

Commonwealth Financial Plan

Quarterly Report **Q2 FY2026**



Financial Oversight &
Management Board
for Puerto Rico

01. **Introduction**

Introduction

The Financial Oversight and Management Board for Puerto Rico (the Oversight Board) and the Government of Puerto Rico (the Government, or Commonwealth) are committed to providing timely information to the public on a regular schedule. The quarterly Commonwealth reports provide updates on the state of Puerto Rico's economic and financial performance and the status of potential risks to the financial projections identified in the 2024 certified Fiscal Plan (2024 CFP) for Puerto Rico (certified in June 2024, and revised in June 2025), fostering public trust and confidence in the Government's financial management. Key insights include:

- **Economic Activity Index (EAI) estimates show stagnation in the first six months of FY2026 compared to the same period in FY2025.** Preliminary figures for FY2025 from the Puerto Rico Planning Board (PRPB) had indicated a 0.4% increase in real Gross National Product (GNP) for FY2025 compared to a 1.6% increase in FY2024. Economic indicators suggest that stagnation in the local economy's growth will continue in FY2026.
- **Revenues continue to trend down from last year. As of December 31, 2025, year-to-date (YTD) FY2026 General Fund (GF) revenue collections totaled \$6 billion, 1.7% (or \$100 million) higher than the original 2024 CFP forecast but 5% lower (or \$332 million) than collections in the same period of FY2025 (\$6.4 billion).** The YTD outperformance against forecast was primarily driven by Personal Income Tax (PIT) and Non-Resident Withholding (NRW) tax collections, and solid Sales and Use Tax (SUT) performance, consistent with continued labor market strength and resilient consumer activity. These gains were partially offset by weaker Corporate Income Tax (CIT) collections and softer Motor Vehicle Excise Tax performance. Overall, the YTD results reflect slightly more favorable performance relative to CFP's assumptions, despite ongoing volatility across selected business-related revenue categories.
- **Reported YTD GF expenditures were \$4,833 million, 9% (\$471 million) below the YTD forecast and 0.2% (\$7 million) above the same period in FY2025. Of the \$471 million below YTD forecast, \$226 million was identified as having already been incurred but not reflected in the reported expenditures¹.** The remaining unspent expenditures of \$245 million are comprised of expenses that are expected to be incurred during the fiscal year for operating expenditures, reserves (e.g., payroll increases upon plan approval, additional PayGo costs, milestone funding and funding for Plan Implementation and PROMESA Mandates, etc.), and capital expenditures, which have underspent due to the postponement of several planned capital projects. YTD GF expenditures in FY2026 remain uncertain due to delays in recording actual expenditures and differences in the timing of incurrence compared to forecast. Some factors contributing to these challenges continue to be fragmented accounting systems and a lack of enforcement of accounting controls.
- **On December 31, 2025, ~\$7.8 billion or 73% of the \$10.7 billion² in the Treasury Single Account (TSA), the Commonwealth's main operating account, are restricted or have committed uses, and 9% (\$1.0 billion) is reserved for the minimum cash operating balance.** The current cash balance does not yet reflect certain expenses that have been incurred but have yet to be paid and reported in the coming period. To increase the level of transparency and insight into the overall financial condition of the Commonwealth, a full accounting of the TSA and an explanation of the consolidated accounts is included in this report.

- The multi-year financial projections included in the 2024 CFP assume fiscal discipline throughout the Fiscal Plan period and that the government only takes **on additional spending commitments or revenue reducing measures that are affordable given the resources available**. Increasing expenditures and reducing revenues without a sustainable and recurring funding source could create a budget imbalance earlier than FY2029. There are significant risks to the forward-looking Fiscal Plan that will continue to be monitored, including uncertain long-term Medicaid federal funding levels, potential cuts to certain federal funded programs, potential new recurring GF expenditures currently paid with one-time federal funds, potential additional Commonwealth contributions to fund disaster relief projects, and the need to fund major capital investments without adequate access to capital markets.

Economic Outlook

2.1 The U.S. Economy

The economic trajectory of the U.S. mainland significantly shapes the economic outlook for Puerto Rico. Developments in the U.S. economy tend to exert a strong influence on Puerto Rico's economic activity.

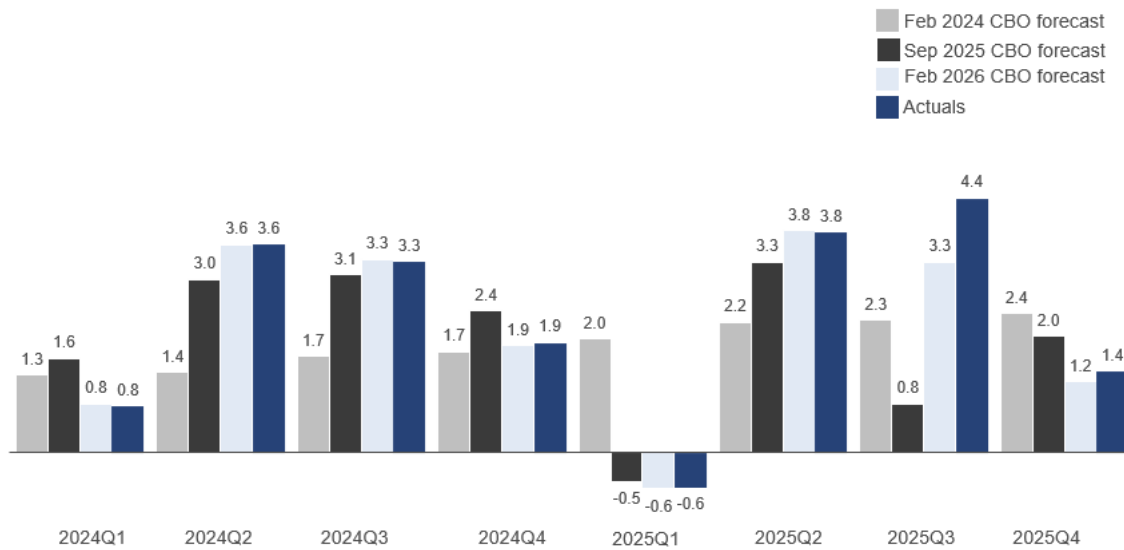
The U.S. Bureau of Economic Analysis (BEA) stated on February 20, 2026, that U.S. real Gross Domestic Product (GDP) increased to 4.4% in calendar year (CY) Q3 2025 (Q1 FY2026) from the previous quarter, and to 1.4% in Q4 CY2025 (Q2 FY2026) from the previous quarter. For Q3 CY2025, this increase is primarily due to an increase in personal consumption of goods and services (3.0% and 3.6%, respectively). During the same period, changes in personal consumption expenditures had a contribution to GDP of +2.34%. For Q4 CY2025, the slowdown compared to the previous quarter is driven by personal consumption of goods which exhibited no growth (-0.1%), export growth declined from 9.6% to -0.9%, and the decline in imports slowed from -4.4% to -1.3%. During the same period, changes in personal consumption of goods had a contribution to GDP of -0.01%, exports of -0.1%, and imports of 0.18% (down from 0.62% in the previous period). BEA also estimated that real U.S. GDP grew by 2.2% in CY2025 compared to CY2024.

The 2.2% growth in U.S. real GDP for CY2025 is higher than the Congressional Budget Office's (CBO) forecast of 2.0% growth published in its February 2024 report and used in the 2024 CFP. According to CBO's February 2026 report, U.S. real GDP growth is expected to grow by 2.0% in CY2025, increase to 2.4% growth in CY2026, and then remain roughly stable at around 1.8% growth for CY2027 through CY2036. These projections are in line with the December 2025 Blue Chip consensus forecast of 1.9% for U.S. GDP growth in CY2025 and slightly higher than the December 2025 Federal Reserve forecast of 1.7% for U.S. GDP growth in CY2025.³

U.S. inflation decreased to an annualized rate of 0.2% in Q4 CY2025 compared to the previous quarter, which was 2.9%.⁴ In February 2026, CBO updated its 2025 U.S. inflation forecast to 2.8%, unchanged from its September 2025 estimate. Inflation is expected to be at a similar level in 2026 (2.9%) but decrease afterwards until it reaches 2.5%-2.4% by 2027-2028.

As of December 2025, the U.S. unemployment rate was 4.4%. The unemployment rate has not gone below 4.0% or above 4.5%, since May 2024. In the February 2026 economic outlook, the CBO maintained its unemployment rate projection of 4.3% for CY2025 (same as the September 2025 outlook) and updated to 4.6% for CY2026 (4.4% in the September 2025 outlook). In December 2025, the U.S. economy lost 17,000 jobs, which compares negatively to the average monthly gain of 31,000 over the prior 12 months. Most importantly, the Bureau of Labor Statistics revised its prior employment figures in February and March 2026. This revision removed over a million jobs from the previously published numbers, being approximately 0.7% of the total.

Exhibit 1: Comparison Between CBO Forecasts and Actual U.S. real GDP Growth (Calendar Year)



Source: US Bureau of Economic Analysis, CBO. Quarter over quarter growth. Annualized.

Since the publication of the Q1 FY2026 Commonwealth Financial Plan Quarterly Report there have been significant revisions by the Bureau of Economic Analysis of the US quarterly GDP Growth: Q1CY2024 from 3.1% to 0.8%, Q2CY2024 from 2.6% to 3.6%, Q3CY2024 from 1.8% to 3.3%, Q4CY2025 from 2.4% to 1.9%, Q1CY2025 from 3.6% to -0.6%, Q2CY2025 from 2.1% to 3.8%, and Q3CY2025 from 3.8% to 4.4%.

2.2 The Puerto Rico Economy

Puerto Rico’s economic outlook is closely tied to both internal structural factors and external influences, including developments in the U.S. economy. Accordingly, Puerto Rico’s economic activity is measured using GNP, rather than GDP, because GNP more accurately reflects income retained in the local economy by excluding profits generated that accrue to non-resident entities.⁵

Preliminary real GNP numbers published by the PRPB in December 2025 show that FY2025 GNP grew by 0.4%. Last year, PRPB had estimated real GNP for FY2025 to grow 1.1%. For FY2026, the PRPB estimates real GNP growth of 0.4%. This projection remains unchanged from the Oversight Board’s Q1 report.

The 2024 CFP projected a real GNP contraction of 0.8% in FY2025. This projection was 1.2 percentage points lower than the PRPB’s FY2025 estimate.

The Department of Economic Development and Commerce (DDEC) reported that Puerto Rico EAI for the first six months of FY2026 increased by 0.2% compared to the same period in FY2025 (128.0 and 127.7, respectively), suggesting economic stagnation.⁶

Puerto Rico’s year-over-year inflation rate of 2.0% in Q2 FY2026 (Exhibit 2) increased from its lowest point of 1.0% in Q4 FY2025 but it is still much lower than its peak of 6.6% in Q1 FY2023.⁷

Puerto Rico added 9,000 jobs in FY2025 (a 0.9% increase from FY2024), matching the U.S. mainland job growth rate for the same period. During Q2 FY2026, there were an additional 18,500 jobs compared to the previous quarter, following a decline of 7,400 jobs during the previous quarter. The Commonwealth’s unemployment rate slightly increased to 5.7% during Q2 FY2026, compared to 5.6% in Q1 FY2026.

Despite some progress, Puerto Rico’s labor force participation rate remains well below that of the U.S. mainland. In Q2 FY2026, the (seasonally adjusted) rate remained at 44.9%, compared to 62.5% on the mainland. Participation gaps are especially pronounced among certain age groups: 18.9 percentage points lower in Puerto Rico compared to mainland U.S. for workers aged 16–19 and 26.3 points lower for those aged 55–64. Contributing factors include limited access to child and elder care, regional disparities in job availability, job informality, labor law constraints, and extended timeframes for completing advanced degrees. Policies such as maintaining a local Earned Income Tax Credit (EITC) while controlling its cost and avoiding new labor law restrictions remain critical to improving participation and rebuilding the economy.

Exhibit 2: Overview of Select Puerto Rico Economic Metrics

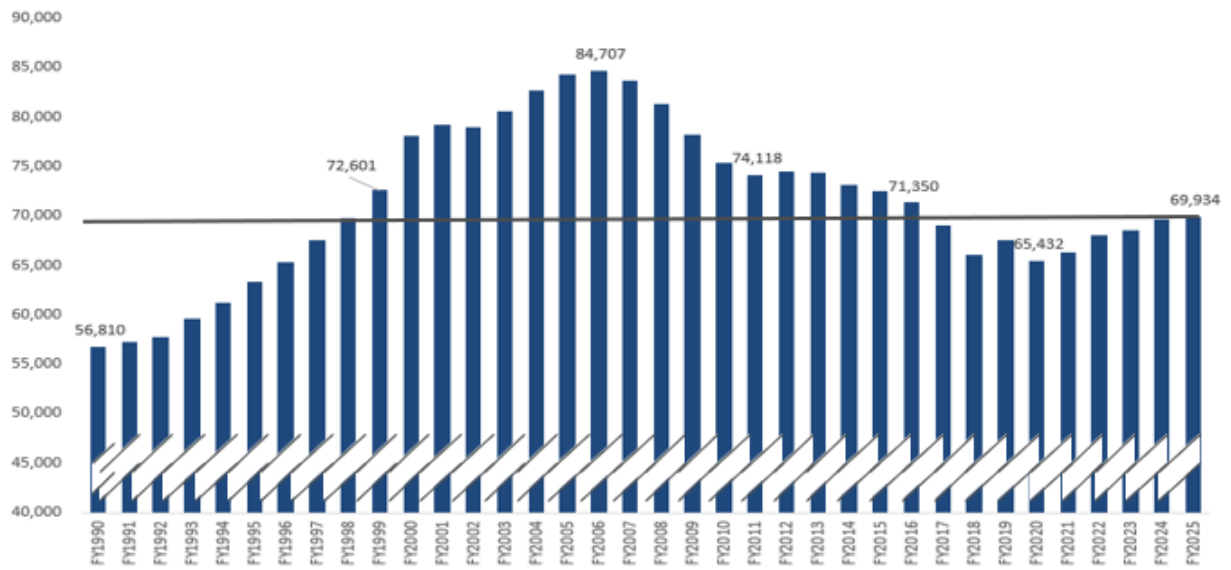
	Q2 FY2025	Q3 FY2025	Q4 FY2025	Q1 FY2026	Q2 FY2026
Inflation (%)	1.7	1.4	1.0	1.5	2.0
Consumer Price Index	136.8	137.2	137.8	138.8	139.5
Economic Activity Index	127.1	127.6	127.4	127.9	128.0
Labor Force Participation Rate (%)	44.7	44.8	44.9	44.9	44.9
Non-farm Payroll	966.7	960.2	962.8	955.4	973.9
Unemployment Rate (%)	5.4	5.4	5.5	5.6	5.7

Source: Economic Development Bank, U.S. Bureau of Labor Statistics, PR Department of Labor and Human Resources.

The economic outlook for Puerto Rico remains uncertain. Preliminary estimates from PRPB suggest modest growth of 0.4% for FY2025, and their forecast maintains this level for FY2026. The EAI declined during FY2025, and it has been stagnant in the first six months of FY2026. Additionally, uncertainty persists around the pace at which federal disaster relief funds will continue to be deployed, and mid-to-long-term growth is still expected to slow as federal disaster funding winds down. As outlined in the 2024 CFP, structural changes (e.g., developing a robust and highly skilled and healthy workforce, upgrading energy and transportation infrastructure, improving ease of doing business) will be required to sustain economic growth in the absence of federal relief funds. Consistent with this outlook, the Oversight Board’s 2026 Annual Economic Forecast Symposium, held on February 10, 2026, highlighted a broad consensus that Puerto Rico is entering a period of slower, more measured growth rather than a downturn. Panelists broadly agreed that while key sectors such as construction and tourism remain supportive, growth is moderating amid persistent structural constraints, including labor shortages and the pace of federal fund deployment.

An unprecedented influx of federal funds in recent years may be masking underlying weaknesses in the Puerto Rico economy. Prior to 2017, Puerto Rico GNP was trending downwards, which was intensified by subsequent natural disasters including Hurricanes Irma and María in 2017, and the COVID-19 pandemic starting in 2020 (Exhibit 3).

Exhibit 3: Historical Puerto Rico Real GNP (millions of 2017 dollars)



Note: Values in 2017 constant dollars

Source: Puerto Rico Planning Board, Statistical Appendix to the Economic Report to the Governor (2002-2025).

Puerto Rico has received federal funds and recovery packages obligations totaling over \$120 billion. The largest share of federal funds (61%) comes in the form of Disaster Relief Funds (DRF). Of the \$72 billion allocated in DRF, 58% still has not been disbursed (Exhibit 5).⁸ As of December 2025, disbursement actuals for Federal Emergency Management Agency (FEMA) and Community Development Block Grant (CDBG) funds, according to data used to prepare the fiscal plan, amounted to \$26 billion, representing 40% of cumulative obligations.

The reported figures also suggest a FY2025 disbursement rate of \$4.3 billion, which is below the 2024 CFP forecasted disbursements for FY2025 (\$5.5 billion).

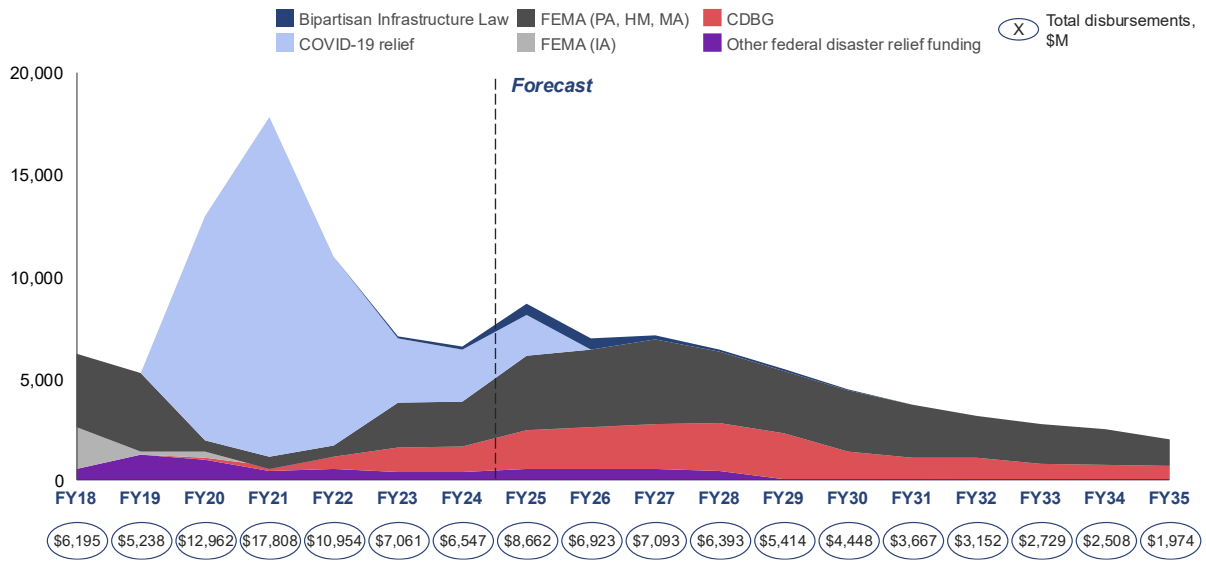
While this data may still be revised given reporting delays and variations, this trend of slower-than-projected disbursement is similar to FY2024, where disbursements for FEMA and CDBG funds were 29% below forecast.

In the 2024 CFP, the disbursement of DRF is forecasted to continue increasing until a FY2027 peak, followed by a slowdown from FY2028 to FY2035 (Exhibit 4).⁹

Almost all of the \$45 billion COVID-19 relief funds have been disbursed. By the end of FY2022, 80% of the funds were disbursed and an additional 17% were disbursed in FY2023-FY2025. The remaining 3% are expected to be disbursed by the end of FY2026 (Exhibit 4).

By contrast, 31%, or \$0.7 billion, of the Bipartisan Infrastructure Law (BIL) funds were disbursed as of FY2025, and the remainder are expected to be fully disbursed by FY2030.

Exhibit 4: Disbursement of Federal Disaster Relief Funds and Other Federal Funding (millions)



Note: PA is Public Assistance, HM is Hazard Mitigation, MA is Mission Assignments, and IA is Individual Assistance.

The methodology used for the projected Disbursement of Federal Disaster Relief Funds and Other Federal Funding is currently under review. Updates or revisions to the methodology may be reflected in future reports.

Source: 2024 Commonwealth Certified Fiscal Plan.

Future economic growth is highly dependent on Puerto Rico’s ability to efficiently deploy federal funds. Following the forecasted end of federal fund disbursement in FY2035, the stimulative effect of these funds on the economy will cease. Additionally, over the past five years, the total amount of federal funds disbursed has fallen short of estimates, highlighting the risk that the funds will not be fully deployed before their expiration. In addition, any changes in the federal government’s posture toward relief and stimulus funds could also affect future deployment levels. As described in the 2024 CFP, any level of expenditure less than full deployment of these funds could result in substantially lower GNP growth for Puerto Rico. Continued efforts from the Commonwealth Government to ensure more efficient disbursement will be necessary to meet projections and ensure full fund deployment.

Exhibit 5: Status of Federal Fund Disbursement

	Allocation, \$M	Disbursed Funds to Date, \$M	%
Federal Disaster Relief Programs¹	71,834	30,434	42%
COVID 19 Relief and Bipartisan Infrastructure Law²	47,422	44,439	94%
Total	119,256	74,873	63%

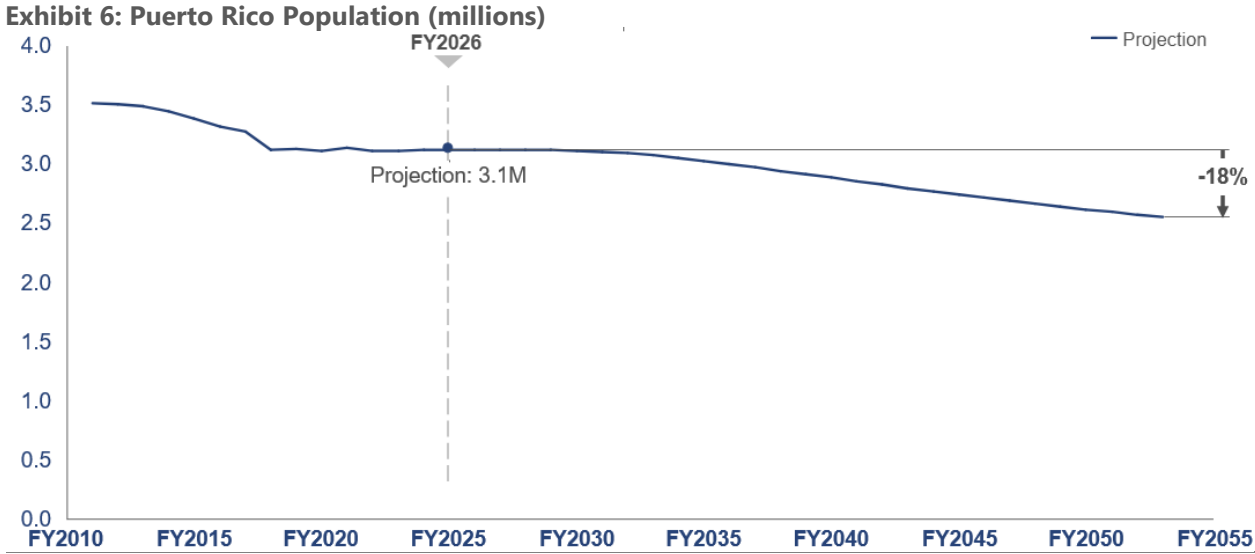
(1) Includes funds for FEMA, CDBG and other federal programs. FEMA considers Hurricane María, 2020 earthquakes, and Hurricane Fiona. Does not include Federal Communications Commission (FCC) disbursements. Disbursement data is available up to October 2025.

(2) Disbursement data through October 31, 2025.

Source: COR3, CDBG reporting portal, FEMA, additional disbursement reports available on websites of local and federal agencies managing funds.

Puerto Rico’s population is projected to remain stable over the next three years and then decline significantly over subsequent decades. Starting in 2010, Puerto Rico began to experience a higher number of deaths than births. This natural population decline is exacerbated by outmigration where Puerto Rican residents leave Puerto Rico for the U.S. mainland. More stable economic growth in Puerto Rico could lead to less outmigration, which, in turn, could lead to a virtuous cycle of improved economic opportunity.

The 2024 CFP included an updated population projection for Puerto Rico. The Commonwealth’s total population for FY2026 is estimated to be 3.1 million people and it is projected to decline by approximately 18% by FY2053 (Exhibit 6).



Note: Population projections were revised downward from 3.3M to 3.1M for FY2023, consistent with the U.S. Census Bureau’s Post-Enumeration Survey (PES), which indicated that the 2020 Census overcounted Puerto Rico’s population by 5.7% or 174,000 people. For a detailed description of the update, see the 2024 CFP, Section 2.1.1.3.
Source: 2024 CFP - U.S. Census Bureau (1990-2010), Oversight Board’s analysis (2011-2053).

03.

Year to Date Operating Results

Year to Date Operating Results

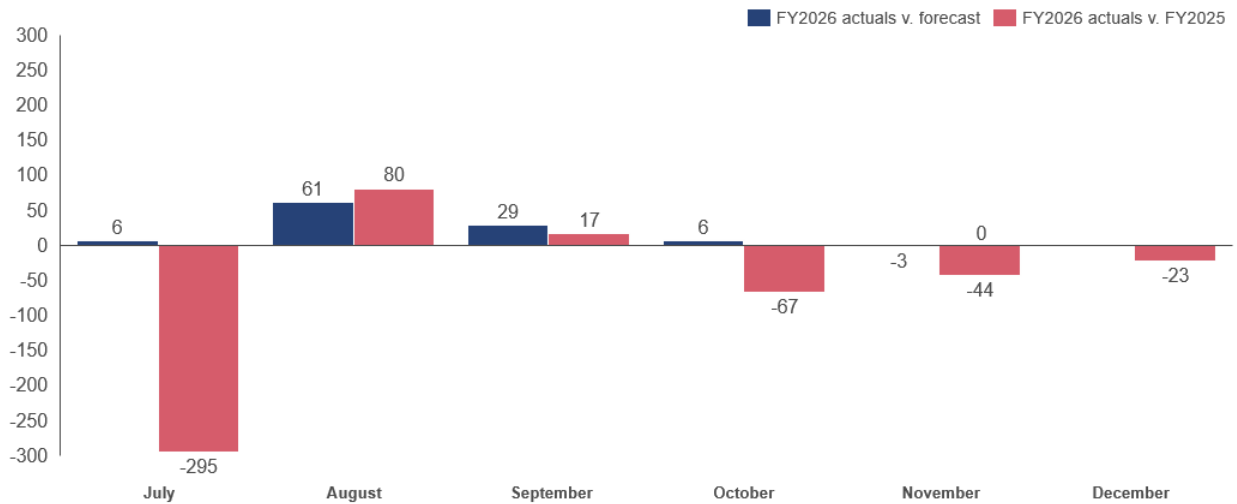
3.1 Summary of General Fund Revenues & Expenditures¹⁰

YTD FY2026 GF revenue collections totaled \$6 billion, reflecting a decline of 5% from the same period last year 2025. However, receipts declined less than the original 2024 CFP forecast (June 2024) with an overperformance of 1.7% or \$100 million.

The YTD performance was primarily driven by PIT collections and Non-Resident Withholding, and a solid SUT performance which is performing lower than last year outperformed the CFP forecast, consistent with continued labor market strength and resilient consumer activity. These gains were partially offset by weaker CIT collections and softer Motor Vehicle Excise Tax performance. Overall, the YTD results reflect slight favorable performance relative to CFP’s assumptions, despite ongoing volatility across selected business-related revenue categories.

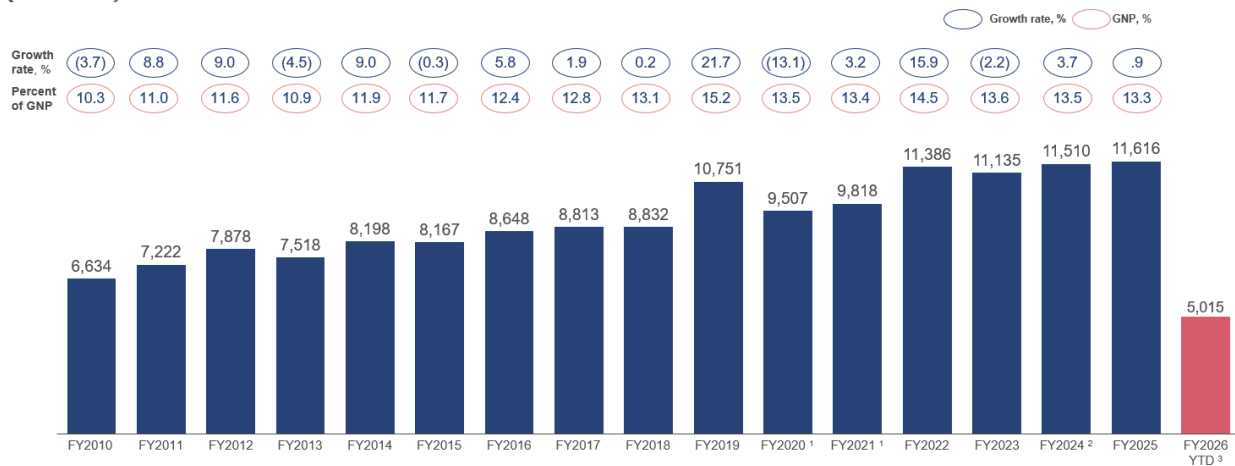
At the monthly level, Exhibit 7 shows that the variance relative to the forecast was primarily concentrated in August and September, while deviations during the second quarter (October–December) were minimal compared to projections. On a year-over-year basis, the decline remains largely driven by July base effects associated with the timing of CIT payments under Circular Letter of Internal Revenue No. 24-13 (CC RI 24-13),¹¹ with more moderate negative comparisons observed during the second quarter. As a result, cumulative underperformance increased to \$332 million at the end of Q2 FY2026, representing an additional \$134 million relative to Q1 FY2026.

Exhibit 7: FY2026 Monthly General Fund Revenue Collections Compared to FY2026 Forecast and FY2025 Actuals (millions)



Source: GF revenue preliminary actuals as of December 31, 2025 reported by the Puerto Rico Department of Treasury on February 4, 2026; Oversight Board monthly revenue forecast.

Exhibit 8: Collections of Primary General Fund Revenues Account for ~85% of the Total Each Year (millions)



(1) Net of total Commonwealth contribution towards EITC and \$250 million investment in one-time tax rebate to taxpayers for tax year 2023.

(2) FY2024 GNP is an estimate from Fiscal Plan FY2024.

(3) YTD FY2026 GF revenue preliminary actuals as of December 31, 2025 reported by the Puerto Rico Department of Treasury on February 4, 2026.

Source: Puerto Rico Department of Treasury, Puerto Rico Planning Board, 2024 CFP, includes revenue lines accounting for ~85% of total GF revenues, specifically: Personal Income Taxes, Corporate Income Taxes, Sales and Use Taxes, Act 154, Non-Resident Withholdings, Motor Vehicle Excise Taxes, Excises on Off-shore Shipment Rum, and Alcoholic Beverages Excise Taxes.

Delays in accurately recording Financial Data:

YTD GF expenditures in FY2026 continue to remain uncertain due to delays in recording actual expenditures and differences in the timing of incurrence compared to what was forecasted. Officially recorded YTD GF expenditures through Q2 FY2026 were \$4,833 million, which is approximately \$471 million (9%) below what was forecasted as shown in Exhibit 9. The Government has historically assumed an even distribution of expenditures across the fiscal year. The quarterly projection was created by dividing the annual forecast by four. The Oversight Board continues to work with the Government to revise the Government’s quarterly expenditure projections based on historical monthly patterns. Actual disbursements over the prior two fiscal years have shown greater quarterly variability than reflected in the Government’s expenditure projections. Therefore, the forecasted amounts are required to use an updated methodology, grounded in the actual disbursement patterns from those two prior fiscal years.¹²

Beyond what has been officially recorded, approximately \$226 million in expenditures were identified as having been incurred but not reflected in the reported expenditures. The remaining unspent expenditures of \$245 million are comprised of expenses that are expected to be incurred during the fiscal year for operating expenditures, reserves (e.g., payroll increases, additional PayGo costs, milestone funding and funding for Plan Implementation and PROMESA Mandates, etc.), and capital expenditures. The amounts incurred but not yet recorded include payroll expenditures related to the Puerto Rico Department of Education (PRDE) (roughly \$142 million), as well as non-payroll expenditures (roughly \$84 million) related to the entire Commonwealth.

In addition to the delays in recording and timing delays, expenditures through FY2026 Q2 for capital expenditures reflected underspend of approximately \$23 million (40%) due to the postponement of several planned capital projects.

Similar to the GF, actuals provided by the Government for Special Revenue Funds and Federal Funds are subject to change due to delays in data recording and incomplete datasets. Specific to Federal Funds, the information is preliminary in nature and has not been officially published by the Commonwealth, which is currently validating the information with several government entities and working to improve data quality and accuracy. To improve reporting and comparability accuracy, the Government should continue to report Federal Fund expenditures based on the Puerto Rico fiscal year to provide consistency and reporting based on the current certified budget.

Historically, reporting delays have stemmed from challenges with the Government's information systems. Various central government agencies operate with six different reporting systems without adequate interfaces to enable timely and integrated reporting. These delays are further compounded by deficient accounting practices, such as the absence of monthly or quarterly closing procedures, incomplete account reconciliations, misstatements, and post-closing adjustments. Most expenditures are recorded on a cash basis, with obligations recorded at year-end and liquidated (disbursed) within 60 days of the end of the fiscal year, pursuant to the budget control language in certified budget resolutions. There are no accounting controls or closing activities once the fiscal year ends, and the Government's accounting records continue to be open for agencies to book unrecorded transactions or make accounting adjustments until the audited financial statements are issued (which can be more than a year later). As a result, as of December 31, 2025, the 2023 Annual Financial Report is still not complete, 915 days after the end of the 2023 fiscal year. As of the day of this report, the Oversight Board is actively working with the Government to further assess and understand the drivers of these delays and support efforts to improve the timeliness of financial reporting. However, accountability for the issuance of timely audited financial statements rests solely with the Government.

This lack of financial controls is part of a longer list of financial management deficiencies that the Oversight Board has identified across budget preparation, budget execution, and financial reporting. These deficiencies, which emerged over many decades and prior administrations, include unreasonably optimistic economic estimates, a lack of an institutionalized revenue consensus forecasting process, minimal control over spending commitments of agencies or component units, and a lack of tracking of federal funds, amongst others. These deficiencies contributed to Puerto Rico's bankruptcy, and combined, impede timely decision-making on spending initiatives, increase the likelihood of potential budget overruns, and hinder Puerto Rico's ability to achieve fiscal responsibility and access to the capital markets.

The Oversight Board, in collaboration with the Government, particularly the Office of Management and Budget (OMB), is focused on establishing a robust framework of permanent reforms aimed at transforming and stabilizing Puerto Rico's finances. Fiscal responsibility is fundamental to Puerto Rico's recovery and is essential to achieving long-term financial stability and access to capital markets at reasonable rates.

While some progress has been made, significant work remains to improve the Government's financial management practices, including tracking federal funds regularly, accelerating the certification of the audited financials, and increasing transparency in financial reporting. There are also additional considerations that have emerged post-bankruptcy that will need to be addressed, including the lack of market access readiness and the need for a budget that complies with modified accrual accounting standards (as required by Section 209 of PROMESA), and the establishment of local fiscal oversight after the Oversight Board terminates.

The Oversight Board expects the Government to have adequate internal controls over its financial reporting functions so that the information reported in its financial statements is timely, reliable, and accurate. However, the most recent management letters, issued by the Commonwealth's auditor, indicate that the Commonwealth continues to experience material internal control deficiencies, which give rise to delays as well as errors and misstatements that must be adjusted during the audit process. The Oversight Board understands that many of the internal control deficiencies identified by the auditors, among other deficiencies, could be addressed by a new Enterprise Resource Planning (ERP) system, which the Government has been implementing and now anticipates completing it in two phases, scheduled for July 2026 and January 2027. As part of these efforts, a new chart of accounts structure is being implemented, and business processes and internal controls are being updated. The Government should continue performing a comprehensive review and documentation of the internal control environment and address any potential weaknesses. The process of documenting policies and procedures in preparation for the implementation of ERP is a good opportunity for the Government to document the control environment and identify potential improvements.

3.2 Summary of Operating Results

Exhibit 9: YTD Operating Results

\$M	Q1 FY2026 Actuals ¹	Q2 FY2026 Actuals ¹	YTD FY2026 Actuals ¹	YTD FY2026 Forecast ²	YTD FY2025 Actuals ³	YTD Differences	
						Actuals vs. FY2025	Actuals vs. Forecast
Revenues							
General Fund	2,732	3,307	6,039	5,939	6,371	(332)	100
Corporate taxes (CIT, NRW, Act 154)	955	1,029	1,984	1,975	2,198	(214)	9
Personal Income Tax	571	648	1,219	1,083	1,247	(28)	136
Sales And Use Tax	416	809	1,225	1,153	1,202	23	72
Motor Vehicles	144	170	314	388	337	(23)	(74)
Petroleum, Gasoline, Diesel Taxes	114	126	240	247	283	(43)	(7)
Excise Taxes On Off-Shore Rum	92	49	141	150	147	(6)	(9)
Alcoholic Beverages	63	69	132	161	146	(14)	(29)
Partnerships	75	87	162	193	179	(17)	(31)
Other General Fund ⁴	229	251	480	417	479	1	63
Miscellaneous Other ⁵	73	69	142	172	153	(11)	(30)
Special Revenue Fund ⁶	1,975	950	2,925	2,731	2,842	83	194
Total State Revenue Funds	4,707	4,257	8,964	8,670	9,213	(249)	294
Federal Fund ^{7,8}	10	893	903	4,680	2,906	(2,003)	(3,777)
Total Revenues	4,717	5,150	9,867	13,350	12,119	(2,252)	(3,483)
Expenditures							
General Fund	(2,402)	(2,433)	(4,833)	(5,305)	(4,828)	(7)	471
Payroll	(814)	(706)	(1,520)	(1,778)	(1,678)	158	258
Pension-related	(495)	(513)	(1,008)	(1,045)	(1,027)	19	37
Debt Service	(201)	(152)	(353)	(328)	(365)	12	(25)
Operating Expenditures	(541)	(664)	(1,205)	(1,380)	(1,091)	(114)	175
Medicaid	(192)	(217)	(409)	(325)	(365)	(44)	(84)
Subsidies (excl. HTA)	(158)	(148)	(306)	(287)	(274)	(32)	(19)
Other Operating Expenditures	(1)	(33)	(34)	(162)	(28)	(6)	128
Special Revenue Fund	(1,034)	(996)	(2,030)	(2,821)	(1,867)	(163)	791
Payroll	(153)	(154)	(307)	(364)	(285)	(22)	57
Pension-related	(120)	(123)	(243)	(263)	(250)	7	20
Medicaid	(117)	(74)	(191)	(180)	(171)	(20)	(11)
Other Operating Expenditures ⁹	(644)	(645)	(1,289)	(2,014)	(1,161)	(128)	725
Total State Expenditures	(3,436)	(3,429)	(6,865)	(8,126)	(6,695)	(170)	1,261
Federal Funds ^{7,8}	(10)	(893)	(903)	(4,680)	(2,906)	2,003	3,777
Total Expenditures	(3,446)	(4,322)	(7,768)	(12,806)	(9,601)	1,833	5,038

- (1) YTD FY2026 expenditures figures are based on the Government's actuals as of January 15, 2026, and may appear understated due to incomplete data and delays in recording actuals. YTD FY2026 GF revenue preliminary actuals as of December 31, 2025 reported by the Puerto Rico Department of Treasury on February 4, 2026.
- (2) YTD FY2026 GF revenues forecast is based on the 2024 CFP. YTD FY2026 expenditures forecast is based on the 2026 Certified Budget which has been adjusted to remove disbursements that will be made in FY2027, such as Pension Reserve Trust, CVI payments, and the AFSCME Upside Bonus Floor. Additionally, the Municipal Administration Fund (FAM) disbursements are removed for consistency with Hacienda's reporting.
- (3) YTD FY2025 expenditures figures are based on the Government's actuals as of September 19, 2025 and may appear understated due to incomplete data and delays in recording actuals.
- (4) Includes Cigarettes, Other Excise Taxes, and Other GF Revenue.
- (5) Includes Puerto Rico Convention District Authority, Cigarette Excise Taxes, IVU FAM, and others.
- (6) Special Revenue Fund revenues are based on the Government's projections, as of January 15, 2026.
- (7) Federal Fund revenues and expenditures are based on the Government's projections, as of January 31, 2026.
- (8) Actuals reporting of Federal Funds' disbursement only includes the disbursements against Notice of Awards (NOA) approved during FY2026. It excludes Q1 and Q2 disbursements against NOA's from prior fiscal years that are still active.
- (9) Includes Debt Service, Operating Expenditures, Subsidies (excl. HTA) and Other Operating Expenditures.

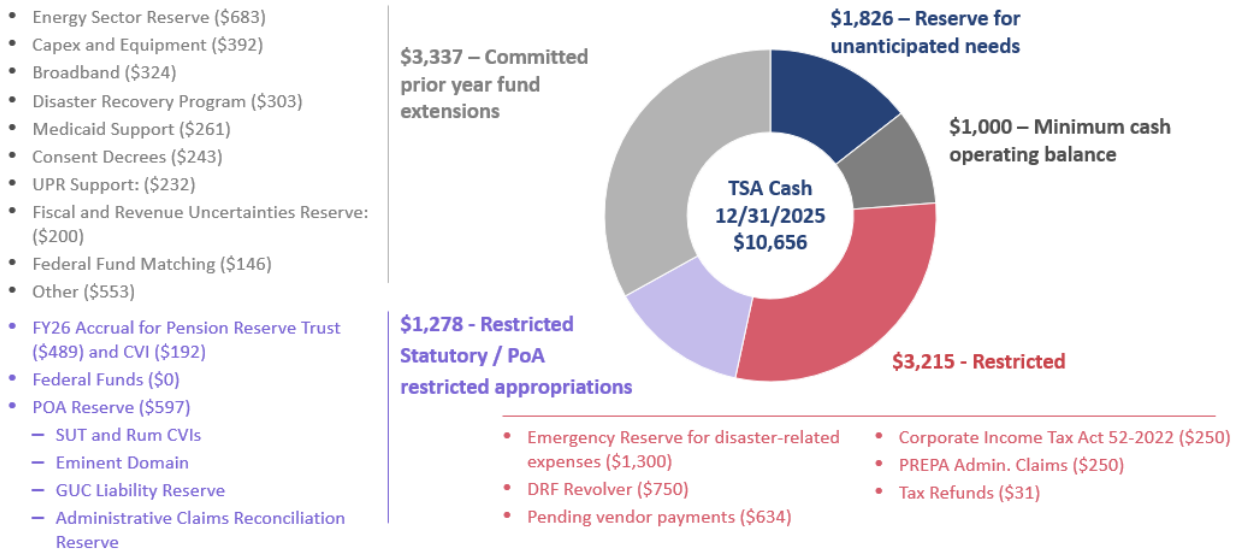
Sources: Puerto Rico Department of Treasury, 2024 CFP, 2026 Certified Budget.

The TSA, the Commonwealth's main operational bank account in which most receipts from Government funds are deposited and from which most expenses are disbursed, had an end-of-quarter balance of \$10.7 billion on December 31, 2025,¹³ with \$7.8 billion (73%) of the cash balance restricted or committed for specific purposes and \$1.0 billion (9%) is reserved

for the minimum cash operating balance. Restricted and committed uses include prior year appropriations extended by the Government for capital and operating expenditures (\$3.3 billion), statutory and Plan of Adjustment-restricted appropriations (\$1.3 billion), the emergency reserve for disaster-related expenses (\$1.3 billion), funding for the Disaster Relief Fund revolver (\$750 million), pending vendor payments (\$634 million), funding for Puerto Rico Electric Power Authority’s (PREPA) remaining administrative expenses (\$250 million), funding for the CIT enacted via Act 52-2022 (\$250 million), and tax refunds for certain taxpayers (\$31 million).

After accounting for the required minimum cash balance of \$1 billion, reserves for unanticipated needs are ~\$1.8 billion. Funds with committed and restricted uses decreased by ~\$300 million from the previous quarter (from \$8.1 billion to \$7.8 billion), primarily driven by prior year statutory and Plan of Adjustment-restricted appropriations, specifically by the Commonwealth Plan of Adjustment (POA) Reserve. For the same period last year, the TSA had a total cash balance of \$9.7 billion, with \$6.9 billion of the cash balance restricted or committed for specific purposes.

Exhibit 10: Committed and Restricted Uses on TSA Cash Balance (millions)



Source: TSA liquidity report, 1(A) Report (December 31, 2025).

04.

Commonwealth Financial Plan & Identified Risks

Commonwealth Financial Plan & Identified Risks

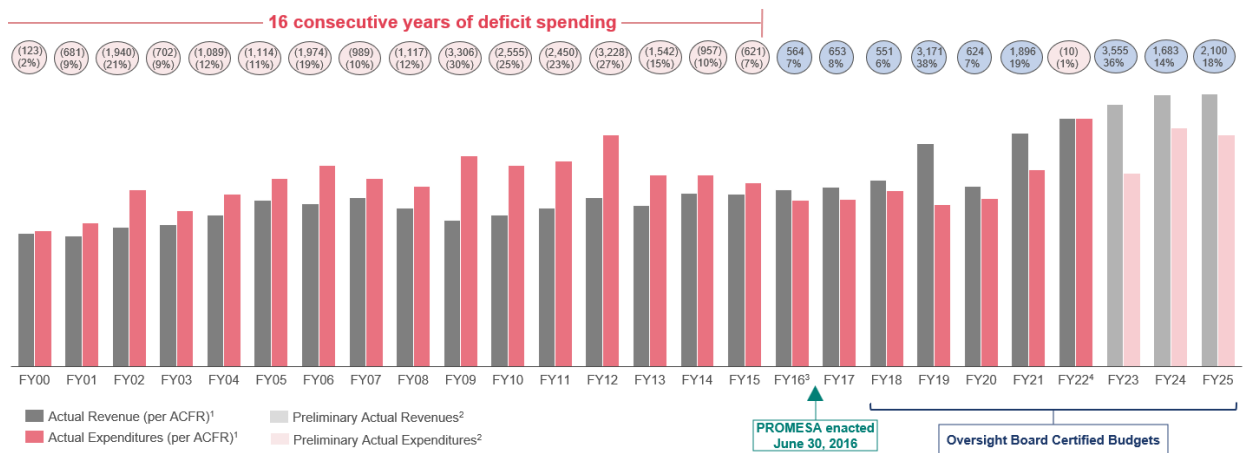
4.1 Historical Overview

Since its inception, the Oversight Board has worked to maintain spending within available resources over the relevant Fiscal Plan period, certifying fiscally responsible budgets for the Commonwealth beginning in FY2018. After the Commonwealth POA was confirmed by the U.S. District Court for the District of Puerto Rico overseeing the PROMESA Title III proceedings (Title III Court), restructured debt and debt service began to be budgeted for and paid in FY2022 through a combination of current and prior-year resources. To maintain fiscal balance and prevent structural deficits that the Commonwealth experienced in the past, the Government will need to prioritize spending initiatives that can be funded through long-term recurring funding sources.

Identified risks to the Fiscal Plan, along with any additional Government priorities, must be balanced against resources over the multi-year plan period. Any recurring incremental expenditures, including measures that reduce collections, must align with revenue and surplus trends.

As reflected in Exhibit 11, between FY2000 and FY2015, the Commonwealth experienced a structural imbalance between recurring Government revenues and expenditures.

Exhibit 11: Historic General Fund Revenue Versus Expenditures (millions)



(1) FY2000 – FY2022 revenues and expenditures per the ACFR. Additionally, GF revenue excludes financing sources.
 (2) FY2023 – FY2025 revenues are from the Hacienda’s monthly “General Fund Net Revenues” report, and expenditures are sourced from the AAFAF 2(A) (1-4) monthly reports.
 (3) FY2016 actual expenditures did not include the full debt service payment.
 (4) FY2022 actuals do not include usage of accumulated prior year surpluses to pay for creditor settlements resulting from the Plan of Adjustment (POA).

Source: Audited amounts from the Basic Financial Statements, Hacienda monthly “General Fund Net Revenues” report, AAFAF 2(A) (1-4) monthly report.

In order to address the deficit resulting from the structural imbalance, previous administrations employed temporary measures to bridge the gap. These measures included borrowing funds from the Government Development Bank for Puerto Rico and the bond market, delaying payments of Government expenses (such as those owed to suppliers or utilities

providers), leveraging financing conduits and utilizing one-time measures such as the use of derivatives and collateralized borrowings backed by Government-owned real estate.

In 2016, Puerto Rico faced an unsustainable burden of more than \$73 billion in debt and over \$55 billion in unfunded pension liabilities, which led the Government to default on its debt for the first time in its history and lose access to capital markets.

Beginning in FY2016, expenditures did not include the full debt service payments. Surpluses generated thereafter contributed to the increases in the TSA cash balance, partially driven by the savings from debt service payments not being made. The FY2022 budget was amended to incorporate restructured debt service after the Title III Court confirmed the POA on January 18, 2022.

In recent years, spending has not exceeded revenues due to the Oversight Board's active involvement with the fiscal plan and budget development processes, as well as oversight over legislation that would have added costs inconsistent with the applicable fiscal plan or otherwise violate PROMESA.

4.2 Commonwealth Financial Plan

The 2024 CFP forecast for FY2026 through FY2030 assumes that the Oversight Board both manages spending commitments, and that most incremental spending scenarios identified in Exhibit 13 are not implemented. **The Executive and Legislative branches will need to prioritize existing spending obligations and refrain from enacting measures that undermine the budget balance in future years.**

The FY2025 Certified Budget introduced a significant measure aimed at enhancing fiscal responsibility by requiring the Legislature to certify the fiscal impact of all bills before they can be enacted into law. This certification process is designed to address a long-standing issue where new laws often create unforeseen short-term and long-term financial burdens, complicating the government's fiscal planning.

However, even with enhanced legislative controls over new spending, the Commonwealth remains exposed to significant federally driven risks that could materially affect the budget balance in future years. Among these risks, the statutory decrease in Medicaid federal funding under current law will drive a projected multi-billion-dollar deficit in FY2029, unless Congress and the Federal Administration act, even before any other spending actions are considered. Furthermore, there are additional expenditures required to support the local EITC program.

Though EITC is one of the most effective tools for increasing formal sector labor force participation and reducing poverty, the 2024 CFP outlines how its cost has historically exceeded the anticipated size of the program. When the Government expanded the size of the financial benefits offered under the local EITC program, Puerto Rico was projected to pay \$200 million of the cost and the federal government was projected to pay \$600 million of the cost, a three to one cost share. Total costs for the EITC program in 2025 are expected to exceed \$1.5 billion, with the local government funding more than half the total cost, or nearly \$800 million. In October 2025, the Department of Treasury proposed a new Internal Revenue Informative Bulletin No. 26-01, which included EITC inflation adjustments.

The Oversight Board initially rejected the proposal as inconsistent with the 2024 CFP and FY2026 Certified Budget. However, after reviewing an agreement with the U.S. Department of Treasury outlining federal funding parameters, the Oversight Board approved the regulation on February 13, 2026, with observations. The substantial and continued growth in EITC costs highlights the critical need for the Government to control program expenses through enhanced administrative and enforcement measures.

The EITC program remains one of the Government's largest expenditures, surpassing funding for the Department of Health and the University of Puerto Rico (UPR), underscoring the importance of aligning program spending with long-term fiscal objectives. The Oversight Board recommends ongoing engagement with the U.S. Department of Treasury to ensure compliance with the funding agreement and to secure continued federal support for the EITC program. Further details on the financial forecast, including the identified financial risks described in the following section, can be found in the Exhibit 13 of this Report.

Exhibit 12: Financial Plan

\$M	FY2026	FY2027	FY2028	FY2029	FY2030
Revenues¹					
General Fund	13,315	13,329	13,542	13,698	13,843
Corporate Taxes	4,177	4,074	4,114	4,135	4,156
Personal Income Tax	2,696	2,673	2,733	2,777	2,818
Sales and Use Tax	2,938	3,009	3,062	3,100	3,133
Motor Vehicles	781	803	821	837	851
Petroleum, Gasoline, Diesel Taxes	507	507	507	507	506
Excise Taxes on Off-Shore Rum	220	222	224	225	226
Alcoholic Beverages	315	320	325	331	336
Partnerships	422	433	443	451	459
Other General Fund ²	983	1,007	1,028	1,048	1,067
Miscellaneous Other ³	277	281	284	287	291
Special Revenue Fund	5,597	5,680	5,834	5,947	6,030
Federal Fund	9,668	9,960	7,737	6,919	7,048
Total Revenues	28,580	28,968	27,113	26,564	26,921
Expenditures¹					
General Fund	(13,215)	(13,230)	(13,777)	(14,966)	(15,246)
General Fund Expenditures (excl. PoA)	(11,261)	(11,137)	(12,663)	(13,727)	(14,032)
Plan of Adjustment Expenditures	(1,954)	(2,093)	(1,113)	(1,239)	(1,214)
Special Revenue Fund	(5,218)	(5,287)	(5,419)	(5,524)	(5,560)
Federal Fund	(9,668)	(9,960)	(7,737)	(6,919)	(7,048)
Total Expenditures	(28,102)	(28,477)	(26,933)	(27,409)	(27,854)
Funds Potentially Not Available	(194)	(206)	(216)	(223)	(272)
Net Funds Available	284	284	(36)	(1,068)	(1,205)
Non-TSA Surplus	(85)	(85)	(85)	(84)	(81)
Unallocated Fiscal Plan Initiatives	335	791	162	141	113
Funds Available for Potential Risks	535	991	41	(1,011)	(1,174)

- (1) Beginning in FY2026, the Rum cover-over distribution to producers was reallocated from the GF to the Special Revenue Fund. This results in reducing both the revenues and the expenditures from the GF and increasing the revenues and expenditures for the Special Revenue Funds, resulting in a net neutral impact on the surplus.
- (2) Includes cigarettes, other excise taxes, and other GF revenue.
- (3) Includes Puerto Rico Convention District Authority, Cigarette Excise Taxes, IVU FAM, and others.

Source: 2024 CFP; and estimates by the Oversight Board based on 2026 Certified Budget.

Exhibit 13: Identified Incremental Risks to the Financial Plan

\$M	FY2026	FY2027	FY2028	FY2029	FY2030
Funds Available for Potential Risks	535	991	41	(1,011)	(1,174)
Potential Risks	(4,097)	(2,689)	(2,679 - 6,479)	(2,797 - 6,597)	(2,689 - 6,489)
Maintaining Current Medicaid Program Size in the Absence of FF ¹	-	-	(0 - 3,800)	(0 - 3,800)	(0 - 3,800)
MCO Premium Negotiations	-	(300)	(305)	(310)	(316)
Maximizing Federal Funds for Disaster Relief Projects	(100)	(160)	(279)	(392)	(460)
Operational Risk	(341)	(409)	(409)	(437)	(268)
Replenishment of Emergency Reserve and Rainy Day Fund	(260)	(180)	(180)	(180)	(180)
Tax Credit / Relief	(314)	(302)	(290)	(275)	(261)
PREPA-Related Risks	(2,212)	TBD	TBD	TBD	TBD
Federal Funding Policy Risk	(103)	(169)	(172)	(175)	(178)
Tax Reform	(36)	(554)	(554)	(554)	(554)
COSSEC (Act 99-2024)	(500)	-	-	-	-
Potential Increase in UPR Support	(45)	(104)	(101)	(98)	(96)
Potential increase in Municipality Support	-	(59)	(60)	(61)	(62)
Police-related Support	(83)	(271)	(135)	(134)	(133)
Workforce Risk	(103)	(181)	(194)	(181)	(181)
Funds Available After Potential Risks	(3,562)	(1,698)	(2,638 - 6,438)	(3,808 - 7,608)	(3,863 - 7,663)
Additional Risks	TBD	TBD	TBD	TBD	TBD
Unsettled potential obligations to the Debt Recovery Authority	TBD	TBD	TBD	TBD	TBD
Disaster Recovery project cost overruns	TBD	TBD	TBD	TBD	TBD
Officer of the Inspector General (CSR)	TBD	TBD	TBD	TBD	TBD
Proposal to Adjust Firefighters' Retirement Income	TBD	TBD	TBD	TBD	TBD
Credit Rating Grade (below Investment Grade)	TBD	TBD	TBD	TBD	TBD
CW External Economic Factors	TBD	TBD	TBD	TBD	TBD
Electrical System (PREPA PoA)	TBD	TBD	TBD	TBD	TBD
Operations funded by Federal Funds exposed to Federal Fund Cuts	TBD	TBD	TBD	TBD	TBD
Climate Change and Extreme Weather	TBD	TBD	TBD	TBD	TBD
Financial Plan Projections and Management	TBD	TBD	TBD	TBD	TBD
Government Workforce Labor	TBD	TBD	TBD	TBD	TBD
Public Corporation Exposure	TBD	TBD	TBD	TBD	TBD
Cybersecurity Threat	TBD	TBD	TBD	TBD	TBD
Legislation Impacting Revenues Collected	TBD	TBD	TBD	TBD	TBD
Potential Impact of Tariffs	TBD	TBD	TBD	TBD	TBD
Total Additional Risks	TBD	TBD	TBD	TBD	TBD

- (1) Unless Congress and the Administration act, the Commonwealth will become responsible for a significantly higher share of Medicaid expenses to maintain current services. The identified FY2028- FY2030 financial risk associated with maintaining these service levels reflects alternative assumption, with up to \$3.8 billion in risk if Medicaid Federal funding reverts to the statutory amount pursuant to Section 1108 of the Social Security Act. This risk is partially reflected in the 2024 CFP projections, which assume a "Medicaid fiscal cliff" scenario.

Source: 2024 CFP, estimates by the Oversight Board based on 2026 Certified Budget, and latest available data as of January 2026.

Identified Incremental Risks to the Financial Plan

The risks identified in Exhibit 13 are based on ongoing assessments of potential fiscal impacts to the Commonwealth. These are quantified using available data and assumptions that are available as of quarter end. The analysis includes risks for which funding sources have not yet been identified. These estimates are subject to material change on a quarterly basis due to new information and evolving assumptions.

Long-Term Medicaid Federal Funds

The availability of long-term Medicaid federal funds available for Puerto Rico remains uncertain. Under the 2023 Consolidated Appropriations Act, Puerto Rico will receive access to more than \$19 billion in Medicaid funding over federal fiscal years 2023 to 2027, with a Federal

Medical Assistance Percentage (FMAP) of 76% reverting to 55% in the first quarter of the Commonwealth's FY2028 budget.

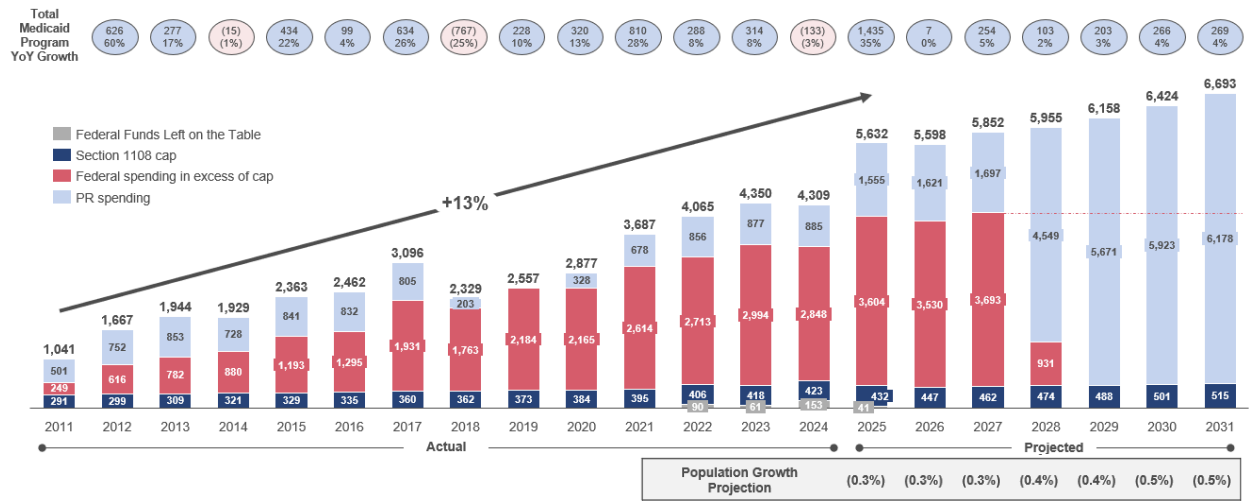
Absent further federal legislation, the Commonwealth will face a "Medicaid fiscal cliff" beginning in FY2028, where Puerto Rico would become responsible for a significantly higher portion of Medicaid costs than in previous years. CBO estimates that the federal Medicaid annual funding cap for Puerto Rico will fall from \$4 billion to approximately \$500 million. At the same time, federal fiscal year 2025 marks the second consecutive year of substantial increases to the Per Member Per Month (PMPM) rates under the Managed Care Organizations (MCO) contracts. Assuming no change in program eligibility or expenditures, the Commonwealth's share of Medicaid costs after FY2027 would exceed 90%, triple the average U.S. state share.

Historically, the federal government has mitigated federal funding reductions through periodic legislative actions, providing additional Medicaid funding to the Commonwealth. However, Medicaid funding for Puerto Rico differs significantly from states, with a fixed limit of federal funding provided annually and federal matching rates set at a level well below percentages for comparable states. This is unlike all states and the District of Columbia where federal dollars are uncapped and the FMAP rate is adjusted annually based on a state's relative per capita income. This structure limits funding and requires Puerto Rico to cover excess costs or suspend services once the cap is reached.

The timing and contents of future legislation are unknown, thus presenting significant risks to outyear budgets and long-term financial planning. Each dollar not provided by the federal government for Medicaid must be funded by the Government. Absent action by Congress, by 2029 the Commonwealth's share of Medicaid costs are projected to be roughly \$5,671 million as demonstrated in Exhibit 14.

For this reason, it is critical for the Puerto Rico Health Insurance Administration (ASES, for its Spanish acronym) to conduct a comprehensive assessment of the services provided, determine which services are essential and identify cost savings opportunities in the future MCO contracts negotiations to help mitigate increased costs.

Exhibit 14: Medicaid Spending in Puerto Rico by Year and Source of Funds (millions)



- (1) Refers to Puerto Rico (PR) fiscal years. Includes prescription drug rebate amounts and EAP funding; excludes CHIP.
- (2) PR spending includes both General Fund and Special Revenue Funds.
- (3) The 2019 PR spending reports zero due to the federal Medicaid spending exceeds the total spending caused by negative prior period adjustments and the 100% FMAP that went into place in 2018. Because these prior period adjustments apply to periods before the 100% FMAP, these negative adjustments decrease the total spending to a greater extent than federal spending.
- (4) 2023 Consolidated Appropriations Act indicate that in October 2027, the federal Medicaid funding cap for PR will fall to about \$500 million annually. As a result, beginning in 2028, PR becomes responsible for higher share of Medicaid expenses in the absence of incremental federal legislation.
- (5) Data on federal funds left on the table is available starting in FY2018. The fiscal years impacted were only FY2022-FY2025, with FY2025 incorporating the latest approved MCO contract. Note that the total spending reflected for these years include the federal funds left on the table.

Source: 2025 FOMB Analysis

Reliance on Federal Funds in Puerto Rico’s Financial Plan

The Government’s financial plan is significantly supported by federal funding, highlighting a fiscal dependency that supports essential operations but also poses long-term sustainability challenges. Federal contributions help fund a wide range of public services, from healthcare to education, and have provided critical relief in response to natural disasters and economic shocks. The Commonwealth should closely monitor any federal policy changes and agency compliance that may affect the amount of federal funds that are allocated to Puerto Rico. The Government should assess the risks from potential federal policy changes and prepare contingency plans to evaluate and sustain government services in the event of a loss of federal funding.

Recurring federal funds serve as a vital component of Puerto Rico’s annual budget, supporting essential programs and operational needs. For example, ~41% of PRDE’s FY2026 budget is funded by federal dollars. These funds are critical for maintaining basic government functions, but such funds come with compliance requirements and reporting standards that must be met. Additionally, the Commonwealth has used one-time federal funds to cover recurring operational costs. These expenditures represent core operating needs that are integral to Puerto Rico’s public services. Once these federal funds expire, however, the Government will need to pay for these costs with its own revenues. Any lapses in compliance or reporting could jeopardize receipt of these funds and potentially create significant gaps in the budget.

The FY2026 Certified Budget introduced measures to strengthen fiscal controls and manage federal fund volatility. If federal funding declines by more than \$200 million and no approved alternative plan exists, certain pre-determined expenditures and milestone funding may be

repurposed to sustain essential services. Additionally, the OMB will withhold 5% of most appropriations until the fourth quarter of FY2026, releasing funds only if revenue targets are met, federal funding remains stable, Medicaid costs do not materially increase, and Oversight Board approval is obtained. Exceptions apply to critical appropriations such as PayGo, debt service, and designated public safety and health allocations. These new measures are intended to enable stability and flexibility within the Commonwealth's budget in the event that Federal Fund allocations are impacted throughout the current, and future, fiscal year(s).

Legislation Impacting Spending and/or Revenues¹⁴

In the first quarter of FY2026, the Legislature passed and/or the Commonwealth enacted legislation with an estimated fiscal impact of approximately \$81 million in FY2026 and \$435 million from FY2026 to FY2030. These legislative initiatives and their estimated costs included:

- Act 66-2025: Legislation that extends the income tax exemption for residential rental income for an additional 15 years or until 2040, with a negative fiscal impact of about \$31 million to \$32 million per year over the FY2026-FY2030 period;
- Act 78-2025: Legislation that exempts prescription drugs (Rx) from the inventory tax (average annual Commonwealth impact of ~\$7.0 million and Municipal impact of ~\$48.4 million from FY2026 through FY2030).

In the second quarter of FY2026, proposed legislation affecting Puerto Rico's municipal inventory tax system was halted after the Governor vetoed measures under consideration: HB 420, which sought to freeze the existing municipal inventory tax to stabilize business tax obligations, and SB 824, which proposed replacing the municipal inventory tax with a levy based on the cost of goods sold. With both bills dismissed, no fiscal effects will occur, and the current inventory tax structure remains unchanged.

Also, during the second quarter of FY2026, the Legislature approved SB 127, which sought to allow the incentivized retirement of "essential" employees excluded from the partial implementation of Act 80-2020. According to estimates from the Legislative Assembly Budget Office (OPAL), SB 127 was estimated to have an impact ranging from \$208.5 million up to approximately \$250 million throughout FY2030. The bill was pocket vetoed by Governor González on December 20, 2025.

Identified Changes in Spending and/or Revenue that Represent a Risk to the Financial Plan

While FY2026 Q2 expenditures came in below budgeted amounts, there are funding risks that have been identified that could impact projections throughout the remainder of FY2026 and future years. Taking on additional expenditures without a sustainable recurring funding source could create a budget imbalance. The list below reflects potential initiatives which impact Commonwealth revenues and expenditures, where resources to fund such items have not been identified. It is compiled from analyses of legislation passed by the previous term's Legislature, analyses of existing commitments made by the Government, public statements from policy makers regarding potential new spending commitments, and analyses of the long-term costs of existing commitments as underlying assumptions change. Both individually and collectively, these items represent major spending risks which, if enacted without significant changes (including identifying funding resources), pose challenges to budget balancing and long-term budget stability for the Commonwealth.

Examples of potential liabilities under evaluation as of January 2026 and their estimated costs incremental to the 2024 CFP, some of which the Government underestimates or does not account for, include:

- Maintaining the current Medicaid program size in the absence of Federal Funds (\$0-\$3.8 billion annually from FY2028 through FY2030);
- Increasing costs of MCO contracts (annual average impact of ~\$308 million from FY2027 through FY2030);
- Economic impact due to inability to expand capacity to disburse Disaster Relief Funding before expiration (annual average impact of ~\$278 million from FY2026 through FY2030);
- Operational support of Commonwealth agencies and public corporations (average impact of ~\$373 million annually from FY2026 through FY2030);
- Replenishment of amounts utilized from the Emergency Reserve (~\$80 million in FY2026);
- Establishment of a Rainy-Day Reserve (~\$180 million impact annually beginning in FY2026);
- Commonwealth share of increasing EITC claims (annual average impact of ~\$143 million from FY2026 through FY2030);
- Estimated fiscal impact of passed tax relief bills, including the income tax exemption extension and exemption of prescription drugs from the Inventory Tax (average of ~\$55 million annually from FY2026 through FY2030);
- Estimated fiscal impact of tax relief house bills and senate bills proposed by the administration, if passed (average of ~\$90 million annually from FY2026 through FY2030);¹⁵
- Funding to support PREPA;
- Additional budgetary support for remaining PREPA Title III Administrative Claims (~\$250 million in FY2026);
- Operating expenditures supported by one-time Federal Funds (PRDE-related) (annual average impact of ~\$169 million from FY2027 through FY2030);
- Federal Fund pending reimbursements incurred by PRDE (~\$103 million in FY2026);
- Preliminary estimate of potential tax reform initiatives to be developed (\$36 million in FY2026 and \$554 million impact annually from FY2027 through FY2030)
- Act 99–2024 (enacted over the former Governor’s veto) – Potential payments to mitigate cooperatives’ non-operational impairments incurred as a result of the default of Puerto Rico Government bonds (~\$500 million in FY2026);¹⁶
- Increase in funding for the UPR to support operations, additional pension contributions, implementation of a revised Classification and Remuneration Plan, and funding shortfall for audits (annual average of ~\$89 million beginning in FY2026 through FY2030);

- Increase in municipality support and home care services (~\$61 million impact annually beginning in FY2027);
- Estimated fiscal impact of police-related support including unpaid compensation to officers from prior years, police overtime, proposed salary increases, and retired police officer settlement (one-time of \$155 million between FY2026 and FY2027, recurring average impact of ~\$120 million annually from FY2026 through FY2030);
- Estimated impact of workforce-related risks including salary adjustments, defined contributions for departed employees, and agency-specific matters (annual average impact of \$168 million from FY2026 through FY2030);
- Unsettled potential claims yet to be negotiated related to obligations from Commonwealth entities owed to the Debt Recovery Agency (~\$1.5 billion total claims);
- Potential additional state match for disaster related projects; and
- Potential impact from newly established tariffs.

The Oversight Board will continue to monitor and evaluate the overall risk landscape during the next Commonwealth Fiscal Plan and budget certification processes.

Independence of the Puerto Rico Energy Bureau

The transformation of Puerto Rico's energy sector is fundamental to achieving economic growth. The Puerto Rico Energy Bureau (PREB), as regulator, has continued to mature in its role since its creation by law in 2014, taking on increasing responsibilities over the oversight and supervision of Puerto Rico's public electric power utility and its operators. These responsibilities include reviewing renewable and non-renewable Power Purchase Operating Agreements, Annual Budget filings, and quarterly fuel and purchased power rider proceedings, as well as regulating complex matters such as wheeling, energy efficiency programs, and others. PREB's independence, particularly as it pertains to rate making and the ability to adjust rates to fund operating and capital needs and promote sustainable energy practices, will be critical for a successful energy transformation.

On July 3, 2025, LUMA Energy, LLC (LUMA) submitted, on behalf of itself, Genera PR LLC and PREPA, an application for permanent rates and provisional rates, pursuant to which it sought PREB approval of provisional and permanent rate increases necessary to meet stated revenue requirements, including pensions on a pay-as-you-go basis, for fiscal years 2026-2028. On July 31, 2025, PREB issued a resolution and order establishing a provisional rate materially below the rate requested in LUMA's rate review petition. On August 19, 2025, PREB issued a resolution and order declaring LUMA's rate review request to be complete. Shortly thereafter, on September 1, 2025, the provisional rate became effective, which will remain in place until the permanent rate is implemented. Pursuant to Section 6.25(c) of Act 57-2014, the permanent rate review period extends for 180 days from the date PREB deems the application complete, which period can be extended by an additional 60 days. On April 15, 2026, PREB issued its Final Resolution and Order in Rate Case No. NEPR-AP-2023-0003, concluding the first comprehensive review of base electricity rates in more than nine years. LUMA had originally requested approval of an approximately 75% increase in total base-rate revenues paid by customers, which PREB declined. Instead, PREB adopted a new rate framework for FY2026 through FY2028 that it determined to be more reasonable and better aligned with the gradual improvement of Puerto Rico's electric

system. PREB approved the requested pension costs in PREPA's revenue requirement for FY2026 through FY2028.

Project Finance Risks

Puerto Rico is experiencing a multi-billion-dollar reconstruction with thousands of active projects, many related to repairing and mitigating damage from hurricanes and earthquakes. Given the current scale of projects, Puerto Rico could be exposed to material risks associated with the management and execution of these projects, particularly projects that are federally funded.

The execution of large-scale disaster recovery, infrastructure, and capital projects exposes the Commonwealth to cost overrun risks driven by inflationary pressures, supply chain disruptions, labor shortages, and constraints related to the volume of projects relative to market capacity. In cases where allocated federal funding is insufficient to complete certain projects, the Government may need to identify alternative sources of funding including Commonwealth revenues or may have to reallocate funding between projects to ensure completion of projects under construction, potentially reducing the number of projects that can ultimately be completed.

Over the long term, the Commonwealth may face deobligation risks in connection with disaster relief programs administered by FEMA and other federal agencies, as funds may be subject to clawbacks if expenditures are later determined to be ineligible due to factors such as insufficient documentation, non-compliance with procurement requirements, failure to adhere to environmental regulations, or costs being incurred outside the approved scope of work.

Furthermore, over the past five years, Puerto Rico has restarted marketing structured project financing under Act 121-1977. The Commonwealth public corporation created thereunder (AFICA), acts as conduit to facilitate tax-exempt financings of educational, medical, environmental, agricultural, tourist, commercial, and industrial projects. While these issuances support economic development initiatives, they may also present risks if the underlying projects underperform or default. Adverse outcomes associated with AFICA-financed projects could negatively affect investor perception of the Commonwealth's broader credit profile, potentially complicating efforts to restore and maintain access to capital markets at reasonable borrowing costs. Accordingly, prudent oversight, transparency, and disciplined use of conduit financing remain important to mitigate these potential risks.

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- ¹ The delays in recording include Payroll (\$142 million), Appropriations to non-governmental entities (\$9 million), and Donations and Subsidies (\$4 million). The timing discrepancies include Other Operating Expenses (\$24 million), Federal Fund Matching (\$19 million), Professional Services (\$9 million), Purchased Services (\$9 million), and others (\$10 million).
- ² The Government of Puerto Rico Treasury Single Account (or TSA) is the Commonwealth's main operational bank account in which a majority of receipts from Governmental funds are deposited and from which most expenses are disbursed.
- ³ Blue Chip Economic Indicators (BCEI) December 2025 Edition, published monthly by Wolters Kluwer.
- ⁴ Consumer Price Index, All Urban Consumers reported by U.S. Bureau of Labor Statistics.
- ⁵ Puerto Rico uses Gross National Product (GNP) rather than Gross Domestic Product (GDP) because its economy is heavily dominated by foreign (primary U.S. mainland) corporations that repatriate their profits, making GDP artificially high. GNP better measures the income staying in Puerto Rico and the economic well-being of its residents.
- ⁶ The Department of Economic Development and Commerce (DDEC) have not publish the December EAI data for Puerto Rico as of February 11, 2026. The Q2 FY2026 average is calculated with only October and November data
- ⁷ Índice de precios al consumidor, Departamento del Trabajo y Recursos Humanos, Gobierno de Puerto Rico.
- ⁸ Assuming no change in federal policies or freeze in federal disbursements that could impair the unspent federal funds.
- ⁹ The disbursement projections included in the 2024 CFP are informed by historical disbursement actuals reported by COR3, the Department of Housing, the Federal Emergency Management Agency (FEMA), and various other local and federal agencies, as well as through information on the future disbursement rates shared by government agencies such as COR3 and the Department of Housing.
- ¹⁰ Year-to-date operating results are based on cash reports from the Government.
- ¹¹ Hacienda, Government of Puerto Rico, Circular Letter of Internal Revenue No. 24-13 ("CC RI 24-13"), Filing of the Income Contribution Form for businesses with tax exemption decrees (Form 480.3(II)) for the 2023 tax year, (San Juan, Puerto Rico: March 6, 2024).
- ¹² In Q2 FY2026, actual expenditures reached \$4.8 billion, which was lower than the Government's quarterly expenditure projections by \$1.0 billion. Q2 FY2026 actual expenditures was lower than the Oversight Board's YTD expenditures' forecast by \$472 million. The Oversight Board's YTD expenditures' forecast is lower than the Government's forecast due to multiple factors, including the removal of certain

expenditures that will be made in FY2027 such as the AFSCME Upside Bonus Floor and due to forecasts being grounded in historical actual disbursements.

¹³ TSA Liquidity Report from December 31, 2025.

¹⁴ December 31, 2025, is used as the last date of Q2 FY2026 for the legislation analysis.

¹⁵ Proposed bills included are House Bill 497, House Bill 499, House Bill 501, House Bill 503, House Bill 508, House Bill 509, and Senate Bill 544.

¹⁶ On August 16, 2024, the Oversight Board passed a resolution declaring that Act 99's provisions are illegal, invalid, and void, and determining that Act 99 impairs or defeats the purposes of PROMESA. Per § 11 of Act 99, as a result of the Oversight Board's declaration, Act 99 (except for § 2 of the law) is null and void. Additionally, the Government is barred by PROMESA § 108(a)(2) from enacting, implementing, or enforcing Act 99.