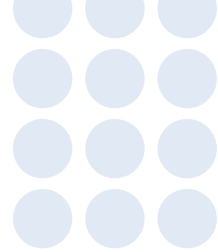






FY27 Commonwealth (“CW”) Budget Submission to Legislature


May 2026


FY27 Commonwealth outlook: managing risks, maintaining discipline



 **Revenue trends are flattening**, with revenue growth momentum slowing following the post-pandemic recovery, reinforcing the **need for cautious fiscal planning**

 The FY27 **Proposed General Fund budget remains flat**, reflecting alignment of spending with a more constrained and **uncertain revenue outlook**, and represents just under 40% of all-funds budget

 Notable risks exist, particularly because any **additional Medicaid spending must be covered by the Commonwealth** since the annual federal funding cap has been reached; therefore, the FY27 General Fund Budget incorporates additional budget controls, particularly for State Plan Amendments

 **Disciplined fiscal safeguards remain central to long-term planning**, which include the development of a five-year financial plan, building reserves, and maintaining transparency in budget funding decisions to strengthen risk management and promote long-term stability

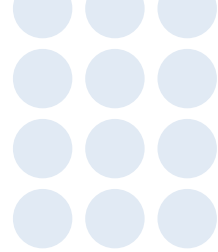


Understanding Today's Scope: FY27 General Fund in Context

- ❑ The **FY27 Proposed General Fund** budget of \$13.181 billion represents just under **40% of the All Governmental Funds budget**.
- ❑ The **Oversight Board currently reviews Special Revenue Funds separately**. In most **states**, it is standard practice to **appropriate both** special revenue and federal funds.
- ❑ The Commonwealth also relies on **Special Revenue Funds** and **Federal Funds**, which together account for **almost two-thirds** of total available resources.
- ❑ Today, **capital projects remain within the General Fund**; looking ahead, a recently introduced bill, if enacted, **would initiate the transition to a dedicated Capital Projects Fund** within the All Governmental Funds.
- ❑ The full **All Governmental Funds** budget will be certified by **June 30, 2026**, consistent with the statutory timeline.



General Fund revenue is expected to remain relatively flat in the current year after no growth in the previous two years, driving a cautious approach to the FY27 budget development process



Revenue Momentum Has Slowed

► Revenue momentum has slowed, with **collections stabilizing** after the post-pandemic rebound

Flat FY26 Trends

► Preliminary FY26 revenue data suggests **a continued flat revenue environment**, with significant global macroeconomic uncertainty heading into FY27

Need for Tax Reform

► Tax reform is critical to **promote economic growth** going forward and support Special Revenue Fund economic development investments

Updated Forecast in Development

► An updated **all-funds revenue forecast** is being developed to ensure **expenditures are aligned** with revenues going forward

Importance of Reserves & Safeguards

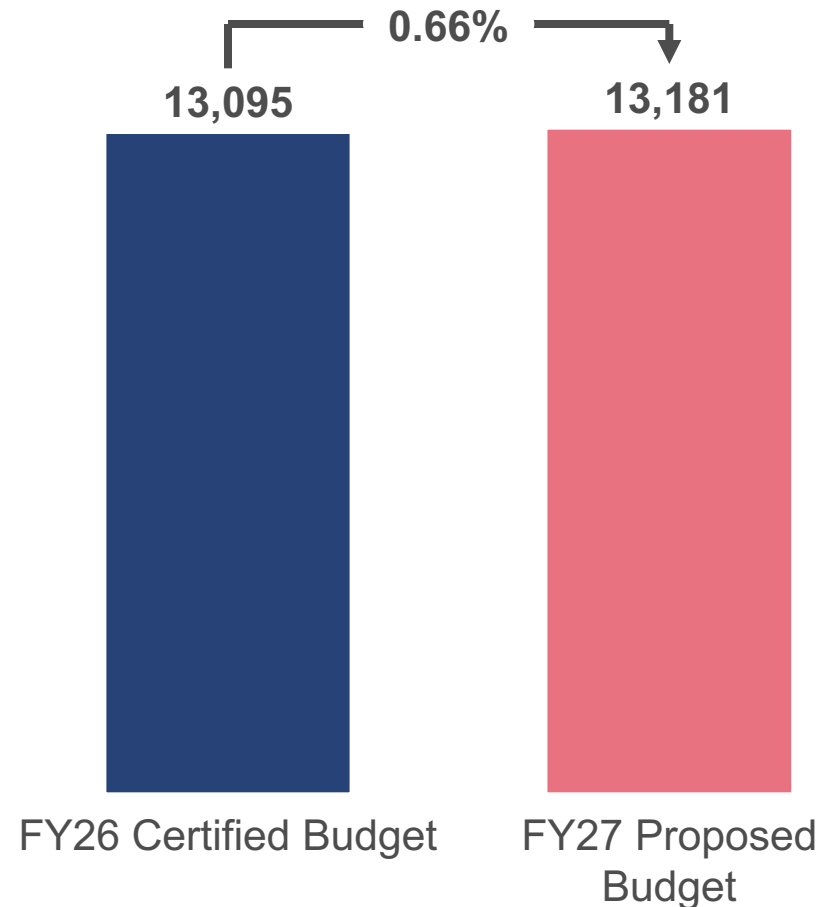
► The current revenue environment reinforces the **importance of maintaining reserves and other fiscal safeguards** to preserve budgetary flexibility amid volatility in recurring revenue collections



The Proposed FY27 General Fund budget reflects a slight increase impacted by updated projections for the Pension Reserve Trust and Medicaid

FY26 Certified Budget to Proposed FY27 Budget

(\$ in millions)



Increases

- ▶ Net increase in **Pension Reserve Trust (PRT) contributions** based on the Fiscal Plan estimates
- ▶ Higher Medicaid costs driven by **updated MCO contract**

Decreases

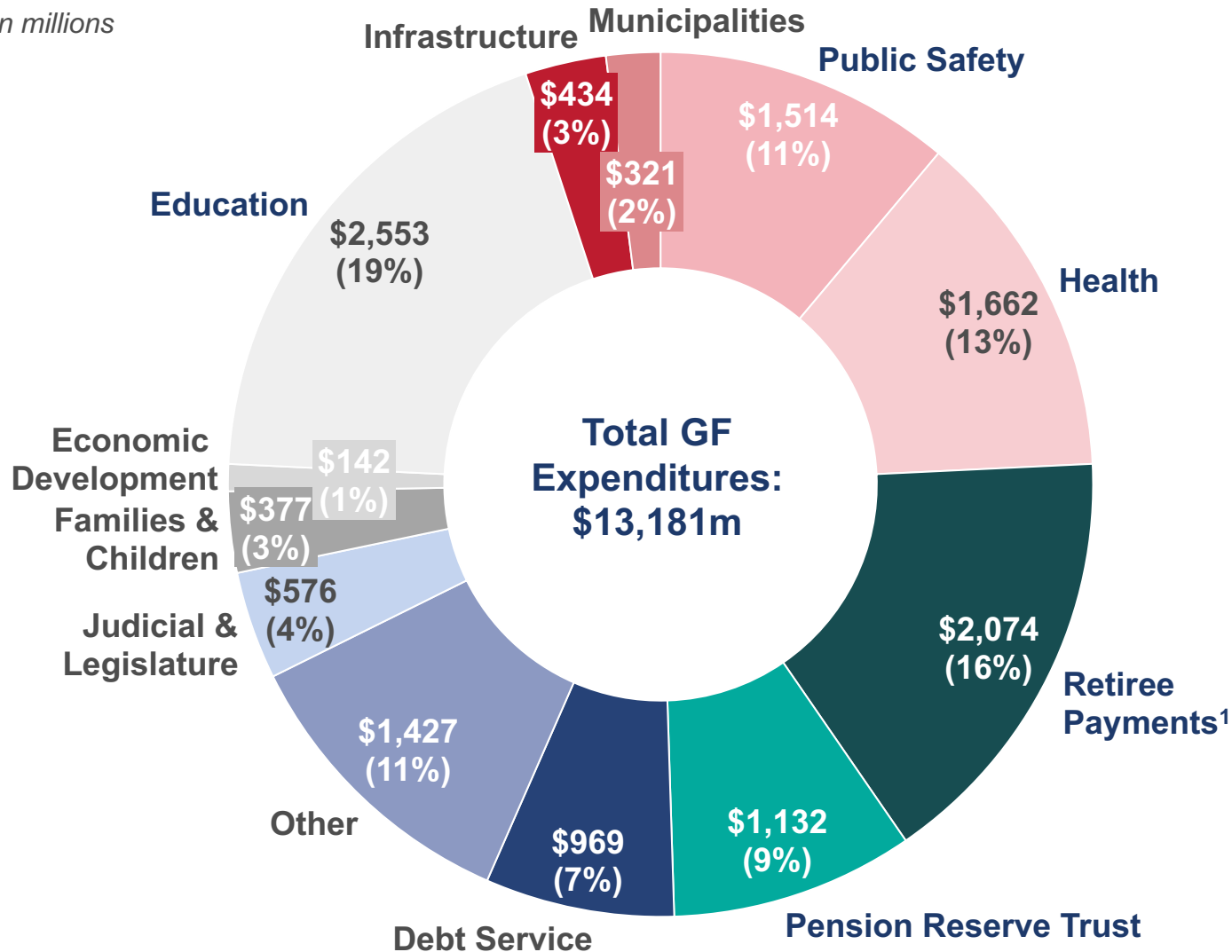
- ▶ Debt service declines reflecting the **bond amortization schedule**
- ▶ Additional decreases reflecting **expiration of the PREPA ERS loan and the Medicaid Reserve**

1. Higher rum cover over related payments are reflecting the supplemental \$2.75 per proof gallon enacted by Congress effective January 1, 2026



Almost 68% of the Proposed General Fund budget is allocated towards Education, Public Safety, Health, and Retiree-related purposes

\$ in millions









- ▶ The budget **reallocates agency savings** identified by the Government to support new priorities
- ▶ **Incremental funding is targeted towards priority service areas** including public safety, health, education, municipalities, infrastructure, and government capacity
- ▶ Overall, the total General Fund **remains relatively flat year-over-year**, while maintaining fixed commitments such as debt service

1. Retiree Payments includes \$2,037m for PayGo and \$37m for Police Act 106 Retirement Contributions

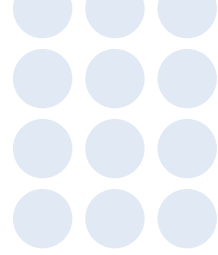


FY27 Proposed Budget builds upon the budget targets and includes numerous investments that will improve public safety, increase services for students, and benefit the residents of Puerto Rico

(\$ in millions)

	Public Safety	\$112	<ul style="list-style-type: none"> ▶ Appropriated funds for police officers salary increases, police body vests, police facility repairs, and interview room construction
	Health and Social Wellbeing	\$96	<ul style="list-style-type: none"> ▶ Designated funding for Medicaid system implementation, disabled adult/senior care services, childcare voucher initiative, PRACSES, and nurse salaries and recruitment
	Education	\$80	<ul style="list-style-type: none"> ▶ Allocated incremental funds for student transportation, student therapy services, and Public School Alliances
	Municipalities	\$61	<ul style="list-style-type: none"> ▶ Distributed Municipal service reform funding for initiatives such as Ama de Llaves and paramedics, while allocating incremental funding for the Municipal Management Initiative
	Infrastructure	\$60	<ul style="list-style-type: none"> ▶ Earmarked funding for road repairs, portable flood pump leases, HMS ferries contract, Clean Water State Revolving Fund, and YMCA facility rehabilitation
	Government Capacity	\$33	<ul style="list-style-type: none"> ▶ Reserved funds for the Initiative for Deregulation and Administrative Efficiency (IDEA), AI forecasting model development, and funded other workforce skill development services

There are ongoing risks that will need to continuously be monitored as part of the FY27 budget certification process



Medicaid

- ▶ Potential increases in the MCO contract could increase the Commonwealth funded portion of Medicaid costs

Tax reform and other legislation

- ▶ Legislation enacted that impacts FY27 revenue or expenditure projections

Legislature budget requests

- ▶ Legislature may recommend further changes to approved FY27 budget decisions

Loss of federal funding

- ▶ Programs that have been funded with federal dollars will need to find alternative funding sources

PREPA Title III support

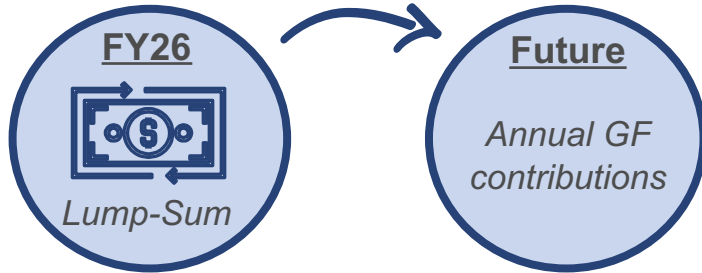
- ▶ A portion of the settlement required per the PREPA Plan of Adjustment may need to be funded with a portion of FY27 resources



Tax Rebate discussions with the Government helped accelerate alignment on fiscal reforms the Government must implement to strengthen fiscal discipline



Budget Stabilization Fund

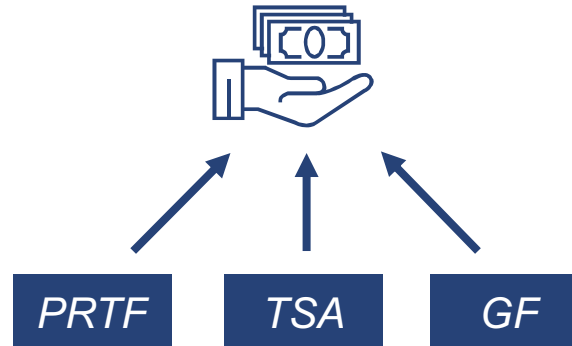


Establishes a dedicated reserve to manage revenue shortfalls or in response to extraordinary/catastrophic events

- ▶ Mandatory annual funding builds reserves to a required balance of 13.5% of GF expenditures
- ▶ Strict conditions limit usage to support revenue shortfalls (not due to tax policy changes) or extraordinary events
- ▶ Annual reporting requirement of fund balance and interest earned
- ▶ Allows for loans to the GF that must be repaid in the same fiscal year



Capital Projects Fund



Centralizes and formalizes capital planning and infrastructure funding

- ▶ Dedicated funding stream restricted to infrastructure investment
- ▶ Requires a distinct capital planning and financing process
- ▶ Segregates funds to prevent diversion to non-capital uses
- ▶ Requires Government to prepare a comprehensive five-year capital program and financing plan



5-Year Financial Plan



Strengthens transparency and accountability in fiscal planning

- ▶ Standardizes assumptions and methodologies across projections
- ▶ Requires comprehensive disclosure of key drivers and risks
- ▶ Expands reporting requirements, aligned with U.S. GAAP
- ▶ Phased implementation with enhanced disclosure starting FY2028



