

# BUDGETING AND LONG-RANGE PROGRAMMING IN PUERTO RICO

by

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## 1. *Introduction*

Puerto Rico as a Commonwealth is free and self-governing in internal affairs. As an integral part of the United States, Puerto Rico enjoys economic benefits just as any of the forty-eight States of the Union.

Because of her population density of 650 people per square mile which can double in 25 years, she is faced with the problem of how to keep the present population-land ratio.

In the meantime, Puerto Rico is courageously pursuing to achieve her economic goal which is to increase production so that Puerto Ricans will have fewer days of unemployment, a better standard of living and will depend less and less on United States aid.

Having been predominantly a one-product economy, Puerto Rico has successfully started toward a balanced program of agricultural and industrial development with *Fomento*<sup>1</sup> acting as the pivot agency. Her program of low cost housing for both urban and rural areas, for instance, is very convincing to visitors from foreign lands. This, plus the other successes, are due partly to the population itself as an asset working for the country's productivity and progress and the various governmental tools which complement one another.

Her economic and financial policies are effectively synchronized and coordinated in the *Model Budget* and the *Six-Year Financial Program*. The financial aspects of economic development seem now to afford the greatest new opportunity for growth in the Puerto Rican setting. It is in the field of fiscal administration where the Puerto Rican economic and fiscal planners have attempted to develop a budget system and

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a financial planning program worth looking into. Puerto Rico is one of the few underdeveloped countries with a successful long-range financial plan.

This paper is an attempt to discuss briefly some budgetary practices in Puerto Rico, to trace the mechanics of the budget program and the Six-Year Financial Plan, and to describe how the Model Budget is dovetailed with the long-range financial program. Owing to the many similarities of Puerto Rican with Philippine and New York State fiscal systems comparisons with their systems will be made where possible.

### 2. *The Budget System — Background*

Historically the Commonwealth of Puerto Rico has had the same background as the Philippines. Both had been under Spanish domination and exploitation before they were ceded to the United States by virtue of the Treaty of Paris of 1898.<sup>2</sup>

Both countries have almost similar early acts enacted by the United States Congress regarding their governmental makeup and functions. The Jones Act of 1917 established an elective Senate which absorbed the tasks of the appointed Council. The auditor and the judges of the Supreme Court were appointed by the President of the United States. The Organic Act provided that financial legislation originate in the House of Representatives. The Governor was invested with the power of item veto.

Under an Executive Order issued in 1926, the Governor designated the auditor, who was an appointee of the President of the United States, as his budget officer. Hence, the Governor had a budget officer who was not directly responsible to him.

In 1942, the Legislative Assembly of Puerto Rico approved Act No. 213 (an Act which was amended eleven times) entitled "Puerto Rico Planning and Budget Act". This Act created a Bureau of the Budget to absorb the budget powers of the auditor and a Planning Board to prepare the long-term fiscal and physical program for Puerto Rico. As practiced in modern governmental setups, both agencies act as staff agencies to the present Puerto Rican Governor.

*The Bureau of the Budget.* As a staff agency under the Office of the Governor, the bureau is assigned the major task of preparing the annual budget. The Director of the Bureau of the Budget is appointed by the Governor serving at the pleasure of the latter. Until 1951 his appointment has required the advice and consent of the Senate.<sup>3</sup>

The Bureau is also responsible for the preparation of supplemental, amendatory and deficiency estimates and to this end, like the Philippine Budget Commission, it has the authority to assemble, compile, correlate, revise, increase or reduce the estimates of the insular spending agencies.

As in New York State, the Director can employ engineers, statisticians, economists and accountants. Their appointment and dismissal are subject to the requirements of the Personnel Act. He is likewise authorized to contract temporary and special services of consultants in fiscal administration and other allied fields of learning.<sup>4</sup> This is a feature not found in budget acts of most other countries.

The budget bureau is organized with the following units: Office of the Director, Office of Administrative Services, Division of Organization and Methods, Budget Management Division and the Division of Statistics.

*The Model Budget.* The annual budget is regarded as the *Model Budget* of capital improvements and current operating expenses. Inasmuch as the Governor is empowered to change the form of the budget, conversion to a new type of budgeting, like the performance-type of budgeting, becomes an easy task for the Administration.

The Model Budget sets forth in summary and in detail for both regular and trust funds the following:

- (1) All the expenditures and receipts from whatever source during the last completed fiscal year, the current year and the budget year.

- (2) Estimates of all the receipts during the ensuing fiscal year under existing laws and under revenue proposals contained in the Model Budget.

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(3) All recommendations for lump sum appropriations for current operations shall be supported in the Model Budget by detailed line estimates.

(4) All new additional positions can be established only after securing prior written approval of the Director of the Bureau of the Budget.

(5) Other financial statements and data including annexed budgets for public enterprises when deemed necessary by the Budget Director.

The budget document like the Philippine budget consists of the Governor's message as the first part and the main body as the second part. The message describes and analyzes the fiscal position of the Commonwealth. It explains the proposals and the fiscal policy of the Governor. The comparative tables, graphs and eye-catching illustrations convey past results and accomplishments of the administration. In short, the message resembles our "National Budget in Brief".

The second part contains the mass of appropriations recommended for the operations of the government. In spite of being very detailed, some characteristic features of performance budgeting can be noted. The main body serves as the basis for the preparation of the general appropriation bill which is also prepared by the Governor and transmitted to the Legislature together with the Model Budget.

The requesting agency's programs and activities, with their cost estimates, are made more understandable by the inclusion of an organizational chart.

### 3. *The Budget Process*

The whole budget process reveals coordination between the Budget Bureau and the Planning Board, the former coordinating its Model Budget with the latter's Six-Year Financial Program.

*Formulation.* About the first week of August, the Bureau sends out, together with the budget instructions to the different agencies, the Governor's directive containing a summary of the financial position of the Government and a description of its basic objectives for the budget year.

The agencies are requested to submit on or before the middle of September a summary of budget estimates, a detailed estimate for personal services and for general expense, a statement of income and expenses of special funds, and copies of their requests for capital expenditures submitted to the Planning Board. Justifications for operating expenses and new positions are also requested. Budget analysts help the agencies in filling up the forms and solicit information as to functions, workloads and organization charts.

From August 25 to October 1, *administrative hearings* are conducted. This type of hearing is attended by the Director, the head of the Division of Budget Management, the budget analysts and the agency's representatives. If additional information is necessary, the budget analyst gathers them and discusses his recommendations with the Budget Director. The same people in the Budget Bureau who attended the administrative hearings may meet the Governor when the recommendations are submitted to the latter for further study.

After the estimates have been compared closely with those figures appearing in the first year of the Six-Year Financial Program and only after the Governor has given his final approval will the Model Budget be printed.

*Authorization.* The Legislative Assembly meets in regular sessions commencing on the second Monday (fourth Monday in the Philippines) in January of each year. While no special session shall continue longer than twenty calendar days, the duration of the regular sessions shall be prescribed by law.

The Model Budget is submitted simultaneously to both Houses of the Legislative Assembly sometime after the opening of the regular session. Together with the Model Budget, the Governor, just as in New York State, submits an accompanying general appropriation bill to the House of Representatives. In the Philippines the budget is the basis for the enactment of a general appropriation bill which is prepared by the Committee on Appropriations of the House of Representatives. This is in accordance with the provision of the Constitution<sup>5</sup>:

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"All bills for raising revenue shall originate in the House of Representatives but the Senate may concur or propose with amendments as on other bills."

Previous to this, the Foraker Act of 1900 delegated the responsibility of budget-making to the Executive Council which acted as the upper house of the Assembly then.

Under the new Constitution both Houses of the Legislative Assembly have full power to amend the Model Budget in any way they please.<sup>6</sup> Major changes in the budget are made in the finance committees of both Houses.

It has been the practice of the finance committees to conduct public hearings in the evenings. Officials of the Bureau of the Budget are invited to furnish clarifying information and not to defend the Model Budget. At all times the heads of the spending agencies should support the overall program of the Governor.

While the House Finance Committee considers the general appropriation bill, its Senate counterpart conducts a public hearing on the Model Budget.

All step increases in salaries are allowed if they are in accordance with the provisions of the Classification and Pay Plans; otherwise, they are not permitted. Salary step increases are lumped together under each department.

A lump-sum appropriation bill is reported by the Finance Committee to the House. The appropriation bill when passed contains only lump sums with the exception of the salaries of the heads of the agencies. This is accompanied by a detailed report on the changes made on the Model Budget. At this stage, the Bureau of the Budget prepares also a similar report for the Governor for the latter's guidance. This report resembles the *conference report* submitted by members of the conference committees to both Houses of the Philippine Congress.

After the House has effected its changes or modifications to the bill and has approved it, the bill goes formally to the Senate where a more or less similar procedure takes place.

If there are differences between the versions of the two Houses, a *joint commission* is formed to iron out or reconcile the controversial issues.

*Passage of the general appropriation bill.* An appropriation bill becomes a law if the Governor signs it or if he does not return it with his objections to the House from which it originated within ten days (Sunday excepted) after receiving it. A vetoed bill becomes a law if approved by 2/3 of the total number of members of which each house is composed. And finally, "if the Legislative Assembly adjourns *sine die* before the Governor has acted on a bill that has been presented to him less than ten days before, he is relieved of the obligations of returning it with his objections and the bill shall become law only if the Governor signs it within thirty days after receiving."

Like our old practice under the Jones Law if no appropriation act is enacted for the budget year the several sums appropriated in the last appropriation act shall continue to take effect until corresponding appropriations are made. This is an assurance that essential services will not be curtailed.

*Execution and Auditing.* After the bill is approved by the Legislative Assembly and the Governor has used his power of item veto, the Budget Director is authorized to prepare an adjusted break-down of the final figures. The budget as adjusted is referred to as the *Executive Budget*. In New York State the original budget submitted to the Legislative body is known as the *Executive Budget*. Enforcement and control of the budget is an executive function which is delegated to the Director of the Budget.

Copies of the adjusted budget are furnished to the Accounting Division of the Department of Finance and the Office of the Comptroller to serve as basis for pre-auditing on the part of the former and post-auditing on the part of the latter.

The Comptroller, a constitutional officer responsible to the Legislature, is appointed by the Governor with the advice and consent of the majority members of both houses for a period of ten years.

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### 4. *The Six-Year Financial Program.*

Act No. 213 of May 12, 1942, which created the Bureau of the Budget, is also known as the Puerto Rico Planning Act. This Act laid the groundwork for the operations of the Planning Board as follows:

"The powers granted shall be exercised for the general purpose of guiding a coordinated, adjusted and economic development of Puerto Rico which, in accordance with present and future needs and human, physical and financial resources will best promote the health, safety, morals, order, convenience, prosperity, defense, culture, economic soundness and general welfare of the present and future inhabitants, and such efficiency and economy in the process of development and in the distribution of population, of the uses of land and of public improvements as will tend to create conditions favorable thereto."

*The Planning Board and the Master Plan.* The Planning Board has three members, all appointed by the Governor and with the advice and consent of the Puerto Rican Senate. The main task of the Board is the preparation and adoption of a Master Plan showing the Board's recommendations for the development of Puerto Rico.

The Master Plan is implemented by the widely known Six-Year Financial Program, a scheme in long-range planning. The first of these financial programs was for fiscal year 1944-45 to 1950. The eleventh issue covers fiscal year 1954-55 to 1959-1960. The aim of this document is "*to supply information and guidance to the Executive and Legislative Branches of the Government of Puerto Rico as the most effective and appropriate means of accomplishing those portions of the master plan which deals with expenditures both for capital improvements and current expenses of the Government . . . including its public instrumentalities and corporations . . .*"

Actually, the Six-Year Financial Program incorporates all the figures contained in the Model Budget besides projecting the estimates five years into the future. It is reviewed and revised every year — the first year portion being matched with the Model Budget while the rest of the program carries adjustments based on past performances and future expected results.



The sixth year portion is added making the program a continuing Six-Year Financial Program. It is more comprehensive than the Model Budget because it includes estimates for all capital improvements of all government agencies including public enterprises.

*Contents of the financial program.* The first part of the document gives a summary analysis describing the fiscal picture of the past completed year, the recommendations for the first year of the program which require legislative action, and the forecasts of total governmental expenditures distributed over the next five years. The analysis is broken up into goals, descriptions, specific features, and accomplishments of programs supported by tables, graphs and other illustrations.

The second part of the document comprises the main body. It starts with a summary of estimated resources and the proposed disbursements program for the six-year period. This is followed by tables breaking down into further details both resources and disbursements. The summary tables are classified by functions; the details, by agencies. The latter are blown up further by sub-units and activities. The substance of the main body of the document covers all previous and estimated disbursements for the following:

- (1) General Expense Budget .
- (2) Special Appropriations
- (3) Contribution to Public Enterprises
- (4) Capital improvement programs of tax-supported agencies.

The last part of the financial program is made up of appendices which reveal for information the details of the public debt<sup>7</sup> and current expenditures from special funds. Besides a summary of capital improvements for self-supporting government enterprises, there are also consolidated statements of various kinds showing financial operations. Federal contributions to Insular agencies are also included.

*Steps in the preparation of the financial program.* The Planning Board incorporates without change the estimates for

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current expenses submitted by the Judiciary, Legislature, quasi-judicial agencies and the Office of the Governor. Current expenses for all departments and agencies recommended by the Board are a lump sum total for each agency or each important function.

- (1) Questionnaires with specific instructions at the back are circularized by the Planning Board to all government agencies by the first week of August. The original and fourth copies out of the 6 copies are returned to the Board on the middle of September. One copy is furnished to the Bureau of the Budget.
- (2) The questionnaires are then studied, reviewed, analyzed and tabulated. The Board conducts administrative hearings, the Bureau of the Budget being represented by the budget analyst in charge of the agency's estimates under consideration. The top officials of the government agencies give their justifications orally.
- (3) After the administrative hearings have been conducted, the justifications are considered and a *Project of the Program* (a rough draft of the preliminary financial program) is printed. This first draft is then submitted by the Board to the Governor and the Bureau of the Budget for further discussion.
- (4) The Board then approves the Project and submits it to the people in a public hearing. At this stage, the Project plan is still open for amendments.
- (5) The Project of the Program is printed for the second time as the Preliminary Six-Year Financial Program after the views of the public have been taken into account.
- (6) The second print is submitted also to the Governor and the Bureau of the Budget on November 15 for high level discussion. This time all information and appendices not appearing in the first print are included.
- (7) Final decisions are made after the figures prepared by the Bureau of the Budget for its Model Budget and the figures reported by the Planning Board have been reconciled. The income section of the preliminary program is also matched with the estimates of income prepared by the Treasury.
- (8) The financial program printed for the third time in final form is submitted to the Legislature on the same date as when the Governor submits his Model Budget.

*Controls exercised by the Planning Board.* It is the practice of the Planning Board to recommend the transfers of unexpended funds and balances to the General Fund once the purposes for which they were created have been achieved.

The agencies having capital improvement requests can not start with the projects or activities until they have acquired permission from the Planning Board to do so. This synchronizes the development projects with the overall plan.

The agencies are further required to list down their activities and programs according to priority. This enables the Planning Board to make changes as to what programs are to be postponed and what to be started.

#### 5. *Capital Improvements in Puerto Rico*

In theory there is no such concept as a capital budget in Puerto Rico. The practice of the Governor is to include a figure in lump sum under each agency having capital improvements programs of general interest. Some of the lump-sum figures are supported by break-downs which are prepared administratively. These details may be changed as the prevailing situation changes. Other lump sums recommended for programs of local interest and not accompanied by a schedule of details are broken down by the legislators during the legislative consideration of the Financial Program.

Since the Six-Year Financial Program contains all the capital improvements that are to be projected during the year under consideration and also for the next 5 years, it satisfies the attributes of long range planning of capital programming or capital budgeting. The Six-Year Financial Program engulfs all expenditures of whatever nature. It groups systematically together either by functions or by organizational units the various items of expenditures whether for current operations or for capital improvements.

Projects in the capital programs are classified as: (1) those already approved by the Legislature for which funds have been authorized by competent authority but which require additional distribution for its termination and (2) those already

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approved by the Legislature or for which funds have been authorized by competent authority but which although not yet finished do not need additional funds to complete.

In Puerto Rico, expenditures for equipment and machines for new buildings and other constructions are classified with capital improvements but as the agency starts to operate, their maintenance and replenishment are charged to operating expenses.

Capital improvements are financed from the general fund. However, those capital improvements which are supported by special funds do not need annual legislative action. They are included in the appendices of the financial program.

*Pork barrels.* Aside from the capital improvements found in the financial program, programs on public works are found in a series of public works bills. These are always of local interest, usually, benefitting the individual municipalities. In the 1953 session of the Legislature there were five such bills enacted for rural aqueducts, school rooms, municipal roads, purchase of bulldozers for municipal use, and miscellaneous rural improvement activities.

Pork barrel bills are included neither in the Six-Year Financial Program nor in the Model Budget. They are usually financed from the surplus of the general fund. The Bureau of the Budget and the Planning Board usually leave a surplus in the general fund for this purpose. These bills are passed anytime during the regular session.

### 6. *Concluding Comments*

We have here in the Philippines a counterpart of the Puerto Rican Six-Year Financial Program — the Five-Year Economic Program of the Magsaysay Administration. The Puerto Rican experience on long-range planning and budgeting reveals some imperfections but from this experience, the Philippines can draw some valuable lessons. For instance, duplication in the determination of estimates of resources by both the Planning Board and the Treasury of Puerto Rico could be avoided by assigning the job to one of the two. The agencies should be

provided with trained statisticians if more or less accurate forecasts are to be expected. The pork barrel disease, which spells "wasteful doling out of good government money for inconsequential, non-lasting public projects intended only to please political constituents," must be discontinued. Finally, the Six-Year Financial Program, a plan supposed to be complete, must also reflect public works of local interest and the current operating expenses of the government enterprises.

While most countries, especially the underdeveloped ones, are seeking an effective system by which they can implement their financial and economic development programs, Puerto Rico has something to be proud about in her Six-Year Financial Program which is carefully synchronized with the Model Budget. In spite of some flaws, the Puerto Rican Six-Year Financial Program and our Five-Year Economic Program are notable contributions to long range planning.

#### 7. *Acknowledgement*

I am deeply grateful to the following Puerto Rican officials for their valuable suggestions and help in my study of the fiscal and budget system of Puerto Rico in the summer of 1953: Messrs. Antonio Cuevas, acting director; Santos Brines, administrative technician; Rivera Cidraz, budget analyst of the Bureau of the Budget; Jaime Coira, executive-secretary of the House Finance Committee; Rosendo Cordero of the Fomento; Eduardo Rivera, economist of the Planning Board and my Puerto Rican classmates at Syracuse University, Mr. Diego de Jesus, economist of the Planning Board and Messrs. Rosado del Valle and Manuel Salavarría, accounting and budget officers, respectively, of the Department of Health.

My great appreciation goes to Dr. Frederick Mosher, professor in public budgeting of Syracuse University, and consultant of the Bureau of the Budget of Puerto Rico in the summer of 1953, for his valuable suggestion.

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#### REFERENCES

<sup>1</sup> Fomento is also known as the Economic Development Administration, a government office which grants industrial loans.

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<sup>2</sup> Fernós-Isern, Antonio. From colony to commonwealth. The Annals. January, 1953, pp. 16-17.

<sup>3</sup> Act 159 of 1951 which amended Act. 213.

<sup>4</sup> In the summer of 1952, the Bureau of the Budget contracted the services of Dr. Frederick Mosher (Author of the Book entitled — Program Budgeting: Theory and Practice, 1954) to improve the budget system of Puerto Rico.

<sup>5</sup> The Constitution of Puerto Rico was approved in 1952. It was only recently when the U. S. Congress, by virtue of a Statute, allowed Puerto Rico to approve its own Constitution.

<sup>6</sup> Riders are not allowed under the Constitution.

<sup>7</sup> A table showing all information about the public debt is also presented. Puerto Rican Public debt is limited to 10% of the total assessment value of her real property.