

COMMONWEALTH OF PUERTO RICO
Supplemental Financial Information
August 24, 2010

General

The Supplemental Financial Information of the Commonwealth of Puerto Rico (the “Commonwealth”) contained herein (the “Supplement”) supplements certain information appearing in the Financial Information and Operating Data Report of the Commonwealth dated as of May 1, 2010 (the “Commonwealth Report”) and filed with the Municipal Securities Rulemaking Board (“MSRB”) through the Electronic Municipal Market Access System (“EMMA”). You should read this Supplement in conjunction with the Commonwealth Report, which contains a detailed discussion of economic, financial and operating data of the Commonwealth. This Supplement is being filed solely to provide the following updated information: (i) preliminary General Fund revenues for fiscal years 2010 and 2009, (ii) outstanding public sector debt as of June 30, 2010, and (iii) the approved central government budget for fiscal year 2011.

As stated in the Notice, dated July 22, 2010, filed with the MSRB through EMMA, the Commonwealth has been unable to finalize its audited financial statements for fiscal year 2009 (the “2009 Financial Statements”). The Commonwealth expects to file the 2009 Financial Statements no later than October 30, 2010. The Commonwealth is implementing measures to ensure future timely filings of its audited financial statements.

This Supplement presents preliminary General Fund revenues for fiscal years 2009 and 2010, which are subject to normal year-end and audit adjustments.

Summary of General Fund Revenues for Fiscal Years 2010 and 2009

Preliminary General Fund Revenues for Fiscal Year 2010 Compared to Preliminary Fiscal Year 2009.

Preliminary General Fund total revenues for fiscal year 2010 were \$7.691 billion, representing an increase of \$17.5 million from fiscal year 2009 preliminary revenues and \$21 million from budgeted revenues for fiscal year 2010. The principal changes in sources of revenues from fiscal year 2009 include a decrease in the sales and use tax received by the General Fund of \$268.7 million due to the increased allocation of this tax to the Puerto Rico Sales Tax Financing Corporation (“COFINA”), as discussed in the Commonwealth Report. However, the decrease in the sales and use tax received by the General Fund was fully offset by increases in property taxes and excise taxes on cigarettes and alcoholic beverages of approximately \$226.5 million and \$60.5 million, respectively, as a result of the temporary and permanent revenue raising measures implemented as part of the Commonwealth’s fiscal stabilization plan under Act No. 7 of March 9, 2009, as amended. Preliminary revenues from income taxes for fiscal year 2010 were approximately the same as in fiscal year 2009, reflecting the continuing impact of the ongoing economic recession.

Preliminary General Fund Revenues for Fiscal Year 2009 Compared to Fiscal Year 2008

Preliminary General Fund total revenues for fiscal year 2009 were \$7.673 billion, representing a decrease of \$685.8 million, or 8.2%, from fiscal year 2008 revenues. The major changes from fiscal year 2008 were: (i) decreases in income taxes from individuals of \$145.4 million and in corporate income taxes of \$201.3 million, (ii) a decrease of \$55.1 million in excise taxes, (iii) a decrease of \$178.8 million in miscellaneous non-tax revenues, and (iv) a decrease of \$103.4 million in the sales and use tax revenues due primarily to a one-time change in the manner sales and use tax collections are reported by the Treasury Department. Please refer to “Major Sources of General Fund Revenues – Sales and Use Taxes” under PUERTO RICO TAXES, OTHER REVENUES AND EXPENDITURES in the Commonwealth Report for further information regarding this reporting change. The decreases in revenues in these categories for fiscal year 2009 as compared to fiscal year 2008 reflect the acceleration of the economic recession during that fiscal year.

Five-Year Table of General Fund Revenues

The following table presents the revenues of the General Fund on a cash basis for fiscal years 2006 through 2010. General Fund revenues as presented in the table differ from the General Fund revenues as presented in the financial statements of the Commonwealth, as the financial statements reflect an expanded General Fund entity in accordance with generally accepted accounting principles.

Please refer to the Commonwealth Report for further information on the major sources of General Fund revenues.

Commonwealth of Puerto Rico
General Fund Revenues
(in thousands)

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009*</u>	<u>2010*</u>
Revenues:					
Income Taxes:					
Individuals	3,087,748	3,071,655	2,759,305	2,613,929	2,574,707
Corporations	1,872,458	2,002,718	1,565,534	1,364,263	1,677,691
Partnerships	2,787	2,960	1,942	1,741	1,589
Withheld from non-residents	921,260	933,728	1,087,782	1,081,345	830,350
Tollgate taxes	27,396	25,083	21,610	19,373	15,034
Interest	11,536	12,112	13,657	11,738	9,901
Dividends	66,721	138,859	59,770	48,663	29,774
Total income taxes	<u>5,989,906</u>	<u>6,187,115</u>	<u>5,509,600</u>	<u>5,141,052</u>	<u>5,139,046</u>
Sales and use tax	-	582,560	911,000	807,642	538,902
Commonwealth excise taxes:					
Alcoholic beverages	292,180	279,028	268,094	277,401	284,796
Cigarettes	135,267	132,399	119,124	129,429	182,501
Motor vehicles	533,957	396,667	366,341	314,442	344,424
Other excise taxes	682,477	314,340	110,014	87,245	77,886
Total Commonwealth excise taxes	<u>1,643,881</u>	<u>1,122,434</u>	<u>863,573</u>	<u>808,517</u>	<u>889,607</u>
Property taxes	1,106	800	219	1,002	227,533
Inheritance and gift taxes	9,466	4,663	6,600	5,063	3,617
Licenses	91,310	97,610	87,690	97,594	95,291
Other:					
Lottery	62,729	73,014	46,636	50,186	45,576
Electronic lottery	55,212	71,815	105,298	75,299	80,007
Miscellaneous non-tax revenues	431,803 ⁽²⁾	330,064	466,741 ⁽³⁾	287,902	318,819
Total Other	<u>549,744</u>	<u>474,893</u>	<u>618,675</u>	<u>517,046</u>	<u>770,843</u>
Total revenues from internal sources	<u>8,285,413</u>	<u>8,470,075</u>	<u>7,997,357</u>	<u>7,274,257</u>	<u>7,338,398</u>
Revenues from non-Commonwealth sources:					
Federal excise taxes ⁽¹⁾	346,272	377,872	356,827	395,718	352,301
Customs	9,553	14,504	4,846	3,269	-
Total revenues from non-Commonwealth sources	<u>355,825</u>	<u>392,376</u>	<u>361,673</u>	<u>398,987</u>	<u>352,301</u>
Total revenues	<u>8,641,238</u>	<u>8,862,451</u>	<u>8,359,030</u>	<u>7,673,244</u>	<u>7,690,699</u>

* Preliminary.

⁽¹⁾ Excludes transfers by the Commonwealth to the Conservation Trust Fund and amounts deposited by the Secretary of the Treasury into a separate account for the promotion of Puerto Rico rums in foreign markets.

⁽²⁾ Includes proceeds of \$100 million generated by the issuance of the Commonwealth's Public Improvement Refunding Bonds, Series 2006 A, which were privately placed.

⁽³⁾ Includes \$145 million related to the sale of properties.

Source: Treasury Department

Public Sector Debt as of June 30, 2010

Public sector debt comprises bonds and notes of the Commonwealth, its municipalities and public corporations, subject to the exclusions described below.

The following table presents a summary of public sector debt as of June 30, 2010. This table includes debt not primarily payable from either Commonwealth or municipal taxes, Commonwealth appropriations or rates charged by public corporations for services or products, some of which debt is set forth in footnote 5 below. This table excludes debt the inclusion of which would reflect double counting including, but not limited to, \$1.17 billion of outstanding

bonds (as of June 30, 2010) issued by Municipal Finance Agency to finance its purchase of bonds of Puerto Rico municipalities, and \$1.6 billion of obligations of Public Finance Corporation issued to purchase certain Commonwealth public sector debt. No deductions have been made in the table above for deposits on hand in debt service funds and debt service reserve funds. The table includes outstanding capital appreciation bonds at their respective original principal amounts and do not include any accretion thereon.

**Commonwealth of Puerto Rico
Public Sector Debt*
(in millions)**

	June 30, 2010
GENERAL FUND RELATED DEBT	
Direct full faith and credit obligations ⁽¹⁾	\$ 9,511
Puerto Rico guaranteed debt ⁽²⁾	4,339
Debt supported by Puerto Rico appropriations or taxes ⁽³⁾	3,356
TOTAL GENERAL FUND RELATED DEBT	\$17,206
Sales Tax debt	\$13,437
Public corporations and agencies	22,949
Municipal Debt	3,231
Limited Obligations/non-recourse debt ⁽⁴⁾	5,383

Totals may not add due to rounding.

⁽¹⁾ Includes general obligation bonds, tax and revenue anticipation notes (“TRANS”) and related short-term financings.

⁽²⁾ Consists of \$607 million of bonds issued by Aqueduct and Sewer Authority, \$353 million of State Revolving Fund Loans incurred under various federal water laws, \$193.8 million of bonds issued by Port of the Americas Authority and \$3.154 billion of Public Buildings Authority bonds. Excludes \$267 million of GDB bonds payable from available moneys of GDB.

⁽³⁾ Represents bonds and notes payable from the Commonwealth General Fund and Public Improvement Fund. Includes Public Finance Corporation.

⁽⁴⁾ Includes the following: \$1.3 billion of Children’s Trust bonds, which are payable solely from the payments to be received pursuant to the tobacco litigation settlement; \$189 million of Housing Finance Authority bonds, which are payable from Puerto Rico Housing Administration’s annual allocation of Public Housing Capital Funds from the United States Department of Housing and Urban Development; \$151.9 million of Special Facilities Revenue Bonds issued by Highways and Transportation Authority, which are payable from net toll revenues collected from the Teodoro Moscoso Bridge; \$155 million of Special Facilities Bonds issued by Ports Authority, which are solely payable from the pledge of certain payments made by a private corporation under a special facilities agreement; \$78.0 million of Educational Facilities Revenue Bonds, 2000 Series A (University Plaza Project) issued by Industrial, Tourist, Educational, Medical and Environmental Control Facilities Financing Authority (“AFICA”), which are payable from rent payments made by the University of Puerto Rico; approximately \$80.8 million of bonds issued by AFICA to finance the construction of various government infrastructure projects, which are payable from rent payments made by various government entities; and \$2.948 billion of Employees Retirement System Senior Pension Funding Bonds, Series A, B and C, which are payable solely from employer contributions made to the Employees Retirement System by the Commonwealth and its instrumentalities after the issuance of the bonds.

Source: Government Development Bank for Puerto Rico

Ratings of Commonwealth General Obligation Bonds and other Debt

On April 19, 2010, Moody’s Investors Service (“Moody’s”) announced the results of the recalibration of certain U.S. municipal bond issues and issuers in order to enhance the comparability of credit ratings across its portfolio of rated securities. As a result of this recalibration, the Commonwealth’s general obligation debt is now rated “A3”, which is three categories above the previous “Baa3” rating. On August 10, 2010, Moody’s assigned a negative

outlook to the Commonwealth's general obligation debt and related credits primarily as a result of the funding levels of the Commonwealth's retirement systems.

Approved Budget for Fiscal Year 2011

On July 2, 2010, the Governor signed the Commonwealth's central government budget for fiscal year 2011. The approved budget provides for total resources of \$15.8 billion and total General Fund revenues of \$8.134 billion, compared to preliminary General Fund revenues of \$7.691 billion for fiscal year 2010. The budgeted General Fund revenues of \$8.134 billion include base revenues of \$7.691 billion, \$302.5 million from tax enforcement and compliance measures, \$110 million in expected revenues from the implementation of the property tax appraisal provisions included in Act No. 71 of July 2, 2010, and \$30 million in additional revenues from casinos.

The principal changes in budgeted General Fund revenues compared to the fiscal year 2010 budget are accounted mainly by projected increases in personal income taxes (up \$198 million), property taxes (up \$110 million), corporate income tax (up \$101 million), excise taxes on motor vehicles and accessories (up \$15 million) and sales and use taxes (up \$59 million), and projected decreases in retained non-resident income taxes (down \$26.5 million) and federal excise taxes on offshore shipments (down \$12 million).

The approved fiscal year 2011 budget provides for total expenditures of \$9.134 billion, consisting of General Fund expenditures of \$8.134 billion and additional expenditures of \$1.0 billion included in the Stabilization Fund that are expected to be covered from proceeds of a COFINA bond issue completed in June 2010. The budgeted total expenditures for fiscal year 2011 are \$1.037 billion, or 10.1%, lower than budgeted total expenditures of \$10.170 billion for fiscal year 2010, and \$2.116 billion, or 18.9%, lower than estimated total expenditures of \$11.250 billion for fiscal year 2009.

Budgeted expenses and capital improvements for the central government of all budgetary funds total \$15.8 billion, an increase of \$875.6 million from fiscal year 2010 budgeted appropriations. The principal changes in General Fund expenditures by program in fiscal year 2011 compared to the fiscal year 2010 budget are mainly due to increases in public safety and protection (up \$519.2 million), other debt service appropriations (up \$144.0 million), health (up \$138.8 million), economic development (up \$71.8 million), welfare (up \$21.6 million) and special pension contributions (up \$20.9 million), and decreases in general obligation bonds debt service (down \$319.8 million) and education (down \$124.5 million).

Please refer to the Commonwealth Report for an explanation of some of the differences between resources and appropriations in the annual budget and revenues and expenditures as reported by the Treasury Department in the Commonwealth's financial statements.

The following table presents a summary of the Commonwealth's central government approved budget for fiscal year 2011.

Commonwealth of Puerto Rico
Summary of Central Government Annual Budget
Fiscal Year Ending June 30, 2011
(in thousands)*

	General Fund	Stabilization Fund	Bond Fund	Special Funds	Total
Revenues from internal sources:					
Property taxes	\$340,000			\$115,743	\$455,743
Personal income taxes	2,812,000				2,812,000
Retained non-resident income tax	851,500				851,500
Corporate income taxes	1,657,000				1,657,000
Partnership income taxes	3,000				3,000
Tollgate taxes	5,000				5,000
17% withholding tax on interest	12,000				12,000
10% withholding tax on dividends	34,000				34,000
Inheritance and gift taxes	5,000				5,000
Sales and use taxes	604,000				604,000
Excise taxes:					
Alcoholic beverages	283,000				283,000
Motor vehicles and accessories	349,000				349,000
Cigarettes	166,000				166,000
Other (excise taxes)	116,000			617,500	733,500
Licenses	77,000				77,000
Miscellaneous non-tax revenues:					
Contributions from lottery fund	52,000				52,000
Electronic lottery	104,000				104,000
Registration and document certification fees	131,000				131,000
Other	188,000			373,940	561,940
Total revenues from internal sources	7,789,500			1,107,183	8,896,683
Revenues from non-Commonwealth sources:					
Federal excise taxes on off-shore shipments	344,000			0	344,000
Federal grants ⁽¹⁾	0			5,019,943	5,019,943
Customs	0			0	0
Total revenues from non-Commonwealth sources	344,000			5,019,943	5,363,943
Total revenues	8,133,500			6,127,126	14,260,626
Other:					
Balance from previous year	0			1,467,020	1,467,020
Bonds authorized	0	1,000,000		0	1,000,000
Total other sources	0	1,000,000		1,467,020	2,467,020
Total resources	8,133,500	1,000,000	0	7,594,146	16,727,646
Appropriations:					
Current expenses:					
General government	725,284	152,725	-	49,387	927,396
Education	2,914,349	31,013	-	1,753,995	4,699,357
Health	1,500,061	77,635	-	517,592	2,095,288
Welfare	274,781	191,525	-	2,701,258	3,167,564
Economic development	199,115	53,866	-	117,019	370,000
Public safety and protection	1,009,443	420,991	-	85,937	1,516,371
Transportation and communication	88,232	52,142	-	64,312	204,686
Housing	4,003	18,481	-	351,451	373,935
Contributions to municipalities	365,510	1,622	-	956	368,088
Special pension contributions	334,553	-	-	0	334,553
Debt service	200,813	-	-	126,743	327,556
Other debt service (appropriations)	517,156	-	-	652,035	1,169,191
Total appropriations – current expenses	8,133,300	1,000,000	-	6,420,685	15,553,985
Capital improvements	200	-	0	219,439	219,639
Total appropriations	8,133,500	1,000,000	0	6,640,124	15,773,624
Year-end balance	0	-	-	954,022	954,022
Total appropriations and year-end balance	\$8,133,500	\$1,000,000	\$0	\$7,594,146	\$16,727,646

* Totals may not add due to rounding.

⁽¹⁾ Does not include grants received by agencies whose accounting systems are not centralized in the Treasury Department.

Sources: Treasury Department and Office of Management and Budget