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Puerto Rico at a Crossroads FOMB Shake-Up, PREPA's Last Stand, and the Battle Between Creditors and Citizens

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The Turning Point for Puerto Rico's Restructuring

President Trump's recent decision to dismiss **five members** of the Puerto Rico **Fiscal Oversight and Management Board (FOMB)** marks a dramatic shift in the governance of the island's long-running fiscal recovery process. The FOMB, established under PROMESA in 2016, has served as the linchpin of Puerto Rico's multi-entity restructuring, guiding both fiscal plans and Title III court proceedings.

The July 16, 2025, hearing before the U.S. House Natural Resources Committee marked a pivotal moment in the oversight of Puerto Rico's Fiscal Oversight and Management Board (FOMB). Lawmakers, federal analysts, and territorial officials confronted the board with both recognition of progress and sharp criticism over its tenure, spending, and the unresolved PREPA restructuring.

One of the headline acknowledgments came from Committee Chair Jeff Hurd, who recognized that Puerto Rico had achieved its **first balanced budget**, meeting one of the four statutory benchmarks required for the FOMB's dissolution. This milestone, however, was tempered by the stark reality that the island's most significant and most contentious case — the restructuring of the Puerto Rico Electric Power Authority (PREPA) — remains unresolved. Multiple members emphasized that PREPA's impasse continues to burden ratepayers and hinder economic recovery, and that its resolution will be crucial to any discussion about ending the FOMB's mandate.

Resident Commissioner **Pablo José Hernández Rivera** delivered some of the most pointed criticism of the day. He called it a **"major failure of public policy"** that in nearly **nine years** of operation, the FOMB and the Puerto Rican government had not consistently produced balanced budgets. He accused the board of **grossly exceeding its projected cost**, noting that it has spent **more than $2 billion**, compared to the roughly **$400 million** anticipated when PROMESA was enacted, and of relying heavily on costly consultants, lawyers, and accountants. Hernández described the board's imposition as **"a tragedy"** that has curtailed Puerto Rico's autonomy for nearly a quarter of his life, and he urged Congress to legislate a precise, enforceable end date for the FOMB's existence.

Additional testimony from the **Government Accountability Office** (GAO) and **Congressional Research Service** (CRS) acknowledged that Puerto Rico's fiscal culture has shifted toward greater responsibility. However, it warned of persistent weaknesses in transparency, institutional capacity, and resilience. Witnesses emphasized that economic hardships — including high poverty rates, unreliable and costly electricity, and demographic decline — remain stubborn obstacles even after substantial debt restructuring has occurred.

Executive Director Robert Mujica countered some criticisms, asserting that while the FOMB has been expensive, it has also **saved the island an estimated $60 billion** in liabilities and could complete its work within **four more years** if current fiscal discipline is maintained.

PREPA: The last and most contentious Bondholder case

Thus, the FOMB-mentioned shake-up is very consequential for the **last and most controversial case still before the court** — the restructuring of the Puerto Rico Electric Power Authority (PREPA).

PREPA's plan of adjustment has been stalled for years, entangled in litigation over the scope of bondholder liens and the utility's ability to service its $8.5 billion debt. The June 2024 First Circuit ruling, affirming bondholders' lien on present and future net revenues, heightened the stakes, forcing renewed mediation under FOMB direction. The sudden removal of a majority of board members could:

- **Alter negotiation dynamics** with creditors, depending on the policy leanings and market views of new appointees.
- **Reset priorities** between debt relief and capital investment, potentially reopening previously settled plan terms.
- **Delay confirmation** if the incoming board members seek to re-evaluate PREPA's fiscal plan or revisit litigation strategy.

For the citizens of Puerto Rico, the implications are direct and immediate. PREPA's outcome will dictate future electricity rates, capital investment in an already fragile grid, and the pace of the island's energy transition. A prolonged impasse or an aggressive creditor settlement could result in higher utility charges and slower modernization, while a deal favoring deeper concessions from bondholders might offer rate relief but raise concerns about investor confidence and future market access.

This governance upheaval comes at a critical juncture — after eight years of federal fiscal oversight, most of Puerto Rico's debt has been restructured, but PREPA remains the last unresolved pillar. The composition and philosophy of the FOMB's new majority will determine whether the island closes this chapter quickly and on sustainable terms, or whether the citizens face yet another cycle of uncertainty, legal costs, and deferred economic recovery.

Comparative Analysis — New York City, Detroit, and Puerto Rico Restructurings

Over the past five decades, three major U.S. municipal and territorial governments—**New York City** (1975), **Detroit**(2013–2014), and **Puerto Rico** (2017–2025)—have faced severe fiscal crises that threatened their solvency and service delivery.

While each case reflected unique economic, political, and legal conditions, together they form a spectrum of approaches: **state-managed rescue without bankruptcy** (NYC), **court-supervised Chapter 9** (Detroit), and **federalized sui-generis, multi-track restructuring under PROMESA** (Puerto Rico).

The differences in governance structure, duration, creditor treatment, and especially professional fees offer important lessons for policymakers and investors.

I. New York City — 1975 Fiscal Crisis

By mid-1975, New York City was shut out of the credit markets. Reliant on short-term note rollovers to cover persistent deficits, the city faced a $9.4 billion long-term debt load, a massive cash-flow shortfall, and the imminent inability to meet payroll or debt service.

Rescue Mechanism:

No bankruptcy was filed. Instead, New York State intervened, creating the :

- **Municipal Assistance Corporation (MAC)** to issue state-backed bonds and refinance short-term debt.

The MAC Board included luminaries from Finance, Banking, and Accounting, including Felix Rohatyn (Chairman), Thomas Flynn, George Gould, Donna Shalala, John Coleman, William Ellinghaus, George Brooker, Francis Barry, and Simon Rifkind.

- **Emergency Financial Control Board (EFCB)** under the **New York State Financial Emergency Act (FEA)** to impose GAAP-balanced budgets, borrowing controls, wage freezes, layoffs, fare hikes, and tuition at CUNY.
- Pension funds were compelled to buy MAC bonds to avert default.

Costs & Advisors:

Because this was a **legislative/statutory intervention** without Chapter 9 court proceedings, professional legal/consulting costs were absorbed into operating budgets and are not recorded in a centralized disclosure format. Oversight staffing originated from the public sector and included contracted experts under state control, without the billing transparency typically seen in court cases.

Legacy:

New York restored market access without formal insolvency, but endured nearly a decade of state oversight. The MAC/FEA framework became a template for statutory fiscal oversight, embedding GAAP discipline into city governance.

II. Detroit — Chapter 9 Bankruptcy (2013–2014)

On July 18, 2013, Detroit filed for Chapter 9 bankruptcy with approximately $18 billion in liabilities, crippled by population loss, eroding revenues, rising pension/OPEB obligations, and failing services.

Restructuring Path:

- Eligibility confirmed December 3, 2013.
- **Plan of Adjustment** confirmed November 12, 2014 — just **16 months** from filing to exit.
- Plan to reduce debt by approximately $7 billion and earmark roughly $1 billion for reinvestment in services.
- **The Detroit Institute of Arts (DIA) secured a** $816 million Grand Bargain from the state, foundations, and the DIA, which protected art and minimized pension cuts.

Creditor & Pension Outcomes:

- **Unlimited Tax General Obligation Bonds (UTGOs)** recoveries modeled ~74%.
- **Limited Tax General Obligation Bonds (LTGOs)** and **Certificates of Participation (COPs)** are typically issued at a lower rate (mid-30% or less).
- **Pensions:** Police/fire — no cuts, COLA eliminated; general retirees — ~4.5% cut + COLA elimination.

Professional Fees & Advisors:

- Total $10M/month, with major recipients:
  - **Jones Day** — $51M+
  - **Dentons**, **Miller Buckfire**, **Conway MacKenzie**, **Ernst & Young**, **Plante Moran** — multi-million engagements.
  - Mediators, retiree counsel, and other specialists are included.

Legacy:

Detroit demonstrated that a large-scale Chapter 9 bankruptcy can be completed quickly when authority is concentrated (through an emergency manager) and political deals (such as the Grand Bargain) align with court mediation.

III. Puerto Rico — PROMESA Title III Multi-Entity Restructuring (2016–2025)

On June 29, 2015, in a televised address, then Governor Alejandro Garcia-Padilla stated that Puerto Rico could not use Chapter 9, leading Congress to pass **PROMESA** (June 2016), creating:

- **Financial Oversight and Management Board (FOMB)** with sweeping fiscal powers.
- **Title III** — court-supervised, Chapter 9-like process for Puerto Rico's government and public corporations.

Restructuring Path Summary:

- May 2017: FOMB files Title III petitions for the Commonwealth, COFINA, ERS, HTA, and PREPA.
- **COFINA Plan (2019):** Seniors ~93% recovery; subs ~54%.
- **Commonwealth Plan (2022):** Cut central debt >60% (from $90.4B to $34.1B); reduced debt service from ~25% to <7% of revenues; GO recoveries varied by vintage (some near 95%); CVIs tied to sales tax and rum excise revenues.
- **HTA Plan (2022):** Resolved highway debt.
- **PREPA:** Still active in 2025; litigation over $8.5B secured claim after June 2024 First Circuit ruling.

Pensions:

Base benefits preserved; COLAs cut or eliminated; structural reforms embedded.

Professional Fees & Advisors:

- **Total consultant/advisor spending:** Over **$2.02 billion** through early 2024:
  - **Title III legal & financial advisors:** $1.702B
  - **Non-Title III consultants/legal:** $308.1M
  - **Fee examiner:** $11.33M
- **Major recipients:**
  - **McKinsey & Co.** — $277.3M
  - **Proskauer Rose** — ~$224.5M
  - **Ernst & Young** — ~$133M
  - **Filsinger Energy Partners** — ~$27M (PREPA CFO role, 2017–2020)
  - **BGC Partners Advisory LLC** — $850k/month or $10.2 million per year retainer for PREPA restructuring advice.
  - **Others:** Ankura, Siemens, Navigant, Burns & McDonnell (technical/operational)

Legacy:

Puerto Rico's is the largest, longest, and costliest public-sector restructuring in U.S. history. The federalized model delivered substantial debt relief for the Commonwealth but left key utilities unresolved. PREPA's outcome could set national precedents for the treatment of revenue bonds under territorial law.

Comparative Takeaways			
Issuer	**NYC (1975)**	**Detroit (2013–14)**	**Puerto Rico (2017–Present)**
Legal Mechanism	State statutory control (MAC/EFCB)	Chapter 9 bankruptcy	PROMESA Title III (federal board + court)
Duration	Oversight ~10 years	16 months	8+ years, ongoing for PREPA
Debt Scope	$9.4B long-term + short-term cash crisis	$18B	$72B debt + $40B pensions
Debt Relief	Refinancing via MAC, no formal haircut	$7B eliminated	$33B eliminated
Pensions	Labor concessions, re-amortization	Cut of -4.5% + COLA. Not Police and Firefighter	Not Cuts; COLA Eliminated; structural changes
Professional Costs	Not centralized/public	$170M	$2.02B+
Governance Legacy	GAAP discipline model	Chapter 9 feasibility at scale	Federalized fiscal oversight; revenue bond precedent

The Final Word: Opportunistic Scavenger Funds to Profit from Puerto Rico's Fiscal Woes

The PREPA case became a magnet for **distressed-debt funds, hedge funds, and opportunistic investors** who specialize in exploiting political and legal uncertainty. With PREPA bonds trading at **30–50 cents on the dollar** in recent years, these investors built positions at steep discounts, betting on either litigation victories or creditor-friendly settlements to deliver outsized returns.

The **June 2024 First Circuit ruling** — affirming bondholders' lien on PREPA's current and future net revenues and validating claims of about **$8.5 billion** dramatically improved their leverage.

Now:

- **Bought at 35¢, recovered at $1.00 → +185.7% gain**
- **Bought at 30¢, recovered at $1.00 → +233.3% gain**
- **Bought at 50¢, recovered at $1.00 → +100% gain**

For these funds, the optimal outcome is a swift settlement preserving as much of the now court-recognized claim as possible. For Puerto Rico's citizens, however, such an outcome could mean **decades of higher electric rates** as debt service is passed through to customers — potentially slowing economic growth and deepening inequality.

The incoming FOMB majority will decide whether PREPA's resolution prioritizes **ratepayer relief and infrastructure modernization** or **investor recoveries**. In either scenario, opportunistic capital will find ways to profit — either from a quick settlement that delivers a windfall or from prolonged litigation that keeps bonds trading at volatile, speculation-friendly levels.

PREPA's final plan of adjustment will therefore not only close Puerto Rico's historic restructuring chapter but also serve as the ultimate test of whether federal oversight can balance justice for creditors with justice for citizens.

Lastly, adding insult to injury, **PREPA did not protect the "Cadillac pension"** it granted its employees, estimated to range from **$1,875 to $6,750 per month**, far above those in the central government. Meanwhile, central government retirees under ERS typically see **monthly pensions ranging from $400 to $1,116 per month**. This disparity exposes a significant inequity as citizens are now liable for pension programs far more generous than those afforded to broader public employees—benefits that many argue must be aligned to the ERS average to restore equity and fiscal balance.

For Puerto Ricans, this moment carries a historical resonance. The uncertainty, potential wealth shifts, and risk of economic dislocation tied to PREPA's restructuring are **comparable in magnitude to the U.S. intervention in 1899**, when Washington took control of Puerto Rico's monetary system and declared that the Puerto Rican peso previously pegged at parity with the U.S. dollar would henceforth be valued at **60 U.S. cents**. This represented an **instant 40% devaluation**, wiping out nearly half the value of Puerto Rican savings overnight. The shock destroyed much of the island's locally held wealth, enabling U.S. investors to purchase land and businesses at distressed prices. Over time, the disruption dismantled Puerto Rico's diversified, self-sustaining agricultural economy, replacing it with a **mono-harvest sugar industry** dominated by absentee corporate interests.

The parallels are striking: in both moments, external decision-making power, sudden changes in asset values, and the inflow of opportunistic capital combined to reshape the island's economic structure in ways that could take generations to reverse. PREPA's resolution and the balance it strikes between investor recoveries and ratepayer protection — could have similarly long-lasting consequences for Puerto Rico's economic sovereignty and resilience.

In sum, the hearing underscored three key realities: Puerto Rico has taken a measurable step toward exiting federal oversight; PREPA remains the last and most politically charged obstacle; and the board's high costs, extended tenure, and democratic legitimacy will continue to be in the political crosshairs until that final restructuring is resolved.

PREPA's final plan of adjustment will therefore not only close Puerto Rico's historic restructuring chapter but also serve as the ultimate test of whether federal oversight can balance **justice for creditors** with **justice for citizens**.

"In the balance between justice for creditors and justice for citizens lies Puerto Rico's future. If history teaches us anything, it is that the terms set today will echo for generations — shaping not just the island's economy, but its very sovereignty".

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