

Summary:

Puerto Rico Highway and Transportation Authority; Gas Tax

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<i>Unenhanced Rating</i>	BBB(SPUR)/Stable	Affirmed

Rationale

Standard & Poor's Ratings Services has affirmed its 'BBB+' rating on Puerto Rico Highway and Transportation Authority (PRHTA) highway revenue bonds outstanding, its 'BBB' rating on the authority's senior transportation revenue bonds, and its 'BBB-' rating on PRHTA's subordinate transportation revenue bonds. The outlook is stable.

The affirmation reflects our view of the expected concession agreement with Autopistas Metropolitanas de Puerto Rico LLC (Metropistas), which will enter a 40-year deal to operate highways PR-22 and PR-5. Metropistas will collect the revenues associated with these tolls. As part of the agreement, PRHTA will receive a \$1.08 billion lump sum payment. In addition, the concessionaire has committed itself to investing \$56 million in these roads during the next three years and an additional \$300 million during the contract. The authority expects to execute the agreement Sept. 22. Upon entering the agreement, the toll revenues associated with the two toll roads will be removed from the pledged revenues of the 1968 and 1998 resolutions. Under both resolutions, to remove any toll revenues from the definition of pledged revenues, the cost of the toll facilities paid from bond proceeds must be reimbursed from funds not encumbered by the resolutions. Consequently, PRHTA officials plan to use the lump sum payment from the concessionaire to meet the resolution requirements and pay the debt associated with these two highways.

The affirmation also reflects our understanding that PRHTA plans to defease debt outstanding associated with these two highways in a manner that preserves minimum debt service coverage at levels consistent with historical values.

In accordance with our criteria for government-related entities GREs, our view of a "moderate" likelihood of extraordinary government support reflects our assessment of PRHTA's "important" link with the government of Puerto Rico (BBB/Stable) and our assessment of the authority's "important" role that it plays as the provider of mass transit services in San Juan and the operator of the major roads on the island. The assessment also reflects the history of support from the Government Development Bank for Puerto Rico (GDB; BBB/Stable/--) and its stated intentions to continue to support the authority as required. If the general obligation (GO) rating on the commonwealth changes, the ratings on PRHTA might also change.

As of July 1, 2011, PRHTA had \$1.4 billion in debt outstanding under its closed 1968 resolution, \$4.1 billion in senior bonds outstanding under the 1988 resolution, and \$338.7 million in subordinate bonds outstanding under the 1998 resolution. In addition the authority had \$100.9 million in grant anticipation bonds (series 2004).

The ratings also reflect our opinion of the following specific credit weaknesses:

- Constitutional law in Puerto Rico that grants the bondholders of GO debt a senior right to all available tax income, including taxes pledged to the bonds (pledged toll road income is excluded from this law);
- Dependence on continued economic prosperity and growth in pledged revenue streams to provide sufficient funding and resources for the capital improvement program and increases in operating expenses for the tollways and Tren Urbano, the new mass transit system that the authority manages; and
- Erosion of cash-flow coverage of all obligations. In recent years, operating expenses have increased substantially due to Tren Urbano. At the same time, tax revenues have seen only modest growth. The combination of these have resulted in the authority generating cash flow coverage of all obligations including the payment of operating expenses of only 0.6x in fiscal 2010. PRHTA has met all obligations through available fund balances and interim lines of credit from GDB. The authority's management is keen on reducing operating expenditures, and believes the concession agreement will help them achieve this by shifting operating costs to the concessionaire.

In our opinion, offsetting credit strengths include:

- The essential nature of PRHTA's highway and transportation system;
- The instrumental role the authority's highway and transportation system plays in the continued economic growth of the commonwealth; and
- A diverse pledge of gas taxes, motor vehicle fees, and toll receipts.

A very diverse mix of taxes and fees secure the bonds. PRHTA's operating expenses are legally subordinate to debt service payments and are paid from surplus funds. At fiscal year-end 2010 (June 30), the authority's pledged revenues totaled an estimated \$544.9 million, of which toll revenues accounted for about 36%, followed by gasoline taxes (29%), petroleum taxes (17%), motor vehicle license fees (6%), and gas and diesel oil taxes (2.3%).

PRHTA management estimates that the concession agreement and removal of the revenues associated with PR-22 and PR-5 will result in a reduction in pledged revenues of approximately \$91.4 million in fiscal 2012. In addition, the pledged revenue mix will rely increasingly on taxes, which management projects will account for nearly 67% of pledged revenues in fiscal 2012. Following the defeasance of the approximately \$880 million of par debt associated with PR-22 and PR-5, PRHTA management projects debt service coverage on the senior 1968 resolution bonds of approximately 5x through fiscal 2015, a level that we consider strong. Management also projects annual debt service coverage of 1.5x on the senior 1998 bonds and at least 1.25x on the subordinate lien bonds, levels that we consider adequate. It will also target a defeasance of the debt associated with PR-22 and PR-5 that results in a minimum 2x coverage of maximum annual debt service (MADS) on the 1968 resolution bonds (with a minimum 1.15x coverage using only remaining toll revenues), 1.5x coverage of MADS of senior 1998 senior, and at least 1.3x coverage of subordinate 1998 bonds. Management has represented that other than the removal of the revenues associated with PR-22 and PR-5, the provisions of the 1968 and 1998 bond indentures will remain intact.

Although 1998 resolution bondholders have a junior claim on revenue pledged under the closed 1968 resolution, they benefit from the additional pledge of the first \$120 million in petroleum taxes per year. Petroleum tax revenue is not part of pledged revenues under the 1968 resolution. The authority's finances have been under pressure from

the various tax revenues, which in general have not risen with the rate of inflation. It pays operating expenses subordinate to debt service on both resolutions and can pay them from the 1998 construction fund to the extent money is available. Beginning in fiscal 2006, operating expenses increased, due primarily to Tren Urbano operating costs. However, the administration has implemented expenditure cuts that have reduced the burden of these costs on the total budget. Tren Urbano operating expenses reached \$58.5 million, or 22.4% of total operating expenditures, in fiscal 2010, down from \$75.5 million, or 23.7%, in fiscal 2009.

PRHTA has not been able to meet its debt service requirements and operating expenses from recurring revenues and has had to rely on available money in the construction fund and interim financing lines of credit from the GDB. In the past 10 years, GDB has made available to the authority about \$949 million in credit lines. PRHTA used about 86% of this amount to fund capital improvements, with the remaining 14% used for working capital. In fiscal 2010, the authority received \$578 million in cash advances from its lines of credit.

Outlook

The stable outlook reflects Standard & Poor's assessment of the role and relationship of PRHTA with Puerto Rico. In addition, the outlook reflects our expectation that, following the concession agreement's execution, management will proceed with the defeasance and payment of the debt associated with PR-5 and PR-22 in a way that results in debt service coverage consistent with targeted levels. We could lower the ratings if debt service coverage declines significantly below projected levels. In addition, if our rating on the commonwealth should change materially, we could revise the rating on PRHTA's bonds due to the close link between the rating on the commonwealth's GO bonds and the ratings on the authority's debt.

Related Criteria And Research

- USPF Criteria: Special Tax Bonds, June 13, 2007
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, Dec. 9, 2010
- USPF Criteria: Toll Road And Bridge Revenue Bonds, June 13, 2007

Ratings Detail (As Of August 3, 2011)		
Puerto Rico Hwy & Transp Auth gas tax <i>Long Term Rating</i>	BBB+/Stable	Affirmed
Puerto Rico Hwy & Transp Auth gas tax <i>Long Term Rating</i>	AAA/A-1+	Affirmed, Removed from CreditWatch
<i>Unenhanced Rating</i>	BBB(SPUR)/Stable	Affirmed
Puerto Rico Hwy & Transp Auth gas tax (wrap of insured) (ASSURED GTY & CFIG) (SEC MKT) <i>Unenhanced Rating</i>	BBB(SPUR)/Stable	Affirmed
Puerto Rico Hwy & Transp Auth gas tax (wrap of insured) (ASSURED & AGM) (SEC MKT) <i>Unenhanced Rating</i>	BBB(SPUR)/Stable	Affirmed
Puerto Rico Hwy & Transp Auth gas tax (wrap of insured) (FGIC & BHAC) (SEC MKT) <i>Unenhanced Rating</i>	BBB(SPUR)/Stable	Affirmed
Puerto Rico Hwy & Transp Auth gas tax (wrap of insured) (FGIC & RADIANT) (SEC MKT) <i>Unenhanced Rating</i>	BBB(SPUR)/Stable	Affirmed

Ratings Detail (As Of August 3, 2011) (cont.)		
Puerto Rico Hwy & Transp Auth gas tax (wrap of insured) (FGIC & RADIANT) (SEC MKT)		
<i>Unenhanced Rating</i>	BBB+(SPUR)/Stable	Affirmed
Puerto Rico Hwy & Transp Auth gas tax (wrap of insured) (FGIC) (ASSURED GTY) (SEC MKT)		
<i>Unenhanced Rating</i>	BBB(SPUR)/Stable	Affirmed
Puerto Rico Hwy & Transp Auth gas tax (AGM) RFD		
<i>Unenhanced Rating</i>	BBB(SPUR)/Stable	Affirmed
Puerto Rico Hwy & Transp Auth subord gas tax (wrap of insured) (FGIC & RADIANT) (SEC MKT)		
<i>Unenhanced Rating</i>	BBB-(SPUR)/Stable	Affirmed
Puerto Rico Hwy & Transp Auth		
<i>Unenhanced Rating</i>	BBB(SPUR)/Stable	Affirmed
Puerto Rico Hwy & Transp Auth hwy		
<i>Unenhanced Rating</i>	BBB+(SPUR)/Stable	Affirmed
Puerto Rico Hwy & Transp Auth subord transp		
<i>Unenhanced Rating</i>	BBB-(SPUR)/Stable	Affirmed
Puerto Rico Hwy & Transp Auth transp		
<i>Unenhanced Rating</i>	BBB(SPUR)/Stable	Affirmed
Puerto Rico Hwy & Transp Auth 1st lien transp		
<i>Unenhanced Rating</i>	BBB(SPUR)/Stable	Affirmed
Puerto Rico Hwy & Transp Auth, Puerto Rico		
Teodoro Moscoso Br, Puerto Rico		
Puerto Rico Hwy & Transp Auth gas tax (Teodoro Moscoso Br)		
<i>Long Term Rating</i>	BBB-/Stable	Affirmed
Many issues are enhanced by bond insurance.		

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