



# GOVERNMENT OF PUERTO RICO

Office of Management and Budget

Hon. Ricardo A. Rosselló Nevares  
Governor

Lcdo. José Iván Marrero, CPA  
Director

December 21, 2018

## GENERAL MEMORANDUM NO. 478-18

SECRETARIES, DIRECTORS, AGENCIES' CHIEFS, DEPARTMENTS, DEPENDENCIES, PUBLIC CORPORATIONS, ORGANISMS AND OFFICES, COMMISSIONS, INSTRUMENTALITIES' ADMINISTRATORS ENTITIES OF THE EXECUTIVE BRANCH OF THE GOVERNMENT OF THE TERRITORY OF PUERTO RICO

  
José I. Marrero Rosado, Esq.  
Director

## BUDGETARY PROCESS FOR FISCAL YEAR 2019-2020, BUDGET CALL CIRCULAR No.1

### I. Introduction to the New Budget Process

**This Memorandum formally initiates a new budget process for Fiscal Year 2019-2020** and establishes the set of guidelines for formulating Budget, including recommendations to be presented by the Honorable Governor of Puerto Rico to the Legislative Assembly. Subsequent Budget Call Circulars will be released as needed to provide additional information, new forms and templates.

This Memorandum draws on requirements under the following legislation:

- Federal Public Law 114-187 of June 30, 2016 on "*Puerto Rico Oversight, Management, and Economic Stability Act ('PROMESA')*";
- Law No. 147 of June 18, 1980, as amended on the "*Organic Law of the Office of Management and Budget*";
- Law No. 2 of January 18, 2017 on the "*Financial Advisory Authority and Fiscal Agency*" (AAFAF Organic Law);
- Law No. 46 of July 25, 1997 on "*Department of Treasury*" (DT Organic Law);
- Law 75 of June 24, 1975, as amended, the "*Organic Law of the Planning Board*"
- Law No. 103 of May 25, 2006, as amended, the "*Law for the Fiscal Reform of 2006*";
- Law 3-2017 of January 23, 2017, "*Law to Address the Economic, Fiscal and Budgetary Crisis to Guarantee the Functioning of the Government*", noting Article 4; and
- Law No. 26 of April 29, 2017, as amended on "*Law of Compliance with the Fiscal Plan*"



**The budget process for Fiscal Year 2019-20 represents a transition year, setting a foundation to commence the implementation of a *policy and performance-based budgeting approach to maximize its zero-based budgets*.** This approach aims to meet high standards for consolidation comparisons (budgets and actuals) of all government accounts and disclosures, while pursuing the ideals of open and transparent government. This will include greater comparability of the budgets to the Fiscal Plan and the Basic Financial Statements<sup>1</sup>.

The current fiscal control public policy is set forth in Law 3-2017, known as the "Law to Address the Economic, Fiscal and Budgetary Crisis to Guarantee the Functioning of the Government of Puerto Rico" and Executive Order 2017-001 and 2017-009. As in fiscal year 2019, we anticipate that the Financial Oversight and Management Board (the Board) will assume an active role in the AF2020 process. In fact, the Board certified a Fiscal Plan for the territorial government ("Commonwealth") on October 23 (the Fiscal Plan). That Fiscal Plan excludes the six component units (CU) that have individual fiscal plans (AEE, AAA, ACT, BGF, COSSEC, UPR).

**There are some significant changes to the 2019-20 fiscal year budget process.** The certified Fiscal Plan of the Board has maximum budgetary limits and prospective rightsizing measures of each covered entity. As a result, budget changes are no longer limited to the ordinary framework provided by the statutes of Puerto Rico. In addition, the Government will move to document the Budgets either on the modified accrual basis in line with requirements under PROMESA, or on full accrual basis required to certain component units (agencies, entities, etc.) by GASB No. 34. This will make the budget and financial statements (budget vs. actuals) much more comparable.

**The 2019-20 Budget will also establish a framework setting out baseline estimates for the budget and three forward years.** It will be the first time we attempt to estimate the cost of existing policy over the medium-term. That is, the cost of delivering services and investments that are required by law or by policy not just for the current budget year but over the next 4 years. Once these forward estimates are in place, Component Units (CUs) will no longer be required each year to cost annual spending plans for the coming fiscal year. Agencies will only bring forward budget submissions where required to present options for new policy, where new policy represents a change to existing laws or policies that have an impact on the revenue or expenditure forecasts. In the absence of a request to bring forward a submission, Agencies will receive their baseline budget reflected in the first forward year estimate adjusted for economic parameters (e.g. inflation) and allowable estimates variations (e.g. changes in program costs).

**Prospectively,** the Budgets will be set in multiple dimensions. That is, the budget will be disclosed in different ways (or mappings) such as classification standards expected under the Government Accounting Standards Board (GASB) and the Government Finance Statistics (GFS), including the Classification of the Functions of Government (CoFOG), and by programs, funds, and location (e.g. local government areas). Multiple dimensions means that citizens and stakeholders will be able to review the budget at very high levels of aggregation, but also drill down as needed to very detailed levels. By pursuing this approach, the Government is aiming to have the Annual Budget be much more meaningful to citizens and stakeholders. To significantly improve transparency and to provide a basis for long-run analysis of revenue and expenditure, several years of historical budget and accounting data will be available for review.

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<sup>1</sup> According to GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*).

The 2019-20 Budget Process will be like a “reverse budget process” in practical terms. During the process Agencies will receive detailed program-level budgets that balance with the Fiscal Plan. Agency heads will then have responsibility for the following actions:

- **Program Based Estimates Variations (reallocations):** Agencies must analyze the new agency **total** baseline (pre-filled in the Budget Module), and then reallocations between program budgets (subtotals). As such, agencies can choose to reallocate those budgets between programs. In line with existing policy constraints, shifts from non-payroll concepts to the payroll concept will not be allowed.
- **Prepare a submission to the OMB setting out the implications of the Fiscal Plan compliant program budget** that was provided. The submission will outline the risks and impact of implementing the budget without changes. The agency head may bring forward a detailed submission, including options for new expenditure measures, to mitigate the risks so long as all costs are fully offset with savings from within existing resources provided. This means that new spending can only be financed from cuts elsewhere. Once all submissions are in and reviewed all together, OMB may consider financing options (e.g. cutting spending in lower priority areas) for high priority and risk mitigation programs. The costing of the spending submission will need to be undertaken by the proposing agency in line with costing guidance to be issued by OMB and be validated by OMB as an accurate estimate of the cost to implement the spending policy. It should be noted that the costing validation does not mean that OMB supports the policy proposal, only that the cost estimate of the policy proposal is accurate.
- **Program performance targets and staffing establishment data will be collected** in line with past practices and using existing systems (Budget Module).

**The forthcoming budget process approach might bring instances to reconsider existing savings and reform policies.** If a review to a Fiscal Plan policy is initiated, all affected agency heads will have an opportunity to participate and review the costing process and policy development. Separate cross portfolio submissions would then be considered by OMB as appropriate. Of course, it is fundamental that the Financial Advisory Authority and Fiscal Agency (AAFAF), the Treasury Department (TD), and the Governor's Representative to the Board also participate and review the costing process and policy development.

## **II. Systems and Processes**

As part of the transition to best practice *policy and performance-based budgeting*, for this fiscal year, a parallel budget system will be used in addition to the two existing systems. These two existing systems are the Zero-Based Budget application, for gathering complementary data and information, and the legacy Budget Module, for collecting agency expense budgets, revenue sources, programs, performance targets, and staffing data. This latter system will be enhanced to increase functionality for: i) reporting in multiple dimensions (GASB and GFS); ii) being more comprehensive by including revenue and balance sheet items; and iii) having a medium-term perspective with a full three forward years past the FY2020 budget.

**As part of the transition system**, Agencies will be provided with a detailed set of budget financial statements by GASB and GFS standards, by program, object, function, fund, concept and location (as available). Agencies will be provided training on the spreadsheets including on interpreting budget financial statements and on initiating variations to the Fiscal Plan baselines available.

**Each officer responsible for preparing the budget request must ensure that they have access to the existing budget system:** Zero-Base Budget (PBC) application, and the Budget Module (Módulo). If you do not remember your username and password, you must write to [support@ogp.pr.gov](mailto:support@ogp.pr.gov) to activate access. For new users or changes complete the request form for access to the OMB Budget Module (Módulo) and the Zero-Base Budget application (PBC) that is available at the address: <http://www.ogp.pr.gov/Pages/Base-Cero.aspx>.

**A summary budget calendar graph is provided at Attachment A.** A subsequent Budget Call Circular will include updated Budget Calendar as required. OMB staff will be in contact with agency representative in January to arrange workshops on the new budget process.

### **III. Forms A, B, C, D and E in the Zero-Base Budget application**

Link to <http://basecero.ogp.pr.gov> PBC tab), to complete the forms A, B, C, D and E related to their budget request for FY2020.

Form A – Unavoidable Expenses. Enter a detailed list of unavoidable expenses charged to the General Fund. Upon completion, they must identify the commitments provided in current laws and collaborate with the OMB to identify savings opportunities within the existing legal framework. If existing public policy or laws are obsolete or inconsistent with the Fiscal Plan or the Administration's priorities, recommendations for changes to that policy should be provided. The estimated costs for FY2020 must contain an explanation and justification of the factors considered, as well as the laws that authorize allocations of funds for these expenses. Include the **three forward years' effects**.

Form B - Programmatic Commitments and New Initiatives. Include a list of and explain the priorities in FY2020, and how programmatic commitments related to the services provided by your entity will be met and if they are consistent with the Fiscal Plan or not. Each proposal must include the suggested initiatives for financing by saving their own resources, as well as distinguishing the source of resources that will be used. Include the **three forward years' effects**, if any.

Form C - Claims with Final Judgments. You must detail and describe what the lawsuits and final dispositions are regarding the claims and any other contingent liabilities against your entity, which are charged to the General Fund. Contingent liabilities are potential liabilities that may occur depending on the outcome of an uncertain future event. A contingent liability is recorded in the accounting records if the contingency is probable and the amount of the liability can be reasonably estimated. These quantifiable contingent liabilities will be disclosed in the budget. Unquantifiable contingent liabilities should be described by the agency and will also be disclosed in budget papers. Include the **three forward years' effects**, if any.

Form D - Debts charged to the General Fund. They must provide detail and description of the debts with any person or legal entity or public as of December 31, 2018.

Form E - Funds. This form will include the Special Revenue Funds (SRFs), namely "Fondos Especiales Estatales", Ingresos Propios", y "Otros Ingresos" as a whole. You must insert the sums for the FY2020 Income, and FY2020 Expenses, and update the legal base data, use, etc. of each fund. Ensure including the **three forward years' revenue and expense**.

1) IMPORTANT, complete the Milestone # 2's Schedule linked to AF2020 column. Revenue and Expense aggregates must be equal to summary totals in the Module OGP-4. **AN ADDEDUM WILL BE ISSUED IN FEBRUARY 2019.**

#### **IV. Other Relevant Complementary Data**

The Budget Module can be accessed through <https://peticion.ogp.pr.gov>. The agencies will be responsible for completing or reviewing the following information:

- a. Update the descriptive information of the agencies in relation to the legal basis, description of programs, organizational structure and other relevant data included in the Budget Document, to adjust it to recent changes, as applicable.
- b. Review the positions occupied<sup>2</sup>, the work plan and the statistical data, as well as balance the expenditure of all sources of resources related to the budget of Fiscal Year 2017-**2018**.
- c. Review the positions occupied, the work plan, the statistical data and the current budget only of the Federal Funds and those cases where the estimate of State Special Funds (FEE), Own Income (IP) and Other Income (OI) is below the estimate of income of the approved budget in the Fiscal Year 2018-**2019**. The General Fund will remain according to the approved budget.
- d. Update the data of projected positions, the work plan, the statistical data, as well as the projected (requested) budget of all the sources of related resources of Fiscal Year 2019-2020.
- e. Pay-Go. The entities must request the Retirement Systems Administration (ASR) or Teacher Retirement System (SRM), the impact of payment of pensions for the FY2020 and distribute it for all the sources of resources allowed by Law (FEE, IP, OI, FG). The amount must be entered under Concept 030, "Pay As You Go" Payment of Pensions.
- f. Law 70. Request information from the ASR and enter the amount in Concept 001, Payroll and Related Costs, Objects 6021, Employee Annuity-Law 70, and 6022, Payment Employer Contribution Law 70.

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<sup>2</sup> According to the report "Informe Estadístico de Puestos Ocupados" (OGP-SI-05), filed by every agency as of September 30, annually.

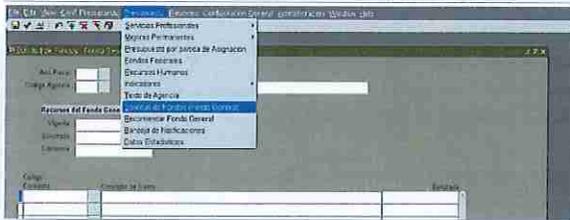
## V. Capital Improvements, Recovery and Reconstruction Projects

With respect to the Capital Improvements (CapEx) Program (Permanent Improvements), as well as disaster relief, recovery and reconstruction funds (from any source, including several US government entities and the private sector), the agencies must:

1. Review the status of projects under development. This revision will include all the projects whose assignment was granted in previous years and have not yet been reprogrammed.
2. Any request for additional funds must:
  - i) be grouped into FEMA, CDBG-DR, Other Federal, and State, and
  - ii) meet the following priority criteria:
    - a. Projects under construction that require additional funds to continue their development;
    - b. Projects under construction that require funds to complete the work.
    - c. New projects to start in the forthcoming four-years period.

## VI. General Indications

- A. OGP 1, Request for Funds – General Fund. The budget summary information must be prioritized when completing information and data in the OGP 1 **Request for Funds – General Fund** form in the Module "**Presupuesto**" menu.



- B. To attend technical situations with the application, you must contact our Technical Support Unit (Help Desk) at (787) 724-1600. To clarify doubts regarding the handling of the application, or data entry, you must refer to our Analysts and Specialists of the Budget Area.
- C. Enter the link <http://www.ogp.pr.gov/Pages/Base-Cero.aspx> to access the application forms for access to **Module** (Budget Module), or **PBC** (Zero-Base Budget application). (Also, if you are going to change users.) Each entity should seek authorization to access the Base Zero applications, and the Budget Module, by the officials in charge of inserting the data and preparing the documents. To activate access, if you do not remember your username and password, you must write to [support@ogp.pr.gov](mailto:support@ogp.pr.gov).

## Attachment A: The Budget Calendar

Workstream/Month	Indicative Dates	Dec	Jan	Feb	Mar	Apr	May	Jun
<b>Policy-Based Budget Process</b>		Red	Red	Grey	Red	Red	Green	Green
<b>Budget Call Circular No. 1 Released (on new "reverse" budget process)</b>	Fri 21-Dec-18	Red						
Agencies review Fiscal Plan measures and prepare for submission on consequences of Fiscal Plan funding. Agencies attend workshops on new budget preparation systems.	Thu 20-Dec-18		Blue	Blue	Blue	Blue		
<b>Budget Call Circular No. 2 Release (If Update is needed)</b>	Thu 31-Jan-19		Red					
Agencies review documentation and forms and attend workshops on new budget preparation systems	Thu 31-Jan-19		Blue	Blue	Blue			
<b>Budget Call Circular No. 3 Release (If Update is needed)</b>	Thu 28-Feb-19				Red			
Agencies commence assessment of new baseline funding by programs in accordance with Fiscal Plan and complete budget forms including establishment and program performance data	Thu 28-Feb-19				Blue	Blue		
Agencies comeback with risk and impact assessment of the consequences of the fiscal plan budget with options	Thu 28-Mar-19					Red		
OMB finalizes briefing on agency submissions	Thu 04-Apr-19							
<b>Leadership Budget Review Meetings (Start)</b>	Fri 05-Apr-19					Red		
Consolidated budget prepared	Jan-May		Blue	Blue	Blue	Blue	Blue	
<b>Presentation to Governor</b>	Fri 19-Apr-19					Red		
Governor's changes incorporated	Apr					Blue		
<b>Leadership to go to Board on proposed budget</b>	Fri 26-Apr-19					Red		
Board's changes incorporated	Fri 03-May-19					Blue	Blue	
<b>Presentation to Governor</b>	Wed 08-May-19					Red	Blue	
<b>Transmittal to Legislature (and publish budget proposal)</b>	Fri 10-May-19						Green	
<b>Legislature approves the budget</b>	by End Jun							Green
Updates to Published Budget Papers (changes for legislative approval)	Jun-July							Green

### Legend

- Setup Activity 
- Critical Dependency 
- Announcements 