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Puerto Rico Public Buildings Authority's Series P Revenue Refunding Bonds Rated 'BBB-'; Other Ratings Affirmed At 'BBB-'

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DALLAS (Standard & Poor's) June 23, 2009--Standard & Poor's Ratings Services has assigned its 'BBB-' rating to the Commonwealth of Puerto Rico's approximately $375 million Public Buildings Authority government facilities revenue refunding bonds, series P.

The bonds are secured by a pledge of the rentals of government facilities leased by the authority to departments, agencies, instrumentalities, and municipalities of the commonwealth. The bonds are further secured by the commonwealth's full faith and credit pledge. Commonwealth officials will use proceeds from the bonds to refund a portion of the authority's debt outstanding and to pay for the cost of terminating associated swaps with a notional amount of approximately $200 million.

In addition, Standard & Poor's affirmed its 'BBB-' rating on Puerto Rico's general obligation (GO) and appropriation debt outstanding. The rating on the commonwealth's appropriation debt, typically rated one notch below the GO, remains at 'BBB-', reflecting Standard & Poor's opinion that Puerto Rico's appropriation credit profile is not speculative-grade. The outlook is stable.

The 'BBB-' ratings are based on Puerto Rico's full faith and credit pledge and reflect our opinion of the commonwealth's chronic budget deficits--in the past 10 years, the commonwealth's structural budget deficit

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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, Standard & Poor's doesn't anticipate structurally balanced budgets until fiscal 2013, which in our opinion poses a significant implementation risk, particularly given the challenging economic environment," said Standard & Poor's credit analyst Horacio Aldrete-Sanchez.

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. In addition, 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, is a positive rating factor.

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 and financial and management support from GDB. However, in our view, GDB's stabilizing effect on the commonwealth's rating has its limitations. The 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. We expect, however, that the expanded authority of COFINA to provide interim deficit financing will gradually reduce the commonwealth's reliance on GDB.

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-- USPF Criteria: "Appropriation-Backed Obligations," June 13, 2007

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