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THE DAILY NEWSPAPER OF PUBLIC FINANCE

## P.R. Gov. Submits FY2010 Budget with \$2B in Cuts

Bond Buyer | Thursday, April 30, 2009

By Michelle Kaske

Puerto Rico Gov. Luis Fortuño Wednesday evening released a \$7.67 billion fiscal 2010 budget proposal, a spending plan that is \$1.8 billion smaller than the current \$9.48 billion budget.

Plummeting tax revenue has forced the commonwealth to slash its budget while officials look towards ending a \$3.2 billion structural imbalance by fiscal 2013.

Officials anticipate collecting \$7.67 billion of revenue in fiscal 2010, which begins July 1, and will include \$2.5 billion of deficit spending via sales-tax bonds to finance \$2 billion of temporary spending measures next year, according to budget documents supplied by the Government Development Bank for Puerto Rico, the island's financing entity. That will leave a structural deficit of \$500 million.

"You know it very well, the government is simply too big and spends way too much," Fortuño said before a special joint session of the legislature. "And what it spends is our money, the money of all good Puerto Ricans who pay their taxes. The government simply has to shrink and stop spending the money it doesn't have. A smaller government will be not only less expensive for all of us taxpayers, but more agile and efficient. That's why, starting this fiscal year that commences July 1, we will reduce the government's annual spending by \$2 billion. That includes cuts in both operating expenses and payroll."

The Puerto Rico Sales Tax Financing Corp. will sell up to \$4 billion of sales-tax bonds next month in the U.S. and local market to help repay loans the GDB has extended to the commonwealth. The bond proceeds will also help support job training programs and other initiatives to help former government employees find work as the governor aims to cut the island's payroll by 30,000.

Citi will price the sales-tax debt, which may include Build America Bonds. Barclays Capital is co-senior manager on the U.S. deal.

In the local market, Popular Securities, Santander Securities, and UBS Financial Services will serve as co-senior managers on the sales-tax bonds.

While the fiscal 2010 budget will rely on borrowing to meet operating costs, the governor stressed that his long-term plan is to end the practice of turning to the GDB for loans to cover government expenditures or crafting spending plans that do not match recurring revenues, a warning to legislators as the budget plan will now move through both chambers.

"I shall not sign a budget with expense line items that we cannot pay for, only to pass on to the people a hidden bill later on. That practice is over," Fortuño said. "At the same time, the fiscal discipline that



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we have imposed upon ourselves requires that we know not only where we are but where we are going. As I have said, a \$3.2 billion structural deficit can't be wiped out in a year. Our commitment is to eliminate it in four years."

After three years of recession on the island, Puerto Rico officials anticipate a modest 0.1% real economic growth in fiscal 2010 followed by an anticipated growth of 0.9% and 1% in fiscal 2011 and 2012, respectively.

Fortuño's multi-year budget forecasts general fund revenues of \$7.78 billion in fiscal 2011 and \$7.94 billion in fiscal 2012. Fiscal 2011 will carry a \$259 million deficit with fiscal 2012 showing a balanced budget, according to GDB documents.

The government's goal is to keep its credit rating above junk status. Moody's Investors Service and Standard & Poor's rate Puerto Rico Baa3 and BBB-minus, respectively, both with a stable outlook. Analysts have said they are in a wait and see mode as to whether the island can emerge from its economic decline and work within structurally-balanced budgets.

Fortuño said a much-anticipated public private partnership bill would also help spark the island's economy. Lawmakers next week may vote on the measure which will offer a blue print for P3 contracts and agreements. The governor touted the economic benefits of bringing in private sector capital to help build roads, bridges, and other infrastructure projects, and said an initial list of 26 projects will generate 130,000 construction jobs and more than 23,000 permanent jobs.

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