

The General Fund revenue estimates for FY 2012 totaled \$9.260 billion, including a one-time allocation of \$610 million from the State Stabilization Fund in order to achieve budget balance. Fiscal year to date revenues as of November 2011, totaled \$2,766 million, a 5% increase over fiscal year 2011.

**GENERAL FUND EXPENDITURES FOR THE SECOND QUARTER
ARE 1% BELOW AMOUNTS BUDGETED**

Fiscal Year 2011-12
(thousands of dollars)

General Fund	Oct-Dec
Budgeted Expenditures	\$ 1,868,121
Actual Expenditures	\$ 1,854,147
Variance \$	13,974
Variance %	1%

Source: Office of Management and Budget ("OMB")

The following table shows 2nd Quarter actual expenditures by expense category.

**ACTUAL RESULTS BY EXPENSE CATEGORY SHOW PAYROLL
EXPENSES 2% BELOW PLAN**

FY 2012 Budget vs. Actual by Expense Category
(thousands of dollars)

Expense Category	Oct-Dec – Q2		Variance ¹	
	Budget	Actual	\$	%
Payroll ²	\$ 726,629	\$ 709,940	\$ 16,689	2%
Utilities	93,356	88,460	4,896	5%
Purchased Services	45,305	50,888	(5,583)	-12%
Donations & Contributions	49,656	68,168	(18,512)	-37%
Transportation	21,745	21,219	526	2%
Professional Services	23,760	21,549	2,211	9%
Other Expenses	6,650	8,118	(1,468)	-22%
Debt Service	160,445	160,445	-	0%
Materials	16,083	15,520	563	4%
Equipment	2,925	1,638	1,287	44%
Advertising	514	141	373	73%
Incentives and Subsidies to Citizens	1,825	4,999	(3,174)	-174%
Contributions to non-Government Entities	4,559	697	3,862	85%
Non Distributed Appropriations ³	709,158	696,848	12,310	2%
State Matching Funds	2,768	2,540	228	8%
Previous Year's Payables	2,743	2,977	(234)	-9%
Total	\$1,868,121	\$1,854,147	\$13,974	1%

Source: OMB, preliminary and unaudited

¹Positive operating results are believed to be timing related and do not provide a basis for revising annual estimates.

²Positive variance due to deferred overtime payments and hiring delays.

³Excludes DOE Schoolwide Program.

Positive operating results are believed to be timing related and do not provide a basis for revising annual estimates of disbursements at this time.

Payroll related costs continue to be under OMB's strict monitoring through monthly reporting of new hires and terminations and preauthorization of new hires. The positive variance in the payroll expense category is related to deferred overtime payments and hiring delays in various security agencies. The negative variance of 37% in the Donations and Contributions expense category is caused by budget transfers between expenses categories not included in the initial projections. These funds are mainly used by the agencies comprising the welfare sector to pay for supplementary services provided by non for profit organizations. Most of these funds were initially allocated in the Non Distributed Appropriations expense category and were transferred in later months, as needs aroused. During the month of January 2012, OMB will be revising the projections with the agencies to account for the changes or budget transfers between expense categories in the adopted budget.

Other operational expenses are at levels consistent with expectations, with variance due mainly to the timing of disbursements as several payments originally anticipated in the second quarter of the fiscal year will occur in later months.

OMB continues to use the BvA application and monthly expense control meetings to monitor those agencies that historically have represented a budget risk. The following table shows Budget vs. Actual expenses by programmatic sectors.

FY 2012 Budget vs. Actual by Programmatic Sector

(thousands of dollars)

Sector	Oct-Dec Q2		Variance ⁴	
	Budget	Actual	\$	%
Special Pension Contributions	\$ 17,552	\$ 17,552	\$ 0	0%
Contributions to Municipalities	113,089	109,630	3,459	3%
Welfare	94,616	113,105	(18,489)	-20%
Economic Development	53,061	51,711	1,350	3%
Education ⁵	399,824	405,292	(5,467)	-1%
General Government	360,746	344,954	15,792	4%
Safety & Protection	375,076	359,553	15,523	4%
Health	416,497	410,234	6,263	2%
Transportation & Communications	32,600	37,474	(4,874)	-15%
Housing	5,060	4,642	418	8%
Total	\$ 1,868,121	\$1,854,147	\$ 13,974	1%

Source: OMB, preliminary and unaudited

⁴Positive operating results are believed to be timing related and do not provide a basis for revising annual estimates.

⁵Excludes DOE Schoolwide Program.

By programmatic sector, expenses are within budgeted levels for this second quarter of fiscal year 2012, with the exception of Welfare and Transportation & Communications. The negative variance in the welfare sector is related to the timing of disbursement, with several large payments originally anticipated in the third and fourth quarter of fiscal year 2012. Higher spending in the Transportation sector is due to the transfer of funds for the Cruise Lines Incentives Program from the Economic Development sector, after the budget was adopted.

Safety & Protection and the Health sectors are still under close evaluation to minimize any budget impact resulting from their respective operational reforms. The Police Department already identified excess funds in various expense categories to cover unanticipated disbursements associated with their undergoing reform. We continue working with the Puerto Rico Health Insurance Administration to implement cost control initiatives to offset and minimize additional expenditures resulting from changes in the risk allocation model.

The FY 2012 budget provides for total expenditures of \$9.260 billion, which are 1% higher than budgeted total expenditures of \$9.150 billion for fiscal year 2011. Accumulated year to date expenditures add up to \$3,775,984. This amount does not include an estimated \$542.7 million from the Department of Education Schoolwide Program since these expenses are not yet registered in the central government accounting system. General Fund expenses from the Schoolwide Program must be allocated by school before they are reflected in the accounting system, according to a matching formula approved by the federal government. Including the Schoolwide Program, accumulated expenses represent approximately 47% of the adopted budget.

Estimated expenditures show total expenses within the FY 2012 budget. The areas of education, health, and public safety are being closely monitored by special Budget Control Groups designated to develop and implement efficiency measures and examine all operating expenses in order to ensure sustained budget stability. Changes in federal funds receipts must also be monitored, especially as they are related to Medicaid and other health sector grants.

FY 2012 Budget vs. Estimated Expenditures* by Expense Category

(thousands of dollars)

Expense Category	Adopted Budget	YTD Expenses	Total Estimated Expenses
Payroll	\$3,005,648	1,560,950	\$ 3,005,648
Utilities	422,005	178,969	422,005
Purchased Services	191,964	77,517	191,964
Donations & Contributions	144,889	96,794	144,889
Transportation	54,366	26,072	54,366
Professional services	103,098	29,606	103,098
Other expenses	27,719	11,813	27,719
Debt Payment	840,645	283,085	840,645
Materials	67,796	20,007	67,796
Equipment	25,759	6,200	25,759
Advertising	1,886	409	1,886
Incentives and Subsidies to Citizens	19,081	11,587	19,081
Contributions to non-government entities	16,484	1,280	16,484
Non distributed appropriations**	4,316,425	1,459,886	4,316,425
State Matching Funds	15,240	3,300	15,240
Previous year payables	6,995	8,509	6,995
Total	\$9,260,000	\$3,775,984	\$ 9,260,000

*Source: OMB; preliminary and unaudited. Does not include any possible additional expenses that may be incurred by the Police Department and the Puerto Rico Health Insurance Administration.

** YTD Expenses do not include an estimated \$542.7 million from the Department of Education Schoolwide Program. Funds for this program were included in the adopted budget, but expenses are not yet reflected in the accounting system.

FORWARD LOOKING STATEMENT: Information contained in this report includes certain statements not historical in nature. These statements are based on the Government of Puerto Rico and OMB'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 Office of Management and Budget and its agencies. This report has been prepared solely for information purposes, and should not be construed as a recommendation to buy or sell any securities or to participate in any particular trading.

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