COMMONWEALTH OF PUERTO RICO
Puerto Rico Highways and Transportation Authority

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Government Development Bank for Puerto Rico

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THE COMMONWEALTH ADMINISTRATION FILES BILL TO IMPROVE HIGHWAYS AND TRANSPORTATION AUTHORITY'S FISCAL AND FINANCIAL SITUATION

The legislation is expected to provide funding to operate Puerto Rico's highways network, protect thousands of public and private jobs, and continue to provide maintenance to the road network, the Urban Train operation, and the bus and ferry services.

The president of the Government Development Bank for Puerto Rico (GDB), Melba Acosta-Febo, announced today that the Administration filed a bill containing measures to improve the fiscal and financial situation of the Puerto Rico Highways and Transportation Authority (PRHTA). The bill will ensure the continued operations and maintenance of the island's road network, and protect jobs for PRHTA as well as in private construction industry. It will also enable PRHTA to continue maintaining the island-wide road network and provide funding for operations and maintenance of the Urban Train system, the ferry services provided by the Maritime Transportation Authority, and the bus transportation services of the Metropolitan Bus Authority, among other benefits. The law would become effective immediately after its approval; provided, however, that the adjustments in the excise tax on crude oil and its by-products will be implemented beginning on March 1, 2015.

The measures announced today by Acosta-Febo, accompanied the Executive Director of the Puerto Rico Highways and Transportation Authority (PRHTA), Javier Ramos Hernández, also include funding for the Puerto Rico Infrastructure Financing Authority (PRIFA) in order to assume or refinance certain PRHTA debts. The bill also provides for various adjustments to the excise tax on the crude oil and its by-products; the total crude oil and by-products taxes will be transferred to PRIFA, PRHTA and the new Integrated Transportation Authority.

Acosta-Febo said, "Our Administration is committed to fiscal responsibility and this is yet another step forward on our path to economic recovery for our country. With these measures we will stabilize the finances of the PRHTA, which has been operating with budget deficits for the last 10 years. In addition, this provides funding to address the debt of the PRHTA with the GDB, which has ballooned by more than $2 billion over the last six years. And, most importantly, this bill will bring great benefits to our people: it allows for job creation, particularly in the construction industry, and protects existing jobs; it will enable the development of pending projects in the mountainous zones and isolated areas; we will be able to set in motion maintenance projects for the road network, improve accesses to avenues and expressways, make infrastructure improvements that will result in reductions in road accidents, and reduce traffic jams, among others.

Acosta-Febo explained that the bill adjusts the excise tax on the barrel of crude oil, at a time when oil prices has decreased significantly; the increase will be bring this excise tax to $15.50 per barrel. This tax is expected to generate an additional $178 million per year. The taxes would be distributed as follows: $6.00 per barrel for the PRHTA to cover its operational costs and debt service obligations, $8.25 per barrel for the PRIFA to cover debt service, and $1.25 per barrel to finance the new Integrated Transportation Authority, which comprises the Metropolitan Bus Authority bus services, the ferry services (Maritime Transportation Authority) and the Urban Train system, once their transferred is completed.

"The measure explicitly excludes the taxation of crude oil and its by products used by the Puerto Rico Electric Power Authority to generate electricity, as well as those that are exported from Puerto Rico; those used by local refineries and petrochemical companies in the oil refining process; and those used as lubricants or fuel for aircrafts and shipping vessels travelling by air or sea between Puerto Rico and other places; among other exclusions.

Acosta-Febo recalled that as of December 31, 2012, the PRHTA debt with the GDB was more than $2.2 billion and did not have a source of repayment. "This debt increased dramatically as a result of the practice in the past years, specifically in the 2009-2012 period, when operational deficits and capital investment needs of the PRHTA were funded using GDB lines of credit, without clearly identifying the sources of repayment to fulfill these obligations. This practice ignored underlying funding needs at HTA and did not tackle the PRHTA budgetary and operational deficits, allowing the corporation to deepen its crisis by dramatically increasing its level of debt. In addition, the extension of $2.2 billion of additional loans significantly reduced GDB's liquidity. Furthermore, the GDB President emphasized that precisely to avoid what happened to the PRHTA this Administration proposed and approved Act 24-2014 to prohibit, subject to imprisonment, that the GDB approved loans to public corporations without properly identified sources of repayment, which seeks to insure that the historical practice of covering deficits in public corporations ends once and for all.

On the other hand, the PRHTA Executive Director added that not adopting these measures could seriously affect our development as a country due to lack of a first-rate infrastructure and would put us at risk of losing millions of dollars in federal funds if PRHTA loses its "grantee" status with the Federal Highway Administration (FHWA) and the Federal Transit Administration (FTA).

Ramos-Hernández highlighted that in addition to the approval of Acts 30 and 31 of 2013, both initiatives to channel more funds to the PRHTA, this Administration implemented a series of operational changes in the public corporation to stabilize its finances.

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