Assessing Puerto Rico's fiscal performance

Sergio M. Marxuach
Commentary

In 2008, 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, established a fiscal analysis program to monitor and keep track of important fiscal trends affecting the Puerto Rican economy. As part of that program we developed a series of budget performance indicators, which we have updated with data from the budget for fiscal year 2009-10. The following is a brief summary of some of those indicators. The full report can be downloaded, free of charge, from our website at www.grupocne.org.

1.Federal funds – Grants from the U.S. federal government to the various government agencies of the Commonwealth are expected to total $5.586 billion during fiscal year 2010, an increase of $494 million, or 9.70 percent, relative to the $5.092 billion received during fiscal year 2006. Thus, federal funds are expected to account for 19.09 percent of all consolidated budget expenditures during fiscal year 2010, an amount that is essentially the same as the 19.20 percent registered in 2006. This means that 1 out of every 5 dollars spent by the Commonwealth's central government during the next fiscal year will come from Washington. However, if we add the $1.727 billion from the federal stimulus plan, total federal funds increase to $7.313 billion, or 24.99 percent of all consolidated budget expenditures during fiscal year 2010.

2.General fund budget – The Commonwealth's general fund budget has decreased from $9.596 billion in fiscal year 2006 to a projected $7.670 billion for fiscal year 2010, a decrease of $1.926 billion, or 20.07 percent. This reduction is equivalent to a growth rate of negative 5.45 percent for the period between fiscal years 2006 and 2010. However, the magnitude of this decrease is deceptive because some expenditures traditionally charged to the general fund will be charged instead against the Fiscal Stabilization Fund, a special fund to be set up with the proceeds of a COFINA bond offering that is estimated to total $2.500 billion. Therefore, actual general fund spending for the next fiscal year is estimated to be around $10.170 billion, some $686 million, or 7.23 per cent, higher than last year's general fund budget of $9.484 billion.

3.General fund payroll – The amount of the general fund allocated to payroll has decreased from $5.257 billion for fiscal year 2006 to a projected $2.259 billion during fiscal year 2010, a decrease of $2.998 billion, or 57.02 percent. This decrease is equivalent to a CAGR of negative 19.03 percent. In relative terms, the portion of the general fund allocated to payroll has decreased from 54.79 percent in 2006 to a projected 29.46 percent in 2010. Again, the amount of this reduction needs to be taken with a grain salt, as it is evident that the government is charging a significant amount of this "saving" to the Fiscal Stabilization Fund. We can state this with certainty because a $3 billion reduction in payroll would entail the layoff of approximately 100,000 government workers — the equivalent of 47 percent of all government workers — and the government has not announced (at least not yet) layoffs of that magnitude.

4.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 increased slightly from $1.419 billion in 2006 to a projected $1.500 billion for fiscal year 2010, an increase of $81 million, or 5.70 percent. The projected structural deficit of $1.5 billion is the difference between recurring revenues of $7.670 billion and recurring expenditures of $9.170 billion. The government estimates the structural deficit for fiscal year 2010 will be around $500 million. The $1 billion difference between our estimate and the government's is due to the government's recognition in fiscal 2010 of a $1 billion expense reduction that will not be realized until fiscal 2011. We believe the premature recognition of this $1 billion expense reduction is aggressive, given the contingent nature of at least a part of those savings. Therefore, we respectfully disagree with the government's estimate of the structural deficit for fiscal year 2010.

5.Use of non-recurring funds – To cover its yearly deficits the Commonwealth government has turned to using non-recurring revenues. Total non-recurring revenues included in the consolidated budget have increased from $891 million in fiscal year 2006 to $4.379 billion for 2010, an increase of $3.488 billion, or 391.47 percent. Furthermore, the general fund budget for fiscal year 2009-10 includes $2.652 billion in non-recurring revenues, an amount that is $1.479 billion, or 126.08 per cent, higher than the $1.173 billion in non-recurring revenues included in the general fund budget for the fiscal year 2008-09. This reliance on non-recurring revenues is quite worrisome, as it shows no signs of abating. Indeed, the amount of non-recurring revenues as a portion of total general fund revenues is expected to increase from 12.36 per cent (1 out every 8 dollars) during the current fiscal year to a projected 26.07 per cent (roughly 1 out of every 4 dollars) for the next fiscal year.

6.Total indebtedness – The Commonwealth's total public indebtedness increased from $46.183 billion as of June 30, 2007 to $53.392 billion as of June 30, 2008, an increase of $7.209 billion, or 15.60 percent. This growth rate is four times the 3.8 percent growth rate for the island's GNP (at current prices) reported during fiscal year 2008. This means that during fiscal year 2008 Puerto Rico's public indebtedness increased four times as fast as its national income. This rate of growth is simply unsustainable over the long-term.

We conclude that while the budget for fiscal year 2010 contains several changes, in substantive terms the budget submitted by the current administration is in many ways similar to the last one submitted by the previous administration. We find the same continued reliance on (1) non-recurring revenues, (2) "savings" generated simply by shifting expenses from one fund to another, and (3) additional public borrowing to patch over fiscal troubles. In all fairness, the current administration has stated that the proposed budget is a "transition" instrument that will eventually help Puerto Rico restore its fiscal health, however, at this point it remains to be seen whether that objective will be realized over the next few years.

Sergio Marxuach is Director for Policy Development at the Center for the New Economy, a Puerto Rico-based think tank. www.grupocne.org