

BOND BUYER

THE DAILY NEWSPAPER OF PUBLIC FINANCE

Wednesday, June 2, 2010

Payments Secure in Puerto Rico

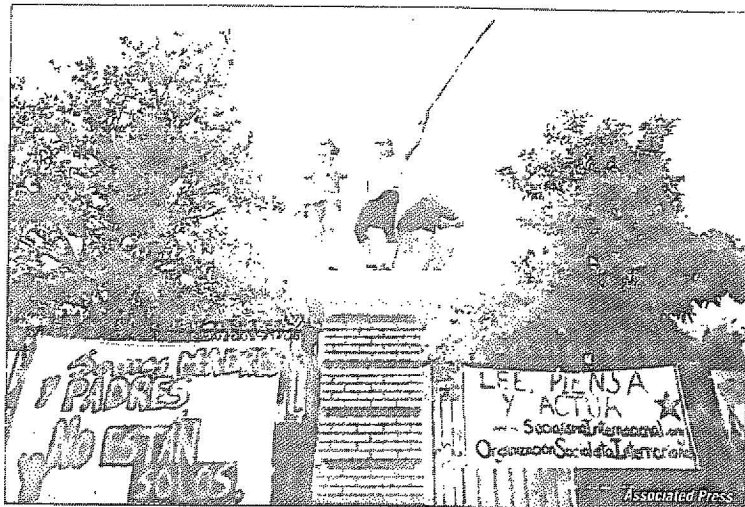
Striking Students Won't Cause Delay

By MICHELLE KASKE

An ongoing student strike at the **University of Puerto Rico** has placed the school semester on hold, but the standoff does not affect its ability to repay its \$569 million of outstanding bonds, according to a university official.

The strike began six weeks ago, and thousands of students are protesting potential tuition increases and higher costs. Student rallies, sit-ins, and clashes with the police have shut down all 11 UPR campuses and threaten the system's ability to finish the second semester of the 2009-10 school year.

Investors in the university's debt will continue to be paid even if officials are forced to call off the current semester, said **Gabriel Rivera**, UPR's director of finance. Annual appropriations from **Puerto Rico's** general fund account for the bulk of UPR's operating budget, not tuition revenue. Of its \$1 billion fiscal



Thousands of University of Puerto Rico students are protesting potential tuition increases and higher costs.

2010 spending plan, \$730 million comes from commonwealth appropriations, he said.

"The strong covenant that the bondholders have for payment of their bonds is sufficient reason not to be worried about the payment of the bonds," Rivera said. "In addition to their pledged revenues, bondholders also have access to any unrestricted funds from the university, which means

all operational funds, and they are first in line in terms of payments."

UPR has \$569 million of outstanding bonds and \$71 million of notes as of Dec. 31, according to a financial information and operating data report of the commonwealth. That report is dated May 1 and was compiled by the **Government Development**

Turn to **Puerto Rico** page 20

Univ. of Puerto Rico Bond Payments On Track Despite Strike, Official Says

Continued from page 1

Bank for Puerto Rico, the government's financial adviser.

Moody's Investors Service and **Standard & Poor's** rate UPR's outstanding debt Baa1 and BBB-minus, respectively. Both have a stable outlook. The ratings are tied to the commonwealth's credit rating since the university relies upon its annual allocations.

The system's funding is based on a formula that appropriates 9.6% of Puerto Rico's average annual revenue from internal sources for each of the two prior fiscal years. As Puerto Rico's year-over-year revenues decline, so do the annual distributions to UPR.

While the school received \$730 million this year from the general fund, that is \$105 million less than it received in fiscal 2009 as the commonwealth's revenues have decreased. Puerto Rico's fiscal 2011 budget proposal includes \$691 million for the university, \$39 million less than its current-year allocation.

Puerto Rico carries A3 and BBB-minus ratings from Moody's and Standard & Poor's, respectively.

In addition, university lease payments pay down \$78 million of outstanding educational facility revenue bonds that the **Puerto Rico Industrial, Tourist, Education, Medical and Environmental Control Facilities Financing Authority** — known by its Spanish acronym AFICA — sold in 2000 for the University Plaza Project.

Students and university officials are in the midst of negotiations that began this past weekend. Gov. **Luis Fortuño** late last month said he would reopen the campuses on June 7. While current tuition rates range from \$45 to \$51 per credit hour, which rating analysts describe as low, proposed changes would require students to pay more for their education. Students are protesting a possible elimination of tuition waivers that some UPR students receive.

"Our main demand was that we reject certification of the trustees of the university that tried to limit the tuition waivers to students," **Giovanni Roberto**, a UPR student and Student Negotiating Committee spokesman, told the radio/TV news show "Democracy Now!" last month. "Especially, they tried to make people that have a Pell Grant or other economic help not to be part of the tuition waiver, which in the University of Puerto Rico means most students, since it is a public university."

"So, we identify that the administration, what they wanted to do is to attack especially poor students, trying to limit their right to have a tuition waiver," Roberto said.

Asking students to pay more could help UPR's finances, but rating analysts are more focused on the change in commonwealth support than the system's current shutdown.

"We're always monitoring the rating and we do see that these student protests are disruptions to the university's operations, but these kinds of disruptions have occurred there in the past," said Moody's analyst **Laura Sander**. "So what we're really focused on is the credit impact and we're looking more at the impact at the moment

of the reductions in commonwealth funding. We think that has more impact on the credit at this point than this disruption may have."

UPR is Puerto Rico's largest higher education institution and has 65,669 students

enrolled in the current school year. Demand is high, "evidenced by steady headcount, strong application levels, and continued strong new-student matriculation," Standard & Poor's said. It is the only public university on the island.

"Although there is no legal obligation, the way the government of Puerto Rico looks at this credit, it would not allow deterioration of the credit," Rivera said.

Recent trades of UPR debt in the secondary market have generated yields above 5%. A May 27 trade on \$100,000 of Series 2006Q revenue bonds maturing in June 2025 yielded 5.081%, according to data from **Thomson Reuters**. The bonds yielded 4.19% in the primary market. On the same day, a \$25,000 trade on the same series of bonds maturing in June 2036 yielded 5.14% compared to a yield of 4.27% when the bonds priced in the primary market. □