

Addressing Puerto Rico's Fiscal Emergency Head On

Puerto Rico Governor Luis G. Fortuño is implementing an aggressive plan to get the government's fiscal house in order to shore up a \$3.2 billion budget deficit he inherited, re-start the economy in the short-term and create the foundation for new jobs and a healthy, competitive economy in the long-term.

Puerto Rico's Fiscal Emergency

- ✓ Economic **downturn began in 2005**, three years before the recession hit the U.S. mainland.
- ✓ **\$3.2 billion deficit**, if left unchecked, would cause a cash shortfall in the coming months and possible government shutdown.
- ✓ **Credit rating in jeopardy of being downgraded to junk status**, which could cause 25 percent unemployment, an 8-10 year recession, and the erosion of home and investment values.
- ✓ Approximately **70% of the budget is dedicated to government employee salaries and benefits**. More government employees, in proportion to population, than any other state. California has 1 state employee for every 103 residents; Puerto Rico has 1 for every 20.
- ✓ Situation is comparable to that of many states: **43 of the 50 states have implemented some form of government payroll reductions, hiring freezes or layoffs**.

Actions Already Taken

- ✓ **10% cut in government operating expenses** (official vehicles, cell phones, credit cards.)
- ✓ **10% paycut for the governor and agency heads** through 2010.
- ✓ **30% reduction in political appointments**.
- ✓ **Freeze on all salaries for two fiscal years**.
- ✓ **15% cut in professional service contracts** such as consulting and legal services and lease contracts.
- ✓ Enactment of fiscal emergency legislation requiring a mandatory reduction of expenses, including **voluntary and mandatory employee reductions**.
- ✓ **60% of the savings goal has been implemented or identified**. The additional savings, for a **total of \$2 billion in cuts to government spending**, will be achieved through a combination of initiatives that include improved fiscal oversight, stronger tax compliance and government reorganization efforts.

Strategic Model for a New Economy

- ✓ Stabilize in the short term and position the economy for recovery in the long term by **restoring growth, investing in infrastructure and building global competitiveness**.
- ✓ Appointed team to **reform the tax code** to lower taxes.

- ✓ **Encouraging entrepreneurship and job creation** by providing \$180 million in guaranteed loans to small and medium-sized businesses.
- ✓ **New investment through new, advanced Public-Private Partnership Act** to encourage greater private investment in the island to spur development in an open and transparent way. Working to bring competition and private-sector efficiencies to investments in **the island's schools, roads and other basic infrastructure**.
- ✓ **Create 260,000 new jobs in the longer term, and incentives to study, train or retrain** for work in other sectors.

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