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GUAM ECONOMIC DEVELOPMENT AUTHORITY
Moving Forward
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S&P changes in criteria downgrades bonds across the nation, including Guam

Dec. 27, 2018

A new criteria has caused a downgrade in Guam bonds along with other state and local governments across the nation.

On October 22, 2018, Standard & Poor's Global Ratings (S&P) announced that they were going to change the criteria for rating priority-lien tax revenue debt issued by U.S. municipal governments where the pledged revenue stream was typically treated as limited obligations. The new methodology for evaluating these credits, previously treated as stand-alone credits, would now be linked to the "Obligor's Creditworthiness". They further announced that this new criteria would affect over 800 different bond credits in the market.

Jay Rojas, GEDA's Chief Executive Officer and Administrator, expressed disappointment in S&P's new criteria, which negatively impacted Guam's ratings in spite of the government's efforts to reduce the deficit and improve transparency: **"We question the reliability of this new ratings criteria as what was once seen as a financially strong credit has been reclassified based on their new criteria."**

S&P reviewed the affected Guam credits and took the following action:

- GovGuam Limited Obligation (Section 30) Bond rating lowered from "BBB+" to "BB"
- Hotel Occupancy Tax (HOT) Revenue Bond credit lowered from "A-" to "BB"
- Business Privilege Tax (Bond) credit lowered from "A" to "BB"

The reports state that although coverage and liquidity of these individual credits are very strong, S&P believes the "pledged revenues could have exposure to operating risk of the government in the event of a distress situation" by the Government of Guam.

"Although they recognize our improving economic activity and strong tourism industry, they are still concerned about the Governments ability to fully fund all its operational needs and required reserves," Rojas stated.

This extreme drop in credit has frustrated many municipalities and caused confusion for investors. A number of municipal governments' credits were lowered — some by up to 5 steps. Illinois's sales-tax bonds were downgraded from "AA-" to a "BBB-".

Since the housing crisis occurred almost 10 years ago — in part because credit rating agencies such as S&P gave high investment grade ratings to mortgaged-backed securities that eventually turned into junk bonds — ratings criteria have seen a number of changes.

The new rating will not have any immediate affects on Guam's outstanding HOT, Section 30 or BPT bonds as those bond interest rates were locked in at the time of the sale. The new rating will only affect future borrowing efforts pledged by these revenues by the Government of Guam.

<u>What can we do to improve the ratings?</u>

Because the ratings are tied to the General Government, it is recommended that our leaders take a consolidated effort to strengthen the core of the government. This includes commitments to pay off the deficit, creating necessary reserves to insulate the government from revenue shortfalls or deficits, continue to pay down debt and to fund future CIP's.

We ask for the patience of the people of Guam as we continue to strive for financial stability for the Government of Guam.

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