

# **P** R E S S R E L E A S E

Contact : *María S. Rosario*

Tel: (787) 728-9200 / (787) 722-2525 exts. 2013 / 2014  
Cel. (939) 644-4606 / [www.gdb-pur.com](http://www.gdb-pur.com)



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## GDB BOARD OF DIRECTORS APPROVED A LOAN TO TAKE CARE OF THE DEFICIT AND AUTHORIZED GO'S ISSUE

The Board of Directors of the Government Development Bank for Puerto Rico (GDB) in extraordinary meeting approved today a resolution to grant a loan of up to \$741 million to the Department of the Treasury to cover payroll and operational expenses of the Central Government. In addition, it authorized the issuance of \$675 million in General Obligation Bonds, Board Chairman Alfredo Salazar announced.

This afternoon the members of the GDB Board of Directors carefully evaluated the financing application for a loan of up to \$741 million to the Department of the Treasury, as provided by Resolution of the House 2664 and as recommended by the Special Commission appointed by the Governor, the Speaker of the House and the President of the Senate last May 10<sup>th</sup>. In this sense, Salazar related the process followed to evaluate this financing. "To considerer this transaction the members of our Board had established that it was absolutely necessary that an agreement on the sales tax rate that would be approved be reached in order to guarantee the GDB a 1% to cover the appropriation debt service and another 1% to begin reducing the structural deficit of the General Budget, both conditions set by the rating agencies to avoid another downgrade that would place the Central Government bonds in circulation in the non-investment grade rating. "Absent these conditions, the four private sector members of our Board would not approve this financing." Salazar emphasized.

The Special Commission did not accept to define the sales tax rate at that moment, but it did commit to its approval prior to June 30, and to destine one percent of the tax for the repayment of the appropriation debt. It also agreed to provide the state with between \$300 million and \$400 million, which is equivalent to a one percentage point of the sales tax, to take care of the demand made by the rating agencies for the government to begin reducing the structural imbalance of the Central Government's general budget.

"In that sense, the conditions for the financing to have authorization from the Legislative Assembly and an identified source of repayment to justify its consideration were complied, and so I announced to you today that the financing has been approved," Salazar said.

The loan will be paid with the revenues obtained from the provisions of Act No. 160 of December 21, 2005, as amended, as well as from other legislation approved with the purpose of covering the government deficit for fiscal year 2005-2006, and any resulting difference, after applying said revenues, shall be covered from the funds generated pursuant to the Urgent Needs Fund Act.

The disbursements will be made as soon as the Secretary of the Treasury submits to the GDB the revenues estimates to determine the total amount of funds that will be raised by the implementation of each applicable law.

Regarding the issuance of the General Obligation Bonds (GO's), the GDB president said that as of this moment there have been significant advances towards the approval of a tax and fiscal reform, which was one of the conditions for the rating agencies—Moody's and Standard & Poor's—to positively evaluate this transaction without the risk of getting another downgrade. "I have no reservations in stating that it is my expectation that this transaction will receive a Baa3 rating from Moody's and a BBB rating from S&P, which is why we will be going to the market with this transaction by June 30", Salazar said.

The GO issue will total \$675 million, of which \$173 million will benefit the municipalities for public works and infrastructure, such as recreational, hospital and security installations, as well as for road paving, construction and improvements of basketball courts, bridges, sidewalks and theaters. Among the municipalities to be benefited are: Aguadilla with \$2.5 million, Culebra with \$1.3 million, Guaynabo with \$5.5 million, Las Piedras with \$1.5 million, San Juan with \$4.8 million, and Yauco with \$1.6 million. This millionaire investment will have an immediate effect on the local economy.

The bond issue will allow GDB to recollect \$316 million in anticipations authorized for said public works.

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