

**NEW ISSUES-BOOK ENTRY ONLY**

*In the opinion of Squire, Sanders & Dempsey L.L.P., Bond Counsel, under existing law, (i) assuming continuing compliance by the Puerto Rico Public Buildings Authority with certain covenants and the accuracy of certain representations, and, in the case of the Series H Bonds, assuming, among other matters, no Change in Law, as described in this Official Statement in "Delayed Delivery of the Series H Bonds" under PLAN OF FINANCING, interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, and (ii) the Bonds and the interest thereon are exempt from state, Commonwealth of Puerto Rico and local income taxation. Interest on the Bonds may be subject to certain federal taxes imposed only on certain corporations, including the corporate alternative minimum tax on a portion of that interest. For a more complete discussion of the tax aspects, see the discussion under TAX MATTERS herein.*

**\$466,162,418.10**  
**Puerto Rico Public Buildings Authority**  
**\$131,445,000 Government Facilities Revenue Refunding Bonds, Series F**  
**\$62,000,000 Government Facilities Revenue Bonds, Series G**  
**\$272,717,418.10 Government Facilities Revenue Refunding Bonds, Series H (Forward Delivery)**  
**Guaranteed by the Commonwealth of Puerto Rico**

**Dated: Date of Delivery**

**Due: As shown on inside cover page**

The Puerto Rico Public Buildings Authority Government Facilities Revenue Refunding Bonds, Series F (the "Series F Bonds"), the Puerto Rico Public Buildings Authority Government Facilities Revenue Bonds, Series G (the "Series G Bonds") and the Puerto Rico Public Buildings Authority Government Facilities Revenue Refunding Bonds, Series H (the "Series H Bonds" and, together with the Series F Bonds and the Series G Bonds, the "Bonds") will be issued in fully registered form and when issued, will be initially registered only in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York, which will act as securities depository for the Bonds. The Bonds will be available to purchasers in denominations of \$5,000 and any multiple thereof (\$5,000 maturity amount and any multiple thereof, with respect to the Capital Appreciation Bonds, as such term is defined below) only under the book-entry system maintained by DTC through brokers and dealers who are, or act through, DTC Participants. Purchasers will not receive delivery of the Bonds. So long as any purchaser is the beneficial owner of a Bond, such purchaser must maintain an account with a broker or dealer who is, or acts through, a DTC Participant to receive payment of principal of and interest on such Bond. See "Book-Entry Only System" under *Description of the Bonds*. Interest on the Series F Bonds and the Series G Bonds will be payable January 1, 2003 and each January 1 and July 1 thereafter. Interest on the Series H Bonds (other than the Capital Appreciation Bonds) will be payable July 1, 2003 and each January 1 and July 1 thereafter. Certain Bonds will be subject to redemption prior to maturity as described herein. Payment of the principal of and interest on the Series H Bonds when due will be insured by bond insurance policies as described herein.

The Series H Bonds maturing on July 1, 2011 and July 1, 2012 are being issued as "capital appreciation bonds" under the 1995 Bond Resolution described herein (such capital appreciation bonds are referred to herein as "Capital Appreciation Bonds"). Interest on the Capital Appreciation Bonds will be compounded on each January 1 and July 1 of each year, commencing on July 1, 2003, and will be payable only at maturity.

The outstanding Puerto Rico Public Buildings Authority Government Facilities Revenue Bonds, Series A, B, D and E and Puerto Rico Public Buildings Authority Government Facilities Revenue Refunding Bonds, Series C (collectively, the "Outstanding Bonds"), the Bonds, and any additional Puerto Rico Public Buildings Authority Government Facilities Revenue Bonds hereafter issued under the 1995 Bond Resolution (all of the foregoing, collectively, "Government Facilities Bonds"), will be secured equally and ratably by a pledge of the rentals of government facilities financed or refinanced by such bonds and leased by the Puerto Rico Public Buildings Authority (the "Authority") to departments, agencies, instrumentalities and municipalities of the Commonwealth of Puerto Rico (the "Leased Facilities"). The Leased Facilities will not be mortgaged or otherwise encumbered to secure any Government Facilities Bonds. The good faith and credit of the Commonwealth of Puerto Rico (the "Commonwealth" or "Puerto Rico") are pledged to the payment or advance of such rentals.

**The Bonds are further secured by the guaranty of the Commonwealth, under which the Commonwealth pledges to draw from any funds available in the Treasury of Puerto Rico such sums as may be necessary to cover any deficiency in the amount required for the payment of principal of and interest on the Bonds. The good faith and credit of the Commonwealth, as in the case of the Commonwealth's general obligation bonds, are pledged for such payments.**

*The Bonds are offered for delivery, subject to prior sale, when, as and if issued by the Authority and accepted by the Underwriters subject to the approval of legality by Squire, Sanders & Dempsey L.L.P., Miami, Florida, Bond Counsel, and certain other conditions. Certain legal matters will be passed upon for the Underwriters by McConnell Valdés, San Juan, Puerto Rico. It is expected that the Series F Bonds and the Series G Bonds will be available for delivery to DTC in New York, New York on or about October 24, 2002. It is expected that the Series H Bonds will be available for delivery to DTC in New York, New York on or about April 3, 2003.*

**Lehman Brothers**  
**ABN Amro Financial Services, Inc.**  
**Goldman, Sachs & Co.**

**Morgan Stanley**  
**Banc of America Securities LLC**  
**Merrill Lynch & Co. UBS PaineWebber Inc.**

**Salomon Smith Barney**  
**Bear, Stearns & Co. Inc.**  
**Wachovia Bank, National Association**

## MATURITY SCHEDULE

**\$131,445,000**

### Government Facilities Revenue Refunding Bonds, Series F

<u>Maturity July 1</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>Maturity July 1</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Yield</u>
2013	\$ 3,110,000	5.00%	3.70%	2020	\$11,610,000	5.25%	4.43%
2014	3,105,000	5.00%	3.85%	2021	12,225,000	5.25%	4.51%
2015	3,100,000	5.00%	3.96%	2023	13,605,000	5.25%	4.62%
2017	25,800,000	5.25%	4.15%	2024	14,320,000	5.25%	4.64%
2018	10,475,000	5.25%	4.25%	2025	15,070,000	5.25%	4.65%
2019	19,025,000	5.25%	4.34%				

**\$62,000,000**

### Government Facilities Revenue Bonds, Series G

<u>Maturity July 1</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>Maturity July 1</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Yield</u>
2005	\$1,145,000	3.00%	2.05%	2014	\$1,620,000	5.25%	3.86%
2006	1,175,000	3.00%	2.35%	2015	1,705,000	5.25%	3.97%
2007	1,215,000	4.00%	2.65%	2016	1,795,000	5.25%	4.07%
2008	1,260,000	4.00%	2.95%	2017	1,890,000	5.25%	4.15%
2009	1,310,000	3 1/8%	3.17%	2018	1,990,000	5.25%	4.24%
2010	1,350,000	3.25%	3.38%	2019	2,095,000	5.25%	4.33%
2011	1,395,000	5.00%	3.48%	2020	2,205,000	5.25%	4.43%
2012	1,465,000	5.00%	3.58%	2021	2,320,000	5.25%	4.51%
2013	1,540,000	5.25%	3.71%				

\$13,480,000 5.00% Term Bonds due July 1, 2026 - Yield 4.65%

\$21,045,000 4.75% Term Bonds due July 1, 2032 - Yield 4.76%

**\$272,717,418.10**

### Government Facilities Revenue Refunding Bonds, Series H (Forward Delivery)

<u>Maturity July 1</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>Maturity July 1</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Yield</u>
2010	\$ 2,945,000*	5.00%	3.40%	2016	\$ 7,850,000†	5.50%	4.00%
2012	14,385,000*	5.25%	3.57%	2016	33,615,000**	5.50%	4.00%
2013	34,670,000*	5.25%	3.72%	2017	18,890,000**	5.50%	4.07%
2013	890,000†	5.25%	3.65%	2018	19,930,000**	5.50%	4.15%
2014	37,425,000†	5.25%	3.80%	2019	2,565,000**	5.50%	4.25%
2015	39,395,000†	5.25%	3.89%				

\$35,931,969.60 Capital Appreciation Bonds due July 1, 2011 - Yield 3.75%†

\$24,225,448.50 Capital Appreciation Bonds due July 1, 2012 - Yield 3.85%†

\* Insured by XL Capital Assurance Inc.

† Insured by Financial Guaranty Insurance Company.

\*\* Insured by Ambac Assurance Corporation.

The information set forth or incorporated herein by reference has been obtained from the Authority, the Commonwealth, and other official sources that are believed to be reliable, but is not guaranteed as to accuracy or completeness and is not to be construed as a representation by any Underwriter. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Authority or the Commonwealth, since the date hereof. This Official Statement is submitted in connection with the sale of the Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose. The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their respective responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

**IN CONNECTION WITH THIS OFFERING THE UNDERWRITERS MAY EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICES OF THE BONDS OFFERED HEREBY AND OF OUTSTANDING BONDS OF PUERTO RICO PUBLIC BUILDINGS AUTHORITY AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.**

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**INTRODUCTION**

The purpose of this Official Statement of Puerto Rico Public Buildings Authority (the "Authority") is to furnish information with respect to the \$131,445,000 Puerto Rico Public Buildings Authority Government Facilities Revenue Refunding Bonds, Series F (the "Series F Bonds"), the \$62,000,000 Puerto Rico Public Buildings Authority Government Facilities Revenue Bonds, Series G (the "Series G Bonds") and the \$272,717,418.10 Puerto Rico Public Buildings Authority Government Facilities Revenue Refunding Bonds, Series H (the "Series H Bonds" and, together with the Series F Bonds and the Series G Bonds, the "Bonds") to be issued by the Authority and to be guaranteed by the Commonwealth of Puerto Rico (the "Commonwealth").

The Bonds will be issued pursuant to Act No. 56 of the Legislature of Puerto Rico, approved June 19, 1958, as amended (the "Enabling Act"), and under the provisions of Resolution No. 468, adopted by the Authority on June 22, 1995 (the "1995 Bond Resolution"), as supplemented by a resolution adopted by the Authority on October 10, 2002. Immediately prior to the issuance of the Bonds, the Authority will have outstanding \$1,427,344,879 of its Government Facilities Bonds (calculated by excluding all accretion on any existing capital appreciation bonds and convertible capital appreciation bonds) issued under the 1995 Bond Resolution.

This Official Statement includes the cover page, the appendices hereto and the following documents, which have been filed by the Commonwealth with each nationally recognized municipal securities information repository ("NRMSIR") and the Municipal Securities Rulemaking Board (the "MSRB") and are incorporated herein by reference:

- (1) the Commonwealth of Puerto Rico Financial Information and Operating Data Report dated May 10, 2002, which contains financial and other information of the Commonwealth (the "Commonwealth Report") and which is appended as Appendix I to the Official Statement of the Commonwealth dated July 18, 2002 relating to the issuance by the Commonwealth of its \$460,000,000 Public Improvement Bonds of 2003, Series A, and its \$95,295,000 Public Improvement Refunding Bonds, Series 2003;
- (2) the Comprehensive Annual Financial Report of the Commonwealth for the fiscal year ended June 30, 2001 prepared by the Department of the Treasury (the "Commonwealth's Annual Financial Report"), which includes the general purpose financial statements of the Commonwealth for the fiscal year ended June 30, 2001, together with the independent auditor's report thereon, dated January 21, 2002, of KPMG LLP, certified public accountants. KPMG LLP did not audit the financial statements of the pension trust funds, the public university funds, and certain activities and component units separately identified in their report. Those financial statements were audited by other auditors whose reports have been furnished to KPMG LLP, and their opinion on the general purpose financial statements, insofar as it relates to the amounts included in the general purpose financial statements pertaining to such activities and component units, is based solely on the reports of the other auditors; and
- (3) the financial statements as of June 30, 2001 of the Authority prepared by Vila del Corral & Company, independent certified public accountants, together with the independent auditor's report thereon, appended as Appendix I to the Official Statement of the Authority dated January 11, 2002 related to the issuance by the Authority of its \$185,290,000 Government Facilities Revenue Refunding Bonds, Series C and its \$553,733,794.90 Government Facilities Revenue Bonds, Series D.

Any appendix of an Official Statement of the Commonwealth or of any instrumentality of the Commonwealth filed with each NRMSIR and the MSRB or any other document containing the same information as the Commonwealth

Report, or any other document supplementing or amending the Commonwealth Report, filed with each NRMSIR after the date hereof and prior to the termination of the offering of the Bonds, shall be deemed to be incorporated by reference into this Official Statement and to be part of this Official Statement from the date of filing of such document. Any statement contained herein or in any of the above described documents incorporated herein by reference shall be deemed to be modified or superseded for purposes of this Official Statement to the extent that a statement contained herein or in any other subsequently filed document modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement.

The Commonwealth will provide without charge to any person to whom this Official Statement is delivered, on the written or oral request of such person, a copy of any or all of the foregoing documents incorporated herein by reference. Requests for such documents should be directed to Director-New York Office, Government Development Bank for Puerto Rico, 140 Broadway, 38<sup>th</sup> Floor, New York, NY 10005, telephone number (212) 422-6420, or to Director-General Obligations Division, Government Development Bank for Puerto Rico, P.O. Box 42001, San Juan, PR 00940, telephone number (787) 722-7060.

A copy of the Commonwealth Report and the Commonwealth's Annual Financial Report may be obtained by contacting a NRMSIR. The address of each NRMSIR is set forth in *Continuing Disclosure* below.

## **RECENT EVENTS RELATING TO THE COMMONWEALTH OF PUERTO RICO FOR FISCAL YEARS 2002 AND 2003**

### **Recent Events**

*Preliminary Revenues and Expenditures for Fiscal Year 2002.* For the fiscal year ended June 30, 2002, preliminary General Fund revenues were \$7.50 billion, which is \$540 million or 7.8% higher than General Fund revenues during fiscal year 2001, and \$37 million higher than originally budgeted revenues for this period. Preliminary revenues for fiscal year 2002 included \$6.90 billion of recurring revenues and \$472 million of non-recurring revenues, including the liquidation of certain reserves which were no longer required, the sale of certain receivables due from various municipalities to Government Development Bank for Puerto Rico ("Government Development Bank"), the collection of past due receivables from other governmental entities, and a one-time payment from a taxpayer with respect to a disallowed deduction. Preliminary revenues for fiscal year 2002 also included \$129 million of taxes already collected in prior periods but not previously applied against outstanding tax receivables.

Expenditures for the 2002 fiscal year are estimated to be \$7.64 billion, which is \$140 million or 1.9% higher than the \$7.50 billion million revised budget for the fiscal year, which revised budget is based on preliminary General Fund revenues for the fiscal year. The principal reasons for the higher expenditures are (i) health costs that are estimated to be approximately \$152 million higher than the amount in the revised budget (mostly as a result of health reform costs); (ii) payroll and other costs of education that are estimated to be approximately \$77 million higher than the amount in the revised budget; and (iii) public safety costs that are estimated to be approximately \$47 million higher than the amount in the revised budget. Lower estimated expenditures in other areas of approximately \$139 million partially offset the higher health, education and public safety expenditures. The Commonwealth expects to cover these additional expenditures with \$120 million of reserve funds from the Commonwealth's Budgetary Fund and with \$20 million of unused funds from certain agencies that have operating surpluses.

*Approved Budget for Fiscal Year 2003.* The approved budget for fiscal year 2003 (which commenced on July 1, 2002) includes General Fund expenditures of \$7.84 billion, which is \$373 million or 5.0% higher than the \$7.47 billion originally budgeted for fiscal year 2002. The major changes in General Fund expenditures from the amount originally budgeted in fiscal year 2002 to fiscal year 2003 are the following: (i) an increase of \$122 million or 5.3% in education costs; (ii) an increase of \$119 million or 9.2% in public safety and protection costs; (iii) an increase of \$88 million or 7.4% in health costs; (iv) an increase of \$32 million or 45.8% in special pension contributions costs; (v) an increase of \$16 million or 4.1% in welfare costs; (vi) a decrease of \$14 million or 1.8% in general government expenses; and (vii) an increase of \$11 million or 3.1% in contributions to the municipalities.

General Fund revenues for fiscal year 2003 are projected to be \$7.84 billion. The major changes from the preliminary revenues of \$7.50 billion for fiscal year 2002 to projected revenues in fiscal year 2003 are expected to be: (i) a projected increase in individual income taxes of \$371 million; (ii) a projected increase in corporate income taxes of \$218 million; (iii) a projected increase in Commonwealth excise taxes of \$328 million; and (iv) a projected decrease in miscellaneous non-tax revenues of \$549 million (which is principally the result of the \$472 million of non-recurring revenues in fiscal year 2002).

For July 2002, the only month of fiscal year 2003 for which the Treasury Department has revenue information available, General Fund revenues were \$488 million, which is \$40 million or 8.9% higher than General Fund revenues during July 2001, and \$7 million or 1.4% higher than budgeted revenues for this period.

The projected General Fund revenues for fiscal year 2003 assume a 6.8% nominal, 2.7% real growth in gross national product, and additional revenues of \$596 million from recently enacted legislative measures. Projected revenues do not take into consideration the result of a lawsuit filed by one of the eight air cargo carriers that service Puerto Rico. In the lawsuit, this air cargo carrier seeks to prevent the Treasury Department from implementing a local regulation that precludes the carrier from delivering goods brought into the island prior to obtaining from the consignee evidence of the payment of the excise tax on such goods. The United States District Court for the District of Puerto Rico entered a permanent injunction in favor of the carrier. The Secretary of the Treasury appealed and moved for a stay pending the appeal. On July 18, 2002, the United States Court of Appeals granted the Secretary's motion and ordered the stay of the injunction while expediting the appeal. A hearing was held on September 6, 2002. The total amount of excise taxes collected annually in recent years by the eight air cargo carriers that service Puerto Rico has been approximately \$53 million.

*Contracts with Health Reform Insurance Companies.* The Government has entered into new contracts with the insurance companies providing coverage to health reform beneficiaries, which are for three-year terms commencing on July 1, 2002. Under the new contracts, and based on certain assumptions relating to the number of beneficiaries and other matters, the cost of the health insurance program for fiscal year 2003 is expected to exceed the amount in the budget for such fiscal year by approximately \$75 million. However, the Commonwealth expects to reduce the insurance cost through audits of the health reform lists of eligible beneficiaries and from rebates on medications from pharmaceutical companies. The budgeted amount includes all funds expected to be deposited in the newly created Health Reform Stabilization Fund, which will be funded from certain excise taxes that were recently raised. The insurance cost for fiscal years 2004 and 2005 will be negotiated with the insurance companies before the commencement of each such fiscal year.

*Special Communities Perpetual Trust.* On August 19, 2002, the Governor of the Commonwealth proposed and introduced legislation for the creation of a Special Communities Perpetual Trust of \$1 billion to serve primarily the housing and basic infrastructure needs of 686 needy communities throughout the Commonwealth. The corpus of this Trust is proposed to be constituted from a \$500 million transfer from Government Development Bank and \$500 million from the Commonwealth. The proposed financing plan of the Commonwealth's contribution is under consideration by the Commonwealth's Legislature.

**PLAN OF FINANCING**

The Series F Bonds will be issued for the purpose of refunding certain bonds issued under the 1978 Bond Resolution (as herein defined) and the 1995 Bond Resolution, as follows:

**1978 Bond Resolution Refunded Bonds**

<u>Series Designation</u>	<u>Principal Amount to be Refunded</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Redemption Date</u>	<u>Redemption Price</u>
Series H	\$15,885,000	5.00%	07/01/2017	11/27/2002	100.00%

**1995 Bond Resolution Refunded Bonds**

<u>Series Designation</u>	<u>Principal Amount to be Refunded</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Redemption Date</u>	<u>Redemption Price</u>
Series A	\$ 9,820,000	5.50%	07/01/2017	07/01/2005	101.50%
	10,360,000	5.50%	07/01/2018	07/01/2005	101.50%
	10,930,000	5.50%	07/01/2019	07/01/2005	101.50%
	11,530,000	5.50%	07/01/2020	07/01/2005	101.50%
	12,165,000	5.50%	07/01/2021	07/01/2005	101.50%
	13,575,000	5.50%	07/01/2023	07/01/2005	101.50%
	14,320,000	5.50%	07/01/2024	07/01/2005	101.50%
	15,110,000	5.50%	07/01/2025	07/01/2005	101.50%
Series D	3,000,000	5 3/8%	07/01/2013	07/01/2012	100.00%
	3,000,000	5 3/8%	07/01/2014	07/01/2012	100.00%
	3,000,000	5 3/8%	07/01/2015	07/01/2012	100.00%
	8,000,000	5 1/8%	07/01/2019	07/01/2012	100.00%

The Series G Bonds will be issued to provide funds (i) to pay a portion of the costs of construction of certain buildings and facilities to be leased by the Authority to various departments and instrumentalities of the Commonwealth, (ii) to pay capitalized interest, and (iii) to pay costs of issuance of Series G Bonds. For more detailed description of the Authority’s construction program, see *The Authority*.

The Series H Bonds will be issued for the purpose of refunding certain bonds (together with the bonds being refunded with the proceeds of the Series F Bonds, the “Refunded Bonds”) issued under the 1970 Bond Resolution (as herein defined) and the 1978 Bond Resolution as follows.

**1970 Bond Resolution Refunded Bonds**

<u>Series Designation</u>	<u>Principal Amount to be Refunded</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Redemption Date</u>	<u>Redemption Price</u>
Series L	\$6,410,000	5.75%	07/01/2011	07/01/2003	101.50%
	6,775,000	5.75%	07/01/2012	07/01/2003	101.50%
	7,170,000	5.75%	07/01/2013	07/01/2003	101.50%
	7,580,000	5.75%	07/01/2014	07/01/2003	101.50%
	8,015,000	5.75%	07/01/2015	07/01/2003	101.50%
	8,480,000	5.75%	07/01/2016	07/01/2003	101.50%

### 1978 Bond Resolution Refunded Bonds

<u>Series Designation</u>	<u>Principal Amount to be Refunded</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Redemption Date</u>	<u>Redemption Price</u>
Series M	\$37,410,000	5.75%	07/01/2011	07/01/2003	101.50%
	39,600,000	5.75%	07/01/2012	07/01/2003	101.50%
	27,825,000	5.75%	07/01/2013	07/01/2003	101.50%
	29,425,000	5.75%	07/01/2014	07/01/2003	101.50%
	18,030,000	5.75%	07/01/2015	07/01/2003	101.50%
	13,095,000	5.70%	07/01/2015	07/01/2003	101.50%
	32,905,000	5.70%	07/01/2016	07/01/2003	101.50%
	18,895,000	5.50%	07/01/2017	07/01/2003	101.50%
	19,935,000	5.50%	07/01/2018	07/01/2003	101.50%
	2,570,000	5.50%	07/01/2019	07/01/2003	101.50%

The Authority will deposit \$127,484,999.99 of the proceeds of the Series F Bonds in escrow with the State Street Bank & Trust Company, N.A., the Fiscal Agent under the 1995 Bond Resolution (the “1995 Fiscal Agent”) for investment in certain Government Obligations (as defined in the 1995 Bond Resolution), the principal of and interest on which when due, with other invested moneys, will be sufficient to pay when due the principal of and premium and interest on the 1995 Bond Resolution Refunded Bonds. Under the 1995 Bond Resolution, upon such deposit, such Refunded Bonds will be deemed to have been paid for purposes of the 1995 Bond Resolution.

The Authority will deposit \$46,227,115.41 of the proceeds of the Series H Bonds in escrow with U.S. Bank Trust National Association, the Fiscal Agent under the hereinafter described 1970 Bond Resolution (the “1970 Fiscal Agent”) for investment in certain direct obligations of the United States, the principal of and interest on which when due, with other uninvested moneys, will be sufficient to pay when due the principal of and premium and interest on the 1970 Bond Resolution Refunded Bonds. Under the 1970 Bond Resolution, upon such deposits, such Refunded Bonds will not be deemed to be outstanding for purposes of the 1970 Bond Resolution.

The Authority will deposit \$16,194,185.54 of the proceeds of the Series F Bonds and \$249,288,300.67 of the proceeds of the Series H Bonds in separate escrows with JPMorgan Chase Bank, the Fiscal Agent under the hereinafter described 1978 Bond Resolution (the “1978 Fiscal Agent”) for investment in certain direct obligations of the United States, the principal of and interest on which when due, with other invested moneys, will be sufficient to pay when due the principal of and premium and interest on the 1978 Bond Resolution Refunded Bonds. Under the 1978 Bond Resolution, upon such deposit, such Refunded Bonds will not be deemed to be outstanding for purposes of the 1978 Bond Resolution.

The adequacy of the amounts so deposited with the 1970 Fiscal Agent, the 1978 Fiscal Agent and the 1995 Fiscal Agent, respectively, with the investment earnings thereon, to accomplish the refunding of the Refunded Bonds will be verified by Samuel Kline & Company, the verification agent. See *Verification of Mathematical Computations*.

#### **Delayed Delivery of the Series H Bonds**

The Series F Bonds and the Series G Bonds are expected to be issued on or about October 24, 2002. The Series H Bonds are expected to be issued on or about April 3, 2003. The Authority is required to issue the Series H Bonds and the Underwriters are required to purchase the Series H Bonds unless (1) the Underwriters are not permitted to purchase or sell the Series H Bonds because of a Change in Law (as defined below) or (2) the Authority and the Underwriters do not receive the required closing documentation, including (a) the opinion of Bond Counsel described below, and certain opinions of the Secretary of Justice of the Commonwealth, counsel to the Authority and counsel to the Underwriters, (b) a supplement to this Official Statement (the “2003 Supplement”), together with a certificate of the Authority as to the accuracy of the Official Statement as so supplemented, and (c) a certificate of the Authority to the effect that, among other things, it is not aware of the existence of any default under the 1995 Bond Resolution (the “No-Default Certificate”).



The expected date of issue of the Series H Bonds may be delayed if on such date (i) trading shall have been suspended or materially limited on the New York Stock Exchange or other national stock exchange, whether by virtue of a determination by the exchange or by order of the Securities and Exchange Commission or any other governmental body having jurisdiction; (ii) a material disruption in securities settlement, payment or clearance services in the United States shall have occurred and be continuing, or (iii) any moratorium on commercial banking activities shall have been declared by Federal, New York State or Commonwealth authorities and be continuing. The Series H Bonds will be issued on the next business day on which the conditions set forth in (i), (ii), and (iii) above are not present.

ADVERSE CHANGES (FINANCIAL OR OTHER) IN THE AFFAIRS OF THE AUTHORITY WILL NOT EXCUSE THE UNDERWRITERS FROM PAYING FOR AND TAKING DELIVERY OF THE SERIES H BONDS UNLESS ANY SUCH ADVERSE CHANGE HAS NOT BEEN ACCURATELY AND COMPLETELY DESCRIBED IN OR INCORPORATED BY REFERENCE IN THE 2003 SUPPLEMENT OR THE AUTHORITY IS UNABLE TO DELIVER THE NO-DEFAULT CERTIFICATE DESCRIBED ABOVE.

It is a condition of the issuance of the Series H Bonds that Bond Counsel deliver its approving opinion on the Series H Bonds substantially in the form set forth in Appendix I. Bond Counsel's ability to deliver this opinion is subject to its review and analysis, at the time the Series H Bonds are to be issued, of certain matters, including, among others, (1) the application of the proceeds of the Series H Bonds, (2) pertinent provisions of law, including, but not necessarily limited to, Puerto Rico law and federal income tax and securities laws then in effect or proposed to be in effect and (3) certifications and representations delivered or made by the Authority and the Underwriters at the time of issuance of the Series H Bonds. Bond Counsel has advised the Authority and the Underwriters that, (A) if the Authority and the Underwriters satisfy their respective obligations set forth in the contract of purchase for the Series H Bonds (the "Contract of Purchase") and (B) if there is no change in any applicable law, or in any other facts or circumstances (tax or otherwise) that, in Bond Counsel's view, affect or are material to its opinion, and (C) if such certifications and representations are delivered or made to Bond Counsel's satisfaction, Bond Counsel expects to be able to deliver an approving opinion substantially in the form set forth in Appendix I. No assurances can be given that there will be no change in applicable law prior to the time the Series H Bonds are to be issued, that the facts and circumstances that are material to such opinion will not differ at the time the Series H Bonds are to be issued from those currently expected, or that such certifications and representations will be delivered and made. As a consequence, no assurance can be made that an approving opinion on the Series H Bonds will be delivered by Bond Counsel.

FAILURE TO DELIVER THE 2003 SUPPLEMENT OR THE OPINIONS AND CERTIFICATES IN THE FORM AND SUBSTANCE PROVIDED FOR IN THE CONTRACT OF PURCHASE (UNLESS SUCH FAILURE IS WAIVED BY THE UNDERWRITERS) WILL MEAN THAT THE SERIES H BONDS WILL NOT BE ISSUED AND DELIVERED. THE UNDERWRITERS HAVE THE RIGHT, BUT ARE UNDER NO OBLIGATION, TO WAIVE ANY SUCH FAILURE.

In addition, the Underwriters are not required to purchase the Series H Bonds if at any time on or prior to the date the Series H Bonds are to be issued, as a result of a Change in Law, the Underwriters are or would be prohibited from lawfully purchasing the Series H Bonds or lawfully selling the Series H Bonds to the public.

As defined in the Contract of Purchase, "Change in Law" means (i) any change in federal, Puerto Rico or state law or any changes in regulations or other pronouncements or interpretations by federal, Puerto Rico or state agencies, (ii) the enactment by the Congress of the United States or the introduction or recommendation for passage by the President of the United States of any federal legislation (if it has a proposed effective date that is on or before the date the Series H Bonds are to be issued), (iii) the enactment, introduction or proposal of any law, rule or regulation by any other governmental body, department or agency (federal, Puerto Rico or state) (if it has a proposed effective date that is on or before the date the Series H Bonds are to be issued) or (iv) the handing down of a judgment, ruling or order issued by any court or administrative body, which in each case would prohibit (or have the retroactive effect of prohibiting, if enacted, adopted, passed or finalized) the Underwriters from purchasing or selling the Series H Bonds to the public (or would make the Authority's issuance, sale or delivery illegal, if enacted, adopted, passed or finalized); provided, however, that such change in law, rule or regulation or judgment, ruling or order shall have become effective or been enacted, introduced, proposed or issued, as the case may be, after the date of this Official Statement.

Events that may occur prior to the issuance of the Series H Bonds may have significant consequences to persons who have agreed to purchase the Series H Bonds. The market prices of the Series H Bonds on the date the Series H Bonds are issued are unlikely to be the same as the purchase prices therefor, and such differences may be substantial. Several factors may adversely affect such prices, including (but not limited to) a general increase or decrease in market interest rates, any threatened or adopted change in the federal income tax laws affecting the relative benefits of owning tax-exempt securities versus other types of investments, or any adverse development with respect to the Authority or the Commonwealth's financial condition or prospects or with respect to the ratings on the Authority or the Commonwealth's indebtedness, including the rating on the Series H Bonds. In addition, although the delivery of the approving opinion of Bond Counsel is a condition to the issuance and delivery of the Series H Bonds and is subject to a number of conditions to be fulfilled at the time of such delivery as described above, changes or proposed changes in federal income tax laws or regulations or interpretations thereof could affect the market value of tax-exempt securities, including the Series H Bonds, without preventing the delivery of such opinion or the delivery of the Series H Bonds.

### Use of Proceeds

The proceeds of the Bonds (including any premium and net of original issue discount) are expected to be used as follows:

Sources of Funds	
Series F Bonds proceeds .....	\$144,643,406.70
Series G Bonds proceeds .....	64,297,340.90
Series H Bonds proceeds .....	<u>302,240,885.90</u>
Total .....	<u>\$511,181,633.50</u>
Uses of Funds	
Deposit into escrow account for 1970 Bond Resolution Refunded Bonds .....	\$ 46,227,115.41
Deposit into escrow account for 1978 Bond Resolution Refunded Bonds .....	265,482,486.21
Deposit into escrow account for 1995 Bond Resolution Refunded Bonds .....	127,484,999.99
Deposit into the 1995 Construction Fund* .....	63,734,474.75
Underwriting discount, bond insurance premiums and estimated legal, printing and financing expenses .....	<u>8,252,557.14</u>
Total .....	<u>\$511,181,633.50</u>

\* A portion of this amount, \$2,024,474.75, is to pay capitalized interest.

## DESCRIPTION OF THE BONDS

### General

The Bonds will be dated, will bear interest at such rates (or have such yields, in the case of the Capital Appreciation Bonds defined below), will be payable at such times, and will mature on July 1 of the years and in the principal amounts set forth on the inside cover of this Official Statement. The Bonds will be issued in fully registered form, will be in denominations of \$5,000 and any multiple thereof (except for the Capital Appreciation Bonds, which will be in denominations as described below), and when issued will initially be registered only in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York, which will act as securities depository for the Bonds. The Bonds are not subject to redemption prior to maturity.

The Series H Bonds maturing on July 1, 2011 and July 1, 2012 are being issued as "capital appreciation bonds" under the 1995 Bond Resolution described herein (such capital appreciation bonds are referred to herein as "Capital Appreciation Bonds"). The Capital Appreciation Bonds and the interest thereon will be payable only at maturity in an amount (the "Accreted Value") equal to the original principal amount of such bonds plus interest from their dated date, compounded semiannually. The Accreted Value per \$5,000 maturity amount of each Capital Appreciation Bond, on the date of delivery and on each January 1 and July 1, commencing on July 1, 2003, is shown in Appendix I. The Accreted Value of the Capital Appreciation Bonds on any other date is calculated on the assumption that such Accreted Value

increases in equal daily amounts, on the basis of a year of twelve 30-day months, up to the Accreted Value on the next January 1 or July 1, as appropriate.

Simultaneously with the delivery of the Series H Bonds: (i) Ambac Assurance Corporation, a Wisconsin-domiciled stock insurance corporation (“Ambac Assurance”), has committed to issue a municipal bond insurance policy insuring the payment when due of principal of and interest on the Series H Bonds maturing July 1 of the years 2017 through 2019, inclusive, and a portion of the Series H Bonds maturing July 1, 2016 (the “Ambac Insured Bonds”) as provided therein (the “Ambac Insurance Policy”); (ii) XL Capital Assurance Inc., a stock insurance company incorporated under the laws of New York (“XLCA”), has committed to issue a financial guaranty insurance policy insuring the payment when due of principal of and interest on the Series H Bonds maturing July 1, 2010 and a portion of the Series H Bonds maturing July 1, 2012 and 2013 (the “XLCA Insured Bonds”) as provided therein (the “XLCA Insurance Policy”). Financial Guaranty Insurance Company, a New York stock insurance company (“Financial Guaranty”), has committed to issue a municipal bond new issue insurance policy insuring the payment when due of principal of and interest on the Series H Bonds maturing July 1, 2014 and 2015, a portion of the Series H Bonds maturing July 1, 2013 and 2016, and the Series H Bonds consisting of the Capital Appreciation Bonds and maturing July 1, 2011 and 2012 (the “Financial Guaranty Insured Bonds”), as provided therein (the “Financial Guaranty Insurance Policy”). The Ambac Assurance Insured Bonds, the XLCA Insured Bonds and the FGIC Insured Bonds are hereinafter sometimes collectively referred to as the “Insured Bonds”.

The Series F Bonds and the Series G Bonds are not insured.

### Redemption Provisions

The Series F Bonds and the Series H Bonds are not subject to redemption prior to maturity. The Series G Bonds are subject to redemption prior to maturity as provided below.

*Optional Redemption.* The Series G Bonds maturing after July 1, 2012 may be redeemed at the option of the Authority upon 30 days’ notice from any moneys available therefor (other than moneys set aside in the 1995 Sinking Fund established by the 1995 Bond Resolution in respect of an Amortization Requirement), in whole or, as directed by the Authority, in part, on July 1, 2012 or on any date thereafter, at a redemption price equal to the principal amount to be redeemed, together with accrued interest thereon, and without premium.

*Mandatory Redemption.* The Series G Bonds maturing July 1, 2026 and July 1, 2032, respectively, shall be redeemed upon 30 days’ notice in part as set forth below in the principal amount equal to the respective Amortization Requirements for such Series G Bonds (less the principal amount of any such Series G Bonds retired by purchase) from moneys in 1995 Sinking Fund, at par plus accrued interest to the date fixed for redemption, as follows:

<b>Amortization Requirements for Series G Bonds due July 1</b>		
<u>Year</u>	<u>2026</u>	<u>2032</u>
2022	\$2,440,000	
2023	2,560,000	
2024	2,690,000	
2025	2,825,000	
2026	2,965,000	
2027		\$3,115,000
2028		3,260,000
2029		3,415,000
2030		3,580,000
2031		3,750,000
2032		3,925,000

*Notice of Redemption.* At least 30 days prior to any redemption, notice thereof will be sent by certified mail or other agreed method to DTC or if the book-entry only system is discontinued as described under the caption “Book-Entry Only System,” under *Description of the Bonds*, by first class mail, postage prepaid, to the registered owners of the Bonds to be redeemed. Each notice of redemption shall contain, among other things, the CUSIP identification number of the Bonds (or portions thereof) being called for redemption, the redemption date and price and the address at which such Bonds are to be surrendered for payment of the redemption price. Any defect in such notice or the failure so to mail any such notice to DTC in respect of, or the registered owner of, any Bond will not affect the validity of the proceedings for the redemption of any other Bond.

*Effect of Redemption.* On the date designated for redemption, notice having been given as described above and moneys for payment of the principal of and redemption premium, if any, and accrued interest on the Bonds or portions thereof so called for redemption being held by the 1995 Fiscal Agent, interest on the Bonds or portions thereof so called for redemption shall cease to accrue. Subject to certain provisions of the 1995 Bond Resolution, the Bonds and portions of Bonds which have been duly called for redemption under the provisions of the 1995 Bond Resolution, or with respect to which irrevocable instructions to call for redemption or to pay at maturity have been given, and for the payment of the principal of and redemption premium, if any, and the accrued interest on which sufficient moneys or Government Obligations (as hereinafter defined) shall be held in separate trust for the owners of the Bonds or portions thereof to be paid or redeemed, shall not be deemed to be outstanding under the 1995 Bond Resolution, and the registered owners thereof shall have no rights in respect thereof except to receive payment of the principal thereof and the redemption premium, if any, and the accrued interest thereon from said separate trust.

*Selection of Bonds to be Redeemed.* If less than all of the Bonds of any one maturity shall be called for redemption, the particular series of Bonds or portions thereof to be redeemed shall be selected by the 1995 Fiscal Agent in such manner as it in its discretion may determine to be appropriate and fair; except that so long as the book-entry only system shall remain in effect, the selection of the Bonds to be redeemed shall be determined as provided under the caption “Book-Entry Only System”, under *Description of the Bonds*. If during any fiscal year the total principal amount of term Bonds retired by purchase or redemption exceeds the Amortization Requirement for such term Bonds for such year, the Amortization Requirements for such term Bonds shall be reduced for subsequent fiscal years in amounts aggregating such excess as shall be determined by the Authority.

### **Book-Entry Only System**

The following information concerning DTC and DTC’s book-entry system has been obtained from DTC. Neither the Authority nor the Underwriters take any responsibility for the accuracy thereof.

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully registered bonds registered in the name of Cede & Co. (DTC’s partnership nominee) or such other nominee as may be requested by an authorized representative of DTC. One fully-registered Bond will be issued for each maturity of each series of the Bonds, each in the aggregate principal amount of such maturity (initial principal amount in the case of the Capital Appreciation Bonds), and will be deposited with DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Act of 1934. DTC holds securities that its participants (“Direct Participants”) deposit with DTC. DTC also facilitates the settlement among Direct Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Direct Participants’ accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc., and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants” and, together with the Direct Participants, the

“Participants”). The Rules applicable to DTC and its Participants are on file with the Securities and Exchange Commission.

Purchases of the Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC’s records. The ownership interest of each actual purchaser of each Bond (a “Beneficial Owner”) will in turn be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive any confirmation from DTC of their purchases, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interest in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued as described below.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co. or such other nominee as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC’s records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices, if any, shall be sent to Cede & Co. If less than all of the Bonds of any maturity within an issue are being redeemed, DTC’s practice is to determine by lot the amount of the interest of each Direct Participant in the Bonds to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.’s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on such record date (identified in a listing attached to the Omnibus Proxy).

Principal, redemption premium, if any, and interest payments on the Bonds will be made to DTC or to such other nominee as may be requested by DTC. DTC’s practice is to credit Direct Participants’ accounts on payable dates in accordance with their respective holdings shown on DTC’s records unless DTC has reason to believe that it will not receive payment on any such payable dates. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in “street name” and will be the responsibility of such Participant and not of DTC, the Authority, or the 1995 Fiscal Agent, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, redemption premium, if any, and interest to DTC is the responsibility of the Authority or the 1995 Fiscal Agent. Disbursement of such payments to Direct Participants shall be the responsibility of DTC, and further disbursement of such payments to the Beneficial Owners shall be the responsibility of Participants.

### **Payments and Transfers**

No assurance can be given by the Authority that DTC will make prompt transfer of payments to the Participants or that Participants will make prompt transfer of payments to Beneficial Owners. The Authority is not responsible or liable for payment by DTC or Participants or for sending transaction statements or for maintaining, supervising or reviewing records maintained by DTC or Participants.

For every transfer of the Bonds, the Beneficial Owner may be charged a sum sufficient to cover any tax or other governmental charge that may be imposed in relation thereto.

## **Discontinuance of the Book-Entry Only System**

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the Authority or the 1995 Fiscal Agent. Under such circumstances, in the event that a successor securities depository is not obtained, definitive Bonds will be printed and delivered.

The Authority, in its discretion, and without the consent of any other person, may terminate the services of DTC as securities depository with respect to the Bonds, if the Authority determines that the beneficial owners of such Bonds shall be able to obtain definitive bonds.

In the event that such book-entry only system is discontinued or if the Authority terminates the services of DTC as securities depository, the following provisions will apply : (i) principal of and interest on the Bonds and redemption premium, if any, thereon will be paid in lawful money of the United States of America; (ii) payments of principal will be made at the corporate trust office of the 1995 Fiscal Agent in New York, New York; (iii) interest on the Bonds (other than the Capital Appreciation Bonds) will be paid on each July 1 and January 1, by check mailed to the respective addresses of the registered owners thereof as shown on the registration books of the Authority maintained by the 1995 Fiscal Agent as of the close of business on the record date therefor as set forth in the 1995 Bond Resolution; (iv) the Bonds will be issued only as fully registered bonds without coupons in denominations of \$5,000 principal amount (or initial principal amount in the case of the Capital Appreciation Bonds) or any multiple thereof; and (v) the transfer of Bonds will be registrable and Bonds may be exchanged at the corporate trust office of the 1995 Fiscal Agent in New York, New York upon the payment of any taxes, fees or other governmental charges required to be paid with respect to such transfer or exchange.

*The Authority and the 1995 Fiscal Agent will have no responsibility or obligation to such Direct Participants, Indirect Participants, or the persons for whom they act as nominees with respect to the payments to or the providing of notice for the Direct Participants, the Indirect Participants, or the Beneficial Owners. Payments made to DTC or its nominee shall satisfy the obligations of the Authority to the extent of such payments.*

## **SECURITY**

All Government Facilities Bonds will be secured equally and ratably by a pledge of rentals of the Leased Facilities. The Leased Facilities will not be mortgaged or otherwise encumbered to secure any Government Facilities Bonds. The Enabling Act provides that the good faith and credit of the Commonwealth are pledged for the payment of rentals under any lease agreement with any department of the Commonwealth and to the making of advances by the Secretary of the Treasury of the Commonwealth to the Authority of any unpaid portion of rentals payable to the Authority by any agency or instrumentality of the Commonwealth.

**The Bonds are further secured by the guaranty of the Commonwealth, under which the Commonwealth pledges to draw from any funds available in the Treasury of Puerto Rico such sums as may be necessary to cover any deficiency in the amount required for the payment of principal of and interest on the Bonds. The good faith and credit of the Commonwealth, as in the case of the Commonwealth's general obligation bonds, are pledged for such payments.**

The rentals received in respect of the government facilities financed by any Government Facilities Bonds and leased by the Authority to various departments, agencies, instrumentalities and municipalities of the Commonwealth are not available to be applied to the payment of any of the Public Buildings Authority Public Education and Health Facilities Bonds or Public Buildings Authority Revenue Bonds issued under the 1978 Bond Resolution and the 1970 Bond Resolution (each hereinafter defined), respectively.

## **Commonwealth Guaranty**

As provided in Act No. 17 of the Legislature of Puerto Rico, approved April 11, 1968, as amended (the “Guaranty Act”), the Commonwealth guarantees, among other things, the payment of the principal of and interest on the Government Facilities Bonds. The provisions of the Guaranty Act are as follows:

“The Commonwealth of Puerto Rico hereby guarantees payment of the principal and the interest on bonds outstanding at any one time, in an aggregate principal amount not exceeding \$2,100,000,000 issued from time to time by the Public Buildings Authority for any of its purposes authorized by law. The bonds covered by this guaranty shall be those specified by the Authority, and a statement of such guaranty shall be set forth on the face of such bonds. If at any time the revenues or income, and any other moneys of the Authority, pledged for the payment of the principal and the interest on such bonds, are not sufficient to pay such principal and interest as the same fall due, or to maintain the reserve fund that the Authority has pledged itself to maintain for such bonds, the Secretary of the Treasury shall draw from any funds available in the Treasury of Puerto Rico, such sums as may be necessary to cover the deficiency in the amount required for the payment of such principal and interest and to restore said reserve fund to the maximum requirement agreed to by the Authority, and shall direct that the sums so drawn be applied to such payment and purpose. For the purposes of this Section, bonds shall not be deemed to be outstanding, which are not deemed to be outstanding under the provisions of the Resolution or Resolutions, pursuant to which such bonds were issued. The good faith and credit of the Commonwealth of Puerto Rico are hereby pledged for such payments.”

The Bonds have been specified by the Authority to be guaranteed by the Commonwealth under the Guaranty Act. Following the issuance of the Bonds, the Authority will have \$2,097,930,459.30 aggregate principal amount of bonds outstanding which are covered by the Guaranty Act, consisting of: \$118,416,568.55 of bonds issued under Resolution No. 77, adopted by the Authority on November 16, 1970, as amended (the “1970 Bond Resolution”), \$473,534,011.55 of bonds issued under Resolution No. 158, adopted by the Authority on February 14, 1978, as amended (the “1978 Bond Resolution”), and \$1,505,979,879.20 of bonds issued under the 1995 Bond Resolution, calculated in each case by excluding the accretion on capital appreciation bonds and convertible capital appreciation bonds. See *Debt of the Authority and Debt Service Requirements*.

To date, no payments have ever been required under the Guaranty Act.

## **Opinion of the Secretary of Justice of the Commonwealth**

Prior to delivery of the Bonds, the Secretary of Justice of the Commonwealth will have rendered her opinion to the Authority stating:

“I have examined Act No. 56 of the Legislature of Puerto Rico, approved June 19, 1958, as amended, creating the Public Buildings Authority (the “Authority”) as a body corporate and politic constituting an instrumentality of the Commonwealth of Puerto Rico exercising public and essential governmental functions. I have also examined Act No. 17 of the Legislature of Puerto Rico, approved April 11, 1968, as amended (the “Guaranty Act”), providing for the guaranty of the Commonwealth of Puerto Rico of the payment of the principal of and interest on a principal amount of bonds of the Authority outstanding at any one time, not exceeding \$2,100,000,000, specified by the Authority to be covered by such guaranty, to the extent that the revenues and other moneys of the Authority pledged to the payment of such principal and interest are not sufficient for that purpose. I have also examined the Puerto Rico Constitution and such other laws of the Commonwealth of Puerto Rico as I consider necessary for the purpose of the following opinion.

From such examination, I am of the opinion that:

1. The Authority is lawfully authorized to specify up to \$2,100,000,000 aggregate principal amount of bonds of the Authority outstanding at any one time, issued for any of its authorized purposes, to be covered by the guaranty of the Commonwealth of Puerto Rico under the Guaranty Act, and the Commonwealth of Puerto Rico will be obligated to pay the principal of and the interest on the bonds so specified to be covered by said guaranty, if and to

the extent that the revenues and other moneys of the Authority pledged to the payment of such principal and interest are not sufficient to make such payments as the same become due.

2. Any amounts required to be paid by the Commonwealth of Puerto Rico under said guaranty will constitute 'public debt' within the meaning of Section 8 of Article VI of the Puerto Rico Constitution which provides:

'In case the available revenues including surplus for any fiscal year are insufficient to meet the appropriations made for that year, interest on the public debt and amortization thereof shall first be paid, and other disbursements shall thereafter be made in accordance with the order of priorities established by law.'

and will accordingly be entitled to the same priority of payment under such Section as the direct bonded indebtedness of the Commonwealth.

3. Because of its sovereign immunity, the Commonwealth cannot be sued without the consent of the Legislature of Puerto Rico. However, the Secretary of the Treasury can be required in a court of justice under the provisions of Section 2 of Article VI of the Puerto Rico Constitution to apply the available revenues including surplus to the payment of interest on the public debt and the amortization thereof in any case provided for by Section 8 of Article VI, including any payments required to be made under said guaranty, at the suit of any holder of bonds issued by the Authority and guaranteed pursuant to the Guaranty Act.

4. The Commonwealth guaranty of the \$131,445,000 Puerto Rico Public Buildings Authority Government Facilities Revenue Refunding Bonds, Series F, the \$62,000,000 Puerto Rico Public Buildings Authority Government Facilities Revenue Bonds, Series G, and the \$272,717,418.10 Puerto Rico Public Buildings Authority Government Facilities Revenue Refunding Bonds, Series H (Forward Delivery), constitutes a general obligation of the Commonwealth to which its full faith and credit and taxing power are pledged.

5. Although without specific judicial decision on point, I firmly understand and am of the opinion that, for purposes of the principal amount limitation expressed in the Guaranty Act, the initial principal amount of any capital appreciation bonds constitutes the principal amount of such bonds until such bonds are retired and any accreted value above said initial principal amount constitutes interest on such bonds."

## **Lease Agreements**

In accordance with the provisions of the 1995 Bond Resolution, the Authority enters into lease agreements with various departments, agencies, instrumentalities and municipalities of the Commonwealth in respect of Leased Facilities. The lease agreements require the lessees to pay to the Authority annual rentals in substantially equal monthly installments. The rentals are calculated to take into account the following factors: (1) the interest on and principal of (including any Amortization Requirements) and redemption premium, if any, on Government Facilities Bonds issued to finance or refinance such Leased Facilities, (2) any amounts necessary to pay the general administrative expenses of the Authority in connection with such Leased Facilities, and (3) any amounts necessary to provide and maintain a reserve fund for the replacement of major items of equipment comprising a portion of such Leased Facilities. The lease agreements may also require the lessees to pay certain amounts on account of the principal of and interest on outstanding notes issued to finance Leased Facilities. Each lease agreement with respect to a facility or facilities terminates when the Government Facilities Bonds which were issued to finance or refinance the acquisition or construction of such facility or facilities have been paid in full. All lease agreements provide for the adjustment of rentals so that the total amounts payable will be sufficient to meet the required debt service charges. The Authority has also entered into lease agreements with various departments, agencies and instrumentalities of the Commonwealth in respect of facilities financed or refinanced with the Refunded Bonds (collectively, the "Refunded Bonds Lease Agreements"). The Refunded Bonds Lease Agreements require the lessees to pay to the Authority rentals in an amount sufficient to, among other things, cover the allocable portion of the principal of and interest on the Refunded Bonds. In connection with the refunding of the Refunded Bonds through the issuance of the Series F Bonds and the Series H Bonds, the Authority and the lessees under the Refunded Bonds Lease Agreements are amending such Refunded Bonds Lease Agreements to provide that the debt service rentals paid by the lessees thereunder will be deposited with the fiscal agents under the 1970 or 1978 Bond Resolution, as applicable, and the 1995 Fiscal Agent, on a pro-rata basis, so that each fiscal agent receives the amount



of the debt service rentals payable under the Refunded Bonds Lease Agreement corresponding to the debt service payable on the bonds issued and outstanding under the applicable bond resolution to finance or refinance the facility covered by such Refunded Bonds Lease Agreement. Each lease agreement provides that the obligation of the lessee to pay rentals is absolute and unconditional.

Monthly rental payments for office buildings related to the 1970 Bond Resolution are due on the last day of the month and are generally received by the Authority after the close of the month. Monthly rental payments for public education and health facilities related to the 1978 Bond Resolution and for government facilities related to the 1995 Bond Resolution are due on or before the 10<sup>th</sup> day of each month. In the past, there have been some delays in the payment of monthly rentals by some lessees and some of these delays currently exist. Despite these delays, there has been no default or delay in the payment of the principal of or interest on any indebtedness of the Authority. On December 7, 2001, the Authority entered into an Inter-Agency Agreement (the "Inter-Agency Agreement") with the Government Development Bank, the Puerto Rico Office of Management and Budget and the Puerto Rico Department of the Treasury pursuant to which the Puerto Rico Office of Management and Budget will cause the Puerto Rico Department of the Treasury to forward funds necessary to pay rentals under lease agreements to the Government Development Bank on the 10<sup>th</sup> day of each month, which funds in turn will be deposited in a special account of the Authority at the Government Development Bank. The portion of such rentals that will be used to pay principal and interest on the Authority's bonds will be kept in such account for delivery to the respective fiscal agent. The remainder shall be forwarded to the Authority as per its instructions. The Authority believes that the implementation of the Inter-Agency Agreement will substantially reduce the administrative delays in the payment of rentals.

Included among the operating and maintenance expenses that are required to be paid under the lease agreements by the lessee is the cost of insurance premiums. The Authority's facilities are covered by commercial insurance policies insuring such properties against losses from fire, hurricanes and other natural disasters and personal liability. However, because of reductions in industry-wide limits on the amount of insurance that may be written and significant increases in insurance premiums on such available insurance during the 1990's and in the aftermath of the events of September 11, 2001, such insurance has been purchased by the Authority for an insurable amount substantially less (approximately 11%) than the total replacement value of its properties. The Authority's lease agreements provide that each lessee's obligation to make rental payments is absolute and unconditional, regardless of whether the leased facilities are damaged, destroyed or otherwise become unusable for any period of time and regardless of any default by the Authority thereunder. The lease agreements further provide that the Authority is obligated at the expense of each lessee to obtain insurance to cover required rental payments during periods when facilities become unusable as a result of damage or destruction, to the extent such insurance is commercially obtainable. See *Insurance Matters* in the Commonwealth Report.

For further information regarding certain provisions required by the 1995 Bond Resolution to be included in each lease agreement in respect of facilities financed or refinanced by the Bonds, see *Summary of Certain Provisions of the 1995 Bond Resolution*.

### **Pledge of the Commonwealth to Pay or Advance Rentals**

Under the 1995 Bond Resolution, the Authority has covenanted that if any department, agency, instrumentality or municipality fails to pay any rent when due, the Authority will promptly notify the Secretary of the Treasury of the Commonwealth.

As provided in the Enabling Act, the good faith and credit of the Commonwealth are pledged for the payment of the rent under any lease agreement with the Authority executed by any of the Commonwealth's executive departments (including, among others, the Department of Education, the Department of Health and the Department of Corrections) and any other governmental body created by the Legislature and depending mainly on legislative appropriations to meet its operating expenses.

The Enabling Act also provides that if any rent payable to the Authority by any agency or instrumentality (other than a department) under a lease contract is not paid when due, then the Commonwealth shall advance the unpaid balance to the Authority. The Commonwealth pledges its good faith and credit to the making of such advances. Any advances so made are required to be reimbursed by the particular agency or instrumentality involved.

Payments or advances of rentals by the Commonwealth, as described above, are subject to annual appropriations by the Legislature, which appropriations are legally required to be made. However, the obligation to make such appropriations is not legally enforceable in view of the sovereign immunity of the Commonwealth, and, unlike the obligation to make payments under the guaranty of the Government Facilities Bonds and the other outstanding bonds of the Authority, the obligation to pay or advance rentals does not constitute “public debt” within the meaning of Section 8 of Article VI of the Puerto Rico Constitution.

### **Additional Bonds**

Under and in accordance with the provisions and restrictions of the 1995 Bond Resolution, the Authority may issue additional Government Facilities Bonds from time to time to finance additional government facilities or complete the construction of existing government facilities or to refund any Government Facilities Bonds or any bonds issued under the 1970 Bond Resolution or the 1978 Bond Resolution. See “Additional Bonds” under *Summary of Certain Provisions of the 1995 Bond Resolution*.

## **BOND INSURANCE**

### **Ambac Insured Bonds**

The following information has been furnished by Ambac Assurance for use in this Official Statement. Reference is made to Appendix III to this Official Statement for a specimen of the Ambac Financial Guaranty Insurance Policy.

*Payment Pursuant to the Ambac Insurance Policy.* Ambac Assurance has made a commitment to issue the Ambac Insurance Policy relating to the Ambac Insured Bonds effective as of the date of issuance of the Bonds. Under the terms of the Ambac Financial Guaranty Insurance Policy, Ambac Assurance will pay to The Bank of New York, in New York, New York, or any successor thereto (the “Insurance Trustee”), that portion of the principal of and interest on the Ambac Insured Bonds which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Authority (as such terms are defined in the Ambac Insurance Policy). Ambac Assurance will make such payments to the Insurance Trustee on the later of the date on which such principal and interest becomes Due for Payment or within one business day following the date on which Ambac Assurance shall have received notice of Nonpayment from the 1995 Fiscal Agent. The insurance will extend for the term of the Ambac Insured Bonds and, once issued, cannot be canceled by Ambac Assurance.

The Ambac Insurance Policy will insure payment only on stated maturity and on mandatory sinking fund redemption dates, in the case of principal, and on stated dates for payment, in the case of interest. If the Ambac Insured Bonds become subject to mandatory redemption and insufficient funds are available for redemption of all outstanding Ambac Insured Bonds, Ambac Assurance will remain obligated to pay principal of and interest on outstanding Ambac Insured Bonds on the originally scheduled interest and principal payment dates including mandatory sinking fund redemption dates. In the event of any acceleration of the principal of the Ambac Insured Bonds, the insured payments will be made at such times and in such amounts as would have been made had there not been an acceleration.

In the event the 1995 Fiscal Agent has notice that any payment of principal of or interest on an Ambac Insured Bond which has become Due for Payment and which is made to a bondholder by or on behalf of the Authority has been deemed a preferential transfer and theretofore recovered from its registered owner pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such registered owner will be entitled to payment from Ambac Assurance to the extent of such recovery if sufficient funds are not otherwise available.

The Ambac Insurance Policy does not insure against any risk other than Nonpayment, as defined in the Ambac Insurance Policy. Specifically, the Ambac Insurance Policy does not cover:

1. payment on acceleration, as a result of a call for redemption (other than mandatory sinking fund redemption) or as a result of any other advancement of maturity.

2. payment of any redemption, prepayment or acceleration premium.
3. nonpayment of principal or interest caused by the insolvency or negligence of the 1995 Fiscal Agent.

If it becomes necessary to call upon the Ambac Insurance Policy, payment of principal requires surrender of Ambac Insured Bonds to the Insurance Trustee together with an appropriate instrument of assignment so as to permit ownership of such Bonds to be registered in the name of Ambac Assurance to the extent of the payment under the Ambac Insurance Policy. Payment of interest pursuant to the Ambac Insurance Policy requires proof of bondholder entitlement to interest payments and an appropriate assignment of the bondholder's right to payment to Ambac Assurance.

Upon payment of the insurance benefits, Ambac Assurance will become the owner of the Ambac Insured Bonds, or right to payment of principal of or interest on such Bond and will be fully subrogated to the surrendering bondholders' rights to payment.

*Ambac Assurance Corporation.* Ambac Assurance is a Wisconsin-domiciled stock insurance corporation regulated by the Office of the Commissioner of Insurance of the State of Wisconsin and licensed to do business in 50 states, the District of Columbia, the Territory of Guam and the Commonwealth of Puerto Rico, with admitted assets of approximately \$5,587,000,000 (unaudited) and statutory capital of approximately \$3,453,000,000 (unaudited) as of June 30, 2002. Statutory capital consists of Ambac Assurance's policyholders' surplus and statutory contingency reserve. Standard & Poor's Credit Markets Services, a Division of The McGraw-Hill Companies, Moody's Investors Service and Fitch, Inc. have each assigned a triple-A financial strength rating to Ambac Assurance.

Ambac Assurance has obtained a ruling from the Internal Revenue Service to the effect that the insuring of an obligation by Ambac Assurance will not affect the treatment for federal income tax purposes of interest on such obligation and that insurance proceeds representing maturing interest paid by Ambac Assurance under policy provisions substantially identical to those contained in its financial guaranty insurance policy shall be treated for federal income tax purposes in the same manner as if such payments were made by the issuer of such obligation.

Ambac Assurance makes no representation regarding the Bonds (including the Ambac Insured Bonds) or the advisability of investing in the Bonds (including the Ambac Insured Bonds) and makes no representation regarding, nor has it participated in the preparation of, this Official Statement other than the information supplied by Ambac Assurance and presented in "Ambac Insured Bonds" under the heading Bond Insurance.

*Available Information.* The parent company of Ambac Assurance, Ambac Financial Group, Inc. (the "Company"), is subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and in accordance therewith files reports, proxy statements and other information with the Securities and Exchange Commission (the "SEC"). These reports, proxy statements and other information can be read and copied at the SEC's public reference room at 450 Fifth Street, N.W., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. The SEC maintains an internet site at <http://www.sec.gov> that contains reports, proxy and information statements and other information regarding companies that file electronically with the SEC, including the Company. These reports, proxy statements and other information can also be read at the offices of the New York Stock Exchange, Inc. (the "NYSE"), 20 Broad Street, New York, New York 10005.

Copies of Ambac Assurance's financial statements prepared in accordance with statutory accounting standards are available from Ambac Assurance. The address of Ambac Assurance's administrative offices and its telephone number are One State Street Plaza, 19<sup>th</sup> Floor, New York, New York 10004 and (212) 668-0340.

*Incorporation of Certain Documents by Reference.* The following documents filed by the Company with the Commission (File No. 1-10777) are incorporated by reference in this Official Statement:

1. The Company's Current Report on Form 8-K dated January 24, 2002 and filed on January 25, 2002;
2. The Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2001 and filed on March 26, 2002;

3. The Company's Current Report on Form 8-K dated April 17, 2002 and filed on April 18, 2002;
4. The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended March 31, 2002 and filed on May 13, 2002;
5. The Company's Current Report on Form 8-K dated July 17, 2002 and filed on July 19, 2002; and
6. The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended June 30, 2002 and filed on August 4, 2002.

All documents subsequently filed by the Company pursuant to the requirements of the Exchange Act after the date of this Official Statement will be available for inspection in the same manner as described above in "*Available Information.*"

*Concerning the Ambac Bond Insurance Policy.* As provided in the Resolution of the Governing Board of the Authority authorizing the issuance of the Bonds, the consent of Ambac Assurance shall be required instead of the consent of the owners of the Ambac Insured Bonds, when required, to the adoption of any resolution supplemental to the 1995 Bond Resolution, for the removal of the 1995 Fiscal Agent and the appointment of a successor or for approving any other action which requires such consent of the owners of the Ambac Insured Bonds.

### **Financial Guaranty Insured Bonds**

The following information has been furnished by Financial Guaranty for use in this Official Statement. Reference is made to Appendix IV to this Official Statement for a specimen of the Financial Guaranty Insurance Policy.

Concurrently with the issuance of the Financial Guaranty Insured Bonds, Financial Guaranty will issue its Municipal Bond New Issue Insurance Policy (the "Financial Guaranty Insurance Policy") for the Financial Guaranty Insured Bonds. The Financial Guaranty Insurance Policy unconditionally guarantees the payment of that portion of the principal or accreted value (if applicable) of and interest on the Financial Guaranty Insured Bonds which has become due for payment, but shall be unpaid by reason of nonpayment by the Authority. Financial Guaranty will make such payments to State Street Bank and Trust Company, N.A., or its successor as its agent (the "Financial Guaranty Fiscal Agent"), on the later of the date on which such principal or accreted value (if applicable) and interest is due or on the business day next following the day on which Financial Guaranty shall have received telephonic or telegraphic notice, subsequently confirmed in writing, or written notice by registered or certified mail, from an owner of Bonds or the 1995 Fiscal Agent of the nonpayment of such amount by the Issuer. The Financial Guaranty Fiscal Agent will disburse such amount due on any Bond to its owner upon receipt by the Financial Guaranty Fiscal Agent of evidence satisfactory to the Financial Guaranty Fiscal Agent of the owner's right to receive payment of the principal, accreted value or interest (as applicable) due for payment and evidence, including any appropriate instruments of assignment, that all of such owner's rights to payment of such principal, accreted value or interest (as applicable) shall be vested in Financial Guaranty. The term "nonpayment" in respect of a Financial Guaranty Insured Bond includes any payment of principal, accreted value or interest (as applicable) made to an owner of a Financial Guaranty Insured Bond which has been recovered from such owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction.

The Financial Guaranty Insurance Policy is non-cancellable and the premium will be fully paid at the time of delivery of the Financial Guaranty Insured Bonds. The Financial Guaranty Insurance Policy covers failure to pay principal or accreted value (if applicable) of the Financial Guaranty Insured Bonds on their respective stated maturity dates or dates on which the same shall have been duly called for mandatory sinking fund redemption, and not on any other date on which the Financial Guaranty Insured Bonds may have been otherwise called for redemption, accelerated or advanced in maturity, and covers the failure to pay an installment of interest on the stated date for its payment.

This Official Statement contains a section regarding the ratings assigned to the Bonds and reference should be made to such section for a discussion of such ratings and the basis for their assignment to the Financial Guaranty Insured

Bonds. Reference should be made to the description of ratings for a discussion of the ratings, if any, assigned to such entity's outstanding parity debt that is not secured by credit enhancement.

The Financial Guaranty Insurance Policy is not covered by the Property/Casualty Insurance Security Fund specified in Article 76 of the New York Insurance Law.

Financial Guaranty is a wholly-owned subsidiary of FGIC Corporation (the "Corporation"), a Delaware holding company. The Corporation is a subsidiary of General Electric Capital Corporation ("GE Capital"). Neither the Corporation nor GE Capital is obligated to pay the debts of or the claims against Financial Guaranty. Financial Guaranty is a monoline financial guaranty insurer domiciled in the State of New York and subject to regulation by the State of New York Insurance Department. As of June 30, 2002, the total capital and surplus of Financial Guaranty was approximately \$1.01 billion. Financial Guaranty prepares financial statements on the basis of both statutory accounting principles and generally accepted accounting principles. Copies of such financial statements may be obtained by writing to Financial Guaranty at 125 Park Avenue, New York, New York 10017, Attention: Communications Department (telephone number: 212-312-3000) or to the New York State Insurance Department at 25 Beaver Street, New York, New York 10004-2319, Attention: Financial Condition Property/Casualty Bureau (telephone number: 212-480-5187).

### **XLCA Insured Bonds**

The following information has been supplied by XLCA for inclusion in this Official Statement. Reference is made to Appendix V to this Official Statement for a specimen of the XLCA Insurance Policy. No representation is made by the Authority as to the accuracy or completeness of the information.

XLCA accepts no responsibility for the accuracy or completeness of this Official Statement or any other information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding XLCA and its affiliates set forth under this heading. In addition, XLCA makes no representation regarding the Bonds or the advisability of investing in the Bonds.

*General.* XLCA is a monoline financial guaranty insurance company incorporated under the laws of the State of New York. XLCA is currently licensed to do insurance business in, and is subject to the insurance regulation and supervision by, the State of New York, forty-six other states, the District of Columbia, Puerto Rico and Singapore. XLCA has license applications pending, or intends to file an application, in each of those states in which it is not currently licensed.

XLCA is an indirect wholly owned subsidiary of XL Capital Ltd, a Cayman Islands corporation ("XL Capital Ltd"). Through its subsidiaries, XL Capital Ltd is a leading provider of insurance and reinsurance coverages and financial products to industrial, commercial and professional service firms, insurance companies and other enterprises on a worldwide basis. The common stock of XL Capital Ltd is publicly traded in the United States and listed on the New York Stock Exchange (NYSE: XL). **XL Capital Ltd is not obligated to pay the debts of or claims against XLCA.**

XLCA was formerly known as The London Assurance of America Inc. ("London"), which was incorporated on July 25, 1991 under the laws of the State of New York. On February 22, 2001, XL Reinsurance America Inc. ("XL Re") acquired 100% of the stock of London. XL Re merged its former financial guaranty subsidiary, known as XL Capital Assurance Inc. (formed September 13, 1999) with and into London, with London as the surviving entity. London immediately changed its name to XL Capital Assurance Inc. All previous business of London was 100% reinsured to Royal Indemnity Company, the previous owner at the time of acquisition.

*Reinsurance.* XLCA has entered into a facultative quota share reinsurance agreement with XL Financial Assurance Ltd ("XLFA"), an insurance company organized under the laws of Bermuda, and an affiliate of XLCA. Pursuant to this reinsurance agreement, XLCA expects to cede up to 90% of its business to XLFA. XLCA may also cede reinsurance to third parties on a transaction-specific basis, which cessions may be any or a combination of quota share, first loss or excess of loss. Such reinsurance is used by XLCA as a risk management device and to comply with statutory and rating agency requirements and does not alter or limit XLCA's obligations under any financial guaranty insurance policy. With respect to any transaction insured by XLCA, the percentage of risk ceded to XLFA may be less than 90% depending on

certain factors including, without limitation, whether XLCA has obtained third party reinsurance covering the risk. As a result, there can be no assurance as to the percentage reinsured by XLFA of any given financial guaranty insurance policy issued by XLCA, including the XLCA Insurance Policy.

As of December 31, 2001, XLFA had total assets, liabilities, redeemable preferred shares and shareholders' equity of US\$543,538,559 (audited), US\$244,403,576 (audited), US\$39,000,000 (audited) and US\$260,134,983 (audited) respectively, determined in accordance with generally accepted accounting principles in the United States. XLFA's insurance financial strength is rated "Aaa" by Moody's and "AAA" by Standard & Poor's and Fitch. In addition, XLFA has obtained a financial enhancement rating of "AAA" from Standard & Poor's.

The obligations of XLFA to XLCA under the reinsurance agreement described above are unconditionally guaranteed by XL Insurance (Bermuda) Ltd ("XLI"), a Bermuda company and one of the world's leading excess commercial insurers. XLI is a wholly owned indirect subsidiary of XL Capital Ltd. In addition to having an "A+" rating from A.M. Best, XLI's insurance financial strength is rated "Aa2" by Moody's and "AA" by Standard & Poor's and Fitch.

Notwithstanding the capital support provided to XLCA described in this section, the holders of the XLCA Insured Bonds will have direct recourse against XLCA only, and neither XLFA nor XLI will be directly liable to the holders of the XLCA Insured Bonds.

*Financial Strength and Financial Enhancement Ratings.* XLCA's insurance financial strength is rated "Aaa" by Moody's and "AAA" by Standard & Poor's and Fitch, Inc. ("Fitch"). In addition, XLCA has obtained a financial enhancement rating of "AAA" from Standard & Poor's. These ratings reflect Moody's, Standard & Poor's and Fitch's current assessment of XLCA's creditworthiness and claims-paying ability as well as the reinsurance arrangement with XLFA described under "Reinsurance" above.

The above ratings are not recommendations to buy, sell or hold securities, including the XLCA Insured Bonds and are subject to revision or withdrawal at any time by Moody's, Standard & Poor's or Fitch. Any downward revision or withdrawal of these ratings may have an adverse effect on the market price of the XLCA Insured Bonds. XLCA does not guaranty the market price of the XLCA Insured Bonds nor does it guaranty that the ratings on the XLCA Insured Bonds will not be revised or withdrawn.

*Capitalization of XLCA.* As of December 31, 2000, XLCA had total admitted assets of \$86,959,000 (audited), total liabilities of \$5,275,000 (audited) and total capital and surplus of \$81,684,000 (audited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities ("SAP"). As of December 31, 2001, XLCA had total admitted assets of \$158,442,157 (audited), total liabilities of \$48,899,461 (audited) and total capital and surplus of \$109,542,696 (audited) determined in accordance with SAP.

For further information concerning XLCA and XLFA, see the financial statements of XLCA and XLFA, and the notes thereto, incorporated by reference in this Official Statement, which are included as exhibits to the periodic reports filed with the Securities and Exchange Commission (the "Commission") by XL Capital Ltd and may be reviewed at the EDGAR website maintained by the Commission. All financial statements of XLCA and XLFA included in, or as exhibits to, documents filed by XL Capital Ltd pursuant to Section 13(a), 13(c), 14 or 15(d) of the Securities and Exchange Act of 1934 on or prior to the date of this Official Statement, or after the date of this Official Statement but prior to termination of the offering of the XLCA Insured Bonds, shall be deemed incorporated by reference in this Official Statement. Except for the financial statements of XLCA and XLFA, no other information contained in XL Capital Ltd.'s reports filed with the Commission are incorporated by reference. Copies of the statutory quarterly and annual statements filed with the State of New York Insurance Department by XLCA are available upon request to the State of New York Insurance Department.

*Regulation of XLCA.* XLCA is regulated by the Superintendent of Insurance of the State of New York. In addition, XLCA is subject to regulation by the insurance laws and regulations of the other jurisdictions in which it is licensed. As a financial guaranty insurance company licensed in the State of New York, XLCA is subject to Article 69 of the New York Insurance Law, which, among other things, limits the business of each insurer to financial guaranty insurance and related lines, prescribes minimum standards of solvency, including minimum capital requirements, establishes

contingency, loss and unearned premium reserve requirements, requires the maintenance of minimum surplus to policyholders and limits the aggregate amount of insurance which may be written and the maximum size of any single risk exposure which may be assumed. XLCA is also required to file detailed annual financial statements with the New York Insurance Department and similar supervisory agencies in each of the other jurisdictions in which it is licensed.

The extent of state insurance regulation and supervision varies by jurisdiction, but New York and most other jurisdictions have laws and regulations prescribing permitted investments and governing the payment of dividends, transactions with affiliates, mergers, consolidations, acquisitions or sales of assets and incurrence of liabilities for borrowings. The XLCA Insurance Policy, is not covered by the property/casualty insurance security fund specified in Article 76 of the New York insurance law.

The principal executive offices of XLCA are located at 250 Park Avenue, 19th Floor, New York, New York 10177 and its telephone number at this address is (646) 658-5900.

## **PROVISIONS RELATING TO PUBLIC DEBT OF THE COMMONWEALTH**

### **Payment of Public Debt**

The Constitution of Puerto Rico provides that public debt of the Commonwealth will constitute a first lien on available Commonwealth taxes and revenues. Public debt includes general obligation bonds and notes of the Commonwealth and, according to opinions heretofore rendered by the Secretary of Justice of Puerto Rico, also any payments required to be made by the Commonwealth under its guarantees of bonds and notes issued by its public instrumentalities. Any such guaranty payments, including guaranty payments under the Guaranty Act, are equal in their claim on such available Commonwealth revenues to claims for the payment of debt service on general obligation bonds and notes of the Commonwealth.

The Commonwealth has allocated certain motor vehicle fuel taxes, crude oil and derivative products excise taxes and license fees to Puerto Rico Highway and Transportation Authority (the "Highway Authority"). The amounts so allocated, however, are subject to first being applied to payment of the principal of and interest on the Commonwealth public debt, but only if and to the extent that all other available revenues of the Commonwealth are insufficient for that purpose. The Commonwealth has never applied such amounts to the payment of its public debt.

Since fiscal 1989, the Commonwealth has pledged to Puerto Rico Infrastructure Financing Authority certain federal excise taxes imposed on alcoholic beverages and tobacco products produced in Puerto Rico and sold in the United States, which taxes are returned to the Commonwealth. The amounts so pledged, however, are subject to first being applied to payment of the principal of and interest on the Commonwealth public debt, but only if and to the extent that all other available revenues of the Commonwealth are insufficient for that purpose. The Commonwealth has never applied such amounts to the payment of its public debt.

The Constitution of Puerto Rico expressly empowers a holder of bonds and notes evidencing public debt to bring suit against the Secretary of the Treasury to require application of available revenues, including surplus, to the payment of principal of and interest on public debt when due.

### **Payment Record**

The Commonwealth has never defaulted on the payment of principal of or interest on any of its debt.

### **Debt Limitation**

Section 2 of Article VI of the Constitution of Puerto Rico provides that direct obligations of the Commonwealth evidenced by full faith and credit bonds or notes shall not be issued if the amount of the principal of and interest on such bonds and notes and on all such bonds and notes theretofore issued which is payable in any fiscal year, together with any amount paid by the Commonwealth in the preceding fiscal year on account of bonds or notes guaranteed by the

Commonwealth, exceeds 15% of the average annual revenues raised under the provisions of Commonwealth legislation and covered into the Treasury of Puerto Rico (hereinafter “internal revenues”) in the two fiscal years preceding the then current fiscal year. Section 2 of Article VI does not limit the amount of debt that the Commonwealth may guarantee so long as its payments during the preceding fiscal year in respect of any such guaranteed debt do not cause the 15% limitation to be exceeded. Certain revenues, such as federal excise taxes on offshore shipments of cased rum and tobacco products and customs duties, which are collected by the United States Government and returned to the Treasury of Puerto Rico, and motor vehicle fuel taxes and license fees, which are allocated to the Highway Authority, are not included as internal revenues for the purpose of calculating the debt limit, although they may be available for the payment of debt service.

As of the date of this Official Statement, the amount of principal of and interest on outstanding full faith and credit bonds and notes of the Commonwealth payable in any fiscal year, together with amounts paid by the Commonwealth during fiscal 2002 on account of bonds and notes guaranteed by the Commonwealth, equals 9.64% of the Commonwealth’s average annual internal revenues during fiscal years 2001 and 2002. After giving effect to the issuance of certain forward delivery bonds that have been sold but not yet delivered, such percentage would be 9.65%. If certain bonds issued by the Commonwealth that have been refunded were treated as not being outstanding (they will be treated as outstanding because they were refunded with proceeds invested in guaranteed investment contracts and non-eligible defeasance securities), and after giving effect to the issuance of the forward delivery bonds previously described, such percentage would be 7.86%.

## THE AUTHORITY

### General

The Authority, a body corporate and politic constituting an instrumentality of the Commonwealth exercising public and essential governmental functions, was created on June 19, 1958 by the Enabling Act.

Under the Enabling Act, the primary duties of the Authority are to design and construct office buildings, quarters, courts, warehouses, shops, schools, health facilities, social welfare facilities and related facilities for lease to the Commonwealth or any of its departments, agencies, instrumentalities or municipalities.

The executive offices of the Authority are located at Minillas Government Center, North Building, 6<sup>th</sup> Floor, De Diego Avenue, Santurce, Puerto Rico 00940, telephone number (787) 722-0101.

### Powers

The Authority has broad powers under the Enabling Act, including among others: to make contracts and to execute all instruments necessary or convenient for the exercise of any of its powers; to acquire any kind of properties and rights therein in any lawful manner, including, without limitation, acquisition by purchase, either by agreement or through the exercise of the power of eminent domain, lease or bequest, and to possess, lease, use and operate any properties or facilities; to prepare plans, projects and cost estimates for the construction, improvement or repair of any property or facility; to contract with any Commonwealth department, agency or official, or with any private person or entity with regard to the administration of any properties or facilities of the Authority; to borrow money and issue bonds of the Authority for any of its corporate purposes, and to secure payment of its bonds by pledge of all or any of its properties, revenues and income; and to do all acts necessary or convenient to carry out the powers granted to it.

### Management

The Enabling Act provides that the Authority shall be governed by a Governing Board (the “Board”) composed of seven members. The Secretary of Education, the Secretary of Transportation and Public Works and the President of Government Development Bank serve *ex officio* as members of the Board, and the other 4 members are appointed for 5-year terms by the Governor of Puerto Rico with the advice and consent of the Senate. At present there are two vacancies on the Board.



The current members of the Board of the Authority and their occupations and expiration of Board terms are:

Miguel P. Vélez Rodríguez .....	Engineer	July 19, 2007
Roberto Montalvo .....	Attorney	February 24, 2004
César A. Rey Hernández .....	Secretary of Education	Ex-officio
José M. Izquierdo Encarnación .....	Secretary of Transportation and Public Works	Ex-officio
Héctor Méndez-Vázquez .....	President of Government Development Bank for Puerto Rico	Ex-officio

The current Executive Director of the Authority is Lillian Rivera Correa. Ms. Rivera Correa is an architect and a graduate of Cornell University. At the time of her appointment she was Director of Planning, Land Use Plans and Permits of the Municipality of Carolina, Puerto Rico.

## **PROGRAMS AND FACILITIES OF THE AUTHORITY**

The Authority has an approximately \$1.57 billion Five-Year Capital Improvement Program (the “CIP”), which reflects the Authority’s construction priorities for fiscal year 2001 through fiscal year 2005. A portion of the Authority’s \$1.57 billion CIP is expected to be spent after fiscal year 2005 to complete projects begun in the fiscal year 2001 to fiscal year 2005 period. The CIP includes office buildings, school buildings, health facilities, correctional facilities, and other facilities, as described below. A portion of the CIP was financed with Outstanding Bonds. The remainder of the costs of the CIP will be paid for through interim financings, future bond issues and Commonwealth appropriations.

### **Office Buildings Program**

Under its office buildings program, the Authority has completed construction of 230 office buildings (including police stations, courthouses and related parking facilities), amounting to 7,579,845 square feet of rentable space, for the use of and lease to various departments, agencies and instrumentalities of the Commonwealth. As of June 30, 2002, the estimated total cost of construction completed under the office buildings program was \$478 million, which was provided principally by the Authority through the issuance of Public Buildings Authority Revenue Bonds under the 1970 Bond Resolution.

The Authority has under planning and construction 5 office centers, 9 police facilities, 11 fire stations, and improvements to 87 office buildings (including police stations and courthouses), at an estimated total cost of \$143 million.

The currently outstanding Public Buildings Authority Revenue Bonds are secured under the 1970 Bond Resolution by a pledge of the rentals of public buildings and related facilities financed by such bonds. In addition, they are secured by a pledge of the Commonwealth to pay or advance rentals under the Enabling Act and the Commonwealth guaranty of bonds issued by the Authority under the Guaranty Act. The Authority reserves the right to issue additional Public Buildings Authority Revenue Bonds under the 1970 Bond Resolution to provide for the payment of any then outstanding notes issued in connection with or the cost of construction of any facilities included in the office buildings program.

### **School Buildings Program**

Under its school buildings program, the Authority has completed the construction of 396 school buildings, amounting to 13,960,723 square feet of rentable space, all of which has been leased to the Department of Education. As of June 30, 2002, the estimated total cost of construction completed under the school buildings program was \$939 million, which was provided principally by the Authority through the issuance of Public Buildings Authority Public Education and Health Facilities Bonds under the 1978 Bond Resolution.

The Authority has under planning and construction 69 new school buildings and improvements to 84 school buildings amounting to 7,633,113 square feet of rentable space to be leased to the Department of Education. The estimated total cost of construction of such school buildings and improvements is \$1.3 billion.

The currently outstanding Public Buildings Authority Public Education and Health Facilities Bonds are secured under the 1978 Bond Resolution by a pledge of rentals of public education and health facilities financed by such bonds. In addition, they are secured by a pledge of the Commonwealth to pay rentals under the Enabling Act and the Commonwealth guaranty of bonds issued by the Authority under the Guaranty Act. The Authority reserves the right to issue additional Public Buildings Authority Public Education and Health Facilities Bonds under the 1978 Bond Resolution to provide for the payment of any then outstanding notes issued in connection with or the cost of construction of any facilities included in the school buildings program.

### **Health Facilities Program**

Under its health facilities program, the Authority has completed construction of 14 hospitals, 13 diagnostic and treatment centers and 23 family health centers, amounting to 4,202,561 square feet of rentable space, all of which has been leased to the Department of Health. As of June 30, 2002, the estimated total cost of construction completed under the health facilities program was \$539 million (of which approximately \$225 million remain owned by Authority after the facilities' sales mentioned in the next paragraph), which was provided principally by the Authority through the issuance of Public Buildings Authority Public Education and Health Facilities Bonds under the 1978 Bond Resolution.

In 1994, the Authority began a program in conjunction with the Government of Puerto Rico whereby the operation and ownership of certain health facilities, including health facilities financed or refinanced with the proceeds of Public Buildings Authority Public Education and Health Facilities Bonds, were transferred to private entities. The Authority sold 36 of its health facilities for approximately \$109 million, including those financed by the Authority under the 1978 Bond Resolution and 1995 Bond Resolution. The Authority used the sales proceeds and, under certain circumstances, moneys provided by the Commonwealth to retire the Public Buildings Authority Public Education and Health Facilities Bonds and Government Facilities Bonds issued to finance or refinance such facilities. The program was discontinued in January 2001. The current policy of the Authority is not to transfer to private entities the operation and ownership of any health facilities which it still owns.

On December 22, 2000, the Authority entered into a Closing Agreement on Final Determination Covering Specific Matters (the "Closing Agreement") with the Commissioner of the Internal Revenue Service pursuant to which the Authority paid \$378,426.94 to the U.S. Treasury in connection with the sale of certain facilities pursuant to the program which caused certain bonds previously issued by the Authority to meet the private business use test under 141(b)(1) of the Internal Revenue Code of 1986, as amended. Pursuant to the Closing Agreement, the Authority defeased bonds in the aggregate principal amount of \$58,507,261 issued under the 1970, 1978 and 1995 Bond Resolutions in connection with the sale of certain facilities under the program.

The currently outstanding Public Buildings Authority Public Education and Health Facilities Bonds are secured under the 1978 Bond Resolution by a pledge of rentals of public education and health facilities financed by such bonds. In addition, they are secured by a pledge of the Commonwealth to pay rentals under the Enabling Act and the Commonwealth guaranty of bonds issued by the Authority under the Guaranty Act. The Authority reserves the right to issue additional Public Buildings Authority Public Education and Health Facilities Bonds under the 1978 Bond Resolution to provide for the payment of any then outstanding notes issued in connection with or the cost of construction of any facilities included in the health facilities program.

### **Correctional Facilities Program**

In 1994, the Department of Corrections, in cooperation with the Authority, began a program to provide for the construction, operation and maintenance by certain private companies of new Commonwealth correctional facilities to be leased to the Department of Corrections by the Authority. These facilities were constructed as part of the Commonwealth's effort to alleviate overcrowding in its correctional system and achieve compliance with certain federal court mandated minimum inmate living space requirements. See "Other Public Corporations" under *Public Corporations* in the Commonwealth Report. Agreements were executed with 2 private companies covering 3 such facilities with capacity for 2,000 inmates. These 3 facilities have now been completed, with a total cost of constructing of approximately \$132 million. The Department of Corrections terminated such agreements and is operating the facilities itself. An additional government-operated facility was completed with a construction cost of \$7 million.

The Authority has under planning and construction three additional facilities. The estimated total cost of construction of such facilities is approximately \$100 million.

### **Other Facilities**

In addition to the office buildings, school buildings, health facilities and correctional facilities described above, the Authority has constructed 20 school buildings and 4 diagnostic and treatment centers at a cost of approximately \$53 million which were financed by the U.S. Farmers Home Administration (“FmHA”) and by the Authority’s own resources. The amount financed by FmHA has been fully repaid.

The Authority currently has under planning and construction 3 police facilities, 9 fire stations and 2 school libraries, which have an estimated total cost of construction of approximately \$42 million, to be financed through Commonwealth appropriations.

Under the Enabling Act, the Authority is also empowered to construct social welfare facilities. Any such facilities that may be constructed can be financed by bonds of the Authority under the 1995 Bond Resolution. The Authority has not issued any bonds or other obligations pursuant to this power.

The Authority also constructs office buildings, schools and health facilities that are financed by a combination of Federal grants and Commonwealth appropriations. The Authority is also empowered to undertake construction on behalf of and as an agent for other public agencies of the Commonwealth although the Authority has not exercised this power.

## DEBT OF THE AUTHORITY AND DEBT SERVICE REQUIREMENTS

### Debt

The following table sets forth the outstanding principal debt of the Authority:

	As of June 30, 2002	As Adjusted <sup>(2)</sup>
Bonded Debt:		
Bonds outstanding under the 1970 Bond Resolution .....	\$ 129,724,870	\$ 118,416,568
Bonds outstanding under the 1978 Bond Resolution .....	532,203,493	473,534,011
Bonds outstanding under the 1995 Bond Resolution .....	<u>1,438,064,879</u>	<u>1,505,979,879</u>
Total bonded debt .....	<u>\$2,099,993,242<sup>(1)</sup></u>	<u>\$2,097,930,459<sup>(1)</sup></u>

- (1) Calculated by excluding all interest accretion on outstanding capital appreciation bonds and convertible capital appreciation bonds from their respective dates of issuance. Some figures may not add up due to rounding. After the making of the payment of principal on July 1, 2002, the total bonded debt is \$2,035,180,459.
- (2) Reflects the outstanding debt of the Authority after giving effect to the issuance of the Bonds (calculated by excluding all interest accretion on outstanding capital appreciation bonds and convertible capital appreciation bonds from their respective dates of issuance).

The Authority has caused to be deposited to the credit of the respective reserve accounts under the 1970 Bond Resolution and the 1978 Bond Resolution reserve account letters of credit issued by The Bank of Nova Scotia acting through its San Juan Branch (“BNS”) (each, a “BNS Reserve Account Letter of Credit” and, collectively, the “BNS Reserve Account Letters of Credit”) in the respective amounts required by said resolutions to be held to the credit of such reserve accounts. The scheduled expiration dates of the BNS Reserve Account Letters of Credit is July 15, 2005. Among other things, the BNS Reserve Account Letters of Credit authorize drawings thereunder for the payment of any amount required to be paid out of moneys in the reserve account to which such BNS Reserve Account Letter of Credit relates after the withdrawal from the applicable reserve account of all cash and securities therein.

The obligations of the Authority under the reimbursement agreements between BNS and the Authority are not payable from the portion of the rentals received by the Authority in respect of the government facilities financed or refinanced with the proceeds of any Government Facilities Bonds and allocable to such Government Facilities Bonds.

No reserve account is established under the 1995 Bond Resolution.

### Debt Service Requirements

Debt service requirements of the Authority for the Outstanding Bonds (after the refunding of the Refunded Bonds) and the Series F Bonds, Series G Bonds and Series H Bonds as shown in the following table, consist in any fiscal year

of the sum of the amounts required to pay (i) the interest that is payable on January 1 in such fiscal year and July 1 in the following fiscal year, (ii) the principal of serial bonds that is payable on July 1 in the following fiscal year, and (iii) the amortization requirements for term bonds for the following fiscal year.

**Puerto Rico Public Buildings Authority  
Debt Service Requirements**

<b>Fiscal Year Ending June 30</b>	<b>Total Debt Service on Bonds Outstanding under 1970, 1978 and 1995 Bonds Resolutions<sup>(1)</sup></b>	<b>Series F &amp; G Bonds</b>		<b>Series H Bonds</b>		<b>Total Debt Service</b>
		<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>	
2003	\$ 131,822,960		\$ 6,757,182		\$ 2,776,684	\$ 141,356,826
2004	115,886,530		9,848,525		11,359,163	137,094,218
2005	142,016,915	1,145,000	9,848,525		11,359,163	164,369,603
2006	145,194,070	1,175,000	9,814,175		11,359,163	167,542,408
2007	148,475,650	1,215,000	9,778,925		11,359,163	170,828,738
2008	149,024,193	1,260,000	9,730,325		11,359,163	171,373,680
2009	148,574,443	1,310,000	9,679,925		11,359,163	170,923,530
2010	147,232,130	1,350,000	9,638,988	2,945,000	11,359,163	172,525,280
2011	105,759,800	1,395,000	9,595,113	35,931,970	24,089,943	176,771,825
2012	98,141,588	1,465,000	9,525,363	38,610,449	21,451,464	169,193,863
2013	85,868,093	4,650,000	9,452,113	35,560,000	10,456,700	145,986,905
2014	85,869,793	4,725,000	9,215,763	37,425,000	8,589,800	145,825,355
2015	85,868,193	4,805,000	8,975,463	39,395,000	6,624,988	145,668,643
2016	88,874,368	1,795,000	8,730,950	41,465,000	4,556,750	145,422,068
2017	87,868,618	27,690,000	8,636,713	18,890,000	2,276,175	145,361,505
2018	87,716,836	12,465,000	7,182,988	19,930,000	1,237,225	128,532,049
2019	84,569,499	21,120,000	6,528,575	2,565,000	141,075	114,924,149
2020	86,371,749	13,815,000	5,419,775			105,606,524
2021	80,433,936	14,545,000	4,694,488			99,673,424
2022	93,266,293	2,440,000	3,930,875			99,637,168
2023	74,176,886	16,165,000	3,808,875			94,150,761
2024	74,182,886	17,010,000	2,966,613			94,159,499
2025	74,179,630	17,895,000	2,080,313			94,154,943
2026	90,117,068	2,965,000	1,147,888			94,229,955
2027	90,118,030	3,115,000	999,638			94,232,668
2028	86,514,955	3,260,000	851,675			90,626,630
2029	79,303,418	3,415,000	696,825			83,415,243
2030	75,701,505	3,580,000	534,613			79,816,118
2031	72,093,636	3,750,000	364,563			76,208,199
2032	54,069,806	3,925,000	186,438			58,181,244
2033	54,069,938					54,069,938
2034	54,069,400					54,069,400
2035	54,069,713					54,069,713
2036	54,072,188					54,072,188
<b>Total<sup>(2)</sup></b>	<b><u>\$3,185,574,710</u></b>	<b><u>\$193,445,000</u></b>	<b><u>\$180,622,182</u></b>	<b><u>\$272,717,418</u></b>	<b><u>\$161,714,941</u></b>	<b><u>\$3,994,074,252</u></b>

(1) Does not include debt service on the Refunded Bonds and the Forward Refunded Bonds.

(2) Total figures may not add up due to rounding of decimals in the columns above.

## SUMMARY OF CERTAIN PROVISIONS OF THE 1995 BOND RESOLUTION

The following statements are brief summaries of certain provisions of the 1995 Bond Resolution. Such statements do not purport to be complete and reference is made to the 1995 Bond Resolution, copies of which are available for examination at the office of the 1995 Fiscal Agent. For the purposes of this summary, the terms “Bond” or “Bonds” shall refer to the Government Facilities Revenue Bond or Bonds.

### Revenues

The Authority covenants that each Lease Agreement which it enters into for any government facilities financed or refinanced under the 1995 Bond Resolution (“Authority Facilities”) will require the Lessee thereunder to pay rentals which in the aggregate will be sufficient and timely to provide the sums needed from time to time to pay the interest on all Bonds issued by the Authority for the financing or refinancing of the Authority Facilities covered by such Lease Agreement, the principal of all such Bonds which are serial Bonds and the Amortization Requirements and redemption premium for any such Bonds which are term Bonds (“1995 Debt Service Rentals”). (Section 701). All 1995 Debt Service Rentals received from the leasing of Authority Facilities are pledged as hereinafter provided.

### 1995 Sinking Fund

A special fund is created by the 1995 Bond Resolution and designated “Puerto Rico Public Buildings Authority Government Facilities Revenue Bonds Sinking Fund” (the “1995 Sinking Fund”). Two separate accounts are created in the 1995 Sinking Fund, namely, the “1995 Bond Service Account” and the “1995 Redemption Account.” (Section 502).

The Authority covenants that all 1995 Debt Service Rentals will be collected by the Authority and immediately deposited with the 1995 Fiscal Agent to the credit of the following accounts in the following order:

- (1) To the 1995 Bond Service Account, such amount thereof as may be required to make the amount then to the credit of the 1995 Bond Service Account equal to the amount of interest then due and payable and the interest which will accrue up to the next interest payment date on all Bonds of each series then outstanding and the principal of all serial Bonds, if any, which will become due and payable within the next ensuing twelve months;
- (2) To the 1995 Redemption Account, such amount of the balance remaining after making the deposit under paragraph (1) above as may be required to make the amounts so deposited in the then current fiscal year equal to the Amortization Requirement, if any, for such fiscal year for the term Bonds of each series then outstanding, plus the premium, if any, which would be payable on a like principal amount of Bonds if such principal amount of Bonds should be redeemed on the next redemption date from moneys in the 1995 Sinking Fund; and
- (3) The balance, if any, shall be deposited to the credit of the 1995 Bond Service Account. (Section 502).

The requirements specified in paragraphs (1) and (2) above shall be cumulative. (Section 502).

### 1995 Redemption Account

Moneys in the 1995 Redemption Account shall be applied to the retirement of Bonds as follows:

- (a) Subject to the provisions of paragraph (c) below, the 1995 Fiscal Agent shall endeavor to purchase outstanding Bonds, whether or not such Bonds shall then be subject to redemption, at the most advantageous price obtainable with reasonable diligence, having regard to interest rate and price, such price not to exceed the principal of such Bonds plus the amount of the premium, if any, which would be payable on the next redemption date to the holders of such Bonds if such Bonds should be called for redemption on such date from moneys in the 1995 Sinking Fund. The 1995 Fiscal Agent shall pay the interest accrued on such Bonds to the date of delivery thereof from the 1995 Bond Service Account and the purchase price from the 1995 Redemption Account, but no such purchase shall

be contracted for within 45 days next preceding any interest payment date on which such Bonds are subject to call for redemption.

(b) Subject to the provisions of paragraph (c) below, the 1995 Fiscal Agent shall call for redemption on each date on which Bonds are subject to redemption from moneys which are in the 1995 Sinking Fund on the 45<sup>th</sup> day prior to such redemption date such amount of Bonds then subject to redemption as, with the redemption premium, if any, will exhaust the 1995 Redemption Account as nearly as may be; provided, however, that not less than \$50,000 principal amount of Bonds shall be called for redemption at any one time. Not less than 30 days before the redemption date the 1995 Fiscal Agent shall withdraw from the 1995 Bond Service Account and from the 1995 Redemption Account and set aside in separate accounts the respective amounts required for paying the interest on, and the principal of and redemption premium on, the Bonds so called for redemption.

(c) Moneys in the 1995 Redemption Account shall be applied by the 1995 Fiscal Agent in each fiscal year to the purchase or redemption of Bonds of each series then outstanding in the following order:

*first*, term Bonds of each series to the extent of the Amortization Requirement, if any, for such fiscal year for such term Bonds of each such series then outstanding plus the applicable premium, if any; and if the amount available in such fiscal year shall not be equal thereto, then, in proportion to the Amortization Requirement, if any, for such fiscal year for the term bonds of each series then outstanding, plus the applicable premium, if any;

*second*, any balance then remaining shall be applied to the purchase of any Bonds whether or not such Bonds shall be subject to redemption in accordance with paragraph (a) above;

*third*, any balance then remaining shall be applied to the redemption of term Bonds of each series in proportion to the Amortization Requirement, if any, for such fiscal year for the term Bonds of each such series then outstanding plus the applicable premium, if any; and

*fourth*, after the retirement of all term Bonds, any balance still remaining shall be applied to the retirement of the serial Bonds of each series in proportion to the aggregate principal amount of the serial Bonds of such series originally issued under the provisions of the 1995 Bond Resolution. (Section 504).

The term "Principal and Interest Requirements" for any fiscal year, as applied to the Bonds of any series under the 1995 Bond Resolution, shall mean the sum of:

(a) the amount required to pay the interest on all outstanding Bonds of such series which is payable after July 31 of such fiscal year and on or before July 31 in the following fiscal year;

(b) the amount required to pay the principal of all outstanding serial Bonds of such series which is payable after July 31 of such fiscal year and on or before July 31 in the following fiscal year; and

(c) the Amortization Requirement for the term Bonds of such Series for such fiscal year.

The following rules shall apply in determining the amount of the Principal and Interest Requirements for any period:

(i) in the case of Capital Appreciation Bonds, the Accreted Value becoming due at maturity or by virtue of an Amortization Requirement shall be included when due and payable as part of the principal or Amortization Requirements in accordance with the above provisions;

(ii) in the case of Capital Appreciation and Income Bonds, the Appreciated Value becoming due at maturity or by virtue of an Amortization Requirement shall be included when due and payable as part of principal or Amortization Requirements in accordance with the above provisions;

(iii) the interest rate on Bonds issued with a variable, adjustable, convertible or similar rate of interest shall be the average rate of interest per annum on such Bonds for the preceding twelve months or such shorter period that such

Bonds shall have been outstanding, or if such Bonds had not been outstanding prior to the date of calculation, the rate of interest on such Bonds on the date of calculation;

(iv) in the case of Bonds which by their terms may be tendered by and at the option of the holder thereof for payment prior to maturity, the tender date or dates shall be ignored if the tender price for such Bonds is payable from a letter of credit or insurance policy or similar credit or liquidity facility and the stated dates for Amortization Requirements and principal payments shall be used; provided, however, that if on the date of calculation the issuer of the letter of credit or insurance policy or similar credit or liquidity facility has advanced funds thereunder and such amount has not been repaid, Principal and Interest Requirements shall include the repayment obligations thereof in accordance with the principal repayment schedule and interest rate or rates specified in (or specified in the agreement authorizing the issuance of) the letter of credit or insurance policy or similar credit or liquidity facility;

(v) in the case of Bonds the maturity of which may be extended by and at the option of the holder thereof or the Authority, the Bonds shall be deemed to mature on the later of the stated maturity date and the date to which such stated maturity date has been extended; and

(vi) in the case of Bonds (A) which are expected to be repaid from the proceeds of Bonds or other indebtedness or (B) on which interest is payable periodically and for which 25% or more of the principal amount matures during any one year and for which no Amortization Requirements have been established, the debt service requirements on the Bonds may be excluded and in lieu thereof the Bonds shall be treated, for purposes of the computation of Principal and Interest Requirements, as debt securities having a comparable federal tax status to that of such Bonds, maturing in substantially equal annual payments of principal and interest over a period of not more than thirty years from the date of issuance thereof, bearing interest at a fixed rate per annum equal to the average interest rate per annum for such debt securities on the date of issuance of the Bonds and issued by issuers having a credit rating, issued by Moody's Investors Service, Inc. or any successors thereto or Standard & Poor's Ratings Services or any successors thereto, comparable to that of the Authority, as shown by a certificate of an underwriting or investment banking firm experienced in marketing such securities. (Section 101).

Notwithstanding the foregoing, if the Authority has notified the 1995 Fiscal Agent that an interest rate swap agreement is in effect in respect of any Bonds, then for all purposes of the above paragraphs, except for the purpose of determining the required deposits to the 1995 Sinking Fund pursuant to Section 502 of the 1995 Bond Resolution, the interest rate on such Bonds shall be the interest rate calculated with reference to such interest rate swap agreement; and if such rate calculated with reference to such interest rate swap agreement is a variable rate, the interest rate on such Bonds (except for the purpose specified above in this sentence) shall be the average interest rate calculated with reference to such interest rate swap agreement for the preceding twelve months or such shorter period that the interest rate swap agreement has been in effect, or if such interest rate swap agreement had not been in effect prior to the date of calculation, the interest rate calculated with reference to such interest rate swap agreement on the date of calculation. (Section 101).

### **1995 Construction Fund**

The balance of proceeds of Bonds issued under Section 208 of the 1995 Bond Resolution available for payment of construction costs is required to be deposited to the credit of the Construction Fund under the 1995 Bond Resolution (the "1995 Construction Fund") and applied to the payment of the cost of the Initial Facilities, Additional Facilities, Improvements and uncompleted Facilities for which such Bonds were issued. (Section 208).

Payments from the 1995 Construction Fund shall be disbursed by check signed by the Treasurer of the Authority or by any officer or employee of the Authority designated by resolution of the Authority. (Section 402). Any balance remaining in the 1995 Construction Fund from time to time after the completion of the Authority Facilities and Improvements theretofore financed by the Authority may, at the option of the Authority, be deposited to the credit of the 1995 Redemption Account or the 1995 Bond Service Account. (Section 404).



## **Additional Bonds**

Additional Bonds may be issued from time to time to provide funds to pay all or any part of any remaining costs of the Initial Facilities or to pay all or any part of the cost of any Additional Facilities or Improvements to Authority Facilities financed under the 1995 Bond Resolution or of any uncompleted part of the Initial Facilities or Additional Facilities or Improvements, and to pay any notes or other obligations of the Authority theretofore issued, or to repay any advances made from any source, to finance such costs; provided that no such Bonds shall be issued unless under the then existing law such Bonds may be specified by the Authority to be covered by the guaranty of the Commonwealth of Puerto Rico under the Guaranty Act and the Authority so specifies such Bonds by resolution. Before any such Additional Bonds may be issued there must be filed with the 1995 Fiscal Agent, among other things, a certificate signed by the Executive Director of the Authority stating that on the basis of all Lease Agreements or amendments or supplements thereto, as executed and delivered or as expected to be executed and delivered, the 1995 Debt Service Rentals, as calculated by the Authority, will be sufficient and timely to pay the principal of, and the redemption premium, if any, and interest on, such Bonds and all Bonds then outstanding. (Section 208).

Refunding bonds, including crossover refunding bonds, may be issued by the Authority at any time or times for the purpose of providing funds for refunding at or prior to their maturity or maturities all or any part of (i) the outstanding Bonds of any series, or (ii) the outstanding debt of the Authority incurred to finance Authority Facilities as defined in the 1970 Bond Resolution or in the 1978 Bond Resolution, in either case including the payment of any redemption premium thereon and interest which will accrue on such Bonds to the redemption date or maturity date or dates occurring prior thereto; provided that no such refunding bonds shall be issued unless under the then existing law such bonds may be specified by the Authority to be covered (as of the crossover date with respect to crossover refunding bonds) by the guaranty of the Commonwealth under the Guaranty Act and the Authority so specifies such refunding bonds by resolution. (Section 209).

## **Investment of Funds**

The 1995 Bond Resolution provides for the following types of investments:

(a) Government Obligations which are (i) direct obligations of, or obligations the principal of and interest on which are unconditionally guaranteed by, the United States Government, (ii) obligations (including participation certificates) issued or guaranteed by an agency of the United States of America or person controlled or supervised by and acting as an instrumentality of the United States of America pursuant to authority granted by the Congress, including but not limited to those of the Federal Home Loan Mortgage Corporation, Federal Home Loan Banks, the Farm Credit System, Federal National Mortgage Association and the Student Loan Marketing Association, (iii) municipal obligations, the payment of the principal of, interest and redemption premium, if any, on which are irrevocably secured by obligations described in clause (i) or (ii) above or (iv) below and which obligations are not subject to redemption prior to the date on which the principal of the obligations are to be used and have been deposited in an escrow account which is irrevocably pledged to the payment of the principal of and interest and redemption premium, if any, on such municipal obligations and which municipal obligations are rated in the highest category (without regard to any gradation within such category) by both Moody's Investors Service or any successors thereto and Standard & Poor's Ratings Services or any successors thereto, and (iv) evidences of ownership of proportionate interests in future interest or principal payments on obligations specified in clauses (i), (ii) and (iii) above held by a national banking association or bank (including the 1995 Fiscal Agent) or trust company as custodian, under which the owner of said interests is the real party in interest and has the right to proceed directly and individually against the obligor on the underlying obligations described above, and which underlying obligations are not available to satisfy any claim of the custodian or any person claiming through the custodian or to whom the custodian may be obligated.

(b) Investment Obligations which are (i) Government Obligations, (ii) obligations of any state or territory of the United States of America which are rated, on the date of investment therein, in one of the three highest rating categories (without regard to any gradation within such categories) by both Moody's Investors Service or any successors thereto and Standard & Poor's Ratings Services or any successors thereto, (iii) bankers' acceptances, certificates of deposit or time deposits of any bank or national banking association (including the 1995 Fiscal Agent),

any trust company or any savings and loan association (including any investment in pools of such bankers' acceptances, certificates of deposit or time deposits), which to the extent that such obligations are not insured by the Federal Deposit Insurance Corporation, are either (A) issued by a bank, national banking association, trust company or savings and loan association having a combined capital and surplus aggregating at least \$50,000,000 or (B) collateralized at all times by such securities as are described in clause (i) or (ii) above, having a market value at least equal to the principal amount of such bankers' acceptances, certificates of deposit or time deposits (or portion thereof not so insured); provided that the 1995 Fiscal Agent has a perfected first security interest in the collateral and that such collateral is held free and clear of claims by third parties, (iv) any repurchase, reverse repurchase or investment agreement with any bank or trust company organized under the laws of any state of the United States or the Commonwealth of Puerto Rico or any national banking association (including the 1995 Fiscal Agent), insurance company, or government bond dealer reporting to, trading with, and recognized as a primary dealer by the Federal Reserve Bank of New York and a member of the Security Investors Protection Corporation, which agreement is secured by any one or more of the securities described in clause (i) or (ii) above, in which securities the 1995 Fiscal Agent has a perfected first security interest and such securities are held free and clear of claims by third parties, or if not so secured, meets the rating requirements set forth in clause (vii) below, (v) participating shares in a mutual fund or investment pool for local government investment; provided that the investments of such mutual fund or investment pool are rated in one of the three highest rating categories (without regard to any gradations within such categories) by both Moody's Investors Service or any successors thereto, and Standard & Poor's Ratings Services or any successors thereto, (vi) (1) shares of stock in a corporation rated in the highest rating category by Moody's Investors Service or any successors thereto and Standard & Poor's Ratings Services or any successors thereto (without regard to gradations within such category) and (a) is a regulated investment company within the meaning of Section 851(a) of the Internal Revenue Code of 1986, as amended, and meets the requirements of Section 852(a) of said Code for the calendar year; (b) invests all of its assets in Government Obligations or in Investment Obligations described in clause (ii) above; and (c) has at least 98% of (I) its gross income derived from interest on, or gain from the sale of or other disposition of, such obligations or (II) the weighted average of its assets is represented by investments in such obligations or (2) money market accounts of the 1995 Fiscal Agent or any state or federally chartered bank, banking association, trust company or subsidiary trust company that is rated or whose parent state bank is rated in the highest short-term rating category or in one of the two highest long-term rating categories by Moody's Investors Service or any successors thereto and Standard & Poor's Ratings Services or any successors thereto (without regard to gradations within such category), and (vii) any other investment obligations which are rated, which are issued by issuers which are rated, or which are backed by letters of credit or lines of credit the provider of which is rated, on the date of investment therein, in one of the three highest rating categories (without regard to any gradation within such categories) by both Moody's Investors Service or any successors thereto and Standard & Poor's Ratings Services or any successors thereto or which are collateralized by such Investment Obligations. (Section 101).

Moneys held in the 1995 Construction Fund, the 1995 Bond Service Account and the 1995 Redemption Account shall, as nearly as practicable, be invested and reinvested in Investment Obligations, which mature, or are subject to redemption by the holder thereof at the option of such holder not later than the dates when the moneys held for the credit thereof will be required for the purposes intended. (Section 602).

### **General Covenants**

The Authority covenants that it will not agree to any amendment, modification or termination of any Lease Agreements of any Authority Facilities (or exercise any right it may have to rescind the lease of any lessee of space in any Authority Facilities) which would reduce the amounts of rental payments below the amounts required by Section 701 of the 1995 Bond Resolution or postpone the times of making such rental payments or which would otherwise materially and adversely affect the security of the bondholders (Section 702), that it will not create or suffer to be created any lien or charge upon the Authority Facilities or any part thereof or upon the 1995 Debt Service Rentals therefrom, other than the liens and charges created or permitted under the 1995 Bond Resolution (Section 705), and that each Lease Agreement will provide that the obligation of the Lessee to pay timely the required rentals thereunder shall be absolute and unconditional. (Section 709).

The Authority covenants that it will not dispose of or encumber any Authority Facilities, unless (a) the Authority determines that notwithstanding such disposition or encumbrance, total rentals under each Lease Agreement will be sufficient to provide the sums required under Section 701 of the 1995 Bond Resolution, and (b) the Authority will receive as the price for any such disposition (but not an encumbrance), together with any other available moneys, the total amount of the 1995 Debt Service Rentals which would otherwise have been payable by the lessees of such Authority Facilities during the remaining term of the related Lease Agreements plus such additional amounts as will be necessary to pay the fees and expenses of the 1995 Fiscal Agent and all other expenses in connection with the application of the proceeds of such sale to the payment of the principal of and interest on outstanding Bonds issued by the Authority under the 1995 Bond Resolution including any redemption premiums. The proceeds of any such disposition (other than an encumbrance) shall be promptly deposited in the 1995 Redemption Account.

The Authority may also from time to time dispose of or encumber any fixtures or movable property in connection with the Authority Facilities or any materials used in connection therewith, if the Authority determines that such articles are no longer needed or useful in connection with the construction or operation or maintenance of the Authority Facilities and the proceeds thereof (other than an encumbrance) shall be applied to the replacement of the property so disposed of or at the option of the Authority shall be deposited to the credit of the 1995 Redemption Account. (Section 708).

Each Lease Agreement is required to provide that it may not be assigned or otherwise transferred in whole or in part by either party (unless the conditions set forth under the 1995 Bond Resolution for a termination of such Lease Agreement have been met), and will provide that all or any part of the Authority Facilities covered by such Agreement may be subleased as a whole or in part by the lessee if, among other things the following conditions have been met: (a) the sublessee under the sublease shall be a department, agency or instrumentality of the Commonwealth unless the Authority shall have obtained an opinion of nationally recognized bond counsel that such sublease will not cause interest on any Bonds to be includable in gross income of the owners thereof for federal income tax purposes (other than Bonds for which such interest is intended not to be excludable in gross income for such purposes); (b) such lessee shall acknowledge in writing that it shall continue to remain liable for the payment of all rentals under such Lease Agreement; and (c) there shall have been delivered to the Authority and such lessee (i) if the sublessee is a department of the Commonwealth, a certificate, signed by the Secretary or an Assistant Secretary of such department, stating that, on the basis of budgeted appropriations for the fiscal year in which the sublease is to become effective, the sublessee will have available funds sufficient to pay timely all rentals which will be due and payable during such fiscal year, or (ii) if the sublessee is an agency or instrumentality of the Commonwealth, a certificate, signed by the chief executive officer of the sublessee, stating that on the basis of budgeted appropriations and/or estimated revenues for the sublessee for the fiscal year in which the sublease is to become effective, the sublessee will have available funds sufficient to pay timely all rentals which will be due and payable during such fiscal year. (Section 710).

The Authority covenants that it will cause audits to be made of its books and accounts by an independent firm of certified public accountants chosen by the Authority. Reports of such audits shall, among other things, set forth the findings of such certified public accountants as to whether the moneys received by the Authority under the 1995 Bond Resolution have been applied in accordance with the provisions thereof. Copies of such reports shall be filed with the 1995 Fiscal Agent and shall be mailed by the Authority to each bondholder who shall have filed his name and address with the Secretary of the Authority for such purpose. (Section 712).

### **Modifications**

The Authority may adopt resolutions supplemental to the 1995 Bond Resolution without the consent of the bondholders to cure any ambiguity, formal defect or omission or to correct any inconsistent provisions or errors in the 1995 Bond Resolution; provided such action shall not adversely affect the interests of the bondholders, or to grant or confer upon the bondholders any additional rights, remedies, powers, authority or security that may lawfully be granted to or conferred upon the bondholders, or to add to the conditions, limitations and restrictions on the issuance of Bonds, or to add to the covenants and agreements of the Authority in the 1995 Bond Resolution or to surrender any right or power reserved to or conferred upon the Authority. (Section 901).

The holders of not less than a majority in aggregate principal amount of the Bonds then outstanding shall have the right to consent to and approve the adoption of such resolution or resolutions supplemental to the 1995 Bond Resolution

as shall be deemed necessary or desirable by the Authority for the purpose of modifying, altering, amending, adding to or rescinding any of the terms and provisions contained in the 1995 Bond Resolution; provided, however, that nothing contained in the 1995 Bond Resolution shall permit, or be construed as permitting, (a) an extension of the maturity of the principal of or the interest on any Bond or (b) a reduction in the principal amount of any Bond or the redemption premium or the rate of interest thereon, or (c) the creation of a lien upon or a pledge of 1995 Debt Service Rentals other than the liens and pledges created by or pursuant to the 1995 Bond Resolution, or (d) a preference or priority of any Bond or Bonds over any other Bond or Bonds, or (e) a reduction in the aggregate principal amount of the Bonds required for consent to such supplemental resolution. (Section 902). No supplemental resolution may, however, change, amend or modify the rights or obligations of the 1995 Fiscal Agent under the 1995 Bond Resolution without the written consent of the 1995 Fiscal Agent. (Section 904).

### **Notice of Default**

In the event that on the second business day prior to the date on which a payment of interest, principal, or premium, if any, is due on any Bond there is not an amount sufficient in such account or fund as the 1995 Fiscal Agent may draw upon for the payment on such due date of such interest, principal, or premium, or the Authority shall default in the due and punctual making of any 1995 Sinking Fund deposit required by Section 502 of the 1995 Bond Resolution, the 1995 Fiscal Agent shall promptly give written notice of such insufficiency or default, as the case may be, to the Authority, the Secretary of the Treasury of the Commonwealth and Government Development Bank. In the event that the Authority shall default in the due and punctual performance of any other covenants or agreements in the Bonds or the 1995 Bond Resolution and the 1995 Fiscal Agent shall have knowledge of, or is notified of, such default, and the Authority shall fail to correct such default within 30 days after notice thereof to the Authority by the 1995 Fiscal Agent, the 1995 Fiscal Agent shall promptly give notice of such default to the Secretary of the Treasury of the Commonwealth and Government Development Bank. (Section 804).

The 1995 Bond Resolution and the Bonds do not provide for acceleration of the maturities of the Bonds in the event of a default thereunder or in any other circumstances and do not provide that the bondholders may require the 1995 Fiscal Agent to take any action on their behalf.

## **TAX MATTERS**

### **Series F and G Bonds**

In the opinion of Squire, Sanders & Dempsey L.L.P., Bond Counsel, under existing law (i) interest on the Series F Bonds and the Series G Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, and (ii) the Series F Bonds and the Series G Bonds and the interest thereon are exempt from state, Commonwealth of Puerto Rico and local income taxation. Bond Counsel will express no opinion as to any other tax consequences regarding the Series F Bonds and the Series G Bonds.

The opinion on federal tax matters will be based on and will assume the accuracy of certain representations and certifications, and continuing compliance with certain covenants, of the Authority to be contained in the transcript of proceedings and that are intended to evidence and assure the foregoing, including that the Series F Bonds and the Series G Bonds are and will remain obligations the interest on which is excluded from gross income for federal income tax purposes. Bond Counsel will not independently verify the accuracy of those certifications and representations.

The Code prescribes a number of qualifications and conditions for the interest on state and local government obligations to be and to remain excluded from gross income for federal income tax purposes, some of which require future or continued compliance after issuance of the obligations in order for the interest to be and to continue to be so excluded from the date of issuance. Noncompliance with these requirements by the Authority may cause the interest on the Series F Bonds and the Series G Bonds to be included in gross income for federal income tax purposes and thus to be subject to federal income tax retroactively to the date of issuance of the Series F Bonds and the Series G Bonds. The Authority has covenanted, to the extent permitted by the Constitution and the laws of the Commonwealth, to take the

actions required of it for the interest on the Series F Bonds and the Series G Bonds to be and to remain excluded from gross income for federal income tax purposes, and not to take any actions that would adversely affect that exclusion. Bond Counsel is not aware of any provision of the Constitution or laws of the Commonwealth that would prevent the Commonwealth from complying with the requirements of the Code.

Under Code provisions applicable only to certain corporations, a portion of the excess of adjusted current earnings (which includes interest on all tax-exempt obligations, including the Series F Bonds and the Series G Bonds) over other alternative minimum taxable income may be subject to the corporate alternative minimum tax. In addition, interest on the Series F Bonds and the Series G Bonds may be subject to a branch profits tax imposed on certain foreign corporations doing business in the United States and to a tax imposed on excess net passive income of certain S corporations.

Under the Code, the exclusion of interest from gross income for federal income tax purposes may have certain adverse federal income tax consequences on items of income, deduction or credit for certain taxpayers, including financial institutions, certain insurance companies, recipients of Social Security and Railroad Retirement benefits, those that are deemed to incur or continue indebtedness to acquire or carry tax-exempt obligations, and individuals otherwise eligible for the earned income tax credit. The applicability and extent of these or other tax consequences will depend upon the particular tax status or other tax items of the owner of the Series F Bonds and the Series G Bonds. Bond Counsel will express no opinion regarding those consequences.

Ownership of tax-exempt obligations, including the Series F Bonds and the Series G Bonds, may also result in collateral income tax consequences under Puerto Rico law to financial institutions doing business in Puerto Rico.

Purchasers of the Series F Bonds and the Series G Bonds at other than their original issuance at the respective prices indicated on the inside cover page of this Official Statement should consult their own tax advisers regarding other tax considerations such as the consequences of market discount.

### **Original Issue Discount and Original Issue Premium**

Certain of the Series G Bonds (“Discount Bonds”) as indicated on the inside cover page of this Official Statement may be offered and sold to the public at an original issue discount (“OID”). OID is the excess of the stated redemption price at maturity (the principal amount) over the “issue price” of a Discount Bond. The issue price of a Discount Bond is the initial offering price to the public (other than to bond houses, brokers or similar persons acting in the capacity of underwriters or wholesalers) at which a substantial amount of the Discount Bonds of the same maturity is sold pursuant to that offering. For federal income tax purposes, OID accrues to the owner of a Discount Bond over the period to maturity based on the constant yield method, compounded semiannually (or over a shorter permitted compounding interval selected by the owner). The portion of OID that accrues during the period of ownership of a Discount Bond purchased in the initial offering at the price for such Discount Bond stated on the inside cover page of this Official Statement (i) is interest excludable from the owner’s gross income for federal income tax purposes to the same extent, and subject to the same considerations discussed above, as other interest on the Series G Bonds, and (ii) is added to the owner’s tax basis for purposes of determining gain or loss on the maturity, redemption, prior sale or other disposition of that Discount Bond. The amount of OID that accrues each year to a corporate owner of Discount Bonds is taken into account in computing the corporation’s liability for federal alternative minimum tax. A purchaser of a Discount Bond at its issue price in the initial public offering who holds that Discount Bond to maturity will realize no gain or loss upon the retirement of that Discount Bond.

Certain of the Series F Bonds and the Series G Bonds (“Premium Bonds”) as indicated on the inside cover page of this Official Statement may be offered and sold to the public at a price in excess of their stated redemption price (the principal amount) at maturity. That excess constitutes bond premium. For federal income tax purposes, bond premium is amortized over the period to maturity of a Premium Bond, based on the yield to maturity of that Premium Bond (or, in the case of a Premium Bond callable prior to its stated maturity, the amortization period and yield may be required to be determined on the basis of an earlier call date that results in the lowest yield on that Premium Bond), compounded semiannually. No portion of that bond premium is deductible by the owner of a Premium Bond. For purposes of determining the owner’s gain or loss on the sale, redemption (including redemption at maturity) or other disposition of a Premium Bond, the owner’s tax basis in the Premium Bond is reduced by the amount of bond premium that accrues

during the period of ownership. As a result, an owner may realize taxable gain for federal income tax purposes from the sale or other disposition of a Premium Bond for an amount equal to or less than the amount paid by that owner for that Premium Bond. A purchaser of a Premium Bond at its issue price in the initial offering who holds that Premium Bond to maturity (or, in the case of a callable Premium Bond, to its earlier call date that results in the lowest yield on that Premium Bond) will realize no gain or loss upon the retirement of that Premium Bond.

Owners of Discount and Premium Bonds should consult their own tax advisers as to the determination for federal income tax purposes of the amount of OID or bond premium properly accruable in any period with respect to the Discount or Premium Bonds and as to other federal tax consequences and the treatment of OID and bond premium for purposes of state and local taxes on, or based on, income.

### **Series H Bonds**

Assuming no change in existing law, it is expected that an opinion substantially similar to the opinion described above with respect to the Series F Bonds and the Series G Bonds, and subject to the same limitations as described above with respect to the Series F Bonds and the Series G Bonds, will be issued in connection with the issuance of the Series H Bonds. See “Delayed Delivery of the Series H Bonds” under *Plan of Financing* and Forms of Opinions of Bond Counsel (*Appendix I*).

## **VERIFICATION OF MATHEMATICAL COMPUTATIONS**

The arithmetical accuracy of (a) the mathematical computations of the adequacy of the outstanding maturing amount of and interest on the government obligations and other available moneys to be deposited in escrow to pay the redemption prices of the Refunded Bonds on their respective redemption dates, together with all payments of interest thereon coming due on or prior to such dates (see *Plan of Financing*), and (b) the mathematical computations supporting the conclusion of Bond Counsel that the Bonds are not “arbitrage bonds” under Section 148 of the Code, will be verified by Samuel Kline & Company.

## **UNDERWRITING**

The Underwriters have jointly and severally agreed, subject to certain conditions, to purchase the Series F Bonds and the Series G Bonds from the Authority at an aggregate discount of \$1,263,492.92 from the initial offering prices of such bonds. The Underwriters have jointly and severally agreed, subject to certain conditions, to purchase the Series H Bonds from the Authority at an aggregate discount of \$1,648,503.15 from the initial offering prices of such bonds. The obligation of the Underwriters to purchase the Series F Bonds and the Series G Bonds is subject to certain conditions precedent, and they will be obligated to purchase all the Series F Bonds and the Series G Bonds, if any such bonds are purchased. The obligation of the Underwriters to purchase the Series H Bonds is subject to certain conditions precedent and may be terminated as described above in “Delayed Delivery of the Series H Bonds” under *Plan of Financing*. The Underwriters will be obligated to purchase all the Series H Bonds if any such bonds are purchased. The Underwriters may offer to sell the Bonds to certain dealers and others at prices lower than the initial public offering prices. The offering prices may be changed, from time to time, by the Underwriters.

Lehman Brothers Inc., a managing underwriter, has entered into a written agreement with Santander Securities Corporation, pursuant to which Santander Securities Corporation has agreed to provide investment banking services to Lehman Brothers in connection with Lehman Brothers’ provision of underwriting and investment banking services to the Authority with respect to the Bonds. Pursuant to this agreement, the existence of which has been disclosed to the Authority and Government Development Bank, Santander Securities Corporation will be entitled to receive a portion of Lehman Brothers’ actual net profits, if any, in connection with the underwriting of the Bonds. Other similar agreements with respect to the sharing of underwriting net profits have been entered into and disclosed to the Authority and Government Development Bank by the following Underwriters: Goldman, Sachs & Co. and Firstbank Puerto Rico; ABN Amro Financial Services, Inc. and Prudential Securities Corporation; Banc of America Securities LLC and Oriental Financial Services Corporation; Morgan Stanley & Co. Incorporated and Popular Securities, Inc; Wachovia Bank,

National Association and Doral Securities, Inc.; and Bear, Stearns & Co. Inc. (“Bear Stearns”) and BBVA Capital Markets of Puerto Rico, Inc. (“BBVA”).

## **LEGAL INVESTMENT**

The Bonds will be eligible for deposit by banks in Puerto Rico to secure public funds and will be approved investments for insurance companies to qualify them to do business in Puerto Rico as required by law.

## **LEGAL MATTERS**

The proposed forms of opinions of Squire, Sanders & Dempsey L.L.P., Miami, Florida, Bond Counsel, are set forth in Appendix I. Certain legal matters will be passed upon for the Underwriters by their counsel, McConnell Valdés, San Juan, Puerto Rico.

## **GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO**

As required by Act No. 272 of the Legislature of Puerto Rico, approved May 15, 1945, as amended, Government Development Bank has acted as financial advisor to the Authority in connection with the Bonds offered hereby. As financial advisor, Government Development Bank participated in the selection of the Underwriters of the Bonds. Certain of the Underwriters have been selected by Government Development Bank to serve from time to time as underwriters of its obligations and the obligations of the Commonwealth, its instrumentalities and public corporations.

## **INDEPENDENT ACCOUNTANTS**

The financial statements as of June 30, 2001 of the Authority, appended as Appendix I to the Official Statement of the Authority dated January 11, 2002 related to the issuance by the Authority of its \$185,290,000 Government Facilities Revenue Refunding Bonds, Series C and its \$553,733,794.90 Government Facilities Revenue Bonds, Series D, are incorporated herein by reference. Said financial statements were audited by Vila del Corral & Company, certified independent accountants, as set forth in its report therein. Effective July 1, 2002, Vila del Corral & Company changed its name to RSM ROC & Company.

## **RATINGS**

Moody’s Investors Service, Inc. (“Moody’s”) and Standard & Poor’s Ratings Services, a division of The McGraw-Hill Companies, Inc. (“Standard & Poor’s”), have given the Bonds ratings of Baa1 and A-, respectively. These ratings do not reflect the Ambac Insurance Policy, the Financial Guaranty Insurance Policy, and the XLCA Insurance Policy for the Ambac Insured Bonds, the Financial Guaranty Insured Bonds and the XLCA Insured Bonds, respectively. Moody’s and Standard & Poor’s are expected to give the Insured Bonds ratings of Aaa and AAA. Ratings reflect only the respective views of the rating agencies and an explanation of the significance of each rating may be obtained only from the respective rating agency.

Such rating agencies were provided with materials relating to the Authority, the Commonwealth, the 1995 Bond Resolution, the Bonds and other relevant information. No application has been made to any other rating agency for the purpose of obtaining a rating on the Bonds.

There is no assurance that any ratings obtained will remain in effect for any given period of time or that they will not be revised downward or withdrawn entirely by either or both of such rating agencies if, in the judgment of either or both, circumstances so warrant. Any such downward revision or withdrawal of such ratings, or either of them, may have an adverse effect on the market prices of the Bonds.

## CONTINUING DISCLOSURE

In accordance with the requirements of Rule 15c2-12, as amended (the “Rule”), promulgated by the Securities and Exchange Commission (the “SEC”), the Commonwealth and the Authority have agreed to the following for the benefit of the Beneficial Owners (as defined in the 1995 Bond Resolution and generally the tax owners of the Bonds):

(a) The Commonwealth has agreed to file within 305 days after the end of each fiscal year beginning after its fiscal year ending June 30, 2002, with each NRMSIR and with any Commonwealth state information depository (“SID”), core financial information and operating data for the prior fiscal year, including (i) the Commonwealth’s audited financial statements, prepared in accordance with generally accepted accounting principles in effect from time to time, and (ii) material historical quantitative data (including financial information and operating data) on the Commonwealth (including such data concerning the Authority and any other entity to the extent it has a material impact on the Commonwealth) and revenues, expenditures, financial operations and indebtedness generally found in the Commonwealth Report;

(b) The Authority has agreed to file within 305 days after the end of each fiscal year beginning after its fiscal year ending June 30, 2002, with each NRMSIR and with any Commonwealth SID, the Authority’s audited financial statements for the prior fiscal year prepared in accordance with generally accepted accounting principles in effect from time to time; and

(c) The Authority will agree to file in a timely manner, with each NRMSIR or with the MSRB, and with any Commonwealth SID, notice of failure of the Commonwealth to comply with clause (a) above and of the Authority to comply with clause (b) above and notice of any of the following events with respect to the Bonds, if material:

- (i) principal and interest payment delinquencies;
- (ii) non-payment related defaults;
- (iii) unscheduled draws on debt service reserves reflecting financial difficulties;
- (iv) unscheduled draws on credit enhancements reflecting financial difficulties;
- (v) substitution of credit or liquidity providers, or their failure to perform;
- (vi) adverse opinions or events, affecting the exclusion from gross income for Federal income tax purposes of interest on the Bonds;
- (vii) modifications to rights of security holders;
- (viii) bond calls;
- (ix) defeasances;
- (x) release, substitution, or sale of property securing repayment of the Bonds; and
- (xi) rating changes.

Event (iii) is included pursuant to a letter from the SEC staff to the National Association of Bond Lawyers, dated September 19, 1995. However, event (iii) may not be applicable, since the terms of the Bonds do not provide for “debt service reserves.”

In addition, with respect to the following events:

Events (iv) and (v). The Authority does not undertake to provide any notice with respect to credit enhancement added after the primary offering of the Bonds, unless the Authority applies for or participates in obtaining the enhancement.

Event (vi). For information on the tax status of the Bonds, see *Tax Matters*.

Event (viii). The Authority does not undertake to provide the above-described event notice of a mandatory scheduled redemption, not otherwise contingent upon the occurrence of an event, if the terms, dates and amounts of redemption are set forth in detail in this Official Statement in “Redemption Provisions” under *Description of the Bonds*. In the case of a partial redemption, notice of redemption is given to the Bondholders as required



under the terms of the Bonds, and public notice of the redemption is given pursuant to Securities Exchange Act of 1934 Release No. 34-23856 of the SEC, even if the originally scheduled amounts are reduced by prior optional redemptions or Bond purchases.

The Commonwealth expects to provide the information described in clause (a) above by delivering its first bond official statement that includes its financial statements for the preceding fiscal year or, if no such official statement is issued by the 305-day deadline, by delivering its Comprehensive Annual Financial Report by such deadline.

As of the date of this Official Statement, there is no Commonwealth SID, and the NRMSIRs are: Bloomberg Municipal Repository, 100 Business Park Drive, Skillman, New Jersey 08558; Standard & Poor's J.J. Kenny Repository, 55 Water Street, 45<sup>th</sup> Floor, New York, New York 10041; FT Interactive Data, Attn: NRMSIR, 100 William Street, New York, New York 10038; and DPC Data Inc., One Executive Drive, Fort Lee, New Jersey 07024.

The Authority may from time to time choose to provide notice of the occurrence of certain other events in addition to those listed above if, in the judgment of the Authority, such other events are material with respect to the Bonds, but the Authority does not undertake to provide any such notice of the occurrence of any material event except those events listed above.

The Commonwealth and the Authority acknowledge that their respective undertakings pursuant to the Rule described above are intended to be for the benefit of the Beneficial Owners of the Bonds, and shall be enforceable by any such Beneficial Owners; provided that the right to enforce the provisions of its undertaking shall be limited to a right to obtain specific enforcement of the Authority's or the Commonwealth's obligations hereunder.

No Beneficial Owner may institute any suit, action or proceeding at law or in equity ("Proceeding") for the enforcement of the foregoing covenants in paragraphs (a), (b) or (c) above (the "Covenants") or for any remedy for breach thereof, unless such Beneficial Owner shall have filed with the Authority and the Commonwealth written notice of any request to cure such breach, and the Authority or the Commonwealth, as applicable, shall have refused to comply within a reasonable time. All Proceedings shall be instituted only in a Commonwealth court located in the Municipality of San Juan, for the equal benefit of all Beneficial Owners of the outstanding Bonds benefitted by the Covenants, and no remedy shall be sought or granted other than specific performance of the Covenant at issue. Moreover, Proceedings filed by Beneficial Owners against the Commonwealth may be subject to the sovereign immunity provisions of Section 2 of Act No. 104, approved June 29, 1955, as amended (32 L.P.R.A. § 3077 and § 3077a), which governs the scope of legal actions against the Commonwealth, substantially limits the amount of monetary damages that may be awarded against the Commonwealth and provides certain notice provisions, the failure to comply with which may further limit any recovery.

The Covenants may only be amended if:

(1) the amendment is made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of the Authority or the Commonwealth, or type of business conducted; the Covenants, as amended, would have complied with the requirements of the Rule at the time of award of the Bonds, after taking into account any amendments or change in circumstances; and the amendment does not materially impair the interest of Beneficial Owners, as determined by parties unaffiliated with the Authority or the Obligated Person; or

(2) all or any part of the Rule, as interpreted by the staff of the SEC at the date of the adoption of such Rule, ceases to be in effect for any reason, and the Authority or the Commonwealth, as applicable, elects that the Covenants shall be deemed amended accordingly.

The Authority and the Commonwealth have further agreed that the annual financial information containing any amended operating data or financial information will explain, in narrative form, the reasons for the amendment and the impact of the change in the type of operating data or financial information being provided.

Any assertion of beneficial ownership must be filed, with full documentary support, as part of the written request described above.

These Covenants have been made in order to assist the Underwriters in complying with the Rule.

### MISCELLANEOUS

The foregoing references to and summaries of certain provisions of the 1995 Bond Resolution, the lease agreements with respect to the facilities that are to be financed or refinanced in whole or in part by the Bonds, the various Acts and the Bonds are made subject to all the detailed provisions thereof, to which reference is hereby made for further information, and do not purport to be complete statements of any or all of such provisions. Appended to, and constituting a part of, this Official Statement are the Proposed Forms of Opinions of Squire, Sanders & Dempsey L.L.P., Bond Counsel (Appendix I) and the Capital Appreciation Bonds Accretion Table (Appendix II).

The information set forth in *Provisions Relating to Public Debt of the Commonwealth* and in the Commonwealth Report was supplied by certain officials of the Commonwealth or certain of its agencies or instrumentalities, in their respective official capacities, or was obtained from publications of the Commonwealth or certain of its agencies or instrumentalities, and is included or incorporated by reference in this Official Statement on the authority of such officials or the authority of such publications as public official documents, respectively. The information set forth in this Official Statement, except the information appearing in *Provisions Relating to Public Debt of the Commonwealth, Underwriting and "Book Entry Only System"* under *Description of the Bonds*, was supplied by the Executive Director of the Authority in her official capacity as such Executive Director and is included in this Official Statement on her authority. The information pertaining to DTC was supplied by DTC.

Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact.

This Official Statement will be filed with each NRMSIR and with the MSRB.

### PUERTO RICO PUBLIC BUILDINGS AUTHORITY

By:           /s/          Lillian Rivera Correa            
Lillian Rivera Correa  
Executive Director

**PROPOSED FORMS OF OPINIONS OF BOND COUNSEL**

*Upon delivery of the Series F Bonds, Squire, Sanders & Dempsey L.L.P. is prepared to render its final opinion with respect to the Series F Bonds in substantially the following form:*

October 24, 2002

PUERTO RICO PUBLIC BUILDINGS AUTHORITY  
San Juan, Puerto Rico

Re: \$131,445,000 Puerto Rico Public Buildings Authority Government Facilities Revenue Refunding Bonds, Series F, Guaranteed by the Commonwealth of Puerto Rico

Gentlemen:

We have served as bond counsel in connection with the issuance by the Puerto Rico Public Buildings Authority (the "Authority") of its \$131,445,000 principal amount of Government Facilities Revenue Refunding Bonds, Series F, Guaranteed by the Commonwealth of Puerto Rico (the "Bonds"). The Bonds are dated, mature on July 1 of the years and in such principal amounts and bear interest at the rates, all as set forth in the Resolution referred to hereinbelow. The Bonds are issuable as fully registered Bonds without coupons, in authorized denominations of \$5,000 and integral multiples thereof, in the manner and in accordance with the terms and conditions of the Resolution.

In our capacity as bond counsel, we have examined the transcript of the proceedings (the "Transcript") of the Authority relating to the issuance of the Bonds, including, without limitation, (i) Act No. 56 of the Legislature of Puerto Rico, approved June 19, 1958, as amended (hereinafter the "Enabling Act"), creating the Authority as a body corporate and politic constituting an instrumentality of the Commonwealth of Puerto Rico (the "Commonwealth"), exercising public and essential governmental functions; (ii) Act No. 17 of the Legislature of Puerto Rico, approved April 11, 1968, as amended (hereinafter called the "Guaranty Act"), providing for the guaranty by the Commonwealth of the payment of the principal of and interest on a principal amount of bonds outstanding at any one time of the Authority, not exceeding \$2,100,000,000, specified by the Authority to be covered by such guaranty, to the extent that the revenues and other moneys of the Authority pledged to the payment of such principal and interest are not sufficient for that purpose; (iii) Resolution No. 468, duly adopted by the Authority on June 22, 1995, as supplemented by Resolution No. 899, duly adopted by the Authority on October 10, 2002 (said Resolution No. 468, as supplemented by Resolution No. 899, being hereinafter called the "Resolution"); and (iv) such other documents as we have deemed necessary to render this opinion.

October 24, 2002

We have also examined a copy of one of the Bonds as executed and authenticated. We assume that all other Bonds have been similarly executed and authenticated.

From such examination, we are of the opinion that:

1. The Enabling Act is valid.
2. The Guaranty Act is valid.
3. Said proceedings have been validly and legally taken.
4. The Bonds have been duly authorized and issued to provide funds to refund certain of the Authority's outstanding bonds, to wit: (i) from the Authority's \$189,555,000 aggregate principal amount of Public Education and Health Facilities Bonds, Series H, Guaranteed by the Commonwealth of Puerto Rico, \$15,885,000 principal amount maturing July 1, 2017, (ii) from the Authority's \$224,796,986.90 aggregate principal amount of Government Facilities Revenue Bonds, Series A, Guaranteed by the Commonwealth of Puerto Rico, \$54,805,000 of the \$64,115,000 principal amount maturing July 1, 2021 (said \$54,805,000 being the Amortization Requirements due on July 1 of the years 2017 through 2021, inclusive) and \$43,005,000 principal amount maturing on July 1, 2025 and (iii) from the Authority's \$553,733,794.90 aggregate principal amount of Government Facilities Revenue Bonds, Series D, Guaranteed by the Commonwealth of Puerto Rico, \$3,000,000 principal amount maturing July 1, 2013, \$3,000,000 principal amount maturing July 1, 2014, \$3,000,000 principal amount maturing July 1, 2015, and \$8,000,000 principal amount maturing July 1, 2019. The Bonds are valid and binding obligations of the Authority payable solely from the special fund created by the Resolution and designated "Puerto Rico Public Buildings Authority Government Facilities Revenue Bonds Sinking Fund" (the "Sinking Fund") or from moneys provided by the Commonwealth under its guaranty of payment of the principal of and interest on the Bonds. The Authority has covenanted to deposit to the credit of the Sinking Fund a sufficient amount of the rentals received by the Authority from the leasing of government facilities financed or refinanced by the Authority under the provisions of the Resolution to pay the principal of and the interest on all bonds issued under the provisions of the Resolution (including the Bonds) as the same shall become due and payable, which Sinking Fund is pledged to and charged with the payment of such principal and interest.
5. The Authority has properly specified the Bonds to be covered by the guaranty of the Commonwealth under the Guaranty Act.
6. The good faith and credit of the Commonwealth are pledged for the payment of any amounts required to be paid by the Commonwealth pursuant to said guaranty.
7. The Resolution provides for the issuance, from time to time, under the conditions, limitations and restrictions therein set forth, of additional bonds for the purpose of paying all or part of the cost of government facilities and improvements of such facilities and refunding any bonds issued by the Authority under the provisions of the Resolution or under Resolution No. 77, adopted

October 24, 2002

by the Authority on November 16, 1970, as amended, or under Resolution No. 158, adopted by the Authority on February 14, 1978, as amended.

8. The interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. The Bonds and the interest thereon are exempt from state, Commonwealth of Puerto Rico and local income taxation. We express no opinion as to any other tax consequences regarding the Bonds.

Under the Code, portions of the interest on the Bonds earned by certain corporations may be subject to a corporate alternative minimum tax and interest on the Bonds may be subject to a branch profits tax imposed on certain foreign corporations doing business in the United States and to a tax imposed on excess net passive income of certain S corporations.

In giving the opinion set forth in numbered paragraph 8. hereof, we have relied upon and assumed continuing compliance with the Authority's covenants and the accuracy, which we have not independently verified, of the representations and certifications of the Authority contained in the Transcript. The accuracy of those representations and certifications, and the Authority's continuing compliance with those covenants, may be necessary for the interest on the Bonds to be and to remain excluded from gross income for federal income tax purposes. Failure to comply with certain of those covenants subsequent to issuance of the Bonds may cause interest on the Bonds to be included in gross income for federal income tax purposes retroactively to the date of issuance of the Bonds. The Authority has covenanted to comply with the requirements of the Code to the extent permitted by the Constitution and laws of the Commonwealth. We are not aware of any provisions of the Constitution or laws of the Commonwealth that would prevent the Authority from complying with the requirements of the Code.

In rendering the opinions set forth herein, we have assumed the accuracy and truthfulness of all public records and of all certifications, documents and other proceedings examined by us that have been executed or certified by public officials acting within the scope of their official capacities and have not verified the accuracy or truthfulness thereof. We have also assumed the genuineness of the signatures appearing upon such public records, certifications, documents and proceedings. As to questions of fact material to our opinion, we have relied on representations of the Authority furnished to us, without undertaking to verify such representations by independent investigation.

It is to be understood that the rights of the holders of the Bonds and the enforceability of the Resolution and the Bonds may be subject to judicial discretion and valid bankruptcy, insolvency, reorganization, moratorium and other laws affecting creditors' rights generally, and subject to general principles of equity (regardless of whether considered in a proceeding in equity or at law).

Respectfully submitted,

[To be signed "Squire, Sanders & Dempsey L.L.P."]

*Upon delivery of the Series G Bonds, Squire, Sanders & Dempsey L.L.P. is prepared to render its final opinion with respect to the Series G Bonds in substantially the following form:*

October 24, 2002

PUERTO RICO PUBLIC BUILDINGS AUTHORITY  
San Juan, Puerto Rico

Re: \$62,000,000 Puerto Rico Public Buildings Authority Government Facilities Revenue Bonds, Series G, Guaranteed by the Commonwealth of Puerto Rico

Gentlemen:

We have served as bond counsel in connection with the issuance by the Puerto Rico Public Buildings Authority (the "Authority") of its \$62,000,000 principal amount of Government Facilities Revenue Bonds, Series G, Guaranteed by the Commonwealth of Puerto Rico (the "Bonds"). The Bonds are dated, mature on July 1 of the years and in such principal amounts and bear interest at the rates, all as set forth in the Resolution referred to hereinbelow. The Bonds are issuable as fully registered Bonds without coupons, in authorized denominations of \$5,000 and integral multiples thereof and are subject to redemption prior to maturity, in the manner and in accordance with the terms and conditions of the Resolution.

In our capacity as bond counsel, we have examined the transcript of the proceedings (the "Transcript") of the Authority relating to the issuance of the Bonds, including, without limitation, (i) Act No. 56 of the Legislature of Puerto Rico, approved June 19, 1958, as amended (hereinafter called the "Enabling Act"), creating the Authority as a body corporate and politic constituting an instrumentality of the Commonwealth of Puerto Rico (the "Commonwealth") exercising public and essential governmental functions; (ii) Act No. 17 of the Legislature of Puerto Rico, approved April 11, 1968, as amended (hereinafter called the "Guaranty Act"), providing for the guaranty by the Commonwealth of the payment of the principal of and interest on a principal amount of bonds outstanding at any one time of the Authority, not exceeding \$2,100,000,000, specified by the Authority to be covered by such guaranty, to the extent that the revenues and other moneys of the Authority pledged to the payment of such principal and interest are not sufficient for that purpose; (iii) Resolution No. 468, duly adopted by the Authority on June 22, 1995, as supplemented by Resolution No. 899, duly adopted by the Authority on October 10, 2002 (said Resolution No. 468, as supplemented by Resolution No. 899, being hereinafter called the "Resolution"); and (iv) such other documents as we have deemed necessary to render this opinion.

We have also examined a copy of one of the Bonds as executed and authenticated. We assume that all other Bonds have been similarly executed and authenticated.

October 24, 2002

From such examination we are of the opinion that:

1. The Enabling Act is valid.
2. The Guaranty Act is valid.
3. Said proceedings have been validly and legally taken.
4. The Bonds have been duly authorized and issued to pay a portion of the cost of constructing certain buildings and other facilities to be leased to various departments, agencies and instrumentalities of the Commonwealth and for paying capitalized interest on the Bonds, and the Bonds are valid and binding obligations of the Authority, payable solely from the special fund created by the Resolution and designated "Puerto Rico Public Buildings Authority Government Facilities Revenue Bonds Sinking Fund" (the "Sinking Fund") or from moneys provided by the Commonwealth under its guaranty of payment of the principal of and interest on the Bonds. The Authority has covenanted to deposit to the credit of the Sinking Fund a sufficient amount of the rentals received by the Authority from the leasing of government facilities financed or refinanced by the Authority under the provisions of the Resolution to pay the principal of and the redemption premium, if any, and the interest on all bonds issued under the provisions of the Resolution (including the Bonds) as the same shall become due and payable, which Sinking Fund is pledged to and charged with the payment of such principal, premium, if any, and interest.
5. The Authority has properly specified the Bonds to be covered by the guaranty of the Commonwealth under the Guaranty Act.
6. The good faith and credit of the Commonwealth are pledged for the payment of any amounts required to be paid by the Commonwealth pursuant to said guaranty.
7. The Resolution provides for the issuance, from time to time, under the conditions, limitations and restrictions therein set forth, of additional bonds for the purpose of paying all or a part of the cost of government facilities and improvements of such facilities and refunding any bonds issued by the Authority under the provisions of the Resolution or under Resolution No. 77, adopted by the Authority on November 16, 1970, as amended, or under Resolution No. 158, adopted by the Authority on February 14, 1978, as amended.
8. The interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. The Bonds and the interest thereon are exempt from state, Commonwealth of Puerto Rico and local income taxation. We express no opinion as to any other tax consequences regarding the Bonds.

Under the Code, portions of the interest on the Bonds earned by certain corporations may be subject to a corporate alternative minimum tax and interest on the Bonds may be subject to a branch

October 24, 2002

profits tax imposed on certain foreign corporations doing business in the United States and to a tax imposed on excess net passive income of certain S corporations.

In giving the opinion set forth in numbered paragraph 8. hereof, we have relied upon and assumed continuing compliance with the Authority's covenants and the accuracy, which we have not independently verified, of the representations and certifications of the Authority contained in the Transcript. The accuracy of those representations and certifications, and the Authority's continuing compliance with those covenants, may be necessary for the interest on the Bonds to be and to remain excluded from gross income for federal income tax purposes. Failure to comply with certain of those covenants subsequent to issuance of the Bonds may cause interest on the Bonds to be included in gross income for federal income tax purposes retroactively to the date of issuance of the Bonds. The Authority has covenanted to comply with the requirements of the Code to the extent permitted by the Constitution and laws of the Commonwealth. We are not aware of any provisions of the Constitution or laws of the Commonwealth that would prevent the Authority from complying with the requirements of the Code.

In rendering the opinions set forth herein, we have assumed the accuracy and truthfulness of all public records and of all certifications, documents and other proceedings examined by us that have been executed or certified by public officials acting within the scope of their official capacities and have not verified the accuracy or truthfulness thereof. We have also assumed the genuineness of the signatures appearing upon such public records, certifications, documents and proceedings. As to questions of fact material to our opinion, we have relied on representations of the Authority furnished to us, without undertaking to verify such representations by independent investigation.

It is to be understood that the rights of the holders of the Bonds and the enforceability of the Resolution and the Bonds may be subject to judicial discretion and valid bankruptcy, insolvency, reorganization, moratorium and other laws affecting creditors' rights generally, and subject to general principles of equity (regardless of whether considered in a proceeding in equity or at law).

Respectfully submitted,

[To be signed "Squire, Sanders & Dempsey L.L.P."]



*Assuming among other matters, no Change in Law as described in the Official Statement under "Delayed Delivery of the Series H Bonds" in Plan of Financing, upon delivery of the Series H Bonds, Squire, Sanders & Dempsey L.L.P. is prepared to render its final opinion with respect to the Series H Bonds in substantially the following form:*

April 3, 2003

PUERTO RICO PUBLIC BUILDINGS AUTHORITY  
San Juan, Puerto Rico

Re: \$272,717,418.10 Puerto Rico Public Buildings Authority Government Facilities Revenue Refunding Bonds, Series H (Forward Delivery), Guaranteed by the Commonwealth of Puerto Rico

Gentlemen:

We have served as bond counsel in connection with the issuance by the Puerto Rico Public Buildings Authority (the "Authority") of its \$272,717,418.10 principal amount of Government Facilities Revenue Refunding Bonds, Series H (Forward Delivery), Guaranteed by the Commonwealth of Puerto Rico (the "Bonds"). The Bonds are dated, mature on July 1 of the years and in such principal amounts and bear interest at the rates, all as set forth in the Resolution referred to hereinbelow. The Bonds are issuable as fully registered Bonds without coupons, in authorized denominations of \$5,000 and integral multiples thereof (\$5,000 maturity amount and any multiple thereof with respect to the Bonds being issued as capital appreciation bonds), in the manner and in accordance with the terms and conditions of the Resolution.

In our capacity as bond counsel, we have examined the transcript of the proceedings (the "Transcript") of the Authority relating to the issuance of the Bonds, including, without limitation, (i) Act No. 56 of the Legislature of Puerto Rico, approved June 19, 1958, as amended (hereinafter the "Enabling Act"), creating the Authority as a body corporate and politic constituting an instrumentality of the Commonwealth of Puerto Rico (the "Commonwealth"), exercising public and essential governmental functions; (ii) Act No. 17 of the Legislature of Puerto Rico, approved April 11, 1968, as amended (hereinafter called the "Guaranty Act"), providing for the guaranty by the Commonwealth of the payment of the principal of and interest on a principal amount of bonds outstanding at any one time of the Authority, not exceeding \$2,100,000,000, specified by the Authority to be covered by such guaranty, to the extent that the revenues and other moneys of the Authority pledged to the payment of such principal and interest are not sufficient for that purpose; (iii) Resolution No. 468, duly adopted by the Authority on June 22, 1995, as supplemented by Resolution No. 899, duly adopted by the Authority on October 10, 2002 (said Resolution No. 468, as supplemented by Resolution No. 899, being hereinafter called the "Resolution"); and (iv) such other documents as we have deemed necessary to render this opinion.

April 3, 2003

We have also examined a copy of one of the Bonds as executed and authenticated. We assume that all other Bonds have been similarly executed and authenticated.

From such examination, we are of the opinion that:

1. The Enabling Act is valid.
2. The Guaranty Act is valid.
3. Said proceedings have been validly and legally taken.
4. The Bonds have been duly authorized and issued to provide funds to refund certain of the Authority's outstanding bonds, to wit: (i) from the Authority's \$128,895,000 aggregate principal amount of Revenue Refunding Bonds, Series L, Guaranteed by the Commonwealth of Puerto Rico, \$44,430,000 principal amount maturing July 1, 2016, (ii) from the Authority's \$584,585,000 aggregate principal amount of Public Education and Health Facilities Refunding Bonds, Series M, Guaranteed by the Commonwealth of Puerto Rico, \$152,290,000 principal amount maturing July 1, 2015, \$46,000,000 principal amount maturing July 1, 2016 and \$41,400,000 of the \$82,135,000 principal amount maturing July 1, 2021 (said \$41,400,000 being the Amortization Requirements due on July 1 of the years 2017 and 2018 and \$2,570,000 of the Amortization Requirement due on July 1, 2019). The Bonds are valid and binding obligations of the Authority payable solely from the special fund created by the Resolution and designated "Puerto Rico Public Buildings Authority Government Facilities Revenue Bonds Sinking Fund" (the "Sinking Fund") or from moneys provided by the Commonwealth under its guaranty of payment of the principal of and interest on the Bonds. The Authority has covenanted to deposit to the credit of the Sinking Fund a sufficient amount of the rentals received by the Authority from the leasing of government facilities financed or refinanced by the Authority under the provisions of the Resolution to pay the principal of and the interest on all bonds issued under the provisions of the Resolution (including the Bonds) as the same shall become due and payable, which Sinking Fund is pledged to and charged with the payment of such principal and interest.
5. The Authority has properly specified the Bonds to be covered by the guaranty of the Commonwealth under the Guaranty Act.
6. The good faith and credit of the Commonwealth are pledged for the payment of any amounts required to be paid by the Commonwealth pursuant to said guaranty.
7. The Resolution provides for the issuance, from time to time, under the conditions, limitations and restrictions therein set forth, of additional bonds for the purpose of paying all or part of the cost of government facilities and improvements of such facilities and refunding any bonds issued by the Authority under the provisions of the Resolution or under Resolution No. 77, adopted by the Authority on November 16, 1970, as amended, or under Resolution No. 158, adopted by the Authority on February 14, 1978, as amended.

April 3, 2003

8. The interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. The Bonds and the interest thereon are exempt from state, Commonwealth of Puerto Rico and local income taxation. We express no opinion as to any other tax consequences regarding the Bonds.

Under the Code, portions of the interest on the Bonds earned by certain corporations may be subject to a corporate alternative minimum tax and interest on the Bonds may be subject to a branch profits tax imposed on certain foreign corporations doing business in the United States and to a tax imposed on excess net passive income of certain S corporations.

In giving the opinion set forth in numbered paragraph 8. hereof, we have relied upon and assumed compliance with the Authority's covenants and the accuracy, which we have not independently verified, of the representations and certifications of the Authority contained in the Transcript. The accuracy of those representations and certifications, and the Authority's compliance with those covenants, may be necessary for the interest on the Bonds to be and to remain excluded from gross income for federal income tax purposes. Failure to comply with certain of those covenants subsequent to issuance of the Bonds may cause interest on the Bonds to be included in gross income for federal income tax purposes retroactively to the date of issuance of the Bonds. The Authority has covenanted to comply with the requirements of the Code to the extent permitted by the Constitution and laws of the Commonwealth. We are not aware of any provisions of the Constitution or laws of the Commonwealth of Puerto Rico that would prevent the Authority from complying with the requirements of the Code.

In rendering the opinions set forth herein, we have assumed the accuracy and truthfulness of all public records and of all certifications, documents and other proceedings examined by us that have been executed or certified by public officials acting within the scope of their official capacities and have not verified the accuracy or truthfulness thereof. We have also assumed the genuineness of the signatures appearing upon such public records, certifications, documents and proceedings. As to questions of fact material to our opinion, we have relied on representations of the Authority furnished to us, without undertaking to verify such representations by independent investigation.

It is to be understood that the rights of the holders of the Bonds and the enforceability of the Resolution and the Bonds may be subject to judicial discretion and valid bankruptcy, insolvency, reorganization, moratorium and other laws affecting creditors' rights generally, and subject to general principles of equity (regardless of whether considered in a proceeding in equity or at law).

Respectfully submitted,

[To be signed "Squire, Sanders & Dempsey L.L.P."]

**CAPITAL APPRECIATION BONDS' ACCRETION TABLE**  
**Puerto Rico Public Buildings Authority**  
**Government Facilities Revenue Refunding Bonds, Series H (Forward Delivery)**  
 \$35,931,969.60 Capital Appreciation Bonds due July 1, 2011 - Yield 3.75%  
 \$24,225,448.50 Capital Appreciation Bonds due July 1, 2012 - Yield 3.85%

<u>Date</u>	<u>Capital Appreciation Bonds due July 1, 2011</u>	<u>Capital Appreciation Bonds due July 1, 2012</u>
04/03/2003	\$3,680.80	\$3,514.50
07/01/2003	3,714.35	3,547.45
01/01/2004	3,784.00	3,615.70
07/01/2004	3,854.95	3,685.30
01/01/2005	3,927.25	3,756.25
07/01/2005	4,000.90	3,828.55
01/01/2006	4,075.90	3,902.25
07/01/2006	4,152.30	3,977.40
01/01/2007	4,230.20	4,053.95
07/01/2007	4,309.50	4,132.00
01/01/2008	4,390.30	4,211.55
07/01/2008	4,472.60	4,292.60
01/01/2009	4,556.50	4,375.25
07/01/2009	4,641.90	4,459.45
01/01/2010	4,728.95	4,545.30
07/01/2010	4,817.60	4,632.80
01/01/2011	4,907.95	4,722.00
07/01/2011	5,000.00	4,812.90
01/01/2012		4,905.55
07/01/2012		5,000.00

Obligor:

Policy Number

Obligations:

Premium:

Ambac Assurance Corporation (Ambac), a Wisconsin stock insurance corporation, in consideration of the payment of the premium and subject to the terms of this Policy, hereby agrees to pay to The Bank of New York, as trustee, or its successor (the "Insurance Trustee"), for the benefit of the Holders, that portion of the principal of and interest on the above-described obligations (the "Obligations") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Obligor.

Ambac will make such payments to the Insurance Trustee within one (1) business day following written notification to Ambac of Nonpayment. Upon a Holder's presentation and surrender to the Insurance Trustee of such unpaid Obligations or related coupons, uncanceled and in bearer form and free of any adverse claim, the Insurance Trustee will disburse to the Holder the amount of principal and interest which is then Due for Payment but is unpaid. Upon such disbursement, Ambac shall become the owner of the surrendered Obligations and/or coupons and shall be fully subrogated to all of the Holder's rights to payment thereon.

In cases where the Obligations are issued in registered form, the Insurance Trustee shall disburse principal to a Holder only upon presentation and surrender to the Insurance Trustee of the unpaid Obligation, uncanceled and free of any adverse claim, together with an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee duly executed by the Holder or such Holder's duly authorized representative, so as to permit ownership of such Obligation to be registered in the name of Ambac or its nominee. The Insurance Trustee shall disburse interest to a Holder of a registered Obligation only upon presentation to the Insurance Trustee of proof that the claimant is the person entitled to the payment of interest on the Obligation and delivery to the Insurance Trustee of an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee, duly executed by the Holder or such Holder's duly authorized representative, transferring to Ambac all rights under such Obligation to receive the interest in respect of which the insurance disbursement was made. Ambac shall be subrogated to all of the Holders' rights to payment on registered Obligations to the extent of any insurance disbursements so made.

In the event that a trustee or paying agent for the Obligations has notice that any payment of principal of or interest on an Obligation which has become Due for Payment and which is made to a Holder by or on behalf of the Obligor has been deemed a preferential transfer and theretofore recovered from the Holder pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such Holder will be entitled to payment from Ambac to the extent of such recovery if sufficient funds are not otherwise available.

As used herein, the term "Holder" means any person other than (i) the Obligor or (ii) any person whose obligations constitute the underlying security or source of payment for the Obligations who, at the time of Nonpayment, is the owner of an Obligation or of a coupon relating to an Obligation. As used herein, "Due for Payment", when referring to the principal of Obligations, is when the scheduled maturity date or mandatory redemption date for the application of a required sinking fund installment has been reached and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by application of required sinking fund installments), acceleration or other advancement of maturity; and, when referring to interest on the Obligations, is when the scheduled date for payment of interest has been reached. As used herein, "Nonpayment" means the failure of the Obligor to have provided sufficient funds to the trustee or paying agent for payment in full of all principal of and interest on the Obligations which are Due for Payment.

This Policy is noncancelable. The premium on this Policy is not refundable for any reason, including payment of the Obligations prior to maturity. This Policy does not insure against loss of any prepayment or other acceleration payment which at any time may become due in respect of any Obligation, other than at the sole option of Ambac, nor against any risk other than Nonpayment.

In witness whereof, Ambac has caused this Policy to be affixed with a facsimile of its corporate seal and to be signed by its duly authorized officers in facsimile to become effective as its original seal and signatures and binding upon Ambac by virtue of the countersignature of its duly authorized representative.

President



Secretary

Effective Date:

Authorized Representative

THE BANK OF NEW YORK acknowledges that it has agreed to perform the duties of Insurance Trustee under this Policy.

Form No.: 2B-0012 (1/01)

Authorized Officer of Insurance Trustee

Financial Guaranty Insurance  
Company  
125 Park Avenue  
New York, NY 10017  
(212) 312-3000  
(800) 352-0001

APPENDIX IV



*A GE Capital Company*

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## Municipal Bond New Issue Insurance Policy

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<b>Issuer:</b>	<b>Policy Number:</b>
	<b>Control Number: 0010001</b>
<b>Bonds:</b>	<b>Premium:</b>

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Financial Guaranty Insurance Company (“Financial Guaranty”), a New York stock insurance company, in consideration of the payment of the premium and subject to the terms of this Policy, hereby unconditionally and irrevocably agrees to pay to State Street Bank and Trust Company, N.A., or its successor, as its agent (the “Fiscal Agent”), for the benefit of Bondholders, that portion of the principal and interest on the above-described debt obligations (the “Bonds”) which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

Financial Guaranty will make such payments to the Fiscal Agent on the date such principal or interest becomes Due for Payment or on the Business Day next following the day on which Financial Guaranty shall have received Notice of Nonpayment, whichever is later. The Fiscal Agent will disburse to the Bondholder the face amount of principal and interest which is then Due for Payment but is unpaid by reason of Nonpayment by the Issuer but only upon receipt by the Fiscal Agent, in form reasonably satisfactory to it, of (i) evidence of the Bondholder’s right to receive payment of the principal or interest Due for Payment and (ii) evidence, including any appropriate instruments of assignment, that all of the Bondholder’s rights to payment of such principal or interest Due for Payment shall thereupon vest in Financial Guaranty. Upon such disbursement, Financial Guaranty shall become the owner of the Bond, appurtenant coupon or right to payment of principal or interest on such Bond and shall be fully subrogated to all of the Bondholder’s rights thereunder, including the Bondholder’s right to payment thereof.

This Policy is non-cancellable for any reason. The premium on this Policy is not refundable for any reason, including the payment of the Bonds prior to their maturity. This Policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Bond.

As used herein, the term “Bondholder” means, as to a particular Bond, the person other than the Issuer who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof. “Due for Payment” means, when referring to the principal of a Bond, the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity and means, when referring to interest on a Bond, the stated date for payment of interest. “Nonpayment” in respect of a Bond means the failure of the Issuer to have provided sufficient funds to the paying agent for payment in full of all principal and interest Due for Payment on such Bond. “Notice” means telephonic or telegraphic notice, subsequently confirmed in writing, or written notice by registered or certified mail, from a Bondholder or a paying agent for the Bonds to

FGIC is a registered service mark used by Financial Guaranty Insurance Company under license from its patent company, FGIC Corporation.

Financial Guaranty Insurance  
Company  
125 Park Avenue  
New York, NY 10017  
(212) 312-3000  
(800) 352-0001



*A GE Capital Company*

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Financial Guaranty. "Business Day" means any day other than a Saturday, Sunday or a day on which the Fiscal Agent is authorized by law to remain closed.

In Witness Whereof, Financial Guaranty has caused this Policy to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

**President**

**Effective Date:**

**Authorized Representative**

State Street Bank and Trust Company, N.A., acknowledges that it has agreed to perform the duties of Fiscal Agent under this Policy.

**Authorized Officer**

Financial Guaranty Insurance  
Company  
125 Park Avenue  
New York, NY 10017  
(212) 312-3000  
(800) 352-0001



*A GE Capital Company*

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**Endorsement**  
To Financial Guaranty Insurance Company  
Insurance Policy

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**Policy Number:**

**Control Number:** 0010001

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It is further understood that the term "Nonpayment" in respect of a Bond includes any payment of principal or interest made to a Bondholder by or on behalf of the issuer of such Bond which has been recovered from such Bondholder pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction.

NOTHING HEREIN SHALL BE CONSTRUED TO WAIVE, ALTER, REDUCE OR AMEND COVERAGE IN ANY OTHER SECTION OF THE POLICY. IF FOUND CONTRARY TO THE POLICY LANGUAGE, THE TERMS OF THIS ENDORSEMENT SUPERSEDE THE POLICY LANGUAGE.

In Witness Whereof, Financial Guaranty has caused this Endorsement to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

**President**

**Effective Date:**

**Authorized Representative**

**Acknowledged as of the Effective Date written above:**

**Authorized Officer**  
**State Street Bank and Trust Company, N.A., as Fiscal Agent**

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250 Park Avenue  
New York, New York 10177  
Telephone: (646) 658-5900

**MUNICIPAL BOND  
INSURANCE POLICY**

**ISSUER:** [            ]

**Policy No.:** [            ]

**BONDS:** [            ]

**Effective Date:** [            ]

**XL Capital Assurance Inc. (XLCA)**, a New York stock insurance company, in consideration of the payment of the premium and subject to the terms of this Policy (which includes each endorsement attached hereto), hereby agrees unconditionally and irrevocably to pay to the trustee (the “Trustee”) or the paying agent (the “Paying Agent”) (as set forth in the documentation providing for the issuance of and securing the Bonds) for the benefit of the Owners of the Bonds or, at the election of XLCA, to each Owner, that portion of the principal and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment.

XLCA will pay such amounts to or for the benefit of the Owners on the later of the day on which such principal and interest becomes Due for Payment or one (1) Business Day following the Business Day on which XLCA shall have received Notice of Nonpayment (provided that Notice will be deemed received on a given Business Day if it is received prior to 10:00 a.m. New York time on such Business Day; otherwise it will be deemed received on the next Business Day), but only upon receipt by XLCA, in a form reasonably satisfactory to it, of (a) evidence of the Owner’s right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner’s rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in XLCA. Upon such disbursement, XLCA shall become the owner of the Bond, any appurtenant coupon to the Bond or the right to receipt of payment of principal and interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner’s right to receive payments under the Bond, to the extent of any payment by XLCA hereunder. Payment by XLCA to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of XLCA under this Policy.

In the event the Trustee or Paying Agent has notice that any payment of principal or interest on a Bond which has become Due for Payment and which is made to an Owner by or on behalf of the Issuer of the Bonds has been recovered from the Owner pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such Owner within the meaning of any applicable bankruptcy law, such Owner will be entitled to payment from XLCA to the extent of such recovery if sufficient funds are not otherwise available.

The following terms shall have the meanings specified for all purposes of this Policy, except to the extent such terms are expressly modified by an endorsement to this Policy. “Business Day” means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer’s Fiscal Agent are authorized or required by law or executive order to remain closed. “Due for Payment”, when referring to the principal of Bonds, is when the stated maturity date or a mandatory redemption date for the application of a required sinking fund installment has been reached and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by application of required sinking fund installments), acceleration or other advancement of maturity, unless XLCA shall elect, in its sole discretion, to pay such principal due upon such acceleration; and, when referring to interest on the

Bonds, is when the stated date for payment of interest has been reached. "Nonpayment" means the failure of the Issuer to have provided sufficient funds to the Trustee or Paying Agent for payment in full of all principal and interest on the Bonds which are Due for Payment. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to XLCA which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

XLCA may, by giving written notice to the Trustee and the Paying Agent, appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy. From and after the date of receipt by the Trustee and the Paying Agent of such notice, which shall specify the name and notice address of the Insurer's Fiscal Agent, (a) copies of all notices required to be delivered to XLCA pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to XCLA and shall not be deemed received until received by both and (b) all payments required to be made by XLCA under this Policy may be made directly by XLCA or by the Insurer's Fiscal Agent on behalf of XLCA. The Insurer's Fiscal Agent is the agent of XLCA only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of XLCA to deposit or cause to be deposited sufficient funds to make payments due hereunder.

Except to the extent expressly modified by an endorsement hereto, (a) this Policy is non-cancelable by XLCA, and (b) the Premium on this Policy is not refundable for any reason. This Policy does not insure against loss of any prepayment or other acceleration payment which at any time may become due in respect of any Bond, other than at the sole option of XLCA, nor against any risk other than Nonpayment. This Policy sets forth the full undertaking of XLCA and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto.

**THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.**

In witness whereof, XLCA has caused this Policy to be executed on its behalf by its duly authorized officers.

**SPECIMEN**

Name:

Title:

**SPECIMEN**

Name:

Title: