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## Puerto Rico's Series 2009A Public Improvement Refunding Bonds Rated 'BBB-'; Series 2007 Bond Rating Affirmed At 'BBB-'

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DALLAS (Standard & Poor's) Sept. 10, 2009--Standard & Poor's Ratings Services assigned its 'BBB-' rating to the Commonwealth of Puerto Rico's series 2009A public improvement refunding bonds. In addition, Standard & Poor's affirmed its 'BBB-' rating on the commonwealth's series 2007 A-4 public improvement refunding bonds, which are being remarketed and converted to fixed rate mode. The outlook on all ratings is stable.

The 'BBB-' ratings are based on Puerto Rico's full faith and credit pledge. "The ratings reflect our opinion of the commonwealth's chronic budget deficits," said Standard & Poor's credit analyst Horacio Aldrete-Sanchez. In the past 10 years, the commonwealth's structural budget deficit ballooned to an estimated \$3.2 billion in fiscal 2009 (42% of general fund revenues). While Governor Luis Fortuño's fiscal stabilization plan has received broad support from the legislature, structurally balanced budgets are not anticipated until fiscal 2013, which in our opinion poses a significant implementation risk, particularly given the challenging economic environment.

Factors that continue to support the ratings include our opinion of the commonwealth's strong ties to the U.S. economy, resulting in a significant flow of trade investment income and income transfers, which according to commonwealth officials account for as much as 22% of GNP; and support from the

Government Development Bank for Puerto Rico (GDB), which provides a stabilizing financial and management influence, as well as a source of liquidity and market access for the commonwealth.

The stable outlook reflects our expectation that the administration and legislature will remain committed to the goals outlined in the fiscal reconstruction plan, allowing the commonwealth to gradually achieve structurally balanced budgets. In addition, the stable outlook reflects our assumption of continued liquidity, financial, and management support from GDB. However, in our view, the stabilizing effect of GDB on the commonwealth's rating has its limitations. The commonwealth's rating may be pressured if Puerto Rico's reliance on GDB to fund the deficit increases materially or if the government does not continue to implement measures in the near term to reduce the structural deficit. In our view, the ability of the commonwealth to use GDB only as a temporary source of flexibility to implement meaningful measures to narrow the budget deficit and not as a long-term source of deficit financing may affect the commonwealth's credit stability.

#### RELATED RESEARCH

- USPF Criteria: "GO Debt," Oct. 12, 2006
- USPF Criteria: "Appropriation-Backed Obligations," June 13, 2007

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