



COMMONWEALTH OF
PUERTO RICO

Government Development Bank
for Puerto Rico



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PUERTO RICO

Treasury Department



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TREASURY SECRETARY AND GDB INTERIM PRESIDENT COMMENT ON S&P'S REAFFIRMATION OF COFINA RATINGS AND ON FISCAL AND ECONOMIC PLANS

San Juan –Today, Treasury Secretary Melba Acosta Febo and Government Development Bank for Puerto Rico (GDB) Interim President José V. Pagán Beauchamp commented on the announcement by Standard & Poor's that it has reaffirmed its ratings on outstanding Sales Tax Financing Corporation (COFINA, by its Spanish acronym) bonds, and provided an update on the significant measures the Commonwealth has taken this year to strengthen its fiscal situation and promote economic growth.

"We are pleased that S&P has reaffirmed its ratings on the COFINA I and COFINA II bonds. We are also encouraged by S&P's focus on COFINA's strengths, such as a large and stable tax base, a robust legal structure designed to protect bondholders and strong historical coverage levels, as well as their recognition of the positive impact the recent expansion of the Sales and Use Tax (SUT) base will have on the credit. The SUT remains an important source of revenue for the Commonwealth, with SUT proceeds growing at an average annual rate of 2.4% over the past four years and expected to grow significantly in FY 2014 once the 28.7% expansion of its tax base is fully implemented. With regard to the change in outlook, we are confident that we can make continued, significant progress on our fiscal and economic development plans within S&P's two-year horizon."

"Since January, this administration has implemented a number of very significant actions to strengthen Puerto Rico's fiscal situation, including an unprecedented reform of our pension system, measures to create self-sufficiency at our public corporations, and increased tax revenues. These actions support sustainable economic growth through job creation and continued progress towards a balanced budget," said Melba Acosta Febo, Secretary of the Treasury and Chief Public Financial Officer of the Commonwealth of Puerto Rico. "As we continue to implement these measures, we are maintaining an ongoing dialog with the investment community, including the ratings agencies, to ensure a clear understanding of our plan, our progress and our improving prospects."

Actions the administration has taken to strengthen the Commonwealth's fiscal situation, promote economic growth, and support its credit standing include the following:

- On September 23, 2013, the GDB announced the introduction of a bill to expand the
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capacity of COFINA to issue bonds, which would facilitate the execution of a more cost-effective financing for the Commonwealth. The bill contains amendments that would increase the SUT percentage allocated to COFINA from 2.75 percent to 3.50 percent and allow the use of these funds for financings related to the FY 2011-12, FY 2012-13 and FY 2013-14 budgets. This legislation is expected to pass this week, further strengthening Puerto Rico's strongest credit and the Commonwealth's fiscal position.

- The Economic Development team is executing its plan to attract capital investment to the Island. The plan focuses on supporting our strongest sectors, including pharmaceutical, biotechnology and medical devices, and attracting other industries such as infrastructure, aerospace, business services and information technology. Significant recent results include a \$137 million three-year federal contract for the manufacture of military apparel, which will create 2,200 jobs; a \$250 million investment for the expansion of a medical devices company that will create 350 new jobs; the acquisition of a majority interest in one of our premier luxury resorts by Paulson & Co.; the increase in air access and cruise ship traffic.
- The team is also working to revamp infrastructure on the Island, for example, by diversifying our energy portfolio and investing in renewable energy and natural gas, with the goal of ending the Island's reliance on expensive fossil fuels.
- In April, Puerto Rico took unprecedented steps to reform the Employee Retirement System, eliminating the System's reliance on the Commonwealth's General Fund. This reform gave the System the necessary cash flow to meet pension obligations.
- The Commonwealth has implemented important measures to strengthen the operations of its public corporations, such as the Puerto Rico Aqueduct and Sewers Authority, the Highway and Transportation Authority, and the Puerto Rico Ports Authority. Significant recent steps include: a significant rate increase for the Puerto Rico Aqueduct and Sewer Authority to provide additional revenue; entering into a lease agreement with a private company to operate Luis Munoz Marin International Airport in order to strengthen the Puerto Rico Ports Authority's fiscal position and repay loans to the GDB; and increasing Highway and Transit Authority revenues by \$270 million. These measures are enabling the Commonwealth's public corporations to be self-sufficient while improving services, maintaining reasonable prices and promoting economic growth on the Island.

José Pagán concluded: "We believe these measures, along with additional measures that are in the process of implementation, will spur economic growth as Puerto Rico moves forward with its robust plan to cut its budget deficit in half by 2015 and achieve a fully balanced budget by 2016. The Government Development Bank for Puerto Rico is working to complete our

financing plan, which has been adjusted to account for ongoing market fluctuations and the private liquidity transactions the GDB has recently completed. This plan contemplates a possible COFINA III bond issue later this year, pending market conditions. We currently have a range of additional liquidity options. Banks and other financial institutions continue to lend to the Commonwealth, as evidenced by a \$125 million Tax and Revenue Anticipation Note closed with Bank of America on September 27."

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