



COMMONWEALTH OF PUERTO RICO
FISCAL UPDATE

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**PUERTO RICO GOVERNMENT PARTIALLY SHUT DOWN WHILE EFFORTS
CONTINUE TO FIND ALTERNATIVES TO FINANCE DEFICIT**

As previously informed, the Government of Puerto Rico faces a \$738 million year-end shortfall that has left the Treasury Department with funds sufficient to pay only a portion of the wages due to Government employees in May and June. To resolve the situation, it was necessary for the Legislature to have enacted a measure authorizing the Government Development Bank for Puerto Rico (GDB) to make a loan to cover the deficit, with an identified source of repayment. This did not happen by the start of business Monday, and the Government, in an unprecedented move, closed numerous agencies, leaving only those providing essential services in operation.

The GDB reiterated that the Constitution of the Commonwealth of Puerto Rico provides that public debt of the Commonwealth constitutes a first claim on available Commonwealth resources, over any other expenditure, including wages. All required debt service payments are being made as scheduled. In other words, there is no prospect that the current situation will result in any default on debt service payments, including GOs and debt payable from legislative appropriation.

Last Week and This Past Weekend

- The Senate of Puerto Rico approved Joint Resolution 630 allowing a \$531.5 million loan from GDB to cover payroll

expenses and other costs for the rest of fiscal year 2006, which ends June 30th.

- The Senate approved the loan from the GDB with a repayment guarantee from the sales tax to be enacted by fiscal year end.
- In preparation for a possible stalemate with the Legislature, Governor Aníbal Acevedo-Vilá acting with great resolve signed an Executive Order that assigned anticipated receipts by the General Fund in May and June to specific agencies, while excluding others in order to ensure the provision of essential services including health and security, in the event that no additional funds were forthcoming by May 1, 2006.
- The Order proposed to reduce for the next two months, the budgets of the Executive Branch by 54%, the Legislative Assembly by 50%, and the Comptroller's Office and the Judicial branch by 75%.
- In addition, some \$60 million from the Municipal Revenue Collection Center that would normally be distributed to the 78 municipalities of the Island will be retained by the Treasury Department, affecting some 34 municipalities whose budgets depend 70% on the money to pay their wages.



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- In a prolonged session over the weekend, the House of Representatives of Puerto Rico proposed several new tax measures, but did not pass legislation that in practice could guarantee the adequate functioning of the Government to avoid a shutdown.
- GDB Chairman Alfredo Salazar stated, “The only viable option to handle the situation is to authorize a loan to the Treasury Department guaranteed by a source of repayment in the form of an agreement to approve a Tax Reform.”
- leave, and 1,500 public schools have ended the year two weeks early.
- Only departments necessary for the safety and welfare of the citizenry of Puerto Rico are operating, as well as public corporations that generate their own funds.
- Several municipalities have also closed all but essential services.
- The Government has set forth a contingency plan during the next two months to provide furloughed workers with unemployment benefits, and a moratorium on utility bills, mortgage and loan payments (through a special agreement with banks).

Today

- For the first time in Puerto Rico’s history, 43 Government agencies are closed, 15 are partially open and 60 are operating.
- Out of nearly 229,000 public employees in the central government and public corporations, approximately 95,750 employees are on unpaid leave of absence; the Department of Education is the largest with 75,758 employees on unpaid
- The Legislature is expected to continue in session to deal with the immediate situation.
- Demonstrations by labor, civic and religious groups aimed at resolving the impasse are continuing. Approximately 40,000-50,000 people participated in such a march on Friday.

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