

PUERTO RICO
GREEN 

Executive Summary

Government of Puerto Rico

Adopted Budget



FY **2010-2011**

O|M|B
OFFICE OF MANAGEMENT AND BUDGET
GOVERNMENT OF PUERTO RICO

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Adopted Budget For Fiscal Year 2010-11

The consolidated budget of the Government of Puerto Rico for fiscal year 2011 amounts to \$ 26,919.7 million, which represents a decrease of \$1,753.7 million, or 6% less than the fiscal year 2010 budget of \$ 28,673.5 million. At the same time, the adopted budget represents a decrease of \$1,750.5 million or 6% less than the \$ 28,670.3 million budget spent on fiscal 2008-09.

The agenda proposed for fiscal year 2011 is one in which all government programs will continue working with creativity, vision and commitment to provide more services and better quality, at the lowest possible cost. As in fiscal year 2010, the budget formulation process for fiscal year 2011 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.

To facilitate the understanding of the budget data, we have included at the end of this summary a Budget Table and a Graphic Appendix.

Budget by Programmatic Area

The Social Development Area will receive \$14.5 billion or 54% of the total consolidated budget. This area includes health, family, culture, education, housing, labor, and recreation economic sectors. The area of economic development will receive \$ 4.9 billion or 18% of the consolidated budget and the Protection and Security area \$1.5 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 2010-11 the resources allocated for the Governmental Management area represent only 3% of the consolidated budget or \$ 847 million.

Additionally, the fiscal year 2011 consolidated budget includes resources to provide support to the municipalities (\$415 million) and the Judicial Branch (\$352 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 \$4.3 billion or 16% of the consolidated budget and represents an increase of \$501 million (13%) over the fiscal year 2010 allocation. The following table shows a summary of the consolidated proposed budget by programmatic area.

Consolidated Budget by Programmatic Area
(\$ in thousands)

Area and Economic Sector	FY 2011 Adopted Budget	% of Total
Contribution to Municipalities	\$ 414,938	2 %
Economic Development	4,938,270	18 %
Social Development	14,547,660	54 %
Governmental Management	847,177	3 %
Protection & Security	1,545,013	6 %
Debt Service	4,274,845	16 %
Judicial Branch	351,828	1 %
Total Consolidated Budget	\$ 26,919,731	100 %

Budget by Expense Concept

The budget by expense concept consists in identifying the nature of the outlays incurred by the Government of Puerto Rico. From the \$ 26,919.7 million approved budget for fiscal year 2010-11, \$16.8 billion or 62% will be used to cover operational expenses such as salaries and fringe benefits, payment of rent and utilities, and purchase services. Consistent with the Governor’s goal of running a leaner and more efficient government operation, this amount is \$ 1.5

billion or 8% lower than the allocation for the same purpose in fiscal year 2010. The amount of \$ 4.2 billion under the concept of Contributions and Subsidies represent resources allocated for other purposes, such as the purchase of health insurance for low income families and will not be available to cover operational expenses. 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 \$4.3 billion will be directed toward the payment of debts related to the General Obligation Bond's issues and other financing transactions.

The Operating Expenses include payroll costs which is the largest portion in this expense concept. As it might be observe in the Graphic Appendix, the Office of Management & Budget (OMB) is exerting much needed controls to comply with Act 7 of March 2009 savings requirements of \$2 billion. As a result of these expense control measures, the fiscal year 2011 proposed budget reflects a decrease of 7.8% over fiscal year 2009 payroll expenses and a headcount reduction of 19,192 employees when compared to occupied positions in the Executive Branch as of September 2008.

Purchased Services include an increase of \$70.8 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, therapy, among others.

The Materials and Supplies expense concept is also increasing by \$179.8 million due mainly to the impact of the increase in fuel cost to generate electricity, as well as for the government fleet and other transportation vehicles of the Government.

The concept of Contributions 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 2011.

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 \$ 8.1 billion, of which \$4 billion (49%) is appropriated through the General Budget Joint Resolution and \$4.1 billion (51%) by means of the Special Appropriations bill. This contribution is \$463.5 million or 6% greater than current year resources. Additionally, a transitional allocation of \$1.0 billion is supplementing the General Fund, increasing the available resources to \$9.1 billion.

Other sources of funds included in the consolidated proposed budget for fiscal year 2011 are: Federal Grants, \$6.9 billion, (including the Federal Economic Stimulus Funds); revenues from internal sources, \$ 7.5 billion; loans and bond issuance, \$ 1.7 billion; Special State funds, \$ 1.1 billion; and other income, \$ 525.6 million.

General Fund

Net revenues to the General Fund for fiscal year 2011 are estimated in \$8.1 billion. This amount will be complemented with a transitory allocation of \$1 billion from the State Stabilization Fund in order to facilitate budget balance between revenues and expenditures. For fiscal year 2011, the certified budget deficit of \$3.5 billion is been reduced by \$2.5 billion or 71%. The expense control measures are been effective in closing the structural deficit and the Government goal is to achieve balance between recurrent revenues and expenditures by fiscal year 2012-13. Resources from the General Fund are totally committed, as follows.

General Fund Expenses Breakdown
(\$ millions)

	<u>2010*</u>	<u>2011+</u>
Non-Controllable Expenses		
Mandated Expenses (Formula)		
Contributions to Municipalities	\$ 335	\$ 355
University of Puerto Rico	729	691
Judicial Branch	348	348
Rent Payments to Public Buildings Authority ⁽¹⁾	297	217
General Obligation Debt Service	521	201
Other Debt Service	<u>373</u>	<u>517</u>
Total of Non-Controllable Expenses	<u>\$ 2,603</u>	<u>\$ 2,329</u>
Percent of Total GF Expenses	<u>34%</u>	<u>29%</u>
Controllable Expenses		
Payroll and Related Costs ⁽¹⁾	\$ 5,067	5,805
Payroll as % of Controllable Expenses	2,309	2,789
	<u>46%</u>	<u>48%</u>
Total General Fund Expenses	<u>\$ 7,670</u>	<u>\$ 8,134</u>

* Preliminary.

+ Estimated, Adopted FY 2011 Budget.

(1) Excludes University of Puerto Rico and Judicial Branch.

As shown in the previous table, 29% of the General Fund for fiscal year 2011 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 smaller than fiscal year 2010 due to expected savings associated with debt refinancing transactions planned by the Government Development Bank.

The Government is committing 48% 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). This proportion was close to 62% in FY 2009, but has remained in a 47% average in fiscal years 2010 and 2011 due mainly to the savings in operational expenses expected from the

implementation of the expense reduction measures mandated by Act 7. Additionally, this amount will be supplemented by a \$1 billion allocation from the State Stabilization fund that will be used to cover the transitional payroll costs associated with the expense reduction plan.

Federal Funds

For fiscal years 2010 and 2011, the expenses against the Federal Economic Stimulus funds are estimated in \$1.6 and \$1.0 billion, respectively. Expenditures charged to traditional federal grants for fiscal year 2011 reflect an increase of \$ 84.1 million compared with fiscal year 2010. However, for the same period expenditures against the ARRA federal contributions presents a decrease of \$ 621.5 million, thus demonstrating the non-recurrence condition of these funds.

Revenues from Internal Sources; and Loans and Bonds Issuance

Revenues from Internal Sources amount to \$7.5 billion and represent mainly the fees for services charged by public corporations. The following six public corporations generate 78% 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 2010-11 along with the University of Puerto Rico, will make use of 95% of the proposed loans and bonds 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. Proposed disbursements of Special Funds amount to \$1.1 billion for fiscal year 2011 and will be use for operating purposes, capital

improvements and for the debt service of general obligations bonds.

Graphic Appendix

1. Distribution of FY 2010-11 Consolidated Budget by Area
2. Consolidated Budget for FY 2011 is \$1.7 billion less than FY 2009
3. FY 2011 Vs. FY 2010 Consolidated Budget by Mayor Expense
4. FY 2008 -2011 Consolidated Budget by Source of Funds
5. Budget for FY 10-11 represents an increase in revenue collections
6. General Funds Resources, Recurrent Vs. Non Recurrent
7. We are closing the deficit... ...this is FISCAL RESPONSABILITY
8. General Fund Budget
9. Adopted budget for FY 10-11 is \$2.06 billion less than expenses in FY 08-09
10. Distribution of Expenses by Concept- FY 2010-11 (General + Stabilization Fund)
11. The FY 2010-11 (General + Stabilization Fund) budget is 18% or \$2.1 billion less than FY 2009
12. Federal Funds Distribution
13. Human Resources (All Government Branches)
14. Human Resources Vs. Payroll, Executive Branch (All Funds)
15. YOUR security is priority
16. YOUR right to healthcare
17. Preserving OUR culture

18. Distribution of State Economic Stimulus Funds

19. Distribution of Federal Economic Stimulus – ARRA Funds

Budget Tables Appendix

1. Consolidated Budget by Agency
2. Consolidated Budget by Programmatic Area and Economic Sector
3. Consolidated Budget by Expense Concept and Source of Funds
4. General Fund Budget by Agency
5. General Fund and Stabilization Fund Budget by Expense Concept and Source of Funds
6. General Fund and Stabilization Fund Budget by Agency
7. Human Resources by Agency
8. Debt Service by Economic Sector and Agency FY 2009
9. Debt Service by Economic Sector and Agency FY 2010
10. Debt Service by Economic Sector and Agency FY 2011
11. Capital Improvement Consolidated Budget by Agency
12. Federal Economic Stimulus Funds Revenues (ARRA) distributed by State Agency and CFDA
13. Federal Grants distributed by State Agency and CFDA
14. Consolidated Resources and Obligations