

OMB

OFFICE OF MANAGEMENT AND BUDGET
COMMONWEALTH OF PUERTO RICO

PROPOSED BUDGET | 2014-2015

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Governor
1

Forward-Looking Statements

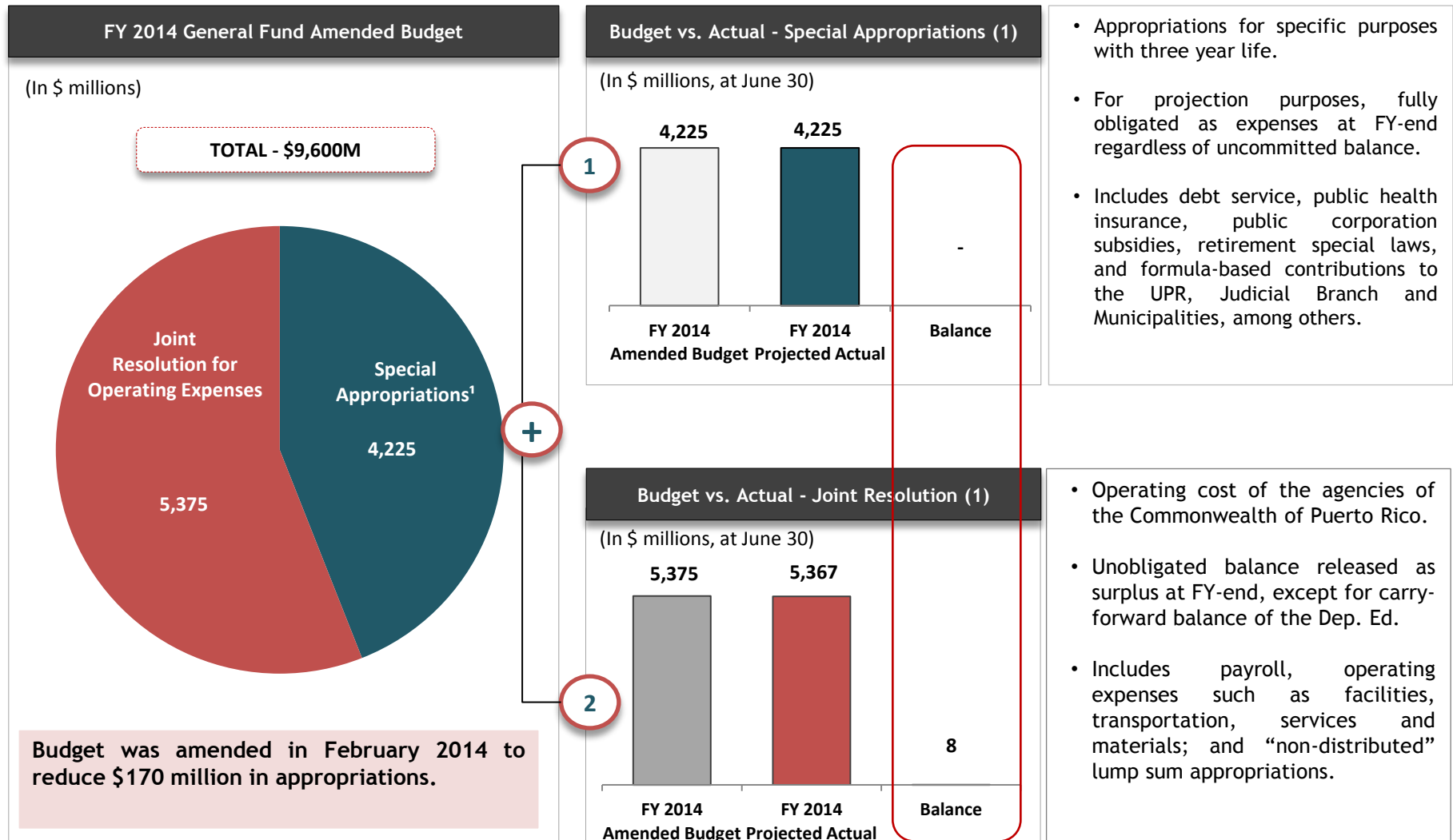
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FY2014 Expense Update

FY 2014 Projected Year End Results (At April 30, 2014)

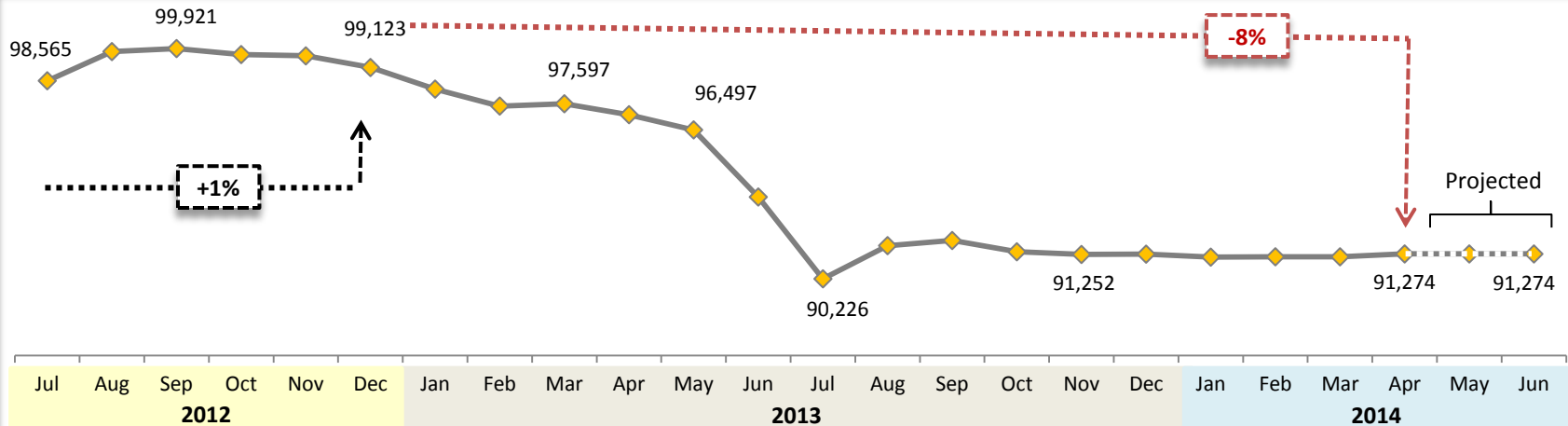


(1) Results per PRIFAS Central Accounting System balances, as adjusted by OMB, in its best judgment, to reflect pending obligations or disbursements, unsynchronized independent platforms at different agencies, and other adjustments. As with all estimates, final results will vary.

FY 2014 YTD Payroll Expenses and Budget versus Actual

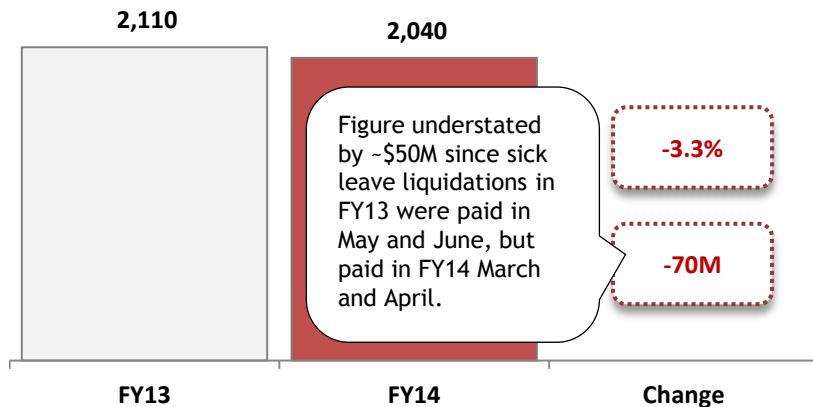
Central Government Agency Employees Chargeable to the General Fund (Joint Resolution) (1)

Headcount (Jul 2012 - Jun 2014)



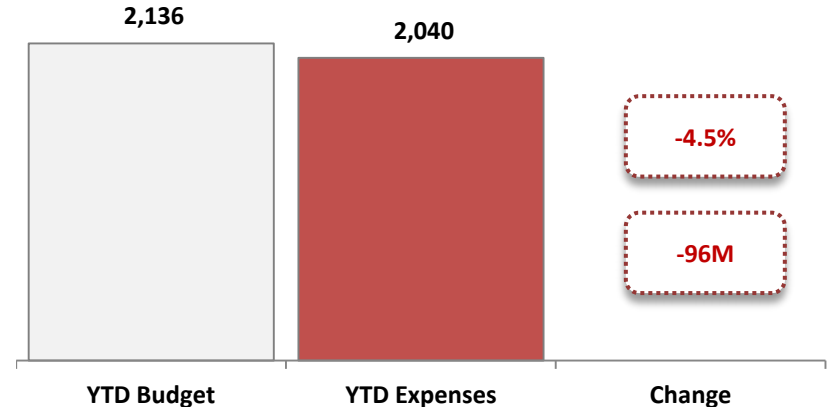
Year over Year Payroll, FY14 versus FY13 (July - April) (2)

(In \$ millions)



Budget versus Actual, Fiscal Year 2014 (July -April)

(In \$ millions)

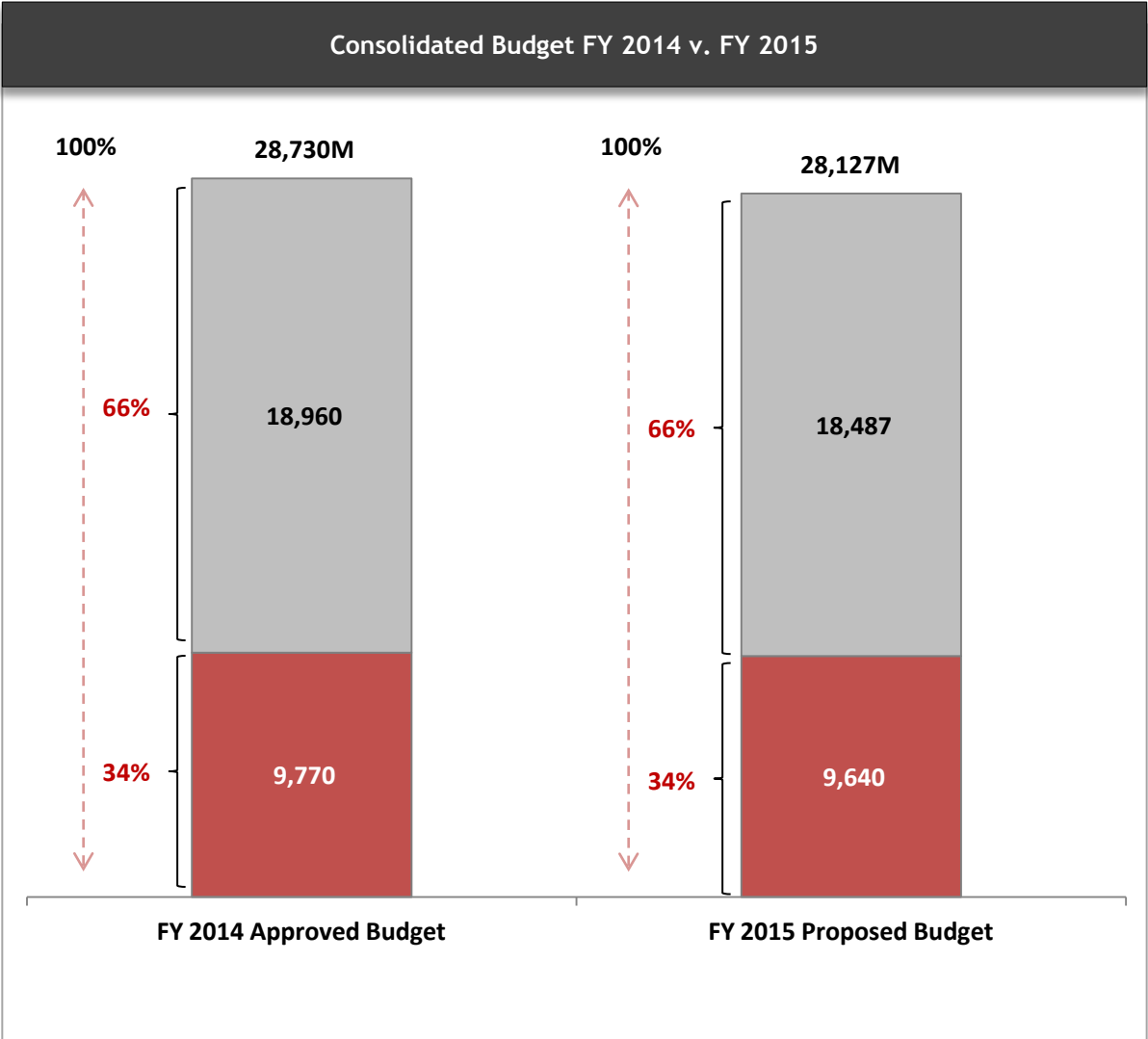


(1) Includes only employees paid from the central RHUM Treasury HR system. Certain smaller or autonomous agencies (~3% of the total) not included. Numbers for PR Police is self reported. Does not include irregular employees or employees paid from special appropriations.

(2) Includes only the payroll account from the central PRIFAS Treasury accounting system. Does not include employees paid from Schoolwide non-distributed appropriations, which are accounted for as a transfer out in the accounting system. These are primarily teachers at the public schools. Headcount figures do include teachers. Numbers should be taken as estimates, and seen in combination.

FY2015 Proposed Budget

Change in Consolidated Budget for FY 2015

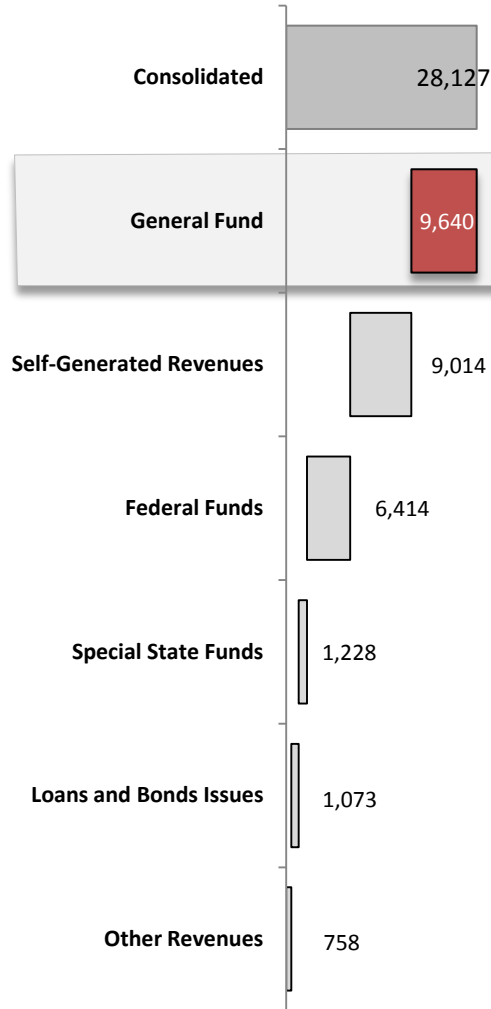


Consolidated Budget (Change)	-603M	-2%
Other Funds (Change)	-473M	-1%
General Fund (Change)	-130M	-1%

Distribution of Proposed FY 2015 Budget (Recipient and Agency)

Consolidated Budget FY 2015

(in \$ millions)

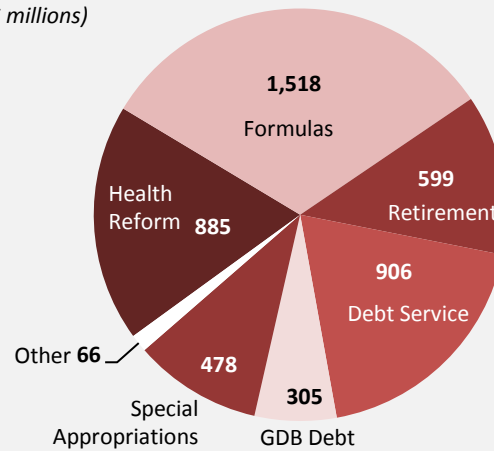


General Fund Budget FY2015

1

Special Appropriations- \$4,756M (1)

(in \$ millions)

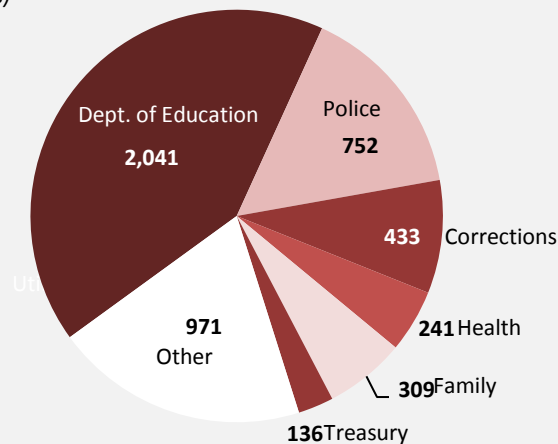


<input type="checkbox"/> Formulas	32%
<input type="checkbox"/> Debt Service	19%
<input type="checkbox"/> Health Reform	19%
<input type="checkbox"/> Retirement	13%
<input type="checkbox"/> Special Appropriations	10%
<input type="checkbox"/> Other Debt (GDB)	6%
<input type="checkbox"/> Other	1%

2

Joint Resolution- \$4,884M

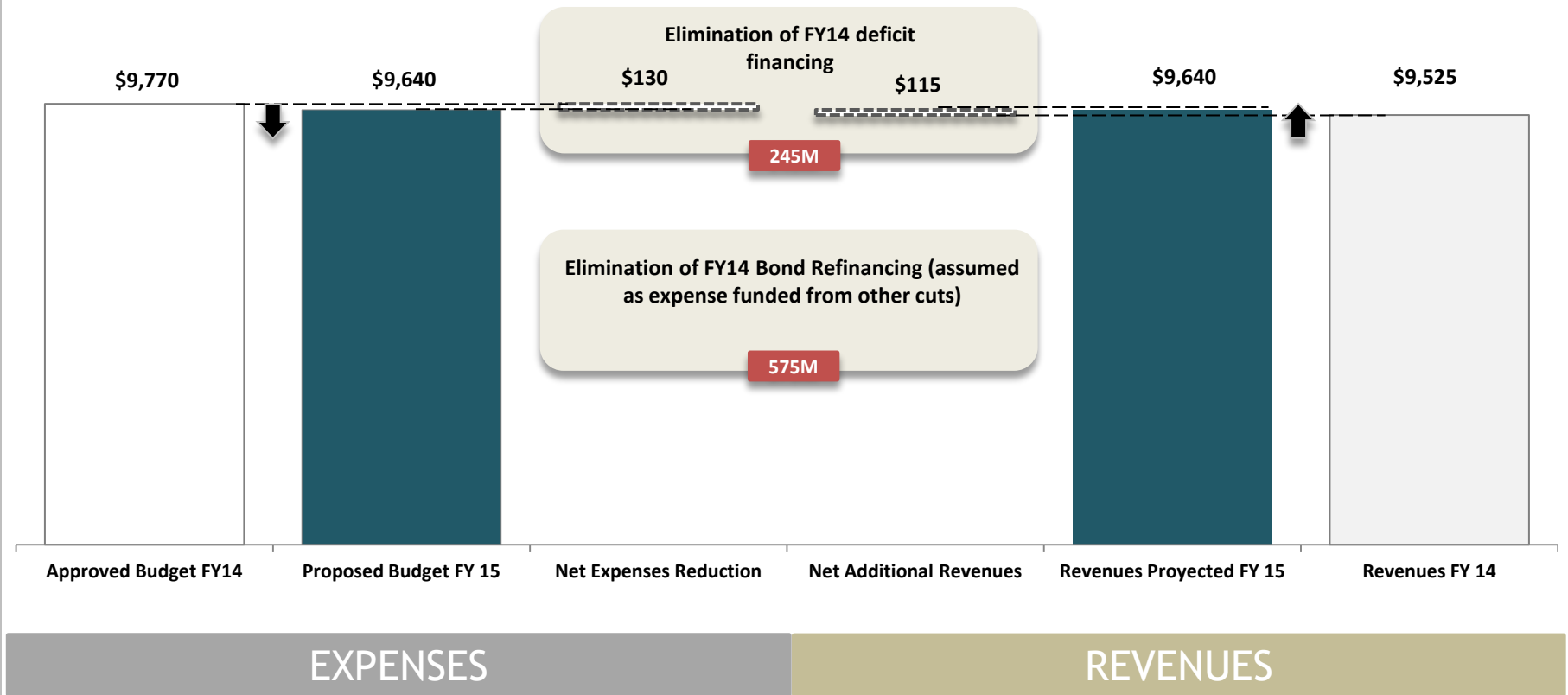
(in \$ millions)



<input type="checkbox"/> Department of Education	42%
<input type="checkbox"/> Police	15%
<input type="checkbox"/> Department of Corrections	9%
<input type="checkbox"/> Department of the Family	6%
<input type="checkbox"/> Department of Health	5%
<input type="checkbox"/> Department of the Treasury	3%
<input type="checkbox"/> Other	20%

Change in Proposed General Fund Budget for FY 2015

(in \$ millions)

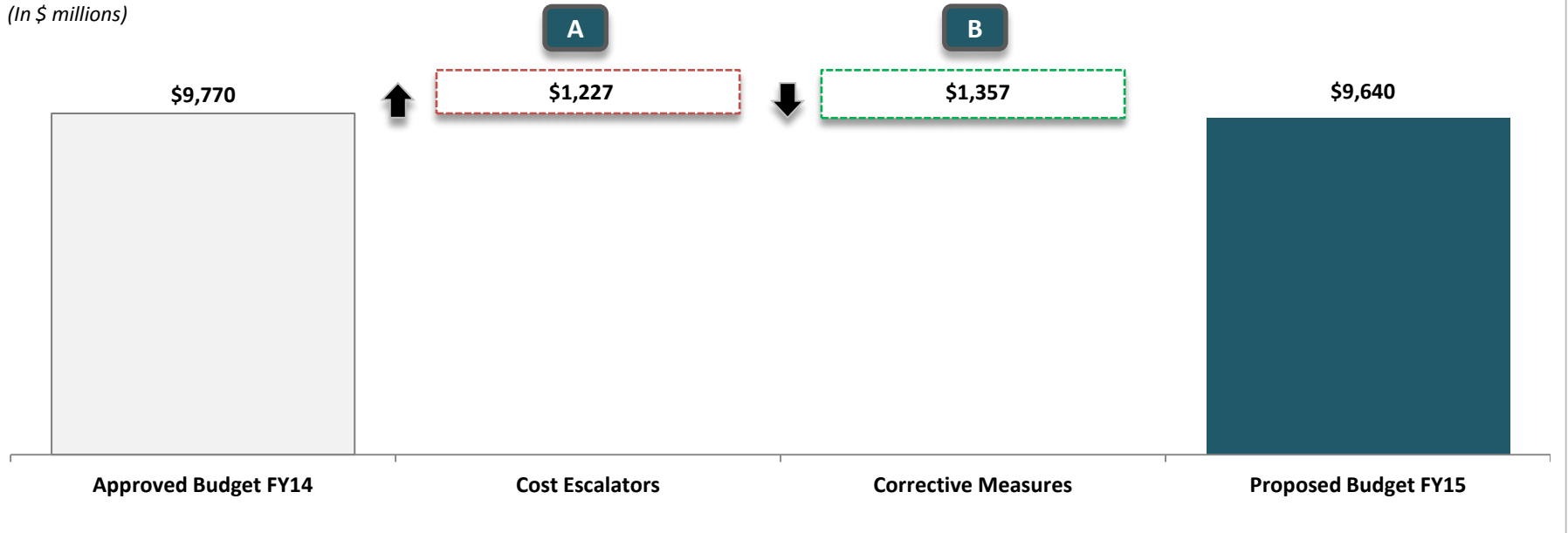


- FY15 Proposed Budget eliminates new-money deficit financing as an origin, and eliminates GO bond re-financing as a method of expense-avoidance, per commitment of the Governor. This commitment excluded incremental debt service from \$3.5B March 2014 issuance.

Configuration of General Fund Proposed Budget for FY 2015

Change in General Fund - FY 14 to FY 15

(In \$ millions)



Main components:

- Elimination of Bond Refinancing
- Incremental Debt Service and Retirement System Contributions
- Increases from Labor Agreements and Revenue Based Formulas
- Other Increases (DoE Expense Basis; Change in Origins; Others)
- Neutralization of cost escalators
- Efficiency due to carryforward effect of lower FY expense basis
- Actual cuts and reductions in appropriations
- Responsibilities assumed by funds outside the General Fund

- Some escalators may have been “offset” or “netted-out” with corrective measures, for purposes of simplicity of presentation
- We exercise qualitative judgment as to what constitutes a cost escalator or corrective measure, and how such are quantified
- Estimates are iterative and limited by underlying reporting systems

A FY 2015 Cost Escalators - Distribution by Types

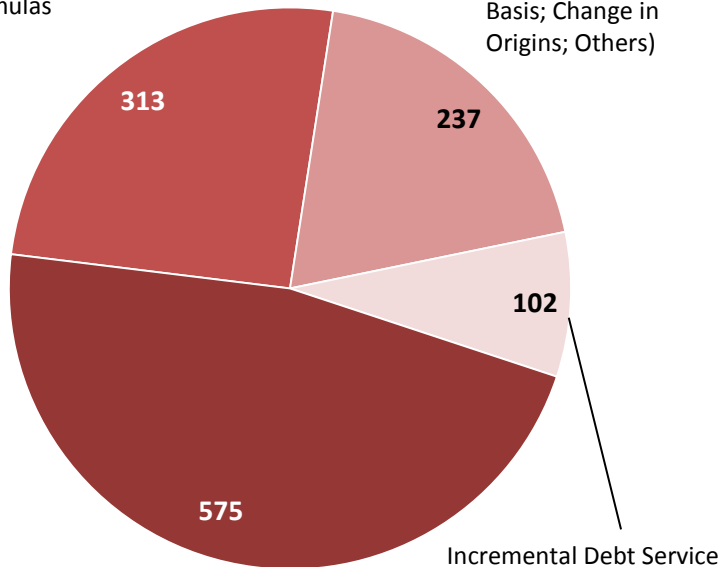
Types of Measures for Reduced Spending

(In \$ millions)

1,227M

Increases from Labor
Agreements and Revenue
Based Formulas

- Other Increases
(DoE Expense
Basis; Change in
Origins; Others)



Elimination of
Bond Refinancing

Incremental Debt Service
and Retirement System
Contributions

Elimination of Bond Refinancing

- Payment in full of all GO's due in FY15 except for capitalized interest from March 2014 \$3.5 billion issuance

Increases from Labor Agreements and Revenue Based Formulas

- Includes incremental benefits from Collective Bargaining Agreements in effect on July 1st and full year effect of benefits that began on February 1st
- Formulas based on trailing revenues includes UPR, Judicial Branch and Municipalities

Other Increases (DoE Expense Basis; Change in Origins; Others)

- "Gross up" of Dep. Ed. budget due to non-recurring origins
- Operating deficit at subsidized public corp.
- Pre-legislated incremental appropriations
- Others such as net effect of utilities

Incremental Debt Service and Retirement System Contributions

- Increase in retirement employer contribution
- Higher TRANs interest rate
- Increase in GDB debt amortization
- Scheduled increase in GO principal amortization payments

A Cost Escalators Ultimately Considered for FY 2015 Budget

Cost Escalators (1) for FY 2015	
<div>Budget FY2014</div> <div>9,770M</div> <div>Cost Escalators</div> <div>1,227M</div> <div>Corrective Measures</div> <div>1,357M</div> <div>Revenues FY14</div> <div>9,640M</div>	Elimination of Bond Refinancing <div>575M</div> Elimination of Bond refinancing
	Increased for Labor Agreements and Formulas <div>181M</div> Effect of wage increases for FY15, including collective bargaining agreements <div>132M</div> Increase in formula-based budgets (UPR; Municipalities; Judiciary)
	Other Increases (Department of Education and Public Corporations) <div>68M</div> Gross-up in the Department of Education to adjust for non-recurring; non GF origins <div>66M</div> Operating deficits for subsidized health public corp. (ASEM) and collective transport <div>42M</div> Change in origins (program expenditures previously charged against funds not GF)(2) <div>35M</div> Increase due to pre-legislated or additional appropriations <div>26M</div> Approved, in-process but unexecuted recruitments (Treasury, Police, Corrections)
	Increased in Debt Retirement <div>73M</div> Increased debt service (incremental amortization; TRANs; GDB) <div>29M</div> Increase in employer payroll contribution rate for Retirement Systems (1%)

- (1) Public health insurance appropriation not increased due to (i) uncertainty over costs from ongoing RFP process to renew service for three years; and (ii) recent acceptance by the Commonwealth of an enhanced match rate which will raise net federal reimbursements substantially, with a corresponding acceleration of ACA funds drawdown.
- (2) This number incorporates the offset of certain "negative cost-escalators" or certain contingency special appropriations that will not be needed for FY15.

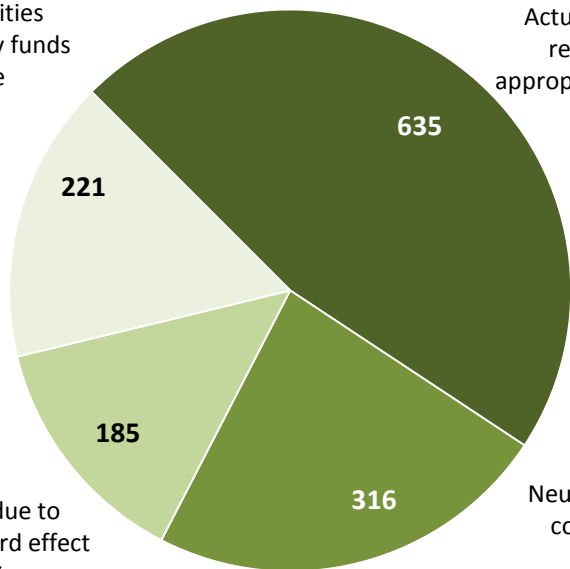
B FY 2015 Distribution of Corrective Measures by Type

Distribution of Corrective Measures by Type

(In \$ millions)

1,357M

Responsibilities assumed by funds outside the General Fund



Actual cuts and reductions in appropriations (1)

Neutralization of cost escalators

Efficiency due to carryforward effect of lower FY expense basis

Actual cuts and reductions in appropriations

- Actual reduction in the base of expenses and appropriations when compared with the current fiscal year

Neutralization of cost escalators

- Represents an avoided increase rather than an actual budget cut
- Cost escalators that can be partially or completely frozen by application of legislation
- May be subject to legal challenge and legal risk

Efficiency due to carry-forward effect of lower FY expense basis

- Represents a reduced appropriation more than an actual expense reduction
- Primarily full year effect of having a lower payroll and starting headcount
- Comparable to the FY14 budget amendment in terms of order of magnitude

Responsibilities assumed by funds outside the General Fund

- Represents a “shifted” expense rather than a cut in actual expense
- Attempts to march non-recurring expenses such as lawsuits with non-recurring origins
- Extractions, particularly recurring ones, sized for sustainability or tied to actual savings at the contributing entity

Corrective Measures for FY 2015 (1 of 2)

Measures for Reducing Expenses – Budget FY 2015

Actual cuts and reductions in appropriations

- 169M** Savings through reorganization of payroll of teachers , including through retirement (1)
- 92M** Modify uniform additional contribution (non payroll) to GERS retirement system
- 86M** Eliminate or deeply cut certain special appropriations (low priority or unneeded)
- 65M** Decrease by 40% school transportation expenses (municipalization and rate revisions)
- 58M** Standardize Christmas Bonus for Central Government and Municipalities
- 39M** Consolidate 100 schools & relocate students to higher achievement, better-conditioned locations
- 34M** Decrease budget of the Judiciary and autonomous entities
- 26M** Decrease spending for professional and purchased services by ~10%
- 19M** Eliminate mid-year liquidation of excess sick leave
- 14M** More generalized, slighter cut of 5-20% in non-essential special appropriations
- 14M** Continue to reduce current payroll through voluntary retirement and replacement control
- 11M** Decrease budget and special appropriations of the Legislative Assembly
- 10M** Reduce payroll for political appointees by an additional 10%
- 2M** Eliminate 21 agencies and save on expenses (increases to \$10M; 25 affected agencies)

Efficiency due to carryforward effect of lower FY expense basis

- 116M** Maintain carryforward 8% reduction in General Fund headcount
- 40M** Eliminate Municipal Debt Fund since the IVU was not lowered by 0.5%
- 23M** Maintain carryforward 8% reduction in Dep. Education headcount

Budget FY 2014

9,770M

Cost Escalators

1,227M

Corrective Measures

1,357M

Revenues FY14

9,640M

All numbers are estimates with varying degrees of confidence in the underlying data or assumptions. They are provided to give a sense of order of magnitude and should not be construed as hard facts.

(1) Assumes net decrease of 3,000 - 3,500 teacher headcount. Assumed liquidation paid from existing appropriations line of credit previously used to pay extraordinary liquidations resulting from Act 70-2011 early retirement and Act 3-2013 (GERS Retirement Systems Reform), in order to match recurring savings with recurring expenses (amortized liquidation). LOC draw may reach \$100 million and require amendment to existing maximum.

B

Corrective Measures for FY 2015 (2 of 2)

Measures for Reducing Expenses– Budget FY 2015

Neutralization of Cost Escalators

- 132M** Freeze increase in formulas for UPR, Judiciary, and Municipalities
- 120M** Suspend increases in benefits and cancel extraordinary compensations
- 37M** Net decrease in combined utilities and rent (includes consumption, credits, etc.)
- 28M** Net other measures

Responsibilities assumed by Funds outside the General Fund

- 59M** Redirect Special State Funds from General Funds Agencies to pay lawsuits
- 40M** Redirect recurring revenues from public corporations to related expenses
- 34M** Redirect payroll savings (from emergency law) of certain public corps to related expenses
- 25M** One-time extraction of non-recurring capital of public corporations to pay lawsuits
- 24M** Eliminate subsidies to programs or operations of public corporations
- 20M** Additional savings and cost reduction measures related to Centro Médico (ASEM)
- 20M** Redirect Municipal Improvement Fund since the IVU was not lowered by 0.5%

Budget FY2014

9,770M

Cost Escalators

1,227M

Corrective Measures

1,357M

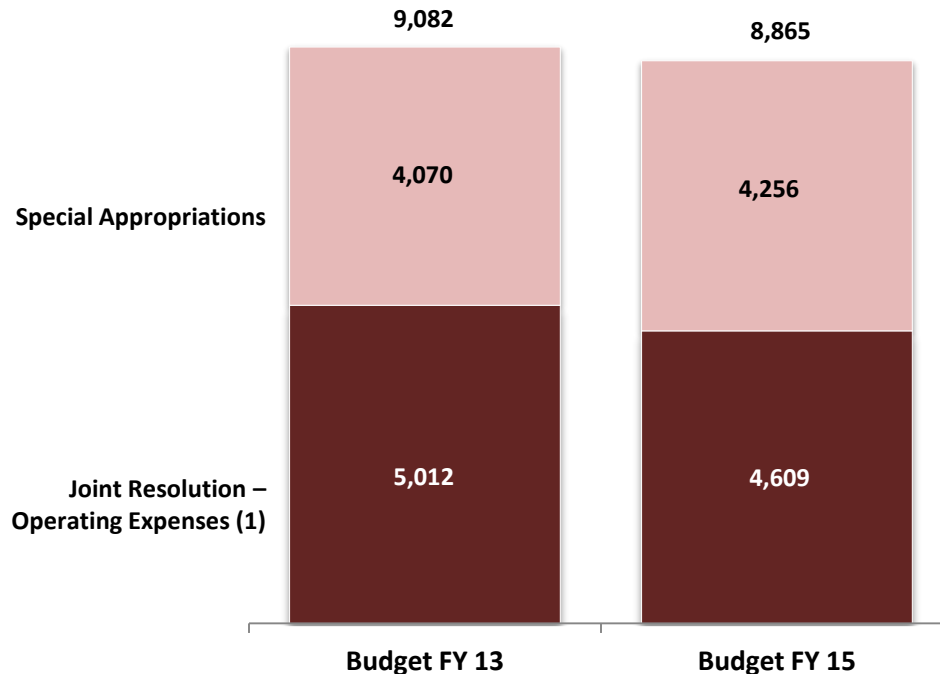
Revenues FY14

9,640M

Adjusted Comparison of Proposed FY 2015 Budget with Approved FY 2013 Budget (OMB Analysis)

Approved Budget FY 13 vs Proposed Budget FY 15

(in \$ millions)



The Budget for FY13 excluded (did not pay) \$775 million in bonds (GOs & PBAs) and left them out of the expense budget. They were intended to be refinanced but were only taken out of the GDB balance sheet in March 2014

The Budget for FY 15 is paying the same \$775 million in bond debt (GO's) with tax income. We exclude them in order to provide a fair comparison on equal basis.

CHANGE	-217M	-2%
CHANGE SA	+186M	+5%
CHANGE JR	-403M	-8%
• Program Appropriations	-97M	-15%
• Health Reform	+3M	-
• Retirement Contributions	+110M	+22%
• Debt Service	+115M	+19%
• Formulas (UPR; Municipalities, Judiciary)	+55M	+4%
• Legislative Assembly	-9M	-7%
• Operations Dept. of Education	-138M	-10%
• Operations - Other Agencies	-41M	-5%
• Dept. of Education Payroll	-85M	-13%
• Payroll - Other Agencies	-130M	-6%

FY 2015 Proposed Budget Comments



The proposed budget of \$9.64 billion was submitted without built-in deficit financing or GO bond re-financing, in comparison with FY14 budget



Substantial cost escalators in the range of \$1.28 billion were addressed with \$1.36 billion in corrective measures



Corrective measures include a mix of lower cost basis, appropriation cuts, responsible shifting to related non GF origins, and frozen cost escalators



Proposed budget shows substantial re-prioritization and austerity over a two year time frame



While the budget risk is diversified, execution challenges are inevitable, particularly with respect to Department of Education reorganization

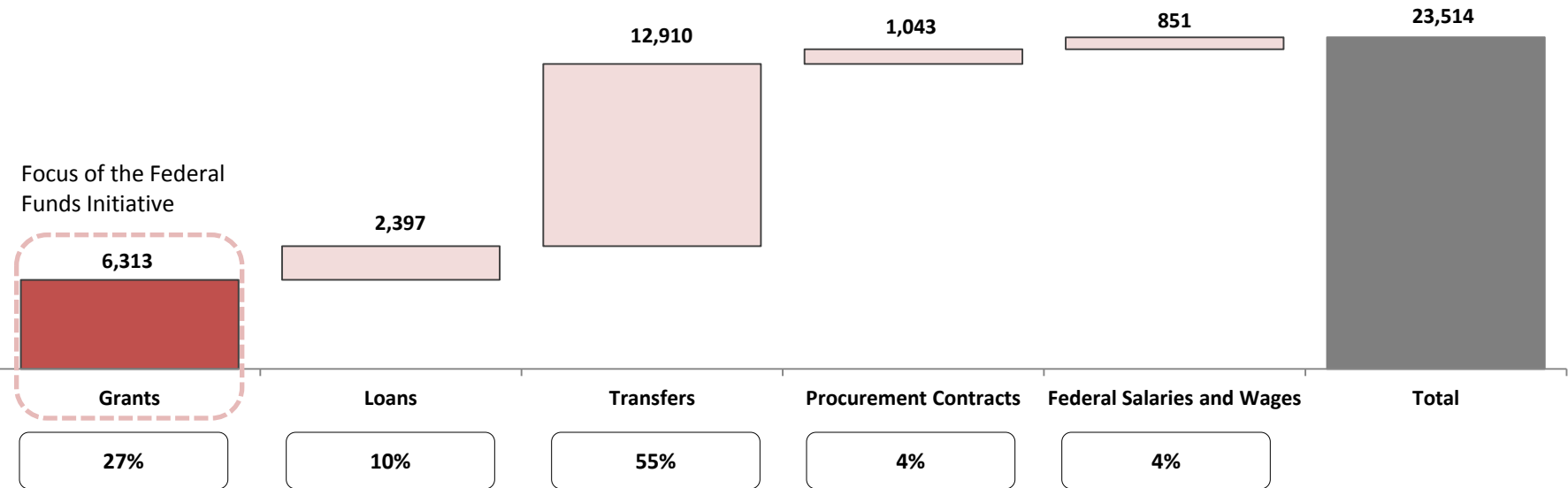
Federal Funds Management Office Effort

TOTAL YEARLY FEDERAL FUNDS CONTRIBUTION TO THE COMMONWEALTH



Puerto Rico Annual Federal Funds Distribution – FY 2010 (1)

(in \$ millions)



- Government Grants
- Block Grants
- Formula Grants
- Project Grants
- Includes Municipal, Private, State and Nonprofit

- Direct Loans
- Guaranteed Loans
- Insured Loans
- Includes student, SBA, farm, and housing (VA & FHA)

- Retirement
- Disability
- Social Security
- Medicare
- Other benefits that flow to individuals

- Total Federal Contributions to Puerto Rico totaled \$23.5 billion in Calendar Year 2010.
- 27% corresponded to grants, primarily through Commonwealth Government Programs.
- Compares with \$9.8 billion General Fund Budget; \$29.0 billion Consolidated Commonwealth Budget and \$69.4 billion GNP (last number for 2012).

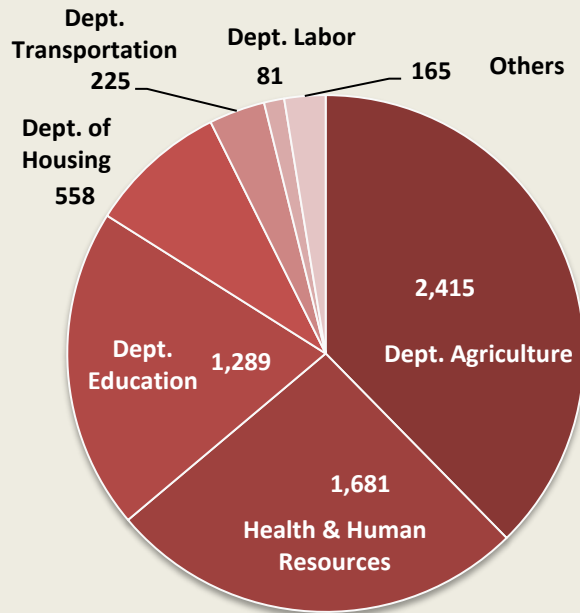
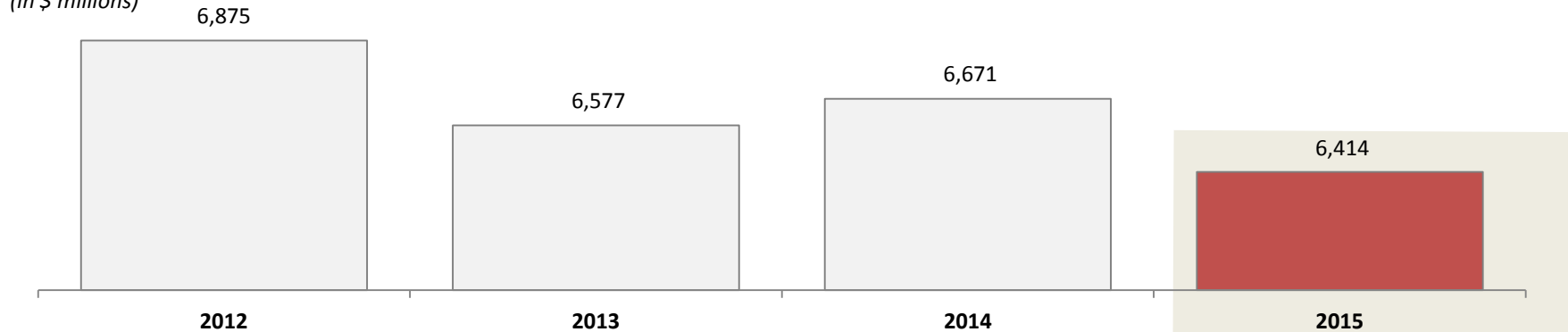
1. Source: Comprehensive Federal Funds Report for CY2010. U.S. Census Bureau. Last available report (September 2011).
 2. Includes \$2,270 million in SNAP USDA Program (classified in other jurisdictions as transfers) and \$378 million in rum cover-over

PROFILE OF FEDERAL FUNDS FOR STATE PROGRAMS



Federal Funds to Puerto Government Agencies – Commonwealth Consolidated Budget (1)

(in \$ millions)



Department of Agriculture

- Nutrition Assistance
- WIC
- National School Lunch

Department of Education

- Title I Grants
- Special Education Grants
- Pell Grants
- Improving Teacher Quality Grants

Dept of Health and Human Resources

- Medicaid
- Title XIX
- Head Start
- Temporary Assistance for Needy Families

Department of Housing & Urban Dev.

- Public and Indian Housing
- Section 8 Rental Certificate Program
- Section 8 Housing Choice Vouchers
- Public Housing Capital Fund

Department of Labor

- WIA Dislocated Workers
- Unemployment Insurance
- Employment Services
- Occupational Safety and Health State Program

Department of Transportation

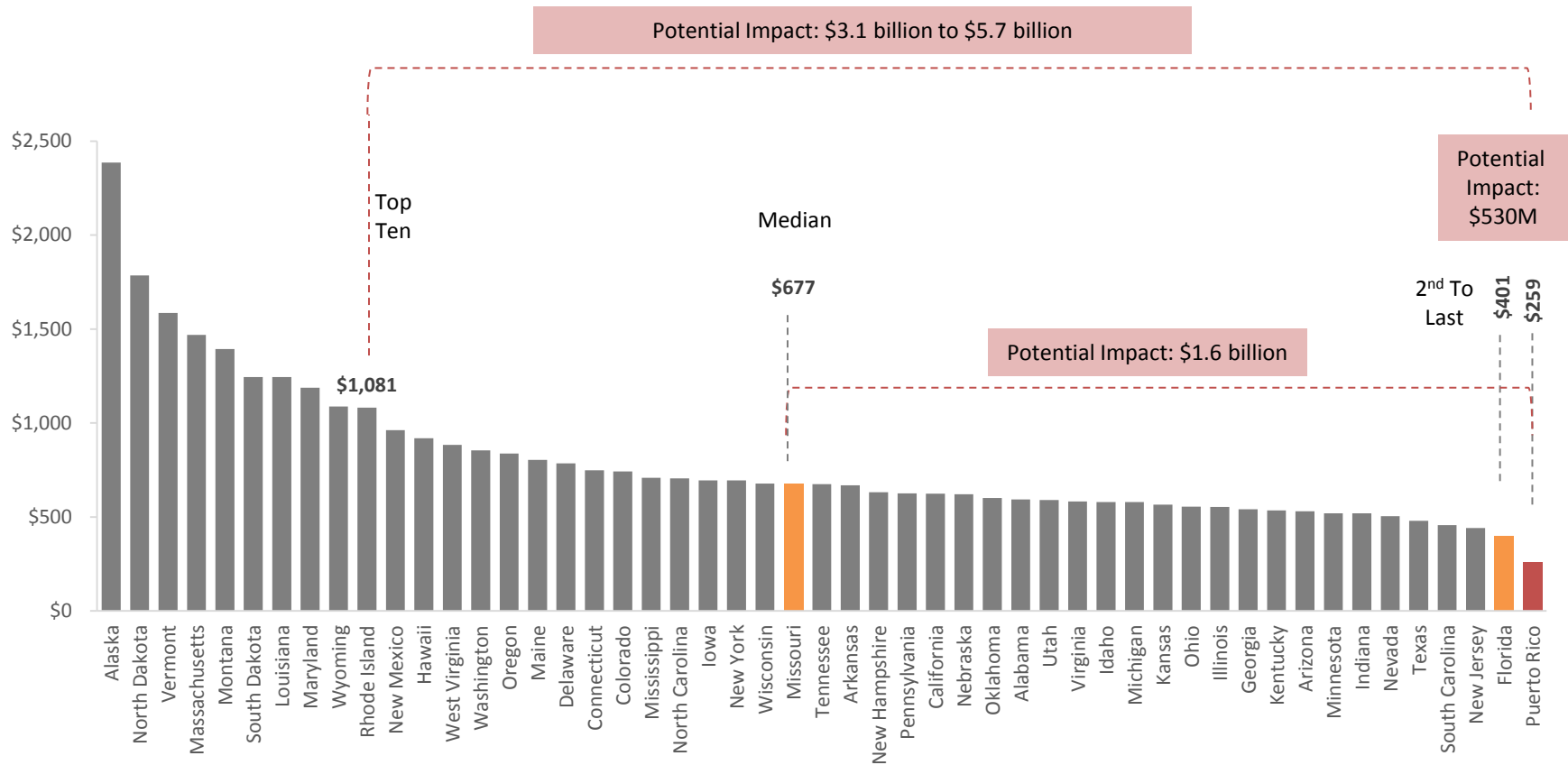
- Highway Planning and Construction
- Federal Transit and Formula Grants
- State and Community Highway Safety

1. Source: Commonwealth of Puerto Rico Consolidated Budget, Office of Management and Budget. Not comparable with prior slide because it excludes direct grants to non-profits, private entities and Certain Municipalities.

COMPETITIVE PER CAPITA RANKINGS

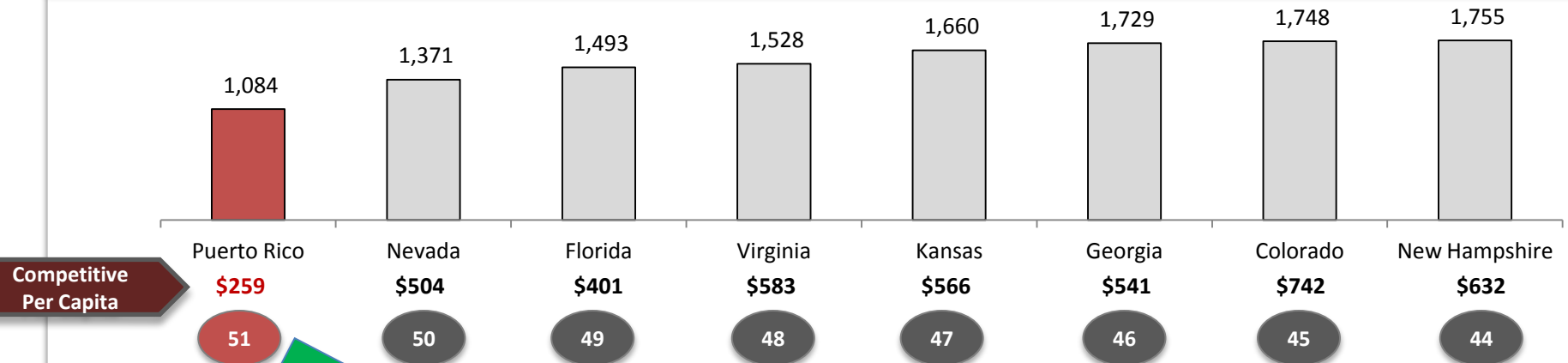


State Ranking Based on Number of Competitive Programs

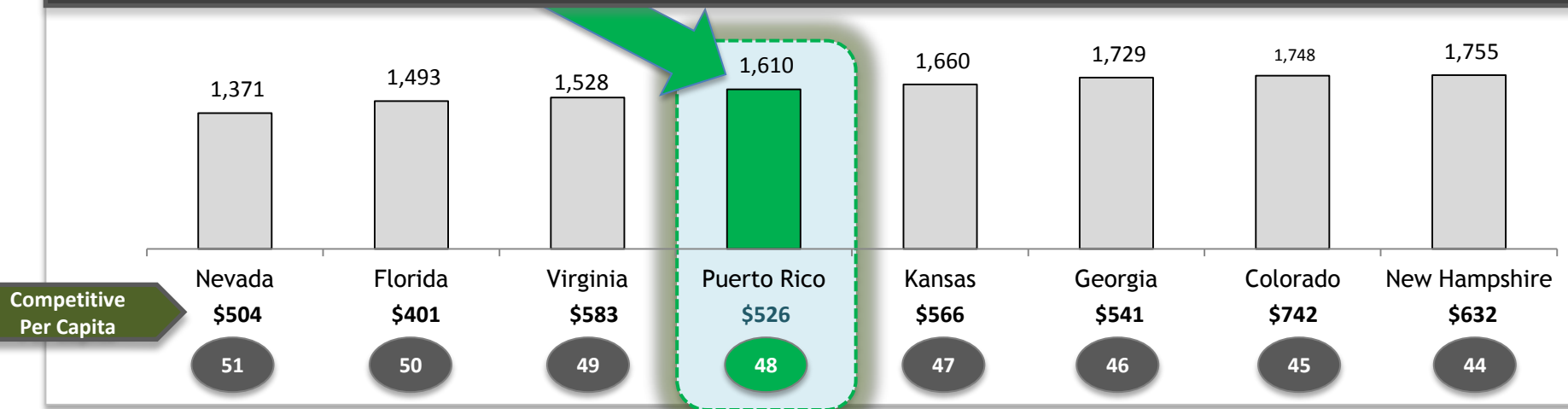


EFFECT ON OVERALL FEDERAL GRANT PER CAPITA RANKINGS

Current Overall Per Capita - Benchmark



Overall Per Capita - With Increased Funding Opportunities and advancing to average position (2nd Scenario)



WORKPLAN OF FEDERAL GRANTS OPTIMIZATION INITIATIVE



Objectives

Estimated Implementation Timeline

Oct 13 Jan 14 Apr 14 Jul 14 > 2015

A

Federal Funds Optimization

- ▶ Increase capacity to identify and optimize federal fund opportunities to maximize economic development
- ▶ Develop integrated strategies for funds maximization to address needs that require various services, resources, and vision
- ▶ Optimize use of resources

Phase I

"Program Mapping"

Phase II

"Identify Risk and Opportunities"

Phase III

"Roll-out Grant Application and Corrective Action Plans"

Federal Funds Management Office

Objectives

Estimated Implementation Timeline

Oct 13 Jan 14 Apr 14 Jul 14 > 2015

B

Federal Funds Office

- ▶ Create a Federal Funds Management Office to maximize resource utilization
- ▶ Increase coordination across agencies with DC office to ensure that applications align with federal goals and minimize overlap and wasted effort
- ▶ Strengthen capacity of grants and program management to maximize impact; training program to develop necessary skills

Phase I

"Strategic and Legal Planning"

Phase II

"Operating Model Design"

Phase III

"Organization Implementation"

Merril E. Oliver

Deputy Director

Puerto Rico's Federal Funds Management Office

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- ❑ Founding Deputy Director of the Maryland Governor's Grants Office, a position held for 10 years.
- ❑ Instrumental in increasing federal funds to Maryland by more than \$3 billion in one year and decreasing audit findings by 43%.
- ❑ Decreased Single Audit Findings over 5 years by more than 70%
- ❑ Co-chaired President Obama's Executive Order 13572 work group on reducing improper payments
- ❑ Co-chaired multiple Executive Office of the President Office of Management and Budget Intergovernmental work groups on improving government financial management, efficiencies, streamlining, and grant reform
- ❑ Former President of the National Grants Management Association, a position held for 3 consecutive terms.
- ❑ Published in the Journal of Government Financial Management in 2013
- ❑ Co-authored multiple reports and tools for The White House, OMB/AGA Partnership for Intergovernmental Management and Accountability, and The National Grants Partnership.
- ❑ Professional awards and recognition, among others, include:
 - Maryland Governor's Citation for excellence in 2014 and 2006
 - 3 National Awards from the National Grants Management Association in 2012 and 2006
 - 2 National Awards from the OMB/AGA Partnership for Intergovernmental Management and Accountability in 2013 and 2009
 - BS in Business Administration from Towson University and a Certified Grants Management Specialist