

The San Juan Star Viewpoint

Send your opinions and ideas to: **The San Juan Star**
P.O. Box 364187
San Juan, PR 00936-4187
c/o Viewpoint

Or send us a fax:
(787) 782-0310

Or e-mail us at:
viewpoint@sjstar.net

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Measuring Puerto Rico's fiscal performance

The Center for the New Economy, in fulfillment of its mission to provide rigorous, independent analysis to policymakers, the press and the public at large, has established fiscal analysis program to monitor and keep track of important fiscal trends affecting the Puerto Rican economy. As part of that program, we have developed a series of budget performance indicators that we plan to update every year around the time when the governor submits the recommended budget to the Legislature for its enactment. The following is a brief summary of each of those indicators:

Consolidated budget: The commonwealth's consolidated budget has decreased from \$26.518 billion in fiscal year 2006 to projected \$26.332 billion for fiscal year 2009, a decrease of \$186 million, or 0.70 percent.

This reduction is equivalent to a compound annual growth rate of negative 0.23% during the period between fiscal years 2006 and 2009. Overall, the trend with respect to the consolidated budget is positive as it reveals that government has achieved a modicum of success in controlling government spending since 2006.

Federal funds: Grants from the U.S. federal government to the various government agencies of the commonwealth are expected to total \$5.561 billion during fiscal year 2009, an increase of \$469 million, or 9.21 percent, relative to the \$5.092 billion received during fiscal year 2006. Thus, federal funds are expected to account for 21.12 percent of all consolidated budget expenditures during fiscal year 2009 (\$1 out of every \$4.75 spent by the commonwealth), an amount that is slightly higher than the 19.20 percent registered in 2006.

This increase in the relative weight of federal transfers is negative because the amount of federal funds received by the island depends solely on the fiscal and political dynamic in Washington D.C., where Puerto Rico has limited representation.

General fund budget: The commonwealth's general fund budget has decreased from \$9.596 billion in fiscal year 2006 to a projected \$9.488 billion for fiscal year 2009, a decrease of \$108 million, or 1.13 percent. This reduction is equivalent to a CAGR of negative 0.38 percent for the period between fiscal years 2006 and 2009. Relative to the island's GNP, the general fund budget also has declined from 16.91 percent in 2006 to a projected 14.60 percent during fiscal year 2009.

General fund payroll: The amount of the general fund allo-



Sergio Marxuach
Commentary

cated to payroll has increased from \$5.257 billion for fiscal year 2006 to a projected \$5.528 billion during fiscal year 2009, an increase of \$271 million, or 5.16 percent. This increase is equivalent to a CAGR of 1.69 percent. In relative terms, the portion of the general fund allocated to payroll has increased from 54.79 percent in 2006 to a projected 58.27 percent in 2009. Thus, while overall general fund expenditures are down, the trend with respect to payroll is the opposite: general fund payroll spending has increased in absolute terms since 2006 and keeps rising at a fairly healthy annual rate.

Tax revenue trend: General fund tax revenues, the principal component of the general fund, have decreased slightly from \$7.735 billion in fiscal year 2006 to a projected \$7.628 billion during fiscal year 2009, a decrease of \$107 million, or 1.38 percent. This decrease is equivalent to a CAGR of negative 0.47 percent. In our view, therefore, the overall trend with respect to general fund tax revenues is negative.

General fund structural deficit: The structural deficit is defined as the excess of recurring expenditures over recurring revenues. According to our analysis, the commonwealth's structural deficit decreased from \$1.419 billion in 2006 to a projected \$1.173 billion for fiscal year 2009, a decrease of \$246 million, or 17.34 percent. As a percentage of total general fund expenditures, the structural deficit has also decreased, from 14.79 percent in 2006 to a projected 12.36 percent in 2009.

Use of non-recurring funds: To cover its yearly deficits the commonwealth government has turned to using non-recurring revenues. Non-recurring revenues included in the general fund have increased from \$891 million in fiscal year 2006 to the \$1.173 billion expected for 2009, an increase of \$282 million, or 31.65 percent. This amount is 12.36 percent of the total general

fund budget during fiscal year 2009. Therefore, the trend with respect to the use of non-recurring revenues is negative, as every year the commonwealth's government has to run harder just to keep in the same place.

Debt service: The amount of the general fund allocated to debt service has decreased from \$623 million for fiscal year 2006 to a projected \$392 million during fiscal year 2009, a decrease of \$231 million, or 37.07 percent. This decrease is equivalent to a CAGR of negative 14.27 percent. In general terms, therefore, the debt service indicators show a positive trend as both the absolute and relative amounts dedicated to debt service have decreased since 2006.

Total indebtedness: The commonwealth's total public indebtedness increased from \$43,136 billion as of June 30, 2006 to \$46.183 billion as of June 30, 2007, an increase of \$3.047 billion, or 7.1 percent. This growth rate is twice the 2.5 percent growth rate for the island's GNP (at current prices) reported during fiscal year 2007. Thus, during fiscal year 2007 Puerto Rico's public indebtedness increased twice as fast as its national income. In our view, therefore, the overall trend with respect to total public indebtedness is negative, as it is still growing at a much higher rate relative to the growth in Puerto Rico's GNP.

Government employment: According to data published by the Office of Management and Budget, the number of people employed by the commonwealth (central government and public corporations) has decreased from 224,021 in 2006 to a projected 213,741 in 2009, a reduction of 10,280 workers, or 4.58 percent. This decrease is equivalent to a CAGR of negative 1.55 percent. Therefore, the overall trend regarding government employment is positive as the government has been able to control the growth of government employment in recent years.

In sum, we find that the commonwealth's overall fiscal picture is mixed at best. Several of the indicators show a relatively positive trend, while on the other side of the balance sheet other indicators demonstrate clearly negative trends. Thus, we can reasonably conclude that while the government has made some advances in several areas, a lot of work still remains to be done to put our public finances in order.

Sergio Marxuach is director for policy development at the Center for the New Economy, a Puerto Rico-based think tank (www.grupocne.org).

Readers' Viewpoint

Time and money wasted

So many things are just not right. With Puerto Rico facing huge debt and declining income, House Speaker José Aponso hires super-expensive D.C. lawyers to do what the feds are doing anyway with the words "the contract is open and I don't recall the amount."

Taxpayers will get stuck with another several-million-dollar legal bill. And for what? Why now? Let the federal case take its course.

There are far more truly important matters that need attending to in Puerto Rico. So the 19 federal charges have "crystallized" the gov-

ernor's thinking. He now wants a "sovereign commonwealth." Isn't that an oxymoron? He wants to throw out the U.S. justice system, but keep U.S. citizenship, billions in U.S. aid, Social Security, military protection and maybe the post office.

The "new" Popular Democratic Party apparently wants to have its cake and eat it, too. And I want a real pink pony for my birthday. If you want to be a sovereign state, governor, petition for free association or independence, then work out agreements fair to both sides for the

United States to provide selected services. No more free lunch.

PDP Rep. Rafael García Colón must live in dreamland when saying "this commonwealth that we are talking about will be able to have commercial treaties and have more self-governing powers... it will be in the constituent assembly to decide."

Not, if such a body is ever held, it can ask for the moral decision, like it or not, is w/ U.S. Congress.



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