

## **Executive Summary**

### **Adopted Budget For Fiscal Year 2011-12**

The consolidated budget of the Government of Puerto Rico for fiscal year 2012 amounts to \$ 28,658.2 million, which represents an increase of \$515.3 million, or 2% more than the fiscal year 2011 budget of \$28,142.8 million. At the same time, the adopted budget represents a decrease of \$470.3 million or 2% less than the \$ 29,128.9 million budget spent on fiscal 2009-10.

The agenda for fiscal year 2012 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 2011, the budget formulation process for fiscal year 2012 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 \$14.8 billion or 52% of the total consolidated budget. This area includes the economic sectors of health, family, culture, education, housing, labor, and recreation. The area of economic development will receive \$6.1 billion or 21% of the consolidated budget and the Protection and Safety area \$1.6 billion or 5% 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 2012 the resources allocated for the Governmental Management area represent only 4% of the consolidated budget or \$1,057.9 million. Additionally, the fiscal year 2012 consolidated budget includes resources to provide support to the municipalities (\$451.5 million) and the Judicial Branch (\$347.4 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 15% of the consolidated budget and represents an increase of \$434.5 million (11%) over the fiscal year 2011 allocation. The following table shows a summary of the consolidated adopted budget by programmatic area.

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<b>Consolidated Budget by Programmatic Area</b> <i>(\$ in thousand)</i>		
<b>Programmatic Area</b>	<b>FY 2012 Adopted Budget</b>	<b>% of Total</b>
Contribution to Municipalities	\$ 451,500	2%
Economic Development	6,105,803	21%
Social Development	14,787,236	52%
Governmental Management	1,057,945	4%
Protection & Safety	1,600,410	5%
Debt Service	4,307,820	15%
Judicial Branch	347,443	1%
<b>Total Consolidated Budget</b>	<b>\$ 28,658,157</b>	<b>100 %</b>

### **Budget by Expense Concept**

The budget by expense concept consists of identifying the nature of the outlays incurred by the Government of Puerto Rico. From the \$ 28,658 million adopted budget for fiscal year 2011-12, \$19.6 billion or 68% 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 \$6.1 million lower than the allocation for the same purpose in fiscal year 2011. The amount of \$3.2 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.

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The Operating Expenses include payroll costs which is the largest portion in this expense concept. As it might be observed 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. As a result of these expense control measures, the fiscal year 2012 adopted budget reflects a decrease of 7.5% over fiscal year 2009 payroll expenses and a headcount reduction of 31,830 employees when compared to occupied positions in the Executive Branch as of September 2008.

Purchased Services include an increase of \$19.6 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.

The Materials and Supplies expense concept is also increasing by \$114.4 million due mainly to the escalation impact of the 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 2012.

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 adopted budget is \$9.260 billion, of which \$5.229 billion (56%) is appropriated through the General Budget Joint Resolution, \$3.421 billion (37%) by means of the Special Appropriations bill and \$610 million (7%) by the Local Stabilization Fund. This contribution is \$110.5 million or 1% greater than current year resources.

Other sources of funds included in the consolidated adopted budget for fiscal year 2012 are: Federal Grants, \$6.9 billion, (including the Federal Economic Stimulus Funds); revenues from internal sources, \$8.9 billion; loans and bond issuance, \$1.6 billion; Special State funds, \$1.2 billion; and other income, \$717.9 million.

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## General Fund

Net revenues to the General Fund for fiscal year 2012 are estimated in \$8.650 billion. This amount will be complemented with a transitory allocation of \$610 million from the State Stabilization Fund in order to facilitate budget balance between revenues and expenditures. For fiscal year 2012, the certified budget deficit of \$3.5 billion in 2009 is being reduced by \$2.9 billion or 83%. The expense control measures have 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>2011*</u>	<u>2012+</u>
<b>Non-Controllable Expenses</b>		
Mandated Expenses (Formula)		
Contributions to Municipalities	\$ 355	\$ 380
University of Puerto Rico	691	704
Judicial Branch	348	328
Rent Payments to Public Buildings Authority <sup>(1)</sup>	217	218
General Obligation Debt Service	201	179
Other Debt Service	<u>517</u>	<u>492</u>
Total of Non-Controllable Expenses	<u>\$ 2,329</u>	<u>\$ 2,301</u>
Percent of Total GF Expenses	<u>25%</u>	<u>25%</u>
<b>Controllable Expenses</b>	\$ 6,821	6,959
Payroll and Related Costs <sup>(1)</sup>	3,789	2,822
Payroll as % of Controllable Expenses	<u>56%</u>	<u>30%</u>
<b>Total General Fund Expenses</b>	<u>\$ 9,150</u>	<u>\$ 9,260</u>

\* Preliminary.

+ Estimated, Adopted FY 2012 Budget.

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

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As shown in the previous table, 25% of the General Fund for fiscal year 2012 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 2011 due to the expected savings associated with debt refinancing transactions planned by the Government Development Bank.

The Government is committing 30% 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). In fiscal year 2011 and 2012, the Commonwealth decreased this proportion to an average of 56% due mainly to the savings in operational expenses as a result of the implementation of the Fiscal Plan.

### **Federal Funds**

For fiscal years 2011 and 2012, the expenses against the Federal Economic Stimulus funds are estimated in \$1,281.3 million and \$232.2 million, respectively. Expenditures charged to traditional federal grants for fiscal year 2012 reflect an increase of \$684 million compared with fiscal year 2011. However, for the same period, expenditures against ARRA federal contributions present a decrease of \$1.0 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 \$8.9 billion and represent mainly the fees for services charged by public corporations. The following six public corporations generate 81% 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 2011-12, along with the University of Puerto Rico, will make use of 96% of the loans and bond issues amounting to \$1.6 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 2012 and will be used for operating purposes, capital improvements and for the debt service of general obligations bonds.