STANDARD & POOR'S

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Summary:

Puerto Rico Highways & Transportation Authority; Toll Roads Bridges

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Credit Profile		
Puerto Rico Hwy & Transp Auth subord transp (wrap of insured) (FGIC & RADIAN) (SEC MKT)		
Unenhanced Rating	BBB-(SPUR)/Stable	Downgraded
Puerto Rico Hwy & Transp Auth (wrap of insured) (FGIC & RADIAN) (SEC MKT)		
Unenhanced Rating	BBB(SPUR)/Stable	Downgraded
Puerto Rico Hwy & Transp Auth		
Unenhanced Rating	BBB(SPUR)/Stable	Downgraded

Rationale

Standard & Poor's Ratings Services lowered its ratings on Puerto Rico Highways and Transportation Authority's (PRHTA) outstanding highway revenue bonds to 'BBB+' from 'A-'. Standard & Poor's also lowered its ratings on the authority's senior transportation revenue bonds to 'BBB' from 'BBB+' and subordinate transportation revenue bonds to 'BBB-' from 'BBB'. At the same time, Standard & Poor's affirmed its 'BBB-' rating on PRHTA's series 2003A special facility revenue refunding bonds. The rating outlook on all outstanding bonds is stable.

The authority has $1.6 billion in debt outstanding under its closed 1968 resolution, $4.3 billion in senior bonds outstanding under the 1998 bond resolution, and $373 million in subordinate bonds outstanding under the 1998 bond resolution.

The downgrade on the authority's highway and transportation revenue bonds is due to increasing operating costs and slowed revenue growth, resulting in the authority's inability to meet all of its obligations on a cash flow basis. Indenture debt service coverage remains strong as bondholders benefit from a gross revenue pledge. In general, the ratings reflect the essential nature of PRHTA's highway and transportation system, the breadth of the pledged revenues, large capital requirements, and a high debt burden

Specific credit weaknesses include:

- Constitutional law in Puerto Rico that grants the bondholders of GO debt a senior right to all available tax income, including taxes pledged to this issuance (pledged toll road income is excluded from this law);
- Dependence on continued economic prosperity and growth in pledged revenue streams to provide sufficient funding and resources for the capital improvement program (CIP) and increases in operating expenses for the tollways and Tren Urbano;
- Erosion of cash flow coverage of all obligations. Recently, operating expenses increased substantially due to the operation of Tren Urbano. At the same time, tax revenues have been flat. The combination of these have resulted in the authority generating cash flow coverage of all obligations including the payment of operating expenses of only 0.80x in fiscal 2008. The authority has met all obligations through using available fund balances and an interim line of credit from the Government Development Bank for Puerto Rico (GDB; BBB/Stable). New

management is charged with ensuring that the authority returns to fiscal balance;
- The challenge of effectively managing a large $2 billion highway CIP through fiscal year 2012, while containing project costs and ensuring that it maintains quality standards.

Offsetting credit strengths include:

- The essential nature of PRHTA's highway and transportation system;
- The instrumental role PRHTA's highway and transportation system plays in the commonwealth's continued economic growth; and
- A diverse pledge of gas taxes, motor vehicle fees, and toll receipts.

A very diverse mix of taxes and fees secure the bonds. PRHTA's operating expenses from the tollway are legally subordinate to debt service payments and are paid from surplus funds. For the fiscal year ended June 30, 2008, the authority's pledged revenues totaled an estimated $566 million, of which toll revenues accounted for about 39% of pledged revenues followed by gasoline taxes (31%), petroleum taxes (17%), motor vehicle license fees (6%), and gas and diesel oil tax (3%). Although 1998 resolution bondholders have a junior claim on revenue pledged under the closed 1968 resolution, they benefit from the additional pledge of the first $120 million in petroleum taxes per year. Petroleum tax revenue is not included as part of pledged revenues under the 1968 resolution. The authority's finances have been under pressure, in part, as the various tax revenues, in general, have not grown with the rate of inflation. Gasoline taxes have grown at an average annual rate of 0.24% for fiscals 2004-2008 due to a steep increase in gasoline prices over this period. Petroleum tax revenue experienced an average annual decline of almost 4% due to a combination of rising oil prices and a drop in the consumption of oil.

For the fiscal year ended June 30, 2008, pledged revenues for the 1968 resolution bonds totaled an estimated $429 million, generating strong gross revenue debt service coverage of 3.3x. For fiscal 2008, pledged revenues for the 1998 resolution bonds totaled an estimated $437 million, which generated 1.85x coverage on the senior 1998 resolution bonds and 1.54x coverage on the combined senior and subordinate resolution bond. Combined gross pledged revenues totaled an estimated $566 million, providing 1.55x coverage of combined annual 1968 and 1998 senior debt service and 1.37x coverage of all debt service. Operating expenses are paid subordinate to debt service on both resolutions and can be paid from the 1998 construction fund to the extend money is available.

Beginning in fiscal 2006, operating expenses increased due primarily to the inclusion of operating costs for Tren Urbano, the newly built mass transit system that the authority manages under a long-term contract. While the authority expected operating expenses to increase with Tren Urbano, management expected a significant degree of offset by increased ridership revenues. Realized revenues from Tren Urbano are much lower than expected and as result, the net operating cost of the transit system is higher. The authority has not been able to meet its debt service requirements and operating expenses from cash flow and has had to rely on available fund balances in the construction fund and on interim financing lines of credit provided by the GDB). A contributing factor to the erosion in cash flow coverage of all obligations is that tax revenues have generally not grown to keep pace with inflation. For fiscal 2008, net revenue coverage of all obligations from cash flow was only 0.80x.

New management is beginning a review of the operating program to make adjustments to bring the authority's finances back into balance by reducing expenses and enhancing revenues. The authority is considering proposing a series of measures to the governor, including increasing the petroleum products tax from $3 to $6 per barrel (which should generate $99 million a year for the authority) and modernizing toll equipment to reduce toll leakage. In addition, the authority has implemented the governor's executive orders regarding expense reductions and is evaluating other expense reduction opportunities. Management is also evaluating executing a public-private partnership agreement for PR22, which could achieve a significant upfront payment. PR22 currently accounts for 41% of toll revenues. Any sale or concession of PR22 would only occur if Standard & Poor's affirms its current credit ratings on the authority. The authority plans to have a revised draft of the operating and capital program in place in the next 120 days. Bondholders continue to benefit, however, from a gross revenue pledge and strong GDB support.

New management is also in process of reviewing the capital plan and expects to make changes and recommendations to the current approved capital plan in the next three months. The authority's current CIP covers the period from fiscals 2008 through 2012 and totals about $2 billion, with 57% funded from external financings, followed by federal aid (39%); grant anticipation revenue bond (GARVEE) proceeds (2%); and internally generated funds (3%). Construction projects and capitalized expenditures constitute 67% and 28% of total project costs, respectively.

Overall, the authority has $647 million in long-term variable-rate debt outstanding or 10.2% of the total long-term debt. Of this amount, only $200 million or 3% are bonds subject to put while the remaining variable-rate debt are long-term floating-rate notes. All of the authority's long-term debt (excluding interim lines of credit) is either fixed rate or synthetic fixed rate. The authority also has $702 million of lines of credit for interim funding, which bear interest at a variable rate. The authority will refund these lines with permanent financing at the next bond issue.

Standard & Poor's assigned the authority Debt Derivative Profile score of '2' on a scale of '1' to '4', with '1' representing the lowest risk and '4', the highest.

Traffic and toll revenue performance for the Teodoro Moscoso Bridge for the fiscal year ended Dec. 31, 2007, tracked closely to forecasts performed in connection with the series 2003 restructuring of the bridge's debt. Under the restructuring, Standard & Poor's linked its credit rating for the special facility revenue bonds to PRHTA's ratings because PRHTA agreed to pay the debt service in case net bridge revenue collected from Teodoro Moscoso Bridge, along with other revenues from the concessionaire, is insufficient. Debt service coverage based on net bridge revenues for fiscal 2007 was an adequate 1.58x, preserving $8 million held in the debt service reserve.

Outlook

The stable outlook reflects our view of PRHTA's essential nature, diverse revenue pledge, and our expectation that new management will be successful in bringing structural balance to the authority's finances, while prudently managing is capital program. However, if Standard & Poor's revises its rating on the commonwealth, it could also revise its rating on PRHTA's bonds due to the close linkage between the commonwealth's rating and PRHTA.

Ratings Detail (As Of March 2, 2009)		
Puerto Rico Hwy & Transp Auth hwy		
Long Term Rating	BBB+/Stable	Downgraded
Puerto Rico Hwy & Transp Auth hwy (wrap of insured) (FGIC & RADIAN) (SEC MKT)		
Unenhanced Rating	BBB+(SPUR)/Stable	Downgraded
Puerto Rico Hwy & Transp Auth transp		
Long Term Rating	BBB/Stable	Downgraded

Ratings Detail (As Of March 2, 2009) **(cont.)**		
Puerto Rico Hwy & Transp Auth transp rev bnds ser B dtd 05/15/2000 due 07/01/2001-2021 2026-2027 2029 2031 2035 2039		
Unenhanced Rating	BBB(SPUR)/Stable	Downgraded
Puerto Rico Hwy & Transp Auth transp (wrap of insured) (ASSURED GTY & CIFG) (SEC MKT)		
Unenhanced Rating	BBB(SPUR)/Stable	Downgraded
Puerto Rico Hwy & Transp Auth transp (wrap of insured) (ASSURED & FSA) (SEC MKT)		
Unenhanced Rating	BBB(SPUR)/Stable	Downgraded
Puerto Rico Hwy & Transp Auth transp (wrap of insured) (FGIC & BHAC) (SEC MKT)		
Unenhanced Rating	BBB(SPUR)/Stable	Downgraded
Puerto Rico Hwy & Transp Auth transp (wrap of insured) (FGIC) (ASSURED GTY) (SEC MKT)		
Unenhanced Rating	BBB(SPUR)/Stable	Downgraded
Puerto Rico Hwy & Transp Auth Sub Transp Rev Bnds		
Long Term Rating	BBB-/Positive	Downgraded
PUERTO RICO HWY AUTH HWY SER A B D-G N O Q DUE 92-2010 R-V W X		
Long Term Rating	BBB+/Stable	Downgraded
Puerto Rico Hwy & Transp Auth hwy		
Unenhanced Rating	BBB+(SPUR)/Stable	Downgraded
Puerto Rico Hwy & Transp Auth subord transp		
Unenhanced Rating	BBB-(SPUR)/Stable	Downgraded
Puerto Rico Hwy & Transp Auth transp		
Unenhanced Rating	BBB(SPUR)/Stable	Downgraded
Puerto Rico Hwy & Transp Auth transp VRDB ser 1998		
Unenhanced Rating	BBB(SPUR)/Stable	Downgraded
Long Term Rating	AA-/A-1+	Affirmed
Puerto Rico Hwy & Transp Auth 1st lien transp		
Unenhanced Rating	BBB(SPUR)/Stable	Downgraded
Puerto Rico Hwy & Transp Auth, Puerto Rico		
Teodoro Moscoso Br, Puerto Rico		
Puerto Rico Hwy & Transp Auth (Teodoro Moscoso Br) spl fac		
Long Term Rating	BBB-/Stable	Affirmed

Many issues are enhanced by bond insurance.

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