COMMONWEALTH OF PUERTO RICO
Government Development Bank for Puerto Rico

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Treasury Department

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JOINT STATEMENT FROM

THE SECRETARY OF THE TREASURY OF PUERTO RICO
MELBA ACOSTA

AND

THE CHAIRMAN OF THE BOARD OF DIRECTORS OF THE GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO
DAVID CHAFEY

San Juan, Puerto Rico – In the past month, there has been considerable attention paid to the fiscal challenges faced by the Commonwealth of Puerto Rico. Much of this attention ignores the significant actions that the new administration of Governor Alejandro Garcia Padilla has taken to address Puerto Rico's financial issues in the eight months of his new term. Puerto Rico has made major advances since its debt was downgraded in December 2012, and is confident in its plan to grow the economy.

On December 13, 2012, Moody's, the rating agency, downgraded the debt of various Puerto Rico issuers of municipal debt. According to Moody's, the downgrade and assignment of a negative outlook was based on its perception that we suffered from large structural budget gaps, high debt levels, lack of meaningful pension reform and weak economic growth prospects.

Recent press attention has drawn an unfair and inflammatory comparison of Puerto Rico's fiscal situation with that of Detroit.

Comparing Puerto Rico's per capita public debt vis-à-vis that of the fifty states is inaccurate, as the comparison fails to include each state's portion of the U.S. federal debt. The total federal, state and local debt per capita in the states for fiscal year 2011 was approximately $57,000, which is more than three times the public debt per capita in Puerto Rico.

Since the new administration of Governor Alejandro Garcia Padilla came into office in January 2013, we have addressed each of the concerns raised in the Moody's downgrade write-up in a swift, decisive and unprecedented manner. The tough decisions made by this administration stand in stark contrast with the failure of many distressed municipalities in the states – particularly Detroit -- to take similar steps to address their fiscal situations. Some of the actions that have been taken so far include:

- The Public Employees Retirement System, which was running an actuarial deficit of $25.5 billion (as of June 30th, 2011) and was expected to run out of net assets as soon as 2014, was completely reformed, following the example of Rhode Island, but in an ever broader, more comprehensive manner. Among the changes made: it moved all participants (including current employees) into a defined contribution plan, the employee retirement age and the employee contribution rate were increased, bonuses and other benefits from special laws were reduced for current retirees and eliminated for future retirees, with the savings being transferred into the system. In addition, annual government contributions of up to $140 million were injected to the plan. The reform tackled and solved the cash flow situation of the plan and is expected to eliminate the annual shortfall of approximately $900 million in annual "pay as you go" obligations. It is important to point out that the Retirement System reform was a cash flow solution; it did not aim to fix the actuarial deficit, but to provide the System with the necessary assets to pay benefits as they come due without requiring additional assistance from the government. Detroit, for example, was never able to carry out such reform, and the finances of its pension plan are often cited as one of the primary causes for its bankruptcy filing. The city of Chicago has similarly not been able to pass meaningful pension reform either. Of note, our pension reform has been already challenged in court and was upheld as constitutional by the PR Supreme Court, the highest judicial forum in the island.

- We approved a budget that reduces by two-thirds the structural deficit that the new administration found in the General Fund. The new budget increased by $292 million the payment of debt, therefore reducing the continuous refinancing of debt that has been a routine practice of prior budgets. In addition, new laws were approved amending areas of corporate taxation and the sales and use tax, with $1,350 million in new projected revenues that will help us to close the recurrent budget deficit

- We completed a pioneering transaction that transferred the administration of the Luis Munoz Marin Airport, our flagship international airport, to a private operator for a 40-year term, a transaction that has been lauded by multiple publications and that some states are considering replicating. Part of the proceeds from this transaction were used to repay approximately $500 million of debt of the Puerto Rico Ports Authority and provide liquidity to the Government Development Bank for Puerto Rico ("GDB");

- We adjusted the rates charged by the Puerto Rico Aqueduct and Sewer Authority (PRASA) for the consumption of water, providing PRASA with approximately $300 million in new revenues, which will allow PRASA to operate without a subsidy from the General Fund, easing the pressure on our budget.

- This administration approved legislation to provide the PR Highways and Transportation Authority (PRHTA) of up to $276 million in new revenues, monies to allow PRHTA to recover its self-sufficiency and eventually return to the markets, once market conditions are favorable, and issue debt to repay various lines of credits and short term notes that PRHTA has taken with the GDB and private banks.

These significant actions are not the only steps being taken to restore Puerto Rico's fiscal health. Pending matters in our fiscal agenda include the following:

- The administration is working to reform for the Teachers Retirement System, the second largest system that currently has an actuarial deficit of $9.8 billion (as of June 30th, 2011). Legislation to enact these reforms will be presented soon.

- We will continue to closely monitoring the collection of revenues and increasing our actions against tax evasion. Already in July 2013, the first month of the current fiscal year, even though most of the new tax measures have not been fully implemented, the results have been positive. As reported in a recent press release, July revenues exceeded last year's amounts and that which was projected as part of the current budget.

- The Economic Development team is executing other aspects of our economic development agenda of attracting capital investment to our Island and focusing on revitalizing our strongest sectors, including pharmaceutical, biotechnology and medical devices, and attracting other industries, including infrastructure, business services and information technology, among others. We are also working to revamp our infrastructure, for example, diversifying our energy portfolio and investing in renewable energy and natural gas, with the goal of ending the Island's reliance on expensive fossil fuels. Increased economic output will help reduce existing deficits.

- We are working to complete our proposed plan of financing, which has been adjusted in light of the volatility in the market and the private liquidity transactions that the Government Development Bank for Puerto Rico has recently completed, we expect to scale down our plan of financing for the rest of the year. We expect that this financing plan will be limited to issuances that expect to raise an aggregate amount of proceeds in the $500 million to $1,200 million range, subject to prevailing market conditions. The GDB is currently evaluating all alternatives and it expects to hold an event open to all investors in the next few weeks to discuss in detail the Commonwealth's fiscal and economic plan, as well as the GDB's plan of financing. At such event, investors will be able to directly ask questions to the members of the Commonwealth's fiscal and economic team.

- We are confident that recent private transactions have strengthened GDB's liquidity position, assuring that its short-term financing needs have been significantly addressed. The successful placement of these securities demonstrates the financial community's confidence in the performance of the Commonwealth of Puerto Rico and the GDB. Puerto Rico, like other recurring issuers, expects to return to the markets in the next few months and is comfortable with the size of its financing plan. We expect to have the necessary flexibility to revise such plan as market conditions require.

All the information described above has been made public to the investor community, through public presentations, including the 2013 Credit Conference held in May 2013 and a webcast open to all investors in July. All relevant documents are also posted in the GDB's website: http://www.gdbpr.com.

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