



## Fitch Downgrades Puerto Rico's GO and Related Ratings to 'CC'; Maintains Rating Watch Negative

Fitch Ratings-New York-29 June 2015: Fitch Ratings has downgraded the Commonwealth of Puerto Rico's general obligation (GO) and related debt ratings to 'CC' from 'B'. The ratings remain on Rating Watch Negative. The complete list of affected credits is included at the end of this release.

The downgrade of the ratings to 'CC', which indicates Fitch's belief that default of some kind appears probable, is based on public comments by the governor supporting the broad debt restructuring strategy included in an external report released this morning by GDB.

Fitch no longer believes that the commonwealth views GO debt as worthy of the higher level of protection that to date has been assumed due to the very strong legal pledge and repeated public statements to this effect. As it is difficult at this point to predict the course that the commonwealth will take from here in pursuing debt restructuring, Fitch does not believe it is meaningful to distinguish among the various securities and with today's rating action brings all of the commonwealth debt that is rated by Fitch to 'CC' Rating Watch Negative.

Fitch notes that in recent months the legislature passed a significant tax increase in support of budget balance and now seems to be in the final stages of negotiating a budget that both funds debt service and makes further progress in controlling operating spending. Nevertheless, it now seems clear that this provides only minimal comfort that the commonwealth will make full and timely payment on its obligations to bondholders. In addition, the advocacy of restructuring has further increased the challenges to a successful Puerto Rico Infrastructure Finance Authority (PRIFA) financing to bolster liquidity.

### SECURITY

GO bonds are secured by the good faith, credit and taxing power of the commonwealth of Puerto Rico. Strong legal provisions for GO debt include a constitutional first claim on commonwealth revenues, including transportation-related and rum excise tax revenues that are dedicated to specific authorities and other bonds.

### RATING SENSITIVITIES

**FULL AND TIMELY PAYMENT:** Any restructuring that does not result in full and timely payment of the bonds according to the original terms promised would likely result in a further downgrade to 'D'.

**NEGOTIATED RESOLUTION:** Any negotiated resolution would be evaluated for its effect on bondholders.

**LIQUIDITY:** The rating could be lowered further if the commonwealth is unable to bolster liquidity.

### COMPLETE LIST OF AFFECTED CREDITS

With today's action, Fitch has downgraded to 'CC' and maintains the Rating Watch Negative on all of the following ratings:

- \$13 billion Commonwealth of Puerto Rico GO bonds, downgraded to 'CC' from 'B';
- \$6.7 billion Puerto Rico Sales Tax Financing Corporation (COFINA) senior lien sales tax revenue bonds and \$8.5 billion COFINA first subordinate lien sales tax revenue bonds, downgraded to 'CC' from 'B';
- \$2.9 billion Employees Retirement System of the Commonwealth of Puerto Rico (ERS) pension funding

bonds, downgraded to 'CC' from 'B';

--\$1.4 billion Puerto Rico Public Buildings Authority (PBA) government facilities revenue bonds guaranteed by the Commonwealth and rated by Fitch and \$658 million Puerto Rico Aqueduct and Sewer Authority (PRASA) Commonwealth guaranty revenue bonds, downgraded to 'CC' from 'B';

--\$3.4 billion PRASA senior lien revenue bonds, downgraded to 'CC' from 'B'.

Today's action does not affect Fitch's ratings on debt of the Puerto Rico Electric Power Authority (PREPA), which has been rated 'CC', Rating Watch Negative since June 26, 2014.

Fitch does not rate any other appropriation- or special tax-secured debt of the commonwealth.

Fitch's public finance ratings do not address the loss given default of the rated liability, focusing instead on the vulnerability to default of the rated liability.

For more information on Fitch's analysis of the GO and related credits, including security information for all related credits, please see 'Fitch Downgrades Puerto Rico's GO and Related Ratings to 'B' on Rating Watch Negative' dated March 26, 2015.

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### **Applicable Criteria**

Tax-Supported Rating Criteria (pub. 14 Aug 2012)

([https://www.fitchratings.com/creditdesk/reports/report\\_frame.cfm?rpt\\_id=686015&cft=0](https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=686015&cft=0))

U.S. State Government Tax-Supported Rating Criteria (pub. 14 Aug 2012)

([https://www.fitchratings.com/creditdesk/reports/report\\_frame.cfm?rpt\\_id=686033&cft=0](https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=686033&cft=0))

### **Additional Disclosures**

Dodd-Frank Rating Information Disclosure Form

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