

CARIBBEAN BUSINESS

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Whose money is it anyway?



A full 30% of local government's budget comes courtesy of Uncle Sam.

By Carlos Márquez
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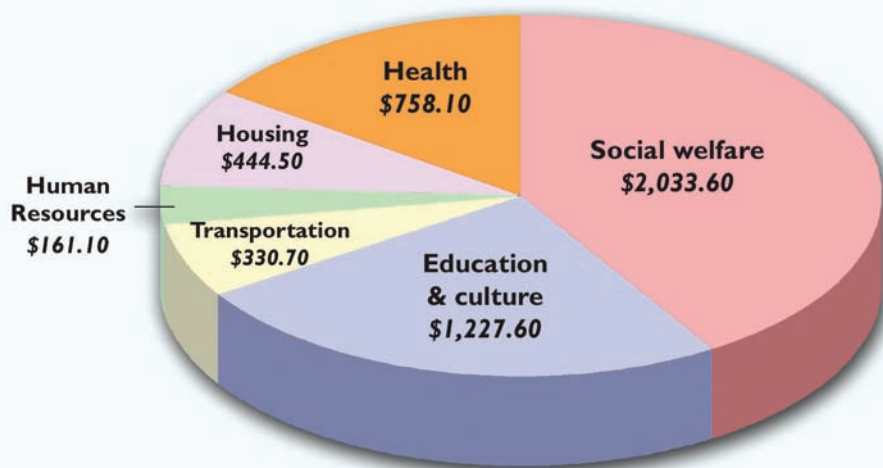
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Federal largess

Local government and public corporations to receive \$5.7 billion in federal-fund grants in FY '09; in addition, approximately \$12 billion in payments to be received directly by individuals and another \$6 billion for loans, guarantees and insurance

Federal contributions by selected sectors
Fiscal Year 2008-2009 (\$ in millions)



Source: Office of Management & Budget



BY CARLOS MÁRQUEZ
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The Commonwealth government—including the central government and its public corporations—will receive \$5.73 billion in grants from the federal government this fiscal year. That's 22% of the local government's \$26.6 billion in total resources for the year.

Although the approximately \$12 billion in federal funds that will be received directly by individuals in Puerto Rico this fiscal year is far from having been determined at this point—in fact, the most recent Consolidated Federal Funds Report for Puerto Rico is the one for fiscal year 2006—CARIBBEAN BUSINESS obtained exclusive access to the amounts that the local government will receive from Uncle Sam in Fiscal '09, which is in addition to the amount to be received directly by individuals.

Of the \$5.73 billion to be received by the local government, \$4.1 billion will go to the central government and

\$993 million to public corporations. In addition, the central government will get another \$588 million in federal funds left over from FY '08, for a total of \$5.73 billion in FY '09.

So, if you think Puerto Rico's central government's budget is the \$9.48 billion approved by the Legislature and just signed by the Governor, follow this math: the \$4.1 billion to be sent this year by Uncle Sam to Puerto Rico's central government represents 30% of its total actual budget. In other words, the central government's budget is really not the \$9.48 billion approved by the Legislature and signed by the governor, but \$13.58 billion, 30% of which comes directly from Washington.

The consolidated budget of the Commonwealth government—including public corporations such as the Puerto Rico Electric Power Authority and the Puerto Rico Aqueducts and Sewer Authority, among others—is approximately \$26.6 billion and is divided into six main areas

Federal funds “have a trickle-down effect, stimulating activity...[among] contractors, suppliers and other businesses involved in managing and operating federally-funded programs.”

—Jorge Silva Puras
Fortaleza Chief of Staff

according to the source of revenue. These areas include: the \$9.48 billion so-called “general fund” that must be approved by the Legislature; \$7.94 billion in revenue mostly generated by public corporations (electricity, water, tolls, transportation, etc.); \$579.5 million from “special state funds;” \$1.793 billion from loans; \$1.043 billion in “other income” and the \$5.73 billion in federal grants to the Commonwealth (See chart).

“The funding that results from the federal-Commonwealth partnership brings crucial benefits to our citizens, businesses and government operations. We make responsible use

of federal resources to improve our health, housing and quality of life,” said Armando Valdés, executive director of the Office of Management and Budget.

This federal government aid (grants) to the government of Puerto Rico comes in the form of direct cash grants, payments for grants-in-kind—such as purchases of commodities (e.g., school lunch and breakfast programs) and payments to nongovernmental entities when such payments result in cash or in-kind services passed on to the

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Commonwealth government, among others.

During the last 35 years the federal government has transferred, free of charge, more than \$55 billion to the central government, public corporations and municipalities (CB Special Edition, Feb. 2008).

THE IMPACT BEHIND THE NUMBERS

Numbers this size are difficult to assail, so CARIBBEAN BUSINESS decided to look beyond the numbers to try to understand their impact on people's lives. What does all that money buy? Who benefits and who would be most affected if those funds were not available?

While it is highly unlikely that the stream of federal funds to Puerto Rico would be cut off overnight, the fact is that there's no consensus among politicians on how important they are for Puerto Rico's economy.

Independence advocates say we could do without them; statehooders argue that without federal funds the island's economy would go into a tailspin. Last week, the Popular Democratic Party officially adopted a proposal by Caguas Mayor Willie Miranda Marín for a transition whereby the annual transfer of federal funds to the government of Puerto Rico would cease in exchange for a lump sum up front equivalent to what Puerto Rico would receive over a 20-year period.

The amount—approximately \$140 billion—would be deposited in a trust fund, and Puerto Rico would finance its needs from the proceeds.

"Importantly, the funds we receive have a trickle-down effect, stimulating activity not only in the specific program area, but also providing infusion of funding and work for contractors, suppliers and other businesses involved in managing and operating federally-funded programs," said Jorge Silva



Puras the Governor's chief of staff.

"The Governor and others have worked hard to maximize these opportunities, obtaining increased funding that is helping to improve our education system, allow people to find jobs, and expand healthcare options. As we have improved the management of federal funds, new resources have been obtained to improve our public housing system, expand highways, airports and other infrastructure and ensure the welfare of our population," added Valdés.

35% OF EDUCATION DEPARTMENT

The Puerto Rico Department of Education receives funds from more than 50 different federal programs. Out of its \$3.8 billion total budget for FY '09, \$1.36 billion come from federal grants. This represents an increase of \$160 million over FY '08.

"We make responsible use of federal resources to improve our health, housing and quality of life."

—Armando Valdés
Executive Director
Office of Management and Budget

The impact touches most of the 544,232 students enrolled in Puerto Rico's public education system distributed over 1,523 schools, including special education programs for about 97,284 eligible students and 32,951 students participating in the adult education program. Some \$23.2 million in federal money are provided for adult education programs and literacy services for those adults who lack sufficient mastery of basic skills.

To develop more fully the academic, career and technical skills of secondary and postsecondary students who elect to enroll in career and technical education programs, the federal government provides \$17.9 million.

To help schools improve the teaching and learning of children failing or at risk of failing, the federal government provides \$438.5 million. Programs to help children with impairments receive \$97.9 million. To promote improvement in library services the federal government provides \$2.3 million. Another \$6.6 million target reconstruction and renovation for removal of architectural barriers.

The Department of Education will also receive \$8.4 million from the federal Pell Grant program for eligible undergraduate postsecondary students and \$585,000 for honor scholarships.

Not included in these grants are more than \$600 million in Pell Grants allocated to ensure a college education for more than 150,000 Puerto Rico students who might otherwise not be able to afford one, while \$259.3 million are provided for federal student loans.

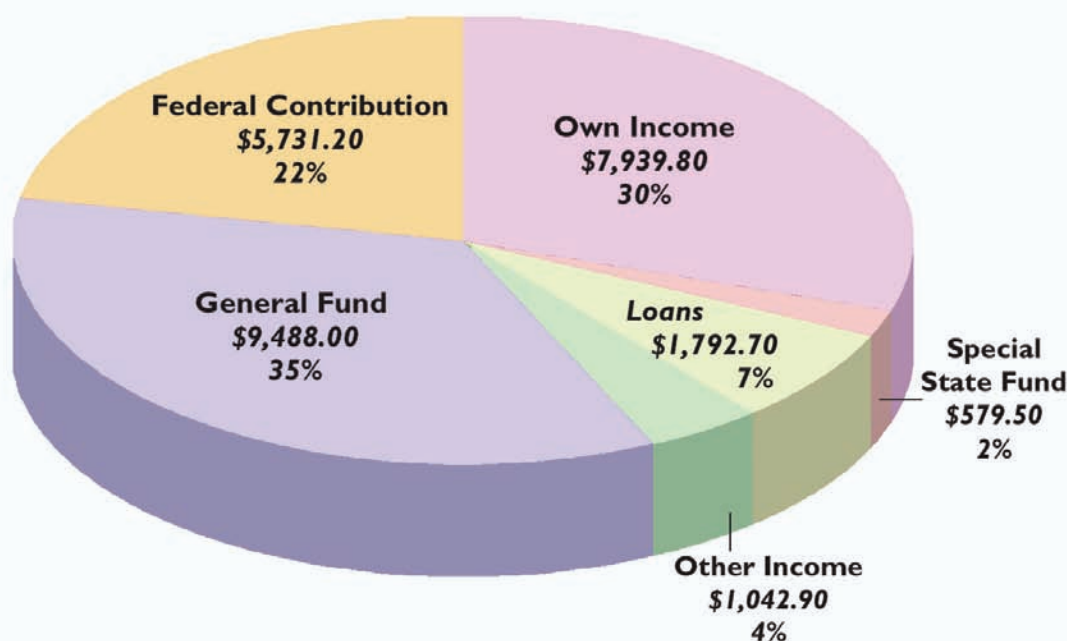
To cover preschool special education for children between the ages of three and five, the federal government provides \$3.5 million, and \$7.8 million are granted for school safety and drug prevention.

The island's 42,452 teachers in the public school system also benefit from federal money.

SCHOOL LUNCHES

The federal government School Lunch Program

Consolidated resources by source
Fiscal Year 2008-2009 (\$ in millions)



Source: Office of Management & Budget

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provides \$232 million in cash grants to the Education Department.

The School Lunch Program provides approximately 21.9 million breakfasts, 59.9 million lunches and 3.5 million snacks during the school year and another 4.9 million meals during the summer program. It also provides work for 8,303 employees.

The Summer Food Service Program provides \$11.2 million to conduct nonprofit food service programs for low-income children during the summer months and at other approved times, when schools are out of session or closed for vacation.

The federal government provides \$2.15 million to the Commonwealth for administrative expenses to run the Child Nutrition Program and \$24.7 million to assist Puerto Rico through grants-in-aid to maintain nonprofit food service programs for children, elderly or impaired adults in nonresidential daycare facilities and children in emergency shelters through the Child and Adult Care program.

Puerto Rico will receive \$117 million in FY '09 for the Head Start Program. Head Start provides comprehensive education, health, nutrition and parent-involvement services to low-income children and their families.

Created in 1965, Head Start is the longest-running program to address systemic poverty in the U.S. As of late 2007, more than 22,000 preschool-aged children were participating in Head Start in Puerto Rico.

FOOD FOR 25% OF THE PEOPLE

Households in Puerto Rico will receive \$1.7 billion from the federal government to purchase food in FY '09.

The Puerto Rico Planning Board reports \$7.2 billion in total food consumption in Puerto Rico, which will make federal contributions equivalent to 23.4% of all food expenditures on the island.

The federal government provides an annual grant to the Puerto Rico Family Department through the Nutritional Assistance Program (PAN by its Spanish acronym) to feed more than 25% of Puerto Rico residents through the so called *Tarjeta de la Familia*.

Add the money to be received from Uncle Sam, and the local budget becomes \$13.6 billion, placing the whole budget debate in a new perspective.

PAN is a cash grant alternative to the U.S. Food Stamp Program to improve diets of needy people residing in Puerto Rico. Currently, 1.1 million low-income individuals, or 525,000 families, are eligible for benefits as determined by the Commonwealth.

The Temporary Assistance for Needy Families (TANF) program will grant Puerto Rico \$121.6 million to assist needy families so their children can be cared for in their own homes.

The local Family Department's Socioeconomic Development Administration will have a total budget of \$1.8 billion in FY '09, of which \$1.7 billion or 94% will be federal grants.

BASIC HEALTH TO 1.5 MILLION

Of the \$837.1 million budget of the Puerto Rico Health Department, \$437.8 million or 51% are federal funds. These federal grants include programs such as the Supplemental Nutrition Program for Women, Children and Infants (WIC), Medical Assistance Program and HIV Care Formula Grants, among others.

Puerto Rico receives more than \$268 million in Medicaid. Most of the money is spent in the local government's health program for the indigent, better known as the *Tarjeta de Salud*. About 1.5 million local residents were eligible in FY '06.

Puerto Rico receives more than \$205 million a year in the WIC program. WIC supports the nutritional needs of 95,670 pregnant women, 161,175 infants and 409,747 children. There are more than 700 commercial establishments in Puerto Rico qualified as WIC program providers.

The Health Department's Mental Health Services and Anti-Addiction Administration (AMSSCA by its Spanish acronym) receives \$32.6 million in federal money, or approximately 20% of its total budget.

\$462.9 MILLION FOR HOUSING

The Puerto Rico Public Housing Authority (PHA) receives \$230 million in federal funds for low-income housing. An additional \$51.2 million is placed in the Public Housing Capital Fund for capital and management activities, including modernization and development of public housing.

The PHA operates more than 55,000 units of public housing on more than 325 properties located in 76 municipalities throughout the Commonwealth and is the second largest public housing authority in the nation.

To aid low-income families in obtaining decent, safe and sanitary rental housing, federal grants will provide \$119 million this year to the PHA-administered Section 8 rental certificate program. Another \$5.8 million is provided for hazard mitigation assistance.

Separately, federal funds represent 57.3% of the Puerto Rico Housing Department's \$109.3 total budget.

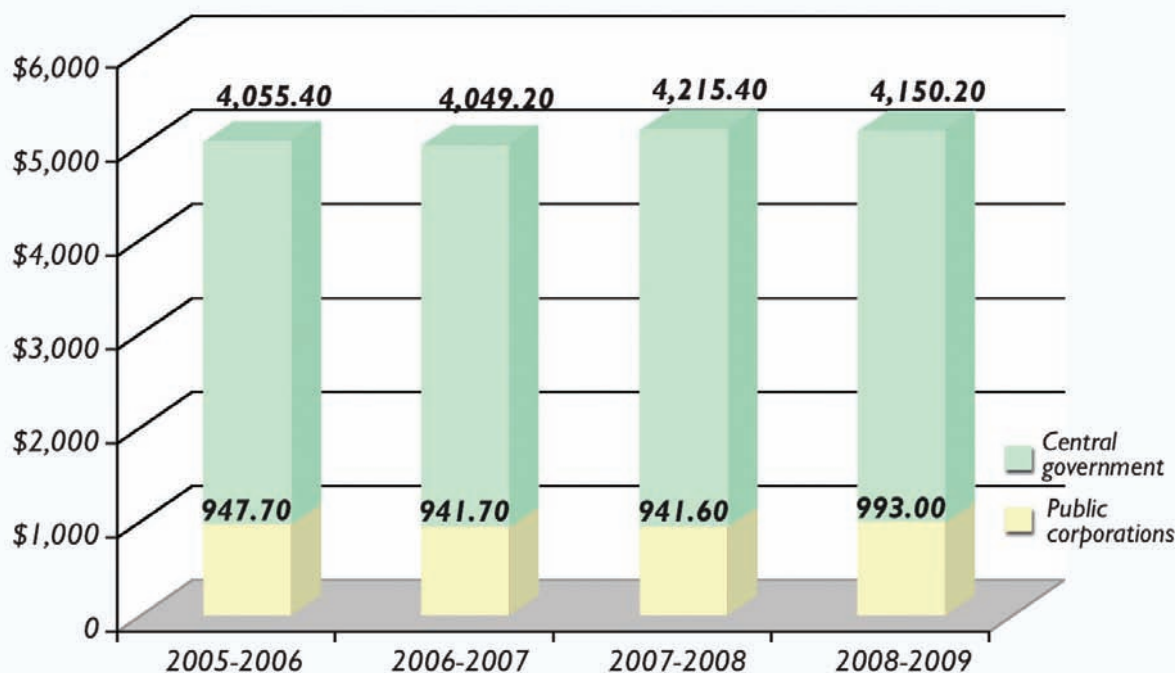
The Puerto Rico Housing Department receives funds from the Home Investment Partnership Program, the Section 8 Rental Certificate Program and Section 8 Housing Choice Vouchers.

\$295 MILLION FOR TRANSPORTATION

To assist the Commonwealth's transportation needs, the federal government will provide \$233.5 million for the construction, improvement and rehabilitation of public roads. These funds are generally restricted to roads open to the public and are not functionally classified as local.

Federal aid may be used for surveying, engineering, right-of-way acquisition, and relocation assistance for capital improvement projects. The latter must be classified as new construction, reconstruction and improvements for functional, geometric or safety reasons, as well as so-called 4R projects (restoration, rehabilitation, resurfacing,

Federal contributions
(\$ in millions)



Source: Office of Management & Budget

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New website provides federal funding info

BY CARLOS MARQUEZ
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People interested in information about federal funds received by the Puerto Rico government, including grant opportunities, can check out the new website of La Fortaleza's Federal Affairs Office (FAO).

A new section links to federal agencies and provides application guidelines and other helpful information related to federal funds for the island. The address is www.fortaleza.gobierno.pr/asuntos_federales.

"I am proud to say the site created by La Fortaleza for the Federal Affairs Office stands alone in Puerto Rico as one of the best sources of instructive material and up-to-date information regarding federal funds on the island," stated Chief of Staff Jorge Silva Puras.

One of FAO's objectives is to oversee and coordinate all government efforts to apply for and manage federal funds.

The website also posts weekly notices of newly available federal grants, statistics on annual federal funds received by public

entities and news about pending legislation in Congress.

"It is a very useful tool for agencies, municipalities, corporations, nonprofit organizations and anyone who wants to navigate through the extensive opportunities for federal funds available to Puerto Rico," he added.

The site features resources to seek and apply for funds through the grants.gov database, a source that provides information on more than 1,000 grant programs and provides access to nearly \$400 billion in annual awards.

The site also includes federal student assistance programs and even an opportunity to apply for an internship at the FAO. Students may link to external search engines that have more than 600,000 scholarship opportunities and complete online applications for admission to stateside universities.

Other links included are for the Free Application for Federal Student Aid (Fafsa), College Board, National Foundation of Scholarships for Hispanic Students and other resources on career research opportunities. ■

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and reconstruction).

Federal transportation funds are also used for:

- Planning, research, development and technology transfer
- Intelligent transportation projects
- Roadside beautification
- Wetland and natural habitat mitigation
- Traffic management and control
- Improvements necessary to accommodate other transportation modes
- Development and establishment of transportation management systems
- Billboard removal
- Construction of bicycle facilities and pedestrian walkways
- Fringe and corridor parking
- Car pool and van pool projects

- Transportation enhancements such as scenic and historic highway improvements and recreational trails.

The Metropolitan Bus Authority expects \$26.1 million to renew its bus fleet, and the Maritime Transportation Authority will receive another \$35.2 million for the water transportation fleet and terminals.

The federal government is also expected to provide \$10.6 million to the Highways Authority through the Federal Transit Capital Investment Grants program to assist in financing the acquisition, construction, reconstruction, and improvement of facilities, rolling stock and equipment for use in public transportation.

For airport improvement, federal programs will provide \$9.6 million in FY '09, in addition to more than

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Government agencies that will receive \$5.1 billion in Federal Aid in FY '09 (\$ in thousands)

Agency	Amount
Energy Affairs Administration	\$ 594
Corrections Administration	\$ 16,248
Family Socioeconomic Development Administration	\$1,708,998
Family & Children Administration	\$ 54,669
Juvenile Institutions Administration	\$ 1,293
Natural & Environmental Resources Department	\$ 5,817
Vocational Rehabilitation Administration	\$ 70,364
Health Insurance Administration	\$ 278,193
Mental Health & Anti-Addiction Services Administration	\$ 32,599
Public Housing Administration	\$ 281,412
Right to Employment Administration	\$ 2,903
Child Care & Development Administration (Acuden)	\$ 162,940
Child Support Administration	\$ 24,362
State Emergency Management Agency	\$ 2,983
Municipal Revenue Collection Center	\$ 649
Metropolitan Bus Authority (AMA)	\$ 26,080
Highway & Transportation Authority	\$ 233,456
Maritime Transport Authority	\$ 35,240
Ports Authority	\$ 35,901
Housing Finance Authority	\$ 125,319
Public Service Commission	\$ 718
Traffic Safety Commission	\$ 11,090
Puerto Rico Industrial Development Company (Pridco)	\$ 2,500
National Park Service	\$ 417
Human Resources & Occupational Development Council	\$ 127,949
Higher Education Council	\$ 2,650
Employment & Training Enterprises Corp.	\$ 245
Puerto Rico Public Broadcasting Corp.	\$ 2,200
Fire Department	\$ 169
Agriculture Department	\$ 1,672
Consumer Affairs Department	\$ 1
Corrections & Rehabilitation Department	\$ 525
Economic Development & Commerce	\$ 747
Education Department	\$ 968,683
Justice Department	\$ 10,391
Health Department	\$ 437,469
Housing Department	\$ 62,553
Labor & Human Resources Department	\$ 30,284
School of Plastic Arts	\$ 505
Puerto Rico National Guard	\$ 20,414
Forensic Science Institute	\$ 1,254
Institute of Puerto Rican Culture	\$ 588
Environmental Quality Board	\$ 9,557
Planning Board	\$ 2,664
State Historic Preservation Office	\$ 540
Women's Advocate	\$ 2,203
Municipal Affairs Commissioner's Office	\$ 47,882
Office of the Governor	\$ 175
Advocate for People with Disabilities	\$ 2,277
Advocate for the Elderly	\$ 17,341
Puerto Rico Police Department	\$ 5,758
Family Department	\$ 19,105
University of Puerto Rico	\$ 252,398
Total	\$5,142,944

Source: Office of Management & Budget

Total FY '06 federal funds to Puerto Rico were \$22.26 billion

BY CARLOS MARQUEZ
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In addition to the \$5.7 billion in grants the Commonwealth government is expected to receive from the federal government in fiscal year 2008-2009 (see main story), there are four additional categories through which federal funds are channeled to Puerto Rico residents.

According to the latest Consolidated Federal Funds Report for federal FY 2006 (Oct. 1, 2005 to Sept. 30, 2006), Puerto Rico received \$22.3 billion in federal funds and programs during the fiscal year.

Total direct federal funds to Puerto Rico reached \$16.2 billion. An additional \$6.03 billion was attributable to other federal assistance programs, such as loans, loan guarantees and insurance coverage.

To put it in perspective, \$16.2 billion represents approximately 30% of the island's gross product. On a per-capita basis, Puerto Rico's share of direct federal funds was \$4,132.

The \$16.2 billion in FY '06 break down as follows:

- \$6.4 billion for direct retirement and disability payments to individuals, mainly Social Security.
- \$3.02 billion for direct payments to individuals other than for retirement and disability (such as Medicare and unemployment compensation).
- \$4.8 billion for grants, which in Puerto Rico includes the Nutritional Assistance Program.
- \$673 million for federal procurement contracts.
- \$1.01 billion for federal-employee salaries and wages.

The major components of direct Social Security payments were retirement insurance (\$2.6



billion), survivors insurance (\$1.2 billion) and disability insurance (\$1.7 billion).

The Social Security program provides benefits to retirees and to families when a worker retires, dies or becomes disabled. In Puerto Rico, benefits were paid in 2003 to 698,010 people. This number included 317,870 retired workers, 134,990 disabled workers, 100,510 children, 81,220 widows and widowers and 63,420 wives and husbands.

Services are also provided to families of disabled individuals when such services will contribute to the rehabilitation of such individuals who are being provided vocational rehabilitation services.

Almost \$30.9 million in federal grants are provided to the Puerto Rico Child Support Administration (Asume, by its Spanish acronym) to enforce child-support obligations of absent parents. This includes locating absent parents, establishing paternity and obtaining child, spousal and medical support.

Asume handled more than 400,000 cases last year and channeled more than \$332 million in child-support payments.

RECENT CHANGES

"Our administration has fought long and hard

Six out of 10 Puerto Rico residents 65 years or older receive Social Security. More than 50% of the population 65 years or older depends on Social Security as the only source of income.

During the past 35 years, the federal government has made more than \$90 billion in Social Security payments to island beneficiaries, while island workers and employers have contributed more than \$50 billion to the program.

In FY '06 Puerto Rico residents also received \$3.4 billion in other direct payments to individuals, such as Medicare, unemployment compensation and housing assistance. There are more than 550,000 people enrolled in the Medicare program.

During the past 35 years, Puerto Rico residents have received more than \$25 billion in Medicare benefits.

The federal spending report provides information on the \$4.8 billion in grants awarded by different federal agencies to state and local governments, nonprofit organizations and the private sector. In FY '06, most of that funding went to the Commonwealth central government.

In salaries and wages, the federal government spent \$1.01 billion to its own military and nonmilitary personnel in Puerto Rico during FY '06.

Total federal assistance through loans and insurance programs was an additional \$6.03 billion. During FY '06, the federal government provided \$37.9 million in direct loans in Puerto Rico. Federal loan guarantees amounted to \$1.02 billion. The volume of coverage through insurance programs, such as flood, crop and life insurance for veterans, was \$4.97 billion. ■

to improve the way government agencies are managing and operating federally funded programs," added Silva Puras, the governor's chief of staff.

These efforts, he says, have resulted in increased federal funding and in more local authority over the administration of those federal funds and programs.

"During the past seven years there have been three significant changes which impact the level of federal support for the Commonwealth," he concluded, pointing to the 2001 lifting of the Title I cap, a critical 2007 change in federal housing subsidies, and the 2004 enactment of the Medicare Advantage program, which has "dramatically increased healthcare benefits for 370,000 Medicare recipients in Puerto Rico." ■

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\$90 million provided during the last three fiscal years.

EMPLOYMENT, ASUME

In FY '09, the Puerto Rico Human Resources and Development Council is expecting \$127.9 million in federal funds, while the Vocational Rehabilitation Administration will receive \$70.4 million and the Labor and Human Resources Department's share will be \$30.3 million.

More than \$70 million are expected to support employment services to individuals in Puerto Rico with severe disabilities. The funds assist Puerto Rico in operating comprehensive, coordinated and effective vocational rehabilitation programs.