

P R E S S R E L E A S E

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Government Development Bank Consolidates its Financial Strength and Supports Puerto Rico's Economic Development

Strengthened its role as fiscal agent and entered into agreements with public corporations to help them achieve their goals

SAN JUAN, PR- Government Development Bank for Puerto Rico President Juan Carlos Batlle presented today to the Transition Committee the financial situation and accomplishments of the GDB from 2009 to 2012. The following accomplishments of the GDB stand out as the most significant ones: 1) providing support to the Fiscal Reconstruction and Stabilization Plan; 2) restoring the trust of the financial community and credit agencies in the government of Puerto Rico; 3) improving GDB's profitability; 4) strengthening the capital base, by increasing it by 42 percent, which means \$614 million in additional capital; 5) reducing the government's, its agencies' and public corporations' swap exposure by 53 percent; 6) fixing a large part of the government's variable debt, thus increasing the lending margins of the Central Government, and 7) strengthening its role of fiscal agent, as a result of which the public corporations that executed agreements with the GDB have received support and achieved important goals, among many other accomplishments.

Support to Central Government

The GDB assumed a very active role providing support to the Central Government with the Fiscal Stabilization and Economic Reconstruction Plan. The \$3,306 million structural deficit, certified by independent auditors, was a challenge for the Fortuño Administration, since it represented over 40 percent of General Fund revenues. To resolve this situation, a multi-annual plan to gradually reduce the deficit was formulated and several measures were implemented.

Restructuring the Central Government's debt service was among the temporary measures that were implemented, which allowed immediately reducing debt service payments. This measure—as well as the \$950 million increase in General Fund revenues (FY 09-12) and the reduction in government expenses by \$1,807 million—helped reduce the government deficit to \$333 million, a substantial reduction of 90 percent when compared with the 2009 deficit.

Financial Strength

At present, the GDB is in a solid financial position with a 13.9 percent capital ratio, a high quality, liquid investment portfolio, as well as ample access to the capital markets, with a credit rating of BBB from Standard & Poor's and a Baa1 rating from Moody's. GDB profits in FY 2012 reached a record \$275 million, strengthening its capital base by around \$2 billion.

“It is very important to keep the GDB profitable in order to maintain our role as facilitator of Puerto Rico's economic development. By strengthening our capital base and improving our liquidity, we're able to support the GDB's subsidiaries and affiliates, the public corporations and the Central Government. The programs we have been able to successfully implement and the sectors we've been able to promote include: the Tourism Development Fund (TDF), through loans for tourism development; the small and mid-size business sector through the *Impulso Empresarial* loan guarantees program and the *Desarrollo para el Pueblo* program aimed at creating self-employment; the capital improvement programs of the public corporations; and the Housing sector through the *Impulso a la Vivienda* housing stimulus program,” Battle explained.

The GDB's loan portfolio has grown during the last four years, thus fulfilling its role of promoter of economic development. The loan portfolio is divided as follow: 25 percent in loans to municipalities, 35 percent in loans to public corporations, 35 percent in loans to government agencies, and 5 percent in loans for economic development through TDF. The GDB's loan portfolio has the repayment sources clearly identified.

The GDB's investment portfolio totaling \$6 billion (as of June 30, 2012) is high quality, since 85 percent of the investments have a credit rating of A or better, and highly liquid due to the repurchase agreements with primary dealers.

In addition, through access to the local and national market, the Bank has managed to reduce its financing costs. Given the low interest rate levels, the GDB embarked on the task of identifying substantial savings for the government through refinancings, which have resulted in over \$140 million in savings since 2009. Part of the bond offerings that were issued, were issued to repay GDB loans, but they have not increased public debt already incurred. The GDB has been successful in actively handling its loan portfolio, providing interim lines of credit to different entities while they prepare to go to the market.

“Maintaining constant communication, from day one, with the investment community, the press and the general public has been essential to accomplish this. The GDB established a communications plan, including an annual credit conference, regular webcasts with the financing community and face-to-face visits with investors and rating agencies. In addition, our website, which may be accessed by all citizens,

is kept up-to-date through monthly and quarterly financial reports, such as the Economic Activity Index, SUT Revenues, and Cash Flow Projections, among others,” the GDB President stated.

Another important achievement of the GDB management during the last four years was the marked reduction in the Central Government’s and the public corporations’ swap portfolio by 53 percent.

Role of Fiscal Agent

The GDB has always had the role of government fiscal agent; however, up until now, it had never been such an active role. The Fiscal Agency division was restructured and human resources were brought in to establish the formal procedures for fiscal oversight of public corporations and other government entities. Fiscal Oversight Agreements (FOAs) were executed with nine public entities. The entities who have executed FOAs with the GDB are: the Department of Transportation and Public Works and its Highways, Maritime Transportation and Urban Transportation divisions, the Electric Power Authority (PREPA), the Aqueduct and Sewer Authority (PRASA), the Ports Authority, the Puerto Rico Medical Services Administration (ASEM, Spanish acronym), the Puerto Rico Health Insurance Administration (ASES, Spanish acronym) and the University of Puerto Rico (UPR). The FOAs’ three main objectives are to help maintain fiscal controls, provide advice in the processes to keep fiscal discipline, and strengthen the role of the GDB as fiscal agent.

“In general terms, the FOAs have resulted in greater transparency and visibility of the financial information of government entities. Public corporations must be in compliance with the requirements set in the FOAs as a condition to disburse the loans or lines of credit. A FOA is also required as a condition to approve financings whose purpose is to cover operational expenses. These FOAs will be in force until both parties agree that the agency or public corporation has regained a certain level of financial stability and access to credit,” Batlle pointed out.

Fiscal Agency’s main accomplishments include: 1) providing support to PREPA to put initiatives underway that would result in operational savings and savings in energy costs. The GDB led negotiations with natural gas suppliers to help reduce fuel costs. In addition, together with PREPA, a work plan was established to obtain savings in fuel purchases for oil and natural gas; 2) providing fiscal support to ASES in order to eliminate its budgetary deficit and increase the number of beneficiaries of “Mi Salud” health plan; 3) providing financial and fiscal support in order to address the operational deficit of the Highways Authority (PRHTA), put the capital improvement plan underway and outline efficiency and revenue strategies; 4) helping the Ports Authority to achieve efficiencies in order to improve its operations and financial position and 5) working out a fiscal collaboration agreement with the UPR allowing the UPR to address its capital improvement plan, access its line of credit, if needed, and maintain a healthy credit.

Status of Principal Subsidiaries and Affiliates

The GDB has six subsidiaries and seven affiliates. Following is a summary of the situation of the most important ones:

The Public Finance Authority (PFC) is a subsidiary created in 1984 as an alternate financing mechanism. PFC's debt, known as moral obligation debt, is repaid from legislative allocations made every fiscal year to pay it. PFC got to be a significant burden on the General Fund when in 2006 a portion of the Sales and Use Tax (SUT) was allocated to PFC to repay its debt. At present, PFC's debt totals \$1,091 million, which is not new debt. During the last two years, work has been done to reduce PFC's portfolio by over \$60 million.

The Puerto Rico Sales Tax Financing Corporation (COFINA, Spanish acronym) is a GDB affiliate established in 2006 with the purpose of financing or retiring extra constitutional debt of the Central Government and paying operational expenses, among other uses. The product of the COFINA issues has been used in large part to allocate a repayment source to PFC's (moral obligation) debt.

During FYs 2009 and 2012, the product of COFINA issues was also used to address the Central Government's deficit, to pay debts with suppliers and with the GDB, and to finance the Puerto Rico Economic Stimulus Plan. COFINA's present debt is \$15,224 million. From a total \$9,689 million in COFINA debt issued by this administration, 95%, or \$9,189 million, was to cover the General Fund's inherited deficits and outstanding debts.

The Municipal Finance Authority (MFA) was created in 1972 as a GDB affiliate. MFA authorized the municipalities to access the capital markets in order to finance their public improvement programs more efficiently. From 2009 to 2012, MFA did not go to the market; however, there are presently refinancing opportunities to generate savings. MFA's debt currently totals \$895 million. The principal source of payment of MFA debt is the surtax on property or CAE (by its Spanish acronym) of each municipality.

The Tourism Development Fund is a GDB subsidiary established in 1993 to work with financial institutions in the private sector to structure financings aimed at developing tourism projects. During the last four years, nine transactions have been approved to develop a number of hotels throughout Puerto Rico, representing an additional 1,200 rooms with an approximate investment of \$827 million. At present, there are four additional transactions under evaluation, which would represent an additional 747 rooms and a \$647 million investment. TDF's loan and guarantee portfolio totals approximately \$1,069 million.

Additionally, the GDB was instrumental in the implementation and development of the Puerto Rico Public-Private Partnerships Authority (PPPA). The PPPA's most significant accomplishments include

the successful construction or renovation of 102 Schools for the 21st Century and the administrative concession of toll roads PR-22 and PR-5. The PPPA has also gotten the concession of the Luis Muñoz Marín International Airport under way, representing an aggregate investment of \$4,800 million.

Other Programs

“During the last two years, the GDB has assumed a more active role as facilitator of economic development and established two programs in support of small and mid-size businesses: a loan guarantees program, known as *Impulso Empresarial*, and a program promoting entrepreneurship, known as *Desarrollo para el Pueblo*, which have had extraordinary results. *Impulso Empresarial* has approved guarantees for 205 loans in the aggregate amount of \$116.1 million, representing 3,115 jobs retained and 1,519 new jobs created. The average percentage of the guarantees that have been granted is 25 percent. On a separate note, the *Desarrollo para el Pueblo* program, which supports self-employment, drove the creation of 506 new businesses, at a cost of \$8.8 million. The jobs retained total 447 and the new jobs total 1,567,” the GDB President pointed out.

Impulso Empresarial was created in April 2012 as a loan guarantees program for small and mid-size businesses. The program has the capacity to offer up to \$200 million in guarantees, which would represent over \$650 million in loans. Six banks, chosen through an RFP process, are participating in the program. The program provides guarantees of up to 30 percent for new financings and of up to 25 percent for refinancings.

Desarrollo para el Pueblo was created in September 2010 and its principal objective is to counteract high unemployment levels affecting several municipalities in Puerto Rico by creating self-employment. The program helps participants taking the necessary steps to procure the business permits, identifying financing alternatives and incentives from the different government agencies, and preparing a business plan.

“The GDB has also met its corporate social responsibility through other programs that aim to develop new young professionals, such as the José M. Berrocal Institute’s Summer Program and David Taylor Mentoring Program. In addition, the GDB adopted the Francisco Hernández y Gaetán elementary school in Santurce, investing over \$200,000 in improvements during the last four years, and has recently collaborated with the Juan Ponce de León elementary school in Guaynabo. The GDB has also promoted that both the institution and its employees collaborate with different charity causes,” Batlle concluded.

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