COMMONWEALTH OF PUERTO RICO
Government Development Bank for Puerto Rico

COMMONWEALTH OF PUERTO RICO
Treasury Department

GDB Contact: Betsy Nazario (787) 960-2089 / Treasury Contact: María E. Quintero (787) 398-0486

Betsy.Nazario@bgfpr.com Maru.Quintero@hacienda.gobierno.pr

July 1, 2014

GDB CHAIRMAN AND TREASURY SECRETARY PROVIDE JOINT COMMENT ON APPROVAL OF PUERTO RICO'S FIRST BALANCED BUDGET IN 22 YEARS

Confirm Payment of all General Obligation and PREPA July 1 Obligations

Comment on Recent Rating Agency Actions

Explain New Revenue Measures That Support Economic Growth

San Juan, P.R. – Today, Chairman of the Board of Directors of the Government Development Bank for Puerto Rico David H. Chafey, Jr. and Treasury Secretary Melba Acosta Febo expressed their satisfaction with the approval of Puerto Rico's first balanced budget in 22 years. The budget, which was approved last night by the Puerto Rico House and Senate, totals $9.565 billion, including General Fund allocations and special allocations. The approved budget assigns $775 million to service General Obligation ("GO") debt.

"The approval of this balanced budget is another significant achievement by this administration to protect the credit of the Commonwealth of Puerto Rico and the stability of our public finances. For the first time in decades, Puerto Rico has approved a budget that balances expenditures with revenues and does not rely on deficit financing or GO debt refinancing measures. This budget is further clear and conclusive evidence of this administration's commitment to solve Puerto Rico's fiscal challenges, stabilize its finances by acting firmly and responsibly, and creating the foundation needed to support the Island's economic development," Acosta Febo stated.

Mr. Chafey commented, "For decades, the government has spent in excess of General Fund revenues and balanced the budget with deficit financing. We must adapt to our fiscal reality -- the government cannot continue financing deficits or refinancing debt. We must continue to act prudently and significantly reduce expenses. The Fiscal Sustainability Act, Act 66, supports these efforts and is an important additional component of the administration's efforts to ensure Puerto Rico's continued fiscal health."

In addition to Act 66 and the first balanced budget in 22 years, the administration recently passed the Public Corporations Debt Enforcement and Recovery Act ("Recovery Act"), which is intended to provide a controlled and orderly process through which public corporations can become financially self-sufficient.

“The Recovery Act protects the General Fund, the GDB and the Commonwealth’s credit, and in no way indicates any shift in the Commonwealth’s historical and constitutionally supported commitment to honoring its financial obligations,” said Mr. Chafey. “We are disappointed with Moody’s Investors Services decision to downgrade Puerto Rico’s GO and other credits, but, as evidenced by the decisive and prudent actions this administration has taken so far, we are proceeding with focus and determination to continue strengthening the Commonwealth’s financial position and build a solid foundation for economic prosperity and development.”

Commenting on important, revenue enhancing measures included in the approved budget, the Treasury Secretary stated, “Legislation was passed amending several existing tax laws, which should allow revenues for the fiscal year to match expenses in the budget for the first time in many years.”

“With the gross receipts tax act, the number of companies now exempted from paying the special tax increases significantly. By amending this act to prevent taxpayers from reducing their payments through credit applications, we are able to increase the revenue derived from the gross receipts tax act, while simultaneously raising the level at which companies begin paying the tax to less than $3 million from less than $1 million in gross receipts. Accordingly, almost 62% (3,474 out of 5,615) of companies that were previously taxed are now exempt. By employing a more efficient approach to gross receipt revenue collection, we have not only widened the group of tax-exempt companies, but have also reduced the tax rate from 0.5% to 0.35% for companies with gross receipt sales from $3 million to $100 million. We are pleased to extend these benefits to 2,060 businesses to support the local economy, while also enhancing the Commonwealth’s revenue.”

Finally, the GDB Chairman confirmed that all GO, PREPA and HTA bond payments maturing today, July 1, 2014, were made today. $721,971,213 was paid to service GO bonds and $417,556,563 to service PREPA bonds.