

May 18, 2009

## Puerto Rico Sales Tax Bonds Rating Raised To 'AA-'

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DALLAS (Standard & Poor's) May 18, 2009--Standard & Poor's Ratings Services raised its rating on Puerto Rico Sales Tax Financing Corporation's (COFINA) \$5.2 billion senior sales tax revenue bonds outstanding to 'AA-' from 'A+' based on the assignment to the corporation of an additional 1.75% from the commonwealth's sales and use tax (SUT) which, coupled with strict limits on the issuance of additional senior lien debt, provides, in our opinion, a significantly higher coverage of senior annual debt service from trustee-held pledged revenues. The new minimum base amount, provided by the 2.75% SUT now dedicated to COFINA, results in the maintenance of at least 1.4 times coverage of senior lien debt service throughout the life of the bonds. The outlook is stable.

In addition, Standard & Poor's Ratings Services assigned its 'A+' rating and stable outlook to COFINA's approximately \$3.5 billion first subordinate sales tax revenue bonds, series 2009A, and approximately \$500 million in first subordinate sales tax revenue bonds, series 2009B. The commonwealth plans to issue a total of approximately \$7.5 billion in first subordinate sales tax revenue bonds.

The ratings continue to reflect our opinion of:

- The corporation's strong legal structure that successfully separates the revenue stream securing the bonds from the Commonwealth of Puerto Rico ('BBB-/Stable' GO rating);
- The resilient performance of the pledged sales tax revenues, which

have exhibited only a modest decline despite the prolonged and deep economic recession Puerto Rico has experienced over the past three years; and

-- The corporation's access, on a priority basis, to the entire 5.5% SUT currently collected by the commonwealth, which provides adequate coverage of all senior and subordinate projected debt service payments, even under severe stress assumptions.

The ratings are constrained by the commonwealth's 'BBB-' GO rating, because the structure securing the bonds cannot completely isolate COFINA's bondholders from the commonwealth's financial and economic condition.

"The stable outlook reflects our expectation that the current structural and legal strengths supporting COFINA's bonds will remain unchanged," said credit analyst Horacio Aldrete-Sanchez. "The issuance of subordinate lien debt in an amount that results in a potential significant reduction of annual debt service coverage due to an increased reliance on future sales tax growth could result in downward pressure on the subordinate lien rating."

**RELATED RESEARCH**

USPF Criteria: "Special Tax Bonds," June 13, 2007

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