



Moody's Investors Service

Global Credit Research

Rating Update

10 JUN 2009

Rating Update: [Puerto Rico Hwy & Trans Auth](#)

## **MOODY'S AFFIRMS RATINGS OF REVENUE BONDS ISSUED BY THE PUERTO RICO HIGHWAY AND TRANSPORTATION AUTHORITY; OUTLOOK IS STABLE**

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**AFFIRMATION APPLIES TO APPROXIMATELY \$6.4 BILLION IN PRHTA DEBT OUTSTANDING**

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### **Opinion**

NEW YORK, Jun 10, 2009 -- Moody's Investors Service has affirmed the outstanding ratings on the revenue bonds of the Puerto Rico Highway and Transportation Authority (PRHTA). This includes affirmation of the following: the Baa2 rating on the Highway Revenue Bonds (approximately \$1.6 billion outstanding); the Baa3 rating on the Senior Transportation Revenue Bonds (approximately \$4.3 billion outstanding); the Baa3 rating on the Subordinated Transportation Revenue Bonds, Series 1998 (Puerto Rico State Infrastructure Bank) (approximately \$75 million outstanding); the Ba1 rating on the Subordinate Transportation Revenue Bonds (approximately \$300 million outstanding); and the Ba1 rating on the Special Facility Revenue Bonds (Teodoro Moscoso Bridge) (approximately \$150 million outstanding). The outlook on the bonds is stable.

The affirmation reflects the dip in revenues the authority is experiencing due to the recession, the plans in place to deal with expected gaps between revenues and expenses, the legal provisions and security on the bonds, and the relatively healthy coverage of the bonds' debt service. In addition, the ratings on the Authority's Transportation Revenue Bonds and Highway Revenue Bonds reflect the following credit strengths and weaknesses:

### **CREDIT STRENGTHS**

\* Large, diverse pledged revenue stream consisting of highway system tolls, motor fuel taxes, vehicle fees, and excise taxes on imported petroleum;

\* Significant toll rate increase in 2006, and new tolls in the San Juan metropolitan area; and

\* Support of the authority provided by the commonwealth, the legislature, and the

Government Development Bank.

#### CREDIT WEAKNESSES

- \* Large, complex, and debt-intensive capital program;
- \* Declines in revenues in past year, as well as expected declines in 2009; and
- \* Constitutional prior claim of commonwealth general obligation bonds (currently rated Baa3/stable) on the authority's tax revenues-but not toll revenues, which are exclusively pledged to the authority's debt service-if necessary to pay G.O. debt service.

#### SECURITY FOR THE BONDS

The authority issues debt under a 1968 Resolution (the Highway Revenue bonds) and a 1998 Resolution (the Transportation Revenue bonds), which has a senior and a junior tranche. The PRHTA revenue bonds are secured by: toll revenues; gasoline taxes and diesel taxes; taxes on petroleum; vehicle license fees; and investment income. The bonds have a gross pledge on the revenues. The authority has the ability to raise tolls when necessary, after public hearings.

The authority's Highway Revenue Bonds are secured by 1968 Resolution revenues. These include: gasoline taxes (\$0.16 per gallon, 100% goes to authority); diesel taxes (\$0.08 per gallon, 50% goes to the authority); motor vehicle license fees (first \$15 per vehicle goes to the authority); and toll revenues from existing roads (22 toll plazas in operation). The Transportation Revenue Bonds are secured by the 1998 Resolution revenues, which include: residual revenues after debt service is paid on the Highway Revenue Bonds (1968 Resolution); petroleum products tax revenues (a tax levied per barrel of petroleum produced in Puerto Rico, based on a sliding scale that reduces tax as price per barrel rises); and new eastern corridor toll revenues (tolls were implemented in mid-2006, and are security for the Transportation Revenue Bonds).

There is an additional bonds test of 1.5 times for the Transportation Senior Revenue Bonds and 1.25 times on the junior tranche of the 1998 Resolution. The lien on the Highway Revenue Bonds is closed. There is a debt service reserve fund for the Highway Revenue Bonds and Senior Transportation Revenue Bonds funded at the lesser of MADS or 10% of the issued amount. There is a debt service reserve fund for the Subordinated Transportation Revenue Bonds, Series 1998 (Puerto Rico State Infrastructure Bank) funded at 2.5 times MADS. Further enhancing bondholder protection, the commonwealth covenants not to reduce tolls, taxes, licenses, or fees while they are security for bonds.

#### CLAWBACK PROVISION AFFECTS PLEDGED REVENUES

Most of the revenues that are pledged to the bonds are subject to the commonwealth's constitutional "clawback" provision, which provides that the revenues are first available to the commonwealth to pay debt service on its general obligation bonds, if needed. Toll revenues, however, are not subject to the clawback provision. The rating on the Highway Revenue Bonds reflects this exemption, and the

fact that the Highway Revenue Bonds have coverage of debt service provided by toll revenues alone. The rating on the Transportation Revenue Bonds reflects a lack of coverage of debt service solely by toll revenues and the fact that most of the revenues are subject to the clawback.

#### 2008 PLEDGED REVENUES DECLINED; FURTHER DECLINE EXPECTED IN 2009

The recession and high oil prices together caused a decline in the revenues that are pledged to the bonds in fiscal year 2008. The revenues pledged to the Highway Revenue Bonds declined by almost \$15 million, or 3.4%, in 2008. The revenues pledged to the Transportation Revenue Bonds fell by \$16 million, or 3.6%, in 2008. The authority is expecting further declines in 2009 of similar magnitudes, followed by an increase in fiscal 2010 as the economy stabilizes.

#### COVERAGE REMAINS MODERATE

Revenues are forecast to decline in 2009 based on the continuation of the recession. Revenues are then forecast to pick up in fiscal 2010. Based on these revenue forecasts, and even after applying some stress to the forecasts, revenues should provide sufficient coverage of the bonds' debt service. Assuming revenues fall from the fiscal 2009 projected levels by 5%, there would still be coverage of maximum annual debt service (MADS) on the Highway Revenue Bonds of 2.9 times, and coverage on the senior Transportation Revenue Bonds of 1.4 times. Coverage on the senior and subordinate liens of the Transportation Revenue Bonds would be 1.3 times. A decline of 5% would be the largest decline in revenues the authority has experienced.

#### ADDITIONAL INFORMATION ON RATING AFFIRMATION

As mentioned earlier, Moody's has affirmed the Baa2 rating on the Highway Revenue Bonds, the Baa3 rating on the Senior Transportation Revenue Bonds, the Baa3 rating on the Subordinated Transportation Revenue Bonds, Series 1998 and the Ba1 rating on the Subordinate Transportation Revenue Bonds. The Series 1998 Subordinated Transportation Revenue Bonds, unlike the other PRHTA bonds, benefit from a large debt service reserve fund, which is funded at the greater of 20% of the par amount, or 2.5 times maximum annual debt service. That Baa3 rating assigned to these bonds, which is the same rating assigned to the senior Transportation Revenue Bonds, reflects this credit feature.

In addition, Moody's has affirmed the Ba1 rating on the Special Facility Revenue Bonds (Teodoro Moscoso Bridge). A private company, Autopistas de Puerto Rico, operates the toll bridge called the Teodoro Moscoso Bridge pursuant to a concession agreement with PRHTA. The bridge is owned by PRHTA, and the bonds are payable from net toll revenues collected by Autopistas de Puerto Rico. If net revenues are not sufficient to pay debt service, however, PRHTA assumes Autopistas de Puerto Rico's obligation to pay the bonds, the concession returns to PRHTA, and PRHTA is required to issue new senior or subordinate Transportation Revenue Bonds to take out the Special Facility Revenue Bonds. If the authority is unable to issue Transportation Revenue Bonds, due to the restrictions of the additional bonds test or any other reason, the authority is required to pay debt service on the Special Facility Revenue Bonds from available PRHTA revenues, after payment of debt service on the senior Transportation Revenue Bonds and on parity with payment of debt service on

subordinate Transportation Revenue Bonds.

Toll revenues collected in 2008 provided sufficient coverage of debt service.

#### VARIABLE RATE DEBT

Out of more than \$6 billion in total debt outstanding, PRHTA has approximately \$644 million of variable rate debt outstanding. Of that, \$200 million is variable rate demand debt, backed by a Letter of Credit provided by Scotia Bank. The authority has approximately \$58 million in consumer price index bonds, and \$389 million in floating rate notes, neither of which have demand features. All of the variable rate debt is hedged with swaps. Moody's believes that the commonwealth and the Government Development Bank would support the authority with available resources if the authority faced unexpected cash needs due to increased costs related to variable rate debt.

#### MOST RECENT RATING ACTION AND PRINCIPAL METHODOLOGY

The last rating action with respect to the PRHTA underlying ratings was on February 7, 2007, when Moody's assigned a Baa3 rating to the Transportation Revenue Bonds, Series M, and Transportation Revenue Refunding Bonds, Series N, and assigned a rating of Baa2 to the Highway Revenue Refunding Bonds, Series CC.

PRHTA ratings were assigned by evaluating factors believed to be relevant to the credit profile of the issuer such as i) the business risk and competitive position of the issuer versus others within its industry or sector, ii) the capital structure and financial risk of the issuer, iii) the projected performance of the issuer over the near to intermediate term, iv) the issuer's history of achieving consistent operating performance and meeting budget or financial plan goals, v) the nature of the dedicated revenue stream pledged to the bonds, vi) the debt service coverage provided by such revenue stream, vii) the legal structure that documents the revenue stream and the source of payment, and viii) and the issuer's management and governance structure related to payment. These attributes were compared against other issuers both within and outside of PRHTA's core peer group and PRHTA's ratings are believed to be comparable to ratings assigned to other issuers of similar credit risk.

#### **Outlook**

The rating outlook for the Puerto Rico Highway and Transportation Authority's revenue bonds is stable, primarily reflecting the stable outlook assigned to the Commonwealth of Puerto Rico's G.O. bonds, which have a prior lien on authority tax revenues. The stable outlook also reflects the recessionary environment in which the authority is operating, as well as its plans to address declining revenues and increasing expenditures.

What could change the rating--UP?

\* Upgrade of commonwealth's G.O. rating, together with significant improvement in performance of authority's pledged revenues and debt service coverage levels.

What could change the rating--DOWN?

- \* Downgrade of Commonwealth of Puerto Rico's G.O. rating;
- \* Significant negative variance from authority's revenue projections, leading to lower debt service coverage levels and difficulty covering operating expenses;
- \* Significantly higher-than-expected future debt issuance, unless associated with significant new revenues.

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