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Moody's Drops Puerto Rico Further than S&P

by [Robert Slavin](#)

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Moody's Investors Service on Friday delivered a two-notch downgrade to Puerto Rico's general obligation bonds, a deeper, more far reaching cut than the one imposed by Standard & Poor's three days earlier.

Moody's downgraded the commonwealth's general obligation bonds to Ba2 from Baa3, pointing to the commonwealth's continued lack of economic growth. It lowered Puerto Rico's senior lien Sales Tax Finance Corporation (COFINA) bonds to Baa1 from A2.

While Moody's now has the GOs at a speculative grade and the COFINAs at an investment grade, the latter downgrade may prove more painful for Puerto Rico. Puerto Rico officials had said they would probably sell COFINA bonds this winter. Moody's now rates the senior lien COFINA bonds four notches below S&P's rating, AA-minus. S&P had left the COFINA ratings unchanged.

Moody's downgrade affects \$55 billion of rated debt. S&P's Puerto Rico downgrade affected \$31.6 billion.

In one glimmer of hope from Moody's action, whereas S&P now has all of the bonds it downgraded on a negative rating watch, Moody's only has a negative outlook, meaning there's a lower likelihood of another downgrade by Moody's in the next three months.

"While some economic indicators point to a preliminary stabilization, we do not see evidence of economic growth sufficient to reverse the commonwealth's negative financial trends," Moody's vice president Emily Raimés and vice president Edward Hampton said. The economic weakness is due to long-term decline in the island's dominant manufacturing sector, reduced competitiveness due to expired federal tax benefits and high energy costs, they said.

"The problems that confront the commonwealth are many years in the making, and include years of deficit financing, pension underfunding, and budgetary imbalance, along with seven years of economic recession," Raimés and Hampton said. "These factors have now put the commonwealth in a position where its debt load and fixed costs are high, its liquidity is narrow, and its market access has become constrained."

"In the face of these problems, the administration has taken strong and aggressive actions to control spending, reform the retirement systems, reduce debt issuance, and promote economic

development," the analysts wrote. "Despite these accomplishments, however, in our view the commonwealth's credit profile is no longer consistent with investment grade characteristics."

Puerto Rico Treasury Secretary Melba Acosta Febo and Government Development Bank of Puerto Rico Chairman David Chafey responded. "We strongly disagree with Moody's decision," the commonwealth officials said in a press release. "We remain confident that we have the liquidity on hand to satisfy all liquidity needs until the end of the fiscal year, including any cash needs resulting from recent rating agency actions.

"The García Padilla administration has implemented very significant actions to improve Puerto Rico's fiscal situation, and we believe the governor's recently announced plan to strengthen the commonwealth's short- and medium-term credit profile will accelerate our ability to enhance the GDB's liquidity and spur continued economic growth in Puerto Rico," Acosta Febo and Chafey continued.

Moody's downgraded the following bonds and notes to Ba2 from Baa3: GO, Public Building Authority, Government Development Bank senior notes, Highway and Transportation Authority transportation revenue, and Aqueduct and Sewer Authority Commonwealth guaranteed bonds. It downgraded the non-Commonwealth guaranteed Aqueduct and Sewer Authority revenue bonds to Ba2 from Ba1.

Moody's downgraded COFINA senior-lien bonds to Baa1 from A2 and its junior-lien bonds to Baa2 from A3. It downgraded the Public Finance Corporation Commonwealth Appropriation bonds to Ba3 from Ba1.

A complete list of Moody's actions can be [found here](#).

All of Moody's downgrades were two notches except for the non-commonwealth guaranteed Aqueduct and Sewer Authority revenue bonds. These ratings were capped by or linked to the GO rating. PRASA's smaller drop was due to the authority's recent introduction of a 60% water and sewer rate increase, Raimés and Hampton said.

"I don't think anyone following this story is surprised, and the price of the bonds for some time reflect what the rating agencies are now trying to articulate," said AllianceBernstein senior vice president Joseph Rosenblum. "I think it is interesting that the COFINA bonds have been lowered to where they are because it seems to call into question the earlier arguments made by the rating agencies about the pledge of the COFINA sales tax not being subject to possible claw back for the GO bonds. I also believe that the commonwealth should have spent as much time in the last few months reaching out to bondholders and potential investors as they seemed to do for the rating agencies in the effort to preserve the investment grade ratings. We are looking forward to next Wednesday's call by the commonwealth."

The commonwealth is [holding a call](#) and webcast for investors at 2 p.m., Eastern Standard Time, Wednesday.

"Puerto Rico's leadership will need to redouble efforts to attract alternative investors to materialize in size for a much needed capital injection," said Municipal Market Advisors managing director Robert Donahue.

The Puerto Rico Chamber of Commerce "is optimistic that with our human talent, determination and ideas, Puerto Rico will emerge soon from this crisis through a joint private sector and government effort," said chamber president Jorge Cañellas Fidalgo. "The current government

agrees with many of our recommendations to make Puerto Rico a more competitive place to do business and that is very good news for attracting businesses.

"If Puerto Rico repealed attacks by the like of Sir Francis Drake various centuries ago and Puerto Rican engineers were instrumental in the U.S. space program's success, surely we will captain this ship to a safe port," Cañellas Fidalgo said.



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