



COMMONWEALTH OF  
PUERTO RICO

Government Development Bank  
for Puerto Rico



COMMONWEALTH OF  
PUERTO RICO

Treasury Department



GDB Contact: Betsy Nazario (787) 960-2089 / Treasury Contact: María E. Quintero (787) 398-0486

[Betsy.Nazario@bqfpr.com](mailto:Betsy.Nazario@bqfpr.com)

[Maru.Quintero@hacienda.gobierno.pr](mailto:Maru.Quintero@hacienda.gobierno.pr)

July 10, 2014

## **GDB AND TREASURY REITERATE PUERTO RICO'S UNWAVERING COMMITMENT TO STRENGTHEN THE COMMONWEALTH'S CREDIT**

### ***Recovery Act Strengthens the Commonwealth's Credit and Ensures Long-Term Fiscal and Economic Sustainability***

#### ***Puerto Rico Taking All Necessary Measures to Protect and Strengthen Fiscal Health***

San Juan, P.R. – Today, Chairman of the Board of Directors of the Government Development Bank for Puerto Rico, David H. Chafey, Jr., and Treasury Secretary, Melba Acosta Febo, reiterated Puerto Rico's commitment to strengthening its creditworthiness and creating a foundation for financial health and economic growth, releasing the following statement:

When this administration took office in January 2013, we made it clear that restoring Puerto Rico's financial health was our top priority, and we outlined specific steps we believed were necessary in order to achieve this important goal. Critical to this plan was ending our public corporations' decades-long reliance on the Commonwealth's General Fund and the GDB. We have repeatedly stated that our intention is to make public corporations self-sufficient.

In late June, Puerto Rico passed the Public Corporation Debt Enforcement and Recovery Act ("Recovery Act"), which is intended to provide an orderly process through which public corporations can continue providing critical services without relying on the Commonwealth, the GDB, or other municipal entities for financial support, *even in times of financial distress*. This is not novel: public corporations located in the fifty states have access to the same tools provided by the Recovery Act.

The Recovery Act protects stakeholders' interests by creating a forum within which a fair and equitable allocation of the value of a public corporation can be negotiated among its stakeholders while also creating a financial foundation upon which to build a more promising future for their business – and for all the people who depend on their services. The Recovery Act is to be used by eligible public corporations only as a necessary and last resort emergency measure, similarly to how entities subject to Chapter 9 or 11 of the U.S. Bankruptcy Code avail themselves of the protections afforded by federal law. The conclusion that an entity will use the Recovery Act only because it is subject to it is baseless.

There has been speculation that passage of the Recovery Act indicates a shift in the Commonwealth's commitment to honoring its financial obligations. To the contrary, the explicit aim of the Recovery Act is to protect and strengthen the General Fund, our GO credit, and the GDB by giving public corporations

the opportunity to address their financial challenges once and for all without being a drain on the General Fund. The Recovery Act specifically excludes the Commonwealth, all of its municipalities, the GDB and COFINA and in no way alters our commitments to honor our GO, COFINA and other related credits.

Puerto Rico's public corporations fall through the cracks of the U.S. Bankruptcy Code. The Commonwealth's public corporations cannot seek relief under the Chapter of the Code used by privately held companies (Chapter 11), yet they are also not eligible to seek relief under Chapter 9 of the Code.

The Recovery Act is a carefully considered, constitutionally sound law designed to facilitate an orderly adjustment of a public corporation's obligations while enabling them to continue providing critical services to residents and businesses in the Commonwealth. The U.S. Supreme Court has clearly established a sovereign's right to pass debt enforcement laws when such relief is not provided by federal statute. We stand behind the Act and will defend it as a reasonable and necessary measure to protect the interests of all stakeholders of our public corporations.

Continued speculation and uncertainty around the financial health of certain public corporations has resulted in an environment where the lack of rules and procedures to address these challenges had become a material detriment to the continued implementation of Commonwealth's current economic and fiscal plans. By providing public corporations with another tool in their path to becoming self-sustaining businesses, Puerto Rico is establishing a stronger foundation for longer-term economic improvements.

In addition to the Recovery Act, over the last 18 months, Puerto Rico has taken swift, meaningful and sometimes difficult action to restore its fiscal health and to protect its creditworthiness while establishing a foundation for economic growth. Recent actions include:

- Reduction of a \$2.2 billion budget deficit to zero through approval of Puerto Rico's first balanced budget in 22 years, one year ahead of our original plan. This means Puerto Rico will no longer rely on deficit financing or GO debt refinancing measures, as it had done for so many years. Severe budget cuts reduced authorized expenditures by a net \$205 million when compared to the prior fiscal year, yet allocated an incremental \$580 million to assume full debt service on GO and Public Building Authority bonds. Total appropriated GO and PBA debt service increased to \$1.01 billion.
- Historic and unprecedented reform of the public employee pension system.
- Passage of The Fiscal Sustainability Act (Act 66), which has reduced operating costs at the central government and at our public corporations.
- Effective access to capital markets through a \$3.5 billion GO bond issuance, which was 4.5 times oversubscribed.

- Passage of Act 24-2014, which bars the GDB from extending credit to public corporations without an identifiable source of repayment.
- Increase in COFINA base rate from 2.75% to 3.5%, additional pledge of 0.5% sales tax to COFINA, expansion of tax base, and pledge to begin charging SUT at Commonwealth's ports, improving COFINA cash flows and the strength of its credit.
- Elimination of tax loopholes to improve revenues while still providing appropriate tax benefits for small businesses and entrepreneurs.

The many measures Puerto Rico has taken in the last year and a half, and in particular the Recovery Act and recently approved balanced budget, demonstrate that the Commonwealth is taking all necessary measures to protect and strengthen the Commonwealth's creditworthiness and fiscal health.

Puerto Rico has repeatedly delivered on its credit promises, and the willingness and ability of the Commonwealth to honor its obligations should be unquestioned in light of its actions over the last 18 months.

Along with the Governor and our partners across the public and private sectors, we will continue to measure our progress against the plan we have put in place and uphold the promises we have made to the people of Puerto Rico and our many stakeholders.

###