

Memorandum for Policymakers from the Ad Hoc Group of Puerto Rico General Obligation Bondholders

Re: Puerto Rico’s Budget Shell Game

June 22, 2017

**THE SPIN:** “[T]he Government is currently, and will continue, working with the Board to finalize the fiscal year 2018 Budget, which will make approximately \$1 billion in expenditure cuts, including education and health, as mandated by the Fiscal Plan.” – Letter from Governor Rosselló to the Oversight Board, June 20, 2017

This claim by Governor Rosselló is, at best, intentionally misleading.

**THE FACTS:**

- The Commonwealth is playing a shell game with the General Fund budget by shifting certain expenditures below the line to give the illusion of spending cuts.
- The budget uses two slush funds – the “budgetary reserve” and “reconciliation adjustment” – to redirect the “savings” to previously unbudgeted non-essential services.
- Even after taking into account the purported cuts touted by the Governor, the total General Fund budget increases from \$8,987mm to \$9,562mm. **The net effect is an overall increase in governmental spending of \$575mm – or 6.4% – year over year.**

General Fund Budget Year-Over-Year			
	Approved FY17 Budget	Proposed FY18 Budget	Variance
Direct Payroll	3,271	2,792	(479)
Direct Operational Expenses	907	774	(133)
Utilities	260	260	-
Special Appropriations	3,890	3,437	(454)
<b>Subtotal General Fund Expenses</b>	<b>8,329</b>	<b>7,263</b>	<b>(1,065)</b>
Incremental Retirement in Budget	266	1,449	1,183
Reconciliation Adjustment	-	545	545
Budgetary Reserve	220	305	85
Other	172	-	(172)
<b>Total General Fund Budget</b>	<b>\$8,987</b>	<b>\$9,562</b>	<b>\$575</b>

**THE TAKEAWAY:**

**Puerto Rico is increasing, not decreasing, spending. Congress and the Trump Administration should require the Oversight Board to correct the Fiscal Plan immediately, and to be transparent about where all of the money is going.**