



OFFICE OF MANAGEMENT AND BUDGET OF THE COMMONWEALTH OF PUERTO RICO
PRESS RELEASE

Fiscal 2014 Year-to-Date Expenses Within Budget Driven by Payroll Reduction of 6 Percent from Prior Year and Department of Education Measures

San Juan, P.R., January 8, 2014 – Today, Carlos D. Rivas, the Director of the Office of Management and Budget of Puerto Rico (OMB), reported that Fiscal Year 2014 expenses for July through November were under budget, driven by a 6 percent decline in year-over-year payroll chargeable to the General Fund of the Commonwealth of Puerto Rico, and the implementation of a fiscal improvement program at the Department of Education.

“The favorable expenditure results for the first five months of the fiscal year are a testament to this Administration’s commitment to fiscal responsibility and discipline,” stated Rivas. “Together with the Puerto Rico Treasury’s on-target revenue results, the Commonwealth’s Fiscal Year 2014 budget has performed as expected on both sides of the ledger.”

Payroll expenses chargeable attributed to the Commonwealth’s General Fund for the months of July 2013 through November 2013 totaled \$962 million, which is \$65 million (or 6 percent) below the same period for the prior fiscal year. The prior year expense was adjusted downwards by \$72 million for this comparison, since the employee Christmas bonuses were paid in November last fiscal year and were paid in December in the current year. OMB estimates that there were 8,300 net fewer employees in Executive Branch agencies directly chargeable to the General Fund in November 2013 as compared to November 2012, with 94 percent of the attrition occurring after the current Administration began in January 2013.

“The substantial decline in year-over-year General Fund headcount has been achieved without resorting to layoffs or reducing essential services to the population,” noted Rivas. “The central agencies of the Commonwealth have demonstrated remarkable fiscal discipline to date in recruiting replacement employees.”

With respect to the approved fiscal year 2014 budget, payroll for the first five months was \$19 million (or 2 percent) under budget. The total year-over-year payroll decline does not flow down to a payroll surplus for the period because the current budget had already built in some of the projected attrition.

“The majority of the increase in the approved General Fund budget corresponds to financial obligations that we already had, such as incremental debt service and retirement contributions, which could not be further postponed,” Rivas said. “The General Fund budget increase did not imply a higher net operating cost for the Commonwealth agencies; quite the contrary, it was built upon and required the discipline that we have been exercising over the past year.”





Driven by payroll figures, OMB estimates that from July to November, overall General Fund expenses against Fiscal Year 2014 appropriations were lower than the approved balances in the Fiscal Year 2014 budget by approximately \$135 million. “We expect this surplus to narrow very substantially as we continue to issue liquidation payments for retired employees, and register further back-loaded expenses,” said Rivas. “However, we do not presently expect the surplus to fully disappear.” This expectation considers a successful implementation of the fiscal management program at the Department of Education; the availability of carryforward and non-General Fund appropriation balances, particularly at the Department of Education; the utilization of contingency accounts in the General Fund budget, including all or part of the \$130 million set-aside for sick and vacation leave liquidation; and continued strict hiring oversight by OMB.

Rivas also highlighted two strategic initiatives on the expense side that are yielding results. First, the Department of Education, the largest and traditionally the most challenging agency from a budgetary perspective, has embarked on an important fiscal management program, including well-publicized adjustments in security, non-essential services and contracting rates, which OMB expects to materially neutralize any expected overdraft at the agency. The Department continues to develop further fiscal opportunities in the federal funds utilization, transportation, and real estate areas.

In addition, the Administration has undertaken important steps to balance the finances of subsidized public corporations. In December 2013, the Governor presented a legislative measure to merge the Maritime Transit Authority, the Metropolitan Bus Authority and the Integrated Transit Authority (Urban Train) into a single entity with improved cost efficiencies, better governance, and dedicated transitional and recurring funding. In July 2013, the Administration implemented in July a new Third Party Administration model across the island whose cost efficiencies, combined with other cost-cutting and revenue measures, have lowered the forecasted deficit of the Public Health Insurance Administration to less than 2.5 percent of revenues. The Governor also signed an Executive Order to re-engineer the Medical Services Administration, which provides direct support and shared services to certain public health institutions.

While these public corporations have the option to fund their expenses with substantial fee income or with their own balance sheet, continued success of these initiatives reduces the need for potential large-scale deficit financings, which have been covered in the past with long term General Fund appropriation debt.

“Puerto Rico continues to pursue, in a determined fashion, our goal to move all our public entities, whether General Fund agencies or public corporations, away from deficits and towards fiscal sustainability,” said Rivas.

Technical notes

The payroll numbers exclude teachers chargeable to the Schoolwide Department of Education mixed state-federal funding pool, which is not classified as payroll within the accounting system (but rather as a non-distributed appropriation), and whose salaries represent close to 10.5 percent of the General Fund budget. In



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addition, the payroll numbers exclude the payroll of autonomous non-Executive Branch entities such as the University of Puerto Rico, the Judicial Branch, and other smaller agencies, who receive fixed monthly wired payments, totaling approximately \$1,410 million, or 14.4 percent of the General Fund budget. The headcount figures do include all full time Executive Branch employees chargeable to the General Fund, including all Department of Education employees. When estimating mid-year expenditure performance, OMB adjusts for multiple timing factors, including the impact of fiscal year contracting cycle on service expenses and analogous concepts; the availability and utilization pattern of discretionary reserve or contingency accounts; utilization of carryforward special appropriation balances; and ramp-up periods for programmatic appropriations.

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