



PUERTORICO
CREDIT
CONFERENCE
2011

FY 2012 Budget Highlights and Expense Control

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O|M|B Disclaimer

Today's presentation includes certain statements that are not historical in nature. These statements are based on the Government of Puerto Rico's current beliefs regarding future events, and are based upon a number of estimates and assumptions that are subject to significant uncertainties, many of which are outside the control of the Government of Puerto Rico, its agencies and instrumentalities. This presentation has been prepared solely for informational purposes, and should not be construed as a recommendation to buy or sell any security or to participate in any particular trading.

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Our Fiscal Stabilization plan is comprehensive and well balanced

A far reaching, comprehensive legislation that establishes balanced measures executed through a Restructuring Board

Revenues

- **4 permanent revenue measures:**
 - Sin excise taxes (cigarettes, alcoholic beverages, motorcycles)
- **6 temporary revenue measures:**
 - 5% surtax on individuals
 - 5% surtax on corporations
 - 5% tax on Credit Unions
 - 5% tax on International Banking Entities
 - Special tax on residential RE
 - Moratorium on tax credits

Cost Reduction

- **Required reduction of \$2 billion in expenses:**
 - Multi-phase laddered program with voluntary and involuntary reduction of payroll
 - Reduction of operational expenses and medical insurance
- **Employee voucher program and medical insurance to support displaced workers**

Tax Compliance

- **Aggressive tax compliance and oversight program**
 - Call center
 - Lien attachment empowerment
 - More resources allocated to tax collections
- **SUT collection/compliance enhancements**
 - Control of reseller exemptions

Financial

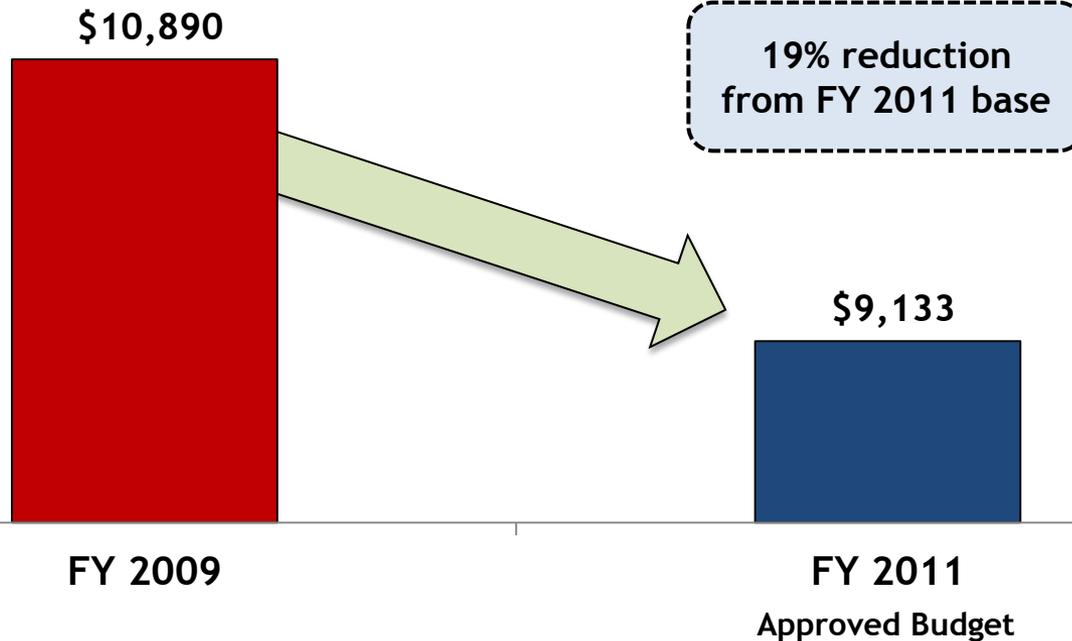
- **Allocation of 1.75% additional SUT to bridge the timing gap of balancing the budget and protect GO credit from deficit impact**
- **Multi-year debt service restructurings**
- **Sales of local saving bonds**



We have significantly reduced government expenses over the past 2 years...

Central Government Total Expenses

in \$ millions



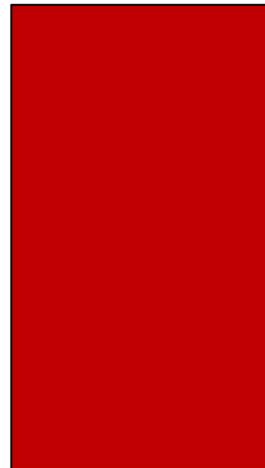


Reduction of expenses in all areas including government payroll

Central Government Payroll Expenses

in \$ millions

\$5,501



FY 2009

-16%

\$4,618



FY 2011

Approved Budget

O|M|B Agenda

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**Proposed Budget for FY 2012
will be responsible and
sensitive to the needs of
Puerto Rico**

O|M|B Deficit for FY 2012 is expected to decrease by no less than 30%

FY 2012 Budget

\$9.2 Bn

Range

\$9.3 Bn

Increase between 0.7% and 1.8% vs. FY 2011

Budget increase is mainly due to the expiration of ARRA Funds that had funded certain local programs



We are focused on providing all the necessary tools to ensure the safety of our citizens

1

Public Safety & Law Enforcement

New Police vehicles and equipment

Strengthen prosecutors' office

Educational and safety programs

We plan to strengthen the justice system focusing on law enforcement initiatives. Also, we will coordinate continuing education programs for the public prosecutors staff.



The budget for FY 2012 will allocate resources to Education and Health

2

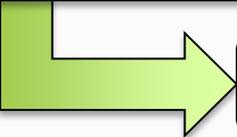
Education

The government will continue to provide the necessary resources for the island wide school modernization program in order to provide a more adequate learning environment

3

Health

An estimated 106,000 new beneficiaries are expected to join and receive medical benefits under Mi Salud.



Currently, approximately 1.4 million beneficiaries receive medical benefits under Mi Salud for a total cost of \$ 1.694 billion

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OMB Measures taken to ensure budgetary control...

1 Executive Orders for hiring freeze
Hiring freeze across all agencies

2 Executive Order to allow OMB to have more oversight over contract awards
Professional services contracts, and building rental contracts (non-government) among others

3 Additional tools to ensure budget control

New Cost Control Management System (BvA)

Petition Processing System (PP)

Contract Processing System (PCo)

Department of Education (DE) Fiscal Oversight

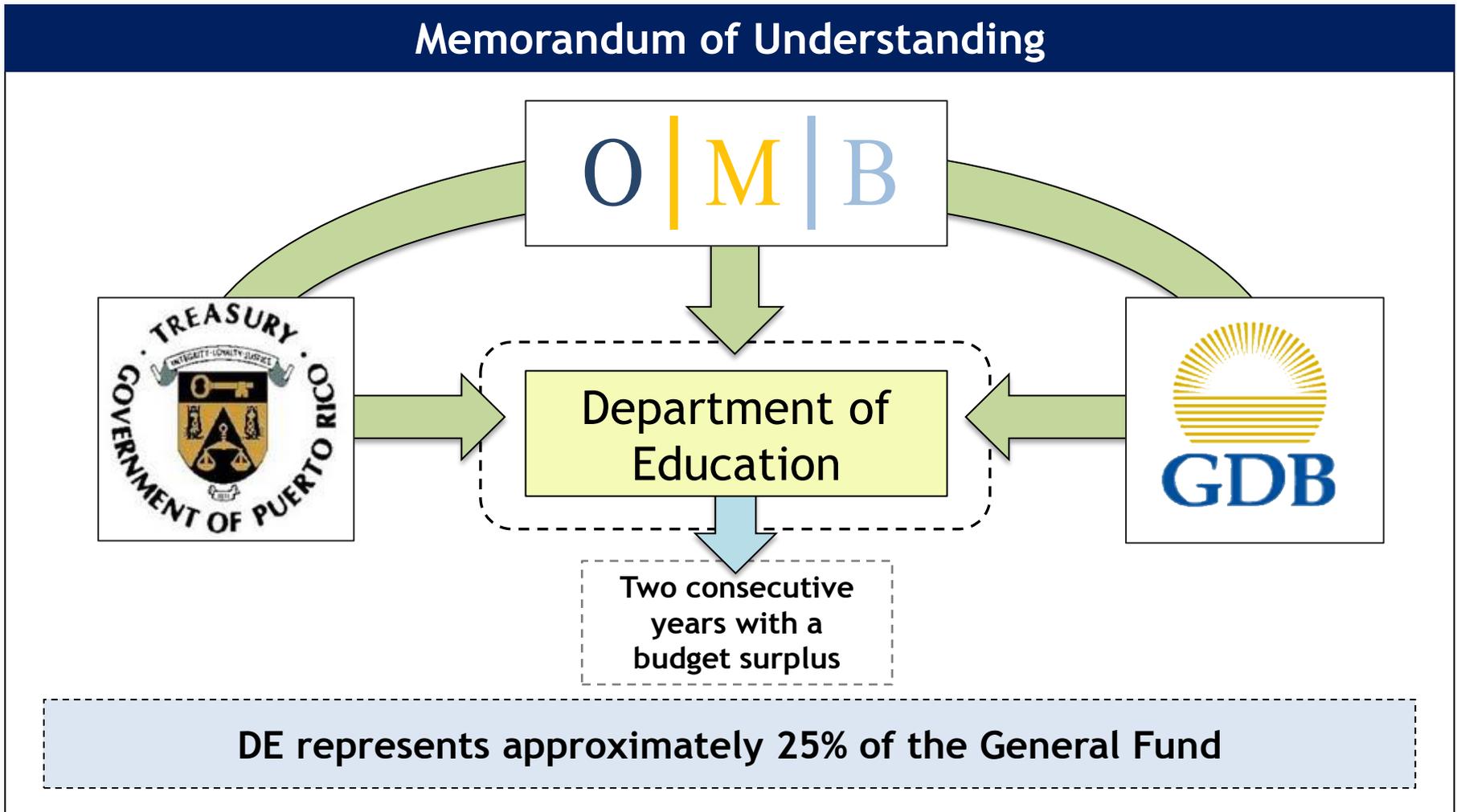
Department of Health Fiscal Oversight

**27% of
General Fund
budget**



We established an Oversight Agreement with the DE to reduce operational expenses and promote a more efficient use of resources

Memorandum of Understanding





The DE is moving on the right track, projecting to close with a budget surplus for the second consecutive year

Department of Education Success Story

- The budget projection report served as a guide and created awareness as to what was the financial status of the entity.
- DE closed the fiscal year in record time (first weeks of September 2010).
- Due to the good use of resources and certain expense cuts, the DE managed to close fiscal year 2009-2010.
- Supervisory measures regarding the approval of business trips, contracts, account number changes, among others, were established in order to assume better fiscal control of the budget

Charlie Rose
USDE General Counsel

“I continue to be impressed with the strong progress that Gov. Fortuño and his team are making”



Implementation of to foster a digitally connected Puerto Rico...

Implement system to improve cost effectiveness and efficiency of government management

More accessible government services to all constituents

Ensure availability, privacy and information protection

In 2011, pr.gov has received more than 2,500,000 visits



More than 50 services available online

License and Tag Renewal	CRIM
Traffic Fine Payments	Unemployment Insurance
Good Standing Certificate	ASUME Individual and Employer
State Insurance Fund	Criminal History Certificate
Birth, Marriage, and Death certificate	PAN Eligibility for Benefits
Tax Return Filing	Corporation Search and Registration
Certificate of Debt/ No Debt	Corporate Reports

Over 1,263,200 transactions were efficiently made throughout pr.gov in 2010

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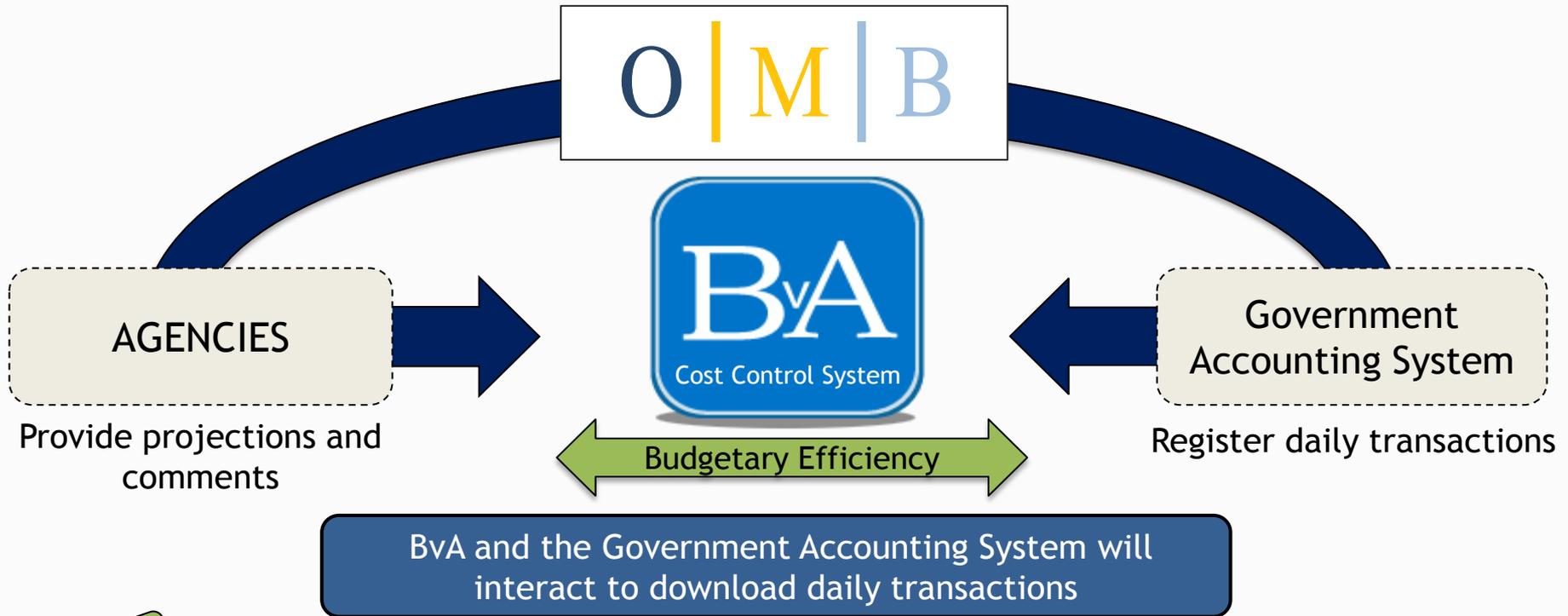
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Concluding Remarks

OMB's focus is to promote fiscal discipline and maximize budget efficiency of all agencies with the implementation of the New Cost Control Measures...



New Cost Control System will maximize our budget efficiency...



BENEFITS

- One stop shop
- Process automation
- Data extraction from PRIFAS
- Detailed data from previous day
- Approved budget revision
- Creation of the initial plan
- Automatic cost data
- Ability to review changes
- Variance analysis
- Automatic Reports



BvA's primary objective is to maximize fiscal oversight of agencies...

Promote fiscal discipline among all agencies

Provide the mechanism needed to analyze the financial situation of agencies and public corporations	Channel resources primarily to meet service programs needs	Contribute to the financial and operational efficiency of government through planning and avoid making commitments beyond available resources of public expenditures
	Finalize FY with expenses at or below the authorized level	
	Avoid making commitments beyond available resources	

OMB is committed to publish public periodic expense reports



OMB is implementing a new contract/petition processing system that expedites service to different agencies...



Petition Processing System



Contract Processing System

Both systems streamline the delivery, assessment, approval and notification of applications

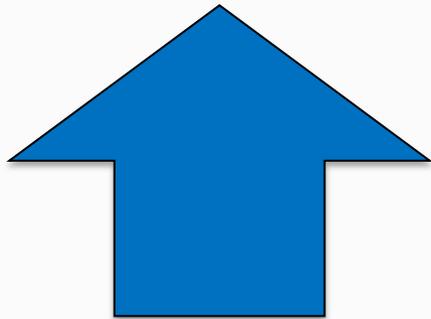
Processing system significantly reduces processing time and bureaucracy

- Automation and integration of system results in a more efficient analysis
- Program provides all the criteria needed to evaluate contracts and petitions
- Increases the time available for analysis and agency monitoring

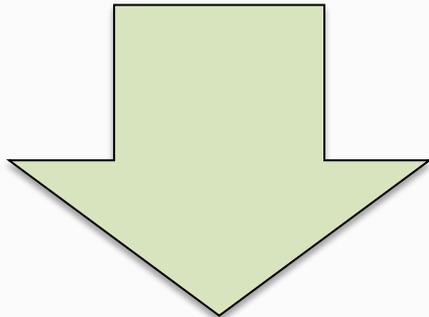


OMB's is committed to managing all available resources...

OMB is focused on improving oversight of government expenses



Maximize Available Funds



Keep Expenses Low

Dedicated to ensure a formal process of execution of the budget and to consider the appropriate allocation for each agency

**OMB will unveil the
FY 2012 English version
of the proposed budget
by June 2011**

The last English budget document was published for FY 2001

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OMB Concluding Remarks



The government has created a path of prudence, discipline and efficiency in the past 2 years by reducing budget expenses



FY 2012 Recommended Budget deficit is expected to decrease by no less than 30%



New Cost Control System will provide the necessary tools to maintain accurate control of our budget by comparing current v. budgeted spending



The automation and integration of systems, will result in more efficient analysis by OMB



In order to continue our commitment with transparency, OMB will publish a complete English version of the budget and periodic expense reports



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