PROMESA Turns 10: Puerto Rico's New Start, Unclear Future

By **Rick Archer**

Law360 (June 25, 2026, 8:32 PM EDT) -- When David Skeel was first appointed in 2016 to the board overseeing the restructuring of Puerto Rico's more than $70 billion in government debts, he and his fellow board members thought their initial three-year terms might be too short to sort through the island's fiscal problems.

The 2016 Puerto Rico Oversight, Management and Economic Stability Act established a board to oversee a restructuring of the island's billions of dollars in debt following a decade of recession. (iStock.com/Mary Baratto)

They thought they might need an additional year to put its messy government finances in order and shrink its overwhelming debt burden, he told Law360 in an interview. "I sort of thought we were like surgeons that had been put in place to do emergency surgery," he said. "That obviously wasn't the case."

A decade later, the board's work is not yet done. This June 30 marks the 10th anniversary of the beginning of Puerto Rico's still-unfinished restructuring process. In interviews, Skeel and others involved with the restructuring cases looked back on the last decade as well as at the long-term financial prospects of the island's government agencies.

Over the years, Skeel's expected emergency surgery has hit multiple complications: clashes between the oversight board and local political leaders, a disastrous hurricane and pandemic, and a protracted dispute with bondholders keeping the fate of the island's electric utility in limbo.

While the tortuous governance disputes and painful cuts have led to a slimmer balance sheet, the reforms face a test as the last of the island's federal disaster funds are spent — and some experts worry the success to this point may crumble in the face of the island's long-term economic problems.

"Bankruptcy is a fiscal tool, it's a very surgical tool, but it doesn't get at political economics in a good way," Alvin Velázquez, a bankruptcy law professor at Indiana University at Bloomington's Maurer School of Law, said in an interview.

A $70B Problem

By 2016, Puerto Rico had endured nearly a decade of recession and 16 straight years of budget deficits, with government agencies funding themselves with $70 billion in debt they were unable to pay and unable to escape.

The island's government had passed a law in 2014 to allow the restructuring of its then $20 billion in utilities debt. But in **June 2016**, the U.S. Supreme Court found such laws were barred by Chapter 9 of the Bankruptcy Code, which allows municipalities to restructure debt — except for Puerto Rico's, which were excluded under a 1984 amendment.

The proposed solution was the Puerto Rico Oversight, Management and Economic Stability Act, or PROMESA, a law allowing the commonwealth and its various public authorities to restructure their debts.

"That was all new work. It was being done without a great deal of precedent for municipalities," Bradley Wendt, a senior consultant with Charles River Associates, said in an interview.

In Congress, PROMESA faced opposition from Republican lawmakers who argued allowing Puerto Rico to restructure would be unfair to bondholders, while Puerto Ricans argued it would violate their autonomy by placing an unelected oversight board in charge of the process. Nevertheless, the bill made it to President Barack Obama's desk for his signature on June 30, 2016.

The same day, Puerto Rico Gov. Alejandro Garcia Padilla issued an order freezing any cash from going toward debt payments, and the next day, he announced the commonwealth was defaulting on **$1 billion in debt payments**. The Puerto Rico bankruptcy cases had begun.

Wendt **—** who served as a senior adviser at the U.S. Department of the Treasury during the first administration of President Donald Trump, engaging with Puerto Rico's leadership on the restructuring cases — said PROMESA served to stop a "race to the courthouse" by the island's creditors and prevent "contagion" to the rest of the $4 trillion municipal bond market.

"There was a lot of talk. Was it going to leak over here? Is it going to leak over there?" he said.

Velázquez, who chaired the unsecured creditors' committee in the commonwealth restructuring case, said PROMESA was made necessary by Puerto Rico's political status, and that a better approach to restructuring would have been "decolonization."

"If Puerto Rico were a state, then its instrumentalities would have had access to bankruptcy tools. If it were a country, it would have had access to sovereign debt restructuring regimes and practices," he said.

A Controversial Board

The Financial Oversight and Management Board, with seven members appointed by the president to oversee the restructuring process, was one of the more contentious provisions in the law. A challenge to the appointment process reached the U.S. Supreme Court **in 2020**, with the justices ruling that U.S. Senate confirmation was unnecessary.

Skeel, a corporate law professor at the University of Pennsylvania Carey Law School who resigned his position as chair of the FOMB in June 2024, said the board had been modeled after one that oversaw the District of Columbia's finances from 1995 to 2001 after the city fell into a financial crisis. But he noted this board had less ability to override local elected officials than the D.C. board had.

"Realistically, we had to come up with a restructuring the governor was comfortable with," Skeel said.

Wendt said the board did have the power to mandate budget decisions that no Puerto Rico elected official, or any local elected official, would have likely been able to make due to political pressure.

"What PROMESA did was make the hard, hard decisions," he said.

Velázquez argued that Congress erred in not writing a set term for the board — PROMESA calls for it to remain in place until the commonwealth has four straight years of balanced budgets and regains access to the bond markets.

"If you're going to have the board in there, you should put in sunset provisions that are not at the discretion of third parties," he said.

Velázquez further argued that removing the board would mean Puerto Rico's elected officials could no longer use it as an excuse for inaction.

"It would put political accountability on the political officials," he said.

More recently, the board was rocked by an August announcement that President Trump had fired **five of the board's six seated members**, with White House officials blasting the board as inefficient and ineffective.

Three of those members contested their firings, and the case is currently before the First Circuit, which is **delaying its decision** while it waits for the Supreme Court to rule on President Trump's 2025 attempt to fire Federal Reserve governor Lisa Cook.

Velázquez said the incident shows that attempting to remove politics from the restructuring was never going to work.

"The board process is as political as the politics of the island," he said.

'More of a Mess Than We Imagined'

Skeel said when the board first convened, it discovered the commonwealth's finances were "even more of a mess than we imagined" — with a half-dozen different accounting systems and only two weeks of operating cash.

"The governor didn't even know what his revenue was," he said.

Despite this and what he called an "awkward" power-sharing arrangement with Puerto Rico's elected officials, Skeel said progress was being made on the restructuring when the island experienced a series of external blows, starting with 2017's Hurricane Maria, which destroyed a quarter of the homes on the island, killed thousands of people and devastated its aging electrical infrastructure.

"Hurricane Maria sort of stopped everything," Skeel said.

Problems continued, including an additional hurricane and two earthquakes. In 2019, the island's political structure was disrupted when Gov. Ricardo Rosselló resigned after a scandal involving his offensive private texts led to massive street protests, and in 2020, the COVID-19 pandemic disrupted economies and governments worldwide.

Still, in **January 2022**, the court approved a plan to cut the commonwealth's $35 billion in bond debt to $7.5 billion.

Puerto Rico also had unfunded pension obligations that had peaked at $55 billion. Initial proposals called for a 10% to 15% cut in benefits, which for nearly three-quarters of retirees were less than $1,200 a month. The island's Legislature refused to sign off on the proposal, leaving the board to find a way to at least shield existing benefits, Wendt said.

The final version froze existing benefits and stopped future employer contributions, but avoided the cuts and set up a consolidated $10 billion trust to fund existing pensions with revenues from future budget surpluses.

"I think that's a very notable development for future insolvencies," he said.

As for bondholders, Skeel said that while they had a "dramatically" different expectation for what they expected to be paid, a major factor in bridging the gap was the plan's offering of "contingent value instruments," with returns based on the commonwealth's actual sales tax revenues compared to projections.

Wendt said the contingent instruments provided bondholders an "equity-like upside" and included a cap on bondholder recoveries, ensuring the commonwealth would also benefit from above-projection sales tax revenues.

"That was really a gold-standard improvement in my mind," he said.

Velázquez argued that the key factor in pushing the plan forward was actually the board's challenge to $6 billion in pre-2016 commonwealth debt on the grounds the bonds were issued in violation of Puerto Rico's constitution.

"There was really a lot of debt that was of questionable legality that served as a way to get the bondholders to come to the table," he said.

Both he and Skeel agreed that a key factor was the $60 billion in federal relief the island received in the wake of its disasters, buoying its economy and increasing tax revenue.

"It gave a huge macroeconomic boost," Velázquez said. "That sweet sugar was used to pay off the creditors."

Electrical Challenges

Restructuring plans for the island's Government Development Bank and Highway and Transportation Authority also won approval, leaving one major agency to address: the Puerto Rico Electric Power Authority, a public utility burdened with $9 billion in debt, an aging transmission infrastructure nearly destroyed by Hurricane Maria and rates roughly two-thirds higher than the mainland average.

These factors, plus the utility's foundational role in the island's economy, always meant PREPA was going to be a difficult restructuring to tackle, Wendt said.

"I do not see any changes in PROMESA which would have allowed PREPA to be expedited beyond the current schedule," he said.

An initial **deal with bondholders** went out the window with the passage of PROMESA and the utility's 2017 restructuring filing. The board and the bondholders reached a new deal on a restructuring plan in 2019, but Puerto Rico's lawmakers failed to pass the necessary legislation to make it happen.

"In retrospect, PREPA would have had trouble paying it," Skeel said.

The board nevertheless brought a **plan to the court** in 2024 that would have imposed a cramdown on nonsettling holders of $8.5 billion of PREPA's bonds, only for those bondholders to score a major victory when the First Circuit ruled they had a **secured claim** on PREPA's net revenues.

The board and the bondholders have remained deadlocked ever since, with the board arguing the rate increases needed to make the full payment would sink Puerto Rico's economy — and that the resulting decline in electricity use would leave the utility unable to pay anyway.

Velázquez agreed that paying the bondholders in full would be "disastrous" for both the island and long-term bondholders — but that the law doesn't seem to provide a way out, since liquidating the sole electric provider would be impossible. "I think what you see in PREPA is the limits of our bankruptcy system," he said.

Looking to the Future

Skeel said that, at least as far as the commonwealth is concerned, a foundation has been laid for a more stable future, with an "infinitely" better balance sheet, a largely reformed accounting system and a new budget office that can provide cost estimates on proposed legislation.

He said he hopes the budget office will discourage overspending as federal disaster relief funds dwindle. "Now we're hitting the stage where we see if the reforms are taking hold," he said.

Wendt said PROMESA has so far been an "unqualified success," adding that the government's accounting is now up to standards and general obligation sales tax bonds are being traded.

"Ideally, in the next five years, they will be on their own," he said. "There's no reason they can't continue to leverage this economic foundation."

Velázquez was less confident in the future, saying the disaster aid "sugar rush" is fading and Puerto Rico's commonwealth status continues to cause shortfalls in Medicare funding. He said its underlying economic problems remain with no obvious solutions, with the island failing to attract the kind of private investment that helped with the recovery of Detroit, which recently emerged from its Chapter 9 bankruptcy.

"What keeps me awake at night is if 10, 15 years from now I'll be called back," he added.

Velázquez further stated that despite PROMESA's promise of a trade of local spending control for debt restructuring, the "open wound" of PREPA remains.

"I think the trade hasn't been completely honored," he said.

--Editing by Philip Shea.