



Progress Report

GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO

APRIL 2009

SUMMARY

- **Mr. Carlos M. García, Chairman and President of GDB, to deliver keynote address at the luncheon of the Municipal Forum of New York on April 16, 2009.**
- **Phase I of Expense Reduction Measures under Act 7 underway. Public employees have until April 27, to sign up for voluntary programs. Expo-Oriente will be held on April 18-19.**
- **GDB announces selection of syndicate groups for U.S. and local capital markets for COFINA II. The inaugural COFINA II expected to launch in May.**
- **The Puerto Rico Treasury Department releases revenue data for February 2009. Data show a 3% decline during February 2009. Aggregated revenues for the eight months of ended in February 2009 decline by 5%.**
- **Federal Stimulus: PRIFA strengthens its operating and management capacity; Transportation Department begins procurement process to deploy funds.**
- **Local Stimulus: PRHFA launches Housing Purchase Program; PRIFA begins procurement process with municipalities.**

Introduction

The GDB is committed to re-establishing transparency for the benefit of the general public and the investment community.

As part of this initiative, GDB will publish periodic *Progress Reports* with information about material advancements in the implementation of the Puerto Rico Reconstruction Plan, including progress updates, analysis of government financial data, announcements of investor events, economic data and indicators, details on financing plans and advances on GDB's fiscal agent role among other relevant information.

The Government of Puerto Rico has taken swift action to resolve the fiscal emergency and provide economic stimulus to the local economy. In its first ninety days, the current administration has enacted seven bills to effectively implement the Puerto Rico Reconstruction Plan. The Reconstruction Plan has two main components: 1) the Fiscal Stabilization Plan and 2) the Economic Reconstruction Plan.

Upcoming Investor Event

GDB's Chairman and President, Mr. Carlos M. García, will be the keynote speaker at the next luncheon of the Municipal Forum of New York to be held on April 16, 2009 in New York, New York. Mr. García will be accompanied by Mr. Fernando L. Batlle, Executive Vice President of Financing and Treasury.

The membership of the Municipal Forum of New York includes a wide range of the municipal market participants based in the New York region.

The luncheon is scheduled for Thursday, April 16, 2009.

For more information visit:

www.themunicipalforumofnewyork.org.

Mr. García's presentation will be posted on www.bgfpr.com after the event.

Fiscal Stabilization Plan

As mandated by Act No. 7 of March 9, 2009, the Fiscal Restructuring and Stabilization Board (FRSB) was constituted and is working on the implementation of the Fiscal Stabilization Plan.

Since the approval of Acts 7, 8 and 9, on March 9, 2009, the Government of Puerto Rico, supported by the FRSB, have made significant progress in the implementation of the Fiscal Stabilization Plan, including:

- 1) Phase I of the Expense Reduction Measures, which relates to voluntary resignations and workday reduction of public employees, is underway. In particular, the following steps have been accomplished:
 - **Circular Letter #85-09 by the Office of Management and Budget was made public on March 20, 2009.** The circular letter sets forth the specific deadlines and process for public employees to sign-up for the voluntary programs of Act 7 and provided the official form to be completed by eligible employees.
 - **Training about Phase I to key personnel was completed on March 27, 2009.** Personnel from Human Resources and members of management from different public agencies received training regarding the specific procedures and deadlines in Phase I.
 - **Expo-Orienta will be held on April 18-19, 2009.** Expo-Orienta is a two-day event designed to provide information to public employees about the Alternatives Program for Public Employees. Public employees will receive information about the specific opportunities available under this program. Non-governmental institutions will be presenting their value offerings. Participating institutions will include colleges and universities, technical training entities, private sector associations and businesses, among others. Also, the Economic Development

Bank for Puerto Rico will be offering entrepreneurial workshops.

Public employees have until April 27, 2009, to submit the required information to participate in the voluntary programs available under Phase I and be eligible for the Alternatives Program for Public Employee.

February Revenue Data

The Puerto Rico Department of Treasury has released revenue data for the period ended February 2009. The data continue to show a downtrend in net revenues to the General Fund.

Total net revenues declined 3% in February 2009, compared to February 2008. Revenues from income taxes on individuals and corporations posted double digit declines, as well as tax revenues from motor vehicles and those collected from fees and permits related to government services.

February 2009 - General Fund Net Revenues				
Revenue Items (\$000s)	February 2008	February 2009	\$ Ch.	% Ch.
Individual	\$198,243	\$166,751	(\$31,492)	-16%
Corporations	\$27,837	\$21,142	(\$6,695)	-24%
Non-Resident Withholdings	\$96,170	\$116,991	\$20,821	22%
Sales and Use Tax (4.5%)	\$86,216	\$84,338	(\$1,878)	-2%
Motor Vehicles	\$23,140	\$20,081	(\$3,059)	-13%
Permits Fees and Penalties	\$10,483	\$9,353	(\$1,130)	-11%
Off-shore Shipments of Rum	\$23,059	\$25,645	\$2,586	11%
Others	\$104,197	\$106,413	\$2,216	2%
Total	\$569,345	\$550,714	(\$18,631)	-3%

Source: PR Department of Treasury.

The declines in the February 2009 data can be explained by the continued effect of the economic recession on tax revenues and the fact that February 2009 had one day less of revenue collections relative to February 2008.

Aggregated revenue data for the eight months ended February 2009 show a decline of 5%.

Trailing Fiscal Year 2009 - General Fund Net Revenues

Revenue Items (\$000s)	Jul 07-Feb 08 (8 mons FY08)	Jul 08-Feb 09 (8 mons FY09)	\$ Ch.	% Ch.
Individual	\$1,718,704	\$1,659,432	(\$59,272)	-3%
Corporations	\$874,167	\$765,972	(\$108,195)	-12%
Non-Resident Withholdings	\$658,595	\$625,102	(\$33,493)	-5%
Sales and Use Tax (4.5%)	\$572,740	\$538,567	(\$34,173)	-6%
Motor Vehicles	\$252,671	\$219,806	(\$32,865)	-13%
Permits Fees and Penalties	\$116,930	\$89,298	(\$27,632)	-24%
Off-shore Shipments of Rum	\$231,192	\$275,332	\$44,140	19%
Others	\$1,004,398	\$977,458	(\$26,940)	-3%
Total	\$5,429,397	\$5,150,967	(\$278,430)	-5%

Source: PR Department of Treasury.

U.S. Market Syndicate (cont.)

Selling Group:

Loop Capital
 Mesirov Financial
 Morgan Keegan
 Ramirez & Co.
 Raymond James
 RBC Capital Markets
 Wachovia Capital Markets

The GDB continues to monitor tax revenues in light of the persisting economic conditions.

Financial Measures

Substantial progress has been made towards the launching of the inaugural transaction of the COFINA II financing program. COFINA II is expected to be the financial “anchor” of the Fiscal Stabilization Plan.

The GDB expects to launch COFINA II in the U.S. municipal and local capital markets in May. The following steps have been completed in preparation for this transaction:

- 1) During the week of March 16-20, 2009, GDB selected the syndicates for the inaugural COFINA II transaction. The syndicate groups are presented below:

U.S. Market Syndicate
<u>Lead Manager:</u> Citi
<u>Co-Senior:</u> Barclays Capital
<u>Co-Managers:</u> Bank of America Securities / Merrill Lynch Goldman, Sachs & Co. JP Morgan Securities Morgan Stanley

P.R. Market Syndicate

Co-Lead Managers:

Popular Securities
 Santander Securities
 UBS Financial Services

Co-Managers:

Bank of America Securities / Merrill Lynch
 Barclays Capital
 BBVA Capital Markets
 Citi
 Morgan Stanley
 Oriental Financial Group
 Ramirez & Co.
 Raymond James
 Scotia Capital
 Wachovia Capital Markets

- 2) Roadshow scheduling and preparation is expected to be ready by the end April.

Roadshow presentations and other relevant material will be posted at the GDB website (www.bgfpr.com).

Economic Stimuli

The Government of Puerto Rico has taken significant steps to maximize the inflow of funds from the American Recovery and Reinvestment Act (ARRA). Also, the Government has launched key components of the Local Stimulus Plan.

The Federal Stimulus Plan (ARRA implementation)

The Puerto Rico Infrastructure Financing Authority (PRIFA), the public instrumentality designated by Act 8 to function as project manager of the Federal Stimulus Plan, has taken steps that will allow expediting the deployment and investment of stimulus funds. The following steps have been taken:

- Designation of specific team to maximize inflow of funds, expedite investments and ensure compliance with ARRA rules. The team includes dedicated personnel and Project Managers for each governmental entity receiving ARRA funds.
- The Government of Puerto Rico has launched a dedicated ARRA website in compliance with the ARRA mandate to provide unprecedented transparency. The link to the website is: <http://www.buengobiernopr.com/arra/index.html>.
- Key public agencies such as Department of Transportation and Public Works, Department of Education, Administration of Energy Affairs, Family Department, Health Department and Housing Department among others have submitted specific plans to deploy ARRA funds through their selected programs. Presentations are available in the website.
- The Department of Transportation and Public Works have commenced its procurement process for specific projects related to massive transportation and the highway network.

The Local Stimulus Plan

The Local Stimulus Plan amounts to \$500 million in capital improvement and loan guarantee programs. Progress in the implementation of this Plan includes:

- The Puerto Rico Housing Finance Authority (PRHFA) has formally launched the Housing Purchase Stimulus Program. This program is part of the Consumer Relief measures included in the Local Stimulus Plan and amounts to \$24 million.

- PRIFA has begun the procurement process for the distribution of \$100 million in capital improvements for municipalities (*municipios*). By March 24, 2009, all 78 municipalities had complied with submitting their proposals for 'shovel-ready' projects.
- Merchants' Relief Program: the Economic Development Bank for Puerto Rico is in the final phase of structuring the loan guarantee program for small and medium size businesses. This program amounts to \$180 million.
- The administration has launched a website to provide basic information about the different components of the Local Stimulus Plan: <http://www.buengobiernopr.com/pec/index.htm>.

Government Budget Process

The Government has officially started its budget preparation process.

The Government will provide information regarding the proposed budget and will elaborate materials for the review of investors and the general public.

The Government Development Bank of Puerto Rico has prepared this *Progress Report* for information purposes only.

The information contained in the Progress Report has been compiled from sources believed to be reliable. However, this information is subject to change or revision without notice due to the fact that there are components of the Fiscal Stabilization and Economic Reconstruction Plan that are in the initial phases of their implementation process.

The information contained in this *Progress Report* is not an offer to sell or solicitation of an offer to buy bonds or notes. Bonds or notes may only be purchased through a broker and through an Official Statement. The Government Development Bank does not engage in direct sale of securities to investors.

The Government Development Bank for Puerto Rico serves the Government of Puerto Rico as its main depository and lending institution, financial advisor, fiscal agent and fosters economic development in Puerto Rico.

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