NEW ISSUES — BOOK ENTRY ONLY

In the opinion of Bond Counsel, subject to continuing compliance with certain tax covenants, interest on the 1993 Bonds is not includable in gross income for federal income tax purposes under existing statutes, regulations, rulings and court decisions. However, see "Tax Exemption" for a description of the alternative minimum tax and environmental tax on corporations and certain other federal tax consequences of ownership of the 1993 Bonds. Bond Counsel is further of the opinion that the 1993 Bonds and the interest thereon are exempt from state, Commonwealth of Puerto Rico and local income taxation.

$1,161,580,000

Puerto Rico Highway and Transportation Authority

$410,290,000 Highway Revenue Bonds (Series W)

$751,290,000 Highway Revenue Refunding Bonds (Series X)

Dated: As shown on the inside cover **Due: As shown on the inside cover**

The Series W and Series X Bonds (the "1993 Bonds") are issuable as registered bonds without coupons and will be initially registered only in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the 1993 Bonds. Purchasers will not receive delivery of the 1993 Bonds. See "Book-Entry Only System" under *The Bonds.*

A portion of the 1993 Bonds will be delivered as Multiple Component Securities ("MCS[SM]") and Floating Auction Tax-Exempts ("FLOATs[SM]") and Residual Interest Tax-Exempt Securities ("RITES[SM]"). See "MCS" and "FLOAT/RITES" under the caption "Description of the 1993 Bonds" under *The Bonds* and *Appendices VI* and *VII* hereto. The Series X Bonds due July 1, 1995 through 1999 may be delivered as variable rate bonds (the "1993 Variable Rate Bonds"). The terms of the 1993 Variable Rate Bonds will be set forth in a supplement to this Official Statement which will be delivered to the initial purchasers of the 1993 Variable Rate Bonds.

The 1993 Bonds, other than the MCS, the FLOATs and the RITES, will be available to purchasers in denominations of $5,000 and any multiple thereof. Interest on the 1993 Bonds will be payable on each January 1 and July 1.

The MCS that include principal components are issuable in denominations of $5,000 (or $10,000 under the circumstances set forth below) principal amount and multiples thereof. The MCS that include only interest components are issuable in denominations representing interest on $5,000 (or $10,000 under the circumstances set forth below) principal amount of the related 1993 Bonds and multiples thereof. Linked Fixed Rate Single Coupon MCS, Linked Fixed Rate Annuity Coupon MCS and Linked Fixed Rate Current Pay MCS are issuable in denominations of $10,000 and multiples thereof prior to the Conversion Date. After the Conversion Date, all MCS will be issued in denominations of $5,000 and multiples thereof.

Interest with respect to the Series W FLOATs and the Series X FLOATs will, subject to Advances being made by Bankers Trust Company, as Advance Agent, be payable on August 31, 1993 and September 14, 1993, respectively, and, subject to certain exceptions, on each successive fifth Tuesday thereafter. The Initial FLOATs Interest Period will be a period of 21 days for the Series W FLOATs and 35 days for the Series X FLOATs, and each subsequent FLOATs Interest Period will generally be a period of 35 days.

Prospective purchasers of the FLOATs should carefully review the Auction Procedures described herein, including *Appendix VII* hereto, and should note that (i) a Bid or Sell Order constitutes a commitment to purchase or sell FLOATs based upon the results of an Auction, (ii) Auctions will be conducted through telephone communications and (iii) settlement for purchases and sales will be made on the next business day following an Auction. Unless Fixed with RITES, FLOATs may be transferred only pursuant to a Bid or Sell Order placed in an Auction or to or through a Broker-Dealer.

The 1993 Bonds are subject to redemption prior to maturity and the FLOATs are subject to mandatory tender as set forth herein.

By purchasing the 1993 Bonds, the owners of such Bonds will have consented to the adoption of two supplemental resolutions; one will be adopted upon the delivery of the 1993 Bonds and the other will be adopted once the consent of the owners of 100 percent of the Bonds has been obtained. See "Proposed Supplemental Resolutions" and "Consent of Bondholders" under *The Bonds.*

The Bonds, including the 1993 Bonds, are secured by a pledge of Revenues of the Authority, which include gasoline taxes, certain gas oil and diesel oil taxes and motor vehicle license fees imposed by the Commonwealth, toll revenues of the Authority and certain investment earnings. Such taxes and license fees are subject to being applied first to the payment of general obligation debt of and debt guaranteed by the Commonwealth of Puerto Rico, if and to the extent that other Commonwealth revenues are not sufficient therefor.

The 1993 Bonds are not a debt of the Commonwealth of Puerto Rico or any of its political subdivisions, other than the Authority, and neither the Commonwealth of Puerto Rico nor any such subdivision, other than the Authority, shall be liable thereon.

The inside cover page contains information respecting the maturity schedules, interest rates and yields for the 1993 Bonds.

Merrill Lynch & Co.

Bear, Stearns & Co. Inc.

Goldman, Sachs & Co.

Lehman Brothers

Donaldson, Lufkin & Jenrette
Securities Corporation

The First Boston Corporation

Kidder Peabody & Co.
Incorporated

Lazard Frères & Co.

PaineWebber Incorporated

Smith Barney, Harris Upham & Co.
Incorporated

Dean Witter Reynolds

The 1993 Bonds are offered for delivery when, as and if issued and accepted by the Underwriters, subject to the approval of legality by Brown & Wood, New York, New York, Bond Counsel, and certain other conditions. Certain legal matters will be passed upon for the Underwriters by Rogers & Wells, New York, New York. It is expected that the 1993 Bonds will be available for delivery to DTC in New York, New York, on or about August 10, 1993.

July 15, 1993

[SM]MCS, FLOATs, RITES and FLOAT/RITES are Service Marks of Merrill Lynch & Co.

$1,161,580,000
Puerto Rico Highway and Transportation Authority

$410,290,000
Highway Revenue Bonds (Series W)

$292,090,000 Term Bonds*

$82,185,000 5½% Term Bonds due July 1, 2013 — Yield 5.62%
$52,250,000 5½% Term Bonds due July 1, 2015 — Yield 5.64%
$58,135,000 5½% Term Bonds due July 1, 2017 — Yield 5.70%
$99,520,000 5¾% Term Bonds due July 1, 2020 — Yield 5.72%

$24,700,000 Multiple Component Securities (MCS) (1) Due July 1, 2009, Price: NRO*****

MCS Description

Principal Only
5½% Base Rate Single Coupon
3½% Supplemental Rate Single Coupon
9% Linked Fixed Rate Single Coupon

MCS Description

5½% Base Rate Annuity Coupon
3½% Supplemental Rate Annuity Coupon
9% Linked Fixed Rate Annuity Coupon
Floating Rate Annuity Coupon
Inverse Floating Rate Annuity Coupon

MCS Description

5½% Base Rate Current Pay
9% Linked Fixed Rate Current Pay
Linked Floating Rate Current Pay
Linked Inverse Floating Rate Current Pay

Series W FLOAT/RITES**

$46,750,000
Floating Auction Tax-Exempts
(FLOATS) (2) (3)
Due: July 1, 2010
Price: NRO***

$46,750,000
Residual Interest Tax-Exempt Securities (RITES) (2) (4)
Price: NRO***

Maturity (July 1)	Principal Amount	Maturity (July 1)	Principal Amount
2006	$10,500,000	2008	$11,700,000
2007	11,100,000	2010	13,450,000

$751,290,000
Highway Revenue Refunding Bonds (Series X)

$330,425,000 Serial Bonds*

Maturity (July 1)	Principal Amount	Interest Rate	Price or Yield
1994	$14,335,000	2.85%	100 %
1995	17,325,000	†	†
1996	17,975,000	†	†
1997	18,720,000	†	†
1998	19,540,000	†	†
1999	28,170,000	†	†

Maturity (July 1)	Principal Amount	Interest Rate	Yield
2000	$45,005,000	4.80%	4.95%
2001	46,915,000	4.90	5.10
2002	48,855,000	5	5.20
2003	8,325,000	5.10	5.30
2022	65,260,000	5	5.71

$288,565,000 Term Bonds*

$30,090,000 5½% Term Bonds due July 1, 2013 — Yield 5.62%
$49,345,000 5½% Term Bonds due July 1, 2015 — Yield 5.64%
$102,140,000 5½% Term Bonds due July 1, 2019 — Yield 5.71%
$106,990,000 5¼% Term Bonds due July 1, 2021 — Yield 5.72%

Series X FLOAT/RITES**

$66,150,000
Floating Auction Tax-Exempts
(FLOATS) (2) (3)
Due: July 1, 2010
Price: NRO***

$66,150,000
Residual Interest Tax-Exempt Securities (RITES) (2) (4)
Price: NRO***

Maturity (July 1)	Principal Amount	Maturity (July 1)	Principal Amount
2003	$12,000,000	2007	$7,750,000
2004	13,100,000	2008	3,750,000
2005	13,950,000	2009	3,950,000
2006	7,450,000	2010	4,200,000

* Dated July 1, 1993, accrued interest to be added.

** Dated date of delivery.

*** Not Reoffered.

(1) Each MCS evidences the obligation of the Authority to make payments to the registered owner thereof in the amounts and at the times specified in such MCS. For a more complete description of the MCS, see *Appendix VI*.

(2) Authorized Denominations: $50,000 or any multiple thereof. An owner of FLOATs of a series may Fix such FLOATs with an equal principal amount of RITES of the same series and an owner of RITES of a series may fix such RITES with an equal principal amount of FLOATs of the same series, in each case through the facilities of DTC (as Securities Depository) as set forth herein except during Closed Periods (as defined herein).

(3) The Initial FLOATs Interest Period commences on the date of delivery and runs through but excludes August 31, 1993 for the Series W FLOATs and September 14, 1993 for the Series X FLOATs. Interest on each series of the FLOATs for the Initial FLOATs Interest Periods will equal the lowest rate that the underwriter of the FLOATs determines is necessary to sell the FLOATs at par on the date of delivery thereof plus the Service Charge Rate of .28 of 1%, provided however, that such sum may not exceed the Maximum Rate (as defined herein). Interest on the FLOATs for each Subsequent FLOATs Interest Period (which shall generally be 35 days) will equal the sum of (i) a rate per annum determined, except as described herein, on the basis of orders placed in an Auction conducted on the business day preceding the commencement of such subsequent FLOATs Interest Period and (ii) the Service Charge Rate (initially .28 of 1% per annum), but such sum may not exceed the Maximum Rate or be less than the Minimum Rate. Interest attributable to the Service Charge Rate will not be paid to the owners of the FLOATs but will be deducted from each interest payment on the FLOATs, unless such FLOATs are Fixed, as described herein, in which case such FLOATs will not participate in the Auctions and the interest attributable to the Service Charge Rate generally will not be deducted. Interest on the FLOATs will be determined on the basis of a 360-day year and the number of days actually elapsed.

(4) On each Semiannual Interest Payment Date, owners of RITES of a series will receive payments of interest on such RITES generally equal to the difference between (i) the product of (a) the principal amount of RITES of such series held by an owner, times (b) two, times (c) the Fixed Rate applicable to such RITES, times (d) the number of days in such Semiannual Interest Rate Period (assuming a 360-day year consisting of twelve thirty day months), divided by 360, minus the sum of (ii) the (a) payments made on an equivalent principal amount of FLOATs of the same series in the form of Advances (including payments of the Auction Agent and Broker-Dealer Fee) not previously reimbursed to the Advance Agent, plus (b) interest (including the Service Charge Rate) accrued at the Applicable FLOATs Rate, plus (c) any unpaid Advance Charges. The Fixed Rate applicable to each maturity and series of the RITES as follows:

Series W RITES maturing July 1	Fixed Rate	Series X RITES maturing July 1	Fixed Rate	Series X RITES maturing July 1	Fixed Rate
2006	5.40%	2003	5.20%	2007	5.45%
2007	5.45	2004	5.30	2008	5.50
2008	5.50	2005	5.35	2009	5.50
2010	5.55	2006	5.40	2010	5.55

† May be delivered as Variable Rate Bonds.

No dealer, broker, sales representative or other person has been authorized by the Authority or the Underwriters 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 Authority or any Underwriter. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the 1993 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 Authority and other official sources that are believed to be reliable, but is not guaranteed as to accuracy or completeness and is not to be construed as a representation by any Underwriter. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Authority since the date hereof.

IN CONNECTION WITH THE OFFERING OF THE 1993 BONDS, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICES OF THE 1993 BONDS AND ANY OTHER OUTSTANDING REVENUE OR REVENUE REFUNDING BONDS OF THE AUTHORITY AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL ON THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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$1,161,580,000
PUERTO RICO HIGHWAY AND TRANSPORTATION AUTHORITY
$410,290,000 Highway Revenue Bonds (Series W)
$751,290,000 Highway Revenue Refunding Bonds (Series X)

This Official Statement sets forth information in connection with the sale by Puerto Rico Highway and Transportation Authority (the "Authority") of $410,290,000 aggregate principal amount of its Puerto Rico Highway and Transportation Authority Highway Revenue Bonds (Series W) (the "Series W Bonds") and $751,290,000 aggregate principal amount of its Puerto Rico Highway and Transportation Authority Highway Revenue Refunding Bonds (Series X) (the "Series X Bonds"). The Series W Bonds and Series X Bonds (collectively, the "1993 Bonds") will be issued pursuant to Act No. 74 of the Legislature of Puerto Rico, approved June 23, 1965, as amended (the "Authority Act"), Resolution No. 68-18, adopted by the Authority on June 13, 1968, as amended (the "Resolution"), and Resolution No. 93-26, adopted by the Authority on July 15, 1993 (the "1993 Resolution"). A portion of the 1993 Bonds will be delivered as Multiple Component Securities (the "MCS[SM]") and Floating Auction Tax-Exempts ("FLOATs[SM]") and Residual Interest Tax-Exempt Securities ("RITES[SM]"). See "MCS" and "FLOAT/RITES" under the caption "Description of the 1993 Bonds" under *The Bonds* and *Appendices VI* and *VII* hereto. The Series X Bonds due July 1, 1995 through 1999 may be delivered as variable rate bonds (the "1993 Variable Rate Bonds"). The terms of the 1993 Variable Rate Bonds will be set forth in a supplement to this Official Statement which will be delivered to the initial purchasers of the 1993 Variable Rate Bonds. The 1993 Bonds, the outstanding bonds of the Authority and any additional bonds to be issued under the Resolution are herein collectively referred to as the "Bonds". All Bonds are secured equally and ratably under the Resolution. See "Security for the Bonds" under *The Bonds.* The Authority proposes to adopt two supplemental resolutions (the "Proposed Supplemental Resolutions"), which would supplement and amend the Resolution, upon (i) delivery of the 1993 Bonds and (ii) receipt of the consent of the owners of 100 percent of the Bonds, respectively. See "Proposed Supplemental Resolutions" under *The Bonds.*

The Authority is issuing the Series W Bonds to finance or refinance certain highway system improvements, and to make a deposit to the Reserve Account hereinafter mentioned. The Authority is issuing the Series X Bonds to achieve annual debt service savings by refunding the Authority's outstanding Puerto Rico Highway Authority Highway Revenue Bonds (Series B) (the "Series B Bonds"), Puerto Rico Highway Authority Highway Revenue Bonds (Series D) (the "Series D Bonds"), Puerto Rico Highway Authority Highway Revenue Bonds (Series E) (the "Series E Bonds"), Puerto Rico Highway Authority Highway Revenue Bonds (Series F) (the "Series F Bonds"), Puerto Rico Highway Authority Highway Revenue Bonds (Series L) (the "Series L Bonds") and Puerto Rico Highway and Transportation Authority Highway Revenue Bonds (Series S) (the "Series S Bonds") and a portion of the Authority's outstanding Puerto Rico Highway Authority Highway Revenue Refunding Bonds (Series N) (the "Series N Bonds"), Puerto Rico Highway Authority Highway Revenue Refunding Bonds (Series O) (the "Series O Bonds"), Puerto Rico Highway Authority Highway Revenue Bonds (Series Q) (the "Series Q Bonds") and Puerto Rico Highway and Transportation Authority Highway Revenue Bonds (Series T) (the "Series T Bonds").

INTRODUCTION

The Commonwealth of Puerto Rico (the "Commonwealth") established the Authority in 1965 as a public corporation and governmental instrumentality to design and oversee the construction, reconstruction and improvement of the Commonwealth highway system. The Commonwealth highway system now comprises 4,456 miles of roads, highways, bridges and tunnels, including the Las Americas and De Diego tollways. The Authority operates and maintains these tollways and related connecting roads, including the Minillas Tunnel in San Juan. The Department of Transportation and Public Works of the Commonwealth (the "Department") operates and maintains all other portions of the Commonwealth highway system. There are also 9,051 miles of local streets and adjacent roads in Puerto Rico handled at the municipal level which are not part of the Commonwealth highway system.

[SM] Service Mark of Merrill Lynch & Co.

Since 1968, pursuant to a master plan for the long-range development of the highway system, which is supplemented as necessary, and an ongoing five-year priorities construction program (the "Priorities Construction Program"), the Authority has carried out the planning, construction, improvement and equipping of all Commonwealth roads, highways, bridges and tunnels. During this time, the Authority has constructed highway system facilities with a total cost of more than $3,675.3 million. This amount includes approximately $1,641.3 million financed with internally generated funds, $1,194.5 million financed through the issuance of Bonds, $779.9 million paid with federal highway assistance funds and $59.6 million paid with funds provided by the Commonwealth.

Upon delivery of the 1993 Bonds and the refunding of the Refunded Bonds (hereinafter mentioned), $1,694,135,000 aggregate principal amount of the Bonds will be outstanding. The Bonds are payable solely from, and secured by a pledge of, all Revenues (as defined in the Resolution) and other moneys held for the credit of the Sinking Fund established under the Resolution. Neither the credit of the Commonwealth nor that of any of its political subdivisions is pledged for the payment of the Bonds. Revenues include gasoline taxes, certain gas oil and diesel oil taxes and motor vehicle license fees imposed by the Commonwealth, toll revenues of the Authority and certain investment earnings. Such taxes and license fees are subject to being applied first to the payment of general obligation debt of and debt guaranteed by the Commonwealth, if and to the extent that other Commonwealth revenues are insufficient therefor. The Commonwealth has never applied taxes or fees allocated to the Authority to the payment of Commonwealth public debt. See "Security for the Bonds" under *The Bonds* and "Debt" under *Appendix I.*

The financial condition of the Commonwealth and economic conditions in Puerto Rico, including gasoline and oil prices, affect the level of Revenues available to the Authority. In addition, Commonwealth appropriations for the Department affect the level of maintenance for the portion of the Commonwealth highway system which is the responsibility of the Department. Certain information regarding the Commonwealth is set forth in *Appendix I* hereto.

This Official Statement includes brief descriptions of the Authority, the Commonwealth and the highway system, together with other information, including summaries of the terms of the 1993 Bonds, the Resolution, the Proposed Supplemental Resolutions, and the various statutes affecting the Authority. Such summaries and the references to all documents referred to herein do not purport to be complete, and each summary and reference is qualified in its entirety by reference to each such document, copies of which are available from the Authority. All references to the 1993 Bonds are qualified in their entirety by reference to the definitive forms thereof and the information with respect thereto contained in the Resolution.

FINANCING AND REFUNDING PLAN

Series W Bonds

The Authority is issuing the Series W Bonds to finance or refinance a portion of the costs of various projects under the Authority's current Priorities Construction Program, including the payment of $38.8 million notes (the "Outstanding Notes") held by Government Development Bank for Puerto Rico ("Government Development Bank"), and to make a deposit to the Reserve Account hereinafter mentioned. See "Priorities Construction Program" under *Highway System Revenues and Expenditures.*

Series X Bonds

The Authority is issuing the Series X Bonds to refund currently all the outstanding Series B Bonds, Series D Bonds, Series E Bonds, Series F Bonds and Series L Bonds and to advance refund all the outstanding Series S Bonds and a portion of the outstanding Series N Bonds, Series O Bonds, Series Q Bonds and Series T Bonds. The Bonds being refunded are herein collectively referred to as the "Refunded Bonds". $723,927,451 of the proceeds of the Series X Bonds, together with other available moneys, will be deposited into an Escrow Deposit Trust Fund (the "Escrow Fund") pursuant to the Escrow Deposit Letter, dated August 10, 1993 (the "Escrow Deposit Letter"), from the Authority to The Chase Manhattan Bank (National Association), Fiscal

Agent under the Resolution (the "Fiscal Agent"), in order to refund the Refunded Bonds on the dates and at the redemption prices set forth below:

	Amount to be Refunded	Interest Rate	Maturity Date	Redemption Date	Redemption Price
Highway Revenue Bonds (Series B)	$13,955,000	7%	July 1, 1998	September 16, 1993	100%
Highway Revenue Bonds (Series D)	38,370,000	6¾	July 1, 2001	September 16, 1993	100½
Highway Revenue Bonds (Series E)	37,130,000	6	July 1, 2002	September 16, 1993	100½
Highway Revenue Bonds (Series F)	29,860,000	5.90	July 1, 2002	September 16, 1993	100½
Highway Revenue Bonds (Series L)	58,875,000	7	July 1, 2007	September 16, 1993	101
Highway Revenue Refunding Bonds (Series N)	8,420,000	7.40	July 1, 1999	July 1, 1998	102
	12,800,000	7½	July 1, 2000	July 1, 1998	102
	13,540,000	7.60	July 1, 2001	July 1, 1998	102
	29,685,000	8	July 1, 2003	July 1, 1998	102
Highway Revenue Refunding Bonds (Series O)	2,920,000	7.40	July 1, 1999	July 1, 1998	102
	3,145,000	7½	July 1, 2000	July 1, 1998	102
	3,385,000	7.60	July 1, 2001	July 1, 1998	102
	35,370,000	8	July 1, 2005	July 1, 1998	102
Highway Revenue Bonds (Series Q)	3,885,000	7.70	July 1, 2003	July 1, 2000	102
	37,030,000	7¾	July 1, 2010	July 1, 2000	102
	48,445,000	7¾	July 1, 2016	July 1, 2000	102
Highway Revenue Bonds (Series S)	53,250,000	6⅝	July 1, 2018	July 1, 2002	101½
	86,750,000	6½	July 1, 2022	July 1, 2002	101½
Highway Revenue Bonds (Series T)	27,055,000	6⅝	July 1, 2018	July 1, 2002	101½
	129,845,000	6½	July 1, 2022	July 1, 2002	101½

The refunding will permit the Authority to realize annual savings on its debt service requirements on outstanding Bonds. The moneys deposited in the Escrow Fund will be invested in Government Obligations (as defined in the Resolution) maturing in amounts and bearing interest at rates sufficient to pay, when due, without any reinvestment, the principal of and premium, if any, and interest on the Refunded Bonds as described above. Such Government Obligations will be purchased on the open market at interest rates which will cause the yield thereon (computed in accordance with the relevant provisions of the Internal Revenue Code of 1986, as amended, and the regulations applicable thereto) not to exceed the yield permitted thereby. All amounts held in the Escrow Fund will be held in trust solely for the benefit of the holders of the Refunded Bonds. Upon the deposit into the Escrow Fund, the Refunded Bonds will no longer be deemed to be outstanding under the Resolution.

Application of Proceeds

The proceeds of the sale of the 1993 Bonds (exclusive of any accrued interest received upon delivery, which will be deposited in the Bond Service Account established under the Resolution) are expected to be applied as follows:

Deposit into Escrow Fund	$ 723,927,451
Deposit into Construction Fund	356,200,000
Payment of Outstanding Notes	38,800,000
Reserve Account Deposit	11,000,000
Underwriting discount and legal, printing and financing expenses	11,293,595
Original Issue Discount	20,358,954
Principal amount of 1993 Bonds	$1,161,580,000

THE BONDS

Description of the 1993 Bonds

General

The 1993 Bonds will be issued as registered bonds without coupons, will be dated, will bear interest at the rates, payable at the times, and will mature on the dates and in the principal amounts set forth on the cover and the inside cover of this Official Statement. Principal of and premium, if any, and interest on the 1993 Bonds will be payable in the manner described below under "Book-Entry Only System". The 1993 Bonds are subject to redemption as described below under "Redemption Provisions".

MCS

The $24,700,000 aggregate principal amount of the Series W Bonds due July 1, 2009 will be delivered as Multiple Component Securities ("MCS"). MCS represents the right of the registered owner to receive the separate payments of principal of and the separate payments of all or a portion of the interest payable on the Series W Bonds to which the MCS relates. A more detailed description of the MCS is contained in *Appendix VI* hereto.

So long as the ownership of the MCS is maintained in book-entry form by the Securities Depository, a beneficial owner of one or more MCS may link such MCS with one or more other MCS to form one of the combinations of MCS described in *Appendix VI* under the caption "CUSIP Numbers and Linkage Options" by purchasing such MCS and, in each case, delivering a request for linkage pertaining to the MCS to be linked and taking other required action. See *Appendix VI* under the heading "Linkage and Breaking Linkage of MCS" for restrictions on linkage and breaking linkage of MCS.

FLOAT/RITES

A portion of the Series W Bonds and a portion of the Series X Bonds are being issued as Residual Interest Tax-Exempt Securities ("RITES") and as Floating Auction Tax-Exempts ("FLOATs") as set forth on the inside cover page of this Official Statement. For a discussion of the terms of the FLOATs and the RITES, including mandatory tender of FLOATs, Fixing of FLOATs and the RITES and the Auction Procedures for the FLOATs, see *Appendix VII* "Summary of the FLOATs and the RITES."

Redemption Provisions

General

The MCS are not subject to redemption prior to maturity. The 1993 Bonds maturing July 1, 2013 and July 1, 2015 are not subject to optional redemption prior to maturity.

Optional Redemption

The 1993 Bonds at the time outstanding, other than the MCS, the FLOAT/RITES and the 1993 Bonds maturing July 1, 2013 and July 1, 2015, may be redeemed on or after July 1, 2003 at the option of the Authority from any available moneys (other than moneys deposited in the Sinking Fund in respect of an Amortization Requirement) on any date either (i) in whole or (ii) in part as the Authority may direct, at the following prices (expressed as percentages of the principal amount) plus accrued interest to the redemption date:

Period During Which Redeemed	Redemption Price
July 1, 2003 through June 30, 2004	101½ %
July 1, 2004 through June 30, 2005	100¾
July 1, 2005 and thereafter............................	100

Optional Redemption of FLOAT/RITES

The FLOATs at the time outstanding may be redeemed on or after July 1, 2003 at the option of the Authority from any available moneys (other than moneys deposited in the Sinking Fund in respect of an Amortization Requirement) on any FLOATs Regular Record Date therefor, either in whole or in part, at a redemption price equal to the principal amount thereof to be redeemed, plus accrued interest to the redemption date, without premium.

The RITES at the time outstanding may be redeemed on or after July 1, 2003 at the option of the Authority from any available moneys (other than moneys deposited in the Sinking Fund in respect of an Amortization Requirement) on any date either (i) in whole or (ii) in part as the Authority may direct, at the following prices (expressed as percentages of the principal amount) plus accrued interest to the redemption date:

Period During Which Redeemed	Redemption Price
July 1, 2003 through June 30, 2004	103%
July 1, 2004 through June 30, 2005	101½
July 1, 2005 and thereafter	100

Mandatory Redemption

The 1993 Bonds issued as term bonds, other than the FLOATs, are subject to redemption on each July 1 immediately after the fiscal year for which there is an Amortization Requirement to the extent of the respective Amortization Requirements for said Bonds (less the amount of moneys in the Sinking Fund used to retire bonds by purchase) from moneys in the Sinking Fund at par plus accrued interest in the years and amounts set forth below:

	Amortization Requirements for Series W Bonds due July 1,				Amortization Requirements for Series X Bonds due July 1,			
Year	2013	2015	2017	2020	2013	2015	2019	2021
2011	$28,270,000				$ 8,805,000			
2012	29,830,000				9,285,000			
2013	24,085,000*				12,000,000*			
2014		$25,425,000				$24,015,000		
2015		26,825,000*				25,330,000*		
2016			$28,290,000				$24,095,000	
2017			29,845,000*				17,230,000	
2018				$31,490,000			18,180,000	
2019				33,145,000			42,635,000*	
2020				34,885,000*				$44,990,000
2021								62,000,000*
Average life (years)	18.84	21.41	23.41	25.93	19.00	21.40	24.67	27.47

* Maturity

Mandatory Redemption of FLOATs

The FLOATs of each Series are subject to redemption on each July 1 or if such July 1 is not a business day on the next succeeding business day immediately after the fiscal year for which there is an Amortization Requirement, provided that if such FLOATs to be redeemed are Fixed, such FLOATs shall be subject to redemption on each such July 1, to the extent of the respective Amortization Requirements for such Series of FLOATs (less the amount of moneys in the Sinking Fund used to retire bonds by purchase) from moneys in the Sinking Fund at par plus accrued interest, in the years and amounts set forth below:

	Amortization Requirements	
	Series W FLOATs	Series X FLOATs
2003		$12,000,000
2004		13,100,000
2005		13,950,000
2006	$10,500,000	7,450,000
2007	11,100,000	7,750,000
2008	11,700,000	3,750,000
2009		3,950,000
2010	13,450,000*	4,200,000*

* (Maturity)

Notice of Redemption

Notice of redemption of the 1993 Bonds, other than the FLOATs and the RITES, shall be given not less than thirty days prior to the redemption date by first-class mail, postage prepaid, to The Depository Trust Company, New York, New York ("DTC") (or if the book-entry only system has been discontinued as described below, to the registered owners of the 1993 Bonds or portions thereof to be redeemed at their addresses appearing upon the registration books, but failure to mail such notice to the registered owner of any 1993 Bond or any defect in such notice will not affect the redemption of any other Bonds as to which proper notice shall have been duly mailed). If notice of redemption shall have been duly mailed as aforesaid, and if on the redemption date moneys or Government Obligations which will provide moneys sufficient for the redemption of all 1993 Bonds or portions thereof to be redeemed, together with interest to the redemption date, shall be held by the Fiscal Agent for such payment, then interest on such 1993 Bonds or portions thereof shall cease to accrue.

Selection of Bonds to be Redeemed

If less than all of the 1993 Bonds of any one Series and maturity shall be called for redemption, the particular 1993 Bonds or portions thereof to be redeemed shall be selected by the Fiscal Agent in such manner as it in its discretion may determine to be appropriate and fair. If during any fiscal year the total principal amount of term Bonds of a Series retired by purchase or redemption exceeds the Amortization Requirement for such term Bonds for such year, the Amortization Requirements for such term Bonds shall be reduced for subsequent fiscal years in amounts aggregating such excess as shall be determined by the Authority.

Notice of Redemption of FLOAT/RITES

Notice of redemption of FLOATs or RITES shall be given to DTC (or if the book-entry only system has been discontinued as described below, to the registered owners of the FLOATs or RITES to be redeemed at their addresses appearing on the registration books) by first class mail, postage prepaid, in respect of FLOAT/RITES to be redeemed in whole or in part at least thirty (30) days before, but not earlier than, the FLOATs Payment Date immediately preceding the redemption date. Such notice shall be mailed a second time to any owner owning FLOATs and RITES that have been called for redemption if such owner has not presented such FLOATs or RITES for payment of the redemption price within sixty (60) days after the redemption date. Failure to mail any such notice to any owner or any defect in any notice so mailed shall not affect the validity of the proceedings for the redemption of the FLOATs and RITES of any other owners as to which proper notice has been duly mailed.

Selection of FLOAT/RITES to be Redeemed

Notwithstanding any other provision in the Resolution or the 1993 Resolution: (i) no FLOATs of a Series shall be redeemed or delivered to the Fiscal Agent for cancellation, unless an equal aggregate principal amount of RITES of the same Series is redeemed or delivered to the Fiscal Agent for cancellation; and (ii) no RITES of a Series shall be redeemed or delivered to the Fiscal Agent for cancellation, unless an equal aggregate principal amount of FLOATs of the same Series is redeemed or delivered to the Fiscal Agent for cancellation. The FLOAT/RITES shall be redeemed in minimum denominations of $50,000 or any multiples thereof. The maturities of any RITES of a Series subject to optional redemption shall be selected by the Authority. So long as the ownership of the FLOATs and the RITES is maintained in book-entry form by the Securities Depository, the FLOATs and RITES within a maturity of a Series to be redeemed in part on any redemption date shall be selected from the Outstanding FLOAT/RITES of a Series as follows: (i) in the event of a redemption in part of only FLOATs of such Series on any redemption date, the FLOATs of such Series will be redeemed first from such series of FLOATs Fixed with RITES of the same Series which mature by their terms on such redemption date and the remaining amount of FLOATs of such Series will be redeemed from Regular FLOATs of such Series and Newly Separated FLOATs of such Series (on a pro rata basis in accordance with the relative principal amounts thereof); (ii) in the event of a redemption in part of only RITES of a Series on any redemption date, the RITES of such Series to be redeemed will be redeemed from Regular RITES of such Series; or (iii) in the event of a redemption in part of a Series of FLOATs and RITES of any maturity on any redemption date, the FLOATs and RITES of such maturity of such Series shall be selected in the following manner: (1) an aggregate principal amount of both FLOATs and RITES of such Series equal to the Fixed Percentage of the RITES of such maturity and Series to be redeemed on such redemption date shall be selected from the Fixed Options Bonds Fixed with RITES of such maturity and Series, (2) the remaining amount of RITES of such maturity and Series to be redeemed shall be selected from Regular RITES of such maturity and Series, and (3) the remaining amount of the FLOATs of such Series to be redeemed shall be selected from Regular FLOATs of such Series and Newly Separated FLOATs of such Series (on a pro rata basis in accordance with the relative principal amounts thereof); provided, however, that if any principal amount of the FLOATs and the RITES of any maturity selected as provided above is not equal to $50,000 or any multiple thereof, the Fiscal Agent shall, in such manner as, in its sole discretion, it shall determine, round up or down the principal amounts so determined. The Fiscal Agent shall give the Securities Depository and the Auction Agent at least two Business Days' notice of the record date selected by it for the purpose of a redemption (each a "Redemption Record Date") and obtain from the Securities Depository a position listing showing at the close of business as of such Redemption Record Date, with respect to each Series of FLOAT/RITES to be redeemed, the aggregate principal amounts of Regular FLOATs, Newly Separated FLOATs, Regular RITES and Fixed Option Bonds, respectively. On the basis of such position listing, the Fiscal Agent shall calculate the Fixed Percentage for each Series of FLOAT/RITES to be redeemed as of the Redemption Record Date for each maturity of RITES of the applicable Series to be redeemed and determine therefrom the principal amounts to be redeemed and redemption prices (plus accrued and unpaid interest thereon to the redemption date) of Regular FLOATs, Newly Separated FLOATs, Regular RITES and Fixed Option Bonds, respectively.

As used herein, "Fixed Percentage," as of any Redemption Record Date, shall mean the percentage obtained by dividing the aggregate principal amount of Outstanding RITES of any maturity and Series which are Fixed on such Redemption Record Date by the aggregate principal amount of Outstanding RITES of such maturity and Series on such Redemption Record Date.

If the ownership of the FLOATs and RITES is no longer maintained in book-entry form by the Securities Depository, the FLOATs and RITES to be redeemed within a maturity will be selected in accordance with the 1993 Resolution by the Fiscal Agent in such manner as it in its discretion may determine to be appropriate and fair. If during any fiscal year the total principal amount of FLOATs of a Series retired by purchase or redemption exceeds the Amortization Requirement for such FLOATs for such year (and the Authority shall have retired an equal aggregate principal amount of RITES of such Series), the Amortization Requirements for such FLOATs shall be reduced for subsequent fiscal years in amounts aggregating such excess as shall be determined by the Authority.

In addition to the redemption provisions described above, FLOATs are subject to mandatory tender for purchase by holders of RITES of the same Series after an Auction under certain circumstances. See "Mandatory Tender of Regular FLOATs" in *Appendix VII.*

Security for the Bonds

Pledged Revenues

The Bonds are payable solely from, and secured by a pledge of, Revenues and all other moneys held for the credit of the Sinking Fund, which includes the Bond Service Account, the Redemption Account and the Reserve Account.

As defined in the Resolution, Revenues include (i) the gross receipts of the 16¢ per gallon tax on gasoline and 4¢ of the 8¢ per gallon tax on gas oil and diesel oil imposed by the Commonwealth and allocated to the Authority (after any deductions for taxes on fuels used in sea and air transportation that are required to be reimbursed under certain circumstances) by Act No. 5 of the Legislature of Puerto Rico, approved October 8, 1987, as amended (the "Excise Act"); (ii) the gross receipts of the $15 per vehicle increase of annual motor vehicle license fees imposed by the Commonwealth and allocated to the Authority by Act No. 9 of the Legislature of Puerto Rico, approved August 12, 1982 ("Act No. 9"); (iii) any tolls or other charges imposed by the Authority for the use of any of the traffic facilities; (iv) the proceeds of any other taxes, fees or charges which the Legislature of the Commonwealth may allocate to the Authority in the future and which the Authority may pledge to the payment of the Bonds; and (v) investment earnings on deposits to the credit of funds and accounts established under the Resolution, except for the Construction Fund. The Excise Act replaced prior similar legislation that had allocated the gasoline tax receipts and the gas oil and diesel oil tax receipts to the Authority.

The Commonwealth has agreed and committed in the Excise Act that it will not reduce the gasoline tax below 16¢ per gallon or the tax on gas oil and diesel oil below 4¢ per gallon and that it will not reduce the amount of such taxes allocated to the Authority until all obligations of the Authority, including the Bonds, secured by the pledge thereof are fully paid. The Commonwealth has also agreed and pledged in Act No. 9 that it will not reduce the motor vehicle license fees allocated and pledged to the payment of obligations of the Authority, including the Bonds, so long as the proceeds of such increase remain pledged to the payment of such obligations. Any tolls or other charges for the use of the traffic facilities may be reduced or eliminated by the Authority unless such tolls and other charges have been taken into account in the calculation of Revenues for purposes of satisfying the tests for the issuance under the Resolution of additional Bonds, in which case such tolls and other charges may be reduced in limited circumstances. See "Additional Bonds" under *Summary of Certain Provisions of the Resolution.* The Authority expects to take such tolls and other charges into account for purposes of satisfying the tests for the issuance of the Series W Bonds. See "Projected Revenues" under *Highway System Revenues and Expenditures.*

Under the Excise Act and Act No. 9, the proceeds of the taxes and fee increase allocated to the Authority are deposited by the Department of the Treasury in a Special Fund in favor of the Authority. In accordance with the Constitution of Puerto Rico, the proceeds of such taxes and fee increase are subject to being applied first to the payment of general obligation debt of and debt guaranteed by the Commonwealth, if and to the extent that other Commonwealth revenues are insufficient therefor. The Commonwealth has never applied the proceeds of such taxes or fee increase allocated to the Authority to the payment of such debt nor has the Commonwealth ever defaulted on the payment of principal of or interest on any of such debt. For information with respect to Commonwealth debt and the economic and financial condition of the Commonwealth, see "Prior Payment of Full Faith and Credit Obligations of the Commonwealth" below and *Appendix I.*

Moneys in the Special Fund are transferred by the Department of the Treasury to the Authority at least monthly. Upon receipt, the Authority is required under the Resolution to deposit such moneys, together with any toll receipts that are received directly by the Authority, into the Bond Service Account and the Redemption Account to provide for the payment of principal of and interest and premium, if any, on the Bonds and for required deposits to the Reserve Account. Any remaining Revenues (other than investment earnings) are deposited into the Construction Fund and are available to the Authority for any of the purposes authorized in the Resolution, but subject to the payment of certain operation and maintenance expenses and repair, renewal and replacement costs, as required by the Resolution. See *Summary of Certain Provisions of the Resolution.*

The Bonds are not a debt of the Commonwealth or any of its political subdivisions (other than the Authority), and neither the Commonwealth nor any such subdivision (other than the Authority) shall be liable thereon. The Resolution does not provide for the acceleration of the maturities of the Bonds upon default.

Reserve Account

The Resolution establishes a Reserve Account, the moneys in which are to be applied to the payment of interest on the Bonds and maturing principal of serial Bonds whenever moneys in the Bond Service Account are insufficient for such purpose and thereafter for the purpose of making deposits to the credit of the Redemption Account to satisfy any Amortization Requirements for the term Bonds whenever Revenues are insufficient for such purpose. The Authority covenants to accumulate and maintain in the Reserve Account an amount equal to the lesser of the maximum annual Principal and Interest Requirements for any fiscal year on all outstanding Bonds and 10% of the original principal amount of each Series of Bonds outstanding (the "Reserve Requirement").

On August 10, 1993, the settlement date for the 1993 Bonds, approximately $115,484,803 will be on deposit in the Reserve Account. The Resolution permits any increase in the Reserve Requirement to be funded over five years and allows the Authority to use a letter of credit or insurance policy to fund the Reserve Requirement. See *Summary of Certain Provisions of the Resolution* below. The Authority is required to fund the increase of $23,163,000 in the Reserve Requirement resulting from the issuance of the Series W Bonds over not more than five years. Upon the issuance of the 1993 Bonds, the Reserve Requirement will be $134,621,359.

Excess moneys in the Reserve Account are transferred to the Construction Fund, the Bond Service Account or the Redemption Account, as directed by the Authority.

If the moneys in the Reserve Account are used to cover any deficiency in the Bond Service Account or the Redemption Account established under the Resolution, the Excise Act provides that the Reserve Account shall be reimbursed, subject to the provisions of the Constitution of the Commonwealth relating to payment of Commonwealth debt, from the first proceeds received by the Commonwealth in the next fiscal year or years derived from (i) any remaining portion of the tax on gasoline and gas oil and diesel oil then in effect and (ii) any other taxes which may then be in effect on any other fuels or propellants which are used, among other purposes, to propel highway vehicles.

Prior Payment of Full Faith and Credit Obligations of the Commonwealth

Provision for Prior Payment. The Constitution of Puerto Rico provides that public debt of the Commonwealth constitutes a first lien on available Commonwealth taxes and revenues. Public debt includes bonds and notes of the Commonwealth to which the full faith, credit and taxing power of the Commonwealth are pledged, and, according to opinions heretofore rendered by the Secretary of Justice of the Commonwealth, any payments which are required to be made by the Commonwealth under its guarantees of bonds and notes issued by its public corporations. The Bonds do not constitute public debt.

The proceeds of the gasoline tax, the gas oil and diesel oil tax and the motor vehicle license fees allocated to the Authority by the Excise Act and Act No. 9 are available taxes and revenues under the Constitution. Accordingly, if needed, they are subject to being applied first to the payment of debt service on the public debt of the Commonwealth but, under the Excise Act and Act No. 9, such taxes and fees are to be used for such payments only if and to the extent that all other available revenues of the Commonwealth under the Constitution are insufficient for such purpose.

The Commonwealth has never applied taxes or fees allocated to the Authority to the payment of its public debt nor has the Commonwealth ever defaulted on the payment of principal of or interest on any of its public debt. See *Debt* in *Appendix I.* Tolls collected by the Authority and investment earnings are not subject first to being used by the Commonwealth to pay its obligations.

Under the provisions of Act No. 39, approved May 13, 1976, as amended ("Act No. 39"), the Secretary of the Treasury of Puerto Rico is obligated to fund annual debt service on general obligation bonds and notes of the Commonwealth by monthly deposits into the Commonwealth Redemption Fund. On May 31, 1993, the amount on deposit in the Commonwealth Redemption Fund was $226,333,741, as required. Moneys in the Commonwealth Redemption Fund may also be applied to payment of other Commonwealth guaranteed obligations outstanding prior to adoption of Act No. 39. Such moneys are not available to pay the Bonds.

Debt Limitation. Section 2 of Article VI of the Constitution of Puerto Rico provides that direct obligations of the Commonwealth evidenced by full faith and credit bonds or notes shall not be issued if the amount of the principal of and interest on such bonds and notes and on all such bonds and notes theretofore issued which is payable in any fiscal year, together with any amount paid by the Commonwealth in the preceding fiscal year on account of bonds or notes guaranteed by the Commonwealth, exceeds 15% of the average annual internal revenues of the Commonwealth for the two preceding fiscal years. The Constitution does not limit the amount of debt that the Commonwealth may guarantee so long as the 15% limitation is not exceeded. Internal revenues (that is, revenues raised under the provisions of Commonwealth legislation) consist principally of income taxes, excise taxes, property taxes, licenses and miscellaneous non-tax revenues. 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 Department of the Treasury, and motor vehicle fuel taxes and license fees, which are allocated to the Authority, are not included as internal revenues for the purpose of calculating the debt limit, although they are available for the payment of debt service.

Future combined maximum annual debt service for the Commonwealth's currently outstanding general obligation debt will be $365,374,079 in the fiscal year ending June 30, 1995. See "Debt Service Requirements for Commonwealth General Obligation Bonds" under *Debt* in *Appendix I.* That amount is equal to 9.62% of $3,797,107,767 (which is equal to the average of the actual adjusted internal revenues for the fiscal year ended June 30, 1992 and the estimated adjusted internal revenues for the fiscal year ended June 30, 1993).

Additional Bonds

The Authority may issue additional Bonds under the Resolution to provide funds to pay all or any part of the cost of Traffic Facilities; provided, however, the Revenues for any 12 consecutive months of the 15 months immediately preceding the issuance of such Bonds shall be not less than 150% of the maximum Principal and Interest Requirements for any fiscal year thereafter on account of all outstanding Bonds and the additional Bonds then to be issued.

The Authority may also issue additional Bonds to refund all or any part of the outstanding Bonds of any Series without satisfying such requirement, provided that the Authority certifies that the maximum annual Principal and Interest Requirements on the Bonds to be outstanding after the issuance of such additional Bonds will be equal to or less than the maximum annual Principal and Interest Requirements on the Bonds outstanding prior to the issuance of the additional Bonds.

Any additional Bonds issued under the Resolution will be on a parity with the outstanding Bonds and will be entitled to the equal benefit, protection and security of the provisions, covenants and agreements of the Resolution.

In certain circumstances relating to the San Jose Lagoon bridge, the Authority's ability to issue additional Bonds under the Resolution may be restricted. See "Public-Private Capital Improvement Projects" under *Highway System Revenues and Expenditures.*

Book-Entry Only System

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

DTC is to act as securities depository for the 1993 Bonds. The 1993 Bonds are to be issued as fully registered securities registered in the name of Cede & Co. (DTC's partnership nominee). One fully registered 1993 Bond of each maturity and designation will be issued for each maturity of the 1993 Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC. If, however, the aggregate principal amount of any maturity exceeds $150 million, one definitive Bond will be issued with respect to each $150 million of principal amount and an additional definitive Bond will be issued with respect to any remaining principal amount of such maturity.

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

Purchases of the 1993 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 1993 Bonds on DTC's records. The ownership interest of each purchaser of each 1993 Bond ("Beneficial Owner") is in turn to be recorded on the Direct or Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the 1993 Bonds are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive definitive 1993 Bonds, except in the event that use of the book-entry system for the 1993 Bonds is discontinued.

To facilitate subsequent transfers, all 1993 Bonds deposited by Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of 1993 Bonds with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the Beneficial Owners of the 1993 Bonds; DTC's records affect only the identity of the Direct Participants to whose accounts such 1993 Bonds are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by 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.

Redemption notices shall be sent to Cede & Co. If less than all of the 1993 Bonds within a Series are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such Series to be redeemed.

Neither DTC nor Cede & Co. will consent or vote with respect to the 1993 Bonds. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the 1993 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the 1993 Bonds are to be made to DTC. DTC's practice is to credit Direct Participants' accounts on the payable date in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on the payable date. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Fiscal Agent, or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the Authority or the Fiscal Agent, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the 1993 Bonds at any time by giving reasonable notice to the Authority or the Fiscal Agent. Under such circumstances, in the event that a successor securities depository is not obtained, definitive 1993 Bonds are required to be printed and delivered.

The Authority may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, definitive 1993 Bonds will be printed and delivered.

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

In the event that such book-entry only system is discontinued for the 1993 Bonds, the following provisions will apply to the 1993 Bonds: principal of the 1993 Bonds and redemption premium, if any, thereon will be payable in lawful money of the United States of America at the principal corporate trust office of the Fiscal Agent in New York, New York. Interest on the 1993 Bonds will be payable on each January 1 and July 1, by check mailed to the respective addresses of the registered owners thereof as shown on the registration books of the Authority maintained by the Fiscal Agent as of the close of business on the record date therefor as set forth in the Resolution. The 1993 Bonds will be issued only as registered bonds without coupons in authorized denominations. The transfer of the 1993 Bonds will be registrable and the 1993 Bonds may be exchanged at the principal corporate trust office of the Fiscal Agent in New York, New York upon the payment of any taxes or other governmental charges required to be paid with respect to such transfer or exchange.

For every transfer of the 1993 Bonds, the Beneficial Owner may be charged a sum sufficient to cover any tax or other governmental charge that may be imposed in relation thereto.

Proposed Supplemental Resolutions

The Authority proposes to adopt a supplemental resolution which will permit the Fiscal Agent to treat Variable Rate Bonds (as defined in the Resolution) as having an effective fixed rate of interest if a qualifying interest rate swap agreement has been executed by the Authority with respect thereto for the purpose of calculating Principal and Interest Requirements (as defined in the Resolution). Such supplemental resolution will be adopted upon the delivery of the 1993 Bonds.

The Authority proposes to adopt another supplemental resolution when the consent of the owners of 100% of the Bonds outstanding has been obtained. Such supplemental resolution will provide, among other things, for certain modifications to the amendment provisions of the Resolution, including a reduction of the 66⅔% consent requirement for certain amendments to a majority. In addition, the Authority will be permitted to grant a parity lien on Revenues to secure reimbursement agreements with the providers of any credit facility or liquidity facility securing Bonds. For a more complete description of the Proposed Supplemental Resolutions, see *Summary of Certain Provisions of the Proposed Supplemental Resolutions.*

Consent of Bondholders

By purchasing the 1993 Bonds, the owners of such Bonds will have consented to and approved, for themselves and future owners of such Bonds, the adoption of such supplemental resolutions. Upon the issuance of the 1993 Bonds, the owners of 96.464% of the aggregate principal amount of the Bonds outstanding will have consented to the adoption of the supplemental resolution requiring 100% consent. The Authority reserves the right to make insubstantial changes to the Proposed Supplemental Resolutions without obtaining any additional consents from the owners of Bonds who have consented thereto.

THE AUTHORITY

General Description

The Authority was created in 1965 to assume responsibility for the construction of roads and highways and related transportation facilities in Puerto Rico. The Authority has adopted a long-range master plan for development of a transportation infrastructure necessary to foster and sustain Puerto Rico's economic growth and a five-year Priorities Construction Program to implement that plan. As required by the Resolution, the Authority supplements the master plan as necessary and annually updates the five-year Priorities Construction Program.

The Authority is a separate entity from the Department for purposes of financing and constructing the Commonwealth highway system, but since 1971, the Secretary of Transportation and Public Works (the "Secretary"), appointed by the Governor, has overseen the management of the Authority and exercises the powers of the governing Board of the Authority.

The Authority Act gives the Authority broad powers to carry out its responsibilities in accordance with the Department's overall transportation policies. These powers include, among other things, the complete control and supervision of any highway facilities owned, operated or constructed by it; the ability to set tolls for the use of the highway facilities; and the power to issue bonds, notes or other obligations. The Authority plans and manages the construction of all major projects relating to the Commonwealth highway system, undertakes major repairs and maintains the tollways. The Department maintains the Commonwealth highway system other than the tollways and undertakes construction of smaller projects. In August 1990, the Authority Act was amended to empower the Authority to enter into franchise contracts with private parties for the construction, operation and maintenance of highway projects to be owned by the Authority and the Commonwealth, such projects to be financed by such private parties by the imposition of tolls under the supervision of a regulatory board. See "Public-Private Capital Improvement Projects" under *Highway System Revenues and Expenditures.*

The Authority is also authorized to work with and implement policies established by the Secretary for the purpose of developing a multifaceted transportation system for the Commonwealth to alleviate traffic congestion, including the power to prepare feasibility studies concerning such system established by the Secretary.

As of December 31, 1992, the highway system of Puerto Rico totalled 13,507 miles, consisting of 4,456 miles of Commonwealth highway system and 9,051 miles of municipal system of local streets and adjacent roads. The Commonwealth highway system comprises 674 miles of primary system highways, which are the more important inter-regional traffic routes and include the Las Americas and De Diego tollways and the Minillas Tunnel in San Juan, 1,303 miles of secondary system highways serving the needs of intra-regional traffic and 2,479 miles of tertiary highways and public housing development roads serving local, intra-regional traffic. Virtually all of the Commonwealth highway system is paved with concrete or asphalt.

Organization

To carry out its responsibilities to develop the Commonwealth highway system, the Authority is organized into the following major components: the Executive Director's office, which provides overall management of the Authority as well as personnel and legal services; the Toll Roads Administration Area, which oversees all aspects of the operation, maintenance and repair of the De Diego and Las Americas tollways; the Technical Services Area, which provides certain engineering and research services; the Planning Area, which oversees the development of the Priorities Construction Program as well as long-range planning; the Design Area, which is responsible for designing and supervising the design by consultants of Authority projects; the Property Acquisition and Management Area, which acquires necessary easements and rights-of-way for Authority projects; the Construction Area, which supervises and inspects the construction work performed by the Authority's contractors; the Administration Area, which oversees the operation of the Authority; the Finance Area, which oversees the financial affairs of the Authority, including budgetary services; and the Management Information System Area, which oversees computer operations. Most construction, renovation and improvement of highway facilities is performed by private contractors selected through a public bidding process mandated by the Authority Act. The Authority plans, inspects and supervises such work.

Management

The Secretary of Transportation and Public Works, who has ultimate managerial power over the Authority, is Dr. Carlos I. Pesquera Morales. Dr. Pesquera was appointed Secretary by the Governor of the Commonwealth in January 1993. Prior to his appointment as Secretary, Dr. Pesquera, who received a B.S. degree in engineering from the University of Puerto Rico and a masters degree and a Ph.D. degree in Structure from Cornell University, was the Director of the Centre for Research in Infrastructure at the University of Puerto Rico.

The Executive Director of the Authority, who oversees the Authority operation, is Dr. Sergio L. González, who received a B.S. degree in engineering from the University of Puerto Rico. In 1980, he received a masters degree in Transportation from the Massachusetts Institute of Technology ("M.I.T.") and in 1985, a Ph.D. degree in Civil Engineering, also from M.I.T. Dr. González was appointed Executive Director by the Secretary in 1993. Prior to joining the Authority, Dr. González was Associate Professor and Director of Traffic Engineering Laboratory of the Civil Engineering Department at the University of Puerto Rico.

The Authority retains the firm of Roy Jorgensen Associates, Inc. as independent Traffic Engineers to carry out certain responsibilities under the Resolution. These include an annual evaluation of the Authority's master plan and Priorities Construction Program for capital improvements and the maintenance activities of the Department and the Authority with respect to the Commonwealth highway system. The Authority employs Ernst & Young as independent accountants responsible for auditing the Authority's books and accounts.

The administrative offices of the Authority are in the Minillas Government Center, De Diego Avenue, Stop 22, San Juan, Puerto Rico. The mailing address is P.O. Box 42007, San Juan, Puerto Rico 00940-2007. The telephone number is (809) 721-8787.

Employee Relations

As of April 27, 1993, the Authority employed approximately 2,617 persons, of whom 668 were professionals, 640 were office workers and 1,309 were field supervisors and laborers. Approximately 2,250 persons are regular employees and the remainder are temporary employees.

In 1987, the Puerto Rico Supreme Court classified the Authority as a "private employer" for purposes of the Puerto Rico labor law provisions, permitting the Authority's employees to engage in collective bargaining. An independent union representing approximately 1,400 of the Authority's full-time employees has been certified as an authorized representative of those employees for collective bargaining purposes. The current collective bargaining agreement expires on December 31, 1994.

Litigation Relating to Operations

The Authority is involved in various legal proceedings arising in the normal course of its operation of the Commonwealth highway system. Several of these relate to the washing out of the approach to one of the bridges of the Las Americas tollway in 1985. In October 1985, severe rainstorms produced flooding and damage throughout the Commonwealth, including the washing out of the bridge approach which resulted in the deaths of 27 persons. Various lawsuits with aggregate damage claims of approximately $217 million have been filed against the Authority as a co-defendant in both federal and state courts. The lawsuits in federal courts involved aggregate claims of approximately $22 million and resulted in a judgment of $1.8 million against the Authority and other co-defendants. Of the $1.8 million, the Authority was required to pay $900,000 from insurance proceeds. No date has yet been scheduled for the trials of the state court cases. The Authority estimates that its maximum potential liability for all outstanding state court claims would not exceed $2,500,000 and that its actual financial exposure in excess of its insurance coverage and its provision for losses not covered by insurance, as shown on its financial statements, will not have a material adverse effect on the financial condition of the Authority.

The Authority and its General Counsel do not believe that liability from any other legal proceedings, in excess of available insurance coverage and the provision for losses not covered by insurance, as shown on the financial statements, will have a material adverse effect on the financial condition of the Authority.

HIGHWAY SYSTEM REVENUES AND EXPENDITURES

Revenues

General

The major sources of the Authority's Revenues are the gasoline, gas oil and diesel oil taxes and motor vehicle license fees allocated to the Authority pursuant to the Excise Act and Act No. 9 and the tolls received from the Authority's operation of the Las Americas and De Diego tollways. In fiscal 1992, revenues were derived 61% from gasoline taxes, 25% from toll charges, 10% from motor vehicle license fees, 3% from investment earnings and 1% from gas oil and diesel oil taxes.

Various factors affect the level of Revenues available to the Authority, including, in particular, economic conditions and the supply and cost of gasoline and other oil-derived fuels. These factors have an impact on motor vehicle usage and fuel consumption and are discussed further under "Historical Revenues" and "Projected Revenues" below.

Sources of Revenues

Taxes. The Excise Act imposes a 16¢ per gallon tax on gasoline and an 8¢ per gallon tax on gas oil and diesel oil and authorizes the Authority to pledge the entire 16¢ tax and 4¢ of the 8¢ tax of such respective taxes to the payment of the principal of and interest on the Bonds and other obligations of the Authority or for any other lawful purpose of the Authority. The Authority has pledged such tax receipts to the holders of the Bonds, but such pledge is subject to the Constitution of Puerto Rico, which permits the Commonwealth to apply such taxes to payment of certain Commonwealth debts to the extent other Commonwealth moneys are insufficient therefor. See "Security for the Bonds — Prior Payment of Full Faith and Credit Obligations of the Commonwealth" under *The Bonds*. The Excise Act may be amended in the future to change the per gallon taxes on gasoline and gas oil and diesel oil or the allocation to the Authority. The Commonwealth has agreed and committed, however, in the Excise Act that the tax on gasoline will not be reduced below 16¢ per gallon and the tax on gas oil and diesel oil will not be reduced below 4¢ per gallon and that the amount of such taxes allocated to the Authority will not be reduced until all obligations of the Authority secured by the pledge thereof (including the Bonds), together with the interest thereon, are fully paid.

Gasoline taxes, gas oil and diesel oil taxes and motor vehicle license fees are collected by the Department of the Treasury of the Commonwealth (the "Department of the Treasury"). The portions of such taxes and fees allocated to the Authority are credited to the Authority at least monthly as such revenues are collected by the Commonwealth.

The Department of the Treasury periodically conducts an audit of gasoline, gas oil and diesel oil importers, producers and wholesalers, to verify amounts reported and paid. In addition to the Commonwealth audit procedures, the Authority reviews monthly the records of the Department of the Treasury for consistency with reports provided monthly to the Authority by distributors of oil and gasoline.

Motor Vehicle License Fees. Under the Vehicle and Traffic Law (Act No. 141 of the Legislature of Puerto Rico, approved July 20, 1960, as amended), the Commonwealth imposes annual license fees on various classes of motor vehicles. The current license fees range from $25 to $40 for passenger cars and vary for other vehicles. Act No. 9 increased the per vehicle annual motor vehicle license fees by $15 and provided that the proceeds of the $15 increase shall be deposited in a Special Fund for the Authority, which may pledge such proceeds to the payment of debt service on obligations of the Authority or any other legal purpose of the Authority. As with the taxes described above, the Authority has pledged such fees to the holders of the Bonds. The Commonwealth has agreed and pledged that the license fees allocated to the Authority as described herein will not be reduced so long as such proceeds remain pledged to the payment of such obligations.

Motor vehicle licenses initially issued prior to July 1, 1989 are renewable as of each June 30. Motor vehicle licenses initially issued on or after July 1, 1989 are currently renewable on an annual basis from the month of initial registration. The portion of such license fees attributable to the unexpired term of returned licenses is refundable.

Tolls on Traffic Facilities. The Authority is authorized to impose tolls on traffic facilities, and any tolls collected on Traffic Facilities are pledged to the payment of the Bonds. The Authority has covenanted that it will not reduce the tolls or other charges imposed by it for the use of its Traffic Facilities if, as of the effective date of any such reduction, the Revenues for any 12 consecutive months out of the 15 months immediately preceding such effective date, adjusted to reflect toll revenues the Authority would have received based on the volume of traffic for such 12 months if such reduction had been in effect for such 12 months, is less than 150% of the maximum Principal and Interest Requirements for any fiscal year thereafter on account of all Bonds then outstanding.

Tolls are currently imposed on the Las Americas tollway, which extends 60 miles from San Juan to Ponce, the De Diego tollway, which will connect San Juan with Arecibo upon completion, a distance of 52 miles, and PR-53, which extends 9.5 miles from Salinas to Guayama. Approximately 39.2 miles of the De Diego tollway are completed; the Authority expects to finish construction of the balance of this tollway in stages through 1994. The Las Americas tollway has four toll stations, and the total minimum toll for a vehicle passing through all four stations is currently $1.85. An extension of the Las Americas tollway bypassing Ponce is currently under construction and will be completed by 1995. A toll station will be included in this segment with a minimum toll of $0.50. The De Diego tollway currently has five toll stations, and the total minimum toll for a vehicle passing through all five stations is $1.90. The number of toll stations and total minimum toll will increase as the De Diego tollway is extended. PR-53 has two toll stations and a total minimum toll of $0.70. The Authority Act grants to the Authority plenary power to fix, impose, alter and collect tolls and other reasonable charges for the use of the Traffic Facilities operated by the Authority or for services rendered thereby. The Authority is obligated to take into account in setting or changing such tolls and other charges such factors as will promote the use of the Traffic Facilities in the broadest and most varied manner economically possible. Prior to fixing or altering such tolls or other charges, the Authority must hold a public hearing to receive comments with respect thereto.

Currently, the toll collection and data processing equipment in place at existing toll stations of the Authority is furnished and maintained by a private entity pursuant to lease contracts that expire on June 30, 1993, except for equipment being installed at a toll station on the De Diego tollway which lease expires on June 30, 1994. The Authority has entered into a new lease contract for the furnishing, installation and maintenance of an electronic toll collection and data processing system for both its existing toll stations and all new toll stations upon the expiration of its current lease contracts. The new system has certain security features which include, among others, a device for the collection of tolls without manual operation, a device installed in each toll lane to verify the classification of a vehicle passing through the lane, computer systems which receive, store and process toll data from the toll plazas and the toll lanes for verification and electronic gates located as a barrier across each toll station. In fiscal 1993, approximately 7.8% of tollway revenues were uncollected due to toll evasion by motorists at tollway plazas. The new tollway security system is, in part, intended to reduce the percentage of uncollected tollway revenues caused by such toll evasion.

The Authority's tollway revenues have always exceeded its tollway operation and maintenance expenses. Tollway revenues and expenses for fiscal 1993 are $58.8 million and $16.0 million, respectively.

Investment Earnings. Moneys held for the credit of the Bond Service Account and the Redemption Account shall, as nearly as may be practicable, be continuously invested and reinvested at the written direction of the Authority in Government Obligations. Moneys held for the credit of the Reserve Account shall, as nearly as may be practicable, be continuously invested and reinvested at the written direction of the Authority in Investment Obligations. Such Government Obligations and Investment Obligations shall mature, or be subject to redemption, at the option of the holder, not later than the respective dates when moneys held for the credit of such Accounts will be required for the purposes intended; provided, however, that the amounts on deposit in the Reserve Account shall be invested in Investment Obligations which mature not later than the final maturity date of any Bonds outstanding. Income from investments of moneys held for the credit of the Construction Fund are not considered Revenues under the Resolution.

Historical Revenues

The following table presents Revenues available for debt service on the Bonds and debt service coverage in each of the five fiscal years ended June 30, 1993. See "Security for the Bonds — Pledged Revenues" under *The Bonds.*

HISTORICAL REVENUES AND DEBT SERVICE COVERAGE

	Fiscal Year Ended June 30				June 30
	1989	1990	1991	1992	1993(1)
	(dollars in thousands)				
Gasoline taxes	$125,781	$134,941	$127,354	$133,305	$141,211
Gas oil and diesel oil taxes	2,822	3,341	2,199	2,969	3,200
Subtotal	128,603	138,282	129,553	136,274	144,411
Motor vehicle license fees	21,955	21,188	25,357	21,955	22,721
Subtotal	150,558	159,470	154,910	158,229	167,132
Toll receipts	36,009	37,316	37,676	55,255	57,649
Investment income	13,790	10,082	10,194	5,534	7,534
Total Revenues	$200,357	$206,868	$202,780	$219,018	$232,315
Debt service on the Bonds	$ 66,224	$ 73,867	$ 80,635	$ 78,536	$115,507
Coverage ratio	3.03	2.80	2.51	2.79	2.01

(1) Unaudited; actual through May 1993 and estimated for June 1993.

The Authority's Revenues have risen at a compound annual rate of 3.8% during the period from fiscal 1989 through fiscal 1993. The increase in the amount of Revenues during this period is attributable primarily to the growth in receipts of excise taxes on gasoline and toll receipts. Gasoline taxes, the largest source of Revenues, experienced compound annual increases of 2.9% during this five-year period. Taxes on gas oil and diesel oil grew at a compound annual rate of 3.2% over the five-year period ended June 30, 1993. The growth in gasoline tax receipts reflects, among other factors, a rise in taxable gasoline consumption. The number of vehicles on the island increased from 1.58 million to 1.65 million from 1989 to 1992.

The decline in Revenues in 1991 was due to the closing of certain refineries in Puerto Rico and related tax collection problems. The Department of the Treasury has begun a special audit to determine compliance with gasoline taxes by refineries and intermediaries in Puerto Rico.

Motor vehicle license fees account for approximately 10% of annual Revenues as of June 30, 1993 and grew at a compound annual rate of 0.9% from fiscal 1989 through fiscal 1993. The reduction in 1992 was due to the implementation of a new policy to collect motor vehicle license fees on an annual basis from the month of original registration (Oct. 31, 1990). The number of licensed taxable vehicles grew from nearly 1.48

million in fiscal 1989 to approximately 1.56 million in fiscal 1992, and reflects the fact that Puerto Rico is highly dependent on motor vehicles for surface transportation because public transportation is limited. A portion of 1991 license fees corresponds to the fiscal year 1992 (Act No. 31 of the Legislature of Puerto Rico, approved August 1990, permitted the renewal of all vehicle licenses, from the month of the original registration, increasing the 1991 number).

Toll revenues rose at a compound annual rate of 12.5% during the period from fiscal 1989 through fiscal 1993. Toll revenues have grown as a percentage of total Revenues over the last five fiscal years and currently comprise 25% of total Revenues. The increase in toll receipts from 1989 corresponded principally to the growing number of vehicles using these roads and an increase in toll rates in 1991. The number of paying vehicles which used both tollways rose from 122.0 million in fiscal 1989 to 134.0 million in fiscal 1993. The tolls charged on De Diego and Las Americas tollways were increased in July, 1991, 10 cents and 15 cents, respectively.

Projected Revenues

The following table presents the Authority's estimates of Revenues expected to be available for debt service on the Bonds and debt service coverage for each of the five fiscal years ending June 30, 1998. The estimates are based on tax rates and allocations to the Authority now in effect. The estimates are subject to periodic review and may be adjusted to reflect such factors as changes in economic conditions and future demand for gasoline or other petroleum products. For example, there have been declines in motor vehicle usage and gasoline consumption in the past during periods of economic slowdown and oil shortages which have affected Revenues.

PROJECTED REVENUES AND DEBT SERVICE COVERAGE

	Fiscal Year Ending June 30 (dollars in thousands)				
	1994	1995	1996	1997	1998
Gasoline taxes	$143,300	$147,300	$151,600	$155,600	$160,000
Gas oil and diesel oil taxes	3,200	3,200	3,200	3,200	3,300
Subtotal	146,500	150,500	154,800	158,800	163,300
Motor vehicle license fees	24,800	25,400	26,000	26,700	27,400
Subtotal	171,300	175,900	180,800	185,500	190,700
Toll receipts	66,500	72,000	78,200	86,700	90,400
Investment income	10,710	10,770	10,800	11,000	11,000
Total Revenues	$248,510	$258,670	$269,800	$283,200	$292,100
Debt service on the Bonds(1)	$129,018	$132,936	$166,564	$166,580	$181,784
Coverage ratio	1.93	1.95	1.62	1.70	1.61

(1) Assumes additional issuance of Bonds reflected in the Authority's current Priorities Construction Program at average interest rate of 7.5% per annum. ($390 million in fiscal 1996 and $180 million in fiscal 1998).

Total Revenues for the period from fiscal 1994 through fiscal 1998 are projected to grow at a compound annual rate of 4.1%. The compound annual growth for the period from fiscal 1989 through fiscal 1993 was 3.8%. Gasoline taxes are projected to grow at a compound annual rate of 2.8%, while for the prior five-year period for this category grew at a 2.9% compound annual rate. Motor vehicle license fees are expected to grow at a compound annual rate of 2.5% compared to 0.9% for the past five fiscal years. The compound annual growth rate for toll receipts is projected to grow at 8.0%, compared to 12.5% for the prior five-year period, due to the increase in tollway tolls and the completion of additional segments of the De Diego and the Las Americas tollways. Three toll plazas currently are planned to open in the future, two in 1995 and one in 1997.

Operating Expenses and Capital Expenditures

Operation and Maintenance

The Department has the responsibility for maintaining the Commonwealth highway system, except for the Las Americas and De Diego tollways and related connecting roads, which are maintained by and at the expense of the Authority. The maintenance expenses of the Department are paid with moneys appropriated annually by the Legislature. To the extent funds are not provided by the Commonwealth, the Authority agrees under the Resolution that it will pay from available moneys in the Construction Fund the costs of maintenance of the Traffic Facilities financed with Bond proceeds. In addition, the Resolution requires the Authority to pay from available moneys in the Construction Fund the costs of any necessary repairs to or renewals or replacements of Traffic Facilities financed with Bond proceeds, as recommended by the Traffic Engineers.

The Authority's operation and maintenance expenses payable from available moneys in the Construction Fund consist of the expenses of operating and maintaining the tollways and related roads. Under the Resolution, these expenses are payable from available moneys in the Construction Fund after payment of debt service on the Bonds and any required deposits to the Reserve Account. Other operating expenses of the Authority, including its administration costs, are included in the Priorities Construction Program and are capitalized.

The following table sets forth the annual maintenance expenses paid by the Department and the annual tollway operation and maintenance expenses paid by the Authority for each of the five fiscal years ended June 30, 1993 and projected annual maintenance expenses to be paid by the Department and projected annual tollway operation and maintenance expenses to be paid by the Authority for the four fiscal years ending June 30, 1997.

OPERATION AND MAINTENANCE EXPENSES

Fiscal Year Ended June 30	Department Highway System Maintenance(1)	Authority Tollway Maintenance	Authority Tollway Operation	Total
	(in thousands)			
1988	$22,144	$ 4,770	$4,900	$ 9,670
1989	25,744	4,925	5,059	9,984
1990	25,209	7,190	4,994	12,184
1991	26,101	7,534	5,236	12,770
1992	26,254	8,388	6,267	14,655
1993(e)	26,151	9,660	6,400	16,000
1994(p)	27,000	9,900	6,600	16,500
1995(p)	27,700	11,400	7,600	19,000
1996(p)	28,300	11,700	7,800	19,500
1997(p)	29,000	11,700	7,800	19,500

(e) Estimated.

(p) Projected.

(1) For fiscal years 1991 and 1992, the Authority has contributed annually $5.0 million to the Department for the maintenance of the Commonwealth highway system, and this amount is included each year in the Authority's and the Department's estimates and projections for fiscal years 1993 through 1997.

The Department projects that required maintenance expenses will rise to $30.8 million by fiscal 1998. The Authority projects that its tollway operation and maintenance expenses will be $20.0 million by fiscal 1998.

In certain years, emergency repairs to the Commonwealth highway system, particularly as a result of storm or flood damage, have been necessary. The cost of these repairs is borne by the Department, except for the cost of repairs to the tollways, which is borne by the Authority. The Department is reimbursed from the Federal Emergency Management Agency for the portion of the costs of such repairs attributable to federally designated disaster areas. The Commonwealth also appropriates funds from time to time for emergency repairs by the Department in addition to amounts appropriated for maintenance. The Authority on occasion advances funds to pay the costs of emergency repairs which are the responsibility of the Department. It is subsequently reimbursed for these advances.

The Traffic Engineers conduct an annual evaluation of the level of maintenance of the Commonwealth highway system. In their most recent evaluation completed in November 1992, the Traffic Engineers found that the current level of maintenance of the Traffic Facilities is generally adequate. The Traffic Engineers noted, however, that maintenance expenditures have levelled ($3,283 per kilometer) and a slightly downward trend has commenced, and that in order to preserve the Authority's investment, maintenance expenditures, particularly non-tollway expenditures should be $3,780 per kilometer with annual allowances for inflation. They also recommended certain maintenance improvements. The results of the Traffic Engineer's most recent maintenance evaluation are summarized in the letter of the Traffic Engineers included as *Appendix IV*.

Priorities Construction Program

As required by the Resolution, the Authority has developed a master plan to serve as the basis for the long-range planning of the Commonwealth highway facilities, which it supplements as necessary. To implement the plan, the Authority prepares a five-year Priorities Construction Program which is updated annually. The Authority has focused the Priorities Construction Program on improving the primary highway facilities while also addressing the most essential needs of secondary and tertiary roads. The Authority also includes in its Priorities Construction Program the cost of repairs, renewals and replacements to the Commonwealth highway system, as well as its non-tollway operating expenses. The Priorities Construction Program also includes plans for dealing with urban congestion and for local improvements. On an annual basis, the Metropolitan Planning Organization approves the construction spending of the Priorities Construction Program for that year.

The following table presents the Authority's current Priorities Construction Program for the five fiscal years ending June 30, 1998 and the sources of funds required to finance such program. The Priorities Construction Program is subject to various changing factors, including cost increases, variations in availability of internal and external funds, availability of qualified construction resources, the need for emergency repairs and changing traffic patterns. For estimating purposes, the Authority has assumed that the taxes and fees currently allocated to the Authority will not be increased or changed. See "Revenues — Projected Revenues" above.

PRIORITIES CONSTRUCTION PROGRAM

	Fiscal Year Ending June 30					
	1994	1995	1996	1997	1998	Total
			(dollars in thousands)			
Sources of Funds:						
Internally generated funds(1)	$ 55,894	$ 73,860	$ 37,538	$ 61,308	$ 53,133	$ 281,733
Federal aid	74,156	77,932	59,070	67,680	70,000	348,838
External financing(2)	341,765	226,208	163,792	106,212	73,778	911,755
Total	$471,815	$378,000	$260,400	$235,200	$196,911	$1,542,326
Uses of Funds:						
Design	$ 26,064	$ 4,942	$ 4,119	$ 2,436	$ 2,995	$ 40,556
Rights of way	55,276	61,755	17,350	20,400	29,742	184,523
Construction	309,475	233,303	158,931	132,364	83,674	917,747
Capitalized expenditures	81,000	78,000	80,000	80,000	80,500	399,500
Total	$471,815	$378,000	$260,400	$235,200	$196,911	$1,542,326

(1) Includes funds on hand, current Revenues available after provision for debt service and reserve requirements for Bonds and tollway maintenance and operating expenses. To the extent such funds are held in the Construction Fund, the holders of the special facility revenue bonds issued by the Authority to finance the San Jose Lagoon Bridge have a claim on such funds in certain circumstances. See "Public-Private Capital Improvement Projects" below.

(2) Includes Interim Financing, Net Proceeds of Borrowings and other.

In the five-year period from fiscal 1989 through fiscal 1993 the Authority expended approximately $1.61 billion on the Priorities Construction Program. The current Priorities Construction Program involves an expenditure of about $1.54 billion.

Highway construction projects planned by the Authority in its current Priorities Construction Program are designed chiefly to enhance the economic development of Puerto Rico. The major portion of the program consists of new highway construction, principally of primary roads and the tollways. It also includes reconstruction of existing highways, a bridge program and installation of safety features and other projects. Specific major projects include the relocation of various sections of Route 3 from Fajardo to Salinas, including the connection of Guayama with the Las Américas tollway at Salinas, the construction of the Ponce South Bypass to extend the Las Américas tollway, the extension of the De Diego tollway from Vega Alta to Barceloneta, the construction of additional lanes on Route 2 between Arecibo and Mayaguez and between Mayaguez and Hormigueros, the relocation of Route 10 between Arecibo and Ponce, the relocation of Route 167 from Bayamón to Comerío and Naranjito, the improvements to Baldorioty de Castro Avenue in San Juan, the conversion of a portion of Route 17 to an expressway in Hato Rey, the completion of Martinez Nadal Expressway and the relocation of Route 137 in Morovis and Route 156 in Aguas Buenas.

The Authority's internally generated funds available to finance its Priorities Construction Program consist primarily of current Revenues after payment of debt service on and provision of reserve requirements for the Bonds and payment of expenses of operating and maintaining the tollways. Such amounts are estimated to aggregate approximately $336.0 million during the five-year period from fiscal 1994 through 1998, which includes investment income, estimated at approximately $54.3 million for the five-year period.

The Priorities Construction Program contemplates new construction borrowings, in addition to the 1993 Bonds, aggregating $570 million net proceeds from fiscal 1995 to fiscal 1998.

The Authority receives assistance for construction from the Federal Highway Administration of the U.S. Department of Transportation. Such aid is recorded as related costs which are billed to the Federal Highway Administration, regardless of the year of appropriation. In the three fiscal years ended June 30, 1993, such aid amounted to $66.5 million, $71.7 million and $50.0 million, respectively.

Federal aid for highway construction is received under a number of federal programs, including those directed at construction of new roads and repair and reconstruction of existing roads. The programs provide for matching federal assistance ranging generally from 80% to 90% of the cost of a project. The level of federal highway aid is dependent upon Congressional authorizations that are apportioned to the states, including the Commonwealth. The U.S. Department of Transportation has broad discretion to release funds for spending within the limits set by Congress. Upon its approval of a state's program, funds are reserved but not committed. Federal-aid funds are committed when the U.S. Department of Transportation approves the detailed plans for specific projects. Congress has authorized funding for the federal highway programs through fiscal 1998 depending on the program. Federal highway legislation has liberalized certain types of federal highway aid and granted more flexibility to the states, including the Commonwealth, in the use of such aid in highway or other transportation projects.

The federal government conducts periodic audits of the federal aid it provides to the Authority to ascertain that funds are being expended consistent with federal programs pursuant to which they are provided. Audit findings of a failure by the Authority to expend funds in compliance with federal programs could result in the withholding of federal aid for the project involved or could result in offset claims by the federal government for funds previously received by the Authority.

The Traffic Engineers annually review the Priorities Construction Program and the Authority's estimates of revenue sources available for its implementation. In their most recent evaluation, the Traffic Engineers concluded that the Authority's current Priorities Construction Program is a reasonable response to the immediate and short-term highway needs and is generally consistent with the Authority's long-range highway program. The Traffic Engineers also concluded that revenue projections have been reasonably accurate and provide a sound basis for determining the size of future programs. The results of that review are summarized in the Traffic Engineers' letter included as *Appendix IV.*

Mass Transit Development Project

The Authority has included a proposed light rail mass transit system in its Priorities Construction Program. The project was recently selected by the U.S. Department of Transportation as one of four projects nationwide to participate in a special fast-track "Turnkey Demonstration" program. The project as submitted would operate between Bayamón and Santurce in its first phase and between Río Piedras and Carolina in its second phase. The Authority will seek federal funds to cover a portion of the capital expenditures of the first phase estimated at $770 million. The Authority has included approximately $160 million over a five-year period in its Priorities Construction Program to fund a portion of the initial planning, design and right of way costs of the first phase. However, it is the Authority's intention to identify and secure adequate funding sources for both the Authority's portion of all capital construction costs of the project and for all operating requirements before proceeding with full implementation of the project. If the Authority does not proceed with the project, it estimates that approximately $120 million of the $160 million included in its Priorities Construction Program and attributable to the project may be capable of adaptation and use in connection with highway-related or other projects of the Authority. No portion of the proceeds of the 1993 Bonds will be used for the project.

Public-Private Capital Improvement Projects

The two principal projects of privatization are the San José Lagoon Bridge and Route 66 (tollway from Rio Piedras to Rio Grande). These projects will not constitute Traffic Facilities under the Bond Resolution and will have no effect on the toll revenues of any existing traffic facilities.

The Authority has entered into a concession agreement with Autopistas de Puerto Rico y Compañía, S.E. ("APR"), a Puerto Rico partnership, for the design, construction operation and maintenance of the San José Lagoon Bridge. A bond issue of $116.8 million for the financing of this project was completed in April of last year. The bridge is expected to open in April 1994. The approximate cost of the bridge is $115 million.

The proceeds of the bonds were loaned to APR, and APR has agreed to repay the loan in amounts sufficient to pay the principal of and interest on the bonds. Pursuant to a concession agreement with the Authority, APR is obligated to design, construct, operate and maintain the bridge. The concession granted to APR to operate and maintain the bridge is for a term of 35 years, subject to extension or to earlier termination. APR's obligation in respect of the bonds will be payable solely from the net toll revenues of the bridge after payment of current operating expenses.

If, among other things, APR defaults on its loan repayment obligations or the traffic using the bridge falls below certain specified levels, the Authority under certain circumstances may be obligated to replace APR with a qualified successor concessionaire or to assume the obligation to pay principal of and interest on the bonds, in the first instance from such net toll revenues. If such net toll revenues are insufficient to make such payment, the Authority has agreed to apply unencumbered moneys in the Construction Fund, available pursuant to clause (4) of the third paragraph under "Sinking Fund" in *Summary of Certain Provisions of the Resolution*, subject to the Authority's prior obligation to pay costs of maintenance, repair and operation of its Traffic Facilities to the extent the Commonwealth does not appropriate moneys therefor and repairs, renewals and replacements of its Traffic Facilities recommended by the Traffic Engineers (see "Miscellaneous Covenants — Costs of Maintenance, Repair and Operation of Traffic Facilities" and " — Annual Report of Traffic Engineers" under *Summary of Certain Provisions of the Resolution*), to cover any such insufficiency. The Authority has further agreed that, upon the occurrence of such insufficiency and for so long as it shall exist, the Authority shall not make any withdrawal and expenditure, pledge or encumbrance of such unencumbered Construction Fund moneys other than to satisfy such prior obligations and has further agreed that until such insufficiency is cured, such unencumbered Construction Fund moneys will be subject to the lien and pledge in favor of the holders of the bonds, subject to the satisfaction of such prior obligations.

The Authority has further agreed (1) to use its best efforts, after any such assumption, to issue additional Bonds under Section 208 of the Resolution to the extent permitted by said Section and to redeem any such outstanding bonds or to exchange such bonds for the additional Bonds so issued and (2) not to issue other additional Bonds under said Section 208 except (i) Bonds authorized to be issued by resolutions of the Authority then in effect and (ii) Bonds issued to pay outstanding notes of the Authority that were issued to finance temporarily the costs of Traffic Facilities or to reimburse the Authority for expenditures incurred in respect thereof which may be reimbursed from the proceeds of long-term financing under the Internal Revenue Code of 1986, as amended, or to pay all or part of the cost of additional Traffic Facilities for which construction contracts have been awarded.

DEBT

Authority Debt

The outstanding debt of the Authority as of July 1, 1993 and as adjusted for the issuance of the 1993 Bonds is as follows:

	As of July 1, 1993	As Adjusted
	(in thousands)	
Bonds(1)	$ 1,206,270	$ 1,694,135
Notes(2)	38,800	—
Total	$ 1,245,070	$ 1,694,135

(1) Includes $4,510,000 Bonds sold to the Farmers Home Administration, of which $3,910,000 is currently outstanding. Does not include the special facility revenue bonds issued by the Authority in April 1992 to finance the bridge over the San Jose Lagoon. See "Public-Private Capital Improvement Projects" under *Highway System Revenues and Expenditures.*

(2) Notes payable to Government Development Bank for Puerto Rico for interim financing for certain capital improvements, which notes are being repaid from a portion of the proceeds of the 1993 Bonds.

Principal and Interest Requirements

The Principal and Interest Requirements for the outstanding Bonds (after the refunding of the Refunded Bonds) and the 1993 Bonds as of the date hereof are set forth in the following table:

Principal and Interest Requirements*

Year Ending June 30	Outstanding Bonds(1)	Series W Bonds			Series X Bonds			Total Debt Service
	Debt Service	Principal	Interest	Total	Principal	Interest(2)	Total	
1994.....	$56,225,714		$22,367,091	$22,367,091	$14,335,000	$36,090,080	$50,425,080	$129,017,885
1995.....	55,683,314		23,163,000	23,163,000	17,325,000	36,764,806	54,089,806	132,936,119
1996.....	56,129,529		23,163,000	23,163,000	17,975,000	36,274,835	54,249,835	133,542,363
1997.....	55,973,684		23,163,000	23,163,000	18,720,000	35,701,713	54,421,713	133,558,397
1998.....	55,763,654		23,163,000	23,163,000	19,540,000	35,054,807	54,594,807	133,521,461
1999.....	47,733,719		23,163,000	23,163,000	28,170,000	34,346,527	62,516,527	133,413,246
2000.....	33,168,559		23,163,000	23,163,000	45,005,000	33,284,800	78,289,800	134,621,359
2001.....	33,151,114		23,163,000	23,163,000	46,915,000	31,124,560	78,039,560	134,353,674
2002.....	33,151,519		23,163,000	23,163,000	48,855,000	28,825,725	77,680,725	133,995,244
2003.....	52,150,189		23,163,000	23,163,000	32,325,000	26,382,975	58,707,975	134,021,164
2004.....	43,187,544		23,163,000	23,163,000	26,200,000	24,710,400	50,910,400	117,260,944
2005.....	42,907,000		23,163,000	23,163,000	27,900,000	23,321,800	51,221,800	117,291,800
2006.....	24,476,213	$21,000,000	23,163,000	44,163,000	14,900,000	21,829,150	36,729,150	105,368,363
2007.....	24,587,844	22,200,000	22,029,000	44,229,000	15,500,000	21,024,550	36,524,550	105,341,394
2008.....	33,441,325	23,400,000	20,819,100	44,219,100	7,500,000	20,179,800	27,679,800	105,340,225
2009.....	33,432,225	24,700,000	19,532,100	44,232,100	7,900,000	19,767,300	27,667,300	105,331,625
2010.....	33,437,450	26,900,000	17,309,100	44,209,100	8,400,000	19,332,800	27,732,800	105,379,350
2011.....	33,477,563	28,270,000	15,816,150	44,086,150	8,805,000	18,866,600	27,671,600	105,235,313
2012.....	33,480,356	29,830,000	14,261,300	44,091,300	9,285,000	18,382,325	27,667,325	105,238,981
2013.....	38,657,769	24,085,000	12,620,650	36,705,650	12,000,000	17,871,650	29,871,650	105,235,069
2014.....	27,291,444	25,425,000	11,295,975	36,720,975	24,015,000	17,211,650	41,226,650	105,239,069
2015.....	27,294,194	26,825,000	9,897,600	36,722,600	25,330,000	15,890,825	41,220,825	105,237,619
2016.....	29,934,925	28,290,000	8,422,225	36,712,225	24,095,000	14,497,675	38,592,675	105,239,825
2017.....	38,121,563	29,845,000	6,866,275	36,711,275	17,230,000	13,172,450	30,402,450	105,235,288
2018.....	38,116,319	31,490,000	5,224,800	36,714,800	18,180,000	12,224,800	30,404,800	105,235,919
2019.....	14,662,850	33,145,000	3,571,575	36,716,575	42,635,000	11,224,900	53,859,900	105,239,325
2020.....	14,652,000	34,885,000	1,831,463	36,716,463	44,990,000	8,879,975	53,869,975	105,238,438
2021.....					62,000,000	6,518,000	68,518,000	68,518,000
2022.....					65,260,000	3,263,000	68,523,000	68,523,000

*Totals may not add up due to rounding.

(1) Includes $4,510,000 Bonds sold to the Farmers Home Administration, of which $3,910,000 is currently outstanding, which mature in the year 2020. Does not include the special facility revenue bonds issued by the Authority in April 1992 to finance the bridge over the San Jose Lagoon. See "Public-Private Capital Improvement Projects" under *Highway System Revenues and Expenditures.*

Upon the issuance of the 1993 Bonds, the remaining average life of the Bonds will be approximately 16.56 years.

(2) The interest on the proposed 1993 Variable Rate Bonds has been calculated on the basis of the fixed interest rate payable by the Authority under a related interest rate swap agreement to be entered into upon the delivery of the 1993 Variable Rate Bonds.

SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION

The following are brief summaries of certain provisions of the Resolution. Such statements do not purport to be complete and reference is made to the Resolution, copies of which are available from the Authority or the Fiscal Agent. The Authority proposes to amend the Resolution as described in "Proposed Supplemental Resolutions" under *The Bonds.*

Definition of Certain Terms

"Accreted Value" means, with respect to any Capital Appreciation Bond or Capital Appreciation and Income Bond, an amount equal to the principal amount of such Bond on the date of original issuance plus the interest accrued on such Capital Appreciation Bond or Capital Appreciation and Income Bond from the date of original issuance to the date of calculation or the Interest Commencement Date, as the case may be, compounded on the dates and in the manner provided for in the resolution authorizing the issuance of such Capital Appreciation Bond or Capital Appreciation and Income Bond.

"Balloon Bonds" means any Bonds, the interest on which is payable periodically and twenty-five percent (25%) or more of the original principal amount of which matures during any one fiscal year and for which maturing principal amount Amortization Requirements have not been fixed.

"Capital Appreciation Bonds" means any Bonds as to which interest is compounded periodically on each of the applicable dates designated for compounding in the resolution authorizing said Bonds and payable in an amount equal to the then current Accreted Value only at the maturity (or extended maturity date for Extendible Maturity Bonds), earlier redemption or other payment date therefor, all as so provided by such resolution, and which may be either serial bonds or term bonds.

"Capital Appreciation and Income Bonds" means any Bonds as to which accruing interest is not paid prior to the interest payment date immediately succeeding the Interest Commencement Date specified in the resolution authorizing such Bonds and the interest on which is compounded periodically on the dates designated in such resolution prior to the Interest Commencement Date for such Capital Appreciation and Income Bonds, and which may be either serial bonds or term bonds.

"Code" means the Internal Revenue Code of 1986, as amended from time to time, and the regulations promulgated thereunder and applicable regulations promulgated under the Internal Revenue Code of 1954, as amended.

"Extendible Maturity Bonds" means Bonds the maturities of which, by their terms, may be extended by and at the option of the holders of the Bonds or the Authority.

"Fiscal Agent" means the bank or trust company appointed by the Authority and acting as Fiscal Agent pursuant to the provisions of the Resolution, and shall be held and construed to mean the Fiscal Agent for the time being, whether original or successor.

"fiscal year" means the period commencing on the first day of July of any year and ending on the last day of June of the following year or any other twelve month period designated by the Authority.

"Government Obligations" means (i) direct obligations of, or obligations the payment of the principal of and interest on which are unconditionally guaranteed by, the United States of America; (ii) municipal obligations, the payment of the principal of and interest and redemption premium, if any, on which are irrevocably secured by obligations described in clause (i) above and which obligations are not subject to redemption prior to the date on which the proceeds attributable to the principal of the obligations are to be used and have been deposited in an escrow account which is irrevocably pledged to the payment of the principal of and interest and redemption premium, if any, on such municipal obligations; (iii) evidences of ownership of proportionate interests in future interest or principal payments on obligations specified in clauses (i) and (ii) above held by a bank (including the Fiscal Agent) or trust company as custodian, under which the owner of said interests is the real party in interest and has the right to proceed directly and individually against the issuer of the underlying obligations described in said clauses (i) and (ii) and which underlying obligations are not available to satisfy any claim of the custodian or any person claiming through the custodian or to whom the custodian may be obligated; and (iv) secured time deposits.

"Interest Commencement Date" means, with respect to any particular Capital Appreciation and Income Bonds, the date specified in the resolution authorizing the issuance of such Bonds after which interest accruing on such Bonds shall be payable on a periodic basis prior to maturity, with the first such payment date being the applicable interest payment date immediately succeeding such Interest Commencement Date.

"Interim Bonds" means any Bonds issued under the Resolution on an interim basis which are expected to be repaid from the proceeds of Bonds or other indebtedness.

"Investment Obligations" means any of the following, to the extent that the same is legal for the investment of public funds under the laws of the Commonwealth:

(i) Government Obligations;

(ii) obligations issued or guaranteed by any instrumentality or agency of the United States of America, whether now existing or hereafter organized, including but not limited to those of the Federal Financing Bank, Federal Home Loan Banks, the Export-Import Bank, Government National Mortgage Association and the Tennessee Valley Authority;

(iii) bankers' acceptances, certificates of deposit or time deposits of any bank, national banking association (including the Fiscal Agent), trust company or savings and loan association (including any investment in pools of such bankers acceptances, certificates of deposit or time deposits), which to the extent that such obligations are not insured by the Federal Deposit Insurance Corporation or the Federal Savings and Loan Insurance Corporation, are either (A) issued by a bank, trust company, or savings and loan association having a combined capital and surplus aggregating at least $50,000,000 or (B) collateralized at all times by such securities as are described in clauses (i) or (ii) above or (iv) or (v) below, having a market value at least equal to the principal amount of such bankers acceptances, certificates of deposit or time deposits (or portion thereof not so insured); provided that the Fiscal Agent has a perfected first security interest in the collateral and that such collateral is held free and clear of claims by third parties;

(iv) obligations issued by any state or territory of the United States, which are rated, on the date of investment therein, in one of the three highest rating categories (without regard to any gradation within such category) by both Moody's Investors Service, Inc. or any successors thereto and Standard & Poor's Corporation or any successors thereto;

(v) municipal obligations, the payment of the principal of and the interest on which is insured, which are rated, on the date of investment therein, in one of the three highest rating categories (without regard to any gradation within such category) by both Moody's Investor Service, Inc. or any successors thereto and Standard & Poor's Corporation or any successors thereto;

(vi) any repurchase, reverse repurchase or investment agreement with any bank or trust company organized under the laws of any state of the United States or the Commonwealth or any national banking association (including the Fiscal Agent), insurance company, or government bond dealer reporting to, trading with, and recognized as a primary dealer by the Federal Reserve Bank of New York and a member of the Security Investors Protection Corporation, which agreement is secured by any one or more of the securities described in clauses (i) or (ii) above, provided that the Fiscal Agent has a perfected first security interest in the collateral and that such collateral is held free and clear of claims by third parties;

(vii) commercial paper rated, or backed by a letter of credit or line of credit the issuer of which is rated, on the date of investment therein, in one of the three highest rating categories (without regard to any gradation within such category) by both Moody's Investors Service, Inc. or any successors thereto and Standard & Poor's Corporation or any successors thereto; and

(viii) any other investment obligations, which are rated, on the date of investment therein, in one of the three highest rating categories (without regard to any gradation within such category) by both Moody's Investors Service, Inc. or any successors thereto and Standard & Poor's Corporation or any successors thereto.

"Paying Agents" means the banks or trust companies at which the principal of and the interest on the coupon Bonds not registered as to both principal and interest shall be payable.

"Principal and Interest Requirements" for any period, as applied to the Bonds of any Series, means the sum of:

(i) the amount required to pay interest on all Bonds of such Series then outstanding which is payable on each interest payment date in such period;

(ii) the amount required to pay principal of all serial Bonds of such Series then outstanding which is payable upon the stated maturity of such serial Bonds in such period; and

(iii) the Amortization Requirements for the term Bonds of such Series for such period.

To the extent that the period for calculating Principal and Interest Requirements shall be a fiscal year and the first day of the next fiscal year shall be an interest or principal payment date, such first day of the next fiscal year shall be included in the preceding fiscal year and not in the current fiscal year for purposes of calculating Principal and Interest Requirements.

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

(a) in the case of Variable Rate Bonds the interest rate thereon shall be assumed to be the greater of (A) one hundred ten percent (110%) of the average interest rate on such Variable Rate Bonds during the twelve months ending with the month preceding the date of calculation or such shorter period that such Variable Rate Bonds shall have been outstanding, (B) the actual rate of interest on such Variable Rate Bonds on the date of calculation and (C) the lesser of the maximum rate then permitted by law and the maximum rate permitted on such Variable Rate Bonds by the resolution authorizing the issuance thereof;*

(b) in the case of Put Bonds, the "tender" date or dates shall be ignored if the source for payment of said tender is a liquidity facility and the stated periods for Amortization Requirements and the stated dates for principal payments shall be used, and in the case of Bonds secured by a credit facility or a liquidity facility, the terms of the reimbursement obligation to the issuers thereof shall be ignored and the stated periods for Amortization Requirements and the stated dates for principal payments shall be used; provided, however, that during any period after the issuer of a credit facility or a liquidity facility, as the case may be, has advanced funds thereunder, the reimbursement obligation of which is payable from and secured on a parity with the Bonds and before such amount is repaid, Principal and Interest Requirements shall include the principal amount so advanced and interest thereon, in accordance with the principal repayment schedule and interest rate or rates specified in the credit facility or liquidity facility, as the case may be, in lieu of the stated principal of and Amortization Requirements and interest on such Bonds;

(c) in the case of Extendible Maturity Bonds, the Bonds shall be deemed to mature on the later of the stated maturity date and the date to which such stated maturity date shall have been extended;

(d) in the case of Capital Appreciation Bonds, the principal and interest portions of the Accreted Value of Capital Appreciation Bonds becoming due at maturity or by virtue of an Amortization Requirement shall be included during such period in which said principal and interest portions are due;

(e) in the case of Capital Appreciation and Income Bonds, the principal and interest portions of the Appreciated Value of Capital Appreciation and Income Bonds shall be included during the period in which said principal and interest portions are due;

* Clause (C) will become effective after the delivery of the 1993 Bonds.

(f) in the case of Balloon Bonds or Interim Bonds, the debt service requirements of the Balloon Bonds or Interim Bonds may be excluded and in lieu thereof the Balloon Bonds or Interim Bonds shall be viewed as debt securities having a comparable federal tax status as such Balloon Bonds or Interim Bonds, maturing in substantially equal annual payments of principal and interest over a period of not more than 30 years from the date of issuance thereof, bearing interest at a fixed rate per annum equal to the average interest rate per annum for such debt securities on the date of issuance of the Balloon Bonds or Interim Bonds and issued by issuers having a credit rating, issued by Moody's Investors Service, Inc. or any successors thereto or Standard & Poor's Corporation or any successors thereto comparable to that of the Authority, as shown by a certificate of an underwriting or investment banking firm experienced in marketing such securities; and

(g) if all or a portion of the principal of or interest on a Series of Bonds is payable from moneys irrevocably set aside or deposited for such purpose, together with projected earnings thereon to the extent such earnings are projected to be from Investment Obligations irrevocably set aside or deposited for such purpose on the date of computation, such principal or interest shall not be included in determining Principal and Interest Requirements; provided that the above computation shall be supported by a verification report from a nationally recognized independent certified public accountant as to the sufficiency of such moneys set aside and projected earnings.

"Put Bonds" means Bonds which by their terms may be tendered by and at the option of the holder thereof for payment prior to the stated maturity thereof.

"Reserve Account Insurance Policy" means the insurance policy, surety bond or other acceptable evidence of insurance, which policy, bond or other evidence of insurance constitutes an unconditional senior obligation of the issuer thereof. The issuer shall be a municipal bond insurer whose senior debt obligations, ranking pari passu with its obligations under such policy, bond or other evidence of insurance, are rated at the time of deposit to the credit of the Reserve Account in any of the three highest rating categories (without regard to any gradation within any such category) of either Moody's Investors Service, Inc. or any successors thereto or Standard & Poor's Corporation or any successors thereto.

"Reserve Account Letter of Credit" means the irrevocable, transferable letter of credit, if any, which letter of credit constitutes an unconditional senior obligation of the issuer thereof. The issuer shall be a banking association, bank or trust company or branch thereof whose senior debt obligations, ranking pari passu with its obligations under such letter of credit, are rated at the time of deposit to be credit of the Reserve Account in any of the three highest rating categories (without regard to any gradation within any such category) of either Moody's Investors Service, Inc. or any successors thereto or Standard & Poor's Corporation or any successors thereto.

"Reserve Requirement" means the lesser of (a) the maximum Principal and Interest Requirements for any fiscal year on account of the outstanding Bonds and (b) ten percent (10%) of the original principal amount of each Series of Bonds outstanding.

"Revenues" means (a) all moneys received by the Authority on account of the gasoline tax allocated to the Authority by Act No. 75, approved June 23, 1965; (b) Toll Revenues; (c) the proceeds of any other taxes, fees or charges which the Legislature of Puerto Rico has allocated or may hereafter allocate to the Authority and expressly authorize the Authority to pledge to the payment of the principal of and interest on Bonds or other obligations of the Authority and which are pledged by the Authority to the payment of the principal of and interest on Bonds or other obligations issued under the provisions of the Resolution; provided that written notice of such pledge has been delivered to Standard & Poor's Corporation, Moody's Investors Service, Inc. or other rating agency then rating the Bonds* and (d) investment earnings on deposits to the credit of funds and accounts established under the Resolution, except for the Construction Fund.

"Toll Revenues" means the tolls or other charges, if any, imposed by the Authority for the use of any of its Traffic Facilities.

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* The foregoing proviso will become effective after the delivery of the 1993 Bonds.

"Traffic Facilities" means any of the following facilities for which Bonds or other obligations shall be issued under the Resolution the cost of which facilities paid from the proceeds of such Bonds or other obligations shall not have been reimbursed to the Authority from funds not encumbered by the Resolution: (1) roads, avenues, streets, thoroughfares, speedways, bridges, tunnels, channels, stations, terminals, and any other land or water facilities necessary or desirable in connection with the movement of persons, freight, vehicles or vessels; (2) parking lots and structures and other facilities necessary or desirable in connection with the parking, loading or unloading of all kinds of vehicles and vessels; and (3) all property, rights, easements, and interests therein necessary or desirable for the construction, maintenance, control, operation or development of such traffic facilities.

"Variable Rate Bonds" means Bonds issued with a variable, adjustable, convertible or similar interest rate which is not fixed in percentage at the date of issue for the term thereof, but which may or may not be convertible to a fixed interest rate for the remainder of their term. (Section 101).

Sinking Fund

The Resolution creates the "Puerto Rico Highway Authority Highway Revenue Bonds Interest and Sinking Fund" (the "Sinking Fund"). The "Bond Service Account", "Redemption Account" and "Reserve Account" are created within the Sinking Fund. (Section 401).

The moneys in each Account are held by the Fiscal Agent in trust and, pending application, are subject to a lien in favor of the holders of the outstanding Bonds and for the further security of such holders until paid out or transferred as provided in the Resolution. (Section 401).

All Revenues (other than investment earnings) and any other funds of the Commonwealth allocated to the Authority for the payment of principal of and interest on any Bonds, are deposited monthly with the Fiscal Agent as follows:

(1) To the Bond Service Account, an amount equal to 1/6th of the amount of interest payable on all Bonds of each Series on the next succeeding interest payment date and an amount equal to 1/12th of the next maturing installment of principal of any serial bonds; provided, however, that the amount so deposited on account of the interest in each month after the delivery of the Bonds of any Series up to and including the month immediately preceding the first interest payment date thereafter of the Bonds of such Series shall be that amount which when multiplied by the number of such deposits will be equal to the amount of interest payable on such Bonds on such first interest payment date less the amount of any accrued interest paid on such Bonds and deposited to the credit of the Bond Service Account;

(2) To the Redemption Account, an amount equal to 1/12th of the Amortization Requirement for such fiscal year for the term bonds of each Series then outstanding plus an amount equal to 1/12th of the premium, if any, which would be payable on the first redemption date in the following fiscal year on a like principal amount of Bonds if such principal amount of Bonds should be redeemed prior to their maturity from moneys in the Sinking Fund;

(3) To the Reserve Account, such amount as is required to make the amount deposited to the credit of said Account in the then current fiscal year at least equal to 20% of the Reserve Requirement; provided, however, that such deposits shall only be made to the extent necessary to make the amount then in the Reserve Account equal to the Reserve Requirement; provided, further, that in the event of an increase in the Reserve Requirement due to the issuance of additional Series of Bonds, such increase may be funded by deposits in each of the five (5) years commencing in the fiscal year in which such additional Series of Bonds is issued, of 20% of such increase in the Reserve Requirement; and

(4) Any Revenues remaining after making the deposits referred to above shall be deposited to the credit of the Construction Fund for use by the Authority for any of its authorized purposes. (Section 401).

The requirements specified in paragraphs (1), (2) and (3) above are cumulative. (Section 401).

In lieu of any required deposit of Revenues into the Reserve Account, or in substitution for all or a portion of the moneys then on deposit in the Reserve Account, the Authority may deposit into the Reserve Account a Reserve Account Insurance Policy or a Reserve Account Letter of Credit for the benefit of the holders in an amount equal to the required deposit, which Reserve Account Insurance Policy or Reserve Account Letter of Credit shall be payable or available to be drawn upon, as the case may be (upon the giving of notice as required thereunder), on any interest payment date on which a deficiency exists which cannot be cured by moneys in any other fund or account held by the Fiscal Agent pursuant to the Resolution and available for such purpose. If a disbursement is made under the Reserve Account Insurance Policy or the Reserve Account Letter of Credit, the Authority shall be obligated either to reinstate the limits of such Reserve Account Insurance Policy or Reserve Account Letter of Credit following such disbursement, or to deposit into the Reserve Account from Revenues, funds in the amount of the disbursement made under such Reserve Account Insurance Policy or Reserve Account Letter of Credit. (Section 401).

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

(a) Subject to the provisions of paragraph (c) below, the Fiscal Agent shall endeavor to purchase outstanding Bonds, whether or not such Bonds shall then be subject to redemption, at the most advantageous price obtainable with reasonable diligence, having regard to interest rate and price, such price not to exceed the principal of such Bonds plus the amount of the premium, if any, which would be payable on the next redemption date to the holders of such Bonds if such Bonds should be called for redemption on such date from moneys in the Sinking Fund. The Fiscal Agent shall pay the interest accrued on such Bonds to the date of delivery thereof from the Bond Service Account and the purchase price from the Redemption Account, but no such purchase shall be made within 45 days next preceding any interest payment date on which such Bonds are subject to redemption except from moneys in excess of the amounts set aside or deposited for the redemption of Bonds.

(b) Subject to the provisions of paragraph (c) below, the Fiscal Agent shall call for redemption on each interest payment date on which Bonds are subject to redemption from moneys in the Sinking Fund such amount of Bonds then subject to redemption as, with the redemption premium, if any, will exhaust the Redemption Account as nearly as may be; provided, however, that not less than $50,000 principal amount of Bonds shall be called for redemption at any one time.

(c) Moneys in the Redemption Account shall be applied to the purchase or redemption of Bonds in the following order:

First, the term Bonds of each Series, if any, in the order of their issuance, to the extent of the Amortization Requirement, if any, of the then current fiscal year for such term Bonds and any deficiency in preceding fiscal years in the purchase or redemption of such term Bonds under the provisions of this subdivision; provided, however, that if none of the term Bonds of a Series shall be subject to redemption from moneys in the Sinking Fund and if the Fiscal Agent shall at any time be unable to exhaust the moneys applicable to the Bonds of any such Series in the purchase of such Bonds under the provisions of paragraph (a) above, such moneys or the balance of such moneys, as the case may be, shall be retained in the Redemption Account and, as soon as it is feasible, applied to the retirement of the Bonds of such Series;

Second, to the purchase of any outstanding Bonds, whether or not such Bonds shall then be subject to redemption, in accordance with the provisions of paragraph (a) above;

Third, term Bonds of each Series in proportion (as nearly as practicable) to the aggregate principal amount of the Bonds of each such Series originally issued; and

Fourth, after the retirement of all term Bonds, serial Bonds in the inverse order of their maturities, and to the extent that serial Bonds of different Series mature on the same date, in proportion (as nearly as practicable) to the principal amount of each Series maturing on such date. (Section 403).

All expenses in connection with such purchase or redemption shall be paid from the Construction Fund. (Section 403).

Moneys in the Reserve Account shall be used for the purpose of paying interest on the Bonds and maturing principal of serial Bonds whenever and to the extent that the moneys held for the credit of the Bond Service Account shall be insufficient for such purpose and thereafter for the purpose of making deposits to the credit of the Redemption Account pursuant to the requirements mentioned in paragraph (2) above whenever and to the extent that the Revenues are insufficient for such purpose. Excess moneys in the Reserve Account shall be transferred to the Construction Fund, the Bond Service Account or the Redemption Account, as directed by the Authority. (Section 404).

Redemption

At least thirty (30) days before the redemption date of any Bonds, the Fiscal Agent shall cause a notice of any such redemption, signed in the name of the Authority by the Fiscal Agent, to be mailed, by first class mail, postage prepaid, to all registered owners of Bonds to be redeemed at their addresses as they appear on the registration books of the Authority held by the Fiscal Agent, but failure so to mail any such notice or any defect in any such notice shall not affect the validity of the proceedings for redemption of any other Bonds notice of which redemption was properly given. Each such notice shall set forth the date fixed for redemption, the redemption price to be paid, that on the date fixed for redemption, the redemption price will become due and payable upon each Bond called for redemption, if moneys for the payment of the redemption price shall be on deposit on such date, that interest thereon shall cease to accrue on and after said redemption date, the place where such bonds are to be surrendered for payment of such redemption price, and, if less than all of the Bonds then outstanding shall be called for redemption, the maturities and the numbers of such Bonds. (Sections 302 and 303).

Construction Fund

Moneys in the Construction Fund may be used for any authorized purpose of the Authority, including the payment of the cost of maintaining, repairing and operating the Traffic Facilities and the cost of necessary renewals and replacements of Traffic Facilities. (Sections 401, 604 and 605). Before any payment or withdrawal shall be made from moneys in the Construction Fund there shall be filed with the Fiscal Agent a certificate signed by a designated officer of the Authority setting forth the amount of money to be so disbursed and stating that such money will be used to pay the costs of constructing Traffic Facilities or for other purposes permitted by the Resolution. Upon receipt of such certificate the Fiscal Agent shall withdraw from the Construction Fund and deposit to the credit of a special checking account in its commercial department in the name of the Authority the amount so specified in such certificate. The Fiscal Agent shall also at any time at the written direction of the Authority transfer any part of the moneys in the Construction Fund to the credit of the Redemption Account. (Section 405).

Defeasance

If all the outstanding Bonds shall have been paid or deemed to have been paid as provided below, then and in that case the right, title and interest of the bondholders under the Resolution shall cease, terminate and become void, and such Bonds shall cease to be entitled to any lien, benefit or security under the Resolution. In such event, the Authority shall repeal and cancel the Resolution and may apply any surplus in the Sinking Fund and all balances remaining in any other funds and accounts other than moneys held for the redemption or payment of Bonds to any lawful purposes of the Authority as the Secretary shall determine.

Any outstanding Bond shall be deemed to have been paid within the meaning and with the effect expressed in the Resolution when the whole amount of the principal of, redemption premium, if any, and interest on such Bond shall have been paid or duly provided for and the conditions set forth in clause (c) below have been satisfied or when (a) in case such Bond has been called for redemption or the Authority has given to the Fiscal Agent irrevocable instructions to call such Bond for redemption, (b) there shall have been deposited with the Fiscal Agent or other appropriate fiduciary institution acting as escrow agent for the holder of such Bond and the holders of other Bonds being defeased and specifically designated for the purpose of defeasance either moneys in an amount which shall be sufficient, or Government Obligations the principal of and interest on which are sufficient, to pay when due the principal of and premium, if any, and interest due and to become due on such Bond on or prior to the redemption date or maturity date thereof, as the case may be, and (c) in the event such Bond does not mature and is not to be redeemed within the next succeeding sixty (60) days, the Authority shall have given the Fiscal Agent irrevocable instructions to give, as soon as practicable, a notice to the holder of such Bond by first-class mail, postage prepaid, stating that the deposit of moneys or such time deposits or Government Obligations required by clause (b) of this paragraph has been made with the Fiscal Agent or other appropriate fiduciary institution acting as escrow agent for the holder of such Bond, and that such Bond is deemed to have been paid in accordance with the Resolution and stating such maturity or redemption date upon which moneys are to be available for the payment of the principal of and premium, if any, and interest on such Bond.

Neither the moneys nor Government Obligations deposited with the Fiscal Agent or other appropriate fiduciary institution acting as escrow agent nor principal or interest payments on any such obligations shall be withdrawn or used for any purpose other than, and shall be held in trust for, the payment of the principal of and redemption premium, if any, and interest on the Bonds which have been defeased.

As to Variable Rate Bonds, the amount required for the interest thereon shall be calculated at the maximum rate permitted by the terms of the provisions of the resolution which authorized the issuance of such Variable Rate Bonds.

Notwithstanding any of the provisions of the Resolution to the contrary, Put Bonds and Extendible Maturity Bonds may only be fully discharged and satisfied either by paying the principal of and interest on said Bonds as they become due and payable or by depositing moneys which shall be sufficient at the time of such deposit to pay when due the maximum amount of principal of and redemption premium, if any, and interest on such Put Bonds and Extendible Maturity Bonds which could become payable to the holders of such Bonds upon the exercise of any options provided to the holders of such Bonds and the Authority; provided, however, that if, at the time a deposit is made pursuant to this paragraph, the options originally exercisable on the Put Bonds and Extendible Maturity Bonds are no longer exercisable, such Bonds shall not be considered Put Bonds or Extendible Maturity Bonds for these purposes.

If any portion of the moneys deposited for the payment of the principal of and redemption premium, if any, and interest on any portion of Bonds is not required for such purpose, the Authority may use the amount of such excess, subject to certain tax covenants contained in the Resolution, free and clear of any trust, lien, security interest, pledge or assignment securing said Bonds or otherwise existing under the Resolution. (Section 901).

Issuance of Additional Bonds

Bonds may be issued under and secured by the Resolution, subject to the conditions hereinafter described, at any time or times for the purpose of providing funds to pay the cost of Traffic Facilities, to refund all or any part of the outstanding Bonds of any one or more Series by payment at maturity or redemption at a selected redemption date or dates, including the payment of any redemption premium thereon, to fund a deposit to the Reserve Account and to pay any costs of issuance of such Bonds. (Sections 208 and 209).

Before such Bonds shall be authenticated and delivered by the Fiscal Agent, there shall be filed with the Fiscal Agent, among other things, a certificate dated the date of original issuance of the Bonds, signed by the Executive Director, setting forth:

(i) the amount of the Revenues for any twelve (12) consecutive calendar months out of the fifteen (15) calendar months immediately preceding the month in which such certificate is signed;

(ii) the amount of the Toll Revenues for the twelve (12) calendar months for which the Revenues are shown in item (i) above;

(iii) the difference between the amounts set forth in items (i) and (ii) above;

(iv) the amount of the maximum Principal and Interest Requirement for any fiscal year thereafter on account of the Bonds then outstanding and the Bonds then requested to be delivered;

(v) the percentage derived by dividing the amount in item (i) above by the amount in item (iv) above; and

(vi) the percentage derived by dividing the amount in item (iii) above by the amount in item (iv) above. (Section 208).

The Fiscal Agent may only deliver such additional Bonds if the percentage shown in either item (v) or item (vi) is not less than 150%. (Section 208). The Authority need not deliver said certificate in connection with the issuance of refunding bonds if the Executive Director delivers a certificate to the effect that the amount of the maximum Principal and Interest Requirements for any fiscal year thereafter on account of the Bonds to be outstanding after the issuance of the refunding Bonds shall be equal to or less than the maximum Principal and Interest Requirements for any fiscal year thereafter on account of the Bonds outstanding prior to the issuance of such refunding Bonds. (Section 209).

If the percentage shown in item (vi) of the certificate mentioned above and filed with the Fiscal Agent in connection with the issuance of any additional Bonds is less than 150%, the Authority may not reduce the tolls or other charges imposed by it for the use of its Traffic Facilities such that, as of the effective date of such reduction, the amount of Revenues for any twelve (12) consecutive calendar months out of the fifteen (15) calendar months immediately preceding such effective date, adjusted to reflect the Toll Revenues it would have received, based on the volume of traffic for such twelve (12) months, if such reduction had been in effect for such twelve (12) months, is less than 150% of the maximum Principal and Interest Requirements for any fiscal year thereafter on account of all Bonds then outstanding. (Section 609).

Any increase in the Reserve Requirement resulting from the issuance of such additional Bonds may be satisfied by equal deposits of 20% of such increase into the Reserve Account in each of the next five years beginning with the fiscal year in which such additional Bonds were issued. (Section 401).

Other Indebtedness

The Authority will not incur any indebtedness nor create or cause or suffer to be created any debt, lien, pledge, assignment, encumbrance or any other charge having a priority to or being on a parity with the lien on Revenues of the Bonds issued under the Resolution, except upon the conditions and in the manner provided in the Resolution. Any other indebtedness incurred by the Authority shall contain an express statement that such indebtedness is junior, inferior and subordinate in all respects to the Bonds. For purposes of the above limitation in incurrence of indebtedness, indebtedness shall not be deemed to include contracts entered into in the ordinary course of business or agreements to repay advances received from the federal government. Nothing in the Resolution shall be deemed to prohibit the Authority from entering into currency swaps, interest rate swaps or other arrangements for hedging of interest rates on any indebtedness. (Section 602).

Nothing in the Resolution is to be construed as preventing the Authority from financing any facilities authorized by the act creating the Authority by the issuance of bonds or other obligations which are not secured under the provisions of the Resolution. (Section 1001).

Investment of Funds

Moneys held for the credit of the Bond Service Account and the Redemption Account shall, as nearly as may be practicable, be continuously invested and reinvested at the written direction of the Authority in Government Obligations, and moneys held for the credit of the Construction Fund and the Reserve Account shall, as nearly as may be practicable, be continuously invested and reinvested at the written direction of the Authority in Investment Obligations, which Government Obligations and Investment Obligations shall mature, or which shall be subject to redemption by the holder thereof at the option of such holder, not later than the respective dates when moneys held for the credit of such Fund or Accounts will be required for the purposes intended. Amounts on deposit in the Reserve Account shall be invested in Investment Obligations which mature not later than the final maturity date of any Bonds outstanding. (Section 502).

Investment earnings on moneys on deposit to the credit of the following Fund and Accounts shall be applied as follows:

(a) investment earnings on moneys on deposit to the credit of the Construction Fund shall be retained to the credit of said Fund;

(b) investment earnings on moneys on deposit to the credit of the Reserve Account shall be retained in said Account at any time that the amounts on deposit to the credit of said Account are less than the Reserve Requirement and, if moneys on deposit therein are sufficient for such purposes, then such earnings shall be withdrawn and deposited to the credit of the Construction Fund, the Bond Service Account or the Redemption Account, as the Authority shall direct; and

(c) investment earnings on moneys on deposit to the credit of the Bond Service Account and the Redemption Account shall be transferred to the Construction Fund or at the option of the Authority retained in such Account. (Section 502).

In computing the amount in any Fund or Account created pursuant to the provisions of the Resolution, obligations purchased as an investment of moneys therein shall be valued at par if purchased at par or at amortized value if purchased at other than par, plus, in each case, accrued interest. Amortized value, when used with respect to an obligation purchased at a premium above or a discount below par, means the value as of any given time obtained by dividing the total premium or discount at which such obligation was purchased by the number of days remaining to maturity on such obligation at the date of such purchase and by multiplying the amount thus calculated by the number of days having passed since such purchase; and (1) in the case of an obligation purchased at a premium by deducting the product thus obtained from the purchase price, and (2) in the case of an obligation purchased at a discount by adding the product thus obtained to the purchase price. Valuation on any particular date shall include the amount of interest then earned or accrued to such date on any moneys or investments in such Fund or Account. The computation of the amount on deposit in or credited to the Fund and Accounts created under the Resolution and the valuation of the investments of such amount shall be performed by the Fiscal Agent as of the close of business on the last day of each fiscal year and at such other times as the Authority shall request, and such computation and valuation shall not be required to be performed at other times. (Section 503).

Modifications

The Authority may adopt resolutions supplemental to the Resolution without the consent of the bondholders to cure any ambiguity, formal defect or omission, or to correct any inconsistent provisions or errors in the Resolution or any supplemental resolution, or to grant or confer upon the bondholders any additional rights, remedies, powers, authority or security, or to add to the conditions, limitations and restrictions on the issuance of Bonds under the provisions of the Resolution, or to add to the covenants and agreements of the Authority in the Resolution or to surrender any right or power reserved to or conferred upon the Authority, or to make necessary changes to facilitate the issuance of Variable Rate Bonds, Capital Appreciation Bonds, Capital Appreciation and Income Bonds, Put Bonds, Extendible Maturity Bonds, Balloon Bonds, Interim Bonds and such other bonds as may be marketable from time to time, or to make changes as may evidence the right and interest of an issuer of a Credit Facility or a Liquidity Facility that secures any Series of Bonds. (Section 801).

The holders of not less than two-thirds in aggregate principal amount of the Bonds then outstanding shall have the right to consent to and approve the adoption of such resolution or resolutions supplemental to the Resolution as shall be deemed necessary or desirable by the Authority for the purpose of modifying, altering, amending, adding to or rescinding any of the terms and provisions contained in the Resolution or in any supplemental resolution; provided, however, that nothing contained in the Resolution shall permit, or be construed as permitting, (a) an extension of the maturity of the principal of or the interest on any Bond, or (b) a reduction in the principal amount of any Bond or the redemption premium or the rate of interest thereon, or (c) the creation of a lien upon or a pledge of Revenues other than the lien and pledge created by the Resolution, or (d) a preference or priority of any Bond or Bonds over any other Bond or Bonds, or (e) a reduction in the aggregate principal amount of the Bonds required for consent to such supplemental resolution. (Section 802).

If at any time the Authority shall determine that it is necessary or desirable to adopt any supplemental resolution for any of the purposes of the above paragraph, the Fiscal Agent at the expense and request of the Authority shall cause notice of the proposed adoption of such supplemental resolution to be published once in each week for two successive weeks in a daily newspaper of general circulation published in San Juan, Puerto Rico, and in a daily newspaper of general circulation or a financial journal published in the Borough of Manhattan, City and State of New York, and, on or before the date of the first publication of such notice, it shall also cause a similar notice to be mailed, postage prepaid, to all registered owners of Bonds at their addresses as they appear on the registration books and all other bondholders who shall have filed their names and addresses with the Fiscal Agent for such purpose. Such notice shall briefly set forth the nature of the proposed supplemental resolution and shall state that copies thereof are on file at the office of the Fiscal Agent for inspection by all bondholders. The Fiscal Agent shall not, however, be subject to any liability to any bondholder by reason of its failure to cause the notice required by Section 802 of the Resolution to be mailed, and any such failure shall not affect the validity of such supplemental resolution when consented to and approved as provided in Section 802. (Section 802).

Whenever, at any time after the date of the first publication of such notice, the Authority shall obtain an instrument or instruments in writing purporting to be executed by the holders of not less than two-thirds in aggregate principal amount of the Bonds then outstanding, which instrument or instruments shall refer to the proposed supplemental resolution described in such notice and shall specifically consent to and approve the adoption thereof in substantially the form of the copy thereof referred to in such notice, and the Authority shall deliver to the Fiscal Agent a certificate signed by the Executive Director that the holders of such required percentage of Bonds have filed such consents; thereupon, but not otherwise, the Authority may adopt such supplemental resolution in substantially such form, without liability or responsibility to any holder of any Bond, whether or not such holder shall have consented thereto. (Section 802).

If the holders of not less than two-thirds in aggregate principal amount of the Bonds outstanding at the time of the adoption of such supplemental resolution shall have consented to and approved the adoption thereof, no holder of any Bond shall have any right to object to the adoption of such supplemental resolution, or to object to any of the terms and provisions contained therein or the operation thereof, or in any manner to question the propriety of the adoption thereof, or to enjoin or restrain the Authority from adopting the same or from taking any action pursuant to the provisions thereof and such consent shall be binding on the holder giving such consent and upon any subsequent holder whether or not he has notice thereof. (Section 802).

Upon the adoption of any supplemental resolution pursuant to the provisions of the Resolution, the Resolution shall be and be deemed to be modified and amended in accordance therewith, and the respective rights, duties and obligations under the Resolution of the Authority, the Fiscal Agent and all holders of Bonds then outstanding shall thereafter be determined, exercised and enforced in all respects under the provisions of the Resolution as so modified and amended. (Section 802).

Miscellaneous Covenants

Master Plan. The Authority covenants that the master plan for the construction of required Traffic Facilities in Puerto Rico will be supplemented periodically as necessary and that the five-year Priorities Construction Program will be updated each year to cover the Traffic Facilities to be constructed by the Authority in the ensuing five-year period. (Section 603).

Costs of Maintenance, Repair and Operation of Traffic Facilities. The Authority covenants that, if and to the extent funds for the purpose of maintaining, repairing and operating all Traffic Facilities financed by the Authority in whole or in part by the issuance of Bonds of the Authority under the provisions of the Resolution are not provided by the Commonwealth, the Authority will pay such costs from unencumbered funds then on deposit in the Construction Fund or from the Revenues thereafter deposited to the credit of the Construction Fund pursuant to the Resolution. (Section 604).

The Authority covenants that it will cause an annual general evaluation to be made by the Traffic Engineers of the level of maintenance of Traffic Facilities financed in whole or in part by the issuance of Bonds, which Traffic Facilities shall be, in the judgment of the Authority with the approval of the Traffic

Engineers, material to the overall system of traffic facilities operated by the Authority. This evaluation is to be directed towards surface and shoulder conditions and condition of structures and signs on the Traffic Facilities. The annual report delivered by the Traffic Engineers under Section 605 of the Resolution and the Authority's obligations to cause repairs, renewal or replacements to be made to Traffic Facilities, shall pertain to the Traffic Facilities financed in whole or in part with Bond proceeds and adjudged to be material to the overall system of traffic facilities operated by the Authority. (Section 604).

Annual Report of Traffic Engineers. The Authority covenants that it will cause the Traffic Engineers to prepare a report each year promptly after the completion of their general evaluation of the level of maintenance of the Traffic Facilities referred to in the preceding paragraph setting forth (i) their comments with respect to any supplements or revisions made by the Authority in the master plan or in the five-year Priorities Construction Program referred to above under "Master Plan" and their recommendations as to any supplements or revisions which should be made in such plan or in the Priorities Construction Program, and (ii) their findings as to whether the Traffic Facilities have been maintained in good repair, working order and sound condition and their recommendations as to necessary repairs, renewals or replacements. (Section 605).

If it appears from such report that repairs, renewals or replacements of any such Traffic Facilities are necessary, the Authority shall promptly cause the same to made and if and to the extent that funds for such purpose have not been made available by the Commonwealth, moneys on deposit to the credit of the Construction Fund which have not theretofore been encumbered for other purposes, and moneys which are thereafter deposited to the credit of the Construction Fund pursuant to the Resolution shall first be applied for such purpose. (Section 605).

SUMMARY OF CERTAIN PROVISIONS OF THE PROPOSED SUPPLEMENTAL RESOLUTIONS

The following is a brief summary of certain provisions of the Proposed Supplemental Resolutions. Such statements do not purport to be complete and reference is made to the Proposed Supplemental Resolutions, copies of which are available from the Authority or the Fiscal Agent.

Supplemental Resolution Effective Upon Delivery of 1993 Bonds

A supplemental resolution will be adopted upon delivery of the 1993 Bonds which will permit the Fiscal Agent to use the effective fixed interest rate resulting from an interest rate swap agreement in lieu of the variable rate on related Variable Rate Bonds to determine interest for purposes of calculating the Principal and Interest Requirements. A swap party must have its senior debt rated in one of the three highest rating categories (without regard to gradations within a category) by either (i) Standard & Poor's Corporation or its successor or (ii) Moody's Investors Service or its successor.

Supplemental Resolution Effective Upon Receipt of 100% Consent

A second supplemental resolution will be adopted when the counsel of the owners of 100% of the Bonds has been obtained. Such supplemental resolution will provide as follows:

Modification with Consent of Holders of Majority of Bonds

Subject to the terms and provisions contained below, and not otherwise, the holders of not less than a majority in aggregate principal amount of the Bonds at the time outstanding (or in case less than all of several Series of Bonds then outstanding are affected by the supplement thereto, the holders of a majority or more in principal amount of the Bonds of the Series so affected and outstanding at the time the consent and approval are given) shall have the right, from time to time, anything contained in the Resolution to the contrary notwithstanding, to consent to and approve the adoption by the Authority of such resolution or resolutions supplemental thereto as shall be deemed necessary or desirable by the Authority for the purpose of modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained in the Resolution or in any supplemental resolution; provided, however, that nothing contained in the Resolution shall permit, or be construed as permitting, without the consent of the holders of one hundred percent (100%)

of the Bonds outstanding (a) an extension of the maturity of the principal of or interest on any Bond issued thereunder (other than as provided for by the terms of an Extendible Maturity Bond), or (b) a reduction in the principal amount of any Bond or the redemption premium or the rate of interest thereon, or (c) the creation of a lien upon or a pledge of Revenues ranking prior to or on a parity with the lien or pledge created by the Resolution, except for a parity lien on or pledge of Revenues given to any provider of a credit facility or liquidity facility under any reimbursement or similar agreement, or (d) a preference or priority of any Bond or Bonds over any other Bond or Bonds, or (e) a reduction in the aggregate principal amount of the Bonds required for consent to and approval of such supplemental resolution. Nothing contained in the Resolution, however, shall be construed as making necessary the approval by bondholders of the adoption of any supplemental resolutions that would otherwise not require their consent. Except as to supplemental resolutions containing changes described in clauses (a) through (e) of the proviso to the first sentence of this paragraph, the provider of any credit facility or liquidity facility shall have the right, in lieu of the holders of Bonds secured thereby, to give consent and approval to any supplemental resolution for which the consent of the holders of such Bonds is required under the Resolution, and all references to bondholders for purposes of such consent and approval shall mean instead the provider of said credit facility or liquidity facility; provided, however, that said provider of a credit facility or liquidity facility shall not be in default on its obligations in connection with said credit facility or liquidity facility.

If at any time the Authority shall so request the Fiscal Agent, the Fiscal Agent shall cause a notice to be mailed, postage prepaid, to all registered owners of Bonds then outstanding at their addresses as they appear on the registration books and to be published as further provided in the Resolution. Such notice shall briefly set forth the nature of the proposed supplemental resolution and shall state that a copy thereof is on file at the principal office of the Fiscal Agent for inspection by all Bondholders. The Fiscal Agent shall not, however, be subject to any liability to any Bondholder by reason of its failure to mail such notice, and any such failure shall not affect the validity of such supplemental resolution when consented to or approved as provided in the Resolution.

Whenever, at any time after the date of first publication of such notice, the Authority shall deliver an instrument or instruments purporting to be executed by the holders of at least a majority in aggregate principal amount of the Bonds then outstanding, which instrument or instruments shall refer to the proposed supplemental resolutions described in such notice and shall specifically consent to and approve the adoption thereof in substantially the form of the copy thereof referred to in such notice, and the Authority shall deliver to the Fiscal Agent a certificate signed by the Executive Director that the holders of such required percentage of Bonds have filed such consents thereupon, but not otherwise the Authority may adopt such supplemental resolution in substantially such form without liability or responsibility to any holders of any Bond, whether or not such holders shall have consented thereto. It shall not be necessary for the consent of the holders to approve the particular form of any proposed supplemental resolution, but it shall be sufficient if such consent shall approve the substance thereof.

The consent of the holders of any Series of additional Bonds shall be deemed given if the underwriters or initial purchasers for resale consent in writing to such supplemental resolution and the nature of the amendment effected by such supplemental resolution is disclosed in the official statement or other offering document pursuant to which such series of additional Bonds is offered and sold to the public.

Parity Liens to Providers of Credit Facilities and Liquidity Facilities

In connection with the execution and delivery of a reimbursement or similar agreement in which the Authority agrees to reimburse a provider of a credit facility or a liquidity facility for amounts drawn on any such facility or to pay fees for any such facility, the Authority can grant a security interest and lien upon all or any portion of the Revenues to secure said reimbursement obligation on a parity with the Bonds.

TAX EXEMPTION

The Internal Revenue Code of 1986, as amended (the "Code"), includes requirements which the Authority must continue to meet after the issuance of the 1993 Bonds in order that interest on the 1993 Bonds not be included in gross income for federal income tax purposes. The Authority's failure to meet these requirements may cause interest on the 1993 Bonds to be included in gross income for federal income tax purposes retroactive to their date of issuance. The Authority has covenanted to comply to the extent permitted by the Constitution and the laws of the Commonwealth with the requirements of the Code in order to maintain the exclusion from gross income for federal income tax purposes of interest on the 1993 Bonds. Bond Counsel is aware of no provision of the Constitution or laws of the Commonwealth which would prevent the Authority from complying with the requirements of the Code.

In the opinion of Bond Counsel, subject to continuing compliance by the Authority with the tax covenant referred to above, under existing statutes, regulations, rulings and court decisions, interest on the 1993 Bonds is not includable in gross income for federal income tax purposes. Interest on the 1993 Bonds is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; however, interest on the 1993 Bonds will be includable in the computation of the alternative minimum tax and the environmental tax on corporations imposed by the Code. Bond Counsel is further of the opinion that the 1993 Bonds and the interest thereon are exempt from state, Commonwealth and local income taxation.

Ownership of tax-exempt obligations may result in collateral federal income tax consequences to certain taxpayers, including, without limitation, financial institutions, property and casualty insurance companies, certain foreign corporations, certain S Corporations with excess passive income, individual recipients of Social Security or Railroad Retirement benefits and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations. Companies which qualify for and which have elected the benefits of Section 936 of the Code should consult their tax advisors as to whether interest on the 1993 Bonds constitutes income eligible for the credit provided by Section 936 of the Code.

Ownership of tax-exempt obligations may also result in collateral income tax consequences under Puerto Rico law to financial institutions doing business in Puerto Rico.

Prospective purchasers of the 1993 Bonds should consult their tax advisors as to applicability and impact of any collateral consequences.

DISCOUNT BONDS

Under the Code, the difference between the principal amount of the 1993 Bonds (other than those maturing July 1, 1994, the Series W FLOATs, the Series W RITES, the Series X FLOATs, the Series X RITES maturing July 1, 2003 through 2008 and 2010 and the MCS) (collectively, the "Discount Bonds"), and the initial offering price to the public (excluding bond houses and brokers) at which price a substantial amount of such Discount Bonds of the same Series and maturity was sold is original issue discount. In addition, certain MCS may contain original issue discount. Original issue discount on the Discount Bonds and the MCS represents interest which is not includable in federal gross income. A portion of such interest that accrues to the Beneficial Owner of such Discount Bonds and MCS in each year, as described below, is, however, included in the calculation for determining a corporate taxpayer's alternative minimum tax and environmental tax and the distribution requirements of certain regulated investment companies and may result in some of the collateral federal income tax consequences described above under *Tax Exemption* in the year of accrual. Consequently, Beneficial Owners of Discount Bonds and MCS should be aware that the accrual of original issue discount in each year may result in an alternative minimum tax liability, environmental tax liability, additional distribution requirements or other collateral federal income tax consequences although the Beneficial Owner may not have received cash in such year. Original issue discount on Discount Bonds will accrue over the terms of such Bonds at a constant interest rate compounded in a manner similar to that used in computing accreted values on capital appreciation bonds. Interest not includable in gross income for federal income tax purposes equal to the original issue discount accruing during the period an investor holds such Discount Bond or MCS will increase the adjusted basis of such Discount Bond or MCS by the amount of such accruing discount for purposes of determining taxable gain or loss on the sale or other disposition of such Discount Bond or MCS. The accrual of original issue discount and its effect on the redemption, sale or other disposition of Discount Bonds or MCS which are not purchased in the initial offering at the initial offering price may be determined according to rules which differ from those described above. Beneficial Owners of

Discount Bonds and MCS should consult their tax advisors with respect to the precise determination for federal income tax purposes of original issue discount accrued upon sale, redemption or other disposition of Discount Bonds or MCS and with respect to the state and local tax consequences of owning and disposing of Discount Bonds or MCS.

VERIFICATION OF CERTAIN MATHEMATICAL COMPUTATIONS

Deloitte & Touche will verify from the information provided to them the mathematical accuracy as of the date of the closing on the 1993 Bonds of (1) the computations contained in the provided schedules to determine that the anticipated receipts from the securities and cash deposits listed in the Underwriters' schedules, to be held in escrow, will be sufficient to pay, when due, the principal, interest and call premium payment requirements of the Refunded Bonds, and (2) the computations of yield on both the securities and the 1993 Bonds contained in the provided schedules used by Bond Counsel in its determination that the interest on the 1993 Bonds is not includable in gross income for federal income tax purposes. Deloitte & Touche will express no opinion on the assumptions provided to them nor as to the exemption from taxation of the interest on the 1993 Bonds.

UNDERWRITING

The Underwriters have jointly and severally agreed, subject to certain conditions, to purchase the 1993 Bonds from the Authority at an aggregate discount of $8,322,310 from the initial offering prices of the 1993 Bonds set forth or derived from information set forth on the inside cover page hereof. The obligations of the Underwriters are subject to certain conditions precedent, and they will be obligated to purchase all the 1993 Bonds if any 1993 Bonds are purchased. The 1993 Bonds may be offered and sold to certain dealers (including dealers depositing 1993 Bonds into investment trusts) and institutional purchasers at prices lower than such public offering prices and such offering prices may be changed, from time to time, by the Underwriters.

LITIGATION

There is no pending litigation of any nature restraining or enjoining or seeking to restrain or enjoin the issuance, sale or delivery of the 1993 Bonds or in any way contesting or affecting the validity of the 1993 Bonds, the resolutions or the proceedings of the Authority taken with respect to the authorization, issuance or sale thereof, or the pledge or application of any moneys under the Resolution or the existence or powers of the Authority.

For information on various legal proceedings arising in the course of the Authority's operation of the highway system, see "Litigation Relating to Operations" under *The Authority*.

LEGAL MATTERS

The proposed forms of opinion of Brown & Wood, New York, New York, Bond Counsel, are set forth in *Appendix V* to this Official Statement. Certain legal matters will be passed upon for the Underwriters by Rogers & Wells, New York, New York.

LEGAL INVESTMENT

The 1993 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.

GOVERNMENT DEVELOPMENT BANK

As required by Act No. 272 of the Legislature of Puerto Rico, approved May 15, 1945, as amended, Government Development Bank has acted as financial advisor to the Authority in connection with the 1993 Bonds offered hereby.

RATINGS

Moody's Investors Service, Inc. and Standard & Poor's Corporation have given the 1993 Bonds ratings of Baa1 and A, respectively. The ratings reflect only the respective views of the rating agencies and an explanation of the significance of each rating may be obtained only from the respective rating agency.

Such rating agencies were provided with materials relating to the Authority, the Commonwealth and the 1993 Bonds and other relevant information, and no application has been made to any other rating agency for the purpose of obtaining a rating on the 1993 Bonds.

There is no assurance that such ratings will remain in effect for any given period of time or that they will not be revised downward or withdrawn entirely by either or both of such rating agencies, if in the judgment of either or both, circumstances so warrant. Any such downward revision or withdrawal of such ratings, or either of them, may have an adverse effect on the market prices of the 1993 Bonds.

MISCELLANEOUS

The foregoing references to and summaries of certain provisions of the Resolution, the various acts and the 1993 Bonds are made subject to all the detailed provisions thereof, to which reference is hereby made for further information, and do not purport to be complete statements of any or all of such provisions.

There are appended to this Official Statement certain information concerning the Commonwealth *(Appendix I)*, the general purpose financial statements of the Commonwealth for the fiscal year ended June 30, 1992, together with the report of KPMG Peat Marwick, San Juan, Puerto Rico *(Appendix II)*, the audited financial statements of the Authority for the fiscal year ended June 30, 1992 with comparative totals for the fiscal year ended June 30, 1991, together with the report of KPMG Peat Marwick *(Appendix III)*, the letter of the Traffic Engineers *(Appendix IV)*, the proposed forms of opinion of Bond Counsel *(Appendix V)*, information concerning MCSs *(Appendix VI)* and information concerning FLOAT/RITES *(Appendix VII)*.

The general purpose financial statements of the Commonwealth included in *Appendix II* and financial statements of the Authority included in *Appendix III* have each been audited by KPMG Peat Marwick, San Juan, Puerto Rico, as set forth in their reports therein. The information set forth in *Appendix I* 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 in this Official Statement on the authority of such officials or the authority of such publications as public official documents, respectively. The information set forth in this Official Statement, except the information appearing in *Underwriting* and in *Appendices I, II, V, VI* and *VII*, was supplied by the Executive Director of the Authority in his official capacity as such Executive Director and is included in this Official Statement on his authority.

The Authority will provide, upon request and when available, annual audited financial statements and other pertinent credit information relevant to the Authority's outstanding securities, and will provide copies to one or more major information providers in the state and local government securities market. In addition, appropriate periodic credit information necessary for maintaining the ratings on the 1993 Bonds will be provided by the Authority to the rating agencies rating the 1993 Bonds.

This Official Statement will be filed with one or more nationally recognized municipal securities information repositories.

PUERTO RICO HIGHWAY AND TRANSPORTATION AUTHORITY

By: /s/ SERGIO L. GONZÁLEZ
Executive Director

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COMMONWEALTH OF PUERTO RICO

Geography and Population

Puerto Rico, the fourth largest of the Caribbean islands, is located approximately 1,600 miles southeast of New York, New York and 1,000 miles east-southeast of Miami, Florida. It is approximately 100 miles long and 35 miles wide.

According to the United States Census Bureau, the population of Puerto Rico was approximately 3,522,000 in 1990 compared to 3,196,520 in 1980. As of 1990, the population of San Juan, the island's capital and largest city, was approximately 437,000.

Relationship with the United States

Puerto Rico was discovered by Columbus in 1493, and the island was conquered and settled by the Spaniards shortly thereafter. It remained a Spanish possession for four centuries. Although the culture of Puerto Rico is primarily Hispanic, a considerable intermingling of Hispanic and United States cultures has occurred.

Puerto Rico came under United States sovereignty by the Treaty of Paris, signed on December 10, 1898, terminating the Spanish-American War. Puerto Ricans have been citizens of the United States since 1917. In July 1950, after a lengthy period of evolution toward greater self-government for Puerto Rico, the Congress of the United States enacted Public Law 600, which is in the nature of a compact and which became effective upon its acceptance by the electorate of Puerto Rico. It provided that those sections of existing law which defined the political, economic and fiscal relationship between Puerto Rico and the United States should remain in full force. It also authorized Puerto Rico to draft and approve its own Constitution. The Constitution was drafted by a popularly elected constitutional convention, overwhelmingly approved in a special referendum and approved "as a compact" by the United States Congress and the President, becoming effective upon proclamation of the Governor of Puerto Rico on July 25, 1952. Puerto Rico's relationship to the United States under the compact is referred to herein as commonwealth status.

The United States and the Commonwealth share a common defense, market and currency. The official languages of Puerto Rico are Spanish and English. The Commonwealth exercises virtually the same control over its internal affairs as do the fifty states; however, it differs from the states 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 who has a voice in the House of Representatives and limited voting powers. Most federal taxes, except those such as social security taxes which are imposed by mutual consent, are not levied in Puerto Rico. No federal income tax is collected from Commonwealth residents on ordinary income earned from sources in Puerto Rico, except for federal employees who are subject to taxes on their salaries. Federal excise taxes on shipments of alcoholic beverages of $10.50 per gallon and tobacco products from Puerto Rico to the mainland are returned to the Commonwealth Treasury. As part of its approval of President Clinton's economic program, see "Recent Federal Legislative Proposals" below, the United States Senate has voted to increase the federal excise taxes on alcoholic beverages which are returned to the Commonwealth Treasury, to $11.30 per gallon for the next five years.

Governmental Structure

The Commonwealth's Constitution provides for the separation of powers of the executive, legislative and judicial branches of government. The Governor is elected every four years. The bicameral Legislature consists of a Senate and a House of Representatives and is elected for four-year terms. The highest court within the local judicial branch is the Supreme Court of Puerto Rico. Decisions of the Supreme Court of Puerto Rico may be appealed to the Supreme Court of the United States in the same manner and under the same terms and conditions that decisions may be appealed from state courts. Puerto Rico has a District Court of the United States for the District of Puerto Rico. Decisions of this court may be appealed to the United States Court of Appeals for the First Circuit and to the Supreme Court of the United States.

Governmental responsibilities assumed by the Commonwealth are similar in nature to those of the various state governments but more extensive in scope. The Commonwealth assumes responsibility for local police and fire protection, education, public health and welfare programs and economic development.

Pedro J. Rosselló was sworn in as Governor of Puerto Rico on January 2, 1993. He obtained a medical degree from Yale University in 1970, after completing his undergraduate studies at Notre Dame University in 1966, and specialized in General and Pediatric Surgery at Harvard University. In 1985 he was appointed Director of San Juan's Health Department, a position which he held for three years. As a member of the New Progressive Party, he was the party's candidate for Resident Commissioner to the U.S. Congress in 1988. In 1991 he was elected President of the New Progressive Party.

Manuel Díaz Saldaña, Secretary of the Treasury, took office in January 1993. He is a certified public accountant and a graduate of the University of Puerto Rico where he obtained a bachelor's degree in Business Administration and Accounting. Prior to his appointment, he worked for nineteen years as an accountant and auditor for various accounting firms.

Marcos Rodríguez-Ema, President of Government Development Bank, took office in January 1993. He obtained a Bachelor of Science degree (Cum Laude) in foreign service and a law degree from Georgetown University. Prior to his appointment, he worked for five years as a lawyer in a San Juan law firm and for six years as an investment banker for two major securities firms.

Political Trends

For many years there have been two major views in Puerto Rico with respect to the island's relationship to the United States, one favoring statehood, represented by the New Progressive Party, and the other essentially favoring the existing commonwealth status, represented by the Popular Democratic Party. The following table shows the percentages of the total vote received by the gubernatorial candidates of the various parties in the last five elections by voter preference with respect to statehood, commonwealth status and independence. While the electoral choices of Puerto Rico's voters are not made solely on the basis of preferences regarding the island's relationship with the United States, candidates who support a permanent relationship between Puerto Rico and the United States have dominated elections for many years.

	1976	1980	1984	1988	1992
New Progressive Party	48.3%	47.3%	45.5%	45.8%	49.9%
Popular Democratic Party	45.3	47.0	48.5	48.7	45.9
Puerto Rico Independence Party	6.4	5.4	3.9	5.4	4.2
Others	—	0.3	2.1	0.1	—

The 1992 election saw control of the executive and legislative branches pass to the New Progressive Party. The composition of the Senate and House by the several political parties is as follows:

	Senate	House
New Progressive Party	30	36
Popular Democratic Party	8	16
Puerto Rico Independence Party	1	1
	39	53

The next general election (gubernatorial and legislative) in Puerto Rico will be held in November 1996. Voter participation in the Commonwealth has been substantially higher than in the rest of the United States, averaging 85% since 1972.

On July 4, 1993, the Governor signed legislation providing for a plebiscite to be held on November 14, 1993 on Puerto Rico's political status in relation to the United States. Puerto Rico voters will express their preference for statehood, commonwealth status or independence. Any change in Puerto Rico's present commonwealth status ultimately will require enactment of legislation by the United States Congress.

THE ECONOMY

General

The Commonwealth has established policies and programs directed at the development of manufacturing and the expansion and modernization of the island's infrastructure. The investment of mainland United States, foreign and local funds in new factories has been stimulated by selective tax exemption, development loans, and other financial and tax incentives. Infrastructure expansion and modernization have been to a large extent financed by bonds and notes issued by the Commonwealth, its public corporations and municipalities. Economic progress has been aided by significant increases in the levels of education and occupational skills of the island's population.

The economy of Puerto Rico is closely integrated with that of the mainland United States. During fiscal 1992 approximately 88% of Puerto Rico's exports were to the United States mainland, which was also the source of approximately 68% of Puerto Rico's imports. In fiscal 1992, Puerto Rico experienced a $2,940.3 million positive adjusted merchandise trade balance.

The economy of Puerto Rico is dominated by the manufacturing and service sectors. The manufacturing sector has experienced a basic change over the years as a result of increased emphasis on higher wage, high technology industries such as pharmaceuticals, electronics, computers, microprocessors, professional and scientific instruments, and certain high technology machinery and equipment. The service sector, including finance, insurance and real estate, also plays a major role in the economy. It ranks second only to manufacturing in contribution to the gross domestic product and leads all sectors in providing employment. In recent years, the service sector has experienced significant growth in response to the expansion of the manufacturing sector.

Gross product in fiscal 1988 was $18.6 billion, and gross product in fiscal 1992 was $23.6 billion ($19.5 billion in 1987 prices). This represents an increase in gross product of 27.3% from fiscal 1988 to 1992 (8.7% in 1987 prices).

Since fiscal 1987, personal income, both aggregate and per capita, has increased consistently each fiscal year. In fiscal 1992, aggregate personal income was $22.7 billion ($19.8 billion in 1987 prices) and personal income per capita was $6,360 ($5,546 in 1987 prices).

Personal income includes transfer payments to individuals in Puerto Rico under various social programs. Total federal payments to Puerto Rico, which include many types in addition to federal transfer payments, are lower on a per capita basis in Puerto Rico than in any state. Transfer payments to individuals in fiscal 1992 were $4.9 billion, of which $3.3 billion, or 67.3%, represent entitlements to individuals who had previously performed services or made contributions under programs such as Social Security, Veterans' Benefits and Medicare.

A discussion of highlights of the economy for the periods covering fiscal 1988 through fiscal 1992, and fiscal 1993 follows.

Fiscal 1988 to 1992

Puerto Rico's decade-long economic expansion continued throughout the five-year period from fiscal 1988 through fiscal 1992. Almost every sector of the economy was affected and record levels of employment were achieved. While trends in the Puerto Rico economy normally follow those in the United States, Puerto Rico did not experience a recession as did the United States, primarily because of its strong manufacturing base which has a large component of non-cyclical industries. Other factors behind the expansion included Commonwealth-sponsored economic development programs, the relatively stable prices of oil imports, periodic declines in the exchange value of the United States dollar and the relatively low cost of borrowing during the period.

Average employment increased from 909,000 in fiscal 1988 to 977,000 in fiscal 1991. Average unemployment declined from 15.9% in fiscal 1988 to 15.2% in fiscal 1991. In fiscal 1992, average employment remained at the level of 1991, and unemployment increased to 16.5%.

The following table shows the gross product for the five fiscal years ended June 30, 1992.

Commonwealth of Puerto Rico

Gross Product

	Fiscal Year Ended June 30				
	1988	**1989**	**1990**	**1991**	**1992(p)**
Gross product — $ millions	$18,550	$19,954	$21,619	$22,857	$23,620
Real gross product — $ millions (1987 prices)	17,915	18,620	19,093	19,240	19,474
Annual percentage increase in real gross product (1987 prices)	4.4%	3.9%	2.5%	0.8%	1.2%
U.S. annual percentage increase in real gross product (1987 prices) (1)	4.1%	3.4%	1.8%	(0.7%)	0.4%

(p) Preliminary

(1) Restated to correspond to the Commonwealth's fiscal year ending June 30.
Sources: Planning Board and Data Resources Inc.

Fiscal 1992

In fiscal 1992, the Planning Board's Economic Activity Index, a composite index of thirteen economic indicators, increased 0.4% compared to fiscal 1991. The thirteen economic indicators are: total employment, manufacturing employment, manufacturing payroll, electric energy consumption, external trade, tourist hotel registrations, retail sales, excise taxes, electric energy production, new housing unit permits, hours worked, cement production, and new motor vehicle registrations. The Index may not necessarily change at the same percentage rate as the gross product of Puerto Rico.

Total employment in fiscal 1991 when compared to fiscal 1990 had increased by 1.5%. Total salaried employment as reflected in the Establishment Survey conducted by the Puerto Rico Department of Labor and Human Resources showed an annual increase of 0.6% in fiscal 1992. However, total employment as reflected in the Household Survey (includes agricultural and self employment), also conducted by the Department of Labor and Human Resources, averaged 977,000 in fiscal 1992, the same as 1991.

Economic growth continued in fiscal 1992, with a gross product increase of 1.2%.

Fiscal 1993

The Planning Board's Economic Activity Index increased 1.3% in the first ten months of fiscal 1993 compared to the same period of fiscal 1992, which period showed an increase of less than 0.3% over the same period of fiscal 1991. This is the highest growth rate for this period since fiscal 1989.

In the first eleven months of fiscal 1993, total employment (not seasonally adjusted) increased 2.3% when compared to the same period in fiscal 1992. Total employment averaged 997,500 in the first eleven months of fiscal 1993 compared to 974,700 in the same period of fiscal 1992.

The Planning Board's most recent Gross Product forecast for fiscal 1993, made in February 1993, shows an increase of 2.9% over fiscal 1992. Actual growth in the Puerto Rico economy in fiscal 1993 will depend on several factors, including the state of the United States economy and the relative stability in the price of oil imports, the exchange value of the U.S. dollar and the cost of borrowing.

The present administration, which took office in January of this year, envisions major economic reforms and has developed a new economic development program to be implemented during the next few years. This program is structured on the premise that the private sector will be the primary vehicle for economic development and growth. It promotes changing the role of the government from one of being a provider of most basic services to serving as a facilitator for private sector initiatives and will encourage private sector investment by reducing regulatory restraints imposed by government.

The program contemplates the development of initiatives that will foster private investment, both external and internal, in areas that are served more efficiently and effectively by the private sector. The program also contemplates a general revision of the tax system to expand the tax base, reduce top personal and corporate tax rates and simplify a highly complex system.

Another important goal for the new program is to reduce the size of the government's direct contribution to gross domestic product. This would be realized through a reduction in government consumption and an increase in government investment in order to improve and expand Puerto Rico's infrastructure to facilitate private sector development and growth.

The new economic plan will identify and promote those economic sectors in which Puerto Rico can compete more effectively in the global markets. Tourism has been targeted as a top priority because of its potential for job creation and for an increased contribution to the gross domestic product stemming from Puerto Rico's natural competitive advantages.

Employment and Unemployment

The number of persons employed in Puerto Rico during fiscal 1992 averaged 977,000. Unemployment, although at a low level compared to the late seventies, remains above the average for the United States. The following table presents annual statistics of employment and unemployment from fiscal 1988 through fiscal 1992 and monthly statistics for July 1992 through May 1993.

Commonwealth of Puerto Rico

Employment and Unemployment(1)

Fiscal Year Ended June 30	Labor Force	Employed	Unemployed	Unemployment Rate(2)
		(Annual Average)		
1988	1,081	909	172	15.9%
1989	1,108	948	160	14.4
1990	1,126	963	160	14.2
1991	1,152	977	175	15.2
1992	1,170	977	193	16.5
Fiscal 1993		(Not Seasonally Adjusted)		
July	1,206	994	212	17.6
August	1,186	988	198	16.7
September	1,196	990	207	17.3
October	1,210	1,018	192	15.9
November	1,198	1,011	187	15.6
December	1,179	1,002	177	15.0
January	1,176	971	203	17.3
February	1,184	970	216	18.2
March	1,211	1,002	209	17.3
April	1,208	1,006	202	16.7
May	1,234	1,021	213	17.3

(1) Thousands of persons 16 years of age and over
(2) Unemployed as percentage of labor force
Source: Department of Labor and Human Resources — Household Survey

The United States minimum wage laws are generally applicable in Puerto Rico.

Economic Performance by Sector

Puerto Rico has a diversified economy. During the fiscal years 1988-1992, the manufacturing and service sectors generated the largest portion of gross product. Three sectors of the economy provide the most employment: manufacturing, services and government.

The following table presents annual statistics of gross domestic product by sector and gross product for the five fiscal years ended June 30, 1992.

Commonwealth of Puerto Rico

Gross Domestic Product by Sector and Gross Product

	Fiscal Year Ended June 30				
	1988	1989	1990	1991	1992(p)
	(in millions at current prices)				
Manufacturing	$10,513	$11,133	$12,126	$12,762	$13,155
Services(1)	9,920	10,537	11,318	11,969	12,671
Government(2)	2,918	3,187	3,337	3,538	3,738
Transportation, communications and public utilities	2,262	2,315	2,468	2,677	2,841
Agriculture, forestry and fisheries	399	443	434	449	462
Construction(3)	551	662	720	771	789
Hotels	255	289	321	331	342
Statistical discrepancy	(640)	(298)	(121)	94	(28)
Total gross domestic product	26,178	28,267	30,604	32,591	33,969
Less: net payments abroad	7,629	8,313	8,985	9,734	10,350
Total gross product(4)	$18,550	$19,954	$21,619	$22,857	$23,620

(p) Preliminary
(1) Includes wholesale and retail trade; finance, insurance and real estate; and other services; excludes services in hotels
(2) Includes the Commonwealth, its municipalities and the federal government; excludes the public corporations
(3) Includes mining
(4) Totals may not add up due to rounding.

Source: Planning Board

The following table presents annual statistics of average employment by sector for the five fiscal years ended June 30, 1992.

Commonwealth of Puerto Rico

Average Employment by Sector

	Fiscal Year Ended June 30				
	1988	1989	1990	1991	1992(p)
	(thousands of persons age 16 and over)				
Manufacturing	163	165	168	164	164
Services(1)	400	419	421	448	449
Government(2)	209	219	222	217	219
Transportation, communication and public utilities	52	53	60	58	54
Construction(3)	52	55	56	55	56
Agriculture, forestry and fisheries	33	37	36	35	34
Total(4)	909	948	963	977	977

(p) Preliminary
(1) Includes wholesale and retail trade; finance, insurance and real estate; and other services
(2) Includes the Commonwealth, its municipalities and federal government; excludes the public corporations
(3) Includes mining
(4) Totals may not add up due to rounding

Source: Department of Labor and Human Resources — Household Survey

Manufacturing

Manufacturing is the largest sector in the economy of Puerto Rico in terms of gross domestic product. In fiscal 1992, the Planning Board estimates that manufacturing generated $13.2 billion, or 38.7% of gross domestic product. The manufacturing sector employed 151,460 workers of total employment in fiscal years 1991 and 1992 (as reported in the Department of Labor and Human Resources — Census of Manufacturing). Most of the island's manufacturing output is shipped to the mainland United States, which is also the principal source of semifinished manufactured articles on which further manufacturing operations are performed in Puerto Rico. As of December 1992, the average hourly manufacturing wage rate in Puerto Rico was approximately 57% of the average mainland United States rate.

Manufacturing in Puerto Rico is now more diversified than during the earlier phases of the industrial development program. In the last two decades, industrial development has tended to be more capital intensive and more dependent on skilled labor. This gradual shift in emphasis is best exemplified by the heavy investment in the pharmaceuticals, scientific instruments, computers, microprocessors, medical products, and electrical products industries over the last decade. The following table sets forth gross domestic product by manufacturing industry for the five fiscal years ended June 30, 1992.

Commonwealth of Puerto Rico

Gross Domestic Product by Manufacturing Industry

	Fiscal Year Ended June 30				
	1988	1989	1990	1991	1992 (p)
	(in millions at current prices)				
Pharmaceuticals	$ 4,249	$ 4,381	$ 4,990	$ 5,978	$ 6,327
Machinery and metal products	2,881	2,992	3,205	2,914	2,772
Food products	1,374	1,540	1,791	1,846	1,941
Apparel	497	490	486	490	528
Other(1)	1,513	1,730	1,655	1,533	1,588
Total gross domestic product by manufacturing industry	$10,513	$11,133	$12,126	$12,761	$13,155

(p) Preliminary
(1) Includes petroleum products; petrochemicals and other chemical products; tobacco products; stone, clay, and glass products; textiles; and others
Source: Planning Board

The following table sets forth manufacturing employment by industry group.

Commonwealth of Puerto Rico

Manufacturing Employment by Industry Group

Industry Group	As of March 31				
	1988	1989	1990	1991	1992(p)
Apparel and related products	33,624	32,187	31,238	29,841	30,875
Food and related products	23,625	24,173	23,385	20,059	20,928
Electrical machinery, equipment and supplies	22,796	20,863	20,567	19,361	17,923
Chemicals and related products	19,051	20,554	22,659	23,130	24,015
Professional and scientific instruments	13,785	14,861	14,798	16,341	15,838
Machinery, except electrical and transportation equipment	4,670	5,887	5,347	4,562	4,452
Petroleum refining and related industries; rubber and miscellaneous plastic products	7,207	7,417	6,708	6,296	5,763
Leather and leather products	5,931	5,640	6,284	5,904	6,057
Paper and related products; printing, publishing and related industries	5,431	5,637	5,768	6,056	5,991
Metal products	4,888	5,209	5,187	5,078	4,768
Stone, clay and glass products	4,621	4,950	5,136	4,808	4,755
Lumber and wood products; furniture and fixtures	3,505	3,207	3,425	2,787	2,953
Textile mill products	3,632	3,839	3,679	3,596	3,860
Tobacco products	1,162	1,177	1,089	917	935
Miscellaneous manufacturing industries	3,094	3,273	3,214	2,698	2,347
Total	157,022	158,874	158,484	151,434	151,460

(p) Preliminary

Sources: Department of Labor and Human Resources — Census of Manufacturing

Leading United States and Foreign Companies With Manufacturing Operations In Puerto Rico

Employment 2,500 and over	Product
Abbott Laboratories, Inc.	Pharmaceuticals
Baxter International	Pharmaceuticals
General Electric Co.	Electrical
H. J. Heinz Co.	Food
Johnson and Johnson	Pharmaceuticals
Sara Lee Corp.	Apparel
Westinghouse Electric Co.	Electrical
Employment 1,500 to 2,499	
Bristol-Myers-Squibb	Pharmaceuticals
Motorola Inc.	Electronic Components
P.L. Industries	Apparel
Propper International	Apparel
U.S. Surgical	Scientific Instruments
Warner-Lambert Co.	Pharmaceuticals
Employment 1,000 to 1,499	
American Cyanamid Co.	Pharmaceuticals and Medical Instruments
American Home Products	Pharmaceuticals
Avon Products Inc.	Costume Jewelry
Dexter Shoe	Footwear
DuPont E.I. de Nemours	Chemicals
Eli Lilly and Co.	Pharmaceuticals
Kendall Healthcare Co.	Medical Instruments
NCC Industries	Apparel
Schering-Plough Corp.	Pharmaceuticals
Timberland Company (The)	Leather
Uni Group	Food
Employment 500 to 999	
ARA Holding Group	Apparel
Becton-Dickinson & Co.	Scientific Instruments
Conagra	Food
Consolidated Cigar Ltd.	Tobacco and Leather
Dero Industries	Canvas
Dooney & Bourke	Leather
G.T.E. Products	Electrical Instruments
Hampshire Designers Knitting Mills	Textiles
Hoffman - La Roche	Pharmaceuticals
Hubbell Incorporated	Electrical Instruments
Insilco Corporation	Office Equipment
Intel	Computers
Kicks Fashions	Apparel
Maidenform	Apparel
Medtronics	Surgical and Medical Instruments
Merck & Co.	Chemicals
Monsanto	Pharmaceuticals
Morse Shoe	Footwear
Owens Illinois	Glass and Plastics
Pall Corp.	Filters
Pfizer	Pharmaceuticals
Phillips Van-Heusen	Apparel and Footwear
RJR Nabisco	Food and Cigarettes
Sea Board Corp.	Food
Sensormatic Electronics	Electronic
Smith-Kline Beeckman	Pharmaceuticals
Storage Technology	Electronic
Up-John Co.	Pharmaceuticals
Warnaco	Apparel
Wickes Companies	Apparel
Williamson-Dickie Mfg.	Apparel
Wolverine World Wide	Footwear
Employment 300 to 499	
ABB Asea Brown Bovery Ltd.	Precision Instruments
Allergan	Pharmaceuticals
Amity Leather Products	Leather
Borden Inc.	Food
Coca-Cola	Food
Check-point Systems Inc.	Electronic
DSC Communication Corp.	Electronic
Eagle Work Clothes	Apparel
Eastman Kodak Co.	Electronic
Echlin Mfg.	Motor Vehicles Parts
Emerson Electric	Electronic and Scientific Instruments
Filtertek Inc.	Filters
Formflex Foundations	Apparel
Garment Corporation of America	Apparel
Granada Sales	Apparel
General Instruments Co.	Communications
Harvard Industries	Glass
Hewlett-Packard	Computers
Inner World	Apparel
Isla Verde Investment	Apparel
Isratex Inc.	Apparel
Les Ciments Français	Cement
Matsushita Electric	Electrical
Maurice Silvera Inc.	Apparel
Millipore	Scientific Instruments
Minnetonka Moccasin	Footwear
Mitsubishi Corp.	Food
Nantucket Mills	Apparel
Nestle S.A.	Pharmaceuticals
Nypro	Plastics
Penn-State Coats & Aprons	Apparel
Procter & Gamble Co.	Pharmaceuticals
Power One	Electrical
R.E. Phelon & Co.	Electronics
Randa Corporation	Textiles
Rexene Corp.	Corrugated Boxes
Rexon Inc.	Electronics
Standard Motor Products	Motor Vehicles Parts
Sun Co.	Oil Refining
Syntex	Pharmaceuticals
Unilever	Consumers & Medicals
Wheaton Industries	Plastics Products

Source: Economic Development Administration, Office of Economic Research (as of March 1993)

Services

Puerto Rico has experienced significant growth in the services sector in terms of both income and employment over the past decade, showing a favorable trend as compared with certain other industrialized economies. During the period between 1971 and 1992, the gross domestic product in the services sector increased at an annual average rate of 9.3%. Employment in this sector increased at an annual average rate of 3.1%. The development of the services sector in the local economy has shown a strong interaction among the following important sectors: manufacturing, tourism, construction and agriculture. The services sector in Puerto Rico has a diversified base.

The high degree of knowledge, skills, and expertise in professional and technical services available in Puerto Rico places Puerto Rico in a competitive position with respect to Latin America and other trading countries throughout the world. A major element in the economic program of the present administration is the further development of the local services sector which has the capacity to increase its export potential and to generate more income and jobs during the coming years.

The service sector ranks second to manufacturing in its contribution to gross domestic product, and it is the sector with the greatest employment. In fiscal 1992, services generated $13.0 billion of gross domestic product, or 38.3% of the total. Service employment in fiscal 1992 was 449,000 workers, or 46.0% of total employment. Wholesale and retail trade and finance, insurance and real estate have experienced significant growth in the fiscal 1988 to 1992 period, as measured by gross domestic product. Gross domestic product in the wholesale and retail trade increased from $4.1 billion in fiscal 1988 to $5.0 billion in fiscal 1992. In finance, insurance and real estate, gross domestic product increased from $3.5 billion in fiscal 1988 to $4.5 billion in fiscal 1992. There are twenty commercial banks and trust companies currently operating in Puerto Rico of which three are U.S. major money center banks, three are other foreign banks and fourteen are local banks and trust companies. Total assets of these institutions as of June 30, 1992 were $23.1 billion. In addition, eight federal thrift institutions operate on the island with estimated total assets of $4.2 billion as of June 30, 1992 and eight major investment banks maintain operations in Puerto Rico. The following tables set forth gross domestic product and service sector employment for the five fiscal years ended June 30, 1992.

Commonwealth of Puerto Rico

Gross Domestic Product by Service Industry

	Fiscal Year Ended June 30				
	1988	1989	1990	1991	1992(p)
	(in millions, at current prices)				
Wholesale and retail trade	$ 4,376	$ 4,376	$ 4,728	$ 4,811	$ 5,008
Finance, insurance and real estate	3,750	3,750	3,896	4,205	4,458
Hotels	289	289	321	331	342
Other services	2,249	2,411	2,694	2,953	3,205
Total(1)	$10,175	$10,826	$11,639	$12,300	$13,013

(p) Preliminary

(1) Totals may not add up due to rounding.

Source: Planning Board

Commonwealth of Puerto Rico

Average Employment by Service Sector

	Fiscal Year Ended June 30				
	1988	1989	1990	1991	1992(p)
	(thousands of persons aged 16 and over)				
Wholesale and retail trade	180	186	185	195	193
Finance, insurance and real estate	31	32	32	32	32
Other services(1)	189	201	206	221	224
Total(2)	400	419	421	448	449

(p) Preliminary

(1) Including Tourism

(2) Totals may not add up due to rounding.

Source: Department of Labor and Human Resources — Household Survey

Government

The government sector of the Commonwealth plays an important role in the economy of the island. In fiscal 1992, the government accounted for $3.7 billion of Puerto Rico's gross domestic product, or 11.0% of the total. The government is also a significant employer, providing jobs for 219,000 workers, or 22.4% of total employment in fiscal 1992. The government sector employment does not include data relating to certain public corporations which are included in other sectors. These public corporations include such significant employers as the Electric Power Authority, the Telephone Authority and the Aqueduct and Sewer Authority.

Tourism

Tourism expenditures were 6.4% of the island's gross product in fiscal 1992. Tourist expenditures and the number of visitors have grown consistently since 1985, reaching $1.5 billion and more than 3.7 million, respectively, in fiscal 1992. Since fiscal 1987, a number of major hotels have undergone substantial renovation. Several international hotel corporations have recently made or are expected to make substantial capital investments to develop additional tourist facilities. Further private development of new hotel facilities and tourist attraction areas in Puerto Rico is being considered. The average number of hotel rooms available for fiscal 1992 was 6,281.

Several cruise ships use San Juan as their home port. San Juan is the second largest cruise ship port in the world. Total cruise ship visitors in fiscal 1992 exceeded 1.0 million for the first time, a 2.3% increase over fiscal 1991. The following table presents data relating to visitors to Puerto Rico and tourist expenditures for the five fiscal years ended June 30, 1992.

Commonwealth of Puerto Rico

Tourism Data

Fiscal Year Ended June 30	Number of Visitors				Tourist Expenditures
	Tourist Hotel(1)	Cruise Ship	Other(1)	Total	(in millions)
1988	616,510	723,724	1,664,002	3,004,236	$1,121.4
1989	651,842	777,405	1,791,943	3,221,190	1,254.0
1990	659,013	866,090	1,900,734	3,425,827	1,366.4
1991	650,115	891,348	1,962,876	3,504,339	1,435.7
1992(p)	653,545	1,063,370	1,986,266	3,703,181	1,511.3

(p) Preliminary

(1) Including visitors in homes of relatives, friends and in hotel apartments

Source: Puerto Rico Tourism Company and the Planning Board

During the first ten months of fiscal 1993, the number of persons registered in tourist hotels totaled 764,800, an 9.8% increase over the same period in fiscal 1992. The average of the occupancy rate in tourist hotels increased 2.8% in the first ten months of fiscal 1993 as compared with the same period in fiscal 1992.

Transportation

Thirty-four shipping lines offer regular ocean freight service to eighty United States and foreign ports. San Juan is the island's leading seaport, but there are also seaport facilities at other locations on the island.

The San Juan Luis Muñoz Marín International Airport is currently served by 28 United States and international airlines. At present, there is daily direct service between San Juan and New York, Chicago, Dallas, Los Angeles, Miami, Atlanta, Boston and numerous other United States cities. There is also regularly scheduled service between Puerto Rico and other Caribbean islands and major Latin American and European cities. A major United States airline uses San Juan as a hub for its intra-Caribbean service. Several smaller airports serve intra-island traffic.

The island's major cities are connected by a modern highway system which as of June 30, 1992, totaled approximately 4,500 miles.

Agriculture

The Commonwealth has traditionally supported the agricultural sector. In 1985, the Department of Agriculture initiated a program to promote and develop agricultural potential. The efforts of the Department of Agriculture and related agencies are being directed to increase and improve local agricultural production, increase efficiency and quality of produce and stimulate import substitution where economically feasible. In the last few years, non-traditional crops and livestock products have contributed a higher percentage of the sector's income.

The Commonwealth supports agricultural activities through incentives, subsidies and technical and support services, in addition to income tax exemptions for qualified income derived by bona fide farmers. Act No. 106, approved July 10, 1986, extended the exemption period from 10 to 15 years. The exemption from taxation during the entire 15-year period is set at 90%.

Construction

The construction industry has experienced substantial real growth since fiscal 1987. In fiscal 1992, the investment in construction rose to a record $2.7 billion as compared to $2.6 billion for fiscal 1991. The construction sector experienced a 12.0% decrease in total value of construction permits and a decrease of 1.3% in local cement consumption for fiscal 1992 when compared to fiscal 1991. During the first ten months of fiscal 1993, the total value of construction permits increased 19% and local cement consumption increased 2.2%, in comparison with the same period in fiscal 1992. Construction employment increased to 56,000 in fiscal 1992 from 55,000 in fiscal 1991.

Higher Education

During the past four decades, Puerto Rico has made significant advances in the field of education, particularly at the college and graduate school level. The transformation of Puerto Rico during the 1950's and 1960's from an agricultural economy to an industrial economy brought about an increased demand for education at all levels. Since 1970, the manufacturing sector has attracted more high technology industries in Puerto Rico. This has resulted in an increased demand for workers having a higher level of education in general and, in particular, greater expertise in various technical fields. During the same time period, enrollments in institutions of higher learning have risen very rapidly. This trend is due not only to growth in the college-age population, but also to the increasing proportion of college attendance by the college-age population.

The University of Puerto Rico, the only public university in Puerto Rico, includes eleven campuses located throughout the island. Total enrollment of the University was approximately 54,450 in 1992. The Commonwealth is legally obligated to annually appropriate to the University an amount equal to 9.33% of the average of the annual revenues from internal sources in each of the two fiscal years immediately preceding the current fiscal year.

The following table presents comparative trend data for Puerto Rico and the United States with respect to college age population and percentage of such population attending institutions of higher learning.

Trend in College Enrollment

	Puerto Rico			Mainland United States		
Academic Year	Population 18-24 Years of Age	Higher Education Enrollment	Percent(1)	Population 18-24 Years of Age	Higher Education Enrollment	Percent(1)
1970	341,448	57,338	16.8%	23,989,000	8,580,887	35.8%
1980	397,839	130,105	32.7	30,093,000	12,096,895	40.2%
1990	417,636	156,147	37.4	26,140,000(2)	13,213,000(2)	50.5%

(1) Number of persons of all ages enrolled in institutions of higher education as percent of population 18-24 years of age

(2) Estimated

Sources: Planning Board, U.S. Bureau of the Census, U.S. National Center for Education Statistics and Council on Higher Education of Puerto Rico

The table demonstrates that higher education enrollment in Puerto Rico has continued to increase despite slower growth in the college-age population.

In addition to the University of Puerto Rico, there are 5 other public and 33 private institutions of higher education located in Puerto Rico. Such institutions have current enrollments of approximately 103,100 students and provide programs of study in liberal arts, education, business, natural sciences, technology, secretarial and computer sciences, nursing, medicine and law. Degrees are offered by these institutions at the associate, bachelor's, master's and doctoral levels.

Tax Incentives

Much of the development of the manufacturing sector in Puerto Rico can be attributed to various federal and Commonwealth tax incentives, most notably Section 936 of the Internal Revenue Code of 1986, as amended (the "Code"), and the Commonwealth's Industrial Incentives Program.

Section 936

Under Section 936 of the Code, United States corporations that meet certain requirements and elect its application ("Section 936 Corporations") are entitled to credit against their United States corporate income tax the portion of such tax attributable to (i) income derived from the active conduct of a trade or business within Puerto Rico ("active business income") or from the sale or exchange of substantially all assets used in the active conduct of such trade or business and (ii) qualified possession source investment income ("passive income").

To qualify under Section 936 in any given taxable year a corporation must derive (i) for the three-year period immediately preceding the end of such taxable year 80% or more of its gross income from sources within Puerto Rico and (ii) for taxable years beginning after December 31, 1986, 75% or more of its gross income from the active conduct of a trade or business in Puerto Rico.

A Section 936 Corporation may elect to compute its active business income eligible for the Section 936 credit under one of three formulas: (A) a cost sharing formula, whereby it is allowed to claim all profits attributable to manufacturing intangibles and other functions carried out in Puerto Rico, provided it contributes to the research and development expenses of its affiliated group or pays certain royalties; (B) a profit split formula, whereby it is allowed to claim 50% of the net income of its affiliated group from the sale of products manufactured in Puerto Rico; or (C) a cost plus formula, whereby it is allowed to claim a reasonable profit on the manufacturing costs incurred in Puerto Rico. To be eligible for the first two formulas, the Section 936 Corporation must have a significant business presence for purposes of the Section 936 rules. *See*

"Recent Federal Legislative Proposals — Internal Revenue Code Section 936" under *The Economy* for a description of federal legislation and Clinton administration proposals affecting Section 936.

Industrial Incentives Program

Since 1948 Puerto Rico has had various industrial incentives laws designed to stimulate industrial investment in the island. Under these laws, companies engaged in manufacturing and certain other designated activities (such as hotel operations) were eligible to receive full or partial exemption from income, property and certain local taxes.

On January 24, 1987, the Governor of Puerto Rico signed into law the most recent industrial incentives law, Act No. 8 of January 24, 1987, known as the Puerto Rico Tax Incentives Act (the "1987 Act"). The tax exemption benefits provided by the 1987 Act are generally more favorable than those provided by its predecessor, the Industrial Incentives Act of 1978 (the "1978 Act"). The activities eligible for exemption under the 1987 Act include manufacturing, certain designated services for markets outside Puerto Rico, the production of energy from local renewable sources for consumption in Puerto Rico, and laboratories for scientific and industrial research.

The 1987 Act provides a fixed 90% exemption from income and property taxes and a 60% exemption from municipal license taxes during a 10, 15, 20 or 25 year period, depending on the zone where the operations are located. This initial exemption period may be extended for an additional 10 years at lower exemption rates. The 1987 Act also provides a special deduction equal to 15% of the production payroll for companies whose net income from operations is less than $20,000 per production job. This special benefit is designed to attract and maintain labor intensive operations in Puerto Rico. The passive income from certain qualified investments in Puerto Rico and the instruments evidencing such investments are fully exempt from tax. In addition, companies making such investments for fixed periods of not less than five years are eligible to reduce the tollgate tax imposed on dividend and liquidating distributions from a maximum rate of 10% to zero, depending on the amount and term of the investment.

The 1987 Act imposes a special surtax on sales volume designed to raise revenues to fund a special government program of scientific and technical research for the development of new products and industrial processes and the creation of special training programs for the chronically unemployed.

The 1987 Act applies to newly established operations as well as to existing operations that elect to convert their tax exemption grants to the provisions of the 1987 Act. Companies with existing operations that elect not to convert remain subject to the provisions of the 1978 Act or any of the predecessor industrial incentives laws.

Since 1983 hotel operations have been covered by a special incentives law, the Tourism Incentives Act of 1983, which provides exemptions from income, property and municipal license taxes for a period of 10 years. The income tax exemption rates vary depending on the zone where the business is located.

Caribbean Basin Initiative

In August, 1983, the President of the United States signed into law the Caribbean Basin Economic Recovery Act. The Tax Reform Act of 1986 amended Section 936 to allow Puerto Rico financial institutions, including Government Development Bank and Puerto Rico Economic Development Bank, to invest funds representing earnings accumulated under Section 936, in active business assets or development projects in a qualified Caribbean basin country. Such investments must be in accordance with a specific authorization from the Commissioner of Financial Institutions pursuant to regulations issued by the Secretary of the Treasury. As of December 1992, 117 projects under the Puerto Rico Caribbean Development Program have been promoted in thirteen Caribbean Basin countries, representing 29,801 jobs and over $1,183 million in loan commitments, of which $678 million of Section 936 funds have been disbursed.

The Caribbean Basin Projects Financing Authority ("CARIFA"), was created in 1989 with the power to issue revenue bonds, thus providing private entities with lower cost financing for eligible projects in the Caribbean region. As of April 30, 1993, CARIFA has financed eight projects in six Caribbean countries for a total investment of over $400 million.

Recent Federal Legislative Proposals

Internal Revenue Code Section 936

In February 1993, President Clinton proposed, as part of his economic plan, to replace the Section 936 income tax credit with a wage-based employment tax credit. On May 27, 1993, the United States House of Representatives passed legislation ("H.R. 2264") which approved this proposal. H.R. 2264 would replace the current income tax credit with a 60% wage credit. H.R. 2264 would limit the amount of eligible wages per employee to the amount of wages subject to federal social security withholding and would not disallow the deduction for such eligible wages. In addition, the current tax-exemption on qualified possession source investment income (passive income) would be limited to income derived from 80% of a corporation's qualified tangible business investment in Puerto Rico. Corporations availing themselves of the Section 936 tax credit also would be able to deduct the amount of taxes paid in Puerto Rico from their federal income tax liability. H.R. 2264 would allow such corporations to continue to calculate tax benefits as they currently do over a two-year phase-out period beginning after December 31, 1993, giving such corporations the option to claim 80% of their current Section 936 tax credit the first year and 60% the second year. H.R. 2264 added to the changes to Section 936 a requirement that any corporation electing the Section 936 credit and which relocates its operations to Puerto Rico must certify that such relocation will not adversely affect employment in the jurisdiction it is leaving. Such a requirement is similar to an existing requirement of the Department of the Treasury of Puerto Rico regarding such relocations.

On June 24, 1993, the United States Senate approved its version ("S. 1134") of certain portions of the President's economic program, including certain proposed amendments to Section 936. S. 1134 would retain, in substantially the same form, the current credit against United States income taxes on qualified possession source investment income and permit Section 936 corporations to choose one of two options in computing the remaining credit allowed under Section 936. The first option would limit the credit to 40% of the credit allowable under current law, with a five year phase in period starting at 60% of the current allowable credit. The second option would limit the allowable credit to the sum of (i) 95% of qualified compensation paid to employees as defined in the legislation to include wages plus up to 15% of fringe benefits (for which no deduction would be allowed), (ii) a specified percentage of depreciation deductions ranging between 50 percent and 100 percent, based on the class life of the property claimed by the Section 936 corporation for tangible property located in Puerto Rico and used in its trade or business and (iii) a portion of Puerto Rico income taxes paid by the Section 936 corporation, up to a 9 percent effective tax rate (but only if the Section 936 corporation does not elect the profit-split method for allocating income from intangible property).

H.R. 2264 and S. 1134 are under consideration by a Joint Senate-House Conference Committee which is endeavoring to reconcile the two versions before the legislation is resubmitted to the House and the Senate for final consideration. It is not possible at this time to determine the final legislative changes that will be made to Section 936.

NAFTA

The United States, Canada and Mexico have entered into the North American Free Trade Agreement ("NAFTA"), an agreement in principle currently under consideration by the United States Senate, which agreement is designed to eliminate restrictions on trade and investment flows among the three countries. According to a study of the potential economic impact of NAFTA on the economy of Puerto Rico conducted by KPMG Peat Marwick for Government Development Bank, certain of the Commonwealth's industries, including those that are lower salaried and labor intensive, may face increased competition from Mexico, while Puerto Rico's favorable investment environment, highly skilled work force, infrastructure development and tax structure (mainly Section 936) would tend to create expanded trade opportunities for Puerto Rico in such areas as pharmaceuticals and high technology manufacturing, were NAFTA to be ratified.

DEBT

Public Sector Debt

Public sector debt comprises bonds and notes of the Commonwealth and its municipalities and public corporations ("notes" as used in this Section is intended to refer to certain types of non-bond debt regardless of maturity), subject to the exclusions described in the following paragraph. Direct debt of the Commonwealth is supported by Commonwealth taxes. Debt of municipalities, other than bond anticipation notes, is supported by real and personal property taxes and municipal license taxes. Debt of public corporations, other than bond anticipation notes, is generally supported by the revenues of such corporations from charges for services or products. *See Public Corporations.* However, certain debt of public corporations is supported, in whole or in part, directly or indirectly, by Commonwealth appropriations or taxes.

The following table presents a summary of public sector debt as of February 28, 1993. Excluded from this table is debt not primarily payable from either Commonwealth or local taxes, or Commonwealth appropriations or public corporation charges for services or products. Also excluded from the following table is debt the inclusion of which would reflect double counting, including, but not limited to, $299,629,219 of bonds issued by Municipal Finance Agency to finance its purchase of bonds of Commonwealth municipalities; $2,228,345,000 of obligations of Government Development Bank issued to purchase certain Commonwealth public sector debt and for other purposes, of which $292,000,000 are guaranteed by the Commonwealth.

Commonwealth of Puerto Rico

Public Sector Debt

	February 28, 1993
	(in thousands)
Commonwealth direct debt(1)	$ 4,003,394
Municipal debt	515,732
Public corporation debt:	
Commonwealth guaranteed debt(2)	151,695
Debt supported by Commonwealth appropriations or taxes(3)	3,927,839
Non-guaranteed debt	5,921,483
Total public corporation debt(4)	10,001,017
Total public sector debt	$14,520,143

(1) Excludes $958,240,000 Public Improvement Refunding Bonds, Series 1993 (the "1993 Refunding Bonds") issued by the Commonwealth on July 15, 1993.

(2) Excludes $1,194,132,000 of Public Buildings Authority bonds and notes which are primarily payable from Commonwealth appropriations. Said amount includes the $128,895,000 Puerto Rico Public Buildings Authority Revenue Refunding Bonds, Series L and $584,585,000 Puerto Rico Public Buildings Authority Public Education and Health Facilities Refunding Bonds, Series M (collectively, the "1993 Public Buildings Authority Refunding Bonds") issued on June 16, 1993. All bonds and notes guaranteed by the Commonwealth are being paid by the public corporations which issued such bonds, see "Other Public Corporations" under *Public Corporations.*

(3) Represents bonds or notes, including bonds and notes issued by Aqueduct and Sewer Authority, Highway and Transportation Authority, Housing Bank and Finance Agency, Public Buildings Authority, Sugar Corporation, Infrastructure Financing Authority, Economic Development Bank, Health Facilities and Services Administration ("AFASS") and Agriculture and Commercial Development Corp. See "Other Public Corporations" under *Public Corporations.*

(4) Does not reflect the issuance on April 13, 1993 of $695,925,000 Puerto Rico Telephone Authority Revenue Refunding Bonds, Series M and of $48,550,000 Puerto Rico Telephone Authority Revenue Bonds, Series N (the "1993 Telephone Authority Bonds").

Sources: Government Development Bank and Department of the Treasury

No deductions have been made in the above table for debt service funds and debt service reserve funds. The table above and the amounts shown throughout this section as representing outstanding debt include outstanding capital appreciation bonds at their respective original principal amounts and do not include any accretion thereon.

Debt Service Requirements for Commonwealth General Obligation Bonds

The following table presents debt service requirements for outstanding general obligation bonds after giving effect to the issuance on July 15, 1993 of $958,240,000 Puerto Rico Public Improvement Refunding Bonds, Series 1993, and the refunding of the general obligation bonds refunded thereby. Debt service requirements for each fiscal year, as shown in the following table, include principal and interest due on July 1 of the next fiscal year.

Commonwealth of Puerto Rico

Debt Service Requirements
(in thousands)

Fiscal Year Ending June 30	Principal	Interest	Total *
1994	$ 159,655	$ 189,484	$ 349,138
1995	184,035	181,340	365,374
1996	192,125	169,633	361,757
1997	192,110	164,302	356,413
1998	192,291	156,420	348,711
1999	181,166	150,151	331,317
2000	171,960	134,935	306,896
2001	173,006	124,518	297,524
2002	171,999	115,210	287,209
2003	100,504	184,434	284,938
2004	102,235	181,485	283,720
2005	175,527	104,629	280,155
2006	135,073	120,171	255,244
2007	106,534	127,920	234,454
2008	81,398	91,212	172,611
2009	84,630	69,866	154,496
2010	91,275	62,722	153,997
2011	95,557	57,950	153,507
2012	100,780	45,726	146,507
2013	87,885	40,953	128,837
2014	73,395	34,774	108,169
2015	77,580	30,580	108,160
2016	81,055	27,141	108,196
2017	86,465	21,805	108,270
2018	90,875	17,452	108,327
2019	75,265	12,078	87,342
2020	80,415	8,134	88,549
2021	41,710	3,611	45,320
2022	21,965	1,318	23,283
	$3,408,469	$2,629,956	$6,038,422

Source: Government Development Bank and Department of the Treasury

* Total may not add up due to rounding.

Commonwealth Guaranteed Debt

Annual debt service on outstanding Commonwealth guaranteed bonds issued by Urban Renewal and Housing Corporation and assumed in fiscal 1992 by Housing Bank and Finance Agency is $13,254,122 in the fiscal year ending September 30, 1993, which constitutes the maximum annual debt service on such bonds. The final maturity of such bonds is October 1, 2001. Annual debt service on Commonwealth guaranteed bonds of Public Buildings Authority is $107,667,200 in fiscal 1994 with the final maturity on July 1, 2021.

No payments under the Commonwealth guaranty have been required for bonds of Urban Renewal and Housing Corporation, Housing Bank and Finance Agency or Public Buildings Authority.

As of February 28, 1993, $292,000,000 of Commonwealth guaranteed obligations of Government Development Bank were outstanding. No payments under the Commonwealth guaranty have been required for any obligations of Government Development Bank.

The Farm Credit Corporation ("Farm Credit"), created pursuant to Act No. 68, approved June 8, 1960, as amended, assumed responsibility in 1971 for the administration of the Farm Credit Security Fund (the "Security Fund") from the Department of Agriculture. The Security Fund has guaranteed, under the good faith and credit of the Commonwealth, certain loans made by financial institutions and Farm Credit to farmers. The Security Fund is authorized to guarantee loans of which approximately $24,800,000 has been committed as of April 30, 1993. As of April 30, 1993, approximately $5,567,000 was available in the Security Fund to cover loan payment defaults by farmers. No payments under the Commonwealth guaranty have been required for any of the loans made by Farm Credit or private institutions which are guaranteed by the Security Fund. The Commercial and Agricultural Credit and Development Corporation has been created to provide, among other things, loans to the commercial and agricultural sectors. The functions of Farm Credit and the administration of the Security Fund have been transferred to the new public corporation, which is an affiliate of Economic Development Bank. Simultaneously with the creation of the new corporation, the amount of guarantees was limited to the outstanding loans which carry such guaranty. A joint resolution adopted by the Legislature on August 19, 1990 appropriates $8,000,000 per year beginning fiscal 1993 for five years to provide funds for the Security Fund. The proceeds of these appropriations will be used to pay a $40,000,000 loan made to the Fund by Government Development Bank which is being used to cover payment on loans guaranteed by the Fund.

Trends of Public Sector Debt

Historically, the Commonwealth has maintained a fiscal policy which provides for a prudent relationship between the growth of public sector debt and the growth of the economic base required to service that debt. The Commonwealth also sought opportunities to realize debt service savings by refunding outstanding debt with obligations bearing lower interest rates. In certain years, this policy has had the effect of increasing the rate of growth of public sector debt above that of gross product. Over fiscal years 1988 to 1992, public sector debt increased 27.9% while gross product rose 27.3%. Short-term debt outstanding relative to total debt was 8.7% as of February 28, 1993.

Commonwealth debt management in recent years has also emphasized the control and reduction of short-term debt relative to total debt.

The following table shows the trends in gross product (in current dollars) and public sector debt for the five fiscal years ended June 30, 1992 and for the eight month period ended February 28, 1993.

Commonwealth of Puerto Rico

Public Sector Debt and Gross Product

	Public Sector Debt					Gross Product(1)	
June 30	Long Term	Short Term(2)	Short Term as % of Total	Total	Rate of Increase	Amount	Rate of Increase
			(dollars in millions)				
1988	$10,149	$ 658(3)	6.1%	$10,807	6.6%	$18,550	8.1%
1989	11,066	580(3)	5.0	11,646	7.8	19,954	7.6
1990	11,492	1,073(3)	8.5	12,565	7.9	21,619	8.3
1991	12,041	784(3)	6.1	12,825	2.4	22,857	5.7
1992	13,108	713	5.2	13,821	8.1	23,620	3.3
February 28, 1993	13,256	1,264	8.7	14,520	5.0	N/A	N/A

(1) In current dollars.
(2) Obligations with a maturity of three years or less are considered short-term debt.
(3) Does not include the tax and revenue anticipation notes which were outstanding at the close of the indicated fiscal years because sufficient funds had been set aside for the payment of such notes in full prior to the end of such fiscal years.
Source: Government Development Bank

The following table shows the trend of public sector debt by major category for the five fiscal years ended June 30, 1992 and the eight month period ended February 28, 1993.

Commonwealth of Puerto Rico

Public Sector Debt by Major Category

	Commonwealth(1)			Municipalities			Public Corporations(2)			Total		
June 30	Long Term	Short Term(3)	Total	Long Term	Short Term(3)	Total	Long Term	Short Term(3)	Total	Long Term	Short Term(3)	Total
						(in millions)						
1988	$2,637	—(4)	$2,637	$366	$30	$396	$7,146	$628	$ 7,774	$10,149	$ 658	$10,807
1989	2,967	—(4)	2,967	375	24	399	7,724	555	8,279	11,066	580	11,646
1990	2,861	335(4)	3,196	366	24	390	8,265	714	8,979	11,492	1,073	12,565
1991	3,260	54(4)	3,314	386	30	416	8,395	700	9,095	12,041	784	12,825
1992	3,402	—	3,402	460	39	499	9,246	675	9,921	13,108	713	13,821
February 28, 1993	3,603	400(5)	4,003	484	32	516	9,169	832	10,001	13,256	1,264	14,520

(1) General obligation and other direct debt
(2) Includes Commonwealth guaranteed debt
(3) Obligations with a maturity of three years or less are considered short-term debt.
(4) Does not include the tax and revenue anticipation notes which were outstanding at the close of the indicated fiscal years because sufficient funds had been set aside for the payment of such notes in full prior to the end of said fiscal years.
(5) Tax and revenue anticipation notes.
Source: Government Development Bank

The above tables do not reflect the issuance of the 1993 Telephone Authority Bonds, the 1993 Public Buildings Authority Refunding Bonds and the 1993 Refunding Bonds.

PUBLIC CORPORATIONS

In Puerto Rico, many governmental or quasi-governmental functions are performed by public corporations. These are governmental entities of the Commonwealth created by the Legislature but with varying degrees of independence from the central government. Public corporations are generally created to perform a single function or a limited number of related functions. Most public corporations obtain revenues from charges for services or products, but many are subsidized to some extent by the central government. Most public corporations are governed by boards appointed by the Governor with the advice and consent of the Senate, but some public corporations are subsidiaries of departments of the central government. Capital improvements of most of the larger public corporations are financed by revenue bonds under trust agreements or bond resolutions or notes under loan agreements. The following table presents the outstanding bonds and notes of certain of the public corporations as of February 28, 1993 ("notes" as used in this Section is intended to refer principally to certain types of non-bonded debt regardless of maturity). Debt of certain other public corporations is excluded from this table because such debt is payable primarily from the Federal government or is payable from sources other than Commonwealth appropriations or taxes or revenues of public corporations derived from services or products, such as industrial development bonds. Also excluded from this table is the debt of certain public corporations the inclusion of which would reflect double counting. More detailed information about the major public corporations is presented in following sections.

Outstanding Debt
February 28, 1993

	Bonds			Notes			Total Bonds and Notes		
	With Guaranty	Without Guaranty	Total	With Guaranty	Without Guaranty	Total	With Guaranty	Without Guaranty	Total
					(In thousands)				
Agricultural Services Administration	$ —	$ —	$ —	$ —	$ 50,665	$ 50,665	$ —	$ 50,665	$ 50,665
Aqueduct and Sewer Authority(1)	—	459,477(2)	459,477	—	215,901	215,901	—	675,378	675,378
Commercial and Agricultural Credit and Development Corporation	—	—	—	—	107,518	107,518	—	107,518	107,518
Electric Power Authority(1)	—	2,714,491	2,714,491	—	110,000	110,000	—	2,824,491	2,824,491
Health Facilities and Services Administration	—	—	—	—	364,150	364,150	—	364,150	364,150
Highway and Transportation Authority	—	1,238,635	1,238,635	—	—	—	—	1,238,635	1,238,635
Housing Bank	91,695	575,527(3)	667,222	—	22,620	22,620	91,695	598,147	689,842
Industrial Development Company(1)	—	193,454	193,454	—	39,609	39,609	—	233,063	233,063
Infrastructure Financing Authority	—	287,470	287,470	—	—	—	—	287,470	287,470
Maritime Shipping Authority	—	—	—	60,000	248,580(4)	308,580	60,000	248,580	308,580
Office for the Improvement of Public Schools	—	—	—	—	122,385	122,385	—	122,385	122,385
Ports Authority	—	148,520	148,520	—	27,896	27,896	—	176,416	176,416
Public Buildings Authority(1)	1,145,249	—	1,145,249	—	2,133	2,133	1,145,249	2,133	1,147,382
Sugar Corporation	—	—	—	—	157,470	157,470	—	157,470	157,470(3)
Telephone Authority	—	1,043,757	1,043,757	—	100,185	100,185	—	1,143,942	1,143,942
University of Puerto Rico	—	195,177	195,177	—	35,350	35,350	—	230,527	230,527
Others	—	29,723	29,723	—	213,380	213,380	—	243,103	243,103
Total	$1,236,944	$6,886,231	$8,123,175	$60,000	$1,817,842	$1,877,842	$1,296,944(5)	$8,704,073	$10,001,017

(1) Does not include accretion of interest from the respective issuance dates on capital appreciation bonds as follows: Aqueduct and Sewer Authority $5,671,627 as of June 30, 1992; Electric Power Authority $45,735,641 as of February 28, 1993; Industrial Development Company $1,709,929 as of February 28, 1993; and Public Buildings Authority $15,004,025; as of February 28, 1993

(2) Principal of and interest on $69,900,000 of this debt is reimbursed from Commonwealth appropriations.

(3) Payable primarily from Commonwealth appropriations

(4) Includes $33,716,000 of capitalized lease obligation

(5) Authorization for Commonwealth guarantees of debt as of February 28, 1993 was $2,285,000,000. Excludes $24,800,000 of loans from private lending institutions to farmers guaranteed by Farm Credit Security Fund as of April 30, 1993.

Source: Government Development Bank

No deductions have been made in the above table for debt service funds and debt service reserve funds. The above table does not reflect the issuance of the 1993 Telephone Authority Bonds and the 1993 Public Buildings Authority Refunding Bonds.

Government Development Bank for Puerto Rico

The principal functions of Government Development Bank are to act as financial advisor to and fiscal agent for the Commonwealth, its municipalities and public corporations in connection with the issuance of bonds and notes, to make loans and advances to public corporations and municipalities, and to make loans to private enterprises to aid in the economic development of Puerto Rico.

As of February 28, 1993, $2,228,345,000 of bonds and notes of Government Development Bank were outstanding. Government Development Bank has loaned $1,524,214,484 to certain Commonwealth public corporations and municipalities. Act No. 12, approved May 9, 1975, as amended, provides that the payment of principal of and interest on specified notes and other obligations of Government Development Bank, not exceeding $550,000,000, may be guaranteed by the Commonwealth, of which $292,000,000 were outstanding as of February 28, 1993.

Government Development Bank has the following principal subsidiaries and affiliates:

Higher Education Assistance Corporation was established in May 1981 for the purpose of guaranteeing loans made to post-secondary school students under Federal insurance programs. It began operations in October 1981 and as of February 28, 1993 had guaranteed 196,099 loans totaling $501,171,331.

Housing Finance Corporation was created in November 1977 for the purposes of providing needed rental housing units and stimulating the construction industry under federally subsidized programs. The Corporation has issued tax-exempt revenue bonds and notes to finance the construction of housing units approved for federal rental subsidies, which bonds and notes are limited obligations of the Corporation payable solely from revenues collected in respect of such housing units. The Federal Housing Administration has insured mortgages on certain of the housing units. As of February 28, 1993, $1,611,631,600 of bonds were outstanding.

Public Finance Corporation was established in December 1984 for the purpose of providing the agencies and instrumentalities of the Commonwealth with alternate means of meeting their financing requirements. The Corporation issued $400,000,000 of bonds in fiscal 1985 in order to refinance at lower interest rates certain debt of Sugar Corporation that was held by Government Development Bank. On January 3, 1991 and March 14, 1991, the Corporation sold the Sugar Corporation debt and applied the net proceeds of such sales, together with other moneys, to defease and retire all of the outstanding bonds.

Other Public Corporations

Aqueduct and Sewer Authority owns and operates a system of public water supply and sanitary sewer facilities. Capital expenditures are financed by revenues of the system, debt and federal and Commonwealth grants. Debt service on revenue bonds is payable from net revenues of the system. As of February 28, 1993, the Authority had bonds outstanding in the amount of $459,477,000 (not including accretion of interest from the respective issuance dates on capital appreciation bonds) and notes outstanding in the amount of $215,901,000.

Facilities and operations of the Authority's system are subject to regulation under numerous federal and Commonwealth environmental laws, including the Federal Clean Water Act administered by the United States Environmental Protection Agency ("EPA"). The Authority has embarked on an extensive capital improvement program for the five year period ending June 30, 1997 that is estimated to cost approximately $959,000,000. A portion of the capital improvement program is designed to enable the Authority to comply with a series of consent orders agreed to by the Authority and EPA.

Economic Development Bank was created in July 1985 to engage primarily in granting small direct loans, providing loan guarantees to private enterprises and making equity investments in such enterprises. Its initial capital was provided by a transfer of loans in the principal amount of $15,000,000 previously administered by a now inactive subsidiary of Government Development Bank. On August 5, 1988, the Economic Development Bank issued $24,000,000 principal amount of Capital Notes payable from Commonwealth appropriations.

Electric Power Authority owns and operates the island's electric system. Capital improvements are financed primarily by borrowed funds, supplemented by internally generated funds. The Authority's bonded debt consists of Electric Revenue Bonds and Power Revenue Bonds. Electric Revenue Bonds are secured by a prior lien on net revenues of the electric system. Power Revenue Bonds are payable from such net revenues after provision for debt service and reserve requirements for Electric Revenue Bonds. As of February 28, 1993, the Electric Power Authority had $2,714,491,000 in bonds outstanding (not including accretion of interest from the respective issuance dates on capital appreciation bonds).

Health Facilities and Services Administration was created by Act No. 26, approved on November 13, 1975, as amended, with the objectives of planning, evaluation and development of health services, alleviation of environmental contamination, operation of public hospitals and other health facilities, prevention and treatment of mental illness and administration of family planning programs and maternal and child care activities. The operations of the Administration are funded in part by appropriations from the Commonwealth. The outstanding debt as of February 28, 1993 was $364,150,000.

Highway and Transportation Authority is responsible for highway construction in Puerto Rico. Such construction is financed by debt (interim notes and revenue bonds), revenues of the Authority, and federal and Commonwealth grants. Debt service on the Authority's revenue bonds constitutes a first lien on its gross revenues, which consist of all the proceeds of the gasoline tax, one-half of the proceeds of the tax on gas oil or diesel oil, highway toll revenues and the gross receipts of $15.00 per vehicle per year from certain motor vehicle license fees. Such revenues (except for toll revenues) may be applied first to the payment of debt service on general obligation bonds and notes of the Commonwealth and payments required to be made by the Commonwealth under its guarantees of bonds and notes to the extent that no other revenues are available for such purpose. The Commonwealth has never applied such revenues for such payment. After giving effect to the issuance of the 1993 Bonds and the refunding of the Refunded Bonds, $1,694,135,000 in bonds of the Authority will be outstanding.

The Authority has entered into a concession agreement for the design, construction and operation by a private company of a toll bridge spanning the San José Lagoon to provide an alternate route to Luis Muñoz Marín International Airport. The toll bridge is being financed with the Authority's special facility revenue bonds payable by the private company principally from toll revenues. The concession is for a term of 35 years subject to earlier termination or extension. The bridge is expected to be open for traffic by early 1994. In certain instances as described in the agreement, the Authority may be required, among other things, to assume the private company's obligations with respect to the special facility revenue bonds. The Authority is exploring the possibility of entering into other public-private partnerships for the construction and operation of other traffic facilities.

Housing Bank and Finance Agency is engaged in insuring mortgages and servicing mortgages originated by Urban Renewal and Housing Corporation and issues bonds and notes to provide interim and permanent financing for low-income housing projects and single-family home ownership programs. The Agency obtains funds from legislative appropriations, sales of mortgages, mortgage repayments, and other sources.

As of February 28, 1993, the Agency had outstanding $667,222,000 of bonds issued to pay obligations of the Commonwealth under law, otherwise payable from Commonwealth appropriations, to fund certain payments of the Commonwealth under its mortgage subsidy program for low and moderate income families, to guaranty certain insurance obligations of the Agency under certain programs and to refund bonds originally issued by Urban Renewal and Housing Corporation. These bonds are payable principally from appropriations in substantially the amount that the Commonwealth would otherwise have been obligated to appropriate for such purposes.

Industrial Development Company participates in the Commonwealth-sponsored economic development program by providing physical facilities, general assistance, and special incentive grants to manufacturers. The Company has issued interim notes and revenue bonds to finance factories and other facilities. Rentals derived from the leasing of specified facilities of the Company are pledged to the payment of the Company's revenue bonds. As of February 28, 1993, the Company had $193,454,000 in bonds outstanding (not including accretion of interest from the respective issuance dates on capital appreciation bonds).

Industrial, Medical, Educational and Environmental Pollution Control Facilities Financing Authority was created in June 1977. The Authority has issued revenue bonds to finance industrial, pollution control, medical and educational facilities in Puerto Rico for the use of private companies, non-profit entities or government agencies. The bonds are payable solely from payments to be made to the Authority by such private companies, non-profit entities or government agencies and do not constitute a debt of the Commonwealth or any of its other public corporations or municipalities. As of February 28, 1993, $3,057,552,670 of the Authority's bonds had been issued, of which $2,285,955,986 were outstanding.

Infrastructure Financing Authority was created in June 1988 for the purpose of providing financial, administrative, consulting, technical, advisory and other types of assistance to other public corporations and governmental instrumentalities of the Commonwealth authorized to develop infrastructure facilities and to establish alternate means for financing infrastructure facilities. The legislation establishes a Puerto Rico Infrastructure Fund funded in the amount of $30 million during fiscal 1989 and $40 million for the following 29 fiscal years with the first proceeds of federal excise taxes imposed on rum and other articles produced in Puerto Rico and sold in the United States which are transferred to the Commonwealth pursuant to the Internal Revenue Code of 1986, as amended. In November 1988 the Authority issued $327,740,000 of Special Tax Revenue Bonds, Series 1988A to refund in advance certain outstanding revenue bonds and other debt of the Aqueduct and Sewer Authority. As of February 28, 1993, $287,470,000 of such bonds were outstanding. The Authority's Special Tax Revenue Bonds, Series 1988A are secured by a pledge of a portion of such federal excise taxes, subject to the rights of the owners of the Commonwealth's general obligation bonds and notes and certain other obligations guaranteed by the Commonwealth.

Maritime Shipping Authority commenced operations in 1974 upon the acquisition of three shipping lines serving Puerto Rico and the United States mainland. The Authority acquired vessels and other equipment financed by the issuance of notes on a secured basis to the previous owners. The Authority carries over 40% of the total cargo shipped between Puerto Rico and the United States mainland.

From the commencement of operations through December 27, 1992, the Authority had incurred an accumulated deficit of $214,168,000. The Authority's net loss for the first six months of fiscal 1993 was approximately $5,883,000.

The Commonwealth has appropriated $117,614,000 in past years as capital contributions to the Authority. On July 21, 1988, the Legislature approved a joint resolution to provide an additional capital contribution of $60,000,000 to be paid in six equal annual installments starting in fiscal 1989, of which $50,000,000 has been appropriated. The Commonwealth has undertaken an evaluation of the operations of the Authority to determine the feasibility of privatizing its operations or selling its assets. Additional capital contributions from the Commonwealth may be required to meet its obligations.

During fiscal 1988, the Authority obtained a loan from Government Development Bank to purchase five container ships at a cost of approximately $45,000,000 and to finance in part their refurbishing at a cost of approximately $43,000,000. As of February 28, 1993, the debt of the Authority (including certain capitalized lease obligations) amounted to approximately $308,580,000. Government Development Bank has guaranteed approximately $51,314,000 of such debt. In addition, as of February 28, 1993, the Commonwealth has guaranteed commercial paper of the Authority aggregating $60,000,000.

Municipal Finance Agency was created in 1972 as a municipal "bond bank" for Puerto Rico. The Agency has a Board of Directors named by the Governor of the Commonwealth. The President of Government Development Bank is the president of the Agency.

The Agency is authorized to issue bonds to purchase general obligation bonds of Puerto Rico municipalities and the funding of a debt service reserve. Debt service on the Agency's bonds is payable from debt service payments on municipal bonds held by the Agency and from the reserve, including investment income thereof. The Commonwealth has agreed to pay such amounts to the reserve as may be necessary to maintain it at its required level, subject to appropriation by the Legislature, which appropriation is not legally required to be made. To date no such payments have been required.

Ports Authority owns and operates major airport and seaport facilities. The Authority derives revenues from a variety of sources, including charges on airplane fuel sales, air terminal space rentals, airline landing fees, wharfage, dockage, and harbor fees, and rentals for the lease of seaport equipment and property. The

Authority's debt consists mainly of revenue bonds $148,520,000 of which were outstanding as of February 28, 1993, which are secured by a pledge of net revenues from most of the Authority's airport and seaport facilities.

Public Buildings Authority is authorized to construct, purchase or lease office, school, health, and social welfare facilities for lease to Commonwealth departments, public corporations and instrumentalities. Bonds that have been issued by the Authority to finance such facilities (through retirement of interim notes or otherwise) are payable from lease payments, which are largely derived from Commonwealth appropriations, and are further secured by the Commonwealth's guaranty. The Authority is authorized by Act No. 17 of 1968, as amended, to have outstanding at any one time up to $1,200,000,000 of bonds guaranteed by the Commonwealth. As of February 28, 1993, $1,145,249,000 of such bonds of the Authority were outstanding (not including accretion of interest from the respective issuance dates on capital appreciation bonds).

The Authority is undertaking a program to construct additional correctional facilities to be completed by the end of fiscal 1997 at an estimated cost of $368,269,075. The program is expected to be financed from appropriations from the General Fund to be reimbursed from general obligation bond proceeds. Through fiscal 1993 $248,645,000 had been appropriated for this purpose.

On June 16, 1993, the Authority issued the 1993 Public Buildings Authority Refunding Bonds to refund certain of its outstanding bonds and produce net present value debt service savings for the Authority.

Sugar Corporation was created in 1973 to consolidate ownership and management of the Commonwealth's interests in Puerto Rico's sugar industry. Sugar Corporation owns or leases and operates virtually all the sugar production facilities on the island. Sugar Corporation buys all cane grown by private growers, processes the cane, and sells the crude and refined sugar and molasses.

Puerto Rico's sugar industry has for many years been a deficit operation. From July 1974 to February 28, 1993, the Corporation's cash deficit totaled approximately $863,371,000. The Corporation's objective is to maintain sugar production at 73,200 tons of sugar per year for local consumption only, with any excess being exported to the United States.

On September 23, 1983 the Legislature of Puerto Rico approved Joint Resolution No. 23 which provided a payment plan for the outstanding notes issued by Sugar Corporation to finance prior years cash deficits up to December 31, 1982 and the outstanding debt incurred in the purchase of several sugar mills. As of July 1, 1993, $75,000,000 of such notes were outstanding. These outstanding notes are expected to be retired by the end of the Commonwealth's 1994 fiscal year. It is expected that appropriations of up to $30,000,000 per year will be made to cover future annual operating deficits. In order to insure that the annual cash deficit will not exceed $30,000,000, Sugar Corporation is required to present quarterly reports to the Legislature and implement cutbacks if necessary.

On July 1, 1993, the total debt of the Corporation was $112,766,000, including $75,000,000 of notes publicly held, $35,000,000 of notes held by private institutions and $2,766,000 of notes held by Government Development Bank.

Telephone Authority in July 1974 purchased Puerto Rico Telephone Company from International Telephone and Telegraph Corporation. The Company operates the principal telephone system in Puerto Rico. The Telephone Authority acquired the assets of the Puerto Rico Communications Authority on May 30, 1990. Capital improvements at present are financed by internally generated funds, although in the past they were also financed with revenue bonds. The Authority's revenue bonds are payable from net revenues, which consist primarily of moneys received after payment of the Company's operating expenses. As of February 28, 1993, the Authority had $1,124,762,000 of bonds and other obligations outstanding, none of which was supported by the guaranty of the Commonwealth.

In December, 1992, the Authority sold approximately 80% of its interest in Telefónica Larga Distancia ("TLD") to Telefónica Internacional, a subsidiary of Telefónica de España, for $141.6 million. The gain on the sale will be applied to certain public education purposes, and the balance not so applied will be deposited in the Construction Fund under the Authority's Trust Agreement.

On April 13, 1993, the Authority issued the 1993 Telephone Authority Bonds, including $695,295,000 of bonds to refund most of the outstanding revenue bonds, producing a net present value debt service savings of approximately $158 million.

University of Puerto Rico, with approximately 54,450 students, is by far the largest institution of higher education on the island. Commonwealth appropriations are the principal source of University revenues, but additional revenues are derived from tuition, student fees, auxiliary enterprises, interest income, Federal grants and other sources. University capital improvements have been financed mainly by revenue bonds, of which $195,177,000 were outstanding as of February 28, 1993. Revenue bonds are general obligations of the University (which has no taxing power) secured by tuition, student fees, and various other revenue sources.

Urban Renewal and Housing Corporation was established to carry out activities related to the provision of low-cost housing for moderate income families, federally aided public housing for low income families, and urban renewal, housing and related activities financed by Commonwealth appropriations. As of February 28, 1993, the Corporation's outstanding debt totalled $307,792,000. On August 9, 1991, the Legislature approved Act No. 55, which dissolved the Corporation and created the Urban Renewal and Housing Corporation Liquidation Office to be administered by a Special Trustee. The Special Trustee has taken control of the assets of the Corporation and is to provide for the total liquidation of the Corporation, including its assets and liabilities. The debt of the Corporation continues to be paid in accordance with their terms. The Act also provided for the Department of Housing to carry on housing programs in the Commonwealth.

In 1964, a fund was organized to enable the Corporation to engage in construction of low-cost housing for moderate income families. It was contemplated that the program would be financed completely by special obligation bonds of the Corporation to be payable in the first instance from mortgage repayments, rentals and other pledged revenues, and to be additionally secured by the guaranty of the Commonwealth. Act No. 18 approved May 7, 1964, as amended, provides for the guaranty by the Commonwealth of the payment of principal of and interest on an amount not exceeding $325,000,000 of such bonds, of which $171,000,000 have been issued and $91,695,000 were outstanding as of February 28, 1993. These bonds were assumed by the Housing Bank and Finance Agency on May 14, 1992.

As of said date, additional debt issued by the Corporation to finance the program consisted of $206,987,000 of bonds which are paid mainly by Commonwealth appropriations and have been assumed by the Housing Bank and Finance Agency. Annual debt service on these bonds related to the low cost housing program is payable from Commonwealth appropriations of up to $30,949,000 per year. These appropriations would be reduced to the extent that revenues derived from the low-cost housing program exceed debt service on the Corporation's special obligation bonds referred to above and from other internally generated funds. The amount appropriated in the current fiscal year amounts to $22,619,000.

Public corporations in addition to those mentioned above have issued debt in the aggregate amount of $518,851,000 as of February 28, 1993. Debt service on $87,948,000 of such outstanding debt is being paid from Commonwealth appropriations. However, the Commonwealth is not obligated to make any such appropriations. Additional appropriations are made by the Commonwealth to enable certain of such corporations to pay their operating expenses.

INSURANCE MATTERS

In December 1992, the property and casualty insurance company that insured approximately $5 billion of Commonwealth-owned property was placed in court-ordered liquidation, thus requiring the Commonwealth to seek alternate insurance arrangements for certain properties and major structures which currently are uninsured to protect against losses from fire, hurricane or other natural disasters, and personal liability. There is no assurance that alternate insurance arrangements can be secured for all of these properties and structures or that the arrangements made will provide full insurance coverage to the Commonwealth. The Commonwealth is exploring options, which include, among others, the formation of a captive insurance company, to address its insurance needs. Personal injury awards against the Commonwealth are limited by law to $150,000 per occurrence.

RETIREMENT SYSTEMS

Public employees of the Commonwealth and its instrumentalities are covered by five retirement systems: the Employees Retirement System of the Government of Puerto Rico and its Instrumentalities (the "Employees Retirement System"), the Annuity and Pension System for the Teachers of Puerto Rico (the "Teachers Retirement System"), the Commonwealth of Puerto Rico Judiciary Retirement System (the "Judiciary Retirement System"), the Retirement System of the University of Puerto Rico (the "University Retirement System"), and the Employees Retirement System of Puerto Rico Electric Power Authority (the "Electric Power Authority Retirement System").

The University Retirement System and the Electric Power Authority Retirement System apply, respectively, to employees of the University of Puerto Rico and Puerto Rico Electric Power Authority. The Commonwealth is not required to contribute directly to those two systems, but a large proportion of University revenues are derived from central government appropriations.

The Teachers Retirement System covers public school teachers, the Judiciary Retirement System covers judges, and the Employees Retirement System covers all other employees of the Commonwealth and its municipalities and instrumentalities. As of June 30, 1992, the total number of active members of the three systems was as follows: Employees Retirement System, 156,230; Teachers Retirement System, 45,169 and Judiciary Retirement System, 262. These three systems are financed by contributions by the employers (the Commonwealth, public corporations or municipalities), employees, and investment income. The Commonwealth is responsible for approximately 66% of total employer contributions to the Employees Retirement System and 100% and 93% of total employer contributions to the Judiciary and Teachers Retirement Systems, respectively. Retirement and related benefits provided by the systems and required contributions to the systems by employees are determined by statute. Required contributions to the systems by employers are determined by statute with respect to the Teachers Retirement System and, with respect to the Employees and Judiciary Retirement Systems, by the Administrator of the Systems. In fiscal 1993, the Commonwealth has budgeted approximately $179,178,000 as its contribution to the Employees Retirement System, $2,911,000 as the contribution to the Judiciary Retirement System and $65,716,000 as its contribution to the Teachers Retirement System.

The most recent actuarial valuation of the Employees Retirement System and Judiciary Retirement System was submitted by a firm of independent consulting actuaries in June 1989 and updated as of June 30, 1990. As of June 30, 1990, the total pension benefit obligation for the Employees Retirement System and Judiciary Retirement System was $4,300,000,000 and $46,500,000, respectively. The unfunded pension benefit obligation of the Employees Retirement System and Judiciary Retirement System for the same period was $3,536,222,000 and $17,754,000, respectively. The actuarial valuation was done in accordance with the "Projected Unit Credit" method. An investment return of 9% per year, a salary increase of 6% per year and a post retirement benefit increase for the Employees Retirement System of 3% every third year were assumed. This benefit increase was provided by the Legislature of Puerto Rico, on May 10, 1992, by Act No. 10. The first 3% increase was granted to retirees who have been receiving their annuities for three or more years as of that date. Subsequent increases will depend upon the explicit approval of the System's Board of Trustees and the Legislature, based on a favorable recommendation from the System's independent consulting actuary and given a minimum of 24 months of benefit payment reserves.

The Legislature of Puerto Rico, on February 1, 1990, enacted Act No. 1 which is directed at ensuring the solvency of the Employees Retirement System for the next fifty years. Among other provisions, the legislation increases the level of contribution to the System and limits benefits for new employees by increasing the length of time for the vesting of certain benefits and reducing the level of benefits in the case of early retirement. The legislation also reduces the level of occupational injury and death benefits received by new employees.

The most recent actuarial valuation of the Teachers Retirement System was submitted by a firm of independent consulting actuaries in March 1992. As of June 30, 1990 the total pension benefit obligation of the system was $1,997,100,000, assets amounted to $969,500,000 and the resulting unfunded pension benefit obligation was $1,027,600,000.

It is recognized that it will be necessary to strengthen the finances of the Teachers Retirement System in order to assure that combined contributions and investment income continue to exceed benefit payments, avoiding the possible future drawdown of assets.

The following table presents in summary form income and expenses of the retirement systems for the fiscal years ended June 30, 1991 and 1992 and estimates for the fiscal year ending June 30, 1993.

Retirement Systems

Income and Expenses

	Employees Retirement System	Judiciary Retirement System	Teachers Retirement System
		(in thousands)	
Fiscal Year Ended June 30, 1991		Actual	
Income:			
Employers contributions	$167,476	$2,363	$ 53,055
Employee contributions	129,991	972	44,318
Investment income	69,607	2,821	105,729
Total	$367,074	$6,156	$203,102
Expenses:			
Benefit payments	$269,641	$3,892	$107,589
Administrative and other expenses	14,048	401	15,840
Total	$283,689	$4,293	$123,429
Net Income	$ 83,385	$1,863	$ 79,673
Fiscal Year Ended June 30, 1992		Preliminary	
Income:			
Employers contributions	$179,024	$2,548	$ 61,812
Employee contributions	138,593	1,041	45,454
Investment income	93,962	4,131	92,765
Total	$411,579	$7,720	$200,021
Expenses:			
Benefit payments	$291,467	$4,306	$131,024
Administrative and other expenses	14,716	310	6,200
Total	$306,182	$4,616	$137,224
Net Income	$105,397	$3,104	$ 62,797
Fiscal Year Ending June 30, 1993		Estimated	
Income:			
Employers contributions	$179,178	$2,911	$ 65,716
Employee contributions	140,751	1,233	47,326
Investment income	69,714	3,669	102,696
Total	$389,643	$7,813	$215,738
Expenses:			
Benefit payments	$305,632	$4,596	$140,357
Administrative and other expenses	15,958	181	7,105
Total	$321,590	$4,777	$147,462
Net Income	$ 68,053	$3,036	$ 68,276

Sources: Employees Retirement System, Judiciary Retirement System and Teachers Retirement System

SUMMARY OF COMMONWEALTH FINANCIAL STATEMENTS

The Department of the Treasury has completed the conversion of the accounting and financial reporting system of the Central Government to generally accepted accounting principles for governmental entities (GAAP). Fiscal 1989 was the first year for which the Commonwealth's financial statements were prepared in accordance with generally accepted accounting principles, and the balance sheet was audited by KPMG Peat Marwick. For fiscal 1990, 1991 and 1992 the complete financial statements of the Commonwealth have been audited by KPMG Peat Marwick, whose report thereon for fiscal 1992 is set forth in *Appendix II.* Preparation of the audited financial statements of the Commonwealth involves the collection and consolidation of audited financial statements from 55 separate reporting entities. The financial statements for fiscal years after fiscal 1988 differ from previous fiscal years' financial statements of the Commonwealth because of the inclusion of the public corporations within the reporting entity.

Reference is made to *Appendix II* for the General Purpose Financial Statements of the Commonwealth for the fiscal year ended June 30, 1992.

COMMONWEALTH TAXES, OTHER REVENUES AND EXPENDITURES

The Secretary of the Treasury has custody of the funds of the Central Government of the Commonwealth and is responsible for the disbursement and investment of and accounting for such funds. Central government funds are grouped into three major categories or "types" of funds, as follows: (i) Governmental Fund Types, which include the General, Special Revenue, Debt Service (also referred to herein as Redemption), and Capital Project Funds; (ii) Proprietary Fund Types, which include the Enterprise and Internal Service Funds; and (iii) Fiduciary Fund Types, which include the Trust and Agency Funds. These funds do not include funds of the municipalities, because the municipalities are governmental entities with independent treasuries.

The General Fund is the primary operating fund of the Commonwealth. General Fund revenues are broadly based and include revenues raised internally as well as those from non-Commonwealth sources. Internal revenues consist principally of income taxes and excise taxes. Revenues from non-Commonwealth sources are derived from federal excise taxes and customs duties returned to the Commonwealth. The primary expenditures of the Commonwealth through the General Fund are for grants and subsidies and personal and other services.

Summary and Management Discussion of General Fund Results

The following table presents the Commonwealth revenues and expenditures of the General Fund on a cash basis for fiscal 1988 through fiscal 1993. Insofar as the information relates to April through June of fiscal 1993, it is based on estimates provided by the Secretary of the Treasury. The information for fiscal 1988 through fiscal 1992 and for the first nine months of 1993 is based on actual year end or month end results. Starting with fiscal 1989, General Fund revenues, expenditures and transfers as presented in the table differ from the General Fund revenues, expenditures and transfers as presented in the financial statements included in *Appendix II,* as the latter statements reflect an expanded General Fund entity in accordance with generally accepted accounting principles.

Commonwealth of Puerto Rico
General Fund Revenues, Expenditures, and Changes in Cash Balance

	Fiscal Year					
	1988	1989	1990	1991	1992(1)	1993(2)
			(in thousands)			
Beginning cash balance	$ (87,884)	$ 190,257	$ 173,943	$ 112,251	$ 105,475	$ (62,359)
Revenues from internal sources:						
Income taxes:						
Individuals	1,011,824	868,976	1,030,458	1,129,185	1,142,154	1,235,000
Corporations	736,257	786,880	849,313	931,912	1,019,468	976,000
Partnerships	7,478	5,034	2,119	4,001	1,167	1,050
Withheld from non-residents	84,022	46,366	53,439	48,312	62,066	52,000
Tollgate taxes	119,841	118,751	100,253	176,851	98,502	120,000
Interest	12,302	10,910	16,819	15,060	8,505	6,000
Dividends	22,846	20,531	26,428	25,644	23,588	28,000
Total income taxes	1,994,570	1,857,448	2,078,829	2,330,965	2,355,450	2,418,050
Commonwealth excise taxes:						
Alcoholic beverages	184,146	182,466	222,184	219,055	216,890	214,000
Cigarettes	98,593	97,890	113,809	104,454	102,400	104,000
Motor vehicles	180,579	194,875	188,814	172,272	178,329	200,000
Other excise taxes	428,622	440,869	433,691	429,235	490,396	509,000
Total Commonwealth excise taxes	891,940	916,100	958,498	925,016	988,015	1,027,000
Property taxes	160,335	100,269	112,929	132,375	0	0
Inheritance and gift taxes	3,000	3,000	820	1,421	1,147	1,000
Licenses	52,593	44,103	40,523	38,690	48,135	48,000
Other:						
Lottery	60,935	67,520	74,416	64,563	60,597	63,000
Electronic Lottery	0	0	0	0	59,091	54,000
Miscellaneous non-tax revenues	99,633	92,435	167,972	168,137	111,148	104,000
Total other	160,568	159,955	242,388	232,700	230,836	221,000
Total revenues from internal sources	3,263,006	3,080,875	3,433,987	3,661,167	3,623,583	3,715,050
Revenues from non-Commonwealth sources:						
Federal excise taxes	188,000	177,965	213,714	199,386	196,498	180,000
Customs	103,060	105,355	93,659	94,384	93,038	95,000
Total revenues from non-Commonwealth sources	291,060	283,320	307,373	293,770	291,536	275,000
Total revenues	3,554,066	3,364,195	3,741,360	3,954,937	3,915,119	3,990,050
Transfers to debt service fund(4)	(190,872)(3)	(215,000)(3)	(244,806)	(273,859)	(283,236)	(295,881)
Revenues from 1992 tax amnesty	0	0	0	0	189,877	0
Other non-revenue sources	0	0	161,000 (5)	30,000 (6)	0	0
Note proceeds(7)	430,275	529,220	650,391	400,236	0	401,917
Repayment of notes(8)	(446,202)	(544,354)	(664,202)	(408,120)	0	(413,788)
Adjusted revenues	3,347,267	3,134,061	3,643,743	3,703,194	3,821,760	3,682,298
Expenditures:						
Grants and subsidies	1,461,163	1,776,585	1,234,333	1,197,664	1,217,157	1,217,236
Personal services	1,121,969	1,249,764	1,295,561	1,332,459	1,405,472	1,413,610
Other services	353,312	402,757	371,745	348,237	448,239	420,630
Materials and supplies	52,302	72,875	64,886	60,118	67,474	63,780
Equipment purchased	27,472	48,577	32,949	26,834	31,152	42,567
Capital outlays	23,711	19,382	31,888	50,490	41,235	22,117
Debt Service on special promissory notes and GDB lines of credit	5,198	0	0	74,354	63,891	5,783
Total expenditures	3,045,127	3,569,940	3,031,362	3,090,156	3,274,620	3,185,723
Adjusted revenues less expenditures	302,140	(435,879)	612,381	613,038	547,140	496,575
Transfers:						
Transfers in and other sources	196,824	590,855	176,464	441,326	504,895	562,000
Transfers out and other uses	(220,823)	(171,290)	(850,537)	(1,061,140)	(1,219,869)	(1,200,250)
Net transfers	(23,999)	419,565	(674,073)	(619,814)	(714,974)	(638,250)
Ending cash balance	$ 190,257	$ 173,943	$ 112,251	$ 105,475	$ (62,359)	$ (204,034)

(1) Subject to adjustment
(2) Estimated
(3) Does not include amounts deposited directly to the debt service fund from non-General Fund revenues
(4) Consists of amounts to pay principal of and interest on general obligation bonds and notes of the Commonwealth and bonds of the Sugar Corporation of Puerto Rico for which the guarantee of the Commonwealth had been exercised (all such bonds of the Sugar Corporation matured on July 1, 1989). Does not include amount deposited directly to the debt service fund from non-General Fund revenues.
(5) Consists of the sale of assets of the Communications Authority to the Telephone Authority and the release of certain reserves of the Public Buildings Authority
(6) Consists of moneys received by the Commonwealth from the reoffering of certain notes of the Puerto Rico Sugar Corporation
(7) Consists of proceeds from Commonwealth tax and revenue anticipation notes issued in each such fiscal year. In addition, fiscal year 1990 includes $100,000,000 in proceeds under a line of credit provided by Government Development Bank.
(8) Consists of repayment of Commonwealth tax and revenue anticipation notes in each such fiscal year and in fiscal year 1990 of a $100,000,000 line of credit provided by Government Development Bank

Source: Department of the Treasury

Estimated Fiscal 1993 Compared to Preliminary Fiscal 1992

General Fund estimated total revenues for fiscal 1993 are forecast at $3,990 million, an increase of $74.9 million (1.9%) over fiscal 1992. Major projected changes are the following: total income taxes increased by $62.6 million, excise taxes by $39.0 million and federal excise taxes are reduced by $18.5 million.

Beginning in fiscal 1992, municipal property taxes are no longer revenues of the General Fund. This revenue source was transferred to the municipalities pursuant to Act. No. 80, approved on August 30, 1991 ("Act No. 80").

In general terms, the revenue increase for fiscal 1993 is tied to the economic expansion projected for fiscal 1993. The economy of the Commonwealth of Puerto Rico is expected to grow at a real rate of 2.9% for fiscal 1993.

Total projected expenditures for fiscal 1993 are expected to decrease to $3,185.7 million, a 2.7% decrease, when compared to preliminary fiscal 1992. Transfers in and transfers out are projected to be maintained at fiscal 1992 levels. The ending cash balance for the General Fund for fiscal 1993 is forecast to decrease by $141.7 million as compared with fiscal 1992.

Preliminary Fiscal 1992 Compared to Fiscal 1991

Total revenues for fiscal 1992 were 1.0% below fiscal 1991. This was due to the transfer of municipal property taxes to the municipalities under Act No. 80. Although this was partly offset by minor increases in income taxes, excise taxes and licenses, there were slight decreases in revenues from customs duties and federal excise taxes. Excluding municipal property taxes, revenues from internal sources for fiscal 1992 ($3,623 million) increased by 2.7% when compared to fiscal 1991 ($3,529 million). The ending cash balance for the General Fund for fiscal 1992 decreased by $167.8 million as compared with fiscal 1991.

Total expenditures for fiscal 1992 were $3,274.6 million, compared with $3,090.2 million for fiscal 1991. The major component of transfers out during both fiscal year 1992 and 1991 is the amount appropriated from the General Fund to the Health Fund that amounted to $523.6 million in fiscal 1992 and $482.6 in fiscal 1991.

Fiscal 1991 Compared to Fiscal 1990

For fiscal 1991, total revenues rose by $212 million to a level of $3,955 million (a 5.7% increase) while total expenditures increased marginally to a level of $3,090 million from $3,031 million. The ending cash balance of the General Fund for fiscal 1991 decreased by approximately $6.8 million as compared with fiscal 1990. The major components of the changes in revenues and expenditures for fiscal 1991 are set forth below.

Total income tax receipts for fiscal 1991 exceeded fiscal 1990 receipts by over $252 million. This increase in total income tax receipts was due in large measure to the growth in the taxpayer base.

Commonwealth excise taxes for fiscal 1991 were lower than fiscal 1990 collections by $33.4 million as a result of a decrease in cigarette, motor vehicle and the five per cent general tax collections.

Non-Commonwealth revenues for fiscal 1991 reflect a reduction of $13.7 million when compared to fiscal 1990. This reduction was due to the $1.00 per barrel increase in federal excise tax (which is not returned to Puerto Rico). In addition, states approved legislation making 21 the minimum age for the consumption of liquor which affected consumption of alcoholic beverages and in turn, revenues for this item.

Fiscal 1990 Compared to Fiscal 1989

For fiscal 1990 total revenues rose by $377 million to a level of $3,741 million (an 11.2% increase), while total expenditures declined by $538.6 million to a level of $3,031 million (a 15.1% decrease). The ending cash balance of the General Fund for fiscal 1990 declined by $61.7 million as compared with fiscal 1989. The major components of the changes in revenues and expenditures for fiscal 1990 are set forth below.

Total income tax receipts for fiscal 1990 exceeded fiscal 1989 receipts by over $221.3 million and exceeded the receipts in fiscal 1988, when most tax amnesty revenues were received. This increase in total income tax receipts was due in large measure to the postponement of the final stage of the tax reform program enacted in 1987 and to growth in the taxpayer base.

Commonwealth excise taxes for fiscal 1990 exceeded fiscal 1989 collections by $42.4 million as a result of growth in the economy, while lottery receipts rose by $6.9 million in spite of a temporary disruption in lottery operations in the early part of fiscal 1990.

Non-Commonwealth revenues for fiscal 1990 exceeded fiscal 1989 collections by $24 million, due in large measure to improvements in the collection of federal excise taxes on rum that are rebated to Puerto Rico.

The decline in grants and subsidies for fiscal 1990 over fiscal 1989 arose primarily from increased control of special appropriations by the Treasury and a change in the presentation of payments provided to the Health Facilities and Services Administration. Since fiscal 1990, these payments have been reported as a transfer out rather than as grants and subsidies.

Fiscal 1989 Compared to Fiscal 1988

In fiscal 1989, the ending positive cash balance of the General Fund was $173.9 million, compared with an ending positive cash balance for fiscal 1988 of $190.2 million.

Total revenues for fiscal 1989 were $3,364 million compared with $3,554 million for fiscal 1988. The fiscal 1988 revenues include $294.9 million collected during the one-time tax amnesty enacted in 1987 as part of the tax reform program. The fiscal 1989 revenues were negatively affected, as anticipated, by a reduction in income tax collections resulting from the tax reform program. Of the $294.9 million tax amnesty collections in fiscal 1988, $16.4 million were actually disbursed in fiscal 1988, with the balance carried forward to the beginning cash balance for fiscal 1989. During fiscal 1989, $255.4 million were disbursed.

Total expenditures for fiscal 1989 increased by $524 million, due mainly to an increase of $315 million in grants and subsidies and an increase of $128 million in personal services expenditures. Grants and subsidies and personal services increased primarily as a result of increased disbursements to the central government for salaries under the control of the Office of Budget and Management paid to public employees, subsidies to the University of Puerto Rico and municipalities and contributions for operating expenses of the Health Facilities and Services Administration. This increase in grants and subsidies was funded in part from the revenues collected during the fiscal 1988 tax amnesty and the disbursement of additional resources carried forward to fiscal 1989 from previous years. Expenditures for personal services increased by $128 million in fiscal 1989, an 11% increase over fiscal 1988.

Transfers into the General Fund were $590.9 million and transfers out were $171.1 million.

Major Sources of General Fund Revenues

Income Taxes

The Commonwealth's income tax law, the Income Tax Act of 1954 (the "ITA"), imposes a tax on the income of individual residents of Puerto Rico, trusts, estates, and domestic and foreign (if engaged in a trade or business in Puerto Rico) corporations and partnerships. A withholding tax is imposed on certain payments made to non-residents of Puerto Rico. In October 1987, the ITA was amended as part of a major tax reform program that included a revised excise tax law and a one-time tax amnesty. In order to help cover a projected shortfall in revenues for fiscal 1990, the ITA was further amended in December 1989 to postpone for one year the third year of the three-year reform program. As part of the Commonwealth budget for fiscal 1991, the legislature has approved a modification to the third phase of the tax reform program.

Individuals. Resident individuals are subject to tax on their taxable income from all sources. Prior to the tax reform amendments, the tax rates for individuals ranged from 10.26% to 50%. The 1987 tax reform amendments consolidated fifteen tax brackets into four, with rates of 9%, 15%, 25% and 33% subject to a three-year phase-in period commencing in 1988. The 1987 tax reform program provided for maximum individual rates of 41%, 38% and 33%, respectively, for 1988, 1989 and 1990. The 1989 amendments to the ITA extended the phase-in period for an additional year, with the maximum individual rate for 1989 and 1990 at 38%. On April 19,1990, the third phase was modified to provide for a maximum tax bracket reduction to 36% for 1991 and subsequent years, instead of 33% as originally enacted. Individuals with adjusted gross income ("AGI") of $75,000 or more must pay the higher of the regular income tax and an alternative base tax at a rate of 10%, 15% or 20% based on the level of AGI. As a result of the tax reform, the tax-free income level increased from less than $900 to $3,300 for a single individual and from $4,000 to $8,600 for a married couple with two dependents. In addition, certain deductions and exclusions were repealed, phased out or limited. These changes were effective for taxable years commencing after December 31, 1987. Individuals, however, may elect to determine their tax liability with respect to any taxable year commencing on or before December 31, 1992 under the rules that applied prior to the tax reform.

Interest income in excess of $2,000 (the first $2,000 exempt) on deposits with Puerto Rico financial institutions is taxed at a rate of 17%, and dividend income from Puerto Rico sources is taxed at a rate of 20%. Gain realized from the sale or exchange of a capital asset, if held for more than six months, is taxed at a maximum rate of 20%.

Corporations and Partnerships. Puerto Rico corporations and partnerships are subject to tax on income from whatever source; foreign corporations and partnerships that are engaged in a trade or business in Puerto Rico are subject to tax on their income from Puerto Rico sources and on income from sources outside Puerto Rico that is effectively connected with the conduct of a trade or business in Puerto Rico. Unless a corporation or partnership qualifies for partial exemption from corporate income and other taxes under the industrial incentives program (see "Tax Incentives" under *The Economy in Appendix I*), it is subject to tax at graduated rates.

The 1987 tax reform amendments reduced the income tax brackets for corporations and partnerships to six, with a reduction in tax rates being phased in over a six-year period commencing in 1988. The 1989 amendments to the ITA postponed the phase-in of the reduction in tax rates indefinitely. The ITA, as amended in 1989, provides for the highest rate applicable to taxable income in excess of $275,000 to be maintained at 42% for taxable years commencing after December 31, 1990. Certain corporations and partnerships covered by Act No. 8 of the Legislature of Puerto Rico, approved January 24, 1987 (known as the Puerto Rico Tax Incentives Act), or by Act No. 52 of the Legislature of Puerto Rico, approved June 2, 1983 (known as the Puerto Rico Tourism Incentives Act), will continue to be subject to a maximum tax rate of 45% on their taxable income. The 1987 amendments also created a new alternative minimum tax of 22%.

The 1987 tax reform amendments created a branch profits tax applicable to resident foreign corporations. The tax is 25% (10% on hotel, manufacturing or shipping operations) of an annual Dividend equivalent amount, and it applies without regard to the Puerto Rico source of income rules.

Most changes affecting corporations were applied to taxable years commencing after December 31, 1986.

Dividends and interest from Puerto Rico sources paid to non-resident corporate recipients generally are subject to a withholding tax at rates of 25% and 29%, respectively. The basic tax on dividends paid to foreign corporate shareholders of United States corporations operating under Section 936 of the Code is 10% but is subject to reduction with respect to dividends paid from profits invested in certain eligible instruments for specified periods of time.

Excise Taxes

The revised Excise Tax Act included in the tax reform program imposes a tax on articles and commodities that are imported into or manufactured in Puerto Rico for consumption in Puerto Rico and a tax on certain transactions, such as hotel occupancy, public shows, and horse racing. The excise tax on certain articles and commodities, such as cigarettes and petroleum products, is based upon the quantity of goods imported. The excise tax on motor vehicles is based on horsepower and weight. Under the previous Excise Tax Act, other articles and commodities were divided into nine categories and taxed at different rates, ranging from 2% to 26%, on their "taxable price in Puerto Rico", which, for importers, was generally the F.O.B. factory price. The revised Excise Tax Act imposes a tax at an effective rate of 6.6% of the F.O.B. factory price for imported goods and 3.6% of the sales price of goods manufactured in Puerto Rico, except sugar, cement, cigarettes, motor vehicles and certain petroleum products which are taxed at different rates. The revised Excise Tax Act eliminates the exemption applicable to goods to be used by the government, except for motor vehicles and construction equipment. Exemptions apply to certain articles, such as food and medicines, and to articles designated for certain users.

Property Taxes

Personal property, which accounts for approximately 37% of total assessed valuation of taxable property, is self-assessed. No real property reassessment has been made since 1958, and construction taking place after that year has been assessed on the basis of what the cost of construction would have been in 1958. Accordingly, the overall assessed valuation of real property for taxation purposes is substantially lower than the actual market value. Also, an exemption on the first $15,000 of assessed valuation in owner-occupied residences is available.

On August 30, 1991, legislation was adopted in the Commonwealth providing a municipal reform program which involves the creation of a new agency assigned to collect property taxes. The program transfers the previous functions of the Department of the Treasury with respect to real and personal property tax assessment, notification, determination and collection to the new agency. Special provisions have been made so that $1.03 per $100 of property tax collections shall continue to be deposited in the Redemption Fund.

Commonwealth of Puerto Rico

Assessed Valuations and Real and Personal Property Taxes
(Commonwealth and Municipalities Combined)
(in thousands)

Fiscal Year Ended June 30	Assessed Valuations(1)	Taxes Levied	Collections of Current Year	Collections of Previous Years	Total Collections
1987	$ 9,264,372	$290,135	$232,504	$45,079	$277,583
1988(2)	10,036,999	319,733	261,167	27,509	288,676
1989	10,476,743	340,020	250,184	32,074	282,258
1990	10,810,982	350,700	272,370	36,912	309,282
1991(3)	11,359,276	374,834	275,603	76,015	351,618
1992	11,209,804	368,209	276,185	22,234	298,419
1993	11,337,421	373,681	N.A.(4)	N.A.(4)	N.A.(4)

(1) Valuation set as of January 1 of preceding fiscal year

(2) Excludes $62,300,000 of property taxes collected during the tax amnesty that expired on February 29, 1988.

(3) Act No. 80, approved by the Puerto Rico Legislature on August 30, 1991, created the Municipal Revenues Collection Center, transferring to this entity the functions and duties of the Department of Treasury regarding the appraisal, notice of imposition and determination and collection of municipal property taxes.

(4) Not available

Source: Department of the Treasury

Other Taxes and Revenues

Motor vehicle license plate and registration fees comprise the major portion of license tax receipts.

Non-tax revenues consist principally of lottery proceeds, documentary stamps, permits, fees and forfeits, proceeds of land sales and receipts from public corporations in lieu of taxes.

Revenues from non-Commonwealth sources include customs duties collected in Puerto Rico and excise taxes on shipments of alcoholic beverages from the island to the mainland United States. The customs duties and excise taxes on shipments are imposed and collected by the United States and returned to the Commonwealth.

Collections of Income, Excise and Property Taxes

The Department of the Treasury has continued its program for improving tax collections which began in fiscal 1986. The program has consisted, in part, of taking the initiative in sponsoring and implementing tax reform, particularly in the areas of excise taxes and income taxes, in order to decrease the incidences of nonpayment of taxes and to expand the taxpayer base. The program has also included (a) improving the methods by which delinquent taxpayers are identified, primarily through the use of computer analyses, (b) computerizing the processing of tax returns, and (c) identifying and eliminating taxpayer abuses of the existing tax laws.

Transfers to General Obligation Debt Service Fund

These consist of transfers from the General Fund to the Debt Service Fund for the amortization of the principal of and interest on general obligation bonds and notes of the Commonwealth and bonds issued by the Sugar Corporation for which the guaranty of the Commonwealth had been exercised (all such bonds of the Sugar Corporation matured on July 1, 1989).

Components of General Fund Expenditures

Grants and Subsidies

This category includes grants and contributions to municipalities, public corporations with independent treasuries and contributions to charitable institutions. It also includes items for or included in court awards, damage awards for personal injury or property damage as well as payment of taxes and payment in lieu of taxes.

Personal Services

This category includes compensation paid for personal services rendered to the Commonwealth and its public instrumentalities by individuals or firms in the form of salaries, wages, per diems, fees, commissions or other forms of compensation.

Other Services

This category includes the payment of services other than the services referred to above, including advertising, printing, communication services, legal expenses, utility services, building and equipment rental and maintenance expenses, insurance premiums and miscellaneous services.

Materials and Supplies

This category includes all articles which ordinarily have short life and durability, lose their characteristic identity in the process of use, have only nominal value ($25 or less), or are not otherwise chargeable as equipment.

Equipment Purchases

The category includes items which have three special characteristics which distinguish them from materials; durability, long useful life and high unit cost. In addition, these items are subject to centralized inventory control as fixed assets.

Capital Outlays

This category includes the acquisition of land and interests in land, the construction of buildings, roads and bridges, and other structures, as well as permanent improvements and additions.

Debt Service for Special Promissory Notes and GDB Line of Credit

Includes payments for the amortization of the principal of and interest on non-general obligation special promissory notes to be paid from collections of past due taxes and, if necessary, from Commonwealth appropriations received in and after fiscal 1990 and payments on notes to GDB to be paid from the balance in the General Fund.

Transfers

Transfers In and Other Sources

Includes repayment of loans and advances to other funds, certain refunds, advances from other funds and other receipts.

Transfers Out and Other Uses

Includes refunds, advances, repayment of advances from other funds, grants and contributions to other funds under the custody of the Secretary of the Treasury and other items. The major portion of transfers out in recent fiscal years consists of transfers to the Health Fund and advances to the municipalities.

Federal Grants

The Commonwealth receives federal grants under numerous programs. The following table presents revenues from federal grants by broad program areas which are accounted in the central accounting system of the Treasury Department.

Commonwealth of Puerto Rico

Federal Grants

	Fiscal Year Ended and Ending June 30				
	1990	1991	1992	1993(p)	1994(1)
			(in thousands)		
Education	$301,339	$373,975	$437,695	$479,345	$483,436
Social services	149,507	156,322	202,522	214,849	217,229
Health(2)	22,918	26,104	24,048	23,218	22,906
Labor and human resources(3)	46,198	44,744	45,341	39,687	40,608
Public works and transportation	49,833	47,122	55,991	56,590	55,483
Public Safety	3,256	8,658	8,114	7,507	7,307
Housing(4)	77,088(5)	12,636(5)	38,786(6)	39,875(6)	45,001(6)
Drug Addiction Treatment	13,589	20,957	19,845	20,643	19,460
Emergency assistance(7)	29,639	35,356	14,166	0	0
Other	29,554	30,415	32,336	35,747	34,705
Total	$722,921	$756,289	$878,844	$917,461	$926,135

(p) Preliminary

(1) Estimated

(2) Amounts of federal grants to the Health Facilities and Services Administration, which is a public corporation, are not included in the Health Area. For fiscal years 1992, 1993 and 1994, the federal funds to this agency total $262.4, $274.8 and $274.8 million, respectively.

(3) Funds approved for the Job Training Partnership Act Program and Community Service Block Grant previously administered by the Office of Economic Opportunity were transferred in fiscal year 1989 to the Right to Work Administration, the Council on Technology Formation and the Child Services and Community Development Office. The total amounts of federal grants to these agencies are not included in these figures.

(4) Amounts presented in this area do not include grants to the Public Housing Administration and Urban Renewal and Housing Corporation.

(5) Amount includes funds approved by FEMA for the construction of permanent housing to the affected families who lost their homes due to Hurricane Hugo damages.

(6) Amount includes Section 8 Housing Assistance Funds which are transferred to the Department of Housing due to the Urban Renewal Housing Corporation's dissolution in fiscal year 1992

(7) Includes disaster relief funds authorized by FEMA to the Commonwealth for Public Assistance Program and state administrative expenses for the operation of the Individual and Family Grant activities. Funds going directly to individuals to meet those disaster related needs are not considered in these figures. For fiscal years 1990 and 1991, amounts include funds received due to Hurricane Hugo which occurred in September 1989. The amount in 1992 represents an estimate of funds approved by FEMA due to the flooding of January 1992.

Source: Office of Budget and Management

COMMONWEALTH BUDGET

Office of Budget and Management

The fundamental objective of the Office of Budget and Management ("OBM") is to improve and strengthen the relationship between policy formulation and budgetary and fiscal management. The law creating OBM also strengthened budgetary controls and created an Operational Audit Division with the primary function of evaluating government operations and programs.

The annual budget includes the public corporations as well as the Commonwealth government; however, the following describes only the Commonwealth budget.

Budgetary Process

The fiscal year of the Commonwealth begins on July 1. The Governor is constitutionally required to submit to the Legislature an annual budget of capital improvements and operating expenses of the Commonwealth for the ensuing fiscal year. The annual budget is prepared by OBM, working with the Planning Board, the Department of the Treasury, and other government offices and agencies. Section 7 of Article VI of the Constitution provides that "The appropriations made for any fiscal year shall not exceed the total revenues, including available surplus, estimated for said fiscal year unless the imposition of taxes sufficient to cover said appropriations is provided by law."

The annual budget, which is developed utilizing elements of program budgeting and zero-base budgeting, includes an estimate of revenues and other resources for the ensuing fiscal year under (i) laws existing at the time the budget is submitted and (ii) legislative measures proposed by the Governor and submitted with the proposed budget, as well as the Governor's recommendations as to appropriations that in his judgment are necessary, convenient, and in conformity with the four-year investment plan prepared by the Planning Board.

The Legislature may amend the budget submitted by the Governor but may not increase any items so as to cause a deficit without imposing taxes to cover such deficit. Upon passage by the Legislature, the budget is referred to the Governor who may decrease or eliminate any item but may not increase or insert any new item in the budget. The Governor may also veto the budget in its entirety and return it to the Legislature with his objections. The Legislature, by a two-thirds majority in each house, may override the Governor's veto. If a budget is not adopted prior to the end of the fiscal year, the annual budget for the preceding fiscal year as originally approved by the Legislature and the Governor is automatically renewed for the ensuing fiscal year until a new budget is approved by the Legislature and the Governor. This permits the Commonwealth to continue to make payments of its operating and other expenses until a new budget is approved.

Financial Control and Adjustment Procedures

Revenue estimates for budgetary purposes are prepared by the Department of the Treasury, except for estimates of federal grants, which are prepared by OBM and various departments and other recipients of such grants. Revenue and federal grant estimates are under continuous review and, if necessary, are revised at least quarterly during the fiscal year. Fiscal control over expenditures is exercised severally by the Governor, through the Director of OBM, and the Secretary of the Treasury. Quarterly reviews and expenditure cut-off procedures are designed to prevent expenditures in excess of appropriations.

During any fiscal year in which the resources available to the Commonwealth are insufficient to cover the appropriations approved for such year, the Governor may take administrative measures to reduce expenses and submit to both houses of the Legislature a detailed report of any adjustment necessary to balance the budget, or make recommendations to the Legislature for new taxes, or take any other necessary action to meet the estimated deficiency, or authorize borrowings under provisions of existing legislation. Any such proposed adjustments shall give effect to the "priority norms" established by law for the disbursement of public funds in the following order of priority: first, the payment of the interest on and amortization requirements for public debt (Commonwealth general obligations and guaranteed debt for which the Commonwealth's guarantee has been exercised); second, the fulfillment of obligations arising out of legally binding contracts, court decisions on eminent domain and certain commitments to protect the name, credit and good faith of the Commonwealth government; third, current expenditures in the areas of health, protection of persons and property, education, welfare and retirement systems; and fourth, all other purposes.

A Budgetary Fund was created by Act No. 147, approved by the Legislature of Puerto Rico on June 18, 1980. The Budgetary Fund is used to cover the appropriations approved in any fiscal year in which the revenues available for such fiscal year are insufficient, to honor the public debt and to provide for unforeseen circumstances in the provision of public services. The Secretary of the Treasury may transfer up to $7 million to the Budgetary Fund from unencumbered surpluses at the end of each fiscal year. The Governor may transfer an amount greater than $7 million to the Budgetary Fund so long as the maximum balance does not exceed 3% of the funds appropriated in the budget joint resolution for the fiscal year in which such funds are to be covered into the Budgetary Fund.

Appropriations

Appropriations in the Central Government Budget of the Commonwealth consist of the following:

(i) General Fund appropriations for recurring ordinary operating expenses of the Central Government and for contributions to public corporations, municipalities, and private organizations. Such appropriations are made by a single annual law known as the Joint Resolution of the General Budget.

(ii) General Fund appropriations for special operating expenses and for capital expenditures. Such appropriations are authorized by separate laws for one or more years for special programs or activities, which may be permanent or transitory.

(iii) Disbursements of Special Funds for operating purposes and for capital improvements. For the most part, such disbursements do not require annual legislative authorization, because they are authorized by previous legislation or by the United States Congress. Federal grants constitute the major part of the resources of the Special Funds.

(iv) Bond Fund appropriations for capital expenditures financed by bonds. Such expenditures may occur in one or more years.

In Puerto Rico, the Central Government has many functions which in the 50 states are the responsibility of local government, such as providing public education and police and fire protection. The central government also makes large annual grants to the University of Puerto Rico and to the municipalities, including reimbursement for property taxes which they do not collect because of the property tax exemption on the first $15,000 of assessed valuation of owner-occupied residences. See "Major Sources of General Fund Revenues — Property Taxes" under *Commonwealth Taxes, Other Revenues and Expenditures.* In the summaries of the budgets of the Central Government presented below, grants to the University of Puerto Rico are included in current expenses for education and debt service on general obligation bonds is included in current expenses for debt service. Debt service on Sugar Corporation notes paid by the Commonwealth is included in current expenses for economic development, and debt service on Urban Renewal and Housing Corporation bonds and notes and on Housing Bank and Finance Agency mortgage subsidy bonds paid by the Commonwealth is included in current expenses for housing.

Approximately 24.6% of the Central Government Budget is committed, including debt service on direct debt of the Commonwealth and on the debt of the Sugar Corporation, municipal subsidies, grants to the University of Puerto Rico, and rental payments to Public Buildings Authority, among others.

Fiscal 1993 Budget

The following table presents a summary of the Commonwealth budget for the fiscal year ending June 30, 1993.

Commonwealth of Puerto Rico
Central Government Annual Budget
Fiscal Year Ending June 30, 1993
(in thousands)

	General Fund	Bond Fund	Special Funds	Total
Resources:				
Revenues from internal sources:				
Property taxes	$ 0	$ —	$ 62,080	$ 62,080
Personal income taxes	1,235,000	—	—	1,235,000
Retained non-resident income taxes	52,000	—	—	52,000
Corporation income taxes	976,000	—	—	976,000
Partnership income taxes	1,000	—	—	1,000
Tollgate taxes	120,000	—	—	120,000
Interest subject to 17%	6,000	—	—	6,000
Dividends subject to 20%	28,000	—	—	28,000
Inheritance and gift taxes	1,000	—	—	1,000
Excise taxes:				
Alcoholic beverages	214,000	—	—	214,000
Motor vehicles and accessories	200,000	—	200	200,200
Cigarettes	104,000	—	—	104,000
Special excise tax on certain petroleum products	120,000	—	—	120,000
Other	389,000	—	77,172	466,172
Licenses	48,000	—	—	48,000
Miscellaneous non-tax revenues:				
Contributions from lottery fund	63,000	—	—	63,000
Electronic lottery	54,000	—	—	54,000
Registration and document certification fees	64,000	—	—	64,000
Other	40,000	—	111,595	151,595
Total revenues from internal sources	3,715,000	—	251,047	3,966,047
Revenues from non-Commonwealth sources:				
Federal excise taxes on off-shore shipments	180,000	—	14,500	194,500
Federal grants	—	—	917,460(a)	917,460
Customs	95,000	—	0	95,000
Total revenues from non-Commonwealth sources	275,000	—	931,960	1,206,960
Total revenues	3,990,000	—	1,183,007	5,173,007
Other:				
Other income from:				
Investment interest	14,000	—	—	14,000
Surplus from prior year appropriations and encumbrances	39,759	—	—	39,759
Reimbursement of excess reserves from PBA	15,012	—	—	15,012
Miscellaneous income	8,285	—	—	8,285
Total other income	77,056	—	—	77,056
TLD sale	95,618	—	—	95,618
Savings from Refunding Bonds	11,400	—	—	11,400
Balance from previous year	31,073	—	330,914	361,987
Bonds authorized	—	310,000	—	310,000
Total other sources	215,147	310,000	330,914	856,061
Total resources	$4,205,147	$310,000	$1,513,921	$6,029,068
Appropriations:				
Current expenses:				
Appropriations controlled by the Office of Budget and Management	$ 0	$ —	—	$ 0
Reserve to reimburse the General Fund	30,000	—	—	30,000
General government	285,599	—	8,484	294,083
Education	1,392,050	—	476,353	1,868,403
Health	532,198	—	65,826	598,024
Welfare	300,451	—	356,502	656,953
Economic development	320,024	—	39,651	359,675
Public safety and protection	636,109	—	42,543	678,652
Transportation and communications	86,804	—	4,481	91,285
Housing	92,332	—	3,054	95,386
Contributions to municipalities	211,209	—	1,647	212,856
Special pension contributions	16,962	—	0	16,962
Debt service	296,891	—	62,080	358,971
Total appropriations — current expenses	4,200,629	—	1,060,621	5,261,250
Capital improvements	4,518	310,000	61,049	375,567
Total appropriations	4,205,147	310,000	1,121,670	5,636,817
Year-end balance	0	—	392,251	392,251
Total appropriations and year-end balance	$4,205,147	$310,000	$1,513,921	$6,029,068

(a) Does not include grants received by the Administration of Health Services and Facilities nor those of other agencies whose accounting systems are not centralized in the Department of the Treasury.

Sources: Department of the Treasury resources and Office of Budget and Management appropriations, as reported on April 14, 1993

In the fiscal 1993 budget, revenues and other resources of all budgetary funds total $5,357,081,000, excluding balances from the previous fiscal year and general obligation bonds authorized. The estimated increases in General Fund revenues in fiscal 1993 are accounted for by increases in personal income taxes (up $112,665,000), tollgate taxes (up $21,498,000), other excise taxes and registration fees (up $48,671,000). These increases are offset by a decrease in other sources (down $178,231,000 attributable to a decrease in non-recurring revenues); corporation income taxes (down $43,468,000); and property taxes (down $15,003,000 due to the transfer from the General Fund to Municipalities pursuant to Act No. 80).

Current expenses and capital improvements, other than those financed by bonds, of all budgetary funds total $5,326,817,000, an increase of $113,702,000 over fiscal 1992. The major changes in General Fund expenditures by program in fiscal 1993 are: education (up $120,620,000), public safety and protection (up $38,811,000), debt service (up $12,327,000), welfare (up $7,188,000), general government (down $80,086,000), appropriations controlled by the Office of Budget and Management (down $69,033,000), economic development (down $32,281,000), and housing (down $20,333,000).

The general obligation bond authorization approved for the fiscal 1993 budget is $310,000,000.

Fiscal 1994 Budget

The following table presents a summary of the budget for the Commonwealth as proposed by the Governor for the fiscal year ending June 30, 1994. The budget for the Commonwealth's 1994 fiscal year has been adopted. Resource amounts, including revenues, and appropriation amounts, as adopted, are not yet available.

Commonwealth of Puerto Rico
Central Government Annual Budget
Fiscal Year Ending June 30, 1994
(in thousands)

Resources	General Fund	Bond Fund	Special Funds	Total
Revenues from internal sources:				
Property taxes	$ 0	$ —	$ 63,140	$ 63,140
Personal income taxes	1,356,000	—	—	1,356,000
Retained non-resident income taxes	49,000	—	—	49,000
Corporation income taxes	1,066,000	—	—	1,066,000
Partnership income taxes	1,000	—	—	1,000
Tollgate taxes	160,000	—	—	160,000
Interest subject to 17%	6,000	—	—	6,000
Dividends subject to 20%	30,000	—	—	30,000
Inheritance and gift taxes	1,000	—	—	1,000
Excise taxes:				
Alcoholic beverages	216,000	—	—	216,000
Motor vehicles and accessories	200,000	—	200	200,200
Cigarettes	104,000	—	—	104,000
Special excise tax on certain petroleum products	120,000	—	—	120,000
Other	406,000	—	80,324	486,324
Licenses	50,000	—	—	50,000
Miscellaneous non-tax revenues:				
Contributions from lottery fund	62,000	—	—	62,000
Electronic lottery	54,000	—	—	54,000
Registration and document certification fees	62,000	—	—	62,000
Other	42,000	—	117,236	159,236
Total revenues from internal sources	3,985,000	—	260,900	4,245,900
Revenues from non-Commonwealth sources:				
Federal excise taxes on off-shore shipments	180,000	—	14,500	194,500
Federal grants	—	—	926,133(1)	926,133
Customs	95,000	—	0	95,000
Total revenues from non-Commonwealth sources	275,000	—	940,633	1,215,633
Total revenues	4,260,000	—	1,201,533	5,461,533
Other:				
Other income from:				
Investment interest	11,725	—	—	11,725
Surplus from prior year appropriations and encumbrances	22,000	—	—	22,000
Reimbursement of excess reserves from PBA	28,000(2)	—	—	28,000
Miscellaneous income	18,000(3)	—	—	18,000
Total, other income	79,725	—	—	79,725
Savings from Refunding Bonds	13,000	—	—	13,000
Balance from previous year	0	—	392,252	392,252
Bonds authorized	—	300,000	—	300,000
Total other sources	92,725	300,000	392,252	784,977
Total resources	$4,352,725	$300,000	$1,593,785	$6,246,510
Appropriations:				
Current expenses:				
Appropriations controlled by the Office of Budget and Management	$ 0	$ —	$ —	$ 0
Reserve to reimburse the General Fund	30,000	—	—	30,000
General Government	271,029	—	3,205	274,234
Education	1,341,627	—	492,320	1,833,947
Health	647,308	—	87,181	734,489
Welfare	262,284	—	328,231	590,515
Economic development	328,540	—	39,620	368,160
Public safety and protection	745,369	—	41,877	787,246
Transportation and communications	88,390	—	6,902	95,292
Housing	89,970	—	1,795	91,765
Contributions to municipalities	230,371	—	1,657	232,028
Special pension contributions	17,837	—	0	17,837
Debt service	300,000	—	63,140	363,140
Total appropriations — current expenses	4,352,725	—	1,065,928	5,418,653
Capital improvements	0	300,000	63,890	363,890
Total appropriations	4,352,725	300,000	1,129,818	5,782,543
Year-end balance	0	—	463,967	463,967
Total appropriations and year-end balance	$4,352,725	$300,000	$1,593,785	$6,246,510

(1) Does not include grants received by the Administration of Health Services and Facilities nor those of other agencies whose accounting systems are not centralized in the Department of the Treasury
(2) Represents rent payment adjustment as a result of previous Public Buildings Authority bond refundings.
(3) Includes $12,000,000 from "payment in lieu of taxes" to be made by the Telephone Authority.
Sources: Department of the Treasury resources and Office of Budget and Management appropriations, as reported on April 14, 1993

In the fiscal 1994 budget, revenues and other resources of all budgetary funds total $5,554,258,000, excluding balances from the previous fiscal year and general obligation bonds authorized. The estimated increases in General Fund revenues in fiscal 1994 are accounted for by increases in personal income taxes (up $121,000,000), corporation income taxes (up $90,000,000), tollgate taxes (up $40,000,000), and other excise taxes (up $17,000,000). These increases are offset by decreases in other revenues (down $122,422,000) reflecting the non-recurring nature of the fiscal 1993 sale of TLD.

Current expenses and capital improvements, other than those financed by bonds, of all budgetary funds total $5,482,543,000, an increase of $155,726,000 from fiscal 1993. The major changes in General Fund expenditures by program in fiscal 1994 are: health (up $115,110,000), public safety and protection (up $109,260,000), contributions to municipalities (up $19,162,000), economic development (up $8,516,000), debt service (up $3,109,000), education (down $50,423,000), welfare (down $38,167,000), general government (down $14,570,000), and housing (down $2,362,000).

Approximately $98,395,295 of budgetary expenditures in fiscal 1994 represent salary increases included within the applicable program areas of the budget.

The proposed general obligation bond authorization for the fiscal 1994 budget is $300,000,000.

Differences between Budget and General Purpose Financial Statements

Revenues and expenditures, as reported by the Department of the Treasury in its General Purpose Financial Statements, may differ substantially from resources and appropriations in the annual budget for a number of reasons, including the following:

(i) The budgetary accounts are on a cash basis, while the financial statements prepared by the Department of the Treasury include accruals and other adjustments as required by government accounting standards.

(ii) Expenditures for current purposes in a particular fiscal year may include amounts appropriated for earlier periods but not previously expended and, conversely, may exclude amounts appropriated for such fiscal year but not expended until later periods.

(iii) Bonds are authorized by the Commonwealth in accordance with a four-year capital improvement program. Since bond sales are determined by bond market conditions and other factors, the amount of bonds sold in any year does not necessarily equal the amount of bonds authorized in the budget for that year. Expenditures for capital improvements are financed by advances from the General Fund to the Capital Projects Fund, which are later reimbursed from proceeds of bond or note sales.

(iv) Advances are made from the General Fund to municipalities and to public corporations and other entities, pending reimbursement from later collections of municipal property taxes and other sources.

APPENDIX II

KPMG Peat Marwick

Certified Public Accountants

COMMONWEALTH OF PUERTO RICO

General Purpose Financial Statements

June 30, 1992

(With Independent Auditors' Report Thereon)

COMMONWEALTH OF PUERTO RICO

General Purpose Financial Statements

June 30, 1992

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KPMG Peat Marwick

Certified Public Accountants

250 Muñoz Rivera Avenue
American International Plaza
11th Floor
Hato Rey, PR 00918

Independent Auditors' Report

The Governor of the
Commonwealth of Puerto Rico:

We have audited the general purpose financial statements of the Commonwealth of Puerto Rico as of and for the year ended June 30, 1992 as listed in the accompanying table of contents. These general purpose financial statements are the responsibility of the management of the Commonwealth. Our responsibility is to express an opinion on these general purpose financial statements based on our audit. We did not audit the financial statements of certain component units, which represent the indicated percent of total assets and total revenues, respectively, of the Special Revenue Fund (6% and 8%), Enterprise Fund (40% and 34%) and the Internal Service Fund (16% and 26%). Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for those component units, is based solely on the reports of the other auditors, which include certain reports that were qualified as described in note 15 to the general purpose financial statements.

Except as discussed in the following three paragraphs, we conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinion.

We did not, nor did other auditors, audit the financial statements of certain component units, which reflect total assets and revenues constituting 31% and .03%, of the Special Revenue Fund and 13% and 8% of the Enterprise Fund, respectively, of total assets and revenues of each of these funds.

As discussed in note 4 to the general purpose financial statements, the balance of loans receivable from participants, including related accrued interest receivable, and escrow liability of the Annuity and Pension System for the Teachers of Puerto Rico, the Employees' Retirement System of the Government of Puerto Rico and its Instrumentalities and of the Puerto Rico Judiciary Retirement System is based on estimates as the actual amounts cannot be determined. Accordingly, we were unable to satisfy ourselves as to the balance of loans receivable from participants, escrow liability and the related investment earnings which are presented in the Fiduciary Fund.

As discussed in note 5 to the general purpose financial statements, the Commonwealth has not maintained complete records relating to certain general fixed assets. Accordingly, we were unable to satisfy ourselves as to the balance of general fixed assets.

As discussed in note 11, the general purpose financial statements do not include a combined statement of revenues and expenditures - budget and actual - general fund which should be included to conform with generally accepted accounting principles.

As discussed in notes 13 and 14 to the general purpose financial statements, the Commonwealth accounts for certain pension costs on a basis other than the basis of accounting required by generally accepted accounting principles. This departure from generally accepted accounting principles has resulted in the Public University Funds not providing $159 million of pension costs through June 30, 1992. The effect of the departure on the governmental funds and general long-term debt account group has not been determined as the required actuarial computations have not been prepared.

As discussed in note 15 to the general purpose financial statements, the Puerto Rico Urban Renewal and Housing Corporation included in the Enterprise Fund did not provide depreciation on fixed assets. Also, an undetermined amount of such fixed assets is available for sale but their net realizable value cannot be presently determined. Such fixed assets should have been depreciated over their estimated useful lives and the carrying value of fixed assets available for sale should have been reduced to net realizable value, if lower, to conform with generally accepted accounting principles. The effect on the general purpose financial statements of the lack of depreciation and the reduction to net realizable value is not reasonably determinable.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to audit the financial statements of certain unaudited component units and examine adequate records to support the balance of loans receivable from participants, escrow liability, related investment earnings and general fixed assets as discussed in the third, fourth and fifth paragraphs and except for the effects on the general purpose financial statements of the omission discussed in the sixth paragraph and of not accounting for pension costs, depreciation and realization of fixed assets available for sale as required by generally accepted accounting principles as discussed in the seventh and eighth paragraphs, based on our audit and the reports of other auditors, the general purpose financial statements referred to above presents fairly, in all material respects, the financial position of the Commonwealth of Puerto Rico as of June 30, 1992, the results of its operations and cash flows of its proprietary fund types for the year then ended in conformity with generally accepted accounting principles.

As discussed in note 12 to the general purpose financial statements, the Commonwealth and various public corporations are defendant in a lawsuit alleging violation of civil rights. Preliminary hearings and discovery proceedings are in progress and the ultimate liability cannot be presently determined. Accordingly, no provision for any liability that may result upon adjudication has been recognized in the general long-term debt account group in the accompanying general purpose financial statements.

KPMG Peat Marwick

April 23, 1993

Stamp No. 1128476 of the Puerto Rico Society of Certified Public Accountants was affixed to the record copy of this report.

COMMONWEALTH OF PUERTO RICO

Combined Balance Sheet - All Fund Types and Account Groups

June 30, 1992
(In thousands)

Assets and Other Debits	Governmental Fund Types: General	Governmental Fund Types: Special Revenue	Governmental Fund Types: Debt Service	Governmental Fund Types: Capital Projects	Proprietary Fund Types: Enterprise	Proprietary Fund Types: Internal Service	Fiduciary Fund Types: Trust and Agency	Account Groups: General Fixed Assets (Unaudited)	Account Groups: General Long-term Debt	Public University Funds	Totals (Memorandum Only)
Cash, cash equivalents and investments (notes 2 and 14)	$ 39,521	67,421	280,138	212,274	1,534,139	3,475,895	2,540,164	-	-	17,718	8,167,270
Cash, cash equivalents and investments in governmental banks (note 3)	37,737	186,864	235,886	276,382	998,387	80,755	549,039	-	-	-	2,365,050
Receivables, net (note 4):											
Taxes	74,714	-	2,263	-	-	-	66,570	-	-	-	143,547
Federal Government	-	40,932	-	26,957	17,693	-	2,170	-	-	-	87,752
Accounts	-	37,098	-	-	818,604	39,024	36,665	-	-	-	931,391
Loans and advances	33,604	27,359	-	-	234,947	1,829,571	542,787	-	-	3,255	2,671,523
Accrued interest	1,943	3,241	5,325	4,499	26,545	71,034	46,959	-	-	-	159,546
Other	-	2,691	-	-	21,578	20,699	-	-	-	4,393	49,361
Due from other funds (notes 6 and 10)	139,090	75,247	30,043	19,492	209,683	49,094	39,693	-	-	21,672	584,014
Inventories	-	-	-	-	306,109	151,190	-	-	-	5,242	462,541
Restricted assets (notes 2, 3, 6, 14 and 15)	151,626	36,208	-	-	1,111,776	3,002,447	-	-	-	68,994	4,371,051
Fixed assets, net (notes 5, 14 and 15)	-	-	-	-	9,215,914	982,943	68,051	2,554,732	-	422,382	13,244,022
Other assets	-	1,134	-	312	450,799	48,020	982	-	-	460	501,707
Amount available in debt service fund	-	-	-	-	-	-	-	-	198,271	-	198,271
Amount to be provided for retirement of bonds and notes payable	-	-	-	-	-	-	-	-	5,200,154	-	5,200,154
Amount to be provided for payment of due to other funds, accrued compensated absences, and other long-term liabilities	-	-	-	-	-	-	-	-	1,137,797	-	1,137,797
Total assets and other debits	$ 478,235	478,195	553,655	539,916	14,946,174	9,750,672	3,893,080	2,554,732	6,536,222	544,116	40,274,997

COMMONWEALTH OF PUERTO RICO

Combined Balance Sheet - All Fund Types and Account Groups

June 30, 1992
(In thousands)

	Governmental Fund Types				Proprietary Fund Types		Fiduciary Fund Types	Account Groups			
Liabilities	General	Special Revenue	Debt Service	Capital Projects	Enterprise	Internal Service	Trust and Agency	General Fixed Assets (Unaudited)	General Long-term Debt	Public University Funds	Totals (Memorandum Only)
Accounts payable and accrued liabilities	$ 180,355	306,872	3,825	92,264	2,176,623	146,920	59,446	-	-	53,632	3,019,937
Tax refunds payable	95,658	-	-	-	-	-	-	-	-	-	95,658
Deposits (notes 3 and 15)	-	-	-	-	369,054	3,475,767	-	-	-	-	3,844,821
Due to other funds (notes 6 and 10)	95,860	128,810	-	49,203	43,399	24,906	111,100	-	170,630	-	623,908
Securities sold under agreements to repurchase	-	-	-	-	564,505	860,023	-	-	-	-	1,424,528
Interest payable	1,394	13,108	135,740	-	213,846	115,320	-	-	-	-	479,408
Deferred revenue	19,093	22,138	-	-	68,840	-	15,964	-	-	-	126,035
Notes payable (notes 6, 14 and 15)	30,000	40,984	60,000	-	2,044,243	1,233,728	-	-	382,381	17,900	3,809,236
Bonds payable (notes 6, 14 and 15)	-	-	155,819	-	5,008,316	2,857,491	-	-	3,156,926	187,751	11,366,303
Appropriation and revenue bonds and notes payable of component units (note 7)	-	-	-	-	-	-	-	-	1,859,118	-	1,859,118
Accrued compensated absences	-	-	-	-	274,807	16,804	2,751	-	518,505	22,027	834,894
Other liabilities (note 4)	15,445	715	-	2,389	-	-	771,400	-	-	-	789,949
Other long-term liabilities (notes 6, 8, 9 and 12)	-	-	-	-	89,356	1,749	-	-	448,662	-	539,767
Total liabilities	437,805	512,627	355,384	143,856	10,852,989	8,732,708	960,661	-	6,536,222	281,310	28,813,562
Fund Equity/(Deficit)											
Contributed capital (note 15)	-	-	-	-	4,660,140	857,542	-	-	-	-	5,517,682
Investment in general fixed assets	-	-	-	-	-	-	-	2,554,732	-	232,229	2,786,961
Retained earnings/(deficit)	-	-	-	-	(566,955)	160,422	-	-	-	-	(406,533)
Fund balance/(deficit):											
Reserved for:											
Encumbrances	93,325	222	-	5,322	-	-	2,708	-	-	25,055	126,632
Debt service (note 7)	-	-	198,271	-	-	-	-	-	-	22,010	220,281
Employees' retirement	-	-	-	-	-	-	1,940,304	-	-	-	1,940,304
Unemployment benefits	-	-	-	-	-	-	832,778	-	-	-	832,778
Other specified purposes	144,765	27	-	390,738	-	-	156,629	-	-	3,799	695,958
Unreserved	(197,660)	(34,681)	-	-	-	-	-	-	-	(20,287)	(252,628)
Total fund equity/(deficit)	40,430	(34,432)	198,271	396,060	4,093,185	1,017,964	2,932,419	2,554,732	-	262,806	11,461,435
Commitments and contingencies (notes 8, 9, 12, 14 and 15)											
Total liabilities, fund equity/(deficit) and other credits	$ 478,235	478,195	553,655	539,916	14,946,174	9,750,672	3,893,080	2,554,732	6,536,222	544,116	40,274,997

See accompanying notes to general purpose financial statements.

COMMONWEALTH OF PUERTO RICO

Combined Statement of Revenues, Expenditures and Changes in Fund Balance/(Deficit) - All Governmental Fund Types and Expendable Trust Funds

Year ended June 30, 1992
(In thousands)

	Governmental Fund Types: General	Governmental Fund Types: Special Revenue	Governmental Fund Types: Debt Service	Governmental Fund Types: Capital Projects	Fiduciary Fund Types: Expendable Trust	Totals (Memorandum Only)
Revenues:						
Taxes (notes 4 and 7):						
Income	$ 2,478,803	-	-	-	-	2,478,803
Property	60,283	-	60,804	-	-	121,087
Excise, including reimbursement of Federal excise taxes of $210,063	1,211,748	-	136,274	-	-	1,348,022
Other	49,190	7,521	414	-	199,718	256,843
Charges for services	678,748	3,726	-	-	2,708	685,182
Intergovernmental	125,363	2,014,328	-	71,914	124,845	2,336,450
Other	80,982	33,013	91,732	1,480	67,472	274,679
Total revenues	4,685,117	2,058,588	289,224	73,394	394,743	7,501,066
Expenditures:						
Current:						
General government	386,717	1,336	-	-	-	388,053
Public safety	619,456	25,210	-	-	100	644,766
Health	110,130	78,999	-	-	-	189,129
Public housing and welfare	287,721	1,160,240	-	-	46,524	1,494,485
Education	919,466	664,283	-	-	-	1,583,749
Economic development	129,011	306,204	-	-	269,770	704,985
Aid to municipalities (note 4)	276,771	54,929	-	-	-	331,700
Lottery prizes	416,873	-	-	-	-	416,873
Capital outlays	44,861	22,100	-	679,747	13,382	760,090
Debt service:						
Principal	38,350	3,486	268,330	-	-	310,166
Interest and other	10,417	7,963	339,265	-	-	357,645
Total expenditures	3,239,773	2,324,750	607,595	679,747	329,776	7,181,641
Excess/(deficiency) of revenues over/(under) expenditures	1,445,344	(266,162)	(318,371)	(606,353)	64,967	319,425
Other financing sources/(uses):						
Proceeds from long-term debt issues (note 6)	-	125,000	253,962	712,157	-	1,091,119
Operating transfers in (note 10)	36,450	196,427	445,353	152,891	7,380	838,501
Other sources	10,602	2,929	-	1,795	2,341	17,667
Operating transfers out (note 10)	(1,552,470)	(72,518)	(134,181)	(96,893)	-	(1,856,062)
Payment of refunded bonds	-	-	(243,071)	-	-	(243,071)
Other uses	(13,258)	(9,012)	(519)	(159)	(1,889)	(24,837)
Total other financing sources/(uses), net	(1,518,676)	242,826	321,544	769,791	7,832	(176,683)
Excess/(deficiency) of revenues and other financing sources over/(under) expenditures and other financing uses	(73,332)	(23,336)	3,173	163,438	72,799	142,742
Fund balance/(deficit) at beginning of year	113,762	(19,308)	195,098	232,622	927,204	1,449,378
Effect of inclusion of prior year operations (note 1(u))	-	8,212	-	-	(7,888)	324
Fund balance/(deficit) at end of year	$ 40,430	(34,432)	198,271	396,060	992,115	1,592,444

See accompanying notes to general purpose financial statements.

COMMONWEALTH OF PUERTO RICO
Combined Statement of Revenues, Expenses and Changes in Retained Earnings/(Deficit)/Fund Balance - All Proprietary Fund Types and Pension Trust Funds

Year ended June 30, 1992
(In thousands)

	Proprietary Fund Types		Fiduciary Fund Types	Totals
	Enterprise	Internal Service	Pension Trust	(Memorandum Only)
Operating revenues:				
Charges for services	$ 3,579,540	232,440	-	3,811,980
Financing income	19,090	126,195	-	145,285
Investment earnings	63,008	343,803	180,416	587,227
Contributions to retirement systems	-	-	411,994	411,994
Other	90,359	4,910	-	95,269
Total operating revenues	3,751,997	707,348	592,410	5,051,755
Operating expenses:				
Cost of services	3,986,730	152,399	29,757	4,168,886
Retirement benefits	-	-	401,738	401,738
Interest	86,027	430,969	-	516,996
Depreciation and amortization	418,788	35,783	-	454,571
Other	13,909	10,851	-	24,760
Total operating expenses	4,505,454	630,002	431,495	5,566,951
Operating income/(loss)	(753,457)	77,346	160,915	(515,196)
Non-operating revenues/(expenses):				
Federal subsidies and grants	178,785	-	-	178,785
Interest income	146,365	10,575	-	156,940
Interest expense	(357,043)	(19)	-	(357,062)
Other, net	(100,962)	25,521	-	(75,441)
Total non-operating revenues/(expenses), net	(132,855)	36,077	-	(96,778)
Income/(loss) before operating transfers	(886,312)	113,423	160,915	(611,974)
Operating transfers in	742,861	4,277	-	747,138
Operating transfers out	(48,112)	-	-	(48,112)
Operating transfers, net (note 10)	694,749	4,277	-	699,026
Net income/(loss)	(191,563)	117,700	160,915	87,052
Retained earnings/(deficit)/fund balance at beginning of year:				
As previously reported	(264,967)	106,239	1,779,389	1,620,661
Restatement (note 16)	-	11,483	-	11,483
As restated	(264,967)	117,722	1,779,389	1,632,144
Contributions	3,310	-	-	3,310
Transfers to contributed capital	(76,116)	(75,000)	-	(151,116)
Effect of inclusion of prior year operations (note 1(u))	(37,619)	-	-	(37,619)
Retained earnings/(deficit) fund balance at end of year (notes 13 and 15)	$ (566,955)	160,422	1,940,304	1,533,771

See accompanying notes to general purpose financial statements.

COMMONWEALTH OF PUERTO RICO

Combined Statement of Cash Flows -
All Proprietary Fund Types

Year ended June 30, 1992
(In thousands)

	Proprietary Fund Type: Enterprise	Proprietary Fund Type: Internal Service	Totals (Memorandum Only)
Cash flows from operating activities:			
Operating income/(loss)	$ (753,457)	77,346	(676,111)
Adjustments to reconcile operating income/(loss) to net cash provided by/(used in) operating activities:			
Depreciation and amortization	418,788	35,783	454,571
Provision for uncollectible accounts	64,148	9,138	73,286
Amortization of debt discount	18,031	24	18,055
Net loss on disposition of fixed assets	10	-	10
Gain on sale of investments and fixed assets	(12,339)	-	(12,339)
Amortization of premiums on investments	(4,502)	(118,172)	(122,674)
Contribution of in lieu of taxes	(126,293)	-	(126,293)
Net cash flow effect of noncapital financing, capital and related financing and investing activities included in operating income/(loss)	(17,615)	(30,428)	(48,043)
Other	(9,273)	26,681	17,408
Changes in assets and liabilities:			
Increase in:			
Receivables, net	(90,379)	(228,726)	(319,105)
Due from other funds	(21,548)	(14,014)	(35,562)
Accounts payable and accrued liabilities	340,156	12,865	353,021
Due to other funds	7,907	-	7,907
Securities sold under agreements to repurchase	443,003	391,686	834,689
Interest payable	2,100	3,838	5,938
Deferred revenue	37,892	-	37,892
Accrued compensated absences	15,024	851	15,875
Other long-term liabilities	2,712	360	3,072
Decrease in:			
Inventories	16,438	9,700	26,138
Restricted assets	95,763	27,710	123,473
Other assets	42,588	5,726	48,314
Deposits	(58,158)	(757,139)	(815,297)
Due to other funds	-	(35,028)	(35,028)
Total adjustments	1,164,453	(659,145)	505,308
Net cash provided by/(used in) operating activities, carried forward	$ 410,996	(581,799)	(170,803)

COMMONWEALTH OF PUERTO RICO

Combined Statement of Cash Flows -
All Proprietary Fund Types, Continued

Year ended June 30, 1992
(In thousands)

	Proprietary Fund Types Enterprise	Proprietary Fund Types Internal Service	Totals (Memorandum Only)
Net cash provided by/(used in) operating activities, brought forward	$ 410,996	(581,799)	(170,803)
Cash flows from noncapital financing activities:			
Proceeds from issuance of notes and loans	82,409	6,193,084	6,275,493
Principal paid on notes and loans	(447,391)	(5,075,698)	(5,523,089)
Interest paid on notes and loans	(74,258)	(125,386)	(199,644)
Operating grants received	178,785	-	178,785
Operating transfers in from other funds	742,861	4,277	747,138
Operating transfers out to other funds	(48,112)	-	(48,112)
Capital contributions	25,727	-	25,727
Net cash provided by noncapital financing activities	460,021	996,277	1,456,298
Cash flows from capital and related financing activities:			
Acquisition and construction of capital assets	(888,300)	(82,258)	(970,558)
Proceeds from issuance of bonds and notes	625,055	205,230	830,285
Principal paid on bonds and notes	(385,849)	(17,355)	(403,204)
Interest paid on bonds and notes	(298,018)	(66,360)	(364,378)
Proceeds from sales of fixed assets	13,139	1,529	14,668
Capital contributions	135,556	-	135,556
Net cash provided by/(used in) capital and related financing activities	(798,417)	40,786	(757,631)
Cash flows from investing activities:			
Purchase of investments securities	(1,606,562)	(4,501,474)	(6,108,036)
Proceeds from sales and maturities of investments securities	1,059,596	3,857,912	4,917,508
Interest and dividends on investments	179,269	232,730	411,999
Net cash used in investing activities	(367,697)	(410,832)	(778,529)
Net increase/(decrease) in cash and cash equivalents	(295,097)	44,432	(250,665)
Cash and cash equivalents at beginning of year	1,865,924	2,450,206	4,316,130
Cash and cash equivalents at end of year (note 1(E))	$ 1,570,827	2,494,638	4,065,465

See accompanying notes to general purpose financial statements.

COMMONWEALTH OF PUERTO RICO

Combined Statement of Changes in Fund Balance/(Deficit) -
Public University Funds

Year ended June 30, 1992
(In thousands)

	Current Funds		Loan Funds	Endowment and Similar Funds	Plant Funds			
	Unrestricted	Restricted			Unexpended	Renewal and Replacement	Retirement Indebtedness	Investment in Plant
Revenues and other additions (note 14):								
Unrestricted current fund revenues	$ 352,428	-	-	-	-	-	-	-
Commonwealth grants and contracts	-	72,825	-	-	3,135	1,120	-	-
Federal grants and contracts	-	86,619	-	-	-	-	311	-
Private gifts, grants and contracts	-	6,211	-	5	-	-	-	-
Investment income	-	180	-	4	505	-	1,791	-
Interest on loans receivable	-	-	118	-	-	-	-	-
Expended for plant facilities (including $5,519 charged to current funds expenditures)	-	-	-	-	-	-	-	25,691
Retirement of indebtedness	-	-	-	-	-	-	-	4,866
Other	-	15,807	-	-	1,405	43	-	-
Total revenues and other additions	352,428	181,642	118	9	5,045	1,163	2,102	30,557
Expenditures and other deductions:								
Educational and general expenditures	310,648	194,343	-	-	-	-	-	-
Auxiliary enterprises expenditures	6,247	-	-	-	-	-	-	-
Indirect costs recovered	-	368	-	-	-	-	-	-
Refunded to grantors	-	182	8	-	-	-	-	-
Loan cancellations and assignments	-	-	15	-	-	-	-	-
Administrative and collection costs	-	-	7	-	-	-	-	-
Expended for plant facilities	-	-	-	-	20,146	27	-	-
Retirement of indebtedness	-	-	-	-	-	-	4,866	-
Interest on indebtedness	-	-	-	-	-	-	13,133	-
Disposal of plant facilities	-	-	-	-	-	-	-	3,707
Other	-	-	48	-	-	-	-	1,086
Total expenditures and other deductions	316,895	194,893	78	-	20,146	27	17,999	4,793
Transfers among funds-additions/(deductions):								
Mandatory:								
Principal and interest	(15,977)	(365)	-	-	-	-	16,342	-
Restricted current fund matching grants	(2,407)	2,407	-	-	-	-	-	-
Other transfers:								
Unrestricted current funds	(8,504)	7,826	-	-	678	-	-	-
Plant funds	-	-	-	-	318	(318)	-	-
Total transfers	(26,888)	9,868	-	-	996	(318)	16,342	-
Net increase/(decrease) for the year	8,645	(3,383)	40	9	(14,105)	818	445	25,764
Fund balance/(deficit) at beginning of year	(8,047)	11,064	5,786	1,143	5,513	1,084	21,565	206,465
Fund balance/(deficit) at end of year	$ 598	7,681	5,826	1,152	(8,592)	1,902	22,010	232,229

See accompanying notes to general purpose financial statements.

COMMONWEALTH OF PUERTO RICO

Combined Statement of Current Funds Revenues, Expenditures and Other Changes - Public University Funds

Year ended June 30, 1992
(In thousands)

	Unrestricted	Restricted	Total
Revenues:			
Tuition and fees	$ 29,906	3,248	33,154
Federal grants and contracts	-	97,278	97,278
Private gifts, grants and contracts	-	6,211	6,211
Sales and services of educational departments	1,361	2,193	3,554
Sales and services of auxiliary enterprises	4,712	-	4,712
Investment income	-	180	180
Other sources	5,568	10,366	15,934
Total current revenues	41,547	119,476	161,023
Expenditures and mandatory transfers:			
Educational and general:			
Instruction	125,628	12,784	138,412
Research	4,477	37,750	42,227
Public service	914	23,141	24,055
Academic support	43,971	1,597	45,568
Student services	17,575	1,817	19,392
Institutional support	66,604	2,455	69,059
Operation and maintenance of plant	48,062	577	48,639
Scholarships and fellowships	1,470	70,127	71,597
Hospitals	-	36,176	36,176
Independent operations	379	497	876
Other	1,568	7,422	8,990
Educational and general expenditures	310,648	194,343	504,991
Mandatory transfers for:			
Principal and interest	15,977	365	16,342
Restricted current fund matching grants	2,407	(2,407)	-
Total educational, general and mandatory transfers	329,032	192,301	521,333
Auxiliary enterprises - expenditures	6,247	-	6,247
Total expenditures and mandatory transfers	335,279	192,301	527,580
Other transfers and additions/(deductions):			
Commonwealth grants and contracts (notes 10 and 14)	310,881	72,825	383,706
Excess of transfers to revenues over restricted receipts	-	(11,027)	(11,027)
Refunded to grantors	-	(182)	(182)
Non mandatory transfers	(8,504)	7,826	(678)
Total other transfers and additions/(deductions)	302,377	69,442	371,819
Net increase/(decrease) in fund balance	$ 8,645	(3,383)	5,262

See accompanying notes to general purpose financial statements.

COMMONWEALTH OF PUERTO RICO

Notes to General Purpose Financial Statements

June 30, 1992

(1) Summary of Significant Accounting Policies

The Commonwealth of Puerto Rico (the Commonwealth) was constituted on July 25, 1952, under the provisions of its Constitution as approved by the people of Puerto Rico and the United States Congress. The Commonwealth's Constitution provides for the separation of powers of the executive, legislative and judicial branches of the government. The Commonwealth assumes responsibility for public safety, health, public housing, welfare, education and economic development.

The accompanying general purpose financial statements have been prepared in conformity with generally accepted accounting principles as applicable to governmental units, except where indicated. The following is a summary of the significant accounting policies:

A. Reporting Entity

In evaluating how to define the Commonwealth for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth by generally accepted accounting principles. The basic, but not the only, criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility over the component unit. The significant manifestations of this ability include, but are not limited to, financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations, and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the government and/or its people, or whether the activity is conducted within the geographic boundaries of the government and is generally available to its people. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the government is able to exercise oversight responsibilities. Based upon the application of these criteria, all departments, agencies and government entities whose funds are by Act No. 230 of July 23, 1974, as amended, under the custody and control of the Secretary of the Treasury, and the following public corporations, executive and government agencies are included in the general purpose financial statements:

Agricultural Development Administration
Agricultural Services Administration
Automobile Accident Compensation Administration
Commercial and Agricultural Credit and Development Corporation of Puerto Rico
Corporation for Technological Development of Tropical Resources of Puerto Rico
Corporation for Technological Transformation

Corporation of Stock and Deposit Insurance for the Savings and Loans Cooperatives
Culebra Conservation and Development Authority
Economic Development Bank for Puerto Rico
Employment and Training Enterprises Corporation
Farm Credit Guarantee Fund
Farm Credit Trust Fund
Farm Insurance Corporation of Puerto Rico
Fine Arts Center Corporation
General Services Administration
Government Development Bank for Puerto Rico and Subsidiaries
Guarantee Loan Fund for Eligible Businesses
Health Facilities and Services Administration of Puerto Rico
Industries for the Blind, for Mentally Retarded and Other Disabled Persons of Puerto Rico
Irrigation Systems of Puerto Rico
Metropolitan Bus Authority
Musical Arts Corporation and Subsidiaries
Office for the Improvement of the Puerto Rico Public Schools
Office of Child Services and Community Development
Public Buildings Authority
Puerto Rico and Caribbean Cardiovascular Center Corporation
Puerto Rico Aqueduct and Sewer Authority
Puerto Rico Electric Power Authority
Puerto Rico Highway and Transportation Authority
Puerto Rico Housing Bank and Finance Agency
Puerto Rico Industrial Development Company and Subsidiaries
Puerto Rico Industrial, Medical, Educational and Environmental Pollution Control Facilities Financing Authority
Puerto Rico Infrastructure Financing Authority
Puerto Rico Land Administration
Puerto Rico Land Authority
Puerto Rico Maritime Shipping Authority
Puerto Rico Medical Services Administration
Puerto Rico Minerals Resources Development Corporation
Puerto Rico Municipal Finance Agency
Puerto Rico National Pavilion at Seville
Puerto Rico Ports Authority
Puerto Rico Public Broadcasting Corporation
Puerto Rico Rural Housing Administration
Puerto Rico Telephone Authority and Subsidiaries
Puerto Rico Urban Renewal and Housing Corporation
Recreational Development Company of Puerto Rico
Right to Employment Administration
Rural Development Corporation of Puerto Rico

Solid Waste Authority of Puerto Rico
Special Fund for Loans to Governmental Entities
State Insurance Fund
Sugar Corporation of Puerto Rico
Tourism Company of Puerto Rico
Trust for the Development, Operation and Conservation of National Parks of Puerto Rico
University of Puerto Rico

The financial information of the entities included in the general purpose financial statements is substantially derived from the most recent audited financial statements and is presented as governmental, proprietary, fiduciary and public university fund categories, as applicable. The Puerto Rico Highway and Transportation Authority, Puerto Rico Housing Bank and Finance Agency, Puerto Rico Urban Renewal and Housing Corporation and Tourism Company of Puerto Rico segregate their operations in their separately issued financial statements as governmental and proprietary funds. Such presentation is followed in the accompanying general purpose financial statements. The following entities present their separately issued financial statements as governmental funds and such presentation is followed in the accompanying general purpose financial statements:

Corporation for Technological Development of Tropical Resources of Puerto Rico
Culebra Conservation and Development Authority
Office for the Improvement of the Puerto Rico Public Schools
Office of Child Services and Community Development
Puerto Rico Infrastructure Financing Authority
Puerto Rico Minerals Resources Development Corporation
Puerto Rico Rural Housing Administration
Recreational Development Company of Puerto Rico
Right to Employment Administration
Rural Development Corporation of Puerto Rico
Trust for the Development, Operation and Conservation of National Parks of Puerto Rico

The inclusion of the entities listed above in the general purpose financial statements reflects the oversight role exercised by the Commonwealth, but in the case of public corporations does not affect their separate legal standing. Additional information about the entities included in public university funds and proprietary funds is provided in notes 14 and 15.

Municipal governments are not considered part of the Commonwealth's reporting entity since they are accountable to a separately elected legislative body that exercises complete autonomy over their fiscal and institutional matters.

The retirement systems of the University of Puerto Rico, Puerto Rico Electric Power Authority and Puerto Rico Telephone Company, a wholly-owned subsidiary of the Puerto Rico Telephone Authority, are excluded from the reporting entity because these systems exercise control over their financial, operational and personnel matters, and receive no funds from and have no continuing policy-making affiliation with the Commonwealth.

B. Basis of Presentation

The general purpose financial statements have been prepared primarily from accounts maintained by the Commonwealth's Secretary of the Treasury (the Secretary). Additional data have been derived from reports prescribed by the Secretary and prepared by Commonwealth departments, agencies, public corporations and other entities based on independent or subsidiary accounting systems maintained by them.

The Commonwealth records its transactions in the fund types and account groups described below. Transactions between funds within a fund type, if any, have been eliminated.

Governmental Fund Types

Governmental funds are used to account for the Commonwealth's expendable financial resources and related liabilities (except those accounted for in proprietary, similar trust and public university funds). The measurement focus is upon determination of and changes in financial position. The following are the Commonwealth's governmental fund types:

General Fund - The general fund is the general operating fund of the Commonwealth. It is used to account for all financial transactions, except those required to be accounted for in another fund. The operations of the Lottery of Puerto Rico are included in the general fund for financial reporting purposes.

Special Revenue Funds - Special revenue funds are used to account for the proceeds of specific revenue sources (other than debt service, expendable trusts or major capital projects) such as federal grants, that are legally restricted to expenditures for specified purposes.

Debt Service Funds - Debt service funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs. Long-term debt and interest due July 1 of the following fiscal year are accounted for as a fund liability if resources are available as of June 30 for its payment.

Capital Projects Funds - Capital projects funds are used to account for the financial resources used for acquisition or construction of major capital facilities (other than those financed by proprietary, similar trust and public university funds).

Proprietary Fund Types

Proprietary funds are used to account for activities that are similar to those often found in the private sector. The measurement focus is upon determination of net income and capital maintenance. The following are the Commonwealth's proprietary fund types:

Enterprise Funds - Enterprise funds are used to account for operations (a) that are financed primarily through user charges, or (b) where the governing body has decided that determination of net income is appropriate.

Internal Service Funds - Internal service funds are used to account for goods or services provided by component units or agencies to other component units, departments or agencies.

Fiduciary Fund Types

Trust and Agency Funds - Fiduciary funds are used to account for assets held by the Commonwealth in a trustee capacity (e.g., endowments and pensions) or as an agent for individuals, private organizations and other funds. Trust funds include expendable and pension trust funds. Pension trust funds are reported in the same manner as proprietary funds. Expendable trust funds are reported in the same manner as governmental funds. Agency funds are custodial in nature and do not involve measurement of results of operations.

Account Groups

General Fixed Assets Account Group - This account group is used to account for general fixed assets of the Commonwealth exclusive of assets held by the proprietary, similar trust and public university funds.

General Long-term Debt Account Group - This account group is used to account for long-term obligations of the Commonwealth including bonds, appropriations and revenue bonds and notes payable, obligations under lease/purchase agreements, and other long-term liabilities exclusive of liabilities of proprietary, similar trust and public university funds.

Public University Funds

The public university funds are used to account for the activities of the University of Puerto Rico. Accordingly, the public university funds are an aggregate of the following funds required by existing authoritative accounting and reporting principles applicable to colleges and universities: current funds - restricted and unrestricted, loan funds, endowment and similar funds, plant funds and agency fund.

C. **Basis of Accounting**

The basis of accounting determines when the Commonwealth recognizes revenues and expenditures/expenses and related assets and liabilities.

The modified accrual basis of accounting is followed by governmental funds, expendable trust funds and agency funds. Under the modified accrual basis of accounting, revenues are recorded when they become measurable and available to pay liabilities of the current period. Tax revenues are recorded by the Commonwealth as taxpayers earn income (income and other taxes), as taxes are levied (property), as sales are made (consumption and use taxes) and as cash is received (miscellaneous taxes); net of estimated overpayments (refunds). Taxes related to June 30 or before and collected within the following periods after June 30 are recorded as receivables and revenues:

Income taxes	120 days
Property and unemployment taxes	60 days
Excise taxes, including federal excise taxes reimbursed to the Commonwealth	30 days

In applying the susceptible to accrual concept to intergovernmental revenues, there are essentially two types of revenues. In one, monies must be expended on the specific purpose or project before any amounts will be paid to the Commonwealth; therefore, revenues are recognized based upon the expenditures incurred. In the other, monies are virtually unrestricted and are usually revocable only for failure to comply with prescribed compliance requirements. These resources are reflected as revenues at the time of receipt or earlier if the susceptible to accrual criteria are met.

Expenditures and related liabilities are recorded in the accounting period in which the liability is incurred, except for (1) interest on long-term obligations, which is recorded when due, except for interest due July 1 of the following year which is recorded when resources are available in the debt service funds and (2) vacation, sick leave, Christmas bonus, disallowances and litigation which are recorded in the general long-term debt account group.

The Commonwealth reports deferred revenue on its combined balance sheet. Deferred revenue arises when a potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenue also arises when resources are received by the Commonwealth before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the Commonwealth has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

The accrual basis of accounting is used by proprietary and pension trust funds. Under the accrual basis, revenue is recognized when earned and expenses are recorded as liabilities are incurred, without regard to receipt or payment of cash. The accrual basis is also used by the public university funds, except that depreciation of fixed assets is not required to be recorded and that pension contributions are not recorded in accordance with generally accepted accounting principles (see note 14).

D. Cash and Investments

Cash balances of funds held by the Secretary of the Treasury (the Secretary) are commingled in a general checking account and several special purpose bank accounts in the Government Development Bank (see note 3). Each fund records its equity interest in the pooled cash balance. The available cash balance in the general checking account beyond immediate needs is invested in interest-bearing accounts with the Government Development Bank. The interest earnings are all credited to the general fund. Cash balances not held by the Secretary are controlled by various Commonwealth officials and deposited in qualified public depositories (see note 2).

Investments are stated at cost or amortized cost.

E. Statement of Cash Flows

For purposes of the combined statement of cash flows, the Commonwealth considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

The reconciliation of cash and cash equivalents in the combined statement of cash flows to the combined balance sheet is as follows (amounts in thousands):

	Enterprise Fund		
	Unrestricted Assets	Restricted Assets	Total
Cash and cash equivalents, including amounts in governmental banks	$ 1,333,719	237,108	1,570,827
Investments	1,198,807	874,611	2,073,418
Other restricted assets	-	57	57
Total	$ 2,532,526	1,111,776	3,644,302

	Internal Service Fund		
	Unrestricted Assets	Restricted Assets	Total
Cash and cash equivalents, including amounts in governmental banks	$ 2,434,423	60,215	2,494,638
Investments	1,122,227	2,942,232	4,064,459
Total	$ 3,556,650	3,002,447	6,559,097

F. **Receivables**

Receivables are stated net of estimated allowances for uncollectible amounts, which are determined based upon past collection experience and current economic conditions. Receivables from the federal government represent amounts owed to the Commonwealth for reimbursement of expenditures incurred pursuant to Federally funded programs.

G. **Inventories**

Inventories in proprietary funds are mainly valued at the lower of first-in, first-out cost or market. The governmental and expendable trust funds use the purchase method of accounting which recognizes an expenditure when the inventory is purchased while the proprietary funds recognize an asset when the inventory is purchased and an expense when it is consumed.

H. **Restricted Assets**

Debt proceeds and funds set aside for construction or payments of bonds issued by proprietary funds and funds set aside by the general and special revenue funds for payment and guarantee of notes and interest payable are classified as restricted assets since their use is limited by applicable debt agreements.

I. **General Fixed Assets**

The general fixed assets are recorded as expenditures in the governmental funds and expendable trust funds and capitalized at cost in the general fixed assets account group. Donated fixed assets are recorded at their estimated fair market value at the time received.

Certain improvements such as roads, bridges, curbs and gutters, streets and sidewalks, drainage systems, and lighting systems are not capitalized. Such assets normally are immovable and of value only to the Commonwealth. Therefore, the purpose of stewardship for capital expenditures is satisfied without recording these assets. Depreciation is not provided on general fixed assets.

J. **Fund Fixed Assets**

Fixed assets recorded by proprietary and similar trust funds are stated at cost or estimated historical cost. Contributed fixed assets are recorded at estimated fair market value at the time received. Interest costs are capitalized on projects during the construction period. Depreciation is provided using the straight-line method over estimated useful lives ranging from 25 to 50 years for buildings, 10 to 20 years for improvements other than buildings, and 3 to 10 years for equipment.

K. **Tax Refunds Payable**

During the calendar year, the Commonwealth collects withholdings and payments from taxpayers for individual income taxes. At June 30, the Commonwealth estimates the amount owed to taxpayers for overpayments during the first half of the calendar year. These estimated amounts are recorded as tax refunds payable and as a reduction of tax revenues.

L. **Long-term Debt**

The liabilities reported in the general long-term debt account group include the Commonwealth's general obligation bonds and notes, appropriation and revenue bonds and notes payable of component units, due to other funds payable from legislative appropriations, obligations under lease/purchase agreements and other long-term liabilities including vacation, sick leave, Christmas bonus, litigation and disallowances related to expenditures of federal grants.

M. **Reservations of Fund Balance**

Reservations of fund balance represent portions of fund balances that are legally segregated for a specific future use or are not appropriable for expenditure. The Commonwealth has the following reservations of fund balance:

Encumbrances - Represent future expenditures under purchase orders, contracts and other commitments. These committed amounts generally will become liabilities in future periods as the goods or services are received.

Debt Service - Represents net assets available to finance future debt service payments.

Employees' Retirement - Represents the public employees' retirement systems net assets available to finance future benefit obligations.

Unemployment Benefits - Represent net assets available to fund future unemployment benefits payments.

Other Specified Purposes - Represent reservation for monies set aside for guarantee of notes payable, disability, drivers insurance, long-term assets, construction commitments, endowment and amounts available to fund various fiduciary arrangements.

N. **Post-Retirement Benefits**

In addition to the pension benefits described in note 13, the Commonwealth provides post-retirement health care benefits and a Christmas bonus for its retired employees in accordance with law. Substantially all of the employees may become eligible for these benefits if they reach normal retirement age while working for the Commonwealth. Health care benefits are provided through insurance companies whose premiums are paid by the retiree and by the Commonwealth for a fixed amount of $40 per month for each retiree. During the year ended June 30, 1992, the cost of providing health care benefits amounted to $32.6 million. The Christmas bonus paid to the retired employees during the year ended June 30, 1992 was $150 per retiree and the total amount was $10.2 million. These benefits are recorded as expenditures when paid. The plan covers approximately 68,000 retirees.

O. Compensated Absences

The vacation policy of the Commonwealth generally provides for the accumulation of 2.5 days per month, except for the teachers who accrue 4 days per month. Unpaid vacation time accumulated is fully vested to the employees from the first day of work.

Employees accumulate sick leave generally at a rate of 1.5 days per month up to a maximum of 90 days. Upon retirement, an employee receives compensation for all accumulated unpaid sick leave at the then current rate, if the employee has at least 10 years of service with the Commonwealth.

General long-term debt includes $237.4 million of accrued sick leave benefits, $257.2 million of accrued vacation benefits, $11.8 million of accrued compensated overtime, representing the Commonwealth's commitment to fund such costs from future operations and $12.1 million of compensated absences pertaining to component units accounted for in governmental funds. Sick leave and vacation benefits are accumulated in the proprietary, similar trust and public university funds in the period they are earned and are included as a fund liability.

P. Interfund Transactions

The Commonwealth has the following types of transactions among funds:

Operating Transfers - Legally required transfers that are reported when incurred as "Operating transfers in" by the recipient fund and as "Operating transfers out" by the disbursing fund.

Transfers of Expenditures (Reimbursements) - Reimbursement of expenditures made by one fund for another that are recorded as expenditures in the reimbursing fund and as a reduction of expenditures in the reimbursed fund.

Residual Equity Transfers - Nonroutine or nonrecurring transfers between funds that are reported as additions to or deductions from the fund equity balance.

Interfund Payments (Quasi-external Transactions) - Charges or collections for services rendered by one fund to another that are recorded as revenues of the recipient fund and expenditures or expenses of the disbursing fund.

Q. Lottery of Puerto Rico

The revenues, expenditures and prizes of the Lottery of Puerto Rico, including the electronic lottery, are reported within the General Fund. Monies collected prior to June 30 for tickets sold related to drawings to be conducted subsequent to June 30 are reported as deferred revenue. Unpaid awarded prizes as of June 30 are reported as a fund liability. Lottery tickets sold and earned as of June 30 amounted to $594.9 million and are reported as charges for services in the general fund.

R. Public University Funds

Financial activities of the University of Puerto Rico (University) are reported in the public university funds. These funds use generally accepted accounting principles following the accounting and financial reporting guidance recognized by the American Institute of Certified Public Accountants, Industry Audit Guide, Audits of Colleges and Universities, as amended. Such funds are presented in a separate column on the general purpose financial statements as a discrete presentation. The public university funds present the combination of the following funds:

Current Funds - Account for resources that may be used for any purpose in carrying out the primary objectives of the University.

Loan Funds - Account for resources available for loans to students, faculty, or staff of the University.

Endowment and Similar Funds - Account for endowment and quasi-endowment transactions. These funds are similar to trust funds and the University must comply with the terms of any applicable agreements.

Plant Funds - Account for transactions involving physical properties of the University. The investment in plant accounts for funds that the University has expended and thus has invested for property and any related outstanding debt.

Agency Funds - Account for resources held by the University as custodian or agent for others.

The Combined Statement of Current Funds Revenues, Expenditures and Other Changes - Public University Funds is a statement of financial activities related to the current reporting period. It does not purport to present the results of operations or the net income or loss for the period as would a statement of income or a statement of revenues and expenses.

The measurement focus in the public university funds is upon determination of resources received and used. Current funds used to finance plant assets are accounted for as (1) expenditures, for normal replacement of movable equipment and library books; (2) mandatory transfers, for required provisions for debt amortization/interest and equipment renewal and replacement; and (3) transfers of a nonmandatory nature for all other cases.

Public university funds record expenditures when they acquire fixed assets and capitalize those assets within the plant funds. These funds capitalize interest expenditures during construction but do not record depreciation.

Public university funds use the consumption method of recording inventories.

S. Deficit Fund Balances

In addition to the component units with a deficit fund balance that are reported within the proprietary fund category (see note 15), the following component units presented as governmental funds reflect a deficit fund balance within the special revenue fund type (amounts in thousands):

Puerto Rico Urban Renewal and Housing Corporation (unaudited)	$ 68,789
Recreational Development Company of Puerto Rico	39,064
Right to Employment Administration	1,362
	$ 109,215

T. Claims and Judgments

The estimated amount of the liability for claims and judgments which is due on demand, such as from adjudicated or settled claims, is recorded in the general fund. The general long term debt account group includes an amount estimated as a contingent liability or liabilities with a fixed or expected due date which will require future available financial resources for its payment.

U. Effect of Inclusion of Prior Year Operations

The financial statements of certain component units included in the accompanying general purpose financial statements are the same as those included in the 1991 general purpose financial statements as such financial statements are the most recent available. Such component units are the Agricultural Services Administration and Metropolitan Bus Authority (presented as enterprise fund), Rural Development Corporation (presented as special revenue fund) and Puerto Rico Urban Renewal and Housing Corporation (presented as special revenue, enterprise and expendable trust funds). Management is of the opinion that the inclusion of the same financial statements does not have a significant effect on the financial statements.

V. **Totals (Memorandum Only) Column**

Totals columns on the combined statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or cash flows in conformity with generally accepted accounting principles. Such data are not comparable to a consolidation since interfund eliminations have not been made.

(2) **Cash, Cash Equivalents and Investments**

The Commonwealth's cash, cash equivalents and investments (excluding proprietary and public university funds) at June 30, 1992 follow (amounts in thousands):

	Unrestricted	Included in Restricted Assets	Total
Cash and cash equivalents	$ 1,287,797	152,516	1,440,313
Investments	1,851,721	35,318	1,887,039
	$ 3,139,518	187,834	3,327,352

Cash and Cash Equivalents

Under Commonwealth statutes, public funds deposited in commercial banks must be fully collateralized for the amount deposited in excess of federal depository insurance. All securities pledged as collateral are held by the Secretary of the Treasury or an agent in the Commonwealth's name. The book balance of Commonwealth's deposits with commercial financial institutions amounting to $530.9 million were covered by federal depository insurance or collateral as of June 30, 1992.

The Commonwealth has $756.9 million on deposit with the United States Government. Such deposit represents unemployment insurance taxes collected from employers which are transferred to the Federal Unemployment Insurance Fund in the U.S. Treasury.

The cash and cash equivalents included in restricted assets is maintained in interest bearing accounts in the Government Development Bank, is uncollateralized and is held for the guarantee and payment of notes and interest payable.

Investments

Pursuant to statutory authority, the Secretary of the Treasury may invest in obligations of the United States of America, obligations of the Commonwealth of Puerto Rico or obligations of the municipalities of Puerto Rico. The public corporations and retirement systems may invest in those securities authorized by the legal provisions set forth in their Organic Act; such as stocks, corporate bonds, obligations of the United States, mortgage loans and others.

The following table shows the carrying amount and market value (amounts in thousands) as of June 30, 1992 of investments which are held by component units presented as governmental funds and the retirement systems. All investments are categorized below to give an indication of the level of risk at June 30, 1992. Category 1 includes investments that are insured or registered for which the securities are held or maintain by the component units and retirement system or their agents in the component unit or retirement system's name. Category 2 includes uninsured and unregistered investments for which the securities are held by broker or dealer's trust department or their agents in the component unit or retirement system's name. Category 3 includes investments for which the securities are held by the broker-dealer but not in the component unit or retirement system's name:

	Category 1	Category 2	Category 3	Carrying Amount	Market Value
Unrestricted					
Common and preferred stocks	$ 658,852	-	-	658,852	807,977
Corporate bonds	465,872	-	-	465,872	481,857
U.S. government and agencies	402,728	-	-	402,728	416,192
Short-term investments	71,498	-	-	71,498	71,250
Mortgage loans	48,842	-	-	48,842	47,855
	$ 1,647,792	-	-	1,647,792	1,825,131
Investment held by broker-dealers under repurchase agreements				203,929	203,929
				$ 1,851,721	2,029,060
Restricted					
Guaranteed investment contracts	$ -	35,318	-	35,318	35,318

(3) Cash, Cash Equivalents and Investments in Governmental Banks

Cash, cash equivalents and investments in governmental banks represent the balance of interest and noninterest bearing accounts in the Government Development Bank (GDB) and the Economic Development Bank (EDB) amounting to $2.33 billion and $35 million, respectively. In addition, restricted assets include cash in GDB and EDB amounting to $209.9 million (see notes 2 and 15). Such cash is received by the banks, commingled with other deposits and retained as cash or used for investments, loans, acquisition of other assets or other uses consistent with the functions of the banks.

Accordingly, it is not possible to determine the use of specific deposits from the various Commonwealth funds. The deposit liability is substantially related to deposit from other component units and the Department of the Treasury. Such deposit liability is not in agreement with cash in governmental banks because cash of certain component units is reported at a different fiscal year-end and because of other reconciling items such as outstanding checks and deposits in transit.

GDB is a public corporation of the Commonwealth which is included in the general purpose financial statements as an internal service fund. Its primary responsibilities are to act as fiscal agent for the Commonwealth and its public entities and to make loans principally to public entities which will aid in developing the economy of Puerto Rico.

EDB is a public corporation of the Commonwealth which is included in the general purpose financial statements as an enterprise fund. Its primary responsibility is the promotion of the development of the private sector of the economy of Puerto Rico.

No collateral is maintained for cash in interest bearing accounts in GDB and EDB at June 30, 1992. Collateral is maintained for cash of the Commonwealth's Secretary of the Treasury in checking accounts in GDB. At June 30, 1992 securities with a carrying value of $167 million were pledged as collateral for these accounts.

(4) Receivables

Taxes receivable at June 30, 1992 follow (amounts in thousands):

	General Fund	Debt Service Funds	Trust and Agency Funds
Income	$ 43,837	-	-
Property	5,406	2,263	-
Excise	25,471	-	-
Unemployment	-	-	66,570
	$ 74,714	2,263	66,570

The Commonwealth real and personal property tax is levied each July 1 and May 15, respectively, on the assessed values of the prior January 1, for all properties located in the Commonwealth. Assessed values of real property are established at the estimated current value existing in the year 1957 and of personal property at the current value at the date of the assessment.

Real property taxes are billed by the Commonwealth and are due in two equal installments in July and January following the assessment date. Personal property taxes are self-assessed and are due in May, following the assessment date. Revenue is recorded in the month the taxes are due, provided they are collected during the year or within sixty days following the end of the year.

The property tax rate per annum varies among municipalities; however, 1.03% of real and personal property belongs to the Commonwealth and effective in the year ended June 30, 1992 the remainder to the applicable municipality. In prior years, an additional percentage belonged to the Commonwealth. The amount that belongs to the Commonwealth is recorded in the debt service fund and is restricted for the payment of general obligation bonds and notes. Property tax revenue recorded in the general fund during the year ended June 30, 1992, represents collections of taxes for years ended on or prior to June 30, 1991. The amount that belongs to the municipality is collected by the Commonwealth and recorded in an agency fund. Such amount is subsequently used to reduce prior advances to the municipality, except for a portion that is kept by the Commonwealth for debt service of the municipality.

Effective July 1, 1993, the functions of billings and collections of property taxes will be transferred to a new entity named "Centro de Recaudación de Ingresos Municipales", controlled by the mayors of the municipalities.

Real and personal property tax exoneration is granted by the Commonwealth to owners of real property on the first $15,000 of the assessed value of residential units occupied by the owner and, for the first $50,000 in personal property if the taxpayer does not exceed $150,000 in sales volume. The amount paid by the Commonwealth to the municipalities for this exoneration during the year ended June 30, 1992 was $87 million and was recorded as aid to municipalities.

Loans and advances receivable in the trust and agency fund include loans receivable from participants, including related accrued interest receivables, of the retirement systems are as follows (amounts in thousands):

Employees' Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS)	$ 309,017
Puerto Rico Judiciary Retirement System (JRS)	1,209
Annuity and Pension System for the Teachers of Puerto Rico (TRS)	232,561
	$ 542,787

The above amount, as well as the related escrow liability of $30.3 million, included in other liabilities, is based on estimates as the actual amounts as of June 30, 1992 have not been determined.

The ERS and JRS completed an analysis of each individual loan account through June 30, 1989 resulting in adjustments to the balances as of such date which were recorded in 1991. These systems are continuing the analyses. In addition, TRS is also in the process of analyzing each individual loan account to determine the appropriate amount for loans receivable from participants. The adjustment, if any, to be made after all of these analyses are completed, to loans receivable from participants and escrow liability as of June 30, 1992 and related investment earnings through such date is not known.

(5) **General Fixed Assets (Unaudited)**

The general ledger maintained by the Department of the Treasury (Department) reflects general fixed assets amounting to $1.81 billion. The Department is in the process of reconciling the subsidiary records of all owned general fixed assets to the general ledger to determine the completeness of such subsidiary records. The general fixed assets account group also includes $740.5 million pertaining to component units.

The unaudited investment in general fixed assets at June 30, 1992 is as follows (amounts in thousands):

Land	$ 130,217
Buildings	507,172
Equipment	770,621
Construction in progress	1,062,161
Other fixed assets	84,561
	$ 2,554,732

(6) **Long-term Debt**

Bonds Payable

General obligation bonds are backed by the full faith, credit and taxing power of the Commonwealth. Bonds payable outstanding at June 30, 1992 are as follows (amounts in thousands):

Term bonds payable through 2021; interest payable semiannually at rates varying from 3% to 9%	$ 1,892,895
Serial bonds payable through 2021; interest payable semiannually at rates varying from 5.75% to 7.8%	1,052,930
Capital appreciation bonds payable through 2011; no interest rate, yield ranging from 6.9% to 7.8%. Net of unaccreted discount of $307 million	210,782
Total general obligation bonds	3,156,607
Other	319
Total bonds payable	$ 3,156,926

The following is a summary of changes in bonds payable for the year ended June 30, 1992 (amounts in thousands):

	Outstanding June 30, 1991	Issued	Discount Accretion (Redeemed)	Outstanding June 30, 1992
Term bonds	$ 1,666,585	236,310	(10,000)	1,892,895
Serial bonds	1,119,680	132,905	(199,655)	1,052,930
Capital apprecia-tion bonds	195,893	-	14,889	210,782
Savings bonds	333	-	(14)	319
	$ 2,982,491	369,215	(194,780)	3,156,926

Debt service requirements for general obligation bonds in future years, which are substantially financed by transfers from the general fund, are as follows (amounts in thousands):

Year ending June 30	Principal	Interest	Total
1993	$ 156,475	199,816	356,291
1994	156,600	190,098	346,698
1995	167,170	180,309	347,479
1996	173,490	170,428	343,918
1997	178,720	159,862	338,582
Thereafter	2,631,347	1,567,663	4,199,010
	3,463,802	2,468,176	5,931,978
Less unaccreted discount	307,195		
General obligation bonds	$ 3,156,607		

Act No. 269 of May 11, 1949, 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 required to be credited to the debt service fund for payment of debt service on general obligation bonds and notes of the Commonwealth.

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 obligations and on all such obligations thereto issued which are payable in any fiscal year, together with any amount paid by the Commonwealth in the preceding fiscal year on account of bonds or notes guaranteed by the Commonwealth, exceeds 15% of the average annual revenues of the

Commonwealth in the two preceding fiscal years. The Constitution does not limit the amount of debt that the Commonwealth may guarantee (see note 8) so long as the 15% limitation is not exceeded. Currently, the Commonwealth has not been called to make any payments pursuant to guarantees.

Future maximum annual debt service together with the amount paid in the preceding fiscal year under the Commonwealth's guaranty is $356.3 million. This amount represents 9.99% of the average annual internal revenues of $3.568 billion for the two preceding fiscal years.

The Commonwealth is in compliance with the above limitation at June 30, 1992.

Notes Payable

Notes payable included in the general long-term debt account group consist of the following at June 30, 1992 (amounts in thousands):

Special promissory notes	$ 120,000
Notes payable	262,381
Total	$ 382,381

Special promissory notes for $210 million were issued on June 29, 1989 by the Commonwealth. These notes are payable from the revenues received from taxes levied, due and to be collected by the Commonwealth and revenues segregated pursuant to joint resolution number 3 approved on October 16, 1985. Such resolution was enacted to reimburse advances made to certain entities in previous fiscal years.

These notes bear interest at a percentage that varies from 82.5% to 85% of the applicable London interbank bid quotation rate (LIBID), but not to exceed 12% per annum. Interest is payable quarterly.

Restricted assets in the general fund include $151 million of interest bearing accounts held as guarantee of the special promissory notes. Debt service requirements for the principal of these notes are as follows (amounts in thousands):

Year ending June 30	
1993 (presented in general fund)	$ 30,000
1995	90,000
1996	30,000
Total presented as general long-term debt	120,000
	$ 150,000

The notes payable include $140 million from notes issued by the Sugar Corporation of Puerto Rico (SCPR). These notes, which bear interest of 11%, are payable through 1994 from Commonwealth legislative appropriations and, accordingly, are presented as notes payable in the general long-term debt account group. The amount due on July 1, 1992, amounting to $60 million, is presented as a fund liability of the debt service fund (see note 15 under Sugar Corporation of Puerto Rico).

The full faith, credit and taxing power of the Commonwealth are not pledged for the payment of the notes and interest thereon, and the notes are not general obligations of the Commonwealth.

Debt service requirements in future years are as follows (amounts in thousands):

Year ending June 30	Principal	Interest	Total
1993	$ 65,000	15,400	80,400
1994	75,000	8,250	83,250
	$ 140,000	23,650	163,650

The notes payable also include $122.4 million due by the Office for the Improvement of the Puerto Rico Public Schools (OIPS) to the Government Development Bank (GDB) under a loan agreement on which GDB advanced to OIPS $125 million. The loan is payable from contribution of in lieu of taxes to be received by the Commonwealth from the Puerto Rico Telephone Authority (see note 15 under Puerto Rico Telephone Authority).

Debt service requirements in future years are as follows (amounts in thousands):

Year ending June 30	Principal	Interest	Total
1993	$ 9,598	10,402	20,000
1994	10,413	9,587	20,000
1995	11,299	8,701	20,000
1996	12,259	7,741	20,000
1997	13,301	6,699	20,000
Thereafter	65,511	14,489	80,000
	$ 122,381	57,619	180,000

Due to Other Funds

As of June 30, 1992, the general long-term debt account group includes a liability to the Puerto Rico Electric Power Authority (PREPA), amounting to $124.6 million related to fuel adjustments subsidies granted to residential customers and to the reimbursements of certain costs incurred by the irrigation and rural systems administered by PREPA. This amount is accounted for by PREPA in the enterprise fund as due from other funds. Commencing in the year ending June 30, 1993, the amount related to subsidies of $94.9 million will be paid in installments of approximately $6.3 million over a fifteen-year period. No interest will be paid on this debt. The amount related to the systems of $29.7 million will be reduced from the required contribution of in lieu of taxes due by PREPA to the Commonwealth.

In addition, there is a liability to the University of Puerto Rico amounting to $46 million related to the crude oil taxes imposed and collected under Act No. 2 of October 8, 1987. The amount will be paid as follows (amounts in thousands):

Year ending June 30	Amount
1994	$ 14,000
1995	16,000
1996	16,000
	$ 46,000

Loan from Federal Government

The Federal Emergency Management Agency (FEMA) and the Commonwealth of Puerto Rico entered into a Disaster Assistance Agreement on October 1, 1989, whereby FEMA agreed to pay 75% and the Commonwealth the remaining 25% of all eligible costs of disaster relief grants arising from Hurricane Hugo in 1989. FEMA advanced to the Commonwealth $77 million as a loan for the Commonwealth's portion of eligible costs and such amount is recorded as other long-term liabilities in the general long-term debt account group. On October 20, 1992, the Government Development Bank (GDB) paid the loan and accrued interest to FEMA amounting to $93.9 million and entered in a loan agreement with the Commonwealth which bears interest at a variable rate ranging from 6% to 8%. The debt service requirements of the loan from GDB are as follows (amounts in thousands):

Year ending June 30	Principal	Interest	Total
1994	$ 15,000	4,630	19,630
1995	17,000	5,763	22,763
1996	19,000	4,658	23,658
1997	21,000	3,328	24,328
1998	21,860	1,749	23,609
	$ 93,860	20,128	113,988

Prior Years Defeasance of Debt

In prior years, the Commonwealth defeased certain general obligation bonds by placing the proceeds of new bonds in irrevocable trusts to provide for all future debt service payments on the old bonds. Accordingly, the trusts account assets and the liability for the defeased bonds are not included in the Commonwealth's general purpose financial statements. At June 30, 1992, $1.1 billion of bonds outstanding are considered defeased.

(7) Appropriation and Revenue Bonds and Notes Payable of Component Units

The general long-term debt account group includes debt issued by certain component units, and which is presented by such component units in their financial statements in the general long-term debt account group. The debt is being paid from legislative appropriations in accordance with enacted laws or joint resolutions approved by the Legislature of the Commonwealth or from internally generated revenues. This debt does not constitute an obligation or pledge of the full faith, credit and taxing power of the Commonwealth. The bonds payable from legislative appropriations have been paid from such appropriations and it is expected that they will continue to be paid from future appropriations.

Changes during the year on the above debt were as follows (amounts in thousands):

	Outstanding beginning of year	Issued	Redeemed	Outstanding end of year
Appropriation Bonds:				
Puerto Rico Housing Bank and Finance Agency	$ 334,080	-	19,285	314,795
Recreational Development Company of Puerto Rico	1,489	-	361	1,128
Revenue Bonds and Notes:				
Puerto Rico Highway and Transportation Authority	825,545	611,770	198,680	1,238,635
Puerto Rico Infrastructure Financing Authority (PRIFA)	305,720	-	9,065	296,655
Other	7,355	2,797	2,247	7,905
	$ 1,474,189	614,567	229,638	1,859,118

In prior years, certain of the above component units defeased certain bonds by placing the proceeds of new bonds in irrevocable trusts to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Commonwealth's general purpose financial statements. At June 30, 1992, $404.7 million of bonds outstanding are considered defeased.

The Act which created PRIFA requires that in the fiscal year ended June 30, 1990, and in each of the following twenty-eight fiscal years, the first $40 million, of federal excise taxes received by the Commonwealth be transferred to PRIFA for deposit to PRIFA's infrastructure fund (Infrastructure Fund). The maximum principal and interest requirements on the bonds in any fiscal year is $37 million. Federal excise taxes consist of taxes received by the Commonwealth from the United States in connection with rum and other articles subject to federal excise tax produced in Puerto Rico and sold in the United States. Rum is the only article currently produced in Puerto Rico subject to federal excise tax, the proceeds of which are required to be transferred to the Commonwealth.

The federal excise taxes securing the bonds are subject to a number of factors, including the continued imposition and remittance of such taxes to the Commonwealth and conditions affecting the Puerto Rico rum industry. If the federal excise taxes received by the Commonwealth in any fiscal year are insufficient to deposit $40 million into the Infrastructure Fund, the Act requires that the Authority requests and the Budget Director includes in the budget of the Commonwealth for the corresponding fiscal year the appropriation needed to cover such insufficiency. The Commonwealth Legislature, however, is not legally obligated to make the necessary appropriation to cover such insufficiency.

Following is a summary of the debt service requirements of appropriation and revenue bonds and notes payable (amounts in thousands):

	Principal	Interest	Total
First year	$ 55,482	127,193	182,675
Second year	58,104	122,914	181,018
Third year	62,895	119,200	182,095
Fourth year	68,941	115,131	184,072
Fifth year	74,506	110,528	185,034
Thereafter	1,539,190	1,208,904	2,748,094
	$ 1,859,118	1,803,870	3,662,988

The fund balance in the debt service fund includes $189.9 million of component unit fund balance reserved for the payment of the above debt.

(8) Guaranteed and Appropriation Debt

Guaranteed Debt

The Commonwealth may provide guarantees for the repayment of certain borrowings of component units to carry out designated projects. At June 30, 1992, the following component unit debts are guaranteed by the Commonwealth (amounts in thousands):

	Maximum Guarantee	Outstanding Balance
Public Buildings Authority	$ 1,200,000	1,179,287
Government Development Bank for Puerto Rico	550,000	292,000
Puerto Rico Urban Renewal and Housing Corporation	325,000	92,855
Puerto Rico Maritime Shipping Authority	60,000	60,000
Puerto Rico Aqueduct and Sewer Authority	28,485	9,796
	$ 2,163,485	1,633,938

The Farm Credit Security Fund, administered by the Commercial and Agricultural Credit and Development Corporation of Puerto Rico, has guaranteed, under the full faith, credit and taxing power of the Commonwealth, certain loans made by private institutions, by the former component unit Farm Credit Corporation and the Guarantee Loan Fund for Eligible Businesses. This fund guarantees loans of $27.4 million as of June 30, 1992.

The Puerto Rico Housing Bank and Finance Agency insures mortgages granted to low and moderate income families through its mortgage loan insurance program. The Commonwealth guarantees up to $75 million of such mortgage loans. As of June 30, 1992, the mortgage loan insurance program was insuring loans aggregating $240.3 million and had not issued any debenture bonds.

Currently, the Commonwealth has not been called to make any direct payments pursuant to the above guarantees.

The Commonwealth has guaranteed the payments of rentals of its departments, agencies and component units to the Public Buildings Authority (PBA) under various lease agreements executed pursuant to the law that created PBA. Such rental payments include the amounts required by PBA for the payment of principal of and interest on the guaranteed debt. The rental commitment as of June 30, 1992 for the next five years follows (amounts in thousands):

Year ending June 30	
1993	$ 178,060
1994	195,926
1995	208,695
1996	221,216
1997	234,844
	$ 1,038,741

Appropriation Debt

Certain component unit debt is supported by Commonwealth appropriations. The following represents the outstanding balances of debt payable by appropriations as set forth in enacted legislation of the Commonwealth at June 30, 1992 (amounts in thousands):

Puerto Rico Housing Bank and Finance Agency	$ 399,230
Sugar Corporation of Puerto Rico	200,000
Puerto Rico Urban Renewal and Housing Corporation	242,921
Health Facilities and Services Administration of Puerto Rico	310,921
Economic Development Bank for Puerto Rico	24,000
Puerto Rico Rural Housing Administration	3,219
Recreational Development Company of Puerto Rico	1,128
	$ 1,181,419

The above debt is presented as follows in the general purpose financial statements (amounts in thousands):

Debt service fund	$ 60,000
Enterprise fund	662,277
General long-term debt account group:	
Notes payable	140,000
Appropriation bonds payable of component units	315,923
Other long-term liabilities	3,219
	$ 1,181,419

Additional special annual appropriations are made to certain component units to enable them to pay their debts. The following represents the outstanding debt at June 30, 1992 which debt is being paid on a yearly basis by special annual appropriations of the Commonwealth (amounts in thousands):

Puerto Rico Aqueduct and Sewer Authority	$ 67,517
Commercial and Agricultural Credit and Development Corporation of Puerto Rico	40,000
Metropolitan Bus Authority	22,747
Agricultural Services Administration	8,300
Tourism Company of Puerto Rico	7,869
General Services Administration	4,505
	$ 150,938

(9) **Obligations under Lease/Purchase Arrangements**

The Commonwealth is obligated under capital leases that expire through 2016 for buildings used by certain Commonwealth departments. At June 30, 1992, the capitalized cost of the buildings amounted to $20.8 million and are included in the general fixed assets account group.

The present values of future minimum capital lease payments as of June 30, 1992, included in other long-term liabilities in the general long-term debt account group follow (amounts in thousands):

Year ending June 30	
1993	$ 2,715
1994	2,731
1995	2,754
1996	2,772
1997	2,790
Thereafter	46,454
Total minimum lease payments	60,216
Less amount representing interest	39,491
Present value of minimum lease payments	$ 20,725

The Commonwealth is also committed under numerous operating leases, excluding those with the Public Buildings Authority (see note 8), covering real property and equipment. Rental expenditures within the general fund for the year ended June 30, 1992, under such operating leases are $33.7 million. Following is a summary of the future minimum rental commitments under noncancellable real property and equipment leases with terms exceeding one year (amounts in thousands):

Year ending June 30	
1993	$ 31,342
1994	19,021
1995	11,205
1996	8,201
1997	4,819
Thereafter	2,142
Total	$ 76,730

(10) Interfund Transactions

Due From/To Other Funds

Interfund receivables and payables generally reflect temporary loans, billings for services provided and recovery of expenditures.

The amount reported in the general fund as due from other funds arises primarily from advances for payment of insurance premiums and property taxes collections made by an agency fund amounting to $14.3 million and $61.9 million, respectively; overdraft in the pooled cash balance in the special revenue and internal service funds amounting to $28.4 million and $15.9 million, respectively; and $16.3 million in reimbursement of indirect costs from federal programs reported in the special revenue fund. Due to other funds in the general fund arises from amounts due to enterprise fund and trust and agency fund which amounted to $69 million and $26.9 million, respectively.

Due from other funds in the special revenue fund mainly arises from amounts reported by the Puerto Rico Urban Renewal and Housing Corporation (PRURHC) and the Tourism Company of Puerto Rico amounting to $58.3 million and $10.2 million, respectively. Due to other funds in special revenue fund mainly arises from a due to general fund related to federal programs, an overdraft in the pooled cash and amounts reported by PRURHC of $16.3 million, $28.4 million and $67.1 million, respectively.

Due from other funds in the debt service and capital projects funds mainly represents an amount reported by the Puerto Rico Highway and Transportation Authority (PRHTA) of $30 million and $16.4 million, respectively. Due to other funds in the capital projects fund mainly represents $49.1 million due to the Public Buildings Authority for construction made on behalf of the Commonwealth reported as a due from other funds in the internal service fund.

Due from other funds in the enterprise fund is mainly related to the electric power subsidy and reimbursable cost of the irrigation and rural systems amounting to

$124.6 million, recorded in the general long-term debt account group and $69 million due from the general fund. Due to other funds in the enterprise fund mainly represents an amount reported by the Puerto Rico Housing Bank and Finance Agency of $42.3 million.

Due to other funds in the internal service fund is mainly related to an overdraft in the pooled cash amounting to $15.9 million.

Due from other funds in the trust and agency fund mainly represents employer's contribution due by the general fund to the pension trust fund amounting to $26.9 million. Due to other funds in the trust and agency fund mainly represents balances due to the general fund and PRHTA amounting to $76.2 million and $29 million, respectively.

The due from other funds is not in agreement with the due to other funds mainly because of different fiscal years.

Operating Transfers

Operating transfers out of the general fund for the year ended June 30, 1992 include the annual appropriation to the University of Puerto Rico amounting to $307.7 million and the annual appropriation to the debt service fund amounting to $362.3 million. In addition, the general and capital projects funds made operating transfers of $882 million ($529 million to the Health Facilities and Services Administration of Puerto Rico) and $45 million, respectively, to subsidize the operations of and provide capital contributions to certain public corporations and executive agencies recorded primarily within the special revenue and enterprise funds (see note 15).

Operating transfers out in the special revenue fund mainly represents transfers of federal program indirect cost reimbursements to the general fund amounting to $30.6 million and amount transferred by the Puerto Rico Housing Bank and Finance Agency to the debt service fund amounting to $41.7 million.

Operating transfers out in the debt service fund represents a transfer reported by PRHTA mainly to the capital projects fund amounting to $134.2 million.

These amounts differ from operating transfers from other funds due to different fiscal years end and/or certain operating transfers reported as contributed capital.

(11) Budgetary Basis Reporting

The Governor of the Commonwealth of Puerto Rico is required by the Constitution to submit to the Legislature an annual budget of capital improvements and operating expenses of the Commonwealth. Such annual budget includes an estimate of revenues and other resources. Public hearings are conducted by the Legislature to obtain public comments on the proposed budget. The Legislature may amend the budget but may not increase any items so as to cause a deficit without imposing taxes to cover such deficit. The Constitution provides that the appropriations made for any fiscal year shall not exceed the total revenues, including available surplus, estimated for said fiscal year unless the imposition of taxes sufficient to cover said appropriations is provided by law.

The annual budget is legally adopted through passage of an annual appropriation act known as the Joint Resolution of the General Budget. This appropriated budget includes general fund appropriations for recurring ordinary functions of the Commonwealth and for contributions to public corporations, municipalities and private organizations. General fund appropriations for special operating expenses and for capital expenditures are authorized for one or more years.

The Commonwealth prepares its budget on a basis of accounting that differs from generally accepted accounting principles (GAAP). The major differences between the budgetary basis of accounting used in the annual budget and GAAP are the following:

(1) Revenues are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP);

(2) Pension expenditures are recorded when payments are made to the various pension systems (budget) as opposed to when the liability is incurred (GAAP); and

(3) Encumbrances are recorded as a segregation of appropriations (budget) as opposed to a reservation of fund balance (GAAP).

A combined statement of revenues and expenditures - budget and actual - general fund, as required by generally accepted accounting principles, is not presented in the general purpose financial statements as the existing accounting programs do not provide for a comparison of approved budgeted amounts with actual results of operations. The Commonwealth is in the process of modifying the existing programs which will permit the presentation of this statement in future years. Budgetary control is maintained at the department or agency level for each individual appropriation.

(12) Commitments and Contingencies

The Commonwealth receives financial assistance from the federal government in the form of grants and entitlements, including several non-cash programs. Receipt of grants is generally conditioned upon compliance with terms and conditions of the grant agreements and applicable federal regulations, including the expenditure of resources for eligible purposes. Substantially all grants are subject to either the Federal Single Audit Act or to financial and compliance audits by grantor agencies. Disallowances as a result of these audits may become liabilities of the Commonwealth. At June 30, 1992, the Commonwealth has recorded liabilities of $6.8 million based on an evaluation of pending disallowances and are reported as other long-term liabilities in the general long-term debt account group.

The Commonwealth is a defendant in numerous legal proceedings pertaining to matters incidental to the performance of routine governmental operations. Under Act No. 104 of June 25, 1955, as amended, persons are authorized to sue the Commonwealth only for causes of actions set forth in said Act to a maximum amount of $75,000 or $150,000 if it involves actions for damages to more than one person or where a single injured party is entitled to several causes of action. Under certain circumstances, as provided in Act No. 9 of November 26, 1975, as amended, the Commonwealth may provide its officers and employees with legal representation, as well as assume the payment of any judgment that may be entered against them. There is no maximum amount on the payment of such judgment.

With respect to pending and threatened litigation, excluding the litigation mentioned in the following paragraph, the Commonwealth has reported liabilities of $70.3 million for awarded and anticipated unfavorable judgments. This amount was included as other long-term liabilities in the general long-term debt account group and represents the amount estimated as a probable liability or a liability with a fixed or expected due date which will require future available financial resources for its payment. Management believes that the ultimate liability in excess of amounts provided would not be significant.

In 1979, various inmates under the custody of the Administration of Corrections of the Commonwealth filed a complaint in the United States District Court for the District of Puerto Rico (Court) alleging that the conditions of confinement violated their rights under the United States and the Commonwealth's Constitution. In 1980, the Court rendered an order requiring that the Commonwealth provide a fixed living space per inmate. Since July 1987, the Court has imposed daily fines to the Commonwealth because of its noncompliance with the order amounting to $249.7 million through November 30, 1992. During the year ended June 30, 1992, the fines imposed amounted to $128.6 million of which $49.9 million are recorded as expenditures of the general fund and $78.7 million are recorded as other long-term liabilities in the general long-term debt account group.

During December 1991, a stipulation was entered into between the inmates and the Commonwealth. Based on such stipulation fines were paid through November 27, 1991; thereafter they were to be calculated only, but would be permanently discharged if the Commonwealth complied with the terms of the stipulation. The fines paid by the Commonwealth are being maintained in a fund by the federal government and will be available to the Commonwealth for authorized projects related to confinement. The stipulation authorizes the Court to release a portion of fine funds to finance certain costs for two projects related to confinement.

Fines calculated and imposed from November 27, 1991 to November 30, 1992 amounted to $123.8 million of which $78.7 million are through June 30, 1992 and are recorded as other long-term liabilities in the general long-term debt account group. The Commonwealth has filed two motion requesting a discharge of these fines. The first motion was opposed by the plaintiffs' counsel and the Court ordered hearings commencing in June 1993 to solve this matter. In addition, the Court ordered to cease and permanently discharge any fines assessed or calculated following January 2, 1993.

The Commonwealth and various public corporations are defendant in a lawsuit alleging violation of civil rights. Preliminary hearings and discovery proceedings are in progress. The amount claimed exceeds $50 billion; however, the ultimate liability cannot be presently determined. It is the opinion of management that the plaintiff's damage claim is clearly excessive and exaggerated. No provisions for any liability that may result upon adjudication has been recognized in the general long-term debt account group in the accompanying general purpose financial statements.

The Puerto Rico Highway and Transportation Authority's construction commitments as of June 30, 1992 amounted to $315.8 million.

In March 1992, the Puerto Rico Highway and Transportation Authority issued Special Facility Revenue Bonds amounting to $117 million for the purpose of facilitating the construction of a toll bridge facility. The proceeds from the sale of the bonds were transferred by the Authority to Autopistas de Puerto Rico y Compañía S.E. (the "Borrower") pursuant to a loan agreement by and between the Borrower and the Authority. The Authority and the Borrower entered into a concession agreement for the design, construction, operation and maintenance of the facility. The initial term of this agreement is 35 years. Under certain circumstances, the concession agreement may be terminated and the Authority is then obligated to assume all of the Borrower's obligations of the principal of and the interest on the Bonds, which pursuant to the Loan Agreement will be paid from the proceeds of the use and operation of the facility. Under substantial completion of the project and acceptance by the Authority, the project shall thereafter be of public domain and form part of the Commonwealth highway system.

(13) Retirement Systems

The Commonwealth has three contributory defined benefit pension plans:

- Employees' Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS),
- Puerto Rico Judiciary Retirement System (JRS), and
- Annuity and Pension System for the Teachers of Puerto Rico (TRS).

The annual financial statements of each system are presented in the fiduciary fund.

The systems provide retirement, death and disability benefits and annuities to Commonwealth employees, public school employees, and employees of municipalities and certain public corporations not covered by their own systems. These benefit provisions are established by law.

Each system is independent. Assets may not be transferred from one system to another or used for any purpose other than to benefit each system's participants.

The membership at June 30, 1989 of ERS and JRS and at June 30, 1990 of TRS consisted of:

	ERS	JRS	TRS
Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits, but not yet receiving benefits	45,759	161	20,160
Current employees:			
Vested	72,088	138	23,106
Nonvested	64,563	87	21,360
Total members	182,410	386	64,626

Funding and Benefit Policies

The Employees' Retirement System (ERS) is the administrator of an agent multiple-employer retirement system established by the Commonwealth. ERS covers all employees of the Commonwealth and its instrumentalities and of certain municipalities and public corporations not covered by their own systems. Membership is required as a condition of employment.

Retirement and related benefits provided by the system and required contributions to the system by employees are determined by Act 447, approved May 15, 1951, as amended. Required contributions by the Commonwealth are determined by the Administrator of the System. The members contributions are 5.775% or 8.275% and Commonwealth contributions are 9.275% of gross salary.

The amount contributed by the Commonwealth for the year ended June 30, 1992 was $146.6 million. Payroll covered for the year was $1.6 billion.

Members who have attained an age of at least fifty-five (55) years and have completed at least twenty-five (25) years of creditable service or members who have attained an age of at least fifty-eight (58) years and have completed at least ten (10) years of creditable service, are entitled to an annual benefit, payable monthly for life.

The amount of the annuity shall be one and one-half percent of the average compensation multiplied by the number of years of creditable service up to twenty years, plus two percent of the average compensation multiplied by the number of years of creditable service in excess of twenty years. In no case will the annuity be less than $2,600.

Participants who have completed at least thirty years of creditable service are entitled to receive the Merit Annuity. Participants who have not attained fifty-five (55) years of age will receive 65% of the average compensation or if they have attained fifty-five (55) years of age will receive 75% of the average compensation. Disability retirement benefits are available to members for occupational and non-occupational disability. However, for non-occupational disability a member must have at least ten (10) years of service.

Act Number 1 of 1990 made certain amendments applicable to new participants joining the System effective April 1, 1990. Changes mainly consisted of an increase in the retirement age from 55 to 65, decrease in the benefit percentage of the average compensation in the disability and death benefits annuities from 50% to 40% and the elimination of the Merit Annuity for participants who have completed thirty years of creditable service.

The Judiciary Retirement System (JRS) is administered by the ERS. This system provides pensions and other benefits to the judges of the Commonwealth. For the year ended June 30, 1992 members and Commonwealth contributions were 7.5% and 20% of gross salary, respectively. The amount contributed by the Commonwealth for the year ended June 30, 1992 was $2.5 million. Payroll covered for the year was $12.5 million.

Participants are entitled to a retirement pension if they have reached the age of sixty (60) or more and shall have at least ten (10) years of creditable service. The retirement pension of any participant shall be equal to 25% of average salary during the last three years of creditable service plus 25/72 of one percent of the said average salary during the last three years for each month of creditable service in excess of ten (10) years of service. The retirement pension shall not exceed 75% of the average salary for the last three (3) years.

The system also provides occupational and non-occupational disability pensions. Participants must have at least ten (10) years of creditable service to be eligible for a non-occupational disability pension.

The Annuity and Pensions System for the Teachers of Puerto Rico provides retirement benefits to all teachers of the Department of Education of the Commonwealth, those holding positions on the Retirement Board, all pensioned teachers, all teachers transferred to an administrative position in the Department of Education, teachers who work in the Teachers' Association of Puerto Rico, and those who practice in private institutions accredited by the Department of Education. Act No. 218, approved May 6, 1951, as amended, prescribes requirements relating to membership, benefits and contributions.

Members and Commonwealth contributions for the year ended June 30, 1992 were 7% and 8.5% of total salary, respectively. The contributed amount for the year ended June 30, 1992 was $55 million. Payroll covered for the year was $649 million. The system grants retirement benefits to those members who have practiced for a period of twenty-five (25) years and attained the age of fifty-two (52).

Teachers are entitled to a life annuity which consists of a pension, of a sum sufficient, when joined with the annuity, to yield a life annuity equal to 1.71% of the highest average salary over three (3) years, multiplied by the number of years of service rendered.

Actuarial Cost Methods and Assumptions

The projected unit credit actuarial cost method was used by the three retirement systems.

The following assumptions were used in the actuarial valuations:

	ERS	JRS	TRS
Investment rate of return per year	9%	9%	8%
Salary increases	6%	6%	6%
Mortality rates table	GA'51	GA'51	GA'83

The valuations of ERS and JRS are based on an actuarial valuation update performed as of June 30, 1990. The valuation of TRS is based on an actuarial valuation as of June 30, 1990. There are no valuations for a more recent date.

Actuarial Present Value of Benefit Obligation

The unfunded benefit obligation to retirees, beneficiaries, and terminated employees not yet receiving benefits and for current employees for each retirement system is presented below.

The projected benefit obligation is the actuarial present value at valuation date of all benefits attributed by the pension benefit formula to employees service rendered prior to such date. The projected benefits obligation is measured using assumptions as to future compensation levels.

The pension benefit obligation follows (amounts in millions):

	ERS	JRS	TRS
Pension benefit obligation:			
Retirees, beneficiaries and terminated employees not yet receiving benefits	$ 2,000	26.0	918.6
Current employees:			
Vested	2,165	19.0	631.7
Nonvested	135	1.5	446.8
Total pension benefit obligation	4,300	46.5	1,997.1
Net assets available for benefits, at market value for ERS and JRS and at cost for TRS	680	28.3	969.5
Unfunded pension benefit obligation	$ 3,620	18.2	1,027.6

Contributions Made and Actuarial Computation

Contributions in 1992 and prior years were made based on percentages established by the administrators of the systems. Such percentages have not been based on actuarial studies as required by generally accepted accounting principles. An actuarial computation of the annual contribution applicable to the Commonwealth have not been prepared. Accordingly, the amounts by which the actual contributions are under the required actuarial contribution are not known.

Trend Information (unaudited)

Trend information gives an indication of the progress made in accumulating sufficient assets to pay benefits when due. Trend information for the available years is as follows (amounts in millions):

	ERS	JRS	TRS
Net assets available for benefits (at market value for ERS and JRS and at cost for TRS):			
June 30, 1990	$ 680	28.3	969.5
June 30, 1989	628	25.1	N/A
June 30, 1988	597	22.3	N/A
Pension benefit obligation:			
June 30, 1990	$ 4,300	46.5	1,997.1
June 30, 1989	4,009	43.2	N/A
June 30, 1988	3,570	47.7	N/A
Unfunded pension benefit obligation:			
June 30, 1990	$ 3,620	18.2	1,027.6
June 30, 1989	3,381	18.1	N/A
June 30, 1988	2,973	25.4	N/A
Annual covered payroll:			
June 30, 1992	$ 1,600	12.5	649
June 30, 1991	1,500	11.0	623
June 30, 1990	1,300	11.8	603
June 30, 1989	1,300	10.7	505
Net assets available for benefits as a percentage of total pension benefit obligation:			
June 30, 1990	16%	61%	48.5%
June 30, 1989	16%	58%	N/A
June 30, 1988	17%	47%	N/A
Unfunded pension benefit obligation as a percentage of annual covered payroll:			
June 30, 1990	278%	154%	170%
June 30, 1989	260%	169%	N/A
June 30, 1988	194%	242%	N/A

Employer contributions (not actuarially determined) as a percentage of annual covered payroll:			
June 30, 1992	9.2%	20%	8.5%
June 30, 1991	9.3%	20%	8.5%
June 30, 1990	8.3%	20%	8.5%
June 30, 1989	7.7%	20%	8.9%

N/A = Not available

Analysis of the dollar amounts of net assets available for benefits, pension benefit obligation, and unfunded pension benefit obligation in isolation can be misleading. Expressing the net assets available for benefits as a percentage of the pension benefit obligation provides one indication of Commonwealth funding status on a going-concern basis. Analysis of this percentage over time indicates whether the system is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the retirement system. Trends in the unfunded pension benefit obligation and annual covered payroll are both affected by inflation. Expressing the unfunded pension benefit obligation as a percentage of annual covered payroll approximately adjusts for the effects of inflation and aids analysis of Commonwealth progress made in accumulating sufficient assets to pay benefits when due. Generally, the smaller this percentage, the stronger the retirement system.

Revenues by source and expenses by type for the three retirement systems for the available years is as follows (amounts in thousands):

	Revenues by Source			
	Employee Contributions	Employer Contributions	Investment Earnings	Total
June 30, 1992	$ 185,594	226,400	180,416	592,410
June 30, 1991	174,895	211,441	173,720	560,056
June 30, 1990	142,451	178,108	146,565	467,124
June 30, 1989	127,160	172,079	133,822	433,061

	Expenses by Type		
	Benefits Paid	Administrative Expense	Total
June 30, 1992	$ 401,738	29,757	431,495
June 30, 1991	371,136	32,507	403,643
June 30, 1990	341,553	33,348	374,901
June 30. 1989	333,652	26,228	359,880

On May 21 and September 4, 1992, the Legislature approved through Acts No. 10 and 62, respectively, a 3% increase in the annual pension benefit paid by the ERS and TRS, respectively. This increase was applied retroactively to January 1992 and will be in effect for the next three years. Subsequently, the annual pension benefit may be increased upon favorable recommendation by the Systems' actuaries and Board of Trustee.

(14) Public University Funds

The University of Puerto Rico (University) was created in 1903 as an institution of higher education primarily to educate citizens; to train students in the professions, arts and sciences; to promote research and creative work; and to assist the community in various technical and academic endeavors.

Commonwealth appropriations are the principal source of revenues, but additional revenues are derived from tuition, student fees, auxiliary enterprises, investment income, federal grants and other sources. The high level of financial support received by the University from the Commonwealth is supported by Act No. 2 of January 20, 1966. Under the Act, the Commonwealth appropriates for the University an amount equal to 9% of the average total amount of annual revenues collected under the laws of the Commonwealth in the two fiscal years immediately preceding the current fiscal year. For the year ending June 30, 1994 such percentage will be increased to 9.33%. Much smaller amounts of Commonwealth appropriations for current operations are received under various laws which assign certain percentages of Commonwealth revenues obtained from horse race prizes and certain percentages of net income from slot machine franchises. In addition, the Commonwealth has appropriated in recent years additional amounts for general current operations, capital improvement programs, and for loans and financial assistance to students.

Public university funds are comprised of the financial activities of the University. All the financial data were derived from the audited financial statements as of June 30, 1991 (latest available).

The following is a summary of significant information of the University:

Cash, Cash Equivalents and Investments

The University's cash, cash equivalents and investments follow (amounts in thousands):

	Unrestricted	Included in Restricted Assets	Total
Cash and cash equivalents	$ 12,563	914	13,477
Investments	5,155	21,802	26,957
	$ 17,718	22,716	40,434

The University is authorized to deposit only in financial institutions approved by the Department of the Treasury of the Commonwealth (Treasury) and such deposits are kept in separate bank accounts in the name of the University. Such authorized depositories, except for the Government Development Bank (GDB), collateralize the uninsured deposits with securities that are pledged with the Treasury. No collateral is required to be maintained for deposits in GDB.

The bank balance of cash and cash equivalents amounts to $22.6 million. A detail of related collateral follows (amounts in thousands):

Insured by Federal insurance corporations	$ 205
Collateralized by securities pledged with Treasury	8,600
Uncollateralized (substantially deposits in GDB)	13,832
Total cash and cash equivalents	$ 22,637

The carrying amount and market value of investments follows (amounts in thousands):

	Carrying amount	Market value
Common stock	$ 14	44
Mortgage notes	5	5
Real estate held for sale	182	182
Securities sold under repurchase agreements	4,954	4,954
United States Treasury Notes	21,802	21,554
	$ 26,957	26,739

All investments were held in custody by the University or a commercial bank in the University's name. Securities sold under repurchase agreements were held by broker-dealers in the University's name.

Fixed Assets

Fixed assets are as follows (amounts in thousands):

Land	$ 17,871
Buildings	211,062
Site improvements	13,273
Equipment, including library books	143,678
Construction in progress	36,498
	$ 422,382

Bonds Payable

The University has issued University system revenue bonds, the proceeds of which have been used mainly to cancel and refinance previous debts incurred and finance new activities in connection with its educational facilities construction program. The following is the outstanding balance (amounts in thousands):

Series	Principal	Annual interest rate (%)	Due date
A- Serial	$ 1,365	2-3/4	1978 - 1998
B- Serial	123	3-1/8	1978 - 2000
C- Serial	2,559	3	1978 - 2011
D- Serial	3,193	3-3/4	1978- 2011
E- Term	26,000	7	2011
F- Serial	500	4-9/10 - 5-1/2	1978 - 1992
F- Term	22,000	5-1/2	2012
G- Serial	13,145	6-1/2 - 8	1978 - 2013
J- Serial	8,565	7 - 7-2/3	1994 - 2001
J- Term	17,215	7-3/4 - 6-1/2	2007 and 2013
K- Serial	31,270	6-1/2 - 7-3/5	1989 - 2000
K- Term	17,695	6-1/2	2004
L- Serial	11,890	6-1/2 - 7-2/3	1989-2001
L- Term	44,545	7-3/4 - 6-1/2	2007 and 2013
	200,065		
Less bond discount	12,314		
	$ 187,751		

In prior years, the University defeased certain revenue bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the public university funds. At year end, $42 million of revenue bonds outstanding are considered defeased.

The bonds payable require future payments of principal and interest, as follows (amounts in thousands):

	Principal	Interest	Total
First year	$ 4,888	12,749	17,637
Second year	5,204	12,440	17,644
Third year	6,459	12,102	18,561
Fourth year	6,924	11,674	18,598
Fifth year	7,395	11,205	18,600
Thereafter	169,195	104,138	273,333
Total	$ 200,065	164,308	364,373

These bonds are a general obligation of the University and are secured by the pledge of, and a first charge on, all revenues derived or to be derived by the University, except for appropriations and contributions, as defined in the Trust Agreement governing the bonds issued. In the event that the pledged revenues are insufficient to pay the principal of, and the interest on, the bonds, the

University agrees to provide any additional required monies from other funds available to the University for such purposes, including funds appropriated by the Commonwealth of Puerto Rico. The revenues pledged for the year amounted to $61.4 million.

Notes Payable

Notes payable consist of the following (amounts in thousands):

Line of credit with Government Development Bank (GDB). Monthly interest is variable and was 6.375% at June 30	$ 9,900
Line of credit with GDB. Monthly interest is variable and was 6.2% at June 30 (see subsequent events)	6,553
Promissory note due to a commercial bank payable in semiannual installments of $182 including interest	1,262
Notes payable to the U.S. Department of Education for funds used in granting long-term student loans. Interest ranges from 5-1/8% to 7-1/4%	185
Total notes payable	$ 17,900

University of Puerto Rico Retirement System - Plan Description

The University contributes to the University of Puerto Rico Retirement System (System), a single-employer public employee retirement system that acts as a common investment and administrative agent for the University. The University payroll for employees covered by the System for the year was $213.8 million.

All full-time employees and employees contracted for a period of 9 months by the University are eligible to participate in the System. Benefits vest after 10 years of service. University employees who retire at or after age 58 with 10 years of credited service are entitled to an annual retirement benefit, payable monthly for life, in an amount equal to 15% of their average compensation for the highest 36 months. Maximum benefits equal to 75% of average compensation generally require 30 years of service and attainment of age 55. The System also provides death and disability benefits. These benefit provisions and all other requirements are established by law.

University employees are required to contribute 4% to 8% of their annual salary to the System. The University is required to contribute 13% of applicable payroll.

Funding Status and Progress

The amount shown below as the pension benefit obligation is a standardized disclosure measure of the present value of pension benefits, adjusted for the effect of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure is intended to help users assess the funding status of the System on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among employers. The measure is the actuarial present value of credited projected benefits, and is independent of the funding method used to determine contributions to the System.

The pension benefit obligation was computed as part of an actuarial valuation performed as of June 30, 1991. Significant actuarial assumptions used in the valuation include (a) a rate of return on the investment of present and future assets of 7.5% a year compounded annually, (b) projected salary increases of 5% a year compounded annually, (c) mortality rates based on UP-1984 Group Annuity Mortality Table, and (d) fixed retirement ages based on age at hire.

Total unfunded pension benefit obligation applicable to the University's employees at June 30, 1991 (latest actuarial valuation) follows (amounts in thousands):

Pension benefit obligation:	
Retirees, beneficiaries and terminated employees not yet receiving benefits	$ 322,410
Current employees:	
Accumulated employee contributions including allocated investment earnings	91,790
Employer-financed vested	185,135
Employer-financed nonvested	42,001
Total pension benefit obligation	641,336
Net assets available for benefits, at market value	268,241
Unfunded pension benefit obligation	$ 373,095

Actuarially Determined Contribution Requirements and Contribution Made

The System's funding policy requires actuarially determined periodic contributions at rates that, for individual employees, increase gradually over time so that sufficient assets will be available to pay benefits when due. However, the contributions are made on a predetermined basis instead of the actuarially determined basis.

The actuarial valuation as of June 30, 1991 revealed an actuarially accrued liability of $679.7 million and an unfunded accrued liability of $411.4 million. This unfunded accrued liability would have to be funded by the University at an annual rate of at least $29.5 million over 40 years. To provide for normal costs and administrative expenses the University would have to fund annually an additional $2.6 million.

During the year the University contributed $25.9 million to its retirement plan and recognized such amount as expenditure. The required contribution was $31.4 million. The difference of $5.5 million has not been accrued in the public university funds as required by generally accepted accounting principles. If such amount had been accrued together with prior years cumulative unfunded amount, the expenditures and accrued liabilities in the public university funds would have increased and the fund balance decreased by $159 million.

Trend Information

Trend information gives an indication of the progress made in accumulating sufficient assets to pay benefits when due. For the year ended June 30, 1991 (latest actuarial valuation available) assets were sufficient to fund 41.8% of the pension benefit obligation. Unfunded pension benefit obligation represented 178.2% of the annual payroll for employees covered by the System. Showing unfunded pension benefit obligation as a percentage of annual covered payroll approximately adjusts for the effects of inflation for analysis purposes. For a five-year historical trend, refer to note 10 to the University's financial statements.

Commitments and Contingent Liabilities

The University's capital construction program for educational facilities amounts to approximately $35.5 million. The construction program is intended to be financed substantially with a future bond issuance.

The University is defendant or co-defendant in various lawsuits resulting from the ordinary conduct of business. Based on the advice from legal counsel and considering insurance coverage, management is of the opinion that the ultimate liability in excess of amounts provided, if any, will not have a significant effect on the financial position of the University.

Subsequent Events

In September 1992, the Government Development Bank increased the line of credit to $60 million due on December 31, 1993. This line of credit will be paid with the proceeds of a future bond issuance. During February 1993, the line of credit was increased by $38 million.

The operations of the Hospital Pediátrico Universitario (the Hospital) are included in the financial statements of the University. Effective March 1993, the Puerto Rico Department of Health (the Department) took over the administration of the Hospital. Management of the University and the Department are presently discussing the financial settlement of this transaction as it relates to the assets and liabilities of the University at the time the Department took over the operations.

In prior years, the University claimed to the Commonwealth that certain taxes imposed and collected under Act No. 2 of October 8, 1987 related to crude oil should have been included in the annual revenues used to determine the appropriation to the University. This matter was resolved during December 1992 and the Commonwealth agreed to pay to the University the amount of $46 million.

(15) Segment Information - Proprietary Funds

Proprietary funds are primarily composed of public corporations and executive agencies which generally follow the accrual basis of accounting.

Public corporations are legally separate entities that are not operating departments of the Commonwealth. The public corporations are managed independently, outside the appropriated budget process, and their powers are generally vested in a governing board. Public corporations are established for a variety of purposes for the benefit of the Commonwealth's people such as economic development, financing and public transportation. They are not subject to Commonwealth restriction on the incurrence of debt, which apply to the Commonwealth itself, and may issue bonds and notes within amounts authorized by the Legislature.

The Governor of Puerto Rico, with the approval of the Senate, appoints most members of the Governing Board of most public corporations and either the Governor or the Board selects the Chief Executive Officer. Public corporations generally submit annual reports to the Governor and Legislature on their operations. Public corporations also submit to the Governor and Legislature annual budget information on operations and capital improvements (construction). The Comptroller of Puerto Rico is empowered to conduct financial and operational audits of these public corporations.

Public corporations are generally supported by revenues derived from their activities, although in recent years the Commonwealth has provided special financial assistance, in some cases of a recurring nature, to certain corporations for operating and other expenses and in fulfillment of its commitments on appropriation debt (see note 8). Financial assistance in the form of appropriated loans, contributed capital or operating subsidies for certain public corporations was provided in the year ended June 30, 1992 and such assistance is expected to be incurred in future years.

The amounts presented in the accompanying general purpose financial statements for proprietary funds include the following entities for the fiscal years indicated:

Enterprise Funds	Year-end
Agricultural Development Administration	June 30, 1992
Agricultural Services Administration	June 30, 1990
Automobile Accident Compensation Administration	June 30, 1992
Commercial and Agricultural Credit and Development Corporation of Puerto Rico	June 30, 1992
Corporation for Technological Transformation	June 30, 1992

Corporation of Stock and Deposit Insurance for the Savings and Loans Cooperatives	June 30, 1992
Economic Development Bank for Puerto Rico	June 30, 1992
Farm Credit Guarantee Fund	June 30, 1992
Farm Credit Trust Fund	June 30, 1992
Farm Insurance Corporation of Puerto Rico	June 30, 1991
Fine Arts Center Corporation	June 30, 1992
Guarantee Loan Fund for Eligible Businesses	June 30, 1992
Health Facilities and Services Administration of Puerto Rico	June 30, 1992
Industries for the Blind, for Mentally Retarded and Other Disabled Persons of Puerto Rico	June 30, 1992
Irrigation Systems of Puerto Rico	June 30, 1992
Metropolitan Bus Authority	June 30, 1991
Musical Arts Corporation and Subsidiaries	June 30, 1992
Puerto Rico and Caribbean Cardiovascular Center Corporation	June 30, 1992
Puerto Rico Aqueduct and Sewer Authority	June 30, 1992
Puerto Rico Electric Power Authority	June 30, 1992
Puerto Rico Highway and Transportation Authority (Enterprise Fund only)	June 30, 1992
Puerto Rico Housing Bank and Finance Agency (Enterprise Fund only)	June 30, 1992
Puerto Rico Industrial Development Company and Subsidiaries	June 30, 1992
Puerto Rico Industrial, Medical, Educational and Environmental Pollution Control Facilities Financing Authority	June 30, 1992
Puerto Rico Land Authority	June 30, 1991
Puerto Rico Maritime Shipping Authority	June 28, 1992
Puerto Rico Medical Services Administration	June 30, 1992
Puerto Rico Municipal Finance Agency	June 30, 1992
Puerto Rico National Pavilion at Seville	June 30, 1992
Puerto Rico Ports Authority	June 30, 1992
Puerto Rico Public Broadcasting Corporation	December 31, 1991
Puerto Rico Telephone Authority and Subsidiaries	December 31, 1991
Puerto Rico Urban Renewal and Housing Corporation (Enterprise Fund only)	June 30, 1990
Solid Waste Authority of Puerto Rico	June 30, 1992
State Insurance Fund	June 30, 1991
Sugar Corporation of Puerto Rico	December 31, 1991
Tourism Company of Puerto Rico (Enterprise Fund only)	June 30, 1992

Internal Service Funds

Employment and Training Enterprises Corporation	June 30, 1992
General Services Administration	June 30, 1992
Government Development Bank for Puerto Rico and Subsidiaries	June 30, 1992
Public Buildings Authority	June 30, 1992
Puerto Rico Land Administration	June 30, 1992
Special Fund for Loans to Governmental Entities	June 30, 1992

Financial Information - Enterprise Funds

Substantially all of the financial information was derived from the most recently audited financial statements and summarized into the following format. Eleven of the entities presented comprise 91% of the combined assets and 90% of the combined operating revenues (before adjustments). The remaining portion of this note contains financial information of these entities (segment information) along with an explanation of significant and/or unusual accounting and reporting matters (amounts in thousands):

	Puerto Rico Electric Power Authority	Puerto Rico Aqueduct and Sewer Authority	Puerto Rico Urban Renewal and Housing Corporation (Unaudited)	Puerto Rico Telephone Authority	State Insurance Fund	Puerto Rico Industrial Development Company	Economic Development Bank for Puerto Rico
Assets							
Cash, cash equivalents and investments	$ 49,376	26,847	17,724	19,551	750	27,595	920,633
Cash, cash equivalents and investments in governmental banks	8,632	1,411	-	3,034	937,861	4,040	264
Receivables, net:							
Federal Government	-	-	248	-	-	-	-
Accounts	294,421	101,339	10,010	149,914	24,000	15,209	-
Loans and advances	-	-	89,709	-	-	-	37,248
Accrued interest	3,116	-	4,171	-	5,219	-	3,573
Other	1,565	-	181	-	1,930	-	-
Due from other funds	124,630	-	27,561	-	2,583	1,255	-
Inventories	157,871	13,131	4,161	45,331	2,734	-	-
Restricted assets	404,247	68,875	74,255	201,450	-	44,986	24,294
Fixed assets, net	2,262,337	2,662,986	1,190,137	1,532,428	12,700	535,452	1,860
Other assets	156,025	16,654	36,661	39,340	-	152,257	4,227
Total assets	$ 3,462,220	2,891,243	1,454,818	1,991,048	987,777	780,794	992,099
Liabilities							
Accounts payable and accrued liabilities	312,632	157,627	53,558	188,758	926,043	28,031	1,211
Deposits	-	-	-	-	-	-	369,054
Due to other funds	-	-	12,988	-	-	-	-
Securities sold under agreements to repurchase	-	-	-	-	-	-	522,170
Interest payable	79,380	21,261	73,191	4,113	-	7,167	2,744
Deferred revenue	-	-	-	-	20,756	-	-
Notes payable	150,000	200,357	533,217	184,403	-	38,169	24,000
Bonds payable	2,485,887	455,516	563,253	914,388	-	226,831	-
Accrued compensated absences	123,583	40,306	-	29,198	12,011	4,603	1,065
Other long-term liabilities	4,287	-	-	34,079	-	-	-
Total liabilities	3,155,769	875,067	1,236,207	1,354,939	958,810	304,801	920,244
Fund Equity/(Deficit)							
Contributed capital	120,714	1,913,684	1,244,612	4,962	-	295,213	52,085
Retained earnings/(deficit)	185,737	102,492	(1,026,001)	631,147	28,967	180,780	19,770
Total fund equity/(deficit)	306,451	2,016,176	218,611	636,109	28,967	475,993	71,855
Total liabilities and fund equity	$ 3,462,220	2,891,243	1,454,818	1,991,048	987,777	780,794	992,099

	Puerto Rico Ports Authority	Sugar Corporation of Puerto Rico	Health Facilities and Services Administration of Puerto Rico (Unaudited)	Puerto Rico Maritime Shipping Authority	Other Entities	Total	Adjustments	Total Enterprise Funds
Assets								
Cash, cash equivalents and investments	17,081	1,121	49,818	3,896	399,747	1,534,139	-	1,534,139
Cash, cash equivalents and investments in governmental banks	-	-	-	1,529	41,616	998,387	-	998,387
Receivables, net:								
Federal Government	-	-	14,968	-	2,477	17,693	-	17,693
Accounts	37,702	14,980	49,292	30,250	91,487	818,604	-	818,604
Loans and advances	-	-	-	-	107,990	234,947	-	234,947
Accrued interest	180	-	43	-	10,243	26,545	-	26,545
Other	-	8	3,078	4,288	10,528	21,578	-	21,578
Due from other funds	-	200,000	48,249	-	5,405	409,683	(200,000)	209,683
Inventories	2,224	17,011	18,035	4,853	40,758	306,109	-	306,109
Restricted assets	35,512	923	806	-	256,428	1,111,776	-	1,111,776
Fixed assets, net	397,348	47,263	127,769	149,927	366,044	9,286,251	(70,337)	9,215,914
Other assets	10,844	2,981	-	5,168	26,642	450,799	-	450,799
Total assets	500,891	284,287	312,058	199,911	1,359,365	15,216,511	(270,337)	14,946,174
Liabilities								
Accounts payable and accrued liabilities	37,782	10,637	91,635	83,949	284,760	2,176,623	-	2,176,623
Deposits	-	-	-	-	-	369,054	-	369,054
Due to other funds	-	32	-	-	30,379	43,399	-	43,399
Securities sold under agreements to repurchase	-	-	-	-	42,335	564,505	-	564,505
Interest payable	4,803	-	-	450	20,737	213,846	-	213,846
Deferred revenue	-	-	23,468	-	24,616	68,840	-	68,840
Notes payable	12,199	214,326	310,921	293,869	282,782	2,244,243	(200,000)	2,044,243
Bonds payable	144,760	-	-	-	217,681	5,008,316	-	5,008,316
Accrued compensated absences	7,235	1,539	37,192	2,091	15,984	274,807	-	274,807
Other long-term liabilities	1,376	6,646	100,309	37,836	5,132	189,665	(100,309)	89,356
Total liabilities	208,155	233,180	563,525	418,195	924,406	11,153,298	(300,309)	10,852,989
Fund Equity/(Deficit)								
Contributed capital	274,191	166,728	-	107,614	480,337	4,660,140	-	4,660,140
Retained earnings/(deficit)	18,545	(115,621)	(251,467)	(325,898)	(45,378)	(596,927)	29,972	(566,955)
Total fund equity/(deficit)	292,736	51,107	(251,467)	(218,284)	434,959	4,063,213	29,972	4,093,185
Total liabilities and fund equity	500,891	284,287	312,058	199,911	1,359,365	15,216,511	(270,337)	14,946,174

COMMONWEALTH OF PUERTO RICO

Notes to General Purpose Financial Statements

Operations	Puerto Rico Electric Power Authority	Puerto Rico Aqueduct and Sewer Authority	Puerto Rico Urban Renewal and Housing Corporation (Unaudited)	Puerto Rico Telephone Authority	State Insurance Fund	Puerto Rico Industrial Development Company	Economic Development Bank for Puerto Rico	Puerto Rico Ports Authority	Sugar Corporation of Puerto Rico	Health Facilities and Services Administration of Puerto Rico (Unaudited)	Puerto Rico Maritime Shipping Authority	Other Entities	Total	Adjustments	Total Enterprise Funds
Operating revenues:															
Charges for services	$ 1,221,105	290,030	33,602	799,985	267,691	51,609	-	93,802	53,995	156,102	298,778	312,841	3,579,540	-	3,579,540
Financing income	-	-	11,981	-	-	-	2,384	-	-	-	-	4,725	19,090	-	19,090
Investment earnings	-	-	-	-	-	-	34,632	-	-	-	-	28,376	63,008	-	63,008
Other	-	-	-	-	1,879	9,174	6,898	-	-	19,982	31,076	21,350	90,359	-	90,359
Total operating revenues	1,221,105	290,030	45,583	799,985	269,570	60,783	43,914	93,802	53,995	176,084	329,854	367,292	3,751,997	-	3,751,997
Operating expenses:															
Cost of services	873,335	265,379	69,187	441,064	582,108	24,470	9,644	88,043	84,874	773,452	302,364	449,259	3,963,179	23,551	3,986,730
Interest	-	-	38,747	-	-	-	26,883	-	-	-	-	20,397	86,027	-	86,027
Depreciation and amortization	112,095	57,212	2,634	172,157	1,301	13,862	349	14,719	3,005	9,675	21,207	15,306	423,522	(4,734)	418,788
Other	-	-	-	-	-	-	2,937	-	-	-	-	10,972	13,909	-	13,909
Total operating expenses	985,430	322,591	110,568	613,221	583,409	38,332	39,813	102,762	87,879	783,127	323,571	495,934	4,486,637	18,817	4,505,454
Operating income/(loss)	235,675	(32,561)	(64,985)	186,764	(313,839)	22,451	4,101	(8,960)	(33,884)	(607,043)	6,283	(128,642)	(734,640)	(18,817)	(753,457)
Non-operating revenues/(expenses):															
Federal subsidies and grants	-	-	39,163	-	-	-	-	-	-	129,789	-	9,833	178,785	-	178,785
Interest income	30,567	8,317	-	13,824	60,961	3,999	-	4,527	-	4,459	-	19,711	146,365	-	146,365
Interest expense	(164,315)	(24,734)	-	(86,850)	-	(13,802)	-	(7,311)	(29,596)	(39,835)	(17,603)	(12,287)	(396,333)	39,290	(357,043)
Other, net	(95,009)	(3,473)	(510)	(42,440)	-	(10,464)	-	(138)	3,532	5,511	(9,035)	39,786	(112,240)	11,278	(100,962)
Total non-operating revenues/ (expenses), net	(228,757)	(19,890)	38,653	(115,466)	60,961	(20,267)	-	(2,922)	(26,064)	99,924	(26,638)	57,043	(183,423)	50,568	(132,855)
Income/(loss) before operating transfers	6,918	(52,451)	(26,332)	71,298	(252,878)	2,184	4,101	(11,882)	(59,948)	(507,119)	(20,355)	(71,599)	(918,063)	31,751	(886,312)
Operating transfers in	-	23,643	33,566	-	-	-	-	-	52,229	529,070	-	131,853	770,361	(27,500)	742,861
Operating transfer out	-	-	-	-	(12,743)	-	-	-	-	-	-	(35,369)	(48,112)	-	(48,112)
Operating transfers, net	-	23,643	33,566	-	(12,743)	-	-	-	52,229	529,070	-	96,484	722,249	(27,500)	694,749
Net income/(loss)	6,918	(28,808)	7,234	71,298	(265,621)	2,184	4,101	(11,882)	(7,719)	21,951	(20,355)	24,885	(195,814)	4,251	(191,563)
Retained earnings/(deficit) at beginning of year	178,819	131,300	(1,026,001)	559,849	294,588	178,596	15,669	121,492	(107,902)	(273,418)	(305,543)	(58,137)	(290,688)	25,721	(264,967)
Contributions	-	-	-	-	-	-	-	-	-	-	-	3,310	3,310	-	3,310
Transfers from/(to) contributed capital	-	-	-	-	-	-	-	(91,065)	-	-	-	14,949	(76,116)	-	(76,116)
Effect of inclusion of prior year operations	-	-	(7,234)	-	-	-	-	-	-	-	-	(30,385)	(37,619)	-	(37,619)
Retained earnings/(deficit) at end of year	$ 185,737	102,492	(1,026,001)	631,147	28,967	180,780	19,770	18,545	(115,621)	(251,467)	(325,898)	(45,378)	(596,927)	29,972	(566,955)

The following paragraphs summarize significant information related to the entities for which summarized financial information is included in this note:

Puerto Rico Electric Power Authority

Puerto Rico Electric Power Authority (PREPA) is a public corporation created in 1941 for the purpose of conserving, developing and utilizing the water and power resources of Puerto Rico. PREPA produces, transmits and distributes substantially all the electric power consumed in Puerto Rico.

Due from other funds as of June 30, 1992 includes $94.9 million related to fuel adjustments subsidies granted to certain residential customers and $29.7 million for reimbursements of certain costs incurred by the irrigation and rural systems administered by PREPA.

In October 1991, PREPA entered into an agreement with the Commonwealth for the repayment of the fuel adjustment subsidy receivable as of June 30, 1991. Under this agreement, the Commonwealth will pay this amount over a fifteen-year period commencing with the 1993 fiscal year in installments of approximately $6.3 million per year without interest. The reimbursements of the costs incurred on behalf of the irrigation and rural systems will be reduced against the required contribution of in lieu of taxes due by PREPA to the Commonwealth.

In February 1991, PREPA amended the regulations related to fuel adjustment subsidies to eliminate the subsidy to residential customers other than public housing residents, lifeline customers, university students, the elderly and the handicapped. In July 1992, legislation was approved providing that an additional 20% of the electric energy sales set aside would be applied against the receivable balances from the Commonwealth on account of the fuel oil subsidy program arising after June 30, 1991 (with any balance remaining used to reduce the above receivable balance owed to PREPA), that the regulations of PREPA would no longer be subject to the Governor's approval and that cost or subsidy amounts arising after June 30, 1991 are an obligation of PREPA and not of the Commonwealth.

Restricted assets consist of cash and investments held for debt service, construction and other specific operating purposes.

Fixed assets consist mainly of utility plant. Cost includes indirect charges for engineering, supervision, transportation and an allowance for the cost of funds used during construction.

PREPA's construction program for the next year amounts to $299.5 million.

PREPA is required to make contribution of in lieu of taxes as defined in the law. Such contribution for the year amounted to $95 million and is presented as other non-operating expense.

Notes payable consist of $110 million to Government Development Bank (GDB) and commercial banks for the financing of fuel purchases and capital improvements and $40 million of bond anticipation notes issued under a $100 million line of credit with GDB, which were paid with the proceeds of a subsequent bond issuance.

Bonds payable consist of $656.8 million of electric bonds and $1.9 billion of power revenue bonds, which are presented net of bond discounts of $80.3 million. These bonds were issued for financing the cost of capital improvements.

PREPA defeased certain revenue bonds in prior years by placing the proceeds of new bonds in irrevocable trusts to provide for all future debt service payments on the defeased bonds. Accordingly, the trust assets and the liabilities for the defeased bonds are not included in PREPA's financial statements. Bonds outstanding as of June 30, 1992 and considered defeased amount to $630.4 million.

PREPA has a pension plan covering substantially all its employees which is administered by the Employees Retirement System of the Puerto Rico Electric Power Authority (the System). Employees are required to contribute approximately 9% of their salary and PREPA is required to contribute the remaining amounts necessary to fund the System, using the projected benefit method. The pension expense for the year was $24.5 million. At June 30, 1992 the total unfunded pension and related benefit obligation was $309.2 million.

Other supplemental benefits not funded through the System consist of supplemental pension obligations exchanged for forfeited sick leave benefits and of spouse survivor benefits. These benefits are unfunded and expense is recognized in a combination of the accrual and the pay-as-you-go methods. The benefit obligations are determined based on actuarial studies using the same significant actuarial assumptions as used to determine the pension obligation funded through the System. Related charges to operations during the year were $14.5 million and $3.4 million, respectively. These charges approximate the contributions PREPA would have been required to make had the benefits been funded through the System.

PREPA also provides certain health care benefits for retired employees and spouses based on a cost plus plan. The cost of health care benefits to retirees amounted to $12.9 million during the year.

PREPA is obligated, pursuant to Commonwealth and United States government requirements, to incur capital improvements and undertake maintenance programs necessary to comply with environmental regulations in the areas of water and air pollution control, noise abatement and control of certain toxic substances. PREPA estimates its prospective expenditures for these programs to approximate $63.1 million during the next five years.

Subsequent to June 30, 1992, PREPA issued $112.8 million Electric Revenue Refunding Bonds (Series 1992), $83.6 million Power Refunding Bonds, Series Q and $250 million Power Revenue Bonds, Series R. The Series 1992 and Series Q, which bear interest rates ranging from 3% to 5.75%, was issued to advance refund certain bonds then outstanding amounting to $189.9 million. The Series R, which bears interest ranging from 4.5% to 6.25%, was used to repay Bond anticipation notes under a $100 million line of credit with GDB, with a balance of $40 million at June 30, 1992, and to finance a portion of costs of various capital improvement projects.

Puerto Rico Aqueduct and Sewer Authority

Puerto Rico Aqueduct and Sewer Authority (PRASA) was created as a public corporation in 1945 for the purpose of owning, operating and developing all the public water supplies and sewer systems in Puerto Rico.

Restricted assets consist of cash, cash equivalents and investments held mainly for debt service.

PRASA's fixed assets consist principally of aqueduct and sewer facilities. Cost includes labor, materials, administrative costs and interest expense on debt-financed construction.

Bonds payable consist of revenue bonds and includes $67.5 million whose debt service is reimbursed by the Commonwealth. Upon payment by the Commonwealth, PRASA records the reimbursed amount as contributed capital.

PRASA has defeased certain revenue bonds by placing the proceeds of new bonds and of revenue bonds issued by the Puerto Rico Infrastructure Financing Authority (PRIFA) in irrevocable trusts to provide for all future debt service payments on the defeased bonds. Accordingly, the trust assets and the liabilities for the defeased bonds are not included in PRASA's financial statements. Bonds outstanding at June 30, 1992 and considered defeased amount to $503.4 million.

Notes payable include $181.8 million due to GDB in accordance with loan agreements under which PRASA can borrow up to $261.4 million for the purpose of providing interim financing for construction projects. The amount of $10.1 million is due on June 30, 1993 and is expected to be paid from legislative appropriations or any other available funds. The amount of $109.2 million is due on December 31, 1993 and is expected to be paid from the proceeds of future revenue bond issues. The amount of $62.5 million is due under an agreement with maximum borrowing of $75 million due from December 1992 through December 2004. PRIFA has agreed to make all principal and interest payments under this agreement from federal excise taxes or other Commonwealth's appropriations received by PRIFA after payment of PRIFA debts.

PRASA has entered into two separate loan agreements with PRIFA under the Commonwealth Water Pollution Control Revolving Fund Program for a maximum of $18.8 million to refinance certain capital improvement projects for

PRASA's sewer system. As of June 30, 1992, PRASA has borrowed $18.5 million under these loan agreements, which are due in 2011 and bear a 2% interest rate. The loans are payable from monies on deposit in the Renewal, Replacement and Improvement Surplus Fund established under a Trust Agreement.

Facilities and operations of PRASA are subject to regulation under numerous federal and Commonwealth environmental laws, including the Federal Clean Water Act (the Act), administered by the Environmental Protection Agency (EPA). In January 1978, the United States, acting on behalf of EPA, initiated litigation against PRASA and the Commonwealth to enforce compliance with the Act, with respect to violations of the Act occurring at numerous plants in PRASA's sewer system.

In 1988, PRASA and EPA entered into an agreement to settle and resolve all the outstanding claims. As a result, PRASA paid $2 million to the United States Treasury in settlement of all outstanding claims; deposited $7.9 million into a fund to be used for a number of management and planning projects required to be conducted; amended requirements and schedules for plant improvements; and adopted an implementation schedule for the industrial pretreatment program. PRASA estimates that the capital cost of complying with the terms of this agreement will be $32.4 million through June 30, 1995. Such amount is expected to be derived from a combination of internally generated funds, appropriations to be made by the Commonwealth, federal government grants and loans and future revenue bonds.

The Commonwealth reimburses PRASA for all operating, maintenance and depreciation expenses incurred in excess of revenues for the operations in rural areas. The reimbursement for the year was $23.6 million and is presented as operating transfers in.

Subsequent to June 30, 1992 PRASA issued serial bonds amounting to $4.3 million to refinance notes payable to the Farmers' Home Administration amounting to $6 million. In addition, PRASA entered into a $4 million loan agreement with GDB for the interim financing of rural sewer projects.

In November 1992, the Legislature approved Act No. 88 authorizing PRASA to finance its construction program for rural aqueduct and sewer facilities through loans from the Farmers Home Administration amounting to $15 million per year for a period of three years. The Commonwealth will reimburse PRASA for the payments of principal and interest.

During February 1993, PRASA obtained a line of credit from GDB amounting to $16.9 million to finance its capital improvements program. The line of credit is due on December 30, 1994 and bears interest at a variable rate revised on a quarterly basis.

Puerto Rico Urban Renewal and Housing Corporation (Unaudited)

Puerto Rico Urban Renewal and Housing Corporation (PRURHC) is a public corporation created in 1957 to, among other things, acquire, lease and operate certain housing projects; provide for the construction, improvement, alteration or repair of such housing projects, and accept mortgages as security for the payment of land and dwellings sold by PRURHC. As of July 1, 1990, the activities of PRURHC related to public housing were transferred to a new agency (Puerto Rico Public Housing Administration). During 1992, certain assets and liabilities were transferred to the Puerto Rico Department of Housing. For the remaining assets and liabilities the Governor of Puerto Rico approved a law to liquidate PRURHC and create the Office for the Liquidation of the Accounts of the Puerto Rico Urban Renewal and Housing Corporation (the Office), to carry out the liquidation process. The Office is being administered by a Trustee appointed by the Governor of Puerto Rico. Such trustee is responsible for obtaining the maximum realization from the sale of PRURHC assets (mainly fixed assets) to third parties, in order to meet most of PRURHC's obligations with it own resources. The Trustee assumed control of PRURHC assets, legal rights, claims and obligations, liabilities, equity, all records and documents. No authorization is provided to the Trustee, to commit for the repayment of debts from the general fund of the Commonwealth, unless previously authorized by the Legislature. All bonds issued and outstanding that have been guaranteed by the Commonwealth will continue to have such guarantee.

The financial statements of PRURHC presented in the general purpose financial statements of the Commonwealth are as of June 30, 1990, as they are the most recent available financial information regarding the assets and liabilities of PRURHC. As of June 30, 1992, such assets and liabilities are held or owed by other entities, as stated above. However, the carrying value of the assets and liabilities transferred to each of these entities has not been determined. For such reason, the general purpose financial statements of the Commonwealth include the financial information of the assets and liabilities before the transfer.

The amount of fixed assets available for sale have not been determined, therefore, they cannot be adjusted to reflect their net realizable value. Accordingly, no provision for any loss that may result has been made in the accompanying general purpose financial statements.

The accounting policies followed by PRURHC in its federally-assisted programs, presented as enterprise funds, are those prescribed by the U.S. Department of Housing and Urban Development. Also, certain of these policies are followed by other funds.

The funds of PRURHC included as enterprise consist of the operations of the Housing Administration Fund, Low Cost Housing Fund and Federally-assisted Titles I and III.

Mortgage notes receivable (included in loans and advances) of $106 million and housing units held for sale (included in other assets) of $64 million are presented net of allowance for losses of $40 million and $36 million, respectively.

Notes receivable (included in loans and advances) includes $23 million from the Puerto Rico Housing Bank and Finance Agency.

Restricted assets consist of cash, cash equivalents and investments.

Fixed assets consist mainly of low cost condominiums, housing facilities and construction in progress and were substantially financed with U.S. federal contributions. No depreciation was provided on fixed assets and it was not possible to determine the amount of such depreciation.

Notes payable include $450.6 million issued to finance the construction and management of certain low-cost housing facilities. These notes are substantially repaid with U.S. federal government contributions.

Bonds payable amounting to $338 million include $106.7 million which are guaranteed by the Commonwealth as to principal and interest for an amount not to exceed $325 million and $231.3 million which are being paid from Commonwealth appropriations. Bonds payable of $226 million are paid from annual contributions received from the federal government and are secured by housing units. These bonds are presented in the combined balance sheet net of a bond discount of $1 million.

On April 15, 1992, the Puerto Rico Housing Bank and Finance Agency (PRHB&FA), as a successor under the Bond Resolution to PRURHC, issued Special Obligation Refunding Bonds, Series H, amounting to $92.9 million to refund the then outstanding balance of certain bonds of PRURHC included as bonds payable as of June 30, 1992.

During November 1992, the U.S. Department of Housing and Urban Development (HUD) requested that the Trustee, as successor to PRURHC, reimbursed HUD $184 million of funds spent by PRURHC under an improvement program to properties. HUD alleges that the funds spent were lost due to the improper maintenance of the properties. HUD will deposit the amount claimed in an operating reserve of the Puerto Rico Public Housing Administration and disbursements from this reserve shall be approved by HUD. The Trustee disagrees with this claim and believe that any settlement would not be significant. However, the final outcome of this claim is not presently known.

Puerto Rico Telephone Authority

Puerto Rico Telephone Authority (PRTA) was created as a public corporation in 1974 for the purpose of acquiring, developing and operating telephone, telegraph, radio, cable or other communication systems.

The consolidated financial statements of PRTA include the accounts of its wholly-owned subsidiaries, Puerto Rico Telephone Company (PRTC), Telefónica Larga Distancia (TLD) and Puerto Rico Communications Corporation (PRCC), formerly Puerto Rico Communications Authority (PRCA). All significant intercompany transactions and balances were eliminated in the consolidation, except those attributable to and involved with regulated operations. PRTA has majority ownership in a joint venture, which investment is not significant, and is accounted for using the equity method of accounting. PRTC provides local and long distance telephone service within Puerto Rico. TLD provides overseas long distance telecommunications service. PRCC provides local and long-distance telephone services to certain areas not serviced by PRTC.

On December 22, 1992, TLD and PRTA signed an agreement with Telefónica Internacional de España S.A. (TI) providing for the sale by PRTA of substantially all the net assets related to the operation of TLD's business, excluding assets and liabilities associated with the radio operations and intercompany balances arising from transactions with affiliated companies, to Long Distance Acquisition Corporation, a newly created entity owned 79% by Telefónica International Holding B.V., a wholly owned subsidiary of TI, and 19% by PRTA. The net assets related to the radio operations were transferred to Telecomunicaciones Ultramarinas de Puerto Rico, an entity whose common stock is wholly-owned by PRTA and preferred stock by TI. As a result of this transaction, TLD changed its name to Isla Verde Telecomunicaciones Corporation and will be engaged primarily in the administration of a terminating cable station.

As a result of the transaction described above, PRTA recorded a gain on the sale of TLD of $91.4 million. Of this amount, $80 million will be paid to the Commonwealth of Puerto Rico on July 1, 1993 as a contribution of in lieu of taxes to be used by the Office for the Improvement of the Puerto Rico Public Schools pursuant to Act No. 33 (see note 6 under Notes Payable).

Restricted assets consist of cash, cash equivalents and investments held for debt service, construction and other specific operating purposes.

Fixed assets consist mainly of the telephone plant and equipment. Cost includes indirect cost (payroll taxes and other fringe benefits) and interest charged during construction.

The construction program for the next year amounts to $260 million, including commitments for the purchase and installation of telephone equipment and materials.

On August 3, 1989, PRTA issued subordinated notes for the amount of $25.1 million to be payable in the next ten-year period. The proceeds were used to acquire the Company's distribution and purchasing center and circuits of the American Telephone and Telegraph fiber optic cable from Florida to Puerto Rico. PRTA entered into an interest rate swap agreement on the variable interest rate subordinate notes amounting to $14.7 million. As a result of the agreement, the effective rate was 6.75% during the year. The interest rate on the remaining $10.4 million ranges from 6.60% to 6.85%.

Bonds payable consist of senior revenue bonds and sinking fund debentures issued to finance the construction of communication facilities.

PRTA and its wholly-owned subsidiaries are exempt from all taxes levied on their properties or revenues by the Commonwealth and its municipalities. However, the law requires contribution of in lieu of taxes determined on the basis of PRTA's annual net revenues as defined therein. During the year, PRTA's provision for the contribution of in lieu of taxes amounted to $31.3 million and is presented as other non-operating expense.

A law was approved in July 1991 that requires from PRTA, commencing in April 1992, a contribution of in lieu of taxes to the Secretary of the Treasury of not less than $20 million or the equivalent of 4% of gross revenues of PRTA and its subsidiaries as determined by the Board of Directors. This payment will be used for educational purposes by the Department of Education or the Office for the Improvement of the Puerto Rico Public Schools.

PRTC has two separate noncontributory defined benefits pension plans covering substantially all its salaried and hourly employees. The funding policy for these plans is to make the annual contributions as required by applicable regulations. The pension expense for the year was $13 million.

In March 1993, PRTA issued $695.9 million in Revenue Refunding Bonds, Series M and $48.5 million in Revenue Bonds, Series N. The Series M Bonds were issued to advance refund certain bonds then outstanding amounting to $713.4 million and to repay a loan from GDB of $30.4 million incurred for the retirement of debentures. The Series N Bonds were issued to repay advances made by GDB to PRTA for certain capital improvements amounting to $47 million.

State Insurance Fund

State Insurance Fund (SIF) was created as an executive agency in 1935 to provide workers' compensation and disability benefit insurance to employees who suffer accidents during the course or as consequence of functions which are inherent to their work. During 1992, the Commonwealth approved Act No. 83 which amended the law creating SIF, to create the Corporation for the State Insurance Fund. The operations of SIF will continue under this corporation.

Cash in governmental banks consists primarily of short-term interest bearing deposits in the Government Development Bank.

Accounts receivable consist of premiums net of a reserve for doubtful accounts of $82 million. The report of the other auditors on the financial statements of SIF indicates that the internal controls and accounting records are not adequate to ascertain that all premiums are recorded. The auditors' opinion on such financial statements was qualified for the effect of such adjustments, if any, which would have been necessary to premiums income and receivables if such controls and records were adequate.

Accounts payable and accrued liabilities include $884 million of a reserve for compensation and disability benefits, and for medical and legal expenses. Such reserve was determined through an actuarial evaluation based on the experience during the last 20 years.

SIF's medical malpractice insurance policies expired on June 3, 1991 and have not been renewed. Management will create a reserve for future medical malpractice claims.

During December 1992, SIF transferred $65 million to the Workers Welfare Security Occupational and Health Fund created by the Commonwealth Legislature. The purpose of this fund is to improve workers' well-being through programs, housing projects, rehabilitation and prevention of illnesses and accidents.

Puerto Rico Industrial Development Company

Puerto Rico Industrial Development Company (PRIDCO) was created as a public corporation in 1942 primarily to stimulate the formation of new local enterprises and to encourage United States and foreign enterprises to establish operations in Puerto Rico. To accomplish its mission, PRIDCO constructs industrial facilities for lease or sale to qualified enterprises. PRIDCO also owns several tourism properties, of which some are managed and operated by third parties under rental contracts. Under the Special Incentives Program, PRIDCO administers disbursements of legislative appropriations to manufacturers, in reimbursement of allowable start-up costs.

The consolidated financial statements of PRIDCO include its wholly-owned subsidiaries, except for certain wholly-owned subsidiaries engaged in tourist operations which are accounted for on the equity basis and a wholly-owned subsidiary engaged in certain leasing operation. PRIDCO is attempting to dispose of these tourist operations and it is expected that the leased facilities will be sold to the lessee. No loss is expected on these dispositions.

Fixed assets consist mainly of industrial and tourism properties. For the year ending June 30, 1993, PRIDCO estimates expenditures amounting to $62 million for construction, land acquisition and development.

Restricted assets consist mainly of time deposits and U.S. government securities in sinking funds accounts. Other assets include $104.8 million of land held for improvement or sale.

Notes payable include loans of $15.6 million from commercial banks to finance the construction of industrial facilities. These notes are secured by mortgages on land and by assignment of rents under lease agreements. Also included in notes payable is a loan of $18.2 million under a line of credit for $45 million from GDB for the construction of a hotel.

Bonds payable consist of revenue refunding and general purpose revenue bonds. These bonds are being paid through gross revenues from certain properties rented to third parties.

During October 1991, PRIDCO issued $70 million Revenue Bonds and $84.7 million Refunding Revenue Bonds. The proceeds of such bonds were used to provide for the payment of $43.4 million of notes, for additional capital improvements and to advance refund $78.3 million of Revenue Bonds. The new bonds are payable from gross revenues received by PRIDCO from certain of its properties, and if required, from other available funds.

During November 1991, PRIDCO created Hotel Development Corporation (HDC) as a subsidiary to assist hotel developers in the public and private sector. On July 29, 1992, PRIDCO transferred hotel properties with a carrying value of $18.1 million to HDC in exchange for common stock of equal value. PRIDCO will transfer the remaining hotel properties to HDC in exchange for common shares with a value equal to the net book value of such properties.

Subsequent to June 30, 1992, PRIDCO obtained a loan of $63.8 million from GDB to be used in the refunding of a $45 million loan and for the construction of a hotel. The loan is due on February 13, 1997 and bears interest at a variable rate revised on a quarterly basis.

In addition, HDC obtained a line of credit from GDB amounting to $45 million for the construction of certain tourists facilities. This line of credit is due on December 1, 1997 and bears interest at a variable rate revised on a quarterly basis.

Economic Development Bank for Puerto Rico

Economic Development Bank for Puerto Rico (EDB) was created as a public corporation in 1985 for the promotion of the development of the private sector of the economy of the Commonwealth.

Cash, cash equivalents and investments include interest-bearing deposits with other banks amounting to $165.1 million; securities purchased under agreements to resell amounting to $507.1 million; bank acceptances amounting to $17 million; and other investments amounting to $231 million.

Under a regulation issued by the Commonwealth's Commissioner of Financial Institutions, all financial institutions receiving eligible funds as defined and commonly known as "936 funds" are required to invest a minimum of 2% of the average balance of such eligible funds in deposits, loans or obligations of EDB. As of June 30, 1992, EDB had time deposits and securities sold under agreements to repurchase, received under the provision of said Regulation amounting to $121.5 million. Also, to comply with other investment requirements of said Regulation, eligible institutions had time deposits and securities sold under agreements to repurchase amounting to $459.7 million at June 30, 1992.

The average during the year of securities sold under agreements to repurchase was $212.9 million and the maximum balance at any month end was $522.2 million. The weighted average interest rate for the year was 3.93% and at June 30, 1992 it was 3.52%. At June 30, 1992, interest-bearing deposits with other banks and bank acceptances amounting to $100 million were collateralizing securities sold under agreements to repurchase for $95 million. Also, mortgage-backed securities, U.S. Treasury and other government agencies securities, and commercial paper amounting to $430.4 million received as collateral under purchases of securities under resell agreements were collateralizing securities sold under agreements to repurchase for $426.9 million.

Puerto Rico Ports Authority

Puerto Rico Ports Authority (PRPA) was created as a public corporation in 1942 to administer all ports and aviation transportation facilities of the Commonwealth and to render other related services.

Restricted assets consist mainly of cash, cash equivalents and investments. Such assets are held for debt service, construction, maintenance and other specific operating purposes.

Fixed assets consist primarily of land, buildings and piers.

Bonds payable consist of serial and term revenue bonds amounting to $151.4 million. These bonds are presented in the balance sheet net of bond discount of $6.6 million. All revenues derived from PRPA's properties, as defined, are pledged to secure the revenue bonds payable.

Sugar Corporation of Puerto Rico

Sugar Corporation of Puerto Rico (SCPR), a related entity of the Puerto Rico Land Authority, was organized as a public corporation in 1973 to consolidate the Commonwealth's activities in the sugar industry. SCPR is engaged in the production of raw and refined sugar in Puerto Rico and buys all the cane produced by private growers.

SCPR depends on subsidies from the Commonwealth of Puerto Rico to provide the necessary funds to cover its cash deficits. During the year, SCPR received $52.2 million in such subsidies which were recorded as operating transfers in.

Notes payable include $200 million of debt to be paid from future legislative appropriations. SCPR has established a receivable of $200 million for the legislative appropriation which is presented as due from other funds. The receivable and debt were eliminated through an adjustment and the debt is presented in the Commonwealth's debt service fund and general long-term debt account group (see note 6 under Notes Payable).

SCPR is a defendant in various legal actions. Aggregate claims under these actions amount to approximately $53.7 million. SCPR is in the process of litigating these actions, and has recorded as other long-term liabilities a reserve for possible losses of $6.6 million; however, the ultimate outcome of the actions cannot presently be determined and it is not presently known whether this reserve will be sufficient to provide for possible losses the SCPR may sustain as a result of the final outcome of such claims.

During March 1993, SCPR obtained a line of credit of $36 million from a commercial bank to finance the 1993 sugar crop. The line of credit bears interest at 82% of the applicable London interbank bid quotation rate (LIBID) and is payable quarterly. This line of credit is due on December 31, 1993.

Health Facilities and Services Administration of Puerto Rico (Unaudited)

Health Facilities and Services Administration of Puerto Rico (HFSA) was created as an executive agency in 1975 to lease and operate hospitals and other health facilities and to provide for the improvement, alteration or repair of such facilities. HFSA is authorized to borrow money and issue notes or other obligations for the purpose of financing the costs of improvements and providing health services to the general public. Patients, admitted to an institution under the jurisdiction of HFSA who are indigent, receive hospital and medical services free of charge; otherwise, payments for services rendered are required.

Notes payable mainly consist of $310.9 million from Government Development Bank to refinance an existing loan. These notes are general obligations of HFSA and are secured by Medicaid payments.

Other long-term liabilities consist of capital leases with the Public Buildings Authority related to property and equipment with a carrying value of $70.3 million. As the leases are with a public authority which is part of the Commonwealth's reporting entity, the criteria for recording as a capital lease do not apply in the general purpose financial statements of the Commonwealth as the asset and debt should only be reported by the Public Buildings Authority and not by HFSA. Accordingly, an adjustment was made to eliminate the liability, interest, asset and depreciation of HFSA from the enterprise fund and account for the related lease as operating.

During December 1992, HFSA entered into a loan agreement with GDB for $365.3 million. The proceeds of the loan were used to refinance the note payable to GDB mentioned above, to provide additional resources for the purchase of equipment and rehabilitation of certain public hospitals, and to provide resources for the payment of outstanding debts. The loan is payable in semiannual installments commencing on July 1, 1993 and bears interest at 8%.

Puerto Rico Maritime Shipping Authority

Puerto Rico Maritime Shipping Authority (PRMSA) is a public corporation created in 1974 for the purpose of establishing and maintaining an economical maritime transportation system between Puerto Rico and abroad.

PRMSA has not been able to finance its operations solely through internally generated funds. Extensive financial support has been provided by the Commonwealth, principally through the Government Development Bank for Puerto Rico, in the form of extensions of credit, direct loans, loan guarantees and capital contributions. The Commonwealth approved a law in 1988 to contribute $10 million each year from 1989 to 1994 to help guarantee the operational and functional stability of operations.

Fixed assets consist mainly of vessels, containers and terminal property.

Notes payable includes $162.3 million due to the Government Development Bank for Puerto Rico (GDB); $51.3 million guaranteed by GDB and $60 million guaranteed by the full faith, credit and taxing power of the Commonwealth. The amount of $20 million of the debt to GDB will be paid by future legislative appropriations.

Other long-term liabilities consist mainly of the present value of obligation under capital leases for vessels.

During the year, the Board of Governors of PRMSA approved a restructuring program designed to reduce administrative expenses and increase organizational effectiveness. The cost of this program amounting to $14.6 million is included in other non-operating expenses.

Other Information - Enterprise Funds

Cash, Cash Equivalents and Investments

Public corporations invest primarily in U.S. government and agency securities and bankers acceptances. Public corporations may invest in those securities authorized by legal provisions set forth in their Organic Act and/or provisions set forth in Bond Trust Indentures.

As of June 30, 1992, the carrying value of cash and cash equivalents amounts to $587.8 million and the bank balance to $628.8 million. This bank balance consists of $360.7 million which is insured or collateralized with securities held by the Department of the Treasury and $268.1 million which is uninsured and uncollateralized. In addition, cash in Government Development Bank and Economic Development Bank with a carrying value of $745.9 million and a bank balance of $739.8 million ($57.4 million in GDB) is not insured or collateralized.

Cash and cash equivalents included in restricted assets had a carrying value of $236.2 million and bank balance of $241.6 million. This bank balance consists of $122.1

million which is insured or collateralized with securities held by the Department of the Treasury and $119.5 million ($57.4 million in GDB) which is not insured or collateralized.

The following table shows the carrying amount and market value (amounts in thousands) as of June 30, 1992 of investments of all entities included within the enterprise funds. Investments are categorized below to give an indication of the level of risk at June 30, 1992. Category 1 includes investments that are insured or collateralized with securities maintained by the Secretary of the Treasury in his name. Category 2 includes investments that are collateralized with securities maintained by financial institutions or their agents in the name of the public corporation. Category 3 includes investments that are uncollateralized and consist substantially of certificates of deposit in the Government Development Bank:

	Carrying Amount				Market
	Category 1	Category 2	Category 3	Total	Value
Unrestricted					
U.S. government and agencies	$ 92,790	-	-	92,790	94,792
Corporate stocks and bonds	-	101,798	1,235	103,033	115,544
Mortgage loans	964	-	-	964	1,152
Certificates of deposit and bankers' acceptances	17,748	-	251,789	269,537	269,466
Others	72,010	226,100	-	298,110	299,115
	$ 183,512	327,898	253,024	764,434	780,069
Investment held by broker-dealers relating to securities and loans sold under agreements to repurchase				434,373	434,022
				$ 1,198,807	1,214,091
Restricted					
U.S. government securities	$ 351,371	-	-	351,371	356,537
P.R. municipal bonds	105,175	-	-	105,175	105,175
Certificates of deposit and bankers' acceptances	204,457	147,453	19,169	371,079	371,079
Guaranteed Investment contracts	-	8,956	-	8,956	8,956
	$ 661,003	156,409	19,169	836,581	841,747

Restricted assets amounting to $1.1 billion as of June 30, 1992 substantially consist of cash, cash equivalents and investments held for the redemption of bonds and notes payables.

Fixed Assets

Changes in fixed assets of all entities included in the enterprise funds were as follows (amounts in thousands):

	Balance Beginning of Year	Additions	Retirements	Balance End of Year
Puerto Rico Electric Power Authority	$ 3,410,114	234,069	17,184	3,626,999
Puerto Rico Aqueduct and Sewer Authority	2,947,507	204,334	-	3,151,841
Puerto Rico Urban Renewal and Housing Corporation (Unaudited)	1,216,944	-	-	1,216,944
Puerto Rico Telephone Authority	2,177,111	250,515	125,354	2,302,272
State Insurance Fund	23,536	1,249	1,426	23,359
Puerto Rico Industrial Development Company	666,416	54,150	3,125	717,441
Economic Development Bank for Puerto Rico	866	1,864	280	2,450
Puerto Rico Ports Authority	511,120	54,694	1,328	564,486
Sugar Corporation of Puerto Rico	95,923	1,592	794	96,721
Health Facilities and Services Administration of Puerto Rico (Unaudited)	65,687	30,540	-	96,227
Puerto Rico Maritime Shipping Authority	316,361	34,688	51,984	299,065
Other	467,128	53,092	23,594	496,626
	$ 11,898,713	920,787	225,069	12,594,431
Less accumulated depreciation and amortization				3,378,517
				$ 9,215,914

Fixed assets at June 30, 1992 are comprised of the following (amounts in thousands):

Land and improvements	$ 375,446
Buildings and improvements	7,364,635
Equipment	3,565,556
Construction in progress	1,288,794
	$ 12,594,431

Bonds Payable

Certain public corporations issued their own serial, revenue and refunding bonds. These bonds, which have interest rates ranging from 2.125% to 12%, are not legal obligations of the Commonwealth. Changes in bonds outstanding of all entities were as follows (amounts in thousands):

Issuer	Outstanding Beginning of Year	Issued	Redeemed	Outstanding End of Year
Puerto Rico Electric Power Authority	$ 2,291,140	258,931	64,184	2,485,887
Puerto Rico Aqueduct and Sewer Authority	454,818	8,390	7,692	455,516
Puerto Rico Urban Renewal and Housing Corporation (Unaudited)	563,253	-	-	563,253
Puerto Rico Telephone Authority	938,527	-	24,139	914,388
Puerto Rico Industrial Development Company	160,812	152,624	86,605	226,831
Puerto Rico Ports Authority	149,269	-	4,509	144,760
Other	382,642	-	164,961	217,681
Total	$ 4,940,461	419,945	352,090	5,008,316

Amounts due to maturity are as follows (amounts in thousands):

First year	$ 283,218
Second year	192,417
Third year	221,241
Fourth year	198,300
Fifth year	216,438
Thereafter	3,896,702
	$ 5,008,316

Notes Payable

Notes payable were issued by certain public corporations to provide interim financing for special projects or financing of operations. Interest rates range from 2% to 10%. Changes in notes payable for all entities were as follows (amounts in thousands):

Issuer	Outstanding Beginning of Year	Issued	Redeemed	Outstanding End of Year
Puerto Rico Electric Power Authority	$ 233,500	46,500	130,000	150,000
Puerto Rico Aqueduct and Sewer Authority	169,255	38,850	7,748	200,357
Puerto Rico Urban Renewal and Housing Corporation (Unaudited)	533,217	-	-	533,217
Puerto Rico Telephone Authority	141,005	47,000	3,602	184,403
Puerto Rico Industrial Development Company	51,958	20,408	34,197	38,169
Economic Development Bank for Puerto Rico	24,000	-	-	24,000
Puerto Rico Ports Authority	4,402	10,143	2,346	12,199
Sugar Corporation of Puerto Rico	40,000	37,000	62,674	14,326
Health Facilities and Services Administration of Puerto Rico (Unaudited)	429,154	-	118,233	310,921
Puerto Rico Maritime Shipping Authority	287,256	61,369	54,756	293,869
Other	297,691	52,042	66,951	282,782
Total	$ 2,211,438	313,312	480,507	2,044,243

Amounts due to maturity are as follows (amounts in thousands):

First year	$ 485,877
Second year	243,487
Third year	64,529
Fourth year	103,058
Fifth year	68,119
Thereafter	1,079,173
	$ 2,044,243

Puerto Rico Industrial, Medical, Educational and Environmental Pollution Control Facilities Financing Authority, a component unit, has issued revenue bonds of which $2.2 billion are outstanding at June 30, 1992. The bonds are payable solely from and secured by a pledge and assignments of amounts payable under loan agreements. They are also unconditionally guaranteed by the borrowers, their parent company and/or letters of credit from banks. These bonds do not constitute a debt or a pledge of the full faith and credit of the Authority or the Commonwealth and, accordingly, are not reflected as a liability in these general purpose financial statements.

Leases

Public corporations are also committed under numerous operating leases. Rental expense under these agreements amounted to $73.5 million. Future minimum lease payments under noncancellable leases exceeding one year for all entities are as follows (amounts in thousands):

First year	$ 40,815
Second year	42,337
Third year	35,408
Fourth year	29,111
Fifth year	25,085
Thereafter	314,655
Total future minimum lease payments	$ 487,411

Individual Deficits

Component units included under other entities and with a fund deficit include Farm Credit Guarantee Fund administered by Commercial and Agricultural Credit and Development Corporation of Puerto Rico ($47 million), Puerto Rico Land Authority ($22.4 million) and Musical Arts Corporation and Subsidiaries ($1.7 million).

Other Contingencies

Puerto Rico Land Authority and Commercial Agricultural Credit and Development Corporation of Puerto Rico are defendant under various legal proceedings arising in the normal course of business. Aggregate claims under these cases amount to approximately $145 million. Management believes, based on the opinion of legal counsel, that the final disposition of these matters will not have a material adverse effect on the financial position or results of operations.

Contributed Capital

Changes in contributed capital for the year ended June 30, 1992 are summarized as follows (amounts in thousands):

Contributed capital at beginning of year	$ 4,425,354
Transfers from retained earnings	76,116
Net contributions	158,670
Contributed capital at end of year	$ 4,660,140

Subsequent Events

During August 1992, the Puerto Rico Municipal Finance Agency (PRMFA) issued 1992 Series A bonds amounting to $183.8 million maturing through 2008. The bonds bear annual interest ranging from 3% to 5.875%. The bonds were issued primarily to provide funds for the purchase from the Government Development Bank of general obligation municipal bonds of various municipalities within the Commonwealth and to make a deposit in a reserve account. The good faith, credit and unlimited taxing power by the issuing municipality is pledged for the payment of cash of the general obligation municipal bonds purchased with the proceeds of the bonds.

In November 1992, the Agricultural Services Administration obtained a line of credit from GDB amounting to $30 million. This line of credit was increased to $45 million during December 1992. The line of credit is due on November 30, 1993 and bears interest at a variable rate revised on a quarterly basis.

Financial Information - Internal Service Funds

Substantially all of the financial information was derived from the most recently audited financial statements and summarized into the following format. Two of the entities presented comprise 97% of the combined assets and 92% of the combined operating revenues (before adjustments). This note contains the financial information of these entities (segment information) along with an explanation of significant and/or unusual accounting and reporting matters (amounts in thousands):

Assets	Government Development Bank for Puerto Rico	Public Buildings Authority	Other Entities	Total	Adjustments	Total Internal Service Funds
Cash, cash equivalents and investments	$ 3,383,163	92,611	121	3,475,895	-	3,475,895
Cash, cash equivalents and investments in governmental banks	-	53,256	27,499	80,755	-	80,755
Receivables, net:						
Accounts	-	30,046	8,978	39,024	-	39,024
Loans and advances	1,791,124	-	38,447	1,829,571	-	1,829,571
Accrued interest	67,656	-	3,378	71,034	-	71,034
Other	-	6,615	14,084	20,699	-	20,699
Due from other funds	-	49,094	-	49,094	-	49,094
Inventories	-	-	151,190	151,190	-	151,190
Restricted assets	2,838,532	157,624	6,291	3,002,447	-	3,002,447
Fixed assets, net	-	1,245,795	63,552	1,309,347	(326,404)	982,943
Other assets	38,573	8,392	1,055	48,020	-	48,020
Total assets	$ 8,119,048	1,643,433	314,595	10,077,076	(326,404)	9,750,672
Liabilities						
Accounts payable and accrued liabilities	59,459	45,533	41,928	146,920	-	146,920
Deposits	3,475,767	-	-	3,475,767	-	3,475,767
Due to other funds		2,360	22,546	24,906	-	24,906
Securities sold under agreements to repurchase	860,023	-	-	860,023	-	860,023
Interest payable	69,958	35,867	9,495	115,320	-	115,320
Notes payable	1,187,934	-	45,794	1,233,728	-	1,233,728
Bonds payable	1,704,286	1,153,205	-	2,857,491	-	2,857,491
Accrued compensated absences	3,546	7,914	5,344	16,804	-	16,804
Other long-term liabilities	-	-	1,749	1,749	-	1,749
Total liabilities	7,360,973	1,244,879	126,856	8,732,708	-	8,732,708
Fund Equity						
Contributed capital	725,000	41,230	91,312	857,542	-	857,542
Retained earnings	33,075	357,324	96,427	486,826	(326,404)	160,422
Total fund equity	758,075	398,554	187,739	1,344,368	(326,404)	1,017,964
Total liabilities and fund equity	$ 8,119,048	1,643,433	314,595	10,077,076	(326,404)	9,750,672

Operations	Government Development Bank for Puerto Rico	Public Buildings Authority	Other Entities	Total	Adjustments	Total Internal Service Funds
Operating revenues:						
Charges for services	$ 20,380	164,780	47,280	232,440	-	232,440
Financing income	124,949	-	1,246	126,195	-	126,195
Investment earnings	343,803	-	-	343,803	-	343,803
Other	-	-	4,910	4,910	-	4,910
Total operating revenues	489,132	164,780	53,436	707,348	-	707,348
Operating expenses:						
Cost of services	35,758	70,808	45,833	152,399	-	152,399
Interest	360,404	69,830	735	430,969	-	430,969
Depreciation and amortization	-	-	1,269	1,269	34,514	35,783
Other	9,065	-	1,786	10,851	-	10,851
Total operating expenses	405,227	140,638	49,623	595,488	34,514	630,002
Operating income	83,905	24,142	3,813	111,860	(34,514)	77,346
Non-operating revenues/ (expenses):						
Interest income	-	10,558	17	10,575	-	10,575
Interest expense	-	-	(19)	(19)	-	(19)
Other, net	-	24,705	816	25,521	-	25,521
Total non-operating revenues/(expenses), net	-	35,263	814	36,077	-	36,077
Income before operating transfers	83,905	59,405	4,627	147,937	(34,514)	113,423
Operating transfers in	-	-	4,277	4,277	-	4,277
Net income	83,905	59,405	8,904	152,214	(34,514)	117,700
Retained earnings at beginning of year:						
As previously reported	12,687	297,919	87,523	398,129	(291,890)	106,239
Restatement	11,483	-	-	11,483	-	11,483
As restated	24,170	297,919	87,523	409,612	(291,890)	117,722
Transfers to contributed capital	(75,000)	-	-	(75,000)	-	(75,000)
Retained earnings at end of year	$ 33,075	357,324	96,427	486,826	(326,404)	160,422

The following paragraphs summarize significant information related to entities for which summarized financial information is included in this note:

Government Development Bank for Puerto Rico

Government Development Bank for Puerto Rico (GDB) was created as a public corporation in 1948 to act as fiscal agent for the Commonwealth and its public entities and to make loans to public entities and private enterprises which will further the economic development of Puerto Rico.

Legislation has been enacted authorizing the Director of the Office of Budget and Management and the Secretary of the Treasury of the Commonwealth to include in future Commonwealth budget appropriations funds to support certain public entities in repaying their loans and advances. At June 30, 1992 loans and advances amounting to $498.6 million were being paid under these provisions.

As of June 30, 1992, the book balance of cash equivalents amounted to $2.3 billion and of cash in bank to $9 million. The bank balance of cash in bank amounted to $4.5 million. Of this balance $3.9 million are uninsured and uncollateralized and the remainder is covered by federal depository insurance. Cash equivalents consist of $1.7 billion of federal funds sold and $598.8 million of certificates of deposit and bankers acceptances. Of this balance $1 billion is insured and collateralized, the remainder is uninsured and uncollateralized. Investments are categorized below to give an indication of the level of risk at June 30, 1992. Category 1 includes investments that are insured or registered or for which the securities are held by GDB or its agent in GDB's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent in GDB's name (amounts in thousands).

Investments	Category 1	Category 2	Carrying Amount	Market Value
U.S. government securities	$ 152,960	-	152,960	153,250
Commonwealth securities	3,700	-	3,700	3,939
Mortgages obligations	136,624	-	136,624	136,624
Certificates of deposits and banker's acceptance	-	828,943	828,943	828,943
	$ 293,284	828,943	1,122,227	1,122,756

Restricted Assets		Category 1	Category 2	Carrying Amount	Market Value
Treasury investment growth receipts	$	342,962	-	342,962	480,984
U.S. securities		638,015	-	638,015	674,564
Mortgage loans		174,412	-	174,412	178,060
Securities purchased under agreement to resell		22,170	-	22,170	22,170
Certificates of deposit		-	250,490	250,490	250,490
Guaranteed investment contract		-	579,152	579,152	579,152
	$	1,177,559	829,642	2,007,201	2,185,420
Investment held by broker-dealers relating to securities and loans sold under repurchase agreements				831,331	841,372
				$ 2,838,532	3,026,792

Deposits consist mainly of interest bearing deposits of $1.9 billion and certificates of deposit of $1.6 billion principally from the Commonwealth and its public corporations.

Securities sold under agreements to repurchase of $860 million consist of federal funds amounting to $20 million and securities and loans sold under agreements to repurchase representing borrowings with maturities ranging from one day to six months. As of June 30, 1992, the amount outstanding and interest rates for securities and loans sold under agreements to repurchase were as follows (amounts in thousands):

Amount outstanding at end of year	$ 840,023
Maximum amount outstanding at any month-end	$ 926,847
Average amount outstanding	$ 725,778
Weighted average interest rate for the year	4.56%
Weighted average interest rate at June 30, 1992	3.89%

The market value of the securities and loans underlying the repurchase agreements normally exceeds the cash received, providing the dealers a margin against a decline in such market value. As of June 30, 1992, GDB's obligation and loans plus accrued interest exceeded the market value of the underlying securities, including accrued interest, by $1.5 million.

Bonds payable of $292 million are guaranteed by the Commonwealth as to payments of principal and interest for an amount not to exceed $550 million. These bonds include $25 million secured by a letter of credit issued by a commercial bank. The remaining $267 million represent adjustable refunding bonds due January 1, 2015, and secured by letters of credit issued by commercial banks. The letters of credit will expire on February 28, 1995, or earlier upon the conversion of the bonds to a fixed rate of interest.

Bonds payable of $450 million bear interest of 10%. Interest and principal payments are secured by letters of credit issued by commercial banks and by Treasury Investment Growth Receipts (TIGR's) with a carrying value of $343 million at June 30, 1992 and held by GDB as restricted assets. Such TIGR's represent evidence of ownership of future interest and principal payments aggregating $1.4 billion in U.S. Treasury Bonds, 12%, maturing through August 15, 2013. The TIGR's are pledged to secure each interest and principal payment from August 15, 1994 to 2013 on the bonds and have maturity dates and face amounts coinciding with such due dates and amounts.

Interest rates on notes and bonds range from 6.90% to 10% on $1 billion and are variable on $1.9 billion. The remaining $14.1 million were issued with a discount as zero coupon. Changes in bonds and notes outstanding were as follows (amounts in thousands):

	Outstanding Beginning of Year	Issued	Redeemed	Outstanding End of Year
Notes	$ 230,954	5,944,911	4,987,931	1,187,934
Bonds	1,510,264	238,012	29,266	1,719,010
	1,741,218	6,182,923	5,017,197	2,906,944
Less discount	14,748			14,724
Total	$ 1,726,470			2,892,220

A summary of notes and bonds payable, which mature during the next years, follows (amounts in thousands):

Year ending June 30	Amount
1993	$ 1,077,434
1994	10,500
1995	80,500
1996	261,400
1997	31,000
Thereafter	1,446,110
	$ 2,906,944

GDB is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers and to reduce its own exposure to fluctuations in interest rates. These financial instruments include commitments to extend credit and to purchase participations, standby letters of credit and financial guarantees, and interest rate products. These instruments involve, to varying degrees, elements of credits and interest rate risk that are not recognized in the balance sheet.

The off-balance sheet risk is managed and monitored in manners similar to those used for on-balance sheet risk. GDB exposure to credit loss for lending commitments and letter of credit is represented by the contractual amount of those transactions. Since many of the commitments are expected to expire without being drawn upon, the total amount does not necessarily represent future cash receipts. The notional amounts for other off-balance sheet risk express the dollar volume of the transactions, but the credit risk is much smaller. At June 30, 1992, financial instruments whose contract amounts represent credit risk consist of (amounts in thousands):

Financial guarantees	$ 92,417
Standby letters of credit	$ 169,005
Commitments to purchase participations	$ 38,054
Commitments to extend credit	$ 250,849

Also, financial instruments whose notional amount exceeds the amount of credit risk at June 30, 1992, consist of $83.4 million interest rate swap agreements.

At June 30, 1992, GDB guarantees obligations issued by public entities, amounting to $322.4 million.

The GDB has entered into various interest rate swap agreements in order to manage its interest rate exposure for an aggregate notional principal amount of $83.4 million. Interest rate swap transactions generally involve the exchange of fixed and floating rate interest payment obligations without the exchange of the underlying principal amounts. At June 30, 1992, the Bank had outstanding interest swap agreements with other financial institutions as follows (amounts in thousands):

Notional amount	$ 25,000	25,000	25,000	3,405	5,000
Rate Base (Bank)	Floating	Floating	Floating	Fixed	Fixed
Floating payment rate basis	Libor	Libor	Libor	Libor plus .125	Libor
Fixed payment rate	7.88%	8.90%	9.291%	9.15%	8.94%
Floating rate at June 30, 1992	3.9531%	4.125%	3.4375%	4.125%	3.9375%
Maturity date	Sept.30, 1993	April 15, 1993	May 15, 1993	Dec. 1, 1993	July 1, 1993

In connection with certain defeased obligations, the Public Finance Corporation, a subsidiary of GDB, has entered into two interest rate swaps with a commercial bank and a primary security dealer. Under the first agreement, GDB should pay a fixed rate of 6.55% while the commercial bank pays a floating rate based on the Kenny Information System Index Number 1 and based on a decreasing notional amount of $162.6 million up to July 1, 1993, $102.6 million up to July 1, 1994 and $37.6 million up to July 1, 1995 (termination date). In the second agreement, which was entered into to offset the effect of the first one, GDB shall pay a floating rate based on the Kenny Information System Index Number 1, while the primary security dealer pays a fixed rate of 6.55% also on a decreasing notional amount equal to the first agreement.

At June 30, 1992, assets held in trust by GDB in its fiduciary capacity and not included in GDB's consolidated financial statements amounted to $368.2 million.

Beginning in 1992, the assets, liabilities, fund balance and results of operations of a trust created by the Housing Finance Corporation (HFC) in connection with a bond issuance in 1988, are being included in the financial statements of the HFC, a consolidated subsidiary of GDB. As a result, consolidated retained earnings of GDB as of June 30, 1991 increased by $11.5 million.

Public Buildings Authority

Public Buildings Authority (PBA) was created as a public corporation in 1958 to design and construct office buildings, courts, warehouses and related facilities for lease to the Commonwealth of Puerto Rico or any of its departments, agencies, instrumentalities or municipalities and to finance and construct schools, health-care and social welfare facilities.

The annual rent for each building leased is computed based on the amounts needed by PBA for: (1) principal, interest and other amortization requirements of the notes and bonds issued to finance the buildings; (2) operating and maintenance expenses of the buildings, including a reasonable proportional share of PBA's administrative expenses, excluding depreciation; (3) cost of equipment replacement and other noncurrent operating and maintenance costs; and (4) reserve for such purposes. Rentals for operating and maintenance expenses, together with equipment replacement, are subject to escalation to permit PBA to recover costs in these areas.

The full faith, credit and taxing power of the Commonwealth are pledged for the payment of the rentals under any lease agreement executed pursuant to the law that created PBA. The law also provides that the Commonwealth's Department of the Treasury will make advances to PBA for any unpaid portion of rentals payable to PBA by any agency or instrumentality of the Commonwealth under the lease agreements.

As of June 30, 1992, the carrying value of cash and cash equivalents amounts to \$92.6 million and the bank balance to \$42.9 million. This bank balance is insured or collateralized with securities held by the Department of the Treasury. Cash in governmental banks with a carrying value and bank balance of \$53.3 million is not insured or collateralized.

Restricted assets consist of cash, certificates of deposit and U.S. government obligations amounting to \$56.8 million held in bond sinking funds and \$100.8 million held in or related to construction funds. From these amounts, cash with a carrying value of \$60.2 million and a bank balance of \$54.5 million is insured or collateralized with securities held by the Department of the Treasury. Investments in U.S. government securities with a carrying value of \$97.4 million and a market value of \$95.7 million are insured, registered or held by PBA or its agent in PBA's name.

Fixed assets are presented at cost and include a portion of general, administrative and interest expenses allocated during the construction period. Fixed assets with a cost of \$1.09 billion are leased to government agencies under operating leases and no depreciation is computed on such assets in the audited financial statements of PBA. To conform with generally accepted accounting principles as applicable to the general purpose financial statements, an adjustment was made for an estimate of such depreciation through June 30, 1992.

Bonds payable consist of serial revenue, term revenue, serial, term and capital appreciation bonds with an outstanding balance at June 30, 1992 amounting to \$1.2 billion and are presented in the combined balance sheet net of bond discount of $26.1 million. Such bonds are due through 2017 and bear interest from 5% to 8.875%. Aggregate principal maturities in future years are as follows (amounts in thousands):

Year ending June 30	
1993	$ 22,240
1994	29,235
1995	40,575
1996	42,990
1997	41,910
Thereafter	1,002,337
	$ 1,179,287

The maturities are funded by debt service rentals to be collected from the lessees. The payment of principal and interest on the bonds payable is guaranteed by the Commonwealth of Puerto Rico to a maximum aggregate principal amount not to exceed $1.2 billion.

During 1992, PBA issued $210 million of bonds to finance the construction of health facilities and public schools, and $173.7 million of refunding bonds to advance refund $173.1 million outstanding bonds. The proceeds of the refunded bonds were deposited in an escrow for investment in noncancelable direct obligations of the United States, the principal and interest on which, with other uninvested monies, will be sufficient to pay when due the principal of and premiums and interest on such bonds. This defeseance resulted in an extraordinary accounting loss of $5.2 million that is included in other non-operating expenses. However, PBA will realize an economic gain over the life of the new bonds of $9.7 million.

The defeased bonds in the above transaction and other similar transactions in prior years, are no longer deemed outstanding and $595 million of bonds as of June 30, 1992 are considered defeased.

PBA has entered into various contracts with outside contractors for the construction of buildings and other facilities. The uncompleted portion of these contracts amounts to $105 million as of June 30, 1992.

Other non-operating revenue includes $29.2 million from the elimination of debt service reserves related to the defeseance of certain bonds in prior years.

Other Information - Internal Service Funds

Inventories included under other entities mainly consist of $150.2 million of land leased or held for future use or sale to other governmental entities by the Puerto Rico Land Administration.

(16) Restatement

The beginning retained earnings in the internal service fund has been restated mainly for the inclusion of a trust created by the Puerto Rico Housing Finance Corporation , a consolidated subsidiary of the Government Development Bank (GDB), in connection with a bond issuance in 1988. As a result, consolidated retained earnings of GDB as of June 30, 1991 increased by $11.5 million.

(17) Subsequent Events

During July 1992, the Commonwealth issued $400 million of tax and revenue anticipation notes due on July 30, 1993 and bearing interest from 3.25% to 3.5%. These notes are payable solely from taxes and revenues in the general fund collected from the date of issuance through June 30, 1993. Neither the full faith, credit or taxing power of the Commonwealth nor that of any of its political subdivisions are pledged for the payment of the principal or interest on these notes.

In August 1992, the Commonwealth issued $539 million of refunding bonds and $310 million of public improvement bonds. The refunding bonds were issued to advance refund $468 million outstanding bonds. The proceeds of the refunded bonds will be deposited in an escrow for investment in noncancelable direct obligations of the United States, the principal and interest on which, with other uninvested monies, will be sufficient to pay, when due, the principal of and premium and interest on such bonds. The refunding bonds include serial and term bonds and auction rate notes (ARNs) and yield curve notes (YCNs). The ARNs and the YCNs were executed and delivered as fully registered bonds. The serial and the term bonds bear interest from 3.75% to 6.25%. The ARNs and the YCNs bear interest at a variable rate up to 12% which is the maximum rate currently permitted by Puerto Rico law. The bonds are due on various dates up to July 1, 2020. The good faith, credit and taxing power of the Commonwealth are irrevocably pledged for the prompt payment of the principal and interest of these bonds. The public improvement bonds were issued to finance the costs of certain public improvements. These bonds are due on various dates up to July 1, 2022 and bear interest from 5% to 6%. The good faith, credit and taxing power of the Commonwealth are irrevocably pledged for the prompt payment of the principal and interest of these bonds.

In February 1993, the Puerto Rico Highway and Transportation Authority obtained a line of credit from GDB for $200 million to finance traffic facilities. The line of credit is due on July 1, 1994 and bears interest at a variable rate revised on a monthly basis.

In February 1993, the Puerto Rico Department of Education obtained a loan from GDB for $29 million. The proceeds of the loans were used for the payment of salary increases owed to public school teachers in accordance with Act No. 89. The loan is due on July 1, 1994 and bears interest at a variable rate revised quarterly.

KPMG Peat Marwick

APPENDIX III

PUERTO RICO HIGHWAY AND TRANSPORTATION AUTHORITY

Financial Statements

June 30, 1992

(With Independent Auditors' Report Thereon)

PUERTO RICO HIGHWAY AND TRANSPORTATION AUTHORITY

Financial Statements

June 30, 1992

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KPMG Peat Marwick

Certified Public Accountants

PO Box 364089
San Juan PR 00936-4089

Independent Auditors' Report

Hon. Hermenegildo Ortiz Quiñones, Secretary
Department of Transportation and Public Works
Commonwealth of Puerto Rico:

We have audited the financial statements of Puerto Rico Highway and Transportation Authority as of and for the year ended June 30, 1992 as listed in the preceding table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Puerto Rico Highway and Transportation Authority at June 30, 1992, and the results of its operations and cash flows of its proprietary fund for the year then ended, in conformity with generally accepted accounting principles.

KPMG Peat Marwick

October 15, 1992

Stamp No. 791935 of the Puerto Rico Society of Certified Public Accountants was affixed to the record copy of this report.

PUERTO RICO HIGHWAY AND TRANSPORTATION AUTHORITY

Combined Balance Sheet - All Fund Types and Account Groups

June 30, 1992

(with comparative totals for June 30, 1991)

	Governmental Fund Types		Propietary Fund Type	Account Groups		Totals (Memorandum Only)	
	Debt Service	Capital Projects	Enterprise Fund	General Fixed Assets	General Long-Term Debt	1992	1991
Cash and investments (note 4)	$ 29,102,460	11,673,522	-	-	-	40,775,982	50,774,469
Cash and investments with trustee (note 4)	148,713,530	202,928,978	-	-	-	351,642,508	146,280,257
Receivables (net of allowance for estimated uncollectible amounts of $10,453,274 and $18,215,487 in 1992 and 1991, respectively):							
Commonwealth Secretary of the Treasury	941,032	-	-	-	-	941,032	9,617,732
Federal aid reimbursement	-	26,945,089	-	-	-	26,945,089	34,214,571
Accrued interest and other	1,432,499	4,496,512	-	-	-	5,929,011	1,610,648
Advances to Governmental Entities for Construction Projects	-	16,359,938	-	-	-	16,359,938	7,892,945
Enterprise Fund	-	63,449	-	-	-	63,449	-
Other	-	-	83,333			83,333	-
Prepaid expenses	-	188,255	-	-	-	188,255	227,512
Traffic facilities (note 5)	-	-	-	3,675,290,793	-	3,675,290,793	3,264,686,990
Property and equipment (note 5)	-	-	7,675,819	34,436,144	-	42,111,963	32,276,496
Amount available in debt service fund	-	-	-	-	132,240,302	132,240,302	128,542,485
Amount to be provided for retirement of general long-term debt	-	-	-	-	1,106,394,698	1,106,394,698	697,317,318
Amount to be provided for payment of claims and judgments	-	-	-	-	9,411,480	9,411,480	8,420,000
	$180,189,521	262,655,743	7,759,152	3,709,726,937	1,248,046,480	5,408,377,833	4,381,861,423

PUERTO RICO HIGHWAY AND TRANSPORTATION AUTHORITY

Combined Balance Sheet - All
Fund Types and Account Groups

June 30, 1992
(with comparative totals for June 30, 1991)

	Governmental Fund Types		Propietary Fund Type	Account Groups		Totals (Memorandum Only)	
	Debt Service	Capital Projects	Enterprise Fund	General Fixed Assets	General Long-Term Debt	1992	1991
Matured interest payable	$ 24,749,726	-	-	-	-	24,749,726	30,101,452
Matured bonds (note 3)	22,665,000	-	-	-	-	22,665,000	18,675,000
Accounts payable	-	36,902,784	30,676	-	-	36,933,460	28,861,921
Amounts retained from contractors	-	4,280,562	-	-	-	4,280,562	3,557,549
Due to Capital Project Fund	-	-	63,449	-	-	63,449	-
Other liabilities	534,493	24,093,667	-	-	-	24,628,160	27,654,633
Note payable to Puerto Rico Ports Authority	-	-	-	-	-	-	314,803
Accrued legal claims	-	-	-	-	9,411,480	9,411,480	8,420,000
Bonds payable (note 3):							
Serial bonds	-	-	-	-	218,815,000	218,815,000	178,295,000
Term bonds	-	-	-	-	1,019,820,000	1,019,820,000	647,250,000
Total liabilities	47,949,219	65,277,013	94,125	-	1,248,046,480	1,361,366,837	943,130,358
Fund Equity							
Contributed capital (note 6(f))	-	-	7,665,027	-	-	7,665,027	-
Investment in general fixed assets	-	-	-	3,709,726,937	-	3,709,726,937	3,296,963,486
Fund balances	132,240,302	197,378,730	-	-	-	329,619,032	141,767,579
Total fund equity	132,240,302	197,378,730	7,665,027	3,709,726,937	-	4,047,010,996	3,438,731,065
Commitments and contingent liabilities (note 6)							
	$ 180,189,521	262,655,743	7,759,152	3,709,726,937	1,248,046,480	5,408,377,833	4,381,861,423

See accompanying notes to financial statements.

PUERTO RICO HIGHWAY AND TRANSPORTATION AUTHORITY

Combined Statement of Revenues,
Expenditures and Changes in Fund
Balances- All Governmental Fund Types
Year ended June 30, 1992
(with comparative totals for the year ended June 30, 1991)

	Governmental Fund Types			Total (Memorandum Only)	
	General	Debt Service	Capital Projects	1992	1991
Revenues (notes 2 and 3):					
Excise taxes:					
Gasoline	$ -	133,305,467	-	133,305,467	127,353,890
Diesel oil	-	2,968,940	-	2,968,940	2,199,427
Vehicle license fees	-	21,954,728	-	21,954,728	25,357,259
Toll fares	-	55,255,168	-	55,255,168	37,675,950
Contributions:					
Federal government	-	-	70,637,416	70,637,416	73,799,055
Commonwealth of Puerto Rico, Municipalities and other	-	-	258,078	258,078	6,613,000
Investment income	-	5,534,142	1,162,007	6,696,149	13,156,246
Other	686,168	-	-	686,168	488,378
Total revenues	686,168	219,018,445	72,057,501	291,762,114	286,643,205
Other financing sources/(uses) (notes 2 and 3):					
Bonds proceeds	-	181,059,116	413,484,298	594,553,414	222,790,443
Interest on refunding and revenue bonds	-	2,384,280	-	2,384,280	1,412,341
Payment to refunded bond escrow agent	-	(179,184,013)	-	(179,184,013)	(61,292,791)
Transfers from/(to) other funds	19,136,358	(134,130,986)	113,210,586	(1,834,042)	-
Total revenues and other financing sources/(uses)	19,822,526	89,106,842	598,752,385	707,681,753	449,553,198
Expenditures:					
Toll highways administration and maintenance	14,654,777	-	-	14,654,777	12,770,186
Acquisition of operating property and equipment	5,167,749	-	-	5,167,749	5,779,912
Expenditures for traffic facilities	-	-	410,603,803	410,603,803	344,625,960
Other	-	152,311	3,994,946	4,147,257	206,960
Redemption of bonds (note 3):					
Serial bonds	-	22,665,000	-	22,665,000	18,675,000
Term bonds	-	6,765,000	-	6,765,000	6,335,000
Interest	-	49,105,679	-	49,105,679	55,624,505
Payment of current portion of note payable	-	314,803	-	314,803	314,803
Bonds issuance cost	-	6,406,232	-	6,406,232	3,451,679
Total expenditures	19,822,526	85,409,025	414,598,749	519,830,300	447,784,005
Excess of revenues and other financing sources/(uses) over expenditures	-	3,697,817	184,153,636	187,851,453	1,769,193
Fund balances at beginning of year	-	128,542,485	13,225,094	141,767,579	139,998,386
Fund balances at end of year	$ -	132,240,302	197,378,730	329,619,032	141,767,579

See accompanying notes to financial statements.

PUERTO RICO HIGHWAY AND TRANSPORTATION AUTHORITY

Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - All Governmental Fund Types

Year ended June 30, 1992

	Budget - Cash Basis	Actual -Cash Basis (note 1)	Variance - Favorable (Unfavorable)
Revenues:			
Excise taxes on gasoline, diesel oil and vehicle license fees	$ 158,100,000	166,753,505	8,653,505
Toll fares	52,500,000	54,898,448	2,398,448
Contributions from the Federal Government	68,200,000	74,519,815	6,319,815
Other income (mainly interest)	15,500,000	12,933,633	(2,566,367)
Funds received as agent	-	2,198,115	2,198,115
Bond proceeds and interim financing	243,100,000	617,325,402	374,225,402
Total revenues	537,400,000	928,628,918	391,228,918
Expenditures:			
Construction and other related expenditures	354,400,000	345,972,273	8,427,727
Administrative expenditures capitalized	55,385,400	66,415,874	(11,030,474)
Acquisitions of operating equipment	5,014,600	5,167,749	(153,149)
Toll highways administration and maintenance	15,500,000	13,739,366	1,760,634
Transfers to Bond Sinking Fund:			
Redemption of serial bonds	21,290,620	201,849,013	(180,558,393)
Redemption of term bonds	6,349,380	8,667,455	(2,318,075)
Interest on bonds outstanding	67,189,000	60,928,595	6,260,405
Interest on interim financing	6,775,000	3,678,276	3,096,724
Increase in reserve account	18,360,000	-	18,360,000
Bond discount and issuance expenditures	4,336,000	23,622,817	(19,286,817)
Other	1,000,000	316,669	683,331
Interim Financing with Government Development Bank	-	206,100,000	(206,100,000)
Transfers for Metrobus Project	4,100,000	1,834,042	2,265,958
Transfer for projects where the Authority acted as agent	-	335,276	(335,276)
Total expenditures	$ 559,700,000	938,627,405	378,927,405
Deficiency of revenues over expenditures	(22,300,000)	(9,998,487)	12,301,513
Fund balance at beginning of year	22,300,000	50,774,469	28,474,469
Fund balance at end of year	$ -	40,775,982	40,775,982

See accompanying notes to financial statements.

PUERTO RICO HIGHWAY AND TRANSPORTATION AUTHORITY

Combined Statement of Revenues, Expenditures and Changes in Retained Earnings - All Proprietary Fund Types

Year ended June 30, 1992

Operating revenues - user charges		$ 1,062,065
Operating expenses:		
Administrative and others	$ 2,896,107	
Depreciation	450,884	
		3,346,991
Operating loss		2,284,926
Non-operating revenues - transfers from other fund		1,834,042
Net loss		(450,884)
Add depreciation on contributed equipment		450,884
Retained earnings at end of year		$ -

See accompanying notes to financial statements.

PUERTO RICO HIGHWAY AND TRANSPORTATION AUTHORITY

Combined Statement of Cash Flows - All Proprietary Fund Types

Year ended June 30, 1992

Cash flows from operating activities:	
Cash received from customers	$ 1,062,065
Cash paid for services	(2,896,107)
Cash flows used in operating activities	(1,834,042)
Cash flows provided by noncapital financing activities - transfers from other fund	1,834,042
Increase in cash	$ -

(1) Organization and Summary of Significant Accounting Policies

The Puerto Rico Highway and Transportation Authority is a public corporation and instrumentality of the Commonwealth of Puerto Rico, created by Act No. 74 of June 23, 1965, as amended, to provide roads and other facilities for the movement of persons, vehicles, and vessels and for the planning, promotion and feasibility of mass transportation systems. The Authority is a component unit of the Commonwealth of Puerto Rico and accordingly is included in the general purpose financial statements of the Commonwealth. The powers normally exercised by a Board of Directors are vested to the Commonwealth Secretary of the Department of Transportation and Public Works (DTPW). The Authority has periodically advanced money to DTPW to carry out its participation in the construction program of the Authority. Also, the Authority makes contributions to the DTPW for the maintenance program carried out by such Department. The Authority is exempt from the payment of any taxes on its revenues and properties.

The accounting policies of the Authority conform to generally accepted accounting principles as applicable to governmental units. The following is a summary of the significant accounting policies:

Fund Accounting

The accounts of the Authority are organized on the basis of funds or account groups, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues, and expenditures. The various funds are summarized by type in the financial statements. The following fund types and account groups are used by the Authority:

GOVERNMENTAL FUND TYPES

Governmental Funds are those through which most governmental functions of the Authority are financed. The acquisition, use, and balances of the Authority's expendable financial resources and the related liabilities are accounted for through governmental funds. The measurement focus is upon determination of changes in financial position, rather than upon net income determination. The following are the Authority's governmental fund types:

The General Fund is the general operating fund of the Authority. It is used to account for all financial resources except those required to be accounted for in another fund.

The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs, except those required to be accounted for in the general fund. Long-term debt and interest due July 1 of the following fiscal year is accounted for as a fund liability if resources are available as of June 30 for its payment.

The Capital Project Fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities. The cost of major capital facilities is transferred to the General Fixed Assets Account Group.

PROPRIETARY FUND TYPE

Proprietary funds are used to account for activities that are similar to those often found in the private sector. The measurement focus is upon determination of net income and capital maintenance. The following is the Authority's proprietary fund type:

The Enterprise Fund is used to account for operations that are financed through user charges and management has decided that determination of net income is appropriate.

ACCOUNT GROUPS

Account groups are used to establish accounting control and accountability for the Authority's general fixed assets and general long-term debt. The following are the Authority's account groups:

The General Fixed Assets Account Group reflects the accumulation of expenditures in roads and traffic facilities and the property and equipment used in the operations of the Authority. Since the General Fixed Assets Account Group is a memorandum account no depreciation is being provided.

The General Long-term Debt Account Group accounts for all long-term debt of the Authority.

Basis of Accounting

The modified accrual basis of accounting is followed by the governmental funds. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual, i.e., both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures and related liabilities are recorded in the accounting period in which the liability is incurred, except for (1) interest on long-term obligations, which is recorded when due except for interest due July 1 of the following year which is recorded when resources are available in the debt service fund and (2) litigation which is recorded in the general long-term debt account group.

The accrual basis of accounting is used by proprietary funds. Under the accrual basis, revenue is recognized when earned and expenses are recorded as liabilities are incurred, without regard to receipt or payment of cash.

In applying the susceptible to accrual concept to intergovernmental revenues, the legal and contractual requirements of the programs are used as guidance. There are, however, essentially two types of these revenues. In one, monies must be expended on the specific purpose or project before any amount will be paid to the Authority; therefore, revenues are recognized based upon the expenditures recorded. In the other, monies are virtually unrestricted as to purpose of expenditure and are usually revocable only for failure to comply with prescribed compliance requirements. These resources are reflected as revenues at the time of receipt or earlier if the susceptible to accrual criteria are met.

Investments

Investments are stated at amortized cost which approximates market value.

Property and Equipment

Assets purchased are recorded as expenditures in the governmental funds and capitalized at cost in the general fixed assets account group.

Equipment acquired by the proprietary fund is stated at cost. Depreciation is provided using the straight-line method over estimated useful lives ranging from 8 to 12 years. Depreciation on equipment acquired from contributed capital is reflected as an addition to retained earnings and reduced from contributed capital.

Vacation and Sick Leave

Employees earn annual vacation leave at the rate of 30 days per year up to a maximum permissible accumulation of 60 days for regular employees. Employees accumulate sick leave at the rate of 18 days per year. Sick leave is payable only if the employee has more than 10 years of employment, and retires and takes a pension or resigns and takes a deferred pension. Maximum permissible accumulation is 90 days for all employees and the excess is paid within the next year.

The liability for the vested accumulated vacation and sick leave is recorded in the capital projects fund.

Claims and Judgments

The estimated amount of the liability for claims and judgments which is due on demand, such as from adjudicated or settled claims, is recorded in the capital projects fund. The general long-term debt account group includes the amount estimated as a contingent liability and the liability with a fixed or expected due date which will require future available financial resources for its payment.

Total Memorandum Only

Total columns on the financial statements are captioned Memorandum Only to indicate that they are presented only to facilitate financial analysis. Data on these columns do not present financial position or results of operations in conformity with generally accepted accounting principles. Such data is not comparable to a consolidation since interfund eliminations have not been made.

Budgetary Data

The Authority prepares its annual budget following the cash basis of accounting while its financial statements are presented under generally accepted accounting principles (GAAP). The actual results of operations presented in the Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - All Governmental Fund Types are in accordance with the budget accounting basis to provide a meaningful comparison of actual with budget.

The Authority follows these procedures in establishing the budgetary data reflected in the financial statements:

(1) The Executive Director submits to the Commonwealth Secretary of Transportation and Public Works (Secretary) a proposed operating budget for the fiscal year commencing next July 1. The operating budget includes proposed expenditures and the means of financing them.

(2) The budget is approved through a resolution by the Secretary.

(3) After the approval of the operating budget, the Secretary is authorized to transfer budgeted amounts within any funds.

The major differences between the budget and GAAP basis are that:

(1) Revenues are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP);

(2) Expenditures are recorded when payments are made (budget) as opposed to when the liability is incurred (GAAP); and

(3) Advances to governmental entities for construction projects are recorded when paid (budget) as opposed to being recognized as expenditures for traffic facilities when the advances are used (GAAP).

Adjustments necessary to convert the excess of revenues and other financing sources/(uses) over expenditures from the GAAP basis to the budget basis are as follows:

Per Statement of Revenues, Expenditures and Changes in Fund Balances - All Governmental Fund Types	$ 187,851,453
Adjustments:	
Received in cash during the year but accrued as receivables at June 30, 1991	45,442,951
Accrued as receivables at June 30, 1992 but not recognized in budget	(33,961,914)
Change in investments	(202,928,978)
Change in cash and investments with trustee	(2,433,273)
Paid in cash during the year but accrued as a liability at June 30, 1991	(60,074,103)
Net advances to governmental entities for construction projects	(8,466,993)
Accrued as a liability at June 30, 1992 but not recognized in budget	65,905,631
Change in matured interest and bonds payable	(1,361,726)
Other	28,465
Per Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - All Governmental Fund Types	$ (9,998,487)

(2) Debt Service Fund

The debt service fund revenue is generated from the gasoline and diesel oil excise taxes, certain motor vehicles license fees and toll charges deposited with the Fiscal Agent as described in note 3. The Fiscal Agent withholds the amounts necessary for the debt service requirements of the revenue bonds of the Authority and transfers the excess to the general and capital projects funds.

(3) Bonds Payable

Resolution No. 68-18 (Bond Resolution) of the Authority authorizes the issuance of revenue bonds to obtain funds to accelerate the construction of traffic facilities. Bonds outstanding at June 30, 1992, were as follows:

	Issue Date	Original Amount	Maturing July 1	Interest Rate	Unpaid Amount
Term bonds:					
A	Jan. 1, 1968	$ 20,000,000	1998	5.25%	$ 13,000,000
B	Jan. 1, 1970	20,000,000	1998	7.00	16,105,000
D	Jan. 1, 1971	40,000,000	2001	6.75	40,000,000
E	Jan. 1, 1972	39,000,000	2001	6.00	39,000,000
F	Jul. 1, 1972	32,300,000	2002	5.90	32,300,000
G	Jan. 1, 1973	45,000,000	2003	5.50	45,000,000
L	Jul. 1, 1977	60,000,000	2007	7.00	60,000,000
N	Sept. 14, 1988	29,685,000	2003	8.00	29,685,000
O	Sept. 14, 1988	35,370,000	2005	8.00	35,370,000
Q	Oct. 1, 1990	137,475,000	2010-2020	6.00-8.00	115,475,000
R	Nov. 1, 1990	45,300,000	2005	6.75	45,300,000
S	June 4, 1992	140,000,000	2022	6.50-6.63	140,000,000
T	June 4, 1992	285,000,000	2022	6.50-6.63	285,000,000
V	June 4, 1992	123,585,000	2018	5.75-6.63	123,585,000
Total term bonds		$ 1,052,715,000			$ 1,019,820,000
Serial bonds:					
C	Jul. 1, 1970	25,000,000	1978-1992	6.00-7.10	2,130,000
D	Jan. 1, 1971	20,000,000	1978-1992	6.10-6.60	1,530,000
E	Jan. 1, 1972	21,000,000	1978-1992	5.00-5.80	1,710,000
F	Jul. 1, 1972	27,700,000	1978-1992	5.20-5.80	2,300,000
G	Jan. 1, 1973	20,000,000	1978-1993	5.00-5.50	3,125,000
L	Jul. 1, 1977	15,000,000	1979-1992	4.00-6.50	1,500,000
N	Sept. 14, 1988	98,295,000	1990-2001	6.40-7.65	85,245,000
O	Sept. 14, 1988	28,315,000	1990-2001	6.40-7.60	25,070,000
Q	Oct. 1, 1990	32,525,000	1992-2003	6.40-7.70	32,525,000
R	Nov. 1, 1990	19,115,000	1992-2002	6.20-7.25	19,115,000
U	June 4, 1992	53,225,000	1999	3.50-5.88	53,225,000
V	June 4, 1992	9,960,000	2005	3.50-6.38	9,960,000
FMHA-C ...	Jan. 27, 1981	4,510,000	1982-2020	5.00	4,045,000
Total serial bonds		$ 374,645,000			241,480,000
Less serial bonds payable on July 1, 1991					22,665,000
Serial bonds payable thereafter					218,815,000
Total bonds payable after July 1, 1992					$ 1,238,635,000

Changes in term and serial bonds outstanding were as follows:

	Outstanding Beginning of Year	Issued	Redeemed	Outstanding End of Year
Term	$ 647,250,000	548,585,000	176,015,000	1,019,820,000
Serial	178,295,000	63,185,000	22,665,000	218,815,000
	$ 825,545,000	611,770,000	198,680,000	1,238,635,000

The above bonds payable require future payments of principal and interest as follows:

Year ending June 30	Principal	Interest	Total
1993	$ 32,365,000	83,142,049	115,507,049
1994	32,305,000	80,361,154	112,666,154
1995	33,910,000	78,372,244	112,282,244
1996	36,615,000	76,279,874	112,894,874
1997	38,930,000	73,968,102	112,898,102
Thereafter	1,064,510,000	964,276,341	2,028,786,341
	$ 1,238,635,000	1,356,399,764	2,595,034,764

The bonds are secured by a pledge of the gross receipts of the gasoline excise taxes and one half of gas oil and diesel oil excise taxes, $15 per vehicle per year from certain motor vehicle license fees, the proceeds of any other taxes, fees or charges which the Legislature of Puerto Rico may allocate to the Authority in the future, and which the Authority may pledge, and proceeds of any tolls or other charges which the Authority may impose for the use of any of its traffic facilities. The proceeds of the gasoline tax, the gas oil and diesel oil tax and the motor vehicle license fees allocated to the Authority are available taxes and revenues under the Constitution of the Commonwealth of Puerto Rico. Accordingly, if needed, they are subject to being applied first to the payment of debt service on the public debt of the Commonwealth but such taxes and fees are to be used for such payments only if and to the extent that all other available revenues of the Commonwealth under the Constitution are insufficient for such purpose. The Commonwealth has never applied such revenues for such payments. The Bond Resolution requires that proceeds from bonds issued be used to retire bond anticipation notes and for the construction of traffic facilities. It further provides that receipts of pledged revenues be deposited with the Fiscal Agent to the credit of the following accounts in the following order:

(a) To the Bond Service Account in an amount equal to 1/6th of the amount of interest payable on all bonds of each series issued under the Bond Resolution on the next succeeding interest payment date and an amount equal to 1/12th of the next maturing installment of principal of any serial bonds; provided, however, that the amount so deposited on account of the interest in each month after the delivery of the bonds of any series up to and including the month immediately preceding the first interest payment date thereafter of the bonds of such series, shall be that amount which when multiplied by the number of such deposits will be equal to the amount of interest payable on such bonds on such first interest payment date less the amount of any accrued interest paid on such bonds and deposited to the credit of the Bond Service Account;

(b) To the Redemption Account, in an amount equal to 1/12th of the amortization requirement as defined in the Bond Resolution for such fiscal year for the term bonds of each series then outstanding plus an amount equal to 1/12th of the premium, if any, which would be payable on the first redemption date in the following fiscal year on a like principal amount of bonds if such principal amount of bonds should be redeemed prior to their maturity from moneys in the Sinking Fund;

(c) To the Reserve Account, such amount as is required to make the amount deposited to the credit of said account in the then current fiscal year to the lesser of the maximum annual principal and interest requirements (as defined in the Bond Resolution) in any fiscal year on all outstanding Bonds and 10% of the original amount of each Series of Bonds outstanding, permit any increase in the Reserve Requirement to be funded over five years and allow the Authority to use a letter of credit or insurance policy to fund the Reserve Requirement. Excess moneys in the Reserve Account can be transferred to the Construction Fund, the Bond Service Account or the Redemption Account, as determined from time to time by the Authority.

If the moneys in the Reserve Account are used to cover any deficiency in the Bond Service Account or the Redemption Account established under the Resolution, the Excise Act provides that the Reserve Account shall be reimbursed, subject to the provisions of the Constitution of the Commonwealth relating to payment of Commonwealth debt, from the first proceeds received by the Commonwealth in the next fiscal year or years derived from (i) any remaining portion of the tax on gasoline and gas oil and diesel oil then in effect and (ii) any other taxes which may then be in effect on any other fuels or propellants which are used, among other purposes, to propel highway vehicles.

(d) Any revenues remaining after making the deposits referred to above shall be deposited to the credit of the Construction Fund established under the Bond Resolution for use by the Authority for any of its authorized purposes.

The requirements specified in paragraphs (a), (b) and (c) above are cumulative.

The following analysis summarizes the transactions during the year ended June 30, 1992 in the Debt Service Fund:

	Total Debt Service Fund	Bond Service Account	Reserve Account	Redemption Account
Balance at June 30, 1991	$ 128,542,485	1,110,304	126,670,673	761,508
Add:				
Revenues, net	78,836,203	78,836,203	-	-
Investment income	5,534,142	-	5,534,142	-
Bonds proceeds	181,069,116	181,069,116	-	-
Interest on Refunding Bonds	2,384,280	2,384,280	-	-
Deduct:				
Interest	(49,105,679)	(49,105,679)	-	-
Bonds	(29,430,000)	(22,665,000)	-	(6,765,000)
Payment to Escrow Agent	(179,184,013)	(179,184,013)	-	-
Bonds Issuance Cost	(6,406,232)	(6,406,232)	-	-
Transfers	-	(6,765,000)	-	6,765,000
Balance at June 30, 1992	$ 132,240,302	(726,021)	132,204,815	761,508

The Bond Resolution provides that additional bonds may be issued for the purposes of providing funds for completing payment of the cost of any traffic facilities or for paying all or any part of the cost of any additional traffic facilities, including the payment of any outstanding notes of the Authority which were issued to finance temporarily the costs of the traffic facilities for which such bonds are to be issued; provided, however, that the revenues, if any, imposed by the Authority for the use of any traffic facilities, received by the Authority in any 12 consecutive months of the 15 months ending not more than 30 days preceding the issuance of such bonds shall be not less than 150% of the amount of the maximum principal and interest requirements (as defined in the Bond Resolution) for any fiscal year thereafter on account of all bonds therefore issued under the provisions of the Bond Resolution and then outstanding and the additional bonds then to be issued.

Refunding bonds may be issued for the purpose of providing funds for refunding at or prior to their maturity or maturities all of the outstanding bonds of any series, or a portion thereof (as defined in the second Supplemental Resolution) including the payment of any redemption premium thereon and the interest which will accrue on such bonds to their earliest redemption date or maturity date or dates occurring prior thereto; provided, however, that the maximum amount of the principal and interest requirements (as defined in the Bond Resolution) for any fiscal year thereafter on account of all bonds to be outstanding after the issuance of such refunding bonds and the redemption of the bonds to be refunded shall be less than the maximum amount of the principal and interest requirements for any fiscal year thereafter on account of all of the bonds outstanding prior to the issuance of such refunding bonds and the redemption of the bonds to be refunded.

Nothing in the Bond Resolution is to be construed as preventing the Authority from financing any facilities authorized by the Authority Act through the issuance of bonds or other obligations which are not secured under the provisions of the Bond Resolution.

In June 1992, the Authority issued $425,000,000 of Revenue Bonds (Series S and T) with interest rates fluctuating from 6.50% to 6.63% due on July 1, 2022 to finance the costs of various projects. Also, it issued $186,770,000 of Revenue Refunding Bonds (Series U and V) with interest rate fluctuating from 3.50% to 6.63% due on July 1, 2018. The net proceeds of $179,184,013 (after payment of $7.6 million of underwriting fees and other issuance costs) were used to purchase U.S. Government Securities. Those securities were deposited in an irrevocable trust established pursuant to an escrow deposit agreement for the debt service payments and the early redemption of certain outstanding term bonds (Series C, K, P and $22,000,000 of Q).

In prior years, the Authority defeased certain bonds by placing the proceeds of new bonds in irrevocable trusts to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds in prior years and for the defeasance referred to in the preceding paragraph are not included in the Authority's financial statements. At June 30, 1992, $267,250,000 of bonds outstanding are considered defeased.

(4) Cash and Investments

Cash and investments at June 30, 1992 consist of the following:

Cash held by the Puerto Rico Department of the Treasury	$ 29,102,460
Interest-bearing deposits with commercial banks	22,042,248
Securities acquired under repurchase agreements	1,000,733
	52,145,441
Less checks issued in excess of bank balance	11,369,459
	$ 40,775,982

Cash with the Department of the Treasury is uninsured and uncollateralized. The interest-bearing deposits with commercial banks are covered by federal depository insurance or collateralized. The securities acquired under repurchase agreements are held by the broker but not in the Authority's name. The bank balance in the checking account is covered by federal depository insurance or collateral. On this account checks are issued in excess of bank balance and subsequent deposits are made from cash transfers to cover such checks.

Cash and investments with trustee consist substantially of investments with a market value which approximates cost. Such investments were held by the trustee in the Authority's name.

The Authority is authorized to deposit only in institutions approved by Treasury and such deposits should be kept in separate accounts in the name of the Authority. As per Resolution 68-18 (Bond Resolution) monies in the debt service fund shall be held by the fiscal agent (The Chase Manhattan Bank, N.A.) in trust and applied as provided in the Bond Resolution. The law of the Authority is silent as to the type of securities the Authority may invest; however, monies in the debt service fund must be invested only in direct obligations of the United States government, or obligations unconditionally guaranteed by the United States government, and/or interest bearing time deposits, or other similar arrangements, as provided by the Bond Resolution.

(5) Fixed Assets

A summary of changes in general fixed assets follows:

	Balance June 30, 1991	Additions	Retirements	Balance June 30, 1992
Traffic facilities	$ 3,264,686,990	410,603,803	-	3,675,290,793
Property and equipment:				
Land	1,982,544	-	(1,692,544)	290,000
Machinery and equipment	21,034,343	4,355,958	(1,087,838)	24,302,463
Other	9,259,609	811,791	(227,719)	9,843,681
	32,276,496	5,167,749	(3,008,101)	34,436,144
	$ 3,296,963,486	415,771,552	3,008,101	3,709,726,937

Fixed assets in the proprietary fund consist of equipment acquired during the year from contributions received from the Federal government and the capital projects fund.

(6) Commitments and Contingent Liabilities

(a) Construction

As of June 30, 1992, the Authority had commitments for approximately $315,811,000, related to construction contract balances or uncompleted contracts.

(b) Retirement Plan

Regular employees participate in the Retirement System of the Commonwealth of Puerto Rico (System), a multiple-employer public employee retirement system. The payroll for employees covered by the System for the year ended June 30, 1992 was approximately $39,816,000 and the Authority's total payroll cost was approximately $44,631,000.

All regular employees which at the time of employment are 55 years old or less are eligible to participate in the System. Employees who retire at or after age 55 with 30 years of credited service or age 58 with 10 years of credited service are entitled to a retirement benefit payable each month for life, computed based on a benefit rate set forth by Commonwealth statute. The System also provides death and disability benefits established by Commonwealth statute.

Covered employees are required by Commonwealth statute to contribute 5.775 percent or 8.275 percent. The Authority is required by the same statute to contribute 9.275 percent of the participant's salary. The contribution requirement for the year ended June 30, 1992 was approximately $5,706,000, which consisted of $3,156,000 from the Authority and $2,549,000 from employees.

The "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits adjusted for the effects of projected salary increase and step-rate benefits, estimated to be payable in the future as a result of employee service to-date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the System's funding status on a going concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons between public employee retirement system and employers. The System does not make separate measurements of assets and pension benefit obligation for individual employers.

The actuarial present value of accrued benefits obligation at June 30, 1989 (latest date available) for the System as a whole, determined through an actuarial valuation performed as of June 30, 1988 and updated to June 30, 1989, was $4,009 million. The System's net assets available for benefit on that date were $696 million, resulting in an excess of accrued benefits over net assets available of $3,313 million.

The Authority is subject to a possible liability to the System based on Law Number 447 of 1951. The Law provides that government instrumentalities shall pay to the System actuarial deficiencies related to the accrued benefits from the respective instrumentality. The System is reviewing the data for the system deficiency and the liability related to the Authority has not been determined. It is expected that any resulting liability will probably be recorded in the general long-term debt account group over a period to be determined.

Trend information gives an indication of the progress made in accumulating sufficient assets to pay benefits when due. As of June 30, 1989 assets were sufficient to fund 17% of the pension benefit obligation (18% in 1988) and unfunded pension benefit obligation represented 255% of the annual payroll for employees covered by the System (194% in 1988). Showing unfunded pension benefit obligation as a percentage of annual covered payroll approximately adjusts for the effects of inflation for analysis purposes.

Effective September 30, 1992 the Authority entered into a new labor union contract that provides to all employees who have worked for the Authority through their retirement date the following benefits:

Year worked	Amount
10-15 years	$ 125 per year of service
16-20	$ 155 per year of service
21-25	$ 165 per year of service
26 and over	$ 175 per year of service

(c) Leases

The Authority has a noncancelable operating lease for office space with the Puerto Rico Public Buildings Authority expiring in the year 2004. Future rental payments as of June 30, 1992 under such lease are summarized as follows:

Year	Amount
1993	$ 1,207,000
1994	1,207,000
1995	1,207,000
1996	1,207,000
1997	1,207,000
Later years	8,449,000
Total minimum payments required	$ 14,484,000

(d) Litigations

The Authority is defendant or co-defendant in various lawsuits for alleged damages. Substantially all of these cases are in connection with construction projects which are generally either fully or partially covered by insurance. The contractors are required, under the terms of the construction agreement, to carry adequate public liability insurance and to hold harmless the

Authority from lawsuits brought on account of damages relating to the construction of the projects.

The Authority, based on legal advice, has recorded an adequate provision to cover probable losses on those claims not fully covered by insurance. In the opinion of legal counsel any liability, in excess of the insurance coverage and/or the recorded provision, that may arise from such claims would not be significant in relation to the Authority's financial position.

(e) Special Facility Revenue Bonds

In March 1992, the Authority issued Special Facility Revenue Bonds amounting to approximately $117 million with the purpose of facilitating the construction of a toll bridge facility which will traverse the San Juan Lagoon between the municipalities of San Juan and Carolina.

The proceeds from the sale of the bonds were transferred by the Authority to Autopistas de Puerto Rico y Compañía S.E. (the "Borrower") pursuant to a loan agreement by and between the Borrower and the Authority. The proceeds will be used as follows:

1. Pay part of the cost of developing and constructing the project
2. Pay two years interest on the Bonds
3. Fund the reserve account and the contingency fund
4. Pay the costs of issuance of the Bonds

The Authority and the Borrower entered into a Concession Agreement for the Design, Construction, Operation and Maintenance of the Privatized Transportation Facility. The initial term of this agreement is 35 years. Under certain circumstances, the Concession Agreement may be terminated and the Authority is then obligated to assume all of the Borrower's obligations of the principal of and interest on the Bonds, which pursuant to the Loan Agreement will be paid from the proceeds of the use and operation of the toll bridge.

Upon substantial completion of the project and acceptance by the Authority, the Project shall thereafter be of public domain and form part of the Commonwealth highway system.

(f) Metrobus

In connection with the responsibilities of the Authority for Mass Transportation Systems the Metrobus project was developed. Such project consists of buses being operated by a private company and covering specific routes. These buses were acquired from 80% contributed by the Federal Transportation Administration and 20% contributed by the Authority. The combined contribution amounting to $8,115,911 was recorded as contributed capital.

The contract for the operation of the Metrobus Project was awarded to Metromóvil American Coach Lines, Inc. (the Operator). The Operation Contract provides for payments as follows:

First year	$ 4,098,051
Second year	4,088,627
Third year	4,271,518
	$ 12,458,196

Operators' compensation is based on monthly payments amounting to one-twelfth of the total annual cost. Tollfares, which are retained by the operator, are reduced from such payments based on the following tollfares estimates:

First year	$ 1,190,000
Second year	1,632,000
Third year	2,550,000
	$ 5,372,000

Whenever actual tollfares income exceeds the projected revenues, 80% of such excess is reimbursed to the Authority and the remaining 20% is kept by the Operator. During the year ended June 30, 1992, the actual fares did not exceed the tollfare estimates.

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July 15, 1993

Dr. Sergio Gonzalez
Executive Director
Puerto Rico Highway and Transportation Authority
G.P.O. 3909
San Juan, Puerto Rico 00936

Dear Dr. Gonzalez:

This letter summarizes the results of our evaluation of the level of maintenance of the Puerto Rico Highway and Transportation Authority's Traffic Facilities and our review of its Priorities Construction Program (PCP). Our study was conducted in accordance with Resolution No. 68-18, adopted June 13, 1968, amended, and is documented in our Final Report.

Based on our field inspections in January and June 1993, we find that the overall level of maintenance is generally adequate to preserve the investment. Maintenance work methods and levels of service are in general conformance to widely accepted maintenance practices in many highway and public works departments in North America. The level of maintenance is generally higher on the higher classes of roads, i.e., the toll roads and primary roads, which carry larger volumes of traffic and have more maintenance needs than the lower classes of roads.

We have reviewed the current PCP for the period 1993-1997 and the preliminary version of the new program for the period 1994-1998. In our opinion, the programs continue to be a reasonable response to the immediate and short-term highway needs and are generally consistent with the Authority's long-range highway program. Revenue projections have been reasonably accurate in the past and provide a sound basis for determining the size of future programs.

Sincerely,

William C. Grenke

William C. Grenke
Vice President

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APPENDIX V

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[PROPOSED FORM OF OPINION OF BOND COUNSEL]

August , 1993

Hon. Dr. Carlos I. Pesquera Morales
Secretary of Transportation and Public Works
San Juan, Puerto Rico

Dear Sir:

We have examined Act No. 74 of the Legislature of Puerto Rico, approved June 23, 1965, as amended, creating Puerto Rico Highway and Transportation Authority (hereinafter sometimes called the "Authority"), as a body corporate and politic constituting a public corporation and governmental instrumentality of the Commonwealth of Puerto Rico, the Excise Act of the Commonwealth of Puerto Rico of 1987 (Act No. 5 of the Legislature of Puerto Rico, approved October 8, 1987, as amended), which allocated the proceeds of the sixteen cents per gallon tax imposed on gasoline and four cents of the eight cents per gallon tax on gas oil and diesel oil to the Authority for use for its corporate purposes, the Vehicle and Traffic Law of Puerto Rico (Act No. 141 of the Legislature of Puerto Rico, approved July 20, 1960, as amended) which allocated the proceeds of the fifteen dollar increase in the motor vehicle license fees for public and private service automobiles imposed by Act No. 9 of the Legislature of Puerto Rico, approved August 12, 1982 (the "Additional License Fees"), to the Authority for use for its corporate purposes and the Reorganization Plan of 1971 (Act No. 113 of the Legislature of Puerto Rico, approved June 21, 1968) which attached the Authority to the Department of Transportation and Public Works.

We have also examined certified copies of the proceedings of the Authority, including Resolution No. 68-18, adopted on June 13, 1968, as amended by Resolution No. 72-08, adopted on February 17, 1972, Resolution No. 90-42, adopted on October 29, 1990 and Resolution No. 92-42, adopted on June 23, 1992 (collectively, the "Resolution"), and a resolution adopted on July 15, 1993 with respect to the Bonds described below and other proofs submitted relative to the authorization, sale and issuance of

$410,290,000

PUERTO RICO HIGHWAY AND TRANSPORTATION AUTHORITY
HIGHWAY REVENUE BONDS
(SERIES W)

Maturing in such principal amounts, subject to redemption and bearing interest at the rates, all as set forth in said resolution adopted on July 15, 1993.

We have also examined one of said Series W Bonds as executed and authenticated.

From such examination we are of the opinion that:

1. Said Act No. 74, as amended, the Excise Act of the Commonwealth of Puerto Rico of 1987 and the Vehicle and Traffic Law of Puerto Rico are valid.

2. Said proceedings have been validly and legally taken.

3. The Series W Bonds have been duly authorized and issued to pay the cost of constructing highways and other traffic facilities, including the payment of notes heretofore issued by the Authority for such purpose, and to make a deposit to the credit of the Reserve Account to the Interest and Sinking Fund hereinafter mentioned.

4. The Series W Bonds are valid and binding special obligations of the Authority payable solely from the special fund created by the Resolution and designated "Puerto Rico Highway Authority Highway Revenue Bonds Interest and Sinking Fund". The Authority has covenanted to deposit to the credit of said Interest and Sinking Fund a sufficient amount of the Revenues (as defined in the Resolution), together with any other funds of the Commonwealth of Puerto Rico allocated to the Authority for the payment of principal of the interest on its bonds, to pay the principal of and interest on all bonds issued under the provisions of the Resolution as the same may become due and payable and to create and maintain a reserve therefor.

The proceeds of the gasoline and gas oil and diesel oil taxes and the Additional License Fees so allocated to the Authority by the Excise Act of the Commonwealth of Puerto Rico of 1987 and the Vehicle and Traffic Law of Puerto Rico, and any other taxes, fees or charges which the Legislature of Puerto Rico may allocate to the Authority are subject to first being applied to the payment of interest and amortization of the public debt in accordance with the provisions of, and to the extent provided by, Section 8 of Article VI of the Constitution of Puerto Rico if needed for such purpose. Said Interest and Sinking Fund is pledged to and charged with the payment of the principal of and the interest on all bonds issued by the Authority under the provisions of the Resolution.

5. The Resolution provides for the issuance, from time to time, under the conditions, limitations and restrictions therein set forth, of additional bonds for the purpose of paying all or a part of the cost of additional traffic facilities and for the purpose of refunding any bonds issued by the Authority under the provisions of the Resolution.

6. The Series W Bonds do not constitute a debt of the Commonwealth of Puerto Rico or of any of its municipalities or other political subdivisions, and neither the Commonwealth of Puerto Rico nor any such municipality or other political subdivision is liable thereon, and the Series W Bonds are payable only out of the Revenues of the Authority, to the extent provided in the Resolution.

7. Under the provisions of the Acts of Congress now in force and under existing regulations and judicial decisions, (i) subject to compliance with the covenant referred to below and requirements of the Internal Revenue Code of 1986, as amended (the "Code"), 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 said Series W Bonds is not includable in gross income for federal income tax purposes, and (ii) the Series W Bonds and the interest thereon are exempt from state, Commonwealth and local income taxation.

Interest on the Series W Bonds is not an item of tax preference for the purpose of computing the alternative minimum tax on individuals and corporations imposed by the Code. Such interest will, however, be includable in the computation of the alternative minimum tax and the environmental 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 the Series W Bonds or (b) the inclusion in certain computations (including, without limitation, those related to the corporate alternative minimum tax and environmental tax) of interest that is excluded from gross income.

The Authority has covenanted to comply with the requirements of the Code, to the extent permitted by the Constitution and laws of the Commonwealth of Puerto Rico, so that interest on the Series W Bonds will remain exempt from federal income taxes to which it is not subject on the date of issuance of the Series W Bonds.

Respectfully submitted,

[To be signed "Brown & Wood"]

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[PROPOSED FORM OF OPINION OF BOND COUNSEL]

August , 1993

Hon. Dr. Carlos I. Pesquera Morales
Secretary of Transportation and Public Works
San Juan, Puerto Rico

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We have also examined certified copies of the proceedings of the Authority, including Resolution No. 68-18, adopted on June 13, 1968, as amended by Resolution No. 72-08, adopted on February 17, 1972, Resolution No. 90-42, adopted on October 29, 1990 and Resolution No. 92-42, adopted on June 23, 1992 (collectively, the "Resolution"), and a resolution adopted on July 15, 1993 with respect to the Bonds described below and other proofs submitted relative to the authorization, sale and issuance of

$751,290,000
PUERTO RICO HIGHWAY AND TRANSPORTATION AUTHORITY
HIGHWAY REVENUE REFUNDING BONDS
(SERIES X)

maturing in such principal amounts, subject to redemption and bearing interest at the rates, all as set forth in said resolution adopted on July 15, 1993.

We have also examined one of said Series X Bonds as executed and authenticated.

From such examination we are of the opinion that:

1. Said Act No. 74, as amended, the Excise Act of the Commonwealth of Puerto Rico of 1987 and the Vehicle and Traffic Law of Puerto Rico are valid.

2. Said proceedings have been validly and legally taken.

3. The Series X Bonds have been duly authorized and issued to refund the outstanding Puerto Rico Highway Authority Highway Revenue Bonds (Series B), Puerto Rico Highway Authority Highway Revenue

Bonds (Series D), Puerto Rico Highway Authority Highway Revenue Bonds (Series E), Puerto Rico Highway Authority Highway Revenue Bonds (Series F), Puerto Rico Highway Authority Highway Revenue Bonds (Series L) and Puerto Rico Highway and Transportation Authority Highway Revenue Bonds (Series S) and a portion of the outstanding Puerto Rico Highway Authority Highway Revenue Refunding Bonds (Series N), Puerto Rico Highway Authority Highway Revenue Refunding Bonds (Series O), Puerto Rico Highway Authority Highway Revenue Bonds (Series Q) and Puerto Rico Highway and Transportation Authority Highway Revenue Bonds (Series T).

4. The Series X Bonds are valid and binding special obligations of the Authority payable solely from the special fund created by the Resolution and designated "Puerto Rico Highway Authority Highway Revenue Bonds Interest and Sinking Fund". The Authority has covenanted to deposit to the credit of said Interest and Sinking Fund a sufficient amount of the Revenues (as defined in the Resolution), together with any other funds of the Commonwealth of Puerto Rico allocated to the Authority for the payment of principal of and interest on its bonds, to pay the principal of and interest on all bonds issued under the provisions of the Resolution as the same may become due and payable and to create and maintain a reserve therefor.

The proceeds of the gasoline and gas oil and diesel oil taxes and the Additional License Fees so allocated to the Authority by the Excise Act of the Commonwealth of Puerto Rico of 1987 and the Vehicle and Traffic Law of Puerto Rico, and any other taxes, fees or charges which the Legislature of Puerto Rico may allocate to the Authority are subject to first being supplied to the payment of interest and amortization of the public debt in accordance with the provisions of, and to the extent provided by, Section 8 of Article VI of the Constitution of Puerto Rico if needed for such purpose. Said Interest and Sinking Fund is pledged to and charged with the payment of the principal of and the interest on all bonds issued by the Authority under the provisions of the Resolution.

5. The Resolution provides for the issuance, from time to time, under the conditions, limitations and restrictions therein set forth, of additional bonds for the purpose of paying all or a part of the cost of additional traffic facilities and for the purpose of refunding any bonds issued by the Authority under the provisions of the Resolution.

6. The Series X Bonds do not constitute a debt of the Commonwealth of Puerto Rico or of any of its municipalities or other political subdivisions, and neither the Commonwealth of Puerto Rico nor any such municipality or other political subdivision is liable thereon, and the Series X Bonds are payable only out of the Revenues of the Authority, to the extent provided in the Resolution.

7. Under the provisions of the Acts of Congress now in force and under existing regulations and judicial decisions, (i) subject to compliance with the covenant referred to below and requirements of the Internal Revenue Code of 1986, as amended (the "Code"), 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 said Series X Bonds is not includable in gross income for federal income tax purposes, and (ii) the Series X Bonds and the interest thereon are exempt from state, Commonwealth and local income taxation.

Interest on the Series X Bonds is not an item of tax preference for the purpose of computing the alternative minimum tax on individuals and corporations imposed by the Code. Such interest will, however, be includable in the computation of the alternative minimum tax and the environmental 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 the Series X Bonds or (b) the inclusion in certain computations (including, without limitation, those related to the corporate alternative minimum tax and environmental tax) of interest that is excluded from gross income.

The Authority has covenanted to comply with the requirements of the Code, to the extent permitted by the Constitution and laws of the Commonwealth of Puerto Rico, so that interest on the Series X Bonds will remain exempt from federal income taxes to which it is not subject on the date of issuance of the Series X Bonds.

Respectfully submitted,

[To be signed "Brown & Wood"]

APPENDIX VI

DESCRIPTION OF MULTIPLE COMPONENT SECURITIES

General

The $24,700,000 aggregate principal amount of the Series W Bonds due July 1, 2009 will be delivered as Multiple Component Securities ("MCS"). Certain terms used in this *Appendix VI* are defined under the caption "Definitions" herein.

A MCS evidences the right of the registered owner to receive the separate payments of principal and the separate payments of all or a portion of the semi-annual interest due on the Series W Bonds to which the MCS relates. Interest on the Series W Bonds evidenced by a MCS is payable at a fixed rate equal to the Linked Fixed Rate for such Bond. An owner of a MCS accruing interest at the Linked Fixed Rate will receive all of the semi-annual interest payable on the related Series W Bond on the payment date or dates set forth in the MCS. The Linked Fixed Rate payable on Series W Bonds evidenced by a MCS consists of two components, the Base Rate and the Supplemental Rate. The Base Rate component and the Supplemental Rate component are fixed rates as described below in effect through the maturity date of the related Series W Bond. Prior to the Conversion Date, MCS may accrue interest at a Floating Rate and an Inverse Floating Rate which move inversely from each other as short term rates change. For example, as short term rates rise, the Floating Rate will rise, while the Inverse Floating Rate will fall. In addition, the MCS may, prior to the Conversion Date, accrue interest at a Linked Floating Rate which represents the sum of the Base Rate and the Floating Rate and a Linked Inverse Floating Rate which represents the sum of the Base Rate and the Inverse Floating Rate.

A MCS evidencing the right of the registered owner to receive a single payment of the principal due on the Series W Bond to which the MCS relates on the maturity date of such Bond is referred to as a "Principal Only" MCS. A MCS evidencing the right of the registered owner to receive all or a portion of a single semi-annual interest payment due on the Series W Bond to which the MCS relates is referred to as a "Single Coupon" MCS. A MCS evidencing the right of the registered owner to receive all or a portion of every semi-annual interest payment due on the Series W Bond to which the MCS relates is a linked MCS referred to as an "Annuity Coupon" MCS. A MCS evidencing the right of the registered owner to receive the principal due on the Series W Bond to which the MCS relates on the maturity date of such Bond plus all or a portion of every semi-annual interest payment due with respect to such Bond is a linked MCS referred to as a "Current Pay" MCS.

MCS may be linked with other MCS to form linked MCS and linked MCS may be broken into separate MCS all as more fully described under the caption "Linking and Breaking Linkage of MCS" herein.

Payment Dates

Payments on the MCS representing interest will be made on one or more of the semi-annual interest payment dates on the related Series W Bonds, which are January 1 and July 1, commencing January 1, 1994, through the maturity date of such Bonds. Payments of principal on MCS will be made on July 1, 2009. MCS are dated the date of delivery thereof and the interest payment due on the MCS on January 1, 1994 will represent interest accrued from the dated date of the MCS at the appropriate rate for the MCS.

Denominations

The MCS that include principal components are issuable in denominations of $5,000 (or $10,000 under the circumstances set forth below) principal amount and multiples thereof. The MCS that include only interest components are issuable in denominations representing interest on $5,000 (or $10,000 under the circumstances set forth below) principal amount of the related Series W Bonds and multiples thereof. Linked Fixed Rate Single Coupon MCS, Linked Fixed Rate Annuity Coupon MCS and Linked Fixed Rate Current Pay MCS are issuable in denominations of $10,000 and multiples thereof prior to the Conversion Date. After the Conversion Date, all MCS will be issued in denominations of $5,000 and multiples thereof.

Single Coupon MCS and Annuity Coupon MCS will be recorded on the books and records of DTC as if the particular MCS entitled the Beneficial Owner to payment of the principal amount thereof even though such Beneficial Owner is entitled only to interest on such principal amount accrued at the rate and for the MCS Interest Period(s) set forth in the MCS. Thus, for example, a Beneficial Owner of a minimum denomination Base Rate Single Coupon MCS will be credited on the books and records of DTC with $5,000 under the appropriate CUSIP number. Beneficial Owners of MCS should note that this crediting indicates that such Owner is entitled to receive a single payment in an amount equal to the interest due on such minimum denomination accrued at the Base Rate, not that such MCS represents the right to receive $5,000.

Payment Terms

The MCS provide for interest payments that are determined by application of the following interest rate and other payment parameters:

Base Rate	5.50%
Supplemental Rate	3.50%
Linked Fixed Rate	9.00%
Leverage Factor	1.5x
Implied Swap Rate	3.70 x Leverage Factor
Variable Rate*	Kenny Index x Leverage Factor
Floating Rate	Variable Rate* minus 2.05%
Inverse Floating Rate	9.05% minus Variable Rate*
Linked Floating Rate	Base Rate plus Floating Rate
Linked Inverse Floating Rate	Base Rate plus Inverse Floating Rate
Variable Rate Cap	9.045%
Variable Rate Floor	2.055%
Conversion Date	July 1, 1998

* Variable Rate may not be greater than Variable Rate Cap, nor less than Variable Rate Floor.

The Variable Rate used in determining the Floating Rate and Inverse Floating Rate shall be determined by multiplying the Leverage Factor by the daily weighted average of the Kenny Index rounded to the nearest one-thousandth percent (0.001%) and computed using a year of 365 or 366 days and actual days elapsed; *provided, however,* that the Variable Rate for any MCS Interest Period shall never be higher than the Variable Rate Cap or lower than the Variable Rate Floor.

MCS Component Types

As described more fully below, the MCS will be available in the following component types:

MCS Component Type	Interest Rate Allocation To Conversion Date	Interest Rate Allocation After Conversion Date
Principal Only		
1. Principal Only MCS	N/A	N/A
Interest Only		
2. Base Rate Single Coupon MCS	Base Rate	Base Rate
3. Supplemental Rate Single Coupon MCS	Supplemental Rate	Supplemental Rate
4. Linked Fixed Rate Single Coupon MCS	Linked Fixed Rate	Linked Fixed Rate
5. Base Rate Annuity Coupon MCS	Base Rate	Base Rate
6. Supplemental Rate Annuity Coupon MCS	Supplemental Rate	Supplemental Rate
7. Linked Fixed Rate Annuity Coupon MCS	Linked Fixed Rate	Linked Fixed Rate
8. Floating Rate Annuity Coupon MCS	Floating Rate	Supplemental Rate
9. Inverse Floating Rate Annuity Coupon MCS	Inverse Floating Rate	Supplemental Rate
Principal and Interest		
10. Base Rate Current Pay MCS	Base Rate	Base Rate
11. Linked Fixed Rate Current Pay MCS	Linked Fixed Rate	Linked Fixed Rate
12. Linked Floating Rate Current Pay MCS	Linked Floating Rate	Linked Fixed Rate
13. Linked Inverse Floating Rate Current Pay MCS	Linked Inverse Floating Rate	Linked Fixed Rate

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1. *A Principal Only MCS* evidences the right of the registered owner to receive a single payment in an amount equal to the principal amount thereof on the maturity date of the related Series W Bond. There will not be any payments on Principal Only MCS prior to the maturity date of such Bond.

2. *A Base Rate Single Coupon MCS* evidences the right of the registered owner to receive on the applicable MCS Payment Date a portion of one of the semi-annual interest payments due on the related Series W Bond through the maturity date of such Bond accrued at an interest rate equal to the Base Rate. There will not be any payments on Base Rate Single Coupon MCS prior to the applicable MCS Payment Date.

3. *A Supplemental Rate Single Coupon MCS* evidences the right of the registered owner to receive on the applicable MCS Payment Date a portion of one of the semi-annual interest payments due on the related Series W Bond through the maturity date of such Bond accrued at an interest rate equal to the Supplemental Rate. There will not be any payments on Supplemental Rate Single Coupon MCS prior to the applicable MCS Payment Date.

4. *A Linked Fixed Rate Single Coupon MCS* evidences the right of the registered owner to receive on the applicable MCS Payment Date one of the semi-annual interest payments due on the related Series W Bond through the maturity date of such Bond accrued at an interest rate equal to the Linked Fixed Rate. There will not be any payments on Linked Fixed Rate Single Coupon MCS prior to the applicable MCS Payment Date.

5. *A Base Rate Annuity Coupon MCS* evidences the right of the registered owner to receive a portion of all of the semi-annual interest payments due on the related Series W Bond through the maturity date of such Bond accrued at an interest rate equal to the Base Rate.

6. *A Supplemental Rate Annuity Coupon MCS* evidences the right of the registered owner to receive a portion of all of the semi-annual interest payments due on the related Series W Bond through the maturity date of such Bond accrued at an interest rate equal to the Supplemental Rate.

7. *A Linked Fixed Rate Annuity Coupon MCS* evidences the right of the registered owner to receive all of the semi-annual interest payments due on the related Series W Bond through the maturity date of such Bond accrued at an interest rate equal to the Linked Fixed Rate.

8. *A Floating Rate Annuity Coupon MCS* evidences the right of the registered owner to receive a portion of all of the semi-annual interest payments due on the related Series W Bond through the maturity date of such Bond accrued at an interest rate equal to (i) the Floating Rate with respect to interest payments made through the Conversion Date and (ii) the Supplemental Rate with respect to interest payments made thereafter.

9. *An Inverse Floating Rate Annuity Coupon MCS* evidences the right of the registered owner to receive a portion of all of the semi-annual interest payments due on the related Series W Bond through the maturity date of such Bond accrued at an interest rate equal to (i) the Inverse Floating Rate with respect to interest payments made through the Conversion Date and (ii) the Supplemental Rate with respect to interest payments made thereafter.

10. *A Base Rate Current Pay MCS* evidences the right of the registered owner to receive the principal amount of the related Series W Bond on the maturity date of such Bond, plus a portion of all the semi-annual interest payments due thereon through the maturity date of such Bond accrued at an interest rate equal to the Base Rate.

11. *A Linked Fixed Rate Current Pay MCS* evidences the right of the registered owner to receive the principal amount of the related Series W Bond on the maturity date of such Bond, plus all the semi-annual interest payments due thereon through the maturity date of such Bond accrued at an interest rate equal to the Linked Fixed Rate.

12. *A Linked Floating Rate Current Pay MCS* evidences the right of the registered owner to receive the principal amount of the related Series W Bond on the maturity date of such Bond, plus a portion of all of the semi-annual interest payments due thereon through the maturity date of such Bond accrued at an interest rate equal to (i) the Linked Floating Rate with respect to interest payments made through the Conversion Date and (ii) the Linked Fixed Rate with respect to interest payments made thereafter.

13. *A Linked Inverse Floating Rate Current Pay MCS* evidences the right of the registered owner to receive the principal amount of the related Series W Bond on the maturity date of such Bond, plus a portion of all of the semi-annual interest payments due thereon through the maturity date of such Bond accrued at an interest rate equal to (i) the Linked Inverse Floating Rate with respect to interest payments made through the Conversion Date and (ii) the Linked Fixed Rate with respect to interest payments made thereafter.

CUSIP Numbers and Linkage Options

The following table summarizes certain information regarding the MCS:

MCS ID Number	Description of MCS	CUSIP No. for each MCS	Linkage Options[1] MCS ID No.
1	Principal Only	745181 KC 0	1[a]
2	Base Rate Single Coupon	745181[2]	2[a]
3	Supplemental Rate Single Coupon	745181[2]	3[a]
4	Linked Fixed Rate Single Coupon	745181[2]	4[a]
5	Base Rate Annuity Coupon	745181 KQ 9	5[b]
6	Supplemental Rate Annuity Coupon	745181 KN 6	6[c]
7	Linked Fixed Rate Annuity Coupon	745181 KT 3	7[d]
8	Floating Rate Annuity Coupon	745181 KJ 5[3]	8[a]
9	Inverse Floating Rate Annuity Coupon	745181 KK 2	9[a]
10	Base Rate Current Pay	745181 KR 7	1+5[e]
11	Linked Fixed Rate Current Pay	745181 KS 5	1+7, 1+5+8+9 or 1+5+9[f]
12	Linked Floating Rate Current Pay	745181 KL 0[4]	1+5+8[g]
13	Linked Inverse Floating Rate Current Pay	745181 KM 8[4]	1+5+9[h]

(1) MCS may only be linked with other MCS of appropriate denominations. See "Linkage and Breaking Linkage of MCS" for information relating to the conditions under which MCS may be linked or the linkage of MCS may be broken.

(2) CUSIP Numbers will be assigned consecutively to each Base Rate Single Coupon MCS, Supplemental Rate Single Coupon MCS and Linked Fixed Rate Single Coupon MCS commencing with such MCS evidencing payment due January 1, 1994 and ending with such MCS evidencing payment due on the maturity date of the related Bond.

(3) After the Conversion Date, the CUSIP Number for Floating Rate Annuity Coupon MCS will convert to the CUSIP Number for Inverse Floating Rate Annuity Coupon MCS.

(4) After the Conversion Date, the CUSIP Numbers for the Linked Floating Rate Current Pay MCS and Linked Inverse Floating Rate Current Pay MCS will convert to the CUSIP Number for the Linked Fixed Rate Current Pay MCS.

(a) No other MCS can be linked to create these MCS.

(b) One of each of the Base Rate Single Coupon MCS remaining unpaid on the date of linkage of equal denominations can be linked to form a Base Rate Annuity Coupon MCS of the same denomination.

(c) One of each of the Supplemental Rate Single Coupon MCS remaining unpaid on the date of linkage of equal denominations can be linked to form a Supplemental Rate Annuity Coupon MCS of the same denomination.

(d) One of each of the Linked Fixed Rate Single Coupon MCS remaining unpaid on the date of linkage of equal denominations can be linked to form a Linked Fixed Rate Annuity Coupon MCS of the same denomination.

(e) One Principal Only MCS and one Base Rate Annuity Coupon MCS of equal denominations can be linked to form a Base Rate Current Pay MCS of the same denomination.

(f) Prior to the Conversion Date, (i) two minimum denomination Principal Only MCS or multiples thereof and one minimum denomination Linked Fixed Rate Annuity Coupon MCS or multiples thereof can be linked to form a Linked Fixed Rate Current Pay MCS or (ii) two Principal Only MCS, two Base Rate Annuity Coupon MCS, one Floating Rate Annuity Coupon MCS and one Inverse Floating Rate Annuity Coupon MCS of the same denomination can be linked to form a Linked Fixed Rate Current Pay MCS. Thereafter, one Principal Only MCS and (i) one Base Rate Annuity Coupon MCS and one Inverse Floating Rate Annuity Coupon MCS or (ii) one Fixed Rate Annuity Coupon MCS of the same denomination may be linked to form a Linked Fixed Rate Current Pay MCS.

(g) One Principal Only MCS, one Base Rate Annuity Coupon MCS and one Floating Rate Annuity Coupon MCS of equal denominations can be linked to form a Linked Floating Rate Current Pay MCS of the same denomination.

(h) One Principal Only MCS, one Base Rate Annuity Coupon MCS and one Inverse Floating Rate Annuity Coupon MCS of equal denominations can be linked to form a Linked Inverse Floating Rate Current Pay MCS of the same denomination.

Linkage and Breaking Linkage of MCS

Linking. So long as the ownership of the MCS is maintained in book-entry form by the Securities Depository, a Beneficial Owner of one or more MCS may link such MCS with one or more other MCS of appropriate denominations to form one of the combinations of MCS described under the caption "CUSIP Numbers and Linkage Options", by purchasing such MCS and, in each case, delivering to the MCS Linkage Agent (defined below) a request for linkage pertaining to the MCS to be linked and taking such other action as the MCS Linkage Agent requests.

MCS may not be linked during the period commencing on the MCS Regular Record Date and ending immediately prior to the opening of business on the immediately succeeding MCS Payment Date (the "MCS Closed Period").

The MCS Linkage Agent shall note on its books and records the linked MCS, including reference to the applicable CUSIP numbers. After linkage, the beneficial ownership of linked MCS will be recorded at the Securities Depository (if the MCS are then held in book-entry only form) under the applicable linked CUSIP number.

The transfer of MCS that are linked may only be registered together as linked MCS.

Breaking Linkage of MCS. So long as the ownership of the MCS is maintained in book-entry form by the Securities Depository, a Beneficial Owner of linked MCS described under the caption "CUSIP Numbers and Linkage Options" may break such linkage at any time, other than during an MCS Closed Period, by delivering a request to break linkage to the MCS Linkage Agent pertaining to the linked MCS so delivered and taking such other action as the MCS Linkage Agent shall request.

Following the breaking of linkage, the MCS Linkage Agent shall note on its books and records the breaking of linkage, including reference to the applicable CUSIP numbers. The beneficial ownership of unlinked MCS will be recorded at the Securities Depository under the applicable separate CUSIP numbers.

MCS Market Agent and MCS Linkage Agent

MCS Market Agent. Merrill Lynch, Pierce, Fenner & Smith Incorporated will be the initial MCS Market Agent (the "MCS Market Agent"). The MCS Market Agent and any successor appointed must be a member of the National Association of Securities Dealers, Inc. having capitalization of at least $25,000,000 and be authorized by law to perform all the duties imposed upon it. The MCS Market Agent may be removed at any time by the Fiscal Agent upon and pursuant to the written direction of the Authority or the owners of 66% in aggregate accreted value of the MCS then Outstanding, and the MCS Market Agent may resign upon 30 days' written notice delivered to the Fiscal Agent; *provided, however*, that such removal or resignation will not take effect until the appointment by the Fiscal Agent of a successor MCS Market Agent. The Authority will provide the Fiscal Agent with directions which will enable the Fiscal Agent to appoint a successor MCS Market Agent that is a qualified institution; *provided* further, however, that if the Fiscal Agent is unable to appoint a successor MCS Market Agent within 30 days following receipt of any written notice of resignation or removal, the Fiscal Agent may (but is under no obligation to do so unless provided adequate compensation and indemnity) petition the appropriate court having jurisdiction to appoint a successor MCS Market Agent. After the Conversion Date there will be no Market Agent.

MCS Linkage Agent. The Chase Manhattan Bank (National Association) (the "MCS Linkage Agent") will serve as the initial MCS Linkage Agent. Any successor MCS Linkage Agent must be an entity that would be qualified to serve as the Fiscal Agent under the 1993 Resolution and be authorized by law to perform all the duties imposed upon it. The MCS Linkage Agent may be removed by the Fiscal Agent at any time upon and pursuant to the written direction of the Authority or the owners of 66⅔% in aggregate accreted value of the MCS then Outstanding, and the MCS Linkage Agent may resign upon 30 days' written notice delivered to the Fiscal Agent; *provided, however,* that such removal or resignation will not take effect until the appointment by the Fiscal Agent of a successor MCS Linkage Agent. The Authority will provide the Fiscal Agent with directions which will enable the Fiscal Agent to appoint a successor MCS Linkage Agent that is a qualified institution; *provided further, however,* that if the Authority does not provide such direction to appoint a successor MCS Linkage Agent within 30 days following receipt of any written notice of resignation, the Fiscal Agent may (but is under no obligation to do so unless provided adequate compensation and indemnity) petition the appropriate court having jurisdiction to appoint a successor MCS Linkage Agent.

Special Considerations

Prior to the Conversion Date, the increases and decreases in market value of the Inverse Floating Rate Annuity Coupon MCS and Linked Inverse Floating Rate Current Pay MCS can be expected to vary to a greater extent than the changes in market value of an equal principal amount of fixed rate bonds having similar interest rates (the Supplemental Rate with respect to Inverse Floating Rate Annuity Coupon MCS or the Linked Fixed Rate with respect to Linked Inverse Floating Rate Current Pay MCS), credit qualities, redemption provisions and maturities (excluding in such comparison any potential premium paid or received for the Inverse Floating Rate Annuity Coupon MCS and Linked Inverse Floating Rate Current Pay MCS beyond that which would be paid for bonds of similar credit qualities, redemption provisions and maturities and bearing interest at a fixed rate equal to either the Supplemental Rate, with respect to Inverse Floating Rate Annuity Coupon MCS, or the Linked Fixed Rate, with respect to Linked Inverse Floating Rate Current Pay MCS).

NONE OF THE AUTHORITY, THE MCS MARKET AGENT, THE MCS LINKAGE AGENT OR THE FISCAL AGENT IS OBLIGATED TO PROVIDE MCS TO AN OWNER OF MCS WHO DESIRES TO LINK MCS. IN ORDER TO LINK MCS, AN OWNER MUST ACQUIRE THE REQUIRED MCS IN THE SECONDARY MARKET.

THE MCS MARKET AGENT HAS ADVISED THE AUTHORITY THAT IT INTENDS INITIALLY TO MAKE A MARKET FOR THE MCS; HOWEVER, THE MCS MARKET AGENT IS NOT OBLIGATED TO MAKE SUCH MARKET AND MAY DISCONTINUE MAKING SUCH MARKET WITHOUT NOTICE AT ANY TIME. NEITHER THE AUTHORITY NOR THE MCS MARKET AGENT CAN GIVE ANY ASSURANCE THAT A SECONDARY MARKET WILL DEVELOP FOR THE MCS. THE ABSENCE OF SUCH SECONDARY MARKET COULD PREVENT THE LINKAGE OF MCS AND ADVERSELY AFFECT THE LIQUIDITY OF INVESTMENTS IN MCS.

Voting Rights of Holders of MCS

If a vote of the owners of MCS is required or called for under the terms of the 1993 Resolution, each MCS shall be deemed to evidence a principal amount Outstanding that is equal to the accreted value of the MCS on the date on which the Fiscal Agent determines to fix such accreted value. In the case of a vote, the Fiscal Agent shall fix the accreted value on the business day preceding the day on which the Fiscal Agent mails notice of the matter on which the vote is required to owners of MCS. The accreted value of each MCS will be available from the MCS Linkage Agent in the event a vote is required.

Definitions

As used with respect to the MCS the following terms shall have the meanings indicated:

"Floating Rate" as of any date means the Supplemental Rate plus the Variable Rate minus the Implied Swap Rate.

"Inverse Floating Rate" as of any date means the Supplemental Rate plus the Implied Swap Rate minus the Variable Rate.

"Kenny Index" means, for any day, a per annum rate equal to:

(a) (i) If such day is a Reset Date, the index generally made available by Kenny Information Systems, as Indexing Agent (the "Indexing Agent") on such day. The Kenny Index shall be based upon 30-day yield evaluations at par of bonds, the interest on which is excludable from gross income for federal income tax purposes under the Code, of not less than five "high grade" component issuers selected by the Indexing Agent which issuers shall include, without limitation, issuers of general obligation bonds. The specific issuers involved among the component issuers may be changed from time to time by the Indexing Agent in its discretion. The bonds on which the index is based shall not include any bonds the interest on which is subject to any "minimum tax" or similar tax, unless all tax-exempt bonds are subject to such tax.

(ii) If the Indexing Agent no longer publishes an index satisfying the requirements of clause (i) above, the MCS Market Agent shall be appointed as the successor Indexing Agent and shall determine the Kenny Index on each Reset Date. The Kenny Index so determined shall equal the prevailing rate determined by the Indexing Agent for bonds that are rated in the highest short-term rating category by Moody's Investors Service and Standard & Poor's Corporation in respect of issuers resembling the component issuers to have been selected by Kenny Information Systems pursuant to clause (i) above and that are subject to tender by holders thereof for purchase on not more than seven (7) days notice and the interest on which is (A) variable on a weekly basis, (B) excludable from gross income for federal income tax purposes, and (C) not subject to a "minimum tax" or similar tax unless all tax-exempt bonds are subject to such tax.

(iii) If such day is not a Reset Date, the Kenny Index determined pursuant to clauses (i) or (ii) above for the next preceding Reset Date.

(b) If the Indexing Agent fails or is unable to make available the Kenny Index for any Reset Date or the MCS Market Agent reasonably concludes that the Kenny Index will not be announced in a timely manner, the MCS Market Agent shall determine the Kenny Index for each day in the manner specified in (a) (ii) above until the Indexing Agent makes available the Kenny Index.

"Linked Floating Rate" as of any date means the Base Rate plus the Floating Rate.

"Linked Inverse Floating Rate" as of any date means the Base Rate plus the Inverse Floating Rate.

"MCS Interest Period" means the period commencing on an interest payment date for the Series W Bonds to which the MCS relates to, but excluding, the next succeeding interest payment date, except that the first such period shall commence on the date as of which the MCS are dated.

"MCS Payment Date" means each January 1 and July 1.

"MCS Regular Record Date" means the day (whether or not a business day) immediately preceding an MCS Payment Date.

"Reset Date" means the fourth business day immediately preceding the first day of each month.

"Securities Depository" means The Depository Trust Company or any successor Securities Depository designated pursuant to the 1993 Resolution.

"Variable Rate" means, for each MCS Interest Period, the Leverage Factor times the daily weighted average of the Kenny Index rounded to the nearest one-thousandth percent (0.001%) and computed using a year of 365 or 366 days and actual days elapsed; *provided, however,* that the Variable Rate for any MCS Interest Period shall never be higher than the Variable Rate Cap or lower than the Variable Rate Floor.

APPENDIX VII

SUMMARY OF THE FLOATs AND THE RITES

The following summary is qualified in its entirety by reference to the more detailed information included and referred to elsewhere in the Official Statement. Terms used in this summary and not otherwise defined shall have the respective meanings assigned to them elsewhere in the Official Statement and this *Appendix VII.* See "Certain Definitions" in this *Appendix VII.*

General

The Floating Auction Tax-Exempts ("FLOATs") and Residual Interest Tax-Exempt Securities ("RITES" and, together with the FLOATs, "FLOAT/RITES") will be available in denominations of $50,000 or any multiple thereof, all of which will be dated and will mature in the years and amounts, as set forth on the inside cover page of this Official Statement.

Global Bonds; Securities Depository

The FLOAT/RITES will be issued in the form of a single fully registered certificate for each maturity and series of the FLOATs and the RITES, and will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), as the Securities Depository (the "Securities Depository"). Unless DTC resigns without the appointment of a successor, the Securities Depository or its nominee will be the holder of record of all issued and outstanding FLOAT/RITES and Beneficial owners may not obtain physical possession of the FLOAT/RITES beneficially owned by them.

Interest

Interest on the FLOATs, unless such FLOATs have been Fixed, is payable, to the extent Advances have been made as described below, on August 31, 1993 and September 14, 1993, with respect to the Series W FLOATs and the Series X FLOATs respectively, and on each successive fifth Tuesday thereafter, subject to certain exceptions (each a "FLOATs Payment Date"). If Advances are not made, interest on the FLOATs will be payable on the Semiannual Interest Payment Date, as described below. The Initial FLOATs Interest Period for the Series W FLOATs will be a period of 21 days and Initial FLOATs Interest Period for the Series X FLOATs will be a period of 35 days, and each Subsequent FLOATs Interest Period will generally be a period of 35 days. Interest on the FLOATs will be paid from advances (each, an "Advance") to be made by Bankers Trust Company, as Advance Agent (the "Advance Agent"). The Advance Agent is expected, but is not obligated to make an Advance. In the event the Advance Agent does not make an Advance on a FLOATs Payment Date, the interest that would have otherwise been paid on such FLOATs Payment Date will not be paid until the next succeeding Semiannual Interest Payment Date (defined below). Thereafter interest on the FLOATs that otherwise would have been paid on FLOATs Payment Dates will be paid on Semiannual Interest Payment Dates and except as otherwise described in this *Appendix VII,* Auctions will continue to be held and interest on the FLOATs will accrue during each FLOATs Interest Period.

Interest with respect to the RITES and Fixed Option Bonds (as defined below) is payable on January 1, 1994 and on January 1 and July 1 of each year thereafter (a "Semiannual Interest Payment Date").

Interest with respect to the FLOATs

The interest rate with respect to each series of the FLOATs for their respective Initial FLOATs Interest Period will be determined by Merrill Lynch, Pierce, Fenner & Smith Incorporated, as underwriter of the FLOAT/RITES, and will consist of the lowest rate per annum necessary to sell the FLOATs at par on the date of delivery thereof, which rate will be paid to the owners of the FLOATs, and a Service Charge Rate of .28 of 1% which will be paid by the Fiscal Agent to the Auction Agent and the Broker-Dealers, provided, that such rate may not exceed the Maximum Rate (as defined herein). For each Subsequent FLOATs Interest Period, the Applicable FLOATs Rate for each series of the FLOATs will equal the sum of:

(i) the rate (the "Auction Rate") that the Auction Agent (Bankers Trust Company or any successor) advises the Fiscal Agent resulted from an Auction for such series of FLOATs held on the business day immediately preceding the first day of the applicable Subsequent FLOATs Interest Period, and

(ii) the Service Charge Rate (initially .28 of 1%).

unless certain events, including a Payment Default, have occurred. Auctions will generally be held every fifth Monday. Whenever the Service Charge Rate is a component of the Applicable FLOATs Rate, the Service Charge Rate will be paid to the Auction Agent and the Broker-Dealers, and, accordingly, will not be received by the FLOATs owners.

The Auction Rate determined by an Auction for any Subsequent FLOATs Interest Period may not be less than the Minimum Rate and may not exceed the Maximum Rate for such Subsequent FLOATs Interest Period as determined on the Auction Date thereof. See "Auction Procedures" in this *Appendix VII.*

The Minimum Rate on any date of determination shall be the interest rate per annum equal to 90% (as such percentage may be adjusted as described under "Adjustment in Percentages Used to Determine Maximum, Minimum and Default Rates" in this *Appendix VII)* of the lesser on such date of:

(i) the Index, defined as the tax-exempt money market rate index for 30-day variable rate obligations prepared by Merrill Lynch, Pierce, Fenner & Smith Incorporated published on The BLOOMBERG provided through Bloomberg Financial Markets of Bloomberg L.P., or on Dalcomp Systems on such date of determination or, if such Index is not published by 9:00 a.m., New York City time, on such date of determination, the interest index selected by the Market Agent in accordance with the provisions of the 1993 Resolution; and

(ii) the After-Tax Equivalent Rate, defined as the product of the "AA" Composite Commercial Paper Rate and 1.00 minus the lower of the Statutory Corporate Tax Rate and the Statutory Personal Tax Rate (as such terms are defined under "Interest" and "Certain Definitions" in this *Appendix VII)*;

provided that in no event shall the Minimum Rate be more than the Maximum Rate.

The Maximum Rate on any date of determination shall be the interest rate per annum equal to the lesser on such date of:

(i) the Applicable Percentage specified below multiplied by the higher of (A) the After-Tax Equivalent and (B) the Index; and

(ii) either (A) 10.80% per annum with respect to the Series W FLOATs or (B) 10.40% per annum with respect to the Series X FLOATs, times the number of days in the applicable FLOATs Interest Period (assuming a day count of 30 days per month) divided by the actual number of days in such FLOATs Interest Period, minus the Service Charge Rate and the Advance Charge Rate;

provided, that if the ownership of the FLOATs is no longer maintained in book-entry form, the Maximum Rate shall be the lesser of (x) the Applicable Percentage multiplied by the higher of (1) the After-Tax Equivalent Rate and (2) the Index and (y) either (1) 10.80% per annum with respect to the Series W FLOATs or (2) 10.40% per annum with respect to the Series X FLOATs, times the number of days in the applicable FLOATs Interest Period, (assuming a day count of 30 days per month) divided by the actual number of days in such FLOATs Interest Period, minus the Advance Charge Rate; and provided, further, the Maximum Rate may not exceed the maximum rate permitted by law.

The Applicable Percentage on any date of determination shall be the percentage determined as set forth below based on the lower of the credit ratings of the FLOATs in effect at the close of business on the business day immediately preceding such date as follows:

Credit Rating		
Moody's	**S&P**	**Applicable Percentage**
"Aaa"	"AAA"	175%
"Aa" to "Aa1"	"AA–" to "AA+"	175
"A" to "A1"	"A–" to "A+"	175
"Baa" to "Baa1"	"BBB–" to "BBB+"	200
Below "Baa"	Below "BBB–"	265

The Applicable Percentage, the percentage used in determining the Minimum Rate and the percentage of the Index used in determining the Default Rate (as defined below) may be adjusted by the Market Agent to reflect a Change of Preference Law.

If an Auction for any Subsequent FLOATs Interest Period is not held for any reason (other than the occurrence and continuance of a Payment Default, or because all of the FLOATs of a series are Fixed (as described below) or are no longer represented by a global bond registered in the name of the Securities Depository or its nominee), the Applicable FLOATs Rate for such series of FLOATs for the next succeeding Subsequent FLOATs Interest Period will equal the sum of:

(i) the Maximum Rate on the Auction Date for such FLOATs Interest Period; and

(ii) the Service Charge Rate.

An Auction will not be held on an Auction Date, among other things, if a Payment Default occurs (as described below) or if the Auction Agent has resigned and no successor has been appointed. See "Auction Procedures" in this *Appendix VII*.

Owners of FLOATs which have been Fixed with RITES (a "Fixed Option Bond") will receive interest on such Fixed Option Bond on each Semiannual Interest Payment Date. A Fixed Option Bond will bear interest at a rate per annum equal to the Fixed Rate for the maturity and series of RITES Fixed to create such Fixed Option Bond.

The Service Charge Rate for each Auction Date will equal the sum of the rates per annum at which the Auction Agent Fee (initially .03 of 1%) and the Broker-Dealer Fee (initially .25 of 1%) accrue on such Auction Date. See "The Auction Agent" and "Broker-Dealers" in this *Appendix VII* for a description of the circumstances under which the rate at which the Auction Agent Fee or the Broker-Dealer Fee accrues may be increased.

If a Payment Default occurs, Auctions will be suspended and the Applicable FLOATs Rate for each Subsequent FLOATs Interest Period commencing thereafter to and including the Subsequent FLOATs Interest Period, if any, during which, or commencing less than two business days after such Payment Default is cured will equal the "Default Rate," provided that if an Auction occurred on the business day immediately preceding any such FLOATs Interest Period, the Applicable FLOATs Rate shall be the Default plus the Service Charge Rate. The Default Rate is defined as the lesser of:

(i) 265% of the Index on the date of determination; and

(ii) (A) 10.80% per annum with respect to the Series W FLOATs or (B) 10.40% per annum with respect to the Series X FLOATs, times the number of days in the applicable FLOATs Interest Period (assuming a day count of 30 days per month) divided by the actual number of days in such FLOATs Interest Period, minus the Advance Charge Rate;

provided, that in the event an Auction was held on the business day immediately preceding the first day of a FLOATs Interest Period during which FLOATs are to bear interest at the Default Rate, the Default Rate as determined pursuant to (i) or (ii) above shall be reduced by an amount equal to the Service Charge Rate on such date of determination.

If the FLOATs are no longer represented by a global certificate registered in the name of the Securities Depository or its nominee, Auctions will be suspended and the Applicable FLOATs Rate for each Subsequent FLOATs Interest Period thereafter will equal the Maximum Rate on the business day immediately preceding the first day of such Subsequent FLOATs Interest Period. See *Book-Entry Only System* in the Official Statement for a description of the circumstances under which the FLOATs may no longer be represented by global certificates.

Interest with respect to the FLOATs shall be computed on the basis of a 360-day year and the number of days actually elapsed.

Interest with respect to the RITES

On each Semiannual Interest Payment Date, owners of RITES will receive payments of interest on such RITES equal to the difference between (i) the product of (a) the principal amount of RITES held by an owner, times (b) two, times (c) the Fixed Rate applicable to such RITES, times (d) the number of days in such Semiannual Interest Rate Period assuming a 360 day year consisting of twelve thirty day months, divided by 360, minus the sum of (ii) the (a) interest that has accrued on an equivalent principal amount of FLOATs (including payments of the Auction Agent Fee and Broker-Dealer Fee) during such Semiannual Interest Period plus (b) any unpaid Advance Charges; provided that with respect to the payment to be made on a Semiannual Interest Payment Date which is also the maturity date for any RITES of a series, the amount of interest to be paid on such date to the owners of such RITES will be reduced by an amount equal to the interest that will accrue on an equivalent principal amount of FLOATs of the same series from such maturity date through the corresponding redemption date for the FLOATs.

The Fixed Rate for each maturity and series of the RITES are as follows:

Series W RITES maturing July 1	Series X RITES maturing July 1	Fixed Rate
	2003	5.20%
	2004	5.30
	2005	5.35
2006	2006	5.40
2007	2007	5.45
2008	2008	5.50
	2009	5.50
2010	2010	5.55

Auction Procedures

On each Auction Date for each series of the FLOATs on which an Auction is conducted, each Existing Holder (which term excludes a beneficial owner of Fixed FLOATs of such series) may submit Orders through a Broker-Dealer to the Auction Agent as follows:

- Hold Order — indicating such Existing Holder's desire to hold without regard to the Auction Rate for the next FLOATs Interest Period.
- Bid — indicating such Existing Holder's desire to sell if the Auction Rate for the next FLOATs Interest Period is less than the rate specified in such Bid.
- Sell Order — indicating such Existing Holder's desire to sell without regard to the Auction Rate for the next FLOATs Interest Period.

An Order may be submitted only in a principal amount of $50,000 or any multiple thereof.

An Existing Holder may submit different types of Orders in an Auction. An Existing Holder that offers to purchase additional FLOATs of a series is, for purposes of such offer, treated as a Potential Holder as described below. Bids by Existing Holders specifying rates higher than the Maximum Rate on the Auction

Date will be treated as Sell Orders. Bids by Existing Holders or Potential Holders specifying rates lower than the Minimum Rate on the Auction Date will be treated as Bids specifying the Minimum Rate. A Hold Order will be deemed to have been submitted on behalf of an Existing Holder if an Order is not submitted on behalf of such Existing Holder for any reason, including the failure of a Broker-Dealer to submit such Existing Holder's Order to the Auction Agent.

Potential Holders may submit Bids in which they offer to purchase FLOATs of a series if the Auction Rate for the next FLOATs Interest Period is not less than the rate specified in such Bid. A Bid by a Potential Holder specifying a rate higher than the Maximum Rate on the Auction Date will not be accepted.

If Sufficient Clearing Bids exist (that is, if the aggregate principal amount of FLOATs of a series subject to Bids by Potential Holders with rates equal to or lower than the Maximum Rate exceeds or is equal to the aggregate principal amount of FLOATs of such series subject to Sell Orders by Existing Holders or to Bids submitted by Existing Holders specifying a rate higher than the Maximum Rate), the Auction Rate will be the "Winning Bid Rate" which is defined as the lowest rate (not lower than the Minimum Rate) specified in the Submitted Bids which, taking into account such rate and all lower rates bid by Existing Holders and Potential Holders, would result in Existing Holders and Potential Holders owning all FLOATs available for purchase in the Auction. If Sufficient Clearing Bids do not exist (except in the case of all FLOATs being subject to Hold Orders), the Auction Rate will be the Maximum Rate on the Auction Date and, in such event, Existing Holders that have submitted Sell Orders or Bids specifying a rate higher than the Maximum Rate may not be able to sell in such Auction all FLOATs subject to such Sell Orders or Bids. If all of the FLOATs are subject to Submitted Hold Orders the Auction Rate will be the Minimum Rate on the Auction Date.

The Auction Procedures provide in certain circumstances for a pro rata allocation of FLOATs for purchase and sale, which may result in an Existing Holder's continuing to hold or selling, or a Potential Holder's purchasing, a principal amount of FLOATs of a series that is less than the principal amount of FLOATs of such series specified in its Order. Such a result might also occur if an Existing Holder fails to deliver FLOATs sold in an Auction.

A Bid placed by an Existing Holder specifying a rate greater than the Winning Bid Rate determined in the Auction or a Sell Order shall constitute an irrevocable offer to sell the principal amount of FLOATs subject thereto, in each case at a price of 100% of their principal amount. A Bid placed by a Potential Holder shall constitute an irrevocable offer to purchase the principal amount of FLOATs of the series subject thereto at a price of 100% of their principal amount if the rate specified in such Bid is less than or equal to the Winning Bid Rate determined in the Auction.

If the Advance Agent ceases to make Advances, the price of FLOATs to be purchased by Potential Holders and sold by Existing Holders as a result of an Auction will equal the sum of (a) the principal amount thereof (b) plus interest accrued from and including the last date to which interest on such FLOATs has been paid to and including the last day of the FLOATs Interest Period during which such Auction occurs minus (c) any accrued but unpaid Service Charge.

Settlement After Auctions

Settlement of purchases and sales of FLOATs in Auctions will be made on the business day (also a FLOATs Payment Date) after the Auction Date for such series of FLOATs. Purchasers will make payments through their Agent Members in same day funds to the Securities Depository against delivery to their respective Agent Members. The Securities Depository will make payment to the sellers' Agent Members in accordance with the Securities Depository's normal procedures, which currently provide for payment against delivery by their Agent Members in same-day funds.

Fixed Option Bonds

Fixing FLOATs and RITES

Fixed RITES and FLOATs are herein referred to as "Fixed Option Bonds." Interest on Fixed Option Bonds will be payable only on the Semiannual Interest Payment Date. Fixed Option Bonds will bear interest at a rate per annum equal to the Fixed Rate applicable to the particular RITES Fixed to create such Fixed Option Bond payable on the Semiannual Interest Payment Dates.

A beneficial owner of RITES or FLOATs of a series may fix the interest rate ("Fix") on such RITES or FLOATs of such series by purchasing an equal principal amount of FLOATs or RITES, as the case may be, of the same series and requesting its Broker-Dealer to deliver a Fixing Request to the Auction Agent and taking such other action as its Broker-Dealer may instruct and paying to the Fiscal Agent an amount equal to the sum of (a) payments made on such FLOATs to be Fixed (including payments of the Auction Agent Fee and Broker-Dealer Fee) plus (b) the Service Charge for the entire FLOATs Interest Period during which such FLOATs were Fixed, plus (c) any unpaid Advance Charges on the Advances set forth in (a).

When the FLOATs and RITES of a series are Fixed to create a Fixed Option Bond of the same series, the beneficial ownership thereof will be recorded at the Securities Depository under a single CUSIP number (in lieu of two separate CUSIP numbers).

However, the RITES and the FLOATs may not be Fixed during the period (the "Closed Period"): (i) commencing at 11:00 a.m., New York City time, on the business day immediately preceding any Regular Record Date therefor and ending immediately prior to the opening of business on the related Interest Payment Date; or (ii) commencing at 11:00 a.m., New York City time, on any Redemption Record Date and ending on the related redemption date. Accordingly, in order to Fix FLOATs and RITES prior to an Interest Payment Date for the FLOAT/RITES, a Fixing Request therefor must be received by the Auction Agent no later than 12:00 Noon, New York City time, on the second business day prior to the preceding Regular Record Date.

Beneficial owners of FLOATs of a series which were Fixed at the close of business on the FLOATs Regular Record Date immediately preceding any Auction Date may not participate (with respect to such FLOATs) in the Auction for the FLOATs of such series held on such Auction Date.

RITES and FLOATs which constitute Fixed Option Bonds may only be transferred together as a unit in minimum denominations of $100,000 ($50,000 principal amount of RITES and $50,000 principal amount of FLOATs) and multiples thereof.

The settlement of purchases and sales in the secondary market of Fixed Option Bonds will be made in accordance with the Securities Depository's normal procedures, which now provide for payment in next-day funds against delivery by the respective Agent Members.

If the FLOAT/RITES are no longer represented by global certificates registered in the name of the Securities Depository or its nominee, the FLOATs and the RITES may not be Fixed. See "Discontinuance of Book-Entry Only System" under *Book-Entry Only System* in the Official Statement for a description of the circumstances under which the FLOATs or the RITES may no longer be represented by a global certificate.

Separating RITES and FLOATs

A beneficial owner of Fixed Option Bonds may Separate the applicable RITES and FLOATs at any time, other than during a Closed Period, by requesting its Broker-Dealer to deliver a Request to Separate to the Auction Agent and taking such other action as its Broker-Dealer may instruct. When a Fixed Option Bond is Separated, the owner of such Fixed Option Bond will receive in respect of the Newly Separated FLOATs a payment from the Advance Agent equal to the sum of (a) the payments which would have been received from Advances in respect of such FLOATs if such FLOATs had not been Fixed (including payments of the Auction Agent Fee and Broker-Dealer Fee) since the preceding Semiannual Interest Payment Date, plus (b) any unpaid Advance Charges on the Advances set forth in (a).

A Request to Separate which is submitted to the Auction Agent by 12:00 noon, New York City time, on a business day will, under procedures to be used by the Auction Agent and Securities Depository, normally result in the Separation of the applicable RITES and FLOATs immediately prior to the close of business on the next business day. When Fixed Option Bonds of a series are Separated into FLOATs and RITES of the same series, the beneficial ownership thereof will be recorded at the Securities Depository under separate CUSIP numbers.

CUSIP Numbers

For information concerning CUSIP numbers, see "CUSIP Numbers" below.

Redemption Provisions

Amortization Requirements

The FLOATs of each series are subject to redemption on each July 1, or if such July 1 is not a business day on the next succeeding business day, immediately after the fiscal year for which there is an Amortization Requirement, provided if such FLOATs to be redeemed are Fixed, such FLOATs shall be subject to redemption on such July 1, to the extent of the respective Amortization Requirements for the such series of FLOATs (less the amount of moneys in the Sinking Fund used to retire bonds by purchase) from moneys in the Sinking Fund at par plus accrued interest, in the years and amounts indicated within. See *Redemption* in the Official Statement.

Optional Redemption

The FLOATs at the time outstanding may be redeemed on or after July 1, 2003 at the option of the Authority from any available moneys (other than moneys deposited in the Sinking Fund in respect of an Amortization Requirement) on any FLOATs Regular Record Date therefor, as a whole or in part, at a redemption price equal to the principal amount thereof to be redeemed, plus accrued interest to the redemption date, without premium.

The RITES at the time outstanding may be redeemed on or after July 1, 2003 at the option of the Authority from any available moneys (other than moneys deposited in the Sinking Fund in respect of an Amortization Requirement) on any FLOATs Regular Record Date either (i) in whole or (ii) in part as the Authority may direct, at the following prices (expressed as percentages of the principal amount) plus accrued interest to the redemption date:

Period During Which Redeemed	Redemption Price
July 1, 2003 through June 30, 2004	103%
July 1, 2004 through June 30, 2005	101½
July 1, 2005 and thereafter	100

Selection for Redemption

The FLOAT/RITES shall be selected for redemption as described under *Redemption* in the Official Statement.

The Authority's right to redeem FLOATs or RITES of a series is conditioned upon its redeeming, or delivering to the Fiscal Agent for cancellation, an equal aggregate principal amount of RITES or FLOATs, as the case may be, of the same series.

Mandatory Tender of FLOATs

Any owner of RITES of a series may, at any time and from time to time, notify a Broker-Dealer that (i) such owner intends to submit a Bid for a specified amount of FLOATs of the same series on the next succeeding Auction Date in order to Fix the same with all or a portion of such RITES, and (ii) if such Bid is unsuccessful, in whole or in part, such owner requires that FLOATs of such series (which are not Fixed) in an aggregate principal amount equal to the unsuccessful portion of such Bid be tendered to such owner for purchase on a specified business day prior to the Auction Date following the Auction in which such Bid proved unsuccessful (a "Tender Date") at a price equal to the principal amount of FLOATs being purchased plus accrued but unpaid interest to the Tender Date less an amount equal to the Service Charge, if any, applicable to any such FLOATs multiplied by a fraction, the numerator of which is the number of days from and including the immediately preceding FLOATs Payment Date for such FLOATs to but not including the Tender Date and the denominator of which is the number of days in the FLOATs Interest Period in which such Tender Date occurs (the "Tender Price").

FLOATs of a series subject to mandatory tender as a result of demands made by or on behalf of holders of RITES (each a "Tender Demand") shall be selected by lot from the FLOATs of such series which are not Fixed, and notice of such mandatory tender (a "Tender Notice") shall be given to the Agent Member of each Existing Holder whose FLOATs have been so selected. Such Tender Notice having been given, the Existing Holder or Existing Holders of such FLOATs shall be required to tender the FLOATs specified therein for purchase by such RITES holder on the Tender Date and at the Tender Price therefor.

Special Factors Affecting the RITES

The magnitude of the increases and decreases in market value of a series and maturity of RITES may be approximately twice as large as a comparable change in market value of an equal principal amount of bonds bearing interest at a rate equal to the Fixed Rate applicable to such RITES having similar credit quality, redemption provisions and maturity (excluding in such comparison any potential premium paid or received for such RITES beyond that which would be paid for bonds bearing interest at a rate equal to the Fixed Rate applicable to such RITES having similar credit quality, redemption provisions and maturity).

Except for those who may have collateral tax consequences, beneficial ownership of $50,000 of the RITES is similar from an economic perspective to paying $100,000 for $100,000 of fixed rate bonds paying interest semiannually at rate per annum equal to the Fixed Rate applicable to such maturity and series of RITES and having a similar credit quality, redemption provisions and maturity and borrowing $50,000 of the purchase price at an interest rate equal to the Applicable FLOATs Rate from time to time.

Because the interest payments on the RITES will be determined by subtracting the amount payable on the FLOATs and the Advance Charge from a fixed amount, the interest payments on the RITES will decrease as the amount payable on the FLOATs or the Advance Charge increases, and increase as the amount payable on the FLOATs or the Advance Charge decreases. See "Interest-Advances" below. As a result, the interest payable on the RITES will equal zero or be substantially reduced to near zero if the sum of the amount of interest accrued on the FLOATs and the Advance Charge payable since the last Semiannual Interest Payment Date is equal to (i) ½ of the product of the principal amount of the Series W FLOATs times two times the Fixed Rate for the Series W RITES maturing on July 1, 2006 with respect to the Series W RITES or (ii) ½ of the product of the principal amount of the Series X FLOATs times two times the Fixed Rate for the Series X RITES for the Series X RITES maturing on July 1, 2003 with respect to the Series X RITES.

In order to Fix RITES or FLOATs, a beneficial owner of RITES or FLOATs must also have purchased a like principal amount of FLOATs or RITES, as the case may be, of the same series. See "Fixing RITES AND FLOATs — Forming Fixed Option Bonds" in this *Appendix VII*. There is no obligation to provide FLOATs to a beneficial owner who desires to Fix RITES or to provide RITES to a beneficial owner who desires to Fix FLOATs. A beneficial owner of the RITES of a series may be able to acquire FLOATs of the same series that are not Fixed by bidding in an Auction (normally held every 35 days), provided that the Existing Holders of such FLOATs do not submit Hold Orders covering all such FLOATs in the Auction. In such event, no FLOATs would be available for purchase at any rate bid by such Beneficial owner of RITES in that Auction. See "Auction Procedures" in this *Appendix VII*. A beneficial owner of RITES may, however, cause a mandatory tender of floats for purposes of Fixing RITES to the extent it cannot acquire FLOATs in an Auction. See "Mandatory Tender of FLOATs" in this Appendix VII. In addition, a beneficial owner of RITES might be able to purchase FLOATs in the secondary market, outside of Auctions, through a Broker-

Dealer; however, an active secondary market for the FLOATs is not expected to develop, other than in Auctions. A beneficial owner of FLOATs might be able to purchase RITES in the secondary market; however, an active secondary market may or may not develop for such RITES.

No assurance can be given that an active secondary market will exist for the RITES or, outside Auctions, the FLOATs. Merrill Lynch, Pierce, Fenner & Smith Incorporated, as Broker-Dealer, retains the right to make a secondary market although it has no obligation to do so.

Special Factors Affecting FLOATs

Existing Holders of FLOATs may be required to tender FLOATs to a beneficial owner of RITES before the completion of a FLOATs Interest Period in the event such beneficial owner of RITES exercises its right to require such a tender. See "Mandatory Tender of FLOATs" in this *Appendix VII.*

So long as the Advance Agent shall make Advances in respect of the FLOATs on each FLOATs Payment Date, interest on the FLOATs will be made on such FLOATs Payment Dates. The Advance Agent may, in its discretion, discontinue making Advances. If the Advance Agent ceases making Advances, interest on the FLOATs will be payable only on Semiannual Interest Payment Dates.

THE FLOAT/RITES

General

The FLOAT/RITES shall be dated the date of original delivery thereof and will mature in the years and amounts, as set forth on the inside cover page of this Official Statement. Certain capitalized terms used in this *Appendix VII* are defined in "Certain Definitions" below.

The Depository Trust Company, New York, New York ("DTC", together with any successor securities depository, the "Securities Depository") will serve as securities depository under a book-entry system for the FLOAT/RITES, as described under *Book-Entry Only System* in the Official Statement. Unless such system is discontinued, the provisions described under *Book-Entry Only System* in the Official Statement (including provisions regarding payments to and transfers by the owners of beneficial interests ("beneficial owners") in the FLOAT/RITES) will be applicable to the FLOAT/RITES and purchases of beneficial interests in the FLOAT/RITES may be made in denominations of $50,000 or any multiple thereof. If such system is discontinued, the provisions described under *Book-Entry Only System* in the Official Statement will be applicable.

The principal or redemption price of the FLOAT/RITES shall be payable upon surrender thereof at the principal corporate trust office of the Fiscal Agent. Interest shall be payable by check mailed to the registered owners of the FLOAT/RITES as shown on the registration books kept by the Fiscal Agent as of the close of business on the applicable record dates described below.

Interest

Interest Payment Date

Interest on the FLOATs which are not Fixed will, subject to the second paragraph under "Advances" below, be payable in arrears on August 31, 1993 with respect to the Series W FLOATs and September 14, 1993 with respect to the Series X FLOATs (each an "Initial FLOATs Payment Date"), on each succeeding fifth Tuesday after each Initial FLOATs Payment Date and at maturity, provided that, with respect to any such Tuesday:

(1) if (A) the Securities Depository shall make available to its participants and members, in next-day funds in New York City on such Tuesday, the amount then due as interest or shall make available to its participants and members, in funds immediately available in New York City, on such Tuesday, such amount but shall not have so advised the Auction Agent and the Fiscal Agent of such availability and (B) (I) such Tuesday is not a business day or (II) the Wednesday following such Tuesday is not a business day, then interest otherwise payable on such Tuesday shall be payable on the first business day that falls after such Tuesday and is immediately followed by a business day; and

(2) if (A) the Securities Depository shall make available to its participants and members, in funds immediately available in New York City on such Tuesday, the amount then due as interest and shall have so advised the Auction Agent and the Fiscal Agent of such availability and (B) such Tuesday is not a business day, then interest otherwise payable on such Tuesday shall be payable on the first business day that falls after such Tuesday;

provided, further, if any such fifth Tuesday shall be within thirty (30) days of a redemption date in respect of an Amortization Requirement for a series of FLOATs (the "Nominal FLOATs Payment Date"), interest that would have been payable on such Nominal FLOATs Payment Date shall, subject to the provisions of (1) and (2) above, be payable on the Tuesday next succeeding such redemption date and the next day on which interest on such series of FLOATs shall thereafter be payable shall be the fifth Tuesday, subject to the provisions of (1) and (2) above, next succeeding such Nominal FLOATs Payment Date.

Each date on which interest on the FLOATs is so payable is herein referred to as a "FLOATs Payment Date". The regular record date for the FLOATs is the second business day preceding each FLOATs Payment Date (the "FLOATs Regular Record Date").

Interest on the RITES and the Fixed Option Bonds (as defined herein) shall accrue from the date of delivery thereof and will be payable on January 1, 1994 and each January 1 and July 1 thereafter (a "Semiannual Interest Payment Date"). The regular record date for the RITES and the Fixed Option Bonds shall be the fifteenth day of the month preceding each Semiannual Interest Payment Date.

Advances

The Advance Agent may but need not advance ("Advance") to owners of FLOATs on each FLOATs Payment Date the interest accrued on such FLOATs since the prior FLOATs Payment Date. The decision by the Advance Agent to make any Advance shall be made in its sole discretion and no decision to Advance moneys shall impose any obligation to make further Advances. If the Advance Agent determines not to make any Advance, the Advance Agent shall notify the Auction Agent and the Authority of such determination prior to 12:00 noon, New York City time, on the Business Day prior to the applicable FLOATs Payment Date. The Advance Agent will be reimbursed for Advances made in respect of the FLOATs by the Fiscal Agent from moneys available in the Bond Service Account on each Semiannual Interest Payment Date. The Advance Agent will receive, in respect of each such Advance, a fee equal to the product of the Advance Agent's prime rate then in effect times the sum of the products of each Advance outstanding during each FLOATs Interest Period (defined below) times the number of days such Advance shall be outstanding divided by 360 (the "Advance Charge"), payable on the Semiannual Interest Payment Date next succeeding the date of the Advance. The Advance Charge shall be adjusted for each change in such prime rate.

In the event the Advance Agent fails to make Advances for any reason, interest payments on the FLOATs will cease to be made on FLOATs Payment Dates, and the Fiscal Agent will make payments of interest on the FLOATs on Semiannual Interest Payment Dates. Auctions for the FLOATs will not, however, be suspended during such time as the Advance Agent shall not make Advances, subject to the provisions under "Applicable FLOATs Rate" below as to when Auctions will otherwise not be held, and interest on the FLOATs will accrue for each FLOATs Interest Period.

Applicable FLOATs Rate

The rate of interest on Series W FLOATs and the Series X FLOATs, during the period commencing on and including the date of original delivery of the FLOATs and ending on but excluding the respective Initial FLOATs Payment Dates (each an "Initial FLOATs Interest Period") will be determined by Merrill Lynch, Pierce, Fenner & Smith Incorporated, as underwriter of the FLOATs, and will consist of the lowest rate per annum necessary to sell the FLOATs at par on the date of delivery thereof, which rate will be paid to the owners of the FLOATs, and a Service Charge Rate of .28 of 1% which will be paid by the Fiscal Agent to the Auction Agent and the Broker-Dealers, provided that such rate may not exceed the Maximum Rate. Commencing on and including the respective Initial FLOATs Payment Dates, the rate of interest on the FLOATs of each series for each subsequent interest period for FLOATs (hereinafter referred to as a "Subsequent FLOATs Interest Period"), which shall commence on the FLOATs Payment Date for the preceding FLOATs Interest Period and shall end on but exclude the next succeeding FLOATs Payment Date, shall be equal to the sum of the rate of interest per annum that results from implementation of the Auction Procedures described below (the "Auction Rate") and the Service Charge Rate (defined below); provided that:

(i) if a notice of an adjustment in the percentage used to determine the Maximum Rate, the Minimum Rate and the Default Rate (in each case, defined below) shall have been given by the Market Agent and because of a failure to satisfy either of the conditions set forth in clauses (ii) and (iii) under "Adjustment of Percentages Used to Determine Maximum, Minimum and Default Rates" below, such adjustment shall not have taken effect, then an Auction shall not be held on the Auction Date (defined below) immediately preceding the next succeeding Subsequent FLOATs Interest Period and the rate of interest for such Subsequent FLOATs Interest Period shall equal the sum of the Maximum Rate on such Auction Date and the Service Charge Rate on such Auction Date;

(ii) if, at the close of business on the FLOATs Regular Record Date immediately preceding any Subsequent FLOATs Interest Period, all Outstanding FLOATs of a series are Fixed, then an Auction for such series of FLOATs shall not be held with respect to such Subsequent FLOATs Interest Period and the rate of interest on such FLOATs shall be equal to Fixed Rate applicablee to the RITES with which such FLOATs are Fixed which Fixed Rate will be payable on a Semiannual Interest Payment Date; and

(iii) if, on any Auction Date, an Auction is not held for a series of FLOATs for any other reason, the rate of interest for the next succeeding Subsequent FLOATs Interest Period for such Series of FLOATs shall equal the sum of the Maximum Rate on such Auction Date and the Service Charge Rate on such Auction Date.

Notwithstanding the foregoing, if:

(A) the ownership of the FLOATs is no longer maintained in book-entry form by DTC (or a successor Securities Depository), the rate of interest for any Subsequent FLOATs Interest Period commencing after the delivery of certificates representing FLOATs pursuant to the 1993 Resolution shall equal the Maximum Rate on the business day immediately preceding the first day of such Subsequent FLOATs Interest Period; or

(B) a Payment Default occurs, Auctions will be suspended and the rate of interest on the FLOATs for each Subsequent FLOATs Interest Period commencing after the occurrence of such Payment Default to and including the Subsequent FLOATs Interest Period, if any, during which, or commencing less than two business days after, such Payment Default is cured shall equal the Default Rate (as defined below), provided that if an Auction occurred on the business day immediately preceding any such FLOATs Interest Period, the rate of interest for such Subsequent FLOATs Interest Period shall equal the Default Rate plus the Service Charge Rate.

The rate per annum at which interest is payable on a series FLOATs for an Initial FLOATs Interest Period or any Subsequent FLOATs Interest Period (each an "FLOATs Interest Period") is hereinafter referred to as an "Applicable FLOATs Rate". Interest on the FLOATs shall be computed on the basis of a 360-day year and the number of days actually elapsed.

Interest with respect to the RITES

On each Semiannual Interest Payment Date, owners of RITES of a series will receive payments of interest on such RITES equal to the difference between (i) product of (a) the principal amount of RITES held by such owner, times (b) two, times (c) the Fixed Rate applicable to such RITES, times (d) the number of days in such Semiannual Interest Period (assuming a 360 day year consisting of twelve thirty day months) divided by 360, minus the sum of (ii) the (a) interest that has accrued on an equivalent principal amount of FLOATs (including payments of the Auction Agent Fee and Broker-Dealer Fee) during such Semiannual Interest Period, plus (b) any unpaid Advance Charges, provided that with respect to the payment to be made on a Semiannual Interest Payment Date which is also the maturity date for any RITES of a series, the amount of interest to be paid on such date to the owners of such RITES will be reduced by an amount equal to the interest that will accrue on an equivalent principal amount of FLOATs of the same series from such maturity date through the corresponding redemption date for the FLOATs.

The Fixed Rate applicable to each maturity and series of the RITES are as follows:

Series W RITES maturing July 1	Series X RITES maturing July 1	Fixed Rate
	2003	5.20%
	2004	5.30
	2005	5.35
2006	2006	5.40
2007	2007	5.45
2008	2008	5.50
	2009	5.50
2010	2010	5.55

Service Charge

The following amount (the "Service Charge") will be deducted from the interest payment on each $50,000 principal amount of the FLOATs for each FLOATs Interest Period following an Auction Date and paid to the Auction Agent and the Broker-Dealers in respect of the Auction Agent Fee and the Broker-Dealer Fee, unless such FLOATs were Fixed at the close of business on the FLOATs Regular Record Date immediately preceding such Auction Date: the product of (i) a fraction, the numerator of which is the number of days in such FLOATs Interest Period and the denominator of which is 360 days, times (ii) the sum of the rate per annum at which the Auction Agent Fee (initially .03 of 1%) accrues and the rate per annum at which the Broker-Dealer Fee (initially .25 of 1%) accrues (the "Service Charge Rate") times (iii) $50,000.

See "The Auction Agent" and "Broker-Dealers" below for a description of the circumstances under which the rate at which the Auction Agent Fee or the Broker-Dealer Fee accrues may be increased. A comparable amount will be deducted from the initial interest payment on the FLOATs and paid to the Auction Agent and the Broker-Dealers in connection with the initial issuance of the FLOATs.

Certain Definitions

The **"Maximum Rate,"** on any date of determination, shall mean the interest rate per annum equal to the lesser of:

(i) the Applicable Percentage (as defined below) of the higher of (A) the After-Tax Equivalent Rate (as defined below) on such date and (B) the Index (as defined below) on such date; and

(ii) either (A) 10.80% per annum with respect to the Series W FLOATs or (B) 10.40% per annum with respect to the Series X FLOATs, times the number of days in the applicable FLOATs Interest Period (assuming a day count of 30 days per month) divided by the actual number of days in such FLOATs Interest Period, minus the Service Charge Rate and the Advance Charge Rate on such date;

provided that, if the ownership of the FLOATs is no longer maintained in book-entry form by DTC or a successor Securities Depository, the Maximum Rate, on any date of determination, shall equal the lesser of (x) the Applicable Percentage of the higher of (1) the After-Tax Equivalent Rate on such date and (2) the Index on such date and (y) 10.80% per annum with respect to the Series W FLOATs or 10.40% per annum with respect to the Series X FLOATs, times the number of days in the applicable FLOATs Interest Period (assuming a day count of 30 days per month) divided by the actual number of days in such FLOATs Interest Period, minus the Advance Charge Rate and, provided further, that in no event shall the Maximum Rate be more than the maximum rate permitted by law. The maximum rate applicable to the FLOAT/RITES under Commonwealth law is 12%.

The **"Minimum Rate,"** on any date of determination, shall mean the rate per annum equal to 90% (as such percentage may be adjusted as described below under "Adjustment in Percentage Used to Determine Maximum, Minimum and Default Rates") of the lesser of:

(i) the After-Tax Equivalent Rate on such date; and

(ii) the Index on such date;

provided that in no event shall the Minimum Rate be more than the Maximum Rate.

The **"Default Rate,"** on any date of determination, shall mean the interest rate per annum equal to the lesser of:

(i) 265% of the Index on such date (as such percentage may be adjusted as described below under "Adjustment in Percentages Used to Determine Maximum, Minimum and Default Rates"); and

(ii) (A) 10.80% per annum with respect to the Series W FLOATs or (B) 10.40% per annum with respect to the Series X FLOATs, times the number of days in the applicable FLOATs Interest Period (assuming a day count of 30 days per month) divided by the actual number of days in such FLOATs Interest Period minus the Advance Charge Rate;

provided that in the event an Auction was held on the business day immediately preceding the first day of a FLOATs Interest Period during which FLOATs are to bear interest at the Default Rate, the Default Rate as determined pursuant to (i) or (ii) above shall be reduced by an amount equal to the Service Charge on such date of determination and provided further that in no event shall the Default Rate be more than the maximum rate permitted by law.

"Payment Default" means (i) the default by the Authority in the due and punctual payment of any installment of interest with respect to the FLOATs or the RITES or (ii) the default by the Authority in the due and punctual payment of any interest, princpal or premium, if any, with respect to the FLOATs or the RITES at their maturity or redemption.

The **"After-Tax Equivalent Rate,"** on any date of determination, shall mean the interest rate per annum equal to the product of (i) and (ii) below.

(i) The "'AA' Composite Commercial Paper Rate" on such date, which on any date of determination, shall mean: (A) the interest equivalent of the 30-day rate on commercial paper placed on behalf of issuers whose corporate bonds are rated "AA" by S&P, or the equivalent of such rating by S&P or another nationally recognized securities rating agency, as such 30-day rate is made available on a discount basis or otherwise by the Federal Reserve Bank of New York for the business day immediately preceding such date of determination; or (B) if the Federal Reserve Bank of New York does not make available any such rate, then the arithmetic average of the interest equivalent of the 30-day rate on commercial paper placed on behalf of such issuers, as quoted to the Auction Agent on a discount basis or otherwise, by the Commercial Paper Dealers, for the close of business on the business day immediately preceding such date of determination. If any Commercial Paper Dealer does not quote a commercial paper rate required to determine the "AA" Composite Commercial Paper Rate, the "AA" Composite Commercial Paper Rate shall be determined on the basis of the quotation or quotations furnished by the remaining Commercial Paper Dealer or Commercial Paper Dealers and any Substitute Commercial Paper Dealer or Substitute Commercial Paper Dealers selected by the Fiscal Agent to provide such quotation or quotations not being supplied by any Commercial Paper Dealer or Commercial Paper Dealers, as the case may be, or if the Fiscal Agent does not select any such Substitute Commercial Paper Dealer or Substitute Commercial Paper Dealers, by the remaining Commercial Paper Dealer or Commercial Paper Dealers. For purposes of this definition, the "interest equivalent" of a rate stated on a discount basis (a "discount rate") for commercial paper of a given days' maturity shall be equal to the product of (A) 100 times (B) the quotient (rounded upwards to the next higher one-thousandth (.001) of 1% of (x) the discount rate (expressed in decimals) divided by (y) the difference between (1) 1.00 and (2) a fraction, the numerator of which shall be the product of the discount rate (expressed in decimals) times the number of days in which such commercial paper matures and the denominator of which shall be 360; and

(ii) 1.00 minus the lower of:

(A) the **"Statutory Corporate Tax Rate"** on such date, which shall mean, as of any date of determination, the highest tax rate bracket (expressed in decimals) now or hereafter applicable in each taxable year on the taxable income of every corporation as set forth in Section 11 of the Code or any successor section without regard to any minimum additional tax provision or provisions regarding changes in rates during a taxable year, and which on the date hereof is 0.34; and

(B) the **"Statutory Personal Tax Rate"** on such date, which shall mean, as of any date of determination, the highest tax rate bracket (expressed in decimals) now or hereafter applicable in each taxable year on the taxable income of a natural person as set forth in Section 1 of the Code or any successor section without regard to any minimum additional tax provision or provisions regarding changes in rates during a taxable year, and which on the date hereof is 0.31.

For the purposes of this definition: (1) **"Commercial Paper Dealers"** shall mean Merrill Lynch, Pierce, Fenner & Smith Incorporated and such other commercial paper dealer or dealers as the Fiscal Agent may from time to time appoint, or, in lieu of any thereof, their respective affiliates or successors; and (2) **"Substitute Commercial Paper Dealer"** shall mean The First Boston Corporation or Morgan Stanley & Co. Incorporated and such other commercial paper dealer or dealers as the Fiscal Agent may from time to time appoint, or their respective affiliates or successors, if such person is a commercial paper dealer, provided that neither such person nor any of its affiliates or successors shall be a Commercial Paper Dealer.

The **"Applicable Percentage,"** on any date of determination, shall mean the percentage determined below (as such percentage may be adjusted as described below under "Adjustment of Percentage Used in Determining Maximum, Minimum and Default Rates") based on the lower of the credit ratings of FLOATs in effect at the close of business on the business day immediately preceding such date, as set forth below:

Credit Rating		Applicable
Moody's	**S&P**	**Percentage**
"Aaa"	"AAA"	175%
"Aa" to "Aa1"	"AA–" to "AA+"	175
"A" to "A1"	"A–" to "A+"	175
"Baa" to "Baa1"	"BBB–" to "BBB+"	200
Below "Baa"	Below "BBB–"	265

provided, that, in the event that the FLOATs are not rated by a nationally recognized securities rating agency, the Applicable Percentage shall be 265%. For purposes of this definition, S&P's rating categories of "AAA," "AA," "A" and "BBB," and Moody's rating categories of "Aaa," "Aa," "A" and "Baa," refer to and include the respective rating categories correlative thereto if either or both of such ratings agencies have changed or modified their generic rating categories or if Moody's or S&P no longer rate the FLOATs and have been replaced.

The **"Index,"** on any date of determination, shall mean (i) the tax-exempt money market rate index for 30-day variable rate obligations prepared by Merrill Lynch, Pierce, Fenner & Smith Incorporated published on The BLOOMBERG provided through Bloomberg Financial Markets of Bloomberg L. P., or on Dalcomp Systems on such date of determination or, (ii) if such rate is not published by 9:00 a.m., New York City time, on such date of determination, the interest index selected by the Market Agent, representing the weighted average of the yield on tax-exempt commercial paper, or tax-exempt bonds bearing interest at a commercial paper rate or pursuant to a commercial paper mode, having a range of maturities or mandatory purchase dates between 25 and 36 days traded during the immediately preceding five business day.

The **"Advance Charge Rate,"** on any date determination, shall mean the rate per annum calculated by the Advance Agent that will result in it receiving the Advance Charge payable on the next succeeding Semiannual Interest Payment Date.

Auction Participants

Existing Holders and Potential Holders

Participants in each Auction will include: (1) "Existing Holders" which shall mean any person who is listed as the owner of FLOATs in the records of the Auction Agent (defined below) which are not Fixed at the close of business on the business day prior to such Auction; and (ii) "Potential Holders" which shall mean any person, including any Existing Holder, who may be interested in acquiring FLOATs (or, in the case of an Existing Holder, an additional principal amount of FLOATs). Beneficial owners of a series FLOATs which were Fixed at the close of business on the FLOATs Regular Record Date immediately preceding any Auction Date for such series of FLOATs are not Existing Holders for purposes of the Auction Procedures, whether or not listed as the owner thereof on the records of the Auction Agent, and, with respect to such FLOATs, may not participate in the Auction for such series of FLOATs held on such Auction Date. Such Fixed FLOATs of a series will not be included in the aggregate principal amount of FLOATs of such series held by such Existing Holder for the purposes of the Auction Procedures.

By purchasing FLOATs which are not Fixed, whether in an Auction or otherwise, each prospective purchaser of FLOATs or its Broker-Dealer must agree and will be deemed to have agreed:

(a) to participate in Auctions on the terms described below;

(b) so long as the beneficial ownership of the FLOATs is maintained in book-entry form by the Securities Depository, to sell, transfer or otherwise dispose of FLOATs which are not Fixed only pursuant to a Bid or a Sell Order in an Auction, or to or through a Broker-Dealer, provided that in the case of all transfers other than those pursuant to an Auction, the Existing Holder of FLOATs so transferred, its Agent Member or its Broker-Dealer advises the Auction Agent of such transfer;

(c) to have its beneficial ownership of FLOATs maintained at all times in book-entry form by the Securities Depository for the account of its Agent Member of the Securities Depository, which in turn will maintain records of such beneficial ownership, and to authorize such Agent Member to disclose to the Auction Agent such information with respect to such beneficial ownership as the Auction Agent may request;

(d) that a Sell Order (as defined below) placed by an Existing Holder shall constitute an irrevocable offer to sell the principal amount of FLOATs subject thereto;

(e) that a Bid (as defined below) placed by an Existing Holders shall constitute an irrevocable offer to sell the principal amount of FLOATs subject thereto if the rate specified in such Bid is greater than, or in some cases equal to, the Auction Rate determined in the Auction;

(f) that a Bid placed by a Potential Holder shall constitute an irrevocable offer to purchase the principal amount of FLOATs subject thereto if the rate specified in such Bid is less than or equal to the Auction Rate determined in the Auction; and

(g) to tender its FLOATs for sale at 100% of the principal amount thereof, plus accrued but unpaid interest, if required as described below under "Mandatory Tender of FLOATs".

The principal amount of FLOATs purchased or sold may be subject to proration procedures. See "Auction Procedures" and "Acceptance and Rejection of Orders" below. Each purchase or sale of FLOATs of a series shall be made for settlement on the first business day following the Auction Date for such series at a price equal to 100% of the principal amount thereof. See "Auction Procedures" and "Settlement Procedures" below. See the last paragraph under "Acceptance and Rejection of Orders" below. The Auction Agent is entitled to rely upon the terms of any Order submitted to it by a Broker-Dealer.

Auction Agent

The "Auction Agent" is Bankers Trust Company and, as used herein, such term shall include any successor Auction Agent appointed pursuant to the 1993 Resolution.

Broker-Dealers

Existing Holders and Potential Holders may participate in Auctions only by submitting Orders (in the manner described below) through a "Broker-Dealer", including Merrill Lynch, Pierce, Fenner & Smith Incorporated or any other broker or dealer (each as defined in the Securities Exchange Act of 1934, as amended), commercial bank or other entity permitted by law to perform the functions required of a Broker-Dealer set forth below which (i) is an "Agent Member" (i.e. a member of, or participant in DTC or any successor Securities Depository) or an affiliate of an Agent Member, (ii) has been selected by the Fiscal Agent and (iii) has entered into a Broker-Dealer Agreement with the Auction Agent that remains effective, in which the Broker-Dealer agrees to participate in Auctions as described in the Auction Procedures, as from time to time amended or supplemented.

Market Agent

The "Market Agent," initially Merrill Lynch, Pierce, Fenner & Smith Incorporated, is responsible under the terms of a Market Agent Agreement with the Fiscal Agent, for determination of the Index and for determination of any changes to be made in the percentages used in determining the Maximum Rate, the Minimum Rate and the Default Rate. See "Adjustment of Percentages Used in Determining Maximum, Minimum and Default Rates."

Successor Auction Agents, Broker-Dealers and Market Agents

Successor Auction Agents, Market Agents and Broker-Dealers are selected by the Fiscal Agent from institutions meeting the qualifying conditions under the 1993 Resolution.

Auction Procedures

Auctions to establish the Applicable FLOATs Rate for each series of the FLOATs will be held on each Auction Date for such series of FLOATs, except as described above under "Interest — Applicable FLOATs Rate", by application of the Auction Procedures described herein. For the purpose of the following summary, references to FLOATs shall mean only the FLOATs of the series for which the Auction is being held.

Auction Dates

Except as described above under "Interest — Applicable FLOATs Rate", Auctions shall be held on each "Auction Date", which is defined as the business day immediately preceding the first day of each FLOATs Interest Period, if there is an Auction Agent, other than:

(i) a FLOATs Interest Period which is immediately preceded by a FLOATs Regular Record Date at the close of business on which all of the Outstanding FLOATs were Fixed;

(ii) each FLOATs Interest Period commencing after the ownership of the FLOATs is no longer maintained in book-entry form by the Securities Depository;

(iii) each FLOATs Interest Period commencing after the occurrence and during the continuance of an Event of Default (other than the first FLOATs Interest Period after the occurrence of an Insufficient Funds Event so long as no other Event of Default has occurred and is continuing); or

(iv) any FLOATs Interest Period commencing less than two business days after the cure of an Event of Default.

Submission of Orders

Prior to the Submission Deadline (defined as 1:00 P.M., New York City time, on any Auction Date or such other time on any Auction Date by which Broker-Dealers are required to submit Orders to the Auction Agent as specified by the Auction Agent from time to time) on each Auction Date:

(a) each Existing Holder of FLOATs may submit to a Broker-Dealer an "Order," consisting of information as to:

(i) the principal amount of Outstanding FLOATs, if any, held by such Existing Holder which such Existing Holder desires to continue to hold without regard to the Auction Rate for the next succeeding FLOATs Interest Period (a "Hold Order");

(ii) the principal amount of Outstanding FLOATs, if any, which such Existing Holder offers to sell if the Auction Rate for the next succeeding FLOATs Interest Period shall be less than the rate per annum specified by such Existing Holder (a "Bid"); and/or

(iii) the principal amount of Outstanding FLOATs, if any, held by such Existing Holder which such Existing Holder offers to sell without regard to the Auction Rate for the next succeeding FLOATs Interest Period (a "Sell Order"); and

(b) one or more Broker-Dealers may contact Potential Holders to determine the principal amount of FLOATs which each such Potential Holder offers to purchase if the Auction Rate for the next succeeding FLOATs Interest Period shall not be less than the rate per annum specified by such Potential Holder (a "Bid").

Each Existing Holder and each Potential Holder placing an Order is herein referred to as a "Bidder."

Subject to the provisions described below under "Validity of Orders," a Bid by an Existing Holder shall constitute an irrevocable offer to sell:

(i) the principal amount of Outstanding FLOATs specified in such Bid if the Auction Rate shall be less than the Rate specified in such Bid; or

(ii) such principal amount or a lesser principal amount of Outstanding FLOATs to be determined as set forth in subparagraph (1)(d) under "Acceptance and Rejection of Orders below, if the Auction Rate shall be equal to the rate specified in such Bid; or

(iii) such principal amount or a lesser principal amount of Outstanding FLOATs to be determined as set forth in subparagraph (2)(c) under "Acceptance and Rejection of Orders" below, if the rate specified therein shall be higher than the Maximum Rate and Sufficient Clearing Bids (as defined below) have not been made.

Subject to the provisions described below under "Validity of Orders," a Sell Order by an Existing Holder shall constitute an irrevocable offer to sell:

(i) the principal amount of Outstanding FLOATs specified in such Sell Order; or

(ii) such principal amount or a lesser principal amount of Outstanding FLOATs as set forth in subparagraph (2)(c) under "Acceptance and Rejection of Orders" below, if Sufficient Clearing Bids have not been made.

Subject to the provisions described below under "Validity of Orders," a Bid by a Potential owner shall constitute an irrevocable offer to purchase:

(i) the principal amount of Outstanding FLOATs specified in such Bid if the Auction Rate shall be higher than the rate specified in such Bid;

(ii) such principal amount or a lesser principal amount of Outstanding FLOATs as set forth in subparagraph (1)(e) under "Acceptance and Rejection of Orders" below, if the Auction Rate shall be equal to the rate specified in such Bid.

If any rate specified in any Bid contains more than three figures to the right of the decimal point, the Auction Agent shall round such rate up to the next highest one-thousandth (.001) of 1%.

If an Order or Orders covering all Outstanding FLOATs held by any Existing Holder is not submitted to the Auction Agent prior to the Submission Deadline, the Auction Agent shall deem a Hold Order to have been submitted on behalf of such Existing Holder covering the principal amount of Outstanding FLOATs held by such Existing Holder and not subject to an Order submitted to the Auction Agent.

None of the Authority, the Fiscal Agent or the Auction Agent, shall be responsible for any failure of a Broker-Dealer to submit an Order to the Auction Agent on behalf of any Existing Holder or Potential Holder, nor shall any such party be responsible for failure by DTC, as Securities Depository, to effect any transfer or to provide the Auction Agent with current information regarding registration of transfers.

If a Broker-Dealer submits an Order for its own account in any Auction, it might have an advantage over other Bidders because it would have knowledge of Orders placed through it in that Auction; such Broker-Dealer, however, would not have knowledge of Orders submitted by other Broker-Dealers, if any, in the Auction.

An Existing Holder may submit different types of Orders in an Auction with respect to FLOATs then held by such Existing Holder. An Existing Holder that offers to purchase additional FLOATs is, for purposes of such offer, treated as a Potential Holder. For information concerning the priority given to different types of Orders placed by Existing Holders, see "Validity of Orders" below.

The Maximum Rate is the maximum rate per annum that can result from an Auction. Any Bid specifying a rate higher than the Maximum Rate will (i) be treated as a Sell Order if submitted by an Existing Holder and (ii) not be accepted if submitted by a Potential Holder. The Minimum rate is the minimum rate per annum which can result from an Auction. Any Bid specifying a rate lower than the Minimum Rate will be treated as a Bid specifying the Minimum Rate. See "Validity of Orders," "Determination of Sufficient Clearing Bids and Winning Bids Rates" and "Acceptance or Rejection of Orders" below.

Validity of Orders

If any Existing Holder submits through a Broker-Dealer to the Auction Agent one or more Orders covering in the aggregate more than the principal amount of Outstanding FLOATs held by such Existing Holder, such Orders shall be considered valid as follows and in the order of priority set forth below.

(a) *Hold Orders.* All Hold Orders shall be considered valid, but only up to and including in the aggregate the principal amount of FLOATs held by such Existing Holder, and if the aggregate principal amount of subject to such Hold Orders exceeds the aggregate principal amount of FLOATs held by such Existing Holder, the aggregate principal amount of FLOATs subject to each such Hold Order shall be reduced pro rata to cover the aggregate principal amount of Outstanding FLOATs held by such Existing Holder.

(b) *Bids.*

(i) Any Bid shall be considered valid up to and including the excess of the principal amount of Outstanding FLOATs held by such Existing Holder over the aggregate principal amount of FLOATs subject to any Hold Orders referred to in paragraph (a) above.

(ii) Subject to subparagraph (i) above, if more than one Bid with the same rate is submitted on behalf of such Existing Holder and the aggregate principal amount of Outstanding FLOATs subject to such Bids is greater than such excess, such Bids shall be considered valid up to and including the amount of such excess.

(iii) Subject to subparagraphs (i) and (ii) above, if more than one Bid with different rates is submitted on behalf of such Existing Holder, such Bids shall be considered valid first in the ascending order of their respective rates until the highest rate is reached at which such excess exists and then at such rate up to and including the amount of such excess.

(iv) In any event, the aggregate principal amount of Outstanding FLOATs, if any, subject to Bids not valid under this paragraph (b) shall be treated as the subject of a Bid by a Potential Holder at the rate therein specified.

(c) *Sell Orders.* All Sell Orders shall be considered valid up to and including the excess of the principal amount of Outstanding FLOATs held by such Existing Holder over the aggregate principal amount of FLOATs subject to Hold Orders referred to in paragraph (a) above and valid Bids referred to in paragraph (b) above.

If more than one Bid for FLOATs is submitted on behalf of any Potential Holder, each Bid submitted shall be a separate Bid with the rate and principal amount therein specified. Any Bid or Sell Order submitted by an Existing Holder covering an aggregate principal amount of FLOATs not equal to $50,000 or any multiple thereof shall be rejected and shall be deemed a Hold Order. Any Bid submitted by a Potential Holder covering an aggregate principal amount of FLOATs not equal to $50,000 or any multiple thereof shall be rejected. Any Bid submitted by an Existing Holder or a Potential Holder specifying a rate lower than the Minimum Rate shall be treated as a Bid specifying the Minimum Rate. Any Order submitted in an Auction by a Broker-Dealer to the Auction Agent prior to the Submission Deadline on any Auction Date shall be irrevocable.

A Hold Order, Bid or Sell Order that has been determined valid pursuant to the foregoing procedures is herein referred to as a "Submitted Hold Order," a "Submitted Bid" and a "Submitted Sell Order," respectively, and collectively, "Submitted Orders".

Determination of Sufficient Clearing Bids and Winning Bid Rate

Not earlier than the Submission Deadline on each Auction Date, the Auction Agent shall assemble all Submitted Orders and shall determine:

(a) the excess of the total principal amount of Outstanding FLOATs over the sum of the aggregate principal amount of Outstanding FLOATs subject to Submitted Hold Orders (such excess being hereinafter referred to as the "Available FLOATs"); and

(b) from such Submitted Orders whether:

(i) the aggregate principal amount of Outstanding FLOATs subject to Submitted Bids by Potential Holders specifying one or more rates equal to or lower than the Maximum Rate;

exceeds or is equal to the sum of:

(ii) the aggregate principal amount of Outstanding FLOATs subject to Submitted Bids by Existing Holders specifying one or more rates higher than the Maximum Rate; and

(iii) the aggregate principal amount of Outstanding FLOATs subject to Submitted Sell Orders.

(In the event such excess or such equality exists, other than because the sum of the principal amounts of FLOATs in subparagraphs (ii) and (iii) above is zero because all of the Outstanding FLOATs are subject to Submitted Hold Orders, such Submitted Bids in subparagraph (i) above being hereinafter referred to collectively as "Sufficient Clearing Bids"); and

(c) if Sufficient Clearing Bids exist, the lowest rate specified in such Submitted Bids (which shall be the "Winning Bid Rate"), such that if:

(i) each such Submitted Bid from Existing Holders specifying such lowest rate and all other Submitted Bids from Existing Holders specifying lower rates were rejected (thus entitling such Existing Holders to continue to hold the principal amount of FLOATs subject to such Submitted Bids); and

(ii) each such Submitted Bid from Potential Holders specifying such lowest rate and all other Submitted Bids from Potential Holders specifying lower rates, were accepted.

the result would be that such Existing Holders described in subparagraph (i) above would continue to hold an aggregate principal amount of Outstanding FLOATs which, when added to the aggregate principal amount of Outstanding FLOATs to be purchased by such Potential Holders described in subparagraph (ii) above, would equal not less than the Available FLOATs.

Notice of Auction Rate

Promptly after the Auction Agent has made the determinations described above, the Auction Agent shall advise the Fiscal Agent of the Maximum Rate and the Minimum Rate and the components thereof on the Auction Date and, based on such determinations, the Auction Rate for the next succeeding FLOATs Interest Period as follows:

(a) if Sufficient Clearing Bids exist, that the Auction Rate for the next succeeding FLOATs Interest Period shall be equal to the Winning Bid Rate so determined;

(b) if Sufficient Clearing Bids do not exist (other than because all of the outstanding FLOATs are subject to Submitted Hold Orders), that the Auction Rate for the next succeeding FLOATs Interest Period shall be equal to the Maximum Rate; or

(c) if all outstanding FLOATs are subject to Submitted Hold Orders, that the Auction Rate for the next succeeding FLOATs Interest Period shall be equal to the Minimum Rate.

Acceptance and Rejection of Orders

Existing Holders shall continue to hold the principal amount of FLOATs that are subject to Submitted Hold Orders. Submitted Bids and Submitted Sell Orders shall be accepted or rejected and the Auction Agent shall take such other action as set forth below:

(1) *Sufficient Clearing Bids.* If Sufficient Clearing Bids have been made, all Submitted Sell Orders shall be accepted and, subject to the provisions of paragraph (4) below, Submitted Bids shall be accepted or rejected as follows in the following order of priority and all other Submitted Bids shall be rejected:

(a) Existing Holders' Submitted Bids specifying any rate that is higher than the Winning Bid Rate shall be accepted, thus requiring each such Existing Holder to sell the aggregate principal amount of FLOATs subject to such Submitted Bids;

(b) Existing Holders' Submitted Bids specifying any rate that is lower than the Winning Bid Rate shall be rejected, thus entitling each such Existing Holder to continue to hold the aggregate principal amount of FLOATs subject to such Submitted Bids;

(c) Potential Holders' Submitted Bids specifying any rate that is lower than the Winning Bid Rate shall be accepted;

(d) each Existing Holders' Submitted Bid specifying a rate that is equal to the Winning Bid Rate shall be rejected, thus entitling such Existing Holder to continue to hold the aggregate principal amount of FLOATs subject to such Submitted Bid, unless the aggregate principal amount of Outstanding FLOATs subject to all such Submitted Bids shall be greater than the principal amount of FLOATs (the "remaining principal amount") equal to the excess of the Available FLOATs over the aggregate principal amount of FLOATs subject to Submitted Bids described in subparagraphs (b) and (c) above, in which event such Submitted Bid of such Existing Holder shall be rejected in part, and such Existing Holder shall be entitled to continue to hold the principal amount of FLOATs subject to such Submitted Bid, but only in an amount equal to the aggregate principal amount of FLOATs obtained by multiplying the remaining principal amount by a fraction, the numerator of which shall be the principal amount of Outstanding FLOATs held by such Existing Holder subject to such Submitted Bid and the denominator of which shall be the sum of the principal amount of Outstanding FLOATs subject to such Submitted Bids made by all such Existing Holders that specified a rate equal to the Winning Bid Rate; and

(e) each Potential Holder's Submitted Bid specifying a rate that is equal to the Winning Bid Rate shall be accepted but only in an amount equal to the principal amount of FLOATs obtained by multiplying the excess of the aggregate principal amount of Available FLOATs over the aggregate principal amount of FLOATs subject to Submitted Bids described in subparagraphs (b), (c) and (d) above by a fraction, the numerator of which shall be the aggregate principal amount of Outstanding FLOATs subject to such Submitted Bid and the denominator of which shall be the sum of the principal amounts of Outstanding FLOATs subject to Submitted Bids made by all such Potential Holders that specified a rate equal to the Winning Bid Rate.

(2) *Insufficient Clearing Bids.* If Sufficient Clearing Bids have not been made (other than because all of the Outstanding FLOATs are subject to Submitted Hold Order), subject to the provisions of paragraph (4) below, Submitted Orders shall be accepted or rejected as follows in the following order of priority and all other Submitted Bids shall be rejected:

(a) Existing Holders' Submitted Bids specifying any rate that is equal to or lower than the Maximum Rate shall be rejected, thus entitling such Existing Holders to continue to hold the aggregate principal amount of FLOATs subject to such Submitted Bids;

(b) Potential Holders' Submitted Bids specifying any rate that is equal to or lower than the Maximum Rate shall be accepted; and

(c) each Existing Holder's Submitted Bid specifying any rate that is higher than the Maximum Rate and the Submitted Sell Order of each Existing Holder shall be accepted, thus entitling each Existing Holder that submitted any such Submitted Bid or Submitted Sell order to sell the FLOATs subject to such Submitted Bid or Submitted Sell Order, but in both cases only in an amount equal to the aggregate principal amount of FLOATs obtained by multiplying the aggregate principal amount of FLOATs subject to Submitted Bids described in subparagraph (b) above by a fraction, the numerator of which shall be the aggregate principal amount of Outstanding FLOATs held by such Existing Holder subject to such Submitted Bid or Submitted Sell Order and the denominator of which shall be the aggregate principal amount of Outstanding FLOATs subject to all such Submitted Bids and Submitted Sell Orders.

(3) *All Hold Orders.* If all Outstanding FLOATs are subject to Submitted Hold Orders, all Submitted Bids shall be rejected.

(4) *$50,000 Requirement.* If, as a result of the procedures described in paragraph (1) or (2) above, any Existing Holder would be entitled or required to sell, or any Potential Holder would be entitled or required to purchase, a principal amount of FLOATs that is not equal to $50,000 or any multiple thereof, the Auction Agent shall, in such manner as, in its sole discretion, it shall determine, round up or down the principal amount of FLOATs to be purchased or sold by any Existing Holder or Potential Holder so that the principal amount of FLOATs purchased or sold by each Existing Holder or Potential Holder shall be equal to $50,000 or any multiple thereof, even if such allocation results in one or more of such Potential Holders not purchasing any FLOATs.

Based on the results of each Auction, the Auction Agent shall determine the aggregate principal amount of FLOATs to be purchased and the aggregate principal amount of FLOATs to be sold by Potential Holders and Existing Holders on whose behalf each Broker-Dealer submitted Bids or Sell Orders and, with respect to each Broker-Dealer, to the extent that such aggregate principal amount of FLOATs to be sold differs from such aggregate principal amount of FLOATs to be purchased, determine to which other Broker-dealer or Broker-Dealers acting for one or more purchasers such Broker-Dealer shall deliver or from which other Broker-Dealer or Broker-Dealers acting for one or more sellers such Broker-Dealer shall receive, as the case may be, FLOATs.

If the Advance Agent ceases to make Advances, the price of FLOATs to be purchased by Potential Holders and sold by Existing Holders as a result of an Auction will equal the sum of (a) the principal amount thereof (b) plus interest accrued from and including the last date to which interest on such FLOATs has been paid to and including the last day of the FLOATs Interest Period during which such Auction occurs, and minus (c) any accrued but unpaid Service Charge.

Settlement Procedures

The Auction Agent is required to advise each Broker-Dealer that submitted an Order in an Auction of the Auction Rate for the next FLOATs Interest Period and, if such Order was a Bid or Sell Order, whether such Bid or Sell Order was accepted or rejected, in whole or in part, by telephone by approximately 3:00 p.m., New York City time, on the Auction Date. Each Broker-Dealer that submitted an Order on behalf of a Bidder is required to then advise such Bidder of the Auction Rate for the next FLOATs Interest Period and, if such Order was a Bid or a Sell Order, whether such Bid or Sell Order was accepted or rejected, in whole or in part, confirm purchases and sales with each Bidder purchasing or selling FLOATs as a result of the Auction and advise each Bidder purchasing or selling FLOATs as a result of the Auction to give instructions to its Agent Member of the Securities Depository to pay the purchase price against delivery of such FLOATs or to deliver such FLOATs against payment therefor as appropriate. The Auction Agent will record each transfer of FLOATs on the registry of Existing Holders to be maintained by the Auction Agent.

In accordance with DTC's normal procedures, on the business day after the Auction Date, the transactions described above will be executed through DTC, so long as DTC is the Securities Depository, and the accounts of the respective Agent Members at DTC will be debited and credited and FLOATs delivered as necessary to effect the purchases and sales of FLOATs as determined in the Auction. Purchasers are required to make payment through their Agent Members in same-day funds to DTC against delivery through their Agent members. DTC will make payment in accordance with its normal procedures, which now provide for payment against delivery by its Agent Members in same-day funds.

If any Existing Holder selling FLOATs in an Auction fails to deliver such FLOATs, the Broker-Dealer of any person that was to have purchased FLOATs in such Auction may deliver to such person a principal amount of FLOATs that is less than the principal amount of FLOATs that otherwise was to be purchased by such person but in any event equal to $50,000 or any multiple thereof. In such event, the principal amount of FLOATs to be delivered shall be determined by such Broker-Dealer. Delivery of such lesser principal amount of FLOATs shall constitute good delivery. For a further description of the Settlement Procedures, see "Settlement Procedures" below.

Adjustment in Percentages Used to Determine Maximum, Minimum and Default Rates

The Market Agent shall adjust the percentage used in determining the Minimum Rate, the Applicable Percentages used in determining the Maximum Rate and the percentage of the Index used in calculating the Default Rate, if any such adjustment is necessary, in the judgment of the Market Agent, to reflect any Change of Preference Law such that FLOATs paying the Maximum Rate, the Minimum Rate or the Default Rate in each case shall have substantially equal market values before and after such Change of Preference Law. In making any such adjustment, the Market Agent shall take the following factors, as in existence both before and after such Change of Preference Law, into account: (i) short-term taxable and tax-exempt market rates and indices of such short-term rates; (ii) the market supply and demand for short-term tax-exempt securities; (iii) yield curves for short-term and long-term tax-exempt securities or obligations having a credit rating that is comparable to the FLOAT/RITES; (iv) general economic conditions; and (v) economic and financial factors present in the securities industry that may affect or that may be relevant to the FLOAT/RITES.

As used herein, "Change of Preference Law" shall mean, with respect to any owner of FLOATs or RITES, any amendment to the Code or other statute enacted by the Congress of the United States or any temporary, proposed or final regulation promulgated by the United States Treasury after the date hereof which (i) changes or would change any deduction, credit or other allowance allowable in computing liability for any federal tax with respect to, or (ii) imposes or would impose or reduces or would reduce or increases or would increase any federal tax (including, but not limited to, preference or excise taxes) upon, any interest earned by any owner of bonds the interest on which is excluded from federal gross income under Section 103 of the Code.

The Market Agent shall communicate its determination to adjust the percentage used in determining the Minimum Rate, the percentage of the Index used in determining the Default Rate, and the Applicable Percentages used in determining the Maximum Rate, by means of a written notice delivered at least 10 days prior to the Auction Date on which the Market Agent desires to effect the change to the Authority, the Fiscal Agent and the Auction Agent. Such notice shall be effective only if it is accompanied by an opinion of nationally recognized counsel in the field of municipal finance to the effect that such adjustment is authorized by the 1993 Resolution, is permitted under the Authority Act and will not have an adverse effect on the exclusion of interest on the FLOAT/RITES from gross income for federal income tax purposes.

An adjustment in the respective percentages used to determine the Minimum Rate, the Maximum Rate and the Default Rate shall take effect on an Auction Date only if:

(i) the Fiscal Agent and the Auction Agent receive, by 11:00 A.M., New York City time, on the business day immediately preceding such Auction Date, a certificate from the Market Agent by telecopy or similar means, in substantially the form required under the 1993 Resolution authorizing the adjustment of the percentage used in determining the Minimum Rate, the percentage of the Index used in determining the Default Rate and the Applicable Percentages used in determining the Maximum Rate which shall be specified in such authorization, and confirming that nationally recognized counsel in the field of municipal finance expects to be able to give an opinion on or prior to such Auction Date to the effect that the adjustment in the percentage used in determining the Minimum Rate, the percentage of the Index used in determining the Default Rate and the Applicable Percentages used in determining the Maximum Rate, is authorized by the 1993 Resolution, is permitted under the Authority Act, and will not have an adverse effect on the exclusion of interest on the FLOAT/RITES from gross income for federal income tax purposes;

(ii) the Fiscal Agent shall not have delivered to the Auction Agent by 12:15 P.M., New York City time, on such Auction Date, notice that an Insufficient Funds Event has occurred; and

(iii) the Fiscal Agent and the Auction Agent receive by 9:30 A.M., New York City time, on such Auction Date, an opinion of nationally recognized counsel in the field of municipal finance to the effect that the adjustment in the percentage used in determining the Minimum Rate, the percentage of the Index used in determining the Default Rate and the Applicable Percentages used in determining the Maximum Rate are authorized by the 1993 Resolution, are permitted under the Authority Act and will not have an adverse effect on the exclusion of interest on the FLOAT/RITES from gross income for federal income tax purposes.

If any of the conditions referred to in (i) above is not met, the existing percentage used in determining the Minimum Rate, the percentage of the Index used in determining the Default Rate and the Applicable Percentages used in determining the Maximum Rate shall remain in effect and the rate of interest on FLOATs for the next succeeding FLOATs Interest Period shall be determined in accordance with the Auction Procedures. If any of the conditions referred to in (ii) or (iii) above is not met, the existing percentage used in determining the Minimum Rate, the percentage of the Index used in determining the Default Rate and the Applicable Percentages used in determining the Maximum Rate shall remain in effect and the rate of interest for the next succeeding FLOATs Interest Period shall equal the sum of the Maximum Rate on the Auction Date and the Service Charge Rate.

The Auction Agent

Bankers Trust Company is the initial Auction Agent. The Auction Agent is acting as agent of the Fiscal Agent and has not assumed any relationship of agency or trust with the owners from time to time of the FLOAT/RITES. In the absence of bad faith or negligence on its part, the Auction Agent shall not be liable for any action taken, suffered or omitted or for any error of judgment made by it in the performance of its duties under the Auction Agent Agreement, and shall not be liable for any error of judgment made in good faith unless the Auction Agent shall have been negligent in ascertaining the pertinent facts.

The Auction Agent may terminate the Auction Agent Agreement upon notice to the Fiscal Agent, the Authority and the Market Agent on a date not earlier than 90 days after such notice. If the Auction Agent should resign or be removed or dissolved, or if the property or affairs of the Auction Agent shall be taken under the control of any state or federal court for any reason, the Fiscal Agent is obligated to use its best efforts to appoint a successor Auction Agent and enter into an agreement with a successor Auction Agent containing substantially the same terms and conditions as the Auction Agent Agreement. The Fiscal Agent, acting at the direction of the owners of 66⅔% of the aggregate principal amount of the FLOAT/RITES, may remove the Auction Agent.

On the FLOATs Payment Date for each FLOATs Interest Period immediately following an Auction Date for a series of FLOATs, the Auction Agent will be entitled to receive a fee for all services rendered by it under the Auction Agent Agreement and the Broker-Dealer Agreements with respect to the Auction held on such Auction Date in an amount initially equal to an annualized rate of .03 of 1% of the aggregate principal amount of the FLOATs of such series which were not Fixed at the close of business on the FLOATs Regular Record Date immediately preceding such Auction Date (the "Auction Agent Fee"). In addition, the Auction

Agent will be entitled to receive on the Initial FLOATs Payment Date the Auction Agent Fee calculated for the applicable Initial FLOATs Interest Periods on the initial aggregate principal amount of the FLOATs of a series all services rendered by it in connection with the original issuance of such series of FLOATs.

The Auction Agent Agreement provides that the rate at which the Auction Agent Fee accrues will be such that the Auction Agent receives as compensation for all services rendered by it under the Auction Agent Agreement and the Broker-Dealer Agreements an amount comparable to that received by the Auction Agent and other institutions performing similar functions for rendering comparable services to others and which at least reflects the actual costs to the Auction Agent of rendering such services, including the amount of any fees payable by the Auction Agent to the Market Agent. The Auction Agent may, with the consent of the Fiscal Agent, change the Auction Agent Fee Rate from time to time, provided, however, prior to such change the Auction Agent shall certify to the Fiscal Agent that the new Auction Agent Fee Rate shall be such that the Auction Agent receives as compensation for all services rendered by it under the Auction Agent Agreement and the Broker-Dealer Agreements an amount comparable to that received by the Auction Agent for rendering comparable services to others and which at least reflects the actual costs to the Auction Agent of rendering such services, including the amount of compensation, if any, payable by the Auction Agent to the Market Agent. The Fiscal Agent shall consent to such change in the Auction Agent Fee upon receipt of such certificate of the Auction Agent. If the rate at which the Auction Agent Fee is to accrue increases, the Auction Agent is required to give notice thereof to all Existing Holders within two business days of such change and the Fiscal Agent is required to mail a notice thereof to all owners of FLOAT/RITES within two business days of such change. See "Interest — Service Charge" above for a description of the manner in which the Auction Agent Fee will be paid.

Broker-Dealers

On the second FLOATs Payment Date following each Auction Date for a series of FLOATs, each Broker-Dealer will be entitled to receive a service charge with respect to the Auction held on such Auction Date in an amount initially equal to an annualized rate of .25 of 1% of the aggregate purchase price of the FLOATs of such series placed by such Broker-Dealer at such Auction (all such fees are collectively referred to herein as the "Broker-Dealer Fee"). For purposes of the preceding sentence, FLOATs will be deemed to have been placed by a Broker-Dealer in an Auction if such FLOATs were (i) the subject of Hold Orders deemed to have been made by Existing Holders and were acquired by, such Existing Holder through such Broker-Dealer or (ii) the subject of an Order submitted by such Broker-Dealer that is (A) a Submitted Bid of an Existing Holder that resulted in such Existing Holder continuing to hold such FLOATs as a result of the Auction, (B) a Submitted Bid of a Potential Holder that resulted in such Potential Holder purchasing such FLOATs as a result of the Auction or (C) a valid Hold Order. In addition, if an Auction is for any reason not held on an Auction Date, FLOATs will be deemed to have been placed by a Broker-Dealer in such Auction if such FLOATs were acquired by an Existing Holder through such Broker-Dealer. Each Broker-Dealer will also be entitled to receive a service charge on the Initial FLOATs Payment Date calculated for the applicable Initial FLOATs Interest Periods of the aggregate principal amount of the FLOATs of each series initially sold by such Broker-Dealer or an affiliate thereof as an underwriter in the initial offering of the FLOATs.

The Auction Agent Agreement provides that the rate at which the Broker-Dealer Fee accrues will be the prevailing rate received by broker-dealers for rendering comparable services to others. The Auction Agent has agreed to certify to the Fiscal Agent, at least annually, of its view of the then-current prevailing rate received by broker-dealers for rendering comparable services to others. If the then-current Broker-Dealer Fee Rate is not, in the opinion of the Auction Agent, the prevailing rate, the Broker-Dealer Rate shall be changed so that it equals such prevailing rate. If the rate at which the Broker-Dealer Fee accrues increases, the Auction Agent is required to give notice thereof to the Existing Holders within two business days of such change and the Fiscal Agent is required to mail a notice thereof to the owners of the FLOAT/RITES within two business days of such change. See "Interest — Service Charge" above for a description of the manner in which the Broker-Dealer Fee will be paid.

Fixing FLOATs and RITES — Forming Fixed Option Bonds

A beneficial owner of RITES or FLOATs may fix the interest rate ("Fix") on such RITES or FLOATs by purchasing an equal principal amount of FLOATs or RITES, as the case may be, of the same series and requesting its Broker-Dealer to deliver a request for Fixing (a "Fixing Request") to the Auction Agent (a form of which notice is attached as an exhibit to the Broker-Dealer Agreements), and taking such other action as its Broker-Dealer may instruct and paying to the Fiscal Agent an amount equal to the sum of (a) payments made on such FLOATs to be Fixed (including payments of the Auction Agent Fee and Broker-Dealer Fee) plus (b) the Service Charge Rate for the entire FLOATs Interest Period during which such FLOATs were Fixed, plus (c) any unpaid Advance Charges on the amount set forth in (a). When the FLOATs and RITES of a series are Fixed to create a Fixed Option Bond of the same series, the beneficial ownership thereof will be recorded at the Securities Depository under a single CUSIP number (in lieu of two separate CUSIP numbers).

However, the RITES and the FLOATs may not be Fixed during the "Closed Period": (i) commencing at 11:00 a.m., New York City time, on the business day immediately preceding any Regular Record Date and ending immediately prior to the opening of business on the related Interest Payment Date; or (ii) commencing at 11:00 a.m., New York City time, on any Redemption Record Date and ending on the related redemption date. Accordingly, as described below, in order to Fix FLOATs and RITES prior to an Interest Payment Date for the FLOAT/RITES, a Fixing Request therefor must be received by the Auction Agent no later than 12:00 Noon, New York City time, on the second business day prior to the preceding Regular Record Date.

RITES and FLOATs which have been Fixed are herein referred to collectively as "Fixed Option Bonds". When FLOATs and RITES of the same series have been Fixed, the beneficial ownership thereof will be recorded at the Securities Depository under a single CUSIP number. See "CUSIP Numbers" below.

Interest on Fixed Option Bonds will be payable on January 1 or July 1 of each year at an interest rate per annum equal to the Fixed Rate applicable to the RITES which were Fixed to create such Fixed Option Bonds.

A Fixing Request which is submitted to the Auction Agent by 12:00 noon, New York City time, on a business day will, under procedures to be used by the Auction Agent and the Securities Depository, normally result in the Fixing of the RITES and the FLOATs subject to such Fixing Request under a single CUSIP number immediately prior to the close of business on the next business day.

Beneficial owners of FLOATs which were Fixed at the close of business on the FLOATs Regular Record Date immediately preceding any Auction Date may not participate in the Auction held on such Auction Date.

A purchaser of Fixed Option Bonds in the secondary market will make payment of the purchase price thereof in accordance with the Securities Depository's normal procedures, which now provide for payment in next-day funds against delivery to its Agent member of such Fixed Option Bonds.

If the FLOAT/RITES are no longer represented by a global certificate registered in the name of the Securities Depository or its nominee, the FLOATs and RITES may not be Fixed. See "Discontinuation of Book-Entry Only System" under *Book-Entry Only System* in the Official Statement for a description of the circumstances under which the FLOATs or the RITES may no longer be represented by global certificates.

Separating FLOATs and RITES

A beneficial owner of Fixed Option Bonds which have become Fixed may "Separate" the applicable FLOATs and RITES at any time, other than during a Closed Period, by requesting its Broker-Dealer to deliver a request to Separate (a "Request to Separate") the applicable Fixed Option Bonds to the Auction Agent (a form of which request is attached as an Exhibit to the Broker-Dealer Agreement). When a Fixed Option Bond is Separated, the owner of such Fixed Option Bond will receive in respect of the Newly Separated FLOATs a payment from the Advance Agent equal to the sum of (a) the payments which would have been received from Advances in respect of such FLOATs if such FLOATs had not been Fixed (including payments of the Auction Agent Fee and Broker-Dealer Fee) since the preceding Semiannual Interest Payment Date, plus (b) any unpaid Advance Charges on the Advances set forth in (a).

The owner of FLOATs which are not Fixed but which were Fixed at the close of business on the FLOATs Regular Record Date immediately preceding a FLOATs Interest Period ("Newly Separated FLOATs") will receive interest on such FLOATs at a rate per annum equal to the sum of (i) the Auction Rate or Maximum Rate, as the case may be, applicable to such FLOATs Interest Period and (ii) the Service Charge Rate (or, in certain circumstances, at the Default Rate).

A Request To Separate which is submitted to the Auction Agent by 12:00 noon, New York City time, on a business day will, under procedures to be used by the Auction Agent and the Securities Depository, normally result in the redelivery of Separated FLOATs and RITES, under separate CUSIP numbers immediately prior to the close of business on the next business day.

CUSIP Numbers

The CUSIP numbers for the different classes of FLOATs and RITES are as follows:

	CUSIP Number
Regular Series W RITES maturing July 1, 2006*	745181 DK0
Regular Series W RITES maturing July 1, 2007*	745181 DV6
Regular Series W RITES maturing July 1, 2008*	745181 EF0
Regular Series W RITES maturing July 1, 2010*	745181 FB8
Regular Series X RITES maturing July 1, 2003*	745181 CQ8
Regular Series X RITES maturing July 1, 2004*	745181 CV7
Regular Series X RITES maturing July 1, 2005*	745181 DA2
Regular Series X RITES maturing July 1, 2006*	745181 DL8
Regular Series X RITES maturing July 1, 2007*	745181 DW4
Regular Series X RITES maturing July 1, 2008*	745181 EG8
Regular Series X RITES maturing July 1, 2009*	745181 ES2
Regular Series X RITES maturing July 1, 2010*	745181 FC6
Regular Series W FLOATs*	745181 EZ6
Regular Series X FLOATs*	745181 FA0
Newly Separated Series W FLOATs*†	745181 EV5
Newly Separated Series X FLOATs*†	745181 EWE
Fixed Option Bonds (Fixed with Series W RITES maturing July 1, 2006)	745181 DG9
Fixed Option Bonds (Fixed with Series W RITES maturing July 1, 2007)	745181 DS3
Fixed Option Bonds (Fixed with Series W RITES maturing July 1, 2008)	745181 EC7
Fixed Option Bonds (Fixed with Series W RITES maturing July 1, 2010)	745181 EX1
Fixed Option Bonds (Fixed with Series X RITES maturing July 1, 2003)	745181 CN5
Fixed Option Bonds (Fixed with Series X RITES maturing July 1, 2004)	745181 CT2
Fixed Option Bonds (Fixed with Series X RITES maturing July 1, 2005)	745181 CY1
Fixed Option Bonds (Fixed with Series X RITES maturing July 1, 2006)	745181 DF1
Fixed Option Bonds (Fixed with Series X RITES maturing July 1, 2007)	745181 DR5
Fixed Option Bonds (Fixed with Series X RITES maturing July 1, 2008)	745181 EB9
Fixed Option Bonds (Fixed with Series X RITES maturing July 1, 2009)	745181 EN3
Fixed Option Bonds (Fixed with Series X RITES maturing July 1, 2010)	745181 EY9

* Regular RITES, Regular FLOATs and Newly Separated FLOATs are RITES or FLOATs which are not Fixed.

† All Newly Separated FLOATs will automatically become Regular FLOATs on each Auction Date.

Mandatory Tender of FLOATs

Any holders of a Series of RITES may, at any time and from time to time, notify a Broker-Dealer that (i) such holder intends to submit a Bid for a specified principal amount of FLOATs of the same series on the next succeeding Auction Date in order to Fix the same with all or a portion of such RITES, and (ii) if such Bid is unsuccessful, in whole or in part, such holder requires that FLOATs of the same series (which are not Fixed) in an aggregate principal amount equal to the unsuccessful portion of such Bid be tendered to such holder for purchase on the seventh business day prior to the Auction Date following the Auction in which such Bid proved unsuccessful (a "Tender Date") at a price equal to the principal amount of FLOATs being purchased plus accrued but unpaid interest to the Tender Date less an amount equal to the Service Charge, if any, applicable to any such FLOATs multiplied by a fraction, the numerator of which is the number of days from and including the immediately preceding FLOATs Payment Date for such FLOATs to but not including the Tender Date and the denominator of which is the number of days in the FLOATs Interest Period in which such Tender Date occurs (the "Tender Price").

FLOATs subject to mandatory tender as a result of demands made by or on behalf of holders of a series of RITES (each a "Tender Demand") shall be selected by lot from the same series of FLOATs which are not Fixed, and notice of such mandatory tender (a "Tender Notice") shall be given to the Agent Member of each Existing Holder whose FLOATs have been so selected. Such Tender Notice having been given, the Existing Holder or Existing Holders of such FLOATs shall be required to tender the FLOATs specified therein for purchase by such RITES owner on the Tender Date and at the Tender Price therefor.

In the event that any owner of RITES that has submitted a Tender Demand fails to provide the Tender Price for the purchase of the principal amount of FLOATs specified therein on the Tender Date therefor, the purchase of such principal amount of FLOATs may not take place on such Tender Date, and in such event such principal amount of FLOATs shall be deemed to be subject to a Submitted Sell Order for purposes of the next succeeding Auction. The foregoing provisions shall not, however, be deemed to limit the obligations of an owner of RITES to pay the Tender Price specified in any Tender Demand given by or on behalf of such owner or to reimburse any Broker-Dealer or other person on account of the payment of such Tender Price.

The giving of a Tender Notice with respect to a FLOAT shall supersede any Order given by the Existing Holder of such FLOATs with respect to the Auction occurring on the Auction Date following the Tender Date specified in such Tender Notice.

Each Existing Holder of FLOATs agrees that if such owner should receive any payment in connection with any tender transaction to which it is not entitled (as a result of failure of an owner of RITES to provide the Tender Price or otherwise), such owner will take such actions (including return of funds and repayment of interest to any party who provided funds to such holder which such party was not obligated to provide) so that all interested parties (including any Broker-Dealer) are restored to the positions which would have obtained if the tender transaction were effected, or not effected, as the case may be, in accordance with the provisions described above.

Special Factors Affecting the RITES

The magnitude of the increases and decreases in market value of a series and maturity of RITES may be approximately twice as large as a comparable change in market value of an equal principal amount of bonds bearing interest at a rate equal to the Fixed Rate applicable to such RITES having similar credit quality, redemption provisions and maturity (excluding in such comparison any potential premium paid or received for such RITES beyond that which would be paid for bonds bearing interest at a rate equal to the Fixed Rate applicable to such RITES having similar credit quality, redemption provisions and maturity).

Because the interest payments on the RITES will be determined by subtracting the amount payable on the FLOATs and the Advance Charge from a fixed amount, the interest payments on the RITES will decrease as the amount payable on the FLOATs or the Advance Charge increases, and increase as the amount payable on the FLOATs or the Advance Charge decreases. As a result, the interest payable on the RITES will equal zero or be substantially reduced to near zero if the sum of the interest accrued on the FLOATs and the Advance Charge payable since the last Semiannual Interest Payment Date is equal to (i) ½ of the product of the principal amount of the Series W FLOATs times two times the Fixed Rate for the Series W RITES maturing on July 1, 2006 with respect to the Series W RITES or (ii) ½ of the product of the principal amount of the Series X FLOATs times two times the Fixed Rate for the Series X RITES for the Series X RITES maturing on July 1, 2003 with respect to the Series X RITES.

An increase in the amount of FLOATs which are not Fixed could result in a higher Applicable FLOATs Rate and, therefore, a lower interest rate with respect to the RITES.

Under certain circumstances, discussed above under "Interest — Applicable FLOATs Rate" above, the FLOATs could bear interest at the Maximum Rate or the Default Rate. In any such case, the interest rate with respect to the RITES could be significantly reduced or reduced to zero.

The interest payable on the RITES may also be decreased in the event the Auction Agent Fee or Broker-Dealer Fee is increased because such Fees are components of the Service Charge Rate and of the Applicable FLOATs Rate which is deducted from an amount otherwise payable on the RITES.

In order to Fix RITES or FLOATs, a beneficial owner of RITES or FLOATs must also have purchased a like principal amount of FLOATs or RITES, as the case may be, of the same series. See "Fixing RITES AND FLOATs — Forming Fixed Option Bonds" above. There is no obligation to provide FLOATs to a beneficial owner who desires to Fix RITES or to provide RITES to a beneficial owner who desires to Fix FLOATs. A beneficial owner of the RITES of a series may be able to acquire FLOATs of the same series that are not Fixed by bidding in an Auction (normally held every 35 days), provided that the Existing Holders of such FLOATs do not submit Hold Orders covering all such FLOATs in the Auction. In such event, no FLOATs would be available for purchase at any rate bid by such Beneficial owner of RITES in that Auction. See "Auction Procedures" in this above. A beneficial owner of RITES may, however, cause a mandatory tender of FLOATs for purposes of Fixing RITES to the extent it cannot acquire FLOATs in an Auction. See "Mandatory Tender of FLOATs" above. In addition, a beneficial owner of RITES might be able to purchase FLOATs in the secondary market, outside of Auctions, through a Broker-Dealer; however, an active secondary market for the FLOATs is not expected to develop, other than in Auctions. A beneficial owner of FLOATs might be able to purchase RITES in the secondary market; however, an active secondary market may or may not develop for such RITES.

No assurance can be given that an active secondary market will exist for the RITES or, outside Auctions, the FLOATs. Merrill Lynch, Pierce, Fenner & Smith Incorporated, as Broker-Dealer, retains the right to make a secondary market although it has no obligation to do so.

Special Factors Affecting FLOATs

Existing Holders of FLOATs may be required to tender FLOATs to a beneficial owner of RITES before the completion of a FLOATs Interest Period in the event such beneficial owner of RITES exercises its right to require such a tender. See "Mandatory Tender of FLOATs" above.

So long as the Advance Agent shall make Advances in respect of the FLOATs on each FLOATs Payment Date, interest on the FLOATs will be made on such FLOATs Payment Dates. The Advance Agent may, in its discretion, discontinue making advances. If the Advance Agent ceases making Advances, interest on the FLOATs will be payable only on Semiannual Interest Payment Dates.

Settlement Procedures

(a) Not later than 3:00 p.m., New York City time, on each Auction Date, the Auction Agent shall notify by telephone each Broker-Dealer that participated in the Auction held on such Auction Date and submitted an Order on behalf of an Existing Holder or Potential Holder of:

(i) the Auction Rate fixed for the next FLOATs Interest Period;

(ii) whether there were Sufficient Clearing Bids in such Auction;

(iii) if such Broker-Dealer (a "Seller's Broker-Dealer") submitted a Bid or a Sell Order on behalf of an Existing Holder, whether such Bid was accepted or rejected, in whole or in part, and the principal amount of FLOATs, if any, to be sold by such Existing Holder;

(iv) if such Broker-Dealer (a "Buyer's Broker-Dealer") submitted a Bid on behalf of a Potential Holder, whether such Bid was accepted or rejected, in whole or in part, and the principal amount of FLOATs, if any, to be purchased by such Potential Holder;

(v) if the aggregate principal amount of FLOATs to be sold by all Existing Holders on whose behalf such Broker-Dealer submitted a Bid or a Sell Order exceeds the aggregate principal amount of FLOATs to be purchased by all Potential Holders on whose behalf such Broker-Dealer submitted a Bid, the name or names of one or more Buyer's Broker-Dealers (and the name of the Agent Member, if any, of each such Buyer's Broker-Dealer) acting for one or more purchasers of such excess principal amount of FLOATs and the principal amount of FLOATs to be purchased from one or more Existing Holders on whose behalf such Broker-Dealer acted by one or more Potential Holders on whose behalf each of such Buyer's Broker-Dealers acted;

(vi) if the principal amount of FLOATs to be purchased by all Potential Holders on whose behalf such Broker-Dealer submitted a Bid exceeds the principal amount of FLOATs to be sold by all Existing Holders on whose behalf such Broker-Dealer submitted a Bid or a Sell Order, the name or names of one or more Seller's Broker-Dealers (and the name of the Agent Member, if any, of each such Seller's Broker-Dealer) acting for one or more sellers of such excess principal amount of FLOATs and the principal amount of FLOATs to be sold to one or more Potential Holders on whose behalf such Broker-Dealer acted by one or more Existing Holders on whose behalf each of such Seller's Broker-Dealers acted; and

(vii) the Auction Date for the next succeeding Auction.

(b) On each Auction Date, each Broker-Dealer that submitted an Order on behalf of any Existing Holder or Potential Holder shall:

(i) advise each Existing Holder and Potential Holder on whose behalf such Broker-Dealer submitted a Bid or Sell Order in the Auction on such Auction Date whether such Bid or Sell Order was accepted or rejected, in whole or in part;

(ii) in the case of a Broker-Dealer that is a Buyer's Broker-Dealer, advise each Potential Holder on whose behalf such Broker-Dealer submitted a Bid that was accepted, in whole or in part, to instruct such Potential Holder's Agent Member to pay to such Broker-Dealer (or its Agent Member) through the Securities Depository the amount necessary to purchase the principal amount of FLOATs to be purchased pursuant to such Bid against receipt of such FLOATs;

(iii) in the case of a Broker-Dealer that is a Seller's Broker-Dealer, instruct each Existing Holder on whose behalf such Broker-Dealer submitted a Sell Order that was accepted, in whole or in part, or a Bid that was accepted, in whole or in part, to instruct such Existing Holder's Agent Member to deliver to such Broker-Dealer (or its Agent Member) through the Securities Depository the principal amount of FLOATs to be sold pursuant to such Order against payment therefor;

(iv) advise each Existing Holder on whose behalf such Broker-Dealer submitted an Order and each Potential Holder on whose behalf such Broker-Dealer submitted a Bid of the Auction Rate for the next FLOATs Interest Period;

(v) advise each Existing Holder on whose behalf such Broker-Dealer submitted an Order of the next Auction Date; and

(vi) advise each Potential Holder on whose behalf such Broker-Dealer submitted a Bid that was accepted, in whole or in part, of the next Auction Date.

(c) On the basis of the information provided to it pursuant to paragraph (a) above, each Broker-Dealer that submitted a Bid or Sell Order in an Auction is required to allocate any funds received by it in connection with such Auction pursuant to paragraph (b)(ii) above, and any FLOATs received by it in connection with such Auction pursuant to paragraph (b)(iii) above among the Potential Holders, if any, on whose behalf such Broker-Dealer submitted Bids, the Existing Holders, if any on whose behalf such Broker-Dealer submitted

Bids or Sell Orders in such Auction, and any Broker-Dealer identified to it by the Auction Agent following such Auction pursuant to paragraph (a)(v) or (a)(vi) above.

(d) On each Auction Date:

(i) each Potential Holder and Existing Holder with an Order in the Auction on such Auction Date shall instruct its Agent Member as provided in (b)(ii) or (ii) above, as the case may be;

(ii) each Seller's Broker-Dealer that is not an Agent Member of the Securities Depository shall instruct its Agent Member to (A) pay through the Securities Depository to the Agent Member of the Existing Holder delivering FLOATs to such Broker-Dealer following such Auction pursuant to (b)(iii) above the amount necessary to purchase such FLOATs against receipt of such FLOATs, and (B) deliver such FLOATs through the Securities Depository to a Buyer's Broker-Dealer (or its Agent Member) identified to such Seller's Broker-Dealer pursuant to (a)(v) above against payment therefor; and

(iii) each Buyer's Broker-Dealer that is not an Agent Member of the Securities Depository shall instruct its Agent Member to (A) pay through the Securities Depository to a Seller's Broker-Dealer (or its Agent Member) identified following such Auction pursuant to (a)(vi) above the amount necessary to purchase the FLOATs to be purchased pursuant to (b)(ii) above against receipt of such FLOATs, and (B) deliver such FLOATs through the Securities Depository to the Agent Member of the purchaser thereof against payment therefor.

(e) On the business day following each Auction Date:

(i) each Agent Member for a Bidder in the Auction on such Auction Date referred to in (d)(i) above shall instruct the Securities Depository to execute the transactions described under (b)(ii) or (iii) above for such Auction, and the Securities Depository shall execute such transactions;

(ii) each Seller's Broker-Dealer or its Agent Member shall instruct the Securities Depository to execute the transactions described in (d)(ii) above for such Auction, and the Securities Depository shall execute such transactions; and

(iii) each Buyer's Broker-Dealer or its Agent Member shall instruct the Securities Depository to execute the transactions described in (d)(iii) above for such Auction, and the Securities Depository shall execute such transactions.

(f) If an Existing Holder selling FLOATs in an Auction fails to deliver such FLOATs (by authorized book-entry), a Broker-Dealer may deliver to the Potential Holder on behalf of which it submitted a Bid that was accepted a principal amount of FLOATs that is less than the principal amount of FLOATs that otherwise was to be purchased by such Potential Holder. In such event, the principal amount of FLOATs to be delivered shall be determined solely by such Broker-Dealer. Delivery of such lesser principal amount of FLOATs shall constitute good delivery. Notwithstanding the foregoing terms of this paragraph (f), any delivery or non-delivery of FLOATs which shall represent any departure from the results of an Auction, as determined by the Auction Agent, shall be of no effect unless and until the Auction Agent shall have been notified of such delivery or non-delivery in accordance with the provisions of the Auction Agent Agreement and the Broker-Dealer Agreements.

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