



Net revenues to the General Fund for FY 2012 are estimated at \$8.620 billion, excluding a one-time allocation of \$610 million from the State Stabilization Fund in order to achieve budget balance. For FY 2012, the certified budget deficit of \$3.306 billion in FY 2009 will be reduced by \$2.9 billion, or 83%, due to the successful implementation by this administration of various expense control measures geared towards eliminating the deficit.

**GENERAL FUND EXPENDITURES FOR THE FIRST QUARTER ARE
1% BELOW AMOUNTS BUDGETED FOR FY 2012**

Fiscal Year 2011-12
(thousands of dollars)

General Fund	Jul-Sept
Budgeted Expenditures	\$ 1,871,938
Actual Expenditures	\$ 1,858,439
Variance \$	13,499
Variance %	1%

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

The following table shows 1st Quarter actual expenditures by expense category.

**ACTUAL RESULTS BY EXPENSE CATEGORY SHOW PAYROLL
EXPENSES 0.2% BELOW PLAN**

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

Expense Category	Jul-Sept - Q1		Variance	
	Budgeted	Actual	\$	%
Payroll	823,190	821,225	1,965	0.2%
Utilities	88,443	88,153	290	0.3%
Purchased Services	23,853	23,611	242	1.0%
Donations & Contributions	21,836	21,213	623	2.9%
Transportation	2,264	2,331	(67)	-3.0%
Professional Services	6,644	6,248	396	6.0%
Other Expenses	3,505	2,769	736	21.0%
Debt Service	123,053	122,640	413	0.3%
Materials	5,211	4,654	557	10.7%
Equipment	3,841	3,522	319	8.3%
Advertising	122	33	89	73.0%
Incentives and Subsidies to Citizens	7,146	6,135	1,011	14.1%
Contributions to non-Government Entities	3,610	389	3,221	89.2%
Non Distributed Appropriations	755,312	749,230	6,082	0.8%
State Matching Funds	1,329	765	564	42.4%
Previous Year's Payables	2,579	5,521	(2,942)	-114.1%
Total	1,871,938	1,858,439	13,499	1%

*Source: OMB; preliminary and unaudited.

Payroll related costs comprise a large portion of the budget and they are being closely monitored by OMB through monthly reporting of new hires and terminations. All new hires must be previously authorized by OMB. The positive variance is related to overtime payments in process in various agencies.

OMB has implemented an electronic application known as "Budget vs. Actual (BvA)" as its main tool for monitoring agencies' expenditures. This tool provides OMB with daily expense information directly from the Department of Treasury's central accounting system, allowing for data analysis and reporting. OMB is using the BvA application and monthly expense control meetings to monitor those agencies that historically have represented a budget risk.

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 first quarter of the fiscal year will occur in later months. Since this is the first time the Government of Puerto Rico is requiring agencies to complete monthly Budget vs. Actual reports, the agencies are still in the process of refining their numbers to improve the accuracy of their projections. The negative variance in previous year's payables expense category is related to late billings received after close of the prior fiscal year and not included in the budget expense projections. The following table shows Budget vs. Actual expenses by programmatic sectors.

FY 2012 Budget vs. Actual by Programmatic Sector*
(thousands of dollars)

Sector	Jul-Sept - Q1		Variance	
	Budget	Actual	\$	%
Special Pension Contributions	\$ 213,823	\$ 213,824	\$ (1)	0.0%
Contributions to Municipalities	108,172	110,986	(2,814)	-2.6%
Welfare	101,273	96,717	4,556	4.5%
Economic Development	39,165	36,296	2,869	7.3%
Education	360,764	359,055	1,709	0.5%
General Government	355,039.	325,660	29,379	8.3%
Safety & Protection	343,275	336,987	6,288	1.8%
Health	314,955	340,919	(25,964)	-8.2%
Transportation & Communications	31,267	33,715	(2,448)	-7.8%
Housing	4,205	4,280	(75)	-1.8%
Total	\$ 1,871,938	\$ 1,858,439	\$ 13,499	1%

*Source: OMB; preliminary and unaudited.

By programmatic sector, Safety & Protection as well as Health may carry budget risks for the current fiscal year since they are undergoing operational reforms that were not considered during the preparation and formulation of the budget. The Puerto Rico Police is in the process of evaluating the recommendations for improving its operations included in the U.S. Department of Justice Report submitted to the Government of Puerto Rico at the beginning of September 2011. OMB is assessing the budgetary impact of implementing the recommended measures and will be reporting on them in the following quarters. The expenditures of the Puerto Rico Health Insurance Administration may also increase due to changes in risk allocation attributable to the change from a full risk model to a third party administrator model, however cost control initiatives are being implemented to offset and minimize that risk. The General Government sector includes all expenses related to the administrative functions of the government, as well as other debt payments required for FY 2012.

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. The principal changes in General Fund expenditures by program in FY 2012 compared to the FY 2011 budget are mainly due to funding increases in education to substitute non recurrent stabilization funds received from the American Reinvestment and Recovery Act of 2009 and in the University of Puerto Rico as a result of the mandated formula contribution. The economic development sector includes an increase of \$98.9 million for the Puerto Rico Aqueduct & Sewer Authority in order to meet certain requirements under its Master Agreement of Trust. The special pension contributions appropriation will provide the necessary funding to cover the increase in the number of retirees due to the implementation of various initiatives to promote the retirement of public employees. This sector also includes \$47 million to cover a 1% increase in the employer's contribution to the pension system. The FY 2012 budget also includes increased contributions to municipalities mandated by formula, as well as a higher level of funding for the public safety and protection area. Included in this sector is the Department of Justice, which received funding to cover special agents' overtime costs; the Puerto Rico Police to support the cost of new academies; the Corrections Department for the Correctional Officer academies and other related services to the juvenile population. The reductions in the Health sector will be compensated by an increase in federal funds from the Medicaid program expected to be received in FY 2012. The following table shows the FY 2012 budget vs. estimated expenditures for FY 2012.

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	\$ 821,225	\$ 3,005,648
Utilities	422,005	88,153	422,005
Purchased Services	191,964	23,611	191,964
Donations & Contributions	144,889	21,213	144,889
Transportation	54,366	2,331	54,366
Professional services	103,098	6,248	103,098
Other expenses	27,719	2,769	27,719
Debt Payment	840,645	122,640	840,645
Materials	67,796	4,654	67,796
Equipment	25,759	3,522	25,759
Advertising	1,886	33	1,886
Incentives and Subsidies to Citizens	19,081	6,135	19,081
Contributions to non-government entities	16,484	389	16,484
Non distributed appropriations	4,316,425	749,230	4,316,425
State Matching Funds	15,240	765	15,240
Previous year payables	6,995	5,521	6,995
Total	\$9,260,000	\$1,858,439	\$ 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

Estimated expenditures show total expenses within the FY 2012 budget. The areas of health and public safety, as the principal areas of budget risk, 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.

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 is 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.

For additional information regarding this report please contact Josianne Rosselló at (787) 725-1375 (OMB) or Ana Gregorio at (787) 722-2525 (GDB)