GOVERNOR OF PUERTO RICO
LUIS FORTUÑO

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PUERTO RICO BONDS GET BETTER GRADES

Credit rating agencies upgrade Puerto Rico bonds ratings, showing confidence in Fortuño's economic plan

San Juan, P.R. – Credit rating agencies Standard & Poor's and Moody's raised today the ratings of the Puerto Rico bonds issued by the Puerto Rico Sales Tax Financing Corporation (COFINA, for its initials in Spanish), in what constitutes the first significant improvement in Puerto Rico's credit in more than a decade.

Standard & Poor's increased its rating of COFINA existing bonds, from A+ to AA-, while Moody's raised its rating of the same bonds from A1 to Aa3. This is the first time that two credit rating agencies classify independently a Puerto Rico bond at the "high quality" level (AA/Aa). The new COFINA bond issuance, which is about to come into the market, will receive an A+ rating from Standard & Poor's and A2 from Moody's. Each rating agency has its own rating scale.

"It is not possible to overstate the importance of this development. It is the first time that Puerto Rico will go into the bonds market under this administration and we have received the best grades that Puerto Rico has gotten in the last ten years. I believe it is evident that we are doing things right," declared Governor Luis Fortuño, who was flanked by the President of the Government Development Bank for Puerto Rico (GDB), Carlos M. García.

"The COFINA bonds' credit rating upgrade is a vote of confidence from the credit rating agencies. With this action, not only do they validate the economic plan that we have designed and begun to implement, but they also acknowledge the commitment that this administration has shown toward carrying out the plan with discipline, independent of the sacrifices it entails," the Governor added.

"The message cannot be clearer," García stated. "Credit rating agencies have told us, in other words, 'you have a good plan; we know it takes sacrifices; your efforts are not going unnoticed; and go ahead with the implementation of this plan.'"

Both the Governor and the GDB President highlighted the importance of the team work performed by the executive and legislative branches, including the celerity with which the economic reconstruction and the fiscal stabilization plans were designed and the first set of measures approved back in January. The first bill submitted by the Fortuño administration that the Legislative Assembly approved (Act No. 1 of January 14, 2009) increased the allocation of the Sales and Use Tax (SUT) that would go to COFINA, from 1% to 2.00% and, in turn, also strengthened COFINA's credit structure. Subsequently, Act No. 7 of March 9, 2009 allocated an additional 0.75%.

Fortuño underscores, nevertheless, the importance of approving other economic measures, currently under consideration by the Legislative Assembly: the Public-Private Partnerships bill; the legislation to streamline government permits process; and the recommended budget for fiscal year 2009-2010.

"We must be very clear. All these measures are critical pieces of our plan for economic reconstruction. The good news that we are receiving today should serve to focus us further into what remains to be done. I said it in the address on the situation of the state and the budget, and today we have confirmation from the rating agencies: our economic recovery can already be seen… Still, we have to stay the course firmly and carry out with discipline the plan that we have designed," Fortuño reiterated.

"For our administration, it is a priority to keep the commitment we have with the Puerto Rican people and the investors of bringing to term the plans that have set forth, because doing this has a positive effect on our fiscal stability, on our capacity to produce, and to generate jobs and, in consequence, on our economic recovery. This COFINA bonds upgrade means a lower financing cost for the new bonds, which will cause a bigger reception by investors. In addition, it will widen the capacity and the quantity of the bonds that we will be able to bring to the market with the same source of payment", García explained.

The GDB President clarified, further, that this is the first significant credit rating improvement of a Puerto Rico bonds issuer since 1996 and the highest rating assigned to a Puerto Rico issuer in the Island's history, without it having additional backing. In fact, according to García, COFINA is one of the few governmental issuers in the United States to have received a ratings upgrade during this year by Standard & Poor's or Moody's and the only one backed by an SUT.

"This improved credit rating means a positive revaluation of existing COFINA bonds. In the past administration, there was an interest in eliminating or reducing the SUT, which caused instability among local and mainland investors. This ratings upgrade restores our investors' confidence," García added.

The new COFINA bonds issuance, which is close to taking place, will serve as a financial bridge to stabilize the fiscal emergency situation of the Government of Puerto Rico. The funds raised through the issuance of new COFINA bonds will be used to pay debt obligations and the Local Stimulus Plan, and to reduce the deficit during fiscal years 2009 and 2010. This financing will provide breathing room while the $2 billion reduction in government expenditures is done in a sensible and staggered manner, Treasury revenues are increased through better oversight, and new revenue arrives through the temporary tax measures and permanent measures already approved by the Legislature.

The main reasons expressed by the credit rating agencies to justify the COFINA upgrade are:

- The structural changes that became law to strengthen COFINA's credit as they increased the percentage of the SUT that would go to the payment of this debt.
- The legal provisions that were established that restrict the possibility of reducing or substituting the percentage of the SUT that is allocated for the bonds.
- The stable behavior in the collection of the SUT during the past 29 months in spite of the economic recession.
- The transparent presentation of the COFINA structure and the legal opinions, which in the past was denied to investors.
- Trust in the administration's economic team and Governor Fortuño's leadership.

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COFINA is the Puerto Rico Sales Tax Financing Corporation, an independent corporation attached to the Government Development Bank for Puerto Rico, with the power to issue bonds and use other financing mechanisms. COFINA was created by Act No. 91 of May 13, 2006, which created the Dedicated Sales Tax Fund with the objective of collecting a part of the revenue generated by the Sales and Use Tax (SUT). The SUT was authorized by Act 117 of July 4, 2006. Act No. 1 of January 14, 2009 and Act No. 7 of March 9, 2009 provided for an increase in the SUT allocation to COFINA, from 1% to 2.75%, and for certain changes that strengthened the legal and financial structure of COFINA.