

RatingsDirect®

Summary:

Puerto Rico Aqueduct & Sewer Authority; General Obligation Equivalent Security; Water/Sewer

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Credit Profile

Puerto Rico Aqueduct & Swr Auth

<i>Unenhanced Rating</i>	CCC-(SPUR)/Negative	Downgraded, Removed from CreditWatch
<i>Long Term Rating</i>	CCC-/Negative	Downgraded, Removed from CreditWatch

Puerto Rico Aqueduct & Swr Auth GO Equiv

<i>Long Term Rating</i>	CCC-/Negative	Downgraded, Removed from CreditWatch
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Rationale

Standard & Poor's Ratings Services lowered its rating two notches to 'CCC-' from 'CCC+', on Puerto Rico Aqueduct & Sewer Authority's (PRASA) senior-lien revenue bonds and removed it from CreditWatch with negative implications. The outlook is negative.

PRASA has approximately \$3.5 billion in senior-lien revenue bonds. The bonds are secured, as per the terms of the 2008 master agreement of trust and as amended in 2012, by a first lien on the gross revenues of PRASA's retail waterworks and sanitary sewer system. The rating action is based on our June 30, 2015, downgrade to 'CCC-' of the Commonwealth of Puerto Rico's general obligation (GO) and related issuers' debt. That action was based on our view that a default, distressed exchange, or redemption of the commonwealth's debt appears inevitable within the next six months absent unanticipated significantly favorable changes in the issuers' circumstances.

We believe that the Puerto Rico government's embrace of a report, released June 29, 2015, that recommends a restructuring of the commonwealth's debt, among other options, indicates that such a move is a significant possibility over the next six months in light of the commonwealth's fiscal struggles. A restructuring could include public corporations such as PRASA. Currently, Puerto Rico faces a diminished liquidity position, constraints on external market access for cash flow financing, and a delay in enacting a budget for the new fiscal year that began July 1.

Outlook

The negative outlook reflects our view that there is at least a one-in-three chance we could again lower the rating on PRASA's debt if Puerto Rico announces that it intends to undertake an exchange offer or similar restructuring – one which does not explicitly exclude PRASA - that we classify as distressed, or that it has an intention to miss a debt service payment. If we conclude the commonwealth has inadequate resources to meet an impending debt obligation,

or PRASA's liquidity becomes threatened by way of interagency loans or changes in the law that supersede the master agreement of trust and erode protections from clawback or intercept, we could lower our rating within the year. Should Puerto Rico restore adequate liquidity without a debt exchange, which we view as unlikely, or explicitly and irrevocably exclude PRASA from a potential restructuring or distressed debt exchange, we could revise the outlook to stable or even raise the rating.

Related Criteria And Research

Related Criteria

- USPF Criteria: Key Water And Sewer Utility Credit Ratio Ranges, Sept. 15, 2008
- USPF Criteria: Standard & Poor's Revises Criteria For Rating Water, Sewer, And Drainage Utility Revenue Bonds, Sept. 15, 2008
- USPF Criteria: Methodology: Definitions And Related Analytic Practices For Covenant And Payment Provisions In U.S. Public Finance Revenue Obligations, Nov. 29, 92. USPF Criteria: Assigning Issue Credit Ratings Of Operating Entities, May 20, 2015
- Criteria: Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- Criteria For Assigning 'CCC+', 'CCC', 'CCC-', And 'CC' Ratings, Oct. 1, 2012
- USPF Criteria: Methodology: Rating Approach To Obligations With Multiple Revenue Streams, Nov. 29, 2011
- USPF Criteria: Assigning Issue Credit Ratings Of Operating Entities, May 20, 2015
- Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions, Nov. 19, 2013

Ratings Detail (As Of July 2, 2015)		
Puerto Rico Aqueduct & Swr Auth (Senior Lien) (RADIANT) (SEC MKT)		
<i>Unenhanced Rating</i>	CCC-(SPUR)/Negative	Downgraded, Removed from CreditWatch
Puerto Rico Aqueduct & Swr Auth		
<i>Long Term Rating</i>	CCC-/Negative	Downgraded, Removed from CreditWatch

Many issues are enhanced by bond insurance.

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