Commonwealth of Puerto Rico

Office of the Governor
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June 27, 2007

PRESS RELEASE

Commonwealth to Sell Historic Bond Issue to Repay Appropriation Debt;

Transaction Receives the Highest Bond Rating for Puerto Rico in Three Decades

San Juan, Puerto Rico –Governor Aníbal Acevedo Vilá announced today that in July the Government Development Bank for Puerto Rico (GDB) will go to the financial markets to place the largest bond issue in the history of Puerto Rico, estimated at $3.5 billion, to refinance and pay off the appropriation (or "extraconstitutional") debt with an identified source of repayment, and with the highest rating received by a Puerto Rico issue in the last 30 years.

"The sacrifice we have all had to make during this critical period in the Island's finances has been worth it," said the Governor, who was accompanied by the President of the Board of Directors of the GDB, Alfredo Salazar. "Finally, we are going to take care of the appropriations debt. The ratings we have received from the agencies—Standard & Poor's (A+ with a stable perspective), Moody's (A1 with a stable perspective), and Fitch (A+ with a stable perspective) -- are five notches above current rating of the Commonwealth's General Obligation bonds."

"I must stress that this bond issue does not increase our total public debt because it substitutes existing debt. Likewise, it reduces the structural deficit of the Commonwealth's budget by eliminating more than $500 million in debt service per year from the General Fund," the Governor added.

This is the first sale of Sales Tax Revenue Bonds that will be conducted by the GDB. The Governor explained the creation of an Dedicated Sales Tax Fund (FIA, by its Spanish acronym) and the pledge of one percent (1%) of the Sales and Use Tax to take care of the extraconstitutional debt, provides strong protection to the bond buyers since there is a source of repayment exclusively devoted to this bond issue.

Acevedo-Vilá assured that “no additional obligation will be added to the extraconstitutional debt, which as of June 30, 2006 totaled $6,847 million, and has been frozen as of that date. This debt, which was incurred throughout the years, most of it authorized by law, had no specific source of repayment identified until the Fiscal Reform was approved. providing for the creation of the Dedicated Sales Tax Fund in May of last year, dedicating one percentage point of the Sales and Use Tax for its payment.”

“At this time, all appropriation (extraconstitutional) debt has been identified, taken care of, is under control and can no longer increase. The debt now has its clear and precise source of repayment,” the Governor concluded.

Total public debt—including the debt of the Central Government, the municipalities and the public corporations—was $42,540 million as of December 31, 2006.

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