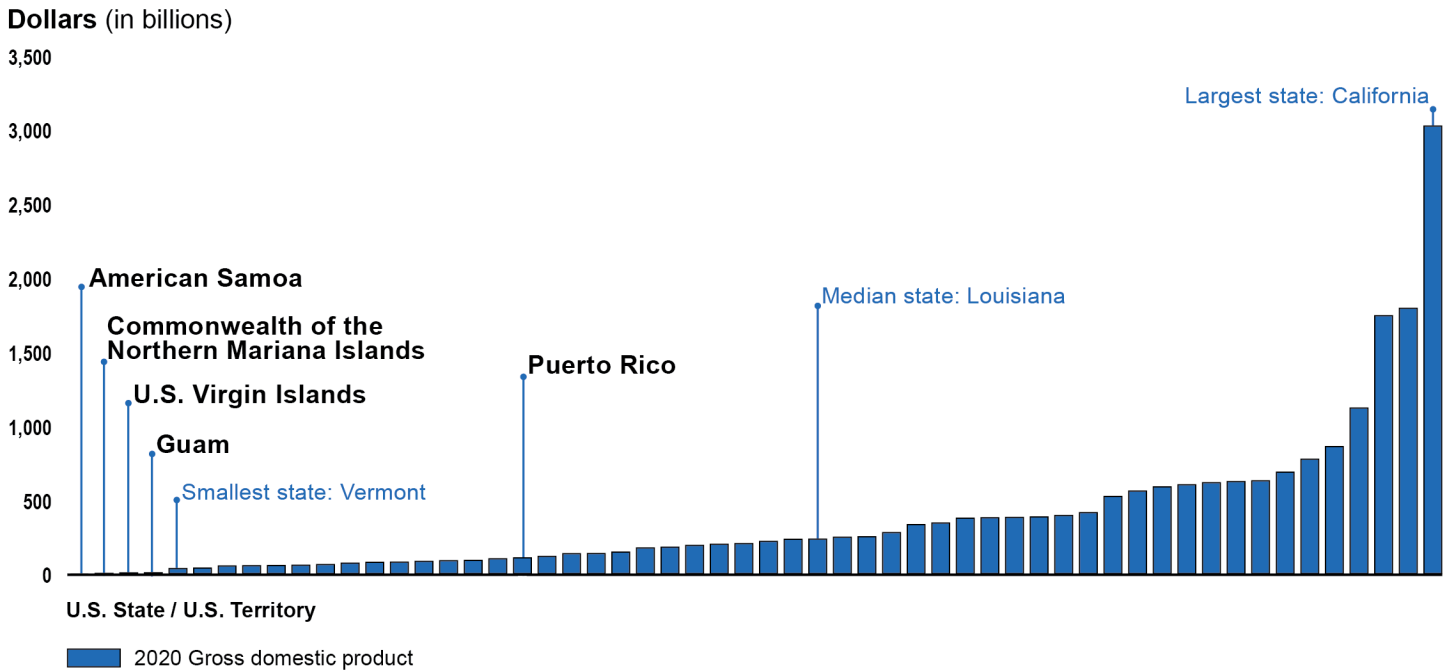
**Gross Domestic Product** is a comprehensive time-series measure of economic activity for a territory, specifically the value of the goods and services produced within its border.

Source: U.S. Bureau of Economic Analysis. | GAO-23-106045

The residents of the five U.S. territories are U.S. citizens, or nationals in the case of American Samoa. Puerto Rico and USVI are located in the Caribbean near both the mainland U.S. and Central and South America. Guam, CNMI, and American Samoa are located across stretches of the south and west Pacific, which are important trade routes and significant to U.S. military defense. Puerto Rico's population was 3.3 million in 2021. The combined population of Guam, USVI, CNMI, and American Samoa was a little less than 339,000 in 2020 according to the U.S. Census Bureau.

Economic activity—as measured by GDP—in the territories reflects the structures of their respective economies, the influx of federal disaster funds and pandemic-related financial assistance, and the severity of the effect of the COVID-19 pandemic. Guam, USVI, CNMI, and American Samoa are small island areas with commensurately small economies. To provide perspective on the economic activity of these territories relative to U.S. states, these four territories had lower GDP levels than all other states in the U.S in 2020 (see fig. 1).

**Figure 1: Gross Domestic Product for U.S. States and U.S. Territories, 2020**



Source: GAO analysis of data from the U.S. Bureau of Economic Analysis. | GAO-23-106045

## Public Debt in the Five U.S. Territories

**Municipal bonds** are debt securities issued by states, counties, and other subnational governmental entities to fund day-to-day obligations and finance capital projects such as building schools, highways, or sewer systems. Investors buying municipal bonds are, in effect, lending money to the bond issuer in exchange for a promise of regular interest payments, and the return of the original investment—the principal—when the bond matures.

Source: Securities and Exchange Commission. | GAO-23-106045

Similar to U.S. states and municipalities, the territories' primary governments and component units can issue bonds to borrow money through financial markets. Borrowing is a common financial management tool for governments to bridge the gap between tax receipts and the money required to fund government programs. Borrowing also provides a government with the flexibility to finance long-term investments, such as building schools, roads, and hospitals.

Generally, debt in itself is not an indicator of financial or economic distress. In fact, the ability to issue bonds and access capital markets is often a sign of good fiscal and economic fundamentals. In theory, borrowing to finance capital improvements, rebuilding efforts, and infrastructure projects would yield economic activity and growth, helping to offset the cost of borrowing. In contrast, in state and local budgeting, issuing debt to finance general government operations may signal fiscal and economic distress. For example, we previously reported that Puerto

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Rico's use of bonds to balance its budgets was a key contributor to its debt and fiscal crisis.<sup>8</sup>

In prior reports in this series, we highlighted the risks that arise if a government is unable to borrow through capital markets, because, for example, the cost to borrow is prohibitive or the issuer is in default.<sup>9</sup> Governments that cannot borrow from capital markets do not have access to a source of financing that can provide flexibility to respond to an unexpected event, such as the COVID-19 pandemic or an extreme weather event.

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## Liabilities for Pensions and Other Postemployment Benefits

**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. These risks could also be 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-23-106045

Liabilities for pension benefits represent an explicit fiscal risk (see sidebar). We have previously reported that several territories have faced challenges with funding pension benefits.<sup>10</sup> In addition to pension benefits, governments may also provide retired employees other benefits, such as health care benefits, life and disability insurance, as well as other services. These are referred to as "other postemployment benefits" or OPEB liabilities in the government-wide financial statements.<sup>11</sup> Like most states and municipalities, the territories pay for these benefits on an ongoing basis rather than from a dedicated funded system in which benefits are financed by prior investments in a pension fund.

Given that health care costs are increasing at a rate faster than inflation, liabilities for other postemployment benefits could present a significant fiscal risk to the government. Large and growing liabilities related to pension and other postemployment benefits can significantly affect a territory's fiscal health, as fewer resources are available for government programs and other obligations. For example, these liabilities may impair a territory's ability to make debt service payments on outstanding bonds and other debt held by and payable to the public.

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<sup>8</sup>See GAO, *Puerto Rico: Factors Contributing to the Debt Crisis and Potential Federal Actions to Address Them*, [GAO-18-387](#) (Washington, D.C.: May 9, 2018).

<sup>9</sup>See [GAO-21-508](#) and [GAO-19-525](#).

<sup>10</sup>See [GAO-21-508](#).

<sup>11</sup>In this report we examine each territory's net pension liability and other postemployment benefits liability. A net pension liability is the difference between the total pension liability (the present value of projected benefit payments to employees based on their past service) and the assets (mostly investments reported at fair value) set aside in a trust and restricted to paying benefits to current employees, retirees, and their beneficiaries. CNMI and American Samoa do not report any liabilities related to other postemployment benefits on the territories' Statement of Net Position.

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## Financial Management and Accountability in the U.S. Territories

A key part of financial accountability is transparency and the availability of reliable and timely information to policymakers, oversight entities, and the public. Territorial governments—similar to states and municipalities—publish annual financial statements. Financial reporting by state and local governments is used for economic, social, and political decisions and in assessing accountability. Reliable and timely financial statements also provide valuable information to government creditors and investors considering investing in municipal bonds.

The territories' financial statements are audited each year by independent public accountants to determine if the financial statements are presented fairly in accordance with U.S. generally accepted accounting principles. Auditors express multiple opinions on the territories' combined financial statements, one for each opinion unit.<sup>12</sup> For example, if the auditor concludes that the financial statement information for an opinion unit is presented fairly, in all material respects, in accordance with U.S. generally accepted accounting principles, the auditor will give an unmodified opinion.

The territories' management is responsible for the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error. An effective internal control system helps provide reasonable assurance that the territory's financial objectives will be achieved. It also helps the government and its managers adapt to shifting environments, evolving demands, changing risks, and new priorities. As part of the financial statement audit, auditors report any deficiencies they identify in internal control over financial reporting (known as audit findings) and provide the territory's management with recommendations for corrective action.<sup>13</sup>

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<sup>12</sup>Generally, the opinion units related to the government-wide financial statements include the primary government's governmental activities and business-type activities and the aggregate discretely presented component units (component units).

<sup>13</sup>There are two different types of reportable deficiencies in internal control over financial reporting. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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The territories have long-standing financial accountability problems, including the late submission of annual audited financial statements, the inability to achieve unmodified audit opinions on the financial statements, and numerous material weaknesses in internal control over financial reporting.<sup>14</sup> We discuss these issues further throughout this report.

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<sup>14</sup>See for example, GAO, *U.S. Insular Areas: Economic, Fiscal, and Financial Accountability Challenges*, [GAO-07-119](#) (Washington, D.C.: Dec. 12, 2006).



## COMMONWEALTH OF PUERTO RICO

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

**PHYSICAL SIZE** 3,425 square miles

**POPULATION IN 2021** 3.3 million

**GROSS DOMESTIC PRODUCT IN FISCAL YEAR 2021** \$106.5 billion

**PRIMARY INDUSTRIES** Pharmaceutical and other manufacturing, real estate, financial services, retail and tourism

### KEY UPDATES

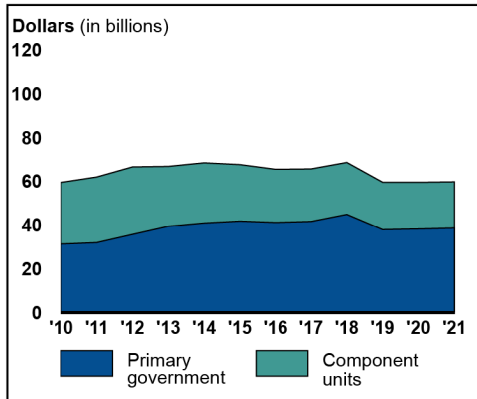
2022 restructuring reduced debt obligations by \$26.9 billion

Pending overhaul of electric and power operations is key to economic growth

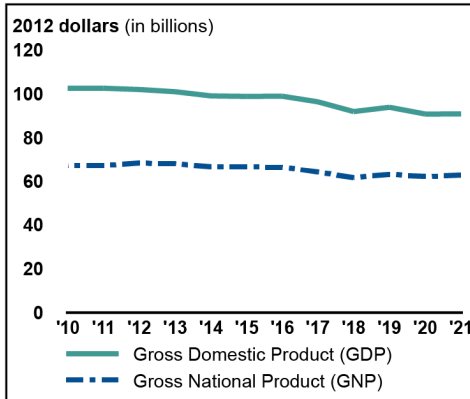
Maintaining fiscal, structural, and financial management and reporting reforms is critical

## PUERTO RICO PUBLIC DEBT AND ECONOMIC CONDITION, FISCAL YEARS 2010-2021

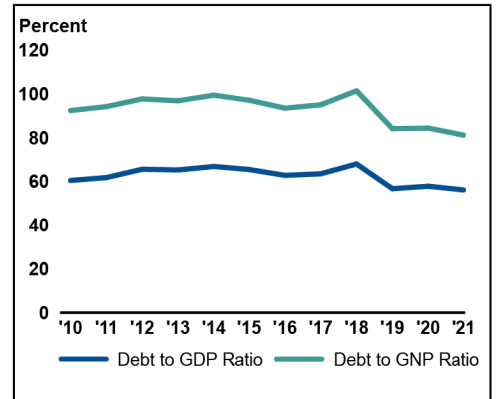
### PUBLIC DEBT OUTSTANDING



### REAL GDP AND REAL GNP



### DEBT AS A SHARE OF GDP AND GNP



Source: GAO analysis of audited financial statements and economic data from Puerto Rico's Planning Board. | GAO-23-106045

Notes: Puerto Rico's fiscal year is July 1 to June 30. Real values are adjusted to remove the effects of inflation. We present GNP in addition to GDP because GNP measures the value of goods and services produced by Puerto Rico residents, whereas GDP includes economic activity generated by foreign companies located in Puerto Rico.

### Puerto Rico: Economic and Demographic Trends

Gross Domestic Product (GDP)	Puerto Rico's GDP was \$106.5 billion and its GNP was \$73.6 billion as of June 30, 2021. In real terms, GDP declined by 3 percent from 2015 to 2020. This decline reflects the economic effect of Puerto Rico's debt crisis, the 2017 hurricanes, and the COVID-19 pandemic. GDP is expected to increase as federal funding for hurricane rebuilding and COVID-19 recovery continues to support economic activity. The completion of Puerto Rico's major debt restructuring in 2022 is an important condition for economic growth.
Long-term liabilities	As of January 2023, Puerto Rico's restructured debt obligations totaled about \$28.6 billion. This does not include debt obligations of about \$8.3 billion for Puerto Rico Power and Electricity Authority, which is pending restructuring. The 2022 restructuring also contained several initiatives to reform Puerto Rico's struggling pension system, including establishing a trust fund—financed by government surpluses—to support future pension payments.
Population	Puerto Rico's population was 3.3 million in 2021—almost 12 percent less than in 2010, according to the U.S. Census Bureau. If this trend continues, the government will face additional challenges. For example, fewer working-age residents means less employment tax revenue and less economic activity.

Source: GAO analysis of data from U.S. Bureau of Economic Analysis, U.S. Census Bureau, and Puerto Rico government. | GAO-23-106045

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## 2022 Restructuring Reduced Puerto Rico Debt Obligations by \$26.9 Billion

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### Restructured Debt Obligations

In March 2022, 7 years after it defaulted on payments to its bondholders, the Puerto Rico government implemented an agreement with bondholders on a plan that allowed Puerto Rico to restructure its existing general obligation debt under Title III of the Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA).<sup>15</sup> Specifically, the Government of Puerto Rico issued \$7.4 billion in General Obligation Restructured Bonds to existing bondholders, replacing outstanding debt obligations totaling \$34.3 billion (a 78 percent reduction).<sup>16</sup>

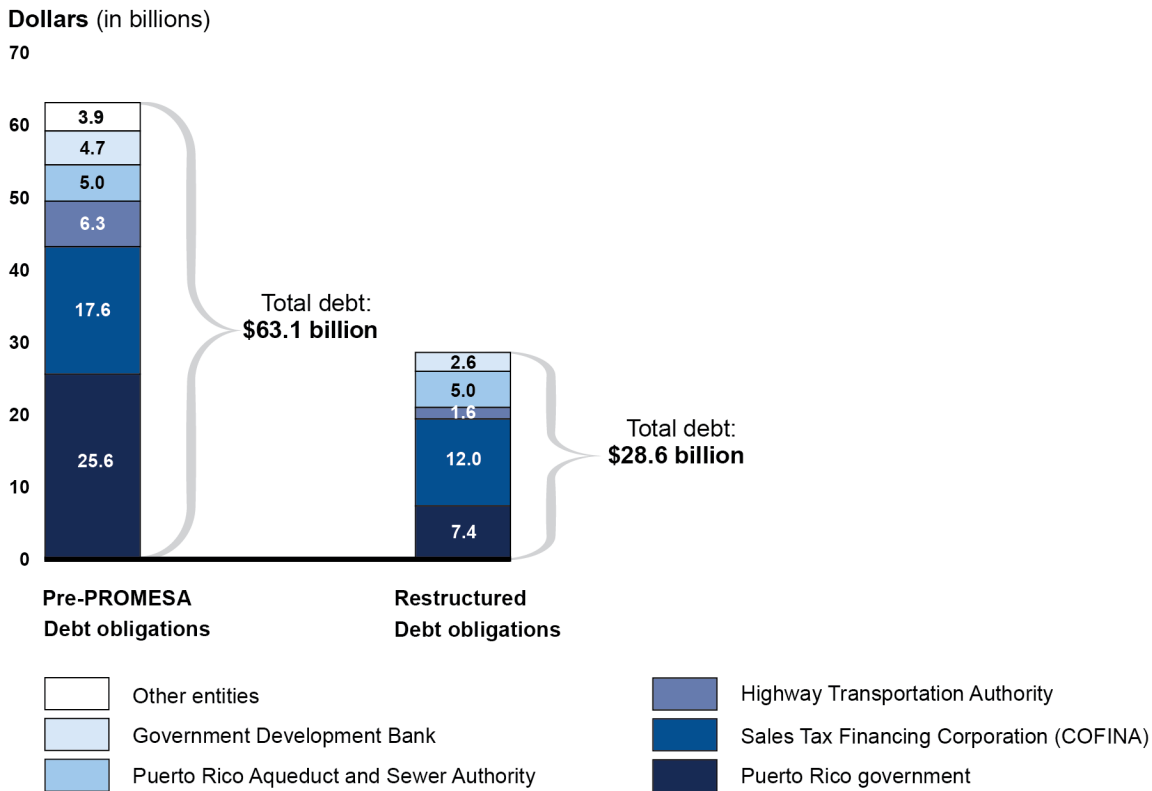
This most recent restructuring is a significant step in its recovery from the fiscal crisis and represents the largest municipal debt restructuring in U.S. history. The general obligation restructuring adds to other component debt restructurings completed in recent years, resulting in a total \$34.5 billion (55 percent) reduction in outstanding debt (see fig. 2).

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<sup>15</sup>PROMESA established two debt restructuring processes under Titles III and VI respectively. Title III is similar to municipal bankruptcy under Chapter 9 of the U.S. Bankruptcy Code. Pub. L. No. 115-187, §§ 301–317, 601–602, 130 Stat. at 577–585, 603–609.

<sup>16</sup>In addition to the new general obligation bonds, bondholders received cash and Contingent Value Instrument bonds that pay investors if sales tax collections exceed a defined threshold. See Puerto Rico Fiscal Agency and Financial Advisory Authority, *Municipal Secondary Market Disclosure Information Cover Sheet: Information regarding the Commonwealth of Puerto Rico General Obligation Restructured Bonds, Series 2022A* (San Juan, Puerto Rico: Mar. 16, 2022).

**Figure 2: Puerto Rico’s Debt Obligations, pre-PROMESA and Restructured, as of January 2023**



Source: GAO analysis of information from Puerto Rico Government. | GAO-23-106045

Notes: Figures may not add due to rounding. This figure excludes debt obligations for Puerto Rico Power and Electricity Authority, which is still under the Title III debt restructuring process. Congress passed the Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA) in 2016 after Puerto Rico’s default. Pub. L. No. 114-187, 130 Stat. 549 (2016).

The completion of the debt restructurings means that the cost to Puerto Rico to service the current debt outstanding—interest and principal payments—is significantly lower, dropping from 25 percent of revenue before PROMESA to 6.1 percent in 2022.<sup>17</sup> This cost—now about \$1.15 billion annually—is fixed through 2049.

<sup>17</sup>According to Puerto Rico’s 2023 fiscal plan, the cumulative government and component unit restructurings resulted in more than \$70 billion savings in debt service costs. Estimated debt service cost for government and COFINA debt payments as a share of government revenues (less federal funds). Financial Oversight and Management Board for Puerto Rico, *2023 Commonwealth Fiscal Plan Pursuant to PROMESA Section 201: Vol. 1 Transformation Plan* (Puerto Rico: Apr. 3, 2023).



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While government officials told us they do not plan to borrow from the capital markets in the near and medium term, they have taken steps to provide information to potential investors and credit rating agencies. In May 2023, Puerto Rico launched an investor relations website, which shares relevant financial reports and other documents such as event notices, press releases, and project updates.<sup>18</sup> As of June 15 2023, Puerto Rico’s government does not have a credit rating.

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## Liabilities for Pension and Other Postemployment Benefits

Puerto Rico’s debt restructuring contained several initiatives to reform the territory’s struggling pension system.<sup>19</sup> For example, to limit future pension liabilities all remaining members of Puerto Rico’s defined benefit pension plan are no longer accruing additional benefits.<sup>20</sup> Instead, currently employed members were enrolled in defined contribution plans, where future benefits are based on contributions and earnings in retirement accounts rather than paid for by the government.<sup>21</sup>

Additionally, Puerto Rico established a trust fund to support future defined benefit pension payments.<sup>22</sup> The Pension Reserve Trust is funded based on the government’s annual surpluses. According to Puerto Rico data, in fiscal year 2022, a government general fund surplus allowed for a \$1.4 billion contribution to the Pension Reserve Trust. After fiscal year 2031, the government can make withdrawals from the trust to fund pension payments if it meets certain conditions.

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<sup>18</sup>See <https://puertoricobonds.pr.gov/commonwealth-of-puerto-ricopr/i6904>.

<sup>19</sup>See *Modified Eighth Amended Title III Joint Plan of Adjustment of the Commonwealth of Puerto Rico, et al, United States District Court of Puerto Rico, January 14, 2022*, Section 69.2.

<sup>20</sup>A defined benefit pension plan specifies the benefits to be provided to employees after the end of their employment.

<sup>21</sup>Puerto Rico also expanded Social Security participation to government employees who lost future pension benefits. See Financial Management and Oversight Board for Puerto Rico, *2023 Commonwealth Fiscal Plan Pursuant to PROMESA Section 201*, (Puerto Rico: Apr. 3, 2023).

<sup>22</sup>Puerto Rico currently has a “PayGo” defined benefit pension system under which pension benefits are paid out of the government’s annual budget rather than from a funded system in which benefits are financed by prior investments in a pension fund. Puerto Rico implemented the PayGo system in 2017 to ensure continued benefit payments to retirees as the territory’s three main public pension systems were effectively insolvent.

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According to its fiscal year 2021 financial statements, Puerto Rico reported a net pension liability of \$42.2 billion for the primary government and \$14.4 billion for the component units. In addition to a pension, Puerto Rico also provides other postemployment benefits to retirees, such as healthcare. In fiscal year 2021, Puerto Rico's liability for these benefits was about \$1.2 billion for the primary government and almost \$818 million for the component units. Together, these liabilities for both the primary government and component units represented 55 percent of Puerto Rico's GDP in fiscal year 2021.

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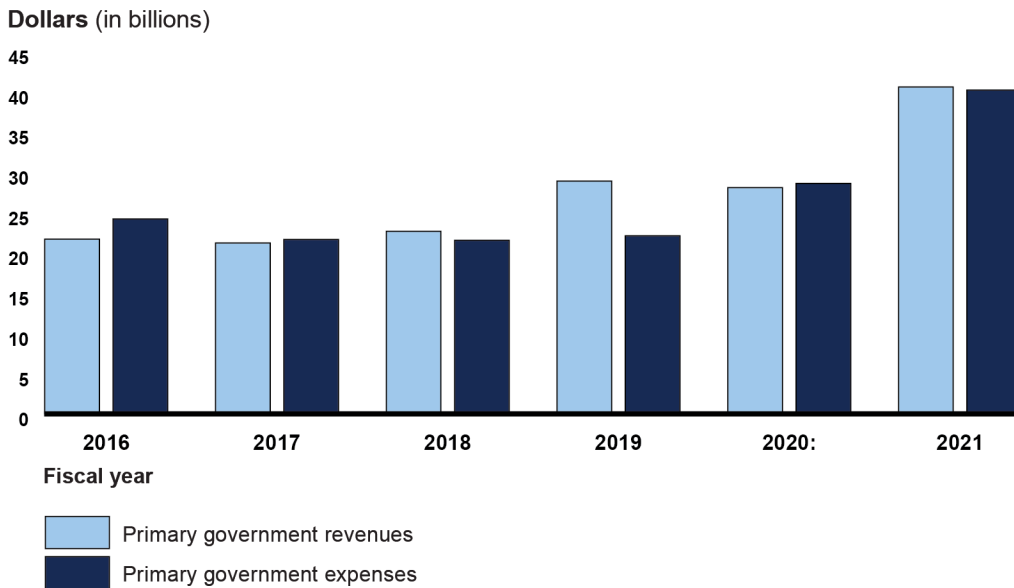
## COVID-19 Response Increased Revenue and Spending in Fiscal Year 2021

According to its fiscal year 2021 audited financial statements, Puerto Rico's primary government recorded a surplus of \$391.5 million, meaning, total revenues exceeded total expenses between July 1, 2020 and June 30, 2021 (see fig. 3). Primary government revenues (\$40.6 billion) increased 40 percent and expenses (\$40.2 billion) increased 82 percent compared to fiscal year 2019, mainly driven by the federal and territorial response to the COVID-19 pandemic.<sup>23</sup>

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<sup>23</sup>In fiscal year 2019, Puerto Rico recorded a \$915.3 million net one-time gain from the Government Development Bank debt restructuring, which is included in the total primary government revenues for that year. Puerto Rico's primary government also recorded an extraordinary one-time gain of \$6.3 billion related to PROMESA Title III and VI debt restructuring in fiscal year 2019. The \$6.3 billion extraordinary gain has been excluded from the total primary government revenue figure included in our report.

**Figure 3: Puerto Rico Primary Government Revenues and Expenses, Fiscal Years 2016 to 2021 (July 1 to June 30)**



Source: GAO analysis of Puerto Rico's audited financial statements. | GAO-23-106045

Notes: Puerto Rico's fiscal year is from July 1 to June 30. These data are in nominal values and have not been adjusted for inflation. Fiscal year 2019 revenue includes a \$915.3 million net gain from the Government Development Bank debt restructuring.

**Primary government revenues and expenses.** Comparing fiscal year 2021 to 2019, revenues from operating grants and contributions increased 98 percent (\$12.3 billion), mainly due to federal COVID-19 funding. Primary government spending also substantially increased from fiscal year 2019 to 2021. For example, in fiscal year 2021, spending for the general government increased by \$12 billion and unemployment and health insurance increased by \$6.6 billion from fiscal year 2019.

**Component unit revenues and expenses.** Puerto Rico's government had 40 discretely presented component units in fiscal year 2021. Together, these component units recorded a deficit of about \$815.6 million in fiscal year 2021. Component unit expenses were \$3.9 billion less than in fiscal year 2019—a 27 percent decrease—but revenue also decreased by almost 23 percent.<sup>24</sup> Revenue for these components is

<sup>24</sup>In fiscal year 2019, Puerto Rico's component units recorded an extraordinary one-time gain of \$4.2 billion related to PROMESA Title III and VI debt restructuring. This \$4.2 billion extraordinary gain has been excluded from the total component unit revenue figure included in our report.

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primarily generated by charges for services. Spending by the Puerto Rico Electricity and Power Authority (PREPA) was almost \$4.2 billion in fiscal year 2021, 39 percent of all component spending. The University of Puerto Rico accounted for the next largest amount of spending among individual component units, at \$1.4 billion, followed by the Puerto Rico Aqueduct and Sewer Authority and Highways and Transportation Authority, each about \$1.1 billion.

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## Puerto Rico Has a Plan to Recover from Fiscal Crisis

Puerto Rico's economy is driven by several key industries, including manufacturing (largely pharmaceutical), real estate, financial services, retail, and tourism.<sup>25</sup> Puerto Rico's inflation-adjusted GDP declined by 3 percent from 2015 to 2020.<sup>26</sup> This decline reflects the economic effect of Puerto Rico's debt crisis, the 2017 hurricanes, the 2019-2020 earthquakes, and the COVID-19 pandemic.

The completion of Puerto Rico's major debt restructuring in 2022 is an important condition for economic growth. Commitment to transparency and financial management will be important as the Puerto Rico government works toward achieving a balanced budget on a recurring basis, one of the conditions required for the termination of the Oversight Board.<sup>27</sup> Remaining steps to support sustained economic growth in Puerto Rico include (1) completing remaining debt restructurings, (2) implementing debt management reforms, and (3) implementing financial management and reporting reforms.<sup>28</sup>

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## Completing Remaining Debt Restructurings

There are several debt restructurings pending, including the Puerto Rico Industrial Development Company and PREPA.<sup>29</sup> The complexities of

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<sup>25</sup>See Government of Puerto Rico Planning Board, 2021 *Economic Report to the Governor (Statistical Appendix)*, (San Juan, Puerto Rico: Sept. 2022).

<sup>26</sup>Our calculation of Compound Annual Growth Rate using real GDP estimates for fiscal years 2015 to 2020 from the U.S. Bureau of Economic Analysis.

<sup>27</sup>PROMESA provides that the Oversight Board shall terminate upon certification by the Oversight Board that certain conditions have been met, including that, for at least 4 consecutive fiscal years, the expenditures of the territorial government in each year did not exceed its revenues in that year. Pub. L. No. 114-187, § 209(2)(B), 130 Stat. at 576.

<sup>28</sup>The Puerto Rico Department of Economic Development and Commerce published a strategic framework to promote economic development in Puerto Rico.

<sup>29</sup>According to government information, Puerto Rico's Industrial Development Company is in negotiations with bondholders to restructure its \$150 million in bond principal (excluding interest payments).

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PREPA's finances and operations have made it one of the longest and most difficult component unit restructurings to conclude. As of March 2023, PREPA has \$8.3 billion in outstanding principal (excluding accrued interest) in power revenue bonds and an estimated \$3.6 billion in underfunded pension liabilities, among other obligations.

In 2018, we reported that Puerto Rico's electric power sector suffered from decades of mismanagement and underinvestment.<sup>30</sup> Part of the mismanagement was because of a reliance on issuing debt to finance persistent operating shortfalls, which contributed to its default. Further, the 2017 hurricanes devastated Puerto Rico's electrical system; it took roughly 11 months to restore power to all of PREPA's customers, the longest blackout in U.S. history.

Changes to the financial and operating status of PREPA are underway. In 2021, Luma Energy assumed PREPA's electricity transmission and distribution system through a 15-year operation and management agreement. In January 2023, the Governor of Puerto Rico announced a 10-year agreement with Genera PR to operate, maintain, and eventually decommission PREPA's aging power-generation assets. Figure 4 shows the Aguirre power plant located on the southern part of the island.

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<sup>30</sup>See GAO, *Puerto Rico: Factors Contributing to the Debt Crisis and Potential Federal Actions to Address Them*, [GAO-18-387](#) (Washington, D.C.: May 9, 2018).

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**Figure 4: Aguirre Power Generating Plant in Salinas, Puerto Rico**



Source: Puerto Rico government photo. | GAO-23-106045

In 2021, Puerto Rico's average electricity price was higher than every U.S. state except Hawaii, according to the U.S. Energy Information Administration. The average duration of power outages was nearly 10 times longer for PREPA's customers than for mainland customers, according to information from Puerto Rico's Fiscal Agency and Financial Advisory Authority. Improving reliability and costs of Puerto Rico's energy infrastructure is critical to attract and retain business in the long term and to support sustained economic growth.

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## Implementing Debt Management Reforms

As part of the general obligation debt restructuring, completed in March 2022, Puerto Rico adopted a new debt management policy. The policy generally requires that (1) new long-term borrowing must be for capital improvements or refinancing for savings, and (2) maximum annual costs

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for debt service cannot exceed 7.94 percent of the average general fund revenues from the preceding 2 fiscal years.<sup>31</sup>

- Issuing debt to finance budget deficits was a key factor leading to Puerto Rico’s debt crisis. In reviewing 20 of Puerto Rico’s largest bond issuances from 2000 to 2017—totaling around \$31 billion—we found that 16 were issued exclusively to repay or refinance existing debt and to fund operations.<sup>32</sup>

Before PROMESA, Puerto Rico’s annual debt service cost was approximately 25 percent of its general fund revenues. To stay under the 7.94 percent limit, any new debt issued will need to be accompanied by a commensurate growth in revenue. The quality of the revenue estimates when considering new bond issues is critical. As we previously reported, overestimating revenue projections was one of the conditions that contributed to the debt crisis.

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## Implementing Financial Management and Reporting Reforms

In recent years, Puerto Rico consistently issued its audited financial statements about 2 to 3 years after the end of its fiscal reporting period (June 30). Puerto Rico has also received a qualified opinion or disclaimer of opinion in five of the last six completed audits (fiscal years 2021, 2020, 2019, 2018, and 2016).<sup>33</sup> In 2021, Puerto Rico received a disclaimer of opinion on its business-type activities because the independent auditor was unable to obtain sufficient appropriate audit evidence to conclude that the receivable and payable balances and other related activity in the unemployment insurance fund were free of material misstatement.

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<sup>31</sup>Puerto Rico Fiscal Agency and Financial Advisory Authority, *Puerto Rico Debt Management Policy*, San Juan, Puerto Rico (Mar. 9, 2022).

<sup>32</sup>See [GAO-18-387](#).

<sup>33</sup>An auditor expresses a qualified opinion on an opinion unit’s financial statements when they either: (1) conclude that misstatements, individually or in the aggregate, are material but not pervasive to the financial statements after obtaining sufficient appropriate audit evidence; or (2) are unable to obtain sufficient appropriate audit evidence on which to base the opinion, but conclude that the possible effects on the financial statements of undetected misstatements, if any, could be material but not pervasive. An auditor expresses a disclaimer of opinion on an opinion unit’s financial statements when they are unable to obtain sufficient appropriate audit evidence on which to base the opinion, and conclude that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive.

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Puerto Rico's government has implemented several reforms that, if maintained, would support better financial management and reporting. For example:

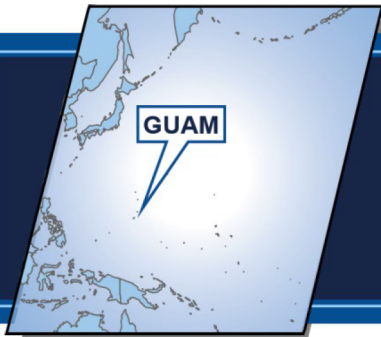
- According to officials from Puerto Rico's Department of the Treasury, challenges obtaining reliable and timely financial information from a large number of component units is the primary cause of delays for Puerto Rico's combined financial statements. Treasury created the Financial Reporting Office of the Public Finances Area to, in part, provide regular financial accounting support to government agencies and component units. These actions have resulted in demonstrable improvements in the reliability and timeliness of financial reporting, according to government officials. For example, in April 2022, the government released its fiscal year 2019 statements followed by its fiscal year 2020 statements in September 2022.
- In 2017, Puerto Rico's Department of the Treasury obtained centralized access to bank account information for most of its government agencies, providing a more comprehensive and real-time view of the cash position of the government. Further, in July 2022, Treasury started publishing weekly cash flow and other financial reports on its website.<sup>34</sup> These are important steps toward transparency, but more can be done to centralize financial reporting, including publishing a budget-to-actual report, as outlined in the fiscal plan.<sup>35</sup>
- In November 2022, Treasury started implementing a new financial system to integrate the finance, purchasing, and human capital management activities—including payroll and budget functions—into a single platform known as the Enterprise Resource Planning system. The current project plan shows that the first phase should be completed in July 2024. In its fiscal year 2024 budget, the government requested \$64.5 million for the entire project, including the licensing, subscriptions, and system implementation. According to government officials, this system will help achieve more efficient processes, improve budget controls, and produce more accurate, on-time, financial reports to support decision-making and transparency.

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<sup>34</sup>See <https://hacienda.pr.gov/public-finances-finanzas-publicas>.

<sup>35</sup>See Financial Oversight and Management Board for Puerto Rico, *2023 Commonwealth Fiscal Plan Pursuant to PROMESA Section 201: Vol. 3 Implementation requirements and plan* (Puerto Rico: Apr. 3, 2023).





# GUAM

**LOCATION** Western Pacific, 3,700 miles from Hawaii  
**PHYSICAL SIZE** 212 square miles  
**POPULATION SIZE IN 2020** 153,836

**GROSS DOMESTIC PRODUCT IN FISCAL YEAR 2021** \$6.1 billion  
**PRIMARY INDUSTRIES** Tourism, Defense

## KEY UPDATES

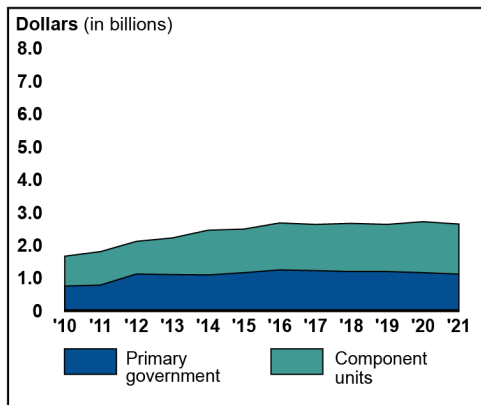
Guam's economy has been relatively stable over the last 10 years

Guam's third U.S. military base is expected to bring economic growth

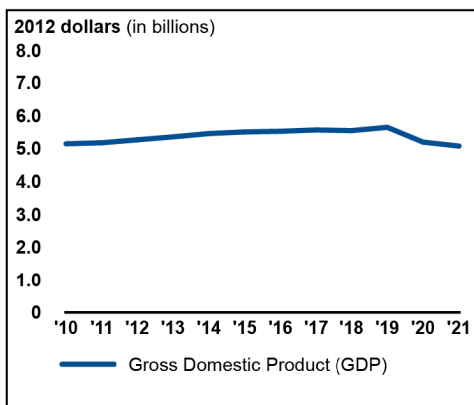
Guam's economy is showing signs of recovery after contraction due to COVID-19

## GUAM PUBLIC DEBT AND ECONOMIC CONDITION, FISCAL YEARS 2010-2021

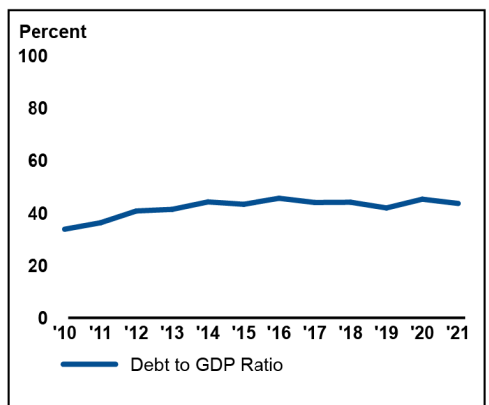
### TOTAL PUBLIC DEBT OUTSTANDING



### REAL GDP



### DEBT AS A SHARE OF GDP



Source: GAO analysis of Guam's audited financial statements and U.S. Bureau of Economic Analysis data. | GAO-23-106045

Notes: Guam's fiscal year is from October 1 to September 30. Real GDP values are adjusted to account for the effects of inflation.

### Guam: Economic and Demographic Trends

Gross Domestic Product (GDP)	Guam's GDP was \$6.1 billion in fiscal year 2021. In real terms, Guam's GDP declined by almost 2 percent annually from 2016 to 2021 after experiencing 1 percent annual growth from 2006 to 2016. The recent decline in economic growth reflects the decline in tourism as a result of the COVID-19 pandemic. However, the economy is showing signs of recovery. Additionally, the opening of the third military base on the island is expected to stimulate economic growth.
Long-term liabilities	As of Sept. 30, 2021, Guam's total public debt outstanding was \$2.6 billion, about 43 percent of its GDP. In 2020, Guam Water Works Authority issued a \$134 million bond to fund water system upgrades. Guam also has liabilities for pensions and other postemployment benefits, such as health care. As of September 30, 2021, these liabilities—for both the primary government and component units—were 68 percent of Guam's GDP.
Population	Guam's population was 153,836 in 2020, a 3.5 percent decrease since 2010, according to the U.S. Census Bureau. More than 21,000 service members and family members currently reside on Navy and Air Force bases on Guam. With the opening of the new U.S. Marine Corps base, 15,000 additional military personnel and dependents are expected to move to Guam over the next few years. Demographic trends affect expected revenue and pension benefits, among other economic factors.

Source: GAO analysis of data from U.S. Bureau of Economic Analysis, U.S. Census Bureau, and the government of Guam. | GAO-23-106045

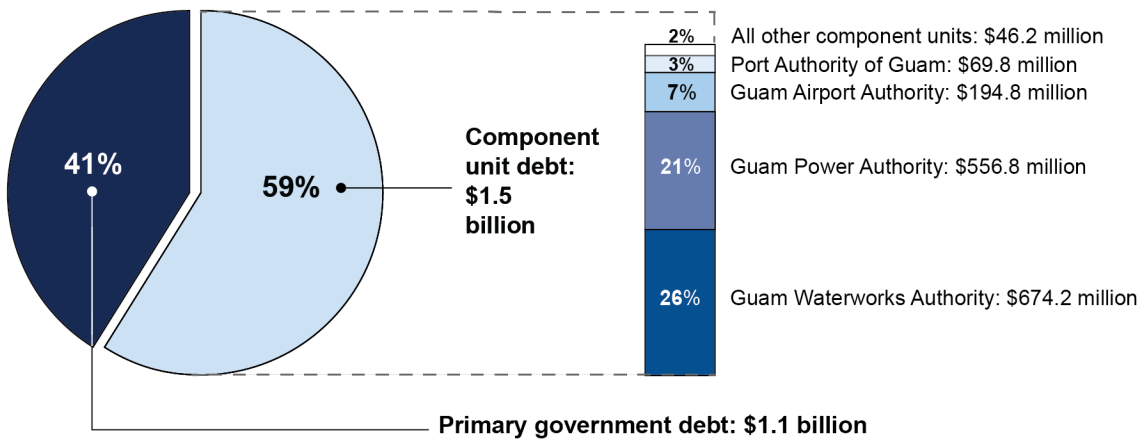
# Guam’s Government and Components Accessed Capital Markets in Recent Years

## Total Public Debt Outstanding

According to our analysis of Guam’s fiscal year 2021 audited financial statements—the most recent available—we calculated that total public debt outstanding was \$2.6 billion, about 43 percent of Guam’s GDP. Guam’s government and component units issued new debt to finance infrastructure and capital improvement projects. For example, in 2020, the Guam Water Works Authority issued a \$134 million bond to fund water system upgrades. Figure 5 shows the composition of Guam’s public debt outstanding.

**Figure 5: Composition of Guam’s Public Debt Outstanding, as of September 30, 2021**

**Total public debt outstanding: \$2.6 billion**



Source: GAO analysis of Guam’s fiscal year 2021 audited financial statements. | GAO-23-106045

Notes: Numbers may not add due to rounding. All other component units includes debt issued by the University of Guam, Guam Housing and Urban Renewal Authority, and non-major component units. Our calculation of public debt outstanding includes the sum of bonds and other debt payable, which may be marketable notes issued by territorial governments, nonmarketable intragovernmental notes, notes and loans held by local banks, and federal and intragovernmental loans.

In March 2023, Moody’s Investors Service revised its credit outlook for the government of Guam to positive from stable, reflecting the

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government's improved financial position.<sup>36</sup> S&P Global also has an active credit rating for Guam, last revised in December 2021.<sup>37</sup>

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## Liabilities for Pension and Other Postemployment Benefits

In fiscal year 2021, Guam's primary government reported a \$2.8 billion liability for both net pension and other postemployment benefits, such as health care and life insurance. Guam's component units reported a \$1.4 billion liability for net pension and other postemployment benefits. Together, these liabilities for both the primary government and component units represented 68 percent of GDP as of September 30, 2021. Officials told us that annual contributions to the territory's pension fund are based on actuarial recommendations. They expect the pension to be fully funded by 2034 (i.e., the pension fund assets will be equal to or greater than the estimated liability). The government makes other postemployment benefit payments as they are due.

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## Guam's Revenues and Expenses Increased in Fiscal Years 2020 and 2021

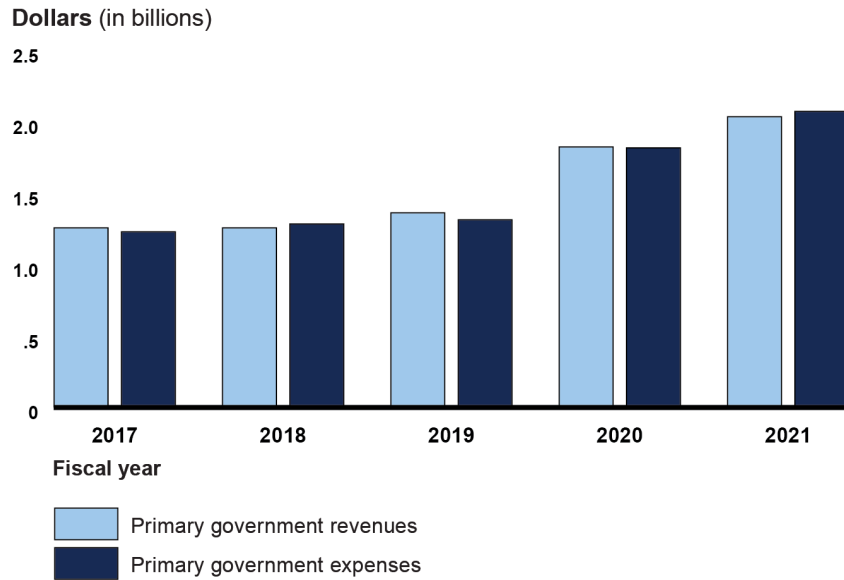
According to the fiscal year 2021 audited financial statements, Guam's primary government recorded a deficit of almost \$37 million. Figure 6 shows that Guam's primary government had a surplus in three of the five fiscal years we examined, ranging from \$6.9 million to \$48.7 million.

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<sup>36</sup>A positive outlook indicates that Moody's is likely to raise the credit rating over the medium term. Moody's has assigned Guam a Ba1 credit rating, meaning that its bonds are subject to substantial credit risk. See Moody's Investors Service, *Moody's Revises Guam's Outlook to Positive; affirms Ba1 issuer; GO and special tax ratings and Ba2 COPS rating* (New York: Mar. 23, 2023).

<sup>37</sup>At that time, S&P Global reaffirmed its BB- credit rating for Guam and revised its outlook to stable from negative. S&P Global Ratings, *Guam GO Debt Outlook Revised to Stable from Negative on Short-Term Financial Stabilization* (Dallas, TX: Dec. 16, 2021).

**Figure 6: Guam's Primary Government Revenues and Expenses, Fiscal Years 2017 to 2021**



Source: GAO analysis of Guam's audited financial statements. | GAO-23-106045

Notes: Guam's fiscal year is from October 1 to September 30. These data are in nominal values and have not been adjusted for inflation.

**Primary government revenues and expenses.** In fiscal year 2021, Guam's primary government revenue was a little more than \$2 billion, an increase of 50 percent from fiscal year 2019. Expenses were almost \$2.1 billion, a 58 percent increase from fiscal year 2019. Spending on public health activities was almost \$488 million, about 24 percent of total primary government spending that year and a 35 percent increase from 2019. Officials told us that increased public health expenses were due to the COVID-19 response. Public welfare was the next largest category of spending, representing 21 percent of primary government spending.

**Component unit revenues and expenses.** Guam's component units recorded total revenues of more than \$1 billion and total expenses of \$990.5 million in fiscal year 2021, resulting in a surplus of about \$58.5 million. Total component unit revenues and expenses have remained relatively stable in recent years. Compared to fiscal year 2019, revenues and expenses both increased about 1 percent in fiscal year 2021. Guam's Power Authority and Memorial Hospital Authority had the highest expenses in fiscal year 2021, representing 34 and 18 percent of total component unit expenses, respectively.

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## Guam's Economy Bolstered by U.S. Military Presence

As with the rest of the world, economic activity on Guam slowed as a result of the COVID-19 pandemic. The tourism industry has not fully recovered, but indicators suggest that the economic decline may be temporary. According to the U.S. Bureau for Economic Analysis (BEA), Guam's inflation-adjusted GDP increased by 1.1 percent in 2021, following an almost 12 percent decline in 2020.<sup>38</sup>

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## Guam Hosts Three U.S. Military Bases

Guam's location enables it to serve as a strategic hub supporting crucial operations and logistics for U.S. military forces operating in the Indo-Pacific region. The U.S. military's growing presence on the territory provides a stable and increasing source of economic activity. For example, between fiscal years 2018 and 2023, of the amounts Congress appropriated for military construction and family housing, approximately \$2.7 billion is for Guam, according to the Department of Defense.<sup>39</sup> More than 21,000 service members and family members currently reside on Navy and Air Force bases on Guam.

In addition, 15,000 military personnel and dependents are expected to move to Guam over the next few years following the opening of the new Marine Corps Base Camp Blaz in January 2023 (see fig. 7). The military-affiliated population generates consistent economic activity on the territory as the families purchase products and services at local businesses, go to schools, and participate in other activities.

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<sup>38</sup>BEA estimates GDP by calendar year. See U.S. Bureau of Economic Analysis, *Gross Domestic Product for Guam, 2021* (Washington, D.C.: Nov. 2, 2022).

<sup>39</sup>This number is the sum of amounts for the Department of Defense's *Military Construction and Family Housing* accounts for fiscal years 2018-2023. See Department of Defense, *Budget Materials, Construction Programs (C-1)*, Fiscal Years 2020 and 2023 (Washington, D.C.: March 2019 and April 2022).

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**Figure 7: Marine Corps Base Camp Blaz Opened January 2023**



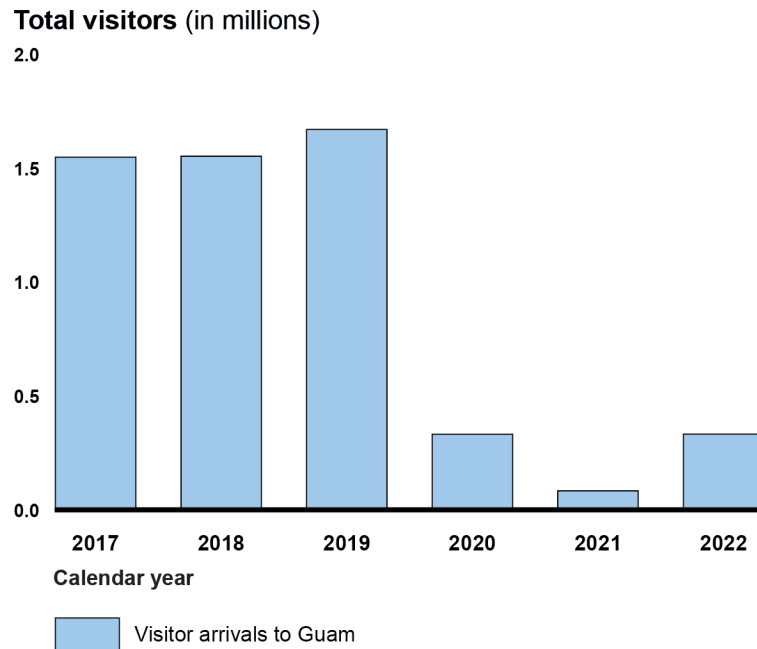
Source: U.S. Marine Corps photo. | GAO-23-106045

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## Guam's Tourism Industry Is Not Fully Recovered

Tourism in Guam sharply declined due to the COVID-19 pandemic. Figure 8 shows the steep drop in arrivals to Guam from 2019 to 2020 and a further drop to 79,389 arrivals in 2021. While still well below prepandemic levels, arrivals to Guam increased to 328,446 in 2022. These declines in tourism affect tax revenue and other economic activity. Guam's financial statements disclose that the government collected 72 percent less in hotel occupancy taxes in fiscal year 2021 than in fiscal year 2019, before the pandemic.

**Figure 8: Annual Visitor Arrivals to Guam, 2017 to 2022**



Source: GAO analysis of Guam Visitor's Bureau data. | GAO-23-106045

## Guam's Financial Statements are Reliable but Weaknesses in Internal Control Exist

Guam has generally submitted at least its last five audited financial statements on time, including fiscal years 2017 through 2021. The territory has also consistently received unmodified audit opinions since at least 2010. This means that the independent auditors have determined that the financial information included in Guam's government-wide financial statements is reliable.<sup>40</sup> Timely and reliable financial data provide important information for investors, policymakers, oversight bodies, and the public on the financial and economic condition of the territory.

However, Guam has struggled to remediate several material weaknesses in internal control over financial reporting identified by its independent auditors. For example, Guam has had recurring material internal control weaknesses related to not performing timely account reconciliations and

<sup>40</sup>An auditor expresses an unmodified opinion on an opinion unit's financial statements when they conclude that the financial statements are presented fairly, in all material respects, in accordance with U.S. generally accepted accounting principles.

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having an inadequate financial management information system.<sup>41</sup> These internal control weaknesses increase the risk that misstatements and delays may occur in unaudited financial information reported throughout the fiscal year. Robust internal controls are important to support managers as they make financial decisions or adapt to shifting environments, evolving demands, changing risks, and new priorities as they arise. Guam officials told us they are replacing the government's legacy financial management system and expect the modern system will address these issues.

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<sup>41</sup>Deloitte & Touche LLC. *Government of Guam Single Audit Reports, Year Ended September 30, 2021* (Tamuning, Guam: July 13, 2022).





**U.S. VIRGIN ISLANDS**

## U.S. VIRGIN ISLANDS

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

**PHYSICAL SIZE** 134 square miles (three main islands)

**POPULATION IN 2020** 87,146

**GROSS DOMESTIC PRODUCT IN FISCAL YEAR 2020** \$4.2 billion

**PRIMARY INDUSTRIES** Tourism, Manufacturing, Rum Distilling

### KEY UPDATES

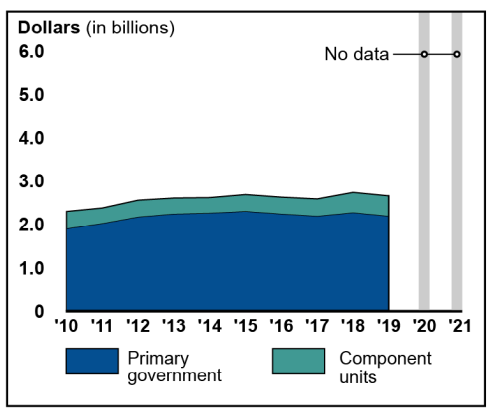
**USVI temporarily extended the solvency of its pension system**

**USVI faces significant hurdles to economic growth**

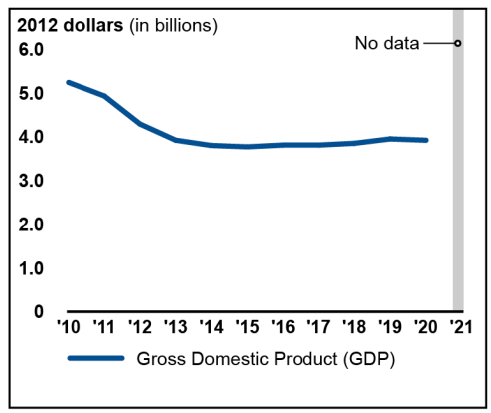
**USVI continues to have substantial financial management and reporting issues**

## U.S. VIRGIN ISLANDS PUBLIC DEBT AND ECONOMIC CONDITION, FISCAL YEARS 2010-2021

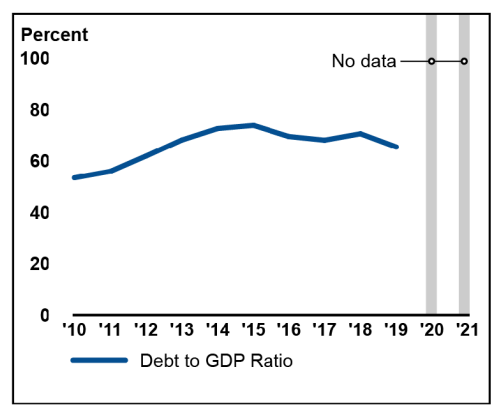
### TOTAL PUBLIC DEBT OUTSTANDING



### REAL GDP



### DEBT AS A SHARE OF GDP



Source: GAO analysis of USVI audited financial statements and U.S. Bureau of Economic Analysis data. | GAO-23-106045

Notes: USVI's fiscal year is from October 1 to September 30. Real GDP values are adjusted to account for the effects of inflation.

### U.S. Virgin Islands: Economic and Demographic Trends

Gross Domestic Product (GDP)	USVI's GDP was \$4.2 billion as of September 30, 2020. In real terms, USVI's GDP increased by almost 1 percent annually between 2015 and 2020, after experiencing an average 6.4 percent decline in GDP each year between 2010 and 2015. The recent increase in economic activity is related to the rebuilding and recovery of infrastructure after the 2017 hurricanes. However, the conditions that led to USVI's dramatic decline in GDP persist.
Long-term liabilities	As of September 30, 2019, the last year for which USVI reported data, its total public debt outstanding was more than \$2.6 billion, 65 percent of its GDP. USVI's primary government has not accessed the capital market in recent years, so debt levels have remained stable. A refinancing of its rum revenue bonds in March 2022 provided a dedicated revenue source to its pension fund, which prevented pending insolvency. As of December 2022, rum revenue bonds paid \$247 million into the pension fund, and more is expected.
Population	USVI's population was 87,146 in 2020—an 18 percent decrease from 2010, according to the U.S. Census Bureau. If this trend continues, the government will face additional challenges. For example, fewer working-age residents means less employment tax revenue and less economic activity.

Source: GAO analysis of data from U.S. Bureau of Economic Analysis, U.S. Census Bureau, and USVI government. | GAO-23-106045

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## USVI's Market Access Remains Uncertain but Pension Funding Improved

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### Total Public Debt Outstanding

USVI's primary government has not issued any bonds in the capital market since its failed attempt to do so in January 2017.<sup>42</sup> USVI officials have not tested the market since then. In March 2023, Moody's withdrew its credit rating for USVI.<sup>43</sup> As a result, the USVI government does not have an active credit rating at this time. USVI officials told us that they have no plans to try to re-enter capital markets in the near term.

Our analysis of USVI's 2019 audited financial statements—the most recent available—calculated that USVI's total public debt outstanding was more than \$2.6 billion, or 65 percent of GDP.<sup>44</sup> Total debt outstanding decreased about 3 percent from fiscal year 2018. Figure 9 shows the composition of public debt outstanding.

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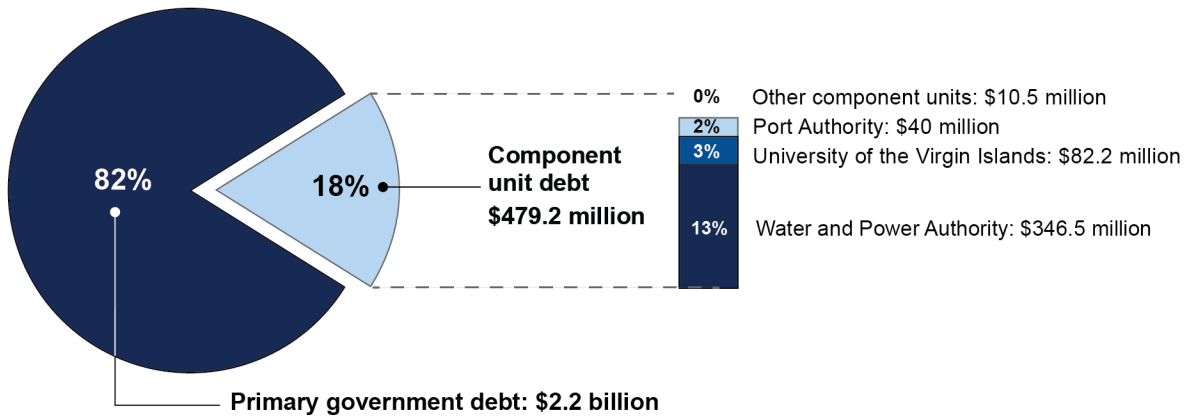
<sup>42</sup>In late January 2017, USVI cancelled a new bond issuance because the offer was not adequately subscribed, meaning that there were not enough investors willing to purchase the bonds. The new bond would have provided financing for government operations. See [GAO-19-525](#) for more information.

<sup>43</sup>Moody's noted that the reason for withdrawing its rating was because of insufficient information to support maintenance of the ratings. Moody's considered USVI government bonds to be poor quality with very high credit risk, but with a stable outlook. Moody's Investors Service, *Rating Action: Moody's Announces Withdrawal of U.S. Virgin Islands' Issuer Rating* (New York, Mar. 23, 2023).

<sup>44</sup>In fiscal year 2019, USVI received a disclaimer of opinion on its component units for, in part, omitting financial information for one component unit and including unaudited financial information for another component unit. These reported issues could have a material effect on the component unit public debt amount included in our report.

**Figure 9: Composition of U.S. Virgin Islands' Public Debt Outstanding, as of September 30, 2019**

**Total public debt outstanding: \$2.6 billion**



Source: GAO analysis of U.S. Virgin Island's audited financial statements. | GAO-23-106045

Notes: Numbers may not add due to rounding. Our calculation of public debt outstanding includes the sum of bonds and other debt payable, which may be marketable notes issued by territorial governments, nonmarketable intragovernmental notes, notes and loans held by local banks, and federal and intragovernmental loans.

## Debt Refinancing Extended the Solvency of USVI's Pension Fund

After many years of trying to support its underfunded pension system, in March 2022, USVI refinanced about \$952.8 million in bonds to provide a dedicated revenue source to its pension system, which was expected to be insolvent by October 2024.<sup>45</sup> Because of the USVI government's market access issues discussed above, USVI created a separate entity to issue the refinanced bonds—the Matching Fund Special Purpose Securitization Corporation.<sup>46</sup> The refinancing stipulated that after bondholders are paid, excess revenue from rum sales are transferred directly to USVI's pension system through the securitization corporation. This mechanism prevents the excess revenue from being diverted to the

<sup>45</sup>In June 2021, we reported that the imminent insolvency of USVI's pension system was a key risk to its financial and economic condition. See [GAO-21-508](#).

<sup>46</sup>The refinanced bonds were issued by the Matching Fund Special Purpose Securitization Corporation, which is a special purpose, independent, and autonomous public corporation and instrumentality of USVI, created in February 2022. 29 V.I.C. § 1404. The corporation obtained an investment-grade credit rating for the securitization process prior to the restructuring agreement. See Kroll Bond Rating Agency, *Matching Fund Special Purpose Securitization Corporation*, (New York City: Mar. 18, 2022).

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## Most Recent Financial Data Show USVI Primary Government Had a Deficit in Fiscal Year 2019

USVI general fund before paying pension obligations. As of December 2022, \$247.2 million was paid to the pension system from a combination of excess revenue from rum sales and shortfall payments from the USVI general fund. As scheduled, excise tax revenue from rum sales will continue to partially fund the pension system through 2052.<sup>47</sup>

According to the fiscal year 2019 financial statements—the most recent available—USVI reported a net pension liability of \$3.2 billion for the primary government and \$903 million for the component units. In addition to a pension, USVI also provides other postemployment benefits, such as health care, that represent a large liability. In fiscal year 2019, USVI's liability for these benefits was \$774.5 million for the primary government and \$117.7 million for the component units. Together, these liabilities for both the primary government and component units represented 124 percent of GDP in fiscal year 2019.

USVI's primary government operated under a deficit—expenses exceeded revenues—in fiscal years 2017, 2018, and 2019 (see fig. 10). Hurricanes devastated the territory's infrastructure in September 2017, which added economic stress. In fiscal year 2019, USVI reported a deficit of \$190.3 million.

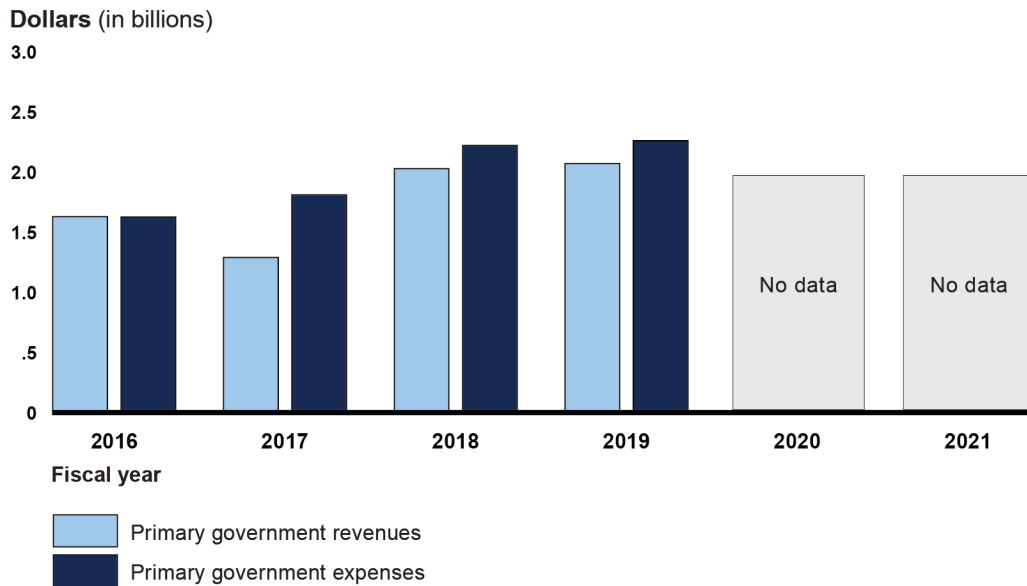
USVI's fiscal year 2019 audited financial statements are the most comprehensive information available on changes to USVI's financial position. However, independent auditors found that potential undetected misstatements in USVI's financial statements could be either material or material and pervasive.<sup>48</sup> These reported issues could have a material effect on the primary government and component unit revenue and expense amounts included in this report.

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<sup>47</sup>We will issue a report in winter 2023 evaluating USVI's Government Employee Retirement System.

<sup>48</sup>In fiscal year 2019, USVI received a qualified audit opinion on its governmental activities and a disclaimer of opinion on its business-type activities, in part, because it did not properly maintain documentation to support a number of the primary government's account balances and financial activities. USVI also received a disclaimer of opinion on its component units because auditors found several issues related to the territory's accounting and documentation of component unit revenue and expenses.

**Figure 10: U.S. Virgin Islands' Primary Government Revenues and Expenses, Fiscal Years 2016 to 2021**



Source: GAO analysis of U.S. Virgin Islands' audited financial statements. | GAO-23-106045

Notes: USVI's fiscal year is from October 1 to September 30. These data are in nominal values and have not been adjusted for inflation.

**Primary government revenues and expenses.** In fiscal year 2019, USVI's primary government revenue was a little less than \$2.1 billion, an increase of 2 percent from fiscal year 2018. Expenses were almost \$2.3 billion, a 2 percent increase from fiscal year 2018. Spending on the general government was almost \$1.3 billion, about 56 percent of total primary government spending that year. Education was the next largest category of spending, representing 15 percent.

**Component unit revenues and expenses.** USVI's component units recorded total revenues of almost \$1.7 billion and total expenses of almost \$1.5 billion in fiscal year 2019, resulting in a surplus of about \$197.4 million in fiscal year 2019. Compared to fiscal year 2018, total component unit revenues and expenses significantly increased in fiscal year 2019. Specifically, revenues increased 42 percent and expenses increased 46 percent. Of USVI's major component units, the Water and Power Authority and Port Authority had the highest expenses in fiscal year 2019, representing 24 and 7 percent of total component unit expenses, respectively.

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## USVI Faces Significant Hurdles to Economic Growth

USVI faces serious demographic and economic challenges which impede efforts to grow its economy and attract investors. Without tourism fully recovered, and weak financial management practices persisting, long-term economic growth and diversification remain a challenge.

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## USVI Faces Major Demographic Challenges

The 2020 Census estimated that USVI's population was 87,146, an 18 percent decline since 2010. These demographic trends pose a challenge for the USVI government as population decline among working-age residents means less employment tax revenue and less economic activity.

A USVI survey of residents that moved away from the islands reported that about 30 percent left to attend school and about 20 percent moved away for an employment opportunity. USVI officials we spoke with also explained that the oil refinery closure in 2012 and the hurricanes in 2017 drove many residents to leave the territory. The Hovensa oil refinery—one of the world's largest oil refineries—shut down operations on the island of St. Croix in early 2012, costing approximately 2,000 jobs.<sup>49</sup> USVI reported that the 2017 hurricanes damaged more than half of the territory's housing units as well as its hospitals, schools, retail and office space, hotels, and water and wastewater facilities.<sup>50</sup>

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## USVI Faces Economic Diversification Challenges

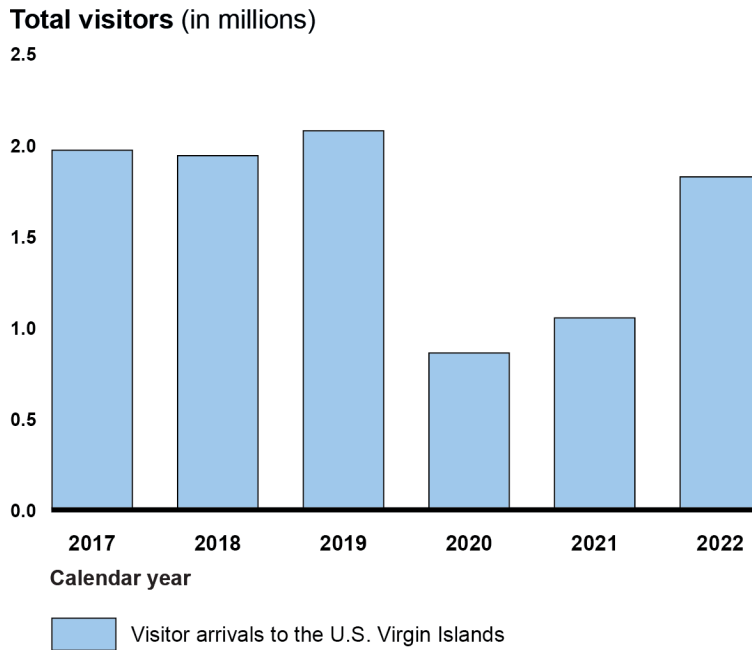
According to USVI officials, about 60 percent of USVI's GDP is generated by the tourism industry, which is still recovering from the 2017 hurricanes and the COVID-19 pandemic (see fig. 11). As of early 2023, several hotels remain closed, some of which are not scheduled to reopen.

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<sup>49</sup>GAO, *U.S. Territories: Public Debt Outlook*, [GAO-18-160](#) (Washington, D.C.: Oct. 2, 2017).

<sup>50</sup>See GAO, *2017 Hurricanes: Update on FEMA's Disaster Recovery Efforts in Puerto Rico and the U.S. Virgin Islands*, [GAO-22-106211](#) (Washington, D.C.: Sept. 15, 2022).

**Figure 11: Visitor Arrivals to the U.S. Virgin Islands, 2017 to 2022**



Source: GAO analysis of U.S. Virgin Islands Bureau of Economic Research. | GAO-23-106045

Federal assistance is helping the territory rebuild from the hurricanes and supported residents during the pandemic, but prospects for diversifying USVI's economy continue to face significant hurdles. For example, the closed oil refinery in USVI would require a substantial amount of capital investment and environmental modifications to reopen (see fig. 12). The U.S. Environmental Protection Agency identified major deficiencies at the refinery, including violations to the Clean Air Act, in September 2022.<sup>51</sup>

<sup>51</sup>U.S. Environmental Protection Agency, Region 2, *Port Hamilton Refining and Transportation LLLP 112(r) CAA General Duty Clause Inspection* (October 2022).

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**Figure 12: Closed Oil Refinery on U.S. Virgin Islands**



Source: U.S. Environmental Protection Agency photo. | GAO-23-106045

USVI also struggles to provide reliable and affordable electricity and power across the islands. The 2017 hurricanes caused significant damage to the infrastructure. Energy prices in the territory are extremely high and blackouts are common. For example, residential electricity prices in 2022 were almost three times as high as the U.S. residential average.<sup>52</sup> In December 2022, Fitch Ratings downgraded its credit rating for the Virgin Islands Water and Power Authority, citing sustained weak financial performance and operating disputes that increase its vulnerability to default.<sup>53</sup> Further, in March 2023, Moody's Investors Service withdrew its credit rating, citing insufficient information to support the maintenance of the rating.<sup>54</sup>

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<sup>52</sup>U.S. Energy Information Administration. *US Virgin Islands Territory Energy Profile*. (Washington, D.C.: Feb. 16, 2023).

<sup>53</sup>Fitch downgraded the Virgin Islands Power and Water Authority from CCC, indicating a substantial credit risk with default as a real possibility, to CC, indicating a very high level of credit risk with default either occurring or about to occur. Fitch Ratings, *Fitch Downgrades U.S. Virgin Islands WAPA to 'CC.'* (New York: Dec. 20, 2022).

<sup>54</sup>Moody's Investors Service, *Rating Action: Moody's withdraws rating agency for Virgin Islands Water and Power Authority's electric system revenue bonds due to insufficient information* (New York: Mar. 1, 2023).



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## USVI Continues to Have Substantial Financial Management and Reporting Issues

Since fiscal year 2017, USVI has not released audited financial statements on time and auditors have identified issues concerning the reliability of the financial information included in these statements. As of June 15, 2023, USVI has not released audited financial statements for fiscal years 2020 or 2021. Credit rating officials we spoke with stated that they would not consider providing a credit rating for the USVI government without current audited financial statements.

Moreover, the territory has consistently received qualified and disclaimed audit opinions on its governmental activities, business-type activities, and component units.<sup>55</sup> In fiscal year 2019, USVI received a qualified opinion on its governmental activities and a disclaimer of opinion on its business-type activities for, in part, not maintaining the necessary documentation to support various account balances and financial activities. Additionally, USVI received a disclaimer of opinion on its component units for, in part, omitting component unit financial information or including unaudited or unsupported component unit financial information.<sup>56</sup>

Timely and reliable financial data provide important information for investors, policymakers, oversight bodies, and the public on the financial and economic condition of the territory. According to USVI officials, the government has struggled to retain financial professionals. USVI officials told us that they have several new programs—including a fellowship program created to attract and train new staff—to improve the reliability and timeliness of their financial reporting.

In addition, USVI's independent auditors have identified numerous material weaknesses in internal control over financial reporting that have remained unresolved for several years. For example, the auditors

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<sup>55</sup>An auditor expresses a qualified opinion on an opinion unit's financial statements when they either (1) conclude that misstatements, individually or in the aggregate, are material but not pervasive to the financial statements after obtaining sufficient appropriate audit evidence or (2) are unable to obtain sufficient appropriate audit evidence on which to base the opinion, but conclude that the possible effects on the financial statements of undetected misstatements, if any, could be material but not pervasive. An auditor expresses a disclaimer of opinion on an opinion unit's financial statements when they are unable to obtain sufficient appropriate audit evidence on which to base the opinion, and conclude that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive.

<sup>56</sup>BDO USA, LLP. *Government of the United States Virgin Islands: Management's Discussion and Analysis, Financial Statements (with Independent Auditors Report Thereon) and Required Supplementary Information, Year Ended September 30, 2019* (Potomac, MD: June 30, 2021).

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identified recurring material weaknesses related to USVI's periodic and fiscal year-end financial close process and accounting for tax revenue and receivables.<sup>57</sup> Such weaknesses have delayed the preparation of year-end financial statements and increased the risk of inaccurate reporting, impaired financial decision-making, and fraudulent activity. Robust internal controls are important to support managers as they make financial decisions or adapt to shifting environments, evolving demands, changing risks, and new priorities as they arise.

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<sup>57</sup>The financial close process involves verifying and adjusting account balances at the end of an accounting cycle (often the end of the quarter or end of year) to produce financial reports representative of an entity's financial position as of a certain date.

**COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS**

**COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS**

**LOCATION** Western Pacific, 3,300 miles from Hawaii

**GROSS DOMESTIC PRODUCT IN FISCAL YEAR 2020**  
\$938.8 million

**PHYSICAL SIZE** 183 square miles (14 islands)

**POPULATION SIZE IN 2020** 47,329

**PRIMARY INDUSTRY** Tourism

**KEY UPDATES**

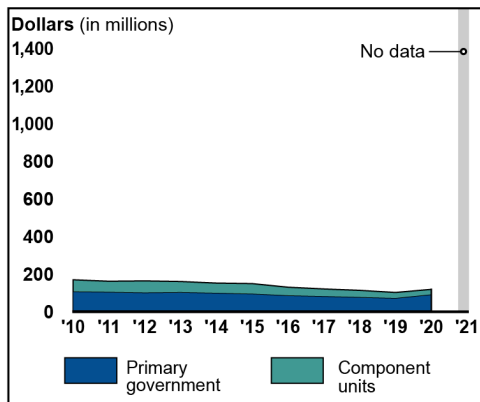
**CNMI's challenge of meeting its financial obligations worsened**

**CNMI faces mounting financial management and reporting problems**

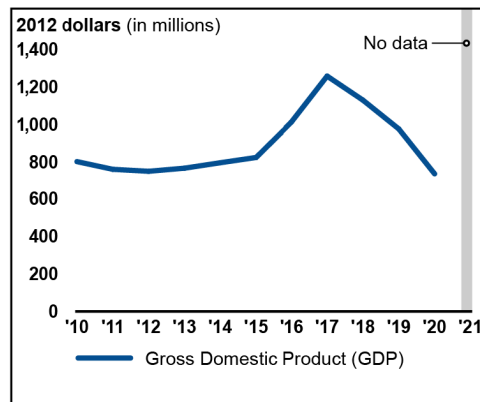
**CNMI's economy has limited prospects for recovery and growth**

**NORTHERN MARIANA ISLANDS PUBLIC DEBT AND ECONOMIC CONDITION, FISCAL YEARS 2010-2021**

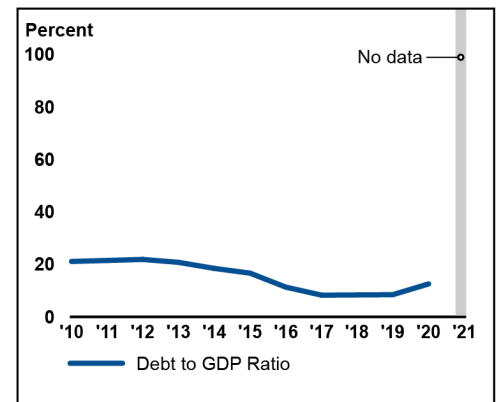
**TOTAL PUBLIC DEBT OUTSTANDING**



**REAL GDP**



**DEBT AS A SHARE OF GDP**



Source: GAO analysis of CNMI's audited financial statements and U.S. Bureau of Economic Analysis data. | GAO-23-106045

Notes: CNMI's fiscal year is from October 1 to September 30. Real GDP values are adjusted to account for the effects of inflation.

**Commonwealth of the Northern Mariana Islands: Economic and Demographic Trends**

**Gross Domestic Product (GDP)** CNMI's GDP was \$938.8 million in fiscal year 2020. In real terms, CNMI's GDP decreased by more than 2 percent annually from 2015 to 2020. Between 2010 and 2015, CNMI's GDP increased by less than 1 percent annually. The 2018 typhoon and COVID-19 pandemic contributed to the decline in economic activity. Tourism, the main driver of the economy, has not returned to predisaster levels. In addition, the closure of the largest casino on the capital island of Saipan has dampened expectations for economic recovery.

**Long-term liabilities** As of September 30, 2020, CNMI's debt outstanding was \$114.1 million, about 12 percent of GDP. CNMI reported a net pension liability of \$470.4 million, about 50 percent of GDP. CNMI has struggled to fund its pension plan. In fiscal year 2020, the territory obtained a \$24.3 million bank loan to make required contributions that year. CNMI officials expressed concern about the government's ability to continue to fund its pension and repay the loan.

**Population** In 2020, CNMI's population was 47,329 people—a decrease of more than 12 percent since 2010, according to the U.S. Census Bureau. If this trend continues, the government will face additional challenges. For example, fewer working-age residents means less employment tax revenue and less economic activity.

Source: GAO analysis of data from U.S. Bureau of Economic Analysis, U.S. Census Bureau, and CNMI government. | GAO-23-106045

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## CNMI Faces Challenges with Market Access and Meeting Financial Obligations

According to our analysis of CNMI's 2020 financial statements, we calculated that total public debt outstanding was \$114.1 million as of September 30, 2020, which was about 12 percent of GDP. CNMI's fiscal year 2020 audited financial statements are the most comprehensive information available on CNMI's financial position. However, independent auditors found that identified misstatements or potential undetected misstatements in CNMI's financial statements were or could be material and pervasive.<sup>58</sup>

Figure 13 shows the composition of CNMI's total public debt outstanding as of September 30, 2020. The primary government's debt outstanding includes a \$24.3 million loan that CNMI's government obtained from the Bank of Guam in 2020 to make the required pension contribution for that year. According to CNMI officials, the government planned to raise the necessary funds through a public bond issuance but was unable to finalize the bond issuance, indicating that its access to capital markets is limited. As of June 15, 2023, the CNMI government does not have an active credit rating.<sup>59</sup>

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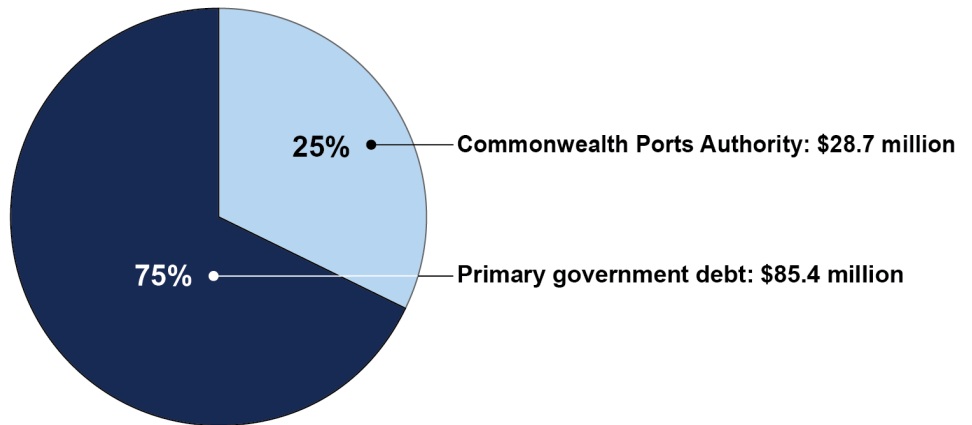
<sup>58</sup>In fiscal year 2020, CNMI received a disclaimer of opinion on its governmental activities, in part, because it was unable to provide sufficient appropriate audit evidence to support a substantial amount of the primary government's account balances and financial activities. CNMI also received an adverse opinion on its components units due to omission of component unit data required by Governmental Accounting Standards Board Statement No. 61—*The Financial Reporting Entity: Omnibus*. These reported issues could have a material effect on the primary government and component unit public debt amounts included in this report.

<sup>59</sup>Moody's Investors Services withdrew its credit rating for the government of CNMI in April 2020.

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**Figure 13: Composition of Northern Mariana Islands' Public Debt Outstanding, as of September 30, 2020**

**Total public debt outstanding: \$114.1 million**



Source: GAO analysis of Commonwealth of the Northern Mariana Island's fiscal year 2020 audited financial statements. | GAO-23-106045

Notes: Numbers may not add up due to rounding. Our calculation of total public debt outstanding includes the sum of bonds and other debt payable, which may be marketable notes issued by territorial governments, nonmarketable intragovernmental notes, notes and loans held by local banks, and federal and intragovernmental loans.

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## Pension Liabilities

CNMI has struggled to finance its pensions. In 2013, a U.S. district court approved a settlement agreement with the territory's government pension plan, which applied for bankruptcy in 2012. As part of the settlement, CNMI agreed to make minimum annual payments to the fund to allow members to receive 75 percent of their full benefits.<sup>60</sup>

CNMI reported a net pension liability of \$470.4 million, about 50 percent of GDP, as of September 30, 2020. However, independent auditors determined in fiscal year 2020 that CNMI did not properly follow pension accounting standards, which greatly reduces the reliability of this

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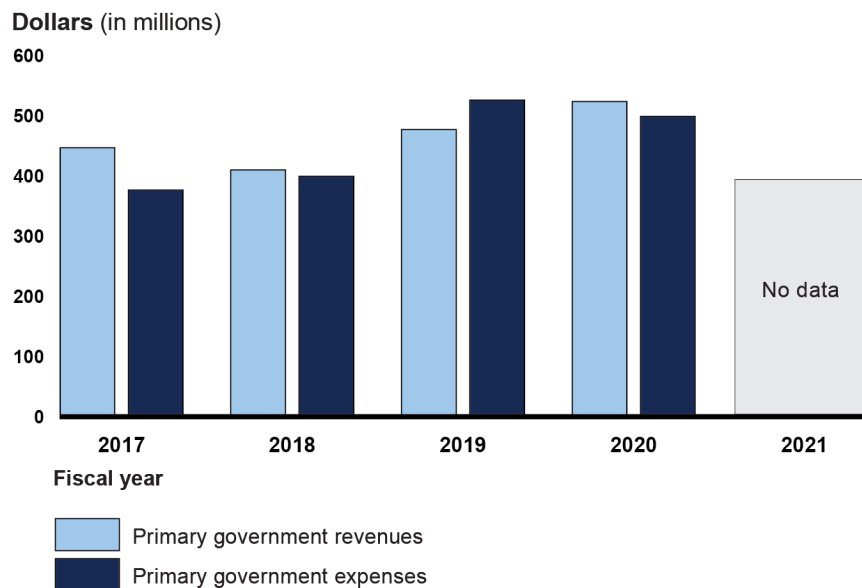
<sup>60</sup>Johnson v. Inos, No. 09-00023 (D.N. Mar. I. Aug. 6, 2013) (final amended stipulation and agreement of settlement). In addition to the settlement plan, CNMI allocated \$25 million of casino license fees to fund the restoration of the 25 percent reduction of the retirees' and beneficiaries' pensions, among other purposes. N. Mar. I. Pub. L. 18-56, § 7 (2014) *codified at* 4 N. Mar. I. Code § 2307(c)(1)(i).

information.<sup>61</sup> In fiscal year 2020, CNMI contributed \$42 million to the fund. As mentioned above, CNMI's government financed part of this contribution by a loan.

## Fiscal Years 2019 and 2020 Data Show Revenues and Expenses for CNMI's Primary Government Increased

According to the fiscal year 2020 audited financial statement, the most recent available, CNMI's primary government had a surplus of \$24.7 million, a reversal of the \$48.9 million deficit in fiscal year 2019 (see fig. 14). Notwithstanding the fiscal year 2020 surplus, CNMI officials told us that the territory's fiscal condition has worsened, as is discussed further below.

**Figure 14: Northern Mariana Islands' Primary Government Revenues and Expenses, Fiscal Years 2017 to 2021**



Source: GAO analysis of Commonwealth of the Northern Mariana Islands' audited financial statements. | GAO-23-106045

Notes: Commonwealth of Northern Mariana Islands' fiscal year is from October 1 to September 30. These data are in nominal values and have not been adjusted for inflation.

<sup>61</sup>In fiscal year 2020, CNMI received a disclaimer of opinion on its governmental activities, in part, because it did not properly follow Governmental Accounting Standards Board Statements No. 68 and 73 related to accounting and financial reporting for pensions. This reported issue could have a material effect on the primary government net pension liability amount included in this report.

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**Primary government revenues and expenses.** In fiscal year 2020, CNMI's primary government revenue was a little less than \$522 million, an increase of 10 percent from fiscal year 2019. Primary government expenses were almost \$497.3 million, a 5 percent decrease from fiscal year 2019. Spending on public welfare was almost \$120.7 million, about 24 percent of total primary government spending that year. The next largest spending categories were public safety and law enforcement, representing 17 percent, and health, representing 16 percent.<sup>62</sup>

**Component unit revenues and expenses.** CNMI's component units recorded total revenues of almost \$253.9 million and total expenses of more than \$238.1 million in fiscal year 2020, resulting in a surplus of about \$15.7 million. Compared to fiscal year 2019, total component unit revenues and expenses significantly increased in fiscal year 2020. Specifically, revenues increased 40 percent and expenses increased 44 percent. The component units with the largest expenditures in fiscal year 2020 were the Public School System (\$87.2 million), the Commonwealth Utilities Corporation (\$82.9 million), and the Ports Authority (\$33.3 million).<sup>63</sup>

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## CNMI's Economy Is Declining and Faces Significant Hurdles for Recovery

The CNMI government's strategy to encourage tourism and economic activity by building casinos and hotels on Saipan and Tinian has not been successful, leaving the territory without a viable plan to recover its economy through other means.<sup>64</sup> CNMI's inflation adjusted GDP fell by 11.3 percent in 2019 and another 29.7 percent in 2020 with sharp declines in tourist spending, casino gambling revenue, and private fixed

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<sup>62</sup>In fiscal year 2020, CNMI received a disclaimer of opinion on its governmental activities, in part, because it was unable to provide sufficient appropriate audit evidence to support a substantial amount of the primary government's account balances and financial activities. These reported issues could have a material effect on the primary government revenue and expense amounts included in this report.

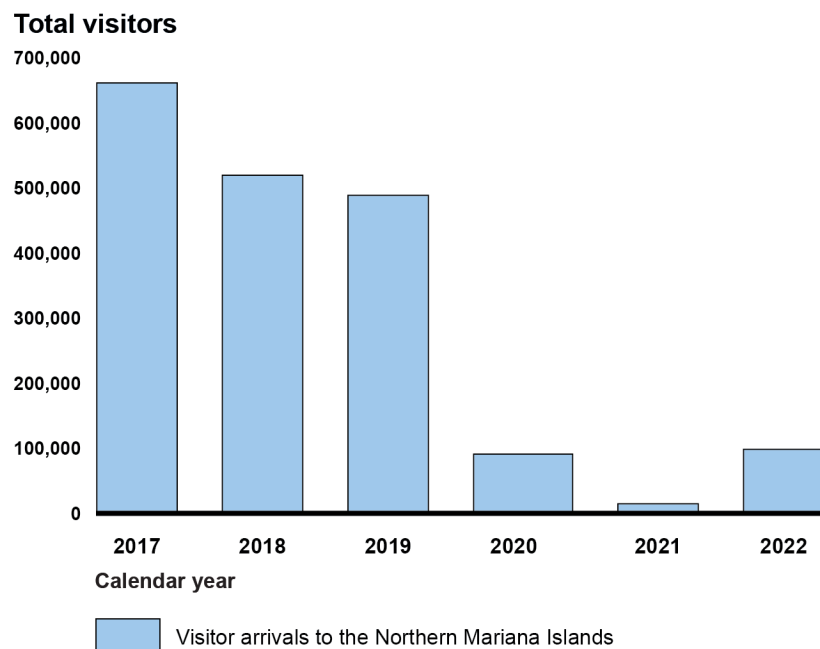
<sup>63</sup>In fiscal year 2020, CNMI received an adverse opinion on its components units due to omission of component unit data required by Governmental Accounting Standards Board Statement No. 61—*The Financial Reporting Entity: Omnibus*. These reported issues could have a material effect on the component unit revenue and expense amounts included in this report.

<sup>64</sup>See our series of reports on workforce trends in CNMI. GAO, *Commonwealth of the Northern Mariana Islands: Recent Workforce Trends and Wage Distribution*, [GAO-22-105271](#) (Washington, D.C.: Feb. 8, 2022); *Commonwealth of the Northern Mariana Islands: Recent Workforce Trends*, [GAO-20-305](#) (Washington, D.C.: Feb. 13, 2020); and *Commonwealth of the Northern Mariana Islands: Implementation of Federal Minimum Wage and Immigration Laws*, [GAO-17-437](#) (Washington, D.C.: May 18, 2017).

investment.<sup>65</sup> With the tourism industry struggling to recover, federal assistance slowing, and weak financial management practices persisting, CNMI is at risk of a severe fiscal crisis.

Tourism is CNMI's primary source of economic activity. However, the number of visitors to CNMI has been declining since 2018 when Super Typhoon Yutu caused extensive damage to homes, businesses, and infrastructure, including to the Saipan International Airport (see fig. 15). The COVID-19 pandemic caused a much sharper decline in tourism revenue and economic activity, exacerbated by the subsequent closure of the Imperial Pacific Casino in 2020 after just 3 years of operating. Visitors in 2022 increased to 96,521—indicating a slight recovery—though still well below prepandemic levels.

**Figure 15: Annual Visitors to the Northern Mariana Islands (CNMI), 2017 to 2022**



Source: GAO analysis of CNMI Visitor Authority data. | GAO-23-106045

Note: CNMI had 12,684 visitors in 2021.

<sup>65</sup>See, U.S. Bureau of Economic Analysis, *Gross Domestic Product of the Commonwealth of the Northern Mariana Islands, 2020* (Suitland, MD.: Jan. 31, 2023).



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The casino has no timeline for reopening under the current operator and the company faces ongoing legal action. The casino building is partially constructed and its condition is deteriorating (see fig. 16).

**Figure 16: Imperial Pacific International Casino, Saipan, January 2023**



Source: GAO photo. | GAO-23-10645

These declines in tourism affect tax revenue and other economic activity. Revenues from casino gambling dropped more than 95 percent in 2020, according to the U.S. Bureau of Economic Analysis.<sup>66</sup> Furthermore, the loss of casino license fees removes a source of funding for CNMI's pension beneficiaries.<sup>67</sup> As we discussed above, CNMI has struggled to access capital markets and to make required contributions to its pension

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<sup>66</sup>U.S. Bureau of Economic Analysis, *Gross Domestic Product for CNMI, 2020* (Washington, D.C.: Jan. 31 2023).

<sup>67</sup>CNMI allocated \$25 million of casino license fees to fund the restoration of the 25 percent reduction of the retirees' and beneficiaries' pensions, among other purposes. *4 N. Mar. I. Code § 2307(c)(1)(i)*.

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fund. CNMI officials told us they are uncertain how they will continue to make expected debt service and pension fund payments.

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## CNMI Faces Mounting Financial Management and Reporting Problems

CNMI's audited financial statement submissions have been increasingly delayed since fiscal year 2018 and recently the territory's financial reporting issues have worsened. As of June 15, 2023, CNMI has not released audited financial statements for fiscal year 2021. The territory also has long-standing issues with following pension reporting requirements and omitting component unit data from its government-wide financial statements. These problems have led its auditors to issue adverse or disclaimer of opinions on CNMI's governmental activities and component units every fiscal year since at least 2017.<sup>68</sup>

In fiscal year 2020, CNMI also received a disclaimer of opinion on its governmental activities because it was unable to provide sufficient appropriate audit evidence to support a substantial number of the primary government's account balances and financial activities due to inadequacies in its accounting records.<sup>69</sup> Timely and reliable financial data provide important information for investors, policymakers, oversight bodies, and the public on the financial and economic condition of the territory.

CNMI's auditors have also identified numerous material weakness in internal control over financial reporting that have remained unresolved for several years. Some of these material weaknesses have contributed to CNMI's adverse and disclaimed audit opinions. The number of material weaknesses identified by the independent auditors more than doubled between fiscal years 2019 and 2020, suggesting a deterioration in the territory's internal control environment. In fiscal year 2020, among other reported issues, auditors identified material weaknesses related to inadequate cash management practices, not performing necessary account reconciliations, not ensuring the validity of a number of account

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<sup>68</sup>An auditor expresses an adverse opinion on an opinion unit's financial statements when, having obtained sufficient appropriate audit evidence, they conclude that misstatements, individually or in the aggregate, are both material and pervasive to the financial statements. An auditor expresses a disclaimer of opinion on an opinion unit's financial statements when they are unable to obtain sufficient appropriate audit evidence on which to base the opinion, and conclude that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive.

<sup>69</sup>Deloitte & Touche LLC. *Commonwealth of the Northern Mariana Islands Report on the Audit of Financial Statements in Accordance with Uniform Guidance, Year Ended September 30, 2020* (Capitol Hill, Saipan, CNMI. Jan. 30, 2023).

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balances and transactions, and not maintaining adequate accounting records.

CNMI's internal control deficiencies substantially increase the risk of delayed and inaccurate financial reporting, impaired financial decision-making, and fraudulent activity. Moreover, without adequate cash management controls, CNMI risks not having enough cash in its accounts to meet financial obligations. Robust internal controls are important to support managers as they make financial decisions or adapt to shifting environments, evolving demands, changing risks, and new priorities as they arise.

In a February 2023 testimony, CNMI's governor stressed the need for improvements in CNMI's financial management, noting issues with mismanagement and misuse of federal funds.<sup>70</sup> He cited several recent examples, stating that the government overcommitted about \$86 million in federal funds provided by the American Rescue Plan Act and overspent its general fund appropriations by about \$38 million in fiscal year 2022. According to CNMI officials, in October 2021, the government began replacing its legacy financial management system with a new system. However, as of March 2023, key features of the system have not been implemented. The new system is expected to address some, but not all, of these internal control and reporting issues.

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<sup>70</sup>Governor Arnold I. Palacios. Written Testimony. U.S. Senate Committee on Energy and Natural Resources (Washington, D.C.: Feb. 9, 2023).

## AMERICAN SAMOA

# AMERICAN SAMOA

**LOCATION** South Pacific, 2,600 miles from Hawaii

**PHYSICAL SIZE** 76 square miles (7 islands)

**POPULATION IN 2020** 49,710

**GROSS DOMESTIC PRODUCT IN FISCAL YEAR 2021** \$710.8 million

**PRIMARY INDUSTRIES** Tuna canning and government

## KEY UPDATES

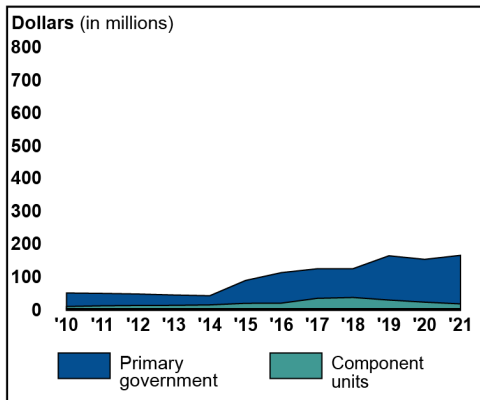
Government increasing contributions to avoid insolvency of pension fund

GDP is stable but continues to depend on a single tuna cannery

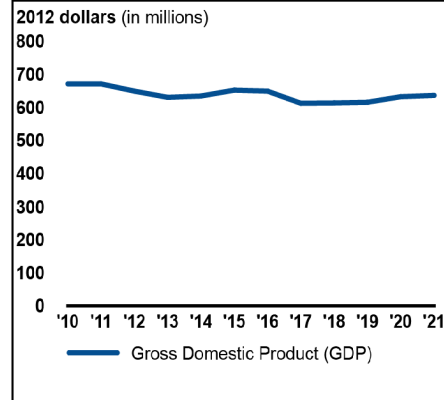
Weaknesses in financial management and reporting persist

## AMERICAN SAMOA PUBLIC DEBT AND ECONOMIC CONDITION, FISCAL YEARS 2010-2021

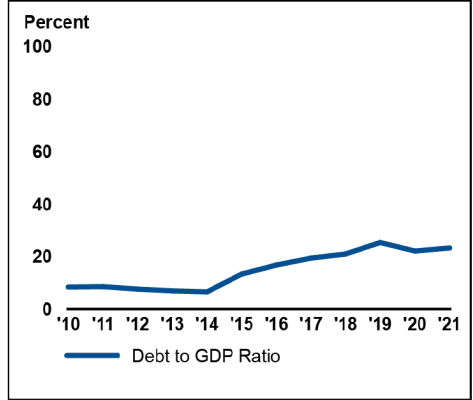
### TOTAL PUBLIC DEBT OUTSTANDING



### REAL GROSS DOMESTIC PRODUCT



### DEBT AS A SHARE OF GDP



Source: GAO analysis of American Samoa's audited financial statements and U.S. Bureau of Economic Analysis data. | GAO-23-106045

Notes: American Samoa's fiscal year is from October 1 to September 30. Real GDP values are adjusted to account for the effects of inflation.

### American Samoa: Economic and Demographic Trends

Gross Domestic Product (GDP)	American Samoa's GDP was \$710.8 million in fiscal year 2021. In real terms, American Samoa's GDP has been decreasing annually since 2011. However, the contraction has slowed in recent years, with a 0.4 percent decline between 2016 and 2021. American Samoa's economy depends entirely on the StarKist Samoa Co. tuna fish cannery and federal funds. Prospects for economic diversification face challenges.
Long-term liabilities	As of September 30, 2021, American Samoa's debt outstanding was \$162.2 million—about 23 percent of GDP. American Samoa also reported having almost \$262 million in net pension liabilities—about 37 percent of GDP. In January 2022, American Samoa passed legislation to increase contributions to the pension fund to avoid insolvency within the next decade.
Population	In 2020, American Samoa's population was 49,710 people—a decrease of more than 10 percent since 2010, according to the U.S. Census Bureau. If this trend continues, the government will face additional challenges. For example, fewer working-age residents means less employment tax revenue and less economic activity.

Source: GAO analysis of data from U.S. Bureau of Economic Analysis, U.S. Census Bureau, and American Samoa government. | GAO-23-106045

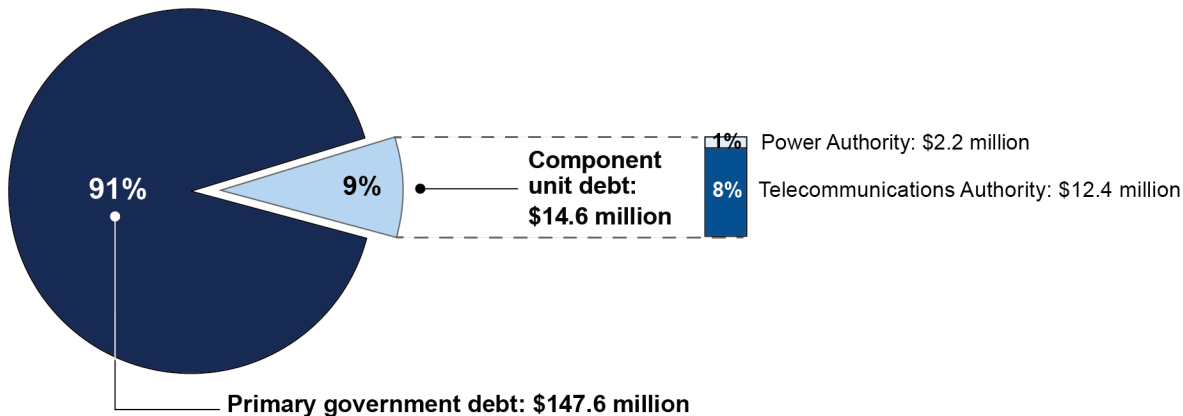
## American Samoa Accessed Capital Markets in Recent Years

### Total Public Debt Outstanding

Based on our analysis of American Samoa’s 2021 audited financial statements, we calculated that total public debt outstanding was \$162.2 million as of September 30, 2021, or about 23 percent of the territory’s GDP.<sup>71</sup> Figure 17 shows the shares of the debt outstanding from the primary government and component units.

Figure 17: Composition of American Samoa’s Public Debt Outstanding, as of September 30, 2021

Total public debt outstanding: \$162.2 million



Source: GAO analysis of American Samoa’s fiscal year 2021 audited financial statements. | GAO-23-106045

Notes: Numbers may not add due to rounding. Our calculation of public debt outstanding includes the sum of bonds and other debt payable, which may be marketable notes issued by territorial governments, nonmarketable intragovernmental notes, notes and loans held by local banks, and federal and intragovernmental loans.

The primary government’s total debt outstanding includes the \$43.2 million general revenue bonds issued in June 2021. Part of the proceeds

<sup>71</sup>From our review of component unit financial statement data recently provided by the American Samoa government, we revised our calculation of component unit public debt in fiscal years 2017 through 2019. Therefore, our calculation of component unit public debt for these fiscal years will not be consistent with our prior reporting.

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from the bonds financed the acquisition and construction of new legislature and high-court buildings (see fig. 18).

**Figure 18: American Samoa Fono Legislature Building, Under Construction**



Source: American Samoa government photo. | GAO-23-106045

In May 2021, Moody’s Investors Service revised its credit outlook for the government of American Samoa to stable from negative, reflecting governance improvements, including enhanced transparency and budget management.<sup>72</sup>

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## Pension Liabilities

Pension liabilities represent a large obligation for the American Samoa government. As of September 30, 2021, American Samoa’s primary government and component units reported having almost \$262 million in net pension liabilities—about 37 percent of GDP. In January 2022, American Samoa passed legislation to increase contributions to the pension fund to avoid insolvency within the next decade.<sup>73</sup>

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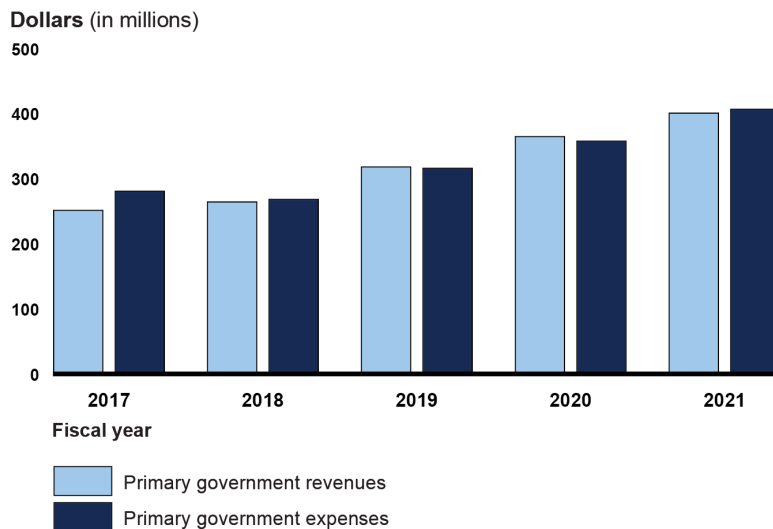
<sup>72</sup>A stable outlook indicates a low likelihood of a rating change over the medium term. In March 2022, Moody’s reaffirmed its Ba3 credit rating for American Samoa—meaning that its bonds are subject to substantial credit risk. See Moody’s Investors Service, *Moody’s Revises American Samoa’s Outlook to Stable* (New York: May 18, 2021).

<sup>73</sup>Am. Samoa Pub. L. No. 37-10 (2022), *codified at* Am. Samoa Code §§ 7.1433, 7.1434.

## Revenues and Expenses for American Samoa's Primary Government Increased in Fiscal Years 2020 and 2021

According to the fiscal year 2021 audited financial statements, American Samoa's primary government had an almost \$6 million deficit. Figure 19 shows revenue and expenses for American Samoa's primary government each fiscal year since 2017. In fiscal years 2019 and 2020, the primary government reported a surplus of \$2 million and \$6.9 million, respectively.

**Figure 19: American Samoa's Primary Government Revenues and Expenses, Fiscal Years 2017 to 2021**



Source: GAO analysis of American Samoa's audited financial statements. | GAO-23-106045

Notes: American Samoa's fiscal year is from October 1 to September 30. These data are in nominal values and have not been adjusted for inflation.

**Primary government revenues and expenses.** In fiscal year 2021, American Samoa's primary government revenue was approximately \$400.9 million, an increase of 26 percent from fiscal year 2019. Primary government expenses were about \$406.9 million, a 29 percent increase from fiscal year 2019. In fiscal year 2021, American Samoa's primary government reported spending almost \$116.9 million on education and culture (about 29 percent of all primary government spending), followed by \$107.5 million (26 percent) for health and welfare activities, and \$102.8 million (25 percent) for general government activities.

**Component unit revenues and expenses.** American Samoa's component units recorded total revenues of more than \$196.7 million and total expenses of almost \$181.2 million in fiscal year 2021, resulting in a

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## American Samoa's Continued Economic Reliance on a Single Tuna Cannery Presents Fiscal Risk

surplus of about \$15.5 million.<sup>74</sup> Compared to fiscal year 2019, total component unit revenues were 1 percent lower and expenses were 8 percent higher in fiscal year 2021. The Medical Center Authority reported spending \$71.3 million (39 percent of component unit spending) and the Power Authority spent \$63.4 million (35 percent of component spending).

The American Samoa economy continues to depend on the territorial government and tuna canning industry. However, cannery closures between 2007 and 2018 have left only the StarKist Co. cannery operating in American Samoa (see fig. 20).<sup>75</sup>

As we reported in June 2020, the StarKist Samoa cannery faces challenges.<sup>76</sup> According to the U.S. Bureau of Economic Analysis, fish exports from American Samoa declined 29 percent in 2021 compared to 2020.<sup>77</sup> Both territorial and Starkist officials cited the importance of a federal tax credit to the tuna industry and the degree to which the credit's temporary nature contributes to economic uncertainty.<sup>78</sup> Reductions in the tuna canning industry would likely also affect support industries such as transportation and warehousing, retail and wholesale, and construction in American Samoa.

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<sup>74</sup>In fiscal year 2021, American Samoa received a qualified audit opinion on its component units because its independent auditor could not verify certain balances related to revenues and receivables for one component unit. This reported issue could have a material effect on the component unit revenue amount included in this report.

<sup>75</sup>StarKist Co. has operated StarKist Samoa tuna cannery in American Samoa since 1963.

<sup>76</sup>For more information, see GAO, *American Samoa: Economic Trends, Status of the Tuna Canning Industry, and Stakeholders' Views on Minimum Wage Increases*, [GAO-20-467](#) (Washington, D.C.: June 11, 2020).

<sup>77</sup>U.S. Bureau of Economic Analysis, *Gross Domestic Product for CNMI, 2020* (Washington, D.C.: Jan. 31 2023).

<sup>78</sup>The credit reduces federal taxes on income earned by qualifying U.S. corporations investing in American Samoa; qualifying American Samoa tuna canneries have claimed the credit. See Pub. L. No. 109-432, § 119, 120 Stat. 2922, 2942 (2006). As of June 2023, the credit has been extended to tax years starting before January 1, 2022. Pub. L. No. 116-260, div. EE, § 139(a), 134 Stat. 1182, 3054 (2020).



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**Figure 20: Starkist Samoa Cannery**



Source: Starkist Co. | GAO-23-106045

Further, the government's efforts to diversify its economy face challenges. For example, the islands are located in a remote part of the South Pacific Ocean, which reduces the viability of the territory developing a robust tourism industry. Two passenger air flights per week fly between American Samoa and the United States (via Hawaii) with a third weekly flight added during peak travel seasons. The territory is also vulnerable to tsunamis and other coastal hazards. In February 2018, Tropical Storm Gita caused nearly \$200 million in damages to public and private property, according to government estimates. We reported in June 2020, that the government was investing in developing a call center industry.<sup>79</sup> However, as of June 2023, this effort has made little progress and the call center is not currently operational.

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<sup>79</sup>See [GAO-20-467](#).

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## American Samoa Continues to Have Some Financial Management and Reporting Issues

American Samoa has submitted its yearly audited financial statements on time since at least 2017. However, the territory has received a qualified audit opinion for at least the last 5 years.<sup>80</sup> In fiscal year 2021, American Samoa received a qualified opinion on its component units because the independent auditor was unable to verify certain component unit revenue and receivable balances.<sup>81</sup> Timely and reliable financial data provide important information for investors, policymakers, oversight bodies, and the public on the financial and economic condition of the territory.

Additionally, the independent auditors have identified a recurring material weakness in internal control over financial reporting related to its financial close and reporting process.<sup>82</sup> This reduced the government's ability to produce timely and reliable financial reports on a monthly, quarterly, and annual basis. Robust internal controls are important to support managers as they make financial decisions or adapt to shifting environments, evolving demands, changing risks, and new priorities as they arise.

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## Agency Comments and Our Evaluation

We provided a draft of this report for review and comment to the Department of the Interior and the governments of Puerto Rico, Guam, the U.S. Virgin Islands, the Commonwealth of the Northern Mariana Islands, and American Samoa. We received technical comments from Puerto Rico, which we incorporated as appropriate.

We received written letters from Puerto Rico, Guam, and American Samoa. The letters are reprinted in appendixes I, II, and III, respectively. We did not receive any comments from USVI or CNMI.

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We are sending copies of this report to the appropriate congressional committees, to the Governor of each territory, and to the Secretary of the

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<sup>80</sup>An auditor expresses a qualified opinion on an opinion unit's financial statements, when they either: (1) conclude that misstatements, individually or in the aggregate, are material but not pervasive to the financial statements after obtaining sufficient appropriate audit evidence; or (2) are unable to obtain sufficient appropriate audit evidence on which to base the opinion, but conclude that the possible effects on the financial statements of undetected misstatements, if any, could be material but not pervasive.

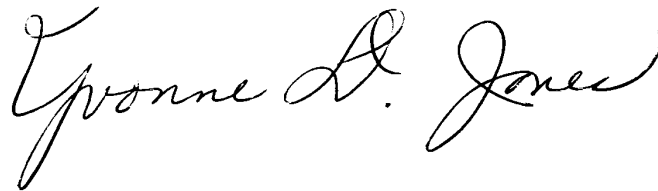
<sup>81</sup>Larson & Company, PC. *Territory of American Samoa Basic Financial Statements with Auditor's Report, September 30, 2021* (Spanish Fork, Utah. May 16, 2022).

<sup>82</sup>The financial close process involves verifying and adjusting account balances at the end of an accounting cycle (often the end of the quarter or end of year) to produce financial reports representative of an entity's financial position as of a certain date.

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Interior. In addition, the report will be available at no charge on the GAO website at <http://www.gao.gov>.

If you or your staffs have questions about this report, please contact Yvonne D. Jones at (202) 512-6806, or Latesha Love-Grayer at (202) 512-4409. GAO staff who made key contributions to this report are listed in appendix IV.



Yvonne D. Jones  
Director, Strategic Issues



Latesha Love-Grayer  
Director, International Affairs and Trade

# Appendix I: Comments from the Government of Puerto Rico



GOVERNMENT OF PUERTO RICO  
PUERTO RICO FISCAL AGENCY AND FINANCIAL ADVISORY AUTHORITY  
Executive Director | Omar J. Marrero, Esq. | [omar.marrero@aafaf.pr.gov](mailto:omar.marrero@aafaf.pr.gov)

June 8, 2023

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 23-106045, *U.S. Territories Public Debt Outlook – 2023 Update*. I would like to thank you for the opportunity to review and provide feedback on the Report in its draft form.

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

#### Progress Towards Meaningful Change

- **Successful Restructurings.** Since 2017, the Government has achieved successful restructurings under Title III, Title VI and Section 207 of PROMESA for the Puerto Rico Sales Tax Financing Corporation ("COFINA"), the Government Development Bank for Puerto Rico ("GDB"), and the Puerto Rico Aqueduct and Sewer Authority ("PRASA").

More recently, on March 15, 2022, the Plan of Adjustment of the Commonwealth (the "CW POA") became effective, allowing the issuance of \$7.4 billion in General Obligation bonds to restructure outstanding claims of \$34.3 billion, resulting in a fixed and sustainable annual debt service of \$1.15 billion<sup>1</sup>. The Legislature of Puerto Rico (the "Legislature") enacted required new legislation that established the legal framework for the implementation of the CW POA.

Furthermore, on December 6, 2022, the Plan of Adjustment of the Puerto Rico Highways and Transportation Authority ("HTA") (the "HTA POA") became effective, resulting in the issuance of \$1.2 billion in new HTA bonds and \$362 million in a subordinate Government loan to restructure outstanding claims of \$6.4 billion.

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<sup>1</sup> Includes debt service for COFINA bonds.

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- **Action by Current Administration to Achieve Transparency.** Governor Pedro R. Pierluisi's administration is making every effort for the timely completion of fiscal years 2021 and 2022 audited financial statements. As a result, it is expected to have the fiscal year 2021 on or before June 15, 2023, and the fiscal year 2022 by December 31, 2023. Furthermore, in order to provide more transparency and timely information, the Puerto Rico Fiscal Agency and Financial Advisory Authority ("AAFAF", for its Spanish acronym) and the Puerto Rico Treasury Department continue to publish monthly bank account balances for the Government and its instrumentalities, weekly cash flow of the Treasury Single Account (TSA) of the Government, as well as quarterly budget to actual reports for the Government and principal public corporations. Moreover, the Puerto Rico Planning Board has continued to publish economic data annually and official Government revenue data is released by the Puerto Rico Treasury Department monthly.

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

Finally, in May 2023, Puerto Rico launched a new investor relations website available at [www.puertoricobonds.pr.gov](http://www.puertoricobonds.pr.gov). The new website allows visitors to receive automatic alerts for important documents, event notices, press releases, or project updates. Also, the website includes subsites for General Obligation Bonds, HTA, PRASA and COFINA. The website currently has approximately 800 financial reports and documents, and the access to the website is free and open to all investors and visitors.

- **New Enterprise Resource Planning Project ("ERP") System.** The main goal of the ERP is to centralize the fiscal and accounting systems of agencies, instrumentalities, and public corporations in order to facilitate access to the financial information of the Government in real time. To such end, the ERP Project has the purpose of: (i) centralizing the Government's financial systems; (ii) integrating the Finance, Purchasing, Human Capital Management, and Payroll modules into a single platform; (iii) standardizing financial and administrative processes; (iv) achieving more efficient processes; (v) improving budget controls; and (vi) producing more accurate financial reports. Ultimately, the ERP will allow the Government to (i) prepare and publish audited financial statements in a timely manner with greater certainty and reliability; (ii) monitor the government's financial assets and liabilities through a centralized system;

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**Appendix I: Comments from the Government  
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and (iii) obtain the necessary financial information to support decision-making.

- **New Debt Management Policy.** As part of the CW POA, the Government adopted a new Debt Management Policy (“DMP”) with the objective of placing additional restrictions and guardrails on the issuance of debt, within beyond current constitutional requirements. In general terms, the DMP recognizes that new debt shall only be issued to cover capital improvements or to execute refinancings for savings and cannot exceed certain average revenues of the Government for the previous two fiscal years.
- **PREPA Transformation.** A complete revamping and modernization of Puerto Rico’s electric energy system is underway. In 2021, Luma Energy assumed the operation of PREPA’s transmission and distribution system under a 15-year operation and maintenance agreement. Subsequently, in January 2023, Governor Pedro R. Pierluisi announced a 10-year agreement with Genera PR to operate, maintain and eventually decommission PREPA’s aging power-generation assets.

Comments Regarding Certain Assumptions in the Report

- **Fiscal Plan Assumptions.** The certification of the Government fiscal plans is an extensive process that includes several iterations of a plan that is first submitted by the Government to the Financial Oversight and Management Board for Puerto Rico (the “FOMB”). Judge Laura T. Swain has referred to PROMESA as an “awkward power sharing framework” and as such, although the FOMB certifies the Fiscal Plan, many of the initiatives are in line with the Government’s objectives. Key areas of differences between the elected Government and the FOMB are baseline macroeconomic assumptions, assumed pass-through rate for most federal funding, provision of more funding to the University of Puerto Rico, and to the municipalities to ensure they continue to provide essential services to the citizens they serve across the Island.
- **Population Trends:** We note that the population forecast assumption has historically been one of the critical discrepancies the Government has had with the FOMB in the formulation of the Government’s fiscal plans. Historically, the FOMB has incorporated a more pessimistic view of long-term population trends, when compared to actual numbers and estimates for interim periods as presented in the Puerto Rico Planning Board’s Economic Report to the Governor and the Legislative Assembly for 2021, sourced from the US Census Bureau<sup>2</sup>.

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<sup>2</sup> <https://jfp.pr.gov/informe-economico-al-gobernador/>

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

The Report implies that three significant factors will determine Puerto Rico's capacity for economic growth and thus, repaying its restructured debt: (1) the outcomes of the ongoing debt restructuring process, (2) implementing debt management reforms, and (3) implementing financial management and reporting reforms. 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 outlook.

- **Congressional and Executive Actions to Address Critical Challenges.** The report issued by the Congressional Task Force on Economic Growth in Puerto Rico (the "Task Force") in December 2016 identified a variety of policy recommendations for Congress and the Federal Executive that could help address critical challenges in Puerto Rico and support the restoration of economic growth on the island. Whether Congress and the Executive work with the Government to act on the challenges and opportunities identified by the Task Force, could have a significant impact on 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 the decisions of both have an immense impact on Puerto Rico's economic and fiscal prospects for the future. Among the most notable is the historically unequal treatment of Puerto Rico in Federal Medicaid funding, among other programs, which periodically puts the stability of the island's entire healthcare system and fiscal health at risk and has contributed to a mass exodus of medical and health professionals which cannot be easily replaced. Although the omnibus spending bill that Congress approved in December 2022 contained the largest ever allocation for Medicaid for Puerto Rico, Congress should continue to work with Puerto Rico to establish a sustainable, long-term funding structure for our Medicaid program in a way that is tied to the levels of need, is means-tested and provides the same or better levels of care than the current unequal funding structure. Among the challenges Puerto Rico has faced in recent years has been the imposition of the Global Intangible Low-Taxed Income Tax (GILTI) for Puerto Rico. Given that Puerto Rico is treated as a foreign jurisdiction for tax purposes, any negative impact on the manufacturing sector (whether by acts of Congress, or changes in the international tax landscape) could cause a substantial reduction in local tax revenues and a potential destabilization of the territory's economy. Other notable 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, as well as to other measures to adequately deal with the unequal and unfair treatment our citizens receive.

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- **Resolution of Puerto Rico's Undemocratic and 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 we the people of Puerto Rico as US citizens, 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 island's elected officials 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 and unfair treatment and sometimes-outright exclusion of Puerto Rico from 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 and transformation 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 in accordance with the will of the people of Puerto Rico. In light of the foregoing, Congress must act definitively to resolve Puerto Rico's political status, because extending the failed 125-year-old territorial status and the outdated and unfair colonial scheme of governance it grounds for the people of Puerto Rico, 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



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possible answer and the best path forward out of this century old issue and into a new era 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,



Omar J. Marrero Díaz  
Executive Director

# Appendix II: Comments from the Government of Guam



LOURDES A. LEON GUERRERO  
GOVERNOR

JOSHUA E. TENORIO  
LT. GOVERNOR

UFISINAN I MAGA'HĀGAN GUĀHAN  
OFFICE OF THE GOVERNOR OF GUAM

June 13, 2023

Yvonne D. Jones  
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 – 2023 Update (GAO-23-106045)**

Dear Director Jones,

Thank you for the opportunity to further review and provide final comment to the Government Accountability Office (GAO) *U.S. Territories: Public Debt Outlook – 2023 Update (GAO-23-106045)*. I appreciate that the report reflects the fact that the Government of Guam is working hard to manage its debt position to ensure its healthy financial outlook. In this letter, I summarize recent developments in our government's financial picture since the last report was issued.

### **Commitment to Fiscal Discipline**

When I took office in January 2019, I implemented aggressive policies to stabilize our government's finances. These decisions were often difficult and unpopular, but through strict discipline, focus, and commitment, we ultimately achieved our goal and established practices that will enable our government to maintain the stability it now enjoys.

From the outset, our Administration prioritized the refinance of existing debt to secure lower interest rates without extending the debt maturity. This action reduced Guam's debt position by \$29.6 million and resulted in a net present value savings of \$92 million. Our Administration maintained this focused fiscal strategy throughout our first term, even during our response to the COVID-19 pandemic.

Our hard work soon paid off. The Fiscal Year 2021 Government of Guam General Fund audit reported that our Administration had eliminated the \$83 million accumulated deficit in the governmental fund balance sheet, without the use of outside borrowing. Our Administration has further produced a General Fund surplus in each year of our first term by adopting conservative revenue and expenditure projections, maximizing federal revenues, and reducing General Fund expenditures. The soon-to-be released Fiscal Year 2022 audit reports a continuation of this General Fund surplus with strong revenue collections. Income tax revenue collections are estimated at 30% over last year and Business Privilege Tax collections are up 10.8% as compared to Fiscal Year 2021.

As a result of our Administration's strong financial management, Moody's Rating Agency recently upgraded the government of Guam's financial health rating from "Stable" to "Positive." The Moody's report dated March 22, 2023, observes that "[d]espite tourism levels still being well below pre-pandemic levels, Guam's two main sources of general revenue, income and business privilege taxes, have performed well over the last two years, leading to the general fund balance returning to a positive

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**Appendix II: Comments from the Government of Guam**

To: Yvonne Jones, *Director*, Strategic Issues, U.S. Government Accountability Office  
Fr: The Honorable Lourdes A. Leon Guerrero, *Governor of Guam*  
Date: June 13, 2023  
Re: Guam's Response to U.S. Territories: Public Debt Outlook – 2023 Update (GAO-23-106045)

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position for the first time since fiscal 2013 and allowing the government to establish a Rainy Day Fund for the first time in over 20 years.”

**New Financial Software for the Government of Guam**

In January 2023, our Administration took a significant step toward resolving a long-standing challenge in our government's financial management processes, by awarding a \$30.7 million contract to replace our government's aging financial management information system. This five-year project encompasses core financials and payroll capabilities, scheduled to be operational by January 5, 2024. Additionally, human resources, grants and budgeting modules will be implemented in subsequent years.

**Impact of Typhoon Mawar on the Island of Guam**

Guam is currently responding to the devastation caused by Typhoon Mawar, which struck Guam on May 24, 2023. This was the strongest storm to hit Guam in over twenty years. While we are fortunate that there were no casualties from Typhoon Mawar, the storm impacted our island's critical infrastructure and utilities, causing widespread damage to many buildings and homes, and disrupting our tourism industry's promising recovery from the COVID-19 pandemic. Our Administration, along with our local and federal partners, is working around the clock to rebuild our island. Since the storm, we have made significant progress in just a few weeks time, and our aim is to ensure our island is even stronger, more resilient, and more prepared should another storm come our way.

Despite the significant damage Typhoon Mawar caused, the government of Guam and its autonomous agencies (power, water, airport and seaport agencies) will not have to borrow money in furtherance of our recovery efforts. Our agencies have responded to this crisis with equipment, inventory and emergency response plans. We expect the island to be back to pre-Typhoon Mawar condition by the end of June 2023.

Our Administration's fiscal discipline has ensured that our island has the necessary resources to appropriately and confidently respond to the impact of Typhoon Mawar, and continue to address the lingering impact of the COVID-19 pandemic. I appreciate our continued partnership and look forward to working collaboratively with the Federal Government in the future.

*Senseremente,*



**LOURDES A. LEON GUERRERO**

*Maga'hågan Guåhan*  
Governor of Guam

cc via email: *Honorable* Joshua F. Tenorio, *Sigundo Maga'låhen Guåhan*, Lt. Governor of Guam  
Melanie Mendiola, *CEO/Administrator*, Guam Economic Development Authority

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# Appendix III: Comments from the Government of American Samoa



## OFFICE OF THE GOVERNOR AMERICAN SAMOA GOVERNMENT

Serial: 551 – 23

June 5, 2023

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

Subject: American Samoa Post – Pandemic

Dear Ms. Jones:

It is with sincere appreciation that we convey our gratitude for the continued support of your teams' commitment with the recent on-site visit to our territory. We provide this letter to review the challenges, accomplishments, and needs of the territory.

### COVID AND OTHER DISASTERS

Over the last two years, we have undertaken difficult but necessary measures to protect our people and territory from the deadly COVID-19 pandemic. The administration, collectively with the whole community, led a monumental effort – from restricting entry into our borders to safely repatriating our people who were stranded afar. The steps taken to keep the virus from reaching our shores were not without great sacrifice and struggle for our people. Despite our best efforts, the tragedy of the COVID-19 global pandemic was never more apparent than when American Samoa laid to rest 34 loved ones as result of the virus. Our loss was added to the worldwide record-setting 6.5 million deaths.

American Samoa has experienced numerous and various disasters, including cyclones and tropical storms, floods, sea level rise, king tides and tsunamis. In the last 2 years, our Territory, while combating the COVID-19 deadly virus, encountered a devastating historical southern swell coupled with damaging heightened waves that caused significant coastal erosion in addition to undersea volcanic earthquakes that effected our Manu'a Islands group. The threats of climate variability and change have heightened the vulnerability of the Territory. Our islands have little defense against the impacts of weather and climate anomalies, the increasing intensity of cyclones as sea surface temperatures increase and global sea level rising are all a grave concern for the safety and wellbeing of our people and territory.

The lessons learned and insights gained from these disasters and challenges provided our territory with new priorities. We must look to rebuild resilience by adopting robust systems to maintain our disaster preparedness and preserve our natural resources. We must do this while improving and

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expanding our economy, investing in viable digital ecosystems, improving physical infrastructure, highlighting the quality of life, and most importantly, maintaining good governance.

The recent COVID funds have provided significant support for our preparedness, response, and recovery efforts from the pandemic. Maximizing key federal funding under the American Rescue Plan Act (ARPA), the Bipartisan Infrastructure Law (BIL) and Inflation Reduction Act (IRA 2022) are key to addressing the short-term and long-term challenges faced by our Territory. Identifying territorial priorities and developing a comprehensive plan will be crucial to maximizing the funding opportunities. Key long-term objectives include: 1) Improving healthcare access and services, 2) Improving the educational system, 3) Strengthening critical infrastructure including clean water, broadband capacity and systems, the commercial wharf facility, the airport, and critical climate variability and mitigation projects. Additionally, the administration is focused on improving sustainable and renewable projects including alternative sources of energy such as wind and solar. We also look to improve broadband accessibility. This need was notably illustrated by the remote work and education initiatives which resulted from the pandemic.

As part of the recent Territorial Climate and Infrastructure workshop, the territory was successful in obtaining technical assistance funding to develop an American Samoa Energy Security Plan (ESP). This will allow the government to have access to additional funding under the Bipartisan Infrastructure Law (BIL) and the Inflation Reduction Act (IRA). The American Samoa Power Authority (ASPA) will be receiving over \$200 million over the next 5 years of BIL funding for drinking water and wastewater infrastructure projects. The Department of Education was awarded one electric bus under the EPA BIL Clean School Bus program last year. ASPA is currently working with the Department of Education for the installation of charging stations in anticipation of additional electric school buses in the near future. The Department of Education will be applying for additional electric school buses under the EPA Clean School Bus Program in the future. The territory was recently awarded the IRA Climate Change Technical Assistance Program (TAP) to assist the United States Geological Service in conducting Coral Reef Restoration and Coastal Flood Mitigation Modeling in American Samoa. Additional support is also provided for the integration of the Sea Level Rise Viewer and providing outreach and education to improve our community's understanding of and ability to adapt to the rapid relative sea level rise rates in American Samoa that we have experienced since 2009 tsunami. Finally, in response to sea level rise and extreme weather events, the Department of Port Administration recently were awarded \$2.1 million for the Aunu'u Wharf Reconstruction.

The administration is working collaboratively with key territorial stakeholders and our federal partners to ensure territorial objectives are aligned and available resources are effectively deployed. The underlying impact of climate change poses an added challenge as articulated earlier. Our remote location as the southernmost U.S possession, along with our supply chain limitations, creates unique restrictions to our ability to implement these critical projects and programs. Our ability to effectively address these long-standing challenges are critical for supporting our economy and quality of life in American Samoa. We continue to seek support from our federal partners to gain access to needed funds to offset the challenges posed by climate change.

**ECONOMY**

Efforts to diversify American Samoa's economy include our recent participation in the SelectUSA Investment Summit by the U.S. Department of Commerce where over 4,000 participants from

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across the United States and its territories met first hand with potential foreign direct investors who wish to do business anywhere in the U.S. To date, the United States remain the top foreign direct investment destination in the world due to the various business opportunities the U.S. has to offer through federal, state and territorial incentives, a job-ready or skilled workforce, and the relevant industries to complement various services. With the soon-to-be-available American Samoa State Small Business Credit Initiative (SSBCI) 2.0 funds, local businesses will have more access to capital prioritizing and encouraging manufacturing. At the SelectUSA Summit, we engaged in discussions on ways small communities like American Samoa can play a role in advanced manufacturing industries like semiconductors and food and beverage.

Furthermore, American Samoa is working towards developing the Broadband industry and plans to build an Innovation and Technology Park or Campus to attract IT businesses to utilize our 200GB broadband capacity. Moreover, plans to design and construct a new hospital and Medical Plaza facility are underway as American Samoa strives to not only be the tech hub in the south pacific region, but also as a future medical hub with specialized and affordable healthcare services.

It goes without saying that the construction industry is booming on our humble shores with ten specified projects lined up under the Downtown Revitalization Masterplan. This effort upgrades and improves the critical infrastructure in the downtown area from Utulei to Pago Pago village. One of the key projects in that space includes a commercial boardwalk for more business opportunities on island. Given all these opportunities we have in the pipeline, we are now working towards formalizing a Public- Private Partnership framework to allow for local businesses to invest in our local development. These are prime examples of ways we are strategically diversifying American Samoa's economy.

The administration's commitment to preserve the successful cannery operations of Starkist is evident by the collaborative working relations. The guest worker program has been effective in processing over 1,400 workers from the neighboring island of Samoa to support the workforce and production expansion. The American Samoa Tax Exempt committee recently approved and extended Starkist's Tax Exempt Certificate for another 10 years.

Although 100% of products made in American Samoa is exported to the US, tuna production is a very volatile industry that depends on many external factors. Several factors are federal policies that have local ramifications include: increases in the minimum wage, expiration of federal 30A tax credit, and federal oversight of US fishing waters. All of these issues have a significant impact on the industry. These challenges continue to erode the competitiveness of the American Samoa-made tuna product.

We are grateful for the continued support of our Congresswoman Uifa'atali Amata Radewagen and her colleagues in the House Ways and Means committee to include their tax staff reviewing a broader tax package that would include a tax extender for the various entities across the country including Starkist. We are hopeful and look forward to a positive outcome now that the debt ceiling concerns have been resolved.

American Samoa is concerned with the recent strikes at ports on the west coast. In past years, similar strikes have reduced our availability of necessary public and private goods that sustain our

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economy. When this has happened in the past, tax revenues subsequently declined which reduced our ability to provide necessary public services to our people.

**GOVERNMENT FINANCIAL ACCOUNTABILITY**

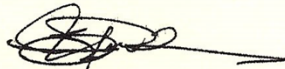
The American Samoa Economic Development Authority (ASEDA) as an extension of the government has fulfilled its mandate to ensure 100% compliance of our bond covenants to investors. Since the FY 2020 audit there has been an increase of a positive balance to \$34 million and an improvement of the funded retirement status up to 48.24%. The reduction of audit findings reflects sound financial management, the positive fund balance has steadily improved over the years. Increased general fund revenues from \$108 million in 2020 to \$147 million in 2022, representing an improvement of over 36%. Despite the border closure, rising inflation, commerce imports and exports are robust and have increased revenue collections.

Maintaining the integrity of the government is a key component in budgetary compliance. In 2021, the government instituted a pay salary raise and adjustment across the government incorporating the federal minimum wage, ensuring the skillset are appropriately compensated to include teachers, engineers, lawyers, and health care workers. We are confident that the structural and fiscal reforms in place will pave the way for a government that is more responsive, equitable and transparent. We believe the infrastructure of our debt-management policies and legislation allows our administration the flexibility while maintaining the controls necessary to ensure sound financial stewardship of our government debt.

We have embraced these trials which have empowered us to seek solutions in a fiscally responsible manner – a manner that allows us to meet the challenges head-on for the good of our people. As in any progressive administration, opportunity is always available for growth and development.

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

Sincerely,



LEMANU P. S. MAUGA  
Governor

cc: Blanche Lulu Barber | Executive Director | American Samoa Economic Development Authority  
American Samoa Economic Development Authority Board Members

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# Appendix IV: GAO Contacts and Staff Acknowledgments

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## GAO Contacts

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## Staff Acknowledgments

In addition to the contacts named above, Joseph Carney (Assistant Director), Tara Carter (Assistant Director), Margaret McKenna Adams (Analyst-in-Charge), Pedro Almoguera, Lynda Downing, Colleen Heywood, Daniel Mahoney, Alana Miller, Meredith Moles, Emily Smith, Andrew J. Stephens, and Colson Sutherland made significant contributions to this report. Also contributing to this report were Mike Bechetti, Devin Braun, Ann Czapiewski, Andres De La Torre Perez, Zachary Kinger, Amalia Konstas, and Aldo Salerno.



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# Appendix V: Additional Source Information for Images and Figures

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This appendix contains credit, copyright, and other source information for images, tables, or figures in this report when that information was not listed adjacent to the image, table, or figure.

Pages 9, 20, 28, 38, 47:

GAO analysis of National Oceanic and Atmospheric Administration data, Map Resources (map).

GAO analysis of NOAA data (location and physical size of U.S. territory information).

U.S. Census Bureau (Population of U.S. territory information).

GAO analysis of U.S. Bureau for Economic Analysis data (gross domestic product and primary industries for U.S. territory information).

GAO analysis of economic, financial, and demographic information (key updates).

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