

(H. B. 3932)

**(No. 130-2012)**

(Approved July 2, 2012)

## **AN ACT**

To amend Section 5 of Act No. 103-2006, known as the “Commonwealth of Puerto Rico Government Fiscal Reform Act of 2006,” in order to extend for one additional fiscal year, through June 30, 2014, 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 decade, the Government of Puerto Rico has been undergoing one of the worst fiscal crisis in its history. According to the audited financial 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 (8) years during which the Executive Branch failed to take the measures needed to approve a balanced budget.

As a direct consequence of the deficient budget administration from 2000 to 2008, during the last three (3) years, the Government of Puerto Rico has implemented measures that have generated substantial savings in the government budget. For instance, as a result of the cut-back on government spending program, the government’s payroll for Fiscal Year 2010-2011 was reduced by \$935 million, that is, a 17% reduction from the government’s payroll in Fiscal Year 2008-2009. In addition, the Government of Puerto Rico implemented mechanisms to review and approve every government contract. This allowed for the centralization of the analysis and monitoring of government contracts thus maintaining strict control over government spending in connection with third-party contracting.

The implementation of this and other measures have contributed to the substantial improvement of the fiscal situation of the Government of Puerto Rico. Fiscal Year 2009-2010's deficit was estimated in \$2.98 billion, whereas Fiscal Year 2010-2011's deficit was of \$1.090 billion. The budgeted deficit for Fiscal Year 2011-2012 was \$610 million. The projected budget deficit for Fiscal Year 2012-2013 is \$332 million. In these past four (4) fiscal years the budgeted deficit has been reduced to 7.1% of the Government's revenues for the last two years in comparison with the 43.6% deficit of Fiscal Year 2008-2009.

The efforts made by the Government of Puerto Rico have resulted in the stabilization and strengthening of the Island's credit. As of August 8, 2011, the credit rating agency Moody's Investors Services assigned a "Baa1" rating to the credit rating of the Government of Puerto Rico bonds. 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. 2-2009, 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. Subsequently, Act No. 95-2011 extended such date

through June 30, 2013. This suspension is granted to provide the Government with the flexibility needed to obtain loans or financing to continue operating uninterrupted, 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.

For many years, the difference between revenues and expenditures of the government have been covered through loans. For instance, in 2006, the year in which the then-government administration shut down the Government for over two weeks, the budget was balanced with a loan exceeding \$750 million. If it is compared with this year's \$332 million deficit, such deficit has been reduced by 225%. This is, undoubtedly, an additional proof of the effectiveness of the financial measures that we have taken to reduce the huge \$3,306 billion deficit inherited from the past administration.

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 once again 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 for one additional fiscal year, that is to say, through June 30, 2014.

***BE IT ENACTED BY THE LEGISLATIVE ASSEMBLY OF PUERTO RICO:***

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

“Section 5.- Prohibition of the use of debts

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 until June 30, 2014. The Legislative Assembly 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. 130-2012 (H. B. 3932)** of the **7<sup>th</sup> Regular Session** of the **16<sup>th</sup> Legislative Assembly of Puerto Rico**:

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

In San Juan, Puerto Rico, on this 21<sup>st</sup> day of August, 2015.

Juan Luis Martínez Martínez  
Acting Director