GDB locks up the 'piggy bank'

With no more financing tricks in the bag or one-time financial gains to be realized, government's bank has to work miracles to safeguard Puerto Rico's credit

BY CARLOS MÁRQUEZ
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Puerto Rico is in a state of fiscal emergency. Just one additional downgrade to Ba1 / BB+ on the general obligation bonds (GOs) would place Puerto Rico's credit under the investment-grade rating and would dramatically reduce the number of investors able and willing to buy the island's bonds.

The slightest downgrade would mean Puerto Rico's bonds would be "junk bonds" (noninvestment-grade). The consequence would be an almost total loss of access to U.S. municipal-bond markets—a catastrophic situation for government finances, infrastructure development and the economy.

Access to the bond market under the present U.S. financial crisis is already a difficult task even for issuers with a better credit rating than Puerto Rico. The market demand for Puerto Rico debt would be almost nonexistent. The island already has the worst credit rating of any U.S. state.

The size of the potential annual issuances would be reduced, assuming there are buyers. Interest rates for the borrowed money would dramatically increase since they would be noninvestment-grade. In the local market, mutual funds—important buyers of government bonds—wouldn't be able to buy them due to portfolio restrictions on the quality of investments.

Against this background, credit-rating agencies and bondholders are closely watching what Gov. Luis Fortuño and his administration will do about the $3.2 billion current fiscal-year deficit they inherited from the Acevedo Vilá administration.

Because of the financial crisis in the U.S., easy access to financial markets, bond insurance and low interest rates—for so many years allowing Puerto Rico to skirt its responsibility to manage its excessive government spending and lack of fiscal controls—aren't available anymore. In addition, credit-rating agencies, under fire in ongoing investigations, will be more rigorous than ever.

Puerto Rico's public debt has been increasing at a higher rate than the economy and that's extremely dangerous. Since 2000, public debt has more than doubled—increasing by $31.12 billion, from $24.19 billion to $55.31 billion—with everyone wondering where all that money went.

In addition, Puerto Rico is facing immediate challenges, among them a persistent three-year-old recession, a structural deficit that is projected to reach $3.2 billion in FY '09, limited cash flow that places government payroll and payment to government suppliers under risk, debt without repayment sources (i.e. extraconstitutional debt), a need to strengthen the Government Development Bank's (GDB) financial condition and reach a balanced budget through recurrent revenue to protect the island's credit rating.

The answer to how we arrived at this state of fiscal emergency isn't very complicated: recurrent expenses have exceeded recurrent revenue since FY '03 (see chart). To avoid a downgrade, the government must make difficult decisions toward establishing a balanced budget as soon as possible and restore economic growth to Puerto Rico.

The GDB intends to be the catalyst of change, but change will require a lot of teamwork and communication among government agencies. The strong leadership of Gov. Fortuño will be needed to elicit change.

To witness the specific actions being taken to address these challenges and save Puerto Rico's

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credit, CARIBBEAN BUSINESS asked the new executive team at the GDB.

Running out of options

"Puerto Rico is running out of options. Historically, budget deficits have been balanced through nonrecurrent revenue, such as special appropriations without repayment sources, sale of real estate, loans from the GDB, debt issuance and debt refinancing. Nevertheless, financial market conditions now aren't favorable for engaging in nonrecurring activities," said Carlos García, GDB president.

García stressed the need to protect and enhance Puerto Rico's credit rating. If Puerto Rico bonds were to be rated "junk" (noninvestment-grade), the island would lose the capacity to finance construction of infrastructure such as roads and highways and other facilities such as schools.

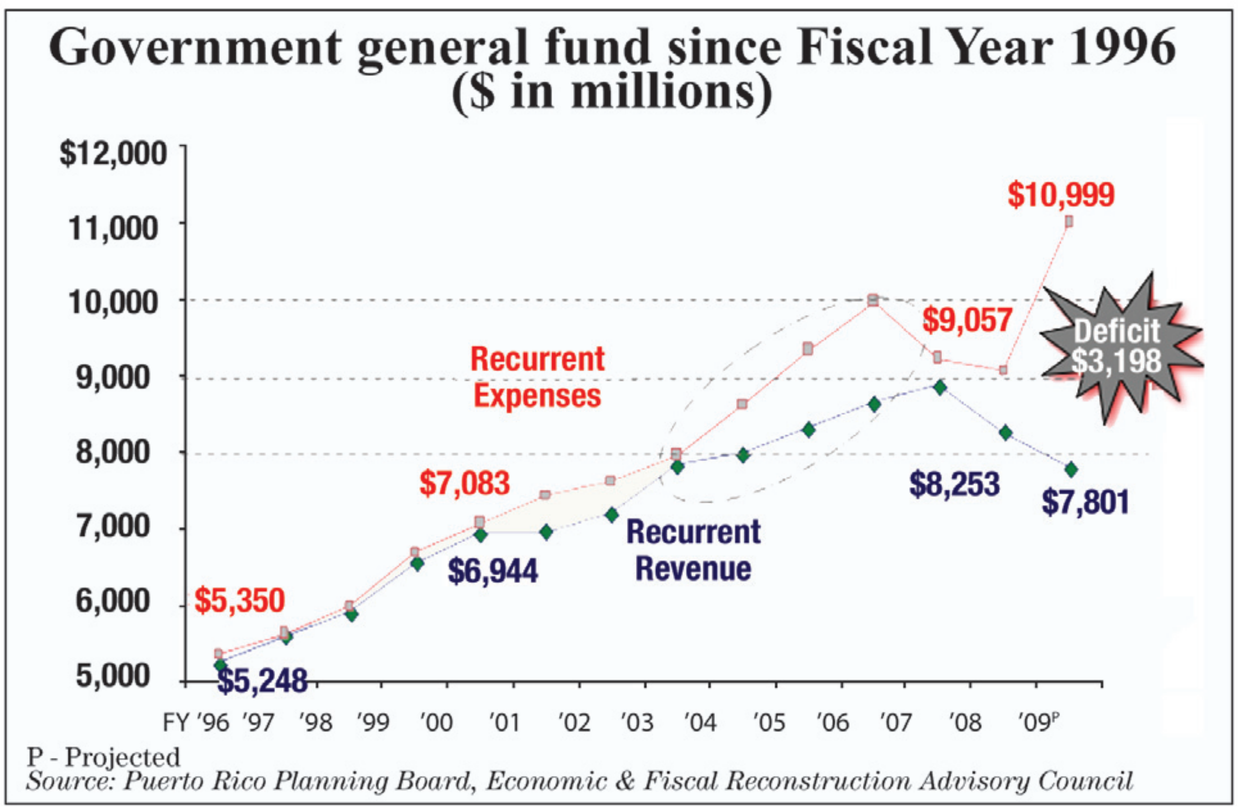
An average of $1.2 billion annually has been covered during the past four fiscal years with nonrecurrent sources (see chart).

"We can't continue to be overoptimistic about how we are going to balance the budget. We have to cut expenses. To that end, Gov. Luis Fortuño already signed an executive order to cut government expenses by 10%, implement a hiring freeze in the government sector and eliminate any vacant positions. It was a strong start; nevertheless, not enough. We are analyzing carefully all social, legal and economic implications of a significant government reduction program. This expense reduction program will have to account for a large share of the deficit. If we can't cover the deficit with the financial measures approved and the additional revenue-collection efforts being carried out by the Treasury Department, then the part that can't be covered will have to be addressed through revenue measures. This will be the hardest part," García explained.

"Although the Legislature approved and the governor signed four emergency financial

Carlos M. García,
president & chairman of the board,
Government Development Bank

measures that will help stabilize the fiscal situation and give adequate time to implement other measures that will deal with the structural deficit, these measures alone won't be enough. We must implement a complete plan for comprehensive government-expense reduction, tackle tax evasion and strengthen tax compliance and oversight, implement the financial measures already approved, complete an analysis of revenue-enhancing measures and approve legislation for an enhanced fiscal role of the GDB and implementation of public-private partnerships (PPPs). To resolve the structural deficit, we must make difficult decisions to establish fiscal responsibility," García added.



The government currently is spending $5.528 billion on payroll and related expenses, an increase of more than a $1 billion since FY '04 when it was $4.385 billion, and more than $2 billion since FY '00 when it was $3.337 billion (see chart).

According to García, the road to economic and fiscal reconstruction involves the reduction of government expenses, implementation of financial measures, the creation of an Economic Stimulus Fund, improved revenue-collection efforts, new revenue-enhancing measures, implementation of PPPs, an enhanced fiscal agent role for the GDB and an integrated economic-development plan.

How to address the deficit

According to García, to resolve the deficit and reach a balanced budget, we need to reduce operating expenses and sustain savings going forward, transform the government and its heavy structure, tackle tax evasion and establish better supervision, increase revenue and develop and implement fiscal controls.

"There is a need to establish fiscal responsibility. By fiscal responsibility, we don't mean engaging in financial practices or risks that compromise the ability of future generations to bring about economic development. We must continuously seek a strict balance between revenue and expenses, implement fiscal controls supported by legislation, develop and use fiscal metrics to monitor public finances and provide transparency to the public and investors," he said.

Key financial measures are needed to ensure the continuation of government operations without interruptions, give appropriate time for analysis, implement other expenses and revenue measures and allow for the adequate design of stimulus initiatives that seek to provide consumer relief, an economic boost and strengthen the GDB.

Government owes $4.775 billion to the GDB

Government agencies owe the GDB $3.4 billion, including $1 billion from the Treasury secured by tax debt, $1.275 billion for public-improvement debt and $1.15 billion from extraconstitutional debt. In addition, public corporations have loans outstanding with the GDB that exceed $1.375 billion, bringing the total to more than $4.775 billion.

"The GDB has four basic functions: government financial adviser, fiscal agent, lender and economic-development promotion. Right now, however, our priorities are to become a real fiscal agent and promote economic development. We have been the lender of last resort for a very long time and that will end," García explained.

"The GDB stopped being fiscal agent to become the government 'piggy bank' (*alcancía*), into which everybody has put their hands. Now, we have to put a lock on the *alcancía*. Nobody can use it if there isn't a clear source of repayment. If we don't put our own house [GDB] in order, there's no way we can be fiscal agent for the government and help balance the budget," García said.

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"Money is a scarce commodity. We must make good use of it by investing in projects that have a positive impact on our economy or those that provide the necessary infrastructure to support our future economic development. At this moment, any other allocation is unnecessary and unaffordable. We will implement strict criteria for money invested now: either it must generate immediate employment or create additional economic activity," he added.

THE FUTURE CAUGHT UP WITH US

"The combination of the four emergency financial measures recently approved will allow us to be responsible by putting a repayment source on all expenses that were pushed into the future without a source of repayment. Take the past four years, for example, the budget was balanced by asset sales or financing mechanisms. The obligations were just pushed into the future and now we are in the future," García added (see side bar).

Recently, there hasn't been any transaction in the market for general obligation bonds (GOs) with a credit rating of BBB- by Standard & Poor's or Baa3 by Moody's, respectively, the lowest credit rating in the investment-grade category. There currently is no reasonable access to the financial markets with that credit rating.

"In addition to our local precarious fiscal situation, the current financial market's conditions are difficult both in terms of access to the market as well as financing costs. That is why we are putting emphasis on using the Puerto Rico Sales Tax Financing Corp. (Cofina by its Spanish acronym) since it's the best credit we have," said Fernando Batlle, GDB executive vice president for public finance, investment & treasury.

Outstanding Cofina bonds are rated A1 by Moody's, A+ by Standard & Poor's and A+ by Fitch.

Fernando L. Batlle,
GDB executive vice president &
director of financing, investment & treasury

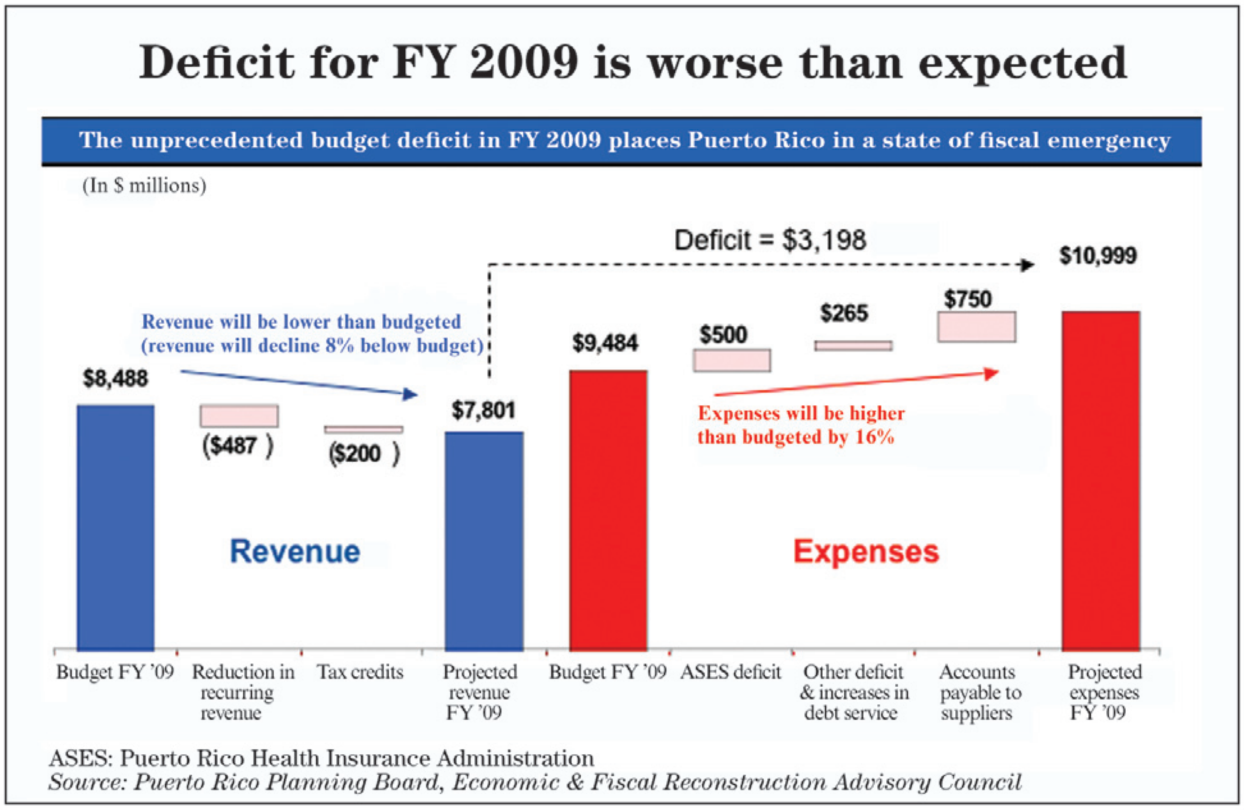
Cofina has the capacity to issue bonds to pay public or governmental debt. Law No. 1 of 2009 increases to 2% the assignment of the Sales & Use Tax (IVU by its Spanish acronym) to Cofina. The assignment to Cofina was 1% prior to the approval of this law. The benefit of this financial measure is that it increases the government's capacity to issue bonds of up to $4 billion. A significant portion will be used to provide a repayment source to existing debt.

Batlle explained the benefit of this financial measure is that it increases the capacity to issue bonds in an amount up to $4 billion. It is the only cost-effective way to provide the necessary funding to bridge the deficit gap and strengthen the GDB's balance sheet until all other fiscal measures under review are implemented.

"We believe this amendment provides additional protection to existing Cofina bondholders as well as to general obligation (GOs) bondholders by limiting the amount of additional debt that can be issued through this mechanism. The net effect in this increased Commonwealth debt is significantly less than $4 billion, since a significant portion of the proceeds will be used to refinance or provide a repayment source to debt that prior administrations incurred and the central government owes to the GDB. The maximum amount of incremental debt from this bond issue is $1.85 billion, which will be used for the Economic Stimulus Fund, payment to government suppliers and to cover operational deficits. In other words, a significant portion of new Cofina debt substitutes existing debt with no repayment sources," Batlle explained.

The allowable uses for the additional Cofina bond issuances are to repay the $1 billion Treasury note secured by tax liens, pay any other debt provided to Treasury outstanding as of December 2008, cover operational expenses for FY '09-FY '12, pay payables to government suppliers, provide funds for the Economic Stimulus Fund and provide funding for the Emergency Fund (if necessary).

"We are planning to go to market in relatively small issuances depending on market conditions and issue approximately $250 million on a monthly or quarterly basis. It will depend on the market appetite for municipal paper but we will be ready to act with agility both in the U.S. municipal-bond market as well as the local market. Given current market conditions and the renewed focus on credit issues, we will access the capital markets with the best credit we have, Cofina," Batlle said.



IMPRESSIVE DEMAND FOR GOVERNMENT PAPER IN LOCAL MARKET

The GDB has placed approximately $1.5 billion in notes in the local market during the last 30 days.

"There has been impressive demand in the local market for GDB notes. In addition to the $1.23 billion we sold in December and early January, we just priced an additional issuance of $250 million but the orders were more than $400 million. I don't have specific numbers on how much additional capacity there is in the Puerto Rico market, but I'm assured it has plenty. We believe the Puerto Rico investor trusts the work we are doing and we are counting on them for part of the upcoming transactions we will be bringing to market," Batlle said.

"Local banks are doing everything they can within their means; they bought approximately $385 million of the original $1.23 billion issuance. However, what is impressive is that local investors are supporting our efforts, buying more than $1 billion in government notes. This demonstrates

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the strength and capacity of our local financial market and local investor's confidence in the GDB and Puerto Rico's future," García added.

AFI financial restructuring to provide $600 million, repay over $1.1 billion in debt

To address Puerto Rico's precarious credit and cash situation, the GDB also plans to restructure the Puerto Rico Infrastructure Financing Authority's (AFI by its Spanish acronym) Infrastructure Development Fund. The gain realized through the restructuring could exceed $600 million. The restructuring will also allow for the repayment of over $1.1 billion in bonds.

Law No. 3 of 2009 allows the realization of a gain of more than $600 million through the sale of the securities in AFI's Corpus Account and the defeasance of the outstanding bonds. The benefits of this financial measure include repayment of more than $1.1 billion in debt and protection of the Corpus Account through a guaranteed investment contract with the GDB until 2040. The remaining 2/3 of the more than $300 million will be used to cover operational expenses and 1/3 to increase GDB capital.

"As a result of this [AFI] financial-restructuring transaction, approximately $1.14 billion of existing debt will be retired, so the total net effect is an increase of approximately $700 million. This allows us to substitute the $200 million Sales & Use Tax (IVU) revenue, to be assigned to Cofina, and gives us time to make the necessary government-expense adjustments," García explained.

Law No. 92 of 1998 created the Corpus Account (main account) of AFI's Infrastructure Development Fund. The Corpus Account was created with part of the proceeds of the sale of the Puerto Rico Telephone Co. It was restricted until 2040, but the increase in Treasury prices from "abnormal" market conditions offered a window of opportunity to realize this gain.

William Lockwood Benet,
executive vice president for fiscal agency

"We have reached the 'bottom of the barrel.' There are no more financing tricks or one-time gains to be realized. We are against the wall, and these financial measures only give us temporary relief. We have to implement the necessary expense reductions and revenue measures to balance the budget," Batlle said.

Reducing public debt: A first glimpse at fiscal responsibility

The financial measures recently legislated provide a first glimpse of hope that the new GDB administration intends to operate in a fiscally responsible manner. The combined Cofina bonds financing plan and AFI restructuring transaction will only account for a net increase of approximately $710 million in public debt, which is less than 1.3% of the total public debt of $55.31 billion. This is made possible because a significant portion of the Cofina bonds to be issued will be used to provide a source of repayment to existing public debt.

"As a result of the AFI financial restructuring transaction, approximately $1.14 billion of existing debt will be retired, so the total net effect, even adding the $4 billion in additional Cofina bonds, is an increase of approximately $710 million in overall governmental debt. The AFI transaction also allows us to substitute the effect of the first full year of the $200 million Sales & Use Tax (IVU) revenue from the general fund, which will be assigned to Cofina and give us time to implement the necessary fiscal measures," García explained.

Public-private partnerships are essential

"Looking at our current and future financing needs, public-private partnerships (PPPs) are a key element of the government's financing and economic-development strategy. PPPs provide not just upfront funds to the government that are needed to address the structural deficit or pay off existing debt, but also give us the ability to finance much-needed future infrastructure projects. Our public corporations are in a weak financial position and PPPs are necessary to complement traditional

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Commonwealth of Puerto Rico (2000-2008) Total debt outstanding (In $ billions)

										Proforma (b)	
	June '00	June '01	June '02	June '03	June '04	June '05	June '06	June '07	June '08	Sept. '08	Sept. '08
Central Government Debt	$9.40	$10.49	$11.67	$12.48	$14.51	$15.97	$17.55	$16.20	$17.77	$19.87	$21.17
Public Corporation Debt	12.96	13.10	14.52	15.28	17.39	18.56	19.73	24.16	26.09	25.83	25.83
Municipalities	1.46	1.63	1.80	1.96	2.05	2.18	2.33	2.46	2.82	2.79	2.79
Government Debt Not directly pledged with public funds (a)	0.37	1.95	2.05	2.82	3.49	3.57	3.52	3.37	6.46	6.55	5.52
Total Public Debt	24.19	27.16	30.03	32.53	37.43	40.27	43.14	46.18	53.14	55.04	55.31

(a) This debt includes Employee Retirement System pension obligation bonds, Children's Trust bonds and Infrastructure Financing Agency bonds.

(b) Proforma debt reflects a debt reduction from Prifa's restructuring as well as net new debt resulting from a new Cofina bond issue.

Source: Government Development Bank

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financing mechanisms to continue funding the ambitious capital-improvement plans," Batlle said.

Batlle added that the proposed legislation takes a holistic view and provides a clear legal framework as well as the transparency needed to give the government and prospective investors the comfort that projects will be structured in a way that benefits everybody. We need to look at best practices around the world. For example, the state government of Victoria, Australia, uses the PPP mechanism to finance approximately 20% of its capital spending.

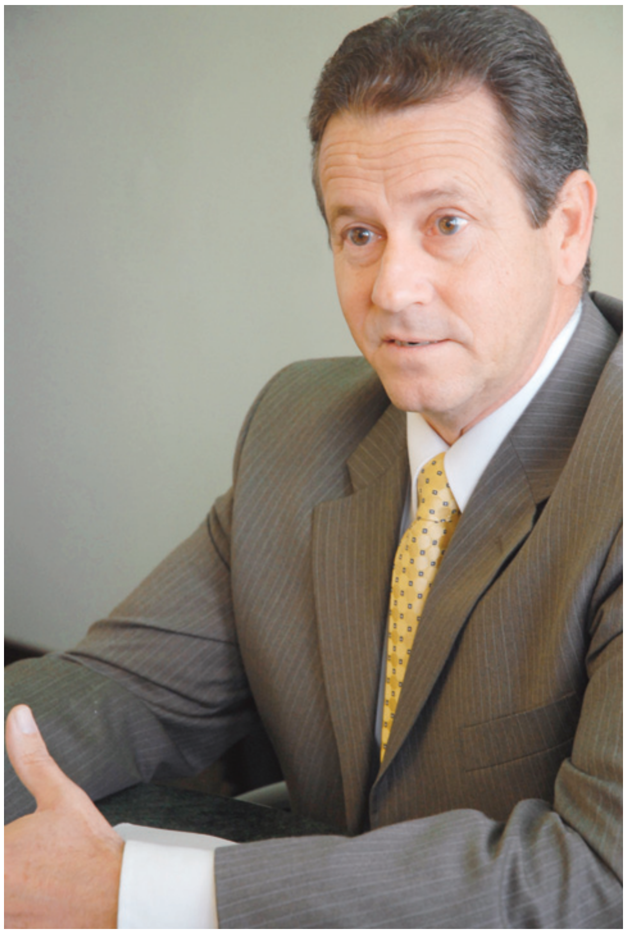
"We need to act fast to enact the necessary legal frameworks to start implementing PPP initiatives, which are so vital for Puerto Rico's economic development," he concluded.

GDB's enhanced role as fiscal agent

The fiscal-agent function of the GDB will be intensified.

"Most challenges we now face are the result of a lack of strict economic, financial and operational oversight by the GDB, its fiscal management partners (Treasury Department, Office of Management & Budget [OMB], Planning Board and Municipal Revenue Collection Center [CRIM by its Spanish acronym]) and its economic-development partners, such as the Economic Development & Commerce Department, the Agriculture Department, Tourism Co., and University of Puerto Rico," said William Lockwood Benet, executive vice president of the GDB in charge of its role as fiscal agent.

The commitment shared by Gov. Fortuño and his team of management officers is that such controls are essential to protect the Commonwealth's credit rating, stabilize public finances and accelerate the level of investment, knowledge, competition and global relevance of our private sector.



Jesús F. Méndez, executive vice president of administration, operations & comptroller operations

According to Lockwood, the following changes will be implemented to stabilize public finances and safeguard systematic steps to improve credit ratings:

• The central government, public corporations, municipalities and retirement systems will be required to develop a multiyear budget with specific management milestones for their operations, cash flows and capital investment.

• Risk management will be integrated into all investment, financial, operational and technological decision-making.

• GDB management officers and each of its clients will have specific financial ratios they must comply with by certain determined dates.

• All clients will share consistent underlying assumptions to forecast economic trends and their future revenue (for instance, the disposable income of the population, the level of private investment, and so on).

• All clients will have specific goals related to their contribution to private-sector and human-capital development, given the need to accelerate innovation, investment, entrepreneurship and technological progress.

To accomplish these goals, the GDB, together with the OMB and Chief Information Officer (CIO), have already started designing and implementing new procedures and redefining the relationships between the central government, public corporations, municipalities and retirement systems. This certainly will entail an internal restructuring of the government as well as stronger governance collaboration with private-sector leaders.

"Related to the central government, GDB management and the CIO are reviewing the legal and operational responsibilities of the Planning Board, Treasury, OMB and CRIM, and initially will focus on strengthening fiscal management, budgeting quality, performance and a shared economic vision by improving the quality of information systems shared by the Treasury, OMB and GDB to allow for seamless integration, provide real-time data, increase comprehensiveness and develop new management-oversight capabilities," Lockwood said.

Lockwood believes by using technology at its full potential, management processes can be redesigned to extract knowledge, provide solutions and manage risks much more efficiently and faster.

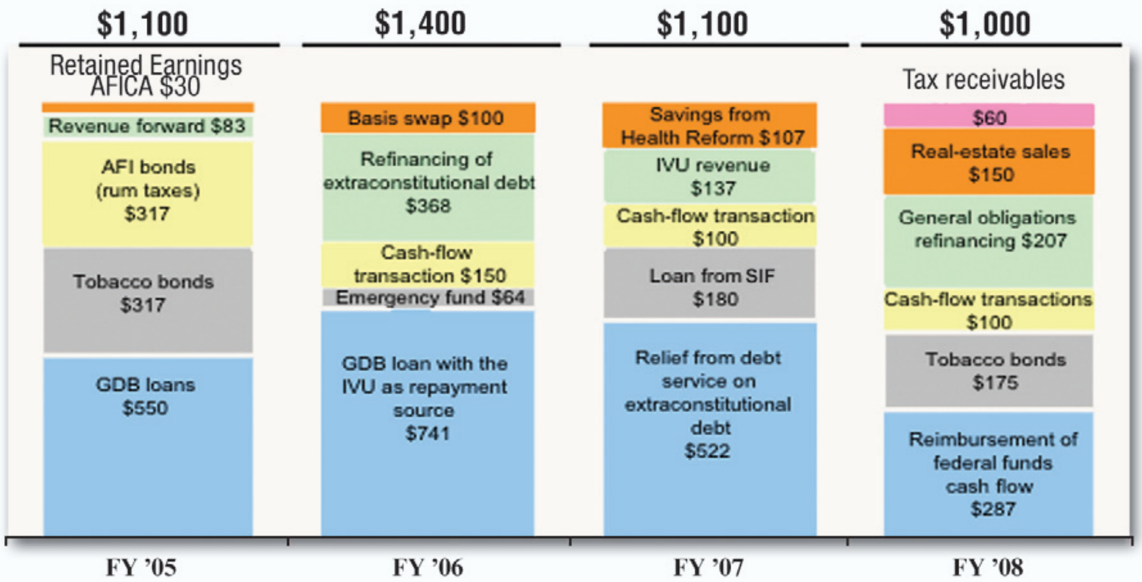
"We will be strengthening the budget-design cycle and developing the multiyear budget with OMB and intrayear review procedures to monitor changes in revenue and reductions in expenditures.

Best practices in the U.S. and internationally are being compared to our current fiscal-management structure and budgetary process to identify specific opportunities for improvement. Specific initiatives have been identified. OMB, Treasury and the GDB will, for instance, support new teams and procedures to oversee the approval, receipt of federal funds and reimbursement of indirect costs," Lockwood said.

Special attention will be granted to agencies that consistently have budget overruns and are under federal-compliance agreements, such as the Education Department and all health-related agencies.

"Beyond budget documents describing program funding by line item, the OMB is closely reviewing what government does, what it accomplishes and the likely consequences of

Budget deficits have been balanced through nonrecurrent revenue
(In $ millions)



Afica: Industrial, Tourist, Educational, Medical & Environmental Control Facilities Financing Authority
AFI: Infrastructure Financing Authority GDB: Government Development Bank;
IVU: Sales & Use Tax SIF: State Insurance Fund
Source: Puerto Rico Planning Board, Economic & Fiscal Reconstruction Advisory Council

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rightsizing their funding levels. Learning from the "early" performance-budgeting framework is that it seldom makes sense to cut funding for ineffective programs because the problems that spawned the programs still exist. Instead, they needed better data to understand the problems and to determine which practices were worth continuing and their program costs," Lockwood explained.

Lockwood also plans to support more accurate and frequent economic data and the capacity to simulate fiscal-policy decisions under alternative economic scenarios, as well as develop new information sources, including:

• Ongoing procedures to review economic-growth tax-revenue forecasts and expenditure controls with transparency and in a timely, regular fashion.

• Econometric forecasting and simulation models to support fiscal and economic decision-making and prioritization.

• The GDB will identify the required management and funding needs (including audits and technical assistance from the federal government) to improve these functions.

• Accordingly, data developed by Treasury, Pridco and other units will be aggregated, analyzed and shared, under compliance of law, to be used for private-sector development, economic and financial analysis and risk management.

Oversight of public corporations

Lockwood explained that the GDB and OMB will work with the CEO and chief financial officers (CFOs) of public corporations to adopt a classification system to measure each public corporation's financial performance, with a fast track for high-risk institutions; review the performance of each corporation's CFO; establish when a corporation with consistently poor performance will be subject to strict controls by the GDB; work closely with consulting engineers and management in the capital-investment selection process; promote higher return on investment, cost-efficient, innovative and green technologies; and design the best financial borrowing structures for each client to protect and improve their credit ratings.

Support of private-sector development

Fiscal oversight also includes support for innovation and adoption of best practices in the institutions and programs working on private-sector development, including the academic sector and research & development programs.

"As a first entry point in this area, the GDB is working on the design of the fiscal stimulus & economic reconstruction package and the priority for its use. Previous GDB support has included financing the restructuring of Pridco and facilities for private-sector incentives. The most important forthcoming collaboration will be the integration of economic-development priorities in the comprehensive fiscal reform, a review of the effectiveness of existing tax incentives that grant credits, exemptions and deductions to a wide array of activities and industries and the existing regulatory and competition framework," Lockwood said.

Another goal is the development of interdisciplinary industry experts looking at internal conditions and opportunities for global relevance of private-sector development and government re-engineering across fiscal and private-sector development institutions.

"After so many years of deficit, we already know which agencies underestimate expenses, go over budget or don't receive federal funds on time. We will have a lot more interaction with the Education and Health departments than we previously had. Traditionally the GDB didn't directly interact with the operational budgets of government agencies, but now that will change. Audit procedures regarding federal funds will be strengthened and we will be looking at special financial restructuring to improve the educational system," Lockwood added.

Operations and administration

In the meantime, Jesús F. Méndez will be in charge of GDB operations and administrative functions. He plans to maximize the utilization of bank resources, not only internally but with other government agencies as well, to increase efficiencies in agreements with other government agencies.

Méndez will not only be responsible for the efficient utilization of GDB assets and resources, including information technology and human resources, but he also has been appointed executive director of the Public Buildings Authority and administrator of the General Services Administration.

GDB operations staff involved in technological, interagency projects with the Treasury Department are expected to result in significant operational and economic efficiencies. The public announcement of the launching of these projects will be made jointly in the near future.

"We want to achieve efficiency and synergies with other government agencies such as Hacienda [Treasury] and the OMB. We will support very ambitious plans to reduce expenses on the central-government level that we will analyze and implement, especially with the utilization of technology to improve our financial structure and balance the budget," Méndez said.

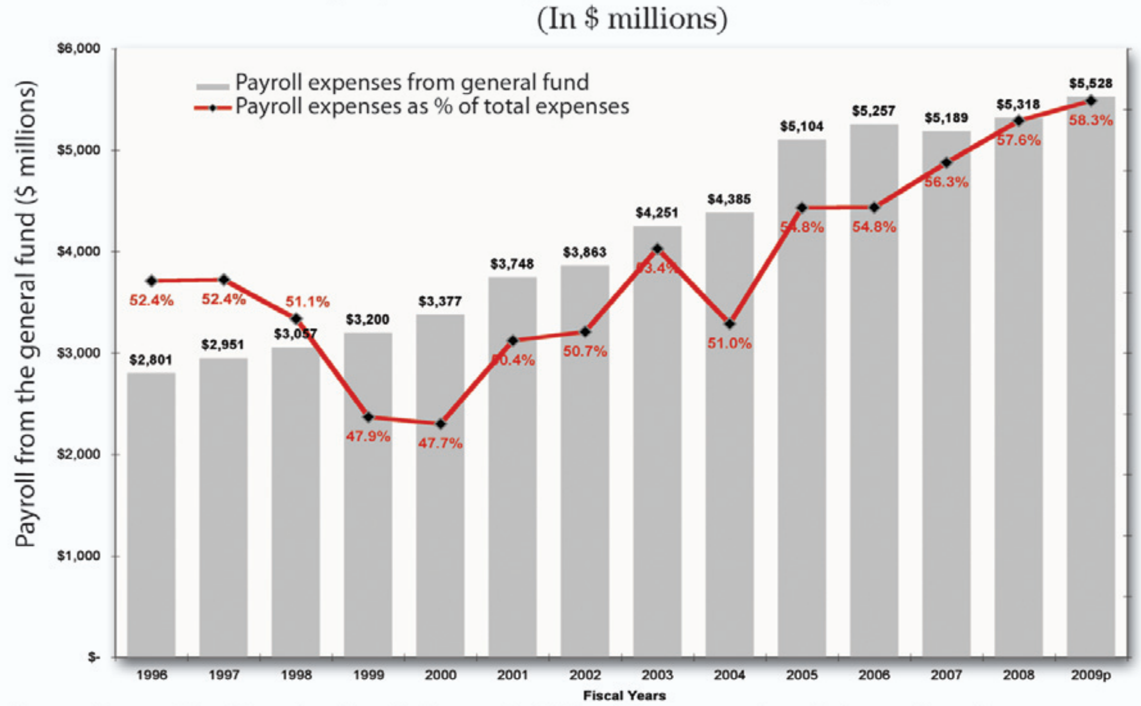
Webcast investor presentation planned

"For next week, we plan a webcast investor conference to discuss the island's fiscal situation and financing plans. We would like to have the revised economic projections from the Planning Board so we can present investors the entire picture. We expect the Planning Board should have the economic-growth projections revised over the next couple of weeks for FY '09 and FY '10," García advanced.

"The message will be straightforward. We found a central-government deficit of $3.2 billion and will have a multiyear plan to balance the budget in less than four years. We first have to implement the things we can control. We don't control the economy although we can stimulate it, and we will do that. The things we have control over are government spending and collection efforts to reduce tax evasion. These two areas should represent more than 50% of the deficit reduction. We must forge a better future for the next generations, facilitate growth and sustainable economic development and avoid another fiscal crisis in the future. The road map to economic and fiscal reconstruction is being paved. In the meantime, we are keeping the credit-rating agencies informed of local developments on an almost daily basis. We are making presentations about the government's fiscal state of emergency to legislators, mayors, trade associations and labor leaders. We must and will be reaching out to investors as well. We have a lot to do and no time to waste," he concluded. ■

Trend in payroll expenses from the general fund

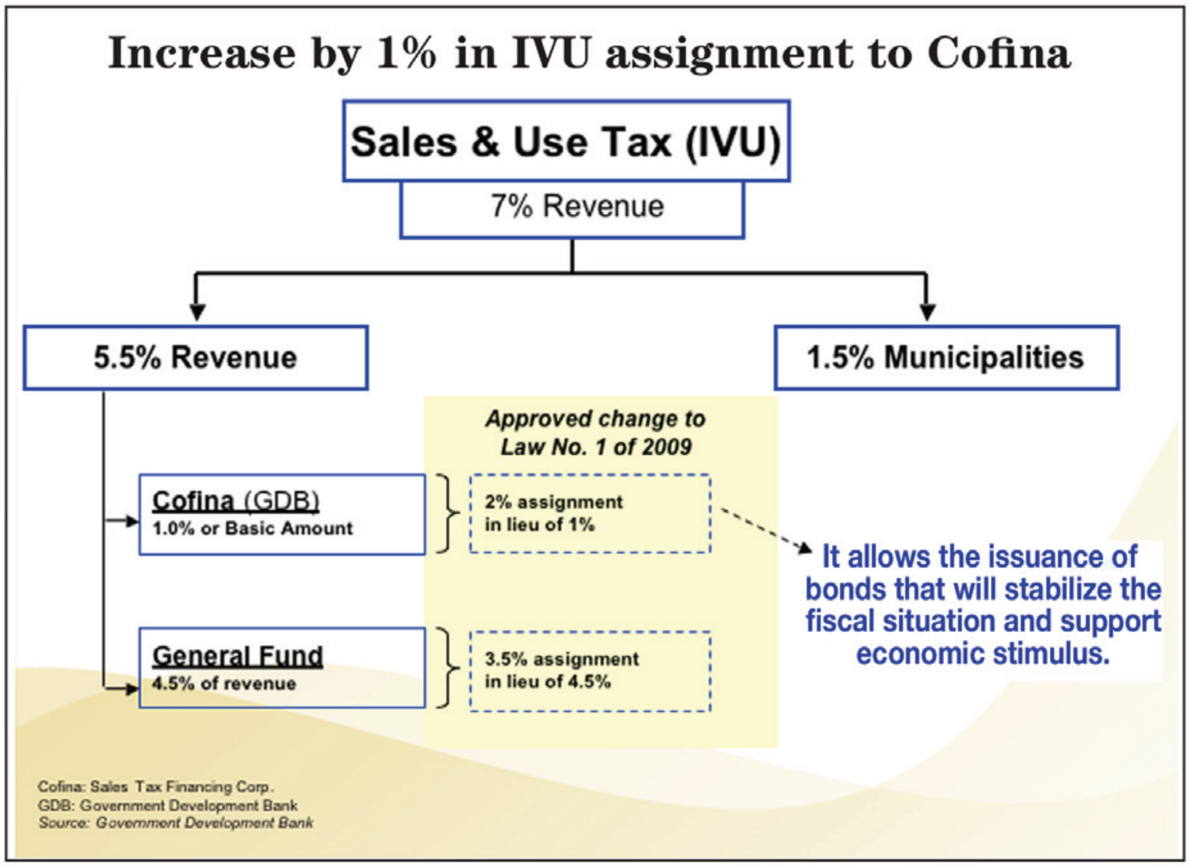
(In $ millions)



Source: Puerto Rico Planning Board, Economic & Fiscal Reconstruction Advisory Council

Financial legislation approved to save P.R.'s credit and keep the government running

The Legislature approved and Gov. Luis Fortuño signed into law four measures that will help stabilize the government's fiscal situation and provide adequate time to implement other measures to deal with the structural deficit.



LAW NO. 1 OF 2009

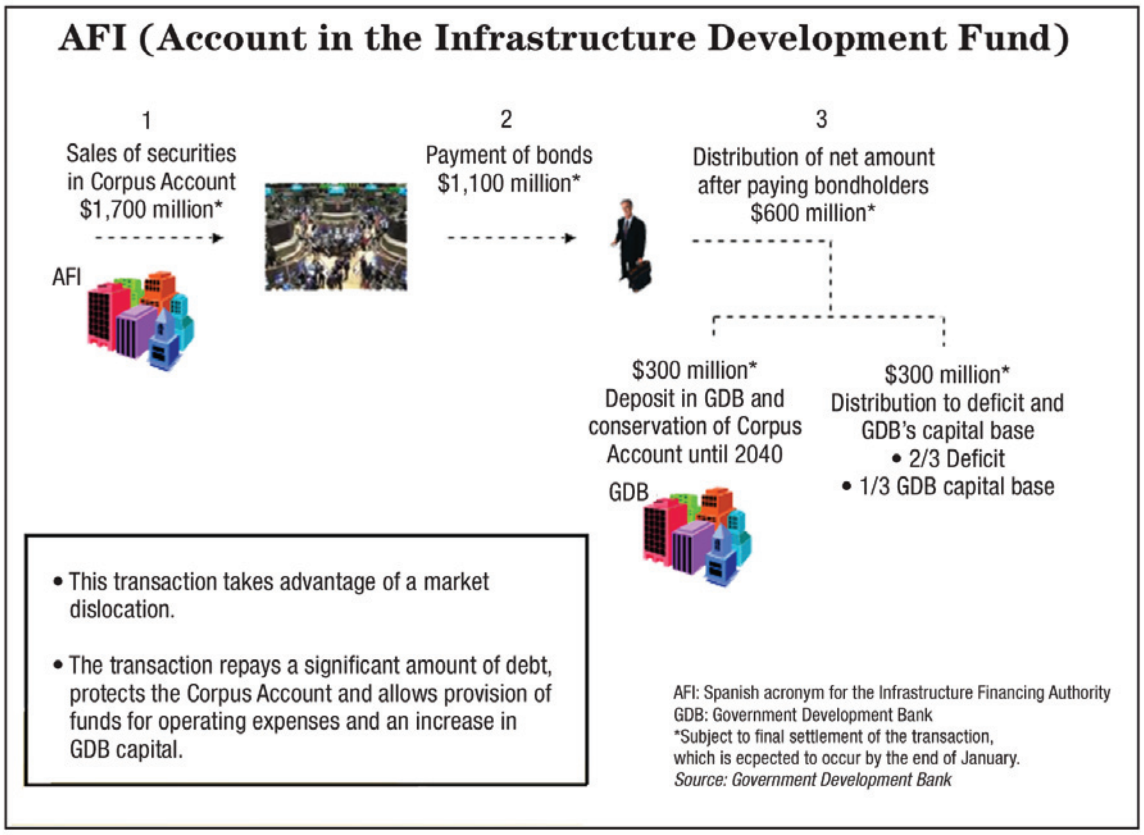
Law No. 1 of 2009 increases from 1% to 2% the Puerto Rico Sales Tax Financing Corp.'s (Cofina by its Spanish acronym) assignment from the Sales & Use Tax (IVU by its Spanish acronym. Cofina is a subsidiary of the Government Development Bank (GDB) created in 2006 to issue bonds to pay public or government debt.

"It increases the capacity to issue bonds up to $4 billion. A significant portion will be used to provide a repayment source to existing debt, which won't increase the public debt. It allows the government to repay the $1 billion Treasury note secured by tax liens; pay any other outstanding debt provided to the Treasury as of Dec. 31, 2008; cover operational expenses between FY '09 and FY '12 to pay accounts payable to government suppliers and contractors; provide funds for the Economic Stimulus Package; and provide funding to the Emergency Fund," said Carlos García, GDB president.

LAW NO. 2 OF 2009

Law No. 2 of 2009 allows the use of debt, loans and other financing mechanisms to cover operating expenses and balance the government budget. This concession will be valid until June 30, 2011.

"The Fiscal Reform Law of 2006 prohibited the issuance of bonds and the use of loans or any other financial mechanism to cover operating expenses or balance the budget. It will allow for the temporary financing of government operations as a way to avoid a shutdown of the public sector. It will also allow for adequate time to implement other key expense and revenue measures," García explained.



LAW NO. 3 OF 2009

Law No. 3 of 2009 allows the realization of a gain of more than $600 million through the sale of securities in the Corpus Account (main account) of the Infrastructure Development Fund of the Puerto Rico Financing Infrastructure Authority (AFI by its Spanish acronym) and the defeasance of outstanding bonds.

"This account was created in 1998 with proceeds from the sale of the Puerto Rico Telephone Co. Although the account was restricted until 2040, the increase in Treasury prices under "abnormal" market conditions has offered a window of opportunity to realize this gain. It will allow us to repay more than $1.1 billion in debt, but will protect the Corpus Account through a guaranteed investment contract at the GDB until 2040. The remaining amount of more than $300 million will be used to cover operational expenses 2/3 and increase GDB capital 1/3," the GDB president explained (see chart).

LAW NO. 4 OF 2009

Law No. 4 of 2009 increases loan limits based on future repayment sources of up to $200 million. Loans based on future repayment sources assigned to the general fund were limited to $100 million by Law No. 164 of 2001.

"This will ensure the GDB will have sufficient capability to finance government operations in case immediate action were necessary while other revenue and expense-cut measures are implemented," García concluded. ■

The GDB's new executive team

"With the experience, commitment and talent we have in the new management of the Government Development Bank (GDB), we believe we have the right team in place to safeguard our credit, implement fiscal discipline and direct the execution of Puerto Rico's economic development," said Carlos M. García, the new president & chairman of the GDB and former president of Banco Santander Puerto Rico and Santander Securities.

CARLOS M. GARCÍA, PRESIDENT

García has more than 15 years' experience in the financial industry. He started his career in investment banking at First Boston Corp. in 1993. He joined Santander Securities in 1997 as director of investment banking. He was named president of Santander Securities in 2001. In October 2003, he became executive vice president for wholesale banking of Banco Santander and was appointed senior executive vice president & COO of Santander BanCorp and Banco Santander in January 2004. He became president of Banco Santander Puerto Rico in 2008.

He has a dual degree in business from the Wharton School and in comparative literature from the College of Arts & Sciences of the University of Pennsylvania.

FERNANDO L. BATLLE, EXECUTIVE VP, DIRECTOR OF FINANCING, INVESTMENT & TREASURY

Batlle has more than 14 years' experience in the financial service industry. From 2005 to 2008, Batlle worked as an independent financial consultant to various corporations in Puerto Rico and the Dominican Republic. Prior to that, he served as executive vice president of FirstBank and managing director of Neva Management Corp., an investment-management firm.

Batlle has a master's in business administration from Harvard Business School and a bachelor's in business administration from Northeastern University.

WILLIAM LOCKWOOD BENET, EXECUTIVE VP & DIRECTOR OF GDB'S ENHANCED FISCAL AGENT FUNCTIONS

Lockwood, an economist, specializes in fiscal and financial strategies and economic policy innovation for the capital markets and private sector. In 2005, Lockwood was president of the GDB and, from 1989 to 1993, he was vice president & aide to GDB presidents Ramón Cantero Frau, José M. Berrocal and Marcos Rodríguez-Ema.

He also has served as adviser involving asset management, local mutual funds, legislative reform of the capital markets, risk management and innovative programs for corporate banking at such entities as Grupo Guayacán, Banco Popular, Merrill Lynch, Santander, Citibank and the GDB.

JESÚS F. MÉNDEZ, EXECUTIVE VP & DIRECTOR OF ADMINISTRATION, OPERATIONS & THE CONTROLLER OF THE GDB, ITS SUBSIDIARIES AND AFFILIATES

Méndez has more than 25 years' experience in accounting, financial-planning budgets, capital management and administration in the private-banking sector. Before joining the GDB, he worked as president & CEO of Tresamici Management Inc., a corporation engaged in the administration of assisted-living facilities, of which he holds ownership participation. Méndez has a bachelor's in business administration from University of Puerto Rico and is a CPA.

VÍCTOR FELICIANO, VP & TREASURER

Feliciano has extensive experience in the area of treasury as an investment officer of treasury divisions and commercial credit and as a financial-management officer. He has served as senior vice president of capital markets and vice president of secondary markets of such institutions as Banco Santander and R-G Financial, among others.

He has an MBA in finance from Universidad Interamericana de Puerto Rico and a bachelor's in business administration specializing in finance and marketing from University of Puerto Rico.

ANA MARÍA GREGORIO, VP & DIRECTOR OF COMMUNICATIONS

Prior to this appointment, Gregorio served as communications consultant for various local companies and professor of the communications graduate program at Universidad del Sagrado Corazón. She has previous experience in the public sector, having served as director of the communications office of the Puerto Rico Infrastructure Financing Authority from 1998 to 2000.

Gregorio has a bachelor's in Spanish and education from the University of Florida, two master's in hispanic studies from the Universidad Interamericana de Puerto Rico and in communications, specializing in public relations, from Universidad del Sagrado Corazón.

DAVID ÁLVAREZ, SENIOR ADVISER TO GDB PRESIDENT

Álvarez has eight years' experience in economic and financial analysis. Prior to his appointment at the GDB, Álvarez was a senior analyst and consultant at such institutions as Santander Securities, Santander BanCorp and H. Calero Consulting. He has a master's in economic planning from Florida State University and a bachelor's in economy from West Virginia University.

GEORGE JOYNER, EXECUTIVE DIRECTOR OF THE P.R. HOUSING FINANCE AUTHORITY

Joyner is the former president of the mortgage division of Reliable Financial Services Inc., a unit of Wells Fargo. His professional experience includes vice president for corporate and public finance at Citibank, president of Santander Mortgage Corp. at Banco Santander, vice president of the mortgage division of Oriental Bank & Trust and executive vice president, CFO & chief information officer at Reliable Financial Services Inc.

Joyner has a master's in business administration from University of Pennsylvania's Wharton School and a bachelor's in mathematics and physics from University of Puerto Rico.

ERWIN KIESS, EXECUTIVE DIRECTOR OF THE P.R. INFRASTRUCTURE FINANCING AUTHORITY

Prior to his appointment, Kiess worked as quality control director at CSA Group, an engineering management & design firm. His experience includes roles as electrical-engineering designer, field-engineering supervisor (at construction sites), facilities engineer, plant engineer, production manager and quality manager in various manufacturing areas.

He has a master's in electrical engineering from University of Puerto Rico, a master's in engineering management from Polytechnic University of Puerto Rico and is a licensed engineer. He also has several certifications in the areas of quality and organizational excellence. ■