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Government Development Bank for Puerto Rico
Commonwealth of Puerto Rico

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THE COMMONWEALTH OF PUERTO RICO PLACES $500 MILLION IN GENERAL OBLIGATION BONDS

The Commonwealth of Puerto Rico placed yesterday $500 million in General Obligation Bonds, including $92 million in the local market and $408 million in the U.S. tax-exempt market, where it was sold on a competitive basis, the Government Development Bank for Puerto Rico (GDB) president, Jorge Irizarry, announced.

"The institutional portion of the offering was oversubscribed by twofold in some maturities, and the local bonds sold in two days, as compared to an average of one week," Irizarry said. "Once again investors, particularly the institutions, demonstrated strong confidence and interest in our credit

General Obligation issues are transactions that the government traditionally takes to market every year to finance investments in infrastructure projects. This GO corresponds to fiscal year 2007 and was issued following Legislative Assembly approval in July.

The issue contained more than $325 million in new money for capital improvements, which include $96 million for transportation and communications facilities, $56 million for schools, health and social services facilities, $34 million for the construction of sports and recreational facilities, and $47 million for municipal public works, among others. The balance will be used to repay debt held by GDB.

“This issue complies with the fiscal discipline parameters that we have established to prudently manage the level of debt. Hence, the amount of this general obligations issue is less than that issued in previous years and is well in line with our payment capacity,” Irizarry stressed. He added that “this issue is consistent with our objective of stabilizing and beginning to reduce the debt to gross product ratio. The issue does not increase the percentage of constitutional borrowing margin used, which determines our debt capacity.”

In fiscal year 2006 the Legislative Assembly approved a General Obligations Bond issue of $675 million, and in fiscal year 2007 the GO bond issue authorization was for $500 million. A $425 million issue for fiscal year 2008 is pending approval. “In the case of the last two GO issues, $175 million of the total will be used to pay existing borrowings from the Public Improvement Fund to begin extinguishing the debt as a measure of sound financial management, in line with the policy established by this Administration,” Irizarry said. “In addition to the new money that enters the economy, GDB thus improves its liquidity with the payment it receives for the lines of credit granted in the past.”

The General Obligation bonds issue sold locally captured yields fluctuating between 5.15% for the shortest maturity in 2009, and 5.75% for the longest maturity, set for 2018, resulting in a TIC of 5.18%. The portion sold at the 103 market captured a 4.96% TIC, which compares favorably with the last General Obligations issue, which attained a 4.98% TIC.

Among the institutions participating in the auction were Goldman Sachs, Merrill Lynch, Citigroup, Lehman Brothers, Wachovia, and Bear Stearns, among others.

The sale in the 103 market through a competitive offering involved a mechanism used for the first time in a decade. At the local level, the issue was managed by Popular Securities, with Santander Securities and UBS Financial Services as co-managers.

The bonds received Baa3 and BBB- investment grade ratings from Moody's and Standard & Poor's, respectively.

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