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## S&P VIEWS PROPOSED PENSION REFORM AS "MAJOR" AND ACKNOWLEDGES CORRECTIVE ACTIONS BY CURRENT ADMINISTRATION BUT LOWERS PUERTO RICO'S RATING

*Cites this fiscal year's high structural deficit, but recognizes the corrective actions the current administration is considering, including what they called a major reform of the pension systems*

**San Juan, PR**. — Standard & Poor's (S&P) announced today its decision to lower the general obligation (GO) debt rating on Puerto Rico to BBB- from BBB. The outlook is still negative.

Government Development Bank for Puerto Rico ("GDB") President Javier Ferrer and Treasury Secretary Melba Acosta explained that S&P's report is basing the downgrade, which is still classified as "investment grade", on the fact that the budget deficit for FY 2013 is much greater than what the previous administration had stated before January 2013. In S&P's opinion, these shortfalls "will make it difficult for the commonwealth to achieve structural balance in the next two years."

Moreover, the report warns that if, in that two year period, considerable progress is not made towards reducing the budget gap, S&P could lower the rating further to "non-investment grade" status. S&P recognizes that the current administration is considering several actions aimed at correcting the budget deficit and that it proposed what S&P views as a major reform of the Retirement Systems. S&P stated that they will be paying close attention to the effect the present administration's "potential fiscal and pension reforms" will have.

"Without a doubt, S&P's decision today is based on the fiscal 2013 budget; therefore, it's the result of fiscal actions and practices that were beyond our control. That's the bad news. The good news is S&P is beginning to recognize the steps we're taking to solve the delicate and complex fiscal situation we inherited, particularly, our proposed reform of the Retirement Systems. All the members of Governor García Padilla's fiscal team are aware of the gravity and urgency of the moment. And so we have been working very hard to increase collections, stabilize the finances, restore the credit, and revamp economic development for the Island," Ferrer stated.

According to Acosta, the projected operating deficit is higher as a result of expense estimates being $140 million above the budget and revenues being $910 million below the budget, mainly due to non-recurring revenues during FY 2012 that were included in the base of the current budget by the previous administration. Also included in the base were additional anticipated revenues from certain administrative measures, such as special tax audits and implementation of a sales and use tax ("SUT") lottery, which were very aggressive and have not materialized yet; plus $775 million of debt service refinancing in FY 2013 that has not occurred and is being paid from a GDB line of credit; plus the originally budgeted operating deficit of $332 million. Absent corrective actions, the Commonwealth is projecting budgetary basis revenues of $7.840 billion and expenses of $9.997 billion.

Acosta pointed out that “The crisis is very real and we all have to work to solve this situation as soon as possible. The proposals to begin addressing the root of Puerto Rico’s fiscal problems are on the table. We have to continue implementing corrective actions and make fiscal decisions that are intelligent, meaningful and sensible without any delays”.

The Treasury Secretary also indicated that the measures implemented by the current administration have already reduced the budget gap relative to revenues by approximately $250 million and necessary measures are being taken to reduce the $140 million budget overrun. “The administration is implementing initiatives to enhance revenues, including anti-tax evasion measures and the approval of a tax amnesty, which is underway. We’re also working on other actions, including the elimination of several SUT payment exemptions, as well as changes to other collection mechanisms. Moreover, we recently introduced a bill to implement a meaningful pension system reform,” she added.

The GDB President stressed that the S&P report establishes the urgency “of facing the financial challenges and, above all, understanding that a comprehensive and meaningful pension reform cannot be put off any longer.” He also stated that the pension situation has played and will continue to play a decisive role in Puerto Rico’s credit rating, just as it did for this report.

The BBB- rating is the lowest “investment grade” rating. Puerto Rico’s fiscal officials pointed out that given the disparity of the information offered in the past, and thanks to the fiscal planning of the current administration and the measures it has put underway, it is an accomplishment that the bonds were not downgraded to “non-investment grade” status.

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