

## **BUDGET PROCESS**

The Constitution of the Commonwealth of Puerto Rico, Article IV, Section 4, states that the Governor must “address the Legislative Assembly at the beginning of each regular session to report on the conditions of the Treasury of Puerto Rico and next fiscal year’s proposed expenditures”. Furthermore, Act No. 147 of June 18, 1980, as amended, known as the Office of Management and Budget Act, "requires the Governor to submit to the Legislature the Annual Budget of Operating Expenses and Capital Improvements of the Government of Puerto Rico, its instrumentalities and public corporations under various funding sources.

The Responsibility for the preparation of this document rests with the Office of Management and Budget (OMB). The Budget Document includes the revenue estimate, as provided by the Treasury Department, the additional resources for the upcoming fiscal year, as well as legislation related to the General Fund and Capital Improvement Fund. OMB’s mission is to support the Governor in the budget formulation process and monitor the execution and administration of said budget by the Executive Branch agencies. During the budget formulation process, OMB evaluates how effective are agencies’ programs, public policies and procedures in addition to the demand for resources from programs and agencies to establish priorities. OMB also manages the implementation of new initiatives, technology projects and the organizational structure of the government. The role of OMB for each and every one of these duties is to improve the administration effort, develop efficiency measures, implement coordination mechanisms and promote an efficient management of public funds.

The budget formulation process begins when agencies solicit funds or request budget from OMB. Upon receipt, the budget request is evaluated taking into account the agency’s programmatic and operational priorities. Subsequently, OMB submits a recommendation to the Governor, based on availability of funds, as certified by both the Department of Treasury (Estimated General Fund Revenues), and the Government Development Bank (Borrowing Margin). Administrative hearings are held between the Governor, the Agency Directors, the Executive Director of OMB and the President of the Planning Board to discuss the above mentioned recommendations. Once the Governor approves, the recommended budget is included in the Annual Budget of Operating Expenses and Capital Improvements of the Government of Puerto Rico, to be presented before the Legislative Assembly for the proper review and approval. The Budget Document is published simultaneously in hardcopy and online. At the same time, OMB prepares the required bills for the appropriation of funds and reviews all bills related to the implementation of the budget.

The presentation of the proposed budget to the Legislative Assembly takes place during the beginning of the First Regular Session of the House of Representatives and the Senate of Puerto Rico. The Finance Committees of both bodies discuss the proposed budget and all the bills related to the implementation of the budget. During the review process, Agency Directors are summoned to appear before both committees to explain and defend their proposed budget and disclose next fiscal year agency’s goals and work plans. The Analysts of the Office of Management and Budget attend these hearings as advisors. The Legislative Assembly can modify the proposed budget but cannot increase the level of

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expenditures if such increase results in a deficit that can only be paid for by increasing taxes or without identifying additional resources.

Once legislative hearings conclude and the relevant information has been clarified, the Legislature approves the General Fund Budget of the Government of Puerto Rico through the following Resolutions: (1) Joint Resolution of the General Budget for Operation Expenses, (2) Joint Resolution of Special Appropriations, (3) Joint Resolution of Appropriations for the Capital Improvement Program under the Public Improvement Fund, and any other legislation agreed to by the Legislative and Executive Branches. The General Budget Act not only contains the appropriations mentioned above, it also includes the rules for disbursement, as provided in Article III, Section 17 of the Constitution.

After the budget is approved by the Legislative Assembly it is sent to the Governor. Before signing the Budget's Joint Resolution, the Governor checks that the budgetary appropriations approved by the Legislature do not exceed estimated resources for that fiscal year. This is because, by constitutional mandate, "the appropriations made for the fiscal year shall not exceed the total resources estimated for said fiscal year ..." (Article VI, Section 7). The budget has to comply with the principle of "budgetary balance". The Constitution also empowers the Governor to balance the budget prior to approval by eliminating or reducing one or more budget items, but not increasing them (Article III, Section 20). The Governor can also veto the Budget and return it to the Legislative Assembly with his suggestions. The Legislative Assembly then, can overturn the veto with a majority of 2/3 in each of the House and the Senate.

The General Budget of Operating Expenses has to be approved and accounted by July 1<sup>st</sup>, which is the start of the state's fiscal year. If by any chance the budget has not been approved by this date, Article VI, Section 6 of the Constitution provides that the current budget will continue to govern and the Governor shall authorize the payments necessary, allowing the continuity of government operations and the payment of obligations.

Once the budget is approved and signed, the Office of Management and Budget, under the provisions of its enabling act, is responsible for ensuring that the adoption and execution of the budget is implemented in accordance with the budget laws and resolutions, under government regulations, and in line with the program objectives for which public funds are provided.