

## BUDGET PROCESS

Article IV, Section 4 of the Constitution of the Commonwealth of Puerto Rico provides that the Governor should "present to the Legislative Assembly at the beginning of each regular session, a message on the status of the Commonwealth and to submit a report on the state of affairs of the Treasury of Puerto Rico and the proposed expenditures for the ensuing fiscal year." Moreover, Act No. 147 of June 18, 1980, as amended, known as the "Organic Law of the Office of Management and Budget," requires the Governor to submit to the Legislature the Annual Budget of Operating Costs and Permanent Improvements of the Government of Puerto Rico, its instrumentalities and public corporations to be funded from different sources. The main funding resources are the General Fund, State Special Funds, Federal Funds, Revenues, Capital Improvements Fund, Loans and Bonds.

The responsibility for preparing the budget document developed using elements of program budgeting rests with the Office of Management and Budget (OMB). This includes the estimated revenue for the General Fund provided by the Department of Finance, and other resources available for the following fiscal year, as well as legislation concerning appropriations from the General Fund and the Public Improvement Fund, which accompany the budget. OMB's mission is to assist the Governor in preparing the budget and monitor its implementation and administration in executive branch agencies. During the budgeting process, OMB evaluates the effectiveness of agency programs, policies, procedures, and demands for funds among programs and agencies and sets priorities for initiatives to be included in the expenditure budget. In addition, OMB oversees and coordinates initiatives to be implemented as part of the government's program, information technology projects, and the organizational structure of the Government. In each of these areas, OMB's role is to help improve administrative management, to develop better performance measures and coordination mechanisms, and to promote the efficient use of public funds.

The budget process begins with the petition for funds or budget requests presented by agencies to OMB. Once the information is received, the request is assessed taking into account the programmatic commitments allocated to agencies in the government program as well as the operational priorities that each agency's charter grants. Subsequently, OMB submits its recommendations to the Governor based on the availability of funds for the fiscal year, as certified by the Department of the Treasury for the estimated revenues to the General Fund, and by the Government Development Bank on the loan margin. In this phase, administrative meetings are held with the Governor, Heads of Agency, and the Director of OMB to discuss the funding recommendations for each agency. Once these recommendations are reviewed and approved by the Governor, they are included in the Annual Budget Document of Operating Expenses and Capital Improvements of the Government of Puerto Rico to be submitted to the Legislature for consideration and approval. The Budget Document is published simultaneously in print and electronic format and on the Internet. OMB also prepares draft laws on allocation of funds and reviews the budgetary and tax legislation for the adoption of the budget submitted.

The presentation of the budget to the Legislative Assembly occurs at the beginning of the First Regular Session of the House of Representatives and the Senate of Puerto Rico. The Finance Committees of both bodies examine the submitted budget and all fiscal legislation that implements it. During the public hearings, the Heads of Agency are summoned to appear before both committees to explain and defend their budget, while presenting their work plans to budget for the fiscal year. The analysts from the Office of Management and Budget also attend these hearings as advisers. The Legislature may amend the budget submitted by the Governor, but cannot increase spending in a manner that might cause a deficit without imposing taxes or identifying additional resources to cover such deficit.

Once the administrative hearings are held and relevant information has been obtained and clarified, the Legislature approves the General Budget of the Government of Puerto Rico through the following resolutions: (i) Joint Resolution of the General Budget of Operating Expenses; (ii) Joint Resolution of Special Appropriations for Operating Expenses; (iii) Joint Appropriations Resolution for Construction of Permanent Works under the Public Improvement Fund; and any other legislation that may be agreed to by the Executive Branch and the Legislative Branch. The General Budget Law contains allocations for each agency and the rules for disbursement, pursuant to Article III, Section 17 of the Constitution.

After approval by the Legislative Assembly, the budget is submitted to the Governor. Before signing the Joint Budget Resolution, the Governor verifies that the budget allocations approved by the Legislature do not exceed the estimated resources for that fiscal year. This is because, under the Constitution, "the appropriations made for any fiscal year shall not exceed the total revenues estimated for that fiscal year ..." (Article VI, Section 7 of the Constitution of Puerto Rico ). So the

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budget has to comply with the principle of "a balanced budget". In addition, the Constitution empowers the Governor to balance the budget prior to giving his approval, eliminating or reducing one or more budget lines, but not increasing them (Article III, Section 20 of the Constitution of Puerto Rico). The Governor may also veto the budget in its entirety and return it to the legislature with his objections. The Legislature, by two-thirds majority in each house, may override the Governor's veto.

The General Operating Budget of Expenditures must be approved and posted on July 1, when the state fiscal year begins. If for any reason the budget has not been approved by that date, Article VI, Section 6 of the Constitution of Puerto Rico provides that the current budget will continue in effect and the Governor shall authorize the necessary disbursements, thus enabling continuity of government operations and payment of obligations.

After approval of the budget, the Office of Management and Budget, under the provisions of its charter, has the responsibility to ensure that implementation and budget management act in accordance with the laws and rulings that commit them to the best standards of public service and in line with program commitments for which public funds are provided. This effort is part of the Government's commitment to move towards real policy of fiscal responsibility.