



# Progress Report

GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO

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## SUMMARY

**COFINA Sales Tax Bonds receives ratings upgrade from A+ to AA- by Standard & Poor's and from A1 to Aa3 from Moody's.**

**The upcoming COFINA First Subordinated Bonds receives ratings of A+ by Standard & Poor's and A2 by Moody's.**

**Office of Management and Budget certifies \$237 million in savings for fiscal 2009-2010 under Phases I and III of Act 7.**

**Public hearings for Public-Private Partnerships (PPPs) bill underway at the House of Representatives. The proposed bill would establish a clear public policy to encourage the creation of PPPs in Puerto Rico and will facilitate island-wide investment in strategic infrastructure areas.**

**Executive and Legislative branches working on a bill to revamp the permitting process. Proposed bill creates a 'one-stop' permits process that will enhance Puerto Rico's competitiveness.**

savings certification for Phases I and III under the Fiscal Reconstruction Plan provided last week. Meanwhile, the Executive and Legislative branches are working together to approve key legislation that will encourage Public-Private Partnerships in Puerto Rico and have begun working on revamping the permitting process, which will alleviate barriers to businesses and enhance Puerto Rico's competitiveness in the global market.

### **COFINA Sales Tax Revenue Bonds Ratings Upgraded; COFINA Sales Tax Revenue First Subordinated Bonds get High Grades, too**

The credit rating on the Commonwealth's COFINA sales tax revenue bonds backed by its sales and use tax (SUT) revenue stream was upgraded by both Standard & Poor's and Moody's on May 18, 2009.

At the same time, COFINA's sales tax revenue first subordinated bonds (Series 2009A and 2009B), also backed by the sales tax revenue, received a rating of A+ by Standard & Poor's and A2 by Moody's.

The ratings on Puerto Rico Sales Tax Financing Corporation's (COFINA, for its initials in Spanish) currently outstanding \$5.2 billion senior sales tax revenue bonds were upgraded to AA- by S&P, from A+, and to Aa3, from A1, by Moody's.

Having strong credit ratings on the COFINA bonds is critical to the success of the Commonwealth's plan to retain an overall investment grade rating, bridge the transition to a structurally balanced budget and stimulate the economy.

Both Standard & Poor's and Moody's, assigned a "stable" outlook to each issue, taking note of the resilient performance of the underlying sales tax

## Introduction

The fiscal measures implemented by the administration have begun to bear fruit as the COFINA sales tax bonds received ratings upgrades from Standard & Poor's and Moody's. The Government's Economic and Financial Team remains focused on the implementation of the Economic and Fiscal Reconstruction Plan. The implementation of Act 7 has followed a strict timeline, including the expense

revenue base since its inception in November 2006, and recent legislation increasing the portion of the sales tax revenue pledged to the bonds to 2.75%, from the original 1%.

The new legislation increased the portion of the sales tax revenues that are pledged to the bonds from 1% to 2.75% and established a new base amount of \$550 million in 2010, which goes directly to the COFINA debt service fund, and increases by 4% annually, until a cap of \$1.85 billion is reached.

Moody's report noted that "the 29 months of sales tax collections history show that the tax has thus far been relatively stable, and has not experienced declines similar to the recent experience in many states."

Among the credit strengths, the agencies noted:

- A strong legal structure successfully separating the revenue stream securing the bonds from the Commonwealth, including a pledge of the larger of either 2.75% of the Commonwealth's 7% sales tax or a minimum, fixed base amount.
- A broad and diversified economic supporting base and long-term growth of personal consumption expenditures.
- Access, on a priority basis, to the entire sales and use tax collected by the Commonwealth, providing adequate coverage of all senior and subordinated projected debt service payments. Moody's estimated coverage of more than 2 times for the senior bonds from pledged revenues, and more than 5 times coverage by all projected sales revenues. For the senior and subordinate bonds together, it projected more than 1 time coverage by pledged revenues and 2 times coverage by all revenues.

S&P pointed out: "The stable outlook reflects our expectation that the current structural and legal strengths supporting COFINA's bonds will remain unchanged."

## **Expense Savings of \$237 Million Certified for Fiscal 2009-2010 from Phases I & III of Act 7**

The Director of the Office of Management and Budget (OMB), María Sánchez-Brás, has certified to the Fiscal Restructuring and Stabilization Board (FRSB) and the Presidents of the Senate and House of Representatives, as required by Act 7, savings of approximately \$237 million from the implementation of Phases I and III of Act 7 -- "Special Act to Declare a State of Fiscal Emergency."

Act 7 was enacted to address the fiscal crisis that the Government of Puerto Rico faces through an integrated plan that contains revenue measures, improved tax oversight, and operating expense-reduction requirement of \$2 billion and interim financial measures.

Phase I of the legislation comprised voluntary plans for incentivized resignations and for permanent reductions of working days. Phase III includes the temporary suspension of salary increases and other benefits.

The certified savings realized thus far include:

- \$49.9 million from the Voluntary Incentivized Resignation Program
- \$186.8 million through savings from the moratoriums on salary increases and other benefits
- \$0.08 million from the Voluntary Permanent Workday Reduction Program

## Public Private Partnerships

The Administration has made PPPs a key component of its Economic and Fiscal Reconstruction Plan. The Executive and Legislative branches have been working together to approve a bill that would set forth a clear public policy on PPPs. The bill has been approved by the Puerto Rico Senate and public hearings are underway in the P.R. House of Representatives.

Other highlights of the proposed legislation are:

- A clearly defined public policy and legal framework;
- Uniform procedures that foster the participation of the private, not-for-profit and other non-governmental sectors; and
- Transparency while safeguarding the public interest.

The bill lays out several areas of priority where PPPs would be highly effective, including:

- Solid waste management and landfills
- Water supply
- Renewable and waste-to-energy
- Transportation
- Affordable housing
- Telecommunications

GDB participated in the public hearings and estimated the initial benefit that PPPs could have on the economy from the implementation of certain targeted infrastructure projects. To date, 25 infrastructure projects have been identified as viable for PPPs. Initial estimates are that they could represent a total investment of more than \$6 billion and create more than 130,000 jobs. The table below summarizes the potential of these projects.

When the Legislation is approved, the Administration expects to bring to fruition another important

component of the economic reconstruction program for the Commonwealth.

## Overhaul of Permits Process

A bill aimed at improving the efficiency in the permitting process in Puerto Rico is making its way through the Legislative Assembly.

In the short term, this restructuring is focused on eliminating the significant backlog of unprocessed permits that are currently in the pipeline of various government agencies. Longer term, this effort seeks to significantly reduce the number of inter-agency processes and transactions currently required by creating a centralized, client-focused system that simplifies and shortens the permitting process for applicants.

The permitting process has been a long standing economic challenge for Puerto Rico. **Doing Business 2009**, an annual publication from the World Bank Group, which provides objective measures of business regulations and their enforcement across 181 economies, placed Puerto Rico among the lowest ranking jurisdictions in terms of “Dealing with Construction Permits.” Unfortunately, not only has Puerto Rico’s ranking between 2008 and 2009 been on the lowest rungs, but its ranking has continued to decline.

World Ranking: Dealing with Construction Permits		
Selected Countries	Rank 2008	Rank 2009
St. Vincent and the Grenadines	1	1
Singapore	5	2
Germany	16	15
France	18	18
Hong Kong, China	61	20
United States	26	26
Ireland	30	30
Mexico	29	33
Spain	49	51
Chile	60	62
India	131	136
<b>Puerto Rico</b>	<b>135</b>	<b>144</b>
Egypt	163	165

\* Source: Doing Business 2009, The World Bank (www.doingbusiness.org)

To turn that around, a bill revamping the permitting process and fostering economic development has been submitted to the Legislature. The Puerto Rico Planning Board estimates a current backlog of construction projects and permit requests, whose potential aggregate investment is estimated at \$12 billion.

The bill proposes consolidating the permitting process into one governmental entity, in contrast to the present practice, which scatters it among 20 different agencies. In addition, the bill would allow for accredited independent professionals to certify permits, in order to expedite the entire process. Other components of the bill include establishment of an independent oversight entity and greater use of information technology tools, such as GIS (Geographic Information Systems) and web-based systems.

There is widespread consensus that the permitting process needs an overhaul and speeding up. The Legislative Assembly is already evaluating the bill and continues to support key measures to enhance Puerto Rico's competitiveness, while moving aggressively to restore economic growth.

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