



**Global Credit Research**

**Rating Update**

24 FEB 2006

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**Rating Update: Commonwealth of Puerto Rico**

**MOODY'S PLACES COMMONWEALTH OF PUERTO RICO'S Baa2 RATING ON WATCHLIST FOR POSSIBLE DOWNGRADE**

**Over \$24 billion of outstanding government bonds affected**

State  
PR

**Opinion**

NEW YORK, Feb 24, 2006 -- Moody's Investors Service has placed the Commonwealth of Puerto Rico's Baa2 general obligation rating on Watchlist and under review for possible downgrade. This action reflects the Commonwealth's strained fiscal condition, discussed in detail in our special comment of February 13. Although the Commonwealth continues to debate significant fiscal and tax reforms - and intends to pass legislation on both fronts by the end of June - we do not yet know whether the actions to be taken will be of a sufficient magnitude to achieve a degree of credit stabilization consistent with the current rating level.

The rating review will take into account Commonwealth budget and economic trends over the remainder of fiscal 2006, the strength and political feasibility of the Governor's proposed budget plan for fiscal 2007, and the outcome of the fiscal and tax reform debates in the current legislative session ending June 30. We expect the review to be completed no later than mid-July, or possibly earlier depending on events.

In addition to the Commonwealth's \$7.2 billion of outstanding G.O. bonds, the Watchlist action affects \$3.5 billion of Commonwealth-guaranteed bonds, \$4.3 billion of Commonwealth appropriation bonds, and \$9.4 billion of other government bond programs directly or indirectly linked to the general creditworthiness of the Commonwealth.

LIST OF AFFECTED RATINGS - Currently rated Baa2:

- \* Commonwealth of Puerto Rico, General Obligation Bonds
- \* Puerto Rico Aqueduct and Sewer Authority, Revenue Bonds (Commonwealth guaranteed)
- \* Puerto Rico Public Building Authority, Government Facilities Revenue Bonds (Commonwealth guaranteed)
- \* Puerto Rico Highway and Transportation Authority, Highway Revenue Bonds
- \* Puerto Rico Highway and Transportation Authority, Transportation Revenue Bonds
- \* Puerto Rico Highway and Transportation Authority, Subordinated Transportation Revenue Bonds (PR State Infrastructure Bank)
- \* Puerto Rico Infrastructure Finance Authority, Special Tax Revenue Bonds
- \* Puerto Rico Municipal Finance Agency, 1997 Bonds, 1999 Bonds, 2002 Bonds, and 2005 Bonds

LIST OF AFFECTED RATINGS - Currently rated Baa3:

- \* Puerto Rico Public Finance Authority, Commonwealth Appropriation Bonds
- \* Puerto Rico Housing Bank and Finance Agency, Commonwealth Appropriation Bonds

\* Puerto Rico Highway and Transportation Authority, Subordinated Transportation Revenue Bonds

\* Puerto Rico Highway and Transportation Authority, Special Facility Revenue Refunding Bonds (Teodoro Moscoso Bridge)

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