

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

Puerto Rico budget woes continue

The data for net revenues received by the commonwealth government's general fund during the first six months of fiscal year 2007-08 is in. Unfortunately, Puerto Rico's budget problems remain unabated.

On Feb. 1, the Treasury Department announced that net general fund revenues for the month of December 2007 were \$875.12 million, an amount that is \$58.48 million, or 6.26 percent, below the budgeted amount of \$933.60 million. While for the six-month period ending Dec. 31, 2007, net general fund revenues totaled \$3.889 billion, which is \$221.42 million, or 5.39 percent, below the expected amount of \$4.110 billion.

More worrying is the fact that the downward trend seems to be intensifying as the shortfall for the first quarter of fiscal year 2008 was \$59.75 million, or 3.18 percent, below the budgeted amount, while the shortfall for the second quarter was \$161.67 million, equivalent to 7.25 percent of the budgeted amount. If this trend continues for the rest of the fiscal year, we can expect the revenue shortfall to be around \$442.84 million.

On the spending side, the Office of Management and Budget has stated publicly that government agencies have kept spending within their budgetary limits, with the exception of the Health Insurance Administration, which is expected to be \$116 million over budget. If the OMB spending forecast holds, then the total general fund deficit for the current fiscal year should be around \$558.84 million.

Looking forward to next year's budget, we remind our readers that the current budget contains \$814 million in non-recurring revenues. Therefore, if the budget deficit for the current year comes in at \$558.84 million, then the Treasury Department would have to find \$1.372.84 billion in new revenues just to keep expenditures at the same level, without taking into account any new proposed government expenditures.

The governor, however, announced several new initiatives



We can only pray that our elected officials find the strength necessary to make some tough fiscal decisions during this election year.

in his State of the Commonwealth speech that will increase general fund expenditures. First and foremost among these is the promise to increase the salaries of public school teachers by \$100 per month immediately and by an additional \$150 per month commencing on July 1, 2008. According to OMB figures, there were 43,531 public school teachers employed in Puerto Rico during fiscal year 2007-08. Therefore, we estimate this \$250 monthly (\$3,000 per year) salary increase to cost the general fund an additional \$130,593,000 per year beginning in the next fiscal year, which begins July 1. Now, nobody can be against increasing the salaries of public school teachers in Puerto Rico. We as taxpayers, however, deserve to know where the money is

going to come from to finance this proposal.

In addition, the governor announced an ambitious new school construction program, whereby he seeks to separate 25 percent of the next 10 Commonwealth General Obligation bond offerings to finance school construction and maintenance. The governor said this amount would total some \$1.250 billion over 10 years, which means he is assuming new GO bond offerings in the amount of \$500 million for each of the next 10 years. Assuming a 5 percent interest rate on those bonds, the school construction program would add \$6.25 million each year during the next 10 years in debt service to be paid from the general fund.

On the revenue side, we know that for the next fiscal year corporate income tax revenues will decrease by at least \$70 million as a consequence of the housing credit granted to new buyers. This means that the government of Puerto Rico has to find a total of \$1.579 billion in new revenues to finance this year's deficit, replace non-recurring revenues, and keep new promises made by the administration.

To say the least, the outlook for the general fund budget for fiscal year 2009 is challenging. The only thing that is clear that as of February 2008 is that the commonwealth is well on its way to its sixth general fund deficit in a row. We do not as of yet know the actual magnitude of this year's general fund deficit, nor do we know how the government will replace non-recurring revenues or where it will find the funds to finance campaign year promises. We have heard that the budget for fiscal year 2008-09 will be released in late March. Hopefully, the budget document will contain the answers to these questions. In the meantime, we can only pray that our elected officials find the strength necessary to make some tough fiscal decisions during this election year.

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