



Executive Summary
PROPOSED BUDGET
2012-2013



OMB

OFFICE OF MANAGEMENT AND BUDGET
GOVERNMENT OF PUERTO RICO

Proposed Budget for Fiscal Year 2012-13

Article VI, Section 7, of the Constitution of Puerto Rico, requires that the appropriations made for a Fiscal Year cannot exceed the total estimated revenues for the same Fiscal Year. In order to comply with this constitutional mandate, a balanced budget was presented by the Governor of Puerto Rico on April 24, 2012, for the Fiscal Year 2012-13.

The proposed consolidated budget of the Government of Puerto Rico for Fiscal Year 2013 amounts to \$28,572.7 million, which represents a reduction of \$1,310.5 million, or 4.4% less than Fiscal Year 2012 budget of \$29,883.2 million. At the same time, the proposed budget represents an increase of \$699.7 million or 2.5% higher than the \$27,873 million budget spent on Fiscal Year 2010-11.

The Government of Puerto Rico's fiscal efforts are contributing to advance the Island's economic turnaround, and the most recent Planning Board estimates show acceleration of the economy into positive territory, with economic growth projections of 0.9 percent for Fiscal Year 2012 and 1.1 percent for Fiscal Year 2013.

This Administration's public policy is to use our economic resources effectively in order to achieve a better quality and quantity of services for our people. The agenda for Fiscal Year 2013 is one in which all government programs will continue working with creativity, vision and commitment to provide more services at the lowest possible cost. As in Fiscal Year 2012, the budget formulation process for Fiscal Year 2013 was based on the analysis of the programmatic priorities established in the Governor's Platform and in the potential for enhancement and expansion of services for the benefit of all our clients.

The following programs are among the priorities for Fiscal Year 2012-13:

- Provide first-class education increasing funding per student in 5% and through the expansion of the 21st Century Schools Program, a comprehensive island-wide school modernization initiative that will transform public education.

- Strengthen higher education by increasing the General Fund contribution by \$52 million for a total allocation of \$756.8 million to the University of Puerto Rico.
- “Mi Salud”, a health insurance plan for 1.6 million eligible beneficiaries in Puerto Rico.
- Strengthen and expand Police efforts to achieve peace, and better quality of life in Puerto Rico.
- Continue to provide integrated services to the family.
- Provide the required resources for the upcoming electoral processes, including Puerto Rico’s status referendum on Nov. 6, 2012.

To facilitate the understanding of the budget data, please refer to the Budget Tables and Graphic Summary included as part of this Executive Summary.

Budget by Programmatic Area

The Social Development Area will receive \$14.9 billion or 52% of the total consolidated budget. This area includes the health, family welfare, culture, education, housing, labor, and recreation sectors. The area of economic development will receive \$6.3 billion or 22% of the consolidated budget and the Protection and Safety area, \$1.6 billion or 6% of the total budget.

We are committed to redirect the available resources to provide direct services to our citizens thus reducing the administrative costs associated with the delivery of those services. For Fiscal Year 2013, the resources allocated for the Governmental Management area represent only 4% of the consolidated budget or \$1,023.9 million.

Additionally, the Fiscal Year 2013 consolidated budget includes resources to provide support to the municipalities (\$429.4 million) and the Judicial Branch (\$350.5 million), as well as for the payment of the debt service and other outstanding debts with our creditors. The allocation for the debt service amounts to \$4.0 billion or 14% of the consolidated budget and represents a decrease of \$726.6 million over the Fiscal Year 2012 allocation.

Debt service appropriations are reduced due to the conclusion of payment plans and other prepayments made in Fiscal Year 2012. The following table shows a summary of the consolidated proposed budget for fiscal year 2012-13 by programmatic area.

FY 2013 Consolidated Budget by Programmatic Area <i>(\$ in thousand)</i>		
Programmatic Area	FY 2013 Proposed Budget	% of Total
Contribution to Municipalities	\$ 429,412	2%
Economic Development	6,252,176	22%
Social Development	14,865,963	52%
Governmental Management	1,023,869	4%
Protection & Safety	1,628,926	6%
Debt Service	4,021,816	14%
Judicial Branch	350,525	1%
Total Consolidated Budget	\$ 28,572,687	100 %

Budget by Expense Concept

The budget by expense concept consists of identifying the nature of the disbursements incurred by the Government of Puerto Rico. From the \$ 28,572.7 million proposed budget for Fiscal Year 2012-13, \$17.9 billion or 62% will be used to cover operational expenses such as salaries and fringe benefits, payment of rent and utilities, and to purchase services. Consistent with the Governor's goal of running a leaner and more efficient government operation, this amount is \$2.1 billion lower than the allocation for the same purpose in Fiscal Year 2012. The amount of \$5.2 billion under the concept of Contributions and Subsidies represent resources allocated for direct services to citizens, such as the purchase of health insurance for low income families. For the Capital Improvement Program a total of \$1.5 billion will be invested in

building and improving bridges, roads, housing, air and maritime facilities, aqueducts, and building facilities, among others. The amount of \$4.0 billion will be directed toward the payment of debts related to the General Obligation Bond's issues and other financing transactions.

Operating Expenses include payroll costs which is the largest portion of Government expenses in this category. As it might be observed in the Graphic Appendix, the Office of Management & Budget (OMB) is applying much needed controls to comply with the required savings to maintain long term balance, especially in the General Fund Budget. As a result of these expense control measures, the Fiscal Year 2013 proposed budget reflects a decrease of 34% over Fiscal Year 2009 General Fund payroll expenses and a headcount reduction of 37,664 employees when compared to occupied positions in the Executive Branch as of September 2008.

Act 70-2010 known as "The Incentivized Retirement and Retraining Program", is an important component of the expense control plan. The estimated savings resulting from the implementation of Act 70 for Fiscal Year 2013 amounts to \$78.9 million. Total accumulated savings for the three election periods add up to \$146.1 million. With this Program, the Government is reducing payroll expenditures, which is the main purpose of Act 70.

Purchased Services include an increase of \$52.5 million to cover maintenance and security costs in schools and other government facilities, energy purchased by the Puerto Rico Electric Power Authority, Urban Train transportation services, contracted road and highways maintenance services, and contracted health services such as laboratories, radiology, and therapy, among others. Rent and Utilities expenses also show an increase of \$59.3 million, reflecting the consumption estimates provided by the public corporations delivering these services.

The expense category of Incentives and Subsidies includes funding for higher education scholarships, transfers to non-governmental entities, and transfer payments to citizens such as the Nutritional Assistance Program, and the health insurance benefits that will be receiving a substantial increase in Fiscal Year 2013. Also, Donations reflect a decrease resulting from an accounting

adjustment or budget transfer to the Incentives and Subsidies expense category.

The decreases observed in the Materials and Supplies, Other Operating Expenses, and Professional Services expense categories are due mainly to the completion of projects funded with non-recurrent ARRA federal funds such as the Weatherization Program and the exclusion of the general fund economic support to the Puerto Rico Aqueduct & Sewer Authority.

All excessive expenses included in the concepts of professional services contracts, transportation services, equipment purchases, advertising and other expenses have been identified and eliminated from the budget.

Budget by Source of Funds

The contribution of the General Fund to the consolidated proposed budget is \$9,083 million, of which \$5,110 billion (56%) is appropriated through the General Budget Joint Resolution, \$3,640 billion (40%) by means of the Special Appropriations Bill and \$333 million (4%) by the Local Stabilization Fund. This contribution is \$177.3 million or 2% lower than current year resources. This reduced contribution is due to savings achieved through the voluntary early retirement program implemented by Act 70-2010 and the exclusion of the Puerto Rico Aqueduct & Sewer Authority economic support to comply with their debt service coverage agreement.

Other sources of funds included in the consolidated proposed budget for Fiscal Year 2013 are: Federal Grants, \$6.8 billion, (including the Federal Economic Stimulus Funds); revenues from internal sources, \$9.1 billion; loans and bond issuance, \$1.7 billion; Special State funds, \$1.2 billion; and Other Income, \$680.3 million.

General Fund

Net revenues to the General Fund for Fiscal Year 2013 are estimated in \$8,750 million. This amount will be complemented with a transitory allocation of \$333 million from the Local Stabilization Fund in order to facilitate budget balance between revenues and expenditures. For Fiscal Year 2013, the 2009 certified budget deficit of \$3.3 billion is being reduced to \$333

million, which is the smallest budget revenue gap the Government has had since Fiscal Year 2005 and a reduction of 90 percent compared with the \$3.3 billion deficit in Fiscal Year 2009. The non-recurrent proportion represents only 3.8 percent of the proposed General Fund Budget for Fiscal Year 2013.

In 2010, Governor Fortuño signed into law the biggest tax cuts in Puerto Rico's history, creating a new and simplified tax code that cut rates an average 30 percent for corporations and 50 percent for individuals. Since Fiscal Year 2009, government spending has decreased by 17 percent, from \$10,890 million to \$9,083 million in the General Fund proposed budget for Fiscal Year 2013.

The expense control measures have been effective in closing the structural deficit and the Government goal is to achieve balance between recurrent general fund revenues and expenditures by the end of Fiscal Year 2012-13. Resources from the General Fund are totally committed, as follows:

General Fund Expenses Breakdown		
(\$ millions)		
	<u>2012+</u>	<u>2013*</u>
Non-Controllable Expenses		
Mandated Expenses (Formula)		
Contributions to Municipalities	\$ 380	\$ 388
University of Puerto Rico	704	757
Judicial Branch	328	343
Rent Payments to Public Buildings Authority ⁽¹⁾	218	208
General Obligation Debt Service	179	148
Other Debt Service	491	417
Total of Non-Controllable Expenses	<u>\$ 2,300</u>	<u>\$ 2,261</u>
Percent of Total GF Expenses	<u>25%</u>	<u>25%</u>
Controllable Expenses		
Payroll and Related Costs ^{(1) (2)}	6,960	6,822
	3,799	3,692
Payroll as % of Controllable Expenses	<u>55%</u>	<u>54%</u>
Total General Fund Expenses	<u>\$ 9,260</u>	<u>\$ 9,083</u>

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- * Proposed Budget
 - + Estimated, Adopted FY 2012 Budget.
 - (1) Excludes University of Puerto Rico and the Judicial Branch.
 - (2) Includes the Schoolwide Program teachers payroll appropriated in the Non-Distributed Allocations expense category

As shown in the previous table, 25% of the General Fund for Fiscal Year 2013 is committed for the payment of fixed charges such as municipal subsidies, grants to the University of Puerto Rico, mandated funding for the Judicial Branch, rent payments to the Public Buildings Authority, and debt service on the direct debt of the Commonwealth. This proportion is similar to the amount allocated in Fiscal Year 2012.

The Government is committing 54% of the discretionary funds portion of the General Fund for the payment of the central government payroll (not including the University of Puerto Rico and the Judicial Branch). For Fiscal Year 2009, over 64% of the controllable funds portion of the General Fund was committed for the payment of the central government payroll (not including the University of Puerto Rico and the Judicial Branch).

Federal Funds

For Fiscal Years 2012 and 2013, the expenses against the Federal Economic Stimulus funds are estimated in \$571.5 million and \$272.3 million, respectively. Expenditures charged to traditional federal grants for Fiscal Year 2013 reflect an increase of \$165.8 million compared with Fiscal Year 2012. However, for the same period, expenditures against ARRA federal contributions present a decrease of \$299.2 billion, thus demonstrating the non-recurrence condition of these funds.

Revenues from Internal Sources; and Loans and Bond Issuance

Revenues from Internal Sources amount to \$9.1 billion and represent mainly the fees for services charged by public corporations. The following six public corporations generate over 80% of these revenues: University of Puerto Rico, State Insurance Fund Corporation, Public Buildings Authority, Aqueduct & Sewer Authority, Electric Power Authority, and the Highway Authority. At the same time, these last three Authorities secure loans and

issue bonds to fund their capital improvement programs and for Fiscal Year 2012-13, along with the University of Puerto Rico, will make use of approximately 95% of the loans and bond issues amounting to \$1.7 billion.

Special State Funds

The Special State Funds do not require annual legislative authorization because, for the most part, they are authorized by previous legislation. Disbursements of Special Funds amount to \$1.2 billion for Fiscal Year 2013 and will be used for operating purposes, capital improvements and for the debt service of general obligations bonds.

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