
Credit Ratings

Puerto Rico Convention Center District Authority Hotel Occupancy Tax Revenue Bonds Rated BBB+

Primary Credit Analyst:

Kenneth A Gear, Washington D.C. (1) 202-383-3540;

— kenneth_gear@standardandpoors.com

Secondary Credit Analysts:

Horacio Aldrete-Sanchez, Dallas (1) 214-871-1426;

— horacio_aldrete@standardandpoors.com

David G Hitchcock, New York (1) 212-438-2022;

— david_hitchcock@standardandpoors.com

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WASHINGTON D.C. (Standard & Poor's) March 9, 2006—Standard & Poor's Ratings Services has assigned its 'BBB+' rating to Puerto Rico Convention Center District Authority's \$450 million hotel occupancy tax revenue bonds series A. The bonds are scheduled to sell on March 13. The outlook is stable.

The rating reflects a gross revenue pledge of hotel occupancy taxes levied on all hotels on the island and collected by the Puerto Rico Tourism Co., with strong enforcement procedures contributing to a tax collection rate that exceeded 98% in fiscal 2005 and sound historical coverage of maximum annual debt service (MADS) at 1.77x and projected annual debt service coverage that averages near 2.00x. The rating also reflects sound legal provisions that include a debt service reserve funded at MADS and a 1.40x historical revenue additional bonds test, as well as a nonimpairment covenant that protects the revenue stream from being altered or eliminated as long as the bonds are outstanding; and a vital island tourism industry, which has contributed to the growth of new hotels, steady room demand by U.S. travelers, solid occupancy rates, and sustainable annual growth.

Offsetting factors include a pledged revenue stream subject to volatility due to its dependence on the tourism industry and moderate concentration by hotel vendors, with the leading five hotels responsible for remitting 35% of the pledged tax.

The stable outlook reflects the expectation of continued sound demand for hotels in Puerto Rico, and stability or growth in occupancy tax revenues over the life of the bonds. Pledged revenues are expected to be able to withstand a shock to the travel industry and quickly recover, as was the case after the events of Sept. 11, 2001. The increase in the number of casino hotels already being constructed is expected to generate revenue growth and improve debt service coverage. The authority is not expected to bond down to the 1.4x additional bonds test, despite the ability to issue additional debt. The high rate of collections is expected to remain strong based on the strong legal enforcement provisions built into the tax act. The stable outlook further assumes that the hotel occupancy revenues will continue not to be included in the general fund budget as a matter of operating practice, although legal provisions permit the prior use of hotel tax revenues for payment of commonwealth GO debt under unusual circumstances, if appropriated by the legislature and required for payment of GO debt service.

The bonds are being issued to reimburse the Government Development Bank of Puerto Rico for funds loaned to the authority to complete the facility.

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