

(H. B. 3331)

(No. 95-2011)

(Approved June 16, 2011)

AN ACT

To amend Section 5 of Act No, 103 of May 25, 2006, known as the “Commonwealth of Puerto Rico Government Fiscal Reform Act of 2006,” in order to extend for two additional fiscal years, through June 30, 2013, the suspension of the prohibition on the use of debts, loans, and any other financial mechanism to cover operating expenses and balance the General Budget of the Government of Puerto Rico.

STATEMENT OF MOTIVES

During the past two years, the Government of Puerto Rico has been undergoing one of the worst fiscal crises in its history. According to the audited statements of the Government of Puerto Rico, Fiscal Year 2008-2009 closed with a \$3.306 billion deficit. This fiscal crisis and the Fiscal Year 2008-2009 budget deficit are the result of eight years during which the Executive Branch failed to take the measures needed to approve a balanced budget.

To such effect, the Government of Puerto Rico has been implementing measures for the past two years which have generated substantial savings for the government budget. For example, as a result of the spending cutback program implemented there was a reduction in the government’s payroll for Fiscal Year 2010-2011 of \$935 million or 17%, in comparison with the government’s payroll for Fiscal Year 2008-2009. Moreover, the Government of Puerto Rico established the mechanisms to review and approve all government contracts. This enabled the centralization of the analysis and monitoring of government contracting, thus maintaining strict control over government spending and third-party contracting. This initiative has made possible the revision of nearly 6,000 contracts since Fiscal Year 2008-2009.

The implementation of this and other measures have contributed to the substantial improvement of the fiscal situation of the Government of Puerto Rico. The estimated deficit for Fiscal Year 2009-2010 was estimated in \$2.2 billion; and of \$1 billion for Fiscal Year 2010-2011. The budget deficit has been reduced to 10.9% of the Government's revenues for the last two years in comparison with the 43.6% deficit of Fiscal Year 2008-2009.

These efforts made by the Government of Puerto Rico have strengthened the credit of the Island. On April 19, 2010, the credit rating agency Moody's Investors Services assigned an A3 rating to the Government of Puerto Rico bonds after a recalibration of their credit ratings. As of said date, this is the highest credit rating that the Government of Puerto Rico bonds have received within the parameters of the recalibration. Furthermore, on January 19, 2011, the credit rating agency Fitch assigned a BBB+ rating with stable perspective to the Government of Puerto Rico bonds. Fitch's decision is to certain extent based on the steps taken by the Government of Puerto Rico to restructure its fiscal operations and boost the economy. Lastly, in March 2011, Standard & Poor's assigned a BBB rating with stable perspective to Puerto Rico bonds, after considering the positive results of the efforts made to improve the fiscal situation and boost the economy.

Due to the magnitude of the fiscal crisis and to allow sufficient time for the measures implemented by the Government of Puerto Rico to bear fruit, the Government has been forced to resort to financing and loans to avoid any adverse impact on its operations. These financings and loans have been obtained after the Legislative Assembly approved Act No. 2 of January 14, 2009, which suspended the effectiveness of the provisions of Section 5 of Act No. 103 of May 25, 2006, known as the "Commonwealth of Puerto Rico Government Fiscal Reform Act of 2006," through June 30, 2011. This suspension was granted to provide the Government with flexibility to continue operating uninterruptedly while the short-,

medium-, and long-term measures aimed at cutting back on spending, increasing revenues, and balancing the budget are implemented and begin to yield results.

Even though the Government of Puerto Rico has been able to implement measures to address the deficit, given the magnitude of the fiscal crisis, we deem it necessary to extend the suspension of the provisions of the Fiscal Reform Act to maintain the flexibility that allows the government to take money on loan until the measures for fiscal control achieve the expected outcome. Therefore, this Legislative Assembly extends said suspension to two additional fiscal years, that is to say, through June 30, 2013.

BE IT ENACTED BY THE LEGISLATIVE ASSEMBLY OF PUERTO RICO:

Section 1.- Section 5 of Act No. 103 of May 25, 2006, is hereby amended to read as follows:

“Section 5.- Prohibition on the Use of Debt.-

The use of debts, loans or any other financing mechanism to cover operating expenses and to balance the General Budget of Expenses of the Government of Puerto Rico is hereby prohibited. Savings resulting from refinancing shall not be used to cover operating expenses and/or to balance the budget of expenses, unless otherwise provided by a Joint Resolution. This prohibition shall not include those refinancing measures that have the effect of reducing the cost of the debt, without increasing the original amount nor the debt approved by the Legislature prior to the effectiveness of this Act. This Section shall not apply to instruments issued pursuant to Act No. 1 of June 26, 1987, as amended, known as the ‘Act to Issue Notes in Advance of Income Taxes of the Commonwealth of Puerto Rico.’ The provisions of this Section 5 are hereby suspended as of the date of approval of this Act through June 30, 2013. The Legislature may extend this suspension for an additional period through legislation to such effect if it determines that said

extension is necessary to continue the efforts directed to achieving a balanced budget.”

Section 2.- This Act shall take effect immediately after its approval.

CERTIFICATION

I hereby certify to the Secretary of State that the following **Act No. 95-2011 (H. B. 3331)** of the **5th Regular Session of the 16th Legislature** of Puerto Rico:

AN ACT to amend Section 5 of Act No, 103 of May 25, 2006, known as the “Commonwealth of Puerto Rico Government Fiscal Reform Act of 2006,” in order to extend for two additional fiscal years, through June 30, 2013, the suspension of the prohibition on the use of debts, loans, and any other financial mechanism to cover operating expenses and balance the General Budget of the Government of Puerto Rico.

has been translated from Spanish to English and that the English version is correct.

In San Juan, Puerto Rico, on the 5th day of December, 2014.

Juan Luis Martínez Martínez
Acting Director