Members
Andrew G. Biggs
John E. Nixon
Betty A. Rosa

Robert F. Mujica Jr.
Executive Director

Arthur J. Gonzalez
Chair and Board Member

BY ELECTRONIC MAIL

July 17, 2026

Mr. Francisco J. Domenech, Esq.
Executive Director
Puerto Rico Fiscal Agency and Financial Advisory Authority

Dear Mr. Domenech:

In 2025, the Legislative Assembly ("Legislature") passed, and the Governor signed into law, House Joint Resolution 111 ("HJR 111"), now Joint Resolution 42-2025 ("Joint Resolution 42"), which, among other things, strengthens and extends the program of the Revolving Fund created by Joint Resolution 85-2020 through June 30, 2027. The Financial Management and Oversight Board for Puerto Rico ("Oversight Board"), which collaborated with the Government to develop this legislation, commends its enactment. As explained below, a recent report by the U.S. Government Accountability Office ("GAO") underscores the urgency of placing this mechanism into operation, and the Oversight Board urges the Government to take the remaining step necessary to make the Revolving Fund available for use.[1]

The Revolving Fund is a government-backed financial mechanism designed to provide short-term liquidity to public entities for recovery-related projects. Its primary purpose is to offer advance funding for eligible expenses under the Federal Emergency Management Agency's ("FEMA") Public Assistance and Hazard Mitigation programs, allowing entities to initiate or continue recovery work while awaiting federal reimbursements. Initially capitalized with approximately $750 million, the fund should operate as a reimbursable line of credit, to bridge the cash flow gap between project execution and the often-delayed FEMA reimbursement process.

[1] U.S. Government Accountability Office, Puerto Rico Grid Recovery: Limited Progress Toward Stability and Opportunities Exist to Improve Federal Assistance, GAO-26-107772 (Washington, D.C.: U.S. Government Accountability Office, June 2, 2026; publicly released July 2, 2026). See GAO-26-107772, PUERTO RICO GRID RECOVERY: Limited Progress Toward Stability and Opportunities Exist to Improve Federal Assistance.

While Joint Resolution 42 authorizes the use of the Revolving Fund for eligible energy transformation projects—including projects not yet obligated by FEMA—the Oversight Board believes these funds should be prioritized for energy and grid recovery, where the need is most urgent and the risk to public safety and economic recovery is greatest.

However, the Program Guidelines that govern how the Revolving Fund operates—which the Puerto Rico Fiscal Agency and Financial Advisory Authority ("AAFAF") is responsible for developing, and which are subject to Oversight Board approval—have not yet been finalized. Until those guidelines are in place, the Revolving Fund remains authorized but unavailable, and the liquidity relief it was designed to provide cannot reach the projects that need it.

The deteriorating liquidity situation confronting Puerto Rico's electric system calls for the pursuit of all measures to safeguard the stability and reliability of the Commonwealth's energy infrastructure. The electric grid is deteriorating at a rate that outpaces current investment, and without prompt intervention, both service reliability and Puerto Rico's broader economic recovery are at risk. The current significant inflow of federal resources available to rebuild and transform Puerto Rico's energy system presents a unique opportunity, but current liquidity issues are materially constraining the reconstruction process. This dynamic jeopardizes not only ongoing work but also billions of dollars in federal resources already committed to Puerto Rico's energy transformation.

In June 2026, GAO independently confirmed the scale of this problem, reporting that of approximately $14 billion in federal funds obligated for Puerto Rico's grid recovery since 2017, roughly 75 percent remains undisbursed, and identifying the reimbursement-based funding structure and limited access to cash as key factors hindering progress. Enabling a liquidity mechanism to bridge the cash flow gaps inherent to the federal reimbursement process is a feasible and immediately accessible measure to address liquidity constraints, as recommended in one of the Expert Reports ("Expert Report") submitted to the Puerto Rico Energy Bureau ("PREB") as part of the Puerto Rico Electric Power Authority ("PREPA") Rate Review.[2]

Under FEMA's reimbursement-based system, PREPA and its operators must advance payments to contractors prior to receiving federal validation and subsequent reimbursement. This system creates substantial cash flow pressures that threaten to stall ongoing projects and delay essential reliability improvements. Understanding this liquidity situation, FEMA made accessible Working Capital Advance funds for certain projects to cover initial cash-flow needs. The operators must fully expend and document the project work before accessing additional disbursements, a reconciliation process that may take approximately 75 days.[3]

However, this is not sufficient. GAO found that the Working Capital Advance program's structure has, in practice, forced operators to halt ongoing construction when advance funds are exhausted, resulting in pauses of up to 120 days and additional mobilization costs—delays the Commonwealth cannot afford. Establishing a sustainable and timely liquidity solution is essential to promoting

---

[2] *See* Hearing Examiner's Order Submitting Expert Reports of Energy Bureau Consultants dated October 10, 2025. *PREB Docket NEPR-AP-2023-0003* (20251010-AP20230003-HE-Order-Expert-Report-65-65-01.pdf).
[3] *Id.*

project continuity, preventing funding interruptions, and maintaining progress toward the system's long-term reliability and resilience goals.

To ensure the energy system transformation and to address liquidity gaps, the Expert Report recommended, among other things, the establishment of a rate funded "Restricted Federally Funded Capital Account" to act as a temporary liquidity tool that bridges the cash-flow gaps in the federal reimbursement process.[4] Importantly, the Revolving Fund already exists as a viable liquidity mechanism and can be leveraged immediately to mitigate these liquidity gaps when paired with the appropriate guidelines. Because the Revolving Fund is capitalized with the Puerto Rico Department of Treasury ("Treasury") provided funds specifically reserved for this purpose, it can provide this bridge without imposing additional costs on ratepayers. In this context, the Revolving Fund, governed by strict guidelines, can serve as an effective bridge to cover liquidity gaps and mitigate the delays in the critical projects needed to advance the recovery and transformation of Puerto Rico's energy system. Immediately, the fund can be used for vegetation clearing projects obligated by FEMA and that are impacted by the Emergency Orders issued by the U.S. Department of Energy ("DOE") pursuant to Section 202(c) of the Federal Power Act.[5] However, nearly a year has passed since this authority was enacted, and the government should act now without further delay.

The $750 million Revolving Fund[6]

Accessing the Revolving Fund could play a significant role in mitigating the current liquidity constraints affecting Puerto Rico's energy sector. If the Revolving Fund were to be made accessible for energy-related projects, especially those already approved or obligated by FEMA, it may stabilize cash reserves, while continuing critical recovery and infrastructure work Puerto Rico cannot afford to put a halt to as part of the urgently required energy transformation.

That is why the Oversight Board commends the Legislature and the Governor for their approval of Joint Resolution 42, which strengthens and extends the Revolving Fund to ensure Puerto Rico can continue advancing its reconstruction and energy transformation. Joint Resolution 42 extends the program of the Revolving Fund through June 30, 2027, and authorizes the use of the Revolving Fund to advance both not-yet-obligated FEMA projects and essential energy transformation projects—improvements that reduce administrative delays and allow work to begin without waiting for federal obligation.

Joint Resolution 42 also maintains all required safeguards, including segregated accounts, repayment mechanisms, and Oversight Board approval of Program Guidelines, ensuring fiscal discipline at a time when Puerto Rico's electric system faces heightened liquidity concerns. The Oversight Board worked with the Government to develop this legislation precisely so that this liquidity tool would be available when needed. That work, however, is not yet complete, as the required Program Guidelines have not yet been finalized.

---

[4] *Id.*
[5] Federal Power Act § 202(c), 16 U.S.C. § 824a(c) (2024).
[6] Puerto Rico Joint Resolution 85 of 2020, *Revolving Fund for Recovery Advances and Administrative Expenses*, authorized Treasury to extend loans or advances for FEMA-obligated projects: https://bvirtualogp.pr.gov/ogp/Bvirtual/leyesreferencia/PDF/85-2020.pdf.

The Oversight Board recognizes that advancing funds ahead of federal reimbursement carries risk, and that this risk must be managed responsibly. That concern, however, is best addressed through appropriate safeguards in the Program Guidelines—such as reimbursement-readiness and documentation requirements and staged advances—rather than by leaving the Revolving Fund dormant. Importantly, the Program Guidelines should enable access to liquidity while incorporating adequate financial transparency reporting requirements to ensure that the additional cash flow is aligned with the federal fund receivables and payables schedule of the eligible energy transformation projects. Such additional requirements could include outstanding payables and receivables statements, itemized aging and invoicing reports on reimbursable amounts, and clear segregation between what is to be paid with federal funds and rate payer funds. Access to the Revolving Fund is intended to operate as a revolving credit line and as such, the Program Guidelines must establish requirements that provide sufficient visibility and certainty on the cash position of the borrowing entities and the liquidity gap between receivables and payables that the advances will be used to cover. The prudent course is to stand up the Revolving Fund with these safeguards in place and begin bridging the liquidity gaps that are delaying critical energy projects.

Given the urgency reflected in GAO's findings, the Oversight Board urges AAFAF to finalize the Program Guidelines and submit them for the Board's approval without further delay, so that the Revolving Fund can be placed into operation and begin bridging the cash-flow gaps that are stalling federally reimbursable work. The Oversight Board stands ready to review and act on the Program Guidelines promptly upon submission. This measure is essential to protecting the continuity of reconstruction, supporting the resilience of the energy system, and promoting Puerto Rico's long-term recovery and stability.

In addition, the Oversight Board recommends that during the next legislative session, two further legislative actions are pursued to strengthen the Revolving Fund as a recovery tool. First, because the Revolving Fund is currently limited to eligible energy transformation projects, the Oversight Board recommends that the Legislature broaden its eligible uses to include water and wastewater reconstruction, which faces the same reimbursement-timing constraints. The Puerto Rico Aqueduct and Sewer Authority must advance payments on federally funded projects—including reconstruction under its approximately $3.66 billion FEMA award for the water and wastewater systems damaged by the 2017 Hurricanes—before receiving federal reimbursement, and recent widespread interruptions in water service across the San Juan metropolitan region underscore the cost of delay. Second, because federally funded reconstruction will continue well beyond the Fund's current expiration of June 30, 2027, the Oversight Board recommends that the Government and the Legislature extend the Fund beyond that date, so that this liquidity mechanism remains available for the full duration of the recovery.

We look forward to continuing to work with you for the benefit of the people of Puerto Rico.

Sincerely,

Robert F. Mujica, Jr.
Executive Director

CC: The Honorable Jenniffer A. González Colón
Mr. Josué A. Colón Ortiz
Ms. María Marín Colón
Mr. Edison Avilés Delis
Ms. Mary Carmen Zapata
Ms. Janisse Quiñones
Mr. Winnie Irizarry
Mr. Luis R. González Delgado
The Honorable Thomas Rivera Schatz
The Honorable Carlos J. Méndez Núñez