

PATH TO A TRANSFORMED PUERTO RICO

Nearly 20 years have passed since the last balanced budget to cover government expenses was proposed.

Since then, it has been customary for the Executive Branch to propose to the Legislative Assembly budgets with expenses barely in line with projected revenue. At the end of the day, the bet was to match expenses and revenue through an increase in the always unpleasant and rarely disclosed public debt.

This fact is no longer a secret and there are many Puerto Ricans who believe that past governments acted in a rather reckless way when they compromised the present and the future of the country through an exorbitant public debt, which currently surpasses \$70 billion.

This dramatic fact was widely reported and discussed when Governor Alejandro García Padilla became governor on January 2nd, 2013. Since that day, efforts to tackle the billionaire deficit begun through one of the most aggressive fiscal rescue plans ever enforced in the last twenty years.

Those efforts, extremely important yet odious as most of them are, successfully brought some balance to the revenue and expenditure ratio. But they were not enough. On February 2014, the three main credit rating agencies (Moody's, Fitch and Standard & Poor's) downgraded their rating on Puerto Rico's general obligation bonds, delivering a hard blow to the country's finances and stability.

Governor García Padilla decisively decided to deal with the Commonwealth's greatest challenge of the last decades, redoubling the Administration's efforts and took the responsibility for the country's recovery. Immediately after the first credit agency's decision, he announced the amendment of the current budget to cut its deficit from \$820 million to \$650 million. He also announced that the chapter of budgetary deficits will end through **a balanced budget for FY 2014-2015**.

- The proposed budget ends the historical budgetary gap between spending and revenue whilst keeps paying on time and in full the Commonwealth's public debt.
- The proposed budget is based on the importance of placing Puerto Rico on the track of transformation without ceasing any government employee, without harming the service government renders to the people, and without levying new taxes or any other revenue measure.
- The proposed budget is sensible to the people, as it distributes the burden of the saving measures among all sectors.
- The proposed budget is based in a new vision to achieve a more flexible, efficient and accessible government.
- The proposed budget provides new opportunities for repositioning Puerto Rico in the track of economy recovery.

FLEXIBILITY AND EFFICIENCY THAT TRANSFORM

The proposed budget considers up to \$1.4 billion in savings and allocation adjustments. Cuts in expenditures would bring \$547 million in savings. Freezing incremental expenditures slated for next fiscal year would save \$446 million. Other \$265 million will be saved by reducing public corporations' dependency on allocations from the General Fund. Other \$119 million would be saved through control measures on payroll and on certain special allocations.

Taking into account the critical fiscal situation the Commonwealth faces, this budget will drive measures to achieve the following:

- The **restructuring of government**, with 25 agencies that will merge with agencies of similar nature and purpose. This consolidation would bring \$50 million in savings to government.
- A service oriented government, without services duplicity. A government more flexible and simple. Without red tape. And to achieve all these without ceasing government employees.
- To **target government resources where they are most needed**. For example, by allocating more public servants in the collection effort of the Sale & Use Tax (IVU for its Spanish acronym), revenue from this source should increase. Also, allocating the Police's force in Police related tasks would allow policemen and policewomen on administrative chores to return to the streets to render better public safety services.
- To get rid of excessive and unnecessary resources, which means to only fill vacancies that are essential and to cut 10% of confidential employees' payroll. This Reducing confidential payroll by 10% should bring \$14 million in savings.
- To standardize all basic employment benefits in government whilst promoting better fiscal policies.
 - These measures include to level the Christmas Bonus to \$1,000 per government employee, regardless of the agency or public corporation an employee works at or whether she or he is a union or non-union employee.
 - They also include to cap payment of unused sick leave to five days per year.
- Adjustments in the employment benefits of regular government employees, including some that form part of collective contracts, should bring \$286 million in savings.

All these measures will take place under a compromise of **continuing dialogue in order to secure a better labor understanding** consistent with the agencies and public corporations' fiscal reality; a dialogue that is responsible and legal and also inspired by solidarity with, and by support to, the country's welfare during its recovery and transformation.

- Regardless of the fiscal crisis, the Administration will honor its **commitments with education and municipal governments** by maintaining unchanged the current allocations to the University of Puerto Rico and the municipalities.
- The Administration will also set **new conditions to support a better school environment** and a better allocation of resources through **a comprehensive school consolidation and reorganization effort**, based on the following criteria: schools' proximity, structural conditions, academic performance and amount of students and teachers.
 - This effort will include **a new school transportation model that will share** the transportation's responsibility among the Department of Education and the municipal governments in order to provide a better service to thousands of students throughout the island while achieving savings.

RESPECT TO PUBLIC SERVICE

Government employees are a fundamental part of the country's economic and social development and, therefore, are essential to the transformations the country needs.

Government employees are part of the solution to our fiscal problems. This administration works under a framework of fairness that does not impose blind formulas that have the effect of sacrifice and devalue working families or that burden in debt future generations.

- No government employee will be ceased on its employment or will suffer payment cuts or working hours' cuts as a result of the fiscal measures.
- All public employees will continue to work in a government run according to its real means.
- The proposed government reorganization pretends to allocate the resources where they are needed the most.
- All employees affected by the reorganization in government will have retraining opportunities and will be able to relocate their knowledge and experiences in order to strengthen public service.

A REALISTIC GOVERNMENT

A government exists for its people. That's why we need to renew our administrative structures. We need to make them more flexible and efficient, so they serve better to the people of Puerto Rico.

As a first measure toward this aim, 25 agencies will consolidate. But the transformation will continue afterwards. The Government must adjust to the reality of the services it provides and to the needs of the people. The benefits include:

- Savings through the consolidation of finances, human resources and legal affairs offices that now provide services to a small amount of employees, which is unsustainable from a government management stand of point.
- Renewal of administrative processes as the duplicity and the fragmentation of services are eradicated from government.
- Get rid of duplicity that does not make sense from a practical or economical stand of point, under a framework of respect to the rights of employees.

FLEXIBILITY AND EFFICIENCY AS A GOAL

The transformation will begin during Fiscal Year 2015 by directing government's most valuable resource –the human resource– to a more useful structure that emphasizes in the quality and promptness of services.

It has been a myth for the past decade that the government is too big and its employment suffocates the economy and the private sector. The true challenge in government is its efficiency. To make government more efficient requires to simplify its structure, which will bring the following benefits:

- Straighten the formulation of public policy, as decision-making and action in government simplifies.
- Eliminates fragmentation of services in government.

PLAN FOR THE CONSOLIDATION

Along with FY 2015's budget, the Administration will propose legislation to consolidate 25 agencies whose roles will merge with those of agencies with related or compatible missions and purposes.

- This first change will somehow touch 1,644 government employees, of which 1,368 (83%) are union employees, 55 (3%) are transitory employees and 221 (13%) are confidential employees.
- In a medium and long term basis, the Administration will keep evaluating government structures in order to decide the next changes.
- The Management and Budget Office will propose legislation to amend applicable laws toward these ends along with the consolidated budget for fiscal year 2015.
- Recipient agencies of those that merged are responsible to enforce this process without implementing or considering: 1) layoffs of government employees; 2) cut of work hours; 3) invalidate collective contracts legally agreed and in force.
- With the participation of the chiefs of merged agencies, recipient agencies will create a committee that will lead the consolidation process.
- A merged agency will become a program within its recipient agency.

- Each employee of an agency to be merged will receive via email a letter signed by the recipient agency's chief. The letter will welcome him or her to the recipient agency and will provide general information on the merging process.
- Each recipient agency will create an email account to receive all questions and concerns from the merged and the recipient agencies' employees. The committee created to lead the consolidation will answer the emails. Questions and concerns will be shared with a consolidation project manager to ensure consistency and uniformity in the answers.
- Communication and transparency throughout each consolidation process are essential. All concerned agencies will maintain an honest and continuing dialogue with all involved personnel.

THE MAIN AGENCY

The Department of Education is the agency with the biggest budgetary impact in government. The Department's expenditures represent more than a fourth of the non-consolidated total budget.

Even though the Department of Education has made its adjustments and savings in both programmatic and administrative areas, including a strict control of spending that had procured over 10% in savings, the current fiscal scenario and schools' infrastructure and enrollment data have rendered insufficient the measures undertaken by the agency.

EDUCATION SYSTEM'S REALITY

Enrollment

- In a thirty year period, school enrollment has decreased in 290,000. Causes attributable to this decrease are a reduction in Puerto Rico's birth rate and an increase of its emigration:
 - In 1980, 713,000 students were enrolled in the public system. Today we have 423,000. This is a 41% decrease.
 - Projections are that the enrollment in public schools will decrease another 25% during the next six years (by year 2020).
 - With the current birth rate, the projection is that enrollment in public schools will decrease to 317,000 students by year 2020. This means that, in six years, the Department of Education will have 100,000 fewer students than today.
 - Around 45,000 persons emigrate from Puerto Rico each year.

School buildings

- Around 62% of the 1,460 public schools are in physical conditions that range from average to very poor. Schools' physical conditions render ineffective strategic

investment in academic programs, schools' maintenance and in the avoidance of duplicity in efforts and spending.

- As a result of the decrease in enrollment, lots of schools have unused spaces and empty classrooms:
 - Only 72% of schools' physical space are currently in use.
 - A third of schools' physical space, especially in elementary schools, are unused.
 - Three out of ten classrooms are not currently in use. In six years, this ratio will be of five out of ten classrooms.
 - If we don't take action now, in six years the schools' physical space in use will shrink to 54%.
- Even though the loss of school enrollment, since 2008 only a 4% of schools have closed. That is 83 schools.
- The most aggressive school consolidation process so far happened in 2010, when 40 schools closed. But the only criteria to close a school was its enrollment. Those schools with an enrollment of a hundred or less students closed.

Academic Underperformance

- Most of the schools do not enjoy optimal levels of academic performance.
- Less than 50% of the Department of Education's students get proficient or superior level results in the Puerto Rican Tests of Academic Performance (PPAA for its Spanish acronym) in Spanish, Mathematics and English. Only in Science the proficient or superior level is of over 50%.

49% Spanish	44% English
33% Mathematics	55% Science

School Consolidation 2014

- Public schools evaluation is an annual process made to increase the quality of education. It is made taking into consideration several factors, mainly:
 1. A decrease in enrollment.
 2. The physical condition of the school, the investment necessary to update the school and an assessment on the cost-effectiveness of the investment.
 3. A low level of academic performance.
- Schools with a higher probability of consolidation during next academic year (2014-2015) will be those that meet the following main criteria:
 1. School's physical conditions and its learning resources.
 2. Academic performance (PPAA, adequate yearly progress, academic interventions, etc.)
 3. School's building level of use and enrollment trend.
 4. Proximity of recipient schools.
- Taking an on time decision to consolidate a group of schools into others has the following benefits:
 - Avoids last-minute actions that are harmful to the learning process.

- Prevents temporary measures that become unsustainable over time, like those taken during the previous years that did not solve the Department of Education's great challenges.
 - Stops the each time bigger deficiencies in the Department's budget.
- The benefits of school consolidation are numerous:
 - Savings achieved can be invested to improve schools in use and their academic offerings.
 - Students from a school with a history of low academic performance can enroll in a school with a higher level of academic performance.
 - Investments on schools' infrastructure and on academic programs becomes more strategic.
 - Amount of schools in use are more in line to the amount of students.
 - Lower electric power, water and sewer service, security, internet and maintenance costs, among others.
 - A lower budget in the Department of Education without harming its programs.
- The average budget of schools considered for consolidation is \$800,000.
- Annual savings from each consolidated school totals \$250,000.
- The consolidation of ten schools can provide \$25 million in annual savings.
- Consolidation plans does not include ceasing teachers nor any other personnel.
- Teachers and other employees will work in the recipient schools (except those who retired) or will be assigned to other schools.

School consolidation in the US

- The Department of Education's graduation rate is very low when compared with public schools in the United States. Puerto Rico's rate is of 60%. This is:
 - 18% lower than the average graduation rate in the United States' public schools.
 - 30% lower than the average graduation rate of the state with the higher rate (Wisconsin).
- Experience in other jurisdictions shows possibility of meaningful savings and academic improvement after a school consolidation process.
- Assessment of school consolidation processes in Chicago, Michigan and Washington, D.C., showed no harm in student academic performance.
- Average savings in US school districts that went through consolidation processes ranged from \$500,000 to a million dollar per school (Pew Foundation, 2011, 2013).
 - Philadelphia - \$28 million annually (37 schools)
 - Pittsburgh - \$14.7 million annually (22 schools)
 - Washington, D.C. - \$16.7 million annually (23 schools)
- These savings come, generally, from a reduction of administrative services without a need to cease teachers.