

**REMARKETING – NOT A NEW ISSUE**

**BOOK-ENTRY ONLY (See “Book-Entry Only System” under *The Series C-5-2 Bonds*)**

*On May 6, 2003, Sidley Austin Brown & Wood LLP (now Sidley Austin LLP) delivered its approving opinion which concluded that under existing law (i) assuming continuing compliance with certain tax covenants, interest on the Series C 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 Series C Bonds and the interest thereon are exempt from state, Commonwealth of Puerto Rico and local income taxation. The approving opinion further concluded that interest on the Series C Bonds is includable in the computation of the federal alternative minimum tax on corporations. On the Substitution Date, Greenberg Traurig, LLP will deliver an opinion to the effect that the substitution of the existing Liquidity Facility with the Letter of Credit is permitted under the Resolution and will not in and of itself impair or affect the exclusion of interest on the Series C-5-2 Bonds from gross income for purposes of federal income taxation. Greenberg Traurig, LLP will not express an opinion regarding the current status of such interest for federal income tax purposes. For a more complete discussion of the tax aspects of the Series C-5-2 Bonds, see Tax Matters herein.*

**COMMONWEALTH OF PUERTO RICO  
Public Improvement Refunding Bonds  
\$188,710,000 Sub-Series 2003 C-5-2  
(General Obligation Bonds)**

**Original Issue Date: May 6, 2003**

**Due: July 1, as shown on the inside cover**

**Substitution Date: June 23, 2011**

On May 6, 2003, the Commonwealth of Puerto Rico (the “Commonwealth” or “Puerto Rico”) issued its Public Improvement Refunding Bonds, Series 2003 C, in the original aggregate principal amount of \$1,018,245,000 (the “Series C Bonds”), pursuant to the provisions of Act No. 2 of the Legislature of Puerto Rico, approved October 10, 1985, and Joint Resolution No. 57 of the Legislature of Puerto Rico, approved July 12, 1993, and pursuant to a resolution adopted by the Secretary of the Treasury of the Commonwealth (the “Secretary”) and approved by the Acting Governor of Puerto Rico on April 16, 2003 (the “Original Resolution”). The Original Resolution was amended and restated by a resolution adopted by the Acting Secretary and approved by the Governor of Puerto Rico (the “Governor”) on June 25, 2008 (as so amended and restated, the “Restated Resolution”), pursuant to which a sub-series of the Series C Bonds, in the original principal amount of \$233,615,000 (the “Series C-5 Bonds”), was designated. The Resolution will be further amended and supplemented by a Supplemental Bond Resolution, to be adopted by the Secretary and approved by the Governor on or about June 23, 2011 (together with the Restated Resolution, the “Resolution”), in connection with the remarketing of certain of the Series C-5 Bonds, with a sub-subseries designation “Sub-Series 2003 C-5-2,” in the principal amount of \$188,710,000 (the “Series C-5-2 Bonds”), on or about June 23, 2011, in connection with the expiration of the existing Liquidity Facility for the Series C-5 Bonds, and the substitution therefor of the Letter of Credit (as defined below).

Pursuant to the terms of the Resolution, in order to maintain the Series C-5-2 Bonds in the Weekly Rate Mode, the Secretary has elected to replace the existing Liquidity Facility with respect to the Series C-5 Bonds with an irrevocable, transferable, direct-pay letter of credit (the “Letter of Credit”) of **Barclays Bank PLC** (the “Provider”), to be issued concurrently with the remarketing of the Series C-5-2 Bonds. The scheduled payment of principal of and interest on the Series C-5-2 Bonds will be payable from draws upon the Letter of Credit. In addition, the Tender Agent will be entitled to draw upon the Letter of Credit to pay the purchase price of Series C-5-2 Bonds that are tendered and not remarketed. The Letter of Credit will expire on June 21, 2013, subject to earlier termination under certain circumstances or extension. The Series C-5-2 Bonds are subject to redemption and tender for purchase prior to maturity as set forth herein.

The Series C-5-2 Bonds are being remarketed as registered bonds without coupons registered only in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”), which acts as securities depository for the Series C-5 2 Bonds. The Series C-5-2 Bonds offered for remarketing hereby will be available to purchasers in denominations of \$100,000 and any multiple of \$5,000 in excess thereof any multiple thereof only under said DTC book-entry system. Purchasers will not receive delivery of the Series C-5-2 Bonds. So long as any purchaser is the beneficial owner of a Series C-5-2 Bond, he must maintain an account with a broker or dealer who is, or acts through, a DTC Participant to receive payment of principal and interest on such Series C-5-2 Bond. See “Book-Entry Only System” under *THE SERIES C-5-2 BONDS*.

The scheduled payment of principal of and interest on the Series C-5-2 Bonds also is guaranteed by a municipal bond insurance policy issued concurrently with the original issuance of the Series C Bonds by Assured Guaranty Municipal Corp. (formerly known as Financial Security Assurance Inc.).

**THE SERIES C-5-2 BONDS ARE GENERAL OBLIGATIONS OF THE COMMONWEALTH. THE GOOD FAITH, CREDIT AND TAXING POWER OF THE COMMONWEALTH ARE IRREVOCABLY PLEDGED FOR THE PROMPT PAYMENT OF THE PRINCIPAL OF AND INTEREST ON THE SERIES C-5-2 BONDS. THE CONSTITUTION OF PUERTO RICO PROVIDES THAT PUBLIC DEBT OF THE COMMONWEALTH, WHICH INCLUDES THE SERIES C-5-2 BONDS, CONSTITUTES A FIRST CLAIM ON AVAILABLE COMMONWEALTH RESOURCES.**

Barclays Capital Inc. will serve as Remarketing Agent for the Series C-5-2 Bonds.

The Series C-5-2 Bonds are offered for delivery when, as and if remarketed by the Remarketing Agent subject to the delivery of an Opinion of Bond Counsel by Greenberg Traurig, LLP, Boston, Massachusetts, as required by the Resolution, and certain other conditions. Certain legal matters will be passed upon for the Remarketing Agent by Pietrantoni Méndez & Alvarez LLP, San Juan, Puerto Rico. It is expected that the Series C-5-2 Bonds will be available for delivery through the facilities of DTC upon remarketing on June 23, 2011.

**BARCLAYS CAPITAL**

**SUB-SERIES DESIGNATION, MATURITY, AMOUNT,  
INTEREST RATE, PRICE OR YIELD AND CUSIP NUMBER**

<u>Sub-Series</u>	<u>Substitution Date</u>	<u>Maturity Date</u>	<u>Amount</u>	<u>Rate Mode</u>	<u>Price</u>	<u>CUSIP</u>
2003 C-5-2	June 23, 2011	July 1, 2020	\$188,710,000	Weekly	100%	74514L YU5

The interest rate on the Series C-5-2 Bonds will be determined on June 22, 2011 and will be effective as of June 23, 2011 for the period ending June 30, 2011, and thereafter, while bearing interest at a Weekly Rate, will be determined as described under *THE SERIES C-5-2 BONDS*.

# Government of Puerto Rico

## Governor

LUIS G. FORTUÑO

## Members of the Cabinet

MARCOS RODRÍGUEZ-EMA  
*Chief of Staff*

KENNETH D. MCCLINTOCK  
*Secretary of State*

GUILLERMO SOMOZA COLOMBANI  
*Secretary of Justice*

JESÚS F. MÉNDEZ  
*Secretary of the Treasury*

JESÚS RIVERA SÁNCHEZ  
*Secretary of Education*

MIGUEL ROMERO LUGO  
*Secretary of Labor and  
Human Resources*

DR. LORENZO GONZÁLEZ  
*Secretary of Health*

JAVIER RIVERA AQUINO  
*Secretary of Agriculture*

RUBÉN A. HERNÁNDEZ GREGORAT  
*Secretary of Transportation  
and Public Works*

JOSÉ R. PÉREZ-RIERA  
*Secretary of Economic  
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YANITSIA IRIZARRY  
*Secretary of Family Affairs*

MIGUEL HERNÁNDEZ VIVONI  
*Secretary of Housing*

DANIEL J. GALÁN KERCADÓ  
*Secretary of Natural and  
Environmental Resources*

LUIS G. RIVERA MARÍN  
*Secretary of  
Consumer Affairs*

HENRY NEUMANN ZAYAS  
*Secretary of Sports and Recreation*

CARLOS M. MOLINA RODRÍGUEZ  
*Secretary of Corrections  
and Rehabilitation*

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### *Legislative Officers*

THOMAS RIVERA SCHATZ  
President, Senate

JENNIFFER GÓNZALEZ COLÓN  
Speaker, House of  
Representatives

### *Fiscal Officers*

JUAN CARLOS PAVÍA  
Director, Office of  
Management and Budget

JUAN CARLOS BATLLE  
President,  
Government Development  
Bank for Puerto Rico

No dealer, broker, sales representative or other person has been authorized by the Commonwealth to give any information or to make any representations other than those contained herein and, if given or made, such other information or representations must not be relied upon as having been authorized by the Commonwealth. This Remarketing Circular does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Series C-5-2 Bonds, by any person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale. The information set forth herein has been obtained from the Commonwealth and other official sources that are believed to be reliable. The information set forth herein regarding the Provider has been obtained from such Provider. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Remarketing Circular nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Commonwealth since the date hereof. The Remarketing Agent has reviewed the information in this Remarketing Circular in accordance with, and as part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Remarketing Agent does not guarantee the accuracy or completeness of such information.

**In connection with the remarketing of the Series C-5-2 Bonds, the Remarketing Agent may effect transactions which stabilize or maintain the market prices of the Series C-5-2 Bonds, as well as the outstanding general obligation bonds of the Commonwealth, at levels above those which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time.**

Assured Guaranty Municipal Corp. (“AGM”) makes no representation regarding the Series C-5-2 Bonds or the advisability of investing in the Series C-5-2 Bonds. In addition, AGM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Remarketing Circular or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding AGM supplied by AGM and presented under the heading *BOND INSURANCE* and *Appendix II – Copy of Municipal Bond Insurance Policy*.

**Certain statements contained in this Remarketing Circular reflect not historical facts but forecasts and “forward-looking statements.” These statements are based upon a number of assumptions and estimates that are subject to significant uncertainties, many of which are beyond the control of the Commonwealth of Puerto Rico. In this respect, the words “estimates,” “projects,” “anticipates,” “expects,” “intends,” “believes” and similar expressions are intended to identify forward-looking statements. All projections, forecasts, assumptions, expressions of opinions, estimates and other forward-looking statements are expressly qualified in their entirety by this cautionary statement: actual results may differ materially from those expressed or implied by forward-looking statements.**

**The projections set forth in this Remarketing Circular were not prepared with a view toward complying with the guidelines established by the American Institute of Certified Public Accountants with respect to prospective financial information, but, in the view of the Commonwealth’s responsible officers, were prepared on a reasonable basis, reflect the best currently available estimates and judgments, and present, to the best of such officers’ knowledge and belief, the expected course of action and the expected future financial performance of the Commonwealth. However, this information is not fact and should not be relied upon as being necessarily indicative of future results, and readers of this Remarketing Circular are cautioned not to place undue reliance on the prospective financial information. Neither the Commonwealth’s independent auditors, nor any other independent auditors, have compiled, examined, or performed any procedures with respect to the prospective financial information contained herein, nor have they expressed any opinion or any other form of assurance on such information or its achievability and disclaim any association with the prospective financial information. Neither the Commonwealth’s independent auditors, nor any other independent auditors, have been consulted in connection with the preparation of the prospective financial information set forth in this Remarketing Circular, which is solely the product of the Commonwealth, and the independent auditors assume no responsibility for its content.**

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**COMMONWEALTH OF PUERTO RICO**  
**Public Improvement Refunding Bonds, Series 2003 C**  
**\$188,710,000 Sub-Series 2003 C-5-2**  
**(General Obligation Bonds)**

**INTRODUCTORY STATEMENT**

This Remarketing Circular of the Commonwealth of Puerto Rico (the “Commonwealth” or “Puerto Rico”), which includes the cover page, the inside cover page, the table of contents and the appendices, provides certain information in connection with the remarketing of a portion of the \$1,018,245,000 aggregate principal amount of Commonwealth of Puerto Rico Public Improvement Refunding Bonds, Series 2003 C (the “Series C Bonds”), to wit: \$188,710,000 aggregate principal amount of the Bonds with subseries designation “Sub-Series 2003 C-5-2” (the “Series C-5-2 Bonds”).

The Series C-5-2 Bonds were originally issued and are being converted and remarketed under the provisions of Act No. 2 of the Legislature of Puerto Rico, approved October 10, 1985, and Joint Resolution No. 57 of the Legislature of Puerto Rico, approved July 12, 1993 (collectively, the “Act”), and pursuant to a resolution authorizing the issuance of the Bonds adopted in accordance with the Act by the Secretary of the Treasury of the Commonwealth of Puerto Rico (the “Secretary” or the “Secretary of the Treasury”) and approved by the Acting Governor of Puerto Rico on April 16, 2003, as amended and restated by a resolution, adopted by the Acting Secretary and approved by the Governor of Puerto Rico (the “Governor”), on June 25, 2008 (as so amended and restated, the “Restated Resolution”), and as further amended and supplemented by a Supplemental Bond Resolution, to be adopted by the Secretary and approved by the Governor, on or about June 23, 2011 (together with the Restated Resolution, the “Resolution”).

*Bond Insurance.* Regularly scheduled payments of principal (including annual Amortization Requirements) of and interest on the Series C-5-2 Bonds are insured by a municipal bond insurance policy (the “Policy”) issued by Assured Guaranty Municipal Corp. (formerly known as Financial Security Assurance Inc.) (“AGM” or the “Insurer”). The Policy does not insure the purchase price of the Series C-5-2 Bonds. See *BOND INSURANCE*.

*Letter of Credit.* The Commonwealth will enter into a reimbursement agreement (the “Reimbursement Agreement”) with Barclays Bank PLC (the “Provider”) pursuant to which the Provider will issue an irrevocable, transferable, direct-pay letter of credit (the “Letter of Credit”) covering the payment of the principal of and up to 56 days’ of interest (calculated at a rate of 12% per annum) on the Series C-5-2 Bonds, and the Purchase Price of the Series C-5-2 Bonds. See “Letter of Credit and Reimbursement Agreement” under *THE SERIES C-5-2 BONDS* and *BARCLAYS BANK PLC*.

*Remarketing.* The Series C Bonds originally were issued in the Initial Term Rate Mode for the period beginning on the date of issuance thereof and continuing to and including June 30, 2008, at which time a portion of the Series C Bonds, including \$233,615,000 in principal amount of Series C Bonds designated the Sub-Series 2003 C-5 Bonds (the “Series C-5 Bonds”), were

converted to the Weekly Rate Mode and remarketed. In connection with such conversion and remarketing, the Commonwealth obtained from Dexia Credit Local, acting through its New York Branch, a written agreement to purchase Series C-5 Bonds that were tendered and not remarketed, under a Standby Bond Purchase Agreement (the "Existing Liquidity Facility"), which Existing Liquidity Facility expires on July 1, 2011. On May 2, 2011, in accordance with the Resolution, following a partial mandatory tender of the Series C-5 Bonds, the Secretary designated two sub-subseries of the Series C-5 Bonds, the Series C-5-2 Bonds and the Sub-Series 2003 C-5-1 Bonds, in the principal amount of \$44,905,000 (the "Series C-5-1 Bonds"), which Series C-5-1 Bonds were converted to a new rate mode and directly purchased by an institutional purchaser on such date. The Series C-5-2 Bonds are subject to mandatory tender for purchase on June 23, 2011, in connection with the expiration of the Existing Liquidity Facility.

Pursuant to the terms of the Resolution, in order to maintain the Series C-5-2 Bonds in the Weekly Rate Mode following their mandatory tender, the Secretary has elected to replace the Existing Liquidity Facility on June 23, 2011 (the "Substitution Date") with the Letter of Credit. On the Substitution Date, the Series C-5-2 Bonds will be remarketed and will continue to bear interest from the Substitution Date in the Weekly Rate Mode, as set forth on the inside cover page and under *THE SERIES C-5-2 BONDS* herein.

*Remarketing Agent.* Barclays Capital Inc. (the "Remarketing Agent") will serve as remarketing agent for the Series C-5-2 Bonds under a remarketing agreement with the Commonwealth (the "Remarketing Agreement").

*Interest Rate Swap.* The Commonwealth has previously entered into an interest rate exchange transaction (the "swap") with a qualifying financial institution (the "swap provider") in order to effectively fix the interest cost to the Commonwealth of the Series C-5 Bonds. The swap will remain in place with respect to the Series C-5-2 Bonds following the Substitution Date.

Reference is made to the Resolution for the complete terms of the Series C-5-2 Bonds. Terms used in this Remarketing Circular and not defined herein have the respective meanings given to them in the Resolution, and are summarized in Appendix III hereto. Copies of the Resolution may be obtained by contacting Executive Vice President, Government Development Bank for Puerto Rico, 135 West 50<sup>th</sup> Street, 22<sup>nd</sup> Floor, New York, New York 10020, telephone number (212) 333-0364, or to Vice President - General Obligations Division, Government Development Bank for Puerto Rico, P.O. Box 42001, San Juan, Puerto Rico 00940, telephone number (787) 722-7060.

*Security.* Under the Act, the good faith, credit and taxing power of the Commonwealth are irrevocably pledged for the prompt payment of the principal of and interest on the Series C-5-2 Bonds. The Constitution of Puerto Rico provides that public debt of the Commonwealth, which includes the Series C-5-2 Bonds, constitutes a first claim on available Commonwealth resources. See "Security" under *THE SERIES C-5-2 BONDS*.

The payment of principal of and interest on, and the Purchase Price of the Series C-5-2 Bonds is also secured by the Letter of Credit. Regularly scheduled payments of principal (including annual Amortization Requirements) and interest on the Series C-5-2 Bonds are further

secured by the Policy. See, “Letter of Credit and Reimbursement Agreement” under *THE SERIES C-5-2 BONDS, BARCLAYS BANK PLC* and *BOND INSURANCE*.

*Additional Documents.* This Remarketing Circular incorporates by reference the Commonwealth’s Financial Information and Operating Data Report, dated April 30, 2011 (the “Commonwealth Report”) and the Commonwealth’s Comprehensive Annual Financial Report for the fiscal year ended June 30, 2010, prepared by the Department of the Treasury of the Commonwealth (the “Commonwealth’s Annual Financial Report”).

The Commonwealth Report includes important operating and financial information about the Commonwealth, including information about its economy, historical revenues and expenditures of its General Fund, the year-end results of fiscal year 2010, the budget for fiscal year 2011, the proposed budget for fiscal year 2012, the debt of the Commonwealth’s public sector, the financial situation of the Government’s retirement systems and certain litigation involving the Commonwealth, and should be read in its entirety and in conjunction with the *RECENT DEVELOPMENTS* herein. The Commonwealth Report was filed on May 1, 2011 by the Commonwealth with the Municipal Securities Rulemaking Board (“MSRB”) through the Electronic Municipal Market Access System (“EMMA”) (<http://emma.msrb.org>).

The Commonwealth’s Annual Financial Report includes the basic financial statements of the Commonwealth as of and for the fiscal year ended June 30, 2010, together with the independent auditors’ report thereon (which report expresses an unqualified opinion and includes emphasis of matter paragraphs regarding investments held by the Retirement Systems whose fair values have been estimated in the absence of readily determinable fair values and the Retirement Systems’ unfunded actuarial accrued liabilities and funded ratios as of June 30, 2010), dated April 27, 2011, of Deloitte & Touche LLP, certified public accountants. Deloitte & Touche LLP did not audit the financial statements of certain activities, funds, and component units separately identified in its report. Those financial statements were audited by other auditors whose reports have been furnished to Deloitte & Touche LLP, and its opinion as to the basic financial statements, insofar as it relates to the amounts included in the basic financial statements pertaining to such activities, funds and component units, is based solely on the reports of the other auditors. The Commonwealth’s Annual Financial Report was filed on April 29, 2011 by the Commonwealth with the MSRB through EMMA (<http://emma.msrb.org>).

Any appendix of an Official Statement of the Commonwealth or of any instrumentality of the Commonwealth containing any revision to the Commonwealth Report or to the Commonwealth’s Annual Financial Report that is filed with the MSRB through EMMA, or any new or revised Commonwealth Report or Commonwealth Annual Financial Report or other document containing information that modifies or supersedes the information contained in the Commonwealth Report or in the Commonwealth’s Annual Financial Report that is filed with the MSRB through EMMA, in each case after the date hereof and during the period in which the Series C-5-2 Bonds are being remarketed, shall be deemed to be incorporated by reference into this Remarketing Circular and to be part of this Remarketing Circular from the date of filing of such document. Any statement contained in the Commonwealth’s Annual Financial Report shall be deemed to be modified or superseded for purposes of this Remarketing Circular to the extent that a statement contained herein or in any such subsequently filed document modifies or supersedes such statement. Any statement contained in the Commonwealth Report or elsewhere

herein shall also be deemed to be modified or superseded to the extent that a statement contained in any such 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 Remarketing Circular.

The Commonwealth has entered into a number of continuing disclosure undertakings required under Rule 15c2-12, as amended (the “Rule”), promulgated by the Securities and Exchange Commission (“SEC”) in connection with previously issued bonds. Under its existing continuing disclosure undertakings, the Commonwealth is obligated to file on or before May 1 in each year updates of its financial, operational and macroeconomic information through the end of the prior fiscal year. The Commonwealth complies with this continuing disclosure undertaking by filing updates of the Commonwealth Report and by filing the Commonwealth’s Annual Financial Report for the preceding fiscal year. During the past five years, the Commonwealth has not complied in all material respects with its obligations under such continuing disclosure undertakings. In 2011, the Commonwealth complied with its continuing disclosure undertaking relating to fiscal year 2010. For more information regarding the Commonwealth’s compliance with its continuing disclosure obligation, see “Prior Continuing Disclosure Non-Compliance” under *CONTINUING DISCLOSURE*.

The Commonwealth will provide without charge to any person to whom this Remarketing Circular is delivered, on the written or oral request of such person, a copy of the Commonwealth Report or the Commonwealth’s Annual Financial Report incorporated herein by reference. Requests should be directed to Executive Vice President, Government Development Bank for Puerto Rico, 135 West 50<sup>th</sup> Street, 22<sup>nd</sup> Floor, New York, New York 10020, telephone number (212) 333-0364, or to Vice President - General Obligations Division, Government Development Bank for Puerto Rico, P.O. Box 42001, San Juan, Puerto Rico 00940, telephone number (787) 722-7060.

A copy of the Commonwealth’s Annual Financial Report and the Commonwealth Report may also be obtained through EMMA at <http://emma.msrb.org> (but only for filings made after June 30, 2009) or by visiting the Government Development Bank’s website at [www.gdbpr.com](http://www.gdbpr.com). No additional information on the Government Development Bank’s website is deemed to be part of or incorporated by reference in this Remarketing Circular.

## **OVERVIEW**

According to the United States Census Bureau, the population of Puerto Rico was 3,725,789 in 2010, compared to 3,808,610 in 2000. Puerto Rico’s constitutional status is that of a territory of the United States, and, pursuant to the territorial clause of the U.S. Constitution, the ultimate source of power over Puerto Rico is the U.S. Congress. The relationship between the United States and Puerto Rico is referred to as commonwealth status.

The United States and the Commonwealth share a common defense, market, currency and citizenship. The Commonwealth exercises virtually the same control over its internal affairs as do the 50 states. It differs from the states, however, in its relationship with the federal government. The people of Puerto Rico are citizens of the United States but do not vote in national elections. They are represented in Congress by a Resident Commissioner that has a

voice in the House of Representatives but no vote (except in House committees and sub-committees to which he belongs). Most federal taxes, except those such as Social Security taxes, are not levied in Puerto Rico. No federal income tax is collected from Puerto Rico residents on income earned in Puerto Rico, except for certain federal employees who are subject to taxes on their salaries. Income earned by Puerto Rico residents from sources outside of Puerto Rico, however, is subject to federal income tax.

The official languages of Puerto Rico are Spanish and English.

Puerto Rico has a diversified economy with manufacturing and services comprising its principal sectors. Puerto Rico's economy is closely linked to the United States economy. In fiscal year 2010 (which ended on June 30, 2010), the Commonwealth's gross national product (preliminary, in current dollars) was \$63.3 billion, and personal income per capita (preliminary, in current dollars) was \$15,203.

The Constitution of Puerto Rico limits the amount of general obligation debt that the Commonwealth can issue. The Commonwealth's policy has been and continues to be to prudently manage the level of such debt within the constitutional limitation. See "Debt Limitation" under THE BONDS.

Fiscal responsibility for the Commonwealth is shared among the Department of the Treasury, the Office of Management and Budget ("OMB") and Government Development Bank for Puerto Rico ("Government Development Bank"). The Department of the Treasury is responsible for collecting most of the Commonwealth's revenues, overseeing preparation of its financial statements and contributing to the preparation of the budget. OMB prepares the Commonwealth's budget and is responsible for monitoring expenditures. Government Development Bank is the fiscal agent and financial advisor to the Commonwealth and its agencies, public corporations and municipalities and coordinates the management of public finances.

Additional information about the Commonwealth can be found in the Commonwealth Report, which is incorporated herein by reference, including information about the economy, historical revenues and expenditures of the Commonwealth's General Fund, preliminary unaudited year-end results of fiscal year 2010, the budget for fiscal year 2011, the debt of the Commonwealth's public sector, the fiscal situation of the Government's retirement systems, and certain litigation involving the Commonwealth. The Commonwealth Report should be read in its entirety.

## **RECENT DEVELOPMENTS**

This section supplements the information appearing in the Commonwealth Report and should be read in conjunction therewith.

### **Commonwealth's Fiscal Imbalance**

Since 2000, the Commonwealth has experienced an imbalance between recurring government revenues and total expenditures. The imbalance reached its highest level in fiscal year 2009, when the deficit was \$3.306 billion, consisting of the difference between revenues

from non-financing sources of \$7.583 billion and total expenditures of \$10.890 billion. The current administration has implemented certain expense reduction measures that, together with various temporary and permanent revenue raising measures, have allowed the Commonwealth to reduce the deficit. For fiscal year 2010, total expenditures of \$10.369 billion exceeded total revenues (excluding other financing sources) of \$7.593 billion by \$2.775 billion; if debt service amounts that were refinanced during fiscal year 2010 are excluded, however, total expenditures were approximately \$9.691 billion and exceeded total revenues (excluding other financing sources) by \$2.098 billion. It is estimated that the deficit for fiscal year 2011 will be approximately \$1.0 billion. During fiscal year 2010, the Commonwealth refinanced \$512.9 million of interest due in such fiscal year on the Commonwealth's general obligation bonds and \$164.5 million of interest due in such fiscal year on the Commonwealth guaranteed bonds issued by Public Buildings Authority ("PBA"). During fiscal year 2011 to date, the Commonwealth has refinanced \$490.9 million of principal and interest due in such fiscal year on the Commonwealth's general obligation bonds. See "Overview of Economic and Fiscal Condition — Fiscal Condition" under INTRODUCTION in the Commonwealth Report.

### **Fiscal Year 2012 Government Budget**

On April 12, 2011, the Governor of Puerto Rico, Luis G. Fortuño (the "Governor"), presented the proposed budget for fiscal year 2012 to the Legislature of Puerto Rico. The proposed budget provides for total General Fund revenues of \$9.260 billion. The budgeted General Fund revenue of \$9.260 billion includes estimated revenues of \$8.650 billion and \$610.0 million in additional revenues from proceeds of bond issues made by the Puerto Rico Sales Tax Financing Corporation ("COFINA" by its Spanish-language acronym), which proceeds are to be deposited in an account referred to as the "Stabilization Fund" managed by Government Development Bank.

The principal changes in General Fund revenues under the proposed fiscal year 2012 budget compared to the fiscal year 2011 budget are accounted for mainly by the projected collections from the new temporary excise tax under Act No. 154 of October 25, 2010, as amended ("Act No. 154") (discussed below under "Tax Reform") (up \$969.0 billion), sales and use taxes (up \$125.0 million), retained non-resident income taxes (up \$29 million), alcoholic beverage taxes (up \$9.0 million), and projected decreases in excise taxes on motor vehicles and accessories (down \$8.0 million), corporate income tax (down \$51.0 million), federal excise taxes on offshore shipments (down \$66.0 million), property taxes (down \$162 million) and personal income taxes (down \$239.0 million).

The fiscal year 2012 proposed budget provides for total expenditures of \$9.260 billion, consisting of General Fund expenditures of \$8.650 billion and additional expenditures of \$610 million that are expected to be covered from proceeds of COFINA bond issues available in the Stabilization Fund. The fiscal year 2012 budgeted expenditures exclude debt service payments on the Commonwealth's general obligation bonds and Commonwealth guaranteed PBA Bonds of \$537.4 million and \$153.8 million, respectively, which are expected to be refinanced during fiscal year 2012. The budgeted total expenditures for fiscal year 2012 are 1.2%, higher than budgeted total expenditures of \$9.150 billion for fiscal year 2011, and \$1,109.0 million, or 12.0%, lower than total expenditures of \$10.369 billion for fiscal year 2010.

The principal changes in General Fund expenditures by program in the fiscal year 2012 proposed budget compared to the fiscal year 2011 budget are mainly due to increases in public safety and protection (up \$79 million), education (up \$148.3 million), economic development (up \$117.6 million), transportation (up \$12.2 million), special pension contributions (up \$85.8 million), contribution to municipalities (up \$26.0 million), and decreases in debt service (down \$58.4 million), welfare (down \$24.0 million), health (down \$212.7 million), and governmental management (down \$61.4).

Budgeted expenditures and capital improvements for the central government of all budgetary funds total \$15.9 billion, a decrease of \$142.9 million from fiscal year 2011 budgeted appropriations.

### **Preliminary Results for the First Ten Months of Fiscal Year 2011**

Preliminary General Fund net revenues for the first ten months of fiscal year 2011 (from July 1, 2010 to April 30, 2011) were \$6.406 billion, an increase of \$125 million, or 2.0%, from \$6.281 billion of net revenues for the same period in the prior fiscal year, and an increase of \$105 million from the revised estimate of net revenues, which takes into account the effect of the tax reform discussed below.

The increase in General Fund net revenues is mainly due to an increase of \$111 million in withholdings from non-residents and the collection of \$407 million as a result of the new temporary excise tax and the expansion of the taxation of certain foreign persons adopted as Act No. 154 in October 2010 as part of the tax reform. This increase was partially offset by a decrease of \$245 million, \$69 million, and \$84.8 million in collections from income tax on individuals, income tax on corporations, and miscellaneous non-tax revenues, respectively. This decrease in individual and corporate income taxes is due to the tax relief provided to individual and corporate taxpayers as part of the tax reform and to current economic conditions. The Government of Puerto Rico (the "Government") expects that the decrease in General Fund net revenues as a result of the implementation of the tax reform will be offset by the temporary excise tax imposed on certain foreign persons by Act No. 154. The first three monthly excise tax payments due in February, March and April 2011 amounted to approximately \$108.7 million, \$125.8 million and \$172.5 million, respectively, which is consistent with the Government's projection of collections from the excise tax.

The Treasury Department also reported that preliminary sales and use tax collections for the first eleven months of fiscal year 2011 were \$1.031 billion, an increase of \$31.8 million, or 3.2%, from the sales and use tax collections for the same period in the prior fiscal year. Sales and use tax preliminary collections for May 2011 were \$89.2 million, an increase of 4.3% compared to May 2010. A portion of the sales and use tax is allocated to COFINA and, thus, is not available to the General Fund. See "Security" under *THE SERIES C-5-2 BONDS* and "Major Sources of General Fund Revenues — Sales and Use Taxes" under *PUERTO RICO TAXES, OTHER REVENUES AND EXPENDITURES* in the Commonwealth Report.

For more information on the tax reform and Act No. 154, see "Tax Reform" below and "Overview of Economic and Fiscal Condition — Fiscal Condition" under *INTRODUCTION* in the Commonwealth Report.

## **Tax Reform**

In February 2010, the Governor named a committee to review the Commonwealth's income tax system and propose a comprehensive tax reform directed at promoting economic growth and job creation within the framework of preserving the administration's path towards achieving fiscal stability. The committee presented its findings to the Governor and, on October 25, 2010, the Governor announced that he was submitting to the Legislative Assembly various bills in order to implement the tax reform. The tax reform is intended to be revenue positive.

The tax reform consists of two phases focused on providing tax relief to individuals and corporations, promoting economic development and job creation, simplifying the tax system and reducing tax evasion through enhanced tax compliance measures. The first phase, enacted as Act No. 171 of November 15, 2010, was expected to provide individual and corporate taxpayers with aggregate savings of \$309 million for taxable year 2010. The second phase, enacted as Act No. 1 of January 31, 2011 ("Act No. 1"), is projected to provide individual and corporate taxpayers aggregate annual average savings of \$1.2 billion for the next six taxable years, commencing in taxable year 2011. Consistent with the objective of maintaining the path towards fiscal stability, the tax relief provisions applicable to individuals and corporations for taxable years 2014 through 2016 become effective only if (i) the Puerto Rico Office of Management and Budget ("OMB") certifies that the administration's expense control target has been met, (ii) the Treasury Department certifies that the General Fund revenue target has been met and (iii) the Planning Board certifies a year-over-year target increase in gross domestic product.

As part of structuring the tax reform, the Government utilized a group of economic consultants to project its impact on tax revenues through the use of dynamic economic models adjusted to the Commonwealth's specific economic conditions. The Government also conducted its own internal analyses of such impact. Based on these analyses, the Government expects that the reduction in income tax revenues resulting from the implementation of the tax reform should be fully offset by the additional revenues produced by (i) enhanced tax compliance measures, (ii) the elimination of certain incentives and tax credits, (iii) a new temporary excise tax imposed on a controlled group member's acquisition from another group member of certain personal property manufactured or produced in Puerto Rico and certain services performed in Puerto Rico (at a declining rate from 4% for 2011 to 1% for 2016), and (iv) an expansion of taxation rules that characterize certain income of non-resident corporations, partnerships and individuals as effectively connected with the conduct of a trade or business in Puerto Rico and therefore subject to Puerto Rico income tax. The temporary excise tax and the expansion of the taxation of certain foreign persons were adopted by Act No. 154. In circumstances in which the temporary excise tax applies, the expansion of the taxation of nonresident individuals, foreign corporations and foreign partnerships does not apply. The other revenue enhancement measures, which are part of the second phase of the tax reform, are included in Act No. 1. On December 29, 2010, the Treasury Department adopted regulations that provide certain tax credits against the temporary excise tax that lessen its impact on affected taxpayers subject to the temporary excise tax. These regulations became effective on January 1, 2011. The regulations address implementation and interpretation issues and include provisions regarding certain applicable credits against the tax subject to maintaining a baseline employment and other conditions. The Government estimates that this excise tax will affect foreign corporations or partnerships that are principally engaged in the manufacturing of pharmaceuticals and electronics. The Government expects to raise

approximately \$1.4 billion from the excise tax during the first year of implementation of Act No. 154 and \$5.6 billion for the six-year period that the excise tax is in place.

The first monthly excise tax payment was due in February 2011. The Treasury Department recently announced that preliminary collections for the first four monthly excise tax payments (from February through May 2011) were \$108.7 million, \$125.8 million, \$172.5 million and \$130.2 million, respectively. These amounts are consistent with the Government's projection of collections from the excise tax.

Based on its analysis, the Government believes that the revenue projections from the taxes imposed by Act No. 154 are reasonable. However, since such taxes only became effective on January 1, 2011, there can be no assurance that the revenues therefrom, together with the other revenue enhancement measures included in the tax reform, will be sufficient to fully offset the reduction in income tax revenues expected from other aspects of the tax reform.

In connection with the expansion of the taxation of foreign persons by Act No. 154, the Government obtained a legal opinion regarding the creditability of the excise tax for U.S. federal income tax purposes. The opinion concludes that this excise tax should be creditable against U.S. federal income tax. That conclusion was based in part upon a determination that the expansion of the taxation of foreign persons and the imposition of the excise tax more likely than not satisfy the constitutional requirements of due process and the Commerce Clause of the United States Constitution, for reasons discussed therein. Therefore, it is the position of the Government that the excise tax is a tax imposed in substitution of the generally imposed income tax and that, as such, under Section 903 of the United States Internal Revenue Code of 1986, as amended, U.S. taxpayers can claim a foreign tax credit for amounts paid.

On March 30, 2011, the United States Internal Revenue Service (the "IRS") issued Notice 2011-29 addressing the creditability of the new excise tax imposed by Act No. 154. Notice 2011-29 provides that the provisions of the new Puerto Rico excise tax are novel and the determination of its creditability requires the resolution of a number of legal and factual issues. Pending the resolution of those issues, the IRS will not challenge a taxpayer's position that the excise tax is a tax in lieu of an income tax under Section 903. The IRS also provided that any change in the foregoing tax credit treatment of the excise tax after resolution of the pending issues will be prospective and will apply to excise tax paid or accrued after the date that further guidance is issued.

Act No. 154 has not been challenged in court. Consequently, no court has passed on the constitutionality of Act No. 154. There can be no assurance that its constitutionality will not be challenged and that, if challenged, the courts will uphold Act No. 154. To the extent a court determines that the imposition of the excise tax or the expansion of the income tax or both are unconstitutional, the Government's revenues may be materially adversely affected.

For a summary of the principal provisions of the tax reform, the expansion of the income tax source rules to certain nonresident alien individuals, foreign corporations and foreign partnerships, and the new temporary excise tax, see "Major Sources of General Fund Revenues — Tax Reform" and "Major Sources of General Fund Revenues — Income Taxes," respectively,

under PUERTO RICO TAXES, OTHER REVENUES AND EXPENDITURES in the Commonwealth Report.

### **Financial Condition of Retirement Systems**

One of the challenges every administration has faced during the past 20 years is how to address the growing unfunded pension benefit obligations and funding shortfalls of the three Government retirement systems (the Employees Retirement System, the Teachers Retirement System and the Judiciary Retirement System) that are funded principally with Government appropriations. As of June 30, 2010, the date of the latest actuarial valuations of the retirement systems, the unfunded actuarial accrued liability (including basic and system administered benefits) for the Employees Retirement System, the Teachers Retirement System and the Judiciary Retirement System was \$17.8 billion, \$7.1 billion and \$283 million, respectively, and the funded ratios were 8.5%, 23.9% and 16.4%, respectively.

Based on current employer and member contributions to the retirement systems, the unfunded actuarial accrued liability will continue to increase significantly, with a corresponding decrease in the funded ratio, since the annual contributions are not sufficient to fund pension benefits, and thus, are also insufficient to amortize the unfunded actuarial accrued liability. Because annual benefit payments and administrative expenses of the retirement systems have been significantly larger than annual employer and member contributions, the retirement systems have been forced to use investment income, borrowings and sale of investment portfolio assets to cover funding shortfalls. The funding shortfall (basic system benefits, administrative expenses and debt service in excess of contributions) for fiscal year 2011 for the Employees Retirement System, the Teachers Retirement System and the Judiciary Retirement System is expected to be approximately \$749 million, \$274 million and \$7.8 million, respectively. As a result, the assets of the retirement systems are expected to continue to decline.

Based on the assumptions used in the latest preliminary actuarial valuations, including the expected continued funding shortfalls: (i) the Employees Retirement System, the largest of the three retirement systems, would deplete its net assets (total assets less liabilities, including the principal amount of certain pension obligation bonds) by fiscal year 2014 and its gross assets by fiscal year 2019; (ii) the Teachers Retirement System would deplete its net and gross assets by fiscal year 2020; and (iii) the Judiciary Retirement System would deplete its net and gross assets by fiscal year 2018. The estimated years for depletion of the assets could vary depending on how actual results differ from the assumptions used in the actuarial valuations, as well as based on any future changes to the contribution and benefits structures of the retirement systems.

Since the Commonwealth and other participating employers are ultimately responsible for any funding deficiency in the three retirement systems, the depletion of the assets available to cover retirement benefits will require the Commonwealth and other participating employers to cover annual funding deficiencies. It is estimated that the Commonwealth would be responsible for approximately 74% of the combined annual funding deficiency of the three retirement systems, with the balance being the responsibility of the municipalities and participating public corporations.

The Commonwealth also provides non-pension post-employment benefits that consist of a medical insurance plan contribution. These benefits, which amounted to \$114.2 million for fiscal year 2010, are funded on a pay-as-you-go basis from the General Fund and are valued using actuarial principles similar to the way that pension benefits are calculated. Based on the latest actuarial valuations, as of June 30, 2010, the aggregate unfunded actuarial accrued liability of these benefits for the three retirement systems was \$2.3 billion.

Because of the multi-year fiscal imbalances mentioned above, the Commonwealth is currently unable to make the actuarially recommended contributions to the retirement systems. If the Commonwealth fails to take action in the short-term to address the retirement systems' funding deficiency, the continued use of investment assets to pay benefits as a result of funding shortfalls and the resulting depletion of assets could adversely affect the ability of the retirement systems to meet the rates of return assumed in the actuarial valuations, which could in turn result in an earlier depletion of the retirement systems' assets and a significant increase in the unfunded actuarial accrued liability. Ultimately, since the Commonwealth's General Fund is required to cover a significant amount of the funding deficiency, the Commonwealth would have difficulty funding the annual required contributions unless it implements significant reforms to the retirement systems, obtains additional revenues, or takes other budgetary measures. For more information regarding the retirement systems, see RETIREMENT SYSTEMS in the Commonwealth Report.

In order to address the growing unfunded pension and non-pension benefit obligations and funding shortfalls of the three Government retirement systems, in February 2010, the Governor established a special commission to make recommendations for improving the financial solvency of the retirement systems. The special commission submitted a report to the Governor on October 21, 2010.

As a result of the special commission's report and the Government's analysis, the Governor submitted two bills to the Legislative Assembly that seek to address the retirement systems' financial condition. One of such bills, which was enacted as Act No. 96 of June 16, 2011, provides for an immediate contribution of \$162.5 million to the Employees Retirement System from funds currently on deposit in the Corpus Account of the Puerto Rico Infrastructure Fund, which would be invested in a capital appreciation bond issued by COFINA with a maturity of at least thirty years, but not to exceed forty years, and bearing interest at a rate of 7%. The principal amount of the COFINA bond, which would grow to approximately \$1.2 billion in thirty years, would be available to pay certain pension obligation bonds and other obligations of the Employees Retirement System.

House Bill 3407 ("HB 3407") proposes to increase employer contributions to the Employee Retirement System and the Teachers Retirement System by 1% in each of the next five fiscal years and by 1.25% in each of the following five fiscal years. As a result of these increases, the Employee Retirement System and the Teachers Retirement System would receive approximately \$36 million and \$14 million, respectively, in additional employer contributions during fiscal year 2012, and the additional employer contributions are projected to increase gradually each fiscal year (by an average aggregate increase of \$71 million per fiscal year) to approximately \$494 million and \$195 million, respectively, by fiscal year 2021. HB 3407 would also divide the Employees Retirement System into three separate systems: the Government

Employee System, the Municipal Employee System and the Public Corporation Employee System, which would divide the actuarial liability among the three systems. There can be no assurance that HB 3407 will be enacted or, if enacted, will be enacted in the form proposed.

### **Local Incentives for Rum Producers**

Under current federal law, federal excise taxes imposed and collected by the United States on shipments of rum from Puerto Rico to the United States mainland are returned (“covered-over”) each month to the Commonwealth. Under the cover-over program, originally established by Congress in 1917, the Commonwealth receives a refund of \$10.50 from the \$13.50 that is imposed upon the distilled spirit tax collected per proof gallon. Since 1999, however, the U.S. Congress has enacted special supplementary legislation increasing the amount refunded to the Commonwealth to \$13.25 per proof gallon. For fiscal year 2010, the total excise taxes on rum shipments returned to the Commonwealth was \$352.3 million.

In June 2008, the government of the United States Virgin Islands (the “USVI”) signed an agreement with Diageo USVI Inc. (“Diageo”) for the construction and operation of a new rum distillery in St Croix, USVI, that will manufacture Captain Morgan branded products to be sold in the United States beginning in January 2012. Currently, all rum used in Captain Morgan products sold in the United States is procured through a supply contract with Destilería Serrallés, Inc. (“Serrallés”) in Puerto Rico which expires on December 31, 2011. The Government estimates that the exports of Captain Morgan rum produced in Puerto Rico by Serrallés during calendar year 2009 were 9,403,224 proof gallons. These rum exports of Captain Morgan resulted in an estimated \$124.5 million in excise tax on rum shipments returned by the United States to Puerto Rico during fiscal year 2009. As a result of the termination of the contract between Serrallés and Diageo, it is expected that after 2011, the income received by the Commonwealth from the federal excise tax on rum shipments will decrease unless Serrallés is able to find other clients in the United States for the volume of bulk rum previously purchased by Diageo for its Captain Morgan products.

In an effort to maintain the local rum industry, as a result of the threat posed by the USVI’s agreement with Diageo, and preserve or increase the amount of federal excise taxes on rum shipments returned to the Commonwealth under the cover-over program, the Governor signed Act No. 178 of December 1, 2010 (“Act No. 178”), which increases from 10% to 25% the portion of the monies from the federal excise tax that the Commonwealth may invest to provide incentives to and promote the Puerto Rican rum industry. The law also authorizes the Governor to increase this percentage up to 46% after December 31, 2011, through an Executive Order. In order to promote the Puerto Rican rum industry in general, the amount received from such refund will be transferred to a special account of the General Fund, which may be used for marketing, production and infrastructure investment incentives. Effective January 1, 2011, Act No. 1 replaced Act No. 178 and contains identical provisions.

As permitted under Act No. 1, the Government has entered into a definitive agreement with one rum producer and is currently in negotiations with two others to provide them a series of subsidies and incentives by allowing such companies to benefit from the cover-over program rebate. These agreements are expected to promote and encourage the export of rum produced in Puerto Rico. As a result of these agreements, during fiscal year 2012 the Treasury Department

expects to disburse approximately \$72 million of General Fund revenues from the federal excise tax on rum shipments for these subsidies and incentives. This amount is expected to be partially offset by the economic activity generated by the increased investment in Puerto Rico by these rum producers.

### **Recent Rating Actions**

On March 7, 2011, Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. ("S&P"), raised its rating on the Commonwealth unenhanced general obligation bonds to "BBB" with a stable outlook from "BBB-" with a positive outlook and assigned such rating to the bonds issued by the Commonwealth. In taking this rating action, S&P stated the upgrade reflects the Commonwealth's recent revenue performance and continued efforts to achieve fiscal and budgetary balance. S&P noted, however, that other medium-term budget pressures, such as the Commonwealth's retirement benefit obligations, remain a limiting credit factor. S&P's stable outlook is based on the Commonwealth's recent implementation of significant expenditure controls and revenue enhancement measures that could help restore balance within the next two years. S&P also stated that it would raise the rating if over the upcoming two years, in conjunction with an improvement in the Commonwealth's economic performance, budget controls remain in place and there is continued progress toward achieving balance between ongoing revenues and expenditures as well as in addressing the Commonwealth's unfunded retirement benefit obligations.

On January 19, 2011, Fitch, Inc. ("Fitch") assigned a "BBB+" rating to the Commonwealth's unenhanced general obligation and appropriation debt with a stable outlook. In assigning the rating, Fitch stated that, while it recognized the Commonwealth's historic budget deficits, overestimation of revenues, reliance on borrowings to meet budgetary gaps, and the low level of pension funding, the successful implementation of the dramatic steps taken by the government to restructure fiscal operations and stimulate the economy was a positive credit factor.

On April 19, 2010, Moody's Investors Service ("Moody's") announced the results of the recalibration of certain U.S. municipal bond issues and issuers in order to enhance the comparability of credit ratings across its portfolio of rated securities. As a result of this recalibration, the Commonwealth's unenhanced general obligation debt is now rated "A3" by Moody's, which is three categories above the previous "Baa3" rating. On August 10, 2010, Moody's assigned a negative outlook to the Commonwealth's unenhanced general obligation debt and related credits primarily as a result of the low funding levels of the Commonwealth's retirement systems.

On May 3, 2011, Moody's placed the "A3" general obligation rating of the Commonwealth on watchlist for possible downgrade citing the weak funding ratio of the Commonwealth's retirement systems and the significant strain that their future funding requirements will likely exert on the Commonwealth's financial condition. In its May 3 announcement, Moody's stated that it expected to conclude its review within 90 days.

## THE SERIES C-5-2 BONDS

### Purpose

The Series C-5-2 Bonds, together with the balance of the Series C Bonds and the Commonwealth's Public Improvement Refunding Bonds, Series 2003B in the aggregate principal amount of \$360,000, were originally issued for the purpose of refunding certain outstanding public improvement and public improvement refunding bonds of the Commonwealth (the "Refunded Bonds") for debt service savings. A description of the Refunded Bonds is contained in the Official Statement, dated April 16, 2003, relating to the Series C Bonds, which Official Statement can be obtained from any nationally recognized municipal securities information repository.

### General

The Series C-5 Bonds were converted to the Weekly Rate Mode on July 1, 2008 and remarketed. In connection with such conversion and remarketing, the Commonwealth obtained the Existing Liquidity Facility, which expires on July 1, 2011. The Series C-5-2 Bonds are subject to mandatory tender for purchase on the Substitution Date in connection with the expiration of the Existing Liquidity Facility. Pursuant to the terms of the Resolution, in order to maintain the Series C-5-2 Bonds in the Weekly Rate Mode following such mandatory tender, the Secretary has elected to replace the Existing Liquidity Facility on the Substitution Date with the Letter of Credit. On the Substitution Date, the Series C-5-2 Bonds will be remarketed as described herein, and will continue to bear interest from the Substitution Date in the Weekly Rate Mode as set forth below.

The Series C-5-2 Bonds are dated as of their date of original issuance, will continue to bear interest from the Substitution Date in the Weekly Rate Mode, and mature on the date and in the principal amount set forth on the inside cover page of this Remarketing Circular. Interest on the Series C-5-2 Bonds will be payable monthly as described below. The Series C-5-2 Bonds are subject to redemption and tender for purchase at the times and at the prices set forth below under "Purchase of Series C-5-2 Bonds" and "Redemption." Banco Popular de Puerto Rico will serve as tender agent and registrar (the "Registrar") for the Series C-5-2 Bonds.

As more fully described below, following the mandatory tender on the Substitution Date, the Series C-5-2 Bonds will continue to be in the Weekly Rate Mode and will bear interest at the Weekly Rates, until converted to another Rate Mode. At the direction of the Commonwealth, from time to time, the Series C-5-2 Bonds may be converted, in whole or in part, from one Rate Mode to another Rate Mode, including the Daily Rate Mode, the Weekly Rate Mode, the Commercial Paper Mode, the Term Rate Mode, the Fixed Rate Mode, the Index Floating Rate Mode or an Auction Rate Mode. *This Remarketing Circular only provides information concerning the Series C-5-2 Bonds while bearing interest at a Weekly Rate. There are significant differences in the terms of the Series C-5-2 Bonds if they are bearing interest at a Daily Rate, a Commercial Paper Rate, a Term Rate, a Fixed Rate, an Index Floating Rate or an Auction Rate. This Remarketing Circular does not provide information with respect to the Series C Bonds other than Series C-5-2 Bonds in a Weekly Rate Mode during a Weekly Rate Period. Reference is*

*made to the Series C-5-2 Bonds for their complete text and to the Resolution for definitions of these terms and a more detailed description of the provisions of the Series C-5-2 Bonds.*

The Series C-5-2 Bonds are being remarketed in the form of fully registered bonds without coupons in the denominations of \$100,000 and any multiple of \$5,000 in excess thereof. As described below under the caption “Book-Entry Only System,” when remarketed, the Series C-5-2 Bonds will continue to be registered in the name of Cede & Co., as Bondholder and nominee of The Depository Trust Company (“DTC”), New York, New York, which acts as securities depository for the Series C-5-2 Bonds.

*Payment of Series C-5-2 Bonds.* The principal of each Series C-5-2 Bond is payable only to the Owner or its registered assigns or legal representative at the corporate trust office of the Registrar, in the Municipality of San Juan, Puerto Rico, upon the presentation and surrender of such Series C-5-2 Bond, in any coin or currency of the United States of America which, at the date of payment thereof, is legal tender for the payment of public and private debts. Interest shall be payable during any Weekly Rate Period in immediately available funds payable by check mailed to each Owner of a Series C-5-2 Bond on the Record Date immediately preceding each Interest Payment Date at the address thereof as it appears on the registration books of the Secretary, or, at the request of an Owner, by wire transfer to such Owner at the wire transfer address in the United States to which such Owner has (not later than the Record Date immediately preceding such Interest Payment Date) directed the Registrar to wire such interest payment; provided, however, that (x) interest payable on any Interest Payment Date during which the Series C-5-2 Bonds are Book Entry Bonds shall be paid by wire transfer to the Depository for the Series C-5-2 Bonds or its nominee, at the wire transfer address therefor, and (y) interest on Purchased Bonds shall be paid by wire transfer to the Owner of such Purchased Bonds at the wire transfer address in the United States to which such Owner has (not less than five (5) days prior to the applicable Record Date) directed the Registrar to wire such interest payment. The amount of interest paid on each Interest Payment Date shall be the interest accrued and unpaid from the prior Interest Payment Date to which interest has been paid or duly provided for, to and including the day preceding such Interest Payment Date.

The Series C-5-2 Bonds, while in the Weekly Rate Mode, shall bear interest as provided in the Resolution from, and including, the Substitution Date to, but excluding, the date on which the Series C-5-2 Bonds mature computed on the basis of a three hundred sixty-five- (365-) or three hundred sixty-six-(366-) day year, as appropriate, and actual days elapsed during any Weekly Rate Period.

Absent manifest error, the interest rates contained in the records of the Registrar shall be conclusive and binding upon the Commonwealth, the Remarketing Agent, the Registrar, the Provider and the Holders.

*Remarketing Agent; Tender Agent.* Barclays Capital Inc. has been appointed Remarketing Agent for the Series C-5-2 Bonds. Banco Popular de Puerto Rico will serve as Tender Agent for the Series C-5-2 Bonds. All determinations of interest rates for the Series C-5-2 Bonds shall be conclusive and binding upon the Commonwealth, the Registrar, the Tender Agent, the Remarketing Agent, the Insurer, the Provider and the Bondholders, as applicable. At

the direction of the Commonwealth, the Series C-5-2 Bonds may be converted, in whole or in part, from one Rate Mode to another Rate Mode.

*Weekly Rate.* Each Series C-5-2 Bond in a Weekly Rate Mode (other than a Purchased Bond) will bear interest at the Weekly Rate. The Remarketing Agent for the Series C-5-2 Bonds in the Weekly Rate Mode shall determine the Weekly Rate for each Weekly Rate Period by 4:00 P.M., New York City time, on the Business Day proceeding the first day of such Weekly Rate Period. The Weekly Rate for the Series C-5-2 Bonds in a Weekly Rate Mode shall be the interest rate determined by the Remarketing Agent for such Series C-5-2 Bonds to be the lowest rate of interest that, if borne by such Series C-5-2 Bonds for such Weekly Rate Period, in the judgment of the Remarketing Agent, having due regard for the prevailing financial market conditions for bonds or other securities the interest on which is excludable from gross income for federal income tax purposes of the same general nature as such Series C-5-2 Bonds and which bonds or other securities are comparable as to credit and maturity or tender dates with the credit and maturity or tender dates of such Series C-5-2 Bonds, would be the lowest interest rate that would enable such Series C-5-2 Bonds to be sold on the first day of the applicable Weekly Rate Period at a price of par, plus accrued interest, if any.

The Remarketing Agent shall make the Weekly Rate available to any Holder, the Registrar, the Tender Agent, the Secretary, the Insurer and the Provider requesting such Rate, and promptly after each such determination, and on the last Business Day of each calendar month, the Remarketing Agent shall notify the Registrar, the Tender Agent, the Secretary, the Insurer and the Provider, by facsimile or by telephonic or electronic means of the interest rate borne by the Series C-5-2 Bonds on each day of that calendar month.

If for any reason (i) the Weekly Rate is not established as aforesaid, (ii) no Remarketing Agent for the Series C-5-2 Bonds shall be serving under the Resolution, (iii) the Weekly Rate so established is held to be invalid or unenforceable, (iv) pursuant to the Remarketing Agreement, the Remarketing Agent is not then required to establish a Weekly Rate, or (v) the Provider fails to provide funds under the Letter of Credit to purchase Tendered Bonds in the Weekly Rate Mode, then the Weekly Rate for such Weekly Rate Period shall be the SIFMA Index on the date such Weekly Rate was to have been determined by the Remarketing Agent.

*General Conversion Provisions.* (a) The Secretary is authorized by the Resolution to elect to convert the Series C-5-2 Bonds, in whole or in part, to one or more Rate Modes. In order to designate a new Rate Mode for any Series C-5-2 Bond, the Secretary has to deliver a Conversion Notice in accordance with the provisions of the Resolution. No Conversion into a new Rate Mode will occur unless:

- (i) on or prior to 11:00 A.M., New York City time, on the day that the Secretary delivers a Conversion Notice in accordance with the Resolution, the Secretary receives a letter from Bond Counsel stating that, based on the then current law, it knows of no reason why the Opinion of Bond Counsel described under paragraph (ii) below could not be rendered on the Conversion Date;

(ii) on or prior to 11:00 A.M., New York City time, on the Conversion Date, the Secretary delivers to the Registrar, the Tender Agent, the Insurer, the Provider and the Remarketing Agent, an Opinion of Bond Counsel with respect to such proposed Conversion;

(iii) if the Conversion is to the Fixed Rate Mode or the Term Rate Mode, the Conversion Date is an Interest Payment Date on which such Series C-5-2 Bond could be redeemed at the option of the Secretary as provided in the Resolution; and

(iv) if the Conversion is to the Auction Rate Mode, on or prior to the Conversion Date an Auction Agent and one or more Broker-Dealers have been appointed.

(b) If all conditions set forth in the Resolution to the Conversion are met, the Rate Period(s) or the Auction Period(s) for the new Rate Mode will begin on the Conversion Date and the interest rate(s) (together, in the case of a change to the Commercial Paper Mode, with the Rate Period(s)) will be determined by the Remarketing Agent in the manner provided in the Resolution.

(c) Subject to the additional provisions of the Resolution, in the event that:

(i) The requirements described in paragraph (a) above are not met on a scheduled Conversion Date; or

(ii) on the Business Day preceding a scheduled Conversion Date, the Remarketing Agent notifies the Registrar, the Secretary, the Insurer and the Provider that the Series C-5-2 Bonds to be converted cannot be remarketed; or

(iii) on or prior to the Business Day preceding a Conversion Date, the Secretary gives written notice to the Registrar, the Remarketing Agent, the Insurer and the Provider of its election not to convert such Series C-5-2 Bonds to the new Rate Mode; or

(iv) a Conversion Date is an Unscheduled Non-Business Day;

then, in such case, the Series C-5-2 Bonds will remain in the then existing Rate Mode.

(d) The provisions described in paragraph (a) above do not apply to a proposed Conversion from the Weekly Rate Mode to an Auction Rate Mode, a Fixed Rate Mode, an Index Floating Rate Mode or a Term Rate Mode. The conditions applicable to a Conversion from the Weekly Rate Mode to an Auction Rate Mode, a Fixed Rate Mode, an Index Floating Rate Mode, or a Term Rate Mode are set forth in the Resolution.

### **Purchase of Series C-5-2 Bonds**

*Optional Tender for Purchase.* For so long as the Series C-5-2 Bonds that are Book Entry Bonds and for which DTC is the Depository bear interest at a Weekly Rate, a DTC Participant, acting on behalf of a Beneficial Owner, has the right to tender all or any portion, in

an Authorized Denomination, of the principal amount of such Beneficial Owner's interest in such Series C-5-2 Bond for purchase on any Optional Tender Date, by the giving or delivering to the Remarketing Agent and to the Tender Agent at their respective principal offices a Tender Notice which states (i) the aggregate principal amount in an Authorized Denomination of each Series C-5-2 Bond or portion thereof to be purchased, and (ii) that such principal amount of the Series C-5-2 Bond (in an Authorized Denomination) shall be purchased on such Optional Tender Date pursuant to the Resolution.

Such Tender Notice must be delivered not later than 5:00 P.M., New York City time, on the seventh calendar day prior to the Optional Tender Date.

Any Tender Notice given or delivered will be irrevocable and binding on the DTC Participant, the Beneficial Owner on whose behalf such notice was given and any transferee of such Beneficial Owner. The principal amount of the Series C-5-2 Bonds for which a Tender Notice has been given or delivered shall be deemed tendered on the Optional Tender Date without presentation or surrender of the Series C-5-2 Bonds to the Tender Agent. If the Tender Agent has on deposit on the Optional Tender Date Available Moneys sufficient to pay the Purchase Price of the Series C-5-2 Bonds or portion thereof to be tendered on such Optional Tender Date pursuant to a Tender Notice, the Registrar will request that ownership of such Series C-5-2 Bonds or portions thereof be recorded in the records of DTC as transferred to the Remarketing Agent.

For so long as a Series C-5-2 Bond that is not a Book Entry Bond or for which DTC is not the Depository, bears interest at a Weekly Rate, the Holder of such Series C-5-2 Bond will have the right to tender it (or a portion thereof in an Authorized Denomination) to the Tender Agent for purchase on any Optional Tender Date, but only upon:

(i) giving or delivering to the Remarketing Agent and to the Tender Agent at their respective principal offices, not later than 11:00 A.M., New York City time, on the Optional Tender Date, an irrevocable telephonic Tender Notice subsequently confirmed in writing on the same day, which Tender Notice states (A) the aggregate principal amount in an Authorized Denomination of the Series C-5-2 Bond to be purchased, and (B) that such Series C-5-2 Bond (or portion thereof) shall be purchased on such Optional Tender Date pursuant to the Resolution; and

(ii) delivery of such Series C-5-2 Bond (with an appropriate instrument of transfer duly executed in blank) to the Tender Agent at its principal office at or prior to 1:00 P.M., New York City time, on such Optional Tender Date, but no Series C-5-2 Bond (or portion thereof) shall be purchased unless the Series C-5-2 Bond so delivered to the Tender Agent shall conform in all respects to the description thereof in the aforesaid notice.

Any Tender Notice given or delivered will be irrevocable and binding on the Bondholder giving or delivering such Tender Notice and on any transferee of such Bondholder.

*Mandatory Tender.* The Series C-5-2 Bonds are subject to mandatory tender for purchase at the Purchase Price on the following dates:

(i) on the applicable Conversion Date in the case of Series C-5-2 Bonds to be converted to a different Rate Mode;

(ii) on a Business Day that is not less than three (3) Business Days prior to the Expiration Date of the Letter of Credit, unless the Expiration Date of the Letter of Credit has been extended at least ninety (90) days prior to such Expiration Date;

(iii) on the effective date of a substitute Liquidity Facility delivered pursuant to the Resolution with respect to the Series C-5-2 Bonds (or if such date is not a Business Day, on the immediately preceding Business Day); and

(iv) on a Business Day not later than the tenth day following receipt by the Registrar of notice from the Provider that an Additional Credit Facility Default has occurred under the Letter of Credit or the Reimbursement Agreement, and directing the Registrar to issue a notice of mandatory tender of the Series C-5-2 Bonds.

*Notice of Mandatory Tender.* Whenever Series C-5-2 Bonds are to be tendered for purchase upon Conversion to a new Rate Mode, the Tender Agent shall give the notices required by the Resolution. Whenever Series C-5-2 Bonds are to be tendered for purchase upon expiration of the Letter of Credit in accordance with the Resolution, the Tender Agent shall, not less than thirty (30) days prior to the stated Expiration Date of the Letter of Credit, give notice by first-class mail to the Holders of the Series C-5-2 Bonds to be tendered that such Series C-5-2 Bonds are subject to mandatory tender for purchase on the date specified in the Resolution. Whenever Series C-5-2 Bonds are to be tendered for purchase upon the delivery of a substitute Liquidity Facility or upon an Additional Credit Facility Default resulting in a mandatory tender under the Resolution, the Tender Agent shall, not less than five (5) days prior to the applicable Tender Date, give notice by first-class mail to the Holders of the Series C-5-2 Bonds to be tendered that such Series C-5-2 Bonds are subject to mandatory tender for purchase on the date specified in the Resolution.

*Purchase of Tendered Bonds.* On each Tender Date, the Series C-5-2 Bonds tendered for purchase (the “Tendered Bonds”) shall be purchased (but only from Available Moneys) at the applicable Purchase Price, which shall be paid on the Tender Date. The Purchase Price for the Tendered Bonds shall be paid by the Tender Agent from Available Moneys in the Additional Credit Facility Fund as provided in the Resolution. Tendered Bonds so purchased shall be delivered as provided in the Resolution. No Tendered Bond so purchased by or for the account of the Provider or with moneys made available by the Provider shall cease to be outstanding solely by reason of such purchase.

### **Tender Process and Sales of Series C-5-2 Bonds by Remarketing Agent**

*The Remarketing Agent is Paid by the Commonwealth.* The Remarketing Agent’s responsibilities include determining the interest rate from time to time and remarketing Series C-5-2 Bonds that are optionally or mandatorily tendered to it by the beneficial owners thereof (subject, in each case, to the terms of the Remarketing Agreement and the Resolution). The Remarketing Agent is appointed by the Commonwealth and is paid by the Commonwealth for its services. As a result, the interests of the Remarketing Agent may differ from those of beneficial owners and potential purchasers of Series C-5-2 Bonds.

*Determination of Interest Rates by the Remarketing Agent.* The Remarketing Agent is required to determine the interest rate that will be effective with respect to Series C-5-2 Bonds on the dates specified in the Resolution. That rate is required by the Resolution to be the minimum interest rate which, if borne by such Series C-5-2 Bonds, would enable the Remarketing Agent to sell all of such Series C-5-2 Bonds on the effective date of that rate at a price (without regard to accrued interest) equal to the principal amount thereof.

*Tenders to the Tender Agent.* Beneficial owners of Series C-5-2 Bonds may elect to tender their bonds for purchase by the Tender Agent upon not less than the required advance notice as described while the Series C-5-2 Bonds are in book entry form through its Participant by causing the Participant to transfer its interest in the Series C-5-2 Bonds for such owner, on DTC's records, to the Tender Agent. Tendering Bondholders will receive par, plus accrued interest, if any, on the purchase date specified either by said beneficial owner or, in the case of mandatory tender, by the terms of the Resolution. Tendering Bondholders will be paid by the Tender Agent from the proceeds of the remarketing of the Series C-5-2 Bonds and, to the extent those proceeds are insufficient, from the proceeds of draws on the Letter of Credit or any alternate liquidity/credit facility then in effect.

*The Remarketing Agent Routinely Purchases Series C-5-2 Bonds for its Own Account.* The Remarketing Agent acts as remarketing agent for a variety of variable rate demand obligations issued by many issuers and, in its sole discretion, routinely purchases such obligations for its own account. The Remarketing Agent is permitted, but not obligated, to purchase tendered Series C-5-2 Bonds for its own account and, in its sole discretion, may acquire such tendered Series C-5-2 Bonds in order to achieve a successful remarketing of the Series C-5-2 Bonds (*i.e.*, because there otherwise are not enough buyers to purchase the Series C-5-2 Bonds) or for other reasons. The Remarketing Agent is not obligated, however, to purchase Series C-5-2 Bonds, and may cease doing so at any time without notice, in which case it may be necessary for the Tender Agent to draw on the Letter of Credit or any liquidity/credit facility then in effect to pay tendering Bondholders.

The Remarketing Agent also may make a secondary market in the Series C-5-2 Bonds by purchasing and selling Series C-5-2 Bonds other than in connection with an optional or mandatory tender and remarketing. Such purchases and sales must be at fair market value, which may be at, above, or below par. No notice period is required for such purchases. The Remarketing Agent is not required, however, to make a secondary market in the Series C-5-2 Bonds. Thus, investors who purchase the Series C-5-2 Bonds, whether in a remarketing or otherwise, should not assume that they will be able to sell their Series C-5-2 Bonds other than by tendering the Series C-5-2 Bonds in accordance with the tender process.

The Remarketing Agent may also sell any Series C-5-2 Bonds it has purchased to one or more affiliated investment vehicles for collective ownership or enter into derivative arrangements with affiliates or others in order to reduce its exposure to the Series C-5-2 Bonds. The purchase of Series C-5-2 Bonds by the Remarketing Agent may create the appearance that there is greater third party demand for the Series C-5-2 Bonds in the market than is actually the case. The practices described above also may result in fewer Series C-5-2 Bonds being tendered in a remarketing.

*Series C-5-2 Bonds May be Offered at Prices Other Than Par.* Pursuant to the Remarketing Agreement, the Remarketing Agent is required to determine the interest rate that will be effective with respect to the Series C-5-2 Bonds. That rate is required by the Resolution to be the minimum interest rate which, if borne by such Series C-5-2 Bonds, would enable the Remarketing Agent to sell all of such Series C-5-2 Bonds on the effective date of that rate at a price (without regard to accrued interest) equal to the principal amount thereof. The interest rate will reflect, among other factors, the level of market demand for the Series C-5-2 Bonds (including whether the Remarketing Agent is willing to purchase Series C-5-2 Bonds for its own account). The Remarketing Agent is not obligated to advise purchasers in a remarketing if it does not have third-party buyers for all of the Series C-5-2 Bonds at the remarketing price. If the Remarketing Agent owns Series C-5-2 Bonds for its own account, in its sole discretion, it may sell those Series C-5-2 Bonds at fair market value, which may be at prices above or below par only on days other than the date of determination of an interest rate or the effective date of such interest rate after the interest rate for the succeeding interest rate effective date has been set. The Remarketing Agent may not agree in advance of the Effective Date to sell Series C-5-2 Bonds to a customer at a price below par.

*Under Certain Circumstances, the Remarketing Agent May Be Removed, Resign or Cease Remarketing the Series C-5-2 Bonds, Without a Successor Being Named.* Under certain circumstances the Remarketing Agent may be removed or have the ability to resign or cease its remarketing efforts, without a successor having been named, subject to the terms of the Remarketing Agreement. In the event there is no Remarketing Agent, Bondholders will be required to tender their Series C-5-2 Bonds to the Tender Agent. In that event, the Series C-5-2 Bonds will bear interest at the rate equal to the SIFMA Index on the date such rate was to have been determined by the Remarketing Agent.

## **Letter of Credit and Reimbursement Agreement**

*General.* The Commonwealth has arranged for the Provider to provide the Letter of Credit pursuant to the Reimbursement Agreement. Investors are urged to obtain and review the Reimbursement Agreement and the Letter of Credit for a more detailed description of the provisions thereof.

*Letter of Credit.* The Letter of Credit will be issued in an amount equal to the aggregate outstanding principal amount of the Series C-5-2 Bonds, plus 56 days' of interest (calculated at a rate of 12% per annum). The Registrar, upon compliance with the terms of the Letter of Credit and the Resolution, is authorized and directed to draw upon the Letter of Credit to make payment with respect to the principal of and interest on, and Purchase Price of the Series C-5-2 Bonds.

The amount available under the Letter of Credit will be reduced automatically by the amount of any drawing thereunder, subject to reinstatement as described below. With respect to a drawing by the Registrar solely to pay interest on the Series C-5-2 Bonds on an Interest Payment Date, the amount available under the Letter or Credit will be automatically reinstated on the tenth calendar day following such drawing if the Registrar has not received notice to the contrary from the Provider under the Reimbursement Agreement and, as a result thereof, the amount of such drawing shall not be reinstated and the Provider shall direct the Registrar to cause a mandatory tender of the Series C-5-2 Bonds pursuant to the Resolution. After payment

by the Provider of a Liquidity Drawing (as defined in the Reimbursement Agreement), the amount available to be drawn under the Letter of Credit will be automatically reduced by the amount specified in such Liquidity Drawing. In addition, prior to the Conversion Date (as defined in the Reimbursement Agreement), in the event of the remarketing of the Series C-5-2 Bonds (or portions thereof) previously purchased with the proceeds of a Liquidity Drawing, the amount available to be drawn under the Letter of Credit will be automatically reinstated concurrently and when and to the extent, but only when and to the extent, that the Provider is reimbursed for any amount drawn pursuant to such Liquidity Drawing.

Upon any payment of principal of or interest on, or the Purchase Price of, any Series C-5-2 Bonds with the proceeds of a drawing under the Letter of Credit, the Provider shall be deemed to have acquired from the Holders of such Series C-5-2 Bonds their right to receive payment of such amounts from the Commonwealth and the Insurer. In the event of such a payment with a draw under the Letter of Credit, the Provider will be subrogated *pro tanto* to the rights of the Registrar and the Holders of the Series C-5-2 Bonds in and to all funds and security held by the Registrar under the Resolution for the payment of the Series C-5-2 Bonds. In addition, the Provider shall have any and all other subrogation rights available to it at law or in equity.

The Letter of Credit will terminate on the Provider's close of business on the earliest of (a) the stated expiration date (June 21, 2013); (b) the earlier of (i) the date which is five (5) days following the Conversion Date of all of the Series C-5-2 Bonds as specified in a notice from the Tender Agent to the Provider, or (ii) the date on which the Provider honors a drawing under such Letter of Credit on or after such Conversion Date; (c) the date which is ten (10) days following the Provider's receipt of written notice from the Registrar that all Series C-5-2 Bonds have been paid or that another Facility has been issued in substitution for the Letter of Credit in accordance with the terms of the Resolution and the Reimbursement Agreement or that all drawings required to be made under the Resolution and available under the Letter of Credit have been made and honored; and (d) the date which is ten (10) days following the date the Registrar receives a written notice from the Provider specifying the occurrence of an Additional Credit Facility Default and directing the Registrar to cause a mandatory tender of the Series C-5-2 Bonds.

*Reimbursement Agreement.* The Commonwealth will enter into the Reimbursement Agreement with the Provider, pursuant to which the Provider will issue the Letter of Credit to pay when due the principal of and interest on the Series C-5-2 Bonds, as described above. The Letter of Credit also may be drawn to provide funds to the Tender Agent to enable it to purchase Series C-5-2 Bonds which are optionally or mandatorily tendered by their Owners in accordance with the provisions of the Resolution and are not remarketed, including a draw in connection with a mandatory tender upon the Provider's giving notice to the Registrar and Tender Agent of the occurrence of an Additional Credit Facility Default. An Additional Credit Facility Default includes any of the following events:

(1) an Event of Default under the Reimbursement Agreement, which includes, without limitation, the following:

(a) default in the payment when due of (i) any payments required to be made by the Commonwealth for reimbursement to the Provider of any drawings under the Letter of Credit, or (ii) any other amount owing by the Commonwealth under the

Reimbursement Agreement and such default under this clause (ii) continues for a period of ten (10) Business Days after the Provider has given notice to the Commonwealth that such amount is due; or

(b) (i) the Commonwealth defaults in the performance or observance of any term, covenant, condition or agreement on its part to be performed or observed under certain sections of the Reimbursement Agreement, or (ii) the Commonwealth shall default in the delivery to the Provider of its audited financial statements within 305 days after the end of each fiscal year, together with a certificate of the Secretary stating that no Event of Default shall exist, and such default shall continue for five (5) days after the Commonwealth shall have received notice thereof, or (iii) the Commonwealth defaults in the performance or observance of any other term, covenant, other condition or agreement on its part to be performed or observed under the Reimbursement Agreement and such other default described in this clause (iii) continues unremedied for thirty (30) days after the earlier of the date on which the Secretary shall become aware of such default or written notice thereof shall have been given to the Commonwealth by the Provider; or

(c) any of the Commonwealth's representations or warranties made in the Reimbursement Agreement or in any statement or certificate at any time made or deemed made by or on behalf of the Commonwealth pursuant to the Reimbursement Agreement or in connection with the Reimbursement Agreement, and/or in any of the Related Documents (as defined in the Reimbursement Agreement) is false or misleading in any material respect when made or deemed made; or

(d) (i) the Commonwealth commences any case, proceeding or other action under any existing or future law of any jurisdiction, domestic or foreign, (A) relating to bankruptcy, insolvency, reorganization or relief of debtors, seeking to have an order for relief entered with respect to it, or seeking to adjudicate it a bankrupt or insolvent, or seeking reorganization, arrangement, adjustment, winding-up, liquidation, dissolution, composition or other relief with respect to it or its debts, or (B) seeking appointment of a receiver, trustee, custodian or other similar official for it or for all or any substantial part of its assets, or the Commonwealth shall make a general assignment for the benefit of its creditors; or

(ii) there is commenced against the Commonwealth any case, proceeding or other action of a nature referred to in clause (i) above which (A) results in an order for such relief or in the appointment of a receiver or similar official or (B) remains undismissed, undischarged or unbonded for a period of ninety (90) days; or

(iii) there is commenced against the Commonwealth any case, proceeding or other action seeking issuance of a warrant of attachment, execution, distraint or similar process against all or any substantial part of its assets, which results in the entry of an order for any such relief which shall not have been vacated, discharged, or stayed or bonded pending appeal within ninety (90) days from the entry thereof; or

(iv) the Commonwealth takes any action in furtherance of, or indicating its consent to, approval of, or acquiescence in, any of the acts set forth in clause (i), (ii) or (iii) above; or

(v) the Commonwealth shall generally not, or shall be unable to, or shall admit in writing its inability to, pay its debts; or

(vi) the Commonwealth or any other Governmental Authority (as defined in the Reimbursement Agreement) having jurisdiction over the Commonwealth imposes a debt moratorium, debt restructuring, or comparable restriction on the repayment when due and payable of the principal of or interest on any General Obligation Debt (as defined in the Reimbursement Agreement) of the Commonwealth; or

(e) the occurrence of any “event of default” on the part of the Commonwealth under any of the Related Documents to which it is a party shall have occurred and be continuing; or

(f) one or final, non-appealable judgment or judgments shall be entered or filed against the Commonwealth, the remedy for which is, or results in, a writ, a levy or a warrant of attachment, or any similar process against any monies in the General Fund of the Commonwealth; or

(g) any material provision of the Reimbursement Agreement or any other Related Document to which the Commonwealth is a party shall at any time for any reason cease to be valid and binding on the Commonwealth, or shall be declared to be null and void, or the validity or enforceability thereof shall be contested by the Commonwealth, or a proceeding shall be commenced by any governmental agency or authority having jurisdiction over the Commonwealth seeking to establish the invalidity or unenforceability thereof, or the Commonwealth shall deny that it has any or further liability or obligation under the Reimbursement Agreement or any other Related Document to which it is a party; or

(h) the Commonwealth shall fail to pay when due and payable any General Obligation Debt in excess of \$25,000,000 and such failure shall continue beyond any applicable period of grace specified in any underlying resolution, indenture, contract or instrument providing for the creation of or concerning such General Obligation Debt, or pursuant to the provisions of any such resolution, indenture, contract or instrument, the maturity of any such General Obligation Debt, as a result of the occurrence of a default in the payment of principal or interest by the Commonwealth on any General Obligation Debt, may be accelerated, or may be required to be prepaid prior to the stated maturity thereof; or

(i) the long-term rating assigned by S&P, Moody’s or Fitch to any of the Commonwealth’s General Obligation Debt (without taking into account third party credit enhancement) is withdrawn, suspended or reduced below “BBB-” (or its equivalent

rating) by S&P, “Baa3” (or its equivalent rating) by Moody’s or “BBB-” (or its equivalent rating) by Fitch.

(2) an Insurer Event of Default, which includes the following:

(a) any principal or interest evidenced by the Series C-5-2 Bonds is not paid by the Insurer when, as, and in the amounts required to be paid pursuant to the terms of the Policy; or

(b) (i) any material provision of the Policy relating to the obligation of the Insurer to make payments of principal and interest thereunder at any time for any reason ceases to be valid and binding on the Insurer in accordance with the terms of the Policy or the New York Department of Insurance, or a court or other governmental authority of appropriate jurisdiction shall find or rule or shall enter an order, judgment or decree that the Policy is not valid and binding on the Insurer, or (ii) the Insurer shall take certain actions to contest the validity or enforceability of the Policy or repudiate its obligations under the Policy; or

(c) a proceeding is instituted in a court having jurisdiction in the premises seeking an order for relief, rehabilitation, reorganization, conservation, liquidation or dissolution in respect to the Insurer or for any substantial part of its property under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, or for the appointment of a receiver, liquidator, assignee, custodian, trustee or sequestrator (or other similar official) and such proceeding shall not have been dismissed within sixty (60) days or such court enters an order granting the relief sought in such proceeding; or the New York Department of Insurance shall declare a moratorium on the payment of the Insurer’s debts, or the Insurer shall commence a voluntary case under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, shall consent to the entry of an order for relief in an involuntary case under any such law or shall consent to the appointment of or taking possession by a receiver, liquidator, assignee, trustee, custodian or sequestrator (or other similar official) of the Insurer or for any substantial part of its property, or shall make a general assignment for the benefit of creditors, or shall fail generally to pay its debts (provided that for these purposes, “debts” shall not include any obligation of the Insurer under any insurance policy or surety bond) as they become due, or an order for rehabilitation, liquidation or dissolution of the Insurer shall be issued; or

(d) the Insurer shall fail to make any payment related to principal and interest when due under any insurance policy (other than the Policy) or surety bond issued by it insuring or supporting the payment of municipal obligations rated by Moody’s or S&P, and such failure shall continue for a period of thirty (30) days (provided that default for these purposes shall not mean a situation whereby the Insurer contests in good faith its liability under any such policy or policies in light of the claims made thereunder).

(3) an Insurer Downgrade Event, which means that the financial strength or claims-paying rating of the Insurer shall for a period of thirty (30) consecutive days be (i) reduced below “A1” (or its equivalent) or suspended or withdrawn by Moody’s, and (ii) reduced below “A+”

(or its equivalent) or suspended or withdrawn by S&P; provided, however, that a withdrawal or a suspension of a rating by any such Rating Service shall not constitute an Insurer Downgrade Event if such Rating Service states in writing that the rating action is being taken for non-credit related reasons.

Upon the occurrence and during the continuance of any Event of Default (provided that no Insurer Event of Default of the type specified in clauses (a), (b) and (c) above shall have occurred and the Policy remains in effect), the Provider at its option may, among other things, do any one or more of the following:

(a) give written notice of the occurrence of an Additional Credit Facility Default to the Registrar and direct the Registrar to cause a mandatory tender of the Series C-5-2 Bonds pursuant to the Resolution, thereby causing the Letter of Credit to terminate ten (10) Business Days thereafter in accordance with its terms; or

(b) pursue any rights and remedies it may have under the Reimbursement Agreement and the other Related Documents subject to the terms thereof, including, instituting suit, actions or proceedings to enforce its rights under the Reimbursement Agreement and the Resolution; or

(c) pursue any other action available at law or in equity either for specific performance of any covenant or agreement contained herein or in aid of execution of any power herein granted or for the enforcement of any proper legal remedy; or

(d) exercise any or all rights provided or permitted by law or granted pursuant to any of the Related Documents in such order and in such manner as the Provider may, in its sole judgment, determine; or

(e) by notice to the Commonwealth, declare all amounts payable to the Provider by the Commonwealth under the Reimbursement Agreement immediately due and payable, whereupon the same shall be immediately due and payable; *provided* that upon the occurrence of an Event of Default described in (1)(d) above such acceleration shall automatically occur (unless such automatic acceleration is waived by the Provider in writing).

*Cancellation of Policy.* Upon the occurrence and during the continuance of any Event of Default, an Insurer Event of Default or an Insurer Downgrade Event, in each case upon a mandatory tender of the Series C-5-2 Bonds pursuant to the Resolution, the Provider may direct that the Policy be terminated in accordance with the terms of the Cancellation Agreement subject to the conditions stated therein.

### **Interest Rate Swap**

Concurrently with the original conversion of the Series C-5 Bonds to the Weekly Rate Mode, the Commonwealth entered into an interest rate swap with a certain swap provider in order to effectively fix the interest rate on the Series C-5-2 Bonds. The portion of the interest rate swap related to the Series C-5-2 Bonds will remain in place following the Substitution Date.

Under the terms of the interest rate swap, it may be terminated by the Commonwealth at any time at its then current market value. The underlying agreement may also be terminated

upon the occurrence of certain credit events. If a termination event occurs due to a credit event, the Commonwealth may be obligated to pay to the swap provider an amount based on the terminating swap's market value, which may be substantial.

The Commonwealth's obligations under the interest rate swap are secured, by virtue of the provisions of Act No. 39 of the Legislature of Puerto Rico, approved August 1, 2005, by the full faith, credit and taxing power of the Commonwealth. For more information regarding the Commonwealth's interest rate swaps and variable rate debt, see "Interest Rate Exchange Agreements" and "Variable Rate Bonds and Mandatory Tender Bonds" under DEBT in the Commonwealth Report.

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

The following information concerning DTC and DTC's book-entry system has been obtained from DTC. The Commonwealth does not take any responsibility for the accuracy thereof.

DTC will act as securities depository for the Series C-5-2 Bonds. The Series C-5-2 Bonds were initially issued and will be remarketed 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 the Series C-5-2 Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest depository, 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 Exchange Act of 1934, as amended. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity, corporate and municipal debt, and money market instruments from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has S&P's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission ("SEC"). More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com) and [www.dtc.org](http://www.dtc.org).

Purchases of the Series C-5-2 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series C-5-2 Bonds on DTC's records. The ownership interest of each actual purchaser of a Series C-5-2 Bond ("Beneficial Owner") will in turn be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchases. Beneficial Owners are, however, expected to receive written confirmations providing details of their transactions, 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 Series C-5-2 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Series C-5-2 Bonds, except in the event that use of the book-entry system for the Series C-5-2 Bonds is discontinued.

To facilitate subsequent transfers, all Series C-5-2 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 Series C-5-2 Bonds with DTC and their registration in the name of Cede & Co. or such other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series C-5-2 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series C-5-2 Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect 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 Direct Participants and Indirect 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. Beneficial Owners may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series C-5-2 Bonds, such as redemptions, tenders, defaults, and proposed amendments to the bond documents. For example, Beneficial Owners may wish to ascertain that the nominee holding the Series C-5-2 Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the Registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Series C-5-2 Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the Series C-5-2 Bonds unless authorized by a Direct Participant in accordance with DTC's procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Commonwealth 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 Series C-5-2 Bonds are credited on such record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds and interest payments on the Series C-5-2 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Commonwealth, on the payable date in accordance with their respective holdings shown on DTC's records. 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, its nominee, or the Commonwealth, 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 Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Commonwealth, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

A Beneficial Owner shall give notice to elect to have its Series C-5-2 Bonds purchased or tendered, through its Participant, to the Registrar, and shall effect delivery of such Series C-5-2 Bonds by causing the Direct Participant to transfer the Participant's interest in the Series C-5-2 Bonds, on DTC's records, to the Registrar. The requirement for physical delivery of Series C-5-2 Bonds in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Series C-5-2 Bonds are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Series C-5-2 Bonds to the Registrar's DTC account.

DTC may discontinue providing its services as securities depository with respect to the Series C-5-2 Bonds at any time by giving reasonable notice to the Commonwealth or the Registrar. Under such circumstances, in the event that a successor securities depository is not obtained, definitive Series C-5-2 Bonds will be printed and delivered.

The Commonwealth may decide to discontinue use of the system of book-entry only transfers through DTC (or a successor depository). In that event, definitive Series C-5-2 Bonds will be printed and delivered.

### **Payments and Transfers**

No assurance can be given by the Commonwealth that DTC will make prompt transfer of payments to the Participants or that Participants will make prompt transfer of payments to Beneficial Owners. The Commonwealth 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 and exchange of the Series C-5-2 Bonds, the Beneficial Owners may be charged a sum sufficient to cover any tax, fee or other charge that may be imposed in relation thereto.

## Discontinuance of the Book-Entry Only System

In the event that the book-entry only system is discontinued, the following provisions will apply: principal of and redemption premium, if any, on the Series C-5-2 Bonds shall be payable in lawful money of the United States of America at the principal office of the Registrar in San Juan, Puerto Rico. Interest on the Series C-5-2 Bonds will be payable by check mailed to the respective addresses (shown on the registration books of the Commonwealth maintained by the Registrar) of the registered owners determined, with respect to the Series C-5-2 Bonds, as of the 15th day of the month preceding the interest payment date and, with respect to the Series C-5-2 Bonds, as of the record date established pursuant to the Resolution, as shown on the registration books of the Commonwealth maintained by the Registrar. The Series C-5-2 Bonds offered by virtue of this Remarketing Circular will be remarketed only as registered bonds without coupons in denominations of \$100,000 and any multiple of \$5,000 in excess thereof. The transfer of the Series C-5-2 Bonds will be registrable and they may be exchanged at the corporate trust office of the Registrar in San Juan, Puerto Rico, upon the payment of any taxes or other governmental charges required to be paid with respect to such transfer or exchange.

## Authorization

Section 2 of Article VI of the Constitution of the Commonwealth provides that the power of the Commonwealth to contract and to authorize the contracting of debts shall be exercised as determined by the Legislative Assembly. Pursuant to this power, the Legislative Assembly enacted the Act, which authorizes the Secretary of the Treasury to issue the Series C-5-2 Bonds pursuant to one or more resolutions adopted by the Secretary of the Treasury and approved by the Governor. In accordance with the Act, the Secretary of the Treasury adopted and the Governor approved the Resolution.

## Redemption

*Optional Redemption.* During a Weekly Rate Period, the Series C-5-2 Bonds shall be subject to redemption prior to their maturity, at the option of the Secretary, in whole or in part on any Business Day (and if in part, in such order of Amortization Requirements as may be specified by the Secretary), from any Available Moneys (other than moneys set aside in respect of an Amortization Requirement), at a redemption price equal to the principal amount of the Series C-5-2 Bonds to be redeemed, together with accrued interest to the date fixed for redemption, without premium.

*Mandatory Redemption.* The Series C-5-2 Bonds are subject to redemption in part in the principal amounts equal to the respective Amortization Requirements set forth below, on July 1 of each year set forth below at a redemption price of par plus accrued interest to the dates fixed for redemption, without premium.

Year	Amortization Requirements (due July 1,)
2019	\$92,560,000
2020*	96,150,000

\* Maturity.

Notwithstanding the foregoing, while the Series C-5-2 Bonds bear interest at a Weekly Rate, if such July 1 is not an Interest Payment Date, the redemption shall occur on the Interest Payment Date next succeeding such July 1.

If the amount of Series C-5-2 Bonds purchased or redeemed in a fiscal year exceeds the amount of the Amortization Requirement for the Series C-5-2 Bonds for such fiscal year, the Amortization Requirement for the Series C-5-2 Bonds may be decreased for such subsequent fiscal years and in such amounts aggregating the amount of such excess as the Secretary of the Treasury shall determine.

### **Notice of Redemption; Effect of Redemption**

Any redemption of the Series C-5-2 Bonds, either in whole or in part, shall be made upon at least thirty days' prior notice by registered or certified mail, postage prepaid, to all Owners of the Series C-5-2 Bonds to be redeemed in the manner and under the terms and conditions provided in the Resolution. On the date designated for redemption, notice having been given as provided in the Resolution and moneys for payment of the principal of and accrued interest on the Series C-5-2 Bonds or portions thereof so called for redemption being held by the Registrar, interest on the Series C-5-2 Bonds or portions thereof so called for redemption shall cease to accrue.

Each notice of redemption shall contain, among other things, the particular Series C-5-2 Bonds (or portions thereof) being called for redemption, the redemption date and price and the address at which such Series C-5-2 Bonds are to be surrendered for payment of the redemption price. Any defect in such notice or the failure to mail any such notice to DTC in respect of, or the registered owner of, any Series C-5-2 Bond will not affect the validity of the proceedings for the redemption of any other Series C-5-2 Bond.

If less than all the Series C-5-2 Bonds are called for redemption, the particular Series C-5-2 Bonds so called for redemption shall be selected by the Registrar by such method as it deems proper in its discretion, except that so long as the book-entry only system shall remain in effect, in the event of any such partial redemption, DTC shall reduce the credit balances of the applicable DTC Participants in respect of the Series C-5-2 Bonds and such DTC Participants shall in turn select those Beneficial Owners whose ownership interests are to be extinguished by such partial redemption, each by such method as DTC or such DTC Participant, as the case may be, in its sole discretion, deems fair and appropriate.

So long as the Letter of Credit is in effect, the redemption price of the Series C-5-2 Bonds shall be paid through a drawing on the Letter of Credit.

### **Security**

#### *Provision for Payment of Public Debt*

The Act provides that the good faith, credit and taxing power of the Commonwealth are irrevocably pledged for the prompt payment of the principal of and interest on the bonds issued under the provisions of the Act. The Secretary of the Treasury is authorized and directed under the Act to pay the principal of and interest on the Series C-5-2 Bonds as the same become due

and payable from any funds available for such purpose at the Department of the Treasury in the fiscal year in which such payment is due. The Act provides that the provisions contained therein with respect to the payment of the principal of and interest on the Series C-5-2 Bonds shall be considered to be a continuous appropriation for the Secretary of the Treasury to make such payments, even though no specific appropriations are made for such purposes. The payments under the Act are required to be made pursuant to the provisions of the laws of the Commonwealth that regulate the disbursement of public funds.

Section 8 of Article VI of the Constitution of Puerto Rico provides that public debt of the Commonwealth will constitute a first claim on available Commonwealth resources. Public debt includes general obligation bonds and notes of the Commonwealth and any payments required to be made by the Commonwealth under its guarantees of bonds and notes issued by its public instrumentalities.

The Commonwealth has allocated certain motor vehicle fuel taxes, crude oil and derivative products excise taxes and license fees to Puerto Rico Highways and Transportation Authority (the “Highways 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 had to apply such amounts to the payment of its public debt.

Since fiscal year 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 had to apply such amounts to the payment of its public debt.

Act No. 91 of May 13, 2006, as amended (“Act No. 91”), allocates a portion of the Commonwealth sales and use tax to pay debt service on the bonds issued by COFINA for the purpose of, among other things, paying or financing certain obligations of the Commonwealth, paying or financing a portion of the Commonwealth’s operational expenses, and funding the Puerto Rico Economic Stimulus Fund, the Commonwealth Emergency Fund and the Economic Cooperation and Public Employees Alternatives Fund. Act No. 91 provides that the Dedicated Sales Tax Fund created by Act No. 91, the funds on deposit therein and Commonwealth the sales and use tax pledged to COFINA do not constitute “available Commonwealth resources” of the Commonwealth for purposes of Section 2 and Section 8 of Article VI of the Constitution of Puerto Rico and are not available for use by the Secretary of the Treasury. As a result, the portion of the Commonwealth sales and use tax allocated to COFINA is not available for the payment of principal of and interest on the Bonds.

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

### *Special Fund for the Bonds (General Obligation) Debt Service*

Act No. 83 of the Legislative Assembly of Puerto Rico, approved on August 30, 1991, as amended, provides for the levy of an annual special tax of 1.03% of the assessed value of all real and personal property not exempt from taxation. The proceeds of said tax are credited to the Commonwealth Debt Redemption Fund (the “Redemption Fund”), for application to the payment of general obligation bonds and notes of the Commonwealth.

Act No. 39 of the Legislative Assembly of Puerto Rico, approved on May 13, 1976, as amended (“Act No. 39”), requires the Secretary of the Treasury to transfer each month from available funds of the Commonwealth to the Redemption Fund such amounts which, together with certain other funds deposited therein, will be equal to the sum of one-sixth of the interest to be paid in the next six months and one-twelfth of the principal to be paid or required to be amortized within the next twelve months on all bonds and notes of the Commonwealth for which its full faith and credit are pledged as the same become due and all bonds and notes of the Commonwealth for which the guaranty of the Commonwealth has been exercised. Moneys in the Redemption Fund are held in trust by Government Development Bank. Act No. 39 provides that the obligation of the Secretary of the Treasury to make the above transfers is cumulative, and the amount of any deficiency in any month shall be added to the amount of transfers required in future months until such deficiency has been fully paid. During fiscal years 2010 and 2011, the Commonwealth entered into loan agreements with Government Development Bank the proceeds of which were used to fund deposits to the Redemption Fund. The Commonwealth expects, upon the Governor’s signature of recently approved legislation, to enter into loan agreements with Government Development Bank the proceeds of which would be used to fund deposits to the Redemption Fund during fiscal years 2012 and 2013. On June 15, 2011, the amount on deposit in the Redemption Fund was \$446.7 million, which was the required amount.

Act No. 39 expressly relates to direct obligations of the Commonwealth. It does not apply to the payment of bonds and other obligations of public corporations guaranteed by the Commonwealth issued after the date of its adoption.

### **Payment Record**

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

### **Debt Limitation**

#### *Constitutional 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 that is payable in any fiscal year, together with any amount paid by the Commonwealth in the fiscal year preceding the fiscal year of such proposed issuance on account of bonds or notes guaranteed by the Commonwealth, exceed 15% of the average annual revenues raised under the provisions of Commonwealth legislation and deposited into the Treasury (hereinafter “internal revenues”) in the two fiscal years preceding the fiscal year of such

proposed issuance. Section 2 of Article VI does not limit the amount of debt that the Commonwealth may guarantee so long as the 15% limitation is not exceeded through payments by the Commonwealth on such guaranteed debt. Internal revenues consist principally of income taxes, property taxes, sales and use taxes and excise taxes. Certain revenues, such as federal excise taxes on offshore shipments of alcoholic beverages and tobacco products and customs duties, which are collected by the United States Government and returned to the Treasury, and motor vehicle fuel taxes, crude oil and derivative products excise taxes and license fees, which are allocated to the Highways 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. In addition, the portion of the sales and use tax allocated to COFINA is also not included as internal revenues consistent with the legislation creating COFINA, which legislation transfers ownership of such portion of the sales and use tax to COFINA and provides that such portion is not “available Commonwealth resources” under the above cited Constitutional provisions relating to public debt.

#### *Variable Rate Bonds and Swap Agreements*

Joint Resolution No. 2104 of the Legislative Assembly of Puerto Rico, approved on September 30, 2004 (“Joint Resolution No. 2104”), authorized the Commonwealth to enter into interest rate exchange agreements with respect to the Commonwealth’s \$447,875,000 Public Improvement Refunding Bonds, Series 2004B (the “Series 2004B Bonds”), which were issued as variable rate bonds. Joint Resolution No. 2104 allows the Commonwealth to calculate the 15% constitutional debt limitation using (i) the fixed rate it is required to pay under any interest rate exchange agreement entered into by the Commonwealth in connection with the Series 2004B Bonds, and (ii) the lesser of (A) the maximum interest rate allowed by law, and (B) the maximum interest rate set forth in the resolution approving the bonds, if any, in connection with the Commonwealth’s \$279,240,000 Public Improvement Refunding Bonds, Series 2004A (the “Series 2004A Bonds”) and any Series 2004B Bonds for which no interest rate exchange agreement is executed. In November 2004, the Commonwealth entered into two interest rate exchange agreements with respect to the Series 2004B Bonds.

Act No. 39 of the Legislative Assembly of Puerto Rico, approved on August 1, 2005, as amended (“Act No. 39 of 2005”) authorizes the Commonwealth to enter into interest rate exchange agreements with respect to its general obligation bonds, subject to certain conditions, including that the agreements are entered into to reduce certain financial risks associated with issuing variable rate obligations. The Secretary is also authorized to pledge the good faith, credit and taxing power of the Commonwealth for the payment of the obligations incurred under such interest rate exchange agreements. Act No. 39 of 2005 allows the Commonwealth to calculate the constitutional debt limit in a manner identical to that utilized in Joint Resolution No. 2104.

In August 2006, the Commonwealth issued its \$500,000,000 Public Improvement Bonds of 2006, Series A, a portion of which bonds bear interest at a rate that will change periodically based on changes in the United States consumer price index. In connection with such consumer price index floating rate bonds (the “2006 CPI Bonds”), the Commonwealth entered into an interest rate exchange agreement, the effect of which will economically enable the Commonwealth to pay a fixed rate of interest in respect thereof.

In August and September 2006, the Commonwealth entered into interest rate exchange agreements, the effect of which will economically enable the Commonwealth to pay a fixed rate of interest in respect of a portion of the Series C Bonds (said portion, the “2003C Swap Bonds”) and whose payments commenced on July 1, 2008, the end of the initial fixed rate period on the 2003C Swap Bonds.

In October 2007, the Commonwealth issued its \$926,570,000 Public Improvement Refunding Bonds, Series 2007 A, a portion of which bonds bear interest at a variable rate and, in connection with said bonds (said portion, the “2007 Swap Bonds”) entered into an interest rate exchange agreement, the effect of which will economically enable the Commonwealth to pay a fixed rate of interest in respect thereof.

In May 2008, the Commonwealth issued its \$173,975,000 Public Improvement Refunding Bonds, Series 2008B (the “2008 Swap Bonds”), which bear interest at a variable rate, for the purpose of refunding a portion of the Series 2004B Bonds, and, in connection therewith, continued the swap related to such refunded Series 2004B Bonds.

In addition, the Commonwealth has also executed under the authority granted in Act No. 39 of 2005, interest rate exchange agreements in which the Commonwealth is making payments on \$1,698,370,000 notional amount of public improvement bonds based on a short-term interest rate index published by Securities Industry and Financial Markets Association (“SIFMA”) and is receiving from its counterparties payments on the same notional amount based on the published three-month London Interbank Offered Rate index (the “basis swap”).

See “Interest Rate Exchange Agreements” under DEBT in the Commonwealth Report for a list of the Commonwealth’s outstanding interest rate exchange agreements and their mark-to-market value as of March 31, 2011.

As of the date of this Remarketing Circular, future maximum annual debt service for the Commonwealth’s outstanding general obligation debt is \$957,900,517.25 in the fiscal year ending June 30, 2015 (based on the assumption that (i) the Series 2004A Bonds bear interest at their actual rate per annum through July 1, 2012 and thereafter at 12% per annum, (ii) the outstanding 2003C Swap Bonds, Series 2004B Bonds, 2006 CPI Bonds, 2007 Swap Bonds and the 2008 Swap Bonds, bear interest at 12% per annum and (iii) the public improvement bonds to which the basis swap relates bear interest at their stated interest rates rather than the rates set forth in the basis swap). This amount (\$957,900,517.25) plus the amount paid by the Commonwealth in the preceding fiscal year on account of bonds or notes guaranteed by the Commonwealth (\$10,491,303), for a total of \$968,391,820.25, is equal to 13.21% of \$7,333,246,000, which is the average of the adjusted internal revenues for the fiscal years ended June 30, 2009 and 2010. If the interest on the outstanding bonds described in clause (ii) above is calculated using the fixed rate paid by the Commonwealth under the interest rate exchange agreements executed in connection with such bonds, the percentage referred to in the preceding sentence would be 11.95%. Any potential termination payment (which is a full faith and credit obligation of the Commonwealth) payable by the Commonwealth (which is based on the then applicable mark-to-market value) upon termination of the above mentioned swap agreements is not included in the calculation of the 15% constitutional debt limitation.

Debt service for the Puerto Rico Aqueduct and Sewer Authority (“PRASA”) guaranteed bonds of approximately \$30 million was paid by PRASA during the last two fiscal years and, thus, is not included in the calculation of the 15% constitutional debt limitation. See “Other Public Corporations – Aqueduct and Sewer Authority” under Public Corporations in the Commonwealth Report. In the event PRASA is unable to make any portion of the future debt service payments on its guaranteed bonds, the Commonwealth would be required to make such payments under its guarantee from the General Fund and such debt service would, to the extent paid by the Commonwealth, be included in the calculation of the 15% debt limitation.

As of May 31, 2011, Port of the Americas Authority had outstanding bonds guaranteed by the Commonwealth (the “POA Guaranteed Bonds”), representing a \$250 million GDB financing with an outstanding principal amount of \$212.9 million. The Commonwealth has begun to make payments of debt service on the POA Guaranteed Bonds and expects to make all payment on the POA Guaranteed Bonds under the full faith and credit guarantee of the Commonwealth. During fiscal years 2010 and 2011 to date, the Commonwealth made payments under its guaranty of the POA Guaranteed Bonds of \$10.5 million and \$16.5 million, respectively. See “Commonwealth Guaranteed Debt” under Debt in the Commonwealth Report.

### **Maturity Limitation**

The Constitution provides that no bonds or notes of the Commonwealth shall mature later than 30 years from their date of issue, except bonds or notes for housing facilities, which shall mature in no more than 40 years.

## **BOND INSURANCE**

### **Bond Insurance Policy**

Concurrently with the original issuance of the Bonds, AGM issued its Municipal Bond Insurance Policy for the Series C Bonds (the “Policy”). The Policy guarantees the scheduled payment of principal (including annual Amortization Requirements) of and interest on the Series C-5-2 Bonds when due, as set forth in the copy of the Policy included as Appendix II to this Remarketing Circular. The Policy does not secure payment of the Purchase Price of the Series C-5-2 Bonds.

The Policy is not covered by any insurance security or guaranty fund established under New York, California, Connecticut or Florida insurance law.

### **Assured Guaranty Municipal Corp.**

AGM is a New York domiciled financial guaranty insurance company and a wholly owned subsidiary of Assured Guaranty Municipal Holdings Inc. (“Holdings”). Holdings is an indirect subsidiary of Assured Guaranty Ltd. (“AGL”), a Bermuda-based holding company whose shares are publicly traded and are listed on the New York Stock Exchange under the symbol “AGO.” AGL, through its operating subsidiaries, provides credit enhancement products to the U.S. and global public finance, infrastructure and structured finance markets. No shareholder of AGL, Holdings or AGM is liable for the obligations of AGM.

AGM's financial strength is rated "AA+" (stable outlook) by Standard and Poor's Ratings Services, a Standard & Poor's Financial Services LLC business ("S&P") and "Aa3" (negative outlook) by Moody's Investors Service, Inc. ("Moody's"). An explanation of the significance of the above ratings may be obtained from the applicable rating agency. The above ratings are not recommendations to buy, sell or hold any security, and such ratings are subject to revision or withdrawal at any time by the rating agencies, including withdrawal initiated at the request of AGM in its sole discretion. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of any security guaranteed by AGM. AGM does not guarantee the market price of the securities it insures, nor does it guarantee that the ratings on such securities will not be revised or withdrawn.

#### *Current Financial Strength Ratings*

On January 24, 2011, S&P published a Request for Comment: Bond Insurance Criteria (the "Bond Insurance RFC") in which it requested comments on its proposed changes to its bond insurance ratings criteria. In the Bond Insurance RFC, S&P notes that it could lower its financial strength ratings on existing investment-grade bond insurers (including AGM) by one or more rating categories if the proposed bond insurance ratings criteria are adopted, unless those bond insurers (including AGM) raise additional capital or reduce risk. Reference is made to the Bond Insurance RFC, a copy of which is available at [www.standardandpoors.com](http://www.standardandpoors.com), for the complete text of S&P's comments.

On October 25, 2010, S&P published a Research Update in which it downgraded AGM's counterparty credit and financial strength rating from "AAA" (negative outlook) to "AA+" (stable outlook). Reference is made to the Research Update, a copy of which is available at [www.standardandpoors.com](http://www.standardandpoors.com), for the complete text of S&P's comments.

On December 18, 2009, Moody's issued a press release stating that it had affirmed the "Aa3" insurance financial strength rating of AGM, with a negative outlook. Reference is made to the press release, a copy of which is available at [www.moody.com](http://www.moody.com), for the complete text of Moody's comments.

There can be no assurance as to any further ratings action that Moody's or S&P may take with respect to AGM.

For more information regarding AGM's financial strength ratings and the risks relating thereto, see AGL's Annual Report on Form 10-K for the fiscal year ended December 31, 2010, which was filed by AGL with the Securities and Exchange Commission (the "SEC") on March 1, 2011, and AGL's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2011, which was filed by AGL with the SEC on May 10, 2011.

#### *Capitalization of AGM*

At March 31, 2011, AGM's consolidated policyholders' surplus and contingency reserves were approximately \$3,058,791,206 and its total net unearned premium reserve was approximately \$2,285,987,748, in each case, in accordance with statutory accounting principles.

### *Incorporation of Certain Documents by Reference*

Portions of the following documents filed by AGL with the SEC that relate to AGM are incorporated by reference into this Remarketing Circular and shall be deemed to be a part hereof:

- (i) the Annual Report on Form 10-K for the fiscal year ended December 31, 2010 (which was filed by AGL with the SEC on March 1, 2011); and
- (ii) the Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2011 (which was filed by AGL with the SEC on May 10, 2011).

All information relating to AGM included in, or as exhibits to, documents filed by AGL pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, after the filing of the last document referred to above and before the termination of the remarketing of the Series C-5-2 Bonds shall be deemed incorporated by reference into this Remarketing Circular and to be a part hereof from the respective dates of filing such documents. Copies of materials incorporated by reference are available over the internet at the SEC's website at <http://www.sec.gov>, at AGL's website at <http://www.assuredguaranty.com>, or will be provided upon request to Assured Guaranty Municipal Corp.: 31 West 52<sup>nd</sup> Street, New York, New York 10019, Attention: Communications Department (telephone (212) 826-0100).

Any information regarding AGM included herein under the caption "Assured Guaranty Municipal Corp." under *BOND INSURANCE* or included in a document incorporated by reference herein (collectively, the "AGM Information") shall be modified or superseded to the extent that any subsequently included AGM Information (either directly or through incorporation by reference) modifies or supersedes such previously included AGM Information. Any AGM Information so modified or superseded shall not constitute a part of this Remarketing Circular, except as so modified or superseded.

AGM makes no representation regarding the Series C-5-2 Bonds or the advisability of investing in the Series C-5-2 Bonds. In addition, AGM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Remarketing Circular or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding AGM supplied by AGM and presented under the heading *BOND INSURANCE*.

### **Bond Insurance Provisions under the Resolution**

Under the Resolution, AGM shall be deemed to be the sole holder of the Series C-5-2 Bonds for the purpose of giving any consent or direction or taking any other action that the holders of the Series C-5-2 Bonds are entitled to take pursuant to the provisions of the Resolution so long as no Insurer Event of Default described in clauses (a), (b) or (c) of the definition thereof has occurred and the Policy has not been cancelled or terminated, as provided in the Reimbursement Agreement. Following an Insurer Event of Default described in clauses (a), (b) or (c) of the definition thereof, or cancellation or termination of the Policy, as provided in the Reimbursement Agreement, the Provider shall be deemed to be the sole Holder of the Series C-2-5 Bonds for the purpose of giving any consent or direction or taking any other action that the Holders of the Series C-2-5 Bonds are entitled to take pursuant to the provisions of the

Resolution.

## **BARCLAYS BANK PLC**

Barclays Bank PLC is a public limited company registered in England and Wales under number 1026167. The liability of the members of Barclays Bank PLC is limited. It has its registered head office at 1 Churchill Place, London, E14 5HP, United Kingdom (telephone number +44 (0)20 7116 1000). Barclays Bank PLC was incorporated on 7 August 1925 under the Colonial Bank Act 1925 and on 4 October 1971 was registered as a company limited by shares under the Companies Acts 1948 to 1967. Pursuant to The Barclays Bank Act 1984, on 1 January 1985, Barclays Bank was re-registered as a public limited company and its name was changed from “Barclays Bank International Limited” to “Barclays Bank PLC.”

Barclays Bank PLC and its subsidiary undertakings (taken together, the “Group”) is a major global financial services provider engaged in retail and commercial banking, credit cards, investment banking, wealth management and investment management services. The whole of the issued ordinary share capital of Barclays Bank PLC is beneficially owned by Barclays PLC, which is the ultimate holding company of the Group.

The short term unsecured obligations of Barclays Bank PLC are rated A-1+ by Standard & Poor’s, P-1 by Moody’s and F1+ by Fitch Ratings Limited and the long-term obligations of Barclays Bank PLC are rated AA- by Standard & Poor’s, Aa3 by Moody’s and AA- by Fitch Ratings Limited.

Based on the Group's audited financial information for the year ended 31 December 2010, the Group had total assets of £1,490,038 million (2009: £1,379,148 million), total net loans and advances (including balances relating to both bank and customer accounts) of £465,741 million (2009: £461,359 million), total deposits (including deposits from bank and customer accounts) of £423,777 million (2009: £398,901 million), and total shareholders' equity of £62,641 million (2009: £58,699 million) (including non-controlling interests of £3,467 million (2009: £2,774 million)). The profit before tax from continuing operations of the Group for the year ended 31 December 2010 was £6,079 million (2009: £4,559 million) after impairment charges and other credit provisions of £5,672 million (2009: £8,071 million). The financial information in this paragraph is extracted from the audited consolidated financial statements of Barclays Bank PLC for the year ended 31 December 2010.

The delivery of the information concerning Barclays Bank PLC and the Group herein shall not create any implication that there has been no change in the affairs of Barclays Bank PLC and the Group since the date hereof, or that the information contained or referred to herein is correct as of any time subsequent to its date.

Barclays Bank PLC is responsible only for the information contained in this section of the Remarketing Circular and did not participate in the preparation of, or in any way verify the information contained in, any other part of the Remarketing Circular. Accordingly, Barclays Bank PLC assumes no responsibility for and makes no representation or warranty as to the accuracy or completeness of information contained in any other part of the Remarketing Circular.

## PUBLIC SECTOR DEBT OF THE COMMONWEALTH

### Public Sector Debt

The following table presents a summary of the public sector debt of the Commonwealth outstanding as of March 31, 2011. The table should be read in conjunction with the information set forth under DEBT in the Commonwealth Report.

### Commonwealth of Puerto Rico Public Sector Debt\* (in millions)

	March 31, 2011
GENERAL FUND RELATED DEBT	
Direct full faith and credit obligations	\$9,681
Puerto Rico guaranteed debt <sup>(1)</sup>	4,287
Debt supported by Puerto Rico appropriations or taxes <sup>(2)</sup>	3,642
Tax and Revenue Anticipation Notes <sup>(3)</sup>	900
Pension Obligation Bonds <sup>(4)</sup>	2,948
TOTAL GENERAL FUND RELATED DEBT	\$21,458
Sales and Use Tax (COFINA) debt	\$13,437
Public corporations and agencies	24,031
Municipal Debt	3,409
Limited Obligations/non-recourse debt <sup>(5)</sup>	2,410
TOTAL PUBLIC SECTOR DEBT	\$64,745

\* Totals may not add due to rounding.

<sup>(1)</sup> Consists of \$598 million of bonds issued by Aqueduct and Sewer Authority, \$406 million of State Revolving Fund Loans incurred under various federal water laws, \$212.7 million of bonds issued by Port of the Americas Authority and \$3.070 billion of bonds issued by Public Buildings Authority. Excludes \$267 million of Government Development Bank bonds payable from available moneys of Government Development Bank.

<sup>(2)</sup> Represents bonds and notes payable from the Commonwealth General Fund and Public Improvement Fund. Includes bonds issued by Public Finance Corporation.

<sup>(3)</sup> Includes related short-term financings.

<sup>(4)</sup> Represents Senior Pension Funding Bonds, Series A, B, and C issued by the Employees Retirement System, which are payable solely from employer contributions made to the Employees Retirement System by the Commonwealth and its instrumentalities after the issuance of the bonds.

<sup>(5)</sup> Includes the following: \$1.3 billion of Children's Trust bonds, which are payable solely from the payments to be received pursuant to the tobacco litigation settlement; \$180 million of Housing Finance Authority bonds, which are payable from Puerto Rico Housing Administration's annual allocation of Public Housing Capital Funds from the United States Department of Housing and Urban Development; \$151.0 million of Special Facilities Revenue Bonds issued by Highways Authority, which are payable from net toll revenues collected from the Teodoro Moscoso Bridge; \$155 million of Special Facilities Bonds issued by Ports Authority, which are payable solely from the pledge of certain payments made by a private corporation under a special facilities agreement; \$76.3 million of Educational Facilities Revenue Bonds, 2000 Series A (University Plaza Project) issued by Industrial, Tourist, Educational, Medical and Environmental Control Facilities Financing Authority ("AFICA"), which are payable from rent payments made by the University of Puerto Rico; and approximately \$75.7 million of bonds issued by AFICA to finance the construction of various government infrastructure projects, which are payable from rent payments made by various government entities.

## **Debt Service Requirements for Commonwealth General Obligation Bonds and Certain Guaranteed Debt**

The following table presents the debt service requirements for Commonwealth general obligation bonds outstanding on March 31, 2011. This table, however, does not include payments made by the Commonwealth on the POA Guaranteed Bonds, which are paid from General Fund budgetary appropriations determined in consultation with GDB, as holder of the POA Guaranteed Bonds. The amounts paid by the Commonwealth under the POA Guaranteed Bonds for the prior fiscal year, however, are taken into account in the determination of the constitutional debt limit.

In addition, in respect of certain variable rate general obligation bonds, as to which the Commonwealth has entered into interest rate exchange agreements, the interest in the table is calculated by using the respective fixed rates of interest that the Commonwealth is paying under said agreements.

Debt service requirements for each fiscal year, as shown in the following table, include principal and interest due on July 1 immediately following the close of such fiscal year.

**Puerto Rico Debt Service Requirements\***  
(In thousands)

<b>Fiscal Year Ending June 30</b>	<b>Outstanding Bonds</b>		
	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2011 <sup>(1)</sup>	\$252,605	\$240,955	\$493,560
2012	362,335	485,097	847,432
2013	387,005	463,523	850,528
2014	374,613	463,433	838,045
2015	406,765	445,356	852,120
2016	426,790	425,183	851,974
2017	373,392	404,247	777,638
2018	376,110	385,632	761,742
2019	479,356	351,250	830,606
2020	546,400	319,314	865,714
2021	421,540	292,069	713,609
2022	351,420	272,147	623,567
2023	321,255	255,411	576,666
2024	336,215	240,754	576,969
2025	340,610	224,910	565,520
2026	349,280	207,339	556,619
2027	367,005	189,618	556,623
2028	386,340	170,197	556,537
2029	339,095	150,748	489,843
2030	352,240	134,726	486,966
2031	371,395	117,908	489,303
2032	224,545	99,992	324,537
2033	163,245	87,491	250,736
2034	172,615	79,028	251,643
2035	233,700	70,813	304,513
2036	247,115	57,394	304,509
2037	256,790	42,777	299,567
2038	160,675	27,854	188,529
2039	170,105	18,421	188,526
2040	130,450	8,215	138,665
	<b>\$9,681,005</b>	<b>\$6,731,801</b>	<b>\$16,412,806</b>

\* Totals may not add due to rounding. Includes the effective fixed rate on certain variable rate general obligation bonds as to which the Commonwealth has entered into interest rate exchange agreements.

<sup>(1)</sup> Excludes the payment of interest by the Commonwealth on January 1, 2011 in the amount of \$231,893,100.

Sources: Government Development Bank for Puerto Rico and Treasury Department

## **TAX MATTERS**

In connection with the original issuance of the Series C Bonds, Sidley Austin Brown & Wood LLP (now Sidley Austin LLP) delivered its approving opinion which concluded that under existing law (i) assuming continuing compliance with certain covenants and the accuracy of certain representations, interest on the Series C 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 Series C Bonds and the interest thereon are exempt from state, Commonwealth of Puerto Rico and local income taxation. The approving opinion further concluded that interest on the Series C Bonds is includable in the computation of the federal alternative minimum tax on corporations.

A copy of said approving opinion is contained in Appendix I to this Remarketing Circular.

On the effective date of the substitution of the Existing Liquidity Facility with the Letter of Credit, Greenberg Traurig, LLP, Boston, Massachusetts, will deliver its opinion to the effect that such substitution is permitted under the Resolution and will not in and of itself impair or affect the exclusion of interest on the Series C-5-2 Bonds from gross income for purposes of federal income taxation.

A copy of said substitution opinion of Greenberg Traurig, LLP is included as part of Appendix I to this Remarketing Circular. Greenberg Traurig, LLP expresses no opinion as to the current tax exempt status of the interest on the Series C-5-2 Bonds.

## **APPROVAL OF LEGAL PROCEEDINGS**

Legal matters incident to the substitution of the Existing Liquidity Facility with the Letter of Credit are subject to the Opinion of Bond Counsel to be delivered by Greenberg Traurig, LLP, Boston, Massachusetts, the proposed form of which opinion is included in Appendix I. Certain legal matters will be passed upon for the Remarketing Agent by Pietrantonio Méndez & Alvarez LLP, San Juan, Puerto Rico.

## **LEGAL INVESTMENT**

The Series C-5-2 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.

## **REMARKETING**

The Remarketing Agent has agreed, subject to certain conditions, to remarket the Series C-5-2 Bonds in accordance with the Resolution and the Remarketing Agreement. The Remarketing Agent will receive an initial fee of \$377,420 on the Substitution Date and certain ongoing remarketing fees.

## **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 Commonwealth in connection with the Series C-5-2 Bonds offered for remarketing hereby. As financial advisor, Government Development Bank participated in the selection of the Remarketing Agent for the Series C-5-2 Bonds. The Remarketing Agent has been selected by Government Development Bank to serve from time to time as underwriter of its obligations and the obligations of the Commonwealth, its instrumentalities and public corporations. The Remarketing Agent or its affiliates also participate in other financial transactions with Government Development Bank.

### **RATINGS**

The Series C-5-2 Bonds have been assigned long-term/short-term ratings, effective on the Substitution Date, of “Aa1/VMIG-1” by Moody’s and “AAA/A-1+” by S&P.

The long-term rating assigned by Moody’s is based on the strength of the Letter of Credit to be issued by the Provider, the underlying rating of the Commonwealth and the default dependence between the two. The Provider is currently rated “Aa3/P-1” by Moody’s. Moody’s underlying rating of the Commonwealth is currently “A3” (on watch for possible downgrade). Thus, the long-term rating assigned by Moody’s to the Series C-5-2 Bonds is also on watch for possible downgrade. Any change in the long-term rating of either the Provider or the underlying rating of the Commonwealth or any change in the default dependence between the two, as determined by Moody’s, will result in the long-term rating being reevaluated. The short-term rating assigned by Moody’s is based on the Letter of Credit to be issued by the Provider and will be changed whenever the short-term rating of the Provider is changed.

The ratings assigned by S&P are based on the strength of the Letter of Credit to be issued by the Provider and the application of S&P’s low correlation joint criteria where the Commonwealth is rated “BBB” and the Provider is rated “AA-/A-1+”.

Ratings reflect only the respective views of the Rating Services and an explanation of the significance of each rating may be obtained only from the respective Rating Service. Such Rating Services were provided with materials relating to the Commonwealth, the Series C-5-2 Bonds, the Provider and other relevant information, and no application has been made to any other Rating Service for the purpose of obtaining a rating on the Series C-5-2 Bonds.

There is no assurance that the ratings described above will remain in effect for any given period of time or that they will not be revised downward or withdrawn entirely by any or all of such Rating Services, if in the judgment of any or all, circumstances so warrant. Any such downward revision or withdrawal of such ratings, or any of them, may have an adverse effect on the market prices of the Series C-5-2 Bonds.

## CONTINUING DISCLOSURE

### Continuing Disclosure Undertaking

In accordance with the requirements of Rule 15c2-12, as amended (the “Rule”), promulgated by the Securities and Exchange Commission (“SEC”), the Commonwealth has covenanted in the Resolution for the benefit of the Beneficial Owners (as defined in the Resolution) as follows:

1. to file, within 305 days after the end of each fiscal year commencing with the fiscal year ending June 30, 2010, with the MSRB through EMMA, 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 and its revenues, expenditures, financial operations and indebtedness, in each case generally found in this Remarketing Circular; and
2. to file in a timely manner, not in excess of ten business days after the occurrence of the event, with the MSRB through EMMA, notice of the occurrence of any of the following events with respect to the Series C-5-2 Bonds:
  - a. principal and interest payment delinquencies;
  - b. non-payment related defaults, if material;
  - c. unscheduled draws on debt service reserves reflecting financial difficulties;
  - d. unscheduled draws on credit enhancements reflecting financial difficulties;
  - e. substitution of credit or liquidity facility providers, or their failure to perform;
  - f. adverse tax opinions, the issuance by the IRS of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Series C-5-2 Bonds, or other material events affecting the tax status of the Series C-5-2 Bonds;
  - g. modifications to rights of the holders (including Beneficial Owners) of the Series C-5-2 Bonds, if material;
  - h. bond calls, if material;
  - i. defeasances;
  - j. release, substitution, or sale of property securing repayment of the Series C-5-2 Bonds, if material;
  - k. rating changes;

- l. tender offers;
- m. bankruptcy, insolvency, receivership, or similar proceeding of the Commonwealth;
- n. the consummation of a merger, consolidation or acquisition involving the Commonwealth or the sale of substantially all of the assets of the Commonwealth, other than in the ordinary course of business, the entry into a definitive agreement to undertake such action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and
- o. the appointment of a successor or additional trustee, or the change of name of a trustee, if material.

The Commonwealth will also covenant to file in a timely manner with the MSRB through EMMA, notice of a failure to provide the required annual financial information on or before the specified period.

The Commonwealth does not undertake to provide any notice with respect to credit enhancement added after the Substitution Date, unless the Commonwealth applies for or participates in obtaining the enhancement.

Events 2 (c), (j), (m) and (n) are not applicable to the Series C-5-2 Bonds or the Commonwealth.

In addition, with respect to the following events:

Event (h). The Commonwealth 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 Remarketing Circular under “Redemption” in *THE SERIES C-5-2 BONDS*, the only open issue is which Series C-5-2 Bonds will be redeemed in the case of a partial redemption, notice of redemption is given to the Bondholders as required under the terms of the Series C-5-2 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 purchases of Series C-5-2 Bonds.

Event (m). According to the Rule, the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for an obligated person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the obligated person, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the obligated person.

The Commonwealth expects to provide the information described in paragraph 1 above by filing its first bond official statement that includes such information for the preceding fiscal year or, if no such official statement is issued by the 305-day deadline, by filing a separate document containing such information.

The Commonwealth 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 Commonwealth, such other events are material with respect to the Series C-5-2 Bonds, but the Commonwealth does not undertake to provide any such notice of the occurrence of any material event except those events listed above.

The Commonwealth acknowledges that its undertaking pursuant to the Rule described above is intended to be for the benefit of the Beneficial Owners of the Series C-5-2 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 Commonwealth's obligations thereunder.

No Beneficial Owner may institute any suit, action or proceeding at law or in equity ("Proceeding") for the enforcement of the foregoing covenants (the "Covenants") or for any remedy for breach thereof, unless such Beneficial Owner shall have filed with the Commonwealth written notice of any request to cure such breach, and the Commonwealth 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, Puerto Rico for the equal benefit of all Beneficial Owners of the outstanding Series C-5-2 Bonds benefited by the Covenants, and no remedy shall be sought or granted other than specific performance of any of the Covenants at issue. Moreover, Proceedings filed by Beneficial Owners against the Commonwealth may be subject to the sovereign immunity provisions of Section 2 and 2A of Act No. 104, approved June 29, 1955, as amended, 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 Commonwealth, or type of business conducted; the Covenants, as amended, would have complied with the requirements of the Rule on the Substitution Date, 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 persons unaffiliated with the Commonwealth; 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 Commonwealth elects that the Covenants shall be deemed amended accordingly.

The Commonwealth has 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.

### **Prior Continuing Disclosure Non-Compliance**

The Commonwealth has made similar continuing disclosure undertakings in connection with prior bond issuances, and has complied with all such covenants, except as hereinafter noted.

The Commonwealth's audited financial statements for the fiscal year ended June 30, 2002 were filed after the Commonwealth's filing deadline of May 1, 2003 because of delays in finalizing such financial statements resulting from the implementation of GASB Statement No. 34 ("GASB 34"). The Commonwealth's audited financial statements for the fiscal year ended June 30, 2003 were also filed after the Commonwealth's filing deadline of April 30, 2004, because of delays in finalizing the financial statements of certain of the Commonwealth's reporting units due to the implementation of GASB 34. The Commonwealth's audited financial statements for the fiscal years ended June 30, 2004, 2006, 2007 and 2008 were also filed after the Commonwealth's respective filing deadlines of May 1, 2005, 2007, 2008 and 2009, because various governmental agencies did not submit their audited financial statements to the central government's external auditors on time, thereby delaying submission of the Commonwealth's audited financial statements. The Commonwealth's audited financial statements for the fiscal year ended June 30, 2009 was also filed after the Commonwealth's filing deadline of May 1, 2010 due to delays in the engagement and transition of new external auditors, the implementation of new government accounting pronouncements, and the restatement of the financial statements of certain discretely presented component units. The Commonwealth's audited financial statements for fiscal years ended June 30, 2004, 2006, 2007 and 2008 were filed by the end of the first quarter of the following fiscal year, while the Commonwealth's audited financial statements for the fiscal year ended June 30, 2009 was filed on October 25, 2010.

The Commonwealth Report for the fiscal year ended June 30, 2008 containing the information described in paragraph 1(ii) above, was filed after the Commonwealth's filing deadline of May 1, 2009. Such Commonwealth Report was filed on June 1, 2009. Except for that Commonwealth Report, the Commonwealth has timely filed the Commonwealth Report for all other fiscal years.

In 2011, the Commonwealth complied with its continuing disclosure undertaking relating to fiscal year 2010. As of the date of this Remarketing Circular, the Commonwealth is in compliance with its continuing disclosure filing requirements related to its outstanding general obligation bonds.

The Commonwealth has established new policies and procedures that it believes will ensure full and timely compliance with all continuing disclosure obligations in the future. Such new policies and procedures include: (i) the assignment of additional resources from local and international audit firms to those component units whose financial statements have not been timely provided to the Commonwealth; (ii) the assignment of dedicated external and internal

resources to (a) assist the Central Accounting Division at Treasury in the preparation of complex financial information that has historically delayed the audit and (b) provide periodic and consistent follow up on component unit financial statement deliverables and deadlines; (iii) the execution of a memorandum of understanding between Treasury, OMB and Government Development Bank for the coordination of all financial statement related tasks and the designation of Government Development Bank, in its role as fiscal agent, to review and monitor the progress of certain component units; and (iv) the establishment of an Audit Oversight Committee comprised of Treasury and Government Development Bank personnel in order to continuously monitor the status of the audit and the Commonwealth's financial statements.

### **MISCELLANEOUS**

The foregoing summaries of or references to the Act, the Series C-5-2 Bonds, the Resolution, the Letter of Credit, the Reimbursement Agreement, and the other documents and agreements referred to herein and the summaries of or references to the various acts contained in the Commonwealth Report, 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 Remarketing Circular are a Copy of Original Approving Opinion of Sidley Austin Brown & Wood LLP (now Sidley Austin LLP) and Form of Opinion of Greenberg Traurig, LLP (*Appendix I*), a copy of the Policy (*Appendix II*), and Definitions of Certain Terms (*Appendix III*).

The information set forth in this Remarketing Circular and incorporated herein by reference, except for information pertaining to DTC, the Provider and the Insurer 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 Remarketing Circular on the authority of such officials or the authority of such publications as public official documents. The information pertaining to DTC was supplied by DTC. The information pertaining to the Insurer was supplied by the Insurer. The information pertaining to the Provider was supplied by the Provider.

This Remarketing Circular will be filed with the MSRB through EMMA.

### **COMMONWEALTH OF PUERTO RICO**

By: /s/ Jesús F. Méndez Rodríguez  
Secretary of the Treasury

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**COPY OF APPROVING OPINION OF SIDLEY AUSTIN BROWN & WOOD LLP**

This is a copy of the opinion of Sidley Austin Brown & Wood LLP (now Sidley Austin LLP), dated May 6, 2003 (the “Original Opinion of Bond Counsel”), approving the Series C Bonds upon the original issuance thereof and is included as a part of this Remarketing Circular. By inclusion of the Original Opinion of Bond Counsel, Sidley Austin LLP is not reissuing said opinion, which opinion for all purposes speaks only as of its date. Sidley Austin LLP has not taken part in the proceeding relating to the substitution of the Liquidity Facility or the remarketing of the Series C-5-2 Bonds.

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SIDLEY AUSTIN BROWN & WOOD LLP

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HONG KONG  
LONDON  
SHANGHAI  
SINGAPORE  
TOKYO

May 6, 2003

Hon. Juan A. Flores Galarza  
Secretary of the Treasury of Puerto Rico  
San Juan, Puerto Rico

Dear Sir:

We have examined Act. No. 2 of the Legislature of Puerto Rico, approved October 10, 1985, and Joint Resolution No. 57 of the Legislature of Puerto Rico, approved July 12, 1993 (collectively, the "Act"), and certified copies of the legal proceedings, including a resolution adopted by the Secretary of the Treasury of the Commonwealth of Puerto Rico and approved by the Acting Governor of the Commonwealth of Puerto Rico on April 16, 2003 (the "Resolution"), and other proofs submitted relative to the issuance and sale of the following described bonds (the "Bonds"):

**\$1,018,605,000  
COMMONWEALTH OF PUERTO RICO**

**\$360,000 PUBLIC IMPROVEMENT REFUNDING BONDS, SERIES 2003 B**

**and**

**\$1,018,245,000 PUBLIC IMPROVEMENT REFUNDING BONDS, SERIES 2003 C**

**Dated: Date of Delivery.**

Maturing on July 1 of the years and in such principal amounts and bearing interest at the rates, all as set forth in the Resolution. The Bonds are issuable as registered Bonds without coupons in the manner and in accordance with the terms and conditions of the Resolution. The Series 2003 B Bonds are not subject to redemption. The Series 2003 C Bonds are subject to redemption and tender for purchase as set forth in the Resolution.

We have also examined one of the Bonds as executed and authenticated.

From such examination we are of the opinion that:

1. The Act is valid.
2. Said proceedings have been validly and legally taken.

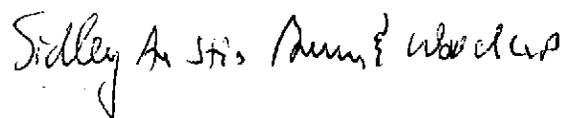
3. The Act and said proceedings and proofs show lawful authority for the issuance and sale of the Bonds, and the Bonds constitute valid and binding general obligations of the Commonwealth of Puerto Rico for the prompt payment of the principal of and the interest on which the good faith, credit and taxing power of the Commonwealth of Puerto Rico are pledged.

4. Under the provisions of the Acts of Congress now in force and under existing regulations, rulings and court decisions, (i) subject to continuing compliance with the covenant referred to below and requirements of the Internal Revenue Code of 1986, as amended (the "Code"), and the Resolution regarding the use, expenditure and investment of bond proceeds and the timely payment of certain investment earnings to the Treasury of the United States, if required, interest on the Bonds is not includable in gross income for federal income tax purposes; and (ii) the Bonds and the interest thereon are exempt from state, Commonwealth of Puerto Rico and local income taxation. No opinion is expressed as to the effect of any action taken or not taken after the date of this opinion without our approval (except for such action or omission to act as is provided in the documents pertaining to the Bonds) or in reliance upon advice of counsel other than ourselves on the exclusion from gross income of the interest on said Bonds for federal income tax purposes.

Interest on the Bonds is not a specific item of tax preference for the purposes of the federal alternative minimum tax imposed on individuals and corporations. Interest on the Bonds is, however, includable in the computation of the alternative minimum tax on corporations imposed by the Code. The Code contains other provisions that could result in tax consequences, upon which we express no opinion, as a result of (a) ownership of Bonds or (b) the inclusion in certain computations (including, without limitation, those related to the corporate alternate minimum tax) of interest that is excluded from gross income.

The Commonwealth of Puerto Rico has covenanted to comply, to the extent permitted by the Constitution and laws of the Commonwealth of Puerto Rico, with the requirements of the Code so that interest on the Bonds will remain exempt from federal income taxes to which it is not subject on the date of issuance of the Bonds. We are not aware of any provisions of the Constitution or laws of the Commonwealth of Puerto Rico which would prevent the Commonwealth of Puerto Rico from complying with the requirements of the Code.

Respectfully submitted,



## PROPOSED FORM OF REMARKETING OPINION



June \_\_, 2011

Secretary of the Treasury of the  
Commonwealth of Puerto Rico  
Department of the Treasury  
San Juan, Puerto Rico

Banco Popular de Puerto Rico, as Registrar  
under the Resolution referred to below  
San Juan, Puerto Rico

Re: \$188,710,000 Commonwealth of Puerto Rico Public Improvement  
Refunding Bonds, Sub-Series 2003 C-5-2, maturing July 1, 2020

Ladies and Gentlemen:

We represent the Commonwealth of Puerto Rico in connection with the substitution of a Combined Facility for the above-referenced Bonds (the "Bonds"), in the form of a Letter of Credit, dated the date hereof, issued by Barclays Bank PLC (the "Letter of Credit"), for the existing Liquidity Facility for the Bonds that expires on July 1, 2011 (the "Existing Facility"). Capitalized terms not otherwise defined herein shall have the same meanings assigned to them in the Bond Resolution, adopted by the Secretary of the Treasury of Puerto Rico (the "Secretary") and approved by the Governor of Puerto Rico (the "Governor") on April 16, 2003, as amended and restated by a resolution adopted by the Acting Secretary and approved by the Governor on June 25, 2008, and as further amended and supplemented by a Supplemental Bond Resolution, adopted by the Secretary and approved by the Governor on June 23, 2011 (together, the "Resolution").

In connection with the substitution of the Letter of Credit for the Existing Facility, we have examined a certified copy of the Resolution, the Letter of Credit, and originals or copies satisfactory to us of all records, agreements, certificates and other documents as we have deemed relevant and necessary as a basis for the opinions hereinafter expressed. In such examination we have assumed the genuineness of all signatures and the authenticity of all documents submitted to us as originals and the conformity to originals of all items submitted to us as certified or photo static copies.

Based upon the foregoing, under existing law, we are of the opinion that:

1. Subject to the satisfaction of the various conditions to the substitution of the Existing Facility contained in the Resolution and any other agreements executed in

connection with the adoption of the Resolution, the proposed substitution of the Letter of Credit for the Existing Facility (a) will not in and of itself adversely affect the exclusion of interest on the Bonds from gross income for federal income tax purposes, and (b) is authorized or permitted under the Resolution.

The Commonwealth of Puerto Rico has covenanted to comply, to the extent permitted by the Constitution and laws of the Commonwealth of Puerto Rico, with the requirements of the Internal Revenue Code of 1986, as amended (the “Code”), so that interest on the Bonds will remain exempt from federal income taxes. We are not aware of any provisions of the Constitution or laws of the Commonwealth of Puerto Rico which would prevent the Commonwealth of Puerto Rico from complying with the requirements of the Code.

The opinions expressed herein are for the benefit of the addressees only and may not be quoted, circulated, assigned or delivered to any other person or for any other purpose without our prior written consent. The opinions expressed herein are based on an analysis of existing laws, including regulations, rulings, official interpretations of law issued by the United States Internal Revenue Service, and court decisions on or prior to the date hereof. Such opinions may be adversely affected by actions taken or events occurring, including a change in law, regulation or ruling (or in the application or official interpretation of any law, regulation or ruling) after the date hereof. We have not undertaken to determine, or to inform any person, whether such actions are taken or such events occur, and we have no obligation to update this opinion in light of such actions or events.

Respectfully submitted,

Greenberg Traurig, LLP



## MUNICIPAL BOND INSURANCE POLICY

ISSUER: Commonwealth of Puerto Rico

Policy No.: 200717-N

BONDS: \$280,000,000 in aggregate principal amount of Public Improvement Refunding Bonds, Series 2003 C: Consisting of \$46,385,000 Term Bonds maturing on July 1, 2018 and \$233,615,000 Term Bonds maturing on July 1, 2021

Effective Date: May 6, 2003

Premium: \$8,719,901.00

FINANCIAL SECURITY ASSURANCE INC. ("Financial Security"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the Bonds, for the benefit of the Owners or, at the election of Financial Security, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the Business Day next following the Business Day on which Financial Security shall have received Notice of Nonpayment, Financial Security will disburse to or for the benefit of each Owner of a Bond the face amount of principal of and interest on the Bond that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by Financial Security, 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 Financial Security. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by Financial Security is incomplete, it shall be deemed not to have been received by Financial Security for purposes of the preceding sentence and Financial Security shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, who may submit an amended Notice of Nonpayment. Upon disbursement in respect of a Bond, Financial Security shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal of or 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 Financial Security hereunder. Payment by Financial Security to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of Financial Security under this Policy.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of 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" means (a) when referring to the principal of a Bond, payable on 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 unless Financial Security shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment made to an Owner by or on behalf of the Issuer 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. "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 Financial Security 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.

Financial Security may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee and the Paying Agent specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee and the Paying Agent, (a) copies of all notices required to be delivered to Financial Security pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to Financial Security and shall not be deemed received until received by both and (b) all payments required to be made by Financial Security under this Policy may be made directly by Financial Security or by the Insurer's Fiscal Agent on behalf of Financial Security. The Insurer's Fiscal Agent is the agent of Financial Security 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 Financial Security to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, Financial Security agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud), whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to Financial Security to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of Financial Security, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be canceled or revoked. 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, FINANCIAL SECURITY ASSURANCE INC. has caused this Policy to be executed on its behalf by its Authorized Officer.

Countersignature  
  
By *Sandra Capó Vélez*

FINANCIAL SECURITY ASSURANCE INC.  
  
By *Thomas P. Conroy*  
Authorized Officer

A subsidiary of Financial Security Assurance Holdings Ltd. (212) 826-0100  
350 Park Avenue, New York, N.Y. 10022-6022

Form 500NY (5/90)

**Definitions of Certain Terms**

“Additional Credit Facility” means a Credit Facility that the Secretary has delivered or caused to be delivered to the Registrar relating to one or more Subseries of Series C Bonds that constitute Insured Bonds.

“Additional Credit Facility Default” means the occurrence of (i) an “event of default” under the applicable Reimbursement Agreement, (ii) an Insurer Downgrade Event, or (iii) an Insurer Event of Default, as set forth in a written notice from the Provider of an Additional Credit Facility to the Registrar and directing the Registrar to cause a mandatory tender of the Series C Bonds to which such Additional Credit Facility relates.

“Additional Credit Provider” means the Provider of an Additional Credit Facility.

“AGM” means Assured Guaranty Municipal Corp., formerly known as Financial Security Assurance Inc. All references in the Resolution to “FSA” shall mean “AGM.”

“AGM Insurance Policy” means the Municipal Bond Insurance Policy issued by the Insurer with respect to the Series C Bonds.

“Amortization Requirement” as applied to any term bonds for any fiscal year, means the principal amount fixed or computed for such fiscal year as set forth in the Resolution or a Certificate of Determination for the retirement of such term bonds by purchase or redemption.

“Auction Agent” means the auctioneer appointed in accordance with the Resolution.

“Authorized Denominations” means during any Weekly Rate Period, \$100,000 and any multiple of \$5,000 in excess thereof.

“Available Moneys” means (i) in respect of any Series C Bonds having the benefit of a Facility, (A) any moneys continuously on deposit in trust with the Registrar (other than moneys on deposit in the Credit Facility Fund) for a period of 124 consecutive days during and prior to which no petition in bankruptcy under the United States Bankruptcy Code has been filed by or against the Commonwealth and no similar proceedings have been instituted under insolvency or other laws of the Commonwealth affecting creditors’ rights generally, provided that such amounts which were continuously on deposit in trust with the Registrar for a period of 124 consecutive days will again be deemed Available Moneys if the petition or proceedings have been dismissed and the dismissal is not longer subject to appeal and provided further that in determining the 124-day requirement if a petition has been filed or proceedings instituted, the period during which such moneys were on deposit during and prior to which no petition had been filed and no similar proceedings had been instituted shall be counted towards satisfying the 124-day requirement after the petition or proceedings have been dismissed and the dismissal is no longer subject to appeal, or (B) any moneys with respect to which the Registrar receives an unqualified opinion of counsel nationally recognized as an expert in bankruptcy matters, selected by the Secretary and acceptable to the Registrar, that payments of such amounts to the owners of the Series C Bonds would not constitute avoidable preferences under the United States Bankruptcy Code or similar state, Commonwealth or federal laws (including federal, Commonwealth and state laws governing the insolvency of banks, insurance companies,

savings and loan associations or other specific types of institutions) in the event of the filing of a petition for relief under the United States Bankruptcy Code or such similar state, Commonwealth or federal laws with avoidable preference provisions by or against the Commonwealth, (ii) in respect of any Series C Bonds having the benefit of a Credit Facility, any moneys paid by the Provider to the Registrar pursuant to a draw under the Credit Facility and which moneys were not commingled with any other moneys held by the Registrar, (iii) any proceeds of any bonds issued to refund the Series C Bonds, (iv) with respect to any Series C Bonds other than those described in clause (i), any moneys from whatever sources, and (e) any investment earnings on moneys and proceeds described in (i) and (ii) above.

“Bond Payment Date” means an Interest Payment Date and any date on which the principal of a Series C Bond is due and payable upon its maturity or its redemption in satisfaction of an Amortization Requirement, but the principal does not include the Purchase Price of Tendered Bonds or the redemption price of a Series C Bond called for redemption pursuant to the Resolution.

“Bondholder”, “Holder” or “Holder of Bonds” or any similar term, when used with reference to a Series C Bond, means any person who shall be the registered owner thereof.

“Book Entry Bond” means any Series C Bond issued to and registered in the name of a Depository directly or indirectly for the beneficial owners thereof.

“Business Day” when used in connection with any particular Series C Bond means a day other than (i) a Saturday and Sunday, or (ii) a day on which any of the following are authorized or required to remain closed: (A) banks or trust companies in New York, New York, (B) the Registrar, (C) the New York Stock Exchange, (D) if such Series C Bond is in the Weekly Rate Mode, the Tender Agent, the Remarketing Agent or any Provider of a Facility for such Series C Bond.

“Cancellation Agreement” means the Bond Insurance Policy Cancellation Agreement, dated as of June 1, 2011, by and among the Commonwealth, the Registrar, Barclays Bank PLC, and AGM.

“Certificate of Determination” means a certificate of the Secretary executed upon the Conversion of Series C Bonds to a new Rate Mode (other than a Daily Rate Mode, a Weekly Rate Mode, a Commercial Paper Mode or an Auction Rate Mode) setting forth the Initial Rate, the Initial Rate Period, the first Interest Payment Date if other than a date on which interest would otherwise be payable hereunder, and the matters required by the Resolution relating to a Liquidity Facility.

“Combined Facility” means a single facility that constitutes both a Liquidity Facility and a Credit Facility.

“Conversion” means a change in the Rate Mode made in accordance with the provisions of the Resolution.

“Conversion Date” means the day on which a Series C Bond is converted from one Rate Mode to a different Rate Mode or was proposed to be converted from one Rate Mode to another

Rate Mode, which date must be a Reset Date or an Interest Payment Date for such Series C Bond.

“Conversion Notice” means a notice of Conversion given pursuant to the Resolution.

“Credit Facility” means an irrevocable letter of credit, surety bond, loan agreement, financial guaranty insurance policy, or other agreement, facility or insurance or guaranty arrangement issued or extended by any of (i) bank, (ii) a trust company, (iii) a national banking association, (iv) an organization subject to registration with the Board of Governors of the Federal Reserve System under the Bank Holding Company Act of 1956 or any successor provisions of law, (v) a federal branch pursuant to the International Banking Act of 1978 or any successor provisions of law, (vi) a savings bank, (vii) a savings and loan association, (viii) an insurance company or association chartered or organized under the laws of any state of the United States of America, (ix) the Government National Mortgage Association or any successor thereto, (x) the Federal National Mortgage Association or any successor thereto, or (xi) any other federal agency or instrumentality approved by the Commonwealth, in each case pursuant to which the Registrar is entitled to obtain moneys to pay the principal or redemption price of outstanding Series C Bonds due either at maturity or upon redemption in satisfaction of the Amortization Requirements therefor, plus accrued interest thereon to the date of payment or redemption thereof in accordance herewith. A Credit Facility may be in the form of a Combined Facility, in which case references in the Resolution to “Credit Facility” shall mean to the provisions of the Combined Facility relating to the payment of the principal or redemption price of outstanding Series C Bonds due at maturity or upon redemption in satisfaction of Amortization Requirements therefor, plus accrued interest thereon to the date of payment or redemption.

“Credit Facility Fund” means the fund established pursuant to the Resolution for the deposit of proceeds of drawings under the Additional Credit Facility.

“Depository” means DTC, or its nominee, or any other person, firm, association or corporation designated by the Secretary to serve as securities depository for the Series C Bonds.

“Electronic Means” means telecopy, facsimile transmission, email transmission or other similar electronic means of communication providing evidence of transmission, including a telephone communication confirmed by any other method set forth in this definition.

“Existing Owner” means a Person who is listed as the beneficial owner of Series C Bonds in the records of the Auction Agent.

“Expiration Date” when used in connection with a particular Liquidity Facility or Credit Facility (other than a Credit Facility in the form of a Financial Guaranty Insurance Policy) means the date (other than a Termination Date in the case of a Liquidity Facility) on which such Facility will expire by its terms, as such date may be extended from time to time, or any earlier date on which such Facility shall terminate, expire or be canceled in accordance with its terms or upon delivery of a substitute Facility in accordance with the Resolution.

“Facility” means a Liquidity Facility, a Credit Facility or a Combined Facility, as the context requires.

“Financial Guaranty Insurance Policy” means the financial guaranty insurance or similar policy issued by an Insurer insuring the payment when due of the principal of and interest on the Insured Bonds as provided therein.

“Insurer” means, with respect to the Series C-5-2 Bonds, AGM.

“Insured Bonds” means Series C Bonds for which a Financial Guaranty Insurance Policy has been issued by an Insurer.

“Insurer Downgrade Event” means the financial strength or claims-paying rating of an Insurer shall for a period of thirty (30) consecutive days be (i) reduced below “A1” (or its equivalent) or suspended or withdrawn by Moody’s, and (ii) reduced below “A+” (or its equivalent) or suspended or withdrawn by S&P; provided, however, that for purposes of this definition, a withdrawal or a suspension of a rating by any such Rating Service shall not constitute an Insurer Downgrade Event if such Rating Service stipulates in writing that the rating action is being taken for non credit related reasons.

“Insurer Event of Default” means the occurrence of one or more of the following events:

(i) any principal or interest evidenced by Insured Bonds (including Purchased Bonds) is not paid by the applicable Insurer when, as, and in the amounts required to be paid pursuant to the terms of the applicable Financial Guaranty Insurance Policy; or

(ii) (A) any material provision of a Financial Guaranty Insurance Policy relating to the obligation of an Insurer to make payments of principal and interest thereunder at any time for any reason ceases to be valid and binding on such Insurer in accordance with the terms of the Financial Guaranty Insurance Policy or the New York Department of Insurance, or a court or other governmental authority of appropriate jurisdiction shall find or rule or shall enter an order, judgment or decree that a Financial Guaranty Insurance Policy is not valid and binding on the applicable Insurer, or (B) an Insurer shall (1) claim in writing that its Financial Guaranty Insurance Policy is not valid and binding on such Insurer, (2) repudiate such Insurer’s obligations under its Financial Guaranty Insurance Policy, or (3) initiate legal proceedings seeking an adjudication that its Financial Guaranty Insurance Policy, or any material provision thereof regarding the payment of principal or interest on the applicable Insured Bonds (including Purchased Bonds) is not valid and binding on such Insurer; or

(iii) a proceeding is instituted in a court having jurisdiction in the premises seeking an order for relief, rehabilitation, reorganization, conservation, liquidation or dissolution in respect to an Insurer or for any substantial part of its property under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, or for the appointment of a receiver, liquidator, assignee, custodian, trustee or sequestrator (or other similar official) and such proceeding shall not have been dismissed within sixty (60) days or such court enters an order granting the relief sought in such proceeding; or

the New York Department of Insurance or other governmental authority of appropriate jurisdiction shall declare a moratorium on the payment of an Insurer's debts, or the Insurer shall commence a voluntary case under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, shall consent to the entry of an order for relief in an involuntary case under any such law or shall consent to the appointment of or taking possession by a receiver, liquidator, assignee, trustee, custodian or sequestrator (or other similar official) of such Insurer or for any substantial part of its property, or shall make a general assignment for the benefit of creditors, or shall fail generally to pay its debts (*provided* that for purposes of this definition, "*debts*" shall not include any obligation of an Insurer under any insurance policy or surety bond) as they become due, or an order for rehabilitation, liquidation or dissolution of an Insurer shall be issued; or

(iv) the Insurer shall fail to make any payment related to principal and interest when due under any insurance policy (other than the applicable Financing Guaranty Insurance Policy) or surety bond issued by it insuring or supporting the payment of municipal obligations rated by any Rating Service, and such failure shall continue for a period of thirty (30) days (it being understood that default for purposes of this clause (iv) shall not mean a situation whereby the Insurer contests in good faith its liability under any such policy or policies in light of the claims made thereunder).

"Interest Payment Date" means during any Weekly Rate Period, the first Business Day of each month. If so provided in a Certificate of Determination, the first Interest Payment Date may be a date that is different from the date on which interest would otherwise be payable. Interest on Purchased Bonds shall be payable at the times required by the Reimbursement Agreement. If any such date is not a Business Day, the Interest Payment Date shall be the succeeding Business Day.

"Liquidity Facility" means an irrevocable letter of credit, surety bond, loan agreement, standby bond purchase agreement, line of credit or other agreement or arrangement issued or extended by any of (i) a bank, (ii) a trust company, (iii) a national banking association, (iv) an organization subject to registration with the Board of Governors of the Federal Reserve System under the Bank Holding Company Act of 1956 or any successor provisions of law, (v) a federal branch pursuant to the International Banking Act of 1978 or any successor provisions of law, (vi) a savings bank, (vii) a domestic branch or agency of a foreign bank, which branch or agency is duly licensed or authorized under the laws of any state of the United States of America, (viii) a savings and loan association, (ix) an insurance company or association chartered or organized under the laws of any state or territory of the United States of America, (x) the Government National Mortgage Association or any successor thereto, (xi) the Federal National Mortgage Association or any successor thereto, or (xii) any other federal agency or instrumentality approved by the Secretary, in each case pursuant to which the Registrar is entitled to obtain moneys upon the terms and conditions contained therein for the purchase or redemption of Series C Bonds tendered for purchase in accordance with the Resolution and that meets the requirements of thereof, as applicable. A Liquidity Facility may be in the form of a Combined Facility, in which case references in the Resolution to "Liquidity Facility" shall mean to the provisions of the Combined Facility pursuant to which the Tender Agent is entitled to obtain moneys upon the terms and conditions contained therein for the purchase of Series C Bonds

tendered for purchase in accordance with the Resolution, provided that the provisions of the Resolution permitting a Liquidity Facility to be terminated, without a first providing for a mandatory tender of the Series C Bonds to which such Facility relates, shall not be applicable to a Combined Facility.

“Mandatory Tender Date” means any date on which a Series C Bond is required to be purchased in accordance with Resolution.

“Moody’s” means Moody’s Investors Service, Inc.

“Opinion of Bond Counsel” means an opinion of Greenberg Traurig, LLP, or any attorney at law or firm of attorneys selected by the Commonwealth of nationally recognized standing in matters pertaining to the federal tax exemption of interest on bonds issued by states and political subdivisions, and duly admitted to practice law before the highest court of any state of the United States, to the effect that the action proposed to be taken will not cause interest on the Series C Bonds to be includable in the gross income of the owners of such Series C Bonds for purposes of federal income taxation and such action is authorized or permitted by the Resolution.

“Optional Tender Date” means any Business Day during a Weekly Rate Period.

“Person” shall mean any individual, partnership, association, corporation, joint venture, joint-stock company, unincorporated organization or government or any agency or political subdivision thereof.

“Potential Owner” means any person, including any Existing Owner, who may be interested in acquiring a beneficial interest in the Series C Bonds in addition to the Series C Bonds currently beneficially owned by such Person, if any.

“Provider” when used in connection with any particular Series C Bond means the provider of a Facility for such Series C Bond.

“Provider Default” means, with respect to a Provider, any of the following:

(i) there shall occur a failure of the Provider to make payment under its Credit Facility or Liquidity Facility;

(ii) the applicable Credit Facility or Liquidity Facility shall have been declared null and void or unenforceable in a final determination by a court of law;

(iii) a proceeding shall have been instituted in a court having jurisdiction seeking a decree or order for relief in respect of an applicable Provider in an involuntary case under the applicable bankruptcy, insolvency or other similar law now or hereafter in effect or for the appointment of a receiver, liquidator, assignee, custodian, trustee or sequestrator (or other similar official) of an applicable Provider or for any substantial part of its property or for the winding up or liquidation of its affairs and such proceeding shall remain undismissed or unstayed and in effect for a period of thirty (30) consecutive days or such court shall enter a decree or order granting the relief sought in such proceeding; or

(iv) an applicable Provider shall consent to the entry of an order for relief in an involuntary case under any such law or shall consent to the appointment of or taking possession by a receiver, liquidator, assignee, trustee, custodian or sequestrator (or other similar official) of the applicable Provider or for any substantial part of its property, or shall make a general assignment for the benefit of creditors.

“Puerto Rican Federal Relations Act” means the Act of the Congress of the United States entitled: “An Act to provide a civil government for Puerto Rico, and for other purposes,” approved March , 1917, as amended, as continued in effect by Public Law 600, approved July 3, 1950.

“Purchased Bond” means any Series C Bond during the period from and including the date it is purchased or paid for by a Provider pursuant to a Facility to, but excluding, the earliest of (i) the date on which the principal, redemption price or Purchase Price of such Series C Bond, together with all interest accrued thereon, is paid with amounts other than amounts drawn under the Facility, (ii) the date on which the Holder of a Series C Bond has given written notice of its determination not to sell such Series C Bond following receipt of a purchase notice from the Remarketing Agent with respect to such Series C Bond, or, if notice of such determination is not given on or before the Business Day next succeeding the day such purchase notice is received, the second Business Day succeeding receipt of such purchase notice, or (iii) the date on which such Series C Bond is to be purchased pursuant to an agreement by the Holder of such Series C Bond to sell such Series C Bond following receipt of a purchase notice from the Remarketing Agent with respect to such Series C Bond, if the Registrar then holds, in trust for the benefit of such Holder (or with respect to the Series C-5-2 Bonds only, the date on which the Holder of a Series C Bond does not sell such Series C Bond following receipt of a purchase notice from the Remarketing Agent with respect to such Series C Bond), sufficient moneys to pay the Purchase Price of such Series C Bond, together with the interest accrued thereon to the date of purchase and, when used in connection with an Index Floating Rate Bond, means a Series C Bond held by or for the account of its Holder or beneficial owner after an Optional Tender Date or Mandatory Tender Date in a situation in which the Purchase Price of such Bond has not been paid to the Holder or beneficial owner thereof on the Optional Tender Date or Mandatory Tender Date.

“Purchased Bond Rate” means the rate at which a Purchased Bond bears interest in accordance with a Facility or its related Reimbursement Agreement.

“Purchase Price” means an amount equal to (i) one hundred percent (100%) of the principal amount of any Series C Bond tendered or deemed tendered to the Tender Agent for purchase pursuant to the Resolution, or (ii) the amount payable to the registered owner of a Purchased Bond following receipt by such owner of a purchase notice from the Remarketing Agent; plus accrued and unpaid interest thereon to the date of purchase. If the date of purchase is an Interest Payment Date, then the Purchase Price shall not include accrued and unpaid interest, which shall be paid to the Holder of record on the applicable Record Date.

“Rating Service” means Moody’s Investors Service, Inc., Standard & Poor’s Ratings Services and any other nationally recognized securities rating service, in any case which has

assigned a rating to the Series C Bonds at the request of the Secretary, or their respective successors and assigns.

“Record Date” means, with respect to each Interest Payment Date, during any Weekly Rate Period the close of business on the Business Day preceding such Interest Payment Date, regardless of whether such day is a Business Day.

“Reset Date” means, with respect to a Series C Bond in the Weekly Rate Mode, the date on which the interest rate borne by such Series C Bond is to be determined in accordance with the provisions of the Resolution, and (ii) Index Floating Rate Mode, each Thursday, commencing July 3, 2008, or if Thursday is not a Business Day, the next succeeding Business Day.

“S&P” means Standard & Poor’s Ratings Services.

“SIFMA Index” means the “Securities Industry and Financial Markets Association Municipal Swap Index” (such index previously known as “The Bond Market Association Municipal Swap Index” and “PSA Municipal Swap Index”) announced weekly by Municipal Market Data and based upon the weekly interest rate resets of tax-exempt variable rate issues included in a database maintained by Municipal Market Data which meet specified criteria established by the Securities Industry and Financial Markets Association. The SIFMA Index shall be based upon current yields of high-quality, weekly adjustable variable rate demand bonds which are subject to tender upon seven days notice, the interest on which is tax-exempt and not subject to any personal “alternative minimum tax” or similar tax under the Internal Revenue Code of 1986, as amended, unless all tax-exempt securities are subject to such tax.

“Sub-Series” means any grouping of Series C Bonds established by the Secretary, including upon consolidation or division of two or more Sub-Series, pursuant to the Resolution.

“Tender Agent” means the Registrar, who is appointed as Tender Agent pursuant the Resolution and having the duties, responsibilities and rights provided therein, and its successor or successors and any successor Registrar which may at any time be substituted in its place pursuant to the Resolution.

“Tender Date” means each Optional Tender Date or Mandatory Tender Date.

“Tender Notice” means the notice delivered by the Holder of a Series C Bond subject to optional tender pursuant to the Resolution.

“Termination Date” when used in connection with a particular Liquidity Facility (but not a Combined Facility) means the date on which such Facility will terminate prior to its stated Expiration Date, as set forth in a notice delivered by the Provider thereof in accordance with such Facility or the applicable Reimbursement Agreement.

“Unscheduled Non-Business Day” means any day that is not a Business Day because of (i) the closure of the principal office of the Provider, the Remarketing Agent, the Auction Agent, the Tender Agent or the Registrar or (ii) the closing of the New York Stock Exchange, due to any calamity or crisis or declaration by federal or state authorities.

“Weekly Rate” means the rate at which a Series C Bond bears interest during a Weekly Rate Period, as established in accordance with the Resolution.

“Weekly Rate Mode” means a Rate Mode in which a Series C Bond bears interest at a Weekly Rate.

“Weekly Rate Period” means a period commencing on a Conversion Date or any Thursday and extending to and including the next succeeding Wednesday.

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