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GDB Government Development Bank for Puerto Rico
COMMONWEALTH OF PUERTO RICO

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COMMONWEALTH ECONOMIC TEAM PRESENTS FISCAL SITUATION
TO RATING AGENCIES AND MEET WITH LEGISLATIVE LEADERS

Governor Aníbal Acevedo Vilá's economic team presented today Puerto Rico's fiscal and economic situation to the rating agencies—Standard & Poor's and Moody's Investors Service—in anticipation of the evaluation of the Commonwealth's budget by the Legislative Assembly and the upcoming credit revision by the rating agencies, said the president of the Government Development Bank for Puerto Rico (GDB), William Lockwood.

In the meetings, where the agencies were given an update of the information presented to them in March, the Secretary of the Treasury, Juan Carlos Méndez, the Executive Director of the Office of Management and Budget, Ileana Fas-Pacheco, and the GDB President presented the situation at the closing of the current fiscal year, justified the administrative measures proposed to attain the necessary revenues for 2006, and presented contingency plans regarding the approval of a budget and the financing plan to cover the deficit of fiscal year 2005.

The analysts who evaluate the Commonwealth credit traveled to the Island, also, to hold meetings with the legislative leaders and learn from them the progress in the negotiations to evaluate the fiscal year 2006 budget. They met with the President of the Senate, Kenneth McClintock, and the President of the Commission of Budget and Appropriations of the House of Representatives, Ángel Pérez Otero. PIP Minority spokesperson, María de Lourdes Santiago, and her economic advisor Edwin Irizarry Mora were present in the meeting. Economic consultants to the President of the Senate and to

Sen. Migdalia Padilla, Carlos Colón de Armas, Roger Iglesias and Ariel Ocasio, also participated in the reunion.

In this regard, Lockwood said that "today's meeting confirms the commitment of the Legislative and Executives branches with keeping an open dialogue. We thank both the President of the Senate, Kenneth McClintock, and the President of the Commission of Budget and Appropriations of the House of Representatives, whom expressed their intention of reaching an agreement to approve a balanced budget before June 15.

In his presentation, the Secretary of the Treasury, Juan Carlos Méndez, sustained that revenues during the first 10 months of the current fiscal year have increased by $376 million when compared to fiscal 2004.

The Treasury Secretary added that the budget of $9.68 billion proposed for fiscal year 2006 contemplates the $1,034 million from the administrative measures and the proposed legislation on tax rates intended to eliminate the exclusions from excise taxes, which is estimated to result in a $639 million increase in revenues; to increase the cost of registration stickers for luxury cars to generate an estimated $30 million, to temporarily increase the tax rate to banking institutions and uniform the tax applicable to capital gains, thus generating $180 million and $60 million, respectively. In terms of the status of the Fiscal Reform, the officer said that the Treasury Department and GDB designated a committee that will provide analytical support to develop scenarios confirming the initial estimated revenues.

As a contingency in the event that a budget for fiscal year 2006 is not approved before June 30th, Ileana Fas-Pacheco, OMB Executive Director, presented a plan to provide for the efficient operation of the government, which would require cuts in spending on different items and the freezing of projects and initiatives proposed in the recommended budget for next fiscal year.

Likewise, the OMB director presented spending control measures for the current fiscal year that include the $402 million in financing transactions identified by GDB, the reduction of political appointees by 10%, and the accounts payable from the Fund 111 of 2004, among others, which represent $43 million in savings. As for the initiatives to achieve a balanced budget for fiscal year 2006, the OMB director said that all expenditures are based in the recognition of the real expenditure levels necessary in the priority areas for this Administration: Education, Health and Safety; and in reductions in other areas.

In his intervention, Lockwood Benet announced the strategies the GDB will be implementing to increase its liquidity by more than $2.7 billion. He stressed the selling of participations in government loans, the issuing of medium-term notes, and increasing GDB deposits.

As part of the presentations, the analysts received information about the financing plan that will take care of a significant portion of the fiscal deficit. For the coming months, GDB has scheduled bond issues for the Infrastructure Financing Authority, the Retirement System, the Convention Center, General Obligation Bonds, and TRANs.

Beginning in fiscal year 2006, the GDB president concluded, "together with the Treasury Department and OMB, we will implement more stringent management spending controls, controls in the level of debt and credit parameters. We also will develop strategic options with the CRIM to generate more financial resources for the municipalities and make our decentralization and regionalization plans viable.